

Berger Paints

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Spark Capital Advisors (India) Private Limited, Research Division - VP of Research

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [1]

Good evening, everyone. We'd like to welcome the management of Berger Paints, and thank them for giving us this opportunity. I would now like to hand over to the management for opening remarks. Over to you, sir.

Thank you, Ashit. Good afternoon, everyone, and welcome again to Berger Paints India Limited's Q1 FY '19 Earnings Call. As is customary, I'll start with some comments on our performance of the quarter and then invite questions.

The growth numbers for the stand-alone company are as follows: Total income from operations, of course, normalized for the effect of excise duty is 19% for the quarter, the growth of PBDIT is 23.5% (sic) [22.3%], PBIT is 25.9%, PBT is 25.4% and PAT is 24.3%. There was some improvement in this quarter in the growth rates for the top lines of most business lines, in fact all business lines. However, material costs ratios to total income from operations went up, both on the corresponding quarter last year and the trailing quarter mainly because of firming up of the USD versus the rupee and, of course, the prices of titanium dioxide, monomers and some other raw materials.

There has been, of course, a partial effect on a price increase in decorative business in the quarter for approximately 2%, effective from May 2018. Regarding the consolidated numbers, the total income from operations normalized for excise duty is 20.7%, PBDIT is 22.6%, PBIT is 24.5%, PBT 22.5% and PAT 19.5%.

The subsidiaries BJN-Nepal and the newly acquired Saboo Coatings showed robust performance, both top line and profitability. However, the consolidated number for the respective quarters were not strictly comparable since Saboo Coatings was acquired only on 5th June, 2017, and therefore, we had a full quarter numbers this year and only a partial one last year.

This is a little bit about the performance in the quarter. I now invite questions from the participants.

(Operator instructions) The first question is from the line of Abneesh Roy from Edelweiss.

Sir, my first question is on Saboo Coatings. You've said, in the base quarter, the numbers are not comparable because of the consolidation. But you have continued to call out that it was improved performance for the quarter. So what are you comparing to if the base quarter is not comparable?

Unidentified Company Representative, [3]

Based on their earlier results, meaning the performance of the company before we acquired it, there's been -- in other words, we're indicating that there is an improvement in the performance of the company, even if we take the earlier quarter as being a complete quarter.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [4]

Both sales and EBITDA, in terms of improved performance?

Unidentified Company Representative, [5]

Yes, yes.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [6]

And sir, last quarter you have said, Berger and Nippon JV, there was a currency impact and start-up cost. I understand start-up cost may not be impacting anymore to the same level. In terms of currency, any impact, yen and (inaudible)?

Unidentified Company Representative, [7]

Not really, but I think the start-up costs are not just temporary. They will persist for sometime. Essentially, these are costs in pursuit of the new business.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [8]

Sir, third question is in terms of the industrial businesses, what is the quantum of price hike you've got? Because normally these are much more difficult and time lag is there. So what's -- if you could share how much is the pricing there?

Unidentified Company Representative, [9]

These are not public numbers, Abneesh. So I can't disclose exact percentages. But what we are saying is that these price increases are being negotiated, and it's pretty much due. So this will happen shortly.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [10]

Sir, last question. You have seen the rupee movement today. Now with the anti-profiteering clause, will it be fair to say a big margin compression for you in Q2, or the industry can now take a price hike, they can go to the government and say proactively that, yes, anti-profiteering clause is there, but there are big reasons for taking a price hike. What is the scenario you are -- we should build for Q2?

Unidentified Company Representative, [11]

I think I'll restrict my comments for the Q1 results, Abneesh. So I can't talk about Q2 or any other quarter. Of course, what you say will be kept in mind and will definitely be one of the considerations for any future price increase. That is as much as I can say.

Operator [12]

The next question is from the line of Kunal Shah from IIFL Research.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [13]

This is Avi Mehta from IIFL. First, sir, is on the sales growth front. Now this quarter, based on whatever the reported numbers, it feels that we have seen the strongest growth in the decorative side.

Operator [14]

Hello. Mr. Shah, this is the operator.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [15]

How do you see the scenario, what exactly is driving it? Is it again the south (inaudible) is the reason? Or is there other (inaudible) playing out, especially the investments that we have made in the kind?

Unidentified Company Representative, [16]

Shah, your voice is very indistinct. I'm sorry, I was not able to hear the first part of your question. Do you think you could repeat it, please?

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [17]

So what I was indicating is that if I look at the first-- if I look at the numbers (inaudible) reported decorative (inaudible), it seems you have seen market share gains in the decorative segment. Is that understanding correct? And if it is, if you could kind of share what are the levers that are driving it? That's it. That is the first question, sir.

Unidentified Company Representative, [18]

You are commenting on the decorative growth? I'm not sure we have published numbers for the decorative growth separately. But yes, we have improved performances in this business line as well. I think it

is the feature of the recovery of the economy little bit more than anything else, and it's pretty much, I think, affected all players in this segment. I think that's probably the fairest comment I can make. The usual levers that help in decorative growth continue to operate. So I can't say that they have changed greatly. Some of the strategies that we have employed are helping surely, but more I think it is the effect of the economy and the sector taking up more than the other quarters.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [19]

Correct, sir. I think while the industry is seeing an uptick, you are actually seeing -- my understanding is, you are actually standing apart in terms of the way you are growing. You are one of the faster growing ones. I just wanted you to comment on what are the levers that are driving it, if you could? That's what I was trying to get.

Unidentified Company Representative, [20]

You're talking about industrial growth? I'm sorry, the voice is very indistinct. That's why...

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [21]

No, decorative only, decorative only, sir.

Unidentified Company Representative, [22]

Decorative? So yes, that is my response that we -- generally, the market has picked up a little bit. I hope it will sustain.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [23]

Okay, sir. And secondly, sir, on the margins, essentially, just referring to your comment about input costs being where they are, is this weakness just a qualitative comment larger in the industrial segment which will -- or is it in the decorative segment that has seen a sharp run and just wanted to understand qualitatively, what has driven the weakness first or higher weakness than what we've seen for the peers. And your absolute gross margins are significantly -- the difference between gross margins versus you and the peers has increased. So I just wanted to understand, is that the industrial segment playing out over there or is it decorative agile and the timing of your inventory which is paying (inaudible)?

Unidentified Company Representative, [24]

The scale and the increased volumes rather than anything else. So I hope that helps.

Avi Mehta, IIFL Research - Assistant VP & Lead Analyst of Consumer Discretionary [25]

I'm Sorry, sir. I missed that. Can you (inaudible)?

Unidentified Company Representative, [26]

Improvement that you see is mainly on account of scale. Because there's significantly higher growth this quarter. So it's not restricted or limited to any business line.

Operator [27]

(Operator Instructions) The next question is from the line of Tejash Shah from Spark Capital.

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [28]

Sir, last time when we spoke after your numbers, you said that the risk to margins still persist and usually the price hike lags, the raw material movement. And in between, we had this announcement of GST coming down from 28% to 18%. So how are we positioning ourselves on that front? Because as one of the earlier participant also highlighted that anti-profiteering continues to be a risk on legal front, but then there's a risk to -- there's a valid and imminent risk to margins as well. So how are we managing that?

Unidentified Company Representative, [29]

See, my comments would chiefly be restricted to Q1, Tejesh. So I think you'll have to bear with us a little bit. But yes, these concerns that you mentioned and the previous participant mentioned continue to exist. These concerns are there. And therefore, we will act in a sensible and hopefully, logical manner.

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [30]

Have we intervene, sir, as of now on pricing front after the GST announcement?

Unidentified Company Representative, [31]

No, not yet. We have, of course, reduced the prices, if you mean that. But no kind of thought on increase in prices as a result of the raw material price increases. Of course, everybody in the industry has reduced prices. And hopefully, we have been active and clear in making sure that all the price decreases are communicated to the consumer and customer. So hopefully, that is all in place.

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [32]

Sir, what is the quantum of price cut?

Unidentified Company Representative, [33]

You know that it is 10%, the GST cut is 10%. So all the MRPs are proportionally reduced. So -- and adequate communication in newspapers and in terms of publicity have been done, hopefully, to make the consumer aware.

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [34]

Okay. And sir, what happens to -- operationally, just wanted to understand. What happens to the stock already in trader-dealer level? So you issue credit note for (inaudible)?

Unidentified Company Representative, [35]

Again, these are matters to be discussed in Q2, Tejesh. So I don't think we can dwell. It is beyond the scope of this discussion. This discussion is mainly...

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [36]

Just wanted to understand the impact on margins...

Unidentified Company Representative, [37]

To understand Q1 results. So operationally, yes, of course, there are challenges. But I don't think I can discuss this in detail in this conference.

Tejash Shah, Spark Capital Advisors (India) Private Limited, Research Division - VP of Research [38]

Sure. Sir, next question is on -- which are the key geographies we import our raw materials from? And any -- apart from what we are seeing in rupees -- rupee-dollar scenario, any unusual currency volatility in those respective geographies?

Unidentified Company Representative, [39]

No unusual as for currencies rather than in -- most of the imports are sensitive to the dollar appreciation, so that's very clear. So imports from all over the world and all denominated in dollars.

Operator [40]

(Operator Instructions) The next question is from the line of Kunal Shah from IIFL.

Kunal Shah, IIFL Research - Research Analyst [41]

Yes. Sir, my question is regarding the gross margins. If you see the reduction in this quarter versus last 4Q levels, I mean our reduction has been one of the highest among all peers. So just wanted to understand: one, is the reduction more driven by the decorative segment or the industrial segment? And two, I mean, with our price hikes that we are planning to take in industrial as well, our negotiations are ongoing is what you highlighted. Do you -- where do you see this trajectory going?

Unidentified Company Representative, [42]

Just to clarify, you're absolutely right, the industrial price hikes will lag, at least for us behind decorative. So there's a impact of that. And it would be fair to say that in the coming quarters, we are looking at some improvement in this particular business line, in terms of pricing -- price recovery.

Kunal Shah, IIFL Research - Research Analyst [43]

Okay. So would it be fair to say that industrial segment impacted our margins more than decorative or?

Unidentified Company Representative, [44]

Yes.

Operator [45]

(Operator Instructions) The next question is from the line of Dhiraj Mistry from Emkay Global.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [46]

Sir, my question is related to other expenditure, which has increased by 12% in stand-alone business. So I would like to know what has been increase in A&P spend during the quarter?

Unidentified Company Representative, [47]

We don't give specific numbers. You can understand this is not in the public domain. But definitely the expenses that have grown up mainly on account of the ones which are either variable in nature and, therefore, caused by the higher volume. So we are looking at freight or we are looking at power and fuel or consumable expenses and of course A&P spends. We don't give a break-up, but that's as much as we can say. Thanks.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [48]

Okay, okay. Sir -- and second question on CapEx. So what is the likely CapEx for next year for the Berger Paints?

Unidentified Company Representative, [49]

Approximately little in excess of INR 200 crores is what we are thinking currently. Of course, we are only just into the first -- second quarter, so still some ways to go. But that's our current plans.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [50]

But is it related to capacity expansion or only maintenance CapEx?

Unidentified Company Representative, [51]

Bit of everything. We've got some work to do still in our industrial plant in Maharashtra. Of course, a large part of this CapEx is painting machines. So that's maintenance in a way, if you like, and of course, capacity additions in all of our existing plans.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [52]

Okay. And I would like to know Guwahati plant is functional right now, right?

Unidentified Company Representative, [53]

Yes, it's actually not Guwahati. It's -- there are 2 plants: one in Naltoli and one in Nalbari.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [54]

Okay. So what is the quantum of tax benefit we are expecting from that, and what would be the overall tax rate for the year?

Unidentified Company Representative, [55]

See, this is not something that, again, is in the public domain or we can't talk about it. But we know we are able to say that we are benefiting from the -- both the income tax and erstwhile excise duty exemptions which are now, of course, GST exemptions. So these are the 2 areas that we expect to benefit from.

Dhiraj Mistry, Emkay Global Financial Services Ltd., Research Division - Research Analyst [56]

Okay, okay. And sir, what would be your current capacity utilization, and what is the current capacity as well also?

Unidentified Company Representative, [57]

These are numbers we give annually. So we don't make this public from quarter-to-quarter point of view. So I hope you don't mind if I don't disclose them.

Operator [58]

(Operator Instructions) The next question is from the line of Nimit Shah from ICICI Securities.

Nimit Shah, ICICI Securities Limited, Research Division - Research Analyst [59]

Sir, I wanted to just know about this JV for our auto OEMs. So any update or any OEM switch we are finalizing for the 4 wheelers or the 2 wheelers?

Unidentified Company Representative, [60]

I think you may know about our JV agreement with ROCK PAINT that we announced.

Nimit Shah, ICICI Securities Limited, Research Division - Research Analyst [61]

That is for refinish, right?

Unidentified Company Representative, [62]

Yes, for refinish. it's not strictly OE. It is actually more retailer decorative in nature in the way the business is run and the products are distributed, so through dealers and distributors. And in some cases directly to the body shops themselves. So that as the JV has been inked, as you know. So that's a very promising development. And we hope to become operational and form a company. The JV has to be set up. As you know, the company has to be set up. So we expect to do that within a few months.

Nimit Shah, ICI Securities Limited, Research Division - Research Analyst [63]

And regarding the Nippon JV for the OEMs, any breakthrough (inaudible)?

Unidentified Company Representative, [64]

Yes, very promising business prospects, as I've mentioned. Unfortunately, we can't give separate stand-alone numbers for this JV. It's outside the scope of this discussion, and we don't make this public on a quarterly basis. But good prospects all around, and the business is proceeding well. The plant is ready for production in a short while. So all things are good.

Operator [65]

(Operator Instructions) The next question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [66]

A few follow-up questions. So one is in terms of waterproofing and express paints, if you could share how the growth was? And in express paint, the market leader is still charging a premium. Do you also intend to go to a premium versus nonexpress at some stage?

Unidentified Company Representative, [67]

Things are good. There's no scope for me to give separate numbers for Express Painting or waterproofing. Unfortunately, these are not in the public domain, so I can't give separate number. But in terms of a general comment, yes, these initiatives are progressing very satisfactory. We are not currently charging a premium, though there is a charge for a guaranteed supervision or a supervision which includes a guaranteed result.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [68]

How much premium you're charging for that? And what does it actually mean in terms of guaranteed supervision?

Unidentified Company Representative, [69]

It means that the finish is guaranteed for some period of time. And of course, there's a premium. I can't -- I think it's beyond the scope of this discussion to get into details. But we can let you know. We can ask our Express Painting people to get in touch, and they'll be able to help you.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [70]

Sir, I wanted to understand -- so across paints you give this guarantee, and there's no standard number in terms of how much is the premium?

Unidentified Company Representative, [71]

No, there is. But this is, as I said, outside the scope of this discussion. This detail we can provide later, if you need.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [72]

Sure, sure. And sir, when say waterproofing, you are doing well, it's a nascent industry, and both you, market leader and other players are trying that. When you say good, what does it mean? This is a growing industry anyway. How do you benchmark? Do you benchmark against the #1 player? Or you are gaining share. How do you get to know? So wanted to understand, I don't want numbers. But are you gaining share here versus the other organized players?

Unidentified Company Representative, [73]

No, it's very difficult to benchmark against competition. I don't think there's any data available, which is -- allows us to do that. It is based on our own products, which are -- which form part of the offering and the growth rates on those.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [74]

Sir, last call you have said automation of warehouses. Where is the status currently? How much is the CapEx required for this?

Unidentified Company Representative, [75]

Again, these are numbers that cannot be discussed on a quarterly basis. The process is ongoing, and the CapEx of INR 200 crores includes a fair amount on this account.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [76]

But will it be completed in this year? Or it's a multiyear thing, in terms of automation?

Unidentified Company Representative, [77]

It is multiyear, but 1 or 2 should certainly be completed this year.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [78]

Sir, in terms of British Paints, how is that doing? Any update there?

Unidentified Company Representative, [79]

Equally well. I mean, there's a difference in the way the products are positioned in the markets.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [80]

And sir, last one, rural versus urban, any insights you can give? And region-wise also, is east continuing to grow faster?

Unidentified Company Representative, [81]

Again, these are questions unfortunately which are beyond the scope. These are not publicly available information. So I cannot comment. But yes, we are growing in almost all of our regions. So there's no outlier or no exceptions in that case.

Abneesh Roy, Edelweiss Securities Ltd., Research Division - SVP [82]

No, but rural growing faster than urban?

Unidentified Company Representative, [83]

Marginally, yes.

Operator [84]

(Operator Instructions) The next question is from the line of Kunal Shah from IIFL Research. Kunal, your line is unmuted. Please go ahead. (Operator Instructions) We'll take the next question from the line of Ashit Desai.

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [85]

Sir, just one clarification. This CapEx of INR 200 crores includes for subsidiaries and the auto JV also?

Unidentified Company Representative, [86]

No, this is only stand-alone, Ashit. But there's not much expansion required on the part of the JVs this year because mainly the expansion of the additions are in account of the stand-alone company which manufacture on behalf of the JV.

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [87]

Okay, okay. And you've mentioned good growth in industrial and auto this quarter. I mean, any quantification that you can give in terms of what (inaudible).

Unidentified Company Representative, [88]

No, Ashit, that would be unfair. I have -- these number are not public.

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [89]

Okay, okay. Lastly, you had some plans of domestic manufacturing for auto business and also if you can?

Unidentified Company Representative, [90]

Yes, so that's a follow-up from your previous question. The auto JV will be supplied by Berger Paints in terms of manufacturing. So some of the gearing up, some of the capacity expansion is on this account.

Ashit Desai, Emkay Global Financial Services Ltd., Research Division - Research Analyst [91]

Okay. So that is applied through the stand-alone entity only?

Unidentified Company Representative, [92]

Yes, yes. Through the JV and the JV to customers. So everything (inaudible).

Operator [93]

(Operator Instructions) As there are no further questions from the participants, I now hand the conference over to the management for your closing comment.

Unidentified Company Representative, [94]

Yes, thank you. I think I would like to thank all the participants for their participation. And of course, your meaningful questions have been -- will help us to kind of get into the insight and look into whatever kind of areas that you have kind of suggested us. And hope to see you with the next quarter results again. Till that time, thank you, again.

Operator [95]

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you.