August 24, 2023

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 Earnings call with investors and analysts held on August 17, 2023**

Dear Sir/Madam,

This is in furtherance to our letter dated August 09, 2023 w.r.t. Q1FY24 Earnings Call intimation for the financial results with the investors and analysts.

Pursuant to the provisions of 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 the above said Earnings Call held with the investors and analysts on August 17, 2023 at 04:00 p.m. on the financial results of the Company for the Q1FY24.

The said transcript is also available on the Company's website at the link: https://www.shalimarpaints.com/investors-relations/earnings-presentation.

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

Thanking you,

Yours faithfully,

For **Shalimar Paints Limited**

SHIKHA RASTOGI
Digitally signed by SHIKHA RASTOGI
Date: 2023.08.24 15:20:39 +05'30'

**Shikha Rastogi**
**Company Secretary**

Encl.: as above

"Shalimar Paints Limited

Q1 FY'24 Earnings Conference Call"

August 17, 2023

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| **MANAGEMENT:** | **MR. ASHOK KUMAR GUPTA - MANAGING DIRECTOR, SHALIMAR PAINTS LIMITED**<br>**MR. DAVINDER DOGRA – CHIEF FINANCIAL OFFICER, SHALIMAR PAINTS LIMITED**<br>**MR. KULDIP RAINA - DIRECTOR – SALES, MARKETING AND STRATEGIC SOURCING, SHALIMAR PAINTS LIMITED** |
| **ANALYST:** | **MR. RONAK JAIN – ORIENT CAPITAL** |

**Moderator:** Ladies and gentlemen, good day, and welcome to the Shalimar Paints Limited Q1 FY '24 Earnings Conference 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 touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ronak Jain from Orient Capital, their Investor Relations partner. Thank you, and over to you, Mr. Ronak.

**Ronak Jain:** Hello. Good afternoon, everyone. Thank you, and welcome to the Q1 FY '24 Earnings Conference Call of Shalimar Paints Limited. Today on this call, we have Mr. Ashok Kumar Gupta, Managing Director, along with senior management team. This conference call may contain forward-looking statements about the Company, which are based on the 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 2 of the company's investor presentation which has been uploaded on the stock exchange and company's website as well.

With this, I hand over the call to Mr. Ashok Gupta for his opening remarks. Over to you, sir.

**Ashok Kumar Gupta:** Thank you. Good afternoon, and welcome my friends to this conference call for the first quarter FY '24. We had another exciting quarter upto June '23. We improved our top line by around 14% and but more than that, I think we are in the right direction. And as you know, we have a clear map on a journey to acquire more market share.

Our market share has been quite low. And in that direction, we have been continuously working on increasing our top line. Last year, we increased our top line by around 35% to 40%. Again, first quarter itself, we were able to increase the top line by more than what the industry has been doing. And towards that end, we have been taking a lot of actions, including increasing our workforce including increasing our warehousing, setting up the new R&D, investing in plants, so many things are lined up and so many things are being done.

Because we are doing so many things. So obviously, the expenses are going up, but the fixed expenses, which normally remain fixed, they will go up in the short run, but they will give us a benefit in the long run. So seeing that, you will see there will be some pressure on the margins for the time being. But as and when they start giving results, this will prove to be very beneficial.

With this opening remarks, let me hand over to my colleague, Davinder Dogra, who is the CFO, to give you the financial position. Thank you.

**Davinder Dogra:** Good afternoon, everyone. I would like to thank everyone for attending this call and participating in Shalimar's growth journey. On 11th of this month, our Board approved our quarterly financial results for the company. In the first quarter of the year, we recorded a total income of INR127 crores with a growth of 14% in value terms and 22% in volume terms over last year's same quarter.

On the margin front, we were at 31.7% gross margins, which is an improvement of 4% over previous quarter and 4.6% over same quarter last year. On EBITDA, we recorded in net negative EBITDA of INR3.02 crores and a net loss of INR10.27 crores. Last year's quarter, we had a negative EBITDA of INR1.8 crores and net loss of INR9.65 crores.

In this quarter, there are two important highlights as Ashok ji here has highlighted, we continue to incur expenditures towards growth. We incurred incremental employees' expenditure and we granted ESOP and there were expansion activities in supply chain. Around INR5.16 crores was incurred on employee incremental in employee cost, ESOP is of around INR61 lakhs, supply chain being turned around 59 lakhs. And there was onetime exceptional cost of stock provision. Had it not been there, we would have been, EBITDA would have been at 4.65 crores which is approximately 3.6% of the total net income. So that's the financials for the quarter.

I hand over back to Mr. Gupta.

**Ashok Kumar Gupta:** So thank you, Davinder. So now we will open for questions, answers.

**Moderator:** Thank you very much. We take the first question from the line of Amit from Asian Market Securities.

**Amit:** Sir, my first question is with regards to the capex, which was announced recently like last week, so as I understand, we are taking the capacity from the existing 78 million liters per annum to 180, right, between this year and the next year? So on this, my question is on the existing capacity, we are barely utilizing 50% itself at this point in time. So I want to just understand what is the exact requirement of scaling up this massive capacity? And what is the way forward? Are we thinking of having a rapid increase in market share, increasing sales. So I just wanted to understand on this part.

**Ashok Kumar Gupta:** Sure. So let me give you a brief of the strategy we want to follow. Shalimar has been a legacy company with the plants, which were set up quite some time back. With our systems and processes, which were significantly old, the times are changing. And we have been suffering because we had not changed in tune with the times. Our production cost is higher than the competition currently. And one of the reason is our plants are still using old technologies, old system. Many of the things we are using are still manual.

These things hamper our production. They also affect our quality as well as they affect our servicing. Now in case we have to compete with the competition, we have to compete with the players in the market, who are having modern technology who are using automotive systems, then we find ourselves at a disadvantage. So the first step we took this year was that we will bring ourselves at par with the competition to ensure that we have the requisite capability to fight competition.

Towards that end, we have taken 4-5 actions. The first action we have taken is our product range and our product quality and our product formulation and our product costs should be in line with competition. For that, we are setting up a medium-level R&D facility in Nasik.

This facility should be up and operational by October or November. This is the first time because you need to have the latest product with the latest formulations. Second thing, having had the latest products, we need to have production facility. Our production facility, as I told you are mostly manual. Only thing we are doing is we are bringing in automatic systems, modernized systems of production. We are not deliberately increasing capacity, but when you change from manual to automatic, the capacity becomes multiple times.

For example, today, we are seeing most of our filling manually. It takes maybe 4 hours, 5 hours, 6 hours to fill up. If I do it automatically, it may take 1.5 hours, see the extent of capacity addition we get. Along with that, many other infrastructure facilities we are developing, which will again facilitate faster working. So our primary focus in our modernization is not towards capacity, but towards uplifting the processes of manufacture.

Now these processes will result in additional capacity, and that's why you are seeing capacity addition. But the primary target is modernization and automation to the level which is already existing in the competition. We are not doing something more than that. We are just trying to catch up with them.

**Amit Mamgain:** I got your point, sir. My second question is, could you also talk about, so in the press release, it was mentioned that we would be launching a few more products in the coming months and quarters. So if you could just talk a bit on that, number one.

And number two, we've also understood that there has been a massive hiring in the company in the last 3, 4 months. So if you could just give color on that, these hirings have been done in which functions, sales, operations, if you could just elaborate on these two aspects?

**Ashok Kumar Gupta:** Sure. Definitely. Our pleasure. So my colleague, Kuldip, who is the expert in the sales and marketing front, he's going to talk about what is his plan on the launching part of it. And then I will talk about the hiring part. So Kuldip, please.

**Kuldip Raina:** So coming back to the new product launches, so if you look at our product range today, we are operating our addressable market is only 65% to 70% if you remove a few categories. And if you look at not being present, so to say in project sales. Now there are some categories which actually have given a good what you call growth to the industry in the last 2 years, like if we talk about waterproofing, if we talk about wood coatings.

So these are the categories which have propelled the growth of the industry in the last 2 years, and we are not present in these two categories. So we are going to launch. We are going to launch it maybe between September and October, we are going to launch wood coatings, and we are going to enhance our portfolio of waterproofing proofing products.

So that is what is going to come. And there are also some products lined up in the emulsion category, which will be unique to category kind of products which we are working upon, and they will be launched maybe in the next 2 months' time. So that was the part one. And second part, in terms of the hiring, if we talk about.

So it has been yes. So Mr. Gupta is going to talk about the hiring part.

**Ashok Kumar Gupta:** Thank you, Kuldip. So as you saw, our idea on product launch is that our product range should be almost at 90% of the competition. So we are going to launch a significant number of products before the season that is before October.

And towards, because we are launching new products, because we are increasing our product range. We are increasing our warehousing, we are increasing our production capacity. So we need more sales people. So we have done lot of hiring in the last 12 to 14 months. About 60% to 70% has been in the sales area, mostly front liners, sales people, feet on the street, 10%, 15% is in research and development.

As I told you new centre is coming. So we need good scientists for that purpose. We are almost doubling our scientist number. And then another 20% will be in the operations because we are going in for a higher level of technology in the plant, they need equally capable people to run the plant.

So typically, it's 60% to 70% sales 10%-15% in R&D and another 15%-20% in operations.

**Moderator:** We take the next question from the line of Jainis Chheda from Spark.

**Jainis Chheda:** Sir, my question is number one on the industry. As you are saying that you are getting closer to the competition. But what is your view on the competition. I wonder there are new players such as JSW and Grasim also coming in. So can you give a bit on how do you see the industry developing?

**Ashok Kumar Gupta:** Yes right. JSW Paints has already entered the market. Grasim and others are also entering it. And so number of players are going to increase. Again, my colleague, Kuldip, who is the expert in this area, he will talk about it, Kuldip.

**Kuldip Raina:** Yes. Thanks, sir. So two things. As far as industry is concerned, see, this have sense in terms of See at least, if we look at the CAGR in the industry, it has been 10% to 12% in the last 10 years' time. And as such, some INR4,000 crores to INR5,000 crores of business is getting generated every year, which is incremental in future.

So and the second point here I would like to say is that in India, at least 50% to 60% of the surfaces are still to be painted. Now why I'm making these kind of statistical points is basically there's a lot of demand, which is going to come for paint in future also.

And as many players come the market it only is going to get expanded, and it will benefit all because any new entrant will come out with different chemistry, different products and stuff like that, which will actually expand the market and this is going to benefit all, so that's how the industry is going to grow.

And as far as ourselves is concerned, we have made it very clear from the last 1 year that we are going to have a 2x growth that since we have targeted for ourselves. We will be in the line of 2x growth as far as the industry is concerned. So we have been maintaining 2x growth from the last five quarters now, including this quarter, when the industry has grown by 7.3% and we are already at 14.6%, it's 2x industry growth, which will maintain in going forward as well.

**Ashok Kumar Gupta:** Thank you, Kuldip. So I may just add here for your knowledge that as a byproduct of so many people entering the market, there is likely to be clutter of brands. When there is a clutter, the noise goes up, too many people. So people like us whose voice is low gets an advantage. It's possible that in this clutter, in this noise, we may be able to place ourselves better and to get a higher share of the market.

**Jainis Chheda:** So are you going to going forward, are you going to spend incrementally higher on marketing and advertising?

**Ashok Kumar Gupta:** Significantly. So till now, our market spend used to be even less than 2%. But this year, you will see our market spend has gone much, much higher as Kuldip talks of multiples. So this time, our market spend will be a multiple of what we were doing earlier.

**Jainis Chheda:** So we will be spending around 4% to 5% of total top line in marketing?

**Ashok Kumar Gupta:** Yes, it will be more than that.

**Jainis Chheda:** Okay. And secondly, if I look at our shareholding, I think Hella Infra hold around 25% shareholding in the overall holding structure. And are there any warrants that are pending to be converted into equity in the next 1 or 2 quarters?

**Ashok Kumar Gupta:** Yes. In October, there are warrants which likely to be converted. So conversion is somewhere in October. So those warrants will get converted in October.

**Jainis Chheda:** So post conversion what will be the shareholding going forward?

**Ashok Kumar Gupta:** I'll have to study that, I’ll have to go in detail. But I think it will become perhaps definitely more than 25%. It may be 28%, 30% something. I have not done the calculation detailing, but it will be more than 25%.

**Jainis Chheda:** We can take this offline. One last question. Will Infra.Market benefit you in any way if any strategy chartered out of Infra.Market as well?

**Ashok Kumar Gupta:** I just missed your question, please. I can get it properly.

**Jainis Chheda:** Yeah, I am asking, will Infra.Market, with this tie up with Infra.Market, is there any strategy that has been charted out for you to grow to Infra.Market stores?

**Ashok Kumar Gupta:** At the moment, Infra.Market is a basic investor. So as they are in the building section, so they have, they are opening some multiproduct stores, and our Shalimar Paints will also be marketed through those multiproduct stores.

**Jainis Chheda:** But is there, I mean there is no dedicated strategy that is there is, with the competition they own around 25%. I mean, they have some financial interest in the business as well?

**Ashok Kumar Gupta:** Yes, you are right. They have got financial interest in the company. Since this particular idea of opening store is a new one, it is something which is still evolving, still developing. Some stores have been opened. And footfall has yet to mature up. So as we said at the beginning of the cycle. But as I mentioned to you, we will definitely be using their channel as a channel of sales for ourselves.

**Jainis Chheda:** Okay. And any so open offer that can happen because of the conversion of warrants?

**Ashok Kumar Gupta:** I think there are rules regarding open offer are clear. So those rules will be followed.

**Moderator:** The next question is from the line of VP Rajesh from Banyan Capital Advisors.

**VP Rajesh:** Just following up on this question on Infra.Market. Are we their exclusive supplier to these stores for sales? Or are they going to have you guys as well as some other competitors in those stores?

**Kuldip Raina:** So currently, Infra.Market have opened few stores, not too many. And wherever they have more stores at the moment, to the best of my knowledge, I think they are only keeping Shalimar. But there is no system as such which bars them from not having other products. But to the best of my knowledge, currently they are keeping only Shalimar.

**VP Rajesh:** Okay. And given the comments Ashok Ji, that you mentioned about investments in our branding, marketing and talent upgrade, what is your thinking about turning EBITDA positive? Is it a few quarters away or a few years away, if you can just give some commentary around that?

**Ashok Kumar Gupta:** So if you see, the EBITDA is not exactly a few quarters or a few years away. Even in this quarter, we were EBITDA positive. But for the fact that in this quarter, we spent more INR5.5 crores extra on manpower alone. If that INR5.5 crores was not there, you would have been EBITDA positive at this quarter only.

It was a deliberate strategy. We thought about it. Should we be careful with expense, not do it, do it later. One thing which was happy is people, new people, so many new people are coming. They all are pouncing on manpower. The sales people are in shortage. If you don't take them now, we will miss the bus.

Second thing is that question of your DNA. Now our parent, which is basically Jindal as well as Infra, both DNA is aggressive. If you see their nature, their habits, their history, their legacy has been very aggressive. So these people are not conservative.

They will see profits coming whenever they come, but at the most time to go all the both have Jindal's as well as Infra have always been aggressive with the market share with gaining the market and spending the money. I think in line with their genes, in line with their thinking, we are also going aggressive. And we are going aggressive on all fields. We are full blast now.

We are going on manpower hiring. We are spending on offices. We are spending on warehousing. We are spending a lot of money on warehousing. We are modernizing our plant. Our plant will be very good. In fact, our target is our plants and warehouses should be as good as a supermarket.

So we are doing a lot of things by which -- and let me tell you, as I told you, products, we are almost going to be 90% the product range of competition. Our R&D section is going to be new. And we are going to have around more than 40, 45 scientist working there. So you see that kind of whole -- this is almost like a revolution for so far Shalimar is concerned. It's a totally different organization you will be seeing.

With this kind of aggression with this kind of thing, it may take 2, 3 quarters to really fruits for us to come up, but there is nothing else can happen, but the fruits to come. We are very hopeful that fruits will be definitely there. And that's why this aggressive -- all the aggression has always paid both the goods in the past, and we are sure this will pay this year as this company and this time as well.

**VP Rajesh:** Right. Now I think that's very helpful commentary. But my question was that you have given that EBITDA walk through chart, and I understand you're investing a lot -- so the question is that whether this investment will continue for the next few quarters? Or are you suggesting that in the next quarter itself, we will turn EBITDA positive after making all these investments?

**Ashok Kumar Gupta:** Yes. See, let this extra expenditure was not there, it’s a done thing. It's not going to increase by INR5 crores each quarter. That's. it's kind of a onetime decision you take to fill up all the costs. For example, all the products we are going to launch. With that, we will be 90%, 95% of the competition product range. We don’t have to do more.

So I think the bulk of the things are passed now. Now they are looking for something like EBITDA positive. And in days to come, we are not talking of years, in quarters to come, we will be EBITDA positive.

**VP Rajesh:** Okay. Understood. And on the balance sheet side, what is our net debt right now.

**Davinder Dogra:** Balance sheet side, the networth is around INR225 crores as on June.

**VP Rajesh:** I am asking about net debt?

**Davinder Dogra:** You are referring to net debt? Net debt is the tune of around INR75 crores.

**VP Rajesh:** So just going back to the earlier question about the competitive intensity, are we pricing lower than the, some of the leading players to gain market share or what is our strategy to increase our market share, which is obviously has been quite small historically?

**Ashok Kumar Gupta:** So whether we gain market share or we stay where we are, our pricing is marginally lower than the competition, maybe 2%- 3% or 5%. It's not very low, it depends on product to product. In fact, in some of the products, we are higher than the competition. We have some of the solvents, and some of the products, where Shalimar has a better brand presence.

Our products are slightly expensive than the competition. So, but on an average, we may be 3% - 4% lower, but this gap will remain irrespective of the fact whether we go in for higher market share or not, because in consumer goods, particularly in paints, it's how you market, how your distribution is, rather than the price differential per se, which will help you in increasing the market share.

**VP Rajesh:** So do you have any targets, like in the next two years, three years, you want to go from your current market share to XYZ kind of market share? Can you just give some directional commentary around that?

**Ashok Kumar Gupta:** So we have a plan, we have a vision, we have a dream of having growth, as my colleague mentioned, at least 20% to 25% year after year, the industry is going 10%, 12%. So we want to grow double that amount. So 20% to 25% year after year growth is what we are targeting. Obviously it will mean that our market share will going to increase.

**VP Rajesh:** Great. And my last question is on the INR190 crores capex that you have discussed. How are we going to finance that? If you can just give some color on that side.

**Ashok Kumar Gupta:** So as normally happens, around 50% or 55% we will try through debt. Balance, we have our resources with us. We'll be using that. But it depends. It is not necessary that same ratio will go. Going forward, we will see how the banks react to it, how our own finances are, and depending on that, this ratio can also change.

**VP Rajesh:** Understood. Okay, that's all I had and all the best. Thank you.

**Moderator:** Thank you. The next question is from the line of Hiten Boricha from Sequent Investments. Please go ahead, sir.

**Hiten Boricha:** Yes. Thanks for the opportunity, sir. Sir, my first question is on the conversion of warrants which are going to happen, next month in October. So what is the amount which we are going to receive?

**Ashok Kumar Gupta:** So if all the warrants are converted as per the issuance, then we should be expecting about INR100 crores plus from this amount.

**Hiten Boricha:** INR100 crore. So this INR100 crores is going to be used for this capex, which we are planning?

**Ashok Kumar Gupta:** It will be used for all the purposes, capex, working capital, anything else which is there. We will see how to use it, but that is the amount, which will likely to come.

**Hiten Boricha:** Okay. And next question is on the employee cost. As you mentioned, this employee cost, more or less, our hiring has been done. And now this employee cost of around INR17 crores run rate, which is going to sustain at this level, it's not going to go up from here, right?

**Ashok Kumar Gupta:** So we are expecting it will marginally increase. It's not that, we won't add any more people. But there won't be a dramatic increase. So if it is INR17 crores, INR18 crores, now it will go to INR18 crores, INR19 crores. But it won't be as much as increase as happened last time.

**Hiten Boricha:** INR18 crores- INR19 crores, okay. And while this after when you mentioned, we are going -- we are looking for EBITDA positive in coming two quarters or in coming quarters, so is it okay to assume like we are going to exit this year by EBITDA positive this year itself by end of this year maybe?

**Ashok Kumar Gupta:** We are trying.

**Hiten Boricha:** Okay, thank you.

**Ashok Kumar Gupta:** Thank you.

**Moderator:** Thank you. We take the next question from the line of Jainis Chheda from Spark. Please go ahead, sir.

**Jainis Chheda:** Yes. So thank you for the follow-up question opportunity. As you mentioned that, you are going full blast in the season upcoming season, so what gives you that confidence as to have so much of capex in front like, how where do you see the demand coming from that gives you so much of confidence to give -- to go so aggressive into the paint business now?

**Ashok Kumar Gupta:** So two things. One, every business has to make sure that the demand is there and it knows how to capture it. Now, most people know that, Shalimar is a legacy brand and our products are at par or slightly better than the competition. Where we have been lacking till now is in aggression. We were quite conservative in our approach. Our plants were old.

Our marketing expense was next to negligible. Our manpower was very limited. So we were a very conservative company, and we were kind of not really achieving that kind of thing, which we could have achieved. Now we have turned the gears, we are becoming aggressive, we are investing everywhere. So we are seeing the results.

As my colleague mentioned, in the last five quarters, our growth in sales is much higher than the competition, which itself shows that our strategy is paying off. And that is when we have just started the aggression, just started the accelerator. With the kind of push, we are giving now, I am hopeful, my results will be better than what they were last five quarter.

**Jainis Chheda:** So if everything plays out according to what you have planned, what will be the FY '27, so three years down the line, numbers look like in terms of top line and profitability margins?

**Ashok Kumar Gupta:** If I continue to grow around 25% plus growth year after year, hopefully we will be crossing INR 1,000 crores.

**Jainis Chheda:** By three years?

**Ashok Kumar Gupta:** No, I don't know, when we will do it, but we should be doing it, maybe three years, four years, two years depending on, but we are looking at that we should be growing at around 20%- 25% year-on-year.

**Jainis Chheda:** And in terms of gross margins and EBITDA margins, what are the numbers that you look at?

**Ashok Kumar Gupta:** Our gross margin currently is around 33%-34%, we are definitely looking at 35% plus and EBITDA of course will be positive in due course.

**Jainis Chheda:** But how much EBITDA margins are you targeting?

**Ashok Kumar Gupta:** We are seeing see the industry works anywhere between 12%-16% we are saying that, we should be at least in the range of 5%-8% in couple of years.

**Jainis Chheda:** 5%- 8% and will we be cash flow positive or will still require cash in terms of working capital and mainly over the end dealer distribution network?

**Ashok Kumar Gupta:** No, we are targeting to be cash flow positive.

**Jainis Chheda:** And in terms of agreements that you have with your distributors, what are the credit cycle over there? And how are like mainly most of the distributors as of now, market Asian Paints because of the quick credit that they get? What is the policy that we are going to follow?

**Ashok Kumar Gupta:** So we are following the industry practices. Industry typically gives, 45 to 60 days credit, and we also follow the same. Of course, again, my colleague Kuldip, who is the sales head, can talk about it.

**Kuldip Raina:** Sure, so two things. One, in terms of distribution, if you look at, historically, our distribution dealer reach has improved and it has significantly improved in the last three years' time. And we have approximately, if we look at the last five quarters, we have added some 2,000 new dealers to our overall distribution, which has contributed to 14% to 15% of our sales.

I believe the second question which you had asked was about the margins and all. That's how it was? So this was as far as distribution equity increasing quarter on quarter is concerned, and secondly in terms of the margins, almost as you mentioned, it is in a dealer network program. What is being offered by all the companies is rebates or schemes for the dealers.

So almost we are in line, barring solvent-based. In water-based, we are 3% to 4% more in terms of rebates. And as far as solvents is concerned, we are equivalent to the industry and some products, we are higher than the industry.

**Jainis Chheda:** So basically if I'm understanding your strategy correctly, it will be more like direct marketing, which will lead to demand to the distributors and that is how distributors will start offering Shalimar paints to the customers.

**Kuldip Raina:** Yes.

**Jainis Chheda:** So the more focus will be on the direct advertising and marketing it?

**Kuldip Raina:** Yes, so for the industry, it doesn't operate on a distributor model, although many companies have now started in terms of appointing distributors to make inroads into the rural areas, but otherwise it is a direct dealer kind of a concept, which is being followed by the industry.

**Jainis Chheda:** And our focus will be on Tier 1 cities or it will be more on the Tier 3, Tier 4 kind of cities?

**Kuldip Raina:** So if you look at currently, we are focusing on Tier 2, Tier 3 cities because whereas in Tier 1, brand equity plays a strong role and we don't get inroads. So we're, practically we are focusing on Tier 2, Tier 3 but with the marketing expenses going up and we starting using all the social media levers to promote our product, we are going to get into Tier 1 cities as well.

**Jainis Chheda:** Okay, sir. Thank you so much. That's all from my side.

**Moderator:** Thank you, sir. The next question is from the line of Shrenik Mehta from Yes Bank. Please go ahead, sir.

**Shrenik Mehta:** Yes, I just wanted to know, what is the unencumbered cash and liquid assets as on quarter end?

**Davinder Dogra:** The unencumbered cash is to the tune of around INR60 crores. We have cash in the equivalent of INR60 crores as on 30th June. That's unencumbered.

**Shrenik Mehta:** And liquid assets, something you might have stored in mutual funds or something invested in mutual funds?

**Davinder Dogra:** We don't have anything in the mutual fund. The cash and bank balance also includes the FD components. All our cash balances are parked in to short term FDRs.

**Shrenik Mehta:** So INR50 crores?

**Davinder Dogra:** Yes, it's around INR60 crores, overall INR55 crores something which is unencumbered and some in cash and some other equity assets.

**Shrenik Mehta:** Okay, and just wanted to understand this dealer network. The numbers in the presentation show that, new dealer edition is 646. So these are exclusive Shalimar paint dealers or these dealers stock other competitive competitor paint also?

**Kuldip Raina:** So typically in industry, if you look at today, 80% to 90% of the dealer base is MBO, which is a multi-brand outlet, which store at least, if not all the four, all the five, at least two to three brands, each of these dealer networks, sales in terms of the brands. So I would say in our case, whatever number has been opened up in the first quarter is all MBOs. None of them is an exclusive store, but all of them are multiple brand outlets.

**Shrenik Mehta:** And just for my understanding, how much of the sales would be customer driven and how much would be as in dealer driven? As in customer has a certain preference, you would want this paint from X company and how much can a dealer put?

**Kuldip Raina:** So if you look at the trends, definitely they are changing, but if you look at how it is today, roughly 45% to 55% of the sale is happening on the recommendation of a dealer or a painter, and the balance is happening by the customer choice, which is being led by the brand equity. So, but going forward, definitely this scheme would be more towards the customer preference because with a lot of knowledge being around paints generated by all the companies and that's going to the customer know-how and the awareness is going to go up and which is going to help the customer to choose, which brand to use. And definitely that will bring a change in terms of the customer preference also. But if you look at the current scheme of things, it is say 45% to 55% is on the recommendation of a painter or a dealer.

**Shrenik Mehta:** Okay, and last question is, of this INR190 crores capex, how much of it has been started?

**Ashok Kumar Gupta:** So initial work has already started, perhaps we might have already spent INR30 crores- INR40 crores may be even more but it is work in progress. So there's nothing like this much has already gone. Some part has gone, some advances have gone, some expenditure has been done. But we are already on the track. Everywhere things have started.

**Shrenik Mehta:** And one more thing, on the industrial side, industrial paint side, how is this business model, I think it's not pushed through dealers, so what is the, as in what is the strategy for the industrial side, as in?

**Kuldip Raina:** Yes, so to touch upon, just to give you a brief, in terms of industrial for us, has been doing better than our decorative business in the last five quarters time. If you look at, it is double the decorative growth which we have garnered in the last five quarters and there are many reasons to it, the government push also on the infrastructure and stuff like that. That could be one of the reasons wherein we are getting better attractions in this business.

The second is that we have add some good orders, like if I have to give you an example, NEOM project in Saudi Arabia which was a big and Shalimar was only one brand, which was approved out there.

Similarly, the tallest bridge in the country, Chenab river, which was also kind of painted by Shalimar, which is also one of the achievements. So, just to give you a flavor in terms of we have been making better traction in the -- towards the industrial side and we can see the momentum continues.

We are adding new customers. We have added at least 100 customers to 200 customers in the last year 1 year, 1.5 years' time. We continue our strategy of expansion and extraction -- we are going to both in the decorative space and the industrial space, we are going to increase our distribution equity and kind of garner better sales from the existing dealers that's how our strategy is.

And with some of the projects -- some of the verticals which we have kind of picked up for ourselves where we want to double our business, like the pipeline business and we are already so to say, leaders in that, and we want to strengthen our position in that particular segment.

And apart from that, one or two verticals we have picked up into the industrial space, wherein we are going to get exponential growth -- and for that, everything is kind of planned in terms of how to get that goes in terms of new products in production, in terms of acquiring new customers, putting the team, a relevant team to those verticals. It's already done and in times to come, that we'll get a better kind of results from industrial side as well.

**Shrenik Mehta:** So, the industrial side has better margins than the decorative as there is no dealers. Is that correct?

**Kuldip Rainaa:** No. So it is both -- see, it depends upon the vertical, like some of the verticals where it's a B2B kind of a scope where we are directly, where the consumption happens, we supply directly to them. But there are one or two verticals also wherein it's a dealer route, wherein like in dealer business, industrial dealer business, wherein we have -- typically like we have in the decorative business, we have a dealer network.

And if we have to put a figure to it roughly 40% of our business, 40% to 50% happens directly and 30% happens through dealer network and the rest happens to contractors and all.

**Shrenik Mehta:** Okay sir 30% to 40% of your industrial business happens through dealers and rest is with your own employees?

**Ashok Kumar Gupta:** 30% happens through contractors.

**Moderator:** Thank you. We take the next question from the line of Sonal Minhas from Prescientcap Investment Advisors LLP. Please go ahead.

**Sonal Minhas:** Sir, I wanted to understand what would be directionally the target for EBITDA margins for the next financial year FY24. Secondly, also understand what are the targets for gross margin expansion year-on-year because that's something which is really stickier than anything else that you can save on the cost side and we just want to get an understanding of these two questions if I can ask the next question later I will ask?

**Ashok Kumar Gupta:** You see gross margin as I mentioned we are close to 33, 34. We are now targeting 35% plus going forward both with improved product mix as well as by improved process for which we already doing lot of capex. So, 35 to 36 the margin, competition is already at 40% or 40% plus so we still will be 5% away from the competition leaving more than 5% away and with this kind of gross margin, EBITDA should also be in the range of 5% plus 5% to 7% maybe, but it maybe sometime before we can achieve that.

**Sonal Minhas:** Sir, just from a mix perspective, since our gross margins and EBITDA margins like what you are talking about for next year are roughly 8% to 10% lower than the competition, but you mentioned that our pricing is maybe 2% to 3% lower than them. So, is the delta if my understanding is correct if incremental delta that the gap that we see that is A the product mix also linked to what we leave in the channel or is there anything else that we should understand?

**Ashok Kumar Gupta:** There is something more as well. So, one is the process cost. Most of our processes we have are manual. Definitely, there is an improvement once you have all the automated processes. Second, our consumption of raw materials because of the latest developments, which take place in the formulations they get an advantage, then the volume -- our volumes are low as compared to competition, so they get the economics of scale. So, if you see, whenever there's a gap in the gross margins or in the profitability, so many factors are there, so your purchase pricing, your consumption, your wastages and in your pricing, your product mix, all of them play a role and they are playing the role in our case also and that's why we are looking at each one of them.

**Sonal Minhas:** Got it. And sir, just like 3 years, 4 years out, how confident you are that your gross margins can inch towards 40% and what are the capital impediments for the company to actually reach those numbers because capital has been a challenge in the past as well towards growth numbers, just trying to understand that?

**Ashok Kumar Gupta:** Capital was one of our biggest bottlenecks. And now that we have resolved it to a good extent I think capital, it should not be a challenge anymore. We are on way, see that gap of 8% to 10%, which stands today should reduce to 4% to 5%. 4% to 5% gap may still remain for a couple of factors, which we are still far away.

One is the volume whatever has been done, it will take quite a while to reach anywhere near the competition volumes. The second is the product mix. We are still in the lower half of the product mix or the competition. And then, of course, all other factors of productivity and things like this. But if you can reduce the gap away to 8%, 10% to 3% or 4% or 5%, I think we have done a good job.

**Sonal Minhas:** Got it, sir. Okay. If I can just squeeze in another question, is it okay or should I come back in the queue?

**Ashok Kumar Gupta:** Go ahead.

**Sonal Minhas:** Sir, just because the promoters are not hands-on involved in this particular business. Just wanted to understand what are the drivers for you as a leadership like in terms of what incentive structures do you have in this business apart from ESOP's to where we can say that you hit those milestones and therefore, you are also incentivized to stay put or be long term there in the business?

**Ashok Kumar Gupta:** So see, ESOP's are a way of rewarding, particularly on the wealth spent. So, the way we reward our colleagues, our senior team is by way of increasing their wealth through ESOPs and that's the primary means. Apart from that, we also have incentive schemes linked to the profitability, linked to EBITDA. We have profit laid incentive plans. So, these are the few basic methods by which we incentivized our team to achieve that desired results.

**Sonal Minhas:** And has the team, the leadership being hitting the profitability base numbers because there is a motivation issue as well, which is involved along with how the turnaround happens, it takes a little longer than what is anticipated. So, have the team been incentivized in that regard hitting those numbers? Just trying to understand the subjective part?

**Ashok Kumar Gupta:** Definitely. So as and when we are profitable. So if there's improvement in margins, then there is, of course, the incentive given to the people. There is a EBITDA positive, it would be incentive is linked to that. And not only on the EBITDA positive and margins, even on initial elements like increasing of the revenue, increasing in the reduction of the cost and on all parameters, there are some or the other incentive linked. So, there are around 30, 40 parameters on which different parameters of which incentives were given to different people.

**Sonal Minhas:** Got it, sir. Okay. Thank you lot. That is it from my side. Thank you.

**Ashok Kumar Gupta:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, in the interest of time, we consider that as the last question for the day. I would now like to hand the conference over to Mr. Ashok for closing comments.

**Ashok Kumar Gupta:** Thank you, my dear friends. It was a really lively session. I enjoyed as much talking to you, answering to you. as you might have us got interested in. And I can tell you, we have them on the right track. We have got a very good team now and the team is good. The infrastructure is going to be good, the facilities are going to be good. And there is no reason for us not to have a good result as well. Thank you for your time.

**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.