INDIGO

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Date: November 10, 2022

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 the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held with the analyst and investors on November 07, 2022 at 16.00 hrs (IST) to discuss the Unaudited Financial Results of the Company for the quarter half year ended September 30, 2022.

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

SUJOY
SUDIPTA BOSE

Digitally signed by SUJOY SUDIPTA BOSE
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Sujoy Sudipta Bose
Company Secretary & Compliance Officer

Encl: As above

"Indigo Paints Limited

Q2 FY '23 Earnings Conference Call"

November 07, 2022

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**
MR. ANIRUDDHA JOSHI – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to the Indigo Paints Q2 FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participants' 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 any assistance during the conference 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. It's a wonderful good morning, good afternoon, Good evening, depending on the part of the world you are joining this call from. I am representing ICICI Securities also I have my colleague; Aniruddha Joshi is also there with me. It's our absolute pleasure to host the 2Q FY '23 results conference call of Indigo Paint, the management of the company's present with us. Over to Srihari from Indigo for the further proceeding.

Srihari: Thanks, Manoj. Good evening, everyone. Thanks for joining the earnings call of Indigo pains for the quarter ended September 2022. On our call today, we have our Managing Director, Mr. Hemant Jalan. Chief Operating Officer, Mr. Suresh Babu; and our CFO, Mr. Chetan Humane. We start the proceedings with a quick brief overview of the performance of the company by Mr. Jalan followed with the Q&A. Over to you Mr. Jalan.

Hemant Jalan: Thank you all for joining in on our earnings call of Indigo paints for Q2 of FY '23. Now the Q2 quarter for the paint industry is what we call the monsoon quarter. So it's usually characterized by an inferior product mix. Now this year, this was further accentuated by excessive rains in many parts of India and extended monsoons across the country, which have adversely impacted the sales of products, especially for exterior applications.

Despite these headwinds, Indigo Paints has clocked a higher top line growth compared to the rest of the industry with fast-moving profitability metrics. Now our financials for Q2 FY '23 have been uploaded on the stock exchange portals along with our analyst presentation, and I'm sure you've had a chance to go through them. Now I'll just briefly summarize our financials, give a very brief note on future strategy and guidance and then open it up for Q&A. Now compared to Q2 of last year, our sales in Q2 of this year have registered a top line growth of 23.71%.

The gross margin this year for this Q2 has been flat compared to Q2 of last year. almost identical at 41.72%. Compared to Q1, the preceding quarter of this year, the gross margins have slightly declined from 45.2% to 41.7%. Now this is typical and usually happens during Q2 for most paint companies because of the inferior product mix which pervades in Q2. However, you will note that our gross margin percentage continues to remain ahead of the rest of the paint industry by a significant margin.

We have also, like the rest of the industry, undertaken minor price increases on some select products during the quarter. And now raw material prices have stabilized and some of them are showing signs of declining. For Q2 this year, compared to Q2 of last year, our total EBITDA has increased by 44.5% and the EBITDA margin has risen from 11.92%, which is what it was a year ago to 13.92% for Q2 of this year.

Profit after tax has increased by a whopping 174%. And PAT margins have increased from 6.8% in this quarter last year, to 15.1% in the Q2 of this year. Now you will note from the presentation that part of this huge increase in PAT is attributable to a onetime reversal of some excess tax provisions of INR 16.3 crores, which pertained to earlier years, for which the assessments got completed during this quarter, and therefore, this reversal is happening.

Despite this reversal, even if you take away the effect of the INR 16.33 crores of contribution to the PAT, despite that, our PAT on an absolute amount has expanded by 53.2% compared to the same quarter last year. And our PAT margin has gone up from 6.8% to 8.45% during this quarter. Similarly, if we look at the full 6-month performance of this year, the top line sales have risen by 32.5% compared to the corresponding 6 months of the last fiscal. Gross margins have been virtually flat at 43.4%, almost the same thing as the first half of last year. EBITDA in this half has grown by 58.7% compared to the EBITDA of first half of last year, and the EBITDA margin has expanded from 12.36% last year to 14.8% in the full six months of this year. PAT, again, for the full six months has increased by 127%. And PAT margin has gone up from 7% to 12.1%.

And once again, if you adjust for the reversal of the excess tax provision, even then the PAT has expanded by almost 62% and PAT margins have gone up from 7% to 8.65% during the full 6 months. Now, in line with our brand-building strategy, we continue to spend aggressively on advertising and promotion. You will note that the A&P expense for the quarter was down marginally by 7% compared to Q2 of last year. However, in Q1 of this year, we had a significant increase in the A&P spend compared to Q1 of last year, and this entire phenomenon is attributable to the last year's split of IPL, which got split between April and September. And therefore, there was a comparatively lower outlay in the first quarter and a higher outlay in the second quarter. So perhaps more meaningful to look at the A&P spend for the full six months. which have been 13.56% higher than the corresponding six months of last year.

Now, you should note that on a half yearly basis, despite the fact that we had flat gross margin, and slightly higher A&P spends, the EBITDA margin has expanded significantly for the six months from 12.36% to 14.8% reflecting the benefits kicking in from our economies of scale. We have also furnished the volume and value sales growth figures for each of the four major categories of decorative paints consistent with our past pattern of transparent disclosures as has happened in the last few quarters, the value growth is always higher than the volume growth, as a consequence of the price increase of almost 20%, which was undertaken during the last 12 months.

During the quarter, you will note that the company has witnessed a small dip in our volumes for emulsion category, -4%. However, keep in mind, please, that the emulsion value growth in the preceding quarter was 34.4% and in the yet preceding quarter, that is Q4 of FY '22 was also a 43% volume growth. So because of some trade schemes, which closed out in June, maybe a small amount of the emulsion sales got shifted to the preceding quarter, which is why you see a marginal dip in the volume growth figures for emulsion.

But what is heartening to note is that in the enamel space, where the company has traditionally been somewhat weak, we have had almost a 29% volume growth, and we are now gradually getting our rightful share of the pie as far as in enamel is concerned. -- which is a fairly large segment in the decorative paint industry. We continue to focus on our network expansion -- and as of 30th September, our active dealer count stands in excess of 16,750 and our tinting machine population stands in excess of 7,700.

Now, in the earlier calls, we have mentioned regarding our pivot to focus on 750 larger towns of India, which are the Tier 1, Tier 2 towns. And we have been executing that during the last 6 months, and I'm happy to report that we are witnessing very good results from that, and we expect further boost in sales from these towns in the upcoming quarters. It is the early results that we have derived from this initiative, which is mainly responsible in our exhibiting a slightly higher top line growth compared to the rest of the industry and we expect this to accelerate further in the coming quarters. To undertake the influencer outreach program in these 750 towns, we have doubled the resources in terms of manpower on the ground to make this more effective. And we continually, continue to increase our manpower base, efforts, energy and spends in benefitting these larger cities.

Looking in the future, with industry-leading gross margins and the softening of raw material prices, which we are witnessing, we will continue our thrust to achieve higher growth through higher promotional activities and recalibrating the channel incentives. In terms of promotion, during the last quarter, the company launched a massive ad (advertisement) campaign in Kerala, a new ad to relaunch a very top-end emulsion of ours, starting our new brand, Ambassador Mr. Mohan Lal, the celluloid Superstar of Kerala backed with significant channel incentives.

We have had an early Diwali this year and monsoons, which continued almost till three days or four days before Diwali, with all that behind us, we are hopeful that the upcoming months will drive the sales further. And that we, at Indigo pains will continue to positively surprise you on both top line and bottom line growth.

That's all I have to say in terms of opening remarks and look forward to receiving your questions.

Moderator: Thank you very much. We will now begin the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: My first question is on the demand side in Q3, sough the other players have been saying that this time the gap between the rainfalls ending and the festival season, this time it was quite short. Normally in the previous years the customer behavior is that you would like to have at least two to three weeks kind of a gap wherein the painting can be fully done, painting selection and all that. This time that was not possible in most regions because of the very short gap. And secondly, sir, last year if you remember, the sharp price hike by most of the players happened in Q3 and that led to preponderant of the demand pipeline filling, etcetera. In that context, do you see for yourself also Q3 demand being a bit challenging? You are more positive, that's why I'm asking this question. Q3 demand is it looking a bit challenging at this juncture?

Management: So Abneesh, you're right and to some extent that whenever we have an early Diwali, see by now I think if I look at what has happened in the last 15 years, I think we have all gotten used to monsoon now continuing in India till at least 15th October. It is called a late monsoon withdrawal but if it happens 15 years in a row, I think that has become the normal monsoon pattern now. Gone are the days when the monsoon would withdraw by 1st September, which was used to be the official monsoon withdrawal date. It is now a good 45 days after that.

Now, Diwali date shifts from year-to-year. Last year we had a more normal Diwali time. I remember it was 4th, 5th of November or something around that time. If monsoon finishes by 15th October, you're right, you get a good 20 days between the end of the monsoon and Diwali and you have bumper pre-Diwali sales. However, whenever you have Diwali coming in November, although you always get a great pre-Diwali sale season, it is usually followed by a lull in the next two three months. The rest of November and December and January gets kind of muted, at least as far as Northern India is concerned.

My own experience is that whenever we have an early Diwali, as we had this year, when Diwali was, I think, 24th of October, and the gap between the end of the monsoon and Diwali was hardly four or five days. Now people are not going to start painting their house two days before Diwali. So at that time, the pre-Diwali sale suffers. However, once Diwali is over, this lost in sales that you experience pre-Diwali tends to get made up during the next two to three months. So a lot of this, it is true, October I'm sure has been a bad selling month for all the companies in the paint industry. I'm sure it will get made up for if not completely by December, definitely by January. Because there is a latent demand that always overhangs and it gets made up.

Now what you're saying is right that last year there were huge price hikes that were undertaken, a major one that happened in early November and another fairly significant price increase that happened in mid-December. So because of that there was some preponderant of the sales but that preponderant did not happen as getting shifted to Q2. Basically last year some of the November demand, especially for the larger players, because whenever there is a big price increase the channel tends to first put its hands on the requirement that they have for the larger players, which are more liquid stocks. So they would have, I expect, had a huge hike in their demand in October and then again in November and probably a very-very dull December. But overall, if you look at the quarter, I don't know whether it impacted it all that much.

For us, of course, we would have got some benefit in that little preponderant from November to October. The magnitude would have been smaller. So what is going to be the result as far as the entire Q3 is concerned, well, the jury is still out because we have just finished the worst month of the quarter which is October which was heavy rainfall. Also, remember it is not just rainfall you lose a lot of days during the month to holidays. You first have the Dussehra which means the three four day holiday in most parts of North India. Then you have Diwali when there is three four days of holiday and in at least two states of India in the north Bihar, Jharkhand and parts of eastern UP you have their most major festival called Chhath, which falls on the 5th and the 6th day after Diwali. So all the three festivals fell in the month of October. So the number of working days in Northern India were of course severely impacted. However, Kerala did extremely well for us in the month of October. And we expect a more normal pattern emerging from Q3 onwards because the benefits of value price increase would be present in a very small respect as far as Q3 is concerned. So the overall top line growth numbers of the industry, which in the last few quarters have been 20%, at times even 40% when you had some pre-COVID impact in the preceding year, etcetera. I think all that is going to moderate and come down to more normal levels where you don't have that pricing tailwind behind you for most of the quarter.

So let's see, I'm quite hopeful that November and December we'll see a huge upsurge in sales to make up for the slightly weak October which the industry has experienced. So let's see what the future unfolds. It's very difficult to put a number guidance on that.

Abneesh Roy: Sure sir, thanks. One follow up on the demand side, you mentioned October month has been good for Kerala. So is it because of the focused marketing campaign with the brand ambassador? And in Q2 also, was Kerala growth better than the overall 23% growth? Even Kerala last two years in terms of base quarter, there has been one challenge or the other because of the COVID or because of the high rainfall, etcetera. In Q2, how was the Kerala growth?

Management: Kerala growth was extremely good. It was fairly good, in fact more than the rest of the country per se. Part of it can be attributed to this new campaign that we have launched, although that campaign was launched only from 15 September, so it would have had a marginal effect as far as the entire quarter is concerned. The other thing you have to note is that Diwali is not really a festival that is celebrated in Kerala.

And rainfall activities in Kerala during the months of September were not anything unusual whereas you must have read in the newspapers in the just the neighboring states like Karnataka it has been just deluged with rains all through September and in fact all through October and the similar has been the story in most states in northern India. So fortunately for us Kerala was a little more normal kind of a monsoon pattern nothing very excessive no flooding or water logging or anything like that coupled with of course a new campaign and good execution I mean Kerala for us has been doing very well in the last three four quarters successively so after COVID-2 was over in May of last year, I think from July onwards of 2021, Kerala has done extremely well for us.

Abneesh Roy: Sure, sir, last question is on the industry leader coming out with backward integration plans of VAE, VAM and white cement their claim is this will help them in terms of unique products and reduce import dependency. Now first time a paid company in India is doing this kind of a thing. So wanted to understand, does this put the smaller paint companies in some kind of an advantage from a longer-term perspective?

Management: No, I don't think it does. I think there is abundant supply of all kinds of emulsions, including the emulsions in India. We have not been using that very much in the last few years. We have used that in the past. At the moment, we don't use VAE emulsions because we don't find them very cost effective, but they're abundantly available. And the same goes as far as white cement is concerned. So what the industry leader has to do, they are in a different scale of operation and compared to us, so they can probably answer better as to what advantages they will get, but you ask me as to whether we feel, we will be at any disadvantage, the answer is no.

Today, we don't make any of our emulsions in-house and not just the market leader, but many of the larger players choose to make most of their emulsions in-house. And you still note that our gross margin is much-much higher than any of those companies. So I don't think that we suffer from any cost disadvantage by not making those products in-house. It's a different philosophy and it's a different scale of operations. So what is good for them is not necessarily good for us and vice versa.

Moderator: Thank you. Anyone who wish to ask a question at this time, they may please press star and one. Our next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi: What should we expect in terms of gross margin recovery in the third quarter and fourth quarter based on raw materials like is the current level and

Moderator: Sir, you are not audible. Can you use the handset, please?

Management: I can hear you, Jay, you were asking about gross margin recovery in Q3 and Q4.

Jaykumar Doshi: And EBITDA margin as well?

Management: And EBITDA margin. Normally, for us, both in terms of top line sales and in terms of bottom line, historically, Q1 has been the weakest quarter. Q2 is a little better overall in top line, although EBITDA margins and gross margins are under some stress in Q2 because of the deteriorating product mix during the monsoons.

Both these numbers are much better in Q3 and the highest in Q4. So that has something to do with the product mix. This time, we have two tailwinds supporting us. One is the product mix, which changes in Q3, more exterior painting starts, many of our specialty products, especially our differentiated products, their sales mainly happens in Q3 and Q4 and they tend to push up both the gross margins and the EBITDA margins, even in terms of top line, the total sales are normally much higher in Q3 compared to Q2, and Q4 sales for us are the highest.

So the EBITDA margins are also always much, much higher in Q3 and Q4 because the same standard expenses that overhead, the advertising and all the other expense get amortized or not much, much larger top line. So I think you should see a good recovery in both the gross margin and the EBITDA margins in Q3. And you will see a further improvement in Q4 in mainly because of top line growth and improving product mix. I won't give a specific number guidance as to by how much you expect it to increase -- but I think there will be a very noticeable increase in both the parameters that you asked about.

Jaykumar Doshi: But reasonable to assume that given seasonality sequential increase in gross margin for Indigo paints should be better than rest of the industry?

Management: Whether it will be better than the rest of the industry or not, I really -- I'm not privy to them, but I'm looking at our own gross margins. if you look at it last year, gross margin in Q2 was 41.3 and for Q3, it was 42.89%. Yes, it went up by about 1.5 to 2 percentage points. It went up further in Q4 -- so roughly in the range of 1.5% to 2% increase in gross margin sequentially into Q3 and further into Q4.

This year, there are some at the moment, at least softening raw material prices, which should help it a little further. And the same thing goes for EBITDA margins. EBITDA margins last year also rose very sharply from Q2 to Q3 by more than 2.5 percentage points and a further increase of 4 percentage points in Q4. So something along those lines ought to happen. I can't give you a very precise number of predictions as to how it will happen, but that is the normal pattern that we experience every year between Q1, Q2, Q3 and Q4.

Jaykumar Doshi: Understood. This is helpful. And do you expect further price increases by the industry or do you think that pricing is more or less stabilized?

Management: I would be somewhat surprised if the industry leaders went for a further price increase. I really don't see the need for it, especially because some of the raw material prices have started softening. So I don't expect either a price increase or a price decrease at this point in time. I think the prices should be pretty much stable until the end of the year as far as our selling prices are concerned.

Depending on the amount by which raw material prices soften, I expect to see an increased aggressiveness on the part of everyone in terms of trade discounts, and that is normally what happens when raw materials soften within a limited range. And that is already evident in the last one or two months on the ground. And we are also following suit, and I think we'll be able to match the far part of others in terms of being aggressive in trade discounts. But I don't expect any price increase in any significant manner over the next four, five months.

Jaykumar Doshi: Was there an element of higher trade discounts in September quarter or that is something that you expect in December quarter?

Management: No, I think that price discounts will be aggressive in the December quarter also because people -- everyone would have a little more margin to play around with -- and the earlier tailwinds of the price increase that drove your top line growth up much faster, those are not going to be very much in the play. -- and the fact that people would have had a relatively poor October month, I would expect trade discounts to be a little more aggressive in November and December. But -- that's normally what happens. So it's okay. It affects everyone in the same way.

Jaykumar Doshi: Final bookkeeping, dealer and tinting machine additions dissimulated a little bit in 2Q versus 1Q, while you were focusing more on the larger towns. So -- is this just a quarterly sort of anomaly or

Management: I didn't understand the question. Can you repeat that, Jay, your voice is a little unclear. What are you asking about multi-machine accounting?

Jaykumar Doshi: tinting machine count in 2Q number drop versus 1Q.

Management: Always, it is a little difficult to do that in Q2 because of monsoons, when we are listing not our total dealers, we're always listing active dealers. So during monsoon time, many dealers are not purchasing on a regular basis. So even though you add dealers, there are some dealers who have not done much purchasing in the months of July, August, September, et cetera. And therefore, they drop out from the count of active dealers.

So you add some and you lose some in the active count. So this is merely a count of our active dealers. It is by no stretch of imagination on account of our total dealer population. -- which would probably be in excess of 25,000. But there is a certain way in which we quantify as to the regularity of purchase and determine whether somebody has been an active dealer or not. And tinting machine, yes, there is usually no, but even in Q1, we added about 300 tinting machines.

We have added more or less the same, maybe 281 machines in Q2-- so give or take, we are averaging something like 100 tinting machines a month. So about 300 per quarter. In some quarters, we are lucky. It adds a little faster. In some quarters, it's marginally slower. Normally, monsoon time when sentiment amongst the dealer counters is generally at its lowest ebb. It's normally the worst time to try and push them to add a tinting machine they get a little more gung ho when Q3 and Q4 comes when their sales at the counters are much better, and they are in a better frame of mind to accept a tinting machine. So that's pretty normal, but I don't think there has been any significant drop seasonally in terms of dealer addition or tinting machine addition. Those are pretty much going on at the right pace. Of course, we'd like it to happen at a faster pace, but that's always true.

Moderator: Thank you. Next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Sir, I got a couple of questions. One, before the question, actually good performance by your company in the context of the demand, which you otherwise see. So the question is anything on the general demand trends which you're observing particularly in the larger market you have. The reason I'm asking is because over the last 12, 24 months, we have clearly seen a significant divergence between discretionary and the non-discretionary part of it, whereas the discretionary urban top end part of it has largely performed very well.

And even the discretionary within staples actually have somewhat performed in, etcetera. Now of late, we kind of started hearing from, let's say, a restaurant company or a footwear company, etcetera, that there is some softness which they are actually finding. I just wanted your perspective on you have topped on comments on demand conditions based on anything which you're observing?

Management: No, we don't notice anything significant changing in the demand conditions and it's very difficult to extrapolate from what you hear about restaurants or other consumer products to paints. Many of the other sectors witnessed a huge demand slowdown during COVID and immediately after COVID, whereas the paint sector, if you recall, remains fairly resilient all through the last two years of the COVID pandemic. Of course, there were lockdown months when everything was shut down and you couldn't do anything about it. But it used to bounce back very fast when the long downs were lifted, which is why the paint industry has done fairly well during the pandemic.

And we don't notice anything adverse happening on a broader spectrum. Month to month, yes, I mean, weather patterns affect us much more than any other industry, especially rainfall -- because obviously, you don't start painting a house when it is raining cats and dogs outside. So monsoon patterns, some changes in festivity, some shifting of certain festivals from one month to the other month may make some difference when you're comparing a Y-on-Y monthly sale. But overall, I don't find anything very different, either on the positive or the negative side. I think it's pretty much demand as usual. I was hearing the commentary of some of the larger players whose results have come out and they said that in the last quarter, maybe the smaller towns have done slightly better than the larger towns.

The commentary was quite the opposite in the previous quarter when larger cities apparently performed much better than smaller towers. We, of course, are not -- our presence in the larger towns, as you are aware, has been slightly weak compared to the others, and that is something that we are trying to correct. But during the quarter went by -- we didn't find anything unusual about the larger cities or the smaller towns as far as demand is concerned.

Manoj Menon: Understood, sir. And one question on the putty business -- now given that you are the only the paint company at least till now who actually owns the asset, so just trying to understand what are the typical economic value add or ROC on a steady-state basis for a product like this, which actually generate?

Management: On putty?

Manoj Menon: Yes.

Management: See the reason we have decided to make putty ourselves and have always made all our putty ourselves is because of the location of our plant. We have a large manufacturing location at Jodhpur. Now that is the prime place as far as manufacturer of putty is concerned. Two basic raw materials are required for putty in large quantities. One is white cement, now the only two manufacturers of white cement are both located within a 50, 60 kilometer of Jodhpur. That is both Birla and JK White. The other raw material is dolomite. Now the best quality dolomite in the country and at a cheap price comes from Rajasthan. You have some other deposits in the Katni, Satna area of Madhya Pradesh but the quality of the whiteness of the deposit is as not as good as what you will find in Rajasthan.

Now when we are ideally located in terms of manufacturing, with all the best raw materials coming from less than 100-kilometer radius, it didn't make any sense to outsource that manufacturing to somebody else. Other people, other paint players don't have any manufacturing facility in Rajasthan. So when they are located somewhere else, they may find it more cost effective to outsource it to someone else. And some of them outsource not just putty they outsource a whole lot of other decorative paints to job workers. We have chosen not to do that.

Our cost structures at our manufacturing locations are fairly lean and thin. And I think we are able to manufacture it as effectively as any job worker would or perhaps more effectively than them. We have a much better control on quality -- and any job worker is obviously going to take some profit margin for whatever is doing.

So having all those advantages, I would presume and I don't have access to internal numbers of other paint companies I would assume that the gross margin contribution that we get from putty is perhaps or should be better than what other paint companies realized by outsourcing it and margins in any case for putty are very low. But to measure RoCE separately for different product lines is a little difficult, and that's not the way in which we look at it. I mean if you look at it very objectively, with a very low margin that putty gives theoretically, it may make sense not for any paint manufacturer to ever offer any putty in the market.

But that's not how you can play the game, you cannot pick and choose and say that I will not manufacture this product because it gives a low return. And I will only manufacture products that give a high gross margin. I mean you either go all in or don't go in at all. So there are various products, for example, take enamels. Now enamels is usually sold by all companies in 30, 40 shades they usually sold at the same price for all the shares or marginally different price. But if you go on a shade-wise analysis, there are some shades, which give almost a 0 margin and some shades that give a much higher margin.

Now you can't pick and choose and say, I will not sell these shades and I will sell that shades. And the same applies to putty that it's an integral part of decorative paints. It's the first item that gets used in the house and therefore, for a strategic purpose, it is important to offer putty. And even though its margin contribution may be lower, I think all paint companies choose to engage in that product.

And for us, it's -- we are a little more comfortable than others perhaps, as I said, with a caveat that I don't know their internal figures. But because we manufacture it in-house and we are manufacturing it at the best possible logistical location, we ought to be a little more comfortable than others as far as that is concerned. One of the reasons why you see our overall gross margin much higher than the rest of the industry. This may be one of the small contributing factors towards that.

Manoj Menon: And just one update. I don't know if I missed that in your commentary earlier, an update on the Pudukkottai expansion.

Management: Yes. So the Pudukkottai expansion is now in its very, very final stages. The erection of the machinery have also all been practically done. Now we are at the last stage of doing the interconnecting pipelines and the electrical cabling and the instrumentation cabling. We were hopeful earlier that we will start our production sometime in December.

Although we still press our people on the ground to do that, and I hope they are not listening in on the call, but deep down in my heart, I know that, that will probably not happen and will spill over to January. But we are trying to maintain the pressure to commission the plant or at least start some trial production in December. Although between you and me, I think it's more likely in January. It's a large plant, a very automated plant. It will take some time to stabilize. So it's not that we'll press the button on one day in January and the full production will roll out.

But at the same time, it is something that is not at all a concern because we have adequate capacity to meet the demand for the next 8, 9 months. So even if the plant commissioning or the stabilization of the plant once we commission it goes by a few weeks here and there, -- we are really not dependent on the capacity to meet the demand in the forthcoming quarters at all.

Manoj Menon: Sir, one follow-up here. At the full capacity utilization for the Pudukkottai Phase 1 which you're having now would expand your like-to-like capacity by what percentage from today ?

Management: That's very difficult to answer because capacity in the paint industry is a very nebulous term. It depends upon your product mix. The same equipment can be used to manufacture a variety of different pain products. And depending upon what product mix you choose, the effective capacity changes. So that's fairly difficult question to answer. But in terms of water-based paints per se, and that is what the new plant is coming for, the existing water-based plants that we have, both at Jodhpur and Cochin, the combined existing capacity that we have is about the capacity that we are adding at Pudukkottai. So in terms of water-based space, I think it will double our existing capacity, and it should take us very comfortably for the next couple of years.

Manoj Menon: Sir, one clarification. Some of your colleagues are very much there in the call.

Management: Yes, I hope people at Pudukkottai are not on the call because we are exerting pressure on them to start by 15 December.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: So my question is on your expansion strategy. All this while we have expanded by going into Tier 3, Tier 4 towns, logic at that time was that it's very difficult for a small player to really expand into the larger towns. And therefore, we are expanding via the small town route. Now you're saying that you want to shift focus a little bit and expand even in the Tier 1, Tier 2 cities. So what gives us the confidence that basically we will be able to do that now because still as a percentage of the decorative industry, our market share is still maybe around 2%. So fairly small market share. I understand in states like Kerala would be higher. But then in some of the states, it would be even lower than 2%. So just wanted some thoughts on this as to your pivot…

Management: So the difficulty in tracking big cities has got less to do with your size or market share. It has more to do with your brand equity. So the reason that we have always given why we initially focused on going to the smaller towns is that when we were a small company, we could not afford advertising in those days. For the first 12, 13 years of our existence, we have not spent anything on advertising because it was not possible, we didn't come from pedigree background where we had a huge amount of money in our pockets to burn in advertising.

And therefore, we had no other options at that stage. For the last 10 years, we have invested very heavily into advertising. And you are aware of the fact that our A&P spends are almost three times what the industry average is in terms of percentage of top line. Even in absolute amounts, the amount that we spent in the last three, four years has been much, much higher than a few of the larger players who are much larger than us in size. And we have been blessed to have a great brand ambassador in Mr. MS. Dhoni, who's been with us for now 4-5 years.

So with that amount of ad spending that we have consistently done over the last 10 years, the last four, five years being with the help of Mr. Dhoni and his image I think that the brand equity that we have built across the country is very strong. Now when you build a brand and invest in advertising, that advertising is seen by people not just in small towns, they are seen as much by people in big cities. And along with television advertising, we have also been investing a lot in online mediums. So today, the brand equity and the awareness of the brand is very, very strong in all genre of cities in India. And therefore, we felt that it was the right time to now attack the larger cities and as we go into those cities, there is no problem about brand awareness.

Everyone is well aware of the brand and some dealers even asked where were you in the last four or five years, why didn't you come earlier? So now it is just a question of building the network there, engaging with the influencer community in these bigger cities, which is marginally different from the way in which you engage with influencers in the smaller towns. And that is why we have put a lot of feet on the ground to do that, and we are beginning to see the results and the effect of that result in no small measure is the cause for the slightly higher top line growth that you see in this quarter.

And we have been saying for the last two quarters that magic will not happen in three months. It will happen gradually over a slightly longer period of time. And hopefully, this breaking out of the pack in terms of top line growth percentage will only accelerate in the coming quarters. That's what we hope for and that's what we strive for.

Percy Panthaki: Right, sir. One observation is that while you've sort of said that, okay, I have started with small towns and how I am also focusing on large towns. The large players are doing the opposite. I mean they were more stronger in the large towns but in the last two, three years and even going ahead, I think the larger players are focusing more on the small towns in order to get growth. Do you think that's some kind of risk or threat to your existing sort of core cost…

Management: It is a misnomer that the larger players are only now looking at the smaller towns. I think they have been represented in the smaller towns very well for the last 50 years. If you talk of the existing four large players in the industry who are the so-called organized sector before we came in, they have all been around for more than 75 years in the country, some for 100 years. So don't please think that there is any corner of India that was ignored by them. The Tier 3 and Tier 4 towns to the best of mine knowledge also accounts for almost 50% of their sales in terms of value or something close to it.

So I don't think that any of the larger players have ignored or neglected the smaller towns in the past. -- if they have some vacant gaps here and there that they try to fill up when that's an ongoing process that will continue for the next 100 years for all companies that are there in the space. So I don't think that there is any increased aggression or any lack of penetration of the smaller towns by any of those players. They have been present everywhere, and they have been present as much in the larger cities

For us, the ratio has been different. A much smaller portion of our sales came from the larger cities, because we had chosen to remain away from it by choice earlier months. And now we are focusing them and we hope that in a year or two, our proportion of sales coming from the larger cities versus the small towns will become the same as any other paid company, large or small in India.

Percy Panthaki: Understood, sir. And finally, if you can give some idea on what is the difference in margins or economics of the large towns and why they are -- I mean, if at all, they are more attractive than small towns for any paint player?

Management: No, I don't think that there is any difference in margin or spend or expenditures or discounts or anything like that. And I sincerely doubt whether the larger towns are more attractive or less attractive than the smaller towns for any player. I think everyone has to have the equal focus on both, because both contribute almost the same to your overall sales value. Today, when we focus on the larger cities, by no stretch of imagination, do we start ignoring the small towns because that is the bulk of the sales that we do.

It's just that you have to penetrate the larger cities in a slightly different manner. The difference that comes is the nature of the influencer. In a smaller town, the influencer is an individual painter, in the larger cities, the influencer is usually a painting contractor who has 20, 30 painters employed under. And therefore, the manner in which you have to reach out or the category of people that you have to reach out too, who influence the choice of brand is slightly different in a big city versus a small town. That's all that there is.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram mutual fund. Please go ahead.

Prashant Kutty: So firstly, just a data point. I do not know if you just highlighted that not. What is the share of differentiated products as of now that we're having? Or have you stopped sharing the data?

Management: No. We shared that at the end of every year. Please go back to our commentary two quarters ago when the year ended. I think it was almost 30%. It was 29.6% at the end of FY '22. The reason we don't share that on a quarter-by-quarter basis is that these products by themselves have a pronounced seasonality. And therefore, these numbers will go up and down in quarter-by-quarter depending upon, which products we are talking about. And therefore, at the end of every year, we share that, and we have shared the numbers of what these percentages were at the end of each fiscal for the last four or five years. So you will notice that they have generally risen by 0.5 to 1 percentage point year-on-year. And I promise you we will share this number when this financial year is over.

Prashant Kutty: Sir, just the first question is more so on the dealer numbers. So we're obviously seeing the number increasing by about 15% to 20% for the last couple of years now, like you said that you're probably wanting to enter into the Tier 1 market, let's say, more penetrated markets. So going forward, should one assume that the revenue per dealer or the throughput per dealer --

would that be a bigger variant to look at? Or should the number still be considered to be a bigger number going forward….

Management: You're very perceptive and that is going to be the right way to look at it as we enter the larger cities. Because in the larger cities, the potential of a dealer is usually two to three times the potential of a dealer in a smaller town. And therefore, if you add one dealer in a Tier 3, Tier 4 town versus adding one dealer in the Tier 1, Tier 2 town, on average, you can expect a much, much higher, almost three times the throughput per dealer in a large city versus a small town. And therefore, as we add more and more dealers in the larger cities and as more and more tinting machines get populated in these larger cities, then the throughput per dealer would jump up very fast.

Prashant Kutty: So safe to assume that you'll have to look at more revenue per dealer number to be growing here on forward rather than actually the actual dealer numbers increasing?

Management: As an internal metric, we look at both. You have to look at both. And ultimately, what you look at is none of this, you look at the overall top line and the overall bottom line. All of these are determinants to that. And that is the ultimate objective to get higher top line growth and higher bottom line growth. Number of dealers is one measure, number of tintting machines, one measure, throughput per dealer is one measured throughput but tinting machine is another measure. And there are many other metrics that we internally monitor which are all determinants to the final goal.

Prashant Kutty: Sir, just another question is with regard to the fact that you are again entering into larger towns -- and one is, is that product are completely done to probably be present as the larger towns of concern or probably be accepted the dealers over here accepting Indigo as a brand in the larger town. And a follow-up to that is that -- would it also entail a higher incentive structure to those dealers because we are entering or we feel that now we are a well-known brand and do not have to have a very differentiated in the structure as compared to…

Management: I don't think the incentive structure is any different from a small town or a large city. So we have not faced any disparity as far as that is concerned. In terms of acceptance, if you go to any new geography, but for example, there were some states that we have entered fairly recently, take Himachal Pradesh. We have kind of established a depot there just about seven, eight months ago. Now we have not been marketing there. Now there, whether you go to a small town or you go to a large city, everyone has heard of the brand, but you still have to overcome that initial inertia of a dealer getting familiar with you starting limited business with you and then slowly, slowly developing confidence in your service, in your accounting practices and your product quality and then gradually ramping it up.

We entered Jammu and Kashmir at 1.5 years ago. We faced the same problem there six, seven months ago, we have set up a separate depot Delhi, now Delhi is completely a very, very large city as a metro. So you go through the same process. So the process is the same, whether you enter a new small town or whether you enter a large city, there will be -- nothing will happen overnight. You will have to talk to the dealers. Dealers are obviously dealing in some of the products because you were not present, they will start buying some of your products and gradually scale it up. And that is agnostic of the size of the city. But I don't think the incentive structure changes at all from a large town to a small town.

Prashant Kutty: And one last question, sir, if I may. You typically have always shared that Kerala has been a very strong market for us, and it has been growing very well for us, and we are penetrating into the next the next larger cities as well. Any data in terms of how the next seven cities or maybe the next 10 towns are there would actually be helpful if you can help us on that?

Management: Towns or state, Kerala is a state.

Prashant Kutty: Yes. So like I said, in the next 10 states or the next 5 states…

Management: I mean none of them are closed in terms of the contribution of Kerala, but we have a fairly large presence in UP, in Bengal, in Assam, in Bihar, Jharkand, Chattisgarh growing fast in places like Andhra, MP, Gujarat is doing well. So there are a whole lot of states very difficult to predict. I mean they all allow the same level of sales. So you might say there are about seven, eight, 10 states that compete for the number two slot. And they're all doing well, which one will break out faster than the others to start giving a disproportionate share of our revenue is something that I can't predict. But they're all going well…..

Prashant Kutty: Thank you very much and all the very best to you.

Moderator: Thank you. The next question is from the line of Hardik Doshi from White Whale PMS. Please go ahead.

Hardik Doshi: Thank you for taking my question. You mentioned that firstly it's good to see you growing faster than the industry leader and also the overall industry after several quarters.

Management: I am sorry, can you speak a little louder? I am not able to follow your question.

Hardik Doshi: Okay. So I wanted to just ask in terms of you finally are growing faster than the industry leader after several quarters and you said that it is because of the focus on the increasing presence in the Tier 1 and Tier 2 cities. Can you break up what percentage of your revenues is from Tier 1, Tier 2 cities this quarter versus last quarter and the same quarter last year?

Management: We have that numbers, but I'm not sure, if I want to disclose that publicly at this open forum. But all I can say is that the growth percentage that we're experiencing in the bigger cities is much higher than the growth percentage in the smaller towns. But I'm afraid it will be a little difficult for me to share the granular numbers with you.

Hardik Doshi: Okay. Yes, I mean I appreciate you do disclose a lot more than most of the competitors.

Management: But I can't disclose everything. I'm sorry.

Hardik Doshi: No, I understand that. But since this is a key focus area for the company, it would be good for us to kind of at least see how you're getting the traction and how it works. So maybe if you can consider that. Just secondly, I wanted to ask, so now, I mean, can you maybe elaborate a bit more in terms of this Tier 1, Tier 2 cities, right? I mean, I understand what you replied to one of the participants, basically saying that the brand name was already there and it was just about focusing on the influencers. Any metrics you can share in terms of the dealers that you're reaching out to or influencers, what are the campaigns? I mean, just some more color to help us understand how much of acceleration we can expect going forward and what will be the drivers and KPIs around it?

Management: As we have mentioned, see what happens is that the influencer in a small town is an individual painter usually. So all along our paint cans had a token for the painter in terms of financial gratification and it is nothing unusual that we do. All paint companies do the same thing. Along with that you conduct regular painter meetings where you call a group of painters loosely associated with a paint counter and you do some demonstration and comparison of your paint versus a competitor's paint usually by means of a blind test so that you know they get convinced about the superiority of your quality. So these are two things that we have been doing religiously for the last 20 years in the smaller towns with individual painters.

Now when you start doing the same work in a bigger city, there the influencer as I said is a painting contractor, who employs 20-30 painters. Now the painter token that is there in the can is pocketed by those employees, the junior painters. You need a separate incentivization program for the contractor. So from April this year we started putting a separate token as a financial incentive for the contractor. Again, nothing unusual. It is what other companies have been doing. We had not been doing that till March of 2022. And we've created an online app by which both the painters and the contractors can scan their respective tokens and redeem those tokens for cash or whatever they want. So that has been operational.

Now, when you go to a big city, it is not simply having a meeting with the contractors to convince them on the quality which used to be sufficient with the painters in smaller towns. Here even after you have demonstrated your quality by means of a blind test comparison with some competitor, even if the contractor is convinced, people in big cities, the ultimate house owner is usually a little more brand sensitive than a consumer in a small town and therefore the contractor needs your help in going and visiting the project site doing some sampling and convincing the house owner about switching over from some preconceived brand that he had in mind to Indigo paints.

So there is a lot more on ground activity that you have to engage in in these bigger cities to crack a site, and for that you need a separate team of people who will not only conduct these meetings with the contractors but they have the time and the energy to visit the project sites that the contractor takes them to, do some sampling of the sites, talk to the homeowner and help the contractor convert that site to some other brand to Indigo. So that is the difference in color about the activity that you have to do.

Now a prerequisite to all of this is already a good brand equity. If you don't have that brand equity established and you're trying to visit a homeowner site and convince him of a brand that he has never heard of then the likelihood of conversion is exceedingly low and that is what is different from a small town versus a big city. In big cities people are a little more brand conscious and therefore having a good brand equity which has been being built over a long period of time becomes of paramount importance to break into these cities.

The dealer is not the main influencer. So therefore, you have to work on different parameters in a bigger city if you want to make a success of it. And it is that activity that we have been indulging in very aggressively for the last six, seven months and continue to expand the scope of this in the coming months. And that is what gives us the confidence that we will reach the rightful share that we want in terms of market share in the larger cities as what we have in the smaller towns.

Moderator: Thank you. I think the next question is the last question from the line of Pathanjali Srinivasan from Mirabilis Investment Trust. Please go ahead.

Pathanjali Srinivasan: Just notice that I think sometime in April we told that we focus more on Tier 2 cities. So we've added about 700 tinting machines in the last six months. So could you see roughly if around two-thirds or more of the machines we've added is more in the Tier 2 and Tier 1 cities?

Management: Pardon? What was the question?

Pathanjali Srinivasan: So we've added around 700 tinting machines in the last six months in our distribution chain. Is more than two-thirds of it is being added in Tier 1 and Tier 2?

Management: I don't have that exact figure available with me. Maybe if you reach out to our people in the next few days, I'll have to ferret out that information and give it. But I doubt that number would be as high as two-thirds. But previously the number of tinting machines that we had in the Tier 1, Tier 2 cities were very-very low. And we are seeing a very significant uptick in that. So therefore the number of tinting machines being installed now are much higher percentage than earlier is going into the Tier 1, Tier 2 towns, that is correct. But I doubt if two thirds of them would be the Tier 1, Tier 2 towns. But I don't have the exact number in front of me, right now to be able to accurately answer that question.

Pathanjali Srinivasan: Sir and institutional business have we been able to get anything like off-late, what is the environment like in that?

Management: No we are not we do not pursue institutional sales as a matter of choice that is we do not sell directly to builders or the government or any large institution like that. If there are inquiries from any institution, it is always rooted through one of our significant dealers in that place and we have chosen to stay away from institutional business as of now.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for the closing comments. Thank you and over to you.

Management: Well, thank you all for a very engaging session that we have had. I hope I've been able to answer most of the questions that you've had. We're glad to see that in the last few quarters when we were almost in the same bandwidth of growth in top line compared to the rest of the industry we seem to be breaking out. And the bottom line growth is what gives us more cause for cheer that the bottom line growth is significantly more maybe by a factor of two in terms of percentage terms from the rest of the industry. I sincerely hope that we will be able to not only sustain this pattern, but also accelerate upon it. And look forward to interacting with you again at the end of next quarter. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines.