



**INDIGO**  
Be surprised!

Date: August 10, 2022

To, BSE Limited Corporate Relationship Department 25 <sup>th</sup> 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, Bandra 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 August 05, 2022 at 17.00 hrs (IST) to discuss the Unaudited Financial Results of the Company for the quarter ended June 30, 2022.

The above information will also be made available on the website of the company [www.indigopaints.com/investors](http://www.indigopaints.com/investors)

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited  
(formerly known as Indigo Paints Private Limited)

Sujoy Sudipta Bose  
Company Secretary & Compliance Officer



Encl: As above



“Indigo Paints Limited  
Q1 FY 23 Earnings Conference Call”

**August 05, 2022**



**MANAGEMENT:**

**MR. HEMANT JALAN - CHAIRMAN AND MANAGING  
DIRECTOR, INDIGO PAINTS LIMITED**

**MR. TS SURESH BABU - CHIEF OPERATING  
OFFICER, INDIGO PAINTS LIMITED**

**MR. CHETAN RAMANI - CHIEF FINANCIAL  
OFFICER, INDIGO PAINTS LIMITED**

**MR. SRIHARI SANTHAKUMAR - GM FINANCE AND  
INVESTOR RELATIONS, INDIGO PAINTS LIMITED**

**MODERATOR:**

**MR. MANOJ MENON – ICICI SECURITIES**



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

**Moderator:** Ladies and gentlemen, good day and welcome to Indigo Paints Q1 FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during this 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, Head of Research at ICICI Securities. Thank you, and over to you Mr. Menon.

**Manoj Menon:** Hi, everyone. Good morning, good afternoon, good evening to each one of you depending on the part of the world you're joining this call from. Representing I-Sec it's my absolute pleasure and my team's pleasure to welcome you to Indigo Paints 1Q FY '23 conference call. I will hand over to Mr. Srihari Santhakumar, GM Finance and Investor Relations for the introductions and further course of action. Over to Srihari.

**Srihari Santhakumar:** Thanks, Manoj. Thanks everyone for joining the earnings conference call for Q1 FY '23 of Indigo Paints. Today from the company, we have Mr. Hemant Jalan, Chairman and Managing Director; Mr. TS Suresh Babu, Chief Operating Officer; Mr. Chetan Ramani, Chief Financial Officer and myself Srihari, I'm heading Investor Relations here. As usual, the call will start with a quick and brief overview by Mr. Jalan followed by a Q&A. Over to Mr. Jalan.

**Hemant Jalan:** Thanks, Srihari. Thanks, Manoj. And thank you all for joining in on the earnings call of Indigo Paints for Q1 FY '23, judging by the quarterly financials released by now, by all the listed paint companies during the recent days, including our own, it is clear that the spring is back in our steps as far as the paint industry is concerned and that the dark clouds of raw material and price escalation now appear to be behind us. Our financials for Q1 FY '23 have been uploaded on the stock exchange portals along with our analyst presentation and you've probably gone through them.

I will start with a summary of our financials and then move on to future strategy and guidance. Compared to Q1 of last year, our sales in Q1 of this year have registered a robust value growth of 43.56%. Our gross margin has once again improved sequentially from the preceding quarter and has reached 45.19% for this quarter, which is almost back to the level it was at a year ago. We also believe that our gross margin percentage is much ahead of the rest of the paint industry due to our unique product portfolio, judicious management of formulation costs, and trade discounts.

Raw material prices having been almost steady during the past few months and minor price increases in select products have been implemented each month in line with the rest of the industry. Our EBITDA quantum has increased by 75% from the corresponding figure for the same quarter last year and PAT numbers have also increased by 71.5% on a Y-on-Y basis. EBITDA margin has risen sharply from 12.92% a year ago in this quarter to a level of 15.75% in Q1 of this year. Similarly, PAT margin percentage has increased from 7.3% to 8.9% on a Y-on-Y basis.

Now, it should be mentioned that as you may be aware, advertising and promotion spends are disproportionately high for our company compared to other larger players in this industry and any quarterly shift in the advertising patterns has a serious impact on the bottom line for that particular quarter. Now, we have traditionally been a significant advertiser on IPL tournament and that advertising consumes a very sizable portion of our advertising budget for the year.

Now you may recall that last year, the IPL tournament was truncated after April and the second half resumed in September. In contrast, this year the IPL has had an uninterrupted run in Q1, resulting in a significantly large advertising and promotional spend by us in Q1 compared to Q1 of last year by an absolute amount of more than INR5 crore. Had it not been for the shift in the IPO schedule vis-a-vis last year simple



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

arithmetic will show that our growth in EBITDA and PAT for the quarter on a Y-on-Y basis would have been in excess of 100%.

We have given our volume and value growth numbers for each of the four major categories of paint products, consistent with our past pattern of transparent disclosure. We are happy to note that the emulsion category, which is the largest segment by value, it contributes almost half the value sales for any paint company that segment has registered a volume growth of 34.4% and a value growth of 65.7%. This is the second successive quarter where the emulsion category has registered high volume growth and this augurs well for future growth of the company.

The category in enamels and wood coatings and the category of powder paints, which is mainly putty have also registered healthy volume growth. The only minor disappointment for us has been the low volume growth in the primer and distemper category, where we will attempt to accelerate growth by higher promotional activities in the coming quarters. Now, we had mentioned in our last earnings call that we as a company are disappointed that our top-line growth has largely been in the industry band of top-line growth and we have not been outperforming the growth rate of the paint industry as was expected of us.

To this extent, we had outlined in our last earnings call of our changed focus on Tier 1 and Tier 2 towns wherein we had identified 750 such towns in India to focus our efforts in deepening our distribution presence by extensive engagement with the influencer community. Now, this activity has been undertaken in great earnest across the country and we are beginning to see green shoots in various such cities. Now, this is a long and intensive process and I think it will take another one or maybe two quarters before observable results will start reflecting in our top-line numbers. Suffice to say that we are encouraged by the results that we're seeing and are allocating even more resources towards this strategy as we speak.

Other paint companies have recently spoken about continued inflation in raw material prices, which have been plaguing our industry for the last 18 to 20 months. We at least now see a stabilizing of raw material prices and in fact a softening of these prices from the pre-levels during the last 30 to 45 days. In our last earnings call, we had predicted a gradual though small upward movement in gross margin percentage in Q1 and Q2 of this fiscal. Our Q1 gross margin results vindicate our predictions.

Now with the uncertainty of prices apparently behind us and our gross margins in a very comfortable zone, the future trust will be completely on top-line growth. We will be willing to allocate higher promotional spends in future months towards both channel and influencer incentives to achieve these goals. And we are confident of achieving this objective without causing a dip in our profitability parameters.

Now, Indigo Paints will continue to aggressively invest in brand building through advertising to improve its brand equity. As you are aware Kerala is our strongest state for sales and has been exhibiting robust sales growth during the last four quarters. To2cdw further deepen our brand equity in Kerala, we have recently signed on the celluloid superstar of Kerala Mr. Mohan Lal to create television advertising content, which is tailor-made for the State of Kerala. Meanwhile, our association with MS Dhoni continues for enhancing our brand equity in the rest of the country.

We are progressing well on the construction of our new water-based paint plant in Tamil Nadu with civil construction and now machinery installation in full swing. As mentioned earlier, we expect to commission this plant in Q3 of this fiscal. Our expansion of distribution network and printing machine population continues as before except that it is now targeted more towards Tier 1 and Tier 2 towns. We have in the last quarter, launched a few more products at the budget end of exterior emulsions and distempers, all of which are doing very well.



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

Finally, you will note that any past analysis of our company performance will reveal that in every year Q1 is our weakest quarter for Indigo Paints and sales and profits rise sequentially into Q2, rise further into Q3, and reach their highest level in Q4. We expect this year to be no different. We are in a sweet spot of cost economics, wherein increase in sales will result in a disproportionate increase in profits. We sincerely hope to register a higher top-line growth trajectory in the next three quarters with a significantly higher bottom-line growth trajectory.

That's all I have to say in terms of opening remarks. We look forward to questions from your end. Thank you.

**Moderator:**

Our first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:**

Yes, thanks, and congrats on good recovery. My first question is on your comments on the raw material. I understand crude oil prices have come down. My question was on titanium dioxide and some of the other monomers, how much is the global recession which is being expected that is responsible for your view that mostly worst is behind? And could you share a bit more insights on how much of deflation you expect in these commodities?

**Hemant Jalan:**

Okay. First of all, our exposure to solvent-based paints is much less than the other players in the paint industry. So we are not as much impacted by crude oil prices as some of the others maybe. It is not to say that we are not impacted at all. Main derivatives of crude oil, which are inputs into the paint industry could be the alkyd resins and turpentine. Now, those had been continuously rising in the last few quarters, especially after the Ukraine war, just two days ago there has been a significant drop in both of these prices, perhaps because of marginal softening of the crude oil. Therefore the oil marketing companies in India have dropped the turpentine prices just two or three days ago and that is leading to also a drop in the alkyd resins prices. But as I said, those don't impact us that heavily.

Monomer prices which go into making acrylic emulsions, which are a much more significant input into the paint industry has been softening. They have softened somewhat in the last quarter and in the last, I would say, 40 days starting from end of June till now, they have softened considerably more. So emulsion prices, at least, our purchase prices for August are significantly lower than what they were in July, And July prices were slightly lower than what they were in the month of June and we do not see any near-term possibility of a further uptrend in these. There may be further marginal decline in the coming months although not by as much as they have already come off already.

Titanium which had also grown significantly and touched its peak around September of last year started softening and continues to soften and they have come off quite a lot from their peak levels that they had hit around August-September of last year by more than 20%. Along with that plastic prices, which -- polypropylene which is also linked to crude had been rising consistently all the way to March. They started dropping in the last three, four months and continue to drop month-by-month. So that's as far as raw material prices are concerned. I think almost all raw material prices that impact us are showing a softening trend and you should see slightly better gross margins resulting from that for the whole industry going forward. Of course, depends upon how much inventory one has at old prices. So whether it will reflect in Q2 or reflect full-fledged in Q3 is something that I would not hazard a guess, but the worst is over as of now.

**Abneesh Roy:**

Sure, sir. Helpful. One follow-up on that, will it be fair to say that in H2 no more price hikes for you would be warranted based on current raw material prices? And could there be price cut also in H2 based on current raw material or do you think that's as of now highly away?



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

- Hemant Jalan:** If raw material prices even remain as they are and do not drop any further, you're quite right one does not see much need for any further price hikes. Whether there will be a price cut at all or not, I think softening of the raw materials would happen -- would have to happen a little more. Otherwise, typically if raw materials soften within a narrow range, generally, the past trend has been that the industry improves or increases its trade discounts and managers that rather than going for a price change because any change in price is somewhat disruptive to the industry. So only when raw material price dropped significantly will there be a cause for a reduction in selling prices, at the moment, I think prices would be by and large stable for the next couple of months as far as selling prices go. I cannot make any predictions beyond that because we just have to play it by the year.
- Abneesh Roy:** Sure. And last question is generally rainfall this year has been quite good, but Bihar most likely will face a drought and Eastern UP, Jharkhand also will see a big deficit. So would you be concerned in these three, four markets because ultimately sentiments will get impacted, these are not highly irrigated states to start with, any comments on that?
- Hemant Jalan:** Why do you talk about drought when more than half the monsoon period is still ahead of us. So I think one keeps reading these forecasts by the Indian Met Department. So there are some regions in India that have had a deficit in rainfall as far as June, July are concerned, but they are predicting an uptick in the monsoon in the subsequent months, so we have full two months of monsoon left. So, let us see how the monsoon plays out. I don't have very deep insights into the meteorological data or the El Nino factors etc. So if there is a drought, of course, it has a long-term effect on rural demand as it does for any sector. Let us hope that that does not happen.
- Moderator:** Our next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.
- Manoj Menon:** Sir, actually a bunch of questions from my side, but I'm not sure there's many people in the queue actually. So one on the pivot strategy, which you've outlined about three months of the -- and retiring et cetera. Any update, I know it's only three months, but at least did you started one?
- Hemant Jalan:** That's what I mentioned in my opening remarks that we are beginning to see good traction. I had mentioned three months ago, if I remember correctly, my exact words were, we don't expect anything magical to happen in one quarter, it's a slightly longer-term play. We are allocating more and more resources towards that, more and more feet on the ground to work with the influencers in these larger cities and we are expanding our manpower base in these cities to a significant extent to interact with the influencer community. So, we are beginning to see good results in several parts of India, they may not have reflected themselves completely in the results of Q1. I expect you should see some impact of that in Q2, but probably Q3 and Q4 is when you'll see the greatest manifestation of all the efforts that are going in there. It is changing the focus of the way in which we sell and that takes a little time for things to materialize.
- Manoj Menon:** Understood, sir. And secondly, on the new brand ambassador for Kerala and as a recall, I think Mohanlal was actually an ambassador for another brand previously. Second, just wanted to understand whatever you could talk in a public call the overarching thought process for taking a local celebrity, is it fair to interpret this by saying that look, let's say, out of the X percentage of the target audience, let's say connect with a national figure like Dhoni, so you need to reach the entire 100% in terms of the communication. So that's -- so you need a regional. And more importantly what I'm interested to know is, is it a template you would look to do incrementally and this may have implications for your, let's say, savings on ad (advertisement) spends in the medium term?



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

**Hemant Jalan:** See, first of all, your first point about Mr. Mohanlal having been a brand ambassador for another company; to the best of my knowledge that was more than 20 years ago. So it's been a long winter since he discontinued being a brand ambassador for another paint company. In the past, when we used to make ads, since Mr. Dhoni does not speak Malayalam or any of the southern languages with any great proficiency, the ads, and the content and the thinking used to be kind of like Pan Indian in nature and the language of the ad or the thinking of the script behind the ad was really in Hindi and then it was in dubbed in various regional languages.

Now because of our significantly large presence in Kerala where Kerala accounts for almost 28% or something of our revenue, there was a feedback that it is not the most ideal situation as far as that state is concerned. Also, that state has a slightly different product mix that sells there. The problem that paint companies encounter in terms of performance are also radically different in Kerala compared to other parts of India because of the coastal nature of that place and even the other larger paint companies, the number one and the number two players have been making different ads for Kerala market in the last few years.

**Manoj Menon:** Correct.

**Hemant Jalan:** There was a call from our sales team that we should design the script where the script writer can think Malayalam and not think Hindi and then get translated into Malayalam and the ad should have a Kerala flavor to it. Now, because of the inability of Mr. Dhoni to speak in Malayalam we thought that having a local celebrity who is very, very popular in Kerala would perhaps enhance the creativity of that ad and it is with that, that we signed him on. As far as other states are concerned at the moment, our presence in the other Southern states, which is either in Andhra, Telangana that is the Telugu speaking region or Tamil Nadu or Karnataka is not large enough to merit such a distinct focus and in any case Mr. Dhoni is God in Tamil Nadu as you know because of his association in CSK.

**Manoj Menon:** Yes.

**Hemant Jalan:** So at the moment, we don't feel the need and it would not be justifiable in terms of cost to sign on local celebrities in the other Southern states. When you come to Northern India, I think Mr. Dhoni's appeal is unparalleled and we intend to continue with him for a long time to come.

**Manoj Menon:** So, very clear. Thank you so much. Someone coming from that part of the world can't really think of a better brand ambassador for your company than Mohanlal sir. Second, just on the input let's say plateauing out orders or deflation question, which my friend Abneesh asked little earlier in your opinion, look there how do you see this playing out actually? Because the reason I'm asking because there are only few consumer categories where you could actually retain some of the input correction without really changing the profit pool equilibrium. Now P&G has been one of them where you could actually do that as per past statistical evidences. So -- but having said that what we observed last year from Asian was actually let's say the 10% odd The gross margin drop in the September quarter last year was sort of a reminder about let's say the ability versus willingness to manage the profit pool. So how do you see this playing out over the next 12 months because again this may have implications for you on your profitability as well?

**Hemant Jalan:** See the reason why it is difficult to compare both our margins and our top-line growth with the other listed players, there is a fundamental difference and that is that we are the only listed player who is 100% in decorative paints. All other players have a significant exposure to industrial paints. There are two listed players where that exposure to industrial paints is as high as 40%, 45% and for the two largest players it is somewhat lower, maybe in the 20% range. Now, If you look at it last year in Q1



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

and perhaps also in Q2, the industrial segment was hit very badly largely due to a chip shortage for the automotive industry.

So, my understanding is that the other listed paint players have had a disproportionate growth in the industrial segment in Q1 and may also have that in Q2 because of a weak base effect. So therefore their overall top-line growth in terms of percentage may optically look much higher than what their decorative segment has been. Some of those players are also active in other adjacencies like waterproofing and construction chemicals, which have their own cost dynamics and we are also not present in that. However, you will notice that all other players have noted a deterioration in gross margin percentage, which is directly correlated to their disproportionate increase in the industrial paint segment because as you all know, industrial paints have a significantly lower gross margin than decorative paints.

So, we are perhaps the only company where the gross margin has increased significantly from the preceding quarter. Most other players reporting a sharp decline. So, therefore, this movement of gross margin and the top-line growth aided with a disproportionate growth in industrial sales are completely correlated and understandable. I mean, today our gross margins for this quarter are head over heels higher over the others because we are only present in the decorative space, which offers a significantly higher gross margin.

Now, how it plays out into the future for us, I do not know what the cost impacts of industrial raw materials, how they are behaving because we are not present in that space. We expect under normal circumstances that our gross margins with the softening of raw materials should steadily improve over time. What that also means is that it offers us that headroom to maybe go a little more aggressive when it comes to promotional spends, promotional spends either amongst dealers or amongst influencers, or a combination thereof to try and accelerate our top-line growth. If we do that the effect on the ultimate bottom line that is PAT number would be very, very high disproportionately. So, at least for us, I cannot speak for others the effort will be to now step up the top-line growth because we have the comfort of margins and profitability behind us and we do not see any challenge in that sphere and grow the top-line more aggressively than the others, at least as far as the decorative component is concerned. And that will naturally result in a much, much higher profit growth in the future quarters for us.

**Moderator:**

Our next question is from the line of Vishal Gupta from Phillip Capital. Please go ahead.

**Vishal Gupta:**

Yes, hi Hemant sir, Vishal here. Sir, I had one question and one of the media interview you had mentioned that in bigger cities or metros, the role of influencer is much more important than dealer, dealer is also one of the influencers, but in the sense painter, contractors and architects and in smaller places where you highlighted that dealer plays an important role. So I just wanted to know why the dynamics are different and if you can elaborate or throw some more color on this, why there is a difference in the person who is pushing the paints in bigger cities than smaller cities?

**Hemant Jalan:**

See what happens is that when you go to a very small town people tend to generally know each other. So the dealer is not a faceless person, he's generally somebody who has an acquaintance with the consumers at large. So, therefore, he is likely to have a much more greater impact or a say in the brand selection by the consumer. On the other extreme, if we move away, not just to the Tier 1 and Tier 2 towns, let's say we move to the metros like Mumbai, a dealer is a faceless person, you don't know him from Adam and he doesn't know you. And therefore, if a totally unknown person in a very large city tries to recommend any particular brand he is not likely to have much influence as far as the consumer is concerned and therefore the consumer places more emphasis and more trust in what's the painting contractor has to say to him.





# INDIGO

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

So the nature of selling in larger towns and small towns or the nature of brand selection changes dramatically and therefore the nature of your efforts on the ground to push your sales needs to change in a corresponding manner.

**Vishal Gupta:**

Got that. So because you are also targeting top 750 cities now, so what would be your approach apart from what you call given the higher incentive, what is the approach, how do you plan to garner share out of that because competitive intensity remains quite high, because all the top four players are present out over there. So if you can throw some more color on it, how do you plan to gain share in those markets?

**Hemant Jalan:**

So I don't think competitive intensity changes from large towns to small towns, don't think that the other players tend to ignore small towns. Nobody does, because everybody derives a huge amount of sale from Tier 3 and Tier 4 towns. For us, it may be disproportionately higher as a percentage of our overall revenue compared to the others, but we do not like to underestimate the competitive intensity of our larger competitors when it comes to the smaller towns. When it comes to the bigger cities, you have to work with the painting contractors, you need to visit sites, you need to do sampling at the sites, and work with the painting contractor that is the influencers to convince the house owner directly into shifting into your brand. That intensity of work is perhaps not required for the Tier 3 and Tier 4 towns, where the nature of selling is very different.

So you need an army of people who have the time and the inclination to work with these painting contractors, visit the sites which they are working on and try and influence directly the homeowner at those sites to adopt your brand. All companies, therefore, have a large field force dedicated to this activity in the larger towns. We have woken up to it a little late because until last year we were getting high growth in the smaller towns and we were focusing more there. Now that our focus has shifted, we are significantly adding to the number of feet on the ground. These are not salespeople, but these are shall I say influencer management people who will work with the influencer communities, regularly visit project sites and convince the homeowners to adopt that paint. That is the nature of trust that is required. Not necessarily, more spends in terms of promotion or advertising or anything else.

**Vishal Gupta:**

Got it, got it. Got it, sir. Last question from my side, just wanted to understand, sir, what is the framework of setting up depots definitely cost-benefit analysis will go in, but just wanted to understand when we decide to setup a depot in a particular city or state what is the thought that goes behind it? Sir definitely a certain threshold of sales will be required. If you can just explain or elaborate more on it, it would be really helpful, sir?

**Hemant Jalan:**

Setting up depots or multiple depots in a state is entirely governed by logistics and we look at the time taken to deliver material from your depot to dealers in the more far-flung areas. The moment that starts crossing 36 to 48 hours, you feel the need to establish a second depot in that particular state suitably located geographically so that the areas that you were not able to service in 24 to 36 hours, you can now service more effectively from there. So it is really time taken to service the dealer, it has something to do with the logistics transport network available in various states.

For example, if you take a state of West Bengal, if you've tried to dispatch material from Kolkata to Siliguri, it will on average take about 8 or 10 days to reach there because transport services between the two cities simply do not exist. And if you talk about feeding more upcountry areas beyond Siliguri, which is the largest town in North Bengal it could take even longer. So it becomes very difficult to operate from one depot in that state. You need the depot in Siliguri. You probably need another depot somewhere in between Kolkata and Siliguri and so on and so forth in different states.

So I think, depending upon the volume of business that you have the part of the state, which is exhibiting higher growth you go on adding depots as and when it is needed

to provide good service to the dealers. That is the only criteria that we adopt in deciding when to add another depot.

**Vishal Gupta:** Got it. And just follow-on to that, is it CapEx heavy that given the pain is incredible so is it setting up a depot what do you call a very CapEx heavy or just want...

**Hemant Jalan:** It doesn't involve any CapEx. I don't know of any paint company, which owns the depots. They always rent it out. So it's all the committed cost so when you setup a depot, a little inventory gets added there because you have to maintain the range of stocks, maybe there is an increase in working capital to a small extent INR50 lakhs, INR60 lakhs of extra inventory get started on and you have one or two accountants and the CapEx involved is what you set up one or two computers a little cabin and you're ready to book.

**Vishal Gupta:** Okay. Sir, fire extinguisher equipment anything required because paint is inflammable, just wanted to understand on that front anything required on that front?

**Srihari Santhakumar:** Fire extinguishers anything?

**Vishal Gupta:** Fire extinguishers.

**Vishal Gupta:** Yes, no, because paints are inflammable so accordingly I just wanted to ask.

**Hemant Jalan:** You need approval from the local bodies and you have to keep your depot well stocked with necessary fire extinguishers. So that's not a huge cost.

**Moderator:** Our next question is from the line of Gaurang Kakkad from Haitong Securities. Please go ahead.

**Gaurang Kakkad:** Congratulations on a good recovery and good show on profitability. Sir, my first question is in terms of the Tier 1, Tier 2 entry strategy. So largely, you mentioned that there are some green shoots that you see here. So is it that largely the dealer addition which has happened in this quarter, 700 odd is primarily in this Tier 1, Tier 2 cities and based on the initial numbers, we see that the acceptability of the brand is strong? What gives us the confidence?

**Hemant Jalan:** See dealer network in the largest cities was never a problem for us. We already had a good network of dealers in Tier 1 and Tier 2 towns. The problem was that the output per dealer in those cities was fairly low and the share of that dealer's total sale that we were getting was abysmally low. Whereas the moment we went to Tier 3 and Tier 4 towns, we were getting a fairly high share of that counter sale towards Indigo whoever our dealer was. So we analyze that the only reason this was exhibiting a distinct change when you move from Tier 3, Tier 4 to Tier 1, Tier 2 towns is that in the past we had not engaged actively with the influencer community there and did the kinds of things that I just outlined in response to a previous question. And unless you do that, it is very difficult to increase the share of sales in those respective counters. So, let us say, if you go to a Tier 3, Tier 4 town and let us say, a dealer his total paint sale is, let's say, just to throw a number INR1 crore and if Indigo is getting and all these dealers are of course multi-brand as you know. So if Indigo gets INR40 lakhs to INR50 lakhs of that counter sale that's pretty good for a company of our size.

When you go through a Tier 1 or Tier 2 town, for most dealers there, total sale in the counter would be upwards of INR1.5 crore or INR2 crore and there the share of sales that we were enjoying was abysmally low. It was below INR10 lakh or so. So giving incentive to the dealer who was not going to help because as I said, the role of a dealer in these towns is much less. What we were lacking was working actively with the influencer community and visiting the sites where they were getting the painting jobs and working with them to convince the house owner to switch to our brand.

Now that's a very different kind of an activity, which we have started doing very aggressively in the last four months and we are beginning to see results. It's a long process. Other companies have been doing this for many, many years, we have embarked on this journey only during the last four months or so. So it will take some time, but we are confident that we will get there because the acceptability of our brands and the equity of our brand is very high everywhere. So that is a big plus point for us. The quality of our product, people are very happy with, the quality, the packaging, the delivery, etc. What we need is this intensive engagement with the painters in the larger towns and that is what we are doing.

**Gaurang Kakkad:** Right. And in terms of product mix, you mentioned, so largely would the product mix be similar across the Tier 1, Tier 2 and Tier 3 Tier 4 towns? Say across...

**Hemant Jalan:** Yes, very much. It is a misnomer that more premium paint sell in the bigger cities and the economy paint sell in the smaller towns that has not borne on by reality, sometimes you find that in the very, very small towns you have a very high disproportionately high sale of premium products. So overall, I would say, the product mix does not change with the size of the town or at least that has not been our experience. We find that by and large the product mix is the same.

**Gaurang Kakkad:** And this would also be true for the differentiated products, right? So the share. Okay.

**Hemant Jalan:** Yes, absolutely.

**Gaurang Kakkad:** Okay. And just on the dealer addition this 4.5%, 5% Q-o-Q addition largely it is Tier 1, Tier 2 towns or still we are looking at Tier 3, Tier 4 in terms of addition for the quarter as well as incremental?

**Hemant Jalan:** No, there will be a mix of both. I don't have exact granular bifurcation of how much of those have happened in the larger cities and how much have happened in the smaller towns, but as I mentioned in my opening remarks, now the dealer addition and the tinting machine addition is happening much more as a percentage in the larger towns vis-a-vis the smaller towns where in most states, there is not much more room left for expansion of the dealer network, because the number of dealers available in those small towns is very low and if you already have 50% or 40% of those dealers dealing with you, it is counter-productive to try and expand your network further in those places.

**Gaurang Kakkad:** Right. Thanks. That helps. And on the three-year CAGR growth at the company level, if you can share what is the number?

**Hemant Jalan:** Top-line growth, I think the three-year CAGR came to somewhere around 17% or thereabout in terms of top-line, that's the problem that now doing a one-year growth becomes meaningless because of COVID, two-year growth also becomes meaningless because Q1 of FY '21 was even more severely impacted. So going through three-year CAGR growth, we can do the number crunching, but to the best of my memory, it was around 17%.

**Gaurang Kakkad:** Right. And just finally on the primer distemper part, the value growth is 28% and volume growth is 2%. So there is a 25% kind of a pricing element there, is competition having a much lower pricing element, which is why we have a lower volume growth and what is the way ahead in this category?

**Hemant Jalan:** You find that difference across all categories that the value growth is significantly higher than the volume growth, because prices have risen significantly. Now, we presented in four detailed buckets in the interest of transparency, our competitors choose to club it all together and that makes analysis very difficult for people like you I can understand, because it is very difficult, you start adding putty, which is a INR20 kg item, with some top end emulsions, which are INR300 a liter and try and club



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

value and volume growth across categories. I think it leads to a khichdi, which doesn't yield much insight.

Now in some quarters, like I remember in last quarter, our putty growth in volume was very low, almost zero. Now this quarter, It's been much healthier and so on and so forth. So quarter-to-quarter different product buckets do tend to perform slightly differently. Again, if you do a detailed analysis, it may have something to do with which comes you ran aggressive schemes on which product category both this year and the previous year. Suppose you ran a very heavy scheme on this particular category in June of last year then you would be coming off of a high base and you may show lower growth this year. Whereas, if you ran a high scheme for some product this year during Q1 versus last year in Q1, you may show a significantly higher volume growth.

So, I think to make sense out of these volume and value numbers, you have to let a longer time period elapse and as long as on a whole year basis you are doing good growth, both in terms of volume and value, you should be all right.

**Moderator:** Thank you. Our next question is from the line of Avi Mehta: from Macquarie. Please go ahead.

**Avi Mehta:** Hi, sir. Thanks for the opportunity. Sir, a few questions, first on the input cost environment just conceptual understanding, would it be a fair bit of understanding that the titanium dioxide market because for us that is a bigger chunk would it be fair to say that any correction seen in say a region like China or so would flow through to the India buy price or maybe with time-lag, but is that a right way to look at this market or no?

**Hemant Jalan:** See I don't have that much of inputs when it comes to global macroeconomic shifts are concerned. So, to what extent do fluctuations in China or Europe or Ukraine impact India is kind of a little hard to decipher.

**Avi Mehta:** Sir no, what I mean from a titanium dioxide market perspective because the global commodity I wasn't sure, but I thought I'll just check it again.

**Hemant Jalan:** So actually much more important than titanium dioxide for us are the emulsion monomers that is a much higher cost input, which constitute the overall acrylic emulsions, which are the base for all our water-based paints. That is a significantly higher input for us than titanium dioxide. And last year they were rising very high, primarily due to large shutdowns in some global plants and some of these monomers are made at very, very few places in the world and even one of those plants undergoes a shutdown, it has a huge impact on the monomer prices across the world.

Titanium dioxide is a little more distributed in the sense that titanium dioxide is not made by just two or three or four manufacturers around the globe, they are made by a much larger number of manufacturers. So supply disruptions or plant outages tend not to disturb titanium dioxide as much. I think it would be more global demand-supply that influences it. How much of that is influenced by China I frankly do not profess to know, but there has been a steady softening of titanium dioxide prices starting from September. So it's been a gradual drop quarter-by-quarter and we are marginally above the levels that we were in one and half years ago. So in between things had risen very high, they have come down significantly, as I've said, by more than 20%, almost 25%. And the indications that we get from the vendors of titanium dioxide is that it is not likely that it will see an uptrend in the forthcoming months. We get a similar signal for emulsion monomers.

**Avi Mehta:** Sir, if I may, where I was coming from is titanium dioxide in China is down almost 20% or so. So I thought that -- and India titanium dioxide prices are not reflecting that so which is where -- that was the basis of the question. So asked.

- Hemant Jalan:** So in India also -- well in India, there is only one significant manufacturer, which is KMML and KMML have dropped their prices, they have not dropped it to the extent by which global prices have come down, but KMML services only a small fraction of the Indian demand. So, maybe they are fully booked, I don't know. But most of our purchasing of titanium dioxide is imported titanium dioxide where we are getting the benefits of lower pricing and these materials come from China, they come from other parts of Southeast Asia, some parts come from -- some materials come from Europe also, depending upon the grade of titanium that you need and there is an overall softening across the board.
- Avi Mehta:** Got it, sir. And sir, could you be able to give us a broad sense on what share of inputs does it kind of account for us just to -- so that we can appreciate the moderation?
- Hemant Jalan:** The number available and that number would vary slightly quarter-to-quarter.
- Avi Mehta:** No, no, not quarterly, just the broad range, sir. Is it like 20%, 30%?
- Hemant Jalan:** No, no it won't be that high or anything close to that. In terms of our total imports, I doubt if it will even be 10% of our total inputs. But I don't have exact numbers available right now and what happens is that certain quarters like now when you enter Q2, this is a period when generally it is the more economy range products that sell. So titanium dioxide consumption as overall consumption will go down and once you come into Q3 and Q4 those are the periods when the higher-end emulsions sell the most. So titanium dioxide consumption increases very dramatically during those quarters at least for us.
- Avi Mehta:** No. Got it, sir. I'll take that offline. Sir, the second bit was essentially on the institutional sales, now we've been hearing from other peers that there has been a very sharp uptick in that segment. I wanted to kind of just get your thoughts on how are you looking at that segment, that market and your strategies.
- Hemant Jalan:** Yes, we had mentioned even earlier that we are interested in entering into the industrial coating division -- the business. However, the industrial paint business is a very diverse set, on one hand, you have very high-end industrial paints, so, we have very high-end industrial paints which are used in very high-tech areas which are very technology protected and have reasonably good margins and you have the low end of the industrial paints. So, we are not looking at entering the lower-end industrial paints because that is a very crowded area. You're talking about industrial sales, or are you talking about institutional sales of decorative paints?
- Avi Mehta:** I was talking with the institutional sales of decorative, sir.
- Hemant Jalan:** I see, institutional sales of decorative paints, no, that is not the segment that we are looking at. Because that would mean selling to large builders etc. and the safety of your financial exposure is very suspect with that community and that is not a segment that we are looking at entering at this point in time.
- Vishal Gupta:** Okay. Okay, got it, sir. And if I hear you correctly industrial you will focus only there is technology and where you can...
- Hemant Jalan:** Yes, so we are exploring those options. We are in talk with several companies outside India. The talks have not reached a definitive stage where we can talk concretely about it. As and when something materializes, we will definitely be disclosing it to the investor community, but we are hopeful that something would happen, but I cannot put a timeframe to it.
- Avi Mehta:** Got it, sir, got it. And sir, if I may, just in the entire strategy piece what I liked is you've kind of been very aggressive in terms of growing, and nowhere have you kind of argued that this is what because of a new player coming in any defensive, would it be fair to say that your approach for any new player entry in particular, Grasim is



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

going to be, let's see what they're doing and then react, or would you be kind of looking to do some proactive steps over here just your thoughts?

**Hemant Jalan:**

Grasim's entry is two years away. To start bothering about somebody who is going to enter two years from now is unnecessarily putting yourself under any kind of a strain when it is not worth it. Let them come closer to launch and the paint industry is so large and there is so much of inherent growth and volume in the paint industry and for any large player, I mean, you've had a large group that has entered the paint industry three, three and half years ago, you know who I'm talking about and they are doing well from what I hear. But they have not disrupted the applecart for any of the existing players. So I would expect that even when Grasim enters and it is making higher commitment in terms of capital outlay. But it is not a capex driven industry and whatever space they will occupy over a period of time, I think it will happen without disrupting anything for the existing players. So it is not something that any of the players in the paint industry are very worried about at this point in time.

**Moderator:**

Our next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

**Sameer Gupta:**

Thank you, sir, for taking my question. I have only one, but have a slightly long question So please bear with me. So just trying to understand the consumer behavior in this paint category and my question pertains to the category as a whole might not be completely applicable to you alone, but overall category. So, sir, in many categories across FMCG and more discretionary, we are seeing which pertain to the mass and are reasonably penetrated. We are seeing a very lackluster demand environment in terms of volumes and this is primarily due to the steep inflation, which has disrupted household budgets. Now in a category like paints which has seen a 20% price increase and there is also an angle of deferment, I may postpone my painting of the house. The volume growth is pretty healthy and this is across paint players. So what in your view is driving this? Is this a repainting led demand which cannot be deferred? It is new construction, houses, share gains from smaller players or just there is ample availability of cheap labor, which is offsetting this price inflation in paints or a bit of everything? Just trying to understand this reason, sir.

**Hemant Jalan:**

So I think that you're asking a very pertinent question, Sameer, but it is dangerous to compare a category like paint with other consumables, which are like consumer staples. Consumer staples, when you talk about strain in volume growth and I have read in the papers, large companies like Levers and P&G and the consumer product companies of the world the FMCG companies as you know them talking about a slowdown in volume growth or even a negative volume growth at times depending upon which company and which sector you are looking at. Now the fundamental difference between those and paints is that paint is something which is consumed once in four, five years as opposed to toothpaste, soaps, shampoo, which is purchased every month.

So those products, which are the staples, which are bought every month affect a household budget and I think every household has to manage its budget and in a slightly inflationary environment and the uncertainties that we have had with respect to COVID and the disruptions that is created people tend to either down trade and purchase cheaper material or they go for smaller pack sizes. And therefore that results in a slight weakening as far as volume growth is concerned. You're right, that in paints. It is a discretionary nature, some part of it can be postponed and some of it cannot. Today, the biggest trigger painting is a marriage in the house.

Now, if a marriage is taking place in our house typically both the bride's house and the groom's house will run go about a painting and that is not something, which is deferrable. Once a marriage date has been fixed. And since this happens once in four, five years when you repaint the house, there is a great amount of aspirational element attached to it. People today, you were asking about consumer behavior, our insight is that when it comes to making over their house, the house is their calling

card of where they have reached. They don't want to sacrifice on that. Also, when they keep in mind that the actual cost of paint is less than typically 40% to 45% of the overall painting cost, the rest being labor and the labor cost has not increased as drastically.

So therefore a little inflation in the raw material or in the paint prices even if it is to the extent of 20%, overall impacts the painting cost by only 8%. So people tend so far not to be stingy on that and continue to paint their house as they have required in the past. Maybe the lockdowns have accentuated that because people are spending more time at home because of this work-from-home environment and therefore contrary to gut feel the postponement in painting cycle has really not happened, which is good for our industry. So the fact that when COVID happened were we worried about what impact it will have in demand, of course, we were. But, fortunately, for us it has played out rather well and now that COVID seems to be behind us, I think we are confident that we are back on a good volume growth track as we were during the pre-COVID era.

So, therefore, don't compare it, like look at automobile sales, from what I read automobile sales are also undergoing a big jump despite the big escalation in prices of automobiles and steel and chips and other things that go into automobiles. So maybe you should look at paint more in relation to durables and automobiles and some other products. Now each industry has its own dynamics and yesterday I was reading that the air conditioning and the refrigerator for homes are not going through, they are seeing a very flattish volume in the last few months. Why it is different in paint, I don't know. I don't wrap my head too much about it, when the volume growth is good, I don't try to unearth as to why is it good. We enjoy it while it's happening.

**Sameer Gupta:**

Fair enough, sir. That's a very detailed answer, and thanks for this. My only concern here is that because this is a category, which is, as you said people consume once in four, five years, having consumed they're out of the system for the next four, five years.

**Hemant Jalan:**

So for that somebody else comes into the system, who has painted three years ago. So that goes on almost 85% of the paint consumption is repainting of existing homes, 15%, max 20% is got new construction and new construction of course the printing cannot be postponed, you typically need to paint it before you inhabit the dwelling, but the re-painting cycle has also shortened overtime. It used to be six, seven years, it's now come down to three, four years. So that has led to a higher frequency of repainting. So, yes, the volume growth continues to look good for this sector and we just hope that it stays that way for the years to come.

**Moderator:**

Thank you. Our last question is from the line of Patanjali Srinivasa and from Mirabilis Investment Trust. Please go ahead.

**Patanjali Srinivasa**

Hi, sir. Thank you for the opportunity. I'd like to know if we have any plans of...

**Moderator:**

I am sorry to interrupt Mr. Srinivasan, can you please switch to your handset? Mr. Srinivasan?

**Patanjali Srinivasa:**

Yes, am I audible ma'am.

**Hemant Jalan:**

We can hear you. Please go ahead. There is a little echo but go ahead.

**Patanjali Srinivasa:**

Yes, so I wanted to understand, if we have any plans of entering the waterproofing business, sir?

**Hemant Jalan:**

No immediate plans of entering waterproofing per se. We are interested in entering into the industrial paints category, if and when we tie-up with any large player and I think it will have to be done with a tie-up with some large player anywhere in the world. If they also have a strong portfolio in waterproofing, it is something that we



**INDIGO**

Be surprised!

*Indigo Paints Limited  
August 05, 2022*

may consider. But at the moment from our understanding, the waterproofing sector is getting a bit too crowded and the gross margins have dropped significantly in that sector. So, it is not a focus area by itself to get into, if it happens naturally along with some other industrial paints, it is not something that we rule out either.

**Patanjali Srinivasa:**

Sir, and one-off our guidance like previously was that with the time our A&P as a percentage of sales will keep dropping a bit because our sales growth will be much faster, so in the recent distinct, in today's call you said that because we have some better gross margin advantage, you will still invest more on branding and all of that. So what is the right thing to expect going forward?

**Hemant Jalan:**

No, I think we stick with what we had said and that is that A&P spends will in absolute amounts probably increase by, let's say, 5% year-on-year to take care of inflationary effect because all the television channels do tend to kind of increase their pricing for the spots by on average 5% year-on-year so that much of absolute increase in spend you have to maintain, to maintain the same degree or intensity of advertising. However, since the topline growth fortunately much, much higher than 5%, therefore the advertising cost or A&P cost as a percentage of topline continues to drop. They dropped last year from what they were the previous year and this year we expect a significant more drop maybe 1.5% to 1.75%.

Last year our A&P costs were 9.7% of top-line maybe, this year it will be closer to 8% and that is a natural decline that will happen without sacrificing the intensity of advertising, simply because the top-line increases faster than this spends on advertising. What I was talking about of signing another celebrity, I mean, the celebrity cost is but a very small portion of your advertising expense, the much, much larger expense is what you spend on those airing those commercials on television. And that in terms of overall intensity as far as our Pan-India spread is concerned is not expected to increase very much. It is the quality of the creative in one particular state, which will undergo change, taking a more local flavor out there, which would appeal more to the operation of Kerala that's all.

**Moderator:**

Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Hemant Jalan:**

Thanks a lot. It has been a very engaging session. Thanks for your questions. I hope we have answered them well. If you have any follow-up questions, please reach out to Mr. Srihari Santhakumar: who is our GM Finance and Investor Relationships. I know that you have other earnings call lined up, which may have already started and you'd be anxious to switch-offs, so I will not keep you any longer. Thanks a lot, Manoj, for conducting it and giving us this opportunity, and thanks for your entire team at I-Sec and the moderator. Thank you.

**Moderator:**

Thank you very much, members of the management team. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference call. Thank you for joining in. You many now disconnect the call.