

SUDARSHAN

17th November, 2022

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

Listing Department
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,

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 Thursday, 10th November, 2022, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) of the Company for the quarter and half year ended 30th September, 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 & COMPANY SECRETARY



“Sudarshan Chemical Industries Limited
Q2 FY2023 Earnings Conference Call”

November 10, 2022



ANALYST: MR. ANKUR PERIWAL – AXIS CAPITAL LIMITED

**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 the Sudarshan Chemical Industries Limited Q2 FY2023 earnings conference call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you and over to you, sir!

Ankur Periwal: Thank you, Inba. Good Morning friends and welcome to Sudarshan Chemical Industries Limited, Q2 FY2023 post result earnings call. The call will be initiated with a brief management discussion on the quarterly and first half performance followed by an interactive Q&A Session. Management team will be represented by Mr. Rajesh Rathi – Managing Director and Mr. Nilkanth Natu – Chief Financial Officer. Over to you, Rathi Ji for the initial comments.

Nilkanth Natu: Thank you, Axis Capital and Ankur Periwal, for hosting earnings call. Good Morning, ladies and gentlemen, welcome to Sudarshan’s Q2FY23 earnings conference call. Our Investor Presentation has been uploaded on the stock exchanges for your ready reference.

I would like to take you through the financial highlights for this quarter. It was indeed again a very challenging quarter both on the Sales as well as Margin front. On a consolidated basis, total income from operations stood at INR 528 Cr as compared to INR 498 Cr for the same period last year, reporting a growth of 6% YoY. EBITDA for the quarter stood at INR 43 Cr as compared to INR 53 Cr in Q2FY22. EBITDA margins stood at 8.1% as compared to 10.6% over the same period last year. Profit after Tax stood at INR 5 Cr as compared to INR 23 Cr for the same period last year.

On half yearly basis, total income from operations stood at INR 1,083 Cr vs INR 972 Cr in same period last year, a growth of 11%. EBITDA for H1 at INR 84 Cr vs INR 115 Cr last year. EBITDA margin at 7.8% vs 11.8% over same period last year. PAT is at INR 12 Cr compared to INR 49 Cr for the same period in last year.

Now going into details of our Pigment business. For the quarter, Income from operations stood at INR 476 Cr as compared to INR 448 Cr for the same period last year, a growth of 6% YoY. However, most of this increase is due to price corrections and there has been volume degrowth both in India and Export market. India sales for the quarter at INR 235 Cr as compared to INR 239 Cr in same period last year. We have continued seeing buying decisions deferment by the customers due to volatility in overall prices, which has resulted in lower inventory levels at customer end. Especially, Plastic segment has impacted due to volatility in Polymer prices; which remained throughout the quarter.

In Coating segment, all the Coating companies were upbeat in Q1 about the season and generated healthy demand and increased inventory levels. Unfortunately, due to extended monsoon, demand for Paint did not pick up as anticipated. Growth was seen more in economy and commodity product segments of Coating industry (Economy Emulsion, undercoats etc) where we have lesser presence. This has led to lower demand generation for our product as majority of the Coating companies optimized its requirement from inventory built up in Q1.

However, our market share in coating and plastic has been well maintained. Exports for the quarter were at INR 242 Cr as compared to INR 209 Cr, growth of 15% YoY. However, Geo-political situation due to Russia-Ukraine war, Supply chain constraints, tightening of monetary policy by majority of the Central banks to control inflation, rising interest rate, are leading to subdued demand across majority of the regions. Europe has witnessed major demand disruption. China “Zero covid policy” has also led to overall demand contraction.

Specialty pigments sales stood at INR 331 Cr as compared to INR 302 Cr for previous year same quarter, up 9% YoY. Non-Specialty sales for the quarter stood at INR 145 Cr as compared to INR 146 Cr for the same period last year. Gross Margins for the quarter stood at 39% as compared to 44% for the same period last year. Raw material prices during the quarter were at relative stable levels driven mainly due to lower demand and subsequent price correction of major price drivers such as Brent crude, benzene and toluene prices. Due to higher inventory level, we could not accrue this benefit immediately. Apart from raw material costs, we continue to see energy costs at an elevated level. Coal prices have gone up further. This is pushing up manufacturing costs. EBITDA for the quarter stood at INR 39 Cr as compared to INR 50 Cr in Q2FY22. EBITDA margins stood at 8.2% as compared to 11.2% over the same period last year.

As mentioned earlier, overall geopolitical scenarios and tighter monetary policy resulting in subdued demand leading to volume de-growth in certain segments and geographies. This has also resulted in pricing pressure leading to short pass through of cost increases. Both these factors have impacted margins both in absolute as well as percentage terms. Given the difficult external environment, management is aggressively focusing on structural cost reduction initiatives. With direct as well as indirect material cost pressures lingering, we will have to continue with pricing decisions with calibrated approach to balance on volume growth.

Now coming to Capex projects which is our thrust for future growth. We are in growth phase to implement overall capex of INR 750 Cr; out of this we have put to use assets worth INR 620 Cr till now. Balance ~INR 110 Cr projects are part of capital work in progress. These projects are at advance stage of completion, and we expect to commercialise by end of H1FY23. About 85% of our capex has been put to use and started generating revenue. For new product capex, we are getting good response from customers and these products are at advance stage of evaluation. However due to demand contraction, revenue ramp up is getting delayed. In the mid-term, the management remain confident to accrue the benefits as these are speciality products and should generate good demand and product line remains very attractive.

I will just hand it over to Mr. Rathi for his view on the mid-term.

- Rajesh Rathi:** Thank you so much Mr. Natu. The current results should be seen in view of the global situation. But however, the mid-term to long-term, the company sees a very bright perspective given that we have built the product portfolio in the Industry and we have also built good techno-commercial capabilities. We do expect mid-term and long-term to look at improved margins. However, it is difficult to predict when this turnaround would happen given the current geopolitical situation. But as soon as the demand is back all our capex's start firing we should be able to see a far better situation. Yes, over to you Mr. Natu!
- Nilkanth Natu:** Thank you, sir. Thank you participants. 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.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Sharan Nandipur, an Individual Investor. Please go ahead.
- Sharan Nandipur:** Thanks for the opportunity. My first question is, as you mentioned energy costs are high which is impacting the margin and profit. How long it is going to be there as per your view and also from when you will be able to pass on the price to your customers?
- Rajesh Rathi:** Like I mentioned given the current situation, we do see the India demand to be improving. However, the global context with geopolitical situation continues to be intense, we do see a contraction of demands especially in Europe and China. Given this context, probably Q3 we expect some improvements in the results. We are taking a very cautious stand where we increase prices but do not lose volumes, so we are maintaining a very delicate balance there.
- Sharan Nandipur:** Okay, and second question is on the two of your competitors who are exiting this domain. So, from when exactly you are going to get benefit from them and you will see the profit and additional volume coming to you because they are exiting the business?
- Rajesh Rathi:** There is a balance of head winds and tail winds, so there are several head winds because of demand contraction etc., but there are certain tail winds like some competitors exiting the business and also the high energy cost in Europe. This should give us some tail winds in the coming quarters that our competitors will not be competitors, but there is a balance between the head winds and tail winds. So, we do expect certain benefits to start coming especially from Q4.
- Sharan Nandipur:** Okay, and last question on the new product launch, last couple of quarters you have launched the new products. Can you throw some light on those new products from when they are going to give a benefit and the capacity utilization from it will be almost full for the new products?

- Rajesh Rathi:** Yes, like we said in our commentary, several of our new products are just being put to use, there are two product lines still we have to put to use. There is a good attraction of demand for these products, however, given the slowdown, the sales acquisition is at slower pace. The one yellow product which we had launched some time ago, that we are able to hit our targeted volumes and we are able to get good response for that.
- Sharan Nandipur:** Okay, thanks for all the answers. All the best.
- Moderator:** Thank you. Our next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Hi! Sir, first if I look on the revenue side, on the domestic side we were seeing decent volume revenue growth till Q1. But there is some slowdown now, is it largely led by the demand push back that you talked of earlier or if you can probably share your thoughts on the key segments in domestic market?
- Rajesh Rathi:** Basically, in India market what we are seeing is that, in the plastic segment we had seen a big player deferring their decision because polymer prices were dropping, so inventory in the supply chain was very low or the second thing is there was polymer availability issues in Q1. The plastic demand there has been very very sluggish. In terms of coatings, the economic coating segments have increased more than the premium where our products play in, that is where we saw little bit of demand contraction. However, I would like to re-state that we have not lost our market share or we have not lost any of our wallet share, so we are keeping a very close eye on that and it is just given the current situation and as I mentioned, we are already seeing some improvement in demand in India market.
- Ankur Periwal:** Sure, and similarly on the international side the numbers are broadly we have been able to manage the quarterly run rate there. But as you mentioned there is a volumetric decline and the pricing wise there is an improvement which is where the growth is coming from. Any thoughts with respect to specific geographies maybe Europe is hit more or if you can provide some color there?
- Rajesh Rathi:** Sure, because of the energy crisis and the demand contraction in Europe. In China given the zero COVID policy demand has been very, very subdued also there is anti-dumping duty proposed on Phthalocyanine pigments as levied by China on all the Indian producers. So, these have hit us and the industry quite badly. Mr. Natu, you would like to add something.
- Nilkanth Natu:** Ankur, as we have mentioned that the export demand remains subdued and with this overall tightening monetary policy considering the inflation rate is higher, interest rates are going higher. We see that the demand will remain in the same range, the regions which we mentioned impacted was Europe wherein we saw the demand contraction. China as Mr. Rajesh Rathi has mentioned due to zero COVID policy demand has been disrupted. The new one which is the anti-dumping which we have mentioned on the Phthalocyanine for the India exporter to China this is something we have to watch out for.

- Ankur Periwal:** Sure, and sir if you can share the broad revenue break up as in revenue contribution coming from Europe and China put together?
- Nilkanth Natu:** Ankur, we do not give the split region wise, but Europe being our major subsidiary it is a material subsidiary and that portion is available in the public domain, but we do not give it right now here.
- Ankur Periwal:** Sure, no worries sir and lastly on the capex that is coming for a completion. CWIP of around Rs.190 Crores odd large part of it or maybe the entire this CWIP will be put to use by the end of this financial year. Secondly, on the new products side if you can share your thoughts in terms of product approvals and how the clients have been taking it both domestic and international?
- Rajesh Rathi:** Most of the capex should be put to use by December end. If you look at our capex, most of the new product capex's are getting put to use now. We expect that there is a good product response like Natu Ji mentioned, the product approval cycle is working well, however due to the sluggish demand we are seeing a little bit of slow demand, that is one area. The yellow pigment which we had launched earlier we are seeing a very good demand and as per expectations we are looking at that. Some of the investments which we had done for improving our EBITDA those are not playing out well because of the coal price increases. All those benefits which we had accrued for that are not playing out well on those.
- Ankur Periwal:** Okay, great sir. That is it from my side. Thank you and all the best.
- Moderator:** Thank you. Our next question is from the line of Meet Vora from Axis Capital. Please go ahead.
- Meet Vora:** Hi Sir, thanks for the opportunity. My first question was on the gross margin side, quarter-on-quarter, or year-on-year we have seen around 300 basis points that has been our gross margin primarily because of high-cost inventory that we had maintained because in our deflationary environment our accrual and then prices have been fallen your view on that and secondly on cost control measures what specific things we are doing, how are you going to look at over it going forward?
- Nilkanth Natu:** Hi Nilkanth here. So on the gross margin the year-on-year gross margin percentage what you have seen is 3-4% down. But last year H1 it was a period where the inflation has just started in terms from the cost inflation and where pricing pass through was happening and we were able to push the prices early in the market that was the trend. But if you really see the Q3-Q4, the gross margin has settled in the last year in the range of around 41 to 42%. If I see the quarter-on-quarter gross margin reduction has been around 1% plus. This has been majorly because we have seen the raw material prices getting stabilized, we had some raw material inventories. At the same time considering the subdued and lower demand in the market, we have to take those calls to how our market share and volumes are protected. There has been a short pass through in terms of maintaining that volume which has been a conscious call. We see that this should get revised over a period once the demand is picking up and we see the raw material prices to be stable. At a given point of time we really do not know how again the

geopolitical situation will play out, but with this we should see some bit of traction and gaining the momentum in the coming quarter. In terms of the cost reduction, considering this difficult external environment, we as the management have taken various structural cost reduction initiative and we are looking at all the cost which are fixed in nature or which can be controlled irrespective of whether it is a manufacturing or whether it is employee or whether it is any other cost. So, these cost initiatives are put in place and we are rigorously monitoring that. We expect some benefits also should come in place. If you really see our EBITDA percentage while the sales has been lower compared to Q1, the EBITDA margin is at around the same percent. So, it shows that cost has been tightly maintained and we will continue to monitor that. Thank you.

Moderator: Thank you. Our next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: Thank you so much, sir. My question was in some of the products which China is dominating, we have dominance we have seen that because of their local weakness they have become more aggressive in exports. Is there a similar trend that you see even in pigments for your domestic market and probably even in Europe and if that is true what is the level of intensity, if you can give some thought there. The low pricing already achieved or still be aggressiveness continues or where are we in that space?

Rajesh Rathi: We do see some aggressive pricing within India and the Middle East region, but the other regions we do not see that so much happening from India.

Dhruv Muchhal: Okay, so China is not very intensive. I was trying to understand China is still not playing.

Rajesh Rathi: Sorry, I did not understand your question and my apologies?

Dhruv Muchhal: I was trying to understand some of the other commodities we see that China because of the local weakness they are exporting a lot in other countries.

Rajesh Rathi: Absolutely, given the very weak demand in China, China has specially been very aggressive in Southeast Asia. In US there is anti-dumping duty so, that does not work out much for them but in Southeast Asia we have seen a lot of aggressive pricing in especially the Inks area from China.

Dhruv Muchhal: Some comments on the intensity of this where are we in this phase of the aggression?

Rajesh Rathi: In terms of China has already hit the bottom I do not see this happening more and that is where we have been trying to maintain our volumes in some of these countries. We are still sticking to the wicket and even if we have to manage with a lower margin there. We are hoping that some of the China demand revives once the zero COVID policy is looked into etc., the demand normalizes there and then China should become less aggressive.

Dhruv Muchhal: Sure, sir and related to this is there was also an issue at least for last three-four quarters that the RM prices were very high and increasing consistently. Given the demand weakness, do you see relief in RM prices. I understand the demand can be weak, volumes can be weak but can there be some offset from RM price decline or are the RM products something which goes into many products, it is not pigments which influences the RM pricing and hence we will not see a significant influence?

Rajesh Rathi: We are seeing a softening of RM prices and some of the customers do expect to pass that on given that we had increased some of these prices. So, lot of selective basis we are looking at where the opportunities and we do pass those on. But we are seeing a considerable softening in the raw material prices.

Dhruv Muchhal: Okay, but that will not lead to meaningful improvement in the gross margins given the demand situation in your view.

Rajesh Rathi: The question really comes in is how does volume little bit picks up and for the industry everyone sees the volume and that is how we would be able to improve the gross margin going forward.

Dhruv Muchhal: Got it, sir. Last two questions, earlier we were also impacted significantly because of the high sea freight rates in Europe and US, which have been our major markets for exports. Now we have seen they have come down very significantly although probably still higher than the pre-COVID levels. But do you see any benefit from that in terms of your competitiveness to those markets now?

Rajesh Rathi: Surely sir, you rightly said they have softened but not to the original levels and we should see that is favorable for us going forward.

Dhruv Muchhal: Sir, can you give some quantity sense just for us to understand what was the impact pre-COVID, what was the cost how did it change post-COVID, I mean the peak of sea freight and what it would be now, just I am trying to understand what was the impact for us and how can that change. Some relative sense, I understand we get the index numbers for the sea freight rates but how does it impact us in terms of probably per kg of our products or percentage of our product that way?

Nilkanth Natu: Dhruv Hi! Nilkanth here. We will not be able to share specifics on the call. But if see the freight prices and that too in terms of the export market the issues were two-fold, one was the container availability i.e., a logistic challenge and second was the sky rocketing rates. We had seen for particular segments to Europe and USA rates has been going up as high as 300%, three times the cost which have seen during the pre-COVID stage. While we have seen the softening of this particular freight rate on the select routes it is still above the pre-COVID level but it is not what we have seen as a peak which is a three times, it is now coming in an average range of 150 to 200% in between that range. But we see the softening and majority of the softening of this rate has happened during Q2 that is a late of part of Q2 from August onwards. We will see the benefits to come in in the coming quarters.

- Dhruv Muchhal:** Right sir. Because even in my annual report I do not get these expenses of freight and forwarding, so I just trying to understand what will be pre-COVID levels as percentage of sales, what did it change to and what can it be in future. Just to get some quantitative sense in terms of what the implication could be.
- Nilkanth Natu:** But one part here, as a percentage to the sales we were able to maintain the percentages to some extent.
- Rajesh Rathi:** We look at it what can be shared Dhruv and then we will put it on, we will look into this, what can be shared and we definitely do that.
- Dhruv Muchhal:** Sure, sir and one last question just to squeeze is your new product, I understand some products are still ramping up. But in your yellow pigment, you newly launched yellow pigment. Do you see the margin profile similar to what you were expecting or you were targeting. Any comments there?
- Rajesh Rathi:** Basically, the pricing which we expected we are getting that. Some of our initial costs were little higher because of the teething issues etc. in yields, in terms of conversion costs which the team is working on it and we see going forward to attain those margins and it should be in a very short-term that we should be able to attain those margins.
- Dhruv Muchhal:** Great, sir. Thank you so much and all the best.
- Moderator:** Thank you. We will take our next question from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** Thank you for the opportunity. Sir, few questions from my end, first is on the volume while I appreciate that you do not share the volume numbers. But can you help us understand from the peak volumes now how much our volumes will be down?
- Rajesh Rathi:** On a quarter-to-quarter basis our volume is down by about 9%.
- Viral Shah:** Okay, but from the peak we have seen a 20-25% drop in volumes or that would not be the case?
- Rajesh Rathi:** We will look at it. We do not have an answer of hand on that.
- Viral Shah:** Sure. Sir, secondly on the raw material side we believe that we have seen possibly the peak of raw material prices, would it be possible to share as a basket, what is the kind of price decline that we have seen on our raw materials side?
- Nilkanth Natu:** Viral, can you please repeat your question. There was some disturbance.
- Viral Shah:** Sure. Sir, just on the raw material side I wanted to understand as a basket of raw material how would our raw material basket has behaved. Let us say if it was 100 in August or September what would it currently be?

- Rajesh Rathi:** Viral ji, it is a difficult question to answer on a call. We will study how we can publish this information.
- Viral Shah:** Okay, but at least the key raw materials would we have seen a single digit decline in pricing or a double-digit decline in pricing. Just directionally if you could guide.
- Nilkanth Natu:** Viral, in couple of commodities we have seen a single digit decline, it has been the early sign of the raw material getting softened. We have not seen the correction to the extent of double-digit, it has been just early sign and it has been in the single digit.
- Viral Shah:** Sure. Sir, in one of the earlier question you said that there is some RM softening and which we may look to pass on. Just to understand our EBITDA margins have actually dropped from 15 or 16% to around 8% and in an inflationary scenario we were not able to fully pass on the price rise, so once the deflationary scenario is starting why are we looking to pass on prices is it that competitive intensity remain high or is that something else that we should be looking at.
- Rajesh Rathi:** Two things, one is given that demand contraction in the market we want to ensure that we are not losing our market share. The second is the EBITDA margins have dropped also due to lower volumes. So, as we gain back our volumes, our EBITDA should improve with a better on the operating cost. We are taking very calculated decisions, we are not saying that on mass we are going to reduce prices to the full extent. We are looking very calculative what we need to do etc., and as I said there are certain tail winds because the energy costs in Europe are high, so our competitors from Europe are significantly looking at our higher cost compared to us.
- Viral Shah:** Sure. Sir, just on the demand as you said the volumes continue to remain low. Is it possible to throw some light how the exports are behaving in October and November while domestic you did guide that you are seeing improvement. But can you just guide how is exports?
- Rajesh Rathi:** Exports currently are at the same level sir, we have not seen any improvement in exports in Europe and China.
- Viral Shah:** Okay, just last bit on clarification. You said China has imposed ADD on Indian imports. So, have they already imposed ADD or are they still evaluating?
- Rajesh Rathi:** It is a provisional duty right now for all Phthalocyanine imports. The confirmation will come later but right now is a provisional duty.
- Viral Shah:** And what the rate would be different for different pigments or there is a blanket duty?
- Rajesh Rathi:** It is only for Phthalocyanine pigments.
- Viral Shah:** What would that number be, sir?
- Rajesh Rathi:** It ranges between 14 to 19%.

- Viral Shah:** Okay, and just one last thing with other expenses during the quarter has seen a drop from Rs.135 Crores odd that was there in the last quarter to Rs.118 Crores. Would it be possible to highlight the reason for this?
- Nilkanth Natu:** Hi! Viral, Nilkanth here. As we mentioned earlier in the call, we have taken the structural cost reduction initiative that is also helping us during the quarter and as we mentioned the volume has de-grown, there has been some variable costs which are linked to the production and that has also been one of the reasons.
- Viral Shah:** Sure. Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.
- Amar Mourya:** Thanks a lot for the opportunity. Couple of questions from my side like firstly I mean I know the results are bad, scenario is not that great. But if we see the green shoots which are available to you, first is that you are talking about domestic business recovery. Second you are saying that new product launches are seeing good traction specifically the yellow pigment I believe where the bulk of the capex was there around Rs.350 to Rs.370 Crores and then you are saying international freights because you have the contract till Q2, so from Q3 the international freight prices are also going to decline for us. So, do not you see that if these all three things will bring some improvement in your profitability?
- Rajesh Rathi:** Firstly, sir the capex figure is not correct and we have not declared that for yellow 138. So, the figure is not correct it is not that high. There were several projects, several products which have gone into the capex's and several of the capex's have just got completed. Of course there are several tail winds and most importantly management focus on controlling cost, these are working very well for us. However, there are several head winds too, so it is a balance between the head winds and tail winds and that is where we are not coming out saying and we don't know how things are going to pan out. It is very difficult to say how Europe is going come out, we are talking about US we have been doing well but we are still seeing contraction of demand there. From that perspective we have a neutral view right now.
- Amar Mourya:** Secondly, what is the big problem you are seeing, are saying that the volume de-growth which you are seeing in the international market is the big problem for you?
- Rajesh Rathi:** Yes.
- Amar Mourya:** Okay, and are you also seeing the volume de-growth in the domestic market as well?
- Rajesh Rathi:** The last quarter was and like I said we are seeing some recovery there.
- Amar Mourya:** So, basically let us say going into the Q3 do we see the domestic volume growth or volume de-growth.

- Rajesh Rathi:** I think we should recover the volumes whatever was de-grown.
- Amar Mourya:** Okay, and then in the international side, basically do not you see that as you said that majority of your competitors are European and they would be having their facilities in Europe and as you said that their cost has increased dramatically. Do not you see that some of the volume because their prices would have gone up significantly high, some of the volumes which you can attract from that business also?
- Rajesh Rathi:** Like I said these are the tail winds and there is a balance between the tail winds and the head winds and how it plays out is a question because as in the earlier question we also mentioned that China, there is lot of free capacity because of the lower demand within China, so they are also very aggressive. There is a balance of that and that is where we are saying there is a balanced view on that.
- Amar Mourya:** Okay, so basically you are not seeing that any early indication of this Europe cost price is going up. You are not likely to get some benefit out of that. Because I believe Europe is the major competition for you in terms of all players whether Clarion, BSF?
- Rajesh Rathi:** Yes, Europe is the competition and like we are saying we should get some tail winds there.
- Amar Mourya:** Because why I am saying, when the scenario is negative, everybody is going to see that way only. I am just trying to understand that lot of green shots do not you see that visible for you at this point of time which may not culminate immediately, but at least going into two quarters do not you see that these all-tail winds will basically benefit you ultimately.
- Rajesh Rathi:** Like I mentioned in our opening remarks that, mid-term, long-term we are very bullish, we have the broadest portfolio, we are in a low-cost region, we have immense technical capabilities including technical marketing, we have the commercial reach. I think we have lot going for us, it is a matter of the current scenario, it is just the current scenario on geopolitical situation what is happening. That is where we are.
- Amar Mourya:** Let us say going by Q4, till Q4 do you see something will normalize for us just a one quarter kind of a pain which is just left?
- Rajesh Rathi:** It is very difficult to predict accurately. That is why I am saying that we would not like to make forward looking predictions exactly, I can tell you directionally what it is. Directionally the fundamentals of the company are very strong, that is where we are coming.
- Amar Mourya:** And lastly sir, the new products like yellow pigment took a lot of time to get the approval and pick up. So, all the other new capex's which we have done are we going to take same time for that or this would be absorbed faster than the earlier one.

- Rajesh Rathi:** It should be faster because the other products goes into various industries not just paints and also we had lot of teething issues for yellow 138 which we are not seeing so much with the other products.
- Moderator:** Thank you. We will take our next question is from the line of Jinal Shah from Awriga Capital Advisors. Please go ahead.
- Jinal Shah:** Good morning. I am new to the company, so just wanted to understand a couple of things. The yellow pigment that you spoke about the new products. Can you just talk about it in terms of differentiating factor there.
- Rajesh Rathi:** Sir, can you repeat your question please?
- Jinal Shah:** I am new to the company, so just wanted to get a basic understanding of the new product, the yellow pigment, and its basic characteristics versus the other products?
- Rajesh Rathi:** Sure, this is a very unique high performance pigment product for mainly the paint application which has very good weather fastness. There are only one or two other producers in the world and probably Sudarshan is the third producer in the world and this was one of our flagship products and the first one which was introduced in our capex program.
- Jinal Shah:** Okay, thanks and lastly what I wanted to understand was that in a normal environment all the capex that has been spent, how many years would you take for it to get fully utilized?
- Rajesh Rathi:** In normal, it would be three to four years, sir.
- Jinal Shah:** Okay, thank you so much.
- Moderator:** Thank you. Our next question is from the line of Aatur Shah of ICICI Prudential AMC. Please go ahead.
- Aatur Shah:** Hi Sir, thank you for the opportunity. Basically, just wanted your view on in terms of margins if you have to take a call. Do you think we have hit bottom and there is a possibility directionally we will move up from here, I know the quantum will be difficult. But if you have taken a call-in terms of probability how much probability will you assign that margins would directionally go up from here.
- Aatur Shahi:** Hi Atur, this is Nilkanth. Given the current scenario and what margin we have reported now with the outlook on the India market which should get revived, considering that export remains at the same level, raw material prices getting soften and we are able to calibrate our pricing pass through. We expect that margins should improve maybe the immediate recovery may not be seen in the quarter, but over a period, in a quarter or two, we will start looking at the upward trajectory in terms of our margin.
- Aatur Shah:** Yes, thank you so much.

Moderator: Thank you. Our next question is from the line of Deep Paul an Individual Investor. Please go ahead.

Deep Paul: Hi Sir, thanks for the opportunity. Sir, my question is regarding the competitive landscape, can you please comment on some Indian origin competitors and Chinese origin competitors how they are sharing compared to product portfolio

Rajesh Rathi: On an overall basis, we have the broadest product portfolio in terms of high-performance pigment, classical azo pigments, classical Phthalocyanine, solvent dyes, CICPs, effect pigments. If you look at our product portfolio, and if you compared to the number one and number two, that would be our product portfolio. Most of the Asian competitors have very limited product portfolio and also limited capabilities on go to market and technical marketing. Coming to the short-term scenario probably amongst the industry, so I think the industry has been facing concern currently on both margins and volumes.

Deep Paul: Okay, that is all from my side. Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now hand the floor back to the management for closing comments. Over to you, sir!

Nilkanth Natu: Thank you Ankur and Axis Capital and thank you participants for your time and interest in Sudarshan Chemicals. As we mentioned in the opening this has been indeed the difficult quarter and we have seen the H1 being the difficult period . However, we remain confident in our longer-term prospect of our business and we look forward to engaging with you again in future. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Axis Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
