ASIAN PAINTS

Q1 FY2024 Earnings Conference Call

Date : July 25, 2023

Management: *Mr. Amit Syngle : MD & CEO*
Mr. R.J. Jeyamurugan : CFO & Company Secretary
Mr. Parag Rane : AVP – Finance
Ms. Sunila Martis : Head – Investor Relations
Mr. Arun Nair : Manager - Corporate Communications

Sunila Martis:

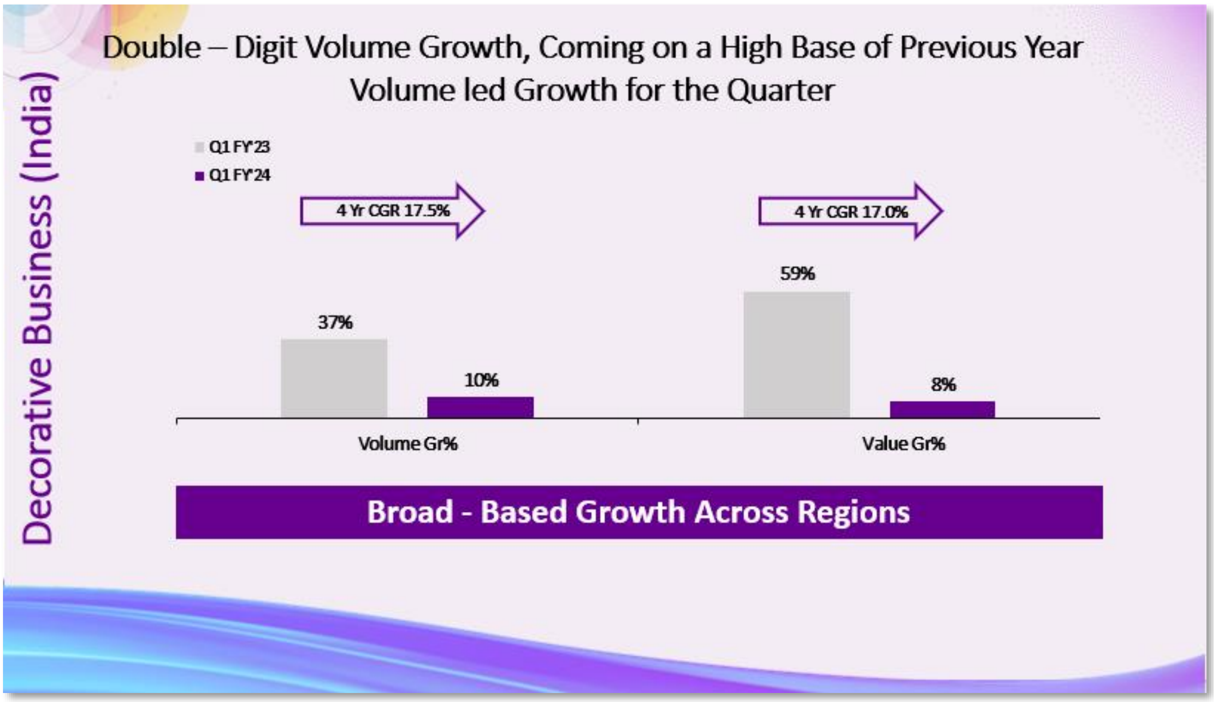
Good evening, all of you and thanks for joining us to discuss Asian Paints Q1 FY24 earnings. I am Sunila Martis from Investor Relations. And I'm happy to welcome all of you here.

Today, we have with us our MD & CEO, Mr. Amit Syngle. We also have with us Mr. R. J. Jeyamurugan, our CFO and Company Secretary. And we have Mr. Parag Rane, AVP-Finance joining us. I would now like to welcome Amit for his opening comments.

Amit Syngle:

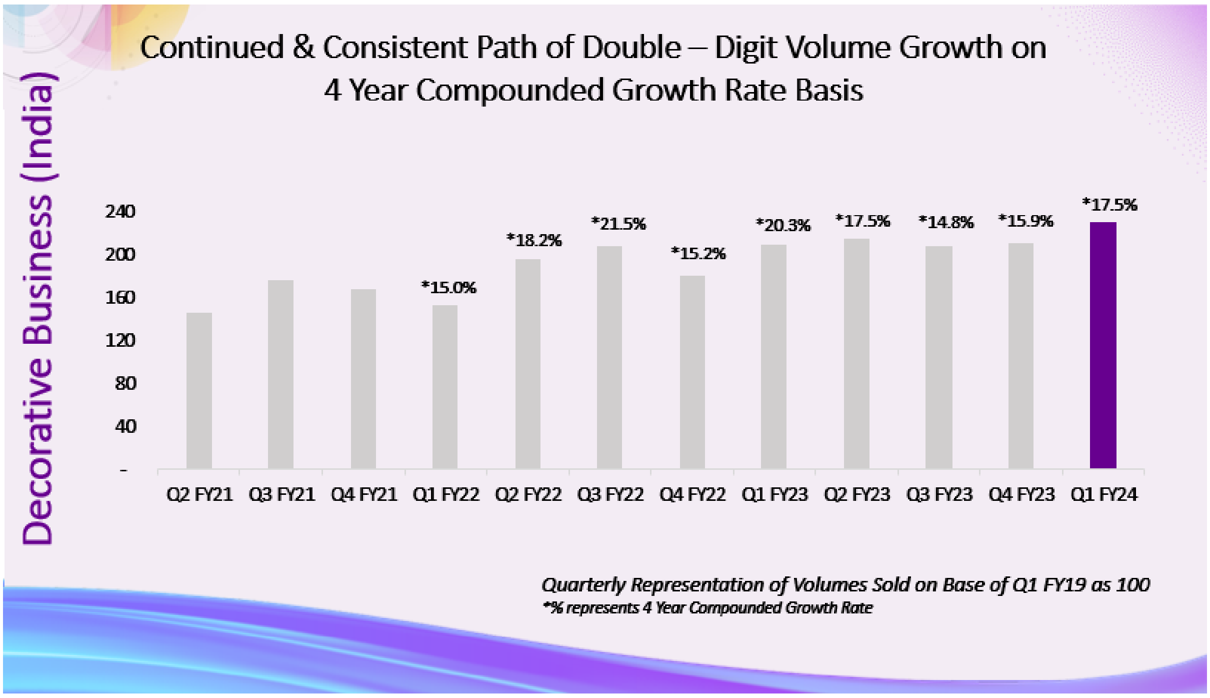
Hello, everyone. Welcome to the Investor Conference for Q1 FY24. It's a pleasure to be with all of you.

We have always spoken about delivering joy since 1942. And as a brand, we exist to Beautify, Preserve and Transform all the spaces and objects, bringing happiness to the world. This is our core value and we have been speaking about it in terms of where our brand is and where we want to take the brand as we go forward.

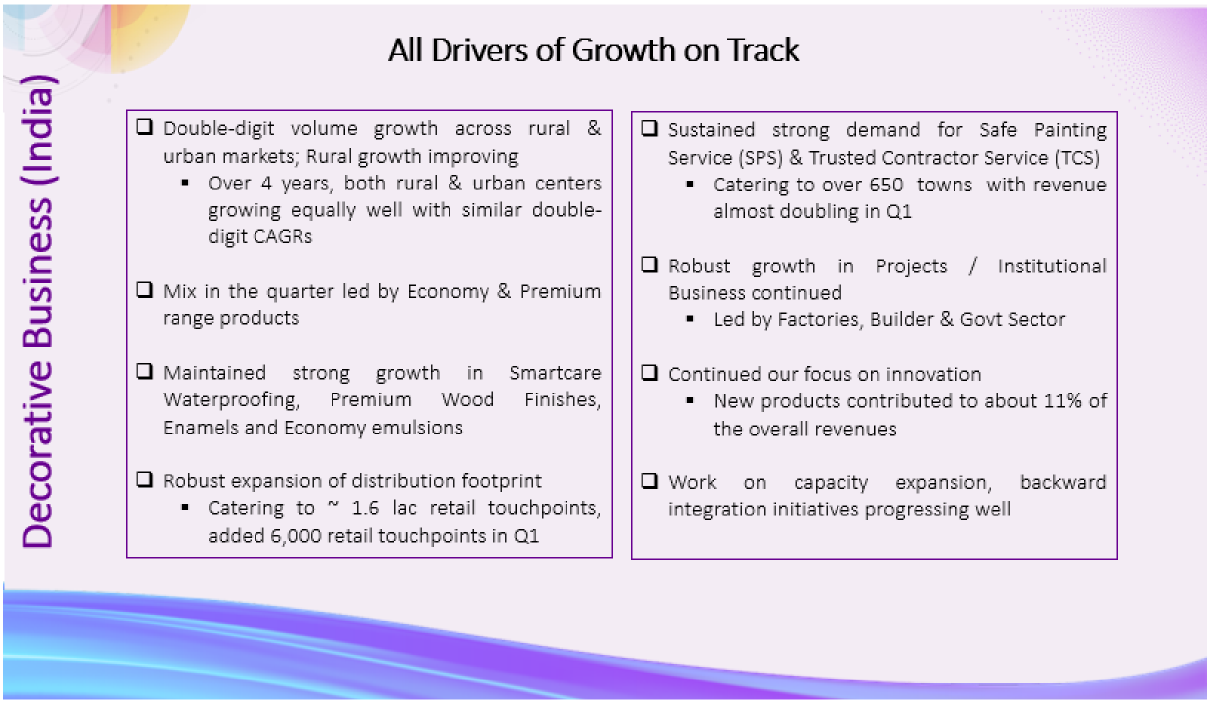


Overall, when we look at Q1 FY24, it has been a strong quarter from the point of view of overall volume growth which we have been able to deliver. This has also been a consistent promise and what we have been pursuing for the last 12 quarters. We registered double digit 10% volume growth. Over a four-year period, this was clearly a strong double-digit 17.5% CAGR. Even the value number was relatively strong at about 8%. Please remember, that this was over a very high base last year where we had grown by value of about 59%. It was also a price increase base and growing over a lower covid base of previous year, 8% on that is a still a relatively healthy number delivered this quarter.

Similarly, the volume base was strong at 37% over which 10% growth has come in. We see that across geographies, this is broad based growth giving us confidence that it was a strong quarter.



When we look at the last few quarters, you will see that the result is consistent in terms of looking at the volume base to growth. The 4-year CAGR over the various quarters have been in the band of about 15-20%. This shows our commitment to overall growth, and we have been keeping pace with the same over previous quarters.



Going ahead, let's take a look at some of the parameters on how we would qualify the quarter. First of all, I think the good part is that compared to Q3, Q4 of FY23, we saw rural growth definitely improving and coming closer to the urban markets, which was a good sign.

We saw almost similar growth between the two. Over a period of time, we are seeing that the 4-year CAGR across rural urban areas are kind of same. The overall product mix was led by the economy and premium range growing. The luxury range was a bit down, but both economy and premium range did well.

In terms of specifics, we saw SmartCare waterproofing, which has been on a strong growth path over the previous quarters continue to maintain growth. The wood finishes, which is a strong area with lots of premium finishes also grew quite well. Enamels again which has a premium component, grew well and the economy emulsions which get into the bottom of the pyramid in terms of people coming in from the unorganized sector to the organized sector, did quite well.

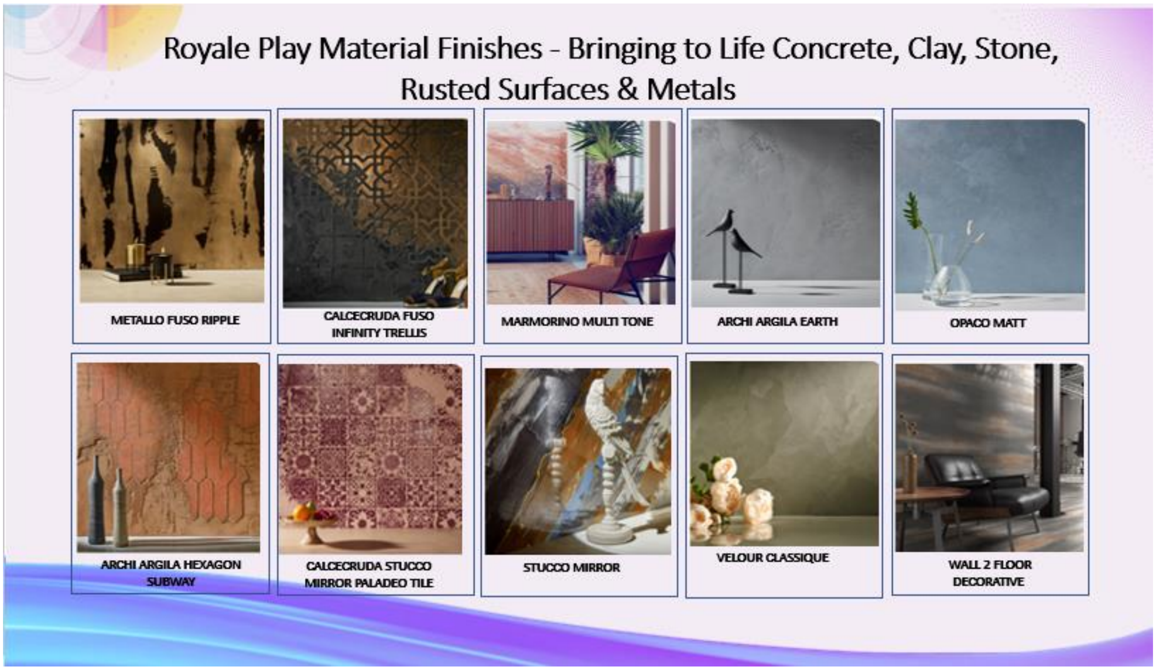
Our distribution expansion in terms of increasing our footprint continued in a strong manner. We had reported about 1.5 lakh retail points earlier till the end of last year. We have added good numbers of about 6,000-10,000 retail points in Q1 which is a signal to the market that we would like to keep up our presence in every geography as we go ahead, even with respect to the T3-T4 towns.

Services has been on a strong pitch, and I think this is something which differentiates Asian Paints. Our Safe Painting Service (SPS), which comprises of the Trusted Contractor Service (TCS) has done extremely well and now we are present in more than 650 towns with revenue almost doubling in Q1. This signifies that today the trust levels of service are very high, and we speak of a fairly high NPS score. Overall, from the point of view of retail versus projects business, the projects/institutional business grew faster, and it was led by good construction activity which propelled the builder sector. We saw good spending from government and also factories did quite well. This B2B part of the business has been spearheading growth in a very strong manner for us.

From a point of view of innovation, new products have been fairly consistent, and we have been speaking about the band of 11-13% contribution to the overall revenues This quarter, also we saw about an 11% contribution. We have already announced that there are various expenditures which we have committed in terms of going forward. We had spoken of about

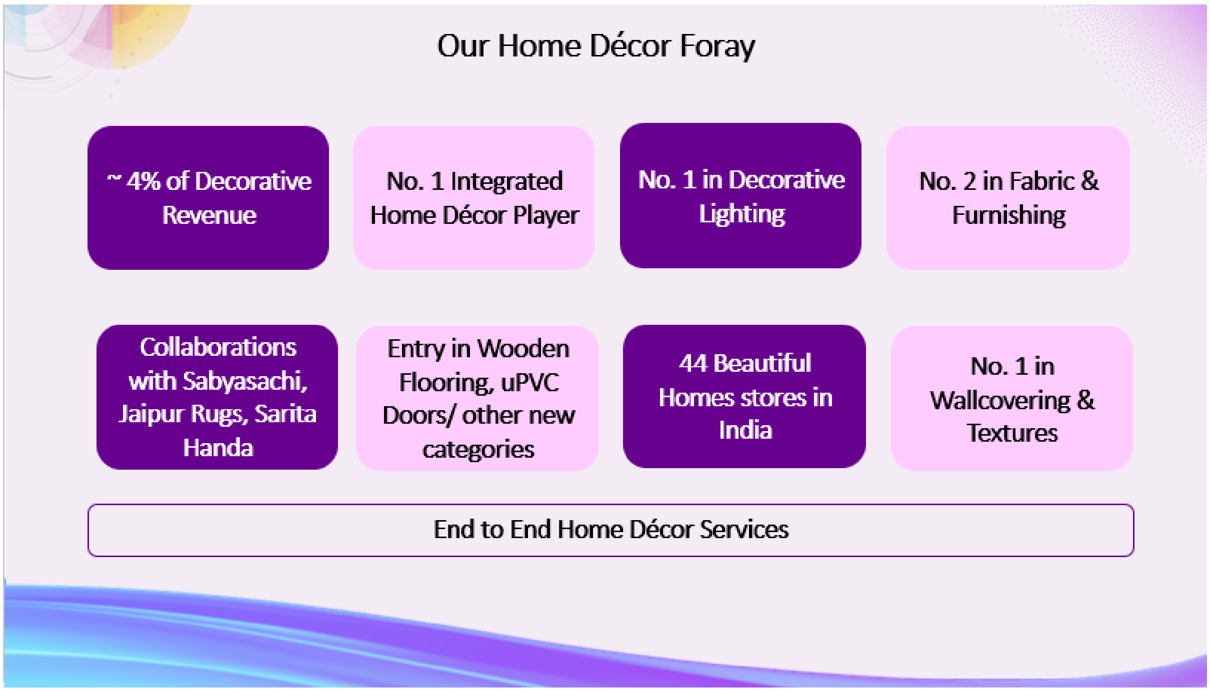
Rs. 8,750 crores to be spent over the next three years. And today the overall capacity expansion has been going on pretty well and we are on schedule.

This slide gives a brief of the larger areas at work. I spoke about innovation and being a leader. This is called Nilaya Naturals. This is a super luxury product at the highest point. This is something which is an organic emulsion packed with 90% organic materials which are earth-safe with more than 200 shades. It's got a very good vintage matte look and is very popular amongst architect designers and therefore this is our attempt to take on the super luxury space and offer an organic and green product.



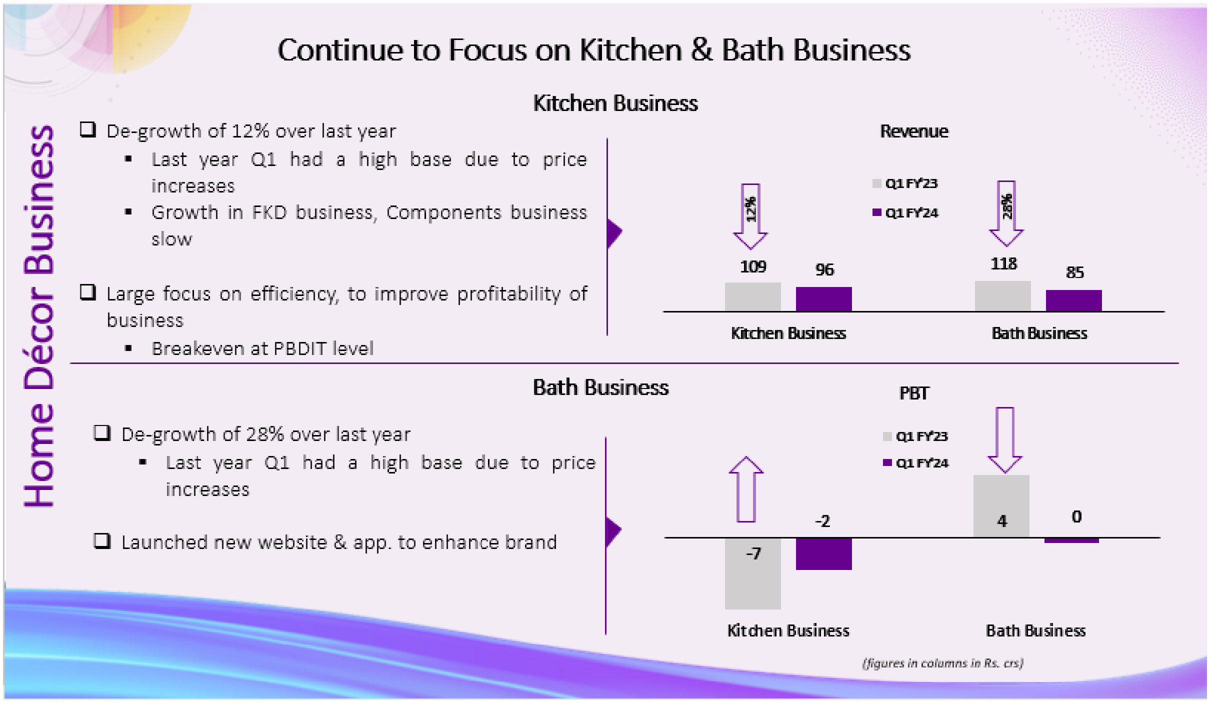
We look at really enhancing décor on the walls in a very strong manner. These are a large set of Italian finishes which we have introduced in the market and is very popular amongst the AID segment. Some of these finishes are very expensive and in the super luxury category, at the top-end of the market.

Some clear innovation products which have strong propositions. We are talking in terms of luxury exterior paint, which comes with a 15+15+15 warranty, which is for durability, for algae and for the waterproofing. We are looking at 'Hydroloc Xtreme', which can be applied on almost 70% damp walls, a technological innovation. And lastly, an 'Anti Insect' paint that keeps common insects away. So, all things which are really world class, including 'Purafin', which is one of the PU finishes looking at the mid-premium segment of wood finishes, which for the first time is coming in this range. So, as I said, every product here is in the premium and the luxury range.



Shifting from the 'share of surface' to the 'share of space' business, which is our Home Décor. This has been a journey which we have been pursuing over the last few years and we see today we are at about 4% of our decorative revenue. And this is what we are steadily increasing as we are going forward. Today, we have become clearly the number one integrated home player in terms of offering customers décor under one roof through our 44 Beautiful Homes (BH) stores which we have put across geographies in India. And this makes us very strong in terms of catering to the customer, because as we said, Home Décor compliments the coatings business because you are part of the consumer décor lifecycle.

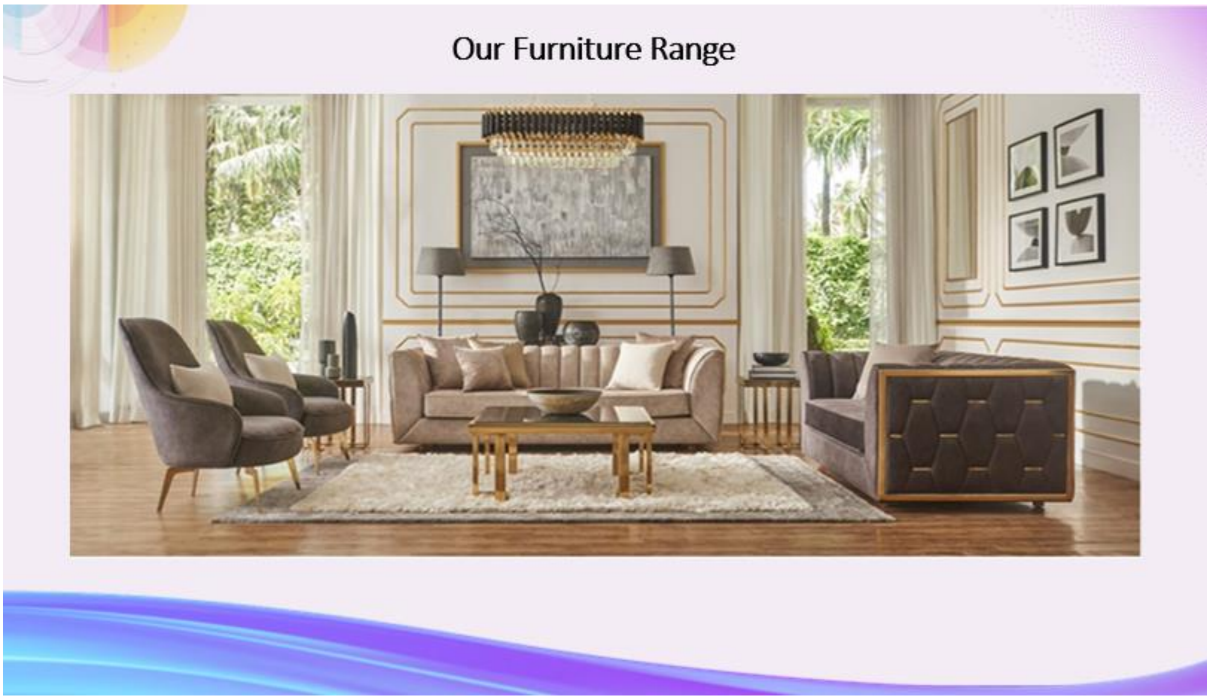
We have become number two in the fabric and the furnishing business. We have a co-branding arrangement with 'Pure' brand. We have got into areas like wallpaper through collaborations with ace designers like Sabyasachi, Sarita Handa and have also done collaborations with partners like Jaipur Rugs. We introduced the area of lighting and flooring and also the doors and windows with uPVC. We are number one in wall coverings and texture. So, what you see is that literally in terms of most of the categories, you are becoming amongst the top two players in the market, including becoming the number one player in the integrated décor area.



We already have a Kitchen and Bath business which has been there. The Kitchen business has been doing well. We experienced a growth in the FKD business, but the components business was slow. We had a high price increase base last year and therefore from that point of view, we had a 12% de-growth in terms of our revenue. As far as the PBT is concerned, we improved our margins in the Kitchen business, and we were at about a minus Rs. 2 crores, kind of an overall PBT. As far as Bath is concerned, again Bath was affected by a strong price increase base, and we almost have a breakeven here against a Rs. 4 crores profit which we had last year.

So, I think we were quite affected given the fact that the bases were high because of the price increase. We feel that next quarter would be much better in terms of the two businesses going forward.

Luxury kitchens, which are being launched under the 'Crest' brand by Sleek, is something in the range of about Rs. 12-15 Lacs per kitchen. Again, a lot of work happening at the luxury end here.



We also have now our 'Nilaya' furniture, which is having European sensibilities with Indian comfort.

Strong introductions which have been made at our BH stores and are getting very popular.

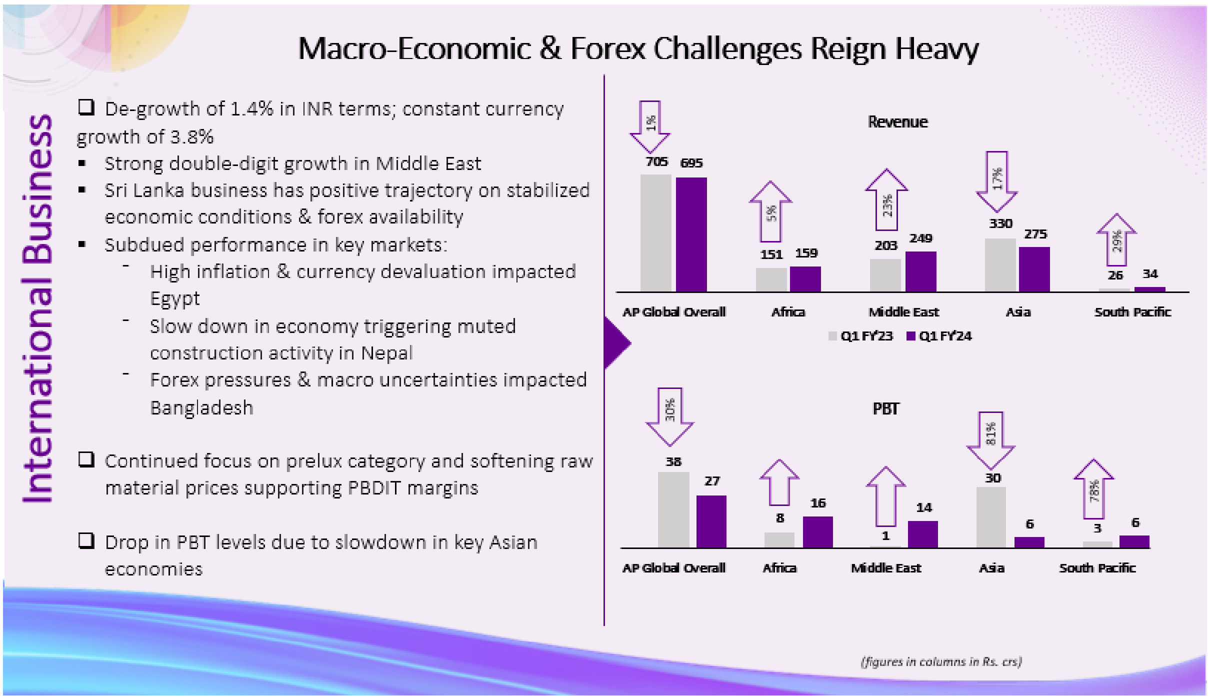
We have also launched fitted furniture, which consists of vanity units in terms of crockery, entertainment units and so on, so forth. This is a new launch along with the wardrobes in terms of our BH stores. It completes the various areas of aspiration of a consumer.

As far as the two new acquisitions are concerned - White Teak did extremely well at almost about 28.4% growth. We also had good profitability in terms of PBDIT from this business. We have added more stores, both company owned and franchise owned stores, apart from the fact that the 44 BH stores are selling White Teak. We have acquired another 11% additional stake in June 23, taking our share to about 60% now. So, it has become our subsidiary. As I said earlier, we are number one in terms of decorative lighting here.

As far as we look at Weatherseal, last year we had doubled the sale and this year also we are doing quite well. We have already registered about Rs.9.8 crores of net sales and therefore expanding these businesses. Both the businesses have, done very well in Q1 and we have strong hopes in terms of taking it ahead in terms of what we want to do.

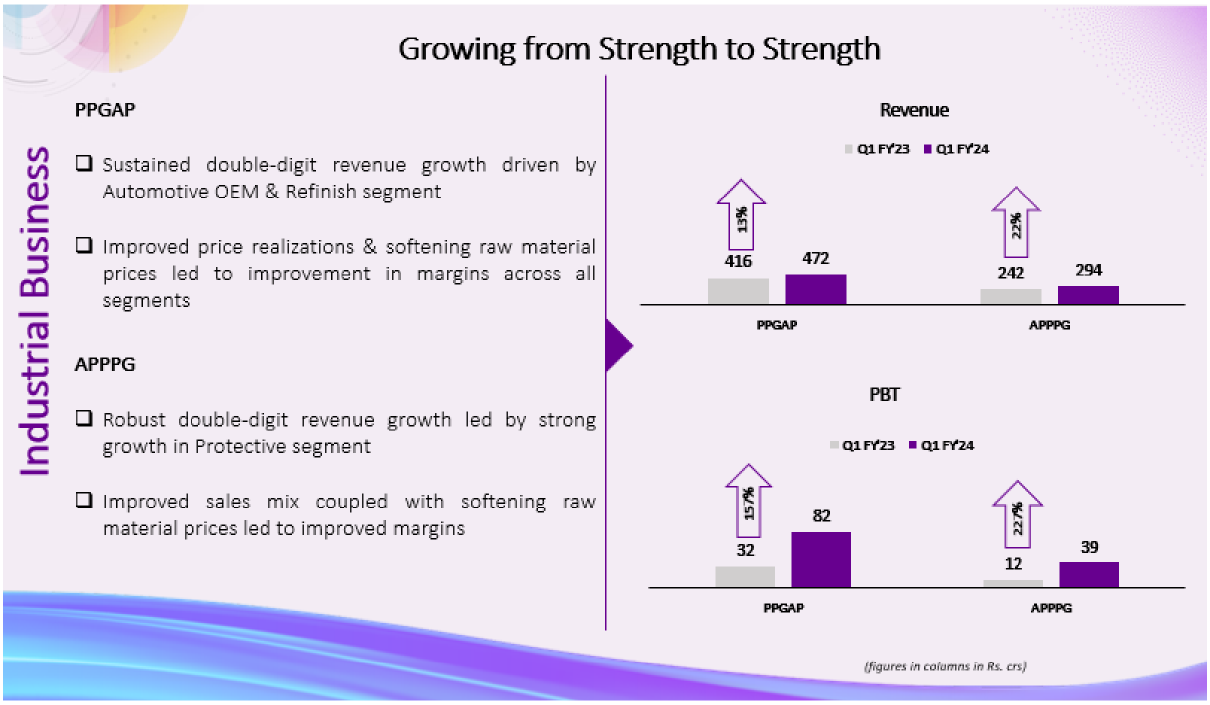
Some snaps of a new format of Beautiful Homes store, called the Beautiful Homes Studio. This is the next frontier of our journey on home décor. This store has come in Chennai in Anna Nagar and it's about 17,000 square feet. This store is comparable to a store which would be in Paris, London or New York and very high-end luxury. It has really taken Chennai by storm. It is really high-end from the point of view offering - decorative lighting, furnishing, furniture and lots of other areas. So, I think this is our journey towards taking the luxury end again, in a strong manner as we go ahead.

When we look at the International business, it comprises of our operations in Asia, Middle East, Africa largely.



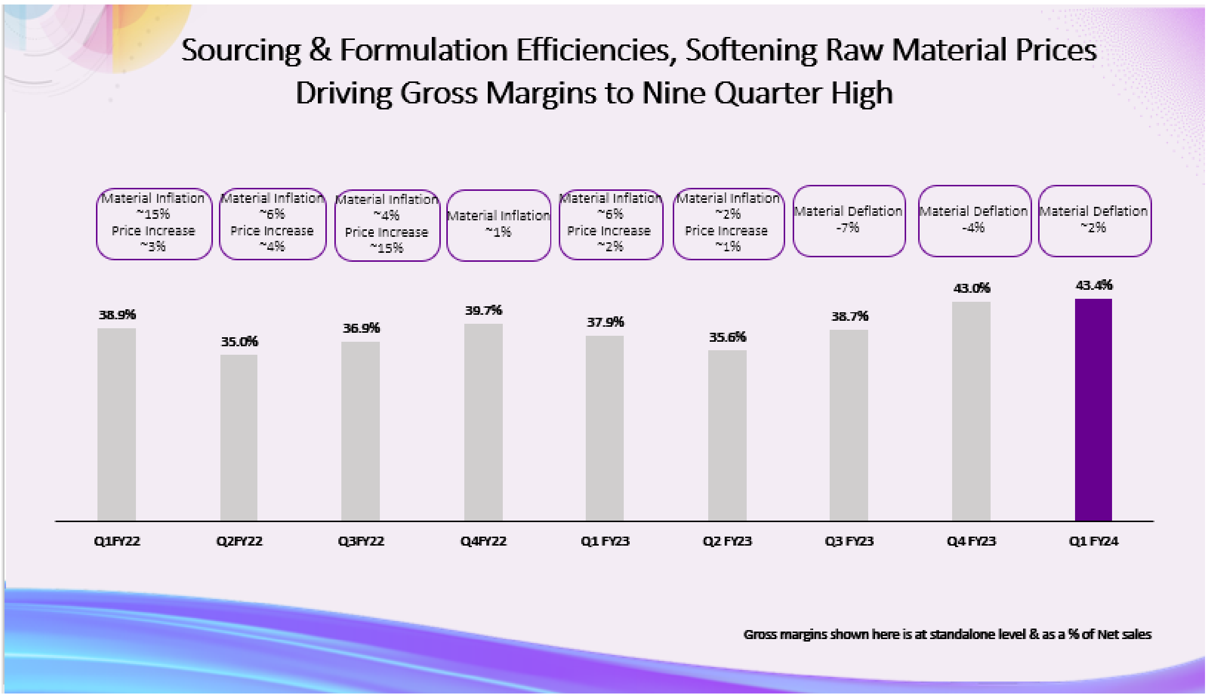
It was a mixed bag in terms of the International business. If we look at the businesses in Middle East and in Africa, we did quite well, including South Pacific. I think where we were hit was Asia, largely in the case of Nepal, where there is a little bit of an economic crisis going on. There's a liquidity crunch and I think that is where we de-grew and this had a quiet of effect on the overall Asia business, and it also had an effect on the overall global business. In fact, what we have been seeing is that in some of the markets like Bangladesh, Lanka and Egypt, there has been devaluation of currency. So, if you were to see this degrowth of 1%, but you were to convert it into constant currency terms, it comes to about 4% growth. So, in that sense, I think the overall business is still about 4% positive.

As far as profitability goes, a large part of profitability comes from Nepal. And as I said, the Nepal market has been down. Overall, we registered lesser profits from last year, but there was still overall profits of about Rs. 27 crores in this year. PBT levels have dropped down, but we are hopeful that Asia recovers as we go forward because a lot of business comes from Nepal, Bangladesh and Lanka in our international foray.

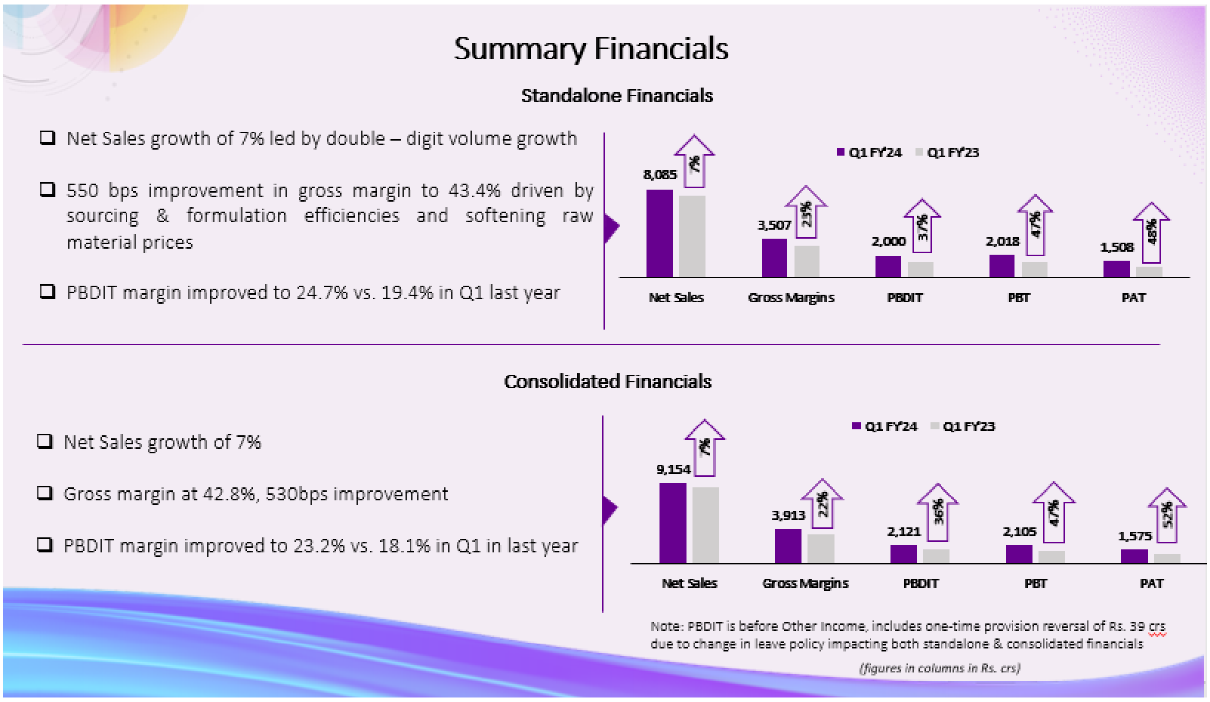


Going ahead, our Industrial business has been the star business in Q1. Very strong top line growth coming in. The PPGAP business, which is the business which caters to auto OEM and refinishes market has done extremely well at about 13% top line growth with both auto OEM and refinish segment doing quite well. We have got good realizations in the market from the point of view of our prices, which we had with our B2B customers. There has been an effect of the softening of the raw material prices a little bit, which has led to a strong number coming in terms of PBT. The number is heartening and augurs well for us.

When we look at the other business which is the General Industrial business, which is APPPG, I think the growth has been consistent. If you look at the last 10 to 12 quarters, it has been growing in double digits and we delivered almost Rs. 300 crores here with 22% growth. The profitability numbers were also strong which was aided by the softening of the raw material prices and a lot of work in terms of improving margins. Both businesses are growing from strength to strength and this is really adding to the brand in a big way.



So, if you look at gross margins - we are looking at almost a 9-quarter high. We have seen deflation in Q4 FY23 and we have seen deflation of about 2% in the current Q1 of FY24. We see that the overall gross margins have gone up to about 43.4%. And this has been also aided by a lot of work which we have been doing with respect to the formulation and sourcing efficiencies. So, this is a strong number as far as the overall gross margins are concerned.

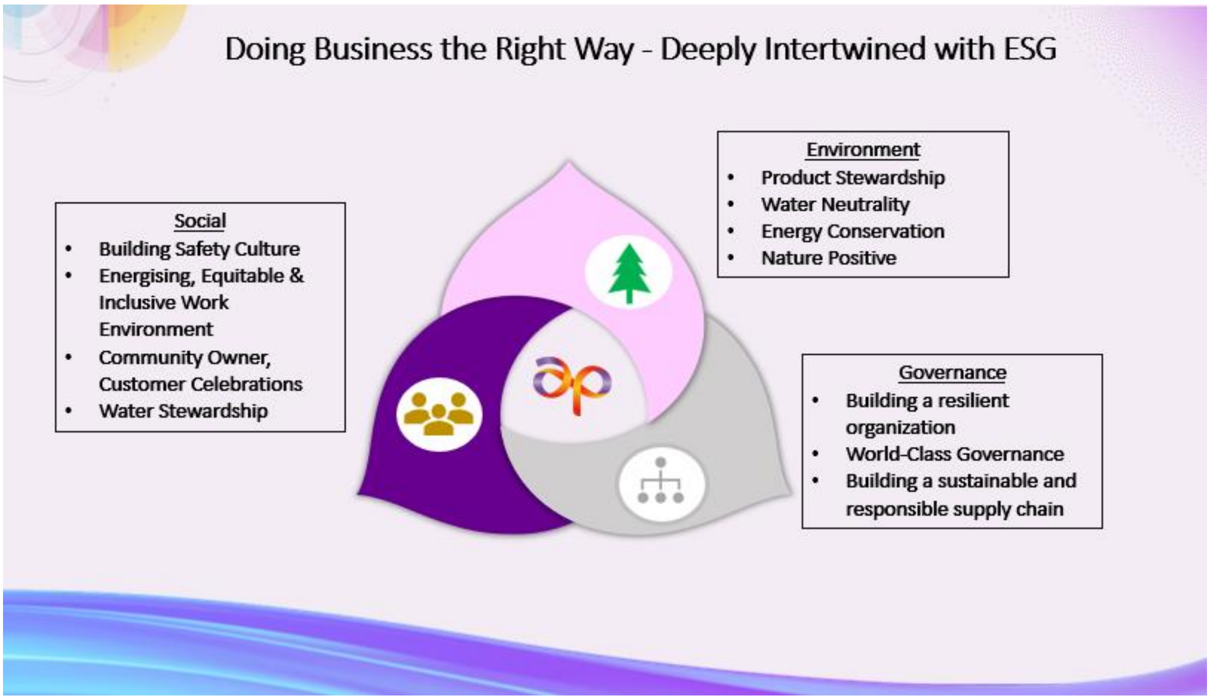


In totality, with respect to the financials at a standalone level, if we look at the top line, it's about 7% growth led by double-digit almost 10% volume growth. As far as the gross margins are concerned, we are almost up by 550 bps. If we were to look the point of view of last year, same quarter I think very strong 43.4% margin. If we look at PBDIT margins, they have gone to 24.7% from 19.4% in Q1 last year. And sequentially also, they have gone up by about 170-200 bps. So stronger growth happening with respect to margins aided by some softening in terms of the prices. But this has obviously given a lot of impetus with respect to PAT numbers in terms of what you are seeing on screen.

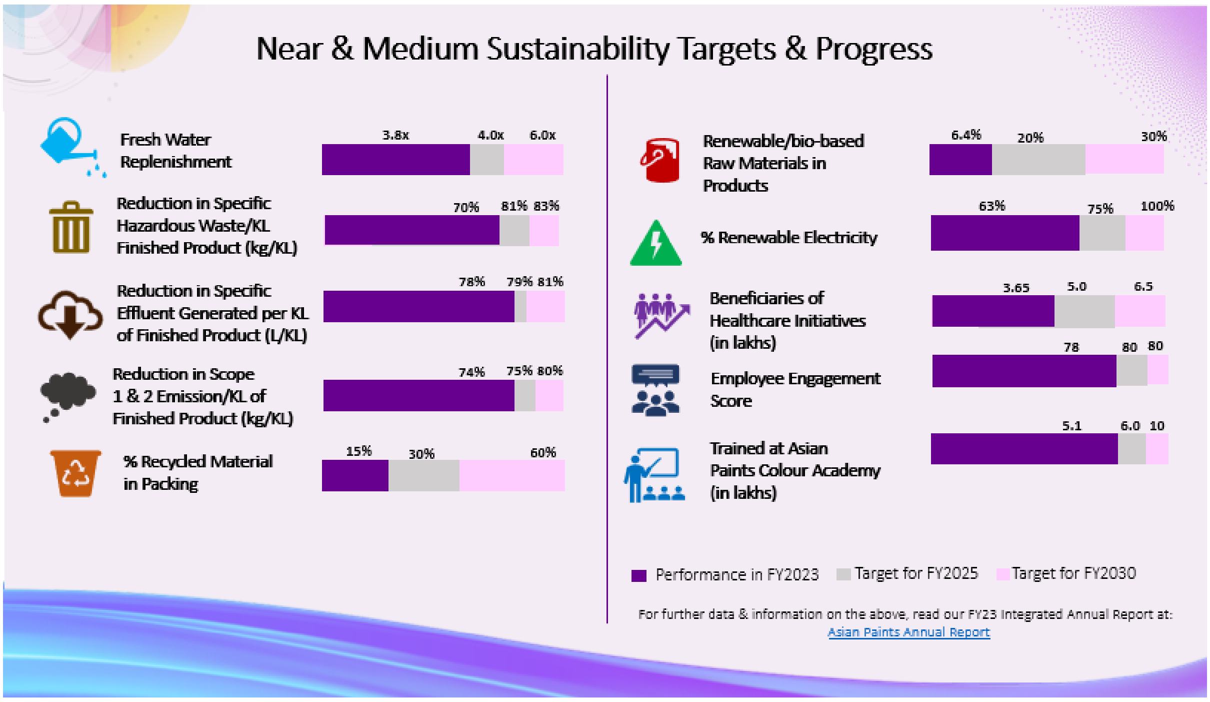
At a consolidated level, the numbers are not too different. Obviously, top line is more or less close to the standalone number of 7%. Again, gross margins are strong at about 42.8%, a 530 bps improvement. At PBDIT compared to last year Q1 at 23.2 against an 18.1 number and even on a sequential last year quarter, we see a gain of about 190 bps. PAT has been fairly strong in terms of what we have been able to see. There has been a one-time adjustment which we have indicated as a note in the financials. But overall, even if we were to take that one-time kind of benefits out, the growth in terms of both PBDIT as well as the overall numbers has been quite strong.

So, what we are saying overall is we have had a good start as far as FY24 is concerned. Our foray of double-digit volume growth continues, which gives us confidence in terms of our performance. Home Décor, while Kitchen and Bath have been a little bit sluggish, but overall, a plethora of other categories like fabrics, lighting, uPVC, all kind of giving us good growth and we think as a combined business this is something which is galvanizing us and giving us strength with respect to our core business. As I said, it is making us part of the consumer life décor journey. The Industrial business on a clear uptick, giving us double-digit revenue growth and this is a business which has been growing at this rate for the last few quarters and therefore clearly the journey has been strong in terms of what we see going ahead. International, a little bit less up to our expectations, but I think the forex tightness, the devaluation and so on, so forth are a bit of a challenge, but we still see that if we are able to kind of overcome Asia business, I think it will give us good growth and good profit as we go ahead.

Overall, from the point of view of operational efficiencies, a lot of work is happening both from the point of view of sourcing and formulation and I think this is adding to the softening of the raw material prices and giving us benefits. So net net, a great start.



On to ESG, I think all of you would have seen our annual report, which has a strong component of intertwining business with ESG numbers. I think strong progress with respect to the three areas of Environmental, Social and Governance in terms of what we have taken up and I think these areas are something which we are steadfastly pursuing within the organization.



If you look whether from the point of view of water replenishment, or with respect to energy, which is renewable electricity or with respect to the certain areas typical to the chemical industry in terms of hazardous waste or effluent generation or in terms of Scope 1 & 2 emissions, I think the progress has been very strong. What you see is what we have achieved in FY23 and then we have looked at two buckets, which is the 2025 bucket which you see in grey, and the pink bucket, which is the 2030 bucket. So overall it's the audacity of the brand that we are committing upfront to the ESG framework. On the Social front also, a lot of work is being done in terms of being water positive and we are getting into a lot of areas which generate some water in the environment. We are also looking at the area of health care initiatives and training people from the point of view of making them win livelihoods. This is a strong area of focus for the organization as we go ahead.

Outlook for FY2024

- Indian economy continues to be the only bright spot in world economy and key contributor to global growth. High correlation of domestic GDP growth with paint industry to ensure we grow well
  - Will continue to aggressively pursue growth
- Good progress of monsoon bodes well for rural demand in H2
- Near term comfort on moderating raw material prices
- Longer festive season augurs well for the peak season demand
- Focus on scaling up our Industrial Businesses and further energize Home Décor categories
- Continue to stay watchful on challenges in key geographies in International portfolio - Nepal, Bangladesh & Egypt

Lastly, I think all of you would be quite eager in terms of knowing our outlook. The Indian economy is still pretty good as compared to what we are seeing in terms of the world economy, whether it is Europe or US or even China and we will continuously push for aggressive growth. Our growth focus definitely would remain. As I said, the rural demand has been good in Q1 and we see that given the fact that the monsoons today are appearing to be quite good, we would be banking on rural growth going forward.

Raw material prices, while I think they have been going down, we are seeing some increases. Crude is at an all-time high in terms of what we see., We do not know what trajectory the dollar and the rupee take as we go ahead. So, we are watching the environment and seeing where is the raw material stabilizing, and then we will take a call on our pricing going ahead.

As far as the festive season is concerned, we are looking at it very, very strongly because this time we have a longer season and therefore we think it should be a good season.

Our Home Décor initiatives are strong, and I think they will keep multiplying going ahead and the Industrial business will keep on adding to the overall décor business.

As I said, I think we are a little bit watchful on the International geographies because unless for us, Nepal and Bangladesh, kick off strongly, I think the Asia business would remain suspect. But I think we are hoping that they also turn around the corner and it should be good going forward.

So overall, we have a good outlook going forward in terms of how we are looking at the coming quarter and therefore looking at the performance in H2 in a strong way. Thank you so much.

Moderator:
We now begin the Q&A session.

Abneesh Roy (Nuvama):
My first question is when I see your gross margin that is at a 9-quarter high and when I see other FMCG categories like soaps and detergent, wherein also the gross margin expansion has happened, local and regional players have come back strongly in terms of either pricing or in terms of local marketing. So, could you take us through what is happening in the 30% local market share, which is there. Are you seeing players cutting prices, for example, and are they also starting more of advertising and what is your response to that? Because that's a large market and you are equally aggressive in the lower end of the market.

Amit Syngle:
For us, the bottom of the pyramid is a very strong market, and we look at getting the unorganized customer into the organized brand. Our work emanates in two manners. One is in terms of expanding our footprint so that we are able to reach out to smaller towns. Second, we have a very strong program in terms of below the line marketing initiatives, in terms of what we place in the market. So, whether it is work around influencers, whether it is the work around wooing the consumer, or it is with respect to even the work in terms of looking at brand displays at the shops, I think we do a huge amount of work there too, so a large expenditure possibly goes. Similarly, I think the differential schemes to woo the retailers to stock the material and sell them at a strong incentive to the customers is what we do. So, our concentration has been led by below the line initiatives and topped with a focus on 'Above the line' advertising.

Going forward, we are looking at giving an impetus to our advertising and looking at these below the line initiatives. What we see very clearly, is the strength of the brand where we are able to command a premium with respect to selling prices and despite the fact that we see some discounting by local players and in some cases also advertising. Today our Q1results also indicate in that segment we are able to really get good numbers and good response. So, I think net net our initiative of 'Above the line' and 'Below the line' will continue in a strong manner. We would be strong with respect to our initiatives in terms of what we want to put to woo the consumer and we might even look in terms of saying that as we go forward, depending on how the raw material prices fare out, we will look if we need any price corrections.

Shirish Pardeshi (Centrum):
I do understand on a base of 37% volume growth, the volume is about 10% growth. But just wanted to understand, because you made some remark, that the premium luxury segment is not to the expectation in the middle and lower end is grown faster. Is this the industry trend because the local competition has picked up very well and I think there is a pressure and obviously the demand is high at the lower end. And in that context, I think I do understand you have prioritised the gross margin and do you think in the medium term we have a pressure to drop the prices?

Amit Syngle:
There is no middle and lower end premium and luxury. There are only three segments: economy segment, premium segment and luxury segment. What I said was that the economy and the premium segments are doing well, and the luxury is a little bit down. If you look at the market constraint, the economy segment is the biggest segment which is there, followed by premium and luxury. And therefore, you will have to perform in the economy segment if you are looking at overall volume and value growth in terms of turning the tables. I think the premium segment has also done fairly well, riding on wood finishes, riding on adhesives and riding on enamels.

Overall, we think the premium segment has been strong. I think the decision with respect to pricing is totally related to how the whole area of raw material prices pan out. We are now seeing some resurgence in crude prices, they are at an all-time high in terms of what we see. Some parts of the raw materials are also going northwards. So, we are watching it carefully and if the trends are clear, we would look at price correction in that case. Having said that, we are not seeing local companies, at least in the paint industry, doing very well. Possibly we would have gained from some of the local competition in terms of the overall economy segment.

Shirish Pardeshi (Centrum):

On the non-decor part, the Industrial business and Home Improvement, The Industrial business has shown momentum. So, in your sense, is it completely normalized because auto OEM and auto refinish business has done exceedingly well, despite the high base. In that context, is there further recovery expected or this is the normalized base and we can build on this. And second, on the Home Improvement, exactly what has gone wrong, because both Sleek and Ess Ess have declined very sharply.

Amit Syngle:

When we look at the Industrial business, I don't think it has reached a place where it cannot grow and we did not have any price increase bases there. I think they were normal bases in terms of what we saw last year. The General Industrial business comprising of Protective paints and Powder coating is something which is on the rise, and I think what we see is that not many industries are coming up. Players are expanding and we see a lot of opportunity in the government infrastructure business, which is also seeing a lot of money getting pumped in. As far as auto is concerned, I think both two-wheeler and four-wheeler, we are seeing strong growth with the additional lines, the whole area of EV coming up and so on and so forth. Both businesses are promising that the uptick should continue in terms of the overall demand as we go ahead.

As far as the overall Home Décor business is concerned, four categories have grown and two categories are down. So, I don't think things are terribly wrong there. In the two businesses, which have degrown a little, we had very high bases because of price increases and that could possibly get corrected as we go ahead in Q2 and Q3.

As far as the Kitchen FKD business is concerned, we are buoyant because we are number one in terms of that FKD business. And even with respect to the Bath business, I think it will definitely come up going forward. So overall, I think net net, four categories have done well very clearly in terms of what is there and two categories have gone down. Overall, Home Décor, had a fairly good growth.

Shirish Pardeshi (Centrum):

So, you think second half is going to be better as compared to the Q1 weakness?

Amit Syngle:

We think the business would definitely improve because the weakness was coming also because of a little bit of a base which was very high. So definitely there will be an improvement.

Avi Mehta (Macquarie):

I just wanted to build on the margin point a little. Basically, are there any one-offs in the other expenses that we saw this quarter? And the second also related is because you are pointing towards resurgence of input costs, would you suggest that the current gross margin performance is something that could be at risk?

Amit Syngle:

If you take the two one-offs which were there, one is in terms of some dividend income which we got from our industrial JV and the second has been a provision reversal with respect to sick leave entitlement in terms of the positive change for our employees going forward. I think if you take out the one-offs, the margin position is still healthy. So, I don't think the one-offs are really influencing the numbers in a strong manner. And secondly, the overall margin numbers are also closely governed by how raw material prices pan out in the market. You have seen that during the whole period of inflation, when the inflation levels had gone to about 20-25-30% levels, despite taking price increases, the PBDIT margins had gone almost to about 15-16% levels. Today the raw material prices and the environment makes a huge impact with respect to that. We feel that for the year, our commitment to the overall band of the PBDIT remaining between 18-20%, should be sacrosanct. That is something which we are committing for the year, and which should remain.

Avi Mehta (Macquarie):

I was just trying to push the bubble by saying that given one does not have a material one time, what we saw almost about 23% margin, that logically one does not see any risk to that continuing and hence there could be possibly an upside risk to your guidance?

Amit Syngle:

You are right as it depends also in terms of if we really look at some changes with respect to pricing in other areas, then possibly it would, come down and might not remain in this level. I mean if there is going forward in H2, we see a larger inflation kind of coming back. But I think we are in a good positive band in terms of what we are looking for the year.

Avi Mehta (Macquarie):

Just a clarification. The festive demand strength should reflect in the next quarter because the channel gets filled. So, the longer festive period benefit should flow through in the second quarter. Is that understanding correct?

Amit Syngle:

What happens is that retail season is about at least about 45 days before the festival. So, if Diwali is in the first week of November or in the first ten days of November, normally what happens is that the period from 15 September to October end would be a strong retailing season. We feel that the larger impact would come into Q3, but impact should come into Q2 as well because there is a retailing period which gets impacted by the festive area. So, we would see that both quarters show an uptick with respect to the long festive season.

Sheela Rathi (Morgan Stanley):

My first question was with respect to the distribution, the dealer network, which we have added this quarter about 6,000 dealer points and this year we have guided to about 10,000-15,000 dealer points. Just wanted to understand we are looking to get more into smaller cities. So here what I wanted to understand is do we have a number in mind in terms of how many

Asian Paints dealers, a small town could have? And in general, how long does it take for the dealer to generate the requisite ROI? And has there been any change in terms of the timing on generating the ROI; because, companies like yours and other competition are also talking about being more aggressive with respect to adding the dealer points.

Amit Syngle:
What we see is that today the opportunities obviously in terms of the dealer and retail points is that we keep on looking at not only the smaller towns which are coming up, but we are also looking at a lot of suburbs of the bigger cities, which are expanding. So, it's a combination of looking at retail points coming at both these points. What we also feel is that today, it's a journey in terms of how the retailers start. They might do a certain amount of business in a year and they kind of keep on growing progressively over the next 3-5 years and therefore the drop out of a dealer, from the point of view of year one dealing with us to kind of going to year three, year four is not very high because we look at putting in a tinting mechanism, which gives them the flexibility of earning more money given the fact that the retailer is able to cater to a larger range of SKUs which he can offer to the customer.

In our experience, what we feel is that this is a kind of journey which will continue given the vastness of our country and given the opportunities of now the larger road network, government infrastructure, the way it is developing. I think the opportunities are fairly huge. For example, if you look at the entire J&K portion today and the opportunities that have opened are very big. Similarly, look at North East, given the connectivity of roads which is coming. So, I think these areas of expansion are going to continue and we feel that right from year one onwards, people get their ROI because at Asian Paints, we offer them a very, very high rotation of inventory and they keep on growing as the years go by. Some 5% of the retail network might drop out because of some liquidity crunch or some other personal problems which might come in. But overall, I think the business model is pretty strong.

Sheela Rathi (Morgan Stanley):
And we have not seen any change in terms of the pattern it was say three years ago in terms of, you know the competitive intensity among the dealers.

Amit Syngle:

No, I don't think so, because the expansion really continues only because of the fact that, overall connectivity, the whole economic activity is only increasing. I think the consumption is also going higher given housing, which is coming, and I think we will not see any change in this for the next 5-10 years.

Rishi Mody (Marcellus):

My first question is we have seen the Kitchen and Bath business kind of struggle to scale up immensely. If you could take us through the journey, what have been the challenges? What are the bottlenecks today. How are we solving it and where are we in the journey before we can push the pedal on the gas to scale this up massively?

Amit Syngle:

When you look at the last three years of journey, first year in Kitchen and Bath, we grew almost about 35%. Second year again, we would have grown at about 30-35%. Last year we grew almost about 10-15%. So last year was a bit slow and this year in the first quarter, we are seeing to some extent the business slowing down because of the large base.

So, I would not say that the business has not grown. I think last three years, the combined business of the two entities is close to about Rs. 830 crores. Therefore, this business has grown from about Rs. 500 crores to about Rs. 830 crores, and I think that's a good increase, which we have seen in the last three years.

As we go ahead, we should be able to add good overall growth. Kitchen also has a hardware business to it, which is called the components business, which also contributes to about 40% of the total Kitchen plus components business. This is the business that just kind of slowed down in the market because of certain price changes we implemented. And also, as I said, that these price changes were done in the last year, first quarter. So overall, I think for both categories, we are still fairly buoyant in terms of what we see and more buoyant towards Kitchen because it is in sync with our strategy on Home Décor, when we look at our Beautiful Homes stores. 44 stores today across the country, and these stores are going to about 65-70 stores this year.

And therefore, we feel that these stores will also give an impetus to both categories, along with the projects B2B business. Overall, we still see that these two businesses from a trajectory are going to be strong because the opportunity is huge.

Rishi Mody (Marcellus):

So just wanted to get the clarification. You are happy with 30% growth rate for this Kitchen and Bath business? You don't have aspirations for doubling of business year on year. Like, if you have those aspirations, what are the bottlenecks for doubling or multi fold growth in this category?

Amit Syngle:

Happiness is a relative state of mind. I might be happy with tripling business also going forward, but you need to be practical in terms of the way you want to grow and not really strain the system. We have just put additional capacity for both the Kitchen and the Bath which has come up in Maharashtra so that we are able to really put a strong impetus. Going forward, we are happy if we are able to grow the business by about 25-30% each year. That's a fairly healthy rate in terms of growth. In terms of what we see. I think the idea here is that you look at strong consumer propositions and you look at possibly equipping your stores in terms of really carving a niche for yourself. So, I think we are taking really measured calls in terms of the way we want to kind of go. And as I said, I think we should be happy in terms of getting about 25-30% growth in this segment, which should be a good indicator in terms of our overall growth. We have always said that going forward, the whole Home Décor segment should be closer to about 7-8% of our decorative sales as we look at FY26. So, at the end of FY26, that's the number we are gunning for. And I think that would be a strong number if we are able to reach that.

Rishi Mody (Marcellus):

Secondly, there have been a bit of a changes at the Board level. We have a new Chairman and we also have a new member joining the board. So just wanted to get your understanding on what are both of these guys bringing to the respective roles, that they've been assigned? How are you viewing this appointment?

Amit Syngle:

This is in regular course. We have Mr. Deepak Satwalekar, who was the Chairman. His term comes to an end in September end and therefore we had to announce the new Chairman and we have Mr. R. Seshasayee who takes the Chair. He comes with a rich background in terms of heading Ashok Leyland earlier and being at the helm of lot many other companies, including Infosys. He comes with a very strong area of expertise and I think has been a strong directional leader at Asian Paints in terms of his contribution to the Board. So, I think that's the kind of transition in terms of what we are seeing, which is a natural transition and a strong one too.

Second is that we have one of our Directors who we had completed his term, Dr. S Sivaram, and in place of him, we are taking Mrs. Ireena Vittal. She comes in again with strong experience. She has been with HDFC and other boards like Wipro. She brings in a strong area of capital to really energize us from the point of view of our thought with respect to newer businesses, technologies and also with respect to the overall financial kind of management. So, I think that's the thought in terms of looking at these two people.

Rishi Mody (Marcellus):

Alright, and finally, just a bookkeeping question. When we say NPD contribution, is 11% of sales, how do you define the NPD? Like, what period of launch were these products launched within?

Amit Syngle:

So normally it takes us almost about 1-2 years to kind of launch the product and then sustain it. So, we normally define it as NPD over 3 years. So that's how a new product is defined.

Amit Rustagi (UBS):

I have a question relating to margins. If you look at the Q1 margins, they were pretty strong vs. of a guided range of 18-20%. So, what do you think is the best utilization of margin from here? Would it be more channel discounting or reinvestment? Or you think the price cuts? So, what do you think is the status quo. What do you like to achieve from the excess margins you have?

Amit Syngle:

We don't really act on quarter to quarter in terms of the margins you get, because you have seen the last two years, given the inflation, I think the margins had gone even lower than that band. We take a considered view in terms of how the margins are emanating and whether they are stable from a point of view of overall business and environment. We would obviously be aggressive with respect to our ‘Above the line’ and ‘Below the line’ programs. In terms of what we do in marketing and our share of voice in the market, our media spends and our other marketing activities, including, various measures on really exciting the market through various schemes and discounting mechanisms. I think that is first and foremost because we are committing ourselves to growth and we will not let that growth go away. And we are pretty aggressive about that in terms of our thought.

Overall, as we go ahead, depending on how the raw material prices pan out, how the rupee dollar parity pans out, we might look at even pricing corrections. But I think we will really be watchful in terms of seeing what is there and just not react quarter to quarter. I think we take a considered call in terms of going forward. And that is something which possibly is the right mechanism, as we see from the Asian Paints point of view.

Amit Rustagi (UBS):

My second question is, if we have to resort to a price pass to the consumers, we have seen in some of the consumer companies, the channel inventories get impacted and the channel inventory comes down impacting the primary sales. What do you think in our case, how the price cuts will be implemented and how would the channel react to those price cuts?

Amit Syngle:

So as far as Asian Paints is concerned, I think we don't depend on channel inventories a lot because our channel inventories are to a minimum level because of the fact that we are able to service the retailer at least almost about two times in a day. And therefore, I think we don't really encourage too much loading the retailer in terms of inventories. However, in some months, if there are stocking months and if there is any price corrections, we are willing to give concession to the retailer in terms of a back linkage, which happens on certain stocks. I think it is something which goes in conjunction in terms of really seeing that both the organization, the brand and the retailer, all benefit from what we are doing. So, I think the considered call is very clearly that we take them along with us so that even if they have stocked for some time, they should not be at a loss in terms of that stocking.

Moderator:

Thank you so much for all your questions. Requesting Mr. Amit Syngle to please give his closing remarks.

Amit Syngle:

It was good hearing questions coming from your side. It's been a good quarter. I think we are fairly satisfied with respect to the kind of overall numbers which have come in. We are looking forward to the long, festive season. And we feel that today the Indian story is still live in terms of the overall demand conditions. Good monsoons coming is also a positive indicator. The coming period should be a good one, as far as overall business goes. Thank you so much for coming and being with us today.

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