



“Asian Paints Q2 FY20 Results Conference Call”

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MANAGEMENT:

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MR. AMIT SYNGLE : CHIEF OPERATING OFFICER

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

MR. R.J. JEYAMURUGAN : VP - FINANCE

MR. PARAG RANE : GM – FINANCE

MR. ARUN NAIR : MANAGER - CORPORATE COMMUNICATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Asian Paints Q2 FY'20 Results Investor Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Nair from Corporate Communications. Thank you, and over to you, sir.

Arun Nair: Good morning and welcome to Asian Paints Q2 FY20 Investor Conference Call. On the call we have Mr. K B S Anand – MD and CEO, Mr. Jayesh Merchant – CFO and Company Secretary and also the President of Industrial JVs, Mr. Amit Syngle – Chief Operating Officer, Mr. R J Jeyamurugan – VP (Finance) and Mr. Parag Rane – GM Finance.

May I now ask Mr. K B S Anand to take the call forward.

K B S Anand: Good morning everyone and welcome to Q2 FY20 Conference Call. A few introductory remarks:

ECONOMY

The slowdown in the Indian economy continued into the second quarter with demand conditions adversely affecting industries. The overall challenging demand conditions were reflected even in the coating industry which was adversely affected due to a prolonged monsoon in many regions. Actually, for the paint industry, when it rains, the painting activity drops. A monsoon extending right up to Diwali and, when you consider that the month before Diwali is the peak retailing season, actually, it has been unheard in my 41 years in Asian Paints.

DECORATIVE COATINGS REVIEW

Against this challenging backdrop, our decorative paint business registered a high double-digit volume growth albeit lower than that witnessed in the first quarter. The economy range of products grew at a higher range than the premium range thereby leading to a high single-digit value growth for the quarter.

Many of you have expressed surprise at this, but this phenomenon has been apparent for the last few years. While the premium end continues to grow, the economy and emulsion and distemper are growing at a much faster rate. This has been part of our strategy to grow the bottom of the pyramid through new economy products and focused advertising and marketing. This coupled with higher growth in the putty segment meant that the volume growth would be higher than value growth.

In addition, the smart care waterproofing and adhesives product range continues to grow well. The company has launched several high-end and super luxury products this year.

Projects business from new constructions sites and builders has been affected due to the tight liquidity conditions in the market. The footprint of AP Homes, our flagship a multi category décor store, has been expanded now to 10 stores all over India. Fortunately, material prices remain benign in the quarter and we took two rounds of price reduction in a few solvent based products of a cumulative 0.4%. This was in addition to the 0.4% price reduction taken in the first quarter.

INDUSTRIAL COATINGS REVIEW

The adverse demand conditions also affected both the joint ventures in the industrial coatings space with automated JV, PPG-AP continuing the bear the impact of a sharp slowdown being witnessed in the automotive industry.

The industrial coatings JV, AP-PPG, performance was supported by a decent growth in protective coatings segments.

Both the JVs has registered improvement in profitability on the back of lower material prices and a contained growth in overhead cost.

INTERNATIONAL BUSINESS REVIEW

In the international portfolio, overall performance was slightly better in the current quarter as compared to the previous quarter supported by a good performance in Nepal and a bit of improvement in Egypt. Revenues from greenfield operations in Indonesia grew well in the second quarter although lower than plans. Benign material cost also supported the profitability of international operations.

During the quarter, we divested the entire stake in Berger Paints Singapore, the operating entity in Singapore, to further align the international portfolio to our growth strategy.

HOME IMPOROVEMENT BUSINESS REVIEW

Both the segments within the home improvement business, the kitchen business under Sleek and the bath business under Ess Ess faced challenging conditions given the slowdown in the real estate construction space. However, both the business registered good growth with continuing focus on network expansion. The kitchen business has done well in the area of delivering full kitchen and the bath business in the newly launched sanitary range.

CONSOLIDATED FINANCIALS

Revenue from operations has increased by 9.4% to Rs. 5,050.6 crores in Q2 and by 12.9% to Rs. 10,155.4 crores in H1. PBDIT before other income increased by 13.8% to Rs. 970.2 crores in Q2 and by 19.3% to Rs. 2,140.3 crores in H1. PBT increased by 13.9% to Rs. 852.2 crores in Q2 and by 17.7% to Rs. 1,877.5 crores in H1. Net Profit from continuing operations increased by 67.1% to Rs. 845 crores in Q2 and by 41.1% to Rs. 1,519.2 crores in H1.

STANDALONE FINANCIALS:

Revenue from operations increased by 9.3% to Rs. 4,278 crores in Q2 and by 13.6% to Rs. 8,658 crores in H1. PBDIT before other income increased by 12.4% to Rs. 873.5 crores in Q2 and by 19.1% to Rs. 1,963.3 crores in H1. PBT increased by 12% to Rs. 793 crores in Q2 and by 17.3% to Rs. 1,779.4 crores in H1. Net Profit increased by 64.5% to Rs. 790.5 crores in Q2 and by 41.2% to Rs. 1,443 crores in H1.

The company has chosen to exercise the option of a lower tax rate of 25.17% inclusive of surcharge and cess. The full impact of this change has been recognized and tax expense for the second quarter and in the first half of the year resulting in reversal of current tax expense and deferred tax liability of Rs. 62.8 crores and Rs. 24.2 crores respectively proved in Q1 of FY20 and a reversal of deferred tax expense of Rs. 107.6 crores in account of the measurement of deferred tax liability of 31st March 2019. This has resulted in a significant increase and net profit over the quarter in the first half.

CAPEX

As mentioned in the previous quarter the CAPEX for the company for the current year is about Rs. 700 crores.

GOING FORWARD

The overall slowdown in the economy continues to persist notwithstanding the series of measures being implemented by the government as well as softening of interest rates by the Central Bank to improve the sentiment. We would need to critically monitor how demand conditions plan out post-Diwali and while raw material prices have remained benign so far we will need to watch out volatility in raw material especially crude and related derivatives.

In the international market we will need to watch out for the emerging situation in the Middle East as well as business conditions in key markets like Sri Lanka and Bangladesh.

Thank you everyone. We would now be happy to take any questions you may have.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. The first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on the domestic volume growth; a strong double-digit, so my question is in terms of the geographical mix.. are you seeing any underlying different trends and you mentioned that because of the high monsoon there was an impact, so has that impact been overcome by early festive season, so has both of them balanced out each other?

Management: Frankly, most people do not get their houses painted if it is raining heavily. So, I do not think the impact has got offset. One can only hope that post-Diwali, post-monsoon whenever that happens retail painting will pick up.

Abneesh Roy: And sir geographic any different trends?

Management: I think North has been a little better than the other regions but otherwise it is more or less evenly spread. The impact of flooding and monsoon I think Central India, Western India have been and part of Eastern India has been adversely affected.

Abneesh Roy: Sir, two follow-ups here; one last quarter you mentioned ex putty the sales the volume growth is in double-digit so would that have been maintained even in this quarter that is the first follow-up?

Management: Yes.

Abneesh Roy: And second follow-up sir, you mentioned you have done bottom of the pyramid new strategies, new product, new marketing for distemper and emulsion, sir could you discuss that a bit more last quarter you had also mentioned you have gained shelf space overall not just in the lower-end you have gained shelf space because of innovative scheme so if you could mention these two in terms of strategy what exactly has happened?

Management: So, this is nothing new. Actually this is something we have been doing for the last 3-4 years. We have introduced a number of products in the last three years. For example, in the distemper category we have Tractor Uno and Aqualock which we have launched in the last 3-4 years which are doing exceptionally well and leading to a revival in distemper for us after many years; over the last few years we have grown there. We have continuously focused on Tractor Emulsion and Ace over the last 2-3 years; there has been advertising in this area after many years and this has spurred growth. This year we have launched 2 products even more economically called Tractor Emulsion Sparc and Ace Sparc which have met with a fantastic response. This has further spurred growth at the lower end. So, we have been continuously focusing because we see there is still tremendous potential to grow at the bottom of the pyramid from both the unorganized sector as well as to spurred painting per se and this has led to widespread volume growth on an ongoing basis, but naturally at a lower cost.

Just to add that the strategy has been also to add value to the customer at the lower end because in times when the time conditions are not very buoyant, it makes sense to kind of really take care of the customer in terms of giving the customer far more value for money in terms of which comes in and that strategy has kind of really paid off because we are finding that today a lot of customer from the bottom end are graduating on to the startup emulsion and also in terms of graduating to better distemper products. So, that is kind of really something which has helped us and along with this there has been above the line push in terms of a communication program which has gone to the consumer so that there is a knowledge in terms of that there is something which is available to us and we find that this has also given us a lot of shelf space especially when we look at Tier-2, Tier-3, Tier-4 cities; it has given us a lot of shelf space there in terms of possibly giving an advantage over the competition.

Abneesh Roy: Other follow-up on volume demand in Q1 your rural and small town had grown faster than the bigger towns. Now if you see in Q2 most FMCG companies are saying that the rural had grown at 0.5x of urban. So, in your case if you could discuss rural versus urban and is that still growing faster so is rural still growing faster because of these proactive measures or in paint you expect that your understanding is things are different versus say staple companies?

Management: So rural, small town, Tier-2 towns are been continuously growing faster for us for the last 10 years and they continue to do so.

Yes, and what we also see is that the phenomena is that the metro towns or the Tier-1 cities are growing much slower in terms of what we see. We see that the Tier-2, Tier-3, Tier-4 cities how we kind of say rather than rural-rural kind of zone these cities have done fairly well for us and there is also regular expansion which is happening in these cities. So, it is not just a function of just a demand it is also function in terms of the kind of expansion which is and many people coming into the paint cycle. So, I think that is really helped us and this phenomenon has been there for quite sometime, but we are finding this phenomena slightly far more in the last two years, in terms of that, it has paid off along with the strategy we have taken at the economy end.

Abneesh Roy: Sir, my second question is on the domestic sales growth, so last few quarters the value growth was 2% to 4% higher than the volume growth. In one quarter dramatically it is shifted by 6% so now volume growth is around 4% ahead of the sales growth while in Q2 the volume growth was 2% lower than value growth so there is a 6% dramatic shift in one quarter if I understand the price cut has been just 0.4% plus 0.4% in the best case so hardly 1% gap, so where is this 500 bps gap coming from? Is it only because of downtrading in one quarter, can the downtrading be so much high?

Management: See it is not so simple, I will say 3-4 phenomenon occurring simultaneously. what impact each phenomenon has is very difficult for me to put down. We need to examine the whole thing over the full year to be able to explicitly tell you in a more specific manner, but if you remember last year on July 1st GST was reduced from 28% to 18%. So, there was a much larger movement of higher-end products in Q2 what would normally have happened this year was a normal year so when you compare the top-end products that disparity rises. Secondly, this year you have a much earlier Diwali compared to the previous year. You have a much more extended monsoon compared to the previous year. You have a slightly larger shift in products because the real estate business has got hit to some extent this year. So, you can say the premium-end products going on exterior, etc., have got affected to some extent and lastly our entire impact or the momentum that we have gained in pushing at that bottom of that pyramid has been gaining steamed impact

Also, I mentioned earlier that the metros and Tier-1 cities have grown much lower for us and today if I look at there is a larger contribution of the premium and the luxury products which comes from these cities to that extent. So, from that point of view, I think it kind of explains some slowdown with respect to the premium and the luxury products, but today given the fact that the season is shorter. We have more customers in terms of the shorter painting cycles which come across which kind of graduate to more economy and mid-end products.

- Abneesh Roy:** And sir last question other expense up 17% quarter-on-quarter, 20% YoY, so is it because of ramp-up in one of the new factories and ad spent has also moved up sharply?
- Management:** Primary due to the advertisement spent, sales promotion spends have been much higher in Q2 versus say even Q1 and YoY basis also.
- Abneesh Roy:** And why would that be?
- Management:** Early Diwali is one of the reasons for this. So, I think when demand conditions are slightly taxing, we thought rather than withdrawing money and kind of watching expenses, it is better to kind of invigorate the customer and get the customer right up there in terms of some of the selling proposition we had.
- Abneesh Roy:** So, there is no ramp-up in terms of factory?
- Management:** Factory cost versus Q1, Q2 there would not be a significant change obviously versus last year there would be a certain increase of Mysore-Vizag cost coming.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** I just wanted to understand the comment that you made in the start about a month before Diwali is the peak season you know Diwali is kind of earlier by a week would that mean still October is the key month from the festive demand point of view, is that how it occurs?
- Management:** It would be probably 15th September to 15 October we have to go by days, we cannot go by calendar months. So, somewhere between 15th September to 15th October about 10 days before Diwali would be the peak retail sales from the company point of view. The dealer would continue for another five days, but from the company point of view the retail peak period would be somewhere from 15th September to 15th October.
- Avi Mehta:** And hence your comment about how the demand behaves after Diwali determining the trajectory going forward that is why your comment is that understanding?
- Management:** The rains have continued during this peak period. We had heavy downpour even yesterday in Bombay in the evening. This is all not very nice for us.
- Avi Mehta:** So, in that sense the Q3 base would have the entire festive demand in that sense?
- Management:** But last year you got to remember Diwali was late so Q3 was very good.
- Avi Mehta:** So, the way I should look at Q3 is that will be there in the base, but the benefits or the tailwinds are your initiatives what you are doing in the lower end which would continue or does that GST anniversarization also mean that is also there in the base sir?
- Management:** No, GST angle would have been a little bit in Q2 of last year, not really otherwise.

Avi Mehta: Sir, the second bit was this mix change that you are seeing is that also a similar trend on the secondary part so there is no inventory change that is happening in the channel, right? The inventory mix is also not changing for the channel, right?

Management: It has been changing for a period of time. It has not been apparent to all of you because we have not published it, but in a quarter where we had so much difference, we thought we got to make it more explicit.

See people do not really change inventory days, they go by more in terms of how the secondary demand is kind of coming and the buying pattern kind of adapts to that. So, you know while you can have momentary periods where there could be inventories going up in a certain kind of product category but people adjust to the secondary demand far more strongly and you would not kind of over any prolonged period have an inventory mismatch of the dealer in a very big way.

Avi Mehta: Sir the reason I was asking is one of the drivers that you indicated was also the launch of new products in the economy-end you highlighted Tractor Sparc and Ace Sparc so which is why I was trying to understand whether that has also driven or contributed to this mix change disproportionately because all that will be sitting in the inventory channel and will be occupying that is why I was trying to understand the materiality of that?

Management: So, see the new strategy has been key to our thing for the last 3-4 years and every year we have a good set of products which come both at the premium and at the economy end. So, I think that strategy when a new product is launched, retailers definitely kind of stock it because we also kind of work on the demand in terms of how it has to be done. So, there have been I think good products launched at the premium-end as well this time. It is just that today the value proposition to the customers is far better at the economy end. Therefore, you will have a higher quantum of a response which will go at the economy ends any for new products which are launched.

Avi Mehta: And this sir part sir on the input cost front, there is obviously the mix impact that is there in Q2 as well, so if you could help us understand would first half be a better way to look at how the current input costs are there in the margins, would that a first half gross margin number be appropriate in the metrics or would the YoY change because the YoY change is no longer accurate as you rightly point because Q2 has something in the base which is not there in this Q2?

Management: See what really happens is that in general the Q2 given the fact it is a seasonal period, there is relatively a higher discounting which happens in the Q2 period traditionally as a pattern which you would see and therefore there has been a little bit of a skew which has happened as compared to Q1, but that is not something which is so alarming to kind of really look at we have intentionally done something which is far more what is required, but I think in second quarter usually we have a higher kind of input cost which kind of comes in because of the incentivization both at the retailer and at the customer end. And with the earlier Diwali, Q2 input would be marginally higher than last year because Diwali has come earlier.

- Avi Mehta:** Why would that happen because you said Diwali typically has a better mix right sir?
- Management:** See what we were trying to say is that in general when you look at Q2; in Q2 given the fact that the season is there so Diwali 15 day is here and there, but in general Q2 we have a higher inputs spends which happens because of the incentivization programs in terms of what we do both at the retailer, consumer and the applicator end.
- Are you meaning input cost in terms of as material cost.?
- Avi Mehta:** Yes sir.
- Management:** So, in terms of material cost I think the trend still remains between Q1 and Q2 there would be certain sort of reduction in say the material price index for us, but it would not be significant. Q1 was a much significant sort of reduction over the previous year.
- I think we misanswered you initially because we had a different understand of when you used the word input cost.
- Avi Mehta:** Sorry sir what is the answer that I should?
- Management:** There is actually not very much of a difference in the material cost, etc., between Q1 and Q2.
- Avi Mehta:** So, the first half is a fair representation of the margin should offer so fair enough sir.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** In terms of demand scenario how would you size up the trend in terms of should one see mass end of the portfolio outperforming rest of the portfolio at the sign of down grading or is it premiumization from unorganized to organized?
- Management:** I would see it more as premiumization to unorganized to organized especially in Tier-3 and Tier-4 cities. Like we mentioned there is a relative slowdown of premium products in the major metros, but you cannot actually say down-trading because there is growth in the premium-end also.
- Tejas Shah:** And sir second you elaborated enough on monsoons impact on Diwali sale also, but in terms of consumer behavior what is your take on whether if a consumer misses the cycle of painting before cycle, does he postponed by a year or two, three quarters or he still goes ahead with the painting let us say post-Diwali month as well?
- Management:** See what really happens is that there are different consumer segments who kind of come into play as we look at the seasonal quarters and some non-seasonal quarters. There is a typical consumer profile which actually paints once a year or once in two years kind of a zone and these are customers who largely come into the cycle in terms of more distempers and economy emulsion and so on and so forth and we find that some of this customers do not kind of really

come back in Q3 kind of a thing in terms of postponing their purchases there for them possibly the year is missed and they will kind of look at deferring their painting to the next year. So, that kind of is an effect which happens with respect to the monsoon specifically. So, therefore there would be a certain segment of customers who would have then now got out of the painting cycles and we would not kind of get them to see in Q3 to that extent and typically what happens is people who kind of miss out in Q2 these are the large 2 BHK plus bungalow houses kind of a thing which definitely you know if they have kind of missed the seasonal quarter they would kind of comeback in Q3, but the other aspect to it is that there is also a large amount of projects sales which happens which kind of gets affected far most strongly because typically you know if monsoon would have finished around 20th September or 25 September we would have got that quantum of sale which would have come in from a projects point of view in terms of new construction and other repainting cooperative societies and so on and so forth.

Tejas Shah: And sir lastly on waterproofing you had shared our ranking last quarter that we are number two, so in terms of distance versus number one, how far are we and how much ahead are we from the number three players?

Management: So, we are in the middle of the year so I think it is very difficult to say at this stage in terms of where we are, but I can tell you that we have done well.

Tejas Shah: In terms of product performance the warranties in terms of what we would have implemented products two year back the performance of the product we must be knowing by now so how would you rate that in terms of warranty which have come for the products?

Management: So, by and large, the performance has proved satisfactory and we have not got too many warranty complaints wherever some warranty complaints have come more often than not it due to improper surface preparation or application of the right product in the right place.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir my question is with reference to you know the total CAPEX for FY20 and FY21 and how much CAPEX is already on stream and how much CAPEX is still balanced for FY20 and if you can give some color on the total depreciation what one should at from FY20 perspective?

Management: So, FY20 as we said we have a plan of at least 700 crores on the CAPEX side some of it towards maintenance and balance CAPEX in the two plants. From a CAPEX spend point of view, I think some 300 to 350 crores the rest is regular maintenance CAPEX. Net year it should be the regular maintenance CAPEX by and large.

Rajesh Kothari: So, when you say total 700 crores out of which how much is already done?

Management: About 200 crores has been done; the balance will occur over the next two quarters.

Rajesh Kothari: So, about 500 crores will be done over next two quarters and 200 crores which is already done so that is already commission or that will be commissioning?

Management: Last quarter bit is towards the balance spent in Mysore and Vizag which have already been commissioned.

Rajesh Kothari: So, your full year depreciation therefore what one should assume?

Management: I think the first half number is a very good reflection of it because the other spends as and when they get sort of spends, we will capitalize it, but that is smaller amount.

Rajesh Kothari: So, basically 500 crores depreciation that will come next year that is what you are trying to say?

Management: Yes.

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

Nilesh Shah: Just on the demand right again just to clarity after all that we said about that the monsoon and the product mix changes etcetera basically for the domestic paint business I am leaving out putty and waterproofing out here the volume growth is still double-digit for the quarter?

Management: Yes.

Nilesh Shah: And secondly on the price cut which you have taken it is only on solvent base if it is 0.8% for solvent base for the portfolio as a whole it will be less than 0.3%, 0.4% right?

Management: It is 0.8% as a whole; so it is much higher for solvent base.

Nilesh Shah: And finally, on the other income why the other income jumped up the way it has this quarter on a sequential basis and YoY basis?

Management: There is an extent of higher income from the surplus treasury funds that we have booked in Q2 versus Q1 and even last year.

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

Amit Sachdev: Sir, my question is on the obviously volume growth has been stellar you have explained in adequate detail why it has happened, but if I look at the gross profit line gross profit pool has expanded by 16% and I would understand the input prices were benign and that has led to perhaps this gross profit despite the revenue growth was 9 odd percent, so can I sir we assume that this mix that has already happened in Q2 and I reckon that Q3 is also a bit of a mix gets inferior as we go into the festive quarter and probably runs into the Q4 as well with distemper being very heavy, sir can we take that sort of gross margin picture assuming the input prices are not moving too much to Q3 as well is this the mix going to change different I think we already

had the mix which used to be in the festive quarter is this the fair understanding of how we should think about this?

Management: Every quarter for the paint industry is a little different; the mix is a little richer in Q3 and Q4 compared to Q2.

Amit Sachdev: Mix will be slightly richer is it okay relative to Q2?

Management: Yes.

Amit Sachdev: I thought last year Q3 was huge in distemper.

Management: Last year Diwali was later.

Amit Sachdev: So you perhaps the mix would start to become slightly better in Q3 this time that is a fair understanding in Q4 as well?

Management: That is great to hear and one comment you made about the transition from the unorganized sector that is happening as a result of consumer seeking more value but your own focus on that segment launching new product which offer a greater value for money. This seems like a great powerful transition that has happened just post GST and do you see that momentum has now structural and you would perhaps excelling against your competition in capturing that segment because your size and scale and distribution, so should we assume that the volume growth that you are getting despite the demand being weak is that should be a structural trend that volume growth should be coming your way nonetheless regardless of the demand situation is. So, do you see sir, I am reflecting that is it safer to assume that?

Management: See our competitor copy everything we do

Amit Sachdev: That is why I was wondering when you are capturing others are also doing the same thing and how should be assume that structural trend is likely to stay and are you seeing that stay in coming months as well?

Management: See what we see is that obviously given the fact that the advantage of the first movers in that segment in terms of creating value kind of for the customer we have done that earlier as well and we see that we would definitely get initial surge which is definitely good, but over a period of time we also see that competition catches up in terms of launching something which is similar so you cannot kind of assume that the same kind of trend would kind of continue forever. So it is basically a time bound thing in terms of what really happens and we think that possibly the surge is higher at this stage in terms of what we have got given the fact that we have got the first mover advantage in terms of some really good new products which has come at that segment.

Moderator: Thank you. The next question is from the line of Kunal Thanvi from Banyan Tree. Please go ahead.

Kunal Thanvi: So my question is also on the demand, so can you throw some light on the secondary growth rate that we are seeing in the secondary market and you know now and follow up on that you just mentioned about the fact that there is a set of consumer behavior you know in the economy or the lower end of the market which do not come back in Q3 post Diwali if they miss out due to monsoon, so is it fair to assume that in the upcoming quarter that segment would not see the kind of growth it is seeing now?

Management: See the secondary sales have definitely been lower because of the fact that the consumer demand has been bit stunted to that extent coupled with obviously what we spoke of in terms of monsoon. So as compared to Q1 you definitely see that the demand conditions have been poorer in Q2 in terms of what has happened and that is reflected in the secondary sales also. We also see that as I said that some of this consumer segments would not kind of come back to us in Q3, but obviously we are relying in terms of seeing that today when the monsoon kind of stop we do see something which is start happening from an exterior segment because the exterior painting literally come to a stop while the monsoons are going on. So I think when we step into Q3 we will definitely have the other consumer segments so who would be definitely there in that segment; yes, there is some loss of the shorter cycle customers who have not kind of come in this Q2 at this moment, but we would definitely get the other segment as we kind of look at Q3 and Q4.

Kunal Thanvi: Sir just a follow up on that so earlier participant asked about inventory changing in the dealer level when we see the growth in our numbers in last two quarters as you rightly mentioned that it was largely because of the economy segment being pushed then with Q3 and Q4 maybe premium the part of the portfolio may do good on the secondary level while the dealers have inventory for lower end products so how does that catch up, how do we look at that kind of inventory in demand mismatch that might occur?

Management: Actually, there is no mismatch which really kind of happens because as I have said earlier it is not that we have grown only in economy products some of the premium products have also grown. So you cannot really kind of take a stance in terms of not having inventory in the premium products at all and kind of build inventory in the economy products. So I think the retailers do not really work like that. So we do not see really a big mismatch in terms of the inventory as I said retailers are fast enough to kind of adjust their inventory from the point of view of how the consumer demand is coming and as such today what we see is that the inventory which is stocking at the dealer end at the retailer end is not of a very high proportion because of the fact that our servicing to the retailer is pretty good in terms of how it kind of happens. So we do not see very high levels of inventory possible stocking and therefore the mismatch which you are talking of is not possible.

Kunal Thanvi: And one more question on you know maybe a broader one not for 6 months or 1 year perspective say 4, 5 years perspective how do we look at the premium end of the market right now we understand due to the latent shift of unorganized to organized we are seeing a very high growth in the economy segment, how do we look at the market say from a 5 year perspective in terms of growth?

- Management:** So see it is very difficult to say in terms of predicting you know if all of us were good at predicting what is happening 5 years I think we would have been kings to that extent so it is very difficult to say in terms of saying what is going to happen this thing. What we can only kind of say is that obviously as we have seen in the past Q3, Q4 the mix definitely gets much better and we are looking forward to kind of that mix kind of shaping up.
- Moderator:** Thank you. The next question is from the line of Abhijit Sinha from Pi Square Investment. Please go ahead.
- Abhijit Sinha:** I just want to understand could you just throw some light on the other income growth?
- Management:** We just explained a few minutes back that the other income growth in Q2 is largely because of a higher treasury income booked in this quarter.
- Moderator:** Thank you. The next question is from the line of Amit Purohit from CGS CIMB. Please go ahead.
- Amit Purohit:** Sir, on the input cost when I look at the Q4, Q1 and Q2 quarters, the gross profit growth in Q4 was lower than the sales growth. In Q1 was in line with sales growth and now it is higher than the sales growth and your comment that the raw material index is more or less same as Q1 and Q2, so I mean how do I read this actually where I am going wrong in understanding?
- Management:** There are lot of factors here it depends on what the material price index were in the last year Q1, Q2. So we have seen a massive increase in the index in last year Q2 and therefore even on a probably similar index in previous Q2 versus Q1 we will probably see a larger benefit in Q2 versus last year Q2; then the price changes that we took over the last year and the price reduction also they are play a role. So it is a mix of all these factors, but as I said H1 material cost is probably a right indication of where the material prices are sitting.
- Amit Purohit:** And what would be and is our current buying price lower than the H1 input cost for us?
- Management:** Cannot really comment on that.
- Amit Purohit:** So I am saying just current buying price for us?
- Management:** Sorry we cannot discuss that at this stage.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum. Please go ahead.
- Shirish Pardeshi:** I have few questions the first question is on inventory typically what is the inventory for the paints with our dealers?
- Management:** It varies from 15 days to 30 days generally if you are a depot town dealer you tend to stock about 15 days inventory if you are an up country dealer you stock about a month inventory that would

be an average it could vary from dealer to dealer. Larger dealer tend to have smaller inventories and number of days; smaller dealers tend to have larger inventories in number of days. So the mix can be quite you can have quite a range, but I am giving you an average.

Shirish Pardeshi: So how would the new product inventory would have then increased, so you are saying this average 30 days for the rural dealers would have been adjusting to lower inventory?

Management: New products represents a smaller proportion of the total sales, so they really do not affect inventories to the same level at the dealer level. Also see for new products we carry a slightly higher inventory. So basically, the retailer does not kind of adjust in terms of kind of increasing his inventories. So he kind of banks on our inventory being there too so that the servicing is much better because of the predictability of the new products is also lower. So we tend to carry a higher inventory at our end.

Shirish Pardeshi: So in the current economic slowdown people have spoken liquidity issues, so for new products introduction in the trade have we extended some sort of credit line?

Management: No.

Shirish Pardeshi: My next question is on what is the industry size or maybe contribution for paints for putty and distemper?

Management: Putty would be anywhere close to about 5,000 to 6,000 crores as a whole overall segment in which there are lots of players which are kind of involved and when we look at distemper, I think it would be anywhere between 12,000 to 15,000 crores.

Shirish Pardeshi: Now the premium distempers are that we are into the centre in terms of pricing?

Management: We would probably be the highest price distemper.

Shirish Pardeshi: And you say that this price is higher, so this is we have a differential price for North and Eastern market?

Management: We have uniform pricing; we have two qualities of distemper... the largest selling distemper is called Tractor Uno which is priced a little more aggressively and we have a better quality distemper which has an element of you can say waterproofing built in which is called Tractor Aqualock.

Shirish Pardeshi: Questions on the home improvement, we have seen that last four quarters we have been giving the same commentary that network expansion, could you say some elaborative explanation which is the network, what are the markets and where we see I mean obviously the numbers are looking very impressive YoY and quarter-on-quarter, but what kind of network expansion we would require say a meaningful contribution in terms of our sales?

Management: As far as network expansion, both home improvement businesses, we definitely are looking at newer geographies where possibly the representation is poor and the last two and half years, the expansion has been very, very aggressive in terms of what we have taken both from the point of view of kitchens which are the full kitchens we deliver as well as the components business which is there where we are looking at more distributors and more reaching out to smaller towns and geographies where we were not represented. Similarly, in terms of the bath category, we have been opening new retailers across the country, new distribution setups which have come in to that extent, so that has been a integral part of a story in terms of what we have been doing in the home improvement as well.

Shirish Pardeshi: My question is little different; when we have done and met people so our product sales has been driving so is it fair to assume that when project business is not growing, the product business is driving this growth?

Management: That is right.

Shirish Pardeshi: In the kitchen and cupboards what we have introduced, the growth is driven by that segments?

Management: It is the retail, the full kitchen segment is doing very well.

Shirish Pardeshi: And how big this in terms of contribution would be one-third safe to assume?

Management: Yes, so the full kitchen business would be close to about one-third.

Shirish Pardeshi: And product would be about 40% to 50%.

Management: Yes.

Shirish Pardeshi: Just last one question, now you said that there is no inventory buildup which has happened and if the economy segment where we have seen the monsoon has been panning out very well so that deferment of the purchase then is it the inventory would get stuck for maybe another two quarters till the summer season?

Management: No, that is what we were saying that today the retailer would never kind of really increase his inventory given the fact that our servicing is very good and the inventory varies from 15 days to about 30 days; you know the retailer is quickly able to adjust his inventory far more strongly to that extent and therefore the pile up of inventory would really not happened to that extent. So it could be a very small phenomena for a week or 10 days kind of a zone which will happen, but we would not kind of see a any big pile of inventory happening at the network. See the other thing is now solvent based products are much lower proportion of the total volume where we provide all the tinted shades. All the other emulsion and even distemper to an extent can be tinted in dealer outlet. So, all you are supplying is basis so in terms of dead inventory frankly, there is very little dead inventory at the dealers end.

- Shirish Pardeshi:** Just one last few questions on the international business so we have seen that Nepal is doing great, but then you sounded that there is some issues in Bangladesh and Sri Lanka, is it because of the stability of business?
- Management:** See there was a very severe monsoon which affected both Bangladesh and Sri Lanka; where there are more monsoon prone then even India so to speak and in general the economic conditions in Sri Lanka are not the healthiest while the Bangladesh economy is doing reasonably well. The Sri Lankan economy over the last two, three years has been going through a rough patch.
- Moderator:** Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.
- Vivek Maheshwari:** I have the same questions which have been repeated on the volume value growth the first one is the gap between volume and value and assuming the mix improves as you highlighted in third quarter which would be the case in the base quarter also; the delta is that what we have seen around 5%, 6% this quarter is that what will continue or persist for the rest of the year also.
- Management:** We just answered that question saying that it is very difficult to predict that zone, but as we see when the mix gets better in Q3, Q4 obviously that difference is bound to come down.
- Vivek Maheshwari:** See the reason is because third quarter last year will also have a better mix right so to that extent the mix is sequential not YoY?
- Management:** So, the reason which has been that the Diwali has been preponed this year and as a result last year, since the full October we got in terms of the retailing period of Diwali. We think definitely this year Q3 the mix would be much better.
- Vivek Maheshwari:** We have highlighted upon some of these aspects, has there been a increase in promotion discount because minus 5 it still looks very baffling to me, so other whatever you answer leaving that aside, has there been higher promotional discount which is also impacting this number.
- Management:** Yes, second quarter definitely sees a higher trend of the discounting which happening because this is typically a period when there are lot of consumer schemes which happen there is incentivization scheme for the retailers also which happens to that extent and therefore what we see in the second quarter, there is a slight skew in terms of the inputs spending which happens to that extent and that is something which is definitely there this year as well, but that year-on-year, you will not have that much of a difference.
- Vivek Maheshwari:** That is a precise point so is there something unusual on the promotion discount or it is pretty much?
- Management:** No.

- Vivek Maheshwari:** And you keep mentioning about slowdown on your calls, but this is 7th quarter to my understanding which is double-digit decorative volume growth?
- Management:** We feel that it is slow.
- Vivek Maheshwari:** So in good times you expect what kind of volume growth?
- Management:** A very high double-digit volume growth.
- Vivek Maheshwari:** And finally if I can request you are a fairly large company obviously in terms of business but also in terms of market gap, can we see better disclosure from you maybe volume adjusted you give volume growth which is like very abstract, it can be value adjusted growth even multinational the Unilever, Colgate, Nestle are giving that.... it is just a suggestion if you can take on board because in terms of market cap you are one of the leading ones in the world now so if you can take that on board?
- Management:** We will consider it.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhayay from Securities Investment Managers. Please go ahead.
- Nikhil Upadhayay:** Sir just one question, one of the comments you made like is that the premium which basically sells in the metro and Tier 1 the growth rate has been lower. Now if I add consider this tax benefit which we are getting do you think that the value proposition as you mentioned that we are driving the value proposition at the lower end of the segment, but do you think the economy or the premium end also the value proposition needs to be passed on because if we look at last two years, one we had GST benefit which we passed on to the customer now we are again getting this tax benefit, so how are you thinking about bringing back or improving the growth rates in the premium?
- Management:** No, so that is not the case because see if you look at it is not that there is anything wrong with the value proposition of the premium products as well because the premium products, they relatively are doing much better if we look at from the point of view of Tier 2, Tier 3 cities. So it is not that there is anything wrong in the value proposition in terms of what is coming for the premium and luxury products and I think at Asian Paints we clearly kind of benchmark as well saying that we need to have the right value proposition delivered to the customer at any price point be it at economy in mid or premium or luxury. So, about the question still very clearly pertain to points to the fact that the demand conditions are relatively weaker and therefore we feel that just doing anything adjustment with respect to pricing is not going to spur up the demand.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management

- Pulkit Singhal:** In the FMCG industry at least we had observed over the last 5, 7 years that many players who were able to drive premiumization by introducing lower price SKUs for their premium products which today surprise obviously worked quite well. Now I do not know how feasible it is to do in the paints industries given that it is a specific volume base product, but have you tried pushing that even in areas where we would ideally think a premium product would not sell by saying that you know why did you just try one room with this SKU in paint or something like that?
- Management:** So, it is not a premium product do not sell in rural areas or small town; they sell all over the country, but as a proportion of the total sales, premium products have much higher in the metros. So all our product available everywhere in every small town in village in the country. So even Tier 3, Tier 4 cities contribute to a sizable sale of the premium and luxury, it is not that it is not there. So we already have people who do one room makeover, they do one wall makeover and so on and so forth. So all those things are there which we are kind of going to extent from what people have been kind of experimenting. We have all sorts of textures and stencil and other kind of inspirational wall finishes which people are using across the country.
- Pulkit Singhal:** Sir, in terms of the metro and Tier 1, I mean looking at the last five year growth rate so do you think that these markets are now largely saturated in terms of volume growth and it is only the premiumization which leads to the value growth out there?
- Management:** Not exactly, because what we see is that you cannot really club the metro and Tier 1 also together because metros behave differently and Tier 1 behaves differently to that extent relative to basically the Tier 3, Tier 4 cities, there has been definitely a trend which we see where the metros in Tier 1 have been growing slower. It is not that they are not growing, they are growing slower as compared to the Tier 2, Tier 3, Tier 4 cities kind of a zone in terms of what we see. So there is that kind of a trend which is visible, we definitely see that even in Tier 1 cities and metro there is definitely a growth which is happening it is not that there is no growth. See it is a question of the overall economic conditions and real estate conditions. We will see the metros growing vertically, the Tier 1 the smaller town growing more you can say horizontally. You also have the metros like Bombay and Delhi growing into NCR, Gurgaon, Vashi etc, so there is growth it is not as if there is not growth, but in the current trend the number of construction activity so to speak has taken a little bit of a slowdown and as a result the growth seems to be a bit lower.
- Pulkit Singhal:** Sir has the construction business from the first half perspective declined on a YoY basis sir the primary real estate paint sales that you do?
- Management:** Our business has gone up, but not gone up as much it was going up earlier, but also what has happened is monsoon has affected the projects a lot because all the big projects where exterior painting kind of happens I think that has definitely taken a toll this year.
- Pulkit Singhal:** Sir in terms of now given that there is this renewed focus on the lower end and I mean distemper and putty and also I mean you are seeing obviously higher growth in Tier 3, Tier 4 which tends to have a product mix in that segment, so overall three to four year period going ahead I mean

would it be fair to therefore assume that volume growth will obviously continue to lead value growth going ahead?

Management: Sorry, we would not be able to give any guidance.

Pulkit Singhal: Sir and these newer customers that are coming in at the lower end how long does it take before they kind of start preimmunizing because many of them are coming in the last say one and half years post your focus there?

Management: It is not as linear as you are kind of seeing so you know we do not find that people will kind of try, reach category and then move on to only one category up kind of a thing. We see kind of very different phenomena also which happens. We see a distemper consumer kind of graduating on to the luxury product also and there is also mix where people would kind of get one room done with a luxury product which is basically the front facing room and the other room basically you might continue to in terms of graduating only on to economy emulsion. So it is very difficult to kind of say that he will take 10 years or 15 years to kind of finally come to the premium category; so it is a bit of nonlinear kind of upgradation which kind of takes place. So very difficult to kind of really predict that this set of customers which have come into economy will definitely move into say the premium or the luxury over a defined period of time.

Pulkit Singhal: Just a last question is it possible to share the top 10 cities contribution to sales?

Management: Sorry, we would not be able to comment.

Moderator: Thank you. Ladies and Gentlemen, we take the last question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: So Amit my question is to you what are some of the new priority areas or focus areas for you once you resume your own for the month of April?

Amit Syngle: So I think, I am looking forward to my stint in the new position, but we will talk about it more later.

Moderator: Thank you. Ladies and Gentlemen that was the last question. I now hand the conference over to Mr. K B S Anand for closing comments.

K B S Anand: Thank you everyone. It was a very lively discussion and a Happy Diwali to all of you.

Moderator: Thank you very much sir. Ladies and Gentlemen on behalf of Asian Paint Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.