



# “3M India, Current Environment & Way Forward Conference Call”

August 29, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the 3M India, Current Environment & Way forward Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

**Aniruddha Joshi:** Thanks Rio. On behalf of ICICI Securities, we welcome you all to conference call of 3m India, Current Environment & Way forward. We have with us today Mr. Ramesh Ramadurai, Managing Director of 3M India and Mr. Bruce Jermeland, VP and Head of Investor Relations, 3M Global. Initially Mr. Bruce will give his views and comments on 3M India’s performance and then Mr. Ramesh Ramadurai will speak about the company’s performance and then we will open it for question and answer session. Thanks and over to you Mr. Bruce!

**Bruce Jermeland:** Thank you and also thank you to everyone that (inaudible) 1:20 me in today’s call. I am Bruce Jermeland, Head of Investor Relations for 3M on a global basis, based here in Saint Paul, Minnesota, and I am going to take a few minutes to talk about 3M from the company standpoint on global basis and then I will hand it over to Mr. Ramesh to speak specifically about 3M India. So 3M is about a \$32, \$33 billion global company revenues in 2018. We operate in 73 countries around the world with four business groups. We are really looking at the formidable strength of 3M around technology we have 51 technology platforms that do not belong individually to any one business so each business has equal access to technologies. About third of the technology platforms are related to manufacturing so we have very strong global manufacturing strength. Our global capability around the world so as I mentioned 73 countries around the world where it is our own people representing 3M Indian markets in which we serve and then being around 117 years the 3M brand. The priorities of the company are really focused around four areas actively managing our portfolio, underneath our four business groups we have 24 operating divisions, so we actively manage the portfolio of those businesses that steer them to focus on market so we see strong sustainable end market growth.

We are known for innovations, so as I mentioned we have 51 technology platforms, they are shared across four business groups, 24 divisions in all 73 operating entities across the world. We are also in the midst of a transformation journey with the backbone of that journey being around the global ERP deployments. We have about 70% of the company up on a current ERP platform now and it is really transforming how we connect with our customers and it is all about the digital journey that we have for the customers of



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streamlining the digital journey all the way from the frontend interaction with the customers all the way to our supply chain and how we service them and then finally the fourth priority of the company is around people and culture as we continue to try to advance the culture to attract the strongest talent possible to continue to advance them for the future.

About 70% of our global revenue is driven by what we call design and inspection or we participate in regulated industry such as healthcare and that creates a very strong moat on the business as we serve our customers globally. So there is a fair amount of strength as we leave the technology to serve those customers.

The other thing that I talk about a little bit about is capital allocation on a global basis. Our first priority for the enterprise is to invest in organic growth. So we invest nearly 6% in research and development and grossly about 5% to 5.5% in capex to continue to not only invest in growth, but also we continue to maintain and invest in advancing productivity in our factories with more and more automations. Secondly from capital allocation standpoint we have a long history of paying dividends at an enterprise level to our shareholders, we pay dividends for over 100 years of our 117-year history and have increased our dividends for 61 consecutive years. Then finally about 40% of our capital allocation will go to either acquisitions or share repurchase. Some you may know we do have a pending acquisition of a healthcare company called Acelity based here in United States. Acelity is a negative wound pressure therapy, the acquisition price is nearly \$7 billion have revenues of about \$1.5 billion and then finally before I turn over to Ramesh, our focus will be on sustainability. 3M has a long history of being a leader in the whole space of sustainability starting back nearly 40 years ago around a program that we call pollution prevention pays so before a sustainability was viewed as a thing over the last 10, 15 years 3M was very much in a leadership position there and really our sustainability effort, our focus is around three areas and an area what we call science for circular where we design solutions that reduce material and really understand from inception to manufacturing and the life of our products. We tried to develop as many sustainable solutions as we pass we can and understand the lifecycle of our products. The second area around sustainability is science for climate, here we announced by 2025 our campus here in Saint Paul, Minnesota will be powered by 100% renewable energy and that we will be powered by renewable energy sources 100% across the world for all our operations by 2050 and then finally science for community, being a science based company we very much support STEM education in helping inspire people around the world to appreciate the value of science and what it can do for everyday life. So with that I will turn over to Ramesh and he can cover 3M India.

**Ramesh Ramadurai:**

Thank you Bruce. Good morning based on wherever you are based on your time zones. My name is Ramesh Ramadurai, I am the Managing Director of 3M India. I was appointed effective June 1, 2019 to this position. So with your indulgence I would like to share a brief



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background about myself. I have been with 3M for almost 30 years starting out in 3M India. I have had the opportunity to work for about five years at our headquarters in Saint Paul, Minnesota from 2003 to 2008 and immediately prior to this assignment as MD of 3M India I was based in Shanghai for five years with responsibility for all of Asia Pacific for our industrial business segment and for another three years prior to that as Managing Director of our Philippines subsidiary. So before we begin I would just like to reinforce our safe harbor statement for all of your consideration and recognition.

So in today's call my intent is to share with you our operating model in 3M India for 2018-2019 and Q1 fiscal 2020 financial results and also covers changes in our segment reporting.

First I will briefly describe our external environment and the key sectors that we play in. The mega trends that drive our economy remain pretty consistent and how they apply to us in 3M, Make in India infrastructure, growth in our middleclass, digital India, urbanization and the demographics. We are all well aware of the short-term challenges that we have in the economy, some of the headwinds that we are all faced with, but despite these challenges and headwinds, our expectation for the future remains positive.

I will cover four sectors that are key to our company, these are not an exhaustive list, but I would like to highlight these four and also what actions we take to be successful in those sectors.

Transportation and infrastructure are two key sectors for us. Transportation covers the entire value chain of automotive such as the OEMs themselves, the tier suppliers and the aftermarket. In addition we have opportunities in railways and aerospace. In infrastructure we provide solutions for oil, gas and water pipelines, highway safety and solutions for smart cities to name a few. So in these segments we win with our differentiated technologies, understanding regulatory trends and also following through with appropriate product portfolios and localizations.

The next sector I want to focus on is healthcare. In the healthcare segment we are strong partners to the sector and specifically to the hospitals and we placed a lot of emphasis on education, standard setting and helping hospitals to improve compliance.

The fourth segment is our retail and consumer business. Our understanding of consumer habits through ethnographic studies and insights they inform our portfolio decisions. We play in a range of categories such as home cleaning, home decoration, stationeries and car care.



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So 3M India is operating model and have value creation model is strongly linked and aligned to 3M's global operations. Bruce already touched upon it, but I will just repeat it. Our value model has clear components, we are guided by our aspirational global corporate vision, the 3M's vision of technology advancing every company, products enhancing every home and innovations improving every life. We leverage our core strength in technology, in manufacturing, our own brands and of course our global presence and guided by these we keep a sharp focus on our four key execution priorities, again Bruce spoke about that. Our priorities are on portfolio, our innovations, our overall business transformation and our people and culture and how we operate across the world and in India, and all of this is done on the backdrop of strong values and the right way to do business.

We in 3M India benefit in several ways by having access to 3M's global capabilities. I would like to highlight a few areas for your appreciation and consideration. In terms of global operations, 3M's global sales were 32.8 billion in calendar year 2018 of which about 61% was in international countries outside the United States. 3M has over 117000 patents globally in its 117 years of history to date, and 3M India benefits substantially by being part of this phenomenal global network and having access to various capabilities.

The first one is technology, we have access to all the 3M's 51 global technology platforms that offer the depth of expertise to enable us solve customer problems with innovative solutions. More specifically it gives us access to intellectual property, it gives us access to differentiated product portfolio derived from such intellectual property and even specifications with global or regional customers. Our local R&D team is part of the global scientific community with free flowing exchange of ideas and innovations.

We also benefit from global and regional capabilities in digital infrastructure resources, digital marketing capabilities, common platform for sales management, data analytics, etc., to name a few others.

So let me pause here for a moment and recap what I have covered so far. We have covered some of the key sectors that we play I talked about four sectors, infrastructure, transportation, healthcare and consumer and also brought to light some of the capabilities we gain and the expertise that we gain from being part of the global network.

I will now turn to 3M India's performance. I will start with the performance highlights in the last financial year that is fiscal 2018-2019. We continue to deliver consistent financial performance in 3M India with an almost 13% compounded revenue growth over the last four years and a 36% growth in profits after tax, please note fiscal 2018-2019 results are on a consolidated basis. On a consolidated basis we delivered about almost 10% EPS growth,



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the total revenues of 3017 Crores and profit after tax of 366 Crores. Our EBITDA remain solid at around 19%.

We also delivered growth across all the business segments, all the five business segments that we reported for the last fiscal year, 6.3% growth in our industrial business, 7.8% in our safety and graphics, 6.6% in healthcare, 11.2% in consumer, and 32.2% in electronics and energy.

Our broad portfolio offers inherent derisking and acts as a buffer against volatility in any one particular market segment. Effective April 1, 2019 3M globally realigned its business operations into four business groups from the previous five. The four new groups are safety and industrial, transportation and electronics, healthcare, and consumer. This was done to better align our businesses with the customer groups they serve and to derive better synergies from similar go-to-market models. We have also realigned our segment reporting in 3M India effective April 1, 2019. For the current fiscal year 2019-2020 we will be fully aligned with the new reporting segments.

I will now turn to our first quarter results in fiscal 2019-2020. On a consolidated basis we delivered a 7.3% growth in revenues over the previous year in Q1 thus the April, May, June quarter. Our PBT declined 11.7% over the previous year although it improves sequentially over the previous quarter and remain healthy at 17.1% PBT. Our EBITDA for the quarter was 19%.

Segment level growth for the first quarter was 8.3% in safety and industrial, 7.9% in transportation and electronics, 7.3% in healthcare and 8% in consumer. We deliver this performance through strong customer focus, innovation, geographic coverage and a brand.

Our customers are at the code of everything we do. We launch an initiative that we call Sampark to drive growth with strategic key accounts across market sectors. This program essentially brings 3M science to life through the demonstration of various innovations and solutions. This initiative Sampark initiative has helped us solidify and strengthen our relationships with several of our key customers and thereby resulting a new business opportunities for growth.

Over the last year we were also able to introduce impactful innovations across sectors. At the Kumbh Mela earlier this year special trains that were introduced we are racked with 3M's weather resistant graphic films. Our variable messaging signs guided tourists with real time information enabling efficient crowd management.



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As the holy city of Varanasi transforms into a smart city, our solutions such as graphic films, city signage, variable sign messaging systems were all part of the cities branding and beautification initiatives and we continue to look for application opportunities as the smart city program rolls out.

We enter the home improvement market with our command solutions for practical home decor and organization. Command address the unique need felt among house proud consumers keen on do it yourself solutions to decorate their homes. All of you may be familiar with the Scotch-Brite brand I sure hope you are.

In the last year we introduced several new products broadening the range of cleaning tools for homes, the brand also took a social stand with gender neutral messaging in its advertisements. Ghar Sabka Kaam Sabka was a national campaign calling people to share responsibility for household chores.

Last year we also launched the 3M design center, which is one of five such global design hubs to accelerate design led innovation. This design center is located at our innovation center in Bengaluru, it encourages early designed involvement to strengthen customers engagement.

Several opportunities for collaboration in design has emerged, one example is with Indian Railways. We applied our design capabilities to manufacturing railway coaches and then some of our solutions were then incorporated by the railways and this happened because we led with design thinking to our engagements with customers. We have also had an example of very successful application of this the graphic solutions with the New Delhi railway station.

In fiscal 2018-2019 we invested in 3M electro and communications a company with expertise in electrical and electronics adding to 3M's capability and product portfolio. We are able to serve customers and sectors such as power, telecom, electronics, infrastructure and construction, the solutions covering electrical accessories, underground asset tracking solutions and materials for electronics manufacturers.

As a global company we are committed to our 2025 sustainability goes, accordingly in India we continuously strive to reduce our waste water and energy consumption in our operations. We are also committed to safety in a big way not only in our factories but also via mobile training vans to a broad section of small and medium enterprises in the country and we are also engaged with safety initiatives through our community outreach and awareness programs, which aligns well with our CSR initiatives as well.



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Finally we have stayed true to our CSR commitments for the year 2018-2019 by deploying 100% of our allocated budgets in 3M India. We have consistently invested in select areas such as education, community and environment over the past few years resulting in programs, which are now gaining scale and also impact. This sense of purpose is also a strong connect with our employees and we are very proud of this and we will look to sustain in this. So this brings me to the end of my prepared remarks and now I will now turn it back to our moderator Aniruddha from ICICI Securities and will take it from there. Thank you very much.

**Moderator:** Yes Sir. do we begin with the question and answer session?

**Aniruddha Joshi:** Yes Rio, please go ahead.

**Moderator:** Sure, thank you very much. We will now begin with the question and answer session. The first question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

**Rajesh Kothari:** From the strategic direction perspective, how do you see next two, three years roadmap for India in terms of your business mix, in terms of the growth opportunity, in terms of investment, which you may plan to make capex and in terms of localization so a broad little bit insights on your business analysis that will be really useful? Thank you.

**Ramesh Ramadurai:** I talked about our four segments that we report under safety and industrial, transportation and electronics as well as our healthcare and consumer businesses. Now you know from our published data our safety, industrial and transportation and electronics business has make up almost 70% to 75% about, they kind of range in the 72%, 73% range, and then our healthcare and consumer business make up about 25%, 26%, 27% depending on the quarter or the year. So that is our portfolio mix right now, so the industrial transportation and infrastructure businesses make up almost more than two thirds of the company and about the balance is coming from healthcare and consumer This mix is kind of remained around this level for the last couple of years now with some of the sectors being more impacted than others, we think this may change a little bit, but we are of course unable to provide specific guidance at this time, but if you look at a two, three-year horizon that you talked about I think we have a very stable portfolio of businesses and keep in mind that each one of these businesses is made up of multiple operating divisions if you recall Bruce in his opening comments talked about 24 operating business units within these four broad segments and then we have some inherent percentage with these 24 different business units within the four broad segments. So from our own investment strategy and portfolio strategy we continue to stay true to these opportunities and market segments in these four segments and we will continue to invest either as appropriate whether in some cases it could be





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geographic reach, average models to invest more in coverage models to reach customers, in some cases it is more investment in localization, in some cases it is ramping up a new product portfolio to very specific customer sets. So it is all would be above and very customer group and segment specific, and in terms of capex, our capex has been a little more as you very well know our capex has been a little more lumpy it is not the study x percent that Bruce spoke about for the parent on a global basis, so ours has been a little more lumpy, our investments like in the last fiscal was almost ballpark 20% also of our revenues with the big investment that we made in the 3M electro & communications. So I think it may not be, we are not yet at a maturity cycle where we would be able to hold to a steady state capex plan so that is why we do conserve resources to be able to invest at the right time based on the opportunities that we have. Thank you.

**Rajesh Kothari:** Thank you Sir.

**Moderator:** Thank you. Next question is from the line of Amit Jeswani from Stallion Asset Management. Please go ahead.

**Amit Jeswani:** Sir I have got three important questions, question number one, Madam Debarati Sen had spoken about 600 Crores capex in the next five years is that plan still on track, second why do not we have a dividend policy since 3M Global is being given an increasing dividends for the last many years, the third thing is what is stopping us to grow at a faster rate, why are we growing at 7%, 10% odd what is the biggest challenge that we are facing to grow at faster rates of 20%, 25%, the fourth question is what was the benefit of acquiring 3M electro for 600 Crores and what is the ROCE expectations for that acquisition?

**Ramesh Ramadurai:** Sure, all very good and important questions, so thank you. I think like I said in response to the previous questions our investments do get lumpy so out of the 600 Crores you talked about we did make an investment of 584 Crores just in the last fiscal. So there are opportunities that come up, which could be, some could be bite size, some could be big ones and we anticipate this trend to follow. So our capex strategy is aligned to the best investments that we see in terms of growth, in terms of bringing new products, in terms of localization. Also I think what my predecessor talked about is well in the range. The second question is about I think your second question was about 3M E&C, the third one was 3M E&C so I will take that one first. So 3M E&C like I mentioned in my remarks brings us access to the entire sector such as power, telecom, electronics and some segments of infrastructure and our product solutions that we have provided access to all of those segments and it helps us broaden our portfolio, which helps us strengthen our portfolio and then it also provides buffer against some of the potential ups and downs volatility in other parts of the portfolio. Now the good thing is we have outperformed the expectations in 3M electro and communications in the last financial year. Our sales grew I believe it was almost



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35%, revenue growth was 35% in fiscal 2019, our PBT grew 1.5 times versus previous year with an improvement of almost 250 basis points PBT versus fiscal 2018. So I think as we continue to leverage our synergies between the organizations we look to take good advantage of the 3M electro and communications investment. In terms of your question on dividend, we continue to make like I said investments. Our capex out of the investment strategy maybe a little lumpy but we continue to make those and despite the current headwinds in the economy, we remain optimistic about our growth and investment plans in India, so that board has deliberated on this matter and at this time we have decided to conserve our cash reserves to support additional growth investments and basically for the enterprise valuation of our company, and what was your fourth question I am sorry there was a fourth question you asked me.

**Amit Jeswani:** What is the biggest challenge for us to grow at like 20%, 25% we are growing at 7%, 8%, 10%.

**Ramesh Ramadurai:** Our business model, our valuation creation model is differentiated technologies, differentiated product portfolios to customers and like I said about 70% plus percent of our portfolio is around safety, industrial. The industrial parts of our portfolio transportation and electronics and about 25% to 27% with healthcare and consumer.

It is we do not have a lot of portions in our portfolio which we would call as mass general used products where you ramp up the sales with more just reach coverage etc. A lot of our portfolio that we take to market is differentiated products where a lot of demonstrations of products, communication of the value becomes paramount and so that inherently poses some, it allows us to grow at a certain rate, but it allows us to grow at that rate with quality growth, quality profitable growth. I think I would just call that out as the biggest, I do not call that as a barrier, but I just call that as the realities of the markets and the portfolios that we participated.

**Amit Jeswani:** Sir Can I squeeze in one more question?

**Aniruddha Joshi:** Sure.

**Amit Jeswani:** Sir about automobile, what percentage of our sales is automobile and we target the OEMs only right?

**Ramesh Ramadurai:** Our automotive business cuts across the value chain I mean OEMs, tier suppliers to the OEMs because not all of our products are consumed at our, eventually that consumed by the OEM but the point of application or use may not always necessarily be as the OEM factory. It could be at the tier suppliers and we also participate in the aftermarket through the



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lifecycle of the vehicle through repairs and maintenance etc. So we call out the portion of our automotive business really it is part of our transportation business so the transportation business is roughly 35% of our total company and of course not all of it is transportation because it has other parts of the portfolio. So that is the extent of details we provide on the breakup at the segment level, so it is subset of the 35% obviously.

**Amit Jeswani:** Thank you.

**Moderator:** Thank you. The Next question is from the line of Girish Bhakoo from Acacia. Please go ahead.

**Girish Bhakoo:** Hi this is Girish from TenCore can you hear me Ramesh?

**Ramesh Ramadurai:** Yes Girish go ahead.

**Girish Bhakoo:** Can you talk a little bit about the lessons from China that you have from your experience there and the group's experience there I believe in some factors you guys have done really, really well and in others maybe there has been a challenge given India is not quite the same emerging market but kind of a similar very large emerging market. It would be fun to hear some of those and how that might be helpful for India and as you look at I guess using the opportunity that has always been here but where the growth I think everyone feels has been a little bit last time when you guys expected a decade ago?

**Ramesh Ramadurai:** Sure, happy to do that. So I think, China is obviously a large market for 3M and an important in critical market for 3M. I think in our global results in our quarterly global results, our CEO has called out a couple of areas in China where there are headwinds and they are very well known to everyone, the automotive and other electronics businesses have been facing global headwinds and in China as well.

I think relative to China as I would say obviously the scale of the operations in India are different, the China operates to a 27 million production in automotive industry that build volume is about 27 million annual in China ballpark, whereas India is obviously about a 6th of that or so or less than that.

So we are talking about completely different scales, but if I look at my experience in China and what we can continue to do in India one is of course which the China team is doing very well and we learn from that is always be very mindful of our portfolio balance. We talked about 70% in the industrial type businesses, infrastructure businesses and about 25% 27% in healthcare and consumer. Be mindful of that and continue to make our investments to maybe the swings maybe a couple of points 100, 200 basis points in the overall



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segmental mix, but I think it is very important to continue to pay attention to that. So we take advantage of the inherent portfolio benefits the 3M offers to guard against some of the volatilities.

Strong customer engagement, customer inspired, customer driven innovation is another big, big takeaway. We do a lot of that in China as we do in number of other countries whether is Japan or Korea or US having that source connections with customers the large OEMs emerging market trends changes in regulatory trends. These are all very important lessons for us in emerging markets as well and there are enough of those happening right now as we speak in India I think many agencies of the government regulatory bodies. There are many forward-looking proposals being discussed, some of them being implemented, some of them have been tabled for discussion. So I think we need to have a very active skill set and specialize the skill set to be able to engage, understand and respond to some of these trends that are coming up.

Those are the two areas I would broadly sacrifice some of our learnings and we hope to continue to build along those lines. Thank you.

**Moderator:** Thank you. The next question is from the line of Sujit Jain from ASK Investment. Please go ahead.

**Sujit Jain:** Sir within the auto exposure that we have, how much would be OE and how much would be aftermarket, in terms of the split?

**Ramesh Ramadurai:** Sujit, we do not get into that level of detail but like I said our total transportation and electronics business is about 35% and our exposure to and the transportation, electronics obviously includes more than transportation that includes some infrastructure businesses as well, OEM-type infrastructure businesses so the transportation would be a subset of that 35%.

**Sujit Jain:** And the 3M car care centers as a percentage of sales where it would have scaled up to and of late have there been any challenges to scale up revenues there?

**Ramesh Ramadurai:** We the car care model has been successful model for us and we operate the car care model in more than one manner. What you may see out our independent car care franchise stores are probably the ones which have visibility, we scale them up but we also, we do not, it is the franchise model is something new in 3M so we do it and we sale it up at an appropriate rate so that we have a good handle on all of the operations the quality the delivery of service etc. We also operate car cares nested in the dealerships, by nested I mean it is collocated in the dealerships sometimes it is not even evident to the car owner or who walks in to leave



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your car for service in the morning and service advisor probably discusses with you about value-added services to clean the car, polish the car, get some treatments done. At the backend all of those services are delivered by 3M, not in every case of course but in several dealerships, so we approach it in a couple of different ways being mindful of the investment strategy that is required for each model. Thank you.

**Sujit Jain:** Sure, thanks.

**Moderator:** Thank you. The Next question is from the line of Shyam Prabhu from Banyan Tree Advisors. Please go ahead.

**Shyam Prabhu:** There is a lot of talk about cell phone manufacturing in India, could you just... seems like it to be a large opportunity for 3M so could you just talk about where the situation is today and like to what extent it needs scaling up or what kind of timeframes. Second question is about like in the quarter just went by, the June quarter was not a very present quarter from the economist point of view and especially so far manufacturing and industrial companies. Despite that we had a 8% growth is nothing to really write on the wall but given the economic situation how the other companies have performed it was like reasonably good rate of growth so where did we get this rate of growth in our industrial and safety both these divisions and what is the cause of good... are we like reaching out to more customers or the same customers we are like penetrating more or some kind of color if you could give on that. Thank you.

**Ramesh Ramadurai:** Sure I am happy to do that. I will take the second one because recent free effect is kicking in here. So if you look at the Q1 of this fiscal I think I talked about four key sectors that we play in. I talked about infrastructure, transportation, and the other two healthcare and consumer. So the infrastructure I also alluded to some businesses we do with oil, gas and water pipelines. So there are a number of those investments that are still going on and we get significant benefit from those types of businesses and that is not really part of the... I mean those are generally longer cycle projects so they are not necessarily part of this short-term issues that we have seen, short-cycle issues we are seeing in the market with industrial of course automotive has been a little more than short cycle.

So I think those are areas where we got some lift from, we get a lot of lift from our... up until very recently the pharmaceuticals and chemicals sub segment of the manufacturing IIPs has been relatively stable and strong for us. So that has been another area of tailwind for us, so I think so if you, so when you cross at... the headline is always it is what it is but when you drill down into subsegment and sectors there are opportunities for growth yes the overall sentiment is we all know what it is right now but despite that there were good



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opportunities we could see. So and those were some of the areas that contributed to our growth these of course healthcare and consumer being about in the ballpark.

Sorry again first question was about...?

**Shyam Prabhu:** The cell phone manufacturing, smart phone manufacturing in India.

**Ramesh Ramadurai:** Yes, okay, the smart phone manufacturing all the players who are here in who are active whether it is Xiaomi, Oppo, Vivo, Samsung, Apple, so 3M as a global company engages with all of them we have strong relations with Xiaomi, Oppo, Vivo etc., in China, Samsung of course in Korea and the other US brand. So it is we are closely aligned with them, we do business with all of them in globally. So the question is there our business growth in this segment would really be derive demand from when they scale up their investments in India and also when they scale up their local sourcing activities. Because for all right now we maybe meeting some of their requirements but that maybe supplied out of China or some other location. So it depends at that what case and what rate they step up their localization efforts. We are very closely engaged with them both in India and also at the headquarter locations. So it depends it is a function of timing it is very hard for us to predict what will happen and when. Thank you.

**Shyam Prabhu:** Can I ask one more question?

**Ramesh Ramadurai:** Sure.

**Shyam Prabhu:** You previously told you are based out of China and when you look at 3M, IPR regime becomes like one of the most critical thing so if you were to talk about like the time the IPR regime that 3M as a company would expect and where does India or China lie on the economy in terms of protecting your IP and imparities, differences, could any of that loyalty could give?

**Ramesh Ramadurai:** Yes, I think 3M very generally very active in protecting IP because that is the lifeline of our company the investments that we make in technologies, the patent portfolio that we have so it is very critical. Sometimes it is a business decision as to how much do you want to do going after certain cases but in terms of we have had some recent wins I do not have all the details with me so I will be cautious in my comments. We have had some recent wins in China on protecting IP so therefore I would say there is evidence that we have been able to accomplish that. I am not aware of any immediate past issues that we may have had in India I will have to check on that I do not have it on the top of my head.



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**Bruce Jermeland:** Yes this is Bruce I will make a quick comment. So related to the trade US-China trade discussions that have been going on obviously being a global company we are very much in favor of making sure that there is global free and fair trade around the world but when it comes with US China discussions our focus because of intellectual property being very, very important to 3M. Our focus is protection and recognition of company's intellectual property rights. So naturally our focus is... currently obviously our concern is given all the trade discussions going on, the impact that we have not only are in China our growth itself but also on global growth so we have certainly seen the impacts where that discussion have any impact on our confidence around global economic actually currently.

**Shyam Prabhu:** The reason why I asked the question because the scale of business in China and in India are like dramatically different for 3M. So this is like would you ascribe a part of that eventually in scale to like India has weaker IPR regime or would you not?

**Ramesh Ramadurai:** Now I was going to say that I do not think we have any data or evidence to make that causality between IP regime and size of the business, it is more a function of the demand that the market opportunity is the size of the economy, the growth of different segments within the economy and how best we are able to tap into that. That is my personal assessment this is based on what I see, not necessarily based on specific data so Bruce if you want to add something to that.

**Bruce Jermeland:** Yes, the other factor is obviously in industry I touched on earlier, the global electronics industry, much of the manufacturing for that industry takes place today currently in China, but as Ramesh alluded to we focus on serving all the players in the global electronics industry. So if they decide to more production 3Ms will move with them. So I think as a factor I not only what is happening in each of the countries, there is also recognition of the factor that there are certain industries that operating in certain countries around the world.

**Shyam Prabhu:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

**Ajit Motwani:** This is regarding the continuation of the previous question as was indicated the size of revenues in Indian channel like very different I can understand the scale of automobile production, manufacturing or infrastructure, but in terms of the products, the patents that you have for India and China what is the difference like as compared to China and how many products or SKUs you offer there as compared to India?



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**Ramesh Ramadurai:** I think the China India question we have got to be very careful about not drilling it down to the SKU level or the just the patent portfolio, because what I would like to highlight once again the patent portfolio like Bruce mentioned that all patents all intellectual property it belongs to the corporation it is not a China-specific intellectual property or US specific, I mean we may file in different countries but the fact remains that the intellectual property that is available it is available to the corporation as a whole and all the business units can take advantage of that.

A lot of the China India comparison come back to the same comment I made into the previous question which is it is a factor of the industries, it is a factor of the size of the economies, it is a factor of which markets or which segments tend to consolidate in one particular country, electronics being the biggest example, so I think some of these are very, very critical and they do have an outsized impact on some of the opportunities that become available to 3M in one country versus the other.

So I would look at it in that manner rather than necessarily are correlating it with the number of patents or the product portfolios, SKUs. So the SKUs and the product portfolios obviously in each country is very relevant based on their local market conditions there.

**Ajit Motwani:** Let us take specific to India would you say the pace of the new product introduction over next five year plan that you might have are significantly higher or at the same pace of the last five years that had gone by?

**Ramesh Ramadurai:** We typically look at new products we have always talked about new products launched in the last five years making up approximately 30% of our overall sales I mean it could be plus or minus couple of points based on the years but typically we are talking about in the range of 30% and then and we continue to be pretty much in that ballpark and we do not think that will change dramatically it may go up towards 3% or 4%. Now what is important is I think a lot of the new products are also what we continue to work on and what we continue to be excited about is some of the portfolios we developed here both locally as well as the global portfolios that are available for us to import and sell in India. We also focus a lot of our local R&D and product development efforts around some of our best opportunities in customer sets here whether it is automotive or automotive aftermarket, we have some infrastructure pipe coating businesses of course our consumer portfolio. So we do have some very active engagements here. We develop solutions locally of course we take the advantage and benefit of some of the core platforms that maybe in the IP that is available from 3Ms global portfolio.

**Ajit Motwani:** Thanks.





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**Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

**Rajesh Kothari:** Just one question was on your Q1 so while the revenue growth has been very strong, the margins we have reduced across most of the segments so what is the reason for that?

**Ramesh Ramadurai:** Yes, some of our margin was impacted by essentially cost of materials, cost of goods sold there were some impact over there both from I think some foreign exchange fluctuations as well (audio cut) 54:22 those two factors that contributed to that and that pretty much would be the reason for a lot of us some of that happening in the Q1; however you ...?

**Rajesh Kothari:** Your voice is not audible in-between you mentioned one was forex impact and second was?

**Ramesh Ramadurai:** The mix within our businesses segments some of the product mix cause some impacts, but however if you look at that sequentially with the Q4 of the previous fiscal there has been some significant improvement in the PBT even though year-on-year we had a negative number for Q1 of this fiscal.

**Rajesh Kothari:** So whether one should look at your company more on Q-o-Q basis or Y-o-Y basis?

**Ramesh Ramadurai:** Well you should look at it both, always we look at it both ways, yes, it is never one it is always both, I do not want to cherry pick here but yes I am sure you will come to fight me another time.

**Rajesh Kothari:** True and second question is your... most of your segments like industrial, healthcare and safety and they have reported about 6% to 8% growth last three years. Now actually if you look at on the road side there has been lot of capex has been done on the road side by the government. So why despite such a huge spend by government in last five years on road segment the growth what you have reported is single digit. What makes it to double digit so is it that the segment in which you are there it is coming for now completion now rather than what it has to be in last three four years just trying to understand a little bit more on the business?

**Ramesh Ramadurai:** So this sounds very similar to the question I was asked after the AGM so I am not sure if it was the same individual who asked me this here. So the answer to that and sometimes we also continue to dig into some of these details and try to analyze the timing of some of these projects road projects you have talked about. We typically come in at the tail end of the project where the final the safety because our portfolio is typically around safety, signages, etc., so that comes in not necessarily as a part of the program but towards the tail end of the execution of these projects. So sometimes it is a function of timing so we track it at the



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project level. We do not necessarily always correlated to the headline numbers on overall investments but then those overall investments translate into sections of roads that are being built and tendered out. So we track it at the project pipeline level. So I do not have a good correlation between the headline investment numbers and how these projects timings work, but it is a good point of view we will take that back.

**Rajesh Kothari:** Sure and what will be the patented product as a percentage of your revenue?

**Ramesh Ramadurai:** I do not necessarily have an exact number right now I can check on that.

**Rajesh Kothari:** No problem, thank you Sir. Thank you very much.

**Moderator:** Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Aniruddha Joshi for closing comments.

**Aniruddha Joshi:** Yes, thanks. On behalf of ICICI Securities, we thank you all for participating in the call. We thank the management of 3M Mr. Ramesh as well as Mr. Bruce and now I will hand over the call to Mr. Ramesh for his closing comments. Sir over to you and extremely thanks for attending the conference call. Thank you.

**Ramesh Ramadurai:** This is Ramesh here. So I want to express my gratitude as well to ICICI Securities for hosting this and thank you for all the participants of the call. This dialogue with all of you also help clarify a lot of the topics in our own mind and also gives us fresh perspectives when we look at it from your point of view. So we appreciate. It is very instructive for us and we truly appreciate the opportunity for this dialogue and I will turn it to Bruce if he has any couple of final closing comments and with that we will conclude it. Thank you very much for this opportunity.

**Bruce Jermeland:** Yes I would just like to state I appreciate everyone's time today and not only interest in 3M India that also and 3M as a Global Corporation so we greatly appreciate today's dialogue and look forward to future discussions.

**Aniruddha Joshi:** Thank you.

**Moderator:** Thank you very much. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.