



May 29, 2025

To,
BSE Limited
Corporate Relationship Department
25th Floor, Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400001
Scrip Code: 543258

To
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1, Block G,
Bandra Kurla Complex, Bandra (East)
Mumbai -400051
NSE Symbol: INDIGOPNTS

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call for the quarter and financial year ended March 31, 2025

Pursuant to the Regulation 30 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call held with the analyst and investors on May 26, 2025 at 11:00 hrs (IST) to discuss the audited standalone and consolidated Financial Results of the Company for the quarter and financial year ended March 31, 2025.

The above information will also be made available on the website of the company <https://indigopaints.com/investors/analyst-investors-meets/>

You are requested to take note of the same.

Thanking you.

For Indigo Paints Limited

Sayalee Yengul
Company Secretary & Compliance Officer

Encl.: As Above



“Indigo Paints Limited Q4 FY-25 Earnings Conference Call”

May 26, 2025



MANAGEMENT: **MR. HEMANT JALAN – CHAIRMAN & MANAGING DIRECTOR, INDIGO PAINTS LIMITED**
MR. SURESH BABU – CHIEF OPERATING OFFICER, INDIGO PAINTS LIMITED
MR. CHETAN HUMANE – CHIEF FINANCIAL OFFICER, INDIGO PAINTS LIMITED
MR. SRIHARI SANTHAKUMAR – GENERAL MANAGER, FINANCE & INVESTOR RELATIONS, INDIGO PAINTS LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Indigo Paints Limited Q4 and FY25 Earnings Conference Call hosted by ICICI Securities Limited.

As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need 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. Aniruddha Joshi from ICICI Securities. Thank you and over to you sir.

Aniruddha Joshi: Thanks, Shruti. On behalf of ICICI Securities I welcome you all to Q4, FY25 and FY25 Results Conference Call of Indigo Paints Limited.

Now I handover the call to Mr. Srihari Santhakumar – General Manager, Finance and Investor Relations to introduce the Management. Then we will have initial comments from the management on quarterly and annual performance and then we will open the floor for question-and-answer session. Thanks, and over to you Srihari sir.

Srihari Santhakumar: Thanks Aniruddha. Good morning, everyone and thanks for joining our earnings conference call today. We have uploaded the Investor Presentation in the Stock Exchanges. Kindly refer to the disclaimer page for any forward-looking statement if any statement is being made.

To discuss the performance of our company for the quarter ending March and as well as the year ending March 2025, we have with us Mr. Hemant Jalan – Chairman and Managing Director of Indigo Paints, Mr. Suresh Babu – Chief Operating Officer, Mr. Chetan Humani – Chief Financial Officer and myself Srihari, I handle Investor Relations here. As usual we will have a quick brief of the performance of the company by our Managing Director and followed by Q&A.

Over to you sir.

Hemant Jalan: Thanks Srihari. Thanks Aniruddha. Good morning, everyone and thank you for joining us to discuss Indigo Paint's performance for the fourth quarter and for the full financial year ending 31st March 2025. As Srihari mentioned, our Investor Presentations have been uploaded on the stock exchange portals and hopefully you have had a chance to go through our financial results.

Now we have all navigated a challenging market environment in FY25 which saw sustained sluggishness across the paint industry and may I say so, across the entire consumer sector in general in the country. Despite this, Indigo Paints demonstrated robust profitability in the face of extremely tepid growth. You may recall that in Q3 we had reported negative growth on a Y-on-Y basis. During Q4 we have returned to positive growth albeit at a very modest 0.3%. However, the profit growth was significantly superior.

First let me come to the standalone results:

Compared to Q4 of FY24, our sales in Q4 of FY25 have registered a value growth of 0.3%. We continue as always to maintain the pole position in terms of the gross margin in the industry, which stood at 47.4%. EBITDA on an absolute basis increased from 82.3 crores in Q4 of last year to 85.9 crores in Q4 of FY25, registering a growth of 4.4%. The EBITDA margin in Q4 of 23.4% is the highest that has ever been recorded in any quarter in the history of the company. The EBITDA margin was higher by almost 1% from the 22.5% of EBITDA margin that we registered in the same quarter of the previous fiscal. The PAT increased by 6.3% to 56.9 crores in the quarter compared to 53.5 crores in the same quarter of the previous fiscal, and the PAT margin for the quarter improved from 14.5% which was clocked in Q4 of FY24 to once again a historic high of 15.3% in Q4 of FY25.

If we look at the entire fiscal of FY25 on a standalone basis, we have clocked a top-line growth of 1.8% and achieved sales of 1277.2 crores. EBITDA for full fiscal FY25 slightly reduced by 0.5% to 231.6 crores and our EBITDA margin for the full fiscal clocked 18.1%, slightly lower than 18.5% that we recorded in FY24. The PAT decreased to 143.9 crores for the full fiscal with the PAT margin at 11.1%, slightly lower than 11.7% that we recorded in the previous fiscal.

Coming to consolidated results:

For the quarter our consolidated revenue grew by 0.7% to 387.6 crores, the EBITDA grew by 3.3% and the PAT grew by 5.4%. The EBITDA margin for the quarter on a consol basis was 22.6% and the PAT margin was 14.6%. Our subsidiary Apple Chemie has registered a good growth of 8.3% in Q4 of FY25. However, their margins have been impacted due to the adverse product mix which has been going on in the whole year. It was very severely impacted in the previous two quarters of Q2 and Q3, but they have started showing a distinct improvement in Q4. Various strategic initiatives are being undertaken by Apple Chemie team to improve the margins further in FY26. So, for the full fiscal FY25 on a consolidated basis, Indigo Paints has achieved a revenue of 1,341 crores which is a 2.7% growth over FY24. EBITDA has reduced by 1.9% to 233.5 crores in FY25 versus 238.1 crores in FY24 and the EBITDA margin has contracted to 17.4% on a consol basis from the 18.2% recorded in the previous fiscal. Other numbers are given in detail in our investor presentation.

I will now take you to some more operational details about the quarter going beyond the simple financial numbers:

During this quarter the overall A&P spend as a percentage of revenue decreased from 6.3% in Q4 of FY24 to 5.0% in Q4 of FY25 and if you look at the entire fiscal, the A&P expenses have reduced from 7.4% in FY24 to 6.4% in FY25.

The focus now in the company is more on digital outreach to our target audience which includes not only the end users but also the influencers. We have also intensified our BTL marketing

activities, that is 'Below The Line' marketing activities to better track and promote secondary sales from the dealer counters. We continue to punch above our weight with a 6.4% allocation of top line going towards A&P activities which is far above the industry spends.

In line with our disclosure practices, we have given our volume and value growth numbers for each of the four major categories of paint products. If you recall in the previous quarter that was Q3 of FY25, all the paint categories had degrown. However, during the current quarter the quarter just gone by which is Q4 of FY25, the volume growth has picked up in the enamel category and in the primer distemper category. Though the volume growth in the emulsion category was mildly negative, the value growth was positive at 1.3%, which is a clear indication of the steady premiumization of our product portfolio. If you look on a full-year basis, the value and volume growth have registered positive growth across all categories except for the putty category which has witnessed a very small 1.3% value decline. Now you all know that the putty category is a very low margin category, and it continues to face intense price competition from our competitors. The revenue contribution from our differentiated portfolio of products was largely flat at about 28.2% in FY25 compared to 28.4% in FY24.

As a company we continue to focus on network expansion, on improving the throughput per active dealer and increasing our tinting machine population. As on 31st March 2025 our count of active dealers was around 18,400 and the tinting machine population was at about 11,000.

On the CAPEX front:

Work is progressing in both the water-based paint plant and the solvent based paint plant both being set up at Jodhpur. We have experienced some delay in the civil construction work at the water-based plant and the water-based plant is now expected to be commissioned sometime in Q3 of FY26, whereas the solvent based plant is expected to be up and running sometime by the end of the current quarter Q1 or at the start of Q2 of FY26. The brownfield expansion of our putty plant at Jodhpur will also be completed at around the same time, that is towards the end of Q1 in another month and a half-time. However, these minor delays are not expected to cause any impact on our sales as we have enough capacity to cater to the forthcoming demand. The waterproofing and construction chemical products continue to consistently yield good results, resulting in a healthy mid-single digit contribution to the overall revenue pie.

Coming to our sustainability initiatives:

We had installed rooftop solar panels at our head office in Pune which has been followed with the installation of rooftop solar panels at our Cochin factory which is now complete and just awaiting some regulatory approvals. We had mentioned earlier that we have started a new initiative called the Indigo Seva Utsav. Under this initiative Indigo Paints, along with the painters and the community at large undertakes painting of government schools in Tier II and Tier III towns and I am happy to inform you that as of now we have already painted more than 150 such schools across the length and breadth of the country.

On the CSR front:

We continue to extend educational benefits for the underprivileged girls around Pune. There are already over 300 beneficiaries of this initiative so far. In FY24 Indigo had introduced a Painter Health Benefit program starting off with the state of Bihar. In the start of the last fiscal FY25 we extended this program to a few more states and by the end of FY25 we are covering painters across the length and breadth of India and more than 25,000 painter families are now beneficiaries of this program. In this current fiscal FY26, we have launched yet another initiative called the Indigo Skill Up Program. This is a unique training initiative designed to empower painting professionals with skills that go beyond the brush and help them in their business development front also. I am also pleased to inform you that our board has recommended a dividend of Rs. 3.50 paisa per share for FY25 which would be disbursed after receiving shareholder approval. Finally, I may add that a gradual improvement in the demand sentiment was clearly visible in Q4 of FY25 and a further improvement is visible as we speak in Q1 of FY26. We expect the demand to come back to its original growth levels sometime in Q2 of this fiscal. With raw material prices continuing to soften, the EBITDA margins for FY26 are expected to improve with a general improvement in the demand scenario, lower raw material costs and an improved product mix. Thank you.

That's all I had to say as an opening remark, and I would be happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. You may proceed.

Abneesh Roy: Thanks. My first question is on the overall demand side. So, what we are seeing is you did mention that gradual recovery is there and in this Q4 call, almost all the staples companies and paint companies have also said very similar that FY26 demand outlook is looking better. My specific question is if I see till Q2 of FY26 your growth rate was much faster than industry and in Q3-Q4 when I compare your growth with the official #2 paint company – here I am talking about official #2 – as per sales, the difference is you are going 6%-7% slower than the Berger Paints. I wanted to understand given your scale and size versus Berger, what could be the specific reason why Berger is going 6%-7% faster because you also have a good presence in the Tier III Tier IV market. I understand Kerala is a very large, 25% of your business. Is that the issue when I compare your performance with Berger in terms of why your growth is lower. Q3-Q4?

Hemant Jalan: So Abneesh, when you look at all companies in the paint sector, other than the market leader, which is perhaps as strong in any state in any part of the country, when it comes to any other player whether it is Berger or whether it is Nerolac or Akzo, whether it is Indigo, I don't think our strengths are uniform across India. We all have our pockets of dominance, and we have our pockets of weakness. That is true for all companies, #2 downwards. Now, when a gradual recovery in demand starts, and that is Q3 was perhaps the worst quarter for everyone, including for the #2 player, Q4 has seen a mild uptick for everyone. As the demand scenario starts moving

up, it usually does not happen linearly in the same proportion in every part of India. So, depending upon which part of India the demand recovery happens a little faster and which parts of India the recovery lags behind a little bit, you may find these quarterly differences between companies. If you look at the entire fiscal, I think our growth in top line is about the same as the #2 player. It is true we have not outperformed them as we had been doing. But if you ignore the #2 player and look at the industry as a whole, we continue to outperform the industry by a fairly wide margin. We have done that in Q1-Q2, maybe we were slightly on par with the industry in Q3, but again in Q4, if you look at the entire industry growth, we have done significantly better. Now, as I said, Berger has its pockets of strongholds, and I am sure it has its areas of weaknesses and so do we and so does every other paint company with the exception of the market leader. So, unless that recovery in demand happens uniformly across the country and I don't think we are very far from that, you will start seeing that breakout of Indigo growth rate versus our larger peers happening as we move forward. So, I don't know if that answers your question.

Abneesh Roy:

Partly does, but could you tell us which are the states which are bringing it down a bit more? Will it be Kerala and South India where the growth is a bit more challenging?

Hemant Jalan:

So, Kerala has been under a challenge for quite some time and our market intelligence seems to suggest that most companies have degrown a lot in Kerala. Maybe we have not degrown. We have just about managed to hold on to our FY24 numbers in Kerala, (+, - 1%). Since we have a reasonably large exposure to Kerala, it is essential that Kerala comes back into growth trajectory for our numbers to start looking good. Separately, I would say that Berger is very dominant in eastern part of India. It is also a strong area for us, but not as dominantly strong. And I think the recovery in the market has been a little stronger in eastern India. Now that may have been partly responsible for Berger's good numbers. And I am not at liberty to discuss as to what a competitor has done better in the last two quarters to get slightly higher growth numbers. It's a question that you need to ask your friends at Berger, who can answer that better. But yes, we respect good execution by the #2 player in the last two quarters. But I think that as the demand starts recovering, I am very confident that you will see a breakout happening between our growth rate and every other company's growth rate, including perhaps the #2 player, hopefully. So, let's ride it out till then.

Abneesh Roy:

Sure. One last follow-up on the demand side. Starting Q4 FY24, you started growing much faster than the industry for six-seven quarters. That point of time two things you had done in terms of good expansion on feet on street and then you acquired in terms of the waterproofing business, which also would have helped in the overall TAM increasing. My question is now if you want to again grow faster than the industry from Q2 or Q3, is there some proactive step you are already taking or is it needed in terms of again augmenting the feet on street or increasing the product segments in terms of TAM? Is there something needed or it will be more of the industry recovery which will help you come back to 2x to 3x of the industry growth rate because that was one aspiration you had always shared that you should grow 2x to 3x of the industry numbers?

Hemant Jalan:

Completely agree with you. I don't forget what we have committed and there is no change in that commitment and that intent and resolve to grow at 2.5X to 3x the industry growth rate. And I am sure forward numbers will bear that out. In terms of what new strategy, I think there would be a minor increase in number of feet on the street. It is happening partly on the direct sales force. It is happening much more on the business development officers who are not directly connected with sales but connect with the contractors and the painters to encourage secondary movement of paint from the paint counters. That is something that we have found very useful going forward, especially in the last 1 year. I mentioned in my speech that although the emulsion category showed a marginal decline in volume for the full fiscal. But sorry, it didn't show a decline, but the value growth was significantly higher than the volume growth. And for the quarter it did show a decline in volume, but the value growth was higher. Now that simply means that the premium end of the emulsions is growing much faster than the economy range. And that is something that we have been focused on and that is something that we will continue to be focused on. In terms of a tweak in strategy, you will also notice from the presentation that we have uploaded that our active dealer count has slightly declined in the last two quarters. At the end of Q2 that number was 18,700. It's now come down to 18,370. Whereas you should have expected an upward ramp up. Now, partly this is a reflection of market sentiments. Notice that these are a measure of active dealer count. And when markets become slow, some of the dealers who were active earlier tend to become less active. So, at the moment the complete thrust has been on a renewed expansion of the network and to drastically increase this dealer count significantly. And as we speak in the last 2 months, I would say that we have made excellent progress in that. And when the numbers come out for Q1 of this year, you will see a healthy increase happening in our active dealer count. Along with that there is also a faster adoption of tinting machines. Although tinting machine adoption did continue through the fiscal. But I think a detailed analysis will suggest to you that the pace of adoption of new tinting machines slightly slowed down in the last two quarters again because of subdued demand scenario. That seems to have picked up again as far as the current fiscal is concerned. So, at the moment the tweak in the strategy is drastically increased the count of dealers and along with that the count of tinting machines, continue to pay much more focus on secondary sales activities to engage more with the painters and the contractors and I am sure the results will be evident as we go forward.

Abneesh Roy:

Thank you, sir. My second and last question will be on the competitive intensity side and two aspects to that. One is if I see the margin guidance which Asian and Berger have given, that margin guidance is higher than what they have delivered in FY25, which is a good outlook. Now obviously the raw material side is benign, but the raw material side is benign even for the new players. So even they can get more aggressive because raw material is soft. Against that #1 and #2, paint companies have given a better margin guidance than FY25. The second aspect to this is the 10% market share claim by the new player. They have said that this includes putty, paint plus putty 10% market share, which makes it slightly difficult to really understand their performance in core paints. From your aspect, how do you see competitive intensity, you have always maintained that this is a large industry, etc.? But if you could comment on trade incentive and trade margin, how are things on that side? That is my last question.

Hemant Jalan:

I mean, you are talking about the new entrant who was always the market leader in putty. So, to add putty, which is run in a different company within the group, to that for what worth it is to calculate market share, I really don't know. To be honest with you, we are less concerned, and we have never been very concerned about the new entrant and we are consistent in what we say. And if you do analysis in numbers and Abneesh, you are a very sharp person in analyzing numbers. Whatever may be the market share that a new entrant may have got, if that so-called disruption effect that you all have been talking about or been worried about for the last 4 years, if that had borne out, you would have the first place where it would have been evident would have been a significant contraction in the gross margin of all the paint companies. Now I think a detailed analysis will show you that has not happened. Everybody's gross margin may have declined marginally by half a percent or 1 percentage point. And that has really nothing to do with the entry of a new entrant who's probably offering 10% or 12% higher discounts than the rest of the industry. I think that has been largely ignored by the existing players and it is not affecting them materially. Yes, in a weak demand scenario, which is 90% of the reason of subdued performance by all paint companies, in a weak demand scenario, irrespective of the existence of a new entrant or not, there does become a temptation to give slightly higher trade schemes and a little higher discounts to your dealers in the effort to gain some extra sales in the top line. Now there is no doubt that has been happening during the slowdown period of the last 12 months. And even if we look at our own numbers, our discounts have slightly gone up compared to where they were a year ago. Which is why you will see that even our gross margins are about 1.5% or so lower than what they were in the corresponding quarters of the previous year. There has been some pullback on A&P spends by all companies because in a weak demand scenario it doesn't make sense to keep throwing money at advertising when the underlying demand is weak. Also, we have made a lot of improvement in our freight expenses and some of that has happened with the premiumization of our product portfolio. So, despite all that, we managed to stick to our EBITDA percentages and maybe EBITDA percentage have dropped by less than half a percent compared to the previous fiscal. Now as we see the demand recovering, I can't say for the others, but we are beginning to moderate our trade discounts, and I think other companies are beginning to do that also. So that aided with gradual recovery in the demand and continued small but steady softening of the raw material prices will see on a Y-on-Y basis, you will see a small expansion happening in gross margins and EBITDA margins, at least for us. And I would guess that you will see the same for across the industry.

Abneesh Roy:

Sure, sir, thanks. That's all from my side. Thank you.

Hemant Jalan:

Thanks.

Moderator:

Thank you. The next question is from the line of Sonal Minhas from Prescientcap Investment Advisors. You may proceed.

Sonal Minhas:

I wanted to ask question with regard to your working capital cycle. Your debtors' days seem to have come down, the receivables have come up. So overall the working capital, if you see year

end, the numbers look a little stretched, if you could give some subjective guidance on that, on a year-on-year basis, what has happened that will be great?

Hemant Jalan:

I don't see that our number of days outstanding, if you see always the number of days outstanding to represent it in number of days should not be divided by the sales for the entire fiscal because the sales during the entire year do not happen uniformly. For us, Q4 is by far the heaviest quarter by a very wide margin. So, the way we look at outstandings is that we divide it by the sales during the last 40-45 days of the period. So, on 31st March, we look at whatever sales have happened from 15th February to 31st March and divide that and then gross it up to the full year to decide how many number of days of outstandings we had. And my figure shows that if we go by that our outstandings at the end of the quarter were 32 days and at the end of the 31st March of last year it was also 32 days. So, I do not see any increase in outstandings happening, our inventories have marginally gone down. Our finished goods inventory is showing as 56-57 days of finished goods inventory across the company versus 60 days on 31st March of '24. And raw material inventory has also gone down from 36 days to 29 days. And the number of payables, days of payables to our suppliers has also reduced from 60 days to 55 days. So, I don't think that there is any significant change in our working capital position at all.

Sonal Minhas:

Got it, sir. So actually, the trade payables, if I see the year end numbers, come down as per the reported numbers from 220 Cr to 165 Cr which is meaningful. So, I thought I will just ask.

Hemant Jalan:

It is more because during the last one and a half years the government has given guidance that payments to all MSME suppliers have to be mandatorily made within 45 days. It's a guidance and we as a respectable company adhere to that guidance. And we ensure that all our MSME suppliers are now paid within 45 days. And that has been the main reason for reducing the number of days payable. Because a large portion, most of the mineral products that we buy, a lot of the solvents, etc. that we buy and many of the other additives and containers, etc. do come from MSME suppliers. And previously, I mean they are happy to extend longer credit period to us and we used to enjoy 90 days credit from them. But because of this mandate by the government, we have had to reduce that to 45 days, which is why it has resulted in slightly faster payout. But it's not something that bothers us. We don't have any working capital borrowings. Our treasury chest goes on increasing with surplus cash investment and cash generation. So, it's not a matter of concern at all.

Sonal Minhas:

Got it, sir. So, if I may ask my second question, if I am allowed to.

Hemant Jalan:

Please go ahead.

Sonal Minhas:

Sure. Thank you, sir. I wanted to understand your position on the institutional sales side, especially in particular the B2B. Given that the real estate demand has been moving in, some of these projects would be nearing delivery in the next maybe 12-18-24 months. How do you rank yourself on institutional sales and how good is your team? If you could just give us a bit of a

guidance there, compare yourself to Akzo, who's fairly dominant in that market as well as compared with Asian. That will be great.

Hemant Jalan: And developers, we don't have an active project team. We do some amount of sales in smaller towns, but those are of very small magnitude. But as a corporate strategy, we have stayed away from institutional sales thus far and there is no immediate plan to get into that in a big way. However, our subsidiary, Apple Chemie which is in the business of providing construction chemicals and waterproofing exclusively to the B2B space of supplying them to large infrastructural builders like L&T and the Shapoorji Pallonji and a whole lot of other metro projects and irrigation projects, etc. across India, they are seeing an uptick in their demand and they have registered very good top line growth during the last 1 year and they are hopeful that will further accelerate in the coming year because infrastructural spending by the government is ramping up quite fast. But in terms of decorative paints, we are not in that space. And in any case, institutional demand for new construction does not account for a very high percentage of paint sales and at the moment, we have not gotten into that sector.

Sonal Minhas: Got it, sir. Thanks a lot.

Hemant Jalan: Thanks.

Moderator: Thank you. The next question is from the line of Jash Deep from Clockvine Capital. You may proceed.

Jash Deep: Hi sir, thanks for taking my question. So, what are your thoughts on getting into a few of the adjacencies in your business, like industrial paints, etc.? So, are there any plans on the table for FY26?

Hemant Jalan: See when it we have entered the adjacency of waterproofing and construction chemicals in the retail space during the last 2 years after acquisition of Apple Chemie and onboarding the technology transfer from them. And as I said, that's a very fast-growing category for us at Indigo Paints at the retail level. Indigo brands of waterproofing and construction chemicals are accounting for slightly in excess of 5% of our top line growth, which was zero until 2 years ago and we see very high growth traction there. When it comes to industrial paints, there are two kinds of industrial paints. One is the very high margin, very high IP protected kind of very high technology sector, things that go into tank linings and offshore oil rigs and gas pipelines and stuff like that. Now those would require some kind of a technological tie up with a global giant who has the necessary certifications and approvals for that. And we don't have that kind of a tie up. We have been open to looking at that space and I have had conversations with several prospective companies in the past, but nothing concrete has worked out. And there is the other part of the industrial paints which supplies low-end primers and low-end enamels etc. to general industries. Now that's a very low-margined business and that's not a business that we are very interested in getting into. And some of our competitors do have a component of their sales that

go into that segment. It does give them a little bit of a top line, but I think it's a big drag on their bottom line. So, I think we would rather not get into that kind of an adjacency.

Jash Deep:

What about auto paint?

Hemant Jalan:

Auto paint is a whole different sector. So, auto paints again can be classified into two categories, one is the OEM and one is the auto refinish. And both are very different technologies from conventional decorative paints. And getting into the auto sector (A) it is a low margin business because the buying power of the buyer is far greater than the power that a seller may have. And you can see that reflected on companies in the listed space in the paint industry who derive a very high proportion of their sales from the automotive sector. Their margins etc. are much lower than what the other companies are. Also to get into the auto space, if you have a tie up with, let us say a Japanese or a Korean paint manufacturing company, unless you have that and that company has a global tie up with some of these automakers who come out of Korea or Japan, it's very difficult to make an inroad into India. And similarly, if you have a tie up with a European or an American paint manufacturer who has a global tie up with some of these American or European automakers unless you have those kinds of tie ups. I haven't seen anybody starting from scratch in India and being able to make any headway with any of the auto manufacturers as far as supply of automotive paints are concerned. So, I don't find it a very attractive proposition, both from an entry barrier viewpoint and from a profitability viewpoint. So, when I say that we are open to getting into adjacencies in the high-end industrial space, auto sector is not a focus area in even exploring as far as we are concerned.

Jash Deep:

Got it, sir. Thank you. So that's all from my side.

Hemant Jalan:

Thanks.

Moderator:

Thank you. The next question is from the line of Shubham Shukla from Voyager Capital. You may proceed.

Shubham Shukla:

Hi, good morning, everyone. My question has been answered. Thank you.

Hemant Jalan:

Okay.

Moderator:

Thank you. The next question is from the line of Yash Goenka from Awriga Capital Advisors. You may proceed.

Yash Goenka:

Hi, thank you for taking my question. In this competitive environment your A&P trends are trending downwards, so how should we see that? And ex of A&P also the cost has been coming down. So, is this structural?

Hemant Jalan:

A&P spends on an absolute amount, depends when you say they are coming down, are you talking about A&P spends coming down at an absolute level or as a percentage of revenue?

Yash Goenka:

Absolute.

Hemant Jalan:

If you say as a percentage, so I will answer both. As a percentage of revenue, if revenue goes up significantly, then A&P spends will come down because they will not grow along with top line growth and they don't need to grow. And therefore, if you go back to 6 years ago when our A&P spends as a percentage of top line were 12.5% and now, they are half of that. And that is because our turnover has almost doubled during this period and therefore if the A&P spends have increased by let's say 25%, then as a percentage of overall revenue they will come down. Now the last year has been an aberration that there has been negligible growth in the top line. But the A&P spends have come down but on an absolute amount, this is the only year when there has been a mild decline on an absolute amount from 92 crores, it's come down to 82 crores. And that has been a conscious decision that when the demand is extremely sluggish then to go on spending money on advertising and bombarding the media and the end users with that doesn't yield you any significant benefit. And instead, the focus shifted to another form of promotional activity and that is the heavy focus on engaging with painters and contractors to improve secondary sale. Now we have been tracking the A&P spends at least the amount that gets spent on television and mass media. And I think almost all companies on an absolute amount have reduced their advertising exposure on television and the digital media during the last fiscal for the same reasons that when the demand is low it doesn't make economic sense to keep throwing money. Now as the demand scenario starts picking up, which we can see signs of that happening, you will see again an uptick in the total spends that we will do as an A&P, it may still come down slightly as a percentage of top line because hopefully the top line will grow faster than that. But there is no effort to reduce the emphasis on advertising and promotion in whichever form we do it.

Yash Goenka:

Okay, and excluding A&P also the cost have been coming down.

Hemant Jalan:

Isn't that good? Other costs are what I mean the reduction, as I had mentioned in my speech is largely on account of freight. We have been able to handle freight better. There are two reasons for it, one is that we commissioned our plant in southern India in Pudukkottai in Tamil Nadu. So large parts of India in southern India and even in central India which were previously catered to from our Jodhpur factory, now the material started moving from a shorter distance from our Tamil Nadu plant. That reduced freight cost slightly. The other thing that has happened is that with higher growth happening in the premium section of paints at least as far as we are concerned, see the cost per kg to transport goods are the same whether you transport a low value product or a high value product. But the freight cost as a percentage of revenue is drastically different from transporting a high-end premium product to transporting a low-end product. So as the premiumization improves and I sincerely hope it will improve further this year as that grows, that freight cost as a percentage of revenue will come down and that's a good thing.

Yash Goenka:

Okay, thank you, sir.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. You may proceed.

Aditya Bhartia: Hi, good morning, sir. My first question is on material costs. We have seen a very sharp reduction in crude prices but at the same time it seems that crude derivatives haven't fallen by that much and there's anti-dumping duty also that has gotten imposed on some of them. So just wanted to get your perspective on how sharp has been the reduction in the relevant materials for us?

Hemant Jalan: For a very long time and not just me, I think I have heard the narrative by other paint majors that the linkage between raw material prices for paints and crude oil prices is extremely weak. Somehow people are not able to comprehend that and keep talking about crude oil prices. Yet crude oil price reduction does impact one or two of our raw materials, but they are not major raw materials at all. The other products are governed by entirely different demand supply considerations that have very little to do with crude. Now prices have come down slightly and I don't think it is because of movement in crude oil prices, it has something to do with the demand supply situation and various monomers that go into making of the emulsions which are our biggest raw material. And the second is titanium dioxide which has been pretty much stable during the last five quarters. There is no variation in the prices of titanium dioxide. What you talked about antidumping duty, yes, two weeks ago, there has been antidumping duty imposed on import of titanium dioxide from China which is significant. And there is a court case going on led by the Indian Paint Association representing all the paint manufacturers. And I think the final hearing of that has concluded in the High Court of Calcutta just 3 or 4 days ago and the judgment of that is awaited. Now I cannot second guess as to what the learned judge will give as a judgment and I expect the judgment to come out in the next 3 weeks or so. The judgment has been reserved. The hearings are over. We are fairly hopeful that the judgment will come in our favor because the rationale for imposing an antidumping duty on titanium dioxide we thought was extremely flawed. Because the domestic production of titanium dioxide can hardly cater to maybe 5%-7% of the demand of this country and therefore to kind of protect them by imposing anti-dumping duty on imports on which the country is fully dependent on seemed a little irrational in our opinion. But for whatever be the reasons there is temporarily a duty imposed which affects everyone. And until the judgment comes out and hopefully if the judgment will come out in our favor, this is a temporary aberration that we will have to bear for maybe a month or so for whatever imports that we have on titanium dioxide. But there has been no other levy of any antidumping duty on any other paint raw material. So, I don't think that concerns us. In general, we see a continued mild softening of raw material prices that is happening, mainly on emulsion monomers, a little bit on things that are linked to crude oil like alkyd resins and turpentine and a few other additives etc. I think plastic container prices have been more or less steady. Titanium has been more or less steady. So, it's a small reduction in raw material prices but any small reduction is helpful in improving the margins.

Aditya Bhartia: Perfect. That's a very helpful answer sir. Just one follow up question on growth trajectory. You mentioned that demand has been improving and, in that context, can you give us some indication

on how you are seeing the year playing out? Can we go back to double digit kind of revenue growth or that looks a bit challenging?

Hemant Jalan:

No, I don't think it looks challenging at all Aditya. I think that as the demand improves, we will get back to double digit growth. Whether that will happen in Q1 or Q2 is very difficult for us to predict because as I said, month-on-month we are just taking it one month at a time and each month is looking marginally better than the preceding month on a Y-on-Y basis. Now frankly speaking, I was hopeful of very high growth coming in May. Now two things have happened to slightly disrupt that. As you know the monsoons have hit India 10 days earlier than scheduled. Now that has some impact because the moment monsoon hits as you know painting activities take a little drop. So normally monsoon hits in first week of June. This time it is held 10 days earlier. That will have some impact as far as May demand is concerned. Also, what has happened in another part of India, which is the northern part of India, which were close to the Pakistan border. And I am specifically calling out states like Jammu and Kashmir, Punjab, Haryana and to a lesser extent states like Delhi, Himachal and the northern part of Rajasthan. Now because of that three-day war that we had and those drones attacking those places, although no damage has happened on the Indian side. But what it does to the sentiment is that all migrant labor which is responsible for painting activities in a very large way, they tend to get scared and they run back to their native villages. So, their going back is instantaneous, their return back to the work takes a little longer. And therefore, that part of India has also been adversely affected in the last 15 days for want of painting labor. So, I mean these are temporary blips that get made up once things get back to normal. But I do hope that the growth for Q1 will be significantly better than Q4. And as I mentioned earlier, I do expect that by the time Q2 happens, if things continue to improve the way they are, we will be back to significantly higher double digit value growth.

Aditya Bhartia:

Perfect. That's great to hear sir and thank you so much for such insightful answers.

Hemant Jalan:

Thank you.

Moderator:

Thank you. In the interest, that was the last question. I now hand the conference to over to the management for the closing comments. Thank you and over to you sir.

Hemant Jalan:

Thank you. And thank you all for your patient hearing. And I sincerely hope that we come back a quarter later with much happier tidings and much better news on growth, not only for ourselves but hopefully for the entire paint industry because we are not immune to what happens to the industry at large. And hopefully the paint industry will bounce back in the quarters to come. And we will get back to our old story of very high growth rates which the industry has been accustomed to in the last 25 years. And thanks to ICICI Securities team for hosting this call and look forward to meeting you all again in 3 months' time. Thank you.

Moderator:

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