



“Berger Paints India Limited-Q4 FY22 Results Conference Call”

May 30, 2022



MANAGEMENT: **MR. SRIJIT DASGUPTA – DIRECTOR (FINANCE) & CFO, BERGER PAINTS INDIA LIMITED**
MR. SUJYOTI MUKHERJEE – VICE PRESIDENT (FINANCE & ACCOUNTS), BERGER PAINTS INDIA LIMITED

MODERATOR: **MS. SAAKSHA MANTOO - EMKAY GLOBAL FINANCIAL SERVICES**



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Moderator: Ladies and gentleman, welcome to the Q4 and FY22 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 at the end of today's presentation. Should you need assistance during the conference, 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 Ms. Saaksha Mantoo - Emkay Global Financial Services. Thank you and over to you, Saaksha.

Saaksha Mantoo: Thank you, good evening, everyone. I would like to welcome the management and thank them for this opportunity. We have with us today, Mr. Srijit Dasgupta – Director (Finance) & CFO and Mr. Sujyoti Mukherjee – Vice President (Finance & Accounts). I shall now hand over the call to the management for the opening remarks, over to you gentlemen.

Srijit Dasgupta: Thank you Saaksha. Good afternoon, ladies and gentlemen and a very warm welcome to the Q4 FY22 Earnings call for Berger Paints India Limited. As usual I will commence proceedings with the few preliminary comments about the standalone and consolidated quarterly results and will then invite questions from the participants.

On a standalone basis, I will just read out some growth numbers. Total income from the operations for the quarter was 7.3%, for the year was 28.6%. PBDIT was 2.8% for the quarter and 8.1% growth full year. PBT was 0.9% and 7.7% and PAT was 9.7% and 10.1%.

I will talk a little bit about the standalone numbers and then go on to the consolidated figures. The standalone growth for total income from operations for the quarter at 7.3%, certainly looks a little lower than the competition numbers. The only explanation I can offer for this is that there was a significant effect of a one-off project related business in the base quarter, meaning Q4 FY21. This is typically a feast in famine time for business and last year we did have these numbers which were there in the quarterly results. If we exclude this affect, the top line growth for the quarter would have been marginally above 19%.

On a two-year CAGR basis, which is probably a little more relevant because it sort of equalizes the project business affect, the growth would have been 28.1% on a standalone basis for the quarter. On a two-year CAGR for the year, would have been about a little less than 17%.

On the margin front, there was a growth margin contraction of around 5.5%, this is of course considering only RMC percentage to total income for the quarter, the expense. Which would otherwise have been a marginally above 3.2%, meaning the contraction if we excluded this one-off project income affect. Typically, such projects include the application charges and margins in the top line as well, so the pure RMC component of such project income is really much lower than the normal RMC percentages. The same affect is also observed in other expenses, I think a couple of quarters back I did speak about the effect of project income and project business on



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both top line and overheads. So just to explain once again, the other expenses have reduced significantly over Q4 FY21 as a percentage to total income by approximately 5%, mainly on account of this affect. Meaning, if we excluded the applicator charges and margins from other expenses, then the decrease over Q4 FY21 as a percentage to sales would have been normally about 0.7% as against the 5% drop that you currently see.

Of course, my remarks are limited to the quarter. The quarter was also affected by continuing raw material price increases, which were only partially offset by the effect of price increases upto December 2021. The gross margins were also impacted negatively by the lag effect, of course compared to Décor business of selling price increases versus raw material input costs for industrial business, particularly the automotive business. Compared to the trailing quarter there was an improvement in gross margins on account of price increases as well as some lower rebating in the commodity type of products. Further price increases have been taken from April to June 2022 of approximately 3% Décor business, the impact of which will be felt partially at least in Q1 FY23 because of the staggered timing of the price increases.

In terms of Tier-Wise sales in cities, the highest growth in the quarter was seen in the tier 1 cities, the larger cities and towns and this to some extent also hopefully we will take steps to improve our presence in these towns but also partially explains the slightly lower growth. The newer products including Weathercoat Long Life Flexo this is one of our newer product and we have an advertising campaign plan for this which should be launched very quickly did very well as did construction chemicals and of course the normal slew of advertised products, which includes interior paints as well, the glamour range and the Easy Clean range. The initiatives on formulation savings and raw material substitution development, we spoke about this in earlier quarters, continued in this quarter as well and gave us pretty reasonable gains, which helped offset some of the offset, some of the RM price increases.

Coming to the consolidated numbers:

Total Income from Operations for the quarter went up by 8% and for the year by 28.5%. PBDIT went by 4.3% and 12.6% for the quarter and year. PBT went up by 4.6% and 14.7% and PAT went by 5.6% and 15.7% for the quarter and year respectively.

Going to the subsidiaries and JVs which gets consolidated in our council account:

BOLIX SA, Poland which is our external insulation business out of Poland, showed a robust topline growth on the back of hugely improved sales in UK and France as spoken about this in earlier quarters but now the projects are coming good. It is essentially a project driven business but we have number of projects in the bag. The profitability growth was very good, even with some degree of raw material cost input pressure. BJ in Nepal had a modest topline growth in the quarter mainly on account of heavy rainfall and some impact of the 3rd wave of COVID leading



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some loss in business days, we expect to be able to make this up in subsequent quarters. BPOL Russia, it is a small operation but had a strong topline growth leading to an improvement in gross margin contribution, significant one, though the mark to market FOREX loss versus 31st December 2021 position of the Ruble led to a net loss for the quarter. It may be noted that the Ruble has since appreciated versus the USD and the sanction-imposed exit of MNC paint players in Russia have resulted in increased demand from local players which include BPOL. So, significant opportunity I think in Russia, coming out of the sanctions imposed by the Western countries.

The two JVs have also shown an improved topline growth, these are the JVs with Nippon Paints, so Berger Nippon Paints Automotive Coatings, that is BNPAC and of course Berger Becker in the field of coil coatings has improved topline growth for the quarter and consequently improvement of the profitability numbers. This pretty much includes my summary for the Q4 performance.

I now invite questions from the participants on the results for the quarter. Thank you.

Moderator: Thank you very much. We will now begin with question-and-answer session. First question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Just two questions. Could you comment something on the volume growth for the quarter and full year, if you have the numbers handy? And in the given context I think this decorative paint is seeing lot of competition and there is lot of news items which are taking its toll, so would you comment in the short term, how one should look at in the industry, what is this disruption is going to head for?

Srijit Dasgupta: Okay. Two quite different questions. So, let me deal with the volume question first. The quarter was pretty much flat in terms of volume but that I explained that we had this one-off project business in the quarter, so maybe that is not a right way to see the numbers, probably more useful to see the numbers on a full year basis where approximate growth for the quarter, for the year in terms of volume was a little below 20%. So, that is how the volume panned out, obviously there was a significant impact of price increases in the year and definitely in the quarter, more so in the quarter, so that explains to some extent the difference in performance for the quarter and for the year. Regarding the comments and I do not think I can react, it is really for the markets to absorb this and respond but all we can say is that we have our own plans, our own strategies, our own plans for additional capacity and of course we will build on our strengths which we see as focused on product attributes and innovation, very strong R&D, focus and of course the network and distribution strengths. We are also looking clearly at alternative distribution channels including, digital. So, this is really our response, early days yet, let us see how things pan out.



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Shirish Pardeshi: Okay. That is really helpful. My second and last question on the price increases. You did mention and it was very helpful that you have taken about 1% in April and May and you are affecting 1.2%, so effective 2.2% price increase which has gone in quarter 1, so just wanted to understand on a sequential basis versus quarter 4 what the inflation we are seeing as on today?

Srijit Dasgupta: Still we have not finished the quarter and I really cannot comment in great detail about the quarter, it is outside the scope but just to give you an indication some of the raw materials have cooled off a little bit and I am talking of oils, I am talking of rutile but of course the solvent prices continue to increase and that is something that has to be provided for in terms of either a change of mix or an improvement in the pricing, so there is perhaps, if things are remain as they are, there is perhaps a case for a marginal price increase going forward, if we are to comeback to earlier margins but having said that it is not a million miles away.

Shirish Pardeshi: I got that Srijit but while speaking to channel and the intermediary, we had a very steep round of price increases in FY22 and the inventory is impacting, so if the pricing is fluid that will also to somewhat may impact the trade inventory also, so in the context why I am asking is this phenomena according to your lens will continue for sometime or will have to take hit and say that okay this is enough?

Srijit Dasgupta: I think we saw the worst of it, this is purely a sort of opinion, I think we saw the worst of it in terms of the inventory effect at the dealer's end playing out in Q4, so because there was as you saw a very high round of price increases in November and December, so little bit of building up inventory happened and that probably affected, at least volume wise the quantum of sales in Q4. So, I think the worst is over and if April and May are anything to go by, we are quite optimistic.

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

Avi Mehta: I actually wanted to just understand the demand environment a bit, have you seen any impact on volume growth coming through after these sharp price increases, is that part of reason why we are being little more cautious for the next round or, I mean any sense on that because overall there is increase across the board, are we seeing some impact on the incremental customer there?

Srijit Dasgupta: Actually, not Avi. So, as I was just mentioning April and May have been very encouraging, even with the smaller price increases in April and May, so we are hopeful that the worst is over in terms of the effect of the very high price increases last year and that the demand will now continue to unfold.

Avi Mehta: Got it perfect. And the second in essentially on the industry, I am sorry if I missed the earlier part of this, so I am sorry if it is a repeat but if you could give me a sense on how that business is panning out, we were highlighting that some of the price increases are coming through last



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quarter, so has that happened, are we in a comfortable state now? While there is a lead lag that does happen, now going forward is most of that inflation also passed through or not?

Srijit Dasgupta:

I will restrict my comments essentially to what happened in Q4 and maybe a just a bit about what we expect in Q1 but not whole lot as you can imagine, in Q4 as I mentioned the automotive business prices and we do a lot of 2-wheeler business and this kind of definitely, lagged behind our raw material price input costs increases and that typically happens while negotiating pricing with large OEMs but we have taken two rounds which were completed by March' 22, I think two rounds of price increases and another third round to follow the effect of which should be felt at least partially in Q1 of FY23 and this is automotive business. Similarly, we have also kind of been a little picky and choosy in selling in of our powders business, which is also very sensitive to raw material price increases but good to let everyone know that our, we protected our margins at the cost of little shallower growth rates in powders. Protective coating business and the general industrial business were quicker to bounce back in terms of the price increase securing exercise. So, if this helps you, gives you some color of what to expect in Q1 as well.

Avi Mehta:

No, that is perfect, just on the follow up on the powder coating business. Is that selective price hike also because the competitive intensity there has been as little high or if you could just elaborate on that part as well?

Srijit Dasgupta:

Yes, it is just that we have kind of not sold at those low margins as a matter policy and therefore the topline suffered a little bit but I think it was necessary at least the strategy internally was where we must protect the margins and sort of improve the quality of the business overall and this was a very good opportunity to do it, basically tell customers "I am sorry if you do not increase prices we cannot sell". It works partially up to a point but that is what we did.

Moderator:

Thank you. The next question is from the line of Nitin Jain from Fairview. Please go ahead.

Nitin Jain:

So, I just wanted to understand the one-off that happened this quarter, so if you can just elaborate a little more on that? Thank you.

Srijit Dasgupta:

So, as I mentioned these project related business in institutional decorative, particularly, happens in sort of sporadic manner, meaning in a particular year, one could have a very good project, a large project which is being secured in service and a similar project may not emerge in the following year, this is what pretty much happened in our case, so I think it was important to point out that the core business grew at a very healthy pace, probably pretty much at the pace of marginally below the market leader but because of this effect of one off project sales or rather project business, the quarter growth numbers look a little less impressive. Of course, business includes project and dealer or retail business and that is why I offered the comment that maybe on a two-year CAGR basis the full year, for example, the growth rates are not so bad and look



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reasonably good at around 17% for a two-year CAGR growth rate. And I am talking about of course the standalone business. So, that was the comment relating to project one off income.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Sorry, I joined late and my apologies if this question is already asked but my question is on the competitive scenario that you envision for the industry, in future given that we have seen cement players make announcements of the CAPEX and I am sure this has been asked several times of you but I just wanted to have your views around three things; 1.) Even if there is theoretically large capital being deployed, what is the lead time to build capacity that can happen? 2.) And would it create excess capacity situation in the industry, given the volume growth is where the volume growth is but if so many players trying to build capacity, would that mean in the long run excess capacity, hence prospect of price war and hence margins? How do industry participants decipher this and do you worry about it that pricing environment can deteriorate over time or there is no cushion for pricing environment, there is enough to scope for everybody to survive? There are all kinds of conjectures we can make at this point but as an industry participant when you people make an announcement for entry how do you react and could you give us your comprehensive views around this, so that we all can sort of document it in our way?

Srijit Dasgupta: Thanks Amit. Obviously, some of the response strategy wise we cannot spell out in great detail, for obvious reasons, we do not obviously want the entering company to be listening to us but just generally and I think this is what I had covered in my earlier comments as a response to question from someone else, it is very important I think to build on our core strength and as you can see we have done reasonably well over the last 10 years or so, in terms of improving our market share or improving our brand equity, and our pricing and our margins, I think that is there for everybody to see and the reasons for that were very conventional and very obvious kind of reasons, we had focused on product innovation, concentrated on introducing products that would have been of interest to the consumer, the painter and the dealer and focus on the branding of these products, we have built some very large brands in the last 3 or 4 years and many more to come, I spoke about Weathercoat Longlife Flexo, the new product on the block and we sort of focused on redistribution and network strengths as well, so in terms of adding machines for example or tinting machines, tinting systems we have been probably adding machines to our core bank of machines by about 14-15% every year and plans to grow this percentage in future and concentrate on all alternative channels, including hardware. Look at backward integration, look at and we now make our own emulsions, our own colorants, these are incremental gains which have, a.) Improved our gross margins and, b.) Made service and distribution that much more efficient, I think this is what we have concentrated on, so basically, stick to the knitting of course there will be some disruption, there will be some market force enters and drops prices but typically, certainly the value added part of the paints spectrum, price is not really the deciding factor, essentially it is quality, service, reputation, brand, so of course we are concerned but not perhaps unduly worried.



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Amit Sachdeva: Sure, that is very helpful, my only worry was that typically what I have observed were over a period of time, over industries in long run, eventually somewhere excess capacity gets created that just invariably triggers price war, even though theoretically see we are in a growing industry but there is no reason for low margin industry to have a price war but the moment there is an excess capacity in some region, it invariably distorts pricing, that is what my biggest worry is. And I definitely wanted to ask you is that if somebody theoretically endeavoring to build such plants, what could be the lead time to build such a capacity, one can make, given your experience can it take 5 years, 6 years or 7 years to build like equivalent capacity such as yours or it could be done sooner?

Srijit Dasgupta: I think the company that you are referring states that over a period of time they will build 5 or 6 factories, given the complexity and the labor that it takes to design and erect a factory, it is unlikely that you are going to do it in a year, year and a half even with the best resources but we will have to see how it goes, unless somebody is prepared to add capacity and leave a lot of it idle because you cannot build a number that they are talking about and expect to sell all of it in the first day that is difficult to do but yes, the prospect of a price war may emerge, particularly in the commodity or mass market end of the products.

Amit Sachdeva: That is very helpful for me. Thanks a lot.

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

Sujyoti Mukherjee: Thank you for your participation, everybody. It has been quite insightful the questions that you have kind of offered to us. Hopefully as we have explained if April and May are anything to go by, I think we are looking at demand unfolding in the coming quarters and so and with certain measures which have already been taken by Central banks and government, we can see inflation to smooth down a bit going forward and we look forward better times and to come out with hopefully better numbers with in the coming quarters to you.

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