

# Berger Paints India Limited

## Q4FY11 Conference Call Transcript

3 June, 2011

### Moderator

Ladies and gentlemen good day and welcome to the Q4FY11 results conference call of Berger Paints India Limited hosted by Emkay Global Financial Services. We have with us today Mr. Subir Bose, Managing Director; Mr. Srijit Dasgupta, Director and Chief Financial Officer; and Mr. Sujyoti Mukherjee, Senior General Manager - Finance and Accounts. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pritesh Chheda, Senior Research Analyst at Emkay Global. Thank you and over to you sir.

### Pritesh Chheda

Thank you Marina. Good evening everybody. Thank you for joining us today. We would like to welcome the management of Berger Paints India Limited and thank them for giving us the opportunity to host this call. From the management side, we have Mr. Subir Bose – Managing Director; Mr. Srijit Dasgupta – Director and CFO; and Mr. Sujyoti Mukherjee – General Manager - Finance and Accounts. First the management would give the assessment for the quarter 4 and FY11 performance and thereafter share the outlook for the forthcoming years. So now we would like to welcome Mr. Bose to give the opening remarks. Over to you sir.

### Subir Bose

I am sure that all of you have seen our results as far as Q4 was concerned. In terms of net sale, the growth was in the region of 24.1% and in terms of profit after tax, growth was 28.9%. By all yardsticks this was a good performance. If you were to look at our performance for the entire financial year FY11, our net sales growth was 24.4% and our profit after tax was 23.4%. So this was one of our good years in the recent memory. This was aided and abetted by good demand in the market place and the construction industry did well last year and the demand was buoyant in all the quarters and you would have seen that we did a very consistent performance each quarter. It did not vary too much and our growth was in the excess of 20% for each of the quarters which we had last year. So this was one of our good years and we of course did several initiatives from our side initiatives by way of improvements in our distribution network and looking at some product launches more carefully and spreading them especially at the premium end of the market. We have also looked at economies of scale in our plants. We carried out lot of cost initiatives by way of raw material procurement. All these benefited us significantly and that is the result we have with us. Over to you Pritesh.

### Moderator

Thank you very much. The first question is from Sumit Duseja from SPA Securities. Please go ahead.

### Question and Answer Session

#### Sumit Duseja

Just wanted to know what has been the breakup in revenue in volume terms and value terms in FY11?

#### Subir Bose

Our volume growth is in the region of 19% for the entire year.

#### Sumit Duseja

And sir what price increases you have taken since the beginning of this fiscal and whether the increase in prices you further want to take that are required to maintain the margins?

**Subir Bose**

See this fiscal, if you talk about fiscal 12, we have taken about 4.3 plus 2.5 which is about 6.8% in the decorative business which is about 80% of our sales. We are in the process of taking the desired level of price increases as far as the industrial business is concerned.

**Sumit Duseja**

Sir one question on margins front. We saw the gross margins expanded slightly in FY11. As I understand it is on the back of improved sales mix in favor of emulsion paints and contribution from old inventory as you mentioned in last conference call. Sir can you please tell me which contributed higher for margin expansion?

**Subir Bose**

Well as far as margin expansion is concerned; I would say that a mix of several factors accounted for this. One is definitely that our mix in terms of water based improved well. We also had a fair growth as far as the premium side of emulsion was concerned and I mentioned when I did my initial remarks that we carried out several initiatives by way of cost reduction and also in terms of raw material procurement which helped us to achieve the margins which you have seen.

**Sumit Duseja**

Sir going forward, we can further see some margin expansion on gross levels?

**Subir Bose**

The attempt would always be there as far as we are concerned, but the situation in the raw material front has been, this is difficult as you are all aware, but we are fairly confident that we will be able to get the required level of price increases from the market, although there have been slight lag of it with regard to the raw material price increase and the eventual sales price increases, but we are fairly confident that by the end of this year, we would have recovered fully the raw material cost increases which have taken place.

**Sumit Duseja**

Sir, can you please tell me what has been the absolute value of advertisement spend in FY11?

**Subir Bose**

I think in terms of advertisement, we have reported advertisement and promotion but very roughly if I were to tell you around 30 crores is our ad spend if you look at only the media part.

**Sumit Duseja**

But ad and promotional as a whole?

**Subir Bose**

It will be close to 1.5% will be the direct spend and in terms retail sales, it will be close to about 5%.

**Sumit Duseja**

Around 5%?

**Srijit Dasgupta**

As far as retail sales is concerned. There is an element of sales promotion also that we introduced this year which is an additional amount. So it would be a bit of an improvement over the ratios over last year at least 0.5% improvement. So if you see our last year's figures, it will be an additional 0.5%.

**Sumit Duseja**

The other expenditure as a whole has increased this year and that is why I just wanted to know if going forward, similar trend would be seen in the other expenditure as a percentage of sales?

**Subir Bose**

Yes I think as far as we are concerned, we would like to maintain the same level of spend levels in terms of both advertising and promotion and this is the way we have to build plans for the future and therefore we will continue investing in our brands and take the whole thing forward.

**Sumit Duseja**

Sir one last question on other income side. Other income has risen significantly to around 36 crores for the whole year versus 20 crores in FY10. So what has been the factor that contributed that increase in other income?

**Subir Bose**

I am just giving it to Srijit, my CFO; he will give you the details.

**Srijit Dasgupta**

You are very correct that other income has gone up significantly this year. Essentially this is in the area of nonoperating income. I think we explained in the short presentation that we circulated. Essentially interest from our interest income on our investments is the significant part of this income as well as certain additional non-operating income like sale of shares of PNB Principal. You know that we had a small stake 25% stake in insurance broking subsidiary of PNB Principal and we exited this shareholding at a fairly healthy profit. This is not co-business for us as you can understand and we were happy to make this income.

**Sumit Duseja**

Also there is a component of discount in the other income, what exactly it is, just wanted to understand on that?

**Srijit Dasgupta**

These are essentially discounts for early payment to suppliers and vendors and we take the opportunity to earn some cash discounts if the opportunity presents itself, there are some vendors who may like early payment because they may be cash strapped. They offer us discounts and we take this. This is fairly standard in our industry.

**Sumit Duseja**

Okay fine. That is it from my side sir. For any further questions, I will get back to you. Thank you so much.

**Moderator**

Thank you. The next question is from Anand Shah from Elara Capital. Please go ahead.

**Anand Shah**

Sir would it be possible to share what will be the mix of water-based and premium emulsions in overall mix?

**Subir Bose**

This would be something which we would not like to share in terms of percentages, but over the past few years we have been consistently year-on-year increasing at the rate of 2% each year in terms of the mix improvement of water based vis-à-vis solvent based.

**Anand Shah**

So let us say 5 years ago and now you would have at least increased 10% as a percentage.

**Subir Bose**

Absolutely right.

**Anand Shah**

And sir you obviously would be knowing that Shalimar Paints has also up for sales, so any plans of Berger to look at acquisitions domestically?

**Subir Bose**

We have no comments to make as far as the Shalimar acquisition is concerned and therefore I would not like to say anything more on this subject.

**Anand Shah**

And sir can you share the CapEx details for FY11 and the future plans for 12, is it on track?

**Subir Bose**

I will give the details to Srijit. He will give you the details.

**Srijit Dasgupta**

Just to give you a rough breakup, the major part of the capitalized expenditure was obviously for our emulsion plants in VVN that is in the CapEx, not in the capitalized portion but in the capital work-in-progress portion. So you will find that both capital work in progress and gross block have increased substantially by about roughly 48 crores in gross block and in capital-work-in progress about 45. So this is mainly on account of our VVN emulsion plants for the capital work in progress portion. Of course we announced earlier Brownfield expansions in Rishra and Goa plants. Together the capital-work-in progress component would be about 13 crores. We have invested in our new Mumbai office because we have to give the old one up. So that accounts to another 6 crores approximately. For the capitalized portion, the big chunk of course is the color bank machine. This is a sort of regular maintenance kind of investment that we do for our network of tinting systems that would account for about 24 crores last year and maintenance expenditure in all our factories. So that would account for the bulk. In terms of plants for next year, we know that we have a Greenfield expansion plant in Hindupur. Of course the expenditure would be phased over 2.5 years, but approximately in addition to the maintenance expenditure that we expressed for tinting systems and in other factories; we are looking at an additional 65 or 70 crores in the initial first year.

**Anand Shah**

So that will be the guidance for FY12 for CapEx?

**Srijit Dasgupta**

Yes.

**Anand Shah**

But this Hindupur plant, when will get commercialize and operative?

**Subir Bose**

It is likely to be within 2 years.

**Anand Shah**

Not in FY13, it will be more so in FY14?

**Subir Bose**

Possibly yes.

**Anand Shah**

And your current installed capacity in terms of tonnes in FY10 was 240,315. What would that be now?

**Srijit Dasgupta**

In terms of our capacity utilization, it is not just our own factories which are operational. I think we explained in previous investors meet if you had attended that it is the breakup of our own factories, some toll processing done for lower end products and traded items. So the breakup is approximately about 60 to 65 for manufacture currently and another may be 25 or 30 for toll processing and the balance for traded items. Now we do have the capacity utilization in our own plants is about roughly 70% as you would know from our calculations that we have. We will obviously be putting these numbers in our annual report

which you will get the details of this pretty soon, but in the paint industry this may look like a low number, but you must understand that the capacity has to be reserved for season. In season, the capacity utilization goes up by as much as 70 to 80% and we have to keep the reserved capacity for that, otherwise it would mean carrying a lot from inventory.

**Anand Shah**

Okay sir, thank you. I will get back to you if there are more questions.

**Moderator**

Thank you. The next question is from Avi Mehta from IIFL. Please go ahead.

**Avi Mehta**

Just wanted to understand if you have any number which would share about the kind of growth that you are seeing in Quarter 1 FY12 till date, that is basically growth in April volumes?

**Subir Bose**

Obviously I cannot share numbers with you, but I can give you an overall understanding, the first quarter is on track that is all I can say and it looks that the month of June will also be on track and going forward, we will have to see how the year pans out. You would have seen the overall situation in terms of the economy, it has a direct bearing, and the demand has a bearing on the economy, the monsoons and the whole host of other factors which contribute to the growth of paints. So one has to see how the season pans out and I think post season would be a better position to answer this question.

**Avi Mehta**

If I may just follow it up, what I wanted to understand if you could give us sense versus last year, is the kind of growth in line with like 20% kind of volume growth or is that something on target?

**Subir Bose**

Obviously I cannot answer the type of questions you are asking. It is like violating guidelines. I have told you what I could as honest a man as much as possible.

**Avi Mehta**

I can really understand sir. Sir one last question, little specific, but what would be the kind of interest cost and what is the kind of increase that you are looking forward to?

**Subir Bose**

Interest cost obviously has gone up and we are fairly confident that we have a fairly robust working capital cycle of operation already within the company and therefore we will be able to hold our interest cost within the same more or less at the same level.

**Avi Mehta**

Okay sir, that is all from my side. Thank you very much.

**Moderator**

Thank you. The next question is from HR Gala from Quest Investments. Please go ahead.

**HR Gala**

We were just in Calcutta yesterday, but I think because of your busy schedule we could not meet you people. Can you just tell us what kind of competitive scenario is now emerging in the Indian paint industry?

**Subir Bose**

Indian paint industry has always been very competitive as you are aware if you have been tracking the paint industry, but what is making it more interesting now is the advent of international players who are setting up business in India. So I think in the

last 3 or 4 years, a few important international companies have set shop. You may have heard about Nippon Paints, you may have heard about Jotun, you may have heard about National Paints of Dubai which is putting up in operation in Kerala. So these are big players. Sherwin of course I forgot to mention Sherwin. Sherwin is one of the biggest player in North America and therefore they have also come about 3 to 4 years ago. So these are the four companies. So it is fairly interesting now.

### HR Gala

Do you think it will lead to any further consolidation?

### Subir Bose

There is no consolidation available as far as Indian businesses are concerned to that extent because there are a few players only and they control the market. The rest are not in the same level. They are much smaller players. So they are not significant players either locally or regionally, they are nothing significant. So I do not think there is room for much consolidation other than may be Shalimar which is in the news currently.

### HR Gala

But how does the overall scenario work out in terms of the profitability of the companies like our profit margin if you see at the EBITDA level excluding the other income component, it is fairly low as compared to other paint majors like Asian Paint, AkzoNobel, and Goodlass. So do you see any scope for improvement in the margin as we move?

### Subir Bose

Let me tell you. I think if you were to look at our performance vis-à-vis AkzoNobel, I do not think they are comparable. We are at a different level of growth in terms of spread and in terms of size. Profitability is marginal neither here nor there. We are more or less at the same level. Now the only two players in which I think there is a difference and you are very right in saying this is with Asian Paints and with Kansai Nerolac. I am sure you are aware but I am reiterating the fact that Asian Paints is the leader and between the 5 major companies who were operating, they hold close to 60% of the market. So they are able to set prices and they are able to enjoy the economies of scale and all other advantages which comes to a leader in terms of pricing, etc., and therefore they do have an advantage as far as the margins are concerned, but you would have noted one thing that the drop in contribution for them, the profitability drop this year has been much more significant than the profitability drop which we have experienced if that we have improved our margins.

### HR Gala

Probably what is happening on the AkzoNobel side is that they are very aggressive in pressing the sales. So I think their ad spend as a percentage to sales is much higher than probably rest of the companies.

### Subir Bose

Well I do not know much about AkzoNobel and I would not like to comment about the competitor, but from whatever I know I would just like to hold my comments.

### HR Gala

Do you expect a reasonably good growth to continue despite the interest costs going up and probably on the industrial side also the way in which the auto sales have started plummeting what kind of scenario do you think...?

### Subir Bose

I think it is early days. So it is little difficult to predict how FY12 will be, some macro indicators are not looking too good, agreed. I mean it is there for all of us to see and sometimes a little difficult to crystal gaze and give a very good co-relation. So one has to possibly see it for another quarter or so. Post season, I think the situation for FY12 will become clearer and better and we could share a better estimate of how the year will pan out.

### HR Gala

So in the mean time do you think that the medium to long-term prospects for Indian paint industry is very robust so that we are going ahead with the number of projects that we highlighted in our annual report last year?

**Subir Bose**

If you look at the medium and long-term prospect and the amount of CapEx which we are putting in, obviously if we did not have a rosy picture of the future, we would not dare to do such a thing. So therefore the medium to long-term prospects are very bright I would say. Of course slight blips in the scenario will always happen. It happens in every economy and every place, but these are mere blips long-term, the medium and long-term is bright. Given the level of India's development, given the level of the growth required as far as the economy is concerned to keep it going and bring about greater level of prosperity for our fellow countrymen, I think sky is the limit.

**HR Gala**

Last question from my side. Sir we are mainly into the decorative segment. What kind of initiatives are we taking to get into the industrial side or automotive side?

**Subir Bose**

You must understand that in decorative, we are number two next place to Asian Paints and as far as another industrial in which we are very strong which is more than 50% of our industrial turnover is the protective coatings in which also we are number one as far as the country is concerned. We are ahead of giants like AkzoNobel and Jotun. We are very proud that we are an Indian company and we are number one in India as far as protective coatings are concerned. Now yes it is a fact that we are not an important player as far as automotive is concerned, although we do automotive of around 10% and this is mainly in the area of all Indian automotive companies which are operating like Tata, Ashok Leyland, Force Motors, all the two-wheeler industry, all the tractor industry we are representative there. They are growing business for us. Year-on-year, we have been growing consistently. We are expanding our capacities, but we are not there in the passenger car and I do not think that without a foreign partnership, an equity partnership or a joint venture, it is possible to make much headway in the international passenger car market. It is not possible.

**HR Gala**

Thank you very much and wish you all the best sir.

**Moderator**

Thank you. The next question is from Naga Deepika from Capital Markets. Please go ahead.

**Naga Deepika**

You said that there was a price hike of 6.8% in the current year. Can you just tell me when was the 4.3% hike and 2.5% hike done?

**Subir Bose**

First was on the first of May and the second of 2.3% was on the first of June.

**Naga Deepika**

And sir what is your outlook on the raw material front particularly the titanium dioxide and the turpentine oil, where do you see the prices going ahead in that front?

**Subir Bose**

As far as crude oil is concerned; crude oil has gone up significantly. It cooled off a little bit in the last few days, 15 to 20 days and we are hoping that this situation would remain as far as crude oil is concerned because there is still a slowdown which is taking place which has happened or is existing as far as Europe and North America is concerned and the reports from China are not also very positive and exports have slow down as far as China is concerned from whatever I heard in the business news and I may be wrong, but my own assessment is that crude oil would not be going up, it would remain around this figure where it is today which leads me to believe that as far as downstream petroleum products are concerned in the raw material stream, they would tend to assume a greater amount of stability now as opposed to what we had seen earlier. The problem area remains as far as rutile is concerned. Rutile has nearly doubled, close to 100% increase as far as the prices are concerned in the last one year and because this has happened, the future is also not looking very positive because there is a shortage of ilmenite ore worldwide and therefore unfortunately I am not seeing a situation of cooling off as far as rutile is concerned, may be we will have to wait for at least the second quarter bookings are being made and therefore I do not see

any cooling down. Third quarter, it will be too early for me to predict, but we will have to therefore await the passage of second quarter to predict what it will be in Q3 and Q4.

**Naga Deepika**

But sir according to my observation on the raw material particularly on the titanium dioxide front, rutile prices as you said are on an increasing trend, but anodized was on a declining front for last 8 years?

**Subir Bose**

The anodized price is in the region of Rs. 165 per kg.

**Naga Deepika**

149 according to my price.

**Subir Bose**

Yes, but it has gone up.

**Naga Deepika**

On a YoY basis, it is up but on a sequential basis in the current quarter Q1...

**Subir Bose**

The differential between anodized and rutile continues to be around Rs. 20-25 which it has always been historically. So in fact anodized prices have kept the moving upwards in sympathy with rutile.

**Naga Deepika**

But what would be we using more of, the paint companies more of?

**Subir Bose**

Anodized has limitations because anodized cannot be used for exterior paints. Anodized can only be used for interior paints and primers which is used as a bottom coat. So the anodized structure does not allow itself, it will become choky if it is used in exterior paints. So it is never used. The rutile grade is used for exterior paints.

**Naga Deepika:**

So going ahead raw material front there is much more pressure. How would be our pricing scenario? Will the market be able to take up the 6.8% price increase- a bit on the higher side in a quarter, at least the two months? Going ahead the coming scenario is very down and is a lean quarter for us because of the monsoon front. How would you see the pricing and the demand coming-in in the next quarter? I mean all the negative outlooks we are seeing both domestically and internationally?

**Subir Bose**

We are now entering the low demand cycle, the months of June, July, and August are monsoon months throughout the country as you are aware. It is normally the low season. So therefore for us to make any predictions keeping the demand as far as the monsoon period would be incorrect for us to come to any judgment. I think I can answer your question much better in the month of November after we have completed the seasonal month as to what is the impact of this type of a price increase on demand. So therefore, for me at this stage to give any opinion I do not think it would be right.

**Naga Deepika:**

What would be the inventory? How would be book our rutile or anodized booking, we import mostly. What kind of inventory do we have?

**Subir Bose**

I can only say that we are covered as far as this season is concerned; we have made adequate arrangements to cover ourselves for the season. We had to and we have done that.



**Naga Deepika:**

Our inventory seems to be very high when I see the balance sheet. Was this because of the higher prices or we had more inventory on the volumes front?

**Subir Bose**

We had a 19% volume growth so therefore, 19% volume inventory will take place considering all factors, plus there is a price impact of nearly 10% to 12%. So therefore you can see that the total impact would be anywhere between 35% to 40% in terms of the overall inventory.

**Naga Deepika:**

Fine sir, all the best.

**Moderator**

Thank you. The next question is from Rajni Chirumalla from B&K Securities, please go ahead.

**Rajni Chirumalla**

My question is relating to the performance of the subsidiaries. Can you share a bit of details of those fronts?

**Subir Bose**

Which subsidiary?

**Rajni Chirumalla**

In the foreign subsidiaries. Because if I see the subsidiaries performance basically by deducting the standalone performance from the consolidated, at least for the 4<sup>th</sup> Quarter I see that the margins have fallen substantially.

**Srijit Dasgupta**

This will happen because our largest subsidiary is the subsidiary in Poland, that business is seasonal. So Quarter 3 is actually season for them and this is basically the sale flag off after November. So November-December are low sales months. So this seasonality will always happen there is nothing to worry about. The only comment that I would make about this subsidiary is that growth has been pretty much flat in this year in FY10; we consolidate the calendar year numbers in our balance sheet. But the prospects for FY11 are definitely better.

**Rajni Chirumalla**

When can we see substantial contribution from these because as of now it is quite minimal?

**Srijit Dasgupta**

Yes, you should not look at the PAT numbers; the taxation is actually deferred taxation so there is that much in cash in the sense that there is no cash outflow for tax. But you are right, the interest and the depreciation takes away a little bit, it is a high working capital business, but the EBITDA levels are comparable with Berger India.

**Rajni Chirumalla**

That's it from my side.

**Moderator**

Thank you. The next question is from Richard Liu from JM Financial, please go ahead.

**Richard Liu**

I have one question on the industry. Following from what you said a little earlier, the situation of happy coexistence between all the players where Asian Paints is the price leader and they have pricing power and other people follow, you think this situation is going to change anytime soon with the advent of the MNC players that you were talking about? B) And if that were the case what do you think will drive this change?

**Subir Bose**

I do not think first of all it is a happy coexistence. It is not happy. I have been a part of this industry for 35 years; it is a 'dog eats dog' situation. So it is not a happy situation. Now as far as the advent of foreign players is concerned, I would like to believe that whoever has come in is not very significant and therefore I do not think that price will play the major role in terms of pushing sales forward. Brand is the most critical element as far as the industry is concerned, distribution network is very critical and therefore price per se is important but up to a limit beyond which it loses its meaning. So therefore even with the advent of foreign players I think the industry would continue to be doing what it is doing and there would not be very much change in the situation. I do not think the Indian paint industry makes huge profits. It is on par with what in other countries our experience is as far as important paint companies are concerned. We are in the same boat and I think if the other parts of the globe continues in that level of profitability I think we will be able to sustain this level as far as India is concerned also.

**Richard Liu**

Thanks.

**Moderator**

Thank you. The next question is from Mahesh Chhabria from Fidelity India, please go ahead.

**Mahesh Chhabria**

My question was more towards your debt profile. If you just compare the standalone and consolidated it increases by a good sum. So if you can just throw some light on which subsidiaries are carrying more debt and what would be the nature of debt? And also on the cash side, I guess from last year it has increased from about 38 crores to some 123 crores. So is this the normal cash which is there in the balance sheet? Some light on that, sir.

**Srijit Dasgupta**

I will clarify, I will take the cash question first. That cash is actually some of our investments which have been redeployed from investments which appear in the investments schedule in FY10. Those investments are now in fixed deposits in our banks and therefore appear in the cash and bank balances. So its not that the business generates this kind of cash so we should clarify that. It is just a rearrangement of the surplus funds available to the company. So that is the answer to your first question. In terms of borrowings of subsidiary, yes, our largest, let us say, quantum of funds is on account of our Polish subsidiary and is borrowed out of our Cyprus holding company. This is a term loan with an average maturity of approximately 2 years and we expect that this will not significantly increase in cost. Compared to Rupee debt it is a very small number in terms of interest. So we are happy to maintain it as it is. You will understand that off shore funds are cheaper by far. Today the margin of Rupee borrowing is about 9% almost. So we are happy to let it remain as it is. If the opportunity comes to repay the loan and we feel it is prudent to do so because of the exchange situation we will do that. We have the surplus funds to do that.

**Mahesh Chhabria**

In your standalone balance sheet, this would be more of working capital less than 1 year kind of maturity?

**Subir Bose**

Yes.

**Mahesh Chhabria**

On your geographical reach are you PAN India or are you focusing at a particular segment, how is your job is to reach throughout? Because I guess as far as the retail decorative side is concerned you provide solutions to the end customer which is more of east and north and south and some are not in the west. So is that a correct understanding?

**Subir Bose**

First of all let me clarify that we are PAN India. We have always been PAN India. Of course, the difference is that our market shares are different from area-to area. And there are certain markets where we enjoy a greater market share and some areas we have a poorer market share. And the idea would be to ensure that we improve our market share in the poorer ones. So that has been our focus. The services which we are talking about in terms of painting solutions, we are offering in 20 cities in the country. We have tolling centers by which we offer services to our important architects, professionals and builders which are spread in most of the major cities of the country. So that is where we are. Does that answer your question?

**Mahe sh Chhabria**

Yeah. I was keen to understand towards the painting solutions which you mentioned, there are none in the western India, is that a conscious decision to stay out of western India?

**Subir Bose**

You are very right, we are not there in Mumbai, absolutely bang on. But it is not a conscious decision. We are obviously in those markets where we get the maximum benefit out of and Mumbai does not happen to be one of our stronger markets and, therefore, for the time being we have decided to keep out of Mumbai and this is doing very well for us. We are growing at about in excess of 30% year-on-year and we are focusing on markets where we have a reasonable stake and we are doing well and growing.

**Mahe sh Chhabria**

Thank you so much.

**Moderator**

Thank you. The next question is from Arun R from SBI Mutual Fund, please go ahead.

**Arun R**

I missed your debt breakup. If you do not mind can you just repeat the consolidated debt break up and the maturity profile of that?

**Srijit Dasgupta**

We just clarified, that the substantial portion of the debt was on account of an acquisition finance for our Polish subsidiary. This is approximately US\$ 37 million or US\$ 38 million. The average maturity is about 2 years and this is, of course, at offshore rates so its marginal compared to Rupee debt, that is what we clarified.

**Arun R**

Okay, so this is about 170 odd crores out of the 302 crores of consolidated.

**Srijit Dasgupta**

Yes.

**Arun R**

So 75 odd crores is in the standalone.

**Srijit Dasgupta**

Yeah. We also have subsidiaries in Nepal; we have a JV with Berger Becker out of Goa. We have a small subsidiary with Nippon Bee Coatings called BNB Coatings and a small processing subsidiary in Gujarat called BP Coatings. So would make up, the balance would be made up by these.

**Arun R**

This debt, the repayment schedule, will we be the able to make it through our internal accruals or do we have a stand-by from Berger stand alone towards repayment of debt?

**Srijit Dasgupta**

Yes, we do have the surplus funds in Berger standalone. You know that we have about 150 crores of surplus cash, so that option is always there. But you would understand that it does not hurt us to have this loan in the sense that with the way the Rupee-Dollar exchange rate is behaving and the way the global interest rates are behaving, it is not an unhappy situation to be in.

**Arun R**

One last thing on the domestic bank lines, what is the current bank line which we have?

**Srijit Dasgupta**

We have limits which are far in excess of the borrowings that you see. We have the capability of drawing at least 3 times or 3.5 times the debt that you see on the books. So we are in a comfortable situation.

**Arun R**

These are funds which you are talking about?

**Subir Bose**

Yes, mainly yeah.

**Arun R**

Thanks a lot.

**Moderator**

Thank you. The next question is from Subrato Sarkar from Dalmia Securities, please go ahead.

**Subrato Sarkar**

Just one thing if I have missed out, in your standalone loan situation also it has increased from 24 crores to around 78 crores so is it only because of working capital?

**Srijit Dasgupta**

Yes it is mainly on account of working capital, through internal accrual we spent for our projects what is also different from if you're comparing with earlier years that we declared interim dividend after the Q3 results, so that is also taken away a little bit of surplus cash.

**Subrato Sarkar**

Sir just an understanding from your counterview, it seems we have got a surplus cash in our balance sheet. What is the thinking you have taken more loan on a balance sheet, is it better at least on a standalone basis to become a debt free company?

**Subir Bose**

Yes I should clarify that the earnings from our investments, the cash surpluses which are there are significantly higher than the interest-rate we incurred on our debts. The other thing is that we are keeping these funds, of course part of it is been used for our expansions in Hindupur and elsewhere but we are keeping these funds and the stated purpose for these funds are inorganic and organic expansion. So at the appropriate time you will see us utilize these funds fully.

**Subrato Sarkar**

In this case organically I know we are growing but in-organic opportunities also we are opening up in that front?

**Subir Bose**

Yeah always open and always considering options, so that should not come as a surprise, we state that we are constantly evaluating opportunities but we have to wait for the right opportunity to come.

**Subrato Sarkar**

Coming to this organic expansion, we all know that in the next two years that in FY 12 and FY 13 we are adding up huge capacity basically from 2.4 we're trying to become almost double and that too with this Hindupur as well as West Bengal expansion plan. So just an understanding sir once this capacity comes up will there be any effect on our effective tax rate, currently we are almost paying same tax rate basically. So will there be any effect on tax front?

**Subir Bose**

Yes in terms of tax payouts the rate should drop because there will be obviously high depreciation benefit.

**Subrato Sarkar**

Can I get a rough estimate what can the effect on that because we are almost paying full tax rate. So any understanding on that if I can get some clarity at least?

**Subir Bose**

I think we have put out our Capex numbers and substantially this is all plant and machinery. So we can leave it to you to do the numbers, you know the difference between the Company's at depreciation rates and the I-T rates that's fairly simple.

**Subrato Sarkar**

So there will be some significant effect at least since we are having huge...?

**Subir Bose**

Yes it in a phased manner because we are not adding all the productive capacity in any one year, it will be a phased implementation of productive capacity.

**Subrato Sarkar**

From the Capex point as per your interview we will be spending around 170 crores in next two years, in FY 12 and FY 13. So out of that, I'm trying to know what is our regular recurring Capex?

**Subir Bose**

Regular Capex would be to the tune of about 40 to 50 crores putting painting systems that is a fairly sizeable chunk. These are painting systems which we install in dealers premises.

**Subrato Sarkar**

Including that it is 40 to 50 crores?

**Subir Bose**

That is the component of maintenance.

**Subrato Sarkar**

If you can help me to understand on a rough basis it will be great, when we try to get an understanding of demand side of paint industry we try to understand at rough average 1.6 to 1.8 of GDP. So if I try to get on some understanding of this raw material side, how to get a feel of this? I know on a granular level we need to track Titanium dioxide and crude so if you can help me understand that?

**Subir Bose**

If you are interested in the demand side.

**Subrato Sarkar**

What I'm talking about demand side, we try to get a gross figure from generally it is.

**Subir Bose**

It is about four times that of GDP.

**Subrato Sarkar**

In raw material, is it good to correlate from crude oil perspective?

**Subir Bose**

There are few important indicators if you can track which will help you. One is crude oil prices, crude oil prices helps you because the downstream side is huge amount of solvents which are going into the paint industry and therefore it has a direct correlation to the downstream petroleum products. Second thing is if you can track prices of monomers and two monomers basically MMA and BA, Methyl, methyl acrylate and Bethyl acrylate, if you can try this, this will give you a fix on the emulsion raw material price movement and in fact pricing into that. These three monomers if you track you will get it fixed on emulsion; this will get the price movement. Third thing is the pigment which is white pigment rutile is you're saying titanium dioxide rutile if you can find that there are also tracking studies is available on the net if you can see I will give you some global tracking of the price movements worldwide as far as rutile concerned. If you keep these three you get a fair idea of where the paint industry is heading for in terms of the price movements of raw materials.

**Subrato Sarkar**

If generally crude oil derivatives and pigments if I club them up its almost around 50% to 60% of total raw material for a paint company sir?

**Subir Bose**

That's right.

**Subrato Sarkar**

Now a small understanding again from your raw material breakup in your balance sheet you have got one item called acid and chemicals, if I'm just tracking that as a percentage of total raw material is gradually coming down.

**Subir Bose**

Gradually coming down because this is usually solvent based. And solvent base for all companies if you track this, these acid and chemicals will keep coming down. So because solvent based products are suffering a lower growth as far as water-based is concerned so the usage is falling each year-on-year.

**Subrato Sarkar**

I got it. So this is again coming because of the changing product mix?

**Subir Bose**

Absolutely and market trends.

**Subrato Sarkar**

And just another understanding if I go through your P&L account your employee cost as a percentage of sales was actually from 2007 to 2010 it is going up but this year it has come down to some extent.

**Subir Bose**

Because our growth also has been with a significant as you have seen. It is not because we reduce salaries of anybody, I can assure you that but because the growth in sales has been good so therefore the percentage to sales appears on the lower side. In fact if you check our numbers it is about 18% or 20% growth is what the exact growth number.

**Subrato Sarkar**

Yeah I have seen sir no doubt great number on sales and from an analyst point of view more is you're margin the way you are maintaining margin and others are suffering on margin front a great side and your maintaining it that something we are really surprised basically to be honest. One last small question, in Forex side is there any abnormal gain or loss in this year's results on quarter result?

**Subir Bose**

No abnormal gain or loss.

**Subrato Sarkar**

Nothing one off at that side. That's all from my side sir. Thanks.

**Moderator**

Thank you. The next question is from Nikhil Upadhyay from Equirus Securities. Please go ahead.

**Nikhil Upadhyay**

We just wanted to know that what kind of new products will be coming up in the emulsion and the premium segments, if any water based emulsions?

**Subir Bose**

I couldn't get your question

**Nikhil Upadhyay**

New product launches in the water-based, emulsion segment and the premium segment?

**Subir Bose**

Yes we are constantly working on new products and after we have introduced them you would see that I would not like to obviously come up with this information till we have reached the time where we have launched these products and I'm sure we will circulate this and will share it with the media.

**Nikhil Upadhyay**

Sure and if we take a one to two year timeframe do you see any headwinds for the company and for the industry in general?

**Subir Bose**

Headwinds is in fact that the raw material situation which is not looking bright as you are aware, that's a strong headwind.

**Nikhil Upadhyay**

Thank you very much sir and all the best for you.

**Moderator**

Thank you. Ladies and gentlemen we will take one last question from Sumit Duseja from SPA Securities. Please go ahead.

**Sumit Duseja**

It is just a follow on question on your external insulation system. Just want to know that there has been slight de-growth in revenue terms general inflation system, just want to understand what are the factors that influence the revenue and what is the outlook going forward?

**Subir Bose**

I told you that we are pretty much flat as you have noticed, this is a factor of the general slowdown in Europe which I think you know about and also the fact when the building construction industry is more sensitive to liquidity crunch and therefore the new projects and the new buildings which would normally have come up we are on hold for the last couple of years. We are seeing a slight reversal of the trend, we are happy to tell you that there has been a double-digit growth in the sales for this subsidiary in the first quarter.

**Sumit Duseja**

And sir what is the net profit that you got from this subsidiary in FY 11 and what has been the tax rate?

**Subir Bose**

The tax rate again as I mentioned when somebody else asked this question that this is essentially deferred taxation, we had a tax holiday in this unit though we are not actually paying out cash but in terms of if you like to know the EBITDA number of this unit this is at the rate of approximately about 10% to 11% of total sales.

**Sumit Duseja**

Actually based on my calculations last year in FY 10 tax rate were coming at around 64%?

**Subir Bose**

Are you talking about this subsidiary or generally?

**Sumit Duseja**

Only for this subsidiary sir.

**Subir Bose**

So we explained that this is essentially deferred taxation, it is not a pay out.

**Sumit Duseja**

So what would be the net profit for this subsidiary in FY 11?

**Subir Bose**

You will see the numbers more clearly when we circulate the annual report, but they should be in the region of in excess of 2 crores for the year the profit after taxation but if you were to add back in taxation it would be nearly 4 crores.

**Sumit Duseja**

A question on your protective coating business, I want to know where do you find maximum application of this paint and how has been the growth rate?

**Subir Bose**

Protective coatings growth has been basically in the infrastructure area followed by the growth in terms of the various chemical industry growths and power sector growths which are taking place.

**Sumit Duseja**

One last question on your backward integration plans that you mentioned what has been the progress, what is the capacity that you have added in FY 11 and what are your plans for FY 12?

**Subir Bose**

The backward integration which we've done is with respect to emulsions and this plant is completed and we started operating this plant in Vallabhvidya Nagar, Gujarat, the capacity of the plant we can make 2000 tonnes of emulsion per month and 24,000 per annum, in the last two months we have started production and we will slowly ramp it up.

**Sumit Duseja**

Fine sir that was from my side, thank you so much for answering all the questions.

**Subir Bose**

Thank you.

**Moderator**

Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Pritesh Chheda for closing comments.



**Pritesh Chheda**

Thank you, on behalf of Emkay I would like to thank everyone for joining the call. I thank the management of Berger Paints for giving us the opportunity to host this call. I thank Mr. Bose and Mr. Dasgupta and Mr. Mukerjee for taking out time and addressing all the queries of the participants. Over to you sir if you have any closing remarks.

**Subir Bose**

Thank you very much, thank you for giving us this opportunity to speak to all of you. I hope we have been able to answer the queries which the participants put up to the best of our ability and thank you and wish you all the best.

**Pritesh Chheda**

Thank you sir.

**Moderator**

Thank you. On behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

---