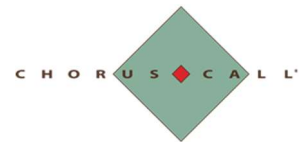




“Berger Paints India Limited
Q4 FY24 Results Conference Call”

May 15, 2024



MANAGEMENT: **MR. ABHIJIT ROY – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – BERGER PAINTS INDIA LIMITED**
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MODERATOR: **MR. NITIN GUPTA – EMKAY GLOBAL FINANCIAL SERVICES**



Moderator: Ladies and gentlemen, welcome to the Q4 FY '24 Results Conference Call of Berger Paints India Limited, 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Nitin Gupta: Thank you, Sagar. 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: Thank you, Nitin. A very warm welcome to everybody to this Q4 FY '24 Earnings Call of Berger Paints India Limited. First of all, I would like to thank all participants for their participation and like to inform them that the management presentation on earnings call has already been circulated and uploaded in our website and in the stock exchanges.

So without any delay, now, I would like to hand over to Mr. Abhijit Roy, our MD and CEO, for his comments on the earnings followed by the Q&A session. Over to you, Mr. Roy.

Abhijit Roy: Thank you, Sujyoti, and a very warm welcome to all of you once again. The year -- financial year '24 has specific significance for us. This is the year when we completed our 100th year of existence in India. In December of '23, actually, we completed 100 years of our presence in India. And in this 100th year, we had 2 interesting, I would say, milestones, which we achieved. In a stand-alone, we achieved a revenue of INR10,000 crores and a profit -- a PAT of INR1,000 crores in the year '23, '24. So financial year '24 in the 100th year of our presence in the stand-alone business crossed INR10,000 crores and a PAT of INR1,000 crores.

Quarter 4, of course, was a relatively tough quarter. We did have a very healthy double-digit volume growth, which we registered, but the value growth was relatively much smaller. The gap was quite large, in fact. The volume growth was 13.9% and value growth, 2.7%.

The value growth moderated on account of the following reasons: impact of price reduction, about approximately in our mix, if you consider our basket, it's about 5% reduction which happened. There was no reduction in the luxury category. However, the dealers apprehending that there might be a drop in prices of the luxury category, destocked to some extent. They sold out, but they did not lift enough material.



As a result, the mix shifted more towards the economic category. The third reason which was there was the high value -- high-volume but low-value products like tile adhesives and admixtures we saw a much higher growth during the quarter. And for us, we had another effect of onetime subsidy, which we had last year from Hindupur plant to the tune of about INR30-odd crores, which also was considered in the operating income last year, which had, therefore, resulted in a volume value gap this year.

If you look at the operating profit, against the last year figure of 9.1% growth, this year, there is a decline of 5.1%. Again, the important reason is the subsidy which we had last year, which we didn't have this year. If you consider that fact then it would have been -- if we had removed this part of subsidy from last year basis, then it would have -- we would have grown at about 4%. But because of that, the negative 5% is being shown.

Of course, the value growth was much lower than the volume growth. Therefore, operating leverage compared to the fixed cost, it was on the negative side. Incremental operating cost of Sandila plant was also there in this particular quarter more so. And there was a conscious call to increase advertisement expenses, which went up by 1% to sales, and therefore, to that extent, it impacted the profitability.

If we go by the P&L, therefore, we had a 2.7% sales growth, operating was minus 5% and PAT was minus 7.4%. However, if you look at the gross margin figures on a stand-alone basis, which has been given from quarter 3 of financial year '22 onwards, it was hovering around earlier at about 36%, 35%, 33%, 34% range. From quarter 4 of last year, it had shifted to 39% range. And now we are at the highest at 40.3%.

So in quarter 4, the gross margin was pretty okay at 40.3%, which is -- where we have been in the second and the third quarter as well. So we have maintained that. However, the EBITDA fell to 14.5%. As I said, one of the reasons, of course, is the advertisement expense increased by almost 1% as a percentage of sales. And then also the leverage -- operating leverage, which was on the lower side in this quarter.

In consolidated sales, if you look at the consolidated figure, it is better than the stand-alone largely driven by Bolix and to some extent, also STP and [Shalikote]. The value growth in consolidated sales was 3.1%. Operating profit, there was a degrowth of 4.8%. So it's slightly better than the stand-alone net base and PAT growth of 19.7%.

There is approximately about INR20 crores, which we got in terms of the insurance payment for the Goa factory fire, which had happened in Weather Coatings last year. So that's why it has become -- otherwise, we would have had still a positive, but it would have been a lower positive. But because of that, it improved substantially. So 3.1% value growth minus 4.8% operating profit growth and 19.7% plus PAT growth. This is as far as consolidated for this quarter is concerned.

In terms of the performance of various subsidiaries within the consolidated business, Bolix, as I said, did very well with strong double-digit top line growth and a huge improvement in profit as well. And there is a sharp actually expansion in the profit margin. The company also achieved a



constant currency growth in this quarter, which was substantial. Company's oversea subsidiary, BJN-Nepal had another quarter of de-growth and Nepal's economy is still in some sort of turmoil, getting payments in is of priority first now. And therefore, this is likely to continue for one more quarter possibly. And this type of a degrowth has been registered by almost all companies in Nepal, and we are no exception, therefore.

Company subsidiary, STP had another quarter of strong double-digit top line growth aided by higher sales in the admixture segment, along with healthy profit growth on the back of some operational leverage. We expect the growth performance to further continue in STP in the coming quarters. SBL Specialty Coatings also had a decent top line growth in the quarter, aided by traction in the new line of business and a double-digit profitability growth and margin expansion on the back of price increases.

The joint venture, Berger Becker Coatings, had a turnaround performance with healthy double-digit top line growth and strong profitability growth for the quarter. Company also received INR46 crores towards insurance claim on fire loss. And since we have 50% of this -- 49% of this, so we got about INR22-odd crores as a part of this which got written back this year.

Company's joint venture, Nippon Paint Automotive Coatings Private Limited continued its double-digit top line and profitability growth riding the strong performance in passenger car and SUV sector. We are expecting a strong growth to continue in the coming quarters in BNPA, which is the Berger Nippon Paint Automotive Coating.

Now I'll move to the yearly performance. Yearly performance is much better than the quarter 4 performance, of course. And on all fronts, we have done much better in terms of reporting figures. Volume growth has been strong double digit. Value growth also has been reasonably good. On a consolidated basis, it's around 6%.

Standalone operating profit growth has been 24.2%. Consolidated operating profit growth has been 25.2%. India operations gained market share, and this we are reasonably certain that we would have gained in a good market share this year as well. We had gained last year. We have gained this year as well and company turned net cash positive. We -- after investment in our Sandila plant, there were some borrowings on our books. And debts on our books as well, therefore, but that has all gone. And as we had indicated in the earlier meeting as well, that we will turn cash positive. We did turn cash positive in December itself, but that has further increased now by a good level to become cash positive at the end of the year.

Now in terms of the stand-alone results, volume growth, 11.6%, value sales growth, 5.6%, EBITDA growth, 24.2%. Decorative business had a strong double-digit volume growth even in an inflationary environment. Strong double-digit profitability growth as is evident. Operating margin increased by 250 basis points over previous years. All industrial business lines continued their growth trajectory with significant improvement in profitability.

If you look at 2-year, 3-year or 4-year figures also, we've been very, very consistent both in volume growth and value growth terms. CAGR, 2-year volume growth, 13.7%; CAGR 3-year volume growth, 16.4%; CAGR 4-year volume, 15.4%. If you look at CAGR value growth, 2



years, 13.7%; 3-year, 18.4% and 4-year, 15.1%. So very consistent double-digit volume and value growth CAGRs over 2 years, 3 years and 4 years. This year, in value growth, we slipped a little bit. And of course, because the price decrease mostly, but also a little bit of down trading, but our operating profit growth and our volume growth has been seeing double-digit or strong double-digit growth even this year.

Financial results, if we look at for the full year on a stand-alone basis, total income from operations, 5.6% growth, operating profit, 24.2% and PAT growth of 22.5%. On a consolidated basis, it improved. Total income from operations growth is 6%. Operating profit growth is 25.2% and PAT growth is 36%.

For the decorative business, if we just look at the year gone by, decorative business recorded strong volume growth and showed resilience in spite of high inflation and extended monsoon, strong traction in the economy segment impacted value growth. Construction chemical and waterproofing business had a stellar performance. Aggressive network expansion continued. We, in fact, added 7,300 plus retail touch points. And more importantly, we installed 7,100 Colorbank machine. Introduced a diverse range of products during the year and innovative steps taken towards influencer outreach.

We introduced -- we have been selling a large number of products and some of them have become very strong brands and leaders in their own categories that includes Easy Clean, which continues to grow at a good pace and continues to do very, very well and strong double-digit growth were registered in '24 also. The same holds true for WeatherCoat anti-dust, which again continues to do well and leads the category in that particular segment. Lot of other products like Long Life, Silk Glamor, which continues to do well. Luxol enamel where we remain a very, very strong player.

These are products and brands, which will hold its own in the market for quite some time. We also introduced 2 or 3 very interesting new products in last year, 4 of them, which I can mention, 1 Roof Coolant Seal, this is a product which is applied on the roof, it cools and seals. We had introduced it in the month of November, late November, it started doing very well and as of now, it is growing at a fantastic pace.

PU Elasto Shield this is another product which is solvent PU product, which is, again, used on the roof, but this time for larger surfaces mostly on industrial areas, again, doing reasonably well there. We introduced an Easy Clean variant, this is a very interesting product called Easy Clean Silky Touch. It has a very good finish on the wall and also retains the property of Easy Clean completely, doing very well in the market. It is upgrading some part of the Easy Clean volume on to Easy Clean Silky Touch.

We took a large number of digital initiatives for the second half of the year and it's going to continue in the first half of this year as well. A large number of these initiatives will bear fruit in this year, a financial year '25 will give us positive results.

We introduced the sales force, sales force for painter, sales force for dealers is going to get introduced soon. WMS across all our warehouses, warehouse management system is getting



installed. We have completed about 60%. We will complete the rest of the warehouses as well. This will make much easier to stock, retrieve, maintain the C4. Also there are a lot of other advantages we accrue out of this.

We introduced an app called My Colour app. It has an interesting AI application also in that and very well accepted by consumers. We start possibly advertising a little bit about this on the digital media. The D2C part of it, like Express Painting is doing quite well. And there also, we have done some interesting work. Last-mile delivery tracker, this we have put in place for -- we are working with some start-ups to ensure that the entire information is going to the dealers completely about when it has left, like Swiggy and Zomato, it is completely trackable. The material flow from our warehouses to the dealer point or to his site. And then E-Auction is the other one, which we did in the materials and raw material purchases, specifically or packaging material purchase, and we saved considerable amount of money doing this.

On the industrial businesses, Protective Coating business continued its market leadership with consistent growth trajectory and substantial improvement in profitability Automotive and General Industrial business had an improved performance on the back of some uptick in the 2-wheeler demand, though commercial vehicles and tractor was demand was muted, and we operate only in these 3 segments essentially. But Nippon Paint, the JV, which we have with them, they did much better in the passenger car and SUV segment.

Powder Coatings business line also showed uptick over previous year with significant improvement in profitability.

We had many notable projects which we did, which included the Bharat Mandapam in Delhi, Mumbai Coastal Bridge, Vande Bharat, the bogies underneath got quoted by our paint Fluoropolymer is a new technology, which we brought in, Khurja Super Thermal Power, which are in Rajasthan Refinery, Reliance's new energy, Lucknow Adani Airport. So a large number of these projects. Since we are leaders in this category, we continue to get advantage of being present across most of these infrastructure projects.

Manufacturing capacity, the present capacity in India is about 1.27 million metric tons. The brownfield expenses were carried out at some of the manufacturing units and the greenfield ventures, one in Panagarh, West Bengal is progressing. We are in the process of now starting the work in terms of construction. We've got all the permissions that were required. And then now we will start basically the construction work. The land acquisition has been completed at Khordha in Odisha near Bhubaneswar and work will begin 6 months to a year down the line.

Net debt situation in March '23, we had INR461 crores debt. In September '23 also, it was still at about INR324 crores. Then in December '23, we had become cash positive with INR56 crores. And as of March '24, we have now INR341 crores cash on our books.

Shareholders have been consistently been rewarded with dividend trajectory always improving year-on-year. We had begun at 125% in financial year '15. And this year, in the 100th year, we have declared 350% dividend. So that's as far as dividend goes. Sustainability, in action. ESG initiatives, we have taken numerous initiatives, green energy, Streesakti, 4 R Policy, WOW,



Project JAL, Safety First. In Project JAL, for example, we have new savings of water. Project, Urja Shakti. The EV story, we have introduced e-vehicles for last mile delivery now in many of our depots, and we plan to expand it to across all depots if possible.

We save nearly 10 crores liters of water enough to quench thirst of 1-lakh people for the whole year. The business outlook that we look at decorative business is expected to maintain double-digit volume growth for quarter 1 and financial year '25 with a slightly lower value growth, normal monsoon likely to propel rural demand. Markets expected to pick up in the second quarter onwards post general election results. Industrial business is expected to do well and maintain its strong profitability. Raw material prices have remained benign for some time. However, given the current geopolitical situation, volatility in raw material prices can be a concern.

Thank you and open for questions.

Moderator: The first question is from the line of Mihir Shah from Nomura.

Mihir Shah: Congrats on better-than-peers' volume performance. So when I'm looking at the price cuts, you mentioned your price cuts of 5%, it seems to be more than what the industry has taken. Can you share the time lines of price cuts taken and these price cuts are largely to pass on raw material benefits or it is also positioning in anticipation of competition? So that's my first question.

Abhijit Roy: Okay. Thank you, Mihir. So yes, the price cuts were primarily for -- against the raw material drop prices, which dropped and then to neutralize that, the price cuts were taken. Much of the price cuts, one price cut happened in the month of November and then mid-January, the bulk of it happened. Out of this 5%, 4.5% would have happened between -- primarily happened mostly in January and then that 1-odd percentage happened in the month of November.

And earlier, we had taken 1 price decrease in a product called WeatherCoat anti-dust. Our price premium against the market leader had risen very high and we neutralized a little bit of that. We still have a premium, but we reduced it a little bit because the gap had become too large. So therefore, these were the 3 price cuts, which we took that was about 0.4% overall impact, 0.3% and 1.2% was in November and the rest was in the month of January. So overall, this was a total impact.

Mihir Shah: Understood. Got it. Sir, my second question is on the mix. Even if I adjust for the higher price cut, the mix seems to be -- has deteriorated a little further and you alluded it is because of luxury paints, destocking and so on. So how should one read this down-trading or destocking? Is it a quarterly phenomenon? Or do you think or one should expect this down-trading to continue in the coming quarters as well? And also, if you can jog our memory, as such kind of inferior mix or down trading was visibly in earlier quarters also.

Abhijit Roy: Yes. So see, what is -- there are 3 reasons which I have given for this volume value gap, which is there, right? Number 1 is, of course, as you said, the luxury products, there were some amount of destocking, which happened because there was an anticipation that prices might drop. Now that they are relatively clear, they will buy and normal stocking will happen. And therefore, in the first quarter, we do not expect destocking to continue in the luxury product. .



The second reason, as I said, there has been substantially better growth of some of the low value but very high-volume products like tile adhesive or admixture to some extent, maybe waterproof putty. So these are segments which have high volume, but relatively low value, not necessarily low profit, but low value. So therefore, some of these products will continue to grow at a much faster pace than normal. And therefore, some amount of differential between volume and value will be there.

The third reason is that this 4% price drop, which happened in primarily out of 5%, 4% happened in January almost. So that is going to impact us up to December, right? So therefore, this gap between volume and value, to some extent, will continue till December. After that, it will get normalized.

Moderator: The next question is from the line of Tejash Shah from Avendus Spark.

Tejash Shah: And congrats on achieving your dual goal of INR10,000 crores turnover and INR1,000 crores profit this year. Sir, my first question pertains to interplay between gross margin and EBITDA margin. What we have seen this quarter, and you actually alluded that there were multiple factors at play. Should we expect -- and then you also highlighted on the previous answer that at least till December, one of the elements will stay like that. But looking at your own guidance in terms of you want to invest in more customer franchise for investing in A&P and also on digital initiatives. Should we expect that gross margin benefit if they have to stay like this, then also it won't trickle down to EBITDA in at least EY '24?

Abhijit Roy: So there will be some improvement there because in the last year, we had spent substantially more in advertisement and promotion expenses. That, I think, will somewhat normalize this year. Of course, competitive intensity is going to increase. So we'll have to see that. But we expect that there will be a little bit of a reduction in the growth of advertisement and promotion expenses, unlike last year when we grew heavily. So that means that the gross margin, if it remains at these type of levels, then the EBITDA percentage level will go up from current level.

Tejash Shah: Okay. Okay. Sir, second on distribution expansion, which we leveraged as a vector of growth for the last 3 years -- last 3, 4 years. I just wanted to know how does it play out? For example, dealers won't be added 2 years back. Do they trend towards average utilization on average throughput in 2 years or it takes longer?

Abhijit Roy: So it depends on our strength in those markets and the effort that we put in, in terms of secondary sales promotion. If these 2 are moderately good, then it shouldn't take more than 6 to 7 months for that dealer to start doing an average volume, which we see in and around that area. So it is situational. But normally, in 6 months to a year, we should stabilize the volume.

Tejash Shah: And sir, what would be that number of expansion, which you will target this year, FY '25?

Abhijit Roy: We are targeting about 8,000 new Colorbank machines to be installed this year in FY '25. Last year, we had done about 7,100. We want to increase it further to 8,000 machines.



Tejash Shah: Perfect. And sir, last one, if I may. With Sandila brand now kind of stabilizing, I'm assuming last time, you highlighted 35% utilization. As that utilization goes up, should we expect some lever for margins playing out in FY '25?

Abhijit Roy: Yes, you can expect that, that will also be beneficial for us because I'm sure we have already reached about now 48 to 50 and which we should be able to hold on in the month of April because April is typically a big month. And that time, we utilized it much more. But I think over the year, on an average, we should be around at 50% level. So better utilization of Sandila plant and that should result in some savings coming in.

Moderator: The next question is from the line of Avinish Roy from Nuvama.

Avinish Roy: Yes. Thanks. You and market leaders both seem quite positive on the volume growth, both Q1 and FY '25. On the one hand, we are seeing FMCG companies commentary turn positive this quarter. Some companies are already saying that rural is now growing faster than urban, and some are saying that it will happen during the course of the year. .

And on the other hand, we are seeing discretionary consumption, for example, box office, pizza chain, burger chains, apparel, still seeing a fair bit of slowdown. And one more moving factor is marriage days in Q1 is low. And after that, it picks up because of the cyclical nature of the calendarization. If I put all together, where are we? Because you have grown double digits in the last few years also and you are again giving a guidance, but I'm trying to understand inherent strength, is it improving? Is it status quo currently for you?

Abhijit Roy: So I think, Avinish. So interesting question, and there's a lot of this debate going on around GDP, if it is growing, why isn't paint sales growing, but paint sales is growing at a good pace as far as volume is concerned, as you rightly said. GDP growth is also largely driven by investment, which is growing at about 10%, whereas the consumption category is growing at 3% in the GDP. So GDP is driven more by investment than by consumption. And therefore, with a 3% consumption growth, obviously any consumer category will not grow at a very, very fast pace.

We are still growing at a reasonably good pace. If you look at it, we last year grew in value terms at about 5.6% to 6%. That's the range. In fact, decorative was slightly higher than that. And therefore, that's almost like 2x that of consumption GDP. So it's not something which is unusual. That's where we normally be. And I don't see any major change happening in terms of the growth rate.

And -- which means that the volume -- double-digit volume growth, which we registered in quarter 4 should continue as far as quarter 1 is concerned. The value growth in our industry, as I've just indicated, and you are aware of it as well, we did take a price cut, which is pretty substantial, and therefore, the value growth tends to come down. And some of the mix is shifting in the direction of high-volume but low-value products, which are growing much faster, and that is also driving the volume growth. So a combination of these 2 value growth will be in single digits, mid-single possibly for the next 6, 7 months, till November, when it will start changing again, because that 4% disadvantage will go away at that point of time.



Avinish Roy: Right. And in terms of your industrial and auto, clearly, you have done a good job last few years. A lot of things are changing there in terms of EV in both 2-wheeler and 4-wheeler. How does a Japanese company linkage help or not help this. I wanted to understand in terms of team focus, are you focusing on that more because that's where I think the industry trends are changing. So the next 5 years, there can be a big shift there. Are you well faced in that part of the auto demand?

Abhijit Roy: Yes. So for us, auto is relatively small. We are much strongly placed in protective coatings and general industries. In both of which, we are leader actually. And the sale is quite substantial as far as protective coatings and GI put together is concerned. So there, we will continue to grow. And as far as auto is concerned, -- we are -- as Berger, we are in 2-wheelers, commercial vehicles and tractor, which is -- depends on the industry, how it does. As of now, the 2-wheeler seems to be reviving.

The commercial vehicle is flattish and tractor is again flattish. So this is the situation as it exists today. I don't know what the future will be, but this is how it is today. And as far as the Japanese collaboration is concerned, they are doing very well, both in top line and bottom line growth. Largely, the passenger car vehicle has done well last year, and SUV also has done well. And as a result of that, since they are present across all the major accounts in the Japanese accounts, they have also started doing much better than what they were doing earlier.

Avinish Roy: Sir, last quick question. You have been a strong voice in terms of the market share being stable for existing players. Now almost 2 months of the launch plans of new players has happened. I understood your and market leaders double-digit volume growth expectation for FY '25 and Q1. My question was on the cost aspect. So advertising expense, employee costs and dealer incentives. Now that 2 more months have happened post the launch event, where do you see these in FY '25? Is there a big risk in terms of inflation in these 3 line items?

Abhijit Roy: No. So I think, Avinish, we are more comfortable now than what we were there. We were more anxious earlier. I think after 2 months, I think we are gearing down to the thought that -- this is a competition which is serious, but it has not started impacting us in a strong way as of now. And therefore, we will continue with our thoughts and the way we do normally business. We won't be overly bothered about what is happening around that.

Avinish Roy: Okay. So you don't expect much of an impact 50, 70 bps here and there can happen. But you don't expect a big impact?

Abhijit Roy: No, I don't think so. Small impact might be there here and there, but I don't see any big impact there.

Moderator: The next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, I had a few questions. Sir, first, I just wanted to kind of carry on this realization decline that we have seen in this year. So we are seeing almost a 6 percentage-odd difference in value and volume in FY '24. As we move into FY '25, you've highlighted 2 of the 3 things. One is the price cut, which happened in Jan, and then there's the mix impact. But in your estimate, what is the number that we should look at? A mid-single digit or it's lesser than that. I would love to hear your thoughts on this.



- Abhijit Roy:** Yes. So I indicated that we will have a double digit and slightly below that double digit, it can be 3% below or 4% below that double-digit number in terms of the value growth. That's where -- so mid-single digit is where we will be possibly in terms of the value growth till December. From December onwards -- from January onwards, it will become volume growth equal to value growth. So to that extent, in the fourth quarter, we are likely to have a double-digit value growth.
- Avi Mehta:** Perfect, sir. This is very helpful. Sir, the second bit was on the margin. I mean -- and from our earlier conversations, you had indicated that 15% to 17% odd EBITDA margin range is what you are comfortable even with it. Would you -- given what has been the last 2 months, would you seek to change that guidance upwards? Or would you still maintain that because you've almost done 16.6% this year itself? So if any -- yes, sir. Any update on that, sir?
- Abhijit Roy:** We will still remain in that range. We won't change our guidance. We will remain in that 15% to 17% range. We will -- in case we find that the profitability is better than expected, then we may spend a little bit more on advertisement and promotion, building up our brands more strongly.
- Avi Mehta:** Got it. Got it. And sir, just last bit, I had some bookkeeping questions. First, this -- you had indicated there's an impact or benefit of low-cost inventory in the gross mark in fourth quarter. Would you be able to share any quantum of this impact? How much is it? Is it material or...
- Abhijit Roy:** No, I don't have those numbers with me, and I don't think I'll be able to tell you at this stage.
- Avi Mehta:** Okay, sir. And sir, the FY '24, what would be the ad spend to sales, would you be having any sense? Those were the only 2 questions that I had. That's all.
- Abhijit Roy:** FY '24, we have significant higher expense to sales ratio. And in fact, in terms of growth, if I'm not mistaken, I don't have the exact figure, but it's about 40% more than last year in terms of spend -- actual spend.
- Moderator:** Our next question is from the line of Harsh Shah from Bandhan.
- Harsh Shah:** Sir, my question is on -- so how is the rebating or the promotional intensity different this time around compared to historically when new competition entered?
- Abhijit Roy:** I don't think anything has changed in terms of rebating. Historically, whatever has been there, continues as far as rebating is concerned. It's much more to do with the profitability of the industry at large. When the profitability tends to move up, the rebating can sometimes become more stronger. And otherwise, there is not much of an impact with competition coming in. Competitors have been there coming in and for years, it has been happening. International competitors, domestic competitors, I don't think it has impacted the industry in any significant way and unlikely that so far whatever we have seen is going to impact us in some serious way.
- Harsh Shah:** Okay. So nothing to call out in the near term as well?
- Abhijit Roy:** Nothing that I can call out in the near term. As of now, I don't think we are going to react to any new competitor who has jumped in.



- Moderator:** The next question is from the line of Varadharajan from CKare.
- Varadharajan:** I just wanted to have an understanding on your R&D? Your spend on R&D, your resources we are putting out to work. And what are the new directionally technological things you are doing to identify and develop new products?
- Abhijit Roy:** So we have always invested in R&D, both in terms of manpower, in terms of equipment over the years. It's on an average, normally, Indian R&D has been hovering around that low figure. We don't actually spend a significant quantum of our money as a percentage to sales, but we spend enough that is required to be done as far as our business is concerned. We have created numerous innovative products, both in the decorative and on the industrial side. Industrial side, in fact, requires far more R&D efforts. It's technologically very significant compared to possibly decorative.
- And since we are a very leading player in protective and general industry, we take care of that side very well. We have to spend money, therefore, developing the R&D infrastructure. So exact details of how much actual growth we spend, I cannot say, but we spend enough that is required by us.
- Varadharajan:** Just to throw some lights on the direction in which technological improvements can take place, especially in the painting?
- Abhijit Roy:** So normal tendencies are you reduce volatility in your products -- volatile compounds in your products. So VOC reduction is 1 which is more towards the green angle, shifting more from solvent-based to water-based products is something else which happens, going in for mono coats, instead of using 2 coats or 3 coats products, can we look at monocot products. These are some general trends across industries, which is worldwide, which is happening and is going to happen in India as well, and that's where we focus our energy.
- Moderator:** Our next question is from the line of Anurag Dayal from HSBC.
- Anurag Dayal:** Sure. So I'd like to understand a little flavor of the demand situation on the regional level. So you have been expanding, as I understand distribution traditionally weaker geographies. So have you able to -- I will see some impact of that. In general, the local distribution where the double-digit growth in decorative has comes from. That's my first question.
- Abhijit Roy:** Yes. Well, yes, obviously, our foray into less represented areas of ours has been giving results. That's why you see a growth rate which is higher than normal industry top players and a gain in market share as a result of that. So obviously, it is giving us results. We still have a lot of scope of further expansion in many of these markets where we have a relatively weak ground presence. We need to build that up as fast as possible. And that is why you see a challenging targets being taken by us.
- We did put 7,000 Colorbank machines. Given our size, that's quite large. And we are looking at 8,000 machines now in the next year. And if possible, do more as well. But that's the target that we have set internally for ourselves. And this will continue. There is a lot of scope for that for



us. As far as we are concerned, there are large gaps in the distribution network, which we need to fulfill.

Anurag Dayal: Yes. That's very clear, sir. Secondly, just a bookkeeping question is about your total number of the Colorbank machines and retail touch point in the ballpark figure, if you can tell right now after the expansion.

Abhijit Roy: So it will be about 45,000 in terms of the Colorbank machines, which will be there approximately. And if I'm not mistaken, about 55-odd-thousand retail tough points, which exist as far as we are concerned, where we have access or -- indirect or direct success in terms of retail touch points. Machines, of course, most of them are direct.

Anurag Dayal: Great. And sir, 1 last bet, I would like to understand essentially, now the mix has deteriorated is it indicating somewhere that the Tier 2, Tier 3 towns or rural is doing slightly better this quarter compared to urban?

Abhijit Roy: No, no that doesn't -- it's not related to Tier, Tier 3 doing better than urban. It is primarily, as I've explained to you, there was a little bit of destocking in luxury products and the higher volume, lower value products did much better, has been doing for the last 2, 3 quarters, probably we'll continue doing better in the coming 2, 3 quarters as well. So a combination of these 2 is resulting in a volume value gap, which is slightly higher.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Invest.

Lakshminarayanan: A couple of questions there. First in terms of your project business in the decorative, what percentage of revenues is coming from the project business and how it has actually grown in the last 1 year?

Abhijit Roy: It's about 8-odd percentage, which comes from the project business. It's been growing slightly ahead of the retail, not significantly ahead, but slightly ahead of retail in terms of value growth.

Lakshminarayanan: Okay. 8% of your stand-alone?

Abhijit Roy: Yes, that's right.

Lakshminarayanan: And second, you mentioned that the premium paints, decoratives have actually declined faster. So this is -- when did it start? And what kind of decline you saw in the premium category in terms of volumes for the last quarter or maybe the last few months?

Abhijit Roy: So premium did not decline. Premium for us, we define premium as we have 2 very strong brands in this premium category called Easy Clean and Anti Dust. We've been growing very well in those 2 actually. And therefore, premium for us has been doing quite well. It's in the luxury category, which is where some amount of destocking happened.

And we are relatively much stronger in the states of West Bengal and Kerala. And these 2 states have been having some issues for the last few months, in terms of sales numbers itself. And therefore, a combination of these 2 resulted in luxury category being impacted a bit. But otherwise, we are fine as far as premium category is concerned.



- Lakshminarayanan:** And the last question is for industry. So if you look at -- you talked about dealers, x number of touch points. So as new entrants come in, do you find existing dealers also working with them? Or you find first-time dealers coming into the market. In general, what is -- how should one think about it?
- Abhijit Roy:** So it will be a mix of both. It's probably some first-time dealers, some amount, some numbers of existing dealers. If you're giving free machines to people, they will keep their free machine. How does it matter to them? So it depends on where you are placing most of our bigger dealers or meaningful dealers, I would say. So far, I haven't gone for it, gone for any of the competitors for that matter. But some of them might take and but that doesn't mean anything at all because just getting a machine in means nothing. So you will have to ensure that the sales happen.
- Moderator:** The next question is from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** Congratulations. The participant question was answered, but I just wanted to understand this 8% number is growing at what pace for us?
- Abhijit Roy:** So if my overall growth rate was, say, 6% for the year for 6.5% maybe for decorative, then this will be growing at 7%, 8%, 1.5% to 2% ahead of the normal retail decorative sale.
- Shirish Pardeshi:** Okay. Okay. Got it.
- Abhijit Roy:** In value terms.
- Shirish Pardeshi:** Okay. The other question I wanted to check if you are covering, say, about 55,000 retail touch points and almost 90% is having the Colorbank. Now with the competition coming up, is there any behavioural change you have seen in the top 20% dealers, which we are dealing or maybe who are you dealing with more than 1,000 KL per month?
- Abhijit Roy:** Its not 1,000, KL, its 1,000 liters. No, there has been no major change that has been observed. They are also waiting and watching. And all of us are waiting and watching. Unless some dramatic things happen or something new and different is happening, I don't think anything is going to change much. It's going to continue as is. Most of the players are going to retain their share or probably improve at times. So I -- frankly speaking, after these 2, 3 months have gone by, I don't see any change on the ground, which is significant enough.
- Shirish Pardeshi:** Okay. Okay. No, the reason why I was asking because you mentioned that the market is now growing at the economy emulsion. So is that the economy emulsion is the next fighting ground. And maybe if that is true, what kind of contribution is coming from economy emulsion and lower segment for us in FY '24.
- Abhijit Roy:** So the economy emulsion growth is better than possibly the luxury category. As I said, luxury category was impacted by this fear of price drop, which might happen. But that doesn't mean that that's where we should focus all our energy and try to do something around that. I think luxury category is going to bounce back in this quarter and next quarter as well, even more so.



Premium category, already we are doing well. Economy is also growing at a decent pace. So all of our businesses should be okay. I don't see a particular economy category being -- is growing -- will grow at a much faster pace than others.

Shirish Pardeshi: And what would be contribution for economy and lower segment for us in FY '24?

Abhijit Roy: Sir, that is difficult for me to say, but I don't -- we don't look at it in that way like what is the percentage for luxury, premium how much? But it's significant enough, but it won't be determining fact. All of them are more or less equally balanced, I would say.

Shirish Pardeshi: Okay. Okay. And the last question, what are the time lines we are expecting Khordha to be operational?

Abhijit Roy: This will be operational from 26 December to 27 March. This is the period when it should become operational.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Abhijit Roy: So thank you very much for coming and attending today. And it's our 100th year this year, and we hope that we live up to the expectations of the investor community as well and keep doing well in the marketplace. Thank you very much.

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