SUDARSHAN

12th February, 2024

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 Monday, 5th February, 2024, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) for the quarter and nine months ended 31st December, 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 Meenanath Velankar
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Date: 2024.02.12 20:09:02 +05'30'

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

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“Sudarshan Chemical Industries Limited

Q3 FY ’24 Earnings Conference Call”

February 05, 2024

MANAGEMENT: **MR. RAJESH RATHI – MANAGING DIRECTOR – SUDARSHAN CHEMICAL INDUSTRIES LIMITED**
MR. NILKANTH NATU – CHIEF FINANCIAL OFFICER – SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. AMEY ATHALYE – GENERAL MANAGER, FINANCE – SUDARSHAN CHEMICAL INDUSTRIES LIMITED

MODERATOR: **MR. NITESH DHOOT - DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY '24 Sudarshan Chemical Industries Earnings Conference Call hosted by Dolat Capital. 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 star then zero on a touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitesh Dhoot from Dolat Capital. Thank you and over to you, sir.

Nitesh Dhoot: Thank you, Muskan. Good morning, everyone. On behalf of Dolat Capital, I would like to thank the management of Sudarshan Chemical Industries for giving us the opportunity to host the Q3 and 9 months FY '24 earnings conference call. From the management team, we have with us today, Mr. Rajesh Rathi, Managing Director; Mr. Nilkanth Natu, Chief Financial Officer; and Mr. Amey Athalye, General Manager, Finance.

Without further ado, I would like to hand over the call to the management for their opening remarks, post which we'll open the forum for a Q&A session. Thank you and over to you, Mr. Natu.

Nilkanth Natu: Thank you, Dolat Capital and Mr. Nitesh Dhoot for hosting our earnings call. Good morning, ladies and gentlemen. Welcome to Sudarshan's Q3 FY '24 Earnings Conference Call. Our financial results and investor presentation has been uploaded on the stock exchanges for you ready reference.

The company continues to deliver growth in revenue as well as improvement in EBITDA margins in Q3 FY '24 as compared to the previous year. I will initiate the call by briefly taking you through the key financial highlights for the period under review, following which we will open the forum to have question-and-answer session.

Quarterly performance.

On a consolidated basis for the quarter, total income from operations stood at INR566 crores as compared to INR528 crores for the same period last year, higher by 7% year-on-year. EBITDA for the quarter stood at INR62 crores compared to INR42 crores in Q3 FY '23, higher by 48% and EBITDA margin is at 10.9% compared to 7.9% over the same period last year.

Profit after tax is at INR15 crores as compared to INR1 crore for the same period last year.

9 months performance.

In 9 months, the total income from operations stood at INR1,775 crores versus INR1,611 crores in the same period last year, a growth of 10%. EBITDA for the period is INR197 crores versus INR126 crores last year, higher by 56% and EBITDA margin is at 11.1% versus 7.8% over the same period last year.

PAT stood at INR54 crores compared to INR12 crores for the same period last year. Now going into details of our Pigment business. For the year -- for the quarter FY '24, income from operations stood at INR521 crores compared to INR483 crores for the same period last year, growth of 8%.

On a sequential basis, revenue of Q3 FY '24 has remained flat in comparison with Q2 FY '24. India sales for the quarter is at INR278 crores, higher by 11% as compared to INR251 crores in the same period last year. On a sequential basis, India sales is marginally higher by 2% compared to INR272 crores in Q2 FY '24.

Exports for the quarter is at INR244 crores as compared to INR232 crores last year, higher by 5% . Q3 is seasonally a weak quarter for some of the international geographies considering the calendar year-end and holiday season. On the international demand, we have seen it is a mixed pack where EU region continues to have subdued demand, whereas for other geographies, we have seen the moderation in the demand.

We see the impact of destocking is nearing the closure and we expect the demand revival from the international geography. However, we remain vigilant towards these geographies considering the multiple geopolitical issues, inflationary pressure and global macroeconomic situations.

In the Plastics segment, we are seeing improved demand while Ink segment has remained stable in Q3 FY '24.As mentioned during the last quarter, demand from the Coatings segment is expected to pick up in H2 FY '24 and we are seeing uptick in the Coatings segment in Q3 of this year compared to the Q2 of FY '24. Specialty segment sales stood at INR358 crores as compared to INR340 crores for the previous year same quarter, 5% year-on-year higher. Non-Specialty sales for the quarter is at INR163 crores, which is higher than 14% as compared to the same period last year.

We continue to witness positive response for our product offering from our recently completed capex resulting from continuous engagement with the customers. We are progressing well in terms of ramp-up from the new commissioned capex.

Gross margin of the Pigment business for the quarter increased to 45.5% as against 40% for the same period previous year. Comparing with the sequential quarter, gross margins have gone up by 70 basis points. The increase in gross margin is due to improvement in the product mix and also due to some effect of time lag in selling price pass-through.

We will continue to take our calibrated pricing decisions based on volume growth. During the quarter, we have seen the stabilization in the raw material costs and coal prices as compared to the previous year. Evolving geopolitical environment can put some uncertainty, which may have the impact on the crude prices and other intermediary prices.

With a better gross margin, EBITDA for the quarter stood at INR69 crores in Q3 FY '24 as compared to INR38 crores for the same quarter previous year, higher by 82%. EBITDA margin stood at 13.3% compared to 7.8% over the same period last year. On sequential basis, EBITDA margin is higher by 50 basis points.

In nine months, total income from operations from Pigment business stood at INR1,579 crores versus INR1,486 crores in the same period last year, a growth of 6%. Gross margin has improved to 44.4% in 9 months ended December '23 as compared to 39.7% same period last year. EBITDA is at INR200 crores versus INR121 crores last year and EBITDA margin is at 12.7% versus 8.1% over the same period last year.

Now coming to the balance sheet.

The balance sheet of the company as of December 31, 2023, has strengthened with stable business operations, improvement in the EBITDA, effective working capital management and funds received from monetization of the assets in Q1 FY '24. Net debt of the company has reduced substantially to INR434 crores in Q3 FY '24, from INR946 crores in Q3 FY '23 and INR445 crores in Q2 FY '24.

The reduction in debt has resulted in improving net debt-to-EBITDA to 1.5x in Q3 compared to 4.5x in Q3 of the last year. The working order cycle has been effectively managed, thereby resulting into cash conversion days at 88 days in Q3 FY '24 compared to 112 days in Q3 FY '23. The current ratio has improved to 1.4x in Q3 compared to 1.1x in Q3 of the last year.

ESG focus

Before we conclude management commentary, I would like to take this opportunity to highlight our ESG focus. We have formulated strategy towards key pillars of environmental responsibility, strengthening social inclusiveness, business accountability, with continued focus on manufacturing excellence. We believe that companies will get differentiated based on the ESG practices in coming years and our continued focus and sustainability journey with the concentrated effort will strongly position us globally.

In our endeavour to achieve the benchmark performance on business practices and responsibility towards environment, we have recently achieved silver medal certification from ECOVADIS 2023, reaffirming the company's dedication to sustainable and responsible business practices.

During the quarter, the company also received prestigious certification OEKO-TEX. OEKO-TEX, this certificate recognizes our adherence to environmentally responsible manufacturing processes and the use of sustainable materials in our products.

To summarize, we believe the Indian pigment industry will benefit from continuing India growth story in global volatile environment, China plus one global customer derisking theme and consolidation of the leading industry player. However, we remain attentive and continue to be cautious to the geopolitical developments and global macroeconomic situation. Our long-term growth prospects remain intact given commissioning of the new products and positive response from the customers, availability of product portfolio and geographical reach. We remain confident in our growth story and continue towards commitment to deliver long-term value to our stakeholders.

With this, I now open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. And the first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: First, on the Rieco side, just wanted to understand that this quarter also, it's again in the red. Can you explain what's happening on the Rieco side? And how should we look at that part of the business? We also earlier tried to divest that part of the business. Are we still pursuing that?

Nilkanth Natu: Hi, Sanjesh. Nilkanth here. So during the current year and for the year YTD performance, we had seen the performance dip in the Rieco business. And this was mainly due to the lower revenue in one of their segment, grinding business and also the execution of 1 large order in other segment where we have seen the estimation shortfall and during the execution, the cost overrun. However, based on the current order book, which we have an order balance and the margin on that and the current projection, we remain confident that this business will turn around the performance in the coming quarters and we should see that from Q4 onwards.

Rajesh Rathi: This is Mr. Rajesh Rathi, so year-end, we expect Rieco to deliver positive results.

Sanjesh Jain: In general capital goods, you're seeing a significant order booking and all those things, increased capex intensity in India is clearly helping that segment. Are we seeing the same trend in the Rieco as well?

Rajesh Rathi: So some of the business segments are seeing a good order book. However, one segment is dragging it down. And what we are asking the business to focus on is EBITDA margin rather than growth, So we are now focusing on more profitable growth in that segment.

Sanjesh Jain: Fair enough. Second, on the pigment side of the business, on the specialty pigment side, it's a third quarter where we have seen a sequential decline. And that's true for exports as well. Is it a correlation that specialty is selling lower or exports demand is lower and hence the specialty sales has also got impacted because of that? And how should we see the recovery from here? We have said that H2 will be better. But clearly, 3Q is not showing that trend with sequentially flattish revenue. How should we see that?

Nilkanth Natu: It's Nilkanth here. So as I mentioned in my commentary, typically, the Q3 is seasonally the weak quarter for the export market. And the export market has been a mixed pack wherein the Europe region continues to deliver the subdued demand, whereas other geographies, we are seeing the demand revival. In terms of the Specialty segment also, while quarter-on-quarter, it remains flat but what we had also seen in there is a moderation in the realization given softening of the raw material prices. So while value wise, you will see the moderation or maybe the flattish trend but we are seeing a good traction in the volume side.

Rajesh Rathi: And to add to that, if you see last year quarter to this quarter, I mean, both on the margin side and on the growth side, it's been a very good quarter. Unlike Mr. Natu ji explained, even sequential quarters, we are seeing good traction on volume growth.

Sanjesh Jain: Can you help us understand what was the volume growth and the realization mix in this to appreciate the performance?

Rajesh Rathi: So, I think the volume growth has been in double-digit numbers and we see a good traction on demand continue there.

Sanjesh Jain: This is on a year-over-year basis, right?

Rajesh Rathi: Yes.

Sanjesh Jain: Fair enough. And one last question. Again, volumes, if I see Y-o-Y for the pigment exports out of India, they have grown at a very strong 20%, 25% on a low base. I could understand that in the October and November month data, whatever has been put in interim, we appear to be lagging there. It's more of a commodity. So they are selling higher specialty and generally seeing a muted demand. Are we seeing some erosion in our market share? Any color there?

Rajesh Rathi: No, absolutely, we are not losing any market internationally. I have not looked at the figures you are talking about of 20-25%. But I think the industry in general, if you see the results of quite a few companies, the industry in general is not doing very well. I think we've been able to deliver good results.

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

Ankur Periwal: First question on the global demand outlook. Any feedback you can share from the clients, given we have been launching new products, any addition to the new customers across the geographies?

Rajesh Rathi: This is Rajesh Rathi. I think we're getting good attraction on the new products, good engagement and we continue to engage with customers. However, in general, the demand on the international side outside of India has been a mixed pack, where Europe demand is still subdued. U.S., we are hoping that the demand destocking, which really happened in Q3, that effect is over and our Q4 would look much better in that perspective. And so I would say internationally general demand is a mixed pack. And our new Capex sales, there is good engagements are happening,

Ankur Periwal: Sure, Rathi ji. And just a follow-up on that. Our earlier timelines of optimum utilization for this -- the new Capex that we have put in, in terms of revenue run rate over a 3- to 4-year window, any changes to that?

Rajesh Rathi: No, sir. I think like we said last time, we would still -- looking at this 4 year is our window. As we start ramping up, we will start looking at how we can reduce that window. But still, I would still give a guidance of 4 years.

Ankur Periwal: Second question on the RM deflation as well as the freight cost increase that we are seeing. If I heard it right, Natu ji did mention in between that the pass-through of RM deflation is more gradual. And you mentioned double-digit volume growth here. What time frame should we look at in terms of full pass-through of this RM deflation? And secondly, on the freight cost front, any increase that we are seeing? And will it be passed through? Or can it impact our margins in the interim?

Nilkanth Natu: Nilkanth here. So in terms of the RM prices getting stabilized or deflationary trend there, what we see normally that it can take one quarter or two quarters for full pass-through. And as I mentioned in the commentary also that we will take that particular call based on the volume and the demand side so that it should be a very calibrated approach. In terms of the freight cost, yes, we are seeing the increase in the freight cost given now the red sea crisis.

And our endeavour is to pass on this cost increases to the customer while getting our focus on delivering the goods to them. So this will be a calibrated approach there but our endeavour is to pass on the cost increases to the customer because this is something which is a kind of force majeure for all the companies and which customer also recognizes.

Ankur Periwal: Sure. Sure, Natu ji. So directionally, if I look at it, 9-month average gross margins at around 44-odd percent. I'm looking at more Pigment business gross margins here. Do you believe directionally, we will either sustain or probably improve these numbers? Will that be right enough there?

Nilkanth Natu: So absolutely, Ankur, sir, YTD number for the gross margin is at 44.4%. So directionally, I believe that we will be sustaining this gross margin number.

Ankur Periwal: Great, sir. And last question, if I may. From a cash flow perspective, you had earlier highlighted that you will be looking to optimize the working capital further. And given that there are no significant incremental capex plans, what's your thought on the utilization of cash apart from the debt repayment, which may happen.

Nilkanth Natu: So Ankur ji, currently we have a debt of INR434 crores. So it is -- in the short term, our endeavour will be to repay that first. And as we get more cash in, in the system, then the management may at appropriate time look at the interim dividend or maybe the dividend outflow for our stakeholders. But current focus is to deleverage the balance sheet.

Moderator: The next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: So my first question is, on one of the Canadian competitors that we had, I think, DCL Corporation who had to kind of shut their shops, have you seen any benefit coming in from the percentage of market share? I think they used to do close to $35 million, $40-odd million of sales. In the current scheme of things, have you seen any positive traction building up from their closure?

Rajesh Rathi: This is Rajesh Rathi. First of all, sir, they've not shut down. They've shut down one of their plants. And they are having financial difficulties. Their sales was also much higher, in the triple-digit numbers, so it wasn't $40 million. But in general, to answer your question, they were more focused on America. And we are able to capture some of the demand, some of their demand in America.

Archit Joshi: Got it, sir. So that's already seen in our numbers? Would that be a fair assumption that we have been able to cater to some of that demand already?

Rajesh Rathi: So we've been able to cater. But I think, as I mentioned, U.S. market had a big destocking effect there in our Q3. So the numbers there were a little bit subdued.

Archit Joshi: Got it, sir. But that should improve sequentially going ahead, the demand coming back?

Rajesh Rathi: Yes.

Archit Joshi: Got it. Sir, my second question is on the Red Sea issue, not from the exports perspective but I believe that quite a significant chunk of our RM does come from China, especially some of the key raw materials or intermediates required to manufacture high-performance pigments. I think one of our global competitors is already kind of speaking of increasing the freight surcharges and trying to secure raw material as soon as possible. Would that also have some bearing on the freight cost that we might have to kind of bear the burden of because of the Red Sea issue from the imports perspective?

Rajesh Rathi: So far, sir, we've not seen so much of an issue on the import perspective. And our anticipation, at least for the next quarter, we don't see that issue. We are seeing a major hike in our export, especially to Europe and U.S. that we continue to see.

Archit Joshi: Right, sir. Sir, my last one, just a general historically that was part of one of our investment arguments that, globally, we have seen a major consolidation. Now that's already in the past and I know that then you kind of went through -- the industry entirely went through some supply shocks and COVID and geopolitical tensions.

But in general, would you still believe that the consolidation of the 2 or 3 majors that has happened is rather to benefit us even going ahead, that there might have been some spillover of their products coming into our foray, wherein we have been able to benefit because 2 or 3 of our large major competitors have consolidated.

I know that this may not have happened in the last few years because, like I said, for some external pressures. But going ahead, would still that be a theme that we might get some market share because of the consolidation that has already happened, sir, your thoughts.

Rajesh Rathi: So absolutely, I think that's a major thing. We're already seeing good traction because of that. And it will continue for us to be in the market as a very good, reliable supplier, as an alternative, reliable supplier to some of these major competitors.

Archit Joshi: So sir, are we still seeing -- even in the past, sir, we have seen that play out in our favor. Is that a fair assumption? And that we have gained market share, even by a single percentage point?

Nilkanth Natu: Archit, can you repeat the question, please?

Archit Joshi: Sir, my question was, in the past, also the consolidation has already happened, like I said, have we seen that benefit accrue into our financials? Have you been able to gain market share at all even if by a percentage point, has that -- do you think that in your assumption that has played out for us in our favor?

Rajesh Rathi: It's a very dynamic situation. So what we can tell you as trends, is that customers look for alternatives. Also consolidation makes our competitors look more inwards, of course, several you must have already heard about some of our competitors are facing major concerns, issues. So there are 2 aspects, One is, of course, the external environment where there's consolidation going on, there are internal issues going on with our competitors.

Secondly, Sudarshan is a company who has come up with these all new products, very focused on the business. So I think both factors put together, I would say, the extrinsic and the intrinsic, where we strengthened ourselves over the last 3, 4 years, definitely helps us to place ourselves much better before the customer. And in years to come, we will definitely keep gaining more market share.

Moderator: The next question is from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: Congratulations on a good set of numbers, especially in the core Pigments business. So my first question is, even you highlighted about deeper penetration in international -- in select international geographies in the presentation. So if you could provide some more details in terms of which geographies, which end applications are these? So we got associated with the BASF distribution. Is this beginning to take shape?

Nilkanth Natu: Nitesh, Nilkanth here. So when we are talking about deeper penetration in the international geography, as mentioned earlier, we are getting a good traction in the Japan market as well as the Korea market and also a few other geographies wherein we are trying our sales force, wherein we are getting a good traction. So we are strengthening ourselves in South Americas also.

And in terms of our engagement with the BTC, the BASF distribution arm, so currently, this engagement is there and we are seeing a gradual ramp-up and the progress there.

Rajesh Rathi: And so we're still not seeing the complete benefit of the engagement because products do take longer to sync. We are hoping next financial year, we are able to see this benefit of this cooperation.

Nitesh Dhoot: Sir and if you could share your overall capacity utilization, the ballpark number would be good. Just trying to understand that we are currently at 13.2% EBITDA margins in the Pigment business, while a large part of the capex is still to be absorbed. So where do you see these margins progressing during a couple of years as the capacities get absorbed? So I do understand that this is also a function of the RM prices but say, we assume constant prices in this period, where could the product mix change and the operating leverage take us to in terms of EBITDA margins. So any indications there would be helpful.

Nilkanth Natu: So Nitesh, Nilkanth here. So as a management, we also guided earlier that capacity utilization, we are not right now publishing the data. But with regards to your question in terms of the EBITDA improvement, so if you really see the current EBITDA percentage is at 12.7% YTD numbers compared to the 8.1% of the last year. Structurally, if I see our company's performance going forward, the two levers, which we mentioned earlier and which we believe will drive the growth, one is the specialty and second is the export market, given the new capex product, new capex, which is commissioned and majority of the products are in the high performance or specialty pigment side, we believe that we will see the uptick in the EBITDA margin.

Our highest EBITDA margin, which was around 15% in '21. So structurally and directionally, I can see over a period, we should scale back to that level. And then once the utilization ramp-up benefits will come in, we should see northward of that particular percentage. So directionally, this year, if I see the performance, we are scaling back to our original run rate. And as we go along and see the demand improvement, as well as the new Capex commercialization, it should directionally give us the EBITDA margin on a higher side.

Nitesh Dhoot: Sure, sir. This is helpful. Sir, just one last small bookkeeping one before I join back the queue. So how much is the gross debt currently? So how much of a reduction have you -- we've seen sequentially from around INR622 crores reported at the end of Q2?

Nilkanth Natu: So Nitesh, as mentioned, our net debt number for Q3 is INR434 crores versus INR946 crores of the last year Q3 and sequentially, if I see the INR445 crores in Q2 FY '24.

Moderator: Thank you. The next question is from the line of Sandeep from LKP Securities Limited. Please go ahead.

Sandeep: Congratulations on a good set of numbers. So just I wanted some like guidance from you in terms of your Specialty and non-Specialty business. Can you give us like what would be the major difference between both these major things, consisting the high-performance pigment specialty and like can you provide us some guidance on that?

Rajesh Rathi: So as the specialty and non-specialty, non-specialty mainly is the complete commodity products where most of our commodity products where we are not able to have, I would say, a sustained customer engagement, sales. People are able to quickly switch because of our pricing. That's the major. And the specialty products are more towards higher-end applications and products which are more sticky with the customers.

Sandeep: Okay sir, can we say that the specialty products are majorly like customized kind of products, which are having the customer requirement from customer side. Can we conclude that?

Rajesh Rathi: No, it's not customized but it's mainly -- it's higher-end applications, products, products which probably will not have that intense competition.

Sandeep: Okay. Okay. And just in terms of outlook for this quarter, so generally Q4 is one of your best quarters in terms of -- like, if I see the past numbers. So can you expect the next quarter to be around similar levels? Are we expecting like a good spillover effect or the lag effect in the Q4 as well?

Nilkanth Natu: So as you rightly mentioned, we believe that we will continue the current momentum. And we, the management are bullish on the Q4 numbers, given the current demand scenario. As mentioned, the India demand seems good, the coating destocking effect is over. We see the good demand in the plastic and similar trend we expect in the export market, subject to the geopolitical situation, though. So in nutshell, we expect to keep the momentum continuing for Q4 also.

Sandeep: Okay. Okay. So just last question, I think like give breakup of your brands in coating, inks, plastics and automotives or cosmetics, like if you provide any breakup of these verticals.

Nilkanth Natu: So currently, we are not publishing these numbers, and we are internally reviewing this. Maybe going forward, we will look at which kind of dataset further release can be possible and then we will connect back to you.

Sandeep: Okay. Just like generally coatings is the higher in terms of -- India as far as industry as well as more than 50% coating, almost 50%. So can we also like gauge for Sudarshan that coatings would be the highest in terms of your verticals?

Rajesh Rathi: For us, our strong area is plastics. Though the market size of plastics is lower, our sales in coatings is #1. But the difference between coatings and plastics is much narrower for us then would be printing inks and then cosmetics in the rank.

Moderator: The next question is from the line of Dhruv Muchhal from HDFC AMC.

Dhruv Muchhal: Sir, the last time when we sea freights had increased, our export market was a bit impacted because the local players probably in Europe and U.S. had become more competitive. So we are seeing that same trend now but do you think the implication can be a bit different this time?

Rajesh Rathi: I think the question is on 2, 3 areas. One is, obviously, they're also majorly impacted all the raw materials comes through the Red Sea. So they're majorly impacted due to that. So the impact, I feel this time will not be there from a perspective of being competitive because of logistics.

Dhruv Muchhal: And sir, secondly, if I look at the other expenses in the Pigment segment, I mean the gross profit minus the EBITDA, the absolute other expenses are increasing, say, if I compare it versus 3Q of '22, they have increased despite broadly similar sales. And this I would assume is despite the fact that the power and fuel costs for you would have declined and in the base quarter that is 3Q of '22, your freight cost would also be significantly higher. So just trying to understand what's driving this cost increase.

Nilkanth Natu: So Dhruv, if I -- you are comparing this with the last year Q3, correct?

Dhruv Muchhal: No. So 3Q '22, that is when your-- I mean 2 years back, I thought last year was very weak, so -- but 3Q '22, when you had the worst of freight cost, worst of probably the fuel and power and fuel cost, so.

Nilkanth Natu: So Dhruv, it is also the impact of the volume, correct? So the realization which we are seeing right now versus the past 2 years' trend, wherein we have seen the inflationary pressure there and the price pass through. So currently, we are seeing the volume scale up compared to those particular period and which will definitely have impact in our other expense results also.

Dhruv Muchhal: So basically, the volumes are significantly better but revenue is low because of the realization impact?

Nilkanth Natu: Yes, absolutely.

Dhruv Muchhal: Sir, some sense, sir, you can give what -- how has the realization declined, I'd say, over 1, 2 years? On a per kg or percentage?

Nilkanth Natu: So Dhruv, this is indirectly getting back to the volume question. Since we are not declaring the volume, will not be able to give you the exact number. But you had seen the inflationary range, which has been at the higher end of 8% to 10% over last 2 years period based on that you will be able to see the impact.

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

Madhav Marda: Am I audible now?

Nilkanth Natu: Yes, Madhav you are.

Madhav Marda: Sir, my first question was just on the supply side landscape. I think last couple of quarters, you've been speaking about some disruption at, in like some of the larger competitors in Canada and Europe. So just any update there in terms of are we beginning to see some market share shift happening from those vendors or any sort of opportunities coming up on the sort of product side?

Rajesh Rathi: So Madhav ji, I think, as I mentioned, we continue to see good tailwinds for us from an external perspective of the competitive landscape and the engagement with customers increases because of these tailwinds. And given that our stronger product portfolio, there is more reason for our customers to talk with us, engage with us more.

Madhav Marda: Understood. Got it. And in terms of the newer products, which we have -- the new portfolio, which we have commercialized in the last 1 or 2 years, basically, how much higher is the gross margin profile for these newer SKUs versus our, say, the pre FY '19 or '18 portfolio which we had, if you could share some outlook there, that will be helpful.

Rajesh Rathi: So sir, I think it's a little bit of a mixed bag, Because our volume utilization, as you may realize is low. And we also initially went through some -- as we were commercializing the capex we went through some of the teething problems. So we've not realized the full potential there, for the gross margin. And as we mentioned, the whole idea of getting into these product lines was having improved margins. So this side of the product line should give us a better margin, sir, in the future years.

Moderator: The next question is from the line of Rohit Nagraj from Centrum Broking.

Rohit Nagraj: Congrats on good set of numbers. So first question is in terms of the customer engagement that we are having after the start of 2024. How are we pursuing, then in terms of outlook for their businesses and probably giving us some firm commitments in terms of orders? So last couple of years have been completely in turmoil. But now, is there a greater sense of confidence and probably the same is percolated to us in terms of some firm commitments on a quarterly or yearly volume basis?

Rajesh Rathi: Sir, this is Rajesh Rathi. And I think demand is a mixed pack, So if you look at India, we are hoping that the destocking of coatings is over and we should be able to see good demand now going forward from coatings, plastics. We are hoping that the plastic demand will continue in India. So that's the India story.

If you look at the global scenarios, Europe, demand is still subdued. Q3 in U.S. had a big destocking effect, which the supply chain should be dried up and we expect that our Q4, we should see better demand in U.S. Middle East, Africa, we have a very strong position but I think couple of countries where there are either issues from a currency perspective, etc. That's kind of has a damper on our demand. Though the demand is there, we are not able to service some of that demand.

Rohit Nagraj: Right. Got it, sir. Sir, second question in terms of the cost increase because of freight rate increases, would this be a transitory nature that in Q4, probably we will have to take a hit before the prices are increased and that effect of freight cost increase will be nullified in subsequent quarters? Just your perspective on this.

Rajesh Rathi: Sorry, can you repeat the question?

Rohit Nagraj: Yes. So the freight cost increase because of the Red Sea issue on the exports front or even from the raw materials front, so just to get a perspective, whether we will have to absorb these cost for the time being, as it is transitory in nature. And then further in coming quarter, the customers will give us the price increases and that impact will be nullified.

Rajesh Rathi: So sir, I think what we are planning to -- what we are doing right now is, as far as possible, we are pushing the cost increases because this is a very transparent cost increase. Everyone is aware of this, There are few areas which we are not able to pass on the complete increases. That's the area we will further look at this but we don't expect material impact on the margin.

Rohit Nagraj: Sure, sure. And just 1 last clarification on Rieco. In terms of management bandwidth, how much of our energy is invested on Rieco and whether there will be a further thought on to divest Rieco as we had indicated probably few years ago.

Rajesh Rathi: So sir, the handover has been done. We should not defocus from our growth business of pigments. So I think our bandwidth and so the company is very well independently managed. However, the Board has given us a direction that the growth has to be profitable. And our focus and drive of Sudarshan -- the overall corporate management now will be to help them, guide them towards profitable growth.So we will not get distracted from our Pigment business but help Rieco reach respectable, profitable numbers.

Moderator: Thank you. The next question is from the line of Jay Shah from Capital PMS. Please go ahead.

Jay Shah: Congratulations to the management for a good set. Sir, my question was more on the specialty side, that having the whole generation of new products happening, is it like we are pushing new products? Or is it like the customers are telling us that what is their need? Because why I ask this is, we've seen that a lot of our peers, especially the one called Heubach, also moving towards specialty and high-performance segments.

And this move is seen globally that people are going up the value chain. So I want to know 2 things. One, how does the ideation and commission happens? And second is, what would give Sudarshan the right to win if the space gets very competitive.

Rajesh Rathi: Excellent question, sir. I think, first of all, Heubach, with the Heubach and Clariant's merger, Clariant already had the existing portfolio. So I don't see -- I see the market differently because their portfolio, they're not transforming It's because of the merger. That's what the portfolio is. But in Sudarshan case, we have created the new portfolio and I think the market is looking for a good reliable supplier other than the traditional.

I would now classify Heubach into it a -- since you've said Heubach, they're one of the traditional because Clariant and Heubach has combined their business, So we do become a good alternative, given a very broad portfolio, broad competitors in terms of quality, in terms of value to the customers.

Jay Shah: Okay. And if you could throw some light on how the ideation generally happens? Is it like constantly R&D from our end? Or is it like even the clients are asking us some -- for value add or a functional trend?

Rajesh Rathi: So what happens is, we had a -- 4 years ago when we launched, we already had done a good market survey, we had a good engagement with customers, identified the products and we've introduced those products. Now we do engage with key accounts. And there are times when with key accounts, some of our products do not work to their expectations. And then you come back to the lab, you modify the product and go back to them.

So it's a dual approach. There is a mass market where you go and you launch the product, right? And there are a few key accounts where the volumes justify, you would customize the product for them because they do have a little bit of a different requirement.

Jay Shah: Got it. Got it. Understood, sir. Sir, just last question. Throughout the call, I could figure out that the management focus is more on coatings, inks and plastics. I just wanted to ask from the management, is it that the paint industry is a lesser focus for us? Because I mean, given the way the country is India and the real estate tailwinds that we are seeing, is the management not planning to focus on paints as an industry?

Rajesh Rathi: I'm sorry to use our jargon sometimes but coatings is paints. So coatings and paints is used interchangeably. So our focus, sir, is paints, plastics, cosmetics and printing inks, all 4 industries where we drive. Of course, we choose segments in each of them where we should go and drive.

Moderator: Thank you. The next question is from the line of Prolin, an individual investor. Please go ahead.

Prolin: I have a few questions. The first one is on your specialty and non-specialty mix. Could you help me understand either in terms of your capacity, in terms of gross block, how much is the gross block which is dedicated to specialty, how much is for non-specialty or once all our Capex come downstream and is optimally utilized, what could the sales mix looks like?

Nilkanth Natu: Nilkanth here. So on the split between the specialty and non-specialty, we have been in the range of around 66%, 67% on the specialty side, 33%, 34% on the non-specialty side. While we don't publish the gross block separately for specialty and non-specialty, what we had also guided the market earlier that the new capex, which has been commissioned is more towards the specialty side.

And once we get the full scale up, I see the specialty pigment as a proportion in our entire sale, will move over the higher numbers, maybe a couple of basis points higher than what we had. So the current 66%, 67%, we will see the move upwards once we get the full benefit of the capex commercialization.

Moderator: That was the last question, I would now like to hand the conference over to management for closing comments.

Nilkanth Natu: Thank you, Nitesh Dhoot from Dolat Capital and thank you participants for your time and interest in Sudarshan Chemical. We remain confident in the long-term prospects of our business and we look forward to engaging with you again in the future. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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