

4th May, 2018

1. Corporate Relationship Department
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.
2. Manager – Listing
National Stock Exchange of India Ltd.
Exchange Plaza,
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051

BSE Scrip Code: 500165
NSE Scrip Code: KANSAINER

Dear Sirs,

Re: Q4 FY 18/ FY18 financial results Conference Call with investors

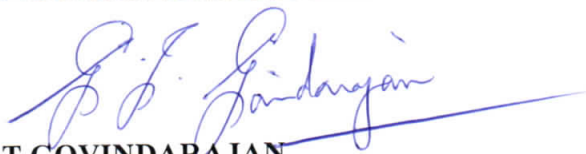
We refer to the intimation dated 2nd May, 2018, to the Stock Exchanges, that pursuant to Regulation 30 (6) of (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Management of our Company will be hosting a Conference Call with investors on Thursday, May 3, 2018 to discuss Q4 FY 18 / FY18 financial results of the Company .

We now enclose a copy of the transcript of the conference call with the investors held yesterday.

Thanking you,

Yours Faithfully,

For **KANSAI NEROLAC PAINTS LIMITED**


G.T.GOVINDARAJAN
COMPANY SECRETARY



**“Kansai Nerolac Paints
Q4 FY2018 Earnings Conference Call”**

May 03, 2018



ANALYST: MR. NIMIT SHAH - ICICI SECURITIES

**MANAGEMENT: MR. H.M. BHARUKA – VICE CHAIRMAN AND
MANAGING DIRECTOR - KANSAI NEROLAC PAINTS
LIMITED
MR. ANUJ JAIN – DIRECTOR (DECORATIVE &
INDUSTRIAL SALES AND MARKETING) - KANSAI
NEROLAC PAINTS LIMITED
MR. PRASHANT PAI – VICE PRESIDENT FINANCE -
KANSAI NEROLAC PAINTS LIMITED**

*Kansai Nerolac Paints
May 03, 2018*

Moderator: Good day ladies and gentlemen and welcome to Kansai Nerolac Paints Q4 FY2018 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 the operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nimit Shah from ICICI Securities. Thank you and over to you, Sir!

Nimit Shah: Good afternoon everyone. We would like to thank the management of Kansai Nerolac for giving ICICI Securities the opportunity to host this call. From the management team we have Mr. H.M. Bharuka – Vice Chairman and Managing Director, Mr. Anuj Jain – Executive Director and Mr. Prashant Pai – Vice President - Finance on the call. I would now like to hand the floor to the management for their opening remarks and post that we can start the Q&A. Over to you Sir! Thank you.

H.M. Bharuka: Good afternoon Nimit and good afternoon ladies and gentlemen. Thanks for joining this conference call. I think after many years we are having this conference call and welcome to all of you. This is Bharuka here. Of course results are out. You all of you have gone through the results. Just to brief you about this Q4 results, overall topline net sales growth is about 17% and volume growth is 14% for us and cumulatively it is about 14.5% both value and volume thus it indicates that in this quarter the value growth is higher than the volume. I think this was one of the questions, which have been always coming so I think this can be noted.

Profitability of course has gone down because raw material cost have gone up so if you look at EBITDA percentage as an overall sales is down by about 200 basis points, even though because of the volume growth or value growth you can say 2.9% increase in EBITDA for this quarter and for the year it is about 8.1%. The net profit, which you are seeing 9% down for this quarter and 2.1% increase overall for the year is mainly on account of reduction in the other income and other income you know we have lot of investments and cash on the balance sheet, which we have now been utilizing for our capital expenditure so that resulted in lower investment income apart from the lower interest rate, which was there last year.

So this is the brief on the result. I would say let us quickly go over to question and answer because all of you are learned people, you know everything about the industry and the company, so I would prefer to start with the question and answer session. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Avi Mehta from IIFL. Please go ahead.

- Avi Mehta:** Congratulations for the great set of numbers. Just wanted to understand, you indicated 14.5%-odd was the volume growth across both the segments while the headline sales growth seems to be about 17% so value growth is higher right Sir, is that understanding correct and would you be able to break it up into decorative and industrial segment how was that performance been?
- H.M. Bharuka:** I mentioned 14.5% is the growth for the year, value and volume both but for this quarter, the value growth is about 17% whereas volume growth is about 14%, so obviously there is a difference between value and volume, which is contributed by increase in the selling prices both for decorative. Decorative if you look at we have two price increases during the year totaling to about 4.3% but the large price increase was actually in the month of March, so ineffective actually it was just 2% on an average price increase for the year and industrial of course, all of you are aware it depends on customer-to-customer and we have a contract with many customer so we cannot just change the prices so industrial price increase has been slow and that is why in the first nine months it was not reflected; however, in this quarter both value and volume difference indicate some care has been taken there as well.
- Avi Mehta:** Would you be able to give us a split Sir in the decorative versus industrial, the 14.5% that you indicated?
- H.M. Bharuka:** Basically decorative growth is higher and industrial growth is lower, I would put it this way, decorative is far higher than this so industrial as we all aware all depends directly related with the customer with auto but if you look at auto numbers overall it looks good but passenger car is just a 5.5% growth. This is where the surface of the painting surface comes in. So from a painting surface perspective, the auto growth is just about 9% so our growth is of course, more than that which means we would have picked up some share from somewhere else and other than auto also the general industrial market, powder coating or the performance coating business or auto refinished business that has also done well for us, so as far as we are concerned all the segments have done we would say very well.
- Avi Mehta:** Sir second is on the contraction in gross margins in this quarter in particular you have seen almost a 200bps on a Q-o-Q basis, Q3 to Q4 moderation, now is it largely in the industrial segment that we have seen, because FY2017 had a very strong gross margin or has it been similar across both decorative and the industry?
- H.M. Bharuka:** In terms of decorative as I mentioned, we have been able to pass on but you know there is always a lag effect so partially of course it is also contributed by decorative but mainly it is contributed by industrial; however, I would suggest do not read quarter-on-quarter because you know the way we have contract with our customer we also have a contract with our vendors and also there are whatever

inventory we carry that benefit also we do get and sometime we do an inflation buying so suggestion is not to read quarter-on-quarter basis, on a year-on-year basis obviously if you look at the inflation has been around 6% to 6.5% in the raw material cost whereas if you look at EBITDA reduction it is not reflected to that extent, so partially you can say it is compensated by the raw material, proper management, some cost reduction, some price increases, some product mix and partially still we need to carry forward.

Avi Mehta: I will come back in the queue for other questions. Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Suraj Yadav from CLSA. Please go ahead.

Vivek Maheshwari: Good afternoon Sir. This is Vivek. First question is on again on the margin so while, I understand that you know, it is just a quarter phenomenon but Q4 margins are lowest in past several quarters, do you think that the fourth quarter reflects the peak of input basket or there can be some more headwinds as we get into the next year?

H.M. Bharuka: I think it is very difficult to answer this question for simple reason you know how volatile is crude oil price and it is not only crude oil price, in the last year actually rupee appreciated marginally whereas now suddenly we are seeing depreciation of the rupee and the Chinese factor, which has come into play because of the environmental reasons there are lot of Chinese companies who have shutdown and you are seeing sudden increase in prices and it is not only oil prices there are increase in other commodity prices as well so very difficult as of now for me to make those comments whether it has reached the peak, but I hope it has reached the peak because 6%-6.5% inflation is a big inflation. I hope it is the peak. I never expected crude oil price to rise to 70 to be frankly, but it is very difficult for me to answer as of now this question. But I suppose it has reached the peak may be marginally first quarter or first half there could be some increase, after that it should settle down.

Vivek Maheshwari: In terms of price hike you have not passed on all of inflation to your customer side either on decorative or industrial while, in decorative there have been two price hikes but you have not passed on full impact as yet to the customer's right?

H.M. Bharuka: That is right. I think we would be taking our price increase call shortly. We have not yet decided but we would be taking it shortly as far as decorative is concerned and as I mentioned industrial case-by-case basis depending on the customer.

Vivek Maheshwari: But in next three months, will there be a reset on the industrial side also because that is the significant contributor to your topline as well as profits?

- H.M. Bharuka:** Certainly, I mean there would be. I do not know. I cannot use the word significant but definitely there would be a price hike because already all customers have been requested and there is all started clink in.
- Vivek Maheshwari:** I am not sure if you gave it in the earlier question, because I just got dropped off but the volume growth can you quantify for this quarter for decorative and industrial separately, you mentioned 14%?
- H.M. Bharuka:** Both together is about 14% volume growth and as I said marginally it is higher for decorative otherwise more or less equal but on a year basis decorative is far higher volume growth compared to industrial.
- Vivek Maheshwari:** Thank you Sir and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** Sir can you give the capex for the current year for FY2018 and what is the guidance for the capex for the next year and the current capacity what we are holding it will be lasting up to which year?
- H.M. Bharuka:** Our capacity is approximately 390000 tonnes and utilization is about 82% and we had announced last year three Greenfield project. One of the projects has just gone into stream in the month of March and then other one will go by the end of this year and third one will come year after that, so if you look at the way we have planned increase in capacity our utilization will be ranging from 77% to 85% year-on-year basis so we are trying to take care that we do not increase our capacity to that large that it creates a big problem from the perspective and three Greenfield plant put together we are going to invest about 1100 Crores and we have so far invested about 350 Crores balance is phase wise I think implementation is going on and this will be over a two years of period we will invest it.
- Ranjit Kapadia:** Sir all these are zero discharged fire plants?
- H.M. Bharuka:** Yes, everything all are zero discharged fires, as far as we are concerned environment is the most important so all plants are zero discharge plant for us. Capacity increase overall will be 40% from 390000 tonnes to about 550000 tonnes.
- Ranjit Kapadia:** Thank you very much and all the very best.
- Moderator:** Thank you. Next question is from the line of Avnish Agarwal from Prabhudas Lilladher. Please go ahead.

- Avnish Agarwal:** Congrats Sir on good volume growth. Sir I wanted to know first of all that in terms of the volume growth, which you state is around 49.5%, which segments in decorative are giving you more growth? Are you growing more at the economy segment or are you growing more at the premium segment? And secondly which geographies are driven more growth to Kansai?
- H.M. Bharuka:** Growth is actually across I would say and for us everyone knows that we are weak in south. South growth is lower for us but at the same time part of south has started picking up for us as well and coming on whether you know economy or popular or premium for us I think all have done very well, may be slightly economy and popular have done very well for us because we are still you know penetrating into the rural markets and the network is rising and that is why you may find slightly better growth in terms of popular and economy.
- Avnish Agarwal:** Secondly can you give us some outlook on how the demand is likely to be in the coming say year or so?
- H.M. Bharuka:** I expect decorative demand continue to be in a good double-digit growth. As far as auto is concerned, I feel there could be slight slowdown in the passenger car or the overall numbers because the current year was very good; however, we do expect some push coming from the government because of the election year so may be they will still have a good two-wheelers and the good tractor in the commercial demand; however, passenger car may be slightly lower even though the numbers for this year has not been very big so, it could be around a similar number or slightly lower than the current year overall put together for auto industry.
- Avnish Agarwal:** Sir what sort of demand you are witnessing for powder coatings particularly on the durable side?
- H.M. Bharuka:** Powder coating durable side I think, durable does not actually is a big market for a powder coating for simple reason they go on the coil coating or the coated steel but overall demand is good I would say, for powder coating we have done extremely well on the powder coating front and that is the reason we bought the Marpol.
- Avnish Agarwal:** Thanks a lot.
- Moderator:** Thank you. Next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** Thanks for taking my question. Just on this year overall FY2018 you seem to have grown much ahead of the industry based on the data that we have from some of the other companies so what would you kind of ascribe this significantly better growth in your case and are those factors going to continue going ahead?

- H.M. Bharuka:** Unfortunately I do not have numbers of other companies so I am not in a position to comment but as far as I am concerned, I think what we have been doing for last three four years whether it is increasing the consumer reach by increasing the marketing expenses or carrying out the innovative media campaigns, introducing lot of new products, increasing our distribution network, trying to extract more from them. I think brand value for Nerolac has considerably definitely has gone up whatever figure, which we have from the market research, our stoma has definitely improved and may be that is what is contributing and of course credit goes to the team for getting those number from the market, so I have no idea about how others have performed but we believe we have done reasonably well and we are satisfied with those number.
- Arnab Mitra:** Just specifically on distribution if you could throw a bit of light on how your networks expanded and have you actually accelerated the expansion in the last one year versus what you were anyways doing before that?
- H.M. Bharuka:** Earlier it used to be about 6% to 8% increase in the distribution and may be in the current year increase is about 10% to 11% so you can say anywhere ranging from 6% to 11% is our increase in distribution may be last two years it is slightly better.
- Arnab Mitra:** Any number around what is your dealer network now?
- H.M. Bharuka:** It is about 20500 or so around that number.
- Arnab Mitra:** Thank you so much Sir and that is it from my side.
- Moderator:** Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks for the opportunity. Sir I missed out on your price hike taken in decorative in this calendar year so far?
- H.M. Bharuka:** 4.3% all put together, but as I said last price increase was in March so overall effect in the financial would be around 2% or about 2 point something that is all.
- Tejas Shah:** Sir, are we not taking price hike in tandem with other two decorative players or is it the same as other players in the market?
- H.M. Bharuka:** I do not know what they do it. We decide our price increase squarely based on what we feel need to do based on our cost implication and our market strategy so I have no idea how others are doing it and what they are doing it.

- Tejas Shah:** Sir the three Greenfield projects that you mentioned, they all are in deco or industrial in which segment of the market we are putting the capacity?
- H.M. Bharuka:** One is in industrial, which is Gujarat, which has just gone into stream and the other two would mainly into decorative to begin with.
- Tejas Shah:** And these all are water based plants?
- H.M. Bharuka:** They are all water-based plant except as I mentioned automotive is still solvent based plant because water bound coating in India incase of auto is still virtually not there.
- Tejas Shah:** Sir I missed out the location of the other two plants so can you?
- H.M. Bharuka:** One is Punjab, Amritsar and the third one would be in Vizag in Andhra Pradesh.
- Tejas Shah:** Sir this will be our first big plants in south India?
- H.M. Bharuka:** No we already have one plant in Hosur in Tamil Nadu near Bengaluru actually.
- Tejas Shah:** Are we getting any tax benefits on any of these plants?
- H.M. Bharuka:** There could be marginal but we do not actually calculate on that basis but actually there would be some marginal tax benefit, VAT refund depending upon what investment you do so there is some benefit available basically in Amritsar and Vizag but there is no benefit available in Gujarat.
- Tejas Shah:** Sir lastly, it has been almost three quarters since GST has stabilized and there was a lot of expectation of unorganized to organized demands helping the organized players across segments so how are you seeing that theory playing out for decorative paints in particular?
- H.M. Bharuka:** The penetration level of paint industry is still low and I always believe there is no scope for both organized as well as unorganized maybe there is a marginal shift, which could have taken place from unorganized to organized, but my information is even they are doing well. Unfortunately, they are so unorganized, I have no information about them but the overall feeling is I think they are also doing well and I still want them to do well and as I said this create market for us so I would be happy even if they do well.
- Tejas Shah:** Thank you. Sir the trend that we have witnessed in last three four years that because of the benign raw material cycle a lot of players, marginal players actually also started advertising and creating brands

on using TV and other mediums as well, are you seeing that that trend will actually decelerate once the raw material prices start picking up?

H.M. Bharuka: I think it depends upon individual companies strategy. I mean we would be very happy ten more players start coming on the media and start putting so the overall market demand goes up. It does not matter whether A company is doing or B company is doing. I think the industry would benefit. I think it is a welcome stage and it all depends upon, which company, what profitability they have or even if they do not have a profit, if they want to expand into market they can always go and put in, it depends upon how deep pockets they have.

Tejas Shah: Thanks Sir. I will come back with few more questions.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just I had a couple of questions, firstly on the distribution side, you had said last couple of years in decorative paints your distribution average growth has been faster in terms of dealer network, so do you expect this double-digit kind of a dealer network expansion to continue given the fact that you are still there is a long way to go and the paint penetration levels are still low?

H.M. Bharuka: Certainly, I think that is the endeavour and that is why we are increasing number of feet on the street as well and we have a long way to go. We are nowhere. Our market share is still small and I mean we just about 11% or so we are 90% ground to be covered so certainly it has to be done.

Harit Kapoor: Is there a specific region or are there more important regions in others in terms of expansion will be so given the fact that it is not as strong in the south comparatively would there be a certain region focused on this distribution expansion, how do you see that happening?

H.M. Bharuka: Unfortunately, it is not only south, when you describe south you know south is actually spread into five or six different territories whereas if you look at north may be north is only one language whereas south is divided into four five categories so ROI of course is better when it comes to north or other zones. South it becomes very difficult. It does not mean that we need to ignore the south but of course we will take a call depending on the what best ROI we can get at the same time we also need to ensure that we cannot ignore south. So there are concentrated efforts, which are going on in, south and some of the states are given very good results to us in last two years.

Harit Kapoor: The last thing was on the pricing contracts with industrial customers so just wanted to get a sense are these contracts is six monthly or annual contracts how does it work because you know assume that

say crude prices hypothetically goes up further another 10%-15% assuming how does the negotiation happened is it once in six months or once in twelve months, how does that work for you?

H.M. Bharuka:

I would answer this in a reverse way, when I deal with my vendors if the prices are going up then I would say look contract is valid infinite but if prices are going down then I would say look contract there is no more valid and I think this is perhaps what I am facing with my customer also. So it all depends upon how each customer handles you, how you are able to convince them, how difficulty they are in and how much they also respect the vendors because end of the day they also need to ensure that both survive and it is not on the price alone. As I said you know quality, service that also matter and we deal with many of such customers for almost last 25 years 30 years and having 60% to 90% market share with many of those customers so we have to be very responsible. We cannot just say and say look I want price increase from tomorrow, at the same time I think we also have to be conscious that we have a responsibility towards our shareholder or other stakeholders, so I think we will try and balance it out keeping everything in mind.

Harit Kapoor:

The last thing was you know last two years, I remember last two years back also you had said that the mix in terms of revenue is 55-45 in terms of decorative and industrial, given the fact that you know décor for last two years have done very well, would that have skew shifted a little further towards the side on décor and would we now be say it was 60-40 on that side, how is that been?

H.M. Bharuka:

It is I think marginally more than 55. It has been rising marginally but let me put it this way, I mean when I say I want to do well in decorative it does not mean that I do not want to do well in auto, if I become a zero in let us say industrial it will become a 100% but that is not the objective. So what we try and do is we also try and expand even on the automotive side or the industrial side so you would see the recent purchase of powder coating Marpol, which we have done it or there are lot of new other areas, which we have entered into the industrial side, which keeps both the ratio perhaps in a similar way. So industrial of course behaves totally differently, the margins are of course but it does not mean that we would like to give away our leadership position on the industrial side and that is why I do not read too much into this ratio, more important for me is how I am able to gain the market share and topline and also able to protect the bottomline.

Harit Kapoor:

That is it from me. Thanks.

Moderator:

Thank you. Next question is from the line of Ave Mehta from IIFL. Please go ahead.

Avi Mehta:

I just wanted to understand from you on the raw material cost front again, and I am just going back in history, we saw in FY2009 to FY2014-2015 margin for the industrial coming under pressure because of the import cost environment, now we are also seeing an inflation. We do not know whether it will

be the same but would there be a concern of what is the confidence that we would not see margin pressures in the industry going to be similar extent and how is this time different, if you could help us to explain that?

H.M. Bharuka:

As I mentioned earlier as well I have no answer to this because we do not know how raw material prices are going to behave, and the negotiation with the industrial customer is as I said case-by-case basis. It does not mean how prices increase, which take places No.1. No.2 you know we need to also remember in case of the industrial there are a lot of new technology, which get introduced and the old technologies goes away and thirdly you know value engineering is also more important here so it is not necessarily we go with the customer for price increase, may be you know we will do some value engineering and get the price benefit from them. Lastly, I think we also need to, we also do value engineering at our own hand. I mean if you look at overall increase in the inflation, I mean my margin should have contracted much more than what you see today, which indicates I think there must be a lot of other things, which they would be doing both at our end as well as the customer end or from the technology end to protect our margins. So how it is going to work out and behave in future I have no idea. It all depends how raw material prices are going to rise fast. At the same time let me give credit and responsibility to my customer also they do also understand as I mentioned they do not want us to get killed. So if they also realize the cost goes up they need to help us and increase their prices but it cannot happen overnight. It is a big time lag process.

Avi Mehta:

Okay, fair enough. I understand. So the discussion with customers for internal value engineering, exercises the value engineering to help us maintain margins. Sir, secondly on the ad spend you know marketing spend, promotion spend could you share how it is increasing this year and how would you look at this line item? Is it percentage increase that you look at or percentage of sales, how would you look at that line item?

H.M. Bharuka:

No, I do not think, we look at in both ways. The last four years if you look at my marketing expenditure actually has gone up by 100% virtually and in the current year they have not increased very much. We just decide in the three years we created the brand and we are getting the benefit maybe year or so we may slowdown depending on that and again we will increase and that is very, very important, because if you have to create a brand you need to continue to spend on the money so we do not look at just short-term to look to increase my profit or to maintain the profitability, should I come down my advertisement cost or media cost, I do not think we would do that, so we would continue to spend money on the advertisement at the same time how we spend is more important and how much we spend and you would have seen lot of innovations coming from us, which actually helped us more. So effectiveness is far better so if our share of voice is better than share of expenses.

- Avi Mehta:** Sir lastly this 1100 Crores is this going to be front-ended the remaining part or how should I look at this?
- H.M. Bharuka:** No, it will be virtually spread over next two years; one-third is already spent and balance would be spend this year and may be by next year we would complete it. So in next two years we should be able to finish this expenditure largely.
- Avi Mehta:** Okay Sir so around 200 to 400 Crores. Fair enough. Thank you very much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Vismaya Agarwal from Axis Capital. Please go ahead.
- Vismaya Agarwal:** Thank you for the opportunity for the question. Sir in terms of the brand, a couple of years back, we came out with the Soldier brand and basically targeting the mass segment to this brand and your annual report also mentions that we have a different distributor networks to this brand so just wanted to get some light if you could share on this how big this brand has become and what is the price point as compared to far other brands or say competitors anything that you can tell us on this?
- H.M. Bharuka:** This brand was actually introduced when the GST was to be introduced. So we realized there could be opportunity available for us to shift when the shift takes place from unorganized to organized or there are some of the bigger players who also have similar brands so in the past we were actually not active on this brand and we realized we need to create this brand separately and that is how the Soldier got introduced. Soldier has done very well for us. It has contributed almost 2% of our overall decorative sales. So it has done well and it is a separate distribution for us. It is not a same distribution so it is helping us in expanding into the other areas where we were not there and maybe both put together down the line it will help us to increase our brand name.
- Vismaya Agarwal:** Sir in terms of the pricing if we compare it to the competitor brands?
- H.M. Bharuka:** In the similar category, I think it is similar price, but obviously compared to the main brand it would be lower than that.
- Vismaya Agarwal:** That is it from my side Sir. Thank you.
- Moderator:** Thank you. Next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** Most of my questions have been answered. Just two things to check are you looking to diversify your portfolio beyond paints?

- H.M. Bharuka:** No. I do not know when we say beyond paint, we have introduced like say construction chemical and the adhesive business. Now both we consider partly in chemical business and partly related to the paint, but what we also look at is our distribution network because we have few of the distributors who are on the dealer network, which are exclusive and always there is a demand, which comes from their side to introduce this product. So we have just entered into the adhesive and the construction chemical business. So whether it is part of the paint or it is part of the chemical business it is in somewhere in the middle I would say.
- Latika Chopra:** But it will be reasonably small from a contribution level currently and any particular strategy here for these businesses?
- H.M. Bharuka:** I think they are just introduced. It is too early for me to speak about any strategy or how big this brand would be and as of now we are not putting any money to expand brand of this product so it will be purely distribution base and when we get a good mass or the good traction that time we would think how do we expand on this. So as of now there is no strategy behind this.
- Latika Chopra:** Thank you. The second one was have you seen any change in dealer incentives for decorative paints across the board in last few years?
- H.M. Bharuka:** We would love them to make more money to be very frank with you because unless dealer margin is increase this business will be difficult going forward, the big boxes would come and everywhere actually distribution or the dealer network makes 15% to 20% margin. Unfortunately, in India they make very low margin. There are markets where they make high margin so we want their margin to go up if this network has to survive or the second generation has to come or looking at their opportunity cost they need to have more margin. So there is the scope I would say for us to ensure that they make more margins and I would be happy if they make more margins but I do not think they have been able to make any margin compared to what they were making earlier.
- Latika Chopra:** Thank you.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Thank you for the opportunity. Sir first question in relation to the last thing you mentioned. Sir if you could give the dealer margin how do you compare it, you mentioned one a) globally and how much was it earlier so what are they getting now?
- H.M. Bharuka:** It depends on dealer-to-dealer and customer-to-customer to me globally there is about 15% to 20% margin, which everyone makes a year whereas in India there are wholesaler who works on just 2%, 3% margin and there are retailers who work on let us say 10%, 12% margin now you imagine even if

a big dealer lost 1 Crores and if he is making a 5% margin, 5 lakhs is earning, 5 lakhs is what today even if his son becomes MBA, he will get more than Rs.6 lakhs salary and which is what I was trying to say unless dealer makes more margin and unless we are able to make very attractive for them if this business would come into a problem or big boxes will enter and then of course prices will go up and they will make more money so but long way to go as I said but this is a situation where we are.

Kunal Bhatia: And in case of auto are we there in after market?

H.M. Bharuka: Actually we were not there in after market. We just started about four years back and I think our market share is around about I have no idea because no one discloses the number but it could be around 3% to 4% and every year for last four years we have been growing 45% to 50% per annum.

Kunal Bhatia: Sir and the 3% to 4% how much would be the aftermarket?

H.M. Bharuka: I would leave it to you to calculate as I mentioned there are no numbers available for me to actually talk about it.

Kunal Bhatia: Sir if you could just give a brief outlook on the acquisition, which you have got what kind of products and what is the opportunity you have been looking in that case?

H.M. Bharuka: The Marpol is actually a pioneer in the powder coating industry in India. They were first who start powder coating actually in India and we were second to start so they have a good name, they have a good product, they have good technology, unfortunately it was a family based private company and they could not grow and I think year-on-year they were declining, they remained where they were and they started making losses and so we bought this company at the price we paid for it and I remember even five years back, we were willing to pay perhaps much, much higher price for that. Unfortunately, as I said this brand not the brand but at least the sale value went down and the company went into loss so we hope to evaluate and we are good in powder coating, we have a good market share in powder coating and we hope that will help us as well.

Kunal Bhatia: Sir I just missed out on your capex for the current year, your total capex you mentioned 1100 Crores out of which 350 Crores?

H.M. Bharuka: 400 Crores would be for Greenfield expansion and normal capital expenditure is about 80 to 90 Crores so may be about 450 Crores to 500 Crores we would spend in the current year.

Kunal Bhatia: 450 Crores to 500 Crores and the remaining around 300 Crores would be in FY2020?

H.M. Bharuka: That is right, unless we announce one more expansion.

- Kunal Bhatia:** I hope you do that. Best of luck and thanks for the same.
- Moderator:** Thank you. Next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** Just one follow up, wanted to just understand the auto sales so assuming that the passenger car segment continues to premiumize in terms of a higher selling of the more premium products, has that also resulted in improved realization for you and hence a higher margin or it does work that way?
- H.M. Bharuka:** I think it does not work that way. These are all specialty products. Now we are supplying high solid products so actually volumes are going down. If you look at two-wheeler industry earlier, we were giving two coats then we introduced a new technology which replaced the 50% of the volume for us so now it is only a one coat. That is why you cannot compare their growth and my volume growth. It will always be lower than that because we do lot of innovation, we do lot of value engineering, which brings down the volume growth for us at the same time of course value could be realization could be marginally higher but that is how the industry works so that is why I am saying do not look the topline of my customer and topline of mine it will never be equal.
- Harit Kapoor:** No, I was just coming from the context of the margin so for example if they are selling higher realization products and the consumer is upgrading does that also mean that your overall the product that they take from you are more higher end product so just wanted to understand that?
- H.M. Bharuka:** The product is higher end. I am not sure about margin. I do not think I would be in a position to discuss here the margin but certainly realization would be higher and margins and all depends upon the customer, the product and my capability.
- Harit Kapoor:** Thanks.
- Moderator:** Thank you. The next question is from the line of Abhijit Kundu from Antique Stock Broking. Please go ahead.
- Abhijit Kundu:** Thanks for the opportunity. Just needed a view what would be the contribution of emulsions or water based paints currently as compared to three to four years back? What has been the kind of growth has emulsions been one of the key growth drivers for you in decorative paints?
- H.M. Bharuka:** I think we were never there in emulsion in the past. Emulsion has always been a key driver for us and every year it has been growing and emulsions are of course more profitable compared to the commodities like distemper and enamel and enamel and distempers overall market is not growing so the growth is actually mainly coming from emulsion so it has become a big portfolio for us.

- Abhijit Kundu:** So would it be fine to say that it is more than 40% of your security paint portfolio?
- H.M. Bharuka:** Yes.
- Abhijit Kundu:** Thanks. That is from my side.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Just wanted to know your breakup in case of auto would be around 35% of the overall sales and so could you share our share with Maruti?
- H.M. Bharuka:** We do not discuss individual customer here, so it is enough for us to know that we have a good market in the automobile and we supply virtually to everyone other than two three customers so either we are a lead supplier or we are a almost 100 supplier to many of the customers so I think that is good enough. We do not discuss individual customers.
- Kunal Bhatia:** No issues. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Parth Adhiya from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** This is Ranjit Cirumalla here. Sir I have two specific questions, one is like since we are there in this particular industry since quite some time and we have seen several cycles of high and low crude oil just wanted some key learning's or takeaways from that previous cycle how would be dealing in such scenarios?
- H.M. Bharuka:** Unfortunately, I am not able to control the crude oil price. We will be completing 100 years in 2020 and I do not think I have any records available where I can say look we were able to control the crude oil prices so what is in our control is our own raw material cost, what value engineering we do, what product mix we can make, new product we can introduce or how we can deal with the customer. We have no control on the raw material prices because these are all crude oil given and I do not think even worldwide anyone has been able to control so far. The learning is only we concentrate on your own portfolio look inside rather than looking outside because outside you have no control.
- Ranjit Cirumalla:** Sir my question was more on the our learning or the change in the strategy like earlier where we have more focused on the industrial and since one of the key learning was to focus more on the decorative?
- H.M. Bharuka:** I think mentioned, I do not think we are deciding whether I want to focus more on one or focus less on other. We are a leader in industrial. We would like to remain an industrial and let us say decorative market is growing faster. It is easy to pass on the cost increase there so certainly decorative remains a

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focus where we have a small market share so irrespective of whether it is margins are low or high penetration level is low for us and market share is low for us so it will remain a key focus area for us.

Ranjit Cirumalla: Second thing in terms of view from the Kansai Paints, Japan how they are looking and since you are also a board member of the Kansai Paints, Japan how they are looking at the India per se or we have some off late couple of years back also got into Nepal so would that be the strategy going forward to more diversified in to Asia Pac region?

H.M. Bharuka: Nerolac strategy is decided by Kansai Nerolac basically KPG has left everything to Kansai Nerolac to handle and the fact is that there are no executive positions from their side here indicates the professional attitude of the parent company and as of now they are into the 66 countries and now they have 158 companies, the region which is left to us here is nearby countries where we have same culture. We entered into Nepal and we entered into Sri Lanka last year and as of now these are the two countries we are in and Bhutan in any case we are exporting so these are the three countries where we are in and in Pakistan, Kansai is already established there.

Ranjit Cirumalla: Sir do you feel any new entrants into the automobile industry would be a risk or it is more or less consolidated market?

H.M. Bharuka: Let us put it this way I mean you need to have your own strength. Customers buy you not based on the price, they buy you on the basis of technology, they buy you on the basis of services, you can deliver, the quality which you can deliver, if we are leader in that industry for as many years and it is not that others are not having a good technology, there must be something in our DNA, which is helping us to ensure that we keep supplying to our customer year-on-year with good quality product and competitive products so I think that is more important than anyone entering. I mean people would enter I mean they are allowed they are free to enter the market but then how do you keep pace, for us also it has not been easy so new entrant it would be not be easy as well.

Ranjit Cirumalla: Thank you. Thanks for that.

Moderator: Thank you. Next question is from the line of Abhijit Kundu from Antique Stock Broking. Please go ahead.

Abhijit Kundu: My first question was that how many colour dispensing machines would you have across your 20500 dealers multipaint dealers?

H.M. Bharuka: About 65% of our dealer networks have colour machines.

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- Abhijit Kundu:** Sir what would be the estimated addressable market of multipaint dealers in India the organized part, organized and unorganized make it together maybe?
- H.M. Bharuka:** May be about 50000 to 60000 network would be the total network size, which I would say known to us but there could be many, which are subdealers. As I said still expansion or penetration has not taken place, I mean, we would love to see what we see in FMCG but that may not happen but even if 10% of FMCG we look at it I think that is what we are look as a industry I would say.
- Abhijit Kundu:** So 10% of FMCG would actually...?
- H.M. Bharuka:** As an industry should be the ultimate potential I would say.
- Abhijit Kundu:** Thanks.
- Moderator:** Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** I just wanted to understand the relationship between while you indicated that this professional, how does the technology transfer occur? Is it is the transfer largely the industrial or is it also in the purchase of material and linked to that is the royalty number also fluctuating number how does that vary, if you could help us understand this two parts?
- H.M. Bharuka:** The royalty number you can see it is very low. I think they have been very fair to us and royalty numbers have never gone up as a percentage so if you look at from the annual report we will spend royalty numbers are not very high number one. Number two technology of course we do have our own R&D set up, big R&D set up. We are in fact we are opening up a new R&D set up in new Mumbai, and we are spending close to about Rs.500 million over there. Apart from that all our four factories we have R&D center so we do carryout our own R&D so not only we get technology from them we do develop our own technology and we are very strong in our own development. At the same time, because of Kansai into many areas, technology is available and we can always pickup anything what we want from them but depending on our customer, our requirement in India we also get it or we also modify it so it is not limited to automobile but mainly it is automobile as of now but we can access to anything from them.
- Avi Mehta:** Sir this Lanka we acquired it this year can you give some numbers over there or how much is because it seems that or has Nepal not performed very well could you kind of give some guidance of these two numbers as well?
- H.M. Bharuka:** Nepal has performed very well for us, I think last five years continuously we have been doing more than 30%, 35% both on topline and bottomline for Nepal and as far as Sri Lanka is concerned it is not

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acquired company, it is a Greenfield project so almost for first one and a half to two years, we spent money in only setting up the project. Sale has just started about two or three months back so certainly it will take about three to four years for it to come into the green so as of now it is in red but Nepal is doing very well for us and we are confident even Sri Lanka would do well for us.

Avi Mehta:

Lastly Sir you addressed very rightly that the royalty is very low, how does that transfer occur as in is this the board, how it is because it is the lowest that as I see across the board and the parent has been actively engaged so just wanted to understand how do those discussions were occur? Has been the new technology and the royalty has associated with it how does it work?

H.M. Bharuka:

I was told there are about 125 participants and I do not think anyone would like to hear the answer for this. Let it remain where it is so we should be happy with what it is that is all.

Avi Mehta:

No issue Sir. Thank you very much.

Moderator:

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

Tejas Shah:

Just one follow up question on your distribution expansion strategy in deco business so when you say that you are targeting from 10% to 12% growth in dealer base, do you recruit new dealers from let us say hardware store owners who are not into the paint business you recruit that kind of base or you target existing paint dealer of the competing brands and you had them as your dealership network?

H.M. Bharuka:

I think it is combination of everything wherever it is easy for us to target, the existing one we would do that but whenever it is difficult, I think the endeavor to open the totally new set of dealer who are not into the business so there is a team, which is working separately to create a new network whether they are a cement dealer or whether they are tiles dealer or whether they are sometime encouraging into the opening into the totally new business. So I think that is the job of the marketing, which they keep doing it.

Tejas Shah:

Sir you have seen this industry from the closest part possible for last two decades or more than two decades so off late we are witnessing that the lines or the boundaries between the building material segment is getting blurred and people are entering into each other segment construction chemical to name one, where do you see this evolution going? Will paint become a subset of a much broader umbrella of home décor or home building material or you believe that paint can continue to have its own network and its own identity in the long run as well?

H.M. Bharuka:

I think the maturity level still needs to come up we are still far away may be 20, 25 years away from that what you are saying because do it DIY market in India right is not going to come so fast so easily while there are challenges at the dealer network or the painter network but still organized contractor

or organized distribution like big boxes they are still far away as far as paint category is concerned and I would say still about two decades away from that but you never know I may be totally wrong if it happens one needs to be prepared for it, but it will be very difficult.

Tejas Shah:

Sir lastly you gave us one parameter to look at the size of opportunity you said that distribution can be 10% of FMCG landscape over a period of time, but from consumer perspective when we calculate per capita consumption, we have actually come a long way in last decade or so, so from consumer perspective, if you have to size up the opportunity, how do you go about it?

H.M. Bharuka:

We still have almost 40%, 50% of the population, which does not even have their houses or the people who have 10%, 20% of the houses if you go into some of the rural markets and if they do not even plaster, it just breaks so how do you expect them to our paint it, and that is where I am saying the opportunities are large but that will happen only when the overall I would say distribution of income takes place across. As of now it is concentrated among few and that is why you are not seeing that penetration or that growth but it is bound to happen and I think that is how faith in that economy or the country like what we have seen across in China or other countries I am sure it will happen in India as well and so that is why I always maintain that maybe last 30 years we are having a double-digit growth and maybe next 30 years we will continue to have a double-digit growth.

Tejas Shah:

Sir this would be driven by volume or pricing?

H.M. Bharuka:

Obviously volume. Basically if the penetration is not there it has to come from volume. In fact value it is always that is why whether the premium or economy we keep debating, I think every segment has opportunity to grow because penetration is still far away, far low.

Tejas Shah:

But then Sir in terms of per capita consumption we must be somewhere around 4 kg or 4 liter right?

H.M. Bharuka:

That is right.

Tejas Shah:

When we compare it with even developed markets like US or Europe, they must be somewhere around 10, 12 and over there the share of industrial is also very high so with that kind of higher proportion of industrial also they are at 10, 12 so where do we see this number going from here on?

H.M. Bharuka:

Well, they are more than 10, 12. They are almost close to 15, 20 number one. Number two the value realization there is far higher. As I said even distribution makes more margin there and if you compare our prices and similar product prices in the developed market, I think those prices are very, very high. So the value realization would also go up going forward. As far as industrial is concerned, as a country I think our manufacturing segment is still very, very low and since we are customer or

consumer based economy so there is a scope for industrialization also to take place more and that is where I say we have a scope to grow both in decorative as well as on the industrial side.

- Tejas Shah:** Thanks Sir. This was very helpful and all the best for future.
- Moderator:** Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Mr. Nimit Shah from ICICI Securities for closing comments.
- Nimit Shah:** Thank you everyone. We would like to thank the management of Kansai Nerolac for giving us this opportunity. Thank you and have a nice day.
- H.M. Bharuka:** Thank you everybody. Thanks Nimit.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.