

Transcript for Investor meeting with 3M India dated 23rd June 2021 at 3:00pm IST

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Ms. Vidya Sarathy - CFO, 3M India

Mr. Srinivasan Venkataraman - Company Secretary & Compliance Officer, 3M India

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Mr. Rushad Kapadia: *Okay, Good Afternoon everybody and Ladies and Gentlemen welcome to the group discussion with the management of 3M India. Please note that the call is being recorded I would now like to handover the floor to Mr. Jaideep Goswami, Head of Equities at ICICI securities to introduce the management of 3M, thank you and over to you Sir.*

Mr. Jaideep Goswami: *Thank you Rushad, it is our great honor and pleasure to host, Mr. Ramesh Ramadurai Managing Director and ED of 3M India and Chief Financial Officer Ms. Vidya Sarathy along with Mr. Ramadurai for this call. A brief introduction of Mr. Ramadurai here, Mr. Ramesh Ramadurai was first appointed as the non-executive non-independent director of the company with effect from March 27th 2015, he was appointed as the Managing Director of the company from 1st June 2019, Mr. Ramesh Ramadurai was appointed as Business Director for 3M Industrial Business from July 2013 and was based out of Shanghai responsible for the entire Asia Pacific area. Prior to this role, Mr. Ramesh Ramadurai served as Managing Director for 3M Philippines from August 2011 until June 2014 based in Manilla. He joined 3M India in 1989 as Sales Engineer and held positions as country business leader in Industrial Business and Electro and Telecommunications. He was seconded to global headquarters in San Paul, USA and worked as Market Segment Manager in Industrial business as Global Business manager for a line of Industrial tapes and as International Business Manager for 3M's packaging, masking and specialty tapes businesses. Prior to 3M Mr. Ramesh Ramadurai worked for a year as a production engineer at an off-shore oil production facility and for 3 years in a business planning and development role automatic parts and motor cycle manufacturer both in India. Mr. Ramesh Ramadurai is Chairman of Confederation Indian Industries (CII) Karnataka for the Financial Year 2021 - 2022. Mr. Ramesh Ramadurai holds an MBA degree from The Indian Institute of Management, Calcutta and is a Bachelor of Technology in Chemical Engineering from Indian Institute of Technology, Kanpur. Along with him we have Ms. Vidya Sarathy, Chief Financial Officer, Ms. Vidya Sarathy has about 27 years of experience, she has extensive experience of working in financial positions in diversified industries, her experience include working with Fortune 500 Multinational Corporations such as Robert Bosch Engineering and business solutions, Landmark retail group, Tata Motors and Tata Cummins, her experience runs across broadly in Finance function including Accounting and Counselling, Financial Planning, Treasury, M and A taxation and Corporal Secretarial related compliance roles. Mrs. Vidya holds a Bachelor's degree in science from the Madras University and is qualified Chartered Accountant, Company Secretary and is a certified Management Accountant. She also holds a certificate in IFRS from the association of Chartered Certified Accountants, UK joined 3M Indian, limited as CFO from June 1 2021. Thank you Mr. Ramadurai for your patience it is our great honor to host you for this call, over to you for initial remarks.*

Mr. Ramesh Ramadurai: *Thank you, thank you very much Jaideep and Rushad I really appreciate the very generous and gracious introductions. Good Afternoon everybody. I hope all of you are*

staying safe and well. Thank you for the opportunity for this interaction with all of you. I think it comes as I think Jaideep or Rushad was reminding it comes almost a year to the, I think to the couple of months off compared to our last interaction in two thousand and twenty in the month of August. So I am joined today in the call by our new CFO Ms. Vidya Sarathy who was just introduced to you and also our Company Secretary Mr. V Srinivasan. Before we begin, I would like to reinforce some of our disclaimers and safe harbor in today's call there may be some predictive statements that may reflect our current views about 3M India's future performance but these are subject to risks and uncertainties, as per company's policy 3M India Limited does not provide forward guidance and therefore I will not cover that and as per regulations the entire interaction will be recorded and recordings and transcripts will be made available in our Investor website. Okay in today's call I will share with you our 2021 financial results and highlight certain aspects of our results and then of course we will open it up for Q and A. As you already know we operate in four business segments; Safety and Industrial, Transportation and Electronics, Healthcare and Consumer. For the year 2020-21, Safety and Industrial contributed 39% of our mix, Transportation and Electronics 35%, Healthcare 14% and Consumer 12% of the mix on a consolidated basis. Compared to the previous year, the changes were within 1 to 2 percentage points in the mix, so nothing significant or material. All segments delivered negative growth with healthcare the most impacted at minus 25% and consumer the least impacted at minus 2% for the year 2021. 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. Due to the pandemic related lockdown we experienced sharp declines across all of our inducer market segments in the last financial year. After the strict lockdown in April 2020 and part of May 20, we saw a gradual re-opening of the economy from June of last year, growth contracted sharply in fiscal Q1 and showed subsequent sequential improvement on a consolidated basis our fiscal Q1 growth was minus 57% that is the April, May, June quarter of 2020 was minus 57%, this improved to minus 9.6% in Q2, minus .5% in Q3 and a plus 22.9 % in Q4. Under these conditions we delivered consolidated sales of 2,605 crores in FY2021 which was 12.8% lower than the previous year with an EBITDA of 10.8% our PBT was 220 crores at 8.4%. So in the face of weak external market conditions we exercised good discipline in managing all aspects of costs. I would now like to cover a few specific topics. The first one is the amalgamation of 3MPnC private limited and 3M India Limited with 3M India limited, as intimated to the south exchanges on June 17th 2021 we have run into some unexpected procedural issues, due to which our application was denied by the Regional director Hyderabad, Ministry of Corporate Affairs. We will pursue an alternate path via the NCLT to move this forward we do not this will have any material impact on our operations or business continuity we will keep the members up to date as we progress. The second point is consolidation of our Pimpri Factory with Ranjangaon with our other factory in Ranjangaon both located in the Pune area, outside of Pune. As you may that the Pimpri site is owned by 3MPNC private limited we had earlier announced a plan to consolidate this smaller site into Ranjangaon for operational efficiencies and better costumer support. The timing of this consolidation was earlier indicated at December 2021 we are proceeding with this plan. The third one is on portfolio management; this is an ongoing effort in our company to ensure we prioritize our efforts to the best products in costumer portfolios. Last year in June 2020 we had announced our intentions to exit the printer graphics also called decalls, the printed graphics business that we sell to our two-wheeler and four-wheeler automotive. This was part of our transportation and electronics segment. This portfolio represented well below 5% of our company sales. I would like to inform you that the business exit was completed with good transition support to our customers, the VRS scheme was also successfully implemented, I would once again like to thank our employees who were part of this business for several years for their contributions as well as to our customers supporting us through this transition. The fourth comment I would like to make and cover is regarding our own operations during Covid times. As a company we adapted well to the

covid situation with strong focus on employee health and safety, factory operations remote working and also extending support to healthcare workers and community support. Since April 2020 we have been working mostly remotely with barely 5% of our head office employees accessing the office based on specific business needs. At the same time, we have put into place several employee engagement and support programs in the areas of health and wellness, connectedness sharing employee stories and learning and development. We have also rolled out a vaccination drive for our employees and their eligible dependents and we have covered close to 50% of employees with the first dose so far. This 50% is somewhat skewed, we have covered well over 80% employees in our factories and all other non-factory based employees somewhere in their mid-thirties, the reason is that a lot of the employees, non-factory employees have also got their vaccination on their own as well. We are starting the second dose of vaccination camps from tomorrow to eligible employees. The fifth point is the strong demand recovery and the business growth we saw of Q4 2021 was tempered by supply chain disruptions due to the pandemic, winter-storms, etc. resulting in raw materials cost and logistic cost inflation. The sixth point is, I would like to make a few comments about growth, the breadth of our technologies, the breadth of our product portfolio and also an engaged and committed team of 3Mers gives us the ingredients for resilience and driving growth we are leveraging these strengths for sustainable growth our prioritized actions will deliver outcomes in short term and beyond. I would like to highlight a few, number 1; we doubled down on segments that demonstrate recovery. This was clearly evidenced by a strong growth of about 23% in the 4th quarter of the last financial year. During the last year we also took several actions to improve productivity and efficiency across the enterprise. For example, we focused on improving our capability in digital led customer experience, enhanced digital intimacy with customers through programs such as healthcare academy infection prevention programs, energy academy in our electrical markets, various webinars and e-connects. We have also been overlaying our design capability to these approaches. We continue to closely track the make in India priorities as well as the PLI's production linked incentives that have been announced. So far we have opportunities in practically most of these new sectors to varying levels of intensity. We see this as a medium term opportunity. New application and application replication continue to be foundational to our growth in existing markets and several new products, whether it is acoustics for automotive OEM's various interior cleaning portfolio, such as air quality disinfectants for the aftermarket. Our road safety related products are a few examples of some recent launches. And the last point I'd like to cover is on margin improvement you may have observed that our material cost increased by about 330 basis points in FY 2021 versus the prior year in, on a consolidated basis. These increases are attributed to 1, the rupee depreciation and 2 is the impact of revenue mix from different segments and also the cost inflation that I mentioned earlier and finally, I'd like to share an update on our CSR programs. In FY 2021 in addition to some of our multiyear commitments, we supported several NGO partners in the areas of food security, and also programs to build resilience, such as critical medical equipment for cancer foundation hospital, mobile health vans and more. We also leveraged grants from the parent 3M foundation to build capacity, via oxygen concentrators HNFC's and others and we did all of this in December 2020. In the last couple of months, we have partnered with other companies to support the government with augmenting ICU bed capacity and we have several other programs in the works right now.

Enclosing as always I invite you to attend our AGM on August 26th this year, which will again be held on a virtual mode that concludes pretty much my opening remarks. I'll now turn it back to you and we can open the call for Q and A, thank you.

Ms. Divya Purohit: Thank you Mr. Ramadurai. Participants who wish to ask questions may raise their hands and we will announce your name. The question is from the line of Nitin Arora, Nitin please go ahead

Mr. Nitin Arora: Hi, am I audible? Yeah, thank you. Good Afternoon Everyone Thank you so much sir for giving me the opportunity to ask questions. So basically the question is now on the new revenue drivers which you just a space upon let's say the PLI which you talked about. If one has to draw a timeline and the size of kind of opportunity you can draw from these PLI schemes can you throw some light, how has been the successful far in terms of converting mobile player, where we play a role in terms of getting their orders, how one should time or how one should look at the size of revenues which can come in? That is the first part, the second question is let's do the same, I think we had done a capex on the automobile product if you can throw some light, when this product will get commercialised and also if you can talk about the size of market size of the revenue one should look at I just have one more question I'll ask after this.

Mr. Ramesh Ramadurai: Okay, thank you for the question first I will talk about the PLI and then I'll cover the Capex and automotive. The PLI, I deliberately said this is a medium term opportunity and as you know out of the 13 key sectors, I believe PLI's have been announced for I think 10 or 11 of them the details have been announced. We continue to stay closely in touch with not only the concerned departments government departments but also the manufacturers who are the companies who are expressing interest to participate in these PLI's. We have also looked at portfolios that we have for all these PLI's. It is very difficult to estimate the actual potential what we have because it also depends on the extent of manufacturing intensity that happens in each of these PLI's.

For example, to go back to the mobile handheld which I think we discussed in these calls even in the last 2 years, you know we unfortunately due to Covid, some of the localization of the supply chain has also probably been a little delayed. So from a I mean, the intent obviously was to move from high up assembly percentage to I think well over 90% was assembled layer of 150 or so 1,000,000 units sold in the country. A high percentage was assembled here 90 plus percent. So obviously the intent was to increase the localization content, which is at the heart of the India program. And our opportunities really start to come through when we are a tier 2 supplier, we are not tier 1 supplier. So we are material suppliers to folks who make subassemblies components and in turn supply to the

So therefore our participation in this industry is this value chain or supply chain has also been pushed out a little bit.

So this is the 1 which is probably had the most traction right now, and we are still trying to figure out what will be the exact timing when some of these will happen. Obviously we are in a very. We will start with all of the manufacturers and the leveraging our global relationships with them. For all the others whether it is advanced cell chemistry batteries, whether it's telecom and networking products whether you know you look at other areas like food products, solar TV modules so all of those sectors I mean there is product portfolio that in 3M would be applicable there and will have a play but at this time unfortunately we are not able to give good predictions or estimations of when they will when they may come to bear. Okay so I will leave it there on the PLI's but definitely, we see that as an important part of our medium term growth plan. On the 2nd part of your question about the automotive Capex that is going on, I think there will be a delay of about a quarter from what we anticipated because we have a lot of restrictions on construction work and so on and our site in Ranjangaon where this investment is going on because of the pandemic. So because of that we expect there will be about a delay of one quarter which means it will flow into perhaps the end of the you know 4th quarter of this financial year there is Jan, Feb March 2022 with commercial supplies starting by April 2022 so qualification runs etc.

will happen during Jan, Feb, March quarter. Again, this is our estimation right now as you know Pune also goes, kind of changes the levels in terms of the seriousness of based on how the Covid situation is and that directly impacts our ability to proceed with some of the construction work using outside contractors and so on. However, the other part, the sales is not really being lost because as I've said before we still continue to serve this market using imported products from other sources of supply and this a manufacturing investment is obviously to localise it. So we have a better not only a cost position but also our services, we can dramatically improve our service position and be more flexible and agile to our customer requirements. So the sales per se is still being the customer's needs are still being serviced through sales input until this period.

Mr. Nitin Arora : Yeah, just the last question from my side, one is that even post Covid I understand there was a 2nd wave, but still healthcare has not been able to get back to the growth if you can highlight what's really happening at this segment? and how do you see the growth for this particular segment and if we assign this set aside these mid-term growth drivers like let's say the PLI, do you think 3M as a company growing these segments we already what we are doing FY 22- 23 do you think a 15 to 20 % growth looks possible apart from these you know the largest teams which are the medium term growth dividers? If you can touch base on both these points, thank you sir.

Mr. Ramesh Ramadurai: If you go back to our quarterly sales by segment, you go back to 2018-19 you rewind the clock almost 12 quarters, now of course out of the 12 quarters last year couple of quarters you have to discount because of Covid and if you compare that with our unrated the Q4 of the financial year of 2021 that is our sales in 2021, Q4 was approximately 827 crores. I think if I have got the number right but anyway give or take a little bit point or 2 here and there we were at about 827 crores and then if you go back by segment in absolute sales forget about the percentage changes, which get inflated or deflated due to base comps. You look at safety and industrial, transportation and electronics. We were almost at a 12 quarter high in absolute sales. I wouldn't say in every segment but in definitely in transportation electronics we were at 12 quarter high. Safety and industrial I think we only had 1 quarter which we, where we did better than last Q4 and consumer is also being pretty close to our 12 quarter high and you're absolutely right health care is the only area where we haven't while we have recovered sequentially from you know across 4 quarters last year. I think we were about hundred and ten crores in Q4 but the issue is, we have also seen it remains depressed because of the lack of elective surgeries are the medical elective solutions which is a big part of our health care portfolio, that is the products we supply to the hospitals essentially for elective surgeries ICUs and so on that they have been really down, and I think they were they started to recover towards the later part of last calendar year towards the November - December - January timeframe of January 21, but unfortunately they've also gone back quite a bit after the 2nd wave. So that has had a significant impact on that business and then the big piece of our business is technical business and the dental, dentist as you know have been very significantly affected throughout this pandemic. So those portions of our portfolio has not been, the market itself has been extremely affected by external factors. So but we do see that you know, we hope it will right now we don't have any dramatic green shoots to speak off, but we do hope that we'll recover as we move forward sequentially through the quarters and as the vaccination starts to pick up pace and momentum across the country.

Mr. Nitin Arora: Thank you

Ms. Divya Purohit: Thank you next question is from the line of Mr. Bhalchandra Shinde, he's from Max life over to you Mr. Bhalachandra

Mr. Bhalachandra Shinde: *Good Afternoon Sir, regarding as we mentioned that in the PLI schemes, we see the opportunity by but are we going to plan a relatively localization, if at all the value chain comes into play over the next year say 5 to 7 years in India for these PLI schemes, do we expect ourselves to localise it or continue with the input content in these PLI schemes?*

Mr. Ramesh Ramadurai: *Thank you for the question, we will definitely start the program. we will start our participation in these various sectors supported by imports and we do in our factories, like I mentioned perhaps in our call last year as well, we might import products in what we call 'large formats' like let's say it's a piece of tape that goes into one of the, In a particular application in a particular sector we may bring it in a very large size role and then so some final converting at our factories at Ranjangaon for example to support customer needs to nimble on supply chain requirements, sizes etc.. So, it is more of a service from a service standpoint, and also from cost standpoint so I think that is how we should start the operations. So there would be an important content in that. And then we would they would be a local content also at the point closest to the customer, which is where the final converting precise the format in which the customer requires it all that would be done locally in India to the extent possible. There may be a few products, which are so specialised they may come in as finished imported finished products also that is also likely, but we think a majority of them would be bring it in some kind of semi-finished form and do the finishing here. Now, to backward integrate and do the actual manufacturing itself year it would depend on how the scale improves whether you take into account the whole investment you know, attractiveness of the investment in local manufacturing and then you kind of compare it or offset it with fluctuations and exchange rate etc. that is how we would make the decision and case in point of course is the automotive product, that we just spoke about in response to the earlier question, where we are making it locally make the investment to make it locally the other pertinent question which you may have in mind that if we decide to localise do we have space in the factory? The answer is yes, we have a we have at least a full day available to construct a brand new shop floor, so as to speak so space is also available. It is not that we should need to be looking for new site for this. I hope that answered your question.*

Mr. Bhalachandra Shinde: *yeah yeah and when we take a case study of 3M China actually in last 10 years if we see last 10 -12 years 3M China has already grown at around 10 times and largely because the electronics industry manufacturing was at a very strong growth in China. Do we see that kind of a scenario happening in India? If at all the value chain comes into play in India?*

Mr. Ramesh Ramadurai: *yeah the growth in China was clearly predicated on several factors, but clearly electronics was one automotive The scale of the automotive industry relative to our industry has also been is well known. I mean it's what six times plus 6X or more the size of our industry and also the vehicle mix that you see there is different from the vehicle mix that you see in here all of this goes to the opportunities for higher value. Added products in addition to that there is also significant changes in the Chinese market in terms of automation robotics coming into play in the manufacturing processes and so in many of those areas also we have you know solutions that we can participate in and we participate in right now. And then things like EV has moved a much Progressed as well in China for I mean there are many factors and the scale itself is significantly different the size of the economy and the size of the manufacturing industry is different so to answer your question yes as these whether it's through the EV or even you know organic growth fast segment continues to grow for sure opportunity for growth is very strong. A percentage prediction is hard to give you right now, but yes definitely the operation growth opportunity is very strong.*

Mr. Bhalachandra Shinde: Sure and related to profitability. Our profitability has been very volatile we have around 11% FY 15 then we have one up to 18 and a half to 17% and then again are below do we see there any stability in profitability or will it continue to be volatile based on rupee depreciation and (following sentence incoherent)

Mr Ramesh Ramadurai: yeah you're right and that's why I address that point. Also it is part of my opening remarks is on margins you're right the PBT has gone in 2017 - 18 we were at about 17.9% almost 18% as you pointed out and then it's gone down and were looking at the best there are three actions that we continue to take, unfortunately Some of those have while we made progress in many of those actions, I think the headwinds have been stronger. The actions are number one is product mix how do we how do we position ourselves a bit more with more an attractive portfolio with a more profitable portfolio with sustainable margins. Therefore, in response to that one of the actions even though it's relatively small in the overall scheme of things was exiting the graphics portfolio, which was diluted to our margins as well as you know it did not we did not have a competitive position for a variety of reasons. So we continue to look at those type of opportunities. The other is more proactive leading with high-value products driving specific specification driven programmes like in the automotive business where we want to move to higher level higher margin and higher value of customer type of product portfolios that is point number one on product mix. The second One, is you know continue to do drive localisation weather going back to just give me a minute just when We get into calls like this I get one of these reboot notices on my computer if you don't mind give me a minute. Yeah sorry about that. So the second point is localisation programmes not only for programs which would be as like our automotive you know the ceramics material that we are doing right now but also a number of other smaller programmes which will help us drive cost. Direct reductions and improve the unit cost position. So that goes to some of the change rate volatility that we talked about. So these are the primary actions and then we continue to unfortunately this year we have been offset by raw material costs increases to extreme volatility especially in the last several six months or so and the logistics cost lead cost of both C freight and F freight have gone up dramatically. I mean as it's been well recorded we hope some of this cost pressures at least with respect to logistics will pay out in the coming no I don't mean to make a prediction but hopefully in the coming couple of quarters or so. Because but whether it will go back to where it was I doubt it but it will hopefully have some relief. Because you also looking at Supposed right now we are experiencing port congestion out of due to issues and one of Chinese ports right I am sure you've all read about that that. That is expected to create a ripple effect of backlogs across global shipping chain for at least several for at least couple of months if not more so we don't know what kind of impact this will have on cost so we can continue to watch those very closely sure. And this last question related to and pre-sales and related Agra Road was lowered and appears having lost market share or reply exactly a growth was relatively relative to peers we must sleep up play. We mostly participate in the most specialised niche segments. We do not have a large mass portfolio so to speak so I mean we don't have a large retail part of the portfolio like some of our peers do. So I think that is the primary reason where we have a niche product which goes into differentiated market segments for differentiated applications. That would be the primary reason.

Mr. Bhalachandra Shinde: sure sure thanks. I'll come back.

Ms. Divya Purohit: thank you next question from the line of Deepesh Agarwal from UPI MF Deepesh please go ahead with your question.

Mr. Deepesh Agarwal: Yeah hi good afternoon team, sir my first question it's our dependence on imports it's quite high whether through our raw material of finished products can you help us with a quantitative plan to increase the share of digitalisation over a medium term?

Mr. Ramesh Ramadurai: Sure, I'm just trying to look at my notes. Sometimes I don't remember all the data but if you look at the if you look at our data published in our annual reports in terms of where the local you know products made which are sold manufactured in India locally manufactured products as a percentage of total sales it was roughly just under 60%. 59% was manufactured in India. If you look at 2021. 2019 -2020 was about 56.8% so if you look at the share of local manufacturing increase by about 550basis points versus over the last four years which means that approximately hundred to 130 basis points increase year-on-year it's not to be uniform every year but on an average this is what this is how are mix has changed I do agree and concede that even in this 59% localisation, there is some amount of they could be some import content in that so it's not that it's hundred percent source locally and that will continue we would have a hard time making everything. hundred percent local we are trying but there is some distance to go so I think our intent is to continue to go on this part for a like 100-120 basis points. 230 basis points improvement in a local manufacturing mix year-on-year and that's been that's been a result over the last five years and that's pretty much of a plan going forward as well.

Mr. Deepesh Agarwal: okay sir and witty international station would a margins also improve it would just be that the volatility on margins would go down?

Mr Ramesh Ramadurai: The margins I think I answered in response to one of the previous questions yes I think the question the previous question was about the digitisation of the materials we may supply to the sector so we would obviously take a view based on both you know what is the margin what is the return on investment for localisation and perhaps we would start the whole process by importing products and then doing some last mile localisation India. And with 10 working away backwards into you know the well you know to go upstream to localise more. So that would be oh that's been a strategy and that would continue to remain as strategy and in all of these cases the intent is to improve margins and also reduce the impact of volatility that you talked about boats are our objectives but in some case like we've experienced in the past several months the inflation materials have been quite dramatic.

Mr. Deepesh Agarwal: Understood so my next question is when you compare your product portfolio with your parent's portfolio which are the key areas where you see a lot of scope for new product introduction in India in the next 2-3-4 years which are readily available with parent.

Mr Ramesh Ramadurai: there are two there are two ways the company on a global basis looks at new products one is a new product introduction which there is some amount of cannibalisation right so like even you know you go back to the question on abrasive braces is one of the oldest portfolios for 3M I'm going back over hundred years almost so however to keep the portfolio fresh as well as new products there is some amount of cannibalisation baby introduce new products to replace our own products to stay competitive in the market place so that is one part of it the second is new products for completely new either applications on new opportunities and existing markets as well as in new markets and there is a great example of those as well where we brought in you know whether it is acoustics and automotive vibration harshness the electronics market segments in the bio pharmaceutical filtration so there are many examples where a brand new product and new segment for 3M have also play a vital role in driving growth. So I think the answer is both.

Mr. Deepesh Agarwal: *lastly where is 3M India fits in the parent supply chain because there are many MNC companies looking to ramp up a local manufacturing from India for their global needs, does 3M India have a similar strategy for India.*

Mr Ramesh Ramadurai: *yeah 3M India has a global supply planning footprint I mean was a strategy The global supply footprint which goes across all the regions of the world within Asia Pacific we have significant manufacturing in China Japan Korea and of course in India to meet a local requirements for the most part I mean practically for all for the most part in India today our manufacturing is based on our local market requirements we are not an export location right now for manufacturing our site I mean yes there are some modest levels of export that's happening but in the overall scheme of things as a percentage of our total revenues it's you know it's very small as you would have seen it from our annual reports as well so I think in the foreseeable next even you take the next to your view on three your view I think this maybe the direction how it changes going forward beyond that horizon it's kind of hard for me to comment right now.*

Mr Deepesh Agarwal: *understood thank you and good luck for the future.*

Mr. Ramesh Ramadurai: *Thank you.*

Mr. Rushad Kapadia: *Thank you we have the next question from the line of Ankush Sharma, Ankush please go ahead with your question.*

Mr Ankush Sharma: *yeah hi sir, good afternoon I hope I am audible.*

Mr. Ramesh Ramadurai: *Yes*

Mr. Ankush Sharma : *yeah great okay so firstly I was going back to the gross margins you know and I believe you already discussed quite a bit on that you know how that's kind of come off from the highs of 4748% maybe three years back to 39% at the gross margin level so my question really was given a weak demand environment you know what we seen over the past year or so, it is very difficult to take price hikes and therefore given there is a risk that consumers may be tempted to be to kind of switch to cheaper competition is why we kind of refrain from taking price hikes and therefore the hit on margins is that all the or other one of the reasons is also why margin's kind of suffer in a weak demand environment?*

Mr Ramesh Ramadurai: *so it's a great question on pricing we do have a strategy of you know Bing Fairy targeted with a pricing very intentional and targeted without pricing strategy. There is a year-on-year price adjustment plan that we go in with an I mean there are some expectations to it which may be bound by contracts etc. but generally speaking we have a good track record of implementing price increases but in cases it may not have been adequate to offset all of the headwinds like I mentioned earlier and even if you look at you know the whole of the portfolio as a whole I mean we generally drive price increases in all of our businesses it's not limited to any one or two in a very limited few cases we have some formula driven pricing which means that there is some formula link to published raw materials indices price indices so we do that but that's a very small part of our portfolio. What is happened I think is the last I mean you know your question goes back more generally to the last 23 years but if I me just comment specifically on the last two or three couple quarters some of the inflation has been so drastic so voluntary and sauce quick can dip the opportunity for a price increase is obviously lagged some of those increase some of those cost inflation so we are obviously we have implemented some and we have some of these*

contractual ones we are in the we have in the process of implementing now which hopefully will give us you know some relief going forward but yes we do have a policy not policy we do have a practice of strategy of adjusting increasing prices and you know if you go back to 3 - 4-5 years of course in some cases there have also been price adjustments on the downward side either because they are linked to certain formulas or just as good as business reason.

Mr. Ankush Sharma : okay very helpful so my second question you know almost on the end of market wise breakup if you could give us you know for your company as a whole so obviously auto is one of the key ones I understand but about 2025% of your overall sales would be autos and auto and maybe but broadly if you could just break down your overall business by end markets would help us understand the business a little better and also which markets are you most positive on Terms of the swiftest recovery happening and where do you think the recovery could be more delayed so more from year to year point of view.

Mr. Ramesh Ramadurai: Okay so obviously you know the way we support our resources across four segments and CMS try to sharpen its global organisation or the business module around for the four primary go to market modules which is safety Industrial which is primary read through distribution channels transportation and electronics is more a specification Zubin type of business and then you have the healthcare business model and the consumer business module so the segment level data that we reported obviously across this phone and we do not report data beyond that in terms of some segments but broadly if you look at it in terms of for your understanding you know just analysis if you look at what are the 7 6 or 7 major segments ?
Nearly 1 as infrastructure related then we have the what you can call manufacturing but manufacturing itself as you know you can drill down manufacturing into multiple sub segments and then we have the whole automotive segment and then we have the automotive aftermarket segment and then we have the healthcare retail and the utilities that we sell to in terms of electrical products and so on. So they these are broadly at a higher level these are the segments I would leave it at most of them are fairly sharp probably with the exception of manufacturing because it's kind of a catch all for so many other sub-segment now how each of these would recover you know I have to be extremely cautious your only because the demand recovery is quite uncertain at this time so I do not want to you know get into short-term assumptions because they could very well be wrong as soon as I make some comments but definitely from where we are today I think if I mention in the response to one of the earlier questions even to get back to where we were I think the healthcare obviously has the largest opportunity because we still operating supper pandemic levels I think when I talk about 2019 early 2020 if you look at those were operating at sub-sufficiently some pre-Pandemic levels for the reasons already explained so I think the runway for increase is quite strong in healthcare and the other part of it is also with increased focus on healthcare healthcare infrastructure because of the second wave I think we also feel that there shouldn't be a strong opportunities in healthcare going forward I agree it's only 16 not 17% or so fat water mix but nevertheless it offers good growth opportunities for us the second market which has been extremely depressed for us in the last several quarters the automotive after the market business as you can very well imagine I mean this you know nobody is taking the cars for fixing repairs you know getting a cleaning done or any kind of car care what is done on the vehicles because of the nature of this external condition so even in that business we are operating quite a bit to you know below Pre-pandemic levels so we expected some point some of those will start to recover and you know they might be we also think that might be fundamental changes how people think about it we doing some studies right now as we speak market studies and insights and so on but nonetheless how the business models Change in the future remains to be architect did I understood did an architect it but for the short term at least for the medium next whatever several quarters I think the business has the opportunity

and potential to come back. I think the automotive person that he kill Bill started to come back with some quite smartly late towards the end of last year and early this year Jan fab March but again you know my only question is if you look at production numbers I am not looking at sales I'm looking a production numbers published by I told passenger vehicle sales in 2021 was only 3 million whereas in 17-18 it was a 4 million right in 2017-18 financial year it was 4 million what is the total production of automotive auto mobile passenger vehicles. So we are almost 1,000,000 lower than where we were years ago yes some of it is because of the pandemic and so on because we lost a few months in between last year so I think there are automotive is you know you talk a lot of other and company so you can give me your perspective but I think it's got a long runway to go now how that makes will change with the issue shared mobility what how that trend will change because of the pandemic and post-pandemic all these factors remain a bit of a? But what we are also seeing in the limited few data points that we have is the mix of we seem to be increasing even I think in the last 23 days there are some newspaper articles about how the mix of SQ is increasing whether that distance itself for a 2-3 year period will have to we don't know we'll have to wait and watch but we'll be watching those closely so there is so to go back to my comment about you know where is the recovery opportunity automotive certainly and if you look at the data competitor years ago we still about 1 million vehicles lower in production so I think these are some you know put Sintex as they say infrastructure is another area where we have the funding is even in the budget how some of the timing of execution changes because of the second wave remains to be seen whether it's you know the \$76 million budget that was announced for infrastructure development in 2021 union budget road rail, Metro, urban infrastructure were all major beneficiaries but we also have to see how the timing of those execution changes so that's definitely an upside for us.

Mr Ankush Sharma: thank you just one last question if I mean you know on the dividends you know so while we are sitting on cash as high as almost 1100 nought crores as of March 21 we are not really been paying any dividends over the last few years and neither in why 21 so just wanted your views you know why are we holding so much cash not that it's really required in terms of working capital needs I mean we don't need some money right? So just wondering how you intend to deploy that money thanks.

Mr. Ramesh Ramadurai: The utilisation of cash in terms of investments we do believe that there is opportunity strong opportunity for organic investments to drive growth some of these if you look at Capex profile for the last few years obviously it's been modest but then I said earlier as well that our investments tend to be lumpy it's not a steady-state X percent to sales year on year because of some of the nature of our opportunities we continue to look at efficiencies like the consolidation of factories etc so I think there is so nonetheless with all of the market opportunities that are there I think we do have strong opportunities for investment to drive growth and the board all of course continues to review and discuss this topic of dividend and at this point the view is to continue to have that as you know a resource that is available to us to drive investments and future growth.

Mr Ankush Sharma: alright thank you so much very helpful.

Mr. Ramesh Ramadurai: Thank you

Mr Rushad Kapadia: We have the next question from the line of Niket. Niket please go ahead with your question.

Mr. Niket: yeah thanks for the opportunity so I think two or three questions so first on the mobile opportunity how long Will be content per unit with CM if you can just give us some broad

sense about it? Volumes obviously will kind of defer from player to player and how they will ramp up but from a content perspective how large can we be there the second question was how much percentage of our products are imported from a group companies or from a parent and any insight on transfer pricing how does that really function? Know whenever raw Material cost increase for your parent do they transfer you immediately or does that happen in a lack kind of period within three or four-year period and the last question is how largest online revenue for you now because I do see a lot of products of 3M being available on Amazon now so how long is that is a percentage of sales. Thank you

Mr. Ramesh Ramadurai: sorry I just blanked out for a minute your first question was what?

Mr. Niket: My first of three so the first question was on the mobile side

Mr. Ramesh Ramadurai: yeah so so I think I don't know if how many of you have gone to our cm.com the parent company's website there are 22 interactions that are there in the web cast and are both from our global CEO and global CFO so that is in the public domain I will use that as a reference because that's already out there in the public domain so our CFO Mr. Monish Potalawala was on call probably on June 3rd I believe it was June 3rd, June 3rd or June 8 I don't remember the exact date, was addressing this question of global exposure to global revenues from electronics segment and then he sliced his response in two parts one is the whole consumer electronic part and the other is the goes into the other facets of electronics namely semiconductors factory automation data centres etc. sue and Rafi the number that was put out there was that was disclosed was about \$4 billion electronics business for 3M on a global basis of which its 50% each to these two broad segments. So which means the consumer electronic site which of course includes mobile handheld you know iPads or I shouldn't say iPads tablets laptops et cetera is roughly 2 Billion The other part which is the Semi-con factory automation and data centres is the other half so why we don't get into details really of what is at the into further the granularity what's out there okay even then we I think there will be variations based on what are the models and the localisation in India what would the content pay for those what are the specifications so I think that gives you a sense of business for 3M on a global basis and I think that should be helpful in at least getting a sense of what it could be here in India that's number one

Mr. Niket: Okay Yeah

Mr. Ramesh Ramadurai: okay I am I am sorry to do this but can you please repeat your questions two and three and made a note.

Mr. Niket: Sure so the second question was on the transfer pricing part of it how much percentage of our products come from our parent company or other group companies across the world and has that also played an important role in bringing your margins down because they can be cost inflation is which can be, how do they pass on their cost to you guys, is it much more dynamic? Or is it like once in two years once in three years, you look at pricing how does it really function?

Mr. Ramesh Ramadurai: Okay so I do not recall the exact percentage of our imports from affiliated companies but it's out there, we have obviously reported in our annual reports. It goes through the RPT of course, related part transactions and what we do in terms of transfer pricing per se we go through the usual tests and analysis for doing transactions etc. through established norms and protocols through 3rd party auditors. So that is number one and number two the

frequency at which these he's kind of very is a little bit we generally we look at it on an annual basis to see how cost changes that's how these up or down it could be up could be down so it's done on an annual basis and the adjustments are made up or down so that is the second part of the question and so you said is it what percentage from the parent company I don't recall the number of fund we can get back to you through our moderators

Mr. Niket: *sure no worries*

Mr. Ramesh Ramadurai: *And the third question was online so how long is the online sales for you in India? Online is picking up very well but it is still single digits for the total company, if I look at it from a total company revenue mix, it's still single digits I would say on the lower side of the single digits. You know obviously we've seen a significant increase in our consumer business through online channels between the general trade, e-commerce and modern trade. Both general trade and e-commerce have recovered quite smartly after the initial impact you know due to the pandemic but modern trade has been a little slower in recovery for again reasons which are well known you know many of these stores are co-located in malls and reduction in footfalls and so on. But yes E-commerce has grown very sharply for our consumer business but overall I think it's still we see this as a significant growth opportunity and growth driver for us*

Mr. Niket: *Thank you, thank you so much.*

Mr. Rushad Kapadia: *thank you ladies and gentlemen just a reminder we have about 25 minutes remaining in this call if you have anyone has a question request you to please raise your hand that is the icon on the bottom right hand side of the screen. We have the next question from the line of Ms. Fatima Pacha, Fatima request you to please go ahead with your question*

Ms. Fatima Pacha: *hello Cell two questions firstly is there any export opportunities that 3M can have or every market is very localised?*

Mr. Ramesh Ramadurai: *Is there a second question?*

Ms. Fatima Pacha: *Yeah the 2nd question is 60% manufacturing or localisation that you spoke about is it significantly concentrated in any particular segments that is why the margins of some segments are materially better than others? To understand you know the volatility in the margins could be driven by, which segment does how?*

Mr. Ramesh Ramadurai: *sure so the export opportunities as I mentioned in the response to the earlier question by and large at this point in time our manufacturing is almost mostly for the local markets. We have some very modest exports right now, which is happening right now but that is you know is really small in terms of locating of you know exports how the whole global supply chain footprint is architected it is a combination of multiple factors but for sure one is of course local demand in the country in which it is located whether it is Japan or Korea or China or the parts or other regions of the world. So the domestic demand also comes into play there are couple of notable exceptions where you know we do have some manufacturing footprint in Singapore, which is you know just for its a highly automated it's very high, very low labour content very high automation and if you go back several years some of the reasons why it was put in there was because some key accounts key customers were also located in Singapore that's how the, whole hub single manufacturing hub in Singapore started.*

But otherwise for most part it's dependent on the presence of a market in the country in which manufacturing is put in so there has to be a sizeable scale in that country that's number one cause

the second part of your question to 60% manufacturing that I talked about I think most of our we have manufacturing the lowest content I would say would probably be in healthcare because many of our products and healthcare business are kind of you know regulated I think there are certain many approvals that are required because of the regulated feature of these products. We try to tend to control where these products are manufactured on a global basis so that we don't end up making suboptimal investments they have to meet different kinds of regulations across the world so just on global economy scale etc we do not do too many local for local type of manufacturing so healthcare probably has the lowest manufacturing content in our portfolio transportation the automotive transportation electronics has the automotive segment in it so automotive we do a lot of manufacturing in India and also a lot of our safety and industry manufacturing is local back to you.

Ms. Fatima Pacha: Fair enough sir, thank you so much sir.

Mr. Ramesh Ramadurai: Welcome

Mr. Rushad Kapadia: We have the next question from the line of Nishit. Nishit you can go ahead with your question please

Mr. Nishit: Yeah hi, my questions have been answered, thank you.

Mr. Rushad Kapadia: Okay thank you, Ladies and Gentlemen I Pete if anyone has a question request you to kindly raise your hands.

Mr. Aniruddha Joshi ICICI: hello sir this is Aniruddha from ICICI in the meantime I would like to ask some questions. So in terms of key products hand sanitisers and face masks 3M has very strong IPR in these products but post- covid how do we see a progress in these two products? So certainly it seems that while we have done well when not kept with the market growth over here I agree that obviously there are certain products which are extremely low in terms of value upfront to the customers to 3M me not participate in such statements but still how do you see the growth of these products? Point number two, from some of our various channels checks, understand the franchisee partners of 3M car care centres are facing some amount of financial stress obviously due to the lockdown. So if the stores are closed for almost a period of 4 to 5 months in the past 15 months and in the rest of the months also the productivity level was a bit lower so, how do you see Business model shaping up and what are the plans of 3M India to support its franchisee partners?
That's it from my side

Mr. Ramesh Ramadurai: sure so the masks and sanitisers I'll take that one first so clearly I mean the masks have briefly come into public consciousness due to the pandemic and we expect that it will stay there going forward. Having said that I do have to qualify that with some market trends that we have observed over the last 68 months which was a bit of a surprise as to how quickly some of the demands also dips okay. I think not only have we noticed it as a 3M supplying into these markets, there have also been newspaper reports that I am sure, media reports about how demand for masks, respirators, sanitisers have dip kind of quite sharply actually in September to around October to December timeframe and even as recently as last week. I think there were some reports that there has been some sharp reduction in the demand, which kind of points to some volatility in consumer behaviour as well but having said that I think our primary focus with the respirators, I mean we call them respirators internally, the mask so the respirator we have while you know over the last almost a year we've been supplying almost exclusively to the

healthcare segment with all the whether it is the imported N95 or locally manufactured P2 standard mask. But now that we see this growth of industry, industries are starting to have reopened their operating so there is an increase in demand for industrial segment also because the consciousness and the has gone up quite dramatically. Now withstanding all of this going back to 2,3, 4 years now we have been working with the Ministry of labour with one of their entities called DGFASLI you know upgrade some standards of all factories that DIGIFASLI is a director general for factory safety and labour. So think what we've been doing is trying to improve the standards of personal protection equipment, respiratory protection etc and we also invested in the in trucks you know what we call these big trucks that we call them 'safety on wheels' to go out into the industrial areas and in different parts of the country to start educating customers or small MSME industries on the importance of personal protection equipment and safety occupational safety. Now obviously some of those activities have unfortunately be put on hold during this pandemic period but we see going forward I think there is a tremendous runway for adoption of standards around PPE safety amongst the very broad MSME network in the country. I agree it will be a slow process the rate of adoption will not be a dramatic or sharp or steep but it is, but it will be a steady process that's what we are we feel quite confident about that and we will continue to invest in that as well as key part of our portfolio so going forward I think that we will continue to be a balance between the healthcare segment as well as the industry segment in terms of demand for respirator.

On the sanitiser side also you know most of our sales of sanitisers pre-pandemic was focused on the healthcare segment I mean we were making hospital grade sanitisers we used to supply them or we still supply them into hospitals for ICU settings for operation rooms and so on and the awareness of that is increased dramatically of cost and we continue to serve that market where the demand is you know we will be a steady yes there was huge spike during the pandemic but I think it will probably settle down to a more steady growth it may not be at the peak levels of what we saw during the pandemic but will definitely settle at a higher level than it was pre-pandemic so that is on the masks and sanitisers. On the car-care franchisees yes there have been challenges with the car care franchisee in their own in the some of the business model the franchisees have been operating and the way we address that at the end of the day, franchisee profitability is critical and important the healthcare and strength of the whole network what we have been doing is also looking at new opportunities for product portfolio enhancement how do we enhance the portfolio served or supported by these franchises in order to improve both their revenue as well as profitability. There have been a number of discussions that are going on so it's where the health and the profitability of franchise is important part of our portfolio the important part of our strategy so we continue to focus on that and look at our opportunities where we can help them grow and help in having at the end of the day its mutual partnership. Thank you.

Mr. Aniruddha Joshi: yes, many thanks sir so in terms of the last question from my side. In terms of the EBITDA margin portfolio of 3M India is very volatile compare to even 3MUSA margins so is there any target EBITDA margin range in which you can operate that if the margin goes below 10% will raise prices whatever happens to the volumes and if the margin goes beyond say let's say 18% then you will focus only on volumes instead of margins so is there any target EBITDA margin with 3M India or it will be a dynamic function depending on multiple factors available or present at that point in time yeah that is the last question. Thank you.

Mr. Ramesh Ramadurai: yes the EBITDA margin I think if you go back to the transcript of our last call you would see that I indicated that it would be somewhere in the region of 16% now with all the new factors we probably look at trying to give it up to about 14% first in the over a period of time but in terms of pricing and EBITDA margin I think it's not really that directly correlated as you the way you articulate it in the question pricing reviews and pricing actions are an ongoing

part of our ongoing business strategy and portfolio strategy is not necessarily linked only to how we look at EBITDA margins so the portfolios have to be you have to add the end of the day deliver the price value to the customer so it may not necessarily always be one way in terms of increase they could be some downward adjustment or holding price for a period of extended periods of time with some part is the portfolio may go through changes let's say on an annual basis or sometimes even twice a year. So it's not that hundred percent of our portfolios will see a price adjustment in every cycle it will be like I mentioned before it to be targeted and will be based on value propositions as well of course the cost factor comes into play so I think if in certain cases like what we talked about in the graphics if you're not able to sustain it there might be you know other options that will have to look at in terms of portfolio rationalisation etc. but that like I said it's a constant process in 3M India not only in India but across the world with reviewing our portfolio health of the portfolio on a regular basis so yes right now we are living through some pretty uncharted territory in terms of cost volatility I think taking extreme pricing actions to combine some of these might actually be detrimental to the longer term health of the business so we are also very mindful of that so currently period is a little volatile and uncharted but we do focus on the fundamentals of driving value you know improving how we engage with and how we work with our customers.

Mr Aniruddha Joshi: yes, thank you sir

Mr Rushad Kapadia: We will take one more question from the line of Mr Suraj Nanda, Mr Suraj request you to please go ahead with your question.

Mr. Suraj Nanda : Hi sir my question maybe you've answered it but I just wanted to understand it again, like what will be the roughly like localisation content across in terms of percentage across the four segments, like what we see is that safety industrial healthcare and consumer not in this year but over the past three years have been around like mid-teens to high-teens in terms of margins whereas transportation electronics are kind of struggling with in the range of 10% so just wanted to understand the localisation percentage across the four segments.

Mr Ramesh Ramadurai: Localisation is we don't get into the details of percentage of localisation by segment but like I said before it's higher in the safety and industrial portfolio probably lowest in healthcare portfolio and the transportation electronics mostly has automotive as big part of the it's his local content as well okay so I think mostly SIBS safety and industrial business and transportation electronics business which makes up 70 odd percent 73% of our total sales mix we have a higher part of localisation there. Now the one thing you have to keep in mind is automotive results automotive and electronic segment results during the course of the last financial year were also impacted to some extent by the exit of the great graphics business and associated cost there.

Mr Suraj Nanda: Understood but like I'm talking about from FY20 to FY 19 in the FY20 also we did roughly around 6.5% margins in transportation electronics and previous to that we did like 10% EBITDA margins in the segment. This year I understand maybe due to Covid as well as due to exit from the segment.

Mr Ramesh Ramadurai: Yeah there is, so am I on mute no okay. So I think that has been the main reason there are two or three key reasons we track one is the portfolio and the product mix how it changes and then there are some of these unusual cost that may one costs are over a couple of quarters that may come up due to certain specific actions and you know that there are there

are any key ECLM impact that we may see which is not really been a big issue for us in the company so these are some of the factors that we tracked closely and most times its product mix that may end up resulting in some of the volatility in margins as well and again in the automotive business like I said if you go back to 2017-18 all the way to now, you know we do have we have seen a decline in the output of the industry right from 4 million bill to 3 million so that also has an impact.

Mr Suraj Nanda: *understood understood. Okay okay thank you.*

Mr Rushad Kapadia: *That was the last question for the day I would now like to request Mr Jaideep Goswami to conclude the call and thank the management of 3M India.*

Mr Jaideep Goswami: *thank you I would like to take this opportunity to sincerely thank Mr Ramadurai and his colleagues from the senior management of 3M India Mr Ramadurai if you'd like to give one of your final thoughts. Overall it has been an excellent session where you have described in detail and analysed in detail various aspects of the business so we sincerely appreciate that, maybe you can give your final comments and then we can conclude the program*

Mr Ramesh Ramadurai : *Thank you thank you very much for this opportunity to interact with all of you I think Ms. Vidya Sarathy our CFO is new and I know that our outgoing CFO Ms. Mamata Gore with whom some of you may have interacted with over the course of the last 3 years knew very much that this interaction was happening and so she sends her regards as well, so on behalf of the management of 3M India my colleagues on the call Mr. Srinivasan and Miss Vidya Sarathi I really want to appreciate ICICI securities for hosting this call for us to have a chance to interact with all of you like I have said before I think the questions that you ask really give us perspective which is very critical and very important I mean we talk about insights in the context of market information and market knowledge and Computer come consumer insights but insights from an inspect investor perspective is as crucial for us to inform how we also look at certain positions and decision making. So I truly appreciate the opportunity to interact with you and have a free flowing Q and A which is always the most engaging part of a program like this so thank you for the opportunity and thank you for the support to 3M India we really appreciate this is well, back to you.*

Unidentified Speaker : *Thank you very much we will now conclude this call*

Unidentified Speakers Overlapping : *thank you I will sign off now.*

Thank you.

Thank you Rushad thank you Jaideep thank you all.

Please Note that, the accuracy of this transcript is subject to the understanding of clarity and statements made by the speakers of this call