

# SUDARSHAN

17<sup>th</sup> August, 2023

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

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

Dear Sir / Madam,

**Sub : Transcript of Analysts / Institutional Investors Conference Call**

We are enclosing herewith transcript of the conference call with analysts / institutional investors, which took place on Wednesday, 9<sup>th</sup> August, 2023, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) for the quarter ended 30<sup>th</sup> June, 2023.

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

Kindly take the same on record.

Thanking You,  
Yours Faithfully,  
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

MANDAR VELANKAR  
GENERAL COUNSEL AND COMPANY SECRETARY

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Corporate Identity No.: L24119PN1951PLC008409



“Sudarshan Chemical Industries Limited  
Q1 FY2024 Earnings Conference Call”

August 09, 2023



**ANALYST: MR. VIDIT SHAH – IIFL SECURITIES**

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY2024 earnings conference call of Sudarshan Chemical Industries Limited hosted by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Vidit Shah from IIFL Securities. Thank you and over to you Mr Shah!

**Vidit Shah:** Thank you Michelle. Ladies and gentlemen, good morning and thank you for joining us on the post results conference call of Sudarshan Chemical Industries Limited. It is my pleasure to introduce the senior management team of Sudarshan Chemical Industries Limited who are here with us today to discuss the results. We have with us Mr. Rajesh Rathi, Managing Director and Mr. Nilkanth Natu, CFO. We will begin the call with opening remarks by the management and thereafter we will open the call for Q&A session. I would like to now hand over the call to Mr. Nilkanth Natu to take the proceedings forward. Thank you and over to you Nilkanth.

**Nilkanth Natu:** Thank you IIFL Securities and Mr. Vidit for hosting our earnings call. Good morning ladies and gentlemen, welcome to Sudarshan’s Q1 FY2024 earning 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 overall basis, we have commenced the current financial year with improved financial performance compared to the challenging previous year. Taking to the quarterly performance on a consolidated basis for the quarter, total income from operations stood at Rs.608 Crores as compared to Rs. 554 Crores for the same period last year, higher by 10% year-on-year. EBITDA for the quarter stood at Rs.70 Crores as compared to the Rs.41 Crores in Q1 FY2023. EBITDA margin is at 11.5% as compared to 7.5% over the same period last year. Profit after tax is at Rs.21 Crores compared to Rs.7 Crores for the same period last year.

Now going into the details of our pigment business. For the Q1 FY2024 income from operations stood at Rs.536 Crores as compared to Rs.526 Crores for the same period last year, a growth of 2% year-on-year. On a sequential basis revenue is lower by 10% compared to Rs.594 Crores of Q4 FY2023. India sales for the quarter is at Rs. 265 Crores marginally lower by 1% as compared to Rs. 269 Crores in the same period last year. On a sequential basis, India sales is lower by 12% compared to Rs. 311 Crores in Q4 FY2023. Exports for the quarter are at Rs. 272 Crores as compared to Rs. 258 Crores higher by around 6% year-on-year. On a sequential basis revenue is lower by 7% compared to Rs. 293 Crores of Q4 FY2023. Value growth has remained soft due to pass through in the selling prices due to fall in the raw material prices and the logistic cost.

In the plastic segment, we are seeing relatively stable demand and expect further improvement in the coming quarters. We had seen subdued demand scenario from coating and ink segments majorly due to domestic players deferring buying decisions owing to destocking and falling price regime. Demand in this segment is expected to pick up in the coming quarters in H2 FY2024 and we continue to be vigilant towards international geographies considering the global micro-economic situation. Specialty pigments sales stood at Rs.363 Crores as compared to Rs.352 Crores for the previous year same quarter, 3% year-on-year higher. On a sequential basis revenue is lower by 12% compared to Rs. 412 Crores of Q4 FY2023. Non specialty sales for the quarter is at Rs.174 Crores which remains flat as compared to the same period last year. On a sequential basis revenue is lower by 4% compared to Rs.181 Crores of Q4 FY2023.

We see good engagement with the customers to build healthier opportunity from recently commissioned capex. As guided earlier, revenue ramp up will be slightly delayed due to the macroeconomic conditions. Gross margin of pigment business for the quarter increased to 42.9% as against 40.3% for the same period previous year. Comparing with the sequential quarter gross margin have gone up by 140 basis points. Apart from raw material cost, we continue to see softening of coal prices as compared to the previous year. Logistic cost have also come off peak levels earlier. In this softening price region, we will continue with the calibrated pricing decisions to balance volume growth in the coming quarters. EBITDA margin for the quarter stood at Rs.64 Crores in Q1 FY2024 as compared to Rs. 44 Crores for the previous year same quarter. EBITDA margin is at 11.9% as compared to 8.3% over the same period last year. On a sequential basis EBITDA is lower by 40 basis points and this is due to lower operating leverage and annual employee increment. Recent update on the land monetization, during the quarter, the company completed sale of land located at Pune, Maharashtra for a total consideration of Rs.356 Crores. Net gain of Rs.315 Crores from the sale transaction has been reported as a part of exceptional gain in the P&L statement. Proceeds from the land monetization are being utilized towards deleveraging the balance sheet.

To summarise, business environments have mixed vibe from headwinds due to the macroeconomic situation and positive tailwinds from the external factors such as consolidation of top players in the industry, China plus one strategy, etc., which are expected to favor India cement industry. We are well prepared internally with all the capex that is being commissioned with wider range of product portfolio, cost efficient operation and capacity to quickly ramp up. To summarise, we are confident in our growth journey and look forward to continuing the same and delivering value to all our stakeholders. With this, I now open the floor for question-and-answer session. Thank you.

**Moderator:** Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

**Sanjesh Jain:** Thank you. Good morning Sir. Thanks for taking my question. First, on the domestic revenue growth if you look at the plastic companies, five companies, they have reported a volume growth anywhere between 15% to 30% and coating industry got benefited because of the delayed monsoon. While if I see our number, it really does not show that kind of an increased volume. It is because that we have passed on the price benefit to the customer and volume growth has been healthier than what we see in the revenue growth that is number one? Number two how have been our market share in Indian market because if that is not true the earlier statement and it looks like we are losing market share in the domestic. Can you provide some color to it? That is my question.

**Nilkanth Natu:** Thanks for your question, Nilkanth here. So, as I mentioned in my opening commentary we have seen the good sales growth in the plastic segment and there is a good traction. While the coating company has reported good numbers, we are seeing the destocking effect there and value growth was subdued there and we expect that that this should be transitional and the demand revival in the India market should come in. As regards to your second question in terms of our market share in India, we are currently the market leader with 35% market share in the domestic industry and currently we do not see any degrowth in our market share. We are not losing out on the market share in Indian market.

**Sanjesh Jain:** But we have invested so much into the high-performance pigment. We are expanding the portfolio. If I see this 35% number for last four or five years despite such a significantly higher investment that has not been moving up. Who are the other players who have been equally aggressive because we have not seen too much of a capacity addition in the pigment segment, why our market share is not reflecting that?

**Rajesh Rathi:** This is Rajesh Rathi here. As Mr. Natu mentioned we have seen a good growth in plastics where the growth has happened and the second is in the coating section. We have not lost anything but we have not seen growth because of the destocking happening in the coatings industry. Our entire product portfolio was designed for a global market and of course some products to go into India and from that perspective for all our new products whichever were designed for India they are getting well entranced in the product and so I do not know why do you come to a conclusion that we are losing market share that is not clear.

**Sanjesh Jain:** No, I got your point that volume growth could be higher and destocking could be a transitory phenomena, I am just dwelling on this 35% market share which has been stable for last four or five years if I remember it right? Why is it not improving considering that we have been investing so much in the product portfolio and all, one would have anticipated it to go up materially.

**Rajesh Rathi:** So, I think once you reach a certain product and certain market share it is difficult to and especially on some of the commodity sides, we have been losing our products there and that has been by design and that is where this new product portfolio was designed that we gain market share there. There is big if you see the chrome industry inorganics there is a very a big competition there and margins are constantly falling in that region so there is a certain level of market which we have lost in the last few years.

**Sanjesh Jain:** Got it. So to just summarize you are telling that we are improving on the product portfolio where we are shedding some of the market share in the lower end or highly competitive product and moving up in the value chain is that the fair assumption?

**Rajesh Rathi:** Yes absolutely.

**Sanjesh Jain:** Okay my second question is competition from China. We have generally heard from many chemical companies that due to the lower domestic demand in China those products are flooding in the export market and we do have a competition from China on the Azos portfolio, how has been our experience? What has been the competitive intensity, pricing, and margins in the export market for that part of the portfolio?

**Rajesh Rathi:** We have seen intense competition and probably some of the utilization has been at their lowest for the Chinese companies so we have seen intense competition, but I think last year also we saw huge competition there so compared to last year I will not say that it has become worse so whatever we saw last year has been continued and with our product portfolio and even in Azos we have been able to get back some of our market which we had lost in the export market.

**Sanjesh Jain:** Got it. Last two questions. One on the new product approval and the ramp up, I know you have told that it will get slightly delayed considering the global demand scenario but can you tell us how is the yellow and violet being accepted by the customer? How many have approved it? Some color qualitative statement to give us a confidence that when the demand turns around we should be able to gain that benefit that is one? Number two on the Phthalo side I think China antidumping on India is now limited? It is already in the base? Are you seeing that continues to hurt us these are my two questions?

**Rajesh Rathi:** Right Sir, new capex sales are getting good engagement and what we had given you a guidance that earlier we had anticipated to utilize the full in three years. It will go to four years that is what the guidance we are giving you last time so currently we are on track on this year's target, also as per defined by that four year target. So, if the macroeconomic situation changes we all hope that we will go back to the normal the three years utilization what we had thought so a good engagement on all those products across customers and across geographies and so that is one question if I have answered. As the second question was on China antidumping, it hurt the entire industry. The pigment manufacturing association has decided to fight this together and we hope that we do this so what has happened in the Phthalo industry is the macroeconomic situation globally it was majorly blue and green was an export market so we have seen a depression and demand plus the China demand going off so it is a double bang for the industry.

**Sanjesh Jain:** Okay but the antidumping has been put beyond a year now right? At least there is no incremental hurt from the antidumping for the Phthalo side of the portfolio? I can understand the destocking part of it but from the purely antidumping there is no incremental impact now because it is already in the base correct?

**Rajesh Rathi:** I think yes. I mean I do not exactly remember whether it is nine months or a year but there is no incremental after the last incident of antidumping. Whether it was a year I do not recollect the exact date.

**Sanjesh Jain:** Okay that is it from my side. Thanks Mr. Rathi and thanks Mr. Natu for answering all the questions and best of luck for the coming quarters.

**Moderator:** Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

**Ankur Periwal:** Thanks for the opportunity, so continuing with the earlier discussion on the overall demand scenario and given that exports are more relevant for us in terms of ramping up the newly launched products capacities, etc., if you can share your thoughts on how you are looking at different geographies both from a specialty as well as a non-specialty portfolio perspective?

**Nilkanth Natu:** Ankur, Nilkanth here. So, as we guided in our opening commentary, in the short term we may see the demand variation due to destocking of the inventory level and buying deferment due to the softening of the prices however we expect that this to be the transitional phase. On the domestic demand we expect the recovery in the coming quarters that is in H2 of FY2024. On the export front, as we mentioned, the uncertainties due to the global geopolitical scenario remain and with the tighter monetary policy the demand is expected to be moderate, however given the last year performance in the first three quarters,

we expect the growth will be there in the export as well as domestic market as far as our company is concerned and we will continue to monitor that.

**Ankur Periwal:** Sure, secondly on the RM deflation side now since we have been improving on the gross margin front? This gross margin improvement is more optical because of the decrease in freight cost or there is a genuine whole pass through of RM inflation and probably the deflation is helping now?

**Nilkanth Natu:** So, Ankur the current quarter gross margin is at 42.9% and which shows the improvement over the last year Q1 as well as the last year Q4 and if you really see historically, we were operating at the similar level of gross margin and we aspire to have this gross margin level always. However, this gross margin improvement what we have seen in the current quarter is due to softening of the RM prices and also some part of the lag effect of the pass through. Our endeavour is always to maintain the gross margin level at the same percent and we expect that the gross margin should remain at the similar percent given the softening of the cost element in terms of the raw material, in terms of the coal. We expect that this should remain at around same level in the coming quarter, however we will have to take the balance as I mentioned earlier between the volume and the price looking at the demand scenario in the coming quarters given the uncertainty around, but we will try and aspire to have the gross margin level around the same level.

**Ankur Periwal:** Sure, so Mr. Natu where I was coming from was the existing portfolio, if I look historically our gross margins have been largely stable in that 40% to 43% range but given the new Rs. 7 billion capex that we have done and over the next let us say four years if we are looking at a ramp up there which is more on the specialty side this number should move up materially so from not immediate near term, but let us say from a three year perspective, we should see a decent improvement in the gross margin number or will it be a case that probably we will have to offer our products at a slightly discounted or maybe lower prices to gain market share and hence the margin accretion may not be as high while revenue growth will be good?

**Rajesh Rathi:** Ankur, Rajesh here. It is a very good question. So obviously this product portfolio was designed that it receives a higher gross margin. There are two things happening is that given the current macro scenario and the levels which all the industries are operating on our existing portfolio also we have to look at how to maintain the volumes and in many cases we have to drop our gross margin and we are aggressively pushing our other portfolio also. So it is a combination. So this portfolio with a higher gross margin and a combination of our existing portfolio is yielding this. Directionally once we come back to a normal scenario our gross margin trends should improve in the long term, once the macroeconomic situation



changes and the demand. The Chinese are not at the same level of utilization to what is happening today, etc.

**Ankur Periwal:** Sure, and Rajesh just a follow-up on that so from a product approval perspective right and all these products will have different time cycle in terms of approvals, etc., where are we right now and maybe when should we expect the full approval in place?

**Rajesh Rathi:** So, we are absolutely on track on sales reaching our first-year target given the four-year horizon so Q1 also we have been able to meet that target and we will continue to have a great emphasis in the company to drive that.

**Ankur Periwal:** Okay great and if I may follow up just one on the coal cost comments that we had in the initial remarks, coal cost being lower earlier, there was a hit on the gross margin because of the coal cost being higher so if the coal cost is coming down the benefit stays with us on the margins front will that be the right assumption?

**Rajesh Rathi:** The coal will affect the contribution margin, not the gross margin and you are absolutely right. So, coal we will try and maintain the margins which we had lost.

**Ankur Periwal:** Yes Sir. Thank you for your reply and all the best. Thanks.

**Moderator:** Thank you. The next question is from the line of Madhav from Fidelity. Please go ahead.

**Madhav:** Good morning thank you so much for your time once again. I think in the annual report of FY2023 you already mentioned that one of the key North American competitors for Sudarshan is facing major challenges? Could you help us understand what is happening there? Is it part of the global consolidation which is played out? Is that part of that or what is happening then?

**Rajesh Rathi:** So one of the competitors based in Canada is facing financial difficulties and they have been curtailing their product portfolio and we have seen also in the market that supplies from them to customers have been disrupted for some areas.

**Madhav:** Okay got it. How big they were given we are ranked three I think today within top 10 players in the pigment space or any ballpark because they were very large players?

**Rajesh Rathi:** Yes Sir. They are definitely among the top six or seven players.

- Madhav:** Okay understood and then the other commentary which was in the annual report was you all said that China plus one in the pigments industry specifically is gathering pace now and you expect the Indian pigment players to benefit so is it the pigment space is now beginning to see that trend picking up where some of the other sub segments in chemical are benefited in the last four to five years at least? Is pigments coming through now is? That is what I gathered from the annual report? I am not sure if I read it properly?
- Rajesh Rathi:** I think China plus one has been a talking point for a long time, but first time we are seeing that customers are looking at alternatives and India is definitely in the focus area so this is a great tailwind for us that is what we see.
- Madhav:** Got it and just lastly again from the annual report only you also said that in Europe there could be higher imports of pigments in the next few years given of course they have their own cost challenges is that the right understanding that imports into Europe pigments could pick up in the next three to four years?
- Rajesh Rathi:** So, I think the second tailwind which we talk about is the energy crisis in Europe. They have become uncompetitive and also looking at the whole deindustrialization or what is happening in Europe where they are reducing capacities we are hoping that there is more opportunities for us to export into Europe.
- Madhav:** Understood. Got it. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi:** Thanks for the opportunity. Sir I just wanted to seek your understanding on your geographical presence in Europe and US specifically? This entire inventory destocking story that is playing out, which is possibly we are not able to push our volumes incrementally because of that so what is the exact situation there? How big is the level of inventory that needs to be corrected so that we start seeing some recovery in terms of volume if you can speak on both the geographies specifically?
- Rajesh Rathi:** Sure, in general I think the destocking in the inventory has been through the geographies specifically to Europe and US I would say that Europe last year we saw worsening of demand. We see demands slightly better than last year. Last year we saw the worst coming in. In terms of US so far destocking but the future demand scenario in US given the economic situation, etc., customers are giving us a cautionary note in US so that is the area where we are closely monitoring how to gain our sales with our new products.

**Archit Joshi:** Sure Sir, so in the supply chain while we are into a pure B2B business the inventories are stocked up at what end exactly? Is it that the customers brought in quite a lot in the last financial year or is it in the distribution panel somewhere if you are at all dealing with distributors because so there are two things right? Sir one is that the inherent demand if that is weak then probably it will be difficult to push the inventory from any of the end, but if the demand is picking up then the levels of inventory liquidation going ahead will be quite useful if we have to push that the volume that we have produced in our facilities so where exactly is the pinpoint if you somewhat from whatever interactions if you had you can throw some light on?

**Rajesh Rathi:** So, I think the first pinpoint was the Indian market especially coating industry where we saw the reached so that is destocking that we did not see the muted demand. It now all depends on how the Diwali season now picks up and the coating demands comes up so that is one scenario. The second scenario is also really Europe and North America the macroeconomic situation where the demand itself is subdued but what we find it all depends on the reference to context so if you compared to last year right we are in a better position even in Europe and US but on to the absolute where we want to reach and what we want to do that is a little subdued.

**Archit Joshi:** Understood Sir. Sir, my last question so when we planned this new capacity we have added Rs. 700 Crores to Rs. 750 Crores to our gross block so while we plan these products which are essentially as you rightly said earlier have a relatively higher gross margin profile than our existing products which we are trying to curtail so while we plan these products, do we immediately start getting in touch with our customers for qualifications of these products and if at all these products have already been qualified or is it that once the demand starts picking up we start this process all together newly wherein we can expect some delays because of the gestation period also that is involved in approving those products at the customer end so just wanted your thoughts on how the planning is done from your standpoint when it comes to introducing these new products and just one supplementary information if which you can provide, you have spoken about this earlier, but to what extent have we started setting these assets and from these new assets what would be the current capacity utilization?

**Rajesh Rathi:** So actually we do not wait for the demand to come back. We are engaging with customers for approvals however like the guidance we gave in the last call we were expecting to utilize the capacities in three years. This has been now given the situation it looks like four years and we are on target to achieve the target of four years today and we will continue to push this because given when the situation improves we hope to bring this back to three years.

- Archit Joshi:** Got it so basically we do not have to really wait for the approvals? The engagement is ongoing and that will not increase the gestation period of realizing the benefits from the capex and Sir if you can also answer the utilization part that I asked?
- Rajesh Rathi:** Utilization part as I mentioned we are on track to achieve the four-year target right.
- Archit Joshi:** Sure Sir. Thanks. That is helpful. All the best.
- Moderator:** Thank you. The next question is from the line of Nitesh Dhoot from Dolat Capital. Please go ahead.
- Nitesh Dhoot:** Sir I was asking that if we look at the reported segment assets, the net assets what I see has increased by Rs. 270 Crores quarter-on-quarter so if you just elaborate on the same?
- Nilkanth Natu:** This is Nilkanth here. So I think on the segment asset side the major increase which has come is on account of the investment in the mutual fund which is based on the monetization. Since our monetization happened in Q1, so we utilized proceeds for repayment of the borrowing and some part of that is parked right now in the mutual fund so that is giving us the increase value in the asset side. Also, I mentioned earlier there have been some effect from the inventory slightly on the higher side for the quarter. To some extent that is also impacting. Third point is on the RIECO side, the business has gone up so there has been some also billed as well as unbilled revenue which is also contributing increasing overall segmentation asset.
- Nitesh Dhoot:** So my next question is on the pigment business so if you see that sequentially the gross margin has gone up from 41.5% to 42.9%, however our EBITDA margin has come down from 12.3% to 11.9% so is this purely because of the weaker fixed cost absorption given the lower volume sequentially or is there an increase in some overheads also?
- Nilkanth Natu:** Nitesh your understanding is absolutely correct. So if you see the EBITDA margin is down sequentially by 40 basis points, but the sales value has come down by around 9% to 10% so it is more of the operating leverage there. No increase in the overheads.
- Nitesh Dhoot:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

- Dhruv Muchhal:** Thank you so much. Sir the Chinese market we understand the real estate market is weak and probably that is also influencing the coating market, the coating pigment segment so is that the reason that which is impacting the overall supply demand situation globally Chinese are exporting more and more probably in your European and US market which you earlier used to target and probably also the domestic market or is it that a lot of new capacities have come up which is infringing the market just trying to understand what is causing this?
- Rajesh Rathi:** China has nothing to do with the coatings markets. Coating market what we saw was in India where we did not see growth. I think China is generally active in the printing ink markets and some lower end plastic market where we have seen good competition, but that is not the main reason where we seeing, in general we are saying that the macroeconomic situation is such that we are not seen that growth which we used to see earlier in the market.
- Dhruv Muchhal:** So pressure is related to the domestic market in printing inks and plastics, but for your export markets like?
- Rajesh Rathi:** Not domestic Sir. This is the global market I am saying.
- Dhruv Muchhal:** Global market okay got it. Sure this is helpful. Sir the second thing is now that the RM prices are falling. I believe you will also take some adjustments in your selling prices to some extent probably so your earlier guidance of incremental revenue from new capex I think it was about Rs. 1500 odd Crores does that remain or will that see some change given that the RM is now falling?
- Rajesh Rathi:** If you see our slide not a material difference, probably a 10% difference. What the material difference is earlier was three years which is moving to four years that is the bigger difference.
- Dhruv Muchhal:** The value broadly remains the same irrespective of this? You had already factored in for this RM price fluctuation or the decline as such?
- Rajesh Rathi:** No I am saying the decline right now we expected is to make an impact is 10%.
- Dhruv Muchhal:** Sure Sir. Great Sir. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Chetan Thacker from ASK Investment Managers Limited. Please go ahead.

**Chetan Thacker:** Sir the question is more on the other expense line items? I just wanted to understand how will this move as a percentage of revenue over the next four years because some bit of our capex has also gone into backward integration so how should we expect this line item to move as capacity utilization inches up?

**Nilkanth Natu:** Nilkanth here. Our capex has been predominantly on the revenue side, growth side and as we guided earlier we have not done any significant capex for the backward integration. That will be the next stage once we stabilize the current capex. So as regards to other expense there are two to three fixed cost which I see in that particular bucket to remain fairly constant. The other part which is the manufacturing as well as the selling variable will vary as we ramp our capacity, but it should get reflected in our contribution margin so I expect the margin should be at the similar level or we should see growth compared to year-on-year basis.

**Chetan Thacker:** Sure, so it is largely coming from the fact that if I look at your more long-term other expense as a percentage of revenue it would hover between 20% and 21% while this quarter it is 25% because utilization would be lower so is it fair to assume we would start inching towards that number as utilization starts to inch up?

**Nilkanth Natu:** We had been predominantly in the range of around 23% to 24% as a percentage to sales. If I see last year for the pigment business, we were at around 24% and currently 23%. As we move along and as we see the capacity utilization ramp up, I expect this percentage to drop further. We should stabilize this on the lower end.

**Chetan Thacker:** Sure and Sir just last bit on the interest expense line item what is the current cost of debt and given that we would have utilized to repay debt we have done that so what should we expect going ahead on the interest expense as well also?

**Nilkanth Natu:** Currently if you really see our loan portfolio it is a mix of the ECBs and the rupee loan. It is more on the export commercial borrowing which is foreign currency borrowing and as a management policy we have majority of them covered into the fixed rate so I expect the blended rate on this should be around 5% to 5.5% given the foreign currency loans in the portfolio.

**Chetan Thacker:** Got it and whatever we have repaid so to that extent that benefit will flow as we move ahead?

**Nilkanth Natu:** Absolutely. Whatever we have repaid you can see in the quarter compared to the sequential quarter you will see the reduction in the interest cost numbers. As we go along further repayment also will have the impact on the reduction in the interest cost.

- Chetan Thacker:** Sure Sir. Thank you so much Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Hussain Bharuchwala from Carnelian Asset Management. Please go ahead.
- Hussain Bharuchwala:** Sir I just wanted to understand on the organic pigment side since we are moving more towards the export market so can we see the gross margins increasing from hereon and is there any target gross margins that we are looking at so just wanted to understand some bit of that and secondly I wanted to understand sir your plan to increase the ROCE going forward I think that was there in the presentation so where are we and how will be able to increase the ROCE? One thing I understand in the last call you said we will look at working capital and bring along the working capital down so is there any other means that we are looking at in order to improve the ROCE how are we planning to do that so that were the two questions from me?
- Nilkanth Natu:** Nilkanth here. So the first question was on the gross margin. Rather than looking at organic and inorganic, I see the split between the specialty and nonspecialty to play the important role. As we mentioned, our capex has been tilted more towards specialty pigment side so over a period directionally we should see the gross margin expansion. We have seen earlier the gross margin in the range of 43 to 44, if I see the peak of FY2021. So we should expect that there should be expansion in the gross margin directionally, not in the immediate future once we get along more sweating of the current capex, new capex which are put into use that is on the first part. The second is on the ROCE, yes so ROCE has a couple of leavers wherein we are working. The last year which we had seen is the drop in overall gross margin, EBITDA and which has reflected in the EBIT percentage as such. With the current quarter with overall financial performance, we expect the margin trajectory to be maintained compared to last year, first three-quarter performance. So we have seen that traction coming in and the management is focused how to expand our margins which will reflect better in terms of the EBITDA percent as well as the EBIT percent. On the capital employed side, we are also working more on the net working capital. If you have seen last year there has been a good net working capital relief over a one-year period and we continue to do that. There may be some seasonality which will be there as far as the net working capital cycle is concerned, but over a period I expect we should stabilize the net working capital around 21% and third as we move along in terms of the ramping up of the sales from the new capex projects, more sweating of those capex will give us the further benefit going forward. So as we have the growth will follow the capex we are in the initial phase. You will see the ROCE ramp up in the coming years and these other two to three major levers which we are working at. Also, one point Hussain is we have taken a decision that there will not be any further expansion of new capex to the tune which we have seen

except the maintenance capex. So this will also help us in managing our capital employed better.

**Hussain Bharuchwala:** Got it and Sir your maintenance capex will be around Rs.40 Crores am I correct that is what you have guided earlier.

**Nilkanth Natu:** Yes, around Rs. 40 Crores to Rs. 50 Crores yes.

**Hussain Bharuchwala:** Got it. That was the questions.

**Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking Limited. Please go ahead.

**Rohit Nagraj:** Thanks for the opportunity. So first question is on the European competitors so given that the top, I mean out of top ten players, most of them are located in Europe and on a year on year, the energy situation has been relatively lenient plus you also mentioned the raw material prices have been falling so how is the competition shaping up over there and are there any incidences where some of the mid or small size players have gone out of the system as you explained for one of the competitors in Canada, thank you?

**Rajesh Rathi:** So like we said in Europe, a lot of consolidation has happened in the large areas and I think with consolidation comes opportunities for independent players like us where we get opportunity to the grab market share so in terms of if you see Europe really if you scan through Europe they are like two major players who are present who are the top two people.

**Rohit Nagraj:** Right. So, have we seen competitions from the top people, given that from the raw material side or from the energy side, the situation is also favorable for them as it is favorable for us?

**Rajesh Rathi:** So, basically I think two areas. One is obviously the energy in Europe is still, we have some advantage over that. So, we are still in favor from a cost perspective and given that consolidation is happening, we do see a more traction towards better engagement for us with the customers.

**Rohit Nagraj:** Right Sir got it. Sir the second question is that on the commodity pigments capacity so you mentioned in one of the comments that we are driving ourselves from commodity to specialty, however the market share has remained constant so just wanted to understand from the operating point of view the capacity that we have put for commodity pigments, the previous ones plus in the new capex are those capacities fungible and can be used for specialty pigments or at any point in time if we were to scale those down we will again have



to incur some capex if we go to market upgrade those capacities to specialty pigments?  
Thank you.

**Rajesh Rathi:** We have not put in any new capex on the commodity side. Most of our capex has been on the specialty side and if you look at fungibility, it is not possible to transform a commodity capacity into a specialty.

**Rohit Nagraj:** Right, got it. Thank you so much and best of luck.

**Moderator:** Thank you. The next question is from the line of Yogesh Bathia from Sequent Investments. Please go ahead.

**Yogesh Bathia:** Sir like you mentioned that our target is to ramp up this new capacity in the coming three years, so is it a possibility that if things are better off earlier than we expect so we can ramp it up faster and my second question is like you said that we have started utilizing the new capacity recently from Q1 also so is it fair to assume that some higher fixed cost must have been a part of the P&L in the last one or two quarters given the ramp up had started in the new capacity?

**Nilkanth Natu:** So with regards the ramp up in terms of the new capex, as we mentioned we earlier estimated this ramp up should be within three years. Given the current scenario, we expect that this should be around four year and we are on target to have the ramp up of this new capacity by four years. As we move along, if we see the improvement in the macroeconomic conditions, our endeavor is to bring back this particular ramp up to three years period, but that will always depend on the external factor. That is the first part. Second part is in terms of the additional fixed costs so this project has been commissioned in the last quarter and majority of the fixed costs in terms of the manpower and all that is already being there. I do not expect any incremental fixed cost to come for this newly commissioned capex.

**Yogesh Bathia:** Okay so basically higher fixed cost has been incurred in the last quarter and maybe this quarter also for the new capacity, right?

**Nilkanth Natu:** Yes. So I expect more of a normalization, no incremental cost, fixed cost due to this recently commissioned capex.

**Yogesh Bathia:** Okay. Thank you, Sir that should be all.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, Sir.

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

**Moderator:** Thank you Sir. Ladies and gentlemen, on behalf of IIFL Securities that concludes this conference we thank you for joining us and you may now disconnect your lines. Thank you.

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