13th February, 2024

1. Corporate Relationship Department
BSE Limited,
PhirozeJeejeebhoy Towers,
Dalal Street,
Mumbai - 400001.

2. Manager – Listing
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
BandraKurla Complex, Bandra (E),
Mumbai - 400051.

Sub.: Q3 FY 2023-24 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. **BSE Scrip Code: 500165, NSE Symbol: KANSAINER**

Dear Sirs,

This is further to the intimations done by the Company on 1st February, 2024, 5th February, 2024 and 6th February, 2024 with respect to the Conference Call hosted by the Management of our Company on Tuesday, 6th February, 2024 at 16:00 hrs India Time to discuss Q3 FY 2023-24 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
Digitally signed by G T GOVINDARAJAN
Date: 2024.02.13 11:22:55 +05'30'

G. T. GOVINDARAJAN
COMPANY SECRETARY

"Kansai Nerolac Paints Limited

Q3 FY '24 Results Conference Call"

February 06, 2024

MANAGEMENT: MR. ANUJ JAIN – MANAGING DIRECTOR – KANSAI NEROLAC PAINTS LIMITED
MR. PRASHANT PAI – DIRECTOR-FINANCE – KANSAI NEROLAC PAINTS LIMITED
MR. JASON GONSALVES – DIRECTOR-CORPORATE PLANNING, IT AND MATERIALS – KANSAI NEROLAC PAINTS LIMITED

MODERATOR: MR. ANIRUDDHA JOSHI – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to Kansai Nerolac Q3 FY '24 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 call, please signal an operator by pressing star then zero 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: Yes. Thanks, Tushar. On behalf of ICICI Securities, we welcome you all to Q3 FY '24 Results Conference Call of Kansai Nerolac Paints. 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 initial comments on the quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Anuj Jain: Thank you, Aniruddha -- and welcome you all for Q3 conference call of financial year '23, '24. First of all, I wish you all a very happy new year. And as usual, we are grateful for your continued support and interest in our company. For the quarter 3, of financial year '23, '24, we had a growth of 5.7% over the corresponding quarter of the previous year. If you look at the EBITDA, the growth was 27.3%. And in terms of PAT, the growth was about 40% over the same quarter of the previous year. 9-month basis, the net revenue growth is 4.7% over the same period of previous year, and EBITDA growth is around 31.5% over the same period of previous year.

Overall, for the quarter, the demand for industrial paint remained good. In automotive, the passenger vehicle continued its good run and 2-wheeler, which was not so good in the previous quarters, we could see some kind of green shoot and some revival of the demand happening in the third quarter for the 2-wheelers. Passenger vehicle, commercial vehicle witnessed a decent demand.

The other part of the industrial business, which is Performance Coating that also continued to do well. And it's also getting benefit from the infrastructure development spend by the government, the capex cycle, all that is supporting the non-auto industrial business.

In decorative, the volume growth during the quarter was in double digit. And primarily, it is driven by the festive season because this time, Diwali was in the month of November. And whenever Diwali happens in the month of November, the previous month see a good demand. So in October, there was a good demand.

In terms of rural, though there is some green shoot, if you compare with the quarter 1 and quarter 2, we have seen some recovery, but still the growth continues to be higher from the urban markets, especially the Tier 1, Tier 2 and the rural market or Tier 3, Tier 4 market growth, if you compare with the urban is the lower side.

Raw material prices were stable despite the volatility in crude oil despite geopolitical situation, but prices in the quarter 3 were stable. I'll give you some highlights for the quarter 3. And to start with our industrial business. So automotive, where our market share is high. We continue with our approach of focusing on the technologically superior products, which is in line with our strategy and launching sustainable technologies to reduce VOC and carbon emissions, so low energy products. We continue with that.

And some of the new segments which we discussed in the past that as a part of our strategy to increase the addressable size of the market, we have entered into some new segments, which is, for example, seam sealer, the underbody coats, alloy wheels, that business we have started, and we have started seeing some business contribution from these new segments.

In auto refinish, where our market share is low because we have been relatively a new entrant. But continuously, we have been making a progress. And as a part of our strategy where we wanted to focus more on A-class body shops, which means -- which basically deal with the high-end premium polyurethane paints. So that salience is continuously going up in the auto refinish, and we are able to add more and more A-class body shops.

In Performance Coatings, again, as we discussed in the past also that we wanted to come out of some business where the margins were very, very low, and that cycle almost we have completed. And our focus was more on the premium segment. Premium segments here include like bridges, the windmills, the appliances, construction equipment, helmets and the powder also is a part of Performance Coating Division, where the premium segments include rebar, pipe coating, the alloy wheels, all these segments that we have started participating because we need approval.

And since we started getting approvals, so our salience in overall Performance Coatings division from the premium also is going up now continuously and consistently. So overall, in the industrial, we have been able to recover our margins, that what we have been targeting what we have been looking at the objectives, we have been able to recover.

Coming to decorative. Some of the key growth drivers, which we discussed in the past, the Paint+, the differentiated product we kept on introducing and we are seeing that last year, we started getting a decent salience contribution from the Paint+ products. And this year also the salience is going up. And this is also helping us to increase overall saliency of the premium products in our portfolio.

The influencer program and services where, in fact, our concentration was in terms of the painter program and also establishing next-gen services. But there also, in fact, every quarter, we are making our progress now, and it is gaining momentum.

The project business, where our participation was lower, and we expanded a number of towns. Our salience is going up now. And our growth also based on whatever information is available, probably we are better than the market. Also in the new business, which includes wood finish and the water proofing in the construction chemical, now we are having a growth which is better than the market growth.

We have in line with our strategy, have been increasing our marketing spends. So even in third quarter, we have increased our marketing spends and enhance the visibility. And all these efforts are helping us to expand our distribution and network. Some of the new products, which I just spoke about, what we launched in the recent past is -- we have launched some product in the --

under the brand of Kansai -- so this is like a Japanese brand, Kansai Select. It's the designer finishes like a very high-end premium designer finishes which we have introduced on a select basis in quarter 3.

In the popular and the economy segment, we've introduced the Beauty Little Master Sheen. This is across the country, and we've got a very good response. This is a unique product, which has a very good sheen, which is equal to a premium, but at a price which is basic category, which is matching in the basic category of the economy range. We also introduced some niche products like the polyurethane floor coatings and these products have excellent adhesion resistance..

We also introduced -- in fact, we have introduced Impressions Kashmir in the earlier quarters. We came out with the variant of High Sheen. In some of the markets, some of the states in the country, they prefer a very, very high sheen level. So we have introduced High Sheen and also a Matt. So with this, within the Impression Kashmir, we have High Sheen, Mid Sheen, and Matt, so there are multiple variants which are available.

We also introduced one more unique product, which is a Crystal Seal, which acts like a putty, but it helps in the waterproofing. So some of these products we have introduced in the recent quarters.

As I spoke about next generation pending services, which is gaining traction and our digital presence is going up. So now we are present in more than 450 towns. But if you look at the active lead generation we have started doing in more than 170 cities where we do our target marketing, we generate the leads and convert it to our business, and we have developed the capability to paint almost 4,000, 5,000 homes on a monthly basis.

For architect, interior designer, we have launched a program called Illuminati in the market, and that is also gaining traction. So we are able to reach out to the architect, demonstrate the benefits of our Paint+ product and started generating business through them. And whatever business we are generating from this program, it has a high saliency of the premium products.

New businesses, I spoke about, that overall growth is higher and the salience also is continuously going up. Similarly, it is happening in case of project business also. Our network expansion is in double digits, and that's the rate which we are growing at. Some of the other highlights for the quarter, the capacity expansion project at Visakhapatnam and Jainpur, they are on track as we announced earlier. And capacity utilization is around 60% at the YTD level.

We have been speaking about our ESG initiatives in the past, and for that, in fact, we submitted our application to SBTi. And as of now, we've become probably the first Indian paint company to get approval from SBTi for near-term science-based target for GHG emissions, which reduction is in line with the 1.5-degree pathway. So that's something that which we feel good about. And so these are some of the highlights related to industry business, Japan business and some other highlights, which I just spoke about.

Now welcome you all for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Sir, so I did hear you indicating that in the projects business, the waterproofing business, the wood coating business you are doing much better than market growth. Can you talk a bit more on the Paint+ and Influencer strategy, and given it has become meaningful, can this lead to better than peers' volume performance for FY '25? Or do you think we can or we will still be able to grow in line with the industry or the market rate basically?

Anuj Jain: So Mihir, when we talk about Paint+, this initiative is about the performance product, because paint is generally known for sellers. So we are coming up with more and more products, which talks about the performance. As I gave example last time also that we launched Excel Everlast, which is about 12 years of warranty and it's a self-cleaning property, the no-smell paint and salience is going up, it is now in the high single digit. The advantage of this strategy is that it keeps us insulated from the competition as we go forward and as we increase the salience more and more.

Also, these products, the margins are good. And as the sale of this product goes up, it will also help the premium saliency going up. So that's the Paint+ and influencer strategy and the service strategy what we have taken, it's ultimately, what we said is that we would like to work directly with the users. So it could be a painter, contractor.

Contractors are there in the project business and also from the service point of view, reaching out directly to the consumer. So that talks about that the brand what we have, the number two mindshare brand that we are able to reach out to the users directly unable to generate the business.

So to tell you that whether it gives higher or lower, the important point is the segment level today we really look at, because some of the segments like project and new business, we were under-indexed. So our salience is lower and the market salience is higher. If we convert it to a market salience probably that our growth definitely will be equal to the market growth.

And yes, we feel that we have seen the green shoots of all these initiatives, and therefore, it gives us the confidence, that keep working on these initiatives. And I think we're in the right direction to see that our growth is equal or better than the market.

Mihir Shah: Understood, sir. Just a quick subpart to it for the near term. In the fourth quarter, there is a high-volume base that is there. Is the pickup in demand strong enough to drive double-digit growth in the fourth quarter as well? Any indication from Jan month that you can give, I believe, Market Leader indicated in December the growth had kind of fizzled away -- in December, the growth has fizzled away a bit. But your thoughts on the near-term demand and can double-digit growth sustain over the coming quarters?

Anuj Jain: My comment is that going forward for a few quarters, the demand would be volume led. And maybe a possibility of closer to the double-digit growth remains.

Mihir Shah: Got it, sir. Sir, second, I wanted to ask on how should we think about the gross margins given that the industry has started taking price cuts despite reaching historical high margins of 40% that you had achieved pre-COVID. Can one expect gross margins to get better from current levels despite the price cuts as raw material prices are lower? And the quantum of price cuts, you would have also taken about 1.5% price cuts in November and 1.5% in mid-Jan, right? I mean -- and is there any price cut in the industrial part of the business as well?

Anuj Jain: So Mihir, gross margin, if you look at the category level because in our case, the mix changes on a quarter-to-quarter basis. But at the category level, our endeavour will be to maintain the gross margin. And yes, we have taken a cut in decorative for the price -- price cuts we have taken approximately around 3%.

See, the deflation has been better in Decorative or can say water-based product. But in the solvent-based product, it is a little different. So -- and the situation looking forward is still not stabilized, still not very clear because there's a volatility in crude and the geopolitical situation. So as of now, in industrial, we still want to wait and see that when the prices get stabilized, then take appropriate call.

Mihir Shah: Okay. Got it. Sir, two small bookkeeping questions. There seems to be a material step-up in employee cost and other expenses. What can this be attributed to? Is it the -- is it the steps to retain talent or limited attrition and higher ad spend in the wake of increase in new organized competition or any new facility that is -- which is driving this higher cost. And these costs, can this cost be at the -- it can sustain at these current levels? Or it can mean revert towards the downside basically to the historic levels.

Anuj Jain: Mihir, that in other expenses, one is the advertising-marketing cost, which we have stepped up in the quarter. In fact, it is more than 1%, we stepped up YTD level also, it is around 1% is stepped up, and this is basically to enhance the visibility. Also, this target marketing services what I'm talking about, the targeting marketing what we have started doing. So that's one part of it. The other parts is the digital because all these initiatives are completely supported with the digital platform, and we have made a good investment, because maybe was our long-term advantage in the market. So that's a part of the other expenses.

And the -- for these employees also, one is the -- all these initiatives for that we have created a separate structure. So you can say there are new teams to support the services, to support the architects and that's how it is reflecting into the employee expenses.

Mihir Shah: Okay. Got it. Got it. Sir, fourth quarter last year, and maybe Mr. Pai can elaborate on it. The tax rate was lower than the 9-month average. Can you just jog our memory into if there was any one-off. And will there be a lower tax rate in fourth quarter this year? Or will it be similar to 9 months that we have seen in this quarter?

Prashant Pai: It will be similar to the 9 months.

Mihir Shah: Got it. Got it. Sir, lastly, any words on the INR1,100 crores watches that you've created. I know that you've indicated that your first priority will be towards business growth. But any more elaborate -- you've sold two large land parcels. Any more insights on that will be really appreciated.

Anuj Jain: No Mihir, I think we stay with the earlier comments what we have given.

Moderator: the next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: This is Avi here. I just had two questions. Sir, first, on the margin front, for the 9 months, we have done at the stand-alone level of margin of almost about 14.5%, 15%. How should we look at EBITDA margin on an annual basis, especially because I was not clear on the demand side. I -- we have heard that demand has weakened in December.

And hence, should that be a cause for concern? Or do you -- how should we look at annual margins for this year and probably a sense on how do you look at this on a going forward basis, would be useful?

Anuj Jain: So demand was, within the quarter if you compare with the October demand was weakened in the month of December. And as I said, that going forward, the demand would be volume-led because some of the price reductions in the decorative also will bring down the average selling price. So we'll have to wait and watch and see.

But I think as of now, the direction we can take that is still the volume growth would be there in the coming quarter. That's one part. And the gross margins, overall, I think we have been talking about for the entire year because quarterly because of the mix changes, but as we have been talking about within 14%, that is what we are actually looking at.

Avi Mehta: So 14% to 15% mark or 13% to 14%? Sorry, sir, I didn't quite get a sense on when you say 14%.

Anuj Jain: Around 14%.

Avi Mehta: Around 14% for the full year. Okay, sir. So the second bit I wanted to kind of just also -- you've highlighted a lot over the last few quarters, the focus on the industrial side and especially moving it there up the curve. Would you be able to give us a sense on how should this translate in terms of margin profile? I mean what I'm trying to get is industrial margin, for example, you said that you've reached the level that you were targeting.

So maybe it was pre-COVID levels for x, you are probably back to those levels. I'm not sure what that means. But because of these initiatives, would that x percentage number pre-COVID become x plus 200 basis points, x plus 300 basis points? Or will it remain at that pre-COVID level and the volatility will reduce. How should we look at these -- the end result of these initiatives being kind of panning out?

Anuj Jain: How we should look at the way is that if you remember that we have been saying that margins have gone down low single digit, and we were saying that we need to go to the double-digit margins and then create a situation where we are able to hold on to their margins. So that's what we are looking at because as I said that once the prices stabilize, then there may be a possibility of some price pass-through. But we have -- we are in double digit now. And based on the strategy on the initiatives what we were discussing or the premiumization, which is -- which we are doing in some of the segments in the industrial business, what we are looking at, that we are able to hold on to this double-digit margin.

Avi Mehta: And sir, would these also result in volatility in margins going down as we -- even -- because of raw material inflation versus what we used to see earlier. Would that be a fair comment?

Anuj Jain: Yes, if you compare with the past, yes.

Moderator: And the next question is from the line of Abnish Rao from Nuvama. Please go ahead.

Abnish Rao: My first question is on market share in Deco. In last 9 months based out of the Market Leader how do you compare your performance in Deco and now we are just 1 month away from the large player entering. I understand whenever a new player enters, market share losses are inevitable. But from a growth perspective, would you need to change your strategy in a big way because in the last 20 years, we have seen many players enter, but most players have failed to really build up any scale.

Taking that into account, are you looking at any big change in terms of marketing spend, distributor policies, etcetera, or more product launches? If you could give some color. I understand it depends upon the new player strategy. But any sense you are getting because the new player has already come out with the painting solution business and some of the imported wood finishing business. So till now any impact of the new player?

Anuj Jain: So Avnish, the -- I think the one is you are saying the impact of the new player. And your first question was?

Abnish Rao: On the Deco market share, last 9 months, any color you can give.

Anuj Jain: So like we have been talking about that in the past for maybe 1 or 2 years, we had a difference from the market growth. And our first endeavour was to catch up with the market growth. For that, we have been looking at the segment level, the project business, the new business, the putty segment, and the retail segment. So some of the segments we were under-indexed, and then we took certain steps. So in wood finishes and project business, we are higher than or better than the market growth now.

Putty business earlier our participation was selected, but we said that is our commodity and may at right time when we want to participate, we can slightly up our discount and see a better growth. So that's also we have started doing now in the selective market. And so at the segment level if you look at, few segments, we are better; few segments, we are very close to the market growth. So overall, we can say that we are in the line. We are close to the -- in the line with the market growth. That is one statement.

And when you talk about the new player, I think this -- there are -- one is that I think I said earlier also that the new competition, the healthy competition is always good for the industry, and that is what I hope that there's a healthy competition because then more player participate, you may see upsurge in the formalization -- sorry, reformalization of the industry, and there may be a better penetration, so it can help the industry growth also.

As far as we are concerned, our strategy was that we wanted to focus on Paint+, the influencer initiative, the services, those kinds of things. And since we have been seeing that on quarter-on-quarter basis, we are getting a good green shoot in those exercises, we would like to remain focused on our activities because ultimately, this business is all about creating a demand with the influencer and from the painters and the architect. And that is what our activities are focused upon. We have already deployed the resources and efforts in that direction. We would like to remain focused on those activities.

And also like our business has been higher in North and East. So we have a good potential in the market like West and South, where in fact, with these activities, now we have the growth drivers available, we feel that we should be in a position to remain active in the market and continue to work on our focus activities to do better.

Abnish Rao: And till now any impact in -- from the new player in paint solutions or wood finishing?

Anuj Jain: No, as of now nothing

Abnish Rao: One related question was on your new business; you mentioned your growth rate is higher than market. Now obviously, that's on a much smaller base. Here would you expect that longer term, just like in Deco paint you are number 3 player with say the low teens market share. So would you expect that in construction chemicals and other new businesses also, as for putty, putty I understand is very commoditized. In rest of the new business, would your market standing be similar, number 3, within paint companies. I understand there are non-paint companies also. But within paint, would you have the ambition of being the number 3 here also?

Anuj Jain: So what we are targeting internally is that our salience should be equal to the market. As of now, it is lower. And if you are able to achieve that, then the market share would be equal to our total decorative market share.

Abnish Rao: Right. Now second question is on the projects business. How is the margin profile there that is much more competitive? So if you could talk about the margin profile in that part of the business?

Anuj Jain: So margins, if you compare with the retail, definitely they are lower. But if you look at the EBITDA level, because that's a direct B2B business, so if you remove the marketing expenditure, advertising expenditure, still it will remain lower, but I think it's good. And also, like in the retail business, there's a mix of solvent and water based.

Water-based margins are higher, solvent-based are lower. And while in the project business, most of the sale is happening on the water based. So though margins are lower than the retail, but I think still it is good. And the manageability of the business because most of the bulk business, so the other indirect factors in terms of freight and all those things, it becomes a decent business.

Abnish Rao: Sure. My last question is on the Deco mix. So currently, there is a general slowdown in consumption. I'm not talking about paint. If you see any form of consumption, there is a slowdown currently. But in spite of that, premiumization is also still happening, which is quite possible in a large country, two different themes can be there. My question is, what is pre-COVID in terms of premium part of the mix? How would the number be for you in terms of premium as a percentage of portfolio within Deco, pre-COVID versus now?

Anuj Jain: So our saliency in the premium segment was lower. Maybe for the market, it is premium saliency would be more than 30%, 30%-35%, while in our case, the saliency was lower. It was around 25%, which we are trying to increase and the saliency is now closer to 30%.

Moderator: Thank you. The next question is from Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Two questions. One is, when I look at your volume growth and if calculate your value growth, the gap seems to have widened in this quarter or this year versus what it used to be maybe a year or 2 years back. And I heard you mention that you are now more aggressively participating in putty in some of the states, which is a segment that you avoided earlier. So is that the reason why volume growth is looking very strong? Is it partly driven by your higher participation in putty this year?

Anuj Jain: So there are three reasons to that. One is the better participation in putty. Second is we have introduced as a part of construction chemicals; we have introduced the products like tile adhesive and admixtures. So there also -- those are like low ASP products. So that is the second reason.

And third reason is that in some ancillaries and undercoats, there is some kind of down trading. So especially like if you look at primers and the other putties because we have come out with a lot of products which are more affordable products. So there is some down trading there. So these are the three reasons why the gap between the value and volume is higher.

Jay Doshi: That's helpful. So if you could give us some color in terms of our core decorative portfolio, if we leave aside the low-end products that you've introduced recently, what are the premiumization versus down-trading trends that you see at the portfolio level?

Anuj Jain: Premiumization, as I said that the premium saliency has gone up and down trading is happening in the undercoat. Undercoat contribution to the total business would be about maybe 15% to 20%. So there, the average selling price has come down.

Jay Doshi: Understood. That's helpful. Second is you've called out that 14% is your ballpark margin band for this year. Given that there will be more competition next year which would require higher investments either in the form of marketing, advertising, more aggression on projects and slight changes to trade schemes, what do you think should be the right margin band that we should think of -- your operating margin band for next year, assuming commodity prices remain where it is today?

Anuj Jain: Prashant, do you want to answer?

Prashant Pai: Okay. So Jay, it's very difficult to answer this question because the thing is how the competition is going to react with the new entrants and how it is going to pan out is very difficult to comprehend now. But still there will be some margin -- impact on the margin. But as we are also, as I said earlier, we are also knowing fully well this -- the competition is very intense in the Decorative field. We are focusing very hard on the industrial non-auto business, where we see a very big potential and chances of margin improvement in that area. So overall, we see some complementary in that section, which will help us to at least protect our margin.

Moderator: Thank you. And the next question is from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead, sir.

Keyur: Just wanted to understand on the margin front, I mean, with raw material prices settling in that too at a lower level, what is the reason you are seeing for, say, gross margin volatility? Or is it -- or EBIT margin volatility? I mean, is it because of the reinvestments in the brand building or at the gross margin level you are guiding for some volatility in your margins?

Anuj Jain: Gross margin. See volatility has been there in quarter 3 also despite that the raw material prices remained benign, stabilized and maybe expectation in the fourth quarter also. But we cannot rule out, because volatility is there, so we cannot completely rule out the possibility of the – and the margins. But as of now, what we are working is that at the category level, the margins may be protected. And -- but at the EBITDA level, yes, the expenditure, which we are up in terms of marketing manpower and the digital that will have -- that will cause some difference between the gross margin and the EBITDA.

Keyur: The second question was related to this higher opex in employee costs that we have seen increased Q-on-Q also and year-over-year also. So any one-off initiatives or activation, or this should be the run rate we should go ahead with if you can throw some light on that?

Anuj Jain: You're talking about the marketing expenditure, right?

Keyur: Basically, this quarter, employee cost as well as other expenditure is higher substantially year-over-year as well as Q-on-Q with similar revenue numbers.

Anuj Jain: I think I just spoke about it, that one, in the marketing, the areas of this obviously, the target marketing, the enhanced visibility what we have done. And also because of this new initiative, we have ramped up our team and we have created a new team structure. So that's it. And obviously, that cost is a part of our business today. So that is how it will move forward.

Keyur: We should go ahead with similar run rate in future?

Anuj Jain: Yes, yes, yes.

Keyur: Okay. And just last question on the industrial side. I mean some -- we keep on hearing about some moderation in demand, if not slowdown in these 4-wheeler and commercial vehicles, though 2-wheelers are doing well. So net-net, at an industrial level, both auto and non-auto, what kind of growth do you expect for, say next financial year or next calendar year in absolute terms?

Anuj Jain: So I think the outlook is positive, because if you look at passenger vehicle, this year also the production growth of passenger vehicle is in the range of 5% to 6%. And the 2-wheelers, quarter 1, quarter 2 were actually negative. Quarter 3 was good. So we feel that 2-wheeler will get revived. So even though I feel that passenger vehicle also may remain at 5% because today, also the penetration of even 4-wheeler is just 6% in India.

So the overall next 3 years, 5 years outlook, if you really see it is quite positive. But in case if there is some slowdown in the auto demand, it should get compensated by one, the two-wheeler, where, in fact, the last 2, 3 years, 2-wheeler has taken our dent and there were multiple reasons. One is the COVID, the other is the technology, and the third is the compliance, B-IV, B-VI.

So last 3 years, a lot of things have happened, and the base is reduced. So I feel that in the coming year or next 2, 3 years, the growth in the 2-wheeler would be definitely better, maybe 8% to 9%. And also the commercial vehicle today is growing at a decent rate. But with the infrastructure going up, the infrastructure expenditure, commercial vehicle may do better.

Tractor industry has been under stress for the last 1 year, 2 years. Actually, the production growth is negative, and it is always cyclic in nature. So with the good monsoon, the elections around the corner from the next year, we feel that even the tractor industry may do well. So we are positive about tractor industry, commercial vehicles in the 2-wheeler. And if there is some downtrend in passenger vehicle, these 3 factors will compensate. So overall, the auto should do well.

Keyur: In general industrial?

Anuj Jain: In general industrial also, it is good, because again these sectors and specifically, if you look at the infrastructure spend by the government, and all this is helping the sectors like power, the plant, building, the infrastructure projects. And there, we are participating through the general industrial.

The infrastructure projects like road, bridges, bullet train, and these projects we are participating. In fact, we are already -- have already started supplying the pre-engineering building, the genset, the transformers. So we are seeing a good prospects there, and that's also a part of our focus area. So there also, we see a good demand.

Keyur: So just one last question, which is a follow-up to this is with all the avenues that you mentioned and with relatively stabilized and lower RM prices, the industrial business should witness double-digit growth in terms of revenue, if not volume, with better margins than what they used to be, say, in current financial year?

Anuj Jain: So the growth, definitely, the outlook is positive, 8% to 10%, it may be closer to double digit. That outlook is positive. Margins, as I said that in the decorative business, on the water based, the prices reduced and we had done some kind of price reduction in the market. But in the solvent and most of the industrial-based products are solvent-based products, where the deflation is not that much.

And also, we want to wait for the prices to get stabilized or get some clarity or visibility for this geopolitical situation. But once we are able to cross that, there may be some kind of price pass-through. What is important is the strategy we want to hold on to the margins.

Moderator: Thank you. The next question is from the line of Atharva from Purnartha. Please go ahead.

Atharva: I just wanted to address on demand front, for the decorative paint, how do we see the demand going forward for the next financial year?

Anuj Jain: I think in the last 10 years, the volume growth has been double digits. So we still feel that there's no reason that why the volume growth should be -- I think 8% to 10% is the answer.

Moderator: Thank you. And the next question is from the line of from Ajay Thakur from Anand Rathi Securities. Please go ahead.

Ajay Thakur: Sir, I have two questions. One was trying to understand more on the ad spend or ad and say promotion spend. What would be that as a percentage of sales for Q3 and for the 9 months, any number?

Anuj Jain: You are talking about the advertising expenditure, right?

Ajay Thakur: Right, right.

Anuj Jain: Prashant, advertising expenditure?

Prashant Pai: As a percentage?

Anuj Jain: 4.5% to 5%? It's in the range of 4.5% to 5% for YTD and quarter 3, it is higher than 5%.

Ajay Thakur: And just wanted to crosscheck…

Anuj Jain: Your voice is not clear; we can't hear you.

Ajay Thakur: You mentioned Q3, we have seen a 3% kind of a price correction. I was -- just wanted to cross check on that?

Anuj Jain: No, no. In Q3, there was about 1.1% or 1.2%. And the other price change has happened in the month of January.

Ajay Thakur: Okay. So including that, it was 3%?

Anuj Jain: Yes. Yes.

Moderator: Thank you. The next question is from the line of from Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: In terms of distribution, where we see we're ending the year FY'24 with number of output total reach. And if you can provide a bit more color on the distribution, means how much -- how many tinting machines are there in place right now. Also the distribution on a region-wise basis? If you can give some color, even if qualitative, it would be great?

Also, we have seen the number of dealers for the market leader have crossed 150,000. So the gap between number 1 and versus number 2, number 3 player has in terms of distribution reach has become very wide. So do you see there is any scope to expand in next 2 to 3 year?

Anuj Jain: The last year, our distribution numbers in the Decorative was about 29,000, 30,000 and this year, we are expected to grow at the rate of 10%. So that is how the distribution would end at. Region-wise, in fact, North, relatively we are better in North, followed by East, West and South. So that is how the distribution also flow.

And in comparison to the market, so what is comparable is because today around 85%, 90% of the business comes from the machine counters and our machine penetration is more than 70% in total counter. And if you compare with the market also, that 150,000 -- it may not be comparable on the 150,000 because that includes many other segments. So I think that if you typically look at the paint, that the distance is not that much. So it's not a comparable number of what we are talking about and what number you are referring to.

Aniruddha Joshi: Sure, sir. And sir, in terms of the new product launches, sir we would have crossed, I think 50% of the distribution reach of own distribution reach or there is difference move to extend the reach for the new product launches also?

Anuj Jain: New product reach in the distribution, you're saying?

Aniruddha Joshi: Current distribution reach definitely 100%.

Anuj Jain: Yes. Definitely. It's not for every product, you are touching 50%. But put together the basket of the new product, the reach definitely would be more than 50%.

Aniruddha Joshi: Okay, Sir. That's very helpful. Now the painting services business has also -- we see a lot more in a way, management commentary about the painting services as well. So our next gen has also crossed 170 cities. So how big it would be crucial it is considered the enough portfolio also arise?

Anuj Jain: So, the services as another consumer behaviour is changing and especially in the Tier 1, Tier 2 towns, now people want to go for the organized services. So this market used to be 1% or 2% of the total paint market earlier. But we feel that in going forward, in 3 years' time or 5 years' time, it may be a 10% of the market. So that is what we are looking at. And obviously, the contribution of the -- it's not necessarily premium, but you can say popular or premium is higher in this particular category. So more and more business we generate through these services, it helps you in increasing your mix.

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

Avi Mehta: Sir, I just wanted to clarify the 8% to 10% expectation of which we -- for the next year, is it from a value perspective or a volume perspective?

Anuj Jain: Volume perspective.

Avi Mehta: Okay. And 14% margin for this year, next year, we'll have to wait and see. Got it, sir. Anything on the industrial side, sir? Which you would kind of expect a double-digit growth to continue over there despite the auto segment probably having high base?

Anuj Jain: 8% to 10% is what we feel would be outlook.

Avi Mehta: From -- again, from -- but there it will be value, sir, right?

Anuj Jain: Yes, that will be a value perspective, yes.

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

Anuj Jain: Thank you, everyone, for your patience and attention. And thanks for all the questions. Your questions always give us some thoughts. And I'm seeing a lot of questions in terms of I think there is a relation with the new competition, which is entering the industry, and that's why probably there are questions in the mind that what will happen to the revenue, what will happen to the margins.

So we acknowledge that there's an entry of new competition, but it's a development that speaks about the attractive nature of the paint industry. But I think our confidence remains in our strength, which is more than 100 years old brand, a loyal customer base, the diversified mix in terms of decorative, industrial non-auto industrial.

And the use of performance products, the Paint plus what we are talking about and also working directly with the users through services and the influencers. So as of now, where we stand, we are focused on our work and definitely look forward to navigating this evolving landscape in the paint industry. Thank you so much for attending this call.

Aniruddha Joshi: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.