3M India Limited
Annual Investors Meet Conference Call
(June 29, 2021)

Moderator: Participants line would be in a listen-only mode and there will be an opportunity for you to ask questions after the management's initial remarks. I would request all the participants to locate the participants icon at the bottom right of your screen, click and open it view the panelist for the today's call and also locate the virtual hand icon which we would be using during the Q&A session. The annual investor meet of 3M India Limited will be represented by Mr. Ramesh Ramadurai -- Managing Director; Ms. Vidya Sarathy -- CFO; Mr. V. Srinivasan -- Company Secretary.

I will now hand over the floor to Mr. Ramesh Ramadurai for his opening remarks. Over to you, sir.

Ramesh Ramadurai: Thank you very much, Manav, and good afternoon, everyone. I hope all of you are staying safe and doing well. As Manav mentioned, I will make a few opening remarks perhaps 7 to 10 minutes and then hand it back to him to have an interaction with all of you.

So thank you for this opportunity for the interaction with all of you. As already mentioned, I am joined in the call today by our new CFO, Miss Vidya Sarathy and our company Secretary Mr. V. Srinivasan.

Before we begin, I would like to reinforce some disclaimers in safe harbor. In today's call, there may be some predictive statements that 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 as you know this entire transit interaction will be recorded and the transcript and recordings will be loaded in our investor website.

In today's prepared remarks, I will share with you our 2020 - 2021 financial results and highlight certain aspects of our results. As you know, we operate in four business segments safety and industrial, transportation and electronics, healthcare and consumer. For the year 2021 safety and industrial contributed 39% of our total revenue mix, transportation and electronics contributed 35%; healthcare contributed 14%; and consumer 12% of the mix. So, compared to prior year, I think the changes in the contribution is within one to two percentage points.

All segments dealt with negative growth with healthcare the most impacted at minus 25% and consumer the least impacted at minus 2%. As you would recall the Indian economy was softening sequentially pretty much from July 2019 with declines in automotive production, broad based declines in industrial output and a tightening credit situation. Due to the pandemic related lockdown, we experienced sharp declines across all of our end user market segments in FY 2021.

After the strict lockdown in April 2020 and part of May 2020, we saw a gradual reopening of the economy from June of last year. Our growth contracted sharply in fiscal Q1, ensure subsequent sequential improvement steadily. On a consolidated basis, our fiscal Q1 growth last year was (-57%), this improved to (-9.6%) in Q2 (-0.5%) in Q3 and (+22.9%) in Q4. Under these conditions, we delivered consolidated sales of Rs. 2,605 crores in FY 2021, which was 12.8% lower than the prior year. EBITDA was 10.8% and PBT was 8.4%. In the face of weak external market conditions last year, we exercise good discipline in managing all aspects of our costs.

I would now like to cover a few specific topics, there are actually seven of them, but I will run through them quickly. The first one is on amalgamation of 3M EMC Private Limited with 3M m India Limited. As intimated to the stock exchanges on June 17th, 2021, we have run into some unexpected procedural issues and completing the amalgamation due to which our application was denied by the Regional Director Hyderabad Ministry of Corporate Affairs.

We will pursue alternate pathway or the NCLT to move this forward. We do not anticipate this will have any material impact on our operations or business continuity. We will keep everyone updated as we progress. Just as a reminder to everybody our 3M EMC makes up roughly between 7% to 8% of our total consolidated sales.

The second point is on consolidation of the Pimpri factory with Ranjangaon both in the Pune area. As you may know the Pimpri site is owned by 3M EMC Private Limited. We had earlier announced a plan to consolidate this smaller site into Ranjangaon for operational efficiencies and better customer support. The timing of this consolidation was earlier indicated as December 2021. We are proceeding with this plan. However, they may be a delay of a couple of months due to some delays in project execution due to localized lockdowns due to COVID.

The third comment is around portfolio management. This is an ongoing effort in our company to ensure that we prioritize our efforts to the best product and customer portfolios. Last year in June 2020, we had announced our intention to exit the printed graphics business that is also called the 0:05:39 that we sell to the two wheel and four-wheel automotive OEMs. This portfolio was part of our transportation and electronics segment. The portfolio represented well below 5% of our total company sales.

I would like to inform all of you that the business exit was completed with good transition support to our customers. The VRS was also successfully implemented, I would once again like to thank our employees who are part of this business for several years for their contributions as well as to our customers.

Fourth point is on operations during COVID times as the company will be adapted well to the COVID situation with focus on employee health and safety, factory operations, remote working and also extending support to our communities. Since April of last year, we have been working pretty much remotely with only about 5% of our head office employees accessing the office based on specific business need. At the same time, we have put in place several employee engagement and support programs in the areas of health and wellness, connectedness, sharing employee stories and learning.

We have also rolled out our vaccination campaigns for employees and their eligible dependents. We have covered close to 50% of the employees with the first dose so far off the balance employee several of them have received their vaccination on their own as well. We have also started the second dose scans from last week for those eligible.

The fifth comment is on demand recovery, so a strong big demand recovery and business growth in Q4 of 2021 was tempered by supply chain disruptions due to the pandemic, winter storms, etc., resulting in raw material and logistics cost inflation.

Next comment is pivoting to growth, the breadth of technologies and a product portfolio gives us the ingredients for sustained growth. We are leveraging these strengths and prioritize actions will deliver outcomes not only in the short term, but also beyond. To highlight a few, one we double down on segments that demonstrate recovery. This was evidenced by a strong growth of about 23% in the fourth quarter of last financial year.

During the past year, we have also taken several actions to improve productivity and efficiency across the enterprise. For example, we focused on improving our capability in digital lead customer experience enhanced digital intimacy with customers through programs such as the health care academy, the infection prevention protocols, energy academy in our electrical markets, several webinars e-connects and so on. We have also we have also been overlaying our design capabilities to these approaches. We continue to closely track the Make in India priorities as well as the PLIs that have been announced. We have opportunities in practically most of these new sectors to varying levels of intensity. We see this as a medium-term opportunity.

New applications and application replication continue to be foundational to our growth and existing markets and new products such as acoustics for automotive OEMs, various interior cleaning portfolio for the aftermarket road safety products and new multipack SKUs for consumer or some of these examples.

The seventh point is on margin. You may have observed that our material costs increased by about 330 basis points in the last financial year versus prior year. We would attribute this increased to rupee depreciation, the impacts of rupee depreciation, some from our revenue mix and also some of the cost inflation I referenced earlier.

And finally, I would like to share a short update on our CSR programs. In the last financial year, in addition to some of our multi-year 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 hospitals, mobile health vans and so on. We also leveraged grants from our parent company that's 3M Foundation in the U.S. to build capacity by supporting selected hospitals with oxygen concentrators, HFNCs and others and this was done in December of 2020. In the last couple of months, we have also partnered with other companies to support the government with augmenting ICU bed capacity.

In closing, as we have announced, the AGM is scheduled for August 26th. Again, this will be held on a virtual mode this year. And I invite all of you to participate in the AGM. This concludes my prepared remarks. I will turn it back to the moderator and we can go to the Q&A. Thank you.

Moderator: Thank you, sir. We shall now begin the Q&A session. Ladies and gentlemen, at present, you are all in the listen-only mode. For participants who have logged in through the web link and wish to ask a question, I request you to please locate the virtual hand icon at the bottom right corner on the participants list. If you have a question, please use this icon to raise your virtual hand, which will turn blue on clicking. As your moderator, I shall be able to see your raised virtual hands and will invite your questions in turn.

Alternatively, participants who have logged in through the web link can also type in their questions into the Q&A box located on the right side of your screen, which will open as a drop down on clicking, please address your question to all panelists.

For participants who have dialed into this event and wish to ask a question, I request you to press "*" and "3" on your touchpad's. As your moderator, I shall be able to see your raised virtual hand and we will invite your questions in turn. For all participants, if your question has been answered and you wish to withdraw your request, please click the hand icon once again or press "*" and "3" to remove yourself from the question queue.

We request all participants to limit their questions to maximum to four participants, so as to allow everyone to ask questions. If time permits, you can get back into the queue to request a follow-up question later. We will now wait for a few moments as the question queue assembles.

The first question is from Mr. Gokul Maheshwari, please go ahead and ask your question.

Gokul Maheshwari: Yeah, thank you for the opportunity. I have a very simple question for the mobile phone manufacturing opportunity in India, what product does 3M India supply? And if you and also if you could comment whether as the value of mobile goes up, that is around Rs. 20,000 plus realization at the consumer level, does more and more applications or more products from 3M come into picture? Thank you.

Ramesh Ramadurai: Thanks for that question. So the mobile handheld is definitely an opportunity for 3M in India as we also discussed, I think if the last year's conference. Primarily the products that we sell are in a couple of areas. One is different types of bonding materials, bonding the different layers within the cell phone.

If you go from the touch screen panel right at the top, which we all use to going all the way down to the bottom case, there are multiple layers in the cell phone. And there are various products for bonding, for other applications that go in so we make different types of you could call it adhesive materials. So those are the primary products. And then there are also products that the display enhancement, which will go on the top cover the touch screen panel that has some display materials as well, that 3M participants. So these are the range of portfolios to the first part of your question.

To the second part of your question in terms of increase in the opportunity that would be available for 3M as we get go to higher end models. Yes, the answer is absolutely yes, the content would increase. And of course, the design cycles are the short, the life cycles or design cycles are relatively short for these mobile, different models have several mobile phones. So I think there would be a constant process of specking in products into the new designs new model as they become available in the marketplace? So the answer to your question is yes, of course, as we go above 20,000, it will be a higher value add.

Gokul Maheshwari: And in terms of meeting this demand for your customers, would you be currently importing these products for your customers? And eventually manufactured at scale comes up? Or are you already making them in India?

Ramesh Ramadurai: So if you look back a couple of years, I think of the 105 million or so phones that were sold, that number may have changed last year. Nearly 90% of them were assembled in India, not really manufactured, but assembled with the local content being relatively low. So the primary objective of the PLI scheme was to encourage a greater localization of the entire value chain. And I think some of that has got impacted the timing of that as got impacted by the core of pandemic. 3M we are material suppliers to this industry.

We are kind of the tier II or tier III, depending on how the tiers may be defined. You got the OEMs, ODMs and then the component suppliers and then we supply materials to those component suppliers. So, I think that is where we participate. So the value chain has to get localized before we are able to, which is when we really come into play on a local basis. At this point in time, we do have some amount of supplies on a local basis. But we import the primary products from different sources of supply of 3M and we do the final conversion. We have the ability to do the final conversion to the required shape, size, etc., of the customer requirements.

But I think a bigger portion of this growth benefit will come in the future as the tears in this chain increase their local content.

Gokul Maheshwari: Great. And would there be an indicative content for mobile, how much of your products will contribute, let us say Rs. 20,000 or Rs. 25,000 mobile phone?

Ramesh Ramadurai: The way I would like to address this question is based on some information that is already available in the public domain. If you go to our 3m.com, the U.S. website and go to the investors section, you will see in the last four weeks, global CFO and global CEO there have been some investor conferences and the webcasts are available in our 3M investor website.

Specifically, if you go to our CFOs webcast, during the course of that he was asked a similar question about the content, necessarily content per phone but really, how would break down the 3M's global sales in the electronics segment into different sub-segments. And I quote I mean not quote, I paraphrase from his comments, 3M has a roughly $4 billion play in electronics on a global basis of which you can save ballpark $2 billion goes into areas like semiconductors, data centers, and factory automation. And then you have another $2 billion going into mobile handhelds, consumer electronics, mobile handheld tablets, personal computers.

So that gives you a sense at the macro level. Because in terms of content per, you could get some estimates backwards of content per unit. So at the local level, we are not getting down to the level of content per device here.

Moderator: Thank you. We have got a next question in our Q&A box from Mr. 0:18:59 from Motilal Oswald AMC. He has two questions number one, any comments on the CAPEX plan? Which service line will be the focus for the same? And the second question, any comments on import substitution efforts especially import of minerals?

Ramesh Ramadurai: Okay. So, let me let me take the first one first, which is about the CAPEX plan. So if you look at the local manufacturing content as a percent of our overall revenues over the last five years or so, we finished to 2021 at approximately between 59% to 60% local manufacturing of our total sales and this share of local manufacturing has increased by approximately 550 basis points over the last four to five years, which means ballpark 120 basis points to 240 basis points per year. And our plan is to try to keep this kind of pace going forward as well to increase our local share of manufacturing at about 120 basis points to 140 basis points in that range plus or minus some in a given year. So, that is number one.

So the CAPEX plan right now is we are in the process of final execution of some of the emission control materials that I talked about in the last conference for the automotive segment commercial vehicle segment. And there are specific CAPEX is also focused in a few areas like automotive in the areas like, our personal safety and also in the areas of road safety and electrical products. So, these are some of the prioritized areas where we have capital expenditures that we have planned for. I guess, that covers both parts of the question.

Moderator: Thank you, sir. The next question is from the line of Mr. Charanjit Singh, DSP Mutual Fund. Over to you, sir.

Charanjit Singh: Sir, my first question is on the healthcare segment. Now, if you look at healthcare segment, earlier interactions, we talked about that we had introduced new products, and this segment could have benefited, in this entire timeframe, healthcare requirement was pretty high. What is the reason the growth rate got impacted so much in the healthcare segment? And are we introducing any new products in this particular segment, to the scale up growth significantly looking at the outlook are changing in the healthcare markets? That is my first question. And second question is on the B2C space. So we have quite a large portfolio for B2B and here also, we are looking at B2C segment and trying to get into that to e-commerce and penetrate further. So it is been touched upon the B2C part of the business as well. These are the two questions, thank you.

Ramesh Ramadurai: So you talked about our growth, the results in the healthcare segment, especially in the current pandemic situation where demand for healthcare was very high. So I just want to let you know for that we sell what is called masks, the respirators that we make in our Pune a factory, which is the P2 range of respirators or whether it is the important N95's. The sales of all these products are reported here in the safety and industrial segment. So it is not reported under health care. So that is one point, just as an FYI.

The second point is a lot of our health care products and solutions that we offer is also dependent on things like elective surgeries and so on. So a lot of those elective surgeries declined quite significantly during the pandemic period. Well, our products are used in the ICU, in the operation theatres and those types of settings, sterilization settings, and so on. So with the reduction in all of those activity level in those areas over the last I would say since the pandemic began last year, so that has really impacted our sales.

The other business in our healthcare segment, a smaller business nonetheless, is our dental business where we sell different types of products and supplies to dentists. And the dentistry business was completely impacted during the pandemic with footfalls into dental clinics that dropped dramatically during the pandemic. We saw some increase towards the end of last calendar year and the October, November, December quarter. But again, with the kind of went into January, but then again, with the second wave, it is unfortunately dropped again.

So those are the reasons for why some of these health care portfolios have been impacted. And with the improvement in some of these activity levels in the hospitals, we expect that that will rebound. Now on the B2C space, so a big part of our most of what we sell in B2C today is from our consumer portfolio. And just to give you orders of magnitude, our consumer business as a whole contributed about 12% of our total revenue mix for the company. So I will answer your question first as B2C digital and then I will talk about B2C more broadly in general.

So the B2C digital portion of that is one of the three go-to-market models in the consumer business others being of course general trade and then modern trade. If you look at the digital e-commerce world of B2C it is probably in the single digits right now. And is our total mix for total company. And of course, it is been growing well and it is been growing strongly for us. So that is where we are. And we see that as a continued growth opportunity for us, not only in the consumer product portfolio, but also in some of the other portfolios in from across our businesses.

In the B2C space, particularly the more broader question is, again, most of our B2C business right now is in the consumer business, you could look at some aspects of our automotive aftermarket as being you can argue that it is a form of B2C because at the end of the day, the customers that we are serving are individual vehicle owners or car owners, even though the supply and the point of delivery might be through either established B2B dealerships, etc. But the end customer that we are serving is really, people in all of us who might be vehicle owners. So there are some other businesses which are more a B2C type of a portfolio. But I think big vast majority audience still resides in the healthcare end or consumer space.

Moderator: Thank you. For participants who have logged in through web link and wish to ask a question, I request you to please locate the virtual hand icon at the bottom right corner on the participants list. Alternatively, you can also type in the questions into the Q&A box.

The next question is on the line from Mr. Rajesh Kothari, AlfAccurate Advisors. Over to you, sir.

Rajesh Kothari: Sir, I have two questions. First is on the safety and industrial segment, if I look PBIT margins in this segment from about 21% in financial year 2019 it reduced to 16% pre-pandemic, so I understand the challenges of FY 2021. But even before that our margins reduced to 16%, what is the reason for that? And then I will follow-up with the second question.

Ramesh Ramadurai: Okay. The primary reason for the margin change in our safety and industrial business is some changes in our portfolio mix and certain raw material inflation we had in parts of our portfolio in some of our electrical products.

Rajesh Kothari: So when you say the change in product mix, can you little bit explain this because those 500 bps decline in PBIT margin in a normal year is also a little bit kind of a sharp decline, right? So, it will be great if we can just explain how do you see this product mix to evolve over the next two years, three years, four years? Should we assume FY 2019 as a normal year or FY 2020 as a normal year?

Ramesh Ramadurai: Yeah, it’s a good question. What has happened in between 2018-2019 and 2019-2020 and also we have the dynamics that is playing out right now as we speak. So in terms of the product mix, we have certain portfolios in our electrical markets, which really goes into things like pipe coating, okay, we make certain fusion bonded epoxy products, which are used for coating of oil and gas pipelines. And that is what is produced in our Ahmedabad factory. So those products are somewhat sensitive to fluctuations and raw material pricing that goes in. And there are also certain contracts that go into those portfolios.

Those impacts what caused for the most part, the impact on our PBT, our margins for that particular segment. The other is there might have been, there would have been some impact from the FX also. But we will keep that aside because that for the most part was with the exception of consumer it goes across the board. The question about how do we see it going forward from here? I think what is happened is with the severe cost inflation that we are in right now, both from some materials is also from logistics. So there has been some kind of a reset of our own margin profile right now.

Now, I think January, February, March, was a pretty indicative of where we would have been in the short term. That means that if you look at our Q4, we were at about 11%. I think once consolidated basis our margin was about 11% on a consolidated basis. But again, by April, May, June quarter that we are living through right now is somewhat affected by the sluggishness and by the second wave. So our impact, like I have mentioned in other forums is to get our EBITDA up by to get it closer to where we were, let us say in the 2019 - 2020 and even part of 2018 - 2019 to kind of plow back to where we were, that is our goal. But the range of EBITDA target is probably widened a little bit compared to what we had indicated earlier.

Rajesh Kothari: I see. Sir, my second question is a similar question, but for a different segment transportation electronics, because her also, we are seeing sharp decline in PBIT margin from 10% in FY 1019, to 6% again, in a pre-pandemic normal year. So what changed here for such a sharp decline? And it just a related point is that electronics, in fact is doing extremely well. If you get to India as a country in a FY 2021 year, the brother highest year as far as overall electronics industry goes. But we do not see such kind of a huge traction when I look at your numbers for fit one. So it could be great if you can give a separate asset for this subset of questions.

Ramesh Ramadurai: Sure, sure, I would be happy to take that. So first of all, electronics, the contribution of electronics, per se, to our overall segment is still relatively low. Like I said, the big part of our electronics play will come from consumer electronics in the mobile, handheld and other areas as manufacturing and the localization of the supply chain increases in India. So relatively speaking, the contribution is still modest.

The other part is, if you go back to 2017 - 2018 and from then on, if you look at the automotive industry, so our total production in 2017 - 2018, was about 4 million passenger vehicles, right. And then this declined to 3.4 million in pre pandemic in 2019 - 2020. And then last year was about 3 million. So between 2017 - 2018 to 2020 - 2021, the output of the industry is reduced by about 1 million units. So I think that also plays into some of the reduction in margins in transportation where the mix has had an impact.

And the third aspect, which I want to point out in, especially for 2021 for the transportation and electronics segment is, I talked about the business exit, the graphics business that we existed. So there were some costs associated with the exit of that business, both in terms of the risks that we had to offer to our employees, as well as certain terminal costs associated with exit of the business. So 2021 was also took the impact of that. But if you look at just the standalone Q4 of 2021 the margin for transportation and electronics that kind of goes back to 10%.

Rajesh Kothari: Yeah, that was a very pleasant surprise because otherwise,10 to six was actually very disheartening, because we own this company from last year….

Ramesh Ramadurai: So I was just going to point out that sequentially, if you go from FY 2021, if you go from Q1 to Q2 to Q3, the 6% and 4% that you see in Q2 and Q3 are segment margins, also reflected some of the impact of course, the slowdown in the overall coming out of the pandemic and also some of the costs associated with exit of the graphics business. And that kind of bounce back to 10% in Q4. So I think we have an opportunity with automotive, we are kind of down a million units over a three year period. Even though the growth rates might, the comparisons are obviously we will be comparing ourselves to relatively soft quarters for the next few quarters. But I think there is hope that it will rebound and we will wait and watch what happens after this round of restart.

Rajesh Kothari: Sure, sir. Sir, just last one comment from my side. If I look at your international presentation, of course, they view a lot of insights into sub segments each and every segment is a bifurcate. And since in India also we have four segments, but many sub-segments within that it will be great if you can give some color in terms of your actual press release, further details of the segment wise, because it is actually not one company, I think if you are a very giant company with probably 15 - 16 sub segment that will help us to get a little bit more insights into the business.

Moderator: Thank you, Mr. Kothari. The next question from the line of Mr. Jinal Sheth, of RICA Capital, over to you, sir.

Jinal Sheth: Since you spoke about the mobile business in the beginning, I just touched upon a question there, in that business what would be your market share globally and in India?

Ramesh Ramadurai: Yeah, I got the question. So, we do share at the global level, like I referenced the webcast which was conducted or in which our global CFO participated. I referenced to that in response to one of the earlier questions, where he discusses our presence in the electronics space. But that is the level of kind of the details and the disclosures at the segment level that is available in the public domain right now. So I would like to leave it there. And that gives you a sense of at least what is our space? So what is up play in this entire space? That is number one. And specifically for India I think it would be I would only say that it is a little early for the same reasons that I commented on earlier about, we have to wait for the localization of the supply chain to happen before we actually become, sizeable players in terms in the local market?

Jinal Sheth: Sure. Okay. So in that sense, and as mentioned, if the value of mobile goes higher? Would your market share go higher as the competition reduces? Would that be fair to?

Ramesh Ramadurai: I do not think that is necessarily a causality there. As it is not that the higher end does not attract competition, I think there is competition at all ends of the spectrum, what would happen is there is a possibility that the value per device may go up.

Jinal Sheth: Thanks of that. My second question is on your global strategy of how 3M parent thinks of when they are entering a new country. So it correct me if I am wrong in this process of first, when you enter a country, you import, then there is a conversion facility, then there is R&D, and then locally we manufacture it, correct, is that right?

Ramesh Ramadurai: Absolutely, yes.

Jinal Sheth: So in that light, where would we be in India? And the reason I ask is that, if I look at the CAPEX in the last 10 years, it is been around Rs. 500 crores. So I am just trying to understand when you mentioned that 60% is locally manufactured and I see your CAPEX numbers. So in that light, how do we think about that going forward?

Ramesh Ramadurai: Sure. So, there are two aspects to it. One is when we do the local manufacturing content, we just define it as what is shipped out of our factories. As you point out, some of those materials also may have imported content in them. But nonetheless, it gives us an additional step of value addition locally in the country. And why do I say that, it is for precisely the same reason that you pointed out that you bring in products import the jumbo materials and then do some local conversion, value addition, at a point which is much closer to the customer, which allows us to be more nimble and agile, to meet customer requirements, manage our inventories better and also have one level of protection from the cost impact. So, that is one aspect. And then as the scale increases, then you kind of go backwards into the manufacturing.

Now, if I look at portfolios, where we are more integrated backward into manufacturing, it would be products like some of our electrical cabling, cables and jointing kits type of portfolios, some of our adhesive tapes that we supply to a broad base of industrial customers, not just automotive, but broader base with the general industrial customers. It will be what we sell into our consumer business, most of our consumer business products like the Scotch Brite brand of scouring pads, etc. So they are mostly manufactured locally in Pune factory.

So I think then if you get into some of the portfolios like our hand sanitizers, etc., they are all locally manufactured. So I think there are many aspects of a portfolio that has a much higher local content, maybe (+80%) - (+90%), like I talked about the talked about the pipe coating portfolio in the context of some raw material pressures earlier. So that is also very high local content. So, therefore, it kind of rests at about 59% to 60% based on the value of sales, but that may in turn have some amount of local content.

Jinal Sheth: Sir, the point that I am trying to get to is that, does the CAPEX change for us with a number going higher is what I am trying to understand. Because I understand the 3M globally the business that we have is not really CAPEX heavy. So that is the understanding, I am trying to get for what happens to India in the next 10 years or so.

Ramesh Ramadurai: That is correct. So there would be there would be points where you could get into let us say, a few Rs. 100 crores size of CAPEX also, they will be definitely. But we are also making a number of incremental investments in CAPEX not only in the fact manufacturing site, but also in the lab R&D center. So to support, so that there is a balance in what we are doing to support a lot of these incremental localizations that goes on I talked about 100 basis points 120 basis points. Now, we have close to Rs. 100 crores between the between the emission control products and then certain other four or five other programs, contributing which are closer to executing and commissioning now. And then there are other programs that I talked about, which are being evaluated again, in the automotive personnel safety tapes and adhesives, electrical and medical, these are the areas in which CAPEX is being reviewed. And there are plans in the pipeline.

Jinal Sheth: Thanks for that and just a small question on the auto after market. So as a consumer, obviously, when I am taking my car to the garage and over the past few years, when we enter this business, focusing on the price point, which was high and obviously being a 3M, shareholder for a long period of time, I made sure that I have always tried this on and understand the price perspective. But how have we evolved in this business and heavy been able to grow it?

Ramesh Ramadurai: Yes, the last year and a half kind of put a different color on this because of all the external situation. But if you go back prior to that, yes, this has been a growth business for us continues to be a will be a growth business. There are some pockets, we look at, what can we do to improve and expand the product portfolio of our franchisee operators, when you go to the car care centers, what can we do to increase the portfolio that we sell through those centers, because they have excellent touch points with customers, also looking at new products, which you can bring into that segment. Okay? The other of course, is the dealership portion where we work closely with the dealership partners of ours, where the investment model is very different for the company, because people already go there, the traffic is already there and therefore, the model to serve the customer is quite different than the dealership model, versus what we have as the independent car care centers.

Moderator: Thank you. For participants who wish to ask a question, I request you to please locate the virtual hand icon at the bottom right corner on the participants list. If you have a question, please use this icon to raise your virtual hand, which will turn blue on clicking. Alternatively, participants can also type in your questions into the Q&A box located on the right side of your screen, which will open as a drop down on clicking. For participants who have dialed in and wish to ask a question, I request you to please press "*" and "3" on your touchpads. We request all participants to limit their questions to maximum two per participants, as to allow everyone to ask questions.

We have got couple of questions in our Q&A chat box from Mr. Chetan Gindodia from AlfAccurate. The first question is on the mobile revenues. Average cost per mobile globally is around USD280. What is 3M content per mobile? What is the likely revenue size for Indian entity?

Ramesh Ramadurai: Yeah, I think we have covered this quite a bit in a couple of different questions. Would you like me to repeat it because the responses will be pretty similar to what I already stated in the earlier responses, which is reference to our CFOs webcast earlier this month in June, where we taught our global CFO I mean, where we talk about 3M's global presence participation in the electronics market and split between consumer and electronics and the semiconductor's, factory automation data centers, segments. And like I said, in terms of actual price content per device, etc., in India, it will evolve as the localization improves. So it would be a repetition for me to go into that.

Moderator: Sir, the next question is on those safety and industrial segment, has seen sharp dip in the margins over the last two quarters, from 20% to now 8%. Why is the company unable to pass on the commodity costs, despite innovative products? And when will the margins normalize?

Ramesh Ramadurai: Yeah, I think we discussed the margins at the segment margins also in one of the earlier questions, especially safety and industrial as well as transportation and electronics. While we discuss those trends, I think there was another part to the question here about our ability to pass on some of these commodity prices. As a company, we do have a strategy and rhythm of reviewing prices and adjusting prices, either once a year or twice a year, based on the market situation and the conditions. And it is a combination of multiple factors as you know, it would be a factor of cost pressures, it is a factor of the value we deliver to customers, it is a factor of competitive situation, where it is a factor of several of all of these.

In some cases, it is a relatively small percentage, we have contracts, the timing of the price increase, price adjustments may vary, there might be a lag to some of the timing of the input cost increases. And then in any case, we try to adjust our prices to some sort of a rhythm unless there are some really extraordinary circumstances in the market. Meaning there can be some predictability to our channel partners and others as to what is the timing in a year when we can take and expect some kind of a price adjustment from us.

So we try to do that and that also builds brings in some amount of a lag to when the impact of the costs inflation might be first felt. So we do this and we have been successful in passing on some of the cost increases, some in full, some to less than full, depending on the market conditions. The other aspect, of course, is the currency fluctuation which comes in. So that is something we have to work away through increased localization like we have discussed. And the third aspect is what we are faced with currently is also tremendous inflation and logistics costs. So which is putting a burden on across multiple industries as a whole and just delays and supply chain, etc? So that is going on and it will have to work itself through all of these issues in the global supply chain system. So that is pretty much from a pricing and our ability to pass on raw material costs.

Moderator: Thank you, sir. The next question is, from Mr. Vishal Biraia from Aviva life. Over to you, sir.

Vishal Biraia: Sir, what will be the contribution of new products to our revenue? And how do you define it? Is it a metric that you track closely? And the second one is what is the opportunity from the renewable energy portfolio in India? I mean, as of now, we are not manufacturing much in India on the solar PV side. But just from the installation, is there any opportunity? Thank you.

Ramesh Ramadurai: So from a new product standpoint, we have often talked about this new product vitality index that we track in 3M, which is roughly 30% of our products coming from those that did not exist five years ago. So sales contribution from products introduced in the last five years as a percent to total revenues that is been kind of in that range, plus or minus 2% - 3%, this operates in a range. Now, you keep in mind, this is an important metric that we follow more directionally to make sure that we keep a good pulse on the vitality of the portfolio.

This also includes a lot of products, which may cannibalize our existing products, because it is important to do that to refresh our own portfolio to ensure that the value proposition to the customers stay relevant and also, in response to competitive situations. So I think there is an element of the new products that will cannibalize our existing portfolio. And there is also some, which will be incremental, new-new growth. So we continue to track these closely and it is kind of in that range that I talked about. So that is on the new products.

The other part of your question was more about renewable. Yes, we do have a kind of relatively small play right now, not only in solar, but also in wind, where we supply materials that go into manufacturing of turbine blades, the blades and the manufacturing process, not so much in the installation and maintenance. And similarly, even in the solar, a lot of the products that we provide are a few products not a lot right now, which is in the area of manufacturing or assembling of the solar panels, not as much in the installation, operations and maintenance side.

Moderator: Thank you. So the next question is from Mr. Anuj Sharma from M3 Investment. Over to you, sir.

Anuj Sharma: I had a question on one of the tie-ups, we have a tie up with Castrol. So just wanted to understand what is the scope of this collaboration. And what competencies do we bring to the table and what is Castrol's competency?

Ramesh Ramadurai: Sure. The scope of the collaboration was really to take some of our products in the automotive aftermarket, the vehicle care products and take where 3M will be the product supplier and leverage the distribution strength of Castrol to take these products into segments that we when I say we I mean 3M do not have the strength to reach on our own or it would be expensive to build that out. So that was in a nutshell the case for this collaboration.

Now, unfortunately, as we launched this in 2020 this has been kind of buffeted by the pandemic situation. We have learned a lot from the initial the small pilot that we were able to do in the short window that we had and then subsequently, the window I am referring to is in the latter part of 2019. And subsequently, we had to make some corrections in the portfolio based on market feedback, etc. And then we kind of pretty much went head on into the pandemic. Looking at the product portfolio right now the teams are in conversation to they've redefined the product portfolio, which does not mean that we are completely making new ones, but really adding a few SKUs, deleting a few etc., based on market response and based on Castrol's own market intelligence and feedback.

So that is where it is its still I think it is still very unfortunately early days because we have kind of lost some time due to the pandemic.

Anuj Sharma: Thank you and just an extension of that. What is the size of opportunity of these products when you size up the opportunity?

Ramesh Ramadurai: The entire aftermarket is a very large opportunity. I mean, if you look at whether it is bike care whether it is car care, do it yourself, do it for me, I think you have vehicle care products, you have mechanical products, the opportunity is very large and significant. But like I said, at the segment level we kind of stop at the safety and industrial segment.

Anuj Sharma: Sorry, if I made this persist when we say size of opportunity I am saying to our addressable market, how would you say is our addressable market in the car care opportunity? Thank you.

Ramesh Ramadurai: Okay, so I do not have the exact number I can share with you right now, but perhaps we can circle back.

Moderator: Thank you, sir. We've got next question in our Q&A box from Dr. Sanjiv Mohta**,** worldwide 3M India have around 50,000 products, how many are there in India and how do they decide what new products to launch?

Ramesh Ramadurai: So a lot of the product launches are based on the market segments that we participate in, I mean, if you look broadly without getting into a lot of these sub-segments, but if you look broadly we are talking about we participate in the infrastructure markets, which is things like roads, etc., we participate in the automotive OEMs and automotive tier suppliers to the automotive industry, the automotive aftermarket or healthcare, retail businesses, utilities, and then manufacturing. So, manufacturing becomes like a catch all for a broad set of industries. And then you can always, sub-segment it further. So when we look at all of these portfolios, the product launches are also based, product selections, the portfolio selection is based on some of these segments that we participate in and to continuously either expand the offering to those segments and also identify new segments as we go along for some of these portfolios. So I think that is the primary I would say filter for a selection of launch of products the fit to the priorities, market segments and customer requirements and value propositions that would be the primary fit. Was there a second part of the question, I am sorry. Manav, was there a question?

Moderator: No, sir that was the question. We have, what are the other questions in our Q&A box? The one is from Mr. Anand, our royalty and corporate management fees is around 6%, any discussion with parent on reduction of royalty?

Ramesh Ramadurai: So if you look at the royalty that we pay, it is about (inaudible 0:57:18)l royalty and the corporate management fee separately, because they are two completely different things. So the royalty paid last year ranges between 1.4% to 1.7%, depending on the make sense so on. But I think last year, it was 1.4% which is when you look at competitor companies that we do that benchmarking. We are at the low end of the royalties that we pay, compared to other competitor companies and so on at 1.4%. The corporate management fee, although the fee is technically not directly linked to sales, but I know everybody kind of looks at it as a percent to sales just as a quick check and you can do a year-on-year comparison. So it ranges between 4% - 4.5% - 4.7%. I think that is been the range in which we have been operating. And last year in the year 2021, we did see a reduction in the absolute value of the corporate management fee pay. And I think it the percentage also stayed approximately at about 4%. last year, I think there was a reduction in the corporate management fee itself of how I am kind of quoting from memory here, it is about 13% or 14% I think was the reduction in the or 17% was the reduction in the CMF.

Moderator: Thank you, sir. And the next question is from Mr. Anand, how is the response from for **Signage's 0:58:59**, Smart Variable Messaging Signage version 2.0? What is a possibility in this?

Ramesh Ramadurai: So the variable signages and variable messaging systems have been doing well with the Smart City programs. I think we continue to have very good traction with these with these product offerings with different Smart City opportunities, whether it was PCMC, Pune, Chinchwad, Metropolitan Corporation and several others. So I think as the Smart City programs rollout and with increased intensity and investments, I think we see the opportunity for us in this segment continue to grow. This is something that we do believe is a good sustainable opportunity for us.

Moderator: Thank you. The next question is, why none of the products of 3M India are scaling up to Rs. 500 crores to Rs. 1,000 crores despite such a long history and what according to us needed to achieve this? This question is from Mr. Jayesh.

Ramesh Ramadurai: I think what we do is, it is like I said, when you look at whether it is Rs. 500 crores any number that you have picked, it is a portfolio of products that we go into a segment and typically we operate at the differentiated portfolio, providing differentiated value proposition to customers. So to that extent, the strategy has always been to see how do we provide differentiated value to our customers based on the portfolio's selection that we have. But I think, many times, it is not simple single products, it is always a portfolio of products that we look at. I think the opportunity to drive some of this growth, whether through different mechanisms based on a different go-to-market models, whether it is in safety, industrial or transportation and electronics or healthcare or consumer, I think the opportunity is to drive growth, I agree with you are there.

The first part of the strategy is always driving penetration growth, which is increasing the increasing the share and footprint that we have with some of our current portfolios in existing markets. We do that through different mechanisms, whether it is in a more industrial type of settings, it is probably through what we call application replication trying to scale up successful applications across a broader customer set. And of course, in consumer, it is a different model altogether. So I think call your comment as well as some of the comments I just made also leaves us confident that we have the opportunity to drive growth in the short term with penetration growth and also, add the additional layer of new products into these segments as well as take advantage of some of the emerging segments we have already talked about going into the medium term.

Moderator: Sir, and the follow-up to this is in which area is it most possible?

Ramesh Ramadurai: I would say that in several areas that is possible. I think one of the questions which came up in one of our previous last year's interaction might have been in our call or might have been at the AGM is about consumer business and how do we scale consumer? I think consumer contributes about 12% of our portfolio in India. And I think there was a reference to a global mix where consumer contributes between 15% to 16% of our global mix and there has been discussion about how do we drive the penetration even further in consumer. Now in India, if you look at that 12%, most of the rupee value of that sale comes from what we call our cleaning and scouring portfolio, which is more commonly known as under the Scotch Brite brand, Scotch Brite scouring pads, those cleaning and scouring range of portfolios makes up for almost a bulk of our sales here in India.

There are opportunities such as in other segments as well, other categories as well, whether it is construction and home improvement, whether it is consumer health care. So we are studying some of those segments as well to see how best we can scale those up or how best we can get, build on the small base that we have today. I think they would be attractive segments going into the future and I think provide an opportunity to scale up.

Moderator: Thank you, sir. The next question is from Mr. Sanjay Pranesh. What is your medium-term to longer-term outlook for the acoustics and emission control products within automotive? Has the content per vehicle increased for 3M over the past few years?

Ramesh Ramadurai: We have a very strong positive on the these portfolios because not only are they are becoming increasingly critical in the whole consumer experience of vehicles whether it is especially acoustics because acoustics play is such an important part of the whole consumer experience. And as EVs come in while that may be in the future, acoustics becomes an even more important element in the EV vehicles because, obviously a lot of the other noise is not there. I think acoustics, we are very bullish on that the growth prospects and we continue to work closely with the OEM partners.

I mean, a lot of the success, of course is engineering capabilities and working closely with the OEM for customers that engineering team, well ahead of the launch date of the vehicle, so that you are part of the design process, so that you work with them throughout the journey of bringing that model from design to production. The emission is more standards driven. I mean, it is obviously standards driven compared to acoustics, where you have to meet certain standards, whether it is BS-VI or whatever may come in the future.

I think our technologies 3M as a company has technologies to meet those standards and meet them very effectively. And that is why we had also made the investment in India to manufacture some of these materials here, the emission control materials. So yes, the basis may be slightly different for the two in terms of how the key success factors. But ultimately, it is collaborating with our OEM customer partners and then working with them through the design cycles.

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The next question is line from Mr. Hitesh Bhargava, over to you.

Hitesh Bhargava: Sir, can you just talk upon the opportunity in automotive electrification space? And did we win any orders from the latest entrance into electric two wheelers?

Ramesh Ramadurai: Yes, a lot of the portfolio that we supply in electric, the automotive electrification is around the area of thermal management in batteries. And then you can always go back to light weighting and displace in passenger vehicles as well. So these are some of the key areas that we participate in globally in the automotive electrification space. Yes, we do have some recent wins, because in India with the heavy focus on two wheel and three wheel in the initial phase and as you know and you pointed out as well, there have been many new players, whether it is startup companies, new companies which have come into the space 15 to 20 different companies.

So we work with all of them and there are certain cases, we do have some wins with some specifications in place in the two wheel for the EV space. So the exact quantification of that and the amount is something I will have to check but we do have the wins in those space, and we continue to work with them on new models. And the other areas also, we are working with customers who are working in the charging infrastructure space that is another space our teams are working on right now, to see what 3M Solutions can be brought into the charging infrastructure as well.

Hitesh Bhargava: Okay, sir. Sir, can you just explain as the status of our product for heat reflective coating developed for Indian Railways?

Ramesh Ramadurai: I do not have any new information to add beyond what we had announced last year that this product still has been under evaluation with the railways and I think there is not a lot of new development on that to report.

Hitesh Bhargava: Okay. Sir, one last question. If you look at the EBITDA margin of 3M USA versus 3M India, there is a difference of around like 500 to 1,000 bps difference over the years. So how do you see this going forward? And do you see that Indian business have the potential to reach the levels of 3M US?

Ramesh Ramadurai: That is a good point. I go back to a couple of comments I made earlier in response to other questions. One is we do have the increased localization plan to which will also be a positive contributor to margin improvement. So there are two steps. There has been some beta erosion in the last year or so because of the various reasons we have discussed, so one is to get back into the range that we were in. And then the second part of the core thing is, how do you close the gap to what is there between our operations and the parents global operations? On the latter part, I think we also have to be cognizant of the impact of scale on some of this. We are talking of very different scale. I think we got to keep that in mind and see it will always have some impact in terms of how we can manage the EBITDA at the country level versus the parent, which is operated into a $32 billion scale.

Hitesh Bhargava: Okay. Sir, can you just stock up on what is our dependency on China and also, breakup of country wise dependency?

Ramesh Ramadurai: Our imports from China is less than 5%. I think even from an intercompany standpoint or otherwise total imports from China is less than 5% of our sales. number one. And number two in terms of breakup of country wise imports, I think it is there in the Annual Report, I mean, obviously, I do not recall all the numbers, but it is there as part of our disclosures in the Annual Report for all the transactions with related parties.

Hitesh Bhargava: Sir, as our imports are a bit higher. So what is our hedging policy to mitigate this **FOREX 1:11:32** fluctuations ?

Ramesh Ramadurai: We do not hedge here we do. It is on the spot for here in India.

Hitesh Bhargava: And the last question, sir, what is your planning exports and which are the regions we can target? I think the export share is very low currently.

Ramesh Ramadurai: Right, the export share is indeed very low and if I go back to the manufacturing strategy and supply plan that 3M has on a global basis for the most part, I think a lot of the manufacturing is developed around based on the scale of a particular market that is available in a given country. What do I mean by that? I mean, we put in manufacturing here in India, and the primary objective initially is to serve the domestic markets and to build the domestic market, that is number one. And then, with the scale and some of those products may become attractive for export. If you go back and look at how the history has developed in whether in the case of Japan or China, not just China so much, but Japan or Korea or even some other European countries like Germany, so a lot of the businesses there, automotive, electronics, etc., were primarily developed for OEMs in their countries. And then, of course, the specifications, etc., traveled outside the countries based on where those OEMs had production locations and then 3M started to localize in those countries as well as appropriate.

So I think that is the strategy we pretty much follow. So I think it would be fair to say that our strategy at least for the next few years here in India, would be primarily make investments to sell the domestic market. Having said that, the other discussion that continues to go on is the development of portfolios to meet needs for emerging markets. By emerging markets, I do not mean just in Asia, you look at certain emerging markets, could be inclusive of Eastern Europe, it could be Latin America and then look at some of those markets for specific segments, where there could be possibilities of if not the same product, similar types of products that could be developed, so some of those discussions continue to go on. And whether some opportunities show up there, as potential expert's remains to be seen. But I am just bringing that here, because those conversations happen. But there is no specific output from that at this point in time.

So I think for the purpose of today's meeting, I would like to leave it as saying that, most of our investments etc., here are for the domestic market.

Hitesh Bhargava: Sir, one last follow-up. When you say about these exports, do we export it internally to other 3M companies across the globe? Or are we looking at direct? I mean, supply to the markets.

Ramesh Ramadurai: So when I meant exports, I meant only intercompany.

Hitesh Bhargava: Okay. Do we have any opportunity to direct to the market rather than to our internally?

Ramesh Ramadurai: Most of the countries, 3M has a presence in operating in 70 plus countries, right. And so I think the key markets are well served by the presence of 3M subsidiary in about 70 countries. The answer to your question, I would say is probably not.

Moderator: Thank you. Since there are no further questions, we will end the session here. I will now hand over the call to Mr. Ramadurai for any closing comments.

Ramesh Ramadurai: Thank you very much. I really appreciate on behalf of the management of 3M and myself. I thank all of you for participating in today's call. I really appreciate this opportunity to interact with all of you. Like I have said a number of times in the past, I think these interactions gives us a very good outside in view also gives us a view into how you think about our business and what are those issues that are important to you. And that informs our own discussions and deliberations as well. Thank you so much for being here today and for your extending your support to 3M. We really value that. Thank you. Thanks.

Moderator: Thank you again, everyone. Investors may leave the meeting now.