INDIGO
Be surprised!

November 11, 2023

To,
BSE Limited
Corporate Relationship Department
25th 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,
Sandra Kurla Complex, Bandra (East)
Mumbai - 400051
NSE Symbol: INDIGOPNTS

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call for quarter half year ended September 30, 2023

Pursuant to the Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call held with the analyst and investors on November 06, 2023 at 11.00 hrs (IST) to discuss the unaudited Financial Results of the Company for the quarter and hlaf year ended September 30, 2023.

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

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited
DAYEETA SHRINIVAS GOKHALE
Digitally signed by DAYEETA SHRINIVAS GOKHALE
Date: 2023.11.11 12:02:45 +05'30'
Dayeeta Gokhale
Company Secretary & Compliance Officer

Encl: as above

"Indigo Paints Limited
Q2 FY '24 Conference Call"
November 06, 2023

MANAGEMENT: **MR. HEMANT JALAN – MANAGING DIRECTOR**
MR. SURESH BABU -- CHIEF OPERATING OFFICER
MR. CHETAN HUMANE -- CHIEF FINANCIAL OFFICER
MR. SRIHARI SANTHAKUMAR – GENERAL MANAGER – FINANCE & INVESTOR RELATIONS

MODERATOR: **MR. MANOJ MENON -- ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Indigo Paints Q2 FY '24 Conference Call hosted by ICICI Securities. 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 star then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Thank you, and over to you, sir.

Manoj Menon: Hi, everyone. It's a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this Indigo Paints Second Quarter FY '24 Conference Call. Without much ado, I'll hand over to the management for the introduction of the management team and further proceedings. Thank you.

Srihari Santhakumar: Thanks, Manoj. Thanks, everyone, for joining the conference call today. Today, we'll be discussing the financial performance of the company for the quarter and the half year ended September 30, both on a standalone and consolidated basis. From the management side, we have Mr. Hemant Jalan, MD of the company; Mr. Suresh Babu, Chief Operating Officer; Mr. Chetan Humane, CFO.

Over to Mr. Jalan for the performance highlights.

Hemant Jalan: Thank you. Thank you all for joining in on the earnings call of Indigo Paints for Q2 FY '24. Now, our financials for the quarter and for the half year ended 30, September 2023 have been uploaded on the stock exchange portals along with our analyst presentation, and we hope you've had a chance to go through them.

At the very outset, I'd like to highlight the consistency in our top-line growth. For the last two quarters in a row, Indigo Paints has witnessed an industry-leading growth rate and that too by a factor of more than 3x to 4x, which indicates significant market share gain by the company. While it is heartening to see the sustained top-line growth, the team is now motivated to propel this growth further.

We expect to increase the gap between our growth rate and the industry growth rate in the upcoming quarters. This is all a consequence of various initiatives which we undertook last year, which are starting to bear fruits now. I shall first elaborate on the standalone results for the quarter and the half year, after which I will get on to the consolidated results.

Now, compared to Q2 of FY '23, our standalone sales in Q2 of FY '24 has registered a value growth of 11.48%, which is far ahead of the industry growth rate. Our gross margin of 45.72% in Q2 FY '24 is higher than the gross margin of 41.72% on a Y-on-Y basis by 400 basis points and we continue to maintain the leadership position within the industry on gross margins.

EBITDA in the quarter has increased by 23.72%, from INR33.8 crores in Q2 of FY '23 to INR41.8 crores in Q2 of this year. The EBITDA margin is 15.45% this quarter, which is significantly higher than 13.92% registered in the comparable period last year.

If you will recall, last year in Q2, the company had a one-time gain of INR16.3 crores due to a tax reversal pertaining to earlier years. After adjusting for this one-time gain, which was recorded in Q2 of last year, our PAT in this quarter has increased by 25.92%. From a figure of INR20.76 crores last year same quarter to INR26.14 crores in the quarter just ended.

The PAT margin has also expanded from 8.45% in the same quarter last year to 9.56% in Q2 of this year. This is despite a significant increase in our depreciation expense this quarter due to commissioning of our new plant at Pudukkottai. If I talk about the stand-alone half-yearly results, our sales have grown at a healthy 17.33% from INR466 crores in H1 of last year to INR547 crores in H1 of this year. Once again, this growth rate exceeds the industry growth rate by about 4x to 5x.

The gross margins have expanded from 43.39% in H1 of last year to 46.7% in H1 of this year. EBITDA has increased by 29.64% to INR89.5 crores in H1 of this year compared to INR69 crores in H1 of last year. And the EBITDA margin has expanded to 16.35% from a figure of 14.8% in H1 of last year.

Once again, after adjusting for the one-time gain of INR16.3 crores due to tax reversal in H1 of last year, our PAT has increased by 41.2% to INR57.4 crores this first half compared to INR40.6 crores clocked in H1 of last year. And of course the PAT margin has expanded from 8.65% in H1 of last year to 10.37% in H1 of this year.

If we move now to the consolidated results for the quarter, our revenues have grown by over 15% to INR279 crores, while the EBITDA grew at 24.76% and PAT grew by 21.98%. The EBITDA margin was 15.1% and the PAT margin on a consolidated basis was 8.97%. Once again, the PAT growth rate numbers have been adjusted for the one-off gain recorded last year due to tax reversal.

The sales growth rate at Apple Chemie, our subsidiary, is expected to pick up considerable pace in the upcoming quarters because they have made a significant increase in their sales force across the country and the effect of that is beginning to kick-in. On a consolidated basis, for the half year ended September 30, 2023, our sales growth was at a robust 21.6%. Gross margins expanded to 46.46%. EBITDA increased by 32% to INR91.2 crores, while the EBITDA margin expanded to 16.1% from 14.8% in H1 of last year.

Again, after adjusting for the one-time gain last year, the PAT increased by almost 40% to INR56.84 crores compared to INR40.64 crores clocked in H1 of last year and the PAT margin expanded to 9.9% compared to 8.65% in the first half of last year. Now, the advertising and promotion spends have been largely in line with our guidance and our stated strategy. During the quarter just ended, while the overall advertising and promotion spends increased by almost 8% to INR15.8 crores, however, expressed as a percentage of revenue, the same has gone down. And this trend is expected to continue in the next many quarters.

In the Q2 quarter just ended, we had launched a new advertising campaign to promote our economy range of emulsions, both for exterior and interior surfaces. In the current month, in November, we have just launched a Kerala-centric advertisement, which has already gone viral.

The advertisement features both our brand ambassadors, Mr. M S Dhoni and Mr. Mohanlal, in the same ad, to promote our premium differentiated product, which is the dirt-proof and waterproof range of exterior paint. We have mentioned in our analyst presentation our volume and value growth numbers for each of the four major categories of paint products, being consistent with our past pattern of transparent disclosures.

You will note that during this quarter, the company witnessed very high volume and value growth in the putty and cement paint category and also in the primer and distemper category. Fairly good growth in the emulsion category, whereas the growth was somewhat muted in the enamel and wood coating category.

Volume growth numbers are slightly higher than value growth numbers for almost all the categories, because across the range, the growth in the economy range products exceeded the growth rate of the premium range products. We continue to focus on network expansion, although we give a larger emphasis on improving the throughput per active dealer.

Increasing the throughput per dealer is driven largely by increase in our tinting machine population. Our count of active dealers stood at 17,148 as on 30th September, and our tinting machine population stood at 9,114 on the same date. You will note that our tinting machine addition is gathering considerable pace. We added 457 machines in Q2, compared to 384 machines that we added in Q1, compared to 295 machines that we added in the yet preceding quarter, which was Q4 of last year.

During the quarter just ended, we have also opened two more depots, one in Eastern India and one in Western India, to increase our distribution efficiency. We intend to open a few more depots in the next quarter to further strengthen our distribution network. On the capacity front, we are glad to announce that our new water-based plant at Tamil Nadu went on stream at the most opportune moment on 18, September. Opportune because it was timely to cater to the high demand during the ongoing festive season. We have also started civil work at our new water-based plant, which is being set up at Jodhpur, which is expected to get commissioned in another 18 months.

Finally, as the saying goes, the proof of the pudding lies in the eating. And the back-to-back industry-leading growth rate for two quarters in a row is proof that the new measures taken by our team last year are working very well on the ground. Backed by this conviction, we are undertaking further new initiatives. And one such initiative is our foray into project sales. We are building a team to venture into project sales in several states of India. And we are also setting up a separate team to focus on construction chemicals and waterproofing products across all depots in the country.

Q3 has started off on a very positive note for us. And the growth rate that we have witnessed in sales in October has surpassed the growth rate that we have seen in any given month during the last three years to four years. If you follow our results carefully, you will note that Q3 is historically a much better quarter for us than Q2, both in terms of sales as well as profitability. And Q4 is always our best quarter on both accounts. Hence, all I can say is that the best from Indigo Paints for FY '24 is yet to come. Thank you.

And we now look forward to taking your questions.

Moderator: Thank you very much. Our first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: Congrats on industry-leading growth and gross margins. My first question is on staff cost. It is up 5% quarter-on-quarter and 45% Y-o-Y. You also said that, you are setting up a team for the project business. And for waterproofing and construction chemicals, it is underway. So if I take additional incremental cost in terms of project team and fully deployed waterproofing and construction chemicals also, where do you see this quarterly staff cost? It was around INR26 crores broadly in Q2. Where do you see this stabilizing in the next few quarters?

Hemant Jalan: I think the increase in manpower that will happen in project sales and in construction chemicals is going to be a very, very small percentage of our existing staff cost. The senior level additions that we had planned are already in place and they have already been reflected in the staff costs of the last quarter. What we need to add are people more at the middle management level. And the size of the team that we will be building at this stage is not going to be prohibitively high. And therefore, I don't expect the employee cost to rise very substantially from the level at which they are at.

Maybe 4% or 5% on an absolute amount could be the possible increase that we are looking at. So it's not very material as far as our margins are concerned. Because these increase in employee costs do end up giving a significant return in terms of increase in the top line sales and therefore also in the bottom line. And therefore, they are well absorbed in the cost structure.

Abneesh Roy: My second and last question is on the demand side. So, one is one other paint company had said that in Kerala the demand is a bit weak. I wanted to understand how you have faced demand there. Especially, given the new advertisement with Mohanlal and Dhoni is being done there. Is it helping you grow a bit similar to some of the other markets?

And second, on a PAN-India basis, enamels and wood coatings as you highlighted, that has been a laggard. So do you think in Q3 you would expect recovery in that part of business?

Hemant Jalan: See, Kerala has shown muted growth in the last couple of months. And that has been called out by other companies also. We are much more exposed to Kerala as a percentage of revenue than other companies. So you would have expected us to be much more adversely affected by this phenomenon. Fortunately for us, the other states are galloping at a very healthy rate. And they have made up for this somewhat muted growth in Kerala.

We have had growth in Kerala on a positive level in each of the months. But yes, the growth levels have been somewhat low. I understand that some companies have even registered negative growth in Kerala. I do not have precise figures to substantiate it. As far as this new advertisement is concerned, that advertisement has hit the TV screens only from 1st of November. So its effect will be visible as far as Q3 is concerned.

These ups and downs in different parts of India are not uncommon in the paint industry. And I do not think anyone has any logical reason as to why they happen. In a particular quarter, some regions grow very fast and some regions grow slowly.

And the reverse happens probably in the next quarter. So these things are hard to predict. But despite having more than 25% of our sales in Kerala, we are still registering way over industry top-line growth. And that means that the other states are doing extremely well. And that is a good sign as our dependence in Kerala comes down.

Abneesh Roy: And on the question on enamels and wood coatings?

Hemant Jalan: So enamels and wood coatings, again, look at last quarter. Now, we had very good growth in enamels in the last quarter. So it was like 35% or something if I remember correctly. So again, these quarter to quarter variations happen. In some quarters, some segments grow much faster than other segments. I think it's more meaningful to look at it in the entire year as such. And that evens out these quarterly blips and dips that happen. So I won't read too much into it. But yes, in the putty segment, we have consistently been growing very well.

Last quarter, if I remember correctly, our emulsion growth was somewhat tepid. And this quarter, that has bounced back. Enamels was very good last quarter. And it has been somewhat neutral this quarter. And I think that a statement to that effect has been made by some of the other larger paint companies also, whereas we continue to do extremely well in the primer distemper category.

Unfortunately, we don't have this segment-wise breakup of value volume growth from other companies. So it is difficult to benchmark as to how we are doing in each segment vis-a-vis the competition. But we disclose all these numbers consistently for the last 3 years since we have been listed. I wish you would use your influence with the other paint companies to disclose in a similar manner so that benchmarking becomes a little easier.

Moderator: Thank you. Our next question is from the line of Atharva Bhutada from Purnartha. Please go ahead.

Atharva Bhutada: Congratulations on a great set of numbers. So I have two questions. One was, how we have been able to boost industry with such high sales growth when the whole industry has been growing at 3%? Can you please explain how we have been able to get so much demand for our products? And what strategies have been chosen to grow so quickly?

Hemant Jalan: So you want to know why we are growing much higher than the entire industry?

Atharva Bhutada: Yes, sir.

Hemant Jalan: I guess, we must be doing a better job of execution. And secondly, you must remember that our base is somewhat lower than them. So we have loads of catching up to do. So unless we grow at a much higher rate than the rest of the industry, it would be impossible to catch up and overtake some of the companies that are significantly larger than us. And that is something that we very much want to do. We have spelt out the strategies that we have undertaken in the last fiscal year.

And that was to shift our focus to the larger cities in India where we were underrepresented. To focus much more on tinting machine installations, which is happening now, to engage much more with the influencer community, the larger printing contractors in these larger cities, which also we have been doing for the last 18 months, and to significantly ramp up our sales force, where we felt that over the last few years, the size of our sales force had not quite kept up with the increase in sales that we had registered.

So we made some fairly large increases in our sales force in Q1 of this year, or maybe it started in Q4 of last year. And now, every quarter, we are making modest increases in the size of our sales force. And that is helping us all of this put together is helping us register a significantly higher growth than the rest of the industry, which we hope will continue into the quarters ahead.

Atharva Bhutada: And so, other paint companies have hinted a slowdown in rural spending. And also downgrading happening in rural demand. So are we seeing an uptick in demand in the rural areas, or have we lost any market share to the local players due to downgrading?

Hemant Jalan: No, I don't think so. We do not see any stress in rural demand for paints. We have a fairly strong presence in all the Tier 3, Tier 4 towns in India. And we find that the overall growth rate in rural sectors is just about the same as far as the growth in the urban sectors is concerned. So at least from our end, from our perspective, we have not noticed any slowdown in rural demand. And I don't think we have lost any market share to any local player.

If that would have happened, then our top-line growth rate would have been much, much lower than what it is today. So I think we are gaining market share. It's hard to say at whose expense we are gaining market share.

Moderator: Thank you. Our next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: So my question is on the project sale space where you are trying to build up your team. So I just want to understand whether initially you would like to go with a few states and then you want to expand this business? Or you want to get into the states where you have a good presence?

Hemant Jalan: Are you talking about this project sales?

Kaustubh Pawaskar: Yes, sir.

Hemant Jalan: Yes, you're absolutely right. We would like to. We have selected about eight states in India where our retail presence is the strongest relative to our overall portfolio, because to do good project sales, you need to have a strong presence on the retail sector also. You need high visibility in the retail space to be able to venture into project sales. And since it is a new area for us, we would hesitate in going big bang and starting project business in every part of India.

So we are attempting to do that initially in about eight states. We will see how the going goes, what kind of traction we get, what kind of corrective actions, if any, are required in our approach, and then gradually scale up on an all-India basis.

Kaustubh Pawaskar: Right, sir. So in terms of product portfolio as well, are we looking at a different kind of a product portfolio for this particular stage? Or we will be taking over our current portfolio under this particular business?

Hemant Jalan: No, it will be the same portfolio completely. And some companies are known to perhaps give a separate line of products for project sales, which are priced a little lower, and perhaps the quality is also not on the same level as the retail products that they offer. We do not intend to imitate that. Yes, project business is a little more competitive in price, but I think we can handle it within our existing portfolio without diluting our product quality and coming up with a separate range for project sales.

Kaustubh Pawaskar: Right, sir. So my second question is on the differentiated product strategy. This was one of our strategies in the past to drive, or it was one of our key growth drivers. But, recently we have not been emphasizing more on this. So anything on the innovation front which you would like to comment going ahead, which you are planning to add to your portfolio in the coming quarters ahead or maybe, you know, another one year-to two-years?

Hemant Jalan: So even the differentiated products that we had launched eight-years, 10-years ago, at the end of every year, we do report their contribution to our overall top line. And every year, we are happy to find that there is at least a 1% increase in their share in our overall sales, which means that they continue to grow at a faster rate than the rest of the portfolio. There are a lot of new products that keep coming up that I won't call them very, very differentiated.

Those are more of minor variations or, different variations with higher sheen or higher dirt resistance, etcetera, and existing categories that keep getting launched. That is, I think, something very inherent with the industry and something which most companies do regularly. So it does not require special mention.

As far as coming up with a really innovative, different product is concerned, yes, there are some products that are on the anvil, but I would hesitate to talk about them unless they actually get launched. Some of them could be very, very material, but they're also more challenging to develop. And we have been working on them. But even without that, more than a 30% contribution in our portfolio from differentiated products is not at all a bad number and we are happy to let that existing portfolio continue to grow.

Kaustubh Pawaskar: Right, sir. And one last one on the construction chemical. So we have seen many paint companies entering into this space and there is a lot of competition in this particular space. So, how you would be looking at your product and how you are planning to expand it or maybe compete with these large players who are already there, some of them have a considerable market share. So, how are you planning to compete with these large players in this space?

Hemant Jalan: So we are competing with them on the paint front. So, construction chemicals is no different. I mean, there is no product category in the consumer space which is devoid of competition or devoid of presence of some very large established giants. So we have made a very successful foray into the paint industry. Being a rank outsider, we have definitely come to the number five position in paints over the years, fighting the might of very, very large and very well-established and very well-run companies. So I don't understand as to why it would be any different when it comes to construction chemicals.

We are blessed with very, very high quality know-how, which has flown to us from our acquisition of Apple Chemie, who are a very, very sound technology-driven company in the construction chemicals and waterproofing space. Of course, they operate in the B2B space, but aided with that acquisition, I think, are the products that we have launched. Our first emphasis is on product quality, that the product quality has to be superior to whatever else is available in the market. We do that for every paint product and we have followed the same philosophy with construction chemicals.

The second is to advertise and build a brand. We have recently shot a TV commercial, which will probably air from maybe January, on construction chemicals with our brand ambassador, Mr. M S Dhoni, to try and do some sensible brand building in this space. And the third is to build a network outside the paint dealers, because a lot of construction chemical sale happens through cement dealers or through other hardware dealers. Let Suresh speak a little bit about that.

Surendra Thundiyil: We have actually started building a parallel team to cater to what you typically call the building material counters, which specialize in selling more of this construction chemical. So we are sure that today we are catering to almost 21% of our existing base in terms of having put the materials in the shelf space. So going forward, we will see more traction coming in and definitely it will start figuring out in terms of total share to the total sale of ours.

Kaustubh Pawaskar: Thanks for the understanding and all the best for your future conference.

Moderator: Thank you. Our next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: In terms of your active dealers, which you have on the printing machines you are actually present, how many of these active dealers are multi-paint dealers? And second, in terms of the machines you have installed, in how many places will you be the only machine?

Hemant Jalan: Almost all paint dealers in the country are multi-brand. It's very, very rare to find a single brand paint dealer of any company anywhere in India. So I would say that more than 99% of the dealers would be multi-brand. And to find a dealer where ours is the only printing machine would also be exceedingly rare. Most paint dealers today have a minimum of two tinting machines of different companies and many have three or more. So finding a paint counter where we are the only one who is having a tinting machine may be in some remote rural areas. That could be true. But in urban centers, it would be very hard to find such a dealer.

Lakshminarayanan: And when you appoint a dealer or put in the machine, what would be your proposition to the dealer? Is it a wide range of products or is it better incentive to the dealer? What kind of challenges do you face and how do you counter them?

Hemant Jalan: So it is a difficult proposition. Obviously, the dealer understands that he would make a slightly more margin by selling Indigo Paints compared to an industry leading brand because our width of distribution would not be as intensive. And therefore, a dealer selling Indigo Paints would typically not face competition from another dealer selling Indigo Paints who is 50 yards away or 100 yards away.

So our dealers are a little more spread out and therefore they enjoy a higher margin. However, the higher margin in itself does not convince a person to install a tinting machine. He is also concerned about what volume of sale will he be able to generate. Unless he sees a higher or a significant volume of demand coming in, usually the dealer will not give you the floor space to install a tinting machine. So that requires a lot of working with the influencers. It requires a lot of sustained brand building efforts in terms of advertising.

And once the dealer sees enough demand coming in for your product, either directly from the end consumer or from the influencers, which are the painters or the contractors, once he sees that coming and once he is convinced that he can sell a sizable portion of Indigo Paints through the tinting machine and thereby earn a much higher overall margin, that is the time when a dealer is convinced to install a tinting machine.

So installing tinting machines is not easy because most dealers already have two brands of tinting machine. So when a dealer wants to install your tinting machine, he is usually displacing some other tinting machine which is already there in the counter. Now, another value proposition that we have, which aids in this process, is that even our tinting machine is very unique in its structure. We are the only company that offers a tinting machine with an embedded computer inside it.

All other tinting machines offered by our competitors require a separate external PC or a laptop to power it, which becomes a sizable investment on the part of the dealer. And it consumes additional shelf space to put that PC or a laptop. Our tinting machine is very compact. It does not require any external computer to power it because it's embedded within that. And that also becomes an added attraction as far as the dealer is concerned.

Lakshminarayanan: And in case of any competition, a large or small competition coming in, how do you look at it? What would be the proposition? Typically, it would be a reduction in the realization of the end customer or it would be higher margin or it could be putting more machines because you outlined that putting machines is not easy. It has to be done holistically. How do you think about any new entrants coming in or big or small in this?

Hemant Jalan: So it is not for us to speculate on what strategy a new entrant would adopt and how they would circumvent the various modes that exist in this sector. That question is better addressed to the management of the proposed new entrant into the space. Whatever strategy they may choose to adopt, I don't think the paint industry is losing sleepless nights over it.

The industry is large enough to accommodate more players and we are of the firm conviction that any new player, no matter what be its corporate size, is going to have to make a gentle entry into this sector and grow incrementally because it takes time to establish distribution network to populate printing machines, to build a brand and to establish the connect with the influencer community.

And in such a large industry with decorative paint sales being in excess of INR60,000 crores per annum, any new entrant who may achieve whatever volume they want, whether it is INR1,000 crores, INR1,500 crores, INR2,000 crores, is not going to cause any kind of a disturbance as far as the overall industry is concerned. So this is not the first time when a large group has entered the paint sector and this will not be the last.

And going by past track record, no new entrant has ever shaken up the industry or caused any disruption into the profitability pool. So we just have to wait and see as and when the new entrants will come. They are welcome. They will keep us all on our toes and I don't think anything materially will happen to any paint company which is already there.

Lakshminarayanan: So profitability pool will not go through any material changes, is what you are hypothesizing?

Hemant Jalan: I don't expect it to because if somebody uses price as a lever to enter this industry, I don't think that that would be a sensible strategy for any company because this is not a product which sells on low pricing. In fact, having a slightly premium pricing position slightly aids the entry of any new entrant into the sector. So I don't expect that low pricing is a strategy which is going to work for anyone. And I sincerely doubt that any new entrant would go down that path because that would be at their own peril.

Moderator: Thank you. Next question is from the line of Varun Singh from ICICI Securities. Please go ahead, sir.

Varun Singh: So my question is on the existing discounting which is happening in the market. I understand your commentary that this is not a segment where a price as a primary vector for consumers to make decisions. But still, having said that, like whatever discounting which is happening currently, do you think that will have a repercussion on the brand or the brand perception itself? Any commentary you wish to offer?

Hemant Jalan: On whose brand?

Varun Singh: Sir, I'm saying in general, because of higher competition, excess discounts, offers, etcetera. are being rolled out. Will that not have some…¦

Hemant Jalan: I don't think that excess discounts or something have anything to do with competitive intensity. I mean, the competitive intensity has not changed significantly in the last 12 months. This is a factor of variation in raw material prices. Now, typically, the industry is accustomed to a certain range of gross margins and therefore a certain range of EBITDA and PAT margins, which is fairly good and fairly steady.

Now, what happens is that whenever raw material prices go up by, let's say, 10%, 15% or 20%, rather than immediately go for a price increase, which is a complex exercise, it means changing MRPs and there is a lot of material in the pipeline. So it causes a lot of unnecessary disruption. What paint players do is that they will lower their discounting, etcetera, to the trade and therefore, in an indirect manner, it gets passed on to the consumer without causing any supply chain disruption. The reverse happens when commodity prices ease.

Now, in the last 12 months, we have seen an easing of commodity prices, which started maybe May, June of last year and kind of bottomed out a few months ago. And during that period, the industry had two choices, either lower the prices from whatever escalation they had taken when raw material prices went up very, very sharply two years ago or give higher discounts, which in a way gets passed on to the end consumer. So they don't get retained by the dealer by and large. So the industry at the moment has chosen to increase the level of discounting. It is being done by every player in the industry.

Last three months, prices have been reasonably steady. If there were to be any significant move further in the downward direction, then quite possibly instead of further increasing discounts, the industry may resort to a price cut. But that does not appear visible on the horizon at this point in time, prices look quite stable, very, very minor upturn visible in the last couple of months, but too minor to cause any significant change in the discount structure.

And in case the raw material prices start moving up, you will find this discount level slowly shrinking until you reach a point where price increase becomes a necessity. So I don't think that it affects the brand value of any company. And I don't think that this increase in discount has any relation to the competitive intensity, which has not undergone any change in the last 12 months.

Varun Singh: Got it. Understood, sir. Very clear. And the second question is on Apple Chemie. So, sir, what is the three-year view? How do you see growth rates and hope for differentiation over the years, sir?

Hemant Jalan: So Apple Chemie was a very strong B2B player in construction, chemicals and waterproofing in the state of Maharashtra, with very strong marquee clients like L&T and Shapoorji Pallonji and B.G. Shirke and Afcons and a whole lot of other leading infrastructural project executors. So they have been supplying products to, Pune Metro, Mumbai Metro, now the new trans-harbor link coming in Mumbai, the Samruddhi Expressway from Nagpur to Bombay and so on and so forth.

Now, after our acquisition, we have pushed them to expanding their sales force outside Maharashtra in many regions. So they have made a very radical change in their sales force. Now, they have sales offices in 8-10 parts of India outside Maharashtra. Being a B2B business, it takes a little time to get your products approved. Maybe even with the same vendor, even if it is L&T or even if it is Shapoorji Pallonji in Delhi or Hyderabad or Chennai or Kolkata, you will have to go and get the product approved at each location. And they have started getting their approvals and they have started getting their orders from these newer geographies.

And this we expect to grow. We are roughly looking at for the whole year, this financial year we expect that the top line would grow from 45% to 50% or thereabouts in this year. And depending on how the scale up happens, once we get the confidence that these new geographies are yielding the desired results, we will push them into further strengthening the sales force in all of these geographies and maybe some other geographies which they have not yet looked at. So the sky is the limit. It's a huge industry with massive potential.

And, there is a possibility. I'm not saying that it will happen, but I'm saying even 100% growth on a Y-on-Y basis is not inconceivable given the potential that exists and given the fact that they have been so far operating in just one limited geography with considerable success.

So we are quite optimistic about Apple Chemie. I don't want to give a number guidance as to where Apple Chemie will end up in turnover in the next two to three years. We are looking at a INR55 crores to INR60 crores turnover in the current fiscal. Whether next year it scales up to INR100 crores or a little less than that or much more than that, I think we'll have to take it one step at a time, see the results for this year before giving any guidance for the next fiscal. But we are very optimistic about very high growth rate as far as that company is concerned.

Varun Singh: Understood, sir. And any scope for differentiation compared to other players into the segment?

Hemant Jalan: They do have some differentiated products which other people in the country are not manufacturing, where they compete with imported products. And because of their sound technology, they are able to operate at a much, much lower price than the imported counterparts and still deliver extremely high gross margins in some of those products.

Now, differentiation in this sector, when you talk about B2B, it actually changes from site to site, because the grade of cement being used in one project in a city could be quite different from the cement being used in another project in the same city. The quality of sand varies and therefore, you have to keep tailor making the additives and construction chemical to suit each project. And you virtually have to set up a mini mobile lab at each project site to continuously monitor that, because even during the course of execution of a project, the quality of sand or the quality of cement may undergo some change.

So a minor change is required and some customization is required at the level of construction chemicals. And you have to be very nimble on your feet to keep doing that, if you want to sustain, because all of these projects typically last for about three years and many changes happened in the quality of ingredients during that three year period. So that kind of change, differentiation, being very service oriented, having mobile labs at the sites of large projects are something that they do, which is what has made them successful in the past.

Varun Singh: Understood, sir. And sir, one last question, what would be our progress on Strategy 2.0 and if you could highlight the success of it in some micro macro market in India for us?

Hemant Jalan: No, I can't give you granular information at the state level as to which state it has worked better and which state it is not. Obviously, the strategy is working very well. Otherwise, we would not be registering more than 4x the industry growth. So the proof of the success of the strategy is there before you in terms of numbers. All I can say is that, our team is confident that this gap between Indigo Paints and the rest of the industry in terms of growth percentage, we would expect it to only widen in Q3 and Q4.

There are many markets in India, which in the last quarter have given us in excess of 100% growth. And these are not tiny territories. These are some fairly big states where we already had a good presence. Why some state gives you 100% growth and some state gives you a 5% growth is a question that is difficult to answer. It all depends upon how well the team there is executing.

We would like all states to rise and give us at least a 50% growth rate. That is all our endeavor and that is the direction in which we are pushing. And we hope we come up with much better industry leading performance in Q3. That is our attempt.

And as I said, October has been a spectacular month. The growth rate that we have witnessed in October of this year, I have not seen in our company in any month during the last three years, four years. So it has been a pleasant surprise. Can we sustain it in November, December? We certainly hope so. But we keep our fingers crossed.

Varun Singh: Got it, sir. Very clear.

Moderator: Thank you. Our next question is from the line of Nilesh Patil from ICICI Securities. Please go ahead.

Nilesh Patil: We have indicated that the growth in Tier 1, Tier 2 cities have outpaced the growth in Tier 4 and Tier 3 cities. We just wanted to understand whether in Tier 1 and 2 cities as well, the premium product sale has led to economic products? Is it a fair understanding?

Hemant Jalan: The growth rates? Yes. I mean, overall growth rates in the economy sector in Q2 have grown much faster than the premium range products, across all sizes of cities. That is more a phenomena of what happens during this quarter, which is a monsoon quarter. Typically, I mean, the painting is led by exterior painting and most of your premium products in terms of share of total pie happen to be your exterior range products. And exterior products do suffer a muted growth rate during this period, because of monsoon. Q2 is completely a monsoon quarter. And the product mix changes substantially.

So it is not surprising that most companies have reported a higher growth rate in the economy range products. And so have we, which is why for every company, the volume growth rate is a little higher than the value growth rate, because in a price stable scenario, if all products were to grow at the same rate, theoretically, there should be zero difference between value and volume growth.

The fact that volume growth exceeds value growth means that the lower end products have grown at a slightly faster pace than the premium range products. And to answer your specific question, that is true both in Tier 1, Tier 2 towns as well as in the smaller towns, at least as far as last quarter is concerned.

Nilesh Patil: Yes, understood. So in Q3 or you can say in H2, the pricing growth is likely to revise, can we assume that?

Hemant Jalan: That's very hard to predict. We are seeing a growth in both segments, the premium segment and the economy sector, which segment will grow faster. Now, if the premium sector growth will outstrip the economy sector growth, of course, the share of premium products naturally rises in Q3. But when you do a year-on-year comparison, it was also higher in Q3 of last year.

Now, whether the growth rate of the premium segment will be higher in Q3 compared to the economy segment is something very hard to predict. But overall, the share of premium products definitely rises in Q3 and Q4, which is why gross margins improve tremendously during Q3 and Q4 and so do EBITDA and PAT margins.

So that I can safely predict that the gross margins would be significantly higher in Q3 and much more higher as we go forward into Q4. And the same you would notice for EBITDA margins and PAT margins. Now, whether the difference between value and volume growth rates, would reverse or flip itself is something that, frankly, I don't think I can make an honest prediction.

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

Hemant Jalan: Thank you. Thank you all for giving us a very patience hearing and joining in this call. I wish you all a very, very Happy Diwali and a joyous festive season. And we look forward to interacting with you again three-months from now. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.