



“Asian Paints Q1 FY20 Results Conference Call”

July 24, 2019



MANAGEMENT:

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**MR. JAYESH MERCHANT : CFO & COMPANY SECRETARY, PRESIDENT – INDUSTRIAL
JVs**

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Moderator: Ladies and gentlemen, good day and welcome to the Asian Paints Q1 FY'20 Results Investor Conference Call. 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 the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Nair from Corporate Communications. Thank you, and over to you, sir.

Arun Nair: Good evening and welcome to Asian Paints Investor Conference Call. We have Mr. KBS Anand – M.D. & CEO; Mr. Amit Syngle - Chief Operating Officer; Mr. Jayesh Merchant -- CFO and Company Secretary President - Industrial JV's; Mr. R. J. Jeyamurugan – VP, Finance; and Mr. Parag Rane – CM, Finance.

Over to Mr. KBS Anand to take the call forward.

KBS Anand: Good evening, everyone. Welcome to the Asian Paints Q1 FY'2020 Conference Call.

Starting with economy, the Indian economy seems to be in the midst of a slowdown with the GDP growth figures trending downwards on a QoQ basis for the previous financial year and improvement not expected even for the first quarter of the current financial year. The challenging business conditions were reflected in the coatings industry as well. Even on the global front, most of the major economies are witnessing lower growth conditions with continued uncertainties around trade wars and tensions in the Middle East region.

Against this challenging backdrop, our Decorative paint business did extremely well, registering a strong double-digit growth led by aggressive channel push across markets throughout the quarter. This was aided by the fact there was destocking in trade channels last year due to the reduction in GST from 28% to 18% from 27th July 2018. Material prices remained benign in the quarter and we took a selective price reduction of about 0.40% in a few solvent-based products to pass on the input benefit. Operating profitability was further helped by lower growth in overhead costs especially in the area of freight and marketing spends.

The adverse demand conditions also affected turnover of both the JVs in the Industrial Coatings space with the Automotive JV (PPG-AP) more severely affected by the sharp slowdown being witnessed in the entire automotive industry. The Industrial Coatings JV (AP-PPG) witnessed decent growth in the Protective Coatings segment while the Powder Coatings segment was negatively affected with demand slowdown across consumer segments. Lower material prices and contained growth in overhead costs, however helped improve the profit margins for both these JVs.

The International business performance continue to be a drag on the overall group performance with the key units of Egypt and Sri Lanka not doing well. The Sri Lankan units faced a period of market shutdown following the unfortunate events in the beginning of the quarter. Operations in Indonesia continue to scale up, though at a pace lower than expected, impacted by the elections and related riots in the nation.

Both the segments in the Home Improvement business – the Kitchen business under Sleek and the Bath business under Ess Ess, have registered good growth in the current year with continued focus on product portfolio and network expansion.

Consolidated Financials for Q1FY20: Revenue from operations increased by 16.6% to Rs.5,130.6 crores from Rs.4,398.6 crores. PBDIT before other income for the quarter increased by 24.1% to Rs.1,229.81 crores from Rs. 991.36 crores. PBT increased by 21.1% to Rs.1,010.4 crores from Rs.834.6 crores. Net Profit after non-controlling interest increased by 17.7% to Rs.655.5 crores from Rs.556.8 crores.

Standalone Financials: Revenue from operations increased by 18.2% to Rs.4,380.2 crores from Rs.3,706.2 crores. PBDIT before other Income for the quarter increased by 25.1% to Rs.1,175.35 crores from Rs. 939.47 crores. PBT increased by 22% to Rs.986.3 crores from Rs. 808.1 crores. Net Profit increased by 20.5% to Rs.652.4 crores from Rs. 541.6 crores.

The Company has implemented the new accounting standard on leases – IND AS 116 w.e.f. 1st April 2019 retrospectively. Accordingly, the financials presented for the previous years have been restated. The net impact on account of this is reduction in PBT of Rs.3.75 crores at the standalone level (Rs.1.85 crores impact on PBT of first quarter of previous year) and a reduction in PBT of Rs.4.56 crores at the consolidated level (Rs 2.16 crores impact on PBT of first quarter of previous year).

The CAPEX plan for the company for the current year is planned at about Rs.700 crores.

Going forward: As mentioned earlier, the overall business conditions in the economy remain challenging with many sectors facing slowdown. This could adversely affect the demand conditions even for the Coatings industry and we would need to be watchful on this front. The progress of monsoon across the country has been significantly below average so far and this adds to the uncertainties going forward. In the International markets, a key concern would be the emerging situation across the Middle East. And while Ethiopia unit has been able to successfully manage its forex requirement in the first quarter, the availability of forex for businesses on a continual basis still remains a big challenge.

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

Moderator: Sure. Thank you very much. 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: Sir, my first question is on other cost in the standalone business. So, your QoQ other cost is down sharply and YoY also is only 10% growth versus revenue growth of 18%. Mysuru and Vizag factory got commissioned. So, is the cost fully showing? And second, we are seeing ad intensity come down in most other consumption because of the in-general slowdown and outlook, etc., so, is the ad intensity lower in your segment also in the paint industry?

Management: For both Mysuru and Vizag, we had some level of production coming out in the first quarter but not at that scale; it will obviously increase going forward. So the cost will build up. But yes, there is a cost build-up because of Mysuru and Vizag, but there is limited production in Q1. And it is there in both employee cost and other overheads.

The advertisement cost, we budget at the annual level and break it up over the years. It tends to be a little lower in the first quarter and increase as the season comes into play. This time since the IPL started from March, there was an implication of some ad spend which went into the last year and therefore a little bit of effect with respect to the spend in the Q1. But no major thing in terms of the ad intensity coming down.

Abneesh Roy: And sir, second question is you mentioned aggressive channel push. So, if you could elaborate that? My question is essentially if I see your volume growth in domestic business that is at a multi-quarter high if I ignore December quarter which was benefitting from the festive mismatch. So, when everywhere discretionary consumption is down, is it because of the aggressive channel push or the putty and distemper essentially firing all these, could you elaborate how has the core deco ex of putty and distemper done?

Management: Well, it has been double-digit volume growth there too.

Abneesh Roy: So, sir, in spite of your own first comment being economic slowdown in India and in general you are aware of what is happening, why acceleration is happening because your base is also quite high; 12.5% base? Could you elaborate aggressive channel push, what was that?

Management: With respect to the channel push, we were just being more proactive this year in terms of the way we worked with the channel and we felt that we had a set of innovative kind of schemes working in the market which possibly would have filled the shelf space slightly much better this year in the first quarter to that extent and this has been across the markets, across geographies in terms of the work which we have done. We also feel that while the overall economy has been down, the kind of growth which we are seeing possibly in the smaller towns is much higher than what we are seeing in the bigger metro cities. So, that would have led to a bit of kind of cue in terms of the growth which have kind of happened for us to that extent. And the third reason being is that given the GST correction which has happened, we feel that there would be some implications on the unorganized sector with respect to some of the product/shares which is coming from the unorganized sector given the fact that prices are definitely much more competitive now on the economy side.

Abneesh Roy: The two follow-ups here; one is most companies are seeing tier-2, tier-3 because of the liquidity pressure dealers are facing. There is a consumption which is not being met essentially. So, there is a demand slowdown because of that. So, are you not facing that and is that also leading to unorganized or smaller players losing market share because of the liquidity pressure they are not able to manage all these?

- Management:** As far as we are concerned, we are not seeing that much of a pressure on the liquidity as far as the smaller towns are concerned. Asian Paints is also the first of the companies to fill in the shelf at times at the counters. So, to that extent, I think we are fortunate to get first of the payment coming from the dealers to us. So, overall we feel that in our case we seem to have been still kind of growing better in the smaller towns as compared to other metro towns.
- Abneesh Roy:** And regional players or small players, are they facing that liquidity pressure more, is that also aiding apart from GST cut?
- Management:** That we do not know in terms of what they are facing but what we can tell definitely is that given the GST decrease which has happened, there is definitely a better competitiveness at the economy end.
- Abneesh Roy:** Sir, last follow up on the aggressive channel push. Is it at the dealer level also and the consumer end also or is it largely dealer?
- Management:** No, largely it is at the channel level which is the dealer level.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Just on the first comment that you have made that this quarter benefited from a favorable base because this quarter it seems in channel destocking. Is there any estimate that you can share of the likely benefit that could have come from this or this could help us understand the underlying demand momentum?
- Management:** It is very difficult for us to assess this.
- Avi Mehta:** The second bit was on the gross margin side. Now, just wanted to understand does the current level of input cost is that factored in the current gross margin or there was some inventory benefit or higher inventory, how should I...?
- Management:** Gross margin reflect our current price... that is the outlook sort of going forward.
- Avi Mehta:** Lastly sir, the other expenses growth, you alluded towards the fact that there was a divergence in the ad spends. Other than that, all the costs related to the capacities ramp up are now in this space, right, was that understanding correct?
- Management:** There would be some buildup as we sort of ramp up Mysuru and Vizag. But by and large all the costs have been considered.
- Avi Mehta:** In the annual report, you have highlighted that the festive timing could be a core source of concern for us. Could you elaborate how does that become an issue and does the current monsoon the way it has ramped up change that comment, if you could kind of just comment on that last part?

- Management:** Last year we had a late Diwali in November. So, you had a long Diwali season so to speak. As a result, longer painting period post the monsoon. This year with the significantly earlier Diwali, the painting period post monsoon theoretically is much shorter. When the monsoon will actually stop and we currently do not want it to stop easily because there is a water shortage across most of the country. Obviously, the number of days which rural India and small town India use for painting for pre-Diwali reduces considerably. This puts pressure on how much can be done prior to Diwali and we have seen longer Diwali season tend to be beneficial for the paint industry. If the monsoon does badly, I think everybody is in trouble in rural India but that is a different question altogether.
- Avi Mehta:** Any divergence in the growth you can say urban is X, rural will be like 1.5x or anything like that you have...?
- Management:** Sorry, we will not be able to comment on that.
- Moderator:** Thank you. The next question is from the line of (Prachi Kodikal) from Bay Capital. Please go ahead.
- Nikunj Doshi:** This is Nikunj Doshi here. Just wanted to understand how is the industry growing in domestic sector and have we gained market share in that respect?
- Management:** We will have wait the results of our competitors before confirming anything.
- Nikunj Doshi:** In terms of the growth, is economy growing faster, premium growing faster, can you give some insights into the demand pattern which segment is it coming from?
- Management:** Economy is much larger. That is a reality. But all segments are growing.
- Nikunj Doshi:** Again, you mentioned that you are doing well in rural area. So, rural mainly would be economy or you are seeing some premiumization trend there as well?
- Management:** Rural has the entire range of products including the expensive products. Actually cheaper products are used in urban centres.
- Nikunj Doshi:** So, premiumization trend you are seeing across?
- Management:** Yes, that is a continuing trend.
- Moderator:** Thank you. The next question is from the line of (Vicky Panjabi) from JM Financial. Please go ahead.
- Richard:** Hi, this is Richard here. I have a simple question and it relates to this other expenses line and I am referring to the P&L account pre the IND AS change given that you have quantified that there is about Rs.62 crores impact on EBITDA because of this IND AS 116. So, if I add back this Rs.62 crores number to your other expenses line, I get a number of Rs.800 crores of other

expenses in the way we have known in before the IND AS 116 impact. This is a number which is significantly lower QoQ. I understand you spoke about this higher A&P in 4Q, etc., But I am just trying to reconcile that considering that you had two new large capacity, one of which came into being in Q3 and the other one in Q4, how did you manage with such a steep QoQ decline in other expenses? I am just trying to understand that a bit better, that is all.

Management: Larger issue between Q4 and Q1 is larger amount of advertisement spends in last Q4 versus the Q1 of this year. Also, with Mysuru and Vizag coming onboard, we have certain benefits on distribution cost which gets sort of adjusted in the overheads. But a larger benefit will be because of the advertisement spends.

Richard: If I leave Q4 aside, Q3 the other expenses was about Rs.800 crores and this was before the second plant came in if I remember correctly, I think one of the plants came in at Q3 and the other one came in at Q4. So, Q3 other expenses without the second plant was about Rs.800 crores and Q1 on an adjusted basis with both the plants has been..... crores similar number. What can account for such efficient lowering of cost structure?

Management: Two things, Richard; one is Q3 number we have not published under IND AS. Whatever the quarter and the yearly numbers we have published in the results, all are like-to-like basis comparable, first. Second thing is last year there was a major chunk of foreign exchange impact on the overhead front. But in the first quarter we also had a benefit because of the rupee versus dollar that is it turned out to be on the other side and also there is some kind of benefit this year. Under Indian accounting standard, foreign exchange gain or loss is on whatever the extended credit period accounted as either overhead or gain as other income.

Q1 and Q2 of last year we had an exchange loss versus some amount of gain in current year Q1. So, that also sort of derailed the picture on the overhead.

Richard: I am just comparing the figure of Q3 last year with Q1 this year because Q3 is when one of the new plants had come up...?

Management: Richard, as we said, the cost for the two plants is getting built only to a small extent in Q1. It will get built up progressively as the utilization increase. While there is a cost of both these plants, Q1 is much of on the lower side. That is the explanation for the two plants that we can give.

Richard: But there have been some unabsorbed fixed cost which anyway would have been there irrespective of whether you had high production or not?

Management: As we said, these are not very big cost sitting in Q1.

Richard: So, as you ramp up production, you are saying the cost will go up?

Management: Still go up.

Richard: And this will be offset by freight gains that you mentioned a little while back?

Management: Some benefit in Q1. Hopefully that continues.

Moderator: Thank you. The next question is from the line of Prashant Poddar from ADIA. Please go ahead.

Prashant Poddar: Sir, very quickly, we understand in some of the northern markets higher number of marriage days or seasons or something like that. Would that have contributed in any significant manner to the kind of volume growth we are seeing in paints industry?

Management: It would have had an impact definitely.

Prashant Poddar: In any significant manner or is it like business as usual kind of ...?

Management: Every year there is a marriage season in that period. If the days are more, the marriages get clubbed in a fewer days so to speak.

Prashant Poddar: The other question is if we look around at the commentary of some of the consumer sectors or consumer-related financing businesses as well, they are pointing towards pretty weak set of consumption environment out there. This obviously comes as a pleasant surprise and given it is a large company we would want to understand more of the trends from you, how are you looking at the environment in the forthcoming period, not immediately but in general how do you think the year is likely to pan out in terms of volume growth in Decorative?

Management: We really do not give forward guidance so to speak but like I said it is a lot dependent on how the overall economy does, how the monsoon does.

Prashant Poddar: You would not be directly impacted as much by the builder segment, right, most of your consumption is from the secondary market?

Management: Yes, majority of our consumption is from the secondary market but the builder segment does affect us to some extent, it also affects our home improvement businesses, Ess Ess and Slek little more significantly.

Prashant Poddar: In terms of margins, you always have given a cautious kind of indication for the future that...? So, you still think that the margins which have further moved up are higher than what you would want to be in the medium-term?

Management: We did reduce prices towards the end of the quarter in Solvent-based products. We still are uncertain given the Middle East situation what really would be the crude prices and the rupee prices. So, we are waiting for things to stabilize a little bit before we decide what next to do.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

- Latika Chopra:** My first question was, was there a considerable difference in primary and secondary retail sales for paints during the quarter versus the trends that you have noticed in the previous quarter particularly at the secondary level?
- Management:** We have nothing like primary and secondary sale. We have only sale, our dealer sell. We have no distributors.
- Latika Chopra:** Yes, but any feedback that you would have seen at their end from a retail end customer sales, have those growth trends remain really resilient?
- Management:** Given the constraint in money and space, if sale does not occur, they are not going to buy more from us.
- Latika Chopra:** So, you do not think the channel inventory would have moved up during the quarter?
- Management:** It might have moved up a little bit essentially because last year there would have tended to be a little bit of destocking due to the announced reduction in GST from 28% to 18%.
- Latika Chopra:** Secondly, any comments on promotional intensity in the space and would it be possible to share what is your net realization growth during the quarter, positive or negative?
- Management:** Everything is similar, on both the areas there is nothing significantly different from the past.
- Moderator:** Thank you. The next question is from the line of Amit Purohit from CGS CIMB. Please go ahead.
- Amit Purohit:** Just on the industry structure, I wanted to check with you. Has the painting processes changed over the last five years wherein the way the painting is conducted now versus it was say probably five years down the line because we are moving towards more premium products, is the process of putty, primer followed now more rigorously than it was earlier?
- Management:** Painting processes have changed to the extent that the use of mechanized tools has increased especially in the project business in a much more significant manner. So, spray guns and some of the other mechanized manner of tools have been used more, but I do not think there is any other...and bringing together a water proofing with painting as a part of the application process has come into bay.
- So, there are two things happening there -- at the economy end what we find is that possibly the use of direct top coats is something which is more prevalent rather than putting the entire system. At the mid and the top end what we are finding is that the full system usage is more in vogue and that is kind of getting complemented by the usage of water-proofing coming as a initial thing, then added to it is the primer putty primer kind of a combination which kind of comes in. So, there is a differential in terms of how consumption in painting which is happening at the economy end and at the mid and the top level.

- Amit Purohit:** A follow up on this. As the premium paints are moving up to consumer, so the full process painting which is primer putty, primer and then two coats or three coats that is now getting utilized more, right, versus when five, six or ten years back only probably a normal tractor emulsion or for that matter...?
- Management:** That is what I was trying to explain you that there is a difference. At the economy end there is still a lot of abuse which kind of takes place where we will compromise on cost because there is a cost constraint which happen there. At the mid and the top level there is a consciousness of using bit of quality branded products kind of going up and people kind of tend to follow the system because they want to kind of get warranties and other things which are there in the system to kind of get.
- Amit Purohit:** One on the overall demand, while I understand it is difficult to predict in terms of volume growth, you do not give any outlook, but from your experience, what are the factors which you feel could probably result in just a mid single digit kind of volume growth in the paint industry and what would be those variables if you could just broadly highlight those?
- Management:** Like we mentioned, it is on the overall economy and the monsoon at this point of time.
- Moderator:** Thank you. The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.
- Bhavesh Shah:** Sir, you mentioned about aggressive channel push. I am just curious to know where is this getting captured in your P&L. If we look at your gross margins are clearly up 2% points sequentially and even if we look at your other expenses, they look quite subdued, you have also called out that the marketing spend were relatively lower, so what exactly do you mean by aggressive channel push and where is this getting captured in your P&L?
- Management:** Aggressive channel push does not always mean that it has to be higher spend. Aggressive channel push also means strategically how you are kind of aiming for what periods and what you are kind of doing. So, I think that is the difference in terms of what we have used in terms of being as I said more proactive and utilizing the timing very-very carefully in terms of what we did and at what time we need to kind of put in and the kind of designing of possibly various kind of spends which we have done in the market. So, you are right, it might not show in the balance sheet.
- Bhavesh Shah:** You are more surgical this time. I am still trying to understand, apologies, I am not able to understand but your more strategic spending, what do you mean by that?
- Management:** It means using your money the best in a way that will drive your sales better. I agree you need to do it every time but sometimes it works better, sometimes it does not.
- Bhavesh Shah:** Secondly, you mentioned somewhere in your commentary that there was some forex loss in the previous quarter versus some gain in this quarter. So, can you just share some numbers on this?

- Management:** The year number is there in the balance sheet. We do not give QoQ number because it tends to change depending on the rupee and dollar rate.
- Bhavesh Shah:** No, I am just trying to understand what were the like-for-like growth in your other expenses adjusting for these FOREX losses, so if you can give some color on it, that will be very helpful sir?
- Management:** We cannot really share this number on a quarterly basis. You have to excuse us on that.
- Bhavesh Shah:** I understand your commentary that your new plants are still ramping up. So, probably some of the overheads are not fully reflective. But your staff cost should be fully reflective, is it a fair assumption of your new plant?
- Management:** Yes, it is reflective.
- Bhavesh Shah:** When did we take this price cut of 1.25% in these Solvent-based products and what is the proportion of your portfolio in this?
- Management:** No, we never said that we took 1.25%. Aggregate is about 0.4% in terms of what we have taken and what we did was that this was done in a two-phased manner – one was done on 1st of May and the other one was done on 1st of June.
- Bhavesh Shah:** No, I was just referring to your conference call introductory remarks where you mentioned somewhere 1.25. Okay, fine. The aggregate is 0.4% at the company level?
- Management:** At a portfolio level, it reflects 0.4%.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Just two questions. I am more keen to understand in terms of dealer push in the annual analyst meet, you have guided that we will add about 5,000 new dealers. So, if I actually look at the paint industry, it is roughly about 1.2 lakh outlets. So, is there further significant scope for us to go up to another 5,000 in the following year and the growth of aggression.....
- Management:** I think outlets are increasing by at least 10% every year year-on-year, as urbanization is increasing, the scope is unlimited.
- Shirish Pardeshi:** I am trying to understand, with this addition of new account, you said there is a channel push basically this 10% outlets are qualifying in terms of your promotions which you are running for them or dealer promotions?
- Management:** There are two things – one is the channel push which can happen on old dealers, new dealers combined and the second is basically proliferation of newer counters which is independent of the channel push which would keep on happening as basically towns expand and more towns

come into the place and so on and so forth. As urbanization happens the number of counters keep on increasing. So, both things are happening – one, there is issue of channel push which is happening at the overall channel and second is there is a proliferation by adding more and more new counters today.

Shirish Pardeshi: The other question on this is that what is generally the channel or maybe trade or maybe dealer what we call is the inventory what you have seen this year and the last year in terms of number of days of sales?

Management: As we said that there has been a little bit of increase of inventory which has happened but by and large it is not that you are seeing a huge kind of a pipeline inventory going up kind of a zone to that extent, but yes, definitely there is a little bit of increase in inventory possibly at the stores in terms of what would have happened this year in the first quarter.

Shirish Pardeshi: I got your point. I am just trying to understand, Q1 has been a weaker seasonality. So, what kind of channels stocking happens in the first quarter? I do understand that when the festive season begins, the inventory will be higher.

Management: So, what literally happens is that it is also dependent on Diwali being earlier or later. So, to that extent possibly the wholesale cycle starts happening from July and therefore sometimes what happens in a shorter Diwali period, the June end inventory would be little bit higher as compared to possibly longer Diwali year to that extent.

Shirish Pardeshi: I got your point, Amit. I am more keen to understand these inventory goes up by two weeks or three weeks or a month?

Management: Nowhere near that period, but we have no clue how much it goes up by to answer you honestly.

Shirish Pardeshi: If we can break up the contribution from top-12 metros versus rural? You may not be tracking rural absolutely but maybe if we can split to what is the top-12 metros versus rest?

Management: I do not have those figures off-hand but our rural is larger than urban. And we can tell you that geographically, there is not too much of a difference.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

Pulkit Singhal: Sir, one is from the water proofing side. #1, is the demand lot higher in 1Q in general versus all four quarters and do you think this year in particular it has triggered faster painting cycle kind of demand which has helped?

Management: We are expanding the market in our own way. So, we feel that today there is a laterant water-proofing requirement both at the repainting and the new construction level and we are putting in new products, new usages across the segment so that we are able to fuel more sale of water-proofing to happen. So, whether it is old houses in terms of having leakages or it is in the new

houses to that extent. And we are trying to make it basically a default part of the whole painting cycle so that every painting cycle uses a water proofing product so that it kind of increases consumption.

Pulkit Singhal: Secondly, when we met you, you are pretty cautious on the growth aspects and mentioning it to be uncertain as well. Now, when I look at 1Q itself, the economy has not been in good shape and that is clearly reflected in every other companies' financials. I understand there are certain one-off aspects like a favorable base and then aggressive channel push but you also talked about certain structural aspects like smaller towns which are growing faster and shift from unorganized and even say this water-proofing. So, that suggests there seems to be some delinking happening at this stage for Asian Paints growth rates versus the economy even for a small period of time. So, why is there some cautiousness in the commentary from...?

Management: Not necessarily because overall the macro factors would always overweigh some of the structural shifts. So, unless basically the overall economy according to us why we are being cautious because that is a reality, we do not know in terms of where the economy is going and how is the monsoon kind of going to fuel, some of this demand and consumption which is going to happen in the market. See, from our point of view, we will continue to kind of work in terms of trying to make the shifts which are happening which would only kind of do better if the economy and the monsoons kind of do well. So, I think it is a win-win situation in that stage that if the overall macro factors are with us, I think we would see possibly good numbers, but it is all totally dependent in terms of how the overall macro parameters pan out.

Pulkit Singhal: Just to understand the reach better of the overall paint sector and also for Asian Paints. The 60,000-odd dealers that we have, how many towns and cities are we covering in the country?

Management: Offhand we would not be able to tell you the numbers in terms of how many towns which we would be covering but basically all towns which possibly population of more than 10,000 we will have a good representation.

Moderator: Thank you. The next question is from the line of Ayush Bagla from SBICAP Securities. Please go ahead.

Ayush Bagla: You have taken a price cut of 0.4% on the solvent-based. What would be the proportion as a percent of the total portfolio versus Emulsions and other lower end products, if you could just give a rough estimate also that would be fine?

Management: We do not give such estimates, sorry.

Moderator: Thank you. The next question is from the line of Krishan Sambamoorthy from Motilal Oswal. Please go ahead.

Krishan Sambamoorthy: If I understand correctly, there was a deterioration of mix that happened and particularly it worsened towards the end of last year. Has the deterioration of mix been arrested now?

- Management:** No, we did mention that the lower economy end continues to grow significantly faster, whether it is partially fueled because of the shift from the unorganized to the organized, we are not really clear. So, the trend continues to an extent.
- Krishan Sambamoorthy:** Was the delay in monsoon also favorable for you in terms of an extended painting season?
- Management:** Not necessarily because what really happens is the delay in monsoon puts more anxiety for people to kind of really stock as well because as I said that there is a little bit of preparation which happens for the season at this point of time. So, people live by the day, in the sense that if there are rains getting kind of delayed, they will be totally dependent on the consumption. So, I think a lot of customers would also not tentatively come in because they also do not know when the monsoons would start to that extent. So, I do not think it is linked very strongly to that.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** One more follow-up. On the non-painting business basically what is happening in Sleek? The numbers are very impressive. Is the dealer expansion now started firing in both Bath and even Sleek?
- Management:** Things are better but since a larger proportion of the business goes to new construction, the overall impact on the building industry credit terms there, etc., have been a little bit of dampener. We would have liked to have done much better.
- Shirish Pardeshi:** What I am asking is if I compare a standalone Sleek business, it was always been stronger into the south market and then we were trying to expand into the northern market which is actually a good spender in terms of home improvement and solution. So, is the dealer expansion much more aggressive in the north?
- Management:** Overall, we are expanding across the country in terms of putting new retailers and new distributors kind of a thing in terms of going. Obviously, some of that is giving us results in terms of a far better reach and therefore also the entire kind of a product mix kind of reaching there. So, we have also worked in terms of ensuring that the supply cycles are shortened to the retailers to that extent and that is a back-end supply chain work which has happened in terms of really giving us capability to supply better. So, all those things are auguring well for us in terms of looking at a much better reach happening in these two businesses.
- Shirish Pardeshi:** I got what you are saying but my whole question is that in the services part is Sleek growing faster or is the products business growing faster?
- Management:** It is not a question of faster because it is a very small business overall at this moment. So, you cannot relatively compare it with the Deco business to that extent because there is no comparison between the two immediately.
- Shirish Pardeshi:** Any comments on the Bath business?

- Management:** Overall what has happened is that there is a lot of consumption which happens with respect to the projects business also which is the new construction business which happens. I think we would have kind of grown better if the market liquidity would have been better and the new construction space would not have kind of slowed down currently. I think there is some part of effect which has happened on the Bath business because of that because the projects business has been affected.
- Shirish Pardeshi:** Repainting is more than two-third of the business. In home improvement, how much business comes from the reconstruction or...?
- Management:** It is largely the same. It depends on which player is auguring for what kind of a zone to that extent. In our zone, the Bath business still would be about 25-30% of the new construction.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Just wanted to understand in terms of demand, how has been the demand especially from the new construction or new project space vis-à-vis the repainting demand also taking into account this concept of affordable housing, has it really helped us vis-à-vis say the last year period?
- Management:** As far as the new construction goes, we have not seen any kind of increase in terms of that demand coming either at the premium sector or the affordable housing kind of a zone to that extent. What we definitely see is that the infrastructure projects is something which is on the rise, to some extent we are finding that there is good activity happening on that front which is also kind of fueling some demand.
- Kunal Bhatia:** That would be how big as a portion if you could share?
- Management:** No, we cannot share it.
- Kunal Bhatia:** Sir, the repainting part is still showing the similar pace of growth?
- Management:** The repainting overall is little bit subdued. It depends in terms of some geographies it is doing well, some geographies it is not to the tune where we would like it. So, it kind of varies from some geographies to geographies in terms of how it has been doing.
- Kunal Bhatia:** So, to sort of conclude is the infrastructure project business which has also led to some kind of an increased growth in this current period?
- Management:** Definitely, it has some impact in terms of the overall projects business in terms of what we do, so it has definitely given us some flip to us overall.
- Moderator:** Thank you. The next question is from the line of Aditya Gupta from Goldman Sachs. Please go ahead.

- Aditya Gupta:** A couple of questions; first one, on the innovative schemes that you mentioned you had for the dealers, etc., so was this proposed for this quarter itself or will the benefits be there permanently going forward where you have more shelf space, etc.,? And second one, was there any easing of terms with the dealers in terms of higher margin or more working capital days to the dealers to offset the liquidity pressure in the system?
- Management:** The second, definitely, no. You always do innovative schemes. You really cannot ensure what will work and not work. So, it has worked in the first quarter is all we will say.
- Moderator:** Thank you. As there are no further questions, I would like to hand the conference back to the management team for any closing comments?
- KBS Anand:** Thank you very much. Look forward to a great year. Good bye.
- Moderator:** Thank you very much. On behalf of Asian Paints, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.