

15 February 2023

Department of Corporate Services
BSE Limited
1st floor, New Trading Ring
Rotunda Building, P J Towers
Dalal Street, Fort
Mumbai - 400 001
Scrip Code: 500710

The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, 5th floor,
Bandra-Kurla Complex
Bandra (E)
Mumbai – 400051
Symbol: AKZOINDIA

Dear Sir/Madam,


Sub: Investor Call Transcript

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the investor call conducted by the company on 10 February 2023 regarding the standalone and consolidated financial results of the Company for the quarter ended 31 December, 2022.

This has been uploaded on the Company website also and can be accessed from following link:

<https://akzonobel.co.in/investors.php#im>

Yours Faithfully,
For Akzo Nobel India Limited


Harshi Rastogi
Company Secretary
Membership#A13642

Encl: as above.



“Akzo Nobel India Limited
Q3 FY '23 Earnings Conference Call”

February 10, 2023



MANAGEMENT: **MR. RAJIV RAJGOPAL – MANAGING DIRECTOR – AKZONOBEL LIMITED**
MR. KRISHNA R – CHIEF FINANCIAL OFFICER AND WHOLE TIME DIRECTOR – AKZONOBEL LIMITED
MRS. HARSHI RASTOGI – COMPANY SECRETARY AND COMPLIANCE OFFICER – AKZONOBEL LIMITED

MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES.**

Moderator: Ladies and gentlemen, good day, and welcome to Q3 FY '23 Earnings Conference Call of AkzoNobel Limited, 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you, and over to you, sir.

Manoj Menon: Hi, everyone. It's a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this conference call from. Representing ICICI it is absolute pleasure to invite you to this call once again the 3Q FY '23 result Conference Call. The company is represented today by Mr. Rajiv Rajgopal, Managing Director; Mr. Krishna R, Chief Financial Officer and Whole-Time Director; and Mrs Harshi Rastogi, Company Secretary and Compliance Officer.

Before I hand over the mic to Rajiv, I just want to reiterate our positive stand at ICICI, the research view on AkzoNobel for the last few years, where we have had a constructive stance essentially assuming that Akzo's investments and the execution improvement should result in market share gains and which is what something we are observing for the past 3 quarters. And it's the only stock in the paints coverage where we actually have a constructive view at this point in time. Rajiv, over to you.

Rajiv Rajgopal: Good afternoon to everyone. I hope you all can hear me loud and clear. Thank you, Manoj, for your words of encouragement. Before I start the call, I just want to thank all of you who've taken time out, the entire investor community. It's easy for me to make this presentation. I just want to sort of flash back into 2020 and the year was a COVID year and a quarter with a COVID, and I must thank each one of you for the incredible words of encouragement and support.

And really for me, this presentation is really dedicated to my entire sales team and all the people in the factories who make the paint. So the guys who make the paint and sell the paint, yes. I, on behalf of and Krishna and Harshi and on behalf AkzoNobel, are delighted to be here today to take you through the results of the quarter. So we'll start with the investor call.

You can see a new advertising, which is going to start very shortly. We've got Ishaan Khattar and Ashutosh Rana, who are going to represent the brand on Dulux Weathershield PowerFlexx with Triple Defence Technology, something that will protect homes from extreme weather, something that our technology team, our R&D team have really been working hard, and it's something that we've developed in India and is going to go around the world.

So with this, let me start the presentation. Quickly, just to take you, I think most of you -- this is just for those of you who've joined the call for the first time and who just would like a quick understanding of the company. We are a company which is called AkzoNobel, headquartered now in Delhi. We've got regional offices in Mumbai, Calcutta, Chennai and Bangalore. We've also got factories now, 5 factories, operating in Mohali, Gwalior, Hyderabad, Thane and Bangalore, where we make now paints and coatings, uniformly in all 5 factories.

We've got about 1,500 employees. And we are really focusing on augmenting our manufacturing sites and also enhancing capacity, and we've got some expansion plans, which we'll walk you through. Our focus has been really on scaling distribution, both off-line, which is through the traditional channel, and online.

What we are really pleased is the fact that we are increasing our reach. We today are over 5,000 towns, more than 5,500 towns. We cover over 20,000 paint retailers, 4,000 B2B customers. We've got a world-class ASC center. So the McLaren Mercedes car, which is used in Formula 1, some of the colours that are sort of selected for some of the brands in the world are generated from our colour center in Bangalore.

We've got also what we started last year called the low-cost innovation center to drive differentiated products in Thane, which is going to look at India and countries like China, Latin America over a period of time and really first developed for India and then sort of, if it does well, progress it to the world.

Next slide. Before I get on to the results, I think, finally, I always believe that happy people make great organization. And what I'm truly delighted is that we featured in the India's best places in manufacturing. So the paint sector is classified under manufacturing, and this result came to us in early January from the great Place to Work. And really, for me, while we all speak, this is also a testimony of how the team and the employees are working with each other and binding this organization to take it to the next level.

Quickly on the business environment, nothing that I put on this slide is going to be new. Many of you know it. For us, look, the fact is India is not decoupled from the global headwinds that the world faces, right? India is a part of the global economy. While the growth momentum continues, we do believe that we have to keep in mind that there is a global slowdown. I think for India, the favourables -- the interest rates have started getting benign under 6%, 5.4% to 5.7%.

The crude has come down. But as I sort of said this morning to call with the television channels, this is something that we've got to realize that we are not a master of. It's not in our control, too. There are a lot of external circumstances which are causing short-term dents in the price of crude. We see it coming down to INR 80, thinking that the future is bright, only next morning to realize that the China economy is fully open. And with consumption, the crude prices are slowly going back up. Very sadly what's happened here more recently in Turkey and Syria, where we pray for the lives of all the people, but those short-term impacts are sort of taking some of the largest variables of pricing a little beyond our control.

So crude and currency volatility continues with rupee at 82 -- dollar. That's -- these are the 2 things that we need to watch out for as we sort of go. So you can imagine, actually, rowing in a stream, it's a lot of fun for those of you row, I enjoy it, right? But you've also got to be careful that you're not having too much of headwinds because it only takes a second for you to lose the balance, right?

So I would say that, look, we are still sort of living in a world where I can't say that we are completely out and the future is fully bright. I think we've got to navigate the turbulence and make sure that we continue like we've done in the last few quarters, sort of do the right actions from a company point of view, yes, to make sure that we are accretive in terms of growth.

India stands out. I don't need to talk to this group on that. I think most of the CEOs and all the results that have declared, I've already mentioned it. From an AkzoNobel point of view, I think India has really got noticed. I think what I'm truly delighted is that we've also got now a new CEO, Greg Poux-Guillaume getting on the board.

Clearly, if you see the analyst call that he had yesterday, very clearly, on the outlook for '23, he mentions 2 countries and India is one of the 2 countries in Southeast -- South Asia, Vietnam being the other as countries where you would expect strong growth.

So I think that's a positive, yes. Quickly on the key strategic drivers, again, these are things that I've been presenting. So I want to be consistent and perhaps the presentation is a little boringly consistent. But really to say what pleases me is that these seem to be now delivering market share gains. So our focus has been really on the customer. How can we enhance our customer experience?

We are developing a customer metric, scorecard metric, where we are looking at ourselves internally. And suffice to say that we've got areas to work still on. But if you look at brand building, we are working on differentiation, customer-focused solutions, winning in adjacencies, waterproof wood care and expanding offerings as we move forward. Distribution, I talked about Distribution 2.0 many times, but suffice to say, how can you now move from 5,500 to 8,000 towns and how can you make brand blocks, really reach much wider than where we are today.

While doing all this, I think what's changed in the world, thanks to what we went through during COVID is the entire digital world. And really, our approach has been to really look at how can we touch our consumers, our painters contractors. We've deployed global CRM tools now. All the businesses are completely using them, how can we use IoT.

So if you come to a manufacturing site, you will see, we are using very advanced IoT techniques to try and make sure that we get not just predictor, but also cost savings. Value creation, we are driving a lot of initiatives to improve and sustain our profitability. As I always said, people are critical in paints and coatings business and really how can we be more diverse, inclusive and empowering and make sure that the actions are closer taken to the market. Obviously, making sure that these actions are sustainable and not something only for the short term, yes.

Most importantly, I think what we really have spent time, and I walked through is really working with the ecosystem, which has got people smarter, brighter than us, start-ups and how do we really convert the power science into the magic of paints and coatings.

So really, that's what we've sort of articulated, yes? Move to the next slide. I'll quickly now cover the Decorative Paints and Performance Coatings before I hand it over to Krishna to run

you through the financials, we want to leave the maximum for the Q&A. So paints, as I said, muted growth – October was a very difficult month because of the monsoons.

I think everybody has covered it, so both premium interior, exterior, and in smaller towns, we've seen a bit of a challenge. But November, December, we managed to recover and really grow sharply, which resulted in this growth, yes? Our projects business continues to do very well on the backdrop of a very conducive real estate sector. And this is something, which if you also watch the real estate sector listed entities talk. You are seeing the body language, you're seeing it. We are seeing it ourselves.

You're seeing also prices firm up of property in all the towns, right? So we are seeing that this is something that could pay as a sectorial team for the next couple of years. For us, the urban markets grew faster than rural. Rural grew but more led by distribution gains. So if you really look at it, it was urban that grew. And this is also mirrored in most FMCG commentary about the inflation impacting the rural sort of economy, yes. Our product mix is in line with the previous quarter.

We have not taken any price increases in paints and our focus has really been to leverage technology. I move quickly to the coatings. Coatings, we had a fantastic performance. And I'll quickly walk through the business. Automotive and Specialty Coatings, premium segment has done very well which is a brand Sikkens, where we play, we've had very, very strong growth in this business. Wanda, which is into the middle segment, mass market, did well, but also we picked up growth after a long time in the OEM segment.

Our Industrial Coatings infrastructure and steel sort of are giving us a bit of a headwind in our coil business. And really, as all of you know that we won the Best Supplier Tata Steel Award globally for our coil coating and that relationship we are now going to sort of leverage for the India business as we move forward, right? Because we globally work with Corus Tata Steel, and we are a preferred supplier.

Our Packaging segment is driven by the B&B, Beer & Beverages segment. If you look at Marine & Protective, we've had one of the strongest quarters after many, many, many years. We had robust growth across our Marine & Protective segment, and infrastructure, oil and gas, all contributed to the growth. Our Powder segment continues to grow double digit

And Architectural, Automotive and General Trade segments continue to support, and our order book in all these businesses seem to be fairly robust, yes. So that's in short and substance on paints and coatings. I will now hand it over to Krishna to walk you through the financials. Krishna?

Krishna R.:

A stellar performance this quarter, exceeding our previous records and achieving the highest level of absolute metrics – revenue, contribution margin, EBIT and PAT. This is, of course, a function of a lot of initiatives, which has gone right, which is customer centric offerings, calibrated pricing actions and the proven cost management, of course. For the quarter, we have achieved INR 986.8 crores with a year-on-year growth of 8%, a commendable number given its

strong base. Growth was across both Paints and Coatings, and we continue to make strides in gaining market position.

The past few months, we have seen raw material costs are abating and we are also seeing the impact in the margins. Currently, we are running at around 39% gross margin and we have seen a sequential improvement of around 60 basis points compared to the last quarter. Given the early festive season, we -- and our cost prudent actions has translated into a growth of 12% compared to the previous year. Profit after tax was at INR 97.4 crores, which is up around 16% on a Y-o-Y basis.

Moving to the next slide. I'm especially proud of the fact that we continue to drive our business growth with ESG integrated across the value chain. Some of the initiatives include the building a more sustainable supply chain, adoption of evolving environmental regulations, making difference in lives and livelihoods of people in aspirational districts. All this while maintaining the highest standards of the corporate governance.

So we move to the next slide. So it's very gratifying when an appreciation comes in our way, acknowledgments and our contributions to the society. Recently AkzoNobel India Limited received 2 awards for its CSR initiatives from ICSI and FICCI, the 2 very reputed institutions of India. Thank you, and we look forward to your continued support and the interest. Over to you, Rajiv.

Rajiv Rajgopal:

Yes. Great work done by the team on CSR and thank you, Harshi for leading it. To me, I think it's a satisfying quarter. Well, personally, not fully satisfied. I think there were some internal benchmarks that I wanted to exceed where the dream of crossing INR 1,000 crores in a quarter still remains. But I think that's what keeps perhaps the energy and fuel burning for the next quarter, right?

Not to say that the target, but that's something that we do. And we do realize it may take a quarter or 2 for us to reach there, but we are steadfast really wanting to start, making sure that the market share gains that we've sort of got now, business by business, territory by territory, we have a plan to try and increase it, knowing fully well that this sector is going to get really heated as we move forward. So that's what I have to say. Let me hand it over back to Manoj and to the team to take you through the next few. We are happy to take any questions and answers. Thank you.

Moderator:

We have a first question from the line of Manoj Menon from ICICI Securities.

Manoj Menon:

So I thought I'll just ask a few clarifications as the Q&A gets warmed up. Team actually -- when I looked at the retail trends in general, there is a commentary or a narrative that there is a cyclical deceleration on the discretionary consumption. Question number one is, do you agree/disagree? And if you sort of agree, would it be fair to say that given that you are a premium player, urban indexed, higher than, let's say, industry, et cetera. Actually, the share gains can accelerate and you can be outperformer in business.

Rajiv Rajgopal:

So Manoj, thank you for the question. Quite a loaded question, I must say. So let me break it into 2 parts. Do we see a deceleration in the economy and consumption? It depends on what the starting point is. See the challenge for this industry is that we've been seeing very, very heady growth, as you know, right? Now when you talk about 20%, 30% growth that we saw in the past, yes, it seems it's deceleration. But I do believe still that the double-digit growth is possible. There may be various reasons why it may take a bit of time. But fundamentally, if you would ask me, I would think that with now the pricing having settled down

I do see that the growth will start coming back. And when I say growth, I'm talking about volume growth, too, right. So I do see that, right? The second, in terms of urban and composition and look, it is a fact that premium consumers are less worried in terms of -- from a disposable income perspective, right, in terms of spend and hence, there's a tendency for us to sort of gain.

Yes, we've got a higher share in premium, and that may make you feel insulated, but let me tell you from our past experience that many, many years ago, where even in premium, we had lost a couple of points of market share. It's taken quite our effort back to start pulling it back with a lot of work happening on our brands, reenergizing, making sure that we have the relevant brands in India, which consumers are familiar with and enhancing the propositions, to start getting them back and making them get the believability and then running a program like Dulux Assurance, where we actually run almost a money back guarantee if you have any problem on your stated coverage, etcetera.

So to me, you cannot take anything for granted. This is a very competitive industry with all respect to all the competitors. Everybody is fighting for their share and to grow the business. So from our perspective, being agile, being nimble footed, making sure that we have the relevant value propositions for our customers and making sure we are able to get -- I was told when I joined this company that there was a lot of glory of ICI and AkzoNobel, Dulux brand, etcetera.

And now I've completed 10 years in a few days' time, right? I think for me, it will be magical and to be part of this great team and this great organization where we've got some great talent even globally to start helping India to get back to that level.

Manoj Menon:

Rajiv, please allow me couple of follow-ups on the revenue line, and then we go to the other lines actually. If you could qualitatively and possibly some quantitative also thrown in, comment about, let's say, the performance of some of your new launches over the last 12, 24 months. And how do we think about the medium term as well just from a qualitative point of view. First, actually, what were your experiences of your new launches? What are the big services and what are the ones where you had still, let's say, hope, too and also how does the NPD pipeline looks into the 12, 24 months from here?

Rajiv Rajgopal:

Yes, I'll start and Krishna please add if I've missed out anything. Look, let me break it into segments. I think premium, I think, it's doing well. We launched Weathershield Max last year with PU Technology. We've now put a Weathershield Powerflexx, Velvet Touch. We brought

in new communication last year, and that's done very well. So we will sort of continue to enhance.

Our pipeline on innovations is pretty good. India leads in the South Asia business in terms of contribution of NPDs to the growth and to the revenues. We -- I believe our pipeline -- we've got what's called the innovation funnel, which is like 8 quarter, 12 quarters. So I don't have a pipeline only for this year, but also for the next 3 years.

And that's been the way we work over the last many years to be fair, yes. So this pipeline is strong, and I believe that we've got in both -- in all our categories, actually, our premium, our adjacencies and in our core segments on mass, et cetera, propositions that are going to be quite attractive. So I won't be able to disclose more than that, but suffice to say that I think the calendar in '23 and even moving forward in '24 will be pretty exciting.

Manoj Menon:

Is there an internal number you work with to say that X percent of revenue should come from new products, et cetera? Or is it just an outcome?

Rajiv Rajgopal:

No, we do work with the number. I mean, I'm very vary of throwing these numbers. These are internal targets. We don't work with a number. I mean, look, let me just give you a parallel. I think many companies look between 5% to 10% of revenue coming from innovations, right? So you can say that perhaps we are in that zone.

I won't be able to give you a number, that's what we are striving for. And the challenge for us being a challenger brand is how do you also make sure this doesn't add to the complexity because I think what we've got is that -- so we've got a stage gate process, and we've got through -- we follow what is called the integrated business planning process where we've got a product marketing review.

We've got a demand review, a supplier review, a financial review and management business review. So it was through the entire rigor with various stakeholders within the country and even sometimes globally, originally, regionally definitely, yes. When we try and sort of look at each, we've got action standards and we look at financials.

We look at P&L of what this is going to deliver and we have different gates, gate 1 to gate 5, where after launch, also after 6 months or 1 year, we evaluate how the product is doing. So that's -- it's a pretty robust process. And maybe separately, we can sort of talk about it. But suffice to say, it's a very robust process and we are pretty happy with the way our innovation pipeline is looking, not just on our paint side of the business but also on our coating side of the business, where innovations are very far few, but really things on anti-fouling, things on fire retardant, etcetera, how can we also leverage some of these technologies to try and get a better customer experience. So these are some of the things that we are working on.

Manoj Menon:

Just quickly a couple of ones, and I'll come back in the queue. The current brand spends, the ATL spends, how do you rate it at? Do you think it is right -- I mean appropriate currently or you need to kind of fine tune it further going into next year?

Rajiv Rajgopal: So Manoj, look, our intent has always been closer to be -- ultimately, your share of -- voice to share of market should be one, right? Our endeavour has been that, look, it depends on now how you look at share of market. If you look at our premium market share is, obviously, very high, double digits. And that sort of rubs on onto the rest of the categories.

Our endeavours to be closer to 5% to start with it. And within that -- see it's also important to have the right connect, than to increase it. What we've also seen is that digital is a huge medium, which is not captured by all of you separately, right? So digital, we are spending on a lot of innovation trying to tap digitally. And that's something that is not visible. And that's something where we are working as a team to enhance spends because I do believe that's the channel of the future. The challenge in that channel is, the measurements and metrics are very difficult to get.

Having said that, I think that's the channel that we are also investing. So around 5% is what I would say to start with. And then depending on how the market behaves, etcetera. If we need to operate, we will sort of do it, yes, over a period of time.

Manoj Menon: And then one last thing from my side at this point. If I interpreted your opening remarks appropriately, one of the key things given the input index situation at this point, price cuts, etcetera, are some levels?

Rajiv Rajgopal: Yes. I mean, I would definitely think so. I mean I would think that, look, you've just seen the results. It's not -- and you've got to look at results from, I would say, 9 months, 12 months, sometimes quarterly results. If you look at the last quarter, the question was why you seem to have suddenly spend more on A&P because we were clear -- we were -- IPL was there. And post that, we also had the T20. We wanted to be a part of that all that, right? Similarly, I really think that we should just sort of look at it a little longer time frame and then sort of come back.

Moderator: We have a question from Mr. Sanjay Kumar from ithought PMS.

Sanjay Kumar: This is my first time on the call. First of all, Hats off, excellent corporate governance exhibited over the years. You guys have kind of set the benchmark. I have three questions. So first, I want to understand your distribution strategy. When I spoke to JSW Paints, they said AkzoNobel's retailers are the easiest to convert to JSW Paints has moved from a hub-and-spoke model to hub only model. They have, in fact, even scaled up to 75 depots, which is higher than our 30, completely in the opposite direction.

So we have reduced our depot footprint from, say, 100-odd to 30. Please share the rationale for moving to a 2-tier distribution. Our freight costs have come down, but does it impact the P&L elsewhere? This is my first question.

Rajiv Rajgopal: Yes. So Sanjay, thanks for the question. Look, I will not speak about any competitor because people -- you know the people in the industry and let's assume that everybody is as bright and as intelligent as you and making the same effort, right? So fullest respect for the company. On specifics, yes, look, what is the challenge for us.

Our challenge has been that when I joined this company in 2013, we were available in 1,500 towns. We started a distributor journey, if you remember, Sanjay. And there were a lot of questions on, is it the right model?

And today 10 years after that, it is working. 70% of our business comes through our distributors, and these are families, which have now got vetted to us, literally to the organization, right? And we follow a pristine process.

Our focus is on sell-out, so really not too much stress for them, right? So that's one. Now once you reach that and you start getting to 3,000, 4,000 towns, then you would say that, look, now what next? And you know the market leader is available close to the universe. I mean, universe is 11,700 towns, market leader would be easily in close to about 9,000 to 10,000. So how do you really start getting there?

Because your biggest strength is your product quality, right? You ask any consumer who has used Dulux. Chances are that -- and if I call a person who uses only Dulux, then chances are that people who have used Dulux, don't use any other brand after that.

Or even if they try, they normally get back very fast. So given that and given the fact that this is a 3-year sort of a period for interior and maybe sometimes 3 to 5 years for exterior, we said, look, let's move to the next level. And that's how the strategy started. So when you look at 30 depot towns, these are places where we stock other than our factories.

And you got to remember, we've got 170 stock points through distributors, right, today, yes? So what you forget is our distributors are our stock points too, right? They only carry 20 days of, 21 days of stock, but they're our stock points, too, right? And hence, the focus was then to how do you move to the next level. And then so we identified geographies using some metrics saying that, look, which are the geographies where we should sort of start moving, and that's what we've done.

Sanjay. So yes, look, look, when you're a challenger brand, obviously, everybody thinks you can come in. I think -- we've had -- it's not the first time that this brand has got challenged by new players coming in. But what I've seen when I worked, the market is over the last 4 months is outlets which lapsed from us, particularly during COVID or even 2021, our retention is almost now close to 90% to 95%.

And secondly, people who have lapsed two out of -- 50% of the dealers came back in 6 months. And I would say about 70% of the dealers have come back -- 75% of the dealers have come back in a year. That's the strength of the brand, to be fair. This is the strategy that we unfolded. We believe it's the right thing. We are continuing on it with breakneck speed and good luck to -- obviously, people will try different things. That's how we will -- any industry will work. So this is what we are doing, Sanjay.

Sanjay Kumar:

Second, on -- I mean, in the past, you've spoken about how you've tackled competition from Idea when you were at Airtel. So with all due respect to all the parties involved, Airtel was and is a

leader, Idea was the challenger. And currently, Akzo is the challenger. And we are seeing a bigger challenger coming up, say, in terms of capacity, Grasim is adding four Akzo Nobels. Not just them, even the leader Asian Paints has said that it will expand from 17 lakhs KLP to 26 lakh KLP. That's three Akzo Nobels. So any comments on your strategy in terms of product innovation. It looks like Grasim also will come out with Any Colour, One Price. Will our ad spends go back to, say, 5% from the current 2%.

Rajiv Rajgopal: Yes. So Sanjay, I don't know where you're based. Are you based in Chennai?

Sanjay Kumar: Yes, sir.

Rajiv Rajgopal: Okay. So then it's easier for me to answer the question. I was the CEO of Tamil Nadu Airtel and I took over the job in 2006. By the time I left in 2010, we became a market leader, but we were not a market leader when I took the job. We were the number three player. Airtel was the market leader. Idea -- Vodafone, that time number two, and Airtel was number three. And that's what got me the job it offers. So let's just wind back, just want to be factual here. Look, Again, in any business, brand distribution drives market share and doing the right thing, in telecom pricing and a lot of other variables.

Here, too, I think it's doing the right thing that will sort of do it. It is a formidable competitor. And we are sort of putting our thoughts in terms of how to handle a formidable competitor. We believe that we've got a very strong brand. It's a legacy brand. People who've used it are pretty passionate about the fact that they use Dulux at home. We although have a very high presence in premium in paints since your questions are all limited to paints. So we believe that, look -- and we are going to come with propositions during the course of between now and next year, which will further enhance it. So we believe we've got a -- we've got a couple of strategies up our sleeves, all of which I cannot reveal today, right, which should give us a bit of a tailwind.

But yes, I think secondly, as far as manufacturing is concerned, look, I think this business is slightly different. This business is not about building capacities because I can also announce a lot of capacity. But what do you do with the capacity if your consumers are not readily available to convert. Those consumers don't happen. In telecom, you spend INR 50 lakh on a site. And once you put a site, you starting getting users across the site by dropping tariff or whatever to try and do it. Will the sector get disrupted with this for a point in time next year when the launch happens? Surely, it will, yes.

But what I'm looking forward to is to see whether fight is going to be a price or it's going to be a brand war. If it's a brand war, that's what I think will be more interesting. If it's a price war, I think you've seen it in most industries, everyone will up the ante. You talked of One Colour, One Price, I don't know, Sanjay, if you've travelled into the markets. Can you give me your assessment of what the One Colour, One Price is doing? My assessment is slightly different from where you stand today.

Sanjay Kumar: So we'll wait for the strategy that you'll put out. Final question on...

Rajiv Rajgopal: I won't be putting out a strategy because to be honest, and I just want to say it for the benefit for further questions. One of the things I won't put out is a strategy because the strategy is being controlled by a very close group and because otherwise, it's easy to do it. Our strategy is about alternative choices.

So those are something which are very close to us. But yes, suffice to say that we are putting those choices because we do expect at some point of time some turbulence. And the question then is if you're a good pilot, how do you withstand the turbulence.

Sanjay Kumar: Finally, on employee cost. So there's this clear 3 percentage point difference between the peers and us. So we are at 8%, peers are at 5%, 6%. But our median remuneration at 8 lakh is still below the leader, who's at 10.lakhs. So any thoughts on this, given that we need all the margin drivers possible when the turbulence hits?

Rajiv Rajgopal: So Sanjay, if you look at it, you answered the question yourself. I think it's basically a top line game isn't it? I mean let's be honest, after Akzo Nobel acquired ICI, there's no acquisition we've done. Our endeavour has been to really get this business back to where it belongs. It's taken a long while, maybe three sets of leaders to do it. But what we are finally highlighted, I think collectively, over the last 10- and let me give credit, over the last 13 years, right, I think the organization has been fixing all the nuts and bolts to make sure we really bounce back.

And I think we've started seeing that direction. At least there's light at the end of the tunnel. We need to continue, sustain doing it and increasing turnover would be the way. We are not adding heavily going forward on our employee except in certain areas of growth. And the large part of it is going to come through internal promotions, which will further reinforce the message on cost and make sure that while we get good talent and balance it, we actually are also keeping an eye on it. And we are driving productivity very seriously. Krishna, you want to add something?

Krishna R.: Yes, I think the focus is on improving productivity.

Rajiv Rajgopal: Yes, absolutely.

Krishna R.: We close watch in terms of how do we improve our metrics. If you see on the slide where we put the total cost [inaudible 0:37:10], that's what is declining on a year-on-year basis. So we continue to do that.

Manoj Menon: Okay, until the next raise hand up comes actually. Okay. So I just want to read out a couple of questions that are actually in that text window, one from Ajay Sharma, Maybank, Singapore. So I'm just -- reading out. How do you see the entry of Grasim impacting your decorative paints and coating business? I understand that you answered it a bit, but still, what is the gross margin and EBITDA margin and revenue breakup of deco and coatings?

Rajiv Rajgopal: So on the last part, I think I've said it always, our contribution rates between 63% to 65% in an odd quarter, it could even be 60%-40%. So that's the broad sort of, doesn't change much, right? Decorative being the larger one. The second is, Grasim, I think I've answered. Look, it is a

formidable player. We are mindful of it. We are mindful, but we are very clear. We are here to make sure that we navigate the course and come out as a stronger player. So that's what we are currently focused on as a team.

Yes. We're going to work on different facets, Manoj. It will be very difficult for me to really articulate. I think, through what I've said and the slide I've shown, I've given you what the areas of work we are doing. Specifically to Grasim, it's a pretty -- as I said, it's a pretty closed door sort of actions. We are putting some actions. And once we are successful, I think then only I should talk about it because otherwise, it's counting our chickens before they're hatched.

Manoj Menon: The next one is from Mr. Atman Shah. He's asking what is the total Paints and Coatings capacity? And what is the current capacity utilization?

Rajiv Rajgopal: So, good evening Mr. Shah. I think this is your favourite question that also sometimes comes to us in the AGM. Lovely to hear from you. Hope you're doing well. So look, if you look at our capacities really for the Paints and Coatings range between 200 million to 250 million. See we are -- and that's -- if you look at a three shift basis, our capacity would be anywhere between sound 60%, 65%, but we currently operate on two shifts. We have used a lot of technology, et cetera, to become far more efficient. In terms of the capacity enhancement, it's not an issue for us.

Our existing plants have enough ability to be able to pull out the incremental. And as we are growing, that's one of the reasons we are sort of doing it. The only thing that we put in public domain is the fact that we've enhanced our powder capacity and some augmentation of paints is happening as we sort of move forward, yes? Hopefully, that answers your question. Thank you for the question.

Manoj Menon: Can we get back to the voice question queue, please?

Moderator: We have a question from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, you did allude to a coming disruption in the market, and you did -- your response was pretty clear about if it being a brand war, it will be interesting. And if it is a price war, everyone would match. We are -- to be frank with you, you are a participant in the market. You obviously have a much better understanding of the industry. So would love to hear your thoughts on, do you see the profitability metrics kind of deteriorating even if it is not a price war given the need for brand?

Any sense if you could give on how you see from the industry -- I can -- I hear your strategy, but would love to hear your thoughts from an industry structure. Do you see an impact kind of panning out, which helps us parse it better understand what we could kind of play out?

Rajiv Rajgopal: I get the question. Yes. I mean -- you want to say something, Krishna? Okay. Let me take that. So just a quick one. Look, chances are that it will be a disruptive initially. There will be a pricing in my assessment, it's pretty high. There could be a couple of 2, 3 quarters of turbulence. But I

said, will it be a brand war, will it be a price war? History has shown that players in any industry, which comes and only attacks on price unless you build a niche around price is not able to succeed. So there are industries where price has played, but look at it.

Let's look at now the industry. The industry market leader has a 55% market share, has an EBIT margin -- used to have an EBIT margin of 20%, 21%, has already done a very smart move of keeping it closer to 15%, 16%. So the other players really find it tough to go. They are existing players. Now hypothetically. Assume that the new player comes in with 10%, 15%, that's normally the price but in most industries where people sort of come in at lower prices. The market leader will have a threshold of market share to lose. And similarly, the 1, 2, 3, 4 players. After a point in time, it's existential because there's a cost of making the paint and there's a profit per litre of paint you make.

So we'll have to do the math. Once you do it, it's natural that if you take, for example, and again because somebody mentioned about telecom, you launched a per second sort of a tariff for 2 years, the organization did well. And the moment the lead players did it, that band disappeared. So to my mind, is pricing alone going to be the driver? My years of experience says that, look, it's going to be very tough. I've been in those battles myself. And hence, to have a thought leadership and thinking and something which is a little more strategically disruptive will take time but will be the real acid test.

And that's where all the players will be also focusing. All the good players will be focusing and trying to sort of do it. You will see -- I'm certain in the time to come in this industry since you asked the industry question, I genuinely think that, look, this will not just be driven by capacity. It will be in a branded business where consumers have already made a choice of which brand to use, 50%, 60%, and then you got the influencer. And different players have got different relationships with influencers. So it's going to be quite a lot across different chains.

Having said that, let's understand. We are talking about a competitor, which is very, what I call, one of the giants in the industry across different sectors, yes. So we'll have to wait and watch. I have to give -- with all humility, I have to wait and watch. Having seen the organization in a very different sector that I worked in. Let's -- I can only say I'm going to keep my fingers crossed. And I'm ready for the battle here. I mean, at the end of the day, we are warriors in our organization. And you can read be assured that we've got a very clear mandate globally, that we've got to grow profitably, and that's what we are working on.

Avi Mehta:

And if I may ask, in your opinion, a normalization, I understand there will be disruptions. Would you say a couple of quarters? Would you say 1 year, 2 years? How would you see it? I mean it's just that your guess is better than ours so...

Rajiv Rajgopal:

Look, I'm sure you guys are brighter and you guys do all these modelling. We don't have so much time because we have to run the business and meet our customers and make sure they are happy because that's what gives us our bread and butter. But that said, look, it's a function of the size of the pocket. It's also a function of what you want to do. You take telecom, you've got one

of the players -- lead players, which is a combination of an international brand with an Indian brand, now having a huge challenge where the government has had to bail out.

Now I really don't know the semantics that will happen. It's a function of how deep the pocket is and how deep you want to run it. So it's there. It is also a question of the strength of the other players. How much they will sustain? Yes. So those are variables which are all there, yes. It is going to be -- at a point in time, it could get a tough battle. But yes -- I mean -- as I said, tough times don't last but tough people do. So let's see. That's all I can say and also your good wishes.

Avi Mehta:

Sir, the second bit was more specific to us. I mean we have seen this quarter and congratulations on the performance. Even margins have bounced back quite sharply. Would love to understand from you more a trajectory sort. So we have more or less achieved the aim that we had sought of trying to reach a particular margin profile. I mean, we are on that, but I'm not saying we have reached that, but you're probably there on an ROS basis?

But yes, as you rightly said, there is a need to be nimble. So how -- would love to know how do you kind of balance these conflicting requirements, if I may put it. And is it that we have a chest that we would love to kind of build in and then kind of use them when the time comes in? I mean, whatever is the thought good enough to kind of know how you see this?

Rajiv Rajgopal:

I was looking, when you said chest, at Krishna. I quickly said, you take it on. So -- the chest and all money, I don't even know what's inside. But yes, look, I think any good company would do all this, I mean, let's be honest, this is like -- I was just thinking when you said this is like asking a pilot, if -- when you travel between Delhi and Mumbai that how is the weather going to be? I mean the pilot can't tell you whether you're going to have bumps on the road, turbulence on the way. It's difficult for them to predict some stormy weather, but very difficult because all of us go through it. So it's like that.

Yes. So for me to be able to give you clear revenue projection on a quarterly basis, sometimes also, let's be honest. When I see the results and start seeing some of the favourable comments that all of you -- many of the investors have sort of texted. Thank you to everyone. I get a little worried because your success then becomes your biggest challenge moving forward. So I just want with all humility say that, look, we are focused on what we are doing. There's a journey. A quarter result is like a railway station on that journey. And to me, sometimes the railway station may be large, it may be fantastic, maybe air conditioned.

And the next railway station may not be the representative of the same. So because the train is going from home to fantastic holiday destination or whatever. So to me, you will have different moments. I think it's about navigating those movements and making sure that our -- the path is focused, you're clear on your objectives.

Our objective is very clear. Our objective, obviously, is to become a meaningful player in this industry. I keep getting asked, why don't you give a number? Because there are a lot of variables before I throw a number. I'm focused on basically four things right now and really coming out

of our global CEOs, ask from all of us. First is, what's called disciplined execution led by margin management.

So retain as much of prices. Secondly is cost control. We are still living in a tight world. Yes, India is doing well. We guys -- you have our back. We want to invest more in you. But guys, remember that India is also part of the globe. One small whiff because we don't know what those balloons could have done in the United States or something can start all over again. You don't want to be at a point in time stuck where you are then having to take some of the actions that you're seeing many companies do. For me, my people are like my family. So one of the things - - it's easier rather than to go and recruit 2,000 more people to manage with what you have and make sure that, that's being driven very effectively and efficiently.

The third is, look, you're living in a volatile world. Paints industry operates with typically 2 to 3 months of stock between various points, between raw material to it's consumed, yes. Now what's happening is we were going through an upsurge, we all predicted that suddenly by this month everything will come down. Slight improvements have happened, granted, but it's very volatile outside. Every morning, I look at what is accrued, what is the dollar? And I say, God forbid, 1 variable by April or May or June goes, but all the financial modelling and all the stuff that we do because we do scenario planning, like any good company. We will all go into a different model. So the idea is how do you manage that?

And most importantly, look, we are in this business because there are customers. I think our challenge has been: reach, supply, availability. And that's where the market leader, et cetera, the success story of the market leader, which has played on many channels, etcetera, has been. So how do you really focus and drive that? These are the 4 articulations that the global CEO has given as a challenge to each of us, and that's what we are really assiduously working on. And I will keep you updated on the progress as we move forward.

Manoj Menon:

So let's take another question from the text tab. So Mr. Ramakrishna Neti of Zen Wealth ask. Can you please share some more clarity on what do you mean by product differentiation apart from brand strength, quality and product extension launches. Most of the incumbents have been working on huge capacity additions as well. And can you please update on Akzo's capacity addition plans. I think it's one aspect on the product differentiation and brand strength and quality aspects and secondly...

Rajiv Rajgopal:

So look, I'll talk first about the capacity addition. Look, I think in Gwalior. You know, the Gwalior factory was commissioned for 100 million litres. We had commissioned 50 million with improvement in technology, the way we work, etcetera. It's already -- we can do 70 million litres in that factory. So 100 million can -- and even sort of go much more. And we are now doing powder, we're going to augment paint. All our factories, as I said, we are now only running two shifts, three shifts is not a problem. So for us, at least, even if we were to grow strong double digits.

I don't see any major need for us to - we can still be a little conservative in terms of the way we sort of manage it because I, as an individual, focus on a metric called return on assets. It's not my metric that I'm sort of valuated either globally or locally, but I love to watch on return on capital employed because I strongly believe, I like to operate -- I look at this business as my personal business. So just for those of you on the call, and I look at saying that you put INR 1 and what is coming out of it. That's unfortunately the training I've had over years. So for me, the return on capital employed is important. And hence, blindly putting capacity additions without clear understanding of what is going to entail in there. Manoj, could you just repeat the first part? You said that...

Manoj Menon:

Yes. So first question is, can you please share some clarity on what do you I mean by...

Rajiv Rajgopal:

So look, differentiated products is the ability to be able to offer propositions where you can charge premium, very simple in my language, or be able to offer it at a cost advantage so that you are able to gain market share, simple. So either you have product differentiation where you're giving a value prop tested with consumers, whether consumer is willing to give you a premium or you're driving something, which is cost benefit where you take out some costs, etcetera, but it's going to be a volume driver.

Example, so if you look at, when I talked of Promise SmartChoice, yes, we are -- obviously a huge part of our growth that we launched post-COVID in 2021 has come through Promise SmartChoice because we never had a play in the economy segment, and we are doing it very profitably now. So that's the second part. On the first part, if you look at some of our work that we've done on our exterior brands using some of the PU and also technologies that we use in coatings that we are going to bring in to paints, you will see that these are going to be a little forward looking. I can't share more. But as and when we launch the products between now and Diwali this year, you will get to see it. And obviously, at some point of time in the quarterly call, we will keep you abreast of it.

Manoj Menon:

Can we take -- find Sanjay again back in the queue. Can we take that question, please?

Moderator:

We have a question from Mr. Sanjay Kumar from ithought PMS.

Sanjay Kumar:

Sir, just two more questions. So our gross margins have been pretty stable in the last few quarters. So can you talk us through about our raw material situation. Do we import all of the VAE, VAM from the parent. I think we import our titanium dioxide. So what is the scenario given the supplier base is fairly consolidated amongst three, four players in VAM? is capacity being added? The perspective I'm asking from is, can any surprise, negative surprise specifically come from raw material side? Because even the leader is backward integrating or do we have any such plans?

Rajiv Rajgopal:

Yes. So Sanjay, let me come to the core of what you asked, which is the last part, which is, are you going to do -- look at backward integration? Look, globally, we've done something on resins, but not more than that. We are a very large player. And here, we will leverage our global scale. We are pretty big. We are a INR 10 billion sort of a company, INR 9.5 billion, 45% is paid, so

you can calculate. We don't see too much of supply issues. We believe that given our scale, given what India has to offer and the fact that many of these players who've been customers for a long time, we don't see any issue there, Sanjay, to really be very focused on what you asked.

Sanjay Kumar: So no capital allocation towards raw material side going forward?

Rajiv Rajgopal: So capital allocation for backward integration? No. There are some smart things we will do. But again, as I said, that's -- I don't think I'm ready to share that. We are trying to do work, things smartly at a global level -- we've got a bunch of very, very bright people at a global scale. That's why the -- so obviously, we work very closely with them. And obviously, that's something that we will do. But we are not looking at backward integration.

Sanjay Kumar: Final question from my side. So will you be reactive or proactive to the turbulence that's expected?

Rajiv Rajgopal: Sorry, will you be reactive or proactive, to...

Sanjay Kumar: The turbulence that's expected.

Rajiv Rajgopal: See, look, again, let me answer it in the way I did earlier. If it's going to be brand led, we will be proactive. If it's going to be price led, I would rather wait and watch. History has taught me that without using your intelligence -- some intelligence, yes, just sort of getting into a price war has not helped anyone. So whatever you do, you have to think through what you want to do? We are creating scenarios. But I'm not a sort of guy who's trigger happy, if you understood what I'm trying to say.

Moderator: We have our next question from Mr. Ajay Sharma from Maybank.

Ajay Sharma: So my question was on the earlier question I asked actually in terms of coating and decorative paints split. So I was wondering in terms of the gross margin and also in terms of the bottom line, basically, is the mix similar? Or is the deco more profitable basically?

Rajiv Rajgopal: Look, the coatings business has a wide range of margin. On an absolute the deco obviously is more profitable, but coatings have started getting profitable over the last year or 2 years. Some of our coating businesses are extremely profitable, yes. But right now on an aggregate, it is paints which is more profitable than coatings.

Ajay Sharma: And then for the raw material side, do you see -- how is the raw material basket trending basically? Do you see more benefit coming from that going forward or it's kind of already reflected in the last quarter -- this quarter numbers?

Rajiv Rajgopal: Sanjay, look, obviously, the benefit is yet to come. I mean, look, we still were carrying a lot of inventory of the previous months. And as you know, as you've seen in the industry, the industry has not reported great growth, right, on the paint side of the business. So as a result, my belief is, look, it will take a little longer time to get depleted. It will take a quarter or 2 to sort of get

completely depleted. That said, the challenge I face is it's very difficult to predict because I started the prediction in a week, right, at the beginning of this week.

By next week, the variables are completely changed, which are outside my control. And hence, for me, I think -- what we are doing is we are working with ranges rather than any absolute numbers, etcetera, percentage numbers to just broadly say, if you -- for example, if you -- crude goes ballistic suddenly, whatever set of reasons, touches 100, what is the planning there because you've got to have a plan B. So that's the way we work, Ajay. Otherwise, to be honest, very difficult to answer that question.

Ajay Sharma: And for the coating side, do you have to pass on the benefit or can you retain that benefit of the lower raw material price, basically?

Rajiv Rajgopal: Look, we have continued to take price increases in our coatings business in the last quarter. On the paints side we did. Coatings, we took -- because coatings, you remember, the price increase takes a lot of time. There's a lot of discussion with customers. There's a lag in the price increase that comes in coatings. Yes. So our endeavour will be to retain as much as possible because we don't know times ahead. And we -- rather than having to drop or correct and then again take it up, I think sense remains until it reaches a steady state, you should hold.

Ajay Sharma: Just the last question. So is it fair to say that for Grasim, they will be attacking mostly the decorative side and not so much for you on the coating side?

Rajiv Rajgopal: I have no idea, to be honest. We'll have to be ready on any front. I was going to ask you, Ajay, what your thoughts are? But since you asked me, I will spare you of that. Maybe Manoj or someone will have better insights, right? We want to be...

Ajay Sharma: Entry barrier for the coating business because it's kind of more B2B kind of thing.

Rajiv Rajgopal: Not all, right? Not all coating business. I mean, one of our largest customer ended becoming a competitor, right, in the coil coating business. So look, it's -- these are very difficult to sort of speculate and look at. I think, yes, we just have to prepare and play.

Moderator: Thank you. I would now like to hand over the call to the management for closing remarks. Over to you.

Rajiv Rajgopal: Thank you. So once again, thank you all for the trust and the appreciations and supporting us all this while. As I mentioned, we still, in my view, still on things -- we do hope to see light at the end of the tunnel. We are seeing some signs of it. But you never know whether next day morning is going to be vary. So I think for me, the key thing that I've learned over the years is the ability to be a little ambidextrous, to also have that ability to put alternates in place so that we can continue the performance the way we've done. Thank you, once again. Thank you for taking time out and joining the call. I wish all of you a great day. Bye-bye.

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