



8th August, 2025

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Sub.: Q1 FY 2025-26 Financial Results Conference Call – Transcript

- Ref.: 1. Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015**
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Dear Sirs,

This is further to the intimations done by the Company on 24th July 2025, 4th August 2025 and 5th August 2025, with respect to the Conference Call hosted by the Management of our Company on Tuesday, 5th August, 2025, at 11:30 hrs India Time to discuss Q1 FY 2025-26 Financial Results of the Company.

The Conference Call was in the nature of a group call.

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

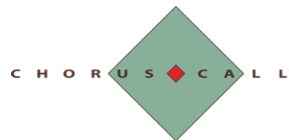
For **KANSAI NEROLAC PAINTS LIMITED**

G. T. GOVINDARAJAN
COMPANY SECRETARY

Encl.: As above



“Kansai Nerolac Paints Limited
Q1 FY '26 Earnings Conference Call”
August 05, 2025



**MANAGEMENT: MR. PRAVIN CHAUDHARI – MANAGING DIRECTOR –
KANSAI NEROLAC PAINTS LIMITED
MR. YASH AHUJA – CHIEF FINANCIAL OFFICER –
KANSAI NEROLAC PAINTS LIMITED**

**MR. JASON GONSALVES – DIRECTOR-CORPORATE
PLANNING, IT AND MATERIALS – KANSAI NEROLAC
PAINTS LIMITED**

MODERATOR: MR. ANIRUDDHA JOSHI – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to Kansai Nerolac Q1 FY '26 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Aniruddha Joshi: Yes. Thanks, Shubham. On behalf of ICICI Securities, we welcome you to Q1 FY '26 Results Conference Call of Kansai Nerolac Paints. We have with us today senior management represented by Mr. Pravin Chaudhari, Managing Director; Mr. Yash Ahuja, Chief Financial Officer Designate; and Mr. Jason Gonsalves, Director, Corporate Planning, IT and Materials.

Now I hand over the call to Mr. Pravin for his initial comments on the quarterly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Pravin Chaudhari: Thank you, Aniruddha, and good morning to all, and thanks for your continued support and interest in our company. Before we have question and answer, let me give brief comments on our quarter 1 performance.

So as far as Nerolac is concerned, I have already mentioned earlier that our purpose is to create environment for healthy and beautiful future, and we are constantly growing and building our growth enablers in this direction, where you'll find that Nerolac is present in our daily lives, we touch across our appliances, walls, cars that we drive. And our idea is to enlarge this space and be in the lives of people more and more through our product portfolio.

Our foundation being multinational is also very strong on ESG, where we are now water positive. Our emission is reducing year-on-year, and our green energy footprint is also growing and now it is crossing more than 40%.

As far as our brand legacy is concerned, we are more than 100 years old brand with a strong support of our R&D and various technology tie-ups in the areas of industrial, which offers cutting-edge solutions to various applications in this field. In fact, our brand strength, if you look at, despite all the competition, we are still recognized as number 2 brand as far as top-of-the-mind awareness in the country.

We are -- Nerolac jingle, which is there, which is more than 3 decades old, also resonates across the age groups. I think that's another asset that we created and we are leveraging it pretty well.

As far as innovator spirit is concerned, backed by our Japanese technology, which is obviously powering our industrial business.

But going forward, it will also reflect into our decorative segment where these innovative concepts can be introduced to also support our growing premiumization requirements as far as decorative is concerned. And Paint+ range, which is unique to category products that we launched 2, 3 years back is also another unique proposition that we are offering to the Indian paint consumers.

As far as business environment is concerned, decorative, I'll come in detail as we move forward. But in terms of automotive, also demand has been slightly sluggish compared to last year. And government focus on the infrastructure continued more vigorously, and that is helping our industrial business.

There has been also positive movement as far as crude oil is concerned, though there has been some volatility due to geopolitical situation around Europe region, but that also -- looks like to be settled.

There has been early onset of monsoon, which has impacted our month of May sales. And also, there has been rural demand, which is quite stable as of now. Urban demand, there is a slight uptick, but still not sure whether that will continue the momentum.

On geopolitical situation, I would like to add, while there was international issues, which have been ongoing for a couple of years. However, we have also seen this kind of a tension closer to our border, and that also has impacted our North sale where we are very, very strong.

Specifically on decorative, our Paint+ product range has continued to gain momentum. And in fact, sales has increased. Now it is contributing to more than 12% of our sales. There are more than 28 products which are in the market. Our new business continued the strong performance, both in construction chemical, waterproofing and premium wood finishes.

As far as our network expansion is concerned, it has grown by mid-single digit and our total footprint direct dealers are more than 30,000 now. In fact, our visibility campaign, which has received well in the form of Nerolac NXTGEN Shopee and shop-in-shop also, we have added another 400 in quarter 1.

As far as new products are concerned, there are a few new products we have launched this quarter, and our total new product contribution has crossed 10% as far as decorative business is concerned.

Our project and institutional business has done pretty okay. Though not as per our expectation because of this monsoon, which has come in that impacted the project business, and it has grown mid-single digit.

However, exterior texture and waterproofing has seen good growth. Our services business, which is Paint as a Service, which offers direct reliable services to our paint consumers is now growing pretty well, and now it is contributing to 5% of our total business.

As far as new products are concerned, our new product offering, which is in the form of Nerolac Perma No Heat offering, which offers superior whiteness, excellent dirt pickup and more than 15 degree surface temperature reduction, which I believe is the best-in-class in this category.

As far as soldier, which is our another brand, which is where we have launched this Rain Raksha white emulsion, which offers a unique proposition in the form of 300% elongation and excellent weather resistance and waterproofing performance warranty. Again, I believe this is unique in this category.

As far as industrial is concerned, another trend we are seeing in industrial is also towards better performance and premiumization. In light of that, you will see that in auto 4-wheeler, where we lead, we have launched now High Gloss Clear Coat, which is offering excellent workability and which is enhanced appearance, which is again best-in-class as far as gloss is concerned.

In 2-wheelers also, there is a journey of premiumization where we are offering Q2D Matt and Nerolac Heat resistant premier silver lining paint, which is also offered to all 2-wheelers. As far as performance coating, which goes into infrastructure, there are these new technology paints, both in Nero siloxane technology as well as anti-carbonation water based system for concrete substrate has been launched.

And in powder coating, thermoplastic is new set of technology where we have introduced now, which is offering this anti-freeze technology for our white goods segment. As far as brand and marketing media campaign investment continued, and we are, in fact, on various brand promotions, which has been done both on television as well as on digital platforms.

In fact, to reckon this effort, we have received many awards in the quarter 1, including the Global Winner of Ambient Media. The best one was from Goafest, where we received Grand Prix. I think this is the best in the industry. And we also received 7 Baby Blue Elephant Awards. I think that recons and the effort that our marketing team is doing and how the way it is resonating with the consumer.

On industrial front, as I mentioned earlier, auto was slightly sluggish. However, our growth has been market-leading growth. We outperformed the market through our premium offerings as well as gaining the new accounts. As far as innovation is concerned, we obviously are entering into newer segments of this auto, which is going to increase our total addressable market as such.

In case of protective coating, we have reported higher than the market growth backed by the lot of infrastructure, new project wins. And however, powder growth was slightly muted based on the appliances, which was not done pretty well as far as second half of quarter 1 is concerned.

Another focus area for us is leveraging on our auto strength, we are also now heavily focusing on the auto refinish segment, and that is growing pretty well. It is growing in higher double-digit now. And this is also -- in this also, there is a premium segment, which is in PU technology that has started doing well. It is based on a lot of approvals.

And because of our automotive presence and already having global approvals, this is becoming now another good traction as far as growth is concerned. In industrial also continued with our

legacy and good performance, we have received many awards from the leading auto manufacturers.

On ESG, first time, Nerolac participated in EcoVadis assessment. And there, we secured a bronze medal, which is basically top 35% of the assesses, which is pretty good recognition to start. Similarly, on CRISIL, we have received the strong category award by the CRISIL.

In S&P Jones Indices also, we are falling in top 80 percentile. And in FTSE, we are in top 12 percentile. And as far as Sustainalytics is concerned, we are identified as the low risk. So overall, I think our ESG performance is quite recognized well as far as local as well as international assessing agencies are concerned.

As far as our capex, in quarter 1, we have capitalized our Jainpur water-based facility, which is adding about 44,000 KL of the capacity got added. That is backed by the expectation that we should be seeing a good demand as far as water-based category is concerned. On CSR initiatives, we continue to be present in education, health and skill area, and we are actively pursuing this in terms of contributing back to the society.

Coming to our financial performance. As far as stand-alone results are concerned, our revenue growth is 1.8%. Our EBITDA is minus 6.7% and our PBT is 4.1%. On a consolidated basis, revenue is 1.4% and our EBITDA is minus 8% and our PBT is minus 4.1%. And consolidated or Bangladesh continues to be a challenge.

And that, I think depending on the current situation, it is very difficult to estimate that how business will move, but it has remained challenging. We are making all the efforts to ensure that we do a sustainable profitable business. However, external demand is quite challenging out there.

Our another subsidiary, Nerofix, is doing pretty well now as far as growth is concerned, and our overall gross contribution has started improving through our product mix change. And we are hopeful that by year-end, I think that should be performing well and should healthily contribute to our overall consolidated performance.

As far as risk and outlook is concerned, this geopolitical tension is leading to supply chain disruptions. And also leading to volatility in commodity prices, especially also foreign exchange, we are seeing after U.S. announcement on tariff, we have seen a lot of volatility there. So that remains a big risk because our 30% to 35% metal is imported. And even there are other raw materials which are also subjected to this intermediate usage of the foreign source material.

There is another risk in terms of titanium dioxide. Actually, that has already set in. There is antidumping duty imposed on all Chinese titanium dioxide, and that has already started impacting as far as this quarter beginning is concerned.

And on the outlook front, construction activity based on whatever we saw in month of June, we believe that quarter 2 should be better as far as decorative is concerned. It is also due to our Diwali being slightly ahead of time than last year. I think we'll have season, August and September, I think, should be better than what it was last year.

In automotive, 2-wheeler and passenger vehicle demand is expected to be stable or subdued depending on how month goes. But tractor segment is expected to do well based on the good monsoon and enhanced agriculture activity. Infrastructure segments such as railway, roads, airports, power, I think, should be doing well.

And that is where we have edge. And hopefully, both auto and industrial, both segments should be contributing pretty well, well supported by the upward movement in decorative segment is concerned. So we are quite hopeful that quarter 2 should be better. So these are the comments from my side.

Now I hand it over back to Aniruddha for taking questions and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question comes from the line of Mihir Shah from Nomura.

Mihir Shah: So firstly, if I can ask a bookkeeping question. If you can share what is the volume growth in deco for the quarter? And what is the growth in auto and non-auto industrials on a value basis? If you can split that will be very helpful.

Pravin Chaudhari: Good to hear from Mihir. As far as volume in deco is concerned, it was almost flat. And as far as industrial is concerned, it was higher single digit.

Mihir Shah: Sir, first question on deco. I wanted to know your thoughts on network expansion. You mentioned mid-single-digit growth. It seems a little bit low given the high competitive intensity. And I recall your presentation that you made on the strategy some time back. How should one think about network expansion from your side?

If you want to maintain your shares also, do you require to grow network in double digits? Also a subpart to that is, have you seen any impact or losses of dealers or tinting machines and that is the reason why this network expansion is mid-single digits?

Pravin Chaudhari: Yes. Right, Mihir. So as far as network expansion is concerned, what I mentioned was the direct dealer addition, which was in mid-single digit, but there is another initiative of ours, which is the distribution. Via distribution, actually, we added higher double-digit sub-dealer network. So that is added.

The other thing is we are very careful in actually choosing our network addition. And obviously, we are focusing on our strong areas wherever we are very strong, not spreading ourselves in -- especially in South, for example.

And on your second part, where we have lost any CCDs, no, we have not lost any CCDs. And in fact, we are adding CCD machines every quarter. Coming back to your question on competition. In fact, we are seeing the reversal now. In fact, many dealers of ours who started battling with competition has now started coming back to us.

And that's a pretty positive sign for us. I think they are realizing power of Nerolac brand as well as groundwork that our team does as well as consumer and painter activity that we're doing. So I think it seems to be auguring well as far as we are concerned.

Mihir Shah:

That's heartening to hear, sir. So sorry, if I can ask just one more sub-question on deco. The dealers are coming back. Has there been any change in dealer margins or there is an increase in margins that is also leading to them coming back, sir?

Pravin Chaudhari:

No, sir. I think as far as discounting is concerned, I think it is pretty much aligned with the competition. There's nothing extra being given. So that may not be the reason. I think it is also related to overall, I think, ROI which that dealer might be getting from competition versus us.

And I'm referring to new competition now in this context. So I'm sure the movement that they might be witnessing there versus what they would have seen with us earlier might be different, and I think that is attracting. But on discount front, nothing special that we have done compared to competition in industry.

Mihir Shah:

Fantastic. Sir, my second question is on industrials. You continue to have a very strong -- you continue to gain market share in industrials, both in powder and auto coatings and doing quite well and better than industry, etc. And you did allude to that there is an expected improvement on that -- on the revenue front as well.

Any indication of -- or guidance you can share on how should we think about auto, non-auto growth numbers? And how should we think about margins in that context? I remember margins for industrial will also start inching up. So how to think about both these aspects on the industrial front, which is your key driver for your business?

Pravin Chaudhari:

Yes. So I think as far as auto is concerned, we expect now growth to be in mid-single digit. And as far as non-auto, which is our industrial segment, I think it should be higher single digit or just touching about double digit. I think that is what we're expecting. On margin front, clearly, with our focus on premiumization and technologically advanced performance-oriented products, our margins have started improving.

I mean you will see that compared to market, kind of activities which are happening in decorative, despite that, I think what we could report was this kind of a performance, I think that is clearly showing that our industry is also now behaving in a positive direction. And hopefully, that should be contributing to our overall target that you said going forward.

Moderator:

The next question comes from the line of Rehan Saiyyed from Trinetra Asset Managers.

Rehan Saiyyed:

As my most of the questions are already answered, so I just want more clarification regarding the ESG front. Sir, you have on the ESG front, Kansai Nerolac has received strong ratings and recognition recently, so can you talk about for the upcoming years in the capital allocation, operational initiatives that could further strengthen...

Pravin Chaudhari:

I think can you repeat? We are not audible...

Moderator: Yes, unable to hear you.

Rehan Saiyyed: Yes, sure. Sir, on the ESG front, Kansai Nerolac has received strong ratings and recognition recently. So can you talk about any positioning upcoming ESG capital allocation and operation initiatives that will further strengthen your position inside?

Pravin Chaudhari: Okay. If you're asking any further capital allocation? Yes. So our we are already water positive. So that already initiative is on. Another big investment that will happen is in the area of green energy, where we are increasing our expenditure as far as green power is concerned. It is in the form of solar as well as wind.

So that will be further enhanced. In fact, now with state-wide relaxation happening on the percentage of green energy sourcing, earlier, there were the cap, now they released that cap. And as a result, there will be further investment that we see in the current year as well.

Rehan Saiyyed: Sir, one more add-on question on the consolidated subsidiary side. On the consolidated subsidiaries reported a net loss of around INR11.9 crores this quarter, could you specify which geographies contributed most of these losses and what corrective measures are underway?

Pravin Chaudhari: Yes, again, sorry, you are not at all audible.

Rehan Saiyyed: Am I audible, now, sir?

Pravin Chaudhari: Yes, you're audible, just...

Moderator: You're audible, you are not clear enough.

Rehan Saiyyed: Sure, sir. I'll dictate my question once again. Sir, on the consolidated front subsidiaries reported a net loss of around INR11.9 crores this quarter. Could you elaborate and specify which geographies contributed most of these losses and what corrective measures are underway?

Aniruddha Joshi: You're not audible actually...

Pravin Chaudhari: I only heard INR11.9 crores, that's all.

Rehan Saiyyed: Sir, I'm asking like which geographies contributed most of these losses and what corrective measures are we are taking for this?

Pravin Chaudhari: Geographies contributing to major loss.

Rehan Saiyyed: Yes.

Pravin Chaudhari: I think, yes, it is mainly Bangladesh, which is contributing to higher percentage of loss.

Moderator: The next question comes from the line of Aditya Bhartia from Investec.

Aditya Bhartia: So just wanted to get the outlook on margin side because we are seeing some crude and crude derivative prices coming off. At the same time, there's antidumping duty on TiO2 imports from

China that you kind of referred to. So how are the 2 levers playing out? And how should we think about margins, both on the decorative as well as the industrial side?

Pravin Chaudhari: Yes. So as has been our policy, based on our contribution profile in each businesses, we have a pass-through policy. So as long as we have to -- we try to maintain our margins. And if it is getting compromised, we'll be having a price increase to that extent. Now as far as decorative - - this for industrial, obviously, for decorative also, industry has been following similar practice.

But looking at the current competitive intensity, we'll have to really be watchful as to what is happening in the industry and how competition is reacting. And based on that, we'll be obviously taking the action. Having said this, there are a lot of initiatives which our R&D keeps taking in terms of formula optimization. So that activity also will help us to mitigate some kind of increase or inflation that is getting cost because of this tariff is concerned.

Aditya Bhartia: But what should be the increase in costing on account of TiO₂ import antidumping duty? And how much of that can be offset by reduction in cost that we have seen for other derivatives?

Pravin Chaudhari: Yes. So I think net-net, going -- right now, raw material prices are benign. And I don't see as a whole, we'll be able to see any major significant impact as far as titanium is concerned in the short term. Purely on titanium front, I think it should be contributing to about 1% to 1.3% of the inflation as far as decorative is concerned.

Aditya Bhartia: My second question is on the demand outlook side. You spoke about Q2 looking slightly better also on account of an earlier Diwali. But -- are you seeing green shoots as far as underlying demand is also concerned? What were the trends like in July, if you could kind of speak about that, whether it's urban or rural wherein you're seeing an improvement? And if there's any differences that you're seeing on a regional basis as well, if you could highlight that, that would be very useful.

Pravin Chaudhari: Yes. So regionally, I think North has done pretty okay as far as region is concerned. However, overall, monsoon in many places has caused some disturbances that have led to this temporary, I would say, stoppages, especially in the area of projects as well as some part of retail. It is -- I don't see any significant difference as far as June exit is concerned as far as in July.

But looking at the upcoming festive season, we believe the same trend as what we saw in last year in September and October, I think should get repeat as far as August and September is concerned.

There has not been a significant difference as far as underlying demand is concerned. But as the industry typically has been growing at about GDP. And with the current competition also playing its part, I think the whole market share redistribution is happening.

And that will -- I think in second half, as I was mentioning earlier, we'll be able to actually see the change that is happening because it will be more of a stable condition as far as industry is concerned, no new players coming and everyone is settled.

I think that's the real time where we'll be able to assess what is happening to the industry and overall growth. But as far as underlying demand is concerned, as far as July is concerned, no significant change, but we are pretty hopeful as far as August and September is concerned.

Moderator: The next question comes from the line of Ajay Thakur from Anand Rathi Securities.

Ajay Thakur: Sir, I had a few questions. One was I wanted to check on value volume mix in the decorative segment. So what would it be for the current quarter? And how do you look at this value volume gap in decorative to trend going forward?

Pravin Chaudhari: Yes. So compared to last year, our volume value gap has reduced significantly. So as I mentioned earlier, our volume has been pretty flat, and our value degrowth was in the lower single digit.

Ajay Thakur: And for going forward, we expect a similar trend to be maintained?

Pravin Chaudhari: Yes. We are hopeful of that, yes.

Ajay Thakur: And what would be the growth outlook for the rest of the FY '26 in decorative, both in terms of volume and value for us?

Pravin Chaudhari: Yes. So Ajay, right? Ajay, we don't comment really on the forward as far as numbers are concerned.

Ajay Thakur: Okay. Sir, if you can share some insights on our painter influencer program, what would be the additions that we have done for the quarter? And how has it been tracking in that context? And have we seen any attrition due to the competition in them?

Pravin Chaudhari: In influencers?

Ajay Thakur: Yes, painters and the influencers.

Pravin Chaudhari: Yes. So that also, Ajay, what happens is it is very difficult to estimate on quarter-on-quarter because that mix keeps changing because of the nature of the product mix. So slightly difficult to say that. However, rest assured in terms of our top category of influencers are with us and they're growing consistently as far as business is concerned.

Ajay Thakur: Okay. And are we kind of incentives -- have we increased any incentives for our painters or influencers in the last 1 year? Any quantum increase, if you can share anything around that?

Pravin Chaudhari: Quantum increase is difficult to share. However, as far as incentives are concerned, yes, they have gone up because -- yes.

Moderator: The next question comes from the line of Mrunmayee Jogalekar from ACMIIL Research.

Mrunmayee Jogalekar: So firstly, you mentioned in the decorative business that North is doing okay. But any color you would like to share on how the West, East or even South, which is a smaller presence for us, but how are those territories working out?

- Pravin Chaudhari:** Yes. So as far as North and East are concerned, both are doing fine in that order. And for us, even West has started doing better since month of May. And South continues to be a problem for us because as such, we are weak there. And given the onslaught of competition and extra focus on South by most of the leading player, there has been the issue for us. And as such, that remains to be a concern area for us.
- Mrunmayee Jogalekar:** Sir, just a follow-up here. So despite the North market being a little bit impacted in this quarter, that has still been the best performing region for us?
- Pravin Chaudhari:** Yes. In terms of -- if you take out that onetime event of North, what happened and that impacted us April and May, that I'm not taking as -- I'm taking it as exceptional onetime. But post -- if you take that out, I think other markets where I'm normally performing has done better. Had that event not happened, I think our performance would have been slightly different this quarter.
- Mrunmayee Jogalekar:** So -- and I'm looking at the consolidated EBITDA margin. So we are seeing a pressure of about 140 basis points on a Y-o-Y basis. So is that largely attributed to the share of industrial business increasing?
- Pravin Chaudhari:** Drop in the?
- Mrunmayee Jogalekar:** EBITDA margin.
- Pravin Chaudhari:** Yes. No. So that is also because of our north impact in the decorative that I mentioned on time, that has led to our loss of sale there, and that also has reduced our operating leverage. That is the major reason.
- And also, the second reason is also in decorative, the kind of mix that was there in the quarter 1 compared to last year same quarter was slightly poor. I mean it was towards the more economy kind of a segment. So that has all led to this kind of a drop, yes. Not because of industrial mix, that has not impacted.
- Mrunmayee Jogalekar:** So that is not a contributor at all?
- Pravin Chaudhari:** No, no.
- Moderator:** The next question comes from the line of Avnish Roy from Nuvama Institutional Equity.
- Avnish Roy:** My first question is to Pravin. It's been around 3 months since you became the CEO of the company. I wanted to understand from a strategy perspective, both consumer-facing and on the cost side, any big changes you have done or there is plan to change anything of that in the coming quarters?
- Pravin Chaudhari:** Yes. So Avnish, in terms of change is concerned, I think our focus is clearly on choosing our battle in the market, which is extremely competitive. So we are very conscious in terms of spreading our wings, focusing on the stronger markets and going more deeper and putting our resources there. That is the strategy. And it will take some time because we have to reorganize ourselves in that direction as far as decorative is concerned.

In industrial, obviously, as far as auto, I just mentioned that we are getting into new areas where we'll increase our addressable market as far as auto is concerned. And as far as industrial, which is non-auto market is concerned, there are many segments where we are not present, and those segments call for a lot of global kind of access and technology and approvals. So those are the areas where work has already started happening. And going forward, we'll see more action in that area.

Avnish Roy:

Sure. One follow-up question on the new player. I completely agree with what you're saying. And the second paint player, and here, I'm talking about second paint player as per revenue, not as per capacity. That second player also said that the new player sales for the last 4 months has been stagnating, and this was in a media interview.

So I wanted to understand this 10% extra grammage, which I think is a key differentiator by the new player. How much disruption it is still happening -- it's having? And are you also forced to respond to this indirectly at the lower end, especially to overcome this extra benefit, which mostly end customer is getting. I don't think the dealer is getting too much out of this, maybe in some cases. But if you could tell us, is the dealer getting the benefit or the end customer? And how are you responding to the 10% extra grammage?

Pravin Chaudhari:

Yes. So Abneesh, as I understand, it's a kind of a mixed feedback, but I heard that in some markets, they already started withdrawing. Anyway, that's the strategy which will automatically pan out because it is very difficult to sustain with that offering forever. As far as the logic is concerned, I think it was more for a consumer and consumer awareness come pull, which obviously goes after this 10% free and they start demanding that kind of a product, was the consumer.

Dealers, I don't think have got anything except for higher inquiries at the counter because that was getting publicized every now and then. So in the process, I don't think dealers and painters have got anything specifically as far as margins are concerned out of 10%. But yes, in terms of inquiries, yes, they would have got that extra inquiry because of this 10%.

As far as our response is concerned, our response is not in terms of offering anything free, but it is in terms of offering a better product, which is offering better properties in terms of coverage as well as better performance. So that has been our offering. And you'll be happy to note that, that particular area, whatever action we have taken is doing pretty good. And that is part of our Paint+ product that we have.

Avnish Roy:

One follow-up question I had on your comments you have made in the earnings release, it was a bit confusing to me at least. You have said there are some early signs of revival. But when I dissect the statement, you have said later part of the quarter got impacted because of monsoon and April got impacted in North India because of the disturbance.

So almost the entire quarter, there is some issue or the other. So from what basis are you saying there is an early sign -- there is signs of -- you have not used the word early also, you have said signs of revival. What is it based on?

Pravin Chaudhari: Yes. So it is based on the exit that we took. So I'm taking out that April North event as exception event that happened and that impacted us largely because we are very strong in Jammu Kashmir, Punjab and that allied region. Now if you look at month-on-month, the trajectory has been on the improvement.

Now the expectation that based on the exit that we were trying to get in May was not there because of monsoon that hit us. So if you really take out this kind of an event and monsoon episode that has happened in certain pockets, I think then we can clearly see that there is an improvement which is going to take place as far as quarter 2 is concerned.

Avnish Roy: Last quick question. This is on Bangladesh. So Bangladesh, another FMCG company, it's not a paint company. They have seen a double-digit sales growth in Q1 with the volume growth also. Of course, that category is different.

But still, my question is in the same economy, is paint industry facing some more pain? Or is it that you are perceived as an India company, so maybe there is some more nuance to that or maybe because this is slightly discretionary versus the hair oil company, which I'm saying or the edible oil company, so consumers can delay.

Which of these is the key reason for your weak performance in Bangladesh versus the hair and edible oil company seeing the double-digit sales growth in the same quarter, in the same country?

Pravin Chaudhari: Yes. So I think it is clearly a discretionary product, and that is definitely which is postponable. That is one definite reason. And I don't think it has to do anything with India versus Bangladesh. I don't think that sentiments are playing out. We have not seen or witnessed that as such.

But obviously, there also with kind of economy state they are into right now, I think priorities and the consumption patterns are also very different. And I don't think even other competitors have done significantly better in terms of performance in the paint segment is concerned.

Moderator: The next question comes from the line of Naman Barjatya from AUM Capital.

Naman Barjatya: So like most of the doubts have already been answered. So I would just request you to kindly, like for a better understanding to put some light on your plan to increase your presence in the Indian OEMs? And like how are you going to protect your market share compared to your competitors?

Pravin Chaudhari: So Indian OEMs, Naman, if you see that one is our Japanese customers there, we are very, very strong. But even other OEMs, which have entered in auto segment, they are also based on our technology availability, service and supply chain network, I think that has also started gaining traction. And there also, we lead as far as automotive is concerned.

Naman Barjatya: Okay. Also, like considering the geopolitical uncertainty and also the volatility in the commodity prices and the inflationary risk, particularly due to the imposition of tariffs by the government. So like how do you plan to weather from these uncertainties moving ahead?

- Pravin Chaudhari:** Yes. So as far as tariffs, as far as India is concerned, it is mainly for our incoming material, which is titanium dioxide. And as earlier explained, based on our R&D and capability that we have in terms of reformulating and adjusting our formulation to bring down costs, that activity is already underway.
- And as a package, I'm sure we're able to overcome to some extent. And if it is not, obviously, then we'll have to really look for price pass-through based on whatever industry dynamics permit us to do.
- Naman Barjatya:** Okay. And like one last question. Can you put some color on the company's future plans to meet the growing TAM in the construction chemicals?
- Pravin Chaudhari:** Yes. So as far as we are concerned, our waterproofing segment is obviously doing well. You would have seen that in my commentary also. So that is clearly doing well. Our No Heat product that we have launched is also addressing further enhanced waterproofing comp No Heat kind of a proposition.
- Another thing that we have done is the CC core that is mason category has also started, we are focusing on by creating a separate structure and separate distribution go-to-market strategy. So hopefully, we'll also see better growth in that particular area, which has not been focused till date.
- Moderator:** The next question comes from the line of Pratik from HSBC.
- Pratik:** I have a couple of questions, please. On dealer incentives, you mentioned that dealer incentives are aligned with competition, largely similar to competition. Can you please help me explain? So in the annual report, the difference between your net and gross revenues and that of competitors is a little different. Yours is around 10%, while competition is around 15% to 20%. So what am I missing there? Can you please explain?
- Pravin Chaudhari:** So it is also because of our industrial being there, that is why you see the difference.
- Pratik:** Yes, that does make sense, but even Akzo is a little higher than where you guys are at...
- Pravin Chaudhari:** Percentage of the mix. If you are 50-50, Akzo is not that, right?
- Pratik:** Right. Okay. That's part of the explanation. And on competitive intensity, can you please throw some light on why do you think the competition is stalling in spite of them being so aggressive with higher capacities, higher incentives for painters and influencers, why do you think this is happening?
- Pravin Chaudhari:** I'm you're saying that they are stalling.
- Pratik:** Yes. If you say that the business, you're seeing dealers interest coming back towards Nerolac and basically, incumbents are again doing all right. Why do you think new competition has not been able to make a larger dent in spite of putting so much money behind their efforts?

Pravin Chaudhari:

Yes. I think, see, it is also to do with what they are trying to follow and what they are exactly trying to do with the network. But broadly see in this business, as has been said many times with all of us in the past also that it depends on overall brand awareness, creating your own distribution network, which is having higher sellout rate, which means your influencers, your consumers all are in sync with the all your marketing and brand metrics. I think that whole thing takes time.

So I think by creating capacity, I don't think that can be achieved. But I think maybe that is where things will settle as far as maybe this year is concerned and we really know what is going to be the state of affairs going forward. But really, we can't comment on their strategy. What we are seeing in the market, I just narrated.

Moderator:

Next question comes from the line of Keyur Pandya from ICICI Prudential Life Insurance.

Keyur Pandya:

Sir, on the profitability question, so earlier you have guided for higher margins over the next 2, 3 years at the company level. And current quarter's margin looks higher than last 3 quarters. So should we attribute that to the seasonality or we should expect quarter 1 kind of EBITDA margin to be sustainable for, say, subsequent quarters? And your earlier guidance of higher margin over the next 3 years, if you can just identify specific steps that have already been taken in that journey? That would be helpful?

Pravin Chaudhari:

So as far as quarterly margin profile is concerned, it varies because quarter 1 is slightly different product mix, quarter 2 remains challenging because of product mix being slightly different. So you'll find that profile being changing. That is the first question.

And second thing, in terms of next 3 years, I've already explained earlier that our -- in case of industrial business -- decorative, obviously, we are going to focus on a strong market and trying to deliver growth there. In terms of auto, we are pretty strong, and that is where all new accounts, new lines and all advanced technologies, which are coming, which will offer us better realization, that is second.

In terms of industrial is concerned, we have already initiated the process where segment entry has been planned where we are not present. And those segments need global approvals, which means that there's a high entry barrier and which also means slightly better realization. So these are the 3 areas where we'll start -- we already started working.

And obviously, you'll appreciate that these things take slightly longer time because we have to go through the process of approvals, we will start entry, start trials and all that. So I'm sure you will see the improvement going forward.

Keyur Pandya:

Okay. Just one follow-up. So I mean, if we consider FY '25 full year, will we see margin expansion in FY '26 considering where the RM prices are as a basket, which are trading lower than last year. So basically culmination of RM prices and competitive intensity, should we see margin expansion in FY '26?

Pravin Chaudhari:

So Keyur, our objective is that and -- but as far as this year is concerned, I think still we should be 13% to 14%, looking at the current competition -- state of competition.

- Keyur Pandya:** Versus 12% last year, correct?
- Pravin Chaudhari:** Yes, 12.8%.
- Moderator:** The next question comes from the line of Avi Mehta from Macquarie Capital.
- Avi Mehta:** I just had one question on the auto side. Are we seeing any change in the competitive intensity? Because I'm just confused because there is -- you have said a sluggish demand environment, while the other players have said that there is an auto industry buoyancy. So would love to understand how trends are behaving? And how are you seeing competition in that segment?
- Pravin Chaudhari:** So as far as auto segment is concerned, when I say sluggish demand, it is also to do with our set of -- because we are more than 50%, 60% market share. So from that point of view, yes. And compared to...
- Avi Mehta:** So, it's OEM only, right, sir? Sorry, just to clarify, it's the OEM that you're talking about, right, auto OEM...
- Pravin Chaudhari:** Yes, OEM.
- Avi Mehta:** Sorry, please continue, sir, I'm sorry.
- Pravin Chaudhari:** So it was in that context, sluggish demand as far as expectations are concerned versus what is happening. And that was also slightly forward-looking in terms of what we saw in domestic market as far as June is concerned. So that is how it was. But there's no -- I mean, if you look at market performance versus our performance, we have clearly gained market share even the quarter 1.
- Avi Mehta:** So it's not -- so just to clarify, it's not a case of some accounts doing much better and our salience being higher. It's not an account specific. Is that how one should see it?
- Pravin Chaudhari:** No. It is not that way.
- Avi Mehta:** It is not that way. Okay. And sir, lastly, on the international side, you've given comments on Bangladesh. Could you also comment on the other geographies, how things are behaving, which...
- Pravin Chaudhari:** So, Nepal. Yes, so Nepal has done pretty good. I think Nepal consistently for the last 3 years has been doing well, and we are performing well there. As far as Lanka is concerned, yes, it remains to be a concern area for us. And like Bangladesh, even Lanka is not delivering as per the expectation.
- Moderator:** The next question comes from the line of Tejash Shah from Avendus Spark.
- Tejash Shah:** Sir, you made an interesting remark in one of the answers that dealers are returning back. So just wanted to know what specific disappointment are they registering when they are coming back? Is it largely to do with on the consumer side or is it more of a dealer side servicing or other issues?

Pravin Chaudhari: So what we are seeing is -- interesting question also, let me first say, because as far as what we are understanding, I don't think it is more from consumer side, but it is from a dealer side. See, as -- I mean, a competition might offer many things which are free, higher, bigger, better, everything. But somewhere you have to settle with the norm or try to ultimately come to terms with what you want to achieve end of 2, 3 years as was stated.

Now when that starts happening and you realize that the throughput that you get because of all these initiatives not matching what was expected and what is meeting your target, you start sort of stabilizing or withdrawing.

And once that starts happening, obviously, then there is a dissatisfaction or then the comparison that what is the difference between you and others. So might as a like go to my old brother and then start dealing with it. So that's our understanding, and that's what we understand from what said that we got back.

Tejash Shah: And sir, competition impact has been clear and relatively easier for -- relatively, it's easier for us to track. But slowing industry growth has been a question which we all are puzzling for a while now. And being a veteran, what's your take on this? And obviously, there has been false starts once in a while in the last 2, 3 years that we believe that things are -- there are green shoots, but they hardly grow. So what's your assessment on why things are not sustainably improving for paints?

Pravin Chaudhari: So I mean, difficult. We have been -- frankly, we are also puzzled with this, and we try to answer it ourselves by saying that looking at the -- some time back, it was food inflation, overall inflation, then also looking at the salary raises that, I mean, all this is published data. So we try to put all this together to say that, okay, this might be the reason.

And the other biggest disadvantage for, I think, paint industry is because being discretionary item, I think that is also leading to this kind of postponement. So that, I think, is a general answer that I can give at this stage.

Tejash Shah: Perfect. And sir, lastly, on auto side, some of the OEMs have warn that owing to rare earth shortage, there will be a very massive production disruption by October, September. Do you expect that to hurt us? And are you kind of budgeting for that when you are guiding for or planning for second half of this year?

Pravin Chaudhari: As of now, based on our interaction, we have not sensed that it will lead to major disruptions. It might have some impact as far as EVs are concerned, but that EV percentage to total production is pretty small. So I don't see -- there are no red flag raised as yet, which is going to cause some serious disruption. So that's what we are at right now.

Moderator: The next question comes from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, the point that you raised that the dealers have started coming back. So is it across -- seen across the Board, means like across the entire India, we are seeing this phenomenon? Or are we seeing this in some of the pockets? And also means like the sample size would be, I guess,

relatively material or you're seeing in -- this issue happening in -- these things happening in certain pockets. So that is question number one.

And question number two, now I guess the market leader will also very soon start the backward integration projects. So once they start those projects, they will have additional margins to play with, and it may result in either them getting aggressive on the pricing or maybe looking at gaining more market share also. So what will be the strategy of Kansai when the competitive intensity will increase from that angle as well? Yes, that's it from my side.

Pravin Chaudhari:

Yes. So on your first question, we are seeing this, obviously, in some pockets. And obviously, my pocket, when I say it's about my strong areas where I saw this change that is happening. I don't know whether it is also being witnessed by competition and other pan-India, all regions, all towns, etcetera. But as far as our strong areas are concerned, we are seeing this happening.

On your second question, see, this backward integration is also a double-digit sword because all this whatever backward integration happens, these are the commodity items. And the commodity items has a big cycle. So 2 years up, 2 years down. So really, one has to see on a longer period, whether really it offers competitive advantage or not.

I mean there are times when people are offering products even at the below cost kind of a thing, which are -- which is also seen in the past. So if you study that longer period, then we really doubt whether that really makes sense or not. But that's the competition to decide what they are planning.

As far as we are concerned, obviously, our offerings to the market will be richer, higher, better. That's what our plan is. And obviously, we'll try and defend our territories through the product offering and try to mitigate any advantage that competition might get in a particular category.

I mean -- and we have also studied this. And I don't think it will be a very, very substantial kind of a difference that we are anticipating. It will be some difference, but I don't think it will be a substantial one.

Moderator:

As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Thank you, and over to you, sir.

Pravin Chaudhari:

Yes. So thank you for attending this conference and wishing you advanced festive greetings. Have a nice time and see you in November. Thank you so much.

Moderator:

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