



“Asian Paints Limited 1Q FY17 Post Results Conference Call”

July 27, 2016



ASIAN PAINTS MANAGEMENT:

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MR. MANISH CHOKSI	: PRESIDENT, HOME IMPROVEMENT, INTERNATIONAL & IT
MR. JAYESH MERCHANT	: CFO & COMPANY SECRETARY, PRESIDENT - INDUSTRIAL JVS
MR. R.J. JEYAMURUGAN	: VP - FINANCE
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ANALYST:

MR. KRISHNAN SAMBAMOORTHY – MOTILAL OSWAL SECURITIES LIMITED

Moderator:

Ladies and gentlemen, good day and welcome to the Asian Paints conference call to discuss Q1 of FY 2016-2017 results hosted by Motilal Oswal Securities. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishnan Sambamoorthy from Motilal Oswal Securities. Thank you and over to you Sir!

Krishnan S:

On behalf of Motilal Oswal Securities, we welcome everyone to the Asian Paints Q1 FY17 conference call. We have with us Mr. KBS Anand, MD and CEO as well as the Senior Management Team. Over to the management for opening comments, followed by the Q&A session.

KBS Anand:

Good evening and thank you for attending the Q1 FY2017 results conference call for Asian Paints.

ECONOMIC ENVIRONMENT

The domestic economy continued to show signs of improvement in the first quarter of the current fiscal after a good pickup exhibited in the last quarter of FY2016. Consumption demand, which saw an uptick in the second half of FY2016, continued its momentum. However, the trajectory of overall level of activity in the economy still remains uneven. This is exhibited by the industrial production data points, which registered a year-on-year growth of 1.2% in May 2016 from a decline of 1.3% in the previous month. At the same time, inflation, though trending higher over the last couple of months, remains within the target band of the Central Bank.

The monsoon has definitely been a bright spot this season and has progressed well across the country. This bodes well for the rural sector economy and could provide a boost to the consumption demand as we move ahead.

On the global front, growth remains benign and the Brexit referendum has only added to the uncertainty. While the financial markets have recovered from the immediate impact spread around the referendum, we will need to be watchful on how the future course of events unfolds.

NEW ACCOUNTING STANDARDS (IND AS)

We have adopted the Indian Accounting Standards (IND AS) with effect from April 1, 2016. Accordingly, the standalone and consolidated results for the quarter ended June 30, 2016 are in compliance with the Indian Accounting Standards and other accounting principles generally

accepted in India and the results for the comparative quarters and previous year have been prepared to comply with these standards. Some key changes on account of this are as follows.

1. The incentive to dealers by way of cash discounts and sales promotion expenses have been deducted from Sales against being reported as a part of Expenses under the previous GAAP.
2. Excise duty, which was earlier being deducted from Sales, is now present as an expense. No impact of the above two changes on the profits.
3. Acquired goodwill resulting from acquisition of Sleek and Ess Ess business will not be amortized, but will be tested for impairment on an annual basis. Certain other intangible assets are considered to have indefinite useful life under IND-AS and hence will not be amortized but tested for impairment on an annual basis.
4. All investments (including subsidiaries/JV's and other equity investments) are carried at fair value as required under the accounting standard. Gain/Loss resulting from change in fair valuation between the reporting dates will be recorded in the P&L. At the same time, Gain/Loss on equity investments, (Excluding subsidiaries/JV's) resulting from change in fair valuation between the reporting dates will be recorded in the OCI statement.
5. All assets of the acquired entity will have to be reported at fair valuation. Accordingly, fixed assets of Kadisco, Ethiopia, acquired in February 2015, now recorded at fair value as at the date of acquisition (as against the book value as per earlier standards) and depreciation charged on such increased value.
6. Under IND-AS, PPG-AP will be treated as an associate company wherein only Asian Paints' share of profit after tax of PPG-AP consolidated as against proportionate consolidation of every line item of P&L. At the same time, AP-PPG is to be consolidated as a subsidiary of Asian Paints Limited in the consolidated financials.

BUSINESS REVIEW - DECORATIVES

The Decoratives business registered a low double-digit volume growth in the current quarter with value growth lower on the impact of price revisions that we had undertaken in the last quarter of FY2016. Profitability improved due to favorable raw material prices as compared to the same period in the previous fiscal.

BUSINESS REVIEW - DECORATIVES

The Automotive coatings JV (PPG-AP), witnessed good demand in the Auto OEM and General Industrial business. In the Industrial Coatings JV (AP-PPG), the Industrial Liquid Paints segment grew well. Profitability of both businesses was aided by the lower raw material prices prevailing in the quarter.

BUSINESS REVIEW - INTERNATIONAL

The International business reported good numbers specifically aided by contribution from good pick-up in demand in Nepal, UAE and Fiji. Business in Ethiopia, though impacted by foreign exchange shortfall, grew at a satisfactory pace.

BUSINESS REVIEW – HOME IMPROVEMENT

Both the segments within the Home Improvement business, the Kitchen business under Sleek and the Bath business under Ess Ess, saw an improvement in topline in line with our plans. This was aided by expansion in network and enhanced product portfolios. We continue to work on further streamlining the business model in both these businesses.

CAPEX

The Capex plan for FY2017 at the standalone Company level is about Rs.600 Crores. This includes some spends for the two new manufacturing facilities being set-up at Mysore and Vizag. We have revised the proposed capacity plans for the Vizag plant and are now looking at setting up the plant with a maximum capacity of 5,00,000 KL per annum at an investment outlay of approximately Rs.1785 Crores. The manufacturing capacities at both the plants Mysore and Vizag, will be set up in phases depending on the future demand conditions.

GOING FORWARD

Good monsoon after two consecutive years of deficient rains, is expected to provide the required fillip to rural sector demand. Coupled with a potential benefit from the Seventh Pay Commission payouts and investment push from the government, we are optimistic on the domestic demand outlook. Raw material prices have seen some uptick in the recent months and we need to monitor this trend going forward.

In the international markets, some of the units like Egypt, Ethiopia and Trinidad face challenges around foreign exchange availability and demand conditions. This could affect performance going forward.

Thank you everyone. We are happy to take any questions you may have.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nillai Shah of Morgan Stanley. Please go ahead.

Nillai Shah: Hi Sir, this is Nillai from Morgan Stanley. Just one quick question from me, your margins have gone up quite dramatically even after your price cuts at the operating levels of the domestic decor business. How do you think about slightly longer-term margin trends here on for the same?

Management: As we indicated we are seeing some uptrend in raw material prices and we had anticipated some uptrend when we did the last price reduction on March 1, 2016. So this would have some effect naturally on margins in the future but frankly we do not like to give future forecast because we really cannot predict prices on an ongoing basis.

Nillai Shah: Sure. Just one follow-up on that, you have made some assessment of input costs in March, so has the trend followed your assessment or is it way off from there?

Management: It is not way off, but it is not exactly the same on all raw materials. It is better in some, worst in some etc.

Nillai Shah: And broadly speaking, are you comfortable with these level of margins as you are operating in at this point in time, apart from competition etc., should impact it. In the past you have spoken about competition unnecessarily coming through even at 17%, 18% operating profit levels so in that context, this question?

Management: We have to see the market growth and the profitability, market growth as well as profitably are inter-related we do not consider one without the other really speaking.

Nillai Shah: I did not understand that a bit, sorry. So you are talking about volume growth in conjunction?

Management: We would look at future market conditions in terms of what we think we are getting growth in the market and how we can maintain that in balance with the kind of margins we are keeping; so we will do these trade offs as we see growth develop in the market.

Nillai Shah: So competition is less of an issue at this point in time, in your view?

Management Competition is an issue and that is why growth prospects in the future we would look at; and then we will take a call on how to work our pricing strategy around that.

Nillai Shah: Okay. Thank you very much.

Moderator: Thank you. We have the next question from the line of Amit Sachdeva of HSBC. Please go ahead.

Amit Sachdeva: Good evening, Sir. Thank you for taking my questions. First of all, congratulations on excellent numbers on Decorative side, which is obviously coming from the last quarter as well, which was very strong. So my first question is, given the economy in general and what we are hearing from other companies, this seems in stark contrast to what others have been telling. So it is brilliant, but where exactly it is coming from? Can you give us some color on how the demand is turning out, much stronger than what we see in the rest of the economies?

Management: Unfortunately we deal mainly in paints and I really cannot talk about the other categories in that much depth, but we have seen good demands in paints as well as in kitchens as well as in bath fittings in this quarter.

Amit Sachdeva: Okay. So that is very pleasing to hear. And I think it looks like your commentary seems much more optimistic than it was perhaps last year. So in that sense, it is good to hear that, to be honest, but in terms if you could give some color, like I would recall that this quarter is very emulsion heavy quarter and perhaps price cuts was more on the lower end, if I may recall. So in that sense, how is the breakup if you could give us some color on how the distemper side is going and how your waterproofing is; what part of the business is waterproofing now. So some category level insights will be very helpful.

Management: Almost all categories are growing. Some are little more in-line with our overall growth some are little lower. The new categories like waterproofing and all are very small really in terms of our share of the markets so if they grow faster it does not reflect anything significant.

Amit Sachdeva: So what part of the business is waterproofing now? If I may recall, 3% to 5% or what would be the size?

Management: We do not give those break ups, I am sorry.

Amit Sachdeva: Okay. Sure Sir. So that is it from me. Thank you so much.

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

Avi Mehta: You highlighted your capex next year is likely to be around Rs.600 Crores?

Management: This year, current year.

Avi Mehta: Yes for FY2017, is there a downward revision that you have done, because I remember you did Rs.700 Crores or so? Is there a change in plans?

Management: We are saying this as an approximate number, because some number out of this Rs.600 Crores is towards the new plants. So obviously there will be some timing difference in terms of how we go ahead with these two projects, at what pace.

Avi Mehta: That is the reason why you have revised it from Rs.700 Crores to Rs.600 Crores.

Management: I think there is no material change. It is just that we are moving ahead with both the projects at same pace and that would mean certain, maybe acceleration or deceleration in terms of the total number.

Avi Mehta: And just trying to get a sense, you did highlight that you are seeing low double-digit volume growth in this quarter. I understand that you saw in the fourth quarter sustaining, what is stopping you from calling out the recovery in the demand, if I can get that sense? How would you call it out?

Management: So we tried to say that there is a sign of improvement over the last two quarters, definitely. As a matter of fact, the last three quarters in a sense. We have shown better growth and we see some recovery in demand.

Avi Mehta: Lastly on the gross margin bit, the RM index, while you do not give the number, would you be able to share a quarterly average versus end of the quarter. How is it? Is the end of this quarter?

Management: We do not share this data..

Avi Mehta: Okay. Sir, in that case, let me rephrase it. What would be the headwinds that you are seeing at least? Is it that crude prices are more or less at the levels that and it has not moved up significantly. So is it that even now you are seeing headwinds coming in as titanium dioxide, can you give some color on what is happening on that front as well, sir, pricing?

Management: There are various raw materials that have gone up marginally or we are seeing trends whether it would be titanium dioxide, whether it would be solvents, whether it would be some of the monomers. We are seeing some increases in prices, now some of these items are directly related to crude, some of it is related to world demand and how the Chinese economy is faring, because they are today major suppliers of various chemicals across the world. It is very difficult to pinpoint the reason for any of this.

Avi Mehta: Okay Sir I understand. Thank you very much Sir I will come back in the queue. Thank you.

Moderator: The next question is from the line of Atul Mehra of Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Good evening and thanks for the opportunity. Just couple of questions, one on paints, how are you seeing premiumization trends at this point in time? So while there is mixed growth outlook as such or mixed growth that is currently there, but how is premiumization as a trend going for us in the paints business?

Management: It is continuing as it has been consistently over the last, I will say, decade. People are upgrading to better qualities consistently.

Atul Mehra: Secondly, I just want to understand in terms of home improvement, given that we have been very aggressive in terms of looking at home improvement as an expansion area for us, how do we look at this from a more longer-term perspective? So, are we looking at developing home improvement categories as a complementary from AP homes perspective or do we want to individually target each and every large category within home improvements, be it tiles or sanitaryware etc., and drive a different kind of distribution and scale them up separately. So just want to get some sense on that?

Management: We are learning this business. One element is the AP homes type of scheme that we are having to sell the entire range. But as yet, that is a very limited distribution channel and we need to supplement it with existing distribution channels, which already exist in these businesses, which are both distributor led and direct retailer led. So at this point of time, in most of these businesses, we have all the channels going.

Atul Mehra: Thank you so much.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Congrats on extremely strong set of numbers. My first question is on Loctite. It is initial period, but I am not seeing much of ads after the initial burst. So how are things in terms of demand, any course correction, why advertisement at least in the mainline media is not happening?

Management: It is moving reasonably well. We have no complaints from that line, but we have done it in a local manner because we were able to supply only to a few markets in a limited manner. As we roll out further and are able to go, I presume you will see more advertising.

Abneesh Roy: Will it be fair to say that in the next few quarters, most part of the India market distribution will be fine, the production will be fine or it's a long haul you are thinking in terms of leasing out to them?

Management: The limited products we have launched so far, they will be across the country in the next couple of quarters.

Abneesh Roy: Your home improvement has seen a good recovery. So you said in the opening remarks network and product expansion, so could you elaborate on that, what has been done here?

Management: So if you talk about Sleek Kitchens, we have launched a couple of new types of kitchens, we have launched smart kitchens across the country. We have also launched a few components, whether it would be solid bottom baskets as well as some types of components that go into the assembly of kitchens. In terms of Bath fittings, we have i.e the Ess Ess range, we have launched showers, we have launched the royal range of premium products as well as a few others, which we are experimenting with. So we have expanded the range. Range is one element, but it is also the network, a lot of expansion of network has happened across the country in both the categories.

Abneesh Roy: Similarly distribution expansion in Ess Ess and Sleek also; in the next few quarters, most part of the distribution, it will be available, current distribution?

Management: It will still take a little more time, in all honesty, but it will expand to most of the major locations, but if you would say it is in every corner of India, probably no.

Abneesh Roy: Sir, coming to AP homes Coimbatore, you had earlier said you would be taking to more parts of the country. So what is the learning's from there, how is it played out in whatever limited time period that it has been?

Management: It is a limited time period. We launched it last March. So the response in Coimbatore has been fairly good, but there are a fair amount of learning's also we are getting. So we are in discussion with a number of other partners and as soon as we are ready to launch, we will let you know.

Abneesh Roy: Sir final question, last quarter you had said South India, the growth is lower and we are hearing from one consumer company that PAN requirement has led to some impact in North and East India. So are you also facing some issue in terms of above Rs.2 lakhs PAN requirements or in the distribution side, there is some issue, some confusion?

Management: No. I think demand has been, at least in this quarter, fairly uniformly good all across the country.

Abneesh Roy: That is all from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Vivek Maheshwari of CLSA. Please go ahead.

Vivek Maheshwari: Good evening, everyone. My first question is, sorry, I did not understand, you said something, there is a different treatment for PPG-AP and AP-PPG, right in terms of consolidation or accountings as a joint venture partner. Can you repeat that please?

Management:

Although both the joint ventures are 50%-50% owned by both the companies; that is PPG and Asian Paints Limited, in the case of PPG-AP, the management control lies with PPG and hence it will not add to our topline. We used to add 50% of it to our topline earlier. It will no longer be part of the topline or any of the line items in the P&L. Only 50% of PAT will get added to our profits. While in the case of AP-PPG, it will be totally the reverse; the entire sales will get added to our topline, including all the line items.

Vivek Maheshwari:

Sure, understood, because of the control.

Management:

Yes.

Vivek Maheshwari:

Second on depreciation, quarter-on-quarter, there is an increase. I do not recall, but is there a capex, which is why the depreciation number is higher?

Management:

In March 2016, we had commissioned the third phase of Rohtak plant to 400,000 KL per annum from 200,000 KL per annum. So that additional depreciation is there, plus we had also modernized two of our manufacturing facilities at Ankleshwar and Kansa last year. Both these together have increased the overall depreciation that is being incurred this quarter.

Vivek Maheshwari:

The third thing is on the demand, which I know one of the earlier participants has also asked. But of all the consumer results that we see, the volume growth actually has deteriorated, AC Neilson is talking about a decline in FMCG or staple sector, whereas in your case, the growth has been surprising.

I am sure you would know what is happening on the ground, why there is such a big difference between, I would imagine paint being much more discretionary to that extent compared to any Staples and AC Neilson whatever it is worth, but it is talking about a decline in industry growth. Why there is such a big difference in the growth rates for two sectors within the overall consumption?

Management:

We know only paints, bath fittings and kitchens. We really do not wish to comment on any other category. We can only tell you that these three have grown, not only for Asian Paints, but for the rest of the industry.

Vivek Maheshwari:

Sure, if I put it like this, for last four quarters you have been consistently quite cautious, you have been guiding for an uncertainty in the market. So you have gone wrong to that extent, right. So what has drove this surprise, in your view then, when you are so cautious about the markets or you were just cautious for the sake of being cautious?

Management: If you go back to the decade from 2000 to 2010/2012, I was growing at higher double-digit volume. So I am not happy with the current growth levels, to be honest.

Vivek Maheshwari: Thank you so much.

Moderator: Thank you. We have the next question from the line of Lathika Chopra of JP Morgan. Please go ahead.

Lathika Chopra: On the demand side, just wanted to check with you, when you see the industry growth has been healthy, I believe you are referring to the organized industry, is there some sort of share gains from the unorganized segment more towards the lower end, which is driving this substantial or double-digit volume growth?

Management: It is very difficult to say, but I do not think so. I think the unorganized sector, as far as I have heard, has grown equally well.

Lathika Chopra: Secondly, just to check on your Indonesia foray with respect to getting regulatory approvals?

Management: Well, we have received some of the approvals, we have begun a little production and sale in and getting it processed in an outside unit and have started selling in the market in Indonesia, towards the closing days of June.

Lathika Chopra: And you did mention the standalone capex, anything significant on consolidated basis that one should be aware of for FY2017?

Management: Only in Indonesia, we are beginning construction of a plant, which is beginning construction; it should come online by close to January-end or so.

Lathika Chopra: And any tangible amounts here, that is possible to share.

Management: At an overall level, we have budgeted a number of roughly another Rs.80 crores-odd to Rs.100-crores-odd for the outside standalone businesses.

Lathika Chopra: Thank you so much.

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

Prasad Deshmukh: So couple of questions. Firstly, labor as a percentage of total house painting project. How has been the trend in the last four, five years there or the other way to ask would be, as a percentage of repainting project; paint as a component, how has been the trend there?

Management: So definitely labor is an increasing percentage of the overall cost, especially in small house painting. Our estimate is, labor would be between 60-70% of the cost of painting.

Prasad Deshmukh: And how was it say, five years back?

Management: Since paint prices have really not changed and labor prices had changed reasonably, it probably will be closer to 50% at that point of time. This is a rough estimate.

Prasad Deshmukh: Okay, so as a follow-up to that, are you seeing more of, it is a bit farfetched, but is there any increased activity in the form of do-it-yourself painting by consumers?

Management: No

Prasad Deshmukh: Second question is the capex that you have announced; will it have an impact on your excise and direct tax?

Management: No.

Prasad Deshmukh: Okay. Thank you so much.

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

Avi Mehta: Sir, in your adhesives business foray, I just wanted to understand, are you attempting or planning to have a different distribution approach than what you currently do, because this time versus what you do for paints?

Management: So in home improvement, we have dealers who are exclusively kitchen dealers, exclusively bath fitting dealers. And we also have quite a few of the coatings dealers who have taken up dealerships of these products. And we also have distributors selling accessories and bath fittings in that sense of the word. So in some markets we have gone with direct distribution, in some markets we have distributors. So it's a completely mixed network as both these business are acquired businesses.

Avi Mehta: And just so that I get correct. This is the first time you are doing the distributor led you are appointing distributors, would that be a fair assessment?

Management: Yes, first time in these businesses.

Avi Mehta: We have not done it in any other business is I want to get.

Management: In the coatings business, we are not doing.

Avi Mehta: We never did. Okay, and secondly, in terms of the demand pickup across putty, distemper, is there any divergent trends that you could highlight?

Management: I honestly would say a quarter is too early to go into that detail specific but by and large; there is all round growth.

Avi Mehta: Okay thank you so much Sir.

Moderator: Thank you. We have next question from the line of Richard Liu of JM Financial. Please go ahead.

Richard Liu: One accounting related stuff, this excise duty that is disclosed, is that excise duty on goods sold or excise duty paid?

Management: It is excise duty paid.

Richard Liu: Okay, so it has got no relationship with the sales number?

Management: Yes, correct.

Richard Liu: Okay, got it all right thank you.

Moderator: Thank you. Next we have Mr. Manoj Menon of Deutsche Bank. Please go ahead.

Manoj Menon: I am sorry if I missed this earlier. Could you explain the steep increase in the other expenditure line item, both in standalone and consol?

Management: So, by and large, you will see a better than topline increase on almost all the overheads. Specifically, marketing spend in Q1 have been higher than the earlier numbers.

Manoj Menon: Okay, so it is basically marketing, so no forex and no one-offs actually sitting there?

Management: No.

Manoj Menon: Okay, so essentially the way I can look at can I look at it saying that it is essentially higher freight and if at all because you sold more volumes?

Management: Freight was higher because of the diesel increase, but the major component was increase in some of the sales promotional expenses.

Manoj Menon: Secondly, just a top down question actually on the diversification, which you are now proceeded successfully with. From a capital allocation point of view, just trying to understand the top down

thought process here because historically you actually have had a 50% retained earnings or a 50% payout ratio and the balance largely goes to capex and plus little bit of retained earnings. So I am just trying to understand, directionally speaking, what is the thought process in terms of, let us say, the dividend payouts into the medium-term. What are the incremental capex requirements for the new businesses?

Management: At this stage, we are not looking at very significant capital allocation in the new businesses. That would alter any dividend.

Manoj Menon: No, I am not asking for guidance, I am trying to understand is that?

Management: By and large the capex plans, that number that we have announced, which is roughly that Rs.600 Crores for this year will go into coatings business capacity expansions. Even if you look at these new businesses and if you have to make organic investments in manufacturing capacity, as we scale these businesses, they are in orders of magnitude of the size of those respective businesses. They are not of the order where capital allocation choices will have to be made by the Board.

Manoj Menon: Understood. Actually my question was also including the new international forays, which you have in mind. So that also would take up a fair amount of capital. It was essentially everything other than India paints actually or India Decoratives.

Management: No, so if you are talking of any inorganic moves, etc., we only announce them when they happen. So I do not think that we can give any info on that.

Manoj Menon: No, actually my question was only on the organic capex actually. So you're essentially saying that the size of the organic capex?

Management: There will be some minor capexes for upgradations in some of the units outside India. But major capex outside India is into Indonesia.

Manoj Menon: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Good evening, just a quick clarification, when you mentioned this low double-digit volume growth in Decoratives, does this also include a component of premiumization or this is just pure volume.

Management: Volume growth has volume; premiumization I guess will come in value.

Aditya Soman: And then overall value growth, you said, has been obviously negative for this quarter?

Management: Lower than volume because we took a price reduction in the last quarter.

Aditya Soman: Understand.

Moderator: Thank you. Next we have Mr. Manish Poddar from Religare. Please go ahead.

Manish Poddar: Just wanted to understand, let us say three years back and standing today, has the repainting cycle actually shortened or actually lengthened and this is in context of the quality of paints and the labor cost increasing. So just wanted to get your thoughts on that.

Management: I do not think so. As the general level of affluence has increased, paint is almost a decor item in many urban centers as it is a maintenance item. And you can say it is used in architectural coatings for three different purposes, one is decor, one is maintenance and one is for repainting of rental homes. So in every rental cycle, there is also a painting. So I do not think there is any great difference. If anything, I think the painting cycle has decreased.

Manish Poddar: And what would it be today?

Management: See India is very diverse and different everywhere, but somewhere probably once in four, five years something like that.

Manish Poddar: And just clarity on this accounting thing, is there a difference in the quarterly run rate in the PPG-AP and AP-PPG sales, as such. Roughly about the difference between Rs.900 odd Crores and Rs.300 odd Crores, the Rs.600 odd Crores, should we account it quarterly about Rs.150 odd Crores, the sales would decline there.

Management: Yes.

Manish Poddar: So there is no difference in quarterly run rate right?

Management: There will be some difference?

Manish Poddar: Immaterial?

Management: Not material, not material.

Manish Poddar: Thanks.

Moderator: Thank you. The next question is from the line of Praveen Jaiwan of Falcon Financial Services. Please go ahead.

Praveen Jaiwan: The high-double digit volume growth that you mentioned from 2002 to 2012, you do not see that as a possibility going forward or would that be difficult given your much higher base now?

Management: We relate a lot to the GDP growth. If you get GDP booming again, under the old method of calculation, I think we are confident of delivering.

Praveen Jaiwan: Thank you.

Moderator: Thank you. The next question is from the line of Hem Aggrawal of RS Agarwal. Please go ahead.

Hem Aggrawal: What will be the installed capacity of Asian Paints as at March 31, 2017?

Management: End of the fiscal year. So we commissioned the Rohtak sales in March 2016. This year we are not commissioning any extra capacity.

Hem Aggrawal: So the current installed capacity is it 10 or is it 12?

Management: 12 Lakh KL.

Hem Aggrawal: Thank you.

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

Abhishek Bhandari: Sir, I just wanted to know what is your inventory policy or how much months of raw material do you purchase at any point in time?

Management: We do not take any position as far as inventory is concerned. So, historically or what you see now also, we are in line with what we need to service our customers and it is a very diverse, geographically and segment-wise customer base and manufacturing locations on the other side. So there is nothing else outside of it.

Abhishek Bhandari: The reason I am asking is if I look at your increase or decrease in stock line-item in this P&L, the number looks little higher, Rs.228 Crores-odd, Rs.229 Crores-odd on a consol level, which means you probably would have used some of the raw material purchased last quarter.

Management: Slight tweaks that will happen because of market conditions, because of what we intend to do the following quarter, because of how we are organized the manufacturing. I do not think there is anything else much outside of that.

Abhishek Bhandari: And Mr. Anand, again and again I am asking this question, some other participants have asked. You have been saying that once a particular margin gets crossed in a particular industry, it becomes too attractive for new competition, and what is the tipping point you think would be?

Management: When my competitors start growing much faster than me.

Abhishek Bhandari: Thank you.

Moderator: The next question is from the line of Mr. Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishnan S: Just a couple of questions. One, could you give us an outlook on the demand for industrial paints?

Management: Like we have mentioned, growth has been reasonably good in Q1. We are not the leaders in the automotive segment, so in the automotive segment, it depends to whom you are supplying in terms of your growth rates, but general industrial and automotive have grown fairly well in this quarter. In protective coatings and powder coatings too, the growth has been fairly attractive.

Krishnan S: And your Color Idea stores currently and expansion plans going forward?

Management: It is an ongoing process that will continue through many years. We have more than 300 Color Ideas up and every year depending upon the situation we put maybe 50 / 75 up more.

Krishnan S: Thanks a lot.

Moderator: Thank you very much. Next we have Ms. Suvarna Joshi of SMC Global Securities. Please go ahead.

Survana Joshi: Thank you for giving me the opportunity and many congratulations on a strong set of numbers. You have mentioned that rural demand is expected to grow on the back of a reasonable and a good monsoon that we have seen so far and as the Kharif season comes in. So just wanted to understand what the demand momentum that we have been seeing from Q4 and in Q1 now. Is it driven more by urban segment than rural or is it equal for both urban and rural? If you could just some thoughts on that?

Management: Rural has been consistently higher than urban.

Survana Joshi: Okay. So is it growing faster than urban in terms of say 1X or 2X or something of that sort?

Management: We will not be able to share the breakup.

Survana Joshi: The second question was on distribution. So have you expanded our distribution across the country in terms of the number of distributors we added or the retailers we have added to our network.

Management: So every year, we added about 2000 to 3000 retailers on an ongoing basis.

Survana Joshi: Alright Sir, so that was from my end. Thank you so much for taking my question. All the best.

Moderator: Thank you. The next question is from Mr. Ranjit Cirumalla of B&K Securities. Please go ahead.

Ranjit Cirumalla: Thanks for the opportunity. I am aware that you won't be giving any concrete numbers, but just wanted some qualitative analysis. If you see, we have taken around 2% product price cuts and that I guess would be effective for the entire quarter, the June quarter. And we are also aware that the last year we have witnessed, specific to the Asian Paints there was probably higher push at the low-end paints. So just wanted to get some sense on the product mix for this particularly specific quarter so whether it would have turned positive or it would still be under the negative terrain?

Management: I tried to explain last year, the adverse mix you saw, premiumization had continued all of the last couple of years, except a new category had come into being called powder putty which was at the lower end, which gave the feeling that premiumization had stopped. I think growth all across most categories have been similar.

Ranjit Cirumalla: Sir, I am not doubting that premiumization has stopped, we are aware that the premiumization would continue, but specific to Asian Paints, probably the numbers would distort a bit. So I just wanted to get a sense for this particular specific quarter ending June is that kind of aberration would have neutralized?

Management: That was not material, not any material change.

Ranjit Cirumalla: Thank you very much.

Moderator: As there are no further questions, I would like to hand the conference over to Mr. Krishnan Sambamoorthy for closing comments.

Krishnan S: Thanks a lot to all the clients; thanks a lot to the management, if the management has closing comments, please go ahead.

Management: Thank you very much for attending our call. Thank you



Asian Paints Limited

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