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APL/SEC/31/2024-25/13

14th November 2024

BSE Limited	National Stock Exchange of India Limited
Phiroze Jeejeebhoy Towers,	Exchange Plaza, C-1, Block G,
Dalal Street,	Bandra Kurla Complex, Bandra (East),
Mumbai – 400 001	Mumbai – 400 051
Security Code: 500820	Symbol: ASIANPAINT

Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of the Investor Conference

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Investor Conference held on Monday, 11th November 2024, with regard to the business and financial performance of the Company for the quarter and half year ended 30th September 2024.

The transcript has also been uploaded on the Company's website and can be accessed through the following link:

Investor Conference – Transcript

You are requested to take the above information on record.

Thanking you,

Yours truly,

For **ASIAN PAINTS LIMITED**

JEYAMURUGAN RAMALINGAM JEYAPANDIYAN
Digitally signed by JEYAMURUGAN RAMALINGAM JEYAPANDIYAN
Date: 2024.11.14 18:55:36 +05'30'

R J JEYAMURUGAN
CFO & COMPANY SECRETARY

Encl.: As above

ASIAN PAINTS

Q2 FY2025 Earnings Conference Call

Date: November 11, 2024

Management: *Mr. Amit Syngle : MD & CEO*
Mr. R.J. Jeyamurugan : CFO & Company Secretary
Mr. Parag Rane : AVP - Finance
Ms. Sunila Martis : Head – Investor Relations

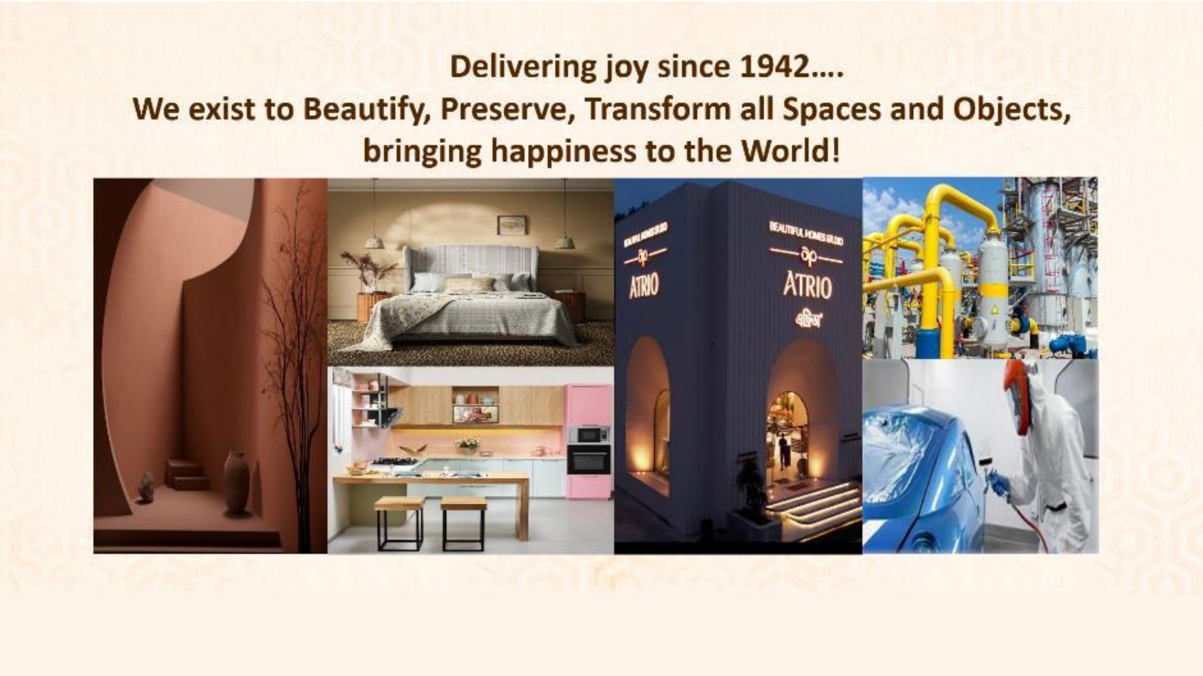
Disclaimer: This is a memorandum of the proceedings of the Investor Conference Call of Asian Paints Limited held on Monday 11th November 2024 at 5:00 pm with regards to the financial results of the Company for the Second Quarter ended 30th September 2024. While we have made our best attempt to prepare a verbatim transcript of the proceedings of the meeting, this document has been edited for readability purposes and may not be a word-to-word reproduction.

Sunila Martis:

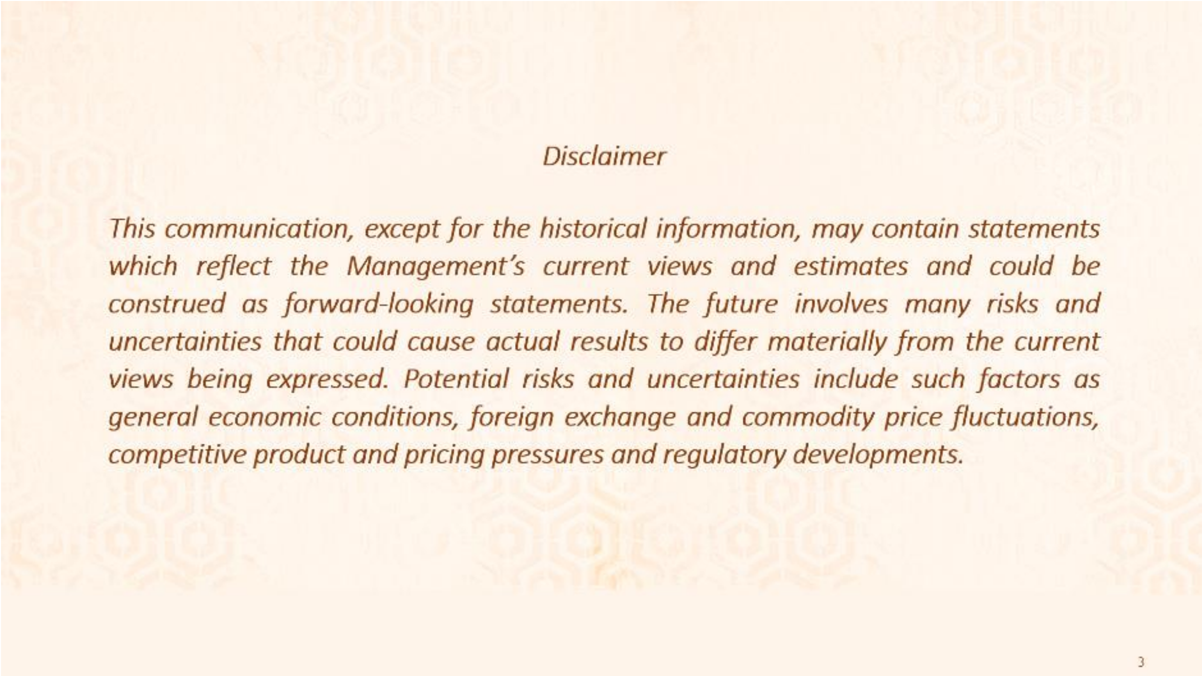
Good evening all of you and thanks so much for joining us to discuss Asian Paints Q2 FY25 earnings. I am Sunila Martis from the Investor Relations team. And we have with us today Mr. Amit Syngle, MD & CEO; Mr. R.J. Jeyamurugan, CFO and Company Secretary, Mr. Parag Rane, AVP -Finance. I will now invite Amit to give his comments.

Amit Syngle:

Good evening. Welcome to the Q2 earnings conference.



I will start with some of the areas we have been delivering as a brand since the last more than eight decades. We exist to beautify, preserve, transform all spaces and objects, bringing happiness to the world. And that is something which we have been pursuing, as a core value over a period of time.



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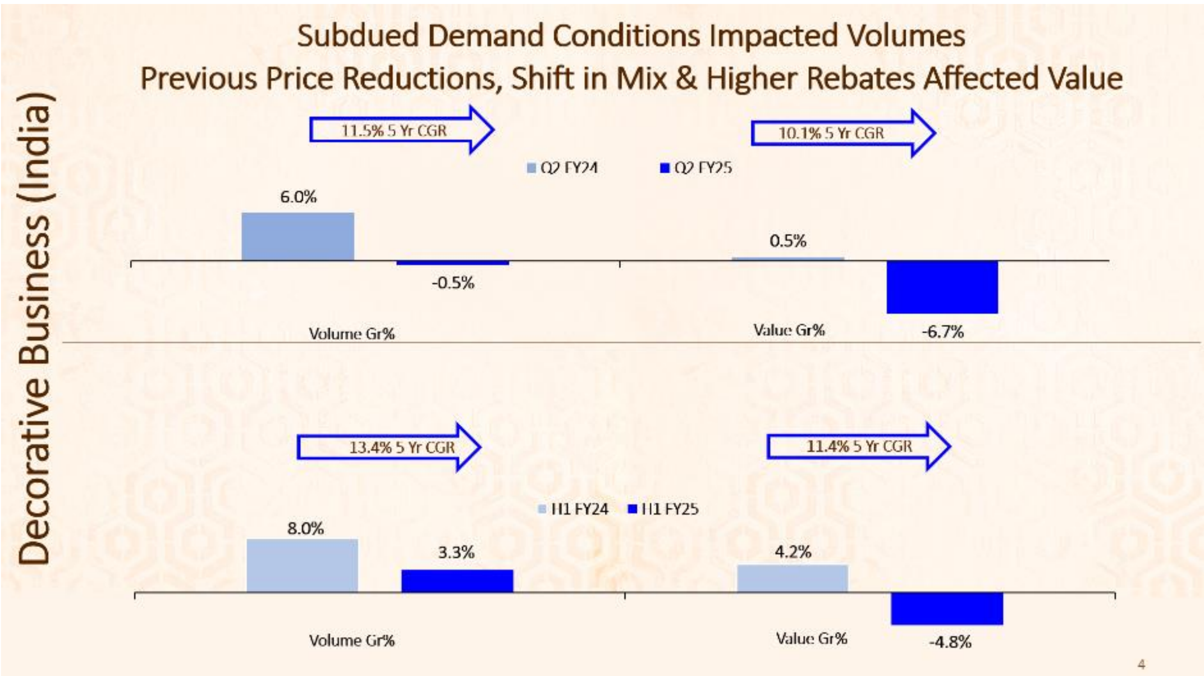
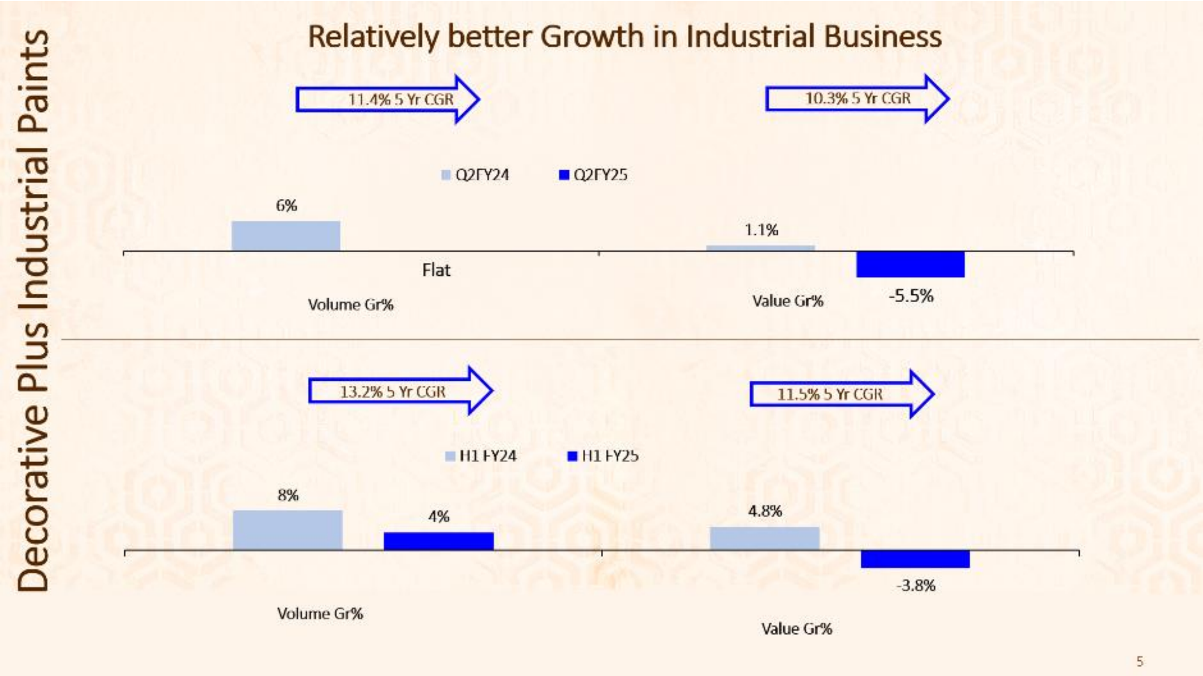


Let me start straightaway with how the overall performance has been. We saw a real muted quarter for us in terms of the overall demand conditions, which were impacted. We looked at achieving base volumes. We were just about the base in terms of the overall volume achievement. But I think the effect was more at the value level where we were negative of about 6.7%. I think that is a big impact which came in. The larger impact was coming in, as we see, compared to the price reductions we have taken earlier, we also saw change in terms of the mix, with the mix being slightly more inferior. We saw a little bit of intense competitor activity in terms of the existing competition where the discounting levels were higher. And I think all that kind of really added to -6.7% growth.

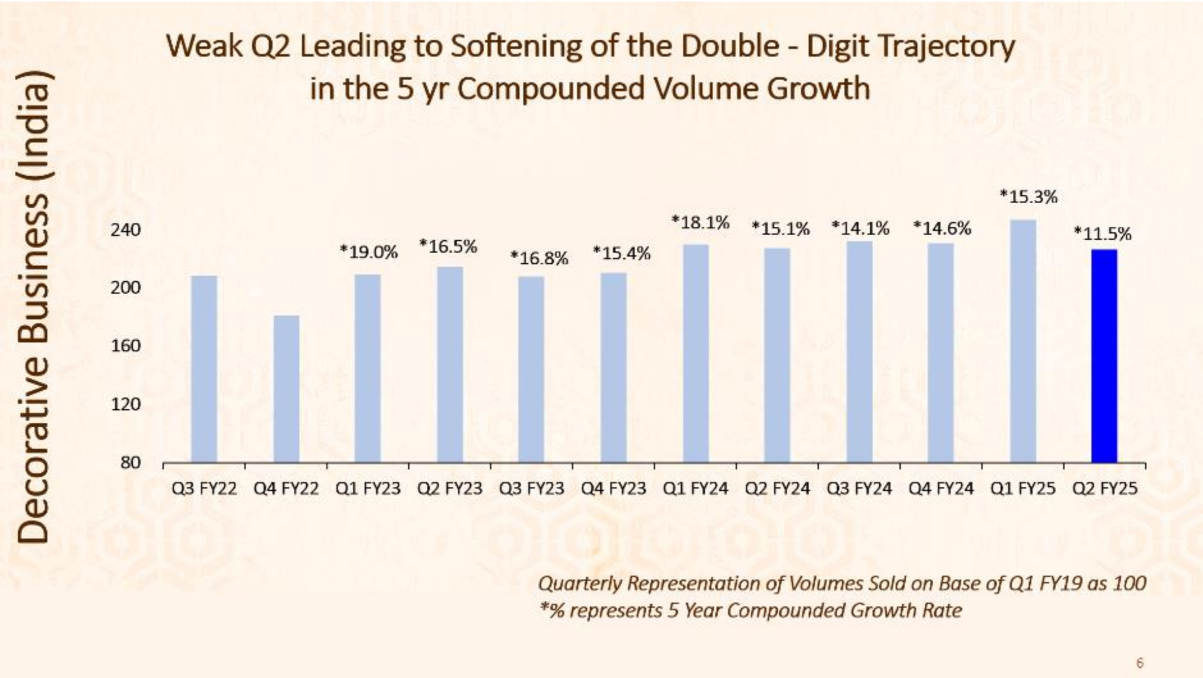
If you were to look at just the CAGR levels on a Q2 level, the CAGR numbers are still double-digit, lower than the CAGR numbers we have been showing you for the earlier quarters. At H1 level, the volumes are still at about 3.3% growth. Given the fact that in Q2, the value was impacted, we are at about -4.8% in terms of the H1. This has been an exceptional quarter where we have seen degrowth happening at the top line.



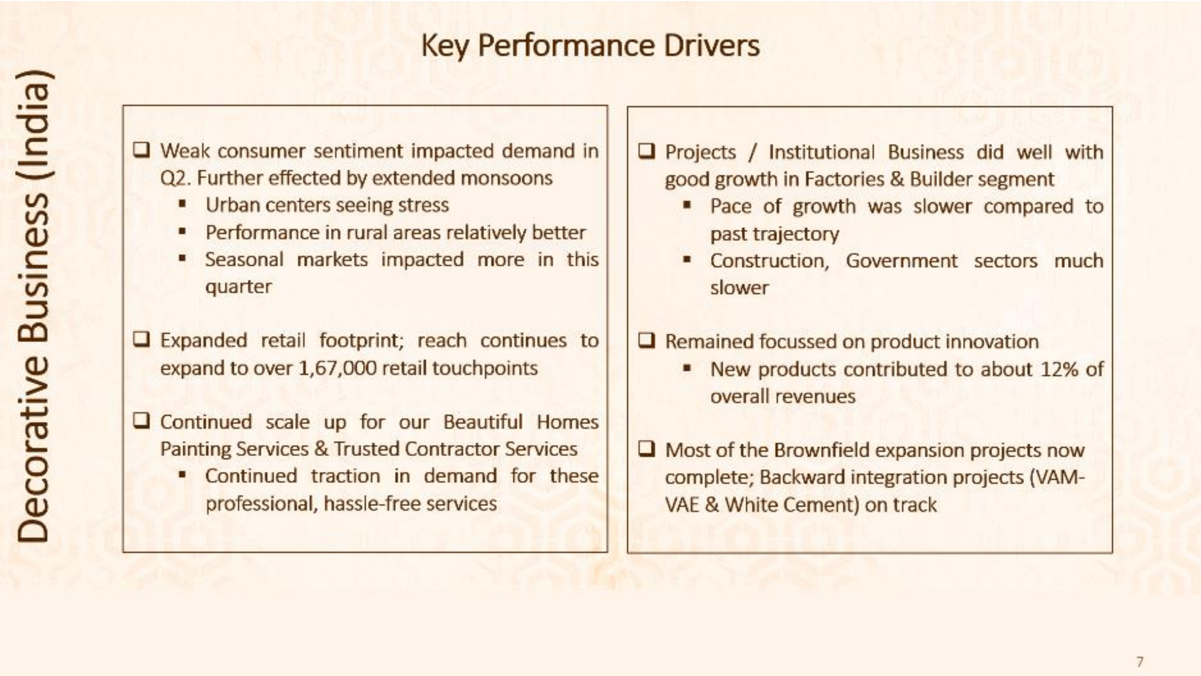
If you look at the Industrial Business, the Industrial Business has done relatively much better. The Industrial Business when it gets added on to the decorative business, the -6.7% value comes down to about -5.5%. We have seen almost about 6% growth in terms of the Industrial Business, which helps us bring down the overall top line to about -5.5% for Q2.

When we look at H1, there is some effect here as well. At H1 level -3.8% is the overall value. The CAGR is strong in terms of the double-digit. One of the things which is very clearly apparent is that we have seen this trend of industrial which is comprising of the auto, PC, marine, doing well in Q1 and now in Q2 as well and therefore we see difference at an industry level. Given the quantum of Industrial Business contribution to our total business, this is something which is very different from the competition, where it varies between 20% contribution to as high as about 40% to 45%.

So overall, if you look from this kind of analysis, I think from a decorative perspective, the overall industry for Q2, would be in the range of somewhere around -3% to about -4% in terms of what they have done.



This is something which we have been showing you for the last almost 10 to 12 quarters. I think the double-digit story in terms of the CAGR over a five-year period has been something which has been very, very strongly intact. Obviously, in Q2, this has come down. It still remains double-digit, but it has definitely come down from the 14% to 15% mark and higher, which we have been attaining in the past and that is something which is now evident from the Q2 growth.



So, what really happened, during this quarter? First, as I said, we have been seeing a very weak consumer sentiment. And I think the real demand has been affected. And I think this is something which is borne by a lot of consumer industries in terms of what we have been seeing of a weaker demand. This got accentuated by the effect of the extended monsoon especially in the month of August. We saw floods in some part of the country, and this has affected the overall demand conditions, which we have seen in the month of August and September.

Overall, if you were to dissect the performance of the urban centres, definitely we are seeing more stress in case of our business. We saw that the rural areas to some extent have performed relatively better. And I think that's good news that the rural areas are recovering, and we think now with the ongoing monsoon being good, I think this should have a better effect going forward. But urban centres are definitely seeing stress. One of the other things that we saw was that seasonal markets were really impacted more in this quarter because of the demand conditions being low. And that is something which we have seen that the overall Diwali season did not go the way we would have anticipated it.

Our foray in terms of expansion continues very strongly. And we continue to open more retailers in terms of suburbs, urban centres and in terms of newer towns. Overall, now talking of almost about 1.67 lakh retail touchpoints which is very strong, and we are looking at continuance of this market footprint.

One of the big things in terms of what we have taken is the whole area of services, as you are aware, we have this painting service, which is called the Beautiful Home Painting Service, which has a variant called the Trusted Contractor Service. This continues to gain big traction and we have seen very high growth coming in terms of this service this quarter as well.

When we have seen the projects institutional business, which is the decorative B2B business, we have seen that this segment has done relatively better than retail. Overall, however, it has not done its usual kind of growth in terms of what we have seen, but still better than retail. The factories and the builder segment is something which registered some growth. But what we saw was that construction was a little bit slow, government sector was also slower and therefore overall growth was not what we expected.

The whole innovation story has been a very strong ingredient of our story. And that is something which we focused on, and we see that today 12% of the revenue contribution still comes from new products and this is something which we are continuing taking forward in a very strong way.

Most of the capex which we had committed for brownfield expansion projects is now complete. Now we are looking at all our backward integration projects, which seem to be online. Whether it was the VAM-VAE which we are doing at Dahej in Gujarat or the white cement in Fujairah, Dubai. I think these projects are also well on track.

Here are some of the things which we have done given the element of a very strong, corporate brand in terms of what Asian Paints stands for. We got a very strong impetus on our corporate branding, which is the Har Ghar Kuch Kehta Hai and that is something which we rejuvenated and got back in a very strong manner, given the fact that the entire strength of the brand comes from the overall corporate brand, and this is something which has been a good focus. We have got good traction from it and good recalls coming in terms of this classic, overall ad, which we revisited in the market. And I think this is something which has really done well for us.

We have also looked at innovation, a first of its kind in the industry in terms of looking at the regional packs. We have brought the regional packs cue into the culture of the region which comes in very strongly. And these are basically packs which you can interface with through the QR mechanism. And this is something which we have done in Kerala, Maharashtra and Gujarat and got good excitement from the market.

In addition, we have revamped both the quality of our products and looking at a new packaging. And this packaging spans right from the economy range to the premium and to the luxury range. And I think this is something which is a very critical change, which kind of ups the imagery of the brand very strongly and at the same time gives it a look which is upmarket.

The same changes which are done in other ranges just to sample something for you in terms of our waterproofing range under SmartCare, where again, we have looked at very good, attractive packaging which is something that is doing well for us.

The other area which we have looked at is really strengthening the proposition so that people are able to earn higher profitability. And we have looked at basically a full Advance range where we are talking of better products in terms of higher coverage, better hiding, whiteness and other ingredients, which we have put so that the overall product is something which is very good. This range spans from the real economy segment to the premium luxury segment as well and is given to basically a certain qualification of the network but it really propels the overall profitability of the network in a strong way.

We have now added more ranges to this and are really taking in some of the critical products which we had not attempted earlier. This adds both at the economy range and particularly kind of really arching the whole area of shine and sheen, which has become very important for the Indian customer. And that is something which we have introduced as a new variant which is coming in the market to keep the excitement going in these products, a very strong ingredient to really build the whole brand story forward.

We have looked at adding quality to the existing brands, which are in the premium and the luxury spaces, and added a story of an ingredient which is for the first time talking of an element like graphene, PU serum and looking at nano block coming as a story in the premium set. This is a new communication which we are releasing selectively now. First, we are looking at Ultima Protek, which is going to come on screens in November. And this is something which is going to be a big story where it is not only a new packaging, but also upgraded quality, which comes at a larger warranty interface in terms of what the consumer sees.

Other than that, we are launching now the world's largest repository of colour. This is called Chroma Cosm and we are offering more than 5,300 shades, a colour system which is unparalleled in terms of the world and this basically becomes a big attraction in the luxury segment as well as the AID segment, which is the architect interior designers in a strong way.

We continue our innovation looking at some very innovative products. And we have looked at something which possibly in the first time in the world looking at waterproofing system, which is talking of almost about 25 years warranty. This is the first time someone is introducing such a product for terraces. Very strong in terms of crack bridging, durability and a strong coating for the future.

NeoBharat Latex Paint | Pragati Ke Rang

1st of its kind Content series with top regional creators highlighting the contribution of rural communities in India's progress

A local Akhada at Sonipat transformed into a canvas of vibrant murals reflecting the hopes & dreams of young wrestlers.

A Dhaba on NH-33 in Jamtara honoring tireless truck drivers who keep India moving forward.

The local Sangli Agricultural Produce Market where murals honor tech-savvy farmers & their partnerships with traders.

In addition, if you remember we had spoken about NeoBharat for first time going at the bottom of the pyramid and looking at something which has great traction. We have been working around this. Q1we got a very strong result on NeoBharat. In Q2, because of the muted demand, I think the effect was lesser, but now we are taking this again very strongly as we come to Q3.

Some of the things which we have been doing with the whole painter contractor community. We have a very strong program called the Kaamyabi ke Rang and we keep on recognizing people from across regions very strongly in the whole area of skill upgradation, bringing mechanization into the painting process. These are larger initiatives as an industry leader we have taken.

Going to the Home Decor foray, you have been hearing about this and we have upped the ante in terms of really positioning the brand very strongly from a point of view of Home

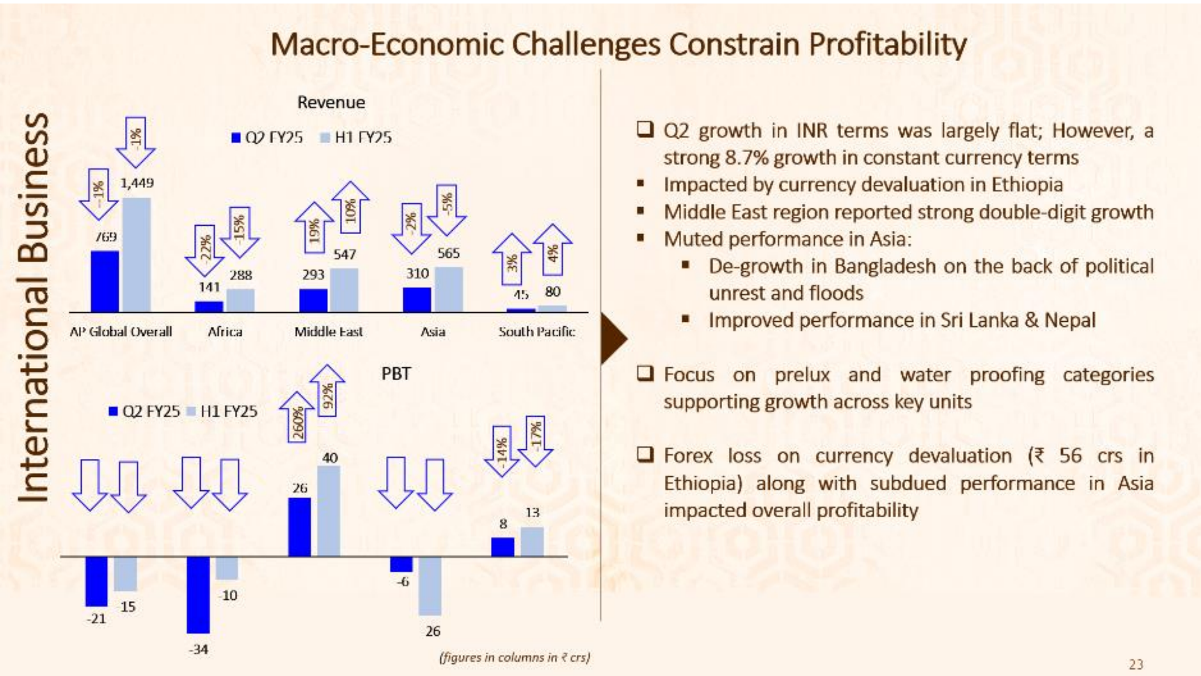
Decor. Today, as we see we are the number one integrated home decor player. With respect to looking at various categories, we are number one in lighting, number one in modular kitchens, number one in wall coverings, number two in fabric and furnishing. And we are looking at some collaborations which we have done with some strong brands overall. As I see, while this business again, was affected this year in terms of both Q1 and Q2 a little bit, but it did relatively better as compared to the core coatings business, in terms of the top line. However, we see that as we go ahead, we will have to consistently keep on looking for the next 2-3 years to build this very strongly, which gives us a very big differentiation in terms of positioning and really aligning the customer in a very strong way through the whole décor life cycle in a big way. So that's something which is the décor strategy.

Here, if you look in Q2, both Kitchen and Bath have done relatively better as we see from the core paint category. Kitchen - we are number one as the modular kitchen leaders. We have got almost 9% growth in Q2 and that is something which is very strong and almost about 7% in H1. In the Bath category, we have got a little bit lesser in Q2, but at H1 level, we are still at about 6% overall growth. It would have been better because I think the sentiment was not so great overall. One of the challenging things has been that overall gross margins have been hit a little bit. And that has contributed to a bit of a loss, which is coming on the bottom line for both categories.

When we look at the two newer categories which we acquired two years back, we are building the categories, expanding the categories. At the top line level, first two years were very good where they were at plan. This year while the growths are good at the quarter level and therefore we see on a H1 level also the growths are good. But I think the growth is a little bit lesser than what we had really planned for ourselves going ahead. And that is something which we are trying to pursue and see that as and when the sentiment improves, the overall growth should go up to that extent in both categories. This will give us rejuvenation at the bottom line in both categories, which is currently feeling a little bit challenged from the plan. So that is the four big categories in Home Decor.

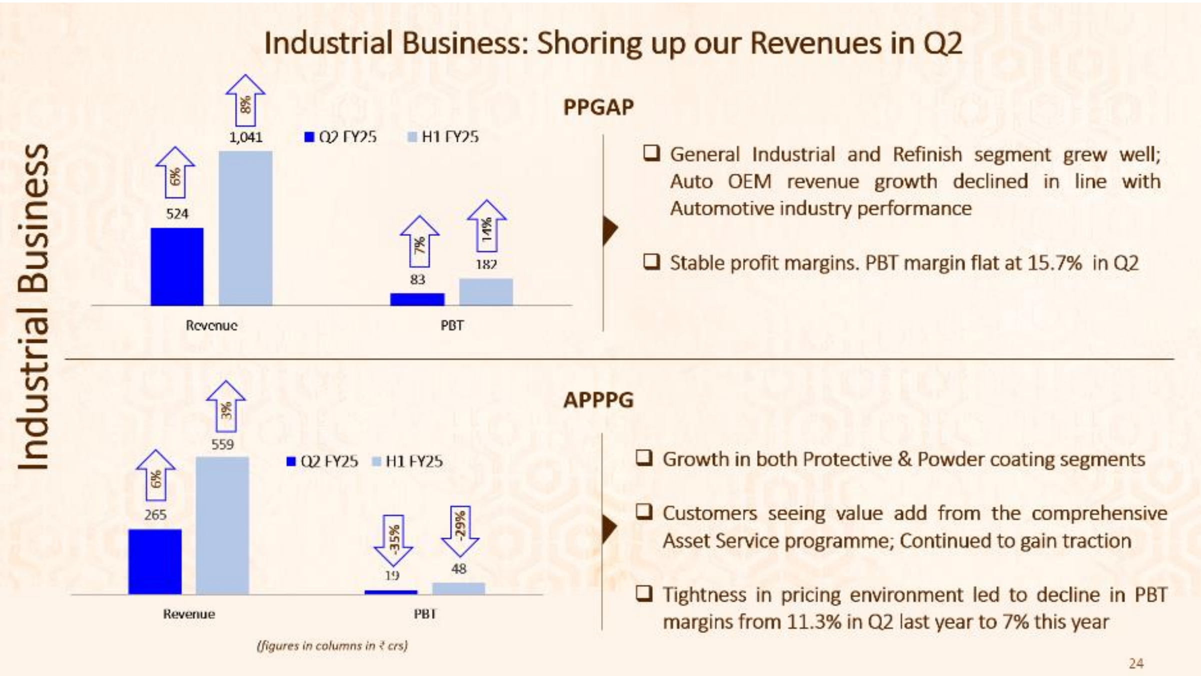
Some of the new things which we have introduced - our whole fabrics, rugs initiatives, the wallpapers and the areas in terms of what we have brought of newer furniture, coverings, bed coverings and so on and so forth we have introduced various categories.

Coming on to the global business. This is where our representations are in Asia, Middle East and Africa along with some of the islands.

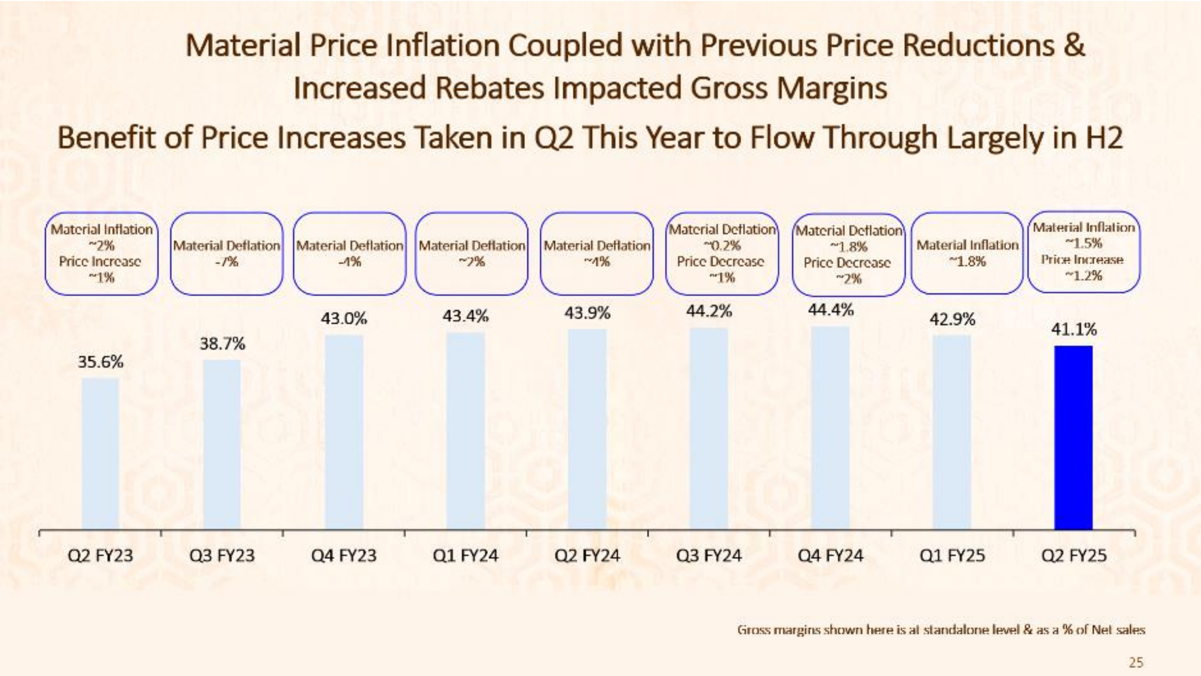


When you look at the performance here, from constant currency terms, was still quite good. It was almost about 8.7%. However, it got impacted very strongly. Given the fact that we saw a currency devaluation in Ethiopia, which was a big kind of impact which came in at about ₹ 56 crores in terms of forex loss. However, if you look at the various regions, I think Middle East was the star performing with a double-digit growth. However, Asia was muted given the fact that Bangladesh saw a little bit of turmoil along with weather elements also coming in and problems in the country which is going on. So, Bangladesh did bring it down. However, we saw Lanka and Nepal on an improved performance relatively. Nepal, if you remember, has been struggling for the last about two years because of a liquidity crunch in the country. But this month, this quarter was much better as compared to the previous quarters.

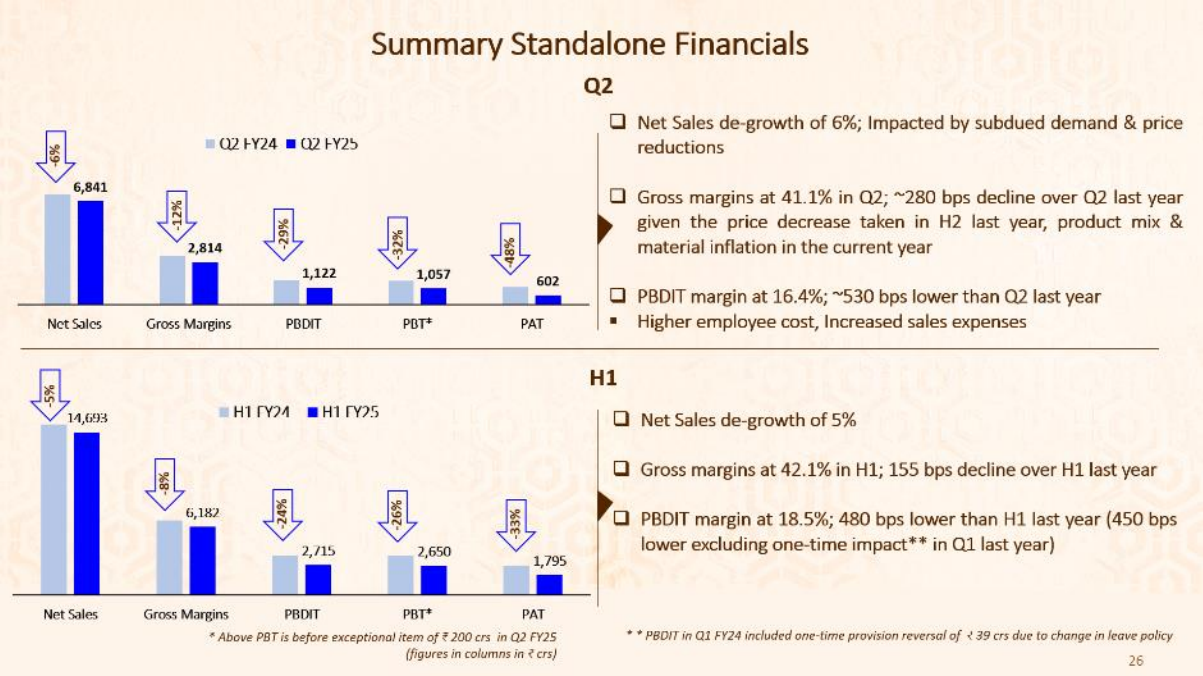
So overall, I think we have been focusing on newer categories. Waterproofing is a very strong category along with prelux emulsions, and that has been a foray across various countries.



Industrial business, as I said earlier, both JVs did quite well in terms of top line. If you see from the point of view of PPGAP, which is the auto OEM and the refinishes business which we have, we got almost about 6% overall growth at the quarter level and about 8% at the H1 level. Profitability has also been fairly good. We have maintained stable margins, and the PBT is quite high overall at about 15.7%. In the other JV, which is about the protective paints business, here we have also seen 6% kind of growth on the top line in the quarter. On H1, given the fact that Q1 was a little bit slow, we got about 3% growth. Profits were a little bit impacted given the tightness in the overall pricing environment which led to a decline of PBT margins from 11.3% to about 7%. But I think both businesses overall continue to do well. As I said this overall Industrial Business contributes to about 6 to 7% of our total business, in contradiction to some of the other companies in the paint industry where the contributions are much higher.

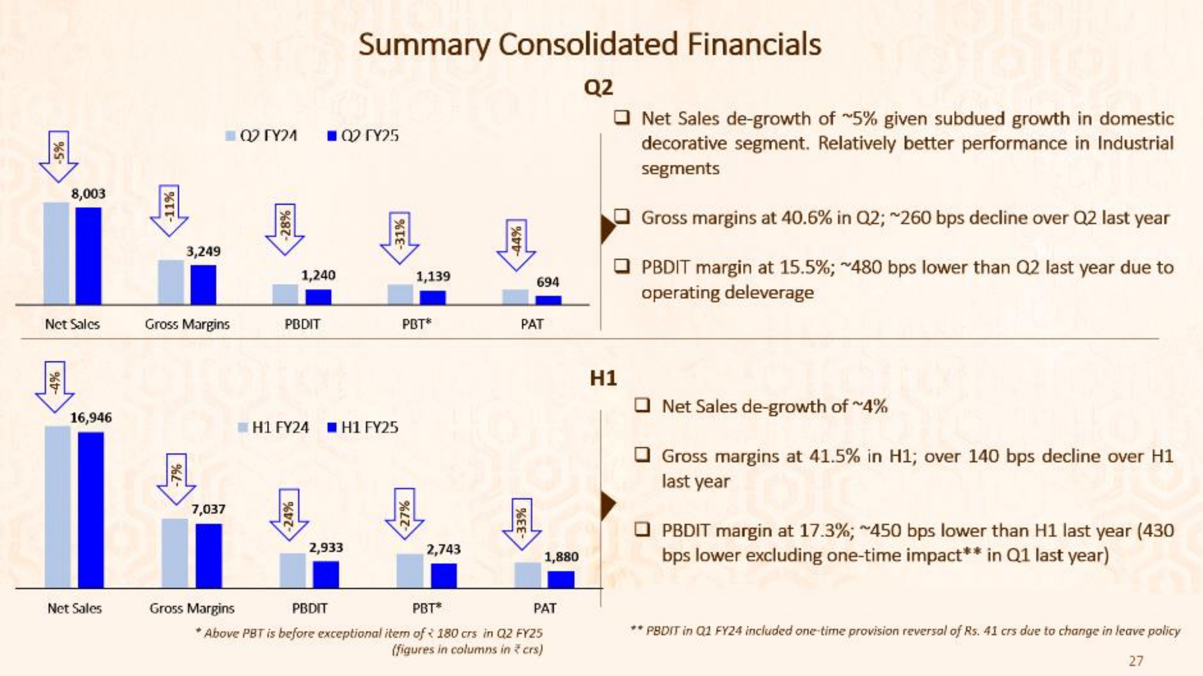


Just a sneak preview in terms of what's really happened on material prices. I think it's an important slide to understand what's really happened on the overall margin front which has impacted the gross margins very strongly. If you see Q2FY24, we had deflation of about almost 4%. If you look at the current quarter, we had an inflation of about 1.5%. The combined effect of those two have really impacted the gross margins very strongly and therefore impacted the PBDIT margins as well to that extent. Overall, we have taken a price increase of 1.2% in this quarter. But I think the full realization of this price increase will come in Q3. I think this is something which we are clearly seeing going forward. We are expecting that there should be some deflation. But it all depends on how the crude prices behave given the geopolitical situation which is underway.



In summary, when we look at the standalone financials, there has been an impact in terms of the top line 6% degrowth, almost at base volume. If you look at gross margins, there is 280 points decline over Q2 of the last year, given the fact that we had taken a price decrease last year. Also, the product mix this year has been weaker and we have seen material inflation in the current year. Similarly, the PBDIT margins have come down and this is a concern area for us. Come down to 16.4%, almost a dip of about 530 points. And this is something which has got a little bit accentuated. Because what we have seen is that there has been a little bit of a higher employee cost. If you remember, in Q1, we spoke about it, that we have increased our manning. But given the fact that the value growth has been lesser in Q2, basically that is where the percentage of the employee cost has gone up. Also, we have had larger sales expenses in terms of discounting we have looked at, given the intensity in the market. And that has impacted the PBDIT margins in Q2.

If you see at an H1 level, the sales is at a degrowth of about 5%, all the volumes are at about 3% upwards. However, we see similar decline in terms of the gross margins. At PBDIT levels also, we see basically almost 480 bps points, which is coming in from a larger quantum of Q2. The good part is that in terms of the PBDIT margins, we are still in that range of about 18.5%. And this is something which we are working on in terms of how we want to take it forward in two quarters of this year.



At the Consol level, it follows a similar line, given the fact that the standalone numbers contribute to a larger quantum of the overall business. Numbers are similar. Overall, 5% top line decline. There is 260 points decline in gross margins. And similar on PBDIT margins which we see at Q2 and what we see from an H1 perspective on the overall top line and the bottom line.

Exceptional Items in Q2 Financials

- White Teak & Weather Seal Impairment:

Considering the past performance and revised business plans, we have taken prudent assessment of our investments in White Teak and Weather Seal, which has resulted in:

  - Standalone Financials: Impairment provision on 'investment in subsidiaries' of ₹ 100.5 crores, recognized on Weather Seal & White Teak and of ₹ 99.3 crores towards fair valuation loss on derivative contracts for future stake purchases in White Teak (40% stake) and Weatherseal (23.9% stake) respectively
  - Consolidated Financials: Impairment provision on 'Goodwill on Consolidation' of ₹ 124 crores, recognized on White Teak

- In addition, in Consolidated Financials:
  - Forex Loss in Ethiopia (₹ 56 crs) :
    - Significant currency devaluation in Ethiopia during the quarter has resulted in recognition of an expense of ~ ₹ 56 crores towards exchange loss arising on foreign currency obligations of our subsidiary in Ethiopia. The same has been disclosed as an exceptional item

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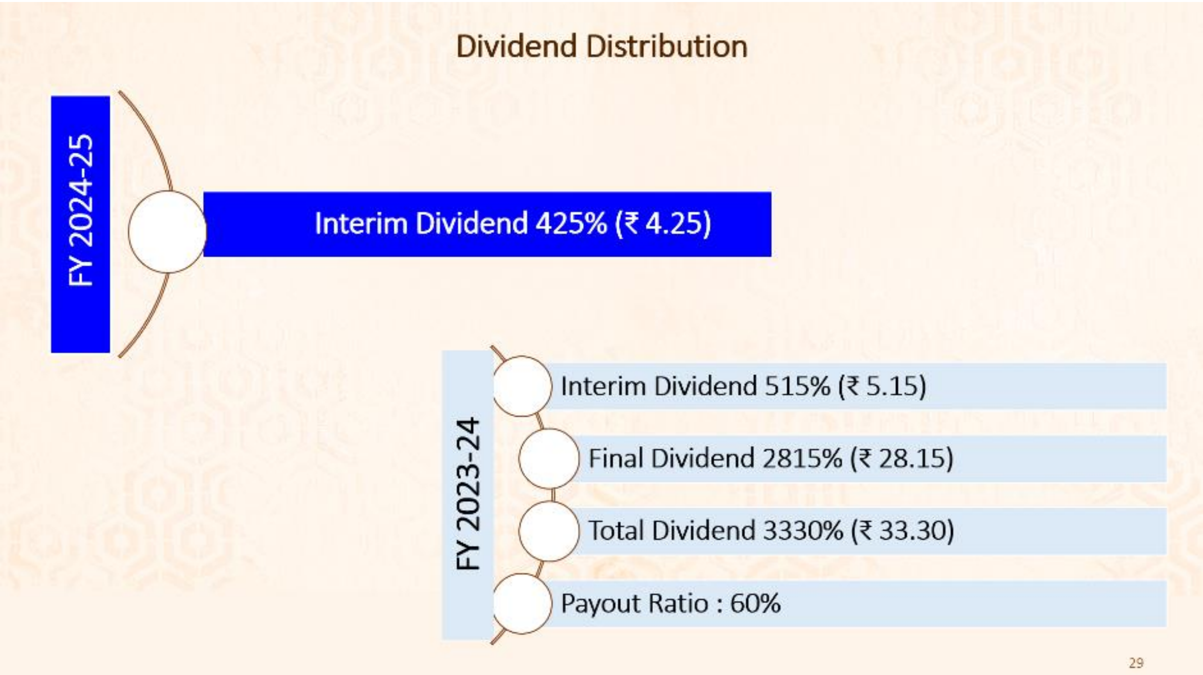
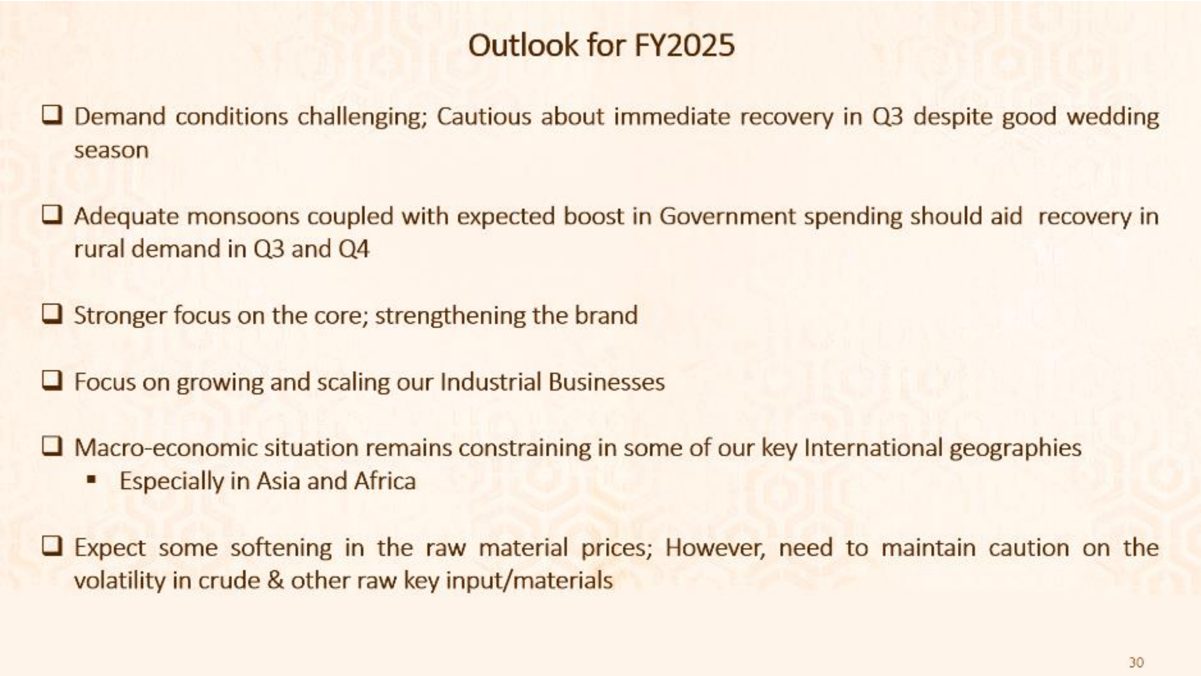
We have an exceptional item in this quarter. We had taken White Teak and Weatherseal two years back. What we have seen in the two years that we were able to get to the planned top line numbers. However, this year has been a larger impact. While we have grown in both segments, in terms of double digits, but it is not as per the plan we have. And we have also seen some erosion in terms of the bottom line. Therefore, I think we have taken an impairment, which is totalling up to almost about ₹ 200 crores. And this is also covering the fair valuation loss on the derivative contracts for future stake purchases in White Teak and Weatherseal which are in the offing.

From consolidated financials, there is an impairment on the goodwill on consolidation on White Teak which is about ₹ 124 crores. But we are committed to the business. We know that this year there has been a slowdown. We see that this is a very important part of our overall decor offering and that is something which we will see for the next 2 to 3 years in terms of how to build it up.

Another exceptional item is the forex loss in Ethiopia, where we are seeing almost about ₹ 56 crores impact which has come in given the significant currency devaluation which has happened. And this is something which has affected the consolidated financials in terms of an exception item which has come in.



We have looked at really calibrating the overall dividend for the year. We have got a dividend of about ₹4.25. This is a little bit lower than what we gave as an interim dividend last year, but this is in line with the reduced profits in the first half of the year. And we will see how the final dividend accrues as we go forward.



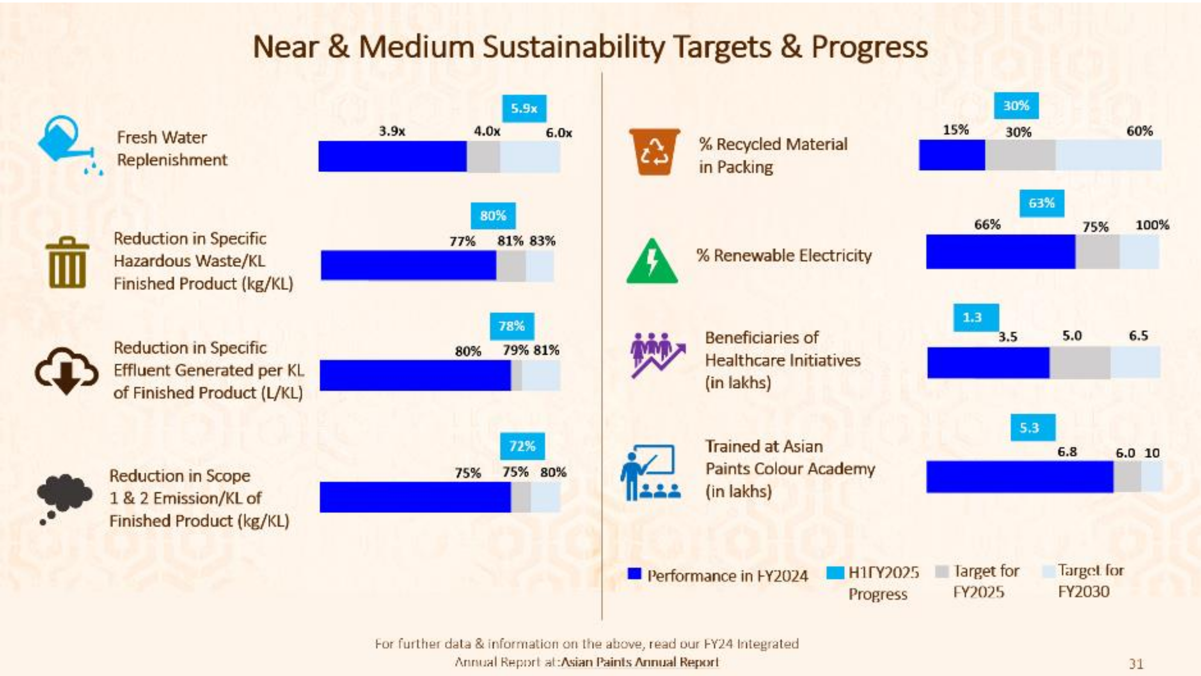
Coming to the outlook in terms of the demand conditions. Right now, you know we are sitting on a higher base of Q3 overall, given the fact that last year there was a late Diwali and October was a full month. So October has been also a little bit challenging and therefore we are not seeing too much immediate recovery in Q3, but there is a good wedding season in the offing and we will have to see how the demand really goes up from the third week of November.

The good part is that we have had good monsoons, and we are also seeing government spending go up with respect to the overall infrastructure market. Therefore, coupled with this, these two factors should really start aiding the overall demand, both in Q3 and Q4. We continue to invest in the core brand and strengthening the brand. We spoke about bringing the core corporate positioning back very strongly from a communication angle and today I think these are very strong imperatives. But there are challenges in the market. This is something which we will continue to build as we go forward.

Industrial Business is doing well overall, and we have seen this as a trend. We want to increase the scale of our Industrial Business, both in the auto OE and the protective paint segment and that is something which we will continue to work on as we look forward.

From a global market, I think Asia and Africa are the focus markets. And that is something which we are looking forward, especially the Asia market, where the contribution to our business is higher. We are hoping that Bangladesh recovers a little bit to give overall numbers which are strong.

From a raw material point of view, as I said earlier, there is a whole element of volatility in crude. We are anticipating part deflation, but we will have to keep our fingers crossed in terms of seeing what really happens with the geopolitical scenario and how the crude prices behave as we move forward. So that's the overall outlook for the coming quarters.



Just a brief slide in terms of very strong work which we have been doing in the whole area of sustainability, governance, and social areas. Our very strong focus comes in from freshwater replenishment where if you look at the numbers, they are very strong in terms of what we have been able to achieve in H1 FY25. These numbers are strong on all these facts, whether it is the hazardous waste or it is from an effluent generation, or even from the point of view of scope of emission reduction. I think one of the stars has been the renewable energy which is a very strong component which we have been able to take. And that is something which is giving us very strong help in terms of looking not only at sustainability but also at cost.

Some of the strong areas from a social perspective - health care initiatives and the whole training, which is a very strong imperative. We are looking at really upping the number in a very strong manner. We are looking at upping the ante in terms of the total number of trainings which we would like to do.

And finally, we have been very strong in the street art area. We approach this new war memorial, which is near the China border, where we did celebrate our 78th Independence Day by creating a frontier which was very strong and really dedicated to the bravery and dedication of our armed forces. I think that's part of the overall adding happiness to people's lives. Thank you so much.

Moderator:

Thank you Mr. Syngle. We now proceed to the Q&A session.

Abneesh Roy (Nuvama):

My first question is on the competitive dynamics. I understand demand is challenging. On paints and putty on the competition side. When I compare your volume growth with the number two player Berger, past few quarters they seem to be growing faster by a few percentage points on both volume and value. Is it now that they have reached a respectable critical threshold size of say 20% market share so now it has become difficult for you to grow faster than them? Second is in terms of outlook. Their commentary on H2 seems more positive. They have said that in Q3, Q4 mostly 7 to 9% or maybe 10% volume growth is possible for them. You have been more guarded in terms of your comments. You have said October some recovery is there. So, if you could also comment on outlook on why there is a gap? And on putty if you could tell have you or the other players lowered the gross margin profile to possibly even negative in Q2 and it is it going to continue?

Amit Syngle:

When you look from the point of view of whether a certain player in the industry has got a certain kind of share where they can feel easy to compete, what we see is the possibility that if there is movement in a particular industry by 1 to 2 percentage points over a period of possibly two years or so - I don't think that effects the overall dynamics too much in terms of looking at what they can do in the market. But what we feel is that it is also something where the intensity of competition overall has gone up across and given the fact that when demand conditions are bit low and what we saw in Q2 was definitely higher seasonal market impact. It literally impinges with respect to the industry leader getting impacted a little bit more.

So overall, I think the intensity of competition from the existing players, not only one of them, but a lot of them, we have seen the intensity has gone up. And I don't think so that today just an increase of share that possibly gives someone more leverage in terms of really fighting out in the market because to some extent the increase is not so much that there is something which possibly effects the leader so strongly. But yes, the competitive intensity has been fairly strong. And that is something which we have seen, we have also reacted in terms of looking at larger spends from the point of view of sales activity.

Second, from a point of view of outlook, we are a little bit more cautious in terms of what we are seeing. Given the larger impact of October, which is the longer Diwali, that was a very big growth last year that came in, in our overall game. We also have a higher base last year because last year, we had recorded a double-digit volume growth in terms of what had come in the previous Q3 FY 24. And therefore, we are being a little bit cautious in terms of how demand emanates because we still feel like in other consumer industries that the demand conditions would be definitely challenging. There is a wedding season which is coming, but we will have to see in terms of how demand comes in. Having said that, we will look at seeing that we are able to get some volume growth for this quarter as well.

Abneesh Roy (Nuvama):

And on putty? Gross margins?

Amit Syngle:

On putty, I think the intensity again has gone up and the intensity comes in from the non-conventional paint players as well. And that is something which we are seeing where people are introducing variants, people are looking at a little bit of higher discounting. But as we see it, from our point of view, a little bit it would have impacted from the margins point of view given the higher competitive intensity and higher discounting we would have done. But I think on the gross margins front we are still comfortable.

Abneesh Roy (Nuvama):

One very quick follow up on the competition in paints. So, demand is challenging. Second, new player has come and now almost five, six months has happened. In the Diwali season, we did not see too much of competitive activity in terms of activation or advertising from them. Third is, the number four player clearly seems to be kind of exiting. Would you say that the competitive intensity could ease off at some stage? Not asking for this month, next month, but logically would you expect that?

Amit Syngle:

We are not very sure in terms of what is going to happen to the fourth player. In terms of what is the plan they have from a point of view of a strategic review in terms of what they have been speaking of. We see that possibly till now as you rightly said, we have not seen any kind of disruption or any differentiation from the new players who have come in. Therefore, what we see is that there would definitely be a lot of intensity which they will keep on putting in the market in terms of seeing whether they can really start impacting the market. Because there is a very clear investment they have into the market. And I'm sure we will see more action coming in the future months. I don't think as of now, in the medium short term, that there appears to be a very clear case in terms of the competitive intensity coming down.

Abneesh Roy (Nuvama):

On the consol EBITDA margins - if you see Trump has come in US and overall geopolitical seems to be easing off plus global there is a slowdown. Crude and titanium dioxide seem to be in a quite comfortable range. And now that pricing also growth should come back in Q4 hopefully. Operating leverage also should come back. Is the 18 to 20% EBITDA margin in H2 possible for year? Because that has been the general guidance which you have expected. In H2 given the demand scenario which is still challenging, but rest of the factors seem to be coming in place, 18% - 20%, Will it be possible?

Amit Syngle:

If you look at H1 we ended up at about 18.5%. We are still within the overall guidance which is there. The attempt is that in the coming quarter definitely the full impact of the price increase we have taken will come in. And we are hoping that if there is definitely some stability in the crude prices and we see some amount of deflation, I think we would definitely aim that we are in that band for H2 as well.

Avi Mehta (Macquarie):

I just wanted to understand the market share aspect a little more. You pointed towards the festive being the reason for your performance being weaker than the year this quarter.

How do you see this changing going forward? Do you expect to be ahead of the market as we go forward? And what would drive it?

Amit Syngle:

Given the fact that we have a certain share in the market, what really happens when there are lower demand conditions, which we have been seeing for almost now 2 to 3 quarters. Definitely, what happens is that the competitive intensity goes up. And I see that if in this competitive intensity, there is a variation of share in terms of about anywhere between 1% to 1.5%, that is something which possibly happens all the time in terms of the larger player in the industry getting impacted. So, I think it is not only about Q2 in terms of what I am referring to, but also Q2. It got accentuated by the seasonality which came in to that extent. But what we are seeing is that given the fact that demand conditions have been challenging, the impact of that band of share will always remain.

You must remember that if you look at the previous three years, we have gained almost about 2.5% market share. I think this amount of variation is something which possibly can be expected. We are only looking at saying that as we go forward, if the demand conditions definitely improve, they come back, we would really look at possibly working on gaining share.

Avi Mehta (Macquarie):

If I understand you correctly, if conditions remain weak, we might continue to grow lower than the industry?

Amit Syngle:

Very difficult to say because I mentioned two parameters. One is the contribution of industrial sale to the overall business. If you look today, our contribution is about 6%, whereas in some case of competition it goes from 20% to about 45%. I think it also depends other than what I said earlier in terms of how the business pans out. Till now the trend which we have seen for the last three quarters has been that the Industrial Business has been doing much better both from a point of view of protective, refinishes or the auto business to that extent. If that trend continues, possibly it will definitely impact the overall numbers a little bit as we go forward.

Avi Mehta (Macquarie):

The second bit is you know for FY25 we had shared the focus on double-digit volume growth and a 5% to 6% realization decline. Could you update us on how should we look at these targets or expectations given what has happened in H1?

Amit Syngle:

If you look at H2 level, we are sitting at almost about 3% volume growth. When we look at H2 - Q3 as I said earlier is looking a little bit challenging in terms of the overall numbers. We will have to see how it pans out. But I think overall as we go into Q4, we should see definitely some improvement happening. Based on that, I think we should really maintain single digit volume growth numbers for the year.

Avi Mehta (Macquarie):

And realization decline should be remaining 5% to 6%? So low single digit mid-single-digit?

Amit Syngle:

As I said that we would like to stick to that band. As we spoke, we are at 18.5%. Last year, given the deflation and given everything which happened, we saw a surge with respect to the realizations. But I think we are still aiming that we should lie in that band at the end of the year.

Mihir Shah (Nomura):

On volumes, apart from the weather conditions and weak consumer demand, higher rebates were mentioned in the release. Can you share any signs of disruption seen and which areas did you see any sharper competitive intensity? Was it more on product pricing, dealer margins or which segment are you seeing the competition playing out for you? Also is there any structural shift in dealer margins that we should keep in mind? Second thing is on volume growth. On the medium term over the next two, three years, what is the volume growth that one should think about for the industry? What range should we think about?

Amit Syngle:

From a point of view of the kind of competitive intensity happening on segments, we see it almost across segments. Whether it is the area of waterproofing or it is the area of emulsions, we are seeing it possibly across the economy and the premium set as well. As well as on ancillaries like putty and primers and so on and so forth. However, if you look at it differentially, the larger play has come into the economy segment, very, very strongly where we are seeing possibly not only the existing players, but some of the new players also playing out in a very strong manner. I think that is one segment which is obviously one of the largest segments where we are seeing more play, and this play is happening both at the organized and the unorganized segment.

Second, from a point of view of a structural shift in terms of dealer margins, today, I think the dealer margins are a function of the selling rates in the market. And according to us, it is not the margin which is important. What is important is the ROI game. So how much are the ROI which the dealers are earning. And that is a combination of two things. One is the margins they earn and second, how much are they able to rotate their working capital. On our side, we have been very strong that we want to kind of really hold the area of ROI very strongly because just margins with your capital blocked is not a very good idea from a dealer point of view. I think that is something which will remain strong as we go forward.

And finally, from a point of view of future direction, as you are aware, we are investing in capacity increase. I think from an India story point of view, we are still very strong and hopeful. But I think we have to first really look at this year in terms of where it is going, how do we really look at demand conditions panning out and then possibly take a look in terms of what would be the growth, in terms of volumes, which will come for the next couple of years.

Mihir Shah (Nomura):

My second question was on tinting machines. Usually, a dealer has a limitation of keeping maybe one, maybe two tinting machines. Can you share any market intelligence and how that is shaping up with the rest of the competition? Any reduction in dealers or shift in dealers you seeing or within the industry any change in the tinting machine the dealer is keeping that is that is being witnessed? Not really only for you, but for the industry as well.

Amit Syngle:

I think today the tinting machine has become a necessary ingredient of business. So very difficult for any kind of retailer to do a very strong business unless they have a tinting machine. What we are seeing, definitely as a trend is that there is a multiplicity of tinting machines happening at retailer end. And today, you know, the retailers are struggling with multiple machines which are coming to it because the newer trend, which we see, with some of the competition which has come in is that these machines are given free of cost. Given the fact that it is free of cost they are really sent to possibly all the dealers who are there in the market and that is what we have seen with newer competition. Given this impact, what we are seeing is that the machine requirements will always remain buoyant for the next, maybe 2 to 3 years. And with newer competition coming with more intensity coming, we will see more ingress of tinting machines happening at various counters. I think what will determine the success of the machine is basically how is the consumer demand going through various brands and what is basically the ROI of each machine which is coming at the counter.

Mihir Shah (Nomura):

Lastly on the business expense. So, staff cost has been meaningfully stepped up across all players. Is this more a number of more sales force being added or is it that overall cost structure is going up to prevent exits? And should one see the increase in staff cost as a precursor to higher ad spends maybe in coming years? We are not seeing that in the numbers yet. What is the kind of margin for the next few years. I heard the point you mentioned that you will try and maintain 18.5%, but over the next 2 to 3 years, what is the margin range you think should be a fair assumption for you?

Amit Syngle:

As far as employee costs are concerned, as I mentioned in Q1 as well, I think the numbers have gone up because we are looking at possibly, in the front line catering to our dealers very strongly. We are adding almost about 5,000 to 8,000 retailers easily every year. And to that extent, we require numbers because given the fact that the larger model is direct to retail, we require more and more people to cater to the entire dealers. And given that today, if you see in Q2, the employee costs are also looking higher given the fact that we have a depressed top line, which is not in league in terms of what we had planned. And that is why the employee cost is looking higher in terms of what we see. But I think the moment the value growth comes back; I think it would fall in line. In fact, Q1 absolute cost of employees is the same as what was there in Q2. I think it is the percentage which has increased given the depressed top line.

On the second point, given the competitive intensity, last year if you see that we were almost at PBDIT levels of almost 21-22% and even higher given the higher deflation we saw. In this environment today, we have seen not only increase competitive intensity, but also seen inflation, which has come in the market. And given the product mix, which has also suffered, and the top line not being in line in terms of what we planned, I think it's taken a hit from that perspective. But I think the endeavour is definitely that we should kind of really keep it in that range.

Jaykumar Doshi (Kotak)

My question is are you carrying out channel inventory correction? That is perhaps resulted in weaker growth relative to peers in Q2 and your caution on Q3 as well. So are you consciously reducing channel inventory?

Amit Syngle:

I mentioned about the ROI. We have to be very conscious about that today. If you are pumping a larger inventory into the network, you will always land up weakening the ROI for the dealer to that extent, given the fact that working capital will get blocked. We are also seeing some amount of liquidity crunch which is happening in the market. We are very cautious in terms of what is the right inventory which should be there in the market with the dealer from point of view of ROI, we basically don't dilute that attraction of the business for the dealer. Given the fact we are seeing little bit of challenge in terms of demand conditions, we keep on calibrating the kind of inventory we need to push into the network. At the end of it, we are looking at that maintenance of ROI. And I think this is definitely a call which is with every competition in terms of how they see it. But for us, I think a very critical call on that inventory relationship is the ROI.

Jaykumar Doshi (Kotak):
Any colour you can give on primary versus secondary sales?

Amit Syngle:
We balance the primary and the secondary. The secondary has been weaker to that extent. And therefore, we are trying to calibrate the primary according to that.

Jaykumar Doshi (Kotak):
This Advance range that you talked about; what percentage of your portfolio will have Advance rates? What is the pricing premium Advance range would have on the regular portfolio base variant? And will both the ranges be available across dealer networks, or you will have Advance in metros and base variants will gradually be phased out of metros. How should you think about this?

Amit Syngle:
The Advance range is definitely a big propellant from a point of view of giving additional margins to a certain set of network. Normally what we see is that the increased margins which come in are in the range of about 2% to 3% in terms of what we get on the Advance range for a particular dealer. This is based on a certain qualification of a retailer which is open to all. And that is how some retailers qualify for it. Therefore the entire network will not get it. It is based on the qualification that a certain part of the network will get that Advance range. Normally what we see is that it ranges across the economy to premium to luxury ranges. It's not limited to a category or a segment. And what we see is that basically as a contribution, we try to see that the Advance range comes in the range of

anywhere between 15% to about 30% as we go ahead in terms of that dealer's contribution in the overall products.

Jaykumar Doshi (Kotak):

What would be the price premium of Advance range versus base variant?

Amit Syngle:

2% to 3% would be the incremental margins you will get in Advance range.

Jaykumar Doshi (Kotak):

And these will be margins for dealers?

Amit Syngle:

That's right.

Aditya Soman (CLSA):

With this Advance variant, you've recently launched and you're talking about a higher dealer ROI. I just wanted to understand the mechanism. How does that work for the dealer and how will it lead to better ROI?

Amit Syngle:

As I said, based on a certain qualification criterion, which spans across in terms of qualitative factors like customer orientation. It also spans across in terms of how the dealer is overall participating in the business, how the dealer really supports in terms of the new products. This is an open qualification for everyone to qualify into it. Also, retailers who are supporting us in terms of the painting service. I think these are various qualifications we look at for people taking the Advance range. This is a range which is comparative to the mainline range which is there but with a much better operating quality which comes in both from a point of view of coverage, hiding, brightness and so on and so forth, even the overall durability of the product to that extent.

And we really look at possibly that this will give the retailer another additional 2% to 3% margins over the normal range. And therefore, the rotation of this if it is equivalent to a normal kind of product which comes in, the ROI will get increased by that percentage which goes up in terms of the margin. And to correct you, the Advance range was there earlier. We have now really accentuated the entire range by introducing more and more kind of variants so that we can cover the entire range for a retailer.

Aditya Soman (CLSA):

Just to follow up on this, so would the price of the product also go up or it's the same price but the dealer gets a higher incentive because they're doing more services to qualify for a certain criteria.

Amit Syngle:

The price of the product, given the fact that, you know that the quality is better, the whiteness is better, hiding is better, goes up to some extent with a small differential. The idea is that our margins also should remain intact in terms of what we see from an Advance range point of view.

But basically, the proposition is that at a slightly higher price, you are giving a product which, is possibly not available across the network. It gives the advantage to the person, and it has a higher linkage in terms of even the contractors and the attraction for the consumer to get a better quality.

Shirish Pardeshi (Centrum):

When we look at the housing data in the luxury and premium segment in the metros which has done well, while your commentary was saying that across all segments, we have seen the pain and also the builder segment has not done to the expectations. So just got curious, because this time you have not spoken specifically about the growth in the metros and T2, T3 markets because you used to always write about the growth. I was more curious the growth versus urban and rural growth.

Amit Syngle:

I covered it part of my presentation. We have seen definitely that the urban centres are a little bit lagging as compared to the T3, T4 cities. I think that's a trend which we are seeing because there is a little bit of an uptick which is there from a point of view of T3, T4 cities which we basically qualify a little bit indicative of the rural demand. And as far as the whole B2B projects segment is concerned, it has done definitely much better than the retail segment. So whatever uptick which we see in terms of real estate, I think that is something giving it that differential which comes in. But at the same time, you must also see that this time the rainfall has been pretty irregular and in spurts and there have been floods across the country, which has really taken a little bit of a toll with respect to the whole exterior painting, relative to possibly in the previous years.

The second big impact in B2B which has come in is I think the government spending has been definitely a little bit muted, given the fact that I think after the elections, it took some time for the government to unfold in terms of looking at all the infrastructure projects and so on and so forth. That is a big contribution in terms of our B2B sales that has been a little bit muted. We are hoping for Q3, Q4 to go up.

On the whole if you look the metros have done a little bit lower as compared to the rural cities, T3 and T4 and especially with B2B. Relatively B2B has done better, but I think it has suffered this time because of the seasonality which has come in in terms of the overall rains and some of the government part of the spending which I mentioned.

Shirish Pardeshi (Centrum):

My second question on Chroma Cosm, how this is going to work? I mean are you going to get it through the traditional dealer network or it's a separate network which is going to get and maybe something more, how it is going to get executed to the builders, the AID segment?

Amit Syngle:

We have a certain qualification which is there. Largely if you see, it is the architect, designer who is looking for a very large choice of shades. And as I said, this is the world's largest colour ecosystem we are introducing in the market. We have had other systems operating in the market. This system basically opens the world for the architects, interior designers in a very strong fashion because it's literally that you think of a colour and we provide that colour. I think in the segmentation of architects also where we see that there are the masters, there are some connoisseurs. I think it works very strongly in that segmentation of the architect interior designers. As far as even retailers are concerned, some of the bigger retailers, we have a chain which is called the Colour Idea stores. We have the Beautiful Home stores. Some of those retailers which are more consumer oriented is something which we will look at, possibly giving a larger access to this new colour system, because we need to cater to a certain consumer segment in retail who can really make a better choice with respect to taking this colour system as well.

That is the approach we are using both from a consumer segment, the architect segment and ditto with the contractor segment, in terms of looking at a little bit more evolved part of these three communities as we go ahead.

Shirish Pardeshi (Centrum):
On the 10% contribution from the new product. So say for example, Ultima Protek, what we have done or NeoBharat we have upgraded. So is it fair to assume that all the new products are actually helping them in the respective segment to improve the margin profile?

Amit Syngle:
New products fall into two, three categories. One is the categories like Infinia which I spoke of is an absolutely new category where it is new to the world, new to India which comes in. So that's a new segment we are opening and getting into the market. The other is basically a strong quality variant in terms of what we are introducing, which really helps the existing product to find a larger, better acceptance from a point of view of durability, imagery in terms of what we put in.

For example, an Ultima Protek will come with graphene content and basically offers a better warranty as well as a better performance from a consumer point of view, aided by a lot of communication. And for us possibly it might come at a slight increase in margin or sometimes at the same margins, given the fact that we put a certain raw material cost into it. But for a retailer, it definitely becomes a source of a higher margin, given the fact that it is like a new product for the retailer with a new proposition for the consumer aided by the communication.

Sachee Trivedi (Trident Capital):
New packaging, new branding. Looks like there's a lot of refresh that is happening. Is it to protect volumes or is it to grow them?

Amit Syngle:
I think the integral part is that change is the only constant at Asian Paints. We feel that a positive change is always energizing. It's something which basically triggers the market, it triggers excitement amongst the consumers. And especially when you see demand is a little bit muted, we need to look at how we can aid upgradation of the consumer going forward and that is something which is the key thing we are looking.

The upgradation is both getting the unorganized brand customer to an organized brand. And also, from a point of view of shifting people from an economy to a premium to a luxury. We think that these are good measures to take. In terms of looking at a newer packaging, far better imagery which comes in newer products, newer colour systems coming in and therefore this is a part of our overall initiative looking at triggering more excitement and really energizing the market as we go ahead.

Sachee Trivedi (Trident Capital):
Could you help me understand a little bit about the dealer discounting? And I'm always very confused with this. If you can illustrate with an example that is last year the product was ₹ 100 MRP. Then what was the landed price at the dealer? Because I believe that's what you record as the revenue. And then today what is the MRP and what are the landed price at the dealer?

Amit Syngle:

The paint market is a little bit different from a traditional FMCG business where MRP is a very strong indicator. What is important here is that there is a dealer price, and you basically compare in terms of what is the landing for the dealer compared to that dealer price list, which is there. The overall discounting basically brings the landing cost of the dealer down from possibly what the dealer was getting earlier. But at the same time, what really also happens is that the selling price is also dominated by what the market is really selling. It doesn't really mean that higher discounting means, higher margins for the retailer because that selling price is relative to the entire market. If earlier ₹ 100 price was coming at ₹ 105, increased discounting would mean that it would land up at ₹ 103 to the customer now. And the customer, if earlier selling at ₹ 110, possibly the customer might sell at ₹ 111 or continue to sell at ₹ 110, depending on what possibly the market conditions are, how the market competition is, or even that market selling rate can come down to ₹ 108 as well. It could be a variant in terms of whether the margins remain the same or they increase, or they even kind of reduce a little bit as they go ahead.

Sachee Trivedi (Trident Capital):

But what it means for Asian is that for every litre of paint that you're selling now, you're making just a little bit less money.

Amit Syngle:

What it means is that you know yes, it impacts your margins, definitely, if you do higher discounting. But at the same time, it is a source of incentivization for the retailer to sell more. So that possibly, if you are compromising in terms of a little margin, that kind of gives you a higher increase sale so that you are able to balance the reduced margin from a point of view of higher sale.

Sachee Trivedi (Trident Capital):

A separate conversation with one of your new entrants in the industry, they highlighted that painter was probably the weakest link of all. There's a customer, there's a dealer, there's yourselves and then there is a painter. And the loyalty of the painter is probably not as well established because there's a lot of churns in the painted ecosystem. What are you doing to hang on to your painters and incentivize them to continue selling your products?

Amit Syngle:

We strongly believe that the painter loyalty is also a combination of consumer demand because most often if the consumer is insisting on a certain brand, the painter would not like to convert it because the consumer will start doubting the painter as to why is he converting the brand and that holds for the dealer as well. What we see is as a conjunction in terms of looking at both the point of view of consumer demand as well as contractor.

From a consumer point of view, we are looking at bringing back the corporate branding far more strongly so that we are able to get the person to buy into Asian Paints far more strongly. And that is one imperative which influences the contractor as well to use Asian Paints. We have various loyalty programs for our contractors, which are divided into various kind of incentivization, and the loyalty pans out to even giving higher business to the contractor as it goes ahead, because we believe that a higher business to a contractor earns you more loyalty than just a per litre rebate which anyone can match.

The second area what we keep looking at is enhancing the quality which you give to the painter. So, the painter is confident of using the product very strongly as we go ahead. And third is a proposition which can be different from what competition would give to the contractor. I think we use a multitude of triggers to really get the contractor loyalty, aided by a very strong, consumer demand pool which comes in.

Sachee Trivedi (Trident Capital):

If the demand does come through, whenever the demand comes through, are you actually hoping, are you set up for a very massive acceleration?

Amit Syngle:

Very difficult to answer that question because it's a question of how demand comes in, at what level it comes in. But what we are very sure is that all these initiatives definitely impress on the consumer, the contractor, the dealer to sell more of you. Because the entire crux of the market is to get more excitement so that they are able to really convert that into a stronger demand.

Moderator:
I would now request Mr. Amit Syngle for his closing remarks.

Amit Syngle:
Thank you everyone for joining the Q2 earnings conference today. It was great speaking to all of you. We are looking forward to a better quarter that we can meet you next with and take your questions. Thank you.