



INDIGO

Be surprised!

Date: May 19, 2021

To, BSE Limited Corporate Relationship Department 25 th Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001 Scrip Code: 543258	To National Stock Exchange of India Limited Exchange Plaza, Plot No. C-1, Block G, Bandra Kurla Complex, Bandra (East) Mumbai - 400051 NSE SYMBOL: INDIGOPNTS
--	--

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call.

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings call held with the analyst and investors on May 14, 2021 at 16.30 hrs (IST) to discuss the Audited Financial Results of the Company for the quarter and year ended March 31, 2021.

The above information will also be made available on the website of the company www.indigopaints.com

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited

(formerly known as Indigo Paints Private Limited)

Sujoy Sudipta Bose
Company Secretary & Compliance Officer



Encl: as above





“Indigo Paints Limited
Q4 FY2021 Earnings Conference Call”

May 14, 2021



ANALYST: MR. MANOJ MENON – HEAD OF RESEARCH – ICICI SECURITIES LIMITED

MANAGEMENT: MR. HEMANT JALAN - CHAIRMAN & MANAGING DIRECTOR – INDIGO PAINTS LIMITED
MR. T. S. SURESH BABU - CHIEF OPERATING OFFICER - INDIGO PAINTS LIMITED
MR. CHETAN HUMANE - CHIEF FINANCIAL OFFICER - INDIGO PAINTS LIMITED
MR. SRIHARI SANTHAKUMAR – DEPUTY GENERAL MANAGER (FINANCE) INVESTOR RELATIONS & TREASURY- INDIGO PAINTS LIMITED



Indigo Paints Limited
May 14, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2021 Earnings Conference Call of Indigo Paints hosted by ICICI Securities Limited. 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 now hand the conference over to Mr. Manoj Menon, Head of Research, ICICI Securities. Thank you and over to you Sir!

Manoj Menon: Good morning, good afternoon, good evening depending on which part of the world you are joining from. I hope all of you are safe and healthy, God bless. At ISEC it is our absolute pleasure to host the first results conference call of Indigo Paints. The management is represented by the Chairman and Managing Director, COO, the CFO and Investor Relations. At ISEC we have recently initiated on Indigo Paints with an add rating and the target price of Rs.2750. We are long-term believers in Indigo Paints story for four reasons. One, on the product differentiation platform and secondly a brand which are significantly invested in share of voice more than the share of market and the third one is on the differentiated distribution and the fourth what we believe at the industry leading HR policies. Now over to Mr. Srihari from Indigo Paints for further proceedings. Thank you so much.

Srihari Santhakumar: Thanks Manoj. Good evening everyone. Welcome to the first earnings call from Indigo Paints. Today on the management call, we have Mr. Hemant Jalan, our Chairman and Managing Director, Mr. T S Suresh Babu who is our Chief Operating Officer, Mr. Chetan Humane, our Chief Financial Officer and myself, I am Srihari, I am looking after Investor Relation here at Indigo Paints. For the benefit of the investors, we have uploaded a brief presentation in both the stock exchanges, highlighting the financial updates as well as our KPI metrics. Over to Mr. Jalan for opening remarks!

Hemant Jalan: Thank you all. Thank you Manoj and thanks for all the participants for joining in on the first earnings call of Indigo Paints. We sincerely hope that you and your family are keeping safe in these rather difficult times.

As you are all aware our company had the successful IPO in January this year and we were listed on the stock exchanges on February 2, 2021. The quantum of the IPO was about Rs.1169 Crores of which the primary component was about Rs.300 Crores. The issue was extremely well received by the investor community and the issue was subscribed 117 times overall. There was excellent participation by marquee institutional investors from across the



Indigo Paints Limited
May 14, 2021

globe. Immediately following the IPO, the company fully repaid its small outstanding debt in accordance with the stated objects of the IPO issue and became completely debt free.

As you all know the last financial year started on a very difficult note with the national lockdown which started from mid March and extended through April and for most parts of May; however, during the first COVID wave, the smaller towns and rural areas of India were relatively less impacted and we witnessed an excellent bounce back in sales starting as early as May 2020 which gradually got better as the year progressed. There was no impact on the cash flow position of the company. Thanks to the excellent support we received from our dealer network. There were absolutely no lay-offs of any employee, in fact we gave healthy increments to our entire employee pool in June 2020 including payment of all variable pay and bonus components and extended full support to them during COVID times. This year we have given another round of annual increments in April 2021 and we continue to support our employee pool during the second current COVID wave.

Recurring capex investments continued at all our three manufacturing locations at Rajasthan, Kerala and Tamil Nadu with modest capacity enhancements. We are one of the very few paint companies that manufactures all its putty in-house rather than being outsourced as most of our other listed payers do and during last year we doubled our putty manufacturing capacity at our Rajasthan plant. We also acquired an additional 17 acres of land adjoining our existing Tamil Nadu factory where we are in the process of setting up a large water based paint plant as disclosed in the objects of our IPO issue.

I will first briefly touch upon the salient financials for Q3 and Q4 before moving onto a more detailed discussion on the overall financials for the entire year of FY2021. During the first half of last year, that is from April to September, our net revenues had contracted by 4.8% year-on-year, which was the lowest contraction witnessed in the paint industry. These net revenues grew by 22% in Q3 and 41% in Q4; however, there were extreme spikes in raw material costs in the latter half of the year. Unlike the rest of the paint industry, Indigo started increasing its paint prices in tranches starting from mid November onwards. We were able to protect our gross margins in Q3 due to several such price hikes but, the gross margins declined somewhat in Q4 due to continued spiraling of raw material cost. As you are already aware, Indigo Paints spends a very high percentage of its topline on media advertising to build its brand. Advertising during the first half of the year was low due to COVID lockdowns and the monsoon months when traditionally paint companies tend not to advertise. Hence the EBITDA margins were unusually high during the first half of the year.



Indigo Paints Limited
May 14, 2021

Q3 saw aggressive media spends both because of the festival season and because of IPL being shifted to Q3 last year and as you are aware IPL is a very expensive property on which we have been consistently advertising for the last four years and IPL advertising accounts for a sizeable portion of our annual advertisement spends. Hence EBITDA margins dipped to 15% during Q3 but recovered to close to our annual levels at a level of 16.9% in Q4.

I will now shift to a more detail discussion on the financials for the entire year of fiscal 2021. Now in our presentation, we have given a detailed breakup of volume and value growth across four broad categories of paints within our overall portfolio as opposed to what other companies do, we do not believe that giving figures for an overall volume growth for the entire paint portfolio conveys much meaning. If you go through our presentation you will find that the volume and the value growths were healthy for each of the four categories averaging around 20% except for the emulsion category where both of the volume and the value growths were somewhat lower ranging between 11% and 12% and this is because April and May months are traditionally heavy months for emulsion sales and the sales that we lost last year in April and May during the lockdown period could not be adequately recovered during the course of the entire year.

As Manoj mentioned, we generate the high proportion of our revenue from a very differentiated stream of products where we feel that we are buy and large the only manufacturer in the paint industry. This portfolio of very differentiated products which had contributed 28.6% of our overall revenue in FY2020 grew further to 29.5% of our overall revenue in FY2021.

During the course of our IPO many analysts had commented on our disproportionate exposure to the state of Kerala where we have a relatively high market share; however, because of our dominant position in Kerala, it is only natural that other states where our position is somewhat weaker tend to grow at a much faster clip than Kerala and overtime our dependence on the state of Kerala has been gradually coming down which in a way is good for the company.

During the course of the last fiscal Kerala's share in our overall revenue declined from about 35% in FY2020 to a level marginally lower than 30% in FY2021 and is likely to continue to decline as a percentage of revenue in the coming years even though we register good growth in the state of Kerala.



Indigo Paints Limited
May 14, 2021

Now the main engine of growth for a young company like ours for the next few years will be in accelerated expansion in our dealer network and a large increase in our tinting machine population. During the last fiscal, despite the limitations of the COVID pandemic we increased our active dealer count by an unprecedented 2,000 numbers from a figure of 11,200 at the start of the year to a figure of about 13,200 at the end of the fiscal.

Addition of tinting machines was understandably very slow in the first half of the year when it was difficult for salesman to even travel to the dealer outlets to convince them to adopt a tinting machine, but we gathered speed in this dimension in both Q3 and Q4 and our tinting machine population increased by a healthy 1,200 numbers during the year to end the fiscal at population of about 5,500 tinting machines on the ground.

During the course of the year we have also added eight new depots, our first depot in Jammu and Kashmir region by opening a depot in Jammu, our second depot in Uttarakhand at Dehradun, our second depot in Bihar at Purnea, our second depot in Assam at Silchar, our third depot in Madhya Pradesh at Bhopal, our second depot in Odisha at Sambalpur, our third depot in Andhra Pradesh at Kadapa and our fourth depot in Maharashtra at Aurangabad and our total depot count which was 36 at the start of the year, we ended the year with a total tally of 44 operational depots.

With the headwinds of COVID and sharply raising raw material cost, it was tempting to reduce advertising spends to maintain profitability and we noticed that some of our larger listed peers in the paint sector have chosen to do precisely that. However, our company believes that we have a very long way to go towards brand building of a sustained nature and despite the blackout in advertising during April and May due to the lockdowns for the whole fiscal, we increased our media advertising spends and I am talking about only the media advertising spends what we spend on television channels or newspapers. It went up from Rs.61.5 Crores in FY2020 to Rs.63.4 Crores in FY2021, despite our inability to advertise for several months during the lockdown; however, there are other promotional activities like conduct of painter, contact programs, dealer meetings, sales conferences etc., which were very difficult to conduct during the last fiscal due to COVID restrictions and therefore our total advertising and sales promotion expense of which media advertising is a major component, so our total A&P spends witnessed a marginal decline in absolute terms.

Now coming to the important financial numbers for FY2021; our gross revenues during the year increased by just over 18% to Rs.813.5 Crores, whereas the net revenues from operations which are the revenues after subtracting all discounts, schemes, cash discounts,



Indigo Paints Limited
May 14, 2021

annual schemes etc., our net revenue from operations increased by almost 16% to a figure of Rs.723 Crores.

Our gross margins which are the highest amongst all the listed peers in the paint industry declined marginally from 48.5% in FY2020 to 48% in FY2021 due to the very high pressure from increased raw material prices during the second half; however, the EBITDA for the company in absolute amounts increased by a very healthy 35% to Rs.122.5 Crores and the EBITDA margin percentage as a percentage of revenue rose from 14.5% in FY2020 to almost 17% in FY2021 which is a healthy increase of 2.5% points.

Our Profit After Tax increased by an even healthier 48% during this fiscal to a figure of Rs.70.85 Crores and this is despite the fact that we had to suffer a one time impact due to a change in the income tax at introduced during the recent Union Budget relating to deduction of goodwill which reduced our PAT by Rs.4.05 Crores. So this Rs.4.05 Crores is the one time hit that has come primarily on the deferred taxes because of which the PAT was marginally lower than what we had internally projected and ended at Rs.70.85 Crores and increased of 48%.

The improved profitability parameters are primarily because of very tight control on costs by our entire team. Our outward freight costs which are high had declined from 10.5% in FY2020 to 9.9% in FY2021 and our overhead expenses which are by far the lowest in the paint industry have declined further from 4% in FY2020 to a level of 3.7% in FY2021. Due to an already very high level of media advertising where we punch much above our weight where our media advertising spends are already the third largest in the paint industry and only a shade below the second largest player. We have always stated that although absolute amounts in media spends will continue to increase year-on-year, we expect that the total A&P spends as a percentage of revenue will decline continuously over the next few years and this year our A&P spends have declined from 12.7% of revenue in FY2020 to a level of 10.7% in FY2021 and we expect this trend to continue in future years resulting in improved profitability.

Now the outlook for the current year FY2022 is of course shrouded in uncertainty at the moment. We started the year with excellent momentum in the first 15-20 days of April, but after that one state after another went into lockdown and that has become much more severe in the month of May with practically the entire country at this point in time. The silver lining is that we have begun to see a marginal decline in the COVID numbers during this week and we hope that a gradual lifting of lockdowns will happen sooner than later and we



Indigo Paints Limited
May 14, 2021

are confident that once again we will see a very fast bounce back in demand once the lockdowns restrictions are lifted.

We are committed to outperform the industry growth rates by a wide margin as we have consistently done during the last 10 years. We will continue to aggressively add our dealer count and our tinting machine population and we will continue to invest in brand building in an increasing manner. An industry wide paint price increase has happened on the May 1, and we have also undergone one more price change this year on the May 1 and there are signs that the raw material prices have started softening slowly, which augurs well for future gross margins.

As always in the past we will continue to maintain a very tight leash on costs and of course our high A&P spends will continue to decline as a percentage of revenue. This is all I have to say. I do not know if you have had a chance to really go through our presentation that we managed to upload at about 4 o'clock on the stock exchanges, you can go through that at leisure and I would be happy to take any questions that you may have.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Good evening and congrats on a good set of numbers. My first question is on your expansion strategy, you have 5500 tinting machines on a relatively small base of total sales, so if I look at your average sales for tinting machine and compare it to any of the other large three or four incumbents, the number would be very small, so in this kind of a scenario how do you make it attractive enough for dealers, at some point do they not just take your calls in that okay we got this, but throughput going out of this tinting machine is just too small for it to be remunerative enough for us so shall we reevaluate this dealership, so have you faced any such issues? Am I looking at it the right way or am I completely mistaken in my approach?

Hemant Jalan:

You are very right your observation that our throughput for tinting machine would be approximately half of that of the second of the third larger player in the industry. Let us leave the market leader aside for the time being, because they are so much larger than us that a comparison at this stage may be not very meaningful. So let us take the number two or the number three players whose tinting machine population is 3-3.5 times of ours whereas their decorative paint sale may be higher for the number two player by an order of magnitude of six times, so obviously the throughput per tinting machine of sales is lower for us as compared to them and that is only natural because please remember that their



Indigo Paints Limited
May 14, 2021

brand equity which they have build up over the last 50-60 years is not something that we can bridge in a period of four or five years, which is why we continue to invest aggressively in brand building, so that as the brand goes up, the brand equity goes up, the throughput of the tinting machine gradually improves. So it is not just expansion of the tinting machine which is governed by our efforts on the ground to persuade a dealer to adopt a tinting machine, but increasing the throughput for tinting machine which is a direct result of the brand equity that you have. Now you asked the second question that the dealer think twice as to why he has adopted a tinting machine of Indigo Paints, no I do not think it works in that way. What happens is that a dealer by selling a particular can of emulsion of an Indigo Paints earns considerably more than what he may earn by selling corresponding can of the leading players in the industry and that is the function of your network that you have. The more you increase your dealer density, the closer proximity the dealers are with each other selling the same brand and the more price undercutting that happens between them which lowers the net margin that a dealer is able to retain, because the population density of our dealers today is at the moment much lower than that of the top three players, therefore the level of competition that a dealer faces in terms of a dealer within 100 yards selling the same product is much less and therefore the margin that a dealer earns by selling a cane of Indigo is usually much higher than of the market leader or the number two player shall I say, so therefore even though the quantity that a dealer sales of an Indigo and all these dealers are multibrand by the way may be slightly lower far Indigo compared to let us say the market leader, the effective margins that they earn per units are pretty high so the dealers are very, very excited about selling Indigo Paints and this bridging the gap between us and the leading players in the market is not something that is going to happen overnight. These companies are awesome companies that have been built over the last 80 to 100 years and we have to maintain patience, we have to outperform them in growth percentage, and if we continue to do that as we have done in the last decade at some point in time we will catch up with the larger players.

Percy Panthaki:

Two corollaries to this question. Firstly, you said the margins that a dealer make some Indigo are higher than from other companies, also your exposure to Tier 2, Tier 3 towns is lower and therefore yes who are more prevalent in metros, will have a more premium product portfolio also, so these two things are actually sort of dampeners on your gross margin the fact that the dealers make higher margins and also the lower metros saliency and despite that your gross margin is best in class, so if you can help me understand why that is the case and second question is that just like in some of the retail companies we look at same store sales growth, because your distribution rollout its so fast I would also like to get some flavour on and equivalent number of same store sales growth that would be like same dealer sales growth or same tinting machine sales growth. I know you do not calculate such



Indigo Paints Limited
May 14, 2021

metric, but any rough idea that you will be able to give on this would also be very helpful that is all from me.

Hemant Jalan:

The feeling that premium products sells in metros and the economy or the sub-economy product sale in the smaller towns is a complete misnomer. In fact, from my own observations, whenever I have traveled around the country and visited our dealers, both in large cities as well as in smaller towns, what you are saying is not what the reality is. Generally, I have found that in the smaller towns the share of premium paints that sells is sometimes higher than what you may encounter in Mumbai or Delhi and that may be very counterintuitive but that is true. Today, there is no dearth of money in the smaller towns of the rural areas and people today know where to spend the money on and therefore there are many, many shops that you find in the very smaller towns where the economy segment of the paint is simply not stocked because there is no demand for it, people only demand the premium items. So it is a misnomer that premium product sell only in metros I do not think that is true. Why our gross margins are higher than others that is a totally different question and there are two primary reasons for it. Almost a third of our revenue comes from highly differentiated stream of products where we have been the category creators and for most of the products by and large we are the only manufacturer and we have created a very heavy brand equity for some of those products. Naturally our pricing power for those products is considerably high and therefore those products yield a much higher gross margin compared to more generic paint products, that is one reason. The second reason for our higher gross margins is that we have fewer factories. We have only three manufacturing locations which are strategically located close to the source of principal raw materials and therefore our incoming cost of raw materials, the inward freight of raw materials which gets embedded in the cost of raw materials is generally low and therefore our gross margins become high because the total material cost as a percentage of revenue becomes lower. The flip side of that is that our products have to travel a larger distance to travel from the factory to the point of sale and therefore our outward freight cost are slightly higher than competition. But even if you account for both of them together even if you negate the negative effect of outward freight with the positive effect of lower inward freight, we are slightly better off than many of the larger players. I would not say that we are better off than all of the players and the gross margin contribution as I said another strong contributor is the fact that a large stream of our revenues comes from a very differentiated stream of products. Your third question about?

Percy Panthaki:

Before you want to that the dealer margin differential could you quantify that how much you could be versus our second or third number market share clear, how much margin differential would you have?



Indigo Paints Limited
May 14, 2021

Hemant Jalan:

That would not be a uniform figure from dealer to dealer. Now the way it works is that the pricing of paint companies to the dealer and that is what our revenue is that if you compare products apple by apple, apple to apple are pretty much uniform across the paint industry. So the revenue that a market leader of the number two or the number three player gets for can of particular quality of paint and the revenue that we get would be almost identical. Now there is a printed MRP on the container and the difference between the MRP and the price that you have charged the retailer is basically the margin that the retailer retains. Now there is no law that prohibits a dealer from selling less than MRP and that is typically what happens in any area when there is any large manufacturer who has a very high density of dealer network so you could have five dealers on the same street selling a particular brand, what happens is that there is a lot of competition between those dealers to hold onto the customer and they start undercutting the price below the MRP and therefore the net margins that the dealer is able to retain drops. Now the third point that you asked about same store growth versus growth because of expansion in network. I would say about my gut feel would be it is about 50:50 that whatever our growths that we record in a particular year about half of it comes from network expansion and about half of it comes from same store growth. Now that exactly granular calculation we have not done across the dealer network and that would be somewhat difficult to do it because even expansion of our dealers do not happen at the start of the fiscal, they kind of happen throughout the year, so to give a very precise quantitative number would be difficult, but it does come roughly equally from both places, so both are very important. You need to increase the sale at your existing dealer counters which we do by giving very aggressive annual schemes and some long-term loyalty schemes which lasts for four years, which is quite unprecedented in the industry. At the same time we realize that half of our growth has to come from network expansion and the expansion of tinting machines and therefore that is something that cannot be ignored and that is something that we have to focus on with equal vigor and we try and focus on both and that has been the reason why I guess we have been able to perform much, much higher growth rates than the industry over the last 10 years in succession.

Percy Panthaki:

That is very helpful Mr. Jalan. Thank you and all the best.

Moderator:

Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi:

Good evening Mr. Jalan and team. Thanks for the opportunity and excellent opening commentary and the confidence what you have displayed I am quite impressed. I have two questions. You mentioned that throughout the year since October you have been taking price increases and if I look at your presentation roughly about 56% volume contribution



Indigo Paints Limited
May 14, 2021

comes from cement and putty and about 23% odd. 22% comes from primer and distemper, so a large portion of your business, has the volume contribution coming from these two segments. How do you decide the price increase because my understanding is very weaker in this paint industry so I am trying to believe that these are two of the commodity play which directly interface with lot of local competition, so how the pricing decide and you did mention that you are close to the proximity of raw material so if you can help me to understand how the pricing things change and what are the price change which you have seen in last one or two quarters?

Hemant Jalan:

You have rightly said that cement paint plus putty accounts for 56% of our volume contribution, but please note that it accounts for only 15% of the total value of the revenue and there would be differences from one company to another and cement paint is slightly smaller component, putty is the real big volume and roughly for any of the large paint players, putty would account for close to 50% of the volume and may be 13% or 14% of the value contribution which is why we say that looking at total volume growth is pretty meaningless number and that suggest a disproportionate growth in putty if volume growth is much higher than value growth because putty tends to contribute disproportionately to volume and its contribution to value is less. Now talking about our price increase, our differentiated products are basically in the field of certain very specialized emulsions like floor coats and acrylic laminates and sealing coats and tile coats and so on, we have a very, very differentiated enamel where the volume contribution may be low but the value contribution is reasonably high, so for our differentiated products we are able to make price increase without waiting for the rest of the industry to do so. Now even if you take a product like cement paint which is by no stretch of imagination, a differentiated product, but please realize that amongst the listed players we are perhaps the only manufacturer whose manufacturing cement paint. So we become the only branded player per se in the cement paint category where the competition is from the unorganized small scale sector, so we have no difficulty in increasing prices in cement paint without waiting for the rest of the industry, because the rest of the organized industry is really not into that space. Even if you look at distempers, there is an important component in distemper which is called pouch distemper which is sold in one kg pouches, which primarily sells a lot in the rural areas of India and the sales of that is pretty high. Now, many of the large listed players have over the years exited that space completely. I am not saying that we are the only player, the market leader is also present in pouch distemper as are we, but many of the other listed players have chosen to exit that space, so these also although they are not really differentiated products, these are products in which the level of competition amongst known brands is very, very low and therefore we are able to effect price hikes without resorting to waiting for the rest of the competition to do so. Even when it comes to primers, we do not really



Indigo Paints Limited
May 14, 2021

account that as part of our differentiated product portfolio, but we do have certain primers which are somewhat different from the rest of the competition, so wherever possible we could increase prices without waiting for the rest of the industry, we did that and we did that in tranches, some products, a basket of products we increased just after Diwali on November 16, some products on December 1, some on January 1 and for the more generic products when the rest of the industry has announced the price hike on May 1, we have done the price hike along with that.

Shirish Pardeshi: Got it. Just one followup on the pricing part, if I look at your numbers FY2021, your growth is about 16%, would you be able to give me a clear number what is the price increase and has happened in this 16% for full year FY2021?

Hemant Jalan: It will not be more than about 2%-2.5% roughly I would say. You have to calculate a weighted average across that and that price increase happened only towards the end of the year, so it is contribution for the full year, it is not likely to be more than even 1%, I would say.

Shirish Pardeshi: Got it. My second and last question is on the gross margin though you have given us a clear direction how you are going to deal with the advertisement spends to the net sale and as you have been expanding your capacities that it will also come in and kick in, in terms of margin expansion, but in the short-term and medium-term next two years, would you be able to quantify what is the weighted inflation you are seeing at this time and how much more pricing changes can happen in next two quarters. I am expecting from the dealer point of view because the market leader said that there is a lever that people can cut the promotions given to the trade, but barring apart I would be more curious what is the weighted inflation and how much price increase the market can absorb further?

Hemant Jalan: In the past, from our experience in the last 20 years whenever there has been a substantial increase in raw material prices, the industry has not waited for even 15 days to pass on the price increase to the consumer. The reversal happened when there has been an appreciable drop in the price of raw materials and it has gone both ways and the industry leaders have been quick to adjust pricing whenever there has been a significant fluctuation in the raw material pricing. This time, the industry for reasons best known to the leaders has chosen not to increase the pricing for a very long period of time and they have affected some price increase from May 1. We needed to protect our margins and wherever we could do that without sacrificing sales, we started our price increasing much earlier. Even now, from whatever I can gather by talking to my colleagues elsewhere in the paint industry, to balance the kind of hike in raw material pricing that has happened, there is a need for



Indigo Paints Limited
May 14, 2021

increase in pricing further. Most of the price increase that has been affected so far has been confined to the water based paints, little or no increase has been so far announced in the solvent based paints where we have also seen a very, very sharp increase in raw material prices. We do expect on an average another 3% to 4% increase in the overall pricing, most of it will happen in the solvent based paints space and a little lesser on the water based paint space and there are early trends that raw material prices may be starting to soften. We do expect another round of price increase. whether that will happen on the June 1 or whether after the lockdowns are lifted on July 1, it is something that I cannot hazard a guess, but I think the industry overall will need another round of price increase to protect its margins.

Shirish Pardeshi: Thank you Mr. Jalan and all the best to you. If I have more questions I will come back in queue. Thank you.

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

Avi Mehta: My first question was the we hear of this J curve in demand occurring overtime as we enter new states. If you could kind of comment on this and whether this is relevant and if yes, could you share where do we stand in our journey?

Hemant Jalan: I could not hear you clearly, what did you say, what do we experience in demand?

Avi Mehta: The J curve that we kind of argue for that once you enter a state you typically hit a J curve in demand overtime. Initially it takes time to recede the market and eventually you hit a J in terms of demand pickup, I wanted to first check with you whether that is something that is relevant are correct, if it is how do we stand in terms of journey?

Hemant Jalan: Frankly, I have not analyzed the growth in terms of corresponding to any letter of the alphabet but of course when you enter a state, it does take a little time to build your network. The fortunate thing for us is that because of our pan India advertising consistently over the last five, six years at a fairly high decibel level, for example, when we entered Jammu and Kashmir which was just five months ago, we found that our brand was already very well known amongst the dealer community and therefore to analyst dealer support did not require that much of pressure and we have been build up sizeable value of sales on a monthly basis in Jammu and Kashmir in a fairly short period of time. Now as far as entering new territory is concerned, I think the only territory in India that we have not yet ventured into the state of Himachal Pradesh. Otherwise we are pretty much presence in every corner of India and when I say every corner I mean it includes Andaman, it includes Nagaland, it



Indigo Paints Limited
May 14, 2021

includes Arunachal, it includes Sikkim, you can name every corner of India and you will find a rich presence of Indigo Paints there. So I think that the time of entering a new state where you are completely unknown entity those days are well behind us and as and when we enter a state to build the complete network and take the network to maturity, is the period that takes and by estimate about five to seven years, it is not something that you can do overnight.

Avi Mehta: I actually meant not from a branding point of view, but essentially from a network point of view I mean why?

Hemant Jalan: That is why I am asking, the building the network is the slow process, because you have to be careful on your credit limits, you have to be careful that you do not give material to the wrong person, you give material and install tinting machines to people who are genuinely interested in selling your brand, so that is a process that takes a little time and you do manners to build a decent network in any new state in a period of about three years, but to further expand it and say that my network is now 90% complete, is the process that takes six or seven years and unfortunately I do not know if any shortcut for it which is why we continue to build our network in almost every state that we are in and in some states we have been there for 17, 18 years and we feel that there is still scope for a lot of dealer network addition.

Avi Mehta: Perfect Sir. That answers my question. This is useful. The second bit was on the price increase, I wanted to just understand has there been any change in the premium for our differentiated products versus the base products?

Hemant Jalan: I do not know how you can compare that because the differentiated products are in a totally different category, so as I said the differentiated products naturally give us some much higher gross margin than the more generic products do which is only natural because when you have a lower level of competitive activity in that space, you have much higher pricing power and therefore you are able to price the products to yield a much higher gross margin which we do for almost all of our differentiated products. We also do it for some of the non-differentiated products like cement paints or pouch distemper or some of the other things where we do not face any competition from the large listed players. But to compare price premium of let us say a floor coat with the generic wall paint would be difficult, because those products are in very different categories.



Indigo Paints Limited
May 14, 2021

- Avi Mehta:** Sir, my question was more in terms of we have been able to take a higher increase in the differentiated products obviously because of the competitive angle being different, that is what I wanted to know?
- Hemant Jalan:** Obviously, because we have much better pricing power, so whenever that happens we will tend to increase the price of the differentiated products a little more than what we would increase for the generic products where we have to sort of follow some guidelines of what the rest of the industry is doing.
- Avi Mehta:** Got it, Sir just last request, if it is possible to get in contact with the investor relations team because either in presentation if would include the e-mail address or help me to reach out to someone that will be very helpful.
- Hemant Jalan:** Srihari Santhakumar looks after the Investor Relationship and at the end of the call you can contact Mr. Manoj Menon at ICICI Securities and he will be very happy to give you the e-mail ID and the contact number of the person looking after Investor Relations.
- Avi Mehta:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Dhaval Dama from Motilal Oswal. Please go ahead.
- Dhaval Dama:** Just wanted to understand how if you look at last couple of quarters most of the organized players has seen very strong growth rate, so just wanted your perspective, are you seeing any structural change happening in the industry whereby your conversion from local players to branded players is happening much faster, any kind of structural change that you are seeing setting in today?
- Hemant Jalan:** In general, COVID has impacted the unorganized sector a little more strongly that it is hit the organized players; however, I have no doubt about the ability of the unorganized or the medium and the small industries to bounce back. They are pretty resilient in nature. They have survived for 100 years in this industry and my feeling is that they will continue to survive with maybe very minor changes in market share, so I do not think that too much of our structural change is going to happen in the long term. The small scale sector does adapt very quickly and I am sure once the pandemic is over they will come back and claim their existing market share, because the reason why an unorganized player sells is very different. The margin that a dealer enjoys by selling a can of relatively unknown player is very, very high and that is the gap that any organized player or a large listed player is never going to



Indigo Paints Limited
May 14, 2021

be able to bridge and there is a category of customers; however small it is, who is not very concerned about the brand name or very concerned about the quality and is happy to buy a generic product, it is like generic drugs versus branded drugs, so there is a category of people who are happy to buy that generic product and by selling that if the dealer makes a huge margin even if it accounts for 5% or 10% of his overall sale, it contributes disproportionately to his overall earning and I do not think that any dealer would be willing jettison that. So I do not think that any major structural change is going to happen in the long term. There could be temporary setback on one quarter or two quarters due to availability of raw material which has been a big issue with the small scale sector during the last quarter. Not only was there a bid price hike but availability was a very, very big issue and I am aware of many small manufactures who just could not lay their hands on enough raw material to keep that plant running. So that is may be the temporary phenomenon. I do not think it is a sustainable trend that we will see going forward.

Dhaval Dama: One just book keeping question, now if I look at it your other expenses during the current quarter have gone up significantly on a Y-o-Y basis like we have gone up from Rs.38 Crores to roughly Rs.61 Crores - Rs.62 Crores, so basically does it include other expenses that it include IPO proceeds also during the current quarter?

Hemant Jalan: The IPO proceeds are neither an income nor an expenditure. So they will not come. I will have to do a fine tune analysis of the other expenses as to what is happened; however, I will shape that for a relatively young company like us, analyzing costs on a quarter-by-quarter basis or EBITDA on a quarter-by-quarter basis are likely to always lead to slightly misleading conclusions. Take for example advertising, now we spend such as disproportionate amount on advertising that the timing of the advertisement drastically affects the EBITDA margin of that particular quarter. Now that may not apply to other players where the spend on advertising may be 1% of revenue and for us it may be 8% of revenue on actual media advertising, so when IPL shifts from April, May to October, November it makes a material difference as far as Q3 profits are concerned because the huge amount of expenditure of advertising goes there, so similarly timing of some of these expenses during the year are likely to fluctuate and therefore I think for a young growth company like us it makes much more sense to look at the overall year and arrive conclusions on that.

Dhaval Dama: Thanks a lot Sir

Moderator: Thank you. The next question is from the line of Amit Jaiswani from Stallion Asset. Please go ahead.



Indigo Paints Limited
May 14, 2021

Amit Jaiswani: You have done a superb job creating Indigo Paints, congratulations on that. Sir, my first question is about your opportunity size in the differentiated space while you all speak a lot about it through the entire concall about understanding a competitive advantage. I would just want to understand the opportunity side on the competitive advantage side?

Hemant Jalan: Opportunities are unlimited Amit. There is no dearth of innovation. We have a few more very differentiated and innovative products ready for launch, unfortunately the market conditions today are not conducive to do a launch for that so we have to wait till the market kind of opens up before we start launching those products, but we have been launching very new and innovative products with alarming frequency over the last decade and we continue to do that and even the existing portfolio of differentiated products its share in our overall revenue kind of goes up by 1% point year-on-year for the last four, five years if you analyze. So they will play an important role, we will be coming up with more differentiated products in the future and expanding our existing portfolio differentiated products. Having said that it is also important to start expanding and lay special focus on the more generic wall paints where the level of differentiation between players is relatively low and I do not know if you have had an opportunity to see some of our recent TV commercials that we have aired both during IPL in April and also during March, we are trying to address that. Take the goodwill that we have for our very differentiated products like PU enamel or floor coat and translate that into a goodwill for more generic paints. So we have done it by a series of three ads in which there is a rap song, in which we have our brand ambassador dancing with painters and saying that if you trust us for floor coat why do not you try us for the wall paint also, so the attempt going forward in advertising and brand building would be to try and translate that goodwill in differentiated products to goodwill in more generic products, which are going to be as important for our growth going forward as it is for the differentiated portfolio.

Amit Jaiswani: Hemant Ji, where do you see yourself next five years, just understanding what kind of organization this year let us say \$110 million of revenue today, where would you say that Indigo would be in the next four, five years?

Hemant Jalan: I would not give a quantitative guidance on that but we hope that in the next five years, we are roughly on par with the decorative paint sales of not the market leader but may be at least the number three player and inching closer to the number two player that is the kind of aggressive ambition that we have. Whether we are able to do that in five years, whether we do that in four years or whether it takes longer or seven years, that time will tell, but the aggression in the team is there that we have to become a much larger player in this space



Indigo Paints Limited
May 14, 2021

and start catching up with the larger listed players and that is the direction in which we aim and shoot for.

Amit Jaiswani:

Just my last one question Hemant ji, what is that one thing which stops large players like Asian and Berger to enter the tile painting your differentiated product category?

Hemant Jalan:

Nothing stops them and it is not that they have not tried, all of them have tried and there is no technological barrier because there is no rocket science involved in making any paint product, any of those larger players can take a sample of our product reverse engineer it and come up with an equivalent product. The point is that whenever you launch one of these differentiated products that product does not become a success overnight, it gathers traction over a period of four or five years. When it is new and it has very low market size let us say, the larger players tend not to look at it. We on the other hand in the last five years have chosen to focus only on those products and advertise those products. So therefore those products overtime become synonymous with Indigo Paints. So today if you talk about PU enamel it is Indigo PU enamel. If you talk about a floor coat emulsion it is automatically Indigo floor coat emulsion. It is become generically entwined with our brand name. Now when a larger player tries to enter that space usually after a gap of four or five years when that product is becoming more visible in the market, for them to spend advertising bucks on a product let us say there is a product line which is giving us let us say hypothetically Rs.60 Crores of topline. Now that Rs.60 Crores on a base of Rs.700 Crores-Rs.800 Crores is pretty substantial and therefore we will spend advertising bucks to capture that market and to grow it, but would it make sense for the market leader or the number two player to spend advertising money on something which has the potential impact of Rs.50 Crores-Rs.60 Crores? The answer is no. So the basic thing that you have to understand Amit is that what is good for an Indigo Paints is not necessarily good for an Asian or a Berger and vice versa. What is good for an Asian or a Berger is not necessarily good for us. So we have to understand that those companies are much larger for us than us, they are operating in a completely different orbit and have very different strengths and it will take a long time for us to imitate that and we have the highest regard and respect for those companies, but I think they realize as do we that the playground in which we play are slightly different and therefore imitating one in either direction if we try to imitate what the larger players are doing or if they try to imitate what we are trying to do, I think it would be counterproductive for both.

Amit Jaiswani:

Thank you so much Mr. Jalan.



Indigo Paints Limited
May 14, 2021

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

Tejas Shah: Good evening Mr. Jalan and team. First of all, let me congratulate you for one of the most detailed presentation I would have come up across on the sector, you have definitely set a higher standard for disclosures in the industry already. Sir, first question pertains to Kerala number, I am not sure of my calculation is correct, but rough calculation what you shared in the presentation, does it mean that our Kerala number has degrown Y-o-Y basis?

Hemant Jalan: It has not. It has grown, but it has grown in the low single digits. Now when I said it was last year 35% and this year 30% I have not given you the exact numbers, I kind of rounded them up, because giving exact numbers anyone from the numbers can calculate and find out what our exact sales in Kerala was last year and what it is this year and that you will agree is the kind of granular information that no company would want to share, but to answer very simply, we have not de-grown in Kerala, we have grown, but the growth rate in Kerala this year has been somewhat low.

Tejas Shah: Fair enough. That explains Sir. Second, you explain in detail about differentiated products, but just wanted to understand what will be average realization delta of differentiated products versus your rest of the portfolio and are your trade margins given to dealers very low versus rest of the portfolio in differentiated products?

Hemant Jalan: Trade margin in this business is not something that a company really gives. We give a certain billing price and we give a printed MRP. Now if a dealer is able to sell a product at an MRP, it typically get a whopping margin of 20%-25% which is pretty high. Now what happens is that in a differentiated product where there is a little or no competition, the dealer does tend to sell the product at MRP. Why should he discount the product whereas if it is a more fiercely competitive products which is more generic in nature, there is a pressure on the dealer to undercut from the MRP and sell at a lower price, so the trade margin is something that is really decided by the retailer, it is not decided by the company and it is a function of the competitive environment that the dealer operates in vis-à-vis that brand, vis-à-vis the town in which is there and vis-à-vis the population density of dealer selling the same product in that vicinity. There was another question that you had asked before that which I have forgotten can you elaborate?

Tejas Shah: Average realization delta of differentiated products?



Indigo Paints Limited
May 14, 2021

Hemant Jalan: Realization, well our differentiated products that across many product categories so we do not look at in terms of average selling price or average sales realization because these are products that are in vastly different categories, so some product our revenue may be Rs.350 a litre or more and there may be some differentiated products where our revenue is Rs.150 a litre, so I do not think the realization matters so much what matters is, the gross margin that you earn from it. As a percentage of the revenue that you get and that as I said again it is not standard across the entire portfolio differentiated products, but in general it is significantly higher than the portfolio of non-differentiated products.

Tejas Shah: Fair enough. The last question on the competitive landscape which everybody is now talking about or perhaps worried about also with one very large player coming who has declared very large sum of money or capital to be deployed in the sector, now in some form, you also have been relatively a new player who proved itself over almost two decades and we have reached there, so what is your view of the competitive landscape going forward, do you think that the time advantage in this industry can be overpowered by capital deployment of that stature and can you actually bridge the gap or learning of 20 years by getting into the huge capital amount in the sector?

Hemant Jalan: You are obviously talking about Grasim and their announcement to have entered the paint sector and they have announced in their press conference that they are looking to invest about Rs.5,000 Crores and obviously Grasim is an awesome corporate entity and one has the highest regards for them. If it were so simple in the paint sector to only get market share by deployment of money then people like Sherwin-Williams would not have failed in India. Sherwin-Williams is I think the second largest producer in the world as far as paints are concerned. There have been other companies with very deep pockets who have entered India (multinationals), there have been people of large business groups in India who have also entered the paint sector and I think what everyone realizes overtime is that the barriers to entry are there for good reasons and it takes time and money is not something that can short circuit that process considerably, it may help you marginally, but to build your dealer network across the country, especially in smaller towns and rural areas which are very important contributor of paints sales today and to populate your tinting machines across the dealer network, is something that will take a long period of time. So I am sure that a company like Grasim, will find its own space and build a space for itself in the paint industry over due course of time. At time moment, they have only announced an intent to entry. They have said that they are looking out to decide which states to setup their plants. May be they have already done that. Maybe they have not. I am not privy to that information. Setting up a plant will take time and once they do come into the market to build a dealer network, to populate the tinting machines and come up with own strategy is



Indigo Paints Limited
May 14, 2021

something that is going to take time. So we welcome competition of any kind big or small and it is nice to get good competitors of the quality of Grasim and do it. Please understand that the paint industry, the decorative paints industry is already a Rs.40,000 Crores industry and we add about Rs.4,000 Crores to Rs.5,000 Crores to the market size every year. So there is space for everyone and as new entrants will come some exit also, some new players come in that is the order of the day and each one will create a space for themselves in due course of time and what more can we comment unless we see their strategy unfolding into the market and then making an impact, which is sometime away. So there is nothing to be worried about any new entrant coming. They are all welcome and time will tell us who executes their strategy in what form.

Tejas Shah: Thanks Sir for very detailed answers and all the best.

Moderator: Thank you. The next question is from the line of Varun from IDBI Capital. Please go ahead.

Varun: Thanks for the opportunity. Sir I must say it has been one of the best kind of presentation that I would have ever listened in paint sector the way you have kind of very kindly explained that what it takes to succeed in paint sector? So just one question on Sherwin-Williams that you highlighted that despite having best of the money power, best of the product quality, and all kind of dealer and distributor meeting that they were willing to do and they could not succeed in India and Indigo Paints, the way you have done a category creation by offering a different product instead of offering a better product and following the root of better and kind of incentivizing the distributions. I am just curious, I want to understand how do you look at of course the subject of Indigo Paints, you have explained in a very, very beautiful way, I am curious to understand how do you kind of ascribe what other possible reason could be for failure of Sherwin-Williams. Anything that you wish to highlight Sir?

Hemant Jalan: I think Sherwin-Williams entry happened a long time ago and then their exist from India also happened a long time ago. We were very, very small players at that time so I do not have any concrete answer as to why they chose to exit and what were the problems that they faced. So I really would not be able to answer that. We know that to succeed in this sector you need to come up with a strategy, which is different from others. Imitating others is not going to get you very far. So we started out our own differentiated strategy, which was not only confined to products. We chose to build our distribution network in a very different way by going the counterintuitive way of starting from small towns and rural areas and then approaching the larger cities as opposed to most players which try to do it the other way around by starting from the metros and the large cities and then working down. We chose to



Indigo Paints Limited
May 14, 2021

advertise only our differentiated products for four to five years and that helped us escape the clutter. I think five years ago if we had tried to advertise our generic wall paints we would have been lost in a sea of very large players with much larger budgets and we would not have had anything distinctive to say. Even if you look at our choice of brand ambassador, we have decided to go for someone who has pan India appeal and I think we chose the right person in Mr. Dhoni, who is literally loved by the country from Assam to Rajasthan and from Kashmir to Kanyakumari; rather than going for let us a Bollywood star who may or may not have the same degree of appeal coming to southern states who have their celluloid superstars of their own. So in every which way we have chosen a different root and that has helped us in our success. Now if some new entrant were to exactly try to imitate us may be they will not get the same degree of success. So each company will have to come up with its own differentiated way to create its mark on the market and whoever is able to feel the pulse better and execute the plans better will succeed a little faster than others, that is all I can say.

Varun:

Of course, but then the second question on the similar line is now that you have been able to create a very differentiated for example brand positioning for floor coating and the entire basket of the differentiated products. We are using similar kind of brand names and brand positioning even for decorative coating so how do you think, how are you thinking about a creating a differentiated positioning in the decorative coating segment wherein the top three players have already kind of formalized the segment?

Hemant Jalan:

That was the strategic choice that we took about 10 years ago, that we saw that everyone in the decorative paint industry has 12 different brand names so they have a different brand name for an exterior emulsion in the premium category, they have another brand name for emulsion in the luxury category and another one in the economy segment and a different brand name for interior emulsions, different brand names for wood coatings, and different brand names for enamels and so on and so forth. They may have their reasons for it and we are too small to comment on the wisdom of much larger players who have displayed success over a very, very prolonged period of time. We felt that when you have to create brand equity and when we started advertising which was about six to seven years ago please realize that we started with very modest budgets. Our budgets for advertising were less than Rs.10 Crores a year which is a fairly small amount compared to what the big players were spending. So we took a call that trying to develop brand names for 10 different brands is going to be very, very difficult and therefore we decided that if we compress all our brands under one brand name it would be easier to create brand recognition. So in some ways you could say that we followed a strategy of a company like Amul which exists in 15 different product categories but has only one brand name or let us say the strategy of a company like



Indigo Paints Limited
May 14, 2021

Titan, which makes a range of watches from Rs.1,500 to Rs.15,000 they may have some brands within them, but they are all bracketed under one common umbrella brand of Titan and even when they switch to eye glasses they retained that same brand of Titan so we felt that for our resources it made more sense to have one common brand name and then even if you advertise one or two products like today look at a marvelous company like Amul, it does not advertize every product, but if it advertises butter or milk there is a spillover effect that it gets on baby food, on chocolate, on shrikhand or on any other product that it is manufacturing so that was our approach. Whether that approach was the right approach or the wrong approach we think it was the right approach and it has paid us good dividends and has lead to good recognition of the one umbrella brand of Indigo and we intend to continue with that.

Moderator:

Thank you. The next question is from the line of Jaykumar Doshi from Kotak. Please go ahead.

Jaykumar Doshi:

Good afternoon and thanks for the opportunity. I have got a few questions. The first one is Kerala was growing quite well for you over the past four to five years and this year the growth has been low single digits so what has changed in that market? Any change in competitive dynamics and for you to grow for Indigo Paints to grow 10%, 15% and 20% faster than the industry growth rate, how important is it for Kerala to grow at 10% to 15% growth rate? So some color if you can provide what led to some declaration in growth in Kerala?

Hemant Jalan:

Shall I answer questions one at a time Jay, because if you ask three questions at a time, I am sure I will forget the first question by the time you ask the last one. So what you are saying is a very pertinent question. Our understanding is that Kerala in the last fiscal has done badly for almost all paint companies. It has been either a very low growth market or a negative growth market for some players as I informally understand. Of course exact granular information is very hard to get. Naturally, because Kerala still accounts for 30% roughly of our revenue and therefore if the growth in Kerala was weak last year it pulled down our overall revenue growth to 16%. If Kerala had grown at double digits, which it had been growing previously, I am sure our overall revenue growth would have been well over 20%. So it works both ways Jay. Sometimes there are some years when some states does badly. I do not think it is any change in competitor dynamics. There are reasons that you know you cannot understand very clearly as to why some part of India starts doing very well for all paint companies in a particular year or a particular quarter and suddenly switches into low gear in another year. So these macro trends are very hard to phantom and understand, so whenever Kerala growth picks up for us our overall company growth goes



Indigo Paints Limited
May 14, 2021

sky high. So that is both good and bad, but overall I think it is bad to be overly dependent on one state. Now when we acquired Hi-Build Coatings a company, which was completely Kerala centric way back in 2016. At that time after the acquisition, I remember that Kerala was contributing to 55% of our overall revenue. Now that progressively has come down to 30% and my guess is that in this fiscal it will be down to 25% and may be next fiscal down to 15% in which case vagaries in one state will start affecting us much less either in a positive or a negative direction. But I have no concrete reason as to why Kerala market overall performed poorly for all paint companies last year relative to other states. We still grew in Kerala, but not up to our expectations.

Jaykumar Doshi:

Understood. That is helpful. My second and third questions are related. Sir first is we have attended a few other calls also during this season and none of the companies have really sort of talked about any easing of raw material inflation so I am just curious to understand what is the extent of moderation that you have seen in the current quarter and a related question is that in the presentation you have indicated 4Q margin is more sustainable in nature so is that a kind of a guidance that you are giving for FY2020 during terms of EBITDA margin or that 16.9% margin of 4Q is more sustainable margin in context of current RM pressures that you are facing?

Hemant Jalan:

Let me answer both questions. I do not think that in the earning call of Asian Paints there was a mention that is some sign of softening of the raw material prices. I did read about that or these analysts reports come to me after they have attended the various calls. So I think a similar sentiment was echoed also by the market leader. We are seeing some signs of well definitely the prices have plateaued and they are not going up and in the last one or two months at least for water based paint major raw materials like emulsions we have seen a downward trend and we continue to see a marginally downward trend. How sustainable that will be, to what extent will it go down, and will it go back to pre October levels is something that I cannot hazard a guess. As regards what I mentioned on Q4, I said that in the first half of the year, our EBITDA margins were about 18.5%. Now that I remember people were asking us even when we were doing the road shows of the IPO and I was careful to say that this is not a sustainable figure for the whole year. This has happened because the level of advertising in the first half of the year was very low because of April and May lockdowns and the shifting of the IPL, which normally happens in April and May. Because of very heavy level of advertising in Q3, you will find that our EBITDA margins dipped to almost 15% in Q3 and in Q4 when we still had fairly high levels of advertising but not the unreasonable level of Q3, it climbed up to 16.9%, which is pretty close to our year round figure of 16.95%, so that is what I meant when I said a more sustainable level. Going forward, is that guidance for the next year by no stretch of imagination. I would be



Indigo Paints Limited
May 14, 2021

highly disappointed if we end the next year at a similar EBITDA margin of 17% and the reasons were very clear. Our advertising and sales promotion will continue to decline as a percentage of revenue even though we have budgeted for a fairly steep hike in absolute terms for media spends; however, as a percentage of revenue they will decline. I cannot predict exactly but may be by 1.5% points from where they are and that straight should go to EBITDA. Plus, there will be other cost savings that will come. Part is operational leverage for a company like us where the growth rates are higher. Overhead expenses tend to get apportioned over a larger and larger sales base. So there operational leverage that kicks in. Hopefully raw material prices will not remain at the high levels that they were and will moderate overtime and therefore the gross margins should improve and a lot of cost cutting measures that we are doing both on freight cost, on overhead costs and various other things will bear fruit. So therefore shying away from giving you a precise guidance number for EBITDA for FY2022, we would expect a sizeable expansion in the EBITDA margin percentage for next year. We would have failed in our activities if we are not able to achieve that.

Jaykumar Doshi:

Thank you. That is very clear and all the best for FY2022.

Moderator:

Thank you. The next question is from the line of Agam Shah from Raj Trading. Please go ahead.

Agam Shah:

Thanks Sir and congratulations on a good set of numbers. Sir just a question if you could just give out future roadmap let us say for next three years what will be the focus area which differentiated products we will be targeting and what will be the roadmap in terms of picking up?

Hemant Jalan:

See which differentiated products we intend to launch is not an information I would like to release before we actually launch it because that would be proprietary information. There was a question earlier as to where do we see ourselves five years from now and I think I have already answered as to where we intend to go. So how far we are able to achieve those, whether we overachieve or underachieve is something that time will tell, but that is the ambition that the team has and we feel that although those targets are very difficult, we think that we have a good crack at it.

Agam Shah:

Thank you and all the best.

Moderator:

Thank you. Ladies and gentlemen, as this was the last questions for today, I would now like to hand the conference over to the management for closing comments.



Indigo Paints Limited
May 14, 2021

Hemant Jalan:

Thank you. I really do not have too much to say. First of all, I would like to thank ICICI Securities and Manoj Menon for hosting this call. I thank all of you who have participated in large numbers and the large number of questions that have come up, which I have thoroughly enjoyed answering. We continue to be in difficult times at this point in time, but I think there is light at the end of the tunnel, with gradually declining COVID numbers at least for the five days. Hopefully the trend continues and all I can say is that we cannot predict what will happen to the entire paint sector as a result of this second wave and if at all there is a third wave but whatever may happen, I am very sure about one thing that our company will outperform the larger players at least in percentage terms and on growth basis. We will see an ever expanding EBITDA margin for the new few years for reasons that we have outlined and we are in this for the long haul, so we will continue to build our brand and try and take our brand equity closer to the much larger players who have done brand building for a very long period of time. That is all I have to say. Thank you all for giving a very patient hearing. Thank you for participating.

Moderator:

Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.

Note: Modifications have been made in the above transcript only in respective of grammatical and spelling errors.