Sirca WOOD COATINGS (ITALY)

SIRCA PAINTS INDIA LIMITED
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CIN NO : L24219DL2006PLC145092

November 21, 2024

To, The Managing Director **National Stock Exchange of India Limited** Exchange Plaza, 5th Floor, Plot No. C/1 G-Block, Bandra-Kurla Complex, Bandra (E) Mumbai – 400051 **NSE Symbol-SIRCA**	To, The General Manager **BSE Limited** Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 **BSE Scrip Code:543686**

SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL WITH INVESTOR(S)/ ANALYST(S)

Dear Sir/Ma'am,

This is to inform you that in terms of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Conference Call held on November 18, 2024, post the announcement of the financial results of the Company for the quarter and Half Year ended September 30, 2024, has been uploaded on our Company's website:
https://www.sircapaints.com/wp-content/uploads/2024/11/SircaPaints-Earnings-Nov18-2024.pdf

A copy of the transcript is also enclosed.

This is for your information and records.

Thanking you.

Yours faithfully

For Sirca Paints India Limited

HIRA KUMAR
Digitally signed by HIRA KUMAR
Date: 2024.11.21 12:53:03 +05'30'

Hira Kumar
Company Secretary & Compliance officer

Encl: As above

"Sirca Paints India Limited

Q2 FY '25 Earnings Conference Call"

November 18, 2024

MANAGEMENT: **MR. SANJAY AGARWAL – CHAIRMAN CUM MANAGING DIRECTOR – SIRCA PAINTS INDIA LIMITED**
MR. APOORV AGARWAL – JOINT MANAGING DIRECTOR – SIRCA PAINTS INDIA LIMITED
MS. SHALLU ARORA – CHIEF FINANCIAL OFFICER – SIRCA PAINTS INDIA LIMITED
MR. HIRA KUMAR – COMPANY SECRETARY AND COMPLIANCE OFFICER – SIRCA PAINTS INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Sirca Paints Q2 FY '25 Earnings Call. 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 your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Apoorv Agarwal, Joint Managing Director from Sirca Paints. Thank you, and over to you, Mr. Agarwal.

Apoorv Agarwal: Thank you so much. Good evening, everyone, and thank you for joining us today.With me on the call are our Chairmancum Managing Director; Mr. Sanjay Agarwal; our CFO, Mrs. Shallu Arora; and Mr. Hira Kumar, our Company Secretary and Compliance Officer. We appreciate your continued interest in Sirca Paints.

We have had another successful quarter marked by significant top line growth. Our revenue from operations reached INR105.5 crores, representing a 26.2% increase year-over-year and an even more impressive 34.1% growth quarter-over-quarter. This robust performance is fuelled by our strategy of focusing on high-value acrylic products, which are gaining traction in the Western and Southern region of India beside our Northern India strong hold.

This top line growth is mirrored in our total income, which stands at INR16.34 crores for the quarter. However, as many of you are aware, the paints and coatings industry is experiencing a period of challenging and exciting times, and we haven't been immune to some of the headwinds thrown by them.

Let me address these challenges head on. Firstly, we have heightened -- seen heightened competition in the general Polyurethane products segment, putting downward pressure on the pricing. This has been a factor in the year-over-year decline in our EBITDA, which sits at INR18.96 crores. Secondly, the cost of raw materials have fluctuated impacting our profitability.

This, coupled with muted demand in quarter 2 that let us increase dealer schemes have put pressure on our margins. Our EBITDA margin for Q2 FY '25 is 17.97% compared to 20%, which is our guided range. However, I want to emphasize that we are taking decisive action to address these challenges.

Effective October, we implemented our strategic commensurating price increase across our entire product portfolio. Besides this, we have escalated our raw material optimization program to gain more efficiency, thereby resulting in saving in costs, which are, in turn, impacting our EBITDA positively. These measures are already showing positive results. Our EBITDA has rebounded significantly quarter-over-quarter, demonstrating a 34.7% increase from quarter 1 of FY '25.

Similarly, our PAT and EPS have both seen healthy 30.1% growth quarter-over-quarter. We remain confident that these strategic actions will lead to improved margins in the coming quarters. While we navigate these short-term challenges, we are not losing the sight of the bigger picture.

Sirca Paints is strategically positioned to capitalize on the immense growth opportunities in the paint and coating industry, the demand of high-quality innovative products are only going to increase, and we are ready to meet that demand.

Now I would like to highlight some of our key strategic initiatives. Firstly, we are committed to further expanding our distribution network, which already have 2,476 nodes, excluding our OEM partners. We are continuously investing money in marketing and promotional activities to strengthen our brand visibility and connect with the customers.

We are also continuously and actively looking for inorganic growth opportunities as a part of our strategy through acquisitions. A key part of our strategy is to grow our OEM business. We are proud to be preferred OEM vendor for renowned industry players.

Our goal is to become a dominant source in the retail market, and we are well on our way to achieve that. We are also excited about our recent acquisition of brand Welcome products from New Wembley Product LLP. This strategic move has strengthened our product portfolio and allowed us to reach a wider customer base.

Our investment in technology is another area where we are making significant strides. We recently launched an enhanced version of our Sirca Parivaar app designed to improve customer engagement and streamline our royalty program. With over 24,750 registered contractors and 17,600 average daily product scan, the app is providing and proving to be valuable tools for building stronger relationships with our customers and influencers.

In addition, we are focusing on expanding our product portfolio to cater to a wider range of customer needs. Our recent additions include high-end wall paints and coatings, reflecting our commitment to diversification and innovation. We are also expanding our footprint beyond India, our advanced manufacturing facility in Sonipat is now also exporting products to Nepal, Bangladesh and Sri Lanka. This is just the beginning of our global expansion plan.

Before I open the floor for questions, I want to reiterate our confidence in the long-term prospects of Sirca Paints. Our commitment to delivering high-quality innovative products coupled with our strategic investments and proactive approach or to address the challenges position us for continuous growth and success.

We believe in the power of partnership and collaboration. We value the trust you have placed in us as investors and partners. We are committed to delivering strong results and creating value for all our stakeholders, including Sirca Italy.

Now I would like to open the floor to your questions. Thank you.

Moderator: The first question is from the line of Manan Poladia from MKP Securities.

Manan Poladia: Congratulations on a good set. Sir, my first question is with respect to the new acquisition that we've made Wembley. I'm assuming a part of this INR100 crores is from Wembley and some chunk must be from Oikos. If you could first call out the revenue contribution from these products separately for the current quarter.

And secondly, my other question is on margins. You also mentioned in your PPT that we are facing additional competition and some of the newer players, the nonincumbents have also entered the space as we can see. If you could just comment on whether you think that the current margins are where it's going to be now from a long-term perspective?

Or this is a slight slowdown and then you're looking to go back up to 20% or 21% margin? If you could just call that out, that would be great.

Apoorv Agarwal: Yes, thank you. So see, when we talk about our revenues, so this quarter, the revenue contribution, which was coming from the new acquisition Welcome was about INR 11 crores. So almost INR 96 crores was coming from our core PU business. Oikos is a recent launch and it's moving more or less on the same monthly average of about INR40 lakhs.

So only INR 1.2 crores was the contribution from the Oikos, which was more or less the same. So compared to last year, if we compare only the polyurethane and the Oikos sales from 83%, we grew to almost 96%, so almost aboutINR13 crores additional revenue was coming from our core business and INR11 crores was coming from the acquisition made under the brand Welcome.

Coming back to the margin thing, see quarter 2 was actually extraordinary for our industry due to this prolonged rainy season and the demand was seen to be muted, especially in the month of August and September. So the scheme outflow from the entire sector actually was on the accretive mode. So was Sirca -- so our scheme cost for the month of August and September were actually on the accretive mode.

And on the other hand, there was some temporary pressure also from -- in our key raw materials. So both the situations were actually impacting our margins about -- for about 2.5%, 3%. But as I told you, and as I mentioned in my word earlier that the -- we have taken some corrective measures related to price increase, which happened across the sector and across the competition.

So we are quite confident that in the second half, where we are expecting better demand, with this price increase and better raw material situation, we will be able to come back to our original margin set -- set of margins.

Manan Poladia: Just a follow-up on that. So you had mentioned earlier that you were going to ramp up investments into marketing and branding expenditures, if you could just call out what percent are we currently spending in marketing and branding?

Apoorv Agarwal: See currently, again, we are more or less on the same percentage that we did last year, which averages between 4% to 5% of our revenue. Though we plan to increase our marketing spend, talking more to the customers and the influencers, but seeing the quarter 2 scenario where the market condition was tough, and the demand was a little on the lower side.

Our marketing initiatives went very well, promoting the high-end acrylic products, especially in the south and the west region, where we are still on the entry mode. But on the other hand, in the northern part of India, where we wanted to go more aggressive speaking to customers, we were a little on the back side.

And we're putting more pressures on the south and the -- where we interacted more with directly with the centre. So we did a lot of architecture meets contracts meet, dealer meets, spent a lot on time to answer along with the schemes. So more or less, we are on the same percentage, 4% to 5% of the total revenue that is again going in the marketing cost, but majorly B2B.

Moderator: The next question is from the line of Neekunj Parmar from Elios Investment Advisors.

Neekunj Parmar: Firstly, very congratulations for the company for basically showing such strong results despite the muted demand and all so basically, my question was like while I was going through the quarterly report in the consolidated cash flow, there is a line item which mentioned the financial assets as such.

Basically adjustment for financial assets and it shows like INR31 crores of entry for the last quarter so what is it actually?

Apoorv Agarwal: So Shallu, would you like to answer this question related to the financial?

Shallu Arora: This is actually a combination of other noncurrent asset and the other financial assets that are current, and other current assets that are under current assets held and the investment. So we have reduced the investment so in March 2024, we had investments of approximately INR40 crores, now we had an investment of around INR6 crores because we have utilized these investments and acquisition of Welcome brand.

Neekunj Parmar: Okay. So but why is within like operating activity. So when they will go through the CFI basically?

Shallu Arora: Sorry.

Neekunj Parmar: Like why is it shown in basically the operating activity. So then they may throw through the CFI in the bandwidth?

Shallu Arora: No, no. It is under the investment side only. It is under the investments as per the Schedule II of companies act.

Neekunj Parmar: So basically, as I can see, it's in the operating CFO side, so that's my main basically concern, right?

Shallu Arora: No, no. That's totally correct. If you still have any query, you can get back to me on my email ID. I'll give you the detailed information.

Moderator: The next question s from the line of Kunal Tokas from Fair Value Capital.

Kunal Tokas: Sir, my first question was, what would your market share being the coating side in Delhi NCR? And especially, what would the market share of Asian Paints will, now that it is becoming aggressive in this segment?

Apoorv Agarwal: See, if we talk about Delhi NCR, we operate a strong market share of about 28%. And as we talked about Asian pains considering their vast distribution network and polyurethane coating becoming a mass product.If we talk about the primary sales, obviously, they have a larger market share of about 42% in Delhi NCR still, which has grown in the last couple of years. But as I told you and as we have mentioned in our last year and previous calls that Sirca operates very strongly on the secondary front.

Where the company is generating strongly the sales from the ground through contractors and architects.So practically, the company operates on the model where we are not dumping the material at the retail network but trying to create the demand strongly. So if we talk about our strategy is still more on the secondary side compared to the competition, which is more of like primary and dumping more products at the dealer end.

But yes, if we talk about straight away the market share in Delhi NCR, we are at 28% and Asian Paints would be about 40%.

Kunal Tokas: And what would -- and has this grown very strongly recently, Asian Paints market share or, say, in the last 4 to 5 years?

Apoorv Agarwal: No. In last year -- in last 6 years, they launched similar kind of product range in year 2016, late '17. And immediately after a year, they are more or less at the same market share. As I mentioned to you, the main reason is their vast distribution network and their primary billing. So that's why.

Kunal Tokas: Okay. So in the -- so they launched did in 2017 and since then, they have grown to 42%?

Apoorv Agarwal: Yes, they have been more or less a same market share since beginning. So it's not that they have grown gradually, or they are increasing their market share. Yes.

Kunal Tokas: Okay. Okay, sir. And any updates on the -- on any acquisitions that you were scouting for in South India?

Apoorv Agarwal: Yes. So still, it's taking more time than normal at the nonbinding stage. So hopefully, within this financial year, we should be out with our second -- regarding the second acquisition, which is planned to be brand from South.

Kunal Tokas: Okay. And we had been -- you also mentioned that there was some pressure on the general PU side. Is there also some pricing pressure on the acrylic PU side? And how has been the offtake of acrylic PU, the performance?

Apoorv Agarwal: So the acrylic PU products have performed excellent in the quarter 2 and a lot of quality furniture manufacturers, including the high-quality residential side being done by architects has used and moved to acrylic polyurethane products instead of polyurethane, which are in better quality. And very low on VOC. So there, the competition is still very -- at very prime at very initial level. So we are dominating the position and dominating the price with high margins.

And in the coming years, also for next couple of years, we don't see very strong competition coming in and the focus of the new entrants or the key player still remains to polyurethane, which is where the numbers are increasing, but it's becoming more as a primary and a commodity product. Though with the expertise of Sirca Italy, we are able to compete there very strongly with our world-class manufacturing facility, which is 80% automated.

And due to the muted demand or you can say, demand less than what we expecting in the quarter 2 have aggregated and triggered this increased team outflows. But fortunately and positively for the whole sector, most of the companies have already taken the price correction and the RM situation is back to normal. So we are seeing that even in the polyurethane, we will be able to recover those gross margins, and the second half can perform much better and contribute to the whole year EBITDA to come in our range.

Moderator: The next question is from the line of Samir Shah from Paras Investments.

Samir Shah: So last con call, we had guided for a minimum of 40% growth for this financial year in terms of revenue and with EBITDA margins of 22%, 23%. But it seems we are not close to that. So would you like to revise our guidance for this year? Or still we can achieve this 40% growth?

Apoorv Agarwal: See -- yes, quarter 2 including quarter 1, which was because of the extended summer and labour problem in quarter 2 because of the extended monsoons -- August and September, the demand from the real estate and the home furnishing side went really down and it was quite a muted demand in both the quarters have -- had led to a lesser percentage of growth in revenues than what we expected.

Though compared to the industry, we moved a little better, thanks to the new addition of the brand and thanks to the acrylic range of products, where we are still dominating the market with very less competition, which helped us to achieve the numbers, which are much with a quite or much better than the industry results.

But going forward, the second half, in any case, with our ground results are expected to be better in terms of the demand. The projects should open up and we are keeping our finger crossed that if the later chunk of the second half performed well. And with the better distribution network and acrylic products picking up, which are high value.

We should be able, or we should be very close to achieve the number that we quoted in our last -- in revenue calls and in last investor call. And so we are hoping, and we are quite positive that we should reach to those numbers.

Samir Shah: And the EBITDA margins of 22%, 23% for the whole year?

Apoorv Agarwal: So currently, we have taken a price hike, and which has been done across the sector. Along with that, we'll have also a better condition related to the raw material. But considering our acquisition of Welcome where the revenue, we have increased revenues at a gross margins, which are a little less than our gross margins of Sirca products. We are expecting that the EBITDA should stand -- the whole year EBITDA should stand around or between 20% to 21%.

Samir Shah: Okay. Okay. And sir, what is our EBITDA margin on Welcome brand?

Apoorv Agarwal: EBITDA here is coming out to be about 15%.

Samir Shah: Okay. Okay. And last year, I think we had done a revenue of INR50 crores for Welcome brand and somewhere we were targeting close to INR100 crores for this year. And whereas this quarter, we have done only INR11 crores. So how much -- I mean, what can we expect for this year for Welcome brand?

Apoorv Agarwal: So yes, last financial year, they did a sale of about INR48 crores, considering our full year sale -- for this year, we are eyeing, and we are eyeing a revenue close to INR60 crores. So as the markets behave quite mutedly for the mass product range, especially as seen in the results and as seen in the area of competition as well. Welcome also faced a little tough time related because of the extended monsoons.

So the range of the product under the brand Welcome is quite complement where the demand goes down during the monsoon where the mass polish and hand-polish product takes place. So that's why the Q2 where we were expecting anything about 14% to 15% went down by 30% according to our original expectation.

But with the beginning of the second half of the year, the things are turning out to be positive. And by the year-end, we should -- we plan that it should -- at a year average, it should end about INR60 crores.

Samir Shah: 60? 6,0?

Apoorv Agarwal: Yes.

Samir Shah: Okay. Okay. And sir, out of the total revenue for this quarter, how much is in exports?

Apoorv Agarwal: Currently, export is negligible. We are majorly exporting about 20 lakh a month in Nepal and a single customer in Sri Lanka. Though recently, we have exported a single container also to Russia as on the trial basis, and we are waiting from Sirca Italy and the customer. The full report as Sirca Italy quite cautious when it comes to the quality, so they want to be 100% sure with the long-term testing of the products in the other markets, which moves out to India.

So that process according to the QC structure of Sirca Italy is taking a little more time. But yes, going forward, we are expecting that our share in the export should increase also rapidly in next 1 year horizon.

Samir Shah: Yes, because I think in last call, you were too bullish on export front and 20 lakh a month is too less for you.

Apoorv Agarwal: The 20 is only Nepal. And the same, more or less 20 is happening in Sri Lanka, only 1 customer, though the bigger chunk of export that I mentioned in the last fall had to come from UAE and other nations where we are entering into through Sirca Italy, but the first container -- the sample consignments with Estonia and 1 full container to Russia happened a couple of months ago.

But yes, the real numbers are yet to come, as I told you that Sirca would take a little more time evaluating the products going out from India to their distributors in Russia, Estonia and other South Asia Pacific regions. And once they are done with the long-term testing of the product, yes, then the outflow should increase.

Samir Shah: Okay. And sir, my final question, in terms of decorative segment, how much we can expect for this year in terms of revenue?

Apoorv Agarwal: The decorative, we are not eyeing more than about INR36 crores, INR37 crores revenue. So last year was about INR25 crores, INR26 crores. This year, INR35 crores, INR36 crores. The main focus of the company remains on the wood coating product, the decorative range of products and high margin range of products from Oikos, especially Oikos are growing, but the rest of the economical decorative segment.

Which is an area which is getting very competitive, the company is using these products as the strategic catalyst and tool to enter -- or to enter the newer territories in South and to enter the newer dealer network in northern part of India and still finally our wood coating product.

Samir Shah: Okay. So what is the reason we are reducing our target for decorative segment? Because if I'm not wrong, last call, you mentioned from INR24 crores, we are eyeing around INR60 crores for this year in the Decorative segment?

Apoorv Agarwal: See, quarter -- as we have seen in the first half of the financial year, the Decorative segment, especially after the arrival of the new players, the new entrant have actually -- the market scenario has changed and in quarter 2, the -- especially the margins in the Decorative segment have seen a massive downfall of about 30% to 40% even in the products like OBD where the realization is just INR30 a kg or litre.

So considering that the company is focusing more on the higher margin of products to push Oikos and using the economical regions of decorative, which was 24 -- about 24 last year and this year, expecting to be 36, only where it requires to enter the market where you need range of wall paint to sell your wood coating products.

But considering our whole year, we are expecting a decent jump from the acrylic and ranges of products, which is moving much, much better and much -- much better in the -- in terms of number than what we expected at the initial year. So this high price war and reduced margins at the mass decorative level of the products are -- we are more keen towards using it more at tools.

Moderator: The next question is from the line of Bharat Gupta from Fair Value Capital.

Bharat Gupta: I have a couple of questions. So first, like in terms of getting out the distribution license from the parent company for the UAE market. So I hope you mentioned in the previous calls and also in your remarks part, it is taking a bit amount of time. But any timelines, which has been communicated to us? And what can be an estimated market size if I look about with respect to both Russia and with respect to UAE?

Apoorv Agarwal: So yes, sir, as I mentioned that in the beginning of the quarter to the products moved out to a couple of locations in Russia, Estonia and UAE even Russia a full container as a trial basis. So as to a certain range of countries, this was our force export, it took a little more time to get approvals as being a flammable product, which was a onetime job.

And then as per Sirca Italy norms, they would not bypass the process of long-term testing means the product being used at a different area being tested for a longer term seeing that if there is no product complaints or product issues related to cracking or drying in the longer term once the material is applied even after 6 months there is no problem.

So their tax related to the long-term QC is at least 6 months where the product is exposed to the nature to where Russia the temperature is going very down, UAE going much high. So they would do a long-term testing of at least 6 months.

So we are expecting by the year-end, we should be able to get much more clarity from Sirca about their long-term testing of the products exported from the Indian facility to their old distributors in these South Asia Pacific countries.

The revenue generation, which can happen, especially from Russia and the Asia Pacific is estimated to be about -- conservatively about EUR20 million, which was actually the sale of Sirca there about 3, 4 years ago when the market was quite aggressive buying from Europe, which lately has turned out to be difficult.

But yes, EUR20 million is at least that -- that can start from 2 to 3 nations that I'm talking about.

Bharat Gupta: So for us, it will be somewhere close to $5 million with respect to Russia?

Apoorv Agarwal: EUR20 million is -- I am talking about 3, 4 countries UAE, Estonia, Russia, where Russia plays the most important role because of the global situation. Sirca was able to sell through Belarus earlier, but now the situation is worse. So yes, EUR20 million is about $23 million.

Bharat Gupta: Right. So that will be a target market size for us with respect to start...

Apoorv Agarwal: To start -- yes. To start with.

Bharat Gupta: Okay. In regarded like what kind of capex are we planning like, I know that clarity is missing, but in terms of like what kind of capex would be required for reaching out to these kind of revenue numbers?

Apoorv Agarwal: See, currently, our facility is working at about a 60% capacity utilization once the products, which were earlier being imported now being manufactured here has ramped up and by the end of year, we are expecting it to reach about 75%.

So still in single shifts, we can use currently initially immediately the facility to cater to the export needs also. But going forward, we are a company -- once get a full nod for the export would be setting up a facility in Gujarat, Dahej with a capex of about INR20 crores to INR25-odd crores.

Bharat Gupta: Correct. So secondly, coming on the domestic space, so NCR and particularly Delhi, which has been witnessing pollution issues with Kraft being implemented. So there has been a ban on the construction activity. So in your like assessment, how do you read the second half for us? And what steps are we trying in order to diversify our reach?

Apoorv Agarwal: So yes, unfortunately, the climatic conditions have forced the government to implement, which has put a ban on the construction activity. So quarter 3, obviously, is planned to be impacted and the company is strongly working on the new OEM clientele and the clients in Western South Retail to cover up the loss of revenues, which will happen from our main region Delhi NCR, though in the beginning of the quarter, we expected the band to be for shorter duration.

But unfortunately, it's just ticked up, and we're expecting another 15, 20 days in the quarter 3 to be under the ban.But the same loss of revenue, the company is strongly trying to cover up from the newer segment of the OEM, where the work will continue to happen and from the enhanced south and west retail network. And especially, we are anticipating a much better Q4, which will -- we should cover up for the quarter 3.

So the second half in total should come back to our expectations of the percentage of the revenue growth and should also cover up for our margins.

Bharat Gupta: Because I think with respect to 40% kind of a run rent, I think it will be a steep increase. If I look at the H2 numbers, so we need to do more than INR250 crores of revenue overall. And with respect to OEMs also, the margin profile, how it varies between the B2C side versus the OEM side?

Apoorv Agarwal: See, the final margins that company gets is more or less the same from OEM and retail network. In the OEM, we have the final thought price to the customer. But through the retailer, we have prices after which we have a lot of aggressive contractors and architects and dealer schemes. So the final price or the final realization to the company contribute same margin maybe from or the retail dealer?

Bharat Gupta: And you mentioned that there has been a good amount of hikes which have been taken in the month of October. So can you just quantify a bit? And also like what kind of pricing hike has been taken by the industry overall.

Apoorv Agarwal: So if we talk about the wood coating, wood -- the wood coating side, the coating side on the decorative side, the average increase in the market has been about 5% to 7%, especially if we talk about the giant companies. Our price increase and average increase has been about 3.5%.

Bharat Gupta: Right. And that is across OEM side as well?

Apoorv Agarwal: So there has been immunity to certain key customers where we have a year deal of targets. But besides that, it has been -- that has been done for our all-customer base.

Bharat Gupta: All right. Also in regard to the working capital. So I think inventory has jumped up a bit during the quarter. I know it's been a muted one. But overall, how do you look at the working capital scenario particularly since we are manufacturing it in-house. So where do you see -- because previously with respect to the value added and with respect to PU, it was getting out imported, and there was a lot of inventory which was booked. So currently, how the scenario has changed for us?

Apoorv Agarwal: So the final -- the whole correction will take another 4 months. In another 4 months, we will be at much, much, much better -- at a much better place related to the stock position, inventory position and the local production started in late April in full swing after the final nod of Sirca Italy related to quality. And during that time, the local production also began, and we started to liquidate the rest of the inventories that we had from Italy.

So slowly and steadily, the step happened. In the beginning of Q2, our revenue projections were much higher than what happened, especially when the demand got down in August and September, but our planning related to RM and FG were a little on the higher side. So that has actually resulted in increased inventories, which shows on the paper currently.

But in the next 4 months, we will be in a much better position because against the top 10 products will be here and the whole imported stock will be out, where we will be working at a 30 days inventory. And yes, it should get better.And currently, the import side, we expected the situation to get much better, but again, due to the problem at sea level at Red Sea because of the Iran-Israel thing.

Again, the time of getting the high-value products, which we are still importing from Italy has again increased from 2 to 3 months. So another increase of 30 days. So the import products have to be kept again a little more considering this disturbance, which are not ending.So -- but besides this, considering the increased import time, but the reduction in the products that been manufactured here.

We should be at a better -- much better position in next 4 months. So 4 months, it will take to show a complete effect.

Bharat Gupta: All right. And you mentioned like overall, the sales for the wood panel has remained at near about INR90-odd crores. So -- just a bifurcation of it, how much would have come in from the acrylic in the water or little PU side? And how much would have been coming from the commodity side?

Apoorv Agarwal: So more or less INR95 crores was our core wood coatings sales. Out of it, 60% was contributed again by the primary polyurethane products, the clear and the white where we have seen mark competition among the base coats, especially the base coat, but the margin side in the colour segmented products, which are used on the wardrobe and the kitchen saw a decent margin also and also the sales number was quite high. And the rest 40% were the acrylic and water bond, which was about 25% contribution last year as we talk about in H1. This year was about 40%.

Bharat Gupta: And in terms of value, primary one. So with the entry of Birla also coming in focus, Asian Paints getting more aggressive. So have we seen any kind of erosion in our market share in this particular domain?

Apoorv Agarwal: See, in this particular domain, we have not seen a conversion of our brand happening to the new entrants or the AP. But currently, the focus of -- and the major competition remains at the decorative side, whereas our focus and our main contribution is wood coating side. So fortunately, from a year or 2 years now, we see more competition or competition getting more aggressive at the decorative level where the smaller players are facing more heat.

But when it comes to a wood coating product, which is a specialized product, where, along with PU, you have a acrylic, waterborne and a huge range of products. Still, we are much more confident and much more optimistic and positive that we should be able to secure our market share and increase with the better market conditions.

Bharat Gupta: Just a last question from my side. So when we talk about the inorganic acquisition, so will it remain towards the wood coating side, or it can be a different segment? Though in the paint industry, but it will be an extreme segment, which we are targeting.

Apoorv Agarwal: So no, it will be in the coating side. Currently, Sirca is focusing on the coatings, which is related to wood. Now, along with the wood, in the furniture industry, kitchen industry, water industry, metal is also becoming an integral part of the furniture, where the use of metals, which was confined to only the legs of chair now is increasing in the other furniture products and wardrobe and kitchen products also. So we are possibly eyeing an acquisition where the expertise -- product expertise is towards the metal side.

Bharat Gupta: All right. And any like kind of -- you can say, any kind of a budgeting which we have done with respect to the acquisitions, like how much -- what kind of capex or money flow will be spending over there?

Apoorv Agarwal: See, we are for sure eyeing some price and price effective acquisitions where we get a decent ROI. But yes, we are capping our acquisition in the range of about INR100 crores, not more than that.

Moderator: We'll take the next question from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: Just 2 questions. One was regarding the competitive landscape. You mentioned Asia Paints, can you also talk about the other players who are perhaps larger than we are? And what are their market shares? And what kind of competitive intensity you're facing, given what's going on in the decorative side?

Apoorv Agarwal: So other players currently -- our immediate competitors stand ICA Pidilite, which will be 20% more in terms of revenue. Besides these other key players, the wood coating business, especially the high-quality wood coating business is still less than us. So their interest and their focus in this area is increasing, but still we are considered to be the third largest player when it comes to the pure, high-quality wood coatings, which is the 2:1 PU.

The competitive space is getting more -- the space -- the total paint space is getting competitive day by day, but the competition is seems much more aggressive in the wall side, decorative side, though fortunately for us, the current focus is more all with the new entrant. But at the end of the day, it will happen as the polyurethane coating side also.

But fortunately for us, with the support of our parent company, Sirca Italy the company has changed gears and increased our activity and promotion of acrylic ranges of products where the average realization is double than PU.So with the half quantity, we do a double -- half quantity, we do a same revenue of polyurethane, which is gaining traction in the market -- in the high-quality market besides this.

In the PU side with the expertise of Sirca using the historical formulations being present in the wood coating and the polyurethane since 1973. We are using their expertise to manage quite effectively our COGs considering -- so that we can cater to the pricing war, it still has to happen.So we consider ourselves quite competitive to that space also maintaining our gross margins with our new Indian facility.

So when it comes to wood coating, we are 100% sure that we will be able to cater to the increasing competition, which is still more towards the decorative side where we contribute only a 3% of our total revenue. But on the wood coating side, we still believe we have a stronger opportunity to grow where we will be able to save our market share and also grow much better when the market conditions improve.

V.P. Rajesh: Understood. And my other question was, why would the parent company not directly exposed to Australia or Middle East, given the logistics costs involved. So it's like I would think that the cost will be higher from sending products from India to Estonia, for example?

Apoorv Agarwal: See, even after considering the logistics cost to Estonia, the cost of production is -- the final cost of the product is seeing a big time difference, a lot of key raw material suppliers like Covestro, BYK are now setting up the facilities and making India as a hub for Asia Pacific, where the cost of goods produced in India is seeing a very downside in Estonia is moving towards exports from Turkey or maybe other countries near UAE.

So considering the total fact, even after a higher cost of freight from India to Estonia compared to Italy to Estonia, we are finding out -- we are finally coming out to be much more competitive.

Moderator: The next question is from the line of Dishant Jain from Quasar Capital.

Dishant Jain: I just wanted to get a clarification on the capex amount. So sir, you've spent around INR22 crores in the first half of the financial year, which is more than the last year whole combined. So can you just help us in understanding where we have spent on the new plant or on new product? Can you just help us?

Apoorv Agarwal: Sorry, sorry, I skipped a couple of words. So can you repeat the question? You need the clarity on what side?

Dishant Jain: So what's -- like are we spending on -- like, are we doing the capex for the new products or for the new plants because we have spent around INR22 crores in this financial year, 6 months, which is more than what we have spent in the last full year.

Apoorv Agarwal: No, that is spent for the acquisition of the brand Welcome.

Dishant Jain: Okay.

Apoorv Agarwal: Yes. We have not done any other new capex as of now. Once after the positive note from Sirca Italy, we will be doing a new capex of about INR20-odd crores in the Gujarat to set up a new facility to produce another 16,000 tons a year, which can generate a revenue of economic polyurethane products of about INR400 crores. But besides this, we have not done any capex, except the acquisition of the brand Welcome that we did at a very attractive valuation.

Moderator: The next question is from the line of Manan Poladia from MKP Securities.

Manan Poladia: Sir, I have just one question. If within the INR96 crores, you could call out, what chunk of that is acrylic to you and what chuck of that is regular economic to you? I think that would be great. That's all I want to ask.

Apoorv Agarwal: So out of INR96 crores, the contribution from the regular polyurethane products clear and pigmented, especially where the pigmented side saw a real jump was about 60% and the 40% was coming from the acrylic range of products. Unfortunately, considering that acrylic is coming from Italy and the timeline has increased, we also saw some products getting out of stock. But yes, the current contribution percentage was about 60-40.

Manan Poladia: Okay. And could you call out the margin differential between the 2 of these?

Apoorv Agarwal: So gross margins of acrylic products. Finally, the net margins that company get is about 10% -- 10% to 12% more than polyurethane. Though in the quarter 2, the polyurethane sales much better scheme. So acrylic was running at the prices level, the polyurethane was running at a discount of about -- additional INR30, INR40 per litre. But if we talk about in the current scenario, yes, there is a better gross margin of about 10% to 12% in the acrylic product.

Moderator: The next question is from the line of Samir Shah from Paras Investments.

Samir Shah: Sir, to one of the previous participants, I think you mentioned EUR20 million is what we can do in exports in next 2, 3 years? I'm sorry, I didn't understand.

Apoorv Agarwal: Yes. To start with about EUR20 million sales is what we see at the beginning level.

Samir Shah: And what in next 2, 3 years?

Apoorv Agarwal: So if we get the nod Sirca Italy in -- yes, in less than a couple of years.

Samir Shah: Okay. Because that comes to around INR150 crores, INR160 crores. So that's a significant jump...

Apoorv Agarwal: Sirca Italy has alone for them, Russia was a market of about 9 million. UAE was a market of 6 million. Another 3 million was coming from Saudi and North GCC states like Qatar, 3 million, 4 million was coming from Estonia. So altogether, 5, 6 states were contributing about 32 million. To begin with where Sirca is not able to meet the customer demand of pricing and logistics because of the global unrest.

20 million is what we see immediate to happen, subject to approval of the products that have moved out from here, in their long-term testing.

Samir Shah: But then do we have the capacity right now to have this much of sales?

Apoorv Agarwal: AsI mentioned that our current capacity of 16,000 tons a year is running at about 50%, 55%, which is expected to be -- to reach that 70%, 75% for Indian demand usage by the end of the year in single shift, the plant still can run at 1.5 shift not more than that. And to begin with, until the new facility is completely set up, it will take about 8 to 10 months from the day we start putting up the projects.

The current facility should be able to -- able to meet the demand of the export for at least 10 months until the new facility is on its feet.

Samir Shah: Okay. And sir, almost 2 months for this quarter is already passed. And as you said, we had around 15 days of loss of revenue due to ban in North. So do you see Q3 similar to Q2? Or do we see a degrowth in Q3?

Apoorv Agarwal: See, historically, always Q3 has been a little down compared to Q2 and Q4 has been more or less the same or better than Q2. So considering the fact that we have taken certain measures where we will be able to -- we will be able to take care of the revenue loss because of the ban, which is set to happen in the next few days from the other clientele being added, especially at the OEM level and the south level. But overall, as we talk about the -- considering the historical data and how the market is, the Q3 revenues are a little lower than Q2 always.

Samir Shah: Okay. Okay. And sir, my final question. You just mentioned we can -- we have a capex of INR20 crores to INR25 crores for the new capacity. And in that, the peak revenue we can go up to INR400 crores in that capacity.

Apoorv Agarwal: Yes. With INR20 crores to INR25 crores capex, we will be generating a similar kind of the capacity, about 16,000 tons a year. And with the -- with the focus to sell only the economical ranges of polyurethane product, we should be able to generate a revenue of about INR380 crores to INR400 crores.

Moderator: The next question is from the line of Kunal Tokas from Fair Value Capital.

Kunal Tokas: Okay. I just wanted to confirm 2 things. First is what sort of products will you be exporting? I assume it is not acrylic, PU, but the normal economical PU.

Apoorv Agarwal: Yes, it will be the economical PU, which is becoming a mass commodity product.

Kunal Tokas: And so it is for this product that you will be taking up the Gujarat facility?

Apoorv Agarwal: Yes.

Kunal Tokas: And the last thing I wanted to confirm was that Sirca India has been chosen to export because no other vendors in nearby region could meet that demand. And because after all cost considerations, you were still most competitive?

Apoorv Agarwal: Yes, because considering the cost of production we have in India, considering the newer chemical players from Germany and Italy are choosing India as a hub for their manufacturing facility has initiated this path in whole Europe of making India as a hub because of the different advantages related to final reduction in the cost of production and compete with countries like Turkey and UAE, which are becoming -- or China, which are becoming very aggressive in the manufacturing. So that is why they have chosen India for their future growth.

Moderator: Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Apoorv Agarwal for closing comments. Over to you, sir.

Apoorv Agarwal: Thank you. So once again, I would like to thank you each and every one of you for joining this call today. And again, I would like to mention that we value the trust you have placed in us as investors and partners. And I would like to comment again that we are committed to deliver results going forward and create high value for all our stakeholders. So thank you.

Moderator: Thank you, members of the management. On behalf of Sirca Paints, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.