

Sirca Paints: Correction offers long-term opportunity

The paint company is broadening its portfolio and targeting pan-India expansion

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- *Top line rose 15 percent YoY in 9M FY24*
- *Sustained momentum in the core Italian PU business*
- *Added ~400 dealers in the last nine months*
- *Targeting 15-20 percent growth in the next couple of years*
- *Trading at 28 times FY25 earnings*

The December-quarter earnings of [Sirca Paints India](#) (CMP: Rs 325; Market Cap: Rs 1,780 crore; Rating: Over-weight), a leading manufacturer of paints and wood coatings, came in slightly below market expectations. Revenues for Q3 FY24 were up 11 percent year on year (YoY) despite multiple disruptions in the external business environment. The top line grew at a healthy pace despite the construction ban in Delhi NCR, extended Diwali break, and the unavailability of labour due to the festive season. The business exhibited robust growth in the core Italian PU business along with continued strength in emerging products categories such as Unico (mass market wood coating products), wall paints, and high-end decorative paints.

SIRCA PAINTS QUARTERLY RESULT SNAPSHOT

(Rs crore)	Q3 FY24	Q2 FY24	Q2 FY23	QoQ	YoY
Revenue	72.5	83.6	65.2	-13%	11%
EBITDA	13.8	21.3	14.1	-35%	-2%
Margins	19.0%	25.5%	21.6%	-650 bps	-260 bps
PAT	10.5	15.5	14.4	-32%	-27%
Margins	14.5%	18.6%	22.1%	-410 bps	760 bps

Source: Company, Moneycontrol Research

Adverse changes in the product mix put pressure on gross margins. Operating profits came in flat as margins declined 260 basis points YoY to 19 percent in the quarter gone by. While other expenses were stable, employee costs rose 39 percent YoY due to the addition of the senior workforce and the commencement of new production units.

Targeting pan-India expansion

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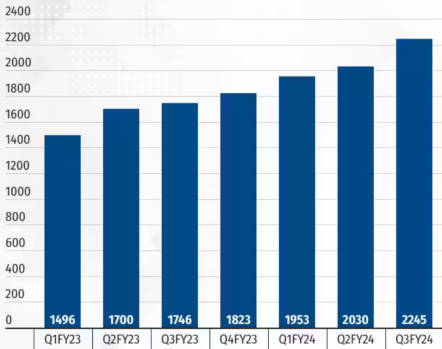
Sirca generates 70 percent of its revenue from northern India and the balance comes from eastern, central, western, and southern markets. To strengthen its pan-India footprint as well as to diversify its revenue base, Sirca is looking to aggressively expand its dealer presence in the rest of India (i.e., excluding north). Meanwhile, the company is also targeting 10-15 percent dealer growth across northern markets.

In Q3, the company added ~200 new dealers, which represents a substantial increase over the previous few quarters. At the end of Dec-23, it had a total network of ~2,250 dealers and distributors.





SIRCA'S DEALERS & DISTRIBUTORS (NOs)



Source: Company, Moneycontrol Research



Broadening its product portfolio

Sirca continues to expand its portfolio through new products across the product range — entry-level, economic, and luxury. The company has recently added a dedicated team of over 30 people along with some senior personnel to scale up its wall paints portfolio.

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Last year, Sirca entered into an exclusive distribution agreement with OIKOS S.P.A. (OIKOS) — Italy's leading decorative and solid colour finishes (textured paints) company — to introduce its products in India. OIKOS is positioned as a luxury category product in the texture paint segment and complements Sirca's existing portfolio. The initial product launch of OIKOS got a positive response in the metropolitan markets.

Given that the popularity of textured surfaces is on an uptrend globally, the management is looking to aggressively grab market share by leveraging its existing distribution network. The scale-up of OIKOS volumes remains a focus area for the management as it could act as a big margin lever for the entire business through cross-selling opportunities.

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The manufacturing capacity for Sonipat unit has recently been expanded to 16,000 tonnes from 12,000 tonnes. The company has signed an agreement with Sirca Italy to manufacture imported Italian Polyurethane (PU) wood coating products in India to strengthen its wall paint segment. While the initial production batches have already been validated by the Italian parent, the company is in the final product approval stage from its OEMs and other customers. The management anticipates a strong ramp-up in Italian PU volumes over the next few quarters.

Sector in corrective zone

Paint stocks have been correcting for the past few weeks following the foray of Grasim Industries into the sector. Investors seem concerned as Grasim has entered the paint business with the Birla Opus brand and its production capacity is nearly equal to that of Berger Paints – the second largest player. Along with the larger peers (Asian Paints, Kansai Nerolac, Berger Paints, Indigo Paints), Sirca's stock has also seen a steep correction of ~25 percent from the highs of Jan-24.

SIRCA PAINTS
FINANCIALS AND ESTIMATES



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SIRCA PAINTS FINANCIALS AND ESTIMATES

(Rs crore)	FY22	FY23	FY24e	FY25e
Revenue	200	268	308	363
EBITDA	38	62	69	82
EBITDA Margins (%)	19%	23%	23%	23%
Net Profit	28	46	52	65
NPM (%)	14%	17%	17%	18%
P/E (x)	64X	39X	34X	27X
EPS	5.1	8.4	9.6	11.9

Source: Company, Moneycontrol Research



However, Sirca continues to execute well on its expansion strategy and the business has multiple levers for growth despite the competitive market environment. Sirca remains a compelling investment for long-term investors. Its valuation (27 times FY25 estimated earnings) is clearly undemanding, and the recent correction is an interesting buy opportunity.