



INDIGO

Be surprised!

Date: May 19, 2021

To, BSE Limited Corporate Relationship Department 25 th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 Scrip Code: 543258	To National Stock Exchange of India Limited Exchange Plaza, Plot No. C-1, Block G, Bandra Kurla Complex, Bandra (East) Mumbai - 400051 NSE SYMBOL: INDIGOPNTS
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Dear Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call.

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held with the analyst and investors on May 14, 2021 at 16.30 hrs (IST) to discuss the Audited Financial Results of the Company for the quarter and year ended March 31, 2021.

The above information will also be made available on the website of the company www.indigopaints.com

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited

(formerly known as Indigo Paints Private Limited)

Sujoy Sudipta Bose

Company Secretary & Compliance Officer



Encl: as above



“Indigo Paints Limited
Q4 FY2021 Earnings Conference Call”

May 14, 2021



ANALYST: MR. MANOJ MENON – HEAD OF RESEARCH – ICICI SECURITIES LIMITED

MANAGEMENT: MR. HEMANT JALAN - CHAIRMAN & MANAGING DIRECTOR – INDIGO PAINTS LIMITED
MR. T. S. SURESH BABU - CHIEF OPERATING OFFICER - INDIGO PAINTS LIMITED
MR. CHETAN HUMANE - CHIEF FINANCIAL OFFICER - INDIGO PAINTS LIMITED
MR. SRIHARI SANTHAKUMAR – DEPUTY GENERAL MANAGER (FINANCE) INVESTOR RELATIONS & TREASURY- INDIGO PAINTS LIMITED



Indigo Paints Limited
May 14, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 Earnings Conference Call of Indigo Paints hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Menon, Head of Research, ICICI Securities. Thank you and over to you Sir!

Manoj Menon: Good morning, good afternoon, good evening depending on which part of the world you are joining from. I hope all of you are safe and healthy, God bless. At ISEC it is our absolute pleasure to host the first results conference call of Indigo Paints. The management is represented by the Chairman and Managing Director, COO, the CFO and Investor Relations. At ISEC we have recently initiated on Indigo Paints with an add rating and the target price of Rs.2750. We are long-term believers in Indigo Paints story for four reasons. One, on the product differentiation platform and secondly a brand which are significantly invested in share of voice more than the share of market and the third one is on the differentiated distribution and the fourth what we believe at the industry leading HR policies. Now over to Mr. Srihari from Indigo Paints for further proceedings. Thank you so much.

Srihari Santhakumar: Thanks Manoj. Good evening everyone. Welcome to the first earnings call from Indigo Paints. Today on the management call, we have Mr. Hemant Jalan, our Chairman and Managing Director, Mr. T S Suresh Babu who is our Chief Operating Officer, Mr. Chetan Humane, our Chief Financial Officer and myself, I am Srihari, I am looking after Investor Relation here at Indigo Paints. For the benefit of the investors, we have uploaded a brief presentation in both the stock exchanges, highlighting the financial updates as well as our KPI metrics. Over to Mr. Jalan for opening remarks!

Hemant Jalan: Thank you all. Thank you Manoj and thanks for all the participants for joining in on the first earnings call of Indigo Paints. We sincerely hope that you and your family are keeping safe in these rather difficult times.

As you are all aware our company had the successful IPO in January this year and we were listed on the stock exchanges on February 2, 2021. The quantum of the IPO was about Rs.1169 Crores of which the primary component was about Rs.300 Crores. The issue was extremely well received by the investor community and the issue was subscribed 117 times overall. There was excellent participation by marquee institutional investors from across the



Indigo Paints Limited
May 14, 2021

globe. Immediately following the IPO, the company fully repaid its small outstanding debt in accordance with the stated objects of the IPO issue and became completely debt free.

As you all know the last financial year started on a very difficult note with the national lockdown which started from mid March and extended through April and for most parts of May; however, during the first COVID wave, the smaller towns and rural areas of India were relatively less impacted and we witnessed an excellent bounce back in sales starting as early as May 2020 which gradually got better as the year progressed. There was no impact on the cash flow position of the company. Thanks to the excellent support we received from our dealer network. There were absolutely no lay-offs of any employee, in fact we gave healthy increments to our entire employee pool in June 2020 including payment of all variable pay and bonus components and extended full support to them during COVID times. This year we have given another round of annual increments in April 2021 and we continue to support our employee pool during the second current COVID wave.

Recurring capex investments continued at all our three manufacturing locations at Rajasthan, Kerala and Tamil Nadu with modest capacity enhancements. We are one of the very few paint companies that manufactures all its putty in-house rather than being outsourced as most of our other listed payers do and during last year we doubled our putty manufacturing capacity at our Rajasthan plant. We also acquired an additional 17 acres of land adjoining our existing Tamil Nadu factory where we are in the process of setting up a large water based paint plant as disclosed in the objects of our IPO issue.

I will first briefly touch upon the salient financials for Q3 and Q4 before moving onto a more detailed discussion on the overall financials for the entire year of FY2021. During the first half of last year, that is from April to September, our net revenues had contracted by 4.8% year-on-year, which was the lowest contraction witnessed in the paint industry. These net revenues grew by 22% in Q3 and 41% in Q4; however, there were extreme spikes in raw material costs in the latter half of the year. Unlike the rest of the paint industry, Indigo started increasing its paint prices in tranches starting from mid November onwards. We were able to protect our gross margins in Q3 due to several such price hikes but, the gross margins declined somewhat in Q4 due to continued spiraling of raw material cost. As you are already aware, Indigo Paints spends a very high percentage of its topline on media advertising to build its brand. Advertising during the first half of the year was low due to COVID lockdowns and the monsoon months when traditionally paint companies tend not to advertise. Hence the EBITDA margins were unusually high during the first half of the year.



Indigo Paints Limited
May 14, 2021

Q3 saw aggressive media spends both because of the festival season and because of IPL being shifted to Q3 last year and as you are aware IPL is a very expensive property on which we have been consistently advertising for the last four years and IPL advertising accounts for a sizeable portion of our annual advertisement spends. Hence EBITDA margins dipped to 15% during Q3 but recovered to close to our annual levels at a level of 16.9% in Q4.

I will now shift to a more detail discussion on the financials for the entire year of fiscal 2021. Now in our presentation, we have given a detailed breakup of volume and value growth across four broad categories of paints within our overall portfolio as opposed to what other companies do, we do not believe that giving figures for an overall volume growth for the entire paint portfolio conveys much meaning. If you go through our presentation you will find that the volume and the value growths were healthy for each of the four categories averaging around 20% except for the emulsion category where both of the volume and the value growths were somewhat lower ranging between 11% and 12% and this is because April and May months are traditionally heavy months for emulsion sales and the sales that we lost last year in April and May during the lockdown period could not be adequately recovered during the course of the entire year.

As Manoj mentioned, we generate the high proportion of our revenue from a very differentiated stream of products where we feel that we are buy and large the only manufacturer in the paint industry. This portfolio of very differentiated products which had contributed 28.6% of our overall revenue in FY2020 grew further to 29.5% of our overall revenue in FY2021.

During the course of our IPO many analysts had commented on our disproportionate exposure to the state of Kerala where we have a relatively high market share; however, because of our dominant position in Kerala, it is only natural that other states where our position is somewhat weaker tend to grow at a much faster clip than Kerala and overtime our dependence on the state of Kerala has been gradually coming down which in a way is good for the company.

During the course of the last fiscal Kerala's share in our overall revenue declined from about 35% in FY2020 to a level marginally lower than 30% in FY2021 and is likely to continue to decline as a percentage of revenue in the coming years even though we register good growth in the state of Kerala.



Indigo Paints Limited
May 14, 2021

Now the main engine of growth for a young company like ours for the next few years will be in accelerated expansion in our dealer network and a large increase in our tinting machine population. During the last fiscal, despite the limitations of the COVID pandemic we increased our active dealer count by an unprecedented 2,000 numbers from a figure of 11,200 at the start of the year to a figure of about 13,200 at the end of the fiscal.

Addition of tinting machines was understandably very slow in the first half of the year when it was difficult for salesman to even travel to the dealer outlets to convince them to adopt a tinting machine, but we gathered speed in this dimension in both Q3 and Q4 and our tinting machine population increased by a healthy 1,200 numbers during the year to end the fiscal at population of about 5,500 tinting machines on the ground.

During the course of the year we have also added eight new depots, our first depot in Jammu and Kashmir region by opening a depot in Jammu, our second depot in Uttarakhand at Dehradun, our second depot in Bihar at Purnea, our second depot in Assam at Silchar, our third depot in Madhya Pradesh at Bhopal, our second depot in Odisha at Sambalpur, our third depot in Andhra Pradesh at Kadapa and our fourth depot in Maharashtra at Aurangabad and our total depot count which was 36 at the start of the year, we ended the year with a total tally of 44 operational depots.

With the headwinds of COVID and sharply raising raw material cost, it was tempting to reduce advertising spends to maintain profitability and we noticed that some of our larger listed peers in the paint sector have chosen to do precisely that. However, our company believes that we have a very long way to go towards brand building of a sustained nature and despite the blackout in advertising during April and May due to the lockdowns for the whole fiscal, we increased our media advertising spends and I am talking about only the media advertising spends what we spend on television channels or newspapers. It went up from Rs.61.5 Crores in FY2020 to Rs.63.4 Crores in FY2021, despite our inability to advertise for several months during the lockdown; however, there are other promotional activities like conduct of painter, contact programs, dealer meetings, sales conferences etc., which were very difficult to conduct during the last fiscal due to COVID restrictions and therefore our total advertising and sales promotion expense of which media advertising is a major component, so our total A&P spends witnessed a marginal decline in absolute terms.

Now coming to the important financial numbers for FY2021; our gross revenues during the year increased by just over 18% to Rs.813.5 Crores, whereas the net revenues from operations which are the revenues after subtracting all discounts, schemes, cash discounts,



Indigo Paints Limited
May 14, 2021

annual schemes etc., our net revenue from operations increased by almost 16% to a figure of Rs.723 Crores.

Our gross margins which are the highest amongst all the listed peers in the paint industry declined marginally from 48.5% in FY2020 to 48% in FY2021 due to the very high pressure from increased raw material prices during the second half; however, the EBITDA for the company in absolute amounts increased by a very healthy 35% to Rs.122.5 Crores and the EBITDA margin percentage as a percentage of revenue rose from 14.5% in FY2020 to almost 17% in FY2021 which is a healthy increase of 2.5% points.

Our Profit After Tax increased by an even healthier 48% during this fiscal to a figure of Rs.70.85 Crores and this is despite the fact that we had to suffer a one time impact due to a change in the income tax at introduced during the recent Union Budget relating to deduction of goodwill which reduced our PAT by Rs.4.05 Crores. So this Rs.4.05 Crores is the one time hit that has come primarily on the deferred taxes because of which the PAT was marginally lower than what we had internally projected and ended at Rs.70.85 Crores and increased of 48%.

The improved profitability parameters are primarily because of very tight control on costs by our entire team. Our outward freight costs which are high had declined from 10.5% in FY2020 to 9.9% in FY2021 and our overhead expenses which are by far the lowest in the paint industry have declined further from 4% in FY2020 to a level of 3.7% in FY2021. Due to an already very high level of media advertising where we punch much above our weight where our media advertising spends are already the third largest in the paint industry and only a shade below the second largest player. We have always stated that although absolute amounts in media spends will continue to increase year-on-year, we expect that the total A&P spends as a percentage of revenue will decline continuously over the next few years and this year our A&P spends have declined from 12.7% of revenue in FY2020 to a level of 10.7% in FY2021 and we expect this trend to continue in future years resulting in improved profitability.

Now the outlook for the current year FY2022 is of course shrouded in uncertainty at the moment. We started the year with excellent momentum in the first 15-20 days of April, but after that one state after another went into lockdown and that has become much more severe in the month of May with practically the entire country at this point in time. The silver lining is that we have begun to see a marginal decline in the COVID numbers during this week and we hope that a gradual lifting of lockdowns will happen sooner than later and we



Indigo Paints Limited
May 14, 2021

are confident that once again we will see a very fast bounce back in demand once the lockdowns restrictions are lifted.

We are committed to outperform the industry growth rates by a wide margin as we have consistently done during the last 10 years. We will continue to aggressively add our dealer count and our tinting machine population and we will continue to invest in brand building in an increasing manner. An industry wide paint price increase has happened on the May 1, and we have also undergone one more price change this year on the May 1 and there are signs that the raw material prices have started softening slowly, which augurs well for future gross margins.

As always in the past we will continue to maintain a very tight leash on costs and of course our high A&P spends will continue to decline as a percentage of revenue. This is all I have to say. I do not know if you have had a chance to really go through our presentation that we managed to upload at about 4 o'clock on the stock exchanges, you can go through that at leisure and I would be happy to take any questions that you may have.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Good evening and congrats on a good set of numbers. My first question is on your expansion strategy, you have 5500 tinting machines on a relatively small base of total sales, so if I look at your average sales for tinting machine and compare it to any of the other large three or four incumbents, the number would be very small, so in this kind of a scenario how do you make it attractive enough for dealers, at some point do they not just take your calls in that okay we got this, but throughput going out of this tinting machine is just too small for it to be remunerative enough for us so shall we reevaluate this dealership, so have you faced any such issues? Am I looking at it the right way or am I completely mistaken in my approach?

Hemant Jalan:

You are very right your observation that our throughput for tinting machine would be approximately half of that of the second of the third larger player in the industry. Let us leave the market leader aside for the time being, because they are so much larger than us that a comparison at this stage may be not very meaningful. So let us take the number two or the number three players whose tinting machine population is 3-3.5 times of ours whereas their decorative paint sale may be higher for the number two player by an order of magnitude of six times, so obviously the throughput per tinting machine of sales is lower for us as compared to them and that is only natural because please remember that their



Indigo Paints Limited
May 14, 2021

brand equity which they have build up over the last 50-60 years is not something that we can bridge in a period of four or five years, which is why we continue to invest aggressively in brand building, so that as the brand goes up, the brand equity goes up, the throughput of the tinting machine gradually improves. So it is not just expansion of the tinting machine which is governed by our efforts on the ground to persuade a dealer to adopt a tinting machine, but increasing the throughput for tinting machine which is a direct result of the brand equity that you have. Now you asked the second question that the dealer think twice as to why he has adopted a tinting machine of Indigo Paints, no I do not think it works in that way. What happens is that a dealer by selling a particular can of emulsion of an Indigo Paints earns considerably more than what he may earn by selling corresponding can of the leading players in the industry and that is the function of your network that you have. The more you increase your dealer density, the closer proximity the dealers are with each other selling the same brand and the more price undercutting that happens between them which lowers the net margin that a dealer is able to retain, because the population density of our dealers today is at the moment much lower than that of the top three players, therefore the level of competition that a dealer faces in terms of a dealer within 100 yards selling the same product is much less and therefore the margin that a dealer earns by selling a cane of Indigo is usually much higher than of the market leader or the number two player shall I say, so therefore even though the quantity that a dealer sales of an Indigo and all these dealers are multibrand by the way may be slightly lower far Indigo compared to let us say the market leader, the effective margins that they earn per units are pretty high so the dealers are very, very excited about selling Indigo Paints and this bridging the gap between us and the leading players in the market is not something that is going to happen overnight. These companies are awesome companies that have been built over the last 80 to 100 years and we have to maintain patience, we have to outperform them in growth percentage, and if we continue to do that as we have done in the last decade at some point in time we will catch up with the larger players.

Percy Panthaki:

Two corollaries to this question. Firstly, you said the margins that a dealer make some Indigo are higher than from other companies, also your exposure to Tier 2, Tier 3 towns is lower and therefore yes who are more prevalent in metros, will have a more premium product portfolio also, so these two things are actually sort of dampeners on your gross margin the fact that the dealers make higher margins and also the lower metros saliency and despite that your gross margin is best in class, so if you can help me understand why that is the case and second question is that just like in some of the retail companies we look at same store sales growth, because your distribution rollout its so fast I would also like to get some flavour on and equivalent number of same store sales growth that would be like same dealer sales growth or same tinting machine sales growth. I know you do not calculate such



Indigo Paints Limited
May 14, 2021

metric, but any rough idea that you will be able to give on this would also be very helpful that is all from me.

Hemant Jalan:

The feeling that premium products sells in metros and the economy or the sub-economy product sale in the smaller towns is a complete misnomer. In fact, from my own observations, whenever I have traveled around the country and visited our dealers, both in large cities as well as in smaller towns, what you are saying is not what the reality is. Generally, I have found that in the smaller towns the share of premium paints that sells is sometimes higher than what you may encounter in Mumbai or Delhi and that may be very counterintuitive but that is true. Today, there is no dearth of money in the smaller towns of the rural areas and people today know where to spend the money on and therefore there are many, many shops that you find in the very smaller towns where the economy segment of the paint is simply not stocked because there is no demand for it, people only demand the premium items. So it is a misnomer that premium product sell only in metros I do not think that is true. Why our gross margins are higher than others that is a totally different question and there are two primary reasons for it. Almost a third of our revenue comes from highly differentiated stream of products where we have been the category creators and for most of the products by and large we are the only manufacturer and we have created a very heavy brand equity for some of those products. Naturally our pricing power for those products is considerably high and therefore those products yield a much higher gross margin compared to more generic paint products, that is one reason. The second reason for our higher gross margins is that we have fewer factories. We have only three manufacturing locations which are strategically located close to the source of principal raw materials and therefore our incoming cost of raw materials, the inward freight of raw materials which gets embedded in the cost of raw materials is generally low and therefore our gross margins become high because the total material cost as a percentage of revenue becomes lower. The flip side of that is that our products have to travel a larger distance to travel from the factory to the point of sale and therefore our outward freight cost are slightly higher than competition. But even if you account for both of them together even if you negate the negative effect of outward freight with the positive effect of lower inward freight, we are slightly better off than many of the larger players. I would not say that we are better off than all of the players and the gross margin contribution as I said another strong contributor is the fact that a large stream of our revenues comes from a very differentiated stream of products. Your third question about?

Percy Panthaki:

Before you want to that the dealer margin differential could you quantify that how much you could be versus our second or third number market share clear, how much margin differential would you have?



Indigo Paints Limited
May 14, 2021

Hemant Jalan:

That would not be a uniform figure from dealer to dealer. Now the way it works is that the pricing of paint companies to the dealer and that is what our revenue is that if you compare products apple by apple, apple to apple are pretty much uniform across the paint industry. So the revenue that a market leader of the number two or the number three player gets for can of particular quality of paint and the revenue that we get would be almost identical. Now there is a printed MRP on the container and the difference between the MRP and the price that you have charged the retailer is basically the margin that the retailer retains. Now there is no law that prohibits a dealer from selling less than MRP and that is typically what happens in any area when there is any large manufacturer who has a very high density of dealer network so you could have five dealers on the same street selling a particular brand, what happens is that there is a lot of competition between those dealers to hold onto the customer and they start undercutting the price below the MRP and therefore the net margins that the dealer is able to retain drops. Now the third point that you asked about same store growth versus growth because of expansion in network. I would say about my gut feel would be it is about 50:50 that whatever our growths that we record in a particular year about half of it comes from network expansion and about half of it comes from same store growth. Now that exactly granular calculation we have not done across the dealer network and that would be somewhat difficult to do it because even expansion of our dealers do not happen at the start of the fiscal, they kind of happen throughout the year, so to give a very precise quantitative number would be difficult, but it does come roughly equally from both places, so both are very important. You need to increase the sale at your existing dealer counters which we do by giving very aggressive annual schemes and some long-term loyalty schemes which lasts for four years, which is quite unprecedented in the industry. At the same time we realize that half of our growth has to come from network expansion and the expansion of tinting machines and therefore that is something that cannot be ignored and that is something that we have to focus on with equal vigor and we try and focus on both and that has been the reason why I guess we have been able to perform much, much higher growth rates than the industry over the last 10 years in succession.

Percy Panthaki:

That is very helpful Mr. Jalan. Thank you and all the best.

Moderator:

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

Shirish Pardeshi:

Good evening Mr. Jalan and team. Thanks for the opportunity and excellent opening commentary and the confidence what you have displayed I am quite impressed. I have two questions. You mentioned that throughout the year since October you have been taking price increases and if I look at your presentation roughly about 56% volume contribution



Indigo Paints Limited
May 14, 2021

comes from cement and putty and about 23% odd. 22% comes from primer and distemper, so a large portion of your business, has the volume contribution coming from these two segments. How do you decide the price increase because my understanding is very weaker in this paint industry so I am trying to believe that these are two of the commodity play which directly interface with lot of local competition, so how the pricing decide and you did mention that you are close to the proximity of raw material so if you can help me to understand how the pricing things change and what are the price change which you have seen in last one or two quarters?

Hemant Jalan:

You have rightly said that cement paint plus putty accounts for 56% of our volume contribution, but please note that it accounts for only 15% of the total value of the revenue and there would be differences from one company to another and cement paint is slightly smaller component, putty is the real big volume and roughly for any of the large paint players, putty would account for close to 50% of the volume and may be 13% or 14% of the value contribution which is why we say that looking at total volume growth is pretty meaningless number and that suggest a disproportionate growth in putty if volume growth is much higher than value growth because putty tends to contribute disproportionately to volume and its contribution to value is less. Now talking about our price increase, our differentiated products are basically in the field of certain very specialized emulsions like floor coats and acrylic laminates and sealing coats and tile coats and so on, we have a very, very differentiated enamel where the volume contribution may be low but the value contribution is reasonably high, so for our differentiated products we are able to make price increase without waiting for the rest of the industry to do so. Now even if you take a product like cement paint which is by no stretch of imagination, a differentiated product, but please realize that amongst the listed players we are perhaps the only manufacturer whose manufacturing cement paint. So we become the only branded player per se in the cement paint category where the competition is from the unorganized small scale sector, so we have no difficulty in increasing prices in cement paint without waiting for the rest of the industry, because the rest of the organized industry is really not into that space. Even if you look at distempers, there is an important component in distemper which is called pouch distemper which is sold in one kg pouches, which primarily sells a lot in the rural areas of India and the sales of that is pretty high. Now, many of the large listed players have over the years exited that space completely. I am not saying that we are the only player, the market leader is also present in pouch distemper as are we, but many of the other listed players have chosen to exit that space, so these also although they are not really differentiated products, these are products in which the level of competition amongst known brands is very, very low and therefore we are able to effect price hikes without resorting to waiting for the rest of the competition to do so. Even when it comes to primers, we do not really