

SUDARSHAN

2nd June, 2022

DCS – Listing
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Listing Department
The National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Code - 506655

Scrip Symbol - SUDARSCHEM

Dear Sir,

Sub : Transcript of Analysts / Institutional Investors Conference Call

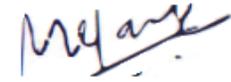
We are enclosing herewith transcript of the conference call with analysts / institutional investors, which took place on 27th May, 2022, after announcement of the Audited Financial Results (Stand-alone and Consolidated) of the Company for the quarter and year ended 31st March, 2022.

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
DGM – LEGAL & COMPANY SECRETARY





“Sudarshan Chemical Industries Limited 4QFY22
Earnings Conference Call”

May 27, 2022



MANAGEMENT: **MR. RAJESH RATHI – MANAGING DIRECTOR**
MR. NILKANTH NATU – CFO
MR. VIVEK THAKUR – GM (FINANCE)
MR. AMEY ATHALYE – DGM (FINANCE)
MR. MANDAR VELANKAR – COMPANY SECRETARY

MODERATOR: **MR. KUMAR SAUMYA - AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited 4Q and FY22 earnings conference call hosted by Ambit Capital Private Limited. As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kumar Saumya from Ambit Capital. Thank you and over to you, sir.

Kumar Saumya: Thank you, Vipin. Good morning, everyone. Welcome to the 4Q and FY22 earning call of Sudarshan Chemical Industries Limited. From the management side, we have Mr. Rajesh Rathi - Managing Director, Mr. Nilkanth Natu - CFO, Mr. Vivek Thakur - GM finance, Mr. Amey Athalye - DGM (Finance), and Mr. Mandar Velankar - Company Secretary. We will now hand over the call to Mr. Natu sir for the opening remarks and then which will be followed by a Q&A session. Over to you, sir. Thank you.

Nilkanth Natu: Thank you Kumar and Ambit Capital for hosting our earnings call. Good morning, ladies and gentlemen, welcome to Sudarshan's 4Q and Annual 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:

On a consolidated basis, the total income from operations stood at Rs. 627 crores as compared to the Rs. 577 crores for the same period last year, reporting a growth of 9% year-on-year. EBITDA for the quarter stood at Rs. 86 crores as compared to the Rs. 87 crores in Q4 FY21 the last year. EBITDA margin is at 13.7% as compared to 15.2% over the same period last year. Profit after tax is at Rs. 45 crores compared to the Rs. 48 crores for the same period last year. For the fiscal year 2021-22, the total income from operation is at Rs. 2,201 crores versus Rs. 1,864 crores last financial year, a of growth of 18%. EBITDA for the year under consideration is Rs. 275 crores compared to Rs. 288 crore for the last fiscal year. EBITDA margins stood at 12.5% as compared to 15.4% for the last year. Profit after tax is at Rs. 130 crore versus Rs. 140 crore last year.

Now going into the details of our segment business:

For the quarter income from operations stood at Rs. 558 crores, a growth of 5% on year-on-year. EBITDA for the quarter stood at Rs. 76 crores as compared to Rs. 84 crores in Q4 FY21. EBITDA margin is at 13.7% as compared to 15.8% over the same period last year.

We saw softening of the demand and our focus to pass on further input cost increases has led to reduced sales. The domestic sale for the quarter is at Rs. 287 crore compared to Rs. 273 crore in the same period last year, a growth of 5%. Sales were lower compared to the Q3 FY22, owing to the modest demand impact from third wave of COVID-19. Sales in coating and plastics segment continued to do well while demand softening was seen in the ink segment. Exports for the quarter were at Rs. 272 crore as compared to Rs. 260 crore, a growth of 5%.

We continue to see the demand across all the segments including the improvement in the cosmetics segment in the international market. We continue to monitor the geopolitical situation for any potential impact specifically in our sales in the Europe region. Speciality segment stood at Rs. 383 crores compared to the Rs. 363 crores for the previous years for the same quarter up by 5%. Non-Speciality sales for the quarter stood at Rs. 176 crore compared to the Rs.170 crore for the same period last year up by 3%. Gross margin for the quarter stood at 41% as compared to 42.9% for the same period last year. We see prices of the intermediate for Speciality segment continued at elevated level. So, at the stable status in comparison to the inflationary trend, seen in the first three quarters of the financial year. We see further increases in some of the input going in non-specialty segment. We are in the process of pass through of these absolute cost increases during the current quarter.

Apart from the raw material cost increases, we continue to see energy and logistics cost at an elevated level. Coal prices have gone up further and are about by 300% of Q4FY21 levels. This is pushing up the manufacturing costs. The challenges in the logistics area are continuing, shortage of shipping container due to COVID situation in China and congestion at various ports is leading to delays in the shipping. This has also led to the freight cost escalation of three to four times. With the direct as well as the indirect material cost pressure lingering, we will have to continue with selling price increases taking calibrated approach to balance on volume growth.

On full-year basis, the pigment sales stood Rs. 2,020 crore income versus Rs. 1,753 crore which is 16% growth. Gross margin for FY22 is at 43.1% compared to 43.4% during the last year. EBITDA for the financial year is at Rs. 269 crore compared to Rs. 281 crore of the financial years 2021. EBITDA margin is at 13.3% for the full financial year versus 16% for the last financial year. We assume milestone in our domestic business is annual sales crossing Rs. 1,000 crore mark. Domestic revenue for FY22 is at Rs. 1,034 crore compared to Rs. 856 crore last years, a growth of 21%. Export sales is at Rs. 985 crore compared to Rs. 897 crore, a growth of 10%. The specialty segment sales for FY22 stood at Rs. 1,378 crore versus Rs. 1,203 crore in FY21 growth of 15%. Non-specialty segment sales are at Rs. 642 crore versus Rs. 550 crore in FY21, a growth of 17%.

Now, coming to the CAPEX project which is thrust for the future group. We are in the growth phase to implement the overall CAPEX of Rs. 750 crore, out of this we have put to use the assets were Rs. 520 crore in the end of financial year 2021. Balance Rs. 2,010 crore projects are apart from the capital work in progress put to use for this project has been pushed out due to the delay in some of the equipment delivery. These projects are at advance stage of completion, and we expect to commercialize this by end of H1 FY23. About 70% of our CAPEX is put to use and started generating the revenue.

For the new product CAPEX, we are getting good pull from the customer and these products are at the advanced stage of evaluation. However, for the CAPEX is made for the existing product line demand environment is subdued. So, benefits from this CAPEX maybe slightly are delayed. We look forward to continuing our growth revenue and delivering value to our stakeholders. With this now we open the floor for questions and answers session. Thank you.

- Moderator:** Thank you, ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankur Periwal from Axis Capital. Kindly proceed.
- Ankur Periwal:** Two questions there starting top-down, so on the demand outlook side you did mention there is some bit of macro slow down but given that our capacities are now getting commissioned over the next quarter or so and we will look to ramp it up. What are our thoughts on the export growth front, where I am coming from is if I look at the historical run rate, export growth has been relatively slower versus domestic which has been doing reasonably well, your comments there?
- Rajesh Rathi:** Thank you. I think from our export growth perspective a lot of our new products were targeted towards exports and I think we should see a good attraction on those areas. Of course, given normal circumstances we would have seen this faster and better growth but given the current inflation, stagflation situation in some of the continents, we think; it may be delayed but I think the export still looks very promising.
- Ankur Periwal:** So, just a clarification if I got it right now, we are expecting the new plants to be commissioned by end of H1 is that right, which was earlier Q1 end?
- Rajesh Rathi:** Yes, somewhere between Q1 and H1 end.
- Ankur Periwal:** And it will take, or the way do have the product approvals in place and hence the ramp up could be faster or there could be some pushback, some delay in terms of ramping up as well?
- Rajesh Rathi:** I think ramping up should be faster; a ramping up would be good we would try and speed it up, I think on the new products it should help a lot. However, on existing product lines where we expanded, there we have seen not such a large volume growth, given the current external environment.
- Ankur Periwal:** A second bit on the margin front, now we did see some Q-on-Q improvement in terms of gross margin while the growth in specialty, non-specialty has been largely okay. Is it the price inflation pass through that we had done in the earlier quarter which is visible now and related to it how much time do you believe if we will take to effectively pass through the entire RM? Just one additional point here, you did mention energy, coal, logistics cost also increasing. So, when we are taking a price hike; is the total cost under consideration and then you take a commensurate price hike or does it only RM inflation that we are passing through and the other cost are or a hit on our P&L statement?
- Rajesh Rathi:** Obviously, the objective is to look at the total cost pass through; however, you always have to balance out between what you lose out on what volumes you gain. I think that is the balance decision we have to take at the management level. It has been a catch-up game like we said, it is just the costs have not stopped increasing one after the other. As and when we have been getting the cost increases, we have been passing on; we passed on as I mentioned the absolute increases and not the percentage increase. So, that gap is there.

- Ankur Periwal:** Sitting today, just any timeline you can share maybe over one quarter to two quarter or probably more?
- Rajesh Rathi:** So, I think as we speak, I think on the specialty part I think most of our pass through has already happened. This quarter in non-specialty areas we further got a cost escalation which we are in the process of passing.
- Moderator:** The next question is from the line of Chetan G from AlfAccurate Advisers. Kindly proceed.
- Chetan G:** Sir, couple of questions from my side, number one is, what would be the volume growth for our specialty chemical business in this particular quarter and the non-specialty business?
- Rajesh Rathi:** In the context, we don't share this because our product range is so wide. dir price of product range will vary between Rs. 70 to Rs. 5,000. So, it will just give a wrong impression on the volume growth and that's why we don't give out volume growth but to talk about directionally, the products which we are focusing on our high performance, etc., we are seeing a good growth. On some of the other areas on our classical pigments we are seeing a little bit of subdued demand.
- Chetan G:** Because what I understand here is that broadly not specifically to your product but if you see the basket of your kind of product, the pricing growth would be at least 20% odd and our growth is 5% on a year-over-year basis. So, is it like there was a volume loss in this particular quarter?
- Rajesh Rathi:** As I mentioned in the high-performance pigment areas which we are focused on, there is a good volume growth. On the classical pigments, there are some challenges in volume.
- Chetan G:** So, when you say good volume growth meaning high double-digit kind of a growth?
- Rajesh Rathi:** High double digit your interpretation could be 99%. So, I wouldn't want to comment from that perspective, but I think it is in the right direction. Given the current condition of the market, etc., we are able to grow that, on those lines.
- Chetan G:** secondly, if I can ask one more, secondly on the margin color as you said that like in the classic pigment you are yet to pass on the price. So, should I see that even the Q1 margin trajectory would be like similar to Q4 even somewhat in the muted range?
- Rajesh Rathi:** I think what is happening is we are in the stage of passing on the increases, but we are not able to pass on to leverage the entire absolute increase and then we are not passing on the percentage increases. So, from a trend perspective, I would say the trend would be slightly, I would say slightly better. We have few cost reduction initiatives etc., which we are focusing on, but I would not say that there will be a substantial change, but the trend should be slightly better.
- Moderator:** The next question is from the line of Abhijit Akella from Kotak Securities. Kindly proceed.
- Abhijit Akella:** Just on the CAPEX, just wanted to understand what a share of the CAPEX has gone into the existing products where you said that the demand environment is a little bit on the softer side?

- Rajesh Rathi:** So, could you repeat again the question?
- Abhijit Akella:** I was just referring to your comment that the demand pull for the CAPEX that has been incurred on the existing products. That is a little bit on the softer side. So, I was just hoping to understand how much CAPEX has actually been incurred on those product categories?
- Rajesh Rathi:** I don't have the number the right now We will come back.
- Abhijit Akella:** The exact reason for the slowdown in these existing product categories, could you just help us understand a little bit more about which end use industries these might be that are, that have driven the slow down? Is it autos or is it something else?
- Rajesh Rathi:** It is generally, we have seen a slowdown in printing ink and plastics. Usually, if you look at geography wise we are seeing a lot of trends where Europe, North America is slowing down in these economies. So, geography trend has been there, printing inks have been difficult and the plastic market has been difficult in the growth.
- Abhijit Akella:** One last thing from my side, just on the margins, margins are actually improved sequentially compared to the December quarter quite smartly and this is despite the fact that I guess crude oil rose in the aftermath of the Russia-Ukraine crisis in February or March. So, how exactly has the company managed to improve margins? Is it by like passing on the price increases and then when we look forward into next quarter the June quarter, should we expect some further impact of the escalation in crude oil prices, etc., on the next quarter's margins?
- Rajesh Rathi:** I think what has happened is in some of the pass through, we have been able to pass on the increases and we have also been a little more hard on saying that unless we get the pass throughs, we are not doing sales. So, we have lost on volumes on just the basis of that we have not been able to get increased.
- Abhijit Akella:** So, for next quarter does you expect an intensification of input cost pressures, or have they largely peaked out already and you are not going to get any worse from here?
- Rajesh Rathi:** I don't think it should get worse from here but input price on the non-specialty areas are under pressure, is increasing but we are passing those back on.
- Moderator:** The next question is from the line of Faisal Hawa from HG Hawa. Kindly proceed.
- Faisal Hawa:** In what areas are we doing are our future R&D and which are the areas that in 2-3 years we could be getting more revenue from, and which products just now are not developed but probably even 2 to 3 years they could give us a good revenue?
- Rajesh Rathi:** There are two parts I would say to your question. I think one part is that as you are aware several new molecules we have developed and we have these with the R&D team, is in the process of now commercializing it. So, a lot of the bandwidth is going in the commercialization, the second new areas we have working are on pigments for digital links, there are several developments

going on. Also, on the pigment preparation types a lot of developments are in progress. There are several modifications on our high-performance pigments or improvement in the value of use that is going on and the third pillar I think is looking at backward integration. Some of the important molecules there, so the team is working, we have developed our basic technology for those. Now we are seeing how to improve our cost position on those backward integration molecules.

Faisal Hawa: We are not only working on costs for existing molecules but for future pigments also we are doing R&D?

Rajesh Rathi: Yes, like I said the three areas.

Faisal Hawa: I am not asking for a ballpark figure, but would it be fair assumption in that in 2-3 years at least some new molecules would result in at least 20% extra revenue from new molecules itself which have been developed, accredited and asked for some approvals from the customers today?

Rajesh Rathi: As I said, a lot of the new molecules already are getting commercialized. Our growth in the future is going to come from that. I would not like to speculate a number, but I think a good growth would come from that and I think this will drive whole transformations of Sudarshan. If we are continued with our existing portfolio, it would have been a very tough; it would have been a very tough situation for us and that is where I think the whole growth and margin improvements in the coming years should come through this.

Moderator: The next question is from the land of Dhavan Shah from ICICI Securities. Kindly proceed.

Dhavan Shah: So, I have a question on the volume spot. You have mentioned that we have gone in terms of the volumes this quarter, but if I look at the capacity utilization for segments on quarter-on-quarter basis. So, in Q3 the utilization was roughly 80 odd percent, and this quarter is roughly 76 odd percent. Is it so that the volumes have been declined by around 5% on quarter-on-quarter basis? Is this understanding correct?

Rajesh Rathi: I think I would kind of paraphrase and answer in two ways. Firstly, I think as I mentioned earlier on high-performance pigments and the new areas, I think those products are in the high-performance and the good specialty products; we are seeing especially high-performance we are seeing a good growth and the classical pigments has been a little bit of challenge. In terms of the capacity, your question on capacity utilization, we have put to use larger capacities now. That's why you see the capacity gap, utilization gaps.

Dhavan Shah: Can you share the gross margin differentiation between the high pigment and the lower pigment, the analysis between these two?

Rajesh Rathi: From a competitive perspective, we don't share this information.

Dhavan Shah: Secondly, I just wanted to understand about the engineering business. So, we are doing roughly 10 percentage maybe around Rs. 200 crores end of the revenue every year but the EBITDA

margin roughly 3% to 5%. So, what is the overall motive to continue this business, this little bit margin not accurate to the order growth so, your thoughts on this?

Rajesh Rathi: The board is definitely deliberating on this, saying that how do we improve the EBITDA margins. You are absolutely right as it is currently a drag on the EBITDA margin. I think the board is actively looking at saying that how do we improve the EBITDA margins. We have just concluded day before the meeting and we are discussing with the management saying that how do we, how does this margin need to improve

Dhavan Shah: So, we are not going to diverse this business as we have seen earlier for other businesses, will you continue that?

Rajesh Rathi: Sorry, it is not coming up; can you repeat your question?

Dhavan Shah: So, if we are not going to diverse this business, as we have seen for other businesses in the past. So, we will continue with this business.

Rajesh Rathi: Apparently the board is deliberating on all options, but I think the first phase is to look at how we improve our margin because as you rightly said 3% to 5% of our EBITDA margin just does not make a sense. I think first focus is to improve the EBITDA margins and then look at it; strategically can we do this business, or should we divest?

Moderator: The next question is from the line of Ashwini Agarwal from Ashmore Investment management. Kindly proceed.

Ashwini Agarwal: Sir, I had a broader question. If you just zoom out and look at the last four-five years you have grown your market ranking on a global basis because of consolidation in the industry. There has been an opportunity to export from India in a lot of these businesses especially relating to chemicals complex engineering and chemical; in chemical products where you Excel that, and you have invested in capacity, but results have not been forthcoming in either in terms of margin profile or in terms of asset turns. I appreciate that some of the CAPEX has been recently commercialized. So, to that extent maybe we are looking at a picture at a wrong point in time, but do you think that cap turns of 2.5 and ROCE of at least 15%-16% is realizable or over the next one or two years after all the effort that has gone in, or market situation has changed and that is simply not possible anymore.

Rajesh Rathi: So, Ashwini sir, a very good question. I think as you rightly said, I think patience is the key: given the external environment of COVID and the current geopolitical situation, the situation has been difficult and that is where some of the delays have happened. Otherwise, we should have started firing from now on. But I think our fundamentals are right. None of the fundamentals are changed. The long-term strategy is not changed. Our growth delivery would definitely happen. It is a matter of, it is just a delay, but it is not that there are any significant changes in the trend, it is just delayed.

Ashwini Agarwal: Because as I said, my concern is that if you just simply look at the cash flows and over the last couple of years, your debt to EBITDA has now reached those three times number which is pretty much the high where think and start to look a little scary if something goes wrong. So, from here unless we see revenue accelerating far ahead of capital employed acceleration; there is a difficult spot ahead of us. I am just hoping that the Rs.1,500 crores of revenue potential that you speak about as a result of a CAPEX that has already been put into the ground including the Rs. 200 odd crores that is capital work in progress. That will be visible over the next two years. Otherwise, the debt coverage ratios, the return ratios, they will simply not improve. What do you think?

Rajesh Rathi: Actually, no question about it and like I said, whatever CAPEX we are putting up, we are having a good attraction. It is unfortunate due to COVID over and again that time and everything got delayed. That is the crux you are saying, so probably we have already gone through the worst. And here onwards I think we should be and we have just completed a board meeting yesterday and that is what we felt. I felt one thing through this COVID crisis; where it was not just handling the operations, but also delivering CAPEX; so the team has done well to deliver through COVID, these CAPEX, which are put to use. Now, it is the time, a difficult time is over and now it is kind of turning this into good shape and these are product lines which are well accepted by the customers. I think that is where we are very positive; we don't have a concern on delivering some of those areas of numbers in the next few years.

Ashwini Agarwal: Now, that is encouraging to us, all the best.

Moderator: The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Kindly proceed.

Rajesh Kothari: I have a few questions and it would be great if you can throw a detailed color on that. First thing, do you know, I think what everybody is trying to figure out is that while last two-three years were challenging due to one or other reasons how the future. What is restoring first for future and for doing that we require a little bit more what I would say concrete in terms of the building blocks apart from CAPEX that what is happening from your customer perspective. So, from that perspective from your sales mix what is the percentage of the sales which you think is the ink, the printing ink related, or lot like for example you are putting four verticals in your presentation: coatings, plastic, ink and cosmetics. What is the revenue break up mix looks like? That is question number one.

Question number two is you have mentioned that plea you are trying to pass it on the price increase to your customer. But, if I look at your revenue, the revenue has not grown significantly in fourth quarter. This is on YoY basis despite the cost has been going up significantly. So, while the margins are under pressure that is understandable why the revenue is not yet reflecting what I have been mentioning that you are trying to pass it on because one year basis it is not much, it is not even double digit. So, is it possible for you to share with us the raw material index that I understand there are 200 products and might be 10 types of different raw materials and number of SKUs, but it is important for us to understand that what is the raw material index is behaving

and what is your sales price index is behaving because clearly there is a gap, correct? I would start with these two first two questions and then I will follow-up with the third question.

Rajesh Rathi: I think firstly from a number perspective year-on-year there has been a 15% growth and to your specific question on quarter what we have seen is there has been a demand contraction and secondly, we had to make some decisions in terms of passing on the increases, we have lost certain volumes to competition.

Rajesh Kothari: Sorry. I thought it is a 9% income from operation; is 9% not 15%.

Rajesh Rathi: Sorry, come again.

Rajesh Kothari: You said it is 15% revenue growth. Sorry. I'm not able to reconcile. Slide number 11 talks about 9% revenue growth and not 15%.

Nilkanth Natu: Our pigment sale is at Rs. 2,020 crores compared to Rs. 1,753 crores of the last year. So, it is a 15% growth.

Rajesh Kothari: Sorry, please continue.

Nilkanth Natu: So that is the 15% growth.

Rajesh Kothari: I think you are answering in detail, 15% versus the raw material index would you having?

Rajesh Rathi: No, I was answering your question when you said that we have not grown I am seeing we have grown 15% in terms of sales. That is one question. To your question on the quarter-to-quarter basis, a quarter-to-quarter basis like I shared there were two factors. One is obviously Q4. We did see a demand contraction. In Europe, there has been in a subdued demand. So, China has been closed down due to COVID. So, we did see a lot of subdued demand and in addition to that we took certain decisions in India also that we are saying that we want to pass on the increases, and we gave up some volumes. So, that was the Q4 scenario. Now this was my answer to you.

Rajesh Kothari: The sales mix, the four verticals you talk about coatings, inks; what is the sales mix right now?

Rajesh Rathi: The sales trend. I think I can give you a trend perspective. I think printing ink has been a little subdued and coatings have been done normal I would say. And then the other one plastic was being subdued, cosmetic is doing well.

Rajesh Kothari: What is the ball mark sales mix would look like?

Rajesh Rathi: From a competitive perspective, we don't give the split of sales.

Rajesh Kothari: Let me put it in this way. What is a high growth versus low growth sales mix, if you can tell us something on that?

- Rajesh Rathi:** Could you elaborate your question, sir? I didn't understand your question.
- Rajesh Kothari:** The segments which are growing compared to the segments which are witnessing probably de-growth or maybe the low growth.
- Rajesh Rathi:** Coatings is growing well.
- Rajesh Kothari:** No, I am talking about sales mix perspective. If I am not asking now segment A, B, C, D. I am saying if you club the segments which are probably less growing or de-growing compared to the segments which are growing higher how your sales pics will look like?
- Rajesh Rathi:** As I just mentioned we are not giving a sales mix segment wise.
- Rajesh Kothari:** My third question was reference to the raw material index. What is raw material index if you look at on one year basis versus your sales price index?
- Rajesh Rathi:** As we have mentioned there has been a general raw material cost increase and, other manufacturing costs increases and since we have a large variety of products 300-350, it is not possible to index on an overall basis. We do follow internal index for each of the SBUs and that is what we internally adopted.
- Rajesh Kothari:** So, what is the gap there right now?
- Rajesh Rathi:** The EBITDA margin reflects both the gaps in the raw material and on the manufacturing costs, the logistics costs.
- Moderator:** The next question is from the line of Madhav Marda from Fidelity International. Kindly proceed.
- Madhav Marda:** I just wanted to get more for the elaborate sense on the demand outlook or the current demand conditions that we have in our key export markets and also India if you could give us a sense in terms of how the demand is on the ground? That's my first question.
- Rajesh Rathi:** Like I mentioned, on the demand outlook perspective there are two areas, there are, if you look at the segments printing ink, we had seen some subdued demand.
- Madhav Marda:** I am asking more geography wise like if you could give me a sense for Europe, US and India?
- Rajesh Rathi:** I was giving you overall perspective; From a perspective of sales if you look at Europe, we are seeing a little bit of subdued demand currently, of course, Russia and Ukraine is completely closed out sale, US; currently, we are okay but the future I would say current demand looks good at least for the quarter, etc., There is a fear of recession going forward and that time will tell us how that reflects on. China has been closed so far. So, China sales has kind of loss a little bit on

China, otherwise I think overall all we are looking at ensuring that we get some demand going now.

Madhav Marda: Secondly, in terms of given we have a new capacity coming up the expectation is that obviously Sudarshan will be gaining market share not just in India but globally as well. Could you give us a sense in terms of like any new client wins or how discussions are proceeding there which could help us ramp in these new capacities in the next one-two years? Like have we seen good traction for the ramp up?

Rajesh Rathi: For all our new products CAPEX; we have seen a good attraction, good attraction on demand. We were expecting on some of our existing product's volumes to grow and that is where we are seeing a little bit of subdued demand.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital. Kindly proceed.

Ankur Periwal: So, first question continues with the earlier discussion on the global consolidation now that more or less things are stable there, any thoughts you can share on the competitive intensity overall and our positioning. I recollect you have mentioned that our product portfolio after the current round of CAPEX should be largely at par there but on the competitive positioning, if you can highlight and how they are dealing with the RM inflation overall?

Rajesh Rathi: I think the number one, if you look at BASF and Sun chemicals; I think that integration is still in progress if not still I think that would be a slow process that is what we understand. The second one we have Heubach, S K Capital and Clariant that is in full swing right now and on both these areas we would look at opportunities coming up. Probably in a quarter or two where customers would start engaging; customers are engaging with us more and in a quarter or two we will see some more new opportunities coming up due to this. You rightly said our product portfolio is very comprehensive and we are expanding on the new product. We would get a good attraction from that perspective.

Ankur Periwal: On the RM inflation side, is there a pricing differential maybe we are passing through more and others are passing through less or vice versa. What your comments here?

Rajesh Rathi: I think absolutely; also, if you look at the Indian industry, we have seen some of the basic chemicals rise is more than the global trend some of the basics. So, we are seeing a little bit more of inflationary pressure compared to any of the global players. That is why we have to pass on a little bit of more increase, more increase but we are playing the balancing game and seeing how do we balance margins and volume?

Ankur Periwal: If I got you right, you are saying the inflation rate trend is slightly higher for us because of RM inflation being sharper for certain basic commodities here India.

Rajesh Rathi: Yes, you got it right.

Ankur Periwal: Hence from a pricing perspective we may not be as competitive as we speak today.

- Rajesh Rathi:** Yes, yes.
- Ankur Periwal:** And this is largely a result of the global disruption that we have seen or there is some specific local issue because of which we have seen this higher inflation for RM.
- Rajesh Rathi:** Some of the basic chemicals have really shot up in the last one year within India whether it is caustic Soda, chlorine ; whether it is nitric acid, sulphuric acid compared to the global levels we have seen a larger increase in India.
- Ankur Periwal:** The second question here on the balance sheet side now, obviously given the CAPEX the debt has also increased your thoughts on one incremental CAPEX because you did allude towards doing backward integration for selective products. So, what are our thoughts on the CAPEX side and whether this should be the peak debt or this number can still go up?
- Rajesh Rathi:** Our focus is first to commercialize these CAPEX, generate cash and reduce debt and this is definitely the peak debt. On the backward integration side , our technology we have our pilot plant ready. So, we are already looking at how do we be ready for that from that perspective. Currently we don't envision at least in this financial year any additional CAPEX for the backward integration.
- Ankur Periwal:** And the nominal CAPEX for this year will be?
- Rajesh Rathi:** Will be normal Rs. 40-50 crores which have been approved by the board.
- Moderator:** The next question is from the line of Nidhi M from Ray Assets. Kindly proceed.
- Nidhi M:** Just one clarification. If I look at the segmental numbers on the pigment side, if I look at the EBIT margins the absolute number has declined on a sequential basis. If you could just help me understand, in spite the mix changing towards more of a specialty product and as you were saying that we have margins receded on an absolute terms. So, if you could just help me understand the decline in absolute EBIT. EBIT due to depreciation primarily or is there some other reason?
- Nilkanth Natu:** Can you repeat, please repeat your question.
- Nidhi M:** So, I was asking on the segmental data that you provide I was looking at the absolute EBIT in the pigment segment. So, there is a decline on a sequential basis. I think I was the initial part where you were referring to the higher cost, but I think you also alluded that the costs have remained stable on a sequential basis. So, just trying to understand where is the contradiction coming from? We have higher feelings of specialty pigments in this quarter. So, the EBITDA number why was it lower on a sequential basis is what I am trying to understand.

- Nilkanth Natu:** If you see in terms of the pigment as we mentioned that EBITDA is at the 13.7%. If I see the Q3 of this year, FY22 and Q4, percentage wise it is at the same level and then if I see in terms of the value there has been a marginal Rs. 3 crores drop in terms of the pigment EBIT As we mentioned in the commentary; there has been cost escalation. However, this inflationary pressure and cost escalations are not static. but frequent. Once we finalize the pricing, we have to absorb some part of the cost in transition period. However, in the percentage terms we are maintaining the EBITDA.
- Nidhi M:** And just one clarification on the CAPEX front. Earlier we had indicated that out of the Rs. 1,500 crores additional revenue that we are targeting roughly Rs. 600 odd crores would be coming from the new product. So, the CAPEX for the new products has entirely been commissioned or some part of it is still pending?
- Rajesh Rathi:** As indicated in the CAPEX front, Rs. 210 crores are still to be completed.
- Nidhi M:** That includes the new products or how was it was?
- Rajesh Rathi:** Yes.
- Moderator:** The next question is from the line of Chetan G from AlfAccurate Advisers. Kindly proceed.
- Chetan G:** One more clarification. As you said that you are seeing a strong demand in the specialty part of the business whereas non-specialty or classical pigment is seeing some slow down. Is it like this non-specialty part of the business is largely those ink and plastic business?
- Rajesh Rathi:** It is a combination. I would say those specialty products go across the industries.
- Chetan G:** Next year as you are saying like worst is behind, on the other side you are also seeing that there is a caution because Russia you lost some sale in Russia, Ukraine plus there is some slowdown expected in Europe and US. So, how should we see the next year like on one side you are pretty confident; on other side there is a line of caution. Next year what should be the; what kind of volume growth or what kind of growth we should see on a year-o-year basis?
- Rajesh Rathi:** Ashwini ji's question was on the cash flow perspective and debt. What I was referring to is the CAPEX has got substantially delayed and that is how the debt cash flow is on a critical picture. I am seeing here on that picture is going to better. On the geopolitical side it is anyone's guess how it is going to pan out? I think I would not like to speculate on that area but what we are seeing is some of our fundamentals on the new products is strong and we should be able to get good attraction. It is a matter of time how this happens, and I think that question was in that context , it was more I think Ashwini ji was pointed out of broader 30,000 ft question. That is where I think; that is where I think, I was coming from.
- Chetan G:** Now given that new product as you are saying a lot of new products are launched or are on the verge of launch. So, your specialty which is 70% of the overall pigment business let's say how you should look in 2023?

- Rajesh Rathi:** So, it would be upward trend. There will be a ramp up time however on the existing product portfolio also we have added capacity. That could also grow but I think the trend in the next three years should positively move towards the specialty.
- Chetan G:** Like, let's say in next three years are you saying the specialty would be like 80% to 90% of your portfolio?
- Rajesh Rathi:** I will say yes. It will be towards the positive trend.
- Chetan G:** And that will populate also into the margin.
- Rajesh Rathi:** Yes.
- Chetan G:** Because I believe the specialty margin is at least what 50% higher than the plastic business.
- Rajesh Rathi:** It is higher. The specialty margin also has fairly a large range. It is much; it is better than the commodity and the business sticks more. Once you get into a customer, it is more; it sticks more.
- Chetan G:** Lastly, if any commentary for the next year growth I know you do get the guidance but at least any color from the growth perspective volume or anything?
- Rajesh Rathi:** I do believe we have seen the worst part of the year and I think from here we do have a positive outlook towards the market even in spite of geopolitical situation we should be doing better definitely.
- Moderator:** Thank you, ladies and gentlemen that was the last question I would now like to hand the conference over to the management for closing comments.
- Nilkanth Natu:** Thank you participants for your interest in Sudarshan and for joining our earning call. We look forward to continuing our growth journey and delivering value to all our stakeholders. Thank you. Be safe.
- Moderator:** Thank you. On behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us. You may now disconnect.