

August 04, 2021

1. Corporate Relationship Department
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400001.
2. Manager – Listing
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex, Bandra (E),
Mumbai - 400051.

Sub.: Q1 FY 21-22 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 refers to the intimation done by the Company on July 30, 2021 with regard to the conference call to be hosted by the Management of our Company to discuss Q1 FY 2021-22 Financial Results of the Company, and intimation done on July 31, 2021, an Investor Presentation was enclosed for the same.

The Conference call was hosted by the Management of our Company on Monday, August 2, 2021 at 11 a.m. (IST) and 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
Q1 FY2022 Earnings Conference Call”

August 02, 2021



ANALYST: MR. ANIRUDDHA JOSHI - ICICI SECURITIES

**MANAGEMENT: MR. ANUJ JAIN – EXECUTIVE DIRECTOR - KANSAI
NEROLAC PAINTS LIMITED
MR. PRASHANT PAI – DIRECTOR (FINANCE) -
KANSAI NEROLAC PAINTS LIMITED
MR. JASON GONSALVES – DIRECTOR –
(CORPORATE PLANNING, IT & MATERIALS) -
KANSAI NEROLAC PAINTS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kansai Nerolac Q1 FY2022 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 call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Karuna. On behalf of ICICI Securities, we welcome you all to the Q1 FY2022 Results Conference Call of Kansai Nerolac Paints Limited. We are pleased to introduce the senior management represented by Mr Anuj Jain, Executive Director, Mr Prashant Pai, Director (Finance) and Jason Gonsalves, Director (Corporate Planning, IT and Materials).

As everybody knows that the paint sector has revived very fast from COVID wave 1 and there is again even after COVID wave 2, there is a strong growth visible in June month onwards; however, the import prices continue to remain impacted but we see Kansai has been able to report strong numbers aggressively leading by the industrial and automotive recovery too as well as strong performance in decorative paints.

So, we continue to remain positive on Kansai and we have add rating on the stock. Now I hand over the call to the management for their initial comments and then we will open the floor for question-and-answer. Thanks and over to you Sir.

Anuj Jain: Thank you, Aniruddha. Thank you. Good morning everyone. It is nice to connect with all of you. Hearty welcome to this Kansai Nerolac investor call for Q1 of financial year 2021-2022.

I will give some brief about the Q1 and then we will open the forum for the questions. During first quarter, we recorded topline growth of 117.6%, all businesses divisions did well. Industrial growth was higher on account of low base. Decorative specific the value growth was ahead of value growth therefore we improved our product mix.

Demand was this time better in urban towns, so if you compare the last year the demand was better in the upcountry market, this time, it was better in the local towns, and some of the key highlights for the Q1 for decorative is that as I said, emulsions, we did well and therefore the product mix improved.

We increased the number of machine counter, tinting machine counters because emulsion sale is dependent on the penetration of machine counters. There are multiple new products, which we started launched in last year and we kept on expanding this to new and new

geographies and therefore our contribution from the new products have increased. Most of these new products are in the emulsions and the new businesses like construction chemicals and the premium wood finishes.

The Beauty Gold Washable, which is one of our little different offering to the market that has a composition of antibacterial, and washable on a consumer proposition of “Saaf bhi, Safe bhi”, which is in line with our approach of paint plus to the market was accepted very well and we are getting a good traction and trending of this product.

New businesses, where we were little late in terms of introducing construction chemicals, premium wood finishes, but we got a good traction, I think our range of products, we completed in the last quarter and in the remaining geographies also, we expanded in the first quarter. So, these businesses have picked up and trending well in our portfolio.

In terms of price increase, we took three price increase; one was in the last week of March and then two during the quarter, so three price increases we have taken so far, in decorative. Our focus continues to be on paint, emulsion, distribution, new products and new segments like construction chemical and premium wood for decorative.

Coming to industrial, the overall growth was good, higher on account of low base, but still there are challenges, as passenger vehicle is facing some shortages of semiconductor chips and therefore, the production is not going to be as earlier level. Two-wheelers demand was sluggish, mainly the demands were lower from the rural centre. Commercial vehicle and tractor demand was better; however, our area of focus in industrial is new business, niche segments like oil coating, functional powder, high performance coating, and we are increasing our traction here in all these new business of niche segments.

Even in the existing accounts, we continue to put focus on increasing our share wherever it is possible and they are of course related to seeking price increases because the inflation has been high.

Coming to subsidiaries, if you look at the local subsidiaries, Marpol which is power coating, Perma, which is construction chemical, Nerofix, which is adhesives, all these businesses, recorded high growth in Q1.

In International, Bangladesh did well, but Nepal and Sri Lanka was relatively impacted the most, because the lockdown was for a longer period in Nepal and Sri Lanka while in Bangladesh till June it was very fine, and only in the last week of June, there was a lockdown which was announced in Bangladesh.

Some of the other highlights, as the inflationary trends continues, our focus is continued on cost reduction, formulation management, and judicious overhead management. So, that is one area, where the entire team is working pretty hard to see that how we can improve on that. The customer visits, which we started sometime around, January, February and then again because of this lockdown there was some gap, but it has restarted now and the entire team and the management has started going to the market. While we are going, we are still following all the precautions and guidelines in our factories, offices, and whenever we are visiting the markets.

Recently, there was a rating on ESG by CRISIL and they have rated the Indian companies on ESG. So, there are total 225 companies and we are rated in the top quartile. So the overall company is also which includes, banking, IT, manufacturing, all kinds of sectors, we are rated in the top quartile and even in the specific paint industry we are rated in the top quartile.

Coming to the financials for the quarter, the net revenue was 1301.2 Crores, a growth of 117.6% over the corresponding quarter of the previous year. In terms of EBITDA the absolute figure was 187.1 Crores, which is a growth of 132.4% over the same quarter of the previous year and PAT was 118.7 a growth of 177% over the same quarter. So, even if you look at EBITDA in terms of percentage, we have a little improvement compared with the corresponding quarter of the last year.

Looking forward, we feel that the vaccination program which is underway and hopefully it has picked up some traction on a month-on-month basis and we feel that with the vaccination going up also our forecast of good monsoon, demand should recover, but there is always uncertainty related to when we started the first quarter we never thought that we would like to face the lockdown again, that uncertainty will always remain.

From the company side, because there is high inflation period we would be aggressive in seeking price increases and our focus will continue to be on new segments where we have picked up the traction, new products, which we have expanded and we will continue to do that, digitalization, and cost optimization.

So that is the brief from our side on the Q1. Now we welcome the questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Prachi from Bay Capital. Please go ahead.

Prachi Kodikal:

Good morning Sir. Sir, I just wanted to understand in the last quarter, you have mentioned that you had been negotiating for price increases with OEMs and were not very successful.

So what has been the case this quarter? Have you been able to take any price increases in the auto OEM segment?

Anuj Jain: We have made some progress. Some prices increase we have been able to get in the first quarter, but as we discussed earlier also there is a little longer lag when it comes to the OEM and we made progress customer by customer but yes we made some progress in the Q1.

Prachi Kodikal: Is it possible to quantify what sort of price increases we have taken?

Anuj Jain: Generally, we do not quantify that because customers are customers, so we do not quantify.

Prachi Kodikal: Got it. Sir second question was on ad spends. So last time, we did see some cut on the ad budget, so how are we thinking about this the ad spends to this quarter and for the whole year?

Anuj Jain: Last year, earlier we have been spending quite high and it was part of our plan that slowly that will have some rich in terms of percentage, but last year was specific because first quarter there were hardly any activities even in the next quarter there was certain activities which were not possible, now as the market is opening up, there is an open space to do activities, so obviously to some extent the marketing expenditure will go up.

Prachi Kodikal: Do we see them going up to what they were maybe in FY2019 levels or no?

Anuj Jain: As I said, there was specific plan for two, three years where we did and specifically related occupational therapy increase our brand and our mindshare is quite at the good level, at that time, we were spending more in terms of advertising and communication, I mean these two are particular mindshare. The focus would be on some other activities, which is also part of marketing. So to certain extent I may go up, but it may not go to that level.

Prachi Kodikal: Got it. Sir, just one question, what would have been our capacity utilization for this quarter that has passed?

Jason Gonsalves: In June, basically we reached around 60% plus. The quarter is actually irrelevant because there was no demand in the month of May, so I think, what we need to look at is how we have exited the quarter and that is around 60% plus.

Prachi Kodikal: Thank you so much. I will get back in queue, with my other questions. Thank you.

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



Kansai Nerolac Paints Limited
August 02, 2021

Abneesh Roy: My question is on the chip shortage. Globally, auto companies are being distorted. We have already seen a big impact of that practice globally and the high end, Sir your customers, is it a big problem. I have seen the monthly sales data, which has come strong, so, on the outlook front, chip shortage would impact your B2B sales, OEM sales?

Anuj Jain: This has been what we have been hearing from our customers that there have been shortages and because of which even if they have a better demand to produce more, they are not able to do it. In terms of outlook, I think there seems to be on the track in terms of able to manage it, but I guess better that how much, but as of now it is being reported that because of the chip shortages, they have not been able to ramp up their production.

Abneesh Roy: Sir, any more colour to that so that is a more general answer. In your kind of volume, is the chip shortage has also been the problem because you do lot of mass volumes also, in that also in the chip shortage usually a big problem.

Anuj Jain: Your question is from our customer's point, right?

Abneesh Roy: Yes, and that will impact you all.

Anuj Jain: I understand but as I said that his has been the trend, but I guess, whatever we get the information from their side, if there is an improvement, how much they will be able to improve, how far, they will be able to improve, because ultimately when they have the demand, so, they are much concerned, and they are making the arrangement to see that how they cover it up, so we will have to live with it, so ultimately, our business is dependent on the customer business. So, as of now, I can only say that there is shortage, this is what is being reported. How long it will continue? For us it is difficult to comment upon.

Abneesh Roy: Last question, there are news reports on JSW Paints, they have planned to get more aggressive and they plan to get market share from across the board, maybe more from the number three and number four deco players, so any comment you can make on JSW in particular or from the market leader also because price hikes have been delayed this time by Asian Paints. Is that a concern or do you see that this is just a lag effect and ultimately price hikes will happen as per the requirement.

Anuj Jain: What I can only say is that generally for any industry it is more than arrear. It is always better for the industry. There have been very limited number of organized players in paints and it is always welcome that if any competition comes in because the paint one reason is that why the paint industry has been growing consistently in double-digit for the last so many years is the penetration of the paints, the per capita consumption of the paint, it is still about 4 kg in India, which if you compare with the other countries, it is 15 kg, 20 kg, and even if we consider rural population, I think still you will see double rate it is about 8 kgs.

So that is very less. When more companies are there, the more communication happens, the more awareness happens and it always helps industry to grow because industry still has a good scope in terms of increasing the penetration. So, more than that, when the innovation happens, we always know that there is a benefit to the customer, so it is a welcome move. That is really what I can comment.

Abneesh Roy: Pricing aggression by the market leader taking delayed price hike, taking best price hike?

Anuj Jain: I think I do not think as of now in fact the pricing aggression is more there in the lower end products, we can say, which is putty or some of the other items, there one of the reason is that during lockdown period sometime the product mix gets skewed, we do not know that what exactly the market would be demanded. So, as of now the pricing aggression is there in the lower end product, it is not there in the higher end products.

Abneesh Roy: That is all from me. Thanks.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from PL India. Please go ahead.

Amnish Agarwal: Thank you for the opportunity. I have a couple of questions; my first question is as you stated that the demand rebounded in June, now we are already, through with the month of July so has the demand sustained in the month of July and any change in whether it is geographical or rural-urban trends you are witnessing in the month of July? That is my first question.

Anuj Jain: Generally, we do not talk about the future, but June rebounds are there, because May demand destruction happened and we have a learning from the last year, first quarter demand was down, but later every quarter a part of the pent-up demand got compensated. And that is the same trend here we are expecting.

Amnish Agarwal: Sir my second question as our gross margins now they have gone up quite significantly, and there have been some price increases also, so, what is the quantum of inflation currently and would it be you can say fine to presume that the margins have more or less bottomed up now?

Anuj Jain: Inflation is high double-digit and if you look at the margins, obviously in Q1 we should not compare it with the last year because last year was a different kind of mix, very skewed mix, so if you compare on a quarter-on-quarter basis, which means, if you compare margins with the last quarter January to March, there is a slight improvement, may be at par with that and inflation as I said is in high double-digit and obviously the action is the price

increase partly we have taken in the first quarter and then we will continue to seek for more price increases to mitigate that inflation.

Amnish Agarwal: Sir, finally one bookkeeping question, in your PPT you have indicated that 10% of your revenue come from new businesses, so does it refer only to construction chemicals, adhesives and roof coating, or does it also include new launches on the paint side?

Anuj Jain: That includes all the new products basically. So, it includes, the paint side products, also.

Amnish Agarwal: So, excluding paints how much that would be, if you can share?

Anuj Jain: That generally we do not share because it is new businesses. The only thing is that we started last year probably we were a little late to start in the industry but we are getting a good traction. Till we reach to a critical mass, we do not talk about those figures as of now.

Amnish Agarwal: Thanks a lot.

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 understand on the industrial side, especially in the auto space, now in deco I can see you have clearly shown the we need to mix as a lever, is there any lever in the auto side also to do the same or it has to be only price increases?

Anuj Jain: Auto in fact that is how we are maintaining our position specifically in auto where we are market leaders, is always based on the technological improvements. So, there in fact, we always work without parent, Kansai to see what technological breakthrough products can be provided to the customers, so it is ongoing thing and we are making a good progress there. In fact, we are working on a lot of technology products, which help consumer to increase their productivity, efficiency and also maybe in terms of per liter cost it is higher but overall it helps in terms of achieving their objectives also. So that is the very key thing, but pricing is mainly we are talking about because when the inflation is there, and obviously the process in the OEM is longer but otherwise, the entire focus is on the technology products, which we keep doing and we are doing that.

Avi Mehta: Any quantum of the increase that we need to kind of get industrial margins back to earlier levels?

Anuj Jain: Obviously it is there, but we do not want to talk about it. As I said, because of the business situation, we are aggressively seeking for the price increases because obviously everybody understands and we also understand the customer problem that how do they do so much of

increase but the situation is very much understandable. So, it is a kind of a mature discussion in terms of that win-win situation and that is what we do and alongside that we work on the cost reduction also, so therefore how much can be managed, is something which is one to one discussion which happens with the customers.

Avi Mehta: I agree, but when we look at for example, the input cost passed, you have highlighted double-digit, would it be fair to argue that a double-digit inflation, essentially corresponds to a double-digit price increase at the minimum. Is that correct way to look at the thing or that would not be right?

Anuj Jain: Inflation is on the raw material cost and the raw material cost is some percentage of the revenue.

Avi Mehta: Yes Sir per ton, we see the numbers. They are high double-digits and that is where I was coming from. That would be a simple maths suggest that even if I take a rough percentage, which it means double-digit increase is needed, so essentially that is why I was trying to understand what is and how much?

Anuj Jain: You can do your calculation but from our side, what we can say is that as I said, in the industrial it is very difficult to pass on the complete increase but you have to see that depending on the customer to customer that you know how do you manage and how do you maximise that and parallelly work on your cost optimization so that you are able to mitigate things.

Avi Mehta: Does that entail a change in the royalty expense, because we are using lot more of parent sake or your royalty rates remain unchanged, so how does that work?

Anuj Jain: No change.

Avi Mehta: No change on the overall percentage of products using royalty will go up, nothing like that happens?

Anuj Jain: No change. In fact, percentage is fixed.

Avi Mehta: Sir, lastly for the last few quarters you have been kind of you have done some portion on digital, and we can see a very healthy kind of pickup as well, could you share how is that kind of helping us on the cost control side, and how much revenues can we kind of assume going forward to sustain in quantum or any type, if you could share that. That is all from my side.

Jason Gonsalves: See, digital initiatives basically are of three kinds where you know one is trying to aid the convenience of the consumer and really to that extent at some point, it may help in gaining revenues. Second is optimising cost and third is improving productivity. So, initiatives which are there, if you look at it more from a market side, like we have introduced app for the dealers, app for the influencers, so if you look at these COVID times it has actually been more of a aid to business, not necessarily at this point of time, it is resulting in any extra revenue growth, but there are lot of analytics, which are going at the backend, no doubt, I would say process automation which is going at the backend, which is helping the company control its cost and improve its productivity. So, to that extent digital is aiding at least the backend as of now. Frontend, I think, it is a matter of time as the markets open up, as we get more and more traction in the marketplace, we would see positive gains coming from it.

Avi Mehta: Any target on cost savings that you can share, if it is possible to share, I understand, time is difficult but if it is possible to get a sense on how much of backend can be sustained or how much margins benefits can come through from that?

Prashant Pai: Avi, if you look at our expenses or the part of net sales or the overheads as a percentage of net sales we have been trying our best to be best in the industry and our endeavor is to maintain this trend going forward also. As I said earlier, in the last meeting also that every department has been given targets and they are working to achieve this goal of cost reduction.

Avi Mehta: Perfect Sir. Thank you very much. Thanks a lot.

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

Aniruddha Joshi: Two questions from my side. How do you see the region wise recovery across let us say north, east, south, and west? I guess North India is the key region for us. So, how is the recovery in that region? Also, if you can indicate about the update on the new businesses, the way you explained about the international geographies, how is the powder coating, adhesive and the waterproofing segments doing. Any update on the growth and also the profitability in these businesses? Lastly, how do you see the price hikes going forward? Do you see the industry as well as Kansai taking price hikes again in this quarter or it will be maybe after a point after the trade digests the current set of price hikes? That is it from my side.

Anuj Jain: Multiple questions. In terms of region, I think the recovery is west, north, east, and south, in this order, west, north, east, and south in that order. So that is the answer to your first question. Then you asked about the new businesses, I think? New businesses, I think, I spoke about it. See, we cannot talk about growth because these are like when you say new

we just started, maybe we started last year, the base is very, very low so, therefore talking about the growth does not make much of a sense as of now. What is important is that yes specifically construction chemical, if you really look at it, which is waterproofing and the other products like sealants and all, so we are completed the range, completed the range we mean that construction chemical has a very large range and you know that we have taken this company Perma and Perma has a good range of products. Now whatever range is possible to place in the retail market because for the institutional project business, the range of products are more than 100, but whatever retail assessee products, those products have started placing through our network in Nerolac where we are getting good traction and in paint it typically happens that a good percentage of your network is always exclusive network, so they will give you as a code. So that is why I mentioned that once you reach to a critical mass then only it probably takes sense to talk about the figures, so as of now, the pressure is good and since we were late entrant into that, it was important for us to place right products at the right strategy in the market, so that we start getting traction. So, we are doing well. In adhesives again we have subsidiary Nerofix, and Nerofix products, some of the products we are trying to sell through Nerolac route, specifically we are targeting Northern India as of now because we do not want to get into all India and then able to spread our resources so thin. So these are like geographical focus which we are doing, so that we are able to do justice to that and that is what we are doing. So, that is your second question. Third question you talked about the profitability of this new businesses. So, they are primarily you can say that similar to paints, but initially it happens that when you get into the market, maybe you will try to become more aggressive, but otherwise, in terms of margins, they are quite similar to paints. So, I think, I have covered all your questions.

Aniruddha Joshi: Lastly on price hikes, how do you see the industry working on the price hikes going forward because still there is need to raise prices, but how will the industry and Kansai planning ahead? That is it from my side. Thank you.

Anuj Jain: You are right. In fact, one price increase has also happened recently so there would be more price increases because obviously the industry wait and see that whether the prices are softening or not softening, but inflation continues to be high, and obviously demands more price increase and accordingly the industry will be working on that.

Aniruddha Joshi: Sir, it can be an issuing trade, because the trade would be ordering goods on a regular basis and if there are prices so then one stock of older prices, one stock of new prices, will that not be...?

Anuj Jain: What happens is if you see maybe because the price increases have come in parts, so that is why the absorption has been better and maybe in the last quarter because there has been uncertainty of the demand, so if the demand is more certain and we have a festive season,

the absorption happens little faster. Obviously as an industry always the choice is that you try to stabilise the demand in the market, but with this kind of an inflationary period, there is no choice also. So, I think what is important is to see that how do you stagger it so that the market is also not impacted and you stagger it and you are able to get the price increase and you are able to price the demand. I think that is the approach which the industry has taken and to that extent I think it is reasonably okay to take the price increase.

Aniruddha Joshi: This is helpful. Many thanks.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: My first question is more of a housekeeping question; apologies if you have already given this. I joined a little late. What is the volume growth for this quarter?

Anuj Jain: I guess you are talking specifically about decorative, as I said, earlier, that the value growth is ahead of volume growth so this quarter has been different for us because of the focus was on the product mix and this quarter's growth was led by emulsions and therefore our product mix improved. The value growth is ahead of volume growth.

Percy Panthaki: Secondly, I just wanted to know in terms of your distribution expansion, if you can give some data on your tinting machines currently and how they have expanded over the last year or over the last three months? Any kind of data you can give on this will be useful?

Anuj Jain: Approximately we have about 36000 stock dealers and last year not much of expansion. Generally, every year there is expansion in the network, but last year there was not much of expansion because of this demand up and down continued and with this the markets were also limited. In terms of machine, we have a penetration of around 75% to 80% penetration of the machines and now this year from April because when April started up from last quarter, the market movements have started, so we are seeing expansion in the distribution in between again, there was a lag because of this May lockdowns but I guess now since the markets are open, I think that story of expansion, the distribution will be followed in this year.

Percy Panthaki: What will be our target for expansion?

Anuj Jain: Targets and all this we keep higher. We keep in mind that we should be able to increase our reach so internally our targets are always if we look at the levers and then whatever reach we have and we try to increase the reach. I will not talk about the numbers, but increasing the reach is the target.

Percy Panthaki: Lastly, I just wanted to know there is of course margin pressure, in both decorative as well as industrial there was cost inflation in both segments and there is some amount of price increase in both segments. So, at an overall basis, I mean, if you sought of look at the cost inflation versus the price increase in each of the segment, where is the margin pressure more acute for you? Is it in the industrial segment currently after the price increases you have seen this quarter partially or is it in the decorative segment?

Anuj Jain: Pressure is on both, but it is higher in industry.

Percy Panthaki: That is all from me. Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks Sir. I have a couple of questions; the first question pertains to each of the compliment versus past, so, just wanted to get your observation that are you seeing any change in gelatin or intervention the flexibility which we have seen for the last many years whenever inflation comes, has been compromised this time or this observation slightly misplaced, because we are not seeing the kind of fast intervention that industry used to make and my comment is mostly on a decorative paints. We are not seeing this time so, just wanted to know your thoughts on the same?

Anuj Jain: Can you in a very simpler way if you can just ask? I have not understood.

Tejas Shah: I will put it this way that earlier for example, similar period we had seen somewhere at around 2009-2010 when industry had taken some six price hikes in a span of some six, seven months, and somehow it appeared from outside that the whole decorative industry behaves similarly in terms of the intensity of the price hike, this time, we have seen staggered price hikes not necessarily everybody is taking at the same time, and in the same proportion. So, just wanted to understand is there any change in the competitive nature or competitive intensity?

Anuj Jain: I think that period is different, because today what is happening is because of COVID and demand up and down, so, you have to strike a balance between that but as I mentioned that already three price increase have been taken, company taking their own price increase, different price increase, I think, that is a good sign, because that way you can say that every company is established in the market and whatever market share they have, they have been able to establish themselves and to that extent we have the pricing power to decide what they want to take, but otherwise, it is just getting staggered and it is a balance between demand and the price, otherwise the approach in terms of approach of the industry it



*Kansai Nerolac Paints Limited
August 02, 2021*

remains same that whatever inflation is there, we have to mitigate that with the upwards of price increase or the cost reduction. That continues.

Tejas Shah: Sir, this time, it is not that well communicated by other players, so just wanted to know would your price increase be higher than the industry average or the relative price index would you have bridged the gap between let us say you versus the second guy or the first guy in the industry?

Anuj Jain: Like here or there, because the pricing means, pricing plus discounts, so they are never same. They are always different let us say from one company to the other company. I think what difference you had seen is that the periods was different, maybe this time like we announced the price increase earlier, and then everybody is doing it with their own approach. So that is the different. Otherwise in terms of pricing, it is never same, because the pricing also includes discounts, which is different from company to company.

Tejas Shah: Sir, second question pertains to construction chemical, you said that you have now completed the range of product, which is required, but there is also very natural efficacy led gestation period of the business, so usually we have seen in the other launches that we need to wait for two, three monsoons to get their confidence on the efficacy part, before they extend warranty so where are we on that cycle in terms of going back as aggressive on warranty's and efficacy part?

Anuj Jain: We are late starter to that and extend that, time we will have to wait. You are right that business always takes two to three years to scale up to that particular level, but I think what is important is that some of the products, based on the agility test you can still claim and that is what we are doing but yes, comparatively it will take some time because in waterproofing, unless you pass a two, three monsoons and then we will see the performance but technologically I think that we have an edge, we have a good access to the technology so there is no problem, but in terms of practical experience, we will have to wait and watch for the period. To add, since our technology also for some of the products, are taken out from the Perma, and Perma has been there in the market for many, many years. So, those products are well tested and that way giving warranty in lot of our products.

Tejas Shah: Sir, this is for both wall and ceiling as well, right, the whole range?

Anuj Jain: Yes, wall, ceiling, roof, horizontal, vertical, all types of processes. Actually in product, in fact, some of the recent products, what we introduced which goes into the horizontal surfaces, also they reduce the temperature by -8 degrees and also in addition to that they give waterproofing properties and the advantage is that it becomes a full system along with the paint because probably earlier also if there is a defect in the paint, the customer used to



Kansai Nerolac Paints Limited
August 02, 2021

say even if the defect is because of the waterproofing, which is applied under the paint. But now when it goes as a system, I think it is working well and hopefully this will help in expanding the market also for construction chemicals.

Tejas Shah: Very helpful Sir. Thanks. All the best.

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

Keyur Pandya: Thank you for the opportunity. Sir, in your annual report, you have mentioned about revisiting the approach towards decorative paint market and restructuring the B2C business into four things like Nerolac range, closure range, institutional and new businesses. Can you throw some more light on what you meant by all these things and what are the interventions in terms of products, distribution, or operating resources?

Anuj Jain: Traditionally, if you look at it, this was paints and now there are many segments. There are paints, there are construction chemicals, adhesives, wood premium, putty, putty in itself is a separate segment, which did not exist in the past in the paints, so it is a recent thing. If you look at the history our expertise is there in the paints. So, when we talk about relooking at this, ultimately, we are looking at different segment, which we need to focus upon because the first segment is paint and then the segment of construction chemical, adhesive, wood premium and putty also we consider as a separate segment because it is a very low value, low margin product and different kind of reach, started by not the paint companies, non-paint companies, so these are the four business lines and accordingly, what we have done in terms of structure is that we have now business structure, business division for each of this, so paints, construction chemicals, adhesives, wood finishes, so that is what we have created and earlier everything was looked together in a same manner, now it is all business lines, and in terms of resources, the separate resources are allocated to paints, construction chemicals and adhesives, so each and every business is an independent in that form and being run by the business heads and independently the resources are allocated to that.

Keyur Pandya: Sir, second question you mentioned that in this quarter, value growth is higher than volume growth, now this is because of the way the market behaved or this is a conscious effort and this should be the strategy going ahead and we should continue to see this trend going ahead also?

Anuj Jain: So, this is you know, as I just spoke about the structure, the paints, and paint does not include putty so that is one focus area. So, this was a conscious effort definitely, so in terms of paints, the growth was led by emulsion, and that is why the heavy coat is ahead of that followed by these new businesses, construction chemicals, adhesives, which also give you a

relatively higher average selling price, ASP and putty is a little different in the market, because the market is seeing a good aggression in the putty, so it depends on because we feel currently it is not the right time when you have margin pressures, so to strike a balance between revenue and the profitability, so putty is something where one can decide at the appropriate stage that when you want to go aggressive, because it is more of a pricing game. Maybe as of now we are not very aggressive when it comes to the putty segment in the market.

Keyur Pandya: Sir, last question on industrial side, you mentioned that pricing impact is there on both industrial and decorative, within industry can we bifurcate between say auto and non-auto that it is easier to pass on inflation in non-auto versus auto players or any other way, can we differentiate, pricing power within industrials also?

Anuj Jain: Yes definitely. So, auto, and non-auto, non-auto includes powder coating, general industrial and high-performance coating and there the progress pressure on the price increases are also better because it takes a longer time in terms of automotive, but automotive is a bigger business, but in the other businesses definitely the pricing power is better. We will be able to do it sooner than later.

Keyur Pandya: Sir, last question, on these new categories where we talk about construction chemicals, adhesives, so, how are we trying to tap this opportunity in terms of as you mentioned we meet different skill set of people as well as probably different distribution and different easy answer as well especially in adhesives. So, what is the right to these two categories and initiatives taken by the company?

Anuj Jain: One is you know the strength which we got out from Perma, because they were technical expert and there is as I said, the business structure there is a dedicated team, which is purely focused on the demand generation with the audience, so basically, going and showcasing your product, demonstrating your product, getting product approved and all these people are because the construction chemical is a little different from paints, where as you rightly said, it is more of a technocommercial kind of thing, so the skill side we borrowed from Perma and further that with the help we have created the business structure and there the team is focusing on providing a right kind of training to this dedicated team. Parallely the effort what we are putting is because we also have demand generation team for the painters in the market that the painters are being trained for correctly using the waterproofing products, because for painter also it is a business expansion, so earlier, they were doing only paints and now they know that along with the paints they can do waterproofing. So, one side the effort, in terms of training the painters to rightly apply the construction chemicals, the other side, the technocommercial team of the construction chemical to meet the right order.



*Kansai Nerolac Paints Limited
August 02, 2021*

- Keyur Pandya:** Thanks a lot. All the very best.
- Moderator:** Thank you. The next question is from the line of Jaikumar Doshi from Kotak. Please go ahead.
- Jaikumar Doshi:** Thank you for the opportunity. Sir, I joined a bit late, the question was already answered. My first question is in decorative paints for the April to June 2021 quarter, is revenue higher than April to June 2019 or is it still lower than April-June 2019?
- Anuj Jain:** We are generally now tracking on a three-year basically last year also there was kind of up and down, so on a three-year basis, we are tracking and on the three-year basis it is positive, CAGR.
- Jaikumar Doshi:** Second question is over the past two or three years, ad spends, A&P spends as a percentage of sales have come off. If I look at your FY2021 numbers, there is about 40% cut as against maybe 15% cut that you have seen for the market leader, so how should we think about A&P spends as a percentage of sales going forward in view of a likely sort of increase in intensity as a new entrant enters the market?
- Anuj Jain:** Actually, I answered this question. What happens is in the past for few years, we went aggressive in terms of facing the brand mindshare and that time also our approach was that once we were able to reach to that level of mindshare then probably as a percentage, it may start coming down, but last year was a normal in the sense because there were first quarter, second quarter, there was not much possibility in the market to do the activity, because even if you are doing it, it cannot be much impactful so therefore maybe it came down more than what it could have been otherwise, and going forward obviously because this goes with the market requirement, market needs, as of now because of mindshare is quite good, we are having a strong mindshare but the other activities, marketing activities, whatever is required in terms of below the line activation, between connectivity, training, all those things will continue and to that an extent, you may see that advertising may go up, but it may not be to that level what we were doing earlier, because that was a specific objective to create mindshare.
- Jaikumar Doshi:** Understood. That is helpful. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.
- Hitesh Taunk:** Thank you Sir. Sir, I just wanted to know one thing, in this disruption period where the supply chain has been disrupted severely, and we would have gained some market share from the unorganized segments also, so I just wanted to know how the unorganized

segment, has performed during this period? I mean, are we seeing any kind of market share gains from that segment and going forward the segment will still be hurt due to this pandemic?

Anuj Jain: It is very difficult to comment upon that because there is no way to track it. The only thing is in the disruption period it happens that may be some companies are able to manage their logistic and supply chain better than the others, and because within the unorganized sector also there are good companies, there are reasonably good companies so it will not be right to call them unorganised, because some companies are able to manage, some companies are not able to manage, and ultimately market has a demand plate, so if somebody is not able to manage automatically it happens that the business goes to them. So, I say that in the small scale, there are lot of good companies, reasonable companies, niche companies, who have the strength, they understand the customer better for that particular market and I do not see any reason that why they would lose out so even if something is happening it maybe on the temporary basis but having said that any industry that part of small scale always shift to the large scale and over a period of time some of the small scale also becomes themselves the large scale. So, that is the nature trend which happens.

Hitesh Taunk: Sir, I just wanted to know how much dealers, or out of total dealer network, covered for our new product category?

Prachi Kodikal: As of now the numbers are not very high, but I can say potentially more than 50% can be covered potentially. As of now I know because it is a new start then slowly you start, so basically you first cross the first milestone then second milestone, but potentially I would say that more than 50% can be covered.

Hitesh Taunk: Thank you very much for the answers.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Joshi for closing remarks.

Aniruddha Joshi: Thanks. Sir, just one or two questions again from my side, so one how do you see the new portfolio shaping as a percent of total turnover over a period of let us say three year to five-year timeframe? Do you see all the entire new product portfolio moving beyond 25% of the total sales and also secondly, currently the business, the entire new product business is in investment mode, so, how do you see it starting contributing, coming back to let us say normal EBITDA margin level with the rest of the business in one year or maybe it will take more time for these investments?

Anuj Jain: Actually the contribution would not be that high, what you are talking about because if you look at construction chemical as a market, I think, the size of that market is 5000 Crores if

you compare with the paint industry, paint industry is 55000 Crores, but if you look at decorative it would be 30000 Crores. So against 30000 Crores the size of the construction chemical market itself is 5000 Crores. So, from there you can get what best percentage, any paint company can achieve from that. The adhesives and wood finish they are very niche businesses. So, even in the wood premium, though the growth rate is faster, but it is a very premium and it is not the entire wood finish is what you cater to, only premium end, niche business but it is still very important. So, the contribution would not be that high, but as I said, the size of the industry, the larger business size here is the construction chemical, where I spelled out what is the market size and that is what is the best any company can achieve over a period of time. In terms of EBITDA margins, as I said, these margins are actually good, so it is lying with the paint. Initially it happens for any category that you do a little aggressive but since we have a distribution itself so it is not that it is you are damaging the margin, but typically in the newer business initially you spend some higher than over a period of time, when we are able to set up a range, then we are able to stabilise that. So, not much of a challenge I see.

Aniruddha Joshi: Sir, one more question, how do you see the B2B customers accounting for the new businesses because there is a fairly large B2B portion in the waterproofing/construction chemical industry even the large industrial adhesives as the business so what would account for all these new segments whether we will go for projects and B2B customers or it will be more of a B2C business for us?

Anuj Jain: No, it is like if you take Perma, so Perma is basically largely B2B so that is the business which is established business and one side, you know that they have the team which is B2B, they have the customer which is B2B and that business focus is given separately and what we are additionally trying to do is basically get into the retail. Retail business was not there, which we are adding and B2B business was already there in the Perma, which taking that particular base, from where we are trying to strengthen. That would be a part of our radar.

Aniruddha Joshi: These were my questions. On behalf of ICICI Securities we thank all of you for being on the call, Anuj Sir, Prashant Sir and Jason Sir. We thank you for the call. I will send the questions of the investors and analyst. Now I hand over back to you for your closing comments on the performance. Thank you Sir.

Anuj Jain: Thank you so much for connecting. It was nice talking to you all. Thank you for all the questions and I hope we have been able to do justice with the answers. The business situation last two years, not our business for all the businesses continues to be uncertain with this COVID impact and all these things. Hopefully mankind will come out of it and I hope the situation becomes better and better. All the best from all of us to all of you. Keep



NEROLAC

Kansai Nerolac Paints Limited
August 02, 2021

yourself safe. Keep taking care of yourself and your family and your friends. Thank you for joining. All the very best.

Moderator:

Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may disconnect your lines.