



“Asian Paints Q1 FY 2018 Earning Results Conference Call”

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ASIAN PAINTS MANAGEMENT

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Moderator: Ladies and gentlemen, good day and welcome to the Asian Paints 1Q FY2018 Earnings Conference Call 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 questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gautam Duggad from Motilal Oswal Securities. Thank you and over to you Sir!

Gautam Duggad: Thanks. Good evening everyone and welcome to the conference call on behalf of Motilal Oswal. We have the senior management team of Asian Paints with us. Without much ado I will hand over the floor to them.

K.B.S. Anand: Good evening everyone. Welcome to the Asian Paints Q1 FY2018 Conference Call.

ECONOMIC ENVIRONMENT:

It has been a challenging quarter for the Company both in the domestic as well as international front. The quarter started on a positive note continuing from the last quarter of FY2017; however, the domestic business was affected in the month of June in the run-up to the GST implementation from July 1, 2017. The Company witnessed de-stocking by the trade as a result of which sales were affected to a fair extent.

In the international markets, key units in Egypt and Ethiopia continued to face challenges around foreign exchange availability. The overall international performance was also affected by adverse exchange rate fluctuations.

DECORATIVE BUSINESS - REVIEW:

The Decorative paint business registered low single digit volume growth in the current quarter with the business getting affected especially in the month of June due to GST roll out from July 1, 2017. Though the transaction on the dealer front has been smooth, sales were affected due to de-stocking in the trade channel.

On a sequential basis, material prices continued to witness an upward trend in the quarter there by squeezing margins. We effected one price increase in the month of May 2017 (2.68%) on the back-over price increase affected in March 2017 (3%).

INDUSTRIAL BUSINESS - REVIEW:

The automotive coatings J, (PPG AP), witnessed good demand in the auto OEM and General Industrial Business segments. The Auto Refinish market was however impacted by the GST transition.

In the Industrial Coatings JV (AP-PPG), the Industrial Liquid Paints segment grew well. High material cost impacted margins for both these business in the quarter.

INTERNATIONAL BUSINESS - REVIEW:

The financials of the current quarter included financials of Causeway Paints, Sri Lanka which was acquired by Berger International Private Limited (BIPL), our wholly owned subsidiary, on April 3, 2017 and hence not comparable with the previous quarter.

Units in Nepal, Bangladesh and Oman witnessed good topline growth. However, currency devaluation in Egypt and forex unavailability in Ethiopia, impacted the overall performance of international operations.

Margins in the international business were affected by the rise in raw material prices during the quarter.

In the month of June 2017, BIPL had entered into a definitive agreement to divest the Caribbean operations. As a result, the financials of the Caribbean region have been disclosed as results from discontinued operations for all comparative periods. The sale was concluded on 24th July 2017.

HOME IMPROVEMENT BUSINESS - REVIEW:

Both the segments within the home improvement business - the kitchen business under Sleek and the Bath business under Ess Ess registered low growth in the quarter, largely impacted by GST transition effect in the month of June 2017.

CAPEX:

The capex plan for FY2018 at the standalone company level is about Rs. 1200 crores with about Rs.1000 crores spend towards the two new paint manufacturing facilities being setup at Mysuru and Vizag in South India.

The first phase of both the plants is expected to be commissioned in FY 2018-2019.

UPDATE:

Asian Paints will discontinue the production of Phthalic anhydride at Ankleshwar, Gujarat plant by the end of July of 2017 to augment the manufacturing capacity for paints, synthetic resins and emulsions.

GOING FORWARD:

While we have transitioned to the GST regime from 1st July, there could be some hiccups at least for the initial couple of months. However, a good monsoon across the country augurs well for consumption demand. We also need to be watchful on the raw material price trends to take the necessary action to protect margins.

In the international markets, we need to look out for the forex situation and its impact on units like Egypt and Ethiopia. At the same time, political tension in the Middle East could impact operations in the units like Emirates.

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

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of Mr. Manoj Menon from Deutsche Bank. Please go ahead. Mr. Menon your line is unmated you may go ahead please.

Manoj Menon:

Just couple of questions, one on the volumes if you could give a colour on what is the underlying volume excluding let us say the GST impact or any other one-offs you had?

- Management:** It is very difficult to talk of underlying volumes. All I can say is that sales in April were good, May and June were affected by GST especially June and we are seeing a reasonable good pickup in business from July. So just because it happens to be at the end of the quarter, I think the transition impact on volumes is considerably higher than it normally would be. We think this will even out in the next quarter.
- Manoj Menon:** The reason I am asking this is because at least in the large metros given your supply chain efficiency, the dealers keep very minimal stocks so it is very little down stocking, which is practically feasible, so I am actually trying to understand, where is destocking actually has happened?
- Management:** I think it has happened fairly all over. The issue has been that because of the government notification that they would get only 60% of the credit on IGST, it did not really make sense for them to carry large inventories where they would lose the excise duty benefit so to speak of excise duty already paid by the company for which they had paid the company. So they stocked as low as possible and beyond that it is very difficult to assess, especially the dealers who do some level of wholesaling or trading with the industry or builders, definitely took the stand of reducing the stock because builders and industry were interested in taking full credit for everything that came to them later.
- Manoj Menon:** Understood. Secondly, on the gross margins, given the little more than 2% price increase in March and probably similar quantum in May, which would actually work out to little more than 3% or 3.5% of actual price growth sitting in the current quarter so when I look at the gross margin decline in the price growth or as the price increase context just wondering which are the raw materials which are stressing the input cost table currently and what is your current sense on?
- Management:** The key raw materials that have really affected input cost are monomers like MME and Styrene and to an extent Titanium Dioxide vis-à-vis the previous quarter.
- Manoj Menon:** What is the sense now does the industry need more pricing in general to mitigate this impact, what do you see currently?
- Management:** Frankly, we do not give guidance's on all these sort of things, but, I think things will even out gradually. If they continue to rise, we will automatically take price

increases; but with the GST being implemented any price increase at this point of time may not be looked on by the government very favorably.

Manoj Menon: Understood absolutely clear... Sir just very quickly, if I may, just looking in the last couple of years based on the reported results of the other two players which is Kansai and Berger; Akzo to some extent also, would it be fair to say that Asian's growth is now largely in line with market or may be a tad lower?

Management: We think it is a tad higher.

Manoj Menon: The reason I asked this specifically because since all these companies have got multiple lines of businesses, it is a rough estimation which we did, fair enough. I am happy to hear that. All the best and I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just to continue on gross margin front; now we see there is a 70-BPS contraction after the two price increases, as you said to the input cost, is there any one-offs in these RM costs?

Management: There is no one-offs.

Avi Mehta: So, we should expect that this trend is to continue if RM prices remain flattish?

Management: See it depends on how the raw material trends continue; which is dependent on the world commodity prices for some of these chemicals. Some of these monomers were affected essentially by shutdown of large manufacturing plants in Europe towards the latter half of the last year and these are expected to come on stream this quarter... so situation should ease off. The positive is that the rupee has been stronger against the dollar and that has helped us recover by a bit.

Avi Mehta: Okay, so the inflation levels could come-off from current levels is what could happen? Sir, is the discounting has that elevated in this quarter?

Management: Margins in our case very marginally; if discounting has increased, it is essentially to remove stock, which we would not have had the excise benefit going forward from July 1, 2017.

- Avi Mehta:** Would it be material in this quarter, I understand for the year it will not be but would it be material for the quarter?
- Management:** It is not material.
- Avi Mehta:** Okay and Sir the second part was there any estimate of the Causeway Business amount of sales that we did in the last year in Rupees Crores or something?
- Management:** We will publish it at the end of the year. The previous closing year numbers were disclosed in the announcement.
- Avi Mehta:** Sir the reason why I was asking is that we have additional Causeway business and despite that the standalone and consolidated difference is exceeding a growth of only 1.5%, is that because of industrial or international is what I just wanted to gain?
- Management:** It is adversely affected because the exchange rate changes across the units, which is largely sort of impacting the overall consolidated business. The largest impact is that Egyptian currency has depreciated 100% over last year.
- Avi Mehta:** Lastly Sir, any tax rate guidance that you could give for the year?
- Management:** Sorry, we do not give any guidance.
- Avi Mehta:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** Thank you for the opportunity. I just wanted to understand the demand pickup from July onwards... has it been uniform across the different paint categories, adhesives, and the building products or is it more as the paint has picked up faster?
- Management:** It is too early to answer that question because different businesses operate in a different manner; some of the business operates through distributors, some directly so there are different patterns, but, I think it would be fairly steady because post destocking, the pickup has been reasonably good from day one.

- Anshuman Atri:** Any colour on whether the rural versus urban or was it uniform across?
- Management:** It was quite uniform frankly.
- Anshuman Atri:** Second question is regarding your raw materials... of late we have seen Titanium Dioxide and Styrene correct; do you expect these to continue on downtrend or some, so what is your sense on these corrections whether this will continue going forward?
- Management:** The Titanium Dioxide availability is definitely tight and so we do not expect large swing or correction downwards. Softening may have been due to some offtake changes that is globally that are seen, but on an ongoing basis we do not expect it ease off completely. As far as the monomer prices are concerned, there might have been impacted by capacity imbalances due to shutdowns. They may correct a little bit more as we go forward, but only when those particular capacities come online is when we will come to actually know what really is going to happen there.
- Anshuman Atri:** Thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thank you for the opportunity. Sir just wanted to know our current capacity and after the addition what kind of capacities we are adding?
- Management:** We have 1130000-odd KL of capacity at this stage across all over plants and in terms of utilization we will be roughly around 75-80% utilization, we will have to take into affect the ramp up that will happen in Rohtak, which we expanded last year; so that will happen slightly slowly and therefore the lower utilization levels. We will be putting up the two new plants in first phase which should be commissioned somewhere around next financial year-end with a capacity of 3 lakh KL each across the two plants.
- Kunal Bhatia:** 3 lakh KL each?
- Management:** Yes.

- Kunal Bhatia:** Sir, in terms of the raw material as you were mentioning about the monomers and TiO₂ going forward on a long-term, do you foresee the imbalance to increase or what is your sense because globally there has been a slowdown in terms of adding capacities, so what is your sense on the raw material trend on a long-term basis?
- Management:** In terms of the larger commodities whether it is MTO, monomers etc., we do not think anything will persist into the very long-term, because these things have a pattern for investment and an investment cycle that will be there. Whereas we do not think that is true for TiO₂. For TiO₂ there has been no new capacity additions other than the ones done by one western player. There is nothing at all that anybody has announced on the horizon so; from announcements, at least it is not clear that we will be seeing any new TiO₂ capacity. Our only hope is that the Chinese suppliers that had faced some constraint during the last two quarters in terms of production, may be they will come back to production and we will have some excess supply coming from those people. That is the only thing that we can look at from the capacity constraint.
- Kunal Bhatia:** Okay, but at this point in time, you do feel sort of a concern on the supplier side over a long period?
- Management:** I would not use the word the concern; I am just saying that they are evenly matched. Any drop in demand in other parts of globe will come to our rescue in terms of price drop. Any pickup or trend in the other parts of the globe will land up pushing the prices higher so I think a lot of it is depended on consumption at this point.
- Kunal Bhatia:** Okay and Sir lastly the current price increases that you have taken are fair enough to cover up the current rise?
- Management:** Sorry, We will not be able to comment on it.
- Kunal Bhatia:** Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Good Evening everyone and thank you for taking my question. Sir, just only one question because other one has been answered, the gross margin dip of 457 BPS,

while the input price has been the larger part of the problem but is there a mix change ahead of GST because if we recall, Q1 is very heavy emulsion quarter and has that mix has any linkage with this drop as well or is just the input prices and delayed prices?

Management: That is basically input price.

Amit Sachdeva: Only input prices, no mix change?

Management: No Mix Change.

Amit Sachdeva: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: Good evening. Thank you for the opportunity. First of all, can you give some qualitative commentary on the regions specific in terms of competition more specific in south region as compared to Kansai and Berger and are we losing some bit of market share into the south region?

Management: Sorry, We do not talk about competition.

Rahul Maheshwari: Can you give at least a competitive intensity in terms of how because the players are growing in decorative segment by 11% to 12% volume growth so can you give some quality comments on that?

Management: See, we do not live quarter-by-quarter and month-by-month and at the end of the year, I do not think, we will be growing lower than anybody else.

Rahul Maheshwari: Okay and is the market share remains intact where we were last year also?

Management: Yes.

Rahul Maheshwari: Second question, can you give highlights on how the waterproofing segment is growing in terms of the numbers specific in terms of growth rates as such and how is the distribution channel is going on into that?

Management: The growth has been excellent in waterproofing because it was waterproofing season prior to the monsoon so to speak, so it was relatively less affected by GST except you can say the actual destocking to an extent that may occur in the last ten days of June. So the growth has been good, high double-digit or whichever way you want to call it and I think we continue to make good progress on the waterproofing sector.

Rahul Maheshwari: Till now what is the penetration it has reached to in terms of the dealers network as we have 50000 dealers and what is your plan regarding the reach of this product?

Management: It is across the wide range of our dealer network especially in the urban centres and in the larger towns. It is available to the entire network. So there are certain waterproofing products that are more for like projects etc., and those are in fewer level of dealers but there are 4-5 standard products that are available across almost our entire network.

Rahul Maheshwari: This waterproofing the demand, in which you mentioned the high double-digit growth, is it from the new projects or it is from the existing route, which is going?

Management: Most of the waterproofing we are doing is essentially you can say what we call retail waterproofing that is sold through the trades for repair work etc., carried out on existing residences.

Rahul Maheshwari: How big the category can be, if we take a five years down the line today; it might not be into the lower single digit also as a region or data point on that?

Management: It is very difficult to provide any data points. See the market is very nascent in the sense the actual market may be about Rs. 2000-3000 Crores but I think what we have done in the last two years and what we expected for the years to come is to explore the market and grow the market much bigger than it already exists. So I do not think that it is harming anybody's business, we are growing the business.

Rahul Maheshwari: Any point on AP Homes how was the performance during the quarter and any number how much during the financial year 2018 how much the AP Homes we would be going forward?

Management: Two more AP Homes have been installed like we mentioned, one in Delhi and one in Cochin and another one is in the pipeline in Delhi. So for the two that has just started, it is too early to talk of their growth; they have met with initial good response but that would not be correct to comment on two-months sale performance; the one at Coimbatore continues to do exceedingly well.

Rahul Maheshwari: During the year how many AP Homes you would be opening, any guidance?

Management: We are approaching little cautiously because these are money investment wise fairly heavy from our side as well as from the retailer side and we want to be extremely confident that the model can work effectively.

Rahul Maheshwari: Last question regarding the 6 lakh KL which you would commissioning from the next year onwards, majorly it would be towards which category of the paint, that would be towards the emulsion, enamel?

Management: It is purely water based emulsion paints.

Rahul Maheshwari: Okay, whole 6 lakhs KL?

Management: Yes, All 6 lakhs KL.

Rahul Maheshwari: Thank you.

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

Vivek Maheshwari: Good evening. Firstly are all your dealers registered under GST?

Management: All would be a impossible statement to confirm, but we are aware that at least 90% of them have GST registration. Whether the others have it or not, is not yet confirmed.

Vivek Maheshwari: Okay and those who do not have you would not selling be to them is that fair?

Management: Yes. At this point of time we are not selling to them.

Vivek Maheshwari: Second about your comment that this is not an appropriate time to take up prices and I totally appreciate that but when you say this time as in what, do you employ entire FY2018 or for how long can you take?

Management: See there are a combination of trends happening; one is that the raw material prices increased very heavily in Q4 last year and in the beginning of Q1 this year. We could see abatement as we go forward and the rupee has sort of been stronger than we anticipated. So these factors put together, we have to see over the next couple of months how the raw material prices go before we take the decision.

Vivek Maheshwari: Okay, if the need be you can take up prices, right?

Management: Yes, we have never hesitated. I mean we were uncomfortable doing it on the day GST was declared.

Vivek Maheshwari: True. Third bit on tax rate while you cannot give the guidance, is there anything specific one-of in this quarter, this 33.5% tax rate that you have?

Management: This is because the income tax depreciation rate have been reduced in the current year to the maximum of 40% for most of the cases; where earlier we were getting like software were 60%; It has been cut down to 40% in this year. That is why you will see the depreciation in the tax percentage has grown up in the current quarter.

Vivek Maheshwari: So that would continue?

Management: Yes, that will continue.

Vivek Maheshwari: Okay, understood. Thank you and all the best.

Moderator: Thank you. We take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

Dheeresh Pathak: Thank you. I want to know your TiO₂ requirement are all imported or are there any domestic manufactures of TiO₂?

Management: One domestic manufactures, KMML based in Kerala We buy from domestic as well as international vendors

Dheeresh Pathak: Do you buy both, there are two grades, if I am correct, Rutile and Anatase, do you buy one specific or do you buy both like TiO₂?

Management: Essentially, we buy Rutile.

Dheeresh Pathak: Thank you so much.

Moderator: Thank you, we take the next question from the line of Mr. Sanjay Singh from Axis Capital. Please go ahead.

Sanjay Singh: Can you give us the sense of the GST impact, the tax rate was higher but there could be higher input credit etc. So on a net-net basis, does it impact your overall scheme of margins etc., everything else being the same?

Management: It should not have any impact; it will take some time to know the real benefits because from various suppliers and through various services, the level of benefits we can get; plus there would be some write off on stocks for which we cannot get credit, on the excise duty already paid. So, it will take a little time to get an exact assessment but frankly on the surface, they appear to balance out.

Sanjay Singh: That is it from my side. Thank you very much.

Moderator: Thank you. We take the next question from the line Mr. Chinmay Gandre from Future Generali. Please go ahead.

Chinmay Gandre: Thank you all for taking my question Sir. You just mentioned that around 90% of your dealers are registered with GST. So beyond your dealers are the other people like contractors and everyone also basically registered. What I want to understand is like our dealers also making sale to all the people who they were making earlier or may be the chain beyond the dealers are not yet compliant because of which base from your dealers have been slow?

Management: You are right, the whole chain will take a little time. It is very difficult to assess whether contractors and all will register for GST; but if they are supplying to builders who want GST compliance, I think they will have no option but to become compliant. But at the retail customer level in many cases, contractors buy the material on behalf of the retail customers where obviously there is no question of any credit. So, it all depends on the methodology of how the industry will

evolve in terms of what practices they will follow in terms of billing to really make out the impact.

Chinmay Gandre: But there would be also like dealers would be giving to small retailers and the customer would be coming?

Management: The wholeseller as was mentioned out there, wholesale trade would have got impacted prior to GST because of destocking. I think once the wholesalers have registered the rest of the networth would register so maybe there is some timing impact but I am sure everybody will register.

Chinmay Gandre: Any colour on this wholesale channel how that has basically moved?

Management: That level of detail is difficult. We do not have a large operating wholesale channel. It is extremely small only in those markets where it is difficult for us to really reach that could be the hilly regions or the highly rural regions. I am not sure GST will be really levied in a big way in all the smaller towns and villages.

Chinmay Gandre: Thank you Sir.

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

Richard Liu: Thanks for taking my question. Let me know how do you think about this if, I recall correctly I think in the last two years there was with regards to subsidy from state government, I am talking about Maharashtra here; about Rs. 270 Crores of income that was booked in fiscal 2017-2016 together and I see an item which is subsidy receivable from the government in the balance sheet of more than this Rs. 270 Crores, I think it was Rs. 285 Crores in the annual report. So, how should we take this quite a long delay in getting the payments?

Management: Actually this subsidy receivable, government finally permits it after the Sales Tax Return is filed. We have received for 2015-2016; 2016-2017 is work is in progress.

Richard Liu: Okay the fiscal 2016 all is now in the back and how this will be treated under GST now, is there any clarity on that?

- Management:** No, we are actually seeking clarity from the government basically SGST component, whatever the material sold in Maharashtra should be covered under this scheme.. that is what is our understanding but we are seeking the clarity from the government.
- Richard Liu:** Thank you. Wish you all the best.
- Moderator:** Thank you. We will take the next question from the line of Mr. Abhijeet Kundu from Antique Stock Broking. Please go ahead.
- Abhijeet Kundu:** My question was on the price hikes. The second price hike which happened in May and post that there was a destocking as well, so the thing is that the quarter as a whole as it is it was there for just two months and within that also you saw a lot of destocking happening, so my question is that effectively the second price hike of about 2.68% that has not fallen through in the financials, I mean that would have some amount of spillover; better impact in the next quarter?
- Management:** Yes, because it covered only one month in the third quarter. The next quarter will definitely have a better impact; I agree.
- Abhijeet Kundu:** Secondly, between decorative paints and industrial paints; In decorative paints there is a higher component of TiO₂, which is used in emulsions. Was there any differential impact of the higher input cost in decorative versus industrial paints during the quarter so industrial paints had a better margin as compared to decorative paints. I mean the impact of inflation was lower in industrial paint as compared to decorative paints?
- Management:** Industrial business also saw a pressure on account of rising raw material prices might not be necessarily because of the TiO₂ but the other components. The margins of the industrial business are lower than the corresponding quarter.
- Abhijeet Kundu:** I was just looking at even the lower margins whether the impact was similar?
- Management:** Impact would have been lower but they find it a little more difficult to have those price increases; they really have not taken the price increases, which we took.
- Abhijeet Kundu:** Thank you. That is all from my side.

Moderator: Thank you. We take the next question from the line of Mr. Shivam Gupta from CWC Advisors. Please go ahead.

Shivam Gupta: Thank you for the opportunity. I just got one question on the decorative paints side of the business; so if I look back past several years, there was like continuous period when we had high double-digit volume coming through and then now we are looking at this string of quarters where it has been now it has low single digit or high single digit around that space, so just on perspective from the management that do you think this is kind of a normal where you are settling at beginning your penetration in the size in the market or do you think that this is actually something which you would consider slightly disappointing performance over a long period of time?

Management: Obviously, we are disappointed by the lower volume growth rates; It is sort of linked to the growth rate of the Indian economy, if the Indian economy grows at a higher rate, we are confident of achieving double-digit volume growth rate quite comfortably. So, if you study the period of slightly lower paint volume growth rates on our part, they are intricately woven with the GDP growth rate being at a slightly lower level.

Shivam Gupta: That is fair. The other thing I want to know if there could be like two stances, one is that we keep doing our work and may be as the macro turns up the volumes are going to flow through and the other option may be that proactively you try to stimulate demand in some product or some regions. So if you could give in two colours there were two things; one is that if you could just help me understand what is the dealers base addition in terms of absolute number and also is it increased or slowing down compared to last year and the second is that through you advertising, I think you are re-entering this home paintings; is this some kind of stimulating for the market which the company is doing?

Management: Most of these activities, we may be doing for the last 15 years. So home painting started in 2000 it is not really a new activity but we never advertised in mass media earlier. We have extended the home painting activity to a network of 350 Colour Ideas stores and another 500 EzyColour store; where they also offer a service called 'Paint Total' where they undertake the jobs after training from company personnel. So, it is for that reason we activated the mass media campaign. It met with an initial good response but we have to see how it goes

further. We have entered into areas like waterproofing, wall paper etc., to stimulate both demand in terms of problem solving product as well as movement towards décor, because we feel if you move the needle towards décor, you definitely move up the value chain much faster than otherwise.

Shivam Gupta: It seems that having the dealer addition pace for the number?

Management: The dealer addition pace have increased; it has not decreased.

Shivam Gupta: Thanks a lot. Thank you.

Moderator: Thank you. We take the next question from the line of Mr. Rakshit Ranjan from Ambit Capital. Please go ahead.

Rakshit Ranjan: Just a couple of questions, firstly you said April was good month for sales, growth rates for all the first quarter of FY 2018.. any chance you can give some color on the quantum of this growth rate in April and also if the April, growth was a satisfactory indicator of your long term growth potential?

Management: April was lopsided because we had a price increase on May 1, so it would be wrong to give any figures; not that we give figure; but that will give you a wrong interpretation... but all said and done April was very satisfying because we had a good Q4 where we saw good growth rate start from after the impact of demonetization eased off, we saw good growth rates return on retail demand. Our channels do not stock too much. It stocks somewhere between 15-30 days inventory. From that perspective, we found demand good. It started easing off toward the middle of May, when channel as well as the larger parties, builders etc., were unclear how GST would impact them. All of them are very clear that they should not be carrying any stock as of July 1, 2017.

Rakshit Ranjan: Okay, so just linking this back to the previous question, given the momentum you can see in July and expected over the next few months are we almost where you expect the long term run rate of industry growth or your growth rate to be?

Management: In a scenario where things are more volatile, frankly it is very tough to talk of the current year. In the long run, we are definitely optimistic, especially if the government continues to improve the ease of doing business and implement measures like GST, which would facilitate carrying out business in the long run.

It seems the growth rate should improve, but finally it is linked to the economy improving and everything looking up.

Rakshit Ranjan: Fair enough. My second question is on the home improvement side; now its few years since you acquired Sleek and Ess Ess.. any three year or five year plan can you share for your home improvement division... how big can this be with organic growth... how big can it be with inorganic... what are the ROCEs benchmarks that you are using internally?

Management: To be honest, we are still learning these businesses. It will be too early to comment on that. Last year was a good year but the uncertainties first was demonetisation and now with GST, have made stabilization of these businesses a little difficult.

Rakshit Ranjan: That is it from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Mr. Mihir Popat from Arya Fincorp. Please go ahead.

Mihir Popat: I have two questions. First is on RM price hike; if RM price goes up further then is the Company comfortable in increasing the prices

Management: Yes.

Mihir Popat: Ok even with the antiprofitteering rule under GST.

Management: If raw material prices go up, there is nothing to do with antiprofitteering rules.

Mihir Popat: Can you throw some light on urban versus rural growth going forward?

Management: Growths have been good in both places; so there is not very different.

Mihir Popat: That is it. Thank you.

Moderator: Thank you. We will take the next question from the line of Mr. Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to understand as to how is the demand environment, now that the disruptions from GST is all behind us.

- Management:** I do not know when disruptions will be behind us but the retail demand is reasonably good at this point of time.
- Avi Mehta:** So, it is the channel is what I wanted to confirm because you highlighted that the large parties are also changing the buying behavior.... that is what I wanted to just clarify?
- Management:** That part of it will take a little bit of time. Builders for example have also got to register under RERA and all those acts. They have various other implications going on simultaneously with them from what I have heard, like somebody rightfully mentioned it is not only the dealer network but also the contractors etc., will have to register under GST, if they become complete suppliers in the market. Even the Cooperative Housing Societies would be using large quantities, so I think it will take a good part of this quarter to be able to get everybody on the same page and business going as per what we want to expect it. So if the economy holds, then I think the recovery will be faster because the demand would be there; if the economy stalls a bit then I think, we will have timing challenge.
- Avi Mehta:** Secondly you did highlight in this quarter that there was change in buying behavior as well as destocking at the channel. But was there stock-out situation as well at the retail end that you are aware of?
- Management:** No not really... so sales continued till the last day. It is not as if sales was not happening, it is simply that dealers only took orders what was required.
- Avi Mehta:** Okay and that reversal is something that we should expect as we move forward in this quarter or something of that sort, so would it have a sense in the inventory levels where they are you said 15-30 is what typically do you have number we could share on that?
- Management:** Frankly we have no way to track the number.
- Avi Mehta:** Thank you very much Sir.
- Moderator:** Thank you. We take the next question from the line of Mr. Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: Two questions, firstly I just wanted to confirm if there has been price increase after May. Just wanted to confirm?

Management: No. There was no price revision.

Prasad Deshmukh: And secondly can you give update on Indonesia Plant?

Management: As far as Indonesia is concerned, the manufacturing plant has been commissioned. They have received the business license to manufacturing our own products in our own manufacturing plant.. so I think from a viewpoint of our capability to service the market, that has got significantly bolstered. We have been able to open distributors across geographies; but I think we have to wait for secondary sale to happen.. that is when I can really come back and say whether the plans that we put into place in our product and network are really working for us. It will take some time. We should know the trends in terms of our acceptance and being able to deal in that market probably over the next quarter or two or so.

Prasad Deshmukh: What products are you selling here?

Management: We are selling our full range of products both solvent based, water based; essentially coatings products at this point of time.

Prasad Deshmukh: Any specific area in Indonesia that you are targeting initially?

Management: No currently, we have not had any specific targets but obviously the largest markets remain in and around Jakarta, Java and Sumatra. Obviously, we need to focus on those and have identified distributors and dealers across the Islands in that sense.

Prasad Deshmukh: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Mr. Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Two questions from my side, first of all is were there any efforts from the company's side to minimize this down stocking levels or was the company of the view that let it happen and it will anyways upstock in the subsequent quarter?

- Management:** It was pointless to really be able to compensate for any level of credit not available post GST implementation... so we did not take a conscious effort of that. We decided to focus on improving services to ensure that the retail demand of our products was not affected in any adverse manner.
- Sameer Gupta:** If you were to share the excise in your bill or in the invoice that you do not need to really compensate for anything because you get full credit for that?
- Management:** If you have to, then our entire chain has to have that since, the decorative product market did not require that. We were not geared to do that across... Secondly for the dealer to take credit, he would have to be registered for excise. For a month of work, I do not think our channel would be buoyed by the fact that they would be registering for excise.
- Sameer Gupta:** Got it and Sir, when we say that 15-20 day inventory used to be there pre-GST, do we expect to be back at this level or the new level might be a little lower?
- Management:** Tax will not make any impact on the inventory level
- Sameer Gupta:** Thanks Sir. That is all from side.
- Moderator:** Thank you, we take the next question from the line of Mr. Tanmay Sharma from Edelweiss. Please go ahead.
- Tanmay Sharma:** Thanks for the opportunity. The mix for the company has been largely stable on YoY basis but if I am correct, so putties and upper segment continues to go faster than the middle segment?
- Management:** Putties are growing a little faster, yes, but the putty market is probably growing even faster.
- Tanmay Sharma:** How is the universe planning out though we are adding more dealers, so still the universe is close to 50000 or that universe is also expanded?
- Management:** Our network is about 50000; universe is much larger.. it would be at least three times that figure.
- Tanmay Sharma:** That is increasing or that is stable?

Management: That is increasing because as urbanization increases, the towns and villages also increase.

Tanmay Sharma: On other expenses is there one of in terms ad spend bunching up in quarter or something like that?

Management: There is no off-item.

Tanmay Sharma: Thank you.

Moderator: Thank you. We will take the next question from the line of Mr. Tushar Chaudhary from Trust Capital. Please go ahead.

Tushar Chaudhary: Thanks a lot for the opportunity, could you throw some more light on international operations, Egypt and Ethiopia?

Management: As far as Egypt is concerned, you would already know that there was a devaluation of more than 100% last year so it will take some time for the country to recover.

Tushar Chaudhary: From the operational level?

Management: Operational level, there is no impact, but there is an impact from the overall growth environment in the country.. till that corrects obviously we have seen that demands condition is fairly challenging...we have to make sure that our input prices get corrected for the change in the de-valuation which was there, which is self dependent on imports in Egypt and overall forex availability has also been tight. This all put together have impacted our operations in terms of overall performance.

As far as Ethiopia is concerned, it is very simple. The country is facing foreign exchange crunch. We applied to the Central Bank for permission to get foreign exchange so that we can redeem the same for buying raw materials. It takes some time to get it through and there was delay in that which has impacted operations for some period of time - good three to four months was impacted. We have now received the raw materials. Other vendors who supply us packing material etc., also took some time to recover so we have had slightly elongated impact in terms of growing the topline and thus impacting the bottomline.

Tushar Chaudhary: Rest of the countries are doing well like Nepal, Oman?

Management: South Asia saw decent demand. There was some shift in Bangladesh due to the Eid and Ramzaan and all of those festivals but otherwise in Lanka we got impacted with floods and New year. In Emirates, we are impacted by both slightly sluggish retail demand as well as the impact of the embargo that the Gulf states have put on Qatar because we service the Qatar market from our Emirates operations.

Tushar Chaudhary: Thanks a lot.

Moderator: Thank you.

Management: If there is no other question at this part of time can we close please?

Moderator: It shows we do not have any questions would you like to give any final comments.

Management: Thank you everyone for participating in the conference call. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Motilal Oswal Securities that concludes this conference call. Thank for joining us.