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Sub.: Q3 FY 2024-25 Financial Results Conference Call - Transcript

- Ref.: 1. Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**
2. BSE Scrip Code - 500165, NSE Symbol - KANSAINER

Dear Sirs,

This is further to the intimations done by the Company on 30th January, 2025, 6th February, 2025 and 7th February, 2025 with respect to the Conference Call hosted by the Management of our Company on Friday, 7th February, 2025 at 11:00 hrs India Time to discuss Q3 FY 2024-25 Financial Results of the Company. The Conference Call was in the nature of a group call.

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

For **KANSAI NEROLAC PAINTS LIMITED**

P. D. PAI
CHIEF FINANCIAL OFFICER



“Kansai Nerolac Paints Limited
Q3 FY '25 Earnings Conference Call”
February 07, 2025



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

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

Moderator: Ladies and gentlemen, good day, and welcome to Kansai Nerolac Limited Q3 FY '25 Earnings 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 an operator by pressing star then zero 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, Mr. Joshi.

Aniruddha Joshi: Yes. Thanks, Manav. On behalf of ICICI Securities, we welcome you all to Q3 FY '25 and 9 months FY '25 Results Conference Call of Kansai Nerolac Paints Limited. We have with us today senior management represented by Mr. Anuj Jain, Managing Director; Mr. Prashant Pai, Director, Finance; and Mr. Jason Gonsalves, Director, Corporate Planning, IT and Materials.

Now I hand over the call to the management for their initial comments on the quarterly as well as 9 months performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, Anuj, sir.

Anuj Jain: Thank you, Anirudh. Good morning, and a very warm welcome to all of you. Thanks for joining this call of Kansai Nerolac for quarter 3 of financial year '24-'25. It's the first meeting of this calendar year and also a special one. Over the last 3 years, we have navigated challenges, taken some bold steps and made some strategic choices that are now bearing fruit. This journey would not have been possible without your support. For that, I sincerely thank each one of you for believing in our and your company.

For the quarter, the top line is up by 1.5%. EBITDA is up by 2.9% and PAT before exceptional items is up by 7.2%. On a relative basis or comparative basis, I think this performance or our performance -- our team performance in quarter 3 has been one of our strongest given the market challenges of declining demand and new competition. We started the year facing tougher-than-expected environment.

Market demand has slowed, and we did not expect when we started the year and competition intensified. Despite these headwinds, we delivered a strong performance. This is not just a testament to numbers, but to the strength of the foundation which we have built over a period of time. We chose to adopt to invest in right areas and remain strong future-ready company.

I'll give you some gist of the function-wise, the segment-wise, some of the highlights, which I've been talking about for the last few years. So coming to decorative, the key growth drivers, which we have been discussing with you was one is premiumization and Paint+. So overall, if you've seen this year, we have introduced more than 20 products. In the first half itself, we have added 10 products.

And the salience of Paint+ product is in double digit now. So that's the first milestone which we wanted to achieve, and it is in the double digit now. There was also a focus from our side on the

premium mix. And there also consistently, we have been improving the salience. And in the quarter 3, it has further gone up.

Overall, if you see the new products, we continued launching more and more products because the market, fortunately, is ready for the micro segmentation and therefore, a lot of new products are getting introduced, the functional products. And our overall contribution of new products is also in the double digit. So that's a good sign. In this situation, we are trying to bring up the product which can differentiate us in the market.

And in this year, we have introduced a texture range, which is very, very different. We have introduced the product in Excel, which is in No Dust category. But I think what I want to highlight is the launch of Wow Whites. So Wow White is the range of products. These products are far, far more superior. You can say the best of the whites in the industry.

When it comes to the whiteness, brightness and the coverage, these are the best products in the industry, and they are available at a different price point. So that's a range of Wow White, which is a very, very differentiated unique offering, which we have brought to the market.

There are more new products which we introduced in the construction chemicals, the wood finishes and those products are also receiving a good response in the market. In new businesses, our growth continues to do well. If you remember, we discussed 3 years back when we were not there in this category, our first intention was to complete the range, which is acceptable to the retail market, introduce the range and see that if we are able to place the product at least in our channel, so we have achieved that successfully.

And even for new business, the salience is now crossing double digit. So that's, again, the milestone which we wanted to achieve critical mass, and we are on track. In the project business, where also we were under-indexed and then we initiated in terms of launching a range by expanding the team in the towns. Today, we are present in more than 80 towns now and our growth continues to be better that even if you compare with the industry.

So either it's a new business or projects, so we are doing better. And here also, the salience is continuously going up. It is still not in double digit, but it has been going up. The other part of retail because we divide the business when it comes to decorative in three parts. So one is the project, the new business and the retail. In the retail, we worked on strengthening our position because we are a number two brand, but we wanted to strengthen through the influencer program and services, which we have been talking about.

So the services what we introduced about 2 - 2.5 years back through a service -- paint as a service and through the architect interior decorative. So there also, we have kept a milestone a critical mass, which is around, say, 5% and I'm happy to share that we are now in that particular range. We have touched the critical mass, and it has contributed significantly to our business.

And this gives us very good confidence because here, we are able to reach out to consumers directly through the digital marketing, able to contact the customer, able to convince them about our Paint+ differentiation. And our conversion rate also is good. And in this business, there is a lot of competition, not only 4, 5 companies, many other companies are also there. And that

conversion give us a good confidence that our brand has a strength and we can increase this business.

Number of architects, what we are reaching quarter-on-quarter, it is increasing. And now we are -- with this architect initiative, we are there in more than 40 cities, and this also is giving us a good fruits. On the painter front, the number of painters, we have been targeting. Initially, we were a little slowed on this initiative. We were not on target. But the last two quarters here also, we are seeing that now we are in the greener zone where we have started increasing our painter number and our extraction from the painters have started going up.

So this initiative where -- which is like Phygital, so we have a team on the ground and also the digital initiative. This also has started working. It took some time. We wanted to achieve it maybe about 6 months or a year back, but maybe it got delayed, but I think we have started seeing the positive traction on this initiative also.

In terms of retail experience, the total number of shoppes and shop-in-shop concept, we have more than 300 plus now in almost, you can say, more than 100 towns that we have the representation of Shoppe, which is a good experience centre and the customer can have a good touch and feel experience in these stores. Overall, on distribution front, we have now satisfactory growth in terms of the distribution expansion. We are very close to our target what we want to achieve in this particular year.

So these are some of the highlights for decorative. Coming to the industrial business, the automotive part, where, in fact, we are a market leader, our market share is high. Despite that, our approach is to focus on technologically superior products and launching sustainable technologies, which is one of the requirement of our customers, and we went quite aggressive on that.

Also, in addition, we were focusing on the new segments, seam sealer, underbody, alloy wheels and all these initiatives have been executed and now we have started getting a decent contribution from this. And overall, based on this and the new businesses what -- through our efforts, we are increasing market share in automotive even on the high base, we are able to increase our market share.

Further some of the new products we have introduced is matt clear coat for passenger vehicle, which has a very excellent line workability. There are some special clears for 2-wheelers, which we introduced, some special PU matt metallics, the matt finish, which goes with the monocoat and these are also very innovative product, which has excellent workability, and because it's a monocoat system, so it helped to eliminate one product and therefore, very helpful for the for our customers to increase their productivity.

In electrical vehicles, which is the trend, though the penetration still is very low. electrical vehicles in terms of 4-wheelers, 2% to 3%; 2-wheeler, about 5%. In 3-wheeler, it is very high, more than 50%. But and there are a lot of players there, and we have worked on the right product, right approach, whatever strength we have in this segment. And in electrical vehicles also our market share is similar or maybe better than overall share what we have in automotive.

In auto refinishes, where our market share has been low, but here also, our growth is better than the industry. Our major focus was in terms of getting into the A-class body shops, where consistently, we are expanding our numbers. And quarter-on-quarter basis, we are seeing the growth is going up. And the growth is coming from the premium product, which has been a part of our strategy.

Coming to non-auto Performance Coating division, which is a combination of general industrial, high-performance coating and powder. There, in fact, this was part of our strategy, which we discussed earlier that we wanted to focus. In the given market situation, we wanted to expand this business, increase our market share. And for that, we expanded the business development team and the feet on ground.

That's an initiative which we started and we are increasing the number. The high-performance coating business, one, it comes from the OEM, the other it comes from the dealer network also who cater to the small industries. So that was that number, dealer number, we are expanding and our reach has gone up significantly in this particular channel and the contribution of the channel sale also has gone up.

We got good approvals. Continuously, we are increasing in high-end coating for railways, bridges, oil and gas, through use of new technologies like fluoropolymer, anticarbonation. These are high-end technologies and which are functional and give a high durability. We are witnessing a strong traction in the market on these.

As I spelled out earlier also, Vande Bharat is one example and Atal Setu Bridge and a lot of credentials we are able to generate in this business. The growth is good, mainly high-performance coating, where our market share is low. There, our growth is very, very strong and significant, and that is driving the growth of entire Performance Coating division.

Some of the new products we have introduced in this category also, the polyurethane-based product for glass filled ABS plastic fan, some related to a topcoat fusion bonded polyester for external, internal pipe coating, some of these products we introduced. It is just to give you an indication that our the journey or the effort, the endeavor to keep introducing the good technology product in the premium category continue.

The focus has been in the premium salience a few years back, we decided to exit some low profit business, which we successfully came out. It took 1, 1.5 year time, and we wanted to replace that business with a premium. So our saliency in the performance coating through the premium is consistently going up, and it gives us the confidence that we are on the right track.

Some of the segments which we are now catering through Performance Coating include bridges, windmills, appliances, construction equipment and also in the powder, the rebar, pipe coating, alloy wheels, construction equipment and some of the global products like performance coating for metro railways, where we are taking the help of subsidiaries of Kansai Paint, our parent company, that also is working. So these are some of the highlights related to the business front. Our capacity is approximately 6.16 lakh KL per year.

In ESG, we were rated in top 8% globally within Chemical Industry Group in the CSA 2024. In FTSE4Good, we are rated in top 12% globally within construction and material sectors. Also happy to share some of the awards, which we have recently won in the CSR. So we are the winner of Golden Peacock Award for 2024. In terms of quality, best quality supplier from Toyota are some of the awards which we have won.

So these are some of the highlights related to quarter 3. And the confidence is that since we are seeing good traction on the initiatives what we have launched, and it give us a happy feeling that we are on the right track and our performance is improving. And at least in the quarter 3, all the segments, whether it is Automotive or Performance Coating division or in the decorative projects and new business and the retail front, most of these segments, probably whatever results we have seen so far, our performance is better relatively.

Thank you so much. So these are some of the comments on the performance. And now we invite for the questions.

Moderator: We have the first question from the line of Abneesh Roy: from Nuvama Wealth.

Abneesh Roy: My first question is on putty and distemper. There is a decline for you in this quarter. And last quarter also, the feedback was for the industry. Some players are offering putty at a very, very low price. So if you could comment what is the current situation in putty industry? Is it still irrational pricing? And is there some slowdown because in some of the real estate, the approvals have been delayed in many cities. Is that also contributing to this?

Anuj Jain: Abneesh, so on putty, as we were saying earlier, so pricing definitely is a challenge in the marketplace. I have not seen that whether market is able to realize or companies are able to realize better pricing. So maybe the volumes are already built and to some extent, when the demand is down, you're not able to correct the pricing.

And yes, in our case, it is negative because we are clear in mind that we have to strike a right balance between the growth, profitability and sustainable growth. So that is very, very important. So as of now, we don't see much change in the putty scenario.

As related to real estate, overall project business is an indicator. There, I think the growth is still continue to be good. So maybe some approvals, it's fine. But I think if I look at the growth as of now, the project business is on the good traction.

Abneesh Roy: Sure. My second question is on the competitive scenario in the decorative. In the earlier quarters, you have said that your confidence level is improving. So if you could tell us how is the confidence level now that almost 2, 3 quarters have panned out for the new entrant?

And if Akzo gets sold to, say, JSW or say, Pidilite, what will be your thought process? Because essentially, it means a good brand goes into maybe stronger hands who have a more aggressive policy of expansion in India in that space?

Anuj Jain: So Abneesh, like we discussed earlier also that now, obviously, because of the new competition, many new players have entered, one player aggressive, but there are other players also. And

what we are definitely seeing, as we said earlier, that the market takes time to build brand, distribution and the painters, it takes time. It does not happen immediately. Generally, when the new competition come in, as a competitor, what we want to watch is there a differentiation?

Is there a some kind of unique thing, innovation because that can create a disruption in the market. We have not seen that. As of now, it's more related to maybe more spending in the market, whether it's a marketing activities or customer-free material on that particular front. And if you look at -- if you total it up, I think that amount is pretty large.

And despite that, that whatever we think the response -- obviously, there is a response to the competition. It's not that. To some extent, the redistribution of the market is happening in terms of the market share.

But I think if you see based on the spending free, which I feel is short-lived because we have seen that whenever there is some moment of time when the profitability pressure start and when you start withdrawing, the market does not accept.

So I think with this kind of approach, whatever sale is there, I think that gives you more confidence that, that market is built based on the brand distribution. And when I say distribution, the quality of distribution because just by spending money if you're getting the distribution and all those things, how much it will work, we have to see because obviously, the competition is putting their best effort.

And as we said earlier also, they are good names. So I'm sure, and they have good people, so they will continue to work. But as a company, we feel that, yes, there is a decent amount of visibility what we have today. There is an impact of the new competition. I won't say that there's no impact, but it is visible to us. And then based on the initiatives that we have taken, I think our confidence is high that we will be able to mitigate and navigate these challenges.

On your second question, I don't have much comment as of now because at the end of the day, whether the business is in one hand, the other hand, what is more important is that how any company when they get into it, how they want to take the business forward, how much aggressive they want to take because the current strength of the business is a premium sale, good profitability.

So I think if any company want to maintain that, then whether it is in this hand or that hand, the competition remains similar. But if any there are further changes, I won't be able to comment as of now.

Abneesh Roy:

Sure. That's helpful. One last follow-up from my side. Essentially on the new competition only. I do completely agree that no big disruption in terms of product or the marketing strategy, etc. Only question is in terms of the dealer shelf space, it's very limited. So have you seen that the new player is able to completely remove the second or the third player?

I understand removing market leader is out of question. But in any market, I'm not saying only the one brand, pan-India thing. In one region, one can be bigger than the other. So I'm asking the second or third brand, is it getting replaced by the new competition in the dealer shop? And

similarly, on the painter side, if you could tell us, is there any pushback for the legacy players for you, for example, versus the new players?

Anuj Jain:

So Abneesh, they're getting the distribution. New competition is getting the distribution, but it's more of a numeric reach. So paint industry work on 2 fronts. One is the numeric, the weighted. Weighted are the larger ones who probably have more say in the market.

As of now it is more numerics and -- but that is also helpful in terms of bringing up the visibility. So that is there. But on your second question, where you're saying the number two, number three players are getting replaced, my answer is no. So as we said earlier also, because I don't think it's a matter of size.

What is more important is the agility. A player like us work with the good relations. And as we said, that the differentiation what we are trying to create, I think impact on the number two, number three players is lesser, I would say that.

Moderator:

We have our next question from the line of Aditya Bhartia from Investec India.

Aditya Bhartia:

So my first question is on competition itself. Besides some market share gain that, let's say, some of the new entrants may have had, how are they really impacting the business economics? Are incumbents also being forced to respond to some of higher rebates or incentives that new competition may be giving or higher marketing spend? Is that something that you are seeing?

Anuj Jain:

So what I would say that because the new competition is aggressive on all fronts, whether it is marketing or dealers or painters or demand generation team, they are pretty aggressive. So that way, we have a good competition in the market, let accept it. But over a period of time, what we have realized, and as we have been saying earlier, building brand takes time.

So even if you are going aggressive there, as a company like us, we are number two brand. It is already built. It will take time, and we don't have to react to that. So I think in this situation, maybe we'll have some reaction, which is specific to some product and some geographies.

But overall, it's not a reactionary approach. Overall, it's an approach where we would like to strengthen our customer value proposition, and that is what we have been working upon the initiatives, some of the initiatives what we are talking about.

And initially, the competition has spent a lot of money. We don't have to react on that. Yes, we are not required to outspend on that particular part. So I think we are going fine. When it comes to the market, there is a realization that m even if you give some higher discounts or some higher incentives of painter, it's not that based on that, the some market will move away.

So my guess is that maybe if you say 4%, 5%, so the market could be going in favor of the new competition. But as of now, that's it. So even there, it's not a situation where you have to match and therefore, beyond a point, the margins will get impacted.

So I think the quality of distribution over a period of time, what we have created, the brand strength, what we have, the relationship what we have with the painter is working. And no one

can deny that there will be some redistribution of market share for 1 year or 2 years, but it will get reset. And to me, it's a sign of the mature and competitive industry where, in fact, the market is big and market has room for growth.

And I think in this situation, what is more important is that without overly worried about market share redistribution that how do we reposition ourselves is more important. But I think the clarity is that the market has a room for growth for all players. And what is important is that what you carve out for yourself, how do you reposition for yourself, and that's a positive scenario.

Aditya Bhartia: Sure, sir. That's helpful. And on competition in the putty market, sir, just 2 clarifications. One is that from my understanding, we largely use outsourced manufacturers to kind of manufacture putty. Is that understanding correct? And with the kind of pricing that's going in the market, what do you think would be the prevailing margins, both at the gross margins and maybe some estimate at the EBITDA margins as well?

Anuj Jain: Very, very low margins. So it's outsourced, you're right. Your understanding is right. Margins are very low, maybe I don't know whether there are margins or not margins, but very, very low. That's why, in fact, in our approach of striking the balance between the market share and sustainable growth and profitability, we appropriately decide, and that's why we said it is negative. As of now, margins are question mark.

Aditya Bhartia: But would they at least be positive? If you sell more putty, would it be accretive on an overall basis or there's a risk that it may lead to losses?

Anuj Jain: Yes, there's a risk.

Aditya Bhartia: Understood. And sir, just one last thing. On auto refinish segment, if you could give us some indication about what your market shares may be today. And given that I mean, my understanding is that market shares at this stage may be low, then from that perspective, do you think that a single-digit growth is not good enough and maybe you would have liked to be growing at a faster pace?

Anuj Jain: Yes, that is our approach. But there also the route what we have taken is through the premium. So we are not getting into any categories because there are a lot of categories which are low profitable items. So we are not targeting that. So our market share was low single digit. But last 2 -3 years, every year, we are increasing the market share.

Even in this year, we are increasing the market share. But we have chosen our segment. We are not going if you are asking, we are not going after auto refinish is full. We are going after some segment in the auto refinish. And in those segments, we are gaining good market share, double-digit market share. Overall market share is low, but overall market share is also increasing.

Moderator: The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities.

Tejas Shah: Sir, post-COVID, the residential and commercial real estate picked up. And logically, we expected that to translate into strong demand for paint players by now, but it has not happened. So where is the gap in our understanding here?

Anuj Jain: Very good question, but I don't know whether I have the answer for that because I can only give some indicators that maybe post-COVID, maybe there is a preponement of things have happened. Maybe people wanted to concentrate more in terms of painting and they wanted to improve the lifestyle. So there was a pent-up demand.

And in that process, maybe there is some kind of advancement, which has happened. Second, obviously, in last 1 -1.5 years, because obviously, the paint industry also has not seen this in past years probably this is our first experience we are also experiencing otherwise, paint industry has been able to navigate all kind of challenges, all kind of slowdown and still continue to grow.

This is the first time we have seen that the paint industry demand is impacted. I think it's directly proportionate to the consumption down, which is affecting all discretionary items. Also, there are a lot of new technology areas where probably people are reallocating the money what they get in their pocket. So to some extent, there is an impact of that. Earlier, the rural was impacted.

Now the consumption is a problem in urban sector also. I hope with some of the good steps the government has taken in the recent budget, in both the pillars related to consumption and the CapEx, this will help. And I do foresee that gradually -- I do foresee a gradual recovery in the demand. How much it will go, whether it will go back to the earlier stage, we still need to wait and watch, but I see a gradual recovery.

Tejas Shah: Perfect. Sir, last, not pertaining to the quarter. Hypothetically, if you had 1 or 2 years more in the role, what unfinished business would you tackle? And what one line playbook advice you will give to your successor, Mr. Chaudhari?

Anuj Jain: No. So I think for me, leadership is about guiding the organization through the change and ensuring that it is stronger than when you took the charge. So I think the transformative journey what we had gone through and the initiatives what we have implemented. So we have from one stage, we have come to the second stage. So one obviously is the continuation.

That's something which is working, how do we continue. And obviously, with every change, there is always the opportunity to bring something better. So as a combination of foundation what we have built and which is definitely indicating today that the quarter-on-quarter basis, our results are improved, and we continue on that and then bring something better, which every change is supposed to bring. So I think as a combination of that, I feel confident that the company will see a better future.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, I just wanted to check with you on how should we look at the -- when we had started the quarter as towards the end of 2Q, you had indicated towards an expectation of margins. Now do you see that range of 13% to -- lower end of 13% to 14% probably being much better than what you had started given how the third quarter has been?

And the second question that I had was on the decorative side. So this is the quarter where you've done better than the later. Is it fair to expect this to continue going forward? Or is there anything that one should be aware of which could delay the continuity? Those are the two questions, sir.

Anuj Jain: So margins, in fact, that has been our endeavor. That is what we have been maintaining that our endeavor is to maintain the range of 13% to 14%. We stay with that. Obviously, based on third quarter, you may see it -- you can see it better. But let's remain in that particular range because we need to be prepared for any additional step of the competition. So it can be better, if I have to say it can be better, but we would like to stay in that range of 13% to 14%. So that's what.

And second, our growth because it has been a journey. If you remember last 2, 3 years also, we have been talking about it. So yes, every company changed the numbers, but we changed the numbers through some process. And for that, we have clearly spelled out our initiatives. And our complete focus was in basically ensuring the effective execution of those initiatives. And today, at least then when we talk about those initiatives, the critical mass we have crossed.

And our betterment of the growth has come based on the successful execution of those initiatives. And therefore, it is definitely sustainable. It is not something that just changing the numbers. So it has come based on those execution of the initiative, and therefore, I definitely see it sustainable.

Moderator: The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: Since the drivers and the demand situation is very different currently for decorative versus industrial, could you give us some idea for the quarter, what was your value and volume growth in the decorative business, please?

Anuj Jain: Volume growth -- paint volume growth is marginally positive and value growth is degrowth, slight degrowth or low single-digit degrowth, you can say. And in industrial part, it is high single-digit growth and overall growth is 1.5%.

Percy Panthaki: Sorry, in industrial, did you mention the volume or the value growth?

Anuj Jain: Industrial, I'm mentioning the value because generally industrial, we talk about value. So value is high single-digit value. In decorative, it is low single-digit value and negative -- decorative is negative, low single-digit value negative. In terms of volume, paint volume growth is slightly positive. And overall, obviously, because of industrial, our volume growth is decently positive.

Percy Panthaki: Understood. Understood. Secondly, I just wanted to understand, given all the initiatives that you have done over the last 2 to 3 years or even if you want to take a longer period, like 5 years, for example, has it resulted in any kind of change in your geographic sales mix? And if so, can you give some quantification or some idea about the same?

Anuj Jain: So a little difficult, but let me attempt to answer it. So generally, we are stronger in North and East, and we are so North East, West and South. So what we have done is some of the initiatives, for example, project business. Now in some markets, weaker market, so we have not gone after the retail, we have gone after the project. So to that an extent, today, the weaker markets also started performing on the back of, say, project

So it is not that we pressed all the levers in all the markets. So some -- so what is important to know is that, yes, we remain strong in the markets where we were stronger. And in the other

markets, through some initiatives, we have started performing better because there are limited resources, and it is very difficult to apply all the resources across all the markets.

So we have chosen some segments, which are like segment and market approach, geography and segment approach. So it's not that, that approach will give you a very good increase in terms of market share because, for example, if you are taking a project approach in a weaker market, project business could be contributing 15%, 20% of that market.

In that business, when we start improving, our market share will go up in the project business. But overall impact will not be very, very significant. The only thing it will help is that if you are going behind the market, we'll start going ahead of the market. So overall mix has not changed, but some of these initiatives have started giving a result in the pockets.

Percy Panthaki: Right, sir. And last question is, if you can give some idea over the last 3 years or so, what is the increase in the number of distributors and tinting machines? And what do the number of distributors and tinting machines stand as of today?

Anuj Jain: So we have been targeting double-digit increase in the distribution expansion, which we are plus/minus 1%. But even in this year, we are on target. So continuously, we are able to do that. And our -- this penetration of the machine is closer to 75%. So that's the penetration which we are maintaining.

Percy Panthaki: And would I be right in assuming roughly ballpark that number of distributors you have would be somewhere in the region of 35,000 to 40,000?

Anuj Jain: Yes, you are close to that.

Moderator: We have our next question from the line of Mihir Shah from Nomura.

Mihir Shah: Congrats on a good set of numbers, sir. So there's a very stark difference in performance this time for you and the market leader in both in sales and margin. If you can share your thoughts around why this difference is there in sales? Is it due to the difference in geographic presence or urban rural presence? Or is it due to your focus on premium more versus less focus on the economy segment or the putty segment?

And maybe a third part is that is there an angle for competition not impacting your regions as much as it is impacting the market leaders' regions? I know it will be a combination of all the three, but maybe which one is contributing to the highest and the lowest. Your thoughts around that would be really appreciated, sir.

Anuj Jain: Mihir. I think we were never ever got into that what competition is doing. Obviously, as a company, we keep a track. We respect all the competition. But as we said earlier also, for us, what was important in this situation is that what is best for us because as a company, we cannot keep following because something which is good for other company may not be good for us. We developed our strategy.

We completely focus on that. And we were never going here or there. So we were just simply putting efforts in terms of execution of our strategy, whatever we have spelled out. And I'm just happy to share that, that is working because some of the steps, if you see, there were new steps. We were not there in the services at all. And today, when we are generating a business which is coming closer to 5% is the new capability what we have developed. And all these initiatives are new initiatives for us.

I will call it a transformative journey because we reimagined the business model where we said we'll go from Paint to Paint+, primary to secondary and product to services. And that is what we have demonstrated that Paint to Paint+. Today, Paint+ is more than 10% of our business. Primary to secondary, we have a large team in the market.

And today, we are able to track when we are selling to our dealers and distribution, how much we are converting to secondary, and it's an ongoing journey. And then product to services, that part of the business started coming from services. Ultimately, we are able to generate the business on our own and partner it with our dealers and the painters who are a part of our ecosystem.

So I think as of now, I can only say that, that strategy what we have adopted, and it takes some time to take a shape, which I've been talking about all competitors also that nothing happens overnight, even when we started this journey because otherwise, there was no differentiation in this industry.

It's like that you have product, similar kind of product, go to the market, give discount and sell it. It's a pure sales job. So I think we have taken a new route or maybe some companies were doing it, we were not doing it.

But I think even if we are able to take that particular route, which is more qualitative route, and we are able to build those competencies that today that business we can handle that when we participate into that business, we also get the business. So that is what is working for us, and that is what is giving results. It is not a question of that whether the competition is affecting one geography or other geography.

I think competition is equally affecting the geographies where they are entering as of now, I'm just saying. So I think it is just a patience work for us, sticking to our strategy and continue to work on that without getting disturbed with what is happening in the market.

Mihir Shah:

Got it. That's very clear. And clearly, it is showing up, and we have always appreciated your strategy into getting into new things and what you called out in your opening remarks, reaching double digits in many of the new segments is a testimony of the strong execution. We are hoping that it will continue the strategy that you embarked on will continue going forward also. And I just wanted to wish you all the very best, and thank you for all your contribution. Wishing all the best sir.

Anuj Jain:

Thank you, Mihir. Thanks a lot.

Moderator:

The next question is from the line of Mrunmayee Jogalekar from Asit C Mehta Investments.

Mrunmayee Jogalekar: So my first question actually was with respect to the revenue growth that we expect maybe in the next couple of quarters. Is it possible to reach high single-digit kind of revenue growth, say, starting from Q1 of FY '26, considering that the base would catch up and some improvement on the demand side as well?

Anuj Jain: So I can't really comment upon it because to be very frank with you, when we started last year, we never anticipated that market will degrow, okay? And to some extent, market growth is down, which is impacted by demand and also to some extent, new competition who would have taken 3%, 4% of the market. So let me accept it that we fail to predict that what is going to be the market demand.

As of now, I can only comment that based on some trends, what we are seeing, some action from the government, what we are seeing, that there is going to be a recovery. Very difficult to comment that whether it is going to be high single digit. I see a recovery. Maybe from the negative, it get into a positive area. But how much positive, difficult to comment. We'll have to wait for 1 or 2 more quarters to see that how it is ramping up.

Mrunmayee Jogalekar: Okay, sir. And secondly, actually, I wanted to ask that the A&P spends that we have, most of them would be for the decorative side of business, right?

Anuj Jain: Yes.

Mrunmayee Jogalekar: So if I look at our A&P spend as a percent of not the overall revenue, but as a percent of just the decorative revenue, it is kind of a higher percentage compared to the other players that are there in the industry. So is there any part where we are maybe reducing that percentage or something like that we have on cards?

Anuj Jain: So we don't look at the percentage to sales basis. Basically, what is optimal to support the strategic initiatives, that is how we calculate -- activity-based initiatives we decide. And obviously, the percentage is higher. But as our activities are maturing, I think that we definitely feel that this percentage over a period of time will come down. Today's situation, saying it difficult because we still have to wait and watch that how completion pan out, what we need to do. But maybe some indication as of now that at least it will not go up. It can be definitely controlled, maybe now or maybe a year from now. But I think the initiatives which has started working, we will continue to invest there. But I think even if this percentage higher, we see that it has supported the initiative. So it will not go higher. It may remain in the same range or maybe there is a potential to reduce over a period of time.

Mrunmayee Jogalekar: Okay. Got it. And just one last clarification. Are you able to share what is the share of rural in our decorative business?

Anuj Jain: It is -- depend on how the rural is defined, but whatever way we define, it could be around 35% -- 30% to 35%.

Moderator: We have our next question from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Yes. Sir, just two questions from my side. So first of all, now with the new Managing Director joining, what will be the likely change in the strategy? Because after you had joined, we had seen there was multiple initiatives done towards premiumization as well as expansion of the product bouquet as well as services as well as expansion of the distribution network. So what are the possibilities? I mean obviously, that is a really question to the new team. But anyway, what can be the likely changes in the strategy? That is question number one.

And secondly, in terms of the putty business, so putty plus primer plus waterproofing, what is the total revenue contribution? And what is the current profitability of that business also? And lastly, now we'll be taking in a way, a big amortization in Nepal and in Bangladesh -- sorry, Bangladesh and Sri Lanka businesses also. So how should we read about the future over the next 3 years in these 2 entities? Yes, that's it from my side.

Anuj Jain: Anirudh, in our company, Kansai Nerolac Paint, I think it is always a teamwork. So it is not that my work or this is completely a teamwork. The complete leadership team has worked together and including KPJ, who's our parent company. And the new Managing Director is Pravin Chaudhari, who is part of KPJ.

So everybody is involved into the strategy. The strategy is well adopted by everyone. So it's a teamwork and the team continues and that I'm also there with the company, may not be as a Managing Director, but to ensure that smooth transition, everything is set. So to that extent, it's a teamwork and teamwork will continue.

The second is on the putty business, putty contribution may be higher single-digit contribution to the business. Margin, I've already said that. I don't know the exact margin, but I think the margins are not there, you can read it like that.

And for this Sri Lanka, Bangladesh, yes, we have done that because Sri Lanka, Bangladesh have gone through a very volatile geopolitical situations, and therefore, the business had been impacted. By the prudence that we have taken the impairment, and we hope that now these countries will pick up, the business will be good. And therefore, it is positive because we have already taken the note and taken the impairment, conservative prudence we have taken. So it can be only better in the future.

Aniruddha Joshi: Okay. Sure, sir. Understood. Just one clarification. Post 31st March, is it total retirement you are taking? Or you will still continue to remain associated in -- at least in a nonexecutive role or guiding force kind of a role or something like that?

Anuj Jain: I'm made for Nerolac. So whenever company require, I'm available for any kind of advice and ensuring there is a smooth transition. I'm available.

Aniruddha Joshi: Okay. Sure sir, understood. And wish you all the best post the life after 31st March.

Anuj Jain: Thank you, Anirudh.

Moderator: We have our next question from the line of Ajay Thakur from Anand Rathi Securities.

Ajay Thakur: Sir, I wanted to understand a bit more in terms of the redistribution of the market share, which you were pointing out to. What would be currently the share gain by the new competitor, if you can throw some light? Will it be something in the mid-single-digit kind of a range or higher? And do you believe that given the consistent the distribution expansion that we are obviously kind of trying to play out? Can it reach to maybe something like a high single digit?

Anuj Jain: So as of now, just a rough estimate. I may not be very strong on the numbers, but 3% to 4% of redistribution would have happened. If I just talk about the history, if you see last 10, 15 years also, 2, 3 players have entered and they've gained 2% to 3% each. So last 10, 15 years, 10% of redistribution has happened over a period of 10 years. And that's why probably the market has not realized. But this has happened faster, maybe the 3% to 4% redistribution would have happened.

Going forward, whether it can be in high single digit, no comment because as I said, that a good competition has come in the paint industry. And therefore, I definitely give a credit to them because in the past also, some companies have come but not been successful. At least now there are good -- the companies are doing a good work and they're able to do it. But whether it will go to the high single digit, I have no comment on that.

I can see the intensified competition in the market. But to me, you may achieve a market share. Our market share is not the only metric to me. When we talk about the business, market share is one metric, but also what is important is the profitability and the sustainability of the growth. Achieving the market share, it can be achieved, even the higher single digit can be achieved.

But if it is coming on the back of effect on the profitability, then how -- whether it will be a short-lived or long-lived, it need to be seen. Higher market share, sustainable market share is the function of quality of distribution, brand equity and the product differentiation. What we have not seen as of now is the product differentiation. Brand building will take time and the quality of distribution is yet to be seen. So that is how I would like to answer this question.

Ajay Thakur: Understand. That's helpful. Second question was more on the volume-value gap. So industry has been seeing the volume-value gap persisting while it has kind of reduced for some of the players, but leaders still kind of struggling with the volume-value gap. If you can throw some light in terms of when can we expect the volume-value gap to kind of diminish or kind of go off for the industry and for us as well?

Anuj Jain: So for us, it is significantly reduced. The volume-value gap is significantly reduced. But I won't be able to say whether it will diminish because one is the function of putty. So putty is a good product, but maybe at the wrong price. So tomorrow, if there is some correction in the price and the putty growth goes up, then volume-value growth could remain.

Also, like there are a lot of products which are getting introduced in the construction chemicals, which are also lower ASP products. And then there are efforts by the industry to pick up the sale on the lower-end emulsions. So I think the volume-value gap would remain, but the gap is reduced, but it will remain in a healthy manner.

So today, maybe the volume-value gap is reducing because of putty and putty, obviously, one need to see that the pricing should get corrected. But in the future, if there is a gap, some gap, which I still feel volume will be ahead of value, it will be a healthy gap. It will not affect the margins of the company.

Ajay Thakur: Understand. Quite helpful. Thanks, sir, for all the key interaction that we had over the past few years. It's been a pleasure kind of interacting with you. And all the best for your future.

Anuj Jain: Thank you.

Moderator: The next question is from the line of Sheela from MS.

Sheela: Sir, my question was more on the medium term. As we sit today, and I know the demand environment is not as we would like it to be. But when we think about the next 3 to 5 years, what in your view would be the industry growth rate for the decorative paints business? I know in the long run, we have always said that this is certain x of the GDP growth rate.

But today, how do you envisage that? An earlier participant had asked the question around the real estate demand and how it's not getting respected in the paint sector. So taking everything into consideration, how do you think the trend would be?

Anuj Jain: So my take is that trend will be positive. I foresee a higher single-digit growth for the industry over a period of 5 years. And there is a simple calculation for that, the penetration of the paint is lower. With the new competition coming in, many more good players coming in and they are getting into marketing, creating awareness of the product, the penetration will definitely increase.

So that will definitely help. And also, the upgradation will happen on the back of the communication going up because even in this year, if you see the share of voice of the paint industry, if we look at the entire media, if you look at all companies put together has gone up.

And therefore, I definitely see more formalization will happen in the paint industry. And penetration is low, more formalization and more awareness. So these are clear-cut indicators that this is just a short-term impact on the demand. And if you're talking about next 5 years, high single digit is something what I envisage.

Sheela: So slightly below the nominal GDP growth rate. Is that the right way to look at it?

Anuj Jain: So generally, -- difficult to say. That's like a positive scenario. I'm just saying that if you look at last 30, 45 years, then it can be closer to the GDP growth also. But based on the current situation, I'm saying higher single digit is something that I feel it can be better.

Sheela: Understood. Sir, my second and final question is the point you made about how the painters have become an important influencers for us over the last 2 quarters. Just from your lens perspective, in the previous question, you said how quality of distribution, brand equity, everything matters.

But from an influencing standpoint, how do you place the various stakeholders to drive growth? When we talk about dealers, we talk about painters, we talk about the interior decorators and

others. So how do you place each of these stakeholders from an influencing standpoint to drive consumption or drive demand?

Anuj Jain:

So actually all are equally respected and all play a role and they are a very important part of the ecosystem. somewhere the role is lesser or higher. But this is a chain. So you can't handle one and then leave other and then a chain is broken. So everybody is to be taken care of.

But having said that, obviously, for any company to increase the business, demand is definitely more important. And demand comes from 2 parts. One is the consumer demand, which is a function of advertising and marketing.

And the second is the painter because there's a large influence which painters can also make. Therefore, building up the relationship with the painter and therefore, in return, getting their recommendation for your brand is very important. So what we have been working upon is the demand factor because our brand equity is high, and in terms of the mind share, we are number two.

So we have been putting more emphasis in creating the demand through the influencers. Influencers include painter, contactor and architect. And it also helps – because our dealers are our partners. So when we do that, we are able to give them more positive contribution to the business. In the process, we are keeping our customers happy, and that's what works.

Moderator:

Ladies and gentlemen, that was the last question for today. And I now hand the conference over to the management for closing comments. Over to you, sir.

Anuj Jain:

Thank you, everyone, for asking questions. Your questions are always insightful for us, and it always give us some good insight that what you feel, what you want to have. I understand that you want to have more visibility, more predictability. And I have tried from my side that to give you some transparency and that you are able to read that how we are working.

And that's what we have been talking in the other forums also and today also, we tried to highlight related to the progress on those initiatives. So I had 2 -- 3 good years, transformative years, I would say, and the time has come for me to retire from the services.

Pravin Chaudhari will take over from 1st of April. He knows the company well. That is what I was trying to tell you. And the leadership team is fully equipped. Strategy is clear, and the foundation what we have built is strong enough to sustain and accelerate growth despite market challenges.

What we have demonstrated and quality over quantity has been our approach that will continue. I'm grateful to the trust you have placed in me, and I go with full confidence that the company is poised for a brighter future. Thanks for support and trust. Let's move forward. Thank you.

Moderator:

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