



“Asian Paints Limited Q3 FY 2021 Results
Investor Conference Call”

January 21, 2021



Management :

MR. Amit Syngle : MD & CEO

Mr. R.J. Jeyamurugan : CFO & Company Secretary

Mr. Parag Rane : GM – Finance

Mr. Arun Nair : Manager - Corporate Communications

Transcription – AP Investors Meet

Arun Nair : Good Evening and a very warm welcome to one and all for the Asian Paints Investor conference for Q3 – FY2021 Results. Today in the call in the panel we have Mr. Amit Syngle MD & CEO

We also have Mr. R J Jeyamurugan, CFO & Company Secretary, we also have Mr Parag Rane, GM - Finance and myself Arun Nair from corporate communications.

We'll start with the presentation followed by a Q&A session. At the time of Q&A I request everybody to raise your virtual hand and take your question, requesting participants to introduce themselves and the company name before asking the questions. May I now invite Mr. Amit Syngle for the presentation.

Amit Syngle : Good Evening, it's a great occasion to be welcoming all of you for the Q3 investors meet I know we are going through the pandemic and therefore the entire thing is something which is hosted through the digital media but I'm sure that now all of you are quite used to this kind of investors meet to start with.

Okay so what you see is the disclaimer and the people can just go through it before we get on with the presentation.

That's the disclaimer for you before you are going through the presentation.

We look at the overall market conditions which have been therefore Q3 what we see is that there is definitely a normalization which is been seen through various activities and the rise of the COVID cases has definitely come down from the peaks what we had seen in Q2 and therefore I think overall the country has done a fairly good job in terms containing the spread of the overall COVID cases. Obviously, we have seen lacklustre Q1 which affected the entire industry across the globe and then we had the second quarter where there was definitely some recovery and then we have the third quarter which has definitely witnessed a real rebound in terms of the demand conditions as we see it. What we had also seen is that there was a GDP decline in Q2 about -7.5% which showed a good recovery after what we saw is a steep fall in Q1. Overall, when we see the recovery is definitely supported by certain reasons which are coming clearly, one is obviously a very strong festive and a marriage season which we saw in October.

It was also supported by recovery in real estate and new construction which we see due to various reasons across the country which has happened and that is something which is augured well across sectors manufacturing as well as construction. We look at raw material inflation it is something which is definitely on an upswing, we have seen the lows in Q2 but we saw the crude prices going up and now starting December I think we are saying definitely the raw material prices and the coatings industry getting affected both from the point of view of crude, crude derivatives and certain critical raw materials which are there and that is an impact possibly which will come in the next quarter. Overall, the forex movement has been pretty supportive and we've not seen too much of inflation in terms of INR to that extent and what we see is it has been largely constant and possibly moving into a territory where it is getting a little bit stronger.

We look at overall the domestic decorative business as far as overall paint market and Asian paints is concerned. We see a very strong growth in the paint in Q3 following a very good and positive Q2 as well and this is something which is giving an indication that what we have seen this Q3 growth is coming also on the stance of continuous strong growth in tier 2, tier 3 and tier 4 markets. But the big change which we have seen in Q3 is that when you look at the metros and you look at the tier 1 markets those have also rebounded back that is a big change and a pleasant change which we are seeing in Q3. Overall if you look at the Asian paints decorative performance there is a 33% volume growth in quarter 3 for the domestic decorative business and a very strong, good volume growth coming in each of the months which is October, November, December in the quarter, which is something which is heartening and gives us confidence this is a sustainable demand in terms of what we were able to see after some time. We also see a change in terms of the large projects in the institutional business where we have seen a strong growth which was not evident in the quarter 1 and quarter 2 and that's another change which is happening. Overall, the product mix has definitely improved in a big way and we see that the premium and the luxury range is doing quite well for the company giving us a good value growth as well in this quarter and we see that it is also well supported through our entire area of "Smart care" and "Economy Imulsions" which has been the focus for some time. The services regime at Asian paints has been very strong and we have looked at safe painting and "San Assure" which is our sanitization service in a strong way, that is something which has got very good traction and has got a very strong equity for the company in this period. When we look at décor, we are largely a very strong player in décor with respect to our wallpapers and with respect to our textures and what we have seen is a very good impact of our beautiful homes which we launched in this year and in a short span we have seen that this is something which has given us good confidence. Overall if you look at gross margins of the quarter, they are much better than last year supported by lower prices and some great work which has happened in terms of driving sourcing and formulation efficiencies which has added in terms of bracing up the overall gross margin. However, going forward the raw material prices look quite inflationary and this is a fact we have started seeing in December and the full impact possibly will be seen in Q4.

Beautiful Homes Service AV Plays

So, what you saw was this new service and as you see it's an amazing service which basically gives you at home experience where you can renovate your home, you can do anything in the home space and it is a very good opportunity to connect with the home consumer in a strong way. This is something which has got a very good response, so this is one of the areas which has happened and the second area which I wanted to bring to your notice is the work which we have done with décor and looked at in terms of retailing so that we are able to offer a consumer a very strong service under one roof of a large store which is there. This is a very unique format and we think worldwide it is the only format which is talking about a space of 6000 sq. feet under which we are talking of everything which is in the home available for the customer backed with technology and backed with very super consulting experience which comes in. Let's see the AV.

Beautiful Homes Store AV Plays

So, what you saw was all categories within one place on a world class store and this is something as met with a very good response in the market. Going on in terms of looking at giving you a transition in terms of how things are moving from Quarter 1 to Quarter 3, obviously we saw that quarter 1 was something that was quite depressed given the fact that April was absolutely white washed and May partial to that extent. Quarter 2 recovered well at a 11% volume and a 6% value growth which came in but Quarter 3 is the point where we have got very good demand conditions some pent-up demand is there and a good festival and marriage demand which came in, coupled with some of the construction activities that began and we saw 33% volume growth and 26% value growth.

Going on to other businesses; let's take a look at the international business overall in the international business also the performance has been pretty strong, the volumes have picked strongly in Q3 there as well we see good recovery in all parts of Asia and the Middle East and that's something that's been very strong in terms of what we have witnessed. All units have reported a double-digit volume growth in Q3 and which is really heartening to see. Ethiopia, Bahrain and Indonesia are little bit exceptions because of some of the external conditions going on in these countries in terms of what we see overall. The other good thing is that the pickup has been seen across price segments whether it is the economy, premium or the luxury end and that is something which has augured well with respect to both the volume and the value growth coming in. We have done a very strong work in terms of expanding the portfolio in a very strong way, the big introductions have been in the area of water proofing which has now gone to all the countries and all the units in a very strong way and we have looked at focusing on the premium and luxury emulsions so that we are able to look at premiumisation in a strong way which holds very good in looking at the imagery of the brand overall. At Q3 if you look at the margins, they were obviously supported by the low material prices as well as the benefit of some of the cost control measures which were put in, so therefore I think overall margins have been pretty good as is seen in the graph alongside. Overall international business revenue in Q3 was at about 700 Crores which is almost 22.4% growth and on a 9 monthly basis it was at Rs 1756 Crores which is a growth of about 1.3% which is really appreciated because of the fact that we had our Q1 which was really subdued. International business profitability has also been very good, in Q3 we see

it is at about 74 crores which is a very strong increase over the last year Q3 and on a 9-month level also we see it is at about 147 crore which is growth of about 41.6% over last year. So over strong top line and an equally strong bottom line with a lot of initiatives thrown in.

Some of the initiatives that I mentioned : the water proofing range has now got launched across Asia, Middle East, Africa and that is something which is giving us good gains and also what we have done is we have looked at the bath business which is now coming into South Asia which is Nepal and Bangladesh and what you see is some of the stores in Nepal and Bangladesh which is what has been put up and therefore truly we are leveraging the strengths in terms of looking at the India market and looking at going international with them.

When we look at the industrial business, we have 2 joint ventures with PPG. The first one PPG – AP looks at largely the Auto OE part. The auto sector sales and the builds data which is the work which is done at workshops where the cars come for painting, the data exhibits are very strong, continued recovery which is happening in Q3 is a good sign in terms of what we see and it is also represented by the auto sales data which all of you are aware of. The OE business therefore reported a good double-digit value in Q3 and there was also a pick up in the refinishes business which is in the positive zone for the quarter. In the other JV which is the industrial JV called the AP- PPG, the demand recovery again has been good we see industries coming back strongly which is the work of expansion and maintenance and we have seen this has led to a double-digit value in Q3. The segments which have braced it up is the powder coating segment in a strong way, the industrial liquid paints which have been showing good uptake from the last quarter as well. So overall when we look at profitability in both these businesses have been quite good and the profitability especially in AP-PPG is also coming due to the content cost period. So, I would say that's the status in terms of the industrial business as you look at it.

Going on to the home improvement business we have 2 businesses here which is the kitchen and the bath business. Both businesses did quite well in Q3 double digit growth in Q3 for the components as well as for the full kitchens which is the big focus of the organisation. Project segment also saw good pick – up on a sequential basis and therefore for the first time we registered an EBITDA break even in Q3 for the kitchen business, so I think that is something really tremendous. As we look at the bath business again strong sequential pick up which has been seen in terms of demand across the product segments which are there. We have been looking at premiumisation in some of the products which is seen in this quarter. Projects business like kitchen has also grown and also shown improvement as the housing sector and construction really picked up. Overall, when we look at the PBT level again a milestone where we are looking at a profit of 1 crore which has come in Q3 on back of PBT break even in Q2 as well. So, I think overall what we see is that there is a good top line which is coming overall improvement in Gross Margins, Cost Control and definitely there is a lower spend in marketing to that extent but I think the top line is something that has driven the bottom line in a strong way.

Finally, when we look at the overall summary at the company levels in terms of the standalone financials in Quarter 3 the revenue uptick 26.1% which is a strong Q3 delivery. The PBDIT is at about 46.7% growth. The PBT is at 56.3% and the PAT is at 56.5%. so overall there is a good uptick with respect to overall PBTI Margins which are at a big increase. When we look at the 9 monthly figure the revenue is a little bit down negative because of the first quarter which you are all aware and it is at a negative 3.5%. the PBDIT however is at a 4.9% growth, The PBT at a 6.8% and the PAT should have been equal to the PBT but for the fact that we had given one time deferment reversal taken on the last year on account of the tax rate change which was there, so otherwise the PBT and the PAT figures would have been same to that extent. The PBTI Margins here have also gone up as indicated. So that's the picture at the standalone financials.

At the consolidated financial level in fact the performance has improved when we look at the profitability point of view the top line is at about 25.2% value which is the growth which has come in, the PBDIT is about 49.5%, the PBT is at 60.5% higher than overall standalone, PAT is 62.3%. So here again I think there is a margin improvement in PBDIT as you see it. On a 9 monthly figure we have the revenue which is the value sales is -3.3%, PBDIT is 5.3% growth, the PBT is at 7.3% and PAT is at 1.7% for the same reasons I detailed earlier in the standalone with respect to the one-time deferment reversal taken last year. So, the PBTI margins again are good here in terms as you see it. So that is how basically the standalone and consolidated results pan out for you.

Looking forward obviously I'm sure that a lot of you want to know in terms of what really happens to this. What we see is that the Q4 demand conditions should be good, there should be continued recovery in terms of the consumer sentiment given the fact that now we have the roll out of the COVID vaccination and the paranoia in the customers mind is going down because of the lower cases which are coming to that extent and we feel that the overall domestic demand recovery to become broad-based and well-entrenched. However obviously there is a bit of a caution that in case there is any surge of COVID cases or a different strain of COVID which comes in now what we are seeing in some of the geographies globally whether it is UK or Europe so on and so forth it could impact some of the supply chain and other things to that extent. We are all hoping that it doesn't happen. The raw material prices obviously are seeing a sharp inflation and this could be anywhere between the range of 6 – 9% inflation which is there and we see that possibly this could have an impact with respect to looking at critically any pricing changes or passing it onto consumers as we look at Q4. Overall, I think our focus is clearly on innovation we are looking at lots of new launches in terms of coming and we'll continue our work on cost optimization and looking up taking only business critical spends across all businesses and that is how we are seeing the overall quarter going ahead. Thank you so much for your attention.

Moderator: Requesting all our participants to kindly use the raise hand feature to ask a question to the panellist. Participants who have joined through a video call kindly keep your video camera and microphone switched on when given the chance to ask a question. Participants joining in from the toll-free number kindly press *9 to use the raise hand feature and *6 to mute and unmute your audio. Requesting all participants asking a question to kindly say their name followed by their company name before asking the question.

We have with us our first speaker the question is coming from Mr Abneesh Roy, Requesting Mr Abneesh Roy to please put your video and audio on and please ask your question.

Abneesh Roy, Edelweiss : My first question is on the real estate recovery so we have seen fantastic recovery across cities in terms of new sale of homes so are you ramping up your capabilities in terms of ESS ESS and even for the project business of paints are you increasing the team size going to more cities because this can become quite big because after many years real estate as a sector has come back and what would be your thoughts on the real estate recovery is it more of the near term catch up is it because registration costs have been cut or do you see a secular 2 – 3 year rally in the real estate?

Amit Syngle: so overall what we see is that we will have to watch for trends in terms of what is happening in real estate and construction what we are seeing currently is also is the larger inflation is coming in terms of the construction activities which is the low and the mid income groups to that extent and the registration process has energized some of the purchase of the houses in some of the metros to that extent especially Bombay has seen a good surge in terms of the number of houses being sold and coming in. we see going forward that we will have to watch this trend more strongly because a 3 to 6 months of indication is not a very strong indication because till quarter 2 the construction activities were small and therefore we are just seeing 3 months of it, so we will have to actually watch if this is sustainable going ahead given the fact that now some of the concessions on registration are withdrawn and the fact that today people are watching out for the fact of the vaccination coming in to that extent so we will have to watch that before we really kind of go up in full hog in terms of looking at what needs to be done. Secondly, as far as capacities are concerned the capacities are very comfortable both will respect to the bath business and with respect to the overall paint business and we don't see that we have any problems with ramping up the production which is required, in case there is a surge which comes in with respect to some of the demand from both the construction and real estate business to that extent. So, I think we are really comfortable with respect to the overall capacities.

Moderator: Thank you sir. We will take the next question from Mr Chetan Shajid. Mr Chetan you are requested to please unmute yourself, keep your video on and please say your company name before asking your question.

Chetan Shajid: Hello. Good evening sir. Good evening Syngle sir. Thank you so much for nice presentation and congratulations for stellar results. I'm a retail investor, I'm not from any company. I just wanted to know that the home décor segment that you are concentrating are you taking any capex that is my first question in view of like are you are you anticipating any can you give any guidance regarding that segment are you seeing that as a growth segment and second question the growth that we have seen in this Q3 quarter is it a one of growth or do you anticipate this growth momentum to continue henceforth. I just wanted to ask if this is just pent-up demand or are you expecting structural growth which is coming in at this pace? Thank you so much.

Amit Syngle: So as far as the capacities are concerned both with respect to home improvement whether it is kitchen and bath, we are pretty comfortable as of now and we don't think immediately for the next six months to a year we need any augmentation to the capacity and we should be able to take care of the increased demand which is coming. Second as I see the overall demand there is definitely a combination of 2 – 3 areas of demand which has happened. One is obviously there is festive demand which has come in which was also supplemented by the marriage season that was there at that point of time. Secondly what we have seen is that there is a pent-up demand from Q1 and Q2 which has come into Q3 to that extent and third we are seeing the good demand coming in from the construction segment which is there to that extent. What we see is that some of the pent-up demand will get subsumed now in Q3 and when we look at the ongoing period we might not see too much of the pent up demand coming in there. Secondly, what we also will see is that the festival demand is relative to Q3 to that extent but having said that we still feel that the demand conditions would still remain quite healthy and possibly going forward I think we would look at good growths coming in the further quarters as we see ahead.

Chetan Shigad: Thank you so much sir. Can you give any number for growth guidance?

Amit Syngle: Very difficult to give numbers in terms of looking at future growths.

Moderator: thank you Mr Chetan our next question coming from Mr Shirish Pardeshi. Mr Shirish Pardeshi request you to put your video on, unmute yourself and ask your question.

Shirish Pardeshi, Centrum: Hi Amit Happy New Year and thanks for a wonderful surprise! I think I am more astonished with 30% growth and I think we were seen that time a strong believer because I recently did some travel across Maharashtra. Two things I would like to indicate are my experience in Maharashtra is that the rural economy is very strong of course there is a competition angle to it. My first question is how are you going to deal with the competition and whether this demand is really going to stay from the unorganized conversion to the organized because really unorganized is taken a toll. That's the first part of the question, the second part is that you have seen in the last 2 quarters the urban centres are just picking up, so my strong feeling is that now you are giving a cautious view but I strongly feel that quarter 4 demand is going to come back so is there any thought on that? And the second question is that on home improvement how much is the project businesses now because my sense is that project is one of the business that you have been harping on and I think there is a way forward and you guys are going to do a wonderful job. Third is last if you can give some more colour on home décor what you have just mentioned that big store, how many stores are you planning in next 2 – 3 years, not this year perspective but maybe 22-23 any indicative number if you can help me to understand? Thank you.

Amit Syngle: See as far as overall competition is concerned what we are very clear is as an organization and as a leader in the paints market we look at possibly only growing the market because we feel that the per capita consumption in the market is pretty low and therefore in all segments whether they are water proofing and wood finishes or even in terms of the wall coats we think that there is a very big scope in enlarging the market and that is something which we keep on innovating in terms of looking at growing. Secondly when we look at overall from the point of view of rural plus urban what we are very clear is that in Q3 we have seen very strong growths already coming from the Metros, T1 and T2 cities. These growths are not only from T3 and T4 which was the earlier observation which was coming in Q1 and Q2 so that impact has already come in Q3 in a big way and we are seeing the growths are pretty healthy which are coming from the Metros, T1 and T2 and this is also because of the paranoia about the COVID is coming down and people are letting people in their homes even in large societies to that extent. That is something which is an observation across metros and bigger cities. So therefore, the phenomena of metro, T1, T2 growing is already on and that is why I said it is a part of the Q3 growth of what we are already seeing in terms of what's happening. As far as the overall projects business is concerned that has been a focus area for us not only with respect to home improvement but also with respect to projects we are looking at really growing the projects business across segments it could be large institutional buyers, it could be hotels, it could be industries and so on so forth and we are looking at a larger footprint there to that extent and that has been a focus from some point of time and we feel that it's a strong sector to be in terms of what is there and that will basically be the focus in terms of going forward and there is good growths what is being anticipated. And the last question with respect to home décor we have currently put in about 16 stores which are spanning across various cities across the country, we are looking at this number in terms of looking at doubling this number as we go ahead in the next about 2 years kind of a time and we think that it's a very strong opportunity in terms of looking at now the whole area of the share of space in the homes.

Shirish Pardeshi, Centrum: Thank you and all the best.

Amit Syngle: Thank you

Moderator: Thank you Mr Shirish our next question is coming from Percy, requesting Percy to please put your video on and ask your question.

Percy Panthaki, IIFL: Sir I have 2 questions and I'll put both of them upfront. So, first question is, first of all congrats on the amazing sales growth that you have clocked this quarter, and the question is relating to that, when we do conversations and checks with paint dealers obviously always there is some amount of discrepancy between what they and what the company reports and that is normal. However this quarter the difference was fairly large, much larger than what we would normally expect in terms of your growth being much higher versus what the dealers were saying which was very subdued so just trying to understand what could be the possible reasons behind this, have you sort of increased the number of dealers therefore each dealer is now serving a lesser number of customers therefore when we talk to dealers we get that kind of sense or could there be some other reason to this? so that is question one. Question 2 is that, your margins are at all time high level and now you are seeing input costs going up and, in the past, you have said that 20-21% EBITDA margins are something that are sustainable level, so would be interesting to know your pricing strategy broadly going forward would you want to absorb this cost increase that has happened and let the margins reward to a more sort of historic levels or would you say that the margins have taken a step jump up permanently and instead of 20-21% probably 24-25% is the new normal now? So, these are my 2 questions.

Amit Syngle: Okay great so when we look at the overall growths, I don't think so we have done anything substantial or strong in terms of inordinately increasing our number of dealers or our network to that extent it has been a normal expansion which we have been kind of looking at over a period of time. What has made the difference that I said was one was the pent-up demand that has come in, the festival season being very good in terms of what we saw coupled with the marriage season which was there which we saw in October and November to that extent. One big large difference what happened is that the Metros, Tier 1 and Tier 2 cities which were not growing at that pace earlier, in fact the metros were negative from that overall point of view of growth they have sharply come back and please remember it is a large potential which is there in some of these larger cities and they have really augmented the overall growth in a big way and they have augmented the growth with respect to even improving the mix which has come in with luxury and premium products kind of coming into that extent. The other area which has augmented the growth in a strong way which might not be coming from the dealers very straight is also the large project sales that come in and there what we feel is that large industries, some of the government spending and lot of the areas

have gone up and that has given us a Philip in terms of looking at the overall demand going up. At the same time at Asian paints we have always believed there are always we can expand the market and we have been looking at expanding the market both at the top end and at the bottom of the pyramid, and at the bottom of the pyramid we have seen is today we have got the success in terms of getting the unorganized customers to the organized markets to that extent and that is the thing that is propelling the growth rates and there is an upgradation from the economy to the premium to the luxury which is the second phenomena which has been driving very strongly so all of this is cumulating in terms of giving the high growths which you are seeing to that extent and that is something which as I said earlier a part of it something which is definitely sustainable in terms of what we see in terms of going ahead. So, I think that's in terms of the growths which you are saying. Second as far as the input raw material price is concerned definitely as I said in December, we had seen an upward trajectory, crude had been already going up and we feel that the raw material prices are definitely going up but as an operator, as a company we have always believed in the philosophy that we need to keep on offering the customer a certain value for money and that elasticity of pricing gets upset it would upset the demand also that extent. So, what we are watching out is that whether the high inflationary pressures are there or are they going to settle. We are also watching the rupee very closely as to how the rupee comes in and based on some of the trends, we will take the decision whether we need to pass on the entire thing as a price increase kind of a thing to that extent or if we want to look at in terms of absorbing the inflation which is coming in. so, this decision we will take after observing what the trends are around.

Percy Panthaki, IIFL: Okay sir. Thank you.

Moderator: Our next question is coming from Mr Avi Mehta, request you to please ask your question.

Avi Mehta, Macquarie: Sir thanks for the opportunity and congrats on the performance. I had 3 questions if I may just on a broad basis know you have indicated a focus on home décor with the new store, I wanted to just get your thought process over here are you looking to be a retailer of multiple brands which are third party in nature or is this a test ground to evaluate, setting up a manufacturing or own brand over there, that is more a strategic question if you could answer. Second bit is your other peers have indicated there has been a very strong growth in the niches segment which is either stuff like ceiling paint, roof paints; I wanted to understand your thoughts on those segments whether you are exploring them or is it not worth our company just if you could share your thoughts. And lastly a book keeping sir is it possible for us to break the growth rate that we have seen in this quarter into what would be possible driven by pent up and which is more in your view, other factors. That's all.

Amit Syngle: okay when we look at overall strategy with respect to the home décor segment what we have taken a call is that we are looking at providing the customer with one of the best technological experiences with respect to visualization which we can offer to the customer with respect to what's available within the home so much so that the beautiful home services will showcase to the customers what's available or what the home would look like before the customer really gets into the home to that extent. So therefore, I feel the visualization and the execution is a very strong strategy in terms of what we have taken as far as the ingredients of that go we already have a kitchen and a bath business where we have invested and that is a strong investment which is already there and will get subsumed in this strategy in terms of going ahead. In addition, what the plan is that we have looked at certain stronger tie ups in terms of some of the other categories which have come in and as the business go ahead, we are taking strategic decisions in terms of getting into some of those segments whether it would be furnishing, furniture, flooring and so on so forth. Right now, the entire thing is in terms of giving the customer a very strong experience and that's how we are looking at the entire area going forward, that's one. Secondly, when we look at the entire area which you spoke of in terms of the strategization of the sale the overall growths when we see it is very difficult to say out of the total growths that have happened what percentage is pent up and what percentage is festive and what percentage is coming from the construction segment or from Metros, T1, T2 cities to that extent. However, as we see it today possibly some of the indicative things is that earlier we used to talk of a multiple of a GDP which is also not true to that extent now as we go forward. So, what we see is now possibly we will have to live with this kind of a zone that the growths will continue to be healthy its very difficult to really peg a number in terms of what would be the pent-up demand which would have gone in, which would have not come in the fourth quarter, what would be the construction demand and therefore segmentation of that is something that is not really possible to that extent. I forgot the second question which you had asked.

Avi Mehta, Macquarie: Sir the question that I asked that there are peers who have indicated the niches are growing which are reaching very strong customer..

Amit Syngle: So as far as Asian Paints is concerned, we really think when a customer is buying for various usages in the house the surface segmentation is not worked as a strategy in India because the consumer awareness with respect to paint is very small and surface segmentation has worked largely globally to that extent where you have kitchen and bath paints and you have ceiling paints and differences which kind of come in from the point of view of flooring paints and so on so forth. But having said that what we see is that interiors is a very large portion of which is there and largely anyone who is buying paints buys it for everything which is ceiling, walls and everything combined. Niches work only with respect to certain of the products which are at the high end which could be in respect to the luxury and premium products where sheen levels can be different in terms of the gloss which you get to that extent or with respect to your wood finishes where possibly with the higher premiumisation and the luxury coats you get more durability, more gloss and so on and so forth to that extent. So, we feel that surface segmentation possibly is not a very strong growth vehicle as we go ahead.

Avi Mehta, Macquarie: okay sir. Thanks sir that's all from my side. Thank you very much sir.

Moderator: thank you Mr Avi. Our next question is from Ms Sunita Sachdev, ma'am please ask your question.

Sunita Sachdev, UBS: Thank you for the opportunity. I have three questions. The first is I think we have seen a very benign raw material price strategy which is helped us to expand our product breadth as well as go deeper into distribution in the country for the last 3 – 4 years. Now that we are on the onset of a huge inflationary kind of a move does this strategy change in anyway or what would be the way forward in terms of how should we look at your product breadth and dept strategy?

Amit Syngle: Okay when we look at the overall product strategy what we need to kind of take care is not inflation or deflation happening what we need to keep in mind is the consumer. So long as you are selling the product that makes sense for the consumers has a unique selling proposition that is what really matters so when we look at possibly a value for money smart product, there the I think even if there is inflation we would like to kind of see that at a certain price point whether the product is making sense to the customer with respect to the budget of the customer and what the customer perceives as a value coming out of that product and similarly for any high end product we see that today it's not that the inflation and deflation would kind of alter that product strategy in terms of going ahead. we would kind of be committed more to the consumer rather than looking at in terms of pricing, inflation and definition in terms of deciding what the product strategy is.

Sunita Sachdev, UBS: So, taking that forward one would assume that there would be quite a lot of absorption of your raw material cost as you kind of press ahead to grow volumes.

Amit Syngle: So there are 2 views on it, so obviously for the value for money smart consumer the elasticity of price is pretty weak in terms of what we have seen but as far as the premium and luxury segments go the elasticity can be increased there to that extent and therefore as I said earlier we are watching trends and we are looking at whether these inflationary levels are there to stay and whether what's happening to the rupee dollar parity to that extent and depending on how the trends come in we would take a call with respect to what segment, what products we would look at enteries in the market as we go ahead.

Sunita Sachdev, UBS: Lastly just switching gears I know you guys have gained a lot of market share any sense of what kind of market share gains have we gained in the last 2 – 3 years in the product penetration strategy and market growth strategy?

Amit Syngle: See those overall figures that we see are published figures available from each of the competitors which are there that we have seen is that over the years we are gaining market share every year and even this year if you look at the first half, we have been the fastest growing company as compared to the organised companies so to that extent is a good market share gain that has happened. And that's the strategy we are going ahead that we not only look at the market share gains we also look at exploding the overall market and we believe that as a leader that is a good approach to take on terms of keep on looking at your areas where you can really get your products in.

Sunita Sachdev, UBS: Thank you sir. All the best

Moderator: okay ma'am. Our next question is coming from Mr Richard Liu. Mr Richard Liu ask your question.

Richard Liu, JM Financial : So, if I look at pre COVID the confidence on demand environment was not all that strong and this is true for paint companies and as well as for other consumption related categories. Post COVID we see that everybody seems to have become much more confident in terms of growth including yourself, considering the kind of numbers that you have reported. As an outside observer isn't this rather counter intuitive that confidence level of business has picked up post what is possibly one of the worst human crises that we have seen in recent times and I have heard you in earlier quarter talk about people wanting to feel good about their homes, etc but this level of growth from 6 -8 % that used to be there pre COVID going up to nothing less than 30% now. So that was the first part of my questions regarding pre COVID and post COVID growth and related to this is that if I go back in time you guys used to say that we will not be satisfied till we get to a

So, I wanted to ask that earlier you guys used to talk about maintain volume growth being a good volume growth from your perspective and now that you are in the thirties when you do your business

plan from coming years how are you going to look at growth as satisfactory for you I mean this is 30 new as far as what you will consider as good growth. Those are my two questions. Thank you. Sorry about the trouble.

Amit Syngle: No, it's okay. See first of all your question is absolutely relevant in terms of saying that when we were looking at pre COVID obviously there was a little bit of a cautious optimism in terms of the way economy was behaving but I must clarify even at that point of time we used to register growths that were in double digits to that extent and that is something we have been doing in the past few years so 12 – 15% was a norm in terms of what we have been doing and that is something which was at the pre COVID levels also. How we see is obviously 30% is not a norm going ahead for sure because what we see is that there is a pent-up demand which is coming in this number and there is also a festive season which has also come in to that extent which we see in terms of going forward. And there is an irregularity in the pattern because as I said now the Metros and T1 T2's which have started growing which were not growing earlier to that extent. As we kind of go ahead possibly we will have to for some time look at very closely doing month to quarter kind of a planning and not look at a yearly planning as we go ahead because that's the best way to look at the little bit of uncertainty in terms of going forward. It's very difficult to say what kind of levels the growth would stabilize at because it will also depend on what the GDP levels really kind of stabilize at in terms of going forward. So, I think as a combination we would look at a little bit of a short-term planning at this stage and keep on looking at a month to a quarter planning and then as it stabilizes, we would be able to better predict what the growth rates would come for future.

Richard Liu, JM Financial: okay and how do you reconcile this 30% post COVID, I have heard about festivals and weddings etc but even if you take that into account the confidence level of businesses

Amit Syngle: So, as I said earlier when you look at the 30% growth as I have been saying earlier there is obviously a pent-up demand component there is a festive component that is embedded in it there is also the entire component with respect to the metros, tier 1, tier 2 cities which is contributing to the growth which earlier was negative and now you can imagine that it has turned the growth positive in the luxury premium segment.

What we also see is that the construction segment in the large institutional businesses is back. So, there is a component that is coming from that as well and there will be components in terms of market share gains which would happen from both the organized and unorganized segments.

You can clearly break this up into 4 or 5 slices, now I am not very able to tell you that have what slices have what percent to that extent. But these are the 5 slices that you could see in terms of the overall growth.

Richard Liu, JM Financial: Okay, Thank You.

Moderator: Thank you, Mr Richard. Our next question is coming from, Mr Anshuman Atri.

Requesting Mr Anshuman Atri to please ask his question.

Anshuman Atri, Espirito Santo Investment: Hi my question is regarding the change in behaviour of customers during the COVID in the rural and urban, so are you saying there are more repainting cycles or people who were going for unorganised or unbranded products are asking for products from Asian Paints or other branded categories

Do you see a change in overall behaviours, which can be to a better demand going forth?

Amit Syngle: So, I think one of the trends that we have seen that, whenever there is a crisis or whenever there is a larger natural calamity, people tend to make safer choices, they tend to go towards a brand they can trust to that extent. So, there is clear reason to believe that, possibly people would have navigated to more trusted brands, which would be there in the overall organised sector, to that extent. So that is something which is clearly evident in terms of what really comes out and that's a behaviour which we have seen in the past as well and that is something which possibly would have happened during this point of time as well.

Anshuman Atri, Espirito Santo Investment: And in this rural market, over the last few quarters, how has been the trend in terms of growth?

Are you seeing a tapering down as the migrants come back to the metros or is the rural holding strong?

Amit Syngle: Infact, what we see is that both Q1 and Q2 rural markets which we qualify at the T3, T4 cities, they were growing very well in Q3 and that growth has continued to a strong level as well.

However, I think the big change as I have been saying is that what has happened is that the T1, T2 and the metro which were almost at a negative growth and were not growing very strongly, are the ones which have turned around the corner and they have started growing at a good pitch.

To answer your question, we are not saying that there is any tapering down in terms of demand, in the T3, T4 rural markets.

Anshuman Atri, Espirito Santo Investment: And sir lastly in terms of margins, the competitions coming from Peer categories like steel players have entered the paint category, seeing good margins.

Hence what kind of margins range do you see as a safe margin or not attracting customers, new players in the competition

Amit Syngle: See that's a very relative thing in terms of new competitors, who are coming in and operating in low segments at 6-8% or 10% or 10-15% would be higher.

So, I think it totally depends on their orientation in terms of what they consider as a good margin, as I said we are very clear that we will look at margins, which are sustainable and we will look at possibly the consumer with respect to our pricing so that we are able to offer, our customer a good value for the price we are charging.

And therefore at the moment what we see is that the consumer is far more stronger area to look at, rather than looking at competition and what they can get in and what they want really.

Anshuman Atri, Espirito Santo Investment: Okay, Thank You Sir.

Moderator: So, our next question is coming from Mr Aditya Soman. Requesting Mr. Aditya Soman to please ask his question:

Aditya Soman, Goldman Sachs: Hi, Thanks for the opportunity, a couple of questions from me.

Firstly, did you see any sense of any increase in channel inventory period because as we in anticipation of pricing increases or is this something that is also giving you some confidence in volume growth in Q4 for example.

Amit Syngle: So, till the time price increase is not announced people will not stock and that is something we are saying in the market very clearly, that there is no inventory in the network which has gone up or in the pipeline to that extent, what we see is that we have also not put any pressure in terms of stocking up inventory with our retailers and we have a strong reason to believe that whatever has possibly got sold from us has got sold in the secondary market as well.

Aditya Soman, Goldman Sachs: Alright sir that is very clear and in terms of pent-up demand is there a better way of looking at just 9 months growths given that some of those consumers missed out on paintings in April and May and come back to paint in October November or December where conditions were better.

So, I still think there is some room left in Q4 since you still are down by 9 months that some consumers might still come back, in terms of pent-up demand.

Amit Syngle: So, see, actually the trend is very clear that if there is whole painting, repainting or the maintenance that will always kind of never go down it will only get deferred. SO, it is very difficult to say that what component of the deferment has got subsumed in Q3 and what component would come in Q4 or Q1 of next year, that is point 1.

Second, I think where there would be an opportunity loss would be that occasional painting where people would have got into marriage or in terms of any function at home, I think that is a painting cycle which you would have missed and possibly it would not come back till the time there is another event happening in the same house.

The third area is the overall area of construction, which is the new housing will always have a component of deferment and not an opportunity loss. So, we have reason to believe is overall even if in terms of some pent-up demand which have got consumed in Q3 there could be some pent-up which would come in Q4 and Q1 as well. Very difficult to quantify really that what percentage in pent-up and what percentage is new kind of a zone.

Aditya Soman, Goldman Sachs: Understand very clear sir.

And one more in terms of the gap between volumes growth and revenue growth sir, it could largely be newer customers being added at lower price points, Right?

Amit Syngle: No, see that these gaps have been there for sometime in our value and volume sales is over the various quarters and we have been very clearly saying that there are segments which are like waterproofing, undercoats the value-based emulsions the smart products which are there to that extent and some of those products are going at a far larger clip as compared to the luxury and premium products and that is what is kind off creating this gap in the value and the volume. It is not the new customers who come in because new customers can come at any price point. It could be at a luxury or a premium point, it could be at the economy.

Aditya Soman, Goldman Sachs: But in this quarter with some of the quarter coming back in larger cities and with luxury emulsions it should have narrowed right, but we haven't seen that happen as well.

Amit Syngle: Yes, what we are also seeing is that with the luxury and premium also growing well the other set of products which I mentioned are also basically growing much higher than what they were growing earlier.

So, it really balances that whole thing and the gap is there as you see it and that is what you see.

Aditya Soman, Goldman Sachs: Understand, Very clear, Thanks for the clarification

Moderator: Thank you, Mr Aditya, our next question is coming from Mr Varun Pratap Singh.

Requesting Mr Varun Pratap Singh to ask his question.

Varun Pratap Singh: Thank you very much sir and congratulations on a very great set of numbers.

I think most of my questions have been already answered.

Just wanted to have your comment on this home décor segment. I understand last quarter you mentioned that we want to move from surface décor to entire home décor solution for customers. So it was a very nice video that you played during this conference and as a customer I could kind of visualise that what kind of solution Asian paints is willing to offer. Or what I could get as a customer.

But sir if you could highlight in terms of what are the competitive strengths that we are creating to make this category very large. I understand currently it is very unorganised at the same time anything

that you wish to comment on Ikea. Because Ikea is also getting very aggressive in this entire home décor thing. So, on product level, how do we wish to compete and second question in same category is who are we creating this solution for premium or economy customer and if you could give some clarity in the competitive strength on that level as well as the target audience or customers.

Amit Syngle: Okay so how we look at what are the unique points in terms of the customers or what we want to bring in terms of the home décor category is very clear. We have moved on from the point of view of just a share of surface to a share of space within the home in very strong manner where we look at the share of space, we don't only look at the premium and super luxury customers, we also look at customers who are at all the price points in terms of what we see to that extent. The unique point that we bring to the table is that all our stores and services are very technology led, so in terms of 3D visualization and looking at AR VR kind of a situation in terms of what we have introduced, so that people can visualize their homes like never before and that is a very strong strength as we are giving them a technology which is on world class standards and it is from a consumer point of view and not our point of view as a vendor to a customer, that is point one.

Amit Syngle: the second area is that even if there is visualization, the customers really struggle from good execution and there is a lot of anxiety that comes in from good execution as people don't really deliver what they show. Here the trust of the Asian Paints that comes in as we are delivering strong execution capabilities. As we are delivering what we are showing to the customers. I believe that we are doing it in a manner that it is a very unique model, possibly the IKEAs of the world are a far larger format and don't look at this kind of a personalization which Asian paints is bringing as an alternative to that extent. And not offering something off the rack that the customer can do by himself/herself to that extent. So that is something which we are looking at. A lot of unique propositions for a lot of customers and not looking at only premium customers.

Varun Pratap Singh: so, are you saying that we are competing more on a technology and execution point of view and not from a product point of view or some kind of a strength that we wish to create on that front?

Amit Syngle: See you can never compete only basis of visualization of product as I was saying you have to give a product that is design led and service which is design led, you have to give something that looks good and feels good to the customer, so it is a combination of some great products and excellent visualization and some impeccable execution.

Varun Pratap Singh: Sure, sir that is very helpful in terms of customers we will be targeting every category of customers.

Amit Syngle: That's right

Varun Pratap Singh: Thank you very much sir, that's very helpful.

Moderator: moving on to our next question which is coming from Mr Neel Thakkar. Mr Neel Thakkar please ask your question.

Neel Thakkar: My question is that we have not seen such interest rates in a very long time, consequently the home sales are materializing in paint industry as well as plywood and other industries and the tailwind is here to stay because this lower interest rate are here to stay. My question is how momentous lower interest rates have been for Asian Paints and secondly any backward integration plans?

Amit Syngle: So, as far as demands are concerned it's a combination of many factors for us and interest rates are not the only area. It is the catalyst that comes into the process where people tend to get into more but it is also a function with respect to a lot of things that would happen like personal taxes, to low income to mid income to need to premium housing. It all varies on which kind of consumer is really spending. What we see currently is definitely an inflation happening at the lower and the mid end and so some extent to the benefits given by the government, I think we saw something happening at the premium end as well. We are not sure if interest rates are the only big kind of catalyst continuing in terms of real estate. So, the past record in terms of what we have seen in the real estate construction segment has not been very strong to that extent and today what we see in the market is that the money for the builder is not that great but given the fact that the interest rates are low it could kind of trigger off the growth in terms of the housing sector but that we will have to wait for the trends to stabilize and see in terms of what really happens.

Neel Thakkar: Okay sir and the second question about any backward integration plans?

Amit Syngle: with respect to what?

Neel Thakkar: With respect to your supply chain.

Amit Syngle: No currently we had 2 chemical plants as well which were the ingredients that would go into the paints, one was pentaerythritol and the other was phthalic. We have closed down are phthalic facility and except for that we do not have any other plan for backward integration as far as raw materials are concerned.

Neel Thakkar: Okay sir, thank you that's all.

Moderator: Thank you may I request Mr Bhavik to take the next question please. Mr Bhavik, please ask your question.

Bhavik: I have 2 questions, one is on the water-based plants that we installed two years ago, can I know of the capacity utilization of those plants?

Amit Syngle: So overall the capacity utilization is roughly at a 20% and that is what we are utilizing and that is why there is umpteen capacity of utilization available for the growths that we see in the future.

Bhavik: Okay sir and the second one is on the kitchen business we had seen a break even in this segment so do you see this growth will be sustainable in the near future and higher as well?

Amit Syngle: what we see is a very clear corelation that we are able to drive the top line very strongly and drive the whole objective in terms of premiumization going ahead, I think we would be definitely able to give a flip to the bottom line in this categories going ahead but having said that we have to be

very cautious given the current conditions, the overheads have been low and the marketing expenditure has been lesser so we will have to watch the conditions going ahead on how the demands are panning out and how we are able to look at the premiumization. But I think what we have gotten is a good boost to looking at what we have in the current quarter.

Bhavik: okay sure. Thank you, sir.

Moderator: okay sir thanks you with that we will close the question-and-answer session for today evening. With that I will request Mr Amit Syngle to give his closing remarks.

Amit Syngle: so, thank you all, for joining us in the investors meet. Sorry for the glitch in the beginning to get the presentation on but I think it has been a great session in terms of the incisive questions coming from all of you and wishing you all the best.