

## **SIRCA PAINTS INDIA LIMITED**

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

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CIN NO: L24219DL2006PLC145092

**TO,**  
**LISTING DEPARTMENT**  
NATIONAL STOCK EXCHANGE OF INDIA LTD.  
EXCHANGE PLAZA , 5TH FLOOR, PLOT NO. C/1  
G-BLOCK, BANDRA-KURLA COMPLEX, BANDRA (E)  
MUMBAI – 400051.

### **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 **Thursday, 12th November, 2020 at 02.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.

This is for your information and further dissemination.

**Thanks & Regards,**

**SIRCA PAINTS INDIA LIMITED**  
**(Formerly Known as Sircolor Woods Coating Pvt. Ltd.)**

For SIRCA PAINTS INDIA LIMITED  
(Formerly Known as Sircolor Wood Coatings Pvt. Ltd.)



Company Secretary

**Chahat Mahajan**  
**Company Secretary & Compliance Officer**  
**M.No. 51255**

**Place: Delhi**  
**Date: 27/11/2020**

**Encl: as above**



Sirca Paints India Limited  
Q2FY21 Earnings Conference Call  
12<sup>th</sup> November, 2020

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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



Analyst  
Mr. Abhishek Mehra – The Investment Lab

**Moderator:** Ladies and gentlemen, good day and welcome to the Q2FY21 earnings conference calls 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 star, then zero on the touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Mehra from The Investment Lab. Thank you and over to you.

**Abhishek Mehra:** Welcome everyone and thanks for joining this Q2FY21 earnings call of Sirca Paints India Limited. The investor updates have been emailed to you and are also available on the stock exchanges, in case anyone does not have a copy of the press release do write to us and we'd be happy to send it over to you. To take us through the results of this quarter and answer your questions we have today with us, Mr Sanjay Agarwal the Chairman and Managing Director, Mr. Apoorv Agarwal Joint Managing Director and Ms. Shallu Arora the Chief Financial Officer. We will be starting with the call with a brief overview of the company performance, which will be followed by a Q and A session. I would like to remind you all that everything said in 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 uncertainties and risks are included, but not limited to what we have mentioned in the prospectus filed with SEBI and subsequent annual report, which you will find on our website with that said I'll handle the call to Mr. Apoorv Agarwal

**Apoorv Agarwal:** Thank you. Good afternoon, ladies and gentlemen, it is pleasure to have you all here at our call today. I am sure that you all must have gone through the results for the last quarter, without taking much time. I will quickly take you through the financial performance and the business update for the last quarter.

And then we can go ahead with the question and answer session. So I am pleased to share with you that in this quarter, we have successfully achieved the pre-COVID sales benchmarks and have recorded approximately 1.4% growth in revenue from operations, as compared on year on year basis. We recorded 8% volume growth in wood coatings and other categories. And almost a 700% increase on a relatively small base in the Wall Paints category. However, as the per unit realizations in wood coating is much higher, wood coatings still contributes to the major sales in value terms, the EBITDA margins have taken a hit in this period under review majorly due to two reasons. 1) The major reason is the appreciation of Euro, which led to the increase in the cost of procurement for imported wood coatings which contribute to almost a major value in terms of the turnover and the same was not passed on in the market immediately to the end consumer keeping in mind the effect of COVID and the economy in the recovering mode at that point of time. However, the company has taken up price hike from 1st October 2020 to pass it on to the consumer the increase on the effect of the input costs due to Euro. Additionally, the company has also availed some special discounts from Sirca S.p.A Italy on the temporary basis. 2. The second reason for the hit in

the margins is that range of trade discounts, schemes, and limited time offer, were introduced in the market to induce the demand in the trade channels.

These temporary offers also have been rolled back and the effect of which will be visible from Q3 of FY21. The company is strongly focusing on reducing its working capital cycle through a combination of reduction in receivable days and the efficient management of inventories. Talking about the business update for the quarter gone by in the West and the South market - the demand has picked up and has been better than the previous quarter. However, it is still below its potential. We expect performance from this market to pick up in the coming quarters in the North and the Eastern market, especially the Northern market are still at the forefront driving sales and demand pickup has been really, really impressive.

The Eastern market also showing a good sign of growth in demand. The demand for manufactured wood coatings is also an upswing now, although we have shifted the production, but the operations are still at optimum level due to the ongoing construction of the shed structure. Having said that, we remain confident of completing the same by end of December, 2020, along with the finalization of insurance claim against the loss of fire incident.

We had also witnessing a strong response for some new products like Wall Putty, which has primarily been launched in the Northern market. As of now, we have also enhanced the production capacity of our wall paints to cater to the increasing demand of this range also. With this we are open to the questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question you may press star and one on the touch tone telephone. If you wish to withdraw yourself from the question queue, you may press start and two. Participants are requested to use handset when asking a question.

Ladies and gentlemen, we will wait for a moment while the question que assembles.

The first question is from the line of Murli Khandelwal an individual investor. Please go ahead.

**Murli Khandelwal:** Very good afternoon, my first question is regarding - revenue and topline, last September quarter we didn't have any contribution from Sonipat unit but this year we have production, even then why the revenue is flat? My second question is regarding, we have reduced our receivable days but what is the impact of this (inaudible)

**Apoorv Agarwal:** Okay. So your first question was that in, last year quarter two, the, the, the revenue was majorly from the imported wood coatings. You are saying that, why is it less? Because this year, the sales are also contributed with some other product range. Am I right?

**Moderator:** I'm so sorry but the participant has been disconnected. So we'll go ahead with the next question, which is from the line of Manan Shah from Money Bee. Please go ahead.

**Manan Shah:** Yeah. Hi, thanks for the opportunity. So my question was, how much of this would you attribute to pent up demand? And are you seeing this sales momentum continue in the Q3?

**Apoorv Agarwal:** Yes, hundred percent. The sales momentum is on the up front and on the positive side in the Q3 also, in fact, Q2 has been good in terms of the demand side, especially from the Northern part of India and picking up from West and South also, from the OEM business and the same has been witness till now in the Q3 also.

**Manan Shah:** Okay. And you also mentioned that we've taken a price hike so is price hike getting absorbed in the market or are we facing any problems on that side?

**Apoorv Agarwal:** No no, quite easily, it is more than 45 days now that the price hike has been imposed in the market on the products imported from Italy and it was quite easily being accepted in the market.

**Manan Shah:** Okay. Okay. due to the lockdown, we were holding a fair amount of inventory of our imported goods. So now as things are normalizing, should we expect the inventory to come down?

**Apoorv Agarwal:** Yeah considerably. And it has shown some, some reduction, in the current Q2 finances also. And I think by Q3 Q4, it will be much more managed as we said that we are only working on managing the inventory more efficiently. The effect can already in the financials.

**Manan Shah:** Okay. Okay. And my next question is on our this, so in our annual report, we mentioned, we had given an ageing of our receivables, and there was a substantial amount that was due for more than 180 days. So, is it possible that you can give some light on that?

**Apoorv Agarwal:** So most of that account were majorly against LC and now, as per the new credit policy, which has been implemented in the market now, we, in the retail structure we have reduced our credit days from approximately 65-70 days to almost 45 days. And in the OEM we have reduced our LC time also to 120 days. And now, till now we were not in discounting it against the banks. Now we are planning also to discount it so that the receivables are not shown in the books. So this is, with every quarter is showing the considerable and a noticeable improvement in terms of receivable days, especially the 180 days above. So all these to be precise all of these payments are for short sales, but yeah, these are the payments of some big clients working against LC, like in Indoline, Soundarya, Mass, big, big customers, especially in the South. And now with the new credit policy, obviously we are seeing favorably or downward trend in terms of the receivable days.

**Manan Shah:** Okay. Okay. My next question was on our dealer network. we've increased our dealer network sizeably over the last year from almost 550 to 1600 plus. So would it be possible to give a geographical bifurcation of the same? Because earlier I think we used to give up bifurcation where almost 400, 450 were in the North and balance were in rest of the parts. So what would be the bifurcation of the 1600 plus?

**Apoorv Agarwal:** Approximately about 70%, more than 70% of the retail counters are from the Northern part of India. So for example, Delhi, Haryana Punjab, J&K to Uttarakhand and UP, then the rest has in the, in the last quarter of last financial year, Q4FY20, a lot of retailers from our new depot in Kerala were added. So there were almost 120 plus shops added, from the South and also we started with retain in Western parts such as Gujarat and Maharashtra in some small towns like Kolhapur and (inaudible) So, still, approximately 75% of the retail counter that's still again in the Northern part of India where Delhi contributes to almost 180 odd shops. Punjab again contributes to about a 130 odd shops. Haryana again 115. almost 80-odd shops. In fact, this belt contributes to above 600 odd dealers along with UP and Uttarakhand again, adding about 300 odd dealers. And now the major, major focus of the company was to be strong in the retail network in the West and the South region where the drive was started pre-COVID, and a lot of dealers were added and the business was expected in good numbers, but the COVID has put some brake on those areas, which now are again picking up. So there are no more retailers in terms of number being added in Q1 or Q2 of this financial year, but the business from them are now being started to generate.

**Manan Shah:** Okay. Okay. And you also mentioned that we have enhanced our Wall Paints capacity, so earlier it was around 24 Lakh liters, what could it stand at now?

**Apoorv Agarwal:** It has almost been 1.5 times now.

**Manan Shah:** Okay. Okay. And, on the fire. So where are we now at? Like, are we now operating new plant or, some, some time to, for that to become like operational fully and what sort of CAPEX or what sort of expense will be required to reconstruct the plant, that has been damaged by the fire.

**Apoorv Agarwal:** Yeah. So, now we have started our operations in the existing plant only in the area, which was, safe, which was actually safe and which was secured, during the, during the fire incident. So through that area, obviously we are able to produce at the moment about 7 to 10 tonnes a day and majorly thinners, which were actually moving in the market. So, we are making sure that we are not losing any current market and minimizing the opportunity loss by producing such products currently.

And the process of reconstructing the shed and coming back to the original plant is going quite fast and we are expecting to close, and complete the plant construction by December-end and with a CAPEX of approximately seven to eight crores, which will be covered a hundred percent being covered by insurance.

**Manan Shah:** Okay, but how much capital will be required to reconstruct this plant?

**Apoorv Agarwal:** Seven to eight crores.

**Moderator:** Thank you ladies and gentlemen, to ask a question, you may press star and one, the next question is from the line of Ashish Rampuria an individual investor. Please go ahead.

**Ashish Rampuria:** Yeah. Thanks for the taking my question. I think in the last call you mentioned, in terms of the margins, the high-end Italian PU business, as well as what we

manufacturer in India will have similar EBITDA margins, does that mean for the Italian business where we are importing vs. The manufacturing CAPEX, does that mean you have a lower RoCE for the Indian PU business .

**Apoorv Agarwal:** no, no. The gross margins for both the products are same. So the products that are manufactured, we are going to manufacture in India and products which we are, which we are importing from Italy the gross margins for both of them are more or less in the range of 40 to 45%. Italian is a little on the higher side, but yeah, the product which will be manufactured here, also are more or less same gross margins and will be moved in this similar distribution network.

No, I understand that margins are same, but for imported ones there

**Ashish Rampuria:** is no manufacturing CAPAEX , there's obviously some inventory that we need to keep extra, but otherwise there is no investment. Manufacturing, sort of business that we do anyway, lower, gross margin. Plus also there is an investment that you have done of 30-35 crores. So when you do an ROCE calculation, does it mean the Indian business has a lower ROCE than on the imported business?

the voice

**Apoorv Agarwal:** was echoing a little. We are not able to understand it exactly. You are saying that will there be any, you saying that, is there any impactful return on capital (ROCE) on the Italian business, against the product manufacturing in India? Or like what.

**Ashish Rampuria:** Yes. What I'm saying is see you have similar gross margins and maybe a tad higher gross margin for the Italian business right? Now, in the Italian business, there is no CAPEX involved. It's only importing and storing and selling, which needed these lower investment which means it gives a higher ROCE return on capital employed, whereas for the Indian business, along with relatively lower gross margin, there's also an investment required on the plant and machinery. So what I'm trying to understand does it by definition mean that the Indian business will have a lower return on capital employed than what the company used to have earlier, because earlier the entire business was only imported.

**Apoorv Agarwal:** No, we do not. I don't think for that, there will be a lower ROCE from the Indian made products, the reason being that, number one, with the CAPEX of 30 to almost 40-odd crores we can generate from this plant a turnover of about 180 to upto 220 crores, so we are going to manufacture a mix of products here from NC products to Melamine, PU thinner and to economical range of PU. With the average selling price at the current mix of about 160-170, odd rupees but our future motive is to promote more of the polyurethane coatings and the plant being fungible down the line. We expect that 70% of the turnover or the production coming from the plant will be PU; and NC and melamine would slowly and slowly down the line in five years, disappear from the market. So at that point of time, without the CAPEX of about 35 crores we can generate a turnover of 220 crores which it sounds a very good ROCE in terms of investment. And secondly, the distribution network, as I told you is identical, these products which are manufactured from this facility is going to

be sold through the same network, same beam. So, combining both of them, the ROCE from products manufactured in India will also be quite good.

**Ashish Rampuria:** Okay. Apoorv you also mentioned in the last call that there was some discussions, with, with the Sirca S.p.A Italy, to invest, in the Indian entity and I think that got put on hold, given COVID has that discussion move forward now.

**Apoorv Agarwal:** Yeah, it's, it's still in discussion. And

**Ashish Rampuria:** obviously it will take us some

**Apoorv Agarwal:** time to time within the same, a lot of

**Ashish Rampuria:** effect from COVID and now they have also been streamlined, they hold a minimum equity

**Apoorv Agarwal:** at the

**Ashish Rampuria:** moment. And now,

**Apoorv Agarwal:** yeah,

**Ashish Rampuria:** we are in talks

**Apoorv Agarwal:** with them to increase up to 10%. And I think, we, this can be materialized, I think by early next year that I think Q4 of FY21 they might raise the equity in our company.

**Ashish Rampuria:** Got it, my third question was on the, this, the fire thing that happened, the minimal damage, but what I saw from the press releases and even to the last document, 10-11 crore claim that we are going to put on the insurance company. Sorry, if this question has already been repeated, then sort of ignored it I'll listened to the call again, but it would be pretty nice, if you could just answer this question in terms of the damage from the fire and the insurance to this.

**Apoorv Agarwal:** Yeah. So majorly the reason of this figure, being increasing is the, the damage from the stock is minimal about a one and a half to two odd crores. That was the total damage in the terms of the product in damage. But unfortunately the raw materials in our trade are quite flammable. And these, these actually fueled the fire, which resulted in the collapse of shed. So the shed actually collapsed due to overheating and you do fire spreading till the top because of the flammable materials. and, the shed falling down after the removal of the there, there are a lot of machine parts also, which were damaged because the shed was falling on it. So they were not affected by the fire, but the shed since falling on the machines were damaging a lot of pipelines, a lot of automation work and a lot of, a lot of parts of machines, which could have been replaced by being managed, but it was better and advised by the, by the machine advisees to change the product, change the machine as a whole, which, which was better. Talking about the RCC part which was 100% saved where our finished goods, where there are the packing area which currently has been used as the production area. So slowly, from the removal of debris began the, the, the loss amount started to increase, but if we talk about overall material stock, only 2 crore loss was



expected and some part of shed, but then yeah, shed being so heavy, falling on the machine parts effected in, in the, in the replacement and some problems in the machine, which actually resulted in deciding for us to be, these machines also to be claimed.

Okay

**Ashish Rampuria:** and we believe everything is covered by insurance.

**Apoorv Agarwal:** Hundred percent. Everything is covered by insurance.

**Ashish Rampuria:** Again, when we do, we expect the claims to come back to us

**Apoorv Agarwal:** By December. So the files are almost on the final verge and we are, I mean, in a week's time, it, it will be in the insurance company and they will take 30 to 45 days to release the amount. So we're expecting, being conservative, latest by December, we will have it.

Understood. We also

**Ashish Rampuria:** sold a space in Andheri in Mumbai, so what was the reason for that?

**Sanjay Agarwal:** it's more of a office, earlier we were using it, but now it's shifted to Vasai, so we have taken a big Godown over there, so we didn't require than.

**Ashish Rampuria:** Okay, understood. Understood. And my last question, if I may, any updates on the international business. So we said we, the last one.

**Apoorv Agarwal:** Yeah, so, international business, so pre-COVID we were in discussion with a lot of people in Sri Lanka, Bangladesh. In Nepal we signed our agreement also with (inadudible) and a sample shipment has already been dispatched from, from India after the transportation facility has been opened. And, it's just a trial order which has gone so the business with Nepal has begun. the product manufactured in India has started to move the Nepal. Sri Lanka we are already in talks with, a guy in Bangladesh also, we are already in talks with a guy. We are just waiting for our facility to ramp up and COVID situation to get better so that we are able to travel there and finalize and sign off our contracts and begin the business. So we expect that, if the situation related to COVID and the travel eases up, we can have some numbers coming in Q4 of FY21 also from the export business, obviously Nepal will show but Sri Lanka & Bangladesh together can also contribute in Q4 if things go well.

**Ashish Rampuria:** Understood, and the Dubai one, the Middle East one.

**Apoorv Agarwal:** The Middle East is still an open conversation . They are demanding a lot of economical range of PU products, which is where we are strongly doing the R and D again after shifting the facility to original place. And this is the business which is already in hand. It is just that we are now completely waiting, for our facility to ramp up and, produce those products and that business, obviously we are eyeing that for sure in Q4 we'll have movements of these certain three products majorly in the Middle East.

**Ashish Rampuria:** Understood. So basically if I'm hearing you correctly, what you're saying is we are not constrained by demand, constrained by a production capacity.

**Apoorv Agarwal:** Yeah. So we are channelizing, the production capacity, initially to do the demand from the local areas and especially from the Northern part of India. And, so that, these are the areas which were actually where the product was floated once the facility started in the month of April, may and June, 2020.

And after this incident, obviously we did not want to lose the market of these products in the area where we have already launched the product. So now, in terms of the opportunity cost to minimize it, we are increasing our production every day. And, we are, full with the demand in the existing area where we have, we have already floated the product. We will move to the new market.

**Ashish Rampuria:** Understood, just one last question from my end, I understand the South is not doing that well for us. Right. That's what I remember I read from the investor release, is it, so my question was, is it commensurate with the investment we had made in terms of distribution in the South, or we have not invested so much in distribution.

**Apoorv Agarwal:** No, no. The company has started to invest in terms of distribution and also marketing in the South from January, 2020 and we saw wonderful numbers coming specially from Kerela, other parts of South in month of January, February, and mid March. And we were expecting these markets to go very strongly in the, in the first quarter of FY21. and now again, the momentum is coming. So even in the Q2, if you see the month of September and, and currently also in Q3, the numbers from South are growing we are investing. We have one of our best guys, best team players in South to the numbers are obviously increasing.

What we thought is due to the COVID the market was reacting a little slow on the high-end product in that area vis-a-vis North which was reacting to the high end product. Also very, very aggressively. So now, the things are moving well also in the South.

**Ashish Rampuria:** Got it. Got it. Thank you for answering my questions. Appreciate it.

**Moderator:** Thank you, ladies and gentlemen, to ask a question, you may press star and one, the next question is from the line of Parth Agarwal an individual investor. Please go ahead.

**Parth Agarwal:** Oh, hi. Thank you for the opportunity. So my question, I was just few questions. First question was regarding the distribution network. You seem to have, 1900 plus distribution network. Can you just share region-wise North, East West South?

So, yeah,

**Apoorv Agarwal:** there's 1600 plus dealer network, the dealers, the paint shops where we sell the products and also out of which 70% are from the North. So Delhi, Haryan, Punjab, almost 1000 plus shops where we are working with, in this area. And then East have, in last one year, half picked up in terms of retail. So. Kolkata to Siliguri, in, in fact Jharkhand and Bihar also the retail print, have increased for us in last six to eight months. And, which

contributes to almost 10% of the retail stores and other 20% comes from the Maharashtra and South, which were actually opened very early in the month of January, February, March means the Q4 of FY20.

And then the COVID, so businesses still has to be generated, or, has to be increased from this counters. And with them increasing demand after COVID, in the months of late Q2 and Q3 business from these retailers have also started to pick up. So there has not been any increase in terms of number of retailers in Q2 of current financial year. But yeah, the business on these set of retailers has started to increase now.

**Parth Agarwal:** And Revenue profiles will be on the similar lines 70% from North or it would be more?

**Apoorv Agarwal:** Yeah.

**Parth Agarwal:** It wouldn't be more than 70%?

**Apoorv Agarwal:** Sorry. Can you repeat?

**Parth Agarwal:** So Revenue contributions from North would be more than 70%, less than 70%, how would it be?

**Apoorv Agarwal:** Yeah. The revenue contribution is more or less 70% from the North.

**Parth Agarwal:** Okay. Okay. My second question was, since you recently added Wall Putty, so just wanted to understand I mean, how does it fit into the bigger picture for our company?

**Apoorv Agarwal:** See Wall Putty again, Wall Paints was a strategic decision to enter into this product range, complete the kitty of products with the final motive of increasing our footprint and increasing our sales of the luxury wood coatings, because a lot of markets were behaving in such a way that they requiring a bunch of products to, to enter the market. And we wanted Sirca to be present at each and every retail counter, a strong markets off the strong market and, and almost geographically in every region. So Wall Putty again, once we entered with the wall paints and there were a lot of projects, which were coming to us and in the project, they were like a foundation of the putty also of the same brander as wall paints. So we decided to enter also with wall putty to cater to these projects and, and the demand has been good as, as we said, in our opening statement. And, we are planning now from the North also to move to South and East with the putty production, in those areas, because of the demand of wall paints the demand of putty is there.

**Parth Agarwal:** Okay. Okay. Fair enough. And any other new category that you are planning to add in the future?

**Apoorv Agarwal:** As of now the focus of the company is totally on the, on the wood coating, plus the coatings, which we are going to manufacture from our facility.

**Parth Agarwal:** Okay. And, in terms of paints manufacturing plant that we have, what is the maximum revenue that can be generated with optimal capacity utilization?

**Apoorv Agarwal:** See at hundred percent capacity utilization it can produce almost 36 Lakh liters. Just a second. So you're talking about, the wall paint, right? Yeah. So we can generate from this, from this facility at a hundred percent utilization about a turnover of around 40 odd crores.

**Parth Agarwal:** Okay. 40 crores, I guess. And just the last two questions. So how is the demand recovery around Diwali? Just to get a feel about the demand scenario.

**Apoorv Agarwal:** The demand has been good obviously seven days before the festival and seven days after the festival, are a little on the lower side. But before that, the things were moving quite aggressively on both the wood and the wall front.

**Parth Agarwal:** Okay. And this final question. So, again, on, back on the distribution network, So since 70% is from the North. So when can we expect this to drop below 50% in terms of distribution, going forward, one year, two year, five years.

**Apoorv Agarwal:** Yeah, so down the line, I think two years, three years, obviously the contributions from the East, West and South in terms of the retail will increase and it's increasing, it's showing a positive trend, and vis-a-vis we also see an increase in sales also in the Northern part of a region. So we think that it will move to, I think 60: 40, because the sales from the North of the other product range will increase much, much faster than the South, West and East. So obviously the, the contribution of the North will be still on the higher side. Maybe, maybe the ratio can be 60, 40, but yeah overall the business from all the regions would rise.

**Parth Agarwal:** Okay. Okay. That's all from my side. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Ritesh Bharjatia from Asian Market Securities. Please go ahead.

**Ritesh Bharjatia:** Thanks for the opportunity. so, couple of questions. So first one is that from our manufacturing unit, how much Revenue we foresee in FY22? And in FY22 what can be the mix between Italian PU and local manufacturing product contribution?

**Apoorv Agarwal:** See in FY2 2 , obviously, the, the turnover from the manufacturing facility will be, will be, quite, good in number maybe, we will be operating at almost 40% of the capacity for the turnover will be, quite a sizeable number in FY22 is what we are expecting. And, putting obviously for the business would drive at a decent percentage. So, yes.

**Ritesh Bharjatia:** Okay. So about 80, 90 crores, we can expect from the manufacturing unit and about one 130-140 crores from the Italian.

**Apoorv Agarwal:** Yeah more or less.

**Ritesh Bharjatia:** Okay. secondly, also we are hearing, that government is considering to put import duty on ready-made furniture. So what's your take on that and how it will impact our business

**Apoorv Agarwal:** Sorry, the government is considering to?

**Ritesh Bharjatia:** To put import duty on ready-made for furniture.

**Apoorv Agarwal:** No, increase the duty on the furniture, right. Yeah. Yeah. So obviously the, there has been some increase in last one, one and a half year also, which has been quite positive for us in terms of the demand because the local furniture industry, rises. So the demand from the local furniture manufacturers and the demand for the local furniture made in India furniture from the architectures has actually been increased a lot in, in last few quarters. And that has actually increased our business, of paints and coatings with them. So obviously it is, it is a positive time for us in terms of the business.

**Ritesh Bharjatia:** Okay. Secondly in wall paints business, related question, what kind of channel margins are we giving for wall paints dealers?

As a company policy and as the main **Apoorv Agarwal:** strategy of the company is to give some decent and handsome margin to the retailer, to promote our wall paints, because wall paint is one area where, where the margins in some big brands are quite difficult. So, with our company policy, we are giving them a handsome margin of above 10 to 12%. Safe and secure margins to promote our product, which is giving a quite, demand of this product in, in, in our, strong markets.

So as of now.

So strongly we are moving our wall paint in Uttarakhand, Punjab and Haryana, which are the main markets we are moving strongly. And some, some retailers of Delhi and, obviously in the South part, Kerala and Bangalore has picked up. Kerala is one area where, where we have strongly, been promoting the wall paints.

**Moderator:** Okay. That's all from my side. Thank you.

The next question is from the line of the Riddhima Chandak from Roha Asset Management. Please go ahead.

**Riddhima Chandak:** Thank you for the opportunity sir. My question is on that, we were planning to supply the OEM players like Pepperfry or Urbanladder who are buying lots of locally produced polyurethane coating kind of products. So, what is the current status on that? As you already, have, send samples, to one the OEM player in the Haryana called Alder, which you stated in our last call. So what is the status?

**Apoorv Agarwal:** Yeah. So, heavily using some locally made NC products from Jodhpur are on our radar to be, do, try our locally made NC and final motive is to convert them on, on the polyurethane coatings are made in India. So it is still in the process because the products from the facility has not been a strongly launched in the Jodhpur market as of now, because we are still moving and we are still feeding our strong markets which are, like Punjab, Haryana, J&K, UP and Uttarakhand. And in that region, obviously the Alder is there where we have got the entry through this NC and melamine products and we are slowly and steadily converting them from NC & Melamine to PU.

So, as I told you, the focus of the company is to sell the quality coatings, the PU coatings, the made-in-India PU, and the luxury PU. But yeah, obviously as a entry we need these products. So these products are acting as for us as a tool to enter, and, with our, strong experience in the PU coatings. So for example Pepperfry and Urbanladder, would be more than happy to use few, but then obviously their demand has to be created because Pepperfry and Urbanladder has been so big they want their furniture to be coated and ready and pack in one day, which is a little difficult in PU. That is the only reason they had been using this economical product of NC, but with our NC, we are quite sure that we will enter and we will give them the solution of PU with right education. So it's in process. We will see a business from these big accounts once the facility also ramps up.

**Riddhima Chandak:** Okay. and in terms of export, as we already sent our product in Nepal, to one of the clients called Reliance Paints, how much revenue contribution we are looking for, in, in terms of export and yeah. What would be your longterm, outlook on this?

**Apoorv Agarwal:** Yes. A long-term obviously we, we are eyeing good businesses from all our neighboring countries like Sri Lanka, Nepal and Bangladesh, but yeah, as of now, it is quite difficult to comment on the numbers, like what we can achieve in this financial year because of the COVID situation and travel restrictions and these travel restriction is actually avoiding that for, for becoming it's a little difficult for us to start business in Bangladesh and Sri Lanka also because our product need technical, has to be tried and tested in some regions which is still a challenge, but yeah, Reliance Paints the communication started a little before COVID and those processes were completed. So it was, it was only about signing, which has been completed in last three months and a small consignments has gone. So we can expect like a little, a small business from Nepal in maybe this financial year, but yeah, in the long-term obviously the business from these neighboring countries would rise.

**Riddhima Chandak:** Okay. my next question is on the, working capital cycle. So what is, as of now inventory days, receivable and payable days, in the, in the retail retail side and OEM side.

**Apoorv Agarwal:** See retail side now with the new trade policy, our credit days are more than 45 days, to approximately 60 days, we're trying to get them by the Q4 of FY22. Approximately 45 days with the, with the new credit policy being implemented very strongly, In the OEMs. Yeah. Approximately 90 days.

**Riddhima Chandak:** Okay. And, in our Indian PU which is in the name of Unico, so, how much contribution we're expecting from this segment overall. As, it is currently in the, in the last call, we said that we are getting very good response from the retail network, which will be launched in the Haryana and Punjab in those two, three markets. So how much revenue contribution we're expecting from the segment?

**Apoorv Agarwal:** The response of the Unico products, especially the economical PU has been excellent from Haryana Punjab, and now being introduced, also in some parts of UP. Unfortunately, due to this very unfortunate event of fire the production, focus has been on the products which are already in the market for, we are not able to capitalize strongly on the, on the opportunity of being launching it into other markets because we are just in the

phase of ramping up our production by December-end. In Q4, we will see a strong contribution of Unico coming from our total sales.

**Riddhima Chandak:** Okay. Okay. And, just one last question, on, as we said that approximately 139, 140 odd crores revenue contribution, would be from Italian PU and remaining from our own manufacturing product. So, what is, long-term growth guidance, in the next two to three years? How much we are expecting from these two segments? How much growth we are expecting.

**Apoorv Agarwal:** See from the luxury wood coating from the one imported from Italy, we're expecting almost a 30%, 20% to 30%, of growth every year.

And from the, from the, Unico, the products which are made in India, especially the economical range of PU and Melamine. Once the facility ramps up, we are expecting in about FY22, this plant to operate it almost 40 to 50%. So there will be a 50% jump in the revenue from the Unico side of range.

So we are expecting a decent numbers coming from the facility in FY22.

**Riddhima Chandak:** Okay. Okay. So thank you for answering my questions.

**Moderator:** Thank you ladies and gentlemen, to ask a question, you may press star and one, the next question is from the line of Ashit Shah an individual investor. Please go ahead.

**Ashit Shah:** Hi. So a quick question, I have, now that you've actually started manufacturing, what are the EBITDA margins that you guys are getting in the India in the domestic, like the manufacturing business versus the trading business?

**Apoorv Agarwal:** EBITDA margin in the, in the manufacturing vs. trading Business are more or less the same in the range of 22-24% its more or less the same.

**Ashit Shah:** And this is both wall paints, as well as the wood coatings.

Yeah. In the both wood and wall coatings.

Okay. Got it. And, with, with you guys ramping up the facilities and maybe reaching 60, 70, 80% utilization in the next, let's say two or three years, would you expect any growth in the margin because of operating leverage?

**Apoorv Agarwal:** That's obviously down the line in two to three years with, with things going, with the facility. I mean, we utilize that obviously we will see a marginal jump in the EBITDA margins.

**Moderator:** Thank you.

Thank you. And next question is from the line of Murli Khandelwal an individual investor. Please go ahead.

Most of my questions were already answered. Only one question, we have reduced our receivable days what is the impact of it on our sales.

**Apoorv Agarwal:** can you, the voice was actually echoing for the question was not clear. Can you repeat?

See with the new credit policy being introduced the receivable days are going down and it is strong. It is slowly and steadily has been accepted in the market on the, on the, on the good front end, as i told you North has been a strong market for us and where we have a strong brand recall value. So, the demand of the product is there.

And it was a major area where we have been here for last 15 years. And during the time, because of a lot of impacts, like GST and all, the, the, the credit period moved from 30 to about 90. So it was like, the going business with the retailer with the relationship we had with them the days were going up. But now, since we are on the growing stage, (inaudible) we have, most of the retailers have been working with us for last 15 years, and they understand that how the credit period had moved from 30 to 90. And now with the new policy via, we are moving it back to 45. So most of, I think every each and every retailer is understanding the situation and that is why it is not impacting our sales.

But how is it impacting on the new areas, where you are trying to,

In the new areas obviously from day one, we are introducing this credit policy. So it is not a, not a big issue. It was majorly in the areas where we were doing big business. For example, Delhi alone was contributing about 48 odd crores where the receivable days started from that, used to be 30 days a year, in FY17, 18, 19, and has gone up, post GST, to about 90. So these areas now has been revamped, with a new credit policy. We talk about the new area, for example, if we are in entering Kerela or East, there only the new policy has been implemented from day one. So acceptance, obviously is there.

**Murli Khandelwal:** Thank you. I'm done.

**Apoorv Agarwal:** Thank you.

**Moderator:** The next question is from the line of Manan Shah from MoneyBee. Please go ahead.

**Manan Shah:** Yeah. Hi again, my question is on the gross margin. This quarter, there has been a substantial reduction in gross margin. Earlier we used to have upwards of 45%, this quarter. I believe it's come around 38%. So what has led to this substantial fall in our gross margins? And post this price hike, do you expect our gross margins to revert back to 45% plus. And a second one on the price hike have our competitors also taken a price or it is only us that we've taken.

**Apoorv Agarwal:** Yeah. So, see as we said, in our opening statement that the gross margins were nearly affected by the Euro. and, we have done the price hike, which will almost cover the loss of gross margins which were experienced in Q2.

So with the price rise. And with the price hike, with some discounts from Sirca Italy we are going to be back, at, our original gross margins percentage and, in the market. Most of our competitors now switch from, from importing it from Italy to majorly making in India. So



major of our immediate competitors initially we're importing a hundred percent wood coating from Italy, now 80% has been manufactured in India. So they have not actually increased any prices in the market as of now, because they're, they have switched the business vis-a-vis our policy where we want to maintain the pure identity of the Italian brand. So we are continuing with our Italian range, we are launching our made-in-India PU with a different brand name called Unico.

So it was us who did the price increase. But it was easily accepted, why because, our products still remain a hundred percent made in Italy vis-a-vis other products which are now coming up with the tag off, made in India.

**Manan Shah:** Okay. But I believe we were already at a premium compared to our competitors. And now with this price hike our products, would it be even more expensive?

**Apoorv Agarwal:** Not exactly. There is a marginal difference from a couple of immediate competitors. But if we talk about, one of the competitor, they did a price increase with their new brand coming up, because they wanted to position it as a Italian product.

So still one of our competitors is on the higher side of price even after the increase.

Okay. So you don't see losing out on any customers to our competitors due to the price hike?

No, no, no, not at all. Okay. Thank you.

**Moderator:** Thank you. The next question is from the line of the Ritesh Bharjatia from Asian market securities. Please go ahead.

**Ritesh Bharjatia:** Thanks again for the opportunity. just, in addition to previous question or need regarding the competition, wanted to understand your view overall industry. I think about 750 crores till last year for Italian PU, this year, how the industry size is and given 10-12% kind of growth in the next two, three years. So, I think that the industry, will be about 950-1000 Crores and our market share, I believe it was 17 to 18% till last year. What is the position right now, in this COVID environment, do you see any players who is bringing, making difficulty in.

**Apoorv Agarwal:** Yeah, so see still, at Sirca we are enjoying almost a 20% market share in the, in the Italian wood coatings. And the market, obviously as a whole is, is on an upward trend. Down the line five years, we are expecting major, major, major increase in the luxury wood coatings market. But on the contrary, there are a lot of other brands in the market and the competition who have reduced the import from Italy and trying to manufacture it in India, which is actually, on the contrary of our policy, where we are maintaining the luxury. We are maintaining the pure Italian identity side. So we see down the line in two years, three years, our share in the, in the imported PU, Italian PU will be will, will be increasing.

During this **Ritesh Bharjatia**: COVID environment. Do you find that , any player who aren't able to continue, find difficult to running operations? And so that market share, which is what will be distributed among the existing player, do you find any peers, finding difficulty?

**Apoorv Agarwal**: So, actually, there were a lot of small brands operating only in a particular state, which were, which were heard of that are finding a little difficult. But as of now, no major. no major brand has been heard of finding a lot of difficulty, and is trying to disappear from the market. And then that market can be captured by us. Not, not, not any big names, many small brands, but the market was actually very, very, very small negligible. So there was a small brand entering Delhi, like Shivam was almost disappeared, but the market was actually negligible.

So, but yeah, obviously we are capitalizing. We are actually, taking that piece of cake from the market.

**Ritesh Bharjatia**: Okay, thank you. The last one is given make it in the government is focusing a lot and we also find a, like you just mentioned a couple of the players that started manufacturing in India. Their Italian PU related product also and the government is also considering import duty on the ready-made furniture.

So in the near future or in the foreseeable future, do you think there's any possibility of imposing some duty on Italian PU also?

**Apoorv Agarwal**: See as of now, we don't see, any duty in terms of the, of the, any duty hike in terms of PU being imported from Italy, because it is actually a part of hardware and plywood , to make the furniture. So they are making, they are promoting the Indian furniture industry vis-a-vis China specially. Not only Italy so that is why, I think that, the steps has been taken by government, but yeah to make that quality furniture. Obviously it requires some, some quality of raw materials which can be hardware, which can be seen there. We don't see down the line, in the near future, any, any, any rise in, in terms of the, of the, duties on this product.

Okay. Sure. Thanks.

**Moderator**: Thank you, ladies and gentlemen, this will be the last question with this from the line of assist Ashit Shah an individual investor. Please go ahead.

**Ashit Shah**: Just to get a quick understanding of what would be your major value-wise raw materials in your manufacturing.

**Apoorv Agarwal**: Value wise in terms of a wall print, obviously it is the titanium dioxide, the white powder. And in, in the, in the, in the manufacturing facility, currently we talk about majorly, the solvent, like, and some resins like UFS, the soya. So. Yeah, these are majorly contributing currently at, at the major raw materials. So obviously in any product that we make, maybe PU or melamine, almost 50% other solvents and in thinners, a hundred percent are solvents. So currently our major buying in terms of the raw material are in the solvent and the four top solvent, which are like (inaudible) .

**Ashit Shah:** Got it. Understood. And, also, what has been your view in the last, let's say last one, one and a half months at a past of this quarter, is there, is this demand sustaining or is, was it a situation of just pent up demand in the previous quarter?

**Apoorv Agarwal:** Yeah the demand in 45 days has been on the upwards trend only, has been increasing obviously the seven days before Diwali and seven days after Diwali are little on lower side when people are into their houses and the work on site moves a little on the slower side, labour also going to their home towns, but otherwise we are, we have seen quite a good response in the market in terms of the demand for these products.

**Ashit Shah:** So my last question would be, maybe I missed it or is there any in the next, let's say three to five years other is any CAPEX plans, including the maintenance CAPEX is any expectation on how much you be spending.

**Apoorv Agarwal:** See. No, there are no plans in terms of, I mean, raising the capital because any CAPEX that need to be done, which can be done, I think to increase a couple of facilities in South, the Wall Paints and the Wood Coatings manufacturing facility in the South is on the card, but everything can be done by the cash in hand and by the internal accruals in next, in next year.

Any idea on how much the cost of this CAPEX would be, for these two facilities, which are in pipeline in the next two years, which contribute to about 10 to 12 off Crores CAPEX on the highest si.

Okay. So thank you.

**Moderator:** Thank you. As this was the last question for today, I will now like to hand the conference over to Mr. Abhishek Mehra for closing comments.

**Abhishek Mehra:** Thank your all for joining the call today. If you have any further queries, you can always email them to us at email IDs, having shared on the latest press release uploaded on the stock exchanges.

Thank you all once again for your participation.

**Moderator:** Thank you. On behalf of Sirca Paints India limited that concludes this country. Thank you for joining us. And you may now disconnect your lines.