



“Berger Paints Limited
Q2 FY 23 Earnings Conference Call”

November 10, 2022



MANAGEMENT:

**MR. ABHIJIT ROY - MANAGING DIRECTOR AND
CEO**

MR. VIKASH SARDA - CFO AND VICE PRESIDENT

**MR. SUJYOTI MUKHERJEE - VICE PRESIDENT,
FINANCE AND ACCOUNTS**

MODERATOR:

**MS. SAAKSHA MANTOO - EMKAY GLOBAL
FINANCIAL SERVICES**



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Moderator:

Ladies and gentlemen, good day, and welcome to Q2 FY'23 Results Conference Call for Berger Paints India Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Abhijit Roy, Managing Director and CEO; Mr. Vikash Sarda, CFO and Vice President; Mr. Sujyoti Mukherjee, Vice President, Finance and Accounts.

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 touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Saaksha Mantoo from Emkay Global Financial Services. Thank you, and over to.

Saaksha Mantoo:

Good evening, everyone. I would like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for opening remarks. Over to you.

Sujyoti Mukherjee:

Thank you, Saaksha. Good evening, ladies and gentlemen. I extend a warm welcome to all of you to the Berger Paints quarter 2 FY'23 earnings call. Just for information, the company's presentation on the performance has been uploaded in the website and the standard disclaimer that questions should be restricted to the quarter only. With this, I will hand over to Mr. Abhijit Roy, our MD and CEO, to talk about the performance of the company before we can take your questions. Over to Mr. Roy.

Abhijit Roy:

Thank you, Sujyoti, and good evening, and a warm welcome to all of you. I will start first with a quick look at the results so far, which we have published for the second quarter, the value growth, as we see it, is 22.5% on a stand-alone basis and on consolidated, it's 20%. The operating profit growth is 4.7% on a stand-alone basis, consolidated 2.8%. On a stand-alone, if you look at the growth, 36.7% and operating profit growth, 31.9%. On a 3-year CAGR basis, we have just taken that from '19, '20 because of this COVID period, there have been ups and downs in this period, and it tends to distort the picture a little bit. The 3-year CAGR, if you look at the quarter, it's at 18.4% and 3-year EBITDA growth is 13.1%. On a half yearly basis, the 3-year CAGR is 17.3% delivered by us and operating profit got 11% so far.



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If we look more into the debt, the decorative business continued to grow well in the quarter 2. We registered double-digit volume growth and a value growth about 23% plus. We gained significant market share up to the half year mark from 18% to 18.8%, going by the figures, which have been published by the 5 leading players whose results are declared already and they're traded in the stock market. If we look at the reasons for the type of growth that we have had so far in top line, network expansion, there has been a significant increase in the number of dealers added in this quarter. We have been adding on an average about 3,000 to 4,000 machines per year. And in the half year month, we typically used to do about 1,500 to 1,800. This quarter, we have almost doubled that number or closer to 1.8x that number. We installed about 3,200 machines in this particular half year period. Up to 2022 September end, our numbers were posted of 1,800, 1,700, 1,800 for the half year, it's about 3,200. We expect that this network expansion drive will continue through the year.

The second part is non-machine dealers also, we added a fairly large number. This is mainly through the distributors. These include not only paint but also non-paint dealers who got a bit. That number is in excess of 2,000 that we added in the first half, and we expect to maintain a similar number or slightly increase it in the second half. P1, P2 and P3 cities also high double-digit growth over corresponding quarter last year. Rural markets grew at a slower pace, especially in the North Central region. Construction chemical segment registered strong growth in the quarter. We introduced 3 new products in this quarter, Silk Glamor in the matt finish range is a demand, which is picking up in matt finish specially in the northern area. And this product has been introduced for that purpose. And then there were 2 products which we introduced in the waterproofing area, one called Dampstop Advanced.

It's used to basically repair if there is dampness there on the wall without having to break open the wall and then go right to the brick surface. This can be applied by just removing the paint coat and the putty coat and then this particular chemical can be applied, and it will do a very good job of waterproofing. This comes under the name Dampstop Advanced. Then we introduced another product called Dampstop Duo, which is basically a primer with inbuilt waterproofing property. So it does the job of a primer coat. At the same time, it does also water proofing. Both these products have just been introduced and is doing very well and well received in the marketplace.

In the industrial side, we have GI and auto business, which showed good growth during the quarter. As we all know, the



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auto industry has revised on what even the 2-wheeler industry has done slightly better than what they have been doing so far. The commercial vehicle, of course, is growing at a much faster pace on a lower base. So these 2 categories in which we are heavily present are doing well. The general industry strategy also has done reasonably well in this quarter. Protective coatings in which we are the leader in India continues to grow very strongly and registered another strong quarterly growth in quarter 2. Significant price increases were achieved in the industrial business lines. Some of it came also in September and then in October as well. So the impact will be felt much more possibly in the third quarter in terms of improvement of the profitability of the industrial business plan.

Powder Coatings business line had a negative growth impacted by the slowdown in the business of tan manufacturers on account of certain regulatory changes, which are to come into effect from the first of January 2023. However, this business line has a very small contribution to our total top line and therefore, hasn't had any great significant impact, but it did have a little bit of a drag on the overall growth rate. Profitability. Raw material as a percentage of sales went up mainly on account of material price increases, partly offset by increase in product prices. There was no significant product price increase taken in quarter 2. We did take a small price increase, which was there. As the industry took the price increase, we also took the same amount of price increase. However, the raw material prices went up much more.

We did not take up the prices again in that quarter because the prices have started softening from August onwards. And we could see that it is going downwards. So there's no point taking up the prices of finished products and then reducing it again. And so we retained our prices in quarter 2. Quarter 3, the raw material prices are likely to soften compared to what it was last year and what it was in quarter 2. And therefore, there will be an expansion in gross margin in Q3. Softening of monomer and solvent prices have happened and has remained at those lower levels. For platinum assets prices have also started moving down and is also softening a little bit. Profitability for the quarter was also impacted on account of an inclusion of onetime subsidy income of INR18.7 crore last year in the same quarter. If you remove this, then of course, the operating profit percentage would move up significantly. Mix improvement likely in quarter 3 and quarter 4 on the back of increased sales of exterior wall coatings and water proofing items, which has high gross margin.



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Regarding capacity, we have set up this for some time. We have been working on this new facility at Sandila. It is now almost ready for production years, just waiting for the final certifications and other approvals that are required. And we should be able to kick start production from the month of December. Estimated outlay for this entire project was slightly in excess of INR1,000 crore. The potential increase in capacity will be in a 2-shift basis, almost 33% increase in capacity will happen. So that's a significant addition to our capacity from 1 plant, fairly large plant, and this is the largest for us in India. Company has also acquired 30 acres of land in Panagarh in West Bengal for the manufacturing of Construction Chemicals, resin and industrial products, estimated outlay is about INR175 crore. Further brownfield expansions in Hindupur for solvent and resin and Rishra for emulsions and water-based expansion is underway and should be ready by next year.

I have already discussed about the financial performance. That is 22.5% on a stand-alone basis top line growth, 4.7% PBDIT growth. And then if you look at the growth in terms of the stand-alone half year numbers, total income growth 36.7% Operating profit was 31.9%, PAT growth of 30%. Results are all there and uploaded. I will not dwell too much into that. What I'll move on to is the performance quarter-on-quarter. And if you look at the 2-year performance as a CAGR as well, has been pretty strong. And even on a 3-year basis, it's been, as I had read out to you earlier, a strong double-digit number. And operating profit growth too, the number is in double-digit if you take the 2-year, 3- year CAGR for half yearly results.

For the quarter, typically, the 2 quarters last year and this year as well in second quarter raw material prices are standard to peak and then at slope downwards. So the quarter has been a bit impacted in both the years, last year and this year, though we have said and we have actually grown positively last year, only 1 company in the entire chain domain, which have done so. But this year, it has impacted, and the growth rate that we could have seen was slightly lower. Gross margin trends, more or less, it has been hovering around similar levels for the last few quarters at around that mark of 35%, likely to move up, as I mentioned, in quarter 3 and quarter 4 because of the softening primarily of raw materials and also a positive mix change in these 2 quarters.

Consol results on similar lines of stand-alone, slightly pulled down by the Bolix operations, the Poland operation that we have, the Ukraine war, which has been impacted. The Poland results are, therefore, slightly below what they normally do. It's been negative in quarter 2 as well. And that's why, I mean,



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against the delivery of top line of 22.5% in the stand-alone, in the consolidated results, you see a lowering of that to 20%, primarily due to the Bolix Poland operation. On the other figures that you have in the presentation is already there with you. So I won't get into the details. I would just speak about the consol performances of various companies within BJN Nepal had a good quarter of performance, both on the top line and profitability. The Polish subsidiary, Bolix S.A had grown, as I mentioned, both in top line and profitability impacted by the Ukraine war and high inflation there, negatively impacting the consolidated numbers.

STP showed strong double-digit growth on both sales and profits, which is our construction clinical company, which we acquired about 3 years back is doing very well and growing well on sales and profits during the year, aided by improvement in gross margin there. Specialty Coatings, Saboo Coatings had a flat top line growth and a muted profit growth. The top line growth was low due to the tan industry, in fact, just like we faced the same problem in powdered coatings within Berger. The Saboo Coatings recently also had a problem there, but it is going to recover very strongly in the Q3 and Q4 period when the tan industry starts now filling up the pipeline, producing much more. So this growth will come back. Company's joint ventures, Berger Nippon Paint Automotive Coatings and Berger Becker Coatings, both registered strong performance on top line and profitability weighted by product price increases.

Outlook. Demand in urban markets looks encouraging, hoping for an uptick in the rural demand as well on the back of good monsoon, mix improvement is likely in the coming quarters, supported by increased sale of exterior coating. Industrial sales outflow remains strong on the back of growth in auto sector and government spending in infrastructure. Key raw material prices like monomers and solvent softened towards the end of Q2 and likely to remain so in Q3 and Q4. However, exchange rate depreciation on account of strong U.S. dollar may be a concern. That's all that we have to say from our side, open for questions. Thank you.

Moderator:

We take the first question from the line of Vishal Punmiya from Nirmal Bang Institutional Equities. Please go ahead.

Vishal Punmiya:

So I actually had a question on the overall demand environment. So would you be kind enough, if you can just help us understand how things are standing out within the quarter, across product categories as well as regions? And as you called out that the volume growth for the quarter was in



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double digits. So was it in low double digit? And if the volume growth was in 11%, 20% range. It seems that there is a recent improvement in the volume growth momentum compared to the previous quarter. So what are the key drivers of this improvement?

Abhijit Roy:

Right. Thank you,. I'll just answer 2 of you. One is the demand outlook, which was there. Our demand situation which was there in quarter 2. Quarter 2 demand was pretty robust, I would say. As you heard, we did have a double-digit volume growth that double-digit volume growth was in the lower double digits, as you rightly said, it was about 11-odd percentage. And the value growth in Decorative was to the tune of 23% plus. Industrial in some of the categories, it was higher, in some it was lower. So on an average, it was very similar to the Decorative side, slightly lower than that. So this was the case as far as the second quarter is concerned. You asked another question which was related to, what was the question?

Vishal Punmiya:

The key drivers of this growth or the product, the regions which did.

Abhijit Roy:

Right. So mostly the urban markets did fairly well. Compared to the rural area, there was stronger growth in the urban market for us. Some of the product categories, which did well, some of the emulsion categories is fairly well for us, especially the luxury premium type of category in the interior space, exterior growth was muted. The waterproofing grew very well in the second quarter as well. So overall, if you look at it, the situation was very stable as far as demand growth was concerned. So one area of concern was the escalating raw material prices, which then started softening towards the end of the quarter.

Vishal Punmiya:

Okay. So if I just do an included realization for the quarter, if I just take the standalone sales growth of around 22.5% and the volume growth of 11%. So the total realization for this quarter is around 11% or 12%. This is obviously lower than the 18.5% seen in the previous quarter. And we have called out that the premium segment actually did well, and urban markets did well in 2Q. So what is actually leading to this lower realization for the quarter?

Abhijit Roy:

So there are 2 reasons for it. One is in the Premium segment, we did well only in the interior, the exterior category was very badly affected because of excessive rains. So that was the reason and some of the price increases that have happened were in categories, which were linked to the exterior category. And hence, if you look at the price increases that we have



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taken, there are certain categories where there has been negligible price increase. There are certain categories where there has been very minimal or moderate price increases. And there are some categories where we have heavier price increases.

Unfortunately, the mix that is taken into account while calculating this 22% or 21% and why is it now 12%, that takes into account the average mix for the year. And quarter-to-quarter, there is significant variation which happened. During the quarter of this July, August, September, which is a rainy season, most of the material we sell is enamel, distemper, primer, putty and then interiors emulsions because in exterior remains impacted. So in case of, for example, putty or for that matter, some of the water proofing items, there was no price increase at all. And therefore, it will tend to impact overall realization that will happen. But we will see the realization improve if it had been a normal mix. So this is the reason why this variation tends to happen.

Moderator: We take the next question from the line of Mr. Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Am I audible?

Abhijit Roy: Yes, yes. I can hear you, Avi.

Avi Mehta: Sir, I wanted to understand the margin profile a little better. Basically, this time, we saw a high-cost RM, which you didn't pass on completely. But as we go forward, mix is improving, input costs are also kind of moderating. So from that sense, if I see at the last quarter, you said normalized gross margin should be more like 37%, 38% should we not see that kind of starting to may be beyond that also in the next quarter itself? Or is there anything that we should be watching out for?

Abhijit Roy: You're right, Avi. It will move up to that level about the range of 37% to 38% is what I would expect at the end of quarter 3. And because some of the raw material is still there in October, for example, which was still being consumed of higher vintage. But it will go back to that range of about 37% to 38% in the third quarter is what I would expect. And subsequently, in the fourth quarter, if things remain at these levels, then we must see a slightly higher improvement on that as well.

Avi Mehta: Okay. So very clear. So the second bit I wanted to understand is on the CapEx side. Now we have just commissioned the large capacity that you are working on for so long. But there has been announced by other players about wanting to do



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backward integration as well. Wanted to hear your thoughts whether would you kind of want to evaluate that or where we are in terms of capacity? Just get your views on that front.

Abhijit Roy:

Right. So as far as the capacity addition is concerned, it was very much needed by us. At the rate at which we are growing we would have reached about in normal circumstances, in a normal month, we would be around 80%, 85% type of capacity level. And in seasonal months, we tend to struggle to supply. So therefore, this is a much needed addition and it will suffice our needs for the next 2, 2.5 years maybe 3 years. We will have to look for additional capacity either brownfield or greenfield after that.

As far as the second part is concerned of backward integration, I presume you are talking in terms of the leader who have announced certain things and certain moves. We are not looking at that area. We don't use VAM or VAM ethylene in any of our products so far. We are not into a basis where the consumption of VAM is higher. We are not into certain other types of categories which they might be thinking of. Actually, this VAM and VAM ethylene can also be especially VAM ethylene is an ingredient as far as product called RD polymer, which can be made out of this. But it can be made also from acrylic-based technologies. And we are working on that direction rather than the VAM ethylene direction.

Avi Mehta:

Got it, sir. Got it. So I mean, sir, as a concept, just wanted to understand capacity, is that a way to argue for competitive strength in any manner? Or do you kind of argue on that? Or is it much more nuance than that? Like to hear your views on that front? Just a broader question, given that a lot of capacity addition is being planned in this industry. So I wanted to understand just would that change the competitive dynamics? Is that a competitive advantage? And how do you see that?

Abhijit Roy:

So I've been in this industry for a long time now. I don't think this is really a competitive advantage. As and when the demand is rising, I'm sure anyone and everyone will put up the capacity required for this purpose of servicing this coming up demand. Upcoming demand when you see the projection, we keep doing that projection on a 3-year cycle. And whenever it is required that the investment needs to be made, that is the time when one should make the investment. I don't see this as a big competitive as some of the commodity categories, like which you scale up and become very big, you tend to gain advantage. In this case, that is not the case. So therefore,



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capacity addition by itself is of no great consequence or it doesn't add to any competitive advantage.

Moderator: We take the next question from the line of Mr. Harsh Shah from InCred. Please go ahead.

Harsh Shah: Sir, my question is more on the net of expansion. We've added close to 6,000 sales point and more than 3,000 tinting machines in the first half, which is kind of 2x of what we do on an annual basis. So I would like to understand what are your plans for the next 12 to 18 months on the expansion front?

Abhijit Roy: I didn't get it where you got the number of 6,000 machines being added in the first half.

Harsh Shah: No, no, 6,000, 6,000 number of sales points that you mentioned in your presentation. So both on the number of dealers as well as the tinting machine, right? I think the expansion in the first 6 months has been I mean, more than what we do on an annual basis, right? So what's your plan for over the next 12 to 18 months in this area?

Abhijit Roy: Yes. So as far as the this area is concerned, as you know, we are the number 2 player, but there are a large number of pockets where we are very weekly represented on the ground. And it was very necessary that we ramped up our presence in many of these markets. That's what we are doing, filling up the gaps to the extent possible. And this ramping up will continue. So you can take it that in the second half as well. We had a similar pace or slightly higher than this in the second half. And this will continue for the next 1 to 2 years going forward because this needs to be done in order to penetrate the market in large spaces and parts of India where we are weekly represented.

Harsh Shah: Okay. So basically, which basically tier cities would we see and which town classes would these be largely in Tier 2, Tier 3 cities or it's spread across both metros and tier to tier cities expansion, sir?

Abhijit Roy: Largely Tier 2, Tier 3 cities in our country areas, especially in domains in the South and the West, where we are less present there.

Harsh Shah: Okay. Okay. And sir, could you help me with the current count? I mean the total dealer count on September and total tinting machine count on September?



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- Abhijit Roy:** Well, our total tinting machine numbers will be somewhere around 36,000, 37,000 possibly. Exact numbers, I don't have with me now, but somewhere around that number if you do. Then the dealer count numbers will be slightly higher than that. Typically, the gap between the printing machine dealers and the non-printing machine dealers is varying between 5,000 to 7,000, you can add that number to it.
- Harsh Shah:** Okay. So this is this number, let's say, close to 45,000 odd numbers is the active dealer count, right, or the total dealer count?
- Abhijit Roy:** How you define active, it depends on that. A lot of companies define active in different ways. So if some companies define it as single liter builder as active, some companies define a consistent number of liters builders as active. It depends on how you define. I am talking of at least doing certain amount of sale in a year. And that is how we define an active dealer and that number is what I'm talking about.
- Harsh Shah:** Okay. Okay. Sure, sure. And sir, second bit on the construction chemicals brand, sir, I mean, if you could give numbers, how big would that be as a percentage of our overall business now?
- Abhijit Roy:** So it's improving. And then because it is growing much faster, it is becoming increasingly important. Exact percentage, I won't be able to tell you, but it is becoming significant gradually.
- Harsh Shah:** Okay. So is much of the kind of improvement, which we are getting here more from the project side of the business or it's split evenly between B2B and B2C, specifically for contracting chemicals?
- Abhijit Roy:** Much of it today is on the retail side. Some amount is also now gaining traction on the project side as well. And I think going forward, both of this will continue to grow.
- Harsh Shah:** Okay. Okay. And sir, lastly, on the project business, sir. Has the growth been more than the overall company growth for us for the current quarter?
- Abhijit Roy:** Slightly more, which is similar almost.
- Harsh Shah:** Okay. And what would be the contribution to the overall business for a project pace? I mean, high single digits, low double digits. Would that be fair enough.



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- Abhijit Roy:** No. It's about I would say high single digits as of now to the total overall sale.
- Moderator:** We take the next question from the line of Mr. Mihir Shah from Nomura. Please go ahead.
- Mihir Shah:** So firstly, on the near-term demand, we believe October has seen an extended monsoon and some players have already called out that demand in October is kind of muted. Can one say that volume growth can be impacted in the third quarter because of this phenomenon?
- Abhijit Roy:** So it's difficult to say whether the volume growth will be impacted and to what extent. It will all depend on November and December. Yes, the rains did impact in the first 15 days. The overall sales was impacted. There were many holidays as well. So that also created some amount of turbulence and disturbance in the whole system. We did manage to grow. But obviously, the growth rate was not at the pace at which we were doing earlier. But we expect that in November and December, some of that growth will come back because some of it would have been postponed because of the rain. Typically, we have seen even in the COVID period, that when the COVID got over, it started picking up. Painting and pain tends to get in a postpone, whether it will be coming in November, December or whether it comes in Jan-Feb-March it's difficult to say. But we expect an upturn in November and December to make up for some of the losses in demand growth that would have happened in October.
- Mihir Shah:** Precisely, sir. I exactly was wanting to ask that, that given festive demand was due and with festive days passing by, will this demand come back immediately or probably just next year? But I hear your point, sir. Sir, secondly, I wanted to check on the pricing front. If last year, during November and December, all big players have taken sharp price hikes, and that will anniversaries now. And intimately, I believe, given the raw material prices are softening, there is no further requirement as of now to take price increases. And so volume growth being where it is, value growth will also start seeing muted because of absence of price hikes of price-led growth. So in that context, what would be your thoughts? And how should we think or look going forward from that point of view?
- Abhijit Roy:** Yes. So you're right that the volume value differencing that we were getting earlier obviously, will get reduced because there were some of them which happened in November with price increases last year and some happened in December last year. A few of them happened in January, February as well.



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But the impact on the percentage of difference between volume and value will get reduced in the third quarter. So if volume growth and value growth difference that we got this quarter was 12%, in forward that we get much reduced in the third quarter. However, the mix will change. So we will get some impact of that still. And the second part of it is it depends on the volume growth that we registered ultimately at the end of December. So we have to wait and see how it happens.

Mihir Shah:

Understood, sir. And sir, my last question actually, just wanted to hear your thought on the entire capacity increase that we are hearing across all key paint players across the board. So everybody really called out large capacity increase on the onset of a huge CapEx caught up by grossing. Can one consider would there be a risk of industry undergoing overcapacity in a couple of years' time, given growth is what it is? And because of so much of large capacity coming on stream at the same time, can there be a risk of overcapacity at all? I mean or there is ample of still space for everybody to continue the similar volume trajectory that we are doing right now in the near to medium term, sir?

Abhijit Roy:

So from our perspective, I mentioned that earlier as well, that we don't invest in advance hoping for something to happen. So we are investing seeing that we are already reaching a stage where we are not able to fulfill our demand that is growing every year with our existing capacity. So we have put up this capacity at Lucknow primarily to cater to our demand. If the demand doesn't fall precipitously and continues to grow, which I expect that we will continue to grow at a reasonably good pace going forward as well, then I see no reason, in fact, we may have to look for more additional capacity as far as we are concerned. What others are doing, why they are doing whether they will have something in terms of demand and whether they will be able to justify the investment is for them to understand. As far as we are concerned, I don't see that. And even if you look at the industry, this is not like a commodity category, like cement, if you have a glut and the prices start dropping because we have to have an operating ratio and you have to operate the plant and there's a fixed cost involved, there is no such great issue there. So possibly other people, if they don't have a demand, they will operate at lesser levels. Some amount of cost increase might happen, but it won't be significant.

Moderator:

We take the next question from the line of Mr. Tejash Shah from Spark Capital. Please go ahead.



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Tejash Shah:

A couple of questions from my side. Sir, first question is we are seeing this rapid distribution network expansion across in the industry. And we are also actually doing a very converse on that count. So just wanted to know, is it that we are adding existing paint dealers into our network or we are expanding the network itself by converting non-paint dealers into paint dealers?

Abhijit Roy:

Right. So both is happening. One of them, the machines are typically going mostly into paint dealer counters. A few of them also in non-paint dealers but mostly in pain dealer counters. As far as the non-paint retail expansion that is happening, those are primarily non-paint dealers. They may be hardware dealers, they may be pipe dealers, they may be cement dealers, it can be anything. And they are building material dealers, and we are expanding there. There is a need for normal paint without the machines also, which can be sold easily. And later on in some of these counters, they will move into good paint counter, where we can install our machines at a later date.

Tejash Shah:

Yes. So sir, does it mean that going forward, as you think more and more non-paint dealers into the network, the predictability of numbers or revenue that we use dealer onshore, it loses relevance in terms of what we used to do earlier, it's a throughput per dealer and we should see more of it as a kind of protecting the more or expanding the more tactical or a strategic mode rather than approved prior by itself. Is that a fair understanding?

Abhijit Roy:

No, I think this is very much required in a country like India, you need to get your presence there and availability of material is very necessary. As I said, we are very weakly represented in many parts of the country, especially in the South and West upcountry areas. We need to improve our presence there. We have a necessity of actually putting up any form of retail counter, whether with machine or without machine to have our presence in those markets, which is strategic growth opportunity for us. I don't see it as a tactical move.

Tejash Shah:

Fair enough, sir. Second, the announcement that we have seen from cement creating into our stores, the impact on demand, the distribution will come to formally launch the product. But are you sensing any pressure on talent crunch or talent retention? You have already seen 1 company announcing shop plans for the employees for the first time. There also we are picking up from like in that attrition is very high. So any thoughts on that?



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Abhijit Roy:

So some amount of attrition will happen. Obviously, there is a loss of manpower, which is expected when newcomers come in, they look for experience people from existing players. And then therefore, a little bit of attrition will happen. We, however, have our own policies in place, structures in place. We have ESOPs running for a long time, in fact, in our company. And in our case, it goes down right up to the area manager level. And then many of them have benefited immensely out of it. We try and retain our talent as much as possible. But there will be a little bit of attrition, which is expected, and we are prepared for it.

Tejash Shah:

Sure. And sir, lastly, if you can comment on competitive intensity currently in terms of reports and discounts by peers and the industry in general.

Abhijit Roy:

I would say that in a normal level, in fact, previous year, there was more rebating going on, especially from the market leader. This year, there has been lesser lessening of that intensity of rebate possibly a little bit. And therefore, going forward, I don't know, but the situation is pretty normal now. It's a competitive industry, there will be a standard level of rebates and spikes, which will go on and that happens and that carries on.

Moderator:

We take the next question from the line of Mr. Varun Singh from IDBI Capital. Please go ahead.

Varun Singh:

Two questions. First on, in waterproofing business, sir, how much we have been able to leverage our existing distribution channel? So if you can give some objective understanding over there. And also with regard to how we make to grow that category, so maybe if you can give an example that if excess distribution reach as then in what percentage we are able to sell our waterproofing products?

Abhijit Roy:

Right. So water proofing product sells through 2 different channels. One is, of course, retail distribution channel that we have in many of the products which are there is actually can be sold through the paint channel because the repair is part of it happens through the paint network itself and so wherever I think a fairly strong reach is there as far as the paint network is concerned. It also sells through the cement retail network. We haven't made any great attempt there in the cement retail network. So that's an opportunity area which exist. The third part of it is the project segment. And in that, we are utilizing our project team to sell the waterproofing products. There is a growth opportunity available in the project segment, and I think we will accelerate our growth in that area in the near future.



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- Varun Singh:** Sir, in the paint retail outlets roughly, what percentage of the outlets we would be able to sell our product as of today?
- Abhijit Roy:** So we don't calculate it in that way. I don't have the numbers, but it will be fairly large.
- Varun Singh:** Ballpark estimate is it like 30%, 40% or 20%, 30%.
- Abhijit Roy:** Yes. It should be beyond that. 30%, 35% should definitely be there, which we'll be selling our waterproofing products.
- Varun Singh:** Okay. Sure, sir. And sir, my second question is on emerging competition. So if you can give some understanding with regards to how competition is settings, for example, Indigo Paints or JSW Paints et cetera, in the market where we are already strong. Any thoughts comment over there would be highly appreciated.
- Abhijit Roy:** So we have been going at a fairly, as you can see from the figures, and we have been gaining market share. So we are happy with what we are doing. We have our own strategy in place. Competition is there and will be there. I don't see any of these players impacting so far in any significant way our strategy or our growth plans. So that's going on as per plan, and we are growing.
- Varun Singh:** Okay. So that means no market share loss in anyhow of the existing player?
- Abhijit Roy:** No. We have gained market share. We made the presentation, and we also show that we have actually gained market share over the last 4, 5 years, we've been gaining gradually. And this year, half year 2, we have gained market share in the marketplace.
- Moderator:** We take the next question from the line of Mr. Akshen Thakkar from Fidelity. Please go ahead.
- Akshen Thakkar:** Yes. Sorry, 2 questions. Just to clarify, you mentioned the gap between value and volume growth, which is about 10% this quarter goes down. Is it possible to quantify in the sense Q3 last year would have seen high single-digit price hikes? So that this come down to like low to mid-single digit, the gap between the 2? That's question one. And then question 2 was around the Poland business. Could you just clarify for us as to how the business is growing? I think last year, in the annual report that you mentioned the turnover over there about INR 375 crore in INR terms, given the kind of geopolitical tension that you're



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seeing in that geography, how is that business behaving question?

Abhijit Roy:

So the gap, yes, you are right that the gap between the volume and the value will get reduced. It was about 12-odd percentage in quarter 2, but it will come to single digit in quarter 3. At what single digit will depend on the mix, but it will definitely be lower than the gap that existed in quarter 2. As far as the Poland business is concerned, you are right on the figure, it is actually degrowing in Poland. So that is why it impacted our consolidated sales. In quarter 2, it had a degrowth. And in quarter 3 as well, we are expecting that there will be a marginal degrowth there as well.

Moderator:

We'll take the next question from the line of Mr. Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Sorry to belabor the point, but I also just wanted to ask this volume value gap, which is 12%. This 12% has 2 elements. One is the pure price increases and one is the mix impact. So if I try to disaggregate this 2, would you say that the pure price increase is somewhere around the 20% Y-o-Y and the mix impact is 8%? Or are the numbers something else?

Abhijit Roy:

No. Okay. Let me clarify this once again, maybe I have not been able to explain this properly. This 20% that you mentioned is on an average, if you take a look at the entire year's average and a product mix, if you take a look at that, you will get a 20% type of an increase. However, what happens is in this monsoon season, it's a different type of a market, torrential rain happening. You don't expect that exterior anything will happen, right? And therefore, it tends to change the mix completely and quite a dramatic shift which happens. So those who are in the paint industry for a long time know that in this period, it is typically the wholesaling stocking up which happens, enamel, distemper, primer, putty, et cetera, and then low-end type of products, which sell. So that's the problem of the mix, which is created.

Now when the price increases took place last year, much of the price increases were actually in exterior products or in certain other products where the increases were substantial. In some product categories like enamel it was much depressed in terms of the increase. The total increased percentage was much lower. And similarly, in putty, there was barely any price increase. Similarly in terms of some of the other product categories also, there were very little price increases. As a result of that, when these type of products grew and the other products where the price increases happened did not grow,



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some of them declined actually a little bit. Therefore, the overall impact was like that.

Now whether this will carry on and you can now project it onto the other quarters, it's not possible to say because it won't happen that way, right? Because in the third quarter, the whole mix will change and the percentage will change. So I can't comment on that, so whether it is 20% minus 12%, therefore, 8% is the rate and the mix will reverse this quarter or not. That won't happen in that way. It depends on the type of products and the mix that we generate in the third quarter.

Percy Panthaki:

Understood. Understood. I understand what you're saying, but I'll just simplify my question. My question is that the mix that you had this quarter and the mix that you had in 2Q of last year is materially different? Or is that mix more or less on a Y-o-Y basis, the mix is roughly the same?

Abhijit Roy:

That is roughly the same. There was some deterioration in the mix this year on account of the excessive rainfall that was there this year. And so that is the reason why it got a little bit distorted compared to last year's quarter 2.

Moderator:

We take the next question from the line of Mr. Avi Mehta from Macquarie. Please go ahead.

Avi Mehta:

I just had a bookkeeping question. I wanted to understand the reason for the increase in the receivable days or better things. Has there been any change in the mix, which has driven that? Or is it because the dealer terms have changed?

Abhijit Roy:

No, dealer terms haven't changed, Avi. So it's primarily that there has been I think the prices have gone up substantially for most of the finish goods. So on money flows there is a limited money flow only. So there has been little bit of 2, 3 days of delay in terms of number of days that you are seeing in the receivables. But receivables is well within control. There is no cause of worry at all.

Avi Mehta:

So just some liquidity there. That's all.

Abhijit Roy:

It is a liquidity-related issue, which will settle down soon.

Moderator:

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

Abhijit Roy:

Thank you all for coming and attending to this session. I hope we have been able to clarify most of your questions. All the



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best to you, and have a nice weekend, which is coming up. And thank you very much once again.

Moderator:

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.