9th February, 2023

1. Corporate Relationship Department
BSE Limited,
PhirozeJeejeebhoy Towers,
Dalal Street,
Mumbai - 400001.

2. Manager – Listing
National Stock Exchange of India Ltd.
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Sub.: Q3 FY 2022-23 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 is further to the intimations done by the Company on 31st January, 2023, 4th February, 2023 and 6th February, 2023 with respect to the Conference Call hosted by the Management of our Company on Monday, 6th February, 2023 at 11:00 hrs India Time to discuss Q3 FY 2022-23 Financial Results of the Company.

We are enclosing herewith the transcript of the Conference call for your information and reference.

For **KANSAI NEROLAC PAINTS LIMITED**

G T GOVINDARAJAN Digitally signed by G T GOVINDARAJAN Date: 2023.02.09 17:00:59 +05'30'

G. T. GOVINDARAJAN
COMPANY SECRETARY

“Kansai Nerolac PaintsLimited

Q3 FY '23 Conference Call”

February 06, 2023

MANAGEMENT: MR. ANUJ JAIN – MANAGING DIRECTOR – KANSAI NEROLAC PAINTS LIMITED
MR. PRASHANT PAI – DIRECTOR, FINANCE – KANSAI NEROLAC PAINTS LIMITED
MR. JASON GONSALVES – DIRECTOR, CORPORATE PLANNING, IT AND MATERIALS – KANSAI NEROLAC PAINTS LIMITED

MODERATOR MR. ANIRUDDHA JOSHI– ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Kansai Nerolac Q3 FY '23 Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand them over to Mr. Aniruddha Joshi. Thank you, and over to you.

Aniruddha Joshi: Yes. Thanks, Mike. On behalf of ICICI Securities, we welcome you all to Q3 FY '23 Results Conference Call of Kansai Nerolac Paints. We have with us senior management represented by Mr. Anuj Jain, Managing Director; Mr. Prashant Pai, Director, Finance; and Mr. Jason Gonsalves, Director, Corporate Planning, IT and Materials.

Before I hand over the call to the management, we remain enthused by the strong recovery in auto sector and the related paint recovery also. We believe that segment is likely to grow very well in coming quarters. Now I hand over the call to the management, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Anuj Jain: Thank you, Aniruddha. Good morning, all of you, namaskar. First of all, let me wish you and your family a happy new year, and thanks joining this call of Kansai Nerolac for quarter 3 of financial year 2023. For this quarter, as you must have seen, we recorded our top line growth of 1.4% over the same quarter of the last year and EBITDA de-growth of 10.2%. Last year, other operating income included some nonrecurring income. And if you exclude that, then the net revenue is up by 4% and EBITDA is up by 14%, PAT is up by 13.5%.

If you look at the nine month period, the growth is 20.7% over the corresponding period of the previous quarter. And EBITDA growth is around 13.7%. During third quarter, the growth is led by automotive, but within automotive, also the growth was higher from passenger vehicle and commercial vehicles. The 2-wheeler growth remained muted. Decorative, the growth is slightly negative. Raw material prices, though softening, is still being carefully monitored given the volatility in crude and forex coupled with geopolitical changes.

Pricing in decorative so far is 3% YTD level. In fact, it was taken earlier itself in quarter 1 and quarter 2. But we have taken some additional price increase in industrial. And overall, price increase in industrial is the range of 8% to 9%.If you look at gross margin in comparison to quarter 2, they have improved by 170 basis points. And mainly it is on account of, one, the product mix where, in fact, one of the initiatives what we have taken is shifting towards premium in all our businesses, especially in the non-auto industrial and the decorative.

So it is partly on account of product mix and the price increase of industrial, partly on account of that, and partly on account of raw material prices. But we are still carrying high price inventory because in industrial, the supply chain challenges are still continuing. The geopolitical situations are still not stabilized. So one of our strength area competitive edge is the service.

And therefore, to continue with that kind of service level, we are still keeping a high-priced inventory. And therefore, the effect of raw material prices, even in the coming quarter will come gradually.Just to give you some colors related to our industrial business, in auto, as I said, that we have got the price increase and almost all key customers, we have been able to conclude the price increase. We continue our path of extending technologically superior product. Some examples I gave earlier also monocoat, medium solid, to more customers. So that part we are continuing. But some more initiatives what we have taken during the quarter is that we have started underbody sealant. I

So basically, our attempt is to increase the TAM in the automotive business. So it's an additional market, which we are entering and the technology in-house and we already got approval from the leading automaker.The fastenercoating we were exploring earlier, the commercial supply of fastener coating just started. And now, again, a new technology, the new products, and we have started making inroads into key manufacturers. There are some new additional business areas, which we are also exploring, and as I said, that our attempt is basically to increase the TAM in auto business.

Coming to non-auto, which is performance coating business. As we have said earlier also, our focus is towards high-technology order, premiumization. And so basically related to that, some of the business, which is a very low profit business, we have been exiting. And salience in the premium item is going up quarter-on-quarter basis. For this premiumization, we are actively working to get approvals across key infrastructure segments. So because the market is expanding, we are also expecting a good growth in infrastructure.

A lot of focus is there on the government side on the infrastructure. So we are bullish on the infrastructure segment. And therefore, we are aggressively working in terms of getting the approvals, a number of approvals have increased even in the last quarter. Some examples of these approvals are like bullet train, Vande Bharat, Mumbai Coastal project and construction chemical -- construction equipment and air conditioner segment also, we got some of the new names.In coil coatings, where we started the business three, four years back, but we were there in the basic product category, and now we are ready with the high margin -- technology products and started getting into the appliance segment.

We also got some approval from the appliances manufacturers. And here also, our premium segment has gone up significantly. And some of the basic categories where the profitability was very low that we have exited. So this is in the industrial area.Coming to the decorative, if you can recall that in the last meeting, we said that what has happened in the third quarter, we had a visibility of that because last year, Diwali was in the month of November, this time, Diwali was early. And generally, we have seen the last two, three years, the rains get extended, monsoon get extended.

And also because last year, in this quarter, there was a very heavy price increase. Probably we have never seen in the past that kind of price increase. And therefore, typically in this situation, dealers go for a higher stocking and therefore, we did not expect growth in decorative. But we continue on our strategy. One was Paint Plus, which I spoke in last two, three quarters also.

And in the Paint Plus, our idea was to basically come up with the differentiated product or democratize products.

So in the key categories, like waterproofing wood paints, whatever products we had part of pipeline, most of these products are now launched in the market and to that extent, our Paint Plus range, what we said is completed. In fact, in the last quarter, we introduced one more product, which is Everlast 12, which is basically a self-cleaning paint. So after every rain that the paint looks good, more beautiful.

We also started the next-generation range of products. This is basically for safety network. And this range has a better white. So the white is non-gelling and in terms of quality is far, far better, and these products also have a better coverage. So by and large, our Paint Plus range is in place now. As I said, this is a part of our strategy to differentiate and democratize the product offering in the market. We have got a good response to quality, proposition and pricing, and salience has gone up. We are now in a position to ramp up our distribution and salience of these products.

The next part, which we have been working for last few quarters was in the area of influencer. The role of influencer is very, very important in paints, and these influencers include painter, contractors, architects and interior decorators. So our strategy is to focus on key painters and architects and interior decorator and demonstrate advantage of Paint Plus products to them. The infrastructure in terms of feet on street and call center progress will be completely in place by, say, next quarter.

The number of active users are going up gradually when we look at all these influencers. Digital adoption is progressing well, and number of downloads have also increased substantially. Our reach to influencers, which used to be there in the past through the distribution has become direct now. And we have started sharing generating business leads and sharing business with these influencers.The next part of our plan is the distribution.

So focus is basically to increase the counter share. And the initiative related to that next generation shop, which here I spoke about, that is getting stabilized now. We have already crossed more than 50, and we are looking at growing aggressively going forward. The next generation service counters, as I spoke about that we started the NEXTGEN service, and therefore, this -- related to the service, we are attaching it with the counter, so that they can supply and service the demand.

The exclusive range of products was the distribution and some customized activities. So as of now, the distribution expansion is in double digit. This is only a direct reach. Indirect is different. As of now we don't track the indirect reach. We have now started tracking primary to secondary conversion of sale. And in the last quarter, in fact, more than 40% now, we are in a position to track that whatever material we are building to the market, how much is getting converted to a secondary sale.

Going forward, it will help us in terms of ensuring that how we keep increasing, and therefore, how do we get the advantage in primary sale also.We also initiated actions, not initiated, actually, it is already actioned for faster replenishment of stocks in the market and last mile delivery because in last 1 year, 2 years, the number of SKUs have grown in decorative market. And while many of our dealers still have the same kind of warehouse facility. So therefore, the service is becoming very important, and we have introduced some premium services to ensure that the requirement is taken care of.You know that our market share is single digit, and that also gives us the opportunity.

So there are certain weak downs. As a company, we have a good market share in Tier 2, Tier 3, Tier 4, but Tier 1 towns that we are not so strong. So because when you are not strong, then obviously, the distribution support also is weaker. So in these weaker towns that we started working with the strategy of project, the services and word finishes. So because in all these businesses, you can get access directly to the influencers and the consumers. So basically, the users.

So project is one area where we have expanded earlier, we were there in 33 towns. Now we expanded our reach to 48 towns. And accordingly, we expanded the team. The pipeline of warm sites is being built gradually, and within the project because the margins are lower than the retail, but we are focusing on the quality of business so that the margins are also not affected.NEXTGEN services with the proposition of 5-days dust free painting, which is a differentiated proposition if we compare with the industry. This has now expanded to 100 towns which are greater than 5 lakhs population.

Till last quarter, we expanded to 50, but now we expanded to 100. Consumer acceptance of branded service is on rise. That is the learning what we are getting from the market. And the digital campaign to generate this kind of leads has given us a good advantage. And as of now, 27,000 sites, we have service. So basically, with this initiative, now we are able to understand this business pretty well and service team and structure accordingly, we have expanded. And which is also getting supported with architect and interior decorators contact program.

The third part of this big towns is a wood finish applicator, again, it is a user-based business. So project NEXTGEN service and wood finish applicators where we can reach out directly to users is our plan to increase our business in the weaker towns.In waterproofing and wood, salience is now close to around 77%, and they also started doing well. So quarter-on-quarter, we are seeing the progress in these businesses.For brand related, as we have been saying in the past, our share of voice, we are maintaining at 15%. And we have also started our communication in the retail markets.

Digital ecosystem to ensure complete information available and seamless coordination across stakeholders is progressing as per our plan, and our digital performance marketing drive also have increased and more than doubled our organic reach via social media.So some of this pertains to decorative, which we have started in this particular year, and we have been piloting the same.

And now onward, we go for this scale up on some of these activities.A few other updates related to this as a part of our IT backup, the FDR implementation is complete. We have been working on the capability building for the people and online program is gaining traction, and we are imparting a lot of trading to our teams so that skill enhancement can happen. We have started conducting management development centers for our key managers. We have done some strategic workshops for top people, top managers with some of the innovative sessions and coming with the ideas that can answer some of the problem to the customers and we can come up with a better product and the better process is to give better solution to the customer.

Our capacity utilization YTD level, it is more than 60%. And capacity addition, in fact, last quarter, we have announced the expansion, which is in the -- mainly the water-based decorative because the growth market is in water-based. And in terms of water-based, the capacity expansion, what we announced is about 42% of the water-based.

And for the industrial, we have a capacity. So whatever this growth market is seeing, we are in a position to cater the demand of the market.So these are some of the other points related to things. And obviously, as we said earlier, we have also issued RSUs to senior and middle management employees.So this is the brief from my side on the result and some of the points that we have been working upon and we'll be happy to take the questions now.

Moderator: We have the first question from the line of Avi Mehta from Macquarie.

Avi Mehta: I wanted to kind of just understand this on the decorative side more from a near-term lens. While the initiative is very clear and I'm hoping to kind of -- hope it kind of works the way you are looking for. There are signs of weakness in urban discretionary. Does that not concern you from a near-term sense on the demand trends in the decorative side? I would love to hear your thoughts on that.

Anuj Jain: So Avi, the trend does not indicate that because if we see quarter-on-quarter basis, Q1, Q2, Q3, the urban growth has been doing well. I think the stress was there in the rural, but we have seen improvement on every quarter basis. And if that trend continues, probably from the next quarter, we may see some uptick from the rural demand also. So as of now, there's no indication like that in the coming quarter, near term, we are seeing a better demand.

Avi Mehta: Sir, you mean near term as in Jan, is what do you mean by that, sir?

Anuj Jain: Yes. I mean one or two quarters here.

Avi Mehta: Okay. Okay, sir. And sir, the second bit was essentially on the margin side. And could give us a sense what -- it seems like margins have bottomed up. And if you could kind of comment on that, whether that is the understanding is correct? And what levels do you see in the steady state over here?

Anuj Jain: So as I said that this quarter, the margin expansion -- gross margin expansion was around 160, 170 basis points, which is based on the product mix, the price increase and industrial and also the declining trend in the raw material prices. So we hope that this declining trend in the raw material prices, though we remain a little cautious because geopolitical situation or what is happening in China, we'd like to wait and watch. But largely, the possibility is that this trend may continue, some advantage of price increase what we have taken also would come in the coming quarters.

The only thing that we have to keep in mind is that generally in the fourth quarter, our business mix is very different. It goes quite in favor of industrial business. And therefore, because of the change in the business mix because the profitability is lower in the industrial business, we see some impact of that. But otherwise, that at the segment level, if you see, I think the margins will improve based on the factors, what we spoke about.

Avi Mehta: And sir, this should flow through to EBITDA also, right, logically? Barring, as you rightly said, there is a fourth quarter impact because of mix, but otherwise, the trend is towards on the segmental level, EBITDA margin improving from here on.

Anuj Jain: Yes. Simply the gross margin improvement reflects in the EBITDA. The only thing is that we are making some investments in the marketing on the people front. So to that extent, there may be some gap.

Avi Mehta: And sir, steady state, what would you expect these EBITDA margin trajectory or levels to be? And -- sorry, when do you expect this steady state that could be...

Prashant Pai: See, as Anuj has mentioned, the raw materials are showing a declining trend. but we have a high-cost inventory. So that has to get liquidated. Hopefully, in the Q1 of next year, definitely, this will be liquidated. And post that, I think we should get the margin improvement also. So minimum one or two quarters has to happen before we liquidate all the inventory, and the new inventory starts flowing in.

Avi Mehta: Okay. Perfect, sir. And any level, sir, that you would want to indicate

Prashant Pai: It's very difficult to make a statement on that because the way competition is coming we have to react to competition also. Accordingly, we'll wait and see how the margins change in the coming two quarters. And accordingly, we can comment after that.

Avi Mehta: Perfect, sir. And just one last, if I may. On the -- you recently did a sale of land, which kind of has resulted almost 600 crores kind of flow through. Could you give us any idea of what is the thought on this cash that is generated?

Anuj Jain: So we are just looking at supporting the growth initiatives in the company.

Moderator: We have the next question from the line of Archana Menon from Morgan Stanley.

Archana Menon: My first question is on the decorative segment following up from the earlier participant question. Now with all the initiatives and improving the market share, should we think of the decorative segment growth in line with the industry growth for FY '24, given that most of your peers are talking about a double-digit volume growth. Is that what you would be also expecting?

Anuj Jain: So internally, yes, that is what we are working upon. But just to put some color on that, so today, that making a comparison is not absolutely fair because so many segments, people have entered in the paint industry. And it's not that everyone is there in every segment. So to that an extent, the comparison has become difficult because we generally look at where exactly we are working, which segment, which markets we are working. But having said that, yes, whichever market we are working in, how do we increase the growth from there, that is what our endeavor is. And definitely, we feel confident that going forward, we'll be doing better.

Archana Menon: Okay, got it. And sir, on the industrial side, the comments that you made about exiting a few nonprofitable businesses. Where do you think you are in that journey, most of it's done or is -- should we be expecting that to continue for the next 6 months?

Anuj Jain: So most of it is already done. In fact, this we started from Q1. And by and large, that we are through with that.

Archana Menon; Okay. So going ahead, we expect a growth on the current run rate?.

Anuj Jain: Yes. In fact, this initiative will be through. So going forward in the coming years, we'll see better.

Archana Menon: Okay. Sir, my last question on the margin bit. Where do you think is the differential margin right now between the industrial and the decorative business? And as investment keeps picking up, how much could that gap really narrow to?

Anuj Jain: Well, generally, we don't give that breakup, but industrial margins have been very, very low for the very single-digit low. But I think as a part of our plan, we made progress on that with the price increase and high-technology products. So our idea is that how do we reach out to maybe a double digit. So we are still a little far from that..

And so to that extent, we are working on this new technology or the optimization of the formulations and some of the initiatives. So otherwise, the difference in this industry will always remain. Even in the non-auto as we said, that we are looking at the premiumization. So margins will definitely improve, but it will still not be closer to decorative.

Archana Menon: Okay. So sir, last quarter, you had mentioned the difference of around 500 basis points. Would that be similar even for this quarter?

Anuj Jain: I don't know whether we have mentioned anything on this particular part, but it would be a little more than that. But the gap has bridged because in industrial because of the price increase, we have made some progress. At one point of time when we started the year, the gap was huge. In fact, the margins are very, very low, single-digit low. So obviously, we are making progress quarter-on-quarter basis.

Moderator: We have the next question from the line of Tejash Shah from Spark Capital.

Tejash Shah: A couple of questions from my side. Sir, looking at the initiatives that you spoke about under various aspects of the business on the intervention that we have made be it product, pricing and plans and also distribution. Should we assume that going forward will be disproportionately focusing more on non-rural market versus rural?

Anuj Jain: You're saying focusing on non-rural versus rural, right?

Tejash Shah: Yes, yes.

Anuj Jain: No, it is not like that. So basically, that -- as I said, that we are strong relatively in Tier 2, Tier 3, Tier 4, which include rural. So that's the market that we have relatively a better share. Our efforts there will continue in terms of some of the initiatives which I spoke about. But there are certain markets where our market share is very low.

And like this one question keeps coming when the new entrants are coming in the market, actually, for those markets, we are also like a new entrant. So the only thing is that when you are weaker in certain towns, maybe the traditional convention approach of getting the distribution does not work, and that's why we are working differently there at how do we reach out directly to the users. But the initiative in terms of growth would continue for the rural and non-rural both.

Tejash Shah: Sure. And sir, in terms of under-index session for us in market share, would you like to share some insights on any regional initiatives, let's say, where you are highly under-index, and you are working to correct the same as well.

Anuj Jain: So we are like -- our strong markets are North followed by East. And South and West are weaker markets for us especially South, which is a very large market in our country. And there, we are under-indexed, and where we would like to improve our situation.

Tejash Shah: Yes. Sure. And sir, you spoke about a softening raw material going ahead. Looking at the competition, current competitive environment and then, what will emerge by next year, would you be able -- and I'm asking it for industry level also, if you can have shared some insight there as well, do you think that industrial will be able to retain some of the price hike that we have taken? Or it will get reinvested be it in form of better consumption from a consumer promotion or influencer promotion or even dealer trade promotion as well? So just if you can share whether you have that kind of pricing power.

Anuj Jain: From the industry point of view because the margins are still not back to what it used to be. And the margins have -- that it's coming down. So I think this kind of situation will continue and the industry would be able to sustain the pricing because as I said that when the prices were increased, there was a doubt in the mind that how much impact we'll see in the demand. So if you see last one year also, maybe there has been a kind of inconsistency in terms of quarter-to-quarter. But for the YTD level, I think the growth has been maintained.

And to that extent, we believe that the industry should be able to sustain the current pricing levels. But this industry, even in the past, if you see -- if we are able to see that we are going back to the original margin level where company or the industry would like to operate upon. Then obviously, the industry has taken the initiative in the past to pass on that pricing benefit to the consumer provided we feel that this will give a flip to the growth. So whatever growth is being expected if the growth is going to be higher on that then the industry may decide at the appropriate time, but at least for next the -- few quarters what visibility we have, I don't see that possibility.

Tejash Shah: Sure. But sir, versus -- just a follow up on that, versus past cycle this time that is one more relevant to consider as changing competitive landscape. And now not only time will tell how serious that turns out to be. But looking at how competition is expected to turn out or the complete entity is expected to pick up, do you think that industry will attempt to retain the benefit? Hypothetically assuming that raw material corrects materially from here. How do you think that you will prefer to pass it on to retain or gain market share for future?

Anuj Jain: It is difficult to answer this question because as of now, we don't know that what kind of approach this new competition will come in. So hypothetically, if you say that they will give more discount, but then whether it is sustainable, because I'm sure that all of you would question them also that we have seen that this is like an industry where a lot of people have tried in the past. And whatever success is we have seen that if somebody is trying to get to the mass scale, whether it is sustainable, that's a big question mark.

So whether they will take that approach, because any player who comes into this market and they want to be a strong player in the longer run, would have to work more in terms of establishing the network, the influencer or the marketing rather of playing the discounting game. So it all depends on the competition. It's difficult to read that whether somebody will take a discounting game. We probably see more in the area of building the brand, which will take a period, some good amount of period.

Moderator: We have the next question on the line of Amnish Aggarwal from Prabhudas.

Amnish Aggarwal: So first question is, I don't know if I have missed it. So what has been the -- your volume and price realization in decorative and industrial in 3Q.

Anuj Jain: So we didn't talk about the volume. But as we said, that the growth, if you exclude that non-recurring income, it is about 4.1% and auto growth is good and decorative growth is slightly negative. But there is a difference that volume growth is -- there's a difference of 3% to 4% within decorative volume and value.

Amnish Aggarwal: Okay. So it means your decorative realizations are up by 4%.

Anuj Jain: Sorry, what did you say?

Amnish Aggarwal: Does it mean that decorative realizations were higher by 3% to 4%.

Anuj Jain: Yes, the decoratives are higher than the volume growth. So that is basically on account of product mix and kind of the area which we have discussed earlier also patti growth is -- patti is a de-growing.

Amnish Aggarwal: Yes, yes. Okay. So looking at the fact that now the raw material prices have more or less softened. So if we look at a slightly longer term, say, 4Q and beyond into that, say, into FY '24, so will we be having positive realizations in decorative paints?

Anuj Jain: Yes, so the trend what we're looking at and also the -- some of the initiatives that we spoke about, yes. The only thing you have to keep in mind is going forward, as we have been very selective in terms of patti, because of the margin situation and all those things, and it's a competitive product. So at some point of time, if the comfort level comes in because today, what we are trying to do in the patti, just trying to hold our existing dealers because the customers, but at some point of time, if that leverage is given, we may try to utilize it.

Amnish Aggarwal: Okay. And sir, my second question is that, for example, in this quarter, if you look at, say, all the decorative players, the numbers have not been that great. And we have been taking several initiatives. So if you look at the past 12 months kind of a scenario, -- so what could be our market share? And have we gained a lost market share in the decorative segment?

Anuj Jain: So I just spoke about it. So obviously, we have not gained market share. But today, what is happening is that there are so many segments. Paint is not a paint, earlier also I spoke about patti project business, new businesses. So it becomes very difficult to comment upon because the different players have entered into different kind of categories. So it is not a simple comparison. But having said that, you are seeing the result. Our growth is still -- overall, this is still lagging the market growth. But I think if we see the trend, I think it's being bridged.

Amnish Aggarwal: And sir, my final question is that -- now we have done this land sale for our land in Thane. So what could be the taxation impact in that, Prashant?

Prashant Pai: It is a long-term capital gains tax, which is 20%, 22%. That's the only thing which will be there because the book value is less, very, very marginal. So the entire would be capital gains.

Amnish Aggarwal: Okay. And sir, any plans to, you can say, sell our land in those offices or what could be the area of that land?

Anuj Jain: No plans.

Amnish Aggarwal: Okay. But area of that land parcel, if you can share?

Anuj Jain: It's about 4 -- around 4 acres.

Moderator: The next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: This is a follow-up from one of your earlier answers where you said that in some of the towns you yourself are a new entrant and the traditional ways of sort of penetrating those markets is difficult and you're trying out newer ways of going in there. So can you elaborate a little bit on that point?

Anuj Jain: So what I said is that our market share is actually weak in Tier 1 towns, and obviously, in the weaker towns, today, when you go and you want to build your position from the existing distribution, it becomes difficult because the response to that is not so strong. So ultimately, it is because our brand is strong. So, one of the questions, which one of the persons was asking related to our new competition also, I think this market has time and time again shown that people select from the strong brands. So we have that strength also.

So if we go directly to the users, the users are ready to accept. But if we remain completely dependent on the current distribution system and in the weaker towns, you may not get the response. So a few things that what I spoke about is like project business because the project is an emerging business, the growth rate is higher than the retail growth in those Tier 1 towns. The second is the service part, where also the digital performance marketing can reach out directly to the consumer and generate the business and route it to your applicators.

And the third party is the wood finishes where we have entered in the premium category with the Eco brand. And there also, we have quite a good premium range of products and that is also user base.So basically, the change in the approach is that the route to market approach is going directly to the users and create a direct demand and then service the demand. So these are some of the things and maybe a few more things we are going to explore in the future.

Percy Panthaki: And the servicing of the demand will be done through a traditional model only? Or is there some other innovative model that you're looking at?

Anuj Jain: So we are exploring some models, which I'd not like to talk at this stage. But what happens is that it's not that we have a 0 distribution in this town. We have a limited distribution, so when you create the business demand, you can route that through your limited distribution also. So basically, the same-store growth goes up. And so this is what we are trying to do. And when you start getting good response in the market, then you have a possibility or opportunity to increase your distribution also.

Percy Panthaki: And this targeting the end users directly, that is only through digital? Or are you looking at some other ways also of doing that?

Anuj Jain: It's more of a phygital. So we have placed a large number of team in the marketplace. So it's a phygital.

Percy Panthaki: But how do you reach out to an end consumer directly? Do you like do door-to-door marketing or what do you do exactly?

Anuj Jain: It is not door-to-door marketing. So what -- basically what happens is that one is through the digital marketing, you generate the lead. The other is that you get the references from your distribution or from the influencers who has become a part of our network. So you get the references from there, and there you reach out to the consumers. So it's not door-to-door, but based on the references, you reach out to the many more.

Moderator: We have the next from the line of S. Bachhawat from LIC Asset Management.

S. Bachhawat: So question is relating to the...

Moderator: Bachhawat, if you will closer to the microphone? Your voice is a bit low on the call.

S. Bachhawat: Yes. So my question is relating the allocations for railways in this budget was very impressive. So what will be the implications of that on our business, if any?

Anuj Jain: So it's a part of our performance coating business. And there, the infrastructure and the part of the infrastructure is also a railways. And typically, in India, the railways market earlier, the coating what they were using was very low quality of coatings. But now with this new project coming like Vande Bharat, the bullet. The coatings are also being used are very durable and high-performance coating. So we definitely see the good impact of that going forward.

S. Bachhawat: Is it possible to quantify in any way?

Anuj Jain: No, difficult to quantify it, but I can only say like performance coating business size is as good as probably auto business. And in the automotive, what happened, it's a cyclic. But in the -- probably this infrastructure or performance coating business, maybe the country will be able to see a more consistent growth.

Aniruddha Joshi: Aniruddha here. I have a couple of questions. One -- can you indicate the performance of the waterproofing and the LID businesses, how it is shaping up? And when they are going to do the distribution expansion, whether the only change will be initially distributed, or the entire book of products will be distributed at one go? That is question number one. And secondly, how is the performance of the international subsidiaries -- so how do you see the performance for these companies also shaping up in FY '24?

Anuj Jain: So Aniruddha, in waterproofing, waterproofing has now become an integral part of paint. So it goes together. But within the order booking also, there are many segments. So if I just talk about the waterproofing segment, which is like a liquid paint, a liquid product that goes hand-in-hand with the paint product. But then there are some other businesses like ad mixture, the sealants, where the market is a little different, and therefore, to handle that, we are placing the different infrastructure of different teams.

But otherwise, mostly contribution come from the waterproofing and that goes hand in hand. Our range for the retail is complete. In fact, now we have introduced some product in the project business also. And we have been able to stabilize, and we are getting a good growth from waterproofing. Also, the wood finishes, the things have been stabilized, and we are getting a good traction from wood finish also.

Coming to the international in Sri Lanka despite the country had a problem, but we feel that maybe in the coming quarters, it may get stabilized. Actually, we have been able to increase our market share in Sri Lanka. In the Bangladesh, the growth has been decent, double-digit growth. And only Nepal last quarter, there was a significant substantial de-growth because of some kind of instability. But as we see now, probably things are getting stabilized, and we don't see that this kind of negative growth, which has happened in third quarterwill continue.

Moderator: We have the next question of the line of Keyur from ICICI Prudential Life Insurance.

Keyur Pandya: Sir, just want to understand on the industrial side, you mentioned that passenger vehicles and commercial vehicles did well versus 2-wheelers. I think in this kind of business, we have some kind of visibility from the clients. So if you can throw some light on how the visibility has been given from the client for next one or two quarters or whichever way the cycle works. So if you can just throw some light on the near-term visibility on automobile as well as industrial -- other industrial paints.

Anuj Jain: Whatever we keep hearing through the media from the clients, they are optimistic as of now for the coming quarters in terms of automotive. The challenge in between, they felt that this chip shortages are able to control. But of late, again, there are certain problems and therefore, they still have a backlog. But for the coming quarter, I think they remain optimistic in terms of good growth in the passenger vehicles and commercial vehicles and also in the tractor segment.

The 2-wheeler segment, which has not been doing so well, what we are hearing is the kind of some optimism. Now not necessarily that it will come in the next quarter. But in the coming quarters, I think it is also expected to do better. And also with this current budget, I think the focus of the government, what we have seen on the capex and consumption both and some of the rural initiatives.

So once that momentum picks up, they feel that the growth is going to be better in the coming quarters or the coming year. So that is what we are hearing. For this non-auto business, infrastructure business is -- the going is good. And there also the -- there is optimism in the year that the business will be doing well in the coming quarters.

Moderator: We have the next question from the line of Archana Menon from Morgan Stanley.

Archana Menon: Two questions. Firstly, on the deco side, you mentioned increasing share within your existing paint counters. So what are the measures that you're doing there? And is there a need to increase the dealer commission to drive that growth? And the second question is, what is your current employee attrition rate? And how does it compare versus the past?

Anuj Jain: So same-store growth, as I mentioned, that it's not only discount because ultimately, what is important is the earnings of the dealer. So one initiative with our next-generation shopping, which is like, you can say, touch and feel experience center, We have already crossed 45 stores. Then the service business, what we have started.

So we are setting our next-generation service counters where all the lead generated can be passed on to this counter. So the business sharing of thelead is more important because when you give thelead automatically the profitability goes up. Also, there is a range of products which are exclusively meant for these counters.

So when you have a large distribution in the market, sometimes there's a competition and therefore, the margins get affected. So that's another thing.

And also, depending on market because every market has become very different, there are certain customized activities, what we are looking at. So this is the initiative related to our same-store growth.

Attrition level is in the range of 15% to 20%. We don't have any figure of the other industry players at what is the attrition level. But obviously, last one or two years, we have seen a little uptick in the attrition level, but some of the internal initiatives we have taken, and we are trying to see that we keep it at the reasonable level.

Moderator: Thank you. We have the next question from the line of Hitesh Taunk from ICICI Direct.

Hitesh Taunk: And sir, my question is about our capex plan. Sir, you said about our water base capacity, you're going to expand 42%. Can you please highlight what is our current capacity, overall capacity? And what is the capex plan for FY '24?

Anuj Jain: Over capacity is approximately 50,000 kl per month. So that's the capacity. And capex, in fact, INR 290 crores is what we announced earlier, which will be spent over a period of next 9 to 10 quarters.

Hitesh Taunk: Okay. And sir, my next question is on a distribution point of view. What are our current distribution networks, sir, total count? And whatever -- and how much distributions are covered for the -- with the tinting machine -- and how much growth are we planning for the next 10 years.

Anuj Jain: So distribution, generally we'll speak about year-end, but approximately in the range of 28,000- 30,000. 80% is covered through the machine penetration. And going forward, obviously, we are looking at increasing our pace of expanding the distribution.

Moderator: We have the next question from the line of Harsh Shah from InCred Capital.

Harsh Shah: Sir, just wanted to understand more on the decorative gross margin a bit. At one time, we're talking about not focusing more on the low-margin products like patti, and then we're also talking about increasing our focus on products, which I would assume that would be a low margin business, right? So how do we look at the gross margin bit going ahead for Eco business?

Anuj Jain: So project business, see, if you look at some of the Tier 1 towns in some market, it contributed 20%, 30%, 40% also. So to a certain extent, it cannot be avoided. Second is, as I mentioned that we are focusing on big quality. So what happens is there are two approaches in project. You can sell any product. And therefore, whatever project your price is low, you can sell it, there is a basket approach that you are selling a range of the products.

So one product margin would be lower. The other product margins will be higher. So we are looking at a different approach. And just to comment on the margins of the project also, maybe at the gross margin level, the margins could be lower, but the project sale if we convert it to the EBITDA level, then the difference would not be that much because in the retail, you'll have to do a lot of activities, a lot of promotion, which is not required in the project business.

And within the project also, in fact, our focus is in the premium product category. So that quality of focus we are keeping in mind so that it does not affect the margin. Related to patti, it's more a commodity and competitive gain where you cannot completely leave it also. When we say we are not focusing much, our idea is that we are not focusing on the growth of that. But we still have to sustain and maintain our existing dealers that is what we are trying to do.

And if the prices goes down and it becomes a little more because the industry has accepted now that the patti will continue to remain the low profit thing. So if you get some advantage in terms of pricing, then you may like to pass it on to the market and see that can improve your growth by some points.

Harsh Shah: And secondly, sir, just to clarify, we said that our decorative volume declined marginally this quarter, and we had a 3 to 4 percentage mix benefit, right?

Anuj Jain: So value growth is slightly negative. And between value to volume, there is a difference of 3% to 4%.

Harsh Shah: So in that case, even our industrial growth would be in mid-single digits.

Anuj Jain: So in auto, it would be higher. As I said, in auto, it was driven by passenger vehicle and not the 2-wheeler. 2-wheeler growth was low. Auto -- passenger vehicle growth was high. And in the performance coating business, again, the growth was muted.

Moderator: As we have no further questions, I would now like to hand it over to the management for closing comments.

Anuj Jain: Thank you all for all of your questions, and I hope we are able to answer the questions. And wish you all once again the very happy New Year, and let's hope that this year does far better than for -- last year for each one of you. So thank you so much for attending this call, and we'll catch up with you in the next quarter. Thank you.

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