





## “Asian Paints Q1 FY2023 Earnings Conference Call”

July 26, 2022



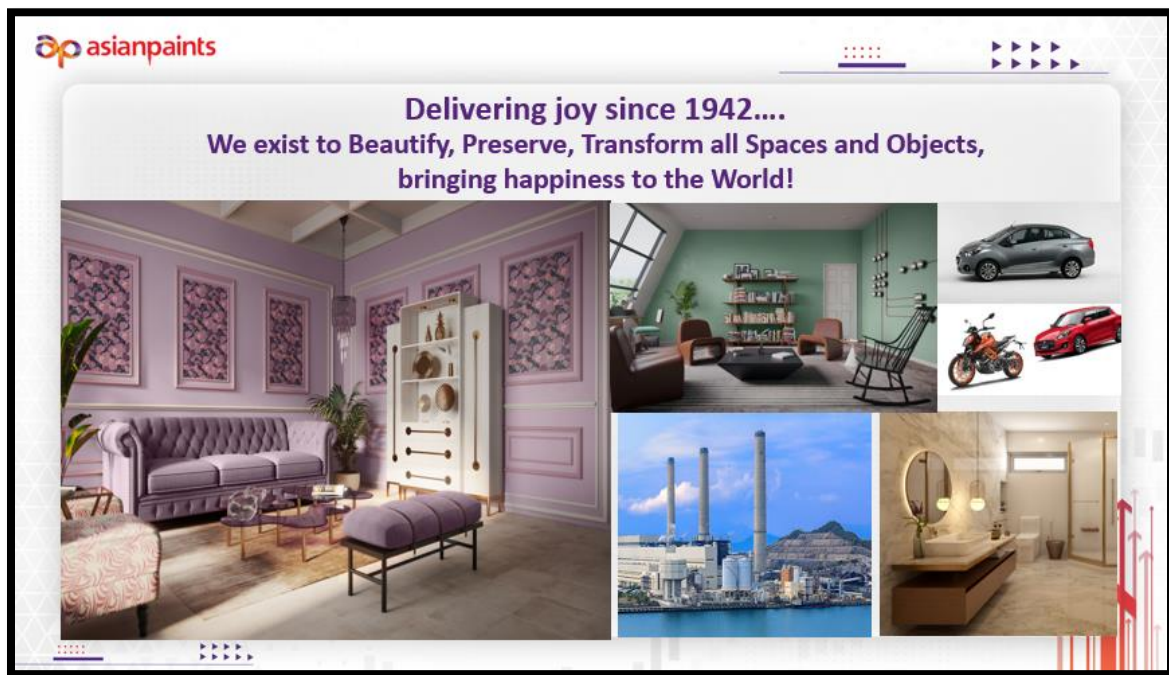
**Management :**

<i>Mr. Amit Syngle</i>	<i>: MD &amp; CEO</i>
<i>Mr. R.J. Jeyamurugan</i>	<i>: CFO &amp; Company Secretary</i>
<i>Mr. Parag Rane</i>	<i>: GM – Finance</i>
<i>Mr. Arun Nair</i>	<i>: Manager - Corporate Communications</i>

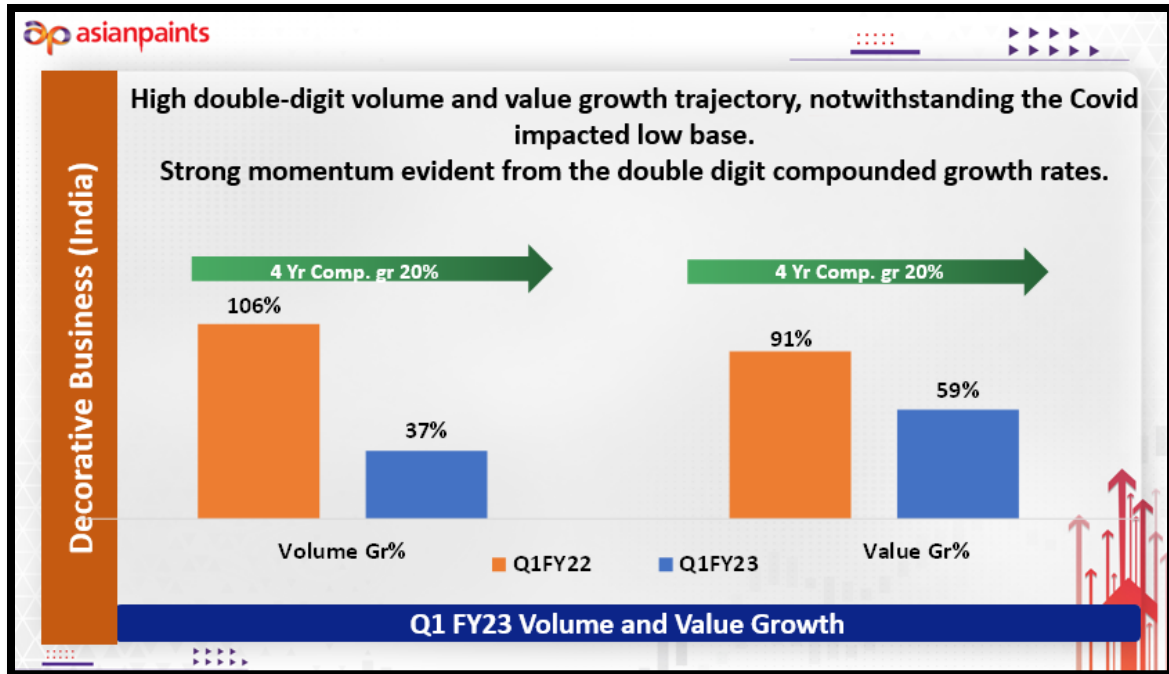
**Arun Nair:** Good Evening and a very warm welcome to one and all for the Asian Paints investor conference for Q1 FY 2023 results. Today in the panel we have Mr. Amit Syngle, MD & CEO. We have Mr. R.J. Jeyamurugan, CFO and Company Secretary and we have Mr. Parag Rane, GM - Finance.

May I now request Mr. Amit Syngle to take you all through the presentation, Mr. Amit Syngle over to you.

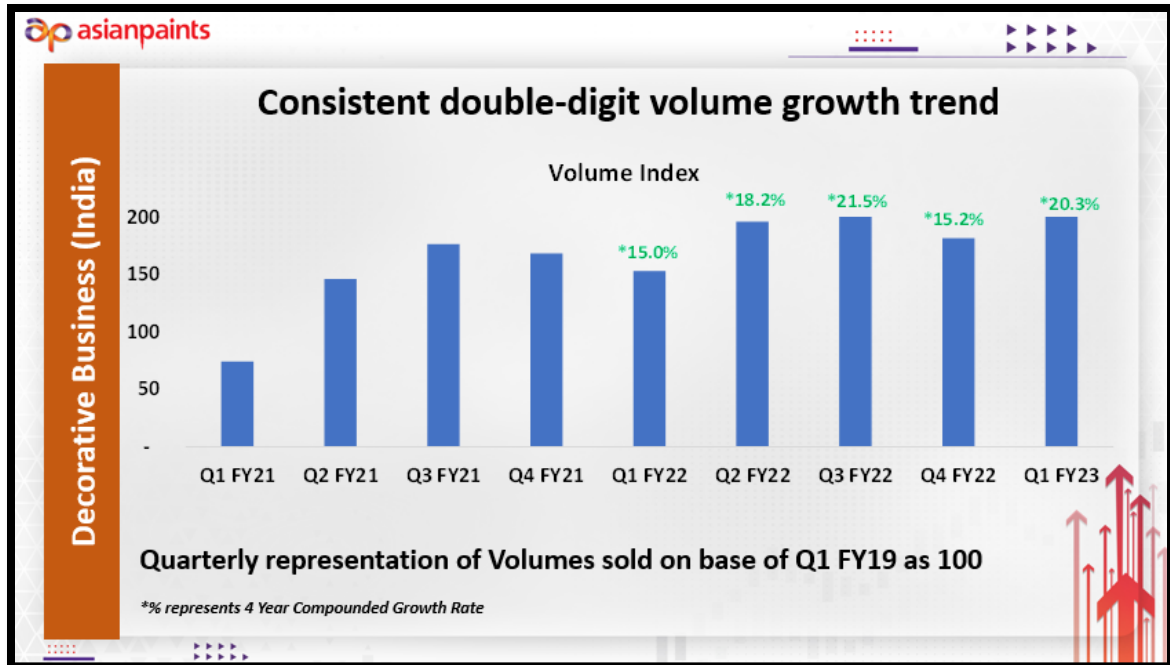
**Amit Syngle:** Good evening and welcome to the investor conference for the Quarter One financial year 2023.



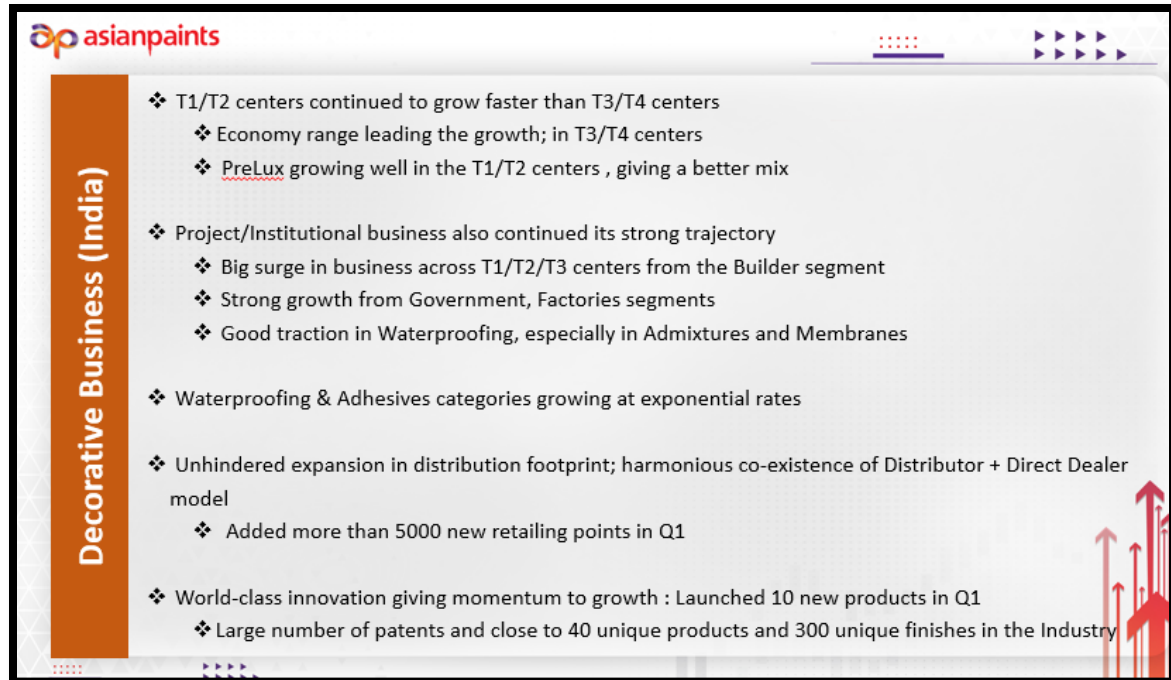
First of all, just to reiterate that at Asian Paints we have been delivering joy since 1942 we exist to beautify preserve transform all spaces and objects bringing happiness to the world and that's the key kind of objective which we have been kind of following for decades.



Coming straight to the results, the results have been quite exceptional as you can see the overall Quarter has gone off quite well in terms of the overall performance which is there. The total volume growth for the Quarter is 37%, which is one of the highest volume growth, which we have seen in the last 6 Quarters so to say. We have a value growth which is also 59% which is aided by both a better mix as well as the price increases which we have taken in Q3 and Q4 earlier to that extent which is the realization which we are getting, The good thing is that when we compare it with the normal year which is the FY 19-20 which was the pre-covid year, so that you can see in the four year CAGR, both volume and value CAGR has have been clearly 20%, which clearly shows that this is a very very healthy overall growth which we have been able to get and it is just not over a lower base to that extent and this has been the consistent strategy of the company in terms of driving the top line in a very strong manner and that is what you see the results coming out for you.



I just referred to this. So, if you see consistent kind of overall growths, which you kind of see, you can look at the overall double digit volume trend which is coming in, in terms of this overall the percentage represents the CAGR numbers which you are seeing overall. So consistent volume growth, which is coming, and I would say that in a scenario which is currently there, getting a volume growth is a very clear indicator in terms of possibly a good performance which the organization is putting forward as we kind of go forward.

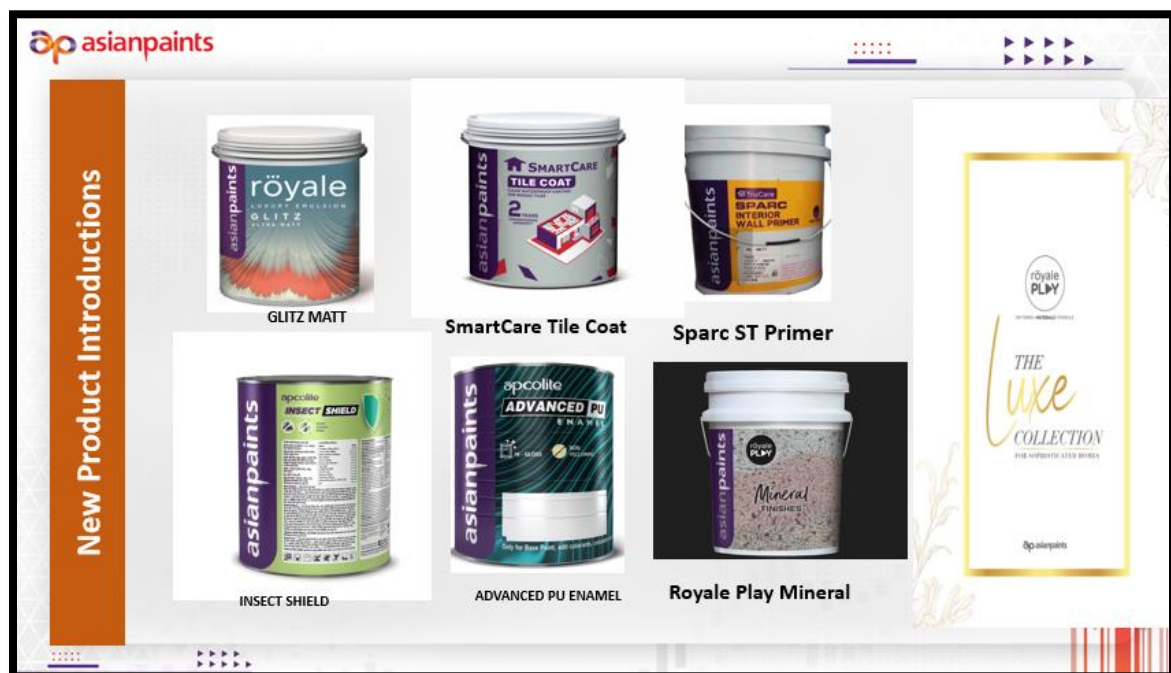


**Decorative Business (India)**

- ❖ T1/T2 centers continued to grow faster than T3/T4 centers
  - ❖ Economy range leading the growth; in T3/T4 centers
  - ❖ PreLux growing well in the T1/T2 centers , giving a better mix
- ❖ Project/Institutional business also continued its strong trajectory
  - ❖ Big surge in business across T1/T2/T3 centers from the Builder segment
  - ❖ Strong growth from Government, Factories segments
  - ❖ Good traction in Waterproofing, especially in Admixtures and Membranes
- ❖ Waterproofing & Adhesives categories growing at exponential rates
- ❖ Unhindered expansion in distribution footprint; harmonious co-existence of Distributor + Direct Dealer model
  - ❖ Added more than 5000 new retailing points in Q1
- ❖ World-class innovation giving momentum to growth : Launched 10 new products in Q1
  - ❖ Large number of patents and close to 40 unique products and 300 unique finishes in the Industry

Coming to some of the details of the overall performance one thing which we have been seeing in Quarter One which is a trend which is continuing for Quarter Four is that the T1, T2 centers continue to grow faster than the T3, T4 centers. The economy range is also leading the growth in T3, T4 centers but the Prelux which is the premium and luxury range is growing very well in T1, T2 centers giving us a very better mix to that extent, but clearly what we are seeing is that in T3, T4 centers, given the price increases which have taken place there is a little bit of a down trading which is happening towards the economy products where is the growth coming in in some of those centers there. The other great thing which we see is that the Projects Institutional business is on a very strong trajectory. We are seeing growths coming from the Builder construction segment in a big way, we are also seen from the whole area of the Government spending on infra projects and the factory segments and therefore it also continues to nudge our entire growth in waterproofing and construction chemicals in a very big way overall, and this is something which we see geographically across the country to that extent and that is why we would say that this seems to be a fairly strong trend which we think will continue.

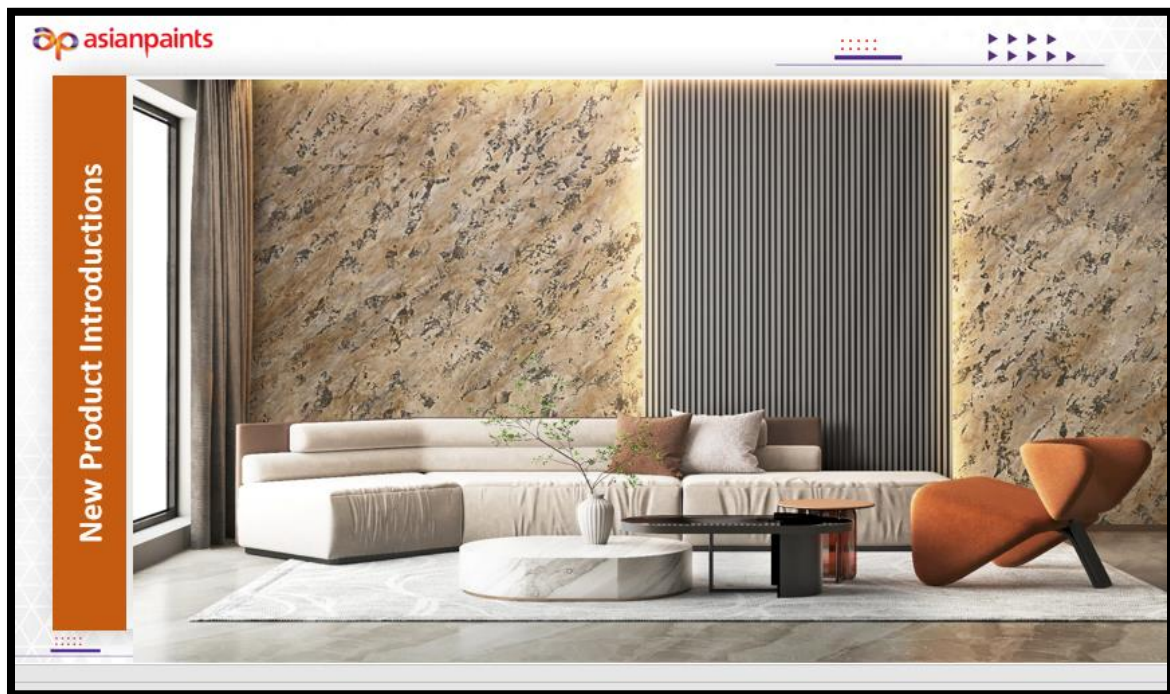
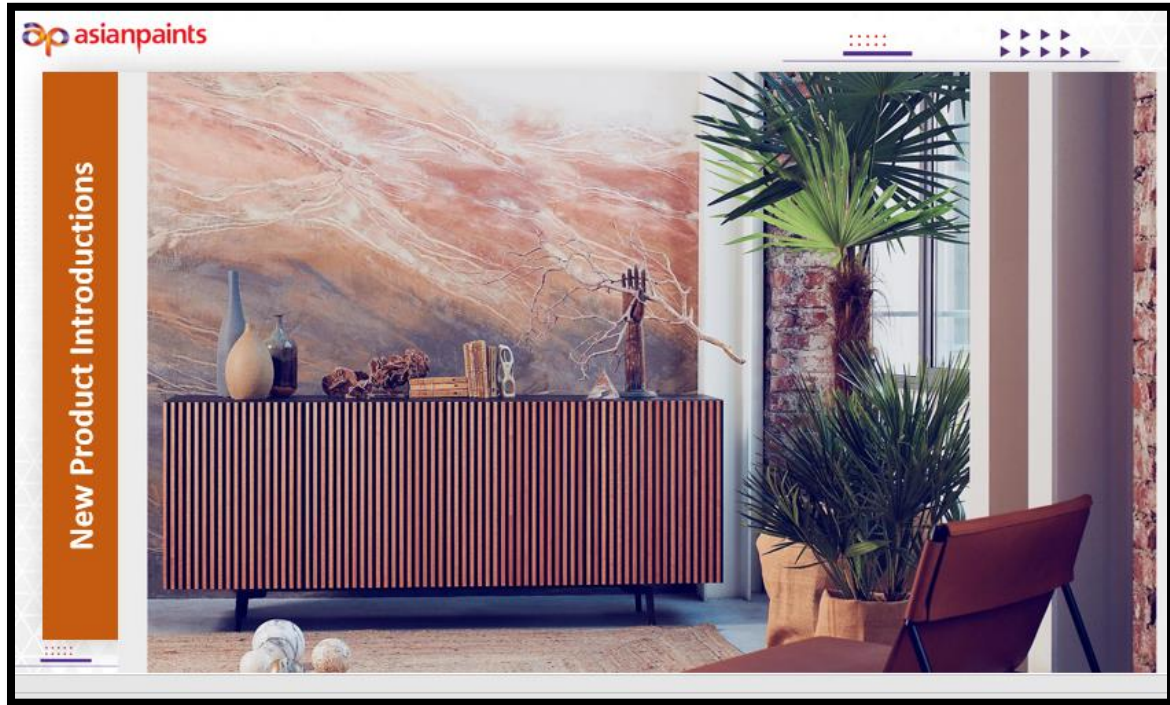
When you look at overall from the point of view of our newer categories of waterproofing and adhesives, both have been growing at exponential rates for the last few Quarters, as we see as it is in the case in this Quarter. Overall, the distribution footprint which we have been kind of telling you all about earlier is expanding at a fairly staggering rate and we have added more than about 5000 retailing points in Quarter One itself which is itself a fairly big number in terms of the way it is. The other big parameter which Asian Paints is using going forward is innovation and when we say innovation this is innovation based on patents. Patents which have been commercialized and therefore we have launched about 10 new products in Quarter One. So today if we see that in the entire market, we have close to about 40 unique products which almost no competition has and almost about 300 unique finishes as far as textures and finishes which kind of come in and that's the kind of innovation which we are continuing, which we think is very difficult for any other competitor to match as you kind of go ahead.



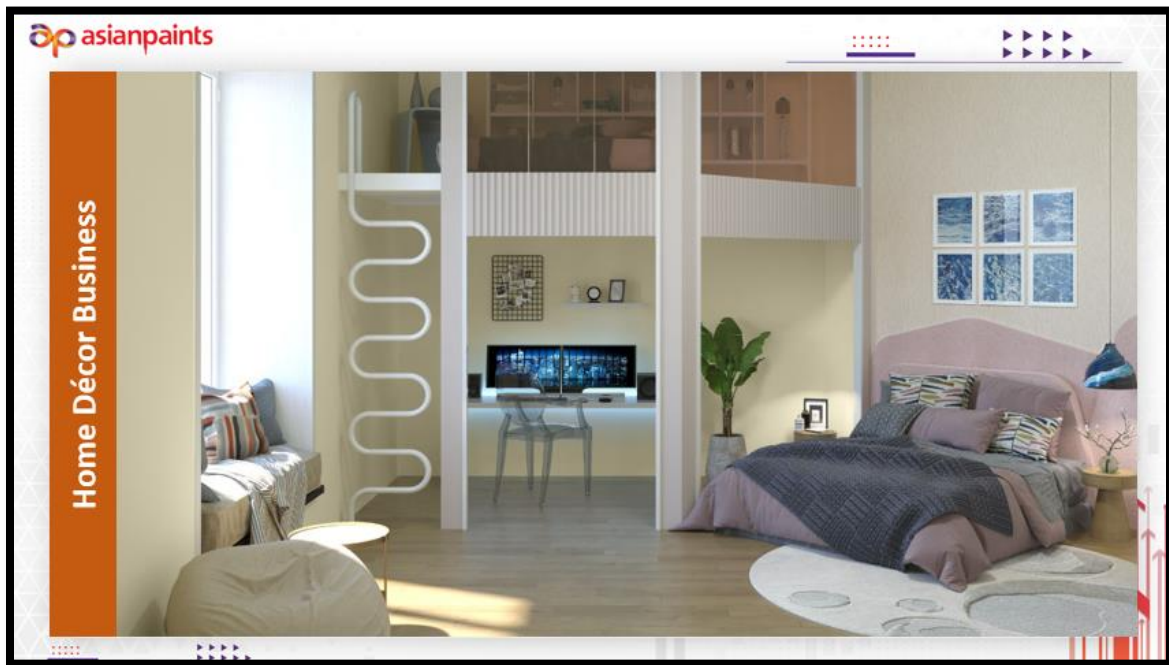
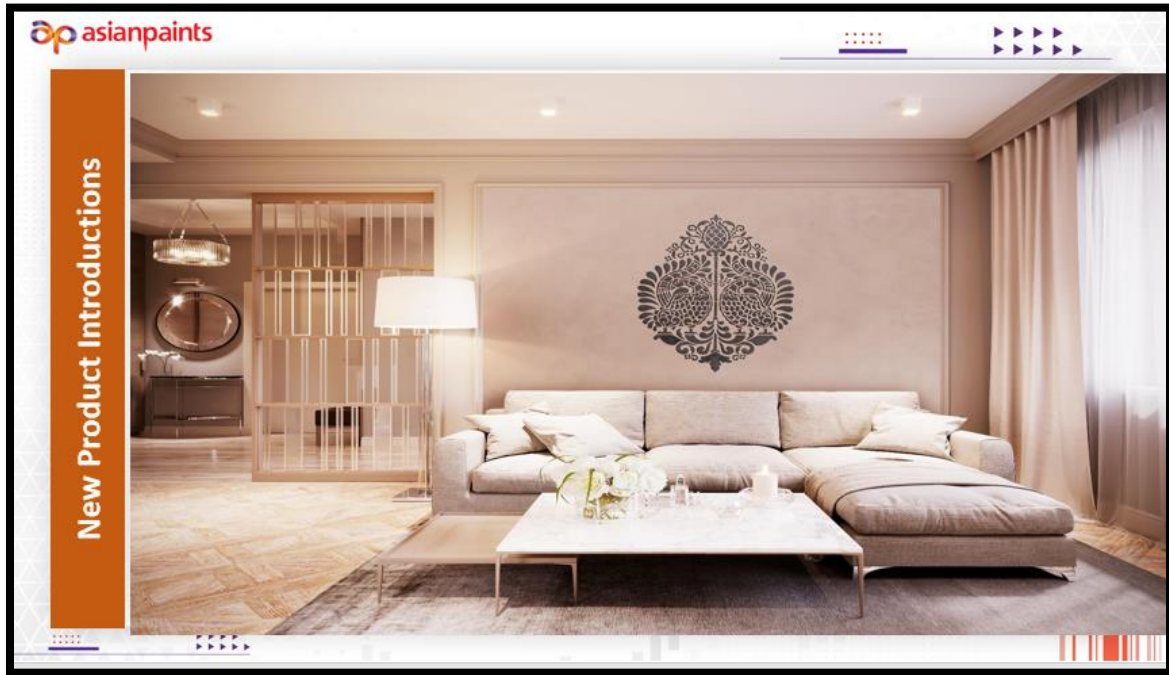
Just to give you a glimpse, if you see some of these products which have come are by itself very strong products. We are launching an anti-insect enamel, there is 'Advanced PU'



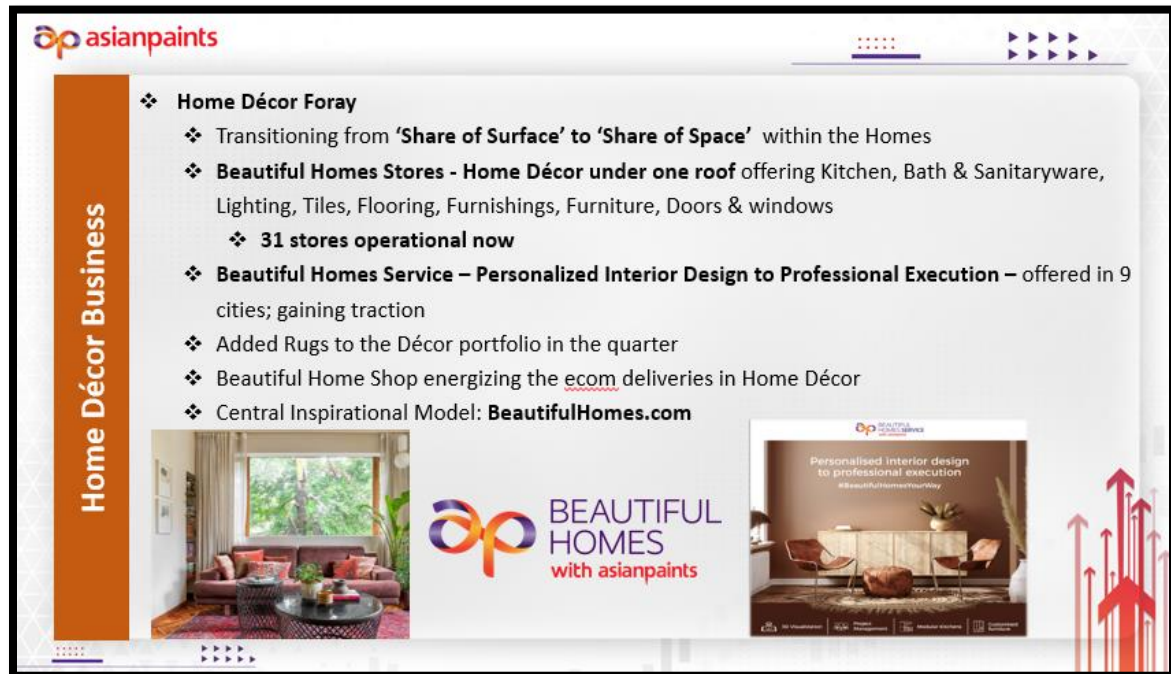
Enamel. PU is the latest technology at the high end. We are launching high-quality, high end 'Glitz Matt' product, which is there, and we are launching a full collection which is called the 'Luxe Collection', which is coming in 'Royale Play'.







Some glimpses of the finishes, the finishes just look brilliant, and this is really the gateway of the world which we are trying of getting to India. In terms of the kind of finishes which look like Granite and are really very amazing and they can be done with stenciling as well. So, I think some amazing kind of standout products especially at the top end luxury end and the premium end in terms of what we are kind of taking out.



**Home Décor Business**

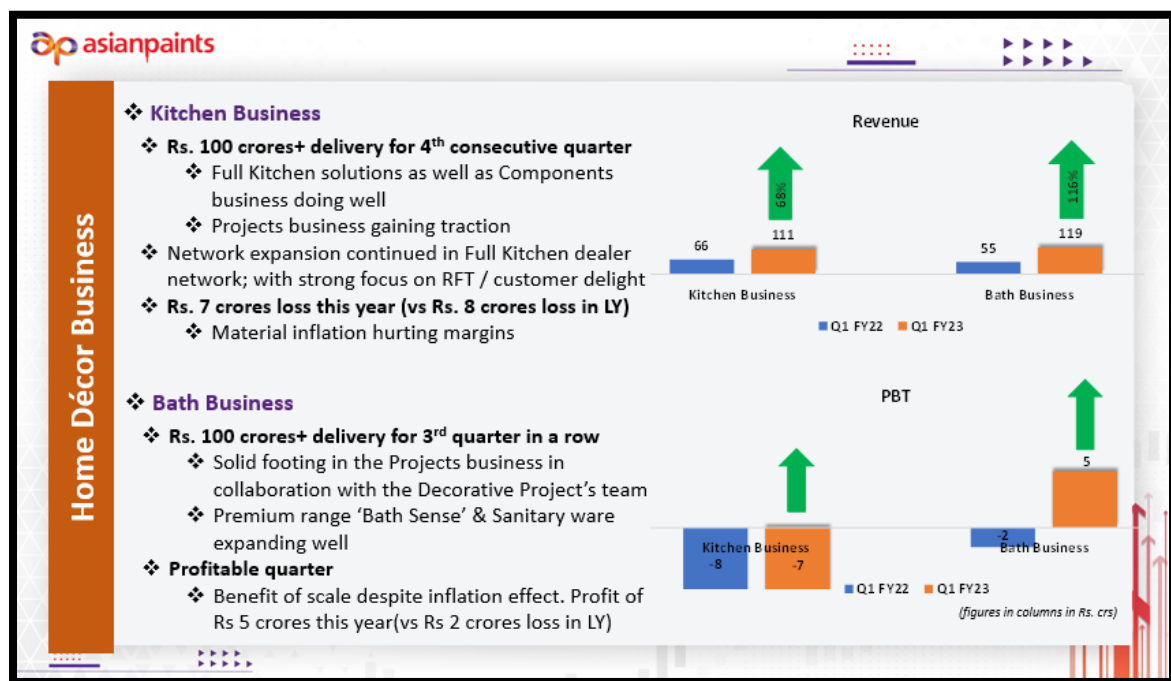
- ❖ **Home Décor Foray**
  - ❖ Transitioning from 'Share of Surface' to 'Share of Space' within the Homes
  - ❖ **Beautiful Homes Stores - Home Décor under one roof** offering Kitchen, Bath & Sanitaryware, Lighting, Tiles, Flooring, Furnishings, Furniture, Doors & windows
    - ❖ **31 stores operational now**
  - ❖ **Beautiful Homes Service – Personalized Interior Design to Professional Execution** – offered in 9 cities; gaining traction
  - ❖ Added Rugs to the Décor portfolio in the quarter
  - ❖ Beautiful Home Shop energizing the ecom deliveries in Home Décor
  - ❖ Central Inspirational Model: **BeautifulHomes.com**

**BEAUTIFUL HOMES with asianpaints**

Personalised interior design to professional execution  
#BeautifulHomesYourWay

So, when we come to the home decor business; In this business what we are seeing is again as we are saying a lot of strides have been made overall. So, this is a business just for your information, we are moving from the 'share of surface' to the 'share of space' within the home. So, it is a transition from saying not only on the four walls but between the four walls and if you look at one of the areas which we have looked at propagating this decor is our 'Beautiful Homes Stores' which is decor under one roof, where we offer a range of categories kitchen, bath, sanitary, lighting, tiles, flooring, etc. And overall, we have about 31 Stores operational across the country. We also have a service which we call as the 'Beautiful Home Service', which is there where we offer a personalized interior design and I think this is something which has been growing at a very strong pace and got

traction. It is offered in about nine cities. We are adding a lot of ranges in categories to our Home Decor proposition, we have added now 'Rugs' as a proposition which has come to our overall decor portfolio and aligned with the organization called 'Jaipur Rugs' there and we seems to be, we are inspiring the entire model through a central digital engine which is called the *beautifulhomes.com*. So digital is a very strong part of this fore, which also takes into the whole area of the Gen Z and the millennial crowd which kind of comes in a very strong way as we kind of go forward.

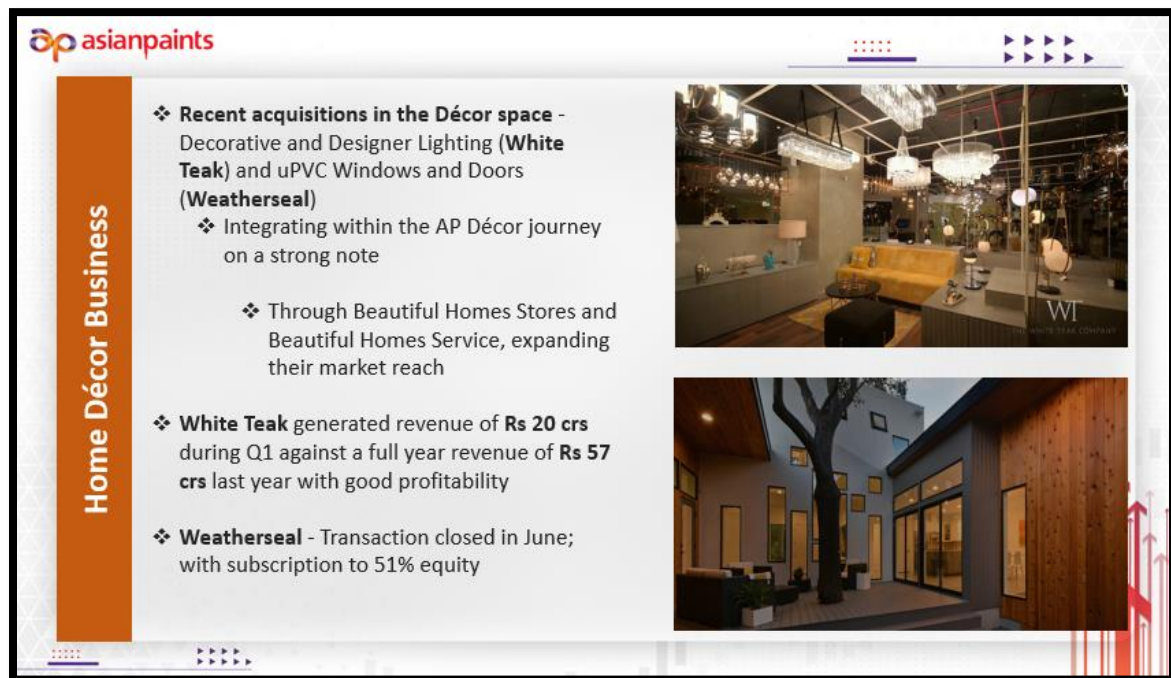


We see the Kitchen and the Bath business - Again both businesses in Quarter One has been doing extremely well.

The kitchen business has grown by a staggering 66%, they locked in more than Rs. 100 crores of business, Rs. 111 crores in the kitchen and they lowered the losses which were there previously. The losses were due to inflation which we saw in Q1 to that extent and that is why a small loss which has come, which we are confident that as we go forward this will get really turned into profits.

If you look at Bath, again a staggering growth very healthy growth of 116% of total business of close to about Rs. 119 crores over a base of Rs. 55 crores. These are very strong bases as well as what we see, and I think as in the last two Quarters we have seen good profitability have started to come in. We did about PBT of about Rs. 5 crores in Bath business, where we saw lesser of inflation from some of the core of raw material which kind of come into the overall effect.

So, I think both businesses have now comfortably started crossing the Rs. 100 crores mark strongly; and we have told you earlier we are putting up a new plant in Pune which should be kind of operational by Q4 of this financial year as we kind of go ahead. So, this is a business to really look out for in terms of going forward.



**Home Décor Business**

- ❖ **Recent acquisitions in the Décor space -** Decorative and Designer Lighting (**White Teak**) and uPVC Windows and Doors (**Weatherseal**)
  - ❖ Integrating within the AP Décor journey on a strong note
    - ❖ Through Beautiful Homes Stores and Beautiful Homes Service, expanding their market reach
- ❖ **White Teak** generated revenue of **Rs 20 crs** during Q1 against a full year revenue of **Rs 57 crs** last year with good profitability
- ❖ **Weatherseal** - Transaction closed in June; with subscription to 51% equity

Our recent acquisitions, which are there, both have done extremely well in the 1st Quarter we took on 'Weatherseal', which was into UPVC windows and doors overall and this is something which in Quarter One has done also quite well overall and we are growing towards a strong number which we will deliver this year in terms of the overall

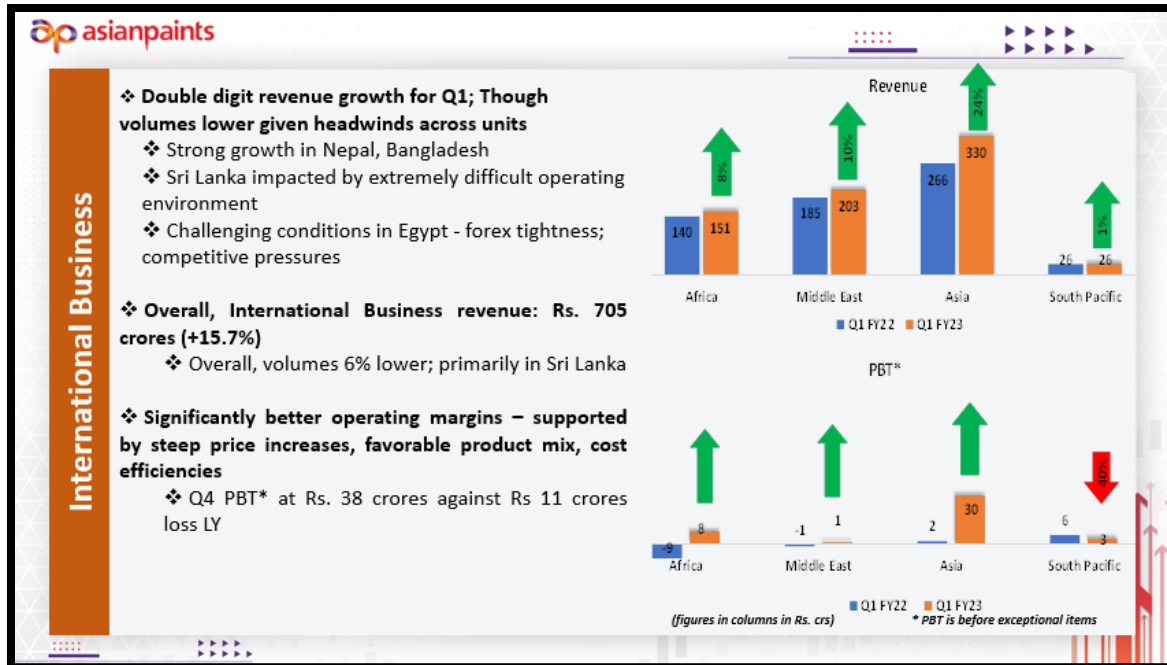


space of UPVC windows and doors and we are making a lot of investments to take this distribution forward as we kind of go ahead.

‘White Teak’ is the other acquisition which we had done. The business has done extremely well in the 1st Quarter by maintaining the same gross margins and the EBITDA margins and overall, it’s a Rs. 20 crores business in Quarter One against a full year last year of Rs. 57 crores. So clearly a business which is growing and strongly growing. So, the overall home décor, we feel as a foray has been very strong in Q1, and this will continue to grow given the higher focus which the organization is putting in this direction.

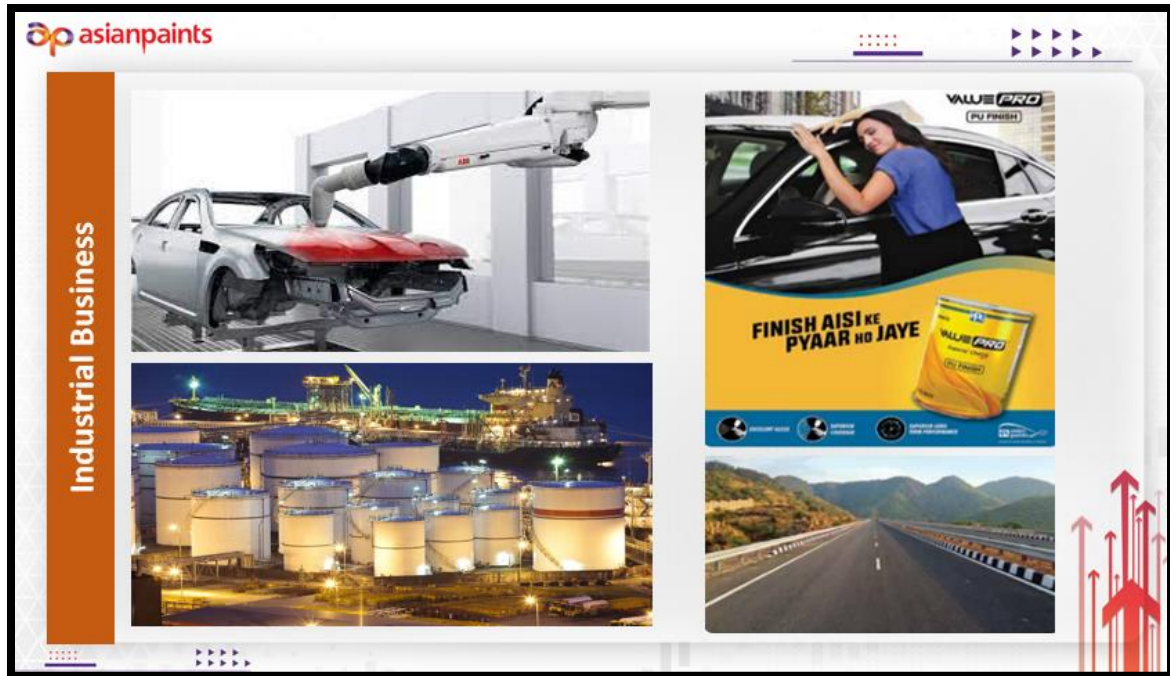


Overall coming to AP global business, you see the footprint across various countries outside India. The representation is across Asia, Middle East, Africa, in terms of what you see and in South Pacific.

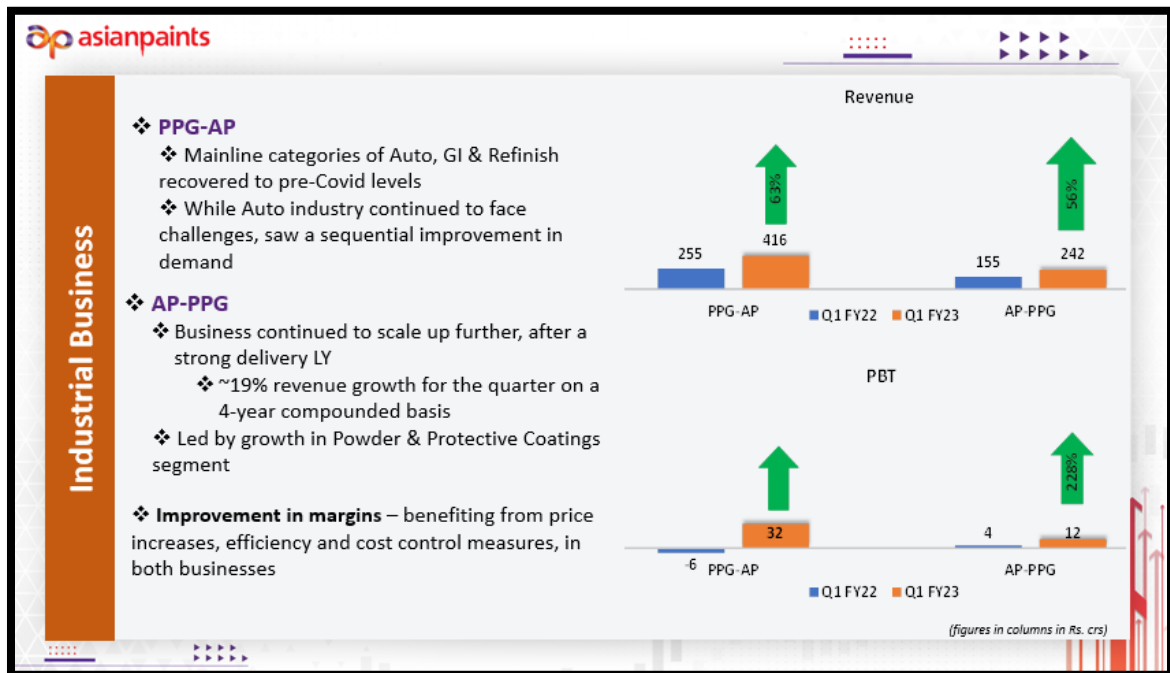


So when we look at the performance here, again a clear double digit performance coming in global overall when we see and this is aided by still the fact that we were able to kind of drive certain price increases in the last Quarter and even in this Quarter to that extent despite challenging situations which we have seen in several countries. You are all aware of what’s happening in Sri Lanka and we’ve facing some headwinds with respect to forex; even with respect to Egypt in a strong way; but overall if you see all geographies, Africa has grown by about 8%, Middle East by about 10%, Asia is something which is aided by Nepal and Bangladesh in a strong way by about 24% overall and the good part is that we have started realizing good PBTs this year. Last year was not so good, because of very high inflation and overall PBT which we have been able to drive is pretty good in terms of what we have been able to do this year about Rs. 38 crores against Rs. 11 crores of loss last year. So, I think that is something which is given as a very strong overall performance as far as the consolidated results go.



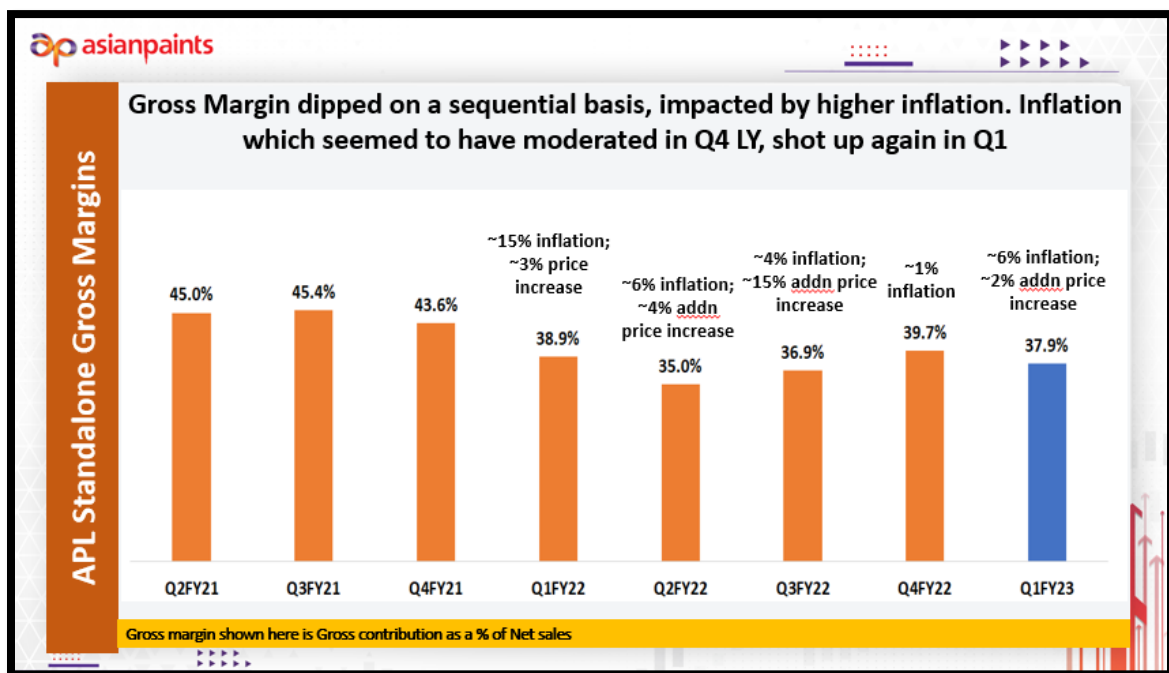


If you look at the Industrial business, just to remind everyone, we are both in General Industrial (GI) and Auto OE business separately through two JVs which are there.

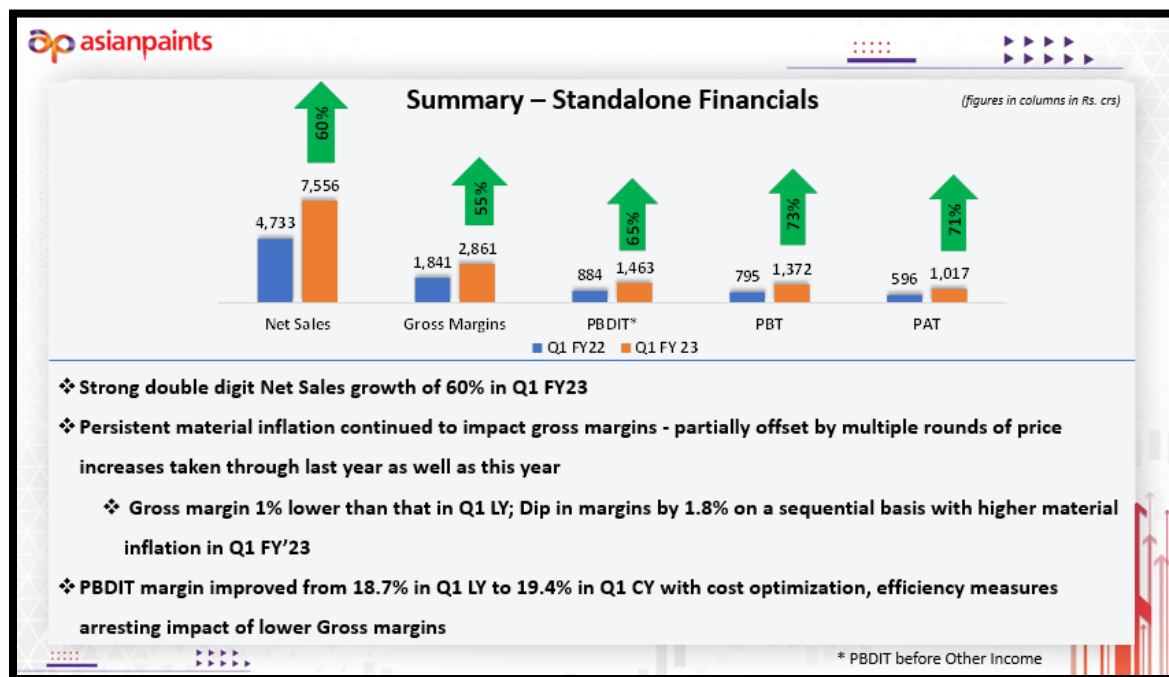


If I look at the performances, the PPG-AP JV, which looks at Auto OE largely and Refinishes overall; this JV has done also quite well over all bring it about 63% given the fact that auto industry has started recovering quite a bit after the chip shortage which we saw last year in across the Quarters to that extent. Given that recovery, we have seen a strong return in the auto OE business overall and if you look at even the Refinishes business that has also done quite well and therefore against a last year Rs. (-)6 crores of loss we are looking at almost about a Rs. 30 crores kind of a profit coming here to that extent and that is something which has really propelled the business forward.

The other JV which is there AP-PPG, which we call as a General Industrial has been consistently kind of growing over the last 8 Quarters, as I see and they have done a staggering growth of almost about 56% on a very big base of last year as well to that extent and more importantly they continue to kind of deliver fairly healthy profits which is there and overall whether it is the whole area of Protective paints or in terms of Powder Coatings the overall business has been pretty good. So, in all Industrial business has done also very well like the other businesses like I have showed you.

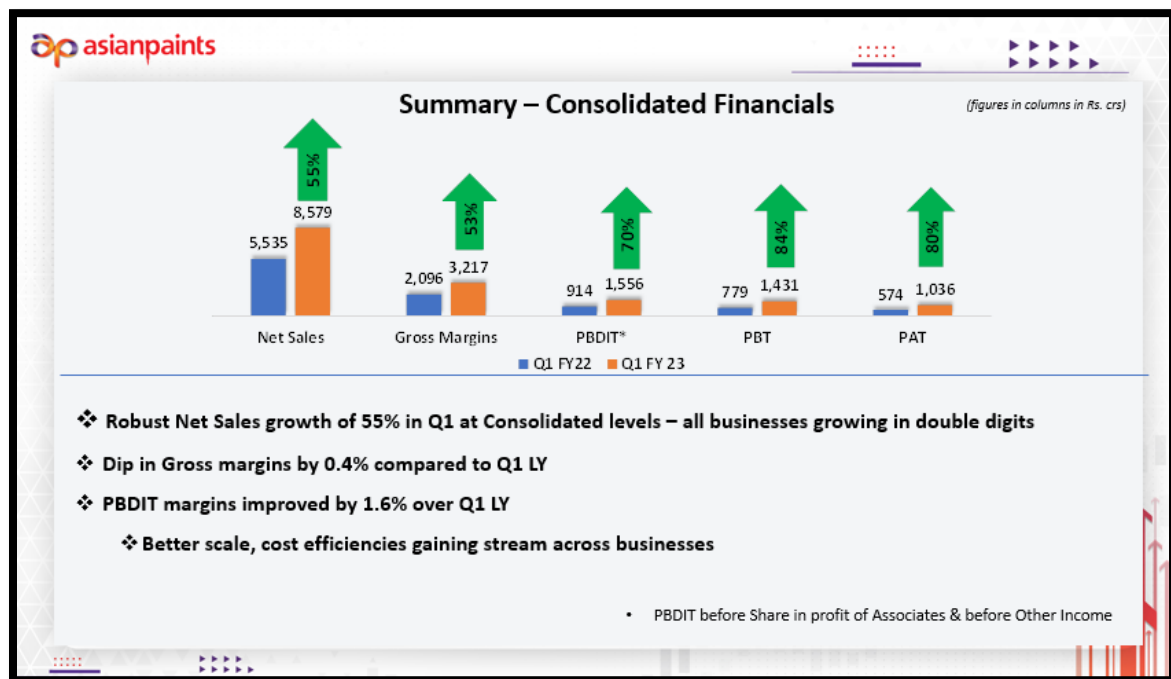


So, if you look at from the gross margins, just for your information if we compare with obviously the margins position overall, if you look at sequential, yes the margins have come down and bit from 39.7 to 37.9 because we saw almost a 6% inflation in Quarter One over Quarter Four and despite the fact that we had taken 2% price increases during the Quarter, definitely the inflation was out far outstripping. We needed to balance the overall price increase in the market so that the price elasticity should remain to that extent in terms of the overall position and that is why we took a slightly balance price increase overall. When you compare it with an equivalent Quarter of last year which is Q1 of financial year 2022, that is also was about 38.9 so we were a percentage lower as far as overall the gross margin picture is concerned.



As you kind of go forward, despite all this when you look at the Standalone financials, it is very clear that the performance has been very strong. You have a Net Sales growing at about 60%, you have a gross margin growth of about 55% at an absolute level, the PBDIT is also about 65% growth, PBT is 73% and PAT accordingly is it about 71%. But the good thing obviously is that the PBDIT margin has improved from 18.7 in Quarter One of last

year to 19.4 in the Quarter One of the current year, and that is something which is a very strong effort which has gone into cost optimization, efficiency measures which we have kind of taken despite the higher inflation in the gross margins being lower to that extent and that is something which has been a very strong zone in terms of what we have kind of looked at. So I think that's a good trend in terms of what we see in terms of the PBDIT margins improving and that is what we hope to kind of retain as we kind of go forward.



Coming to the overall Consolidated financials, so overall when we see, here again the standalone topline was slightly better than the other businesses and that is why the overall net sales here is about a 55% gain, but if you look at from the point of view of both PBDIT and PBT, it is clear that you know the other businesses because of AP global doing quite well compared to last year, the growths are much higher here in terms of 70% and 84% which you clearly see in terms of what has been delivered overall. Even the PBDIT margins have improved by 1.6% over the Quarter One of last year. So overall I think all businesses doing quite well, fairly healthy numbers in terms of what we are seeing, and I think that is something which is propelling the overall growth of the company.



**Outlook**

- ❖ Demand conditions stable so far across rural & urban markets; Organization continues to focus on strong growth for the coming quarter
- ❖ Good advance in monsoon overall; Few states (North, East) still showing deficit. Overall prediction is close to normal monsoon which will support good sentiment in T3/T4 cities
- ❖ Rupee depreciation, on the back of global policy tightening, further aggravating inflationary pressures. Persistent inflation could, however, dampen consumer sentiments
- ❖ Overall, material inflation expected to ease gradually from second half of current financial year. Q2 inflation estimated to be in low single digits
  - ❖ Would continue to take calibrated price increases to offset impact of inflation
- ❖ Key global units, especially in Sri Lanka, Bangladesh, Ethiopia, Egypt, facing multiple headwinds – expected to be under strain for some time

I'm sure you are looking at finding out what is our outlook. I think as we go ahead, we are seeing demand conditions being stable as I said that the consumers sentiment in this Quarter was also quite good. Overall, we see fairly okay growths in rural and urban markets to continue. We are focused on delivering topline is something which is very strong, and this focus will continue, and we will keep on focusing on both volume and value coming across because that is something which is one of the clear objectives which the organization wants to drive.

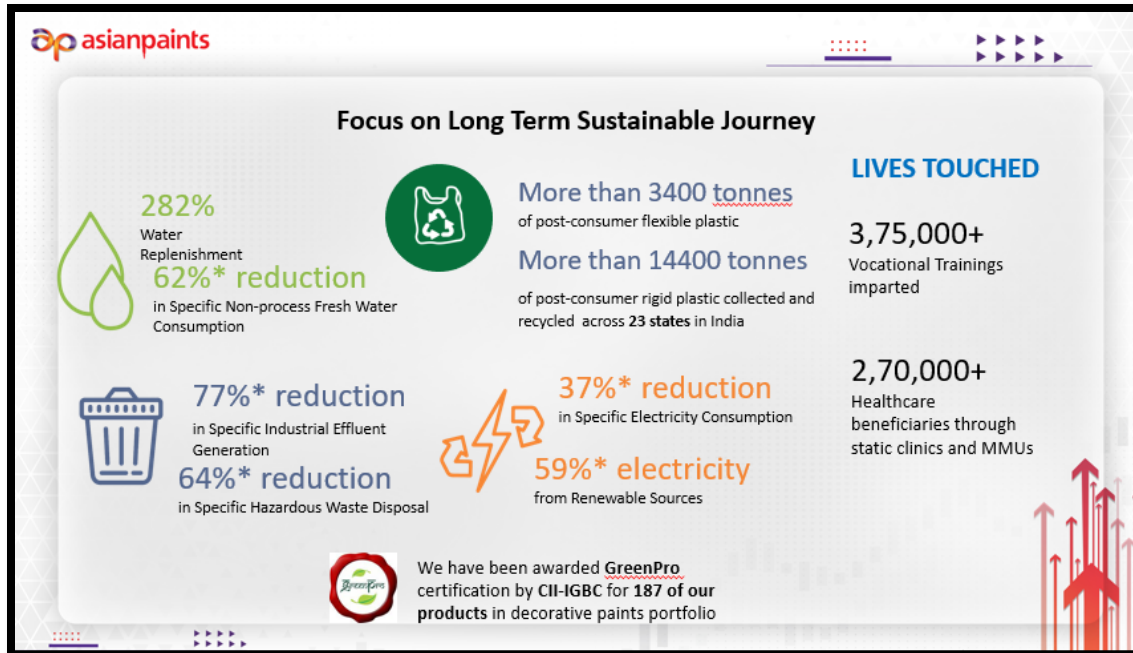
Overall, when we see the advance in monsoon has been quite good. Overall, some small deficits here and there but we feel that the overall monsoon should be normal, and I think that will have a good sentiment in T3, T4 and the demands in T3, T4 cities should improve further as we kind of see. Yes, inflation is a big worry at the moment because while inflation stabilized in Quarter Four, we again saw resurgence in Quarter One. I think the overall macro environment situations are again very unpredictable as it kind of looks. Over and above the rupee depreciation is also a cause of worry. So in all I think the

inflation is a cause of worry in terms of what we need to kind of watch out for and demand is not that

much of an issue as we kind of see and especially when we look at the disturbances which are happening in some of the key markets and the forex changes, I think Sri Lanka, Bangladesh, Ethiopia and Egypt are facing some headwinds and that is something which we will have to take into stride; but overall, I think the directions seems to be good, we seem to have left Covid behind and therefore I think the situation appears really good in terms of overall growth as we look forward.







Just a bit on in terms of our whole ESG initiative which is all about our sustainable journey which is part of our Asian Paints charter. We looked at various areas in terms of Environment, Social and Governance and you can see these areas right up there which we follow very stringently and which would have read in our the annual report which came out this year. If you look at some of the benchmarks and the landmarks which we have been able to achieve are very strong so whether it is the case of water replenishment, whether it is the case of the whole area of RE which is the electricity which we are able to kind of generate or it is about effluent reduction or it is the hazardous waste disposal, all areas have been very stringently kind of taken. We have been working on with the GreenPro certification for almost 187 of our products and that's something which is a good achievement and in the Social area, we continue in terms of the work which we have done last year. You know about 3,75,00 trainings which we have been able to impart and almost about 2,70,000 beneficiaries of the health initiatives which we have kind of taken. So, a very strong body of work which is happening in all these areas which are there.

That's all from us and thank you so much and we are now ready for your questions. Thank you.

## Q&A

**Moderator:** God evening everyone. Request all participants to kindly rename yourself with your name and company name. Today we have participants joining on zoom video platform and also via tele calling platform. Requesting all participants joined via zoom video platform, please use the raise hand feature to ask a question to the panelist. Kindly unmute when given a chance to ask a question. Please say your name and company name before asking questions. Participants connecting via zoom video platform can post their question on the chat box too and we will ask on your behalf. Participants joined through toll-free numbers, please press \*1 to ask questions to the panelist. Please say your name and company name before asking your questions.

We now have our first caller online with us via zoom. Mr. Abneesh Roy (Edelweiss Securities), Request you to unmute yourself and ask your question.

**Abneesh Roy:** Yeah thanks, the first question is on White Teak, so looking very sharp number versus the full year. So, is there a seasonality here and is the growth coming because of the addition of the distribution or is it because it is doing well on its own?

**Amit Syngle:** So, we have used multiple areas to kind of take the Whit Teak business on. One of the company owned stores, we are increasing the company owned stores from their current number to of 10 to further stores and some numbers have already got increased. We have also introduced White Teak in our Beautiful Homes stores which are total 31 stores now to that extent and we have now expanded the whole design and the range which we are offering in White Teak. Some very good work which has happened in all that space, so we think this business which we are gaining getting is more because the fact that there is a larger distribution now available. People have more access at the same

time we are also focusing in terms of looking at getting more and more customers to the virtual site so that we can get more leads.

**Abneesh Roy:** Sure, my second question is on AP-PPG, so 19% revenue CAGR. I don't think the industry would be growing at this level, so if you could elaborate who are you gaining market share from, and then in which industry segment have you gained.

**Amit Syngle:** So there are two segments, or the three segments which we have done extremely well. One is the segment of Powder coating where we have been able to kind of really get very very good business from the medium sized industries with in the area of fans, helmets and so on and so forth which are there to that extent and this business has been really growing at exponential growths overall in terms of what we see and we are getting a higher selling prices as well to that extent in terms of the realizations which are there. The second business is the Protective paint business which again, we have been able to focus on the oil and gas sector and some other sectors which are there to that extent where we have got good sales coming in and the third area is the whole area of Road Markings and Flooring. This third areas also kind of grown very strongly with us. We feel that largely as we see, we would have gained from the organized players in this market in a very strong manner and this is something which is a strong trajectory basis superior products, good quality and good servicing.

**Moderator:** Thank you sir, we now have our next caller online, Mr. Avi Mehta (Macquarie) who is online with us via zoom. Sir, please unmute yourself and ask your question.

**Avi Mehta:** Hi Sir, thanks for the opportunity. I just wanted to ask on the margin front, you know if you could give us a sense on your outlook on the input cost environment especially given the almost 10% odd correction that we've see recently in titanium dioxide prices in China and a related question would it be fair to read your outlook comments as

one, Q1 being the bottom of gross margin and we steadily recovering probably in the second half to 40-42% reach? Thank you.

**Amit Syngle:** So, when we see the overall environment, I think the volatility continues. I referred in my presentation that Q4 saw 1% and that point of time we thought that was the last of the inflation which we were seeing. To be surprised by Quarter One where we saw 6% kind of inflation coming and that also on the talk of recession happening in the world and overall prices are coming down over to that extent. So, I think this entire area will continue to be little bit volatile as we kind of go and see forward because while at this moment we are seeing crude coming down, we are still seeing inflation in prices of rutile and prices of some of our additives and so and so forth which are there to do this thing and especially a very high rise coming with respect to our solvent based raw materials which are there to that extent. So, as I see it, I think even in Quarter Two we are expecting some inflation to kind of continue to that extent and I don't think so we should be able to reach that kind of a level till point of time.

While we are taking price increases, we have announced another price increase of about 0.5% in Quarter Two and we will take further calibrated price increases going forward, but I think we are not in a situation where the environment is stable and I think the inflationary kind of environment will continue, but, I think the company by focusing with respect to its initiatives on sourcing formulation and cost efficiencies would kind of really see that we are able to deliver good topline growths at the same time good PBDIT margins.

**Avi Mehta:** Sir, then this just the other bit on continuing with that theme that you expect volatile input cost, would you see signs, are you concerned about decorative demand weakness creeping in because of this inflationary scenario or is the near term commentary still remaining especially July for example to be bullish, that's all from my

side. And last before I mean if I don't get a chance sir, I wish you get well soon, I could see the hand, that's all. Thank you very much sir!

**Amit Syngle:** No, thank you for the concern. Over all what we see very clearly is that you know the consumer demand is definitely is a concern which is there in our mind; but you know what we have seen in Quarter One that after taking almost about an increase of anywhere between 25% to about 28% you know, consumer demand we have been able to really kind of see that the demand is there, the marriage season is quite big for us and that is something which seems to be continuing. There seems to be obviously a pent-up demand for the last two years of Covid whatever you say in the market, Overall, the housing sector is kind of I would say booming overall. There are lot of real estate market is going the construction market is also up in terms of this thing, government spending on infra is up. Given all this what we are seeing we are also trying to balance our price increases as we said and we are taking very measured increases to that extent, so we don't upset the consumer demand going forward. So, I think you're pretty hopeful that in this balancing act as a kind of go forward, while the environment will remain inflationary, we will try to pass minimum kind of increases as far as the customer is concerned and would focus clearly on consumer demand being there in the market because we would really like to drive the top end of the market in a big way.

**Avi Mehta:** Thank you very much!

**Moderator:** Thank you sir, we would request everyone to limit your questions to 2 max. We now have our next caller online, Mr. Mihir Shah (Nomura), via teleconferencing. Request you to unmute yourself and ask your question please.

**Mihir Shah:** Thank you for taking my question and congrats on a strong set of results. Sir I just wanted to check with you is there any one-off in sales or any case of inventory fill-up at the dealer end, as in you know when 4Q was there, they didn't have purchased as

much, so they had to purchase more than normal in the 1<sup>st</sup> Quarter, so that's one. And a supplementary to that is, if you see the KL volumes told in this Quarter, is it a sustainable one for the remaining part of year? Because historically you know we have seen 1Q sales in normal years to be one of the lower versus the other Quarters. So, assuming if you have done this, you know very large part of KL sales in this quarter, you know you should do much more than what you have done this Quarter in the remaining part of the year, so that's my first question.

**Amit Syngle:** Okay, so as we see it you know going forward, we see that you know the kind of sales which we have been able to get even in terms of the volume level overall I think has been quite good. There is no excess stocking in the market which we see very clearly because at Asian Paints I think we believe that you know the turnover of inventory at the retailers end is very important and we should not be really looking at very high inventory levels at the retailers and I think that is why possibly, we focus on servicing so much so I think it is very clear that there is no increase of inventory at the retailers end which is kind of gone ahead and typically what happens is that July and August are the months of stocking which really happens depending on what time is the Diwali to that extent and therefore I think it is devoid of any kind of inventory dumping which are there to that extent. Overall, what we see is that Quarter One if you look at from a CAGR perspective, I think is about a 20% volume growth from 2019-20 which is there and I think going forward, other Quarters we are also looking at saying that we can maintain a double digit kind of CAGRs over the normal year which is there, is what is the kind of approach we will have it will all depend in terms of how consumers demand pans out and how possibly the B2B business also kind of really grows overall. So, to that extent I think you know overall if everything goes well, it should be a good growth across the Quarters as we see forward.

**Mihir Shah:** Thank you sir, my second question is on margin how should one think about margins? Can one say the margins have bottomed in the 1<sup>st</sup> Quarter, you know I



understand the you know single digit inflation that you see, but the price increase should ideally make up for that, so that's you know one and margin should improve from 1<sup>st</sup> Quarter onwards and secondly, on current margin structure that we have, its quite far from the long period average of about 43 odd percent. I am talking about gross margins, so do you see margins going back to those levels or this would be a new normalized margin band that the company is working with?

**Amit Syngle:** So overall as far as gross margins is concerned the entire index totally depends on the inflation going forward okay. So, I think we're calibrating a price increases accordingly to that extent and we are taking price increases only if it becomes a very clear indicator to us that we need to kind of take a price increase to kind of push up the margins to that extent. I feel that the overall gross margin range for some time might be in the band of about 38-40, as I see it I don't see it kind of really going up to 40-43 levels immediately to that extent. I think we are sometime away from that as you kind of go forward till the time we see that the macro situation is improved and we are in a normal kind of a situation, crude comes down, raw material is kind of soften, I think we are little bit far away from that but I think currently we should kind of leave it in that band of maybe 30-40.5 kind of overall gross margin band.

**Mihir Shah:** Got it, thank you so much and lastly you know if I can ask on bookkeeping on capex and wish you a speedy recovery sir, that's all from my side.

**Amit Syngle:** Okay, on capex what is the specific query?

**Mihir Shah:** So, what is the capex outlay that we have planned for this year and next year?

**Amit Syngle:** You want to answer that?



**Parag Rane:** Yeah, so for the year we are putting a number of close to about Rs. 800 odd crores from capital outlay point of view, most of it going to our brownfield capital expansions.

**Mihir Shah:** Thank you Parag and wish you a speedy recovery sir, thank you so much.

**Amit Syngle:** Thank you.

**Moderator:** Thank you sir we now have our next caller online, Mr. Richard Liu (JM Financial), who is online with us via zoom. Please unmute yourself and ask your question sir.

**Richard Liu:** Hi good evening, can you all hear me?

**Amit Syngle:** Yes, we can hear you.

**Richard Liu:** Thank you. Sir...

**Amit Syngle:** Sorry, sorry your voice is coming. Some echo is there in your voice can you go away from your speaker and speak possibly?

**Richard Liu:** Okay, is this better?

**Amit Syngle:** Yeah, little better, yeah.

**Richard Liu:** Okay, so I was asking about you know what you mentioned about in the outlook slide, that Q2 inflation estimated to be in low single digits. Is this y-o-y or q-o-q.

**Amit Syngle:** Okay, so see overall inflation which we were talking of was first of all, we said that if you see Q1 from Q4 was about a 6% kind of an increase in terms of what we saw. In Q4 we saw about 1% increase compared to a Q3 which was there overall to that extent and overall, what we have seen is increase of almost about close to about 34% overall in terms of what you have seen as inflation from Q4 of last year.

**Parag Rane:** On your question about Q2, yes, we have indicated a single digit kind of inflation on Q2 over Q1 current year. Y-o-y would still be in the region of about 25 odd percent, because we had a steep inflation coming in Q3 of last year.

**Richard Liu:** Parag, if I look at the headline numbers for TiO<sub>2</sub> and Crude...

**Parag Rane:** Richard, I think we are losing you in between, but I would still try to answer it. So, while we are saying that TiO<sub>2</sub> and other things have softened to an extent, but in our sort of raw material basket what we are seeing is including TiO<sub>2</sub> and while crude has dropped a bit of the solvent category has moved up quite significantly, we saw that kind of inflation hitting us even in Q1 of current year. So really the linkage between crude prices the headline crude prices coming off and some of our consumption prices not showing that kind of a trend, I think that still exists. So, we sort of live with that as we go forward.

**Richard Liu:** No Parag, I am talking the other way round, I am saying that the headline inflation is actually more than...

**Amit Syngle:** No, overall see there is always you know the lag in terms of the overall prices in terms of what we see so currently in terms of whatever softening which you have seen which is there possibly that is indicative of some kind of a lower inflation as we have seen in Q1 over Q4 to that extent. So, I think, what we are saying definitely is that yes there is softening in terms of the overall level, but the inflation is still there to that extent

in terms of what we are calculating. So, I don't think so you should go by the general overall parameters which we are seen in terms of, what we are saying that there is a 6% inflation and rutile being a very strong contributor in terms of the overall raw material, you could link that a large part of inflation is also coming from rutile.

**Richard Liu:** If I go by the fact that you know we are talking about mid-single digit inflation and your incremental price increase is about 0.5%.

**Amit Syngle:** About 2 % in Quarter 1.

**Richard Liu:** No, in July.

**Amit Syngle:** Okay.

**Richard Liu:** Right, so we are talking about a 6%, a low single digit raw material inflation. Are you saying your gross margins in Q2 will be lower than Q1?

**Amit Syngle:** So, see the Quarter 2 is still not over in terms of what is going on so we are still kind of monitoring the situation so when we say that we are expecting a lower digit inflation number, we still don't know whether it is going to be at about 1%, 1.5% or 2% kind of a zone. We are estimating all that and there could be depending on what is the kind of inflation, what is the kind of other efficiencies we are getting, we might take more calibrated price increases as we go forward.

**Richard Liu:** Okay, okay and second is White Teak turnover of Rs. 20 crores that is included of consolidated results of this Quarter?

**Amit Syngle:** That includes what? Sorry?

**Richard Liu:** The White Teak sales of Rs. 20 crores, that's a part of the consolidated sales

**Parag Rane:** No Richard. So, in White Teak we have a 49% stake Richard, so from a top line perspective it doesn't really get consolidated, but the profit gets consolidated in our overall profits.

**Richard Liu:** I think that's a part of the associates...

**Parag Rane:** Correct, correct.

**Richard Liu:** Okay, got it. Thank you very much, I wish you all the best.

**Amit Syngle:** Thank You.

**Moderator:** Thank you sir, we now have Ms. Latika Chopra (JP Morgan) who is online with us through zoom. Please unmute yourself and ask your question.

**Latika Chopra:** Thank you so much for the opportunity my first question was on the B2B business you know, this has been growing quite strongly for you. So, if you could share, you know, what is the sales of B2B revenues in your standalone decorative business and is there a very big difference in the 4-year CAGR that you shared between B2C and B2B that was the first question; and the second question was again just trying to understand the strong demand better. Any thoughts on you know it seems your market share gains have probably accelerated in the last few Quarters. How much of this will you attribute to distribution expansion you know in semi urban, rural areas? any thoughts there? thank you.

**Amit Syngle:** So, first of all, if you look at the entire B2B business. Today I think the business varies from anywhere between 15-20% of the total business in terms of what we

do in terms of the contribution which kind of comes in and today the business is something which is very well distributed across the country and it comes from various segments, so whether it is the builder or the construction segment which is largely there or it comes from the cooperative housing societies or it is from the direct sales to factories and government and so on so forth to that extent. So overall this business has been growing overall fairly well for us to that extent and largely I think here the key point has been the quality of our products, the propositions what we are able to offer to the various segments and also along with us the entire waterproofing business, we have been able to really give a very very strong proposition to the market in terms of looking at the overall project sales doing extremely well for us overall. So that's I think the key reason in terms of why the overall project has been growing at a very strong clip. sorry, what was the second question?

**Latika Chopra:** Yeah sorry, okay my second question was basically on some flavor on the distribution reach increase.

**Amit Syngle:** Yeah, okay. So what we see is that overall there has been good performance due to a virtue of not many reasons one reason what I would say is that overall the brand has done quite well. We have been spending huge amount of money on the marketing in terms of for furthering the corporate trend and also looking at in terms of various strong propositions which kind of come in and I think, today we have a decent spend with respect to even the digital in terms of what we are doing in terms of getting the new age customer in a very strong manner. As far as distribution goes, we have been expanding the network very aggressively for years to that extent and I think we have just looked at putting a little bit more aggression on that in the last about 2-3 years to that extent and overall we feel that, that is an inherent part of our overall strategy in terms of looking at saying that we could kind of reach to every part of the growing country the way India is to that extent. So, I would say that we can't figure out only one factor that it is just because of distribution that today we are doing better, but I think it is a combination of



factors in terms of looking at better products, innovative products, good marketing, good servicing and the extension of our retailers across the country.

**Latika Chopra:** Thank you, thank you so much.

**Moderator:** Thank you we now have Mr. Shrenik Bachhawat (LIC Mutual Fund) through zoom. Request you to unmute yourself and ask your question please.

**Shrenik Bachhawat:** Hi sir, thanks for the opportunity. My first question is, I would like to understand if there is any major change in the product mix in this Quarter versus the last 2-3 Quarters for us?

**Amit Syngle:** So, overall, the product mix was much better as we saw it and we had a good quantity of overall emulsions which sold better in terms of mix and these emulsions were both from the economy segment as well as from the premium and the luxury segment in terms of what we were able to do. We also sold good quality of premium and luxury products as far as our overall waterproofing and wood finishes business go. So overall, I would say the product mix was much better.

**Shrenik Bachhawat:** And sir, is there any specific geography which has been doing very good for us recently and if we take for a longer-term perspective for the next 5 to 10 years, what do we take as a volume CAGR target for our company?

**Amit Syngle:** So overall, if you look at from a geographical variation when you are growing at almost 50-60%, I think all geographies has grown very well for us. I can only say that specifically if I look at the geographies of West and South in Quarter One, they have kind of done possible incrementally much better in terms of what we were kind of see overall. As far as the overall, you know today any organization would like to pursue, we would obviously like to pursue very healthy volume growth going forward because that is a

strong indicator of how the organization is going forward and we are definitely looking at saying that one of the areas we want to kind of continue to kind of keep on looking at double digit volume growth.

**Shrenik Bachhawat:** Thank You so much sir.

**Moderator:** Thank you, we now have Mr Tejash Shah (Spark Capital) through zoom. Request you to unmute yourself and ask your question please.

**Tejash Shah:** Hi, thanks for the opportunity and congrats on very good set of numbers. Sir couple of questions on first of this extension of an earlier question on dealer additions. So, 5000 dealer addition in a Quarter is a very robust number. Just wanted to get some sense on profile of these dealers, are they part of the industry, and we are gaining market share against existing brands in the dealership networks or are they virgin dealers getting into the industry from some other larger basket of home building or other adjacent industries?

**Amit Syngle:** So overall, you know, when as Asian Paints we look at the entire distribution network, we look at all kind of retailers because today we are dealing with the retailers who are into hardware, we are dealing who are into electricals. We deal with people who are in cement and steel. We deal with the people who are in PVC pipes and so and so forth or are in other building material stores to that extent or even our plywood dealers and so and so forth because today it is very difficult to define that you know a retailer will deal in only one category. Normally what we are seeing is that retailers tend to kind of get into multiple categories, if they are in the whole area of building to that extent and therefore what we keep on exploring is that actually opening retailers more from the point of view of reach to the consumers. So, we look at clear clusters which are coming up where possibly our reach to be better this could be in the existing cities, it could be in the suburbs, it would be in the newer towns be in some of the upcountry low population

towns to that extent and I think the overall range is pretty wide in terms of what we look at. The idea is very clear that as Asian Paints we should be able to give him a profitable kind of venture which kind of really leverages his whole business and kind of really drives us towards growth. So, I think we look at all type of retailers in terms of a choice of extending the distribution.

**Tejash Shah:** Sir, second question pertains to our 'share of wall' to 'share of space' vision. Now historically lifestyle categories brand, successful brands have not been created without either controlling the retail experience which is retail network or controlling the back end – which is manufacturing. So as of now, our model seems to be devoid or rather not committing capital to either end so as we need to plan for next 5-10 years how are we thinking about this this evolution in our business model.

**Amit Syngle:** Actually, contrary to what you are saying, we are focusing on both the ends. We have all the businesses we have gotten to our own manufacturing be it kitchen, be it bath, be it, lighting, be it in terms of now windows and doors, or it is in terms of furnishing to that extent and therefore it is all coming from in-house in terms of what we are making, either it is in terms of acquisition or it is in terms of some alignment which we have done kind of a thing so we are able to control quality, we are able to control design and therefore that is a very strong strength which we have acquired and at the front-end, I think today no other player gives a kind of inspiration and experience as we give to the consumers because we operate through about 31 Beautiful Homes stores which are there today across the country. These are state of the art stores and comparable to any international store which you will find in Singapore, Paris or London to that extent. It is totally digital which has a digital journey which kind of comes in, visualization is excellent it is based on 3D and 4D models which are there, and we also offer an execution service which is like a BHS which is there to that extent. So, I think we are offering the customer right from very strong product, which is manufactured in-house, designed by us to an

experience which is really exemplary which works out so I think we are working on everything in terms of what possibly is right in the category.

**Tejash Shah:** Thanks, and all the best.

**Moderator:** Thank you sir, we would now request all participants to introduce ourselves with your name and your company name before asking questions. We now have a next caller Mr. Alok Shah (Ambit Capital) who is with us via teleconferencing.

**Alok Shah:** Yeah, thank you and Sir congrats on the good performance. Sir my first question is actually an extension to what Tejash had just asked, so my question is you know at the current juncture, the hardware stores, the PVC pipes, etc. So, they would potentially may not be keeping any paint brands, but in that vicinity, you would already have some dealers, etc. who would be servicing the paint or which is absolutely new geographies that Asian Paints is stepping through this channel, and second question is how is the servicing to this channel of hardware store, etc. happening in terms of the different assortments or the different SKU's that you have.

**Amit Syngle:** So, I couldn't understand the second part of your question what is the assortment of what they're having at the hardware stores?

**Alok Shah:** No, so the second question was in terms of the servicing, because I understand they would not be having the tinting machine given the space constraint etc. So how is it that the servicing to those stores happening currently?

**Amit Syngle:** So, I must say that possibly I think you should take a round of some of the towns and cities to understand how the stores are first of all, but, I think overall when we look at from a point of view of our distribution strategy, we are very clear that we approach the whole strategy in form of a cluster. So if there is already in existing retailer

who's there we will take care in terms of that we are not really opening someone right next to kind of compete with the retailer to that extent and therefore what we clearly said we look at is we look at extension of suburbs in the existing cities, newer towns which are kind of coming up and really look at clear clusters where possibly our customer reach might not be very good to that extent and therefore we have no problems in terms of looking at possibly a certain reach in terms of what we are able to get. Secondly these stores are not small and in fact if you keep on going deeper into the country, the stores get bigger the stores are only small in cities like Bombay and Delhi, where the real estate is of a very strong value. As you kind of keep on going in smaller towns you will find people able to offer you even 2000-3000 Square feet of space which is available and tinting machine doesn't occupy much of a space to that extent and therefore we try that with most of our openings, we try to give them tinting machine so that they get a flavor of tinting and they are able to kind of supply to their customers the best of the colors which they can overall open to that extent and therefore that's a very strong model in terms of looking at opening newer retailers with tinting machines to that extent as they kind of go forward.

**Alok Shah:** Got it, and sir would there be any numeric target that you can guide us with? Maybe in terms of overall dealers, or the retail network expansion, because I think it is closer to around 1,50,000. Any medium-term target that you can share?

**Amit Syngle:** So yes, we have about presence of about 1,50,000 retail points which are there and we keep on looking at saying that depending on how the country is expanding, how the demographics are panning out that we should be able to add anywhere between 5000-8000 retailing points every year.

**Alok Shah:** Okay, okay sure and sir the second question is on the overall dealer incentive structure, etc. Just wanted to check, you know how it has evolved. Has there been taken

place at the company's end? At the competition's end? Over the last 3-4 years or it largely remains the same? Your thoughts on that, that's it. Thank you.

**Amit Syngle:** Sorry, what has evolved?

**Alok Shah:** No, the dealer incentive structure, etc.

**Amit Syngle:** Okay. Incentives I think our incentives at the end of the day it is the dealers are quite proficient and clever in this. So, I think what really matters to them is the per litre kind of a discount. You can give the discount in 10 ways to the retailer to that extent. It doesn't matter overall, but I think overall the incentive structures have not changed. At points of time in the year it kind of gets aggressive by everyone, sometimes it is a little bit more benign in terms of how it goes but overall, I think the incentive structure are remaining the same.

**Alok Shah:** Got it sir, thank you very much and best of luck for the next Quarters.

**Amit Syngle:** Thank you.

**Moderator:** Thank you sir, we now have Mr. Shirish Pardeshi (Centrum) through zoom. Request you to unmute yourself sir.

**Shirish Pardeshi:** Yeah, hi Good Evening Amit. Thanks for the opportunity and I was completely surprised with the kind of volume growth you have shown Quarter on Quarter. So, my first question is pertaining on the volume growth I'm not getting into deeper but if you can help me how this growth has come. I mean I'm not getting into region wise specific but if you can, you have already touched upon the premium emulsions and even the economy has done well, but if you can break that how much it is contributed through the decorative paints side and the waterproofing side?



**Amit Syngle:** So overall what we can say is that I think when we look at both retail and projects, I think both businesses have contributed very strongly to the overall volume growths. I would say that the projects has contributed even still higher in terms of looking at the overall business to that extent. The other thing what we see is that the T1, T2 centers have kind of contributed to higher volume growth which is coming both from the premium and the luxury products and the wood finishes and the waterproofing zones which are there to that extent overall. So I would say that when we kind of look at our overall growth, a large chunk of growths are obviously coming from a lot of our you know premium and luxury products which are lying in emulsions, wood finishes and waterproofing business but at the same time good growths are also coming from our economy emulsion, the upgradation emulsions which are there to that extent and they have also kind of grown extremely well overall. So, I would say it's a fairly balance growth in terms of what we would seeing. Waterproofing would have grown at a slightly higher pitch overall to that extent, but I think it's a fairly overall balance growth in terms of what we have been able to see.

**Shirish Pardeshi:** My second question is on the Home Décor. By when, do you think you will start reporting the numbers because what I see in this Quarter you have taken out your reporting on Home Improvement also. So, I think that's a suggestion, but, I am more keen on looking at this 31 stores, what kind of revenue you are doing now and maybe you actually said that you want to have around 8 to 9% 10% contribution, but in the medium-term what is the target or if what is that and what is the run rate you can share?

**Amit Syngle:** I think it makes sense in terms of reporting when you reach a number which is strong as I said earlier that we are you know really kind of saying that we want to kind of look at the next 3-4 years to kind of look at almost 8-10% contribution of the Decor business going forward. So, I think as you go through this journey we will at the right time possibly look at in terms of putting those numbers out.

**Shirish Pardeshi:** Just lost bookkeeping question on the tax rate Mr. Jeyamurugan if you can help us up what should we factor in for this year and next year?

**R.J. Jeyamurugan:** Maximum tax rate. Today is 25% plus surcharge it should be around 27%.

**Shirish Pardeshi:** Okay.

**R.J. Jeyamurugan:** It is the same rate, there is no change.

**Shirish Pardeshi:** Okay thank you.

**Amit Syngle:** You have some news that the rates are changing?

**Shirish Pardeshi:** I will come and personally tell you anyway Amit, thanks for the opportunity and best of luck and take care.

**Amit Syngle:** Thank you.

**Moderator:** Thank you sir. We now have Mr. N Sai Chandu. Please unmute yourself and ask your question sir.

**N Sai Chandu:** Yeah, so congrats on this great performance that you showed this Quarter. So, my question was on the price increases. One is that you are saying that you are keeping a close watch on the situation and the situation is volatile and you said a mid-single digit price increases is for the forthcoming Quarter is what we are pricing in for the Quarter ahead?

**Amit Syngle:** So, what we have done what I said is that in terms of inflation, we are saying that the inflation could be anywhere around 1.5% to 2% in terms of what we are saying currently we have taken almost about a 0.5% increase as on first of August and depending on our exact calculation and how the environment pans out, we will look at possibly taking more increases as we go by.

**N Sai Chandu:** Okay and one more question sir if you could allow me. How many painting jobs are we doing currently on a monthly basis, let's say when we are going to each of the houses of the customers and getting homes painted. So how is that segment of our vertical doing currently?

**Amit Syngle:** So, I think that is being quite well. We are now represented in more than 600 towns across the country which is there and overall, you know the number of houses which we do, vary from a month to month and it varies from size very strongly. So, the numbers do not really mean anything what I think is important is the per square feet which we are kind of able to paint every month to that extent and that is something which we evaluate internally but that is a business which has been doing quite well overall to that extent and we feel that the whole Safe Painting service which we are running is one of the best services across the world.

**N Sai Chandu:** Okay so sir, if you could just tell me the square footage that we are painting on a ballpark basis?

**Amit Syngle:** Sorry that number can't be disclosed.

**N Sai Chandu:** Thank you.

**Moderator:** Thank you everyone may I now request Mr. Amit Syngle to deliver the closing remarks.

**Amit Syngle:** Okay great, you know it is wonderful to have all of you with us for the investor conference for the Quarter One of Financial year 2023 and we really hope that possibly we keep the same pace in terms of our delivery as we kind of go forward and keep on giving you the good news as we march forward in this year. Thank you so much.

###