



“3M India Limited Investor Conference Call”

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ANNAMALAI JAYARAJ: MR. ANNAMALAI JAYARAJ – BATLIVALA &
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Annamalai Jayaraj: Ladies and gentlemen, good day and welcome to 3M India Limited Investor Call.

From 3M India Limited Management, we have with us today Mr. Ramesh Ramadurai – Managing Director; Mr. Nikhil Arora – Chief Financial Officer; Mr. Prasad Balakrishnan – Financial Controller; and Mr. Pratap Bhuvanagiri – Company Secretary.

At this point, all participants are in listen-only mode. And there will be an opportunity for you to ask questions after the opening remarks by the Managing Director, Mr. Ramesh Ramadurai.

Mr. Ramesh is a 30 plus year veteran with 3M with a uniquely global business and cross-cultural leadership perspective. He has lived and worked in the U.S., the Philippines and China for close to 15 years. During his assignment in China between 2014 and 2019, he had responsibility of 3M's industrial business across all of Asia Pacific. He currently serves as the Managing Director of 3M India. Prior to joining 3M, he worked at an offshore oil production platform and at a leading automotive parts and two-wheeler manufacturer in India. He holds a bachelor's degree in chemical engineering from IIT Kanpur and an MBA from IIM Calcutta. He served as a member of CII Southern Region State Council. He served as Chairman of the CII Karnataka State Council 2021-2022. He also served as a member of the India Advisory Council of US India Business Council. Over to you, sir.

Ramesh Ramadurai: Thank you very much, Mr. Jayaraj. And good afternoon, everyone. Thank you for joining today's meeting. As Mr. Jayaraj has already mentioned, I am joined by our CFO Nikhil Arora, Controller Prasad Balakrishnan and our Company Secretary Pratap Bhuvanagiri. Nikhil joined us in May 2025. So, I am sure all of you will have several opportunities to interact with him in the coming months and quarters.

I will now invite Nikhil to briefly introduce himself and then I will continue with the rest of my remarks.

Nikhil Arora: Thanks, Ramesh. Good afternoon, everyone. My name is Nikhil Arora. I have been with 3M for about two months now. I am really excited to be here and talking to you.

From a professional experience perspective, I have about close to 26 years of experience. I worked in CFO capacity across multiple companies, including Honeywell, HPE, Dell, Thermo Fisher. And I started my career with Hindustan Lever. It's been a great two months and I am really excited to see what lies ahead. And it's great to meet you all virtually. Thank you.

Ramesh Ramadurai: Thanks, Nikhil. So, before we begin the rest of the session today, I would just like to reinforce our Safe Harbor statement. 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 our policy, 3M India does not provide forward guidance, so therefore I will not cover that.

So, I will make a few brief opening remarks and then we can move to the Q&A session immediately after that. In my remarks, I will cover both operational performance and our initiatives around growth.

On operational performance, the first is on revenues:

In the Financial Year '24-'25, that's April '24 to March '25, we delivered revenues of Rs. 4,446 crores with a 6.1% growth. If you look at it quarter-by-quarter, we had zero growth in Q1. That is April, May, June of 2024. This increased to versus all this is versus **(Audio Disconnect) 03:50** .5%.

Q1, we saw steady uptick and improvement in our growth rates in the succeeding quarters. This uptick was driven by growth in healthcare, automotive, both OEM and aftermarket, infrastructure and consumer businesses.

The segment mix across the four business groups remained relatively stable compared to prior year. Safety and Industrial business contributed to 32% of our revenue mix. Transportation and Electronics contributed 38%. Consumer business about 11% and Healthcare 19%.

The segment growth for the prior year, that is '24-'25, was led by Healthcare at 13.7%, Consumer at 8.6%, Safety and Industrial at 6%, and Transportation and Electronics at 1.6%. The market segments that contributed to the growth include our hospital segments, the automotive OEM and aftermarket, consumer and selected areas in general manufacturing.

If we go back to 2019-20, just prior to COVID, with that year as the base, we have delivered a compounded growth rate of about 8.3% over the past five years.

I will now make a few comments on our margins:

Profits before tax margins for the full year 2024-25 was 17.1% versus 18.3% for the prior year. That's an erosion of approximately 120 basis points. The margin erosion was due to increased marketing and promotion expenses and staff costs.

Material cost was about 20 basis points lower for the year compared to prior year. However, I should point out that on a quarter-to-quarter basis, we have seen volatility in material costs due to changes in commodity pricing, adverse FX movements, and also higher logistics costs.

Let me now turn my remarks to growth:

The external macro environment remains somewhat volatile. Our GDP growth and the IIP have also been range-bound with some bias towards softness due to various external considerations.

Growth in automotive production for this financial year, that is '25-'26, is expected to be in the low single digits. In this environment, we are focused on controlling what we can and investing

in segments we believe will contribute to our growth. We stay focused on commercial excellence, commercial execution and innovation to propel our growth.

Globally, 3M has identified about 11 priority verticals which have higher growth potential and the opportunity for differentiation via innovation. Six of those 11 verticals have immediate to medium-term opportunities for us in India. They are automotive, electronics, energy, safety, home cleaning and home improvement.

Here are a few examples that we are working on to drive our growth. And we have seen some of the evidence of that in the sequential improvement, quarter-on-quarter improvement in our growth rates over the past four quarters.

We continue to work closely with the automotive value chain to increase our relevance and penetration with the tier suppliers, OEMs, as well as the aftermarket. We are executing quick localization programs to broaden our portfolio and improve service. We are expanding our coverage in consumer retail. We are also supporting our sales teams and channel partners with improved pipeline management tools and data analytics.

Our business and lab teams have several hundred customer engagement programs hosted at our customer innovation centers, both in Bangalore and in Gurgaon. And we are expanding our bonding solutions for advanced designs in different segments. So, all things considered, we remain positive on the growth opportunities, even though we will face some volatility on a quarter-to-quarter basis.

In closing, I think 3M India benefits substantially by being part of the global 3M network and having access to various capabilities. The breadth of technologies, the breadth of our product portfolio and an engaged and committed team of 3Mers gives us the ingredients for resilience. We are leveraging these strengths to position ourselves for sustainable growth.

With these, I will conclude my prepared remarks, and I will turn it over to Mr. Jayaraj to coordinate with the Q&A session. Thank you.

Annamalai Jayaraj:

Thank you, sir. We shall now begin the question-and-answer session. Before actually somebody comes, I will start with some strategy questions to start with, sir. How does India fit into the 3M's global strategy in the medium to long term?

Ramesh Ramadurai:

Sure. Now, within the company, within the global operations 3M India is clearly recognized as one of the growth opportunities for the company. Clearly the external, we have been delivering strong GDP growth over the last few years and the projections are also somewhere in the range, you know, in the 6.5% range depending on what source of data we use. And for this year it could be in the range of 6.1% to 6.5%. I think some of these estimates are changing, but at a high level, if you look at it at a macro level, the opportunities, the long-term trend towards sustainable growth of the Indian economy is second to none.

The second consideration also is the nature of the evolving industries and segments which are propelling this growth. There are a number of higher value-added segments which are really coming into their own as we speak. These include, of course, automotive, which is kind of the bedrock of a lot of the manufacturing industries. We are seeing the faster emergence of electronics, especially in smartphones.

We are seeing the localization of the value chain starting to happen. I know I have commented on this in previous calls as well. We are seeing some green shoots in the localization as it relates to 3M. There are many parts of the localization.

We are also seeing increased growth in investments in semiconductors. I mean, the cycle times for those are obviously longer. So, we may not see an immediate uptick from that segment. And then also the data center segment is growing quite robustly in India. They will continue. They will provide opportunities for us in the future as the localization of those value chains start, which we are unable to exactly comment on today.

So, if you look at it, and then renewable energy has also been a strong focus in India. So, if you look at even the quality of the growth sectors, I think these align well with a number of technologies that 3M offers to these industries. So, therefore, all things considered, 3M ranks India as one of a high priority for growth in the future.

Annamalai Jayaraj:

Mr. Sumit Rathi, you can unmute and ask your question.

Sumit Rathi:

Thank you for this opportunity. So, very insightful opening remarks, sir. Wanted to understand how do we look at CAPEX in India from the segment to pick up and I am asking on a macro level and then that to pick up and that then it comes down to us as a company. So, what segments which we can play in the CAPEX, private CAPEX story of our country where 3M India is present and so on a broader level I wanted to understand what kind of game we can play over there.

Ramesh Ramadurai:

Sure. So let me, I know you qualified it with private CAPEX, but I will take the liberty of also commenting on government because infrastructure is also an important opportunity for 3M. So, we are seeing, I mean, it's happening right now, all the investments in roads, investments in airports, investments in metro rail in many cases. All of these investments are happening in the country. I mean, you can argue whether quarter-on-quarter, year-on-year, there may be some ups and downs. But if you look at the overall level of investment, I think that those are all positives for us.

In terms of automotive, which is an important segment for 3M, clearly, yes, the last year the growth rate, the production rate in 2024-25 was kind of in the mid-single digits, and it's expected to be somewhere in the low single digits this year, 25-'26. Maybe up or down a point or two, we can't exactly state right now.

But notwithstanding what's happening in the prior year or this year, many of the OEMs have already announced significant expansion plans over the next 5 years, I mean, 5 to 10 years.

Obviously, they take a much longer view of the opportunities in the country and the kind of production capacity enhancements they do is based on that. So, I think all of those also augur quite well for us.

The question of EV adoption, electric vehicle adoption, it's expected. I mean, the forecast that various houses have put out is anywhere between 20%, 23%, 25% to 30% by 2030. At what pace that happens, obviously we will be watching those closely. But nonetheless, even those segments will continue to offer opportunities for us. And there are investments going into those.

There are investments going into renewable energy. I think that's been talked about quite a lot, about creating 500 Gigawatts of new renewable energy capacity. A lot of it coming from solar. And again, we participate whether it's in solar. We would have more opportunities in the future in those areas, or wind, in the manufacturing of windmill blades and so on.

So, if you look at all of these, and then energy is not only in the renewable energy, but even just the strengthening of the transmission and distribution systems of the grid also provides opportunities for 3M. So, if you look at it, there are a number of areas where investments are happening. And I think we can, we definitely will see, we will align ourselves to some of these possibilities.

Sumit Rathi:

Very well understood, sir. Another line now from 3M India's perspective, what kind of investments do we think we would have to do to align ourselves with the theory of like you mentioned couple of times about localization as a theme playing out and that adding growth from a longer term perspective through 3M India. So, to cater to that, what kind of CAPEX would we be looking to do in India and over some timeline and in what segments if there are plans?

Ramesh Ramadurai:

Yes, so let me just take a step back and comment briefly on 3M's overall global sourcing and supply strategy. I think given the broad portfolio that 3M has, I think globally we look at manufacturing certain portfolios in specific so-called centers of excellence. So, we have them, a manufacturing strategy globally that's evolved and continues to evolve. So, what that means is, our CAPEX model will probably be a light CAPEX model, at least for, at least if you look at the prior three, four years, that's how it's been.

What do I mean by that? That means that even if we have to serve customers locally, we can invest in the final stages of manufacturing, whether it is, you bring in, if it is a, let's say a specialized role of adhesive tape, you can bring it in a jumbo format, in a large format from a location where it is manufactured. And then we can bring it in here and convert it to the finished form that's required by customers and to have local value addition through that and also have enhanced service capability to respond to customer requirements in a timely manner.

So, because of the global model that we have, we have the ability to react fairly quickly to new demands that may be coming up from customers in many of these segments that I spoke about.

So, it's not that we have to go back, we would be faced with lead times of a couple of years or let's say long lead times to put in the investment to manufacture and scale it up.

So, I think that is a unique model that we have in the company. And I have commented on this in prior occasions as well. So, we do take advantage of that. And this also allows us to be relatively CAPEX light which you have seen from all the numbers disclosed in prior years.

Now, going forward, that is not to say that this will be the permanent, this will be the only model that we will follow. In areas where we need to invest to scale up our manufacturing, I have talked about emissions in the past where we have had to put in a brand-new manufacturing investment in our Ranjangaon, Pune facility. We have added some additional CAPEX in the areas of acoustics, where we supply our automotive customers. So, those are all areas where we will make the appropriate investments as required.

The other area we are tracking very closely is, of course, the electronics, the consumer electronics, smartphones localization. Like I said, we have the ability to serve initial surges that may happen through a combination of imports and local manufacturing. But we will see how it progresses and then have more backward integration into the value chain. I hope that clarifies to some extent.

Sumit Rathi: Definitely, sir, the examples are really useful. I will fall back in the queue.

Annamalai Jayaraj: Thanks, Sumit Rathi. Mr. Bhalchandra Shinde, you can unmute and ask your question.

Bhalchandra Shinde: Hi. Sir, related to electronics, 3M Electronics would like to know, since if you draw a line that 3M China scaled up significantly when there was a significant jump in the Chinese electronic market, how we see our business panning out over the years because we are also seeing that kind of a growth in electronics market?

And second question on the profitability (**Audio Disconnect**) 20:41 because of the lower crude prices.

Ramesh Ramadurai: Can you please repeat the last part of your question on profitability because the audio was not clear.

Bhalchandra Shinde: So, since what I understand is most of our components are crude linked, so relatively if the crude prices are lower, one should see better profitability, right? So, are we expecting that kind of improvement in the profitability over in coming quarters or in coming years?

Ramesh Ramadurai: Sure, sure. Thank you. No, thank you for those two questions. I will take the first one, electronics first. So, as I mentioned in my remarks and probably even in response to earlier questions, our opportunity, growth opportunity in electronics depends on when the localization of the entire supply chain happens.

Yes, there has been a remarkable growth in the electronics, the smartphone market in India. The brand owners have really increased their manufacturing in India as well as, in some cases, exports out of India. However, a lot of the materials they are using right now are imported. Some of the localization is going on in right earnest, I think also supported by the, strongly encouraged by the government as well. So, that's going on.

So, what we are seeing is we have not yet reached that inflection point where our 3M, when I say our, I mean 3M's growth will step up dramatically. Now, will it happen in another 6 months, or will it take another 12 months? It's somewhat difficult to predict, but if I were to say, probably going to be sooner than later, but the timeframe could be a few quarters when it's happening.

Now, but you are right, there was a significant step up in the China business, thanks to the entire electronics ecosystem developing at a phenomenal rate in China as well. So, 3M obviously was there participating in that **(Audio Disconnect) 23:11-23.27** a part of this whole electronics growth. And I think this will definitely happen in India. And I think we will be well prepared to work with all our customers here.

To the second part of profitability, yes, the interesting thing is there have been, in some cases, the correlations have not been very strong between crude and certain commodities. Broadly, what you are saying is right. There have just been so many variables over the last couple of years in terms of the external environment. I mean, sometimes logistics costs have gone significantly high, whether it's on sea freight, air freight, etc.

So, there have been a number of factors that have come into play. If all of the commodity prices continue to soften, yes, that will provide us some benefit for us, no question about that. But again, because of our source of supply model that I talked about for the previous question, we will have exposure to imports and therefore we have exposure to FX fluctuations and some of these logistics fluctuations. And that is why we always say, we will probably operate, we will try to operate in a range as far as our margins are concerned and focus on driving our growth by making the necessary investments as well in growth and localization, as I said in response to the previous question. I hope that clarifies.

Bhalchandra Shinde: Got it. Just one last part is, if at all say electronics market shows a scale up, first we will be highly dependent on import content, right? Then we will over the years localize in 3M electronics.

Ramesh Ramadurai: That is correct.

Bhalchandra Shinde: Got it. Thanks, sir. I will come back in the queue.

Annamalai Jayaraj: Sir, one participant has sent the question because he is directly, I mean, through the phone he cannot answer the question. So, I am asking the question on his behalf. So, this year in consumer segment has shown growth, but margins have fallen. Is it a strategic decision or is a part of the business?

Ramesh Ramadurai: So, if you look at the trend in the consumer business segment margin, it's been in the 18% to 20% range over the last four years. And I would say there is also a higher level of investment in our advertising and promotions. And also we are looking to expand our coverage. And I think I have mentioned in the opening remarks about expanding our coverage for our consumer business. So, there are investments that are being made in those areas, which may have contributed to about 100 basis points. So, '24-'25 versus '23-'24, roughly a 100 basis points margin, if that's what the person who asked the question was referring to. So, we do think, expect that this will also give us the benefit of growth. So, there is some initial higher level of investments we are making in the consumer business, seeing the opportunity there.

Annamalai Jayaraj: The next question from the same person is, what will be the growth drivers in the auto sector going forward?

Ramesh Ramadurai: Sorry, what would be the growth drivers, right?

Annamalai Jayaraj: Drivers in the auto sector, yes.

Ramesh Ramadurai: So, I will comment on both the OEM as well as the aftermarket. The OEM sector, of course, I mean, at the end of the day, we want a robust production growth in the automotive industry because our growth will also be somewhat linked to the production growth rate. But we recognize that there will always be periods where, like we are experiencing right now, the bill rate might be mid-single digits or low single digits.

So, therefore, our focus has always been on how do we partner with the customers, the OEM customers, to improve our content on the vehicles by providing the right value to the customer. So, that has been the approach that we have always taken for the last several years and we stay true to that approach about working closely with the customers to understand what are their expectations in terms of design and then how best we can offer solutions that meet their value propositions and expectations. And the increase in content is the, I think, the bedrock of our growth in the automotive OEM business.

And if I may just venture slightly outside the scope of this question about India, I think globally if you look at it also, automotive production is, you know, the same will apply globally as well, not only for any company operating in this segment.

The second part of the, you wanted the after...

Annamalai Jayaraj: No, no, that's only one.

Ramesh Ramadurai: Yes. So, no, I will also want to make a quick comment on the aftermarket. The aftermarket, as the car park increases in the country, the demand for aftermarket services also continues to grow and continues to mature. So, we have good relationships and go-to-market approaches at different levels, at the OEMs, with the OEMs, with the dealership network across the country and how best we can showcase our solutions, offer our solutions to them to help them improve

their, you know, the way they conduct, do the business and the way they satisfy their customers who are basically car owners. So, I think yes, we focus on both segments quite sharply.

Annamalai Jayaraj: Thanks, sir. Last question from him. Is abrasive seeing a challenge as of now? Abrasive segment.

Ramesh Ramadurai: The abrasive segment, we focus on abrasives business primarily on several niche categories where we are able to also deliver higher performance through some of our latest technologies like the Cubitron II and Cubitron III abrasive membrane technologies. So, we focus on delivering strong productivity improvement solutions to customers. So, there has been some, you know, in the case of automotive, let me come back to automotive as an example. That's an important segment for our abrasives business also.

While for the automotive OEM business where we sell our designed-in products into the automobiles, even though the production rate may be, let's say, 3% or 4% growth, but we have the opportunity to spec in more content in partnership with the OEMs, which allows us superior growth rates. Along with products like abrasives, it would be directly correlated to the growth in the production build. So, therefore, that also has some impact on the results for the abrasive sector.

Annamalai Jayaraj: Thanks, sir. So, Mr. Aejas, you can unmute and ask your question. I think we are not able to hear him, I think. I will go to the next caller. Mr. Gupta, Divyansh Gupta, you can.

Divyansh Gupta: So, sir, couple of questions on the exports. So, while we might not be exporting directly, we might be supplying to customers who then export to other countries, right? So, do we have visibility of how much of our revenues is, let's say, indirectly linked to exports?

Ramesh Ramadurai: Yes, we do, we do. But it's limited to a few segments. It's a relatively modest number. It's linked to segments such as automotive components. So, we supply some of our finishing materials, abrasives and other products, let's say, to automotive component manufacturers. And some of their output would be exported. So, therefore, yes, we do have line of sight to it. It may not be an exact number, but we have a ballpark estimate of what those exposures are.

And then there are a few other limited segments where our products, like in our pipe coating business, we have some of our customers undertake projects outside of India, for which we supply our pipe coating epoxy materials to them. So, for us it's a domestic sale, but however, we know it is contingent on customers executing projects outside of India. So, it's like that there are a few specialized areas, but yes, it's not a large number.

Divyansh Gupta: And to one of the questions that an earlier participant asked on the 3M global sourcing model, so, where all in manufacturing, let's say, is India a Center of Excellence or we are yet to, let's say, get recognized as the Center of Excellence or manufacturing and related to the question is that do we see an opportunity to then export to other 3M Group companies because of advantage such as labor or energy?

Ramesh Ramadurai: Yes, so, currently all of our manufacturing, I would say most of our manufacture, whatever we manufacture here, is for the domestic market. So, we are not a designated source of supply to global operations. So, it also depends, it's a function of how some of these portfolios develop in different countries.

So, if you look back a little bit in history, so, let's say when the automotive industry really grew in Japan over the last several decades, so, there were a number of portfolios that were developed in Japan to meet the Japanese automotive OEM requirements. And then as those customers, those OEMs expanded to different parts of different geographies around the world, a lot of these specifications also traveled with them. And then in some cases, in many cases, the products were exported out of Japan. Or like I explained earlier, you would probably export a jumbo material of that and then the receiving country would do some finishing operations.

So, a lot of these also grow. It is also a function of sometimes the customers will take our products and portfolios to different geographies. In some cases it may be based on what you referred to as you establish a particular location as a Center of Excellence for a particular type of portfolio for various reasons, availability of raw materials, manufacturing cost advantages, etc. So, at this point in time, I think the opportunities for us here in India are significant and then our focus is predominantly in India.

Divyansh Gupta: But is there a plan from 3M Global to like, because let's say, U.S., China, given their discussions that keep on, let's say, back and forth, but is there a plan that way that the global is looking to, let's say, establish something in India, maybe at a smaller scale, but, let's say, develop it as an alternate supply chain for global businesses?

Ramesh Ramadurai: So, like I mentioned in response to your previous question, so, let's say, it is also contingent upon our customers. So, let's say our customers have a China plus N strategy and then they move certain supply chains, move into India. Obviously, we will do what is necessary to serve them locally, including local manufacturing. So, that is one.

Now, so, therefore a lot of our business in China is also local in China. I mean, there is some exports obviously out of China, but a lot of it is local. So, therefore, I think the bigger part for us for decision making would be based on how our customers, how the value chains move into India.

Divyansh Gupta: And last question on the autos. So, does a content per vehicle change from, let's say, a premium to a non-premium vehicle? And do we have any plans to introduce the paint protection film or the sun protection film in India of the 3M brand that is there in, let's say, U.S.?

Ramesh Ramadurai: So, the content definitely varies between premium and non-premium models, number one. And even within a particular model, sometimes the OEMs have variants within a model and the content for different variants might be different. I mean, it is all at the discretion of the OEM and their design decisions that they make.

So, if you have a particular model X, let's say it comes in five variants, so they might have less content in one or two, one, two, and three and then there are fourth and fifth which are, let's say, the higher end of the variant might have additional content. So, obviously, we just follow what the decisions that are made by the OEMs. So, therefore, to answer your question, yes, for sure there is variation across models and even sometimes the variants for a given model also.

The paint protection film is actually for us sold through the aftermarket channels. It is not an OEM fitment. So, it is something that we sell currently through the aftermarket channel. And we are looking, we have a fairly broad aftermarket distribution and reach through all of the dealerships and other go-to-market models. So, we do it through the aftermarket.

Divyansh Gupta: And sir, just last question, if I may. What should be a, let's say, broad multiple of, let's say, GDP is growing at X%, we would want to grow at Y%? Is there a multiple or given that there are so many variables, it is not possible?

Ramesh Ramadurai: So, definitely we want to grow at a premium to the macros. Grows well above the macros. Now the multiple, like you said, it is a difficult one for us given the breadth of end-user segments that we participated. Sometimes the multiple can very quickly get uncorrelated if something changes. So, yes, our objective and our target is to grow at a significant well above the macros of the economy.

Divyansh Gupta: Thank you, sir. I will join back the queue for subsequent questions.

Annamalai Jayaraj: Thanks, Mr Gupta. Mr. Aejas, again you can unmute and just try now.

Aejas: So, sir, while I have segment specific questions, but I am choosing not to sort of get into those. My broader question is that I am not requesting for a forward-looking statement, but in the last five years, if you look at the rate of growth that the company has been able to deliver at about 9%-10% revenues and about 15%-16% on the PAT side, my question is really pertaining to that because, you know, it encompasses whatever you spoke. So, whatever you spoke whether it is trying to increase your content per vehicle or being indexed to localization, or playing parts in the smartphone ecosystem, how should one look at the next, say, five years as a block? Will we be able to significantly participate in such opportunities and improve over that 19% kind of number that we have delivered erstwhile? That is my first part of the question.

Ramesh Ramadurai: Sure. Yes, like you said, I don't want to get into specifics, but a five-year CAGR like I mentioned from 2019-20 to last year was a little over 8%. And then, because it's quarter-on-quarter, if I look at the last four quarters, like I said, it was flat in the first quarter, then 7, 8 and all very close to 10 in the fourth quarter. So, clearly, one year, four quarters doesn't kind of make the story. But that's why I always also talk about what was it five years looking back.

So, our goal is to be growing above the macros to try and obviously step up and improve our growth rates performance. And like I said, yes, while there may be quarter-on-quarter volatility due to various factors, the longer-term trend is something we want to sustain and grow above

where we have been. And a lot of the segments that I spoke about, they play into that and they also give us the opportunity to do that.

Aejas:

Understood, sir. It doesn't answer my question because the opportunities you are seeing today in the country with all the localizations and being probably at a relatively early but visible takeoff could essentially mean that your ability to participate in these pools was, could be higher. And that's what I was looking to texturize. But anyway, sir, I will come to my next few.

So, from a margin perspective, you have been very well in that 14% to 18% range. Last year you had spent some more money. You called out earlier on branding and advertising and marketing and those sort of things. So, could you just tell me from a margin perspective, what is the range we should look at and also how the investments that you have made, how do you expect them to sort of play out?

Ramesh Ramadurai:

Yes, we would be in a similar range that I don't think there is any at this point, any change in the range that we talked about in terms of margins. And in terms of the investments, there are different categories of investments. Some would be, like I said, the quick localization ones where there is a relatively modest CAPEX, but it helps us maintain, improve service levels to customers and also, therefore, have the opportunity for deeper penetration.

We also have investments in Ad/Merch, et cetera, in our consumer business. We have got investments in our expanding workforce, adding more resources in our sales and marketing application engineering teams to expand coverage of customers. So, we are also investing in our channel coverage, our channel partner coverage, to drive more efficiencies and productivity for them as well.

So, therefore, its channel partner profitability also is an important criterion. And many of these investments are relatively short-cycle paybacks because it is not a long-term payback. So, we hope in a few quarters we will also see some benefits from some of these investments that I just talked about.

Aejas:

And sir, just on the royalty bit, right? So there are two components to it. And if you broadly see over a cycle, it's been in that 4% to 6% range, nowadays nearing closer to the 5%. And it is very unclear to me of how that is decided because I presume it's on a, I mean, I read that it's on a product specific level, how you decide the royalty. So, without your ability, and I am sure that we don't get access to that. So, how should we think about royalty? Will it be in the ballpark 5% range for the next couple of years? Or is that likely to change or get revised?

Ramesh Ramadurai:

So, let me clarify first, there are two components to it. One is royalty payable and the other is what we call as a corporate management fee or support services fee. So, there are very two distinct components. The royalty that is payable is through the IP agreement that we have with 3M. And that is payable at 3.25% of sales for the manufactured products only. For the traded products, we don't pay any royalty.

So, broadly, if you look at our overall sales, roughly 60% of what we sell in India, there is some element of local manufacturing, some local value addition that happens. So, if you do the math, 3.25% multiplied by 60% will be somewhere in the 1.95-ish range, I think. So, that is what we, so, if you look at our royalty paid, you divide it by the sales, that's what you will see.

Now, last year there was the healthcare business was spun off. So, healthcare, we continue to represent healthcare for the new company Solventum, which we had announced also earlier. So, in the case of Solventum, we have a 4% royalty payable to them on the manufactured products again. And so therefore, the ratio will be somewhere still total as a company, if you look at the total royalty that we pay, both to Parent as a Related Party and to Solventum, it will be somewhere in the range of 1.95 or so. Depending on the product mix, etc., it may change a little bit, but ballpark, that's the range it will be in, 1.95%-2% or so. That is very clear. I think we have given all these details in the annual report. And this year's annual report will also call out the Solventum arrangement for the healthcare business.

The other part of the payment is the corporate management fee or the support services fee. And that is based on the support that is provided. Now, if you look at it, we do, we take advantage, like I mentioned in my opening remarks. You know, we benefit substantially by being part of the global 3M network and we have access to various capabilities. By those I mean, we don't make the whole IT infrastructure, global IT connectivity, the ERP systems.

Then these, like I talked about pipeline management, sales, data analytics and tools and so on. All of those platforms that we work on, the hire to retire platforms, so, all of those, we access them globally and some of these fee that we pay goes towards that 3% or so. I think last year it was 2.9%, 2.8%, 2.79% or something like that. So, that is what we pay for all of these where we don't on our own go ahead and make investments and procure etc. And then there are also various engineering, you know, when we get into CAPEX, etc. A lot of the engineering work is done partly in India and partly also with the global team.

So, if you look at all of these services and the access to capabilities that we get, details on marketing, marketing collaterals, so, there is a lot of such day-to-day operations. We leverage the global resources of 3M for which we pay a very modest 2.8, I think last year was 2%. So, let's say, it is roughly in the 3% neighborhood.

So, these are the two different things. So, I know that they get combined as a royalty, but which is technically not accurate. The royalty is what I explained earlier and corporate management and support services fee is the latter that I just spoke about. If you have any additional questions, I will be happy to clarify.

Aejas:

No, no, it was clear. I was just clubbing the two, but it will remain broadly in this ballpark is what I gathered from your...

Ramesh Ramadurai:

Correct.

- Aejas:** Perfect. And sir, finally, just on the dividend payout, you emphasized on the light production and how that's what you are likely to do. And therefore, you may not need to sort of invest large sums. And therefore, your FCF free cash generation will be on the higher side. And I read your dividend policy doesn't explicitly state what kind of dividends you will be paying out. So, could you just walk me a little bit through how you think about dividends as a company?
- Ramesh Ramadurai:** Yes, the way you have articulated it is absolutely correct. I think the Board has reviewed it. I think we are still at the early, I think we are only in year 3 of the dividend journey right now. So, I think to get to a greater specificity, I think we will probably require some more time. But broadly what you said is true. I think we will look at it annually on the Board and then we will provide more details as we can do so.
- Annamalai Jayaraj:** Thank you, Aejas. Mr. Karan, you can unmute and ask your question.
- Karan:** Hi, sir. Good afternoon. Sir, thank you so much for your time. Just had some questions about how the competitive landscape in our segments has evolved generally. Who are we competing with? What does our market share look like just so that going forward on this growth path, we can see who it is that we are exactly competing with for this opportunity?
- Ramesh Ramadurai:** Yes, the competitive landscape is very, very broad. I mean, as a company, if you look at our number of competitors, we track a very large list of competitors. It is not one or two. It could be in the, you know, we track between 30 to 40 different companies because it all depends on the portfolio. For each portfolio, the competitors are different, obviously.
- So, I think there is a good mix of international players as well as domestic players in the competitive landscape. And it is a pretty large set of competitors that we track. And our market shares vary by segment and sub-segment. We would be in a leading position. In some segments, overall, at the aggregate level, our market shares may not be the leading share.
- But we may have taken a conscious decision to only focus on particular sub-segments in those markets based on various factors such as competitiveness, the value we are able to provide through our technologies, etc. So, I think the competitive landscape is a very good question. It's a very broad one for us in India. And we do have a close tracking and understanding of where we stand.
- Karan:** And so when we generally find ourselves winning orders or getting them off the client, is it generally, thanks to the differentiated science and technology, the quality of the product we offer, how do we find competing on the price level with probably some much more cost-sensitive indigenous manufacturers? How do you find that challenge? How do you dance that dance when you try to capture that market share?
- Ramesh Ramadurai:** Yes, so, if you look at the more general, broad general use markets, if I may call it that, there is no market that is, you know, general use is sometimes, what should I say? It does a disservice to actually the information that we provide. But just for ease of communication, I will use the

word general use. So, in those areas, even in those segments, we would not be the lowest priced offering in the marketplace because we do find there is a value for the brand, value for the trust that they have, which are all the intangibles.

Suppose there is a problem, how easy is your returns process? If there is a technical problem, will somebody come and help the customer resolve it? Or on-time supplies, what's the fulfillment rate to what products that go through channels? So, I think these all provide some additional points of differentiation for which there is a reasonable, you know, some small premium that you can get. But yes, but our portfolios in the general use segments are probably not, our sales weightage would probably be more in the differentiated portfolios rather than what we would call general use.

Karan: So, finally, sir, in the space just so that I have understanding of maybe how the customer, the client relationship work, so maybe let's take the order segment of any that you would prefer to use as an example. How much of a particular client's order would we generally represent on an annual basis? Or however is the best way to measure that? How much of, let's say, 100 units that they need, how much of that business would come to us? And how much would come to maybe the next biggest participants?

Ramesh Ramadurai: Oh, that's a very difficult question to answer because it depends in many cases when we have the business for certain applications, we would have pretty much a significant share of that for that application. That does not mean we have every application, I am talking now about an industrial type of a setting, industrial customer. So, but that doesn't mean we have every application at the customer. The applications we win, generally we keep a very high, a fairly high percentage of their share for that. Customers also, you know, they also set up the manufacturing processes to use certain incoming materials. So, it will be difficult for them to keep switching out and switching in. But that doesn't mean we have every application at the customer. So, that is where the market share comes into play.

Karan: So, even within a category, we would be dominant in specific applications. That's the way to sort of look at the end market.

Ramesh Ramadurai: Yes, we could have a strong position.

Karan: Perfect, sir. Thank you for your time. I will join back.

Annamalai Jayaraj: Thanks, Mr. Karan. Due to lack of time, we will take the last question from Mr. Pritesh. You can unmute and ask your question. Mr. Pritesh?

Pritesh: Just a minute, sir. So, I have a couple of questions. One, what is the salience of the auto business and what is the salience of the infrastructure business in our total sales? So, auto as a sector and infrastructure as a sector, what will be the salience in our total sales?

- Ramesh Ramadurai:** We provide the segment break-up as we report. We don't, as safety and industrial, which is roughly 32%, which makes -- Yes, so we don't get into the end use segment level that we don't report. So, if you don't mind, I would refrain from that.
- Pritesh:** So, then since you are skipping the first question, my second question is, when I tried to assess last year's number and when I look at the first two segments, the first two segments have grown far lesser than the GDP growth. That's why I was trying to figure out with respect to infrastructure and auto, but then if you could give us, give out the deviations here in the first two segments in the growth rate. And usually you guys comment that 3M, the overall growth should be linked with the GDP growth or a multiplier of a GDP growth. You know, as you go, let's say, for five years into the future and where manufacturing or infrastructure keeps evolving in India, do you see from the experience of China the multiplier expanding versus what it has been for the past many years?
- Ramesh Ramadurai:** I think as the markets evolve, whether it's infrastructure or manufacturing, I think like I said earlier, our opportunities for penetration and growth also improves. The other comment I made was on the nature of the industries that are also driving the growth, whether it's electronics or whether it's renewables or energy sectors, etc., rail and so on. So, I think all of these provide opportunities for us to grow. And these are all segments that have a growth runway for several years into the future. And we saw some of that play out in China as well. And so, I am sure there would be strong opportunities in India as well for 3M.
- Pritesh:** And how about last year where the multiplier was significantly lower in the first two segments combined or individually, any specific to highlight?
- Ramesh Ramadurai:** Yes, I think I had also commented on some of the pipe coating business which is a project related business where there have been some erosions primarily due to timing of certain projects etc. So, there are always some erosions that happen during a given period which contribute to some of these deviations, as you called it, yes.
- Pritesh:** Thank you very much, sir.
- Annamalai Jayaraj:** Thanks, Mr. Pritesh. Sir, do you want to make any closing comments, sir?
- Ramesh Ramadurai:** Yes, I would just keep it extremely brief. I think I just want to thank everybody for participating in the call. I think the questions that you raise are also extremely important for us. It allows us to understand how you look at our business and how you try to model our business. So, it gives us important insights so that we can also one, not challenge ourselves, but also provide the level of information you may require to the extent possible. So, I really appreciate it. And I also want to thank Mr. Jayaraj for moderating and facilitating today's session. Thank you very much.
- Annamalai Jayaraj:** On behalf of B&K Securities, we thank all the participants for joining the call. And special thanks to 3M India Limited Management for taking time out for the call and also giving us the opportunity to host the call. Have a good day. Thanks all the participants.