



## “Asian Paints Ltd Q3 FY-16 Earnings Conference Call”

**January 18, 2016**



Management: **Mr. K B S Anand** : MD & CEO  
**Mr. Jayesh Merchant** : CFO & Company Secretary, President – Industrial JVs  
**Mr. Manish Choksi** : President - Home improvement, International and IT  
**Mr. Jalaj Dani** : President - HR, Supply Chain & Chemicals  
**Mr. R. J. Jeyamurugan** : VP - Finance  
**Mr. Parag Rane** : Chief Manager - Finance  
**Mr. Arun Nair** : Manager - Corporate Communications

Moderators : **Mr. Abneesh Roy** : Edelweiss Securities Limited

**Moderator:** Good day ladies and gentlemen and welcome to the Asian Paints Q3 FY16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Abneesh Roy from Edelweiss Securities. Thank you and over to you Mr. Roy.

**Abneesh Roy:** Hi, warm welcome to everyone. On behalf of Edelweiss Securities, I would like to welcome you all for the Asian Paints Q3 FY16 Earnings Con-Call. On the call we have with us Mr. K B S Anand – Managing Director and CEO and the other members from the senior management of Asian Paints. We will commence the call with management giving opening remarks post which we will open the call for Q&A session. Congrats sir for very strong numbers and over to you for opening remarks. Thank you.

**K B S Anand:** Thank you Abneesh and welcome to the Asian Paints Q3 FY16 Conference Call. I have with me Mr. Jayesh Merchant – the CFO, Mr. Manish Choksi – President, HI International and IT; Mr. Jalaj Dani – President (HR), Supply chain and Chemicals; Mr. R. J. Jeyamurugan – VP (Finance), Mr. Parag Rane – Chief Manager (Finance) and Mr. Arun Nair – Manager (Corporate Communications).

I will make a short statement on our performance and then we will be open to any question and answers.

On the economic environment; the domestic economic activity showed signs of modest improvement however the business environment remained challenging. GDP growth projections for the domestic economy for the current year financial year have been lowered to 7-7.5% from the earlier forecast of about 8%. Industrial production data too points to slow recovery with Apr'15 – Nov'15 industry growth at 3.9% as against 2.5% in the same period of last year. Inflation trend remains soft but have picked up in the third quarter on account of rising food prices.

On the global front, the uncertainty around the US interest rate hike is finally behind us. However the Chinese economy slowdown has added to the volatility especially in the emerging markets. Oil prices continue to fall further and are currently traded at decade low levels of about USD30 per barrel.

**Business Review : Decoratives;** The decorative business recorded double-digit volume growth aided by late festival season demand. The previous year has seen the festival season demand staggered over the second and third quarter. However, South India especially Tamil Nadu was adversely affected due to high rainfall in this period. Material prices dropped significantly further in this period.

**Business Review: Industrial:** For the automotive coating business JV i.e PPGAP, the auto OEM business saw improved demand conditions in the third quarter. The refinish segment also registered decent growth in the quarter. The general industrial business segment continued to lack. In JV 2 i.e APPPG, good pickup was seen in the industrial liquid paint and powder coating segment of the industrial coatings JV.

Lower material prices aided margins for both these businesses.

**Business Review International:** Overall international business reported double-digit growth aided by contribution by some of the units in Middle East and in Bangladesh. Business in Ethiopia which was acquired in February 2015 also continued to grow well.

**Business Review Home Improvement:** In the Home Improvement segment, the Kitchen (Sleek) business continues to be affected by the subdued demand conditions prevailing over the last couple of years. The management has been working on expanding the network and streamlining the business model. While we have made progress in this direction since acquisition, the pace is slower than what we had envisaged earlier. The management has made an assessment of the fair value investment made in Sleek taking into account the past business performance, prevailing business conditions and revised expectations of future performance given the understanding buildup since acquisition. Based on the above factors and as a matter of prudence, the company has made a provision for diminution in the value of investment made in Sleek to the tune of INR 653 million, the same is disclosed as an exceptional item in the financial results for the quarter.

The Bath (ESS ESS) business registered good growth aided by expansion on network. However, unexpectedly high rainfall in some key markets in South India affected the business.

**CAPEX:** The CAPEX plan for FY16 at the standalone company is around INR 7 billion. The capacity expansion at Rohtak, our Haryana plant from 200,000 KL per annum to 400,000 KL per annum is in the final stages and is expected to be completed by the end of current financial year.

**Going forward,** we continue to remain cautious on the domestic demand outlook. Raw material prices are expected to remain low in the near term and support margins.

In the international markets, we need to look out for improvement in certain key markets like Nepal and Egypt to sustain the growth momentum. Additionally, units in Egypt and Ethiopia could be affected on account of raw material shortages arising out of unavailability of foreign exchange.

Thank you and we are happy to take any questions you may have.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

**Anshuman Atri:** My first question is regarding the growth going forward, in the next quarter as well as next year can we expect it to improve going forward, not taking this quarter as a base because of the seasonality but some kind of double-digit growth can we expect in the next year?

**Management:** We don't give forward guidance as a rule so all we can say is that we don't see any considerable change in the growth environment in the paint industry. We have recorded double-digit volume growth in the first nine months of the year. Probably on similar level it would continue but we really can't give you forward guidance at this point of time.

**Anshuman Atri:** And in terms of raw materials; can you see further sequential expansion in the next coming quarters given the way crude is falling?

**Management:** It's probably bottomed out so it's very tough to say. And it's further impacted by the weak Indian rupee which also does not help the cause.

**Anshuman Atri:** One last question is on the Sleek, so how should we look at it going forward and what kind of expansions does the management have in the target?

**Management:** When we acquired Sleek, it was a part of our strategy to move to the home-improvement space and integrate it along with the paint brand across the network, we are totally aligned to this strategy. But the external environment has changed quite considerably since three years ago when we acquired the company because a fair proportion of business is in new construction etc. So the results over the last three years were not in line with our earlier expectations and hence we have taken the correction but we expect it to be an integral part of our strategy and move forward in growing this business considerably in the years to come.

**Moderator:** Thank you. Next question is from the line of Naveen Kulkarni from Phillip Capital. Please go ahead.

**Naveen Kulkarni:** Sir we see the gross margins are pretty much at a 10 year high right now so from that perspective do you see that there is scope for Chinese competition to come in considering there could be lot of idle capacity lying in China? What's your view on gross margins in the domestic market, do you see that these margins, can they be sustainable over reasonable period?

**Management:** You are right, gross margins are very high. But we have to see going forward how the rupee changes and commodity prices change. It would probably not be possible to sustain such high gross margins continuously and this is an ongoing exercise we do to stay competitive in the marketplace and will continue to do this in the future.

**Naveen Kulkarni:** And the competition from China imports, imports from China, do you think there is a business case for them in India?

**Management:** Very difficult to say but generally paints is not a product that gets traded across countries very easily because forecasting and predictability in terms of shades, products as they go are not the easiest things and it has been tried in the past where scrapped paint or discarded paint from the US used to be imported into India at transport cost but even that didn't really take off.

**Naveen Kulkarni:** Lastly what could be the price impact in this quarter? I am referring to the Q3 numbers, what would be the price?

**Management:** There is no change in prices.

**Moderator:** Thank you. Next question is from the line of Amit Sachadeva from HSBC. Please go ahead.

**Amit Sachadeva:** Sir one question on the pricing, you said there were no price cuts. But obviously the discounting at the lower end still continues so can you give us about what's happening on the distemper market? I guess there is a still price deflation which is slightly higher than any other categories that you have and how we should see that going forward? Would you be exploiting this opportunity to gain more from the unorganized space and how you are looking at this environment of price cuts and also shaping the competitiveness and yet at the same time make volumes as a first priority--especially at the lower end--what are your thoughts there?

**Management:** You're talking of total overall strategy so it's a little difficult to say. We would like to be competitive in every segment but obviously at the low end we are not competitive with the unorganized sector and that is a reality we realized. So we are continuously working to push in sales to the emulsion segments as much as possible and our growth in emulsion have always been higher than our growth in distemper.

**Amit Sachadeva:** But sir this quarter is very distemper driven quarter if I am correct, Q3. As I guess the discounting at the lower end from your side also perhaps was higher if I read the market correctly. Are you seeing more discounting by responding by competition as well or emulsions also likely to see some more pricing action which has not yet seen so far in the last quarter? But given the crude has fallen so much won't it make a case that pricing can come to the other categories as well? Are you seeing some pricing change with other competition in the last quarter whether some are more aggressive, what I'm asking is that is it safe to assume that pricing environment is likely to stay the same or can we expect more pricing, what is your anticipation of the market what I'm really asking?

**Management:** The paint market in India has always been competitive, both with the organized sector and the unorganized sector, across segments. So I don't think it to become unnaturally competitive in the last quarter or vice versa.

**Amit Sachadeva:** So that's very helpful so you are saying that competition has been largely similar the way it was maybe in the previous quarter, there was no extra push from discounting from others that you experienced in the last quarter.

**Management:** Yes.

**Amit Sachadeva:** And the second bit from the Sleek bit, this is like the provision which obviously cast a bit of doubt that what sort of assumption did you make that sort of taking you such a significant write off in the investment? Wouldn't it be too early to call that out with the demand is weak but isn't it too much of prudence shown already or is it something that really different happened in this business that you'd see it is not working out for you?

**Management:** You can say the original trajectory that we have planned for growth hasn't panned out and from the basis of that trajectory for growth that the valuation was done and accordingly we have taken a revision in terms of the intrinsic value of the company as we see it today. Tomorrow when the demand conditions pick up again, we might evaluate and come back to you.

It's not right off, it's a provision made today. This will be reviewed when the business conditions improve.

**Amit Sachadeva:** But there is no change, the expansion plan or if you're starting all the stores or how the expansion strategy is working, are you looking at opening your own stores or merging it with the existing flagship stores that you have or you would looking at third-party as well? How the expansion strategy you look at from a five year view if not today?

**Management:** If you look at the Sleek strategy for growth, as we sort of entered the business, we took an fairly early call that maybe the existing stores that we have in the geography will sustain them; stores that are profitable and growing for us so that strategy is on track. The second strategy was that we would want to have a network led growth, both the network could be our own Asian Paints dealer or new dealers or existing dealers we had from Sleek. So all the three we are focused on which is getting new kitchen dealers, getting Asian Paints dealers to convert to selling kitchen products in certain geographies where they have a certain retail presence as well as approaching new independent third-party dealers out there. So the growth is going to be led by that strategy. We have also grown the network substantially in the accessory and the hardware business where we think that this is a good feeder business to creating the kitchen dealers of tomorrow. That application center business is also continuing to grow. So I think the strategy has been executed in a particular way but we are finding that growth is far harder considering the current real estate construction that we see and new home buying and new home renovation that we see the market as well as the fact that our major concentrating markets have not done well overall which is the southern part of the country for Sleek.

**Moderator:** Thank you. Next question is from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

**Prasad Deshmukh:** Would it be possible to quantify impact because of unseasonal rains in South India or say Tamil Nadu?

**Management:** No we don't give you division wise or region wise breakups but it definitely had an impact because Chennai was shut for at least 20 days in this quarter.

**Prasad Deshmukh:** So was it only Tamil Nadu which was impacted in terms of sales or it's like generally overall South India there was a problem?

**Management:** I think there was impact in coastal Andhra Pradesh, to an extent in Kerala and Bangalore also because it was raining for a long period of time while there were no floods.

**Prasad Deshmukh:** So in this context would you read this as a very strong demand quarter barring South India if you look at East to West and North than 14% revenue growth despite having a problem in nearly 1/4<sup>th</sup> of the market, is this an indication of a very strong pickup in the consumer demand or there is no change per se but just because of festival it was such a great number?

**Management:** If you average out the second and third quarter together, you will probably get a more realistic figure?

**Prasad Deshmukh:** Second question, last two quarters you have been talking about those liquidity constraints at the dealer level so what is the update on that right now?

**Management:** I don't think we've ever talked about this.

**Prasad Deshmukh:** Okay, I think it may be in my personal discussion with the company. And third, about China raw material imports that you do, how much of it comes from China and are there any chances of supply disruption there?

**Management:** I don't think we have any significant supply disruption that is expected on a specific Chinese downturn in economy. If that is the case it would be more led out of some global stuff and other things but we don't think that any of the sources that we buy from would be directly impacted, at least not as of today.

**Moderator:** Thank you. Next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** My first question actually with respect to gross margins, now gross margins have continuously inched up to (+) 47% levels in this quarter while you have always indicated in the past that we don't want to go beyond a particular level of gross margin. This number if I go back three quarters back that number used to be 44%, this number now has moved to close to 47%. Though I do understand that it's ultimately a factor of raw material prices but do you have in mind what is the absolute peak level of gross margins you don't want to go to?

**Management:** We will not be able to discuss this and it plays an inherent role in the strategy of our company going forward.

**Puneet Jain:** Now crude has further corrected in the last two quarters which means that no pricing action will mean that automatically, you do get the benefit...

**Management:** But the rupee has also weakened considerably in the last week and we really don't know where it is heading.

**Puneet Jain:** So as you move forward any pricing decision you possibly will take based on various factors that play out.

**Management:** Correct.

**Puneet Jain:** But if I look at where the cost stands today will your gross margins be higher or lower than what you reported in the quarter?

**Management:** No we don't give any guidance on this margin or top line so maybe you need to wait for some more, end of the quarter.

**Puneet Jain:** Second question is actually with respect to demand, so now if average demand for the two quarters second and third quarter, your sales growth is 8% and there clearly has been at least some acceleration from first quarter and the last two quarters of previous year. So while you are saying that the demand environment does remain challenging and this small acceleration is despite what has happened to South India so there seems to be some difference between what the reporting is and what your commentary is.

**Management:** I think on a YTD basis which is the first nine months talking about single digit top-line growth and hence that is a challenge for us because we have really not experienced the single-digit kind of growth over the last 2-3-years.

**Puneet Jain:** But if you look at volume growth, volume growth seems to be better than what you were doing in the previous year.

**Management:** Volume growth would be slightly higher than the value growth because we have taken a price reduction also at the beginning of the year.

**Moderator:** Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** Sir my question pertains to your X-Press Painting Service which you have launched this quarter. Is it similar to or different than competitors offering and how is the response so far on the same?

**Management:** Are you talking about the Berger X-Press Painting Service?

**Tejas Shah:** Yes sir. You have also launched the X-Press Painting, right?

**Management:** Quite some time as a matter of fact we have had a quick turnaround painting service. It's not totally related to automation the way Berger is putting it, it is towards fixed time painting of a

home and a consumer paying a premium for it and it's worked well in a few markets. There is a small segment, maybe 10%-15% of the customers who are looking to pay extra for this type of service others are not so it's still I would say a niche in the home painting segment.

**Tejas Shah:** And unlike Berger we have not launched any sub-brand for the same, is it so?

**Management:** We have not launched any sub-brand for the same.

**Tejas Shah:** If you can throw some light on non-decorative a part of the business, automotive and industrial paints, how is the demand holding up there?

**Management:** Like I mentioned, in the automotive segment, Q3 was fairly good due to the growth in the four wheeler segment in this quarter. The refinish segment also had fairly good growth but the General Industrial what we call two-wheelers and tractors was definitely slow, there was very little growth in that segment. Both for Protective coatings and Powder coatings there was fairly good growth in this quarter.

**Moderator:** Thank you. Next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

**Vivek Maheshwari:** On your comment about INR depreciation versus Brent price correction, if I look at in the context of 30% kind of Brent price cut or decline in spot versus December quarter average, rupee has only depreciated 6%-7%. So the net impact still is hugely positive, isn't that so?

**Management:** Yes but you are not realizing is that we don't import crude. We import a number of raw materials that are derivatives of crude which are partially dependent on the crude pricing but also dependent on global demand and global customers and quite often there is a lag between the price of decline of crude as well as the price of various monomers and even MTO which we get in India, etc. So while there may be 30% reduction in the price of crude but I can tell you no raw material has reduced by 30% in this quarter.

**Vivek Maheshwari:** Sure but to our point that crude has corrected 34% precisely from December quarter average, your justification that INR has depreciated by 6% doesn't make sense because there may be unwinding cycle?

**Management:** I'm not comparing against crude, I am comparing against the raw materials I import or I utilize. So the raw materials have varied by a certain amount, the rupee has varied a certain account, yes it is apparent from the data we have given in this quarter that there is an increase in gross margins because the raw material prices have fallen more than we anticipated. If this continues we would have to correct the trend that is all I can say at this point of time.

**Vivek Maheshwari:** And during the quarter as well if I look at Brent has been steadily going down even in December quarter, I'm sure there would be a period but the next reset whenever that happens in fourth quarter or first quarter, there will be a benefit of lower crude, right? Basically the spot prices off your input should certainly be lower than what the third quarter average would be.

**Management:** Some of the large suppliers like Dupont have shut down a 150,000 mtpa line because they are finding it un-remunerative. There are number of Tio2 manufacturers in China who have shut down. So the prices are always controlled by demand and supply, it's not that crude is the only factor that control prices.

**Vivek Maheshwari:** And again I know this question has been asked to you but your own comment four quarters back or three quarters back, you have made this comment a few times that we can be over-earning and inviting competition, etc. First quarter I think if I recall correctly you said that these margins represent the peak and you have obviously moved further quite a bit so where do we stand on these margins and what happens to foreign competition that you were alluding to at that point of time?

**Management:** Foreign competition is already there in India in every respect while in a period when volume growth is higher than value growth, quite often you have to increase margins to offset increasing manufacturing cost and distribution and selling and other expenses; because manpower cost go up above a certain rate, freight, rent, manufacturing cost, all goes up at the rate of volume in a sense. But if there is a deflationary trend, then you need to offset gross margins to a certain extent to offset this but it is not sustainable in the long run and I maintain that.

**Vivek Maheshwari:** Couple of small questions, one staff cost just about 7% increase, is that how we should be looking it on modeling it in the next few quarters as well?

**Management:** This is basically because of retiral benefit it's the greatest impact last year was much higher staff cost because the interest rates have dropped substantially. There has not been much change since last year and hence that impact is not felt this year.

**Vivek Maheshwari:** When I look at consol minus standalone there is obviously, the differences basically 20% revenue growth but almost near doubling of EBITDA as well as net earnings so that essentially led by margin expansion, right and this will be pretty much broad-based?

**Management:** It's essentially left by Ethiopia, a company we acquired last year. Last year number doesn't include Ethiopia numbers that's why you see that difference. Plus the JVs has done well and there is a margin expansion in the India business in the joint-ventures.

**Moderator:** Thank you. The next question is from the line of Richard from JM Financial. Please go ahead.

**Richard:** Some maintenance job out here, what's the difference between the Sleek impairment which is done in the standalone account and in the consol account?

**Management:** In the standalone account, it's a provision towards the investment what we have made in 2014. In the consolidated books, its only goodwill which appears in the consolidated balance sheet for the investment made; so that goodwill is provided for in the quarter. So what you see is the investment provision in the standalone accounts and goodwill provision in the consolidated accounts.

**Richard:** And is this impairment charge tax-deductible?

**Management:** No, it's not tax-deductible. It's a provision which is made under the accounting standards.

**Richard:** So the actual like-to-like PAT for a quarter excluding this impairment is actually INR 4,630 million plus the whole INR525 million?

**Management:** Yes.

**Richard:** Have you done an assessment of the other similar investments done like Ess Ess and Kadisco, etc., and are they on track or is it still too early to take a call?

**Management:** We carry out the assessment every year. Both the investments were made, of course, Ess Ess was made a little more than a year ago, Kadisco is not even a year old. So I think we will be making assessments as we go along, a little too early to make that assessment. From that perspective both are on track in terms of the growth numbers that we had assumed when we acquired those businesses as of today but we will keep assessing the impact based on what we had paid for at that point of time.

**Richard:** Last one; is it possible to get a sense of what was the nine-month growth for the industrial business and the international business separately?

**Management:** I think we will get to see that numbers only on an annual basis. We don't give this quarter-to-quarter.

**Moderator:** Next question is from the line of Ranjit C from B&K Securities. Please go ahead.

**Ranjit C:** I would like to try my luck over here. The sales growth what you have delivered for the standalone is around 13% odd. If we deduct this into two parts or probably three parts, one would be the volume growth, second would be the price cut kind of a thing, so if you deduct these two things the remaining part would that still be a positive figure or a negative figure?

**Management:** We will not be able to share this.

**Ranjit C:** On the industrial part you had enjoyed the decorative paints, what you can say the pricing for the decorative paints, but the industrial customer would definitely be asking for the price cut, so have you passed on some of the benefits as far as the industrial paints is concerned one with the JV?

**Management:** Yes.

**Ranjit C:** Can you quantify?

**Management:** It's B2B business. We really can't disclose this.

**Ranjit C:** Can Byou throw some light on your adhesive business. You are clubbing it as a part of Smart Care but what we get to know from the market place is that you are trying to expand the product portfolio on the adhesive business as well.

**Management:** Yes, but it's very small at the moment so it's really not worth talking too much about. It is very insignificant in the overall share of the business. Adhesives play a role in our distribution chain for wallpaper and for various other uses so we entered into adhesives essentially with the wallpaper segment and we are slowly expanding into other segments.

**Ranjit C:** Because so far it was only limited to the tile adhesive, so now it would be more.....

**Management:** The tile adhesive, then we went into wallpaper and now we are expanding into few other areas, yes.

**Ranjit C:** And would it still be under the Smart Care brand or it would be a different brand altogether?

**Management:** It will be under the Asian Paints brand.

**Moderator:** Next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

**Prashant Kutty:** If you could give us some qualitative comments as to how has been the urban growth rates in terms of the Tier-1 and Tier-2 growth rates?

**Management:** See, the South has definitely been affected, that I'm pointing out. We still find smaller town growths to be better than the urban centers by a significant margin, that's all I can say.

**Prashant Kutty:** Just coming back to this adhesives part of it. You just said that you have only introduced in wallpapers and tile adhesive at this point of time.

**Management:** We have introduced them about more than a year ago.

**Prashant Kutty:** But has there been any introduction recently into the pipeline?

**Management:** We would be introducing. I'm not sure whether it's introduced, but we would be introducing adhesives in other segments too in this quarter.

**Moderator:** Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

**Avi Mehta:** While I understand that you will not want to share a future kind of guidance but could you give us a sense on how December per se has been versus the quarter? Has it been similar to the second quarter versus the first quarter? Can you give us a sense of what happened in December?

**Management:** We will not be able to share it.

**Avi Mehta:** Let me then ask you the broader question, while it's too early to either say it's a demand up tick or demand remaining flattish, there is a sense of there has been an improvement given the IIP data and what you said in the start of the call and there is a raw material cost deflation that we are seeing and crude is declining and while we will see that going forward, assuming that crude remains at the current levels, there is pari-passu impact. What I am trying to understand is take a few quarters back your comment, you would look at price cuts and how would you see price cuts, how would you look at taking price cuts, when do you look at taking price cuts, is it more to look at EBITDA growth number, not at the margin number as you were highlighting, could you kind of give us your share, what is the broad parameters that you would look at?

**Management:** We will not be able to give any forward guidance. We would look at margins; We would look at overall costs and overall growths all put together.

**Avi Mehta:** Secondly, if I were to kind of look at the last 6 quarters last 7 quarters or so, employee costs depreciations are broadly in a very tight range. Is this more to do with efforts in automation that you are doing or is it more to do with CAPEX, investments that we have changed, can you share a sense on what's going on over there?

**Management:** I think on the depreciation front, we are anyways looking at expanding our capacity so effect of that will be seen as we move ahead when we capitalize our ongoing expansions in Rohtak and some other plants. For employee cost it's a result of the stagnant interest rates that you have very low retiral provisions otherwise you would not see that number.

**Avi Mehta:** So you are saying that the growth can be offset by this change in standard interest rates that's the only thing and that is not in your hand. But otherwise if automation going to drive I mean I am just trying to understand is that more a sustainable kind of benefit that we could see that's what I'm trying to understand?

**Management:** Automation in our plants etc. has been on for the last decade.. decade and a half; so fair advantages would have been got already, I don't think you say anything significant there but yes you can say digitization and the use of other things can improve some level but I'm not sure that would really help in reducing employee cost to the extent you are talking about. The impact of 1% drop in interest rates offsets more than that.

**Avi Mehta:** What I meant this new plant has probably move existing employees that's what I was trying to get to.

**Management:** The new plants have been on for more than six quarters Rohtak as well as Khandala capacity has been on for some time so as a trend that's already built into the trend line.

**Avi Mehta:** Any sense on what's happening on Egypt and even the international geographies, any signs of improvement? I am sorry I missed the comment about the currency shortages so if you can just reiterate that comment.

**Management:** As far as geographies that are heavily dependent on oil, mainly the GCC markets obviously a lot of this buoyancy from the earlier high crude prices was being sort of pulled into the economy by the government's investing and for infrastructure as well as making sure that their citizens were quite happy that is definitely evaporated and is under check so spending have stopped in those geographies, this is impacting the growth that we see there. Two, we don't see that scenario change very dramatically very quickly other than if crude prices go up fairly substantially which I think everybody is predicting that's not going to happen in a hurry. In markets which are outside of GCC markets like Egypt and Ethiopia, they are partially impacted by oil prices because a lot of the infrastructure, the sentiment is around the world having that kind of growth. But they are more impacted currently by the individual country dynamics where exports have dwindled down to a small amount either on lack of tourism or on account of other exports that they were doing, in Ethiopia it is around coffee prices. Third, there is a shortage of foreign exchange and it is released only on the periodic basis by the government where you've sort of to land up in a line and hope a little bit to get more of a lottery. So we don't think that is also going to change in a hurry. So we are going to have to live day by day, month by month in these geographies. Similar trend is there in a few states like Trinidad in the Caribbean.

**Avi Mehta:** Lastly, the current level of monomer pricing whatever is as of now is it lower than the 3Q average?

**Management:** Its lower than the previous quarter, yes.

**Moderator:** Next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:** If you could share some updates on the Indonesia plant, and also if you are able to provide any guidance on CAPEX on a consolidated basis for FY17?

**Management:** A little early on the CAPEX for FY17, we are in a planning cycle, so when we announce final results, we will be able to give you some kind of an outlook on CAPEX. As far as the Indonesia plant progress is concerned I think we are in the design phase of the plant. We are likely to complete design in the next 3 to 4 months and we will begin to do physical construction activity in the Q1 of next year so that is where we are at this point of time.

**Moderator:** Next question is from the line of Sudhir Kedia from ASK Investments. Please go ahead.

**Sudhir Kedia:** Just wanted to understand if you can throw some light on the Other Income part since its very fluctuating on a quarter-to-quarter basis?

**Management:** It's mainly the Treasury Income which is arising out of our investments, so otherwise there is no other significant Other Income.

**Sudhir Kedia:** How should we take into account on a quarterly basis.....

**Management:** We have invested certain sums into slightly longer term products and as and when they mature you account for the gains in that specific quarter, that's the reason for some of the fluctuations. But apart from that there is no other item.

**Sudhir Kedia:** Can you throw some light on the full year income how it will be looking like because that is more predictable one.

**Management:** I think it's something you should look at an annual basis rather than on a quarterly basis.

**Sudhir Kedia:** So for the full year it should be more predictable if you can give some number how the arrangement is?

**Management:** Its dependent on the resulting cash flow for the year and you can put a number to it.

**Moderator:** Next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

**Vivek Maheshwari:** You mentioned about South which got impacted in the third quarter. As much as you can visualize would this demand come back in the fourth quarter or is going to be little more staggered now?

**Management:** It should partially come back but you would have lost the festival season of Pongal because of the areas that were affected by the floods.

Part of it should come back through rehabilitation of housing that is affected but when it will come back and what manner it will come back is difficult to assess.

**Vivek Maheshwari:** If that opportunity of getting these customers during Pongal is missed it perhaps comes back the next year is it?

**Management:** Not necessarily next year, somebody might postpone.

**Moderator:** As there are no further questions from the participants, on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.