"Berger Paints India Limited Q1 FY24 Earnings Conference Call"

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MODERATOR:	**MR. NITIN GUPTA - EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Berger Paints India Limited Hosted by Emkay Global Financial Services.

We have with us today, Mr. Abhijit Roy – Managing Director & CEO, Mr. Kaushik Ghosh – Vice President & CFO and Mr. Sujyoti Mukherjee – Vice President (Finance and Accounts).

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nitin Gupta from Emkay Global Financial Services. Thank you and over to you, sir.

Nitin Gupta: Thank you, Carol. Good evening, everyone. I would like to welcome the Management and thank them for this opportunity. I shall now hand over the call to the management for opening remarks. Over to you, gentlemen.

Sujyoti Mukherjee: Thank you, Nitin. Good evening, ladies and gentlemen. A very warm welcome to Berger Paints India Limited Earnings Call for Q1 FY24.

As has already been mentioned, we have with us today, Mr. Abhijit Roy – our MD and CEO and Mr. Kaushik Ghosh – Vice President and CFO. The Management Presentation on the performance has already been circulated to the exchanges and uploaded in the Company's website for your information.

So, without spending any more time, I will now hand over to Mr. Roy for his comment, followed by your question. Over to Mr. Roy.

Abhijit Roy: Thank you, Sujyoti and a very warm welcome to all of you. It's been a good quarter for us in spite of a very strong base that we had.

We managed to have double digit volume and value growth. Value growth for the standalone was 10.1%, operating profits growth 37.5% and PAT growth 39.2%. If we look at the volume and the value growth fixture for a 2-year CAGR 3-year and 5-year, we can see for this year volume growth was 12.7% overall with a decorative growth was higher at about 14% odd.

In terms of the 2-year's compounded growth rate, it was 25.5% in volume term, 3-year 39.6% and a 5-year compounded growth rate in volume is 18.5%. If we look at value, sales growth for this year is 10.1%; 2-year's compounded is 30.1%, 3-year's is 49.1% and 5-year's is 18.9%. So, if you look at the 5-year growth rate, more or less this is at par at 18.5% and 18.9%. The last 2-

year's and the 3-year's growth rate if you look, they are higher in value term largely because of the price increases that we took in this interim period.

Now moving to the next in terms of our performance for this quarter:

We had the highest gain in market share in the industry in quarter one and we had the highest profitability growth which is the operating profit growth in quarter one of this year in the industry in the listed space**,** the results of which has been announced already by the other players and therefore we can claim with certainty that the highest gain in market share, the highest gain in operating profitability, growth rate wise is there for us in quarter one for this year. So, that is something which we are happy about. If we look at the market share, it's been moving up quarter-on-quarter and year-on-year almost every year from 2020 onwards and we have shared that with you, it moved up from 18.3 to 18.6, then on to 19, then on to 19.3 and now this quarter on to 20.2 which is an increment of 0.9%. Now this is based on the announcement of result by all the listed companies, this takes into account Berger's standalone business plus Saboo Coatings and STP which operates out of India and so this is added on to this standalone results and we look at the Indian operation. And if we look at that, this is where we stand, which is 20.2% in terms of market share.

If you look at only standalone also, there has been an increase by about 0.9% which is the same as you see in the India operations. If you look at the decorative business, on sustained, if you just analyze only the decorative, we have fairly good growth rate in quarter one. As I said, healthy double-digit volume growth and our value growth, which is also in double digit, higher than the overall growth rate, so the industrial divisions grew at a slower pace than decorative in quarter one for us.

The waterproofing business continue to show strong growth. Both urban and rural markets showed improvements in the quarter. We added about 1,300 plus Color Bank Machines in this particular quarter. We introduced a few interesting new products. One of them was WeatherCoat Anti Dustt Cool, our WeatherCoat Anti Dustt is the leading product in that particular segment. And we introduced a variant called Anti Dustt Cool which not only protects from dust but also keeps the house cool. And in areas where it is predominantly hot and slightly dusty, this product has started doing quite well.

Another product which we introduced in the luxury interior emulsions space called Silk Glamor Dazzle which is a high sheen product which is much in demand in Eastern part of the country where we are reasonably very strong and this was a product which was demanded in the market place because there is an affinity for very strong sheen finishes and we introduced this product and has been a reasonably good success so far in the East. We also introduced a few products in the waterproofing range. For the roof coating, we have PU ELASTOSEAL which is a solvent-based polyurethane with 600% plus elongation and then we have polyurea brush applied and spray-applied which we have introduced in the segment of waterproofing. We also completed the range in the tile adhesive range and introduced two products there, two of them are Epoxy Tile Grout, we are soon going to launch PU adhesive for stone finishes as well. So, we are going to introducing slowly one or two products every quarter to complete the range in the tile and stone adhesive range and add to the waterproofing and construction chemical space and fill up all the gaps that are there.

On the industrial side, in property coatings and general industrial business continued the steady growth for the quarter, though lower than that of decorative as I mentioned, but we had good price realization and improved the profitability in these businesses. Automotive business at a modest growth on account of subdued growth in the 2-wheeler industry, so we are predominantly present in two wheelers and commercial vehicles and tractors. Therefore, our growth rate in the automotive category was modest in this quarter. Powder Coating business line continue to degrow a little bit in this quarter due to high base effect and downturn in the fan industry; however, it has already turnaround in the second quarter in July, we registered double digit growth and we expect the business to turnaround in Quarter 2 financial year 2024.

The gross margin as we see it, we had indicated last time that the gross margin had jumped up from 33.8% to 39.6% and we are maintaining it at those levels. And we have indicated that we will be hovering around these levels only between 38% and 40% is what we had indicated. And we have held on to that at 39.4%. As a result of that and last time also, I had also indicated that the EBITDA growth rate should have been higher, but due to some one-off expenses like the Sandila factory kicking off where we had massive overhead and some advertising expense which we had taken as one-off. This time, such expenses were not there and therefore the operating profit ratio improved to 18.8%, which is fairly decent improvement from earlier levels. In terms of our debt position, it has improved considerably. And, if you look at the net debt situation, it has come down to Rs. 243 crores on a consolidated basis. It is even lower. But this figure is going to become net that will become zero nearly by the. end of the year.

On the consolidated, if you look at the consol results, we grew by 9.8% on the revenue front. The operating profit growth was 37.5% and PAT growth was 39.9%. If you look at all the subsidiary that we had in the performances of this Bolix Poland had a strong quarter of both top line and profit improvement. The bases were weak and also it had a very good performance in the UK business. Overall, therefore, the growth rate was quite robust. Companies overseas subsidiary BJN-Nepal and another quarter of deep growth in top line and profitability. This is largely a country effect. Almost every Company there is suffering because of issues related to the general economic situation there, very high inflation, very high interest cost. And there was a slowdown in the market. But things are looking up now, slowly improving. The Company subsidiary, STP showed marginal topline growth due to a high base and it had some issues related to one of the factories there, one of the lines had to be stalled. So, their OEM supplies got impacted a little bit. However, there was strong double-digit profitability growth created by improvement in gross margin due to softening of raw material prices. We expect double digit value growth of STP in Quarter 2 Financial Year ‘24.

As far as Saboo Coatings is concerned, we had a marginal degrowth in the topline due to a high base and adverse impact from the fan segment and the export segment. However, profitability recorded robust growth in the back of softening RM prices. We expect double digit value growth in this business line as well in Quarter 2 of Financial Year ‘24. Company’s joint Venture, Berger Nippon Paint Automotive Coating had a very robust quarter of topline and profitability growth aided by uptake in passenger car and SUV sector. This of course doesn't, you don't count this into our results as it is, we have only 49% of this, so it doesn't come in the revenue at all. But it has a 49% impact in the profitability figure.

The Company’s joint venture, Berger Becker Coating had a degrowth in both topline and profitability in the quarter on account of capacity constraints due to fire in one of its manufacturing facilities in Goa in Quarter 4 of Financial Year ‘23. This also the topline doesn't come, only the bottomline gets added up as we have a 49% share in the JV.

The road to sustainability is very important. ESG is gaining importance. We have also focused heavily on this area. Project JAL where we saved 2.88 lakh liters of water. In terms of solar power, we actually have now 66 lakh kWh of solar power capacity, which is a 35% increase from what we had last year. We also had a reduction of SPC in Financial Year ‘23 against Financial Year ‘22 of 4.34%.

If you look at the carbon footprint reduction, year-on-year we have been improving and last year we had 19,635 metric ton of CO_2 reduction which happened last year. The Company expects to end the year with double digit revenue growth as the demand outlook remains good, in view of positive monsoon progress, infrastructure spend and extended festive season. And profitability, we expect it to sustain at the current level. If the raw materials which we expect to remain at these levels sustain at this point, then probably the profitability also will be at similar level, though we have always said that it will hover between 16% to 18%, currently ahead of 18 at 18.8, so we should be around this figure with nothing untoward happened.

That's all that I had to say for quarter one results. I am open to receiving whatever questions you have and that is it from my side.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities ties. Please go ahead.

Abneesh Roy: My first question is on some of the one-offs which you had in the previous quarter. If you could update what is the status on that? For example, from Andhra government 10% of the receivables were still left. What is the status on that? Second is definitely, there was a fire losses in one of the factories and you had provided already 25 crores and insurance claims etc., what is the status on that? So, those were the quick and there was one more provision. So, if you could update on all three?

Abhijit Roy: So, the fire loss that you mentioned we have already applied for insurance, it's normal process. We should be able to get it in the next three to four months. And once it comes back then we'll obviously reverse the provisions that we had made earlier. As far as the Andhra Pradesh government payment is concerned, we have provided for it, some part of it's still pending. A small portion for the school project which we had done is pending and that has to come through. We have to submit certain documents which we have just completed about four days back. Now they will go through the process. In a month's time, we are expecting that this school project balance an amount of money out of about Rs. 300 plus crores, we got almost Rs. 278 crores or Rs. 280 crores and balance Rs. 21 crores-Rs. 22 crores is left which has to be received by us and which we should receive in the next few, I would say one month maximum time frame is what I would place it at and we should get that amount.

Abneesh Roy: My last question is on the volume growth, so another paint Company which also saw very strong numbers, it's a smaller Company. They said that in July, the earlier trajectory, what they had seen, strong volume growth that has sustained in July month also plus all paint companies are saying because of the festival season, which is delayed this year, which gives a reprieve between the monsoon ending and the festival season, that's supposed to be good, but lot of that benefit will come in Q3 rather than Q2. But on an overall basis, it will be better. So, wanted to understand July month and festival season, how are you looking at it?

Abhijit Roy: So, Abneesh, lot of these things depend on the basis of different companies. I won't get into the detailing of it, if you study, you will find that sometimes the bases are weak and therefore you suddenly have a bigger growth rate in certain months of quarters. But overall, consistently, if you look at it, you should look at from the market share perspective, is there a gain or a loss of that particular Company or companies concerned in particular quarter. So, that will give a better indication of things. The second part of it is related to what will happen in the third quarter or in the second quarter. Yes, Diwali is delayed this year. So, the chances are that we will have a much better third quarter, again in the third quarter, the base is on the lower side because last year most companies haven't done well. So, on that relatively weak days, there will be better growth rate in the third quarter, a much more robust growth rate should be there, especially if the Diwali is getting delayed. So, that situation is likely to arise in the third quarter. So, the second quarter because of the monsoon being there a little bit impacting in July quite a lot, many of the companies wouldn't have had very strong growth rates since July. Exceptions, are there always, depends as I said on the basis. And then the second quarter will be moderate for most companies. The third quarter will be far more robust as far as most of the companies in the industry is concerned.

Moderator: Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: I had a few questions. First, sir, I wanted to get an update on the level of regional competition and whether the benign input cost has resulted in that kind of increasing?

Abhijit Roy: Right. So, regional competition had reduced a little bit. If you recall in the COVID period and people used to ask here also whether is this you're gaining out of them and is this going to sustain? And I had always said that there is a possibility of them gaining once the prices start reversing. And so, some amount of the stronger players have remained and they have come back, the weaker players of course they gave up and they are as good as gone. So, therefore some amount of regional bounce back is there, both in the industrial side and also in the decorative side, but not very significant, I would say.

Avi Mehta: So, it would not be concerning enough to kind of consider price reduction or passing it on because I was essentially trying to understand is there a reason to look at price as of now?

Abhijit Roy: No, I don't think that is required at this stage, though I think you must remember that though the prices come down of raw material, this is a very competitive industry. The rebates and discounts tend to move upwards in such a situation because every Company knows that the margins are there to play around. And therefore, ultimately if you reduce the price you will tend to reduce also the discounting and the rebating to balance out to some extent. And therefore, I don't see this price drop happening immediately though to a large extent it depends on the leader and how it takes it up in the near future.

Avi Mehta: But essentially demand is strong, competition is not a concern, then the last part is the uncertainty. Okay, I hear you.

Abhijit Roy: Yes.

Avi Mehta: The second bit I wanted to understand is the Sandila plant. Now is it fair to say that this quarter represents almost the entire cost and additions or by when do you see the costs, whether it is in terms of higher employee cost, depreciation and even the benefits in terms of lower freight cost to start flowing through from the Sandila plant or is it largely reflected, I was just trying to understand how should we build it as we go forward?

Abhijit Roy: So, it's still in a work in progress, not fully operational that way. Operating efficiencies still needs some amount of improvement. We have moved up some, also on a scale of 1 to 10, I would say we are somewhere around 5-6 at those level. It can go up further in terms of improvement. As the season comes off, we are going to see significant improvement there in the Sandila.

Avi Mehta: And the depreciation is largely done, right? The depreciation cost of that unit is broadly done or there might be...

Abhijit Roy: Yes, that's there, that is done.

Avi Mehta: That is done, so it's only going to be any operational benefit as they kind of scale up, we will only see benefits from here on because…

Abhijit Roy: That's right, you are right.

Avi Mehta: Lastly was on the ad spend to sales. Could you, it's just a bookkeeping, give us a sense on where we are in the first quarter and how do we see it behaving going forward or what is our target internally for FY24 and probably a steady state?

Abhijit Roy: So, we have more or less maintained that spend to sales ratio at wherever we were last year approximately at similar levels we are. And then we see this trend continuing going forward, we may accelerate a little bit from end of third quarter depending on how the prices of raw material are. We may want to spend in the third and the fourth quarter slightly more than what we are doing in the first and the second quarter.

Avi Mehta: But that, sir, 3.5-3.3 was the number last, if I'm correct.

Abhijit Roy: That is right.

Avi Mehta: But the steady state or prior period was more like in the earlier years, you've almost gone to 4-5, so you think the number should be more in the three level on an yearly basis, is that right?

Abhijit Roy: So, it will be around 3.5% to 4% towards the end of the year. At current levels, it is at 3.5% level approximately.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: So, I was just reading and I was more curious at 20.2% market share this is all India, what would be the market share where our core market which is North will be? Similar range would have gained or will be higher?

Abhijit Roy: We gained across the board actually. Obviously, the market shares to begin with is higher in the North and the East. But the gains have been higher in East possibly we would have gained, definitely slightly more. Also, in the North, gains has been more or less similar to the national average. The West gain would have been slightly on the higher side.

Shirish Pardeshi: So, one follow up here, largely this market share gain we were under index, same to the exterior and we have seen lot of product launches. So, that's where we have gained or pureplay the decorative inside 4 walls, that is the segment where we have gained the market share?

Abhijit Roy: It's a combination of all the factors, Shirish, but it's also a distribution gain which is happening in the West and the little bit in the South as well where we had said that we are relatively weak and we will focus on expanding on the network that there is an opportunity there for further expansion and that growth will continue.

Shirish Pardeshi: My second question is on the decorative slide. You mentioned that there are new product innovation which has happened? So, generally, how much time a new product gets settled a year or so you get a full revenue or it takes a little longer time to get the distribution gain and then it starts showing? And what are the gross margins you have the benchmark inside the Company that any new product you will launch will have some gross margin impact on?

Abhijit Roy: It's in two parts. You mentioned how long does it take? Normally if it is a product which is in good demand in the market or you have read the demand situation correctly, then it should start reflecting in a 4 to 5 months' timeframe. It doesn't take that long to impact on the ground. It is the slow phase rollout and therefore that much time is required for the rollout to happen. If we find that in the initial markets we see those traction, we roll out much faster and therefore it should take, as I said, 4 to 5 months. If we find that we need to tweak the product a little bit, then it may get delayed a little bit in that sense. As far as the gross margin is concerned, it depends on the product category in which the product is being introduced, more or less any new product which is introduced in a particular category, say it is luxury emulsion, then it will be close to the luxury emulsion and slightly higher around those levels of the existing luxury emulsion product. However, if we produce a very economy range product, then the margins will also be correspondingly similar to that type of product category.

Shirish Pardeshi: My last question on the outlook slide, you said that you are expecting a double-digit revenue growth. Directionally what we read from the market and other players that price element is going to be subminimal. So, another one quarter you will have, by November you will have price anniversary realization. So, in that context, do you think the volatility in the raw material prices is there and we will still build double digit volume, double digit revenue growth in terms of value and maybe if you can spell out what is the volume growth targets you are setting for FY24?

Abhijit Roy: So, as I said, Shirish, our value growth in the first quarter has been double digit, volume growth also has been double digit. The first quarter also was quite tough on a very large base. We had a very big base of last year, in spite of that we were able to grow in double digit. As I said in the third quarter, we see a possibility of a stronger growth rate. The second quarter will be not as strong as the third quarter. It would probably be similar to the first quarter and therefore overall, we see that we should be able to comfortably deliver the double-digit growth rate by the end of the year.

Moderator: Thank you. The next question is from the line of Keshav Bagri from VT Capital. Please go ahead.

Keshav Bagri: My question is on margins actually. So, is it fair to assume that margins have topped out? And I think I have two reasons to support this. One is I think crude will take away the sheen and if it doesn't take away the sheen, then maybe you'll have to increase your rebates and all, plus the competition is also coming from Q4. So, what is your outlook on this?

Abhijit Roy: We have always maintained that the margins will be around these levels, right? Whether it is topped out, whether it can further improve somewhat or whether it will remain at this level, it is difficult to say at this stage. We are also doing a lot of, we're taking lot of initiatives from our side in terms of further improving cost efficiency, both in terms of formulation efficiency also in terms of raw material buying efficiency which should reflect in some improvement in the margin. Now if that can be neutralized or gets neutralized by increasing competition that may happen and therefore if that happens then we will be restored back to the current levels of margin. Otherwise, we would have possibly improved a little bit from current levels.

Keshav Bagri: Sir, my second question would be like if we look at the leader then they are focusing more like they want to be a full-blown home improvement Company. So, we are also into decorative, industrial paints, exterior paints, plus we are also recent in the tile segment. I mean, so are we also planning to go into some deeper or some adjacency**?**

Abhijit Roy: No, we are very clear in our head that we have no intention and have repeated this that we are not getting into other categories. We are going to remain in the paint and waterproofing segment, in that waterproofing and construction chemical space are the tile adhesives which is very similar product, cement-based adhesives or epoxy adhesives which is like paint only. So, we are going to remain in this space only, we are not going to move into say home decor or furniture or furnishing etc., we will remain concentrated around the space of paint, waterproofing and construction chemicals.

Moderator: Thank you. The next question is from the line of Anirudha Joshi from ICICI Securities. Please go ahead.

Anirudha Joshi: Sir, just wanted to understand the about market share, the 20.2% market share, is it in the paints or it includes all the categories like paints, primer, putty, and waterproofing etc. Or if you can specify the market shares in the each of the categories separately, that will be good.

Abhijit Roy: Anirudha, this is based on published results. I do not have results of other companies of paint, primer, putty etc. So, it is not possible for me to be able to project market share based on that. What we have done is we have taken the standalone results of all the companies. To the standalone results, we have added our STP and Saboo value which is basically in India and therefore we call it the India operation. We have added in the case of Indigo, the recent purchase of Apple Chemie and that turnover as well. And then have seen where we stand in terms of market share. There if we see it, it is at 20.2% for us an increase of 0.9% has happened in this particular quarter. But I can't tell you what the market share of individual categories are because there is no one is publishing that data and so how do I tell you anything at all.

Anirudha Joshi: Second, now projects is becoming a major segment and we see a definite strategy from almost all the paint companies. So, what is Berger's strategy in case of projects business and roughly how do we see it panning out over a period of the next two to three years?

Abhijit Roy: We have always been in the project business, present there for long years now and we have a fairly decent size of operation there in the project segment. It is growing. It keeps growing and adding depending on the builder segment and how it moves. For the last 1.5-2 years, it has been growing, in the COVID period it had sunk little bit. So, it has dense troughs and peaks, but as of now, it is on the growth path, doing well, doing slightly better possibly than now retail. And we think that this trend might continue a little bit into the future. This segment, profitability is on the lower side compared to retail, but value sales growth has been slightly higher than that of retail in the last 1.5 to 2 years.

Anirudha Joshi: And last question, the trade discounts have increased, but what would be the indicative quantum in industry and as well as for our Company also? So, let's say if the trade discount was x percent in Q1 FY23, so what it would be now, maybe x+5% or how much it would have gone?

Abhijit Roy: It depends on product category wise; it is not a uniform thing, it depends on my mix compared to someone else's mix. So, what has happened is in certain categories of products, the discounting has increased, whereas in certain other categories it hasn't increased so much. So, overall impact will depend on the product mix. For example, enamels the discounts went up substantially. Whereas in some of the other luxury emulsion products, it hasn't moved so much at all. So, therefore, it will depend on the proportion of these products in the overall mix and then the situation changes quarter-on-quarter. So, in this quarter enamel plays a very critical role because this is a wholesale period. So, typically, people tend to get excessively in this category, whereas in the next quarter it will be more of an emulsion play. So, it will depend and keep changing, but overall, the discounting has gone up a little bit marginally.

Moderator: Thank you. The next question is from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: Couple of questions from my side. When we look at FMCG Company's numbers and their commentary, it has been subdued and consumer sentiment has been very tepid. And on the retail side it has been very emphatically very tepid. So, between those two buckets when we see our numbers and then I'm talking about the whole industry, somehow we continue to outperform or kind of drift away from the broader consumer sentiment. So, just wanted to understand, when you talk to your sales people, what is working for us and industry at large, which is not visible in any other consumption basket in India?

Abhijit Roy: This has been happening and the paint industry has been growing at a slightly different pace than the FMCG category. Probably, few reasons are there and those reasons are peculiar to the industry at large. One is that the urbanization level is still at a low level. It continues irrespective of what the economic situation is. Urbanization keeps increasing. We are currently sitting at about 34% and if you look at any moderately advanced country, let's say China, for example, it's above 60%, you go to Europe, US it is about 80%-85%. So, as soon as these houses get constructed, they get painted after every five years, they get repainted again. So, there is this possibility of advantage of growth which is available to this particular category. The second is in terms of premiumization also, as the income increases people tend to move upwards. So, that's also helping in some amount of movement away from the unorganized towards the organized towards more advanced products is happening. So, these two factors irrespective of what you do is not true in case of FMCG. The other factor also is that we are slightly under penetrated, as a category itself, the number of dealers if you look, there are still places where we are not able to reach. And so we as a Company specifically if you look at it, there are so many areas where we don't have our products available, though brand is known and our product is known, we have very good quality product, but somehow we have not been able to reach those locations. Now if we increase that reach we have a chance of improving our growth rate. So, the more we do that, the more we penetrate the market in a growing market and then under penetrated in our case at least there is lot of scope for penetration. We see an opportunity for growth for us irrespective of what the market is behaving like.

Tejash Shah: Second question pertains to that only, on distribution expansion that you spoke about. So, first, what is the annual run rate that we'll target for this year? And second, you mentioned that we had added some 1,300 Color Bank Machine. So, just wanted to clarify technicality here, these are always a fresh installment, right?

Abhijit Roy: Yes.

Tejash Shah: So, I'm assuming that some machines that you would have installed five years back also must be coming for replacement. So, these are fresh installments

Abhijit Roy: These are all fresh installations. There is no replacement machine in that, we handle it separately and we don't count into the new expansion category. These are all new machines which have been put into new counters which were not dealing with us or who are dealing with us without machines.

Tejash Shah: And, sir, dealer expansion number?

Abhijit Roy: Dealer expansion number will be slightly more than this, so it depends on how you look at these dealers. So, there are retailers or wholesalers or distributors who are there? I'm not counting that, so we will probably be around that 1,300 number only if you look at the dealer expansion also because some of the existing dealers also would have taken machines.

Tejash Shah: And, sir, last one on pilot, you said that we are expanding our product range. Just wanted to understand what is the route to market, are the same paint dealers are selling tile adhesive or it requires a different kind of group to market than the usual traditional one?

Abhijit Roy: No, some of our main dealers are also tile dealers. So, there might be some overlap there. But basically, it has more of tile distributors who are appointed separately who cater to this market, but they are into this building material trade. We understand the nature of this business reasonably well and we have been fairly successful in this category so far.

Moderator: Thank you. The next question is from the line of Amit Purohit from Elara Capital. Please go ahead.

Amit Purohit: Sir, on the project side, just wanted to understand are we cross leveraging some of the consultancy waterproofing solutions that we have which is SPL and is that also helping us to sell our paint products along with that or that's largely on the industrial side?

Abhijit Roy: Yes. There are advantages for us. We are fairly strong in the project segment on the protective coatings area and also a strong presence in the decorative project business. So, in the project business where we sell paint, we also pushed our construction chemical and waterproofing products. And if we get leads of construction chemical and waterproofing, then we push our paint as well into those segments. So, it goes into the same area, same builders, same owners, basically same specifiers, except that sometimes for waterproofing we have to get the specification done separately through consultants et cetera for which we have to have a separate team which works on them and tries to get our product specified.

Amit Purohit: What is the salience of project business in our overall sales and it should not include the SPL that we already have right? Excluding that what would be the salience?

Abhijit Roy: So, it has always been around that level of 8% to 10% for the last 2-2.5 years, it has been hovering around that. Sometimes it increases, sometimes it goes down depending on the performance of this category.

Amit Purohit: And sir, you indicated in the beginning that West and South are and the markets where you want to scale up, is that the market where the project business is slightly over indexed or under indexed for us? I mean above 8% or less than 8%, how?

Abhijit Roy: Yes, it is similar, though in the West and the South our retail presence is weak, so our projects tend to be slightly more. So, it is slightly over indexed there. As and when retail keeps improving and the distribution penetration goes up, it will fall back to the normal range.

Amit Purohit: And sir, one on waterproofing. So, we've been expanding into new segments like now tile adhesive as well and grouts as well. So, are we now the complete range available or there are some more pockets where you think there will be some more new product launches which will keep happening in the waterproofing space?

Abhijit Roy: Some more product launches are due. We are more or less around I would say 70%-75% of the products have been introduced, but a few more products are going to get introduced soon to keep completing the range that is required in the marketplace.

Amit Purohit: And this would be done over the next one year or so or it should be even shorter?

Abhijit Roy: Yes, in the next one year, we should be able to close most of that. Whatever sales in good quantities, we should be able to launch such products in the market.

Moderator: Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: So, sir, first I wanted to just check with you, on the seasonality impact on the gross margins, if you can just jog our memory, usually exterior paints which have higher margins sell more in the first quarter and during the festive season usually do we have a higher saliency of more economic paints getting sold and the margin can get suppressed or if you can just, quarter-to-quarter, if you can highlight how the seasonality moves and remind us please, sir?

Abhijit Roy: Typically, in the paint industry the first quarter is good in terms of the margins. The second quarter has a mix which is more towards enamel, primer, distemper in the 1st July and half of August sort of a situation and then it starts improving and moves towards more of emulsion, especially in the month of September when interior emulsions picks up quite a lot and along with some exterior as well. It's in the third quarter that it becomes more oriented towards exterior and interior emulsion. So, that is also a very good quarter in terms of margins and profitability. And fourth quarter also margins are there, the volumes in our case tends to drop because that's the quarter where the South India starts to dominate overall and we need to improve our presence there. So, the fourth quarter, we have a lesser sale comparatively in that particular quarter compared to some of the other players who have a much stronger presence there.

Mihir Shah: So, keeping this in mind and you had mentioned last quarter that on an operating margin level while I understand you again reiterated that on gross margins you will hover around the 30% to 40% mark and that is well understood. And so, on the operating level, I wanted to check, last time around you highlighted on a steady state it will be around 16% odd to 17% odd and this time we have done very well. Do you think that we should revisit that guidance or do you think that that range is still holds up quite well?

Abhijit Roy: No, I think we are possibly within that range we will operate 18%, 18.8% is a bit of on the higher side because the raw materials have been relatively very benign, whether that remains at these levels or not is a question. Sometimes it's difficult to predict this part, we would prefer to remain at this, hover around this 16 to 18 is what I had indicated. Probably now it is 17 to 18 where we would be more comfortable. And then that's where we will be in the second quarter and possibly in the third quarter as well, up to which the visibility is there, after that it is difficult to call.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you and over to you all.

Abhijit Roy: Thank you all for joining us and it was great interacting with you. Hopefully, I've been able to answer most of the questions very transparently and to your satisfaction. Thank you once again for coming to this meeting.

Moderator: Thank you. On behalf of Emkay Global Financial Services, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.