

10th November, 2022

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**Sub.: Q2 FY 2022-23 Financial Results Conference Call – Transcript**

- Ref.: 1. Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**  
**2. Scrip Codes : BSE - 500165, NSE - KANSAINER**

Dear Sirs,

This is further to the intimations done by the Company on 27th October, 2022, 2nd November, 2022 and 3rd November, 2022 with respect to the Conference Call hosted by the Management of our Company on Thursday, 3rd November, 2022 at 11:00 hrs India Time to discuss Q2 FY 2022-23 Financial Results of the Company.

We are enclosing herewith the transcript of the Conference call for your information and reference.

For **KANSAI NEROLAC PAINTS LIMITED**

**G. T. GOVINDARAJAN**  
**COMPANY SECRETARY**



“Kansai Nerolac Paints Limited Q2 FY2023 Earnings  
Conference Call”

November 3, 2022



**ANALYST: MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

**MANAGEMENT: MR. ANUJ JAIN - MANAGING DIRECTOR - KANSAI  
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PAINTS LIMITED**



*Kansai Nerolac Paints Limited*  
*November 3, 2022*

**Moderator:** Ladies and gentlemen good day and welcome to Kansai Nerolac Paints Limited Q2 FY2023 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

**Aniruddha Joshi:** Thanks Seema. On behalf of ICICI Securities, we welcome you all to Q2 FY2023 results conference call of Kansai Nerolac Paints Limited. We have with us senior management represented by Mr. Anuj Jain, Managing Director, Mr. Prashant Pai, Director - Finance and Mr. Jason Gonsalves, Director - Corporate Planning, IT and Materials. Now I hand over the call to the management for their initial comments as well as the quarterly performance then we will open the floor for question-and-answer session. Thanks and over to you.

**Anuj Jain:** Good morning. Namaskar to everyone and wish you all a very happy Diwali and prosperous New Year, New Samvat 2079. Thanks for joining this call of Kansai Nerolac for Q2 of 2022-2023. During second quarter, we recorded the topline growth of 19.3% and EBITDA level, the growth was 19.8%. The topline growth is led by passenger vehicle, decorative growth is double digit in terms of value and volume is flat, raw material prices are gradually cooling off, but at YTD level still the inflation continues and it is about 7% to 8% inflation is there. So far, we have taken approximately 3% price increase.

Giving you some highlights of industrial, we continued to increase our market share in automotive. The one of the strategy what we have been working upon is how do we increase or better our margins in automotive so that initiatives to increase the margin continued. One part is the price of sales which we have taken around 3% price increase on weighted basis in industrial, some of the customers we have been able to conclude, some customers still the discussion continue. Some other initiative in terms of margin improvement, which could be from our short term, medium term and also long term is the introduction of new technology products in the market, so we have been introducing tin-free and low bake so obviously these are some technology which the approvals are required from the customers and in some of the cases, the customers have to make certain changes in their lines, but as a potential to upgrade the business from the existing systems to these new systems, so this is what we are trying to expand.

We have also developed one new product which is successfully introduced in the market, because the government is taking the initiative of blending, the petrol with ethanol, so as of now it is the mix of 15%, but the potential is to go to 30% ethanol also, so especially in two wheelers, if 8% of ethanol goes up then the existing coatings will not be able to take that, so

we have developed the product which can take the blending of this petrol with the ethanol so that product we are ready with and whenever the ethanol blending goes up, we are ready to shift to these products.

Some of the other initiatives what we have taken are in automotive is PVC sealer and underbody, which basically goes under the car body. So that is also a good size market where we were not there, so we have introduced products in that market also.

We are also getting into alloy wheels market and for that also, the technology in the products is ready and we made some entry in the high-end anticorrosive coatings for auto fastener, zinc-based coating, so these are three/four new areas for us,. In performance coating, which is a non-auto industrial part, as we discussed last time that here again the focus is basically to increase the mix the premium business and partly we are exiting the business, which is very low profitable, the traditional products where we are not able to get the margin, so some percent of the business we have exited, which we spoke last quarter and obviously the salience we are increasing of the premium, so even at H1 level, the salience of premium has increased by more than 1% in performance coating.

Performance coating business is also dependent on lot of approvals and for this premium coatings, we need approval from infrastructure, oil, gas sector, so those towards we have been trying and we have made a list of that how many approvals we need and we are making our progress, so 40% of the approvals we have already got and therefore some of the sectors that we will be in a position to pitch for the business. Just to name a few, we got Mumbai, Ahmedabad bullet trains approval, we got Vande Bharat Express approval. Some of the orders also started flowing,

In coil coating, which is again a part of non-auto business, where the margins have been very, very low in the last year and we took the approach of shifting to higher margin products., so we have exited lot of non-profitable business and increase our salience in the premium category. also we have got some approvals from the leading appliances in the country. In powder coating also, we have been market leader in powder coating, but our focus is to increase our share in premium, so there also salience has increased by about 2% and we have got some new accounts which are going to give us some good advantage, so this is about industrial.

Coming to decorative. One of the part of our decorative strategy is related to our paint plus differentiated products with feature-led additional benefits, so we spoke about Beauty Gold Washable was the first product and Mica Marble Stretch & Sheen and last quarter in fact we introduced Nerolac Impressions Kashmir, so these are all part of this paint plus super premium category where our strategy is to increase our salience and share in super premium category, so Impressions Kashmir we have taken up extensively and we got a good

response from the market in fact we did a fast initial rollout and we did a scale up, across the country we have been able to launch the product in last quarter, this was expected well by our network, so this is one product that where we have increased the visibility also and we are getting a good response. In fact to support this paint plus products we also ran a consumer promotion, Har Din Diwali during the Diwali period, which is still continuing on the premium products and this was one way to enhance the interest and the preference in the brand category.

We were also looking at adding more products in the premium and super premium category as we discussed earlier that our sale from popular and economy is fine, but if we compare with the market our salience in super premium category is low, so what we are looking at is how do we increase our existing distribution who are buying my other range of products, but not buying this super premium, so there we are looking at expansion of distribution. The salience has increased by 2% in fact our growth is definitely better in super premium category and some of the products which we have expanded is in the wood finish also in the super premium on the polyurethane category and some other niche products we have introduced in last quarter which is a Termi protect, Epoxy Metal Primer, also in Soldier we have introduced Through Sheen Emulsion which is superior finish at a mass premium price point. Even in the Soldier in some of these products which we are introducing which are different price point and different proposition and little premiumization in Soldier also.

Also we started introducing range of products in the next gen, so these are next generation range of products which are basically meant for select distribution, because the competition in the market is quite high, obviously some good select retailer that we want to focus on selling a specific range of product, for them we are launching next generation range of product. In communication, we said that we will be increasing our communication through advertising and digital marketing. Our focus is on Paint Plus Japanese technology and Jingle and share of voice we said that will be maintaining around 15% which we are continuing in the last quarter, all main markets, we had a share of voice of around 15% and one additional point here is that return of Ranveer Singh to our campaign. Ranveer Singh has been our brand ambassador last year. In between we had taken a break, but Ranveer Singh is back to our campaign and we launched the Kashmir campaign with him, impression Kashmir, No Paint Ke Badbu, no smell which we felt is one of the insight from the consumer that there is a segment of customer who are sensitive to the smell of paints, so this product is highlighting that proposition. We have gone for high visibility. For Impression Kashmir, we have participated in Asia Cup Cricket, Indian Idol, and some of the other important programs on TV.

The other part of our plan is related to influencer program where we have taken some aggressive approach in terms of digitalization and obviously the challenges that how do we

get more and more digital adoption, because the entire incentive, all communication we are shifting to the digital medium, so it is important to get the higher digital adoption from the painter fraternity. App downloads have gone up by 35% to 40% if you compared with the last year and therefore we are able to reach out to more number of painters. In terms of our distribution in select markets, we also have put some dedicated team to open the direct distribution and some new distribution models which we are working upon. We have added about 3000 new retail outlets at the YTD level so far in this year.

The other part is the project business, in fact we had presence in the select markets. In fact we are increasing our presence across key towns and within the year we will ensure that all the merging towns we are available where the market potential is decent. In new businesses, our salience was around 5% which I said last time, it is increased by 1% and it is around 6% and we are introducing gradually not that we are getting into every product, but we are settling with the existing products what we have introduced and then with the time gradually we are introducing more number of products. For economy products, complete range we have launched in fact whether it is emulsions or primers, lot of products have been introduced and in the last quarter it is, we have seen cannibalization and shift towards value of money products, which to some extent is understood because there have been almost 23%, 25% increase in last two years' time and the prices of the products have gone up, so there has been some shift towards the economy range of products.

The other part was we said, we have launched the services with Five Days Dust-Free Painting proposition. In Q1, we have piloted and introduced in six cities and in the Q2, we have expanded this services to almost around 50 towns and will continue to spread that in more towns in the coming quarters. This was also linked to our market development structure where we said that we are a placing team for the market development who will also be handing the service part, so structure of market development team is put in place obviously the hiring is on, and more than 500 team members is on ground now. This team related to our services so far we have serviced more than 15000 sites in those selected towns and obviously in all the sites, we are driving the product upgradation, the Paint Plus and the new products what we are talking about and also helping consumer to take the right decision or giving the right solution to the consumer for the problem what he faces when he want to decide about the paint. We are also investing in the digital ecosystem to ensure complete information available and seamless coordination across stakeholder, so the work is in progress; some work is completed and we are making the progress and we have timeline to see that this ecosystem is ready within a particular timeline.

Overall in decorative, we feel that in the Q2, the market volume growth is driven, largely by putty and new businesses. In paint, volume growth is very, very low, so that is our understanding. Few other updates are that we initiated the process of setting near term,

science-based target. Science-based target institute because that is the process what we need to follow which we have initiated. As a part of our risk management, risk mitigation, we commenced implementation of FARDR. Last time we spoke about our initiative related to the ESG where we are working on scope-three inventorization and TCFD framework where we have initiated the process for setting near term science-based target as we said earlier.

One qualitative point, which we mentioned that what we are working to improve in the organization is basically speed to scale up and sustaining momentum and under that we are focusing on some long-term value creation through internal initiatives. Some of the initiatives are that we have taken the approvals, We are in the process of taking approvals for ESOPS for performance and retention for key employees and the final scheme is still not announced and shortly will be making the announcement of the scheme, but we are definitely taking care that it is majority towards performance and it is linked to the performance, but for the key employees, it is also retention based.

We are working on the capability building in the current situation and the way the platforms are changing, so we have introduced Percipio Digital Platform for a skill enhancement of our employees and we are running a structural program to see that how do we make the continuous improvement in the capability building. The other area is brand building and we will continue to work on building influencer connect. Also that we have added as a part, this is a last-mile service improvement. The introduction of increase in the number of products, the number of categories are going up and dealer is not going to increase his warehouses space and per SKU inventory actually is going down, we are mindful of the fact that service needs improvement, so we are working on that and overall our direction remain that we have to increase our profitability in industrial and increase the investment in decorative. These are some of the highlights related to the quarter from my side and now we invite the questions.

**Moderator:** Thank you very much. We will now begin with the question and answer session. We take the first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead sir.

**Abneesh Roy:** Thanks. I have three questions. My first question is on the deco business you mentioned share of voice is around 15% is what you are targeting, what was it three years back and how does this help, because your decor market share is also not very different, it might be a bit lower, your share of voice is a bit higher, it is not a very marked difference, so how does it help in the overall scheme of things in terms of the gaining market share given your introducing so many new premium products also?

**Anuj Jain:** We said target of 15% Share of Voice. Three, four years back when we were spending good amount in marketing which used to be in the range of 15% to 20% and then it came down to

6%, 7% level . How it helps is that it helps in terms of maintaining the visibility and when we are introducing the products, that how do we communicate the introduction of the product. The efficiencies that how we are building is that if you see our campaign, there are some common elements like Paint Plus, Japanese Technology and Jingle; last two or three campaigns what we have introduced the product changes, but the format of the campaign remain same, so ultimately there is a continuity and we keep introducing and therefore when we come out with the new product at least some of the products we are able to communicate with the right proposition.

**Abneesh Roy:** One follow-up on this, there is a drop come 15% to 20% to 6% to 7% is very sharp; normally we do not see consumer companies to do that and now you are coming back to 15%, so my question is why did you drop to 6% to 7%. Is it linked to your overall health of business in the industrial part of business and can that again recur, for example, would that problem if comes back, so this 15% can it again come at risk?

**Anuj Jain:** One that we were spending that amount for few years and partly I would say during the COVID time, initially we lost the season time , obviously this percentage come down and then obviously we wanted to see and in the last meeting also we said that may be we have taken some decision, which we felt later in the hindsight it may not be right, so there is some minimum kind of thing, which we need to support in terms of advertising and in our business, now we obviously look at these businesses separately and therefore the decorative requirement is around this percentage, which we will maintain irrespective of that what business pressure comes for the category.

**Abneesh Roy:** That is helpful. My second question is on your Nerofix adhesive I understand the growth is 40% of course that would be on a small base, here by question is now when such a large player is going to come in paints in the next four quarters, does it make sense for you to do a noncore business especially given market leader in paints has already tried adhesive, they are still there in adhesive, but I do not think it has met the initial expectations which other player itself would have, so could you address this bit from a one year, two year perspective, does it make sense to focus on adhesives also or it will be more riding on your existing distribution not too much of advertising and team support?

**Anuj Jain:** You are right. It is not too much focus on this particular thing; we are riding on our existing distribution and this is a joint venture which we have Nerofix and one part is industrial adhesives, there is a synergy with our industrial business and in the consumer business just riding on our existing distribution, there is not going to be any specific focus.

**Abneesh Roy:** Last quick question on the distribution side, you mentioned you are trying to target new distribution models you also mentioned YDT, you added around 3000 retail touch points, so could you elaborate on this how much of this you have been able to cater to the core deco?





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- Anuj Jain:** All are deco only, but 3000 overall outlets and the one point I want to add is that last time also we said one of the business model is now we had given a name to it. It is a Next Generation Premium Shoppy. Last quarter we finalized almost around 50 and all 50 we have executed, these stores are up in the market and in fact we have finalized another 25, so this is one of the model and there are few other which we are working upon.
- Abneesh Roy:** Could you elaborate on this, is this more of a perfect store which we actually have or it will be more of branding point of sale within that dealer?
- Anuj Jain:** It is a like experience story we can say where there is a branding and also like our proposition in terms of demonstrating the products that how products are better than the other products, so that is the attempt we are doing. Wherever the customer footfalls are higher, there we are staging this kind of experience and from these stores, our focus is to increase our premium sale.
- Abneesh Roy:** That is all from my side. Thank you.
- Moderator:** Thank you very much sir. We take the next question from the line of Mr. Aditya Bhartia from Investec. Please go ahead sir.
- Aditya Bhartia:** Good morning. you mentioned that in Q2, the industry growth is driven by putty and some other low-value products, I just want to understand how franchised it on that front and has there been any diversion for franchise vis-à-vis the market leader?
- Anuj Jain:** In fact in our case, as I said in decorative, our volume is flattish and the putty is slightly negative, to that extent excluding putty, there would be small growth and putty is our approach still remains selective, because there is pricing pressure in the market and the margins are not there, but obviously to satisfy our distribution network, we have to keep in certain market and for certain timeframe, so we are looking at in a high growth in putty segment, as of now we are just trying to hold to some extent and selectively basis that we are participating that is related to our putty and for the new products or the new businesses, obviously it is not comparable with the industry, because we have our own approach in terms of what products we are choosing or what range we are choosing, we are not trying to get into everything and our salience of new business as I said is about 5% while for industry it may be more than 10%, it could be 12% also, even if we have similar growth, the difference will come because of the salience. As of now we will say that in the paint, we are narrowing the gap and putty as of now will continue to be selective till the time we get the right situation and new business gradually will improve.



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**Aditya Bhartia:** Secondly, on the waterproofing side, how we steering on the waterproofing and construction chemical businesses, how large these businesses could be for us and at what pace they are growing?

**Anuj Jain:** About 5%, 6% salience, it is from new business; one of the business is construction chemical and that would be a large part of it. We have chosen the product which we felt that goes with our strength or our understanding and at least on those products now we have caught up with the market growth, but we are not getting into full range, which market is introduced. The market is good I think this definitely has a potential, because after the paint company started construction chemical and waterproofing, the market also is expanding, Now it is given as a preventive solution also that when we are doing a paint you can apply the waterproofing under it, so to that extent the market is expanding and this has definitely become our integral part of paint and I think the prospect going forward in the fiscal is good.

**Aditya Bhartia:** A couple of quarter that you have indicated that we now have pretty much full range of waterproofing solution; does it mean that we want to restrict ourselves to certain solutions and we are happy with the kind of range that we are having today or does it mean that over a period of time we may still see ourselves getting into areas whereas other competitors are there?

**Anuj Jain:** We have started with that as I said the first is that we have our distribution and whatever product the distribution is keeping, we have come out for those products, so that range we have completed, because since we were late entrant, obviously our distribution are also buying from others. Last time I said that 30% of our distribution is started buying from us, now the figure is on 35%. We are just trying to expand within our distribution; those range of products which dealers are selling and as we become little mature on that our understanding is completed. We do have pipeline of the products which are like specialty products.

**Aditya Bhartia:** Understood. That is very helpful sir. Thank you.

**Moderator:** Thank you very much. We take the next question from the line of Avi Mehta from Macquarie Capital. Please go ahead sir.

**Avi Mehta:** Just three questions. First, the Leader has announced a very aggressive capex plan not only to expand the capacity, but also backward integration, do you see need to have a similar focus on capacity expansion or do you see this impacting us in the decorative or even in the other industrial segment? Could you elaborate?

- Anuj Jain:** It depends company to company and a little difficult to give answer to that, but I can only tell you if you look at industrial which is our important area, where the backbone of the paint is resin and almost more than 90% of such resins is made in house, in the recent past also we expanded the capacity of resin, so whatever like this automotive market is cyclical assuming that the market will have a good run for next few quarters, few years, we are prepared for that, so that was part. There are certain other areas where may be a potential, but as the time goes, we will evaluate. In the decorative again, the largest part is the emulsions, which is most of the emulsions we are making in-house; there are also in the recent past in our Amritsar factory, we have expanded in our capacity.
- Avi Mehta:** Basically no impact on industry and deco will wait since we how best we will do? The second bit is we are picking up where you indicated last quarter that in decor market growth was also led by tier 1 and metros last quarter, which is first quarter. The growth was impacted by us. Now with our country growth picking up, should we expect the growth rates in the decor market to be broadly similar or do you think it is too early to call out up market recovering?
- Anuj Jain:** Only change from that time to this time is in the Q2, we have seen that tier 2, tier 3 growth is coming closer to the tier 1, but if we talk about tier 4 or the rural as per the census like population less than 20000, where the growth is still very low. Our data say that small market or rural market is still under stress.
- Avi Mehta:** So that pressure for us may continue for some time.
- Anuj Jain:** We are little hopeful that we may be because with the monsoon was good, may be post-Diwali or fourth quarter, it may pick up, because at least we have seen some positive change in tier 2, tier 3, tier 4, so it makes us say down to these smaller markets also, but we have to wait and watch.
- Avi Mehta:** Lastly sir on the decorative market itself, are you concerned about the growth because your comment on the third quarter was of growth rates slightly remain under pressure, so is that now we are, inflation is starting to bite and hence growth rates per se in the decor market are likely to moderate on a run rate basis, do you see that is a concern sir?
- Anuj Jain:** Short-term, yes, if you see last year Diwali was in the month of November and this time Diwali was early and the rain were continued till almost October 15, so generally what happens is that people paint after rains before Diwali, so that period after rain before Diwali was hardly one week, actually we need a window of at least 20 to 30 days and that window was not available, to that extent business is down and in the month of November if you remember recall that last year, there was a price increase, highest of the price increase has happened in the month of November and therefore lot of stocking has happened in the

market, so subsequent month, the growth was not very high, therefore the only optimism could be that post Diwali, if people have not painted before Diwali, they will resume the painting post Diwali, we will have to wait and watch, because of this the third quarter demand could be muted. We believe that first quarter was good, fourth quarter also would be fine because the base was not so very high, but quarter 3 last year, the base is higher.

- Avi Mehta:** Thank you Sir. That is all from my side and wish you good of luck.
- Moderator:** Thank you very much. We take the next question from the line of Shirish Pardeshi from Centrum Stock Broking. Please go ahead.
- Shirish Pardeshi:** Good afternoon Anuj and Prashant. Thanks for the opportunity and Happy Diwali. To start with you gave interesting remarks that the volume growth was driven by putty, is the similar trend you are seeing in the month of October?
- Shirish Pardeshi:** Anuj made a comment saying that the larger growth was driven by putty and except the putty the decorative volume growth was flat to marginally positive, so is the similar trend, where I am coming from because you did mention that there is a down trading which is happening for low-end emulsion, so is the volume growth in the Q4 or Q3 when we look at of course Q3 understandably you have high base, but is that the trend which is structurally seen in the market?
- Anuj Jain:** Specifically for October if you are asking may be by and large similar kind of trend, but for the quarter difficult to comment, but yes. Because the trend is ultimately Diwali period is July to October, only thing what happens in July typically people stock sales items like enamel, distemper and other economy end kind of things, by the time September comes, the premium range get some kind of attraction, but by and large similar trend.
- Shirish Pardeshi:** I just want to little more clear in my mind, you did mention that Diwali has happened in the month of November, but is that the impact we have taken a sharp price increase and that is why people are moving to the lower price points?
- Anuj Jain:** As I said that there is a price increase if you look at two years basis, the price increase is almost 23%, 24% that is visible in the market that people are shifting to the popular or economy range of product, so there is a shift happening, so to that extent as I said cannibalization that some of our popular product, the growth is also good, but in the economy range or like the products what we have introduced for example, the primer at a lower price, some of the products like we introduced a Little Master in Beauty, so there is a shift in sale from the popular to this economy side.



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- Shirish Pardeshi:** Just to reclarify you said that we have taken 3% price increase weighted, so what is the price increase for first half total?
- Anuj Jain:** That is for first half.
- Shirish Pardeshi:** Totally is about 3%.
- Anuj Jain:** Yes, for decorative also 3%, for industrial also 3%.
- Shirish Pardeshi:** My last question; can you split the growth, your stronger market versus non-stronger market or may be to my understanding south has done better in Q2 while the north and central had lot of challenges may be extended monsoon is one of the reason and also liquidity is also one of the thing, which consumer companies are at least highlighting, so may be in your thought in your lens how do you think and if you can help me, how your stronger markets and non-stronger markets?
- Anuj Jain:** Our strong markets are north and east and weak markets are south and west, but in terms of growth, what we have seen higher growth from south followed by north followed by west followed by east.
- Shirish Pardeshi:** East was the lowest?
- Anuj Jain:** Yes.
- Shirish Pardeshi:** That is really helpful. Thank you sir and all the best to you.
- Moderator:** Thank you. We take the next question from the line of Mihir Shah from Nomura Group. Please go ahead.
- Mihir Shah:** Thank you for taking my question. I have a few questions. Firstly, it seems like your mix did not deteriorate as much as the market leader, but given the seasonality and also your rural growth did well, can we say it had some impact on margins so margins were impacted due to inferior mix so that is one and can margins get better sequentially with the better mix going forward?
- Prashant Pai:** Generally in decorative, what happens is that if you compare the second quarter, which is the Diwali period with Q1, there is always a deterioration of the mix and it happens mainly because the contribution of salience of the item like enamel, distemper, low end primer goes up, so approximately 2% deterioration we always find so that change is there that is one reason, otherwise within the decorative as we said that our super emulsion salience has gone up even emulsion salience has gone up and the other part is that change in the business mix,

because the growth is higher from the industrial, so our salience of industrial has gone up and where the profitability in comparison to the decorative is lower that also has affected the margins.

**Mihir Shah:** Got it, very clear. Secondly, on the difference between the deco margins and industrial margins you have highlighted it was there was 7%, 8% gap that gap would have seen some improvement of course, but can you share any indication of how much it has contracted and the trajectory going forward as well?

**Prashant Pai:** Industry margins definitely have improved based on as I said the inflation still continue, but when the price increase what we have taken that has helped in terms of improving the margins, but in decorative one as I said the mix change, the other is also we have increased our investment as we spelt out earlier in decorative so that is how it is the mix back.

**Mihir Shah:** Okay, would the difference be about 5% or still 6%, 7%, any target that we have to reduce this gap?

**Prashant Pai:** It is definitely bridged, so 1% or 2% odd is bridged and as we have been saying because the decorative, the investment also is going up, somewhere that it is balancing out, but industrial margin definitely has improved.

**Mihir Shah:** Got it. Lastly can you talk a bit more on non-auto industry performance. Past few quarters, we had seen a strong pickup in non-auto industrials, is that sales momentum continuing and can you share what is the mix of volume and pricing in and would it be two-third, one-third volume, pricing or 50-50?

**Anuj Jain:** Non-auto industrial, there are like general industrial, high performance coating, powder coating, coil coating, so their approach is basically to increase the business in the premium and the momentum is definitely continuing; the only thing is that sale get compensated to some extent as we said that some of the non-profitable business, exiting in the sense that we are increasing the price and sometime we are able to hold up that business, so we are increasing the business for the premium, but lower side business is becoming lower, but the growth momentum continues.

**Mihir Shah:** Got it and lastly one book-keeping, any one-off on staff cost it has short up quite dramatically by 17% this quarter on a Y-o-Y basis?

**Prashant Pai:** We have our increments in the month of July that is the reason that has gone up.

**Mihir Shah:** Pretty much time, that is no one-off.



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- Anuj Jain:** Nothing one off.
- Mihir Shah:** Thank you very much. All the very best and that is all from my side.
- Moderator:** Thank you. We have the next question from the line of Jaykumar Doshi from Kotak AMC. Please go ahead.
- Jaykumar Doshi:** Thanks a lot for opportunity. I had three questions. The first one is sorry, I may have missed, what is the Y-o-Y growth in value terms for decorative business?
- Jaykumar Doshi:** Y-o-Y growth in value terms for the decorative business, decorative paints?
- Anuj Jain:** It is a double-digit growth value.
- Jaykumar Doshi:** Understood. One thing, which I am unable to understand when we think about pricing on a Y-o-Y basis, pricing is up about 20% or may be more than 20% and you called out volumes or may be marginal volume growth excluding putty. In your case, your volume growth is not driven by putty, then why is it that on a Y-o-Y basis, the gap between value and volume is just 10% point, by pricing is up 20% and we understand that some of your peers, there is a significant deterioration in mix on a Y-o-Y basis, so we can understand the narrowing of gap, but in your case, you would have expected volume what you get will be in somewhat similar pricing?
- Anuj Jain:** One of the reasons is that there are some economy product what we have introduced like in Beauty Emulsion, Suraksha, The Primers and there is a shift from the popular range of product to the economy range of product and therefore the average selling prices of that range has come down significantly.
- Jaykumar Doshi:** Understand, so essentially it is down trading?
- Anuj Jain:** Yes, down trading.
- Jaykumar Doshi:** Have you also seen increase in rebates and discounts versus last year, is that also another reason for that or that has been stable?
- Anuj Jain:** During the second quarter, this July, September, there have been definitely the increase in rebates.
- Jaykumar Doshi:** Understood. Now current spot prices based on your inventory is RM price is easing a little bit, how should we think about gross margin trend over the next two quarters, I mean third quarter and fourth quarter versus the current Q2 gross margin?



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- Anuj Jain:** Obviously, this trend of cooling of raw material price is there, but some volatility now because the rupee depreciating, so what impact of that will come on the inflation, situation is not 100% clear, but I think if the same trend continues we may see some reflection in the Q4, Q3 I may not be very hopeful, but Q4 we may see some reflection on that.
- Jaykumar Doshi:** You said is it like 100, 200 basis points or can it be better, is there any chance it can get better?
- Prashant Pai:** Margins will definitely improve, but again it depends on as you said that our strategy is basically to improve the margins in industrial and invest in decorative, so as we improve the margins, increasing some of our investments in decorative.
- Jaykumar Doshi:** One final question, good to see marketing spends in decorative business increase in marketing spend, what is the benchmark or ballpark, A&P spends at percentage of sales that we should model going forward.
- Anuj Jain:** It is difficult to comment upon that, to tell you very frankly as of now that we make some assessment of the figures and we start doing that, but what we do that, what activities we are doing, what is the response and whether we are able to get the desired response and therefore some modulations required to be done, as of now as we said earlier also I think we are not going to look at we have been doing four, five years back, but obviously we are increasing and also that we increase our profitability in industrial or increase our mix because our focus in super premium so that give us some better mileage, accordingly then we will see some of the areas whether we can invest more.
- Jaykumar Doshi:** Understood, so we can assume that you would not be as it is FY2017, 2018, 2019, but again higher than FY2021 as a percentage of sales or FY2022?
- Anuj Jain:** Yes, you are right.
- Jaykumar Doshi:** Somewhere in between, right?
- Anuj Jain:** Yes.
- Jaykumar Doshi:** Thank you so much. That is it from my side. Good luck.
- Moderator:** Thank you very much sir. We take the next question from the line of Abhijeet Kundu from Antique Stock Broking Ltd. Please go ahead.
- Abhijeet Kundu:** Sorry, if I have missed on this, I wanted to get your understanding on auto volumes have seen a significant recovery, one of your key clients have posted very strong volume growth,



how much of that has benefitted in this quarter or should benefit in coming quarters and also what happens is that when auto recovery happens when the OEMs also give you a better pricing, the price hits also happen, so you alluded to that 3% has been the price hike on overall industrial paint? I just wanted to get an understanding on the sales part coming from the recovery in auto, OEMs and also on the profitability part, so could we see better profitability because of better passage of price hike and also better volume growth going ahead or the better volume growth has already factored in the current quarter, just wanted an idea on that?

**Anuj Jain:** In automotive, it is basically passenger vehicles than your two wheelers, three wheelers and this CV and tractor, so this growth is led by passenger vehicles, two wheeler growth is still muted; growth is better than last year, but it is still when I have to say that passenger vehicles in this year may touch the pre-COVID level, but two wheelers still would be down if you compare with the pre-COVID level. Tractor demand is also subdued, so primarily it is led by the passenger vehicles and I think that run as of now we feel whatever information is published in the market, it will continue. On the price increase from some of the customers we have already taken the price increase and for other customers we are continuing and you are right that in the performance improve when last year inflation was very high and we have not been able to take full price increase, but situation is better with the customers now and I feel that we will be able to get more price increases.

**Abhijeet Kundu:** Okay, significant recovery that we have seen in passenger vehicles that has already factored to an extent during the quarter?

**Anuj Jain:** Yes.

**Abhijeet Kundu:** Thanks.

**Moderator:** Thank you very much. We take the next question from the line of Sanjay Satpathi from Ampersand Capital. Please go ahead.

**Sanjay Satpathi:** Thanks a lot for the opportunity. I just wanted to understand from you that this industrial segment how much did it grow on a year-on-year and sequential basis, can you share something?

**Anuj Jain:** Generally, the segment wise growth we do not share, but obviously we can say that the production growth, the passenger vehicle is higher than 20% and I am talking about the H1, Q2 it was in a further higher, passenger vehicle is specifically in higher.

**Sanjay Satpathi:** Understood. The reason why I am asking is that your overall revenue performance in Q2 compared to Q1, is lesser than market gains of Asian Pains, despite the fact that you have a



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bigger contribution of automotive, which has done so well, so where exactly the drag for you in terms of from market share loss?

**Anuj Jain:** As we said that we track it on free part, paint, putty and new business, so this putty earlier also I said that we are keeping it and restricted. The market growth is driven by putty and the new businesses. In paint category, our understanding is that the growth is very, very low, so to that an extent we have narrowed the gap and closer to it, but putty gap continues and new business is not comparable, because we are making our own choices that which business, how many products to be into, so that is not comparable, comparable is basically paint.

**Sanjay Satpathi:** Understood. Our market leader in industrial and automotive while we are not in decorative and at this point of time, there is a new entrant which is coming into decorative side, of course we are trying to defend your position by increasing branding spend there, but in the process, are you going to be again neglecting the industrial side of it?

**Anuj Jain:** No way, because every business is a separate business unit, in this kind of situation we will be increasing our focus on industrial also. These are separate business unit, so one focus does not affect the other focus and fortunately like passenger vehicle run is good as of now, the non-auto industrial paint where market share is not that high, there in fact saw the initiatives in terms of product, technology, premium, the putting up by approval team, some of these initiatives we are taking so that we can look at more business in that area.

**Sanjay Satpathi:** Last thing I just wanted to check with you that revenue basis while you are guiding towards little subdued performance in December quarter, so will you continue to kind of see the margin decline on a year-on-year basis as well or the margin has kind of reached the floor and improving from here on?

**Anuj Jain:** Margins are on the lower side now. If I just purely say about margin, margins will improve, but as I said that we are also in the process of increasing our marketing investments in decorative, so I think you have to keep that in mind.

**Sanjay Satpathi:** My question is that despite all that has the margin reached level from where it can only go up, even though it may not really reach the level which you have done in the past?

**Anuj Jain:** I think the margins are closer to the lower level only and from there the margins will improve, but again I am repeating that the margins may improve, but we may increase our investment in decorative.

**Sanjay Satpathi:** Understood. Thanks a lot.



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**Moderator:** Thank you. We take the next question from the line of Mr. Ajay Thakur from Anand Rathi Securities. Please go ahead.

**Ajay Thakur:** Thanks for taking my question. I have two questions. First one was obviously on the margin front which other participant also have been trying to get a sense on. If I have to look at the current prices of crude oil and the current rupee, so what kind of a gross margin excluding of the marketing spend, what kind of a gross margin expansion can we look at in Q4 or may be over the next one year, what kind of improvement can we see on a ceteris paribus basis?

**Prashant Pai:** At gross level, overall as Anuj mentioned that we are focusing on improving the industrial profitability, we can see at least 2% to 3% improvement at gross level, so that is possible.

**Ajay Thakur:** That is quite helpful. Second question was more on the painter app, so we are talking about innovative channels to reach out with the painters and also to increase our distribution or the kind of offtake from them, so what are the similar innovative channel can we reach out to drive growth, which can actually help us not being affected by the distribution muscle of the Asian Paint, the leader of the segment, so what other innovative channels can we also look at such as e.com channels which can obviously try, can we know diversify our growth basket and help us in terms of faster growth. Any broad outlook or sense would help.

**Anuj Jain:** There are some thoughts about it, but as of now we will not be able to spell out completely, but I can only say that one area is the service area, which is like emerging area at least there is some traction that some decent part of the business started coming for services which is dependent of the lead management system that how do we generate the lead and how do we conclude that lead. In the area of ecommerce also, there are certain opportunities, but may be at the right time we will discuss about it.

**Ajay Thakur:** Quite helpful Sir. Thanks for taking my question.

**Moderator:** Thank you. We take the next question from the line of Rishi Mody from Marcellus Investment Managers. Please go ahead.

**Rishi Mody:** Just to get some context on the numbers, so Asian Paint has announced that they are backward integrated into VAM and VAE, so how much of your décor paint cost can if VAM component be enamel cost or the total cost how much is VAM as a component, so just trying to assess that backward integration makes any sense further?

**Anuj Jain:** Almost zero I think.

**Rishi Mody:** Alright, so is it like new technology over there or new type of trends that they are going to use this VAM or VAE, what is your view on this backward integration?

**Anuj Jain:** What happens is like there are some standards of VOC, which are like European standard and American standard and we are in compliance of those tender for this low VOC less than 50 gram per liter is the standard, VAE technology helps in terms of bringing down the VOC, but then there are some other technologies also which can help in terms of bringing down the VOC, so these are some in the areas of sustainability, as I said that whatever requirements are there, we are compliant to that and there are means and ways to achieve further lowering this VOC level. Standard what I said we are following is the European standard.

**Rishi Mody:** Got it and on the putty business, just trying to understand this industry is a bit better like how big is this industry size and do you think like the strategy that has been employed in terms of lower pricing, is it the way to go or do you think this is not really commoditized market?

**Anuj Jain:** I do not know how to say the size because there are lots of non-paint players into this, but even say that everyone liter of emulsion or 5kg of putty, so if we say market size is Rs.40,000 Crores and emulsion would be 50% for Rs.20,000 Crores, I am just trying to give you, there is a lot of non-putty players, non-paint players and this is a commodity product, the average selling price is just about Rs.18, Rs.19 a kg and it is sold on discounts, so obviously the discounts have gone up in the market, it is commodity product which basically led by discounts.

**Rishi Mody:** Do you think the backward integration of putting a plants in Saudi Arabia helps or to get any margin extraction or just to get lower pricing and pass it on, what do you think instead of the rationale behind such backward integration in such a commoditized business?

**Anuj Jain:** There may be some advantage, because ultimately the main raw materials in the putty, white cement and RD powder and the RD powder also consume this VAE and VAM and the white cements, these are two out of three key raw materials and there could be some advantage in terms of pricing.

**Rishi Mody:** Thank you. That is all from my end.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

**Anuj Jain:** Thanks everyone for posting questions and your questions always highlight and figure some of the thought process also. Thanks for making contribution to us and as we spelled out that it is a long-term value creation the building of the initiative, the business what we are embarking upon, not getting averted with the short-term things. We are working on it and let us see that how we goes in the long-term basis. Thanks for attending this call. Wish you



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again the seasons getting for the coming December and Christmas and New Year and have a good time and have a healthy and wealthy time. Thank you so much.

**Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.