

17th August, 2022

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

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

Dear Sir,

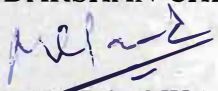
Sub : Transcript of Analysts / Institutional Investors Conference Call

We are enclosing herewith transcript of the conference call with analysts / institutional investors, which took place on Monday, 8th August, 2022, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) of the Company for the quarter ended 30th June, 2022.

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

Kindly take the same on record.

Thanking You,
Yours Faithfully,
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED


MANDAR VELANKAR
GENERAL COUNSEL & COMPANY SECRETARY



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Sudarshan Chemical Industries Limited

Q1 FY23 Earnings conference call

08/08/2022

- **Moderator:**
- Ladies and gentlemen, good day and welcome to the Q1 FY23 earnings conference call of Sudarshan Chemical Industries Limited hosted by Prabhudas Lilladher Private Limited. As a reminder all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call please signal an operator by pressing * and 0 on your touch tone phone, please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Dhoot from Prabhudas Lilladher Pvt. Ltd. Thank you and over to you, sir.
- **Mr. Nitesh Dhoot – Prabhudas Lilladher Pvt. Ltd:**
- Good evening. On behalf of Prabhudas Lilladher, I welcome everyone to Sudarshan Chemical Industries Limited conference call to discuss Q1 FY23 results. We have the management team from Sudarshan Chemical Industries Limited represented by Mr. Rajesh Rathi, Managing Director, Mr. Nilkanth Natu, Chief Financial Officer, Mr. Vivek Thakur, General Manager, Finance, and Mr. Mandar Velankar, Company Secretary.
- Without further ado I will now hand over the call to the Management for making their opening remarks. Over to you, sir.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Thank you. Am I audible, Nitesh? Hello.
- **Mr. Nitesh Dhoot – Prabhudas Lilladher Pvt. Ltd:**
- Yes, sir, you are.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Thank you, Prabhudas Lilladher Pvt. Ltd., and Nitesh Dhoot for hosting our earning call.
- Good evening, ladies and gentlemen, welcome to Sudarshan’s Q1 FY23 earnings conference call. Our investor presentation has been uploaded on the stock exchanges for your ready reference. I would like you to take through the financial highlights for this quarter.
- I would like to take you through the financial highlights for this quarter...

- It was indeed a very challenging quarter both of Sales as well as Margin front. On a consolidated basis, total income from operations stood at INR 554 Cr as compared to INR 474 Cr for the same period last year, reporting a growth of 17% YoY. EBITDA for the quarter stood at INR 41 Cr as compared to INR 62 Cr in Q1FY22. EBITDA margins stood at 7.5% as compared to ~13.1% over the same period last year. Profit after Tax stood at INR 7 Cr as compared to INR 26 Cr for the same period last year.
- Now going into details of our Pigment business...
- For the quarter, Income from operations stood at INR 526 Cr as compared to INR 453 Cr for the same period last year, a growth of 16% YoY. EBITDA for the quarter stood at INR 44 Cr as compared to INR 66 Cr in Q1FY22. EBITDA margins stood at 8.3% as compared to ~14.5% over the same period last year. Domestic sales for the quarter at INR 268 Cr as compared to INR 202 Cr in same period last year, growth of 32.5% YoY, this was on lower base of last year Q1 which was Covid impacted (Wave-2). We have seen buying decisions deferment by the customers due to volatility in overall prices, which is resulting in lower inventory levels at customer end. Sales in Plastic segment is impacted due to supply chain issues related to polymer availability (LLDP) and pricing volatility during the quarter. Polymer prices has crashed by more than 10% in last one month, due to which customers are anticipating further price drop and hence the buying decision were deferred. Exports for the quarter were at INR 258 Cr as compared to INR 251 Cr, growth of 2.8% YoY. Runaway inflation across commodities, tightening of monetary policy by majority of the Central banks, rising interest rate, geo-political situation due to Russia-Ukraine war are leading to subdued demand across majority of the regions. Specialty pigments sales stood at INR 352 Cr as compared to INR 318 Cr for previous year same quarter, up 10.7% YoY. Non-Specialty sales for the quarter stood at INR 174 Cr as compared to INR 135 Cr for the same period last year, up 28.9% YoY. Gross Margins for the quarter stood at 40.3% as compared to 47.1% for the same period last year. We see prices of intermediates for specialty pigments continuing at elevated level though at relatively stable status in comparison to inflationary trend seen in FY22. We see further increases in some of the inputs going in non-specialty pigments.
- Apart from raw material cost increases, we continue to see energy and logistics costs at an elevated level. Coal prices have gone up further and are around 200% of Q1FY22 level. This is pushing up manufacturing costs. The challenges in the logistics area are continuing, shortage of shipping containers due to covid situation in China and congestion at various ports leading to delays in shipping. This has led to freight cost escalations of 2 times over Q1FY22. Softer demand in international geographies did put additional pricing pressure to pass on full increases in indirect costs. With direct as well as indirect material cost pressures lingering, we will have to continue with pricing decisions with calibrated approach to balance on volume growth.

- Now coming to Capex projects which is our thrust for future growth.
- We are in growth phase to implement overall capex of INR 750 Cr; out of this we have put to use assets worth INR 528 Cr till now. Balance ~INR 202 Cr projects are part of capital work in progress. Put to use for these projects was pushed out due to delay in some of the equipment's deliveries. These projects are at advance stage of completion, and we expect to commercialise by end of H1FY23. About 70% of our capex has been put to use and started generating revenue. For new product capex, we are getting good response from customers and these products are at advance stage of evaluation. As we are stabilizing the new capex projects due to teething issues, the operational performance has been not up to the mark (i.e. lower yield and higher manufacturing cost) and we expect it to smoothen in the next couple of quarters and then these capex projects will start generating expected performance.
- Happy to share with you that Sudarshan has won the honour of "Brands of Maharashtra". Company has stood out as a leader which exemplifies excellence and impact to society at a large.
- 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. Anyone who wishes to ask a question may press * and 1 on the touch tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.
- The first question is from the line of Sanjiv from ICICI Securities, please go ahead.
- **Mr. Sanjiv – ICICI Securities:**
- Good afternoon, I think there is a problem in the call, there is a lot of disturbance, but I hope you can hear me, right.
- **Moderator:**
- Yes, we can hear you, sir, please go ahead.
- **Mr. Sanjiv – ICICI Securities:**
- Okay, thank you. Couple of questions, first on the demand side, Mr. Rathi did mention that we have seen some slowing down of demand because of the de-inventorization by the client. You mean de-inventorization for our products or for the polymers. And was this only for the plastic segment or we have seen this for the other segment also, now given that the prices are on a declining trend customer could be anticipating lower prices and that is the reason that they are looking to de-

inventorize or there is an issue on the demand side, so what is the leading to this lower growth.

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– Hi, sir. So this is Rajesh Rathi here, thank you for your question. I think what we were talking about is if you look at the segments in India, coating and printing inks have been performing quite well. The main issue has been in the plastic market, I think more than 50% of the time there was polymer availability issues and then there was a lot of price increases in the polymer. So that's where we saw the demand to be reduced. Now what we are looking at is the polymer prices have started drastically reducing and people are looking at, and people are just ensuring that they don't carry the high inventory and that's why they are just delaying what it is. Going forward we see the plastic demand was probably the worst in the last quarter. This quarter we should see some improvements and the quarter after that should come back to normal that's what we feel.

– **Mr. Sanjiv – ICICI Securities:**

– So this should in fact for us also, right, we are also carrying enough inventory and the falling inventory prices, you know, falling raw material prices, this applies for us as well, right, we may see a heightened impact on our margin, and probably one of the reasons why our margins are so low in this quarter is because we are able to sell off high cost inventory and we are selling it a lower price now as the prices continue to decline. Is this why one of the reasons why margins are under so much of pressure?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– Sure. I think the margin pressure was due to two areas. There is a lot of, you know, there has been a volume drop. So you see sales have increased but volumes have dropped. We have been able to pass on all the raw material increases but all the increase in coal and freight has not been able to be passed on so it has been like a double whammy.

– **Mr. Sanjiv – ICICI Securities:**

– No, sir, I am looking more from the gross profit margin perspective. I understand below gross profit there is an increase in coal and indirect costs.

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– In gross profit the main issue I think is absolute increase we have got in so the percentage looks not in line but otherwise we have been able to pass on the absolute increases. So it is not a question of the high raw material issues here.

– **Mr. Sanjiv – ICICI Securities:**

– So per kg basis we are able to protect the gross profit per kg.

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– Yes, yes.

- **Mr. Sanjiv – ICICI Securities:**
- Got it, got it. And then there is a volume decline, so just to understand how should we see this going forward for Sudarshan? In H2 we will be commissioning all of our plants and hopefully we stabilize the plants and all these issues are behind. Is it really possible for us on a low base to hit 25-30% kind of a growth in the second half?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- So I think, it is a very difficult question to answer because of the global situation, we have seen a lot of global slowdown in several of the export markets, as far as India is concerned as I have mentioned, plastic we hope it recovers than what it is. So it is really how the export demand picks up and how situation across the world. We are seeing a much lower demand. I think the industry is also seeing a much lower demand. So I think it is really looks how the global scenario shapes up.
- **Mr. Sanjiv – ICICI Securities:**
- No, for us it is a new category, new capex.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Sorry?
- **Mr. Sanjiv – ICICI Securities:**
- So for us we are adding a significant capacity, it is a new product for us. For us I can understand the global problem which was growing, pigment was growing at 3-4% may probably end up declining this year. But for us the situation is very different, right?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Yes, so our situation on the capex etc., should be much better in the future definitely.
- **Mr. Sanjiv – ICICI Securities:**
- Okay. Just one last question from my side. There is a steeper decline sequentially in the specialty while the non-specialty part has not declined so much, it is just 1.1% decline for non-specialty. Specialty decline is more steeper. Any particular trend in specialty which has caused this decline?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- I think so the main decline in specialties has been in the plastics area which we were talking about.

- **Mr. Sanjiv – ICICI Securities:**
- Okay, plastics is generally the specialty part which has declined.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Yes.
- **Mr. Sanjiv – ICICI Securities:**
- Okay. Sorry, I will be taking one last question. Again on this overall capex what is the issue which we mentioned about the teething issues which has impacted our yield and increased the cost, can you help us understand that a little bit more and how serious it is or how much time it will take to stabilize.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Nothing serious, you know, you anticipate certain margins which your capex is, we have not been able to realize those margins because obviously the capacity utilizations are very low and some of the initial things like yield etc., has been lower compared to what we expect. So all these teething issues should definitely get streamlined next year. So nothing major which is a problem but the margins have not been as per the expectations.
- **Mr. Sanjiv – ICICI Securities:**
- Yeah, so mostly to do with the yield part of it, right?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Yield and also your higher, some of higher manufacturing costs.
- **Mr. Sanjiv – ICICI Securities:**
- That's it from my side, thank you, sir, and best of luck for the future quarter.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Thank you, sir.
- **Moderator:**
- Thank you. Participants who wish to ask a question may press * and 1. Next question is from the line of Amar Maurya from AlfAccurate Advisors.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Mr. Rathi, thanks a lot for the opportunity. So first question is like little bit more to understand when you say that the volumes are not much, even in this quarter. So what would be the volume growth in this particular quarter?

- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Yes, sir. So coming quarter, I think coming quarter like I said the export demand looks quite subdued. We are hoping that the Indian demand starts recovering on the plastic side a little bit and I don't think, we are not anticipating a very bullish Q2. But Q3 onwards we expect a much better recovery.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- So on a full year basis like you know what kind of volume growth you expect in '23 and what was the volume growth let's say in '21 because '22 was broadly again a subdued year for us. So in terms of that what kind of growth you expect in the full year basis.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- It's very difficult to answer that given the global scenario what's happening. Major economies like Europe has slowed down, China has zero tolerance Policy for Covid. So all of the markets a lot of the business, a lot of industry was almost on a shut down, right, so it has been a very, it is a very difficult time for the industry I think.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Okay, but, sir, what I understand here is that broadly we are not exporting anything to China, right? I mean, and in terms of our overall contribution to the overall industry is less and we had commissioned like almost around a significant amount of capex. So despite all that we don't see the visibility let's say in second half '23 what kind of volume growth because I believe by that time your new products will also come, right. All the teething manufacturing issues which you have those also will be resolved by that time.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- So there's a significant thing on the new products but the base of, our other base products are significant and there's a significant decline, right. So the issue when you asked me for an outlook really that demand needs to be regained again. That's the main concern, sir, and that's why I am not able to give you a forward looking number that our growth is going to be substantial. Definitely, for capex there's a good attraction on the new capex.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- And when you say this polymer business, this would be how much percentage of our revenue?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- So, plastics is a very important market in India for us, sir.

- **Mr. Amar Maurya – AlfAccurate Advisors:**
- So let's say domestic market 45-50% would be polymer in terms of your?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- One minute, just one minute. Sir, plastic is a major one and plastics, coatings, inks and then cosmetics is kind of where we have.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Plastic, coatings and then inks, that is for domestic or for the overall company?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Domestic, sir, domestic.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Like let's say if we see plastic, plastic would be 50% of our revenue?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Sir, we don't give split up right now but I think it is a major, it is a good part, sir.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Okay, and sir, export like you are, I mean, plastic I can understand that you know, but if I see the growth in the revenue, I mean is it like your export, because you are little bit concerned about the export other than the domestic so what is basically haunting us in the export? Same segment same sectors?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Major economy, sir, like Europe as I said the first quarter was okay, but next quarter also I just met all the customers everyone was looking at a subdued demand and Europe is already looking at a big subdued demand. So all economies like Europe, Turkey, China already was under this. I would say all economies were under slowdown and now US may join in the next quarter, so that's what we are concerned about.
- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Okay, and secondly, sir, about one last from my side, in terms of your below the EBITDA, I mean below the gross profit, your cost which has gone up is largely the power cost or this is new manufacturing coming up so the new employee cost and that is also impacting your overall cost.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Mainly power and logistics, sir.

- **Mr. Amar Maurya – AlfAccurate Advisors:**
- Okay, fine, sir. Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Meet Vora from Axis Capital, please go ahead.
- **Mr. Meet Vora – Axis Capital:**
- Sir, thanks for the opportunity. When we say that we are seeing slowdown in demand from the end customer.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- We are not able to hear you properly.
- **Mr. Meet Vora – Axis Capital:**
- Am I audible now?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- Yes, much better, yes.
- **Mr. Meet Vora – Axis Capital:**
- Yeah, thanks, sir, when we say that we are seeing slowdown in demand from our customers, how do we see the pricing of our products because as we see subdued demand is there pricing pressure as well on our products and at the same time there is a pressure from the input side as well. So will we see some kind of margin contraction going forward because of this?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- So I think whatever margin contraction had to happen I think it has happened now it should not get worse than this. The good part we are also seeing a lot of raw material costs decreasing, right. Yes, there is a pressure on the finished goods also. But good part is we are also looking at raw materials which have started decreasing now, right, of course, so that's the scenario right now.
- **Mr. Meet Vora – Axis Capital:**
- Yeah, sure. And on the new capex side, of this 520 crores that you have already put to use, I mean approximately how much of this we are using and how much we were getting asset turn on this.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**
- So there were 3 parts to it, right, one major part was for the new products, then there was existing products ramp up and the third one was on your utilities and EBITDA improvement, right, EBITDA improvement. The utilities today because of the

coal prices we are not able to utilize and gain those benefits, because it makes no sense, it makes better sense to purchase electricity. And where we have increased our volumes on existing products we have not been able to utilize that now because the existing demand itself has dropped. On the new products there is a good attraction right now.

– **Mr. Meet Vora – Axis Capital:**

– Sure. So out of this total of 750 crores how much will be new products?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– Sir, I think right now we don't give that break up but I think I would say that there is a fairly good mix in the three areas, right.

– **Mr. Meet Vora – Axis Capital:**

– Okay, sure, sir, so maybe like 2/3rd of the capex which we have already commercialized we are not able to utilize it fully. And this balance of 220 or 230 crores which is yet to be put to use will be what part, it will be utilities, I mean new products or existing products?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– New products.

– **Mr. Meet Vora – Axis Capital:**

– It will be new products. So the ones which we are still yet to ramp up is still yet to be commissioned?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– Yes.

– **Mr. Meet Vora – Axis Capital:**

– Okay, sure, sir, thanks, I will come back in the queue.

– **Moderator:**

– Thank you. Participant who wishes to ask a question may press * and 1. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund, please go ahead

– **Mr. Dhruv Muchhal – HDFC Mutual Fund:**

– Thank you so much. Sir, just to understand the industry structure a bit better. You mentioned that demand is a bit weak which is probably understood. But, sir, on the supply response, you mentioned that fuel and other cost and logistics cost you are not able to pass on fully. But I was trying to understand this fuel cost and logistic cost increase probably should be for all players in the industry. So isn't the supply responding well, or is it because the supplies, there is a significant over supply in the industry. I am not sure what is causing this. Because you mentioned the RM prices

you are able to pass on, on a per kg you are able to maintain this. But the fuel cost you are not able to pass on, the power cost. But is it differently structure, the industry is differently structured versus you, or what's causing this?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Ltd:**

– I think almost all the major, you know, this is an industry phenomena where we have not been able to pass on because the increase is too high, too steep, right. The industry has not seen this. And it just happens that the raw material part has passed on because it is very transparent. This is the first time in history where you have seen some of the fuel price has increased so much that's the reason the industry has not been able to absorb those increases.

– **Mr. Dhruv Muchhal – HDFC Mutual Funds:**

– Okay. So, even the larger players are not able to take this price increase on account of you because now for example now we even see some of your peers probably in Europe are also facing this cost of fuel significantly, probably even higher than you even they are not able to pass on the cost increase particularly for fuel.

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**

– I think so generally I think I have to wait for the research, but what we understand in the industry news is that the utilization demand has been low and that's been a concern for everyone who then pass on.

– **Mr. Dhruv Muchhal – HDFC Mutual Fund:**

– So, basically a bit of both, it's a bit of weak demand and probably a situation of some bit of oversupply probably caused also because of weak demand?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**

– Yes, true.

– **Mr. Dhruv Muchhal – HDFC Mutual Fund:**

– Sure Sir. Sir the second question is we are seeing some decline in the freight cost, earlier in some of the calls you had mentioned that this rate is a big issue when you're trying to export it to Europe because of the freight rate. How it has moved? You've seen some decline in freight cost over the last probably a few months or so. So, is this situation improving now in terms of your competitiveness to export or I mean it's still not much different versus what it was earlier?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**

– Sir, it's definitely softening, but it's not going back to the original levels at all.

- **Mr. Dhruv Muchhal – HDFC Mutual Fund:**
- So, you still I mean face that pressure from the local manufacturers in Europe, they don't face that freight cost back there?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Sorry, can you repeat that Sir?
- **Mr. Dhruv Muchhal – HDFC Mutual Fund:**
- I mean the local manufacturers in Europe don't have to suffer from this trade cost and hence that differential to you remains an impact?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Yes.
- **Mr. Dhruv Muchhal – HDFC Mutual Fund:**
- And Sir, also you mentioned, last two question sorry, you mentioned that you're facing some equipment availability issue for some of the upcoming Capex in your opening remarks if I got it correctly, so are these equipment's very different or very unique because we have seen some consistent delays in some of our Capex probably part of I understand was the reason of COVID, but some delays consistently, so are these equipment very unique, very customized, and very specific to us because I see across companies the execution has been relatively been on mark, but for us there has been some delays, but I am just trying to understand this better Sir.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Sir, in general there has been lot of equipment delays earlier times because of COVID and shutdowns. But I think now we're almost there and we should be completing all the Capex by H2.
- **Mr. Dhruv Muchhal – HDFC Mutual Fund:**
- Okay sorry. Okay the difference was to earlier delays okay. Got it. Sorry, my mistake and then lastly you mentioned that intermediate prices are still increasing in the opening remarks, but Sir then later on you had mentioned from that you have seen some softening in RM, so just trying to get this better, are we seeing still some pressures on RM or this RM pressure is softening now?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Firstly, to clarify, I think the context of saying increasing was this was the June end right -- June end figure right, where we are referring to softening of demand which is happening now in August right. So, that's the clarification we'd like to give, so in June end we were still looking at some increases, but it's suddenly now in August it started to come down.

- **Mr. Dhruv Muchhal – HDFC Mutual Fund:**
- Okay, okay, so that trick that help somewhat of course in the context of the weak demand. Sure Sir. Got it Sir. Thank you so much. Thanks, and all the best.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Viral Shah from ENAM Holdings. Please go ahead.
- **Mr. Viral Shah -- ENAM Holdings:**
- Yeah. Hello. Thank you for the opportunity. Sir one question on the power and freight cost side, would it be possible to share the number for the quarter and for the comparable period in the previous quarters and this will just help us get a better sense of how those costs have given the kind of impact on the margins.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- No break of the numbers, but I think you can see gross margins that increases majorly contributed due to that.
- **Mr. Viral Shah -- ENAM Holdings:**
- Sir, second question is on the cash conversion cycle. If I look at the presentation, it says the cash conversion cycle is increased to 114 days from 96 days quarter-on-quarter and year-on-year basis. So, can you give us more information on the same what led to this increase?
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Viral, Nilkanth here. So, on the cash conversion cycle there has been some increase...
- **Mr. Viral Shah -- ENAM Holdings:**
- Hello?
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Hello. can you hear me?
- **Mr. Viral Shah -- ENAM Holdings:**
- We had lost you Sir in between.

- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Viral
- **Moderator:**
- Sorry to interrupt, Mr. Viral Shah there is a lot of disturbance from your line. May I request you to please mute yourself while management is answering your question?
- **Mr. Viral Shah -- ENAM Holdings:**
- Sure ma'am. Done that.
- **Moderator:**
- Thank you.
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Thank you. So, the cash conversion ratio on the number of days cycle has been increased to 114, couple of reasons. One is, we paid our creditors on the due date and which has actually reduced the DPO like 15 days and there has been also some improvement which has been done on the debtor side, couple of days DIO increased, so put together it is slightly higher, but I see that this is more coming from our due date payment to the creditor has been improved.
- **Mr. Viral Shah -- ENAM Holdings:**
- Okay, okay and just a clarification you said that the ongoing Capex projects are close to 220 crores should that commercialization happen by the end of H1 FY23, is that right?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, as we mentioned Viral that this will be put to use by H1 and post that it will start commercialized.
- **Mr. Viral Shah -- ENAM Holdings:**
- Okay. Thank you.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Thank you.
- **Moderator:**
- Thank you. Participants who wishes to ask a question may press star and one. The next question is from the line of Amar Maurya from Alpha Accurate Advisors. Please go ahead.

- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Sir, thanks a lot for the opportunity. There are two questions from my side. #1 is about in terms of the current revenue what would be the revenue from the new product which we had commissioned let's say in last 1-1½ year and second question is when you say that majority of the EBITDA margin got impacted because of the power and logistic cost, so are you saying that 34 crore was the impact to the overall cost? Hello?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- There had been an impact because of two reasons. One is that, the demand has been lowered, so we have not seen a good demand volume increase and the second has been on the cost side. So, I would say that both are equal -- both have contributed, but the fuel and the logistics cost have a higher contribution from this.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Sir, I would request if you can mention that because as it would be helpful for us like is that the quantum was 10 crore, 12 crore I think that would make our life easy.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Okay, okay. We will consider that.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- And secondly, in terms of the revenue, what would be the new product contribution in the current quarter revenue?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, currently from competition perspective, we don't declare that Sir.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Sir, at least percentage, that will help us to understand the Capex, which got commissioned, I mean how far it is getting mature, what is the update on that like because it's a significant Capex for us right.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Absolutely, it is a significant Capex and I think going forward we will look at it, but I think one of the areas is as mentioned, so we will look at it Sir how we could give it without declaring much of the competition sensitive data.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Yeah, I mean that would be at least you can give us utilization or whatever I mean that will because otherwise I mean everybody is in darkness, we don't know what is new, what is old, and how it is coming.

- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Yeah, understood.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Yeah.
- **Moderator:**
- Does that answer your question Mr. Maurya?
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- I think Sir is going to answer right, in some time.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- No, we will look at it going forward Sir.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- But Sir, at least for the power cost I mean can you disclose what would be the impact of the power and logistic cause in this quarter?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Sir, we will have to declare it on the Stock Exchange first, whatever information will be, so, you cannot compromise this perspective about how we can do this.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Okay, but I think we can disclose Sir. that is basically I mean that is what the call is right. I mean the call is for getting more detail, already you had announced your results.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- We will look at it, Sir, how we can split up and breakup and if we are able to do we will publish it.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Sure, sure. Thank you, Sir.
- **Moderator:**
- Thank you. So, next question is from the line of Rohit Nagaraj from Centrum Broking. Please go ahead.

- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Yeah. Thanks for the opportunity. So, first question is what would be the peak debt post commercialization of the ongoing projects and what is the average cost of debt? Thank you.
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Hi Rohit, Nilkanth here. So, as we mentioned that we are nearing the closure of this growth capex cycle from incurrence perspective, so I'll say that the current level of debt should be the highest and we should see gradual decline to it.
- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Right and average cost of debt?
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- So, majority of our Capex loan are those which are in the foreign currency and balance is the working capital, so I see the cost of funding to be in the range of four to 4-4.5 percent.
- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Right and second question is now since we are putting up a massive Capex, which will come to fruition for the next couple of years do we have any further plans in terms of new products, which may get commercialized or probably our focus will be predominantly to utilize the existing facilities till they are utilized till 60%-70% utilization? Thank you.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- As part of the strategy, all our new products are getting introduced, so the first focus will be to ensure that we are able to utilize all these capacities and drive revenues and margins up , right. We don't see any kind of close investments immediately.
- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Right and one just last question, in terms of the new products out of the four segments what would be our major focus area, you said in terms of plastics, coatings, inks, and cosmetics, so where will be our focus line for the new product from the new facility? Thank you.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Coatings and plastics.
- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Okay, sure. That helps. Thank you so much and best of luck Sir.

- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Thank you. Thanks, Rohit.
- **Moderator:**
- Thank you. Participants who wish to ask a question may press star and one. The next question is from the line of Govindlal Gilada, an individual investor. Please go ahead.
- **Mr. Govindlal Gilada -- Individual Investor:**
- Good afternoon, Rathiji. Hello?
- **Moderator:**
- Yes Sir, we can hear you. Please go ahead.
- **Mr. Govindlal Gilada -- Individual Investor:**
- Yeah. Good afternoon, Rathiji.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Good afternoon, Sir.
- **Mr. Govindlal Gilada -- Individual Investor:**
- I got only one question Sir. In last call, if I remember right you've guided that first quarter margin will be a little better than last quarter, fourth quarter, so the call happened on 26th of May, which is almost two months have gone for this first quarter, so what went wrong in one month that margins have almost from 14 to it has come down to 7%?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- I think Sir, we did not anticipate the raw material increase, so it wasn't much I mean we were looking at a perspective from the April perspective, so I think we had not we are not anticipated the cost and the decline in demand simultaneously. Industry did not anticipate it and the entire industry kind of, It's been very tough thing for the industry, neither did we anticipate that in India plastic polymer availability issues etc., so since that affected.
- **Mr. Govindlal Gilada -- Individual Investor:**
- With due regards Sir, I appreciate your concern, I can also understand, but my only concern is that instead of two months you couldn't gauge going forward, just one month was remained in quarter, so you have guidance that's what I was wondering in one month I cannot things go so wrong that EBITDA can become 14 to 7 and where we are expecting a little better than 14, so at least one month visibility we didn't have that was so surprising.

- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Right. So, as I mentioned, I think firstly our view was with respect to May wasn't completed because seeing a good part in April and that's where we were coming up with the picture, May and June have been completely subdued demand and the costs further increased. Thank you.
- **Moderator:**
- The next question is from the line of Sharan Nandikur, an individual investor. Please go ahead.
- **Mr. Sharan Nandikur -- Individual Investor:**
- Okay. Yeah. Thanks for the opportunity. Sir, my question is like from last 2-3 years we have been hearing that two major players in the segment are now like they quit this industry like, so just want to know how are you getting benefited from that, obviously you should be getting benefited from that, from when that is taking effect and also want to know any new competition has been come into the picture in India as well as outside because, because of that the growth is like not happening to Sudarshan?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, Sir the integration process of the first player BASF and DIC is still ongoing. We've not seen -- so they are not -- we've not seen any impact of that on the market, they still work that integration effect. But Clariant, Haibach, and HK Capital that integration is in progress currently and I think we expect by the end of the year this process should be completed. But the scenario of getting benefit is of course is there on the – there are tailwinds, however, given the market scenarios currently is so subdued that it will take some time for us to see that hopefully with us.
- **Mr. Sharan Nandikur -- Individual Investor:**
- Yeah. In terms of the second part of the question like any new player entered in this segment in India and outside like because of that you're seeing the competition and that is impacting the growth?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- No, we've not seen any new players coming to India right now.
- **Mr. Sharan Nandikur -- Individual Investor:**
- Okay and many other companies although not in this segment, but different segments they have been able to pass the prices of logistics and commodity to their end customers only they were suffered for the first part when this issue happened, so why you are not able to pass the price to the end customers like it's been like

almost like three to four quarters of challenges with respect to logistics and commodity price increase right, so what's the challenge, why are you not able to pass the price for end customers, is it because of the competition?

- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Because I think from a perspective of the industry, there has been such a steep increase in RM, fuel, and logistics that the entire combined increase to pass on has been very tough for the industry also I think our raw materials, the customers understand, but they're not able to fathom of the energy etc. crisis, which has not as far as the industry, it's not been very successfully passed on.
- **Mr. Sharan Nandikur -- Individual Investor:**
- Okay, but going forward how are we planning to handle that like will be able to pass on the price, we have had a dialogue with all the end customers partners to pass on the price or if the situation continues because the challenges never end sometimes, if we see the latest event which happened China Taiwan, so we never know right, so whether that we have started that discussion?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- The challenges have been twofold. One is the entire pass on and then shrinkage in demand right, so that's what has yielded to this decrease in EBITDA margin. As I've mentioned, I think as I mentioned we of course constantly been having dialogue with customers on what we can pass on, what we can increase, but it really in a subdued demand perspective it's very tough to do that, but the good part as I mentioned is raw materials are coming down, so that should help.
- **Mr. Sharan Nandikur -- Individual Investor:**
- But overall if you see the automobile sector numbers are going high and many other sectors are also they are -- even the if you take FMCG numbers some of your product goes there as well cosmetics and automobile numbers, overall we see all those numbers look good from few of the major players across the globe. So, then why there is no demand for you like what do you mean by demand is shrinking when we get to know all these good numbers from the automobile and cosmetic FMCG, even in the paint industry, even like India there are any new players entered into paint, so when we see outside, we keep aside the Sudarshan, when we see outside there is a demand we are seeing from their number then why is the demand shrinkage from your perspective and from your statement?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- As I had mentioned if we split up the demand in the domestic perspective, domestic perspective yes, our demand for coating and printings was very good. We were badly hit in plastics right as an industry because more than 50% of the time there was polymer unavailability issues in the market and that's how our customers got impacted. On a global scenario, I think if you look at our product range and where our products were going, I think if you look at first the decorative paint industry,

which is the largest consumed, Q1 I think most industries have not been doing very well right. The second industry I would say is the plastic coloration market, again has not been doing very well. There are two major markets which have not been doing well, so it's not that our end industries are doing phenomenally well and that's what has happened.

– **Mr. Sharan Nandikur -- Individual Investor:**

– Sure. One last question

– **moderator:**

– sorry to interrupt, Mr. Sharan may I request you to please rejoin the queue, we have participants waiting for the turn.

– **Mr. Sharan Nandikur -- Individual Investor:**

– Sure. Thank you.

– **Moderator:**

– Thank you. The next question is from the line of Rohit Nagaraj from Centrum broking. Please go ahead.

– **Mr. Rohit Nagaraj -- Centrum Broking:**

– Sir just one question on the engineering business, so does it have a seasonality as well or is it purely based on the demand and probably projects the way they are executed?

– **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**

– Rohit Nilkanth here. It is typically the engineering business it is a project business, so the Q1 revenue ramp up is normally slow, which is around 15%, but there is no demand issue as such and the company is on the correct path, we should see in Q2, Q3, the quarterly profit number should come. We have reviewed this last week in our Board meeting. So, this was performance anticipated and it is on correct path.

– **Mr. Rohit Nagaraj -- Centrum Broking:**

– As I understand, we also had a project in terms of optimization of resources and the entire region in terms of structure, so any palpable benefits from those projects where we had hired even some of the consultants etc. over the last couple of years, so any material savings from those projects?

– **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**

– Sir, I don't know which project, but we had looked at -- we had looked at the entire strategy for growth and optimization of cost, which had happened in the last that was completed. What we're really impacted right now is by the increase in costs and that's where we could not see that.

- **Mr. Rohit Nagaraj -- Centrum Broking:**
- Right. Got it, Sir. Thank you so much.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Thank you.
- **Moderator:**
- Thank you. The next question is from the line of Punit Kabra, individual investor. Please go ahead.
- **Mr. Punit Kabra -- individual investor:**
- Yeah. The question that I had was although the Capex we did how much of that was per backward integration and are we seeing the benefits of that already or that ramp up is yet to happen and we see that in the future?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- On the backward integration we have not done -- we're like we had indicated earlier we have not done much of the investments in this space. We're looking at how we can partner with some of the vendors and as some of the technologies have been developed and see how we could get those benefits.
- **Mr. Punit Kabra -- individual investor:**
- Second question Sir is I believe recently one of our products had gotten antidumping duty imposed, could you throw some light around how that's playing out for us, I mean are we now able to get a better pricing on that product or what's exactly happening since that antidumping duty got evoked and what contribution does that do if you can share with us?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, that product line, we're having some – there are some legal issues which are getting sorted out by antidumping team, so we expect those issues to get sorted out and then we should be able to see a better margin.
- **Mr. Punit Kabra -- individual investor:**
- So, as of now we are not getting benefited by that antidumping duty?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- There has been -- we had started getting benefit, however, as I mentioned after that there was some legal issues which are getting sorted out and after that we should then see a benefit effect coming in.

- **Mr. Punit Kabra -- individual investor:**
- Okay and can you share what percentage of our raw material continues to be imported from China or overseas could you share that number?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, currently it is in the range of 30% to 35% of the total RM consumption.
- **Mr. Punit Kabra -- individual investor:**
- Okay. Thank you.
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Thank you.
- **Moderator:**
- Thank you. The next question is from the line of the Deep Paul, an individual investor. Please go ahead.
- **Mr. Deep Paul -- individual investor:**
- Yeah. Thanks for the opportunity. So, Sir my question is, since now industry is consolidating and there is two players so it will be a duo poly market right and Sudarshan with only 3% market share is aiming to gain market share, so what do you think why it would be possible, what kind of cost leadership do Sudarshan have, which will make us win in this market?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Sir, I think in the market when there is lot of consolidation happening, customers are looking for alternatives as a customer doesn't want to depend on one source and look for the additional and that's where our tailwinds are there and that's where we will get benefited.
- **Mr. Deep Paul -- individual investor:**
- Okay. Yeah. So, we are competing based on cost compared to our competitors or we are at par at cost level?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, we really focus when we are selling on when we are focused, we are selling our value to the company, value to the customer and tried to deliver -- how we can prove that our products deliver better value rather than the cost comparison. We kind of focus really on how our products are going to deliver better value.

- **Mr. Deep Paul -- individual investor:**
- Okay. yeah and
- **Moderator:**
- Sorry to interrupt you Mr. Paul, may I request you to please rejoin the queue. We have participants waiting for their turn. Thank you. The next question is from the line of Amar Maurya from Alpha Accurate Advisors. Please go ahead. Amar Maurya please go ahead with your question. Your line is open.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Yeah. Can you hear me?
- **Moderator:**
- Yes, we can.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Sir, one question from my side basically if you see the revenue growth I mean last quarter you indicated that you are basically choosing the customers because whosoever is not giving the price hike, we were not basically keen to sell those kind of customers, now in the Q1 basically the whole demand got collapsed, so scenario is further worsened for us. So, basically the point which we are trying to understand is that both from the revenue perspective and from the EBITDA margin perspective, do you see the worst is yet to be seen from here on because the scenario is completely changed now for us?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- So, I think Q2, we expect -- we don't expect a major recovery. Firstly, we feel the worst is right there right. We can't I think -- Q2, we don't see a major a complete turnaround, however, as I mentioned raw materials have started softening and Q3 onwards we should look at good demand, our Capex also would be streamlined by then, so those we'll be starting to gain benefit from there too.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Okay. So, basically when you say Q3, post Q3 you will see good demand, so when you say the new product I mean the existing Capex, which got commissioned do you have some lineup, do you have some commitment from the customer something like that, which gives the visibility that Q3 is going to be actually better than Q2?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Yeah, yeah. So, we are already like I said there's good attraction on those products. We have to make sure that we get -- we're able to realize our targeted margins in Q3.

- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Okay and this is largely with the yellow pigments?
- **Mr. Rajesh Rathi – Managing Director, Sudarshan Chemical Industries Limited:**
- Yeah Sir, there is yellow, there is also red various pigments, yes Sir.
- **Mr. Amar Maurya -- Alpha Accurate Advisors:**
- Okay, okay. Fair enough Sir. thank you.
- **Moderator:**
- Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for closing comments.
- **Mr. Nilkanth Natu – CFO, Sudarshan Chemical Industries Limited:**
- Thanks, Rutuja. Thank you. Thank you, Nitesh and thank you participants for your time and interest in Sudarshan Chemical Industries Limited. As we mentioned, it was indeed a difficult quarter both on volume as well as margin front. However, we remain confident in the long-term prospects of our business. We look forward to engaging with you again in the future. Thank you. Stay safe.
- **Moderator:**
- Thank you. On behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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End of Transcript