

SUDARSHAN

25th November, 2021

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

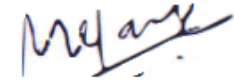
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 29th October, 2021, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) of the Company for the quarter and half year ended 30th September, 2021.

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
Q2 FY2022 Earnings Conference Call”

October 29, 2021

ANALYST: MR. SANJESH JAIN – ICICI SECURITIES

**MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR
MR. NILKANTH NATU - CHIEF FINANCIAL OFFICER
MR. VIVEK THAKUR - GENERAL MANAGER, FINANCE
MR. AMEY ATHALYE - DEPUTY GENERAL MANAGER,
FINANCE
MR. MANDAR M. VELANKAR - COMPANY SECRETARY**

Moderator: Ladies and gentlemen good day and welcome to the Sudarshan Chemical Industries Q2 FY2022 earnings conference call. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Sanjesh Jain from ICICI Securities Limited. Thank you and over to you, Mr. Jain!

Sanjesh Jain: Thanks Rochelle. Good afternoon everyone. Thank you for joining with us on Sudarshan Chemical Industries Limited Q2 FY2022 results conference call. We have with us, Mr. Rajesh Rathi, Managing Director, Mr. Nilkanth Natu, Chief Financial Officer, Mr. Vivek Thakur, General Manager Finance, Mr. Amey Athalye, Deputy General Manager Finance and Mr. Mandar Velankar, Company Secretary. I would like to invite Mr. Rajesh Rathi to initiate the proceeding with his opening remarks post which we will have Q&A session. Over to you Rajesh Ji! Thank you.

Rajesh Rathi: Thank you so much Sanjesh Ji for hosting this call. We are privileged to be associated with you. Q2 quarter was a very tough quarter for us both in terms of demand softening which we saw post the Covid wave two in India and globally having lots of logistics issue. A lot of raw material volatility which also caused a lot of margin pressures; however, the good news is that we are recovering well, out of Q2 and for a more detailed discussion I am going to request our CFO, Mr. Natu to give us an overview. Over to you Natu Sir!

Nilkanth Natu: Thank you Mr. Rathi for opening remarks. Thank you Sanjesh for hosting our earnings call. Good evening ladies and gentlemen, welcome to Sudarshan’s Q2FY22 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, total income from operations stood at INR 498 cr as compared to INR 429 cr for the same period last year, reporting a growth of 16% YoY.

EBITDA for the quarter stood at INR 53 cr as compared to INR 68 cr in Q2FY21. EBITDA margins stood at 10.6% as compared to 15.8% over the same period last year.

Profit after Tax stood at INR 23 cr as compared to INR 30 cr for the same period last year.

On half yearly basis, total income from operations stood at INR 972 cr vs INR 781 cr in same period last year, a growth of 24%.

EBITDA for H1 at INR 115 cr vs INR 121 cr last year. EBITDA margin at 11.8% vs 15.4% over same period last year.

PAT is at similar level of INR 49 cr in both periods.

Now going into details of our Pigment business.

For the quarter, Income from operations stood at INR 448 Cr, a growth of 12% YoY. EBITDA for the quarter stood at INR 50 Cr as compared to INR 66 Cr in Q2FY21. EBITDA margins stood at 11.2% as compared to 16.3% over the same period last year.

Demand in the domestic market had been soft until July due to Covid wave 2 disruptions. Demand started picking up gradually from August onwards. Due to steep polymer price increases the plastics industry demand was affected. Coating segment continued to grow however, sales in the ink segment were soft. Domestic sales stood at INR 239 Cr as compared to INR 202 Cr, growth of 18%.

Exports for the quarter were at INR 209 Cr as compared to INR 200 Cr, growth of 5% YoY. Subdued demand and availability of containers in Q2 were main challenges.

We also experienced aggressive pricing approach by some competitors for short term gains. We are now seeing cost increases are getting passed on by competition.

Speciality Sales stood at INR 302 Cr as compared to INR 271 Cr for previous year same quarter, up 11% YoY. Non-Specialty sales for the quarter stood at INR 146 Cr as compared to INR 131 Cr for the same period last year, up 11% YoY.

Gross Margins for the quarter stood at 43.5% as compared to 44% for the same period last year. All basic chemicals and intermediate prices have been going up since April. In addition to this China's energy policy has escalated prices to unprecedented level. Our endeavor is to pass majority of the cost increases to customers. However, continuous and sharp input cost increase inevitably creates a lag effect in passing it to customers.

Apart from raw material cost increases, we see energy and logistics costs also rising continuously. Coal price is now increased to 250% of Q4FY21 level. This is pushing up manufacturing costs. To counter this external cost pressure, our plant team is focussing on process improvements and reducing our manufacturing cost. We are seeing significant improvements getting implemented which will help us optimise costs. The challenges in the logistics area are continuing and leading to freight cost escalations of 3 to 4 times.

With direct as well as indirect material cost pressures lingering, we will have to continue with selling price increases taking calibrated approach to balance on volume growth.

Govt. has notified RoDTEP scheme rates in August. Pigments qualify for 0.8% benefit under this scheme as against 2% MEIS benefit available until last year. We have accrued INR 2.5 cr towards this in current quarter. However, rate as well as coverage of exports, both are lower under RoDTEP.

All these factors together have led to EBITDA margins declining to 11.2% for the quarter.

Now coming to Capex projects which is our thrust for future growth.

Our yellow pigment products are now stabilised, and we have started commercial sales. We expect to ramp up sales from Q3 onwards with more customer approvals coming in. Another new product under high performance pigments is in plant trial and is on track for commercialisation by end of Q3. We expect to launch products during Q4FY22. Our capex project to launch products in the inorganic high-performance pigments is also in the plant trial phase and we expect commercialisation during Q4FY22. Capacity expansion towards existing pigment range has reached product stabilisation phase for new lines. Looking at these project updates, we are glad to share with all that a significant progress is made on our capex installation, and major capex projects are on track for commercialization in H2.

Our total capex plan of INR 750 Cr on track. Total capitalisation at INR 293 Cr and balance we expect to capitalise by end of this fiscal year.

Happy to share with you that Sudarshan has won Mahatma Award 2021 in CSR Excellence in August -21. Mahatma Award recognises and celebrates impact leaders and change-makers across the globe, who are making a social impact and leading the way to a sustainable future. As part of employee welfare initiative, Sudarshan had initiated vaccination drive and majority of our employees at all locations have now been fully vaccinated. We also extended vaccination to nearby community in the Roha and Mahad region as part of CSR initiative.

Our manufacturing plants continued to operate in line with the various directives of the Government during the last quarter and we continue to deploy & practice necessary safety precautions regularly, to ensure continuity & uninterrupted functioning of our plants with safety and welfare of our employees being of utmost importance.

We look forward to continuing our growth journey and delivering value to all our stakeholders. With this I now open the floor for questions and answers session

Moderator: Thank you very much. We will now begin the question and answer session. We have a first question from the line of Rohit Nagaraj from Emkay Global. Please go ahead.

Rohit Nagaraj: Thanks for the opportunity. The first question is in terms of the impact because of the floods in Mahad so how much was the impact during this quarter? and whether we will be able to recover part of it in subsequent quarters. Thank you.

Rajesh Rathi: We lost almost 15 days of production; however, thereafter there have been several issues month-on-month where about 15% to 20% production has been impacted because of some breakdowns in the CETP pipeline etc., which was happening in water source, there had been some effect due to that. However, we do feel there are a lot of actions which the government and they are taking to correct that and going forward we should not see such a large issue.

- Rohit Nagaraj:** Can you quantify how much we lost and whether part of it is recoverable during the current quarter or subsequent quarters or is it a loss for the time being?
- Rajesh Rathi:** That would be loss in terms of 15 days of production earlier and then almost 15% each month that was the loss every month thereafter. It is not recoverable because those lines run full incoming quarters, but we will see a good gain once we standardize on that.
- Rohit Nagaraj:** Now it is stabilized. We do not have any issues, right?
- Rajesh Rathi:** Yes.
- Rohit Nagaraj:** Thank you. Sir the second question is in terms of the revenue of specialty chemicals. Now we see that about one-third is non-speciality and two-third is speciality after the entire capex of Rs.750 Crores is over, do we see a shift in terms of the revenue profile more skewed towards speciality or how is it? Thank you.
- Rajesh Rathi:** It will be more skewed towards speciality.
- Rohit Nagaraj:** Right and just one small clarification we have mentioned in our presentation that industry consolidation trend continued so we are talking about the domestic or global? And what have been the new consolidation trend that we have seen? Thank you.
- Rajesh Rathi:** So, the consolidation are twofold; one is Heubach and SK Capital taking over Clariant Pigment business and the second is the DIC Group taking over BASF Pigment business.
- Rohit Nagaraj:** Thank you so much. Best of luck Sir.
- Moderator:** Thank you very much. Our next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** Thank you for the opportunity. In your opening remarks you did mention certain pressure due to aggressive pricing by some of the competition. Just opposing this with the global consolidation that we are seeing, is this competition more local or it is more international wherein we are seeing some aggressive pricing?
- Rajesh Rathi:** It is more global and it is short-term driven; however, given the increase in the amount of cost and inflation, we are already able to see a lot of pass on happening and because of this some of the price acceptance in the market was very difficult to cost escalation because few players were not completely willing to pass on the increase.
- Ankur Periwal:** If I got you right starting this quarter, we are seeing some normalization there and the prices are getting passed through?
- Rajesh Rathi:** Yes, Sir absolutely.

- Ankur Periwal:** Just continuing on that so on the margin side now we did see the compression on the gross margin side which in a way was expected as well, given the sharp RM price hike, the coal prices etc., by when do you think we should be able to pass through a large part of this inflation, whether it is logistics cost, coal cost or the RM inflation?
- Rajesh Rathi:** Good question sir. So first of all if you see the gross margin part you compare the last quarter to Q2 to this Q2, the drop has nothing significant in spite of a very large increase in raw material cost. Where the challenge was that a lot of increase in coal logistics part which could not completely get passed on. And some of the international players have not seen this impact as much as we have seen. Some of them do not use coal and so the impact has not been as much for them. But having said that, we are already seeing a good path to acceptance in the market given the energy policy of China we do see the ability in the next quarter of some of the pigments and that is why we are able to see a good pass through.
- Ankur Periwal:** Lastly, if I got you right, you said, a quarter for the RM pass through to happen?
- Rajesh Rathi:** The challenge has been that the increases has not happened once, the increases have happened continuous and the last big bullet was the energy policy of China. So, it has not been a steady state, so we have increased costs. As you can see Q2 to Q2 if you see the gross margin raw material pass through happened very well but the pass through on the other items of coal and logistics could not be passed through enough. We are making every effort now to make sure that we are able to pass on all that. So, answering your question and summarizing, margin recovery, volume recovery you will see in the coming quarters.
- Ankur Periwal:** Great Sir and just lastly because of this power shortage, the outage there in China, the production cuts etc., is there any specific impact from RM availability perspective, there for us, maybe both on the RM availability as well as the sharp RM inflation side?
- Rajesh Rathi:** Yes, the price increases has been quite sharp again, but we are ensuring that the pass through happens properly.
- Ankur Periwal:** That is helpful. I will get back in the queue. All the best. Thanks.
- Moderator:** Thank you. Our next question is from the line of Madhav Marda from FIL. Please go ahead.
- Madhav Marda:** Good evening. Thank you so much for your time. I just wanted to understand a couple of things; firstly, in Q2 could you help us with how much was the volume growth and the price growth separately?
- Rajesh Rathi:** I would say that the demand and volume growth was very soft. We do not break up currently, but it was a very soft quarter Sir, as we have been passing on the increases and we did lose some volumes.
- Madhav Marda:** Then in the presentation you have mentioned that we can get additional Rs.1,500 Crores revenue from the new capex in the next three years. So just wanted to understand that additional Rs.1,500

Crores is on the base of FY2021 revenues of around Rs.1,800 Crores, Rs.1,900 Crores and then you can get extra Rs.1,500 Crores on that just wanted to get some sense? It is on the base of FY2020?

- Rajesh Rathi:** You could use FY2020 as the base.
- Madhav Marda:** Okay and then as mentioned in the presentation you are targeting like a three-year period to ramp up Rs.1,500 Crores of revenue. Is that the right way to read the presentation?
- Rajesh Rathi:** Yes Sir, absolutely.
- Madhav Marda:** That is good to know and the last question from my side would be that our margins to come back to levels that they were in FY2021, given that the price action has already started, by end of Q4 of FY2022 we should be back to our old margins that we saw last year?
- Rajesh Rathi:** There is a big volatility and flux on what is going on and secondly as you are aware there is an absolute pass on which happens, so percentage pass on does not happen. So, you do see some contraction in the percentages if you are referring to the percentage.
- Madhav Marda:** That makes sense. But on an absolute EBITDA basis we should be back to our old levels, right? I understand the present margins will come down as the price goes up.
- Rajesh Rathi:** Absolutely, like I said we are getting back the volumes which we had missed out on and at the same time it is a balancing act, you protect your margin, you get back to volumes, last quarter we probably got too oppressive in protecting margins so there is a balance which we are playing well with.
- Madhav Marda:** Then also you mentioned that consolidation is playing out in the global market with Clariant and BASF. So, are we seeing some benefits or tailwinds from that now on the ground, in terms of maybe customers looking for another supplier etc., are we seeing any tailwinds from that play now?
- Rajesh Rathi:** The tailwinds are there, but unfortunately there were some other issues, logistics issues and the logistics cost increase so we lost some of our competitiveness there. The second is the volatility because they have local bases to pay off, so these were some of the disadvantages which we faced very sharply. And unfortunately for us, our supply chain was not as long as their supply chain, so they withheld some of the pass ons.
- Madhav Marda:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Viral Shah of Enam Holdings. Please go ahead.
- Viral Shah:** Thank you. My first question was again on the gross margin so what we have seen is that the input cost started to rise most aggressively from September onwards. do you foresee that gross

margins from here on will further deteriorate or do you think that this is the base and from here on we should see an increase in gross margins since we started to take price hikes?

- Rajesh Rathi:** Gross margin was stable as you would have seen Q2 to Q2, the gross margins have not drastically fallen, but we were able to pass on increase right 44% to 43.5% so we have been able to hold. Where the challenge is, there is a drop in EBITDA because of other cost increases, coal, logistics cost. And also a lot of our Capex projects required manning, but they are not still leading revenue as we are going through commercialization. So, these three factors have increased our cost base. In the coming quarter we definitely expect EBITDA margins to improve.
- Viral Shah:** Would it be possible to share what is the quantum of price increase that you would have taken in the last one, two or three months?
- Rajesh Rathi:** That is a little bit of a competitive information so a little concern on that, but we will look at what we can share separately.
- Viral Shah:** My second question is on capex In the presentation we said that our capex for FY2022 will be around Rs.400 Crores, so this number is the capitalization number if I get it right. So, what would be the cash outflow that will happen in FY2022?
- Nilkanth Natu:** We expect around Rs.250 Crores of capex going ahead for the financial year.
- Viral Shah:** Going ahead FY2023-2024 how do you look at the capex? Would it be bare minimum to Rs.100 Crores and below or that would FY2023-2024 also we should expect Rs.150 to 200 Crores of capex?
- Rajesh Rathi:** I think as we said most of our new products will get introduced by this year, so whatever capex we would do is on backward integration now going forward after this Rs.750 Crores completion. So, we still need to go to the board here, but it will be at a minimum level.
- Viral Shah:** So, my third question would be on the land sale. We are looking at land sale at Pune and are there any timelines or something that we have thought about the same?
- Rajesh Rathi:** The Board is actively looking at how and what we should do about the land. There are some legal compliance issues etc., which the board is looking at. Right now there is no view in the coming years as to what could be the next steps. As soon as we have some clarity, we would definitely share that.
- Viral Shah:** Sure and my last one if you could provide some clarity on the promoter selling that has been taking place for the last couple of quarters, the problem is that every quarter we are seeing incremental sales happening from the promoter group or the entity which has now been reclassified as promoter so it is not helping build confidence so if you could just share your thoughts on the same? That would be helpful.

- Rajesh Rathi:** I understand that. The company was going through a transition to a more professionally managed company and some of the promoters had stepped down from active management role. And they wanted to set up their own non-competing businesses for which they required some funds and that is where very partial percentages were sold off. The promoters are fully committed to the growth of Sudarshan and have full confidence in building the business.
- Moderator:** Mr. Shah do you have any further questions?
- Viral Shah:** Thank you. I am done.
- Moderator:** Thank you. Our next question is from the line of Mr. Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** Good afternoon Sir. Thanks for taking my question. A few of them; first on the inventory and the export sales, export sales have been quite weak on the other end we have an inventory increase by close to Rs.70 Crores?
- Rajesh Rathi:** Can you can you repeat? We could not hear you.
- Sanjesh Jain:** I was looking at the export sales which have been sluggish versus domestic and there is an increase in the inventory by Rs. 70 Crores and we have been talking about the logistical issue. Is that we are keeping the final inventory which was not able to ship, and revenue could not be recognized. Is that the reason why there is a sharp jump in the inventory, or it is because of the increase in the raw material prices which is leading to the increase in the inventory?
- Rajesh Rathi:** I think sir one is obviously having logistic issues has caused some inventory increase. But we had our finished goods ready, but we could not get some of our price increases, and that is where we were not shipping our goods even to some of our Indian customers. In order to ensure margin protection, we had to keep that inventory.
- Sanjesh Jain:** The liquidation has started as we speak in the Q3?
- Rajesh Rathi:** Absolutely.
- Sanjesh Jain:** The benefit of this should be available in the next quarter as we see?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** The second question is on China. Now China, there is a curtailment in the capacity and China being one of the largest manufacturers of Azo pigment and we have also mentioned that the increase of competitive pressure. Do you think that with lower capacity available at China because of the power shortage, we should be able to ramp up this facility faster than what we have thought earlier or the current guidance of three-year could be achieved sooner than what we expect, or can we envisage that kind of a situation?

Rajesh Rathi: First of all, we are getting to several pigments which are non-Azo. These are new products into coatings and other applications which does take some time for approval, and the ramp-up is a little slow. We will obviously be hoping that we do this in slightly less than three years, but three years is a good amount of this. Having said this, there may be short-term gains as we have also expanded our Azo capacities. There could be some short-term gains if China does have issues with supplies etc., we have seen a lot of chemicals and intermediate players are affected. So far there is no intelligence on the pigment capacities being curtailed, on the Azo side, we have come across some other areas, which have been curtailing.

Sanjesh Jain: One clarification here on the competition side, we have seen in general the chemical prices have gone up significantly, some of commodity chemicals have actually gone up by more than 2x what is causing the competition in the pigment industry, while there is a constraint in terms of the capacity production in the most competitive market, there is a RM pressure. What is causing this increase in the competitive intensity? Were there people sitting with a big inventory and they wanted to liquidate. Can you just help us understand this competitive dynamic a little bit more well?

Rajesh Rathi: As I said there were three four issues which were dynamic. So, the logistic cost increase led to the Europeans also becoming competitive and better availability and service locally, because they have local production units. That was one. The second, in terms of consolidation some short-term gains to be gotten and as I mentioned their supply chain was more longer-term secured than some of us and that is where we saw this competitive pressure. Fortunately, that is over now, and we are able to see that we are able to pass on some increases and also get the volumes back.

Sanjesh Jain: One question on the product pipeline we just spoke about in our opening remark, yellow pigment looks like we are fully commercializing in Q3 and we are talking of another two HPP getting commercialized in Q3 and Q4. Can you just tell us what is the total addressable market for all these three new products put together with the complete commercialization?

Rajesh Rathi: If you look at the entire capexes which we expect to commercialize in the next half, the potential of that is about Rs.1,500 Crores, in the next three years.

Sanjesh Jain: No, I was just looking at the new product launches which we are doing which were not existence in our portfolio earlier. Now out of this 8 billion of the pigment markets which we talked we would not be servicing all of them right so there is an increase in the total addressable market for us or to put it simple these three products put together today how much will be the industry size for the three products yellow, and the two new HPP products which we are launching?

Rajesh Rathi: We do not have this answer readily available. We will come back to you.

Sanjesh Jain: That is it from my side. Thanks for answering all the questions and best of luck for coming quarters.

- Moderator:** Thank you. Our next question is from the line of Amar Morya from AlfaAccurates Advisors. Please go ahead.
- Amar Morya:** Thanks a lot for the opportunity. Two questions from my side. Number one is now as you indicated that yellow pigment commercial quantities got approved, so from here on can we see a faster pickup. I believe we had invested around Rs,350 Crores in the yellow pigment?
- Rajesh Rathi:** Obviously all the capexes we are not giving breakups, as confidential information. But we do expect a quicker payback and since the quantities have got started approving, in the next three years, we should be able to see the complete capacity utilization of this plant.
- Amar Morya:** Secondly now this Rs1,500 Crores of full potential of the Rs.750 Crores revenue largely 2x a ratio we are expecting now. So just wanted to understand like last quarter there was some confusion that we were indicating that Rs.135 Crores is the infrastructure capex for which the potential revenue maybe get delayed, so I just wanted to confirm that this Rs.1,500 Crores include that or exclude that?
- Rajesh Rathi:** The Rs.750 includes that investment and we have given up full potential of the entire Rs.750 Crores to make it very simple so that there are no breakups.
- Amar Morya:** Secondly is Rs.1,500 Crores let us say when we are targeting in three years, so can we say like it will be equally divided in three years? How the scale-up will happen for the Rs.1,500 Crores.
- Rajesh Rathi:** The first year would be slightly slower and then it should ramp up.
- Amar Morya:** First year let us say 20% at least or 30%?
- Rajesh Rathi:** I would say 20%.
- Amar Morya:** Then you are saying equally divided between the two years?
- Rajesh Rathi:** Yes, and third would be slightly higher, second would be slightly higher. I mean the ramp up will happen.
- Amar Morya:** Thanks a lot.
- Moderator:** Thank you very much. Our next question is from the line of Aditya Mehta from GK Capital. Please go ahead.
- Aditya Mehta:** Thanks for the opportunity. Sir in last quarter concall, we mentioned that Rs.120 Crores of capex will get completed by September end and the balance was to be completed by Q3 so has it been delayed or any reason behind for the delay?

- Rajesh Rathi:** What has happened is, because of the wave 2 some of our equipments had got delayed and the installation now is completed. Now the commercialization is in progress and we do expect gradually the entire capex would get completed by the year end.
- Aditya Mehta:** By Q4 for all the capex will be commercialized which we have done this year?
- Rajesh Rathi:** Absolutely.
- Aditya Mehta:** Currently utilization levels are around 60%. So, what is the highest utilization that which we can see over a period of time?
- Rajesh Rathi:** 80% to 85%.
- Aditya Mehta:** Sir My last question on industry structure, just want to understand that you see the total decibel market size available to us is \$8.6 billion and despite the fact that we have been top three or four player in the industry we only hold around 3% market share. So, is the industry comprised of so many diverse players that it is difficult to increase our markets share or what are the realistic market share one can achieve over a period of time?
- Rajesh Rathi:** If you see in the old structure the first three players almost had a two and a half to three billion market share. And after that there was a big gap and then there were smaller players. These three players obviously have been global, a very broad portfolio. Some players like us have just expanded our product portfolio to that level. So, it will take some time for us to ramp up our sale. They have a first mover advantage; they have their network which is well set and product which have been there for several years. But with our completion of product portfolio we feel quite bullish on our perspectives in the future.
- Aditya Mehta:** Thank you. That is it from my side.
- Moderator:** Thank you very much. Our next question is from the line of Dhruv of HDFC AMC. Please go ahead.
- Dhruv:** Thank you so much. In the current presentation the slide on the capex which is slide number nine you have said the capex plan of Rs.750 Crores and approximate revenue for about Rs.1,500 Crores, and a similar slide you had in March presentation wherein you had given a capex of about Rs.600 Crores and a revenue potential of about Rs.1,000 to Rs.1,200 Crores so I understand the capex increase if I am not wrong from Rs.600 to Rs.750 is the utility capex which you had recently announced but that time the understanding was that this is not a revenue capex, this is only a utility capex. Sir what is driving this change in your revenue guidance on this capex from Rs.1,200 Crores to Rs.1,500 Crores?
- Rajesh Rathi:** Some of the capex we have delayed, some of these are utility and the effluent treatment and we had some opportunities on the revenue side which we have completed. We have been able to debottleneck some of our intermediate and that is why we are giving you a complete mix now so that there is no ambiguity on the split and this is what the master plan looks like.

- Dhruv:** So, the utility capex that I believe in the quarter or a quarter before that you had announced is delayed a bit instead of that you have done some revenue generating capex?
- Rajesh Rathi:** Yes. Earlier we thought we would need that Rs.135 Crores, that has been considerably reduced and that has been used towards the revenue generating.
- Dhruv:** The revenue generating capex is broadly in line with the existing product that we have it is more of a Brownfield of some existing capacities? It will not be the HPP categories?
- Rajesh Rathi:** It is a combination of some HPP and our traditional pigment.
- Dhruv:** The second question was in one of the earlier comments you did mention about some of your competitors not facing similar logistics or not facing the cost impact and you were referring to these competitors. So, when you say these categories of competitors which competitors are referring to? Are these the European competitors or some players from China?
- Rajesh Rathi:** Europe is obviously the main market, Europe and US and basically when you compete with them they have local plants there so the shipping cost logistics issues they do not face like what we face.
- Dhruv:** So, in terms of outward freight for us, which categories of our product that we export, largely focusing on exports, what would be the outward freight be as percentage of current spot value of freight? As a percentage of sales value? I am just trying to understand how is it changed? Was it say 5% earlier now it has become 10% so that 5% differential is something big which is impacting?
- Rajesh Rathi:** I think there are two factors to it here. One is obviously the cost and second is the availability and the lead times to reach that plant. So, with all these uncertainties sometime the local competition gets more benefit. That is what I meant.
- Dhruv:** Just to understand the cost angle if it is possible to share some broader sense on that how big is this cost now versus say what it was pre-COVID, when the freight rates were normal?
- Nilkanth Natu:** The cost increase is about three times of freight.
- Dhruv:** And as a percentage of sales, how much the outward freight would be?
- Rajesh Rathi:** Right now we do not have that number.
- Dhruv:** The last thing was just to understand a bit on the nature of the incremental growth, large part is coming from your HPP products, the one of the yellow is one that you mentioned so in the nature of business they are a bit different than your existing set of products, what I am trying to understand is it more linked, very well aligned with the customer that the cost pass-through happens at a very faster pace, it is more smoother, is that kind of a structure it is almost similar to what you currently have?

- Rajesh Rathi:** So, the cost increase is similar. In fact, some of the other high-performance pigments have a very steep cost increase, as some of them use yellow phosphorus based chemicals, which have seen a very sharp increase because of the energy policy of China.
- Dhruv:** Thank you so much. Thanks a lot.
- Moderator:** Thank you. Our next question is from the line of Ritesh Poladia of Girik Capital. Please go ahead.
- Ritesh Poladia:** Thanks for the opportunity. I might have missed out this, what is the volume growth in this 12% revenue growth?
- Rajesh Rathi:** Currently we do not break up the volume.
- Ritesh Poladia:** That was my question. Thank you.
- Moderator:** Thank you. Our next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.
- Ritesh Poladia:** Good evening Sir. Could you just highlight a bit on the increase in debt that we have in the working capital debt this quarter?
- Rajesh Rathi:** Could you repeat your question? Your voice is broken.
- Ritesh Poladia:** I just want to clarity on the debt, the working capital debt that we have has increased this quarter so what would be the reason for that?
- Rajesh Rathi:** The increase in debt was mainly the capex outlay and some inventory increases. Natu Ji, you want to answer?
- Nilkanth Natu:** So, the increase debt is predominantly on account of the capex. We had taken the long-term loans for capex as a part of our capex implementation program and as Mr. Rathi spoke about on the inventory part, which is on the inventory side, which has led to the working capital loan increase.
- Ritesh Poladia:** Sir as mentioned that about Rs.250 Crores we are going to spend the next half of the year right to meet our Rs.400 Crores plan, so again that will be taken in as debt because our debt to equity becomes massive. It is much more than one right now?
- Nilkanth Natu:** What we said Rs.250 is for the total year, the debt level will be at around Rs.750 Crores. I do not expect it to go further up.
- Ritesh Poladia:** Since it is working capital loan, I assume that interest rate would not be that much right?
- Nilkanth Natu:** Correct, currently we are taking the advantage of low interest rate and we are exploring all the available options to lower the cost. So, we expect, it should be in the same range.

- Ritesh Poladia:** What kind of debt equity ratio are you comfortable with, with this capex plan that we have?
- Nilkanth Natu:** We expect this debt equity ratio to remain at the current rate. So we will be monitoring that, and we are comfortable with the current debt equity ratio
- Ritesh Poladia:** I had another question another of my colleagues they just mentioned about the yellow dye that you have. I was just wondering about the turnover or what is the plan for that that? since it is already begun commercialization so what is the revenue plan and all that? So, do we have anything right now or should that be taken later on?
- Rajesh Rathi:** So, this is an individual product, and since it is competitive information which we would not want to give out in the public domain. The point was that this is part of that Rs.750 This was the earliest which was launched and we are already seeing a sale of this product coming through commercially to several customers. So that is a very positive indication of the product getting accepted in the market.
- Ritesh Poladia:** One of the revenues from the Rs.1,500 Crores that has helped in this right? And my last question was regarding the market share. We just spoke about it briefly right now, but you mentioned that since our Mahad plant is closed, others had a better supply chain at that time, so a couple of orders they were able to service, we held back a couple of inventories because of the margins that we were not getting so has that affected our market share in the last six months.
- Rajesh Rathi:** We have definitely lost some volumes as I mentioned. We had a choice to protect margins. We did not want to further erode that and that is the area where we could have lost some volume and I am glad to tell you that we are already recovering those volumes now and ensuring that margins are protected.
- Ritesh Poladia:** Since you have a plan in terms of the margins that we have so in FY2022 do we expect to be about in the range of 12% to 13% or should it be about 10% to 11% EBITDA margins?
- Rajesh Rathi:** I mentioned we should recover from here. So, the margins from here should definitely recover.
- Ritesh Poladia:** Obviously it would not be only as good as last year but somewhere a bit close to that right?
- Rajesh Rathi:** Yes, better than what it is today Sir.
- Ritesh Poladia:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Viral Shah of Enam Holdings. Please go ahead.
- Viral Shah:** Can you throw some light on the demand side in terms of segment, like how are you seeing demand from plastic, prints, coatings, and others?
- Rajesh Rathi:** If you look at coatings, the demand in Q2 was good; however, we are seeing a softening in demand now as prices are increasing and we have covered some raw materials as they were

expecting price increases. In terms of plastics, coming out of COVID 2.0 we did see some issues because polymer prices had increased and they were uncertain about whether they would be able to pass through that. However, we now see plastic demand recovering. Inks was sluggish both newsprint and the food packaging industry, we do see the food packaging industry picking up to a certain extent.

Viral Shah: On the exports this quarter we were at around Rs.210 Crores of export so how do you see this panning out over the next couple of quarters? When do we achieve Rs.250 Crores and then Rs.300 Crores on a quarterly runrate basis?

Rajesh Rathi: As I mentioned this quarter was the weakest and we do expect a good recovery to happen.

Viral Shah: Thank you.

Moderator: Thank you. Our next question is from the line of Amar Morya from AlfaAccurate. Please go ahead.

Amar Morya: Thanks a lot of opportunity again. My question was, in first half despite a lower volume and a better pricing we had been able to get like 24% kind of a first-half versus first half growth, now given that we are looking to pass on the prices further and the volumes are going to be better than what it was there in the first half. So, can we see that the second half revenue growth should be much, higher than the first half growth?

Rajesh Rathi: As I mentioned, and I could give a directional answer to that. We did not see good growth and as we see Q3 onwards, we are really focused on volume growth, we have ensured some of our margins are protected, which was a good strategy at that time, and it was difficult decision, but we took those decisions. But now it was more of a mid-term, long-term kind of play. We do see good volume growths coming now onwards, unless until some unprecedented event happens etc., but otherwise we should see a good growth coming in.

Amar Morya: Meaning you are saying volume led growth and followed by the margin protected or margin improving so obviously we have to take a price increase also, right? So that part will also get included into your revenue. So that was my question, that by a good volume growth and a better pricing a growth in the second half should be much, much better than the first half kind of a growth in number, right?

Rajesh Rathi: Yes Sir.

Amar Morya: Thank you.

Moderator: Thank you. Our next question is from the line of Rohit Nagraj of Emkay Global. Please go ahead.

Rohit Nagraj: Thanks for the followup. The capacity utilization that we have mentioned in Q2 is 60%. Is this considering the capex of Rs.293 Crores, which is already put to use?

- Rajesh Rathi:** Yes Sir, including that and because some of that Rs. 293 Crores was a small part was utilities and infrastructure.
- Rohit Nagraj:** Right and I just drew the math in terms of 60% capacity is giving us close to Rs.500 Crores quarterly run rate probably at 100% or maybe 90% we need to have something like Rs.750 Crores of quarterly run rate. Is that the right way of understanding it?
- Rajesh Rathi:** On an excel spreadsheet yes Sir, but then real market and real world, it would be different.
- Rohit Nagraj:** Thank you so much.
- Moderator:** Thank you. Our next question is from the line of Paras Nagda from Enam. Please go ahead.
- Paras Nagda:** My question is, is it fair to assume that in the quarter gone by the Q2 which we are reporting the result there was little or no price increase which was taken in the export market and most of the price increases are starting to come in the current quarter. Is that a fair assumption or an inference that we can make from the results?
- Rajesh Rathi:** No Sir. I do not think that would be a fair. There was some pass through which were happening.
- Paras Nagda:** Thank you.
- Moderator:** Thank you. Our last question is from the line of Aditya Mehta from GK Capital. Please go ahead.
- Aditya Mehta:** Thanks for the follow-up. As you mentioned that the European players are not facing cost increase on the logistics front. Since this phenomenon does not seem to be abating in the near term so how are planning to tackle this situation?
- Rajesh Rathi:** What I meant is, there are three fronts of cost increase, major one is raw materials, the second is indirect like coal or gas, we are affected by coal, they are affected by gas and the third is logistic cost. When I meant by logistic competitiveness it has two components as I explained one is the cost part, but the second part is the certainty of delivery. Earlier our customers could be assured of lead times of supplies etc., that is a little bit of a concern and somewhere that is an advantage for a local player. That is what I meant.
- Aditya Mehta:** Now whether the availability has increased, improved or we are still at the same level?
- Rajesh Rathi:** The availability is still a challenge; however, we are ensuring that our warehouses there carry a little more stock, etc., which we can serve customers.
- Aditya Mehta:** So, there is no issue on our capacity front, or our capability front the issue is on the logistic part, delivery, and commitment part?
- Rajesh Rathi:** Yes.

Aditya Mehta: Thank you. All the best to you.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. As there are no further questions, I now hand the conference over to Mr. Nilkanth Natu, CFO for closing comments. Please go ahead Sir.

Nilkanth Natu: Thank you. Thank you all the participants, for your time and interest in Sudarshan Chemicals. We remain confident in the long-term prospect of our business and we look forward to engaging with you again. Thank you. Stay safe.

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

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