"Asian Paints Limited Q2FY16 Results Conference Call"

**October 23, 2015**

# ASIAN PAINTS MANAGEMENT

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# Moderator:

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**Moderator**: Ladies and Gentlemen, Good Day and Welcome to the Asian Paints Q2FY16 Results Conference Call hosted by Motilal Oswal Securities. As a reminder, all participant' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Manish Poddar from Motilal Oswal Securities. Thank you and over to you, sir.

**Manish Poddar:** Hi! Everyone. On behalf of Motilal Oswal I would like to welcome you all for the Asian Paints 2QFY16 Earnings Concall. On the call we have with us Mr. K.B.S. Anand -- Managing Director and CEO and other members from the senior management team of Asian Paints. We will commence the call with the management giving the opening remarks, following which we will open the call for Q&A. Thank you. And over to you sir.

**K.B.S. Anand:** Good Evening, Everyone and Thank You for Participating in our Conference Call for Q2FY16.

In this period, the domestic economy continued to face challenges with the growth lower than expected. The first quarter GDP growth at 7% is lower than the year beginning estimate. A deficient monsoon for the season is expected to further hurt growth. Industrial production data points to a slow recovery in April '15 to August '15 with industrial growth at 4.1% against 3% in the same period last year. Inflation trends remain soft with headline CPI inflation at 4.4% in September '15.

On the global front, growth forecast have been trimmed with downside risks. While the advanced economies like US, UK exhibit a growth momentum, the uncertainty on emerging market growth is expected to slow down the global economy. The financial markets remained volatile with uncertainty prevailing on the US Fed's timing for rate hikes.

**Reviewing the Decorative Business**: Actually, there was no significant improvement in demand conditions in the Decorative Paint segments. The business registered high single digit volume growth in the quarter. However, material prices remain benign.

**Reviewing the Industrial Business**: The Automotives Coating Venture JV, PPG-AP, the Auto OEM and Refinish Segment registered decent growth in this quarter; however, the General Industrial Business segment continues to lag. AP-PPG - the Industrial Coating JV registered good growth with the Industrial Liquid Paint segment growing significantly. Lower material prices supported margins in both these businesses.

**Reviewing the International Businesses**: The International business reported decent performance aided largely by contribution from units in the Middle East and Ethiopia. While operations in Nepal continue to recover from the impact of the devastating earthquakes, business in Egypt grew at a lower pace than expected.

**Reviewing Home Improvement**: The Kitchen i.e (Sleek) and Bath (ESS ESS) businesses have now been cobranded with Asian Paints. However, both these businesses while improving over Q1 have been affected by the subdued demand conditions prevailing in the economy. Work on expansion of the network in streamlining the business models for both these businesses is progressing slower than we expected. However, we are confident that both these businesses will soon recover and lend strength to the larger Paint business.

**Capex :** The CAPEX plan for FY2016 at the standalone company level is around Rs.700 crores. The expansion work at our Rohtak plant from 200,000 KL per annum to 400,000 KL per annum is progressing as per schedule and should be completed by the end of the financial year.

**Going forward** : we continue to remain fairly cautious on the domestic demand outlook. The upcoming Diwali season is expected to provide some fillip to the Decorative Paints demand. However, the weak monsoon for the season is expected to hurt demand conditions especially in the rural segments and rural markets. Raw material prices are expected to remain low in the near-term. In the international markets, the demand conditions remain challenging especially in key markets like Egypt and Nepal.

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

**Moderator**: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** My first question is on Express Paints. Sir, do you see a large potential for India in this business? Why I am asking this is I see your competitor really focusing on this in terms of huge mark advertisement. So my question is why you are not doing the advertisement in spite of having the service and do you expect a large potential from this in the next 2-3-years?

**Management:** As you are aware we have had the service for some time in our Home Solutions service. We focus on promoting Home Solutions per se and faster painting service is a part of the overall service. The Home Solutions business is progressing but it is not growing at a phenomenal pace as we see it. We are looking at promoting the service through some of our Colour Ideas Store through a service called "Paint Total" which is promoted through the dealer through whom we provide adequate training to the contractors concerned. Through this model, a more economical proposition for consumers is feasible.

**Abneesh Roy:** Sir, two follow ups on this; I understand you charge a premium on Express Paints versus normal. So a question is any change to that strategy given the current competitive dynamics? Second is why dont you advertise this because you said traction has been a bit slow?

**Management**: The premium will continue because we feel consumers who want a faster painting service are willing to pay for this and it does cost a little more to ensure that it is done in that adequate manner. We are not really advertising on television for Home Solutions since it is not an all India service and it is there in local geographical pockets for which we do press and other localized advertising to promote the service. And more importantly, I think the focus will continue to remain Asian Paints Home Solutions and not Express Painting; which is the idea of creating a sort of bouquet of solutions that help to beautify people's homes or create dreams homes of customers. The idea is to not focus only on the functional aspects or the pace of the service in that sense of the world.

**Abneesh Roy:** ESS ESS Sales and EBITDA have fallen for the last three quarters sequentially further. So why have the losses increased – is it because of the rebranding which you mentioned is it because of that or are you doing some other initiatives to make a comeback in this?

**Management:** When we took over the business, it was a fairly small business. To begin with, we had to take some corrective actions in terms of both product quality as well as the manufacturing processes out there. And that is why I think a few quarters back we saw some corrections that were being done in terms of how those products will be made. Starting with the last two quarters which is this financial year, I think we have focused on, (1) adding people to our people deployed in the business because we would like to be an all India player. We have certain targeted markets that we would like to reach and we are preparing to go to those markets. So there were some investments made in people. (2) We had to take some corrective actions at a tactical level in certain range of products that we were making because we needed to rebalance the product portfolio that we had inherited from the erstwhile owners. (3) All of the marketing expenditure on this rebranding as well as on positioning the ESS ESS products correctly at all the dealers out there has been done. And last but not the least I think we have gone into a network expansion mode. So in markets where we have made entry where ESS ESS was either present with negligible presence or not present at all, we have had to invest in making sure that the shops display all the ESS ESS products. There has been that investments which has been done and it shows up on the bottom line as a negative because we have had lower than expected uptick in the market on account of subdued demand as well as on account of the fact that there is a decent amount of competition in this market. They are just not making way for us to out there. So, we will have to make sure that our product strategy and marketing strategy and network strategy is correct.

**Abneesh Roy:** In the Paints, I have two small follow ups; one is in Nepal from a medium to longer term do you expect growth to pick up given the damage which has happened to homes there, could there be a faster growth because they get built up and painted? In the Indian business, has again Putty sales and Distempers contributed a lot to the growth?

**Management:** As far as Nepal is concerned, post the earthquake, we have seen a pickup of sales. It may not have been to the extent desired because all of the government policies required to stimulate sort of with the rebuilding of the nation that has not been implemented fully, but, we do expect that the government will have clarity on this and things will be much better. So from a longer term trajectory we think Nepal will bounce back and maybe we will see the bounce back of those efforts if politically everything sort of pull on to an even keel.

Putties continue to grow well. We are a very small stakeholder in the Putty market. So there is actually a large potential to grow further. Distemper is not a high growth market. It is just a reorientation of Distemper from the higher end to the lower end that is happening in the marketplace.

**Abneesh Roy:** But Putty sales margins will be much lower because it is a commodity and there are cement players who are large players there and you are a smaller player, so your margins will be much lower than your current Deco margins in India?

**Management:** They would be more or less the same if you are looking at gross margins. If you are saying per kilo margins I agree with you.

**Moderator:** Thank you. The next question is from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta:** Just wanted to understand on the gross margin a bit, your two competitors have kind of reported numbers and they have shown an expansion in gross margin from the 1Q expansion, increase in the gross margin expansion. So I wanted to understand whether the performance that we have, are there any one-offs which is changing, is there a product mix change which has happened, etc., if you could clarify that?

**Management**: There is no one-off nor a product mix change in our portfolio.

**Avi Mehta:** So these gross margins you highlighted that input costs are expected to remain flattish. Would you be able to kind of share with us the raw material basket or kind of give us a sense on how do we see this going forward because how should we kind of look at the expansion going forward is what I am trying to understand in the current scheme of things, is it that there is still crude related and derivative input cost which kind of come through because we have had if I remember FY15 you bought a lot of RM without credit, so if that kind of weighing on margins…?

**Management:** I do not know what you are attributing to but we never speculate on raw materials in excess of what would be our normal inventory working pattern. As far as the raw material purchases is concerned, we continue to see fairly flattish sort of levels. Obviously, there is a bit of negative pressure on account of dollar impact that we see. That might be a little different for both our competitors but we do not know what the mix is, but we do see an impact of the US dollar changes impacting our material cost, but the basic bare product costs are flattish in that sense.

**Avi Mehta**: On the balance sheet bit, so if I look at inventory levels from TTM basis second quarter FY16 versus second quarter FY15, while inventory levels have moderated marginally, the reduction in payables have been much sharper. So, is there a change in the way you procure, it may not be in the amount but is there a change in the way your procure?

**Management:** There is a slight decrease in the quantum of purchases that would have happened in the immediate quarter plus the other aspect is in terms of how the mix of those raw material vendors have changed, while headed towards some lower credit, but it does not make much difference on the balance sheet.

**Avi Mehta:** Just continuing, the mix has changed because of favorable terms and the lower cost, is that a fair understanding or?

**Management:** We will not be able to comment on it.

**Moderator:** Thank you. The next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.

**Anshuman Atri:** My question is regarding ESS ESS and Home Improvement. By when can we expect improvement in margins and what kind of investments we are looking for in the next year?

**Management:** From an investment perspective as far as the Kitchen business is concerned, we continue to do some small organic investments in manufacturing improvements. We do not expect any large investments that we need to make. From Capex perspective, we will continue to invest in brand building in new product lines, etc., but that will be more on how we develop products. As far as the Bathroom products is concerned we will have to come out with a longer term manufacturing strategy. We have not worked on that this year but may be towards the end of this year, we will work on that strategy. So there will be some investments that we may have to make into a longer-term manufacturing footprint. In that business also, we will have to continue to invest money to create new products out there. So new products with new dyes are there. So that will continue. As far as turning around the corner is concerned in both these businesses we need to really build scale. We have made necessary investments that I explained in context when I was answering the first few questions that we have invested in marketing and products and branding as well as in people to scale this business. We need to be able to see a growth and uptick in sales really to make sure that those investments are well borne out there. A slight better environment and may be a little more traction than what we see today which we think is confident to being built. We should be able to see a much better next year.

**Anshuman Atri:** What is the share of Retail and institutional and what would be our target

**Management:** I do not think we will be able to give out the share of Retail and projects. We are not doing that in the Coatings business and I do not think it will be feasible to give that out in the Home Improvement business. We will continue to focus on both as both are important factors for that. Obviously, in the Bath business, the initial projects business is significantly more important than the Coatings business out there, even in Kitchens it is important, but in Bath it is very very important that we have a decent say in the Projects business.

**Anshuman Atri:** Are we seeing any kind of down-trading in the Paint business in terms of products?

**Management:** Not really, I do not think there is any significant down-trading in paint products.

**Moderator:** Thank you. The next question is from the line of Puneet Jain from Goldman Sachs. Please go ahead.

**Puneet Jain:** Any comments with respect to demand changes on a quarter-on-quarter will be very useful? Given the fact that very growth this year on a YoY basis for standalone business is lower than the previous quarter so could it be because of delayed festive season or are you actually seeing some changes in demand trends?

**Management:** The delayed festive season and monsoon failure could be possibly two reasons, but it is very difficult to make an estimate quarter-to-quarter because every quarter is different where the Paint industry is concerned.

**Puneet Jain:** Yes, but some comments on consumer sentiment and some comments on whether there is some traction on urban side because you mentioned that rural is definitely weaker?

**Management:** I did not say rural will be curbed yet, we are expecting rural markets to be curbed. It is very difficult to talk of a month-to-month or quarter-to-quarter. Overall demand conditions are not so exciting in the last 2-3 years as they have been in the previous 10-years is all I can say. Quarter-to-quarter I cannot make a statement.

**Puneet Jain:** Have you taken any pricing changes in 2Q or till now in 3Q?

**Management:** No.

**Puneet Jain:** There is a large increase in minority interest in this quarter compared to previous years. Any specific geographies which have contributed to the same?

**Management:** In Ethiopia operations, we have 51% stake. That entire profit from 49% goes into minority shares.

**Moderator:** Thank you. The next question is from the line of Dhaval Mehta from Emkay Global. Please go ahead.

**Dhaval Mehta:** What is the proportion of Putty in our overall portfolio?

**Management:** I am sorry, we do not give those breakups.

**Dhaval Mehta:** Especially in Q2 during the three months period, did we see any changes in demand especially in September as the onset of the festive season was there as compared to let us say July and August?

**Management:** It is very difficult to really estimate this because definitely September was better than August in terms of Retail demand but how much impact is genuine increase versus festive is very difficult to estimate.

**Dhaval Mehta:** How has early October been, is it similar to September or?

**Management:** Sorry, We will not be able to comment.

**Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** Given that this time the festive season is delayed in November and even Navratra was delayed. Was there a significant difference in YoY growth in September month because last time a lot of the sales of Navratra might have happened in September?

**Management:** There is always a difference every year because the festive season always changes year-to-year. Really to compare you have to go back three years earlier to see a delayed Diwali and compare with those. Frankly, I do not have those figures on hand.

**Arnab Mitra:** No, actually what I was asking was within the quarter was September month much worse in terms of YoY comparison than the first two months of the quarter?

**Management:** No.

**Arnab Mitra:** On the CAPEX plan, what would be the FY17 numbers if you can talk through that?

**Management:** That we will come back when we declare the annual results for FY16. Right now, we have finalized only the plans for the current year which is Rs.700 crores.

**Arnab Mitra:** On the Titanium Dioxide prices, how have they been trending recently and does the China slowdown have a big impact in your view on the outlook for the prices here?

**Management:** Prices have marginally softened, that is about all, nothing more than that.

**Arnab Mitra:** This will be in dollar terms?

**Management:** Yeah.

**Arnab Mitra:** So in rupee terms it probably would have remained flattish quarter-to-quarter?

**Management:** Yes.

**Moderator**: Thank you. The next question is from the line of Amit Sachdeva from HSBC Securities. Please go ahead.

**Amit Sachdeva**: I look at this number of revenue growth at standalone compared with the last quarter. We say the volume growth is high single digit which means price deflation definitely has increased on a higher side. Is it a fair conclusion?

**Management:** We did not change any selling prices.

**Amit Sachdeva:** But if you are running a scheme for dealers for example in the quarter, which could be specific and tactical and very difficult to measure in terms of price increase, how do you account it – does it go in the promotion side of it or would it be knocked off against …?

**Management:** The figure that you are seeing in the topline is net of all schemes.

**Amit Sachdeva:** So any tactical discount which is maybe not a price decline but maybe specific schemes to dealers, would this be accounted as a price decline, right, if I am correct?

**Management:** Yes, it is included in the price numbers.

**Amit Sachdeva:** But when you say you did not change any prices this quarter, can we say that some schemes were run this quarter which was not there in the previous quarter?

**Management:** Schemes are always a little higher before the festive season but it would be on similar lines to the previous year.

**Amit Sachdeva:** I was coming more from the previous quarter.

**Management:** Q2 also they were very similar, there might be a slight difference slightly more than Q2, but I am not sure the kind of impact you are looking at.

**Amit Sachdeva:** Because the reason I am saying is that looking at the volume number which looks pretty okay but given the tailwinds were continuing and the margin sequentially is almost flat at the gross margin level, it may perhaps indicate that the price discounting has accelerated over the previous quarter, that was I was trying to get to and whether we should expect how it is going in the festive season and how do you see because last year Diwali was very weak I guess because the revenue growth was tad light. So you have a very benign base and this season Diwali is late so maybe there is a bit of 15-day effect here and there. I do not know how do we see it but do you see that delayed Diwali this year would mean that stocking would have happened last year, so it was adverse space in that sense this quarter?

**Management:** Quarter-on-quarter basis there will always be variations. Obviously, last year Q2 was better due to Diwali. On only that basis yes Q2 starts on a lower base of last year.

**Amit Sachdeva:** So in that sense Q3 then gets benefit from what adverse impact have happened in Q2? Trying to get a sense of a number because to be honest we see revenue numbers to be a tad light than we were anticipating given the deflation we have seen given the price of raw materials were and given the volume that you are already sort of said that it is high single digit. So it looked tad light to me to be honest and that is what I was saying, is there any base effect which is sort of distorting this picture and how do we should take that in the next quarter and how do we see as in terms of volume trajectory being evolving, it is maybe too early to say but we are still in October here and are you seeing some trends which are pointing to the last Diwali was weak and this Diwali could be better?

**Management:** It is very difficult to comment at this stage.

**Amit Sachdeva:** Sir, can you give us an update on what is happening on the Indonesia plant that you are building and is there any update there and where we are on that?

**Management:** In Indonesia we have paid the money for the land which we made a public announcement of and we are in the process of taking possession for the land; already we are working on getting approvals for the manufacturing, environmental approvals for setting up of the plant; and the process has started for the design of the facility. Things are progressing as we would have liked it but may be a tad slower than we could have done it. We are also acclimatizing ourselves to that country.

**Amit Sachdeva:** Because Indonesia is also in a bit of a slowdown as macro is very weak there, so is it also impacting your plans, how are you pushing forward there or..?

**Management:** No, I think currently we have not allowed that to impact our plans in terms of what we are doing on ground in terms of either set up or in terms of the way we are approaching the market, but we certainly are taking all the adequate steps to make sure that we get the products right, the manufacturing strategy right, and our distribution strategy right. There is a lot of work going on in terms of all of those activities. We will only know towards may be Q2, Q3 of next year once we have some products in the marketplace on how things are shaping up in that country.

**Moderator:** Thank you. The next question is from the line of Shirish Guthe from HDFC Standard Life. Please go ahead.

**Shirish Guthe:** Sir, my question is from a point of view of next 5-10-years. So last decade we saw contracting repainting cycle, unorganized sector contracting and increasing distribution. So can you give some qualitative idea on where do we stand on these three key drivers for your growth? And do you think the large ticket volumes growth will be replicated in this decade as well?

**Management:** It all depends on the economic growth we have seen in the country. The last decade was good largely on account of the factor that the economic growth increased the purchasing middle class substantially with increased construction and urbanization all across the country. If this phenomena continues at the same pace as it did in the last decade we can confidently say that that Paint market will continue to grow in a similar manner.

**Shirish Guthe:** But Repainting cycle will continue to come down or how does that work?

**Management:** It depends on a whole variety of factors, repainting cycles for example is the lowest if you use Chuna… you repaint every six months. It is also dependent on the quality of paint. In a city like Mumbai the best Repainting cycle is for rented homes. After every 33 months when a home is re-let it is repainted. Obviously, the quality of painting and the quantum of painting is at a more economic level because the painting cycle is much faster. So there are a whole variety of factors when you go into painting cycles and things like that.

**Shirish Guthe:** So the issue is not about structural, mature category, it is more of cyclical slowdown that was…?

**Management:** No.

**Moderator:** Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please go ahead.

**Nillai Shah:** On the gross margins and EBITDA margins slightly longer-term, the management over the past many years have always held a view that you do not want margins to trend beyond a particular band because it invites competition. So what is the view out there? You have seen sustained input cost deflation for the last 2-3-quarters now and the pricing has been maintained yet. So what is the strategic outlook for the next …?

**Management:** In the long term it will be difficult to maintain this, I agree. At the moment the growth are a little lower. The growth rate, etc., increase substantially it would make sense in a growing market to become more competitive.

**Nillai Shah:** So then is it that you look operating profit margin growth as a metric that you want to maintain in the near-term?

**Management:** No.

**Nillai Shah**: So then how can competition view change versus what is happening near-term and volumes not being there because surely competition will not really bother with volume near-term especially when you know the long-term growth story as you alluded is very-very strong in India?

**Management:** It is very difficult to assess. Obviously, everybody wants to optimize profit and growth both. So we play this balancing game all the time. At this point of time margins are little higher but other costs are higher because we had planned for higher growth over the years. The moment higher growth comes in other costs reduce tremendously in an organization and it is possible to work at much lower gross margins effectively.

**Nillai Shah:** When I look at the operating and other expenses as disclosed in the quarterly results, how much of that very roughly would be fixed versus variable?

**Management:** In the short term quite of a lot of that is fixed. For freight, rent, godown, manufacturing, power and fuel costs in the quarter will be pretty much something that we are locked in. There will be obviously discretionary spends that you land up doing on either projects or initiatives. Those can be altered based on strategic directions that we want to take in the market.

**Nillai Shah:** So near term should roughly be 70:30; 70 being fixed in the near-term?

**Management:** Almost 60-65% will be fixed costs.

**Moderator:** Thank you. The next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.

**Amit Purohit:** Just on the revenue growth. As you indicated high single digit volume growth, so there is effective realizations goes down. I am just trying to understand more from the Q1 call that you indicated the price reductions were done more at the lower end of each of the segments. So if I take this realization decline, in some order if you could help us to understand whether it is driven by mix change or because of Putty or some segments which we are not present, because the lower end probably would have done well and hence the realization is looking low and volume growth looking high…?

**Management:** It is obvious. Putties have grown at a higher rate than the other products, but it is not as if premium products are also not growing well, it is very mixed and is very difficult to analyze in this manner.

**Amit Purohit:** So Putty in terms of percentage would be doing well but I am saying effect on the realization decline will not be that significant, right because it is a very small component, what I am trying to understand is realization decline would be largely because of mix change and if that is the case then is your strategy…?

**Management:** The realization would also be impacted because of the pricing that we did in the last quarter of last year.

**Amit Purohit**: So that was at the lower end of the base, right, most of the…?

**Management:** What we commented on the first quarter call was the reduction was higher for solvent products and lower end products, but that does not mean we did not do a price reduction for other categories.

**Amit Purohit:** When I raised this point, there was an indication that this was much more of a strategic move of price reduction higher at the lower end. So, I am just trying to understand is that segment very-very sensitive in terms of price and which has helped the company to achieve kind of volume growth in that segment? Are you happy with the way things are progressing in those segments or do you think that more work need to be done especially Putty or some other Distemper?

**Management:** We have a very wide range of products and we adopt a different strategy for different segments across. We are reasonably happy with the performance across segments, but it is obvious that the overall growth should have been much better. Putties has grown as per plans or marginally above plans while the other segments have grown a little lower. And we did a re-focus sometime last year in distempers. As a category it is not growing phenomenally. So we focused at the lower end and most of the sales have moved towards the lower end. There are some factors like this that may have aided the realization process and the absolute premium ends are not the largest volume segment. So even if they grow higher than the other segments they do not really impact the overall revenue in the same manner. We are referring to low end Distempers.

**Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

**Vivek Maheshwari:** First question if I reduce standalone number from consol, I get the subsidiary performance. Subsidiary EBITDA in this quarter is up like 50% YoY and its contribution is almost highest ever at around 14% of EBITDA. Could you elaborate on what would be the key driver because revenue wise it is up 12%, gross profit wise 21% and then at an EBITDA level 50%?

**Management:** Ethiopia we acquired from February of 2015. Ethiopia numbers are reasonably good. That is why you see the difference.

**Vivek Maheshwari:** But that would be the case even in the first quarter '16 as well?

**Management:** yes. The Ethiopia margins are definitely better versus last year if you just look at the standalone operations plus even the first JV with PPG (PPGAP) in terms of profitability that Q2 profitability is definitely better than what we observed last time.

**Vivek Maheshwari:** But gross margins if I look at, my understanding is in September quarter generally speaking the input prices at least in dollar terms will be lower than for most say pet chem or crude based commodities. That being the case, why is it that gross margins are not expanding on a quarter-on-quarter basis, is it mainly because of rupee/dollar equation?

**Management:** As we said there is definitely a negative factor of rupee/dollar but the basic prices also is more or less flattish over the two quarters.

**Vivek Maheshwari:** Sequentially you are saying prices have been flattish pretty much for Paint industry?

**Management:** There has not been major change.

**Vivek Maheshwari:** You called out monsoon as an impact but I would imagine monsoon if at all will impact in the second half, right, it cannot impact you in September quarter, right?

**Management:** We have stated that expectations. It can also impact sentiments. It is suddenly a factor that you go along as soon as monsoon numbers become publicly available.

**Vivek Maheshwari:** Because the thing is if you have not taken down prices in this quarter sequentially double-digit volume to high single-digit, again, I know you have highlighted this point that quarter-to-quarter is difficult, etc., but the reality is 7% revenue growth to 2.5% revenue growth and unfortunately we look at quarterly much more closely perhaps and that is why a 4.5% deceleration, how should we think about this if you are particularly calling out for monsoon, are you kind of suggesting that it can get even worsened as we head into the second half below for a static base?

**Management:** If growth in GDP does not return and sentiment in the country is not buoyed, we will have some challenges going forward. Whether it will be as difficult as Q2, as was put on the other people also who are talking about, there is a bit of a base effect because Diwali is extended into Q3. So there is that effect also which is there which will hopefully be a little more positive in Q3. There will be a mix of things that is going on.

The key factor which is very difficult for anybody to analyze is that Q2 tends to be the highest for Distemper in the whole year and since the Distemper mix has moved to a lower price point it can have a slightly larger impact than it would in other quarters.

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

**Ranjit Cirumalla:** My question is related to the Khandala plant where we are looking at a further capacity expansion probably one year down the line atleast for plant location?

**Management:** We will do some evaluation of our long term capacity scenario as we end towards the year and our outlook on longer term growth and we will take a call in which region we want to add capacity. As of right now we do not have any fixed plans to increase capacity in that plant next year.

**Ranjit Cirumalla:** So can you give an indication of your utilization…?

**Management:** When we come back with the annual presentation I think we will have a much better idea in terms of our capital expenditure commitments, little early in the year to make that call.

**Ranjit Cirumalla:** Are we in a position to share the income, excise duty of the drawback from the Khandala plant which we used to report it as part of the other income?

**Management:** The full year number would anyways be available but quarter is not very different than last year quarter.

**Moderator:** Thank you. The next question is from the line of Jubil Jain from Phillip Capital. Please go ahead.

**Jubil Jain:** I had a small question on TiO2 prices. So if we look at Bloomberg, the TiO2 price is around Rs.214 per Kg. Would this be similar to the purchase price for you as well? But at least can you tell me the direction in which it has gone. If I look at the YoY change for the second quarter, the change is 11%. Would at least that be correct for Asian Paints as well?

**Management:** I am not sure that Asian Paints can mirror and we can take a view on somebody else’s pricing impacting us because there is mix, there are vendor prices, there is a dollar/INR mix that you have to have. So I do not think one can make a generalized statement. Generalized statement on a basket of TiO2 might be in a particular direction but each individual company sourcing strategy will obviously have a huge impact in terms of what its pricing will be.

**Jubil Jain:** But would the prices be around Rs.214 per Kg or vary far from…?

**Management:** No comments on any specific raw material.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor to the management for closing comments.

**Management:** Thank you everyone for participating in our Conference Call and look forward to seeing you next quarter. And wishing you a Happy Festive season.

**Moderator:** Thank you very much, members of the management. Ladies and Gentlemen, on behalf of Motilal Oswal Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.