



**SHALIMAR
PAINTS**

June 07, 2022

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BSE Scrip Code: 509874

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Bandra Kurla Complex, Bandra (E),
Mumbai – 400051
NSE Symbol : SHALPAINTS

Sub: Transcript of call with investors and analysts held on May 31, 2022 at 04:00 P.M.

Dear Sir/Madam,

In continuation to our letter dated May 27, 2022 and pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of conference call held with the investors and analysts on May 31, 2022 at 04:00 p.m. on the financial results of the Company for the quarter and financial year ended March 31, 2022. The said transcript is also available on the Company's website at the link: <https://www.shalimarpaints.com/investors-relations>.

You are requested to kindly take the above information on record.

Thanking you,

Yours faithfully,

For Shalimar Paints Limited

**Shikha Rastogi
Company Secretary**



Encl.: as above



Shalimar Paints Ltd.

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“Shalimar Paints
Q4 FY2022 Earnings Conference Call”

May 31, 2022



**MANAGEMENT: MR. ASHOK KUMAR GUPTA - MANAGING DIRECTOR -
SHALIMAR PAINTS LIMITED
MR. MOHIT KUMAR DONTER - CHIEF FINANCIAL
OFFICER - SHALIMAR PAINTS LIMITED
MR. KULDEEP RAINA, DIRECTOR - SALES, MARKETING
AND STRATEGIC SOURCING - SHALIMAR PAINTS
LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2022 earnings conference call of Shalimar Paints Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Rasika Sawant from Orient Capital – Investor Relations Partner. Thank you and over to you Ms. Rasika!

Rasika Sawant: Thank you and welcome to the Q4 FY2022 earnings conference call of Shalimar Paints Limited. Today on this call we have Mr. Ashok Kumar Gupta – Managing Director along with the senior management team. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations as of today. Actual result may differ materially. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict. A detailed safe harbor statement is given on page No.2 of the company investor presentation which has been uploaded on the stock exchange and company's website as well. With this, I now handover the call to Mr. Ashok Kumar Gupta for his opening remarks. Over to you Sir!

Ashok Kumar Gupta: Good morning friends. Welcome to this conference call. As would you all have seen that our results for the quarter January-March have been much better than earlier. We have been able to show a growth in sales, particularly in the industrial segment even with the decorative segment the performance has improved in the water based category. My colleague Mohit will give you the financial results then we will open it for question and answer.

Mohit Kumar Donter: Thank very much Sir. Good evening everyone. Welcome to this conference call all the investors. I hope you are taking good care of your health and yourself. Let me brief you about the last quarter operations as well as the financials and after that me and my colleague Mr. Kuldeep and Mr. Gupta will take any questions if you have any queries on the performance of the quarter.

In the last quarter we have grown by 9% from last quarter which is December 2021 and during this quarter, the company has grown in water based segment by 18% if I talk about in last two years from March 2021. Company has also grown significantly in the industrial segment by 31% from the previous quarter and 14% from the last. Over the last few



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quarters the raw material prices have seen an increasing track which have contracted the gross margin and impacting the overall profitability of the company. During the quarter the cost of goods sold remain at 71% which is 5% lower than the last quarter and 3% from last year. So during the quarter the cost of goods sold, we tried to restrict up to some extent because of the price increase of 7% to 10% during the quarter and if I talk about the full year we have taken around 25% to 30% of the price increase.

The company has taken the price increase of 7% to 10% until the last quarter and 25% from the last year. In the quarter we have positive EBITDA of Rs.20 lakh which was a negative in the last year same quarter and a loss of Rs.12.7 Crore mainly on account of high cost of the raw materials and the increasing trend in the commodity cycle. If I talk about the full year which have closed the year 358 Crore which is a growth of 10% from the last year. The cost of goods sold which is 75% of my net receivables increased by 7% in the topline which has significantly affected my gross margin by 7%. Moreover the other cost has been sustained the other expenses are increased by 1% on account of a few debtor adjustment line item and other fund raising cost which company had incurred during the year. The EBITDA is negative 17 Crore during the year and the working capital days if I talk about 71 days which is now 64 days. The inventory as well as debtors both are the same as in the last year, however we have significantly improved in the payment cycle because now the company has gone to get the confidence of the vendors while paying them in time and clearing the old debts. So that is it from my side. Over to Mr. Gupta.

Ashok Kumar Gupta: So with this small briefing we are now open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vaibhav, an individual investor. Please go ahead.

Vaibhav: Thanks for the opportunity and good afternoon to the management. I have two specific questions on your fund raising, the first one is that for the funds that you have raised so far how does that reflect on your balance sheet right now because it seems you still have a fair amount of borrowing and you are still carrying a decent amount of cash that you have received so that is the first question if you could have answer that please. Thank you.

Mohit Kumar Donter: Thank you Vaibhav. Thank you very much. So as on 31 March, 2022 the company has a total deposits of Rs.165 Crore and if I talk about the borrowing side, the company has some long term borrowings which is in the form of term loan from IDFC we took around December last year and some CECL loan which now government supported us at the time



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of Covid so those are the loans which are reflecting in the books in the long term as well as in the short term borrowing and at the same time we reduced our cash credit limit by almost 70%-75% and utilized only 30% of that, total limit allowed. At the same time the company has the amount in asset side that we kept in FD by around 150 Crore.

Vaibhav: Understood. And Sir this money you have received the 215 Crores that is fully received on form of preferential shares, I believe the optionally convertible debentures of 55 Crores that money would have come and have the warrants that you announced in March of 2022 the 25% paid up to that extent has that money also come in Rs.38-odd Crores?

Mohit Kumar Donter: No, that money has come in April, so as of 31 March that money was not in the books.

Vaibhav: So Sir Rs.38 Crores has left?

Mohit Kumar Donter: So out of 150 Crore, 25% we have received in April that is of warrants, but preferential capital and the debenture of 55 Crore that money came in February itself so that is reflecting in my balance sheet as on 31 March, however warrant money will reflect in June financial year.

Vaibhav: Okay understood. Sir second question is the fund raising that you have done across these two rounds we remember that in the third quarter results call and this was after the initial round of fund raised from Infra.market which was the combination of equity and convertible debt that you have done, you had said that there is no further infusion which is been planned so what changed that between then and few weeks later when you have announced the second round in which both the promoter and Infra.market has invested again and most specifically what made you choose this specific structure which is through a partially paid up warrants kind of a structure?

Ashok Kumar Gupta: Mohit one second, so what happens the difference is, while the initial round of funding was primarily for the working capital purposes, the second round is basically for capital investments, so the second round is primarily with the view of increase in capacity of the company, as you know we have three plants and one plant in Howrah is closed, today the condition of the company what it is we were having plans to modernize our plants, a cost of production is slightly higher because the plants are old and they are highly manual, so to increase both the capacity as well as to automate the plant we needed this capital that is why it has been raised.



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Vaibhav: Yes, again this is my very simple and humble view point that, I do not know, this structure itself seemed very weird and probably not the right way, the way I looked at it was that this is basically you have partially paid significantly the money option to the promoter and Infra.Market and not allowed any minority holder to participate, the way I look at it is that Shalimar is right now very small so this kind of equity issuance might fly under the radar, I guess that is the main headlines talk, one of the index talk, there would have probably been a lot of questions for the management on thing such as governance as well as minority interest and possibly you would have probably seen a very significant price impact as well, but as soon as I read this news I thought there would be a lot of question and probably you will see, for some reason that did not happen, my whole sense was why this is not happened for Shalimar is purely because of the fact that the company and the stock is relatively small, so I am not sure what made you think of this structure, why you did not go for a rights issue or a plain vanilla equity issuance even if the promoter had to participate I did not see any reason why they should have been or anyone as a publicly listed company should have been incentivized disproportionately versus the minority shareholders so I think that was the point I was trying to make.

Ashok Kumar Gupta: It was the decision we have taken because the right issue and all other means of investment were all viewed and a decision was taken where it is possible that the money will be coming from, where that we were sure that the funds will be raised that was the necessity that we wanted to ensure that the funds will come through and that is how this particular instrument was looked at.

Vaibhav: Sir again I think, I do not want to hog the limelight here I will ask this later, let others ask questions as well, but this is very contrary to a view which good companies which have shown good corporate governance and you look through the last 20 to 30 year history and you know companies are either than divested future the kind of value they have associated, the companies like Wipro or even very recently the kind of the partially paid issuance that Reliance did it was done for all shareholders, this seems like instead of Rs.130 price I can pay up 25% and when we know the kind of prospects that a company like Shalimar has over the next two three years even if you use basic corporate finance principle and use the cost of equity as the benchmark the kind of severely in the money option that promoters have got it seems something which is very difficult to digest for a minority shareholder, again it is a decision which the management has to take all minority holders approve, I am sure there is a whole process that you have gone through but intuitively to a minority shareholder it does not look right, if this was a headline company doing this I am sure there would have been a lot more questions, I am just giving this as feedback to you guys.



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- Ashok Kumar Gupta:** Yes, we understood your feedback and yes, we understand what you are talking about, yes of course the decision was taken keeping in view what are the possible fall out of different options and this was considered as better way of facing it.
- Vaibhav:** Right Sir, thank you so much and all the best for the future.
- Ashok Kumar Gupta:** Thank you Vaibhav.
- Moderator:** The next question is from the line of Vishwajeet Singh Rathod with Equity Research. Please go ahead.
- Vishwajit Rathod:** Good afternoon every one. Sir I had a few questions regarding our facility. So currently we are operating three manufacturing facilities with an annual production of around 69,000 plus kilo liters I just wanted to know at the moment what is our current capacity utilization and how are we dividing this capacity utilization for decorative versus industrial paints?
- Mohit Kumar Donter:** So Vishwajit you have rightly mentioned that we have a production capacity of 69000 kl per year and as of now our Sikandrabad plant which is in fact north hub and catering to the northern and eastern market is operating at 75% of the capacity, 75% to 80% hovering around 5% plus or minus. Our Nasik plant which is catering to western market is operating at 60% to 70% of the capacity, however our Chennai plant taking care of southern market is operating at lower capacity. So in comparative if I talk about our all India capacity is being operational I would say 50% to 60%.
- Vishwajeet Rathod:** Okay so within this 50% to 60% what is the difference which we have for decorative paints versus industrial paints like in terms of kiloliters?
- Mohit Kumar Donter:** So typically all the manufacturing plants are equipped well for the production of industrial as well as the decorative paints, whereas within the segment as we have a share of 30% to 35% in the industrial segment and 65% to 70% in the decorative segment. If I compare my production capacity we can very well produce more than 50% for the industrial side because most of the machines we can shift or we can convert as per requirement. Typically there are few machines which are only for the industrial because those are solvent based, where 100% capacity is dedicated to industrial.
- Vishwajeet Rathod:** So out of the 30%-35% of the industrial paints which we are currently doing we are generating 144 Crore revenue from it, at 9700 kilo liters which we are doing in volumes, so



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our margins in the industrial paint versus the decorative paint do we have a huge difference substantial difference, or it is almost the same?

Ashok Kumar Gupta: So let me give a view of margin of the different segments, we are working on industrial segments and within decorative we are working in solvent based and water based, you know all prices have increased by more than 100% in last one and half to two years, our margin prior to that used to be almost similar in all the three segments that means industrial, decorative solvent and decorative water based. After the increase in oil prices, solvent paints have taken a big hit, while the cost of production has gone up, raw material have gone up finished prices have not increased in tandem, the increase is gradual, it is happening it is taking time, there is a lag, because of that lag margins of water based are much higher than the margins of industrial or solvent based.

Vishwajeet Rathod: Okay, so I would not take much of your time I will come back in the queue but thank you for answering all my questions.

Mohit Kumar Donter: Thank you.

Moderator: The next question is from the line of Rajesh Chawatia, an individual investor. Please go ahead.

Rajesh Chawatia: Hello thanks for the opportunity. First Sir if you could help me with the roadmap of the FY2023 and FY2024 going forward?

Ashok Kumar Gupta: So FY2023 and FY2024, as we are having two things in mind one is our capacity utilization which means basically we will be increasing our sales so our plan is to increase sales so that existing capacities can be better utilized at the same time we will be increasing our capacities as well. I cannot give you exact numbers like how much increase will happen but we are planning that our increase will be much higher than the industry average. We hope to gain market share from other players.

Rajesh Chawatia: Okay and Sir this capacity increase will be via way of fresh capex or de-bottlenecking in existing facilities?

Ashok Kumar Gupta: I think this is very relevant point you have raised, so current facilities the way they are they are pretty old, and also the capacity of each plant is in the range of around 20,000-25,000 kl per annum, now typically if you see the modern plants, most of them are having capacities



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of at least 50,000 to 100,000 kl per annum, so that way our capacities are much lower. What it linked to it leads to slightly uneconomical production cost, so we are now modernizing it de-bottlenecking it also increasing marginally our capacity so that capacity of each plant is at least 50,000 to 100,000 kl per annum with that not only the production volume can go up but more important than that our production cost can come down and so also the quality can improve. Today we are taking small batches, the quality differs from batch to batch and then because lot of work is manual the quality also at times suffers. So we are carrying out debottlenecking, we are carrying out capacity expansion and we are carrying out some kind of a brownfield expansion.

Rajesh Chawatia: Okay, thank you Sir, that is it from my side.

Moderator: The next question is from the line of Aditya Deorah with Divisha Investment. Please go ahead.

Aditya Deorah: Good afternoon Sir. Sir since we last interacted I believe we have gone in for an auditor change so Sir can you highlight what are the internal changes we have made inside the company since you have done preferential after a year than the preferential allotment?

Ashok Kumar Gupta: So the first work we had doing internally is strengthening our team. Since the company had limited funds earlier we were not going aggressive on talent acquisition but after fund acquisition the first step we are taking is talent acquisition, as you know people are the pillars of any good organization so keeping that in mind we are trying to get the best people on our team, we have taken a very senior person in sales from a different company, having a wonderful experience in paint industry so also in production. We are also focusing on IT for which we have taken a senior person from the field and we are also taking some senior people in research R&D, these four are the pillars for any organization, sales production apart from the work we have already done in supply chain, source chain, finance and HR where we already had very stable and a strong team so with this the first step we are taking is strengthening our leadership team within the organization. Apart from that we are working on system and processes, so that when the new auditor comes similar processes are robust enough to give the desired level of comfort to the new auditor. These are the two things primarily we are doing.

Aditya Deorah: Okay, Sir have we started using the infra market distribution network?



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Ashok Kumar Gupta: So Infra market has started working on their sales and they had started contributing in a limited way in our overall sales so that first step have been taken and slowly they will be a playing a very major role in our operations.

Aditya Deorah: Sir with respect to the industry, if we just go back the headlines we see that there are new players who are entering this industry so how do you see yourself, you see yourself as a challenger or an incumbent.

Ashok Kumar Gupta: So if you see the new players who are coming up primarily they are focusing on at the moment on decorative paints so we see that we have a very established brand so to that extent we are a challenger in the sense that we are already in the country, we have established presence, distribution is strong and with capital having been infused is a question of utilizing our facilities and taking the company to greater height. The new facility which are coming will have to take time to establish themselves and workout their own niche in the market so perhaps we are better placed to be present in the market than the new players.

Aditya Deorah: Sir just one last question, you mentioned about the capex that you will be incurring this year for expansion of the plant capacity, how much would be the spending on the same, this year and the next year?

Ashok Kumar Gupta: I think within next two to two and half years we will be spending around 100 to 150 Crores in capex expansion but plans are still being worked out, nothing is final as yet, perhaps by the end of this quarter we will have something more concrete plans.

Aditya Deorah: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Ninad Sabnis with Sabnis Financials. Please go ahead.

Ninad Sabnis: Good afternoon, thank you for giving me the opportunity. So I have been hearing through the call and I guess my question is also on a similar line as the person who asked before me, everybody is excited about the up liftment in business which can be brought by Infra market and I just wanted to know how can we leverage this further to enhance our supply chains, because we have a decade or almost a century old presence in the country, which are some specifics would you be approaching in the say first half of the next year?



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Ashok Kumar Gupta: See you rightly said, our biggest strength is the products we have or products being suitable for their applications and most importantly the faith and trust, and the second strength we have is our team so first step we are taking is utilizing that trust, improving ourselves so that the trust and the strength of brand which we have can be utilized so our first function is increasing our distribution, increasing our customer base. Products are already developed to a large extent and with the fund being now available it is possible to expand our customer base. So in the first two months we received funds somewhere in last week of February, we have been able to increase our customer base to some degree, this process has strengthened up now in speed and we hope to double our customer base in may be next couple of years. So that is our first attempt. Current product line plus our brand leading to increase in customer base which will obviously increase revenue. Our second strategy would be working out and wherever the gaps in our product line with the help of R&D we will be filling those gaps in fact we are hoping to give a big boost to the current range of products we have. So far as decorative is concerned we already have around 70% to 80% of the product which are required in the market, balance will be developed in due course, on the industrial front as you know we have a very good name and very good approval rating there we will be increasing our product to a large extent so that we can cover almost the entire industrial protective coating market.

Ninad Sabnis: So if I may ask a follow up on that, looking at our growth how much will it be driven by value and how much we anticipating or we targeted for FY2023?

Ashok Kumar Gupta: We are working on much higher than the industrial growth, so if the industry grows say by around 12%-13% we are planning to increase more than double of that industry growth.

Ninad Sabnis: Correct Sir, but majority of the volumes would be I am assuming more from the industrial side and followed by the decorative?

Ashok Kumar Gupta: Yes, the growth may be faster than earlier in industrial as compared to decorative.

Ninad Sabnis: So I just wanted to understand the mix, alright so this pretty much answers my question. Thank you so much for your time and best of luck for FY2023.

Moderator: Thank you. The next question is from the line of Vaibhav an Individual investor. Please go ahead.



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Vaibhav: So thank you for the opportunity again. So Mr. Gupta I have a question specifically for you, you surely have done a great job when specially you contextualize what Shalimar has been able to achieve through the pandemic situation, we are now at a steady state base of at least 400 Crores of annualized revenue. We are also hearing a lot of news of Infra.market getting very aggressive in expanding its footprint and there has also been a lot of news and you also talked about in plenty of new appointments at Shalimar. Now you have already mentioned that targeting, say a doubling of growth versus industry benchmark but probably if you could throw more color on how this revenue trajectory would play out say over the next three years especially against the context that you know when you took over you had outlined a goalpost of reaching about a Rs.1000 Crores of revenues, how does that target get bolstered either in terms of the target getting higher or the timeline is getting significantly shorter with all the positive developments that have been happening around Shalimar and Infra, that is the first question? Thank you.

Ashok Kumar Gupta: I think you very rightly said that we had planned for a significant growth couple of years back now there were two challenges we have faced. All along we faced the problem of insufficient funds and as I mentioned earlier also the issue was having funds even to supply current customers and the second was Covid. Now if you see Covid impacted all the industry and within the industry all the players. We were slightly more affected because our cash flows totally got jammed. This infusion has opened up those avenues and now I think we are well on way of achieving the 1000 Crore target, we cannot say the number of time period we will take, but now with the kind of results we have seen in last three months, the base figure which have come in three months, we see that our objective our mission our dream of crossing 1000 Crore is looking within reasonable period within reach and that is why I mentioned that we are planning that even if the industry grows by around 10%-12% year on year we should be growing at least double that pace so with that you can understand that we plan to cross 1000 in next two-three years, three-four years at the most.

Vaibhav: Okay Sir, that is great to hear and there is obviously going to be a contribution incrementally on revenues through Infra.Market, so how should we look at margins of product which you will sell through your conventional channels versus that through Infra.Market and there have been, I think there were some questions in the previous few quarters about possibly a private label or manufacturing contract that Infra.Market might have with Shalimar where Shalimar could do the manufacturing and Infra would sell it so if that were to happen, so one is that you know something which we are still working towards and if that were to happen what would margin look like?



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Ashok Kumar Gupta: So, you know so far as Infra. Market is concerned they are like any other channel we have for our distribution so the margins by far are same as for other channels whether it is industrial or for decorative. So far as now producing for them currently we have plans only to sell all our products in the Shalimar brand name because that brand name is established and we want to use it. So there are no plans to the contrary at this moment.

Vaibhav: Okay, so if I just squeeze in one more on, so at a target of 1000 Crores of revenues that we are targeting is it reasonable to expect that margin should be in low to mid teens or do you see any margin pressures or possible the margin tailwind with that level of revenues?

Ashok Kumar Gupta: So if you see, currently our raw material account for around 70%-71% - 72% of the revenue. Going forward this should come down and not go up, the reason being that oil price has increased whatever has happened is ultimately being passed on to the consumers and if we have to increase our revenue we should not be looking at a significant dilution of the margin, so the margin may be in the range of 70% to 72% I am talking about the cost of goods, may be in that range which has been there for last one year, we do not intend to increase this significantly or reduce our gross margin from 28%-29% to a lower figure to increase our revenue. Revenue increase should take place by protecting this margins.

Vaibhav: Understood but at the EBITDA level, so your selling, employee and other expenses there you do not see either a margin leverage or even a pressure going forward?

Ashok Kumar Gupta: At EBITDA level this will further improve, because our fixed cost are not going to increase, fixed cost are sufficient to take us to the 1000 Crore level, so I expect that the EBITDA level margin will significantly increase as and when the revenue goes up.

Vaibhav: Understood and I am sure that you do not want to guide us toward any particular number at this stage.

Ashok Kumar Gupta: We are hoping for the good numbers.

Vaibhav: Sure Sir, we are hoping for that too. Thank you so much and all the best.

Ashok Kumar Gupta: Thank you.

Moderator: In the interest of time that was the last question. I now hand the conference over to Mr. Ashok Kumar Gupta for closing comments.



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Ashok Kumar Gupta: Thank you my friends. I understand my friends and colleagues in the industry of and their expectation as to the operation of the company and the results. I just want to assure you that the funds having come in the last month of the last quarter, things are changing fast and you will see a good improvement in next quarter itself. I know our shareholders have kept patience for a long time. I believe and I can assure you that the time for results have come now and you should be seeing some positivity from this quarter itself. With this, thank you for your participation.

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