"Asian Paints Q2 FY2021 Earnings Conference Call"

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Asian Paints Management:
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Mr. R. J. Jeyamurugan : CFO and Company Secretary
Mr. Parag Rane : GM - Finance
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Moderator: Good day, ladies and gentlemen and welcome to the Asian Paints Q2 FY2021 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. Participants who wish to ask questions can click on ask a question link available on the webcast. On clicking the link, you shall get a dial-in number and passcode to join the audio call and ask a question by pressing '*' then '1'. 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 a very warm welcome to all for Asian Paints Investor Conference Call for Q2 FY21 results. We will start with the presentation. May I request Mr. Amit Syngle – MD and CEO to take the presentation. The other members present on the call are Mr. R. J. Jeyamurugan – CFO and Company Secretary and Mr. Parag Rane - GM (Finance).

Over to Mr. Amit Syngle for the presentation.

Amit Syngle: A very good evening to all of you and welcome to the Asian Paints Investor Conference for the Q2 for the Financial Year 2021. When we look at the Asian Paints Group, there are certain milestones which we have been able to kind of do over the last 7 decades and I thought it is a good idea to share it with you.

Overall, when you look at the group, overall revenue is US $2.8 billion as a group. We are the 9th largest coatings company in the world with 50 years of market leadership in India. We are the third largest in Asia with operations across 15 countries with 75 years of innovation in paints, almost 3 times the nearest competitor in India and that has been the status for a while. We have 26 paint manufacturing plants overall and we service more than 1,50,000 retailers directly and some indirectly in India. Our vision very clearly has been to be the forerunner of inspiring décor and to actively empower customers to create their dream homes.

If you look at the overall revenue split, 84% of our business obviously comes from the decorative and architectural business in India and about 12% comes from international and the balance which you can see about 2% each coming from the industrial and the home improvement businesses. This is based on the 19-20 financials.

Moving on, we all know the current market conditions which have been pretty challenging time and the circumstances have been unprecedented. We have seen that the COVID cases have been rising since March and they seemed to have peaked since September and the good part is that we have seen a certain decline which is there coming in from the middle of October kind of a thing in terms of what we are seeing and that is something which is great. But we must remember that we are still having cases which are up to about 75,000 cases a day which is happening which is pretty big number. The real GDP is shrinking by 23.9% in Q1 on expected lines.

The overall demand recovery acceleration witnessed across sectors in Q2 led by progressive unlock phases by central and state governments. So obviously supply-side concerns are easing incrementally and pent-up demand supporting the September quarter across industries. The recent releases on the IIP print in line with this recovery because we see that August reporting has been minus 8% year-on-year growth compared to minus 16% in June and minus 11% in July. So these are indicative enough in terms of how the progression is happening.

The headline inflation with CPI clocking in 7.34% for September 20 continues to remain elevated driven by the food articles. Industrial input prices though remain largely stable. The good thing is that the foreign exchange movement which is the USD to the INR has been largely supportive in the second quarter.

More on the business update with respect to our domestic decorative business:

Paint industry seems to be on a recovery mode gaining from the last month of Q1, led strongly obviously by the Tier-2, Tier-3 and Tier-4 markets. There has been a very strong, more than 11% volume growth which we have registered in the Q2 for the domestic decorative business and this is something which we are saying that month-on-month we have improved with respect to the overall volume delivery in the quarter which we have been making. The demand recovery centered around all ranges of products including the economy premium and also some luxury range of products. If we see that, our emulsion range in terms of the upgrades which we have got in the market is playing out strongly.

The undercoats markets continue to do well and that is something which we have focused. The waterproofing portfolio is expanding quite well, and we see that today the luxury emulsion seems to be doing quite well across certain categories and geographies in the market. There is continued strong response to our innovations in the services which is the Safe Painting and the San Assure services and we are very clear that at-home services are the order of the day and that is something which seems to be holding out for us. Strengthening the Décor play, we have looked at introducing lot of offerings more than 1500 SKUs is what we have launched in the lightings, furnishings and the furniture range and this is supposed to complement our vision in terms of looking at getting into home decor in a strong way. Gross margins supported by stable input prices**,** material prices as well as continued work on driving sourcing and formulation efficiency has been a hallmark. So overall, if we look at the domestic decorative business, the continued momentum with the double digit volume growth in Q2 after registering a double digit growth in June is something which has been a very heartening performance in terms of what we see and we see also a value growth of 6% which has come in the Q2.

Just to give you an insight in terms of the whole area of home decor as I said, that is something which what we recently introduced where we had a launch to the architect interior designers and to certain select consumers in terms of looking at the entire range which we have introduced in lightings, furnishing and furniture thus adding to the muscle in the home décor category and the interior design because we feel that this for the home customer is something which is very strong and we have introduced more than 1500 SKUs across 3 brands which is the Nilaya, Royale and the Ador. More than that, we have continued on the innovation streak in a very strong manner and have been continuously bringing innovative products at the top end, mid end and the economy end as well in the market and that has been a very strong initiative within Asian Paints.

We were the first one to kind of come out with a Royale Health Shield, which was an antibacterial paint which we launched about 2 years back. Subsequent to that, we have been launching very strong propositions for the customer in terms of the entire area of health and hygiene.

We also recently introduced a paint which is actually effective against the coronavirus and that is something which was a credit to our R&D in terms of bringing out a product which can really be effective against the coronavirus. We also have an all surface antibacterial product which comes in, coupled with another variant which is a single-coat antibacterial paint. So lots of innovation in this space in terms of what has come out. We were also, amongst the industry, first ones to kind of come out with the entire portfolio of sanitizers and disinfectants which we launched as on 1st of May and we have been relentless in our work around the communities, hospitals, working with the government very strongly, taking this entire forte in a very big manner.

Along with this, we also launched our sanitizing service which is called the San Assure where we use all these products to give protection to the consumers in a very strong way. So the entire focus is on the service where we are able to reach out to homes and offer customers a very strong proposition as far as antibacterial is concerned. We have also launched masks and PPE kits which are there for all our painters who can access the kits and they can really serve the consumers across. This is an addition to our Safe Painting service which has also met with a huge amount of success and that is one of the services which has actually taken the paranoia off the people's mind of getting the painters within their home and start doing painting in a very big way. So I think that is something which some of the initiatives in terms of what we have done and innovation continues to be the key in terms of what we are doing.

When we come to our international business, obviously here also the volume growth has picked up very strongly across the markets in Q2 and overall, we are closer to, if you look at the entire international business closer to a double digit growth of volume there as well. The performances led by good volume growths in Africa and Middle East. Units in Sri Lanka and Bangladesh clocked double digit volume growth. Nepal still is under pressure because of the continued restrictions due to COVID which have been there and it has been one country which has been very strongly affected for everyone. There is a strong push around new products, variants and premium and luxury emulsions to fill in product gaps. Water proofing also has been launched in a big way across various markets. There is margin improvements supported by lower material prices as well as work on deriving sourcing and formulation efficiency. Overall, international business, the revenues for the Q2 amount to 660 crores which comes to a 7.8% growth and for the half year, it is 1056 crores which is a negative of 9% given the fact that April was a wash out. International business PBT for the Q2 is 69 crores which is a healthy 44.3% growth and for the half year is 73 crores which is about minus 4.9% kind of a figure.

Coming on to the industrial business:

We have two businesses here. The first one is PPG-AP, this is our joint venture with PPG of US. There is a strong uptick in the passenger vehicles, and we are all hearing that the auto business seems to be doing well and that is reflected in the performance and two-wheelers builds indicative of recovering trends. OEM business reported good growth in Q2 after a sluggish Q1. Refinish business, though better than Q1 is still not something to which is to the pre-COVID standards. The second JV which is the AP-PPG, there what we have seen a gradual recovery in terms of the general industrial business in Q2. Powder business has been good leading the recovery. Industrial liquid paint demand is still low since some of the industries are still struggling. But what we see is that the demand from the large consumption sectors like oil and gas and capital maintenance is definitely lagging. Both the businesses have benefited from the lower input material prices here.

Coming to the home improvement business of Asian Paints:

The kitchen business, if you look at it, it registered sales of about 61 crores in Q2 touching the base of previous year. So Q2 has been good for this business. The first half is at 86 crores lower than the previous year by 26%. Components as well as the full kitchen segments recovered well in Q2. Projects segment too saw some pickup on a sequential basis. The PBT loss of 4.4 crores in Q2 is much better as compared to the loss of 13.5 crores in Q1.

If you look at the Bath business, we registered 55 crores business in Q2 lower than previous year by 4%. So this was slightly more effective as far as the overall business is concerned. First half sales is at 80 crores lower than the previous year by 25%. However, we see a clear recovery by the economy range of products coming in strongly here. Overall business reported a PBT breakeven in Q2. So we had the breakeven in Q2 compared to the loss of 7.4 crores in Q1. Supported by some improvement in obviously gross margins, cost control and lower spend in marketing.

Finally, if you look at the standalone financials for the overall Asian Paints organization, for Q2 the revenue is definitely up closer to the 6%. The PBDIT performance has been 31.6%, the PBT performance is 33.7% and the PAT is 0.3%. In case of PAT, please note that the PAT is lower due to the tax reversal in last year with lowering of corporate tax rate. On a like-to-like basis, PAT growth is in line with the PBT growth. So there is no tension here in terms of the PAT as we see it. The overall I think highlight has been that the PBDIT margins are over (+5%) if we look at the Q2. Similarly, when we look at the first half, I think this situation has improved very much as compared to what we were there at the end of Q1. We see the revenue which is still about (-19.5%), the PBDIT at (-17.7%); PBT at a (-21.5%) and a PAT which is (-27.6%). But I think the good part still is that overall, the PBDIT margin is still (+0.5%) here.

Finally, when we look at the consolidated results:

For Q2, we clearly see the revenue being at about 5.9%. The PBDIT is at 31.6%. The PBT is at 34.4% and the PAT is at 0.8%. The same things apply in PAT here that given the tax reversal in last year with the lowering of the corporate tax rate, on a like-to-like basis PAT growth is in line with the PBT growth which you see of 34%. Here again, the PBDIT margins have been fairly healthy even at the consol level at 4.7% kind of a growth. If you look at the corresponding first half year figures, revenue is (-18.5%), PBDIT is (-18.4%), PBT is (-22.7%) and PAT is (-29.5%) and PBDIT margins remains the same. So that is where the whole area of both the standalone and the consolidated financials for you.

Moving on, finally when we look at dividends:

We have declared in the financial year 2021, we declared today an interim dividend of 335% which translates to Rs. 3.35 per share. Just as a reflection back, for the financial year 2019-2020 we had paid two interim dividends, one at 3.35 per share and the other at 7.15 share totaling up to Rs. 10.5 per share. Then we paid a final dividend of Rs. 1.5 per share and the total dividend therefore translates to Rs. 12 per share which is a payout ratio of 51.1%.

Finally, I think a lot of you would be wanting to hear from us. We definitely see a good recovery in Q2 led by a little bit of a seasonal demand in the market due to festivals. Obviously, the real question at this point of time where this is sustainable, how is it to be seen, very difficult to say at the moment and obviously the situation continues to be uncertain.

Overall, global recovery could support the export sector in India. There are early signs of recovery, the September 20 exports growth in positive zone after a gap of 6 months. Good monsoons could provide a strong support in the rural economy and demand from that side. We hear the agrarian sector will do well. The rains have been quite good and there has been a good demand for tractors and other things. So I think this is a positive sign which is emerging.

We need to continuously watch on the currency movement and the raw material prices, though they remain stable currently. We continue to work to further on the areas of cost optimization and take up only business critical spends across businesses since we still see the environment as a little bit uncertain.

Thank you so much for listening to this. I would like to now end this presentation.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on home decor. So you are already doing quite well in your core business. Now when I see Sleek and EssEss after so many years till the growth in Sleek and EssEss is either flat or down 4% in this quarter versus double digit volume growth in core business. They continue to be loss making. We have taken write-off in the past few years in those businesses. So what are the learnings from there, why go further into lighting, furniture, home decor where already either online players are there or formidable consumer durable makers are there or even foreign brands are there. So what is the right to win Asian Paints brings to the table so would you be relevant top 3-5 players in furniture, lightings or home decors from longer term perspective or will it be a push when customer comes to your overall home improvement store, it will be just a push when customers come there? So if you could elaborate on that.

Amit Syngle: Great, Abneesh. Thank you for asking this question. When we look at the entire home decor business, it is in line with our vision. Our vision has been that we want to be a forerunner in terms of home decor and we want to partner the customer in making their homes beautiful. So when you look at this entire initiative, our vision is very clear that we would like to be now not only a company which is about just surface decor, we would like to be a company which influences the spaces between the walls and therefore we would like to kind of talk of a share of space within the homes. Given that imperative, we think that home decor is an integral part of a business in terms of going ahead. And we think that we understand the home consumer quite well and therefore this is a natural extension for Asian Paints to kind of get in. Having said that you are right, our experience with respect to both the Kitchen business as well as the Bath business has not been very strong in the last 3-4 years. But what we see is that, we have had a very good understanding of the market in terms of how it is there because if you look at the kitchen business, it is largely fighting against the unorganized business to that extent and therefore we feel today we are one of the largest players in terms of offering modular kitchens with a footprint across the country. So I think we have built in good strengths and there are times when we are looking in terms of saying that how the overall business then starts making sense, then we start talking of overall home décor. Similarly, in the Bath business, I think we have expanded our footprint in the last few years and now I think we have also launched sanitary ware. So overall I think that business also has reached a certain level as we see it. What we have quickly realized is that when we placed our beautiful home stores across the country, okay, we have now 15 stores across the country and we quickly realize that when we are servicing the customer there, we don’t only require bath and kitchen, we require the entire range. So these stores are positioned as offering decor under one roof to the customer as a preposition in a very strong manner and we feel that the launches of furnishing, lighting, furniture gives us that muscle in terms of serving the customer fully and would also give acceleration to the Bath and the Kitchen business as we kind of go ahead. So the idea is to keep on establishing premium stores which are serving the customers and these stores are led by a very strong servicing business which is not only about at the shop but also at the home, the type of service which we can do. So we think that today we are at a crucial juncture where we need to kind of really add on to the categories like what we have done, so that we can offer a far more consolidative strong position to the customer and we think that this will also start giving some acceleration to Bath and Kitchen. But having said that, yes, it is a difficult journey in terms of what we are taking ahead, but we are sure that this is something which aligns with our vision and Asian Paints is committed to this business.

Abneesh Roy: Thanks, Amit. A related question to first question is on sanitizer. So how is your monthly exit run rate in sanitizer now versus Q1 exit? Why I am asking this is, now sanitizer sales are increasingly getting consolidated in favor of Reckitt Benckiser and Hindustan Lever, the core players. Even the Hair Oil company results which came out, they said quarter-on-quarter, significant slowdown in sanitizer has happened, see if Hair Oil company is not able to sell with so much distribution, how are you now seeing sanitizer sales?

Amit Syngle: Great. See, what we are very clearly looking is that, see the larger stake of the entire sanitizer and disinfectant business is to kind of really propel our sanitization service in a very big way. All the products which we have launched give us a very strong kind of a strength in terms of reaching out to the homes and doing a lot of sites. We have been able to do more than 50,000 sites in a very short period and given the fact that we are able to get into the homes, we get access to the paints as well very easily. So we think that it is a service which complements the painting in the sense that we get to know the customer far more intimately in terms of going forward and we also see that this is in synergy with that paint as far as the health and hygiene area is concerned. As far as selling the products are concerned, we are exploring our own network as well in terms of which is a huge network who would be able to kind of sell some of the sanitizers and disinfectants in the market which would be there. Obviously, we don't want to compete with the FMCG in this space where they have got a larger muscle, a much larger network and so on and so forth. But we feel that it is a slow and steady show business which will keep on complimenting the paints in the health and hygiene sector and we will continue to kind of push on our services as we kind of go ahead.

Abneesh Roy: Right. My second question is on the core business, so if you could tell us this double digit volume growth is very good but non-putty volume growth should it be say mid single digits? And in international market, when you are saying almost double digit volume growth you are getting there also, so have you launched some new products last few years in international markets, I don't know whether putty is relevant there. If you could elaborate something like Bangladesh, Nepal, I think it will be relevant. So how come you are getting such a good growth even in international market?

Amit Syngle: So when we look at the Indian market, as I said that there has been a large foray with respect to looking at upgradation in a big way and also looking at the undercoats market along with the SmartCare waterproofing market. So I would say that all these, definitely there are lot of products which give impetus to the volume to that extent and it is not only putty dependent to that extent and therefore the volume growths are a combination of those which are happening with respect to the upgradation in emulsions, the waterproofing products and the undercoats to that extent. So therefore it is not only one product dependent to that extent. When you look at the international markets, even in the international markets, today it is not that everything is putty led, in fact the putty contribution in one or two countries might be higher, but overall putty is not a very big thing in terms of the international markets as well. There we have been looking at a slate of launches this year. As I said, waterproofing has been launched across various countries in a big way and that has contributed to a large chunk of growth which we have got there along with the fact that there have been huge amount of variants in emulsions which we have launched across countries especially when we look at the Sri Lanka, Bangladesh and Egypt markets which are the bigger markets to that extent for us and all these are in combination giving us the volume growths which we are getting.

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

Percy Panthaki: My first question is on your overheads that you have been able to control very well. I see this quarter the other expenses line as a percentage of sales is down about 300 basis points. So just wanted to understand how sustainable these savings are, is it 300 basis points sort of number which is now cast in stone which will continue going ahead? Or, as you see business coming back and business normalizing, some of these costs would be restored and if so to what extent? If you can just give some amount of idea on that please.

Amit Syngle: Okay. So when we look at overheads, what we would see is that, we have done a lot of work with respect to the fixed overheads as well where we look at rentals as one of the big thing where we have done very strong work around that entire thing across the country, across our various establishments which are there and that is something which possibly has given us, one would kind of imperative with respect to you know how the costs are looking. The second thing is when you look at the variable expenses, we also see that at the moment the travel is another component which has really come down and that is something which is giving us some strength in terms of looking at it. At the same time, there have been a lot of cost initiatives which have been followed by the company which have been in the spirit of saying that we don't compromise on things in terms of service what we do in the market, but at the same time we are able to kind of look at little bit of a frugality in terms of the way we work given current circumstances which are there. The other bit is in terms of obviously as part of the larger story on overheads is that the marketing expenses have come down a little bit. So what we see is that, overall some of these things would be definitely sustainable as we kind of go ahead. But as markets open, as things kind of return to normalcy, obviously some of the variable expenses will kind of go up, but I think the work which is being done as far as the fixed overheads kind of a zone is something which will sustain for times to come.

Percy Panthaki: Understood. Other question I had, sir, was in terms of demand. You did mention that July-August-September, each of these months saw increasing momentum in terms of demand and sales. We are well into October now also and the festive season sales etc. also has started. So have you seen that momentum accelerate further into the October month?

Amit Syngle: See, there is definitely some movement in the market what we are saying in terms of which is led by I think two factors, one is the factor of the immediate festivals which are there coming to that extent which has caused definitely a spurt in the demand which is there and this spurt in demand is across the various Tier-cities in terms of what we are seeing to that extent. The only thing what we must remember is that so while the momentum currently is continuing, what we must remember is that it is all dependent in terms of how basically, if there is a second peak we hit with respect to COVID and there are further issues of lockdowns and other things which happen in the environment, it will definitely impact on the growth. So it is very difficult to say that are we really out of it. I would say that we need to be a little bit cautious about the fact saying that the current momentum will kind of continue because what we only see is that, we can say with surety once the vaccine is out and people start getting into the zone where people are shown that they are safe to that extent. So I think I would only say that there is definitely a momentum because of the festivals which is there to that extent. Now whether this momentum will continue will all depend in terms of how the situation kind of develops, how basically we see a second peak, if we see a second peak going forward. And if the cases keep on coming down and the current new normal kind of continues, I don't see any reason why demand should not continue.

Percy Panthaki: And last question from me is on home decor. So just wanted to understand the go-to-market route for this. Is it completely dependent on a retail build out that you do?

Amit Syngle: So there are 2-3 routes which we do. One is the route in terms of retail level of stores which are there across the footprint of the country. Then, we have our specialty stores which we call as the beautiful home stores which are one stop decor stores which are there to that extent and these are the premium stores which kind of sell the entire range. Then we have the entire projects and institutional business which kind of caters to builders and large corporates and so on and so forth. And we also have the fourth route which is the architects and interior designers where we kind of liaison with them in terms of looking at supporting them in their work as far as home decor is concerned.

Percy Panthaki: Can you give us some idea on what is the total market size that you are looking at for these segments like furnishing, furniture etc. How big is the opportunity size?

Amit Syngle: So the opportunity size is as big as you can think because you know this is a very unorganized market in India. Today we don't have, in any of these sectors, any big organized players to that extent and that is why, I think the entry of any overall India level brand has been always an issue to that extent. So today I think each of these markets is very big, if you look at only furniture. That market size is more than one lakh crores. So I think if you look at each of these segments, the markets are extremely big in size. But I think the biggest impediment is that the kind of unorganized nature of the business, the way it is to that extent becomes the strong impediment in terms of really offering a customer a very strong preposition.

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

Manoj Menon: First of all, I must congratulate the team for significant improvement in the disclosures because the industry leader always sets the tone and I hope this will continue and even get better in times to come. Good performance. Just couple of questions actually. It is more basic, I am sorry if it is too basic, I am just trying to put together the statements double digit volume growth, revenue value growth of 6% and also the comment about better product mix and stable raw material which essentially implies possibly the only thing I could figure out in the equation was the category mix is slightly negative. Essentially you are saying within paints better product mix, but is that the right understanding?

Amit Syngle: Yeah. So when we are saying a better product mix what we are implying is that we are selling across economy, premium and the luxury and big way. It is just that today there are certain markets and certain segments within each of these 3 categories which seem to be kind of doing well. So it is not a uniform kind of a scenario all across to that extent, but the good part what we are seeing is the product mixes much better in terms of what we are seeing there relative to Q1 and also the fact that today, even at the luxury end, we see some of the growths are really very good in terms of certain categories in certain regions which we are able to see.

Manoj Menon: I am sorry for pushing this. What I am just trying to understand here is that, one is the within paints, the top end sells more than, basically there is a pyramid out there. But if the per unit realization and more importantly the gross margins of the other businesses what you are doing, whether it is water proofing, adhesives, putty, primer, the entire basket. Is that what is the, basically the difference of that 4%, at least 4% if not more which I am just trying to understand on the revenue line in conjunction with the gross margin performance which is exceptionally good?

Amit Syngle: So Manoj, what we must remember is that even with respect to the other categories which you just mentioned, I think the gross margins which we are enjoying there are also pretty good and we have a constant endeavor in terms of upping that gross margins in terms of the constant work which we keep on doing with respect to our formulation efficiencies and so on and so forth. So it is not that there is a huge difference in terms of the margin realization between the paint categories and the other categories to that extent. Yes, there is a difference, but the difference is not so large that it can cause a very big skew with respect to in terms of the overall kind of a margin which it can do. So to that extent I think from that point of view, it is still a balanced kind of portfolio in terms of what we are pursuing and the fact that today, the core paint along with some of these categories is growing is an indicative of the fact that it is a fairly balanced scenario in terms of how the growths are coming in.

Manoj Menon: Understood. Maybe the only exception would be the putty gross margins, which is possibly outside of basically it's a material difference, right? That's probably the only exception we find.

Amit Syngle: I would not say that because, see, even with respect to the economy's end of products, basically, if you look at the gross margins, I think, overall, the gross margins are pretty healthy. And within the putty also, there are 2-3 variants, which are there to that extent, and each of the variants has a different kind of a margin. But yes, the larger selling putty would have definitely a little lower margin as we could kind of see in terms of looking at. But how you need to kind of see it is the per realization, what you would kind of make out of a whole household. So the starting work, which in any household which will happen is the putty. If the putty is not yours, maybe the top end products, which go into as topcoats will also be not yours to that extent. So I think what is there to kind of look at is that the realization from a certain household, which you would make is still very healthy given the fact that putty would be only a small part of the whole purchase.

Manoj Menon: Completely understood. Just quick one more and then I'll come back in the queue. What is the definition of decorative? And how do you define volume growth?

Amit Syngle: That's why I said, you said basics. Okay. So decorative means it is basically the entire architectural sector, which means whatever is going within the homes, which goes into offices, what goes into institutions, what goes into high-rise buildings, all that basically is something which we classify as decorative, and these are paints, which are not industrial in nature. Industrial segment, when we say it goes into protective coatings largely for varied substrates like iron, galvanized iron, mild steel, aluminum and those kinds of chimneys and so on and so forth, which is there. So the decor sector largely basically caters to the whole area of masonry in a very big way. But having said that, within the home, you will have various substrates like wood, masonry, metal, which we would kind of cater to. So the larger business is all about homes and living spaces. That is how I would say how the decorative and the architectural business is defined. Living spaces is a big word there in terms of what you should kind of take from this conversation. The other thing is what you said is that how do we look at volume growth, okay? So the volume growth would qualify in terms of all these products, which we have, wherever we have largely the liquid components, which are there. Where we are able to measure the per liter kind of a thing is where we will look at the volume growth. Anything which possibly is not in a liquid state would not kind of translate in terms of joining in the volume growth.

Manoj Menon: Understood. So it's not a kilo converted to liter. So basically, what I'm just trying to understand that it is what you calculate internally is not a valuated volume, right? It is just tonnage to tonnage or liter to liter.

Amit Syngle: That's right. So obviously, when you have a product like distemper, which basically sells as kilogram, okay, there's a conversion to liter, which takes place there to that extent, okay? So it's not that it is taken as something which is not accounted for in the volume to that extent.

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

Avi Mehta: Thanks for clarifying the product mix improvement. My question was that why is this improvement in mix not getting reflected in the gross margins, which have moderated from 1Q levels?

Amit Syngle: Sorry, the gross margins have improved from the Q1 levels.

Avi Mehta: Sir, if I look at the standalone business, it doesn't seem like that. Maybe if you could...

Parag Rane: I mean it's also a question of what is the kind of input spend that happened in Q2 versus Q1. But if you look at purely from a material cost perspective, the gross margin is better than Q1 in Q2 because you see the material prices on a downward trend in Q2.

Avi Mehta: So material prices were on a downward trend. Mix was on an improving trend. But sir, RM to sales has actually moved up from 1Q, right?

Parag Rane: Yes. So that's a question of the input that happens between various quarters.

Avi Mehta: It is what kind of input is being used for the products, whether it's okay, that...

Amit Syngle: Yes. So you must remember that the overall inputs and discounting also plays an important part in terms of governing the gross margin to that extent. And therefore, it is very difficult to isolate only on one level and say that is it the product mix, is it the material prices or it is the discounting in terms of what's going in, in terms of looking at giving that gross margins.

Avi Mehta: Okay. And does that imply that your formulation change is partly the reason for that, sir? Or is it possibly just the mix only changing because upgradation has happened? Is that...

Amit Syngle: No. Also formulation is an ongoing process because you must remember that the material prices have a strong contribution to the overall cost and therefore, given the fact that whatever savings, which we make in terms of effective formulations, it would kind of give us a big impetus with respect to improving our margins.

Avi Mehta: Okay, sir. Sir, the second question was essentially on the demand side. Could you help understand whether the metro demand has now come back to pre-COVID levels? Or how is that behaving? Because you did say there is an improvement, but in the start also you highlighted that's largely led by Tier-3, Tier-2 towns. Has metro now come back? Or how would you kind of say that?

Amit Syngle: So I would say that when we compare with Q1 levels and we look at the metro T1 and T2 cities, there is definitely improvement, which has happened progressively over the months. And that is something which is a clear trend, which we are seeing that the metros are definitely improving along with the Tier-1, 2 cities. And this is reflective across various categories to that extent, so it is not particular to a category. It is reflective of across categories. And it is definitely improved, but it is not back to the pre-COVID levels. It is still, I would say, at a level of about 70% to 80% kind of a zone. It's not come back. And within that, also, there is a differentiation. For example, Mumbai has been the most sluggish in terms of coming back to life to that extent. And there are places like Bengaluru and Chennai, which also have been slow, whereas what we find is that North and East have been far better with respect to coming back to life far more strongly. So there are differences geographically, which we are also seeing with respect to this metro T1, T2 cities. But to sum it up, it is not back to the pre-COVID level. It's still about 70%, 80%.

Avi Mehta: Perfect. And last, sir, just a bookkeeping. What has been the reason for the increase in others in the debtor, sir, in this first half?

Parag Rane: You're talking about the increase in the debtor position, right?

Avi Mehta: Yes. And as a percentage of sales…

Parag Rane: Yes. If you are comparing it again specifically to that Q1 end number, it's the reflection of growing normalcy returning back to the business because of the loss of sales of April the debtor outstanding position with the work that happened in April and May in terms of collections had come down, that is just moving back to a more normal level.

Avi Mehta: Sir, I was actually comparing Y-o-Y. I was comparing last 2 second quarter.

Parag Rane: Yes. So between the 2 years, we will obviously have to change in terms of the loss of sales that happened in the month of April. And therefore, looking at it as a percentage of sales.

Moderator: Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.

Latika Chopra: My first question was on your revenue trends. Clearly, looking at the volume and the value equation, there is a difference, and the difference started sometime in the same quarter last year. Both is moderating sequentially, but it's still roughly about 5% difference. Do you expect it to taper going forward as the Tier-1 city recovery gathers pace? That's one part of the question. And the second is in rural and semi-urban towns, you have seen share gains from the unorganized or the smaller players who probably witnessed supply chain disruption over the last few months. Do you see the situation normalizing? Do you see them coming back? And do you think these share gains are sustainable and you can probably build more here? And the second question that I had was on these new segments that you talked about on furnishing, furniture and decor. I would assume that these are still sourced through a third party or if you're going to go on your own in manufacturing deals, is there any large outlay on CAPEX here?

Amit Syngle: Okay. Just taking the questions one by one. First of all, what we feel is that, as we come towards normalcy, okay, I don't think so that there is too much of a contraction with respect to this gap, which is going to be there. That could be a 1%-1.5% kind of difference, which could kind of come in. But largely, I would say that the gap would continue with respect to this kind of thing because the way the overall product mix is there, the way the focus, which we are kind of taking on certain categories, I think, would kind of stay. And what we are clearly committed to the fact is that I think the overall volume growth has been hovering quite well for us in terms of giving us access in various markets overall, which also propels the value growth as we kind of see it. So that's one. When we look at possibly our share gain, which you spoke of in terms of some of the Tier-3, Tier-4 cities kind of thing, I would say that a lot of the share gain is kind of coming at the behest of possibly even gaining from the organized companies because, today, Asian Paints conventionally has a far better reach with respect to our retailers, which we have across the small towns and small cities across the country. We have a far better distribution reach as well as from a servicing angle. And we feel that given the range of materials, which we have, which we are able to reach out to the smaller shop in upcountry town, I think that is something which is giving us a share gain from even the organized players. In fact, I would go ahead and say that some of the regional players, I would say, in the regions where they have done pretty well, and they have also bounced back pretty good in terms of servicing their own retailers to that extent. There is only disruption in their supplies where they have to reach out to other parts of the country to some extent. But largely, in the regions where they are there, the unorganized sector is also doing very well. So to that extent, I think some of these gains are very strong in terms of what we are seeing for ourselves. The third part is that, in terms of looking at some of the sourcing about the home decor currently, yes, we are currently looking at a lot of partnering, a lot of franchising in terms of how we are sourcing. But what we are very clear is that as far as the design sense goes and the quality parameters go, that's something which is of the Asian Paints standard. And currently, there are no larger CAPEXes, which are going in that flavor to kind of really fuel this kind of launches.

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

Tejas Shah: First, in terms of adjacency, in the last many years, we have got into many spaces. Some have been tactical. Some have been strategic from long-term perspective. Is it a fair understanding from our side that of all those adjacencies, waterproofing will be the next big thing after coating that we can look forward to?

Amit Syngle: As for me, there is nothing like the next big thing because we feel that, within the paint, also, there are a lot of next big things, which are there to that extent. So whether it is some of the emulsion innovations, which we are doing, which is in the whole area of the health and hygiene, which we have kind of got in, whether it is with respect to some of the undercoats, which we have got into, some of the upgradation products or whether it is some of the wood finishes, which we are coming out with, I think there is an all-around focus on huge number of categories to that extent. Yes, what we must remember is that Asian Paints doesn't really follow any competition to that extent. And we are looking at saying that how the per capita consumption of paint is something what we can increase because we feel that, as a market in India, it's still underdeveloped as far as the per capita consumption is concerned. So I think there are a lot of large areas, which could be the next big thing in terms of what we are looking. And some are core to the paint to that extent, and some are related to the paint category to that extent. So I would not like to peg it on only on one kind of category because, as a leader, if you peg it on one category, then you can't be there for the next 100 years.

Tejas Shah: Sure. But sir, would you call waterproofing relatively a success versus home improvement and other ventures that we had in the last 3, 4 years? Or that's still too early to call it?

Amit Syngle: See, something which is very strongly integral to what we have been doing for the year is relatively much easier to that extent. And therefore, since the waterproofing really correlates to a better painting performance, and I think it was relatively easier to kind of establish the credentials there strongly and kind of take on. So that definitely has been a faster normalization in terms of the usual Asian Paints way of working. The home decor part is a different part, where there has been a lot of learning, which has been involved. And given the fact that the learning is a little bit slow, it has taken its own time.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Just in terms of dealer health, how do you rate your dealer health when you compare that with, say, the same quarter last year and the first quarter this year?

Amit Syngle: See, I would say that as far as our retailers are concerned, we feel that we have been able to really support them very well, whether it was in quarter 1 and then sequentially now in quarter 2 both with respect to the type of demand, which we could kind of take to them and the kind of margins they are making in their own business to that extent or the innovation for the customer we could kind of bring about, okay? So I think today, I would say the overall health of the retailers and the entire industry is very good in terms of what we see it because what we also see it is that they are seeing continuity in terms of the business, and there is largely the anxiety of disruption, which came in, has now been modified to a lot of extent. And this entire performance, which has come in is because the retailers are doing well, and they are also earning money overall to that extent. And therefore, we feel that there is no issue with respect to that, and they continue to kind of really be in a very strong partnership with Asian Paints.

Aditya Soman: That was clear. You indicated that you have to or you supported them through this early stage. Would you still need to support them going forward?

Amit Syngle: So what we did was that we definitely did support them on a lot many issues, some of the financial settlements, which had to be done or what accrues to them or in terms of insurance for their shop boys, sanitization of their shops and stuff like that. We also introduced a new credit layer in terms of what we gave to them. But surprising to us is that most of the people, while they initially utilized it, as they kind of saw their business kind of normalize, they have not really kind of utilized that layer so much as we would have kind of seen to that extent. But having said that, that layer still stays in the market if people have to use this.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: Just one question regarding the new home decor segment that you spoke about. So it seems that a lot of these segments do go into general trade. Are the channels very different in terms of the shop for the retailers to stock these products? And/or is there some commonality? And if they are different, would that mean that you would have to set up separate sales teams, and also related to that, I mean how do you manage SKU complexity of these 15,000-plus SKUs that you would have now or added to your portfolio?

Amit Syngle: Okay. So as far as the home decor categories are concerned, actually with a lot of our retailers, there is very little commonality, which we see to that extent. But what we have been able to kind of successfully do is that layer of the retailers, we have basically been able to align them to kind of start basically getting into these categories as well. So today, the Beautiful Home stores, which are coming in the market, are none other than our retailers only to that extent. Basically, retailers who have a customer orientation, and we believe that they are customer centric in terms of their behavior and they are able to spend their time with the customers is something which we look at to that extent. And therefore, we are now currently, in our entire network, creating these layers, where we are kind of segmenting the retailers with respect to their customer disposition. And we are able to find that this is an interesting experiment where some of our retailers have started to kind of diversify their businesses and try to align themselves, selling some of these categories strongly to that extent. So I think what we are finding is that there is a clear layer of retailers, which is emerging, which are able to sell some of these home decor categories slowly but surely. We found the same thing when we introduced wallpapers in the market. And today, what we are finding is that some of these categories are also finding a common ground because some of these people were already dealing either in bath or someone who are dealing in electricals or they were dealing in hardware to that extent, and they find as a natural disposition that they can offer a lot many other categories to the consumer. It takes time, but I think that is something which is a challenge in terms of orienting them to start selling these categories as well.

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

Shirish Pardeshi: And I really appreciate such detailed information shared by Asian Paints. I hope it would continue. I have one question on demand. And in my observation, what we saw, the urban demand was challenged in last 2 quarters. And if I pick up the commentary, what other companies are saying, top 100 towns and metros has an issue. Is it safe to assume that second half, if things normalize and COVID comes out, we will see a better demand, what you have reported just now in the second half?

Amit Syngle: Yes. See, currently, after COVID has come in, there is nothing which you can say in a very definitive manner, okay? Because the situation changes kind of every month and how governments react and so on and so forth to that extent. But I think it is reasonable to assume that as the paranoia from the customers' minds kind of goes on and customer knows that, today, the fatality rate is kind of going down and the positive cases are coming down and he or she can really step out of their homes and they can get people within their homes to that extent, I think this kind of a trend will continue. And I would say that if this really happens, then the second half should be definitely better in terms of the way it kind of really goes as far as demand is concerned. However, I think, today, a lot would depend with respect to how the metros, T1 and T2 cities fare out because T3 and T4 cities are back to their pre-COVID level demands to that extent. So I think a lot depends on metros and T1 cities, specifically in terms of how these kind of come back to normalcy in a very fast manner, and it would also depend a lot with respect to how government is responding in terms of looking at opening up the economy very strongly and not doing a U-turn at certain times in middle, which sends a very wrong signal in the market.

Shirish Pardeshi: Do you think to get this demand, you need to take a price cut? Or you have already initiated some price cuts?

Amit Syngle: No, I don't think so that, that is required today. I think to that extent, what we have seen is that there is no large level downtrading happening by people to that extent, and that is something as a trend, which is appearing in quarter 2. So from that point of view, I don't think so pricing is an issue.

Shirish Pardeshi: So you have not taken any price cuts?

Amit Syngle: No.

Shirish Pardeshi: And have you increased any discounting in the trade?

Amit Syngle: A little bit to that extent because that is a normal thing in terms of really looking because there's a time when people are not willing to stock and a little bit of discounting to kind of get people to stock a little so that they can do, but there's nothing which we have gone really out of the way in terms of doing it.

Shirish Pardeshi: The reason I'm asking because in few pockets, we have seen the inventory has gone up in the trade. So I think it could...

Amit Syngle: But it is not tolerable to that extent. I would still say that when we see from a pre-COVID level, the inventories in the trade are much lesser.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: So if you can just help me understand 2 aspects, please, and I think Percy has dealt with this in some form earlier, but I have something which is more over the medium term. So if I look at margins across the board, across your different business lines, seems like each and every business has got more profitable now given that you have taken a lot of cost measures during the lockdown etc. And this is true for domestic decor, for international, for industrial and maybe Sleek and EssEss, too. And these cost measures seem to be some long-lasting ones, right? And revenue, of course, has taken a knock in Q1 and now seem to be back to where they used to be at least on an aggregate basis. So my question is that has this couple of months of COVID hardship that you had to go through actually made your business a much more higher quality one in terms of margin and profitability. And this better quality is for keeps forever now onwards.

Amit Syngle: So I won't say that coming out of COVID has bettered the quality or has intensified our effort with respect to looking at bettering our margins in that way. It has been an ongoing initiative, which we have been doing over a period of time. And I think, over a period of time, I think this is a continuous initiative, which we are kind of pursuing. And we definitely don't need another COVID to kind of really intensify our efforts there again. But I think, today, what we see is that, yes, it all depends in terms of the demand and how the mix kind of augurs as we kind of go ahead in terms of looking at sustainability of these margins in terms of what is there to that extent. It also depends on how the material inflation part goes in the future to that extent because, as the demand stabilizes and demand starts to kind of go up as well on a more stable basis, we also see that the inflation in the market catches on, which kind of then basically affects you because there is only so much you can pass on to the market. So I think it is all dependent in terms of how those factors pan out. But I can assure you that I think some of the initiatives, which we have taken around the formulation efficiencies, improving our kind of mix and so on and so forth, that is something which is going to stay.

Richard Liu: Okay. And one more question if I may. Considering the amount of drop that you've seen in crude oil prices and TiO_2 is also kind of doing okay as far as what I could see on the numbers. The gross margin expansion of 200 bps Y-on-Y and nothing Q-on-Q does not seem commensurate with the kind of downward fall that we've seen in crude oil price behavior. Can you help with this in context for me, please?

Amit Syngle: The difference possibly would be just about 1% point kind of a thing, okay, or 1.1% kind of a thing, which is there because what we are seeing is that crude kind of took its lowest level kind of a thing, and we are seeing a lot of food derivatives now starting to go up. If you take the case of MTO, which is a very basic thing, which kind of goes up, we have started seeing escalation in the prices, which are there to that extent. And similarly, with respect to certain other raw materials, also, we are seeing that there is a little bit of an upward graph, which has kind of started to that extent. So I think that is one reason, which we are seeing that, today, you are seeing that there is a little bit of this benefit. What we got from this thing in Q1 is something, which is now definitely coming down to that extent. And as I said that there is a little bit in terms of the discounting which also impacts in terms of the overall margins, as you see, in terms of going forward.

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

Amit Sachdeva: Just one question is on the same thing, which probably Latika also asked, that mix started sort of being adverse last year. And then we had seen substantial difference between volumes and value. And you are alluding to it going more aggressive on volumes and perhaps that would continue for a while. And correct me if I'm wrong, that last year mix was inferior, and I would think that Q1 demand would have sort of been come to now Q2, Q3 as well. But that perhaps would give you better mix this Q3. And in that case, should we see that tapering off that kind of deflation we are seeing? And how should we think about next year when **(70:33) ____?** Then would that trend be continued in FY '22 as well? How should we think about this aspect of it where you are deliberately pushing volume on certain SKUs and giving us that effect?

Amit Syngle: See, if you look at currently, we are in a situation where there is no set trends, which you see across markets, across regions. And I can tell you there is no pent-up demand of Q1 which we are seeing into Q2. Whatever demand which we are seeing in Q2 is basically a new demand, which is kind of there to that extent. And there is no pent-up kind of demand which we are seeing here to that extent. Now as we kind of keep on going forward, I think a lot depends in terms of the fact that, today, what all kind of growth opportunities really come in, as I said, that there are markets. For example, there is a wood finishes market, which is a large amount of French polish in the market to that extent. Now it's a very big world, and it is at the economy end to that extent. Now tomorrow, you start focusing on that and start growing the market. You will start getting the volumes as well to that extent. And it's not that we should not kind of focus on that category in terms of going forward to that as we kind of look at it. So in my view, as we kind of keep on going ahead, so long as, basically, we are looking at good margins, we are realizing good kind of bottomline as we kind of go ahead, I think it is immaterial in terms of whether this margin between the volume and the value remains and how it kind of augurs out.

Moderator: Ladies and gentlemen, we'll take the last question from the line of Jay Doshi from Kotak Institutional. Please go ahead.

Jaykumar Doshi: A question on home decor. How should we think about the pace of scale-up for Beautiful Home stores expansion and investments over the next 3 years? What is the extent of investment a dealer needs to make and whether Asian Paints may also contribute in the store expansion in anyway in terms of investment? And are you open to inorganic opportunities considering that CAPEX requirement for the core business is going to be minimal over the next couple of years and there is enormous free cash flow that you generate? So would you be using capital to step up growth in home decor?

Amit Syngle: See, it's a fairly interesting business, as I said, and it has a large potential, but at the same time, challenging, given the fact that there's a large amount of unorganized sector, which you are kind of contending as competition here to that extent. Now as we kind of look at in future, we definitely want to up the trajectory with respect to the Beautiful Home stores, which are kind of coming up. But we don't want to do it irrationally. We want sustainable stores who are able to deliver that proposition. As I said, the biggest point in this proposition is just not a customer coming in purchasing something off the shelf. It is the whole engagement of the store with the customer and the customer centricity, which the store has to show the customer in terms of going forward. So I think it is a very different model compared to a Home Depot model, which you see across the cities or even in terms of some of the models, which you see in India, which are in operation, which are large-format models to that extent. Our entire thing is handholding the customer in a very strong way, and therefore, we would kind of put a certain trajectory in terms of what we want to kind of grow the Beautiful Home stores in terms of going forward. At the moment, we are open in terms of looking at if there are opportunities, which come in the market as far as some of the secondary investments, which we need to kind of make. We would be open in terms of doing that, having learned from our experience with respect to kitchen and bath. As far as the share is concerned, yes, there is a share, which the retailer makes, and that's to make the model very different because then there is an equal stake of the retailer as well in the entire model in terms of going forward.

Moderator: Ladies and gentlemen, I now hand the conference over to Mr. Amit Syngle for closing comments. Thank you and over to you, sir.

Amit Syngle: It's been great interacting with you, and I'm trying to kind of look at answering questions which are pretty open and in an honest manner so that you get an idea in terms of what's really happening in the business in terms of going forward. I think it's been a good quarter overall. And I think we look forward in terms of, as we go ahead, possibly, some of these trends continue. Thank you all for coming this evening and being with us for this investor conference. Thank you so much.

Arun Nair: Thank you, everyone. Thank you.

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