



“Asian Paints Limited Q4 & 12M FY2020 Results Investor
Conference Call”

June 23, 2020



Management :

MR. Amit Syngle : MD & CEO
Mr. R.J. Jeyamurugan : CFO & Company Secretary
Mr. Parag Rane : GM – Finance
Mr. Arun Nair : Manager - Corporate Communications

Moderator: Ladies and gentlemen, good day and welcome to the Asian Paints Q4 & 12-Month FY20 Results Investor Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Arun Nair from Asian Paints Corporate Communications. Thank you and over to you, sir.

Arun Nair: Good evening and welcome to Asian Paints Investor Conference Call for Q4 & 12-months FY’20 Results. First of all, sincere apologies for the delay in the call.

On the call from the management side, we have Mr. Amit Syngle -- Managing Director and CEO; Mr. R.J. Jeyamurugan – CFO & Company Secretary and Mr. Parag Rane – GM - Finance. I now request Mr. Amit Syngle to take the call forward.

Amit Syngle: Okay. Good evening to everyone and apologies again for starting this meeting late.

I will start the meeting in terms of “Our Note” and “Introductory Remarks.”

Q4 of the financial year 2019-20 was progressing well for the business till the time the sudden seizure in all business activities in the second fortnight of March ‘20 due to the nationwide lockdown implemented by the central government. The Decorative business in India had registered strong double-digit volume growth for the first two months of the Q4 as well as for the financial year till February 2020. With the loss of sales in the last fortnight of March ‘20, the Decorative business volume growth for the quarter ended in low single digit. However, even with this loss in sales we manage to end the year with a double digit volume growth. Against this double-digit volume growth for the year, value growth was in single digit as we continue to focus on growing the bottom of the pyramid with concentrated push on the upgradation emulsions as well as on gaining further share in the large undercoats market. We have also managed to grow the Exterior Textures, Smartcare waterproofing and Adhesives category strongly during the year. The focus on delivering decor to services like Paint Total and Beautiful Home Service has received wide acceptance with the channel partners as well as our customers. These efforts have served well in place of overall challenging demand conditions seen in the economy in the last few years.

In the international business portfolio, it was a mixed bag with some of the markets functioning in March ‘20 with certain set of restrictions, while some markets were under complete lockdown. At an overall level, the international business registered a single-digit value growth in the year. Key units like Egypt, Ethiopia and Emirates saw an improvement as compared to the previous year. Nepal also did well. Revenues from the Greenfield operations in Indonesia did well though lower than planned.

The slowdown witnessed in the automotive industry and the business impact due to the lockdown adversely affected the Automotive Coatings JV which is the (PPG-AP) resulting in

reduction in the top line in single digits for the year. The Industrial Coatings JV (AP-PPG) did well in a tough market supported by the strong push in the Protective Coatings segment.

The softer material price trend witnessed in the first nine months persisted in the last quarter too. This coupled with our efforts on the formulations and sourcing front have led to an improvement in the gross margins of the entire coatings business in India as well as in the international operations.

While no fresh price reductions were implemented in the last quarter, a part of this benefit has already been passed through the cumulative price reduction of slightly above 1% on the portfolio level taken during the year.

Both the segments within the Home Improvement business, the Kitchen business under Sleek and the Bath business under Ess Ess did well especially given the slowdown in the real estate construction space as well as the loss of business in the last fortnight of the year. The performance was aided by a strong growth in the full Kitchen business and Sanitaryware range introduced by the bath business this year.

Let us come to “Consolidated Financials.”

Revenue from operations for Q4 are at 4,636 crores lower by 7.1% over the previous year. For the full year, revenue from the operations increased by 5% to Rs. 20,211 crores. PBDIT before income for Q4 lower than previous year by 3.2% at Rs. 863.6 crores, higher by 10.7% for the full year at Rs. 4,212.5 crores. PBT for Q4 lower than previous year by 5.7% at Rs. 699.2 crores, higher by 9.7% for the full year at Rs. 3,634 crores. Net profit from continuing operations for Q4 lower than the previous year by 1.8% at Rs. 480.3 crores, higher by 25.5% for the full year at Rs. 2,779.1 crores.

“Standalone Financials.”

Revenue from operations for Q4 lower than the previous year by 8.4% at Rs. 3,879 crores, higher by 2.9% for the full year at Rs. 17,194 crores. PBDIT before income for Q4 lower than the previous year by 5.4% at Rs. 775.8 crores, higher by 10% for the full year at Rs. 3,857 crores. PBT before exceptional item for Q4 lower than the previous year by 8.8% at Rs. 649.5 crores higher by 8.7% for the full year at Rs. 3,446.2 crores. The PBT before exceptional item after taking into account the contribution of Rs. 25 crores made for the central and the various state governments COVID relief funds in March '20.

Taking into account the recent business performance and the increased uncertainty in business conditions as a matter of prudence, the company has taken a provision for impairment in the value of investment of Sleek to the tune of about Rs. 29.7 crores. Net profit for Q4 lower than previous year by 5.4% at Rs. 402.1 crores, higher by 22.5% for the full year at Rs. 2,654 crores. Higher growth in net profit as compared to the profit before tax is on account of the reduction in the effective corporate tax rate from 34.94% to 25.17%.

The board of Directors have recommended a final dividend of Rs.1.50 per equity share for the financial year ended 31st March. 2020. Taken together with the two interim dividends of Rs.3.35 per share and Rs.7.15 per share, the total dividend for the year would be Rs.12 per share as compared to the total dividend of Rs.10.50 per share declared in the previous year. This would result in total dividend payout of 51.1% for the year as compared to the 56.7% in the previous year.

Just an “Update on the COVID-19 Situation.” -

Business has had partial resumption since May 2020 and now most of the markets have opened for business. We have seen business picking up in most of the smaller towns and cities while business has been slow to pick up in the metros and tier-1 cities. However, the situation still remains fluid with a number of COVID positive cases on the rise daily and some states have again implemented lockdown in select regions. Safety of all our employees is the highest priority and all the facilities including manufacturing locations, sales offices and warehouses in India as well as overseas which have opened across locations have been sanitized so that our people are safe and secure. All safety protocols of temperature sensing, wearing of safety gears including masks, goggles and face shields, social distancing, sanitizing and washing hands are being adhered to very-very stringently. The company has also taken up various initiatives supporting the central and state governments in their efforts to combat the COVID-19 pandemic and has committed a sum of Rs.35 crores towards COVID-19 pandemic relief funds. The company is also working with various NGOs for providing food, masks and sanitizing.

Asian Paints being a ‘Responsible and Caring Brand’ has further strengthened its work in the health and hygiene space by launching Viroprotek range of hand sanitizers and surface disinfectants to support the government in its effort to tackle the spread of pandemic and address the huge need of hand and surface sanitizers in this testing times. The company has used the ‘San Assure’ service aggressively to sanitize large number of shops and homes. The company has also launched a “Safe Painting” campaign for ensuring safety of our painters and give assurance to customers for a safe painting experience at home and has received a lot of leads to this initiative.

We are confident that through these initiatives we would be in a strong position to not only address these difficult and uncertain times but also create far more resilient customer connect to drive the business forward. Thank you, everyone and we would be happy to take any questions that you might have.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

The other paint companies are saying that almost 95% paint shops are open, and in June the daily sales are now back to almost 80% of pre-COVID in most of the areas, so are you also seeing similar trend?

Amit Syngle: So if we look at the month of June, we definitely see an improvement which has happened over the month of May in terms of overall sales. It will be very difficult to put a number to it but I think that there is definitely a good improvement over the May sales which is happening and what we are seeing is that the consumer confidence is coming back. The only thing is that we have seen reinstatement of the lockdown in certain parts of the country in terms of TN and parts of Punjab. So, we are still very uncertain in terms of how the market really fairs.

Abneesh Roy: One follow up on the demand side because you are being an expert, so how do you see the demand in the medium-term? Why I am asking this is the jewellery company, Titan said that people will cut down on say overseas travel or marriage also will be toned down. People will spend on jewellery. So in paints also, can this happen that people will be spending more here because of feel-good factor. But can this become negated because of the social distancing norms which will apply in painting, so how do you see both those things, one positive, one negative?

Amit Syngle: To how we see the overall thing that the biggest I think the element would be that there would be two things which would be affecting it -- One would be that paint is a discretionary spend and it is up to the customer in terms of deciding what the priority is in terms of looking at it. Second, there would be a little bit of a paranoia in terms of getting someone from outside into your home and that is why we have looked at a "Safe Painting" campaign so that we can give assurance to our customers that today whatever service we are offering is safe and they can get people inside their home for painting. The third area is that home is going to become a very-very strong place for socializing and people will really value their home far more better in terms of an emotional connect than earlier. And given the fact that people are spending most of the time in the home, I think, people will look at really making their homes more beautiful and joyful as they kind of go ahead. So, given a combination of all that, we feel that if the situation really improves, I think the demand should be back from the point of view of a consumer so long as there is an assurance that the painting is safe and it kind of keeps them away from any of the dangers of contracting any of the diseases.

Abneesh Roy: On the margin how do you see, essentially you need to take price hike because 10% rupee depreciation and some custom duty in raw material? Second is would you delay the price hike because of the overall sentiment being very weak, job losses, salary cut? So how do you see pricing and margins in the medium-term?

Amit Syngle: In fact, the margins have improved because of the raw material prices coming down and some very strong work which we have taken on the formulations and the sourcing front. So if we look at it from the point of view as we kind of look at the market as we go further we would look at possibly passing this benefit to the consumer over a period of time.

Abneesh Roy: Any downtrading of the product profile you think will happen?

Amit Syngle: What we see is that as the market opens, there would be a consumer trend in terms of looking at 'value for money' products slightly more as we see it and therefore what we see is that there

could be some shift in the market in terms of people looking at going for a little bit better value for money products rather than super luxury products in the market.

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

Tejash Shah: Sir, you mentioned that there will be a lot of safety and hygiene measures that you will take to ensure that customer safety and even the painter safety. So this also involves that the cost of doing paints also will go up. So would you be charging it to customer or we will take it in our cost for now?

Amit Syngle: So largely when we have launched the “Safe Painting Campaign” what we do as part of the measure is we look at a lot of protective equipment given to the painters and look at sanitizing the place when people come in and when they leave. So by and large, we have tried to put it as a measure where there is largely no additional cost to the customer. There would be a minor Rs.1,000 to Rs.1,500 kind of a cost which can go up for a customer in terms of looking at all these safety measures. But overall it is not a very big cost in terms of what we are looking at as a safe painting practice and it is kind of built into the cost as we look at in terms of going. And not only this, we are also looking along with the safe painting, sanitizing service which basically sanitizes the place of the customers in a big way and we are trying to pitch all the services at a very affordable level so that the pressure and the burden on the customer is not very high.

Tejash Shah: Second, in terms of some geographic color on the recovery. I believe that your key markets, Tamil Nadu and Maharashtra, are still shut largely. So, is it a fair assessment that at least in the recovery phase your participation would be lesser than competition at this point?

Amit Syngle: No, I don't think so, that would be the case because we are fairly strongly represented across the country. And what we see is that across where market in fact Tamil Nadu was open for a good number of days and it just kind of got into a lockdown for 10-days now. And even in terms of Maharashtra besides the top cities, I think the other tier-3, tier-4 cities are open to that extent. But given our representation across the geographies whether they are in East or whether they are in South or whether they are in North and Central, we think given the fact that overall we enjoy a better share, I think the comeback would be better for us as compared to competition.

Tejash Shah: Is this correct that based on our channel check, East India is relatively doing better than rest of India?

Amit Syngle: No, I do not think so that is a case. There is a little bit relativity into this. In fact, some of the states even in south are doing quite good; Karnataka is doing quite well in terms of the overall performance and in East when we look, Northeast is doing better than possibly West Bengal and so on so forth. So, there are little differences all across the country but you cannot universally say that East is better than any other part of the country.

Tejash Shah: Do you think there will be any supply chain disruption because of the whole China crisis and how much are our imported raw material will be exposed to China sourcing?

Amit Syngle: We do not have a very significant exposure to China. There are certain raw materials which there is an exposure and that exposure would be close to about 8%-10% kind of a zone in terms of the total import items which are there. But as we kind of go forward, we have alternate sources and alternate vendors which are already identified. So, even if there is an exigency which comes in future, I do not think so it is a show stopper.

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

Manoj Menon: If I leave the noise of April, May, June.. lot of noise about sequential and which percentage.... I just leave it out. Just say if I cumulatively look at March plus June plus Sept plus Dec...if I look at calendar year 2020 as one full year and that too for a product category like paints where as an analyst I believe that your product is really not a perishable commodity; it is only postpone-able,, how do you look at demand for the entire calendar year 2020.

When I look at let us say in Indigo which is an airline company where it is a perishable commodity that if you did not fly, you just lost the revenue. But whereas in a paint, it is all about postpone-ability of the product. If I did not paint today, it is assumed that the consumer will paint tomorrow. So I just want to leave the noise out of the discussion and if I look at cumulatively March quarter, June quarter, September quarter and December, let us say if I look at calendar year 2020 as one block, how do you look at the demand for the entire 12-months?

Amit Syngle: Again, while you are right that this is not a perishable commodity and it is postpone-able, but what really literally happens is that for example a lot of people paint before the monsoons and they paint so that in the monsoon they are able to protect their houses and do waterproofing in their houses and so on and so forth. So what really happens is that some part of the demand is postpone-able but some part of that demand has also gone because then they would start to kind of look at painting in probably the next April - May cycle rather than looking at doing it in November - December. That is one. Second, there are occasions like marriages and other things which come in where the home painting kind of gets on; and possibly what really happens is those occasions also people might really kind of. cancel the painting per se rather than just deferring the occasion is finished. But at the same time there is a large maintenance sector which obviously where people are painting for giving their house good look after say four years or five years kind of a thing. That is definitely recoverable because people can postpone that demand and then can kind of do it at a later stage. Similarly, where the new construction is getting delayed, finally, it will get painted some time or the other and therefore that is also a postpone-able kind of a scenario. So overall if you look at from the calendar year point of view, there would be some parts which will be postpone-able, there would be some part which would be subsumed at that point of time and maybe it comes back up after a year, year and a half we do not know in terms of when it comes. So there is partially some sale lost, there is some good sale which is possibly postpone-able and therefore it is a mixed bag.

Manoj Menon: One second question here is the potential benefits of formalization, which I have observed in few other consumer categories; how relevant and for your industry at this point of time.

The smaller paint companies struggling and the larger ones outperforming in times like? Essentially the formalization benefit whether it is access to the market, access to working capital, etc., and I was told by paint companies in the past that about 30% of the overall paint industry in India is informal. So I am just trying to understand is there any material delta change for formalization, which is feasible what would have happened over let us say three or five years could now happen in six months?

Amit Syngle: Very difficult to say that such things would happen because see when we look at some of the smaller companies also, they are trying to in their own way fight back and look at in terms of whatever business they are able to get. Yes, they might get constrained with possibly not having the right amount of resources with them. But what I feel is that it is only a matter of time when they kind of come back and jump into the arena because the government is also kind of doing a lot of work in terms of assisting the MSMEs and looking at in terms of how they can hold their hands. We as a large organization also believe in terms of “Live and Let Live” kind of a philosophy and we would not kind of get really aggressive in terms of taking everything out in terms of the market. So I would say that the bigger players would have a little bit of advantage of larger resources and so on and so forth. But I think on the whole it is only a matter of time when everyone jumps in.

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

Avi Mehta: What would be the current input basket versus the 4Q average if you could kind of help us understand how should we look at the RM cost given the currency depreciation and crude price decline?

Parag Rane: I would probably not be able to give exact number here, but on an average even taking the rupee depreciation into effect in the current quarter, the portfolio level input prices would be lower than Q4 on a sequential basis.

Avi Mehta: And would it be like a double-digit differential?

Parag Rane: We will not be able to comment specifically on that.

Avi Mehta: And the second bit is the inventory levels. How long do you think that your existing inventory which you have as on date, a) would it be at the 4Q average and if it is how much time would it take to kind of play out?

Parag Rane: Our quarter’s closing inventory was definitely on a higher side in the month of March because of the lockdown, but then because of the corrective measures also taken in the month of April following the lockdown, I think on an overall level we would be at this stage probably closer to the average levels of inventory rather than being far off from.

- Amit Syngle:** We do not see any big accumulation of inventory within the company at this point of time. I think we are back to normal levels in terms of looking at overall inventory at this point of time.
- Avi Mehta:** You did see a lot of disruption, given the last week is typically the biggest week in terms of inventory build up at the channel, dealers try to kind of achieve their yearly volumes, etc., How does that play out now given that the lockdown is, is that entire volume now more or less done and people are kind of back to their normal levels essentially just trying to understand, is the pent up demand done in your view or if you could give any sense on that?
- Amit Syngle:** So you are right, there is a little bit of higher stocking which happens in the second fortnight of March which happens because of people completing their targets and the retailers also looking at some kind of a stock up. And normally retailers are able to dispose of that material in the month of April because there is not too much of a stocking which really happens. So, what we see is given the fact that April was not very great, when we opened in May, there was a pent up demand which was there which we could service very-very fast in terms of the various markets and currently I think the situation is pretty normal that there are no large pent ups which are there and I think in the month of May itself we were able to kind of tackle that situation..
- Avi Mehta:** And a bookkeeping, what is production level as a percentage of pre-COVID level?
- Amit Syngle:** So we will not be able to specify the level, but we are possibly I think in the range of about 60% to 70% level.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.
- Arnab Mitra:** In your opening comments you spoke about much lower recovery in the largest cities. So, is this limited to the large like 5-6 metros where the COVID fed is high or is it more a top 20-25 cities kind of phenomena? And if you could also give a broad contribution of let us say the metro cities to the paint industry volumes, that will be quite helpful?
- Amit Syngle:** It is not uniform in terms of all tier-1 cities and metros. To give you an example, like Mumbai is the most affected kind of look at from a metro point of view followed by Delhi and followed by Chennai from that point of view. But Bangalore and Hyderabad would be doing much better in terms of the overall performance and therefore the entire sector is selective in terms of when we look at some of the tier-1 cities. So for example some of the cities like Ahmedabad, Surat would be far more affected in terms of when we look at some other cities like Jaipur or Jodhpur or Indore kind of a zone. So I think there is a little bit of a differential which kind of really happens in terms of looking at it. When we look at possibly the tier-1 and the metro cities, they contribute to a good number in terms of at least about a good 40-50% of the demand coming from there. But I think the smaller towns are also now equally good in terms of what they are able to overall contribute. But to repeat basically it is not uniform that all tier-1 cities and all metros are basically not giving good business.

- Arnab Mitra:** Second question was throughout FY'20 we saw your value growth being almost a high single digit or double digit below your volume growth and that was because of specific efforts you had put on the lower end segment that you had launched. So now that has happened and you established that segment, going ahead also do you think that kind of value, volume differential will continue in FY'21 and going beyond that?
- Amit Syngle:** You must remember that India is a large market and it is always like a pyramid. You always have the bottom of the pyramid which is far broader and so on and so forth and therefore there is always potential in terms of looking to convert a person who is on the bottom of the pyramid to come into the organized market and look at an upgradation product which really comes in. So from that point of view, we feel that that is always an upgradation which is a continuous possibility which will happen. And as we look at the coming year also, I think that opportunity would still exist in terms of continuing to upgrade the people from the lower set to an upper product and from an upper product to a middle product and from a middle product to the relatively premium and higher end product. So I think it is a continuous upgradation in a pyramid kind of a zone which happens and I think it will continue.
- Arnab Mitra:** So just to clarify, the 10% kind of gap that we saw in this year, is that significantly above what is a normal situation because you put in a lot of new products at the lower end this year, while as you said it is a continuous process but the gap seems significantly higher this year in terms of value-volume though you had actually not taken a lot of price cut?
- Amit Syngle:** This year we have ended up with 11.2% volume growth and a value growth of about 5.5%. So the gap is close to about 6% if you see in terms of the overall thing. So I do not think so it is to the tune in terms of what you are mentioning but what we see is that as we kind of go forward there would be definitely some differential between the volume and the value which will still exist as we kind of go forward.
- Moderator:** Thank you. The next question is from the line up Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh:** A couple of questions: First, if you compare the growth trends in India market versus say non-India markets where it could be a 'Do it yourself' kind of a set up, how would you compare the two, pre-COVID, post-COVID comparison?
- Amit Syngle:** So obviously I think in any country where there is DIY percentage which is higher, there would be lesser affected in terms of looking at their painting demand getting affected because the consumers are able to buy it themselves and do it in their houses as compared to letting someone into their houses. So the paranoia of getting in a stranger into a house to kind of do painting is not there and therefore in any country where there is a DIY component which is higher would under these circumstances do better.

Prasad Deshmukh: So assuming that this paranoia continues throughout FY'21, do you see a possibility of do-it-yourself market actually emerging in India or companies like Asian Paints communicating to consumer that okay, that is also a possibility?

Amit Syngle: First of all, I think there are ways and means of addressing the paranoia and we are seeing now the market really opening up and we are already seeing that people are stepping out on the roads and a little bit of normalcy which has come in despite the cases happening because I think people are learning to live with it as we kind of go ahead. And therefore what we see is that the paranoia will decrease and people will start getting painters inside their homes and we have already seen that in the month of June after we have launched a campaign, we have got a huge number of leads from people in terms of asking to do the painting within their homes. That is one. Second, what I see is that over a period of time this DIY as a concept is a slight difficult concept from an Indian point of view because we are still a brick-and-mortar kind of construction. And what really happens in our type of construction that the substrate conditions are pretty bad in terms of the repainting exercise which involves a lot of repair and therefore from the consumers point of view, it is not so easy to kind of do everything yourself to that extent. So there could be smaller zones in terms of doing photo frames and doing small pieces of furniture and looking at doing small designs and stencils kind of a zone. But the larger painting shifting to a DIY is a little bit of a remote possibility.

Prasad Deshmukh: Sir, second question on labor availability. We keep hearing like 70% of paint jobs especially in metros or like done by a migrant labor. Could you just give some color as to what is that number ballpark and what kind of availability we are seeing right now?

Amit Syngle: Currently, what we are seeing is a little bit of an encouraging trend which lots of people tending to come back. First of all a lot of our manufacturing places we find that a lot of people have started to come back because there is an assurance of the job which is there and assurance of earning money which really comes in because a lot of people will not be able to stay without money for a very-very long time. So I think we have started seeing the trend happening and even as far as the painter community is concerned, we feel that people have started trickling in from a point of view of an assurance of jobs and so on and so forth. We just released a media campaign in terms of where we are talking of really assisting the painters with respect to insurance at work and looking at giving them assured leads in terms of work as we kind of go ahead. So overall what I feel is that even after holy month of Ramadan is also over, we are seeing that a lot of people have started to come back. And I think given the fact that there is also an harvesting season which happens in April, May, there is anywhere usual migration of a lot of people which happens in the April, May period too that extent. So what we feel is that people have started to come back and I think of the situation kind of improves we will have lots of people coming back by July and August.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

- Shirish Pardeshi:** I have a couple of questions: The first question is that you have given some commentary on India business in May and June. Can you comment how the situation is in international markets?
- Amit Syngle:** So when you look at the international markets, the Indian subcontinent which is the Southern Asian market is possibly a reflection in terms of how India is. So, if you look at Sri Lanka, Bangladesh and Nepal, they pretty much replicate in terms of conditions which are there in India to that extent. Otherwise, in terms of when we look at the other geographies in Africa and the Middle East today, I think those economies are doing much better because they have not had prolonged lockdowns and we have seen even in March, a lot of them were not closed. So geographies like Ethiopia, Egypt, then UAE, entire Middle East in fact are pretty good in terms of the overall business in terms of what is going on and we feel that those countries have been continuing and not been too much affected in terms of this entire COVID-19 issue. Indonesia is a little bit more affected as compared to the other cities and to some extent relatively less than India but Indonesia is definitely a little more affected.
- Shirish Pardeshi:** My last question is you said that you have 11% volume growth for full year. So can you specify what is the Jan, Feb and separately for March?
- Amit Syngle:** No, that would be difficult to do. You have the figures in terms of what it looks like for the Q4 and the other quarters earlier which we have spoken. But generally this difference has been in the range of about 6% to 8% kind of a zone and it is totally dependent in terms of the push which we are making in terms of some of those upgradation categories and the undercoats which we have been focusing on very-very strongly and that is something which is what I commented earlier.
- Shirish Pardeshi:** Just a last follow up on that. Have you taken any price correction in May and June month?
- Amit Syngle:** No, we have not.
- Shirish Pardeshi:** So last correction which was taken was in the month of January?
- Amit Syngle:** No, the last correction was taken as on 1st of December.
- R J Jeyamurugan:** Q3 of last year.
- Moderator:** Thank you. The next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman:** You had a significant capacity increase about 15 to 18-months ago. So has this push over the last four quarters at the lower end of the market been a function of that capacity increase where one you are obviously closer to the market which makes it easier for you to push these lower end products?
- Amit Syngle:** No, I do not think so. It is more strategic to in terms of how we kind of see in terms of business going ahead and then looking at a certain demand of the market and a certain thing where we

can grow the market. You must remember that we are a large player. And for us, growing the market is a more better strategy rather than looking at it in terms of taking the share from the market. So I think from our point of view, we keep on figuring out segments where we can tend to grow and so on and so forth and it has no linkage in terms of since that we created a market we have to force the certain products in the market.

Aditya Soman: And then secondly, any reason you stayed away from price cuts since December given that we have seen a significant reduction in input cost?

Amit Syngle: So as we said that, as we kind of look at the year going forward, we will definitely look at passing some of the cost in terms of the material cost which are there to that extent which is the advantage which we have bought and we will do at the opportune time as the markets really open.

Aditya Soman: Is there any risk that some of your competitors could do this more aggressively or they could increase say channel margins, would that be a cause of concern for you or you are not seeing anything of that sort at this point?

Amit Syngle: It is a free world. They can do whatever they want.

Moderator: Thank you. The next question is from the line of Mudit Kabra from HEM Securities Limited. Please go ahead.

Mudit Kabra: Broadly, my question has been answered, but getting into specifics, how much of titanium dioxide which is Rutile which is sourced from China and how much of it is sourced locally?

Amit Syngle: We cannot give those detailed breakup.

Mudit Kabra: My second question is what is the company CAPEX plan for FY'21?

Amit Syngle: We are looking at capex which is right now dependent on quarter-to-quarter kind of a thing and we are looking at the situation in terms of how it kind of goes. So, we are playing it by the year in terms of how it comes in. At the moment, we are looking at spending on items which are really urgent and necessary as we can kind of go ahead and we will keep on looking at reviewing this number as we kind of go ahead.

Mudit Kabra: What kind of impact do the company sees on the rural, urban ratio which I believe was 50:50 up till previous year?

Amit Syngle: What we feel is that for the interim till the time some of the urban markets are affected obviously the contribution from the rural markets would kind of really increase to that extent but over a period of time I think it will come to what it has been earlier.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva:

First question is basically, obviously in this lockdown most of the things are shut down, dealers, everyone would face a crunch. So in this process, I assume that most companies have stepped up their efforts to basically support the ecosystem basically suppliers or dealers or anyone whether in terms of credit or in terms of protecting the painter community from getting completely disrupted. I assume you made a lot of efforts there as well. But how do you see panning out vis-à-vis your competition as well in this quest of protecting the ecosystem if I may say, what efforts you have made and what efforts relative to the competition may have made. Where I am coming from is that when the channel filling happens again, as you also point out that in recovery you think that you will do better than others. Is it because of a lot of efforts that has gone in the ecosystem perfection and how this is panning out in terms of cost and benefits for you?

Amit Syngle:

I think we must remember it is not that we come and help people only in times of need. See, it is a relationship which any organization builds over a period of time with its customers and its all stakeholders which are there to that extent. And I think Asian Paints has been on the forefront in terms of building relationships with either vendors or influencers or retailers or any of the people who are the stakeholders in the entire business including the customers. So, what we have done is that even during this point of time, we have not been behind and we have looked at in terms of passing huge amount of monies to our retailers, which was a money which could have accrued to them in another three to four months and we look at settling the accounts very, very fast so that people have the liquidity in terms of being comfortable and the anxiety levels going down. Secondly, what we have really looked at is, being there with them in terms of emergency, whether it is aiding them for any medical help or ambulance or anything which is required, we have been always there. We have a 24x7 helpline which really takes care of any of the needs of the retailers which kind of come up. As and when they kind of just open their shops, we looked at offering free sanitizing of their shops to them. We also looked at providing a much better insurance package to all their workers who have come into the shops. We even looked at providing insurance packages to the contractors and the painters who are connected with their shops. We even provided them with a new layer of credit so that they are able to kind of feel easy in this environment and also aided them by providing them lot of business leads by doing various communication initiatives like “Safe Painting” and we have launched a new initiative called the “San Assure” which is the sanitization services which we have started overall. So the idea is to give them more and more business as we kind of keep on going ahead and look at improving that relationship forward in terms of going. So I think the list goes on in terms of the work which we have done and that is a continuous work. We do not look at it from the point of because it is pandemic we are working but I think that is the kind of intention and the relationship of Asian Paints that we keep on doing. And when we do this kind of work, we always see that competition really follows a lot of stuff which we do, but I think it is a question of who does it more and who does it better.

Amit Sachdeva:

My second quick question is I come back to mix again because I think Arnab asked as well, so the key question is the last year saw atleast not including Q4 but there was a larger impact of price deflation and much credit as we understood was driven by the mix-led change that was happening because of focusing on the lower end of the emulsions. And as I think that last year

was an extraordinary push on that product. So, what we want to understand is that whether this push would be augmenting in the same intensity as last year or one large impact has come and that impact would be lesser this year? But obviously value for money, etc., those factors will play out. But what we want to understand is to extent of price deflation which could be experienced as a result of this factor alone. As the recovery happens in Q3 and Q4, how should we appreciate that aspect of mix?

Amit Syngle:

As I said, we go by creating a certain kind of a market demand and some of these segments which we approach is not a one-year game, it is a game which is basically spread over a few years because today consumer habits, consumer behaviors change over a period of time and we see this upgradation as a continuous process in terms of which kind of really happens. In this process, we have also seen some of our super-luxury products doing extremely well in the last year. So, for example, when we look at the area of wood finishes, we find a lot of our top ends premium products are moving very-very well in the market. So I think it is a mixed bag in terms of what really happens. You must remember that the volume overall are much larger at the lower end, therefore to some extent lower end growing does not mean the top end is not growing. So I think that is the distinction you must remember, but given the fact that the size of the top end would always be relatively smaller than the size of the bottom end. To that extent, there would be a difference between the value and the volume which will come in terms of the product. So net-net this effect overall will continue in terms of what you see and I think it will continue more also from the point of view of the fact that I felt that given the situation is exceptional, people would start looking at a little bit of a downgrading and looking at in terms of also kind of going for more 'value for money' products.

Amit Sachdeva:

Any cost measures that you are taking to sort of contain and minimize like you are taking some exceptional costs instead of aiding the ecosystem and managing this period. But has that come with some sort of substantial cost savings that you have initiated as well which should be aware of in some A&P or any other spends that you are trying to economize; how we should think about the overall spends, non-COGS and basically incentive spend or should we see some reduction there this year, how should we think about other costs?

Amit Syngle:

Very difficult to say for this year because this year is not going to be a little bit of an a normal year. So we do not really know in terms of which way the winds are going to go as we kind of go ahead. So to really kind of talk about minute things in terms of how advertising, how promotion expenses, how marketing expenses would look like, it would be very difficult to say. But I have always maintained that when you look at some of the measures on marketing in terms of building a brand, it is not like an on/off switch that you can switch off at some time and come back when it is convenient to you. Consumers can really dump brands which do not really kind of communicate with them and do not have the saliency over a period of time. So I would say that we would not look at any short-term measures in terms of going forward, but kind of maintain a balance in terms of going ahead.

Moderator:

Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

- Latika Chopra:** My question is regarding your product mix. Clearly, over the last 12 to 18-months, we have seen a significant shift towards value for money on economy end and at the same time over the recent years, waterproofing has emerged as a segment. As you conclude the full year would help to understand, if we could get some color on how the contribution of these two categories would have changed in your portfolio mix over the last three years and importantly how do they play at the gross margin level because you did mention reformulation and sourcing efficiency, so some color on this would be appreciated?
- Amit Syngle:** Actually, how we look at keep on doing is that there is value addition in terms of the formulation sourcing efficiency across the set of products. It is not that we look at only value addition or formulation efficiency only at the low end set of products. So it is a continual process because you must remember that in a paint industry the material cost is a very-very substantial component and therefore there is always an opportunity in terms of keep on working in terms of formulation and sourcing efficiency which we kind of do across the range of products. Having said that, there are certain categories which we have really driven strongly and waterproofing is one of those categories and some of the upgradation emulsions are those categories and we enjoy a fairly decent margin in terms of those categories as well because there is no point in terms of pushing a category and therefore kind of taking a hit in terms of your margins as you kind of go ahead. So I think it is a balance push in terms of what really happens in terms of what you want to do. But there is no kind of sourcing efficiency just at the value added products point of view. It is all across the portfolio in terms of how we see.
- Latika Chopra:** So, if I have to understand your waterproofing portfolio will be in line or to your aggregate margins but for a value for money portfolio will be also similar gross margin profile on an average basis or not very dilutive?
- Amit Syngle:** So it will depend from product-to-product. So if you look at from the point of view of certain categories, they would be comparable with possibly the margins on the top end products as well.
- Latika Chopra:** The second question I had was on dealer distribution. Would it be possible for you to share a broad year base as you ended March '20? And what are your thoughts on expanding it further...what kind of opportunity headrooms you have there?
- Amit Syngle:** As we said that, that is an ongoing opportunity in terms of what we keep on doing and every year we add to the overall retail network in a very-very strong manner. And these are basically into new towns, new geographies, we keep on expanding so that basically we have a good representation across various clusters across the country. So even last year we had a very good number addition in terms of what we have done overall in terms of the network and what we see is that as normalcy hits this year as well I think that initiative will continue.
- Latika Chopra:** Is it possible to share what will be rough broad pace of your retailer network?
- Amit Syngle:** No, we will not be able to share the numbers with you.

- Moderator:** Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.
- Nikunj Doshi:** Just wanted to get your views on the infrastructure industry and projects demand. What is the trend right now and what do you see in the months to come?
- Amit Syngle:** Currently, I think obviously the area of new construction, new projects, institutional segment industries, all that segment is definitely down. And we have seen even construction... government has asked for captive labor and things like that. They have got affected by migrant labor going and so on and so forth. Currently, I think there are two factors prevailing. One is that a lot of construction work has not started. New projects are not coming up. And third, the issue is the money markets are very, very tight in terms of how the builders kind of see in terms of for themselves. So, what we see is that it is going to be a slow process for this business to kind of come up. But I think the government is trying to give a lot of initiatives so that basically we can look at it in terms of growth here as well to that extent and especially in the month of June a lot of builders coming back on the anvil terms of looking at starting their construction. And that is something, hopefully should accelerate.
- Nikunj Doshi:** What percentage of our revenue would be coming from these segments – Infra, Projects and Industry?
- Amit Syngle:** So it would be less than 10%
- Nikunj Doshi:** And in terms of the waterproofing product portfolio, if we have to compare a product range with say Pidilite, Dr. Fixit.. do we have any gaps in terms of the product range or we have all these products that perhaps Dr. Fixit has?
- Amit Syngle:** See, as an organization, how we work is that we basically look at more consumer and what consumer is asking for and do we have a product to give from a consumer's perspective in terms of giving a solution to the customer. We do not really compare our products one-on-one with any existing player because what we believe is that Asian Paints has got a very-very different philosophy as far as new products and innovation is concerned. And this is very customer-centric and not centric to any other company which is already existing. And I think that has been basically the DNA of the organization and which has also helped them in terms of growing. So, we do not really look at me-too products. We always look at products which are innovative, new and really aligning to the customer's demands.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** This seems to be a very opportune time for the home painting services that we have been investing in for the past few years to kind of take off, probably have an inflection point. Would you agree with that? And to that extent, are your efforts in this direction a lot higher than it was

in the past in terms of kind of promotion of it or the employees involved with it and various aspects?

Amit Syngle:

Asian Paints has always been into the servicing business in a very-very strong manner and that is something which we have been pursuing almost for the last about 20-years where we have Home Solutions kind of a brand which looks at in terms of giving painting service to people around and we have done a lot of good work in the last about 5-6 years in terms of bringing a lot of capabilities to this entire service as we have gone ahead. We have also now equipped our retailers in terms of offering services which are very strong with respect to painting services. It is just that at this point of time we looked at a “Safe Painting” campaign which came in more from the point of view of a mindset that if there is a paranoia in the customers mind and we need to really kind of assure the customer, here was a trusted brand as Asian Paints coming in and assuring you that we will paint your house without anything happening to you along with that and our launch of sanitizers and the sanitizing service has also really helped us because now we are offering a complete package to the customers in terms of saying not only we are safe, we are also sanitizing your places and we are kind of coming in. So, I would say that the only interjection which has happened to the entire painting service is more the elements of safety and the sanitization which we have introduced now.

Pulkit Singhal:

To that extent, I mean, the customers willing to pay a bit higher but to get the safety and hygiene aspect in place and therefore looking at the service?

Amit Syngle:

Yeah..Normally in India, see, it is very difficult to really get a real differential pricing from a servicing which is there to that extent. So, you need to be very-very frugal in terms of what is that extra which you are asking and you must kind of ensure that the customer sees value for money in terms of paying that extra which is there. As I answered some questions earlier as well, we have not really kept a huge premium in terms of offering a safety or sanitization kind of a zone and it is something which is easily affordable.

Pulkit Singhal:

But in terms of the revenue, if I just look at a) Rs.100 is what you get for the paint and Rs.17 is what you make as operating profit, I am just looking at your P&L. When you offer this service, how much incremental in terms of revenues do you actually make and what are the margins there, I mean, is 100 going to 110 or how does it work?

Amit Syngle:

I can only tell you that we don't make a loss.

Pulkit Singhal:

Secondly, on the sanitization space, I mean, with the launch of hand sanitizers and the service, would you also be open to considering or are you considering going into the FMCG area also in terms of creating a brand there, is that something that you are open to?

Amit Syngle:

We have looked at really focusing on the health and hygiene category. As part of that health and hygiene category, we already had a brand called “The Royale Health Shield” which was there which is an anti-bacterial paint for homes and as part of that we have looked at extensions in that category as well. Along with that, we are riding the whole area of sanitizers into that zone

because it kind of aligns with our health and hygiene forays which we are kind of taking. We have also set up a parallel distribution system in terms of reaching out to the FMCG distributors and looking at in terms of going to the normal FMCG shops. And therefore we are looking at this business kind of seriously as we are going ahead.

- Pulkit Singhal:** And therefore soaps and hand washes could also be an extension at some point in the future?
- Amit Syngle:** We have not thought about it.
- Moderator:** Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.
- Tejash Shah:** One follow up. In the last quarter you had said that CCI complaint was relatively new. So, any update on the same and any contingent liability we had to provide for us?
- Amit Syngle:** No, we have not provided any liability and I think there has been no kind of follow up on that.
- Tejash Shah:** And sir, just in relation to the previous question, I believe you have also entered into PPE segment. So is this largely a social obligation or a CSR activity that we have taken on ourselves or we are seeing a business case also around all these launches?
- Amit Syngle:** So we were already in terms of the PPEs because some of the products like wood finishes and other things are largely sprayed in the market and from the point of view of caring for our painters and contractors we used to anyway kind of get into providing them masks and so on and so forth so that their health is kind of taken care of. What we did at this point of time given the pandemic which is there, we just kind of accelerated our entire initiative in terms of looking at providing far more safety equipment in terms of going forward. So what we are doing is that it is obviously not a flash in the pan. But what really definitely happens is that as we are kind of going ahead, we are looking at in terms of what kind of safety equipment is something which is sustainable. Masks definitely are required as far as painting is concerned in terms of looking at it and so is the sanitizing liquids and other options which are there.
- Moderator:** Thank you. The next question is from the line of Yung Ken from Tokio Marine. Please go ahead.
- Yung Ken:** I would like to ask about the sanitizer business. Can you provide any revenue guidance or profit guidance and since it is a new business segment where you are building new distribution networks, is that a business that might be loss-making in the beginning, could you provide some guidance on that?
- Amit Syngle:** We got into this business at the behest of the government and the entire purpose for starting was more in terms of looking at a point of view of helping the government and looking at helping the NGOs. So we started this business at a very short notice in terms of looking at getting into it, but it kind of aligned with our health and hygiene kind of a business going ahead. So currently how we are looking at is we are kind of just catering to the demand in terms of the huge demand which is in the market. We have not really sized up in terms of how much we would like to kind

of do and what are the kind of numbers we have in mind in terms of going forward. But yes, we are looking at in terms of catering to the market demand in a very strong way and we have built some innovative products as well in the entire segment. So I think the entire point is not to kind of look at some very high revenue number, but look at in terms of sanitizing becoming a very strong part of our safe painting activity and look at our alignment with the home. The whole home sanitize itself is becoming a very-very strong initiative in terms of going ahead.

Yung Ken: My second question is on the CCI. Any update you can give us on that?

Amit Syngle: I just answered that question. There is no update post that because I think of the COVID.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global. Please go ahead.

Ashit Desai: My question was on trade scheme discount. If you could give some color on what is the kind of competitive activity? And in this kind of scenario, are you able to cut back on these spends or you have to spend more to get painters and other workers back to the jobs?

Amit Syngle: So as I was saying that there is definitely some additional spends which are there from the point of view of looking at providing some of the things to help our stakeholders, the painters everywhere to that extent we have extended some insurances, we have started looking at in terms of even providing the safety equipment to a lot of painters and to our retailers. So, I think that is definitely a cost which comes onto the system. But I think that is cost well spent because it is a case of building relationships in terms of going ahead. As far as discounting is concerned, yes to some extent, some discounting has been there which is a little bit kind of attractive propositions to really boost the confidence to the retailers. But there is nothing which is so extraordinary which is there, but definitely there is a little bit of incentivization which is higher in this period.

Ashit Desai: My second question is if I remember correctly, I think you talked about Q4 volume growth to be in low single digits. So, if we look at the difference between sales and volume, it seems to be more than 10% this quarter which is higher maybe compared to Q3, even for the full year numbers that you released?.

Amit Syngle: No, I do not think it is higher than 10% because I think the top line is to the tune of about (-8%). So I do not think so it is too much higher. It is in the same bracket which I spoke of earlier.

Ashit Desai: Yeah, I was referring to the full year numbers of 11.4% and 5.6%.

Amit Syngle: That is about 16%.

Ashit Desai: If you could give some color on this what is driving incremental delta and will this increase or remain at these levels? You have answered some of these before but if you could give some color as to what are the growth between Emulsions and the Putties and the lower end baskets

basically, if you can give us the growth for emulsions for the year and the putties and construction chemicals, that has been...?

Amit Syngle:

I will not be individually able to give you specific for each segment, separate growth kind of zones, but what I can tell you is that... as I answered someone earlier saying that when you look at that these are large kind of markets which are there. So, if you look at a typical pyramid, you will always find that the pyramid is broader at the bottom end and therefore similarly what really happens is that when you get at the upgradation segments and the value added segments, they are fairly huge. So to that extent what I can tell you is that in all these areas definitely the growth has been pretty good in terms of what we have been able to achieve and easily we could say that it is more than double digits.

Moderator:

Thank you. As there are no further questions, I am now hand the conference over to Mr. Amit Syngle for closing comments.

Amit Syngle:

Thank you so much for all coming here. I once again apologize for making you wait for so long. But I am sure we are looking forward to this pandemic coming to closure fast and looking at more normalcy in the business and economy as we kind of go forward. Thank you so much.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Asian Paints limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.