



Grasim Industries Limited

Discussion on New Business Foray

January 23, 2021

MANAGEMENT:

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Moderator:

Ladies and gentlemen, good day and welcome to the conference call for a “Discussion on New Business Foray” hosted by Grasim Industries Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Adukia -- Chief Financial Officer, Grasim Industries Limited. Thank you. And over to you, sir.

Ashish Adukia:

Thank you. Good morning, everyone. This is Ashish Adukia – CFO of Grasim. Grasim, as you know, has a long and successful history of incubating large new businesses for the group. While we started as a Textiles company 74-years back, but since then, we have incubated many dealership businesses under Grasim. We entered into Chemicals business as backward integration to VSF. And now, we've made it into an independent business, which is the largest player in the country. We entered into Cement when market was entrenched with incumbents, but over time, we created the “Number One Cement Company” with commanding presence across the country, supported by a strong brand that resonates with customers and trade. We also have experience in incubating consumer-oriented business in a very, very different sector, through Fashion and Retail and Financial Services.

There are a couple of reasons why we are now entering into this new sector. First of all, Grasim today has an extremely strong balance sheet, which will get further strengthened with the proceeds coming in from the sale of fertilizer business.

Second reason is that the standalone business of VSF and Chemicals are established market leaders, already in the process of completing their large CAPEX cycle. In this backdrop, it is an opportune time to add a high growth, high ROCE business providing growth and importantly, consistency to its earnings.

The foray into “Paints” is a strategic portfolio choice for Grasim. Entry into this B2C business will provide scale and growth to the existing portfolio of the company. Within Paints, Decorative Paints will be our focus area. It is a large 40,000 crores market, with unorganized players having a surprisingly one-fourth market share. Decorative Paint segment has grown about 11% during the last five years ending 2019 and is expected to grow even faster owing to demographics-led demand, urbanization, shortening of repainting cycles and other important factor like “Housing for All” vision of our Prime Minister.

There will be a shift of demand from unorganized players to organized players, which will likely be catalyzed or accelerated with our entry into the segment. We strongly believe that we have all the ingredients of being successful in executing our paint strategy. Our strategy includes becoming a strong “Number Two Player” over a period of time. To be successful in paints, you need strong distribution and brand. Grasim has an inherent advantage of having access to pan India distribution presence through Birla White and significant brand equity that it has in the



existing channel. And this will provide us with a meaningful head start and speed is going to be important out here.

To clarify, now that we have the board approval, we will engage in discussions more formally with UltraTech to discuss the ways to synergize and gain access to this distribution network through a win-win arrangement on an arm's length basis. We will target pan India market with multi-locational plants. We are likely to incur CAPEX of around Rs.5,000 crores over next three years in the initial phase. The overall project will be funded through internal accruals and debt. We believe that this sector will be value-accretive to all our stakeholders. Our plan is oriented to achieve 20-plus IRR through this project.

I would now like to introduce Himanshu Kapania, who is now the Business Head for Birla White. He's putting together a team of sector veterans who have prepared the strategic plan which has been approved by the board. Eventually, the business will be run in a focused manner with an independent manage and talent with the relevant experience.

We also have Dilip Gaur, Managing Director of Grasim on the call.

We will now take the questions. I would like to highlight that we may not be able to answer some of the questions which are competitively sensitive. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi, team. Congratulations on this foray and all the very best. This is the first time I am actually attending Grasim call. So I actually cover consumer sector dissect and also work very closely with cripple. So just a couple of questions to begin with, then come back in the queue. The first is, some comments from you a little bit more on the synergy spot, and also, is there any technology angle there, I know that you just indicated that you will not be wanting to talk everything which is competitive sensitive, but do you think that technology is a differentiator is what I would just want to ask, that's one? The second aspect, what we've observed in paints is given that the consumer decides once in maybe four or five years to paint, the brand decisions are probably made over decades, because it's an extremely long gestation in a consumer recall value investment what is needed. So just some thoughts from you on how quickly you believe you could ramp up organically or would you think there is an inorganic opportunity also you would look at some point in time?

Ashish Adukia: Thank you. I'm going to start off and then I will request Himanshu to step in. So on the synergy bit, right, Birla White, as you're aware, is a market leader in white cement and putty distribution and market, right, and they have access pretty much the same influences as paints. So, the whole idea would be to discuss with UltraTech to figure out how paint steam can work together with Birla White to access that distribution setup that exists. Of course, it has to be done in collaboration with them, there has to be a formal arrangement, we will have to have it on an



arm's length basis, but that is something that is available within the Grasim group to do access. That's the main challenge for any new player, which is to set up a last distribution set up. The second question that you had on technology. See, I think, any new business today if you're trying to set up, the importance of technology is very, very important, right. You have to have product differentiation, etc., So, we have the benefit of being a new player, we will look at latest technology that is available, to foray into our paints business. You had a question on brand. You're absolutely right the brand takes time to build. Fortunately out here we already have touch point with our influencers to whom the brand matters and they understand Birla and Aditya Birla brand. So, we will leverage our existing brand equity to also accelerate our brand for the entry.

Himanshu Kapania:

Thank you so much. Ashish. First and foremost, good morning to all the participants and it could be a late night for some of the participants. Secondly, I wish all of you are safe in this COVID era. I just want to firstly reiterate what Ashish said that the journey for us now begins, board has given us approval to foray into paints, they have identified the quantum of CAPEX, they would like to invest in the first three years and the foray has just begun. We set of team identified within the group and from outside who has a significant experience on the industry, have been working on multiple topics both on the product, the technology front and the work that we need to do on R&D for a reasonable period of time, almost eighth year and above. We also have been carrying out consumer research, trade partner research as well as the influencers research tool to understand what are the present practices, as well as to understand what are the gaps in the marketplace. So we have a broad strategy which is ready at this point of time. We now get into the execution phase. Beyond that, I think it'd be unfair for me to talk at this point of time. But we just want to reiterate that we are going to be serious into the decorative paints business.

Moderator:

Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani:

Just two questions. Firstly, on the related point, which was brought up earlier, clearly, this is a very oligopolistic industry with strong wins and recalls, and there are definitely barriers to entry. So, with the kind of investments we are falling out 5,000 crores, we seem to be going really all out. Would you think it would have made sense to like test the waters initially to go with relatively modest investment and then take it this big, I mean, 5,000 crores at the outset probably puts you second largest in capacity, I mean, it will be bigger than the second largest in the industry, any thoughts there?

Ashish Adukia:

See, I think we've been studying the sector, like Himanshu said for long, right? It's a very attractive sector, we would like to enter into this sector and capture the value with speed. So I think it's important that we set up the infrastructure to be a strong number two player as soon as it is possible for us to do so. And there are other operational advantages that we have, due to which we are looking at this kind of CAPEX plan. Himanshu, would you like to add anything here?



Himanshu Kapania:

First and foremost, we have to keep reminding everybody that Birla White has been in this business for decades. And the product, white cement and putty are distinct from UltraTech products, which is in the grey cement space. And almost entire distribution of Birla White reaches through the paint outlets and we have a pan India presence. So, there is a connect with the trade partners for decades, we are not discussing a short period but for decades. Similarly has a great association with influencers, lakhs of influences in the applicators and painters. So, it is a brand which is well known, and the brand of Aditya Birla group is well known in the paint industry though not from the top coat, it is well known in the undercoat segment, but it is an important component in the paint industry specially to influencers and trade partners. And we believe that is going to be an important element for us entering, both brand as well as our distribution presence are going to give us the head start as Ashish was mentioning. And if we have to do it, we have to make sure that our multi-location outlets can serve the entire country. If you have to do it on a regional basis, then we won't be able to do justice to the shareholders and the sector that we're entering in is huge potential, and we will miss out the potential if we delay going through multi-steps.

Gunjan Prithyani:

Just to get this whole CAPEX thing, right, if you can just tell us what is the timeline for the capacity commissioning? And when you talk about this being the second largest player in the industry, is there any time horizon that you're looking at given already you're talking about a head start and be aggressive in CAPEX commitment?

Himanshu Kapania:

Gunjan, first and foremost, the journey has just begun. So, this CAPEX has been primarily given for us to do to set up multi-locational plants and we are in discussion with multiple state governments and they are all vying for us to do set up our place. So the current focus will be to get our manufacturing in place. And as we are ready for launch, we will definitely come back to you and start sharing details of our launch. As regards how long do you expect? I think we expect a reasonable period of time to be able to reach the number two position, but the focus I keep reminding everybody, the operative word is number two profitable operations.

Gunjan Prithyani:

More on the business structure now. I mean, Grasim, Ashish, every three years, we have been seeing this structure change a lot, right, I mean, being a holdco, and then NBFC, and then we had this whole telco issue. I mean, to that extent, can you just share your thoughts as to how should we think about next three to five years, given that this is a very sizable business, which comes at the standalone level? Is there a case to look at the simplification of the business structure from next three to five years perspective?

Ashish Adukia:

I think if you look at Grasim, over a period of time, what we had tried to do is create large, focus standalone businesses within Grasim, right and that's how we created viscose as one segment and chemicals as a second segment. And now we feel that there is a need for a third large business to sit within Grasim so that the relative size of Grasim standalone in comparison to the consolidated Grasim is meaningful. So the third leg of growth we've identified as paint, which is a significant business, it's not a small business that we can add. And this changes the profile of standalone Grasim in terms of scale, in terms of its value, also, it reduces the volatility because



if you look at chemicals and VSF. It's still prone to some price volatility though we have certain inherent advantages of costs, etc., in those businesses. So adding something like paints, consumer-oriented business will remove that volatility as well. Plus, at the same time, like I said, hopefully, the holding company discounts will reduce over a period of time when there's left added to the standalone Grasim. In fact, I feel that this entry actually gives more clarity to the capital allocation that we are going with high IRR business and plus there is more focus on standalone business of Grasim.

Gunjan Prithyani:

It makes sense that it takes away that idea of fund infusion to that.

Ashish Adukia:

Absolutely.

Moderator:

Thank you. The next question is from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda:

The question I had was, we're talking about the overlap in the distribution with Birla White. How much of an overlap would be there in the paint business versus white cement, if you could give just like a broad sense, I understand there is an overlap, I wanted to understand how much of an overlap is does every shop that sell white cement can sell paint and today the people who are in the paint business, I understand that it sells through hardware shops, etc., as well, so, just wanted to understand that.

Himanshu Kapania:

I will give a history of Birla White. They were originally white cement manufacturer but the applications of white cement has over a period of time changed from requirement from the consumer and has reduced and requirement for putty manufacturers has increased. Very large consumption of white cement goes for putty manufacturers. No doubt, there is still a requirement of white cement, the second largest application is white cement wash. White cement wash is in the lower end category of the paint. And obviously, the largest segment now for them is putty in absolute size. So on overall trade partners that is present on a pan India basis, from your hardware outreach white cement doesn't get sold from a grey cement outlets, it gets sold from hardware outlets, over a period of time, most of it is migrated to the paint's outlets. So paint outlets are the most aggressive and they stock putty of multiple brands as well as they stock white cement for especially in the small towns in the rural areas and midsize towns for white wash facility on a white cement white wash. A) I would put between 70% to 80% of the outlets sell paints.

Madhav Marda:

Would you be able to share anything on the brand positioning or the branding that we would have for the paints business, anything that we decided?

Himanshu Kapania:

I think it's very premature. We will have to keep reminding that Aditya Birla brand has been built over decades, it stands for trust, it stands for loyalty and Birla White as a brand has a very strong association between sector and we will try to take the benefits of what currently exists. I think it's premature to start defining images, positioning at this point of time. We will definitely share closer to the launch.



- Madhav Marda:** How far away from the launch, like is it more like a one year, six months?
- Himanshu Kapania:** Yesterday, what happened was Memorandum of Understanding has been modified, allowing us to enter into paints. We couldn't have done anything till the actual board approval was received which is what has been the key yesterday. We have been doing most of our thinking and pre-preparatory work over the last nine to 12-months, and all the plans are ready, now we get into execution mode. Exact timeline, it's a little too early to be able to start sharing timelines, but we will over a period of time give you more formal timelines as we go forward.
- Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.
- Gaurav Rateria:** My question is this investment of 50 billion, you would have kept in mind a certain scale in terms of capacity. So what would be that capacity which you have in mind in terms of volume front over the next three years?
- Ashish Adukia:** Let me repeat, you have the amount in front of you, and we have said that we would like to be a strong number two player in this very attractive sector. So that should give you some sense. Again, it's a little early, we are looking at the configurations of plants, etc., and CAPEX has many elements as you know, it could be backward integration in line with Atmanirbhar Bharat, there could be front end CAPEX. So maybe I'll leave it to that, that it's early, but, Himanshu, if you have anything to add, please.
- Himanshu Kapania:** You're absolutely right. It is premature to be able to start sharing absolute details. It's all on the drawing board. We are going to get into action. And we will, in due course, definitely share this. But I think it is not so complicated, difficult for analyst to cover the sector to be able to calculate broad capacity based on the CAPEX guidance that we've given.
- Gaurav Rateria:** Secondly, with this business getting funded from internal accruals in it, does it change anything from a capital structure perspective for Grasim, it stays within that stated bat of whatever capital structure you've always said in the past?
- Ashish Adukia:** I'm glad you asked that question. Grasim, like I keep saying, it's a AAA-rated entity, it has a strong balance sheet, we have further improved it with fertilizer sale, it's very important that we retain the strength of Grasim, plus we have access to all kinds of debt at the best rates possible in the corporate side. We've got the new capacities of viscose and chemicals coming this year or next year, which will help us improve the EBITDA profile further. So, I think we are closely going to watch our standalone net debt to EBITDA and we are not changing the thresholds of not crossing around 3x more likely.
- Moderator:** Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.



Bhavin Chheda: Just a few questions. Regarding the CAPEX, you said you would be putting up pan India multilocation plants. So, are there any plans to use your existing locations itself to put up this manufacturing capacity so that the CAPEX and the capacity can happen much earlier? And would you be looking at the outsourcing model or is this business plan purely on 100% in-house manufacturing?

Himanshu Kapania: So, yes, we are in discussion with the multiple divisions and companies within Aditya Birla group for them whether they have locations available and the process is currently on, we are looking both for outside and within the group, and going forward, we will take the most appropriate call which is value accretive to the paints business. As regards our current focus is in-house manufacturing of water-based paint and oil-based paint as well as the important components of the raw material, some of this we are evaluating doing backward integration. So, the process of backward integration, manufacturing of these is the current focus. If the current capacity that we set up needs any incremental support, then we also are aware that there is a sufficient opportunity from outsource, but that's not a key strategy.

Bhavin Chheda: Just to clarify these 5,000 crores is purely on putting up capacity and a gross block CAPEX, right or this includes a component of working capital and advertisement spend, which may be required to launch this business?

Ashish Adukia: Let me clarify, see, this is an entry into a business line, right, it's a new business that we are entering into, it's not a Greenfield or a Brownfield expansion, where it is a pretty concretized CAPEX plan with identified plant and equipment, etc. So, therefore, what I would like to say is that we have identified and taken approval for 5,000 crores over next three years, which is the initial amount, there can be further CAPEX as we go along in our journey beyond that as well. So, it's more of what is the fund requirement as well, so there is CAPEX element, backward integration element, front end CAPEX element that is involved out there. But it's mainly CAPEX in nature this 5,000 crores amount that we're talking about.

Bhavin Chheda: The last one on white cement and wall care putty business. Obviously, want to leverage the Birla White brand equity as you said. So, can you throw some light on the existing distribution and retail footprint of that business obviously, which is now easily available to scale up this business? And are you looking beyond that distribution network, and if yes, what kind of distribution and retail footprint you would be targeting beyond already which is existing in Birla White brand?

Himanshu Kapania: As far as Birla White is concerned, we believe Birla White distribution is the second largest in the paint industry. And the reason for that is that we are a pan India operator and are present across not only metro and tier-1 towns, but also deep into rural, stretching to 6,000 towns. As I mentioned earlier, the focus of the distribution has been on the paint industry and we continue to expand our distribution. The process is a continuous process, Birla White is aggressively growing its current business and continuously expands its overall presence. So, with a pan India distribution, clearly, currently, the number two in terms of presence across the paint industry in terms of distribution side. Will we expand distribution? Definitely we will expand distribution.



Once we are ready for launch, this would be the starting point, and we would obviously like to go to other outlets, which are currently not stocking our brand because our portfolio is not complete. Once our portfolio is complete, there would be dealers who have been wanting to keep the entire portfolio from a single brand. And once we have the entire portfolio, will obviously feel that those dealers will also like to stock our product.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal Financial Services. Please go ahead.

Amit Murarka: My question is around actually the Birla White business. So while it seems like you are banking on that network and the strength of the business, which no doubt has strong standing in the market, but like, if you look at the last six, seven years, actually, your volumes in that business has largely stagnated, there's not been much volume growth, while I believe the industry has been growing, so it seems to have been some loss of market share. So do you think that we would be able to win back some of the market share as well as pose challenges to the paint company which have been taking away market share from you? My question is more broader, because it looks to me and seems to me that the market share is getting lost. So the paint industry is in fact caused a dent in that market, which you have been the leader of. So like, I was just wondering how confident you are that you will be able to turn it around and fight back, and say that now I'm entering your segment, I'm going to take market share away from your side, how comfortable you are on that?

Ashish Adukia: Amit, let me answer that question. First of all, on the performance of Birla White itself, I think you should have the discussion with UltraTech who is likely to have the earnings call soon. From paints perspective, what we can say is that the distribution network of Birla White, as Himanshu was saying is, when you superimpose that on paints, okay, that's the second strongest distribution network that exists today for us to tap into, and there is no weakness in that infrastructure that is available to us. So I think that should suffice your question.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: I would just like to take a step back, I would just like to understand, why is it that the capital allocation is at Grasim level? Now, UltraTech has done nothing wrong, it has a solid balance sheet, probably it will be net cash by FY'23, it has building solutions, it has waterproofing, construction chemicals, and probably one was expecting putty and cement capacity to actually double. So just wanted to understand the sense why it is not at UltraTech level and at Grasim level? I appreciate you said that the holdco discount would reduce, but don't you think this is something which will take a sheen away from UltraTech level or the multiple that what is the story, that is the first question?

Ashish Adukia: This is our view, okay, and not UltraTech view, it's our view that UltraTech is a pure play cement company, and it's a large cement company, as you can see the capacity, as you can see the EBITDA size of UltraTech, it's a pretty large pure play cement company. UltraTech has already



got some expansion plan, etc., that they have announced. So, their priority of capital is towards those plants that they are looking at. And I think the third piece which is an important piece is that selling cement and selling paints, it requires different skill sets. So paint is a more consumer-oriented, brand, distribution-oriented kind of a business as you may know. So that's why we have a history of incubating businesses which are consumer-oriented, the paints gets important in our standalone business because of the standalone profile that improves for Grasim and the size that it addresses, and as long as whatever synergies that we need to obtain from Birla White distribution, which is a small business in UltraTech, that synergy, we can easily achieve by having a discussion with them and getting into some arrangement, which is on an arm's length basis and have access to that distribution.

Ritesh Shah:

Thanks for the comment sir, but if I had to look at, they are actually seeking exposure into construction chemicals, waterproofing, I understand on Rs.10,000 crores of EBITDA, all new businesses would hardly contribute anything, and you also did touch upon backward integration. So does it mean that from a capital allocation point of view or from a group structuring point of view, one can expect these businesses say white cement and putty, which are again not grey cement, they can be actually moved out of UltraTech core business and it can be put into Grasim, it will do away with the issues on probably to some extent distribution and backward integration as well? I'm just trying to understand it from a capital allocation versus value unlocking point of view.

Ashish Adukia:

Sure, sure, sure. We are not looking at those kinds of structures, like you said, where you move Birla White into Grasim. Our entry into paint sector, what is important to the access to that distribution, right. And that is something we will achieve in the best possible way. So I'll leave it at that. It's premature to say what...

Himanshu Kapania:

First and foremost, UltraTech is an independent company. And on behalf of Grasim, we are sharing our point of view. Now I'm sharing a point of view as an outsider, not as representative of two companies, whereas the distribution of grey cement is in construction equipment and has a completely distribution. Distribution of paint and distribution of grey cement does not overlap. I want to register number one point. Number two point, I also want to clarify backward integration that we're talking about, backward integration we're talking about is regarding paint, so paint has a mixing process and there are certain components, which can be bought from outside or we can build it in-house and that is what we are talking about. There is no correlation with what works the grey cement in this. Number three, white cement and other businesses are very, very small component of a very large UltraTech. So, it is for them to decide how they wish to grow. As regards the arrangement that we will now start discussing, we could not have discussed until Grasim board would have given us a go ahead, now we've had an informal discussion, then we will engage into formal discussion between UltraTech, and once we engage on a formal basis, as correctly pointed out by Ashish, we will work out a proper arrangement which will have two boards approvals, and it will be at an arm's length basis. And it is going to be value accretive for both the companies. There is no need for any other structure that requires at this point of time. We believe we can tap into the strength of distribution of Birla White as



well as their putty business, and it will be clearly value accretive to shareholders of both the companies. So I will leave it at that. But I just wanted to clarify, they were two independent topics, backward integration is not linked at all to the UltraTech business.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Pinpoint Asset Management. Please go ahead.

Ajit Motwani: Good morning team and congratulations on the foray in the business. I just wanted to understand, would you be sort of seeding the market before the manufacturing setups are sort of up and running? That's my first question. And in terms of IRR you indicated is about 20%. So, from the day you foray into the business, when are we sort of looking to being black in which year of the operation?

Ashish Adukia: I will request Himanshu to take the first question on seeding the market before I think incurring CAPEX is, as I understood your first question is. On the second question, it's a new line of business again, right. So initial years, there will be negative cash flows that will be there. So, it's not the forum to share the business plan for us right now currently what it is, but I think the business plan is quite robust, and we're looking at 20%-plus IRR easily in this project. I'll leave it at that.

Himanshu Kapania: Would we launch a product before we are satisfied with the quality of the product? Answer is clear no, we are there for a long haul, it's not important that we rush to launch, the current work parallely as the manufacturing gets ready, our teams will start the formulation and we want to carry out thorough testing, we are not in a hurry to launch the product through an outsource model, we want to make sure that when we enter the market, the quality of our product is in line with what is available and earn better, and we are able to bring in differentiated products. So clearly, we are not going to take any shortcuts.

Ajit Motwani: Himanshu ji, apart from the balance sheet trend and the Birla White brand that you alluded to are sort of building blocks or maybe say the right to win, can you also highlight more on the distribution pack, because what I understand is that this distribution of paints is more direct factory to dealer, whereas if I understand the Birla White is more through distributed to dealers. So there is this channel difference of distribution. So if you can allude to more right to wins or building blocks that makes you feel confident about the success, that should help us understand your strategy?

Himanshu Kapania: Okay, thanks so much. I understood your question. You're focusing on distribution. But before I give you a little depth answer on the distribution part, I just want you to register that our strategy has a multi-pronged strategy, and it includes we make sure that the brand launch is strong, and we're able to capture the imagination of the consumers, make sure that our products are differentiated and extremely high quality and meet not only current aspirational people, but bring in some differentiated products, which are probably available around the globe, but not in India, and make sure that the costs are kept within control, and significant cost control through



combination of a) synergy, b) automation, and c) make sure that given the fact that we have the hindsight benefit of coming in at this point of time, we don't have a legacy cost, which is applicable there. So while we will dwell deep on to distribution, I want to register it's not a single prong strategy only on the distribution side. Now your question is very simplistic put in. Yes, we give the stockists to be able to deliver material to the retailer. Does that mean that we have no relationship with retailers? Absolutely not right. We have an IT system today where we register all the paint retailers and hardware retailers and we have a direct relationship with them, most of our promotions are directly handed over to the dealers. So currently, there are multiple models, some company uses a C&F where they stock and then probably use their own transporter or C&F transporter to deliver to dealers. We use our stockists to be able to do that. A combination of lock-in sale, some cash advantage there. But that doesn't mean that we have no relationship with dealers, we have strong relationships, we register dealer, the current promotions are directly credited to their bank account, we have the very strong profile details of them and relationship of the sales team directly with them. And how is it that I am able to talk about all of this? Because I am the Business Head of Birla White. So I closely work with Birla White and completely familiar with this.

Moderator: Thank you. The next question is from the line of Sanjay Parekh from Nippon India Mutual Fund. Please go ahead.

Sanjay Parekh: So, my question on paint is answered. Only one question I have is when can we get to know the management entire team that you build it for this? The second question is a commendation on the structure. And Ashish did allude on that point that the capital allocation actually gets more focused. But only one thing is, once the business is properly on its own, like Aditya Birla Capital is now, at the right time to unlock by a proper vertical split would go quite well with the existing shareholders. And that would be value-accretive to all of them. And that's just a suggestion that I have.

Ashish Adukia: Sure, sure. Sanjay, points noted. On the first point, I would obviously defer to Himanshu. One point I want to make is that ABG has been amongst the best employer because of all the reasons earlier that Himanshu had mentioned. So we will never have an issue of attracting the best talent in this industry. But over to you, Himanshu to add about the management team.

Himanshu Kapania: So first and foremost Grasim standalone businesses, management style is that we have a dedicated team for each of the businesses who remain focused on their markets to an end-to-end business and the model that we are going to follow within Grasim as the paint business is concerned that there will be a well defined team, which will run the paint business within the overall Grasim portfolio. And this has been the model which has been successful for decades, as has been correctly pointed out by Ashish. Now, we have the benefit first before I talk about external hires. We have the benefit of Aditya Birla group which is a very strong manufacturing company in terms of projects, in terms of talent that is available on manufacturing, in supply chain, logistics, all of that and we are intending to tap the benefit the talent that exists within the Aditya Birla group. But there obviously needs to be able to attract the talent and experience from



the paint industry. We already have a Chief Operating Officer; his name is Ajit Kumar, who has between 26 to 28 years of experience on the paint industry. And he's working closely with us to adopt strategy for the company for launch of the services. We are in the process of recruiting multiple people and each team member will join an appropriate point of time. So the current focus is to get a product and manufacturing act in place. And that is where the recruitment is in full swing for that. The key management team will be introduced to all the analysts in due course, especially when we're ready to launch.

Moderator: Thank you. Next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question was on the distribution side. So what I understand having covered the industry paint side is that the biggest challenge has been not just the contact with the dealer, but the ability to get a tinting machine installed, which is where space constraints and things like that come in. And that has been a big barrier for many companies in the past who have tried this. So, how do you think about that barrier in terms of having to install tinting machine shops, which would have lower space? And do you have any kind of thought process on that?

Ashish Adukia: This is again premature, and these are competitively sensitive plans that can't be shared.

Himanshu Kapania: I completely agree with Ashish, but I just want to reconfirm to everybody on the call that we are aware of the entry barriers on distribution and the role of tinting machine. And as a part of our strategy, we are trying to find a solution for this thing. But it's premature to be able to share the thing at this point of time.

Arnab Mitra: And the second and last question was on the Birla White business. Your applicator is of course quite common with the paints business here, but like the paint companies, which over decades have had a lot of contact programs, training, relationship and I understand what is the relationship or what kind of engagement you have with them, which could help you in this foray as you try to move the influencer?

Himanshu Kapania: Just to clarify, besides the sales team, we have a very strong team of service team, which primary role is the launch of new products, training of applicators and painters and updating all trade partners on a range of products. This is an ingrained system within Birla White and it has been followed for a very long period of time. That is the reason we believe that why cement based putty which actually got launched much later than acrylic based putty now is the best choice for all the applicators and painters. We have a history of contact program not only with the trade partners, but with the painters and applicators and is not only contact program, we have direct access to them through multiple loyalty programs.

Moderator: Thank you. The next question is from the line of Pankaj Tibrewal from Kotak Mutual Fund. Please go ahead.



Pankaj Tibrewal:

I think most of my questions have been answered. Just one question which I had was, is there any case study globally where any company has used the cement distribution to enter into the paint business and that were successful or probably, we will be the first one to create this, just wanted your thoughts on that?

Ashish Adukia:

I think it's not cement distribution, but let me clarify, the distribution of undercoat already, Himanshu can explain that better, but putty and primer are undercoat, it's like an adhesive to the wall and paint, right, between the two. So, and the applicator of that is the same person, right, the painter. So, therefore, it is possible to have an overlap in that distribution, not necessarily with the grey cement.

Himanshu Kapania:

I will just incrementally add to the Pankaj question. There are two channels, which UltraTech has for the two sets of businesses. One is the UltraTech brand and the other allied brands that they have for grey business, which is a channel, which serves the construction industry and where the cement is sold. Whereas in cement outlets, there is limited paint sales, though there is now attempt by paint company to be able to reach that channel. But we are not relying on that channel. There is a second channel which is a paint outlet channel which sells the entire portfolio of consumer needs for the paint. Where does the paint start? After you plaster the wall, the next element is undercoat. And that you could do at the completely lower end, you could do a line wash or a white wash, when there is nothing else, that's the top coat or you could do an under coat in the form of putty. And this is sold primarily from the paint outlets which is an independent outlet. And which company within UltraTech does that? The company name is Birla White under the Birla White brand name, which is an independent distribution, there is almost negligible overlap between the grey cement distribution and the distribution of putty which Birla White has, it is a maximum distribution, and white cement also gets stored by the paint outlets and some to the hardware outlets as well who also stock paint, but not so much. So I hope it's clarified that there are two independent distribution outlets. It's not a common outlet.

Moderator:

Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar:

So my question is regarding a few months back we were like sort of contemplating trimming our more than half of Rs. 7000-8000 crores CAPEX which we are planning for 2021 period. So I just wanted to understand when this idea of entering into this business would have originated in the team's mind like post which like sort of excited the team or something which you're working on for two years, and we just wanted to conclude a VSF Chemicals CAPEX and then probably launch this new segment. That's the first question.

Ashish Adukia:

Let me take the more relevant part of the question. I think it's irrelevant on how we had planned our CAPEX in light of this paints plan, right? Each business is important to us, right, chemicals is important, VSF is important, paints plan is also important. It's not that paint is going to necessarily cannibalize the important critical CAPEX of chemicals or VSF. I'm just taking the opportunity to clarify that point. What I said in the beginning of the call is that VSF is in the



process of increasing its capacity by almost 35%, 40%, right, which will come to fruition in August/September. So, it is a large capacity that is adding already. So for them to add the next step change, will give some headroom to us and likewise chemicals also has added capacity in caustic side or in the process of adding in Balabadrapuram, Rehla as well as Vilayat. They will focus on VAP which has been our strategy. So, there is no such compromise on the current CAPEX. In a quarter or year, we had reduced our CAPEX guidance because of obvious reasons, and a lot of our 7,000 crores plan will be executed once we finish Rehla both chemicals as well as VSF plants. So, I hope that clarity answers your question. I don't know if Dilip is still there on the call, but we have Dilip as well. Anything you would like to add, Dilip, on this front?

Dilip Gaur: I think you covered as well, Ashish. Cost of what we're doing in VSF and chemicals, these are for some verticals.

Prateek Kumar: Just for the modeling purpose, so, we should build this 5,000 crores CAPEX for 22 to 24 over and above 7,000 which we expect to complete by '22?

Ashish Adukia: Yes, see, I think we are now in the whole planning and budgeting exercise for next year which we will take to the board. And once the board approves, we will give the guidance for the coming year. So you will have more clarity when we come back with our guidance for the year. But as of now, how it stands is that ongoing CAPEX continues, and on top of that, we'll be having paints.

Prateek Kumar: And then how many dealers Birla White network has? For example, Asian Paints has 70,000 dealers.

Himanshu Kapania: Nearly 54,000 dealers of Birla White and 70% of them are in the paint industry.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is why now? Paint sector has been a secular growth story for many years. Plus, we have not seen any new players succeed in the last 30 to 40 years, except maybe the new IPO which got over yesterday. So, is the decision anyway linked to what paint players are doing in terms of market share to your own segment? Is that a retaliation to that or if that's not the reason why now, because the growth has been very good in this industry for so many years, but no new player has managed to have a success we saw JSW Paint filed a lawsuit against the market leader that they are not getting to distribute, etc., So what can you do different? I understand those 35,000 dealers, etc., But tinting machine will have to put, right, it is not that just because you have access, the tinting machine automatically comes, it doesn't work that way. So if you could answer these two, three things... you answered some of those, but these are specific questions?

Ashish Adukia: Sure. I think I'll defer to Himanshu on the question on distribution and how can we win versus others, etc., I think from the point of view of why now in terms of timing and the growth that has already happened, I think we see this growth, like I said earlier, to actually continue to be



better as well, with whole aspirant demand, the demographic change, the urbanization, there is also amongst the younger population, there is also more rental demand that is likely to go up. And that's why you have the painting demand that is likely to go up, because the cycles will shorten. There are many reasons why we feel paint industry story is far from over. And there is a lot of demand that is going to come. From tier-two, tier-three, rural areas if you see, they're still using very old traditional techniques for painting their houses, and there is huge potential there as well. I think, not just paint industry, through cement industry, we've also seen how the rural demand has actually picked up and is further expected to go higher. So for all these reasons, I think there is perfect timing to get into paint industry and tap this opportunity. I would like Himanshu to come in on the question of new players, reasons for their not being successful, and how can we differentiate out there?

Himanshu Kapania:

Thanks, Ashish. I just reiterate what Ashish said is an important and the way we are thinking about it, is that number one, the overall paint industry as Ashish mentioned in his opening speech, is Rs.40,000 crores, and out of this one-fourth of the paint industry is still in the unorganized sector. Number two, as you correctly pointed out yourself, they are concentrated in the top four, and one player happens to have a dominant share in this. So, this gives us an opportunity to be able to fit in, if we are able to build reasonably large capacities to look at acquisition of solid number two, which can have profitable operations. Now, what gives us the confidence that we will have profitable operations? I just want to reiterate what we have been saying for the last one hour that we are not new to the paint industry, we may not have paint as a portfolio in our business, but this is adjacency, it is not a business line which is not known to us. We are extremely strong on the construction field. We are in the homes of consumers through the cement, but that's not the model that we are talking about. We have been in the home of the consumer through our white cement, which is a major application go through the paint market because of whitewash in a white cement, especially in the midsize town, earlier in the urban towns, now in the mid-size and the small towns and rural markets, and we are there in the undercoat segment in the putty business. So we have understanding of the consumer, deeply understanding of the influencers, the paint, as well as understanding the trade partner. So it's not new to us. I think it's not fair why others didn't succeed. It's not fair for me to comment on what was their strategy and why they did not succeed. But what we can say is at this point of time, we have our plans in place. And that comes in the central question is great, you have your plans in place, you have access to these trade partners, but how are you going to sort out the tinting machine issue. All I can tell you at this point of time is as correctly pointed by Ashish, that we will not like to share sensitive information, but I can assure you that we have robust thoughts and clarity of mind how we will solve the tinting machine issue. So I can assure every participant in this call that tinting machine issue has been addressed by us. How it is going to be addressed by us is competitively sensitive information, and you will see it unfold when we launch our services. We are completely cognizant of this. And I can understand your anxiety to get the answer today. But it'll be unfair from our side, you will understand from our own side to share it at this point in time when we're not ready for launch.



Abneesh Roy:

Very useful. Just one clarification, you said that your ambition is to be the second best profitable player. Now you are a very late entrant, maybe 50, 70 years later than many of the players, which means your ad spend and your distributor margins, etc., need to be superior, otherwise how do you make headway because product wise it's not a rocket science, it is not a high technology category. So when you say second most profitable player, is it different from second highest market share necessarily or you are saying second highest market share will lead to second highest profits, if you could clarify that.

Himanshu Kapania:

The second one, we believe profitable route is to scale, clearly that was one of the key topics that has been mentioned by Ashish, scale to us is extremely important. And that is the reason our initial CAPEX announced is 5,000 crores over a period of three years. I just want you to remember that we will get profitability. Your all the questions are relevant for any company which want to enter into any sector as later than once the improvement are present and there is sufficient and many examples in Indian economy, I'm not going to go to global economy, where incumbents have been dislodged by entry of the new companies and we have a full faith in Aditya Birla brand, its processes, project skills, its ability to be able to execute. And I want to register in your mind because you are just adding two plus two. So here two plus two doesn't add up because important component is the cost structure and missing out the last component as the cost structure, it is possible for us to be able to deliver this product at lower costs, which currently some of the incumbent players have, because of traditional legacy costs, which we will not be born with. So it's easy to just add and as the current practices and say everything which is current, we will have an over the top of it, you will have to incur some additions. Yes, we will have to make certain investment in the market. I think there is no doubt about it. And Ashish alluded to the fact that we need some cash to do that. But that's okay. But I just want to convey a single point, we are serious in this business, and the announcement of this CAPEX is to be able to give that indication that we are there to stay, and this is a long haul, let's not be driven by quarter-on-quarter, let's be driven on a long haul that we want to build this business for future.

Moderator:

Thank you. The next question is from the line of the Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari:

Two questions. First is just curious that, it's part of a Grasim industry, if you had put it in a subsidiary, wouldn't you have gotten 115 VAT which is 15% tax rate for a new manufacturing company, did you not explore that or if you did, why did you not go into that?

Ashish Adukia:

See, I think there are advantages and disadvantages of being a division versus a subsidiary. I think the whole cash fungibility, etc., is lost when you create a subsidiary rather than having part of the company itself. At the same time, there could be some additional costs that you may have to incur for it to be a subsidiary. And another point that you have to bear in mind is that some of these initial losses that will be there in the business due to the CAPEX period can be utilized by Grasim overall. So, you have to look at many different reasons before you decide which path to take on a new SPV or not.



Vivek Maheshwari:

Second question is, when you have articulated, it looks like distribution of Birla White is the biggest piece over here. So doesn't this investment in Grasim actually ends up being, since you mentioned about arm's length. Actually, UltraTech shareholders, as you know, is the biggest beneficiary, distribution is the most important thing over here. And if you are going to use Birla White channel, which is housed under UltraTech, what are your thoughts on that, because this again is going to create a bit of a challenge, something that we have seen with Grasim at different points of time, some of the pieces are in the mother company, some are in the subsidiary. So we are keen to know your view from the UltraTech shareholder perspective given that investment is by Grasim, but the biggest motive sitting in UltraTech Cement?

Ashish Adukia:

Like we said, critical success factor out here would be to see how we can leverage that distribution that exists in UltraTech, and UltraTech by the way, as you know, it is our subsidiary, right? Now, if you look at the value that it creates, it not only creates value for paints business in Grasim, but even Birla White gets the benefit out of that, right, one is on arm's length basis, but at the same time, when you launch paints and sell it through the distribution channel, then there's going to be a positive rub off on putty, in white cement, etc., as well because there will be overlap in the dealership, etc., So, any such collaboration is actually clearly a win-win collaboration. And if there is value created for both, the value needs to accrue to both parties, and that has to be at arm's length basis both commercially as well as regulatory. So I don't think there is any, call it, compromise or anything of that sort in the value creation that's happening to both parties due to this common network, synergy that we want to achieve.

Himanshu Kapania:

So you're absolutely right. I just want to incrementally add, while UltraTech will independently respond, but publicly known that UltraTech has declared itself to be a pure cement play company, and will continue to expand, and has added significant capital allocation on expanding capacity for the grey cement. The paint business, under UltraTech would be a very small component of the large limit size, and it works well in a model like Grasim, where on a standalone basis, paint will be around VSF and chemicals, a significant portfolio for a standalone business. So please look at that, you need focus, you need single minded pursuit to grow the business, we are entering into a new line of business, and the focus of the team has to be clearly to grow the business. So it makes a lot more sense as far as where we need to house the paint business. Now, the second question is that, as there is synergy with Birla White, what happen to shareholders. Clearly, we have said it, and we're going to repeat it multiple times that we have now got the board approval, we will start the engagement process with Birla White through UltraTech, and we will at arm's length basis, approved by both the boards, got the synergy, and we believe that synergy is going to be value-accretive for both shareholders. To give you a sense, that currently Birla White has X number of distribution outlets, it will allow them to enter large number of retail outlets, which currently do not stock them, primarily because they didn't have the entire portfolio. So they will help you to grow. It will also help to grow with the sales organization of the paint business to help grow their current range of products business. So it is going to be clearly value-accretive for both the companies and the actual shareholders as well.



- Moderator:** Thank you. Due to time constraints, we take the last question from Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** Sir, I have one very pointed question on your aspiration. The second largest market share that you aspire to get by which year like a ballpark here, is it like the first year...?
- Himanshu Kapania:** In a reasonable period. I think, as correctly pointed out by Ashish, it is a competitive sensitive information, it is not fair for us to share business model at this point of time. As the business unfolds, this is not the only conversation where we are starting a journey, and we will continue to engage with you and keep sharing with you.
- Ashish Adukia:** Swagato, so I think it's a new line of business, will grow in a calibrated way. I think what we could give we've given to you today and as Himanshu saying, this is a significant development for Grasim, right. And as we progress, there has to be more updates coming to you on how we are progressing.
- Swagato Ghosh:** I just wanted to have like a time based milestone at the outset but I understand the limitations of you sharing more than what you did. Second question is on Grasim. So we have the standalone CAPEX plus now we have this out Rs.5,000 crores So, is it fair to assume that we do not have room to actually do any other major capital allocation in the next three years?
- Ashish Adukia:** See, I think it's a combination of EBITDA profile, the cash generation that we can do internally as well. Grasim, like I keep saying, it's a strong balance sheet, which has headroom. I think you go by the merit of what the proposal is rather than just looking at the capability alone, right? And the merit of proposal out here is 20% plus we're going for it, ongoing chemical, and VSF is very clearly an important CAPEX that we need to compete. What is very clear is that capital allocation now, we will be more focused on the standalone business clearly. And definitely, Vodafone Idea concerns that has been there for shareholders gets addressed through this large share project.
- Moderator:** Thank you. That was the last question. I would now like to hand the conference over to Mr. Ashish Adukia for closing comments.
- Ashish Adukia:** Sure. Thank you. I think these are very high-quality questions. I'm glad that we had this opportunity to clarify a lot of operational points that we did not capture otherwise in any presentation or the press release. So we hope that we've been able to satisfy your queries. Sorry about some of the questions which we couldn't answer because of competition sensitivity, like I mentioned. We will stay in touch and update you as we go along. So thanks and wish you all, all the best.
- Moderator:** Thank you. On behalf of Grasim Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.