INDIGO
Be surprised!

Date: February 19, 2022

To,	To
BSE Limited	National Stock Exchange of India Limited
Corporate Relationship Department	Exchange Plaza, Plot No. C-1, Block G,
25th Floor, Phiroze Jeejeebhoy Towers,	Bandra Kurla Complex, Bandra (East)
Dalal Street, Mumbai- 400001	Mumbai - 400051
Scrip Code: 543258	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 February 14, 2022 at 11.00 hrs (IST) to discuss the Unaudited Financial Results of the Company for the quarter and nine month ended December 31, 2021.

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
(formerly known as Indigo Paints Private Limited)

PAINTS LIMITED INDIGO

Sujoy Sudipta Bose
Company Secretary & Compliance Officer

Encl: As above

“Indigo Paints Limited
Q3 FY2022 Earning Conference Call”

February 14, 2022

ANALYST: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

MANAGEMENT: **MR. HEMANT JALAN - CHAIRMAN AND MANAGING DIRECTOR, INDIGO PAINTS**
MR. CHETAN HUMANE — CHIEF FINANCIAL OFFICER, INDIGO PAINTS
MR. T.S. SURESH BABU - CHIEF OPERATING OFFICER, INDIGO PAINTS
MR. SRIHARI SANTHAKUMAR — DGM FINANCE, INDIGO PAINTS

Moderator: Ladies and gentlemen good day and welcome to the Q3 FY2022 Earnings Conference Call of Indigo Paints hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Rutuja. On behalf of ICICI Securities, we welcome you all to Q3 FY2022 and nine months FY2022 results conference call of Indigo Paints Limited. Now I hand over the call to Mr. Srihari Santhakumar - DGM Finance and Investor Relations to introduce the management and thanks and over to you Sir.

Srihari Santhakumar: Thanks Aniruddha. Thanks everyone for joining the Earnings Conference Call of Indigo Paints. Today to discuss the Q3 and nine month results of FY2022, from the management side we have Mr. Hemant Jalan, the Chairman and Managing Director, Mr. T.S. Suresh Babu, Chief Operating Officer, Mr. Chetan Humane — CFO. As usual, we will start the proceedings with a quick overview of the performance from our Chairman, following which we will have a Q&A session. Over to Mr. Jalan!

Hemant Jalan: Thanks Srihari, thanks Aniruddha and thank you all for joining in on the earnings call of Indigo Paints for Q3 FY2022. As you are well aware the last quarter has seen the emergence of the Omicron COVID wave throughout the country. Although consumer sentiments were negatively impacted in some regions as a consequence, fortunately the overall sales were not affected to any significant extent because of this. The last quarter has also witnessed a very late withdrawal of the monsoons from India with rains extending till late October in many parts of India, which certainly had a negative effect on sales during the pre-Diwali festive period. Reassuringly for us the state of Kerala which accounts for almost 30% of our top line sales despite witnessing the strongest surge of Omicron wave in the country, the state of Kerala has witnessed very high growth rates and sales during the Q3 quarter.

Now the last quarter has also witnessed an unprecedented price correction in the selling prices of paints with prices being increased by a total of 14% to 15% in two tranches falling within a three-week period during the middle of the quarter. Now normally a 14% to 15% price correction is something that is experienced cumulatively over a four year period in the paint industry. This was a long overdue correction to mitigate the effects of unprecedented rise in raw material costs. All I can say is that had the industry initiated these price corrections in a phased manner over the last 12 months, the bottom line of all paint companies would have been much healthier during the last four quarters. Now, such a huge increase in selling prices in a very short span of time definitely has a certain destabilizing effect on the market with channel partners being forced to purchase material in excess to take advantage of pre-increased pricing even by the end of the quarter the channel remains in a slightly overbought condition and channel inventories have normalized only by end of January. Now such destabilizing effects tend to distort the actual demand picture and make it slightly difficult to draw accurate conclusions about actual demand being faced for any specific company. Indigo Paints has to play a long-term growth story by continuously increasing its advertising presence and improving its brand equity. Hence, we as a company tend to ignore the short-term compulsions of quarterly profits in the interest of long-term growth, which is necessary for a young company like ourselves, so unlike several other larger competitors of ours who have significantly reduced their advertising spends in Q3 perhaps to shore up bottom lines, we have advertised aggressively on TV channels across India in Q3 including during the second leg of the IPL matches in October gaining high visibility. This heavy level of advertising will continue in Q4 of this fiscal and during the quarters ahead.

Now the financials for Q3 of FY2022 have been uploaded on the stock exchange portals along with our analyst presentation and we hope you have had an opportunity to peruse them. Compared to Q3 of last fiscal, our Q3 of the current fiscal shows a sales growth of 26.63%. Gross margins had started slipping all the way back from Q4 of the last fiscal due to spiraling raw material inflation and this slippage in gross margin which continued in a downward manner in Q1 and Q2 of this fiscal has now started recovering in Q3 and we have clocked an industry leading gross margin of 42.89% in Q3 which is 117 basis point improvement over the preceding quarter.

Despite maintaining our advertising and promotion spends at a very high level in Q3, almost exactly the same as Q3 of last year, and despite the Y-on-Y contraction of gross margins. Our EBITDA has grown by 22.83% on a Y-on-Y basis and we are perhaps the only paint company to register a strong Y-on-Y growth in EBITDA as all others have shown a significant contraction here. Our EBITDA margin percentage has increased to 14.57% in this quarter up from 11.92% in the immediately preceding quarter and it is only very marginally lower than the EBITDA margin percentage of Q3 of the last fiscal.

Our PBT numbers have expanded by 28.34% on a Y-on-Y basis and PAT numbers have expanded by 29.39% on a Y-on-Y basis; once again being the only paint company to register a strong positive growth on these parameters.

Now this reinforces our commitment to grow our top line aggressively compared to other large players in the industry, but maintain our growth in a profitable manner. If we look at the nine-month performance, the sales of the first nine months of this fiscal has been 31.67% higher than the corresponding nine months of the last fiscal. Now while analyzing this, it should be noted that during the first nine months of the last fiscal our sales had not been as severely impacted as that of the other larger players due to COVID and hence this growth of the nine months in the current fiscal comes from a significantly robust base for us in the preceding year.

EBITDA in the first nine months of this year has expanded by 3.32% despite a 32% increase in advertising and promotion spends during the nine months of the current year and despite a significant drop in gross margins due to raw material inflation. PBT has expanded by 10% in the first nine months compared to the corresponding period of the previous year and PAT numbers have expanded by 7.55% on a Y-on-Y basis.

Now traditionally Q4 has always been our highest sales contributing quarter in any fiscal year and we expect this year to be no different. Also due to various climate-related reasons many of our differentiated products have a disproportionately higher weightage in sales during Q4. Now these products have a significantly higher gross margin contribution and hence our profitability figures are expected to be much, much higher in Q4. The effect of the sharp pricing increases affected in Q3 will show their full effect in Q4 and we are also witnessing a slight downturn in raw material prices during the last two months. Hence, we are optimistic on delivering robust profitability numbers during Q4 of this year. Now, we have given the details of volume and value growth in each of the four broad subcategories of our paints consistent with our past disclosures because we believe that reporting an overall volume growth does not reveal any meaningful insight. Because of several rounds of price increases which have happened during the last four quarters, it is not surprising that value growth is significantly more than volume growth in each category with growth rates being the highest in the emulsion category, which is by far the largest contributor to the overall sales value.

Now, we have embarked on an accelerated program to increase our count of active dealers especially in the larger cities of the country and expect a very significant increase in this metric during Q4. Also for the last 20-22 years, the company had by and large not encouraged selling our paints through wholesalers. In most states of India, where we now have a healthy population of direct active dealers, we are now actively enlisting the support of paint wholesalers to further expand our indirect outreach in distribution. Furthermore, there were only two remaining states in India where we did not have an active footprint in terms of distribution and these were the states of Himachal Pradesh and Delhi. We have now appointed a sales team for both of these states and expect to start operations in these states towards the end of Q4. This accelerated trust in distribution expansion and/or spread to new geographies should boost our sales growth in the coming quarters.

During the last month, we have also launched a new advertising campaign with the theme 'Jaisa Performance, Waisi Price!' to position ourselves as a premium brand in the paint industry, which delivers superior products, albeit at a marginally higher price. We have also launched a new differentiated product in Q3 called anti-odor paint, a first of its kind paint which actually absorbs the bad odor emitted in kitchens and bathrooms more differentiated products are being ready for launch in Q1 of next fiscal.

Now, hopefully with the uncertainty of COVID disruptions behind us now, we look forward to resuming our trajectory of high growth in the coming quarters.

Thank you and that is all I have to say in terms of an introductory remark and we look forward to your questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Hi! Hemant and team, thank you for the opportunity and congratulations for the better delivery and improved delivery. Two questions from my side, on the distribution expansion you mentioned that you target to get it to 17,000. How easy or how difficult it is because most of the markets has now started opening up, so is there any issue or is there any bottleneck for you to get the output.

Hemant Jalan: No, I do not see much problem in expanding the distribution network, we have a lot of differentiated products where we are perhaps the only one offering them and most dealers are interested in at least selling the differentiated products if not the entire range of paints. Now in the past we used to follow a philosophy that unless a dealer was interested in selling the full range of paints, we would generally not enlist the dealer. Now we are making a slight change in strategy at least in the larger cities in the metros where even if a dealer is prepared to even just sell our differentiated products, we are enlisting them as a dealer with the hope that over time they will start selling a wider range of products. Now this approach has worked well in the last one and a half months that it has been operational and we are finding a huge expansion of dealers happening in the current quarter by this strategy, so I do not expect any problem in reaching this number of 17,000 by the end of this quarter.

Shirish Pardeshi: Okay that is very helpful. My second question is on the margin. You did mention and saying that quarter four you have a very strong saliency of differentiated product and quarter four has always been better for you, so two questions in the current context when the crude is beyond $100, how we are planning to absorb the cost and maybe the follow-up is that how you think quarter four number when you have a higher scale of operation the margin look like.

Hemant Jalan: I think we have answered this question about crude several times in the past and not only me, I have heard a similar response from all the other paint industry leaders where a similar question has been asked to them. The linkage between crude price and paint raw materials is extremely tenuous, and it is not as dependent on crude as is normally believed to be, so in the medium-term minor fluctuations in crude oil prices do not tend to have any significant effect on the raw material prices as far as paints are concerned and as I mentioned in my opening remarks we are actually seeing a slight downturn in many of the raw materials during December and January and continuing on in February, so with the price hikes that have been taken, I think the industry should be back to near normal gross margin percentages in Q4. At least we expect that to happen for us and I would not be worried as far as the crude oil fluctuation is concerned.

Shirish Pardeshi: Thank you and all the best to you.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks and congrats on a good set of number. My first question is on the wholesale versus direct, which you mentioned, could you take us through how the margin profile and the focus issues will be addressed because wholesale is great to reach quickly, but focus is not there and what will be the impact on mass product strategy because most dealers will be very happy to take differentiated, but what happens to the focus on mass product because ultimately that is the much larger part of the industry.

Hemant Jalan: See, what happens is that when you are a new player or at least in a new geography, we have always believed that going to wholesalers is a bad idea because it is an easy way to get quick sales but in the long-term, it is not a good strategy because then you become kind of dependent on the wholesalers and the wholesalers then start dictating terms to the company. As I said for the last 22 years of our existence, we have actively shunned going to wholesalers and we have concentrated on building a huge direct network of dealers across India. Now, in many states of India where our distribution reach is by and large fairly good and almost on par maybe not with the market leader, but at least with the number two, number three players we feel that now the time has come to start approaching these wholesalers who do offer penetration into very small paint selling shops across that region which may be difficult to service directly. Now these wholesalers do a lot of business for the other large paint majors also, and a sizable one. I would not say a major part, but a significant part of the sales of all large paint companies do come from this wholesaler route. Now this is the route that we had consciously avoided so far and now we are saying that, that route is no longer an untouchable route at least for the states where we have a mature distribution network of our own. We would still not follow that for geographies where we have entered in the last three or four years where our own direct network is still work in progress, but in states where we have been present for 10, 15, 20 years, we see no problem in going in that route. I do not think it does much to in terms of cost structure very marginal additional discounts could be offered to the wholesalers to encourage wholesaling and since the percentage of additional sales that you will get through the wholesaler route in any case would be not earth shaking in nature, I mean if we get 5% or 10% extra growth by going through the wholesaler route on as far as top line is concerned its effect on any additional discount we have given to the wholesaler on the overall gross margins of the company would be extremely marginal in nature. Now, normally when we do approach the wholesalers they tend to start off with the differentiated products that has been our observation which is perfectly fine because those products are anyways the most profitable products for us, but we have observed that over time they also start diversifying into the more bread and butter and the more me to products like primers or emulsions and other products like that and that is a natural progression that happens and we encourage that as and when a wholesaler feels comfortable in doing that.

Abneesh Roy: Sure understood. Just one follow-up there, I understood in your legacy state you think now it makes sense given you are shunned for 22 years, did it have anything to do with the entry of new players so you want to make life more difficult for them when they enter because you will be present in more markets more dealers did that also play a part.

Hemant Jalan: No not really, see when you talk about new players the constant references is to JSW and to Grasim. Now, JSW can hardly be called a new entrant anymore it has been around for three years so it is not a new entrant and it has been in the paint industry for three years and is gradually expanding its footprint as you would expect any new player to do and as far as Grasim is concerned I still feel that their entry is quite some time away so I do not think that any effect of any new competition has anything to do with our decisions in this regard.

Abneesh Roy: Sure helpful; my second and last question is essentially your opening remark you made an interesting observation that you would have liked industry to take hikes, all through the year rather than very quickly which happened. My question is on the 30% of the portfolio where you are the market leader, did you take through the year that hike.

Hemant Jalan: Yes, we did and for those 30% of that portfolio, we did not wait for the rest of the industry to increase prices. Wherever, we felt that we were in a completely dominant position we did take price increases, which is why we managed to keep our head over waters a little better than the rest of the industry. But, you will notice that even for some of the differentiated products like for example if you take in the enamel segment we have a PU enamel, it is a differentiated product, it sells at about a Rs.25, Rs.30 premium to any other brand of enamel of any of the larger companies, so it is a differentiated product, we are the market leader or perhaps the only one making PU enamel, but do we have the luxury of expanding that price differential from Rs.25 to Rs.40, the answer is perhaps no, so to that extent we do get directly or indirectly linked to what the rest of the industry does in terms of pricing for some of these differentiated products not for all. You are right that we did have independence for some of those products which we exercised for some of them, we were dependent and for all the regular rest of the 70% of the portfolio there is no doubt that we are all interlinked and we are dependent on what the majors do in terms of pricing.

Abneesh Roy: Sir, one follow-up on the differentiated product is the new product which you announced essentially on the kitchen and washroom, my questions are globally is this a big product in India where it works given customer does not really pick and choose paint different paints for different rooms different colors he might choose but different price points will he do and how is the premium versus a normal paint customer will use in the kitchen and the washroom for this product the order.

Hemant Jalan: So you ask several questions. Is it going to be a very big ticket item? The answer is no. We do not expect it to be, because the surface area available for paint in both a bathroom or a kitchen is fairly small, I mean those rooms are traditionally of slightly smaller size at least the washrooms and a lot of the wall area gets covered in tiles, etc. So you do have the whole ceiling and you have the top portion of the walls that is available for painting, so it is not a huge surface area and therefore we do not expect it to be a very big ticket item as far as that is concerned. Internationally, is it a big product, I frankly have no idea and we never try to follow what international people do because the dynamics of India are very different, I mean the kind of ventilation that an Indian toilet or an Indian kitchen has is typically quite different from what is prevalent in the western countries and as regards the habit of the people is concerned, I mean about 10 years ago we launched a very unique ceiling coat paint. Now the habit was that you use white wall paint and put it on the ceiling and nobody had thought of putting a differentiated product for the ceiling, but when we launched it over time, we have had excellent traction for that product and people's habits are changed. Now, here we are talking about a very functional use. I mean everybody does suffer from unpleasant odor both in kitchens and in bathrooms and the price is a little higher than normal paint, but because the surface area and therefore the requirement of paint is fairly small, we feel that the resistance to that would be fairly low.It is not a paint with a fragrance, let me clarify, it is a paint with a special ingredient, which absorbs odor and does not permit that odor to permeate inside that room so in that way it is a path breaking product, but do we expect great turnover from that? The answer is no.

Abneesh Roy: How much is the efficacy and how long? That was the last question.

Hemant Jalan: Well, it depends partly on how much odor is emitted in those rooms, but roughly two years.

Avnesh Roy: Okay Sir, thank you that is all from my side.

Moderator: Thank you. We will move to the next question, which is from Gaurang from Haitong Securities. Please go ahead.

Gaurang: Thanks for the opportunity Sir, and congrats for good set of numbers given the context of inflationary scenario. Sir, my question is regarding the expansion strategy. You indicated that we are looking at 17,000 active dealer count and also targeting metros and tier one city, so is there some change in thought process as earlier we were looking at like fully populating the tier 2, tier 3 rural areas and then looking at the metros and tier one towns, so is there some change to that thought process with this aggressive dealer expansion.

Hemant Jalan: There is no change in the thought process. What we have consistently said is that in the paint industry the way the dynamics works starting from the metros and then working your way down to the tier 3 and tier 4 towns is a strategy, which generally never works because the brand equity requirement in metros and large cities is traditionally always the highest. The role of the influencer, that is the dealer and the painter is comparatively much less in larger cities compared to smaller towns of India and therefore, when we entered the paint industry 22 years ago, we understood and realized from trial and error that starting off with the large cities is going to be very, very difficult and therefore we started from tier 4 and tier 3 towns and have slowly been working our way up during the last 22 years. Metros and very large cities have still remained a bastion that we have not been able to conquer extremely well as our brand equity has been improving over the years, it has been progressively getting a little simpler and now we are giving a very active thrust to these big cities, which we had by and large ignored because we found that it was difficult to penetrate them. Now, we are finding that it is a lot easier to penetrate them because our brand is very well known across India and with the arsenal of differentiated products that we have, it is quite easy to enlist the support of larger dealers, so it is a natural progression. It is a progression that every paint company has been through at some point in time if you talk to the present market leader, they were in a similar situation maybe 50, 60 years ago where they found it extremely difficult to enter the big cities and the metros and old timers in those companies will tell you what a hard time they had, so it is something that happens gradually over time as your brand equity picks up and only then you are able to sell in the larger cities, and we think that the time has now come for us to enter the larger cities in a significant way.

Gaurang: Right. This would also work for some of the newer states that you would have entered like in Himachal, Punjab, so there also now the focus will be directly on the larger cities or there it would be like the lower…

Hemant Jalan: I think, we will start in the newer geographies in the smaller towns and then work our way up, but now we may not have to wait that long to enter the larger cities. State like Himachal does not have too many large cities, I mean maybe Shimla is one, but it does not have too many. Now if you look at Delhi you can call it a union territory you can call it the state depending upon your perspective. Now, that there it is a metro, now we have been progressively encroaching into Delhi from Western UP depots for the last two, three years and the eastern part of Delhi which is more contiguous to our depot at Ghaziabad, we have been feeding that part for the last two, two and a half years with a good amount of success. So we were surprised to find that there was not much resistance in a metro like Delhi for our products even though we did not have a depot inside Delhi and given our past experience we now feel the time is right to set up a depot within proper Delhi and have a sales team dedicated to Delhi, so that we can service not just the eastern part of Delhi but all regions of Delhi.

Gaurang: Okay Sir. Just, on this quarter if you can give some indication in terms of the growth rate differential between tier two, three towns versus metro and tier one towns for you?

Hemant Jalan: In the last quarter, at least, we have not seen any significant difference in the demand pattern in smaller towns versus larger towns; I think the demand pattern has been pretty uniform across all genres of towns and cities, so we have had a very similar experience in terms of demand in the smaller towns as well as in the larger cities. Of course given the fact that our presence in the very large cities is relatively low and our presence is really more in the tier 2, tier 3, tier 4 towns and the rural areas and we are trying to correct that by our current expansion in the metros and the very large cities, but that is something that is going to be a gradual process, it is not going to happen in one quarter.

Gaurang: Just finally on the RM inflation part, you indicated that things are largely stabilized and there is some minor softening since December, January, can you indicate is this for at a TIO2 or this is across the board?

Hemant Jalan: No, TIO2 has seen some softening, the biggest raw material inflation had happened with monomers that are used in emulsions and we have seen some softening of the monomer prices and therefore the emulsion prices. Over the last one and a half, two months, polypropylene prices have also shown a slightly downward trend and the container prices have come down. In many of the other smaller additives the inflation had been caused not due to any other factor, but by a global shipping crisis that had engulfed the world during Q1, Q2 and part of Q3 when containers were just not available and shipping freight rates had gone up by a factor of three to five times and that had disrupted the complete supply chain and the availability of materials and therefore led to a very sharp increase in price. By and large, we see a lot of return to normalcy as far as shipping schedules and container availabilities are concerned, so now availability of these smaller additives, each item being small by itself, but collectively they add up to a considerable amount. Their availability has eased out and with that easing out of the availability the prices have also started coming down. Overall, we do see some softening of the raw material prices; it is not huge; there are one or two raw materials where we still see some inflationary pressure, but on an overall weighted average, if we were to say, I would say the raw material prices are a little softer now than what they were two months ago.

Gaurang: Okay, and given that the RM basket as well as the logistic cost, you do not think that there is any requirement for further price increasing for you as well as for the industry.

Hemant Jalan: Well, I cannot speak on behalf of the industry, but definitely, we do not see any need for price increase for ourselves in the immediate future. If things were to again change dramatically, then I cannot say, but as things stand now at least for decorative paints, we are not expecting any significant price increase in the forthcoming quarter at least.

Gaurang: Okay Sir, that is it from me thanks and all the best.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Good morning Sir. Thanks for giving me the opportunity and congrats for a good set of numbers. My question is on the volume growth. You have given different category volume and value growth and some of your categories like putty and distempers; there the volumes have been lower, so is it because of the price increases what we have taken and there was a inventory correction at the dealer's level because as you said that demand environment both in tier 1 and tier 2, tier 3 town was similar, so just from the understanding perspective was it because of the inventory correction which happens at the dealer level or there is some other reason because emulsion did extremely well for you.

Hemant Jalan: See if you look overall and other companies do not report segment wise, volume and value data. Now look at basic arithmetic. Prior to the start of the quarter about a 6% to 7% price increase had already been affected by the industry starting from as early as May, so May, June, July there were some small price increases maybe 2% at a time so cumulatively about 6% to 7% of price increase had happened even before the quarter started. During the quarter, there has been a 14% to 15% hike in prices by the entire industry. Now granted it has happened in the middle of the quarter, so you could say that half of the material were sold at old prices and half at new prices, you could argue that 60% was sold at old prices, but even if you take 60% being sold before this huge price increase was affected, it should impact your price growth by another 6% at least, so therefore cumulatively 6% to 7% increase before the start of the quarter and at least another 6% attributable during the quarter to the price increases that happened, about a 12%, 13% price increase has happened compared to Q3 of last year for the entire industry. Therefore, if you talk an overall basis, my arithmetic tells me that the overall difference between value growth and volume growth ought to be at least 12% to 13%; the delta has to be 12% to 13% unless your product mix has changed so dramatically over the last 12 months that if the delta is much lower than that, then that means that your lower-end products have grown much, much faster in volume than your higher-end products and I doubt if such dramatic shifts happen with any company maybe 1% here and there that delta can vary. However, when you look at different product categories the behavior becomes different now emulsion is the highest contributor in overall value sale to any paint company where we have had very robust growth and therefore our value growth has gone up to 35.4% now when our overall value growth has been only 26.6% or thereabouts, naturally some other products have grown lower and because of this delta that you observe, it is entirely possible that some products have shown a slightly negative volume growth. I do not think it has anything to do with the price increase; I think it has more to do with the fact that there was very late monsoon withdrawal during this year; in fact they said that during the last 60 years, this has been the second latest monsoon withdrawal from India. Now, that affects our sales in a more significant manner because October typically has a very high weightage for the paint industry being the month just before Diwali. Now, you had rains in almost all parts of India extending all the way till the end of October, till the week before Diwali and that definitely affected demands and you should see some kind of a bounce back happening in the future months for whatever sales or people who could not paint their houses before Diwali that is a different matter, but if people are honest with themselves and quote value and volume growth across all segments, it would be natural that and we have had a fairly good value growth of 26.6% some of the other companies have reported much lower value growth, in which case their overall volume growth across all categories should average to either zero or marginally negative, I mean that is what arithmetic tells me, but of course other companies do not report such granular data, so it is hard to draw any meaningful conclusion.

Kaustubh Pawaskar: Right, thanks for the understanding. My second question is on the advertisement spend. So this quarter we have seen the ad spends remaining really flat on Y-o-Y basis and now this your strategy indicates that you are focusing more towards the metros, tier one towns to expand your reach. Considering that even though your ad spends as a percentage to say, this might be lower but on Y-o-Y basis, can you expect ad spends to grow much higher compared to what the earlier thought process was.

Hemant Jalan: Every year, for a company like us, our philosophy is not to use advertising and promotion as a counter balancing factor to adjust your bottom line on a quarter on quarter basis. So whatever was our A&P spends in the last year, you will see that there will be an absolute increase in the amount that will happen for the full financial year of this year, however because the top line grows much faster than this increase in A&P spend, therefore A&P spend as a percentage of revenue will keep declining every subsequent year now last year if you look at the full year our A&P spends as a percentage of top line was about 10.7% which was sequentially lower than what it was in FY2020 as a percentage, although the absolute amounts did increase slightly. This year also when the full year is over, you will find that the total A&P spends in absolute amounts will be larger than last year, but as a percentage of top line, it will decline. It will decline to somewhere around 8% and 8.5% or thereabouts. Now, on a quarter basis to measure A&P spends becomes difficult, especially in the last two years where we have been engulfed by this pandemic that sometimes the quarters that you want to advertise it is not possible to advertise because the country is under a lockdown and therefore you advertise only when the markets open up. So there is a little distortion between the normal timings of advertising during the pandemic periods compared to the quarters where the advertising happened in the preceding years or in a normal year. I mean take your IPL itself which is a huge consumer of advertising spends because that is a very expensive property, but a very high-impact property. Now, the timing of IPL itself has undergone a lot of change. It used to be always held in April, May; it shifted to September, October in FY2021, this year we had part of it happening in April and part happened from mid September to mid October so because of that if you compare year-on-year basis for a particular quarter, you will see some distortions until normalcy returns as far as the pandemic is concerned. If you look at the nine-month performance, our A&P spends have gone up by 32% compared to the similar period of the last year, so I maintain what I said when the whole year is over you will see a healthy growth in the overall A&P numbers, but as a percentage of top line you can expect to see a decline compared to the previous year.

Kaustubh Pawaskar: Right Sir, thanks for the understanding and all the best for the future quarters.

Moderator: Thank you. The next question is from the line of Akshen Thakkar from Fidelity International. Please go ahead.

Akshen Thakkar: Hi! Sir, congratulations on a good set of numbers. I have one question regarding the comment that you made in your presentation and also in your speech about Q4 is really strong for you and when you think margins and top line will be better. Since, we were recently listed and we have not seen the kind of seasonality play out, could you just help us understand when you talk about Q4 being a strong quarter for you, what does that translate into in terms of seasonality, I am happy to take guidance on how large Q4 is to overall here or typically do you see Q4 grow sequentially over Q3 and the reason that I asked that question is that if I see other things something.

Hemant Jalan: Can you just repeat your question because we got dropped on the call in between your question?

Akshen Thakkar: Sorry, my question was you called out strong seasonality in Q4. Could you just help us understand how that seasonality plays out and I am happy to get a number in terms of Q4 being x% of full year or sequentially you see a growth. The reason to ask this question is if I look at the numbers for other paint companies, you generally do not see that seasonality. Q4, is typically flat or maybe slightly lower compared to Q3, so I just love to get your inputs on this. Thank you.

Hemant Jalan: You are absolutely right that other companies do not show a peaked sale in Q4 whereas if you analyze our data for the last three, four years, you will always find the peaking in Q4. Now Q4 and the first half of Q1, which follows are for climate-related conditions the strongest period for the paint industry in terms of actual painting activity because this period from January all the way till May is a period, which is devoid of any monsoon rain in any part of India. However, how each company tailors its overall incentive packages to the channel make a difference between the shift from Q4 to Q1 or vice versa. Now, let me be more specific. There are some paint companies and I would not name them who like to start the fiscal year on a high note and therefore they come up with huge discounts for the channel in April. Now, that has been their pattern for all years for the last 10-15 years. What happens for those companies, is that the channel partners tend to destock the products of those companies during March in anticipation of huge discounts coming on the 1st of April and therefore for those companies Q4 sometimes becomes one of the weakest quarters and Q1 is a bumper quarter. We do not follow that pattern. In fact many of our schemes and discounts for the channel partners are heavily geared towards Q4. We have huge annual benefits for the dealer in terms of annual volume rebates as well as foreign trip schemes, etc., and therefore our sales in Q4 tend to be very high. For us Q1 is not as high a peaked quarter as it is for other companies. That is because of the policies that companies have traditionally followed, but for us Q4 is always the strongest quarter.

Akshen Thakkar: Would you be able to broadly guide that specifically how large the Q4 to your overall sales for the full year?

Hemant Jalan: I do not think I would like to give a number guidance to that because we are just getting out of the pandemic and let us see how it plays out. One thing I can assure you is that the top line in Q4 barring anything very unforeseen happening on the pandemic front, should be significantly higher than Q3, but I would hesitate to give a number guidance as to how much higher we can expect Q4 to be.

Akshen Thakkar: Sure, I appreciate that. One last question from my end. With the price hike has been taken now and as per your commentary, material prices are now sort of behaving well even though it is at an elevated level, would it be fair to say that Q4 and then obviously in the Q1 we get a better sense of where underlying profitability for you guys will be; I understand last four to six quarters have been very volatile, but would you think that Q4 and Q1 we get a better sense of where underlying profitability for the business is.

Hemant Jalan: Absolutely. Unless some other disruption happens either on the pandemic front or on the raw material front and let us pray to God that neither of the two take place. I think you should see Q4 margins coming out to be a harbinger of things to come in the subsequent quarters, so I think we would expect Q4 growth margins, EBITDA margins, everything to kind of normalize to the percentages, at which they were at or something close to that as far as Q4 is concerned and we would expect hopefully that to continue into Q1 of next year.

Akshen Thakkar: Excellent. That will be great. Thank you.

Moderator: Thank you. The next question is from the line of Chetan Gindoria from Alfa Accurate. Please go ahead.

Chetan Gindoria: Hello Sir. Thank you for the opportunity and congratulations for a great quarter. I wanted to ask with respect to our other expense line item. If I see our other expenses excluding ad spends have remained almost around 30 Crores marks for now four quarters excluding the June quarter. Despite a sharp increase in revenue, what is the reason for this generally the other expense line item here includes freight, and with volume growth the expenses should have gone up. So is there any one-off item here or have we been able to reduce our freight cost significantly.

Hemant Jalan: I think freight costs we have managed to hold them steady. Now freight cost is one of the cost items that go into other expenses, the others are by and large overheads. So overheads do not tend to change as a percentage of revenue, I mean those are mainly fixed costs, there would be all kinds of manufacturing costs that would come inside that. There would be other kinds of overheads that you face as a company and of course there is freight cost and there is advertising and promotion now you have already removed the advertising and promotion. There are administrative expenses, there are manufacturing expenses, there is outward freight, there are various other expenses and things that are remain fairly constant. Therefore, it is not surprising that freight costs and the other overheads do not change too much and even if you look at the volume growth if you add up across all sectors, in terms of actual volume you have to understand that cement, paint and putty, although it may contribute significantly less on a value basis, but on a volume basis its contribution is almost 50% because it is a low value item and a very bulky item, so I do not have the exact numbers but about 50% of the volume, very roughly, and I am giving you ballpark estimates are cement paints and putty where if you see the volume growth has been flat; it has been like 0.1%; the next bigger volume contributor is the segment of primers, distempers and others, which are again low value items; their contribution to overall value is relatively small, and there we have had a slight negative volume growth. Emulsions are the high end products and on the high-end products, the relative margin between the value and volumes are less and that is where we have seen the overall volume growth happening. Therefore, it is not surprising that freight cost during this quarter compared to Q3 of last year would have been, I would imagine, fairly flat and all the other expenses being of a fixed nature it is not surprising that the whole head of other expenses after removal of A&P would be reasonably flat.

Chetan Gindoria: Okay Sir. Secondly, with respect to our ad-spend line item. Given now that you said that ad spend is likely to decline to 8%, 8.5% of revenue, by what time do you expect this target with this ad-spend level to be achieved from next year or any further spend?

Hemant Jalan: In the current year, when the whole year is over, you will find that the A&P spends as a percentage of revenue should be down to somewhere at the 8%, 8.5% mark. If you look at it for the nine month period it is already down to 9.8%, and the fourth quarter as I said the top line will be significantly higher than any of the other three preceding quarters and with a normal level of advertising in Jan, Feb and March, its percentage contribution on the top line for Q4 will be significantly lower and therefore the 12 month averaged out figure will come to somewhere in the range of 8%, 8.5% is my rough ballpark estimate.

Chetan Gindoria: Sir. Lastly can you elaborate a bit on differentiated versus non-differentiated revenue growth for this quarter and how has been the trend and has differentiated growth been being higher and that trend has continued even for this quarter?

Hemant Jalan: See that number we have traditionally given at the end of the year and when the fourth quarter is over, for the entire year we will give you the metric as we had given last year when we were analyzing our full year results in the month of May. To give it on a quarter-by-quarter basis can get somewhat misleading because some of those differentiated products have a strong seasonality associated with it, which may or may not follow the seasonality product pattern of the other paint items, and therefore you can get distortion if you look at the growth in the differentiated products in Q2 versus Q2 of last year or Q3 versus Q3 of last year. When the whole year is over, if you go back to our presentation that we had given in May when the full year results were being analyzed we had given that percentage and we promised that we will give it that to you again at the end of the next quarter when we look at the full year in play.

Chetan Gindoria: Thank you so much Sir and I wish you all the best.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Hi! Sir. Thanks for the opportunity and congrats on good set of numbers and also special thanks for industry-leading data disclosure, detailed presentation and very patient and insightful con calls that you host. My first question pertains to, we are hearing a lot of real estate revival after the gap of almost five, seven years, so are you seeing any such project business revival in your overall revenue base and what will be the share of project business and our overall revenue?

Hemant Jalan: Our direct project business is negligible. We have not pursued that segment. The reason is that you know this project business that you talk about and the real estate players, etc., they are by and large active in the metros and the tier 1 cities. You do not find established real estate players operating in tier 2, tier 3, tier 4 towns where most construction that happens is by and large by small builders or by individual contractors people building individual bungalows for their own dwelling. Now, since our presence in the metros and the very large cities has been so far somewhat weak, which we are now actively trying to correct, it would have been wishful thinking on our part to try and attack that project business in these large cities. So we have stayed away from that as yet and it may be a couple of years before we start pursuing that. Having said that, please understand that on an overall basis the amount of paint that goes into new construction is probably around 15% and about 85% going for repainting now these numbers could be slightly different by 5% points from company-to-company depending upon its exposure in large cities versus small towns, but roughly that is the rough ballpark that we talk about. Therefore changes in real estate players fortunes which is anyway a small tip of the iceberg as far as overall construction activity in India is concerned because these players are operating in a handful of 15-20 cities in India and that is not the real Bharat, so if you want to understand the construction activity throughout the country, I think you have to look at cement consumption and construction steel consumption on an overall basis, rather than looking at the fortunes of these few listed players who are operating in large cities, but to answer your question directly, we do not pursue project business as yet in any active manner.

Tejas Shah: Very, very clear Sir. Second question is on your distribution network. How many of our 15,000 dealers will be exclusive today and is that concept still relevant. Second is just an associate question; 44% of our distribution network has tinting machine. Would it be fair to assume that 44% of this our network must be contributing 60%, 70% of our turnover?

Hemant Jalan: I have not analyzed that number in that granular detail. What was your first question before that I am sorry.

Tejas Shah: Exclusive dealers out of 15000 dealers.

Hemant Jalan: See exclusive dealer is a concept that is by and large not existent in the paint industry. It is very rare that you find a dealer who is exclusively wedded to any particular brand. Typically they would have multiple brands inside their shop. Now they may have a dominant brand, which contributes 60%, 65% of their sales. In some cases you may have a dominant brand which is contributing 90% of the sale of that particular counter, but it is extremely unheard of to find a dealer who is exclusively selling only one brand. It would be difficult for that dealer to survive, so therefore what percentage of them are exclusive dealers, it depends upon where you draw the line. How many dealers are selling 90% of their business of our brands, it would not be a very large number I do not have that number readily available, but I am sure that, that number would be definitely less than 10% of the total dealer count, it may even be less than 5% and that would pretty much be true across the industry. Now, as I said you have to define the cutoff point whether you draw it at 90%, 80% or 60% to be calling it as an exclusive dealer. If you draw the line at 100% then I would say that the answer would be zero for any company in the paint industry if they are honest about it, and it is not necessary to encourage people to exclusively sell your brand because there are various segments that are present; a paint dealer is not just selling paint, he is also selling some allied items, he is selling some thinner, some masking tape, some brushes and rollers and POP and various other adjunct materials, which by and large are catered to by the unorganized sector, and there is a market in any paint counter, there is a particular segment of consumer, who walks in who is really quality agnostic, who just wants the cheapest price. So he does not come and demand the brand he just says, "black enamel paint ekh liter dena" and the dealer understands that this guy needs cheap quality material, and he will give a material of a smaller company typically an unorganized player and they have a role to play because there is a demand for that kind of a paint. So why try and discourage a dealer and say that you only sell my particular brand. It does not affect us, also the footfall at the dealer's place improves if he is selling more than one brand, so it does not help us to try and restrict the dealer to say that you only sell my brand. First of all, please understand that that would be illegal. It would be a restrictive trade practice to tell a dealer that you should only be selling my brand and therefore a) it is illegal b) it is unethical and c) I think it is counterproductive for your own business. Let him sell as many brands as he wants to sell, that is our approach. Our brand has to stand on its merit. In terms of what value it gives to the customer, what margins it gives to the dealer, and how the painters associate with it, and if our brand has strength it will gain in the share of the counter sale that we get and that is what we aim for.

Tejas Shah: Very clear. You explained in detail how we plan to recruit new dealers based on our star products and then gradually work our way to sell the whole portfolio later, so does it mean that as of today a large part of our network what is there today **(inaudible) 67:07** our total entire portfolio or over there also it is 80-20 principle, even though on paper they are dealing with all our products but it is largely excluding…

Hemant Jalan: I am sorry; your voice is a little muffled. Can you repeat your question I did not quite get the question?

Tejas Shah: Sure Sir. I will repeat it again. You mentioned that how we are planning now a change in the strategy where we are recruiting dealers based on our star products first and then gradually work our way to sign up them to sell our entire portfolio. Now does it mean that out of the existing 15,000 dealers that we have today they were dealing in our entire portfolio and not only in our star products?

Hemant Jalan: Most of them were. Because the overall earlier strategy was that unless he is willing to sell a much wider range of products, which are beyond the differentiated exclusive products that we have, we would typically not enlist their support. Now, to say that existing 15,000 dealers were there; any dealers who were only selling exclusive products yes there would have been a few, but by and large there were dealers who were selling more than just those exclusive products. Now, the change in strategy that I was talking about applies only to the larger cities and the metros and they apply to only those geographies where we have developed a very good count of active dealers at least in the tier 2, tier 3 and tier 4 towns and then to attack these larger cities. We are saying that okay even if somebody wants to only buy two or three of these differentiated products, we are willing to make a beginning with you and we find that in less than a month 20% of them come back and say can we also buy your putty or can we also buy your primer or your emulsion and a few of them even come back and say can we also install your tinting machine which is a very welcome step and that is how that progression will happen.

Tejas Shah: Last slightly a broader landscape question. Three, four years back the industry used to be very happy with 10% addition on network expansion, be it leader or the second player, third player and we used to have count of somewhere around 60,000, 70,000 dealers, and today suddenly the leader is talking about someone 1,20,000, 1,10,000 plus kind of number and still adding very aggressively on that number. Now based on your industry experience and insights, what count of dealer the India as a market can accommodate profitably?

Hemant Jalan: See I cannot comment on what other people say. My rough feel would be that active paint dealers in the country would be roughly in the tune of about maybe between 1.3 to 1.5 lakhs. Now you have to understand that there are a whole lot of other dealers like let us say a pure hardware shop, who also sells some small amount of select lines of paints typically you, will find enamels and some other associated products also being sold in a hardware shop. You would not call him a regular paint dealer, but there is some sale of paint happening there. Now, do you count that in the overall count or do you not count that in the overall count? I do not think that there is any large proliferation happening of the number of paint dealers in the country. Now, even some of the larger paint companies whose conversation you are referring to have clarified, I think abundantly, that they have enlisted a large number of wholesalers in the country and therefore their indirect dealer count has expanded. Now, I for one do not have any objective way of quantifying the indirect dealer count that we may generate through the wholesalers because if you supply to a wholesaler whether he is servicing 60 dealers, is he servicing 200 dealers, or servicing 300 dealers that is not an accurate number that is easily available to us, so we do not wish to add that in our count and say that now the number has gone to 40,000 or 50,000 because it would be difficult for us to get that number with any degree of accuracy. When we talk about our active dealer count, we are exclusively talking about dealers whom we are billing directly. Some of them will be wholesalers who would be servicing and it is not that we have not had any wholesalers in the past, we would have had some wholesalers despite actively not pursuing them. There have been some wholesalers who have been active and who have been servicing various other dealers, but that is not included in the count that we show you.

Tejas Shah: Very, very clear. Thanks and all the best Sir.

Moderator: Thank you. The next question is from the line of Mihir P. Shah from Nomura. Please go ahead.

Mihir P. Shah: Thank you for taking my questions. Sir. I just wanted some understanding on gross margins, post the sharp price increase that you called out and you also did mention that ceteris paribus you do not require any more price hikes and gross margins can come to normalize levels. Just wanted to check with you; would this be similar to what we saw in first quarter or gross margins will come back to levels that we had witnessed at the third quarter last year levels basically?

Hemant Jalan: I am hoping that it will come back much closer to the Q3 numbers of last year. First quarter of this year, we were already halfway into this huge raw material price hike, so if you look at the first quarter of this year our gross margin was down to 45.5% whereas in Q3 of last year, it was 49.6%, so I would be extremely disappointed if our Q4 numbers are only comparable with Q1 of this year in terms of gross margin, I would expect it to be significantly higher than that and perhaps even higher than Q4 of last year. Whether they will exactly touch the Q3 numbers of last year or not is a little difficult for me to predict at this stage but I think we should be much closer to that number in Q4 than at least the Q1 numbers of this year.

Mihir P. Shah: Got it thanks for the clarity that is heartening to understand that. Sir, my second question is on segmental volumes and pricing, it is a bit counter intuitive to me that despite higher price hikes emulsions compared to putty and distempers, volume growth in emulsions is much higher versus the other two categories, I mean I understand it can be also a function of your focus areas and what you really want to push, but wanted to just check with you in your view is there any other read on the difference in volume growth?

Hemant Jalan: No there is not. I mean, first of all, for us all areas are focus areas. Of course Emulsions are the largest category and the more profitable category as far as the entire paint portfolio is concerned, therefore every paint company would like to give a special focus on emulsion, so that there is no doubt and as your tinting machine population increases, you do expect a good volume growth in emulsions which has happened. When it comes to putty which is the dominant part of that first category where we say cement, paint and putty, the dominant share of that is definitely putty now there we find some companies who are willing to sell putty at what we think is below cost for whatever strategic reasons they may have and we are not prepared to go down to those levels of pricing and suffer a negative gross margin contribution from putty just to show up volumes in that segment. So, whatever putty we sell, if we cannot sell a product profitability due to whatever competitive action that may be existing we would rather make that up in some other category rather than follow the herd mentality and drop prices to an unreasonable level where we are bleeding money in any particular category. So putty has seen a lot of intense competition from some players who have just decided to go extremely aggressive on pricing there and some companies like us have said that fine, we will sell only people who want a certain quality and are prepared to pay the price. If you look at the nine month performance, we have had a decent positive growth in putty. Now, when you analyze quarter of one particular segment versus the same quarter last year, you are likely to face some aberrations, for which it is very difficult for me to give a very valid explanation that this is the reason why the growth in this particular segment was less and in this particular segment was more. I think a more meaningful conclusion can be drawn when you take the whole year into consideration see. Especially in COVID times, I mean you have to go back and think what happened in Q3 of last year and what has happened in Q3 of this year; what has been the monsoon withdrawal pattern in Q3 last year; what has it been this year; what was the trajectory of COVID in the same period last year; what was it in this year, so there are many confounding variables that come in and it is very difficult to give a really objective answer. But internally we are tracking volume growth on a year-to-date basis, and there putty does have a decent volume growth in the nine months put together, and the exact figure for the whole year we will put out when the fourth quarter is over and we are analyzing the whole year and I think you will see a reasonably decent volume growth in putty. It would probably not be as high as emulsions because of the competitive price pressures that I have talked about but it will be significantly positive.

Mihir P. Shah: Understood, thank you.I was merely asking a question like this because I wanted to just check on your strategy and trend going forward and if a volume shift or a focus shift again comes back it may have pressure on margins linking to my first question, so I just wanted to get a check.

Hemant Jalan: No, we will not sacrifice margins just to chase top line and that has never been our strategy and to get growth at any cost is not a philosophy that we subscribe to. Yes, we would like aggressive top line growth and we have been giving fairly good top line growth numbers consistently. But we also keep an eye on the bottom line to make sure that the bottom line also continues to grow in a healthy manner and we do not throw that to the winds in the pursuit of top line growth. Our focus is there on all categories of paints and for us, we would like to show a similar growth across all categories. It does not always work out on any particular quarter.

Mihir P. Shah: Got it. Thank you very much for your understanding. I think it is quite clear. Wish you all the very best.

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

Hemant Jalan: Nothing much more to say. Thanks for being patiently on the call for almost one and a half hours. I think the best is yet to come. It has been difficult for a company like us to follow any consistent strategy during the COVID times because we have been in a stop start mode for the last two years and for a young company like us, we need a slightly uninterrupted runway time to play out the strategies the way we would like to and the way we were doing prior to the COVID pandemic. Hopefully, all that is behind us and we can think of strategizing how we wish to go ahead in a more consistent manner without having to do with unexpected stop start actions, so I think we have delivered industry beating numbers on both the top line and the bottom line as far as this is concerned. With this quarter concerned, I hope that the numbers for Q4 would be even better relative to the rest of the industry and look forward to interacting with you three months down the road. Thank you and thanks to ICICI Securities for hosting this call and thanks once again for listening in.

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