



“Berger Paints India Limited  
Q3 FY2023 Results Conference Call”

February 02, 2023



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2023 results conference call of Berger Paints India Limited hosted by Emkay Global Financial Services. We have with us today Mr. Abhijit Roy, Managing Director and CEO, Mr. Kaushik Ghosh, Vice President and CFO and Mr. Sujyoti Mukherjee, Vice President, Finance and Accounts. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal 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. Naman Bagrecha of Emkay Global Financial Services. Thank you and over to you Sir!

**Naman Bagrecha:** Thank you Vivian. Good everyone you. I would like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you gentleman.

**Sujyoti Mukherjee:** Thank you and a very warm welcome to Berger Paints India Limited earnings call for Q3 FY2023 and we really appreciate your participation. The management statement and the performance have already been uploaded in the website for your information. Before I hand over to our MD and CEO, Mr. Abhijit Roy, I would like to make a small disclaimer that questions should only be restricted to the quarter only. I now hand over to Mr. Abhijit Roy our MD and CEO for his comments on the performance.

**Abhijit Roy:** Thank you Sujyoti and good evening to all of you. I will take you quickly through the presentation first and then look forward to the questions from your side. I hope you have received this presentation well in time and have gone through it, but just for the sake of repeating whatever has been put up there.

The decorative business showed decent growth in the quarter in spite of extended monsoon, very high base effect and the short festive season compared to the corresponding quarter last year. The growth progressively improved with a double digit growth in December. Every month we had some growth, but in December we had a double digit growth. Some mix impact on account of higher stocking of premium products by retailers on the back of steep price increases in the corresponding period last year and lower sale of exterior emulsion due to extended monsoon. On an YTD basis, decorative continued its healthy growth. If you look at the figures on standalone basis growth rate this year Q3, the volume growth was 6.6%. Last year it was 11.2% and compounded three year growth rate has been 15.3%, which is fairly healthy. In terms of the value growth for the same quarter, this year we had a 7.2% standalone value growth. 21.2% was the figure last year and again on the three year compounded basis, our growth rate has been a strong 17.2% in terms of value



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sales growth for Q3. If we look at the YTD figure, the YTD this quarter so far we have a volume sales growth of about 17% and then last year if you look at it, it was 27.5%. Three year compounded it is 15.9%. In value sales terms 25.3% is this year's figure. 37.6% was last year and three year compounded growth is 17.3% so in terms of both volume value whether you look at quarterly or in terms of the YTD figures, the compounded growth rate is pretty strong. This quarter it has been slightly on the lower side and there are good reasons which we explained at the initial stage and that is why the growth rate has been at around 7.2%. If you look at overall what has been happening in terms of network expansion, for the year we have added 8000 retail outlets and 4300 color bank machines till date. We expect to close at about 6000 color bank machines by the end of the year and may be around 10,000 odd retail outlets, which is beyond the machine count as we also add few retailers for various other businesses that we have along with paint and those are non machine counters which we will have at about 4000 added in addition to the 6000 color bank machine.

Construction chemical segment registered strong growth in the quarter and we expect to gain market share going by the industry growth trend so far and we are reasonably confident that we will add to the market share this year.

In terms of new product launches, we introduced one product for long life 15 which comes with a 15 year warranty with a new type of technology. This is for the exterior wall coating and we also introduced one colar based solution for rising dampness used for new construction. This is popular down South and used for basements of new construction.

On the industrial business side, GI and auto business showed good growth in this quarter. Infrastructure business continued its double digit growth aided by infrastructure spending. We continue our leadership position in this particular business line. Further price increases were realized in the quarter and powder coating business line had significant degrowth on account of lower sales to the fan industry so this particular category a large dependence is there on the fan and there was some changes in rules in the fan industry which has really impacted us and we went badly negative in powder coating this quarter, but things have revised in January onwards. We are back to normal.

In terms of profitability, we declined this quarter mainly on account of four factors. The primary factor is of course the carrying stock, finished goods and raw material which we were carrying of the prior period which is at the high cost. Due to capacity constraints which we had, we are now about to start the Sandila factory from the February 6, 2023 but till that point of time we normally built up the stock just before the season so in March we normally used to build up a stock and in September again we did the same thing so this time



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also we had built up the stock in order to be able to service the market fully in the season period. This is a high cost inventory. We anticipated a good festive season. Unfortunately rains continued for some time and then it did not take off therefore to the extent that we would have liked. The inventory last year throughout October, November and December we got no benefit out of the raw material price drop which have happened so that benefit is going to come only in the Q4 most of it and almost all of it will start coming from only Q1 of next year, but we will get a significant benefit in Q4, but Q3 we got zero benefit out of the RM price drop due to this reason. Mix impact on account of lower sales of exterior emulsions due to extended monsoon. Sale impact on overheads due to lower than anticipated growth in sales and there was a little bit of mark to market impact of exchange depreciation so all these four reasons combined to take it down to the level of -9.4 this quarter and overall on a YTD basis though we are still growing at about 15.5% this year, but this quarter has been sort of muted in terms of the profit growth. It is negative and largely due to as I mentioned the finished goods and raw material carrying cost of high cost inventory.

On the profitability front, further softening of rutile, monomer and solvents prices has been observed and that is likely to help us in Q4 and then going forward in Q1 onwards as well. Commencement of commercial production in Sandila plant will also lead to lower inventory holding and working capital improvement. As I mentioned we normally used to stock up because we had an issue as far as the total capacity were concerned and the ability to service at the season time and therefore this will be taken care. We are starting this from the February 6, 2023. Mixed improvement is likely in Q4 on the back of increased sales of exterior wall coatings and water proofing items, which has high gross margins. We are starting this Sandila factory in Uttar Pradesh. The estimated outlay was more than Rs.1000 Crores. The installed capacity is 33,000 metric tonnes per month. Our existing capacity is about 62,000 to 63,000 so that adds up another 33,000 so it becomes 95,000 metric tonnes per month. This would suffice our requirement for the time being and therefore it will help us. We need not stock up and build up stock before the season any more.

On the financial performance side, as I had mentioned the standalone 7.2% with -9.4% PBDIT, PAT of -6. YTD basis we are far healthier of course at 25.3% in terms of sales growth and operating profit growth at 15.5% and PAT growth also at 15.5%. The raw material cost has gone up actually from 63.99% to 66.18%. This is what has impacted our operating profit. If you see and observe that is the line which has created all the impact. Otherwise we have kept all other costs under control and in fact there has been some improvement in some of the other areas, but overall we went negative in the operating profit side this quarter. YTD basis we are growing at about 25.3%. Again there too the material cost has actually gone up but in spite of that because of the strong sales growth our



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operating profit growth is there at about 15.5%, which is a healthy growth but we could have done better had the raw material to sales ratio been better.

Income from operations growth standalone over the last few quarters has been shown 24, 53, 96, 26, 21, 7.3, again 53.7, 22.5, 7.2 so these are affected. Sometimes it goes up but we have been more or less hovering at a pretty steady figure. If you see most of them are in the 20s. Two quarters we are at 7% range and two at 96% and 53.7%.

On the gross margin it had been rising steadily up to Q4 of 2021 from 40.2% to 42.3%, 43.7% and 43.8% and these were those quarters were actually the RM prices had dropped to abnormally low levels so everyone benefited out of it. Since then the prices have been going up. We have been lagging behind in terms of passing on those price increases especially on the industrial side so it has come down to about 37% to 38% level. This quarter it has dropped to 33.8%, but I am very confident that in Q4 it will again go back to this 37% and 38% level which is where we have been steadily been there right through till the raw material prices had dropped or it has risen, but we will go back to this 37% to 38% gross margin level. Consolidated Q3 figures is 5.6% which is lower than the 7.2% in the standalone which we saw and that is largely on account of three businesses which had negative growth rates this quarter. One is Nepal which went very badly down. It was impacted by two to three factors. One of them of course is the very high inflation there. Then there was this interest cost which has risen substantially and money flow had become a problem. We took a conscious call not to extend credit into the market too much. That did impact our sale and we went negative therefore substantial negative sales in Nepal, but we are back in January. They closed on the 15<sup>th</sup> actually so that January 15, 2023 closure we had a positive growth so we are back on to normalcy in Nepal and things are okay now. In Bolix also we had a negative quarter in Q3 largely because again similar Ukraine war is affecting Poland quite a lot. The inflation has gone through the roof. Europe situation is not good and therefore we had a negative quarter in Poland so the UK operations continue to grow but Poland had a big negative and therefore overall it was a negative from Bolix, so these two pulled it down. The impact has been about though STP and other companies did well and grew well, but because of these two entities the growth came down from 7.2% to 5.6%. The PBDIT obviously because of the lower sales growth also got impacted and it is minus 10.8%.

Consolidated if you look at it, the sales growth is 23.6% and PBDIT at 13.6%. Again if you look at the reason for it primarily raw material to sales is going up. In the case of consolidated because of the value sales this is slightly on the lower side as well. This impacts the other areas and hence there is a little bit of increase in the employee cost, but marginally. YTD basis we are at 23.6% growth in consolidated and PBDIT growth of



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13.6% is where we are as of December end 2023. Again if you look over the quarters how have we been faring more or less reflects the standalone performance 24.9%, 49.5%, 93%, 27%, 28%, 53.4%, 20% and now at 5.6%. I have already mentioned about the various performances of the subsidiaries, STP continue to grow well in sales and profit and there is an all round improvement there. Saboo Coatings had a marginal degrowth in the topline. Profitability improved on account of higher price realization and softening RM cost. Nepal had a large degrowth as I mentioned both in top line and profitability and therefore there was a problem as far as Nepal is concerned, but back to normalcy. The company's polish subsidiary had degrowth both in topline and profitability impacted by the Ukraine war and high inflation. The company's joint venture Berger Nippon Paint automatic coatings had a strong improvement on topline and profitability aided by the growth in auto sector and cost improvement which we have been working on diligently. The company's joint venture Berger Becker Coatings had a degrowth in topline and profitability. The outlook is brighter. Demand outlook looks good in the coming quarters which is in Q4. Mixed improvement is likely in the coming quarters supported by increased sale of exterior coating. Industrial sales outlook remains strong on the back of upturn in auto sector and government spending in infrastructure however exchange depreciation on account of strong US dollar may be a concern. Thank you and we can take the questions now.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Nuvama. Kindly proceed.

**Abneesh Roy:**

Thanks Abhijit for the opportunity. My first question is on the gross margin and the inventory raw material which you discussed so I get your point? The last three quarters it has been stable in the 34% to 35% range in terms of gross margin and yes we have seen the correction pattern on the outside definitely monomers and packaging cost correlated and Asian Paints saw almost 300 bps improvement quarter-on-quarter so wanted to understand when you mean capacity constraint let so inventory built up what exactly happened and in the future if similar thing happens what improvement can prevent such a thing?

**Abhijit Roy:**

Right so let me explain it to you. Thanks for the question though so we had an issue as far as the full capacity so what happens in the paint industry it is slightly seasonal and in the seasonal months the demand tends to move up substantially. In non seasonal months however sometimes it remains at a slightly lower level or a much lower level at times so typically in the month of April, September and October the demand tends to move up beyond the normalcy so normal it is 100, it can become 140 and 150 in these particular months so what happens therefore is we as a company we did not have the full capacity to service this 140 to 150 so we used to stock up material in the month of March and in the month of August and September in order to service the seasonal months requirement and



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then again it will come down and the factories will be able to give the material as is required month-on-month so this build up resulted in some of these old priced material in the month of July and August the prices were on a much higher level so we were carrying this inventory at a much higher level and that carried on right through till the month of December which is why we did not get the advantage of the raw material price drops at all and that is what we are likely to get in Q4 which is why it delayed the gross margin expansion which should have happened this quarter.

**Abneesh Roy:**

Thanks I understood but in terms of say the best industry practice in terms of forward covers or say in terms of better understanding because lot of these are global raw materials so do you think there is an area of improvement there or was it that you thought may be crude will go up further up so that time the call was taken and calls can be wrong or right in hind sight so is that the issue or there an improvement area in terms of say forwards and say long term contracts better understanding because clearly the market leader saw improvement in the same context so they have been able to manage it better?

**Abhijit Roy:**

There are two things here. One sometimes it works in your favor. Sometimes it goes against you. It is very difficult to predict whether the prices are going to drop or increase. Had it increased we would have been a gainer. We would have actually shown a far better improvement than the market leader in this case right. We got those advantages when the prices were going up and then when the price goes down you are on the reverse cycle. Then you get caught on this issue but we had no choice because now with the Lucknow plant coming up we need not build up the stock at all so that is an advantage which we will have in terms of being able to play the game. After that we need to take a call whether we feel that if the prices are going to go up we may still stock up. If the prices are going to go down it may be a wrong call or a right call because it is very difficult to predict these thing but we need not stock up out of compulsion. Now we had no choice but to stock up and if the prices drop because the prices did drop we were sufferers unnecessarily this quarter.

**Abneesh Roy:**

Sure. My second and last question is on the demand side where December double digit growth and I think market leader also saw good recovery in December so the question essentially is would you be worried on the urban slowdown which I think some of other non-paint by discretionary companies are pointing towards because there are job losses in IT sector, startups and all that so the high base which you are having on the last two to three years? Most quarters you have a high base no I am not necessarily asking on Q4 but are you now a bit more careful that instead of say a high single digit or double digit volume growth in the core paint we should now start building a bit lower in terms of our numbers because of these two reasons?



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- Abhijit Roy:** No I think we are quite confident and comfortably we can tell you that Q4 we will reasonably unless something goes wrong seriously we should have a double digit growth rate both in volume and value terms in Q4.
- Abneesh Roy:** Okay and related question because now gross margins are improving so on the discounting by market leader earlier you had pointed out some quarters there has been slightly more aggressive behavior? As of now are you seeing that?
- Abhijit Roy:** No. This was in aggression which was there the previous year and in Q2 and Q3 specifically there was an unusual aggression but that is not there anymore so we are back to normal rebating and normal structure as it existed earlier in the paint industry.
- Abneesh Roy:** Thanks a lot and all the best. Thank you.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from Macquarie. Kindly proceed.
- Avi Mehta:** Thanks for the opportunity. I wanted to understand on firstly from a broader sense in the market where you are right now? We are going to see a huge capacity addition by many players? Given your experience would you be worried about this essentially hurting profitability in the near term because you have a new player also putting significant capacity addition? Whether it is in profitability or return profile how do you see this and if you could kind of give us your thoughts on the same?
- Abhijit Roy:** Avi thank you for asking this because this has been coming up for the last few quarters. Still they come in and start actually operating in the market. I think you know repeating the same question and the same answer possibly it is not going to make any difference so my view has been that this capacity addition is not going to by itself result in a problem. It has to be seen and observed what type of price points they come with, what do they do and this is only one addition which is coming up. Many players who have expressed their interest to come in and I do not think that is very worrying for us. Yes one of these players setting up a large capacity. Now we need to see how it shapes up. As I have always said in any industry for that matter and especially in this category like paint, which has many other claimants of actually the sale happens through various means right. It is not only that you go direct to the consumer, do something and you win the battle. There is this, the dealer and distributor. Then you have the painter, then you have interior decorators, then you have the consumer and you have to get all of these aligned so I think it takes some time and effort. We are not unduly worried on this count. Yes there will be competition. We expect that there will be some sort of effort from the party concerned to improve their sales and performance as well





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so it will impact us, but we are taking our own whatever measures we need to take from our side and be better prepared for the battle ahead. We do not see any major changes happening. It will be some change but that will be possibly if we are able to become more efficient and go more closer to the customer then I think we should be able to weather this very easily.

**Avi Mehta:**

Sir there has been a very aggressive winter this time and typically when it becomes cold exterior paint demand does take a hit? Do you see that hurting not necessarily a Y-o-Y growth rate but the demand trends will continue to remain weak even in the Q4 because of that may be from the pre COVID levels because Y-o-Y there is a base aspect that also works which is making it harder to kind of get an understanding so my question to you is from a three year CAGR or from a pre COVID lens do you see the demand trends broadly now moving towards lower trajectory probably around 12% to 13% odd levels rather than the 15% to 17% plus that we were doing?

**Abhijit Roy:**

So it is not only the winter. There are lots of other factors which come into play. The overall GDP growth and how is the economy looking like. All the factors combined and the demand is very difficult to predict what it will be but we have typically seen that it is very closely linked to the GDP number. It is about 1.5 to 1.6 times the GDP numbers so if the overall economy does well. Suppose the winter is hard as you were mentioning. First of all that impacts the northern belt only. The East, the West and the South remains unaffected by harsh winter because there is really no winter in most parts of this world and therefore it does not matter so much. It is only in the Northern part of it where the winter impacts substantially more so yes it will have some impact but as I said not as much as one would have feared. Base of course because last quarter base was much higher. This quarter base is more normalized so on that normal base we should have a decent growth. Whether it will be 12% or 14% or 15% only time will say. We expect that we will continue to grow at a faster pace than the industry is what we want to do and for that we have our own measures in place. We have our own plants in place and we hope that we will execute it successfully.

**Avi Mehta:**

Perfect and just a book keeping could you give us a volume growth and decorative value growth in the quarter? That is all from my side?

**Abhijit Roy:**

So I think I mentioned that but just for repeating it. The value growth is 7.2% and the volume growth was 6.6% for the quarter?

**Avi Mehta:**

Thank you very much Sir.



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**Moderator:** Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Kindly proceed.

**Jaykumar Doshi:** Thanks for the opportunity and thank you for the comprehensive opening remarks. I have got a couple of questions. The first one is it looks like in the last quarter you started gaining some share at least on a Y-o-Y basis? You are growing faster than the market leader and especially in this quarter so what segments or in which market do you see a visible market share gain and is this trend looking sustainable?

**Abhijit Roy:** Jay good evening and yes you are right that this quarter's growth rate over the market leader the gap has been the highest in the last 17 quarters in fact so therefore the growth has been good. It has been across most categories I would say. A little bit of improvement would have happened because I cannot exactly pinpoint if there is any specific category. I do not know frankly speaking but I think I presume that it will be across categories. I have not seen any specific category in which we have done exceptionally well, but overall we have grown at a faster click. Whether it will be sustainable or not, well time will say. We hope so because that is what we want to do that we want to gain a little bit of market share and keep going at that.

**Jaykumar Doshi:** Understood. Can you provide some color on how your sort of position trends are in emulsion and a few years ago the Berger story was all about improving product mix and that product mix improvement translates into gross margin improvement and profitability. We do not hear much about it anymore perhaps the focus has shifted to Grasim and other things but can you just provide some color on how you are seeing those trends?

**Abhijit Roy:** That is a good question. In fact the focus is still there in order to improve the mix because that is something which we have to keep working on. There is still some way to go. As far as the luxury categories are concerned we are relatively a weaker player there. We are present in a much stronger way in the premium luxury category which is mid way between the premium and the luxury category. In that we have two very strong brands called Easy Clean and Anti Dust and they continue to grow in spite of the intensification of competition there but in the luxury category we wish we can grow faster. In the exterior luxury category we are doing much better in weather coat, long life brand we are doing relatively much better. In silk which is our interior luxury we can do better than what we are doing as of now. This is as far as the emulsion is concerned. The lower end emulsion which is Bison emulsion and Walmasta that continues to grow at a decent click so that is not something which has anything exceptional has happened. It grows with the market as much as the market grows this category also grows so this is as far as the emulsions are concerned. I think overall also in the same space if you look at it, the waterproofing segment is also a



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relatively profitable segment and that category we are doing quite well and that adds up to the profitability to some extent. Again overall this quarter was impacted but I think going forward you will see a restoration of the gross margin level at the original levels where we were.

**Jaykumar Doshi:**

Thank you. Just one final one on that our understanding is that you have not been very aggressive on selling putty and yet when I look at your numbers the gap between volume and value is not any different from the market leader and there is at least 7% to 8% pricing increase on a Y-o-Y basis in December quarter so what explains this?

**Abhijit Roy:**

Actually there was a 3.8% approximate increase in the net price for the company per se because I cannot give you the exact decorative figure or the industrial figure but the actual figure was only 3.8% increase which we should have got. Now instead of that we ended up getting about 0.6% to 0.7%. There were two reasons for this. One the exterior emulsion category which is quite profitable and it has a good margin unfortunately in Q3 again did not do well because of the prolonged rain monsoon which went on till October 20, 2022 almost and then the season ended because the Diwali was early and so we did not get impact that we should have got. On the other hand last year there were price increases on exactly the same products the more profitable products. The bases were much higher so we suffered a double hit in terms of the rains impacting the sales and on top of it the base which is higher on these products because the price increases happened primarily on these products in the last quarter so as a result of these two, the exterior wall coating percentage came down so this impacted overall gap got reduced because of this. That is one reason for this. The other of course the industrial we could not pass on fully the price increases. It keeps impacting our overall profitability though we persisted with our effort. We got some towards December so that will impact us in this quarter so these are the two things which would have impacted.

**Jaykumar Doshi:**

Thank you and the disclosure in the presentation on volume value standalone is essentially decorative business right or is it at a standalone value?

**Abhijit Roy:**

This is standalone basis.

**Jaykumar Doshi:**

So it does include some industrial component?

**Abhijit Roy:**

It includes everything. It includes industrial as well.

**Jaykumar Doshi:**

Right thank so much and wish you the very best.



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**Moderator:** Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Kindly proceed.

**Aniruddha Joshi:** Thanks for the opportunity. Sir where are you seeing the growth higher in terms of rural, urban, East, West, North and South any region where we are seeing the higher growth and also probably we would have gained some share so have we gain share in any part of India and also around past three to four quarters there are some loss of market share in North India, has Berger regained that market share too?

**Abhijit Roy:** Right so coming to your first question where are we growing, we are growing across almost in all regions. On an YTD basis if you look at it, it is more or less across all region but North it still remains a bit of a concern for us. It has been mainly in East, West and South. We were relatively weaker in the West and the South so any performance there on a lower base the growth rate seems to be on the higher side so that way the gains would have been higher in those locations and East has been consistently growing. We have a strong presence there and we grow at a reasonably good phase so not much of a problem as far as East is concerned. North in certain pockets we are doing well. In certain other pockets we could have done much better. We are getting our house in order in those few states where we are not doing all that great. One of them we have restored and started performing reasonably well now already and the other one the work is in progress and we are hoping that we should be able to streamline that state as well and then we should have a far better growth in the North as well.

**Aniruddha Joshi:** Okay thank you. The last question can you share the indicative breakup across the subsegment for paint and putty as well as the water proofing? The number for Q3 or nine months it should be okay?

**Abhijit Roy:** I do not think I have those numbers that I can share with you at this point of time. For the nine months, I have no clue but normally as far as the industry is concerned we have fairly representative if you know the industry volumes or shares we should be very close to those shares except that in our case may be the luxury category will be slightly lower than the industry or the leader and it will be more oriented towards the premium and economy side.

**Aniruddha Joshi:** Okay and lastly if we consider the putty, waterproofing and all these products put together whether it will be upwards of 15% of sales in standalone numbers?

**Abhijit Roy:** It is very difficult to say exactly what is the percentage, but I can assure you that as far as putty growth is concerned since that might be one of the questions you would like to ask. It has been a normal growth rate slightly above the normal growth rate so that is as far as



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putty is concerned. Waterproofing growth rate in certain segments we have done much better in terms of the growth rate there so that is how I would place the exact percentage what they are, I cannot comment at this stage.

**Anil Doshi:**

Okay got it. Thank you.

**Moderator:**

Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Kindly proceed.

**Shirish Pardeshi:**

Thank you. Good evening. A couple of questions. When I look at the trend in the market and when we speak to channel what we are seeing especially in the last quarter there was a lot of down trading in the low end or economy emulsion? Now is that the case which is also visible in your numbers and that is why the mix impact is also a little higher side?

**Abhijit Roy:**

I explained this. Actually what you are seeing it is not a down trading as such because the exterior luxury emulsion and the premium emulsion category which actually sells in this quarter. Typically it is a very good sale because after the monsoon exterior painting happens it is comfortable to paint it as well. The season is very good for exterior coating did not materialize this year to that extent so naturally the other products kept selling but this particular category sold less. As result of that you will see that the value realization per liter came down in this particular quarter. That is how it happens. It is not as if the market has shifted or lot of down trading is happening. Those who can afford in paints they typically they go for the right kind of products. They do not mind buying the luxury products because that at the end of the day they want to put up better quality paints because labor cost is almost 50% to 60% so I do not think people will tend to move downwards just because some paint cost has moved from say Rs.4 to Rs.3.50 paisa so that is not how the shift happens for the paint part of it. It is the labor part of it which is a bulk part 50% to 60%. In Mumbai it may be even 70% so it does not matter so much as far as the paint cost is concerned. There is no major downshift which happens. We have never seen that trend happening. Yes there is some shift which can happen because economically if people decide that okay instead of going for the luxury I might go for premium luxury or instead of premium luxury I might go for the premium. That much of marginal shift might happen but it does not happen as I was actually thinking of luxury and now I start buying the economy category. It never happens.

**Shirish Pardeshi:**

Okay that is helpful. My second question is on the project business? Of late we are seeing the project businesses taking sharp momentum and that is where the local players are losing may be on the pricing front because the builders lobby is also looking for the steady and may be quality of the paints which is there? This is visible at least when we speak to the



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channel partners so in your case if you give some quantitative and qualitative comments what the business means for you in the near term?

**Abhijit Roy:**

So the project business has been growing at a decent click of late and that is largely because many of these buildings are coming up for completion and they need painting to be done and so that is happening now and growth rate has been pretty steady. I will not say it is very booming as such but it has been slightly higher than the normal retail so that if you look at it yes it is growing at a slightly higher click. It is about 8% to 10% in terms of our total sales so it is not going to create that much of a huge impact unless it starts really growing at a fantastic pace which is in the case as of now.

**Shirish Pardeshi:**

My last question is on the network expansions. You mentioned that you will reach about plus 10,000 stores? Now when do you think these 10,000 stores will start contributing meaningfully to your volume and value? Is there any timeline that if the scale up will happen within six months time or may be a year's time and when you add the network where do you start? Is it that you start with exterior or is it you start with emulsion or you start with some low end products?

**Abhijit Roy:**

Right so we are adding 10,000 of which 6000 are machine counters and the 4000 are non machine counters. In the non machine counters typically it is the basic products we sell enamel, distemper, primer, some amount of putty, little bit of white emulsion, the scalars and strainers so that is how it happens. Typical smaller shops who does not want to invest in the machine at this stage and can become machine takers at a later date so that is about 4000 and these are small value transactions which happen but some of them morph into machine dealers at a later date. The 6000 machines that we plan to install of which 4300 odd we have already installed. These are good counters. They start from day one across the basic and it depends on location to location where you are positioned. If it UP and Bihar it behaves differently. If it is Kerala it behaves totally differently. They use very high end premium luxury paint as well so it depends on the state where we are right, but mostly whatever is the full range of products we sell in those states these machine counters will start off with these full range. That is how it happens. In our case also this is the same trend.

**Shirish Pardeshi:**

So let me have a little more on that to get to a little more depth so to reach say 150 to 200 KL per month for these machine outlets is sufficient for you to say six to eight months time or they start with a month's first itself?

**Abhijit Roy:**

Nearly 150 to 200 liters or KL what are you saying. I did not understand.

**Shirish Pardeshi:**

Liter?



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**Abhijit Roy:**

Liter so they probably starts slow and it depends on the size of the dealer counter as well right so if it is a big dealer counter in which we have managed to enter he may start with a much higher volume right at the beginning. If it is a smaller dealer he will start with a smaller volume so it depends on what type of dealer you have got into and what is his profile. If he has got a very good footfall, if he has got a good contractor base, if he has got architecture connections he may start with a slightly higher volume. It also depends on how he places you in his counter. It is sometimes may be that you are a second bet and he feels that he needs a good company and he may give you due importance. Sometimes you might be the fourth entrant in this counter in which case he will give you only little bit of space may be one or two products only which he will sell which he likes so it depends on lot of these factors. It is very difficult to quantify exactly what will happen and this is what is going to repeat itself in across counters. It varies from counter to counter.

**Shirish Pardeshi:**

Thank you Abhijit and thanks for the opportunity and all the best.

**Moderator:**

Thank you. The next question is from the line of Ajay Thakur from Anand Rathi Securities. Kindly proceed.

**Ajay Thakur:**

Thanks for taking my question. I just had two questions. One was on the industrial and auto paint segment just wanted to understand how the growth has been trending in both these segments and also can you can just give some color in terms of the margin performance in both the segments? I understand that also you have been sitting on a high cost inventory but if you were to adjust for that can we expect margin of this segment actually being improved to at least near pre COVID level kind of margins?

**Abhijit Roy:**

So as far as the industrial business we have three broad lines automotive and general industries, protective coatings and powder coating so the powder coating segment as I mentioned is degrowing in our case. It need not be for others, but for us because we are slightly dependent on the fan industry for our sales in powder coatings and that there were some issues with the fans. They were changing some norms and star ratings were coming in. They had stopped production for almost two months and therefore the sales have been impacted. The profit in the case of powder coating remains stable. As far as protective coatings are concerned the sales growth has been good. We are the leader there. Infrastructure spends are very high now by the government. Also in this budget as well capex spends has gone up substantially so we are looking forward to this good growth continuing in the future. The margin however is a bit squeezed here. It has not gone back to the COVID days. Even if we adjust for the raw material and finished good stock which we had carried forward it will still be marginally below the pre COVID period because the full



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extent of the raw material price increases have not been passed on in the industrial section whether it is auto, GI or protective coating.

**Ajay Thakur:** Okay and Sir secondly just wanted to understand on the growth how it has been in tier one versus the tier two and tier three towns some color on that front?

**Abhijit Roy:** We have been growing reasonably well in both these markets so far. Both the urban market we do not look at it and sometimes we look at it urban and non urban in all our depot towns we consider as urban including the major cities so from that perspective more or less the growth rates have been on equal terms. No great significant difference that we could see between the two.

**Ajay Thakur:** Thanks Sir. That is from my side. Thank you.

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

**Abhijit Roy:** Thank you all of you for coming and participating in this session. I hope whatever questions you had we were able to answer those satisfactorily. Wish you all a very good health and meet you again in the next quarter end. Thank you.

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