



SHALIMAR
PAINTS

August 23, 2022

BSE Limited
Corporate Relationship Department,
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Fort, Mumbai - 400 001
BSE Scrip Code: 509874

National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block
Bandra Kurla Complex, Bandra (E),
Mumbai – 400051
NSE Symbol : SHALPAINTS

Sub: Transcript of call with investors and analysts held on August 17, 2022 at 04:00 P.M.

Dear Sir/Madam,

In continuation to our letter dated August 13, 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 August 17, 2022 at 04:00 p.m. on the financial results of the Company for the quarter ended June 30, 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



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“Shalimar Paints Limited Q1 FY-23 Earnings Conference Call”

August 17, 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**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 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 “*” 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 ma’am.

Rasika Sawant: Thank you and welcome to the Q1 FY23 Earning 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 beliefs, opinions and expectations as of today, actual results may differ materially. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. A detailed Safe Harbor statement is given on page number #2 of company’s investor presentation, which has been uploaded on the stock exchange and company’s website. With this, I hand over the call to Mr. Ashok Kumar Gupta for his opening remark. Over to you sir.

Ashok Kumar Gupta: Good afternoon, everyone. Ladies and gentlemen, it’s our pleasure to welcome you to this conference call for Q1 of FY23. With me in this call Mr. Mohit who is our CFO and Mr. Kuldeep who is our Sales and Marketing Head. We are happy to inform you that there has been growth. My colleague Mohit will give you some of the financial highlights for this quarter.

Mohit Kumar Donter: Hi, everyone. Thank you, sir. Thank you very much. Good evening dear all welcome to the call for quarter ending June 22. Thank you for taking out the time to attend this call. I’m happy to share that your company has been progressing and moving in the right direction. During the last quarter, we have reported a revenue of 110 crore with a growth of 4% from the previous quarter, which is Q4 of financial year 22 and 69% from year-on-year Q1 previous year.

Since Q1 was the largest month, and with the higher sales numbers previous quarter was in fact more than that number. So we are moving in the right direction with the right track record. It’s a remarkable journey so far for us. So, this is the highest sales of the Q1 in last seven to eight years. If I compare year-on-year Q1 independently it is a higher sale in the last seven to eight years. During the quarter company has grown in decorative segment by 22% from the previous quarter and 15% in water based segment of the product from the previous year, same quarter. Over the last few quarters there has been raw material price increase that has been continuously increasing which has contracted the gross profit and impacting the overall profitability of the company. We have reported EBITDA of minus 3.4 crore against 8.9 crore of the last year Q1.

Loss before tax is Rs.9.53 crore. And this is an improvement from Rs.3 crore from the previous quarter and Rs.10 crore from that last year same quarter. So raw material cost is around 73% of the revenue this year. So gross profit is 27.1%. So I’m handing over the call to Mr. Raina, who is our Director Sales for more briefing about market updates.

Kuldeep Raina: Okay, great. Thanks Mohit. So, as Mohit said that this has been a good quarter for us, maybe this was the first quarter in the last six, eight quarters where we have gained the market share and by now, almost all the paint companies have announced their results. So it is a 0.4% market share gain in our case and this has been attributed by certain things which have been done in the Q1 in terms of distribution expansion, emulsion sales going by our targets. We are still kind of looking at a growth in emulsion targets, emulsion saliency in our portfolio, which we are working upon and definitely it's going to give us results in times to come also. And also with the new products which were launched in the last 8-9 months that has given us an incremental sale in terms of top line increase, and which has also helped us better bottom line. And I'm sure that in times to come, it's going to be even more better as compared to where we stand today.

Ashok Kumar Gupta: Thank you Kuldeep. So, as my colleagues Mohit and Kuldeep said, this is the performance for this quarter. Now, we would like to invite your questions please.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So, I just wanted to inquire a point, when do we see our path back to profitability, in terms of operating profit, as well as total bottom line what's the vision for the next two, three years, when do we think we'll be able to break even?

Ashok Kumar Gupta: So, if you see we are having an EBITDA loss at this moment. Even though revenue has grown, revenue has grown significantly, there's still some EBITDA loss. Now that EBITDA loss. So if you see the EBITDA rate is around 1.8 crores minus for the quarter, which constitutes around a 1.5%. Why this EBITDA loss has taken place, after the war in Russia and Ukraine, there has been a steep rise in oil prices, oil prices of January versus May if we see there has been 30%-35% increase which affects significant number of raw materials. Fortunately, there is a decline in oil prices now. And along with the increase in the oil prices, there was disruption in many of the minerals or in raw material and those raw materials obviously went on and prices went on. So, this 1.5%, 2% or even 3% is a result of increase in the raw material cost as the raw material prices are easing we should be back in profit so it could be Q3, it could be Q4 but very shortly, within this year we see an EBITDA positive result coming up.

Darshil Jhaveri: Okay Sir and what kind of revenue would we be targeting for the full year sir?

Ashok Kumar Gupta: So, we are looking at a growth. So if you see typically our sale, if you see last year it was around Rs.90-92 crores per quarter. If you take an average number and at first quarter we see a growth of around 20% over that average. So, if we start first quarter with 20% growth, then we will obviously look at a growth more than 20% in balance part of the quarter from that average. So, our aim will be that whatever growth we have achieved in the first quarter, we should not be lower than that we should be more than that. So, if Rs.90 crore per quarter was our result last year, our balance quarter should be more than our first quarter. So it goes with obviously whatever we have achieved in the first quarter which is 21%.

Darshil Jhaveri: Sorry, sir you mean growth because last year quarter one we had revenue around **Rs.65** crore, because it was a COVID quarter so sorry, you are comparing it with which quarter sir sorry?

Ashok Kumar Gupta: So last year as a whole if you see we are close to 368 crores. So my average per quarter is I'm kind of discounting first quarter as you said its COVID. I'm taking an average of last even if I take seven, eight quarters average has been around 90, 92 crores. So, I'm talking about an average figure if I even see on an two year, three yearly basis, then I'm having a growth of 20%, 21% over that quarterly growth. This year my growth has to be much more than that.

Darshil Jhaveri: Okay, understood sir. And sir what kind of capacity utilization levels currently?

Ashok Kumar Gupta: The capacity utilization is pretty low it's only around 45% or 50%, it's not even that. We have significant room to grow. Our basic constraint today is sales. So, we have been trying to push up sales as you know it's a consumer product. In any consumer product, increasing sales is a tough task. We have a good team, our colleague, Mr. Kuldeep Raina has joined us only few months back and within this few months, he has shown this kind of growth, I'm sure going forward as it becomes more tuned to and more experienced, he will be able to show a better growth. So with this, our capacity utilization should also improve, we have enough room in our production facilities to increase production.

Darshil Jhaveri: Okay. And can I ask few more questions or do I get back in line?

Ashok Kumar Gupta: Your choice you can ask any time.

Darshil Jhaveri: So, I just wanted to know what kind of seasonality do we see in our business, I am assuming Q1 and Q4 will be the best right?

Ashok Kumar Gupta: So typically, my colleague Kuldeep will like to answer this question.

Kuldeep Raina: So, if we talk about the seasonality part, if we look at the second quarter is considered to be a better quarter. See, essentially the season starts 55 days before Diwali. So in terms of the consumption patterns going up, so, if we look at between the quarters, so second quarter, would be considered as a better quarter in terms of the consumption is going up. And channel filling starts from say July in terms of the basic products get channel filled during July period, and which, as I mentioned 55 days before Diwali the consumption starts, 45 days before Diwali, it peaks and 55 days before the movement in the market in terms of channel filling and availability starts.

Moderator: Thank you. The next question is from the line of Manan Patel from Airawath Capital. Please go ahead.

Manan Patel: Sir, first question is regarding our ability to pass on the prices, while we understand other players have taken price hike, so I would like to understand how are we doing on that front?

Ashok Kumar Gupta: So, you know our market share in the paint industry is hardly 1%, not even 1%. So, the market leader whose market share is much more for 40%, 50%, 60% we are always in line with them. So if they increase the prices in 1st of any month, let say 1st of July, we will increase from 1st of July. So our ability is limited to the extent of these market leaders increase the prices. We are not in a position today to increase prices beyond what, having said that many times we do operate in the market at marginally higher prices but that has more exception than rule. So typically we have to follow whatever the price is being given by the large leaders.

Manan Patel: Sir it's good to hear that we are able to take the kind of price hike that they take and still increase the market share. Sir, second question is, you mentioned the RM cost so there was a disruption in compliance, price hikes and all those things. So how do we see our RM cost grow from around 72% level to the market average over a period of time. So how long does it take, or what levels of revenue do you see that happening. In general our RM price is much higher than the competition right?

Ashok Kumar Gupta: You are right, actually there are too many reasons for being higher. But see, this 72 seems to be more of an aberration because of the increased oil prices. And as you know oil price slightly easing, today it is around \$90, \$95 per barrel. So with that kind of a background, I see that this extreme position will not be there. I see our RM PM going forward should be closer to 70%. That's what we're aiming for. And once that happens, then the whole economics whole mathematics will change. So, at the first level we are looking at decreasing this RM PM from 73% to 70%.

Manan Patel: Okay. And that should happen with this lower prices?

Ashok Kumar Gupta: Yes, it should happen, but already as I mentioned to you oil has come down, it has started affecting resins another solvents. Even though the impact is limited, as you know there will always a lag, but the decline has started. So, today my prices of raw material as compared to my prices in the month of May June are around 1%, 1.5% lower. So, if this trend continues, even for two more months, I'm there at 70%.

Manan Patel: Sir, the next question is related to the second round of funding that we did. So, we mentioned in the last call that we wanted to improve capacity and technology up gradation. So, where in that journey are we?

Ashok Kumar Gupta: We are planning for it, we already kind of said we have a new team leader in terms of the Head of the Manufacturing Mr. Rakesh Gupta, he has just joined us some two months back or three months back maybe and he is working on technological up gradation and modernization. So, he is formulating the plants, he is visiting the plants, he is seeing better on efficiencies, and then perhaps my next call, we would have a fund plan in hand. And if everything goes well, we should be able to give you the details of how much we are going to invest, where we are going to invest, which plant, what will we maintain, what capacity increase will happen, all the details will be with you by next call. So, we are hoping that within two, two and a half months, we will freeze

up everything. He has done already a good amount of work in that direction. But at this moment, he has not been able to firm up everything because he has joined couple of months back only. The next call, we should have all the details frozen up.

Manan Patel: Sure, sir that would be very helpful and sir last question is regarding our partnership, so have we started selling through them or how is the scale up going on in that?

Ashok Kumar Gupta: So, our partnership is progressing very, very well, strengthening day to day. So there are two kind of relationship we are having at this moment. One is in marketing of paints, so they already have a very good infrastructure, both by way of entry into project also by way of retail sale. So they have already started working on the retail part of it, and their sales have started. And though it's a beginning, there are paint people so they are kind of many, many things they do but paint is one of those, so they started paint with us only. So beginning has been good in paints. In addition to paint, we are also coming up in a small way in construction chemical, which is again a part of paint only. But till now construction chemicals were not being sold by us. And there again, we are also a kind of a user and a reseller of construction chemicals. And there also their sales have started. So in both the areas of construction chemical as well as paint sales through our partners have started.

Manan Patel: Okay. And sir by what time do we see a significant scale up that it will start showing up on the top line?

Ashok Kumar Gupta: Typically it takes around 11, 12 months for a person to really pick up pace, it has only been two, three months since they started. And already they have done, they have done a very big job, but some significant numbers have come. So far as balance sheet impact is concerned. I think between 11 to 12 months we should have a very good figure from their side, we expect a good figure from their side.

Moderator: Thank you. The next question is from the line of Fedora Fernandes from Amplify. Please go ahead.

Fedora Fernandes: I have two questions. The first one is, does the company have a marketing strategy or any advertisement strategy in place. Like any ad spend that the company is planning to go ahead with and my second question is, with the crude oil prices cooling off, how are we seeing that this fall can impact our bottom line?

Ashok Kumar Gupta: So, ma'am your first question our Marketing Director, Mr. Kuldeep will like to answer.

Kuldeep Raina: Sure. Thanks, ma'am. So, as far as marketing is concerned, two things we want to fix first, we want to expand our distribution because our market reach is very low. And we want to substantially increase our market reach first, to be supported with all these marketing initiatives. To start off with, as you know that paint industry is highly dependent on painter and dealer activation. So what we are going to do is, we are doing a lot of activities on the ground, below

the line activities and once our sizable reach is there, when we have a better market penetration, we are going to support it with other initiatives on the marketing front. As of now we'll be very aggressively going on the BTL activities, which is our plan for the next three, four months time.

Fedora Fernandes: Okay, sir.

Ashok Kumar Gupta: So marketing, as he said, focusing on BTL, focusing on painter, so, we are only trying to kind of handle printers at this moment through BTL activity and to some extent dealer. So, far as oil prices are concerned, see if the input an input cost increase has to be passed on to the consumer ultimately, in many industries consumer industry it has to happen that this cost is not passed on immediately, it takes some time. Fortunately, for us the prices have started coming down. So cost impact will be less. But yes, till the time cost increase is still there, input cost increase is there and it is not constant by the leader, we will have a impact. That impact at this moment is around 6%, 7% going forward, I hope it will be reduced to 5% or so.

Moderator: Thank you. The next question is from the line of Navin Ketan from Sabnis Financial Services. Please go ahead.

Navin Ketan: Sir, I had a few questions. Firstly, I wanted to start with the decorative versus industrial paints. Sir in this when we're seeing the realization like how we have performed over the last one year, we have grown substantially in the decorative segment by 35% in volume and our revenues have increased by 100% over here and with comparison to that in the industrial segment, our revenues have just increased 30%, even 23%, 24% increase in volume. So, I just wanted to understand are we going progressing further towards the decorative paint segment and reducing industrial, for what is the way forward for FY23?

Ashok Kumar Gupta: So, what happens is, that if you see historically we have been around 30%, 35%, 37% in industrial and 65% plus minus 2%, 3% in decorative. Our ratio has been always maintained last year first quarter was slightly aberration because last year while in the COVID period industrial will be working. The general retail market was not working. So, if I see it from the whole year point of view not from first quarter, whole year point of view the ratio of industrial to decorative is almost same. The decorative is typically double of industrial, that ratio is almost maintained. We have no inclination to either increase decorative or industrial substantially more than the other. We will try to maintain the ratio in years to come as well.

Navin Ketan: Okay. So, we are saying that Q1 FY22 was a lower base that's why it is looking like a jump right now?

Ashok Kumar Gupta: Yes.

Navin Ketan: Okay and realization wise, is there any increase in the realization and decorative or industrial either or?

Ashok Kumar Gupta: So, realization wise there is a small difference. So, while decorative realization goes in tandem with a market price being announced by the large two players. So far as industrial is concerned, it is a matter of individual consumer to consumer negotiation. And as you know in any industry the consumers take time to absorb any cost increase. So here also our margins have not been as good in the industrial segment because consumers are taking their own time to accept the price increases. So our margins on industrial are slightly affected as compared to decorative. In fact, both are affected but industrial cycle is likely more affected. Going forward as oil prices ease. We again feel that they will come back to the previous level. Even if they come back to previous levels on a whole, our decorative margin will be better than the industrial till the time we really go to a very high end industrial which will take some time.

Navin Ketan: Could you highlight the percentage wise like what would be?

Ashok Kumar Gupta: So, if I see typically margins in industrial will be lower than decorative by 4% to 5%. And this will continue till we go into the very high end of the industrial, we are working on it our strategy is that today as Shalimar has been able to grasp whatever share we have in industrial by selling low end products or common products except couple of areas like we have got in steel pipes, we have got certain good products, in packaging we have got certain good products but on the whole it's more of a vanilla products. Now going forward our strategy is to go for a higher end products. Like the higher brand product means in pipeline, we go for something like a gas flow floating which gives you higher margins, it's a difficult product. Similarly, in every industry, every segment will try to go in for a higher margin product. Once we do that, then the margin in industrial will largely improve and maybe equivalent to the decorative.

Navin Ketan: So sir when we're saying that we're going to meet these higher end products, are we looking at do we already have a client base which we have shortlisted or do we have any visibility of that?

Ashok Kumar Gupta: Actually, the good part is, clients are almost same so for example, pipe manufacturer, he is using our products today, he also need high end products, it's only the time to develop it, do an R&D, do a trial, get approval, get a certification and then start. So it's more of a my challenge, my internal challenge, my internal R&D and product development challenge rather than getting customers per se, customer also have to go get new customers, but many of my existing customers are also requiring high end products.

Navin Ketan: Okay. Last one thing, you had mentioned in a previous call about a CAPEX plan of approximately like about 100 to 150 crores, just wanted to know if we have figured out anything concrete what to do with it?

Ashok Kumar Gupta: Actually, we are in the midst of that, we are almost reaching that figure. But as I mentioned few minutes back, so what has happened is that this detail need certain detailing, when I say detailing means what facility will come where, where's the space available, who's the vendor, so, those detailing is going on, it may take me another two months to detail all that. So, by the time we have our next call in next quarter, all the details will be over and we will in a position to say that

this is the exact amount we were spending on this facility this location and this is the kind of capacity we will add or this is the kind of, because we are not only adding capacity, we are spending more on material handling, we are spending more on infrastructure, we are still spending slightly more amount on automation. So these are the things we will be doing which will ultimately improve my profitability.

Navin Ketan: And what are we looking at the asset on from this?

Ashok Kumar Gupta: That will be pretty good. My asset turnover will be because my, see they are all brownfield as you know it's not a rocket science any brownfield expansion has a better asset turnover ratio.

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

Aditya Deorah: I'll be digging in more from the question of the previous participant regarding the CAPEX part. So, sir last quarter you had mentioned that you will be using some portion of the funds that has been raised for improving the efficiency of the plant. Can you just quantify it, how much would we be spending if you have made any concrete plans by now?

Ashok Kumar Gupta: Yes, so let me slightly elaborate on the subject. What do you mean by the efficiency of the plant. Currently the way our plants were set up, their entire handling is manual. So you will have a bag of raw materials coming up and then you took charging it in the equipment and then you will be packing the goods again mostly manually. Now, typically today most paint plants have automatized this process that means instead of charging manually we have a hopper where we put all the raw materials together and then it is picked up automatically by the system and the packing is done using automatic machines and then this packings are kind of sent to the warehouses through rollers. So this is kind of automation, which is already there in most plant, but we didn't have it. Whatever CAPEX we will do, around 50% will go only for this kind of activity, so that our plant become as efficient as anybody else, this both increases the capacity, increases output, it also helps in improving the economics for the plant. It reduces the labor cost, it reduces other charges, it also reduces the wastages. So we are planning in such a fashion that our efficiency of the plant is closer to what other players in the industry are doing.

Aditya Deorah: So, sir at some point of time would our EBITDA margins would also be similar to other industry players?

Ashok Kumar Gupta: That's a slightly long time, because other industry players have been doing a lot of advertisements, a lot of branding activities. And that's why they have been able to reach this kind of number. But we have not yet started on that journey. Once we start, it may be a couple of years. But yes, once we do that, maybe a couple of years from now our EBITDA margins should be almost at level with the industry margin.

- Aditya Deorah:** Okay. And sir, how much time would we take to complete this CAPEX for improving the efficiency of the plant?
- Ashok Kumar Gupta:** We expect not more than one and a half to two years entire process A to Z.
- Aditya Deorah:** Okay, around 24 months. And maybe by that time itself we might be also targeting to be PAT positive at the company level?
- Ashok Kumar Gupta:** Definitely, we can't afford not to be.
- Aditya Deorah:** Or maybe before that.
- Ashok Kumar Gupta:** Of course, it has to be before that. We can't afford to be like this anymore, not even another quarter, we have to be right from beginning start doing it.
- Aditya Deorah:** sir, in the last concall you had mentioned about certain hires you had made for certain verticals in the company. So, what is the feedback like from here on what are we getting apart from maybe the CAPEX part of it and the hiring, what other efforts are we making to improve the efficiency inside the company?
- Ashok Kumar Gupta:** So, it's a pretty broad things and will be one by one, so one is CAPEX, the CAPEX is basically for updation of the equipment, modernization, ensuring that the plants are efficient, output is of good quality, acceptable quality. The second big chunk is supply chain, now supply chain plays a very important role, once produced it, it should reach the customer in that fashion, it is produced without alteration, and in time. So we are doing a lot of automation on the supply chain, whereby we are increasing our warehouses, modernizing our warehouses, automating the whole process of warehousing management, the third is our IT structure. So, today we are IT was pretty old, so whether your SAP system or we had our marketing system, we are making lot of changes in our IT. So, IT is going to be one of the big pillars of our growth. So apart from this, another big area we are working at is sourcing angle, we are trying to go to the original manufacturer rather than buying from the intermediary. And here again, automation is going to play a big role. So, these are three, four areas we're focusing #A our CAPEX, modernization of manufacturing facility, supply chain, and first of all operations are concerned, then we will, and of course HR, manpower and R&D. Manpower R&D are going to be our pillars for future growth. We are expanding our R&D in a significant way at our present facility in Nashik. And we already got a good team in R&D, and we're going to further expand it. And as I mentioned to you last time, we have already got a very good team in practically all the function and in the days to come. This team is almost complete now and in days to come this team will also start firing. So with this team firing, with the focus on R&D, and manufacturing and supply chain and IT, I am sure things will turn around very fast.

Aditya Deorah: We are more present in maybe Tire II, Tier III cities. So, I have this question like are we seeing any slowdown, maybe in this quarter 45 days have gone by for this quarter so are we seeing any slowdown for this quarter?

Ashok Kumar Gupta: My colleague Kuldeep is closer to the Tier II, Tier III cities. So he will.

Kuldeep Raina: Sure. So, thanks. If we look at in the quarter one, the growth rates as compared to the last year quarters has been equal it has not kind of come down so to say. In fact, if we look at Tier II towns the consumption patterns towards the premium emulsion has gone up and relatively our presence is better in Tier II, Tier III cities. Which is going to help us in long run, in terms of because there's a lot of conversion from traditional paints, and from distempers to emulsions. And since our focus, as I mentioned is only emulsions so probably it's going to help us in times to come.

Aditya Deorah: So, sir my question is, are we seeing any slowdown in this quarter?

Ashok Kumar Gupta: No as of now no.

Moderator: Thank you. The next question is from the line of Amit, Individual Investor. Please go ahead.

Amit: A couple of years back in the concall we used to talk about an aspiration number of 1000 crores in three to four years, of course COVID came and things are not seen. But, I understand that, but we stand in that goalpost of ours, that's my first question. And my second question is trying to understand a little bit about this gross margin. Now, if you take say top two players in the industries and see the differential gross margin, how much of that comes because of the pricing gap between our products and that as well as the product mix. And the economy of scale, which might be the procurement price related, these are the two questions I had. And the third question is regarding the strategic partners, when do you think we will actually be able to work there completely in terms of leveraging not only in the in-house distribution reach, but also their understanding of the B2B and B2C market. These are three questions I had.

Ashok Kumar Gupta: Fine, thanks a lot. Goalpost has not changed, but COVID has kind of shifted it. So two years have gone in COVID. So our goal posts has accordingly changed. We are in that direction already. So if you see this year, we are making the kind of progress whereby we should be growing to 20%, 25% over last year, and maybe even more. And so the goalposts only shifts because of whatever reasons that happened, but the goalposts remains the same. Your question was about the gross margin, you're right, our gross margin typically if I see from an industry average point of view, should be more than by around 7%, 8%. Now, this 7%, 8% is on many accounts, one of the main count is on account of the differential in water based products we manufacture or we sell as compared to our competitors, somewhere back also I mentioned that earlier, Shalimar was known for its solvent based products, but what has happened in that last two years, the solvents prices have gone up higher than the water based prices. So, we have been able to shift our focus. Already our competition is having a very significant portion of their

basket in water based as far as decorative is concerned. So, because of that, our margins are lower as compared to the competition. The secondary reason is the volume itself as you know, we always get economies of scale, this case many multiple has enough and they obviously get the benefit. Third is the backward integration, we have to buy almost all our raw materials, but inputs as in not even raw material inputs we have to buy, but our competition they have very in-house facilities for manufacturing of these inputs. So, there are a couple of more reasons, but I will say that these are some other reasons which are responsible for this variation. And of course, on the product mix, we are in vanilla kind of products not so much in highly specialized products. We also are in good coatings at this moment. So these are also have impact on our gross margins.

Amit: Thank you. If I may ask one more question. I have been attending the call for from last three, four years, and most of our discussions and fees or every other manufacturing company in to the gross margin and EBITDA margin and supply that. There are very few discussion that happens at consumer company, interest of customer engagement, product innovation, new launches, split distribution network, and stuff like that. So, hopefully, in your next concall, if you can bring in that element, what exactly we are trying to do, growth is an outcome. So that is a suggestion if you can touch, not this quarter call.

Ashok Kumar Gupta: No, we will cover in this concall itself, I will update you to some extent in this concall itself. It's a very nice thing you're talking about. We were focusing on manufacturing on operation part a lot, a couple of months back a couple of quarters back. And the reason was that if you want to do marketing, if you want to do sales, if you want to take care of customer, your operations have to be good. And yes, we were struggling with that. Today, we have come to a stage where we are not exactly struggling. And we have reached a good stage where we are able to service, service part has improved a lot, we are almost 90% of the competition level. So as traders come and we can think of other things, and I'm happy to inform you that in last one year, we have made a series of new launches. My colleague Kuldeep can give you a runaway of what are the new launches we made, what are the products we made, and again, you right said in a consumer company, it has to be engagement with the dealer, engagement with the painter, engagement with the marketing front with the consumer. So, I think I'll answer your question to cover these three areas, what kind of engagement we are having with the dealers, with the painter, and also what marketing communication we have with consumers these four areas I'll ask him to cover please, new launches, dealers, painter and consumer.

Amit: Sure. Product innovation, if you can touch up on a little bit on the product innovation because that's a key driver like you rightly said the product mix is a key driver for short margins.

Ashok Kumar Gupta: After he comments, I will talk about product innovation as well.

Kuldeep Raina: Sure. So, just to set the context basically, if we look at the industry today, we are operating in 75% to 76% of the addressable market, when I'm mentioning about the addressable market that many paint companies have ventured majorly into wood coatings segment they have ventured into construction chemical, waterproofing segment and adhesives as well. So, these are the kinds

of categories which are high on margins. And so, we currently are not present in this. So, our endeavor going forward would be also to touch upon these categories and get into it and we have already started waterproofing will be the first category which we are going to get into very soon and probably in the next quarter when we meet next time probably by then we will have already one or two products launched into that particular segment. And as far as new products are concerned see in terms of the price point wise, category wise kind of penetration if we look at so, we have, if I have to give you just understanding on that, sense on that basically we are if competition has today say 10 variants in a particular category, we have only two or three. So, we are also wanting to fill up those gaps, where our product gaps were lying, we are going to fill up that also. So, we are working on to that probably by the year end, we will have most of the categories we will have our presence in and we will have filled up all the white spaces by that time. And whatever white spaces we find at the product level at the market level, we will have filled up by the year end and our endeavor is to be present in all the categories which our paid industry today is operating in the market with and also as I mentioned on the distribution trend, we are aggressively moving in terms of expanding our reach and the moment our reach expands, we will be able to kind of place all these products. So today's challenge is that we have only C, D, E, F class of dealers dealing with us. And going forward as a rule we have said that we will be able to penetrate into A, B, C class also wherein if we look at these categories, the penetration of these categories is more from A, B, C and Tier I, Tier II terms. So by that time, we will have our reach also in place, our market penetration will be better. And so we will be able to do justice to all these products which we are going to launch in times to come. So that's how we are planning it going forward.

Ashok Kumar Gupta:

You are talking about product innovation, so there are two areas we are working in. So one is we of course we expanded our R&D and I'm really quite proud of my R&D. So today, whatever products have been made by our competitors, we have kind of benchmark our products against them. And I will not been able to communicate to the market per se, but we have observed that our products are actually better than competition, we have reached that stage it's the question of communication now. And, bigger results do will come from industrial. In industrial our customers have preferred our product over competition. So, these two things are coming up, and it takes time, we are getting results, in next couple of months results will be even more visible. Our strategic partner in the contribution, the contribution already started as I mentioned, but it will take some 10, 11 months to really to be visible because it's a learning curve for even them, paint is a new segment for them, they have never been doing paints earlier. So it's a learning curve, their team has also been starting learning, the dealer is also learning so it will take some maybe three, four quarters for them to give results.

Moderator:

Thank you. The next question is from the line of Manan Patel from Airawath Capital. Please go ahead.

Manan Patel:

My follow up question is regarding the dealer. So, last one year back we had around 3500 regular dealers. So, where are we now on that front?

Ashok Kumar Gupta: Okay, there has been a slight kind of a turnaround in dealer in the sense that out of the 3500 these we have reduced the number of dealers who are not performing by around 1000-1500 and we are added in last four months.

Kuldeep Raina: So our number has increased by at least 500 to 600 dealers in the last quarter, active dealers and so roughly if you look at that 20% to 30% increase in dealer participation what has happened in the last one quarter. And as I mentioned that we are aggressively working on the strategies which can build our, we can create a better penetration into the marketplace and increase our reach. So, we are working on to that and probably in times to come we are going to have a better market reach and penetration.

Manan Patel: So just to clarify 1000 or 1500 dealers were reduced, and five to 600 dealers were added. So net would be around 3000 dealers now, is that correct?

Ashok Kumar Gupta: Yes, almost around that in terms of activity.

Manan Patel: Got it. And sir second question is, I wanted to understand competitive intensity on ground. So, a lot of new companies have entered and obviously we are small. So is there a lot of competition on ground in terms of aggressive pursuit of dealers or on other terms?

Kuldeep Raina: So in my opinion with more players into the market probably the market size is going to increase and it's going to benefit all the players. And since Indian market is very low on paint penetration, probably everybody will get it sheer going forward. And answering your question probably with more players. Yes, the competition in the marketplace will increase. But so will the market size in terms of the size of the market will also go up which is going to benefit everybody.

Moderator: Thank you. The next question is from the line of Sunil Shah, Individual Investor. Please go ahead.

Sunil Shah: It's more or less in line with the earlier person would ask the question on competition intensity. Sir, the big boys are really huge. I missed the answer that you gave, could you just briefly sum up as to, how would we take it up and would that change the industry dynamics as well please?

Ashok Kumar Gupta: So, I didn't understand exactly what you're looking for?

Sunil Shah: The competition intensity.

Ashok Kumar Gupta: In paint side, most of the consumer goods competition is intense, whereas paint is slightly more intense because number of players is even organized players maybe a dozen or more. And so new players let us even not consider them. Existing players are pretty good. So the competition is significant, severe and that's why the reason that most players, work in a single price range, the prices are not much different, it's a services, it's the communication, it's the marketing, it's your strategies and policies which differentiate. So, the competition is intense and we have to

work in that competition as a result show whereas what Kuldeep was mentioning we have to able to understand the competition and face it as well.

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

Vaibhav: So, I primarily had two questions. So first, could you help us understand the debt position now, after the funding this infusion, have the entire proceeds from the pref and the warrants come in, why am I asking this question is that the finance cost have stayed constant in this quarter despite the funding infusion. So, could you please provide some details there?

Mohit Kumar Donter: So, Vaibhav thank you for your question. So, far as total funding is concerned from the equity and NCDs that has already been received in March, 25% of the total warrants of 150 crores that is 37.5 crores that we received in April. So out of the total funding's we have passed the amount in FDs and we are not utilizing our CC limit. However, there are some long term loans, which was existing earlier. So, that interest is on account of those term loans as well as convertible debentures cost, the interest is primarily on account of those.

Vaibhav: So, how should we look at finance costs say over the next three to four quarters, are you planning to repay that debt and retire those whatever the debt instruments are, and should there not be some offset coming in the form of interest earnings on these FDs that you've parked your money in?

Ashok Kumar Gupta: So, overall interest cost will be limited for a few quarters as soon as we start making our CAPEX plan and then interest cost will come into play. Currently our interest cost is only because of two accounts slightly on account of the fixed term loan we have taken which is not much and second is we have taken some OCDs, optionally convertible debentures we have to pay some interest. So, whatever interest costs you are seeing is only on account of these two. These two will not go away in the short run because they are on the nature of two years or so, for two years they will stay with us. And they will definitely be offset by the FDs we have and that offset is being shown separately in other income. Otherwise, this interest cost is only limited.

Vaibhav: Even the other income has not seen a very material change, I don't know I am misreading something here probably, but those numbers.

Ashok Kumar Gupta: So, out of this 1.63 other income, 1.5 is around of interest.

Vaibhav: Okay. So, on the revenue front now we have surely seen an improvement, given that for two quarters in a row, we are clocking over 100 crores in revenues. But if we contextualize that against the numbers which the larger players like Asian, Berger, Kansai formally across all the three players, despite their significantly larger base the kind of sequential and Y-o-Y growth that they've done, we have kind of not kept pace, while I agree with our revenue trajectory has surely improved, so on a relative terms, what do you think is the constraining factor for us and what

should we be doing incrementally to keep pace with, to at least keep pace or probably surpass these players and how should we be looking at the partnership with Infra.Market so, given the infusion you have also seen some changes in the board now, and one of the founders of Infra.Market has joined your Board. So what kind of management inputs or the sharing of technology, distribution, sales channels that you're getting from them now?

Ashok Kumar Gupta:

So, a couple of things which you are talking about. So, first of all, in sales front. Our average sales used to be around 19, 22 crores and first quarter has seen a growth of about 20%, 22%. If I see competition, competition maybe same level or at a lower level. If I took an average of all players, average of all the three, four players which you mentioned, if I see their annual sales, though their annual sales growth is, we are ahead of them, we are not far behind them. So our increase in sales as compared to the average sale of last year, versus increase in sale of competition of large four players as compared to the average sale of last year is higher. That is #A, so that's why our colleague Kuldeep mentioned that there is a small gain in the market share, even though it may be low, it may be because of the lower pace also. But there is definitely improvement in the market share per se.

The second part you were talking about is about Hella our partner giving us. Their contribution has started coming, it has started coming both by way of direct sales, revenue increase, and also started coming by way of technological inputs. So they already have a very strong team and very strong ways in both marketing, in IT, in distribution, retail sales. And these are the areas where we are kind of, we are having a very strong soft skills, slowly and slowly we are trying to learn from them and invite them in this company. So we are upgrading our IT, we are upgrading our technology sector, we are upgrading our marketing, we just started we are not doing anything my colleague Kuldeep mentioned something we are doing for the painter, we are doing something on the BTL. So these are all activities, we have kind of having interaction with them and working with them.

Vaibhav:

Understood. And my last question, so how should we be looking at breakeven EBITDA. Now, I understand it will be very dynamic, given all your raw material cost movement, and whatever we are seeing on the input costs globally. But if we were to keep cost at where they were on an average level, for the quarter where should we be looking at, what should be the breakeven revenues for you now?

Ashok Kumar Gupta:

So if my revenues they stay where they are in first quarter, 110 crores. And if my raw material comes down, even by 3%, 4%, which already started coming down, downward trend has started, we should be in EBITDA plus category.

Vaibhav:

And that should naturally mean you should also be PAT positive given that there is a limited impact of interest cost on a net basis going forward?

Ashok Kumar Gupta:

You are right, our interest cost will be very limited. So that should mean that we are in that positive category.

Vaibhav: And surely you are going to make cash profit, because anyway DNA is non-cash item. So anyways.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Ashok Kumar Gupta for closing comments.

Ashok Kumar Gupta: So, I must once again thank all the participants, I know you have been having a lot of patience and it is not at all right on our part to promise so many things and still keep on delaying it. Few things that happened beyond our control. One was of course COVID and second was this oil spurt. We have been able to handle both of them to some degree, but not to the degree where we were profitable, that's our goal now, but more than profitability we are also looking at market expansion because any company which is growing has to look at market expansion as a priority and along with that both of them priority been given to market expansion. So having said that, I'm sure we are hopeful rather that very shortly you will see both of them happening with these few words. I must thank you my colleague Mohit, my colleague Kuldeep for the excellent inputs they have given. Thank you once again to all of you.

Kuldeep Raina: Thank you.

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