



“Berger Paints India Limited
Q4 FY2023 Results Conference Call”

May 15, 2023



ANALYST: MR. NITIN GUPTA– EMKAY GLOBAL FINANCIAL SERVICES

**MANAGEMENT: MR. ABHIJIT ROY – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – BERGER PAINTS INDIA LIMITED
MR. KAUSHIK GHOSH – VICE PRESIDENT & CHIEF FINANCIAL OFFICER – BERGER PAINTS INDIA LIMITED
MR. SUJYOTI MUKHERJEE – VICE PRESIDENT – FINANCE & ACCOUNTS – BERGER PAINTS INDIA LIMITED**



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Moderator: Ladies and gentlemen, welcome to the Q4 and FY2023 results conference call of Berger Paints India Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Gupta of Emkay Global Financial Services. Thank you and over to you Sir!

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

Sujyoti Mukherjee: Thank you Nitin. Good evening ladies and gentlemen. A warm welcome to Berger Paints India Limited earnings call for Q4 FY2023 as well as for the financial year 2023. As always we have with us today Mr. Abhijit Roy our MD and CEO and Mr. Kaushik Ghosh, Vice President and CFO. We are really encouraged by your participation and I would like to inform you that the management presentation on the performance has been uploaded in our website as well as in the stock exchanges. I would like to handover this call to Mr. Abhijit Roy for his comments on the performance.

Abhijit Roy: Thank you Sujyoti and very warm welcome to all of you to this earnings call. We will begin first by looking at what we have done for the year. The company recorded a strong performance for the year. Our consolidated top line crossed 10,000 Crores in this particular year in 2022-2023. India operations top line almost touched 10,000 Crores as well. Company gained market share in 2022-2023. The standalone turnover growth was 22.3% highest in the industry and consolidated turnover growth was 20.6%. The double digit operating profit growth at 13.8% in the standalone and 11.7% on the consolidated business. Company added around 8000 plus retail touch points in financial year 2023 and installed about 5200 colour bank machines. The protective coating business itself crossed 1000 Crore. We are the market leader and continue to remain a market leader in this segment. The non auto industrial business also recorded market leadership with top line of about 1450 Crore. All industrial business lines showed improved profitability at operating margin level. Company successful setup its biggest manufacturing facility in Sandila, Uttar Pradesh of 33,000 metric tonne capacity with an investment of 1037 Crores.



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We have had consistent growth over the years. If we look at this year's growth as well volume sales growth versus 2022 and 2023, in 2023, we had a volume sales growth of 15.5%. The decorative volume growth is in the range of 17.6%. Three years compounded growth rate of the company per se is 16.6%. Value sales growth this year 22.3%. Three years compounded growth rate 18.5%. This comes on the backdrop of a robust 28.6% last year as well.

Over the years if you look at the standalone performance, this year as I said, the value growth of 22.3%, operating profit growth of 13.8%. PBIT 13.4, PBT 9.7 and PAT 10.5%. The financials results are there on the figures which are available in terms of PBDIT growth 13.8%. PBDIT to sales it is at 14.2% for the year. Growth rate consolidated 20.6% revenue growth. PBDIT 11.7% and PAT 3.3% brought down basically because of the Sandila investment. The depreciation and interest cost has gone up substantially reducing the PBT and PAT. If you look at some of the other issues in our internal capacity that we have 95,000 metric tonne. Biggest plant went on commercial production in February 2023 with 33,000 metric tonne capacity which will manufacture products across all categories. Presently the capacity utilization is hovering in the range of around 40 to 50%. Strong capacity addition in existing plants, but no further green field projects is envisaged for financial year 2023-2024. The new plant at Panagarh in West Bengal to be commissioned around March 2025 to produce industrial paints and construction chemical. Looking at the Q4 performance, the volume sales growth was at 11.1% overall for the company and for decorative it was slightly in excess of 14.5%. In case of value sales growth, we registered 13.6%. Three years compounded volume growth at 19.4% and three years compounded value growth is at 23.1%. Decorative business as I mentioned both double digit volume and value growth both in excess of 14%. Construction chemical segment also recorded a robust growth for the quarter. Several new products were launched in the quarter. In the industrial segment we had a flattish volume or negative volume for some of these like powder coating, but the value growth for all the industrial division were in excess of double digit primarily driven by price increases. Innovation for success and new product launches we introduced antidust cool and there were three products in the wood coating range Imperia Trend, Imperia Breathe Easy and Imperia Dura Coat. Some of these are very interesting finishes which you can possibly see if you are looking at the presentation metallic finishes, filament finish, hammer tone finish, so these are different type of finishes which are there for decorative finishes for wood coating. Similarly a product which got introduced called Dura Coat again a epoxy based product, very popular for small interior decorators as well, table etc., which can be created with different types of design. Some of which are shown in the photograph there. Media campaign continued. We in fact spent a little bit extra money both in digital media and television as well in this period in Q4 of this year compared to Q4 of last year so the spent percentage in advertising went up a little bit. In 2021-2022 Q4 we



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had cut back on the advertisement spent and this year we actually increased it so therefore the growth in advertising spent has been much beyond the sales growth in this quarter. Industrial business, automotive, general industrial protective as I mentioned all had double digit value growth but volume growth were negligible primarily because they were led by price increase led growth, powder coating continued to have a negative growth rate both in volume and value terms.

As far as gross margin is concerned as we had mentioned last time we had seen a restoration of the gross margin on the back of drop in raw material prices. It has bounced back from 33.8% of Q3 to 39.6% as you can see in the graph so we are expecting that we will be able to maintain the gross margins at these levels, which is a healthy gross margin to be at and we have been consistently been in this range of 38 to 40 and that is where we would like to be in the future as well. As far as PBDIT is concerned it did not go up to that extent. It actually moved up from 12.9% to 15.6%. It could have been higher probably around 16.6 to 17 range which is where we would expect to be in Q1. This quarter we had some one off expenses and that is where we got impacted a bit. There were three issues, one was overhead and pre operating expenses in account of Sandila project which got completed in the month of February we started, but we had recruited from the month of November and that expense came in much of it all the workers, officers, managers, and that added up to an overhead expense which was in excess of what the normal expense is. The second part of it was we had done some Andhra Pradesh school project which was a big project which we had done the year before and in that 90% of the payment we received, 10% of the payment it comes delayed normally because lots of formalities to be filled up before that payment is released. That was taking time and we have provided for it therefore and if we had not done these two one-off expenses and this is an expense which we are very sure that we will get back either this quarter or the next quarter, but we want to be doubly safe and therefore we have provided for it, had we not done it, our EBITDA would have possibly been about 1% higher which would have given us a growth rate in the range of 16-17% which would have been a healthier growth rate.

Operating margin excluding other income however showed an improvement sequentially of 270 basis points. We expect gross margin to hold as I mentioned at the same level going forward. Operating margins are expected to improve in Q1 of FY2024 itself. The PAT has been lower over corresponding quarter last year on account of higher depreciation and finance cost on the Sandila project which will be normalized in the coming quarter. The net debt situation which had risen to about 1000 Crores in September 2023 has come down to 610 Crores at the end of March and we would expect that we will become net cash positive by the end of financial year 2024. Company presently has the shortest receivable collection



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days in the industry at around 37-38 days and if you look at the decorative again it will be probably the lowest in the industry at about 23 days.

Standalone growth for Q4 I have discussed already, but just to reiterate 13.6% in terms of income growth PBDIT growth 9% and PBT and PAT at -3.2 primarily because of the depreciation and interest cost of the Sandila plant. Financial results over the year income from operations has been fluctuating from Q1 of FY2022 due to COVID issues 96%, 26, 21.2 to 7.3 then again bounced back to 53.7%, 22.52 and then now 13.6. Consolidated results on similar count. The consolidated result if you observe is lower than that in terms of profit and also in sales growth rate and PAT and PBT are especially lower. The PBDIT lowering is due to primarily Bolix and Nepal operations which went negative in this quarter. Therefore you see a lowering from 9% to 6.4%. In case of PAT and PBT we had a fire in our Berger Becker plant in the month of March. We had to provide for our portion of it which is about 28 to 29 Crores, as a result of that and we had taken this provision though we have applied for the insurance and we are reasonably certain that we should get it in Q1 or Q2, but since it will take some time, we have provided for this and as and when it comes back it will be restored back into accounts. So therefore this is the reason why you see an extraordinary drop in PAT and primarily because of the fire incident and the provisions made thereof. Income from operation growth trend for consolidated on similar lines as that for standalone. The performance for consolidated company subsidiary STP Limited showed robust top line and profitability growth aided by high gross margin and reduction in overheads. This is the construction chemical company which we had acquired sometime back and did very well in Q4 and also right through the year. SBL which is Saboo Coating Limited had a marginal degrowth in top line for the year but showed improvement in profitability. The companies overseas subsidiary BGN Nepal had a degrowth in top line and profitability on account of steep inflation and cash crunch in the economy whereby company decided to hold back on extended credit. The outstanding were going up and we decided not to extend it anymore and therefore we cut back on the sales a little bit and suffered because of that. The company's overseas subsidiary Bolix Poland also had a degrowth in top line and profitability on account of Ukraine war and inflationary environment. UK operations were also impacted by high inflation. It is coming back, but we have to say it is too early to call as far as Bolix is concerned. Company's joint venture Berger Nippon paint automotive coatings had a very strong quarter of top line and profitability growth aided by the growth in the automotive sector. Company's joint venture Berger Décor Coating financial performance was negatively impacted on account of fire and the loss in one of the factories in this quarter an amount of about 28 odd Crores was provided for the same. Claims are being processed. Strategizing for growth we will expect to continue to grow at a good healthy pace, network expansion we are already having 40,000 retailers. We plan to add 8000 retail touch points in the year 2023-2024 as well. In



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terms of product innovation, we have done several product innovations in the recent past some more are there in the pipe line which will come this year in 2023-2024. The focus in advertising will be on the digital side of advertising though our advertising spends will increase considerably this year both on television and on the digital media once again. Influencer outreach, company has about 1.3 lakh contractors and painter will regular off take of company's product. We plan to scale up significantly in this area. Cost restructuring, working with R&D to find more cost effective alternative formulas and efficient formula, improvement in manufacturing efficiencies through automation and overhead reduction will carry on as we have been doing in the past. All this we will do and stay focused on the ESG part of it, environment, social and governance aspect. Even in the recent plant in Lucknow it is probably one of the greenest plant around, complete solar power generation, excellent water recycling and waste water reduction so we have taken lot of measures across various factories in order to become far better in terms of our environmental foot print, similarly in terms of social issues and governance. The company expects to continue its double digit growth in decorative business in the coming quarter as the demand outlook remains good in view of lower inflation and prediction of normal monsoon. I think so far April has begun well and we expect that May and June should also be good. Industrial outlook remains strong on the back of upturn in automotive and infrastructure sector. Raw material prices other than any exchange rate fluctuation appears benign as of now. We therefore expect that our gross margins will hold. Profitability expected to improve in Q1 of FY2024 on the back of improvement in operating margin, the one off expenses that we incurred would not be there and therefore we expect good solid improvement as far as EBITDA is concerned and company is confident to have a strong performance in its 100th year of operation. Thank you and we can take the questions now.

Moderator:

Thank you. 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 and you have shown good improvement in the volume growth trajectory my questions are essentially on the cost aspect so first is on the Andhra government delay in the receivables so would you be fully confident of this and if you could quantify how big is the amount and in the past have you seen such delays in other state government receivables also and does this change your aggression in any way to the state government.

Abhijit Roy:

Abneesh yes we are very confident of this amount that we should be getting it. Basically they have a system whereby it is automated and this amount goes through a portal which is called CSMS in their terms and once it reaches there it gets disbursed so of the total quantum which was there in excess of 300 Crores, we have received 90% of it and 10% was what was left, out of that what they had indicated was this was the last portion which is



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there for which there is procedure that we have to get certificates from the headmaster and the assistant engineers of each of the school. There are 12,000 of them. We have so far collected about 8000. We have to collect this balance 4000, which is taking some time because it is disbursed and we have to contact both of these guys and it takes some time. Once we get it, once we submit this we are 100% confident that the payment will come through so no worries as far as this is concerned. As far as other state governments yes we keep doing project elsewhere and so far there has been no such default from anywhere in the country.

Abneesh Roy:

Sir understood. My second question is on the advertising spends which you said has gone up significantly this quarter on Y-O-Y basis and next quarter and for the next full year FY2024 you do expect ad spends to go up which I understand given the gross margin expansion, if I see the market leader Q4 results also their other expenses has gone up so if I compare your ad expense versus pre-COVID as a percentage of sales if you could give clarity there. I understand Y-O-Y because of COVID etc wave 3, Y-O-Y it has gone up but versus pre-COVID where do we stand in terms of ad spend as a percentage of sale.

Abhijit Roy:

Y-O-Y as you are rightly saying, it is because we had cut back little bit and now we are going back to normal spend levels but pre COVID we are marginally ahead of that. We are spending a little bit extra especially on the digital media there has been a substantial increase in spends there. The TV has not gone up so much but the digital there has been a massive increase.

Abneesh Roy:

Digital increase is it due to any particular reason or is it just cost optimization versus the TV media and also other paint companies are saying lot of activity happening from their side on the architecture side so is that also a meaningful expense from your side.

Abhijit Roy:

On architecture side, we have not gone in such an extent but in the digital media we are going primarily because we see the audience quite a lot shifting in that direction. We have started targeting because we do not want to scatter our money uselessly into places where it may not be so useful for us. In certain states where we do want to do activity on certain brands which are not that strong all India we would prefer to go digitally there. There are certain brands like that where we want to advertise digitally and that is where the spend is going up. Corresponding little bit of reduction might be happening on the television. Overall therefore compared to pre COVID period there has been an increase, but marginal increase on television and much more substantial increase on digital.

Abneesh Roy:

Sure Sir. That is all from my side. Thank you.



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- Moderator:** Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Hi Sir. Sir I just wanted to clarify the amount that is left from Andhra Pradesh school project is 30 Crores or what is the amount. Sorry I missed that one.
- Abhijit Roy:** So total amount that is due is approximately 30 Crores of which we took a hit of about 20-21 Crores this quarter primarily because they have crossed one year period some of it in phases, so we have done some schools which were much earlier so that which crossed one year we have taken that complete provisioning for that.
- Avi Mehta:** Okay perfect that is very clear Sir. Sir the second bit when I look at the EBITDA margin what you have kind of indicated would it be fair to say that the 16.5 to 17% given the input cost are also remaining benign we should expect or we can expect such a performance for the year as well, obviously assuming that input cost remain benign is that a fair way to look at it or if you could help me understand that.
- Abhijit Roy:** I can predict for you for the first quarter because that is more closer and we have got one month which has already gone past and so therefore with a reasonable degree of certainty comment on that. If all other conditions remain similar then yes of course we are looking at that type of EBITDA range which is there. However, if we see some activity happening which are beyond the normal then obviously things might change but yes if everything remains same that is where the range will be.
- Avi Mehta:** And those activities will largely be input cost related right Sir that is how I should see.
- Abhijit Roy:** Primarily that unless of course towards the end of the year we expect competition to come in form of some of the players who have declared from the fourth quarter they will jump in. At that point of time it might be some sort of skirmish in the market for a short while so there we do not know what may be the situation but otherwise yes this is where we will be.
- Avi Mehta:** Perfect Sir and when you answered ad spend remaining ahead of pre COVID that was ad spend to sales right I just want to clarify that part also.
- Abhijit Roy:** Yes both in terms of absolute and sales as well.
- Avi Mehta:** And last bit Sir if you could give us a sense on the construction chemicals business and how do you see the growth in this category if you could give some understanding of how large is it for right now and whether it is only in the subsidiaries or whether it comes in standalone.



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It is a mix of too many questions, but I just wanted to understand this construction chemicals business better Sir.

Abhijit Roy:

As far as Berger is concerned within Berger itself this is growing very well at a very robust phase and it is now becoming more and more significant. We expect this construction chemical to be around the range of 8 to 10% of the decorative business in the next two years that is for sure it looks like the way it is growing at present. In addition to this we have our subsidiary company which is STP which is also in the construction chemical space which also is growing quite fast so overall it should be around 10% range comfortably in the next one and half to two years.

Avi Mehta:

Sir sorry just on that bit. Currently what is the sale in because that will give us a sense on the growth that we are expecting.

Abhijit Roy:

So currently both put together we will be somewhere around 1000 Crores.

Avi Mehta:

Okay perfect Sir. I have some questions more but I will come back in the queue. Thank you very much Sir.

Moderator:

Thank you. We have the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Hi Sir with some of amount of decline in crude and crude related input cost how are you looking at sort of the pricing scenario in the next few months and when I say pricing I am talking about consumer pricing plus any extra activity in the trade via discounts, rebating etc, etc.

Abhijit Roy:

Crude has come down. It is true and the prices of raw materials have become benign as we can see from the gross margin expansion also. It is quite evident however it is a competitive industry and typically if there is competition you tend to fight more fiercely in the market and the prices do settle to a level which is sensible. I think there will be some amount of rebating which is going to go up a little bit possibly, but not significantly because this is the level where we were pre COVID and it is not something which is substantially different from where we were pre COVID.

Percy Panthaki:

Right Sir and you also spoke in your initial comments that gross margins I mean sustainable basis you would like to maintain it around 38 to 40% mark. If you can also give a similar idea as to the EBITDA margins please.



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- Abhijit Roy:** If that is the range normally we operate at 16 to 17% range of EBITDA and that is where we can going forward as well.
- Percy Panthaki:** This is on a consolidated basis right.
- Abhijit Roy:** That is right.
- Percy Panthaki:** Okay Sir that is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Tejash Shah from Aventus Spark. Please go ahead.
- Tejash Shah:** Hi Sir. Thanks for the opportunity. Sir you spoke about adding somewhere around 8000 dealers on the base of 40,000 so that is a very healthy 20% addition so historically how does this translate into growth, a 20% addition on distribution when will it translate to 5%, 10%, 15% how does it actually impact the growth in the year where you are expanding.
- Abhijit Roy:** Typically this will probably result in 5 to 6% of additional increase over whatever normal increase we would have got otherwise. If we have normally grown at 7 to 8% this will give us 5% additional which is about 13 odd percentage.
- Tejash Shah:** Sure and Sir if you can give some hindsight on are we specifically targeting any geography where we are under indexed in terms of our presence and we are disproportionately adding dealers there or is it a normal course of expansion that we have been doing for last many years.
- Abhijit Roy:** Normally we have been growing at about 4000 to 5000 outlets. Last year 2022-2023 we grew slightly faster. We grew about 7000 outlets of which 5000 plus were machine and this year again we want to go slightly ahead of that from 7000 instead to 8000 outlets and if you have seen last year also in terms of value based growth we were the highest in the industry and this could help us this year as well in growing at a faster pace than the industry in general.
- Tejash Shah:** Sure and Sir last question if I may on your margin guidance. Sir your own commentary on the existing competitive scenario and then at the end of the year you also highlighted there is a competition which is coming, your guidance on going back to 14 to 16% kind of EBITDA margin. Do you think that upper end it is slightly aggressive or you believe that with raw material benefit coming through, you can actually revert back to those levels?
- Abhijit Roy:** I did not get it. Can you repeat the questions please.



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- Tejash Shah:** 14 to 16% right consolidated margins.
- Abhijit Roy:** I said it will be in the range of 16 to 17% that is where we should be.
- Tejash Shah:** So Sir that is a healthy expansion where we are exiting this year, you qualified this year to be slightly competitive than the past years so just wanted to know how confident we are able to because I am assuming that a large part of this benefit or expansion will be gross margin led so looking at our stepped up investment on A&P commitment and then competitive landscape also how confident are we to actually kind of revert back to those levels of margins.
- Abhijit Roy:** It is a combination of two, three factors. One of course is that where there was one off expenses which was there this year which will not be there next year. The second is that we are doing a lot of exercise on our overhead front which we expect will yield very positive result and we should be able to reduce our overhead percentage to sale at least by 0.5% is what we are looking at. This is something which is a work in progress, but we are reasonably confident that we should be able to deliver on that front and then lastly it is true that there will be an expansion in the gross margin which will happen, but in the competitive spirit that we are looking at it is not necessary that always that price will start falling and therefore it will drag down the EBITDA that is not what we have seen so far in the industry and we expect that trend will continue in the future as well.
- Tejash Shah:** Very clear Sir. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Hi Sir good evening. Thanks for the opportunity. I have three questions, you just touched upon the competition. Would you be able to give us some colour how the competition is behaving at this time because what we gather from the trade is that they are expecting a very strong either improvement in terms of their profitability on the account of either dropping the prices or from the point of increasing the discounts because the competition is really heightening at the trade. We are interested at looking at what is your comment on that.
- Abhijit Roy:** No the ground realities are slightly different. In fact the hyperactivity that we had seen about one year back is no longer there. It is much more normalized. If this trend continues I do not see any reason to be worried about in terms of delivering on the EBITDA margins as well.



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- Shirish Pardeshi:** But do you think there is a pressure from the trade to drop the prices.
- Abhijit Roy:** I do not think that is the scenario now. At least in the month of April they were pretty okay. In the month of May in the first seven to ten days it is a bit of slowdown but it is picking up now again, so I do not see that pressure coming in from the trade which will force all of us to look at trying to get additional sales through additional rebating.
- Shirish Pardeshi:** Okay my second question on the regional split. I guess north has lot of issues in terms of the off take in the beginning but now it is improving while south has done well so in terms of your saliency which segments or which markets has grown faster for you.
- Abhijit Roy:** Almost across the board but we are relatively a weaker player in the south so for us it has been east and then north and west which have been growing. South also has grown well on a lower base for us.
- Shirish Pardeshi:** Okay and the last question on the initial slide what you have mentioned that this 33,000 metric tonne what we have added in the month of February and I think the present capacity is 95,000 metric tonne and you said that is about 40 to 50,000 utilization. To your understanding when does this 40 to 50,000 capacity utilization will happen for Sandila.
- Abhijit Roy:** Sandila is operating at 40 to 50% you are right and that will take about one and half to two years for it to reach to 75 to 80%. For us normally the seasonal month it tends to go up to 100% utilization. Normal month it is about 65, 70, 75% so that is a good figure to be at. In one and half to two years timeframe we should be able to reach that level of 70-75% at Sandila as well. Meanwhile in the next two years after we will have to start looking at brown field expansions in our existing plant and also a Greenfield possibly in the state of Orissa which we will start setting up from 2026 onwards.
- Shirish Pardeshi:** Okay so just one followup on the account of Sandila you said that the overheads has actually picked up your cost, but is there anything one off which is going to come in FY2024 because of Sandila plant.
- Abhijit Roy:** No nothing more to be there. We have taken whatever had to be taken.
- Shirish Pardeshi:** Okay thank you Sir and all the best.
- Moderator:** Thank you. We have the next question from the line of Jai Doshi from Kotak Securities. Please go ahead.



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- Jai Doshi:** Hi thanks for the opportunity and congratulations on the three consecutive quarters of industry leading growth. I had two questions, the first one is just a book keeping question. You called out 20 to 21 Crores of provisioning done on account of the Andhra Pradesh school project. You also indicated that there were some more provisioning at subsidiary level and some one-off cost associated with the opening of the Sandila plant. Is it possible to quantify that eventually just trying to understand what is the extent of impact, onetime cost as a percentage of consolidated revenue.
- Abhijit Roy:** Approximately it will be another 8 or 9 Crores in addition to this Andhra Pradesh school so approximate value will be about 28 Crores which is there. It is one off so you can bill that in the percentage and understand whatever it is.
- Jai Doshi:** Could you give us some colour on what is your market share in the four regions, the north, south, east and west ballpark numbers will also be fine.
- Abhijit Roy:** Very difficult to say Jai. We do not calculate in that way, but I can only let you know that in the east we are the strongest and north also we are well placed, relatively weaker in the west and the south and it varies from state to state even in these areas. For example in UP we might be relatively much stronger than say in Punjab or Himachal Pradesh so it is a very broad term to use and I do not think it makes any sense, but overall our market share hovers between 19 to 20% in all India scenario in the east obviously therefore it is much higher, north will be also slightly higher than average and relatively weaker in the west and south.
- Jai Doshi:** Weaker in south, my understanding is you are strong in Kerala and you do have presence in AP, Telangana as well right so if Karnataka and Tamil Nadu are the two markets where you have very low market space.
- Abhijit Roy:** And also Telangana we are very weak. Andhra we are strong and Kerala we are strong, but the other three states we are relatively much, much weaker.
- Jai Doshi:** That is it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Harsh Shah from InCred Capital. Please go ahead.
- Harsh Shah:** Hi Sir thanks for taking my question. Sir you talked about improving profitability in your industrial business so can you quantify or just give an indication as to what levels are the margin at EBITDA or PBT whatever you are comfortable sharing.



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- Abhijit Roy:** In the industrial also different businesses have different levels, powder coating which is degrowing in sales has a very high EBITDA to sales as of now, quite close to decorative actually. As far as protective coating is concerned it is below decorative but it is improving every quarter so the last quarter it was in good double digit. In case of automotive and general industries, again it started at a very low level by the end of Q4 it was in double digit just about so that is how it is.
- Harsh Shah:** On a blended basis would the sustainable margin for the entire industry including auto and non auto if we put together would that be in low teens for you.
- Abhijit Roy:** For the industrial business yes. It will be somewhere in between 12 to 14% blended if we assume that this Q4 results will continue and the decorative is much higher of course.
- Harsh Shah:** Okay thank you so much Sir.
- Moderator:** Thank you. We have the next question from the line of Mihir P Shah from Nomura. Please go ahead.
- Mihir P Shah:** Good evening Sir. Thank you for taking my questions. Sir firstly historically between the value growth and volume growth there used to be a negative mix historically, but we have seen over a period of time that mix kind of going away so I just wanted to check with you in this quarter probably is it because there is no pricing and mix has gone away or there is still some element of pricing and element of mix which is still leading to value and volume growth to be in the similar range.
- Abhijit Roy:** This quarter the price increase benefit that we were getting in the second quarter and to some extent even in the third quarter has completely vanished in quarter four so the volume-value gap become negligible expect for the positive mix changes if any which was to happen and when we sell this low end emulsions etc., those are also priced comparatively lower and they are growing at a reasonably good phase as a result sometimes the volume growth might exceed the value growth if you are looking at that way so that explain the slightly higher volume growth than the value growth in this quarter.
- Mihir P Shah:** Got it Sir. I mean of course this can be some seasonality effect etc., but on a steady state basis how should we think about the negative mix that we used to see in the earlier years can that settle down completely or it will be a quarter to quarter phenomena.
- Abhijit Roy:** It can be quarter to quarter phenomena. It depends on every quarter if scenario changes a little bit in the paint industry. For example in the second quarter the mix normally tends to



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reverse in the negative direction because lot of sales of distemper, primers etc., happen in that quarter. Again in the third quarter and the fourth quarter it tends to pick up especially in the third quarter in the October, November, December Diwali period emulsions sale will go up significantly and that to high end emulsion and then you have value growth far in excess of volume so it varies from quarter to quarter it is very difficult to give you a generalized picture for the whole year.

Mihir P Shah: Got it Sir. Sir how should one think about pricing now given raw materials are completely back. In your view do you think that there can be a phase for price cuts in the industry?

Abhijit Roy: So in current situation I do not see that immediately what is required to be done especially if the demand scenario is decent and good there is no need for that at all. If the situation so arises that the demand starts faltering and we see the prices remaining benign and stable at these points or reducing further in terms of raw material prices then maybe a price cut maybe required, but not at this stage.

Mihir P Shah: Got it Sir. Sir the other question I wanted to check with you was on the product mix that you have if you can share any broad range of your product mix between premium, mid, and mass where is it standing currently and where do you see that in the next three odd years because we have seen a lot of new differentiated high end launches that are happening so if you can throw some light on that product mix change that you are endeavoring to do.

Abhijit Roy: The growth is improving as far as the premium luxury category is concerned for us and if that continues to happen over the period of years we have seen that improving. In the pre lux category not in the luxury category we still need to do some work on the luxury category and I believe there is a lot of growth opportunity in the luxury category as well where we have a product called weather coat long life and exterior category which is doing very well, but in the silk glamour which is the interior luxury that has not grown all that well that we would have anticipated so there is some space there for growth in that particular category. We are doing very well and we are a leader in the immediately below luxury category which is called the premium luxury category where we have two brands Easy Clean and Anti Dust both are leaders in their own category in that particular segment so that continues to grow very well and we will be investing in advertisement and also in terms of other activities to grow this premium luxury and the luxury category to help premiumization of our entire product portfolio.

Mihir P Shah: Got it Sir. Thank you and my last question Sir is on the subsidiary the Bolix, any visibility by when do you expect an improvement in that region Sir or when we can start seeing some growth numbers versus a degrowth and improvement in margins.



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- Abhijit Roy:** Last three months which is January, February, March which gets actually consolidated with our April, May, June accounts that has been good, but it is very difficult to say how things will be going forward. As of now the situation there remains tense because the war continues and lot of refugee flow into Poland and it creates some amount of disturbance. The inflation is at a high level though we manage to sell and do reasonably well whether we will be able to continue that that is something which I cannot give visibility on and this is a small operation for us and overall the stakes are not so high so it does not impact us so much as far as the overall result is concerned.
- Mihir P Shah:** Thank you very much Sir. Wishing you all the very best. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.
- Avi Mehta:** Hi Sir. I just wanted to check on this fan business in the powder coating, when do you see that kind of turning around because it has been sometime since that weakness is continuing.
- Abhijit Roy:** That is true and we were expecting that the summer setting in and April, May should have been much better so April it did improve to some extent because all this five star rating etc have settled down and the expectation was that it will do much better. It did improve but not to the extent that we would have loved it to. It is still below the threshold level that one would have expected but May again there has been further more improvement on that hopefully this trend will continue to improve because the pipeline which had got reduced considerably needs to be filled up again so gradually I think it will come back.
- Avi Mehta:** Okay Sir. That is all from my side. Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Parmar an individual investor. Please go ahead.
- Deepak Parmar:** Hi thank you for taking my question. My question is among the listed competitors are we planing to grow the fastest in FY2024 and gain market share. Can you put some colour on this?
- Abhijit Roy:** So the intention is that because last year also we grew the fastest and we gained market share, my estimate is about 0.4% in the overall market for the companies which are in the listed space and we were the only company which would have grown significant market share in the year gone by and we expect that this year too in 2023-2024 we would gain



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some market share. The quantification is difficult but we would like to be the fastest growing definitely in the market.

Deepak Parmar: Thank you so much. Another point is this UP plant how is it going to help in terms of improving the margin because north is your second best market so will it help in terms of improving the margin, the UP plant which has come up.

Abhijit Roy: Yes so some amount of help definitely will happen. Two things which is there one of course is the freight cost reduction will happen to a large extent and the responsiveness of the company to certain changes in requirement will be much faster so thereby both sales and in terms of operating margin the freight cost reduction will help. In addition of course we have some tax benefit which will come in which will kick in also.

Deepak Parmar: Okay and one last question as you rightly said with lot of other competitors coming in by Q4 and Telangana, Maharashtra, and Karnataka these are one of the biggest paint market so how are we going to counter the current existing players and the new players in our weaker market. I mean what are our strategies to counter these players.

Abhijit Roy: These are the markets where we have been traditionally on the weaker side. We have taken some initiatives which are out of the box little bit and attempting those things. Last year we did that. We achieved some degree of success I would say but this is something which needs to be continued this year as well and hopefully we will be able to grow at a reasonable pace even in these market.

Deepak Parmar: Okay thank you so much and all the best.

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

Abhijit Roy: Thank you. This has been a good year for us and we are entering in to the 100th year. This will be in fact our 100 year in existence in India. We started our journey in 1923 in the month of December and therefore we will touch exactly 100 years in December of 2023. We expect that this year will be a good year for us and the 100th year will be one of the best that we have seen so far. We have crossed this milestone of 10,000 Crores that gives us some wings to our journey and we hope that the year which is ahead of us we should be able to deliver on the promises that we have made. Thank you once again for listening to us patiently and wish us the luck as well for the coming year.



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Moderator:

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