"Berger Paints India Limited
Q2 FY26 Results Conference Call"
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MODERATOR: **MR. NITIN GUPTA – EMKAY GLOBAL FINANCIAL SERVICES**

Nitin Gupta

Hi, good evening, everyone. This is Nitin Gupta from Emkay Global. I would like to welcome all to the Berger Paints India's Limited's Q2FY 26 Result conference call.

- **I thank Berger Paints Management for allowing us to host.**
- **We have with us today Mr. Abhijit Roy, Managing Director and CEO.**
- **Mr. Kaushik Ghosh, CFO.**
- **Mr. Sujyoti Mukherjee, Vice President, Finance and Accounts, and Mr Sayantan Sarkar, GM Finance and Accounts.**
- **I shall now hand over the call to the management for opening remarks, post which we will proceed with the Q&A session.**
- **Over to you, sir.**
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Abhijit Roy

Thank you, and good afternoon to all of you.

- **We start the second quarter results analysis, you know.**
- **It was a tough quarter, due to excessive rains.**
- **We had a high single-digit**
- **Volume growth with low value growth.**
- **Growth was impacted by inclement weather and heavy monsoon.**
- **Alongside sustained competitive intensity, marginal dip in gross margin. The gross margin dipped by about 0.8%.**
- **Due to lower sale of exterior emulsion products, and down-trading the economy segment to an extent.**
- **The operating margin moderated much more due to subdued value growth.**
- **Which resulted in lower operating leverage.**
- **And higher spend on brand building.**
- **Company continues to invest in expanding dealer network.**

- **And adding stores in urban pockets to strengthen market reach.**
- **Looking at the volume value, growths which we registered for the second quarter and also the first half.**
- **In second quarter, the volume growth was 8.8%.**
- **The value growth, 1.1%.**
- **In half year, it is 7.1.**
- **And 1.6… For the standalone results.**
- **As I mentioned, we delivered high single-digit volume growth despite unusually extended monsoon and flooding across key markets.**
- **Including Andhra Pradesh, Kerala, West Bengal, Northeast, Gujarat, and Maharashtra.**
- **Sales momentum revived in the latter half of September as weather conditions stabilized.**
- **Value-volume gap driven by mixed dynamics?**
- **Higher contribution from products like tile adhesives, admixture and putty, and lower sales of high-value products, such as exterior tents and roof coating, resulted in an increase in the volume-value gap.**
- **Protective and infrastructure coatings saw a muted value growth impacted by monsoon conditions, as most of the painting does… gets done in the exterior conditions.**
- **Were not suitable for painting.**
- **Auto and powder coatings registered mid-single-digit growth in both volume and value.**
- **As far as, you know, volume CAGRs are concerned.**
- **Volume CAGR for 2 years is 7.5, for 3 years is 8.9, for 4 years, 12.6, and for 5 years it's 16.**
- **0.9, if we look at the half-year performance.**
- **In Q2 also, in very similar trajectory, the slightly lower rate, 6.2, 7.7, 8.4, and 10.8.**
- **The value growth, however, is quite different.**
- **As you can see, you know, in terms of 5 years, value growth in the half-year is similar, or slightly higher than the 5-year volume growth.**
- **But in the last 2 and 3 years, it has been much lower than the volume growth.**
- **Two reasons for it. One, of course, is the price drop, which we had, you know, which had an effect for the last one and a half years.**
- **And this year, it has been more of a higher volume of these type of items, like Tyler Dave and Putti selling more, and the high-value items selling slightly lesser quantities.**
- **Especially in the second quarter, which impacted this growth rate.**
- **If you look at the gross margin.**
- **The gross margin has been relatively much more stable.**

- **for us.**
- **It's been in that… hovering in that range of 39 to 41.**
- **And that's where we have been, even in this quarter, in spite of**
- **You know, deterioration in the mix?**
- **You know, we are still at 39.6%.**
- **Actually, it would have been higher. There was some raw material price advantage, which was there in this quarter.**
- **Unfortunately, it got negated by the mix, which was inferior because of the excessive rains.**
- **We could not sell, you know, and especially in our key states of West Bengal, you know, Kerala, Northeast, you know, there were excessive rains.**
- **Ending right up to September, and it carried on. And so, therefore, you know, much more of our… the exterior category, which drives up profit, got impacted to a large extent. Therefore, the mix deteriorated, otherwise the margin… gross margin would have been higher.**
- **However, the operating profit margin shrunk.**
- **to 12.7%. That's a big drop.**
- **Which happened?**
- **Typically, the second quarter, it has… it's always lower than the first quarter for us, you know, it is more so.**
- **Traditionally, that has been the case. This time, also, it's the same way.**
- **So, the growths in advertisement, the growths in overhead could not be absorbed By the softer seals.**
- **Which is the main reason for this deterioration in the overall operating profit margin.**
- **Also the mix, as we saw, the gross margin going down by 1%.**
- **But this overall growth rate is down, or overall operating profit-to-sales ratio is down by a much higher amount, and as I said, much of it is due to the scale effect.**
- **We did continue to invest in advertisement, brand promotions.**
- **In normal way, not increasing, not decreasing.**
- **And we did invest a little bit extra in terms of the urban markets, where we continued to invest in manpower resources.**
- **That Of course, you know, did not yield fantastic results in the second quarter because of the rains.**
- **The projects, it is a little bit project-oriented market.**
- **The urban markets, and it got impacted because of the exterior conditions.**

- **We expect that to revive in the third quarter. So, we will see more positive results in third quarter, as we have always indicated earlier as well.**
- **That third quarter will be better.**
- **And fourth quarter will be even better, and we hold to that statement earlier made.**
- **In terms of the standalone results, A total income from operations.**
- **1.1% growth and operating profit minus 18.8.**
- **As you can see, material cost**
- **Actually, went up by about 0.8% only.**
- **The employee cost, this is a scale effect, went up from 6.8% to 7.4%.**
- **And the other expenses, as I explained, the branding and the expenses in terms of off-road manpower in the urban markets which we have invested in.**
- **Resulted in an increase from 17.8% to 19.5%.**
- **Now, this… a part of this…**
- **In the third quarter, because of the increased sales, which always happens in the third quarter, the scale effect will neutralize to a large extent.**
- **We are expecting decent growth, and therefore, this will be much better, you know, if… once we go forward into this quarter.**
- **Standalone results in a… on a half-year basis.**
- **1.6%. Again, if you see material cost is 60.2 last year and 60.2 this year, so there's no great**
- **Fall there.**
- **Even though second quarter, we did slightly poorly here. Employee cost has gone up, largely because of muted sales, from 5.9% to 6.4%.**
- **And other expenses has moved up again, you know, because of the increased, you know, advertisement spends and spends on the urban markets.**
- **Not getting neutralized by the sales growth, and that is something which is primarily the scale effect, you know, which we hope that once the volume and the value**
- **becomes better in the third, and even more in the fourth, this will get neutralized.**
- **As far as decorative business is concerned, we delivered muted value growth, as I had mentioned earlier, due to extended monsoon conditions impacting all our premium markets.**
- **Marginal shift from premium luxury to economic emulsence in both exterior and interior segments.**
- **Construction chemicals business registered robust growth.**
- **And wood coating segments also registered good growth.**
- **Steady retail expansion, with focus on urban pockets.**

- **Store network now exceeds 1,600 outlets, in line with our annual targets.**
- **And tinting network rollout remains on track.**
- **Over 5,500 plus machines have been installed by us so far in the first half.**
- **And this will ensure that we cross our target of an ambitious 10,000 machine installation for this year.**
- **We had introduced certain innovative products, you know, roof coolant seal being one of them.**
- **It's doing quite well. Of course, in the monsoon, it got impacted a bit, but we are expecting after the monsoons, because of it is excessive monsoon. This is, in fact, going to pick up much faster.**
- **We have full range of construction chemicals now, and we keep expanding on this, so the range keeps going up.**
- **As far as two more recent product launches which we did.**
- **One was Color Plus, which is in the Premium Evansion segment, and the other one is the Luxol Metallic, which is the metallic gold, silver, and bronze. Both of these products are doing quite well in the market.**
- **And we expect the momentum to keep moving upwards going forward.**
- **Net cash on a standalone basis on March 25 end, you know, was 670 crores.**
- **In September 25, this remains at 636 crores, in spite of the fact**
- **That we did make a dividend payout of 443 crores during the quarter.**
- **As far as consolidated results were concerned, revenue was higher at 1.9%,**
- **Largely driven by bollocks and Nepal.**
- **Operating margin, more or less same as that of a standalone.**
- **Here again, you know, if you look at raw material cost, RMC is more or less stable, vis-a-vis last year.**
- **But… Other expenses, employee cost went up**
- **You know, other expenses, as we saw.**
- **Much more of it is scale effect, which we cannot avoid because of the weather conditions in many, including Nepal, where there was… in addition, there was some turmoil there in that country, but we still managed to grow because the bases were lower, so we had a good growth in Nepal.**
- **On a half-year basis, we are at 2.8% growth on the console level.**
- **With a PBDIT growth of… or degrowth of minus 7.9.**
- **Bullocks Poland had strong top-line growth, profitability muted due to pricing pressure.**

- BJ Nepal, strong revenue growth on a low base, profitability slightly muted due to seasonal mix impact, the same reasons which we had of monsoon.
- STP soft top line impacted by temporary shutdown at Jamshitpur plant. We are expecting this plant to start operations this month.
- Gross margin improved on account of favorable product mix.
- SBL Speciality Coatings Limited had muted sales growth and profitability.
- A new factory opened in Basa Aule in Punjab, fully funded through internal accruals.
- Berger Becker coatings... Healthy growth in both top line and profitability. This is the coil coating.
- The sales of this division doesn't get added, only...
- The profits get added after that, you know, so it is not reflecting in our sales figures.
- Baja Nippon Paint Automotive Coatings.
- Continued strong performance driven by bull and demand in the four-wheeler segment.
- Strong double-digit growth, both top line and profitability, witnessed robust growth.
- However, you know, again, it doesn't get added to our sales, only the profit comes below that line.
- business outlook?
- Demand revival expected post-Diwali.
- Supported by improving weather and release of pent-up demand, After an extended monsoon.
- Gross margin is expected to improve in short term.
- Aided by benign raw material prices, And improving product mix.
- Continued investments, In brand and manpower.
- Strengthening retail and dealer network to capture upcoming demand momentum.
- Forex volatility and tariff changes may pose near-term uncertainties.
- Thank you, and open to questions now.
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Nitin Gupta

Thanks, Abhijit. So, we will now start with the Q&A session.

- I hand over the call to my colleague, Mohit Dodeja, to moderate the Q&A session. Over to you, Mohit.
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Mohit Dodeja

Those of you who have questions can raise your hand now. We will announce your name and unmute your line. Please highlight your full name and the organization you are representing.

- **The first question is from the line of Mihir Shah. Please highlight your full name and the organization you are representing, and go ahead with your questions.**
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Mihir Shah

Hi, sir, this is Mihir from, Nomura.

- **So firstly on,**
- **the mixed deterioration that we have seen this quarter. Should one expect a similar mixed deterioration going forward, or was this a conscious choice, you know, for this quarter, given**
- **That you had some benefits of lower raw money prices, and you could have managed your gross margins well.**
- **So that's… that's my first question.**
-

Abhijit Roy

So, mere, you know, no, actually, it's not a conscious choice, it's a forced choice, you know. Essentially, the weather conditions, as I have mentioned.

- **Is a problem, was a big problem. If it continuously rains, you know, obviously, on the exterior side, no one wants to paint, because, you know, there is no way you can paint there.**
- **Hence, there was a negative impact as far as**
- **the exterior coating was concerned. As you know, those are high-value, more profitable products.**
- **And hence the mixed deterioration which happened. Same thing holds true for the roof coating as well. How do you paint in if it is raining all the time?**
- **So therefore, the mix was expected to deteriorate, you know, under such conditions.**
- **for the whole industry, it will be in similar lines. So therefore, you know, that's one. As far as the going forward issue is concerned, I have already mentioned that, that it should improve.**
- **For two reasons. One, of course, the rains have stopped now, thankfully. It kept on raining.**
- **to almost the end of October as well. But now, for the last few days at least, you know, it's abetted completely for most parts of the country.**
- **So therefore, you know, we expect solid pent-up demand which is there to come up, and that should improve the mix substantially.**
- **Typically, you know, in the third and the fourth quarter, these are non-rain affected right up to April end. It tends to be good months for painting and paint.**
- **And therefore, we… we, I would say, are quite confident that the mix will improve substantially going forward.**

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Mihir Shah

Understood, sir. So, secondly, on, volumes.

- **Now, given October has also seen some impact, and I guess, maybe last year, some of the festive**
- **demand of, would have also been sitting in October.**
- **So then, given that, there is an impact, how should one think about volumes for, 3Q and 4Q? 4Q maybe, yes, you know, it can be much better, but 3Q, will one see impact of that, in 3Q because of week October?**
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Abhijit Roy

So, you know, typically, whenever the season is, you know, slightly prepawned, as it has happened this time.

- **It tends to impact the seal a little bit. So October for the whole industry would have been muted. I think, you know, going by…**
- **Our estimate, you know, we would have done slightly better than the industry in October.**
- **November, December, will be, you know, months where we expect very good growths to happen.**
- **Should be double-digit close in November, for sure.**
- **And December as well, we should see good growth.**
- **And therefore, overall, as we have said earlier as well, you know, we should have**
- **A sort of a single-digit, mid-single-digit, value growth is what we can look at. Volume growth, obviously, will be higher, as we have always seen that the volume-value gap exists.**
- **And hence, this is our reading of third quarter, so far.**
- **Of course, you know, November has to pan out well, you know, for this to hold true.**
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Mihir Shah

Got it, Edward. Now, that's heartening to know.

- **Lastly, on margins now, you know, with the, you know, the exterior and the normal emulsion paints coming back.**
- **In the coming quarters, and the benefits of raw material.**
- **Do you think that there is… there can be a case made to further investments in expense, or there is a possibility that it translates down in margins, and you move up higher versus the earlier guided band in your margins?**

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Abhijit Roy

So, our guided band has been the 15% to 17%. We would like to remain there.

- **If, you know, we see that, you know, we are…**
- **having, you know, the luxury of, you know, spending a little bit more, you would like to invest in brand building.**
- **a bit more than what we are doing even today. We have increased it, but we would like to increase it further. We would like to gain share, which is very important in the current situation that exists in the market.**
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Mihir Shah

Very clear. Thank you very much, wishing you all the best.

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Abhijit Roy

Thank you.

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Avi Mehta

Yeah. Hi, sir. Am I audible? This is Avi here from Macau.

- **So, yeah, so this is Avi Mehta here from Aquarie. Sir, two… Hi, sir. Two questions. One, I wanted to kind of just get your sense on what do you think would be the industry growth in the second quarter.**
- **And the related question to that is, you know, if you're expecting, say, a high single-digit volume and a mid-single-digit value in 3Q,**
- **For the full year, does that, you know, what kind of expectations should we look at? Because the first**
- **two quarters has been more low single digits, so would love to hear your thoughts on both these aspects. Thank you.**
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Abhijit Roy

So, as far as industry is concerned, you know, we… you have seed… Kansai declared their results yesterday, you know, they were at about 0.4%, I think.

- **Yes, sir. We have declared today, you know.**
- **I think AXO will declare on the 6th, you know.**
- **And I think ASUN is there on the 12th.**

- **There are two factors here. One is the base effect.**
- **And the other one is, you know, overall scenario rain, which would have impacted everyone.**
- **I would expect the leader to do slightly better in terms of growth.**
- **Due to the, you know, weaker base.**
- **And I would expect, you know, AXO to be similar to us.**
- **Or slightly lower, you know, and therefore the overall growth rate for the industry won't be greatly different from where we are positioned.**
- **So that's how I would look at it. On a YTD basis, we expect that we should have gained market share.**
- **overall amongst the listed companies. This is where we stand as of end September.**
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Avi Mehta

And sir, for the second part, which is 3Q, if you're expecting, say, a mid-single-digit kind of momentum, for the full year, does that kind of, do you, you know, just want to get your thoughts, how should we look at that? Because we had some expectations, given the change

- **weather conditions, is there a revisit to that expectation for the full year?**
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Abhijit Roy

too early to say, you know, but my expectation is that, you know, and we have said this earlier as well, that in the third quarter, you know, we had always said that it will be around the mid-single digit, and in the fourth quarter, we will be closer to the double-digit mark.

- **We stand by that, and therefore, you know, that's what we would expect to happen, for the year.**
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Avi Mehta

Very clear, sir. That's very clear, sir. Thanks for that. So the second question is on the competition. Would love to know if there's any change in competitive intensity, and you know, wanted to kind of just get any updated comments on the new entrant versus what we were kind of seeing last quarter.

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Abhijit Roy

So, competition continues, you know, the intensity has stabilized, I would say, you know, in the marketplace. So, what is happening is, you know, possibly from the first quarter, whatever sales that the new entrant might be having in the first quarter.

- **The second quarter, as it happens for most companies, in their case also, it will be slightly lower than the first quarter sales. So that's our estimate. Of course, you know, we may be wrong, but, you know, this is our estimate that, you know.**

- It'll be second quarter, total net sales will be lower than the first quarter sales.
- So, it's stabilizing as such.
- Since they have now basis, you know, over the third and the fourth quarter.
- So the type of, growth, and therefore, the type of market share that they were taking away from the industry, that will get moderated completely, and the impact, therefore, will be lesser on the existing players going forward.
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Avi Mehta

Okay, sir. Sir, and last, just a bookkeeping. I missed the last part of the earlier question from the earlier participant. The 15% to 17% range, given the current environment, we would still be in that range, or at the lower end of the range, given this quarter's performance. I just... I didn't pick... I didn't kind of.

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Abhijit Roy

So, as I said, in the third quarter, you know, we should be in that 15% to 17% range.

- And in the fourth quarter, more towards the higher end.
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Avi Mehta

Very clear. Thank you very much, sir. That's all from my side.

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Mohit Dodeja

Thank you.

- The next question is from the line of Aditya Bhartia. Please go ahead.
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Aditya Bhartia

So my first question, again, is on margins. Wherein if you look at last 7 quarters, our revenue growth has been in, low single digits, but every time we had been kind of maintaining our EBITDA margins in, let's say 14% to 17% kind of a range.

- This time around, so to that extent, there was a certain degree of negative operating leverage that was playing out in the last few quarters as well. We were controlling our costs fairly well. So what has really changed in this particular quarter, and that margins at the EBITDA level have taken such a big beating?
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Abhijit Roy

Yeah, you know, so, if you look at, you know, quarter one, for example.

- **We had a, again, a low sale at that point of time as well, but the overall sales in the quarter one is always much higher than quarter two. You know, it's been traditionally for us a very good quarter. Typically, we have, you know, much higher sales in quarter one.**
- **And then in quarter two, it tends to move downwards. The same thing happened this year as well, and on top of it, we did not grow. So, if you look at absolute value, quarter two is much lower than quarter one for us.**
- **The growth rate is similar, but, you know, absolute value-wise, it is much lower. And hence, absorption of the overheads became much more difficult in this quarter, which is why you see this stronger fall in quarter two.**
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Aditya Bhartia

Because it was pretty much the same thing in the last year as well, Q2 being lower than Q1, but even on a year-on-year basis, the kind of drop that we saw in margins this quarter was higher than what we usually get to see.

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Abhijit Roy

quarter… you know, last year, quarter two, if you look at our gross margin, it had expanded. Largely because of, you know, two reasons. You know, one, the raw material prices went down at that point of time.

- **This quarter also, it had gone down, but the mix deteriorated much more this quarter, so we could not get the full advantage of it.**
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Aditya Bhartia

Understood, understood. And so that brings me, to the second question. What's the kind of raw material cost advantage that we are going to see in second half of this fiscal, with the crude being so benign?

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Abhijit Roy

Yeah, so, you know, there is an advantage coming up, you know, which we see, you know, about 1.5%, possibly, in terms of margin expansion, which is likely to happen on account of raw material prices cooling off.

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Aditya Bhartia

Understood, and that's at the gross margin level that you're speaking.

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Abhijit Roy

That's right.

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Aditya Bhartia

Understood. That's it from my side, sir. Thank you so much.

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Abhijit Roy

Thank you, Alton.

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Mohit Dodeja

Thank you. Just a reminder, please highlight your full name and the organization you're representing when you're asking questions.

- **The next question is from the line of Aniruddha Joshi. Please go ahead.**
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Aniruddha Joshi

Yeah, thanks,

- **Anirodhazoshi from ICICI Securities. Sir, two questions. First of all, in terms of expenses, there is a lot of variability in expenses also. For example, if the sales team doesn't achieve the targets, so generally their bonuses get capped.**
- **Or incentives also get capped. Or, in a way, in terms of distributors also, if they are not able to meet their targets, some of their incentives are not paid out.**
- **Also.**
- **So, given that, there is a natural hedge in the business to the, sales, growth itself. So, now, despite that, we have seen a material impact.**
- **So, means, how, how should we, see this? Do you see, it...**
- **To be a, ongoing activity, let's say, if the industry growth remains muted, over next 1-2 years? Because definitely industry growth has slowed down materially, and if you don't see revival, do you see this?**
- **impact to continue to play in, next, couple of, years also. That is question number one. Question number two, in terms of ad spend, if you can share more details in terms of what was the ad spend to sales, let's say, in last year, same quarter, versus this time**
- **Q2, or any increase that you can say, let's say, in percentage terms also, it will be better.**
- **And, third, we have been hearing that October has been a very soft quarter for the entire industry itself. So, how is it at the barger end, and, how do you see the...**
- **Growth rate spanning out, starting in November.**

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Abhijit Roy

Okay, so the first question that you asked, you know, how come the expenses are going up?

- **And we mentioned that, you know, one, if you look at the ad spends, you know, we have increased it.**
- **From last year levels, almost by, you know, 22, 23%, possibly.**
- **And that's on television and digital put together.**
- **And therefore, you know, of course, the sales did not go up, you know, it went up marginally, and hence the major impact that you see in terms of expenses to sales.**
- **The second part is, you know, you did mention that, you know, okay, when you don't get sales so much, you know, you might be not spending as much on dealers or on employees' bonuses, etc.**
- **We have invested mostly in additional manpower in the urban markets, which I mentioned.**
- **If you are not getting results in one quarter, doesn't mean that you withdraw that manpower. So that continues. We keep…**
- **Because we believe strongly that it is going to yield result, you know, this quarter and going forward.**
- **So, that's why you see this increased expenses. This will wean off in this quarter, and even more so in the next quarter. So, to answer two of your questions, these are the answers. The third, which is there, is which you asked, is October.**
- **sales. As I said, you know, we believe strongly that we have done better than the industry at large, of most players, I think. Of course, the base effect counts.**
- **But even though our bases were much better or higher, I would say.**
- **compared to some of the other players, we would have still done better in October.**
-

Aniruddha Joshi

Okay, sure, sir. Last question from my side. In terms of, auto and, industrial, what will be the revenue contribution?

- **And, which, almost customer base would be getting benefited from the, GST correction? I mean, for example, Whitewoods and durable AC Companies or**
- **In a way, auto companies, etc. So, which, how… what percent of our customer base would be, getting benefited from the GST cuts?**
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Abhijit Roy

So it's a lower, you know, percentage for us, it's about an 8-0 percentage, you know.

- **Not significantly material for us.**
- **As far as… we are primarily a decorative company, with more than 82% approximately, you know, coming out of decorative.**

Aniruddha Joshi

Okay, and auto and industrial, any ballpark percentage, if you can say?

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Abhijit Roy

The industrial auto put together is 18%, the balance, you know, protective all put together.

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Aniruddha Joshi

Oh, okay, sure, sir. This is very, very helpful, and many thanks, for the call. Thank you.

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Mohit Dodeja

Thank you. The next question is from the line of Karthik Chalapa. Please go ahead.

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Karthik Chellappa-Indus Capital

Yeah, hi, this is Kartik Chalapa here from, Indus Capital.

- **Two questions from my side, sir. The first one is, I think our earlier expectation was this volume-value gap will narrow by fourth quarter of this year, in the sense that volumes will start… I mean, value will start tracking volume growth. Do you believe that expectation to still be reasonable? And if not, by when do you expect the volume-value gap**
- **To narrow to almost nil.**
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Abhijit Roy

It is not going to narrow to nil, you know, in the short duration, largely because there are certain categories of products which we are growing to grow much faster than the paint category itself, because it is coming on a very low base.

- **However, you know, we see the volume-value gap narrowing to about 4%, 4.5%.**
- **And likely to remain stable around that point. And that would happen, you know, going forward from maybe the first quarter of next… fourth quarter to first quarter of next year.**
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Karthik Chellappa-Indus Capital

So, which means for us to see a high single-digit value growth, our volume growth invariably has to grow at about double-digit then.

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Abhijit Roy

That's funny.

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Karthik Chellappa-Indus Capital

and get that.

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Abhijit Roy

Absolutely. Absolutely.

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Karthik Chellappa-Indus Capital

Okay, excellent. My second question, sir, is on the A&P expenses. So, you did highlight that those expenses grew about 22-23% for the quarter, and in the opening remarks, you said that urban markets were seeing some extra investments.

- **Could you be, slight... give us slightly more details on which are the urban markets that you're targeting at this point for these higher A&P investments, and why you chose these urban markets?**
-

Abhijit Roy

AMP investments are across the country, you know, so it's not focused only on the urban markets. In the urban markets, we have invested in additional manpower on the ground resources.

- **These are off-road manpower, which we book in, you know, the sales promotion expenses, essentially.**
- **So this particular, you know, markets which we have chosen are weak urban markets, which we have defined. These are markets mostly in the west and the south of India. Many of the metros, or many metros which are existing there.**
- **These are markets where we are weak, and we would like to strengthen our presence in those markets.**
-

Karthik Chellappa-Indus Capital

Okay, my last question, sir, is on the margin range of about 15% to 17% for the medium term. So, given that in the first half, we are at 15, and you had highlighted in one of your previous responses that by fourth quarter, you expect it to go towards maybe 17-ish or so.

- **Would it be fair to say that at least this year, it looks like the margin range will probably be closer to 15, 16-ish percent than it is to 17%? And any…**
- **tailwind to margins will probably happen only in FY27.**
-

Abhijit Roy

So, you know, as I said, you know, we are currently at around that 15% mark, right?

- **Yes. And if you look at, you know, where we are headed, you know, we will improve slightly in the third quarter.**
- **And we'll be more closer to that 17% mark in the fourth quarter, right? So, on an average, probably will be around that 16, 15.7, 16%.**
- **For the full year, you know, so that's where we will be, most probably, by the end of the year. I think, you know, that's a fair thing, given the current situation that it exists.**
- **Given the weather conditions that existed.**
- **I think, you know, overall, for all of us, it has been a bit challenging, but I think, you know, things are improving, and, you know, we look forward to a…**
- **Coming 5 months, this would be much better.**
-

Karthik Chellappa-Indus Capital

Excellent. And just one clarification, sir. Although you highlighted monsoons and rains as one of the reasons for demand, there was really no GST-related disruption, at least for the paint categories or for your distributors, right? So we can negate that as any impact or score.

-

Abhijit Roy

No, it had no impact, so…

-

Karthik Chellappa-Indus Capital

Okay, excellent. Okay, that's all from my side, sir. Thank you very much, and wish you and the team all the very best.

-

Abhijit Roy

Thank you.

-

Mohit Dodeja

Thank you.

- The next question is from the line of Pratik Gauthi. Please go ahead.
-

Pratik Gothi

Hello?

- Yes, thank you for the opportunity. This is Pratik Gotti from HSBC.
- A couple questions, please. The first one regarding your comment that premium luxury segment saw some downtrend to the economy segment. Can you please elaborate on that comment? Was it across, exterior, interior?
- Any color there, please?
-

Abhijit Roy

Yeah, you know, so… Basically, you know, excessive rains… was… Basically, a major factor here.

- So the impact happened across emulsions, but…
- Some amount of downtrading we saw, you know, moving more towards the economy emulsions.
- the economy once in growth was there, at least. You know, the luxury Mansion, the premium emulsion, there was a little bit of a slowdown there.
- More so on the exterior category, but it still impacted the interior as well.
-

Pratik Gothi

Alright, good to know.

- And apart from that, any color on incentives, dealer incentives, rebates? Has that plateaued, or has that…
- Has that been increasing in Q2 as well?
-

Abhijit Roy

No, no, not really, you know, so it's been stable, you know, for the last few quarters. I don't see any major changes happening there.

- Nothing material, I think, you know. As is the norm, you know.
- In the industry, if the growths are a little bit muted.
- rebating may go up a little bit to push up sales, but that's about it. It's not significant.
-

Pratik Gothi

Okay, good enough. Thank you.

-

Mohit Dodeja

Thank you.

- **The next question is from the line of Amit Porohit. Please go ahead.**
-

Abhijit Roy

Yes, Amit?

-

Tejash Shah

Yeah, hi…

-

Abhijit Roy

We can't hear you.

-

Amit Purohit

Am I audible now, sir?

-

Abhijit Roy

Yes.

-

Amit Purohit

Yeah, thank you for the opportunity. So, just, on the cost side, I wanted to understand, typically when I look at quarterly numbers, Q2 is a typical quarter where employee costs go up, looking at standalone numbers, and then

- **probably, it averages out in the subsequent quarters. So, I wanted to know, when you said that, this quarter there has been some, focus on the urban and some recruitments done.**
- **Is this the new base one should look at it, or there is some seasonality when it comes to employee cost as well?**
-

Abhijit Roy

Yeah, so, you know, it has two parts. As you're rightly saying, you know, there is a part which is seasonal in nature, that the Q2 tends to go up, because incentive payouts happen in this… in this quarter, for the previous year, and therefore, you know, it tends to have a jerk upwards.

- **But along with it, we did invest, you know, some amount of money.**
- **In the urban markets. And that investment will continue.**
- **And so that will remain as a part of the higher cost that is there. But that will get neutralized by higher sales as well, which we expect from the urban markets going forward.**
-

Amit Purohit

And so, and this initiative, you have been talking about, since last year, right? Yes. Focus. So, is that, something which has happened, now, or it has been there in previous quarters also, on urban spend, on employment?

-

Abhijit Roy

It has been there earlier as well. We have increased a little bit in the type of investment that we have made.

- **We see decent results, and so, unfortunately, you know, the rain's interrupted a little bit in terms of the sales, but that should happen, you know, this quarter and then going forward.**
-

Amit Purohit

Sure. And my second question is on other expenditure as well. Similar, this could be also because, typically when we look at it, Q3 is when you spend, because that's the festive season.

- **And, this time, the… there was a really the valley, so maybe Q2 is when the ad spend… do you think that…**
- **the spend requirement would continue, given the competitive intensity, and you are, like you highlighted, that you will focus to gain shares, and hence the other expenditure number would, tend to be, on a YOY basis, higher.**
-

Abhijit Roy

Yeah, it's true that, you know, the season was earlier this year, so we did spend in the second quarter slightly more.

- **In terms of television spends, because we started a little bit early. But, you know, as I've indicated, we would continue to spend, in the third quarter as well.**
- **And, you know, specifically in areas where we feel that we need to shore up our volume sales as well, you know, there the advertisement will be, you know, jacked up a bit.**
-

Amit Purohit

And you may probably use the gross margin expansion that you highlighted to invest behind that.

-

Abhijit Roy

That's right.

-

Amit Purohit

Sure. Boop.

-

Abhijit Roy

But I…

-

Amit Purohit

Thanks. Thank you. Thanks a lot.

-

Mohit Dodeja

Thank you.

- **The next question is from the line of Teja Shah. Please go ahead.**
-

Tejash Shah

Hi, sir, am I audible?

-

Abhijit Roy

Yes, yes, you are. Word.

-

Tejash Shah

Thank you, sir. Sir, my first question pertains to,

- **the whole demand scenario, and in past, it has been taught by you and other leaders of the industry, that if we miss out on Diwali, then it's very difficult to recover that season later, because then there's a tendency of customers to push repainting to next cycle.**
- **So, looking at that, how do you see the demand scenario recovering now?**

- And second point, I'm assuming that when we would have started this year and this quarter also, we would not have budgeted for this unseasonal rain. So how's the health of inventory, and then should we assume that primary will be kind of muted, even if secondary picks up, at least in the near future?
-

Abhijit Roy

So, good, you know, questions there. You know, in fact, you know,

- whatever, you know, we could gather from the market. I had also been in the market in the last 10-15 days.
- There is significant pent-up demand, so that's a good sign for us.
- The second part is, you know, that our collections has been very robust.
- Because we got a short window, but a very strong window in the first, few days of October before, Diwali kicked in.
- So in that 15, 16 days, there was very brisk sale, you know, and liquidation happened, so the inventory is at a very healthy level.
- As is evident from the collection record which we have, we have collected the money, the outstandings are not there, and you know, hence.
- We expect that, with demand now picking up, with the pent-up demand being there, sales should improve in this month, and also in December going forward.
-

Tejash Shah

So, second question pertains to your observation that, competitive intensity has stabilized, which could be true, but as an observer, it still remains intense, because perhaps it has shifted from dealer level to consumer level.

- just an observation right from IPL to Asia Cup to Women World Cup. It's very much visible that paint companies are advertising very aggressively, especially the Challenger.
- And, even on… in terms of other benefits, be it warranty, or now there's a talk of EMI also coming from them.
- So how do you read? Perhaps numeric expansion of distribution is not happening anymore, but at least from our lens, it still remains intense, at least from consumer acquisition perspective.
-

Abhijit Roy

So it's going to be there, you know, just, you know, I don't see… by stabilization, I mean, you know, if you look at the sales figure, it's not jumping upwards, as was happening in the past few quarters, right? It's the sales would have stabilized to a large extent.

- The numeric reach, as you rightly said, is not expanding at a very fast clip.

- It's improving, but at a normal pace, you know, as would happen for any industry player. So,
- What we see now is a sort of a stability there.
- Yes, there will be attempts to, you know, do various things, you know, to…
- To acquire customers, you know, and improve
- the productivity, possibly, you know, going forward. But as expected, you know, I don't think anyone is not expecting that.
- But its intensity, as I mentioned, is there, but not increasing, it's stable.
-

Tejash Shah

Got it, sir. So that's all from my side, and all the best for coming quarters.

-

Abhijit Roy

Right.

- Thank you.
-

Mohit Dodeja

Thank you.

- The next question is from the line of Percy Pantagi. Please go ahead.
-

Percy Panthaki

Hello?

- Hello, am I audible?
-

Abhijit Roy

as you are.

-

Percy Panthaki

Yeah, Persi Panzaki here from IIFL Capital. Sir, just wanted to understand, someone did ask about competitive scenario, but I specifically wanted to ask about competitive scenario in, East India.

- Given that, Berla Opus is now, sort of, opening up their plant there, and they will sort of have better availability, better servicing of dealers, etc, etc.

- **So, is there, in East India, either any change or any expected change in competitive intensity, and should we sort of read, that along with your financials in terms of**
- **the sales growth being only 2%, but the other expenses line inflating by 15% YOY. So is this either a response or a preempting of the expected increase in competitive intensity in the East?**
-

Abhijit Roy

No, not really, you know, so I don't think, you know, we're stretching it a bit too. I have explained this earlier as well.

- **that in the paint industry, you know, I don't see, you know, if you put up a factory at a location, you start gaining market. Very rarely does it happen. You know, we have factory in Pondicherry, we have a very weak presence there. We have a factory in Jammu, we have a very weak presence in Jammu.**
- **or in that surrounding area. So, you know, it does not really make any sense at all of just, you know, because some factory comes up in some location, and so that might help a little bit, but, you know, it really doesn't create any great impact.**
- **So we haven't prepared ourselves, you know, in any significant way. We have a strong position in the East, you know, and we maintain that.**
- **And I don't see that, you know, being, you know, unnecessarily disturbed,**
- **In the short run, right? So, we are not spending extraordinary amount of money, and we're surging any great hit, you know, and trying to protect ourselves there.**
-

Percy Panthaki

So, sir, in that case, what is the thought process behind spending disproportionately in this quarter when it was apparent that demand is going to be sort of subdued because of monsoons, etc? Why not, sort of.

- **Have those spends at a time when they can actually sort of give a better bang for the buck.**
-

Abhijit Roy

I… I don't think, you know, that's how…

- **things operate, you know, because branding is not like, you know, whenever you have good time, you advertise, and then…**
- **When you're in, you know, seeing… because the season…**
- **who can predict, you know, what will happen, you know, end of September? No one thought that it will keep raining, right? So, once we started advertising, we booked slots, you know, for the period, right? You know, so, from September 1st till.**

- October 15th, you know, just before Diwali. That's the peak time when we have always advertised, you know, and so that happens irrespective of weather conditions. Now, weather will… whether it will change, I can't pull out my ad suddenly saying that, oh, whether it is still raining, I won't advertise, so…
- It doesn't happen like that, you know, so…
- Brand building, you know, has to continue, irrespective of, you know, whether it is raining or not raining. Similarly, you know, in terms of, you know, the investment which we made in the urban markets.
- Just because it started raining, I can't dismiss my people there who are working, and say, you know, come back once the rain stops. It doesn't happen like that either. So, we have to invest, we have to bear that cost, you know, so it doesn't matter so much, you know, in one quarter it might have happened.
- But, you know, we will get our results sooner or later.
-

Percy Panthaki

Understood. So, ad spend, which is part of the other expenses line, grew by about 22%, but the other expenses overall, including the ad spend, grew at 15%.

- **So it means that, even excluding the ad spend, the other line items within the other expenses would have grown close to about a double-digit kind of a number.**
- **when the sales growth was only 2%. So, what really has driven this part of the growth as well? Is it some extra rebates, or dealer schemes, or something like that? Or what is driven? Because the investments in other urban markets would, I think, come under the employee cost line and not the.**
-

Abhijit Roy

I'm not expensive.

- **It doesn't come under the employee cost line. It comes under the other expenses only.**
- **Because, you know, that is off-road manpower, which we put under, the other expenses.**
-

Percy Panthaki

Understood, understood. So, shall we assume that these kind of investments will continue in the future, and therefore, margin expansion… I mean, margin improvement, if any, is just going to be a function of the top-line growth improving?

-

Abhijit Roy

This will continue, and the top line has to grow. You know, that's the objective, right? You know, because at the end of the day, if we have invested a certain amount of money there.

- We are expecting that, you know, results will come, you know, results will come, we strongly believe that. It's just that the rains stalled it for a time being, but we will expect that, you know, it will come back, and you will see that happening in the third and the fourth quarter itself, not very far off.

-

Percy Panthaki

Okay, sir, okay. That's all from me. Thanks and all the best.

-

Abhijit Roy

Thank you.

-

Mohit Dodeja

Thank you. The next question is from the line of Sherry's birthday. Please go ahead.

-

Shirish Pardeshi

Hi, sir, good evening. Thanks for the opportunity.

- **Two questions. This is an extension of what, Tejas was asking. In our stronger markets example for North and East.**
- **You mentioned that system hygiene is clear, and there is no excess inventory which is there. I mean, paint companies always have a benefit delivering this stock within 24 hours. But still, I'm pushing you. Is there any regional variation in terms of higher inventory, more than the permissible level?**
- **The reason why I'm saying this is because North has seen the excess of brains, and by virtue, the trade inventory would have been higher. So, that is the question, if you can explain or help us to understand, is there any regional variation in terms of inventory into the system, which is higher or lower?**

-

Abhijit Roy

No, not anything serious. You know, we haven't seen anything tangibly different from different regions. More or less, it's at similar levels across the regions.

-

Shirish Pardeshi

Okay.

- **And my second question, if quarter 4 exit has to have double-digit growth.**

- So, is this growth is primarily from the off-take and secondary, or will it be getting into the newer products, newer areas, and Tier 3, Tier 4 market expansion? Or maybe if you can give a little more color, that if that positivism has to come in double-digit growth in terms of volume.
-

Abhijit Roy

How it will happen, and which market will drive. You're right, series, you know, it's a combination of all of these factors.

- **The investments that we have made in terms of network expansion, we were not able to leverage it fully as of now because of the market conditions which existed. We believe that, you know, going forward, we will add, in fact, you know, more dealers on the ground, you know, in the third quarter as well.**
- **And therefore, that will give us results in the fourth quarter substantially more. The other part is, you know, so therefore, it's a combination of network expansion, the brand building, which I have mentioned, which will continue, and which will strengthen, you know, further.**
- **And third, of course, you know, the product range that we have introduced, some of them news, some of them, you know, which have just been introduced, three more which will get introduced this quarter.**
- **All of this combined, it should help us to grow at a faster clip.**
-

Shirish Pardeshi

Okay, just last question. On the cost front, if I index last year as $100, how much deflation we have seen in overall raw material index, and is there any particular item or any particular raw material which is seeing inflationary in your view?

- **Right now, or maybe next 2 to 3 quarters.**
-

Abhijit Roy

There has been, you know, I would say a very reasonable deflation in prices, which we have seen in the raw material prices.

- **The net impact, you know, I can't remember, but it'll still be in the range of about 2-2.5%, possibly. Overall, some of it gets eaten away by the exchange which is happening.**
-

Shirish Pardeshi

So, overall, we will gain, as I had mentioned earlier, by 1.5%.

-

Abhijit Roy

You know, in the next quarter and the quarter going forward. Inclusive of all the mixed changes that are happening slightly, and at the same time, the raw material price drops which have happened. So this is something which can be expected.

-

Shirish Pardeshi

Is there any cost push you are seeing for any particular barometry?

-

Abhijit Roy

Not as yet. We haven't seen anything significant. You know, there was this titanium dioxide, which was, you know, because of the duties imposed, or the rather the anti-dumping duty which was imposed by the government, but then there was a legal case which the IPA had filed, and IPA won that case.

- **Still, the government has not notified, so far, the lowered, duty structure. You know, I think, you know, IPA is fighting that out in the court.**
- **If that happens, then, you know, titanium dioxide will also come back to normal levels, so that might improve the profitability a little bit further.**

-

Shirish Pardeshi

Okay. Thank you, and all the best, sir.

-

Abhijit Roy

Thank you.

-

Mohit Dodeja

Thank you. The next question is from the line of Rahula Garwal. Please go ahead.

-

Rahul Agarwal

Yeah, am I audible?

-

Mohit Dodeja

Yeah.

-

Abhijit Roy

Yes, Raul.

-

Rahul Agarwal

Hi, good evening, sir, and this is Rahul Agaral from Ikigai Asset Management.

- **So, two questions. One is, you know, related to the expansion into the urban cities, which you've mentioned, off-road manpower investments.**
- **Assuming that you're trying to push growth in these markets, I'm assuming also that these are premium products, higher ESP market?**
- **And the revenue salience from these markets will, you know, be faster, and faster growth, you should see here, because of the lower base in the overall top line in decorative for Berger.**
- **Does that mean that, from a margin perspective, these should be dilutive incrementally on overall company-level EBITDA, or they should be similar to company-level margins? That's the first question.**
-

Abhijit Roy

No, so if the mix is better and it is growing faster, obviously it will be margin accretive from current levels, right? So that should help, you know, going forward. As I said, you know, it is… urban markets tend to be more…

- **Project-oriented markets, you know, and they were more affected by these rains.**
- **But we will see…**
- **That in the third and the fourth quarter, that should, you know, become much better. And so, it should become sales and margin equity, both.**
-

Rahul Agarwal

Despite them being more projects, and despite them being more competitive, or you think…

-

Abhijit Roy

It is a retail project type, you know, we are not going into those very big projects.

- **Smaller projects, which are, you know, not that competitive in terms of pricing, and the margins are pretty okay.**
-

Rahul Agarwal

Got it, sir, got it. And just one question, I mean, I understand the build-up to how you will exit fiscal 26 in terms of growth on volumes. I also wanted to, you know, check with you if you… if I have to hazard, I guess, on fiscal 27 and maybe next 3-year kind of volume gaggers.

- **What would be the probability of, you know, Berger growing at double digits for next 3 years? That's the question.**
-

Abhijit Roy

I don't think, you know, I would like to comment on that, you know, at this stage.

- **We take…**
- **the predicting the next 6 months itself is an issue, you know, projecting it for 3 years is, I think, you know…**
- **difficult, you know, at this stage. I would… we have stayed away normally from projecting, you know, it's all…**
- **You know, pie-in-the-sky type of thing.**
- **we will only project for the next few months, you know, so that's about it, you know, so I can see it up to March or April, maybe, beyond that.**
- **I don't have visibility. We do all our good things that needs to be done. We believe that, you know, this should add… the basic fundamentals are, you know, that the network should be in place, the brand should be built up.**
- **And, you know, product quality should be good, supply should be good. These are all in place.**
- **We can expect that if the industry grows at X percentage, we should be able to grow at X, at least**
- **We should be actually growing at a faster eclipse. That's all that I can say.**
-

Rahul Agarwal

Perfect, sir, sir. Appreciate your, your simple replays. Learned a lot on this call. Thank you so much, and all the best for the rest of the year.

-

Abhijit Roy

Thank you.

-

Mohit Dodeja

Thank you. The next question is from the line of Harsha. Please go ahead.

-

Harsh Shah

Yeah, hi, sir, good evening. Basically, if we were to look at the, let's say, the decorative, segment, what would be our, share of voice, let's say, if we calculate it by our ad spend versus deco industry ad spend, relative to our, deco market share?

-

Abhijit Roy

It is slightly below the Deco market share, as of now, because the new entrant, you know, their share of voice is much higher, you know, compared to their market share.

- **So, in our case now, we used to be similar to our market share, but now it is slightly below that.**
-

Harsh Shah

Indicatively, sir, I mean, if you could, I mean, 100, 200 basis points, or,

-

Abhijit Roy

Yeah, somewhere around that.

-

Harsh Shah

Okay, well, I mean, with, I mean, even this quarter of our ad spend being higher by 20% plus, we,

- **is then to kind of… I mean, it's… let's say if we were to think of, again, going back to that, historic levels of share of share of market.**
- **Right? Would that be a factor of us spending more, or would… basically, it would happen only if, let's say, the new entrant kind of starts moderating their spends?**
-

Abhijit Roy

communism of both, I think, you know.

- **Because the new entrant, you know, as of now, because it has come in fresh.**
- **it will spend more, right? It's expected that it will keep doing that until it builds some salience. So, that is something which was expected and is going to continue, so…**
- **even though we might increase the spend, we will still not be, you know, restoring it back to earlier levels, you know? So that's how it is.**
-

Harsh Shah

Okay.

-

Abhijit Roy

Continue to invest in our own way, because we don't have to, because we have invested all these years and have built up

- **A significant brand presence, so even with a lesser spend, we can get far good result.**
-

Mohit Dodeja

Aww.

-

Abhijit Roy

Hello?

- **Hello?**
-

Mohit Dodeja

Sir, we are done with the questions. I now hand over the call to the management for closing remarks.

Abhijit Roy

So, thank you very much for taking time out and coming and, you know, hearing out. That's all that we had to say. Hopefully, it was, you know, a tough quarter, but we did

- **answer all the questions that were raised, and we look forward to better quarters going forward. Thank you.**
-

Mohit Dodeja

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us.