



“Asian Paints Limited Q1 FY16 Post-Results Conference
Call”

July 21, 2015

ASIAN PAINTS MANAGEMENT

Mr. K. B. S. Anand : *MD & CEO*

Mr. Jayesh Merchant : *CFO & Company Secretary, President – Industrial JVs*

Mr. Manish Choksi : *President - Home Improvement, International & IT*

Mr. Jalaj Dani : *President – HR, Supply Chain & Chemicals*

Mr. R. J. Jeyamurugan : *VP - Finance*

Mr. Parag Rane : *Chief Manager – Finance & Strategic Planning*

Mr. Arun Nair : *Manager – Corporate Communications*

Analyst:

Mr. Aditya Bagul : *Ambit Capital Pvt. Ltd.*

Moderator: Ladies and gentlemen, good day and welcome to the Asian Paints Limited Q1 FY16 Post-Results Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I now hand the conference over to Mr. Aditya Bagul from Ambit Capital, and over to you sir.

Aditya Bagul: Thank you. Good evening, ladies and gentlemen and welcome to the 1Q FY16 post-results conference call of Asian Paints Limited. We have with us today Mr. K. B. S. Anand – Managing Director and CEO of Asian Paints Limited and other members of the senior management team. I would like to hand the call to Mr. K. B. S. Anand for a brief overview of the results post which we will open up the floor for the Q&A session. Thank you and over to you, sir.

K.B.S. Anand: Thank you. Good evening and welcome to the Asian Paints Q1 2016 conference call. I have with me Mr. Jayesh Merchant, Mr. Manish Choksi, Mr. Jalaj Dani, Mr. R J Jeyamurugan, Mr. Parag Rane and Mr. Arun Nair.

I will begin with a brief statement and then entertain any questions you may have.

The economic activity showed signs of improvement although at a slow pace. Industrial production data pointed to an uneven recovery, with Apr-May'15 industrial growth at 3%, just marginally higher than the 2.9% growth seen last year. Economic activity is expected to improve going forward on the back of higher public investments. GDP growth for the current year is expected to be in the region of 7.7-7.9% up from 7.3% last year. The inflation trend has also remained soft, with headline CPI inflation at 5.4% in June'15.

The monsoon, which started on a good note, has weakened over recent weeks and its progress in July-August would be crucial for agriculture and for food inflation trend. Global markets remained volatile marred by uncertainty on various fronts, that is, the Greece bailout and its impact on Eurozone, Fed's assessment on the US economy and the timing of its rate hikes, etc.

The business review of Decoratives: The Decoratives business registered low double-digit volume growth in the quarter. While the volume growth was better than that witnessed in previous quarters, there was no significant improvement in demand conditions. Lower material prices during the quarter have aided gross margins of the business.

Reviewing Industrial: Automotive JV (PPG-AP) witnessed subdued demand conditions both in General Industrial as well as Auto OEM segments. The Auto Refinish segment registered decent growth.

The Industrial Coatings JV (AP-PPG) registered good growth in the Industrial Liquid Paints and the Powder coatings segment.

Business review of International: Overall International business reported decent performance aided by contributions from the units in the Middle East and in Ethiopia. Operations in Nepal were impacted in the aftermath of the devastating earthquake. Key markets like Egypt and Bangladesh reported decent growth.

Business review of Home Improvement: The Kitchen (SLEEK) and Bath (ESS ESS) business has been impacted by subdued demand conditions. We continue to work on expanding the network and streamlining the business model for both these businesses.

Capex : The CAPEX plan for FY 2016 at the standalone level is around 700 crores. The expansion work at our Rohtak, Haryana, plant from 200,000 KL/annum to 400,000 KL/annum is progressing as per schedule.

Other key updates - The Sriperumbudur Plant: Operations at the Sri plant in Tamil Nadu which were affected due to the cessation of workers of work by the operators have now resumed normalcy. The operators had resorted to cessation of work from 28th April 2015, and during this period, the demand for products were serviced through other plants of the company.

New manufacturing facilities in south India: We had earlier announced that we had signed an MOU with the government of Andhra Pradesh for setting up a 400,000 KL paint manufacturing facility in the Vishakhapatnam district. The company is also in discussions with the government of Karnataka to set up another paint manufacturing facility in the Mysore district. Both these proposals for setting up manufacturing facilities in the states of Andhra Pradesh and Karnataka are towards fulfilling the long-term capacity requirements and are subject to demand conditions.

Going forward, we remain very cautious on the domestic demand outlook. Good monsoon and strong pick-up in economic activity will be required for a significant uptick in demand. Industrial products demand would need further push in investments, public as well as private, to see sustainable growth. Raw material prices are expected to remain low in the near term and this would aid margins.

In the international markets, bigger units like Egypt and Bangladesh may not see any significant improvement in demand conditions. The outlook for our unit in Nepal would depend on the government's effort in rebuilding the Nepalese economy.

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

Moderator: Thank you. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on volume growth, just a clarification, did you mention low double-digit volume growth?

Management: Yes.

Abneesh Roy: I wanted to understand that part because standalone is 7% sales growth and you are saying low double-digit volume growth so could you please say, is that 4-5% price deflation?

Management: We had a little price reductions but some of the lower volume products have been growing at a much higher rate, so you have these variations at times.

Abneesh Roy: Are you calling that out as a new development because till now the premium end was growing faster and now lower end is growing faster and I am surprised by that because gross margins have expanded by 400bps. So the local players will start cutting; in that scenario in your case lower end is growing faster so if you could elaborate are you seeing this as a new development?

Management: Both the premium end and the low end is growing faster, the middle end may be growing slower.

Abneesh Roy: On the Nepal impact, how much is demand in Nepal down and I understand that it will be very small portion of the overall sales but if you could elaborate how much will be in Nepal as a percentage of your sales?

Management: No we will not give the number specifically for this quarter though at the same time in the annual report the numbers for Nepal are there; at the same time the feeling is that there will be a lot of reconstruction if that is what the government tells, as Mr. Anand said in his opening statement, so if that happens we could see some good demand over a period of time and otherwise the impact would not be very large at the consolidated group levels.

- Abneesh Roy:** One follow up to the previous question, only 400bps expansion in gross margin so how are the local players reacting? Have they cut prices much higher than what you have cut for example?
- Management:** No, not really. We have cut prices on 1st of March and we didn't see the real benefit of the raw materials in the last quarter of last year, we have seen it more this year and it is still little volatile, we are not very sure how it will go. I do not think the smaller players have gained significantly but you are better judges.
- Abneesh Roy:** As of now on pricing you are saying it is a bit early for you or the other organised players to take a cut, further cut?
- Management:** We have not taken any call on price revision at the moment.
- Abneesh Roy:** My next question is on Andhra versus Karnataka, your entire planning for the next level of CAPEX. Two adjacent states why not do at a single location, is the tax advantage one of the major reasons because those are adjacent states? Why would you want to have in both the locations?
- Management:** Geographically they are quite far apart we are talking at Visakhapatnam which in a sense to cater to the east of India and Mysore which is to cater to largely the South, Karnataka, Kerala, etc.
- Abneesh Roy:** Last question on home improvement, there is a decline in this quarter also in Ess Ess and if you could elaborate on SLEEK what is the kind of decline? My question is co-branding is done, distribution synergy will be there and much larger companies obviously ad spends can also be now go up and you're saying weak sentiments. Now weak sentiments still your paints saw a double-digit volume growth while in home improvement you're saying it's a decline so wanted to understand what is the issue out here?
- Management:** The issue is nothing, I think when we bought the company we had a fairly small and restricted network. So it takes some effort and time to build the network. We had a product range which is what the erstwhile owners were selling. We had to do a lot of work to sort of rejuvenate, revamp the product range and the branding has just been done in the last quarter. So all of these have not sort of fructified into immediate growth path in the first quarter, so we think that the impact of this will come over in a few more quarters rather than just coming in this first quarter that we have been.

- Abneesh Roy:** Follow up on this paints, 85% demand comes from repainting, in home improvement will it be fair to say it will be the other way round because essentially new homes will be doing this that is why it will be a function of how new homes growth is, which is currently quite disappointing?
- Management:** You are right the balance is probably not as skewed as you mentioned 85-15 but yes certainly from paints for Asian Paints as a category and for home improvement in Asian Paints as a category. The ratios in terms of first home builds or complete renovation with repair those would be obviously very different and yes we will be more dependent in the kitchen and the bath business on new homes-starts and new building than we would be in the painting business.
- Abneesh Roy:** Any sense on the numbers, what will be the split there?
- Management:** I think we are too small a player in the market right now to talk about numbers, most of those numbers are statistical numbers so I think as we get more experience in the market we will probably have to appropriately change strategy.
- Moderator:** The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Just to understand the 2% price cut, how would it be roughly split across say the low end, the medium, middle end and the premium end?
- Management:** It would be more in the lower end.
- Avi Mehta:** If you could give us a sense on the variation, would it be possible?
- Management:** I will not be able to give you an accurate sense, you actually would have to look at the two price lists to make out accurately, but I'm just telling you off the cuff it will be more on the lower end and more in solvent-based.
- Avi Mehta:** You highlighted that demand is subdued but if you actually look at you are seeing a low double-digit kind of volume growth, in a sense it is little contradictory because your volume growth seems to be more because as you just said it's a function of mix as well as price reduction but that means the underlying demand obviously is there, why are you still sounding out a weak kind of demand?
- Management:** We feel low double-digit growth is low growth.
- Avi Mehta:** It is more to do with expectations, would that be a fair assessment?

- Management:** If you look at the trend over before the last two years and compare volume growth in that period it is significantly lower.
- Avi Mehta:** The second question was on the input cost front.. would it be possible to share a sense on how the input basket or raw material cost index has moved as an average of 1Q versus end of 1Q.
- Management:** It is about constant it hasn't really changed over the quarter.
- Avi Mehta:** The end of the quarter is equal to the average of the quarter that is how it would be?
- Management:** Yes.
- Avi Mehta:** On the demand front, when you say the demand conditions are subdued in the quarter, is it got to do with seasonality as well that you're seeing the rains etc. and is this kind of trend are you seeing any change in the trend going forward any signs of that would you be able to share on that or it's too early to call?
- Management:** It is very tough to talk of just over a quarter because it extrapolates too much. So what we are saying essentially is that we are not seeing any difference from most of last year in reality.
- Avi Mehta:** ok, we are looking at that somewhere similar, that gives a fair sense.
- Moderator:** The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Coming to demand bit, just to understand it a little bit more clearly, as my understanding is there was an effective 2% price cut and on 8% kind of revenue growth, it amounts to about 10% volume, is that the right understanding?
- Management:** We do not share volume numbers
- Amit Sachdeva:** My question is basically on demand when you say premium and the lower end product, is this understanding correct, that this quarter is seasonally very strong for emulsions and very poor for example distempers?
- Management:** It is not the strongest quarter for distempers nor it is the strongest quarter for emulsions, if that answers your question.
- Amit Sachdeva:** I make two conclusions here for example if the volume growth is double-digit and my price cut is 2% and which essentially means that lower end has grown faster and

premium end has sort of grown little slower to get to that level of value growth and it is slightly contradictory to my understanding where this quarter is seasonally stronger for emulsions than distempers.

Management: You have Diwali months which are much stronger or actually the second quarter which is much stronger for distempers, otherwise it varies, there wouldn't be that much of a distinction.

Amit Sachdeva: This demand of double-digit volume growth that you saw, do you see this sort of environment still continuing that you saw in this quarter. It may be the same as last year but it seems to me that the demand environment is actually inched up sequentially rather basically looks like weak to you, because the commentary that you have on the report is that the demand conditions are weak and there is no improvement at all. We also want to understand it from a sequential basis as well not just Y-to-Y on a full-year basis it would perhaps put in that demand has actually moved up sequentially.

Management: It will be too early to say anything like this because there are always lot of other factors in the period. It also depends on how the competition does, it also depends on the impact on various regional markets, so we need to look at a little longer term rather than the just the quarter to finalise on that.

Amit Sachdeva: Just one fine bit on demand again, is this understanding correct that governmental expenditure which has been pending since last year, which has started to ease out starting with NREGA looks like that the expenditure is now sort of going through a bit of wheel where it started moving. Would it have some linkage to maintenance kind of demand for paints as well say if in the second half if it were to come through?

Management: If the government investment and in general capital investment, other investment increases definitely it will improve demand. Beyond that, I really cannot say anything today.

Moderator: The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Two questions, first on the growth, till now you have always maintained that rural and urban growth has been more or less or the rural growth has been better. Is there a reversal in this quarter?

Management: No.

Prasad Deshmukh: So you are still maintaining that rural growth has been better than urban?

- Management:** Yes.
- Prasad Deshmukh:** Second question is as a follow up to that, if premium end is doing well, is it doing well in rural or is it doing well in urban?
- Management:** It sells uniformly everywhere, I frankly have not analysed in that much depth to be able to answer that question but it is doing reasonably well everywhere.
- Prasad Deshmukh:** And second question is on your CAPEX so with this second facility that you are talking about will it be possible to share some CAPEX numbers for this year and next year if there is any revision?
- Management:** We have still not got the land yet so the CAPEX really will barely start next year because it takes us some time to get all the environmental clearances etc., so there will not be too much CAPEX till a year after we get the land so to speak.
- Moderator:** Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.
- Richard Liu:** Sir just wanted to understand the margin behaviour on the subsidiaries and JVs. So while obviously understandably there have been about a 400bps gross margin expansion at the parent's book, if I just subtract consol and parent, I get a gross margin of about 40.6% this year versus 39.4 last year which is only about 120bps improvement in gross margin. What, I want to understand is how does this pricing and raw material definition dynamic work in that part of your business?
- Management:** That business would be also split between that consol minus standalone will also be split between international business and the Indian industrial business and we have to get SLEEK also so there are multiple dynamics that are playing out.
- Richard Liu:** I presume this SLEEK part of it would obviously be still small right now to influence the overall scheme of things and I guess the larger interplay would be the margin on international and industrial?
- Management:** Correct the margin on obviously industrial and international are the major players in the consol game and the margin trend has been by and large same as the rest of the business, obviously those businesses are far more competitive than the decorative business will be in terms of B2B selling etc. So you will see much more subdued impact of any gain on raw material prices.

- Richard Liu:** So despite the fact that the pricing in the industrial business has not really gone up as sharply in the recent past and raw material prices were inflationary. Did you have to pass on some of the benefit of the recent fall in crude and etc. prices which is why this kind of a margin expansion in that part of your business?
- Management:** I don't have a direct answer for you. All I can say is that the raw material mix that we have got in the decorative business is substantially different than the raw material mix that we will have in the industrial business. So if we were to go back and look at previous year's things, the inflation itself would not have been as sharp as it was in the decorative business per se and third the deflation also will not be sharp because their basket of raw material moves a little bit different than the decorative materials moves.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** If I read your 3rd quarter results release, you said we registered single-digit volume growth in deco-paints segment in India due to sluggish demand condition and in this quarter you are saying in the decorative business segment in India we registered—there was no improvement. So while your tone is that compared to expectation your press release is saying something else, no significant improvement in demand conditions witnessed in the decorative coating business in India. How can that be, I mean your expectation maybe something else but there has been a significant improvement from a single-digit to a double-digit, right?
- Management:** One or few percentage in the quarter we don't consider to be significant.
- Vivek Maheshwari:** No, but it is not one or two percentage point, a mid-single-digit to low double-digit certainly is not a 1% or 2%, right?
- Management:** We do not share volume numbers. We had said single digit and we are saying that it is low double digit volume growth now.
- Vivek Maheshwari:** Has there been any change in the inventory levels at all in your understanding?
- Management:** We would have built up a little bit of inventory for the selling season to come in that sense plus we will be carrying little bit slightly additional inventory on account of the Sriperumbudur challenges we had also.
- Vivek Maheshwari:** But that would not have a major impact is what you are saying?
- Management:** That's what we are saying; it won't have a major impact.

- Vivek Maheshwari:** So I still don't understand, why you then are cautious on demand if the volume growth still is like double-digit. I just want to get this clear because to me a double-digit volume growth still is quite a good number then.
- Management:** To us, it doesn't.
- Vivek Maheshwari:** No I understand but there is certainly an improvement to that extent, right.
- Management:** If you see 1st quarter of last year, it may not have been very drastically different.
- Vivek Maheshwari:** That is there in the base so when you're comparing sequentially obviously you're seeing acceleration to that extent.
- Management:** Yes, but the level of blips and dips that you see in a quarter could be on account of many conditions being met so it is not only the overall economic environment. There could be regional impact, product impact so in the mix of things a couple of points here and there can't really be seen as dramatic improvement or dramatic deceleration in that sense. So we are just saying that overall conditions are remaining in the similar bucket as what we saw last year. We have not seen significant improvement that would say that there is a recovery underway. We can't make that statement today from our reading of the market.
- Vivek Maheshwari:** Second on any changes on the product prices in this quarter?
- Management:** No, not many changes.
- Vivek Maheshwari:** And third is would there be a big difference between the exit input prices and the quarter average?
- Management:** No.
- Vivek Maheshwari:** Have you realised all the benefits of lower commodity prices or basically is this gross margin representative of the entire input price correction or there can be some more here and there?
- Management:** It's too early to make a statement on that. There are many other factors on input prices such as global demand etc.
- Vivek Maheshwari:** No, I'm not saying forward-looking. I am saying as things stand today
- Management:** Yes, we have taken the full impact of that.

- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.
- Nimit Shah:** Sir one clarification, have we cut any prices post February that is February 2014 we had reduced prices by an average 1.9%.
- Management:** March 2015.
- Nimit Shah:** So March 2015 we have reduced again by 2%. So this was over and above what we had done in February?
- Management:** We reduced prices with effect from 1st March 2015, by 2%. There was no price reduction in February.
- Moderator:** Thank you. Our next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Sir just on the pricing side, you indicated that much of the price reduction would be at the lower end. So is that something to read in the change in the strategy or probably over the years you've realised that there are too many players who are trying to get into the entry-level in emulsion and that's why we deal that is that to read or there is nothing in terms of market share?
- Management:** Everything is strategic so there are various strategies that are implemented from time to time and that was a decision that was taken then.
- Amit Purohit:** Just a follow up on that volume growth. You indicated some I mean marginal would be because of the inventories because we had a sustained lower volume growth for last two quarters so it could be some bit of inventory. But will that result into a high single-digit growth if we adjust for the inventory?
- Management:** I don't think inventory in the trade has gone up considerably.
- Amit Purohit:** On the growth in Tier-II, Tier-III markets versus the Tier-I, would there be a significant difference or was this quarter had a more number of marriage days versus last year, I am just trying to understand?
- Management:** I don't think it has been very different, while Tier-II, Tier-III are growing better than Tier-I cities, the difference is between regions rather than just Tier-II and Tier-III cities.

- Amit Purohit:** So you continue to say that East and North like you indicated earlier has been doing better than the South and West?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Just want to deliberate on this particular point, the low-end segment has grown more than the premium segment. Just wanted to know was it a deliberate strategy from us to induce demand at the lower end or we have just gone with the flow in the market?
- Management:** I think premium end is growing well so I have no dispute with premium end growth rates. We did a strategy in the lower end that has borne some fruit here.
- Ranjit Cirumalla:** And the second is you would be saying that demand has not yet improved or you are not seeing any early signs, is that keeping in mind that last year we had some amount of festive sales in 2Q whereas this year that Diwali is bit delayed so we intend to capture the demand in 3Q?
- Management:** It's too early for the Diwali impact that will come in the next two quarters not in the 1st quarter.
- Ranjit Cirumalla:** At least the dates of the Diwali have been known so to that extent what we are trying to get is that last year it was probably a bit early and this year we have seen a delayed festive season.
- Management:** I don't think the Diwali date has any impact on Q1; Q2-Q3 it can have an impact but it's too early to say anything at this point of time. It depends on the retail sentiment in the market, when the monsoon, how the monsoon goes, how demand picks up, etc.
- Ranjit Cirumalla:** Can you get the figure for the Maharashtra plan, the other income which you get the tax refund or the VAT refund?
- Management:** We give this on an annual basis. It is there in operating income. It's not anything significantly different from last year, maybe the 4th Quarter of last year.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.

- Sanjay Singh:** In terms of capacity, can you just restate as to how much capacity is coming up in AP and Karnataka.
- Management:** In Vizag, we have planned to put up 400,000 KL additional capacity in a phased manner. In Mysore we still not have finalised on the land and everything so we are not determined exact capacity. But we will put up the capacities in both the plants in a phased manner, depending upon the demand condition.
- Sanjay Singh:** And what will be the total CAPEX cost for 4 lakh KL plant in AP?
- Management:** Rs. 1750 crores.
- Management:** At today's prices, spread over in the next 10-12-odd months.
- Sanjay Singh:** Is the cost of CAPEX gone up significantly because of the land because I think Khandala was also similar but it was Rs. 1000 crores?
- Management:** Khandala CAPEX was for 300,000 KL.
- Sanjay Singh:** And secondly in terms of gross margins, earlier whenever we have spoken you had said that beyond a point I wouldn't like margins to go at a certain pace because then it attracts unnecessary competition or unnecessary attention. So is that overall macro strategy still in place or you think that given the current environment you can push in a little higher margins?
- Management:** We play this from time to time. Obviously you like to optimise both market share growth as well as profits so it's always a combination of these but beyond the point you are right it's difficult to push in higher margins.
- Sanjay Singh:** But are you comfortable with your current level what you are seeing in standalone because probably it is the highest ever, at least what I have seen in the past many years?
- Management:** So it also goes by trends on what we see, how raw material prices and everything else will go over a period of time and we will determinate on...
- Sanjay Singh:** If you think that RM cost remains at these levels, is it something which you are comfortable with?
- Management:** Depends on the demand condition as much as anything else.
- Sanjay Singh:** Is it more demand or more competition?

- Management:** Combination because if demand conditions are poor you have higher fixed overheads then you need to cover those too. If growth conditions are high you can afford to operate at the lower margin.
- Sanjay Singh:** Do you get that benefit in AP also?
- Management:** With both states yes. With both states we are in discussions.
- Management:** We are in discussion with them, something has been announced but we are seeking some clarification. Once it's absolutely clear we will let you know.
- Sanjay Singh:** And secondly for Maharashtra how long does the VAT benefit stay?
- Management:** Nine years or to the CAPEX amount only. It will be related to the CAPEX that we have invested.
- Sanjay Singh:** And what happens in case of GST in both the cases for AP and Maharashtra, you get a refund?
- Management:** We don't have any clarity on GST as of now
- Moderator:** Thank you. The next question is from the line of Shariq Merchant from Ambit Investment Advisors. Please go ahead.
- Shariq Merchant:** It's very commendable growth that you have shown the double-digit growth. Do you think that this has been a function of the market as a whole, has the market also seen similar growth or has Asian grown ahead of the market?
- Management:** Q1 results of other paint companies are not yet announced.
- Shariq Merchant:** But just a first sense that you're getting without obviously quoting any competitor.
- Management:** No idea. Like we mentioned we think demand conditions are not good.
- Shariq Merchant:** Your water proofing segment which you recently entered into, I just wanted to get a sense of what kind of traction you have seen in atleast the early days.
- Management:** We have got good acceptance and good growth but it is still a very small part of our business.
- Shariq Merchant:** Sir would you be able to comment on what size it is at least in this quarter?

- K B S Anand:** No.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal Securities. Please go ahead.
- Manish Poddar:** Sir just wanted to understand a volume growth a bit. Actually if you envisage the same sluggish volume growth continues in the second half of the year then given the low base do we expect high-teens volume growth in the second half of the year?
- Management:** We don't give forward guidance. It's very difficult to handle the uncertain environment without giving guidance on how the economy is going to go and demand is going to go.
- Manish Poddar:** The other expenses which have increased this quarter, is this partly on the nature of increased performance discounts which you've done or on account of freight cost due to the supply facilities which were closed for a while?
- Management:** It's a combination of both actually.
- Manish Poddar:** So which would be contributing it to more?
- Management:** To some extent transportation cost.
- Manish Poddar:** Due to the facilities being shut or in generally to increase penetration Tier-II or Tier-III?
- Management:** No, it is because of the inflation and there is also to some extent the impact of the Sriperumbudur plant for some months actually.
- Moderator:** Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.
- Jubil Jain:** What would be the contribution of Kadisco to the overall revenues?
- Management:** We don't give quarterly basis numbers; we give an annual basis when we publish in the annual report.
- Jubil Jain:** Can we assume that this tax rate in this quarter which is around 31%, will this be the same in FY16 and FY17?
- Management:** This is based on the current marginal tax rate. We are on the highest slab. There will be a 2% surcharge. So to that extent, there will be an impact.

- Jubil Jain:** I didn't get you so what tax rate should we assume for FY16-17?
- Management:** The maximum rate.
- Jubil Jain:** Do we stock surplus RM for more than one or two quarters, I mean will we be able to get the benefit of low commodity prices even if crude start shooting up very soon say in a quarter or two?
- Management:** We don't do hedging for that longer period at all.
- Jubil Jain:** So suppose crude stays in the US\$50-60 range for the next few quarters, can we assume that the gross margins will be maintained in the 45-46% range?
- Management:** See crude is just one element of it. The actual prices of commodities depend more on global demand and China is probably the single largest factor in terms of generating the demand or otherwise. So it depends on how world demand for various chemicals go affecting the prices of the raw materials.
- Jubil Jain:** Which is the raw material which impacts the cost the most?
- Management:** Titanium dioxide.
- Jubil Jain:** What would be the contribution of titanium dioxide to the total material costs?
- Management:** About 20%.
- Jubil Jain:** And what will be the other top raw materials apart from TiO₂?
- Management:** We will have a lot of monomers. We deal with about 800 raw materials. Most of the prices of these raw materials are related to worldwide demand for these products more than anything else.
- Jubil Jain:** Do you see the recovery to be protracted or do you also think that it may get worst after this probably because of subdued demand in the construction sector, real estate markets, etc., is it possible that it can get worst?
- Management:** We are not getting any clear signs from the market
- Jubil Jain:** What do you expect, do you expect the recovery to be...
- Management:** As said earlier, we are not getting any clear signals from the market.

- Moderator:** Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.
- Nitin Gosar:** Just wanted to understand the thought process. Given the situation had there been no raw material deflation or the raw material scenario, which we have seen benign over last two quarters had that not been around. Would have still gone with the strategy of going after economy segment for volume?
- Management:** We can't talk of hypothesis so to speak.
- Nitin Gosar:** I'm just trying to understand the thought process. I mean the question is more regarding to the strategy that we adopted which you mentioned earlier. Was it an outcome of raw material scenario that you were saying was some favor of yours?
- Management:** Not really.
- Nitin Gosar:** So this was a kind of ongoing strategy which was irrespective of raw material movement?
- Management:** Correct.
- Moderator:** Thank you. The next question is from the line of Ankit Kumar Jain from Equirus Capital. Please go ahead.
- Ankit Kumar Jain:** In case of home improvement segment are we exploring some more new product category?
- Management:** We will try and complete our bathroom range of products. That's what we're concentrating on. As and when we make any other moves we will inform you.
- Ankit Kumar Jain:** So in case of bathroom range of product like some other categories might be these PVC pipes and all.
- Management:** No, nothing like that, we will still look at consumer categories and not contractor categories.
- Moderator:** Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.
- Nillai Shah:** In response to an earlier question you had mentioned that your demand conditions will determine the margins in the decorative paints business. Could you repeat that

statement again, what is the equation? You said if the demand conditions are low then you can probably go to the higher margin.

Management: See you have certain fixed costs and you plan for your margins based on certain growth rates. So if the growth rates are much higher you can operate at your margins to generate the profits you want to generate and vice versa.

Nillai Shah: We are talking at the EBITDA level or are you referring to the gross margin level?

Management: EBITDA and also Gross Margin.

Nillai Shah: So then all your costs should be included in that, right?

Management: The costs will come and what I'm trying to say is the gross margins you're willing to work with will be dependent on the growth rates you are expecting.

Nillai Shah: So here you are saying of the gross margins and because the demand conditions are low you would rather work with higher gross margins at this point in time.

Management: Yes.

Nillai Shah: You did mention that for the management team 10% expectations of volume growth is probably a low double-digit.

Management: We didn't say any expectations.

Nillai Shah: So double-digit volume growth is probably not the best in your view. So what will really make you happy in terms of volume growth for the deco paints business going forward whenever the...

Management: If it can go back to 16-18% volume growth.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Liladher. Please go ahead.

Amnish Agarwal: My question is related to the double-digit volume growth which you are talking about. If we look at your standalone sales growth of around 7.2 and the fact that the numbers of ESS bathroom fittings last year were only Rs. 3 crores, we arrive at 6.5% sales growth in the paints business and if your volumes have grown in double digits and there was for 2% price cut, so what it means is that our lower end products as you indicated they have grown at a faster pace as a part of your strategy. But do you plan

to follow that in the longer term, so what I mean to say is that can we look at the situation that for the full-year also we are having some sort of 4% to 5% realization decline for Asian Paints, if you don't change prices even in the coming quarters?

Management: I don't think so but it's very difficult to give a comment at this point of time.

Amnish Agarwal: But is there some change in strategy that you want to focus more on the lower end and then grow the volumes rather than the earlier strategies where the realisations were actually used to be 1% or 2% higher because of the consumer up-trading. It's a very stark contrast in just in just two quarters than what has been happening from the last one decade at least.

Management: I don't think there is any significant change in strategy.

Amnish Agarwal: This 5% realisation decline is pretty huge. It seems like your lower end is grown at 30%-40% and the middle end has literally collapsed or there is a massive consumer down-trading which has happened from the mid-end to the lower end.

Management: Actually judging the demand conditions from what was happening in the one quarter, I think it's too premature to think about it. I think we would go over the period of time.

Amnish Agarwal: But if the volume then is driven more by the lower end and this is not a sustainable phenomenon then is there a probability of first slipping back to single-digit volume growth also in the coming quarters?

Management: Sorry, We will not be able to comment

Moderator: Thank you. The next question is a follow up from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: A very quick follow-up on the pricing strategy. In this environment where crude is also very volatile and things can go up and down and demand can also vary. Is it fair to assume that pricing has become more tactical than as a matter of policy? What I mean is that you are offering some very tactical deep discount to certain products in geographies and not as lowering prices as such. Is it the reflection of schemes being rolled out or its being kept at separately in some other account?

Management: No, I don't think anything significantly different is being done at all.

- Amit Sachdeva:** What I'm asking is the pricing that you carry on the revenue line, is it the list price or if there is a scheme which is being rolled out to dealers also get captured in that price or that get separately accounted?
- Management:** It gets reduced, any given scheme, etc., gets reduced from our net sales.
- Amit Sachdeva:** So that will be applicable at the pricing level, net revenue level?
- Management:** What you see is net of all the discount schemes.
- Amit Sachdeva:** So what I mean is that this sort of volume push in lower end I would assume it is as you said also have solvent base so it seems to me more tactical rather than actually structurally lower.
- Management:** I think I will need to explain because I'm putting everybody in a big dilemma. There are certain categories at the lower that have grown phenomenally over the last few years and today have become significantly large like exterior wall putty which is extremely low price category which is growing higher than the rest. So it's not a question of difference between premiumisation across emulsions or any such categories or products that are effecting growth rates but except that a lower-priced product has become a larger chunk of the business and as it is growing, it is affecting your value-volume equilibrium that used to exist earlier.
- Amit Sachdeva:** What I want to ask very bluntly is that is there any particular schemes that are very stark in this quarter?
- Management:** No.
- Moderator:** Thank you. The next question is a follow up from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** On the demand front again, just two things. You said that you don't have an idea about the specific segment-wise, would you be able to share what is the cut in tractor emulsion just to get a sense and how is that?
- Management:** I am sorry, we do not share product level breakup
- Avi Mehta:** In that case how has in that lower end that you're highlighting tractor emulsion would also fall in that, would that be a fair understanding?
- Management:** No.

Avi Mehta: So its distempers and exterior putty that you're talking about when you say lower end.

Management: Yes.

Moderator: Thank you. The next question is from the line of Harpit Kapoor from UTI Mutual Fund. Please go ahead.

Harpit Kapoor: Just a clarification on this exterior wall putty that you mentioned. So this is also a product which a lot of cement companies also do or is it more towards the paints, so is there the adjacency that the cement company also has or is it more on for paint product?

Management: Well, originally it was a paint product. There were various putties that were made by paint companies, the cement companies introduced a much cheaper variant as a by product of their production process and incentivized the painter to start shifting to this in a big way and paint companies were forced to get into that business and now gradually it is becoming a big part of the paint business.

Harpit Kapoor: So basically for this segment we are competing with the cement companies as well along with paint companies.

Management: As well yes and they would be much larger than us in this business, yes that is true.

Harpit Kapoor: Also because of the fact that our base will be small, the growth would have been much higher in this quarter and in preceding quarters as well?

Management: This is not a new trend. It's a trend over the last five years.

Moderator: Thank you. Ladies and gentleman that was the last question. I would now like to hand the floor over to the management for closing comments.

Management: Thank you very much for participating in this conference call. That's all from our side.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference call. Thank for joining us and you may now disconnect your lines.