



“Berger Paints India Limited
Q1 FY 23 Earnings Conference Call”

August 08, 2022



MANAGEMENT:

**MR. ABHIJIT ROY - MD AND CEO, BERGER
PAINTS INDIA LIMITED**

**MR. SRIJIT DASGUPTA - DIRECTOR, FINANCE, AND
CFO, BERGER PAINTS INDIA LIMITED**

**MR. SUJYOTI MUKHERJEE, VICE PRESIDENT,
FINANCE AND ACCOUNTS, BERGER PAINTS INDIA
LIMITED**

MODERATOR:

**MS. JIGISHA KAPOOR - EMKAY GLOBAL
FINANCIAL SERVICES LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to the Q1 FY'23 Earnings Conference Call of Berger Paints India Limited, hosted by Emkay Global Financial Services.

We have with us today from the management Mr. Abhijit Roy, MD and CEO; Mr. Srijit Dasgupta, Director, Finance, and CFO; and Mr. Sujyoti Mukherjee, Vice President, Finance and Accounts. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation concludes. 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.



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I would now like to hand the conference over to Ms. Jigisha Kapoor from Emkay Global Financial Services. Thank you. And over to you, ma'am.

Jigisha Kapoor:

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

Srijit Dasgupta:

Thank you, Jigisha. A very good afternoon, ladies and gentlemen.

I'd like to extend a very warm welcome to all of you to the Q1 FY'23 earnings call for Berger Paints India. As usual, I'll begin this session with a few comments about the stand-alone and consolidated quarterly performance and then invite questions from the participants. One additional comment: This time, we are privileged to have with us our MD and CEO, Mr. Abhijit Roy, so I'll restrict my comments to the financial performance and then perhaps leave more room for questions from the participants, particularly on the business. Just a reminder. As usual, a standard comment and disclaimer that questions should be addressed to the quarter in question. Leading questions regarding the Q2 or Q3 performances will not be answered.

Starting with the BPIL stand-alone numbers very quickly, our very robust numbers this quarter. So total income from operations grew by around 54%, PBDIT by 69.3%, PAT by 73.5%. A few comments to interpret the results, I think, will be useful. There was a gross margin contraction of 2.6%. However, this has to be seen as we recall, even in the trailing quarter, that this should be seen in the context of the projects business last year. If we adjust the gross margin numbers, the percentages for the project business that we had last year, a substantial amount, then the contraction actually drops to only about 1.5%. So it's interesting to note that, with the price increases, even with the very, very high raw material price increases, we've been almost stable through overall the earlier margin levels.

Another point to note is that, this time, the industrial businesses, particularly GI, auto, recovered very well in terms of, of course, volumes and value sales. As we mentioned in earlier quarters, this business typically lags a little behind deco and protective coatings businesses in terms of price increases. And therefore, this has pulled down the gross margins to a marginal extent, about 0.4% to 0.5%. So this is just to explain how far we are away from Q1 FY'22 gross margins. This is, of course, in the context of price increases. The total business managed to secure a weighted average price increase of around 21%, 22% versus Q1 FY'22, so that's really has to claw back in terms of the gross margins.

A word about the raw materials. This was a little bit of a surprise from the gradually cooling off in terms of prices that we saw in Q4 of FY'22. Q1 of FY'23 again saw an uptick in certain raw material prices, particularly rutile, contributed, of course, largely by the U.S. depreciation. There was a decrease in butyl acrylate prices, the most used monomer, but the prices of styrene monomer rose quite sharply. There was also a steep increase in phthalic anhydride, vegetable oils and solvents. So this explains the effect of lower gross margins even in the context of very high price increases on finished goods.

Other expenses. Freight was largely contained at previous year's levels. And overheads include last year the element of applicator expenses for the project business, so that has to be taken into context when we look at the current year numbers in terms of percentage to sales in terms of other expenses.

With the gross margin drop of 2.6%, there was a net PBDIT improvement of about 1.5%. This is the combination of some cost reduction efforts; some the effect of project business on overheads, as I mentioned earlier. The Q1 of FY'22 quarter included these expenses, which are no longer relevant for Q1 FY'23. And of course, there was this scale effect of higher sales on overhead. A little bit about BPIL



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consolidated numbers, so growth similar to the stand-alone numbers at 53.4%, PBDIT at 69.7% growth, PBIT at 76.9%, PAT at 80.6%.

A few comments on the subsidiaries' performances, strong performances from BJNNepal; SBL, SCPL, which was the erstwhile Saboo Coatings; STP, that's our construction chemical subsidiary, waterproofing and construction chemicals. Bolix Poland had margin pressure in the Polish B2B business but reasonably good growth in the U.K. part of the business which is acquiring larger and larger share of the total business. However, we expect that the situation will improve in terms of demand in Q3 FY'23.

The ruble/USD fluctuation for our BPOL Russia business, this was treated as expenses or other income as the case may be earlier, but there was a significant fluctuation this year. And in line with the IndAS '21 view that capital inclusion or loans in the nature of a capital inclusion should be treated as OCI in terms of the effect on profits, we have, going forward, decided to treat it as other comprehensive income and not take this income in other income in the subsidiaries.

That concludes my opening comments regarding the financial performance. I now invite questions from the participants on the quarter's results. Thank you.

Moderator:

The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

On Y-o-Y basis, numbers are difficult to compare given COVID, so my question to Abhijit is based on the last 3 to 5 years. In each of the domestic markets, Berger would have gained market share in deco; and anywhere you would have lost. Similarly, if you could give us some details on waterproofing, putty. It may not be relevant on 5 years basis, but on 3-year basis, if you could share some of the success stories in waterproofing and putty also.

Abhijit Roy:

Right. So Abneesh, good to talk because this is my first interaction after a long time. And with relevance to your 2 questions that you have put in, on a 3 year CAGR basis, our growth rates will be about 17odd percentage. And that, I think, is a fairly strong growth rate. Overall, we would have gained in certain markets. It's difficult to call. And we do have our own estimates, but I think, more in the weaker markets of West and South, we would have gained in some of those pockets.

In East, we maintain our strong leaderships type of status in some of the markets. In some markets, we are at number 2 position, so that continues. North, Central was a moderate performance overall. So this is my thinking overall. Now as far as waterproofing is concerned, those that has been seeing very robust growth. And the growth rate has been much in excess of the paint growth rate. That figures is difficult to call, but it will be quite substantially more than the paint growth rate.

As far as the other category of putty that you mentioned. That, actually, last quarter, we had a very low growth rate. Comparatively, against a growth rate of about 54% by value that we saw, putty growth rate would have been in the range of 17%, 18%. So we lost a little bit in putty because of pricing pressures which were there in the market, and that's fine. That's the call that we took.

Abneesh Roy:

Sir, one quick follow-up question. How important is putty sales in overall scheme of things now? Because I think it helps in cross selling your other products. And second is the North and Central which you mentioned, where there has been slightly slower growth versus some of the other markets. Any particular reason? Is it because of your scale in those markets? Or the market leader is more aggressive in such markets?

Abhijit Roy:

It's a combination of all those factors, Abneesh. So market leader has been much more aggressive in terms of pricing inputs there. We have also stayed away from



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service in the putty segment specifically there. And overall, we are relatively at a moderate presence there, so the growth rate also is slightly on the lower side.

Abneesh Roy:

Sir, last question. So you have said your auto part of the business also has done well. So my question is if you could tell us again on 3 year basis. Because of the Berger Nippon JV kind of presence here, are you getting more market share here because, clearly, Nippon will help in the Japanese OEMs relationships? And do you think this could accelerate over a 3 year basis in terms of market share?

Abhijit Roy:

So Abneesh, the Nippon's figures don't figure in our results because, as you know, they are 51% and we are 49%. So we don't consolidate their top line, so we just get the part of the share of profits at the end of it. So yes, this is not included. And whatever we have mentioned about automotive or what Srijit mentioned is essentially the one part that we are dealing with, which is two wheelers and commercial vehicles. In commercial vehicles, as you know, from a lower base, it is doing much better, so which is why we had a slightly higher growth rate in terms of overall value case. But on a 3 year CAGR, it will be lower, much lower, than the overall growth rate that we registered.

Moderator:

The next question is from the line of Avi Mehta from Macquarie Capital. Please go ahead.

Avi Mehta:

Abhijit, happy to speak again with you after a long time, sir. Sir, if you could share your thoughts on the strategy that you will seek to adopt essentially to bring back, we have traditionally grown in the deco segment much higher than other peers. We've been on a spree when it comes to market share gains. Now I can understand that the COVID has been a disruption, but as we go forward, could you share? How are you seeking to approach given an aggressive leader and given a new player that is potentially entering? So any thoughts on how you want to bring back the stronger growth in decorative that you used to enjoy earlier would be useful.

Abhijit Roy:

Yes, I mean. So 3 things which we are looking at. One is expansion of the network in a much bigger way. Last 2 years have been a bit impacted because of COVID, as you mentioned. We are a number 2 player. There is a lot of space for network expansion, and therefore we will try and do that aggressively in this year. The second part of it is related to brand and brand buildup. And we will be spending a little bit extra amount of money on brand building this year, essentially, yes, on 2 new areas, on the luxury category where we would like to focus our energy and also on the waterproofing side. And so we are expecting that these 2 categories, anyway, have got a lot of potential. And we are well poised to capture a larger share of these 2 segments, so this is the other thing which we would like to do, a combination of these 2. I think we should be restoring. And hopefully, we should be in a position to gain in terms of growth rate. We should be near about the top. So is it there 1 or 2, we don't know. It all depends, but we should be there either 1 or 2.

Avi Mehta:

Okay, sir, okay, perfectly. And sir, just a bit on the brand development side. Just one other thought that I wanted to explore with you is we are seeing some sort of new signs of input costs coming off. Now in that scenario, would you want to relook at the economy segment? Because there was a thought process like the margins have taken a hit in an inflationary environment. Would you now relook at that segment because there has been much healthy growth that was coming in within the last couple of quarters?

Abhijit Roy:

Yes. So yes. Partly, yes, we would like to take a relook at that. The economy segment also may need some more attention; and likelihood, as you know, better growth there as well.

Avi Mehta:

So you would kind of look at this now. I mean, I totally agree with that. Are you planning to relook at this again, sir, given this moderation? Or is it still some time away?



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- Abhijit Roy:** So maybe another 1 or 2 months we would like to see because, prices, as you have seen, it's very volatile. So we don't know whether this will continue. If it does, then we will definitely look at the economy segment.
- Moderator:** The next question is from the line of Nitin Jain from Fairview Investments. Please go ahead.
- Nitin Jain:** So I have just one question. So the market leader has been quite successful, so far, in diversifying from being just a paint company to selling various other kitchen solutions, bath solutions. And they have recently added lighting solutions as well. So given the entry of new players in the market is going to increase the competitive intensity in the paint markets, do we also have any such plans of diversifying into related products or services anytime in the future?
- Abhijit Roy:** So as of now, there is no plan to diversify into either kitchen, bath or any of those categories. We would prefer to focus completely on to paint and waterproofing and construction chemicals. Some light products of newer, say, wallpaper, et cetera, which we might get into at a later date, but we are not looking at complete expansion into unrelated areas like lighting or furnishing or furniture or things like that. We would focus our energy and attention because there is a lot of scope within the paint category itself both in decorative and industrial in India and abroad. So therefore, our objective is to focus on this core business which we understand well. And especially in light of competition coming in, it is much better to focus on what you know best than to look at other areas.
- Moderator:** The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.
- Varun Singh:** Sir, my question is on gross margin. This quarter, we noticed that the contraction in gross margin is very, very steep when we compared to other competition. So on this regard, I understand you did make a mention about the projects business, a contextual remark, but sir, I mean, if you can give some color with regard to how much price hike we expect more to restore gross margins to earlier level. So when I say earlier level, sir, I mean the higher level of gross margin that we used to enjoy earlier.
- Srijit Dasgupta:** Yes. I restricted my remarks to comparisons with Q1 of FY'22, which I thought was relevant. Compared to trailing quarter, we have not really changed much in terms of competition, certainly with the leader. And I'm talking of Q4 of FY'22. So whatever little difference has happened is, as I explained, largely on account of the effect of the project business in the base quarter, meaning Q1 of FY'22; and also the effect of higher GI and automotive sales, which was as Abhijit mentioned very much better this year on account of the high two wheeler and certainly higher commercial vehicle numbers for the quarter. The contributions in the GI, auto business are traditionally in terms of.
- Abhijit Roy:** Protective business also did well. And both these categories has lower gross margin, so it impacted, but if you look at it overall, we were at about 38%, 39% earlier. We are at about 36odd percentage, so it's not a major slipup. If you'll see it against what used to be, one point of time, 40 plus, that was a very unusual period where the raw material prices were very, very low. And every company was having a very high gross margin level in paint. Now subsequently, that, it has been stabilizing at around that 38% level. This quarter is slight dip, but we will be able to restore it back very soon.
- Srijit Dasgupta:** Compared to competition, we are not that far away. I think your remark was relating to competition.



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- Varun Singh:** Yes, that's correct. So I mean if compared to competition if I say quarter-on-quarter decline and not year-on-year decline. So I mean, for example, in case of competition, we would see hardly 100 basis point decline, but in our case, we see close to 3, like from 39% to 36%, yes. So I mean in that regard I was just wondering that why there is.
- Srijit Dasgupta:** So we've explained that the fair comparison would result in a margin contraction of a little over 1%, as compared to the 2.6% or 2.7% that you are seeing. That's the comment.
- Varun Singh:** Understood, sir. I mean, when you say fair comparison, it means what exactly are we winning out which is tilting the balance so significantly? I did not get that point, sir.
- Abhijit Roy:** What is the gap between 2.6% and 1%.
- Srijit Dasgupta:** So you want to understand the gap between the numbers, yes.
- Varun Singh:** Yes, sir.
- Srijit Dasgupta:** So about roughly 1% is on account of the project business that happened in Q1 FY'22. To explain, and we have explained this in earlier quarters: The project business, in terms of the sales, which includes obviously the application costs and the margin, will have result in obviously a very low RMC component in terms of the total project cost because the bottom line includes the application costs and the margins. And it's more than or quite offset to a large extent by the application costs which appear in overheads or other expenses. So this is artificially pushing down the RMC percentages to sale in a quarter where project business is high.
- So we explained that in Q1 FY'22. Because of the project business, RMC was depressed. If we take that off, meaning we take that impact off, the margin contraction drops from 2.6% to 2.7% to about 1.5%. If we also discount the impact of the higher GI and automotive sales, which Abhijit mentioned has traditionally lagged behind deco in terms of price increases, then the actual margin contraction comes to a little over 1%, which is pretty much close to competition.
- Varun Singh:** Understood, sir. Sir, that's very much clear. And sir, last question on waterproofing sir, is, if you wish to call out that, what percentage of our revenue now waterproofing would be, sir, roughly. Any ballpark number?
- Abhijit Roy:** It's significant now. It was very small, but now it is relatively a decent figure. I can't give you an exact figure at this stage.
- Varun Singh:** Is it mid-single digit or something, anything like that?
- Abhijit Roy:** Well, yes, it's still in the single digits but moving upwards.
- Moderator:** The next question is from the line of Ajay Thakur from Anand Rathi. Please go ahead.
- Ajay Thakur:** I had 2 set of questions. First, I wanted to check on what will be the pan-India retail touch point for the industry? And what would be our touch points within the same?
- Abhijit Roy:** So if you look at the machine dealer segments because there are now this new thing which has come up, retail touch point, which concept has been spread by the leader. And this is basically, via the distributor, you go to small, small retailers; and you sell some item or the other. And it is considered to be a touch point because some products or the other of the company is being sold.



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So that's a different thing altogether, but if you look at the paint category as a whole where, yes, a significant amount of paint sales happen, and the number of such dealers which are existing, probably the universe will be about 100,000 odd, where paint sales happen in decent quantities. We are present currently with about 42,000 machines are installed. And overall we have presence in 50,000 of retail counters as such. So that's what I would place it at.

Now of course, there are many small other retailers which are touched by the wholesalers who might be selling into those retailers. We can't keep a count. We don't even know how many of these are there, but that will be also a fairly large number. We are trying to figure our solution for that as well to understand how many of such retailers are being touched by us.

Ajay Thakur: Okay, sir. So you are referring to the fact that 50,000 would be including then some of the non-paints that you will be doing. Or just is it that machine is some kind of a mechanism that we kind of look at.

Abhijit Roy: So 42,000 machine counters, plus 8,000 of non-machine but paint counters with whom we deal directly, so we are dealing directly with about 50,000. Indirectly, there might be a few more with whom we deal, of which I do not have a count as of now.

Ajay Thakur: Okay. And sir, any sense on the non-paint segment? What will be the non-paint touch point?

Abhijit Roy: So in non-paint essentially we are there in 2 categories, which is waterproofing and the adhesives category which is for tile adhesives mainly. We don't deal with any other adhesives, except for the tile adhesives. So these 2 categories, we have some presence there and it is building up gradually. So far, it's difficult to give you a count, but probably we'll be about 3,000 to 4,000.

Ajay Thakur: Okay, sir. And sir, last one question. Wanted to check on the new competition. How do you see it in terms of impacting the industry given the fact that their differentiation within the paint segment is very difficult? Most of the players would be having similar kind of a product, so differentiation is also difficult. So when new players enter, what would be the plan that they use to get into more and more outlets? Would it be the painting machine? Would it be the painters, trying to address the painters? Or would it be more on the pricing front? What will be the logical kind of follow-up that could happen?

Abhijit Roy: Well, that question should be addressed to those who are entering. How can I answer on their behalf? But it can be any of those, combinations of any of those things. Obviously anyone entering late will have to figure out a solution; and entering and establishing and getting the distribution network up and going, establishing brands and getting it noticed by consumers, so it takes time. In my opinion, yes, in consumer categories, things don't turn around so fast, so it will take a few years for that to happen. We will get to know what is our strategy is soon. And obviously every incumbent player will watch that carefully and take judicious action at that point of time.

Moderator: The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.

Jay Doshi: Sir, this time around, you have disclosed 50,000 retailers in your annual report and 42,000 tinting machines that you just talked about. If I understand correctly, this number was about 30,000 dealers about 3 years back with 85% tinting machine penetration. So have you accelerated dealer penetration or dealer addition in the past 3 years? Or maybe our understanding of 30,000 number 3 years back was incorrect?

Abhijit Roy: No. So there were 30,000 effective machines earlier. And there were some which were non-machine counters, which always existed, about 5,000 to 6,000. So it was



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about 36,000 earlier, Jay which has now become 50,000 in 3 years, which means we have added 14,000 in 3 years, which is about 4,000, 4,500 additional counters each year, which is very much what we have been doing. In fact, we are trying to accelerate this number further upwards.

Jay Doshi: Right. And so the quality of dealers that you have added is no different from what it used to be earlier?

Abhijit Roy: So it's a mixed bag. Sometimes, you get good dealers, so overall, on an average, you can say, yes, lot of similar dealers because we are entering into areas where we were relatively weakly represented. And in those markets, when we get it, we get a mix of the entire sort. Good, bad and big, small, medium sized, everyone.

Jay Doshi: Correct. That's helpful. And should we expect acceleration in this trajectory now that you are focusing more and you talked about focus on distribution expansion and plant building. So will this 4,000 per year will probably go to 6,000, 7,000 per year?

Abhijit Roy: Yes, that's the aim. We are attempting to increase and accelerate this number. As you said, around that 6,000 to 7,000.

Jay Doshi: That's helpful. My second question is since the time you took over as MD and CEO of this company, in the initial year, there was visible improvement in product mix and premiumization. You had some success with Silk and other products in emulsions.

Can you just walk us through the premiumization journey, whether it still has continued over the past 2 to 3 years? And what it means in terms of gross margin when you benchmark your gross margin versus a market leader, at least inflation in raw material prices are high. What we observe is that market leader has become very aggressive in putty and other low-priced products, whereas you've consciously, at least in this quarter, you called out that you've not pushed putty sales. So your product mix would have been more stable over a 3 year period or perhaps better if premiumization and emulsion sales have continued up. So how should we think about your product portfolio? Where do you intend to be in the next 3 years? And what it means for gross margins then?

Abhijit Roy: Yes. So in the past, what we have done is essentially, as you rightly said, for the first 4, 5 years, we were very focused on developing differentiated products and building up a portfolio of such products so that we get away from the market. We can compete on our own strength. So we developed Easy Clean, we developed Anti Dust, we developed Waterproof Putty. These products have been all copied by the industry at large. And thus, we have maintained our leadership, and we maintain a price leadership as well in these categories. And then these differentiated products have been built up into a sizable portfolio, which is in excess of 20% as of today, which helped us in the past to improve our gross margin quite substantially.

Now what you see as a gross margin base for us is diluted to some extent by the industrial portfolio, which is about 20% of our basket. Now that particular portfolio, which includes protective coatings, automotive, general industry and powder coatings, has a gross margin, which is much lower than that of decorative. So it gets pulled out and what you see, therefore, as the end result, is a diluted version. And when you compare that with a pure-play decorative, it's an unfair comparison. And that is why you see a lower level of gross margin for us comparatively.

Going forward, we would like to improve our industrial profitability also, which is what we are working on. Typically, it comes with a lag, but we also have to work on these aspects of industrial profitability, which we are trying to shore up the profit margin by sensitizing the team on the need for doing so. And the other part of it is related to the decorative part. The decorative part, we will continue to invest, as I said, on the branding. We still see a lot of gaps available in the luxury segment



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where it's dominated by the leader as of now. And then that is one segment where we would like to spend more money and trying to build up a stronger presence, which will help us to improve the profitability.

Jay Doshi: Would you be able to sort of, just one time, call out what your market share would be in emulsions or in luxury emulsions? Your overall market share, if I understand correctly, would be in 17%, 18% range, right, in the decorative paint space?

Abhijit Roy: Right.

Jay Doshi: So how does that compare in luxury emulsions or overall premium and luxury emulsions?

Abhijit Roy: I would say it like this. As far as emulsion percentage is concerned, whatever is the industry percentage, we will be more or less similar to that in the overall, whatever the entire industry for the emulsion is 50%. We will also be somewhere around that point, right? It is not greatly at variance with any other player. As far as emulsion percentage is concerned, it has been inching upwards a little bit because the putty and the primer has gone down a little for us. But more or less, it will be at that level.

The second part of it is just above the premium segment, which is the Easy Clean, Anti Dust category. We will be much more strongly represented. We are relatively weakly represented in the luxury category, so deluxe is something which is called the premium luxury category. There, we are much stronger. In the luxury category, we are much weaker, and we would like to invest in the luxury category to build our custom.

Jay Doshi: And luxury for the industry would be what percentage of overall emulsion? Or what percentage of overall so I'm assuming luxury would be essentially the category where Silk Glamor operates. That's about INR 600, INR 650 per liter or higher MRP-wise?

Abhijit Roy: MRP-wise, yes. But the price that is in the market, for me, as you know, MRP is around so it will probably be more around INR 450 to INR 500 to INR 550, depends on what brand you are taking. So that's the range, and that segment is reasonably large and growing.

Jay Doshi: But is it 10% of the industry sales overall?

Abhijit Roy: Near about.

Jay Doshi: 10% of overall decorative paints, right? Not emulsions?

Abhijit Roy: That's right.

Moderator: The next question is from the line of Preetlok from Diamond Asia. Please go ahead.

Unidentified Analyst: So I want to check from a gross margin perspective, that your explanation that you gave for auto and.

Srijit Dasgupta: Your voice is breaking up. It's hard for us to understand anything.

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

Mihir Shah: Sir, if I just wanted to check with you, if you compare the 3 year CAGR volume growth trend that we are witnessing in recent quarters versus what we were seeing pre-pandemic, there is a material shift in the growth trajectory. Wanted to hear your thoughts on the reasons behind this accelerated volume growth.



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Would it be largely a function of category because we are seeing all the organized players also seeing similar strong volume growth? Or would it be a function of anything got to do with aggression in anticipation of the new competitor or new competitors, which are likely to enter with large CapEx, et cetera? Or what are the key reasons in your mind, sir, your accelerated volume growth trajectory? And how sustainable would it be, the mid-teens volume predicted, which we are seeing currently? Can we extrapolate them? And what is the sustainability of that? So that's my first question.

Abhijit Roy:

Yes. So first quarter has been much stronger than expected. I would say it has 2 or 3 reasons. One, of course, I think there is a little bit of a pent-up demand from the last 2 years as well. Second is that this is the first year after 2 years where it is not impacted by COVID as such. And therefore, there was a little bit of exuberance in the consumer category as well. And across all industries almost, there was a demand buildup. Especially if you look at the travel industry or in the hotel industry, you would have seen certain surge in demand happening. So this also contributed in the case of paint as well. We saw some stronger demand than what was anticipated, so that would have helped to build up the volumes.

And part of it also would have happened from the unorganized to organized shift, which would have happened in the COVID period, and that would have helped in our overall organized segment to grow at a faster clip. So this is what I think has happened in the first quarter. Whether the mid-teens will be maintained, well, my thing is we will grow at double digit. May not be mid-teens, but the volume growth will be in double digit. By the end of the year also, we will remain at a double-digit volume growth rate. This is what we expect to do. Of course, our work of expanding network, strengthening brand, doing the basic fundamentals will remain, and that's what is going to help us.

Mihir Shah:

Got it. This is very helpful, sir. My second question is on margins. You mentioned that you were stepping up brand building activity. So any more color you can throw on what is the level of ad spending that we should consider now? And if you see both the gross and EBITDA margins just before the pandemic, we have seen much better margin profiles. Of course, with the price increases that you've taken, you will slowly claw your margins back and with the softening of input costs also. So removing that and keeping that aside, what is the steady state margin that one should think about both on a gross and an EBITDA level, given the step up in brand investment activities that one can expect from you?

Abhijit Roy:

So we will be careful in not discussing the margins as such. The brand investment will be done in a calibrated way as sales move up, as the margins are there for us to spend. That is how we will be doing it. It's not something extraordinary that we will put into it. Our margins and gross margins, as I said, has been hovering around that 38% level. We will try and restore it back to that level, and that's where we would remain. We are not looking at expanding immediately beyond that unless the raw material prices really soften and we are able to retain that. In that case, it might move up. But otherwise, we would like to stay at those levels of about 37%, 38%. In terms of gross margin and EBITDA level correspondingly, at a level where we are comfortable is at the 15% to 17% level, which is where we would remain.

Moderator:

The next question is from the line of Ryan Subramaniam from Java Capital. Please go ahead.

Subramaniam:

Actually, I joined the call a bit late, so apologies if it's been answered. So just one thing was how do you sort of look at reshaping your strategy over the medium term to defend market share from new competition? And would you look at changing the margins that you give to the channel like dealers, distributors, painters, et cetera?

Abhijit Roy:

So as I said, we are not looking at any major changes. As of now, we don't know what the strategy of the newcomer will be. Most of them have already come in, all



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the newcomers. Only one is left, and we don't know what their strategy will be. We will take it as it comes. As of now, we have no change in strategy except for focusing on our fundamentals, which is network and strengthening of the paints, branding and strengthening the branding, and ensuring that we do our fundamentals well.

Subramaniam:

Got it. And would you say that probably like the new competition that is coming now is more serious than all the competition that has come previously?

Abhijit Roy:

Well, see, they have indicated a spend level, which is there for investment purpose. And then unless they have done that, it would have been very difficult to take them seriously. To put up one fast fee and then try to say that we are going to compete with using our budgets, it becomes difficult. So it's fine. They have taken that call and they have indicated that they are a serious player. But only time will say how much progress happens, what is it that they achieve. It's a difficult market, being paint. For that matter, if you look at it worldwide, if you see just adjacent in Bangladesh, Berger is posting this evaluation phase. In last 14 years, we have been trying to build up a presence there in that particular market. But it hasn't worked so far, right? So similarly, if you look at our painters in many of the markets, it remains the leader. And we have been trying, and we have not succeeded greatly in breaking there. So it takes a lot of time and energy and effort to build up presence, so it doesn't happen overnight. We are not unduly worried, but we are taking all steps, all precautions, and we have got a little bit more energized by this entry, with this likely entry. So therefore, that helps to that extent.

Moderator:

The next question is from the line of Preelok from Diamond Asia. Please go ahead.

Preelok:

From a margin perspective, how should we think about when you already commented about the one offs in this quarter or probably the mix change impact in this quarter. So going forward, should we expect the gap between the leader and you guys to continue? Or do you think that is there any sense that you can talk on for the remainder of the year?

Abhijit Roy:

We told you and gave you an indication that we will be hovering around that 37%, 38% gross margin level. And I also indicated that if you compare decorative with the leader, the differences will be narrower because the industry tends to pull us down a little. We are comfortable at these levels. I don't see either the gap increasing or decreasing in any which way.

Preelok:

The next question, this quarter, obviously, you alluded, right, keeping down low in context of growth rate, which obviously would have also helped gross margins. So would you sort of use that as a tactical opportunity? Or do you think you will not focus on that segment at all going forward?

Abhijit Roy:

So it depends. Actually, it's a call which we take month-on-month. If we find that the margins become much more comfortable, we may become a little bit more aggressive on the partition. Otherwise, we will play the game as we have been doing so far.

Preelok:

Okay. And lastly, what is the step that the company is taking to retain talent in context of new players getting into the market, both a very large price as well as incremental new players have announced their entry in the segment? Could you just throw some light? That will be helpful.

Abhijit Roy:

So we take many steps to retain employees. It includes monetary, nonmonetary, training, motivation of other kinds. Various types of things which are done in order to, first of all, retaining the good people within the organization. I'm sure most of them realize that and would prefer to stay in a growing organization which has done well, where they have proven themselves and would like to stick to us.



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- Preelok:** Sure. No. I mean, I agree. Those must be an ongoing affair. But in context of the competition heating up, I thought I should check on is there any incremental sort of steps that the organization is taking?
- Abhijit Roy:** So far, many new players have come. We have been able to retain most of our good people. And we expect that going forward also, we will be able to do a similar thing.
- Moderator:** The next question is from the line of Jay Doshi from Kotak Securities. Please go ahead.
- Jay Doshi:** My question was again around when we engage with the dealers of Asian Paints, what we gather is because of very high dealer penetration, most of them are not able to retain margins given the competitive intensity. Whereas in case of Berger, they enjoy a higher trade margin or permissions. If you are expanding dealer network more aggressively than what you were doing earlier, does it essentially then create a similar situation where your dealers will perhaps not be able to retain the margins that they currently are because of higher sort of penetration? And so how do you balance that? How do you ensure that these have continued to enjoy the margins or have the margins that they did historically ahead of the new launch from the new player? And just a follow-up around it. When you add new dealers, are you seeing largely the business you get from these dealers? Is it more of a wallet share gain from, let's say, the other paint companies, maybe the number 2, number 3, number 4 in those counters lose market share to you? Are you consolidating sort of within those dealers that you add?
- Abhijit Roy:** So two things. One, most of the dealer expansion that we are doing are in areas where we are weakly represented or not represented at all. So therefore, this question of interdealer competition resulting in erosion of profit is lesser, because there are large areas of the country where we are very weakly or not represented. And therefore, those are the focus areas as far as growth of dealer network is concerned. We take due precautions not to put so many dealers in one area and not resulting in a fight, which doesn't help any one of the dealers or the company, for that matter. So that's one part of the story.
- The second part, which you asked in there, it is resulting in gain from which company, what are we doing? So it's a mixed bag. Sometimes, we gain from wallet share from others. Obviously, because if you are getting into an existing counter, you will have that advantage. Sometimes, we also get into other counters which are non-paint counters but still building material counters. And then therefore, we don't impact the wallet share of anyone, but we gain because earlier, we didn't have any distribution reach there, now we have through some other parties.
- Jay Doshi:** Can you talk a little bit about your painting services initiatives? The painting services are still sort of progressing well and, what's your vision there? Maybe in the next 3 years, 5 years, what can be its contribution to.
- Abhijit Roy:** Painting services really doing well in the urban centers, primarily. It's not so relevant as far as the country markets are concerned. But it's at a fairly decent and a good, I would say, customer recall for this service in the urban centers. And we have good plans for strengthening this further into smaller towns as well and continuing to provide this service across India, in the urban areas.
- Jay Doshi:** What percentage of sales do you think it can be? And when I say sales, it's purely product-to-product comparison. Let's say, services component aside, what percentage of your product sales could be through this painting service?
- Abhijit Roy:** So I can't give you the figures as such as to what is there. As a service which we provide, it's not very large in terms of percentage. But it is a service which consumers want, and we would continue to give that.



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- Jay Doshi:** Sure. My final question is, are there any gaps in the product portfolio today across waterproofing, decorative paints and construction chemicals that when you compare your benchmark, yourself versus market leader, that you intend to close? Or that you think that you are weak?
- Abhijit Roy:** Yes. So we will be introducing two very interesting products in the near future, in fact, this month itself. And those products are required, which we feel not so much benchmarking against any competition, but I think there is a gap there in terms of requirements of consumers. And then that's something which we would like to fulfill. And those are hopefully going to be good volume churners for us.
- Jay Doshi:** This will be decorative paints? Or is it waterproofing or construction?
- Abhijit Roy:** It was waterproofing.
- Moderator:** The next question is from the line of Vardarajan V.S., an individual investor. Please go ahead.
- Varadharajan VS:** This is not a question actually. This is a suggestion. I'm from Chennai, and I rarely see any promotion, Berger anywhere around, okay? So the total recall of the brand is there any specific plans to improve that? That is one. And second thing is also, there are a lot of influencers. And seldom, they talk about Berger. They only talk about the market leaders and maybe the new entrant. So are you planning to work to the investors, I mean, the customers?
- Abhijit Roy:** Yes. No, it's a relevant question. Chennai has been a Waterloo for us. In fact, much of the urban centers in the West and the South, that includes Mumbai, Chennai, Hyderabad and Bangalore, has been relatively weak market. That's what I was talking about that we want to penetrate these segments. We are taking some action, and one of them is through the painting service that we talked about to give us an opportunity to enter into some of the good dealers there so that we have a representative presence in the market. They are otherwise very resistant. It's not an easy job to get into those counters. And therefore, we are planning certain strategies which will enable us to at least have some presence in these major metros. Only time will say whether it works well or not, but we are attempting something there.
- Varadharajan VS:** Okay. And second thing was if the crude prices goes up by \$10 or comes down by \$10, what will be the effect of your gross margin getting affected?
- Abhijit Roy:** Obviously, many of our raw materials are connected to the crude prices. If the crude prices does go down, then the raw material prices hopefully will also soften with a lag. And when that happens, the gross margins will improve.
- Varadharajan VS:** Okay. So we are not able to know the exact delta? It probably will remain that as such?
- Abhijit Roy:** No, we haven't done that calculation. And it's very difficult also because it's not directly always linked because sometimes, the oil prices go down a certain percentage. It's not necessarily that exactly some percentage of drop will also happen in all the raw materials linked to it because there are other demand/supply situations which come into play. And if there is a problem there in terms of supply, certainly, the prices may not soften to that extent. On the other hand, there are certain raw materials where the crude may not have gone down, but the prices might drop because of other reasons. So it's very difficult to link one to one. But more or less, it's a general rule that when these prices go down, the raw material tend to go down, most of them, and therefore, the gross margin will go up.
- Moderator:** As there are no further questions, I now hand the conference over to the management for their closing comments.



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Abhijit Roy:

Thank you, all of you. Thank you for your participation and your insights and questions, which really helps us to improve. First of all, I would like to thank our MD for his presence in this call and also Mr. Dasgupta for being a part of this earnings call right from the beginning. And hope to see you all in Q2 with a better performance. Thank you.

Srijit Dasgupta:

Thank you. Thank you all.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.