"Berger Paints India Limited
Q2 FY2024 Results Conference Call"

November 02, 2023

ANALYST: **MR. NITIN GUPTA– EMKAY GLOBAL FINANCIAL SERVICES**

MANAGEMENT: **MR. ABHIJIT ROY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – BERGER PAINTS INDIA LIMITED**
MR. KAUSHIK GHOSH – VICE PRESIDENT & CHIEF FINANCIAL OFFICER – BERGER PAINTS INDIA LIMITED
MR. SUJYOTI MUKHERJEE – VICE PRESIDENT – FINANCE & ACCOUNTS – BERGER PAINTS INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Berger Paints India Limited 2Q FY2024 earnings conference call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 now hand the conference over to Mr. Nitin Gupta, Emkay Global Financial Services. Thank you and over to you!

Nitin Gupta: Hi good evening everyone. I would like to welcome the management and thank them for this opportunity. We have with us today Mr. Abhijit Roy, Managing Director and CEO, Mr. Kaushik Ghosh, Vice President and CFO and Mr. Sujyoti Mukherjee, Vice President, Finance and Accounts. I shall now hand over the call to the management for the opening remarks. Over to you gentlemen.

Sujyoti Mukherjee: Good evening ladies and gentlemen and festive greetings to all of you. A warm welcome to Berger Paints Q2 FY2024 earnings call and as you all know we have with us our MD Mr. Abhijit Roy and our CFO Mr. Kaushik Ghosh. Now before I hand over to Mr. Roy for his comment followed by your question, I would like to say that the management presentation on the performance has been uploaded in our website and on the exchanges. Just a standard disclaimer that questions should be restricted to the performance of the quarter. With that I hand it over to Mr. Roy for his comments.

Abhijit Roy: Thank you Sujyoti and a very warm welcome to all of you and we will be discussing today the Q2 and the half year result which we have declared a few minutes back. As you can see from the chart that we have already sent to all of you, the top line which we registered in Q2 was bit moderate. We had a growth of about 2.8% on a standalone basis. However, we registered strong growth in the two or three-year compounded basis of 12.2 and 16.7% respectively. In terms of the half year, the half year is better. We had a growth of 6.5% on half yearly basis in terms of value and if you look at the two year and three-year CAGR they are at 20.7 and 29.9% respectively. If we look at the Indian operation, we at Berger Paints and in the consolidated we have two companies STP and Saboo which operates outside India. If you add up all these three, the market share that so far two companies have already declared, we are the third and we are estimated for the four and approximately what we feel is that we would have gained market share to the tune of about 0.7 to 0.8% till half year of this year, so we had closed last year at about 19.3% and we expect that the market share should be above 20% level at the end of half year of this year. In terms of the volume growth, we registered a volume growth in Q2 of 10.9%. The two-year CAGR is about 10.6 and a three-year CAGR is about 14%. On a half yearly basis it is at 11.8%.

Two-year CAGR is 18% and three-year CAGR is 23.7%. Though we maintain double digit volume growth for the quarter, the value growth was much lower. The extended monsoon resulted in low off take of exterior and interior premium emulsion and it was much more of the sale of economic category in economy emulsion, primers, distemper, pati the result of that with the value change growth was relatively low. We also sold much less enamels first quality in this quarter, which is a high ASP product and therefore the value field looks a little bit slower than normal. So that is the explanation for the volume value differential. Though we did have a decent volume growth given the situation which was quite tough, which caused extended monsoon due to the postponement of the season, it was slightly delayed and also of course the fact that there was a relatively higher base because of the price increases which had happened last year. So now if you look at standalone profit we registered decent EBITDA growth of 26.7%, on a half yearly basis it is even stronger at 32.5%. There was very strong growth in the gross margin. It is the highest now in the last few quarters, it is at around 40%. Operating margin however expanded by 310 basis points. The margin expansion was somewhat moderated on a conscious call taken by us to increase ad spend especially in the digital segment which we have been working on diligently this year.

In terms of the financial results, if you look at which we have posted there. We did a sale of about 2439.8 Crores for the quarter with a growth of 2.8%, EBITDA growth 26.7, and PAT growth of 27.9%. On a half yearly basis, the corresponding figure for revenue growth 6.5%, operating growth 32.5%, and PAT growth of 34.1%. If you look at the decorative business, the decorative business growth, even though muted, was better than the industry average. Slower growth as I had mentioned already was on account of extended and sporadic monsoon, festive season which has been delayed, and some impact of a high base effect. Decorative business improved as the quarter progressed from July to August to September. Construction, chemical, and waterproofing business had another quarter of very strong stellar performance. Aggressive network expansion also helped to some extent and is going to help us further in the future. We added 2000 plus retail touch points in Q2 of this year and installed 1700 plus colour bank machines in this quarter. Some initiatives which we took on the digital side, some very interesting work is going on. One of them is we introduced one app which is the Berger My Colour app, AI driven very interesting app which has had very strong downloads already. Company is also working with sales force for increasing the efficiency in lead generation and better customer management and express painting service which was there earlier in all the major towns is now being extended across many more smaller towns and upcountry markets and we expect very quick result in this as well. As far as products are concerned, we have introduced some interesting products in the last quarter itself. Glamor Dazzle which is doing quite well in the east, specifically, Long Life 15 with a 15-year warranty, PU Elastoseal, anti-dust which continues to do well. Easy Clean which continues to be a leader in his segment Long Life FLexo, which we have started advertising. Of course in construction chemical we have Damstop which we have been advertising very heavily now both on the TV and the digital media as well. Even in the cricket matches you will get to see that. Of course, we also participated the festivities that just began with Durga Puja in West Bengal. We have a very interesting programme called Burger Prio Pujo, which we sponsor, which just got concluded and we are now on to the Diwali period now. The Diwali season is coming up and so far it looks quite good as far as the Diwali belt is concerned. This has been quite good. Protective coating maintained its steady consistent growth in the quarter. Automotive and general industrial business had double digit growth in the quarter even against a high base in the corresponding quarter due to the growth in commercial vehicles and two-wheeler industry which has improved from what it was earlier. Powder coating business lines showed a turn around with robust double digit top line growth aided by some uptake in the fan industry which you recall earlier this has been a troubling factor in the powder coating business. So now that situation is reversed and therefore we are getting strong growth. As far as the gross margin is concerned, I had mentioned that it is in the last few quarters the highest at 40%. However, PBDIT is at 16.5%. We have given an indication that it will hover around the 16 to 17% range and that is where we are. Spending on advertisement, especially on the digital media will continue in the future. As far as consolidated business is concerned it has outperformed the standalone on the back of strong double digit top line growth and even stronger profitability growth across all subsidiaries except BGN Nepal. Nepal has been struggling as you know the country is going through an economic downturn for the past few months and I do not see that improving immediately. So that Nepal remains a negative zone, but all other areas are doing very well, all the other subsidiary companies. If you look at the figures, the top line has grown by 3.6% in the consolidated business. EBITDA growth is 30.1% and PAT growth is 33.1% for the quarter. For half year it is 6.7%, top line growth, 40% EBITDA growth, and 36.7% for PAT growth. Companies overseas subsidiary Bolix Poland another quarter of strong top line and profitability growth driven by good performance in the UK business. Company expects to show good growth in Q3 as well. Company’s overseas subsidiary BGN Nepal had another quarter of degrowth in top line, as I mentioned earlier, as the slowdown in the construction sector continued in an inflationary environment. However, it recorded modest profitability growth aided by gross margin expansion on the back of improved RM prices. Growth likely to remain negative in Q3 as well. Company’s subsidiary STP showed healthy double digit top line growth. It also recorded very strong profitability growth and operating margin expansion aided by improvement in gross margin due to softening raw material prices and substantial improvement in product mix. We expect double digit value growth to continue in Q3 FY2024. SBL which is the Saboo Coating did a strong double digit top line growth and a robust profitability growth aided by higher product realization and softening RM prices. We expect double digit value growth to continue in Q3 of FY2024. The joint venture Burger Becker Coating which does not get consolidated in terms of sales etc., experienced a decline in both its revenue and profitability primarily this is attributed to the capacity limitations resulting from a fire incident which happened as you know in the main manufacturing facility in Goa in the fourth quarter of FY2023 that is being restored and we should see back to normal work there in Q1 of financial year next year. Company's joint venture Berger Nippon Paint Automotive Coating had another very strong quarter of robust top line growth and profitability growth aided by uptake in passenger car in SUV sector and we expect the strong growth to continue in Q3 of FY2024 as well. As far as capacity expansion is concerned, work of the new plant in Panagar will start in the next six months in West Bengal for industrial paints and construction chemical with a capacity of about 3500 scale per metric tonne per month. Expected completion is by end of 2025 or beginning of 2026 may be. Further Greenfield facility to come up near Bhubaneswar in the state of Orissa for manufacturing of both decorative and industrial paint. We have just been allocated land, expected completion by end of 2027. Some Brownfield expansion in existing facilities in Hindupur and Vicera to be completed in FY2025. Company expects improvement in decorative demand in Q3 on the back of extended festive season and improvement in rural demand aided by a normal monsoon. Automotive business expected to continue with double digit growth in Q3 on the back of sustained demand. Protective coating business to do well on account of high government spending on infrastructure. General industrial and powder coating business to show strong double-digit growth in Q3 of FY2024 again. We maintain double digit growth outlook for Q3. Profitability expected to sustain in Q3 on moderation of raw material prices. However, impact of geopolitical situation on commodity prices can be a concern. Thank you and now I can get to the question answer session.

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

Abneesh Roy: Yes, thanks. Congrats on double digit volume growth in standalone and 10 quarter high gross margin. My question is on the 20% plus market share. So if you could tell us in this very competitive industry, what are the two, three main steps which are driving this? And second is 10 quarter high gross margin in a quarter where the emulsions both exterior and interior are low which are higher margin, plus you did say that lower end grew faster so how come the margins are higher than Q1 and Q4 also because broadly last two, three quarters raw materials are in a tight range.

Abhijit Roy: So the 20% market share first, primarily three years which we are looking at which is helping us. Number one is in terms of distribution expansion, the network expansion itself, as you saw the figures, it was quite strong and this has been going on for some time now. Expansion of network is one of the major drivers for us and I think even now there is a lot more scope to improve on this area because there are a lot of gaps in many states where we can do much, much better than what we are doing. The second part of course is in terms of the construction chemical business which is growing at a rapid pace, which is helping us to actually accelerate our growth because now it has reached level which is significant and growth on that is helping the overall growth criteria. So these two major areas which are definitely helping of course some of the new products are doing well in certain pockets of the country it has picked up momentum quite a lot and therefore that is also adding to the overall gain in market share. Now coming to your second question, which is a very relevant one that how come that even though the luxury emulsion sales even category sales has been a bit muted how have we delivered on the gross margins. There are two or three reasons for it. One of course is that the raw material prices has reduced and the benefit of it, it is coming to us a bit late. I had mentioned in the last quarter also that the full benefit had not come in the previous quarter to us because we were carrying a bit more inventory and that is old inventory at the old prices know which is helping us. The second is in terms of the low sale of enamels, enamels are typically a very low margin product. As I mentioned in my comment this time enamel sales had been considerably muted which is why the value sales actually did not rise to the extent of the volume growth but it has a very low margin. In fact enamel whites are negative in terms of profitability and therefore the gross margin tends to move and enamel sales are on the lower side and the third reason is some if the product as I mentioned for the new products are doing very well. Two of them which is Weather Coat Long Life 15 and Field Glamor Dazzle, these are very highly profitable and they are growing at a very rapid pace in certain markets specially in the east which has helped us to shore up the margin.

Abneesh Roy: Sure understood Abhijit very helpful. My second question is on the competitive intensity and this is not from the market leader. My question is last two years few cement players have acquired small, small paint companies so any ramp till now. Second is in FMCG 5-6 categories we have seen local players become more aggressive on advertising spends and promotions in paint industry also the gross margin for the entire industry is added two to three years high. So in terms of local players and you say lower end is going faster so if you could tell us in your key markets, the local competition is it higher versus say last two years average and what are you doing in terms of being proactive and the cement companies which have already come. I am not referring to the big daddy which will enter in Q4. I am referring to Astras of the world and some of the paint companies which have acquired small, small paint, companies, the cement companies which have acquired.

Abhijit Roy: As far as the cement companies on other building material companies which have jumped in we have not seen much of an impact so far. It may have an impact later on, but as of now it has not impacted us. Some of these companies that you mentioned like Astral which they acquired Gem, their main market is in Karnataka. We are not a very strong player in Karnataka, so I would not be able to comment, but it has not impacted us in any of the markets where we operate or we have a stronger presence. The second part of the question which you asked is related to the unorganized players and how are they doing so in certain parts they have revived especially in certain products like water thinnable primer or solvent thinnable primers which is in the lower end of the spectrum. There is some amount of revival from these local players, but at the same time we have got competitive products now in this price range both in terms in the emulsion category and also even in the primer. So though they may have revived and some gain might come to them from other companies as far as Berger is concerned we have remained more or less, unaffected so far by this unorganized segment.

Abneesh Roy: Sure, understood. Last quick question which is a bit negative in terms of numbers. So if I see volume growth versus the value growth, there is 8% difference and here you have mentioned that economy segments grew faster. So what is your take on economy segments growth in H2 because generally what we are picking up rural slowdown is still continuing, but you have mentioned that in H2 because of whatever reasons you expect that rural should recover. Second reason seems more of a Q2 only because that was linked to the monsoon, the emulsions are not selling well so in Q3 when the emulsions issue will not be there would you expect that the 8% gap will be a much lower gap say insignificant kind of a gap between value and volume.

Abhijit Roy: Yes Abneesh in short the volume value gap will get much reduced in Q3 and it will be very clear when the results come out definitely not at these levels because luxury category tends to sell much more in Q3 and Q4 as well. So therefore the gap which we have seen, also the enamel basis are not that strong in Q3 or Q4 so therefore you will tend to see a much closer volume value equation. So the value growth rate will go up even though the volume growth rate may not climb so much.

Abneesh Roy: That is all from me. Thanks so much.

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

Avi Mehta: Hi Sir. Thanks for the opportunity and congrats on the performance. Sir, I just wanted to build up on the last question asked by Abneesh. If you are seeing a mix improvement that would pan out, would it be rational to also argue that it would flow through to gross margin as well?

Abhijit Roy: As I explained it is difficult to say like that. I do not think there will be too much of an impact on the gross margin because there are two things which will happen, one is that there will be an improvement in the mix which is for sure at the same time the enamel which had decreased quite a lot of corresponding figure if you look at, it was not doing well. It will do certainly better in this quarter and overall therefore I do not see the margin increasing too much. It will be hovering around the same point. Of course the raw material prices also is impacted a little bit because of the climb in the oil prices to some extent. There were two increases which were announced in the oil prices earlier in the MPO prices. So the raw material prices had gone up. Luckily, it has been reduced again day before yesterday to some extent, again giving relief but there is still an increase which has happened from what it was earlier. The second is in terms of we have a fairly substantial basket of imported items and rupee has depreciated somewhat from earlier level, so that will also impact negatively. So I think overall the margins will be at similar levels to what we were at in Q3.

Avi Mehta: Got it Sir. Got it fairly clear. Thank you very much for that. Sir the second bit was on the subsidiaries from your comments it did suggest that the performance was more of a mix improvement and there is genuine recovery but the profitability pickup has been much starker and very healthy would it be fair to say this is something that will continue because maybe the mix of STP doing well has improved the way I should look at the difference between standalone and consol or is there anything that is more one off? I am just trying to understand how I should look at this quarter from a template point of view is this is what should continue building going forward. Thank you.

Abhijit Roy: So Indian subsidiaries its product is going to remain I think. The improvement that we have seen is likely to continue. STP there is a mix change which is happening in the positive direction. They we are in more into the determiner category what now much more into add mixtures and more waterproofing products and repair products which are much more profitable and therefore that is going to continue. So the margin improvement will remain as far as STP is concerned. It may not improve by huge amounts, but it is likely to remain at these allocated level. A marginal improvement from here can happen. As far as Saboo Coatings is concerned, the industrial raw material prices have decreased and that has helped it to restore it back itself to the earlier higher profit margin level and if the raw material prices remain at this level it is likely to behave in a similar fashion.

Avi Mehta: Got it Sir perfect and even for the international.

Abhijit Roy: International Nepal, the value growth is negative this month, this quarter also. I do not see this improving the way I am hearing from the team there. I do not think it is going to improve much so it is going to remain muted and as a result margins are there which is fairly decent but it will not improve for sure because when such a situation arises people tend to regulate and try to get failed. So I do not think margins are going to improve there. As far as the international operation of Bolix is concerned that will have a margin which will be similar to what we had in Q2, but the sales will be a little bit muted than what we were having in Q2.

Avi Mehta: Very clear and Sir just a last bit from a bookkeeping question, we have now been aggressively adding capacities. Is there any capex plan or number that you could share with us which we could kind of build in for the next few years or is this something that is not very material, these Brownfield expansions?

Abhijit Roy: So capex plan is not very heavy in the immediate future. One is the Brownfield expansion which is well within whatever cash we are generating. It will take care of both the Panagar and the Brownfield expansion. So that is very easily done and I do not see that impacting us in any way. As far as the Orrisa plant is concerned, that work will begin year after next, so at that point of time I will be in a better place to tell you how much investment is there. As of now it is little bit modular.

Avi Mehta: Got it, Sir. Perfect Sir. That is all from my side. Thank you very much Sir.

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

Aniruddha Joshi: Sir thanks for the opportunity. Sir just one question, we had tie up with the Ultratech to sell paint through its certain cement dealers so what was the revenue collected as percent of total sales from these outlets and any outlook in a way these kind of sales also how do you see the competitive pressure building means from your internal assessment in which regions we are seeing the maximum impact of the competitive pressure. So these are the two questions. Yes thanks.

Abhijit Roy: As far as Ultratech association was concerned, we had relationship with them on the UVS store concept where we were the paint partner for them. We were working jointly in many of these accounts. It was a very small turnover, miniscule in terms of contribution and those dealers where we had sales, we have gone directly with them and we are doing business. So we do not see any major impact for us or even moderate impact or significant impact or any type of impact which is material as far as this part of the business is concerned. As far as competitive intensity is concerned it remains quite strong even today everywhere this premises are always on but some of the market are doing little bit, is not performing for the last 1-2 months. One of them is Kerala and I do not know why and what is going on there, but Kerala seems to be slightly down. It is definitely not competitive intensity, which is stricter, but the market itself seems to be on the downturn.

Aniruddha Joshi: Okay thanks for that. I mean to say basically grassing probably through Ultratech it has introduced multiple products including the waterproofing and distemper plus I guess some things are also cement paints are also introduced through Ultratech. So in a way there is already some entry done by Grasim into the paint business or paint market itself. So any feedback or any impact on Berger because of that you see or any maybe color on that competitive angle if you can share anything, yes thank you.

Abhijit Roy: Actually Ultratech, through their Birla White has been on this for quite some time. They have introduced this primer type of a product which even JK cement had done earlier which is a cement-based primer which they tried to push then they came with a primer itself but it has not worked so far because of the incomplete range and piece meal approach. It does not help. They have been selling primarily pati in the counters and not much of these other items that you spoke about. So it has not impacted so far. The Birla Paint group of course has introduced one product which is wood coating in some of the markets but it is too early to say anything about it because not much had happened on the ground so far.

Aniruddha Joshi: Thank you Sir. That is very helpful. Thank you.

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

Shirish Pardeshi: Hi, good evening Abhijit thanks for the opportunity and congratulations for a good set of margins. My first question was that about two, three quarters before you mentioned about the project business, there is a lot of focus around that what is the update there, how far that business is reached and I second I asked how that last 30 days has happened because Q2, first half was bad because of rains so we understand the demand last 15-20 days has picked up and even the inventory has gone up in the system. So maybe on the demand side how it is shaping up if you can share.

Abhijit Roy: Right so as far as the project business is concerned, we have been at this game for some time now and since the pickup has happened in terms of the building construction, the project business has been doing reasonably well and then it continues to do well. Of course it is a very smaller portion of the overall pile and though it is growing at a tightly higher pace than the retail. It still remains at a low level in terms of the overall sales of the company. As far as the demand situation is concerned, the Diwali belt as you rightly said had picked up substantially in the last 20-25 days. We had a good October as far as the Diwali belt is concerned. The east was a bit muted because of rainfall and then the Durga Puja which fell right in the middle of the month for four days, bit muted as far as east is concerned, south also did okay but except for Kerala which had some sort of a problem and which resulted in a downturn in Kerala. So this is the situation as far as demand is concerned.

Shirish Pardeshi: So taking a cue from this do you think aspirationally everybody would like to grow double digit but since things are in control and the festive season will have a strong effect because of the spread between Diwali and Dasara is longer? Do you think second half also we will be able to do a strong double digit volume growth?

Abhijit Roy: So the inclination is to do that. It all depends on how market shapes are. If east and south also starts batting well at levels which is similar to the Diwali belt, then yes, I would say, but there will be fairly decent growth rate in the Q3 of this year.

Shirish Pardeshi: The reason why I am asking because our Q3 last year growth was only 7%. So I think this is favorable. Q4 we have inched up from 7% to 14% growth. So that is why I am saying even if you maintain this kind of run rate in a weaker demand situation, if the demand is stronger, you will be able to maintain higher strong growth.

Abhijit Roy: That is right. So that is what our expectation is. I only hope and wish that some of Kerala or southern markets picks up momentum in November and December.

Shirish Pardeshi: Okay alright, thank you and all the best.

Moderator: The next question is from the line of Atharva Bhutada from Purnartha. Please go ahead.

Atharva Bhutada: So just want one question in Q4 seeing the demand in share dropped because we are having a long festive season in Q3 so do you think that there will be single digit demand coming in Q4 year on year basis?

Abhijit Roy: So that is a very difficult question to answer at this stage. Frankly speaking I do not think Q3 is going to impact Q4 in a significant way because the main seasonal month was October and part of November so it is not that December is going to peak and therefore it might impact Q4, so Q4 on a standalone basis, whatever way the demand flows at that point of time based on that our growth rates will come. But going by what we have been doing so far I think we should have a much stronger growth rate in Q3 that much we can predict compared to Q2. But what will happen in Q4 only time will say, but we expect that the demand to stay at these type of levels and we should have a decent quarter in Q4 as well.

Atharva Bhutada: Okay thank you.

Moderator: The next question is from the line of Varadharajan. Please go ahead.

Varadharajan: I just wanted to understand what has been the growth in the distribution network with respect to the previous quarter and compared to the last year and how are we trying to see that we have a reasonable growth considering the competition intensity increases?

Abhijit Roy: As I mentioned we had added about 1700 colour bank machine in Q2 of this year and about 2000 retail touch points which is a fairly strong number addition which happened in this quarter and we expect that in Q3 also we will add a similar number of machines and retail touch points. So thereby it is going to help us in this year and also going forward in the coming year. Competitive intensity is always going to be there and it has always been there in the paint industry. Many players have come in, but we need to be focused on our approach. We should continue to grow and we have to figure out ways and means of achieving our growth rate and that is something which we are continuously working on and we are reasonably confident that our growth rates will continue.

Varadharajan: Just for understanding how big is the paint distribution network compared to cement distribution network especially with Birla coming on space and having their cement distribution network.

Abhijit Roy: So it is not a very pertinent way of looking at it because the cement distribution network, all of them are not going to convert into paint distribution network. Only a small fraction of it will convert and succeed in selling paint. It is not like that all the paint dealers will suddenly become cement dealers or vice versa. It does not happen like that so therefore I do not know what the cement distribution network size is, but we have operated as you would have heard earlier that we were a partner with Birla in the Ultratech business solutions store which was a cement network and I do not think network is very conducive for paint selling.

Varadharajan: Okay just a last question, how is the ROA for distributor? Return on investment for a distributor.

Abhijit Roy: So they vary from distributor to distributor at what price point he is selling, what is the mix of products that he is selling. You cannot have a fixed number there. It varies from one person to another person. It can vary anywhere between 15% per annum to maybe even 40-45% per annum. So it depends on the type of product that they are selling and what he is doing, Is he more into premium luxury product type or is he selling completely commodity product. At what price he is selling, which part of the geography he is present in. It has many factors. I do not think we can put one number to it.

Varadharajan: Okay thank you.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Anand Rathi. Please go ahead.

Ajay Thakur: Hi Sir thanks for taking my question. I had one question on the raw material side with the current crude oil prices and can you just throw some light on how the crude link derivatives are behaving and also what could be the impact of the same in the coming quarters?

Abhijit Roy: So as I mentioned earlier, the prices had gone up a little bit, especially in the solvent side but again there is some correction which has happened day before yesterday downward. So it is nearly back again to the earlier level as far as solvents are concerned, some of the other owners are stable. There has been no major change in terms of the prices, but there has been depreciation of the rupee versus the dollar to some extent that will impact a little bit in terms of the gross margin.

Ajay Thakur: Olay thanks.

Moderator: Thank you. Thank you. The next question is from the line of Archana Menon from Morgan Stanley. Please go ahead.

Archana Menon: Hi, Sir. Thank you for the opportunity. Sir two questions on the capacity side so how much do you think will your 12-lakh odd capacity increase including the Brownfield capacity as well addition that is the first question and the second part of your question is how is your capacity currently split between north, south, east and west?

Abhijit Roy: We are currently pretty balanced as far as the north, south, east, west is concerned. There was a lack of capacity in the north earlier which we put up which is operating at around 48-50% level as of now on two shift basis which can be therefore scaled up to higher levels. So we are quite comfortable as far as capacity is concerned. Most of our factories are operating at about 80% odd level and except for this factory which is operating at a lower level. So as of now we are quite comfortable the Brownfield expansion will be not very capital intensive but the capacity can go up quite a bit. It should be enough for us to last for at least two years going forward. And then as I said year from now we will start planning for the Orissa plant, which will be a very big plant. And that will be phased out into two years of construction and setting up of the plant and we will add up approximately another 30,000 to 35,000 metric tonne per month capacity once the Orissa plant is set up fully.

Archana Menon: Got it. Thank you so much.

Moderator: Thank you very much. As there are no further questions, I would like to hand over the conference over to the management for the closing comments. Please go ahead, Sir.

Abhijit Roy: Thank you all for coming and attending to this conference call. Wish you all a very happy Diwali in advance and a great festive season. Thank you once again.

Moderator: On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your lines.