

9th November 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 3rd November 2023 regarding the standalone and consolidated financial results of the Company for the quarter ended 30th September 2023.

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

Thanking you,

Yours truly,
For Akzo Nobel India Limited

Rajiv L Jha
Company Secretary & Compliance Officer
Membership No. F5948

Encl: as above.



“AkzoNobel India Limited
Q2 FY '24 Earnings Conference Call”
November 03, 2023



MANAGEMENT: **MR. RAJIV RAJGOPAL – MANAGING DIRECTOR –
AKZONOBEL INDIA LIMITED**
**MR. KRISHNA R – CHIEF FINANCIAL OFFICER AND
WHOLE TIME DIRECTOR – AKZONOBEL INDIA
LIMITED**
**MR. RAJIV JHA – COMPANY SECRETARY –
AKZONOBEL INDIA LIMITED**

MODERATOR: **MR. NILESH PATIL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '24 Earnings Conference Call of Akzo Nobel Limited, hosted by ICICI Securities. As a reminder, all participant lines will be in the 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. Nilesh Patil from ICICI Securities. Over to you.

Nilesh Patil: Thanks, Yashashri. On behalf of ICICI Securities, we welcome you all to Q2 FY '24 Results Conference Call of Akzo Nobel Limited. We have with us Mr. Rajiv Rajgopal, Managing Director; Mr. Krishna R, Chief Financial Officer and Whole-Time Director, along with Mr. Rajiv Jha.

Now I hand over the call to management team for their initial comments on quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Rajiv Rajgopal: Good evening to everyone. This is Rajiv Rajgopal, joined by Krishna, my CFO; and Rajiv Jha, who is the Company Secretary.

Moderator: Sir, I request you to be a little bit louder, please.

Rajiv Rajgopal: Can you hear me now? Is it better?

Moderator: It is better, sir, yes.

Rajiv Rajgopal: So good evening to everyone, joined by Krishna, CFO; and Rajiv Jha, Company Secretary. What we will try and do in the next 5, 10 minutes -- and I'm not going to use the deck, the deck that we intended to use is already loaded on the website, I thought we will keep it more for Q&A and any questions that any of you may have. But I just thought I'll just quickly outline how the quarter has been.

Indeed, as all of you have seen, both the industry numbers and our numbers that it has been a relatively tougher quarter. But despite the headwinds of erratic rains in new consumer sentiment, we continued our journey on profitable growth. We reported a revenue of close to INR956.3 crores, a 3% growth, coming largely from the B2B segment, projects in Paints and the Coatings businesses. The retail sales was relatively muted.

The gross margin percentage improved by 600 bps, which was mainly attributed to raw material cost seasoning, coupled with favourable mix. With increasing scale and efficiency, we continue to deliver on our double-digit growth profitability with a 33% growth in EBITDA. And our profit after tax was INR94.2 crores, up 44%, right?

So really, for me, I believe that as far as the first half is concerned, we continue to be in the top 2 in incremental growth. We've achieved new records across most parameters in absolute terms. All the strategic drivers, including product portfolio, is reached. And efficiencies are working well.

The PAT for the 6-month period has grown 43%, strong -- obviously supported by stronger EBIT, operating profit and other income, yes. Our OWC-to-revenue percent remains one of the strongest in the industry, reducing from 9.6% in September '22 to 5.7% in September '23.

In fact, I must be proudly say that our Paints business is almost now on a negative working capital, perhaps something that I had only achieved during my FMCG days. This has contributed to a healthier cash flow, which is supported by our capex and dividends. We ended the year with liquidity of almost INR612 crores, yes.

So that's what I have to say in substance on behalf of Krishna and myself. I thought we will use this time to take your questions and answer any specifics. I'm also mindful of the fact that this is an open call. And hence, when in an open call, you have a lot of open -- people who are openly invited, so bear with me that I will not be able to share any competitive details. I think that's the nature of our business.

And given the fact that there are a lot of people who are making a lot of inquiry, you would appreciate the fact that I will be a little guarded in some of the comments that I make, yes?

I want to -- before I hand it over for the Q&A, I want to deeply thank our investors, who stayed -- had been a great support. And thank you to all of you. As all of you know, I've been re-elected for the second term as Managing Director, and this would not have been without the support of all of you and all the employees at Akzo Nobel. So once again, a big thank you, and back to you, Yashashri, Manoj Menon and team, Nilesh and team for the Q&A. Yes. So over to you.

Moderator: Thank you very much sir. We have a question from Atharva Bhutada from Purnartha. Please go ahead.

Atharva Bhutada: So actually, I had two questions. One was regarding that all paint companies did have a slowdown in rural spending and downgrading in paints in the rural sector. So, have we seen any uptick in demand in rural after the September quarter? Or has the market share been lost to local players?

Rajiv Rajgopal: Okay. So let me answer your two questions. First, as far as we are concerned, and I said it perhaps also in some of the interviews in the morning, we've actually grown in rural in our paints portfolio. And I assume you're talking largely paints here, right? Which is about 60% of our overall sales. Yes, so yes, in paints, we've grown in rural in Q3. And this is largely coming out of our distribution efforts, which has been ongoing for the last almost a year, year and a half. Right? So that's the first.

But remember that we are starting at a much smaller base than some of our larger competitors. So, I just want to be fair that yes, if you look at an aggregate level, rural is because of the erratic rainfall and spend, etcetera, having a bit of a challenge. But we've seen a growth because of the distribution gains that we've made in many cases.

The second question, I think you've seen the, you know, last full year, we were the second fastest growing player in the paints business. And even if you look at the first half, we're still,

you know, even if I keep scoring aside for a minute, I see no reason why we've sort of, yes, if you look at specifics, we would have lost some market share in mass market, which constitutes about 35% of the market. But in all the others, we significantly gained.

So, at best, we would be gaining about 0.1 to 0.2, because the market size is so big. But, you know, for me, you know, I'm between 0.1 to 0.2 gain, largely coming out of a premium because a premium grew quite significantly in the last quarter, very high single digit growth in premium. Yes, hopefully I've answered your question.

Moderator: Atharva? We can't hear you. Since there is no response, I'll announce for the questions again. Ladies and gentlemen, to ask a question, please click on the raise hand icon available on your toolbar or on the Q&A tab available on your screen.

Manoj Menon: This is Manoj Menon. Can you hear me? Can I ask a question? Rajiv, Krishna, apologies, I had some connectivity issues initially, I'm sorry for that. Yes. So, sir, a few clarifications. One, when you mentioned you're the second fastest. So, in that calculation which you do internally, are you counting non-Paints also? Let's say, the putty and other sales kind of -- is it a Decorative comment or it's a Paints comment?

Rajiv Rajgopal: No, it's a, it's a, it's a paints comment, but we don't include, you know, anything which is non-paint, I mean, it includes waterproofing, it includes putty, but it does not include the fabric, furnishing, lighting, kitchen, adhesives, adhesives too, because we don't participate. In our portfolio, adhesives is not there. So, we look at addressable market, because otherwise, it's not a core paint and coating from our perspective. So, we only look at those.

Manoj Menon: Sure. So that was very helpful, actually, and good luck. Sir, and secondly, it's not really about urban and rural. But generally, there has been stress in consumption on the bottom of the pyramid, which you had observed in the last, let's say, a couple of years. And there's a comment that it is bottomed out. While it's a short term -- what I'm trying to understand from you is that we started seeing some stress in the restaurants and about a year back; apparel retail, maybe 6 months back. What's your sense on Paints business, whichever way you cut it actually, urban, rural, premium, mass?

Rajiv Rajgopal: Yes. So, look, you know, firstly, overall, you know, I'm also a little surprised as much as the rest of the industry. When we started the quarter that went by to what ended, obviously, the narrative was slightly changed. If you were to ask me in the month of June, July, we were looking at, you know, at least a good double-digit growth because we said it's an extended season. But two things that dramatically changed. One, the erratic rainfall, but that's not the bigger reason.

I think the bigger reason is, like you rightly say, a bit of slow demand. And we started seeing this from more pronounced in September than we saw it in July and August. Right. So, I think that's the two where we started seeing credit in some of the markets, particularly in the eastern part of the country, really coming under credit, huge squeeze. So that's the way we see it. It's something which is, you know, Manoj Menon, I just said it.

We actually, in the paint part of the business, had a slight decline in the metros last quarter. We actually grew very well in the rural markets. Now, obviously, it doesn't compare with the larger companies because they already have a significant high base in the rural compared to us.

And obviously, you know, contributions are smaller. But that said, nevertheless, you know, this has been an effort of last one and a half to two years where we've driven distribution, led gains. And obviously, the acceptance of the brand in some of the, you know, the smaller towns here, two, three, four, five is obviously starting to pay dividends.

And obviously, Dulux is getting some significant market share in those markets because we are starting also from a smaller base. Right. So, in net-net, to answer your question, how do I see it going forward? Look, I see pains. Obviously, you know, this quarter will have a bit of festive tailwind. But I need to wait and watch till December to see how much of the tailwind is going to translate to, you know, getting back to 1.2x to 1.5x GDP.

What we see is, if you remember in pains, I always used to present in all the investor shows that we are about 1.2x to 1.5x GDP. What's happened now is if you look at the last quarter, we've come to half of GDP. If you ask me, I've done some stochastic analysis with Krishna and we see that this kind of moving to about one first before getting back to 1.2 to 1.5. Now, what is the time frame? That's something that we will take a little three to six months before coming in. But it will take a bit of time before we really get back to the heady growth.

Also, the competitive intensity is going to increase early next year. So, we just should be mindful. However, it doesn't mean that, you know, the industry is going to see no growth. Not at all. I still think it's a pretty growth, high growth industry. It's just that the contours will change. There's election next year in May.

And as we've seen in the past, during the election year, particularly the infra, you know, work was slightly slowed down from March, April. So those are things that we have to be meandering. Today, if you look at our business in the last quarter, just to give you some highlights, Paints sales was pretty much flat, literally flat.

And the Coatings business grew high single digit. Not only Coatings, even within Paints B2B business, project business, which constitutes 20% of our business, actually grew very high double digits. So, you know, that clearly tells you what's happening is it's reflected in the core sector index of the country where you're seeing the companies which are in real estate, infrastructure like L&T, etcetera, some of the people we work with and all doing very well.

You're going to see that continuing in my view till March, April next year. Then you will see a bit of a hiatus till the elections are done. And irrespective of what happens, hopefully it will all be positive for Indian economy. And, you know, I think then start picking up again in June, July next year. So long term, I don't see an issue. I still see in India, the GDP growth story and the Paints growth story being intact. Yes, there will be intensifying competition, but we are ready.

Manoj Menon:

Interesting. Thank you. Thank you for the detailed response, Rajiv. The third one, you know, before that, let me make an announcement. So, anyone, investors, analysts who wants to ask a

question, please do raise hands, you know, use that option. Rajiv, another one, your observation on the negative working capital. That's a brilliant achievement. Is it fair to say that you're the first probably Indian Paints company to achieve this?

Rajiv Rajgopal:

See, Manoj Menon, I mean, look, it's not to compare with others. Everybody has got their strengths. You know, let's be honest. There is a leader with a 55% market share. So, you know, let's give accolades to all the people who deserve it. From our perspective, the negative working capital being a challenger brand, a number four player, enables us to give us the license to be on a profitable growth journey. Right. Are we the only one? Yes, probably.

When you look at the numbers that have got reported, yes, we are at about 5%. And I'll ask Krishna to just run you through some of the meetings. But what are we focusing on? We are focusing on mainly collecting overdue, keeping our, you know, slow and obsolete inventory, etc. So, running the, what I call the integrated business planning process in a pristine manner is what we are really focusing on. I think that's our strength. Krishna, you want to add some numbers?

Rallapalli Krishna:

Just an additional clarification, Manoj Menon. In terms of the negative working capital commentaries pertaining to the Paints portion of the business. Yes, it's negative for Paints.

Rajiv Rajgopal:

Overall, it's about 4%, 5, 6%.

Manoj Menon:

Yes. Sir, within paints, actually, what has been the key drivers for this? Is it that your distributor-led business has now reached the significant size, which is mitigating the working capital, otherwise positive working capital as well?

Rajiv Rajgopal:

No, it is. But let's be honest, one of the things I always work and we always work as a team is to make sure our distributor stickiness is very high, right? So obviously, we keep to inventory by distributors, typical FMCG model, right? So, to that extent, it's also good credit management that given our distributors have managed to upend. It's also making sure the right portfolio, etcetera, comes.

I think it's a suite of stuff. A lot of what we've done supply chain management, actually, where we've used iconic -- marquee people to help us to put the right agenda, and then Krishna and the team, leveraging on what I call ways of working and war on waste to make sure that we are able to drive our costs efficiently. Yes.

Manoj Menon:

Understood, sir. One clarification on this from the other side of the table is that any -- which way, let's say, working with positive working capital constrains or constricts growth?

Rajiv Rajgopal:

Well, as long as the working capital are directly deployed, I think what it helps us in return on capital employed. Look, this industry has got a 20%, 22%, if you look at the market leaders, 25% return on capital. We may be at about 30%, 32% right now. 33%, right? Now look, I think beyond a point of time, ultimately, it's about how you use it to unleash growth. So, we'll take it as a one step at a time. We've -- from where Akzo is coming when I came in back into the business in 2018 to now, the focus has been to how do you really accelerate growth.

I remember many of the investors, who were today on the call, really telling me -- it's not about what you say, it's what you do. So, I think hopefully, in the last couple of years, we had - - this quarter and the quarter gone by, we've demonstrated what we can do.

- Manoj Menon:** Understood, sir. Let me take a question which has come in the text window -- sorry, sorry, sir.
- Rajiv Rajgopal:** Krishna, you want to say something?
- Rallapalli Krishna:** Just to add on, Manoj. The working capital management and growth, we are trading it carefully. We are not doing anything crazy to hinder the growth.
- Rajiv Rajgopal:** Yes, that's right.
- Manoj Menon:** Fair enough. Absolutely. Understood. So let me read a question that just came in the text window. This is from Dhiraj Dave from Samvad Financial. He's asking,
- Dhiraj Dave:** I'm just reading it out verbatim, what is the share of new products launched in the last 24 months earned during the second quarter of FY '24?
- Rajiv Rajgopal:** I think that's quite similar most people, it's around 10%. 10% is the revenue contribution coming from new products in the last three months, four months. It won't be very different for any player, Manoj. We are there. I think I'm pretty proud of some of the work that we've worked on the new product and portfolios. So, we are currently at about close to 10%, 11% of the portfolio.
- Moderator:** We have a question from Nirav Savai from Abakkus. Please go ahead.
- Nirav Savai:** My question is more on the project side of the business. Now here we have said that, we have grown by higher double digits and have a significant contribution to our overall Decorative revenue. So, am I right in understanding that it contributes about 40% of our Decorative business?
- Rajiv Rajgopal:** 20%.
- Nirav Savai:** 20%. And we have grown high double digits with -- in this 20% of the business?
- Rajiv Rajgopal:** Yes.
- Nirav Savai:** So, despite that, we have seen a flattish kind of a Y-o-Y growth on the Decorative business. The retail part has actually declined?
- Rajiv Rajgopal:** That's right. That's a very low single digit. I mean maybe, basically, almost flattish to low single digit. Very low, decline, yes.
- Nirav Savai:** Right. And on the industrial side, how do we see demand panning out for the second half? Or do we see improvement there? Or this is something...

Rajiv Rajgopal: We did grow high single digit in the last quarter in the industrial businesses pretty much. I see that continuing. Yes, can we get to double digits? Yes, I do think so. It also depends on the execution of a few orders, stability, etcetera. If everything's going good, I think we should be looking at close to early double-digit numbers in the -- for the second half in our businesses.

Nirav Savai: Right. And in Paints side, do we see acceleration in the second half? Or would it be more or less similar to what it was in the first half?

Rajiv Rajgopal: You tell me, I hope you're watching India matches on the cricket...

Nirav Savai: No, I mean you have your internal assessment in terms of demand and...

Rajiv Rajgopal: My internal assessment is okay. So, look -- so let me just tell you. I think we were at about 1.5% of the revenue. We said, we'll take it to 3.5% year on that journey. And we are now slowly moving in 3% to 5%.

Look, what I've not said and perhaps even to -- when Manoj Menon asked the question, last quarter, we grew volume at a high single digit in both our Paints and Coatings business. And we have taken some small price corrections in some parts of the portfolio because Dulux is one of the more expensive paints in the market, right?

So, we had to do it because in some of the categories that I mentioned in March specifically, etcetera, obviously, when you come with a lower share, you were able to -- you are not able to sustain the premium, so we decided that we need price corrections.

So, a combination of that is what has happened. And volume growth is a good way because net of putty also, our volume growth is pretty high single digit. So, all I would say is, we seem to be going in the right direction. Let's see. We'll have to keep our fingers crossed, even taking one step at a time. No point predicting, how it's going to be ahead because you don't know whether -- what the steps ahead are going to entail.

Nirav Savai: Right. So, 3.5% to -- or 5% kind of spend is over a period of time...

Rajiv Rajgopal: Yes, and we are pretty active on World Cup front. For those of you who are seeing it across, it's omnichannel stuff. We are also on Hotstar. Now if you are watching it, you'll obviously agree that you've seen a lot of Dulux. At least the TV anchors in the morning seem to suggest that we are the most visible brand.

Nirav Savai: Right. All right, sir. That's it from me' sir. Thank you.

Rajiv Rajgopal: Thank you, Nirav.

Moderator: Mr. Menon, would you like to read the text question? Or should I go ahead?

Manoj Menon: Yes, you can -- I'll take it, actually. There's a question from Laxminarayan Kg from Tunga Investments. Laxmi is asking.

Laxminarayan Kg: Sir, since the start of the year, we are halfway right now, which aspects of your business performance has positively surprised you ahead of your expectations and why? And there's further, which aspects of the business have disappointed you? And what are you going to reinforce the positives and address the disappointments?

Rajiv Rajgopal: Very good question. Thank you, Laxmi. I think that's a very good question. Look, what is really the positive part? First, look, in our sort of a business in Paints and Coatings, we are a people business. We just recently finished global survey, done across all countries, called Voices.

This is a survey which any – all our 1,500 people can take it and all the line managers, about 250 of them, can see the results immediately. It's not like you have to wait for two months to get all the results and share it. People get online. What I'm pleased is that India has got one of the highest scores in the Voices survey globally. And our team leaders have got – we need to give them a huge pat on the back.

Why is this important? Because you talk of results and business, but if people are intrinsically not happy and not doing – feeling stifled, then I think it's a very short-term growth that we are talking about. So, to me, that's the first. The second, it was a positive surprise because I did expect a reasonable number but not as high as what eventually happened.

Second, I think on the B2B businesses, while, yes, the core sector index is a reflection of the fact that B2B business is all across, you can see it in infra, you can see in the real estate company, results are doing well. I think the upsides sort of helped in some of the innovations that we put over the last couple of years, and the investments that we put sort of were gratifying, and I was pleasantly surprised to see that there's a bit of a tailwind.

And what has really been a bit of a disappointment? I think on the retail side, of course, there is a bit of a demand uptick. But given our market share, I keep telling the team there's only one way to go, which is up, right? So, execution in certain geographies should still be world-class. That's what is a bit disappointing, and we're working on it.

Second is in our portfolio, mass market and economy needs to be readjusted. As you've seen the commentary of all our competitors, obviously, they've been there longer and they've got a higher share and higher wallet share, etcetera. But I think about driving the brand there, building customer intimacy, making sure the painter engagement, etcetera, stronger order is something that we are working on. We are mindful of it. I think these are the places.

The last but not the least is in new categories we've entered. These categories have now started contributing to almost 10% of our revenue, waterproofing, woodcare, etcetera, which is significant from our side, given that we've not made any M&A unlike any of our bigger peers, maybe except one, the market leader, we've not made any M&A.

So, it's all in-house done. I've not fired or hired anybody for it. It's basically using the existing set of people we've got in our R&D centre from IIT, UGC, etcetera, some of the best engineers we've got to deliver the results. So, to me, I think we need to continue that. So yes, there are lots of things that we need to work on because when you are a challenger brand, you got to run

faster, right, and you got to make sure that you solve customer issues and you are on top of things.

So, I think obviously in many parts, there are challenges. In the eastern part, for example, Manipur, we've got a relatively large business in the paint industry and unfortunately, it's almost zero for the last few months because of the challenges there. But hopefully, it should start bouncing back in this month or in a couple of months.

So, I think there are some internal challenges too that we face. I don't want to illustrate everything here, but suffice to say the team is working on it. We as a leadership team are committed to making sure that we start building it back bit-by-bit to deliver double-digit growth.

Manoj Menon, hopefully I've answered the question.

Manoj Menon: Yes, sir. There's a question or a comment actually from Utkarsh Solapurwala from Damos Capital.

Utkarsh Solapurwala: Congratulations, sir, on your reappointment. What are some of the key strategic objectives that you would like to achieve in your second term?

Rajiv Rajgopal: Thank you. I think the strategic objective is single-minded. I think that's the belief that I've got from the Global Parent. I'm hoping that they will invest in India more-and-more, which I'm seeing with the new CEO. I think that's something very exciting. Really is how can I start getting market share in a profit, continue to gain market share significantly in a profitable manner.

So really the focus is around building around, working around the adjacencies, working on our gaps in distribution, working on our portfolio, and making sure the brand is far more visible. So that's broadly it. I think for me the personal milestone will be to really say how can I build scale, because I think we've got the right cost structure now, and with scale we'll be able to make it a creative. Of course, we'll continue to reinvest in our brand, but the single-minded objective is how can I drive market share gains in the second term.

Manoj Menon: Yashashree, if you can announce and hold for a minute or two, please?

Moderator: Sure. Ladies and gentlemen, to ask a question, please click on the raise hand icon tab available on your tool bar or on the Q&A tab available on your screen.

Analyst: Manoj Menon sir, while the question queue assembles, I think I probably have one question. So, if I can go ahead.

Manoj Menon: Yes. Go ahead.

Analyst: Yes. So, thanks for the opportunity. So, I just wanted a clarification that at Akzo we have streamlined our strategic priorities on margin supply chain and working capital management. So just wanted to hear more about on that front, and just wanted to clarify or you can say that more information on the point that. In your first phase, sir, you had achieved a distribution and

portfolio expansion in your first term. So just wanted that will it be the second kind of part two where you are trying to achieve more on margin supply chain and working capital management? So, will it be kind of part two for you? And are there any internal targets or timelines for the same?

Rajiv Rajgopal:

Yes. So yes, it's a part two, because you know, for making sure distribution 3.0, which is currently on 2.0, which is really going into smaller towns, absolute smaller towns, right? And we are doing some pilots on something which is really going to be -- what's good for India is going to be good for Akzo Nobel India, right?

We are testing some pilots where we are trying to do something very different in the industry. I can't talk about it now, but that is going to be the third leg.

But to do that, our supply chain needs to be efficient so that we cater to our customers in 2.0, right? So, you're right. I think building an efficient supply chain using AI, using the latest tools, digital, to try and make sure supply chain is ready for the next 2030 and beyond is one of the things that I'm focusing on.

And on working capital, I think we're pretty good. I think on working capital, it's fine tuning it, understanding the drivers and levers of growth and saying how can I deploy working capital and sweat my assets with good return on investment, right? So, because my focus is that how do I put money where my shareholder value can significantly get enhanced in a specific time period, right?

Now, what are we looking at? Look, some of the supply chain projects will take at least about two years to three years because we are doing it in two phases or three phases. We are right now in the design phase. Then we get into a planning phase, planning and preparation phase, and then into an execution phase. Each phase typically takes about eight months, seven months to eight months if you want to make it world class. And India is going to be the pilot for some of the world class thinking and projects that we unveiled for Akzo Noble.

So that's the way I'm approaching it. I'm not in a rush because when you want to also attend to the smallest towns, you want to make sure that you do it in a very digitally cost-effective manner. So that's really where we are driving it. Hopefully, I've answered your question.

Analyst:

Yes, sir. Thank you.

Moderator:

Mr. Menon, we do have one more text question. Should I read that?

Manoj Menon:

I'm just going back just a second. Yes. So, this is from Atharva and two questions rather. So first is again a follow-up from Atharva Bhutada. He says.

Atharva Bhutada:

Can you please explain how did we manage to get a negative working capital in the paint business?

Rajiv Rajgopal: So, Manoj Menon, I think you already in a way answered that question. Beyond that the day Atharva tells me what is the secret formula of coke, I will tell him the secret formula of negative working capital.

Manoj Menon: Okay. Fair enough. Okay. There's a follow-up from Lakshminarayanan KG from Tunga Investments.

Lakshminarayanan KG: In terms of portfolio gaps in the Decorative and home Coatings, which are the areas you are indexed lower? If one takes the leader at 100%, where are you now? And what is the plan for the next three years?

Manoj Menon: He's asking for decorative and home coating separately. Yes.

Rajiv Rajgopal: No. So, look, let me focus on decorative home coatings. We are not -- I mean, I assume you're talking of the performance coating, in the coating business, I'll talk about it. See, in Decorative, it's basically, we're under-indexed, because we've got a, imagine our share is about 4.75%, and we've got about a 17%, 18% share in premium, which is what drives our profitability of our business. And despite a lot of people try to pinch a lot of shares, obviously, the brand Velvet Touch, and Weathershield still remain in the minds and hearts of the consumer.

So really, that's where we have a challenge in the mass market and the economy. We've introduced a brand for Dulux Promise Smart Choice in 2020. We've significantly gained market share from some of the players in the industry, including local players, as we did it. But it's plateaued, because when the price hike went in, perhaps we took a little more aggressive price hike compared to the rest of the industry.

And these were selling at premiums, and as you know, in that category, in the economy, you cannot be at premiums, particularly if you're a challenger brand. So, we are resetting that base. Hopefully, we should start seeing some gains, but it'll take two months, three months, two months of distributor stock, etcetera, to try and do that, right? So, we're not doing a price drop, but we are finding tweaks of how to get that issue addressed.

Now, if you look at the coatings business, we've got strong positions in automotive, very strong positions in marine and protective, and we are now building a position in powder. We are very strong in powder in the premium part, but not so much in the mass part. As you heard our CEO, Global CEO say, I think what we are trying to do is, we are trying to say that can we start becoming more significant in mass across all businesses, right?

So, it's not an easy one. It's something that we have to work through, because the expectation is we are going to do it in a profitable manner. And you've got players with great positions who will also not easily surrender the positions.

So, we are looking at innovations. We are working on certain things, quite dramatic stuff, with some of which we are leading the thought process. So, we will need time, because these are not things I can share in public domain, because we don't know what takes off and what doesn't. Because in our pilot, some of these have taken already 16 months and still not yielding results even in a pilot lab. So, it'll take time, but we are clear, Lakshmi, that we know what are

the gaps. And I think in the next three years, I believe that our market share will be significantly higher than what we have. At least 2%-points is what I want to add in paints, and at least 1%-points in the coatings business.

And I think we are here. I think if you see our performance from 2021, we are taking baby steps, and we are not worried about it, but we want to do the right thing and make sure we become a meaningful player in the country. Manoj Menon, hopefully you answered the question.

Manoj Menon: Yes, sir, largely. Let me just check. Is there – Yashashree, any other question in the Q&A? I can't find any.

Moderator: No, sir.

Manoj Menon: Okay. Rajiv and team, so maybe there's one last question from my side. Would you be able to give some colour on, let's say, the concept of same-store growth versus new-store growth, which in your business, essentially the new geographies, how much of, let's say, the growth has come from the numeric reach expansion, geography expansion, etcetera?

Rajiv Rajgopal: So, see, typically the same-store growth, let me first give you, if I take a three, four-year CAGR, right? It's approximately about 3% to 4%, and about on a 10% growth, about 5%, 6% comes from the new-store growth. That's the sort of ratio, three, four, and the balance six, seven coming from the new store.

I think what we've seen in the last quarter, and if you're talking about the quarter that went by, obviously, we've seen flattish. In some markets, even decline in the same-store, but we've seen significant uptick in the new-store. Because obviously, our distribution gains over the last two years are paying huge dividends.

And that basically is a premise in which, which also addresses my point that we need to really get, look at mass and economy significantly, because discounting has gone up significantly in the market. And we are very prudent in these categories, because we are much smaller, we want to make sure that we are doing it the right way. You know, these are the fundamentals in which we work, we believe in creating a sustainable business model and also category development in these categories.

So, that's this answer, Manoj Menon. From a long-term perspective, I see us getting back to our CAGR growth. So hopefully about 3% to 4% and then 6%, 7% coming from the new store, right? But at this point of time, in the quarter that went by, we were flat to slight decline in the existing stores, and we grew largely in the new store.

Manoj Menon: Very clear, sir. Just checking Q&A again. No, there's nothing. Yes, Rajiv, any closing comments? Rajiv and team, before we close?

Rajiv Rajgopal: No, firstly, thank you. I'm really thankful because I'm aware, Manoj Menon, there are multiple calls that you guys are doing at this point of time, multiple companies. But really, firstly, thank

you all for the support, the unstinted support that you've given us. We are on a journey. We are on a journey, as you can see.

I've been repeating that since I started the first investor meeting and call. I think we want to be a meaningful player. We want to be in the Top 2 and then slowly, once we are confident that we've got the right footprint and it's what we're doing is sustained, then slowly start becoming, moving to becoming the fastest growing paint player in the industry. And hopefully that, Lakshmi and Atharva, since you asked me a number of questions on that in this term, right? So that's what we are looking at.

But till then, thank you. You know, we are mindful of the fact that we are playing in an industry which has got multiple leaders and also move with great speed. So, it's an interesting time. Thank you.

Manoj Menon: Thank you, sir.

Rajiv Rajgopal: Thank you, Manoj Menon.

Manoj Menon: Thank you, everyone. Have a wonderful evening and a great weekend. Thank you.

Rajiv Rajgopal: Thank you. Thank you, everyone. Bye.

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