7th August, 2023

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National Stock Exchange of India Ltd.
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2. **Scrip Codes : BSE - 500165, NSE - KANSAINER**

Dear Sirs,

This is further to the intimations done by the Company on 31st July, 2023, 3rd August, 2023 and 4th August, 2023 with respect to the Conference Call hosted by the Management of our Company on Friday, 4th August, 2023 at 14:30 hrs India Time to discuss Q1 FY 2023-24 Financial Results of the Company.

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

For **KANSAI NEROLAC PAINTS LIMITED**

G T GOVINDARAJAN
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G. T. GOVINDARAJAN
COMPANY SECRETARY

"Kansai Nerolac Paints Limited Q1 FY '24 Earnings Conference Call"

August 04, 2023

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

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Kansai Nerolac Paints Limited Q1 FY'24 Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you, sir.

Aniruddha Joshi: Thanks Zico. On behalf of ICICI Securities, we welcome you all to Q1 FY'24 results conference call of Kansai Nerolac Paints Limited. We have with us senior management represented by Mr. Anuj Jain, Managing Director; Mr. Prashant Pai, Director-Finance; and Mr. Jason Gonsalves, Director-Corporate Planning, IT and Materials.

Now I hand over the call to the management for the initial details about the quarterly performance. Then we will open the floor for question-and-answer session. Thanks and over to you, sir.

Anuj Jain: Thank you, Anirud. Good afternoon and season greetings to all of you. It was actually a pleasure to meet many of you personally during our first physical investor meeting, which we conducted in the month of May. I am grateful for your continued support and interest in our company. Thank you all for joining this call of Kansai Nerolac for quarter 1 financial year '23-'24.

For the quarter, we recorded top line growth of 6.5% over the corresponding quarter of the previous year. EBITDA growth is 30.6% and the PBT growth without exception is 39%. During first quarter, the growth in automotive, which was led by passenger vehicle was higher. In the passenger vehicle, the growth was good; two-wheelers were marginal.

Decorative volume growth is higher single digit. Raw material prices softening, but still we need to be watchful because of the volatility in crude and forex and also some uncertainty on account of geopolitical changes continues.

I'll give you some brief commentary about decorative and industrial businesses. So just to talk about decorative, as we informed earlier, as we discussed earlier, we have taken up some growth initiatives in decoratives and these initiatives are in the area of feet-on-street, digital, influencer outreach, new product launches, services and project business. As of now, our assessment is that these initiatives are as per plan and going in the right direction.

Let me share few highlights of decorative in the quarter 1. For quarter 1, ex-putty growth is closer to double digit. Some initiative, as I mentioned, like Paint+ which is all about Japanese technology, it's all about performance. And that is what our positioning was that paint is not only about color, but it also gives the performance.

In this in some of the key categories like waterproofing, we have completed the range, which is also related to a Paint+ product like NoDamp, NoDamp+ and Damp Lock and some of these products are unique.

In the Emulsion category, in the super premium or luxury category, we informed earlier that we introduced in Impressions Kashmir but now we have introduced 3 variants into that. So there is a high sheen variant. There is a mid-sheen variant and there is a matt variant. So today, if we look at the different geographies or different segmentation of the customer, they prefer to have a different kind of sheen level or the matt levels. And this is one product category where we had provided 3 different variants in terms of the sheen and matt.

In wood category also, Italian finishes and this polyurethane and polyester pigmented PU, which we introduced earlier. Now we have further introduced bio-coatings with Green certifications. So the polyurethane range we have introduced with green certifications also and also introduced a niche product, which is soft-touch coatings, so they're also in the area of high-end wood coating, but they are soft touch, soft feel and a very, very different kind of the performance coating.

We also introduced one product, which is called Crystal Seal. This is also innovative product. This product, when it comes in contact with water, it forms crystal and that crystals that form the protective layer. It's in the affordable category. So it will be a part of waterproofing, but quite affordable. If you remember, we discussed earlier that when we talked about Paint+, it is all about providing some unique proposition and also some proposition which we are trying to democratise, so Crystal Seal will be a part of that.

We introduced products with better whites non-yellowing property. And overall, through these initiatives, our salience that in premium has gone up in the first quarter. The salience has gone up in premium and economy. Popular salience has come down, but in premium and economy, it has gone up. The other part of our initiative in decorative is about influencers because we believe that the role of influencer is very, very important in paint category. And our focus is on key painters and architects and interior decorators. And then the infrastructure, which we have already put in place now to basically demonstrate the advantage of Paint+ product to the key influencers.

Digital adoption, digital initiatives progressing well. And the lead generation, which we have started sharing business with the influencers because our approach includes that we generate the business, share with the influencer and it becomes a business sharing model. We have already started seeing benefits in key markets and the scale up process continues as we are seeing the benefits. We discussed earlier also that now we are starting the scale-up process.

In terms of our distribution, the expansion is gaining traction and the growth in distribution has been in double digit, higher than what we have been achieving in the last 2 years.

For the project business, by March end, we were in 55 towns. Now by June end, we have expanded it to 71 towns. And project business is all about generating the pipelines. We have a good pipeline now for converting to business. Next generation services, which we started last year -- during the mid last year with the proposition of Five Days Dust-Free painting. We are present in 450 towns now, but we have started active lead generation in 145 towns. Service team and structure has been expanded, and we have the structure in 450 towns and 145 towns.

We discussed earlier that we have been strong in Tier 2, Tier 3, Tier 4. But based on these initiatives what we have taken and these and some of these initiatives are quite apt for Tier 1, Tier 2 category. So we are seeing a higher growth in urban or Tier 1, we can say. So I'm happy to share that the reflection of these initiatives we are able to see in Tier 1, which has been our weaker markets.

Waterproofing and wood range is well accepted, and we have started getting a good growth. They are contributing a good growth to us now. For brand initiatives, as we said earlier that we are maintaining the share of voice. And in the first quarter, we started the campaign on waterproofing also. So earlier, we were doing campaign only on the paint products. Now we started on waterproofing. And therefore, we are seeing a good positive traction in waterproofing.

We also started advertising Excel Everlast, which is the proposition of 12 years and self-cleaning property, a part of Paint+. The Kashmir and all these campaigns, which we shared during last physical meet, are with Paint+ with Japanese technology. So that's one common thing -- common theme, which we are trying to do. So these are few of the details related to decorative.

Coming to industrial side and in the industrial in the auto because we are a significant player in auto, and we are seeing healthy and steady increase in business. Initiatives were to get into new segments. So we got into seam sealer, underbody, alloy wheels and fasteners, and now we started generating business from these new segments.

Pretreatment also, we have done a technology tie-up and then shortly, we'll start seeing the business in pretreatment chemicals. Our approach, which we discussed in the past continue to focus on technologically superior products like heavy metal-free electro-coats, energy-efficient something which can be -- which require a lower temperature for a baking 2-component common primer, which is suitable for different plastic substrates and all this is in line with our strategy of launching sustainable technologies to reduce VOC and carbon emission.

In the category, auto refinish, as a part of industrial, where our market share has been low, we have been successful in adding A-class body shops, which are the premium body shop and this is also helping us increasing the salience of premium in the auto refinish. Within Industrial, the non-auto part, which is Performance Coating division and which is largely based on the infrastructure growth. And I think the good capex investment from the public and private sector is happening, and therefore, infrastructure growth is expected to remain high and this is supporting and should support further also demand of performance coatings.

In this business, one of such a driver is getting the approvals. We further got some approvals, some major oil refineries, also approvals for wheel coatings in railways. There is a specialized coating, which we have developed for Delhi, Mumbai Freight Corridor, which is a very, very high corrosion resistance. And last time we shared that we have been supplying to this coastal project and this one being Vande Bharat train and bullet project, there also are the efforts and the business continues.

The change in approach in Performance Coatings division last year we started is again the focus on high technology products, premium and some of the low-end product where the margins have been very, very low, those businesses gradually, we have come out. In fact this initiative we started in the second quarter of last year. So this first quarter was the last quarter. And I think by and large, that part is over maybe some part still will continue, but by and large, it is over. So we are seeing the change in the salience in the Performance Coating division also. So this segment is also giving us a good outlook. In general, just to talk about the capacity expansion project, which we shared in the past, the all projects related to Visakhapatnam, Jainpur and Hosur are on track and will be commissioned as per plan.

Lastly, the land sale, we completed sale of land at Thane and the consideration of INR671 crores was received in the quarter 1. And these proceeds will be used mainly to support business and growth initiatives. So these are a few highlights related to quarter 1, and I tried giving you some kind of flavor of what is happening in decorative and industrial. And with this now, I invite for the questions.

Moderator: Our first question is from the line of Abneesh Roy from Nuvama Institutional Equities.

Abneesh Roy: My first question is on the pricing. Given in the non-deco, your gross and EBITDA margins would have expanded, what kind of price cuts already you have taken and any more plans to be there in terms of price cuts?

Anuj Jain: Abneesh, as of now, very, very less, no price cuts you can say. We are trying to hold on that because the raw material prices have cooled off, but still there's some volatility there. So we are trying to reach to that stage where we are able to understand that what is sustainable and stabilize. So I think that may happen in the future, but as of now, no price cuts.

Abneesh Roy: And would that be true even for the deco part given you want to be a bit more aggressive and gain market share, there also margins have expanded. Would the no price cut as of now in terms of annual also -- would that be true even for deco?

Anuj Jain: Yes. As of now, no price cut but you can see partly in terms of discount in the market, it has gone up, but no price cut as of now.

Abneesh Roy: My second question is on the project business, especially residential, . What would be your market share there versus the pure deco market share Clearly, we are seeing very good recovery for all the real estate players. And after many years, we have seen good recovery. So how do you be indexed in terms of market share in that part of the business?

Anuj Jain: Our market share is less than 10% in the project business. And earlier, I think we shared that our reach was not much. We were playing only in the few markets. And as I mentioned that now we have expanded the project -- a dedicated project team and the dedicated product portfolio in the 71 markets. And in the project business, what is important is that for residential or the new housing segment, we have to build the pipeline and then the team goes and try to convert into our business. So we have been able to build a good pipeline, and we feel that we'll be able to do better in project business now.

Abneesh Roy: Right. And finally, on the raw material side, given China, the recovery has been slower than expectation. So what would be your thoughts on pricing for some of your key raw materials like titanium dioxide in FY'24. Do you see further correction? Or do you think from the current level, say, in Q1, what you consume, is it largely stable based on current understanding?

Anuj Jain: Jason, can you answer this question?

Jason Gonsalves: As per our current understanding, I think the prices of important commodities like TIO2 are already at their lower levels. And from here, I don't think there is significant downside that can be expected. In fact, prices will go up gradually.

Moderator: Our next question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: You mentioned that in performance coatings, there were some very low-margin products, basically, which you have gradually discontinued. So just wanted to understand, before you started that process, what percentage of the total consolidated sales did those products constitute?

Anuj Jain: So in that business, in the high performance coating, it was about 10% of the business.

Percy Panthaki: But at an overall company level, that would be what percent? I'm just trying to understand, over the last 2 years, you have done a certain amount of growth. So if you basically let go certain sales, then I should adjust for that.

Anuj Jain: 2% to 3%.

Percy Panthaki: 2% to 3% only. Okay. Understood. Secondly, I just wanted to understand in terms of typically, the lead and lag which happens between the spot prices going down and them showing up in terms of your P&L. So just wanted to understand that the Q1 P&L that we see, does that fully factor in the low input cost prices? Or do you think that we had some slightly higher cost inventory, and we will see further sort of true picture of the full low-cost benefit available in Q2?

Jason Gonsalves: It's fully addressed.

Percy Panthaki: It is fully addressed, okay. And what is your view on the recent uptick in crude price from $75 to $85. Has that also caused a similar kind of uptick in your polymers, monomers, etcetera.

Jason Gonsalves: As of now, it is not immediately reflected. But if this trend continues, we will start seeing, again, a slight hardening in the prices. What immediately gets affected are certain raw materials which are dependent on crude but not the larger raw material basket.

Percy Panthaki: Understood. So sir, in light of this commodity cost environment, whatever we are seeing today, what is your view on pricing in the decorative business for the next 6 months or so? Do you think that more or less the industry will keep the current prices? And when I'm saying prices, I don't necessarily mean MRP, I mean, in whatever way and fashion, whether through higher rebates or whatever else, do you see pricing coming down? Or do you see pricing being more or less maintained at the current levels?

Anuj Jain: In the near future, probably you can see some high rebates in the market space. As I said, that we are still not able to fix that what is achieved so far or to what extent it is sustainable because there is a volatility in forex and crude oil price. So we'll have to wait for some time to see that what is sustainable, then the decision can be taken. As of now, partly because there is advantage, one can see that maybe higher discounts in the marketplace.

Percy Panthaki: Right. And my last question is on full year margins at a overall consolidated basis, now that we are more or less in a normal or sort of stable commodity price environment and a lot of your price increases also have gone through. So on an annualized basis, what is a good margin for you guys to target?

Anuj Jain: Prashant?

Prashant Pai: See if you see last year's EBITDA margins were that it was quite low. And if you see at the end of the year, they started, over a period, it has gradually improved. But on an overall basis, we have been saying that around 14% EBITDA margins should be on a sustainable basis.

Anuj Jain: So in our case, because the mix changes on a quarter-to-quarter basis.

Percy Panthaki: That's why I asked for annualized number.

Prashant Pai: 14% should be possible.

Moderator: Our next question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: Sir, just wanted to understand what proportion of our revenues would be driving from Tier 1 towns and metro towns? And how is it likely to be different versus other large incumbents? Also how you're seeing this proportion shaping up going forward?

Anuj Jain: So generally, like Tier 1 town -- because our share is low and our contribution to sale is on the lower side, maybe in the range of 10% to 15% from the Tier 1 only, I'm saying. And for the industry, it may be 20%, 25%. Our contribution has been coming more from Tier 3, Tier 4 and also Tier 2, but Tier 1, our contribution is low.

Aditya Bhartia: So almost half of where the industry could be? And do you see this changing sharply, are you expecting any sudden changes in the next 1 or 2 years? Or it will only be a gradual business?

Anuj Jain: So we are expecting the changes because some of the initiatives which I discussed about, whether it's the project business, the service business, the architect, the initiatives are primarily there in the Tier 1 market.

Aditya Bhartia: Understood, sir. And sir, in the last analyst meet, you had highlighted that in terms of mind share, you already occupy #2 position. And in that context, I wanted to understand how you're thinking about the advertising strategy. Would we be continuing to go aggressive on advertising? Or is there a thought process that we can take a bit of a breather around that to keep the advertising costs low given that we already have a decent margin.

Anuj Jain: So our mind share, as I said earlier also, we are strong, we are #2, no doubt about it. But we have to establish the new positioning, which is about Paint+ and all these products that we have introduced or what we are introducing. I think it is important for us to make this communication reach to the consumer mind that what exactly the Paint+ is. For some time, I think that we will continue to put more efforts in terms of advertising and marketing till, we find that the Paint+ proposition is getting set because this is something which we believe is going to give us the differentiation.

Moderator: Our next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: I have three questions. First question, you have spoken a lot about project business. So just wanted to think how this business will shape up? And if you can help me what is the strong markets? Is it Tier 2, Tier 3 markets, we are strong and now we are trying to focus on Tier 1? Or is it vice versa? And maybe if you can share what is the current quantum and where do you aspire to grow this business over the next 3, 4 years?

Anuj Jain: So project business, actually, we were quite limited and whichever market we are strong, for example, like some of the markets in North India, we are strong. So we were limited to that. So actually, now we are expanding the Tier 1 market.This business, if you see all the metros at the country level, maybe the contribution of project business to total decorative sale could be in the range of 12%, 13% for the industry. But if we see metros, it could be 25%, 30%. And extended metros, the A class town, it could be around 15% to 20%.

So when I talk about 71 towns we are in metros and A class town and to some extent, because the project business is growing fast. So the rate of growth is 1.5x to 1.8x of the overall growth. So the industry is growing at the rate of, say, 7%, 8%. The project business is growing at the rate of 12%, 13%.

So the growth will continue. And we are seeing that this is becoming a trend even in the Tier 2, Tier 3 towns also now because lot of verticalization is happening. So this business is expanding, and we have expanded our reach to 71 towns. And whichever town now we find that the verticalization is happening and the potential is going beyond the threshold, we are looking at all those markets. So I think -- and your question in terms of what is the contribution we are getting from the project business? It is in the range of 8% to 9%. That's what we are getting. And we, with the initiatives we have taken and the pipeline that we have, we believe that it will become more and more better.

Shirish Pardeshi: That's really helpful. Just to expand Anuj. I just wanted to check, are we trying to say that our distribution and service factor, which is important for this and that we are growing? Or you are saying that the product business is also going to ramp up?

Anuj Jain: So both things because when you talk about the service and all these things, so what happens is that this is an opportunity to reach directly to the consumers and the users. So whether it's a project business or influencer or the service, we have the opportunity to reach out directly to the consumers and users and share that business with your business partners like dealers and the painters. So both the things are important. It's a business sharing model so that we add business to the people who work with us and then they add business to us. So that is how we are looking at it.

Shirish Pardeshi: Okay. My second and last question on the new product development. I see over the last 12-odd months, we have done a lot of innovation and product retake, which has happened. Sir, just wanted to pick your thoughts. What are the promising products you lead? And what is the contribution over the last 12 months from this new product, what you have developed, especially in terms of technology?

Anuj Jain: So new product, generally, like we track the product which are introduced in 3 years' time. There, the contribution is around 10%. But specifically, if your question is about Paint+ product where we are talking about the unique proposition, there it is -- now it is touching about 7%, 8%.

Shirish Pardeshi: And this number in 3 years was what?

Anuj Jain: This Paint+ proposition we started from last year only.

Shirish Pardeshi: And this is basically you're trying to get a different class and mass of customer? Or is it that uniqueness is because of the pricing?

Anuj Jain: So both things, one that we understand that in the market today, there are a good number of customers who are ready to experiment that so did they see more value addition. So for us, the Paint+ is that, as I said, that it is all about performance. So one that we are trying to give a benefit which we believe the customer is ready to experiment for. And then Paint+ also includes some products, which is a different kind of pricing or maybe you are able to offer a proposition at a lower price point. So maybe the same proposition was available at a premium price point. Now we are able to make it available at a popular, and we are also attempting to make few of the proposition available at the economy price point also.

Shirish Pardeshi: That's exactly. So one follow-up here that which segment, Anuj? Is it premium, mid-price or popular? Which segment is seeing a lot of traction that I wanted to check on the ground?

Anuj Jain: As of now, the traction is there in the premium, but as a pipeline that we expect it to come in the popular also.

Moderator: Our next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited.

Amnish Aggarwal: So sir, my question is that you said that your industrial segment, particularly the non-auto industrial is doing very well due to railways and general pickup in infrastructure activity. So do you believe that this segment can grow volumes in at least a high single-digit kind of a scenario? And do you believe that the ratio of industrial to deco, what exactly is the ratio now? And do you think that it can tilt slightly in the favor of industrial going forward?

Anuj Jain: So non-auto, you're right, actually, that market growth is good. The size is also good. And with whatever initiatives we have taken, we believe that we should be able to get a good growth, sustainable growth, high single digit, definitely possibly double-digit growth also is possible. And in our business, like you know that auto, we already have a very good market share. So therefore, always the attempt is that how do we maintain or increase the addressable market size and that's why some of the new segments we are looking at.

So one side, it's like a decorative initiative, the other side, it's a non-auto kind of initiative because with the change in our strategy and getting into more technological savvy products or the premium product, we have initiatives in both -- so going forward, there may be a possibility that there could be a little more tilt towards non-auto. But within industrial, I'm saying that between the auto and non-auto there could be more tilt towards non-auto. The current -- the breakup of the business is 55-45, it keeps changing quarter-wise. But I think there, we don't see much of a change. But within the industrial, there's a possibility of change.

Amnish Aggarwal: Okay. That's very helpful. Sir, over the past few years, I believe auto was down and deco was doing relatively better, but still the ratio remains at 55:45?

Anuj Jain: Generally, that's a statement we make. It's obviously, year-on-year basis, sometimes it's 1%, 2% here or there. It keeps changing. So it's not that exactly it is 55:45, but that's generally we communicate.

Amnish Aggarwal: Okay. But there is no meaningful difference?

Anuj Jain: No, it's maybe -- sometimes like 2% here or there like that.

Amnish Aggarwal: Okay. Sir, my second question is on the margins, like this quarter, we have done 16.1% kind of an EBITDA margin. And usually, now for example, in 3Q, this time, Diwali sales will also come in second half is usually relatively heavier for infrastructure and auto. So do you believe that as far as your current year is concerned, this quarter has already seen the peak of the margins?

Anuj Jain: Prashant?

Prashant Pai: So as Anuj mentioned, our -- this mix changes and accordingly the margin also slightly goes here and there. But as I mentioned earlier, overall EBITDA margins are bound to improve definitely more than last year and should be stabilizing around 14%. That's what we feel.

Amnish Aggarwal: Okay. But sir, if we look at 14%, it means that there might be some quarter with even say, 12%, 12.5% kind of...

Prashant Pai: Yes, it's possible because in the fourth quarter, we are more industrial heavy -- so every quarter, it depends. So accordingly, it slightly varies. But eventually, I said it should come closer to that or slightly more than that as well.

Amnish Aggarwal: Okay. So it means that -- but if we look at -- say, if we take into account the mix then which are the best margin quarters for us 1Q and 3Q?

Prashant Pai: Yes.

Amnish Aggarwal: Okay, that's pretty useful.

Moderator: Our next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, I just wanted to check from whatever I heard on the Paint+ proposition. Would it be fair to say that 2 years or 3 years down the line, the portfolio for decorative would be slightly more premium than what it is right now because our positioning also kind of moves to a more premium or kind of segment. Is that the right way to look at this?

Anuj Jain: Yes, Avi, it is possible, even last year in the first quarter, the premium salience in our case has gone up, but the salience also has gone up in case of economic products. So maybe the popular is getting -- the share of popular is getting divided between the premium and the economy. But internally, yes, if you look at that our salience of the premium will go up.

Avi Mehta: So as Paint+ progresses, the way I should see is that our portfolio will become a lot more richer in terms of mix and move more towards the economy and premium. That's the way I'm kind of looking at that. And if that is the case, should we also see that flow through to margins?

Anuj Jain: Of course, in the premium category, the margins are more. Obviously, we look at that. And that's why , in fact, if you remember that earlier also, we discussed that when we talked about increasing our marketing expenditure, that is also around Paint+ because these are the products with a better margin. So the more salience we are able to increase the part of our marketing expenditure would be increasing would get offset by the margin increase through this product.

Avi Mehta: So at the EBITDA level, would it flow through? And is there a range that you would want to give us, say, 2 years, 3 years down the line, where you see it. I understand near term, we might kind of have some fluctuations, but do you have some numbers in mind on this?

Prashant Pai: So, Avi, we will still maintain that overall 14% plus EBITDA because as you see the way the current situation is, and we see the quarters coming ahead, we feel that this should be, even though we have taken this Paint+ into account, while I'm saying we should get that 14% plus EBITDA margins.

Anuj Jain: And Avi, in the long term, obviously, you can understand that if we are increasing the portfolio this quarter, obviously, in the long term, it will definitely be helpful but difficult to put any numbers to that as of now.

Avi Mehta: No. Fair enough, sir. Fair enough. Sir, the last bit was on the industrial side now. in each of the segments, the focus is to kind of move towards more technologically superior products. Now obviously, the relationship with the parent kind of helps us. But how does it impact the royalty and overall EBITDA margin profile in the industrial business per se. Could you help us understand that, sir?

Anuj Jain: Prashant?

Prashant Pai: On the industrial, yes, royalty, as we have told you, it is paid only on certain products where we have got formulation from Kansai Paints. There are a lot of industrial products where we don't pay any royalty because it's our own developed products, okay? So as far as margins is considered on industrial, it will move in line with the raw material prices going up and down.

Obviously, there will be times when there will be pressure from the OEMs for price reduction as well. So we need to have a balance between this.

And earlier, when the price went up very high, none of the OEMs gave us price increase. The price increase came at a very, very later date when we are already suffered quite a lot. Eventually, it balances, if you take a long-term view, it will definitely have a sustainable margin on a long-term basis.

Avi Mehta: Okay. Sir, where I was coming from is because if we move towards more superior products, does the royalty payout to the parent also rise because logically, they would need formulation? And if that is the case, on an overall, probably coming to a net level EBITDA basis, is the product gross margin high enough to kind of offset that? That is what I was trying to understand.

Prashant Pai: So Avi, the royalty percentage is fixed, okay? So even if they give a superior product, we do not have to pay a higher royalty. The royalty percent is fixed. So it does not matter much.

Moderator: Our next question is from the line of Ajay Thakur from Anand Rathi Securities.

Ajay Thakur: I wanted to understand a bit more on the market share, how things are moving over there? Specifically with respect to the competition, you already indicated that discount and GPFs are going up. Are we already also seeing some bit of higher ad spend? And going forward, what is the outlook both in terms of the market share and the competition?

Anuj Jain: If we look at our journey of last 1, 1.5 year, I think quarter-on-quarter basis, we have been improving and narrowing the gap from the market. And as I just mentioned that in the quarter 1, our growth excluding putty if you look at the volume growth, it is closer to double digits. So we are very close to that. And our first task was to see that how do we come in line with the market growth and then see whether we can outgrow the market. So I think the journey we are traveling in the right direction, and our gap is narrowed and we are very close to it. And going forward, we see the improvement.

Ajay Thakur: Okay. And secondly, I wanted to check on the distribution reach, what is -- how much additions we have done in Q1 and what is our target for the full year? And also how easy or difficult it would be to kind of put a tinting machine into a dealership? How is your visibility for a new player to set up, I think machine with the dealer.

Anuj Jain: Generally, if you look at earlier years, we have been adding 8% to 10% of the network every year. This year, we are targeting a higher number, a double-digit number, higher number. In the first quarter, that it is on track. We have been able to add double digit growth in distribution. So that is our target for the year. Tinting machine, we have a penetration of about 80%. And whatever new distribution we are opening, we always try that at least 50% - 60% of the distribution to start with should have the machine, and that is something which we are able to do.

Ajay Thakur: Understand. But then for the tinting machine, do we give some kind of a credit to the dealers? Or how is it actually -- and how is it versus for the other players actually?

Anuj Jain: We give a subsidy on the machines. And we also tie up with the dealers on some target basis. And accordingly, we provide a discount or subsidy on the machines.

Ajay Thakur: Understand. Helpful.

Moderator: Our next question is from the line of Harsh Shah from InCred Capital.

Harsh Shah: My question was more on the use of cash. Could you be more specific. I mean, what kind of areas we wish to use the cash part of the profit on pickup time?

Prashant Pai: Cash from the land. So as I said, that we are definitely looking at the business initiatives, it could be expansion, the growth initiative and at the right time will speak about it. But largely, it will be used for the business initiatives.

Harsh Shah: Okay. So no plans to [inaudible 0:39:46] product company that they are from the authority or anything on that sir?

Prashant Pai: It's not clear. Can you speak clearly.

Moderator: Mr. Harsh Shah, may we request to use your handset please.

Harsh Shah: Yes. So the question was is there an intent to acquire a smaller company?

Prashant Pai: Difficult to comment at this moment of time, but obviously, we always keep exploring the opportunities. In the past also, whenever we got right opportunities we got into it. So that is always on the radar, whatever good opportunities are there.

Harsh Shah: Okay. Okay. And for the current quarter, for our industrial segment growth, is there an element of pricing still there or completely volume less?

Anuj Jain: Mix, it's a mixed thing. It's also volume, but also the pricing. You can say mix.

Harsh Shah: Between the volume and pricing for this quarter?

Anuj Jain: Maybe a difference of about 5%.

Prashant Pai: Yes.

Harsh Shah: And by when do you see that pricing coming in the base, sir?

Anuj Jain: Second or third?

Prashant Pai: Third quarter.

Anuj Jain: Maybe third quarter.

Moderator: Our next question is from the line of Prachi Kodikal from Bay Capital.

Prachi Kodikal: My first question was related to the ad spend. If you could quantify what that was as a percentage of sales in the first quarter.

Anuj Jain: It's about 4.5%.

Prachi Kodikal: 4.5%, okay. And is that the trajectory we will maintain for the rest of the year as well?

Anuj Jain: Should be, yes.

Prachi Kodikal: Okay. And the next question was what is the cash on books for this quarter end?

Anuj Jain: Prashant?

Prashant Pai: So we have about INR800 crores to INR900 crores of cash available. Primarily coming from that land sale which you just saw. So that's so we have got sufficient cash to take care of any eventualities.

Moderator: Our next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah: Since you took charge, you have maintained that our mind share versus market share has a huge gap -- and when we look at all the initiatives that you would have taken in the recent past, should we expect market share gain in the near term to kind of jump up or that's a very long drawn process and we'll have to wait.

Anuj Jain: That is our intent. That is our efforts. I would not like to specifically comment on the time frame. Obviously, we would like to see the gains as early as possible. It cannot be a long-drawn game because if you are taking some initiative, there has to be a reasonable timeframe. But I think that a lot of time it takes in terms of building the infrastructure and most of the initiatives are digitally enabled, there in fact, you have to invest into the digital system and thereafter, the digital adoption also takes time. So I think that gradually, we are making the progress and maybe next 6 months to 12 months' time, we should start seeing the results of that.

Tejash Shah: Sure. And sir, just expanding on that. Between the two options, let's say, to increase market share in market where you are very dominant in North India versus let's say where you are just emerging challenger, which is usually easier to execute?

Anuj Jain: The strong market is easier and the weaker market, it is challenging. But having said that, I think the weaker market if one compare with existing player versus new players still with the -- for the existing player, it is easier if I have to answer your question in that manner. And the models could be different. Your discount structure could be different. You have to do a different activity. And sometimes you do experiment and see that what experiment is working. I think that's the process we are going through.

Tejash Shah: Okay. And sir, all the paint players are highlighting that this year has a thick mass. So we have this extra month before the Diwali season kicks in. So our memory is slightly foggy on this. But historically, whenever this has happened in calendar, how much data we would have seen versus, let's say, normal pre-Diwali season? Is it like a very sizable one? Or 5%, 10% delta on market side -- demand side?

Anuj Jain: So generally, like if you get 45 days before Diwali -- after monsoon before Diwali, which is expected this year because Diwali I think is on 13 -- 12, 13, November. And generally, we expect monsoons to be over by September end. So you're getting a 45 days. So you always see a good delta, which means that if the industry is growing at double digit or 8%, 10%, maybe certainly in one quarter, you find higher double-digit growth.

Tejash Shah: Okay. And sir, last one. Now we have a sufficient cash balance on our books. And we have seen many players in waterproofing that they have inorganically built capabilities by acquiring smaller companies. So do we have a plan of kind of building up capabilities on some of those adjacencies that you have just entered into?

Anuj Jain: In waterproofing, we've already done it with the Perma. But as I just mentioned that we always keep exploring the opportunities and whenever any right opportunity, viable opportunities there that is always there on the radar.

Tejash Shah: So would you be open for any paints, smaller players?

Anuj Jain: As I said, it's not a question of paint or adjacent, it is like whether there is a right fit, which is available. So not many opportunities are there in the market. But as of now, I think the focus is, when we are trying to build the technologically superior products or the adjacent market, wherever there is a right opportunity that we'll keep evaluating.

Moderator: Our next question is from the line of Archana Menon from Morgan Stanley.

Archana Menon: My question was on the industrial side. So generally, what is your experience based in the past that when commodities are easing, generally, what's the time lag that you have to pass on a price cut?

Anuj Jain: It's about -- after you stabilize, it is 3 to 6 months.

Archana Menon: Okay. And sir, right now, what would the industrial margins be like, would they be in healthy double digits?

Anuj Jain: They got into a double digit, yes.

Archana Menon: Okay. Okay. And sir, one bookkeeping question. What would our tax pay on the sale of land in this quarter?

Prashant Pai: It's about 22%.

Anuj Jain: 22%.

Moderator: Our next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: Yes. First question is on the decorative side, right, for the top markets, can you give a sense of what would be your market share in the top 2, 3 markets?

Anuj Jain: Top 2, 3 markets? So overall, our market share is a little lesser than 10%, and our strong market is north where the market share would be more than 15%.

Naysar Parikh: Got it. And going forward, how do you see the mix between your industrial and decorative changing, especially in the next 2, 3 years horizon, how are you seeing that mix changing?

Anuj Jain: So as of now -- as I said, because auto is quite stable. So the good part is that now we are -- the outlook is positive, longer-term outlook is also positive, but there's a stable growth, which will keep coming, and we are trying to build up more growth from decorative and non-auto part. So to that extent, there will be some change, but the decorative and non-auto will compensate each other. So I don't think there will be a much change in terms of the breakup.

Naysar Parikh: Right. And last question is on the auto side in this quarter, in the last 6 months, can you talk about any new -- any specific new client or client additions or something like that?

Anuj Jain: Yes, it's a part of our plan. I can't talk about the names, but yes, we always make a plan in terms of new business and the new clients, and we are making a good progress on that.

Naysar Parikh: But has there been like specific client additions in the last 3 to 6 months?

Anuj Jain: Yes, yes.

Moderator: Ladies and gentlemen, that brings us to the end of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Anuj Jain: Thanks, everyone, for your questions, and I hope that we are able to answer your questions properly. And we feel it's a good time for the paint industry. For us, specifically now that we are into a different segment, we are quite diversified and all the business segments are looking decent.

Auto is having a good traction. As I said, that in 2-wheelers also maybe the way we are looking at the monsoon, it is possible that from third quarter, the 2-wheeler, which has been subdued so far, will pick up. And we are also seeing the traction in this non-auto part. Decorative also if you look at the economy status and the good monsoons and the longer Diwali season, I think all these segments are looking good. So it is not very frequent that we see that all these segments are having a good optimistic outlook, but that is what we are seeing now. And therefore, our outlook is quite positive for this particular year.

Thanks for your questions, and thanks for listening to us, hearing us and all the seasonal greetings to all of you. Thank you for joining today.

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