

Stock Note

Sirca Paints India Ltd.

March 06, 2023





Sirca Paints India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Paints	Rs. 613.5	Buy in Rs. 608-625 band and add more on dips in Rs. 545-554 band	Rs. 671	Rs. 737	2-3 quarters

HDFC Scrip Code	SIRPAIEQNR
BSE Code	543686
NSE Code	SIRCA
Bloomberg	SIRCA: IN
CMP (March 03, 2023)	613.5
Equity Capital (RsCr)	27.4
Face Value (Rs)	10
Equity Share O/S (Cr)	2.7
Market Cap (RsCr)	1681
Book Value (Rs)	94
Avg. 52 Wk Volumes	45743
52 Week High	800
52 Week Low	391

Share holding Pattern % (December, 2022)	
Promoters	67.55
Institutions	10.01
Non Institutions	22.44
Total	100.0



for details about the ratings, refer at the end of the report
* Refer at the end for explanation on Risk Ratings

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Our Take:

Founded and promoted by Mr. Sanjay Agarwal and Mr. Gurjeet Singh Bains in 2006, Sirca Paints India Limited (Sirca) is a leading high-end wood coatings company, engaged in the manufacturing, sales and exports of wood coatings and other decorative paints under the brand 'Sirca'. The company has an exclusive tie-up with Sirca S.p.A (Italy) for manufacturing and distribution of Sirca products in India, Nepal, Bangladesh and Sri Lanka.

While premium wood coatings have been Sirca's USP, the company has adopted the right strategy to diversify its product portfolio to include economical PUs and melamine products, launched under 'Unico' brand. With the inclusion of these products, it will be able to cater to a larger market and strengthen its brand recognition in the minds of its customers, who would, in later stages, go for the high-end Italian wood coatings market. Though, the wood coatings will continue to remain Sirca's key focus area, in order to create more wholesome product kitty for dealers and facilitate easy-onboarding of dealers, the company has entered into wall paints segment.

A strong foundation backed by a robust business model, layered with a vast potential market positions Sirca well for delivering the next leg of value. We believe the company is prepared to make the most of the opportunities that lie ahead, from strengthening infrastructure and distribution network to creating brand awareness to investing in people and expanding its value propositions, Sirca has what it takes to create long and lasting value for the investors, in our view.

Valuation & Recommendation:

Starting with a fairly simple business model of importing PU products, repacking and selling it through its distribution network, Sirca has become one of the leaders in northern India for wood coatings. To add to its product kitty, the company has launched melamine, NC products, and economical PU products under Unico brand for which it has set up an in-house manufacturing unit. Besides this, it has strategically forayed into wall paint segment. In FY21, Sirca has signed an exclusive distribution agreement with Durante & Vivan (for adhesives and for super luxury paints). This now completes Sirca's product kitty which includes everything from putty to wall paints, economical and premium wood coatings along with adhesives. In the next two quarters, the company will be focusing its efforts on adding new manufacturing units in South India, to help cater to the Western and Southern Indian markets which it expects to commission before the end of H1FY24. Going ahead we expect the company to report Sales/ EBITDA / PAT CAGR of 30%/40%/40% respectively over FY22-25E on the back of strong growth across categories driven by a) rapid distribution expansion, b) hiring of experienced industry professionals leading to improved efficiencies and fast track growth, c) a sharp focus on upgrading the IT, ERP, and digital systems and d) operating



leverage with improving efficiencies. The concern, though, has been stretched working capital cycle with the company still being in its nascent stage, and trying to build its brand in the industry that is occupied by much larger and established players. The management has set the focus to address the issue which could lead to an improvement in cash conversion and return ratios going ahead. While it's a relatively small establishment, we are optimistic about the long term prospects of the company given a solid product portfolio, strong track record and multi-billion dollar opportunity in Indian paints industry.

We think the base case fair value of the stock is Rs. 671 (25x Dec'24E EPS) and the bull case fair value of is Rs 737 (27.5x Dec'24E EPS). Investors can buy the stock in Rs. 608-625 band (23x Dec'24E EPS) and add more on dips in Rs. 545-554 (20.5x Dec'24E EPS).

Financial Summary

Particulars (in Rs Cr)	Q3FY23	Q3FY22	YoY-%	Q2FY23	QoQ-%	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	65	53	23%	73	-11%	143	200	282	358	442
EBITDA	14	12	17%	19	-27%	12	38	68	85	103
APAT	11	9	15%	14	-27%	17	28	51	64	77
Diluted EPS (Rs)	3.8	3.3	15%	5.3	-27%	6.1	10.1	18.6	23.2	28.0
RoE-%						8.6	13.0	20.7	21.6	21.8
P/E (x)						101	61	33	26	22
EV/EBITDA						133	42	23	19	15

(Source: Company, HDFC sec)

Q3FY23 Result Update

Sirca's Q3FY23 results were marginally below our expectations given higher than expected decline in EBITDA margins, however, our long-term outlook and sales growth and profitability remains intact. Revenue from Operations for the quarter stood at Rs 65 Cr, up 22.6% YoY and reporting a decrease of 10.6% QoQ. The key reason for the sequential decrease in topline was the temporary ban on spray painting in the NCR region due to pollution related guidelines. Overlooking the effects of the temporary ban in the end of November & December, the company has a robust demand outlook for the coming months.

On the profitability front, the company reported slightly better Gross Margin (+320 bps YoY/ +46 bps QoQ), but lower EBITDA margins (-104 bps YoY/ -470 bps QoQ) due to; a) FOREX loss of Rs 1.45 Cr in Q3, compared to a gain of Rs 0.72 Cr in the previous quarter, b) higher Sales Promotion & Advertisement expenses on account of the annual national dealer meet organized in NCR, and higher Trade Exhibition expenses, and c) employee Benefit Expenses were slightly higher on account of payout of annual bonuses to the team.



Italian portfolio performance continue to be the core driver for the company. Unico's scale of operations is improving and contribution to overall sales increasing. The Company has recently launched a new waterbased coatings range – D'Aqua PU. This is a key launch in the luxury PU product kitty, in keeping with the global trend of transition from solvent based coatings towards water based coatings.

Resins Manufacturing at Sonapat Facility - The company started resins manufacturing at its Sonapat facility. Resins are being manufactured for the NC and Melamine. It is also undertaking additional investments in the current Sonapat facility to increase capacity to the tune of 20%.

Key Triggers

Sirca is one of the leading player in Wood Coatings

Premium wood coatings has been Sirca's unique selling proposition, it has progressed consistently in creating a market for premium wood coatings for the last 13 years. Sirca's core offering is the Italian wood coatings product range encompassing everything needed to protect and paint wood and alternative surfaces used in the furnishing and furniture accessories industry. These are specific products designed for industrial and handicraft use, which respond to the various problems encountered while painting furniture. The product range includes Wood Stains, Polyurethane Polish (PU), Polyester (Lamination), Acrylic Finishes, UV Products, Wood Fillers, Wood Care Products, Handmade Effects, Special Effects, Additives, among others. Furthermore, Sirca offers bi-component water-borne and solvent-borne pigmented topcoats to coat glass and produce various shades and effects. These products find application in both retail and industrial usage.

This premium range of products is positioned on the higher end of the price spectrum in the wood, glass, and metal coatings product category. These products are designed for aspiring consumers who are quality & health-conscious.

Addition of mass market products to create comprehensive portfolio

While focusing on premium wood coatings has earned the company great business and reputation, it has strategically diversified its product portfolio to include mass-market products like economical PUs and melamine products (under 'Unico' brand') which make up the majority of the market in terms of volumes. With the inclusion of these products, it will be able to cater to a larger market and strengthen brand recognition in the minds of our customers, who would, in later stages, make up for the high-end Italian wood coatings market. Although, there is a shift in the consumer preference, from melamine & economical PU products to high-end Italian PUs, the market size of the lower-end economical products is too huge in absolute terms to ignore, not to mention that the shift is a gradual process. With the commissioning of its manufacturing facility in Sonapat, it will manufacture the entire range of Melamine, Economical PU, Thinners and NC Products in India while continuing to import and repack Italian PU as it seeks to maintain its 'Made in Italy' identity.



Entry into newer markets to drive volume growth: The retail customer segment contributes to nearly 70% of the business. By virtue of its establishment in Delhi, the company has a strong presence in North which also accounts for ~60% of its sales. The company is incrementally focused on increasing its geographical footprint and expanding its dealer network in Southern, Western & Central India with good responses from Kerala, Karnataka, Andhra Pradesh, Gujarat, and even other parts of the country, like Madhya Pradesh, Bihar, Jharkhand, Odisha. It has increased its dealer network from ~550 sales points in FY19 to 1700+ sales points as of Q3FY23, and plans to end FY23 with ~2000 sales points. Sirca had a confined presence in the past with luxury Italian PUs being a niche product. However, with its entry into mass-marketing wood coatings through Unico brand, the company aims to drive the penetration of its brands and has set an internal target to take its dealer count to 5000+.

Sirca is steadfast on its aim to increase geographical footprint by leaps and bounds, for which the company is deploying various approaches & strategies including expanded product portfolio, regional advertisements & marketing, automatic tintometrical system – Colour Passion, among others. Interestingly, it has also hired many senior industry professionals across geographies including Mr. Narinder Mediratta as ‘President-Sales’ from Kansai Nerolac with over 20 years of experience to drive the expansion.



(Source: Company, HDFC sec)



Wood Coating Industry

Wood coatings find application in a variety of projects ranging from residential, commercial, hospitality, among others. These coatings are used for their adhesion, anti-corrosion, durability, appearance enhancing & aesthetics features on wooden furniture. In the last decade, India has shaped up to be one of the largest markets for wood coatings products in the Asia-Pacific region. Although, it is difficult to reliably map the exact size and growth trends of the wood finish & coatings industry, it has been observed that this segment is growing at double-digit numbers. Indian furniture industry, which happens to be a key demand driver of wood coatings products, is estimated to be a USD 5 bn market. Baring momentary challenges the long term prospects of the furniture industry remain intact. This bodes well for India furniture manufacturing and demand for wood coatings products.

Due to the premium brand positioning of Sirca Wood Coatings in the market, it competes primarily with high-end wood coating brands and not domestic wood coatings or wood polish products. Industry leaders like Asian Paints and Pidilite Industries have collaborated with foreign brands like Renner (Italy) and ICA (Italy) respectively to give their products a premium position in the market. Other players in the industry are Akzo Nobel, Kupsa Coatings, Charmwood (By Jubilant Industries), Kansai Nerolac, MRF Corp, Sheenlac, etc. The entry of bigger players in the coatings industry is marked by the expectation of a double-digit growth for this industry in the foreseeable future.

Transition from melamine to polyurethane (PU) bodes well for Sirca

Wood coatings products have witnessed a change in preference from erstwhile wood polish products to premium wood coating products given a shift in consumer preferences from toxic and environmentally harmful products to eco-friendly and non-toxic products. These toxic products emit high VOC (volatile organic compounds) that are harmful to humans & the environment; unfortunately, these coatings make up most of the volumes in Indian markets. There is a shift underway from harmful products like Nitrocellulose (NC) and Melamine coating products to high-quality Polyurethane (PU) coatings on account of multiple factors such as –

- Increasing health-consciousness and awareness about the harm-full effects of these degrading wood coatings
- Growing awareness about environment-friendly products,
- Greater artistic and aesthetic value,
- Other factors include – lower emission of odour, increased durability and resistance which make these products more preferable.

Furthermore, in many developed countries, water-based Polyurethane coatings are gaining acceptance against solvent-based Polyurethane coatings. Sirca being at the forefront of innovation, already manufactures a complete range of water-based Polyurethane coatings. The increasing value of aesthetics and higher expenditure towards the furnishing segment has supported this transition. In the long-run, an increase in disposable income and a shift towards higher-end wood coating products in the value chain will be the leading growth driver for the wood coatings market



Sirca is one of the leading suppliers to OEMs

Sirca has been working in collaboration with OEM of furniture and fixtures from the inception of the company. The development of Sirca products traces back to numerous collaborations and having a deep understanding of the requirements of OEMs. In India as well, OEMs have been early adopters of luxury wood coating products. Through, its strong technical and aftersales support to OEMs, Sirca has garnered strong customer relationships with its clients.

As a constant trend, ~30% of its revenues comes from the OEM segment where it supplies to ~623 OEMs such as Godrej & Boyce, Jindal Stainless, Indoline, Space Wood, Pyramid, MAS Furniture, Alsorg, and Soundarya Decorators. In the longer run, the performance of this segment will be driven by the growing prominence of ready-made, modular furniture vis-a-vis on-site creation of furniture. Through its constant innovation, new product developments and strong technical support Sirca has become indispensable to OEMs and is well-placed to make the most of this opportunity.

Rising share of organized players in Indian Furniture Industry

The Indian domestic furniture market is expected to expand at a CAGR of ~13% during 2020-24. As per market demand, players are supplying readymade, branded furniture with low maintenance, which is quickly installable with customisation options. The Indian furniture manufacturing sector which is largely unorganized (~85%) mainly caters to home, office & hospitality sectors. The domestic home furniture comprises of 65% of the Indian furniture demand, followed by office furniture comprising of 20% and contract furniture (primarily for hotels) comprising of 15% demand. The market in recent times is witnessing an increase in the contribution from organized sector across demand segments. The entry of global players such as Swedish giant IKEA in India will further this trend for organized retail sector consolidation and backward integration with manufacturers and raw material suppliers, driving the entire value chain towards organized retail. Additionally, various furniture companies such as Pepperfry, Urban Ladder and others are creating huge demand from online channels.

While the overall furniture industry in India is expected to witness a significant change from retail to OEM, as discussed above, we expect the contribution for Sirca to largely remain the same given its retail segment is likely to be uplifted in similar manner on the back of rapid expansion in its distribution network and new product launches.

Strategic foray into wall paints

While the wood coatings continues to be Sirca's focus area, it has ventured into wall paints segment to create an integrated product portfolio that aids the company in onboarding dealers and distributors, compared to creating distribution for a single product portfolio. The distribution network so created helps in expanding the reach of its core Italian offering.



After its first launch with 7 products and a total of 9 products as of last year, Sirca's present wall paints portfolio consists of 15 products including Luxury Emulsions, Premium Emulsions, Emulsions, Economy Emulsions, Weatherproof Emulsions, Wall Primers (both Interior and Exterior), Textured Finish, and Oil Primer. In FY21, the company had also launched White Cement Wall Putty under the Sirca brand to complement its wall paints offerings as the several market where it has been selling paints also demanded putty especially on the projects side.

Though Sirca is not focused on wall paints as the intention remains on building a distribution network for wider landing of its premium wood coating products, any positive surprise in terms of volume growth/acceptability of products can be a big positive given the robust prospects of decorative paints industry.

Addition of San Marco Portfolio

In FY21, the company signed an exclusive distribution agreement with San Marco Group SpA (San Marco) for their flagship, high-end, San Marco brand. San Marco is a point of reference in the Paints & Varnish industry globally, known for its Special Effects product range offering solutions from the most classical such as the Venetian plaster, to those contemporary playing on the refraction of light, or even the most innovative that reproduce concrete or oxidized metal effects. Sirca intends to position San Marco as an exclusive offering that will be marketed as a service plus product offering.

In Q3FY23, the company launched a new waterbased coatings range – D'Aqua PU. This is a key launch in the luxury PU product kitty, in keeping with the global trend of transition from solvent based coatings towards water based coatings.

Glimmer on Indian Decorative Paints industry

The decorative paints segment represents around 74% of the overall paint market in India and includes wall finishes for interior and exterior use, enamels, wood finishes and ancillary products such as primers and putties. The organized Indian paints market accounts for the top 10 to 12 players who represent 77% of the decorative market share while the remaining 23% comprises many small players. Asian Paints is the market leader in the decorative paints industry with a market share of 42% of the total market followed by Berger Paints (12%), Kansai Nerolac (7%) and Akzo Nobel (5%). The paint industry has been witnessing a gradual shift in preferences from the traditional whitewash to high-quality paints like emulsions and enamel paints, providing stable base for growth of Indian paint industry. In addition, it is creating a strong competitive market, where players are adopting different strategies to tap the growing demand in the market for a larger share.

The decorative paints industry reported an 11% CAGR over FY2011-FY2019 and stood at Rs. 545 bn. It is expected to post CAGR of approximately 13% in terms of value and 10.2% in terms of volume through FY25 driven by a number of factors including reduction in the



repainting cycle to 4-5 years (from 7-8 years earlier), acceptance for better paint products in smaller towns, and upgradation of premium brands in cities and large towns. Additionally, water-based paints are increasingly becoming the preferred choice of paints for home interiors and exteriors. The decorative paint industry, in terms of technology, has been witnessing a higher inclination toward water-based paints with even the major entities focusing more on water-based plants. Even Sirca's range of wall paints is water-based, non-toxic and low in VOC.

New stream of growth through Adhesives

In FY21, the Sirca has signed an exclusive distribution agreement with Durante & Vivan SpA (Pordenone) for their flagship DuranteVivan brand. Durante & Vivan is a 60-year-old brand and part of The Durante Group that is present in more than 100 countries. It specializes in adhesives for various uses that find application in the furniture, woodworking, paper, and PVC industries. This is an extension of Sirca's existing relationship with the group that houses the Sirca brand. Durante & Vivan offers a complete range of adhesives, but the company will be targeting its hot melt adhesive, to begin with. This product is extensively used in the furniture manufacturing industry, where the company has a firm footing. Leveraging its existing relationships with 300+ clients, the company will look to create a market for itself in this segment.

Hot melt adhesives are solvent-free glues made from thermoplastics. They are mixed and applied when molten. This type of adhesive is superior to water-based adhesives because they provide a better hold and they also have a superior manufacturing flexibility. Besides wood hot melt glues can be used in a wide variety of applications. While the product is extensively used in western world, India has seen increasing awareness and usage only in recent past with Jowat SE and Henkel being two of the bigger competitors in industrial adhesives space. Additionally, Durante & Vivian is sole supplier of hot melt glue to Ikea globally which demonstrates its quality given the glue is one of the most critical component of furniture.

Going ahead, the company also plans to enter white glue segment to cater to retail segment, leveraging its growing distribution network. The Indian consumer adhesives market is primarily dominated by Pidilite that has an aggregate market share of 60-65% highlighting the presence of strong entry barriers. The entry barriers include the development of an extensive distribution network through long-term relationships with distributors as well as significant marketing costs and the establishment of a distinct brand to gain product acceptance. Sirca plans to compete on the basis of the strength of its products and by offering favourable terms to its distributors compared to slim margins offered by Pidilite currently given its dominance in the industry.

Exploring international markets

Besides India, Sirca also has an exclusive distribution license of Sirca brand in Nepal, Bangladesh and Sri Lanka. Currently the contribution from exports is negligible as there hasn't been significant development on this front due to travel restrictions imposed by Covid-19 which



restricted any on-ground work. However, a trial shipment has been exported, and the response received for it is encouraging, according to the company. The company is also looking at initiating business with Unico's range of products in Nepal, Sri Lanka, and Bangladesh. We expect the exports to pick up FY24 onwards.

Revenues likely to grow at ~30% CAGR over FY22-25E

We expect Sirca to report ~30% CAGR growth over FY22-25E on lower base and on the back of strong performance across categories. The imported Italian PU currently contributes 67% of the revenues. We expect this category to grow at ~20% over FY22-25E while the contribution of the same is expected to come down to 55-60% over the next few years given the faster growth in mass-market wood coatings under the brand Unico, and wall paints.

The sampling process for DuranteVivan (Adhesive) with the top OEMs of the company which was delayed due to travel restrictions has now been completed. San Marco has been receiving a satisfactory response in NCR, and it plans to introduce the same at the dealer level soon. San Marco which caters to niche market won't be generating huge numbers, however, the margins here are very attractive. While the contribution of adhesives to the topline in immediate term may be limited, we expect a meaningful contribution over mid to long term with rising acceptability of hot melt glue and as company enters into white glue segment.

Fire incident at Sonapat plant- In November 2019, Sirca had commissioned its Sonapat manufacturing facility for mass-market wood coatings portfolio, including Nitrocellulose (NC) & Melamine coatings and Thinners. Tragically, shortly after its commissioning there was a fire incident at the facility in June 2020 and impacted the offtake in FY21. However, the loss beyond that was limited as the same was insured and the company received the claim amounting to Rs 9.64 Cr in April 2021.

Expect a PAT CAGR of ~40% over FY22-25E

With the increasing contribution from non-Italian PU, rising raw material prices and operating deleverage, the EBITDA margins of the company have steadily dipped from 29.1% in FY18. Going ahead, we expect the company to maintain its EBITDA margins in 22-24% range. Higher marketing spends on the account of its widening presence will be offset by cost savings through scale of in-house resin production (resins account for 40% of product formula).

Post a series of price hikes, the company's margins have been stabilised and with softening in RM prices, they are likely to inch up. Also, increasing utilisation of capacities and lower than proportionate increase in expenses should aid the stabilisation in margins.



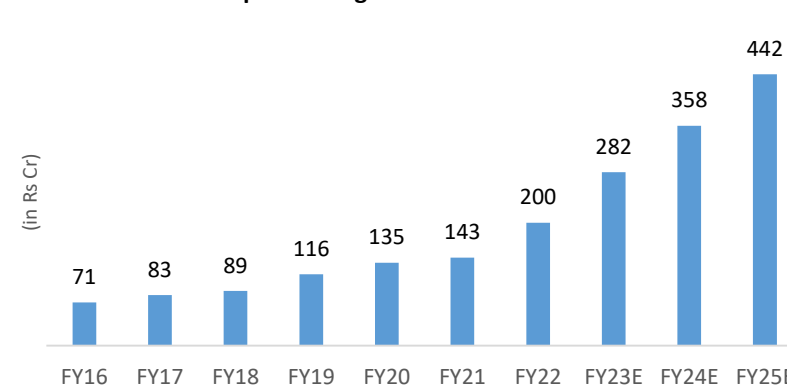
Cash conversion is weak but management is focused on improving working capital cycle

Sirca's cash conversion is quite weak compared to the large peers. It imports and repacks Italian PU products (~67% of topline), the lead time for procurement is high and the company needs to maintain sufficient level of inventories which further shot up last year given the pile up amidst Covid led uncertainties. The receivable cycle of the company is stretched as it offers relatively higher credit period; ~60 days to retailers and ~150 days to institutional clients, as it seeks to expand.

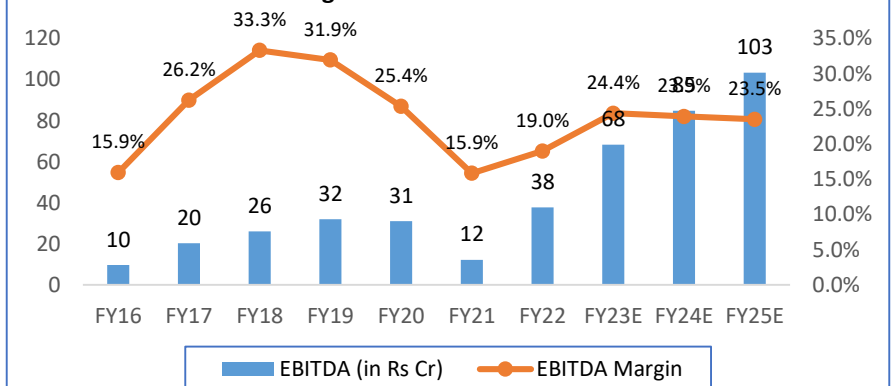
The higher level of inventories were on the account of stock pile up of Italian PU amidst Covid led uncertainties. In H1FY23, it has witnessed a further rise in inventory as it carried higher buffer inventories to avoid supply disruption in the wake of Ukraine war. Introduction of channel financing has helped to stabilise the debtors. With macroeconomic stabilisation, Sirca plans to optimize its inventory further in H2FY23.

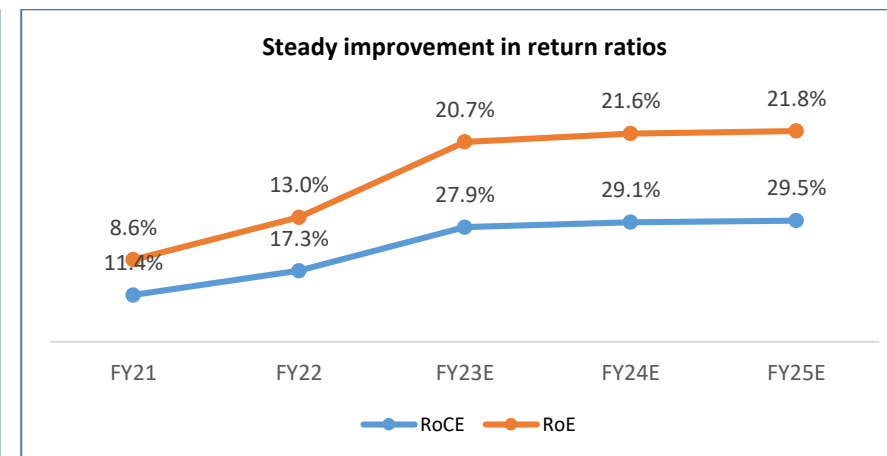
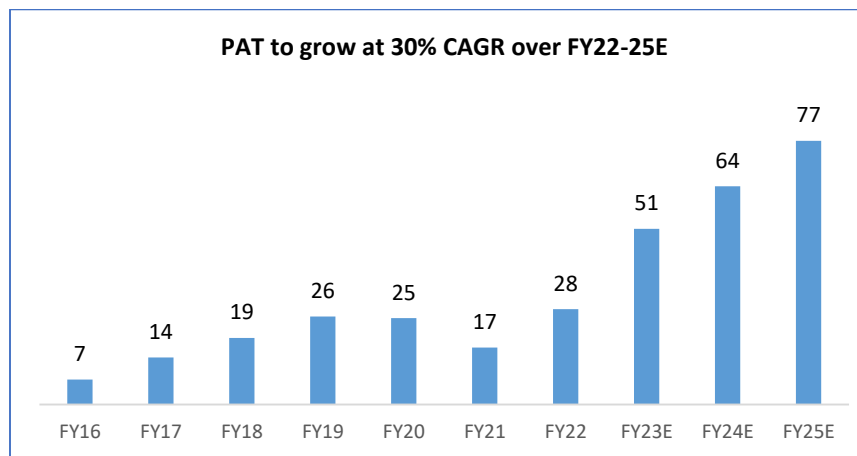
Limited capex requirements: At present Sirca's capacity stands at ~12,000 tonnes (for NC, melamine, Economical PU and PU thinners). The company is operating at 25-30% utilisation levels currently and can generate ~Rs 240 Cr revenues at peak capacity utilisation on the initial investment of Rs 33 Cr (indicating ATO of ~8). Sirca is further planning to set up capacity in Southern India where it plans to manufacture economical PUs and thinners, at minimal capex requirement of ~Rs 5-7 Cr to cater to Southern and Western markets. Besides, it is also setting up a line at Sonapat facility to manufacture resins for Unico range which shall help it have better quality control. The management has guided that it can achieve Rs 1,000 Cr topline with ~Rs 20-25 Cr incremental capex demonstrating superior RoCEs.

Revenue is expected to grow at 30% CAGR over FY22-25E



EBITDA margin to remain stable over FY22-25E





(Source: Company, HDFC sec)

Key Risks

Foreign Exchange risks: For Italian PU, the company directly procures finished goods from Sirca Italy, denominated in Euro, while only the repackaging is done in India. Any adverse movement in the Indian rupee vis-a-vis the Euro can have a material impact on its financials.

Volatility in raw material prices: Raw materials include finished products imported from Italy as well as inputs for the manufacturing facilities in India. A big part of Paints & Coatings value chain include petro-chemical derived inputs; hence, any adverse changes in commodity or crude-oil prices can impact the company's profitability.

Rise in competitive intensity: While we expect Sirca to report exponential growth over near to medium term over fairly low base, it could face increasing/ aggressive competition from established players (including increased focus on differentiated product categories) as they aim to protect the oligopolistic nature of the Paints industry.

Termination of agreement with Sirca S.P.A: Sirca has entered into manufacturing license agreement as well as distributorship agreement with Sirca S.P.A in 2018. Both the agreements are valid for 15 years till 2033. However, the company faces the risk of premature termination of agreement.



Company Background

Sirca Paints India Ltd. (Sirca) was originally incorporated as 'Sircolor Wood Coatings Private Limited' by Mr. Sanjay Agarwal and Mr. Gurjeet Singh Bains in 2006. It started import of Polyurethane Polish (PU) products from Italy and wall paints & Abrasives from Korea and selling them in India as a first step of Journey. In May 2017, the company was renamed to Sirca Paints India Private Limited and in 2018 it was converted to a public limited company. Consequently, the name of the Company was changed to Sirca Paints India Limited (Sirca). At present, the company is a leading high-end wood coatings company, engaged in the manufacturing, sales and exports of wood coatings and other decorative paints under the brand 'Sirca'. The company has an exclusive tie-up with Sirca S.P.A (Italy) for manufacturing and sales of Sirca products in India, Nepal, Bangladesh and Sri Lanka.

About SIRCA S.P.A (ITALY) - Founded in the 1973, Sirca is an integral part of the Durante Group. It is among the leaders in the field of Italian wood paints, with a widespread presence in 85+ countries, 300+ employees, 4 production plants, and a turnover of €120+ million. Sirca is a research and development oriented organization, employing more than 20% of its personnel in technical areas, such as analysts, testers, colorists, and applicators. Sirca's value proposition revolves around premium Italian wood coatings & finishes, which are developed in collaboration with Italy's most prestigious furniture brands

Sirca's brand portfolio



(Source: Company, HDFC sec)



HDFC Sec Active Coverage Universe (Paints)

Company	Mcap (Rs. Cr)	Sales (Rs. Cr)			EBITDA Margin			APAT (in Rs Cr)			RoCE (%)			P/E (x)		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sirca Paints	1681	282	358	442	24.2%	23.7%	23.4%	51	64	77	27.9%	29.1%	29.5%	33	26	22
Asian Paints	271342	34044	37543	41714	17.1%	18.8%	19.6%	3914	4704	5532	27.5%	29.5%	30.4%	69	58	49
Berger Paints	56411	10540	11749	13152	13.6%	16.3%	17.3%	850	1184	1457	16.9%	20.8%	23.8%	68	48	39
Kansai Nerolac	22128	7519	8377	9351	11.0%	13.7%	14.4%	471	700	830	10.7%	15.1%	17.1%	47	32	27

(Source: HDFC sec)



Financials

Income Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	135	143	200	282	358	442
Growth (%)	16.3	6.0	39.7	41.0	26.8	23.5
Operating Expenses	104	131	162	214	273	338
EBITDA	31	12	38	68	85	103
Growth (%)	-2.5	-60.7	209.7	80.8	24.2	21.9
EBITDA Margin (%)	23.0	8.5	18.9	24.2	23.7	23.4
Depreciation	2	4	4	5	6	7
Other Income	6	14	4	5	6	8
EBIT	34	23	38	69	86	104
Interest expenses	0	0	0	0	0	1
PBT	34	23	38	69	85	103
Tax	9	6	10	17	22	26
PAT	25	17	28	51	64	77
Share of Asso./Minority Int.	0	0	0	0	0	0
Adj. PAT	25	17	28	51	64	77
Growth (%)	-1.9	-34.0	67.0	84.2	24.3	20.8
EPS	9.2	6.1	10.1	18.6	23.2	28.0

Balance Sheet

Particulars (in Rs Cr) - As at March	FY20	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS						
Share Capital	27	27	27	27	27	27
Reserves	157	174	198	241	293	356
Shareholders' Funds	185	202	225	268	321	384
Minority Interest	0	0	0	0	0	0
Total Debt	0	13	0	0	0	0
Net Deferred Taxes	0	0	0	0	0	0
Total Sources of Funds	185	215	225	268	321	384
APPLICATION OF FUNDS						
Net Block & Goodwill	50	41	53	60	74	87
CWIP	0	2	1	1	1	1
Investments	0	1	0	0	0	40
Other Non-Curr. Assets	2	3	3	3	4	5
Total Non-Current Assets	53	46	57	65	80	134
Inventories	51	65	70	89	93	109
Debtors	46	43	46	66	83	97
Cash & Equivalents	50	79	83	91	111	108
Other Current Assets	10	23	7	25	34	32
Total Current Assets	157	209	205	271	321	346
Creditors	20	35	31	58	67	79
Other Current Liab & Provisions	5	5	6	10	13	18
Total Current Liabilities	25	40	37	68	80	96
Net Current Assets	132	169	168	203	241	250
Total Application of Funds	185	215	225	268	321	384



Sirca Paints India Ltd.

Cash Flow Statement

Particulars (in Rs Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	34	23	38	69	85	103
Non-operating & EO items	0	0	-2	0	-1	-1
Interest Expenses	-4	-3	0	0	0	1
Depreciation	2	4	4	5	6	7
Working Capital Change	-29	1	6	-27	-18	-12
Tax Paid	-12	-6	-11	-17	-22	-26
OPERATING CASH FLOW (a)	-8	19	35	29	51	72
Capex	-22	7	-16	-12	-20	-20
Free Cash Flow	-29	26	19	17	31	52
Investments	0	0	0	0	0	-40
Non-operating income	27	8	5	0	0	0
INVESTING CASH FLOW (b)	5	15	-11	-12	-20	-60
Debt Issuance / (Repaid)	0	0	-13	0	0	0
Interest Expenses	0	0	0	0	0	-1
FCFE	-3	34	11	17	30	11
Share Capital Issuance	0	0	0	0	0	0
Dividend	-8	0	-4	-8	-11	-14
FINANCING CASH FLOW (c)	-8	0	-17	-8	-11	-15
NET CASH FLOW (a+b+c)	-11	34	7	9	19	-3

One-Year Share Price Chart



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)						
EBITDA Margin	23.0	8.5	18.9	24.2	23.7	23.4
EBIT Margin	25.4	15.9	19.0	24.4	23.9	23.5
APAT Margin	18.6	11.6	13.9	18.1	17.8	17.4
RoE	14.3	8.6	13.0	20.7	21.6	21.8
RoCE	19.4	11.4	17.3	27.9	29.1	29.5
Solvency Ratio (x)						
Net Debt/EBITDA	-1.6	-5.4	-2.2	-1.3	-1.3	-1.0
Net D/E	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Per Share Data (Rs)						
EPS	9.2	6.1	10.1	18.6	23.2	28.0
CEPS	10.1	7.4	11.6	20.3	25.2	30.6
BV	67.4	73.6	82.2	97.8	117.0	140.0
Dividend	1.5	1.5	2.0	3.0	4.0	5.0
Turnover Ratios (days)						
Debtor days	115	113	81	72	76	74
Inventory days	106	148	123	103	93	83
Creditors days	50	70	60	58	64	60
Valuation (x)						
P/E	67	101	61	33	26	22
P/BV	9	8	7	6	5	4
EV/EBITDA	53	133	42	23	19	15
EV / Revenues	12	11	8	6	4	3
Dividend Yield (%)	0.2	0.2	0.3	0.5	0.7	0.8

(Source: Company, HDFC sec)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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