November 05, 2026

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 half-year ended September 30, 2026 held on November 02, 2026.

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 ("Listing Regulations"), please find enclosed the transcript of the earnings conference call held with the analyst and investors on November 02, 2026 at 11:00 Hrs (IST) to discuss the unaudited standalone and consolidated Financial Results of the Company for the quarter and half-year ended September 30, 2026.

Pursuant to the provisions of Regulation 46 of the Listing Regulations the above information will also be made available on the website of the company at https://indigopaints.com/investors/analystinvestors-meets/

You are requested to take note of the same.

Thanking you,

For Indigo Paints Limited

Hemant Kamala Jalan
Digitally signed by Hemant Kamala Jalan
Date: 2026.11.05 15:25:47 +05'30'

Hemant Kamala Jalan
Chairman and Managing Director
DIN: 00080942

Encl.: As Above

"Indigo Paints Limited

Q2 FY27 Earnings Conference Call"

November 02, 2026

MANAGEMENT: **MR. HEMANT JALAN – CHAIRMAN & MANAGING DIRECTOR**
MR. T.S. SURESH BABU – CHIEF OPERATING OFFICER
MR. CHETAN HUMANE – CHIEF FINANCIAL OFFICER
MR. AISHWARYA PRATAP SINGH – CHIEF BUSINESS OFFICER
MR. SRIHARI SANTHAKUMAR – GENERAL MANAGER FINANCE AND HEAD, INVESTOR RELATIONS

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

Moderator: Ladies and gentlemen, good day, and welcome to the Indigo Paints Q2 FY27 Earnings Conference Call hosted by ICICI Securities Limited. As a reminder, all participants line will be

in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you, and over to you, sir.

Aniruddha Joshi: Yes. Thanks, Iqra. On behalf of ICICI Securities, we welcome you all to Q2 FY27 Results Conference Call of Indigo Paints Limited. We have with us senior management today. Now I hand over the call to Mr. Srihari Santhakumar, General Manager, Finance and Investor Relations, to introduce the management and take the call forward. Thanks, and over to you, Srihari, sir.

Srihari Santhakumar: Thanks, Aniruddha. Good morning, everyone. Once again, thanks for joining the earnings call today. We have uploaded the results for the quarter and half yearly ending September 30th on the portals of the stock exchanges, kindly go through them along with the disclaimer. To discuss the highlights of the performance, We have with us Mr. Hemant Jalan, Chairman and Managing Director of the company; Mr. T. S. Suresh Babu, Chief Operating Officer; Mr. Aishwarya Pratap Singh, Chief Business Officer; Mr. Chetan Humane, Chief Financial Officer; and myself in the call today. Over to you, sir, for the opening remarks.

Hemant Jalan: Thanks. Good morning, everyone, and thank you for joining us today to discuss Indigo Paints performance for Q2 and the first half of FY27. As mentioned, we have uploaded the investor presentation on the stock exchange portals, and trust you've had the opportunity to review our results. Now let me start with an honest summary. Our top line continued to grow well through the quarter, but profitability was materially affected.

Stand-alone revenues grew 14.1% on a Y-on-Y basis. At the same time, our EBITDA margins fell from 15.3% a year ago to 8.9% this quarter. Almost all of this decline is accounted for by a decline in gross margins, which was affected by an unfavorable product mix and mainly by high-cost raw material inventory carried over from the previous quarter.

Now we are not satisfied with this margin outcome, and let me take you through what drove it and what we are doing about it and what we expect in the quarters ahead. Now the raw material shock that began in March 2026, typically, I would say, from mid-March onwards, continued to weigh on our cost base right through Q2 of FY27.

During March and April, prices of many key raw materials almost doubled and I'm not exaggerating, due to the start of the Iran war. And consequent to that, the industry implemented price increases of approximately 10% to 12% as a response. Thereafter, raw material prices started falling sharply during May and June.

And for a while, it appeared that the price increases that the industry had implemented were now more or less adequate with the modified raw material pricing. However, raw material prices again started climbing up in July and August, and the industry has already announced two sets

of price hikes in Q3, one of which has already been implemented in the last few days and another one due to come in the third week of this month.

Now when input prices go through such an unprecedented roller coaster ride, sometimes sharply up, sometimes dramatically down and then up again, the cost of goods sold that passes through the P&L becomes a little unpredictable. For example, during Q1, when our top line grew by 19%, our EBITDA grew by 42% and PAT grew by 61% on a Y-on-Y basis. Figures almost too good to be true.

Obviously, what had happened is that the low-cost raw material inventory that we were carrying purchased prior to March got expensed out of the P&L in Q1, leading to unbelievably good increases in EBITDA and PAT. This quarter in Q2, the reverse has happened. High-cost raw materials purchased in March and April have got expensed out in the P&L, leading to a drastic drop in both EBITDA and PAT.

The picture becomes a little better and clearer when you see the profitability movement over the entire 6 months of H1. And during H1, our top line has increased by 16.4%, and the EBITDA margin has dropped slightly from 15.1% last year to 13.4% this year. Not a great set of numbers, but not as bad as what Q2 looks in isolation. If I can just spell out the stand-alone results in Q2, our stand-alone revenue from operations in Q2 was INR340.5 crores, up 14.1% Y-o-Y.

At the gross level, our revenue growth in Q2 was actually 18.8%. However, an unfavorable product mix resulted in higher discounts compared to discounts last year, leading to a lower net revenue growth of 14.1%, which is what is reported. The top line growth may appear to be in line with industry performance and not an industry beating performance as we were hoping for.

The reason is that we have embarked on many initiatives on an aggressive basis to enhance our top line growth, many of which will take a little time to show results, and we are confident that results will emerge in the quarters ahead.

Our gross margin for the quarter was 38.5% against 45.1% in Q2 of last year, a decline of 660 basis points. Now this is the largest single driver of this quarter's profitability performance. Part of this drop reflects the shift in product mix, but the major part reflects the higher cost of raw material inventory purchased in the previous quarter, which got expensed out in Q2.

The saving grace is that the pass-through of this higher-priced raw material inventory was largely over by August. And from September onwards, our gross margins and EBITDA margins are back to near normal.

Hence, we do not anticipate future profitability shocks in Q3 and onwards. EBITDA for the quarter was INR30.3 crores, down 33.8% on a Y-o-Y basis at a margin of 8.9% against 15.3% last year. Of this 640 basis point decline, the overwhelming majority is accounted for by a decline in the gross margin.

Advertising and promotional spends were slightly higher this quarter, which has also contributed marginally to this decline, but only marginally. We spent INR18.3 crores on A&P or 5.4% of

our revenue in Q2 against INR15.7 crores in Q2 of last year, with the increase directed towards media and sustained BTL engagement with painters and contractors.

I would like to remind everyone that our company has consistently recorded the highest gross margin in the industry in every quarter during the last five years without exception. Our EBITDA margins have generally been the second best in the industry just after the industry leader. In that backdrop, the sudden drop in both gross margins and EBITDA margins this quarter should be treated as a one-off exception for reasons already explained.

We do not expect this to recur. I would also remind you that our margins have historically peaked in Q4 of every year as that is when our product mix is the most favorable. PAT for Q2 was INR13.8 crores at a margin of 4.0% compared to INR25.5 crores and 8.5% in Q2 of last year. Treasury income was lower as adverse bond yield movements affected our treasury returns. This is a nonoperational item and a smaller part of the decline.

Bulk of the decline in operating margin pressure is what has caused this drop in fact. Coming to stand-alone results for the first half. The half year view places the quarter in slightly better perspective. Stand-alone revenues for H1 was INR690.5 crores, up 16.4% Y-o-Y. Gross margin was 41.9% against 45.6% in H1 of last year. EBITDA was INR92.3 crores at a margin of 13.4%, and PAT was INR56.2 crores at a margin of 8.0% against 8.6% last year. Advertising and promotion expenses were 4.8% of revenue for the half year.

Even after absorbing a difficult second quarter, both EBITDA and PAT numbers for H1 have grown in absolute terms over the first half of last year, albeit by a modest 3.2% for EBITDA and 8.3% for PAT. Coming to our various product category performances and value and volume growth. All four of our categories grew in value during the quarter. The category of primers, distempers and others led with a 29.4% value growth and a 9.4% volume growth. Enamels and wood coatings grew by 17.8% in value and 8.2% in volume.

Emulsions grew 13.3% in value and 10.4% in volume. Putty and cement paints grew 12.6% in value and the volumes were broadly flat with a marginal decline of 0.2%. The volume has grown across most of our categories in a healthy manner. When we come to the biggest category, which is the emulsions, while the volume in emulsions have grown by a healthy 10%, the mix was more skewed towards the lower end of the emulsions, which is quite typical in Q2 of any year.

Coming to our consolidated results on a consol basis, which includes our subsidiary, Apple Chemie India Limited, our Q2 FY27 revenue was INR358.7 crores, up 15% Y-o-Y. EBITDA was at INR31 crores with a margin of 8.6% and PAT was INR13.4 crores with a margin of 3.7%. And for the first half, consol revenue was INR728.4 crores, up by 17.3% Consol EBITDA was INR93 crores, up 2.5% at a margin of 12.8% and PAT was INR55.1 crores, up by 7.4%.

Our subsidiary, Apple Chemie, delivered strong revenue momentum. Their Q2 FY27 revenue was 18.4% -- INR18.4 crores, I'm sorry, up 35.3% Y-o-Y, and their H1 revenue was at INR38.1 crores, up by 37.8%. Margins here were constrained by the same elevated raw material costs, along with slightly higher promotional spends.

Coming to our network and marketing. Our distribution network continued its steady expansion. As of September 30, we had 19,730 active dealers, more than 12,700 tinting machines, and we had 56 depots across 28 states served by six manufacturing plants. During the quarter, we opened a new depot at Bikaner in Rajasthan, which is our fourth depot in Rajasthan. We are looking at opening another two to three depots in Q3 and Q4 to improve service efficiency.

Till date, we have also set up 19 Indigo Color Canvas stores across the country. On the brand side, we stepped up advertising to deepen our TV and digital presence and invested in relationships with painters, contractors and the influencer community. That spending is reflected in the A&P investment behind this quarter's numbers. When we were under margin pressure this quarter, it would have been easy to cut A&P spends, but we chose to hold the line because returns on brand investment are built over years, not over a quarter.

Our water-based plant at Jodhpur, the new one with an annual capacity of 90,000 kiloliters per annum commenced trial production in September '26. Earlier, the solvent-based plant and the expanded putty plant at Jodhpur had commenced production before the end of the fiscal -- last fiscal. And once this new water-based plant is fully operational, which we hope it will be by the end of November, we will have substantial incremental capacity to serve growing demand for our premium water-based products across North, East and Central India.

Together with materially better supply chain responsiveness in those markets. On the sustainability front, our installed solar capacity now stands at 350 kilowatt across Pune and Cochin. Commissioning of another 1,200 kilowatts is underway at our new Jodhpur plant and is expected to be completed by December 2026, taking our overall installed solar capacity to over 1,500 kilowatts.

On the community side, our Indigo Seva Utsav initiative through which our painter community repaints government schools in Tier 2 and Tier 3 towns has now repainted over 260 schools in the country. The painter health benefit program has been extended nationwide and covers over 30,000 painter families. Our SkillUp program has trained more than 2,300 painting professionals in soft skills and business development.

Through the Payal Jalan Trust, our Educare initiative has supported around 480 underprivileged girls with education assistance and career guidance in and around Pune. And we continue to support health care for the underprivileged through the Cancure Foundation near our Cochin factory. These programs are core to our culture and underpin the trust we hold with the painter community, which remains one of our most important routes to market.

Finally, let me close with how we see the rest of the year. The impact of high-cost raw material inventory has been absorbed, which leaves us with a clean base for the quarters ahead.

We expect gross margins to improve substantially from Q3 onwards, and we expect to reclaim our leading position on gross margin percentage during the seasonally strong Q3 and Q4 quarters. EBITDA margins should normalize over these quarters with inventory calibrated to market conditions and gross margin recovery during the second half.

As far as demand is concerned, a strong revival in our dealer network gives us confidence of the improved growth and a better product mix in the second half. Our commitment to brand building continues with disciplined annual A&P spends allocated across both ATL and BTL engagement. We expect our subsidiary, Apple Chemie, to sustain its momentum as it enters new territories.

Finally, our priorities remain unchanged: to grow significantly faster than the market, deepen our presence in underpenetrated geographies and build on portfolio premiumization to drive sustainable profitable growth. This was a difficult quarter in margins, and we are not trying to understate it.

But the causes were identifiable and are now largely behind us. The top line momentum is real, and we enter the second half in much better shape than this quarter's margin print would suggest. Thank you. And now we'd be happy to take your questions.

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

Abneesh Roy: My first question is, in fact, on the top line. I understand on the margin bit that H2, there will be recovery given festival quarter, price hikes, etcetera. Coming to top line, generally, Indigo Paints wants to grow 2x to 3x the industry. And H1, it seems largely you have grown in line with the industry. And in Q1 call, you had said that you want to be more aggressive on trade and influencer spend with the stated desire to grow faster than the industry.

So I wanted to understand H2, what will be your expectation? You have given a lot of commentary on margins in the CNBC interview and the opening remarks. top line, what will be your expectation? If industry say grows at x, would you expect that 2x is possible given the H1 trajectory versus your stated desire to grow much faster? What else is needed there? Yes. That's the first question?

Hemant Jalan: I don't think we have ever given a guidance of 2x to 3x the industry average as far as growth is concerned. Yes, we have said that we'd like to grow at 1.5x to 2x. Now that sometimes depends on what the industry growth is. Suppose the industry growth starts averaging 15%, which is quite possible in Q3, given the market conditions that are prevailing right now. In that case, if we can do 23%, 24%, 25%, I think we'd be more than happy.

If for some reason in a quarter, the industry growth is down at 5% then we'd expect to do at least 10% to 12%. Now I entirely agree with you, and I spelled it out in our -- in my speech, that the top line growth this quarter has not been the greatest. Although so far, the results of only the industry leader are out who did grow at a similar percentage, but it's not been an industry beating performance.

Now keep in mind that when the results came of the industry leader, I read the transcript of their Analyst Call, and they said that a sharp uptick was provided due to the industrial growth rate, which was considerably higher than the domestic -- the decorative growth rate. So if you adjust for that, maybe on the decorative part, we were marginally ahead of them, but only marginal.

We have to wait and see for the results of the others, but I would expect them to be more or less in the same range of I'd expect the industry to grow in the range of 12%, 13%, 14% as far as Q2 is concerned, is my belief, but I don't know for sure.

Now the reason why I still stand by what I said last quarter that we are going to be aggressive in leading top line growth. that is not purely by means of heavy discounting. Slightly higher discounts are a small part of that strategy. There are many other things which involve higher spends with the influencer community where results are not going to be instantaneous. I think you got to wait for one or two quarters for the results to manifest themselves.

From the way we measure the outcomes, I think we are on the right track. And therefore, we are confident that in Q3 and Q4, you will see the outperformance from the industry top line growth. By exactly how much and what the specific number is going to be, I hesitate to give a number guidance because we continue to be in a world of very severe geopolitical instability. I think at this point in time, we just go month-by-month.

October has been great, but I'm sure it was great for the entire industry. Let us just keep our fingers crossed and hope that no further tension escalates in the Middle East, and we have a peaceful November and December. And if that happens, I'm reasonably confident that the numbers for the industry would be much better in Q3 and our numbers would be even better.

Abneesh Roy: So understood. My second and last question. Whenever hyperinflation happens generally in consumption, number 1 player gains market share. So my specific comment is, are you seeing somewhat higher aggression from the number 1 player? And similarly, local players start losing market share.

So you are a respectable pan-India player. In your markets, have you seen some of the local players reduce presence, reduce promotions and so they must have lost some market share. And this could come in H2 rather than Q2 necessarily. What will be your comment?

Hemant Jalan: So frankly, it's very difficult to track the local players. Published data is not available, and we don't actively track them on a quarter-by-quarter basis. So whether the local players have lost some ground during the first half of the year is something that, frankly, I do not know. You are right that when prices go up, the industry leader tends to gain a little disproportionately.

And that is because in an increasing price when finished goods prices are being hiked, dealers tend to stock up on the industry-leading product more than others. So shall I say a little overstocking that happens during any price hike is a little more pronounced for the industry leader versus the rest of the players. And that does give a little advantage to them.

But I think they're also recovering a lot of ground that they had -- please remember that the industry leader is coming off of two years of negative top line growth when they had lost a lot of ground to other players. And they seem to be getting those dealers back. So therefore, on a slightly weak base of the last 2 years, you're seeing a heavier bounce back by the industry leader, which is not unexpected.

Moderator: The next question is from the line of Prakash Kapadia from Entrust.

Prakash Kapadia: Two things from my end. If you could help us understand the impact of high-cost inventory and the mix change at a gross margin level, that will be helpful. I think the 650 basis point gross margin fall, if you could break that up, that will be helpful. And assuming on your comments, the recovery and the margin bouncing back in Q3, and we know Q4 is a seasonally strong quarter, we'll still be at best INR140 crores, which is the PAT, which was there four years ago.

So what will it take for us to get sales and profitability back together? Because our whole thesis was we have differentiated products, a low base market share gains. So when does it translate to better sustainable and predictable performance and some thoughts on the longer term will help. So those are my two questions?

Hemant Jalan: Okay. So let me answer both of them separately. First of all, you're talking about product mix and drop in gross margins. Now product mix is always the weakest in Q2 for all paint companies. And the reason is that it's the monsoon quarter and exterior painting virtually comes to a halt and exterior paint are the more profitable products.

So product mix does deteriorate during Q2 as it did for us. But then you'd be right if you were to point out that they would have deteriorated in Q2 of last year also because last year also, there was a monsoon during the Q2. So actually, the product mix should not have been too different between Q2 of this year versus Q2 of last year. Sequential basis, yes, Q2, you'd expect gross margins to drop as all paint companies do.

The difference is that last year during Q2, we had done something unusual to keep up sales for premium emulsions, which normally don't sell very much in Q2. So there was an artificial jump in our product mix with regard to premium emulsions in Q2 last year, which we chose not to do this year. So we'll probably get a disproportionate rise in our premium emulsion sales in Q3 because last year, it was artificially propped up in Q2 due to certain very promotional schemes.

So therefore, because of that, the product mix this year compared to the product mix of Q2 of last year was a little inferior. Now that would not account for a 6.5% gross margin drop. Maybe it would account for 2%, 2.5% drop in gross margin. The main drop in gross margin has happened because of this strange movement of differently priced raw materials through the P&L system through Q1 and Q2.

Q1, when raw material prices were hitting the roof to get an EBITDA, which was -- or even to get a gross margin, which was slightly better than Q1 of last year to get an EBITDA growth of some 42% or something like that and a PAT growth of more than 60% was unreal. As I said, it was too good to be true.

So that was entirely because of the quirk of accountancy that when you have such widely varying prices of raw materials sitting in your books in terms of raw material inventory, what priced inventory get expensed out at what point in time is something that the ERP system decides and is very little within your control.

So it was a pleasant surprise last quarter to get such a big upward movement in profitability and the reverse had to happen, whatever goes up will come down. And we had purchased a lot of higher-priced raw material inventory during the months of March, April and maybe part of May,

and they had to get expensed out of the system, and that happened during July and August largely.

So that is the major reason for the drop in gross margins. I do not share your pessimism that the overall PAT for the year is going to be similar to what it was last year. I think that there will be substantially higher profitability that we will give at least on an absolute basis, even if there is a marginal drop in the margins of EBITDA during the year due to our pursuit of higher growth.

But if that higher top line growth does actually materialize the way we expect it to, maybe there would be no drop in profitability margins and the improvement in the overall profitability numbers would be quite healthy. So at the moment, I stand by what I said last quarter, the goal is to accelerate the top line growth. If bottom line suffers marginally in terms of percentages, so be it.

Prakash Kapadia: Yes, that I understand, Hemant Ji. That is very clear in your previous calls and the road map, we could look at slightly higher top line growth and aggressive top line growth at the cost of maybe marginal fall or some little fall in margins. That is understood. What I was trying to understand is the differentiated product, the low base, the low market share, the initiatives which we've taken, the expansion, the upcoming capacity now is on stream. So where does all this lead to a more predictable and sustainable performance. That is what I was trying to understand better.

Hemant Jalan: It's -- if you're looking for a number guidance, I'd hesitate.

Prakash Kapadia: We are not at all looking at a guidance, sir. I'm just looking at more...

Hemant Jalan: As to what is going to be the number guidance because there have been many, many times, many times when we give this analyst call, 1 month of the new quarter has gone by, and that 1 month has been excellent. for an optimistic note and only to kind of spook ourselves. I mean, I remember Q4 of last year, January -- and who would have thought that this Iran war would be raised on 28th of April and would spook everything as far as that quarter is concerned.

So this year also, October in Q3 has started out on an excellent note. I mean, we have done a record sales in October, the highest ever for the company and the highest Y-on-Y monthly growth that we have seen in the last three, four 3years. But is that going to sustain itself in November or December?

I really don't know, Prakash Ji. I just hope it does, but we'll just have to wait and see as to what happens because, I mean, I'm seeing a lot of foreign commentary that immediately after the midterm elections, which are held tomorrow in the U.S., the U.S. is possibly planning some renewed activity in the Middle East. I hope that, that doesn't happen, but it is something totally beyond our control.

Now if that were to happen and if crude were to again go through the roof, then I can't really make any prediction how the quarter will go out. And we are all at the mercy of geopolitical movements around the world. But in general, our differentiated products and our higher-margin products, which are the premium products have always tended to sell much, much better in Q3 and Q4. You look at our trajectory of EBITDA margins, not for one year, look at it for five years.

Prakash Kapadia: It's always been in Q4. Absolutely, sir. I totally understand.

Hemant Jalan: Last year in Q4, the EBITDA margin was 23%. I mean, in Q4 of FY26. The previous year, it was 23.4% and the year before that, it was 22.5%. So EBITDA margins are second highest in Q3 and the highest in Q4. And sales-wise also, 62% of our sales typically comes in the second half. So I'm not very pessimistic.

As you make it sound, I think that good days are definitely ahead. But yes, until the top line growth starts reflecting itself in numbers, we have to just restrain ourselves and say, wait until we deliver the numbers and then the credibility will come.

Moderator: The next question is from the line of Deepak Juneja, an Individual Investor.

Deepak Juneja: I have two questions. First is regarding our water solvent plant. Now the trial run has already been done. Are we waiting for any of the permission? Can we expect it to start by December? And sir, second question is like the higher inventory cost we faced problem. So will it -- can it happen again three months down the line or four months down the line again? Or whether we are -- we have calculated hikes based on that? These are my two questions.

Hemant Jalan: Okay. So first, as far as the water-based plant is concerned, we did start trial production sometime in late September. It's a large plant with a lot of automation. So there are no permissions that are awaited. So to answer your question very specifically, we have all the permissions in place, whether it's the pollution control board, the factory license, the electric connection, etcetera, etcetera.

Everything is in place. There is no statutory clearance that we are awaiting for. Day by day, I mean, we are producing in that plant. It's not that there is no production, but it's nowhere close to capacity because there are various parts of automation that require debugging and that process is going on. Each day is a little better than the previous day.

It becomes kind of like a grey line as to when do you declare that the trial is over and when the commercial production starts. My best bet is that end of November is when we'll declare the trials to be over. It may happen 10, 15 days here or there. But essentially, definitely from December, we should be in full production as far as that plant is concerned.

Secondly, I've always already mentioned about your high-priced inventory that, that has already got expensed out of our system. In fact, it got expensed out of our system in August. And our September P&L that we made showed us getting back to normal EBITDA margins and gross margins.

Now an assurance that this would never happen in the future, as per present geopolitical situations, we do not expect it to happen. But if a fresh renewed war were to start in the Middle East and again, raw material prices and their availability would go through a tail spin like it went in March and April, I cannot make any predictions if those things were to happen. Those are things beyond our control.

And if they were to happen, I sincerely hope they don't. So if things even remain as they are with crude at its present level of hovering between $110 and $115, I don't think we would see those kinds of shocks in the gross margin system in the foreseeable future.

Deepak Juneja: So sir, if the crude oil remains here, we have already calculated the price and selling everything is according to that, right, sir? There should not be any shock if the crude oil prices don't go upward or much.

Hemant Jalan: Shock. I mean, the industry has taken two price increases this quarter. The first price increase got implemented by the industry leader just yesterday on the 1st of November. We executed a similar price increase about five, six days earlier to that. And the industry leader has announced another slightly larger price increase on the 21st of November. I expect we will do it again four or five days earlier than that. It should more or less cover the inflated costs that have happened. Let us wait and see how the price movements happen.

Moderator: The next question is from the line of Aniruddha Joshi from ICICI Securities Limited.

Aniruddha Joshi: Yes. Sir, two questions from my side. Assuming crude settles at, let's say, around $110 and similar currency rates, around INR95. So with the two price hikes in November, is the entire inflation passed on or the industry and even Indigo may require additional price hikes? That is question number one. And question two, with so much -- so many price hikes happening, will there be any impact on volumes because the inflation is pretty high.

Also, as we hear the labor inflation, there is a painter cost is also in a way going up. So that may also hurt the overall budgets of the consumers. And in general, the inflationary pressure is also high. So that may also hurt in a way, the demand. So have you noticed any such trends? Or what will be the view on this?

Hemant Jalan: So as far as price hikes are concerned, let me be frank, they are dictated by the industry leader. So I don't think the rest of the players have the option to implement price hikes or implement price hikes of magnitudes, which are significantly different from what the industry leader affects. So the timing and the magnitude of price hikes are pretty much dictated by the industry leader. Now you asked, does this cover the inflation? Now it will never cover the inflation exactly across all products in your portfolio.

There are some elements in the portfolio where it may cover a little more than what is required, and there will be some elements in the portfolio where it will be covered a little less than what is required. In totality, more or less okay. And then if there is a shortfall and you still feel the pinch on some products, what does -- what do the other players do? You moderate your trade spends and discounts to cover up for that.

So after the second price hike, which is due 10 days after Diwali, as of present raw material prices, do we expect another price hike? My answer is probably no. But I think this question should better be asked of the industry leader because they really determine the timing and the magnitudes of these things.

Now with all the price hikes that have happened, so far, we have not seen any adverse impact on the volume. So the volume pickup has been good. We have reported our volume growth in four separate categories as far as this quarter is concerned. And the volume growth in October has been extremely good. I mean, to be honest with you, it has kind of taken us by surprise.

We had expected a good October because of late Diwali, but not to the extent in which it happened. And the product mix has become very, very healthy as far as October is concerned. It normally does improve in Q3. But I would say the improvement has also -- the extent of the improvement has also caught us a little bit by surprise.

But what does November and December bode for us? I hesitate to make any predictions. As I said many, many times, when we start the quarter on a great note, only to maybe spook ourselves and cause some superstitious downturn in the remaining two months. So I will hold my tongue and let the numbers do the talking when the quarter is over.

Aniruddha Joshi: Okay. Sure, sir. Understood. And last question from my side. If you can point out to any trends, I mean I guess there is some portfolio deceleration. Is this visible in urban markets, Tier 1, Tier 2 metros, rural markets or any particular product per se or product segment? So if you can give more color on the portfolio deceleration that would have happened? And in a way, is this temporary in nature? Or we expect a quick recovery or revival in the portfolio?

Hemant Jalan: Our presence, Aniruddha, in the metros is too small for us to talk about any change in portfolio mix as far as metros are concerned. So I think you'll have to talk to companies who do very strongly in metros to do that. But when it comes to urban and rural areas or even Tier 1 cities, Tier 2 cities and rural areas, I don't see any noticeable change as far as the product mix is concerned.

There have been certain segments in our portfolio where we have become more aggressive by choice. And I mean, we are growing disproportionately in waterproofing, for example. We are growing disproportionately in the lower end of the emulsion scale. We are doing extremely well on enamels. So these are across product categories and across price levels that we are talking about it.

And these -- some of these changes are more voluntary that we are driving by slightly increased spends. And by spends, I don't necessarily mean discounts. It could be better engagements with the influencers in some of those categories, which are driving our growth. Overall, is there any noticeable shift in the product mix for the paint industry? I sincerely doubt it.

Moderator: The next question is from the line of Uchit Garg, an Individual Investor.

Uchit Garg: So my first question is, I just wanted to talk about the double-digit growth that you've been projecting. But there is a new Jodhpur plant, which is mostly replacing the old capacity. So I was wondering where the additional capacity is going to come from if the demand grows that quickly? And what might be the current capacity utilization rate?

Hemant Jalan: So you're right that the new plant is partly replacing the old plant, but it is with a hike in capacity also. So the new plant has got more capacity than the old plant, and it also has a lot of automation,

which the old plant did not have. So therefore, as far as capacity is concerned, even in the best of projections as far as top line growth is concerned, we do not expect any substantial investment in capex for the next couple of years, at least. I think we'd be more than adequate in capacity.

As it is our South India plant, the new modern plant that we commissioned two, three years ago, has a lot of excess capacity there. And with the Jodhpur plant also coming up to stream by the end of this month, I do not see capacity as a constraint at all to deliver whatever we may expect in terms of top line.

Uchit Garg: What might be the capacity utilization rate?

Hemant Jalan: See, the capacity utilization rates, whenever you implement a new capex expansion, first of all, the capacity utilization varies depending upon the time of the year. For us, the two months in a year when the capacity utilization hit its peak, one is just before Diwali, which is October. And the other is March, which is also seasonally the highest selling month for us during the year. So in those months, capacity utilization in this expanded capacity may hit, I don't know, 75%.

And during the leaner months, it may drop to 50%, 55%. So year-round average is about 60%. When your year-round average starts going above 80% is when you start thinking of further capex investment and start initiate further machinery addition to take care of the emerging demand over the next couple of years. So at the moment, I think.

Uchit Garg: Okay. And just a question on operating leverage. So this Jodhpur plant that we just made, how long do you estimate it will take us to achieve the margins that we had in the previous Jodhpur plant?

Hemant Jalan: No, I don't think it has anything to do with the margins. It is just debugging a lot of automation stuff. As I said, it should be over by the end of November. So I don't think that, that by itself affects your operating margins. Your operating margins are affected by what kind of discounts you do, what kind of ad spends you have.

What kind of manpower buildup you do and various other things? So I think capacity expansion is fairly disconnected as far as your margin expansion is concerned. So I would not draw any direct linkage between the two.

Uchit Garg: Okay, sir. And I just had a couple of questions on the raw material side. So just -- so given how volatile the prices have been recently, do you guys hedge any raw materials? Or you mainly just manage it through inventory and pricing?

Hemant Jalan: Hedging options for these raw materials are really not available. So forward locking in of prices of many of these raw materials is technically not possible. So these are not commodities like copper or aluminum or something like that where you can do forward buying or you can buy put and call options to hedge against future movements in prices. Those kinds of options trading or future buying is really not heard of in these kinds of raw materials. So basically, you have to manage with inventory.

So if you're expecting uncertainty, you keep marginally higher raw material inventory on hand. keeping too much of inventory on hand can be difficult, both from a storage viewpoint and from a risk viewpoint that in case prices were to drop in an uncertain environment, you could be -- you could be held holding on to a lot of high-priced inventory. So you kind of take the middle road and hope for the best. And if prices move up sharply, generally, the industry does tend to pass on the price increases to the consumer, maybe with a small lag, but it does.

Moderator: The next question is from the line of Akhilesh B from Northstar.

Akhilesh B: Hi, I had a couple of questions. So first was we saw two years of very muted volume growth in the industry. And this year, it seems like despite a kind of price shock, which we are also passing on, the industry is able to grow volumes. So I wanted to ask you whether you're slightly surprised by how well the market is taking the price hikes and also whether you feel that if these price hikes reverse going ahead due to raw materials coming back down, the volume growth could accelerate even further?

How are you feeling about the current market? That was one. And the second one was, can you also comment a little bit more in detail on the initiatives which you think are going to drive accelerated revenue growth or sales for us, which you said that will take some time to fructify, but can you tell us a little bit more on the initiatives?

Hemant Jalan: So the first part of your question, no, I'm not surprised because historically, in the past, the elasticity of demand has been pretty weak. And when prices have increased, demand has never been known to contract substantially. And the main reason is that painting is not a staple item that affects your monthly budget. You typically buy paints once in four years. And when you buy it, either because you want to give a fresh look to your home or there is a marriage happening in the house or some other occasion.

And the cost of the paint being less than 50% of the total painting cost with 55% to 60% going as labor cost, a small inflation in the price of the paint historically in the past has never affected demand in any substantial way.

Now if inflation creeps up at whatever, 5% per annum, there has been a long period of time when paint prices have not gone through an uptick. So suddenly, this year, we have had a 10%, 11% price hike in Q1. And now in Q3, we are going through another 5%. So overall, maybe 16%, 17% price hike after a gap of two, three years. So that translates into roughly an average of 5% per year.

Maybe in a short period of time, prices have jumped up too much, but then keep in mind that they were stable for two, three years without any change whatsoever. So the fact that industry was not doing well for two years because of a demand slowdown, I was surprised that the demand slowdown lasted that long because in our association with the paint industry for the last 26, 27 years, we have never seen a demand slowdown, which has lasted for two years.

Having said that, once the demand started recovering post Diwali of last year, I think it is from November of last year that we started seeing an uptick in the demand, which has only accelerated

with every subsequent quarter. I can only hope that it will maintain itself as it has always in the past. So I'm not pessimistic about any downward movement in demand because of pricing.

And in answer to your second question, in case raw material prices were to move in the opposite direction and the industry chooses to reverse these price hikes by lowering prices in the future does not seem likely in the immediate future. But hypothetically, I do not rule out that possibility in the next one or two quarters, depending on how the raw material prices move. And these things have also happened in the past.

When there has been a very substantial drop in raw material prices, industry has lowered paint prices. And that has again not led to any expansion in volumes per se. So basically, paint demand is, by and large, fairly inelastic as far as pricing is concerned. And I don't think price movements have historically done much to upset or encourage the volume movements as far as paints are concerned. I think the volume movements are led by entirely different parameters, which are hard to understand.

Akhilesh B: And if you could elaborate a bit on the initiatives to accelerate revenue growth and sales, which you mentioned in prior quarters…?

Hemant Jalan: No I would rather not talk about all those initiatives very clearly at a public forum because some of those are confidential. The obvious part that people jump at conclusions is higher discounting. I would just say that, that's a very small part of the initiatives that we have taken, and we have resorted to that only in very, very few product categories where we felt we were kind of ignoring them. By and large, we are not great fans of using high discounting as a lever to drive growth. We believe in slightly more sustainable measures.

As I said, instead of talking about them in great detail, all I would say is coming up with more innovative ways to engage with the influencer community, which is the painters and the contractors. And also newer ways to incentivize your sales force. I think that those are measures that yield longer-term and more lasting impacts as far as disproportionate top line growth are concerned.

We have embarked on many of those measures in the last quarter. I do admit the results are not clearly visible at this point in time. But by looking at the early indicators of the measures that we have taken, I'm fairly confident that you will start seeing the results in Q3 and Q4 as we go forward.

Akhilesh B: And one last question, sir. So is it fair to say that now our capex cycle is done for the foreseeable future, let's say, the next two, three years and that any...?

Hemant Jalan: Any substantive capex, yes. I mean there could be minor additions, INR15 crores, INR20 crores coming on an annual basis, which is too minor. But this one was a major one, almost INR275 crores or thereabouts. So of anything remotely close to this magnitude for the next two to three years, we are pretty much done with.

Akhilesh B: Yes. So in that context, sir, whatever free cash flow our company generates is available for distribution back to shareholders?

Hemant Jalan: Distribution back to shareholders is one option. buyback of shares could be another option and acquisition of another company could be a third option. So there are many options available. And the Board will decide at an appropriate time as to what measure or what combination of these measures is most appropriate as far as the company's future is concerned, yes.

Akhilesh B: Yes. That's exactly what I was coming to, sir, whether buybacks were something on the agenda for the Board given the valuations are…?

Hemant Jalan: Its s possible agenda. But I mean, for a buyback to be meaningful, it's got to be a substantial buyback. I mean a buyback of a couple of hundred crores is not going to materially move the needle on any parameter whatsoever. So let's say, let's build up a chest. I mean there could be who knows some interesting M&A or future diversification options. Let us see.

Moderator: Ladies and gentlemen, we'll take this as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Hemant Jalan: Well, thank you all for listening to us and tuning in on to this call. I know it's been a difficult quarter, and we are not trying to underestimate the magnitude of the hit that we have taken on the bottom line. But I think we have explained to you the reasons which have led to it. And they are largely behind us. So I'm sure better days ahead, and let's hope for a much better performance in Q3. Thank you all.

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.