



“Asian Paints Limited Q1 FY 2021 Results Investor
Conference Call”

July 24, 2020



Management :

MR. Amit Syngle : MD & CEO
Mr. R.J. Jeyamurugan : CFO & Company Secretary
Mr. Parag Rane : GM – Finance
Mr. Arun Nair : Manager - Corporate Communications

Moderator: Ladies and gentlemen, good day. And welcome to the Asian Paints Q1 FY 2021 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 call, 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 a very warm welcome to everyone for this Asian Paints Q1 FY '21 Results Investor Call. Today on the call we have Mr. Amit Syngle – MD and CEO; along with him we have Mr. R. J. Jeyamurugan – CFO and Company Secretary; and Mr. Parag Rane – GM Finance. To take the call forward, may I now request Mr. Amit Syngle to do the honors. Thank you.

Amit Syngle: Good evening, everyone. I welcome you all to this investor call covering the first quarter results for financial year 2020-2021.

Since the time we last interacted in the second fortnight of June 2020, we have seen the number of Covid cases rising at a faster pace across the country. This has also led to certain states re-introducing lockdown and business restrictions either across the state or in certain select regions and cities in the state.

Talking specifically for the first quarter, the **decorative business in India** saw improvement in demand conditions over May and June after a complete washout in April. The business picked up progressively in Tier 2/3/4 cities where the demand conditions were better, however in metros and some Tier 1 cities the business was much slower. While the business achieved about 80% of base volumes in May, we managed to register a double digit volume growth of more than 14% in the month of June. At an overall level for the first quarter, the business was able to achieve about 62% of the base of the previous year in volume terms and around 56% in value terms. This was achieved on the back of pushing upgradation and premium range of products across categories and markets. The 'Safe Painting' campaign was very successful to get the paranoia off from customer mind sets and was the key ingredient to get people to paint. Our campaign on 'Terrace Waterproofing' also got good traction to push consumers into waterproofing their homes before monsoons. Our foray into the Health and Hygiene category helped us push our Royale Health Shield where we had a new variant which offers all surface anti-bacterial protection. This coupled with our foray into Viroprotek Sanitizers and launch of some innovative products has created excitement in the category. The introduction of a new Sanitizing service 'San Assure' has added to the Asian Paints Service Brand and our ability to reach out across a large number of Homes and living spaces in the country.

The International business portfolio also had a good performance given the fact that a lot of markets in UAE and Africa were open in April. And the portfolio performance improved progressively during the quarter across all the markets. We managed to register a good double digit volume growth in the month of June after a negative growth in April and May. Asia was the worst affected region for us with the key unit of Nepal being the most severely affected with

almost complete washout for April as well as May due to Covid related disruptions. Units in Africa and Middle East were relatively better. Ethiopia in particular managed to register low single digit growth for the quarter despite business being slow for most of the quarter.

The Automotive coatings JV (PPG-AP) continued to be severely impacted with the Covid related business restrictions only adding further to the slowdown pressures in the automotive industry. And while **the Industrial coatings JV (AP-PPG)** was also impacted, it still witnessed an improving trend in the month of June in both – Protective coatings and Powder coatings segment.

Both the segments within the **Home Improvement business** – the Kitchen business under Sleek and the Bath business under Ess Ess ended about 50% lower than the base of the previous year in terms of top-line. And the progress has been much slower compared to the Decorative business given its larger dependence on demand from new construction and renovation businesses – which has got effected in a big way in the pandemic.

Amidst the tight business conditions, the soft material price trend has been a beneficial factor. Notwithstanding the sharp depreciation in the exchange rate, the overall material prices have been lower on a sequential basis as compared to the fourth quarter of the previous financial year. This has helped improve the gross margins for the entire coatings business in India as well as in the International operations. In addition, the cost control measures especially in the area of selling & distribution expenses and admin expenses have helped negate some of the adverse impact of the lower topline for the quarter.

CONSOLIDATED FINANCIALS:

- Revenue from operations for Q1 at ₹ 2922.7 crores, lower by 42.7% over previous year.
- PBDIT before other income lower than previous year by 59.8% at ₹ 470 crores while PBT lower than previous year by 70.2% at ₹ 305.8 crores.
- Net Profit from continuing operations for Q1 lower than previous year by 67.4% at ₹ 219.6 crores.

STANDALONE FINANCIALS:

- Revenue from operations for Q1 lower than previous year by 44.1% at ₹ 2446.6 crores.
- PBDIT before other income lower than previous year by 57.2% at ₹ 467 crores while PBT lower than previous year by 65.8% at ₹ 337 crores.
- Net Profit for Q1 lower than previous year by 61.4% at ₹ 251.9 crores.

LOOKING FORWARD

As mentioned earlier, the demand conditions have improved progressively since May'20 , however we see some disturbances in the environment due to spurt in Covid cases leading to sporadic lockdowns in various states. Monsoons have been good and normal till now and this brings in good positivity for a good agricultural output this year adding to the rural economy in a big way. We continue to believe that T2/T3/T4 cities will do well and even metros and Tier 1 cities should bounce back as we move ahead. There is still some uncertainty due to the varying

spread of the pandemic and it depends on the situation coming under control and returning to normalcy, which will pave the way for good business. In such uncertain environment, we continue to focus on our core strengths focusing and understanding customer needs and staying relevant in these testing times. Internally we continue to focus on optimizing our expenses and conserve cash constantly looking for areas to reduce costs and take up only business critical spends.

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

- Moderator:** Thank you very much. We will now begin the questions-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, fantastic recovery in June. My question is, you said the Tier-1 and metro cities have seen a much slower recovery. Last time you mentioned that these cities, Tier-1 and metro, account for around 40% to maybe even 50% of the demand. So, will it be fair to say that the non-Tier-1, non-metro would have seen a 25% growth, given 14% growth in June? I am asking only for June.
- Amit Syngle:** Yes. If we look at the month of June, in fact, I will say that the metros and Tier-1 cities would have also recovered definitely as compared to May. But definitely if you look at the Tier-2, Tier-3, Tier-4 cities, to that extent, there the growth has been definitely at a very healthy pace in double-digit figures.
- Abneesh Roy:** And sir, in June how much will be the impact of the inventory pipeline getting back to normal?
- Amit Syngle:** So in terms of overall inventory levels, we are back onto the inventory levels of March. So there is no higher inventory in the pipeline as we see it with our retailers. So therefore, there is no piling up of inventory happening with the retailers, and this is something which is very positive because we see that whatever material has been put into the shops has got sold.
- Abneesh Roy:** So in March also there was no depletion of inventory, so there has been no restocking, is my understanding correct?
- Amit Syngle:** So there is this normal stocking which happens which retailers would do looking at the next week sale kind of a zone. And I believe that there has been no exceptional inventory stocking anywhere in the system.
- Abneesh Roy:** Sir, one follow-up on this entire recovery process. You mentioned May was around 80% of last year and June was 14% growth versus last year. So was the June month last year a softer base? And to better understand, can we understand May versus June this year? So if May was 80% and June was 114%, so has there been 35%, 40% growth in June versus May this year?
- Amit Syngle:** So if you look at the last year quarter, was at about 22%, almost kind of a 20%-plus growth kind of a zone, if you look at it. And therefore, as compared to that when we look at the current quarter, I don't think so the May or the June were any softer from that point of view, because last year all three months we had done fairly well. So from that point of view, I think the May and June performance that way is definitely quite good.

- Abneesh Roy:** My second question is on the San Assure and the sale of PPE and the sale of sanitizer. Obviously, this is not there in the base. You are also charging ₹ 1,500 extra if consumer is willing. So if you could tell us how many consumers that went for the ₹ 1,500 extra? And similarly, PPE sales and the sanitizer sales, all these put together, will it be, say, 5% to 7% of your sales?
- Amit Syngle:** Sorry, I couldn't get your question. You are saying, San Assure has contributed to 5% to 7% of additional sales is what you are saying?
- Abneesh Roy:** No, all put together. So you did charge ₹ 1,500 extra to the customer, which was not there earlier, this was a COVID response. Secondly, sanitizer previously was not there last year in the base. And similarly, the PPE you sold much higher because earlier PPE used to be much lower and, obviously, now it is. All put together, will it be 5% to 7% of the sales?
- Amit Syngle:** Not at all. Because, see, this is a new category which we have started. You see, the overall business which comes from the core category is much, much higher. This is absolutely a new category which has come on the anvil. And if you remember, a large part of that initial output we had directed towards government and NGOs in terms of looking at contributing and fighting with the government in the pandemic. So therefore, from that point of view if we look the entire sanitizers and what has got contributed through San Assure and all, it's definitely not a very high component.
- Abneesh Roy:** Sir, last question. So disinfectant category also saw a fantastic recovery and, in fact, resilient all three months. And they said that in July, the strong growth has continued. Now for you, if I want to understand July, whatever the period has gone, now COVID cases have increased across India, so the fear factor in consumer would be much higher than earlier where it was restricted to a few cities. So could you tell us how July has been? And is there a consumer behavior of fear which has increased versus earlier?
- Amit Syngle:** See, I would say that, currently the way June has gone, what we see definitely as a trend is that customers are now beginning to adjust to the COVID in some way or the other. People are taking all their precautions in terms of what is there. We are also seeing that the recovery rate is something which is increasing far more strongly. And to that extent, the mortality rate has really not gone up overall. So from that point of view, I think a lot of customers are now taking this into their stride that work has to go on, business has to kind of go on. So we feel that the fear factor is something which is now relatively stabilizing. And today, no one can predict in terms of how the cases will go in future, whether they will rise, whether the peak going to come, whether the peak is not going to come, no one can say anything about it. And I think, now going forward people are saying, what happens will happen. And therefore, I would say that people have adjusted to the fear factor. And going ahead, but for those sporadic lockdowns which we are seeing in certain states, we think that the demand pattern should remain similar to what possibly we have seen in June.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Crédit Suisse. Please go ahead.

- Arnab Mitra:** I had a couple of questions on margins. So I think your gross margins, if I look at it, in the first quarter, June quarter is slightly lower than what you had in the March quarter, despite sequentially RM costs going down. Is this largely down to mix or any kind of pricing discounting action from your side?
- Amit Syngle:** In fact, see, if you look at the gross margin as compared to the previous quarter of last year, the margins have improved to that extent. So what we see is that the overall margin, if you compare it with the Q4 to this thing, there is definitely some improvement in terms of the raw material prices which has happened. There could be a little bit in terms of the overall mix in terms of which would have contributed to such a number this quarter.
- Arnab Mitra:** But the underlying input cost scenario has become more benign in the June quarter versus March quarter is what you are saying?
- Amit Syngle:** No, I would say that from the point of view of inputting which we see, I don't think so that is something which has been benign. I would only say that in terms of a little bit of a mix which would have kind of contributed in terms of that gross margin behaving like this.
- Arnab Mitra:** Sure. My second question was on staff costs. There seems to be a 15% increase between the March quarter and June quarter in the absolute stand-alone staff costs. So anything specific here which has driven up the cost? And is this the run rate that one should work with?
- Amit Syngle:** You are talking of the employee remuneration?
- Arnab Mitra:** Yes, staff cost, employee cost.
- Amit Syngle:** See, what we see is that largely there were certain statutory areas which we were kind of dealing with in terms of looking at overall implementation because of gratuity and other things, which we had to correct in the system. So today, we don't see anything which is significant. We had taken a small salary hike in terms of the overall numbers and a little bit in terms of adding some more headcounts to that extent. But a larger thing which also comes in is from a policy change which we have taken with respect to the gratuity. But overall, as we kind of go ahead, I think this number would definitely go down.
- Arnab Mitra:** Sure. So the gratuity thing, just to clarify, could be a onetime thing that you would have adjusted accordingly?
- R. J. Jeyamurugan:** Yes, just to clarify, to add to what Amit said, it's a onetime impact which has come. And it's also added to this actual valuation impact also has come in the quarter, because with the fall in yields, the retirement liabilities have gone up in this quarter as compared to what it was in March.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir, would it be possible to quantify the gratuity and the onetime impact?
- Amit Syngle:** No.

- R. J. Jeyamurugan:** No, because the overall impact is very difficult to quantify. It's something in numbers, something in increment, these are all clubbed. But it's an impact which has come in this quarter.
- Avi Mehta:** So the last quarter number would be a fair representative to consider?
- R. J. Jeyamurugan:** Yes.
- Avi Mehta:** Okay, sir. And sir, the second bit, just kind of trying to understand your comment in detail. You alluded that the customer is now adjusting to the new normal. Would that suggest that from now on the impact on growth rate or sales would be more linked to lockdowns? Because the customer response is more or less kind of coming back to the pre-COVID levels or back to looking at painting as a normal activity. Is that a fair way to look at this, sir?
- Amit Syngle:** See, when I said, what I meant was very clearly that the customer seems to be now adjusting to the environment in terms of saying that there would be some disturbances which will come in. And the fear factor is something which is more the adjustment which the customer is making. What I meant was that these sporadic lockouts, what do they do is that they kind of spoil the continuity of business. So you can just imagine that if your house is getting painted and then there is a lockdown which is announced, okay, it can cause a real disturbance with respect to in terms of the next customer kind of thinking of getting the painting done because there is an uncertainty which is there in the environment. So I would just say that there are two clear changes. One, the fear factor people are adjusting to, but the sporadic lockdowns, if they continue to happen, they will definitely have an effect on the demand.
- Avi Mehta:** Okay, sir. And sir, my last question is on the input cost. Now, you highlighted that in 4Q the costs have kind of moderated. You meant the market price, is that right? I just wanted to clarify that.
- Amit Syngle:** So the material prices, actually if you see from the Q4 of last year to the Q1 of this year, definitely there has been a benefit in terms of the raw material prices going down. So that is something which is definitely a benefit in terms of what we have seen in terms of as a movement of the material prices, despite the fact that we have seen that rupee has depreciated further. But we still see that because of crude and other crude derivatives coming down, that has given us a benefit in terms of the material prices.
- Avi Mehta:** What I meant sir, just for clarifying, the current input cost that we would have incurred in first quarter would be a fair reflection of the current market price now or not, is what I wanted to understand?
- Amit Syngle:** Yes, it would be a fair representation. See, we don't know really in terms of how quarter two behaves either from the point of view of rupee-dollar behavior, also from the point of view of crude. Because as the demand starts picking up, we also find that the prices start going up. So I would say that it is a fair indication in terms of possibly where the prices are.

- Avi Mehta:** And sir, the waterproofing which you have done, is there a market growth that has been helping us or our campaign must have meant we would have been an outsized beneficiary of this waterproofing?
- Amit Syngle:** So if you look at the overall market, when we look at, say, a per capita consumption kind of thing of a waterproofing requirement at homes, I think the market is pretty unexploited today. And what really happens is that lot of times we do some temporary stuff to kind of cover up the leakage and the dampness problems which we are facing internally. So today, what we see is that the potential for the waterproofing per se is very, very high. And therefore, whenever there is an awareness which is made to the consumer that there is a specific product or there is something which we can do which will offer him a reprieve against tomorrow leakages and dampness happening, I think that is something which is definitely lapped on by the consumer. And therefore, we feel that the terrace waterproofing campaign increased the awareness and got more people into the painting cycle before the monsoon so that they could kind of take care of their houses. So we feel that overall potential in this category still is definitely very, very high.
- Moderator:** Thank you. The next question is from the line of Taha Siamwala from Piper Serica. Please go ahead.
- Taha Siamwala:** My question was regarding the Decorative Paint segment. What are trends you are seeing in your high ticket size sales? For example, Royale or Apex Ultima, what kind of trends you are seeing in June, July, can you please highlight a bit on that?
- Amit Syngle:** So when we look at basically some of the higher-end segments which you mentioned, both in the interior and exterior segments. In the interior, especially segments which are in the health and hygiene space, which is the Royale Health Shield and other variants, I think they seem to be doing well and holding us on. And this is a trend which we are seeing across cities where we are able to sell that product quite well, because the proposition against the antibacterial protection is pretty sharp to that extent. In terms of exterior, we don't see the same kind of a pace which is there as far as for the interior products to that extent. But having said that, what we also see is that definitely people are more attracted towards the premium and the value-for-money products at the moment to that extent. And there is a little bit of down-trading which is happening from the super luxury segment in exteriors to the premium segment and the value-for-money segment.
- Taha Siamwala:** Okay. So my second question was regarding the upcoming Diwali season, when we rolled out Asian Paints Magic Carpet. So what are our plans for that Diwali season?
- Amit Syngle:** So today, Diwali is far away as of now. We have to first see the quarter two in terms of what really happens. So I think we are definitely kind of looking at more from a quarter-to-quarter at this moment and not really kind of planning for Diwali. Only time will tell in terms of how normalcy kind of happens around that and how the festival season kind of really opens up.
- Moderator:** Thank you. The next question is from the line of Roshan Naik from Equentis Wealth Advisory. Please go ahead.

- Roshan Nair:** So can you help me explain how Safe Painting initiatives have panned out across the country?
- Amit Syngle:** Okay. We started this initiative in May, and we had also done above the line promotion of this campaign across. What we felt was that, what it has done for us is that across the towns we find that customers have been able to be influenced by the safe painting campaign, because the fear they have of getting the external painters in their home, that is something which has got actioned because there is a reputed brand which is talking of a safe painting which kind of happens where all the painters will come with overhauls and masks and all protection along with sanitizers. So I think it has really helped us, one, in terms of looking at the customer definitely becoming far more confident in terms of getting people in into their houses. And also, it has really helped the painters and contractors also becoming confident of really approaching the customers and telling them that today it is safe to let them into the house because they are following certain standard operating procedures with respect to hygiene and care in terms of what they are taking into their houses. We have seen that this campaign giving us results and leads across cities to that extent, and that has been very, very beneficial to us.
- Roshan Nair:** So is the company passing on benefits, like you are giving more cash discounts, payer discounts?
- Amit Syngle:** So nothing like that. But yes, in the quarter, there has been definitely slightly a little bit more incentivization which has happened, which possibly was done in the months of May and June to kind of ensure that retailers get the confidence in terms of at least a little bit stocking so that they are able to cater to the demand. But there has been nothing very exceptional which has taken the discounting to another level. So there has been an incremental increase in terms of discounting which we have done and incentivization so that we are able to kind of get the retailers to stock, for some days at least, in terms of catering to the demand.
- Roshan Nair:** Okay. And coming to your double-digit volume growth in June, so do you think it is a pent-up demand or like it is sustainable going forward?
- Amit Syngle:** So what we see is that since the sales had stopped by 20th of March and we practically had a washout in the month of April, a lot of this pent-up demand we could see in the month of May which was happening. So what we clearly see is that the demand in June could not have been all of the pent-up demand because a sizable quantity of that pent-up demand happened in the month of May. So to that extent, I think we feel that in the month of June we would have got fresh homes, fresh business, fresh repainting in terms of homes across the country.
- Roshan Nair:** Okay. So one more question, if I may squeeze in. Which regions still continue to be affected in India? Like which regions are witnessing a sharp recovery and which continues to be affected, can you give some color on that?
- Amit Syngle:** So overall, we see that the Western region is something which is far more affected. We have been seeing continuous lockdowns in Maharashtra. And Mumbai is affected and so is the hinterland in terms of the cities across in West. Rest what we see is that all metros are affected across the country, so you have Chennai, Kolkata, Bengaluru in between, okay, Delhi, I think these have been affected overall to that extent. And there have been some Tier-1 cities as well which are

affected, Ahmedabad, Surat, some of these cities were affected. But to put it this thing, West was the most strongly affected overall.

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

Amnish Aggarwal: My question is again regarding the demand. If I can recall, in the last con-call we were told that metros and Tier-1 cities account for maybe 40% of the total industry demand. Now, if I look at the current scenario where the May and June have been good, even though metros and Tier-1 is still impacted. So can you share with us that particularly Tier-2 to Tier-4 cities and interiors of the country, how faster the growth has been there to enable 14% volume growth in June?

Amit Syngle: So, you can do your own math in terms of calculating, because definitely I think what we have seen is that the metro and the Tier-1 cities were affected. And therefore, as I said, we have got progressively in May and June very, very good and healthy growth coming from the Tier-3, Tier-4 cities to that extent. But having said that, even with the metro and Tier-1 cities, what we see is that there is definitely improvement from May to June which is happening. So I think the improvement is happening all across in terms of what you have seen in the month of June to that extent. But at the end of the day, the Tier-3, Tier-4 cities have far outgrown the metros and the Tier-1s.

Amnish Aggarwal: Okay. And my second question is regarding the raw material prices. We have seen a sharp dip in most of the crude-linked inputs in 4Q. And in this quarter, there has been, I would say, a little bit of gains. But would it be suffice to presume that most of the raw material gains have accrued to us or we are still not fully realized on the gains of the dip in the crude prices in 1Q?

Amit Syngle: See, how we see is that there is still quite a bit of volatility in terms of the prices and so is there a volatility with respect to the rupee-dollar parity in terms of what we are seeing. So to that extent, we see that we have realized in terms of the material benefit which we have seen in quarter one. And it all depends in terms of how material prices would behave. But one reason to believe is that if there is demand which kind of goes up, so would be the prices of the raw materials to that extent. So therefore, I don't think so there would be too much of a difference between the material pricing as we kind of go-forward in terms of looking at the next quarter. But it all depends on the environment, there is still too much of volatility in the environment today.

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

Aditya Soman: My first question is on pricing. Any sort of guidance on what you expect for pricing given that material cost has been fairly benign?

Amit Syngle: See, right now, with whatever material prices which have got affected, and there has been a compensatory effect in terms of the rupee depreciating, as of now there is no price guidance in terms of what is looking at. So unless there is something really drastic really happens in the next quarter, we are not seeing any price guidance as of now.

- Aditya Soman:** Fair enough. And secondly, in terms of dealer expansion, have we seen any meaningful dealer expansion, especially given that the growth in smaller towns has been much stronger?
- Amit Syngle:** So definitely, dealer expansion has happened in the months of May and June, especially in Tier-3, Tier-4 cities. And obviously, it is much lower than what we would have kind of looked at in a normal scenario. But having said that, there has been some amount of dealer expansion, yes.
- Aditya Soman:** Any numbers you can share on the dealer numbers, I mean, in terms of expansion or percentages?
- Amit Syngle:** No, I would not be able to share any numbers there.
- Aditya Soman:** All right. And lastly, any sense on market share? I mean given that we have done very well in June, any sense on how we have done relative to the other players?
- Amit Syngle:** You will know by mid of August when everyone will publish their results.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** I have a few questions. Would you be able to indicate and help us what kind of volume decline we have seen in domestic decorative?
- Amit Syngle:** So overall, see, we have spoken of a 44% kind of a negative which has happened with respect to the overall business at the standalone level in terms of what we are seeing. And to some extent, the volume decline has been much lower as compared to this, which is proportionate with the June increase in terms of the double-digit growth which we have had. So definitely, I think when we look at the quarter one for decorative, the volume growth has been much lower than this.
- Shirish Pardeshi:** See, last quarter, you explained that there is a 6% to 8% difference between value and volume. So is that summation is correct for Q1?
- Amit Syngle:** Yes. See, as we kind of go ahead, that kind of a variation would kind of remain roughly. It could vary a little because that range varies with respect to in terms of how we are able to kind of grow with respect to the product mix and the focus which is there on the upgradation emulsions, which is a big focus in terms of what we are taking. And last time also I had explained that there is a very big focus with respect to looking at the upgradation, value-for-money emulsions in terms of what we are focusing in a very, very big way. And also looking at the undercoats market as we have kind of gone ahead. So basically, that band could vary a little, but by and large it should lie in that range.
- Shirish Pardeshi:** Yes, I got that. Amit, you just mentioned that value-for-money product is seeing the uptick. Is that across urban, rural market is the consumer behavior is suggesting?
- Amit Syngle:** Yes. So that behavior is roughly what we see as a trend across. The only thing what really also happens is that when you look at the metros and the Tier-1 and, say, even the Tier-2 cities, there is a slightly larger contribution of the luxury and the premium products which come from these

cities to that extent. So if you see that if these cities are not possibly growing at the same rate as what the Tier-3, Tier-4 cities are growing, the impact would have been slightly higher.

Shirish Pardeshi: Just a related question on that, what would be the value-for-money or low-end emulsion contribution to overall domestic decorative?

Amit Syngle: I can't give that figure to you.

Shirish Pardeshi: Is it substantially higher or lower?

Amit Syngle: Asking me the around. Sorry, I can't share the figures.

R. J. Jeyamurugan: No, we don't share these numbers, Shirish.

Shirish Pardeshi: Okay. I'll still try. Okay. My last question is, we have seen the other expenses have declined very sharply at 37%. What are the factors which have driven this?

Amit Syngle: As I mentioned earlier, we have been very cautious in spending, whatever that, either administrative expenses, even to some extent some of these distribution expenses we have been very cautious. And also, we have taken a lot of cost control measures, and we have spoken to some of our maybe trade partners also to revisit some of these costs. So overall, the internal measures what we have taken put this overheads under control.

Shirish Pardeshi: I got that. Amit, would you be able to comment something on advertising because we have seen post May you have spent a lot. So any color on advertising spend?

Amit Syngle: Yes. So overall, see, we have been very judicious in terms of the way we had been spending. But at the same time, I always keep on commenting that, see, when you look at marketing and when you look at advertising, this is not like an on and off switch that you can switch it off at any point of time and then you are able to put it on. So I think we have tried very judiciously to spend the money in terms of our campaigns. We have had almost three above the line very strong campaigns which have been there. One is on Safe Painting, the other is on Terrace Waterproofing, and the third one was on Viroprotek Sanitizers. So I think we have seen these kind of above the line campaigns.

And along with this, we have judiciously spent a lot of money with respect to the digital campaigns. Because what we see is that given the era where a lot of people are working from home and people are putting a lot of eyeballs on digital content, so that is something which we have kind of taken care in terms of getting a good mix. At the same time, we have not really splurged the money, if you see, from the marketing overall spend in terms of what we have done to that extent. So I think it has been a fairly judicious spend in terms of what we have done.

Shirish Pardeshi: Okay. My last question is on the international business. Though in the press release you have said that Middle East and Africa has done well, while we are seeing the challenges in Nepal and Bangladesh. How the situation is there in the month of June or as on to date?

Amit Syngle: So the good thing is that Nepal which was closed in April and May almost completely has opened up in June and we have seen a lot of pent-up demand which was there in the month of June to that extent. And we believe that if this continues and there is no lockdown further, I think Nepal should bounce back in terms of as the quarter goes ahead. When we look at even the Bangladesh market, Bangladesh market was relatively much better than Nepal, because we saw openings in the month of May. To that extent, therefore, we feel that the Bangladesh and the Sri Lankan markets have almost kind of mirrored what has been in India to that extent in terms of the way they have behaved. And therefore, the June has been a good response in both the markets. And we see that going further I think if there are no lockdowns and no disturbances, we should kind of do well.

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

Amit Sinha: My question was more from the overall category demand perspective. So while the negative impact due to the current environment is very well known, what I wanted to understand is, is there any positive or enabling kind of an environment which is being created from a demand point of view, maybe because of more number of people available at home and better labor availability maybe in the Tier-2, Tier-3 towns? Is there any sort of things on the positive side, which you would have observed in the last two to three months?

Amit Syngle: Okay. So there are several, I think, positive trends in terms of what we are seeing. The real progression of sales from May to June itself is a very, very progressive trend in terms of getting a double-digit growth. So what we feel very clearly is that people want to move on and they would like to carry on with their maintenance activities at home and repainting activities to that extent. And therefore, I think the paranoia from the people's point of view is kind of going away. So I think that is one very good trend in terms of what we are seeing.

Second, what we see is that the maintenance and repainting activities which is there is something which people are still getting into surely for there, because that is something which they are able to see. And given the fact that people are spending so much time in the homes, that really is becoming an activity which they would like to kind of get to do because homes are emotional place of staying and they would like to stay in beautiful homes from that point of view.

The third thing which we are seeing is that when it comes to discretionary spend which is in terms of really getting high-end decor, textures, high-end wallpapers and so on and so forth, I think there is where the people are exercising some caution in terms of really getting into those zones to that extent which is there. But overall, I think the trends have been fairly clear that in terms of maintenance, repainting kind of a zone. I think people are not shying away, and that is something which people are definitely kind of getting into the zone.

The other trend which we see is that waterproofing is a good category where people are spending money, because I think, as I said, if you are staying in the home and you find damp walls or leakages, people would kind of like to take action against that clearly to that extent. And that is something which we are seeing people are acting in a strong manner immediately to that extent. And to really help the customer, we have also launched a DIY range, which is do-it-yourself

range, which takes care of a lot of small articles which the customers can do themselves also. And this is the first time in the industry that any company is kind of really taking this whole zone of people doing some of these things themselves also in a big way is something which we have placed in the market.

Amit Sinha:

Sure. Thanks for the detailed answer. Second one, while I understand that in terms of the exact market share you will not be able to comment at this point of time. Just wanted to understand from a competitive positioning point of view, it looks like that the larger players across different industries, they are gaining out of this situation because of better supply chain, distribution, et cetera. Is it fair to assume that you and some of the other larger players would have gained at the expense of the smaller and unorganized in the last two months?

Amit Syngle:

I would say that it is very difficult to say, because what we are finding is that some of the regional players in the regions which they are present, they have still better supply chains and they are able to kind of cater to that requirement quite well. In India, we have quite a sizable number of regional players which are across the country to that extent. And therefore, from that point of view, I think they are able to cater to their regions and so on and so forth to that extent fairly effectively. The only thing which has possibly affected everyone, including the organized players is the fact that some of the production activities have got affected because of the labor not being available and the migrant labor kind of vanishing in the months of April, May and June. So I think that is something which has kind of taken a toll across the industry to that extent which is there. But by and large, I feel that even some of the relatively smaller players in the regional geographies are doing fairly okay.

Moderator:

Thank you. The next question is from the line of Rahul Maheshwari from Ambit Asset Management. Please go ahead.

Rahul Maheshwari:

Sir, two questions. One thing, a qualitative statement or commentary, not a precise number. During the last three, four years, as the new two facilities have also been added up, Vizag and Mysore; so how much are COGS or the raw material is now so much linked to the crude oil which is there? Or any commentary or idea or color that, going forward, how much we would be moving to water-based paints and there would be less volatility linked to the crude oil? This is my first question.

And second thing, sir, as you told, Waterproofing is a growing segment, but any chance where Asian Paints would be going into the industrial projects like for metro tunnel projects or we would be sticking only to the consumer granular portfolio in the Waterproofing?

Amit Syngle:

Okay. As well, your first question, see, we look at our larger portfolios are oriented towards all water-based chemistries and the two new plants which we have also put up are all about the water-based emulsions strongly. So as a trend, we have been kind of pushing water-based in a very, very strong way. But what we must understand is that the impact of crude is also happening on some of the key ingredients which go on to the water-based products which are like certain monomers which are there, which go into the basic process of emulsion making which go into the water-based first. So you cannot rule out for sure that today crude is directly linked only to

solvent-based paints to that extent. Crude also has impact on the crude-derivatives which are there, and these derivatives do affect basically the monomer which is linked to the water-based products also. So therefore, I think the crude dependence and the crude variability would still be an important factor as far as the raw material prices for paints are concerned.

Secondly, as far as the big projects are concerned, Asian Paints definitely looks at some of those projects. We have a project in the institutional division where as part of that today we are doing work with the Bangalore Airport, we are doing some work at the Delhi Airport, we are doing a tunnel in Jammu & Kashmir. So we do take up some big projects which are there to that extent as part of our decorative and architectural business, but we also have an industrial division which is the APPPG. As part of that, we basically supply for some of the infrastructure projects which we do with respect to highways and so on and so forth. So we are definitely in that business as well to that extent apart from the home-based.

Rahul Maheshwari: Sir but in Waterproofing segment, no doubt it's a new segment as compared to the overall paints, but the two things over here. How much is dependency through the government-based institutions from the cash flow point of view? And second thing, how in a 5 to 10 year growing period which you witnessed in paints and you delivered it, how long this segment can become like of ₹ 30,000 crores, ₹ 40,000 crores? And where you find Asian Paints over there?

Amit Syngle: Okay. So when we look at the overall Waterproofing business, I would say that the Indian market overall is fairly undercapitalized in terms of the overall thing and underutilized to that extent. And therefore, the per capita consumption is far, far lower. So for instance, if you look at China, the China the waterproofing business is about 22 billion, okay? As compared to that, the Indian business is nothing. So to that extent, I think it is something which is a big business potential in terms of the bucket which we see for the coming years to that extent. And I think it should kind of carry on for the next 10 to 20 years in terms of the kind of growth which you can get into this business. That is one. Second, our dependence in terms of the government sector and so on and so forth is all indirect. It becomes through some of the construction firms and the large contractors to that extent where we have direct exposure to the government. So from that point of view, it doesn't really affect in terms of the liabilities coming on with the customer.

Rahul Maheshwari: And sorry to ask the follow-up in waterproofing only, sir. Sir, the margins in terms of relation to the paints in terms of its 1x, 1.5x, 2x. Any rough color, not precise as a percentage, sir, if you can give?

Amit Syngle: So margins, overall, when you look at the retail segment, they are comparable with paints to that extent. But definitely, when you look at the projects in the institutional business where you have some liquid membranes and other solid membranes which kind of go in some type of products there, definitely, the margins there are definitely lower than paints.

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

Ranjit Cirumalla: First of all, I am very glad and appreciate that you have started sharing the quantitative details on the volume growth, we always used to get a qualitative comment from you. And we wish that

this would continue in the ensuing quarters as well. Now coming to the question of the construction chemical business. We understand that this is a 1Q heavy business and this seasonality kinds of a dash down as we move into the future quarters. Is this understanding right? If yes, could you give some color on the growth rate differential between the paints and the waterproofing? I am not looking for a number, but any qualitative comment on this thing, specific for the first quarter.

Amit Syngle: So as I said, I think in the previous answer as well, we think that the whole category of waterproofing is fairly underrepresented in India. We also feel that there is a whole need of customer education which is required in terms of what is the right product which should go with respect to their homes when they get dampness or when they have their ceilings which are leaking or they have basements which are not great and so on and so forth. So I think there is the whole education bit which is required, both at the repainting level and at the level of new construction as well. So as I see forward, definitely in the coming times we see that the growth trajectory at the waterproofing end would be definitely much higher than as compared to the overall paints trajectory.

Ranjit Cirumalla: It is fair to assume that even in the 1Q the same thing would have been reflected.

Amit Syngle: Sorry?

Ranjit Cirumalla: Specific for the first quarter, the trend which you are talking about would have been reflected in the first quarter as well?

Amit Syngle: That is right.

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

Pulkit Singhal: Continuing firstly on the waterproofing market, would you say that if we were to have a similar kind of income per capita, India may have a higher potential on waterproofing given the amount of monsoons that we have and the kind of quality of construction here versus China?

Amit Syngle: So, given the kind of population, the kind of homes which we have, and notwithstanding the weather conditions, I think with respect to that, even the paint consumption should be much higher to that extent. So I think from that point of view, even the paint per capita consumption today as compared to any of the developed countries is a far cry in India. So from that point of view, I think both paint and waterproofing are definitely much underrepresented, I would say, as far as the overall per capita consumption goes.

Pulkit Singhal: Sir, the data was \$22 billion in China for waterproofing versus India would be how much?

Amit Syngle: So India, roughly, as we know the market, would be in the zone of about ₹ 6,000 crores.

Pulkit Singhal: Okay. Right. My second question, sir, given the strong performance that we have seen in June, I mean, are we saying that the repainting cycle which earlier we might have thought would have

been extended because of fear could now actually contract because people are looking to build their house even protect their houses from the bacteria kind of thing. So is that a possibility as you see the next four, five months, six months?

Amit Syngle:

No, I don't think so that it really kind of impacts in terms of contracting of the painting cycle. I just said that the deferment of the painting cycle is something which now would become lesser and lesser because people are getting more confident in terms of looking at getting painters in into their houses and so on and so forth to that extent. So I don't think so it can lead to only contraction. But what definitely is happening is that, as a strategy, Asian Paints is also looking at various means that we can get people to kind of do some painting within that cycle, it could be a wall, it could be a stencil, it could be a small texture. So we are looking at occasions where we can excite the customer so that they can be doing some small things during the cycle in the gap of four to five years, we have a maintenance cycle is something which gets kind of added by some of these interactions which the consumers might have for the decor of their house.

Pulkit Singhal:

Sure. Sir, on the other expenses, it's a very phenomenal kind of cost cutting measure. I mean, we have seen a 37% decline in other expense versus 43% in the revenues. And I just wanted to understand, because this is a quarter where a lot of people kind of identify areas where you can have some structural cost benefits and cost cutting measures. So how much of this 37% decline can be attributed to, say, some structural fixed cost benefit that will not kind of come back up once the revenues go up? How much of that would that be?

Amit Syngle:

See, overall, we have been conserving cash, and we have taken fairly stringent cost measures in the first quarter. And these measures are a mix in terms of all kind of costs in terms of whether there are fixed costs or whether in terms of the variable cost to that extent. I think both costs have been attacked in a very, very strong manner to that extent. And therefore, the cost thing extends across to various things. So for instance, just to mention, one area we have looked at is in terms of relooking at possibly the kind of rentals for our establishments across the country. And at the other side, we have looked at in terms of what freight control measures we can do in terms of conserving cash. So there have been all kinds of work which has been done around cost in terms of looking at conserving the same.

Pulkit Singhal:

Okay. Sir lastly, CAPEX guidance for this year and next year, if you could just say? When do we start incurring that CAPEX this year?

Amit Syngle:

So, we are not stopping any work with respect to CAPEX. Whatever is urgent, what has to be taken is something which we are kind of giving a go ahead. There is nothing which we have kind of stopped which is urgent and necessary to be done to that extent. And that is how the company is proceeding, because overall what we see is that the cash flow position is fairly comfortable.

Pulkit Singhal:

Sir, the ₹ 370 crores of CAPEX we had in FY '20 on a con-sol basis, so would it be higher? I mean, because you had a CAPEX saves of two years of FY '18 and FY '19 around ₹ 2,500 crores. So I am just trying to get a sense of where we are in the CAPEX cycle? Will we have another ₹ 2,000 crores over the next two, three years or will it be right now...

- Amit Syngle:** See, the large part of our cycle was over in the previous two years because the two big plants have come up to that extent. And in terms of really putting the second cycle of capacity in those plants is some time away to that extent. So anyway, I think there are no very big CAPEX cycles which are kind of coming across. And as I said, that whatever we have to do incremental in terms of doing work around our plants and other things is something which we are taking on.
- Moderator:** Thank you. The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jaykumar Doshi:** Congratulations on good execution. Now if you were to exclude top 20, 25 cities that are affected by COVID, how do you see the demand traction in rest of the country as of now as compared to pre-COVID levels? Just want to understand if there is any indirect impact of consumer sentiment or slowdown of economy on the areas that are not particularly affected by COVID?
- Amit Syngle:** So frankly, what we see is that for all the Tier-3, Tier-4 cities, I think the demand is back to the pre-COVID levels, and that is something which is definitely giving us a benefit.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.
- Latika Chopra:** Just a quick question. I think part of it was answered in a previous one. In your annual report, you have talked about institutional and project business executing really well despite all the headwinds, particularly on real estate front. Has there been any change in the mindset or the strategy of the company to tap into this segment and how is the margin profile here versus the retail decorative space? And the second bit was on Adhesives portfolio. I understand it's a fairly small part of your portfolio, but any color on your progress in terms of distribution or product portfolio there would be helpful.
- Amit Syngle:** Okay. As far as the projects business is concerned, it's a fairly strong strategic integral part of our business. And we have been, for the last few years, have been concentrating on that business in a very, very strong manner. So that business kind of comprises of the fact that it is builders, institutions, hotels and all the big segments which are involved. And that is something which we have been strongly following, and it continues to be part of our strategy in terms of looking forward. What we have seen definitely is that in the first three months, definitely, that business, since it is dependent in terms of some of the new construction which is coming in to that extent, is definitely slightly slower than the retail business at the present. But I think the focus is very clear, and it is a strategic area for us to kind of really go on for future.
- As far as margins are concerned, the margins are slightly lower than as what we earn in the retail business when we look at the projects business because it is a far more competitive business as we see it. Regarding the Adhesives business, we have been kind of looking at launching one or two products there in terms of what is there, and we have also looked at in terms of upgrading our distribution setup which is there to that extent. But a larger focus at this point of time has been the core category in terms of paints which we have looked at in terms of the months of May and June. But having said that, we are definitely looking at lots of excitement at the Adhesives segment also.

- Moderator:** Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.
- Tejash Shah:** Sir, couple of questions. Sir, in some sectors, we are hearing that a few companies are using this crisis to fast track certain big bang reforms or rather reimagining cost structure or supply chain or identifying new drivers of growth. Sir, any such mega change you would like to call out in this crisis, which will redefine Asian Paints, let's say, two years down the line when we look back to this crisis?
- Amit Syngle:** So I think some of the areas which we have looked at is definitely in terms of looking at, how is it that we can work around in terms of the raw material consumption in a very strong way. And that is the focus we have taken with respect to whether it is sourcing efficiencies or whether it is formulation efficiencies to that extent. And that's a large imperative in terms of what would definitely kind of give us gains even later at the point of time. So that is one imperative which is there.
- Second, we have looked at in terms of seeing that how our IT forays can be made more effective in terms of really affording people flexibility to work from anywhere without posing a threat in terms of any IT security. And therefore, we have looked at upgrading in terms of our IT infrastructure in terms of how we are able to give a large amount of mobility of people or flexibility from either working from anywhere, office or home, to that extent. And that is something which will definitely kind of give us some advantage in the future in terms of coming times. So I think these are the principal areas in terms of what we are working very, very strongly in terms of looking at some forays which would help us in the future as well.
- Tejash Shah:** Sure. This is helpful, sir. The second question, sir, you mentioned in your comments, in one of the answers that India is highly underrepresented in terms of paints market as well. Now if we see in last five, seven years, we have actually done very well in terms of bridging that gap versus Asian peers. So when you still say that India is underrepresented, what is the data point you are looking at to actually come to this conclusion?
- Amit Syngle:** So if you look at from the point of view of how the per liter GDP is there today in India as compared to what I would see in developed countries, we would be still at a 50% mark. So I think to that extent, I think there is a huge gap between the kind of per capita consumption what we see in far developed countries and what we see in India. And you must remember that in India, there are all kinds of homes from pucca homes to semi-pucca homes to slums to high-end homes which are there to that extent. And therefore, the consumption kind of really varies in terms of how people are using paints to that extent. So I think the overall plethora is pretty big. And I think the other big opportunity in terms of is that you can look at upgradation in terms of paints in a very strong way which we are looking at in terms of doing at the bottom level in terms of upgrading people from using some very basic painting material to something which is an organized emulsion in a strong way.
- Tejash Shah:** And sir, if you have to peg a number in like five, seven years, where do you see this number actually optimizing or saturating at in terms of per capita consumption in India?

- Amit Syngle:** See, I think that we would be always chasing this number for at least the next two decades. I don't see that this number, we will be able to catch up because it all depends in terms of the pace of urbanization, the pace of infrastructure development in terms of what really happens. What we see is in terms of even the kind of government spending which happens with respect to paints, is much, much lower even from the point of view of protection what ideally should happen in the environment. So I see that it's something which you would really chase for the next two decades as well.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gupta from Ambit Securities. Please go ahead. There seems to be no response from the line of Kalpesh Gupta. We move to the next question. The next question is from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** I have just two follow-up. Have you taken or are you implementing any price cuts in this last quarter or this month?
- Amit Syngle:** No, we are not doing any price corrections.
- Shirish Pardeshi:** Okay. And would you be able to help me that in FY '20 what kind of advertising spend as a percentage we would have done?
- Amit Syngle:** Sorry, we can't disclose that figure.
- Moderator:** Thank you. The next question is from Ajay Tyagi from UTI Asset Management. Please go ahead.
- Ajay Tyagi:** So while talking about products in the construction chemical space, you talked about how under-indexed we are compared to the other countries, I am predominantly talking about the waterproofing products. But do you think as these products become popular, they could cannibalize into our painting range of products because if there's less of dampness and less of leakage, then both on the exterior paints and the interior paints, the replacement cycle could get elongated.
- Amit Syngle:** Sorry, could you just repeat the question? I missed the last part, sorry.
- Ajay Tyagi:** Sir, I am saying, as these products, the waterproofing products, gain traction, can they cannibalize our painting range of products because if you have less dampness and less of seepage, the frequency of repainting either exterior or interior would be elongated?
- Amit Syngle:** No, I think that doesn't really happen because today, for example, in experience, we have products which offer warranty of 10 years and 12 years and 15 years kind of a thing. So what we still see is that the good part is that people kind of get bored of the same colors and same things for a period of time to that extent. And therefore, at that point of time, it is the decor-led painting which kind of kicks off to that extent, but it is not maintenance-led to that extent. So we have largely seen that better durability products or longer warranty products, to that extent, which gives a larger longevity to that extent, do not really change the painting cycles too much.

Moderator: We'll take that as the last question. I would now like to hand the conference back to Mr. Amit Syngle for closing comments.

Amit Syngle: Okay. Thank you so much in terms of being there with us and asking some relevant questions which is there. We are happy in terms of saying that we have been able to do relatively better in terms of this quarter one. And I think the indication of the months of May and June is something which is very heartening. We'll have to watch out in terms of what really happens in the next quarter. But thank you all, and it's been a pleasure interacting with you.

Moderator: Thank you. On behalf of Asian Paints Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.