KANSAI PAINT NEROLAC

8th February, 2022

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National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400051.

Sub.: Q3 FY 2021-22 Financial Results Conference Call – Transcript

Ref.:
1. **Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**
2. **Scrip Codes : BSE - 500165, NSE - KANSAINER**

Dear Sirs,

This refers to the intimation done by the Company on 1st February, 2022 with regard to the conference call to be hosted by the Management of our Company to discuss Q3 FY 2021-22 Financial Results of the Company, and intimation done on 2nd February, 2022 wherein an Investor Presentation was enclosed for the same.

The Conference call was hosted by the Management of our Company on Friday, 4th February, 2022 at 11:00 a.m. (IST) and we are enclosing herewith the transcript of the Conference call for your information and reference.

For **KANSAI NEROLAC PAINTS LIMITED**

G. T. GOVINDARAJAN
COMPANY SECRETARY

"Kansai Nerolac Paints Limited Q3 FY2022 Earnings Conference Call"

February 04, 2022

ANALYST: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES LIMITED**

MANAGEMENT: **MR. ANUJ JAIN - EXECUTIVE DIRECTOR – KANSAI NEROLAC PAINTS LIMITED**
MR. PRASHANT PAI - DIRECTOR (FINANCE) - KANSAI NEROLAC PAINTS LIMITED
MR. JASON GONSALVES – DIRECTOR - CORPORATE PLANNING, IT & MATERIALS - KANSAI NEROLAC PAINTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2022 earnings conference call of Kansai Nerolac Paints hosted by ICICI Securities Limited. 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. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Margaret. On behalf of ICICI Securities, we welcome you all to Q3 FY2022 and nine months FY2022 results Conference Call of Kansai Nerolac Paints. We have with us the senior management team of the company represented by Mr. Anuj Jain - Executive Director; Mr. Prashant Pai - Director Finance and Mr. Jason Gonsalves – Director Corproate Planning, IT & Materials. Now I hand over the call to the management for the initial comments on the quarterly performance and then we will open the floor for question and answer session. Thanks and over to you Sir!

Anuj Jain: Thank you so much. Good morning everyone. Greetings to all of you, since this is the first meeting for this year so happy 2022 to all of you and welcome to this Kansai Nerolac investor call for Q3 of 2021-2022.

During third quarter our topline growth was around 13.1%, quarter continued to witness inflationary pressures along with volatility in crude and exchange rates. Overall inflation has been unprecedented which we have been talking in the earlier quarters also and the situation has not eased. In view of the situation we continue our approach of balance between topline and bottomline.

Just to give you some highlights related to our business vertical industrial, the automotive growth was hardly marginal. In passenger vehicle though there was a demand recovery but the demands could not be serviced due to continued shortage of semiconductor. Two wheeler segment remains subdued mainly because of rural stress and there the demand was lower. Commercial vehicle was better but tractor segment was sluggish. In terms of our focus we have been focusing on technology which basically gives environment and efficiency benefits to our customers apart from finish so to say that we have been working on from the conventional solid system to medium solid system so that is what we have been concentrating upon. In the area of non-auto industrial business which we call performance coatings where we have taken a direction of shifting our mix from lower end to high technology products, so there also there are lot of epoxies the inflation has been so high and the margins are very, very low so that is the focus we wanted to take our technological advantage into that area also. Some of the achievements are like in performance coatings we are now approved supplier of trans harbour link and coastal freeway for our C5 system. C5 is basically a fluoropolymer based system which gives the life of 15 to 30 years on the steel structure. In coil coating where we made entry few years back and we were supplying only to the roofing system and that was also not a good profitable area. Now we have got approval from the appliances so all of you must be knowing that we are quite strong in the appliances through our outer coating system and now we have got the approvals and started supplying in the appliance because as the product requirement is very, very specific it is like 360 degree sheet which need to be bent we are able to develop that product and get the approval on that. In powder coating also the focus is towards the premium category and one of the achievement is that we have started supplying to one of leading construction equipment companies who has set up the fastest robotic line, no manual intervention at all and we have developed customized specific products and the products are approved. In this area again in home and warehouse where we are strong player that comes for our external coating where we have got approval for the internal letters also and we have been working with our customers in the entire auto and non-auto areas related to inflation and price increase which we discussed earlier also and now we are able to get average 80% increase in industrial segment. When it comes to decorative the volume growth is high single digit, value growth is double digit. Demand was better in urban town, lower in the upcountry so to get an extended contrast if we compare with the last year where the demand was better from upcountry town. Some of the key actions what we have done in decorative we continued our focus on differentiated product. We approach what we have taken is a problem solution approach. The first product which we introduced in that area was Beauty Gold Washable which is now present across the country so this product is a good finish with the washability and that is our problem and solation approach. We introduced Mica Marble stretch machine, which is again a good finished product along with the no crack property because that one area identified as a consumer need which was still not serviced and that is the solution what we have provided and this product is being expanded to gather market. We also introduced one rapid set product in the range of our construction chemical, so typically in the areas where the winter the temperature goes down to zero degree or one degree and during those days when the construction activity is happening the setting time of concrete and thee cement goes up from 6 hours to 12 hours. With the rapid set which is like add mixture which goes into concrete and cement the setting time is reduced to the original level of 5 to 6 hours, so that product is also introduced. We also introduced ceiling emulsion in the market and we also announced the launch of Nerolac Impression Kashmir which is getting into the market now. This product is Impression Kashmir and why it is called Impression Kashmir because good combination of beauty and purity so it is anti-bacteria, antiviral. Generally there are products which are launched in the exterior for the third pickup but this has a third pickup property in the interior so normally in the interior when you do cleaning and there is lot of dirt which goes and get settled on the wall so this product has the capability to resist this. So some of these are highlights of the new product and because of these reasons our new product contribution is going up consistently and this is helping us increasing salience of emulsions also, so while emulsions salience has gone up.

Within the emulsion the growth in super premium category, so we divide our categories now into supper premium, premium and popular and in the super premium category the growth has been higher so that is also a good sign and I think that is getting reflected from whatever data we read that this a key phase of recovery and in the premium segment I think the story is good and intact. There are more products in pipeline in the coming quarter that is a part of our strategy that good problem solution approach product we should be introducing. Also what we have done is we have increased our activity on the painter engagement. We have introduced the Pragati app for the painter and who are doing migration on the manual disbursement to the digital disbursement so it is gradually picking up quarter-on-quarter basis it is picking up. Our objective was to have full settlement of incentives because we do offer loyalty bonuses and incentives to the painter and generally the disbursement used to take a longer period of time and now with this introduction we are able to give the disbursement in two hours time which is the quickest probably that what painter is getting now. This is for the big painters also for the small painters who get the incentive disbursement through the dealers, there also we have provided facility on our Saathi app which is meant for our customers, dealers, and through that even those dealers are able to get the disbursement within 24 hours signed and therefore they are able to disburse to the smaller painters also with a good speed. Distribution increase continues to be in double digit, it is a direct increase in the distribution, which is a double digit and project business because this year maybe last year this was impacted in the metro cities and there was a pent up demand in the projects that pent up demand has come back in this year. Earlier we were not doing good or so strong in project business but it has picked up for us in Q3. In new businesses I think we have introduced the range which is required by the market whether it is construction chemical or wood finishes so in most of these products apps are already filled and we have already caught up with the market growth though on the low base and our salience remain low, but we have caught up with the market growth. Overall salience of the new business is also going up and in decorative also we have taken our price increase which is more than 20% in YTD level, most of the increase was taken in the third quarter and third quarter also it was towards the later part of the third quarter. So focus integrity continues on paint part because we had lot of new businesses definitely added, so in the new businesses we are primarily focused on city and wood, but paint, the new emulsion, distribution that remains our focus. Subsidiaries, all subsidiaries did well barring Nepal where there was impact of COVID in the last quarter and where the growth was negative, but otherwise all other subsidies have done well in terms of topline growth. Bottomline there was a stress in all subsidiaries because of the inflation and the story what is there in India was true for other subsidiaries also where the price increase is taken but the weighted impact so far is low and maybe going forward it will get reflected. Some of the other highlights are like the product mix is better, material cost production initiatives continue and our judicious overhead management in fact our continued focus on that remains.

We are great place to work certified for 2021. We have taken several digital initiatives across customer facing and the backend for the purpose of enhancing our efficiencies and process adherence which would definitely help in the long run. When it comes to our employees more than 96% are vaccinated fully and all operations are normal. There are certain supply chain logistics challenges, but we are able to manage that and we have ensured that our customer supplies are not interrupted because of any supply chain issues. Also on of the good highlight is that KNP is rated in the top quartile of S&P ESG index in CSA 2021. Also we are retaining top quartile in manufacturing space and number one in paint sector by CRISIL in ESG Companion, so it is a good news for us.

Coming to financials in Q3 in terms of EBITDA there is a degrowth of 28.5% and for the PAT degrowth of 34.5% and on the nine month basis in terms of EBITDA it is 11.4% down and PAT is 13% down, so these are some of the highlights. For Q4 four outlook January and February that because of the third wave though impact seems to be limited the numbers are coming down and February first half we expected that maybe the demand could have some impact on that, but that could be for the limited period. In the industrial segment the shortage of semiconductor continues and because any of the additional capacities which are getting created is a little long-term so that problem may continue maybe to some extent it will get mitigated, but that may continue so that is the situation. Inflation continues to still rise, so there is no ease in inflation and especially in the industrial area we still see that on month-on-month basis, quarter-on-quarter basis the inflation is still going high and therefore the pricing is what we have taken is still not able to mitigate the inflation. We need to go for more price increase and that is how we see that we are able to make a progress in the coming quarter. So this is from my side and now we welcome the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Thanks for this opportunity. Sir I wanted to understand the price increase impact across decorative and industrial, now after this 21% increase which was taken in December crude has also moved up, I would like to hear your thoughts on whether we need more prices increase in decorative and the second question which is linked is industrial the difference in prices increase is only about 3% or so decorative is 21, industrial is about 18, would that additional 3% be enough for industrial margins also to come back to normal or the cost inflation basket is relatively different and hence there is much higher need which will come and by when do you expect that?

Anuj Jain: So in decorative the 21% price increase as of now probably has mitigated the inflation and generally what happens like the crude prices are going on but we are more dependent on the crude derivatives and there is always a lag so as of now in the near short term we feel that this price increase is sufficient in decorative, but industrial there is a big gap the inflation is very, very high. The material inflation is higher than the consumption inflation what we have seen in the last quarter and therefore the need of the price increase is further higher and as I said in industrial because most of the products are in the solvent category the inflation is further going up on a month-to-month basis so there the price increase requirement is definitely there and accordingly we are pursuing our customers though we have taken a good increase but I think we are pursuing our customers and we have to wait and watch that how and when we are able to get it.

Avi Mehta: In that if I may just followup it is fair to argue that all your initiatives, the non-auto is where the return to normalcy should be faster than the auto because you did highlight that auto semiconductor issue?

Anuj Jain: In non-auto if you are talking about the topline demand the normalcy is faster because in auto the demand is not much issue, issue is related to supply chain logistics while in non-auto that issue is not there.

Moderator: The next question is from Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: I have a couple of questions. My first question is I may have missed what is the volume growth in your decorative and non-decorative in this quarter?

Anuj Jain: Volume growth as I said in decorative is high single digits and in the other segments the growth is lower.

Amnish Agarwal: Of course so Sir in that context only if I look at some of the peers in this quarter your overall demand scenario was quite good, even most of the quarter was normal so any particular reason that our volume growth is lower than the peers say from not only this quarter say from the past many quarters, say last one to two years?

Anuj Jain: Yes. There are like two things I would say, one is that it all depends on the mix, market mix, business mix, so one factor is like we said new businesses where we were lazy starter. As we have caught up with the growth but our salience is low, so on the higher salience that if they are still getting the good growth in the market that is one advantage. The other is that traditionally our strong markets are the upcountry market, you can say rural or upcountry market and we are not so strong in the urban markets. So this year if we see the growth in the other market is quite higher if we compare with the upcountry market, so that is also a disadvantage we have. Third is because as we said our approach of striking a balance between topline and bottomline, we have not been much focused on the economic segment and there also the difference is there, so these are some of the reasons but having said that maybe we have done better.

Amnish Agarwal: As you said in the economy segment Kansai has been weaker but how has been the trend in the last two to three years, say Soldier or some of the other products which we launched, so are we trying to bridge the gap and how far we have been successful in that?

Anuj Jain: Soldier has done good in fact we have been able to establish a good additional distribution structure through Soldier and we started with the economic bit, but in Soldier also we have started moving up now and the attempt is to see that how do we upgrade, so having established a distribution there also the story is about upgradation and the growth from the higher range of the product is something which we are trying to gain better than the economy range.

Amnish Agarwal: My second question is on the margins because our margins are multi-year low so would it be fair to presume that the margins are bottomed out?

Anuj Jain: As I said that again in our case because we are a very good blend of decorative and industrial and quarter-on-quarter basis that mix also changes, so there are like festival periods where the decorative salience goes up then other period the salience of industrial goes up and in industrial the volatility or the inflation is still going up, so I would say that in decorative probably what you are saying is yes because no one knows about the future but as of now we can say yes, but industrial I think the situation still continues to be going up.

Amnish Agarwal: Okay so that is pretty helpful. Just one bookkeeping kind of a question in our results there is a notes to the accounts which is a fixed number and it states that there were some trade deposits which were written back of 34 Crores and 41 Crores in three months and nine months and there is some incentive which has been you can say written back so can you throw some more light on these two transactions?

Prashant Pai: So you must be aware that we have got machines which are placed in the market which virtually goes free of cost but generally what happens is as some trade deposit is taken against that and that is returned to the dealers provided they complete their targets, now these write back is pertained to such dealers who have not completed their targets. Now if you look at other companies normally they do year-on-year basis we had deferred this write back for some time so that is what we have taken this and connected to be in line with the peers. As far as the second incentive what you are seeing in the note is the incentive from the state government. Now we have our plant in Lote where there is some incentive available towards expansion so that is that incentive which we got and that is not a write back it is actually approval given by the state government which of 9.8 Crores which we have got it.

Amnish Agarwal: The second one seems to be related to some GST, etc.

Prashant Pai: Whatever investment you do that in plant and whenever you make sale from that plant that SGST collected against that is allowed as a refund.

Amnish Agarwal: So i think this will be a recurring item going forward then?

Prashant Pai: It is not a big amount, the total sanction we got part sanction now another sanction is expected maybe in the next six months.

Amnish Agarwal: Okay but this is not something which will recur for say next four or five years?

Prashant Pai: No.

Amnish Agarwal: Regarding the first part of your trade deposit on the tinting machines basically so which now you have taken that now what will happen for example if those dealers if their deposits have been taken by the company so will they go out of the system or can they you can say take some action against the company, anything on that front?

Prashant Pai: No nothing of that sort because this money belongs to the company. See as I told you they have not completed their targets and which is they are aware and there is a clear cut understanding if their target is completed, the amount is forfeited, part of the agreement.

Amnish Agarwal: On how many tinting machines this amount has been forfeited or how many dealers if you can share?

Prashant Pai: It is small amount, big amounts, all put together it is number of machines. See it is acquired over a period of four to five years that is what has been credited.

Amnish Agarwal: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sorry Sir my line got dropped. I just wanted to kind of check on that industrial part again just a followup on that, would it be fair to say that the non-autos is where you expect a faster recovery in gross margins and autos will come with a lag given because you pointed towards chip shortage issues likely to take some time?

Anuj Jain: So in terms of demand it is yes, but in terms of inflation as I said industrial whether it is auto or non-auto there the inflation continued to increase so in terms of margin we will have to wait and watch because the inflation is still higher.

Avi Mehta: Sir I know it is little bit of crystal ball gazing, but by when do you expect things to start normalizing on the margin front. I understand it is not something that will be hold on to but your expectation would be better than ours.

Anuj Jain: It is very difficult. We do not know what is going to happen so it is very difficult to comment on that.

Prashant Pai: Our guess is as good as your guess.

Avi Mehta: Okay Sir that is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Amit Purohit from Elara Capital. Please go ahead.

Amit Purohit: Thank you for the opportunity Sir. Just one thing, on the distribution expansion you said the double digit growth in distribution, can you help us with the count and second I mean is the strategy is to get into new markets or existing market where the salience of the new expansion is higher.

Anuj Jain: I did not get your second question.

Amit Purohit: Where is the salience of the expansion higher, whether it is in our existing strong markets or into new markets?

Anuj Jain: So the distribution, when we say 10% because our distribution was around 27 to 28,000 over the year as of now we have the activities in December, so over a year it is 10% increase on that particular base and it is across. In fact the growth in our weaker market is slightly higher, which is south and west.

Amit Purohit: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Mihir P. Shah from Nomura. Please go ahead.

Mihir Shah: Thank you for taking my questions. Sir I just wanted to hear your thoughts, are you seeing any impact of the sharp price increases that you have taken in decorative especially in the bottom of the pyramid segment because you have also shifted your strategy towards focusing on the premium end, while two different questions but if you can share both, throw some light on both of these basically?

Anuj Jain: Logically if we speak about what we keep reading and when we look at the case K-shaped recovery and I think there is a lot of data which is floating which stays in the higher end the income has gone up in the COVID period, while the lower end there is definitely a dent on the pocket of the population, so from that logic there should be some reduction in the demand in the economic category, but having said that in paint probably does not get reflected so much because the penetration is lower so if you look at FMCG as staples where the penetration is very high so there will be a direct implication of this kind of thing. While in paint because the penetration is lower and even if there is some increase in the penetration that compensate the dent on the demand, but otherwise we do feel that there should be impact on the economic demand. In the premium category the story remains intact and there in fact we feel that the growth will be better.

Mihir Shah: Understood, so there is no real reason or interplay for shift in strategy because of this or you have consciously shifted because you are expecting demand to be impacted going forward or you are seeing some signs of that basically?

Anuj Jain: Here also we discussed that we have worked on the new strategy where definitely we are putting more focus on emulsions and this kind of premium products. It does not mean that our focus will go away from the economy, but you know that the aggression in terms of growth would be on this kind of category and for this year as we said because of this reason the growth in the market is also expected to do better but it is a long-term strategy and whenever the growth in the economy category comes back, anyway we have the range available, so depending on the market response those things will vary, but our area of focus would be into the premium range of products.

Mihir Shah: Understood, the reason why I am probing on this Sir is that earlier also two years back we probably entered the economy segment quite late after seeing the growth at a industry level was far higher in that place and then we had lost some kind of demand because of that so again while we always wanted to focus on premium end we had to shift strategies two years back because of the shift in industry and again we are shifting the strategy back to premium, so I just wanted to check on that but okay I will take this. The other question I wanted to just check with you can one assume some of the future demand has been preponed as individuals were sitting at home and painting is a planned activity so when they thought that they will start going back to offices let us get any kind of work done and demand can probably see some kind of a moderation going forward as opening up happens so your thoughts on this point?

Anuj Jain: So just too quickly respond to your earlier question also. It is not a shift in this strategy, it is not that gradually we are changing that, what happens is that we are a national player and the entire range player so therefore we are there in the entire range. What we have done with Soldier is that we have created a base, we have created a right distribution, now once you have created a base thereafter you can decide that every year that how much aggression you want to showcase on that in terms of the growth, otherwise the base is already created and typically in today's scenario where the inflations are high the market growth is higher on the premium segment and also when there is a stress on the margin related inflation I think it makes sense to go a little more aggressive on the premium kind of thing, otherwise in the normal situation if the situation comes back to the normal one has the leverage to see that both the categories because at the end of the day in the premium category you do invest more in terms of marketing activities while in the other categories it is more of expansion of the distribution which is team related expansion of the distribution so that is the difference in these two kind of things and therefore some kind of modifications depending on the market situation is what we look at, so that is the first part. The second part that we have no insight like what you are saying that the demand is preponed. We only feel that whenever this COVID impact and maybe to some extent the painting activity gets deferred and then in the coming months or the coming quarters it will generally come back, so we have no understanding as of now. Then there is a new preponement because of people spending a lot of time that is the change in the behavior we can say because people spending a lot of time at home, so they are becoming more conscious in terms of doing painting or doing a better painting that is the implication of that.

Mihir Shah: Understood, if I can turn the question a bit how much of pent-up demand do you think has been addressed or satiated, any insights on that any research that throws up on this insight Sir?

Anuj Jain: Really the numbers is difficult to comment upon that but one can only say that whatever demand was there I think that is catered and maybe some drop which is the last part of the December or January that may get addressed in the coming months because as the situation improves.

Mihir Shah: Got it understood and lastly on other expenses of line item in the P&L so they would have taken a lot of cost initiatives during the pandemic and maybe certain other costs that you were getting postponed or deferred, not so like for example travel and so on, can one assume most of the cost is back and this is like a normal steady state expense run rate that will continue?

Anuj Jain: You can say that but just like travel and all still was not the complete year to that extent. You may find area like travel, business travel that may still go up in the coming period.

Mihir Shah: What we saw in the third quarter is what I am trying to ask. Got it. Thank you. That is all from my side Sir.

Moderator: Thank you. The next question is from the line of Keyur Haresh Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Haresh Pandya: Thank you. Sir three specific questions. Let me take one by one, so first is as you mentioned that one of the reasons why our volume growth is lower than industry peer is because our focus is more on say premium and super premium and not so on say economy segment that impacts our volume growth, but should not that positively impact our gross margins versus peers our mix is getting better so just your thought on this equation?

Anuj Jain: I think you see some kind of improvement on the sequential basis that is one. Second what is happening is as I said in the premium category also there are a lot of new introduction of the products, so typically if you see that earlier market was there with this smooth finish, now there are sheen and glossy finishes. On the unit basis the margins are good, but in terms of percentage if you look at some of these new categories which are coming up, in terms of percentages that could be lower so that is how the situation is.

Keyur Haresh Pandya: The second question is on automotive volumes so at least from the auto players the commentary is coming that sequentially the situation is improving say month after month if not say this quarter versus last year this quarter or in any period so rather than year over year sequentially situation is improving do you have a different view from that and what kind of indication you are getting from our clients?

Anuj Jain: I think sequentially yes because obviously they are able to manage it better now. The capacity constraints of semiconductor they are able to manage it better so I think we agree with the view that sequentially it is better.

Keyur Haresh Pandya: Okay so when you say normalization will take time, so you are comparing with a specific year or a specific period?

Anuj Jain: We are comparing like what we keep hearing is that demand versus the supply, so there is still a gap because if you look at the passenger vehicle, the booking period is still quite large and also the availability of the semiconductor is still not enough because I think they are dependent on the additional capacity which is getting created which generally takes about two to two-and-a-half years of period, so as of now one-and-a-half years have passed so to some extent the supplies are improved, but it is not back to completely normal and therefore we feel that it will take some more time to come back to their natural demand and that they are able to service the demand.

Keyur Haresh Pandya: Okay understood. Sir third question is on client additions or our client list in electric vehicles either four wheelers or two wheelers, all the emerging players so what is our penetration in the electric vehicles both two wheeler and four wheeler are we present there?

Anuj Jain: Yes, yes. So mostly in the electrical vehicles that most of the companies do not have their in-house paint shop and therefore they are getting it painted through the ancillaries and most of these ancillaries we are present.

Keyur Haresh Pandya: Both two wheelers and four wheelers?

Anuj Jain: Yes, both.

Keyur Haresh Pandya: Okay thanks a lot and all the best.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Aditya Birla Capital. Please go ahead.

Chanchal Khandelwal: Thanks for taking my question. Firstly what is the cut in the advertisement expenditure you have done in the first nine months?

Anuj Jain: There is no cut. There is some increase in the advertisement.

Chanchal Khandelwal: Sure. Given the context where the competition is going to heat up on the decorative basis Grasim which is coming there are two more players were planning to enter this how do you feel your market share has been in decorative and what are the steps you are doing to further increase the market share, any thoughts on this line?

Anuj Jain: Decorative is as I think I mentioned in one of the question earlier also that the approach what we are taking is problem-solution approach to there is an extent the starting point is the product and our focus has been introducing differentiated products, which we started with one, two and now we are there with three and four products and more products in pipeline that is first part. The second part is in terms of our marketing we are doing activities around consumer and activities around painter because when it comes to decorative painting one side is a consumer, the other side is painter, and some of the initiatives which we have taken which I earlier spoke about so that would be area of focus and third part is the distribution because the more distribution you have, more accessibility you have with the customers. So we have a large infrastructure, more than 100 sales offices, warehouses, and therefore we can cater to a larger number of distribution through that and the distribution for getting more distribution obviously you have to ensure that how fast you are able to liquidate your material from the dealer shop and therefore for getting that extraction from the counter you need to work on the demand generation, which is related to a painter because painter also plays a big role and it is also related to a demand for the consumer, so these are some of the activities which we are working upon in a disciplined manner and therefore we feel that we must continue to work on this particular strategy and as we keep getting results in terms of increasing demand and getting the distribution numbers in place we would be able to achieve our object.

Chanchal Khandelwal: On the first point, on the product basket which you are trying to increase, do you have putty and construction chemical that is one basket which others are trying to do and also on the distribution of enhancement which you spoke about, the number one player spoke about adding almost 45,000 distributors in last 18 months, he has added hardware dealer or paint dealer he has gone very aggressive given that competition is heating up why not we also go in aggressive manner in terms of distribution expansion?

Anuj Jain: Your first question is putty. Yes we have putty and that is a part of our economy segment where we have not been aggressive as of now because of the current situation. Construction chemical, yes we started and we have caught up with the market growth the entire range is introduced in the market and we are getting a good response we are making a good growth in construction chemical. On distribution what I spoke, double digit growth of the direct distribution there is no indirect distribution here and what you are comparing is with the direct and indirect distribution so there are a lot of new businesses which are added in construction chemical, adhesives where there is a lot of indirect distribution, so as of now I am not talking about those numbers. When I say double digit direct distribution growth you can say that better than the market growth of the increase in the entire distribution.

Chanchal Khandelwal: Just lastly there was an article in the media which said that you are planning to buy an office space any capital commitment you are doing for the office space and any plan to sell the office location which we currently have?

Prashant Pai: So this office space we have purchased yes we will be moving out maybe in the six months. Right now there is no plan to anything on this current place where we are.

Chanchal Khandelwal: So if you are moving out of the office place this land becomes vacant right if I am reading it right?

Prashant Pai: Because what has happened due to this new working norm a lot of space is vacant here, so we wanted to shift to a place where we can accommodate the number of people who will be attending in a smaller place, so that is what we are taking.

Chanchal Khandelwal: Yes, but this office space you may sale it some point in time is what I am just trying to understand?

Prashant Pai: No plan.

Chanchal Khandelwal: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My question is that if we assume that over the next two months the price of your products as well as the input prices remains constant at today's rate in that scenario will the Q4 gross margin be higher or lower than the Q3 gross margin?

Anuj Jain: I hope what you said is right, but it is not the reality so even in the month of January we are seeing a higher inflation.

Percy Panthaki: Yes but you would also be taking price increases right?

Anuj Jain: Yes but generally what happens is there is always a lag because you are always carrying an inventory which is a higher price inventory so that impact also will be there.

Percy Panthaki: The other thing is that some price increases that you would have taken in Q3 would not have fully affected Q3, but they will fully affect Q4 so therefore just trying to understand that in Q4 do you expect the gross margins to sort of recover from the Q3 levels or do you think there is some further downside?

Anuj Jain: So two, three points. See one is as I said earlier also that quarter-on-quarter basis there is a mix change, since we have a very good mix of industrial and decorative and October to December generally what happens because of the festival period the contribution of decorative is higher which in the coming quarter the contribution of decorative is lower so that can affect because the margins are higher in decorative if you compare with the industrial. The second point is what you have said is right that whatever price increase we have taken that was factored partly in the last quarter, partly it will get factored in the coming quarter, but the new point which is related to a mixed chain and also the further higher inflation will have some impact.

Percy Panthaki: Basically there is a possibility that Q4 gross margins may be on the lower side compared to Q3 right am I reading that correctly?

Anuj Jain: I just said what is the reality you can read whatever you want to read out of it.

Percy Panthaki: In terms of your distribution expansion, etc., just wanted to understand are you sort of expanding and I am sure that you are doing both but I want to understand where sort of the focus is a little higher, are you expanding more in your already markets where you are strong or are you expanding sort of relatively in markets where your market share is relatively weak as far as the distribution expansion is concerned?

Anuj Jain: Distribution the objective is always state basis because generally you look at what is your numerical reach and what is your weighted reach and even if say in the stronger market your X percent is of numerical or weighted reach and we have a target of X plus something, so accordingly that we will decide that maybe we want to add for example 100 dealers there, but when it goes to the weaker market there may be the increase in terms of number of dealers could be little higher, but in the weaker market we always look at the quality dealers which means the weighted reach, while in the stronger market that where our market share is strong we go for the numerical reach, so in terms of number of dealers you may still find that they are little higher in the stronger market because of the numerical reach while in the weaker market we look at the weighted reach so numbers could be lower but the impact is higher.

Percy Panthaki: Right, so what I would do Sir is not look at the absolute number of dealers added but the percentage of addition so obviously your base is larger in your strong market so on that higher base also you think the percentage addition would be higher than the weaker market?

Anuj Jain: Yes, yes it will be higher than the weaker market.

Percy Panthaki: Okay understood. That is all from me. Thanks a lot.

Moderator: Thank you. The next question is from the line of Lakshminarayanan from ICICI Prudential AMC. Please go ahead.

Lakshminarayanan: My question is that what are the important initiatives you have taken in the last three years and which has actually resulted in success, it could be on across various front, it could be operational or it could be getting into new segments while there is always business as usual like appointing distributors, etc., what are the top two or three important initiatives which you actually taken with the long-term mindset in the last two to three years?

Anuj Jain: The first part is in the area of technology and service where we are continuously working to get some advantage in terms of providing a product which are very, very different, understanding the problem in B2B and B2C and how we can provide a better solution to that because technology is our strength, enhancing the services level because for the long run it is very, very important. To give you example that if you see last two to three years the number of products have really gone up in decorative, earlier there used to be one finish, now there are multiple finishes in mat, semi-gloss, sheen, different variants are coming and typically if you find that dealers have a limited space, warehouse, majority of the dealers will not be able to expand, especially in the bigger town they will not be able to expand their space, so therefore the service requirement goes up so this is one area of initiation where we are continuously improving on that particular side. The second part is ensuring that our customer satisfaction index is improving, which is also related to services or settling the dues, those kind of things, so that is another area and from there it goes as I said demand generation because if you are dealing with the customers for them especially in the decorative area what is important is their return on investment, so how much demand you are able to generate, which is a function of how do you increase the demand from consumer. Fortunately for consumer in fact our brand is quite strong we have a very strong mind share, so as of now what we are working on the painter activities, painter engagement where we are able to convert the demand into the conversion area, so this is related to our B2C and in B2B our strong forte always has been technology, service, and capability to ensure that whatever product we supply online that is completely okay at the line because different line conditions have a different kind of limit conditions, climatic conditions, and therefore there is always a challenge how the product is working at the line, so that kind of service network we already have in place where we have the capability to see that line functions smoothly, so these are the areas which we have worked upon.

Lakshminarayanan: Sir on the B2C right, any drastically different approach you have taken to increase your reach it could be not just a number in terms of expansion but something which you have actually changed the way in which you looked at say five years back and now?

Anuj Jain: One point is product because product is always a starting story, so slowly if you look at say five years back maybe all companies, all products have similar price point which is not the situation now. There are many products where there is a complete differentiation in terms of the proposition and in terms of the pricing that is first part. The second part is the channel, if you compare in the last five years, the channel was a regular channel, hardware channel or paint channel, where the typical approach is that somebody goes whether it is a painter or customer you go and buy the product. Now the change is that there are segmentations which are happening within the channel and there is a new generation coming of the dealers and they are not really comfortable with the old kind of setup, so therefore there is initiative in terms of ensuring we have a preferred partner model and every year we are adding numbers and going forward we just want to add more numbers on that. The third part is that the painters, where painters get attached to the dealer and the painter also look at what kind of demand generation or the additional leads can happen, so there is an initiative around digital marketing where you generate the lead and ensure that, that lead gets connected with the painter and the dealer so it is like entire process which is going through a transformation or a change process and that is what we are seeing and that is what is being done because all this digital initiatives along with the physical model, the connectivity of that is making the differentiation, so processes are getting changed.

Moderator: Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: I think one of the views or there is a common view on the street that Nerolac decorative paints business gets impacted when industrial coatings business goes through a challenging phase, I have not tried the previous cycles, but when I look at the past two or three years I noticed that since the time auto slowdown commenced in CY20 and CY21 there was a sharp cut in advertising spends, so if I look at CY19 BARC that maybe Nerolac's media spends were comparable to Berger, today when I look at CY20 same BARC data it indicates that you are spending a fraction of what you are spending in CY19 and today perhaps those media spends would be much lower than the number two player and again when I look at growth rates also I think there is some evident market share loss, so is this assessment correct that there is an effect of weakness of industrial or challenges of industrial on decorative at organization level in terms of the budgets the way you plan about growth?

Anuj Jain: I will tell you in two to three parts, so one is typically what happens is that if we look at the paint purchase cycle and how it works, so first is the mind share and then you try to convert that mind share into the market share or the market sale, so when you look at the period what we are talking about, yes we have spent higher in terms of advertising or increasing the consumer demand and once you reach to a particular mind share and if that mind share that is good then you try to bridge the gap between the market share and the mind share and that gap can be bridged with when the conversion happens at the distribution end and the painter end and therefore in that situation your focus shifts to operating the further mind share ensuring the conversion part so to that extent that we have reduced in terms of advertising and spent more in terms of painter creation or distribution creation that is first answer. Second is that maybe last two years also the advertising got impacted because of the COVID reasons because for four months, five months, six months there was no point of advertising to that extent also it has come down and even in this year if you see maybe we have cut down on the advertising because for large amount of months we felt that it may not be necessary and therefore what we spent is more on the market activations, local market activation especially related to a demand generation through the painter and dealer part and third part what you are saying is as I said that depending on the situation some kind of balance between the topline and bottomline one has to do, but as I said more in the area of economy range of products because these are like commodities, basically you give more incentives and then you can get more sale so there even if you have a short-term loss in sales it is not something which you cannot try to get back, more important is emulsions which is definitely consumer oriented and there if you are able to maintain your sale and able to increase your salience that is something which is long term. In the economic category one can always modify the approach depending on the situation.

Jaykumar Doshi: Understood this is helpful and as you think about your business from the next two to three players perspective do you intend to compete across the segments or you are increasingly going to position yourself or focus more only at the premium end of the portfolio?

Anuj Jain: Generally you see what happens, the advantage is what distribution and then therefore whatever distribution demand you have to provide the entire range and we are entire range players, so therefore that availability of the entire range would be there but when it still comes to the focus, obviously the focus is never on the entire category, the other categories move with the focus category, so there in fact we will be very, very focused on few categories of product I will not take the name but few categories of product but they are obviously as a part of the emulsion, so the product which has a differentiated propositions at a differentiated price point, there we would be spending more of our resources in terms of providing focus on those products and other products get tagged along with that.

Jaykumar Doshi: Unlike the market leader who has not taken a very conscious call over the past two to three years to aggressively sell putty, economy emulsions, construction chemicals, even something else sort of Rs.10 per kg price, tile adhesive so you are clearly not going in that direction that is the right understanding correct?

Anuj Jain: In terms of range availability all these ranges are available with us.

Jaykumar Doshi: You do not want to sort of just capture revenues or volumes by aggressively pushing this?

Anuj Jain: As I said earlier also that these products are commodity products and as of now we are not participating in that kind of discounting on this product and it always goes with the time. Now when the time is right you can decide that how much you want but otherwise at this situation yes we are not going,

Jaykumar Doshi: Thank you so much.

Moderator: Thank you. The next question is from the line of Veenit Pasad from Investec. Please go ahead.

Veenit Pasad: Just wanted to come back to the point where you made a comment regarding new generation coming in as far as dealers are concerned and they are moving on to the preferred partner model can you just elaborate on this, is this a case where we are moving towards exclusive dealerships or it is a case where they would stop all multiple brands but still focus on a particular brand how does that work?

Anuj Jain: So it is basically a change in selling approach from the dealers because there are markets and dealers who are more dependent on the painter purchase and there are markets and dealers who are more dependent on the consumer purchase, so wherever there are consumer footfall and the shop conditions are not so good so in this model we provide our good amicable kind of ambience at the shop and provide certain demand generation activities specifically for the counter and therefore your focus is to sell more of a premium product because the more product which offer the benefit to the consumer and therefore we train this next generation people who are capable of taking this particular thing, otherwise in the past conventionally people sell the product but they do not sell the benefit of the product to the customer so we call it next-gen preferred partner dealers, where we train them, what are the benefits and how you should pitch the product to the customer rather than just selling at the price, concentrate on the benefit and what exactly the customer is looking for and if you can provide the solution, so it is a win-win situation, customer gets the answer to what he is looking for and in the process the dealers also manage good margins, so it is a win-win situation that is how that we are taking this approach.

Veenit Pasad: Is this an approach adopted even by other brands or it is only we that we have started this over the past couple of years, how the scenario is changing?

Anuj Jain: The thing what I am talking about is very specific to us but maybe in some other manner they may have taken this particular direction but we have a clarity in terms of how many number, identified number, it is not something like open available in the market where anyone can get into it, so we identify the counters where the footfall of the consumer is good and getting specifically into it and therefore as of now scale of numbers to whatever extent but taking this approach and as we keep making a progress on that then appropriately gradually we scale it up.

Veenit Pasad: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Jignesh Makwana from AMSEC. Please go ahead.

Jignesh Makwana: Thanks for the opportunity. Just want clarification on the volume side you said decorative witnessed a high single digit kind of volume growth and we have still witnessed a low single digit kind of volume growth and if I assume you took almost 20% to 21% kind of price hike in decorative and 18% price hike in industrial segment even if I am assuming that you have not factored the entire price hike in Q3 itself simultaneously the price hike and assuming that 60:40 kind of revenue mix I think the growth which reported on our standalone business that math is not telling up, so am I missing some element over here?

Prashant Pai: You are saying 60:40 because this is not matching you are saying?

Jignesh Makwana: Yes.

Prashant Pai: See it is not like that. It all depends on the mix again. The mix changes and within the range also, within the decorative industry there is a mix change happening so accordingly the growth what Anuj has mentioned they are the growth numbers.

Jignesh Makwana: Okay can you please quantify what would be the mix component in the entire?

Prashant Pai: We do not do that. I will leave it to your imagination. Generally we do not say that.

Jignesh Makwana: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICIC Direct. Please go ahead.

Hitesh Taunk: Thank you for the opportunity Sir. Most of the questions have been answered. My question is our current capacity and what is the capex plan going forward?

Prashant Pai: Capacity is good enough because last few years we have created a good capacity. As of now the utilization is around 60% so no problem with the capacity and there is a regular capex plan, maintenance capex which is happening.

Hitesh Taunk: If you can quantify the capex?

Prashant Pai: Right now there are no projects as such, normally maintenance capex which ranges from 60 to 70 Crores per annum.

Hitesh Taunk: Thank you Sir. Thank you for that clarification.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Anuj Jain: Thank you everyone. Thanks so much. I hope it was helpful for you and thanks for all the good questions. A lot of good business marketing questions and really appreciate that. We hope that we were able to answer and satisfy your queries appropriately so wish you the very best, have a safe period, and wish you happy 2022 once again, thank you all.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.