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Dalal Street,
Mumbai - 400001.

2. Manager – Listing
National Stock Exchange of India Ltd.
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Dear Sirs,

This is further to the intimations done by the Company on 24th July, 2024, 30th July, 2024 and 31st July, 2024 with respect to the Conference Call hosted by the Management of our Company on Wednesday, 31st July, 2024 at 11:00 hrs India Time to discuss Q1 FY 2024-25 Financial Results of the Company.

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

For **KANSAI NEROLAC PAINTS LIMITED**

G. T. GOVINDARAJAN
COMPANY SECRETARY



“Kansai Nerolac Paints Limited Q1 FY-25 Earnings
Conference Call”

July 31, 2024



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

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



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Moderator: Ladies and gentlemen, good day and welcome to Kansai Nerolac Paints Q1 FY25 Conference Call hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Aniruddha Joshi: Thanks Aditya. On behalf of ICICI Securities, we welcome you all to Q1 FY25 Results Conference Call of Kansai Nerolac Paints.

We have with us today Senior Management represented by Mr. Anuj Jain - Managing Director; Mr. Prashant Pai – Director Finance and Mr. Jason Gonsalves, Director of Corporate Planning IT and Materials.

Now, I hand over the call to the management for initial comments on the Quarterly Performance, and then we will open the floor for a question-and-answer session. Thanks, and over to you, sir.

Anuj Jain: Thank you, Aniruddha. Good morning, everyone, and greetings to all of you. Grateful, as usual, for your continued support and participation in such calls. Thanks for joining this call of Kansai Nerolac Quarter 1 Financial Year ‘24-25.

For the quarter, as you would have seen in the results, the top line is down by approximately 1% and gross margin expanded by around 1.7%, 170 basis points. And profit before tax is up by 6.2%. If you look at the segments, in industrial there was a good demand in automotive coating, especially the passenger vehicle witness decent demand, and two-wheeler witnessed a strong growth in the last few years two-wheeler was not doing so well. But from last year, in the third quarter, the two-wheeler picked up and that trend continued. The performance coating, which is a non-auto segment, which is dependent on infrastructure growth witnessed subdued demand due to elections in this quarter but picked up in June 24.

In Decorative overall demand was muted due to unprecedented heat wave and election. However, during the quarter new business which include premium wood finishes, construction chemicals, waterproofing, saw robust growth, also project sale institutional sale, which is one area under our strategy where we have focused also witnessed good demand growth. Despite this muted demand, the premium saliency has increased, which is also reflected in our gross margin, part of it is reflecting in our gross margin expansion. If you look at urban markets and rural, urban market is still doing better, rural there are green shoots quarter-on-quarter basis some improvement, but still rural is behind urban. During the current quarter, we started seeing raw material prices trend going up in some of the key raw material categories, but during the quarter

we were able to manage it judiciously through product mix, marginal advantage of inventory and the cost saving initiatives.

If we talk about some of the initiatives related to our industrial business specifically in the automotive. Our approach continues to focus on some of the unique high end technology solutions, which is in line with our strategy of launching sustainable products to reduce resource use and carbon emission because that is also one of the requirements of our marquee customers. New technology customer base has been expanded and the new products has been deployed at more number of customers.

Some of the highlights are:

Low bake epoxy CED is introduced at more number of customers. This basically helps in terms of bringing down the baking schedule, the temperature and therefore indirectly helps in energy saving and emission saving, so cost and emission, environment both. The technology is sustainable low flash off which is a single stage, compact three coat, one bake system also implemented in some more customers, and this also will help reducing the painting cycle at the customer end and therefore increasing the productivity and savings energy and the emissions.

Direct to metal coats, mono coat was again introduced in some of our customers Traditionally there are two coat system, there are three coat system, now it's a mono coat system, again helpful to increase the productivity. Then there are some more technologies in low bake and emission free, including tin free CED which is high solids and it devoid of heavy metals. And we have started, we have launched it sometime in the last year, but now we have started expanding it to more number of customers.

Some new segments which were introduced which we have been speaking about, include seam sealer, underbody and alloy wheels, continuously quarter-on-quarter we are seeing a good traction and the salience to business is going up. Electrical vehicles, which has been a focus area from the government and also in the auto industry, the penetration in four-wheeler of electrical vehicle as of now is low, it is 2% so may be from last year or last two years it has gone up from 1% to 2%. In two-wheeler now it is around 7% and in three-wheeler it is more than 50%. In EV segment also which is emerging trend our market share is in line with our overall market share what we have in auto. We are conscious of ensuring that our market share is also high in this segment.

Coming to the other part of industrial which is auto refinish:

Auto refinish market. in terms of our strategy, we are focusing on adding a greater number of A class body shops to basically consume more premium, the high-end PU, polyurethane coating.. So, we have further expanded the A class body shops and our salience in this premium polyurethane coating within auto refinish has gone up significantly.

In performance coating, which is mix of liquid and powder. One of our ne focus area was also to concentrate on high tech premium items which include bridges, windmills, appliances, construction equipment, helmets, and there we again our saliency last year also it has gone up in the 1st Quarter within this the premium saliency has gone up. In powder coating premium items include rebar, pipe coating, alloy wheels, construction equipment, which is an upcoming trend, and these are likely the growth drivers for the future also.

Coming to some of the highlights in Decorative:

We have been discussing paint plus which is a range of products which are different and democratic. We have introduced more number of products and the saliency of paint plus product is continuously going up in this quarter . Paint plus also helps the premiumization and even in this quarter the saliency of premium range of products has gone up compared with the last year. Some new products we have introduced in the market, one is texture range designs, and these are very, very niche unique premium designs which give you a different kind of textures and designs on the wall which comes from Japanese culture or Italian culture. This is one range of products which we have introduced, we have introduced one new product Excel No Dust, it's a long-lasting paint with excellent dust pickup resistance. We have also introduced Wow White. Wow White is a range of whites which were introduced in some of our products. They are in the premium category, and it has an exceptionally good whiteness and higher coverage, almost 15% higher coverage if you compare it with any of the products which are available in the market.

In construction chemical we have introduced membrane that's a new introduction what we have done and in wood finishes two component polyurethane, one component polyurethane, some of these products we have introduced, there are some more introduction in the wood finish range which has happened in the 1st Quarter. We have introduced lot of products and the contribution of these new product is more than 10%, and we have more number of products in the pipeline

This paint plus or the products what we are launching, the challenge is always that how do you explain to the relevant people. So, we do connect with the architects, interior designers, where we explain about the features of these new products. But in the last quarter, we have started one more platform which is "master class". It's basically a platform for dealers and distributors and the influencers. So, we invite dealers, where we demonstrate, that how these products are different, what are the features of these products, what are the benefits of these products. So, we are trying to educate the dealers and painters or contractors through the "master class". And every time we take one or two products, we are doing multiple classes to educate the people about the differentiation of these products.

In this process, we also introduced one more initiative which is "Nerolac Knows". So, for the customer today it is difficult to decide the right product based on his requirements, the properties, the surface, the problems and the special features.. So, you can visit our website and you can see the column "Nerolac Knows", where it's very easy to navigate, if you try to put your requirements there and see that, how the recommendation of the product comes in. So, this is in the area of paint plus, what initiatives we have taken.



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In the area of influencer program and services, we have been talking about the paint as a service and we have been approaching architect, interior decorator, through digital and to separate feet on the street.. Continuously our service business is going up, and I can say that now it is stabilized and all the actions which were to be implemented are implemented. Now we are scaling up in terms of generating more leads and more business.

In AID also, the number of architects is continuously going up. So, every quarter we are able to increase the number of architects who are participating . And we get the good contribution of premium business, whatever business comes through the leads from the architects. We have also started taking testimonials and these testimonials are put on the digital platform, where the architects are talking about using our products, paint plus products and their benefit. We are also providing need base onsite support to the architects.

In retail, earlier we spoke about our “NextGen Shopee”, which is the kind of experience model which has been implemented at the dealer’s end. So, by end of June “Shopee” is already installed at about 100 dealers , there is a smaller version of this Shopee which is called “Shop in Shop”, there also more than 100 counters we have installed it and both this “Shopee” and “Shop in Shop” includes innovative mix, we call it mix sensor, but it is ultimately an artificial intelligence based color recommendation device where, the customer can interact and the system can recommend the colors. So, this is a part of this retail experience.

In new businesses, the growth is strong and continuously our saliency is going up. Similarly, in the project business we are almost there in 78, 79 towns now and there also the growth is good, and saliency is continuously going up. In terms of our visibility, in fact last year we increased our marketing budget

Urban is doing good; however we are seeing Rural also catching up.

In terms of capacity, we are on track on our capacity expansion project in Vishakhapatnam and Jainpur . And we are adding more then 30% capacity in the water base. So, mostly this capacity addition is happening in the area for Decorative because industrial, we have already expanded our capacity. And today, we have a sufficient capacity available to cater the requirement of the customers. Overall capacity utilization in Quarter 1 is around 60%.

In terms of ESG, for the last two years we have been recognized by CRISIL and the different agencies. One more Morningstar Sustainalytics is one of the leading ESG research ratings and data firms that supports investors around the world with the development and implementation of responsible investment strategies. We participated in that, and we are ranked 16th amongst 577 companies in the chemical sector. So, this is a good ranking, if you look at within the industry. And they also do our risk rating for ESG. So, we have been rated in the low risk and are again better than the industry.

We continue to be water positive; we became water positive last year. And in addition, we have identified the climate change risks from the TCFD framework and mapping actions in place to

mitigate the implications. In terms of digital initiatives, a lot of our Decorative influencer programs are completely digital end-to-end with no manual intervention. And many more digital initiatives we have taken, including migration of CRM, S/4 HANA rise is the most advanced platform which we are going to implement and concur for Expense Management. These initiatives are expected to help provide operational agility and efficiency.

Overall outlook, the monsoon is expected to be good. And we hope that the Decorative demand will see improvement and given the continued thrust on infrastructure growth, and the new projects and order pipeline, we believe the demand for performance coating should be strong. And also, it goes with our initiatives we have taken for past few years.

So, this is a small commentary on what we have seen in the 1st Quarter, and you can open the floor for the questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Abnish Roy from Nuvama.

Abnish Roy: Thanks. I have three questions. My first question is, on the competitive intensity. So, any pushback you are seeing from your painters, architects or dealers in terms of any more demands or any shift from you to the new player Birla Opus and because they are offering say, one year extra warranty or 10% extra grammage, or digitally connected tinting machine, what will be your specific response to these three. Why, I am asking this is market leader in the media interview said that the initial response to the launch by the new player seems to be underwhelming. So, what will be your take on that in your markets, these three will be helpful.

Anuj Jain: Earlier also we have been talking about it because there cannot be an overnight solution to these things, it takes time. So, I have been maintaining this statement that this industry is good size, and we welcome any new competitor to this industry. But the progress cannot be very fast. So, they have already rolled out in the market all the initiatives and we expect it to take time. So, it's early to talk about it, as of now you can say that there's not much impact on the existing players. So, it's not that I am undermining any efforts, it's a gradual process where you connect with the consumers through the advertising, you connect with the painters and dealers, you have to demonstrate your product. So, we still believe that it's a gradual process, it will take its own time, these are good companies who have entered, and they have entered with some of their commitments, but the market is such that it will take time.

Abnish Roy: And extra warranty and grammage no change from you or the legacy players till now?

Anuj Jain: In some of the products we already have extra warranty.

Abnish Roy: Four years?

Anuj Jain: Yes, in some of the products we have and as I said, some of the new products what we have introduced, these products are there with the extra warranty.

And in terms of tinting machine direct linkage ultimately means , that all the formulations what is there in the system need to be updated timely. So, we have a strong system, whenever the new products we are adding or the new shades we are adding those recipes are entered in the system effectively, so that's also very much in place, so no problem related to that. The extra material as of now, not much feedback or pushback from the market, because again it's a matter of whether the customer knows about it. Secondly, if the customer requirement is specific, then whether he needs the extra quantity. So, as of now, the pushback from the market is not there.

Abnish Roy: And the digitally connected tinting machine, do we need that, does it really add value?

Anuj Jain: As I said, the only requirement of that digital connection is that, whenever you put new formulations or new products or new recipes, so you can do it fast. So, we already have a system in place where we can implement changes in the recipes instantly. So, there is no gap related to it.

Abnish Roy: Understood. My second question is on the interesting thing you said on the EVs, you have a very strong market share in the auto paints, historically because of your strong relationship with the Japanese auto players, but in two and three wheelers in the EVs, many new startups have come. And you said that the market share here is very similar to your overall auto market share. So, how you are able to manage this because these are startups, and these are new companies? So, is it product superiority, is it the kind of track record you have, what's really helping there if you could tell us?

Anuj Jain: Apart from the relationship with the Japanese customer, what is more important is the technology. And more importantly, is the implementation of the technology at the line of the customer. So, there we have a clear moat and a clear unique advantage of our understanding of the customer lines and what can work on the customer line. So, it's a mixture of technology, the implementation at the customer line, and entire supply chain because all these new players who are coming up, estimating the market demand, what shade will move, and it's a kind of volatile, so we have the capability of supply chain and also backed with the multiple plants. Otherwise, in most of the cases, there is one source of supplies, but we have multiple sources of supplies, and the combination of all these things really help us to get this business and even the emerging trends. So, any emerging trend in the industrial area, because that is our forte, we are very conscious that even if the market is small today, we participate aggressively in that, so that whenever this market emerges, that we are at advantage.

Abnish Roy: My third and last question is on the rural demand. So, if I see in some of the FMCG companies in Q1 already rural is faster than urban. And the same is true for the Nielsen FMCG data. So, here question is, have you seen in historical time period any kind of correlation between your rural versus urban versus FMCG and second related question is market leader has come out with Virat Kohli as the brand ambassador for their new neo latex. Obviously, that's at the lower end. So, would you also need such a product at such pricing for the urban and rural lower end is that needed for you?



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- Anuj Jain:** First question was, before Virat Kohli what did you say Avnish?
- Abnish Roy:** So, rural demand you think should also start inching up versus urban for you also with some lag, because FMCG is already up.
- Anuj Jain:** So, in our case in industrial we see the trend in two-wheelers and there it has picked up but in Decorative as of now in our case, it is still lagging behind if we compare with the Urban, but if I compare or if I see the trend of last two, three quarters, it is inching up, so it is definitely giving the direction that in the coming quarter, maybe rural will do better. And our contribution if we compare with the industry, our contribution from the rural is better. So, when the rural start contributing, that advantage also we should get. And this new product what you are talking about its an interior and exterior there is new product which is introduced. So, it happens in the industry, it's good sometimes the new product comes in and if it goes with the market requirement and the consumer insight. We are also ready with the interior product, it's already tested in the market.
- Moderator:** Thank you. Our next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** Sir, first question is on the demand for the Decorative paint. So, you mentioned two reasons for slower demand in Q1. Now, most of them are behind like there were elections, if you can just talk about how our exit was or how Q2 is going as of now, that is first question. The second is if you can throw some more light on the industrial both auto and non-auto in the backdrop of auto volumes and the infra spends, should we assume in both sub segments, high single digit to low double-digit kind of growth. That's , it, thank you.
- Anuj Jain:** Q1 was affected, election and these are some of the reasons but, if you compare Decorative even last year if you see, the growth of the industry, the paint market was in-line with the consumption growth. So, across FMCG or other sectors, the consumption has some stress. So, the improvement will happen, it will be a gradual improvement. For the year as we said earlier, maybe a single high digit volume growth is definitely possible and there would be a gap between value and volume. So, if we go back to earlier years where the growth used to be double digit kind of thing, value, volume that may not be there. But from now onward definitely the demand will pick up and I expect that the second half will be better because, even in the 1st Quarter, the number of marriages were also less. And whatever we keep reading now, July onward or second quarter onward even that season is looking nice. So, this is about Decorative. In industrial, auto at the start of the year, we estimated that the production growth of the auto manufacturers would be in the range of 6%, 7%, so that is maintained, there may be some differences quarter basis here or there. But annual this number is probably intact and is in line of the projection. In the performance coating or the non-auto, the outlook is better. So, maybe last quarter was not so good, because of the CAPEX movement or election definitely got impacted. We have already seen this situation changed in June. And based on the new projects, the order pipeline, I believe that that trend would be strong.



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- Keyur Pandya:** Noted sir. Just one question, you talked about some innovations in the industrial paints, both auto and non-auto, just want to understand that those innovations which eventually help clients in some kind of savings or efficiency, how is it visible in our financial statements, any measurable parameter, whether in terms of higher wallet share or higher margins or any other parameter. So, how do we track our benefits because of those innovations?
- Anuj Jain:** One is that continuous innovation helps us to maintain our market share or to grow our market share that is particularly important. Second, obviously when we come up with this technology, part of it definitely get reflected in the margins. Thirdly the premiumization the story what I was talking about. So, these are the three things, it really helps you to maintain your market share or grow market share. It helps you to increase your margins and it helps in premiumization which is also linked to the margins.
- Pai:** So, one more point to that, generally in auto customers there is a trend of these guys normally ask for price reductions. So, when a product is introduced, over a period the price goes down, but when you keep on innovating newer products you can command a better price. And you can maintain your margins. So, that has been our main strategy going for all these years, which has helped us to maintain our margins.
- Moderator:** Thank you. Our next question is from the line of Mihir Shah from Nomura. Please go ahead.
- Mihir Shah:** Sir, firstly congrats on good margin management versus what we have seen with the market leader. I wanted to check with you, would it be fair to assume that all the low-cost inventory that you had would have been exhausted and given the raw material prices are going up, the margin pressure can we start, will be visible from 2Q onwards on margins getting contracted. I know you have taken 2% price increases, but would it be sufficient or would that impact margins from 2Q onwards?
- Anuj Jain:** Mihir, the advantage was marginal and in the Q2 as you rightly said that we have taken a price increase, and one price increase is already done and there is another price increase which is in pipeline. So, as of now whatever trend is there, we should be able to offset that and if there is further inflation then we may have to think about it. But whatever visibility is there as of now, that price increase is decided. In fact, there are some of the products which are in the paint plus range, we have taken extra price increase.
- Mihir Shah:** Understood. Sir, how about price hikes in the auto and non-auto industrial business, is that also needed, and have you been able to push any of them?
- Anuj Jain:** Mihir, the auto we see the stability, so if you remember that in the last one year there has been a deflationary trend but still the situation has been volatile in terms of geopolitical situation, crude prices, the currency and therefore, there was a pressure in terms of reduction to the prices, so we were not very clear about how that trend is going to set. So, the initiative is more in terms of holding the price the reductions. , So that if this inflation happened, that we have been talking

about and normally it has always taken a lag., So till the time the stability does not come in, we don't get into a price reduction, and that is how we are trying to manage it.

Mihir Shah: Got it. Sir secondly, I wanted to check with you on the seasonality of sales, we have done close to about 2100 odd crores of sales in June, would the coming quarters have a slower or more seasonality that will impact for you to sustain this kind of number or do you think that you can achieve this, or sales around this number basically?

Anuj Jain: If, I talk about the absolute number generally in our case, the 1st Quarter and the third quarter, absolute numbers are higher. And one of the main reasons is that in these quarters, the contribution of Decorative business is higher. So, because we have a different mix, so the second quarter, fourth quarter, the more contribution comes from the industrial business and in the 1st Quarter and third quarter more contribution comes from Decorative business. So, in these two quarters you will see a higher numbers and generally second quarter, fourth quarter absolute numbers are lower.

Mihir Shah: Yes. It was just an extension to what Keyur has also asked because, when we are modeling, we are thinking that you can at least do a high single to double digit for the remaining part of the year now. So, we wanted to understand is there a risk to that assumption, because you have been very guarded in your commentary also?

Anuj Jain: So, you are talking about the growth?

Mihir Shah: Yes.

Anuj Jain: Talking of the growth, as I said that in the growth in the coming quarters, we will improve definitely and the performance coating, we are expecting a better demand. So, overall if you see then a better growth.

Mihir Shah: Got it sir. Sir my last bookkeeping question is on employee cost, wanted to check, the increase is more than average, what is driving this, and will this be the added cost level or any adjustment that needs to be done on this employee cost line item?

Anuj Jain: One element is this RSUs, which have given to our select talent pool. And with the help of that strategy, the attrition in the talent pool is extremely low, The other reason is that in some of the new initiatives in the area of performance coating division and the Decorative there, we have added a manpower.

Moderator: Thank you. Our next question is from the line of Percy from LIFL. Please go ahead.

Percy: Hi, sir, I just wanted to understand the gross margin expansion a little better, is it primarily coming from the Decorative segment or the industrial segment?

Anuj Jain: It is mix of both, our mix has improved in Decorative and industrial also and some of the cost saving measures that we have taken. So, it is quite a balance between both.

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- Percy:** Understood. So, roughly, same kind of basis points increase in both of them?
- Anuj Jain:** Yes.
- Percy:** Okay. And whatever has led to the gross margin expansion, those factors are sort of here to stay, it is not something reversible or anything like that right?
- Anuj Jain:** Yes, that is what our endeavor is.
- Percy:** Understood. Secondly, just wanted to understand your EBITDA margins, so on a Y-o-Y basis the EBITDA margins have been flat this quarter. Should we be looking at a similar kind of flat EBITDA margins for the remaining nine months? The reason I asked this question is, last year from quarter-to-quarter your EBITDA margins were very volatile. So, just wanted to understand that even in this market when other companies are seeing an EBITDA margin decline, if you are maintaining a flat level also, it is quite creditable. So, is that how we should model it out for the remaining three quarters?
- Anuj Jain:** Earlier we also said that, because generally as you rightly said, quarter-to-quarter our mix changes and therefore you see this volatility, and that's why generally we comment on the annual basis. On an annual basis, our target or endeavor is to maintain our margin.
- Percy:** Maintain versus FY24, right?
- Anuj Jain:** Yes.
- Moderator:** Thank you. Our next question is from the line of Laxmi Naryan from Tunga Investments. Please go ahead.
- Laxmi Naryan:** We talked about warranty, just want to understand how many people actually exercise warranty, if you look at either in terms of the liters of petrol or liters of paint, or in terms of number of customers 100 liters or 100 people buy the product, how many actually exercise warranty?
- Anuj Jain:** Maybe less than 1%, because it's more of a kind of verbal assurance when they go to the counters or dealer, there's a warranty on the product, more of a verbal assurance, but in actuality very, very a smaller number of people.
- Laxmi Naryan:** Got it. So, it looks like whether we increase the warranty or not doesn't really matter. The second question is that, when you expand your distribution, do you find it more difficult to expand your distribution than what it was like two years back or how things have changed in the last two, three years especially post COVID?
- Anuj Jain:** Last two, three years not much have changed. But I can probably say that, when the number of players increases, then the expectation of the dealers obviously changes, it's like maybe their expectation goes up to some extent. And therefore, your offerings get tweaked, so maybe to some extent you can say discount goes up, or to some extent the packages what you are offering

in terms of machine, there the changes happen. So, to that extent there is some change, where the expectation of the market is a little higher. So, opening is not difficult, but more negotiation or more expectation that's a change.

Laxmi Naryan: Can you just quantify it out and dwell deeper here?

Anuj Jain: Difficult to quantify, but I am just saying, traditionally the industry is placing the machine at the counter, charging some money, giving a target. But when a greater number of players are there, the offers are available on a competitive basis. So, there people start negotiating, in terms of when you are opening the new counter, we are offering a particular discount let us say X discount, maybe their expectation really goes up. So, to that extent the team has to spend more time to explain the benefits. So, somewhere, there could be little implication of the cost, which has already happened in the last one, one and a half year. And somewhere it is more time spending to open more number of dealers and therefore, maybe some requirement of the manpower goes up.

Laxmi Naryan: Got it. So, what is the kind of distribution expansion you plan for the year?

Anuj Jain: Generally, we target in the range of 8% to 10%.

Laxmi Naryan: Got it. And the second question is related to the demand of premium because you mentioned that the premium saliency is strong. What has been the price growth or the volume growth in the premium segment for us?

Anuj Jain: Since, I am talking about the saliency which has gone up, so which means that the growth unfortunately in the 1st Quarter is negative, , overall growth is negative, but in the premium, it is not negative. So, that's the point and that's why the saliency has gone up. So, premium is doing better.

Laxmi Naryan: Like by what percentage sir, price volume any color or anything you can?

Anuj Jain: We really don't talk about that, but saliency has gone up. So, you can say that the trend in our case is that the growth in the premium is better. Let's say example that, if the market is growing at the rate of 0% then maybe the premium is going at the rate of 2%, 3%.

Laxmi Naryan: Okay. And you talked about project business, we have already reached around 79 towns or so, what kind of growth on a rolling 12-month basis we are seeing in this segment and what kind of contribution it makes to your business now?

Anuj Jain: We are looking at high double-digit growth, last year also we achieved this, this year also we are looking at that and because the general market in repainting is sluggish, but the project market the growth is still there. And that's why our salience is going up. So, we are looking at high double-digit growth.



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Laxmi Naryan: And for you in terms of the overall Decorative business, how much it could be, you are looking at what 10% of yours Decorative will come from project business, what kind of mix?

Anuj Jain: As of now it is lower, you can say it is the higher single digit, but for the industry we are under index on project because initially or earlier our focus was not there, it is only last one and a half, two year we are putting focus on project and now the salience is going up. As of now we are under index if we compare with the industry, but our trend is positive so maybe over a period we will catch up. We will get into a double digit, as of now we are not in double digit, we are single digit.

Laxmi Naryan: My last question if you talk about performance coating business. Just want to understand how large is the performance coating business for us and for us applications we cater to and what kind of market size it has, and who are the people you compete with in this segment which is non-Decorative and performance coating?

Anuj Jain: So, market size is quite large, and the growth is good in fact, the performance for coating division the growth has been higher because of the government focus on the infrastructure. And actually, market size is now close to the auto market size. And that's our market where our market share is lower. In auto, we are market leader, but there it is lower, I am talking about the relatively and therefore, for us the growth prospect is high and now we foresee sustainable growth. Some of the segment I said is infrastructure related, which is bridges and railways. And there are many segments if you look at, drums and barrels, EV, railways, construction, construction equipment, there are many, many segments there and glass, electrical. So, there in fact some of the areas coil coatings are there. So, some segments are big, some segments are niche, but it makes sense in the niche segment maybe our volumes are lower, but your margins are better and that's the technological advantage you have And it's not easy to play in the niche segment because how do you manage the forecast versus delivery? So, that's the capability which we have worked upon. It also depends on a lot of approvals, which we started almost one and a half years back and today we have a lot of approvals in our hand. So, that's what, the market size is quite good and attractive.

Laxmi Naryan: How consolidated is this market, who are the large players is it like as consolidated like the decorative?

Anuj Jain: There are larger number of players in this market if you compare with Decorative, Decorative there have been traditionally four, five players and this market already 10 players are there, and they have been there for quite a long. So, who's who of the industry is, they are all big names of Indian Industry like PPG, Akzo, Hempel, Jotun, Nippon all are there and there are many more niche players who are international players they are available.

Moderator: Thank you. Our next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited. Please go ahead.


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- Amnish Aggarwal:** I have a couple of questions. First is, how should we look at the volume growth in 1Q, so is it you can say positive but both Decorative as well as industrials so what sort of volume should be, you can say?
- Anuj Jain:** Positive about mid-single digit is the volume growth.
- Amnish Aggarwal:** Overall?
- Anuj Jain:** Yes.
- Amnish Aggarwal:** Okay. And Decorative is also on the positive side?
- Anuj Jain:** Yes, on the positive side, slightly lower from industrial if you comparable but positive side.
- Amnish Aggarwal:** On the positive side, okay. And do you see a possibility that with monsoon now being normal, are we heading for say any probability of double-digit volume growth coming in the coming few quarters?
- Anuj Jain:** Difficult to comment, because they said that last one year or we have seen that the Decorative linkages earlier we used to clearly link it with the GDP, but in the past the GDP and consumption growth used to be very close, but now the GDP growth is good, but consumption growth is lower. And the paint is a discretionary item, so it is directly proportional to the consumption growth. So, high single digit possibility is there, and I am not saying every quarter but overall, for the year high single digit volume growth is possible.
- Amnish Aggarwal:** Okay. Sir, my next question is again, couple of people have also asked on the margins, because if we look at say first the gross margin, Q-o-Q we have shown an expansion while the market leader has shown a decline. So, is it purely due to mix or is it due to some low-cost inventory you can say sitting with us. So, how can we explain that that is one and secondly with 37% gross margins does it mean that in Decoratives we have gone north of 40% during this quarter?
- Anuj Jain:** Margin I have already said that it is a mix of the product mix definitely yield better because it is better in Decorative also, it is better in industrial also. We also got some advantages of the low-cost inventory. And then, there are a lot of cost measurements which we have taken, and which have worked for us. That is the story about the margin. What was your second question?
- Anuj Jain:** Decorative margins are always higher than industrial margins.
- Amnish Aggarwal:** Okay. And sir my final bit is on the other expenditure part because other expenditure has gone up by 70 bps. So, any big you can say spends on advertising, or any?
- Anuj Jain:** Yes, it is mainly in the area of advertising.
- Amnish Aggarwal:** The increase which is there?

- Anuj Jain:** When I say advertising, it is more of a marketing. So, some of the initiatives what I mentioned, those are properly supported with the marketing initiatives. And these expenses are related to that.
- Moderator:** Thank you. Our next question is from the line of Avi Mehta, from Macquarie. Please go ahead.
- Avi Mehta:** Sir, I understand your comment, that it is too early to take a call on Grasim's entry. But wanted to just get a sense versus say a few quarters back when there was complete uncertainty around the launch. Now with Grasim, on the ground, how has your confidence or your concern changed?
- Anuj Jain:** Avi, it's a validation that what we were saying that this market, difficult to turn it around overnight. It's a gradual process, it's a validation that is getting validated. And if you say the concern was it was more earlier and the concern is less, you can say that we are feeling more confident about our strategy today.
- Avi Mehta:** Perfect, sir that's extremely useful. And sir, the second bit was on the competitive situation in the auto and performance coatings has that changed or if you could just give us an update on how does our market shares stand versus if you have any comment over there, that's all?
- Anuj Jain:** So, in auto bucket last two, three years, and now also continuously we are increasing our market share and in the performance coating division which is the opportunity area for us. And in the past, in the performance coating, there are two-parts liquid and powder. Powder we are the market leader and there is a good category growth which is expecting and, in the powder, there is a premium category where we are under index, that's the initiative we have taken. Technologically we are very strong, the liquid market is very large, our market share is low. Earlier, we used to play in the lower segment/ economic segment where the margins were the issue. Our first target was to come out of those categories and get into the better categories, better product mix, where the margins are also decent. And that bridge we have cross today in fact our business have already upgraded and whatever growth we are getting, we are getting at good margins and that market is good, so technologically we are well placed and so there we feel, competition is there. In fact, in this market, the competition has been there for many years. And, any international player, if you really look at it, is available in the Indian market. But there we have confidence that over a period we have built the moat and the differentiation in this business. And that is helping us to keep us overly optimistic.
- Avi Mehta:** Perfect sir. And sir if with your permission just last question on the margin front, you have given us a clear, how you look at the margins from an FY25 perspective. Just wanted to check whether, would any increase in competitive intensities in the festive period because of the new player entering in, is that something that is already baked into the numbers and if that doesn't pan out, because, as you said even earlier, if these things take time, from an industry perspective, it may not be so would that be an upside risk is what we are assuming kind of pans out, is that how I should see the margin commentary, clearly there has been an --

- Anuj Jain:** Whatever is visible as of now , as you asked your first question, although visibility is better, so to that extent this is factored numbers.
- Moderator:** Thank you. Our next question is from the line of Mrunmayee from ACL. Please go ahead.
- Mrunmayee:** Sir, I have a couple of questions, firstly you mentioned that the overall capacity utilization is is at 60% and that you have the capacity headroom on the industrial side. So, it is possible to quantify what is the utilization of the Decorative and industrial segment?
- Anuj Jain:** No, generally most of our plants are common plants. So, generally we look at the utilization at the total level and the total level is around 60%.
- Mrunmayee:** Okay, all right. And on the auto segment, so in the last few years we have entered various more segments to increase the addressable market. So, is there any scope to increase this time in the auto segment or will a mode of incremental growth come from the non-auto side?
- Anuj Jain:** So, within the auto, some of the new segment which I spoke about seam sealer and alloy wheels, and there are one or two more segments where we have entered. So, there we are getting some uptake they contribute not very significantly, but even if you get more than 1% or 2%, that's good enough. So, that's one area within the auto and the performance coating, which is a non-auto side in the liquid area that's a big market and there we have a good opportunity and that is what we are targeting.
- Moderator:** Thank you. Our next question is from the line of Tejash Shah from Avendus Park. Please go ahead.
- Tejash Shah:** Sir, just wanted to double click on your remark that we are more confident and optimistic than let's say what we were six months before on the competent landscape. Are you more confident that we can protect our share or are you confident that growth is enough to accommodate one big player and are we confident that because whatever you spoke so far it looks like the cost of doing business is actually going up on marketing side, on dealer side. So, are you confident on margin as well?
- Anuj Jain:** Yes, so generally what happens is that we have taken a route, and strategy and the confidence always goes up and you see that your strategy is working, the initiatives are working, because the growth of market share depends on two parts, one that whether you are getting so the initiatives, the other sometimes you have to push for the sale. So, when your initiative helps, it is good because that gives you a sustainable thing. Related to a competition, I definitely feel that in the long run, competition is good for this industry, mainly reason is, it will help in terms of increasing the per capita consumption, it will help in terms of faster shift from the informal to the formal, it will also help when you see more visibility. So, ultimately paint is a low involvement category, where the consumer involvement is high only when he does the shade selection, when he does the paint selection the role of the influencer become more important, but with more number of players, more visibility there is always a possibility of consumer

becoming closer to the category. And that's also a very good sign for the industry that if the consumer becomes more closer to the industry, then the more premiumization happens and therefore, it also helps in the margins. So, it's a mix of both that the strategy what we have followed, also the market side is big because the players who are entering are very reputed players and they have a good capacity, they have a good capabilities. So, when the players are entering, we must accept it that the market is going to have a greater number of players, and the market is big enough to absorb the players. So, my answer to this in this regard is a mix of both things.

Tejash Shah: Sure. And sir I have logged in a bit late so apology if I am asking what you have answered already, but did we take any price hike recently?

Anuj Jain: Yes, we have taken one price increase already and another price increase is in pipeline which is already announced in the market.

Tejash Shah: So, just a follow up question on this. So, all the paint players who are listed they have kind of indicated that they are at the upper end of the margins in FY24 exit and to combat the competition perhaps it's very normal to expect that margins will go down. So, how should we see this strategy because at one level, we are increasing consumer price when consumers will get one more option to choose from. So, how should we think about where you are in the upper end of the margins, we are increasing prices also and the consumer has one more choice also coming to choose from?

Anuj Jain: It depends, ultimately how much consumer knows about the price. Is price, the criteria for the consumer? certainly not. Because today, unfortunately the consumer is not aware of, I don't think you will have some figure in your mind ?, you will have to depend on somebody to guide you, so pricing is not important from the consumer. Maybe at the lower end, it does help but in the popular range and the premium range, it doesn't matter. So, what is important is, whether your distribution or the dealers are convinced about your product, whether they are ready to put in that extra effort, the painter initiatives, the influencer initiative, how much you are in touch with them ?, and whether they are confident about ?. And that is why I say , typically in this market , any change happen gradual because if you have seen for last many years, the market shares are kind of unchanged or maybe for some period the share of some company goes up, in other period some other company goes up. So, it becomes a habit-based industry. So, changing from that habit to something else is a challenging task. So, you have to choose your areas, you have to choose your niche, you have to change your regional thing, and there you get a better result. But if you want to go whole on, then obviously it's a costly affair, and how much sustainability it is?, one has to see.

Moderator: Thank you. Our next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

Nikunj Gala: I have a question on the industrial side, can you just help us with what will be the contribution from industrial for us, say FY24 and within industrial how big auto will be for us?



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- Anuj Jain:** On the yearly basis it is 55:45, 55% comes from Decorative and 45% from industrial. And within that 45%, approximately 70% would be auto. And this is on the annual basis, quarter wise it changes.
- Nikunj Gala:** And how this number would have changed over the last five years, because I remember a few years ago also these numbers were pretty much same?
- Anuj Jain:** Yes, so it keeps changing, there were years when 55 went down to 52, 53 but then again came back to 55. So, it's in the same range.
- Nikunj Gala:** Okay, sure. And in the auto segment, like you mentioned you are gaining market share but is it possible to give us some sense on how big is the size and what's our market share in that?
- Anuj Jain:** Our market share in auto is close to 60%.
- Nikunj Gala:** Okay, sure. And just lastly on the, how we should be looking at this segment in the next five year period like is it still a scope for us to gain more wallet share from the existing OEM or new OEM coming onto the board or in a more of a premium offering to the existing OEM, how one should look at the new growth trajectory?
- Anuj Jain:** Next five years the outlook is good, because again the penetration of the passenger vehicle in two-wheeler in India is very low, if we compare with any of the country in the world, it is very, very low and it is always proportional to the infrastructure growth which is happening in India. So, in the past, there was more, this was more cyclical, that some year it does well, some year it doesn't do well, but that cyclic nature is also becoming low. So, therefore, the market is becoming more stable you can say. Technology is emerging, and a lot of new technologies are coming up and we have a pipeline of technology available for the next three years, five years. So, therefore, continuous upgradation and therefore continuous premiumization also. So, in the next five years, I do see the volume impact and value positive impact in both the scenarios.
- Nikunj Gala:** Okay. And how big is the market today sir, overall?
- Anuj Jain:** Market overall size is approximately generally like India is 70,000 crores of industry out of the 30% industrial. So, you can say around 20,000 crores would be the market size.
- Nikunj Gala:** Okay. And within that whatever is our contribution from auto the same contribution will be at industry level also, right?
- Anuj Jain:** No, I am talking about this 30% of the total size is related to industrial, which includes auto.
- Anuj Jain:** Our contribution of auto would be higher because market share is higher.
- Moderator:** Thank you. Our next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.



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- Keyur Pandya:** Just one question on the industrial side, have we seen, just in case of Asian Paints, after the disclosure we can see aggressive growth for their industry part of the business. So, have we lost any share either in auto or non-auto industrial or have we seen cost of doing business going up or competitive intensity going up in that part of the business?
- Anuj Jain:** No, in auto we are increasing our market share and in the non-auto as I said earlier also that we exited some of the business which is at the lower end and in the segments where we have decided, there we have started doing well and the cost of business has not gone up in fact, we are now playing into the segment which are more technologically solution oriented, and therefore, in fact in the non-auto business, actually we have improved our margins, earlier we used to work on a very, very low margins, last one and a half year we worked on it and we are working on a decent margin.
- Keyur Pandya:** Okay. Just last one follows up. So, for the back-end calculation such as that, as you mentioned, margins had gone down in the industrial part of the business. And probably we were at much higher levels in FY17, 18, 19, FY17, 18. Where we would be in terms of say profitability in terms of industry paints, from our earlier highs, if you can just give any qualitative or quantitative idea on the margins of the industrial business?
- Anuj Jain:** Industry margins generally have been volatile. So, if you say 17, 18, maybe there could be a one small period where the margins are higher. Generally, the B2B business, which is more volume and kind of thing, what is good for us is maintaining, sustaining double digit margin that is how we look at it.
- Keyur Pandya:** So, right now EBITDA level the margins would be in double digits?
- Anuj Jain:** Yes.
- Keyur Pandya:** In the industrial business?
- Anuj Jain:** Yes.
- Keyur Pandya:** And based on your commentary with the input mix probably that should continue to be the case going forward as well?
- Anuj Jain:** That is what our endeavor is.
- Moderator:** Thank you. Ladies and gentlemen that was the last question of the day. I now hand the conference over to the management for closing comments.
- Anuj Jain:** Thank you everyone for participating and as usual your questions always help us; we get some insights. Thanks for supporting and thanks for joining this call today. And as we have discussed about that the 1st Quarter was muted, but with this monsoon we expect gradual improvement in Decorative demand, auto has done well and the non-auto industrial we feel that going forward strong growth based on the government thrust on the infrastructure. Some of you are obviously



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eager and conscious to know about the competition. So, whatever steps we could have taken, we have taken, but more important is that our balanced portfolio of Decorative and industrial positions as well to navigate these competitive challenges or changes effectively. So, our idea is basically to use our strength and address any type of challenges to drive, sustained growth, and value for our stakeholders. Thank you for your participation.

Moderator:

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