



February 13, 2025

To,  
**BSE Limited**  
**Corporate Relationship Department**  
25<sup>th</sup> 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,  
Sandra Kurla Complex, Bandra (East)  
Mumbai - 400051  
**NSE Symbol: INDIGOPNTS**

**Sub: Intimation under Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 for Transcript of Earnings Call for quarter and nine months ended December 31, 2024**

Dear Sir/Madam,

Pursuant to the Regulation 30 read with clause 15 of Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call held with the analyst and investors on February 10, 2025 at 18:00 hrs (IST) to discuss the unaudited standalone and consolidated Financial Results of the Company for the quarter and nine months ended December 31, 2024.

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**

DAYEETA  
SHRINIVAS  
GOKHALE  
Date: 2025.02.13  
17:38:16 +05'30'

**Dayeeta Gokhale**  
**Company Secretary & Compliance Officer**

**Encl: as above**





**“Indigo Paints Limited  
Q3 FY '25 Earnings Conference Call”  
February 10, 2025**



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

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

**Moderator:** Ladies and gentlemen, good day and welcome to Indigo Paints Q3 FY '25 Earnings Conference Call. 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 any assistance turn the 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. Thank you, and over to you, sir.

**Aniruddha Joshi:** Yes. Thanks, Sagar. On behalf of ICICI Securities, we welcome you all to Q3 FY '25 and 9 months FY '25 results conference call of Indigo Paints. Now I hand over the call to Mr. Srihari Santhakumar, General Manager, Finance and Investor Relations, to take the call forward. Post that, we will have initial discussion on the quarterly as well as 9-month performance from the management, and then we will open the floor for question-and-answer session. Thanks, and over to you, Mr. Srihari.

**Srihari Santhakumar:** Thank you, everyone. Thanks, Aniruddha. Thanks for joining the earnings conference call of Indigo Paints. For discussing the performance of the company for the quarter and the 9 months ended December 2024, we have with us Mr. Hemant Jalan, Chairman and Managing Director of Indigo Paints; Mr. T. S. Suresh Babu, Chief Operating Officer; Mr. Chetan Humane, the CFO; and myself, Srihari.

As usual, joined the call with Mr. Hemant discussing the performance areas of the company followed by the Q&A. Over to you, sir.

**Hemant Jalan:** Thank you, Srihari. And thank you all for joining in on the earnings call of Indigo Paints for Q3 FY '25. We have uploaded the investor presentations on the stock exchange portals, and I hope you've had a chance to go through our financial results. After reporting an industry leading growth for 6 consecutive quarters, we ourselves are disappointed to report a negative top-line growth during this quarter. The demand slowdown has been persistent for almost a year now and the festive demand fell way short of expectations.

First, let me come to the standalone results. Compared to Q3 of FY '24, our sales in Q3 of FY '25 have registered a negative value growth of 4.0%. As usual, we have maintained the pole position in terms of gross margins which stood at 47.2%. The gross margins were slightly muted compared to the corresponding period of the previous year when it was 48.4%, partially due to the price cuts taken by the industry in Q4 of last year and somewhat due to the change in product mixes which happened.

The EBITDA on an absolute amount decreased from INR60.9 crores in Q3 of FY '24 to INR57.3 crores in Q3 of this year, registering a negative growth of 5.9%. The EBITDA margin of 17.5% clocked this quarter is very slightly lower than 17.8% registered in the comparable quarter of last year.

During Q2 and Q3 of last fiscal, we had significantly increased the salesforce strength anticipating higher growth. However, due to the persistent slowdown in the last few quarters, the incremental employee cost has had some adverse impact on the EBITDA. We expect this impact to disappear once normal demand pattern returns.

The PAT decreased by 3.3% to INR36.5 crores this quarter compared to INR37.7 crores clocked in the same quarter of the last fiscal. The PAT margin for this quarter moderately improved from 10.9% clocked in Q3 of FY '24 to 11.0% in Q3 of FY '25. The base effect of higher depreciation due to the commissioning of our new plant in Tamil Nadu is already behind us and the divergence between EBITDA growth and PAT growth should no longer be there from the next quarter onwards.

On standalone basis, for the 9 months of fiscal '25, we have clocked a top-line growth of 2.4% achieving a sales of INR910 crores. The EBITDA for the last 9 months have reduced marginally by 3.1% to INR145.7 crores and our EBITDA margin for these 9 months was 16.0%, again slightly lower than the 16.9% in the 9 months of the previous fiscal.

PAT has decreased to INR87 crores for the 9 months of this fiscal and the PAT margin has clocked at 9.4% compared to 10.6% in the 9 months of the previous fiscal due to the significantly higher depreciation burden during the last 9 months.

Now let me come to the consolidated results. For the quarter, our consolidated revenue was INR342.6 crores registering a negative growth of 3.2% on a Y-on-Y basis, while the EBITDA declined by 8.1% and PAT declined by 4.5%. The EBITDA margin on a consolidated basis for the quarter was 16.7% and the PAT margin was 10.4%.

Our subsidiary Apple Chemie has registered a good top-line growth of 20.6% in Q3 of FY '25 compared to the same quarter of the previous fiscal, however their margins were impacted due to slightly adverse product mix. However, the margins have improved sequentially from Q2, and we expect it to improve by a good measure in Q4 which has always been a seasonally strong quarter for Apple Chemie. We have also made a conscious decision at Apple Chemie to focus on selling in those regions where the product mix is favorable.

For the 9 months FY '25 on a consolidated basis, Indigo Paints has achieved a revenue of INR953.1 crore which is a 3.5% growth over the 9 months of the previous fiscal. EBITDA has declined by 4.8% to INR146.1 crores compared to INR153.5 crores in the 9 months of the preceding fiscal. The EBITDA margin contracted to 15.3% from 16.7% in the corresponding period last year. All other numbers are given in detail in our investor presentation.

I shall now give you some more operational details about the third quarter going beyond the simple financial numbers. During the last quarter, our overall A&P spends as a percentage of revenue decreased from 9.5% in Q3 of FY '24 to 8.2% in Q3 of FY '25. Now, it should be noted that in FY '24, during this quarter, the advertising outlay was higher mainly due to the ODI World Cup series during which we had advertised quite heavily.

As mentioned earlier, we have, during the last 5 or 6 months, been supplementing our TV advertising spends with significant spends on digital media which has started yielding good results by increasing viewership with our target audience. The overall increase in A&P spends will be less than the expected top-line growth in revenues. Hence, A&P spends as a percentage of revenue is still expected to decline for the full fiscal.

In line with our disclosure practices of the past, we have given our volume and value growth numbers for each of the 4 major categories of paint products. For the quarter Q3 FY '25, the toughest market demand situation which Indigo has faced so far, the volumes have declined in all the segments except for the emulsion category which is by far the largest category in the decorative paint industry.

On a volume basis, our emulsion volumes grew by 1.7% this quarter compared to the same quarter of the last fiscal, and the value growth in the emulsion category was even higher at 2.8%. This demonstrates that our premium emulsions have done better than our economy emulsion segment, implying an improvement in our product mix. This is a testimony to the efforts taken by our team to engage with painting contractors across the country who are the main influencers for premium paints.

We continue to focus on network expansion, on improving the throughput per active dealer and increasing our tinting machine population. As of 31st December 2024, our count of active dealers was about 18,600 and our tinting machine population was about 10,800.

On the capex front, work is progressing on both the water-based paint plant and the solvent-based paint plant both being set up at Jodhpur. Due to minor delays in civil construction, the water-based paint plant is now expected to be commissioned by Q3 of FY '26, while the solvent-based plant is expected to be up and running by Q1 of FY '26.

The brownfield expansion at Jodhpur of the putty plant will also be completed by Q1 of FY '26. This minor delay is not expected to cause any adverse impact as we have enough capacity to cater to the existing demand.

The waterproofing and construction chemical products at Indigo paints continue to consistently yield good results, contributing to a healthy mid-single-digit contribution to the revenue pie.

Coming to the sustainability initiatives. The installation of rooftop solar panels at our Kochi facility is almost complete and we are in the process of getting the necessary regulatory approvals.

As mentioned in our last call, we have started a new initiative called "Indigo Seva Utsav." Under this initiative, Indigo Paints is undertaking painting of government schools in Tier 2 and Tier 3 towns with the help of the local painter community. I am happy to inform you that we have painted over 65 schools across 18 states in the last quarter, while adding joy to the painter community, members of the education fraternity and society at large.

On the CSR front, we continue to extend educational benefits for the underprivileged girls. There are over 360 beneficiaries of this initiative during the last few years. Indigo Paints has now also extended providing the families of painters a health benefit program to take care of their hospitalization needs. We have already enrolled about 16,000 painter families across 18 states in the country towards this initiative.

Finally, all I can say is we really hope that this unprecedented demand slowdown, which is across consumer products in general and paint sector in particular, we sincerely hope that this comes to an end soon.

Some improvement has been visible in January and we are keeping our fingers crossed to see if it sustains with a favorable harvest subsequent to good monsoons, with a good stimulus provided by the finance minister in the form of tax reductions announced in the budget and the reduction in interest rates announced by RBI only a few days ago, we expect the consumer sentiment to improve and the good days to return soon to the paint sector.

That is what I have in terms of my opening remarks. I look forward to answering your questions.

**Moderator:**

Our first question comes from Aniruddha Joshi from ICICI Securities.

**Aniruddha Joshi:**

Sir, before the question queue assemble, just 2, 3 questions from my side. Sir, have we seen some maybe turnaround in the industry in January or still we need some more time to, in a way, see some confirmation in terms of growth happening in the sector? That is question number one. Question number two, how is the, in general, trade inventory? Means, obviously, earlier -- compared to earlier levels, has the trade inventory also gone down a bit indicating dealers are keeping relatively lesser inventory now.

And that is also, in a way, causing the primary sales to relatively get a more impact. So that is question number two. And the third point is that if we divide the, in a way, multiple segments like, projects, within projects, government as well as private capex or real estate developers, then the consumption of premium paints, mid-price paints and at the -- sorry, low-end paints, which is distemper.

So where is the growth rate weakest? Where is the growth rate highest? And the fourth question on the latex paints. So, we have seen the market leader introducing latex-based paints to tap the consumers at the absolute bottom of pyramid and also to upgrade consumers using distempers or very basic level of paints or maybe limestone, etcetera. So, any -- we have seen 1, 2 more players also joining the latex paint segment now.

So, sir, what will be the strategy of Indigo Paints at this segment? Yes, yes, these are the questions.

**Hemant Jalan:**

Okay, Aniruddha. Starting with your first question about January, all I can say is that January has been significantly better for us than any of the preceding 3 months of October, November and December in terms of Y-on-Y growth. I cannot say as to how it has been for the other players. Whatever market intelligence that we have from a negative growth on a Y-on-Y basis

for several months for most of the players, I think that they have turned positive, but I cannot comment on their behalf. They will be the better ones to say.

So that's what I said in my introductory remarks, that we do see a turnaround, definitely visible at Indigo Paints, and I think if my market intelligence is right, there is an overall slight improvement for the industry as a whole, but I cannot speak on behalf of others. So just hoping that this trend accelerates because, please remember, in January, the budget had not been announced. The RBI monetary policy had not yet been revealed.

So hopefully, better inputs will come in the subsequent months, but between you and me, I doubt if it will be a hockey-shaped recovery. I think it will be a gradual recovery, month-on-month basis, and we'll be happy if we do high single-digit growth in this quarter. If we are lucky, we may end up doing small double-digit growth as far as this quarter is concerned, but we have to wait and watch.

Whenever demand scenario -- coming to your second question about trade inventories, whenever demand outlook looks weak, there is a propensity for dealers to keep minimum amount of stock. As a company, Indigo Paints has never believed in doing unnecessary push sale with the dealers to prop up or window dress our P&L. So, if the demand scenario is weak and the dealers are not willing to stock up, we let things be as they are.

And the moment the scenario changes, we find a very quick uptick in demand that happens, at least for our company. So, at the moment, I would say that the trade level inventory, at least as far as Indigo is concerned, is fairly low. And as the sentiment changes, we would expect the dealers to start stocking up.

Your third question, as far as projects and government projects and all are concerned, we are not very active in that segment, so I can't really comment as to how that sector is working out. But you were talking about other segments. As I said, the fastest growing segment for us has been the premium emulsion segment at the retail level. And that has happened because we have focused for the last 1.5 years with absolute steadfast conviction on the contractors, the painting contractors in metros, Tier 1, Tier 2, and Tier 3 towns, wherever they exist.

Because when it comes to premium emulsion, they are not very price or discount driven. They are more driven by demand generation at the secondary level from painting contractors. And we have seen that that segment has bucked the trend, and we are getting very good growth in the premium emulsion category.

Finally, you talked about latex paints, which some companies have launched. Our market feedback is that it has not gained much traction, or at least we are not getting much disturbed by that. So, at this point in time, there is no interest on our part to follow suit and to introduce a similar product along those lines. So, I hope I have answered all your questions.

**Aniruddha Joshi:**

Yes, sir. This is very, very helpful.

**Moderator:**

The next question comes from the line of Yasser Lakdawala from M3.

**Yasser Lakdawala:**

I had a couple of questions. The first question is, qualitatively could highlight when you talk about there has been a slowdown in the paint industry. How much of the share of volume has been taken by newer sort of competitors and newer entrants into the paint space? And would that have had a material impact in overall volume growth for us?

**Hemant Jalan:**

If you do the math, Mr. Lakdawala, the answer is very simple. I think by their own admission, the new entrant that you're talking about may have got anywhere around 2.5% to 3% of the market share. Now if you look at the industry leader who used to traditionally grow at 8%, 9%, 10% and is now reported a 7.5% negative growth, so that's an overall decline of like 16%, 15% to 17%, out of which maybe you could say 2.5% is contributed by a new entrant. But that's a very small portion and that is hardly the reason for the industry reporting bad numbers.

As far as Indigo is concerned, I would say that we have been even impacted to a lesser extent by Birla Opus. I don't think that with our differentiated products and with the kind of distribution network that we have, I don't see -- I mean, I won't say that the effect is 0, but I would say that the impact on our sales has probably not even been 2.5%, it would probably be maybe 1% or something. So, these things keep happening, new entrants come, some of the old players exit, which is not discussed very actively.

There are some old players who have dropped very drastically for other reasons in specific geographies, there could be regional players, etcetera. So, I don't think that any new entrant would materially change the dynamics of the paint industry because whatever share they may get would be a relatively small amount compared to the overall size and the growth of the industry.

Now the problem is that the industry is not growing. The industry is degrowing. Now when an industry degrows, then everything starts looking bad. But if you do the simple math as to how much a new entrant has gained and how much collectively the existing people have lost, I think the mathematics will show that the presence of the new incumbent is responsible to a very small extent for the decline that is happening for most of the existing players.

**Yasser Lakdawala:**

Sure. That was very helpful. Secondly, I think if you look at Q1 and I think Q3 in terms of dealer count, it probably stays the same. Now when an -- based on your operating history overall the almost 15 odd years, or 15 years, 20 years, what is your take on whenever an industry experiences a slowdown, like, how hard is it for a relatively smaller player of our size to, sort of, increase the penetration of painting machines and grow our dealer network? If you could share some experiences over the years, it would be very helpful for us to understand the...

**Hemant Jalan:**

A very valid question. You are right that we -- the dealer count that we show, please note it is the active dealer count. It is the dealers who are purchasing with a certain amount of frequency. So, when the market gets bad, although we do add a lot of dealers every month, this is not the total count of the dealers that we are dealing with. This is the dealers who are buying frequently. And that tends to stagnate when the demand scenario is weak.



The moment the demand starts reviving, you will see a very sharp uptick in the count of the active dealers. You will notice that the tinting machine addition has not slowed down very much. And if you go back in time for 2 years, when our active dealer count was about 16,800 and our tinting machine count was slightly less than 8,000, so about 45% of our active dealers had tinting machines. Now today, when our active dealer count is 18,600 and our tinting machine count is nearing 11,000, that number is closer to 60%.

So, what is more important for us is to increase the throughput per dealer. Yes, increasing dealer count is important and we are adding dealers. The active dealer count, you will see a very drastic increase once demand scenario comes back to near normal. But what is refreshing to note is that the tinting machine adoption is happening at a healthy pace. And we don't give free tinting machines, so these are tinting machines adopted by dealers who seriously want to start selling our emulsions because they have some skin in the game.

And we just would like to take this ratio of 60% of our active dealers having a tinting machine to maybe 70% in the next 1.5 years, 2 years. That's pretty much what we hope to do.

**Yasser Lakdawala:**

Lastly, just when you mentioned that I think this year you might see a sort of muted A&P spend, Hemant ji, just to sort of get a better understanding, sorry, is it -- what is the thought process in terms of, in such times when there is obviously a slowdown in the industry, is it not -- in terms of if you're looking at long-term brand building, is it not a better strategy to continue a certain level of A&P spend because -- I mean that could probably yield better results 3, 4, 5 years down the line, right, in terms of building the...

**Hemant Jalan:**

You're absolutely right. And we have never said that we are going to reduce the A&P spends. A&P spends are pretty much flat or they grow by a very marginal amount to take care of inflation from 1 year to the next. Normally, because of increase in the top-line, the A&P spends as a percentage of revenue comes down. Now this year, that decline may not be all that large because the growth in the top-line will be fairly small.

So, yes, I mean, if, let's say for the whole year, hypothetically, the top-line grows by, I don't know, 5%, 7% or something like that, then the drop in the A&P spends as a percentage of revenue will be to that extent marginal, but there will be a drop. I entirely agree with you that A&P spend should never be looked at as a short-term measure to boost your EBITDA. It is a long-term investment.

For a company of our size, we feel that we have miles to go before we rest. And therefore, a long-term investment in advertising and promotion remains topmost on our mind. And that is why in this year, along with television advertising, we have also started digital advertising, which we were not doing up till now. And a sizable budget is being allocated towards that. And we have to reach out to the customers in more ways than one to win over their minds and hearts.

**Moderator:**

The next question comes from Mihir P. Shah from Nomura.

**Mihir Shah:** Sir, if you can share some insights on how the urban and rural markets have performed and what would be your saliency currently in these markets?

**Hemant Jalan:** We don't find much of a difference between rural and urban demand scenario. I know other people have been talking a lot about urban stress. To begin with, the definition of urban and rural is somewhat arbitrary and depends upon how you wish to define it. Now if you go by Government of India census, then rural is considered towns with a population of less than 4,000. I don't think you're talking about that definition.

So, the definition between rural and urban becomes somewhat arbitrary. But having said that, if we look at metros, Tier 1, Tier 2, Tier 3, Tier 4, in whatever way we define it, we find the demand outlook to be bad across all size of towns. We don't find any noticeable difference between larger cities and smaller towns at this point in time.

Now there is a lot of talk that when it comes to the smaller towns, what you may call the Tier 3, Tier 4 towns, where a good harvest would influence, have a greater influence on the demand, FMCG companies are talking about some uptick that they are beginning to see in rural demand. Since our presence in the smaller towns is very, very vast and we get a lot of higher percentage of our sale coming from the smaller towns, we hope that we will have a good Q4.

But we just have to wait and watch. At the moment, I don't see too much of a difference between size of towns and the growth rate.

**Mihir Shah:** Understood. No, that is exactly precisely what I was trying to understand. That given that this - it's been maybe 3 quarters for the industry to see a slowdown in volumes. And one is expecting a cyclical recovery. And given you have a higher saliency, the Tier 3, Tier 4, maybe that will likely pick up the earliest, so...

**Hemant Jalan:** I sincerely hope that you are right, Mihir Ji. May your mouth be filled with clarified butter and sugar.

**Mihir Shah:** I hope so. So out of the 18,500 dealers do you -- that you have right now, how has been the competitive intensity in them? How many dealers can we say are completely exclusive for you with having only your tinting machine inside? Are you seeing seeding of the new players tinting machine in any of these regions? Any insight in that will be very helpful.

**Hemant Jalan:** So, we do have some dealers who deal exclusively with us. I don't have the exact headcount of that, but that percentage would be low. And it would be low, frankly, for any player in the paint industry. In general, most dealers across India are multi-brand. Now some may have a disproportionately high share 75%, 80% devoted to 1 brand, but they will have 2 or 3 other brands which may constitute at least 20%, 25%.

In most cases, in most dealers, without naming any brand, it will be hard to find dealers who commit more than 60% or 65% to any 1 brand. It will be generally distributed across at least 2 brands with about 10% share coming from even local unknown brands. I mean, that is the normal trend.

So that is the case in our case also. I would expect, I mean, if you want a top-of-the-hat number, maybe out of 18,000, maybe there are somewhere around 750 to 1,000 dealers who are doing almost exclusively with Indigo. But I'm just giving you a top-of-the-mind number. I don't have any precise numbers to share at that stage.

Now the installation of tinting machines by a new competitor has happened across the landscape, because as you know, they are providing free tinting machines. So that has happened across the dealer network of any company. The question is, how many of those tinting machines are really being used and are being tinted for emulsions, etcetera, I don't have any granular numbers to share with you.

But as I said earlier, I think we are one of the least impacted is what I can say in terms of the whatever outreach the new entrant may be making. So, I don't -- none of our sales team has been calling out as a major disruption coming in our sales in any part of the country from a new entrant, at least at this point in time.

**Mihir Shah:**

Sir, last question. If you can throw some insights on the cost structure, maybe whether it is employee ad spends or even the dealer margin, are you starting to see any stress on any of the cost line items or cost structures in any of these line items?

**Hemant Jalan:**

Again, why don't you just look at data, look at gross margins for all the paint companies as reported. You will find that the gross margins of all paint companies, as I have observed the numbers that have come out so far, I think 1 major paint company is yet to declare its results, which is probably coming out tomorrow. But everybody's gross margin compared to the same quarter last year has declined by around 1 percentage point, 100 basis points, and that's about it.

And this is more attributable to a price cut that the industry leader took and others had to follow, which happened in Q4 of -- Q3 and Q4 of last year. So, the fact that nobody's gross margin has been disturbed, and gross margins are intact is the best way to try and judge as to whether the competitive intensity due to new entrants has caused any disruption at all or not. So, for me, if the gross margins are more or less what they were a year ago, that there is no better proof that you have that there is no disruption in the cost structure of any paint companies.

Now naturally, when top-line growth will not happen, the EBITDA margins will naturally decline because all your fixed costs will get absorbed on a lower base and fixed costs do increase from year to year. So, EBITDA margins may decline, but disruption due to any new entrant will reflect itself instantly on gross margins. And I don't see that happening for any of the paint companies, certainly not for Indigo Paints.

**Mihir Shah:**

Specifically on ad spends, employee and dealer margins, any comments specifically on these 3 line items?

**Hemant Jalan:**

See, dealer margin is not something that is offered by any paint company. It is a natural consequence of your width of distribution. And I've said that many times earlier, the more number of dealers you appoint, the more competition you create amongst your existing dealer

network, because a dealer is competing with another dealer who's 100 yards away selling the same product, and that tends to drive the price down and therefore reduce the dealer margin.

No paint product of any company is sold at MRP. They are all sold at a discount to MRP at a negotiated price. So, there's something called a market operating price. And that is determined by your competitive intensity. So typically, if you do a study amongst dealers, you will find that the dealer margin that is effectively retained by the dealers would be the lowest for the market leader, because obviously they have the widest distribution reach.

Now if somebody tries to imitate that and create almost an equivalent distribution reach, they are likely to face a backlash sooner or later because the dealer margins will get suppressed.

Now the market leader is able to get away with it because of the brand pool that it has created over the last 50 years. It is very difficult for any other player to match that kind of a brand pool. And therefore, all other players, whether it is the Number 2 player, Number 3 player, or even ourselves as the Number 5 player, we have to be conscious that we do not increase the dealer network beyond a certain healthy number, beyond which it starts becoming counterproductive.

So, dealer margin will vary from region to region depending upon how wide your distribution network is in that part of the country.

**Mihir Shah:**

So lastly, just a bookkeeping one, from next quarter onwards, should one expect the negative pricing to anniversarize and we should incrementally see some kind of price growth barring the small cut that we've seen in Jan this time?

**Hemant Jalan:**

I can't answer that question. All price changes are led by the market leader. And they are the only ones who really have control over pricing power. So, if the market leader increases prices or decreases prices, there is no option left for the rest of the industry to follow suit in quick succession. I don't think the industry is interested in a price drop at this stage, they would like to see slight price increases happening.

But I don't think that that decision is in anyone's hands, other than the market leader. So, they are the best ones to answer this question as to whether prices are likely to go up or go down in the foreseeable future. And if so, for what categories? I really don't know.

**Mihir Shah:**

Sir, ceteris paribus, the anniversarization should happen, right?

**Hemant Jalan:**

Pardon?

**Mihir Shah:**

I mean, ceteris paribus -- there is no other further changes on -- in pricing, then I think from fourth quarter onwards, we should see some small price growth in the numbers? Would that be...

**Hemant Jalan:**

Price growth? Value growth you're telling? I didn't understand. You're talking about price increases. If there are no changes in prices, then a pricing-led growth will not happen. But if quantities start going up, then value growth will automatically go up.

**Moderator:** Next question comes from Tejash Shah from Avendus Spark.

**Tejash Shah:** Sir, I'm attempting to ask this question because you are at the other end and I'm hoping for a very insightful and an honest answer. So, for years, we have been taught on the sector that there is a huge per capita income -- per capita consumption gap between how we consume paints versus some of the other markets.

Second, we have also been taught that there's a huge unorganized segment which operates in paint industry. And hence, the organized to unorganized will happen indefinitely, at least for the near future.

Now I can understand macro environment is bad and you reasoned out very well that it has nothing to do with the new competitor. The environment itself is very bad. I was just wondering, in such environment, ideally this unorganized to organized should play out better. And the whole per capita consumption argument should be independent of what is happening on a competitive landscape.

So why some of those macro drivers, which we were always positive about as an industry, as an analyst investors, are not playing out as we speak in this current year?

**Hemant Jalan:** So, this per capita consumption figures have to be taken on a slightly longer time span. They cannot be judged on a quarter-by-quarter basis. So per capita income of the country continues to rise. When the GDP growth rate slows down, then the per capita income growth rate will also slow down for a few quarters and then they will recover back. So, we have a long way to go in terms of per capita consumption in paints in India compared to the rest of the world.

So, the long-term story, nothing changes. And although it's the first time that I've seen in 25 years when there has been some kind of a demand slowdown extending for 4 quarters. In the past, whenever there is such a blip has happened, it's generally been at most for 1 quarter. We hope that this ends soon because structurally there is nothing wrong with the Indian economy and sooner or later demand has to bounce back.

And the government will be keen for its own needs and for its tax collections to see that the demand grows back and bounces back, which is why some of the measures that you see being rolled out in the budget, I mean, it's an unprecedented tax break that was offered. And extreme situations demand extreme solutions, and which is what the government is attempting.

So, I think in the long-term scenario, the per capita consumption in paints will increase. There can be temporary blips for 1 quarter, 2 or 3 quarters, but I'm sure it'll come back. Maybe it'll come back with a vengeance. Let's hope so. As far as the organized -- unorganized sector is concerned, I won't say it is very large as of now. There is an unorganized sector. I think, a lot of the clean-up of the unorganized sector -- well, the unorganized sector, what you call, I think you're talking about the smaller players.

Let's not call them unorganized because previously, 8, 10 years ago, there was a sizable segment of these small players who operated outside the legal framework of taxation. I think most of that

got cleaned out progressively after the introduction of GST. So, either some of them came into the legal framework of taxation or many of them closed down. But that was quite some time back. It's been 7.5 years since GST was implemented.

So, I don't see that there is any meaningful change in the unorganized sector or shall I call it more appropriately, the smaller scale sector. There are a few thousand of them across India. They will exist and I don't see much of a share gain or loss happening between the larger players and the smaller players. They have a certain role to fulfil in the paint sector and I think they will always exist.

And from our point of view, we have never consciously attempted to snatch away sales from those smaller players because it's going to be very difficult and damaging to our own P&L if we try to do that.

**Tejash Shah:**

Sir, and this per capita consumption number, is it a circular reference number or -- and you -- knowing you, you would have spent a lot of time on arriving at some of this. It has been well calculated because many times we have seen that some RHP or DRHP will write it and then it circles back as a new norm. But you believe because when we look at some of the Western markets, there is a 75%, 80% is industrial paints.

So perhaps on decorative paints, that number might not be that high as it appears from here. So just wanted to understand the nuanced part of it, sir.

**Hemant Jalan:**

Even -- you are right that the share of industrial paints in Western countries is significantly higher than decorative paints. But even then, the gap between the per capita consumption, however you calculate it, for Western countries and India is still very, very large. Now I don't know if anybody has done any organized study as to what these numbers are and how they are trending.

You're quite right that when people file DRHP, they look at some published report somewhere and that gets copied, pasted onto that DRHP number and that becomes a reference point for the next DRHP or the next, shall I say, market study report that comes. So, I don't pay too much attention to that except to know that in India, the growth story for all consumer products and for that matter, even for all industrial products, whether you look at per capita steel consumption or per capita copper consumption or aluminium consumption or any particular commodity.

Whether in consumer space or industrial space, is a very small fraction of what the developed economies are. So, we have a very long way to go. So, if you start looking at the paint industry from a 10-year horizon, there is absolutely no doubt in anyone's mind that the CAGR will be close to 9% or 10% value based in the decorative segment. Now if there is a blip in 1 year, as it has happened in this last year, it could come back with a vengeance in the next year or the next couple of years. And you know, -- neutralize itself is what we expect.

**Tejash Shah:**

Sir, last one, if I may. Sir, we saw a very sharp revival on commercial real estate and residential real estate around COVID and then it has actually been very, very strong, at least in the metro

centers. And then we all thought that by now, in 3, 4 years, it will trickle down at some of the paint industry or the tertiary beneficiary of once the possession actually comes through. So, we have not seen that kind of revival that we thought looking at the last 2, 3 years of real estate cycle. Any gap there, sir?

**Hemant Jalan:**

Yes. So, 2, 3 things to note. New construction accounts for only 15% of paint consumption in India, 85% is repainting. Secondly, when you talk about real estate and commercial real estate, you are talking about a handful of large builders who operate in 10 to 15 cities of India. So that is not representative of what is happening in Bharat.

So if you want to look at construction activities, which, as I said, in itself accounts for only 15% of paint consumption, and you want to look at it on an all India basis, maybe you should have to focus on cement consumption that has happened, rather than look at the results of 5 or 6 large listed players in the real estate business.

And cement demand has been subdued. So, you can see that from the narrative of all the cement companies. So therefore, you can conclude that in general, new construction across India would be somewhat muted during the last 1 year. But as I said, that does not impact paint consumption to that an extent, because most of it comes from repainting.

And when market sentiments get bad, repainting your home is something which is postponable by a few months or 6 months. So, people tend to postpone some of these things. And when the sentiments have improved, you want to paint in a hurry and demand comes back with a bang.

**Moderator:**

The next question comes from Vedant Mehta from QRC Investment Advisors.

**Vedant Mehta:**

I wanted to understand what the contribution of differentiated products was for this quarter. And if you saw any change and any difference in the demand for differentiated products compared to the rest of your products this quarter?

**Hemant Jalan:**

No, we give these numbers on an annual basis, because many of these differentiated products have a distinct seasonality built into it. And therefore, to report on a quarter-on-quarter basis as to what is the contribution of differentiated products is not very meaningful. So, we have never reported the contribution of differentiated products on a quarterly basis. But next quarter, when we are presenting the results for the whole year.

We will definitely be presenting as we have done for every year in the past as to what our contribution for differentiated products has been. But on a broad sense, with whatever trend we have seen in the last 9 months, I don't think that there is much change in the differentiated products versus the more vanilla products as far as growth is concerned. I think they're pretty similar.

**Vedant Mehta:**

And any reason for why they're similar and there's no difference between the growth?

**Hemant Jalan:**

There is no reason for it to be dissimilar, let me say. It's all based on the same consumer demand concept. So, if the overall demand scenario is weak, sales of the differentiated products would

also be weak. So, there is no specific reasons as to why those products would sell much more than any other product of the paint.

**Moderator:** Next question comes from Anand Mundra from Soar Wealth.

**Anand Mundra:** Sir, on Q-on-Q basis also, there is a big swing in gross margin. Any reasons for that, sir?

**Hemant Jalan:** Pardon, can you repeat? Your line is not very clear.

**Anand Mundra:** Okay. Sir, on quarter-on-quarter basis also, there is a big swing in gross margin. So, what did you check? Any reason to that?

**Hemant Jalan:** That is always the case. That is always the case. And you'll find in Q4, the gross margins would be the highest. And that is entirely a function of product mix. So gross margins would always be the lowest in Q2, which is the monsoon months. So, during the monsoon months, July, August, September, the product mix deteriorates drastically in this industry. So exterior painting virtually comes to a halt. Most of our differentiated products which contribute significantly to our gross margins are also exterior-based and their consumption also goes through a downtrend.

Our overall sales, our overall gross margins and our EBITDA margins have always been by far the highest in Q4. You can plot that for the last 4 years and you will find that trend. So that is entirely to do with the product mix scenario and nothing else. So normally Q1 and Q3, you will find that both EBITDA margins and gross margins are similar. They are low in Q2, and they are very high in Q4.

**Anand Mundra:** Understood, sir. And sir, one last question. What is the net cash on the balance sheet, sir?

**Hemant Jalan:** Well, we have treasury investments of around INR195 crores or something. So, it is already disclosed. It has not been uploaded, but it is there in the balance sheet. But yes, I mean, if you want, I can tell you that at -- about -- our treasury balance is about INR196 crores as on 31st December. And this is after all the internal funding that is happening for the capex. For 2 years, we spent on this about INR280 crores in this plant in Tamil Nadu, which got commissioned about 15 months ago.

And now the ongoing expense of almost a similar amount or slightly higher amount is happening at Jodhpur, which is about halfway done. And all that has been funded from internal accruals without resorting to a single penny of debt. And we have still managed to maintain our treasury investment at about INR195 crores.

**Moderator:** The next question comes from the line of Prakash Kapadia from Spark PMS.

**Prakash Kapadia:** My questions have been answered.

**Moderator:** Ladies and gentlemen, as there are no further questions, I now hand the conference over to the management for closing comments.



**Hemant Jalan:**

Well, thanks. Thank you all for joining in and giving us a patient hearing. I hope we have been able to answer all your questions. And for our sake and for the sake of investors in this entire paint industry, we need your good wishes that the demand scenario comes back sooner than later. So let us hope that we meet in more joyous circumstances at the end of Q4 and we have much better numbers to report. Thank you all.

**Moderator:**

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