

SIRCA PAINTS INDIA LIMITED

(Formerly known as Sircolor Wood Coatings Pvt. Ltd.)

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CIN NO: L24219DL2006PLC145092

Date: 03/07/2020

To
National Stock Exchange (NSE)
Corporate Office National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex Bandra (E) Mumbai - 400 051

SUB: TRANSCRIPT OF CONFERENCE CALL WITH THE INVESTORS/ ANALYST
SYMBOL- SIRCA

Dear Sir/Ma'am,

The Company has organized a conference call with the Investors/ Analysts on **Wednesday, 01st July, 2020 at 4.PM (IST).**

A copy of Transcript of conference call held with Investors/ Analysts is enclosed herewith.

We request you to kindly take the same on record.

Yours faithfully,

Sirca Paints India Limited
(Formerly Known as Sircolor Wood Coatings Pvt. Ltd.)

Chahat Mahajan
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by Chahat
Mahajan
Date: 2020.07.03
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Chahat Mahajan
Company Secretary & Compliance Officer
(Membership No. 51255)

Place: Delhi



Sirca Paints India Limited

Q4 & FY20 Earnings Conference Call

July 1, 2020

Management Participants

Mr. Sanjay Agarwal – Chairman and Managing Director

Mr. Apoorv Agarwal – Joint Managing Director

Ms. Shallu Arora – Chief Financial Officer

Mr. Chahat Mahajan – Compliance Officer and Company Secretary



Analyst

Mr. Sayam Pokharna – The Investment Lab

Sirca Paints India Limited
Q4 FY20 Earnings Conference Call
July 01, 2020

Moderator: Ladies and gentlemen, good day and welcome to Sirca Paints India Limited Q4 FY20 Earnings Conference Call hosted by The Investment Lab. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "0" then "*" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from Investment Lab. Thank you and over to you sir.

Sayam Pokharna: Good afternoon, everyone. I hope you all are well. Welcome to the Sirca Paints India Limited Earnings Conference Call for Q4 FY20 Results. We have with us Mr. Sanjay Agarwal, Chairman and Managing Director, Mr. Apoorv Agarwal, who is the Joint Managing Director accompanied by Ms. Shallu Arora our CFO and Mr. Chahat Mahajan, who is our Compliance Officer and Company Secretary. The results and presentation have been emailed to you and they have also been uploaded on the stock exchange website. In case if you do not have a copy of the same, please do write to us and we would be happy to send it over to you. I would like to remind you all that everything said on this call that reflects any outlook for the future, which can be construed as a forward looking statement must be viewed in conjunction with the uncertainties and risks that they face. These uncertainties and risk are included but not limited to what we have mentioned in our prospectus filed with the SEBI and with the exchange, and also in the subsequent annual reports which are available on our website. With that said I would now hand over the call to Mr. Apoorv Agarwal, over to you sir.

Management: Good evening, everyone and thank you for attending this conference call. So today, myself Apoorv Agarwal and my dad Sanjay Agarwal are first going to take you through the financial summary of the last quarter of FY20 and also with some business update and after that we can take up the questions. So as a common industry practice, a relatively large part of Q4 sales is recorded in the second half of March. And this is primarily because dealers and the contractors and the distributors they try to meet their sales target in order to avail the annual turnover discounts, the incentives and the special schemes and discounts that happened for the whole year. We estimate almost a deferral of around 10 to 12 crore in sales to be booked in March 2020 on account of the nationwide lockdown. This factor led to a flattish growth 0.4% in the sales in Q4 FY20 on year-on-year basis. For the full FY20 the company has recorded a sales growth of 16.3% compared year-on-year basis, this was supported by a strong volume growth of 36.3% in FY20 compared on year-on-year basis. On the EBITDA margin front, we saw a temporary decline due to the following factors, the major factor was the loss of sale round 10

to 12 crore which could not be accounted because of the two week sale loss of March 2020. And due to which almost a profit of 5 to 6 crore was deferred. And secondly, it was due to the ATR and trade discounts, which were booked in Q4 of FY20 as major of the ATRs and the special schemes that are given to the dealer are taken into account in Q4 once their targets and all are completed. Additionally, the company had offered higher trade discounts in the last few days of March to improve the cash collection. Also increase in employee benefit expense from 2.55 crore in Q4 FY19 to 3.97 crore in Q4 FY20, this was mainly on the account of 76% increase in our sales and marketing team. Some personnel were also added in the manufacturing facility. However, there hasn't been any addition in the employ benefit expense compared on quarter-to-quarter basis. Increase in other expenses from 2.71 crore in Q4 FY19 to 4.83 crore in Q4 FY20 was mainly on the account of additional rental for newly added depot's and branches, which were mainly being done for the pan India presence of the company and the growth that we were looking at for the new horizontal and vertical expansion of the product line and increase in the sales promotion expenses and increase in the advertisement expenses, which took place very strongly in the Southern part of India majorly Kerala where our last depot came. On the inventory front the company had recorded a total inventory of 51.44 crore as on March 31st, 2020 as compared to 26.77 crore as on March 31st, 2019. A significant increase in inventory is attributable due to increased level of raw materials in Q3 FY20 and increased procurement of Italian PU products from Sirca Spa Italy to prevent any disruption at the early stages of COVID-19 that started in Italy. And also the major reason is the subdued sales of almost 10 to 12 crore, which were to happen in March 2020, but could not happen due to the national lockdown.

The company has been able to manage the trade receivables, despite major payments getting deferred in the second half of the March 2020. Recently, the company has also implemented a seven day payment policy both on the dealer and 15 day policy on the OEM front for all the new orders which are taking place post COVID operations. The company on this front is receiving a very satisfactory response from this change. And as a result, the trade receivable position is much, much better and superior at the present stage. The company is making constant effort to reduce its working capital cycle. As a business update, the major **-7:02** was given on creating the physical infrastructure to support the growth of our sales product pan India. A lot of new stock depot's, stockiest, studios and branch office were created across the country. The company also increase it's branch and depot's from 7 to 15 last year. There was a decent expansion in the sales team. The company continues to invest in it sales force to drive business development efforts and growth prospects. The total headcount of the sales and the marketing personnel also at the end of FY20 reached almost 146 compared to 83 at the closing of last year. In terms of the dealer network, we did a strong expansion in terms of increasing our dealer and the contractor database and close to 1600 dealers were on our books as on FY20 compared to less than 600 dealers in FY19. Looking at the impact of the COVID, all domestic operation were disrupted since the second half of the March due to the lockdown. The company had to shut down its headquarters, sales and branch offices and depot's and also the manufacturing facility, but on May 5th, 2020 after some relaxation from the lock down and

after obtaining necessary permissions from the local authorities, the company resumed operation at its manufacturing facility and also at different depot's where the permissions were granted with a limited workforce and 25% production as compared to the pre COVID levels. The company also partially resumed offices and depot's and warehouse wherever the lockdown restriction were eased, after partial opening of the market, the company, it is witnessing a pickup in the demand from majorly two Tier and three Tier cities and the smaller towns due to relaxed restrictions and partial opening up of the markets. Geographically for us as company the demand uptick for the company product has been slower in the Western and the Southern part and has been quite good in the Northern part of India. Additionally, the company has observed demand in elasticity as far as the high budget projects are concerned. In many cases, clients are eager to get the under construction projects and ongoing projects completed as soon as the market opens up. Hence, at present, we are witnessing a good volume in our Italian PU segment as compared to the mass products. After a considerable disrupted Q1 FY21 the company's confident of achieving sales at par with the pre COVID levels in Q2 of FY21. And the growth where after provided there isn't a major second wave of lockdown or COVID, or the restrictions the country due to COVID-19. And now moving quickly to the couple of new launch product, which was done post the unlock has started. The first product we launched is the Hygiene Plus which is the being of forefront of our innovation, Sirca through its R&D capabilities, they have developed and launched a series of additives containing sanitizing micro particles active in reducing up to 99.9% of bacterial contamination on surfaces. So Hygiene Plus has been successfully tested in the certified **Carus Laboratories 11.00** and as per ISO 221962011 standards. This is a high end product and has been recently launched in the Indian market and is receiving a great appreciation and response from the influencers in the industry. Also, the company has launched a range of hand sanitizers and surface disinfectants, keeping in mind the need of the hour and the increase demand of sanitizing products, Sirca Paints has also decided to launch a range of product in the same category. These products will help us in serving a growing demand of these sanitizing products and which is becoming a part of lifestyle, which will be distributed in our own channels of the paint industry, which is growing trend that was observed currently. The company also planned to principally cater to the demand of sanitization in its own distribution channel with no major marketing and sales efforts. Additionally, the principal focus is to sell these sanitizing products in larger packing for a commercial enterprises, non-retail customers and to cater our OEM clientele. In addition to this, we had an unfortunate news of fire at our manufacturing facility in Sonipat which was also intimated through NSE to all our shareholders, the fire took place on the 27th morning in the morning at 8:15 when the plant was actually not operational and it started from the raw material area and spread it across the shed. So, the RCC part and the finished goods area and the finished goods and the laboratory and everything is safe. Only as of now the raw material stock and the shed is seems to be destroyed but the survey is still on and we are waiting for the approval to clear that debris, to know the exact amount and quantity of loss. But as of now, we know that the raw material and the shed has been damaged. Otherwise in the first side the machinery and everything looks fine, but we are waiting for the survey to give us the approval to remove the debris to ascertain the amount of the loss. The building was insured at, the

whole premises was covered under the insurance at 100%. And in the meantime, our main focus is to resume the production that we were doing before this mis-happening and for that all efforts have been made and we have identified a place nearby where we are going to restart our production of the necessary items which were already moving in the market through this plant to avoid any sale or opportunity loss. So that's all related to the business update and the financial highlights and now we are open to the questions.

Moderator: Thank you very much. We will now begin the question and answer session. First question comes from the line of Mulesh Savla from M M Savla Consultancy Services. Line is unmuted.

Mulesh Savla: My question is to Mr. Sanjay Agarwal. Sir we could get the idea of past, we could also get some idea of the lockdown period. But we would be interested in knowing how the situation has improved since 5th May our opening up and how do you see this year as a whole we will be closing. Will we be able to achieve over a targeted rise in the turnover and profit or there will be some scale down in our target. So, that's my first question and as you said that Italy is also badly affected by the coronavirus what is the status of our getting premium products from Italy as of now?

Management: Okay. So, answering your first question. Post COVID, post opening like from 5th May when the operations just started, April obviously for the Q1 of FY21 is washed out, but from May we have been receiving positive graph especially from the Northern part of India means Delhi, NCR, Punjab, Haryana and Himachal, Jammu and Kashmir and even some rural areas in UP and Uttarakhand and the sales pick up is a little slower on the Southern part of India side and in Maharashtra especially in Mumbai. But we expect that from July onwards we will be almost at par with our post COVID sale percentage. So, we are seeing a very positive momentum in terms of the movement of the product and we hope that if there is no any future restrictions or any second wave of lockdown, we will be in a very quiet safe position and to our levels of the pre COVID sales. With that we can obviously achieve our targets without affecting our EBITDA or any further margins because on a gross margin has not been compromised, it is the same and the increase in the expenses that was happened has happened but now with these increased cost of expenses in terms of salaries and distribution expenses, we can achieve a good amount of turnover without increasing our expenses. So we are quite confident on a very good percentage of EBITDA and we are quite confident on achieving a good number of sales if the condition does not deteriorate further and Improve every day. Coming back to the second question that is Sirca Italy luckily never stopped working even during the COVID. We have shared also some updates on the NSE platform that they had the permission under some chapters of operating also in the COVID times. So with Sirca we have no problem at all of stocks and in fact, we have stocks and inventory with us for almost 8 to 10 months. If we talk about during the COVID period we had almost 16 to 17 containers coming during the COVID which was cleared between 8th May to 18th of May. So the inventory side in terms of the luxury product coming from Italy we are not scared of anything. We don't have any fear from that side. We have enough stock for the next 8 months. It is just that we are praying that now we

don't have any kind of second wave of COVID on lockdown, then things can get normalized and Q2 can show a very good positive sign off recoveries.

Mulesh Savla: Excellent. And you said if I have heard correctly, that 36% volume growth was there in the past year, whereas our sales increased by 16% I suppose. So, there seems to be either a poor product mix or there seems to be higher sale of the local manufactured item or something like that. Can you explain or give us a little more color on that?

Management: Yes, so it was majorly because of wall paint has been added in our product range. So, wall paint we did almost a sale of 5 crore last year a little less than 5 crore because it was started in the month of September. But in terms of the volume it was a lot as compared to PU because it is a little less in price, the average selling price of wall paint and PU there is a big difference, that is why the volume sales shows more increase because of the wall paint becoming a part of our product range.

Mulesh Savla: Okay. So, going forward also our product mix could be the same way is it or we are going to have different product mix going forward?

Management: No, the product mix will be the same now the Italian high quality PU products the wall paints and the economical range of PU and melamine which is going to come through the facility, the production facility in Sonipat.

Mulesh Savla: So can you please give us the share percentage wise in the total sell how much will be the wall paint locally produced and how much would be the PU produced by us and PU imported from Italy?

Management: See if we talk about the FY20 the 95% of the turnover was coming from the Italian PU and the rest five was something which was to be manufactured here or the wall paint. But going forward obviously we see that almost 10% of the turnover will be wall paint and another 20% from the local production that is going to happen.

Mulesh Savla: Local PU products?

Management: Yes. Local products which will be PU and melamine and rest will be the Italy, Italian PU.

Mulesh Savla: Okay. Then in the current year by and large 95% you said is the imported PU, then there should not be such difference in the volume growth and the value growth?

Management: See, as I told you we did the sale of almost a little less than 5 crore of wall paint. So, there was a major impact of volume coming from the wall paint was there because if you talk about a 5 crore, the average selling price of wall paints stays below 200 vis-à-vis the average selling price of PU is 550. So, the literage of wall paint coming in from the 5 crore sale when it was added in PU the gross effect was coming out to be a little on the higher side.

Mulesh Savla: Okay. Just one question if I can squeeze in. You have said that some asset is held for sale. Can you give some further information on that?

Management: Sorry on what?

Mulesh Savla: Asset held for sale.

Management: We have sold two assets. One godown at Vijay Vihar and one godown at Barli. So those two we have taken the advance so those who have shown as assets held on sale.

Mulesh Savla: And there is some impairment loss also, is it relate?

Management: There is a impairment loss in both of them, little bit in both.

Mulesh Savla: Because there is always depreciation in the?

Management: No, because here one godown was in Vijay Vihar there the prices had gone down.

Moderator: Thank you, Mr. Savla. Next question comes from the line of Ashish Rampuriya, he is an Individual Investor. Please go ahead sir.

Ashish Rampuriya: Couple of questions. You mentioned that 10, 12 crore of sales because I think if we try to do an annual target in the end of March. But he also mentioned that the margins were lower because APL, et cetera had to be given or ATD extract to be given today. So, if the same didn't happen then why did we end up giving higher margin to distributors?

Management: Sorry, you were not audible in between. Can you repeat the question?

Ashish Rampuriya: Sure. So I'm saying is, we mentioned that 10, 12 crore of sales were differed in the second half of March or so, it means if I get distributors are not able to achieve their targets. And on the other hand, we mentioned that the margins were lower because a lot of incentives and ATDs were to be given to distributors. Both of these do not seem to match?

Management: No, see, the sale loss that was happened was because obviously in last two weeks of March, we were not able to because of the closing, the distributors and dealers used to take heavy stocks to achieve the targets but, yes due to the special COVID situation it was the whole industry practice that happened that we had to give them the ATR and the benefits that was promised to them on the pro databases means that, for example if someone was permit say a 5% turnover discount at x sale and he has achieved x minus 10. But we have given it on x on the basis of the pro data because that position of lockdown was not in hands of anyone. So it was done as an industry practice by each and every major player in our coating and paint industry. So the ATR and everything was given on the sale that they made without considering the sale that happened in the month of March. Obviously to compensate that we will take some different steps in the current financial year but that financial year in terms of

strengthening the relation with the dealer and everything those ATRs and everything were given and those main provision happens only in the last quarter of the financial year.

Ashish Rampuriya: Okay, got it. Coming to your inventory receivables side. Our inventory went to 50-odd crores, which you mentioned because of certain reason. At this year what should we assume would be a normal inventory receivables firstly, in terms of number of days of.....

Management: See, currently the inventory is on the higher side because we increase the number of depots and we were actually planning a strong movement of our Italian product also, according to which it was ordered across our branches, because a lot of activity was done from January to March, especially in the Southern part of Indian and Maharashtra part of India where our retail was weak, a strong advertisement was done. But yes, the inventory cycle considering the goods coming from Italy, the inventory cycle will be between 60 to 90 days.

Ashish Rampuriya: Okay. This is SG plus RM together right?

Management: The finished goods coming from Italy and the RM.

Ashish Rampuriya: Okay. And receivables, given the new orders are coming to 15 days' time?

Management: The receivables now, the new practice has been implemented in the market where we are giving seven days credit only to the retailers which was earlier was almost 45 to 60 days and in the OEMs also all the new sales are happening with maximum 15 to 20 days credit which was earlier almost 60 to 90 days only the sales against LC are happening against the 90 days LC. So, this ways we are bringing down our receivables and debtors to a great extent and those big difference can also be made at the current situation. And obviously, after the H1 we can see a big impact of the same In our financials, and we are giving them additional 45 to 60 day's time to clear the old outstanding, since that time we open up. So for example, the company did last billing on 22nd of March and their bill was due say on 22nd of May. So, from 22nd of May we are giving them 60 days more to clear the old outstanding and we are taking all PDT so, all the old outstanding will be clear by 22nd of July and the new we are trying to create a strong credit system which is currently being accepted in major parts of India, because currently the dealers are also not offering any credit to their customers further, earlier we used to give credit then the dealer also used to give credit further, but now the cycle has come down to only five days, seven days, which we see that will become a normal practice in coming future and is done by more or less every company in the industry.

Ashish Rampuriya: Good. So are you seeing any bad debt here in the sense that people are holding the payments, even you have made?

Management: No if that that's kind of thing, that is negligible. In fact, a lot of people are clearing because we actually ran a small campaign of 15 days post our opening where we were offering some percentage of discounts on different slabs of payment of the old payments that people were

doing. And for the new payments we have a 2.5 additional percent discount scheme going on. So against the old payment scheme also a lot of people have taken advantage and we see that in coming months the receivables days will actually will come down considerably.

Ashish Rampuriya: Just last couple of questions, when do you see the new, the temporary plant up and running that's one and two, an color on the business that we thought we will expand in Nepal, Bangladesh as well as Sri Lanka?

Management: See, within 7 to 10 days, we will be able to start manufacturing the product that was already in process of manufacturing at the plant where this incident took place and we have finished goods for 10 to 12 days, which was safe during the fire took place so, that part is safe. So, we have the finished goods. So, we don't think that there will be any kind of sale loss due to this incident and in 10 to 15 days maximum we will be in position of manufacturing the goods that we were manufacturing pre this unwanted event. And secondly, coming back to our export. Yes, we have already signed the agreement in Nepal with the company called Reliance Paint, and the work of studio also has begun there on Darbar. We have procured a small space where our studio is coming up in Nepal. So, Nepal we see that within a month, the operations will start and we will be able to send the full consignment from our temporary facility to Nepal and in Sri Lanka and Bangladesh still the talks are going on and we see that in the second quarter, we will have some movement and Dubai obviously the commercial deals are going on. And we are just waiting the projects to restart in the Middle East because they are also going through some bad phase, financial phase the Middle East. So we are waiting for some financial approval. So we might have some good news coming from Middle East, Dubai also.

Ashish Rampuriya: Okay, thank you just one request, if we can do this investor calls, at least initially a bit more frequently, then that will be useful for us.

Management: Yes, we will keep that in mind, sir. Thank you.

Moderator: Thank you. Next question is from the line of Ayush Tando, he is an Individual Investor. Live is unmuted.

Ayush Tandon: Just a question on the corporate structure. So, if I see the promoter and promoter group in the shareholding pattern, it is you and your family and there is another family of some Mr. Gurjeet Singh and some BGP Italia. Could you tell us who these people are and whether they are also involved in the management or are they relatives or what?

Management: See Mr. Gurjeet Singh and Sanjay Agarwal, my dad were the one who started this company and they are friends since 96 and they only started the company when it was a proprietorship company then converted to private limited and now limited and BGP Italia is the company of Gurjeet Singh only and he majorly resides six months in Italy and six months in India. So he is an active member and active part of management at Sirca Paints and he is majorly handling the PR and architect side of business. So, yes he's quite active in the management.

Ayush Tandon: Okay. And just another question could you just give me a break up of the distribution segment versus the manufacturing segment and what are the EBITDA margins in both?

Management: See in the, so EBITDA margins in both manufacturing and the trading business is more or less the same between 25 to 27%. And sorry, the first question you asked is the distribution?

Ayush Tandon: Breakup of the revenue primarily, I just wanted to check the scale of operations of both?

Management: See currently our 95% turnover is coming from the imported business, the trading business and the manufacturing just started in the late Feb and then this lockdown came in March and we have reached certain production levels and we launched this melamine and Indian few product by the name of UNICO, which was our much awaited aspiration and it was coming out with a good response, but we see that it will pick up and it will contribute to almost 20% of our turnover this year. And we see that it will, in our old facility it will start in next say three months or four months but in the meantime, we are shifting quickly to the temporary place and we will start the resume though the production where we left and we'll make sure that there is no kind of sales or the opportunity lost.

Ayush Tandon: Right. That's great to know any early signs of how is the perception or the response from the market on these domestically produced products?

Management: See, the first response is very, very good the products has gone majorly in Delhi, Haryana and Punjab, which are our strong markets where we have very strong demand of these products and also in Kerala and the response from all these market has been very good and people were just waiting that this product come and they are able to sell it and earn good margins because we have defined a very good commercial policy for our dealers, which will create their interest and they are going to sell this product with very good interest and for sure quality because the delay in the product coming out in the market was only because we were making ourselves very sure on the quality and that has happened and we see that the fruits will show by the end of H1.

Moderator: Thank you Mr. Tandon. Next question comes from the line of Anshil Shah he is an Individual Investor. Please go ahead, sir.

Anshil Shah: Just a couple of questions. One was on this domestic manufacturing that you've started and the PU range. Are there any OEMs that are using it or is it all retail?

Management: Currently they were supplying majorly to the retails obviously, our idea in future is also to supply to the OEMs like Pepperfry and Urban Ladder who are buying a lot of locally produced polyurethane and melamine coatings. But currently, we just recently started with this domestic PU which was named as Sirca UNICO Series, and it was getting enormous very good response from our retail network especially from Haryana and Punjab, which are our strong markets

where we introduced it initially, but now we are again picking up our production in the new place so in the second set of our activity, we are also going to introduce it in the OEM range.

Anshil Shah: Understood. And have you send it to the OEMs for testing it or that also we'll do later on?

Management: Yes, so big OEMs. In the big OEMs we have sent so there is for example in Haryana a group called Alder which has more than 60, 70 stores around the country and they have the manufacturing facility in Haryana and in Badi. So, they are the samples were tested against some local against some locally used product by them and the result was excellent the price was also acceptable and in some other OEMs also like where we are supplying the quality PU. Sometimes they have the mass project of finishing some affordable housing and doing the door paint there also we have supplied them and the result is excellent and the price per square feet is working out where they can use it as a product replacement from some locally produced products like Wembley or et cetera.

Anshil Shah: Got it, thank you. Secondly, earlier you had mentioned that distribution and manufacturing EBITDA you both expect to be around 25, 27%, this manufacturing includes the economical PU and –37:52 both?

Management: Yes both.

Anshil Shah: Okay, fine. And lastly, this the new strategy that you've decided on which when you go to control the cash flow of only extending credit for 7 to 15 days is this is for all sales with everybody or is it only for with new people or new customers or something?

Management: No, it is for all the clients of Sirca paints all the retailers which were working with us or which are working with us or which will work with us in the future. So, it is the common policy that we have implemented on pan India basis, in some parts of India it has not been accepted on the first hand, but slowly and steadily it has been accepted, but in the major parts of India. This policy has been accepted by our existing clients and the whole industry is experiencing it and we are offering an additional benefit also for availing this, seven day payment structure. So, it will become a part of our business cycle it will become the part of our business cycle very soon.

Anshil Shah: Understood. And are you expecting to increase this sales and marketing and other expenses going forward or will you keep it at this level and now push the top line?

Management: No, it will be at the same level now because all the expansion that was done with regard to sales and the distribution was done keeping in mind the growth we were expecting in FY21. Obviously Q1 has been especially the April month has been washed out but now we can reach quite a considerable turnover with this, without increasing our expenses tax, salary and distribution front.

Anshil Shah: Okay, understood. So, there's no more plans to increase any depot's or any more?

Management: No, we have enough of the infrastructure and the sales team to reach to a very good turnover from here.

Moderator: Thank you. Next question comes from the line of Akash Bansal from KD Capital Services Limited. Your line is unmuted.

Akash Bansal: I wish to know how much production capacity of sanitizer has been set up, like you mentioned in your opening remarks. And what are the turnover expect, what is the turnover expected out of it?

Management: In terms of sanitizers as I told you, we just, our license only came in on mid of June, yes and we just started it producing it on 22nd of June, so only a week, four, five days we have done the production of almost 800 liters. We were expecting to do a monthly production of almost 6 to 7000 liters and sell it majorly and majorly only to our dealer networks, where we are supplying the paints because it has become a part of our business cycle, a part of our lifestyle all the sides which are coming up there this sanitizer is been used extensively and secondly we were also have started supplying it to the OEMs the big OEMs where we have 500 or 600 workers working who are being sanitized at each and every point and each and every are and is going to become a, we think that it will going to be a part of our lifestyle in coming times. If not the hand drop, the liquid one, the gelled one that is why we were aiming to produce the gel one also. Unfortunately due to this incident obviously we could not produce the sanitizer further till we are done with the survey report and removal of debris but yes, we see that this product will give us a good response in the market within our network only.

Akash Bansal: Okay, so what's the average selling price?

Management: See the average selling price is approximately Rs.150 per liter.

Akash Bansal: Okay, thank you. And one more question. There is a thing mentioned in the AR that the bigger players like Asian Paints, through Renner Italy and ICA Pidilite have entered wood coatings market due to double-digit growth expectations this is mentioned by you in the AR. So, what measures the company has taken to protect its market share and like to increase it further?

Management: See, if we talk about the Italian PU market, we are one of the leaders along with Asian Renner and ICA Pidilite and this market what we see is actually growing at a very faster pace than what is expected and what is the average industry growth because there is a major shift happening from melamine to Indian PU and Indian PU to Italian PU because of the involvement of the influencer architect and more global exposure. So, we see that the market is growing enormously. So, we are working so, there is enough on the table for everyone to capture there is no risk in terms of that anybody can take our share there is enough in the market that we can take our piece of cake quite easily. So, to have the biggest piece of cake we are introducing a lot of policies like we are working very strongly on the dealer margins and the contractor margin so that they have interest in selling our product. If a customer comes or a OEM comes

and he is the first one pushing Sirca instead of any other brand of Italian PU. So we are working at a very close, strong relationship building with them. That is why in the first flow we were giving them sanitizers for three days free with every billing. So it's just that we are trying to build strong relation with them and making sure that by selling Sirca products, they are earning good margin so that their interest in selling our products never dies. This is the core thing that we have taken in account of building our sales going further.

Akash Bansal: Okay, just one more thing like, what's the market share currently in the market for us in Italian PU?

Management: See Italian PU we have more than 22 to 23% market share.

Moderator: Thank you. Next question is from the line of Satwik Jain from Client Associates. Your line is unmuted.

Satwik Jain: Sir you talked about like reducing the receivables by reducing the days in which the distributors have to pay, but like how would the sales be affected and won't the distributor shift to other competitors because the main part of the strategy was increasing the days in which payment has to be done?

Management: See, as of now post COVID when the operations has resumed, most of the companies in our segment in our industry has also introduced the same kind of policy because see, the customer is not showing any disinterest with respect to this policy majorly and majorly because he is also not offering the credit to the customer, which is coming to him now. So all the sales, which has happened after 8th of May has happened on a 7 to 15 days credit policy and to everybody across India and it has been majorly and majorly welcomed by the retailers because they also don't want to sell further at credit, if they are not selling in credit, they don't want credit from us also, these are small, small, small retailers and that is why we have big number of dealers and above that to, actually add the interest of dealer in paying in seven days we are giving him additional 2.5% discount also. So, this has been done by other companies also and with other companies with major players if they are not paying within time they are giving time but then they are doing their loss in terms of the price that or the discount that they get from the company they have done a very complicated policies may it be any of the top three paint companies. So dealer is also interested to work on this policy provided that, he is also not giving credit in the market. So we don't, we have we have not seen any kind of negative or any sale conversion on any hindrance in terms of introducing this policy at this current point of time, it has been welcomed very well and it is going further. And we intend and pray that it becomes the normal practice of our industry.

Moderator: Thank you. Next question comes from the line of Deepak Poddar from Sapphire Capital. Your line is unmuted.

Deepak Poddar: I just wanted to understand you mentioned in one of the comment that we are through with our branch expansion or depot or the dealer network, or the sales and distribution is largely done. And so we can increase the revenue without increasing any kind of that network and we have got enough infrastructure. So what sort of growth that we are looking at over the next one to two years, so if you can throw some light given at a low scale and we have started our local PU and melamine right so that we add to our growth?

Management: See in imported products, the products that we are importing from Sirca at least we are eyeing anything above 20% growth in the business in the coming years and obviously with the ballpoint also we are eyeing good numbers and we see that we can almost make five times the sales of what we did in the last financial year in coming to in fact less than three years, two to three years and in fact the products that we are going to manufacturing from the facility like the economical PU and the melamine range, this also is going to add almost 25 to 30% of the capacity turnover within less than two years.

Deepak Poddar: So, basically five times revenue we are looking at in next two to three years in combination of both imported wall paints and melamine right?

Management: See, it will not contribute to five times, five time in the wall paint segment, the PU segment we expecting, the Italian PU segment we are expecting to increase above 20% every year and the Indian PU obviously within two years 25% of the capacity. So we expect within the two years timeline we can easily double or a bit more our turnover.

Deepak Poddar: Okay, fair enough. I understood that point and so in terms of margins your Italian PU imported versus your local PU and melamine is that comparable margin like we're currently doing about 25, 26% margin maybe is lower 24%. So, can you throw some light on the comparison of margins between them and.....

Management: See the gross margins for both Italian PU and Indian PU or Indian made products are more or less the same between 42 to 45% and the EBITDA margin again would come out to be same for both of the product the trading and the one which are manufactured it is more or less the same.

Deepak Poddar: 25, 27 range right?

Management: Yes.

Moderator: Thank you, Mr. Poddar. Next question comes from the line of Punit Mittal from Goble Core Capital. Line is unmuted.

Punit Mittal: Sorry, we are a bit new to the company. So, I may be asking question which you may have answered previously apologies for that. In terms of the raw material, I remember reading that about 50% of your raw materials are petroleum based and about 42% of that comes from

China, Titanium Dioxide. So how does that shape up given the current situation in terms of the raw material procurement and hedging of the raw material prices?

Management: See all the raw materials that they are using to manufacture the products locally are available in India and the pricing segment if we talk about the raw material that we are buying currently to make the especially the thinner and melamine and now in future the PU which was just started and then halted and now we are again going to pick up. Are not fluctuating in a very big way. There is some positive signs of reduction in the petroleum by products, but certain because of this lockdown and because of this demand of sanitizers rising also which has some certain product also going into this sanitizing the price was going up of certain solvents very high also, but yes it's not a big fluctuation that has happened anything that has happened has happened on the positive front for us.

Punit Mittal: Okay. Then going into the pricing of these products, how is the pricing set in the market like I for example in decorative things we know Asian Paints is probably the price setter in the market. So in the PU segment, how is price, how does the price dynamic work in the market?

Management: Means that against the competition how Sirca is priced in the market or like?

Punit Mittal: Not against the competition in the sense that who is setting the prices in the market, as I said in the decorative paints, we know that Asian Paints is a first more of basically increasing or decreasing the prices and all the competition follows them. So in the PU segment what are the dynamics or how is the market price set?

Management: Yes again in the PU segment also if we talk about the luxury Italian PU segment it is us and ICA Pidilite who are driving major leader pricing and now also to some extent Asian Renner because now they have launched Emporio Regal, so Regal priced even more Emporio is a little less so it together Asian Paints, ICA Pidilite and Sirca they are majorly driving the quality Italian PU market pricing. But if we talk about the mass product pricing of wood coatings like melamine and NCN PU it is majorly been driven by the top three companies which is Asian Paints, Nippon and Berger who are driving the pricing for the same and accordingly with their base we are moving up or down.

Punit Mittal: Okay, so you mentioned that in your Italian PU segment you have about 20 to 23% market share and I guess your competition biggest competition there is ICA and Asian Paints, you know what is their market share?

Management: Asian is quite difficult, ICA Pidilite is more or less the similar, Asian Paints is on the higher side because the will be I think this year almost 40, 50% higher than us. So, they are actually are the leaders in terms of the Italian wood coating also because of their vast and distribution network. They are leading the show of the Italian PU also. With ICA Pidilite and Sirca have more or less the same market share.

Punit Mittal: Okay. So, one question which we've been thinking about is, we understand that you have a strong edge on the PU segment and so probably you have set up a local PU and melamine plant as well, because natural extension of what you've been doing in terms of product line, but in terms of the wall paint, what is the strategy behind entering the wall paint and how do you expect to compete in a already very competitive market there?

Management: See wall paint was actually launched by us, after doing a very strong case study on the Indigo paints, which is a player majorly coming from the Southern part of India and we did a very key strong case study how it grew and outperformed also in other segment of product other than wall paint in the Southern part of India and also in Kerala because we were planning to go very strongly in Kerala because if we talk about Kerala it is one of the biggest market for wood quoting for top three players and especially Asian Paints. So there's we came through, from this study we came to know that okay, wall paint is going to play a very, very, very important role to place other products also at the Southern India retailers and especially the retailers in the Kerala. So, that is why we introduced and we did the study that if we introduced some luxury product will it which are the high margin products will it move also in our strong distribution areas like Haryana and Punjab and there the dealers who are waiting to sell some good product where they can earn margins. So, we did two studies. One we wanted to enter the strongest retail market of Kerala and Southern part of India for which we needed this wall paint and we made that and secondly, we did a very strong quality and pricing policy so that we introduce it in the other markets also to balance the sales and the profits and introduced a very good margins for dealers to earn by selling this Sirca wall paints also. So it was with the strategy of pushing our PU sale my core business is polyurethane but to push this it is going to act as a catalyst that is what we studied from Indigo Paints also. And it is coming out to be very good the business from wall paint is picking up very well and it is becoming our integral part of company now, this product.

Punit Mittal: That's very interesting. Thanks for giving the color on and just last two questions.

Moderator: Mr. Mittal, sorry to interrupt I request you to please rejoin the queue. Next question is from the line of Kushal from Investopad. Line is umuted.

Kushal: So, broadly, we wanted to understand is when we say Sirca Italy we are importing around 70% of the raw material or 70% of the sales is coming from Sirca Italy. So, is that are the company that you had earlier mentioned on the call promoted by Mr. Benz or it is some different company that is one?

Management: So Gurjeet Singh is actually the one who started this business with my dad Sanjay Agarwal and he owns a company called BGP Italia, Sirca Spa is owning almost a 2.3% shareholder in our company. And it is a company from Italy a different company whose products we are distributing in India. So it has nothing to do with.

Kushal: It's a completely different company?

Management: Yes.

Kushal: It's basically an global OEM. And then what is the percentage any royalty or anything that we have to pass on to Sirca Italy and what are the percentages or how is this schedule, like was it like on the higher side earlier are going forward it's going to reduce is there anything like a royalty that thing?

Management: Royalty we don't pay anything on the products that we are importing from Italy. Royalty we are going to pay only on the few products that we are going to manufacture here and for the first year it will be less than \$0.15 per liter and then further it will reduce.

Kushal: Okay and presently if I understand 70% is imported and 30% is manufactured locally. So, with the new CAPEX, how is this percentage likely to change over the next couple of years for PU one and secondly, I understand that the CAPEX is also taken for other products apart from PU. So, can you just throw some light on that what products will be manufactured locally and how the PU percent mix will change after the local production in a couple of years?

Management: See currently, more than 90% of our products are coming from Italy and only the thinner part and some melamine are being manufactured here. None of the PU as of now is being manufactured from the facility. But down the line the PU products will be manufactured but it will not be actually replacing any product from Italy as of now it will be a different line of product which will be sold under the brand name called Sirca UNICO, which will be the economics series of polyurethane which can be compared with say Woodard or Asian Palace range of products. And this pure Italy.

Kushal: But now your premium products if I understand?

Management: Yes, not the premium products, so for this facility we are going to make economical PU, melamine and thinners and MC products.

Kushal: Okay, so even the paints are going to be imported down the line. While in the foreseeable future?

Management: The wall paint?

Kushal: Yes, wall paint.

Management: No wall paints will be manufactured here only.

Kushal: Wall paints is here. So going forward also majorly our PU business is going to be here only it's basically going to be imported only?

Management: Yes, the high quality PU will be imported only here we are going to manufacture different line of economical PU products.

Kushal: Fair enough and one more thing, when we say this OEMs we are supplying to Godre, Jindal, so these are what, for wooden products or these are for metal coating?

Management: See Godrej we are supplying for wooden they have the store by the name of Script if you have heard which is a high quality furniture that we are supplying so they are using only our product only and only products and the business with them pre COVID was picking up very well but they have restarted and recently also we have started supplying again to them with Jindal, they have this Inox and Jindal Steel Kitchen side they are coming in. So there they are using only on the metal SS and MS.

Moderator: Thank you. Next question comes from the line of Hiten Boricha from Sequent Investment. Line is unmuted.

Hiten Boricha: Sir, you mentioned by and large we will achieve our revenue target for FY21, right. So, just wanted understand what is the revenue outlook for FY21?

Management: See, as of now, it's quite difficult to figure out currently the exact numbers because the situation is still uncertain, we see that if the situation keeps on improving from now from Q2, we will be able to achieve almost the sales of the pre COVID level. So year-on-year basis we will have the same amount of sales and in the coming, then in the coming rest two quarters we can cover up for the quarter one and achieve the targets as planted but yes it will be a decent growth compared to FY20. If the things goes well, but yes it's very difficult to comment on the numbers as of now.

Hiten Boricha: And our margins will remain intact, right?

Management: Yes, the margins will be the same, the gross margins are still the same and are on the higher side around 45, 46% and going down the line also EBITDA is going to remain the same because we have done the expansion in terms of distribution and also the manpower very strongly in the last quarter, few quarters of FY20 which can give us a decent amount of jump in the turnovers in the revenues with the same network and the same theme expecting our EBITDA to be very strong this year.

Hiten Boricha: Okay, that was helpful. And the last question is sir what was our CAPEX in FY20 and what are we planning for FY21?

Management: See FY20 our CAPEX was, for the plant and machinery and everything which was around 32 to 34 odd crore and this year, it will be nil.

Moderator: Thank you. We will take the last question for the day and the question comes from the line of Lalit Rai from B&K Securities, line is unmuted.

Lalit Rai: Sir, just on, there's a couple of things only so one was on your tie up with Sirca Italy. So their holding still continues to be pretty low in the company. So, if you can share some kind of future

road maps on what can happen over there in terms of equity infusion from them or in terms of also in terms of future products that you can bring from this table to India. And second was on across the board because of this COVID issue we are seeing a lot of cost cutting. So, what kind of measures are you taking on that side, do we see expenses reduce in some way going forward?

Management:

See in terms of the shareholding of Sirca, we were already pre COVID in talks with them and they were planning to increase their shareholding up to 10% and it was almost on the finalizing stage and then this COVID came into place and actually, Sirca plant everything is going on but they are actually affected by the global markets because they were supplying globally to the United States and Russia and Russia they are facing quite a big problem. So currently their focus has shifted from this matter to some other countries matter with India The situation is still better. But with other countries like Russia and United States, they are still facing some problem and trying to sort out and currently they're all energies and management are focused on that topic. That is why this has been delayed a little but yes, with times we see that this is going to eradicate and we are going to overcome COVID and this will come back to discussion and it will soon be finalized. So it is on the cards. And coming back to your second question regarding the expenses fee, we were at the highest peak level of the expenses in terms of the distribution network or spending that we have done, we are trying to reduce on our current spending in terms of the traveling expenses that we're used to done we have introduced a lot of trainings online, a lot of complaint solving on phone, on video call, which is reducing the travel thing, which is actually helping us to reduce some expenses on the travel front, which is also not advisable to do currently, but it can become a part of our lifestyle in the company. And as I told you, in terms of the expenses related to the human power, human resource and distribution network, it was at peak and now the turnover which is coming any increasing turnover which is coming is going to be with the current expense structure. So it is not going to rise and we are reducing in terms of the daily routine works to control it in this quarter.

Moderator:

Thank you, Mr. Rai. I would now like to hand the floor back to Mr. Sayam Pokharna from the Investment Lab for closing comments. Over to you sir.

Sayam Pokharna:

Thank you, everyone for joining in. If we have not been able to answer some of your queries, please send an email to us. The email ids have been provided at the end of the investor presentation and once again, thank you from the side of Sirca Paints India Limited for joining on this conference calls.

Management:

Thank you.

Sayam Pokharna:

Thank you, sir.

Moderator:

Thank you. On behalf of Sirca Paints India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

