



Sirca Paints India Limited  
Q4FY21 Earnings Conference Call  
31<sup>st</sup> May, 2021

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Management Participants

Mr. Sanjay Agarwal – Chairman and Managing Director  
Mr. Apoorv Agarwal – Joint Managing Director  
Ms. Shallu Arora – Chief Financial Officer  
Mr. Chahat Mahajan – Company Secretary

Hosted by



Analyst  
Mr. Sayam Pokharna – The Investment Lab

**Moderator:** Good day and welcome to the Q4 and FY21 Earnings Conference Call of Sirca Paints India Limited 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from The Investment Lab. Thank you and over to you sir.

**Sayam Pokharna:** Thanks, Margaret. Welcome everyone and thanks for joining this Q4 FY21 Earnings Concall of Sirca Paints India Limited. I hope each and every one of you is safe and keeping well. The investor updates are been emailed to you and are also available on the stock exchanges and on our own website. In case anyone does not have a copy, please feel free to write to us and we will be happy to send it over to you. To take us through today’s conference call we have with us Mr. Sanjay Agarwal – Chairman and Managing Director, Mr. Apoorv Agarwal – Joint Managing Director, Ms. Shallu Arora – the Chief Financial Officer, and Mr. Chahat Mahajan - Company Secretary.

We will be starting with a brief overview and business updates with respect to Q4 and the full year, followed by a Q&A session. I would like to remind you all that, everything said on this call, any outlook for the future which can be constituted as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These risks have been mentioned but are not limited to what has been mentioned in our prospectus and follow up annual reports. I would now like to hand over the call to Mr. Apoorv Agarwal, over to you sir.

**Apoorv Agarwal:** Thank you, Sayam. Good afternoon ladies and gentlemen. It is a pleasure to have you all here at our call today. I’m sure that you all must have gone through the results and the investor presentation for the last quarter. Without taking much time I will quickly like to take you through the financial performance and the business update for the last quarter and the financial year 2020-2021. In Q4 FY21, the company reported its highest ever quarterly sales delivering a 48.4% growth on year-on-year basis. Although on a smaller base since our Q4 FY20 sales were partially impacted due to COVID.

On a full year basis, we reported a 6% growth in revenue from operations at 143 odd crores compared 135 odd crores. On the profitability front, financial year 21 has been a challenging year for us, we faced pressure on the gross profit margins due to majorly two reasons, as you all must be aware that the Euro has risen more than 10% year to date with a peak of around 91. This rise mainly impacted us in the Q2 and the Q3 of the financial year as our procurements for Italian PU was at the higher rate.

Secondly, many of the key inputs like butyl acetate, toluene and some key inputs in the paint supply chain have witnessed a massive increase led by the supply chain disruption across the globe. In respond to this, Sirca has undertaken two price hikes first in the October 2020 and second in the January 2021 and there are plans to take

another hike in June. Although in doing so, we have remained cautious as the demand recovery is still a little delicate. EBITDA margins have remained in-line with the decrease in the gross profit margins with some impact of loss due to fire. We are happy to communicate that we have received the insurance claim of 9.64 crores against a loss of 10.57 crores booked earlier in Q2 of FY21.

Adjusted for the net impact of loss due to fire we reported the EBITDA margins excluding other incomes of 15.2% in FY21 as compared to 23.5% a decline of almost 830 basis points. PAT for the year was 16.58 crore as compared to 25.15 crores last year. On the operational front we are happy to report that the production from our Sonipat manufacturing facility is slowly coming on stream and we have already been successful with trial productions to achieve the desired level of quality. If improvement in COVID related disruptions follow the current trend in NCR, we should be able to start with the commercial scale production from June, July onwards.

Unico product has garnered a good response from all the markets after their initial launch in late 2019 early 2020. However, supply disrupted due to the unwanted fire incident, which didn't allow us to achieve the desired scale for these products. To aggressively re-launch these products along with our complete wall paint kitty we would be looking at good sales and promotion activities in FY22.

On the product portfolio side, we have some important announcements. The first tie up is with San Marco which we have executed as an exclusive distribution license in India. San Marco is a prestigious 80 year old Italian brand known for its special effects and wall paints. And Durante & Vivan, which is an extension of our existing relationship with the group that houses Sirca S.p.A Italy, Durante & Vivan is a renowned player in the adhesive space known for its specialized hot melt glue, a product which is extensively used in the furniture industry. For Durante & Vivan products we will be looking to cater our existing OEM clientele in the first phase of our launch.

We now have a reasonable product basket of Italian wood coatings to economical wood coatings from the plant, decorative wall products, industrial adhesives and the special effects for wall to meet our growth objectives. The manufacturing plant in Nathupur, Sonipat, Haryana for economical wood coatings and the decorative wall paint manufacturing facility at Rai, Sonipat, Haryana are going to be the important levels for the growth. Over the next five years, we aim to grow almost at a +30% CAGR on all fronts over this time horizon.

Speaking about a little on the second wave of COVID in past two months, that is the later April and May we have faced repercussions of second wave of COVID in India, due to a massive and ferocious spread majority of our markets were in partial or full lockdown and almost in-line with that our branch offices depot and dealer shops has to be shut down.

Hopefully there is some light at the end of the tunnel, where we are seeing cases reducing from their peaks and markets are opening up slowly. If this trend continues, we would see better sales in June as compared to April and May and we will keep you posted on the situation how it unfolds. With that, I am open to answering any queries that you may have.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jayesh Kshatriya and Individual Investor. Please go ahead.

**Jayesh Kshatriya:** Sir my first question is on portfolio expansion side, till now we have been adding products in paints and coating categories, but isn't adhesive a different business altogether sir, we understand that you have an established OEM clientele, due to the Italian PU business, who can be a potential customers for adhesive but beyond that the distributor channels for paints and adhesives are completely different. So, like paint shops and hardware's, so any comments on that part sir?

**Apoorv Agarwal:** Thank you for the question. So, with Durante & Vivan the tie up is to launch the glues which cater to the OEM clientele and this will be done on direct basis means that Sirca India is working with key clientele like big furniture manufacturers, which includes names like IKEA as well. There the company is supplying the paints and they are going to supply also this hot melt glue directly. So, there we are not be going to involve any distribution channel and in the phase two we also intend to manufacture the white glue together with Durante & Vivan in India. See in India what we have seen is, from the shops where we are selling the paints, those paint shops are also a big channel for selling the white glue as well. But in phase one as I told you, we will be behind the OEM clientele where we will be directly reaching out as Sirca India to the client without the distributors in between.

**Jayesh Kshatriya:** Okay. It helps me to understand – is there a cross selling happening between these two distribution channels – you answer that part for me also. Sir, my second question is on the wall putty side. Sir, how has been the response for first year of our launch and are we realizing similar kinds of margin in wall putty?

**Apoorv Agarwal:** Yes, so, if you talk about wall putty, in wall putty as we have earlier also stated in our statements that it was launched majorly to cater to the project side, because when we are going with our wall paint to a project, it is quite mandatory as per the agreements to also use the wall putty from the same brand and this was the main motive to launch wall putty, the margins in the wall putty has not been severely impacted, it has been more or less on the same side, but wall putty the company's manufacturing only for the project basis, but we have done a key extension in the product line of the wall paints where a lot of new products also are going to be launched in coming months. So, on the wall putty side, we have not seen any separations in the margin.

**Jayesh Kshatriya:** And sir to follow up on that part. So, to our understanding sir wall putty is a bulk product, so it has a higher weight to value ratio. So going forward, are there any plans or CAPEX plan to put up wall putty and wall paints manufacturing in any other parts of the country?

**Apoorv Agarwal:** Yes, absolutely so, we have plans to have our three other units also soon for the wall putty and the economical wall products manufacturing and some economical PU products as well, wood coating product as well and in certain states, we also would go for the toll manufacturing of the wall putty.

**Jayesh Kshatriya:** So my third question is on the sales mix side. So for quite some time, we have seen that our sales mix between retail and OEM has remained 70% and 30% odd. So are there any changes or trends here coming, see I'm coming from the context of increased acceptance of readymade furniture in India, are we seeing any trends on those path?

**Apoorv Agarwal:** Absolutely, we are seeing a massive change which is happening where we are seeing that the OEM percentage would increase because the people are moving towards buying readymade furniture. So, platforms Livspace and Pepperfry and IKEA obviously is going to play a very key role to change the furniture industry in India and with that going forward, we would see a significant change from retail to OEM, but speaking about Sirca India, since we are on a expansion mode in terms of the distribution, our retail would also be uplifted in the same manner. So, there might be not a visible significant change in the retail and OEM percentage, but yes the OEM sales would rise in the coming years.

**Jayesh Kshatriya:** Okay. So, just to mention, we have talked about it before last call also. Sir, I just wanted to have an overview of it like we mentioned before that we are supplying to two out of four IKEA furniture manufacturers in India. So, have there been any development or moments on that front, have you seen any material demand getting materialized on that front?

**Apoorv Agarwal:** Frankly speaking still the demand from, specifically from the IKEA product side has not increased a lot. Their projects are still on a slower side and the products that they shortlisted to manufacture in India still only those products are being manufactured. But, yes in coming future, they would increase the number of products to be manufactured in India.

**Jayesh Kshatriya:** And sir on the inventory part, you mentioned in the investor presentation that you did higher procurement during Jan, Feb period which was delivered to you in March. So has this been procurement were in older rates or were they new rates?

**Apoorv Agarwal:** This was with the old rates and the major reason for placing more containers, more orders was basically to procure some goods at old rates. And also, at that point of time, in late December and early January there was some second wave of COVID hitting some parts of Europe. So that was also a concern raised by Sirca Italy to have some

extra stocks to avoid any shortages on the later stage. So, these are the two major reasons that is why we have inventory on a higher side, if we talk about 31<sup>st</sup> March closing.

**Jayesh Kshatriya:** Okay. So, like in the month of April right now sir, has this been procurement slowdown in April or thus inventory is going to be normalized, what's your plan going forward from here on?

**Apoorv Agarwal:** Yes, so inventory in other two or three months would actually normalize because the number of orders going to Sirca Italy has gone down and we have enough stock so, as soon as the cycle and the momentum of the sales come back we very fast would come on a very nominal level of inventory then.

**Moderator:** Thank you. The next question is from the line of Aditya an Individual Investor. Please go ahead.

**Aditya:** I had a couple of questions, one was regarding your 30% targeted growth, just wanted to understand how you would be managing to grow the wall paints business at this rate considering the industry generate a 10%, 15% growth rate and we will not have the deep pockets that an Asian Paints or an Indigo or an Aditya Birla would have for advertising and sales?

**Apoorv Agarwal:** So see currently if we talk about our current sales or numbers of wall paints we are still on a very lower side we have just begun and we have begun from the state where we are strong in, we started with eight products, we moved to 12 products and now we are launching other four, five new products so what we have on table, eyeing the number of markets that we are now eyeing to go on with our increased distribution networks this can easily be achieved because currently we talk about our wall paint sale, it's very less in terms of the percentage if we talk about of the total turnover maybe less than five-percent, but yes going forward with the number of products kitty that we have increased and the distribution network this would easily be achievable.

**Aditya:** Okay, fair enough. Anything different than you may be specialized wall paint product that other people don't have or any strategy that you apply?

**Apoorv Agarwal:** We are working on some strategies. So, on the product quality front, we are actually focusing on the whiteness of the product because whites are now back in, in the technical collaboration with San Marco, we have developed an exclusive shade card which offers a lot of colors which are like developed in collaboration with the Italian designers. So, that would stand out that shade card would stand out, which offers a lot of more pastel colors. And thirdly, obviously on the profit side and the margin side of the dealers we are working strongly to gain their interest to sell more of Sirca wall paint products.

**Aditya:** Understood sir. And any plans on using the tinting machines or is it not going to be like that?

**Apoorv Agarwal:** No, tinting machine is on the plan. So, slowly and steadily we are going to increase the tinting machines at the retail level. So, we have tied up with a company called COROB, it's multi machine which can tint the wall paint as well as the PU paints. So, going down the line in the strong market which is basically North India will be the first to cater to this tinting machines to be supplied to dealers on certain conditions and then we will move out to pan India.

**Aditya:** Okay. Got it sir, and last thing was, what is your margin expectations across the different product categories?

**Apoorv Agarwal:** So, margins as we explained has been there was a pressure on the margins in the last financial year and this year with the multinationals announcing a lot of increase now and in the month of June we are expecting from the big multinationals increase, the margins we are expecting will come back to a normal level and if we talk about the Italian PU and the Indian PU, yes there the margins are a little on the higher side compared to the wall paint and the economical NC Melamine products.

**Aditya:** Understood sir. And even on the adhesive distribution would you expect a margin similar to Italian Paints for you?

**Apoorv Agarwal:** A little less than that.

**Moderator:** Thank you. The next question is from the line of Vibha Batra from FairConnect. Please go ahead.

**Vibha Batra:** Sir my question is on the dealer network, what kind of credit period do you give to the dealers and these tinting machine that you're talking about how much do they cost and in this environment generally incomes of SMEs have suffered, how willing would the dealers be to invest in these machines?

**Apoorv Agarwal:** Yes, so credit period obviously depends upon the different payment terms that we have, we run a cash TD of 2.5% to 5% and that is how the credit period starts from 7 and goes up to, used to go up to 60 days, which we have now reduced to 45 days with effective from 1<sup>st</sup> April 2021. So, if you talk about the average credit period would be around 30, 35 days at the dealer front, which moved to 60 days due to certain reasons majorly related to COVID in last one and a half, two years. On the tinting machine front, we are coming out with a contract with the retailer. So, basically, it's upon yearly contract where the dealer is actually being agreed for buying a minimum of X amount of the tinters which allow him to get the machine free. So for example, if he buy a X amount of tinter he does not have to pay for the machine cost and the machine cost, if we talk about only wall paint is little less than one lakh and if we talk about the twin machine,

which we are more eyeing at to put it at the dealer level is a little less than one and a half lakhs.

**Vibha Batra:** Okay. So, that's not a very significant cost for the dealer?

**Apoorv Agarwal:** Yes, absolutely. But to make it more aggressive, we are giving them an agreement where only for the first quarter they have to pay a first installment and then if we see the trend that they are buying a minimum of x guaranteed tinters to be used in the machine from Sirca India, they don't have to pay for the machine cost. So, that is actually becoming very aggressive for them and this would actually move our wall products also a bit fast.

**Vibha Batra:** Okay. And when the dealers pay cash upfront versus they utilize the 60 day credit window 60 or 45 what is the differential in the pricing, or what kind of discount do you give for cash?

**Apoorv Agarwal:** See, cash discount it goes maximum to 5%. So, with a seven day payment we offer a 5% cash discount and then with a 15 days payment goes down to 2.5 and then standard days.

**Moderator:** Thank you. The next question is from the line of Amit Chordia from World Foods LLP. Please go ahead.

**Amit Chordia:** Can we know the timeline on when Sirca will become a pan India brand because awareness especially in Western India, still remains to be low?

**Apoorv Agarwal:** Yes, absolutely Mr. Amit. So, in West India if we talk about, we have been a key OEM player. So, industries like Indoline, industries like Godrej have been a key customer from last 10 years and also going forward they are quite strongly knitted with us in terms of sale, in terms of retail we are absolutely negligible in terms of western India, but West was the market where we wanted to actually cut through and cut loose with our Unico range of product and unfortunately, because of these unwanted events like fire incident and COVID there has been significant delays in launching the product in West, but yes to be very frank and to be on the conservative side, we expect that in less than two years, we would be quite aggressive and aggressively known as a paint and a coating player in the rest of the parts of India we are quite well recoiled as a brand in the Northern part, East part and if we talk about in South now in Kerala, if we talk about we are quite known and this has been done in less than a year so we expecting not more than two years we would be quite well known on pan India basis.

**Moderator:** Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Management. Please go ahead.

**Riddhima Chandak:** Sir my question is on our credit days and margin overall. So as you said that we are moving slowly towards the OEM or revenue contribution majorly in the next four to five



years. So what would be our overall working capital cycle would be and what would be the margin percentage on a sustainable basis we are expecting?

**Apoorv Agarwal:** Yes. So, you rightly said that we are fairly looking at OEM business to rise in coming years since the industry is changing and furniture industry is actually moving at a good growth in India. But yes the credit days and in OEM it differs from 60 and goes up to 120 days as well but with the key clients like Saundarya **(Inaudible) 25.33** were underlying, all the sales are against LC, till now we were not discounting the LCs but now in future we are planning to discount it as well to reduce the debtors in our books. So, most of the agreements with the big OEM suppliers are against local LC. If we talk about margin see in retail yes, my selling price is much more than the selling price to OEM but yes in retail we have a lot of giveaways in terms of contractors schemes, architects schemes and the turnover discount that we offer to the dealer. So if we see the final realization of the price on the dealer and the OEM it is more or less the same. So means that my margins from the retail network final margin from the OEM are more or less on the same side.

**Riddhima Chandak:** Okay. So can you quantify like if we see barring FY21 from FY18 to FY20 our margins are continuously reducing right from 29 to 27 to 23. So, on a sustainable basis what margin guidance you would like to do?

**Apoorv Agarwal:** It would be above 20% for sure, this year has been extraordinary for us and since 90% of our turnover was coming from the Italian PU products which has to be imported. So we were double impacted compared to our peer competitors because of the Euro rate as well. And considering the COVID situation we could not do our immediate price increase. We had to follow some news from the multinationals. And fortunately, the good news for us is, from late April, the news from the multinationals have started to come out, the first increase has already been done by multinational and the second increase by a few multinationals has already been announced on 15th of May and we're expecting the implementation in the month of June. So, this will help us a lot in terms of getting back our EBITDA to the level of above 20.

**Riddhima Chandak:** Okay. And so basically, other question is on the export side. So, we signed agreement with Reliance Paint in Nepal, and some studios were also coming, also you had sent samples in a few other countries like Sri Lanka and Bangladesh. So, what is the current state on that?

**Apoorv Agarwal:** So, with Nepal yes the business has already started we have sent some few small consignments and the product has been well accepted in the market and unfortunately, a full container load had to leave to Nepal in the month of April and due to the COVID situations, it has been delayed, but obviously once you open up the first container fully loaded, full load container would move to Nepal. So Nepal is on the move, the studio work would also begin again in next two weeks in Nepal. In Sri Lanka and Bangladesh obviously in last two years due to the limited travel and a lot of travel restrictions, the

final meetings could not be materialized into business as of now. But yes, we have identified couple of players where we wanted to go and just see the infrastructure and everything and take the step ahead. But they are on cards and hopefully in this year we would have some business also coming from Sri Lanka and Bangladesh besides Nepal.

**Riddhima Chandak:** Okay. So currently, how much export is the total contribution revenue?

**Apoorv Agarwal:** See, it is negligible as of now, because we just started selling the product to Nepal in the month of January and there were only two small consignments together maybe a little less than 10 tonnes were going out to Nepal and now after the full acceptance of the product, the full containers had to move. So now currently, it is negligible of the total turnover, but in this year we would see this export business also rising from Nepal and hopefully from Sri Lanka and Bangladesh we would also start the business in the later quarters.

**Riddhima Chandak:** Okay. My another question is on the South side. So, earlier approximately including Maharashtra in South revenue contribution was 10%, 20% odd. So as of now, specifically for the South as we are targeting that sector, so what is revenue contribution and growth in the last two quarters in the last whole fiscal?

**Apoorv Agarwal:** Yes so, South actually has been good for us specially Kerala after our own branch coming in South in Kerala, the retail sales have moved up obviously the OEM was a strong part and is still going up but the retail in Chennai and Bangalore as well as in Kerala is moving well and with the Unico coming in after the plant getting on its feet once again, this would actually give us a boom together with the marketing activities that we are planning but if we talk about FY21 the contribution only from the South was above 10% which earlier together Maharashtra and South were contributing about 15 but, yes South was on the low side now the South has moved up and it contributed almost about 10%.

**Riddhima Chandak:** Okay. And what sort of price hike we had taken till now and further what we could take?

**Apoorv Agarwal:** See in the Italian range of product we have taken a price hike of about 10% to 12% and in the Indian made product of average about 4% to 5%. If we talk about the latest news, a lot of multinationals have announced a price hike of anything between 15% to 20%. So, we see that in the coming month of June maybe not in one go, but in two go, we would do a price increase of anything between 7% to 12% based on the product category, so economical range of all products and economical range of wood coatings would be on the higher side of increase and the high value products will be a little lower on the percentage increase.

**Riddhima Chandak:** Okay. And just one last question. So, currently our OEM and retail contribution is 70:30 from retail, going forward what percentage you are looking forward, as you are expanding on OEM side?

**Apoorv Agarwal:** Going forward if we talk about Sirca India, we would not see a big difference in the percentage because OEM business is going to grow but as we are doing the distribution expansion and retail expansion in the West and the South part of India our retail would also grow or maybe outgrow the OEM, because we are expanding the product in the new market. So speaking about next two years, the contribution of retail and OEM would remain more or less the same besides the fact that OEM business is going to grow.

**Moderator:** Thank you. The next question is from the line Kanush Mehta an Individual Investor. Please go ahead.

**Kanush Mehta:** Sir, I have just a very broad based question. So what is our organization target, let's say for the next five years or top five key target areas that we'll be hitting in the next two to three years or something like that, that can give a broad vision for the company?

**Apoorv Agarwal:** See, the five target area which we have identified going forward and to reach to our targets and sales for next five years is, we are investing a lot on the technology. So we are very strongly upgrading our ERP systems and App based systems at dealer and distributor level. We are strongly working on the management side, our core management team and the key personnel is constantly increasing. We are constantly eyeing on reducing our logistics cost by toll manufacturing systems. And by adding a couple of plants in the South and the Western part of India, we are strongly working on increasing our productivity and most importantly, on the employee side. So we have launched, we have actually implemented a lot of parameters and in terms of the employee side, because they are the face of the brand. So there is going to be a significant change on the presentation of the brand from our key employees because we call them as our brand ambassadors. So there has been a lot of training which has been involved and implemented in within the company as a protocol as a SOP. So obviously on these five fronts, we are constantly working, the teams are constantly working on these fronts and these will with all these five areas we will be constantly improving year-by-year to reach to our key target of five years.

**Kanush Mehta:** Thank you for that and sir just another follow up to that. So let's say in the next five years, what revenue would you be targeting?

**Apoorv Agarwal:** See, we are expecting every year a growth, as I stated a growth of 30% CAGR. So that's how we are expecting to grow in next five years.

**Kanush Mehta:** Keeping the margin same or just improving them, year-on-year because we have certain.

**Apoorv Agarwal:** Yes, it would improve year-on-year so last year it has been extra ordinary but this year with the price increase we would be coming back to the original track and going forward, as the revenue rises, the expenses we expect would not rise in the same level because a lot of expenses has already been incurred and have already been in the books now,

for the incremental sale, but because of the breaks due to COVID, we could not actually come into momentum, that going forward keeping our fingers crossed. This would increase year-on-year.

**Kanush Mehta:** So, we can expect around 100 to 150 basis points margin expansion every year?

**Apoorv Agarwal:** In terms of basis points, yes, more or less.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

**Shirish Pardeshi:** Sir, I have two questions this unique floor plan what we are talking about, what kind of price parameter and what kind of band extension it can have, what I am asking that, does it also stand between car painting to decorative or basically I'm asking whether this is another brand and then segmentation which will happen?

**Apoorv Agarwal:** Sorry, on what product you are asking, can you quickly repeat because I skipped a couple of words initially?

**Shirish Pardeshi:** This Unico product what you have said. So, this is primarily into the decorative and other segments, but you also mentioned that San Marco is also adding some flavor. So, I am saying that we have now one brand to two brands. So what is the growth strategy which we are looking on the brand?

**Apoorv Agarwal:** Yes, so just to update you, Unico is a brand extension of wood coating and not wall coating, wall coating is purely sold in the brand Sirca only, Unico is the extension of brand of Sirca wood coating portfolio. So, all the Indian made wood coatings, polyurethane coating, Melamine and NC are sold under the brand Sirca Unico, Unico series, which obviously has the name of Sirca on it, but on the side it has Unico series that we have shared in the presentation, but wall paint products are all under the brand name Sirca only.

**Shirish Pardeshi:** I got that, but Unico is getting transfer. So, does that over some time, we will also bring Unico wall painting products? I am saying the brand awareness for Unico is larger. So, right now we are only using for wood coating products, but if in future if the growth is going to be faster in the wall painting, is there any plan that we can or is there any understanding that we can get Unico under wall painting segment also?

**Apoorv Agarwal:** No, see as of now, Sirca is the brand which is more familiar and have that better recall value. So, that is why on the Unico series also we have the face of the packaging is always Sirca with the Unico series to differentiate it from the Italian PU, because Indian made PU products and the Italian imported PU products are on the same line. So, that is why the Unico is only the extension if we talk about wall paint, we are moving it under the brand name Sirca only because Sirca is better known in terms of the brand and not Unico. With the San Marco obviously we are moving ahead majorly with the special

effects and they are giving us a tinting system where we are launching a lot of color shade cards. Pigmented shade cards, spectra along with them, the pastel color series.

**Shirish Pardeshi:** I got that so, I'm referring the same presentation slide. So, slightly I got confused. So San Marco, you are saying that we will be at the luxury end of the pyramid?

**Apoorv Agarwal:** Exactly.

**Shirish Pardeshi:** And which can go up to what price range in the current context?

**Apoorv Agarwal:** See special effects obviously if you talk about per liter they start from say 400, 500 and can go up to say 5000, 6000 a liter as well, but usually it is being marketed in India more on the per square feet basis. So, maybe you can say it starts from Rs.130, Rs.140 a square feet cost to about Rs.600, Rs.700 per square feet. So, if a 10x10 wall so 100 square feet up, so if he chooses Rs.600 product almost Rs.60,000 for a 10x10 small wall. So, San Marco product also in India will be sold co-branded. So, San Marco-Sirca branding.

**Shirish Pardeshi:** Okay. And just one follow up on that, from the marketing perspective, what is the gross margin differential between Sirca and San Marco?

**Apoorv Agarwal:** See, San Marco since it's a niche product, the gross margins are actually very high compared to Sirca Italian wood coating products.

**Shirish Pardeshi:** Yes, but in percentage terms or in some?

**Apoorv Agarwal:** Almost double.

**Shirish Pardeshi:** So, assume that Sirca would be a 35, 40 range?

**Apoorv Agarwal:** Yes.

**Shirish Pardeshi:** And that is the double what you're saying for San Marco?

**Apoorv Agarwal:** Yes, more than double sometimes.

**Shirish Pardeshi:** Okay. And this is now to what penetration level it has already gone into the market, in terms of coverage?

**Apoorv Agarwal:** So, we just launched San Marco with the aggressive promotion and the demand had just started to gain, so that is why we had to get shipment by air to cater to certain products and the acceptance was actually very good. But unfortunately, the container got delayed and it arrived during the lockdown period. So it arrived in late April around 29-30<sup>th</sup> April, were most of the India was under the lockdown condition. So, we could not actually sell the product quite aggressively. But yes as it opens up, the product has

actually been introduced into our strong markets, which is the Northern part of India and also to our distribution network. So through architects obviously. So, once we open up this was moved quite aggressively, we have now the products in our warehouse. So, it will move aggressively. The product has already been introduced at the architect level.

**Moderator:** Thank you. The next question is from the line of Manan Patel, an Individual Investor. Please go ahead.

**Manan Patel:** Sir, my first question is regarding your distribution, we have around 1600 dealer distributors. So wanted to understand in the context of the growth that we are planning how many dealerships should we need to add over a period of next five years?

**Apoorv Agarwal:** Yes, so, as we talk about this financial year, we are not eyeing big numbers of increase in terms of the number of dealers, because we did aggressive distribution expansion in the in the last quarter of FY20 and then also in the current financial year. So, now with the plant coming back on its feet, which is going to introduce Unico economical range of PU, Melamine and NC products and also some extension of wallpaper paint products. We are focusing this year to increase sales from this current dealer network which was actually in place and is still quite new. Going forward obviously, every year then we are expecting that with the new product kitty and with the new market to explore this would rise about 25%, 30% every year.

**Manan Patel:** Understood sir and when you scout for these dealerships, so, I wanted to understand whether they would be new dealers or you will take from existing dealers and whether these will be in Tier I Metro markets or in lower Tier city?

**Apoorv Agarwal:** Yes, so major expansion will be on the lower tier cities now where we have seen a demand on the upper side and the demand slide fast. And with the Unico products coming in which is the economical range of the PU coatings and NC and Melamine obviously we are eyeing the Tier II, Tier III cities strongly to increase our dealer footprint.

**Manan Patel:** And sir would this be new dealers coming on board or they would be the existing dealers of other companies?

**Apoorv Agarwal:** No, always the existing dealers of the other companies. So, they are selling all the other paint brands and together they sell the Sirca as well.

**Manan Patel:** Understood. Sir the question arises because when you start pushing tinting machines, they would already have probably one or two tinting machines from existing some company. So, wouldn't there be space constraints for this existing dealer or how do you look at this per se?

**Apoorv Agarwal:** See, at some points in some cities there is space constraint, but that is why we are coming up with an aggressive scheme and especially with the two in one machine. So, there is a single machine currently, all the dealer network uses two machines. So,

means that there is one machine for wall and one for PU so, there are two machines one for wall, one for PU but now COROB has come up with a new model and obviously along with us, other multinational companies will also be replacing and giving one machine instead of two, which will allow them more space to add a little more machine. So, that is why we are coming up with the two in one machine which will give them an added advantage that from one machine, they can make a colorful wall as well as for woods.

Secondly, we are coming up with an agreement where under certain terms and conditions, they can get this machine free of cost at the end of the year. So that is also being quite aggressive. And third, the most important is, that the pigment and the colors that they make out of this machine should offer them good margins compared to other brands. So, we have strongly worked on that also. So, considering all these three effects, we are getting good response from the dealer, because there is a form that we are getting filled for the consent of getting the machine. So, we are getting a very good strong response. But we are going to go slow phase-by-phase and install more in the strong markets first and then go pan India.

**Manan Patel:** Understood sir very heartening to hear. And sir my second question is regarding, when we target a growth of 30% I would assume that we would have to spend a lot more on ANP currently, I'm assuming it's around 3.5% to 4%. So, what would be your ANP spending targets going forward at least next two, three years?

**Apoorv Agarwal:** See, if we talk about this year, obviously around 4% to 5% going forward, not less than 5% because then the idea of once we are out pan India with the mass product range of Unico and wall obviously we are going to go on certain media and we will be adding 360 degree marketing. So it would be in the range of 4% to 5% for next two to three years.

**Manan Patel:** Right. Sir so my question arises, because if we look at someone like Indigo, who has been doing in lower tier markets, they have been spending more than 10% of their revenues on ANP in last two, three years, because of that they have obviously done a lot of national presence. So, in that context, wouldn't the competition have a large share of walls compared to us?

**Apoorv Agarwal:** See what we have closely monitored the activities of Indigo Paints as well and they actually poured for a few months a lot of money and now they are reducing it. So, that is why we also planned to do it in phases and to pour like aggressively some amount to actually get the effect of the advertisement. So, we are doing it quite strategically and with the view of numbers that we are trying in FY22, 23 on that numbers if we see the 4% to 5% would actually help, would be enough for us as per our advertisement campaigns which are in-line and quite aggressive. If we see the other brands like Indigo, Nerolac whatever they are doing.

Secondly also, we are going to reduce our spent towards the exhibitions which already had got down, currently our spend is huge on the advertisement side and other activities related to architect side. So we are going to reduce it and also pour it into the advertisement front later on.

**Manan Patel:** Understood sir, got that. And my last question is related to so capital expenditures that we would be looking for next two, three years. You mentioned that you will be setting up a few units in other markets like South and West. So, I wanted to understand what kind of capital expenditure you would incur over next two, three years?

**Apoorv Agarwal:** Yes, so it would be in the range of say, less than 5 crores around 4 to 5 crores because we are going to add eyeing not more than three plants in next two years and this will be the facilities majorly to manufacture economical range of products more to be more logistically profitable, and this will be again the mixing plants. And so we are eyeing the long term lease lands in these areas. So, it would be in the range of say 4 to 5 odd crores not more than that.

**Moderator:** Thank you. The next question is from the line of Aditya Vora from Equitymaster. Please go ahead.

**Aditya Vora:** So, my question is, your OEM segment is 30% of your total sales. And if you say that you want to target OEM growth going forward, is it safe to assume that the growth in your OEM is likely to come at an adverse product mix, the reason I say that is because when you talk about turnaround times for someone like say Pepperfry or Godrej or IKEA, the turnaround time for an economical or a higher PU risk wise is that of a NC Melamine, so is the growth going to come a lower margin or lower realization going forward?

**Apoorv Agarwal:** Not, exactly because we are eyeing an increase in OEM also at the luxury level majorly. So, we are seeing a lot of shift in our industry where majorly in the metro cities the job of luxury coating also which was done at site are now being done at the OEM level. So, people who use to get the bed or the wardrobe or the kitchen made at their houses now they are trying to buy more from people like Spacewood or Indoline or Godrej or Livspace who are also the users of luxury products. If we talk about Livspace who is our now next big customer he is also now moving from the economical to the luxury product range as per the demand. So they have one collection which uses the Italian PU only. So beside Pepperfry and Urban Ladder which are more users of NC Melamine and which are the economical products, there is a strong upside in the demand of the luxury PU also from the OEM segments because of this shift which is happening. So that is why, the margins would be actually not compromised.

**Moderator:** Thank you. The next question is from the line of Sandeep Bhandari, an Individual Investor. Please go ahead.



**Sandeep Bhandari:** Just one question, can you give some color on the second level of management team, other than promoter, after promoter what kind of team we have built up, because now we are scaling up pan India, in South and other markets and across multiple products. So just some color on the second level of management team. Thank you that's the only question from my side.

**Apoorv Agarwal:** Thank you. So, as I stated that we are strongly working on our teams on the employee front and not only on the front end, but also at the back end. So we have some key personnel coming with an experience of more than two decades who has joined recently at the back end level and on the front level, we are going forward with certain parameters of trainings and education level, strong team in the South and other parts of India has been developed. So, in the South also, we are lucky to have one of the most experienced guys in the wood coating industry. Mr. **inaudible 53:47** and his team has been, the old South team has been led by him. Same if we talk about the Western and the Central part of India, Mr. Amit, so he is strongly moving ahead on the front end and on the back end where we wanted to grow and we wanted to grow as a strong team. We have a couple of hiring's done and we are eyeing a couple of hiring's in the later quarters.

**Moderator:** Thank you. We will take one last question which is from the line of Aditya, an Individual Investor. Please go ahead.

**Aditya:** Sir, since you are now splitting up into so many different categories and subcategories, any estimate as to what would be the overall sales mix, let's say three or five years down the line between your Indian PU, Italian PU, wall paints, adhesives?

**Apoorv Agarwal:** Okay. So, yes see, if we talk about today, 90% of revenue comes from the Italian PU. Going forward also we see that about 55% to 60% will be contributed again by the Italian PU and rest 40% will be the mix of Indian made PU, wall paint and other products. In terms of the numbers, if we talk about San Marco and all, they will be not generating huge numbers, but would be generating a lot of brand value and a niche market for us with a huge margins. But we are expecting good number of sales from the Indian made economical products under the brand extension Unico, which would contribute to about say more than 20% and same at the wall paint side.

**Aditya:** Okay and adhesive will also be much smaller category?

**Apoorv Agarwal:** Adhesive. Yes, so, going forward if we talk about today. Yes, because we are eyeing more at the OEM clientele level, where we have a very good clientele and hot melt of Durante & Vivan is a hot key product which has been already been approved worldwide. But going forward, we have not very strongly thought on how the white glue market is going to behave but yes, our counter partners Durante & Vivan are very confident of the product that they are expecting to make it in India and if marketed right, this could actually be again a very big market because you know how white glue market is, so we

have to work on the strategy of test, so currently, we are not considering the numbers to come from the white glue because this is at the later phase once we have that confident of Durante & Vivan as a brand going in the market.

**Aditya:** Sure. And any idea on your export also within the entire mix, like let's say that five years down the line or three years?

**Apoorv Agarwal:** Yes, so export as I told you now, Nepal already has started and down the line three years we are expecting that almost about 5% to 7% of our turnover would come from the export of the Indian made product. So unico is the brand which is going to be sold out under the brand name Sirca only but Unico as a brand extension would go out to the export for these 3 countries. So we are expecting, if we talk about down the line three years of the total revenue, obviously about 5% to 10% would be contributed by exports as well.

**Aditya:** Okay, got it sir. And sir last thing is on the tinting machines that you have come up with this structure where the dealer does not have pay you, pay up for the tinting machine in case they meet certain targets and volumes, is that something that you guys are the first ones to do or are other competition also following similar strategy?

**Apoorv Agarwal:** See, we talk about the multinationals or the top five paint companies they are not doing it. But yes, there are some new entry brands or there are some particular brands in a particular area who are moving up with this kind of strategy. But since we have a better brand recognition and obviously, we're going to make it more aggressive, with couple of more offerings in terms of the margins also we expect that we would go out, but if we talk about the top five brands, they don't offer such kind of agreements.

**Moderator:** Thank you. The next question is from the line of Ajay Lokesha an Individual Investor. Please go ahead.

**Ajay Lokesha:** The first question is, any plans of doing any mergers and acquisitions for the expansion in the future?

**Apoorv Agarwal:** Yes, so, as we told you that we are eyeing to open up new plants, we are also eyeing this option of acquisition also in certain areas of the small wall plus economical PU product plants. So, we already have been speaking to a couple of people centrally located plants to acquire 100%. So, it is on the cards on the production front of wall and PU products.

**Ajay Lokesha:** Okay, thank you. And then the next question is, any plans of going for sales through e-commerce?

**Apoorv Agarwal:** E-commerce we have actually worked it very strongly. Currently our product offering was on Snapdeal and a couple of other platforms like Paint Bazaar, but since it is a very customized product and still requires a touch and feel and involvement of architect and

contractor. We are still not eyeing the wood coating to strongly being e-commerce product because it can be e-commerce only for the DIY market- do it yourself market which actually India is not, in the Europe, the Sirca brand is strongly been pushed on the e-commerce level because it's a strong DIY market. So going forward, for a year, year and a half, we still not see a strong movement on e-commerce level of product category that we cater to.

**Ajay Loksha:** Okay, wonderful. And then with respect to brand awareness, or is there any plan of doing digital advertising, targeting especially the contractors and then architects of that?

**Apoorv Agarwal:** Yes, that is on cards. The 360 degree marketing plan for the company is already ready and as we phase out with Unico products and reach out pan India, obviously we are going to implement a 360 degree marketing plan, which will include the digital marketing strongly at the architect and contractor level and also at the media level.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Mr. Sayam Pokharna for closing comments.

**Sayam Pokharna:** Thank you, everyone for joining in. The transcript of this call would be made available on the stock exchange shortly. If you have any further queries, please feel free to reach out our email addresses at [sayam@theinvestmentlab.in](mailto:sayam@theinvestmentlab.in)

**Moderator:** Thank you. On behalf of The Investment Lab, that concludes the conference. Thank you for joining us and you may now disconnect your lines.