

Batlivala & Karani Securities India Private Limited
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- Moderator:** Ladies and gentlemen good day and welcome to the BNK Securities digital investor call with the management of 3M India. At this all participants would be in the listen only mode and there will be an opportunity for you to ask questions after the managements initial remarks. Before I handover the call to my senior colleague Annamalai Jayaraj I would request all the participants to locate the show participant list icon which is the 3rd icon from the left at the bottom of your screens. Click and open it to view the participants for today's call and also to locate the virtual hand icon which we would be using the QnA session. I would now like to handover the conference to my senior colleague Mr. Jayaraj, over to you sir.
- Jayaraj:** Welcome the participants. We have with us today Mr. Ramesh Ramadurai Managing Director and Mr. V Srinivasan Company Secretary, CFO will be joining later. We will start the session by a brief overview by 3M India management and followed by QnA session. Over to you sir.
- Ramesh Ramadurai:** Mr. Jayaraj thank you very much. Good afternoon everyone, I'm Ramesh Ramadurai Managing Director of 3M India. I just kept my **NO VOICE [00:01:20]** for a bit but just in the interest of any network stability etc. I'm going to turn off my video. So thank you for the opportunity for this interaction with all of you. I'm joined today by Mr. V Srinivasan our Company Secretary and as Mr. Jayaraj said our CFO Ms. Manta Gore will be joining us shortly, I think as I speak she has just joined the call. Both of them will be accompanying me on this call today. SO before we begin I would like to reinforce our safe harbour statement in today's call there may be some predictive statement that reflect our current vies about 3M India's future performance but these are subject to risk and uncertainties. As per our company policy 3M India does not provide forward guidance and therefore I will not cover it. In today's call I will share with you 2019-20 and first quarter of current financial year '20-'21. Financial results and highlight certain aspects of our results. As you already know we operate in 4 business segments, Safety and Industrial contributes 28% of our revenue mix this is for the full year 2019-20, the transportation and electronic segment contributes 35% of our revenue mix, health care contributes 16% and consumer 11% of the mix. Safety and Industrial delivered a negative growth of 4.2% in fiscal '19-'20 while the other business segment grew between 0 to other low of 5%. This decline in safety and industrial also adversely impacted the segment margin. The Indian economy was suffering sequentially pretty much from July 2019 with declines in automotive production, broad based decline in industrial output and a tightening credit situation. Under these conditions we delivered consolidated sales of 2987 crores, 1% lower than previous year. With EBITDA of 16.3% and we delivered a PVT of 433 crores at 14.3%. So in the face of week external market conditions we exercised good discipline in managing all aspects of our costs. Let me now turn to Q1 of this financial year that is '20-'21. Due to the pandemic related lockdown we experienced sharp decline across all of our end user market segments. April sales were limited only to the essential commodities of respirators and hand sanitizers. At this time I would once again like to recognize our Ranjangaon Pune factory team to the fantastic commitment that they displayed throughout the lockdown period to keep our production going. We experienced sequential improvement in the sales in May and June but the overall market conditions remain challenging. We delivered consolidated sale of 346 crores in the first quarter of this financial year that's a decline of 57% over the same quarter prior year. The reduction in sales resulted on PVT loss of 58 crores consolidated. While all of you may have already seen the financial results and the details of it what I would like to do is cover a few specific topics in some more detail. The first one I would like to briefly discuss the impairment charge of 79.9 crores that we took in the March '19-'20 quarter related to our investment in 3M electro and communications pvt. ltd. This investment allows us to serve customers in sectors such as power, infrastructure and construction, electronics specifically smart phone manufacturing. The underlying opportunities for these remain robust and this is also evidence of the government announcement on PLI (Production Linked Incentives) for smart phone manufacturing. What happed was due to the COVID situation it became difficult for us to accurately forecast the timing of market rebound and market growth which resulted in the impairment. The second point that I would like to cover in portfolio management. This is an ongoing effort in our company to ensure we prioritize our effort to the best product and customer portfolios. Accordingly we recently announced that we will exit the printed graphics also called decals that we sell to the 2 wheel and 4 wheel automotive OEM's. This particular business is part of our transportation and electronics segment and represents well below 5% of our total company sales, it was delivering growth and was dilutive to our margins. In order to align our factory headcount in our Bangalore electronic city plant with the automotive

market conditions and our portfolio we had announced that we had a VRS in June and it closed on July 13th. Third point I wanted to highlight is focus on cash and cost. We continue to stay close to our customer for collections, with this focus we delivered about a 7% improvement via consolidated cash position as of June end compared to March 31st 2020. As the economic recovery proceeds we anticipate some incremental use of cash over the next quarters to fund this growth. But having said that we continue to stay very vigilant of all of our collections and cash flow. Our expenses excluding employee cost reduced about 30% in Q1 of this financial year vs prior year. The forth topic I would like to talk about is pivoting to growth. While we are in this pandemic situation we as a company we are looking the opportunities for growth as we come out of this scenario. The breath of technologies, the breath of product portfolios, our strong financial position and an engaged and committed theme at 3M gives us the necessary ingredients to be resilient. Our focus is to leverage the strengths to position ourselves for sustainable growth, our prioritized actions will deliver outcomes both in the short term, medium term and beyond. I would like to highlight a few areas for your reference in terms of what actions we are taking for growth. The first one of course is to broadly double down on segments that are demonstrating faster recovery than others. The second one is we have seen rebound in automotive production and these have been [CHECK \[00:07:56\]](#) in the press in the last few days in least. The third area is in infrastructure, we are seeing revival of several of the Bharatmala projects being implemented by the National Highway Association of India (NHAI). In addition NHAI DCL's projects in the North East the North Eastern states have also seen traction in funding. [CHECK \[00:08:20\]](#) model road projects with 20 km to 50 km stretches have also been announced to be handled by the NHAI's regional offices and fast-tracked. Finally just in last few days 23 expressways and highways totalling about 7800 kms were also announced by NHAI. Thus capturing the momentum in e-commerce and also the recovery in the general trade consumer business. In addition this we are conducting several virtual customer engagement programs around the themes of safety, sanitization and hygiene which is for obvious reasons it's very high in everybody's radar right now. Staying close to our customers in smart phone manufacturing value chain to take timely actions to capture the localization opportunities. And as you know the government has also announced the PLI to boost smart phone manufacturing in the country and localization. The next one is in the area of new products. New product for acoustics for automotive OEM's, various interior [CHECK \[00:09:29\]](#) portfolio such as air quality, disinfectants for the automotive aftermarket. Road furniture's, road safety product portfolios and also several new multi pack SKU's in the consumer area are all few examples of products that we are emphasizing to drive growth. Finally investments for growth, we are executing projects of about 65 crores of new manufacturing investments, to expand capacity of manufacture of hand sanitizers, certain type of disinfectant and BS6 compliant emission control materials for the automotive sector. So far I've talked about ENC impairment, I've talked about [CHECK \[00:10:14\]](#) management, I've talked about the focus on cost and cash and pivoting to growth. Finally I would like to make a few comments on margin improvement. You may have observed that our material cost increased by about 740 basis points in the current financial year 1st quarter vs prior year and about 220 basis point sequentially. Of this 740 basis point increase we would probably attribute them to the Indian Rupee depreciation and also the impact of revenue mix and provisioning for slow moving inventory necessitated due to COVID as abundant caution. We have targeted actions and programs in place to address these areas to deliver margin improvement sequentially going forward. Now 3M India benefits substantially by being part of the global 3M network and having access to its various capabilities. The primary one and the 1st one is technology. We have access to 3M's 51 global technology platforms and specifically it gives us access to intellectual property, differentiated product portfolio derived from such IP and even specifications from global and regional customers. We also benefit from global and regional capabilities in digital infrastructure resources, digital marketing capabilities, common platforms for sales management, data analytics etc. to name a few others. We leverage the regional shared service centre for transaction processing and also share in the global IT infrastructure. Finally I would just like to make a couple of comments on our CSR programs. Over the last few years we have been focusing on interventions in the areas of education, community and environment. We generally commit to multiyear funding to make an impact. Since on ground execution of some of our legacy programs were affected by COVID we have taken up funding, COVID relief programs such as immediate livelihood support programs like cook food, dry rations and then leverage the aanganvadi program in Kolkata to extend cyclone fund disaster relief programs and also providing critical equipment's to government hospitals for COVID care which will help improve their capacity and

then several more. This brings me to the end of my prepared remarks, so I will pause here and turn it back to Mr. Jayaraj.

Moderator: Thank you sir. Ladies and gentlemen we will start the QnA session. We have first question from Mr. Ankur Sharma from HDFC Life. Please go ahead

Ankur: First question on the gross margins which you also briefly touched upon in your opening remarks. So we have seen this fall in gross margins not just for Q1 but in fact for the past 2-3 quarters on a year on year basis and as mentioned one of the reasons had been the rupee depreciation along with the mix. So I'm just trying to understand EA in terms of localization plans to reduce import which was one of the reasons [CHECK \[00:15:41\]](#) imports. So in terms of localization plans where are we today on terms of imports? How do you see that kind of fairing over the next couple of years in terms of bringing down imports and making it in India?

Ramesh Ramadurai: So yes you are right, like I mentioned while we saw 700 basis points decrease or increase in material cost in this first quarter of this financial year compared to last year we also had some increases in prior quarters sequentially because on a sequential basis I mentioned it was 220 basis points [CHECK \[00:16:19\]](#) some erosion's sequentially as well. Let me address it in 2 parts, one is what are we doing to increase the local manufacturing content of the mix and the second one is what actions are we taking here and now even in the current situation to improve the margins. Thus talking about the mix of local manufactured products if you look at our numbers, approximately I think it is somewhere 56%-57% of our sales comes from products which are locally manufactured and the degree of local sourcing for all of that manufacturing may vary in some cases it may be as high as 90% plus in some cases those local manufacturing may also have some imported content in that. Key raw materials coming in from mostly from our different affiliated 3M sources. If you look at the history over the last 4-5 years while it's not been or it's average out to somewhere between about a 100 basis points, 70 to 110 to 120 basis points. In improvement in the mix of local manufacturing vs the [CHECK \[00:17:32\]](#). So some of the programs that I just spoke in my opening remarks about those investments that we are executing this year one is of course for the hand sanitizer sensor for disinfectants which is all here and now which is the market need today as we speak. That is one and the other one I spoke about was investments on manufacturing BS 6 compliant emission control materials which is actually a very significant opportunity. Initially it is for commercial vehicles while we are thinking that the commercial [CHECK \[00:18:10\]](#) is probably a relatively depressed situation right now, the fact is we have not had any of these content in the BS 4 version so everything that we try to de-incremental growth and this investment will be up and running about 2021 so what that will give us is that it gives us the runway to also you know the markets may also stabilize by that time so it would be a good source for growth for us so that is number one. Number two, in addition to making the investments to shift the manufacturing local manufacturing mix the other actions that we are taking is of course on going what we call the blocking and tackling types of actions which is various cost improvement, mix improvement initiatives. Some amount of outsourcing will be there at this point in time see if we can bring them in house out to win programs. The other important aspect is uprisings, so last year I think from July as the economy started to weaken sequentially our ability to take some pricing actions were somewhat inhibited and limited. We are reviewing all of those now and of course in the last 3 months we were unable to do anything due to the COVID situation and we are not doing anything as a global company policy we are doing no pricing actions on our masks and respirators portfolio. So the other product portfolio is we are taking a hard look at where there might be some opportunities to implement the price increases to offset some of these headwinds that we have had. So those are actions here and now in terms of improving our first position and also more investment driven programs to shift the manufacturing mix.

Ankur: My second question would be on the cell-phone side the electronic segment where you said that with this whole government push under the PLI scheme to get cell-phones at least assembled if not made in India. If you could talk about what is the opportunity there for 3M or what would be your opportunity per cell-phone and how big can this really get? You know of course the government has big numbers in mind but what are you hearing and how do you see this kind of [CHECK \[00:20:42\]](#)

Ramesh Ramadurai: So I think the reported numbers are somewhere around 150 million smartphones were sold in the country the shipments in India last year in 2019 expected to go down a bit this year maybe 125-130 million. But I think most of them were assembled in India as we speak, over 90% of them were assembled in India of the 150 million. But however the local content, local sourcing of various input materials that go in was very low since it was predominantly assembly. So we are with the announcement of PLI I think there is a lot of discussion going on by the value chain serving the mobile manufacturing segment about increasing their local footprint also increasing local production. Now we come in more as a tier-2, so we have a strong global relationships with all of these OEM's whether it's the 3 or 4 Chinese OEM's who are whether Oppo, Xiaomi, Huawei, Vivo it's them or whether it's **CHECK [00:22:05]** or the American brand we work with them very closely in the headquarter locations for designing in materials and also in the manufacturing locations **VOICE BREAKING [00:22:19]** in Vietnam so we have also worked with them very closely in the current manufacturing locations. Now we are in very close contact with these OEM's to understand their plans for localization because we would be a tier-2 material supplier for these manufacturers. So while at this point I am unable to or cannot share the exact details of the content for cell-phone what we know is from our experience in China or even Korea that this is not a gradual this is a step change the trajectory in sales as the localization starts it will be a step change because of the scale of the manufacturing and also even the content may be per unit may be modest but then it adds up pretty quickly given the scale of manufacturing that goes on. I think we are looking forward to it. We have materials, we have 2 options, one is we will initially we could look at importing materials from wherever the current source is where it is **CHECK [00:23:35]** we got it into 3M India in large format jumbo materials and then convert them locally in India in our factories to be able to provide the requisite service etc. So that's the plan, exactly when the timing it's a little hard to predict right now but it could be fairly soon that's what we are hopeful of.

Arun: Last question on the auto exposure for the company. So if have my numbers right the automobile exposure should be in that 20%-25% range for the overall company and also you didn't mention that you have seen some green **CHECK [00:24:15]** you have seen some pick up there. SO if you could talk a little bit more how sustainable due you think this auto recovery is? What are you hearing from some of the OEM's you work with?

Ramesh Ramadurai: So in automotive we have 3 parts to our automotive business. One is of course what we sell to the OEM's through the tier supply or directly to the OEM's which we call designed in materials which stay on the vehicle once they are manufactured. This would include things like anything to do with emission control, it would be acoustics control, noise and vibration control, different types of attachment tapes that go on to hold different parts together etc. In addition to that we also supply to the automotive tier suppliers in terms consumables in the form of abrasives etc. We supply consumables to automotive paint shop itself the products that are used during the manufacture of the vehicle. We supply a variety of safety products to into the personnel safety worker safety products into the automotive **CHECK [00:25:26]** shops and of course there is the aftermarket components of it which is in the dealership side the auto care. So the designed in products is what we report under our transportation and electronics **CHECK [00:25:39]**. The other products the consumables the automotive aftermarket they get reported under the safety and industrial business. So the exposure to automotive cuts across the couple of business groups. We don't break it out into that level of detail but you have seen both safety and industrial and transportation and electronics are in the 35%-38% range so automotive is obviously a subset of that. So what you are kind of estimating in probably in the ballpark. So that was one aspect of it. So in the second part of the green **CHECK [00:26:14]** yes we are seeing increased schedules from the customers in the last few weeks I think there is production is slightly ahead of registration if you compare the FADA data i.e. published Federation of Automobile Dealer Association of course you got to remember that use the vaahan site and not all the states are on vaahan so the reports there will be a little bit of indexing that you will have to do. But of you would compare that with the production data, yes production is still outpacing registrations but not by much. So I think a lot depends how the festival season goes. That's all I can say this time.

Moderator: Thank you, the next question is from Mr. Ajay Garg from Aditya Birla Sunlife Mutual Funds. His first question is what will be the mix of imports and manufactured in India total sales?

- Ramesh Ramadurai:** As mentioned to the response to the earlier question we are approximately 56% local manufacture and the rest is imported as traded goods.
- Moderator:** His second question is what all geographies do we use for imports?
- Ramesh Ramadurai:** Primary import comes from various location of 3M and also non 3M sources but mostly 3M. US being the primary then we have CHECK [00:28:03] from Singapore, we also bring in from Japan, a limited amount from Europe, China but China is less than 5%. These are the broad geographies but US is the biggest.
- Moderator:** Thank you, we have the next question from Upesh Agarwal from UTI Mutual Fund.
- Upesh:** Good afternoon sir. So continuing with Ankur's question on margin, can you help us understand what is the typically lead lag in taking the price hikes whenever there is a huge currency depreciation. Reason I'm asking this is that historically we have seen whenever your INR depreciates by 8% or 10% it takes almost 2-3 years for 3M India to bounce back to its normalized margin. SO what to know your thoughts on this.
- Ramesh Ramadurai:** Typically the lead lag for implementing price increase depends by the market segment and the contracts that may be in place. Some areas we can react as quickly as 3 or 4 months, some may take a little longer but I have to go back and check you comment on 2 to 3 years because I think that seems extraordinarily wrong but let me not react specifically to the time period that you indicated, I will go back and check our numbers once again. But generally we have the ability to react reasonably quickly to execute price increases, price adjustments. In some cases some customers especially the larger CHECK [00:29:58] type of customer may have some timing where they do twice a year adjustments and then you work some averages of the trailing exchange rate, there could be some mechanism in place but generally unless it's a highly competitive situation/market competitive situation there would be no requirement to wait as long as you indicated. But what is happened in the previous year is because of the market weakness and the continuous sequential softening of the several sectors of the economy our ability to hold in place some of those price adjustments was inhibited.
- Upesh:** Okay and any major platforms or the products from the parent portfolio which is yet not introduced in India when you can actually introduce for one that's 4-5 year.
- Ramesh Ramadurai:** I answer this is couple of angles the first one is the product market, the existence of an appropriate opportunity in the market to observe or to take those products. So we talked already a lot about the mobiles smartphone manufacturing so that is a great example of portfolio that exists but we don't sell in India because the market opportunity was not there that is number one. Now two as we see improvements increase in the electric vehicle segment EV segment we do a lot of work around thermal management, thermal management products for batteries and so on. We have already had some small success in India with working with some of the OEM's but it's still pretty fledgling yet in the country. So that would be another one where I would say rather I won't say we are doing nothing but we are doing you know it's obviously small in relative to the markets what it could be and what we may be doing in other parts especially in China and Europe. The third one I would like to talk about little bit is area of you know if you look at the health care sector, hospitals I think there is not so much that we are not bringing in the products I think there is also an opportunity to increase the rate of adoption of some of these products across a broader spectrum of hospitals and customers. That goes to the standard setting of right standards in the different care settings such as operation theatres, ICU, sterilization department etc. Yes opportunity to increase penetration continue with CHECK [00:32:52] programs around the standards and try to get more compliance I think those are other areas that we are working on. So I think when you look at portfolios one is the market fit the second one is how do we improve some of the regulation standards, how do we take it to the next level so that the opportunity for the products also increases. And that is not only in the health care I talked about but also in safety like in road safety as well as worker safety in factories and so on.
- Upesh:** Lastly, if I look at the abrasive market you have made a very credible progress out there. But in last few years it seems that your market share has more or less stagnated at 10-12 odd percentage.

What has caused the slowdown in your progress in the abrasive market is it that the low hanging fruits have been taken and now gaining shares further from like say **CHECK [00:34:28]** or Carborundum is challenge?

Ramesh Ramadurai: Let me make 2 **CHECK [00:34:36]** we actually don't disclose sales at the product category level but it might have been picked it up elsewhere so that is number one. The other point is what I would like to do is sometimes if **CHECK [00:34:54]** say that we are growing but the numbers don't reflect it I think it is one of those cases here where we are growing but growth in certain segments is being offset by market declines and certain other segments most notable being automotive being a decline. Automotive segment was obviously in decline in 2019 and even relative to 2018 so which when the automotive segment declines there is also sequential decline in all the tier-1's who supply to them different kinds of metal parts and so on. So all of that has a compounding effect on some of the erosion that happens which may be offset by growth in the new areas not so much the low hanging fruit is gone but the growth in the new areas have probably been diminished by declines in some of our core segments.

Upesh: Thank you.

Moderator: Thank you. Next question is from Mr. Krishnakumar from Sundaram Mutual Fund. His first question is- Can you give us a perspective of the share of business from new products launched in the last 3 years. How is the scale up of their products expected to be in the next 3 years and what is the normal profitability improvement curve on the timeline?

Ramesh Ramadurai: So typically we look at new products you may have heard this earlier in previous interactions as well is roughly we target above 30% of gross sales in a year comes from product introduced in last 5 years. This particular number is I think I have to qualify that when I use a number like that because this is an extremely important number but directionally because what it does is you know you don't want to get too hung up on whether it was 28/27 or 32/33 because directionally you want to be introducing new products to remain relevant and competitive in the market. This could include new to the world type products or new to the Indian market type of products. This will also include new products which would sometime cannibalizes our existing portfolio just to get maybe because of improve price value, improve competitive position or improve margins. So all of these could be reasons for new products and typically new products we look for it to be attritive to our overall portfolio that is the intent of launching a lot of these new products. When the new product **CHECK [00:37:36]** manufactured there will be a typically about a couple of years to get it up to the margin levels that we want it to get it upto. But when we are working with new products which are sourced from other parts of 3M and then we only either do it as a traded product or do some level of local converting as we call it that means bring in product in the jumbo format and then **CHECK [00:38:04]** to the size required in India and then package it for local considerations. There we hold there's no reason why we expect to be hit the margin targets fairly quickly within in quarter or so unless there is other investment required to be **CHECK [00:38:26]**. So I think that is **CHECK [00:38:28]** and I think covers the whole parts of the question.

Moderator: Second question is how is the top management thinking about accelerating investments in India? Is there a move to prefer to expand here more than China for outsourcing? Also in terms of B to C and B to B business what's the mix 2 years and what is it expected to be 2-3 years down the line.

Ramesh Ramadurai: So the last one is recency effect kicks in so you talked about what is B to B and B to C, if you look at our segment results most of our products are B to B. We are a predominantly B to B type of a company, our consumer business like I mentioned was at 11% I mean if I don't look at this year's 1st quarter results because of this sharp decline in our industrial businesses I think consumer is showing up. It was 11% last year but this 1st quarter shows up I think 14%/15% but that is because of the decline elsewhere. So we are about **CHECK [00:39:47]** safety and industrial transportation and electronics all of these businesses are predominantly or almost 90% plus B to B so we are talking about 78% of the portfolio right there B to B. And then our healthcare business also a lot of it is nearly B to B that mean we sell to hospitals, we sell to dental clinics and so on. So b to B is our predominant business model for 3M, so that's one part of it.

CHECK [00:40:18] over the last couple of year may not have been **CHECK [00:40:20]** the second part of it is its part of very robust source of what we call a sourcing regional manufacturing model so even in China what we manufacture as a company in China for the most part is for the domestic China market. So China is a source of supply for selective or very selective products outside or to the rest of the world. Like I mentioned in my I think in one of my earlier comments that our imports from China is barely less than 5% or around 5% mark of our total import, so it's pretty nominal. And lot of the production manufacturing that we do in China is targeted for the domestic market there. So what is more important for us to track is how might our customers shift from China to our India or other parts outside China and we may service them like we would do like for example when the smartphone manufacturing value chain picks up momentum here we would service them locally out of our India operations and 3M India will be the point of supply to them. So it's not that we will be shifting a lot of manufacturing from China because the China market is still going to exist it's not that it's going to be completely moving to India. So I think the way we look at making those investments is also how does the domestic market evolve, what are the product portfolios that are critical and how do we make the right investments. Another area where we the corollary to that question could be okay are there opportunities for export out of India based on the portfolios that we have here and that is something that we are actively discussing and looking at and I believe we made a good footprint in India with our automotive car care type of portfolio so there has been a lot of product development. And over the years we have established a strong car care franchise in India and I think we are looking at how best we can take advantage of some of these for other countries in the region especially in the region of East Asia and elsewhere.

Moderator: Thank you. We have two questions from Bhavin V. from SBIMF. He has 2 questions on the abrasive side of the business. His first question is- Segment has seen massive growth in imports at 15% **CHECK [00:43:16]**. Do you see an opportunity in import substitutions and in which segments? Second question is, the outlook on vent where in our partner is a competitor.

Ramesh Ramadurai: So in terms of the segment growth in abrasives, abrasives have couple of parts one is we have the industrial portion and also the consumer portion. Like for example the scotch brite's covering pads that you might use at home is also categorized as a form abrasives it's a non **CHECK [00:43:52]**. So all of those products are locally manufactured. So all of those products are locally manufactured. We import very little of that, we manufacture everything in our Ranjangaon factory here in India. Similarly we make some of the industrial non-woven abrasives as well in our factory in Kumbh. We do the more specialized abrasives that we sell in industrial segments especially using some of our latest technologies like cubitron-2 that's how it is trademarked as cubitron 2 abrasive materials. So those were all imported and we are evaluating options for local manufacturing of those based on importing the abrasive mineral that is used is what is the kind of the secret sauce so whether we bring that in from our 3M locations and look at local manufacturing on some of those products those evaluations are going on.

Moderator: Thank you. We have the next question from Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin: Just before the question when you said 56%-57% is what is localized. Any plans to further in house local production in the next 3 years? Any percentage target are we looking at it because it's again a question **CHECK [00:45:29]** it is impacting our gross margin even when we looking at the last 8-10 years the kind of rupee depreciating it directly impacts us a lot. So before taking my question I need your thought on that.

Ramesh Ramadurai: Sure, I think I have mentioned it earlier so if you look at it historically and we continue on the track is roughly about 70 to 120 basis points that's the kind of the step up year on year in the mix. Some years there might be some unusual causes, some big inflow of some imported products which may twist it but by enlarge but we will of course accept those sales we are not going to decline it. But if you really look at our the thoughtful actions that we are taking is to be consistent with that some of the programs that I have mentioned which are under execution and some will be completed before the end of this calendar year and some will spill into next year. It's like the emission control materials, hand sanitizers increase certain type of disinfectants and then we are also looking at other types of respirators whether we can increase additional capacities for

respirator manufacturing over and above what we are already doing. So all of these will help in driving the mix, gradually increasing the mix if locally manufactured products.

- Moderator:** The next question is from Anup Bhaskar from IDFC MF. His question is, since the launch of various products in India are there any in which 3M India has emerged as a cost leader within 3M group worldwide? What is the view of the group on using Indian cost advantage as an outsourcing source **CHECK [00:47:47]**?
- Ramesh Ramadurai:** I think I talked about in response to the earlier question I said the corollary with the other so that question was what can we export out of here and I talked a little bit about the automotive aftermarket car care portfolio and I think those are areas where we have not just cost position but also very strong value proposition in the products that we develop here that's number 1. Number 2 is another very interesting area is acoustic. So I talked about acoustics as an opportunity for the automotive OEM manufacturers. So while we also rely significantly on technologies from the parent there have also been some very unique local developments, local technologies developed in the area of acoustics in our own land here in Bangalore which are now being considered because you have to keep in mind once you speak in any product into an old OEM it tends to go outside, you can't control that the pace at which it goes outside the country because the customers who take the specifications to other geographies as they see fit. I think some of those areas may also flow to other parts of the area, so which areas exactly it goes to depends on where the customer choose to take it. But that's another very promising area where we continue to be in touch with our global teams as well and they are also in touch with us to understand this. So I mean I would call out these two areas and then I will leave it there.
- Moderator:** We have the next question from LakshmiNarayanan from ICICI Mutual Fund. Please go ahead.
- LakshmiNarayanan:** If I look at couple of your segments and if I just compare India and China and I look at the sales per million of nominal GDP I find that in terms of both healthcare and in terms of consumer the penetration is almost there and is it fair to do that way in terms of not just the penetration but looking at the per million nominal GDP?
- Ramesh Ramadurai:** It is a good a way to look at it because when you compare across geographies you need some headline benchmark to look at right penetration **CHECK [00:50:34]** etc. So it's a fair way so I would say that I know that we are under penetrated in India in health care even though the index or the ratios that you referred to may show that we are on comparable to China it just demonstrates that both geographies have a long runway ahead of us. So if you compare China and India operations for 3M I think some of the big differences comes in the scale of manufacturing of automotive and electronics it's huge I mean 27 odd million vehicles in China to 3.5-4 million passenger vehicles here, electronic very huge manufacturing in China to practically nothing so far in India and of course the manufacturing in depth segment is itself very large in China. So I think 3M in China has done a fantastic job in penetrating in all of these manufacturing segments and the scale that it has afforded the company. I think things like healthcare, consumer etc. healthcare is more standard, it's more adoption of standards and its' more education, it's more longer you know I guess it's a power of compounding over a period of time.
- Lakshminarayan:** Got it. In health care if you look globally your margins are way ahead of India right. Is it possible to reduce the gap and if so how you thinking about it?
- Ramesh Ramadurai:** See there are certain aspects in healthcare business globally, we don't have any opportunity here. One business is called the health information systems which is transcribing health records and so on. It's a large business for 3M and provides significant scale and also I guess margins but that is not a business that exists for us in India in this point in time may emerge in the future. Personally I'm not very conversant about that business to talk too much about it. But there are parts of the portfolio which are not as an opportunity here for us in India but having said that the intent is to continue to improve our margin position. Our largest part of our portfolio is the hospital segment and is by far the largest and the next one would be the dental segment.

- Moderator:** The next question is from Nitin Arora from Axis MF. Please go ahead.
- Nitin:** On the OEM emission for the commercial vehicle for the BS 6 just want to understand is it a new product that we are coming out it on the BS 6 side and how relevant or how big is the opportunity size if you can talk about that. And second given that in all of **CHECK [00:54:06]** proportion of B 2 B I understand that you gave you know incremental market share numbers. Across you segments where you are higher in B 2 B more than 50-60 percent but when we look at from a market share is it right to say we are **CHECK [00:54:26]** market share more than 30%-40% in all the relevant category we are there in B 2 B?
- Ramesh Ramadurai:** About the BS 6 emission first, yes it is a new product. It's a new product that we are bringing in for this market. All I can say at this point of time is due to the confidential it is some CDA's are there with customers so what I can say is that there are some agreements already in place and till such time the local manufacturing comes upto speed and is commercialized we are meeting the requirements through imports but I think we have a substantial cost advantage that we have come up when this is localized next year, that is number one. It's a large opportunity, it makes a material difference to our size of our overall business. For the second question if I look at the aggregate for us in 3M we would not be at that level at all. We would be much-much lower than that. There are definitely certain pockets in certain market segment where we would be in the 40% or even higher in couple of cases but I would say in a majority of case we have ample room for growth and we are not anywhere close to the level of market share strength whether it's 40% plus or so. Keep in mind while we are B 2 B we also serve a very broad cross section of customers whether it's in manufacturing multiple segments with different products like abrasives, tapes, safety products etc. So there is a broad count of customers and therefore the market share these customers is still well below what you had indicated, indicating a lot of opportunity for growth. What becomes important as the COVID situation hit us now the things we are working on is how do we improve some of our or how do we change some of our market coverage models that is something we are looking at. We still have work to do in that area because a lot of our products even in the B 2 B distributed segments are differentiated technologies sometimes you do have to have that conversation face to face or demonstration of the products to demonstrate why it delivers a certain value etc. But the COVID situation is challenging, some of the parts that we had on how it should be done I don't have an answer but I'm just using out **CHECK [00:58:07]** here with this audience.
- Moderator:** Thank you. We have the next question from Mr. Chinmay Parekh. His question is- Scotchkote RG-700 developed by 3M India has been called a world changing Idea. What is the revenue and export potential? What is the auto revenue as a percentage of pre COVID levels and any specific sectors where make in India is gaining momentum other than mobile manufacturing?
- Ramesh Ramadurai:** The first one is about the scotchkote product, it is in the trial stage this is a coating that our team developed in India to reduce the heat transmission into railway coaches because you know how hot it gets during the summer months and if you are travelling in a non-air conditioned compartment it can be quite discomfort levels can be extremely high. So I think this coating when applied to the roof of the train compartment significantly reduces the heat inside the compartment and also for air conditioned coaches it's an advantage because it reduces the energy requirements to operate the air conditioning system. So that a very extended trial that's going on so it is still in the trial stage. So we don't have revenues to quote on this particular product, that's number one. Number 2 in terms of what segments are seeing or will see some life for us from 3M's perspective from the make in India, I think I have already talked about the electronics so which you said other than electronics. As we look at the increase in the defence manufacturing so there is a direct derived benefit for 3M I think opportunity for number of products that go into defence manufacturing, some may be specified but some also gets into more high end adhesives and tapes and different types of finishing material that are used. So the whole area of defence manufacturing. I think if you also look at **CHECK [01:00:36]** different states are coming up with so many different sectorial clusters there are many sectorial clusters that are coming up. In fact it's in Karnataka here we are you have the FMCH cluster coming up, you have got the whole pharmaceutical bi pharmaceutical clusters are strong, then you have the whole aerospace cluster coming up. So I think all these sectorial clusters is something we also need to be we are tracking and we have to see how best we can take advantage of some of those investments that are going

in beyond the big names like electronic etc. So I think those are 2 big areas that we are looking at I think we should see some benefits from those in the coming years.

Moderator: Thank you. We have a question from Harishkrishnan from Kotak Mutual Funds. His question is, can you elaborate on the export opportunities for 3M India. How large can they scale out?

Ramesh Ramadurai: I spoke about 2 examples earlier so I think if you recall the automotive car care portfolio and also some of the new developments that we are doing with the acoustics area the local product development and new technologies launched here. So I will leave it there because otherwise it would be just a repetition of what I said earlier.

Moderator: Thank you. We have the next question from Mr. Bhaumik Bhatia. Please go ahead.

Bhaoumik: I just wanted to get your perspective on how 3M India looks at growth and I'm taking about in the context of the strong growth opportunities in your operating segments, the technology leadership and is there a case for accelerating the growth going forward? Just wanted to get your perspective.

Ramesh Ramadurai: I would frame my response in 3 or 4 views. One is a strong focus on priority areas which have scale because we do offer differentiated products generally at a higher end of the technology spectrum. So focus on priority segment like which we spoke about throughout the call which have scale and then from a company standpoint there is a clear intent to do what's necessary the capability that's necessary to capitalize on those opportunities. For the most part I think we already have a portfolio that's available in 3M **CHECK [01:04:01]** and we have the capability to modified if needed to meet certain local value proposition so which we have done that through localization programs like in our consumer business. Even in our healthcare business we do some local manufacturing here in India. So we have the localization the portfolio is available, the technologies available to us from the global IT portfolio that intellectual property portfolio and we have the local capability as well. So give all of this I think the intent to drive a growth into the future sustainable growth is very strong and I have already covered a number of areas 3-4 high impact areas which are really proof points that we can deliver on these I can just repeat it quickly here for sake of completeness. So one is if you take the manufacturing sector, workers safety is something which is gaining dramatic prominence now thanks to COVID over the last 3/4/5 years we have been working the agency called Digifasli so they have responsibility they have some guidance on worker safety standards, personal protection equipment's for workers etc. So we have been working with them and working on establishing standards but the adoption of those and the implementation of those and compliance to those was a little slow because you know manufacturing companies especially smaller medium MSME's you know it takes a little while to build the capability for them to observe all of these protocols. I think there is a renewed **CHECK [01:05:51]** huge spike in interest in those areas which I think would **CHECK [01:05:55]** well. The hospital standard that I spoke about that is driving standards to global levels in the hospital care sitting areas whether it is operation theatre, sterilization areas or in the ICU's they have good standards it's trying to see how we can improve on those and keep in mind there is also a PLI announced for the med tech industry recently. The med-tech industries intention is there has to be across the board improvement in standard as well so that whatever manufacturing happens in India is not only for domestic market but also for exports. The third area staying on the theme of safety is road safety. Road safety is increasing getting recognized in all the blue prints that are being put together by NHAI. NHAI is a strong supporter of road safety and we have seen more and more of that built in budgeted for as they come up with new projects. We talked quite a bit length at automotive and smartphone so I won't repeat that. So if you look at all of these, these are all increasingly segments that come with significant scale and I think that will be **CHECK [01:07:21]** for our growth.

Bhoumik: Regarding the exports and you did allude to in some parts but my question was more specific to what's happening with China and how does the India export story from a 3M point of view? Does it change anything for 3M India from an export standpoint or what are your thoughts?

Batlivala & Karani Securities India Private Limited
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Ramesh Ramadurai: I think the export story for India would be based on the product portfolio that we have developed here and some of the unique technologies. I think the China influence or the China narrative is not going to materially change anything for 3M from an export standpoint.

Moderator: Thank you. Ladies and gentlemen that was the last question for the day.

Ramesh Ramadurai: I just want to thank everybody for participating today. These interactions are very important for us because it also informs us of a different point of view and we learn from these just as much as we try to provide more colour to all of you about our operations. We also learn from your questions as to how you think about our business. So it's very informative for us so I appreciate you taking the time to be here and participating. I definitely would like to take this opportunity to invite all of you to participate in our first virtual AGM which will be a new experience for our team here. So please join us for the AGM and we look forward to your support to the resolutions as well. Thank you.

Moderator: We thank the management of 3M India for providing us the opportunity to host this investor meet. We also thank all the participants for participating in this event.