

8 August 2023

Department of Corporate Services
BSE Limited
1st floor, New Trading Ring
Rotunda Building, P J Towers
Dalal Street, Fort
Mumbai - 400 001
Scrip Code: 500710

The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, 5th floor,
Bandra-Kurla Complex
Bandra (E)
Mumbai – 400051
Symbol: AKZOINDIA

Dear Sir/Madam,

Sub: Investor Call Transcript

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the investor call conducted by the company on 4 August 2023 regarding the standalone and consolidated financial results of the Company for the quarter ended 30 June, 2023.

This has been uploaded on the Company website also and can be accessed from the link: <https://akzonobel.co.in/investors.php#im>.

Yours Faithfully,
For Akzo Nobel India Limited

Krishna Rallapalli
Wholetime Director and CFO
DIN:03384607

Encl: as above.



“AkzoNobel India Limited Q1 FY24 Earnings
Conference Call”

August 04, 2023



**MANAGEMENT: MR. RAJIV RAJGOPAL – MANAGING DIRECTOR
MR. R. KRISHNA – CHIEF FINANCIAL OFFICER &
WHOLE-TIME DIRECTOR**

MODERATOR: MR. MANOJ MENON – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY24 Earnings Conference Call of Akzo Nobel India Limited hosted by ICICI Securities.

As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Over to you, sir.

Manoj Menon: As always, it is our absolute pleasure representing I-Sec to host the result conference call of AkzoNobel India.

Today, the management, as usual, is represented by Mr. Rajiv Rajgopal - Managing Director and Mr. R. Krishna - Chief Financial Officer & Whole-time Director.

Before I pass on the baton to Rajiv for the presentation and post that the Q&A etc., I do want to congratulate Rajiv for the board proposal to reappoint him for 5 more years as the Managing Director. Sir, in the last few years of tracking your company as an analyst, we are very excited to note the guidance what you have given, the timelines what you have given, and also the milestones, etc., have been met. And in my opinion, consensus is pleasantly surprising and we look forward to your stewardship driving more stakeholder value for AkzoNobel India in the medium-term. Over to you, sir.

Rajiv Rajgopal: As you all know that my first tenure was ending on October 31st and I got a formal confirmation yesterday, in fact, the day before evening.

In terms of tenure, I am also told I am the first Managing Director after many many years between ICI and AkzoNobel who has got reappointed. And that should give a lot of confidence to our investors who had one major grouse in terms of the fact that the top management, the CEO and the MD, changes between 3 to 5 years. I somehow see that as a bit of a positive if a person goes to upper echelons within AkzoNobel to be able to do more for India. But for the moment, I am very much here and focused on the India journey. What I want to do today in the next 15-20 minutes with Krishna, our CFO & Whole-time Director, is to run you through a few slides. I am not going to bore all of you by running through the slides again, as these have already been shared. So, really this is to walk you through the slides. For those of you who were in the AGM yesterday, maybe a couple of slides are a repeat, but this slide-pack is more focused on the quarter that went by compared to the AGM which was on the year that went by. That's how we will do it. So, please indulge me in just the next 15 minutes.

First about Akzo Nobel India. We have approximately about 1,500 employees. We have got 5 offices, 5 manufacturing sites. Capacity augmentation and expansion plans are in place. I have talked about it in all the investor calls. Our focus - our priorities - is on scaling up distribution both online and offline. We are now in about 5,000 towns. And our real focus is to say that, look,

how can we try and make sure that the distribution 2.0, which we unveiled, is really yielding results as we start entering into the smaller towns. We did a district-wise analysis and we saw that at least in 290 districts, we have almost a negligible or zero presence. So, our endeavor is that in the next couple of years, how do we really get that, how do you build our brand. Dulux, when we did research with consumers, it comes across as the best in class quality. How do we leverage on it? How do you really start dialing up marketing? And those are things that we will talk about later in the call today. We today cover more than 20,000 retailers and we have about 4,000 customers with whom we enjoy a great relationship. We have a world-class ASC Center in Bengaluru. We will look at hosting an investor call for those analysts who are interested once in Bengaluru. An invitation which, unfortunately, got derailed because of COVID and a few other things. And we have also started what we call the low-cost innovation center in Thane where we are also building to drive differentiated products. In fact, India is going to be the hub or test center for a lot of these products that we may want to do within the region or even outside.

On the business environment, I am just going to quickly run through. I think most of you know this since we all read the same newspapers, but personally for me, I think if there is any place to be in the world right now, it is India. India is on the cusp of the next 5 years going to see some tremendous growth. India will continue to be the fastest and growing at between 7% to 7.5%. I genuinely think the macroeconomics is favorable from an India point of view. And we see also that reflected in the last quarter in the core sector growth at 8.2%. you have seen the results and one of the things that is aiding our results, is the softening of crude prices. Of course, in the last 2 weeks, crude prices has been inching up. Crude and forex (the US dollar) are the 2 variables that impact the profitability and impact the pricing. That is something that we will keep our eyes on. And one of the things that we also note is the fact that the interest rates are at elevated levels, and all of us who have got home loans know that today it is much higher than the last 2 years. So, I do still think it is favorable compared to many years ago.

Let's move to the next slide. If you look at the key strategic drivers we have outlined on the slide, you can see our new CEO, Greg Poux-Guillaume. Greg has worked for McKinsey and GE, and he ran the Alstom business for GE. So, he knows India very well, as he told me. He set up GE Power in India; and many of you may know, it is a very robust business. And even through his McKinsey days and also Sulzer where he was the CEO and he turned around the company. He is a Harvard student and Harvard educated. What I really see in him is a person who is very laser sharp in terms of what he wants to do. There are 4 global principles that he has enunciated - margin management; operating expenses in terms of adjusting costs to the market reality; how do you really reduce working capital to enhance cash flow, which is an important need from an AkzoNobel global point of view; and how do you really make sure that the integrated supply chain is far more responsive to the business. These are the four, pretty much this is what is being driven all across. And it is very relevant from an India point of view because we in Akzo India enjoy a very high share in the premium part of our business. And really what I have seen in the last few months is a bit of a K-shape recovery where premium consumers have not reduced spends. But you can see companies, both FMCG and in paints, and you have seen the largest players who have got a higher component of mass markets, which typically was the fastest

growth driver, obviously has seen a bit of a blip. It is also because of a base correction, because last year the consumptions were at elevated levels and so I think a couple of months between June-July-August, one should expect that you cannot read into it. But I do believe that starting September-October with seasonality coming and one of the best Diwalis, I do think that you can see good growths really bouncing back. This is what we are really working on.

In the slide you are seeing now, Greg is here with me and the chairman of the company, Oscar, at our Thane site. The reason I am showing this slide is because it was the inauguration of our robotic palletizer. This shows the level of automation we have done. The Head of manufacturing is standing next to Oscar, between Oscar and me, Sumit who is from IIT Delhi. One of the things that we have done is bringing technology, IoT, etc., into our factories. Really, the level of automation in Akzo India, I think, is second to none. Forget in the industry, I would even argue it would be best in class if you were to look at the best FMCG business.

Now on paints, just to run you through, because I know some of the questions will come, we have had double-digit growth, specifically very high double digit growth in premium and projects. That is one of the reasons our mix is a little better and has improved and we have seen a strong finish to the quarter with premium leading the category growth after a few quarters where we saw the otherwise, the mass and the economy leading the growth. We continue to see healthy demand in the projects business. Our projects have grown in double digits and we see that are tier-3 and tier-4 towns. We embarked on distribution 2.0 while the contribution is much smaller. Obviously, we have had rapid growth there. And this quarter, the quarter that is gone by, we have seen slower growth in the metro. Again, that is a base effect, but when you normalize it, if you look at a moving annual total, we see no major issues. And we have seen margin expansion led by RM softening and mix improvement.

In our coatings business, we have seen double-digit growth coming across many of our businesses except one where we had a bit of a challenge. Automotive specialty, again, had very good growth because of good demand in auto. So, we are in the aftermarket. And some good work being done on both the premium and value brands. Our powder coating saw a double-digit growth across segments. We have seen an uptick in the automotive, real estate, and consumer durables. Marine & protective, I must say it is a cyclical business and we are now riding the other end of it, which is the big up. And we have seen both in marine & protective infrastructure, oil & gas, and navy, we have seen an uptick. The one business which was challenged a bit was industrial coatings. While coil grew, we had a bit of a challenge in packaging because last year in the base, there was a huge one-time consumption by one of our customers. That obviously is only going to start after a couple of months again. So, you will see that uptick in the next quarter perhaps. Also, exports were a little lower to Sri Lanka and Bangladesh in the preceding quarter and that is also getting corrected. By September, we should be able to get back there.

That's rather on the businesses. The other thing really is in terms of financials, and I will request Krishna to walk you through the financials.

R. Krishna:

We began the financial year FY 23-24 with a high note. We have achieved an absolute record in terms of the absolute matrices across the revenue contribution, margin, EBIT, and the PAT. Revenue grew around 7% driven by our B2B businesses and the details of which were shared by Rajiv in the earlier slides. One of the things which I would like to call out here is that the previous record was in the Q3 of last year, which was driven by the seasonality. And in a non-season quarter, we were able to break that record. That's a positive news. How we have done is that we remained focused in terms of our execution and also the strategic priorities alluded by Greg are embedded in our internal systems which has translated into margin expansion and then our product mix improvements as explained by Rajiv and the premium being continued to enhance our margins and margins expanded by around 400 basis points. And then cost prudence resulted in the EBIT growth by around 40%.

That's largely about the financial results. It is an extremely satisfactory quarter. Back to you, Rajiv.

Rajiv Rajgopal:

I will quickly go through it. We have had a record in absolute revenue in terms of EBIT and PAT. Yes, a little disappointed. As all of you can see, we did Rs. 999 crores. I was telling Krishna that if I knew I was going to touch Rs. 999 crores, maybe we should have just stretched a little more to hit the thousand mark. It would have been the first ever, but I am certain that we will achieve it very soon.

We will skip the financial slides, which Krishna has already walked you through. For me, the critical one is the last slide which is the ESG slide. This is what we are really driving hard in the company. We want to be the best in class, not just within AkzoNobel, but even globally to say that how do we really move to zero? We are already zero liquid discharge. We are zero waste to landfill. We are 100% compliant to now plastic waste management rules. But how can you move from just being compliant to leading edge? How do you really become the company that sets the rules for the future? We are right now working in terms of, we have already started recycled plastics for our paints, etc. We are already on 34% renewable energy. How can you really take that further? On social, we have done a lot of work. I think all of you have seen the CSR awards that we have won and credit to the team. But it is not just about policies also, but how we are making an impact. One of the projects that we have done is a project called Indradhanush where we have actually gone to about 4 states. We realized during COVID, a lot of women, particularly in the lower economic strata, were not getting an opportunity. We provided them with a means to open a shop and many of them sell Dulux - only Dulux - in those shops in those 4 states. It is something that we have started and we are delighted because some of these ladies have started getting revenues of almost about Rs. 30,000 to Rs. 50,000 a month and really imparting them the skills of painting and understanding how to run a business. And this is something that we really want to do to bridge the equality gap and gender gap in the country - not just within the organization, but even how we can influence outside.

In terms of governance, I don't think I need to talk about it. One of the reasons I love this organization is it is best in class in terms of safety, integrity, and sustainability. All our

employees are completely at it, and we have got a 100% independent audit committee and 50% of our board comes from independent directors. That is broadly what I am really proud of. It is around these vectors if you are able to really make a reshape and be the best in class and also redefine standards, that is something that we really look forward to.

That's really pretty much from us. Of course, after that, you would have the safe-harbor statement, etc. Manoj, back to you for the Q&A. I think this is the session that we enjoy the most. It also adds huge value to us and gets us to think a bit.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Manoj Menon: As the question queue assembles, can I just go ahead and ask a few things?

Moderator: Sure, go ahead, please.

Manoj Menon: Rajiv, 2-3 things actually. 1) Let's start with the short term one, very short term rather, which is not usual for a conversation. This quarter, there was delayed rains for about a week or 10 days. One of the commentaries which you mentioned and also we heard from some of your peer group who have already reported till date, most of them except Indigo and Berger, it is actually the non-deco outperforming deco, mostly. The question here is, does delayed rains conceptually benefit painting or is it just an academic expectation?

Rajiv Rajgopal: I think it is just a change of dates, Manoj. You are talking about the quarter that went in June. In June, India had a deficit of about 6% to 8% to 10% of rainfall. In July, we had excess of 7% to 9%. When you hear the next quarter commentary, it would get more adequately compensated. Let me address your fundamental question. I think the fundamental question is true. What's really picking up is infrastructure and real estate. Those are the places where the revenue uptick, L&T, etc., large customers have been fantastic. As far as decorative paints is concerned, I would only say that, look, as I mentioned, our projects business and our premium business which is really the gut of what we do, the bulk of what we do, have been very strong. Yes, it was a tad lower than what I would have expected because we were gutting for a double-digit growth sometime in the mid of May. One of the things that we have seen is, and you have seen now 3 players announce their results which, I think, must be roughly about 67% to 70% of the industry and what the other 2 players who will take it up to 80%. Obviously, you are also looking at elevated levels of last year's base and also some price increases during the period of time that was taken. You have got to keep all those factors which we have taken. It is fundamentally demand sort of, off I would say. That is why I call it a K-shaped recovery, Manoj. I see premium consumers with a certain upper strata of income and you can see it in the FMCG play. It is very similar when you look at the companies. The companies which have got a higher premium play, some of which are not also listed and of which I know results have outperformed and the companies which have got a larger mass play. I think in this quarter, we have seen a little bit of a slower growth, but again, this will get corrected because the more closer.... This time Diwali is fairly

late. It is in November. So, you are getting perhaps after almost close to about 7-8 years a solid run for the next 2 to 2.5 months. So, we are optimistic.

Manoj Menon:

Sir, the second question - in fact, you answered part of it in the recent commentary. Given the K-shaped recovery which we call it, which is visible in most of the consumption, whether it is staples or discretionary, given the over indexation which you have at a portfolio level in the premium end of it, in the deco, is it fair to expect that your growth should be far higher than the industry average? At least for a time like this?

Rajiv Rajgopal:

On the premium end, I would say that I do expect it to be because we at the segment level, we do our own analysis now in the last year or so in terms of what is segment level. But I do expect that it would be a tad above the industry. But again, Manoj, there are drivers to this and the drivers to this are basically the innovations, the differentiation and the products that people bring in, pricing, etc. In the last quarter if you ask me, yes, I do expect on the premium and I do expect.... We really thought when we looked at the quarter results, because intuitively, when you speak to large dealers, one got a feeling that the numbers are higher. But we broadly know now the market growth. We still believe in the last 2 years, we have been gaining market share. We have been a little low key on it because it is good once the full year is over. We have done it because the last year got over and we have really gotten and informed all of you that we have started gaining market share. We believe that in India, in about 6-7 key states, we are still gaining market share. There are 3 or 4 states we have had some issues in the last quarter, which we are working on, we are correcting, and we know where we have lost and we are putting plans that in a couple of months we will bounce back.

Moderator:

We will take a question from Nikunj Doshi from Bay Capital Investment Advisors. Please go ahead.

Nikunj Doshi:

Congratulations on a good result as well as for being reappointed as MD. If we go through most of the analysts' reports on the paint industry, and even after the current result, despite results being good, most of the analysts are skeptical putting buy recommendation because of the Grasim's entry into the paint sector. What is your view on Grasim's entry into the paint sector and how you see dynamics changing for the industry going forward?

Rajiv Rajgopal:

Nikunj, my view doesn't change. Firstly, thank you for your wishes. Of course, my appointment is subject to all shareholders' approval. I don't like to count my chickens before they hatch. I will wait for the formal closure of the process, but thank you in advance.

Let's just go back. We have had about 2 or 3 formidable competitors enter the industry. Let's not demean any company. I think these are all companies in the segments and these are powerful business houses, all of whom I respect, have come into the paint industry in the last few years. I don't think the industry rankings have changed at all. If at all, from our point of view, we have really bounced back which was really a concern when I came into the job in 2018 and very clearly I knew that there is an issue; we need to work on it and we correct it and we have been

really putting our head under the ground and really putting up our teams to really focus on correcting the core issues and making sure we are there. As far as Grasim's entry is concerned, again, they come from a very powerful business house. They have made some phenomenal launches in products. So, I am doing scenario planning between myself, Krishna, and our teams. We are looking at 3 or 4 scenarios that could be there, which is not to be shared right now. I am not in a position to talk about it. And we will look at it. We believe that because we have got a premium position, we are the only multinational company with a phenomenal product. Why do people buy Dulux? Because of the quality of the product. We are focused on saying how can we make it and people like yourselves fall in love with us and paint your home. Because, what we have seen is 9 out of 10 people who use Dulux or even to be on the conservative side, 8 out of 10 people who use Dulux, after 3 to 4 years, come back only to our brand. Pretty much the users are fairly solaced in nature. That is where I would see on the paint side. Grasim is coming on the paint side, coating side, so is unscathed for the moment. And we have got great technology, working out there, great relationships with customers. People look at our products as innovation; like powder, we have launched metallic bonded powder which is typically used in very advanced markets - Europe, Middle East, etc., where you get phenomenal consistency of paint and you get a metallic finish, etc. We are focusing on our journey right now, Nikunj, to be honest and we will see. We have to look at it holistically - how they will enter, what are the price points they will enter, are they going to play a branded route versus a pricing route. Already some pilots are on. We picked it and let's wait. We will have to go step by step, to answer your question. I think this would be more relevant if you ask me this question maybe after 6 to 9 months.

Nikunj Doshi:

Because analysts are more concerned rather than the companies.

Rajiv Rajgopal:

I understand, but I think you will have to trust the people who are doing their jobs. Our strategies - and we have got a presentation to our board in a couple of days - are crafted keeping all the new entrants in mind. If I look at all the other players in the market, I would say the same. You have got people of very high pedigree running these companies. I don't think if I were an analyst.... As an individual outside the job looking at buying stocks, I think I look at the pedigree of management, what is the lineage. Our lineage is AkzoNobel. At the end of the day, the key concern for you is, is AkzoNobel interested in India? And that is answered, because India is the first country that Greg Poux-Guillaume has visited. And let me be honest, he has made it very clear to me that even if 1 month's revenue drops because of some issue, we are going to continue to invest in India. And I have not heard that commentary for a long time. So, I am personally highly excited. I almost feel 22 years of age now really to be honest. Bring it on, let people come in. I am very sure I have got a capable team. The industry players, they are very strong drivers of this business - brand, distribution, tinting machine and technology, painters, customer connect. It will take a while to build. That's what I would like to say. Again, I don't like to belittle any player. I think all the players who have entered have all tried their best. It will continue to happen. Hopefully, I have answered your question.

Nikunj Doshi: And just another one on the industrial and coating side. Are there any major breakthroughs, recent breakthroughs which you would like to highlight or which can help us in growth going forward?

Rajiv Rajgopal: Breakthroughs, we are doing a lot of work on sustainable products. I won't be able to tell you more because then it will no longer be a trade secret. Some of our coatings, the formulations on International, Interpon, etc., are focusing on sustainability, are looking at beyond color. If you look at paints and coatings, we are focused on being a driver of innovation. We are looking at, let me give you one example, Intersleek which is there; what we do is we have got a product which is a bio-grade product which prevents the hull of the ship from getting seaweeds. We are coming with many such technologies. We are looking at platforms, we are looking at propositions which are going to be fairly enticing. And our global team and our local innovation teams are working in terms of best-in-class technology.

R. Krishna: I think you are clear, Rajiv, in terms of that. Our focus is to provide the improvised solutions to the customers and also ensure that value proportion is met and we grow together.

Rajiv Rajgopal: Also, we are using very powerful global tools on CRM and key account management. Frankly, I can vouch for one thing that if you look at our key account management, I think it is at a different level.

Moderator: We have our next question from Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Sir, one question on the industrial side of the business. I think a lot of discussion happens generally on the decorative side. Just wanted to understand a little more on the industrial side because I keep on hearing about the 35% contribution that you have been highlighting in the past as well on the industrial side. Can you give me a flavor? May not be a quantitative number, what has been the growth in this industrial side of the business in the last 2-3 years since you took over? And historically, how do we differentiate in this business? And maybe not a forward-looking statement, but historically, how do we differentiate which has given this kind of growth in that industrial part of the business?

Rajiv Rajgopal: Let me take a very simple example. If I were to just look at the CAGR of the last 5 years versus the previous 5 years, the CAGR has moved from approximately 6% to closer to about 9.5% to 10%. That answers the first part. In terms of what are the drivers? I think the industrial coating, whether it is automotive, specialty coatings, or powder, etc., is really built around technology and the quality of our products and the relationship we have with our customers. Why do these customers come with us? Because, we have got products which are uniquely differentiated in the market. If you look at our powder, globally, we have a 32% market share, and the number #2 player has got a 16% market share. And that tells you the quality of products where we do almost everything. It is architectural. We look at what we call the general appliances. You go into pipes, the pipes which carry high value products like oil, etc., which are powder coated. We do a plethora of products. We do vehicles, rims of vehicles, etc., automotive. If you look at our

brand, Sikkens, it is the world's most premium brand. We also do McLaren Mercedes, as all of you know, for F1. We have got a 70% share of the aerospace. Of course, in India, we are yet to have big hangers. That's MRO business, which is maintenance and repair, yet to come in, which is a phenomenally profit-accretive business. We enjoy great positions in our coatings business globally. As far as India was concerned, the focus was really first building the customer relationships. Because, you may have a great product, but if you are not able to get customers who genuinely believe in your products and believe that you are world-class, yes, the rest is history. When I came and I still remember a lot of customers, while they knew about AkzoNobel, they really didn't understand it. And I must compliment all the teams who have really driven it hard and even more recently in some of the businesses. I will say that the teams have really been focused in trying to communicate that our products are world-class and key account management has been really brought to fore. That's why I genuinely think we have got a proposition which is going to be a win-win and which is going to take us to the next level.

Gaurav Nigam: Just a clarification; when you said 6% to 9.5% to 10%, this is very specific for the coatings division, right?

Rajiv Rajgopal: Yes.

Gaurav Nigam: Sir, one more question. We have been hearing a lot from the government on the focus on CapEx and infrastructure development. I think a lot of focus is coming on the projects business. I was wondering how Akzo is thinking about it. And have we taken any initiatives on that front to grow that part of the business and is that a sizable part of the business? I am sure you must be, but just want to understand some thoughts on that front as well.

Rajiv Rajgopal: I won't be able to share the specifics on that because, again, that is confidential. But why is the government attractive to Akzo in the last couple of years? Because, everything has come through e-tendering where the government is now going for specifications and I think that is where we bring in a huge amount of.... We can't do, we are not good at, and we don't want to do any other stuff like lobbying, etc. We genuinely want people to use world-class products. If you look at whether it is Central Vista or INS Vikrant where we have been provided our coatings, it really starts telling you today. I think the government is also believing in great quality. They understand the value of having a great brand and great quality, Chartek, which is a fire protection which is typically used in oil rigs. It is also getting used in key defense installations, etc., not just in India but even in the United States, the UK, Europe, etc. To me, it is the quality of products that you have, how well can they live their promise. That's really what we are focusing on.

I do think that the government is a sizable business. In the last few years, it has dramatically changed in terms of building on specifications, looking at proper rate contracts, it's all e-billing. It's a very formal process and I do think that will be a good channel for us as we even move forward.

Moderator: We have our next question from Nirav Savai from Abakkus AMC. Please go ahead.

Nirav Savai: My question is regarding the distribution spends which we had highlighted in the last quarter that we would be scaling up our distribution spends for deeper penetration. How much did you spend this quarter - the A&P spend for better penetration and appointing new distributors?

Rajiv Rajgopal: Appointing distributors, the spend is nothing because it is a breakeven of 6 months. I have a very simple formula. I don't anywhere share these numbers, but the appointment of a distributor as far as we are concerned with the velocity we are now generating compared to 5-6 years or when I embarked on the journey in 2013 where the breakeven used to be about a year or 2 years is negligible. So, really I think that it doesn't. On the A&P, we had, during COVID, brought it down to about 1.8. I think going forward, I had mentioned that we will dial it up to 3.5 to 4. On distribution spends in the new markets that we are entering, what we need to do is to build brand visibility, contractor programs, etc., which are fairly cost effective. We are also using digital platforms now to build it. So, we do see a lot of productivity in some of the work that we did compared to sometime earlier. Hopefully, that answers your question.

Nirav Savai: I was just trying to understand this quarter, we had very good performance as far as margins were concerned. These were the best ever kind of margins consecutively in the second quarter, after the 4th quarter. What do we see sustainably going forward? How do you see these margins panning out looking at the kind of competition intensity ahead?

Rajiv Rajgopal: Let me answer the first part and I will request Krishna to add. The margins are comprised of mix and comprised of softening of crude. Yes, how do we see it? As I told you, we will continue to aggressively play in the premium because really that's what is our strength and we are not going to let go of it. Also, it is in terms of composition of decorative versus the industrial part of the business. That also has a confluence and that varies quarter by quarter for all the companies, to be honest. So, it is very difficult to be able to select because, for example, in some quarters it is 65:35, some places it is 63:37, it depends. As you enter into deco season, obviously deco sales start zooming through. That has been the pattern.

R. Krishna: It all depends on the product mix.

Rajiv Rajgopal: And also value creation programs. We have embarked on a lot of value creation programs that we are working with as a team. Some of the productivity measures and some of the value creation programs that we have unleashed will also add to this.

Nirav Savai: Lastly, about this non-premium segment. What would be the contribution? Any plans to scale up there in that segment as we are planning to penetrate deeper?

Rajiv Rajgopal: From a growth perspective, obviously we need to play in it because a large percentage of the market growth is coming through segments like mass, economy, putty, and waterproofing. In waterproofing, we are very aggressive, I think, both in terms of quality of product and in terms of growth. Where we are lacking is putty, to be specific, and also some economy segments. We are looking at it, we are dialing in. I think there are some price points that we need to address.

We want to do something which is going to be accretive to what we do. We are not going to do something for the sake of doing it. Our focus is saying how we can strategically do things which, from not just next quarter but from 1-2 years, are going to be the right thing to do. That's where we are working.

Manoj Menon: Can I take 2 questions in the chat window, please? Sir, we have the first question, or rather multiple questions actually. I will take one at a time from Shirish Pardeshi of Centrum Broking. The first question is, has there been any consideration to pass on pricing benefits to trade and consumers?

Rajiv Rajgopal: The passing back has gone through elevated discounts which have happened because of competitive pressures in the market. At the end of the day, this started sometime in June and we did see some of our competitors getting more aggressive, maybe because also of a truncated demand in the first 2 months relatively to the previous quarters. So effectively, the pricing has got a bit corrected through that, Manoj, to answer the question.

Manoj Menon: The second one is, do you expect the industry to behave differently once Grasim products hit the market in October-November?

Rajiv Rajgopal: I think this is a fairly mature industry. It has been a very disciplined industry. We will have to see what Grasim comes and does. I would assume they are not going to sell their products free. If that is the case, then it is going to be a very different answer. But assuming that they are going to charge even Re. 1 for it, I do think it is going to be a competitive one where companies like us will focus on making sure the brands are far more entrenched in the mind of the consumer. Try Dulux because I think a lot of these questions will get answered the moment you use it once. And when I use that product inside my home, I really know what it is about. I just genuinely think I am intoxicated by the quality of product because what are my scientists doing? I hire from the best IIT universities if you have heard of these institutes. The team is really focused on converting the magic of science into the magic of paints. And for that, you need passion, the ability to think, and that's what Dulux is all about. That's why when consumers.... And this is not manufacturer's speak, Manoj and to all of you. This is a consumer's speak. I am sure many of you've used it. I ask TV anchors who have used it. They say, I have used Dulux, I have used it 4 years ago, etc. That's what we really want to drive. And I think there we have got a journey ahead. To be honest, we have got a long journey ahead. I have been saying this for the last 3 years, I am focused on that. Let's look at what the new player brings in. It's a formidable player. We all understand. They will come with their own disruptive strategies. We will address those disruptive strategies when it comes..

Manoj Menon: Sir, the third one from Shirish is, could you spell out if the consumers are now downtrading to economy?

Rajiv Rajgopal: I don't see consumers downtrading to economy. If at all, I see more premiumization happening in the market. Downtrading means supposing I am a consumer, I use a premium product, e.g.,

either Velvet Touch or Dulux SuperCover or SuperClean and I downtrade to Dulux Promise Interior. That's downtrading. But what we are seeing is a new set of customers coming into economy segment who are using either local players or distemper or something of that sort and this has been happening for the last few years. We were not present. We are getting some new consumers from other brands despite the fact that we are not at a huge price advantage or we are not at a huge discount to other players, primarily because of the quality of our products. To answer you, no, I am not seeing too much of downtrading. This view can change if the market changes or the economy or income level changes.

Manoj Menon: The 4th question from the same participant is, its market share? I presume he is asking about deco market share.

Rajiv Rajgopal: We don't give out market shares because these are not available in public domain.... Unlike the FMCG industry, we don't have Nielsen or somebody really tracking us. You can see the quarterly results, track it, use your judgment. You have been telling us that we are in the region of about 5.5% to 6% in deco. I think we have been moving up and we are pretty pleased with the fact that last year we ended up in the top 2 of the fastest growing companies in the sector. Am I happy about it? No. My endeavor is eventually to start seeing how can it be the fastest growth? But it will take a while. Castles are not built overnight, they are built brick by brick. We are in that process and we are determined to make it happen.

Manoj Menon: There is one question from Lakshminarayanan Ganapathi, two questions rather. 1) Is your non-decorative about 35% of your revenue? I think you responded to that a little earlier. Yes, it is confirmed. 2) How do you manage such good working capital despite being 35% in the industrial segment?

Rajiv Rajgopal: If I told you the secret, it would no longer be a secret.

On working capital, we put some fundamental principles in place to say that we have looked at some learnings that we have had in different industries and said that how can we manage it, which is the reason why it is there. But we are very focused not just on revenue, EBIT, EBITDA, PAT, but on ROCE. And what delighted me is the fact that we moved to 36% return on capital employed last year and that journey will continue upwards. We are sweating our assets, we are using technology. Those are the things I have talked about it, Manoj, in a few banter. If you really go through what I have said, I think you would be able to arrive at how it is done.

R. Krishna: The strategic priorities which we have, we meticulously follow. As far as the B2B segment is concerned, we do have a fair amount of discussion in terms of when we enter and renew the contracts, what are certain negotiables and what are non-negotiable.

Rajiv Rajgopal: Also, our buying is done very scientifically. Maybe that is the only thing I didn't say. Our buying is very very scientific and very programmed.

- Manoj Menon:** Presumably you have scale benefits because of the MNC linkages.
- Rajiv Rajgopal:** I won't talk about anything beyond that.
- Moderator:** We have a question from Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Sir, is my understanding correct that we are looking to strengthen our premium positioning in the paint space? That's how I am looking at it from a strategic perspective in the decorative segment. In that scenario, would it be possible for you to kind of give us a sense on where we are on marketing spends to sales versus the pre-COVID level? And how do you see them trending going forward?
- Rajiv Rajgopal:** We were at about 1.8% A&P to revenue at a point in time during COVID and we are scaling it up. We are about 2.2% to 2.5%. Our endeavor is to move it closer to about 3.5% to 4%. We believe that that is good enough. Technology has changed. The way consumption and feed is happening is very different. Traditional media is no longer the only media where you are visible. We are seeing it. We have got living examples where we have proof points of the fact that we have tried certain new media channels and it seems to be working for us. And it is a continuous journey as far as we are concerned.
- Avi Mehta:** In a way if efficiency of those spends is what is being worked on, not look at a pre-COVID number, but probably around 3.5 is what we should look at going forward.
- Rajiv Rajgopal:** That's right.
- Avi Mehta:** The reason why I asked is basically it was on the margin commentary. We have seen 2 quarters of almost 16% plus EBITDA margin. You are looking at benign input cost, and there is a healthy decorative growth expectation for the third quarter. I was trying to kind of appreciate what would be wrong in assuming that FY24 is broadly similar to the 16% plus mark at the least. Or what is it that I am missing? Because, the mix as you rightly said, 35 becomes 37, but that has kind of panned out, and 3Q is a relatively better quarter. Maybe you could help me understand what in the equation could be wrong if I make that assumption. Or is that a fair assumption to make in the first place?
- Rajiv Rajgopal:** The only thing I think in the assumption that would change is our endeavor to say that what is now priority. We have been through different phases. I think we went through globally 15x20 where India obviously had to contribute. We have gone through a grow-and-deliver strategy period. Now, the focus is on saying that - without eroding margins terrifically - can you really start now getting back to a stronger top line, which is a healthier and sustainable top line. To me, that's the part you are missing. Of course, it is not that we really want to drop the EBIT or EBITDA margins at all, but what we want to do is to balance it given our market position? And those are things which are a bit confidential. We are not going to talk about it because we have got our journey cut out. I have always told the street that I will be in double-digit EBIT margins

- not EBITDA, EBIT margins. We have been very consistent to our promise. And I don't see any real reason to dilute it. But that said, because I do think it is not OR question, it is an AND question as far as I am concerned. But I also realize and sense, we know what is coming. We know the elevated competitive intensity which is there. So, we will wait and watch and do the right thing. We are a company that if you invest in us, we believe in making sure value grows. I don't want to take a name, but I can tell you when I got into the job, I went and met one of the marquee investors with us. I think the share price was about 1,700 that time if I remember. I met the team, a fantastic team, who had belief in us. Today I can say one of the things I am gratified and I am thankful to God is that at least I have lived my promise. That's where we are. We don't make big promises, but what we say, we like to do, and we like all of you to have that faith that we are here. You are parking serious money in investing in our business. We believe that we look at it very seriously. It's like putting our money in our business, because I draw my salary and everything else from it. You can rest be assured that what we do, we will do it with a lot of thought process and a lot of thinking strategically and granularly before we do any aberrations. And we will talk about that at a later time. I don't think today is the apt day for that.

Manoj Menon:

Sir, there is a question from Utkarsh Solapurwala. What are the plans on waterproofing and construction chemicals? What is AkzoNobel's current strategy in these segments?

Rajiv Rajgopal:

We are playing very aggressively. It is one of my fastest growing segments, but I can't talk more than that. Why do I believe we will win? Because the quality of products we have got like Dulux AQUATECH is unbelievable. I don't think the top 2 players have got products which are equal to my quality. My research & development team is working on a lot of innovation in other products, which will further take it to the next level. But we want to be careful because some of the products are also slightly margin dilutive. So we are taking time. We want to understand that industry segment because, Manoj, some of them have also got long gestation times. You have to spend a lot of time with customers. Some of them are very customized. It is quite a different way of doing business compared to we have been doing. There is a lot of after-sales customer service required. We want to build those capabilities before we ramp it up. We are doing it step by step. What I can assure you is that we are a serious, meaningful player. If you go to the market and do a dipstick, you will see that the dealers will acknowledge the fact that we've become quite serious in it and we are growing fairly well. We've moved to integral waterproofing, but have not looked at categories like membranes which are being used, for example, large industrial units, etc. That, again, is a thought for later. We will look at all the segments, everything else on the waterproofing side and work our strategy; grout, sealants, everything.

Manoj Menon:

There is one question from Rishi Mody. He says, did I miss? What was the volume growth in deco paints? Was there a comment about this?

Rajiv Rajgopal:

Our volume growth was a little higher than our revenue growth. It was absolutely high single digit. I can just tell you Manoj that we didn't sell too much of putty.

Manoj Menon:

And you follow valuated volume, right? It is not tonnage growth.

Rajiv Rajgopal: Yes.

Manoj Menon: Absolutely. That is absolutely the right thing to do.

Aniruddha Joshi: Sir, we have done 3 super innovations, starting with waterproofing, then economy emulsions, and then third, the floor paints. Which are the other gaps that you see in the overall paint segment where Akzo can have a good right to win? And any more colors that you can share what the R&D team is working on? And overall, how do we see the new launches? Also, is there any plan to launch, let's say, 1 product or 2 products every year? What are our thought process on that?

Rajiv Rajgopal: Innovations have been the route to our success over the last 3 years. If you look at India, our innovations (NPIs) account for anywhere between 6.5% to about 10% of our revenue on a stated period. Eight out of ten, and I am giving you some absolutely honest truth of the launches have done well or I would say even 7 if I include DIY. Because, DIY, while the products have been great, obviously consumers are still not ready for doing-it-yourself except for young consumers and people who want to paint one wall. So, 7 to 8 out of 10 is our track record. Our products are doing very well. Some of it was catch-up, to be honest. We also realized we live in an industry where we have got a lot of intelligent players and a lot of people applying their intellect. In some places, we say, look, we don't earn brownie points by being the first, but when we put it in, how can we beat the best? That's what we try and say. Like, for example, PU Enamel; there was a new player who did an incredible job and built a phenomenal staff. What we did is, when we brought it, we brought a different proposition and said our product when consumers or customers try, typically people should say, yes, this is phenomenal. And that's what we are focused on. I think our approach is very different, or as they call it, "zara hatke" from the way others look at it. I don't like to stress my teams on saying everything has to be first because when you are a challenger brand, you've got other issues to address. But what you do? Bring in global expertise, bring in global leverage technology, bring in best in class. That's what we are focused on. Because, Dulux is about international best-in-class technology, great quality. Keeping those things in mind, we start looking at what is there.

Aniruddha Joshi: Some of the peers have articulated the strategy for projects business that what they are going to do in metros, then maybe tier-1 cities, and then further smaller cities, etc. And they have appointed special teams for projects also. What is our strategy on the projects business? I know that you have shared some details earlier too, but what is our real strategy over here? And is the projects business really expected to last at least 3-4 years because of the recovery in the real estate?

Rajiv Rajgopal: The answer to your last part is yes. Unlike the other players, we are fairly serious. We are a large player in the projects business. In fact, we've got a significantly higher share than our average share because of projects and the way we had built it was really to bring in the best in quality to our large B2B customers and we've got marquee customers. I understand where others are coming from. They are trying to see whether they can get a share. They are welcome. But as far as we are concerned, we see no reason - we've got a good CAGR of double digit and that is

something that we will continue to do. We've got great offerings. For us, it's about tools, about ensuring that we are able to bring in the best in class in terms of presentations and the product array, etc. We've got Dulux Professional series which is very unique in this industry where we've got warranties, etc., for different products which are quite unique and specific to customer needs. That's what we are focused on. We are focused on our needs of our customer, understanding what the customers and consumers want and really trying to dial up propositions for that for the moment.

Moderator: I would like to hand over the conference to Mr. Rajiv Rajgopal for closing comments. Over to you, sir.

Rajiv Rajgopal: All I want to say is thank you so much. This is something that I've always promised you. Irrespective of our results, we will always be there in front of you. I really want to thank each one of you for your unstinted faith in all of us. Our company secretary process is just getting closed. We have the company secretary joining towards the end of the month. Obviously, at the appropriate time, when the individual finally gives us a joining date, etc., we will notify and Krishna and I will work around. In the process, also got the person who mentored me into this job, and I have no shame in mentioning, Mr. R. Guha - and Manoj, you know Mr. Guha - to support us in this interim arrangement. And what I have requested Mr. Guha to do is also to help us. We will set up an investor meet and Krishna will work it. I wanted Krishna also to have a face to face with all our investors. So, we stay connected. We want to thank you for all your generosity and support. We want to let you know that for all the investors who are with us, we take every rupee that you have invested or every paise that you have invested with us seriously. We know it is a serious business and we are here to give you that assurance that we take our business very seriously. Thank you Manoj. Thank you to all of you for setting this up and wish all of you a great weekend.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now exit the meeting.