



**INDIGO**

Be surprised!

Date: November 07, 2021

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

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 October 29, 2021 at 18.30 hrs (IST) to discuss the Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2021.

The above information will also be made available on the website of the company [www.indigopaints.com/investors](http://www.indigopaints.com/investors)

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 Q2 FY22 Earnings Conference Call  
hosted by ICICI Securities”

**October 29, 2021**



**MANAGEMENT:** **MR. MR. HEMANT JALAN - CHAIRMAN AND  
MANAGING DIRECTOR, INDIGO PAINTS  
MR. SRIHARI SANTHAKUMAR – DGM FINANCE,  
INDIGO PAINTS  
MR. CHETAN HUMANE – CHIEF FINANCIAL OFFICER,  
INDIGO PAINTS  
MR. SURESH BABU - CHIEF OPERATING OFFICER,  
INDIGO PAINTS**

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



*Indigo Paints  
October 29, 2021*

**Moderator:** Ladies and Gentlemen, Good day and welcome to the Q2 FY22 Earnings Conference call of Indigo Paints 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 ‘\*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon:** Hi everyone. It is an absolute pleasure of ICICI Securities to host the Q2 FY22 Results Conference Call of Indigo Paints. I would just hand over the call to Srihari - DGM Finance and investor relations for further proceedings. Srihari over to you.

**Srihari Santhakumar:** Thank you Manoj. Good evening everyone. Thanks for joining the earnings call of Indigo Paints today. With us today from the management side we have Mr. Hemant Jalan, the Chairman and Managing Director of the company, Mr. Suresh Babu, the Chief Operating Officer, Mr. Chetan Humane – Chief Financial Officer and myself, I am Srihari I am heading investor relations here. We have uploaded the presentation of the result for the company for the quarter and half year ended September 30<sup>th</sup>. As usual we will proceed the call with the opening remarks from Mr. Jalan about the performance of the company following which we will open the floor for the questions and answers. Over to you, sir.

**Hemant Jalan:** Thanks all of you for joining in on the earnings call of Indigo Paints for Q2 FY22. Sincerely hope that you are and your family members are all double vaccinated and safe and probably getting back into a physical mode of working from the earlier virtual mode for the last one and half years. Now the last quarter has seen a gradual easing of the COVID lockdowns throughout the country which has resulted in a natural uptake in sales volumes. Unfortunately, in this second wave Kerala has witnessed the highest COVID case load and that state contributes to almost 30% of our top line. So, sales in Kerala remains subdued until the month of July. It is from early August that the opening of restrictions happened in Kerala and there was a very, very sharp rebound in Kerala sales during the months of August and September.

Now you are all aware that we have witnessed a very delayed monsoon withdrawal in India this year and painting activities are adversely impacted whenever there are rains. In fact the month of September this year has witnessed one of the highest ever rainfalls in India over the last 50 years. Had it not been for these adverse factors of COVID lockdowns in Kerala in the month of July and the late monsoon withdrawal I think our top line growth of Q2 would have been much higher. On another front I would like to inform you that the construction of our new water base paint plant in Tamil Nadu is progressing extremely well and on schedule. Civil construction is going on and the machinery procurement is also in full swing and we detail the comments that we had made in the last quarter earnings call that we hope to commission this plant sometime in Q2 of the next financial year.



*Indigo Paints  
October 29, 2021*

Now we feel that Indigo is still a young company in the paint sector relatively and it has to play a long term growth story by continuously increasing its advertising presence and improving its brand equity. So, therefore we have continued to advertise aggressively on television channels all across the country in Q2, including all the IPL matches gaining high visibility. So, this is going to continue in the remaining quarters of this fiscal year. Now the financials for Q2 of FY22 have already been uploaded on the stock exchange portals along with a presentation for analyst and some of you may have had an opportunity to peruse them. Compared to Q2 of last fiscal our Q2 of the current fiscal shows a sales growth of 26.65%, but what is more relevant in COVID times is to look at the two year growth and that is the Q2 of this year compared to Q2 of FY20 and there we see an increase in top line of 52.37% which I think is perhaps the highest in the paint industry. Gross margins had started slipping starting from Q4 of FY21 due to spiraling raw material inflation in the prices: it went down a little further in Q1 of this fiscal and it has understandably contracted further in Q2 although maybe not to the extent that other companies have reported the ones that have reported the quarterly results and we have still ended Q2 with a gross margin of 41.72% which perhaps I think would be the best in the industry.

So, we have effected a series of price increases over the last 10 months. Unfortunately, they have not kept pace with the increase in the raw material price escalation. So, because of this and partly also because of increased advertising and promotional spends our EBITDA has contracted by 19.61% in Q2 compared to the Q2 of last fiscal and the profit before tax has contracted by a similar number above 19.73% during the same period. Now these numbers are obviously not good, but perhaps better in what the rest of the industry is experiencing mainly because of our proactive steps in affecting price increases a little more than what the average of industry has been. You will notice that the PAT numbers for this quarter have contracted by more than 19.6% in fact by 27.95% in Q2 compared to Q2 of last fiscal, but that is entirely because of some deferred tax adjustments that were availed by us in Q2 of last year and therefore our net tax outflow in Q2 of last year was significantly less because of some deferred tax adjustments.

If we look at the first half of this fiscal the top line growth has been 35.74% higher than the first half of the last fiscal. Once again, to make meaningful conclusions you need to look at the two year growth in the first half sales and therefore if we compare the first half top line of this fiscal with the first half of FY20 our expansion in top line has been 29.16% once again perhaps the highest in the paint industry. EBITDA in H1 of this year has contracted by 9.47 compared to H1 of last year marginally due to gross margin contraction and more majorly due to a 100% increase in advertising spends in H1 of this year compared to H1 of last year. PBT contraction in H1 has been much less by 3.36% compared to H1 of last fiscal and the contraction in profit after tax has been a little higher at 7.52% once again for the same reason because of deferred tax adjustments availed in H1 of last year. Now you are worth other paint majors commenting extensively on the raw material price inflation which has been huge in the recent months and frankly it is very difficult for any of us to predict the future trajectory of raw material pricing.



*Indigo Paints  
October 29, 2021*

Some of the raw materials like titanium dioxide and plastic materials have witnessed a global escalation and prices which has been partly responsible for the raw material inflation that we are seeing. A lot of it is also can be attributed to the global shipping crisis that the world is facing, freight rates across international borders have shot up drastically, for some locations they have gone up by a factor of 10 and there is a huge container shortage and there is a complete disruption in the supply chain where shipping schedule have gone totally haywire.

Now all paint companies have announced a major price increase from 12<sup>th</sup> of November just a week after Diwali and we have also made the similar announcement to overcome this sky rocketing inflation in raw material prices and if raw material prices hold at the present elevated levels and do not go up further then definitely gross margins will start climbing back sharply in Q3 and if raw material prices hold at these levels then it would be Q4 when I think we would start seeing the gross margin figures coming back to the figures that they were or close to that a year ago. Now in our presentation that we have uploaded we have as always given details of volume and value growth in four broad sub categories of our products consistent with the disclosures that we have made in the past because we repeat we believe that reporting an overall volume growth does not give any meaningful insight in the sector.

Naturally, because we have had several rounds of price increases it is not surprising that for each segment the value growth is more than the volume growth in each category and that gap is likely to get accentuated in the future quarters because of the steep price hikes that the industry is taking. What is heartening to note in that chart is that our volume growth have been highest in the Emulsion category and the Primer category and it is these two categories which comprised of the largest share of the overall value of paint sales and within the emulsion category we have seen a much, much higher volume growth rate on the premium end on the emulsion category which is very good as far as the future trends are concerned and I think it reflects the increasing brand equity of Indigo Paints in the industry because to crack growth in the premium end of the emulsions is the most difficult for a relatively new player.

Now as we have said in the past the main engine for growth for our company over the next few years will have to be led by an accelerated expansion in our dealer network and a large increase in our tinting machine population. Now COVID restriction on travel and dealer engagement have made both of these jobs a little difficult in the first half. Despite that our count of active dealers is almost touching 15,000 as on 30<sup>th</sup> September and our tinting machine population has risen sharply to almost touch 6,500. Fortunately, we have not faced any significant disruption in our tinting machine supply so far due to the so called global chip shortage. We hope to increase our active dealer count to 17,000 by the end of the fiscal and we will continue to aggressively populate tinting machine across our network. Now we do expect to continuously increase our advertising spends each fiscal over the previous fiscal, but this year because of this huge increase in raw material pricing we have to make these increases in a somewhat calibrated manner so that our profitability is not adversely affected.



*Indigo Paints  
October 29, 2021*

We are planning to shoot a new set of TV commercials towards the end of next month when Mr. MS Dhoni from his world cup mentorship from Dubai and these new commercials will attempt to position our brand in a very unique way within the industry. We have over the last couple of months also launched some very innovated measures to gain market share specifically in the emulsion and the primer categories from the larger players because those are the bread and the butter of the paint business and they account for bulk of the industry sales value. Now that COVID seems to be more or less behind us a lot of differentiated products that we are been working on over the last few months we will start launching them one by one over the next few months with at least one very differentiated product being launched in November itself. So, that is all that I have to say. Most of the figures and the analysis are there in the presentations for you to pursue and I will be happy to take questions from any of you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Manoj Menon. Please go ahead.

**Manoj Menon:** Just a few book keeping clarificatory questions one if you could tell us about the Kerala contribution and rest of India?

**Hemant Jalan:** See as of the last fiscal we had reported publicly that Kerala had contributed to almost 30% of the top line. We do not like to disclose these numbers on a quarter-on-quarter basis at the end of the year we will again report to you as to what the Kerala numbers have been. Naturally, because we have a fairly dominant position in Kerala our overall growth number in Kerala cannot be expected to be as high as the rest of the country where our status is a little more nascent. However, for the months of August and September I would say that we were surprised to see that Kerala clocked growth numbers which were more than the company average and that is very unusual and heartwarming to see that happening.

**Manoj Menon:** Sir actually the reason or the objective of asking this question was on two fronts one short term to understand whether the 26% year-on-year growth 52% two year CAGR which you had is that in some way let us say but for Kerala let us say July impact etcetera in some way to say that on a like-to-like basis it had been better second also to understand the non Kerala contribution from a trajectory point of view to kind of qualitatively have a view on your efforts versus output outside of Kerala?

**Hemant Jalan:** I said in my opening statement that had it not been for the lockdowns in Kerala from May till July definitely the top line would have been much higher because we are a little disproportionately exposed to that state and you are all aware of what kind of COVID case loads were prevailing in Kerala so had it not been for that definitely our top line would have been significantly higher. Despite that Kerala has done well and is recovering very fast from those lockdown days. Naturally the rest of the country grows at a slightly faster pace than Kerala because in many of those states we have a long way to go in reaching a dominant position. So,



*Indigo Paints  
October 29, 2021*

you would expect naturally that those states could grow at significantly higher percentage. Now beyond that to give state wise granular information on growth maybe a little difficult Manoj.

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

**Avi Mehta:** I have three questions is since you at least started the clarification first you highlighted that after this price increase gross margin will move that in Q4 to last year levels you meant Q4 FY21 levels is that understanding correct?

**Hemant Jalan:** Let me answer each question as you asked them otherwise sometimes I lose track of what your first question was. So, the price hike that have been announced by the whole industry effective almost on the same date 12<sup>th</sup> of November amount to weighted average of about 8% to 9% depending upon the product mix of each company, but roughly they are of that order of magnitude. Now straight away it means that your gross margins go up by around 8% to 9% from that day onwards assuming that nothing adverse happens on the raw material consumption side. So, if gross margins do go up by 8% or 9% of course the full impact of that would not be seen in Q3 because these price hikes would happen when half of Q3 is already over. Therefore in Q4 when the full impact of this is felt I think the gross margins would come back to at least in our case to that 48% to 50% levels that we enjoyed earlier, but that is with a major caveat that is assuming that the raw material prices remain where they are today which are at a very elevated level. Now the good thing is that from November, December last year when the prices started going up of raw materials it was primarily led by emulsions and the monomers of the emulsions which of course affect the emulsion prices. So, those were the items that were really sky rocketing that phase. From around July or so of this year that has more or less stabilized of course like an elevated level, but they are not going up any further in the last few months so those have been steady, but now we are seeing a whole lot of other products which had not shown a price hike to that extent from November last year till June, July those have started sky rocketing. So, it is a different basket of goods where we are experiencing this raw material price hike at the moment how they will behave in the future will partly depend on how long it takes for global shipping schedules to come back to normalcy and I have no clue on that.

**Avi Mehta:** Sir, just on that related point I mean as 8% to 9% why is the demand clearly your growth has been very, very healthy I wanted your thoughts on how do you see is there a possible impact on volume growth that you envisage or how do you see the customer accepting it, would be great to hear your thoughts on that?

**Hemant Jalan:** We just have to keep our fingers crossed and watch, but past experience is that increase in pricing as long as it happens across the industry has so far not led to any change in consumer buying habit for paints. Now this is very different when you get to consumer staples items of everyday purchase where a significant inflation does significantly change consumer behavior because those are everyday purchase items and they affect household budget. Paints being purchased typically once in four years, the sensitivity to pricing on paints is much less also when you take



*Indigo Paints  
October 29, 2021*

into account that paint accounts for less than 50% of your painting cost. The other 55%, 60%, 65% whatever being the labor cost; therefore when you look at the overall painting cost. Even if paint prices go up by 8% or 9% the overall impact on your painting cost is less than 4%. Past experience has been that it has not changed consumer buying habits, what will happen in the future month is something hard to predict, but I would be surprised if there is any significant impact on the purchasing behavior as far as the volume of paints are concerned.

**Avi Mehta:** Just the last bit is there any update on the new entrant and you know if you could kind of share some industry feedback how for example JSW response, customer response has been and if it is read through from that?

**Hemant Jalan:** I would not like to comment on any specific company it is better that you ask a specific company as to how it is doing as JSW Paints in particular that you asked not being a listed entity accurate information in the public domain is not available, but I will make more generic comments about any new entrant it maybe the company that you mentioned or it may be other companies that are planning to enter in the future we have always believed that all these companies especially if they have a pedigree background and deep pockets as many of these companies do have will find their space in the paint sector, but you cannot expect any company no matter how strong it is to do it overnight and that is because of certain entry barriers which can only surmounted with time. Money power can accelerate it marginally, but not in a very significant way. The time taken to build a distribution network where paint company sell directly to the retailer with no kind of wholesaler in between to build a network of 20,000 to 30,000 dealers takes often lot of time because more than half of these dealers are in very small towns and rural areas. So, it is not easy to do it overnight to extend your reach to let us say 7,000 small towns in India. The other thing happens with brand equity. Building brand equity no matter how much you spend on advertising it will take time because we have to remember and respect that the four large established players in the market who had existed on for more than 75 years have spent so much in building their brands over the last 50 years, 60 years that even if you were to outspend them for one or two years I do not think you will reach that same level of brand equity and the third biggest problem is on tinting machines. We have a problem of space that the dealer counter. All dealer counters are reasonably saturated with more than two tinting machines in most cases and they do not have the space to install a new tinting machine. So because of all these problems of course we are also battling with those same problems and it has taken 21 years for us to reach a dealer network of about 14,000 or 15,000 and to reach 6,500 of tinting machines. So, there are no shortcuts available in this sector, time is going to be required and in due course any company will find its own space in this sector the sector is large enough and it is growing. So, there is not much concern about new entrance, they will all find their place in due course of time.

**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

**Jaykumar Doshi:** I have one question so it clearly seems that over the past two or three quarters Kerala has drag down the growth for the company. So, in situation like this what do you do to sort of try to push



*Indigo Paints  
October 29, 2021*

up the growth in other parts of the country to try and meet the aspiration that set in assuming the certain growth from Kerala and if you have made any progress on that front if you could talk about some accelerated growth in each state that you can call out?

**Hemant Jalan:**

If there is something special that we can do to accelerate the growth in other states we would do that in any case irrespective of how Kerala is doing. We do not have to wait for Kerala for some catastrophe to befall Kerala to start focusing more on the other states. So that focus is there in any case. Now unfortunately because of high COVID which no one can control and obviously any government facing those kind of COVID cases would have to put a lot of restrictions within the state. So, those are matters beyond the control so if we have a few months where Kerala registers almost zero growth or very low single digit growth because of its contribution in the overall pie if the other states are grown by let us say 45%, 50% the whole average for the company comes down to 30% it is very simple arithmetic. Now, when Kerala starts growing well it has a disproportionate effect on a company like us I do not think there is any other company for which Kerala contributes 30% of that turnover of course there are companies that have a slightly higher market share than us in Kerala, but as a percentage of their overall turnover nobody else is so disproportionately exposed to Kerala. So, when Kerala does well for us and it has done in the last two months and I sincerely hope that it continues in the months to come than the effect that it has on our top line is also disproportionate. So, I sincerely hope that the numbers that will come out in Q3 and Q4 assuming that COVID remains behind us will be the gap between us and the other players in the industry would be probably much wider than what it appears to be now I mean that is our hope and expectation. Time will tell us as to what really happens.

**Jaykumar Doshi:**

And second is do you feel that for a few products you have taken price increases ahead of the industry, so has it affected growth is there any way that you can measure the impact of growth because of price increase that you have taken?

**Hemant Jalan:**

So, basically when the industry does not increase prices the places where we can increase prices unilaterally are some of our differentiator products where we do not have any industry benchmarks. There are other segments where I would not call them differentiated products, but amongst the larger players we are the only one existing in that sector cement paint being one example and there are a few other products like that where we can afford to take a unilateral increase without bothering about what rest of the industry does, but all of them put together will only be a portion of our overall basket. When it comes to the slightly more undifferentiated products we pretty much have to follow the industry norms. So, it is not that we can increase prices when company is much larger than us are holding on to the same price level. So, even for some of the differentiated products let me give you an example we have a differentiated product in enamel called the PU enamel which sells typically about Rs. 25 a liter higher than all the other companies, but that gap of Rs. 25 we cannot unilaterally make that gap to Rs. 40 or Rs. 50 otherwise our sales will suffer. So, we can tweak it by a few rupees here and there, but overall, we have to maintain that band of price supremacy so to speak that we have over the other non-



*Indigo Paints  
October 29, 2021*

differentiated products in that same overall category. So, to some extent or to a large extent we are limited by what the industry leaders decide to do as far as pricing is concerned.

**Jaykumar Doshi:** And the gap between volume and value for emulsion is that entirely pricing or you are seeing higher sort of improved product mix also with emulsion?

**Hemant Jalan:** No, definitely and I mentioned that we have seen a disproportionate growth in the premium and of the emulsions that gap that you see between value and volume which is 16 percentage points obviously the price hike has not been 16%. So a part of it would be price hikes my guess is of the top of my head maybe that accounts for 7% out of this the rest of it is because of the change in the product mix that the growth in the premium has been much, much higher than the economy range as far as we are concerned and that has contributed to a much higher value growth in the overall emulsion sector. I sincerely hope that when continues that is all I can say.

**Jaykumar Doshi:** Can you provide some color or comment on how the current quarter is overall shaping, any change in the growth trajectory that.....

**Hemant Jalan:** Difficult to say I mean we have not even ended the first month of the next quarter overall news that we are getting is that the kind of sales that you see pre Diwali the markets are not as great as what they used to be. One reason could be that for most parts of India you continue to have rain till around 15<sup>th</sup> of October. Now that is very unusual now when that happens it shortens the Diwali buying period as far as Northern India is concerned. Southern India and parts of Eastern India the sales are anyway not linked to Diwali and we have not seen any change as far as the growth numbers that we expect as far as that is concerned. However, as I said October also is not over, Diwali sales are not over, we are at the moment sitting on the peak period of uptake pre Diwali. The announcement of price increases has helped really shore up sales in the last couple of days and will probably continue today, tomorrow and I think all depots in the Diwali region the Hindi speaking belt will be open even on 31<sup>st</sup> which is a Sunday to do sales which is pretty normal during Diwali. So, maybe a little premature to talk about how Q3 is fairing. Overall along expected lines so far no impact as far as offtake is concerned growth numbers are good. When you talk of it from an Indigo standpoint we always shoot for such high growth rates that I can hardly a single month when we have not been disappointed in the last four years always our expectations are a little higher than what we actually deliver, but at the end of the day when we look at the growth that we have achieved they are pretty decent.

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

**Abneesh Roy:** Just one question you said demand wise no significant impact you see at the lower end specifically because that is a bit more price focus segment do you see delay happening because unlike say consumer staples which is day-to-day demand wherein you would ultimately need to buy you might cut consumption, paint can be delayed right, so lower end do you see that getting postponed?



*Indigo Paints  
October 29, 2021*

**Hemant Jalan:** No, I do not think so I do not think we have seen any such trend at all that in the lower end segment there is no postponement of painting activities. So far we have not seen any such trend like that and I would be surprised if that kind of a behavior happens either in the lower end or in the higher end.

**Abneesh Roy:** Second is this competitor saying all paint at one price we have seen significant scale up in terms of advertising also plus he has gone to new areas you did answer this from a competitive point of view my question is from a consumption point of view one price all paints more advertising what is your take on that?

**Hemant Jalan:** I do not think that they say that all paints one price they say all shades one price. So, normally shades are tinted in tinting machines and there is a marginal difference between one shade and another because of the cost of the colorant and the quantity of the color so those are fairly cosmetic in our view point and a competitor has chosen to take a particular stance as a marketing positioning that is their choice and I do not think that I should be commenting on the views of any company nor is it fair for me to talk on their advertising budgets or their advertising strategy. I think it is for each company to decide what is suitable for them and I would have no comments to make on competitor on this issue.

**Moderator:** Thank you. The next question is from the line of Hemant Shah from Asian Market Securities. Please go ahead.

**Hemant Shah:** Sir, do we plan to increase the number of depots in tandem with the target increase in the number of dealers and tinting machines?

**Hemant Jalan:** See I think that the two are slightly separate and very distinct in our viewpoint. If the number of dealers go up it is not necessary, that we increase the number of depots. Number of depots are increased whenever we feel to service a particular part of the state from the existing number of depots the transportation or the logistics are getting cumbersome. Now, take for example a state like Chhattisgarh where I think that our market share vis-a-vis all other states is probably the highest, probably even higher than our market share in Kerala. Now, many of the competitors who have sales lower than us have chosen to have three depots or two depots or four depots in Chhattisgarh we have managed to service that state very effectively with one depot in Raipur and we do not see a problem there. A state like Jharkhand also we have only depot now sometimes when we start facing a problem that in one part of the state with the growth in the dealers we are not able to service it and provide the same kind of service level that is what sort of pushes us into opening a new depot like very recently although in the last quarter our number of depots has been stagnant we have opened one new depot in Hubli in the northern part of Karnataka I think it started on the 10<sup>th</sup> of October if I am not mistaken so it is in this quarter. Now from our existing depo at Bangalore as our network expansion was happening a lot in North Karnataka we are finding that the logistics from Bangalore to the Northern part of the state whether it is Gulbarga whether it is Hubli and other regions out there in the Northern Karnataka.



*Indigo Paints  
October 29, 2021*

The time taken to deliver the material was getting significantly large so we have opened a new depot in Hubli. So, I do not think that number of dealer increase definitely necessitate an increase in the number of depots. I think the two have to be viewed with a very different lengths and we do not believe in having an unnecessary number of depots when the dealers can be adequately serviced from a lesser number of depots it is more a question of logistics and the way the transportation network in that state exist.

**Hemant Shah:** One last question do we have any specific geographies or states in mind to reach the targeted number of active dealers?

**Hemant Jalan:** In every state we need to increase our dealer network. We need to do it much more in states that we have entered more recently like Jammu and Kashmir area we entered less than a year ago, Punjab, Himachal and many other parts of Northern India we have entered only in the last two years or three years. So, definitely the speed of dealer increase has to be much more in those states it will be a little slower in states where we have been around for 15 to 20 years, but even in states where we have a very high market share like let us say Kerala or Chhattisgarh we still need to continue to increase our dealer network. Now in some states we find that when it comes to Tier 3 and Tier 4 towns we have almost reach a saturation, but we still need to increase drastically when it comes to the bigger cities. Now in the last one year coming back to my example of Chhattisgarh, I remember 12 or 18 months ago we may have had only 5 or 10 dealers in the city of Raipur today we probably have 75 dealers in the city of Raipur. So, there is a lot of work to be done in the bigger cities in the states where our presence has been there for a long time and states where we have entered more recently we need to expand across the genres of cities whether it is small town or big cities. So, you ask the question which are our target states to increase the network the answer is all 28 states of India.

**Moderator:** Thank you. The next question is from the line of Miraj Shah from Dalal & Broacha. Please go ahead.

**Miraj Shah:** My question it was regarding RM cost inflation from raw mat, could you tell us how much inflation have we faced in the current year and how much of it has been passed on?

**Hemant Jalan:** It is a little difficult to answer that with exact quantitative numbers because the raw material inflation it happens differentially across different raw materials and their consumption patterns are different the product mix that you sell also varies from month-to-month and definitely varies from quarter-to-quarter. So, the raw material inflation that you see for the same pricing in Q1 could be different on a weighted average than Q2, but very broadly if you see you want to look at it from Q4 to now or you want to look at it from the last 12 months where do you want me to point that. If you look at Q4 from Q4 our gross margins was 46.66% and in the last quarter it has been 41.3%. So, let us say gross margins have contracted by approximately 5 percentage points. The kind of price increases that has happened during this period would be around 6%, 7% points. So, therefore the cost of raw materials would have increased by on average on a



*Indigo Paints  
October 29, 2021*

weighted average by around 12% thereabout, but these are crude numbers give or take a few percentage points here and there.

**Miraj Shah:** In the presentation we have given that we will be taking more price increases from 12<sup>th</sup> November onwards so could you just give us a brief of what kind of price increases should we expect?

**Hemant Jalan:** Yes that has been announced by everyone and I just said in response to an earlier question that on a weighted average basis for our mix of products we estimate that the weighted average increase is somewhere in the region of 8%-8.5%. It could be slightly different for different companies depending upon the product mix.

**Miraj Shah:** And sir my final question that the product categories that we have the breakup that we have given cement, paint, emulsion, enamels, and primers, could you just give a brief of what kind of contribution did we have from these four categories in this category?

**Hemant Jalan:** If you look at the presentation that we made at the end of the financial year we gave exactly that. If you go back to the presentation that we made in May, when we were reporting the full year fiscal data we had given you the contribution last year for each of these categories of products on our overall sale. We will again give it at the end of this fiscal. The reason we do not give it on a quarter by quarter basis is because the relative share of these products from one quarter to another quarter changes very drastically. Now if you look at some of our differentiated products like floor coat emulsion or tile coat emulsion or some of our exterior emulsions all of those products have a disproportionate share of sale in the second half when the monsoon is behind us those are typically products that are not used very much in the first half, at least after May when the monsoon is upon us because it does not make sense to do that. So, I have that slide for the whole year for last year that segment of cement paint and putty contributed 15.3% of our total topline in value terms. The emulsion category contributed almost 43% of our top line, the enamel and wood coating segment contributed about 18% of our top line and the primer distemper and other miscellaneous products collectively contributed almost 24% of the top line. So, as I said the emulsion segment and the primer distemper segment collectively account for about 66% of the top line and therefore those are the bulk as far as value drivers of a company are concerned not just for us, but probably for any company in the paint sector. Now having said that these relative contributions are likely to change from year-to-year and definitely fluctuated widely from one quarter to another, but these numbers you can access them they were publically uploaded on the stock exchange portals in May when we were declaring our annual results.

**Miraj Shah:** Sir just one more point in that if I am not wrong in understanding you said that emulsion see a better sales in the second half of the year you are talking in financial year?

**Hemant Jalan:** Yes I am talking about financial year not calendar year.



*Indigo Paints  
October 29, 2021*

**Miraj Shah:** Sir, as we have seen good volume growth in this current quarter for emulsion so any particular reason for that?

**Hemant Jalan:** No, this is being compared to the same period of last year. Monsoon period are a bad time of emulsion whether it was last fiscal or the year before last or this fiscal. So, when you are comparing quarter with the same quarter of last year and we have seen a good growth there, but overall the share of the emulsion pi in the first half is much less than the second half. In fact on an overall basis also about 65% of our sales comes in the second half in terms of value terms. For emulsion probably that ratio is even higher.

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

**Tejas Shah:** Sir, just one question apparently leader has expanded its distribution network, dealer network exponentially in last 18 months first of all are you seeing that kind of competitive intensity in recruiting dealership for your network as well?

**Hemant Jalan:** From what I read in the paper we are talking about not just primary dealers, but dealers not directly serviced by them. So, what share of that number is primary dealers and what are the secondary dealers the numbers that I do not know and again I cannot comment on a competitor least of all on a market leader there is increase aggression on the part of the market leader to gain market share whether it is reflected in increase dealer count I am not so sure with their coating numbers I am sure those numbers are accurate, but have we observed any increased intensity in their dealer network in the areas where we are there I do not think I have got such a report from our sales force, but maybe there are areas where their network was weak by their standards and they have done that expansion that is for them to decide and I really cannot comment on that, but when it comes to pricing etcetera and discounting definitely we have seen lot more aggression by the market leaders on an overall basis.

**Tejas Shah:** Sir second question was pertaining to that only you always call out BTL activities and intensity separately and we picked up from our channel six that even rebates are very aggressive off late in last 6 months. So, at one level we are taking price increases are you seeing rebates also being cut down to dealer to manage the inflation?

**Hemant Jalan:** Well naturally when anybody is under price pressure the first thing that you do is start moderating your rebates and where the pricing gets comfortable then the rebates start moving in a Northward direction so that is common and those fluctuations will happen. Now with this price hike that will happen on 12<sup>th</sup> November across the industry in case raw material prices do not go up further in case and we have no idea to predict that if that were to be I think then discounting will moves a little upwards and you would expect that to happen and if raw material prices also escalate sharply then maybe it would not happen. So, that is something that we have to really play by the year almost on a fortnightly basis and see what your margins are and see what the competitive activity is, but we as a company always have believe that although we do seek aggressive top line growth I think it has to be balanced with profitability and we do not think



*Indigo Paints  
October 29, 2021*

that we can totally disregard profitability while achieving top line growth. So, I think you have to strike some kind of a balance between the two and that has been our philosophy and will remain our philosophy in the days to come.

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

**Management:** Thanks everyone for giving us a patient hearing nothing more to say except to wish you all a very, very Happy Diwali and hope that this Diwali brings good cheer to the paint industry too and I sincerely hope that the raw material escalation will come to a halt sooner or later and we will all come back with much better numbers in Q3 at least as far as the bottom line is concerned the top line has not been of much concern in any case and when we look at Q3 both this year and Q3 of last year were not affected by COVID, so probably the need to look at two year growth will stop from Q3 onwards assuming that there is no fresh COVID wave in India and therefore we can get back to more simplistic analysis of looking at year-on-year growth on all parameters of Q3 of this year versus Q3 of next year. So, once again wish you all a very Happy Diwali and back to you Manoj.

**Manoj Menon:** Thank you so much and we wish everyone a Happy Diwali and Seasons Greetings and I am looking forward to be in touch. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference. Thank you all for joining us and you may now disconnect your lines.