"Berger Paints India Limited
Q3 FY24 Results Conference Call"
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CHORUS CALL

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

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY24 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 call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

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

Sujyoti Mukherjee: Good evening, Nitin, and good evening, ladies and gentlemen. A warm welcome to Berger Paints India Limited earnings update call for Q3 FY24. Incrementally, the company also celebrates its centenary year this year and we thank all of you to be a part of the journey. The management presentation on this performance for Q3 has already been uploaded in the website and in the exchanges. As usual, we have with us today Mr. Abhijit Roy, our MD and CEO; and Mr. Kaushik Ghosh, Vice President and CFO. So I would now request Mr. Roy to update you on the results, followed by your questions. Over to you, Mr. Roy.

Abhijit Roy: Thank you, Sujyoti, and a very warm welcome to all of you. I hope you can hear me, though I'm traveling. So hopefully, my voice is audible there. There has been -- I will first talk about the standalone results for this quarter and then I will go to the consolidated results as well and some of the highlights of the performance and then open for question and answers.

So on the standalone side for the quarter three, the volume growth has been about 9.1%, value growth 6.4% and EBITDA growth 38%. We see sustained, encouraging top line growth for the quarter, both on volume and value terms. The decorative business outperformed others with double-digit volume growth, strong profitability growth on a year-on-year basis. Gross margin was at 10-quarter high.

Operating margin expansion, both on a year-on-year basis and quarter-on-quarter basis, we have likely gained market share, all four results are out. Amongst the top four companies, we have definitely gained market share with the highest revenue growth rate. The Indian operation maintained its improved market share at around 20%. Y-T-D December, our volume growth rate stands at 10.9%, value sales growth at 6.5% and EBITDA growth at 34.2%.

Looking at the various figures, which are there in the standalone 6.4% as I said, income from operations, 38% on operating profit. On the PAT at 27.1% and the PBIT at 26.4% largely because last year, there was a dividend income from Nepal. So in the consolidated, the figures are fine. But in the standalone, you see a slightly lower growth rate in PBT and PAT. Y-T-D basis, we continue to register good growth rate, volume growth rate in double-digit and the value growth rate of 6.5%, operating profit at 34.2%.

Now this is an improvement over -- this quarter, we see an improvement in the volume growth or corresponding period over last year by 9.1% and value improvement is by 6.4%. The volume-value gap in this quarter reduced from what it was in quarter two, as you would have seen.

Some impact of the gap still exist, and there are two reasons for this: One, of course, is the price decrease which we have taken, which we took in the month of November and there was a higher sale of the Economy segment, especially the Economy emulsion compared to the luxury segment and so there was a bit of an impact because of that as well.

The growth rate was much higher in the eco segment. So this is explaining the gap, but the gap has narrowed down from what it was there in quarter two. In EBITDA front, if you look robust profitability growth driven by further improvement of gross margin, that's true for the industry and that's true for us as well. And this is the 10 -- I would say, amongst all 10 quarters previously, which is the highest at 40.3%.

Gross margin improvement mainly aided by lower raw material prices, also some formulation savings and better purchases. Operating margin expansion of 380 basis points on a year-on-year basis and 20 basis points on a quarter-on-quarter basis as well. Operating margin expansion, however, was lower, if you see the gross margin, it is much higher level, but I mean the operating margin hasn't expanded as much.

That is because we took a conscious call to spend more on advertisement in quarter three, primarily in the World Cup, we took a heavier presence in the digital route. We had a significant presence built up there. So ICC Cricket World Cup fell in the third quarter, so our spends have gone up there. Advertising expense as a percentage of sale went up by about 1.5% in this quarter, which compressed the margin a little bit. Otherwise, the growth would have been even higher.

Industrial business line also showed significant improvement in operating margin. We have been very consistent in our growth trajectory. If you look at YTD December '23 volume sales CAGR, two years CAGR is 13.9%; three years, 18.3%; four years, 14.6%; and five years, it is 13.6%. YTD December '23 value sales CAGR, two years 15.5%; three years, 22.4%; four years, 14.5%; and five years, 13.2%.

So there's been consistently double-digit volume and value and ends almost in the mid-teens where we have been across volume and value. So whichever parameter you take the growth rate has been pretty consistent right through. Now if you look at the gross margin, as I said in the last 10 quarters, this has been the highest.

Last quarter two, we were at 40% gross margin. This quarter, it has further expanded to 40.3%. Standalone operating margin improved from 16.5% last quarter to 16.7% this quarter. As I said, it could have been higher, but we took a conscious call to spend more on advertisement. Otherwise, this particular percentage would have been even higher.

Decorative business for quarter three financial year '24. The decorative business saw double-digit growth and the value growth was lesser though because of price decrease and also due to the fact that more of the economy range sold compared to the luxury range. The construction chemical and water proofing business had another quarter of stellar performance. Wood coatings business also did extremely well.

The Tier 2 and Tier 3 cities show greater traction in our case than Tier 1 cities. Both urban and rural business witnessed growth. Aggressive network expansion continued in the quarter. We added more than 2,300 retail touchpoints in quarter three, and we installed around 1,300 Colorbank machines in the same quarter.

We introduced a few new products: Roof Kool & Seal sealant and Ceiling White, which is a paint primarily focused on the Kerala market, but also relevant for other markets as well. The Roof Kool & Seal is a product, which is there for all India. As the name suggests, it is for the roof, it cools and it seals.

With an eight-year warranty in the roof segment, I think, this product will do very well in the future. Top-performing innovative products, we continue to do well. In between, we continue to maintain our leadership in the market. In the Anti Dustt, WeatherCoat Anti Dustt segment, we maintained our leadership there.

In Long Life, we have a very strong presence in many markets. We are a leader in this segment as well. In the waterproof putty, we have a clear leadership in most markets across the country. So these innovative products, which we have launched over the years, in the last few years, continues to do very well, grow very well. It has a price premium in the market and we are quite comfortable with the brand presence of these particular innovative products.

On the digital side, we are working very hard. In some areas, we are introducing sales force as a front-end package for our sales team, which is going to make things easier for them. We have already executed many e-commerce for our painters under the eSambandh brand name. They are -- we have some very interesting packages working for the applicators, for the dealers, for our own sales team, lead generation and monitoring.

We have this express painting program, which is one of the largest in the country and we were the first player to come in with this particular service in India, and it continues to grow every year. The number of markets in which this is present and doing well, is increasing. So that, we will continue.

On the industrial business side, protective coatings maintained its consistent growth in the quarter. Automotive and General Industrial business had decent growth in this quarter even on a high base in the corresponding quarter aided by growth in commercial vehicles and 2-wheeler industry. Powder Coatings business line had a modest growth in the quarter on the back of demand revival of fan industry and new customer acquisition.

Our net debt at one point of time because of the Sandila factory, we have run up debt, which was to the tune of almost INR1,000 crores has now become cash positive at the end of December and this is likely to remain on this zone in the foreseeable future. As far as consolidated sales is concerned, we have value sales growth of 7% and an EBITDA growth of 37.3%.

This against standalone is an improvement in sales growth because sales growth in standalone was 6.4% and consolidated 7%. Our EBITDA growth is nearly similar at 38% was stand-alone, and consolidated it is 37.3%. The consolidated top line performance outperformed stand-alone on the back of consistent top line growth, especially in the Bolix subsidiary, which did very well this year.

Overall, as I said, in the consolidated Q2/Q3, we had an income growth of 7%. Operating profit was 37.3% and PAT growth of 49.2%. YTD December on the consolidated level, our value sales growth is 6.8%. PBDIT or operating profit growth is 35% and PAT growth, a very healthy 40.5%.

Company's overseas subsidiary Bolix Poland had a quarter of strong double-digit growth in top line and profitability helped by a sharp expansion in operating margin. The company also achieved a constant currency growth, a strong constant currency growth in the quarter. Company's overseas subsidiary, BJN-Nepal, had another quarter of de-growth in top line and profitability impacted by downturn in economy and liquidity issues as was guided earlier.

The situation is likely to remain tough in Nepal this quarter as well. Company subsidiary, STP Limited, had another quarter of healthy top line growth and strong profitability growth on the back of operating margin expansion, aided by improvement in gross margin on lower raw material prices as well as improvement in product mix towards admixture and waterproofing products. We expect the growth performance to further continue in quarter four of this year.

Saboo Speciality Coatings had a decent top line growth aided by uptick in the fan segment and some additional line of business and a strong double-digit profitability growth on softening RM prices, we expect value growth to continue in this quarter. The joint venture Berger Becker Coatings, experienced another quarter of decline in both its revenue and profitability, primarily attributable to manufacturing capacity constraints, as mentioned earlier.

As you know, we had a power in our Goa factory, and it will come on stream from March, which means next month onwards. So this will -- next year, we'll have a good run because we know the capacity will come back, the sales will return and, therefore, we will have fairly good growth next year.

Company's joined venture Berger Nippon Paint Automotive Coatings had another quarter of double-digit top line and robust profitability growth riding the strong performance in passenger car and SUV sector. We expect strong growth to continue in quarter 4 of this year as well. As far as business outlook is concerned, company expects demand momentum to continue in quarter four in decorative segment on the back of improvement in usual demand.

Automotive business is expected to continue with double-digit growth on the back of sustained demand in auto sector. Protective Coating business to do well on account of high government spending on infra. General Industrial and Powder Coatings business also expected to do reasonably well in quarter four. Operating profit growth may taper down a little in quarter four in comparison to quarter three on the back of product price reduction; however, there will be growth on a year-on-year basis.

That's all that I have to say as far as our take on the quarter three and Y-T-D status is concerned. Open for questions. Thank you.

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

Mihir Shah: Sir, Berger is thus far the only paint company to see higher growth in Tier 3 and 4 versus Tier 1 and 2. And probably one looks at -- also includes FMCG companies, then Berger is one of the fewer players that are seeing better growth in rural than urban. Sir, do you see this demand -- market demand environment are conducive enough to drive higher than double-digit volume growth in FY25, say, at mid-teens levels?

Or do you think it is still some time away? If maybe not for the market, then do you see your own growth being better than the market like you've demonstrated over the past few quarters -- past many quarters? And what can one think as the key differentiating points versus the market growth for you going forward?

Abhijit Roy: Thank you, Mihir. So you asked a few questions there in that. So to answer you, I would say that it depends on a few factors. There are certain markets where we are relatively strong. And in those markets, if the market does well, we tend to do well as well, right? For example, see in Uttar Pradesh if the market is doing well, we are reasonably strongly present there, we'll tend to do better than others if they are not so strong in UP compared to other locations.

So it depends on the mix of the geography that you have. It's also dependent on the fact that, from our side, we have a distribution level, which is much below the leader. And there is a lot of growth opportunity there. As you saw, we have installed about 2,300 plus new retail touch points and more than 1,300 Colorbank machines.

This can go on, especially in the western and southern parts of the country. There are big gaps there, which can be filled up. So as far as we are concerned, we think that this area can further improve. And therefore, our growth can be protected to some extent. The market definitely has slowed a little bit. October was much better. November, December was muted, and January also was a bit muted.

So from that perspective, whether we will get mid-teen growth or not is difficult to say at this stage. Once the lessons are over, I think things will become clearer because now inflation is being kept under tight control, and the general economy is not very good. But I presume that might change after the elections are over and once the results are out.

So therefore, going forward, I think we have been consistently, as you saw, two years, three years, four years, five years, whichever parameter you take, we have been in that level. We would love to be at that level itself next year as well, but only time will prove.

Mihir Shah: Got it, sir. Sir, given the industry has started to implement price cuts on the back of soft raw material prices despite reaching the higher levels of pre-COVID on gross margins, can one assume that there is still room for margin improvement in the near term, specifically despite price cuts? Or do you think that margins -- gross margins basically have picked out here at least for the near term?

Abhijit Roy: I would say that gross margin is at a level which is very healthy now and whether it has peaked out or not is difficult to say. But I don't see this improving from here on. It is possibly because we have taken a price cut as you know, that's going to impact a little bit on the gross margin side. So therefore, expectation that it will further increase, I think, is not fair.

We are comfortable at these levels. At these levels, the EBITDA levels are also reasonably good. We have always given a guidance that our EBITDA will remain in the 15% to 17% bracket and that's where we have been hovering and that's where we would like to remain. So that's how I see it.

Moderator: The next question is from the line of Avnish Roy from Nuvama. Please go ahead.

Avnish Roy: Congrats on turning net cash positive and the market share gains. My first question is on margins. So when I see Q1 versus Q2, Q3, gross margins improved in Q2, Q3. But the EBITDA margin, there is almost 200 bps dropped and this was also seen last year that Q1 margin was superior and then 200 bps kind of drop happened.

I understand 150 bps of ad spend in Q3 and Diwali normally either because of festival or because of sports, this could happen. But any other cost item you can control so that your EBITDA margins are a bit more in tighter range. We don't see this much a variance normally in some of the other larger companies.

So I wanted to understand if there is some cyclicality in -- seasonality in terms of the other cost items?

Abhijit Roy: Right. Actually, Abneesh, thank you for your congratulatory message. But just to answer your question, if you look at the first quarter, you are right that it was much higher than what we are in Q2 and Q3 and the reason is they are two-fold. One, typically, in our case, the first quarter is -- you should see a sales value, it is on a much higher side. It is the first and the third quarter where we do very high sales. Typically, the first quarter for us is skewed because we have a high -- very high April, which we tend to have every year. The second, therefore, since we have a higher volume, we get a scale advantage there.

And so the second reason is, as you said, in third quarter, we spent money on advertisement. It would have probably gone very close to the third quarter margin if we had not done that spending, typically, the Diwali period, we tend to spend more money on ad as well. So the first quarter tends to be, in our case, it is higher and then the third quarter tends to be close to that first quarter this year being a little bit of an average.

Avnish Roy: Sure. Understood. My second question is slight clarity I wanted on the slide of top line performance. You've mentioned the mix improvement happened and that's why gap was lower in terms of volume and value. But the time after that sales that economy grew faster, so are you referring to putty sales being lower in Q3. That's why the gap.

Abhijit Roy: You are right, absolutely. Putty growth rate actually was much lower. We had our economy emulsion, which grew -- it is more profitable, but it grew at a faster pace. And so did some of the other products, which are priced low, but has a good margin.

Avnish Roy: And putty sales being lower, any particular reason for that?

Abhijit Roy: It was becoming too competitive in the marketplace. We decided to give up some of those places in terms of volume, therefore, it's not impacted. It's a pure play price gain and we decided to stay away in certain markets. So that's the major reason why it got impacted. The second reason also was that the enamel growth rate, which is a high-value item, was a bit low in the third quarter comparatively, much lower than what we normally do. So that also impacted the -- because it's quite high value and it is not growing, so it tends to impact the overall scenario.

Avnish Roy: Understood. Last question, the third largest paint company today said in call that for the industry premium part of the portfolio in deco is around 35%, and they are at 30% and pre-COVID, they were 25%. So 25% was premium pre-COVID and now it's 30% for them. And for industry, it's around 35%. I wanted to understand for you how these numbers would have known pre-COVID versus now in terms of premium?

Abhijit Roy: Abneesh, we haven't done this analysis. I can't tell you offhand. I can take a look at those figures and I haven't seen what was pre-COVID and what is post-COVID. All I can say is that the luxury category was growing very well. After the COVID period, it was growing at a good pace. This year, it has been slightly on a slower path. In fact, the Economy category has done slightly better than that.

So from our perspective, that's the reality, which is this year. But it keeps changing. Quarter-on-quarter comparison is difficult. On a yearly basis, we are fairly comfortably placed across all categories. And if you look at it, pre-COVID, post-COVID, really, we haven't done that analysis. So I can't comment on this.

Avnish Roy: Sure. One last follow-up on roof Kool & Seal. Are you able to charge a premium because product seem very relevant for a warm country like India, which also has got water leakage issue. If you could tell us like to like what is the kind of discount this product has with the market leader and versus your normal roof product, what is the kind of premium you're able to charge for this?

Abhijit Roy: So we now this product is unique, as you've said rightly. The name is also unique and it does the function, which is very relevant for coastal warm belt and that's where we are focused initially now. I think overall, all across India, it has a good demand. It's a warm country. It's a hot country in many places and it's also seals. It does both the jobs. As of now, it is priced competitively.

We need to establish this and it's doing quite well in the market where we have introduced it. And as things progress, as we grow our volumes, we will see if we can take a price premium and how much of it can be taken. But as of now, it is almost matched to the market leader in this segment.

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

Tejash Shah: Congrats on a good set of numbers. My first question is, we have been kind of accelerated our dealer addition in the last three quarters. We started with somewhere run rate of 1,300-odd and for the last two quarters, we have been adding somewhere around 2,000. So just wanted to know, is it like we're going deeper into existing markets or are we adding more regions? And is it also an outcome of Sandila plant being operational and we are adding more, kind of populating more dealer network around that plant?

Abhijit Roy: Right. So it's a mix of both, not so much the Sandila plant, I don't think that has had any great impact there, though we have improved our presence in UP, but nothing related with the plant as such. But it is a mix of both that you mentioned. So we are aggressively looking at it because we see this as an opportunity for us because there are large gaps in various parts of the country.

We are doing it more scientifically now finding out those gaps and populating those and filling up those gaps. We are using our own ability to strengthen ourselves in distribution, so that is working in our favour. So this trend is likely to continue. We are likely to be quite aggressive in new dealer addition going forward as well, at least for the next one to two years for sure, we will be adding a larger number of dealers and we'll continue to do so.

Tejash Shah: Sir, and when we see overall industry level also, there is an acceleration of adding dealer network. So just wanted to understand, are we adding new paint dealers to the ecosystem? Or these are the existing paint dealers of, let's say, some other brands whom we are targeting and in some form, there is a limited working capital in the industry. So just wanted to understand how they are rationalizing this working capital among all these brands?

Abhijit Roy: So it works both ways. So in the stronger market where we have a very good presence, in many cases, we are able to get competition dealers to stock our material as well. And then that's where we tend to focus and grow the network. In the weaker market, sometimes we don't have that ability to do that. So we look for other non-paint dealers who are able to come to us and are able to align with our thoughts. So that's how it happens. Both the segments are growing, therefore.

Tejash Shah: Sure. And sir, last question, I'll try my best not to make it a rhetorical one. But we are entering a very interesting phase for next year and perhaps going forward and we are entering the space with a very high base of margins, and this is true for a larger part of industry as well. So as you said, you won't like to expand margins from here on. But let's say, if competitive pressure has to remain intense at least in the near term, would you prefer prioritize margins or market share? Or is there any other order that you prefer?

Abhijit Roy: So we would prefer to balance both. But if push comes to shove, we would prefer to maintain our market share and have a little bit of dilution on the margin. Though we are -- I think, we can figure out ways of maintaining our margin at some decent level. I have given a guidance of between 15% to 17%, which should be hovering in that range. Sometimes it can go more towards 17%, sometimes it can go towards 15%. That's where we will remain and we will try and protect our market share. That will be our priority.

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

Shirish Pardeshi: Congratulations. Sir, one clarification. You mentioned that market share has improved to 20%. Is it volume or value?

Abhijit Roy: So it is value because we don't have the volume data of the companies. The published results are there only for value, so it's based on value. And based on -- if you see that the India operations, which we mentioned, so that includes two of our subsidiaries, which is Saboo Coatings and STP, which operates, but it is in the consol level, it is there, but in the standalone, it doesn't reflect.

So if you add up those two companies with our sales, we are in that range of 20% for the top five companies, which publishes their results and which is traded in the market. This doesn't include the small players. If that happens, if we get diluted further in terms of market share. But in the top five companies, in the India operation, we are at about 20%.

Shirish Pardeshi: Okay. Second clarification I was looking in the domestic decorative, we have outperformed and double-digit growth. But just more curious, what would be the economy emulsion because you spoke, economy emulsions has done better over enamel.

Abhijit Roy: Yes, so it's in double digits. So -- and a decent double-digit in economy emulsion, so that's how it is. But as far as we know, the luxury emulsion is concerned, it will be in mid-single digit sort of, so that's the difference.

Shirish Pardeshi: And overall economy emulsion would be about one-third of our decorative business now?

Abhijit Roy: I can't say. I don't think I have looked at it in that way, but I have no comments to make on that.

Shirish Pardeshi: Okay. My second last question on the Sandila plant. What contribution of volume would have come in now or maybe you can say capacity utilization, whatever?

Abhijit Roy: Yes, so we are still operating at about 35% odd level. So there is a long way to go. We can keep improving on that. And so it was built with an objective that it should last for at least four to five years, we don't have to look forward to addition in the North Central area. So from that perspective, it is fine. It is doing its job.

Shirish Pardeshi: Okay. And the last question, you mentioned that there was a pricing action, which we have taken. So is there any pricing cut we have taken over the last fortnight, last one month or in the near future?

Abhijit Roy: Yes, we had taken a price cut. As the industry took a price cut in the month of January, so that's about 2.7% odd overall impact to sales. There was some three, four products, which had very good sales where we took major price decreases and price cuts. So that's going to impact us in this quarter.

Shirish Pardeshi: So you have matched the price cuts, whatever the industry has taken.

Abhijit Roy: That's right. That's right.

Shirish Pardeshi: And do you anticipate any further before the season?

Abhijit Roy: Not really. Maybe some of the other products, which are still leftover because most of the main products have been taken, some small adjustments might happen. But that we have to take a look at where the drops can possibly be done or if at all it is required. Only if it matters because in terms of demand, if it is fine, then why do it.

Moderator: Next question is from the line of Amit Purohit from Elara. Please go ahead.

Amit Purohit: Sir, just on this premium side of the segment for the paint industry. Wherein while we -- what we understand is that the exterior paint, we have done pretty well and you've been highlighting in your slides as well that the Anti Dustt and WeatherCoat has been doing well. But on the interior side, a few quarters back, I remember you were highlighting that some more work has to be done to drive especially on the luxury side.

So over a longer period, I mean, I just wanted to understand is that when I look at the other player also like who talks about that their salience in the premium is low. So what is it that a company number two or number three has to do? Why it is so difficult to change or I mean gain market share from the leader in the luxury and the premium segment? Just your thoughts on that.

Abhijit Roy: Right. If you look at the luxury and premium segment and in the exterior category, we are doing quite well. In fact, in the semi-luxury category sort of, which is between the premium and the luxury, we are a leader with our WeatherCoat Anti Dustt, and we continue to do very well there. Even in the luxury segment, we have WeatherCoat Long Life 10 and 15, which does quite well in our markets where we are strongly present.

So there, we are quite comfortable. And in terms of percentage to sale, I think we'll be very close to the leader in the exterior category. It is in the interior, where we have some work to do. As you rightly said, I have been saying that on the luxury segment, we have a pain point, right? In the semi luxury, in interior also, we are a clear leader with Easy Clean, which remains a leader in that category.

It's in the category of luxury, there it is dominated by the leader there with the Royale brand, which is there. And so we are working on various plans. We have a product called Silk Glamor, which is there, but it doesn't do as well because it is very strongly brand driven and the amount of money that one has to spend there to establish oneself in that particular segment is something which we don't do, and that is why it is a problem.

If we had spent say, double the spend and done it for five years, we possibly would have established ourselves in that particular segment as well, but it has been difficult to do that. It has to be built, therefore, on a different platform. And that's what something, which we are trying to do.

Amit Purohit: Sure. Just a follow-up on this. And when we know that there are two players in the premium side, which has a significant pocket share, I don't know, but the fourth player, Akzo Nobel, would also have a strong positioning in the premium side, but they've been kind of not growing in line with the industry. So there lies an opportunity, right, for someone to take?

Abhijit Roy: Yes. There is always -- I won't comment on what others are doing because we are concerned and we look at it that the luxury segment is a brand-driven segment and one needs to have built up a strong positioning there. Also if you have a differentiated product, which resonates very well with the consumer, then it tends to work much better with a lesser spend as well. We have done that with Easy Clean.

We are launching a new product this month called Easy Clean Silky Touch. Riding on the strength of Easy Clean we are trying to upgrade consumers onto a better finished product. It may not completely substitute the luxury segment, but it will definitely create some gains for us. That's something which we are looking at because we have a strong presence, as I said, in the Easy Clean segment.

We are leveraging that particular brand to gain a foothold in the luxury segment. That is a more wiser thing to do than to get into a head-on fight with them.

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

Mihir Shah: Sir, I just wanted to know your thoughts on these differentiated products, which are coming with a higher number of years of warranty. Do you think that the repainting cycle can get affected by these products or because of the extreme weather conditions that we have and the leakages that we get, the repainting cycle can continue to shorten from here?

Abhijit Roy: So Mihir, to answer your question, it will be an answered in two parts. One, of course, there is not a static customer base. If it was a static customer base and the limited number of customers who keep painting every year and the rest don't paint, then what you are saying will hold true because if you have a number of years, which has gone up and, therefore, the same customers are coming, but at a later date. So the volume will shrink, right?

But we are getting many new customers who come in at a lower price point and then the products are already there, where the cycle continues as is, right? So it's a mix of new customers coming in, customers who are using a latter number of years products, which will continue and there will be some customers who will get upgraded on to better quality products.

So the volume gains will come from the mass segment and the value upgradation will happen at the luxury segment. So this is how it will continue to happen.

Mihir Shah: Got it. And sir, any insights on how to accelerate growth from the unorganized players? I believe there's still – one-fourth of the market is still led by regional unorganized players and that continues. In fact, in the recent times, post the raw material prices pulling off, we are hearing a lot of noise around unorganized players coming back in various categories, including paints.

Given the competitive intensity in organized players will increase, can one assume that the growth can be chipped away from unorganized players going forward?

Abhijit Roy: No, I have always consistently, if you hear me speaking earlier and I've been speaking earlier and see, the unorganized players will remain. To some degree, they're doing a lot of renovation in a lot of fields in the business. Two things which matter to some of the consumer, right, and some of the customer. Certainly, on the industrial side, they will continue to do better because they respond very fast.

And then requirements are met very fast by them because small quantities can be serviced by them very fast. And then they innovate because they have to survive. To survive, they innovate. They are not mass producers, they do small, small, small, small things and keep servicing there. So they are going to continue in that domain. You can't completely wish them away and neither should we.

So it is something which will remain. The incremental changes will keep happening. Some of them who are not so managing their finances well are not very innovative, not up to speed, will lose their way. And then that will incrementally keep coming to the bigger players. This is what is likely to happen, right?

When the prices were going up, they were under tremendous pressure to sustain. Some additional losses might have happened in that period, which some of them would have recouped. Those who are better off would have come back into the market. This situation, I don't think it's dramatically going to change going forward.

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

Avi Mehta: I just wanted to clarify two things. One, the double-digit growth is essentially in value terms, right, in the decorative business that we saw this quarter?

Abhijit Roy: It is in volume terms. Not in value term.

Avi Mehta: Okay, sorry. And then -- and second, sir, on the margin front, to the earlier participant had highlighted that -- I mean, let me again highlight the question. From a 3Q sense, whatever operating margin we saw, would it be fair to say that near term, the price cuts would not likely to weigh on that?

Or because you obviously have a contrasting ad spend increase that was materially higher than normal. Is that the right way to look at near-term margins? Or that would not -- if you could kind of give us that sense.

Abhijit Roy: Yes, sort of. You can say that part of it will be neutralized because we got a 2.7% drop and we had a 1.4%, 1.5% increase in ad spend, so it gets partly neutralized, but we will still have a little bit of a drop coming in, in the fourth quarter. And then possibly going forward, it might get even down. So the immediate quarter, yes, there might be a little bit up on it.

Avi Mehta: And lastly, sir, as we see the -- we've obviously seen price cuts, but we are also seeing next year the entry of a new player. In the way I heard you is, while you essentially work on maintaining market shares, would you argue for distribution gains being the way forward or continuing that way? How are you looking at this internally?

If you could give us some sense because there is too many uncertainties as we speak. So would love to hear your thoughts on how are you evaluating or looking at the new competitor?

Abhijit Roy: Yes. So it is -- one is to try and protect what we have in the marketplace. Second is to grow, distribution is one of the levers, which is available to us. As the number two player, we have a fairly decent brand spending across many locations. And that can be leveraged quickly by adding more distribution points. So, that's easier and a quicker pathway for growth for us.

So whatever little loss that might happen. I am assuming that some losses will happen on the entry of a new player, that can be recouped through a faster vigorous growth in the distribution network in areas where we are not so present as of now.

There is also some product categories like the construction chemical and waterproofing area, which can grow at a faster pace and, therefore, give us a volume, value growth, which is almost equal to what we have been achieving for the last few years.

Avi Mehta: Got it, sir. Got it. And lastly, sir, because there is also a lot of discussion on premium and the belief that, that could help in offsetting an impact. Would my understanding be fair to say that geography-wise market shares are also a big hurdle for anyone new to kind of counter. It's not just -- it's not considered a need to product anywhere. It's just -- there is a geography-wise salience, which has a divergent impact, which is what could help us in place us well, if I'm -- would that be a right understanding, sir?

Abhijit Roy: Yes. It takes a longer time in this type of an industry. This is not very oriented towards directly towards consumer. The B2C don't exist almost. So it is these intermediaries, whether it is the dealer, architect, builder, painter, contractor, who play a very important role and it varies from region to region, this trend.

And therefore, to replicate that across market becomes much more time consuming and disciplined. So what we are saying is too geographically there is some protection and there is a protection as far as the brand is concerned, so both help to that extent.

Moderator: The next question is from the line of Lovish Soien from Phoenix Advisers. Please go ahead.

Lovish Soien: Sir, my first question is, in the long term, what will be the growth driver for the industry. I mean, will the growth be driven by premium segment or the economy segment? And my second question is, I believe the unorganized players have close to 30% share of the market. And you mentioned that they will continue to be present in the market, so what is Berger and the industry as a whole doing to shift consumers from the unorganized players to the organized players.

And I'm talking about in a sustainable manner. We saw that during COVID, there was a shift from unorganized to organized, but that is moving back, so what is -- how will this play out over the long term?

Abhijit Roy: Right. So to answer your second question first, you said that -- how are we, what are we doing? We -- as I said, they will remain. And we have to create value for the consumers. If they find that our quality is good, it is acceptable to them and there is a brand name associated with it, some of them will shift.

Some of them will still continue to be with them. For example, there are certain dealers who might want to stock with local product for two reasons: One, they get extended credit, which we can't give, right? The second, they may also have unique brands for themselves, on this they make more margin. So they may continue to sell those localized brand where no one else is selling in that area and so they are able to get a higher margin on that product.

So there are many reasons for it. Why these local brands sometimes continue and it is difficult to therefore snatch away the way people think that it is so easily, it won't. And therefore, we have to keep working on this, adding value to the customer and to the intermediaries involved. If they see value in it, then only we'll be able to progress in this direction. So this is as far as the second is concerned, the first question was what, what did you say?

Lovish Soien: So what will be the growth driver for the industry? Will it be driven by the premium segment or the economic segment in the long term?

Abhijit Roy: So in the long term, both segments will grow. Actually, if you look at it in terms of urbanization level, we're still at about 34%, 35%. Europe is at 80%, 82%, and we are nowhere near that. So there is a long runway for urbanization happening. And as much as urbanization happens and people move to cities and towns, there will be consumption of paint happening, first-time painters and then again after four years, five years, six years, again, there will be painting.

So this will be the major driver. Now in this, there are both users of economy emulsions and some amount of upgradation happening from those who are using economy to luxury category, which I was explaining earlier. So both these categories will continue to grow because the market itself is expanding in both ways, horizontally and also upgrading itself. So therefore, both segments have a growth potential.

Lovish Soien: Got it. And if I could have just one follow-up. So one of your competitors is focusing also on the water-based paints, so how is that going to impact the economic segment because we believe that, that is a lower-priced product and that could get into share of either the unorganized or the economy segment of those people. So how would you...

Abhijit Roy: What is it? Water-based what, pigment?

Lovish Soien: Water-based paints.

Abhijit Roy: Water-based paints. I don't know who is doing what. As far as we are concerned, we are quite well placed overall across categories. We have got brands which are there, which can take care of customer needs as of now. If we find that there is some product which has been launched by someone, which is gaining traction in the market and has got good potential, so in paint industry, there is no rocket science.

We can always form the similar product and start looking at introducing that in the market. So that's not going to sustain over a long time. We need to do things, which are fundamental to the industry and that's what we are looking at, something which is unique, differentiated, positioned well, advertised well can sustain.

At the lower end, it's difficult because anyone can copy and you have to give the price and you have to give the product, both of which can be very easily copied.

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

Abhijit Roy: Thank you all and wish you all the best. This is our 100th year that we have entered into and we'll close in December '24, this year. So we have a series of events planned out. Hopefully, we'll get to interact with you more frequently and in a better note going forward.

Sujyoti Mukherjee: Thank you.

Moderator: Thank you.

Abhijit Roy: Thank you.

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