"Berger Paints India Limited
Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2022 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, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ashit Desai, Emkay Global. Thank you and over to you Sir!

Ashit Desai: Thanks Janice. Good evening everyone! We have with us the management of Berger Paints today. It is pleasure to host them for their Q1 FY2022 Earnings Call. From the management, we have with us Mr. Srijit Dasgupta, Director (Finance) & CFO and Mr. Sujyoti Mukherjee, Vice President – Finance & Accounts. I will now handover the call to Srijit for his opening remarks, post which we began with Q&A, over to you Srijit.

Srijit Dasgupta: Thank you Ashit. Very good afternoon to all of you. I would like to extend a warm welcome to our Q1 FY2022 earnings call. As usual, I will start with a few opening comments about the standalone and consolidated quarterly performance after which I will invite you to ask your questions.

Starting with the standalone numbers for the quarter, I know it is a little bit of misleading kind of statistics because of the performance last year with such a low base but for the normal sort of trend I would like to still call out the quarterly growth numbers. Total income from standalone operations was 96%, PBDIT including other income was 96.4%, PBT was 169.2% and PAT 171.3%.

Some comments on the standalone operations for the quarter, it was a bit of up and down roller coaster story as can be imagined with the second wave of the pandemic taking hold in many states from the end of March and affecting economic activity in the country from last week of April onwards for most places. Some states had delayed affect with cases multiplying and lockdowns being extended in a somewhat delayed manner. June was relatively better compared to May. May was very badly affected partly also because of the pent up demand due to the lockdowns in May kind of unfolded in June, so that was why June was a little better and also the lockdown effect was much less. It may be more sensible therefore to look at the quarterly growth numbers over the past two years as obviously last year was an extremely unusual year, so we are looking at somewhere between 2.5% and 3% growth net over the last two years even with the substantial dip last year.

Lockdown imposed restriction on business activity accepted, we do therefore see some stability in terms of demand trends. I think this is a reason for some optimism. The gross margins; however, have been affected quite significantly in Q1 FY2022. You may recall that I spoke about the very sharp increases in raw materials in the Q4 FY2021 earnings call and the need to take price increases. The process of taking price increase is underway and some increases have been taken in May and June; however, more increases are needed particularly in the industrial business lines to restore parity in terms of the gross margins. You may recall that the gross margins have to be read with the impact of our supply apply contracts in the last quarter of Q4, so I just like to revisit my comments in the last quarter. Obviously, there was an impact of the supply apply contracts in the RMC to sales ratio in Q4.

The impact of that is much lower so we did less business in Q1 FY2022 in terms of supply apply contract and therefore the full affect of that margin expansion if you like at the gross margin level did not happen in Q1 of FY2022. Overall, of course in the net operating profit level it does not really matter because what we saved in terms of raw material cost we had to spend a little more in terms of overheads and that happen for us in Q4 FY2021 and I am talking about supply apply contracts.

The process of taking price increase is on. We have taken price increases in May and June as well as two taken in July and more to follow in August. These increases for the decorative business. As I mentioned, we will need to catch up a little bit in terms of price increases for our industrial businesses. Typically, there is a lag and we will talk about it a little later for the price increases in industrial business.

The main take away obviously is the raw material inflation situation. As we mentioned in earlier earnings calls this has also encouraged us to continue our raw material vendor development & formulation efficiency improvement activities. We spoke about it a little last time we met and these were expected to continue to yield reasonable dividends going forward.

Obviously, not all of it happened in Q1 meaning all the efforts did not translate themselves into the P&L in Q1 but going forward we should see a slightly greater impact. In terms of sales on the decorative sales front, we saw a stronger bounce back in the tier 1 cities as compared to the tier 2 and tier 3 towns mainly because of the faster spread of COVID this time in the smaller town in the second wave.

The project business continued into the first quarter though the associated gross margin improvement and this was much lower because the business was much lower in Q1 as compared to the trailing quarter. The margin improvement was of course partially offset by the substantial recovery in the industrial businesses particularly in the general industrial and automotive business line which have typically lower gross margins than the decorative business or the supply apply business. This effort of taking price increases typically lags behind that of deco business so going forward we need probably more increases compared to deco on the industrial business line front.

Coming to the consolidated numbers for the quarter total income from operations grew by 93.2% PBDIT, this includes other income went up by 155.9%, PBT after share of profit and loss from JV went up by 482.4% and PAT went up by fairly large numbers this 832.1%.

Now some comments regarding the consolidated results. Berger Jenson & Nicholson, Nepal grew significantly both in topline and profitability. Again the comparisons are little confusing because last year was so low they were more impacted by the pandemic in this particular quarter in the last fiscal as compared to India, so the recovery of course therefore is more significant and the impact higher.

Bolix Poland, our Polish subsidiary had a modest top line growth mainly because of an extended winter. I will just confirm and recall the fact that the consolidated results in Q1 FY2022 of BPIL that is Berger incorporates the results for Bolix's Q1 results. They follow the calendar year so it is January to March of 2021. They suffered from an extended winter. This is a lean period in any case and therefore sales do not impact the overall consolidated numbers to that extent as compared to the other quarters, but the profitability improved significantly on account of price increases taken and improved sales in the UK and France geographies with better contributions.

Both Saboo Coatings and STP grew top line & profitability quite impressively. Saboo Coatings of course has been renamed as SBCPL so that is the company we are mentioning. The performance of JV has also improved significantly in this quarter that is the JV with Nippon Paints as well as one with Becker.

PAT growth jumped sharply upwards become some of the subsidiaries had suffered losses in Q1 of FY2021 accounting for a higher effective tax rate in the consolidated results in the same quarter in the last fiscal. These subsidiaries recovered sharply and the effective tax rate therefore dropped in this year meaning Q1 of FY2022.

So that concludes my opening comments. I would now like to invite questions from the participants on the Q1 of FY 2022 results. Over to you!

Moderator: Thank you very much. Ladies and gentlemen now we will begin the question and answer session. The first question is from the line of Avnish Roy from Edelweiss Securities. Please go ahead.

Avnish Roy: Sir congrats. My first question is on the Deco Paint. Last five quarters you and market leader both have done quite well better than initial expectation faster recovery. Now when I see work from home would have helped there because consumer was spending so much time at home, he had time to get his house painted plus he needed better environment, second is lot of reverse migration also happened, so the consumer went from big cities to smaller cities and again same kind of demand he would have had in smaller city which was not the case earlier, so now when 50 Crores vaccine are done and next 3 to 4 months most of the cities middle class will be fully vaccinated you see some risk of this kind of a demand driver not being there especially base is high and the demand driver also goes away? Any comments there?

Srijit Dasgupta: Thanks Avnish for the questions. We do not see any such reason to be anxious or concerned as yet. As you can imagine I cannot talk about Q2 or the medium term picture but no reason to feel pessimistic at all. We feel that trends will only strengthen going forward.

Avnish Roy: Why would that happen any big reasons because lot of the other consumption is having volatile time plus you have a high base?

Srijit Dasgupta: Absolutely Avnish, you will recall my mentioning in earlier quarter earnings calls that we set some confidence in our newer products, waterproofing initiatives, the construction chemical effort that we are taking, the slew of new decorative products including some luxury emulsions that we have introduced recently and which are growing. So I think this leads us to this conclusion so it is more about our own strategies rather than how the overall market is developing.

Avnish Roy: Sir my second question is on the auto JV with Nippon. Auto companies are seeing big issue of currently supply of the chips for the car companies. May not be the same in every kind of price bracket but clearly there is worldwide global problem which could remain for a few months at least. So are your customers also giving this kind of demand scenario and is it impacting your auto demand also near term, medium term?

Srijit Dasgupta: To some extent, but we are less exposed to that particular segment of the four wheeler category as you can imagine we are more exposed to the two wheeler, three wheelers, and commercial vehicles. Three wheelers in our JV and to some extent some passenger cars of course in the JV, but in the standalone company we mainly look at commercial vehicles and two wheelers so to that extent we are perhaps a little insulated from that effect.

Avnish Roy: That is all from my side. That is very helpful. Thanks.

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

Avi Mehta: First on this recent JV change that has happened from Nippon to Isaac Newton Corporation could you kind of give us a sense of what exactly is this. I am not sure what is Isaac Newton Corporation is it an auto company that we are talking about, is it subsidiary of auto company or something of that sort which I am not aware of and does this entail any change in operations?

Srijit Dasgupta: I believe press releases have been given by the respective paint companies meaning Nippon and Berger so hopefully that would be little clear but since you have asked this question I would not spend too much time on it because this is something that happened today itself but essentially it is a bit of restructuring of the shareholding of the JV partner so in essence it remains Nippon Paints. The technology remains the same. The way the shareholding is structured is through this subsidiary called Isaac Newton. It does not change anything for us or for the customers. The company remains the same essentially, the DNA is the same, the technology is the same, only the ownership in terms of structure is different. The beneficial ownership again remains the same.

Avi Mehta: The second bit I wanted to kind of just understand on the decorative performance. Like last quarter it felt that you were probably the fastest growing in the industry is that the case in this quarter as well in the decorative side?

Srijit Dasgupta: Absolutely right**.** I mean clearly we would have grown the fastest in decorative because you will have to discount our results a little bit for 18% of our turnover which consists of industrial. Some of industrial business of course is grown faster than decorative but overall we would say we would have been the fastest in industry. My takeaway is that the industry competitor which has shown the fastest growth rate or the highest growth rate in this quarter it would have largely come because of industrial growth.

Avi Mehta: Lastly I want to kind of just understand the input cost inflation because you kind of spend some time explaining that. I just want to clarify one small part in the industrial side could you kind of give us a sense on what is the proportion of input cost that are still pending in sense that 50% of the inflation has been passed on and probably another 50% is required to be passed on. Just give us some sense of what is the journey that we are looking for?

Srijit Dasgupta: Without giving you actual numbers because that will impact the perception of future profits which we tend to avoid. Yes substantial portion of the industrial business line price increases would have remained to be taken sitting at June 30.

Avi Mehta: Okay that is yet to be taken as of June 30 and we have got some more increases post that right Sir. I am not asking about the quarter.

Srijit Dasgupta: It is continuous process, yes, yes. Of course.

Avi Mehta: Okay Sir. I will come back in the queue. Thank you very much.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir can you give some idea about the volume value gap for this quarter**?**

Srijit Dasgupta: I will just give you some indication. It would be around 4%, 4.5% but not all of it is on account of price increase as you can imagine the price increase impact is lower and there is a substantial impact of premiumisation as well.

Percy Panthaki: Okay so basically value is 4.5% higher than the volume.

Srijit Dasgupta: That is right but not all of it on account of price increase that is what we are saying.

Percy Panthaki: Understood but my understanding was that the industry has taken almost 4% kind of price increases, is not that the case?

Srijit Dasgupta: Not as much as that if you are limiting yourself to the first quarter some price increases have been taken in July, the cumulative effect will be of course around close to 5%.

Percy Panthaki: Second question Sir on margin. If we look at the latter half of FY2021 Q3, Q4 the kind of margin that many players in the industry reported are those sort of exceptional margins in the sense that it was combination of lower import prices, lot of cost savings on the back of COVID related disruption, etc., and should we take stable state margins may be better than what we are doing right now but not as high as we saw last year around would that be the correct thought process?

Srijit Dasgupta: Probably right I think we certainly expect margins to improve. I cannot say this very much more than that because the full effect of the raw material price increases have not yet panned out so it is still a bit of guess work in terms of understanding what the impact will be going forward but yes there is of course every effort to improve margins from the current level for sure.

Percy Panthaki: My last question is on distribution expansion, if not by absolute number you are not comfortable giving. Can you at least give us the percentage growth in the number of distributors and the tinting machine versus 12 months ago?

Srijit Dasgupta: I will have to restrict my comments to the quarter. I cannot, discuss the 12 months number as this is not in the scope of this discussion. Obviously, the pandemic did have some effect but looking at the budgeted numbers we do expect that FY2022 additions would be close to what we added in FY2021 which is around 12% to 13%.

Percy Panthaki: Sorry I lost you there for a minute. You are saying 12% to 13% addition was in Q1 of FY2022 is it.

Srijit Dasgupta: No the 12% to 13% was last year we are on track to do the same kind of performance maybe marginally better in FY2022 so Q1 I have stayed away from the numbers because it is a little misleading because it is still early days we got affected by the pandemic but we are on track to the same or better numbers compared to FY 2021.

Percy Panthaki: That is all for me thanks and all the best**.**

Moderator: Thank you. We will take the next question from the line of Alok from Ambit Capital. Please go ahead.

Alok: Thank you for giving me this opportunity. My first question was again on dealer addition so while you have mentioned the percentage dealer increase that we might see. Just wanted to check any specific market geographies that we are seeing this and if you can break it up between tier 1 and tier 2 or tier 3 and beyond where we would be adding little higher dealers?

Srijit Dasgupta: You are right. We do not give specific sector or geographic wise break up but you are right the attempt to increase our tier 2 or tier 3 network would yield much better results than the metro cities that has happened in the past and will continue.

Alok: My second question is on the cost line items while in the previous year we have seen a lot of cost resets for most of the companies wanted to check any specific guidance or the color that you can give in your cost items, how sustainable the savings have been and what is the roadmap going ahead if you can share some thoughts around it. Thank you.

Srijit Dasgupta: I think I will restrict my comments to what I have already said in the opening comments meaning yes the efforts to improve the gross margin in the form of raw material cost, vendor development, formulation efficiency that will continue unabated and we have already seen some results of that in the first quarter not all of it has translated itself into the cost of goods sold but we should see some impact of that going forward. So that is there and in terms of the other expenses and I think I mentioned in last earnings call that we took a conscious decision to restore our advertising cost back to normal very soon after the first quarter and we have plan for substantial advertising spends this year as well, so that is something that we will have to take into account but the effect of pandemic in terms of other cost reduction like traveling, some of the fixed cost in our factories, some of the manpower cost and the logistics cost we will of course continue our efforts to keep them at the pandemic levels or the last year level. By level I mean of course as percentage to sales.

Alok: If I can just squeeze in one more. Competition has been sort of aggressively pushing products across waterproofing and construction chemicals. Wanted to check would you be confident in saying that you have the whole range already in place and now it is just about placement and marketing or you are still en route developing those products also?

Srijit Dasgupta: I think that is a fair question. This is probably one of our faster growing segments and I am talking about waterproofing as segment or a subsegment within the overall construction chemical. So yes I think we have all our products in place. You will recall that we had acquired 95% subsidiary which is STP and we are now in a position to source some of the gaps that we have had in our portfolio from them, things is that we purchased from other people as the trading purchases but now it is all within the overall Berger Group and therefore most of the products have been plugged, all the gaps have been filled so good potential for our waterproofing products as well as admixture category in our overall construction portfolio.

Alok: Got it and growth in STP for FY2021 of course that we would not sustain that is all because you have increased the stake.

Srijit Dasgupta: That has to be taken in the context, yes.

Alok: That is the clarification I wanted.

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

Shirish Pardeshi: A wonderful performance. I have two questions; the first question is on decorative. I think what we have found I think people are talking about big numbers from the exterior paint also. I am not asking a specific number for this quarter but if you can split, what is the split between the interior and exterior for the decorative business and what was this number two years before?

Srijit Dasgupta: Shirish I cannot help you with specific percentages but to give you some color as to what we did in Emulsions. The exterior did better and our newer products including our marquee flagship brand like Weathercoat Long Life, and Weathercoat Antidust did very well. Suffice to say from my side that they outperformed the average by quite a fair margin.

Shirish Pardeshi: Exactly that is what I am saying. If you look at the digital medium or even the wide range of television medium do you think suddenly there is a lot of trust on the exterior paint in that category is broadly unorganized and that is why the organize player are attacking that is that the trend or genuinely there is a demand cycle which is happening. What I wanted to understand Sir is that what is fundamentally driving this growth.

Srijit Dasgupta: Little bit I think, one of your colleagues mentioned earlier people are spending more a little more time at home, so more attention to jobs like painting but specifically for exteriors I think it has less potential for safety related issues in a painting environment in the home, so people are more comfortable getting their exterior painting done in these difficult times so that may be one of the answers. The other fact is of course interior emulsion have also done, probably the answer to that is the fact that people are spending time at home and getting things done and also the fact that the major players have really spent some time and thought on making the process safe, so number of initiatives taken to make it safer for consumers.

Shirish Pardeshi: My second and last question on Q1 I mean it is very difficult but if you can give me some qualitative remarks. What is the weighted inflation we have seen in domestic decorative business?

Srijit Dasgupta: You are talking about the inflation in cost?

Shirish Pardeshi: Yes inflation in cost.

Srijit Dasgupta: I can only give you a little color to that. I mean you would have seen crude oil prices. In other years typically the crude oil prices is largely affected by the solvent based products but this year because of the global capacity situation in monomer production, which is also of course dependent eventually on crude oil prices but largely again more quick to reflect global shortages in capacity with economies picking up and demand picking up. So typically we have seen cost inflation across all the segments including water based in deco. So as I mentioned we have only taken about 5% cumulative price increases in decorative. We need to go much beyond that.

Shirish Pardeshi: Of course Q1 is not indicative number and now we are entering the rain season but the post second half is normalized would equal amount of price increase in trade can digest?

Srijit Dasgupta: I think the challenge really is the timing and the understanding of the raw material price trends, so people I think are just waiting a little bit to see how things level out that is the issue here and instead of taking a sort of one time price increase which can be disruptive typically more gradual approach I think is what all the companies are looking at.

Shirish Pardeshi: Thank you Sir and all the best to you and the team.

Moderator: Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Thank you for the opportunity. Two questions; one on revenue growth, Sir as you mentioned that in decorative coating we have outperformed the competition so what are the broad reasons that you will ascribe for our outperformance, if you can give some comment on that?

Srijit Dasgupta: I think we will have to look at our newer products, the health of our newer brands. The fact that we have done well in our construction chemicals business as well as the project businesses that we did in Q1. It was as I mentioned earlier in earlier comments it was much lower than Q4 of FY2021 but still enough to be reasonably significant.

Varun Singh: Apart from the new product, new brands, and the new categories that we have entered in the existing categories where we already have strength anything to call out over there in the decorative coating business regarding our outperformance?

Srijit Dasgupta: I do not think any special comments are necessary. I think overall the business line has done well.

Varun Singh: I mean anything on distribution?

Srijit Dasgupta: I made some comments I think on expansion so I would not repeat myself.

Varun Singh: Thank you Sir, second and last question is I think even on gross margin we outperformed**.** So relative contraction in the gross margin year on year of Berger compared to other companies is significantly lower. I mean what would be the reason our outperformance even on gross margin contraction front?

Srijit Dasgupta: I think one has to look at in terms of both the trailing quarter and the quarter last fiscal. I think it is probably in these difficult times it is probably more relevant to look at the trailing quarter. You will find that we are pretty much mirroring other deco companies. The company which has the substantial industrial presence of course the numbers are slightly different. I would not go into any comments on competition obviously in this conference, but I think largely RMC trends mirror competition, give or take maybe a percentage point here or there but you are right compared to last year the margin contraction has been less mainly because we have had some mix change and we did mention I think in that quarter that we pretty much sold what we could in Q1 of FY2021. The mix has improved in Q1 of FY2022 as well as the fact that as I mentioned there was some supply apply project in Q1 of FY2022 which tends to depress the RMC number a little bit, gross margins as you call it.

Varun Singh: Sir that is helpful. Thank you very much and all the best.

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

Tejash Shah: Thanks for the opportunity. Srijit my first question pertains to the commentary we are gathering from all the real estate players that almost after a break of 7 to 8 years they are seeing real buoyancy in primary demand so just wanted to check whether we are also seeing that kind of buoyancy. This is not for project-led business alone but even the secondary demand which comes from first time buyers of the home. So are we seeing any such buoyancy in our numbers or our channel checks?

Srijit Dasgupta: I will have to limit my remarks to Q1 unfortunately so I cannot talk about current trends meaning this month or preceding one but in Q1 yes we did see a little indicator or indication of that happening so we are optimistic that this could be a year which shows some kind of turnaround for the real estate industry.

Tejash Shah: What is the margin profile of this business, is it more margin accretive versus a repainting business or is it as accretive or as profitable as the other business?

Srijit Dasgupta: Marginally lower because the brand is obviously not so important and typically these products of what promoters and builders would use and they do not necessarily choose the best so yes margins are little lower than the average deco business but only a little.

Tejash Shah: Second question pertains to outperformance in deco paints that we spoke about. Just to understand should we if we look at lens of regional events which played out this quarter Southern India was under tremendous pressure related to Southern India and Maharashtra in particular. I was saying that if we look at the performance for lens of the regional events which played out during the second wave, Southern India and Western India relatively much more impacted could it be the case that the market were strong and relatively much more open for business versus rest of India and hence in this quarter the performance should be looked at out from that, I am just giving a thought there?

Srijit Dasgupta: If you look at pan India situation it was a bit of up and down situation for sure the east and northeast the second wave impacted these states little later so that came through perhaps in the end of or middle of May and little bit of June whereas some of the other states you mentioned probably recovered a little bit from the second wave and opened up a little earlier, so by and large it sort of evened out. It is absolutely true that no matter whether if you look at state wise or region wise this quarter was impacted by lockdowns for sure, so if that helps. That is the kind of comments perhaps that is relevant.

Tejash Shah: Thanks Srijit and all the best.

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

Aniruddha Joshi: Two questions you have indicated about the performance of waterproofing business but can you also indicate about the performance of putty business in Q1? Second question more of strategic in nature. The market leader is not limiting itself just in paints and it is entering multiple segments and not just ancillary segments. It has beautiful home etc., there are many other segments so Berger strong number two player we have not yet seen such investment maybe waterproofing or putty, so any idea about how we are going ahead in these segments or we want to remain a pure play on paints business?

Srijit Dasgupta: Regarding your comments in reference to putties last year was an unusual quarter, everybody I think sold as much putty as they could, ourselves included. This year that correction back to what we call normal levels has happened. If you compare it with Q1 of FY2021 our mix would be much richer in this quarter because we sold less putty that is one comment, but in terms of overall position of course we would like to concentrate on our construction chemical business, the admixture business, the value added premium, luxury, emulsion. Unfortunately, for whatever reason we have not made foray into other home improvement sectors or segments and have no immediate plans of such but we would like to consolidate our position in the categories that I mentioned so premiumization, construction chemicals, and waterproofing.

Aniruddha Joshi: Just to clarify whether putty revenues would have declined on a YOY basis is that a fair assumption?

Srijit Dasgupta: Compared to Q1 of last year?

Aniruddha Joshi: Yes.

Srijit Dasgupta: I am saying the mix would have declined in the overall basket.

Aniruddha Joshi: Thank you Sir,

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

Avi Mehta: Srijit just two more questions. First, any update on the capex plans? What is kind of happening on that?

Srijit Dasgupta: Our plant in UP the construction program is on track. Our schedules are being met and we are going ahead as planned, so no revision there if you are referring to our Greenfield project in UP.

Avi Mehta: I mean we would continue to do that 800 Crores plus.

Srijit Dasgupta: Yes.

Avi Mehta: The second bit was essentially on the subsidiaries in particular if I may say Bolix and the wood coating subsidiaries. What is the entire year last year as well and even this quarter you are pointing healthy profitability. If I am correct Bolix has almost reached high double digit profitability or EBITDA margin. Is that something that is more sustainable trajectory because of the changes in the business that we have seen? Is that a fair way to look at this business now as we go forward?

Srijit Dasgupta: I understand your question Avi. Couple of things it is not the wood coating subsidiary which is the most profitable. I mentioned BJN Nepal, which is our Nepal subsidiary which really did very well in this quarter compared to Q1 and the other two subsidiaries are Saboo Coating and STP. STP is the construction chemicals company that we acquired and Saboo Coating is the specialized coating or typically industrial coating of a specialized nature. It is not related to auto or other such, but mainly general industrial. Those are the companies or the units that did very well but talking about Bolix I think you may recall that in my last earnings call, I did say that we have made a significant foray into the UK market and France which is good news for the ETICS business that we have in Poland. These are through subsidiary of our Polish entity and lockdown and COVID related disruptions apart, I think UK is coming to a situation where most of the inhabitants are now double vaccinated and the economy will open up, cautiously of course and that means that we have our order book is pretty full currently. Once the lockdown restrictions are lifted as far as construction sites are concerned completely we hope to see a much better performance from Bolix going forward, not that they are doing badly they are doing quite well but it should take another trajectory or gradient going forward.

Avi Mehta: I mean from the medium term point of view I think we have now reached the profitability that we had earlier envisaged or is there more juice in here that I am probably missing out because we are almost?

Srijit Dasgupta: You are referring to the Polish entity? You are absolutely right Avi. I think point well made. It is all about scale I think. So we have made investment in people, we have made investment in infrastructure earlier and this is now I think we are poised to get the dividends.

Avi Mehta: Just to clarify sir when I was talking about the wood coating**.** I did not mean it from profitability lens I was trying to understand what is the kind of profitability that we can see over a medium term, I am not asking for a near term guidance but is this like single digit, double digit kind of margin business or is this still an assessment piece business should need time**?**

Srijit Dasgupta: It is a small part of our overall business. We do most of the wood coating from our standalone company itself. JV is a smaller entity. Yes the wood coating margin needs to improve, let us put it this way.

Avi Mehta: Now I am very clear on this. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Ashit Desai from Emkay Global. Please go ahead.

Ashit Desai: Just one question, could you comment on discounting part. We have seen an increase in discounting our competitive trade spends increase over the last 1 to 2 years. Given that cost inflation has increased and our price increases are slower do you think there will be a moderation in this discounting that we have seen over the last few quarters?

Srijit Dasgupta: We sincerely hope so but that is something that was dependent on how competition behaves, obviously we do not want to give up any business and sometimes it becomes fairly intense battle as far as discounting is concerned but it affects some segments mainly the economy end of the market and maybe some enamels.

Ashit Desai: Okay so those segments you are saying it has moderated.

Srijit Dasgupta: It is difficult to predict because that is where the battle is intense. Going forward we do not know. It will depend on how competition behaves and how we obviously have to react but we do hope that overall it should moderate. It was more COVID led but again with the newer players coming in we have to be careful.

Ashit Desai: Okay got it. Thanks and all the best. That is it for me.

Moderator: Thank you. The next question is from the line of line of Avnish Roy from Edelweiss Securities. Please go ahead.

Avnish Roy: One question on the advertising spend we have seen last five years the industry ad as percentage of sales it went up, but FY2021 it has gone down of course pandemic quarter Q1 was hugely lower, but my question is now based on your current understanding in the near term is the percentage of sales for the industry not as a guidance for your company do you see that slightly trending downwards because gross margin pressure is there? Last 4 to 5 years anyway it has gone up and everyone is seeing good growth in the deco anyway. Is it logical to expect that?

Srijit Dasgupta: Maybe not. I do not think so Avnish because it translates very quickly into the higher sales for the products which are advertised. I think by and large people would persist with higher advertising or at least media spends if not the overall A&P spends.

Avnish Roy: You think media expense will come back for the full year itself.

Srijit Dasgupta: Yes absolutely.

Avnish Roy: That is helpful**.** Second question and last question essentially on the real estate recovery you are present in most parts of the country and we are seeing definitely good signs emerging but from the on ground what are you getting sense, is this a multiyear revival in terms of real estate launches, project launches etc. So anything you can share with us. These can be your thoughts. These are again absolutely guidance?

Srijit Dasgupta: No, I can only respond Avnish by saying we sincerely hope so. We do see some of these signs but I do not think we can really say anything which may be of any use to the participants except to say we certainly hope so. I think let us look forward to that.

Avnish Roy: You are not expanding your teams, your statement seems fairly denies you are not expanding your project team?

Srijit Dasgupta: I think that we actually invest in manpower fairly early on the year in terms of our budgeted strengths so those are continuing. Last year was a bit of unusual year. This year we should see restoration of the normal activities. So yes it will continue the investment in manpower.

Avnish Roy: That is all from my side. That was helpful. Thank you.

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

Sujyoti Mukherjee: Thank you so much. First of all I would like to thank all participants for your insightful questions and participation. We wish to see a better business environment going forward with the normalization of the pandemic as well as more vaccination. I wish all of you to stay safe and look forward to seeing you at the next quarter as well.

Moderator: Thank you very much. On behalf of Emkay Global Financial Services we conclude today’s conference. Thank you all for joining.