



May 28, 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.

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held with the analyst and investors on May 23, 2024 at 12:30 hrs (IST) to discuss the Audited Standalone and Consolidated Financial Results of the Company for the Financial Year ended March 31, 2024.

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

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Company Secretary & Compliance Officer

Encl: As above





“Indigo Paints Limited Q4 FY24 Results Conference Call”

May 23, 2024



MANAGEMENT: **MR. HEMANT JALAN – CHAIRMAN & MANAGING DIRECTOR, INDIGO PAINTS LIMITED**
MR. SURESH BABU - COO, INDIGO PAINTS LIMITED
MR. CHETAN - CFO, INDIGO PAINTS LIMITED
MR. SRIHARI SANTHAKUMAR – GM (FINANCE), INDIGO PAINTS LIMITED

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



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Moderator: Ladies and gentlemen, good day and welcome to Indigo Paints Q4 FY24 Results 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 question after the presentation concludes. Should you need an assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Manoj Menon: Hi, everyone. It is a wonderful good morning, good afternoon, good evening depending on the part of the world you are joining this conference call from.

As always, it is our absolute pleasure at ICICI Securities to host the management of Indigo Paints for the Results Conference Call.

Over to Srihari from the Company for the intro of the participants and further proceedings. Thank you.

Srihari Santhakumar: Thanks, Manoj. Good afternoon, everyone. Thanks for joining our Earnings Call for the Year Ended FY24.

We have uploaded the refreshed Investor Presentation along with the disclaimer in the websites of the Stock Exchanges as well as in our Company's website.

For today's discussion, from the management side, we have Mr. Hemant Jalan - CMD of the company; Mr. Suresh Babu - the COO; Mr. Chetan - CFO and myself, I am the GM Finance here.

As usual, we will begin the proceedings of the meeting with the quick overview of the Financial Performance for the Quarter and the Year Ended FY24 by Mr. Jalan, followed by the quick Q&A. Over to you, sir.

Hemant Jalan: Thank you all for joining in on the Earnings Call of Indigo Paints for Q4 FY24.

I hope that you have all had a chance to go through our Financial Results as well as our Investor Presentation uploaded on the Stock Exchange portals.

At the outset, we are very happy to report that for the fourth consecutive quarter, we have outperformed the industry topline growth rate.



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On a consolidated basis, Our topline has grown by over 18% for the quarter against an industry average of less than 1% growth. Although our aspirations were certainly higher, considering the moderation in underlying demand, I would say our performance is certainly more than satisfactory. On the profitability front as well, we have registered good percentages in gross margin, EBITDA margins and PAT margins.

First, let me come to the standalone results. Compared to Q4 of FY23, our sales in Q4 of FY24 have registered a value growth of 12.5% which is more than four times the industry growth. As usual, we have maintained the pole position in terms of gross margin. Our gross margin for the quarter of 49.3% is not only the highest in the industry by a fairly wide margin, but also the highest in the history of our company. This indicates our ability to grow fast while keeping our profitability intact.

Our EBITDA for the quarter has increased from Rs. 71.7 crores in Q4 of last year to Rs. 82.3 crores in Q4 of the last fiscal FY24, registering a growth of 14.7%. The EBITDA margin of 22.5% clocked in this quarter is significantly higher than the 22.0% registered in the comparable quarter of last year. Our PAT has increased by 10% to Rs. 53.5 crores compared to Rs. 48.7 crores clocked in Q4 of FY23. The PAT margin for the quarter has moderated slightly from 14.8% clocked in Q4 of last year to 14.5% in Q4 of this year, primarily due to the higher depreciation on account of our new plant which has been commissioned in Tamil Nadu.

Now, on standalone basis again, for the Full Fiscal FY24, we have clocked a healthy double digit topline growth of 16.9% and have achieved a total net revenue of Rs. 1,255 crores. Our EBITDA for the full year expanded by over 28% to Rs. 233 crores and our EBITDA margin for the full year clocked 18.5%, sharply up from 16.9% in FY23 and has been almost exactly in line with our earlier guidance. Our PAT for the full year rose to Rs. 149 crores and PAT margin rose to 11.7% despite a significantly higher depreciation burden in the second-half of the year.

Now, moving on to the consolidated results:

For the quarter, our revenue grew by 18.3% to Rs. 384.9 crores, while the EBITDA grew by 17.9% and PAT grew by 11.8%. The EBITDA margin for the quarter on a consolidated basis was 22.0% and the PAT margin on a consolidated basis for the quarter was 14.0%.

Our subsidiary, Apple Chemie has registered robust growth of 50% in Q4 of FY24 and we expect them to register strong growth in the upcoming quarters as well. For the full fiscal FY24, on a consol basis, Indigo Paints has achieved a revenue of Rs. 1,306 crores, which is a robust 21.7% growth over FY23 and it is far ahead of the industry growth rate. The EBITDA for the full fiscal has grown by over 31% to Rs. 238 crores in FY24 and the EBITDA margin has improved from 16.9% in FY23 to 18.2% in FY24. All other numbers are given in detail in our Investor Presentation, and I shall not repeat them here for the sake of brevity.



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I would like to give you some more operational details about the last quarter, which go beyond the simple financial numbers. During the last fiscal, our overall A&P spends as a percentage of revenue decreased from 7.7% in FY23 to 7.4% in FY24. Going forward, we intend to somewhat increase our A&P spends in FY25 by supplementing our TV advertising spends with significant spends on digital media as well, which has been an area where we have been somewhat passive in the past. However, the overall increase in A&P spends will be less than the expected topline growth in revenue and hence the A&P spends as a percentage of revenue is expected to continue to decline.

In line with our disclosure practices, we have given our volume and value growth numbers for each of the four major categories of paint products. For the quarter, Q4 of FY24, the Company witnessed over 20% value and volume growth in the putty segment and in the primer + distemper segment. In the emulsion segment, although the volume growth was in mid teen double digits, the value growth lagged slightly due to price reduction undertaken during the quarter. Growth was somewhat muted in the enamel and the wood coating segment. When viewed for the entire fiscal, we have witnessed very strong double-digit growth across all the four segments, and you will notice that the value growth and volume growth numbers have moved pretty much in tandem across all categories. We continue to focus on network expansion on improving the throughput per active dealer and increasing our tinting machine population. As on 31st March 2024, our count of active dealers was over 18,000 and our tinting machine population was almost 10,000.

On the CAPEX front, civil works are progressing well in both the new water-based paint plant and the solvent based plant being set up at Jodhpur. We are also proceeding to double our putty manufacturing capacity at our existing facility at Jodhpur. As mentioned earlier, during the year, our focus on waterproofing and construction chemical products have started yielding good results with mid-single digit contribution to the revenue pie and we are witnessing good sales traction in many states for these products. We expect sales of these products to pick up further in the new fiscal.

As a responsible corporate citizen, Indigo Paints has undertaken several sustainability initiatives to improving our ESG performance. We have started deploying electrical vehicles for the last mile delivery of our products to reduce our carbon footprint and are planning to set up solar panels at our existing manufacturing facilities and at our head office at Pune in a great push towards green energy. We have also committed to set an emission reduction target with science-based targets initiative. On the CSR front, we have extended educational assistance to over 300 underprivileged girls in and around Pune city. As part of our healthcare support, at Kochi, where we have a manufacturing plant, we have tied up with Cancure Foundation to provide free dialysis and palliative care facility to the underprivileged sections of society. As part of providing community care, we have extended health insurance to over 1000 plus families of the painter community in the state of Bihar and we are extending this medical insurance, health insurance



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cover to over 1600 more families of the painter communities in the state of Orissa and Chhattisgarh as well.

Finally, I would say that we have come a long way since we met you for the first time during our IPO, which was slightly more than three years ago. During the last 4 years, while our sales have more than doubled from Rs. 625 crores in FY20 to Rs. 1,306 crores in the last fiscal, our EBITDA has expanded 2.5 times from Rs. 91 crores then in FY20 to Rs. 238 crores in FY24. And our PAT has tripled or more than tripled from Rs. 48 crores in FY20 to Rs. 149 crores in FY24. For the upcoming year, we expect the Company to continue to outpace the industry growth by a wider margin while maintaining and improving our profitability metrics.

That is all I have to say as an opening comment. I look forward to taking your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: My first question is, you mentioned the support programs for painters, so wanted to understand is this because competition has been going up a bit because ultimately all paint companies will target the same painter community? Astral has also completely relaunched under the Astral brand paints across many markets, and JSW Paints claims to have clocked Rs. 2,000 crores revenue in the fifth year of launch. And now, of course, the Big Daddy has also come, Birla Opus, so if you could comment in terms of the influencers, painters, how has the overall support schemes by you or the industry changing and any insights if you can give, how it can change further?

Hemant Jalan: See, when it comes to the CSR initiatives for the painter community, it is truly what it is. It is a CSR initiative. It is not a business initiative to drive sales. We would like to reach out to various underprivileged sections of the society. Since the painter community is a community that we interact with on a daily basis, we have selected that community. When we select painters for coverage of health insurance, there is a very strict guideline given by us to the team below that this enlistment of painters should have absolutely no relationship to whether they are supporting Indigo Paints or not supporting Indigo Paints. We don't even look at that parameter at all. We are simply trying to reach out to the painter community as a whole as one of the underprivileged sections of society and we are providing this health cover. So, I don't think that this CSR initiative should at all be looked at as a competitive tool or a business tool to drive up sales, because I don't think that there is any intent or not part to link the two together.

Moderator: Thank you. We will move to the next question from the line of Percy from IIFL. Please go ahead.

Percy: Sir, couple of questions on the competitive intensity. So, firstly, I see you have about 10,000 tinting machines, 18,000 dealers. So, in terms of throughput per dealer or per tinting machine,



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you would be significantly lower than what the large 3-4 players are at, so if a new entrant is coming in and sort of wants to make a place for himself at the dealership, would you not be an easy target to sort of replace? That is the first question, sir?

Hemant Jalan:

See, this speculation about this new player has been going on for the last 2.5 to 3 years. Now, so far all the narrative has been on a speculative framework, what will they do? What impact they will have, etc. Now their launches happened three months ago. So, as we speak, they are very much there on the ground. We see absolutely no impact of their presence on our topline, bottomline, our tinting machine adoption or our dealer adoption, whatsoever. Now, I feel strongly that the competition that we face from the existing large players like Asian Paints, Berger paints, Kansai Nerolac, Akzo Nobel, etc., is infinitely higher than what we are likely to face from any new incumbent, at least for the next 4-5 years. And therefore, our focus has been for the last 10 years and will continue to be in the next 5 years to focus on competition that we face from these large 4 incumbents who are giants in the industry, extremely well managed companies, models of corporate governance and corporate excellence and the level of competition that we have faced from them has always been of a very high intensity. So, I don't see the competitive intensity changing significantly by a few new entrants coming and that has been our consistent narrative in the past. Now, once this quarter is over and that is not very far away, it is time that these speculative and what if scenarios give way to hard numbers because now it is high time that hard numbers have to do the talking. So, when the quarter is over and when you see the hard numbers coming out, not only from the existing players and ourselves, but by any of the new incumbents, I think the numbers will do the talking and you will be able to find out as to whether they have had a measurable impact on either the topline, bottomline or any other metrics of the existing players. My feeling is very strongly, at least as far as our Company is concerned, we have not seen any measurable impact on our network, and it has not come as a surprise to us.

Percy:

Just one comment on that point is that probably one quarter is too short time to judge anyone by a new entrant would at least take 1 to 1.5 years.

Hemant Jalan:

Absolutely right. We are perfectly willing to wait for 2 quarters, 3 quarters as long as it takes for you to get convinced that any new entrant, irrespective of how well or how badly they do, that is none of our business to forecast. But to see whether they have a measurable impact on the existing players in the industry, time will do the talking, let us wait for that. What else can we say?

Percy:

Sure, second question, little related to that is with the new player coming in, what kind of change, if any, have you seen in the competitive environment or rather terms of trades with dealers or with painter contractors. And I am not talking about whether you have made any change in your terms of trade, but more in terms of, is the new entrant offering anything new, either in terms of



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the quantum of incentives or in the way that they have offered versus what the normal practice has been?

Hemant Jalan:

In terms of your first part of your question, what impact have we seen on all those parameters? The brief answer is so far the impact is not even perceptible. As to what they are offering and what is different about their offering, I reiterate we are really not obsessed with any new entrant. We are completely obsessed with the competition that we face with Asian, Berger, Nerolac, Akzo and we will continue to be obsessed with the competition that we face from them. We have outperformed them consistently in the past and particularly so in the last four consecutive quarters and that remains our focus going forward. So, pardon me, but we really do not have that obsession about the newcomer as many analysts or many people in the media have, and we don't think that it will have any measurable impact on us. As to what their offerings are and what is different about their offering, it is better ask to the management of those new players entering the line. It is not fair for us to comment on that.

Moderator:

Thank you. We have our next question from the line of Rajesh Mangal from Rajesh Mangal & Company. Please go ahead.

Rajesh Mangal:

Sir, my first question is regarding the proposed CAPEX, this liquid 1.02 lakh KLPA and putty plant 1.38 lakh MTPA, what will be the CAPEX cost and when this will be committed and how to finance this?

Hemant Jalan:

The CAPEX cost for the new water based plant that is coming up at Jodhpur is roughly of the order of about Rs. 270 crores. The CAPEX cost for the new solvent base plant coming up at Jodhpur is somewhere in the region of about Rs. 40-Rs. 45 crores and the CAPEX cost of the expansion of the existing putty facility at Jodhpur is less than Rs. 15 crores. As to the second part of your question, when are they likely to come on stream? We expect the putty expansion to be completed by November, December of this year, hopefully a little earlier. The solvent based plant, we are hopeful of commissioning certainly by March 25 and as far as the water based plant is concerned, although we are pushing for March 25, but because of availability of labor which has been a problem for civil construction during the last few months, there is a possibility of it slipping by a couple of months. As far as the means of financing is concerned at the moment, the intent is to finance this entire CAPEX by internal accruals. And we feel fairly comfortable with our treasury balance and with the profitability coming in, the cash flows coming in during the year that we should be able to manage it entirely by internal accruals.

Rajesh Mangal:

Sir, my second question is during the year FY23, our CWIP is Rs. 251 crores and in FY24 this is Rs. 15 crores. So, what is the addition we have made and what is the impact on the topline and bottomline also?



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Hemant Jalan:

So, basically what has happened is that we were in the process of implementing a large water based Greenfield project in Tamil Nadu. And therefore, last year, in March 2023, you have rightly pointed out to a very large CWIP that was there on the books. That plant went into commercial production in mid-September, at which time that entire plant was capitalized. And therefore, it has led in the second-half of the year to a significantly higher depreciation expense after the commissioning and going into commercial production of that plant. And that has of course slightly impacted our PAT margins, although the PAT and the EBITDA has still grown, it doesn't affect the EBITDA, but the PAT has still grown at a very healthy pace. The small amount of CWIP that you see on the balance sheet of March 24, I would expect that almost all of it relates to the ongoing CAPEX going on at our Jodhpur facility where we have embarked on the CAPEX ventures that I have already outlined.

Rajesh Mangal:

Sir, what is the capacity added in FY24 we have and what is its impact in FY25 for this volume growth and topline growth?

Hemant Jalan:

See CAPEX in paint industry is generally implemented a year or two before you see a bottleneck coming. Our business is somewhat seasonal, so CAPEX and capacity expansions are designed for peak demand that happens, which usually happens either in the month of October or in the month of April. Those are the two peak months that we face huge surge in demand and therefore the CAPEX, you can't relate that because you have done capacity, therefore it will lead into topline growth. This is not a commodity and therefore capacity has really no relation to sales, unless you are in a situation where you are losing orders for want of material. And I don't think any paint companies allows itself to fall into that kind of a situation. So, the capacity expansion that we have done at Tamil Nadu is about 50,000 kiloliters per annum and that will keep us very comfortable for the next 4-5 years because that plant services most of southern India and small parts of central and east India, as far as water-based paint requirements are concerned. The capacity expansion that we are undertaking at Jodhpur in the water base plant is keeping in line with the expected demand that will surface more in the northern and in the eastern parts of the country, which are fed from our Jodhpur plant, our third plant and in Cochin really caters to the Kerala requirement and our Jodhpur plant caters to most parts of western India, northern India and large parts of eastern India. So, those decisions are based on logistics and there is no one to one correlation between capacity increase and the topline growth.

Rajesh Mangal:

Sir, I think when we increase our capacity, but no doubt, sir, we will increase our topline also, our production will increase so that we can be able to market that product, sir, what I think?

Hemant Jalan:

I think it is the other way round. Mr. Rajesh, when you see topline growth coming, then you go for a capacity increase so that you do not run into any bottlenecks and supply in the forthcoming quarters or the forthcoming years. It is not the other way round where you make a CAPEX and then that CAPEX drives your topline growth. So, this is a marketing-oriented business where the market forces decide your topline growth. And as you see the topline growth coming, you



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decide the appropriate times to implement capacity additions, so that you do not face any supply bottlenecks going out into the future.

Rajesh Mangal:

Sir, our estimation for topline growth is around 16% and EBITDA around 18%-19%?

Hemant Jalan:

No, we have not given any guidance on topline growth numbers for the year because those are somewhat related to the underlying demand situation and what the industry growth would be. The only guidance that we will give you is that whatever is the industry topline growth, we are fairly confident of continuing on our earlier trajectory of growing at least three times the industry topline growth. Now, if the industry topline growth comes back to the earlier levels, which has been the norm for the last 10-15 years of industry registering a value growth of somewhere between 7% to 9%, if that happens, then we should be looking at the topline growth somewhere around 25%, maybe even 30%. But suppose the industry witnesses or continues to witness a slump in demand growth and the industry growth is 1%-2%, then I am afraid we will have to be satisfied with the topline growth of closer to 15%, 17%, 18%. So, I have no means of predicting as to when the demand revival will really happen in a very meaningful way. And to that extent we don't give any specific number guidance as to what the topline growth will be going forward.

Rajesh Mangal:

Last question, sir, in the investor presentation at screen #30, we have given the picture of Atal Setu and Mumbai Trans Harbour Link etc., any specific reason behind this?

Hemant Jalan:

So, those are related to our subsidiary, Apple Chemie. Those are not projects that Indigo Paints directly is involved in, so we have mentioned and on that same page you will see the logo of Apple Chemie at the top. So, Apple Chemie makes construction chemicals and waterproofing products for the B2B segment, not for the retail segment. For the retail segment, these products are made at Indigo factories under the Indigo brand name, but for Apple Chemie, they are into the B2B business of this same product portfolio where the specifications of the products are significantly different and therefore all those projects that you see on page 13, our projects where Apple Chemie has been consistently supplying, they have supplied their products at the Atal Setu, at the Samruddhi Mahamarg from Nagpur to Mumbai, at Cidco Pune, the Mumbai Trans Harbour Link and the Versova-Bandra Sea Link and many other landmark projects not only in Maharashtra, but now increasingly elsewhere in India also, in at least 8-9 states of India.

Moderator:

Thank you. The next question is from the line of Laxminarayanan from Tunga Investments. Please go ahead.

Laxminarayanan:

I have a couple of questions. One, in terms of the dealers that you actually on board, how many dealers are first generation dealers and how many of them are somehow related to the paint industry? So, in general, how things have moved and are more people interested to open dealership as a first generation?



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Hemant Jalan:

So, it is a mix of both. Most of the dealers that we onboard are existing paint dealers and they are dealing with one or more of the larger paint companies. You do have cases of people who are in allied businesses. They may be in the cement business or the tile business or hardware business or pipes business and they look to diversify and open up a paint counter. Usually, those kinds of dealers who are onboarded at least in their initial few years, for us, they are dealing almost exclusively with Indigo Paints and over time, they may or may not choose to diversify their offering by having some other of the leading brands also there. But I don't have exact numbers as to out of the new dealers onboarded, how many of them are first generation and how many of them are existing dealers, but I would expect that at least 90% of the dealers being onboarded are existing paint dealers who have already been in this business for a significant amount of time.

Suresh Babu:

Having said that, definitely there is a greater affinity for the younger generation, first generation, new dealers to opt for Indigo as the main brand. That we have been seeing increasingly, but to put a number to that is slightly difficult.

Laxminarayanan:

The second question is that I was just checking the overall paint cost per square feet almost 55%-60% in Metro happens to be labor cost. So, how you see it at a Company level and how do you think about decreasing price, increasing price, how much is actually the custom, it actually affects the customer, is it fair to assume that more than 50% of the cost of painting is actually labor cost? In your case how it is because I think on the lower value segment, there will be more labor cost of the proportion and as we go up the later cost as a proportion of cost slightly comes down, we just want to hear your views on that.

Suresh Babu:

It is not exactly like that because when you are using economy range emulsions, the per square feet painting rate is much lower as compared to using a premium range or a luxury range. So, for an economy range, I would preferably say that maybe the rates might vary between Rs. 8 per square feet to Rs. 12 per square feet, for the luxury range it will vary from Rs. 40 to Rs. 45 per square feet, very close to that of using starting range of wallpapers. So, there is nothing like that if you are using economy range emulsions, then the proportion of material cost will be significantly lower than that of labor cost. It is not like that.

Hemant Jalan:

They will be to some extent, what he is saying is right that labor cost being somewhat agnostic of the rate of paints that you use as a percentage of the total painting cost, labor would involve a slightly lower percentage as you move up to the premium segments and a slightly higher percentage as you move to the economy emulsions. But then what happens is that the labor requirement also changes, the amount of surface preparation, you have to do for a premium end paint is a little more than what you do for an economy range paint. But having said that, I think your analysis is more or less right that in general the labor cost of painting is a little more than



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the cost of the paint itself. And therefore, you are right in saying that the elasticity of demand with respect to pricing of the paint is fairly low. So, minor changes in pricing of paint products do not materially affect the overall demand of paints because the elasticity is low, the overall effect on the overall painting cost is fairly minor.

Laxminarayanan: Because if you broadly look at it, even in a Metro city, the cost of painting a three-bedroom apartment comes to, let us say, 70,000 or so, then the cost of, even if the paint cost is reduced by 10% it affects only to that extent. It is not going to be material, so I am just trying to understand that part?

Hemant Jalan: That is true not only in Metro. It is true across India. So, the labor costs for painting are not very different from metros to Tier 2 cities to Tier 4 towns, more or less uniform across the spectrum.

Suresh Babu: It might be slightly higher on the Metro, not too much, yes.

Laxminarayanan: That leads to another question, in terms of this, a lot of companies, for example, last quarter there was a reduction in paint cost and there is a leader who is saying that I will offer 10% more in terms of paint it is because entire pricing strategy seems to be not affecting the end consumer, it doesn't reach the consumer, only 40% of the cost reduction reaches. So, I just want to understand, how the industry or especially you think about price reductions, etc., in this context?

Hemant Jalan: See, we are not the leaders in price reduction. Price reductions always happen. They are initiated by the market leader which is Asian paints. Now for whatever reasons and we cannot be spokespersons for that large company, what causes them to take a price drop or a price increase they may be having their own reasons to do it, but being a very dominant industry leader, when an industry leader takes a price cut, all others are kind of forced to follow suit. Now, that need not result in a direct effect on the bottomline because usually when price drops happen, they are accompanied with also marginal reduction in the discounts that you offer to the trade. And since the revenues that we all report are net of all discounts, it does have some impact on the value topline figures, but the effect gets slightly muted. Now again, when you come to a new incumbent offering, free material 10% etc., as I said, the impact of their efforts so far have not been visible on the ground and therefore I don't think that those impact the industry in any meaningful manner, whatsoever.

Moderator: Thank you. The next question is from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Sir, I wanted to know what is the share of differentiated portfolio out of the whole of the standalone portfolio that we have and how has that grown in last 1 or 2 years, if you can highlight that that would be great?



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Hemant Jalan: So, it remains around the 30% mark on our overall revenue and as a percentage earlier, we used to see a steep climb happening year-on-year. I don't think we see that anymore. It is kind of stable around 30% some year it goes up to 31, some year it drops to 29, but that whole portfolio is now growing at almost the same pace as our overall basket of goods.

Priyank Chheda: Sir, the question is what has really resulted into market share gains versus industry 3x growth that you have as a strategy, what is actually driving the market share gains? Is it the complete portfolio or is it distribution led? If you can focus what is the source of the market share gains that we are looking at?

Hemant Jalan: It is usually not one parameter. There are many things moving in tandem, so it all boils down to execution on the ground. So, some of it would come from new dealer addition, some of it will come from wholesaler addition, some of it will come from new products and adjacencies like for example, we have forayed into waterproofing chemicals and construction chemicals on the retail space which affect our standalone. So, maybe 4%-5% extra growth comes from there. Some of it is brand building. We continue on a very aggressive brand building pattern. So, we are able to grow our share at existing counters with our existing dealers and therefore snatch away some small incremental shares from the other four larger paint companies. So, I think it is a combination of all of these things that result in a higher growth rate. Now, I do not have access to detailed information from the other players to see why their growth has lagged behind, and which sectors they have not been doing well, so I cannot answer the question as to what specific area have we outperformed them. But this outperformance has not happened only in the last one year. If you look at the last 15 years, we have been consistently outperforming them in growth, at least in growth percentages, so you go back to 10 years in time when we were a Rs. 65 crores Company and we are today at Rs. 1,300 crores company. So, we have grown by a factor of 20X in the last 10 years. I don't think there is any other large Company that has grown anywhere close to that multiple. So, I guess there is something different in our DNA which causes us to execute better on the ground. It has also to do with manpower. We are able to retain our manpower with very low attrition rate. We are able to incentivize our manpower by high variable pay and ESOPs. We incentivize the dealers better and this is nothing new, we have been doing it for a long time in terms of annual turnover etc., we are very fast on decision making. So, it is a combination of various things and that all put together, I guess makes the DNA of Indigo Paints.

Suresh Babu: Having said that, particularly if you look at last fiscal, we had a huge focus on wholesale addition. So, this wholesale dealer addition earlier was not there as a focus area for our company, but last year it was definitely a focus and there we made significant gains in that area. We made inroads into many wholesalers who were typically not doing our products, but doing that of competition. So, that was one area of gain. The other thing is that we significantly increased our feet on the ground, which means our salesforce, so significant numbers were ramped up in our salesforce which also added. In terms of our activity with contractors, there was a significant



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push, in terms of additions of business development officers and thereby the gains which we had from gaining the market shares of larger contractors were very good. I think put together all of this really added to the overall increase in the growth as you see as opposed to that of competition.

Priyank Chheda:

The another question is on the two new segments, of course, when you highlighted waterproofing segment and the Apple Chemie, now after one year in Apple Chemie we have seen a good growth but it is on a very smaller scale as a revenue share. How do you see this broader sales as a share going ahead, growing in your whole business and also on the similar lines, how would the share of waterproofing segment grow ahead in a medium to long term?

Hemant Jalan:

Good question. So, of course, you are absolutely right when you say that at the moment Apple Chemie's contribution to the overall consolidated business is fairly small. Last year, they have done something like about Rs. 51 crores of topline revenue and compared to that our standalone revenues have been like Rs. 1,255. So, it is a fairly small number. Having said that, the smaller the subsidiary, the more is the potential for growth. And in their business, the way infrastructure is exploding and with the kind of technological edges that they have, so earlier they were only focused in state of Maharashtra and in answer to one of the earlier questions you referred to slide 30 of our presentation when almost all the projects shown where Apple Chemie was supplying were in the state of Maharashtra. Now that is not true anymore. Now, they are getting large orders from southern India, from northern India, from eastern India, and they have spread their marketing team to 8 other states. So, the growth rate that is possible in Apple Chemie as a percentage is definitely going to be far in excess of the growth rate that Indigo Paints is going to achieve on a standalone basis. They are talking about growth rates going beyond 50%-60% as far as this fiscal is concerned. Now, certainly Indigo on a standalone basis is not going to grow at 50%-60% or highly unlikely that we would. So, therefore, their share in our total consolidated business will progressively grow overtime, although it is likely to remain fairly small going forward.

The second question about the contribution of waterproofing and construction chemicals in our own standalone business, during the last 6-7 months, we rolled these products out only around April, May of the last fiscal. In the last six months, they are contributing around 5%-6% of our topline, which is fairly significant. Now, we understand, and we don't have exact numbers for that, but we understand that the corresponding numbers for the two largest players in the paint industry is closer to 8% or 9% of their topline. So, we have some distance to grow, and we hope that our numbers will reach 8% to 10% and give us an additional fillip to our growth plans for FY25. So, the products are doing very well. Obviously, even this number to reach so soon of about 5% contribution to the topline is a welcome surprise to have happened in such a short time.



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Priyank Chheda: And one last question on the expansions that we are undergoing, how should we view freight cost going ahead which is 8%-9% of your sales, how should that fall further meaning contributing directly to the EBITDA margins?

Hemant Jalan: Some moderation should happen, but freight is always a challenge, you are always fighting with the transporters to reduce freight and they are always fighting for some reason or the other to increase freight charges. So, I would say the logistical element to reducing freight cost is less. The greater gains will come from premiumization of your product range. As the growth in the premium segments and luxury segments increases, which they are increasing in the company, freight cost as a percentage of topline naturally comes down because freight costs are agnostic to the price of the goods being transported. You pay the same price for transporting putty which is let us say a Rs. 20 kg commodity and you pay the same cost per kg when you are transporting a high-end luxury paint which is Rs. 400 a liter commodity. So, the percentage of freight cost to your topline is very much a function of the basket of goods that you are selling. So, I don't think the freight cost and the gradual premiumization and some improve in logistics with the new capacities coming up in different parts of the region will contribute a little bit towards improvement of EBITDA, but I think that improvement is going to be over masked by the improvement that will gradually happen over time by more and more premiumization of our basket of goods.

Priyank Chheda: Can we differentiate how do we define premium products and what would be that share in our revenue in standalone?

Hemant Jalan: I don't have those numbers available right now, and I think we will be reluctant to share such detailed informations in public, but suffice to say that the share of premium and luxury products, their contribution in our overall portfolio would be somewhat less than what the number one and number two players have because it is the premium and the luxury segments where brand consciousness is the highest and therefore a Company like Asian paints would have a disproportionately high share of the market when it comes to the premium and luxury segments and even a Berger, Nerolac would have a slightly lower percentage in their basket of goods, I would imagine. And as your brand strength grows and as the pull from the influencer community improves and as you move up the value chain, these things happen gradually over time. There is nothing magical that can happen in one year.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Himalya Investment Advisors. Please go ahead.

Rahul Agarwal: Sir, you have always talked about gross margins being the highest in the industry led by the contribution from differentiated products. Can you talk a bit about how different is the margin profile across the various products and how would it compare versus in the differentiated products versus the others?



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Hemant Jalan:

I don't think that we would like to get into that detailed level of disclosure as to what the gross margin profile across each of those differentiated products are. But suffice to say that naturally the gross margin contribution from the differentiated products where we have an overwhelming high market share would naturally be higher and since the overall contribution to the pie is around 30%, it does bump up our gross margins a bit. I don't know if that is now any more the real reason why we maintain a 4% gap in gross margin with the market leader, maybe a 6%-7% gap with the number two player and maybe 10% to 15% gap from the number three player. There may be other reasons at play. I think we are very alert on our toes when it comes to sourcing of raw materials from across the world. We are very alert on looking at our product chemistry and employing newer and newer additives, which sometimes enhance the quality and at the same time result in a cost saving. So, I guess we are very alert on all those factors which contribute towards the consistently higher gross margin. Differentiated product is the only one of those reasons.

Rahul Agarwal:

And over the last few years and obviously historically as well you have consistently added the tinting machine population quite substantially, so first the dealers which have tinting machines, of our dealers who have tinting machines, would they also have tinting machines from other brands or typically just one tinting machine per dealer even for our dealer base? And second, how is their productivity compared?

Hemant Jalan:

I think that the norm across India is for a dealer to have 2-3 tinting machines. It is very rare to find the dealer now anywhere in India who has only one brand of tinting machine. So, definitely when you are installing a tinting machine, the person already has at least one, if not two brands of tinting machine, sometimes 3 and that is what makes this job a little difficult because of lack of floor space the dealer will adopt your tinting machine only when he wants to throw one of the existing tinting machines to his backyard or godown or something and wishes to switch over to your brand. So, the larger companies have been around for such a long time and have populated their tinting machines so heavily across the dealer population in India. And these are all very well run companies, you must appreciate, and we have the highest regard for them, so displacing any of their tinting machines and putting your own tinting machine is not as easy a task as it sounds. And therefore it is always a struggle. But yes, to answer your question, it is very rare to find a dealer who has only our tinting machine.

Rahul Agarwal:

And then how does the productivity compare for dealers with your tinting machine versus those who don't?

Hemant Jalan:

Almost 3x as a matter of rule. And the productivity goes up materially if a dealer adopts a tinting machine. This is on an average, there will always be exceptions, there will be somewhere where it will be 10X and there is somewhere it will be 1X. So, not everywhere does it work, but on an average, I would say about 2-3 times definitely the productivity goes up.



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Rahul Agarwal: And differential product, sir you mentioned that you are market leaders there, what would your guess be of the market share that you have in these differential products across various products?

Hemant Jalan: In some of those products, we are probably the only one around and in some of them, I would say that we maybe 80%, 90%. They will vary across the 6-7 different differentiated products that we have. It depends upon how you define the market. If we have a very unique offering like we have a dirt proof and waterproof exterior emulsion, there is no other product like that available in the market. So, if you define the universe as only being products which are both dirt proof and waterproof, then you could say that our market share is 100%, but it is not that the product is in isolation, it competes against some other offering of the other companies. So, it is hard to define what universe you assume and therefore that market share number, maybe it is likely.

Rahul Agarwal: And one last thing from my side, in terms of the margin profile that we give to the channel partners, you mentioned that there hasn't been much of a change with the entry of competitors, but how does it compare versus the market leader and number two player, you have always said it is higher, but in your assessment how different would it be?

Hemant Jalan: See, this is you have to understand the dynamics by which this industry functions. No Company gives any margin to the dealer. The dealer decides the margin. You have a certain landed price to the dealer, which is pretty similar across all companies, whether it is the market leader, whether it is us or whether it will be any new incumbent. What happens is that the density of dealer population determines his ultimate margin. Now, the higher your density of dealers and it is the highest for obviously the market leader, Asian paints, the more pressure and more competition exists between the dealers of the same Company and that competition within the dealers of the same Company is what drives down the ultimate selling price and therefore it drives down the ultimate margin that a dealer earns. Now, people will still sell the market leader product despite having much lower margins because of the huge consumer pool that brand enjoys. Now today, obviously we do not have the same density of dealers as an Asian Paints does, not even close to it and we choose not to go there at this stage. So, our dealers would naturally face less competition from any adjacent Indigo dealer and therefore naturally their margins will become slightly higher because they will be able to sell the product at a lesser discount than the MRP and therefore at an effectively slightly higher price and if you get to a very small player who is very new in the market and has appointed very few dealers, the effective of the margin of the dealer would be still higher. That is how it works. And as your market pool increases and as the brand gets stronger, you gradually increase your dealer population and every year as the dealer population goes up, the margin that the dealer retains will incrementally come down overtime. So, that is really how this industry works.

Rahul Agarwal: And you said that the landed price would be similar across all companies, but the consumer price may be different?



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- Hemant Jalan:** Yes, they will be similar. Now each Company will offer some extra benefits, if you achieve these growth targets you get X percentage extra during the course of the year or you get a trip to wherever Bangkok or Dubai or Europe or something. So, there are a whole of other frills and shall I say, bells and whistles that people add and to compare that becomes very difficult because not everybody gets it. They are generally linked to growth targets the dealers achieved and they are different for a small dealer and they are different for a large dealer and so on and so forth. But by and large, yes, I would say that the landed cost of paint products to dealers across all brands would be roughly the same.
- Rahul Agarwal:** And even though the dealer is selling probably to the end consumer, the pricing that he is getting for Asian Paints would be much higher than what he may get for you, I think because?
- Hemant Jalan:** No, they reverse, quite the reverse. That is what I was saying.
- Rahul Agarwal:** Because there is not enough local competence for others.
- Hemant Jalan:** Because of the competition, because there is another dealer who is 25 yards away who is also selling that same brand of a large company, because of that, he will have to drive down the selling price and therefore end up with a slower margin. And therefore when he is selling an Indigo Paints product with lesser interdealer competition, he is usually selling the Indigo Paints product at a marginally higher price to the consumer than the market leader. And because there is no elasticity of demand and because there is an inherent perception that price equals quality, therefore a customer is more likely to buy an Indigo brand if it is pitched by the dealer at a slightly higher price than the market leader. He is less likely to buy an Indigo brand if it is pitched to him at a price lower than the market leader.
- Moderator:** Thank you. The next question is from the line of Karthik Chennappa from Indus Capital. Please go ahead.
- Karthick Chennappa:** Sir, I have three questions. The first question is the comments that you made in your opening remarks on the A&P spends where you said that you are intensifying the spend through digital channels. Are there any nuances or change in consumer behavior that you have noticed which has actually forced you to focus on this channel?
- Suresh Babu:** Yes, what we have witnessed is that our customers, from TV, they are moving away from conventional medium, that is TV, print, OOH etc., now basically what we have noticed is that the availability of content has got so fragmented, and it is so conveniently now available on the so-called second screen which is the mobile that significant amount of people have become second viewers. They watch the TV also and they alongside they are watching their mobile handsets and things like that, and the splurge of OTT platforms. All these have caused people to start consuming content from things other than TV. So, that is what has prompted us to get



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investing in the digital medium so that the consumers who are now moving away from the conventional medium, we can even address their concerns as far as awareness to the brand Indigo is concerned.

Moderator: Thank you. That would be the last question for today and I would now like to hand the conference over to Mr. Manoj Menon for closing comments.

Manoj Menon: Over to Hemant sir for closing comments, please. Thank you.

Hemant Jalan: Thanks Manoj. Thanks all of you for joining in on this call on what I would expect is a hot May afternoon. It has been a pleasure talking to you and we look forward to interacting with you again in the not so distant future when this quarter is over. So, thanks a lot for your attention and for your very insightful questions that you have asked. Thanks a lot.

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