

SUDARSHAN

17th February, 2023

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai – 400 001
Scrip Code – 506655
Scrip Code NCDs - 974058

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
Scrip Symbol - SUDARSCHEM

Dear Sir / Madam,

Sub : Transcript of Analysts / Institutional Investors Conference Call

We are enclosing herewith transcript of the conference call with Analysts / Institutional Investors, which took place on Friday, 10th February, 2023, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) of the Company for the quarter and nine months ended 31st December, 2022.

The said transcript is also uploaded on the website of the Company.

Kindly take the same on record.

Thanking You,
Yours Faithfully,
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY



“Sudarshan Chemical Industries Limited
Q3 FY2023 Earnings Conference Call”

February 10, 2023



ANALYST: MR. SANJESH JAIN – ICICI SECURITIES

**MANAGEMENT: MR. RAJESH RATHI – MANAGING DIRECTOR –
SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. NILKANTH NATU – CHIEF FINANCIAL OFFICER –
SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Sudarshan Chemical Industries Limited Q3 FY2023 Earnings Conference Call hosted by ICICI Securities. 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 this conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you and over to you!

Sanjesh Jain: Thanks. Good morning, everyone. Thank you for joining on Sudarshan Chemical Industries Limited Q3 FY2023 results conference call. We have Sudarshan Chemical Industries Limited management on the call represented by Mr. Rajesh Rathi, Managing Director, and Mr. Nilkanth Natu, Chief Financial Officer. I would like to invite Mr. Nilkanth Natu to initiate the opening remarks post which we will have a Q&A session. Over to you Sir.

Nilkanth Natu: Thank you. Thank you ICICI Securities and Mr. Sanjesh Jain for hosting our earning call. Good morning, ladies, and gentlemen. Welcome to Sudarshan’s Q3 FY2023 earnings conference call. Our investor presentation has been uploaded on the stock exchanges for your ready referral. I would like to take you through the financial highlights of this quarter.

It was indeed again a very challenging quarter both on sales as well as the margin front not only for Sudarshan but the entire industry. On a consolidated basis for the quarter total income from operations stood at Rs.528 Crores as compared to Rs.602 Crores for the same period last quarter last year lower by 12% year-on-year. EBITDA for the quarter stood at Rs.42 Crores as compared to Rs.74 Crores in Q3 FY2022. EBITDA margins stood at 7.9% as compared to 12.3% over the same period last year. Profit after tax stood at Rs.0.6 Crores as compared to Rs.36 Crores for the same period last year. Sequentially revenue remains flat at Rs.528 Crores compared to Q2 FY2023 and EBITDA is at Rs.42 Crores compared to Rs.43 Crores of Q2 FY2023. On a yearly basis total income from operations stood at Rs.1611 Crores versus Rs.1574 Crores in the same period last year a growth of 2%. EBITDA for the period ending December 31, 2022, is at Rs.126 Crores versus Rs.189 Crores last year. EBITDA margin is at 7.8% versus 12% over the same period last year. PAT is at Rs.12 Crores compared to Rs.85 Crores for the same period last year.

Now going into the details of our segment business for the quarter income from operations stood at Rs.483 Crores as compared to Rs.560 Crores for the same period last year lower by 14% year-on-year. Sequential revenue is slightly higher by 2% compared to Q2 FY2023. India sale for the quarter is at Rs.251 Crores compared to Rs.306 Crores in the same period last year. As in the last year Q3 we saw significant increase in the domestic demand post COVID wave two. We have continued seeing buying decision deferment by the customers due to volatility in overall prices which has resulted in lower inventory level at the customer

end especially the plastic segment has impacted due to volatility in overall prices which remained still November 2022 and from December 2022 onwards we are seeing some improvement in the demand. Historically Q3 is a weaker quarter for coating segment as we normally witness drop in the demand because post festival season. In the current year coating customers were carrying extra inventory at their end and this built up was due to anticipated higher demand during the festival season; however, demand did not pick up as anticipated. We anticipate buoyant Q4 FY2023 for the coating segment. Our market share in the coating and plastics has been well maintained. Exports for the quarter is at Rs.232 Crores as compared to Rs.254 Crores last year Q3 lower by 9%. Geopolitical situation due to Russia and Ukraine war, tightening of the monetary policy by the majority of the central banks to control the inflation, rising interest rates are leading to subdued demand across majority of the regions. Europe has witnessed major demand disruption. Specialty segment sales stood at Rs.341 Crores as compared to Rs.375 Crores for the previous year same quarter 9% lower year-on-year. Non-specialty sales for the quarter stood at Rs.143 Crores compared to Rs.185 Crores for the same period last year. Gross margin for the quarter stood at 40% as compared to 41.6% for the same period last year. Sequentially it shows improvement over Q2 FY2023 when gross margin was at 38.8%. We are seeing softening of the RM prices and relatively stable RM price environment due to lower demand and drop in basic cost however such as crude oil, benzene, and toluene. This should help us in sustaining the current gross margin levels. We expect to see improvement in the margin as our high-cost inventory reduces; however, margins are subject to overall demand and the pricing pressure. Apart from the raw material cost we continue to see the energy cost at an elevated level during major part of Q3. We are seeing some early sign of coal prices easing which should benefit the manufacturing cost in the coming quarters. Logistics costs are coming off from the peak levels seen earlier and we expect this trend to continue. EBITDA for the quarter stood at Rs.38 Crores as compared to Rs.77 Crores in Q3 FY2022. EBITDA margin is at 7.8 compared to 13.7 over the same period last year. Sequentially EBITDA is flat at Rs.38 Crores compared to Rs.39 Crores of Q2 FY2023. Given the difficult external environment management is aggressively focusing on the cost reduction initiative. We will have to continue with the pricing decisions with the calibrated approach to balance on the volume growth.

Now coming to the capex project which is our thirst for future growth. We are in the growth phase to implement overall capex of Rs.750 Crores out of which we have put to use assets worth Rs.620 Crores till now. Balance Rs.130 Crores projects are part of the CWIP now. These projects are at advanced stage of completion, and we expect this to get commercialized by the end of FY2023. About 85% of our capex has been put to use and started generating some revenue. For new product capex we are getting good responses from the customer and these products are at advanced stage of evaluation. However due to demand contraction the revenue ramp up is getting delayed. In the midterm the management

remains confident to accrue the benefit as these are the specialty products and should generate good demand and product lines remain very effective.

We are glad to inform you that on account of securing the requisite permission from government authorities the land owned by the company at 162 Wellesley Road has now become marketable. Hence the Board of Directors at its meeting held on Thursday, February 9, 2023 has awarded its in-principle approval for sale of freehold, clear and marketable titled land measuring approximately 5.76 acres along with the structure standing there on. The proposed sale shall be subject to the necessary due diligence, approvals, consent, and permission from the concerned authorities as may be necessary.

We look forward to continuing our growth journey and delivering value to all our stakeholders. With this we now open the floor for question and answer session. Thank you.

Moderate:

Thank you very much Sir! Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal:

Thanks for the opportunity. First question on the revenue recovery both in the domestic as well as in the export side so not from a quarter perspective but let us say nine months how has been the demand destruction in the international and in domestic market and may be if internationally you can cut it out into Europe and non-Europe?

Nilkanth Natu:

On the demand side if I see the YTD numbers between India and exports, in the Indian market we have seen the softening of the demand in the plastic and the coating segment. As we mentioned in the plastic segment, major part of the quarter it was a polymer availability, and the prices variability was the issue so we have seen the demand disruption in the Indian market. On the export side we have seen the softening of the demand and the demand disruption in Europe due to the geopolitical pressure which is continuing. China was also soft during this period with zero COVID policy wherein we saw the demand in China was lesser. Also, one factor which has also impacted on the front of China is the antidumping. China has imposed antidumping on phthalocyanine pigments which is also impacting the overall demand, so this is YTD nine months overall overview.

Ankur Periwal:

Sure Nilkanth. If you can may be quantify a bit what could be the absolute may be directionally a 5% demand disruption, 10%, may be international could be slightly higher that will be helpful and in the domestic specifically how is the channel inventory is it still elevated or may be the refill will probably start this quarter itself?

- Nilkanth Natu:** Ankur directionally I can tell you while not quoting the percentage, India has been subdued but compared to India we have seen the export market has been more sluggish and the demand in Europe has been more disrupted due to the geopolitical pressure and regarding the channel inventory how the inventory is getting filled up, so as we have experienced till now since there has been a lot of variability in the prices and the market is expecting the price reductions based on the raw material prices getting stabilized and overall inflationary situations are coming under control so what we have seen is also buying decision deferment at the customer end which is also impacting overall inventory built up at the customer end and in the channel. So, this is the current position on the inventory side.
- Ankur Periwal:** Sure, Sir and just lastly on the gross margin front will it be fair to assume that all the RM hike that was supposed to get passed through is already done or there is still some pending benefit which can accrue over the next quarter or so?
- Nilkanth Natu:** Ankur while we mentioned that RM prices are getting stabilized and we see more of normalized RM environment not as compared to the pre-COVID period, but we see more of a stability coming in RM; however, if you really see the current quarter our gross margin is at 40% compared to 38.8% in the Q2 so it shows the positive sign. A percent increase is a positive. Two things to look at it, one is how does RM inventory impact will come in our P&L because we also have the inventory so it will have to get average out over a period once the demands pick up and our new purchases of RM inventory goes up. The second factor to watch out for is the overall demand. If the demand picks up then the margin will definitely be higher, but if the demand remains subdued then we have to take the call between the volume and the pricing.
- Ankur Periwal:** Sure. Fair enough Sir. That is, it from my side. I will get back into the queue. Thank you and all the best.
- Moderator:** Thank you. Our next question is from the line of Aatur from ICICI Prudential AMC. Please go ahead.
- Aatur:** Good morning. Just two questions. One the land parcel points which you mentioned. What according to you would be a fair assessment at this point in terms of the value of the land?
- Rajesh Rathi:** I think it is too early in the process we have not started the process because this has been approved by the Board yesterday itself, so currently it will be very premature to state any value or timeline on the process.

- Aatur:** In the other comprehensive income for the nine months basis, cumulatively there is a loss of about Rs.18 Crores I think pertaining to the forex or something if you can further explain that part, please?
- Nilkanth Natu:** As you know we had taken ECB foreign currency loan for our capex phase one and phase two. As a part of this ECB, we follow the hedging strategy as per our risk management policy and hedge accounting. Now this particular OCI increase is nothing but a reflection of the dollar rupee movement which has been there from Rs.76 to Rs.82 over this nine month period wherein the loan reset will happen and it will be there in the OCI. We monitor our ECB performance based on XIRR basis so while rupee has depreciated by 10% our XIRR has not moved that much also because there has been also the reduction in the forward premium. So, we are within the range and we are actively monitoring. So this OCI is on account of the increase in the spot exchange rate and this is also one of the reasons why it is there in our foreign exchange loss for the quarter because we had started repaying these foreign currency loans and on the loan repayment this particular exchange loss will come to the P&L; however, we need to look at it from the perspective of the interest cost because it is nothing but the add on to the interest cost.
- Aatur:** Sir, just on the land question earlier that eventually the proceeds will be used to deleverage the balance sheet, right?
- Rajesh Rathi:** Yes. I think that will be one of the uses but I think once there is a definite proposal the Board would look at the use of funds, but the intention is to look at that Sir.
- Aatur:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Chetan Thacker from ASK Investment Managers Limited. Please go ahead.
- Chetan Thacker:** Good morning, Sir. Just two questions one was you have been highlighting that you are internally working on cost initiatives so just wanted to get a sense on eventually the cost initiatives that you are undertaking how much should we build in terms of margin improvement that these initiatives should add and second is on working capital which has increased what are the steps that we are taking and where would this number eventually stabilize at?
- Nilkanth Natu:** The first question on the cost front so as a management we are taking a lot of actions looking at all the cost levers whether it is the manufacturing, whether it is the employee cost and the fixed cost, and the efforts are there to take out the inefficiencies in the cost structure and make it lean to the extent possible. Given the current scenario wherein we have seen the subdued demand, we could be able to maintain the EBITDA at around Rs.38 Crores despite

the forex loss of around Rs.10 Crores in the quarter is also on account of the cost reduction initiatives which we had taken. We expect that these initiatives will continue in the coming quarters and there is a continued focus in bringing the efficiency. In terms of the working capital, if you really see the net working capital cycle or cash conversion cycle compared to the Q2 has gone up by four days from 108 to 112 days. This is predominantly because of the build up in the inventory at the subsidiary end which is RIECO wherein it has got large value order for which it is stocking up the material for its deliveries which are planned in Q4. As Sudarshan, on the pigments side we are taking all the actions to reduce the inventory, bringing in the AR liquidation and paying the creditors on time. Currently we are at around 26% plus as far as the net working capital cycle is concerned. Our aim and endeavor is to bring down to the level of around 24% and then get to the level of around 22% over a period of time.

Chetan Thacker: This number and percentage at Sudarshan pigment level would be what currently and where do we expect that to settle because the 26%, I assume would be including RIECO?

Nilkanth Natu: No, 26% is including is pigment and 26.5% is including RIECO so what we are expecting that pigment level of 26% should come down to around 24% that is the first level target, and we would like to bring the net working capital to 22% to the level of around 90 days cash conversion maybe in a year's time.

Chetan Thacker: Sure, and Sir just on the cost takeout is there a number that you can put at in terms of compared to our earlier cost structure what would be an absolute saving that you envisage in the next two years or that would be a little difficult at this point of time?

Nilkanth Natu: It will be difficult to actually answer this on the call but see there are two to three points one is the cost reduction which is structural and systematic which will be there in the system. There are a couple of cost reductions which we are doing in terms of the manufacturing and RMC wherein based on the market condition, we have to take the call of passing on, so giving the number on this will be slightly difficult.

Chetan Thacker: Sir you highlighted that despite the forex we saw the EBITDA that we saw so is it fair to assume that forex would be a good assessment of Rs.10 Crores is cost takeout that was possible this quarter or that is also a difficult number to put at, just wanting to understand what is internally in our control how much can we at least squeeze out of that because the environment is the environment and we cannot do much about it while trying to optimize that?

Nilkanth Natu: Absolutely, so given the forex number of Rs.10 Crores despite maintaining the EBITDA one fair assumption will be the cost takeout is around this.

- Chetan Thacker:** Sure, thank you so much Sir. All the best.
- Moderator:** Thank you. Our next question is from the line of Madhav Marda from Fidelity International. Please go ahead.
- Madhav Marda:** Yes, good morning. Thank you so much for your time. Just wanted to clarify the forex loss of Rs.10 Crores to Rs.11 Crores is that captured in our other expenses for the quarter or where does it reflect in the P&L?
- Nilkanth Natu:** So, thanks for your question. The forex loss of Rs.10 Crores is captured in the other expense.
- Madhav Marda:** The Q-o-Q increase in other expense is largely on account of forex loss basically right otherwise it would have been stable?
- Nilkanth Natu:** Yes.
- Madhav Marda:** Got it. Understood and Sir my second question was that on the plastic site demand completely understand your point there was a lot of channel destocking which has happened as can be seen across the plastics industry in India but now that some of the prices for even the PVC prices that have stabilized and demand seems to be picking up on that side in the country so would it be fair to assume that this quarter onwards at least like I said coating should be buoyant plastics also should come back from January onwards probably?
- Nilkanth Natu:** Yes Madhav and thanks for the question and your assessment is correct, so what we are seeing currently is early sign of revival in the plastic segment so we expect the plastic and the coating both the segments should be better compared to the Q3 and the demand revival as of now what we can see the numbers, we see the demand revival, especially that is in the Indian market.
- Madhav Marda:** Got it. Understood. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Yash Goenka from Awriga Capital Advisors LLP. Please go ahead.
- Yash Goenka:** Thank you for taking my questions. I am new to the business so can you let me know, I am trying to understand why our market share has not been increased from 2014 it has been fairly consistent at 35%?

- Rajesh Rathi:** There are two to three areas I think, one is as you can see our share in plastic, the plastic market has grown, and I think our share in the plastic market has been quite stable. On the ink side we had lost some business due to cost pressures and that is where I think looking at the 30% to 32% market share that is where we have been maintaining.
- Yash Goenka:** Second question would be the company allocates a portion of its commission to a group entity Rabro Specialty Chemical in which individuals associated Sudarshan are also part so can you provide more information on the reason behind this arrangement and the nature of services provided by the entity?
- Rajesh Rathi:** It is arm's length transaction and in the ordinary course of business where there is a selling arm which provides all the necessary service to the customers.
- Yash Goenka:** It is providing a selling service to us?
- Rajesh Rathi:** Yes.
- Yash Goenka:** Thank you. That is all.
- Moderator:** Thank you. Our next question is from the line of Anand Venugopal from BMSPL Capital. Please go ahead.
- Anand Venugopal:** Thanks for the opportunity. What I want to know is post your capex what will your total gross block be and at full capacity utilizing what type of revenues can the company achieve, and lastly can we get to Rs.4000 Crores revenue at full capacity utilization?
- Nilkanth Natu:** On the capex side as we have mentioned this, Rs.750 Crores of growth capex which we have put to use with this what we are guiding the market that revenue will be around Rs.1500 Crores as potential revenue from this capex and this ramp up will be over three to four years period as currently we are seeing the demand is subdued that is point one. What is your second question, when we expect it to be Rs.4000 Crores correct?
- Anand Venugopal:** Yes, like can we get to Rs.4000 Crores revenue full capacity?
- Nilkanth Natu:** With this current capex we will be reaching to around Rs.3500 Crores level and as we guided the market it will be over three to four years period of time.
- Anand Venugopal:** Got it. Thanks.
- Moderator:** Thank you. Our next question is from the line of Akul Broachwala from IIFL Securities. Please go ahead.

Akul Broachwala: Thanks for the opportunity. Just taking forward question on capex so are we to assume that most of this capex dedicated to revenue generation is now over and probably next leg of capex would be more focused towards backward integration because I do remember in the past that we have been emphasizing on improving our backward integration for critical raw materials so what is the sense that our management overall is taking?

Rajesh Rathi: All our revenue capex should be completed by March end so we will put to use all our revenue capexes and the infrastructure required for it. We have taken a decision given the downturn in the business that we should not till the business improves we will not be doing any more capex for some time and from that perspective; however, we are looking at still backward integration is an important lever for us, we are looking at alternate methods where we can work with some of the some of our outsource partners where we can get these raw materials manufactured from and though we may not get the full benefit if we had done the capex but we will get the partial benefit.

Akul Broachwala: Understood and like secondly on this revenue potential talked about Rs.1500 Crores so how far are we from in terms of pricing because right now considering overall the volatile market environment as well as the fact that Europe is under pressure so are you anticipating any further challenges in terms of achieving such kind of asset turnover or do you still remain confident in terms of achieving such kind of asset turns as well as return ratios on this capex?

Rajesh Rathi: So just to understand the basis of our expansion we were looking to change our product portfolio move towards more high-performance pigments, move towards more specialty pigments, etc., so from that perspective that was the whole basis for the growth from a long term perspective. Though there is a short-term issue in demand or these are some short term issues, our long term strategy remains the same. The only thing which may happen our initial estimate was that this growth we could have achieved in three years this may take maybe four years or five years if this trend continues.

Akul Broachwala: Got it. Thank you.

Moderator: Thank you very much. Our next question is from the line of Varship Shah from Envision Capital. Please go ahead.

Varship Shah: Sir thanks for taking the question. Sir could you just please explain the forex loss, you can make them miss its mark and is it expected to reverse going forward?

- Nilkanth Natu:** This forex loss what we have mentioned is predominantly on the capital account due to the ECB which we have drawn down for our capex growth. We follow the hedge accounting policy, and we have a robust forex risk management policy in place. What we monitor for this ECB is the XIRR and currently given the depreciation in the rupee also our XIRR is maintained because we got also the benefit of the forward premium. While this quarter we had seen the exchange loss on a higher side because there were repayments and during the quarter rupee depreciated sharply. Going forward if the rupee is at the same level, I expect the exchange loss will be slightly lower but it will not get reversed. The reason why this exchange loss is there in the P&L now is due to the loan repayment which has started on ECB so ideally one should look at it as a part of the interest cost because interest cost overseas is subdued, with this it will still be lesser than the domestic rate of interest.
- Varship Shah:** The total debt, how much is working capital debt?
- Nilkanth Natu:** Total debt including the group RIECO is around Rs.946 Crores and the long-term debt is around Rs.650 Crores.
- Varship Shah:** Alright Sir. Thanks for taking my questions.
- Moderator:** Thank you. Our next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Thanks for the opportunity. Sir first question is on the RIECO engineering business we have seen in the last few quarters this business has been reviving so any plans of further taking some steps to revive this business? Thank you.
- Nilkanth Natu:** As you mentioned the management had taken various initiatives to revive this business and RIECO business over the past two to three years has turnaround. Last year was slightly bad due to the inflationary pressures but this year overall performance of the RIECO compared to the last year is in positive territory. The RIECO management is focused, and Sudarshan management is also anchoring this entire business and the revival. Currently the order book is very healthy for the RIECO, and we expect the RIECO business to be better in the next year.
- Rohit Nagraj:** Thanks. Second question is on the plastic side so in the last six to seven months, we have seen the plastic imports have gone up substantially so when the plastics are imported does it have an impact on our business because whether it is coming as a pigmented plastic or it is virgin plastic so does it have overall impact in terms of our business? Thank you.

- Rajesh Rathi:** I think the imports of plastic really does not have an impact on our overall business. I think a few trends to watch in the plastic industry is the one-time usage which has some impact though not a major impact for Sudarshan because for the low end markets.
- Rohit Nagraj:** Right and just one last clarification in terms of EBITDA margins before pandemic we used to clock close to about 14% to 15% EBITDA margins so if the demand stabilizes and revives both in domestic and international market is there a possibility to achieve those margins so will it be like three years hence till we go in for optimum utilization or probably it will happen in the next one to two years? Thank you.
- Rajesh Rathi:** It is very difficult to predict as to when the demand would normalize so I think we were hit and if you look at our EBITDA margins we were hit on two accounts one was the volume shrinkages and the extreme inflationary environment which caused the margins to reduce and what happened is with the volume reduction, volume reduction also had an impact on margins because all competitors were trying to work on the same pie right so it was fierce competition. So as soon as this kind of reverses out and all our cost reduction efforts we should be able to see a better performance. It is very difficult to predict when this could happen Sir.
- Nilkanth Natu:** To add here, directionally as Mr. Rathi said that with the current scenario it is difficult but once the demand gets revived directionally the EBITDA margins should go up because we then should see the operating leverage playing out but I would not like to put the number that by when we can see because we used to operate earlier at 15% EBITDA margin so at what point of time we will reach this I would not like to put a timeframe but in the coming years in that direction we should be moving forward.
- Rohit Nagraj:** Right just one last bookkeeping question so the capex incurred of Rs.620 Crores does it reflects in the depreciation for this particular quarter the entire capex?
- Nilkanth Natu:** Whatever has been put to use till now is reflected in the depreciation cost.
- Rohit Nagraj:** Thank you so much and best of luck Sir.
- Moderator:** Thank you. Our next question is from the line of Archit Joshi from B&K Securities India Private Limited. Please go ahead.
- Archit Joshi:** Thanks for the opportunity. Just two questions one on raw materials I think previously you commented about some mitigation that we are trying to do in terms of our sourcing basis in the past also we have kind of tried to reduce our dependence on China with respect to raw materials and certain raw materials cannot be indigenously manufactured in the backward integration that we have been talking about so on the same front how exposed are we to

China at this point in time and to what extent can we diversify our sourcing through different other supply chains and number two is what would be the peak debt given that we are almost at Rs.1500 Crores to Rs.1600 Crores of long and short term borrowing where would it peak in the midterm?

Nilkanth Natu: Thanks Archit. In terms of our dependence on China, currently the China import is at 30% and there have been a lot of initiatives which has also been taken for the diversification of the supplier base. As far as the backward integration project what we have said earlier currently we would like to get our current capex base getting stabilized and generating the revenue and the cash flows and then the backward integration and the reduction of the raw material cost initiative we will take it forward. On the debt side, debt is not around Rs.1500 Crores, it is Rs.946 Crores as of December end and I expect this should be a peak level and year end number I would expect it in the range of around Rs.860 Crores to Rs.880 Crores.

Archit Joshi: Sure Sir. Sir just one followup here could you throw some light on our debt repayment schedule in the next two years how are we planning to reduce it?

Nilkanth Natu: Given the current ECB which have been drawn down and the moratorium period, our loan repayments will be in the range of Rs.150 Crores to Rs.160 Crores.

Archit Joshi: Yes, Sir this is annually, right?

Nilkanth Natu: This is annual.

Archit Joshi: Got it. Just one thing on the first question that I asked with respect to how well we can mitigate this raw material dependency so right now we said 30% of our RM is coming from China to what extent can we better it, any color on that?

Rajesh Rathi: What we have done as a first case scenario, we do have alternate sources in other parts of the world for China, so we are not totally dependent. There are a few raw materials which we are still dependent so we do take a business and commercial call where we are but when if there are issues with that, we do have alternate sources and once our backward integration also kicks up that will also help us with some of these dependents.

Archit Joshi: Sure. Thanks a lot for the clarification and all the best.

Moderator: Thank you. We have a question from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

- Sanjesh Jain:** Thank you Sir for taking my question. I have few of them. First on the India coating side we have seen that there is a lot many new entrants coming in do you think as an opportunity here to increase our market share in the Indian coating pigment business that is number one?
- Rajesh Rathi:** I think Sir of course with the new entrants and our strong product range we are already looking at the technical development with them so that we can partner with them to kind of deliver value to them, so as soon as they start commercializing and manufacturing, we would get that benefit.
- Sanjesh Jain:** It is fair to assume that over next two to three years we will have India business growing slightly faster because of the tailwind on the India coating business side, right?
- Rajesh Rathi:** Just assuming that the coating pie does grow right, if the coating pie does grow, yes definitely.
- Sanjesh Jain:** I think the commentary from the coating guy is that they still look at 10% to 14% of volume growth we should proportionately grow right or is there an opportunity because the better kind of coating or going up so it should be higher than that for us how should one see that?
- Rajesh Rathi:** I think we should grow with that right we should grow with that volume.
- Sanjesh Jain:** Got it. Second on this yellow pigment where are we in terms of commercial supply I understand the demand side of the challenge, but have we started supplying it on a commercial scale or it is still on the approval where are we in the journey for the yellow pigment?
- Rajesh Rathi:** We have several approvals and commercial supplies have begun in the last six months.
- Sanjesh Jain:** We have already started with commercial supply from there?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** Sir my question was that ex of these new products underlying the decline in the business is higher I am just looking at can we grow or bounce back much higher because the base business except the new product has fallen more sharply so the recovery will also be sharp when you see plastics coming back and probably coating coming out of the inventory cycle is it fair to assume that next two to three quarters we have tailwind from the industry coming back a reinventorization happening, are we seeing any such signs in terms of the demand side of the business?

- Rajesh Rathi:** Obviously, our business when we are talking about the India market the India market is only 50% of our total value. It also depends on how the international markets pick up and that is where I think that both areas would have to pick up for that to happen.
- Sanjesh Jain:** Got it. I got some specific question on the export market so one China opening up now is it is a positive development for us, or will it increase the competition, how should we see China opening up having implication on Sudarshan on the pigment side of export business?
- Rajesh Rathi:** With China opening up what had happened earlier the China market because of zero COVID policy, there was a pigment production on but the consumption in the China market had reduced that is how they there was more products so there was more fierce competition in the export market so with China opening up definitely it helps in the sense of the Chinese producers more selling into China right that is one question. The second is of course we have business in China and that will help our business but there is a headwind where there is an antidumping duty on Indian blue and green pigments into China so that could be that business we have lost some business there as an industry and Sudarshan too.
- Sanjesh Jain:** We do not make Phthalo Pigment right, we just make value added out of Phthalo it does categorize within the Phthalo for this?
- Rajesh Rathi:** We make Phthalo pigments Sir completely.
- Sanjesh Jain:** Fine and now in terms of the geographical footprint in the global market we have predominantly been very strong in Europe but US has been relatively smaller for us now considering that Europe is facing its own challenge do we anticipate to increase effort in the other global geographies to recoup some of these volumes?
- Rajesh Rathi:** Sir our effort is of course we want to grow not only in the US market but the South American markets also provides a great volume, so our focus is on those markets too.
- Sanjesh Jain:** Last question on the debt side of it considering this near-term challenges you do not see any risk to the covenants in terms of the debt we hold it is close to Rs.1000 Crores?
- Nilkanth Natu:** Sanjesh with the current situation and the current debt level, we do not foresee any challenge in terms of the repayment and the interest servicing.
- Sanjesh Jain:** Right got it. Those are the questions from my side. Thank you very much and best of luck for the coming quarters.
- Moderator:** Thank you. Our next question is from the line of Anand Venugopal from BMSPL Capital. Please go ahead.

- Anand Venugopal:** Thanks for the opportunity. Sirs excuse my ignorance but if I may know why has your promoter holding reduced over the last few years?
- Rajesh Rathi:** The promoters had decided to pursue their own entrepreneur venture and that is what they diluted to pursue their entrepreneur ventures.
- Anand Venugopal:** What is the duty on green pigments that China has enforced and what is the end goal here you think like is this a temporary duty or you see it to be there for a while?
- Rajesh Rathi:** I think it is an antidumping duty and though we as an industry are fighting it together from India side unfortunately it did not work in our favor so this duty would be there for some time.
- Anand Venugopal:** Thanks.
- Moderator:** Thank you. Our next question is from the line of Madhav Marda from Fidelity International. Please go ahead.
- Madhav Marda:** I just wanted to kind of whatever we have discussed in the call is it fair to assume that domestic market demand should pick up from here exports depends on the macros there it is not in our control and on the cost side freight costs should have already been easing, coal prices are also coming down and RM has also kind of stabilized we have seen some declining trends so is that a right assessment across the various operational parameters of the business?
- Nilkanth Natu:** Right assessment. India, we see early sign of revival in the demand. Export market is slightly subdued it depends on a lot of geopolitical pressure and the demand disruption. In terms of the costs certainly we are seeing the RM prices getting stabilized, the coal prices slightly coming off the peak but not to the level what we have seen pre-COVID but yes compared to the last year we see some early sign of reduction in the prices and freight cost also one was earlier the availability so no container availability as a challenge and the costs are also coming off the peak levels which we have seen post COVID not to the level which we have seen earlier but yes compared to the last year those are coming down.
- Madhav Marda:** That is right and just on the capex side like Mr. Rajesh also mentioned so what could be the capex expectation for FY2024?
- Nilkanth Natu:** Madhav FY2024 we do not expect major capex to happen it may be only the maintenance capex. The current goal is we will be completing majority of this capex in this year end. So, except maintenance capex I do not expect any further capex to come in the next year.

- Madhav Marda:** How much is the maintenance capex for us broadly how much?
- Nilkanth Natu:** Maintenance capex will be in the range of around 40 Crores.
- Madhav Marda:** Got it. Thank you.
- Moderator:** Thank you. Our next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.
- Rohit Ohri:** One question which is related to the strategy which we had in the past so we were trying to fare away from the non-core businesses and IMSD was one of that so the other non-core business was a RIECO and would you like to share some more details on that if you would like to diverse away from RIECO because since the system is seeing that it is turning around so any thoughts on that would you like to share something on that?
- Rajesh Rathi:** The Board has been actively seeing how do we build the business back and some of the capabilities and at appropriate time the RIECO board would evaluate what should be further course of action. No such decision has been made so far but I am sure the Board is closely looking at this whether we can really grow this business and whether we should be divesting.
- Rohit Ohri:** Okay Sir so that was the only question. Thank you, Rajesh.
- Moderator:** Thank you. Our next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** Thanks for the followup. When we reach revenues of about Rs.3500 Crores will the mix of exports change and similarly whether the mix for specialty and non-specialty would also undergo a change? Thank you.
- Nilkanth Natu:** Your assessment is correct. Once we get the full benefit of this capex and the revenues ramp up breakup between the domestic and the export will move slightly on the export side and between specialty and non-specialty it will be more on the specialty side.
- Rohit Nagraj:** Yes, my question is over. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, we take that as the last question. I now hand the conference over to the management for closing comments.

Nilkanth Natu: Thank you. Thank you, Mr. Sanjesh Jain, and thank you participants for your time and interest in Sudarshan Chemical Industries Limited. We remain confident in the long-term prospect of our business, and we look forward to engaging with you again in future.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.
