

Opening Remarks by Mr. K B S Anand, MD & CEO, Asian Paints Ltd

The economic environment during the first quarter continued to remain challenging with no concrete signs of turnaround. Demand conditions in many sectors like automobile, other consumer durables remained subdued during this quarter.

Raw Material prices were by and large stable with a softening bias, but were affected by the depreciation in the Rupee.

The Decorative Paints business in India did well despite the uncertain macro environment with the paints volume growing in double digits. Early monsoon had an effect on sales in the South and West regions.

The Auto coatings business was faced with poor demand conditions in the automobile industry.

Even **the non-auto industrial coatings** business saw challenging demand conditions as a result of slowdown in the pace of execution of projects.

The International business registered good growth. Middle East and Asia have done well even though some countries continued to be affected by political events and macro economic uncertainty.

ON A CONSOLIDATED BASIS

For the First Quarter ended June 30, 2013

- Income from operations rose by 11.6 % to Rs. 2841.1 crores from Rs. 2546.1 crores.
- PBDIT for the group increased by 4.0 % to Rs. 464.7 crores from Rs. 446.6 crores.
- Profit before Tax fell by 0.5% to Rs. 423.9 crores from Rs. 426.2 crores.
- Berger International Ltd., the Singapore listed subsidiary, reported top-line growth of 2.9% at SGD 28.8 million (Rs. 128.9 crores). Adjusted for foreign exchange rate impact, sales has increased by 6.1%. Net profit for the period was SGD 1.41 million (Rs. 6.3 crores) against SGD 0.51 million (Rs. 2.3 crores) in the previous year.

FOR THE STANDALONE COMPANY

For the First Quarter ended June 30, 2013

- Income from operations increased by 12.9 % to Rs. 2319.7 crores from Rs. 2054 crores.
- PBDIT for the quarter increased by 3.6 % to Rs. 419.2 crores from Rs. 404.8 crores.
- Profit before tax increased by 4.8% to Rs. 413.6 crores from Rs. 394.8 crores.

Price Revision : In the quarter ended June 30, 2013, we increased the prices on 1st May 2013 by 1.15%. Although material costs were relatively benign, due to the depreciation of the rupee towards the end of the quarter, we are going in for an additional price increase of 1% which will be affected from 1st August 2013.

Other expenditure includes negative impact of Rs. 14 crores on account of depreciation of rupee against USD for the first 3 months of the financial year. In the similar quarter of the previous financial year, it was Rs 12.5 crores. Depreciation for the first quarter is substantially higher as compared to the corresponding period in the last year. This is primarily on account of Rs. 20 crores depreciation for our newly commissioned plant at Khandala.

Employee cost is higher than the previous year by 29.6%. This includes impact of higher provision for gratuity and leaves liabilities due to fall in the discounting rates used for actuarial valuation of retirement benefit liabilities.

Other income for the quarter includes Rs. 25.75 crores of dividend received from the 100% subsidiary, AP International Mauritius.

On the International front, Egypt was affected by the political turmoil prevalent in the country. In Asia, Nepal & Bangladesh have done well despite the political instability. However, the slowdown in economic activity took its toll on the Sri Lanka operations. The economic conditions continued to be stagnant in all the 3 islands in the Caribbean. Performance in Singapore & South Pacific region was satisfactory in the quarter. The volatility in exchange rates also had an effect on the international operations. Currencies in Egypt and Jamaica depreciated by about 15% against US Dollar as compared to the rates in Q1 of the previous year.

The **Capex plan** for FY 2014 at the standalone company level is around Rs. 200 crores towards facility optimization and regular maintenance.

Going forward, the good start to the monsoon would give comfort on the decorative product demand. However, the lack of investments and overall slowdown is seen to impact the industrial demand. On the international front, development on the political front in the key markets would be keenly watched.

Q&A Session : Major Highlights / Points of discussion

Paints volume

With respect to volumes, We have grown in double digits. We will not be able to share the exact number. Premiumization continues in the paint industry. Rural demand continues to be better than the urban demand as in the previous years.

Sleek Acquisition

The process is on. We will make the announcement as soon as the acquisition is complete.

Waterproofing Business

We initially started launching waterproofing products through Home Solutions service in the 13 cities, where the service is available. In other markets, we have begun the process through training applicators in a big way to use the products effectively. In case of waterproofing, it is the diagnosis of the problem which is as important as the application process, and hence these skills have to be developed in the applicators all across the country. We have received fairly positive response to the three products that we have launched.

We are essentially looking at the waterproofing industry for maintenance and repair, because it is highly related to painting and repainting of homes. We got into waterproofing business largely on account of demand from our customers to address the problems that they face in their homes.

Raw Materials / TiO₂ Prices

There is no decline in the TiO₂ prices in Rupee term in this quarter. On the dollar front, commodity prices have probably dipped a bit, but it has been negated by rupee depreciation. Some of the commodities that we procure locally are also linked to global prices and thus they get impacted due to the depreciation in rupee.

It is very difficult to estimate crude linkage to all raw materials as most of them are derivatives. Some are not purely linked to crude, they are also linked to supply/demand situation across the world.

As a company, we do not hedge. We take simple forward cover. Rupee depreciation impact is about Rs. 14 crores. Last year, it was around Rs. 12.5 crores.

Price Revisions taken in the last one year

1st April 2012 +2%; 1st May 2012 +3.2%; 1st May 2013 +1.15%; 1st Aug 2013 +1%; we had also reduced prices on 1st Jan 2013 by about 0.2%

Fuel cost

Fuel costs are little higher due to the increase in diesel prices, but it is not significantly different from the last quarter of the previous financial year. Transportation cost has definitely gone up disproportionately in the last 2 years.

Khandala Plant Capacity Utilization & Depreciation

The plant has been set up at 300,000 KL per annum. We are catering to additional demand at this point of time. By the year end, capacity utilization at the plant will be about 30-35%.

In 4Q-FY13, Khandala plant depreciation was only for a limited period. In this quarter (1Q-FY14), the full depreciation (Rs 20 crores) has been taken into account.

High Operational costs

Whenever a new plant is put up, we get impacted in the first year of operations, unless there is robust volume growth. This can be seen in the case of Khandala plant. Similar thing happened when we commissioned Rohtak plant, but the visibility was low as the capacity was much lesser.

Khandala plant is currently running on diesel, hence the high cost. It will come down when we get grid power.

Advertising spend

Advertising spend has been little higher if you take quarter to quarter comparison. On an annual basis, going by a certain percentage to sales, there will not be any major variation.

Employee costs impact due to provisioning

Actuarial valuation is done for employee retirement benefits using the discounting rate based on the government security yield as on the period end (In this case it is 30th June 2013). The difference in liability (Rs. 10 crores) provided as the yield as on 30th June 2013 was very low as compared to the yield as on 31st March 2013.

Dealer expansions

We add about 1000-2000 dealers every year

Future demand scenario

We are cautiously optimistic about demand conditions.

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