INDIGO
Be surprised!

February 16, 2024

To,
BSE Limited
Corporate Relationship Department
25th Floor, Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai- 400001
Scrip Code: 543258

To
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1, Block G,
Sandra Kurla Complex, Bandra (East)
Mumbai - 400051
NSE Symbol: INDIGOPNTS

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call for quarter and nine months ended December 31, 2023

Pursuant to the Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call held with the analyst and investors on February 12, 2024 at 11.00 hrs (IST) to discuss the unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2023.

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

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited

DAYEETA SHRINIVAS GOKHALE
Digitally signed by DAYEETA SHRINIVAS GOKHALE
Date: 2024.02.16 14:34:55 +05'30'

Dayeeta Gokhale
Company Secretary & Compliance Officer

Encl: as above

"Indigo Paints Limited
Q3 FY '24 Results Conference Call"
February 12, 2024

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

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

Moderator: Ladies and gentlemen, good day, and welcome to the Indigo Paints Q3 FY '24 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero 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. Thank you, and over to you, sir.

Manoj Menon: Hi, everyone. As always, it's our absolute pleasure at I-Sec to host the results conference call of Indigo Paints. Today morning, we have Mr. Hemant Jalan, Chairman and Managing Director from the company; Mr. T. S. Suresh Babu, Chief Operating Officer; Mr. Chetan Humane, Chief Financial Officer; and Mr. Srihari Santhakumar, General Manager Finance and Investor Relations. Without much ado, over to the management for opening remarks, and post which we will open the floor for Q&A.

Srihari Santhakumar: Thanks, Manoj. Thanks, everyone, for joining the conference call today. As mentioned before, today, to discuss the results, we have with us Mr. Hemant Jalan, Mr. Suresh Babu and myself, Srihari. We have already uploaded the financial results and the investor presentations along with the disclaimer on the websites of the company as well as on the stock exchanges. I hope you had a chance to go through them. I request Mr. Jalan to give an overview of the performance followed by the Q&A.

Hemant Jalan: Thanks, Srihari. Thanks, Manoj. And thank you all for joining in on the earnings call of Indigo Paints for the third quarter FY '24. We are happy to report yet another quarter of industry-leading growth. It's the third quarter in which Indigo Paints has grown by 3x to 4x times the industry growth rate, indicating consistent market share gain by the company. The growth in sales was accompanied by an equally good growth in the profitability metrics as well. Now we'll first look at the performance of the company on a stand-alone basis, followed by the results on a consolidated basis.

First, the stand-alone. Compared to Q3 of last year, our sales in Q3 of FY '24 have registered a value growth of 21.33%, which is once again almost 4x of the industry growth this quarter. Our gross margin of 48.43% in Q3 of FY '24 is significantly higher than the gross margin of 43.82% on a Y-on-Y basis, and we continue to maintain the leadership position within the industry in terms of gross margins for the last 14 to 15 quarters in succession.

EBITDA has increased by an impressive 50.18% from a figure of INR40.56 crores in Q3 of last year to INR60.91 crores in Q3 of this year. The EBITDA margin of 17.85% dropped in this quarter has also expanded from 14.42% registered in the comparable period of last year. The PAT has increased by a robust 43.55% to INR37.70 crores, compared to INR26.26 crores dropped in the same quarter last year. And this expansion of PAT is despite the depreciation load of the company increasing by over 52% on account of the new plant at Tamil Nadu coming on stream. The PAT margin for this quarter has expanded to 10.96% compared to 9.21% in the same quarter last year.

Details of our 9-month stand-alone results have been elaborated upon in our investor presentation. And for the sake of brevity, I shall not repeat them here. Suffice to say that this is the third consecutive quarter when we have outstripped the top line growth of the industry by a factor of around 4x, and this is amply reflected in the 9-month cumulative figures when you compare them with our peers.

Now coming to the consolidated results. For this quarter, our revenue grew by 25.78% to INR353.77 crores, while the EBITDA grew by 53.46% and the PAT grew by 42.98%. The EBITDA margin on a consolidated basis was 17.59%, and the PAT margin was at 10.52%. The sales traction has picked up at our subsidiary, Apple Chemie. And we have started getting new orders from states outside Maharashtra as a consequence of the expansion of Apple Chemie's selling territory.

On a consolidated basis, our outperformance on top line growth is about 5x that of the industry. We expect even better growth from Apple Chemie in the ensuing quarters as they further ramp up their salesforce in regions across India. The detailed 9-month consolidated results have also been uploaded in the investor presentations. And once again, I shall refrain from repeating all the numbers here.

I'd like to now give you some operational details about the last quarter going beyond the simple financial numbers. Now during the last quarter, the overall advertising and promotion spend increased by almost 26% to INR32.53 crores, primarily due to the advertisement that we aired during the World Cup Cricket series and the seasonally high spends, which generally occur in the months running up to Diwali. However, we are well within our annual advertisement budget.

And although our A&P spends will increase every year, we expect the spend as a percentage of revenue to decrease on an annual basis by about 150 basis points. Despite the significant increase in A&P spend this quarter, I would like to highlight that the EBITDA margins have substantially expanded this quarter, indicating gains, A) due to operating leverage; and B) due to better gross margins. And we expect the EBITDA margins to improve further in the upcoming quarter. We have also recently launched a new advertising campaign to promote waterproofing products in our retail range, which has been very well received by the audience.

Now in line with our consistent disclosure practices, we have given our volume and value growth numbers for each of the 4 major categories of paint products. During the quarter, the company witnessed very, very healthy double-digit volume growth across all product categories, and the value growth has been pretty similar and largely in sync with the volume growth, as you would expect, for a year where there have been no significant price changes.

The value growth in the emulsion category of 18.2% has been particularly healthy and outstrips the volume growth of 14.3% in the same category, which is a clear indication of the gradual premiumization in our emulsion sales. We continue to focus on network expansion, improving the throughput for active dealer and increase our tinting machine population. As on December 31, 2023, our count of active dealers stand at 17,745 and the tinting machine population stands at 9,510. The throughput per dealer, if you do the simple math, has gone up significantly in the last 1 year. During the quarter, we also opened 2 more depots, 1 in North India and 1 in Eastern India, to increase our distribution efficiency.

On the capex front, civil works are progressing well in the new water-based plant being set up at Jodhpur, and orders for most major items of plant and machinery have already been placed. The plant is expected to commence operation by the end of FY '25. Work is also expected to start very soon on the proposed solvent-based paint plant at Jodhpur.

As mentioned in our previous call, to focus on waterproofing and construction chemical products, we have already set up a separate team in all depots to exclusively work with the channel partners and influencers to promote these products. Along with this, as mentioned a short while ago, we have also launched a new advertising campaign for the waterproofing products. We have witnessed an excellent boost in sales for these products in the month of January, which is typically the start of the season for sale of waterproofing products. We are hopeful that this segment will make a very meaningful contribution to our top line in the ensuing quarters.

Similarly, we have also entered the segment of project sales by setting up a separate team in select depots to cater to paint demand in the institutional sector mainly of large new constructions happening across India. However, this is a segment which has a longer lead time gestation period, and it will probably take several quarters before this segment starts contributing meaningfully to the top line, but it is a vital segment in the paint sector and something in which we need to invest our efforts in.

With three quarters of consistent industry-leading growth, we are quite confident of the strategic path we have taken to put the company on a super normal growth trajectory. With our differentiated product portfolio, our pivots like focus on Tier 1 and Tier 2 cities, enhanced engagement with influencers, foray into waterproofing and construction chemicals, foray into project sales and the infrastructure play through our subsidiary, Apple Chemie, we expect this industry-leading performance to continue despite the competitive environment.

Finally, if you study the sales trajectory of our company over the last 3 years, you will notice that in our case, the fourth quarter is the quarter of highest sales, highest gross margin, highest EBITDA margins amongst all the 4 quarters of the fiscal year. This year will be no different, and we expect significantly higher sales number in Q4, accompanied by very good bottom line triggers.

That's all I have to say as an opening remark, and I look forward to receiving your questions. Thank you.

Moderator: Thank you very much. We will now begin with a question-and-answer session. The first question is from is Mihir Shah from Nomura.

Mihir Shah: Congrats on a very good set of numbers. So firstly, on volume growth and market share, volume growth has been super strong across subcategories. So firstly, on market share, whom should we attribute most of the share gains from? Clearly, it is coming from both organized and maybe unorganized as well as we can see it in the results. But as from your side, would you say you are gaining more from organized players or unorganized players?

Hemant Jalan: I think it is mainly from the organized players who are the dominant category holders as far as the paint sector is concerned. When we compare our value growth with the value growth of other organized players who are our larger peers in the industry and if we outperform them in growth, it is very simple that substantial growth in market share is coming at the expense of others.

Now it would be very marginal pickup from the 4 other larger players. So we probably don't disturb their growth plans in isolation because we are still relatively small to at least the 2 or 3 larger players in the industry. So they may not feel the pinch. But of course, our market share does grow at their expense. Whether some of the growth comes at the expense of the unorganized player is really hard to measure because no accurate data is available on what the growth of the unorganized sector has been in the same period, but I would largely attribute it to growth at the expense of the larger players.

Mihir Shah: Got it. No, I was just asking because your consumer will largely be choosing from the organized pallet versus the unorganized products that are there. So I also was thinking about the same. Sir, supplementary to this, can this disproportionately higher sales be attributed to any regional SKU or across regions you are seeing similar growth?

Hemant Jalan: I think it is pretty similar across Pan India. I don't think there is particular regional SKU to this growth. I think, overall, I mean, if there is one region which has perhaps grown a little faster than all the other regions, which is perhaps the Northern part of India. But otherwise, we have had fairly good growth coming across all regions as far as the last quarter is concerned.

Mihir Shah: Got it. So my second question is on pricing. I believe you would have also taken some price cuts along with industry. Please correct me if I'm wrong here. And how should one think about pricing going forward as are more price cuts likely because we don't see gross margins significantly higher than historical averages, it's not like a material difference. And raw material prices are also pretty much range bound of course, with some volatility also being there. So would you expect more price cuts in -- to continue? Or do you think that these are sufficient enough?

Hemant Jalan: See, that's a question that is best put to the industry leader because all price changes are initiated by the industry leader. Now you're right that a price drop has happened in the middle of January, and that is in Q4. And that has happened on select premium range products.

Now fortunately or unfortunately, our share of sales in the premium range is somewhat less than the larger players in the industry. So to that extent, we are perhaps a little less impacted by this price decrease. But what happens is that whenever there is a price decrease, one notices a corresponding decrease also in the incentives offered to the trade in those same categories. May not be exactly to the extent of price drop, but at least 60%, 70% of that does get covered by reduced schemes as far as the trade is concerned.

Now I do not know what has prompted the industry leader to lower the prices substantially for those segments in view of the fact that raw material prices have relatively remained stable over the last 6, 8 months. That's a question that you'll have to answer them. And whether they are contemplating any further price cuts in some other segments is also a question that I'm not in a position to answer. You will have to ask that question to the industry leader.

But one is not overly worried about these things because a large portion of any price cut if and when it happens, does get covered by slightly reduced incentives and margins to the trade in terms of discounts. So it's not a point of very great concern. And I don't think that EBITDA numbers would be very significantly corrected even for the larger players in Q4 and certainly not for us because our exposure to that segment is somewhat smaller.

Mihir Shah: Got it, sir. Sir, lastly, on gross margins. I understand the math that you've strain on EBITDA margins. But how should one think about the industry-leading gross margins that you command at this point of time? Over the medium term, clearly, there is also a tailwind of mixed improvement with waterproofing products, et cetera. Would you think that there is -- what kind of headroom that you see in gross margin improvement over the medium term?

Hemant Jalan: I don't think there is much more headroom left for gross margin expansion beyond this. It may fluctuate by 0.5 or 1 percentage point in either direction as we go forward. Of course, Q4 is usually in the quarter where we get the highest gross margin. Now our gross margins have outpaced even the industry leader for the last 3 to 4 years consistently in every quarter.

A large portion of that has to do with our differentiated product portfolio, which contributes over 30% of our sales, where our gross margin contribution is very high because we kind of own that space. And sales of most of those differentiated products, due to weather reasons, climate reasons, reached their peak in Q4, because Q4 is the 1 quarter where you do not have any rain whatsoever, and all stars are so called aligned to promote painting activities in India. And therefore, in Q4, every year, if you'll notice, our sales are high, our gross margins are the highest, our EBITDA margins are the highest.

So at the end of 9 months, our EBITDA is around 17% or something and we'd expect a substantially higher EBITDA in Q4. So we do expect to close the year with a year-round EBITDA margin of somewhere in the range of 18.5%. And that is pretty much the guidance that we had given a year ago, and we stand by that.

Moderator: The next question is from the line of Jay Doshi from Kotak.

Jay Doshi: Congratulations on good results. I have a couple of questions. The first one is with respect to just a clarification on your comments on the TV interview today. Did you mention that you were targeting INR2,000 crores sales next year FY '25?

Hemant Jalan: I'm saying that in this particular year, when we end at the pace at which we are growing, we expect to end somewhere around INR1,350 crores to INR1,400 crores. Now our outpacing of the rest of the industry is kind of widening with every successive quarters for the last 3 quarters.

If we continue on that trend, which we hope to do, then INR2,000 crores, as I mentioned, would be a stretched target to aim at. I also clarified that we may fall a little shy of that but that is the range at which we would attempt to achieve as far as next year is concerned.

Jay Doshi: So it's more of an aspiration and...

Hemant Jalan: It is a target. Because if we do INR1,400 crores this year, then to achieve INR2,000 crores, we'd have to do somewhere around 40% growth, which I agree is a little ambitious. It would depend on 2 things: a, it would depend on how fast the overall industry grows. Now the industry growth for the last 2 quarters has been somewhat tepid, as you may have noticed. And therefore, although we outpaced the industry, even our growth of 25% this quarter on a consolidated basis, I would consider somewhat disappointing.

If the industry had grown by 8% to 10% this quarter, probably our top line growth would have been in the 35% to 40% range. So if the industry dynamics pick up and the growth for the overall industry bounces back to the 8% to 10% range in which it has been historically. Then for us to think of a 35% to 40% growth rate vis-a-vis -- compared to the rest of the industry is not completely unachievable target. In fact, we would be disappointed if we do not do that.

But of course, having said that, I have no means of predicting as to what the industry growth would be next year, whether it would climb up back to 8% to 10% or go higher than that or be a little lower than that. So to that extent, of course, we keep our fingers crossed.

Jay Doshi: Understood. Second is I heard you in opening remarks mentioned that you're targeting 150 basis point savings from A&P spend as a percentage of sales. Does that apply to FY '25 as well?

Hemant Jalan: Yes, I think it will more or less apply to FY '25 also. And at the end of FY '25, we will take a call as to whether we start once again ramping up. I mean, if that happens, FY '25 also, we maintain more or less the same ad spend with a minor maybe 5% increase, and the top line increases by whatever, 25%, 30%, 35%, 40% growth, then I think the A&P spend by the end of FY '25 would reach a level where we will have to think going forward as to whether we start ramping up the A&P spend by a slightly higher amount.

And if that happens, then in FY '25, we should be looking at an EBITDA margin of close to 20%, which would be very healthy. And we'll have to take a call as to where to invest the extra surplus available, A&P is one avenue to spend that money. There are many other levers that you can pull, which have to work in tandem. I think our advertising salience has reached a fairly high level and the brand is very noticeable, identifiable. And at this point in time, we don't think much benefit accrues from a substantial escalation in A&P spends.

Jay Doshi: Understood. The reason for asking that question was because all your peers are indicating increase in A&P spend in view of new competition that's coming in. So I just was -- wanted to clarify that one.

Hemant Jalan: Small correction, Jay. I have heard peers talking about slight increase in A&P spend, but I have not heard anyone saying that it is as a consequence of a new entrant coming in. So I think it is a fairly independent activity, and I significantly doubt whether any of that is as a consequence of any new entrant's proposed entry. But that is a surmise that you are free to take.

Jay Doshi: I mentioned increase in terms of percentage of sales, A&P spend as percentage of sales?

Hemant Jalan: Even as a percentage, and say whether it is a consequence of some new entrants coming or an independent action is something that I'm not very sure of.

Moderator: The next question is from Lakshminarayanan K G from Tunga Investments.

Lakshminarayanan K G: One is the Pudukottai plant, which is 50,000 KLPA, and the Jodhpur plant. When would that be coming on stream?

Hemant Jalan: The Tamil Nadu plant is already onstream. It went on stream in mid-September. And it is running fairly well. And we are well past the teaching stage of that plant, and it is in very smooth production.

In Jodhpur, I mentioned that we expect the plant to come onstream towards the end of the next fiscal. So we are targeting March '25 as a date to commission that plant. We are some distance away from it. So that target could move by 1 or 2 months in either direction.

It's not very critical because all these capexes are done with a slightly long-term view in mind, and it would not impact our sales in any way if the plant does get commissioned a little earlier or later, but that is with a long-term view that we are doing all that.

Lakshminarayanan K G: Okay. It's a bit -- and excluding the Apple one, what is the total capacity right now?

Hemant Jalan: See the capacity has to be measured across various different kinds of paints because different kinds of paints use different kinds of equipment. So there is a particular capacity for making putty, for example, which is roughly about 10,000 to 11,000 tons per month. So that will translate into roughly 125,000 tons per year. Then there is the cement paint, where the monthly capacity is somewhere in the region of about 1,200 tons per month, and that is more than adequate because that is not a segment that grows very fast.

There is a separate category for solvent-based paints, where our current capacity is about 13,400 kiloliters per annum at the moment only in Tamil Nadu. We are starting work on setting up a similar capacity plant at Jodhpur of about 12,000 KL per annum. When we come to the largest category, which is the water-based paints, our total capacity at the moment at Cochin is about 42,000 KL per annum.

At Pudukottai, that is Tamil Nadu, where we have set up, it will be somewhere in the region of about 55,000 KL per annum. At Jodhpur, the present capacity is 54,000 KL per annum. And that, with the new project that we are setting up, will go up to 90,000 KL per annum. So that new project at Jodhpur is a combination of capacity increase and complete modernization of the existing facilities and automation.

So capacity in the paint sector, just like volume growth, are meaningless when they are just added up arithmetically. You have to look at them from each category of paints and come up with multiple capacities for different lines of products.

Lakshminarayanan K G: So what is your broad sales mix across regions?

Hemant Jalan: Pardon?

Lakshminarayanan K G: Your sales mix across regions?

Hemant Jalan: Sales mix in what unit would you want them?

Lakshminarayanan K G: No, I just wanted to understand from your total revenues, how much would come from the Southern markets, how much would be from...

Hemant Jalan: So that is a kind of information that we would be reluctant to share at a great level of detail. But I would say that because of our disproportionate presence in Kerala, I mean, South does contribute more than -- significantly more than 25%. If you look at the geographical split of 25% at each place, pretty good in East and pretty good in West. North is the reason -- is the region where we had made the kind of last entry into India, but that is also the region that is growing the fastest for us, perhaps because of the base effect. So pretty even across all the 4 parts of India, North, South, East, West with minor differences, but I'd be a little shy of sharing very exact numbers as far as that is concerned.

Lakshminarayanan K G: Some time back, you had mentioned that these capacities will actually bring down your freight rates, which is around 9% or so for products right now. I just want to understand what is the optimal distance you like to travel from your plant? And how these plants setting up would actually bring down your freights...

Hemant Jalan: Coming from that, you see, freight rates come down from -- for 2 reasons. One is the proximity. So definitely, a lot of regions in Southern and part of Eastern India also are now getting service from our Tamil Nadu factory for water-based paints, which were earlier serviced by Jodhpur.

So for example, states like Tamil Nadu itself, Telangana, Andhra, Karnataka and Orissa, parts of Maharashtra, parts of Chhattisgarh, they are more economically serviced from our Tamil Nadu plant than Jodhpur. So those regions from the last quarter onwards have been serviced largely from our Tamil Nadu plant as opposed to being serviced by Jodhpur. And that does lead in some reduction as far as freight is concerned.

When the solvent-based plant is set up at Jodhpur, which would also happen hopefully by March of 2025, then solvent-based space in the entire northern and eastern parts of India will start getting service from Jodhpur instead of the whole country being serviced from Tamil Nadu as is happening now. So that will also bring down slight freight rates.

But the greatest contribution to reduction in freight rates happens with the premiumization of your range. The premium range product, let us say it is selling at INR400 a liter, encounters the same freight as an economy range product, which may be selling at 1/3 the price. So the freight expressed as a percentage of top line is highly dependent on the premiumization of your product mix. As the premiumization improves, the freight rate, all other things being constant as a percentage of top line starts coming down. So those are the 2 forces that drive the freight cost, at least as far as primary and to some extent, even secondary freight is concerned, the premiumization of your range and, of course, the distance from your factories.

Lakshminarayanan K G: Got it. One last question in terms of among your dealers, you have around 20,000 approximately dealers. How much would be -- I mean all of them are multi-brand, I guess, right? So it was a little...

Hemant Jalan: Your voice is a little faint. Could you speak a little louder?

Lakshminarayanan K G: Sir, I assume that all of them are multi-brand. So in general, in these places, what would be your share in the outlet? Would it be in excess of 50%? Or how do you look at it?

Hemant Jalan: You're right when you say that almost all of them are multi-brand. But if our share in those outlets across the country were more than 50%, then our turnover would have been 4x of what it is. So unfortunately, that is not the case.

So the idea is to increase the throughput for dealer as we have mentioned in our call, and let's say, on average, if our share of counter sale, and we have not done that exact mapping for dealers across the country. Let me say it is 25%, then the challenge is to move that incrementally to 35% and then to 45%. And as you do that, even without any network expansion, you get very substantial increase as far as sales is concerned.

So if you will notice in the last 1 or 2 years, the expansion in our network is -- it is happening, but it is happening at a slower pace than the actual increase in sales because a lot of that increase in sales is happening because of increased share of the counter sale. And the thing that is more closely correlated with all that is increase in our tinting machine population.

When the tinting machine population increases and as more and more of our dealers adopt our tinting machine, the throughput per counter for those counters, which have tinting machine, tends to go up very drastically. That is the number that we track more closely than simply the increase in the dealer count.

Moderator: The next question is from Aditya Bhartia from Investec.

Aditya Bhartia: Sir your strategy of penetrating Tier 1 and Tier 2 markets appears to be paying out exceptionally well. And these are the areas wherein one would anticipate competition from larger guys to be a lot more intense. So what has really kind of contributed to it? And if I may just add to it, how would our pricing and dealer incentives be different versus, let's say, some of the larger guys?

Hemant Jalan: I don't think there is any difference in either the pricing or the dealer incentives in larger cities versus smaller towns. All the dealers, whether they are in a large city or in a small town, and these dealers are all multi-brand, openly admit that the margin that they make by selling an Indigo product is significantly higher than the margin that they make selling by a larger brand on the same counter. And that is not a surprising piece of news to us.

We have known that all along, and the dealer community also knows that. So I don't think giving higher incentives to the dealer results in anything at all. What is more important is to get the pull from the customer, and that pull from the customer is generated by working more intensely with the influencers, the painters and the painting contractors who generate the demand and make a recommendation for your brand.

And that is an activity that is painstaking. It takes time. It takes a lot of effort. It does not consume a whole amount of capital in terms of money or investments, but it does take a lot of time and effort and patience for that to gradually happen.

And as and when that happens, the dealer is already incentivized. He is already making more margin by selling Indigo versus some of our larger peers. And therefore, no further incentive is required and is not very instrumental as far as driving sales is concerned.

Aditya Bhartia: That's very well explained, sir. That helps a lot. If we may look maybe 1 year, 1.5 years back, which was the time when we were struggling a bit to outpace our competition, versus that you had outlined a very clear strategy of penetrating larger towns and booking on the contractors and painters.

Do you think it's only these things which have contributed to such a significant improvement in performance? Or is there something else also that we should be aware about? What were the challenges that you saw maybe 1.5 years back...

Hemant Jalan: I would say that, that strategy that we laid out is largely what is responsible for the outpacing that you see now. So it is something that we realized maybe in hindsight, we realized it a year later than when we should have realized it. But when we did realize it and made corrections in our sales strategy, in the number of salespeople that we had on the ground and the number of below-the-line people that we have on the ground who talk and work with the influencers in the market, that is largely the reason for this outpacing of sales growth, which we have regained now.

Now there are other contributors also. For example, our foray into waterproofing chemicals, that contributes significantly now to the top line on our standalone company, Indigo Paints. And there is also meaningful contribution coming in from our subsidiary, Apple Chemie, which adds up as far as our consolidated results are concerned. So that's another thing that is propelling us.

We are looking at entering into more areas. As I said, we have formed a separate vertical for project sales, although I would not be too optimistic about making huge gains in that space in the next fiscal, it will probably take at least 1 year, 1.5 years before that starts yielding meaningful contribution towards the top line.

But the waterproofing is an easier space, and we have a natural affinity towards it. I think we have a very distinct product advantage in terms of quality. We are already supporting it aggressively with advertising. And I'm confident that the waterproofing segment will be one of our fastest-growing segments going forward into the next fiscal.

T. S. Suresh Babu: And to add to that, we also have started our focus on adding wholesale dealers in most of the markets. We have a separate vertical now tracking that. And in fact, we have that vertical tracking for our key dealers to contribute approximately 50% of our sales. So that has also substantially helped us add to the increasing pace of sales.

Moderator: Next question is from the line of Avi Mehta from Macquarie.

Avi Mehta: Sir, I wanted to just understand the 4Q -- I mean your comment on sales growth in particular. So you pointed to industry growth uptick required for us to reach that 35%, 40% sales growth target that we typically have. But if I look at your own target for FY '24, it does suggest that your growth will move to a similar kind of trajectory of 35%, 40%, it is just by calculated. This is despite the fact that other players are saying that Jan is weak.

So I was just trying to kind of combine the two statements and kind of understand them. Does it mean that our growth now has become a lot more our own driven. And hence, this is more a conservative stance that you are taking right now for FY '25. If you could help me understand how should I look at these two statements that you made?

Hemant Jalan: Away with 10 months gone in this fiscal. And for 9 months, our growth has been somewhere in the region of about 20%, 19% or something on a consolidated basis a little better, I think it would be difficult.

Although the fourth quarter accounts for a much higher share of our revenue compared to other players, it would be difficult to think beyond 25% growth for the entire year at best if we have a wonderful quarter this year than on a consolidated basis, we could be talking about somewhere in the range of 25% to -- I mean on a consolidated basis, we are doing a lot better than on a standalone, so I don't know whether your question is aimed at the standalone results or the consolidated results.

On consolidated basis, so for 9 months, we have grown at over 23%. We'd be happy if that number goes up to 27%, 28% or something. And that will lead us to, I think, somewhere around INR1,350 crores upwards as far as the sales for this year is concerned.

Now I don't think that our growth is independent of the industry. Yes, we do outperform them by a wide margin, but the underlying sentiment in the market does affect us all. So if you...

Avi Mehta: Sorry, sir. If I can clarify, sir. What I've...

Hemant Jalan: For the industry, when in Q2, I think, if I recall, the industry growth was around 2% or something, and we grew by some 11% or 12% or thereabouts. I don't have the exact numbers in front of me. So it does affect our growth rate when the underlying growth rate becomes slow and sluggish.

So with two successive quarters of sluggish growth for the industry overall, I'm fairly optimistic that very soon, if not later, the growth for the industry will bounce back. And if the industry starts doing its traditional 8%, 9% growth, it makes it a lot easier for us to achieve a 35%, 40% growth.

Avi Mehta: No, no, sir. Okay. So let me clarify, sir. When you say 4Q is expected to be better, I mean, at least even if I look at standalone or consol, your sales growth also is moving up. And if I look at 4Q expectations from or commentary from the other players, they seem to suggest Jan was weak, and they are not very -- the confidence on 4Q is relatively lower. So that is why I thought that maybe what you are doing is actually resulting in a far sharper divergence and divergence will actually rise as we go forward is what where I was thinking, but maybe am I right in that understanding is what I wanted to get...

Hemant Jalan: That is right and partly wrong in the sense that it is not totally independent of the industry. Now if people have told you that January was somewhat weak, it was fairly decent for us. It was not outlandish. So if it was weak for others, then I can understand as to why, I mean, our outperformance would have probably continued in January.

But if others will grow at 3% to 4%, then I think we can't hope to do much more than 20%, 25%. But if others grew at 8% to 9%, that means the market is buoyant, and it makes it easier for us to go to 35% to 40%. That's all I'm saying. So the outperformance is a consequence of what we are doing internally. But the baseline is a consequence of what the market sentiments are, which are really not only beyond our control, but very difficult to predict.

Market conditions are to change very suddenly in the paints sector. Sometimes in the positive and sometimes in the negative direction, and they happen miraculously across the country in almost 1 week and I've never been able to understand why that happens. But historically, that's how markets change. And let's just hope for the best. That's all we can say.

Avi Mehta: No, no, fair enough, sir. No, I understood the equation, sir. Excited here. The second bit I wanted to understand was more on the new player entry. Now barring the near term, because we all will -- there will be an action, we will obviously respond. But if I look at it more from a 2-year or a 3-year perspective, this industry has been very rational in terms of the way it looks at pricing, the way it looks at the consumer. Are you in any way worried that, that might change given the new player might -- is coming from outside the industry? And your thoughts on this would be very useful.

Hemant Jalan: No, I don't think that the rational behavior that you alluded to is likely to suddenly become irrational. The new entrant that you are talking about is also known to be a very rational player in whichever sector it operates. And therefore, we would not expect a conservative solid player like Grasim to come up with anything irrational.

First of all, coming up with irrational pricing is likely to hurt a new entrant more than help them, and I do not expect a group with such solid foundations to behave in an irrational manner, nor do I expect the industry to respond in an irrational manner because despite all the hype that exists in media and amongst analysts about the threat of a new entrant, I don't think the existing players within the paint industry are overly worried about it. And the reason is that everyone knows the huge barriers to entry that exist in this sector and the time it takes to circumvent those barriers.

Now nobody is saying that the new entrant will not succeed or will succeed partially or something. All we are saying is that the time taken to overcome all the barriers that is required is considerable. And therefore, it's not a 2-year or a 3-year period, you more talk about a 7-, 8-year period for any player with whatever might it may have to make a very meaningful mark as far as this sector is concerned.

And if in that time period that company were to grow and become a significant player and that is entirely possible, the industry growth would have been sufficient that none of the existing players either top line growth or bottom line growth would be impacted in any measurable manner. And therefore, I don't see any concern within the industry as far as the new entrant is concerned. All new entrants are welcome. They will keep the existing players on their toes. Competition is always welcome. And that's all that there is to it.

Avi Mehta: Okay, sir, fair enough. That's very, very helpful. Sir, just one bookkeeping, if I may. You pointed towards premium salients being lower. Is there a number you could share for us? Like where does it stand in terms of percentage? And how does it contrast with the industry?

Hemant Jalan: See, what happens is that qualitatively, as far as the premium end of the paints are concerned, the market share of the market leader would be disproportionately high as far as that segment is concerned.

As you go down the steps, when you come to the #2 player, their share in the premium segment would be probably the second highest and probably a slightly lower contribution from the overall pie coming from them. And as you move down to the smaller and smaller players, the share of premium paints that we sell as a percentage of the overall pie does get smaller. So to that extent, we are somewhat less impacted when a price drop is announced as far as the premium segment is concerned.

Conversely, if a price drop is announced for the economy range, we would be affected far more by that in case we feel that they're not able to cover it by reduced spend as far as schemes for the dealers are concerned.

Moderator: The next question is from the line of Jitark Shah from SBI Pension Funds.

Jitark Shah: Congratulations on a great set of numbers. Sir, my question is just slightly on the qualitative part regarding the painter community and how you try to sort of influence them to engage more with you. So I'm aware that you have some sort of apps wherein they can participate and they typically try to engage with you in the form of marketing prospects.

But just wanted to understand how are you differentiating it as compared to the other larger players who also have similar strategies. So if you could throw us some light on that, that would be helpful. That's all.

Hemant Jalan: I'll ask Suresh to answer that question. Yes, Suresh.

T. S. Suresh Babu: As far as the contractor scheme or incentive program is concerned, yes, we are also riding on the back of a digital platform to ensure that if they get their points while scanning some sort of code, which we are inputting into the cans. One point of differentiation is that what we give as an incentive payout is probably 3 to 4x higher than that of the industry. That's one part.

The second part is that we try to ensure that these contractors get to know our quality through the blind test that we do, and this we do prior to enrolling them into our scheme. And subsequently, having enrolled them, we also have our business development officers who kind of visit their site, help them convert the sites by discussing it with the customers, and that's how we kind of do it. So I think that we have an edge there as far as the efficiencies, the way we drive our incentive program is concerned.

Jitark Shah: Got it. And sir, so have you checked whether, like in any numerical metrics as to how the stickiness coming through it or any form of repeat ratios in form of the recommendations you get from the same painters again and again for the customers. Any quantitative metric that you have alluded to?

T. S. Suresh Babu: Yes, yes. We do have. We track the performance of the contractors who are enrolled with us because we get the data of how much they are scanning, which are the products they are scanning, all those details we have. And so I think that in itself is a good metric to look at the outcome.

Moderator: The next question is from Sonal Minhas from Prescient Investment Advisors.

Sonal Minhas: Great set of numbers, sir. I just wanted to understand from a qualitative perspective as to you have been delivering, I think, industry beating numbers for a while. And you've been a newbie since 2011, '12, '13, '14.

So just trying to understand like from a longer-term perspective, how do you see like the likes of mergers as -- the number 2, 3, 4 ranking companies see you, react to you in the market? Are you still below the radar for them essentially in the geographies that you work with?

Hemant Jalan: Yes, I don't think we are below the radar for anyone. We are large enough for everyone to take note and to track what is happening to us. The good thing about this industry is that the inherent growth in the industry is so healthy that one person's growth does not necessarily come at the expense of the other.

So although the number two, number three, number four players may see us in the back view mirror and see that we are growing at a faster rate than them, but inherently, I don't think that we specifically impact the growth rate of any of those companies. If so, it is so marginal that it is not even noticeable. And therefore, there is no need for any of them to do anything reactionary in nature to stop us or to halt us in our tracks, nor do we see any such move by them, and for good reason.

I mean there is very little that any player can do to stop a smaller player from growing faster. And it's a healthy industry, which is largely cooperative with each other on non-competitive events. And we do interact that industry for at least once in 6 months or 1 year. And I have not seen anything retaliatory in nature by any of those players as far as we are concerned. So no, we remain good friends with everyone.

Sonal Minhas: I understand that, sir. And secondly, I just wanted to understand, like you talked about the journey of the premium products, basically trying -- are you trying to break into that particular category? And the role of influencers, the role of the painters basically in that? Is B2B adoption also a key there?

And just trying to basically understand that in the premium paint category, is it Asian? Is it Akzo? And like what does it take to actually have a good premium products, which the channel accepts in terms of quality of the product, in terms of like just any serviceability growth?

Hemant Jalan: So I will look at it in any other sector, as an example. I mean, take automobiles. I mean generally, if a newer player comes into the automobile sector, it would start from the entry level or the economy range products. Even the large players in India, like Maruti, or whether you take your Hyundai's or whatever Tatas or Mahindras, I mean no one has yet is trying to, let's say, compete with the Mercedes or a BMW.

Because it takes a much longer time for you to penetrate the premium segment, and it has to happen sequentially. The only exception in this case, I may say, has been Akzo, which traditionally has been a premium end player only. And therefore, despite being the number four player in the decorative space in India, probably has a slightly larger market share in the premium range as opposed to its overall market share in the paint industry.

But otherwise, you would expect and Asian Paints being a market leader to have much more than its overall market share, a higher market share in the premium end segment, slightly lower for Berger, slightly lower for Nerolac and even lower as far as we are concerned. And as the company grows, the premium end grows faster on a smaller base, and it takes a while before you can start equaling the larger players as far as the premium end paints is concerned. One has to just be patient, keep working with the influencers.

You alluded to the B2B segment. The B2B segment for new construction is generally not the largest consumer of premium end paints. Builders would tend to put -- and shall I say, either the economy range paint or the lower end of the premium paints as far as new construction is concerned. The luxury segment, which is the highest end, is not something which most builders are accustomed to putting.

So I don't think the B2B sales is something that will get you there. It is more capturing the customer's mind and the influencers mind and having a lot of patience for that segment to deliver its rightful share of the pie.

Sonal Minhas: I understand. But from a product chemistry perspective, sir, our products for Indigo are comparable to a Dulux premium or luxury or the...

Hemant Jalan: Yes. We would like to think that they are better. But having a better paint...

Sonal Minhas: On an absolute scale?

Hemant Jalan: Yes, yes, on an absolute even by scientific tests and all that, at least by the test that we do in our lab, we feel that our paints quality-wise are definitely the best in any segment. But it is one thing to have a good product, but it is another thing to make the customer convinced that it is the best product. And the two are entirely different.

Moderator: Next question is from Arkopratim Pal from Sanjay Agarwal Broking.

Arkopratim Pal: Based on your latest sales, your sales growth increased at approximately 17%. And in that scenario, what is the corresponding volume growth rate?

Hemant Jalan: We have uploaded that, Mr. Pal, in our investor presentation, both on the stock exchanges and on our website. So we never give an overall volume growth because we personally think that, that number is utterly meaningless.

So we always give our volume and value growth in 4 distinct categories of paints. One is the cement paint plus putty, which are the powder paints, where our volume growth has been 24% and value growth has been 25%. The second is the emulsion category, which is the largest category, where the volume growth has been about 14% and the value growth has been 18%. The third is the solvent-based paints, which are enamels and wood coatings, where the volume growth has been 27% and the value growth has been 25%.

And finally, we have the ancillary or the lower category water-based paints, the primers, distempers, others, where the volume growth has been 38% and the value growth has been 35%. We have given that whole tabular chart in our presentation. So the overall value growth has been 21.33% on a standalone basis and not 17% what you have alluded to.

Arkopratim Pal: Good. This is very helpful. My second question is your operating profit margins is currently around 18%, which is impressive as compared to previous quarter. Could you please elaborate on any potential change in OPM that might be anticipated for this end quarter?

Hemant Jalan: For the fourth quarter, you will expect -- we expect to see a significantly higher EBITDA margin. And that has happened in every single year in the past years because the products that contribute the most to the gross margin, some of our differentiated products they tend to sell the maximum in fourth quarter.

So our EBITDA margins historically, both the gross margins and the EBITDA margins have historically been the highest in Q4 compared to Q1, Q2, Q3, and we'd expect a significant increase in EBITDA margin from Q3 levels to Q4 levels, and that will significantly raise the overall EBITDA margin for the entire year. Just now for 9 months, it is close to 17%. We expect that EBITDA margin to go up to about 18.5% by the time the whole year is over.

Moderator: We'll have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Hemant Jalan: Well, thank you all for participating in this Q3 -- earnings call of Indigo Paints. We look forward to interacting with you again 3 months from now. And have a Happy Holi in between. Thank you all.

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