



“Asian Paints Q3FY 2020 Investor Conference Call”

January 22, 2020



Management :

Mr. KBS Anand : MD & CEO
MR. Amit Syngle : Chief Operating Officer
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 Q3 FY2020 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 touchstone 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 Call for Q3 FY20 Results. On the call, we have Mr. K.B.S. Anand – MD and CEO; Mr. Amit Syngle -- Chief Operating Officer; Mr. R.J. Jeyamurugan -- CFO and Company Secretary; and Mr. Parag Rane -- GM -Finance.

I now request Mr. K.B.S. Anand to take the call forward.

K.B.S. Anand: Good evening, everyone, and thank you for participating in this call.

The Paint industry continued to be impacted by adverse macroeconomic conditions in the domestic economy as well as adverse impact of extended monsoon till almost October end. Demand conditions have been weak and in an economy with a large domestic consumption sector, this is getting reflected in the multi-year low GDP growth rates.

These adverse factors coupled with some preponement of sales to the second quarter given an early Diwali this year as compared to the previous year, had an impact on our domestic decorative business with volume growth in low double digits. As stated during the second quarter result call, we continue to focus on our strategy to grow the bottom of the pyramid with large push on the economy range of products which continue to grow at a much faster rate than the premium range of products. The Smartcare waterproofing and Adhesives product range also grew well. Focus on Décor through the Paint Total service continues to be pushed forward. Material prices remained benign in the quarter and we took one more round of price reduction in a few solvent based products, amounting to a price reduction of 0.25% at the portfolio level. This takes the cumulative price reduction during the year to slightly above 1% at the portfolio level.

The persistent slowdown experienced by the automotive industry continued to adversely impact the Automotive coatings JV (PPG-AP). The Industrial coatings JV (AP-PPG) saw a demand improvement on a sequential basis as compared to the first two quarters of the financial year particularly supported by demand in the Protective coatings segment. Both the JVs registered improvement in profitability on the back of lower material prices and contained growth in overhead costs.

In the International business portfolio, the overall performance was impacted by slowdown in Oman and Bahrain as well as impact of extended monsoon in Sri Lanka. However, improvement in Egypt and Bangladesh helped negate some of this adverse impact during the quarter. Revenues

from the greenfield operations in Indonesia grew well in the third quarter. Benign material costs supported the profitability of the international operations.

Both the segments within the Home Improvement business – the Kitchen business under Sleek and the Bath business under Ess Ess, faced challenging conditions with slowdown in the real estate construction space impacting the Projects segment for both these businesses. However, the retail segment for both the businesses continues to grow well with good growth in the Full kitchens business and Sanitaryware range.

CONSOLIDATED FINANCIALS:

- Revenue from operations has increased by 3% to Rs. 5,420 crores in Q3 and by 9.2% to Rs. 15,576 crores in 9 months.
- PBDIT before other income increased by 7.9% to Rs. 1,208.6 crores in Q3 and by 14.9% to Rs. 3,348.93 crores in 9 months.
- PBT increased by 8.4% to Rs. 1,057.3 crores in Q3 and by 14.2% to Rs. 2,934.8 crores in 9 months.
- Net Profit from continuing operations increased by 20.3% to Rs. 779.7 crores in Q3 and by 33.3% to Rs. 2,298.9 crores in 9 months.

STANDALONE FINANCIALS:

- Revenue from operations increased by 2.7% to Rs. 4,657 crores in Q3 and by 9.5% to Rs. 13,315 crores in 9 months.
- PBDIT before other income increased by 7.8% to Rs. 1,117.9 crores in Q3 and by 14.8% to Rs. 3,081.2 crores in 9 months.
- PBT increased by 8.1% to Rs. 1,017.4 crores in Q3 and by 13.8% to Rs. 2,796.8 crores in 9 months.
- Net Profit increased by 20.1% to Rs. 758.9 crores in Q3 and by 33.1% to Rs. 2,201.9 crores in 9 months.

Higher growth in Net profit as compared to Profit before Tax is on account of the reduction in the effective Corporate Tax rate from 34.94% to 25.17%.

CAPEX : As mentioned in the previous quarter, the CAPEX plan for the company for the current year is about Rs.700 crores.

Going Forward : The demand conditions for the paint industry continue to remain challenging and uncertain, reflecting the overall slowdown in the economy. We would continue to monitor and respond adequately to the evolving demand conditions. On the cost side, there has been some increased volatility in a few key raw materials. We will need to watch out for any sustained movement on the raw material cost front. In the international markets, we will have to be careful about the emerging situation in the Middle East as well as business conditions in key markets like Sri Lanka and Bangladesh.

Thank you, everyone and we will be happy to take any questions you may have.

- Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** I had a question on the difference between the volume growth and the revenue growth that we have been seeing for the last few quarters. Now, in the start of the call, you said that you had focused on growing the economy segment, and that is what has been the focus. Is that the key reason for this realization decline that we are seeing of almost about 5-7% (+) and hence is this expected to continue as we go forward?
- Management:** There is definitely a continued focus. We have introduced two new economy emulsion products, priced 15%-20% below the lowest priced product we had in the past. These have performed exceedingly well in all markets. The second factor is the slowdown in construction and the general mood has affected metros and tier-1 towns to a much greater extent. The smaller towns in the rural sector has continued to grow. So, these two factors compounded together have magnified it. Now if there is a change in the environment, things will change.
- Avi Mehta:** Sorry sir, the first part I understand. But then the growth rate in these segments have to be significantly ahead. Is the metro and tier-1 impact much more ..?
- Management:** No, Our rural, urban divide is about 50:50.
- Avi Mehta:** So you are saying that the mix is essentially a little different in the rural side because that is growing strongly, the mix has been impacted plus the focus on economy. Is that understanding correct?
- Management:** Yes.
- Avi Mehta:** The first one that you highlighted, that is not in our hand, but the second one is in our hand and that is going to be the focus that will continue?
- Management:** Yes, so we are getting growth in the smaller towns and in the rural markets. So definitely we will focus there.
- Avi Mehta:** Sir, in that case, while the focus on economy that you are highlighting, what exactly is driving that -- is this GST linked still, if you could share some comments on that as well?
- Management:** That can only be an hypothesis. It is very difficult to gauge unless we have published figures of the unorganized and smaller sector; its very difficult to identify. That could be one factor in the whole thing.
- Avi Mehta:** Second question was on the other expenses. You kind of controlled it exceedingly well in this quarter. What was the reason for that, just trying to understand that?
- Management:** When sales is tough, you have to control other expenses.

- Avi Mehta:** So, it is not marketing-linked, right, it is not one-off in nature, it is more...?
- Management:** It would be a little marketing linked, it would be a little other linked, I mean, it is all around.
- Avi Mehta:** So would nine months growth rate be the apt number, or would the absolute number be a better metric to kind of look at?
- Management:** Sorry, we give no forward projections.
- Avi Mehta:** Lastly is the CCI case. Is there any precedent on how one can look at this case?
- Management:** It is the first time for us also. So I cannot really give you a precedent. Majority of our dealers and stockists have multiple counters, they deal in all companies. So, even with the complainant, we have many counters that are dealing with both the companies. So, it is very difficult to understand the whole situation. We have asked CCI for details. Once we get the details we will probably be in a better position to answer.
- Avi Mehta:** Typically, sir, any precedents on how long these cases typically take or any idea if you could share because in the other example, cement, it is a different scenario altogether. So I do not have supply related. That is why I was just kind of reaching out in case your team has looked at something which has...
- Management:** It is totally dependent in terms of what charges are there and what is the justification which kind of goes. So, it is very difficult to put a timeframe on this.
- Moderator:** Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.
- Amit Sachdeva:** Coming back to revenue and volume mix, it is obviously, that sort of equation between pricing and volume has accelerated in the last two quarters given your economy push, and I see that you suggest that this will continue. Can you give us some understanding of what percentage of the revenues in that segment is representing in the domestic decoratives side?
- Management:** Sorry, we do not really give split ups like this. The only split up I gave you is that from our point of view about 50% of the market which is the tier-2, tier-3 rural markets seem to be growing reasonably well. It is the larger towns, metros and tier-1 towns that are a little slower.
- Amit Sachdeva:** But sir given that this mix is sort of changing, but gross profit has obviously still remained quite strong in that sense, is the mix although is deteriorated in some sense because of these two factors, but is the gross margin not much different across two products, like main emulsions and bottom end?
- Management:** Gross margin may not be very different.
- Amit Sachdeva:** Gross margin is still the same even though the product is 20% cheaper?

Management: Not too significant in difference between these two... Because, there is a certain component of the material cost which is there. So to that extent, margins are not very-very different if you see from the point of view of economy and premium.

Amit Sachdeva: So from your point of view, you are happy to sell more because at least margin is not getting impacted, you are getting more volume. Where this volume is coming from, like do you see this is a newer segment of customers which are buying or you see expansion of market as a result or is it something that your emulsion customer is now downgrading to this product?

Management: It is very tough to answer this question very simply because people do not paint every day. They paint in three to five years. Whether they are newer customers or customers from different segments coming in or the reach is... a very detail research has to be done to really understand that.

Amit Sachdeva: The reason I ask this question is there is obviously we see that because the labour cost being significant, general understanding is structurally material is premiumizing because labor is inflexible, and so people tend to put premium material as a result, so material is a small fraction of the total cost. So I am just trying to understand, are you gaining market share from maybe unorganized? So when dealer pick up the stock and I assume that dealers give some indication of what kind of stock they are picking up. And do you see their intent is to buy the cheaper one more and they are pushing it more or what sort of dynamic from the dealer side that you are experiencing to selling it?

Management: What really happens is that as part of overall focus, we tend to kind of see that if there is an upgradation which we can do of the customer, we try to kind of push basically the full range of emulsion which is there. Now sometimes what happens is that it is the dealers' propensity that depending on the kind of customer which is coming, he tries to basically upgrade the customer to the next product. And in some cases what we have seen is that the upgradation is not generally linear. So the upgradation can happen in the economy emulsion, and the upgradation can also happen to the luxury emulsion to that extent. So, there is no linearity that a customer who is coming in the cycle first will go for economy then will go for premium and then will go for luxury. So, it is a very difficult question to really answer in terms of how that upgradation is really happening because the upgradation actually is non-linear.

Amit Sachdeva: The reason I said that whether this trend worries you more or excites you more, because end of the day you are getting more volumes for sure. But you would much rather have volume which also gives a higher salience because your gross profit get maximized there. So given this trend as a company when you look at structurally how your segments are evolving, does it give you a little bit long-term worry or it is like very exciting for you that we are cracking new segment, that is where I am coming from.

Management: So, excitement and happiness are very relative terms. So, what we are definitely looking is that as from the point of view of today, we are able to kind of look at saying that the brand is going in a certain direction. We are able to kind of look at maximizing our reach and looking at in

terms of the overall objective getting fulfilled. We would kind of go in that direction. Obviously, we would like to sell more premium and luxury products as we kind of go for. But we would also at the same time, try to really reach out to every customer who is there on the environment. And therefore I think at the moment given the situation the way it is, we are okay in terms of the current direction which is it is going. So, we would have loved the metros and bigger towns also to grow very well for us, but it has not happened that way.

Moderator: Thank you. The next question is from the line of Nilesh Soman from Keynotes Financial. Please go ahead.

Nilesh Soman: Sir, my question is that, is there any hope from the budget for the infrastructure side and you rely on the infrastructure because you deal in the industrial side as well as home decoratives?

Management: The Prime Minister and everybody has talked of spending much more on infrastructure. But if you are saying what has to come from the budget, I think we need to wait for only a few more days.

Nilesh Soman: Second question is that is there any strategy for the distribution network from your side since you are focusing on the economical side? So two years before the budget government has announced that 2020 is a home for everybody. So do you have any strategy regarding that for the distribution network also?

Management: We have a very intensive distribution network with about 140 depots, sales force of almost 2,000 reaching to about 65,000 to 70,000 shopkeepers all over the country. We look at expanding that on an ongoing basis every year going to new towns and new locations because today towns are also growing. So, we look at expanding that on a regular basis and is a part of our critical objectives on an ongoing basis for the last 30-40 years.

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

Shirish Pardesi: I am still struggling in my mind. You are saying 3% revenue growth and double digit volume growth. Whatever you have said, there are two things out of my experience I am saying. In the such big economic situation where dealers are struggling, liquidity issues, macroeconomic challenges and yet we are seeing that rural is growing faster. So, is there any credit enhancement which you have extended to your dealers? What kind of discounting which has gone up because if I see that in current scenario, if there is a demand, the dealers have become more and more savvy and they want to have more discounting. So these two things what we are assessing is true.

Management: Paint dealers I think have always been very savvy. So, they have not changed on that regard. But I agree with you when demand is very good, the pressure on them to demand more from companies is less. And when demand is not that great, they themselves are searching for ways to make more money. That does happen. So, discounting may have gone up marginally in this quarter, but nothing really significant, and absolutely nothing on the credit front. We quite like

to adhere to the policy because the credit problems faced by the retailer are actually much more than by us. If we give him credit, we actually encourage him to give credit further which is a dangerous exercise.

Shirish Pardesi: Because what I learn from the trade is that the discounting is higher, that is for true. But I am still surprised that we had a weak quarter, I mean, obviously we had a higher...?

Management: Remember one thing, last year in this quarter we grew by 27%, it was an early diwali and a good diwali. So this year you had a Diwali, which was about 20-days later. You had an extended monsoon that came up to I think 10th of November, if I remember right. You had a severe winter that started in the north. I am not going to all individual factors. I think one should really go by year-to-year growth rather than quarter-to-quarter growth. If you remember in the last quarter I actually said I am not very happy because the quarter should have been better given that it was an earlier diwali.

Shirish Pardesi: Correct sir, Mr. Anand, that is what my point is. If I read that we had a prolonged rainy season in west and other parts. So my assessment is that your trade inventory which was about 20-22 days which with this kind of push would have gone up. So, why the trade has picked up inventory and the inventory stocking has gone up, that it would be significant...?

Management: Trade does not have too much inventory. It fluctuates at best 10-days between one end and the other. They do not have space to keep stock.

Shirish Pardesi: So you are saying that the trade inventory is still in the control and we still have push factor which can still...?

Management: Individual dealers may vary here and there, but in a sense it is the same.

Shirish Pardesi: Amit, I understand, but I am only reading...Mr. Anand has given in his press release saying that double-digit volume growth has impacted by the slowdown in the overall economy. So, if economy would have done better, you would have done higher volume.

Management: Yes.

Shirish Pardesi: We have been seeing that Middle East and this part is still becoming a problem, I mean, Egypt and all. Do you think any good signs that recovery will happen in...?

Management: So we said that both Egypt, Bangladesh, Indonesia have actually done well in this quarter and there are signs of recovery. What we are worried about more is Bahrain and Oman which are going through a tough patch.

Shirish Pardesi: Just a last question on this Home Improvement business. You said that project business has slowed down, I mean, also last quarter have said that the retail business you had done a fantastic job. What kind of contribution we would be getting from retail or maybe from project business?

Management: While I would not give you the exact percentages, the contribution in the case of bathrooms and kitchens is much higher in fresh construction as you will realize compared to the repainting business. Even when you refresh kitchens and bathrooms, you would not do it every three years or five years, the frequency is much less.

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

Tejas Shah: Question is slightly an extension of the earlier question. So how would you suggest to reconcile our current growth momentum with the macro commentary? Should we say that double digit volume growth in 4%, 5% GDP growth environment hence we are bucking the trend or value growth of 3% matches with our overall macro read of very benign outlook? And how do you prioritize internal benchmark of your performance -- is it on now value growth or volume growth?

Management: Both value and volume. We try and grow the fastest both by value and volume. We have not been able to successfully derive the GDP co-relation. The other essence is that so long as there is growth which is happening, I think it is always a good sign in tougher circumstances. So, we would kind of say that it is not that we would run after only volume or we would run after only value. We would obviously like to grow both value and volume in a strong way. But I would say that under the circumstances if you are able to kind of grow at such a volume, I think to that extent a reasonable performance.

Tejas Shah: This volume growth at March-end, is it coming largely from other organized players or is it also reflection of unorganized to organized happening?

Management: So very difficult to again say that. We have not seen any results of the other organized players which have come in and neither we know in terms of specifically how the unorganized players would have done. But I think the reason to believe is that today in a way you would have affected both in terms of looking at the kind of volume growth which have come in especially when you look at the fact that your tier-2, tier-3, tier-4 cities have grown at a good rate to that extent. So, in those markets I think given the fact that you are a larger player you would have affected.

Tejas Shah: In last quarter's call, you touched upon Waterproofing doing very well and we are having ambition of becoming top two or three players very soon in that space. But when we look from consumer perspective, we have not put our branding prowess behind the segment. So we do not see that much advertisement spend aggressive one on this count. So any insight you can share on that?

Management: So today when we look at the whole area of waterproofing and construction chemicals, from the point of view of just brand promotion plays a very small part. What plays a stronger part is more the education of the customer and the solution which we can provide to the customer to give for a certain problem. So today the entire work which we do is around, one, educating the customer in whatever way we can do; secondly, in terms of equipping the retailer to offer the right solution for what the problem is there at the customer's end; and third, in terms of investing in the training

of the applicator so that he is able to apply the product to give the right solution to the customer. So there is a huge investment which we think is a long-term investment we are doing in terms of looking at really affording the right solution to the customer so that the equity of the brand is built through trust and expertise rather just looking at basically above the line advertising and other things which in general a brand would do.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal. Please go ahead.

Pulkit Singhal: One of the things we realize that because paints is not really sold on MRP, the more the market share a player has, it results in more discounting at the dealer level and he ultimately earns lesser margin on selling an Asian Paints product versus the other players. I mean, in some ways the market share kind of goes against the dealer itself. So he is more incentivized to probably sell this #2 or #3 brand if in a locality you have a lot more Asian Paint dealers. So, how do you take care of this situation and try to maintain your market share in such areas?

Management: So you are talking at a very basic element assuming three things. Assuming all products are equal and all companies are equal in terms of the products and services, they give to consumers. You are also assuming that it is the consumer really who is the only one person buying. And three, that the shopkeeper is always comfortable in making a very high margin. If I answer each of these separately, I think we provide much better products and services than most of our competitors. The activity and support we give consumers to handle any complaints that may arise out of painting with Asian Paints in their homes is of a totally different order. And although the complaints may occur due to improper application or improperly treated substrate, we attempt to assist the consumer to resolve all these issues and problems. This thereby gives a strong level of reassurance both to the customer as well as the applicator who feels that the company stands by him whenever he faces issues as well as the dealer who says, "Look, I am now selling the product. The company is going to take care of any issues that may arise." When you have a higher market share, I will agree with you that the gross margin you make on every liter sold would be lower. But if you take the ROI or the investment he makes due to the rotation of the stock, it will probably be much-much higher. On an average, our dealers rotate the stock at least 15 to 20x a year. So, if you build that into the margins they are making it becomes more reasonable. Simultaneously, in our own way, we provide a lot of services to consumers which attract them to the brand, and in a product that is used once in three years or once in five years, the biggest brand equity comes with problems faced in the past or problems they have seen faced by other users of the product. The fact that we are able to ensure that by and large our products are used and give a trouble-free performance ensures that the demand of our products continues further.

Pulkit Singhal: Sure sir. Just one observation, I mean, it comes out in some of our channel checks. I mean, in a lot of the hinterlands, I mean, rural and small towns, where the dealer is really the influencer, he does end up still selling other branded products where the margins could be as much as 4x to 5x higher. So do you in some way try to focus on incentivizing them a lot higher atleast in the hinterland?

Management: I cannot incentivize 4x to 5x. It is not possible. It is not the question of only margin, it is a question of the ROI actually. That is a very big factor. With the same capital if you are able to get a certain kind of rotation and even if the margin is a little bit lower, the retailer would kind of go with that brand rather than going with someone where the capital he invest is stuck for a larger time and the margin return is higher. Our retailers are pretty savvy. No retailer would kind of just give away a chance that if there is someone who is giving a higher margin, he will not push that product to that extent. But he also reconciles with the fact that, one, it is a question of what is demanded by the consumer; and second, in terms of how much is the rotation he is able to do to get to maximize his ROI. So that would kind of really answer your question in terms of saying that how do we kind of survive, because we work on the consumer in terms of looking at seeing that there is a certain demand which we create. We work in terms of giving the solution. We work from the point of view of giving a quality product. You give a service, and at the same time, you are giving a good ROI to the retailer. So that would be the essence in terms of how the brand works.

Pulkit Singhal: In terms of the depot addition, I mean, that obviously helps improve the ROI of the dealer. What I have come across is dealers ordering and getting the paint required in two to three hours maybe seems to be the best we have reached. Is there something more that can be done or do you think that is the best that can be done?

Management: It used to be better. If the traffic on Indian metros is reduced, it can be better.

Pulkit Singhal: Anand sir, in terms of the dealers who are actually getting this service, I mean, where you have penetrated through depots quite a bit, like what percentage of your network is there in this kind of two to three hours kind of delivery service areas?

Management: It totally depends because depending on the city like metros is a challenge completely; whereas if you go to the smaller towns and cities there basically, we are able to do it much better in terms of doing it. So very difficult to say because today when you look at cities like Pune, the traffic is kind of on the increase to that extent. So, it totally depends in terms of the city, in terms of how it is there. But we can reasonably say that there is a good quantum of network we are able to service basically anywhere between three to six hours.

Pulkit Singhal: Finally, on the home painting services, any update on that as to any pickup that you are seeing on that front and how is your experience with?

Management: We have mentioned that the service has done very well. And as a larger objective, we believe in terms of partnering the consumer and looking at giving more and more solutions so that actually the pain in the painting process comes down. And as part of that we are looking at investing more and more in training of the people and the contractors which are there, and we would like to see that we are able to maximize the numbers as we kind of go ahead.

Pulkit Singhal: One of the feedback that we got was the dealers effectively feel that they end up becoming..... like they have to do a lot of work in the process, the consumer keeps reaching out to the dealer

if the painting is not done properly and all that. So, I guess, he is not too sure about how involved he should be in the ultimate painting process he has got.

Management: He also makes more money. Any service will basically have a slightly more headache in terms of what is there, but it will also give you higher returns.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, in the urban -rural mix, which you mentioned 50:50, in urban, you will consider what metros, top-10 metros as urban and everything else is rural or there is a different...?

Management: We consider top 100 towns as urban and the balance as rural.

Pritesh Chheda: A second data point I wanted, some empirical studies or whatever in-house research that we have done. What would be the repainting demand to the total demand? And what will be the projects demand to the total demand?

Management: It is a tough analysis. The projects maybe somewhere 25-30% of total demand, balance repainting.

Pritesh Chheda: So these PMAY houses which get constructed, these are new houses, so they will come as a part of projects in the...?

Management: Yes

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

Shirish Pardesi: You have been saying that there is no data which is available that unorganized or local regional players have been getting converted and you are getting the benefit of this reach what you are trying to do in tier-2, tier-3. But in reality, what kind of opportunity we are talking about? Is that unorganized paint industry was about 30%, 40%, 50%, what kind of number you guys have?

Management: Since there was never any published number, it can only be an estimate. So we think it was at least 30% of the market... I am saying at least 30%. It is very tough to really give a very accurate figure. Initially, when GST was announced, they took a little bit time in coming on track because the administrative processes and all were a little complex for them. I think many would have come on track by now. It is a long time since GST has been implemented.

Shirish Pardesi: No, what I am trying to understand is this 30% largely into economy and distemper and putty or low-end segment or is it also the benefit what you are enjoying?

Management: Lot of them are into emulsions also because there are a lot of emulsion manufacturers who have come up over the last decade in India, who are giving the paint formulations also to these smaller paint companies to manufacture products. So, they are in the economy emulsions and exteriors,

texture paints, putties, primers, enamels, industrial stoving enamels of a cheaper quality. They are in a very wide range of products. We have the advantage of being able to supply customized products in a short time as well as well as the advantage of having shop brands which they can give where basically the retailers would earn higher margins.

Shirish Pardesi: Yes, I got that. So when we visited south, we have seen this extensiveness more. So my point is only thing is that now we are seeing this conversion would have partially helped and we are still growing at 12%, 14%, 15% in terms of volume at the low-end emulsion. So, how long it will take or how long we will get this benefit in terms of volume growth?

Management: What we see is that even some of the unorganized players are getting into the zone that they have also fairly good tinting mechanisms and they are tinting emulsions and so on and so forth. So today to that extent I think there is a lot of emulsions which are happening at the lower end also. And what we feel is that it is difficult to say until when it will go on because there is a population increase which is happening, the propensity to spend is going up, and what we are also seeing is that the upgradation continues. So you must remember that there is also a large amount of distemper which is there in the market which continues to kind of upgrade to emulsions. So, the pyramid kind of really keeps on broadening to that extent because there are more and more customers who are coming into the organized brand over the years.

Shirish Pardesi: I got that point. What I am trying to understand or maybe if you can help me to understand is that what kind of market share gains which we would have... I am not asking the specific market share, but on a YoY basis if you can indicate what kind of market share gains which you would have got?

Management: Very difficult to assess and say, because there are no figures which are available to any of them.

Shirish Pardesi: So you mean to say that with your growth in number of accounts and reach in rural which is supplementing, that will continue and growing, and we will still continue doing double-digit volume growth for at least next...?

Management: yes

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: In this volume growth and the fact that the economy range is growing faster, how much of PMAY house construction would have influenced these changes?

Management: Nothing because most of this economy end will be going in the repainting cycles. Fresh construction probably a much lesser quantity or it is the unorganized sector that goes there, very tough to say. We do not directly sell to most of these smaller projects. It is done through a retail network. So it is not very easy for us to gauge this. When we look at the entire project sales segment, there also what we feel is that there is impediment of some of the economy emulsions

doing well. So, to some extent, it would be aided by that today a lot of construction which is happening is at the low-end, the mid-end in terms of the affordable housing which is coming up because the top end of the housing is not moving and the real estate sector has gone extremely slow on that end.

Pritesh Chheda: Just to sum it up here; the PMAY houses are basically self-constructed houses and obviously they would have gone through the retail network to purchase the paint.

Management: Not all are self-constructed, there are a lot of big projects also under the PMAY scheme. So, there are multiple modalities in terms of how PMAY is run by the government.

Pritesh Chheda: So here you do not want to call out any major contributor to growth what we are seeing on account of the PMAY housing construction is happening?

Management: We cannot attribute it to only that because there is a large segment which is constructed by the overall builders under the scheme and it is not self-constructed alone.

Pritesh Chheda: And that part you will consider as a project demand, right?

Management: Yes.

Pritesh Chheda: But everything is serviced via the dealer?

Management: Yes.

Moderator: Thank you. The next question is from the line of Kuldeep Gangwar from ASK Investment Managers. Please go ahead.

Kuldeep Gangwar: Just a small clarification. You provided the split of rural and urban. It is by sales or by value?

Management: Its by value.

Kuldeep Gangwar: That means the rural will be having significantly higher volume, right, is it fair understanding?

Management: Not significantly, slightly.

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

Avi Mehta: You have indicated about this economy focus. Traditionally economy paints had some element about sourcing of manufacturing. Are these economy paints manufactured in-house or...?

Management: In-house.

Avi Mehta: So the new plant is essentially where all this has been kind of...?

- Management:** It's made in all the plants.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir, just one follow-up. Looking at the current raw material scenario, do we have an immediate need to make any pricing interventions either on upside or downside?
- Management:** If I see the current status, I will say, no. But because of the volatility and the changing environment especially in the Middle East, I really cannot comment. If world economy really start zooming as they are expecting in 2020, I mean, finally, chemical prices are dependent on world demand as much as supply. So then prices could be expected to increase.
- Tejas Shah:** What will be your effective tax rate for this year?
- Management:** 25%.
- Moderator:** Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.
- Varun Singh:** Sir, just wanted to understand how are we competing in Waterproofing segment compared to the top brand in this category?
- Management:** What we are doing is spending a lot in terms of looking at equipping our retailers in terms of projecting the right solution to the customer. Because what is important is that if the customer does not get the right solution, his specific need with respect to the waterproofing gets unanswered. The second thing what we are doing is that we are looking at training a lot of applicators so that the product is applied in the right manner so that the customer is able to get a satisfaction and also get a solution for his/her problem which is occurring. Third, we continuously look at in terms of what kind of products we should be able to give for every type of solution which we can give for all surfaces which are there, which would require a waterproofing solution. So, a larger investment kind of goes in terms of looking at all these aspects which is there, and it is a huge kind of effort which is being put in all these areas.
- Varun Singh:** You think any of these things were not there or not provided by the top brands that we are trying to adjust, there was any gap in the market and that we are trying to fill, is this a kind of similar kind of product that competition is also offering?
- Management:** We actually look in terms of our specific efforts in terms of what we are doing. We look at in terms of targeting the consumer in terms of giving new chemistries, new solutions which we can give. We do not want to really benchmark our products against anyone because that is the approach Asian Paints has always taken in terms of saying that so long as I have the right product for the customer and it works for me, that is the win-win solution for me. So we do not really look at in terms of benchmarking the competition and product-to-product.

- Varun Singh:** Just wanted to understand that for example we use titanium dioxide rutile, the raw material in paint. So, is there any specific grade of rutile that we will be using?
- Management:** We largely use rutile.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** My question was on the economy brands that you talked about, two products that you launched, which were 15%, 20% cheaper than your lowest priced SKU. Which geographic areas have you seen better traction, these are catching up faster? And what is the price differential between these products and maybe the unorganized local brands in those regions?
- Management:** So one, it is across the country. We have got a good response in terms of the products. So no specific region as such, but across we have got a good response. The second thing is that the unorganized pricing varies a lot at what they offer at the bottom end. So very difficult to see there, but what we have definitely benchmarked is that it is about 20-25% lower than our cheaper selling emulsion.
- Latika Chopra:** Just to clarify again, do the gross margins of these products fairly similar to your mid-end range or they are lower?
- Management:** Quite similar.
- Latika Chopra:** Any comments on CAPEX investments for FY'21?
- Management:** We are in a planning cycle right now. We will finalize the plan for the next year over the next two-odd months.
- Moderator:** That was the last question in queue. I would now like to hand the conference over to Mr. K.B.S. Anand – MD & CEO of Asian Paints for closing comments.
- K.B.S. Anand:** Thank you, everyone and thank you for being soft in a tough quarter. See you next time. Bye.
- Moderator:** Thank you very much. On behalf of Asian Paints Limited, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.