AsahiSongwon®

Ref: ASCL/SEC/2023-24/17

June 07, 2023

1. To,
The General Manager
Department of Corporate Services
BSE Limited
1st Floor, New Trading Ring
Rotunda Building, P. J. Tower
Dalal Street, Fort
Mumbai – 400 001
BSE Scrip Code: 532853

2. To,
The General Manager (Listing)
National Stock Exchange of India Ltd
5th Floor, Exchange Plaza
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (East)
Mumbai – 400 051
NSE Trading Symbol: ASAHISONG

SUB: TRANSCRIPT OF CONFERENCE CALL HELD ON JUNE 05, 2023 WITH INVESTORS AND ANALYST ON THE FINANCIAL PERFORMANCE OF Q4FY23

REF: REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015, we are enclosing herewith the transcript of Conference Call held on Monday, June 05, 2023 at 11:00 a.m. (IST) with investors and analyst on the financial performance of Q4FY23.

The said transcript will also be made available at the website of the Company at www.asahisongwon.com.

This is for your information and records.

Thanking you,

Yours faithfully,
For, **ASAHI SONGWON COLORS LIMITED**

SAJI VARGHESE JOSEPH

Digitally signed by SAJI VARGHESE JOSEPH
Date: 2023.06.07 17:36:07 +05'30'

SAJI JOSEPH
Company Secretary and Compliance Officer

Encl: As above

“Asahi Songwon Colors Limited

Q4 FY’23 Earnings Conference Call”

June 05, 2023

MANAGEMENT:	**MR. GOKUL JAYKRISHNA – JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – ASAHI SONGWON COLORS LIMITED** **MR. SAJI JOSEPH – COMPANY SECRETARY AND COMPLIANCE OFFICER – ASAHI SONGWON COLORS LIMITED** **MR. MITESH PATEL – VICE PRESIDENT, TECHNO-COMMERCIAL STRATEGY – ASAHI SONGWON COLORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Asahi Songwon Colors Limited Q4 FY23 Earnings Conference Call. 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. Abhishek Mehra from TIL Advisors. Thank you and over to you Mr. Mehra.

Abhishek Mehra: Thank you, Zico. Welcome everyone and thank you for joining this Q4 FY23 Earnings Conference Call of Asahi Songwon Colors Limited. The results and investor updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we'll be happy to send it over to you. To take us through the results of this quarter and answer your questions, we have with us today Mr. Gokul Jaykrishna, Joint Managing Director and CEO, Mr. Saji Joseph, Company Secretary and Compliance Officer, and Mr. Mitesh Patel, Vice President, Techno-Commercial Strategy.

We'll be starting the call with a brief overview of the business and the financial performance in Q4 FY23, which will be followed by the Q&A session. I would like to remind you all that everything said in this call reflecting any outlook for the future, which can be construed as a forward-looking statement, must be viewed in conjunction with the uncertainty and risk that the company faces. These uncertainties and risks are included but not limited to what we've mentioned in our annual report, which you'll find on our company's website. With that said, I'll now hand over the call to Mr. Gokul. Over to you, sir.

Gokul Jaykrishna: Good morning, ladies and gents. Welcome to the full year ended 23 March results and con call of Asahi Songwon Colors and its subsidiaries. First of all, let me thank you for being here and present for the con call. And after my opening remarks, I'd be happy to take any questions from any of you. As you know, the overall business environment for intermediates, chemicals, pigments, and APIs has been very, very difficult. So it was one of the most challenging years in the history of the company.

As I mentioned earlier in my previous comments, the operating environment continued to remain difficult through the year. And in H2 of the financial year ended 23 March, it became exceedingly difficult. And the downturn was pronounced and continued for a longer time than anyone had anticipated. The demand for some of the products, particularly the blue products, which is our cash cow remained unusually low, leading to a low capacity utilization and a negative impact on our financial performance, which in the past has always been very steady. We are starting to see some signs of improvement in the first quarter of 24.

It will still take a few quarters to recover fully from the to our previous levels. We are likely to achieve EBITDA break-even in Q1, which is a better performance than the previous quarter for the blue business itself, which was INR 8 crores EBITDA negative in the last quarter. The last quarter ended 23 March, should be breaking even in this quarter is our estimate. The good news is coming from Asahi Tennants Colors, the 51% Asahi subsidiary and joint venture with Tennants Group. This has been the biggest bleed for the year. And as you know, it is accounting for about INR 7 crores of the negative EBITDA for the full year.

The good news is that we are expecting in the April, May, June quarter that we will EBITDA break-even in ATC. So this will likely take away a lot of the burden. And this is, we are breaking even EBITDA negative. We are going to be EBITDA positive, hopefully this quarter, despite the business climate in the pigments remaining very benign and very weak. So we have improved our capacity utilization to a level where we have been able to push sales to a good degree so that we break even on EBITDA for this quarter itself.

Similar to the blue business, the operating environment in the API segment also remains equally challenging. We experienced a drop in realizations, which was a common trend in the API industry. However, we managed to maintain our market position by increasing volumes. The profitability of our API business has been lower since its acquisition, but we have confidence that the cycle will normalize as the inventory with higher costs is phased out and new orders start flowing in.

Despite the tough conditions, we remain committed to our capital expenditure plans for the new Chhatral site, which we are very excited about. I'm happy to inform you all that that project is going absolutely on target and we hope to start water trials in September. We had in my earlier con call referred that we should be starting production prior to Diwali. We may be at on target or slightly before that. This will give us the backward integration much needed to improve our EBITDA margins for the API business that we have taken over.

With this, I would just like to end my statement by saying that two years back, Asahi Songwon Colors was a single product, single location company. In the last 24 months, we have acquired an API business, we have put up a new site in Dahej for a joint venture for making ASO pigments. And now we are in the process of putting up a greenfield site to go for backward integration for the acquired business of API. So we are now a multi-product business with four locations where we were earlier single product, single location. With that, I would like to open the floor for questions.

Moderator: Thank you very much. Our first question is from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead.

Prateek Chaudhary: Good morning, sir. Sir, we have seen a very severe downturn in our blue business. And so I just wanted to understand what really, in your opinion, what really caused such an elongated down cycle? And in your view, how long would it take for the volumes and more importantly for the margins to return back to normal?

Gokul Jaykrishna: Thanks Prateek for the question. So yes, the downturn in the blue business, which earlier was expected to last for a quarter, has gone on longer than expected and lasted for the entire H2. And hence the overall poor performance for the full year. This is on account of a couple of things. One, the export markets, particularly in Europe, really, really dried up completely in the second half of the financial year. This was due to the unnecessary, in my opinion, conflict that US and Europe have engaged in Ukraine, Russia. And due to this, the impact on exports to Europe was very negative.

European companies, as well as countries, including the main country, Germany, have been under a lot of stress. UK has been also a lot of stress. France, as well, Italy, all of the major economies in Europe have been under a lot of stress with energy costs becoming three times what they normally are used to. And hence, their spending power having decreased, consumption going down, industry is not doing well.

A company like BASF also having to have shut down for a period of time. So all of this accounted for a very weak European demand. US was not very strong either. And the blue business predominantly being exports, about 70% of our business was badly affected. The other reason was also that in the blue business, India has become so fundamentally strong compared to the rest of the world that we have become the global supplier of blue across all countries, including China. So India has, so this is credit to all manufacturers of blue in India, but we have actually really killed the Chinese competition totally to the extent that China had to impose import duty on our blues.

So once this was successfully done, a lot of the companies which were competitors of ASAHI, a few of them who were successfully exporting to China could not export in the same volumes as they were doing. And hence, the pressure was felt on the local market because Europe and US were anyway slow. So there was a tremendous price pressure. And for the first time, we saw that it came to an extent where pricing was actually below cost for all participants in the industry.

Luckily, this is now looking like it's bottoming out. To answer the second half of your question, when do I see this normalizing? So we are already going to see a much improved quarter for the blue business as well as overall for the group, because ATC and Atlas also will have an improved quarter Q1-24 as compared to Q4-23. But I must say that the blue business, as you asked when it should get back to its normalcy, it will probably take a couple of quarters more.

We have done various things to mitigate this risk. Our export business, which accounted for 85% four years back and then about 70% odd, if I'm not mistaken, a year or two back, has been brought down to below 50%, meaning that we have increased business in the local market. And this business is growing and is quite lucrative. So based on this, we have derisked our model as well. And we also see that somewhere in the future, the Ukraine conflict should be over and Europe and US should bounce back. When this happens, the blue business will come back to normal. Prateek, am I answering your question or any part that you want clarity on?

Prateek Chaudhary: Just had another thought on something similar that since the industry has been going through such a tough time, so is it fair to assume that many smaller players who would have come in with their capacities in the last two, three years, they are facing a lot of pressure and some of them may have got wiped out or they may be acquisition candidates?

Gokul Jaykrishna: Yes, Prateek, I think it is fair to assume this. The environment right now being so negative, though they would be acquisition candidates, I wonder if anybody would go out and venture to go further and acquire them because there is a consolidation that is likely to happen in this industry. And as you rightly said in the first part of your statement, that a lot of the weak small ones would be suffering badly and would probably not survive.

Prateek Chaudhary: And also in the last six months, was there a phenomenon taking place where you had to face some level of inventory losses because there was a dramatic reduction in crude price basket and hence your raw material basket, which would have led to raw material, I mean the inventory losses and demand slowing because your customers then delay their purchase decisions in anticipation of prices going down further?

Gokul Jaykrishna: Yes, Prateek, absolutely. This was the inventory overhang at higher prices was the predominant factor which affected the poor performance overall. I mean, there was various factors that came together to have this perfect storm and one of the worst years in our history. And the inventory overhang was one of the primary reasons. And that is where a lot of the losses came from as well. However…

Prateek Chaudhary: Could you quantify that as well? What I mean, the inventory revaluation or the losses that would have hit your account?

Gokul Jaykrishna: I don't have the micro data today ready to quantify the details of that because it is too detailed in terms of how much for which product or which raw material and for which segment. So I would not be able to quantify it right away but can be done separately if you want later on.

Prateek Chaudhary: That would be helpful, sir, because then...

Gokul Jaykrishna: Yes, we can do that. However, a significant, what I can say is a significant portion of the losses were coming from the inventory overhang, as you mentioned. And the good part is this overhang is now completely over, completely. So we don't have any inventory overhang as of now. And one of the positions that we found ourselves in October, November, December of last year was at an extremely high inventory level for the blue business, which was abnormal and caused a bit of worry.

Honestly, we did everything to mitigate that. We have successfully mitigated that to the extent that our inventory levels are well below the last five or seven year average. So I would like to say that our current inventory level in the blue business is for the blue business in the raw material, as well as the finished goods are probably lower than what we want.

Prateek Chaudhary: And how is the situation in your customer supply chain? What are their inventory levels looking like as compared to historically?

Gokul Jaykrishna: So their inventory levels had also all peaked out in the last quarter of the calendar year for them. So that also has come off. And that is the reason why this quarter is likely to be much better than the previous quarter. The primary reason is going to be the wipe out of the inventory overhang across the supply chain globally.

The markets have not improved as much. So the improvement in the quarter is not so much due to improved market as it is due to the eradication of the inventory overhang. So now if the markets improve, which they will at some point of time, which I cannot take a guess on that, it could be a month or three months or four months. But whenever they do improve, then it will be a good impetus to get back to completely normal business.

Prateek Chaudhary: And have you extinguished your high cost inventory?

Gokul Jaykrishna: Yes, as I said, completely, completely.

Prateek Chaudhary: So now your raw material basket reflects the current pricing.

Gokul Jaykrishna: Absolutely. Absolutely. When I say completely and absolutely, I mean completely and absolutely.

Prateek Chaudhary: What would be your capex for FY24 and how do you plan to fund that because we're already at INR 180 crores of debt on our balance sheet?

Gokul Jaykrishna: So on the debt side, we are at INR 180 crores. We'll probably peak out at about INR 200 odd crores. This is due to the capex going on for the new plant that is coming up, Greenfield Atlas Life Sciences India in Chhatral. So this is a INR 65 crores, INR 70 crores capex of which about INR 35 crores, INR 40 crores has already been spent. So that capex is yet to be done. That finance has already been lined up. We have a line of INR 55 crores from Federal Bank of which we have only utilized 20. This is long term borrowings. So there is no challenge in financing that capex.

Apart from that, the only other capex for the year, to answer your question, what is the other capex plan? So apart from this Greenfield project, which should start water trials in September, the only other capex plan that we have is likely to be for the Asahi Tennants Color, ATC, in the Dahej plant, where the yellow line is already now full. So this is good news. And that's how we are likely to have EBITDA break even this quarter. And we have to expand that yellow business. So we would probably incurring about INR10 crores to INR14 crores of capex, say INR12 crores of capex to improve capacity on the yellow business. And we would be resorting to taking a term loan for doing that.

And INR 10 crores to INR 12 crores on our balance sheet is not a challenge for the company, because our net worth is twice the borrowing. So the borrowing is like we are at 0.5 or lower as compared to net worth, So just financing that INR 10 crores to INR 12 crores of capex for the expansion of the yellow facility at Dahej is not going to be very challenging. Apart from this, after this, we will be entering a consolidation phase for a period of one to two years, where no new capex will be done.

Prateek Chaudhary: That's great to hear. Are we facing any liquidity constraints as of now? Because we have fixed payments to make?

Gokul Jaykrishna: No, there is no. We are not utilizing all our lines fully.

Moderator: Sorry to interrupt. Mr. Prateek Chaudhary may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Thank you. Our next question is from the line of Aashav Patel from Molecule Ventures PMS. Please go ahead.

Aashav Patel: Good morning, sir. Thank you for the opportunity. So, sir, my first question is in the API segment, as you mentioned in the opening remark that we have been able to ensure a stable number in the API segment, stable performance, just because of our volumetric growth. So can you please quantify for me how have we grown in terms of our API volumes, Y-o-Y?

Gokul Jaykrishna: Good morning, Ashok. The API business has been steady. There has been a marginal growth in volume, not very substantial. So I wouldn't need to quantify it because it isn't a big jump in volumes that we have seen. There is a marginal jump in volumes. So it is kind of flattish. So we've had a flattish to positive top line in the API business and for this year also that Odhav facility is likely to come up with numbers which are in similar lines to the previous year and the year before that. So it is pretty flattish, actually.

Aashav Patel: So even in volume terms, you don't expect FY 24 to be much different than FY 23?

Gokul Jaykrishna: No. For the Odhav facility, we don't see any growth from the Odhav facility in terms of volume or turnover. And the Odhav facility at, you know, a turnover of about INR120 odd crores, which we have seen over the last two years, is kind of peaking out. So the growth will now come from the Chhatral facility. So the entire growth in the API segment of the business is likely to be seen only from the Chhatral facility, not any further from the Odhav facility.

Aashav Patel: Okay. So if there is only a marginal improvement in the volume in the API segment, so that means effectively we had our realizations within the segment very stable, whereas the industry is seeing decent correction across API realizations. Is that correct understanding?

Gokul Jaykrishna: To an extent. We also saw a downward trend in the pricing for sure. We made it up with some increased volumes to remain kind of flat on the overall top line. But, you know, we were not saved from the general API segment price decreases. We faced similar challenges with prices having gone down to the extent of about 10% to 15%. So we made up by that little improvement in volumes.

Aashav Patel: Got it, sir. And since our acquisition in the API business, the profit margins are really on the lower side. And I understand that the environment is not really conducive for the subsegment. But do you think we have been wrong somewhere in our evaluation in terms of acquisition of that particular facility?

Gokul Jaykrishna: So definitely the year has been very challenging for the API segment as well. Even the leaders, if you talk about Divis or Laurus or Neuland, all of the top guys have also had one of their poor years and their valuations also suffered, the top line suffered a lot. So we were absolutely caught in that kind of a cycle. Having said that, if you look at the details of the structure of the deal, you will see that on as far as the value that Asahi has paid for the acquisition of the Atlas business is actually very attractive.

Even today, if you look at it, you would probably see that it is quite attractive because it is it is acquisition basically on replacement. I mean, in the API segment, which is likely to see a pretty bright future over the next 10 years in India, to get a successfully run and operated business at a decent replacement cost kind of value is not easy. So no, I don't think we have overpaid at all.

Aashav Patel: Okay, sir. I agree with you on that. And sir, regarding the upcoming Chhatral capex, as you mentioned, you start to see the trial runs before Diwali. How much time do you think would it take us for ramping up to the optimum utilization around 80% utilization levels?

Gokul Jaykrishna: So I will break it up into two segments, the intermediate section, which is backward integration for our finished APIs and the (inaudible) the final API section. The intermediate section should come to above 50% utilization in the first year of running itself. Probably, hopefully better than that. The finished API segment will, of course, take longer because that is that is subject to various compliances due to the segment being pharma and customer compliances, Indian FDA, if we go for European FDA, which we are definitely looking to do with the Chhatral facility.

Those compliances all take long and also customer evaluation and certification of a new site for the APIs will take long. So in the process, what we will do is we will try and ramp up the capacity of the intermediates and supply to our Odhav facility so that currently what we are doing in the Odhav facility is buying intermediates from outside. And if both the intermediates, the key intermediates for pregabalin are made by us at Chhatral and supplied to Odhav, they should improve our EBITDA margins, which you can see are quite weak.

Aashav Patel: Sir, can you please quantify what kind of improvement are we expecting on that?

Gokul Jaykrishna: So in quantification in terms of volume, the entire pregabalin raw material CMH and RCMH will be made by Atlas India in Chhatral. And so we will be completely, right now we are completely dependent on buying CMH and RCMH for pregabalin. While in probably six months time, I would be surprised if we are buying even a kilo from outside. So in terms of backward integration, we should get full backward integration for the old Odhav facility at least within the six months for the main product, not for all the molecules. Pregabalin accounts for about 50% to 60% of our top line.

Aashav Patel: Sure, sir. So last question. Regarding pregabalin, as you mentioned, you also might have the regulated markets. So what sort of margin differential do you expect and what sort of timeline difference do you expect in case you are supposed to go to the regulated markets?

Gokul Jaykrishna: So regulated markets, we are going to attempt to go for European accreditation. And this of course takes a few years. It's not going to happen in the first year. But once we get that done successfully, which is why we have acquired this business, and that is when the real value can be unlocked because the margins there are going to be substantially better.

Aashav Patel: Got it. Okay, sir. Thank you. Best of luck from my side. All the best. Thank you.

Moderator: Thank you. Our next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: Hi, sir. Thanks for the opportunity. So my question is, what will be our consolidated debt? Because we are pursuing two projects, one for this pigment business and one for this API business. And our cash flows have been hit and we are running losses for the last few quarters. So what will be the peak debt when both the projects are completed? And how are we going to finance them?

Gokul Jaykrishna: So I already tried to answer this earlier, but just to touch upon the peak debt is likely to be INR 200 crores to INR 210 crores. And currently we are at about 175. So another addition of about INR30 crores, INR35 crores of debt, INR 30 crores to INR 40 crores of debt will be there. As far as how to finance, so this is from two segments, one the Greenfield Atlas facility.

So that's a Greenfield project that's coming up in Chhatral and at a cost of about INR70 crores of which we have already spent 40. So INR 30 crores need to be spent there. We have INR 30 crores to INR35 crores limit remaining to be taken from federal. So that is completely taken care of. And apart from that, only other INR 10 odd crores of capex is going to come for the ATC plant expansion. And this will be financed through a term loan.

Vipul Shah: So what type of assets can we look for this both pigment business and API business once the, these projects are fully on stream?

Gokul Jaykrishna: Sorry, say that again. What kind of what should we look for turnover you mean?

Vipul Shah: Yes, effect chance. Yes.

Gokul Jaykrishna: So the total turnover after the Greenfield project of Atlas in Chhatral is commissioned should be about INR 200 crores. The capex against that is about INR 70 crores. So it should be about close to three times turnover at peak.

Vipul Shah: That is from direct facility only or total API business?

Gokul Jaykrishna: No, the direct facility in Chhatral. And then remaining is the ATC plant. There we are starting to ramp up capacity and turnover over there. And we should be at about for the full year, we should be at about 60% utilization by end of 24 for the full year. So that should be about close to INR 90 crores of turnover for this year. But at peak that should be at about 130, 140.

Vipul Shah: 130, 140. That should be FY24, FY25 story, right?

Gokul Jaykrishna: Yes, exactly. Exactly. FY25 should be INR 130 crores from the ATC business with the current facility.

Vipul Shah: So in FY25, we'll get 100% return from both these expanded projects?

Gokul Jaykrishna: Should be, yes. From the finished, API business may not be 100%, maybe getting 60 from the intermediates and the pigments 100%.

Vipul Shah: And so can you break up your sales of your last quarter into CPC Blue, AZO Pigments and API and give volume and sales of CPC Blues and AZO?

Gokul Jaykrishna: I can quickly touch upon this in just a second. I'll just pull up the numbers. So I will just look at the total turnover. So the last year we closed at 22 March, closed at a group turnover of about INR 401 crores, if I'm not mistaken. Now we are closing this year at INR 505 crores. So there has been about 20%, 24% improvement, increase in the top line. This is coming from the acquisition of the Atlas plant basically, and some increase in the AZO business. And now for you, I'll break up the turnover of the three verticals into a total of INR 505 crores.

So Asahi, the Blue division accounted for INR 337 crores. The Asahi Tennants business, Reds and Yellows, the AZO business accounted for INR 41 crores. And the Atlas Life Sciences, Odhav accounted for INR 125 crores. That totals to INR 505 crores.

Vipul Shah: And can you give volume figures for CPC Blue?

Gokul Jaykrishna: I don't have the volume figures on hand ready because they get too complex for a call.

Vipul Shah: Okay, I should write to the IR?

Gokul Jaykrishna: Yes, yes, please. Definitely they should be able to get it. Yes

Vipul Shah: Okay, sirs. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: Yes, hi sir. Thanks for the opportunity. So I have a couple of questions on the AZO business. So you have earlier on a couple of times highlighted that China is very dominant as of now in AZO. And I understand that going forward India is supposed to take market share. But what is the fundamental reason which has historically prevailed that China became really dominant in AZO? Is it like some kind of cheaper raw material availability for them or some, I mean, what was the fundamental reason for that trend to happen?

Gokul Jaykrishna: So Vaibhav, what happened? I'll just, this is an interesting question. I'll not dwell too much on the longer term past, but what happened 10 years back in the pigment industry, the big boys, whether it is BIC of Japan, whether it's BSF, Clareon, the big boys, all based out of Germany and Japan, the technologies were all coming from them. They decided to partner with India for the Halo business, which is the blues and the greens. And they decided to partner with China for the reds and the yellows.

And hence, if you look at it today, India accounts for complete global supply of blues minus maybe 10% or 15%, which is sparingly distributed in Korea and in Indonesia. That kind of China has completely lost it all to India. So this happened because technologically we became better, quality wise we were better, raw material availability was better here and completely independent of imports from China. And the technical guys also became very qualified and better than anywhere else in the world because these are not easy products to, these are actually on performance, very specialized products.

So they're not easy products to make. So India dominated that. With the AZOs, the technology first went to China. And hence the raw material supply chain was also created in China. So what happened is India, when it tried to compete, found that they had to import raw materials from China. And this became a weakness. Now as you have seen, the China Plus One is taking place over the last two years.

And that is why we did not go into the Azo business for all these years, despite being the global leaders in the blue business, is simply because we were not very sure how quickly India could adapt to competing China. However, if you look at the last two, two and a half years, we've been hearing a lot about, you know, alternative supply to China because a lot of international MNCs have suffered a lot on account of instable supply and instable pricing from China.

And hence they decided that they are going to partner with companies in India to set up a second source of supply for the AZO business. This is the beginning of how AZO business started coming to India. And what that does automatically, when an ecosystem starts developing, you start having raw material supply chain also developing. So where earlier you were dependent on buying imported Chinese raw materials for reds and yellows and oranges, now for the yellows, I am proud to say that India is completely self-sufficient for the supply.

Just since last year, because new companies like Lakshmi and Aarti and even now Jubilant is coming into some of the back for raw materials like 3D, 3CD. These are big companies, strong companies starting to make a noise with the intermediates for AZO. And that makes the yellow business, you know, quite competitive now going forward for the next five years in India. And probably a similar story will start playing out in the reds where we are still dependent on some imports from China for naphthalene particularly.

Vaibhav Badjatya: Right. Okay. So while we are on the RM side for AZO, yellow, you have highlighted already India is self-sufficient for raw material for yellow pigments. Is it like, was it just the demand issue or the making of this raw material itself was really difficult and Indian company did not have the technology or is it like more, or are they like more commoditized product and it's just a matter of demand in India?

Gokul Jaykrishna: Yes, it is second. It's not technical. It should not be the raw materials to make should not be technically challenging. You know, India has proved in the past that it is quite capable of absorbing new technologies and mastering them. So that was not the challenge. It is more the demand because you know, most of the, there was not that much production now with, you know, us coming in and a few other plants coming in, there is an ecosystem developing for consumption of these raw materials like 33DC.

Vaibhav Badjatya: And on the TTC partnership, so just wanted to know the TTC, do they have any other manufacturing partnership anywhere or any other manufacturing plant outside India for yellow and red globally or, or outside their home country? We are gone.

Gokul Jaykrishna: No, they don't have any plant or partnership either anywhere outside of this one joint venture with us.

Vaibhav Badjatya: Okay. So you don't have any other operations? No. Okay. Interesting.

Gokul Jaykrishna: They have various locations for manufacturing various other businesses, not for the AZO business.

Vaibhav Badjatya: Okay. Good.

Gokul Jaykrishna: They have, they have over, they have 11 successful sites outside of the UK.

Vaibhav Badjatya: And all of them are in Europe?

Gokul Jaykrishna: No, no. There is in Brazil, there is, you know, various places. There's one in China also, but nothing to do with pigments. None of that.

Vaibhav Badjatya: Okay. Okay. And then lastly, you know, we in a couple of other competitors have also highlighted repeatedly that there's a long time for product approval in this business, whether it's, you know, yellow, red, or any other new product. It's a very long time and the switching cost for the customer is also high. So just want to consider like, for example, if I draw a comparison to the dyes business in textile, which way they don't, I mean, there's no such issue there. You know, textile companies buy dyes from whenever they can source in a most cost effective way. So what is so unique in our business, in pigment business that becomes really complicated product approval and the switching cost also becomes really high?

Gokul Jaykrishna: So these are, these are performance pigments. So, you know, the application is very sensitive. You apply like, for example, you know, the end is into printing, packaging, plastics and paints. So for example, plastic or paints. So paints, if Asian paints is consuming my pigment, it is going to be using the color property of Asian paints paint is coming from my pigment. Now you can imagine that a small part of the pigment goes into the paint to make, give the color property, because without pigment, there is no color to the paint.

So the performance of Asian paints paint on the wall or the roof is so dependent on the pigment that the high, it's very, it's very performance oriented. So you cannot easily make them, you need to technically master them. Similarly, for plastic, you know, master batch users around the world, you know, plastic packaging material like PepsiCo bottles or Himalaya water bottles or whatever, which use all of these pigments.

When they apply it, they need to know that the color performance is going to be good and doesn't fade off. Similarly with ink, I mean, imagine that you are writing with a blue ink, which is using my pigment. And when you open your diary after five years, it's faded away and you can't read anything. So that's a problem. So the performance of pigments becomes very critical in the performance of all of these end products, which makes it very difficult to meet those standards. And hence that becomes the kind of entry barrier. Not anybody who puts up capital is going to be able to successfully make pigments. We know of so many seasoned companies coming into pigments and not succeeding.

Vaibhav Badjatya: Got it. So I think I actually I will come back in the question queue if nobody else has a couple of other questions, but I will try to get in the queue.

Moderator: Thank you. Our next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Hi, good morning. So my first question is with all the capex on screen and then we use that technique at optimal.

Gokul Jaykrishna: I can't hear you, Dhwanil. Dhwanil, can you come back again? I can't hear you at all.

Dhwanil Desai: Yes. So my question is, sir, you mentioned that, you know, both our plants are running at optimal capacity, new plants and then existing plant put together. I mean, if I was doing numbers, I think at the peak utilization will be around INR 800 crores to INR 850 crores type of revenue. Is that a fair number?

Gokul Jaykrishna: Fair estimate, yes.

Dhwanil Desai: Yes. OK. And we were making around, you know, 16%, 17% margins on a normalized basis earlier with all these plants coming in place and then we doing backward integration on API. Do you think we will be around that number, you know, when we reach peak utilization?

Gokul Jaykrishna: Yes, that would be the goal to get back to that EBITDA percentage numbers. So between 15% and 17% EBITDA performance would be our long term goal over the next two years as we get back to normal business cycle and end of the capex on both the projects.

Dhwanil Desai: Right. Right. So basically from FY25 onwards, if all goes well and things sound right, we would be repaying the debt that is on the balance sheet, right? Because we will be entering consolidation phase thereafter.

Gokul Jaykrishna: Right. Right.

Dhwanil Desai: Okay. And one more question on API side, sir. So I think you mentioned that 60% of our revenue on that comes from pregabalin. And even though we are one of the market leaders there, you know, incrementally in this segment, the competition comes in and then, you know, the prices drop and people take over market share. So how do we look at this business three, four years out in terms of diversifying away from pregabalin? You mentioned about new product development in your presentation, but can you give more color to which segments we'll go into? What is the overall thought process in terms of which kind of products we select? You know, if you can talk a bit about that.

Gokul Jaykrishna: Yes. So what we would be doing is at the Odhav facility where currently we make pregabalin, which contributes to half the top line or more and five other molecules. These are in the price range of anywhere between INR 3,000 to INR 10,000 a kilo. And as we move these products, finished APIs to the Chhatral facility, we would try and introduce higher value products at the Odhav facility, between INR 10,000 and INR 50,000 a kilo kind of products. And this would be over a period of the next five years.

So that is one part of it. And other part is about what the future of pregabalin will hold. So pregabalin will continue to be the lead product for the Chhatral facility over the next three years, as we try and get, different geographical approvals for pregabalin. And as we do that, particularly for more of the developed markets, where the pricing of pregabalin is more, we should be able to see better ramp up in margins, as well as utilization. And pregabalin, generally speaking, is in an early stage of its life cycle, and it is not likely to come under, threat or obsolency over the next five years.

So in that sense, we have a good run for the product. And of course, as you know, the API facilities are all multi-product. So in the meantime, our team would obviously try and find new products and introduce new products, which is already going on at this point of time in a small way.

Dhwanil Desai: Okay. And just a last one. So all the while, while we continue to scale up new segments, we should assume, a 10% kind of a growth on our blue, right? I mean, that is the right way to look at it.

Gokul Jaykrishna: I honestly, I'll give you a very honest answer for the Blue business. I would not see a 10% growth. We would probably continue to, I had mentioned in the last con call also, we would probably continue to see it as a cash cow. It gets back to normal business. The Blue business is likely to remain a long-term business over the next 10 years.

We don't see any threat to the blue business as such, in terms of market, there is no competition to the Blue business. In terms of product obsolency. So, but however, we are not going to incur any capex behind the Blue business. Hence, no major top line increment on a regular basis, on a CAGR basis will come through. This will probably come through Dahej facility of ATC, the CAGR growth, and the Atlas facility at Chhatral.

Moderator: Thank you. Our next question is from the line of Pravin Sharma, who's an investor, please go ahead.

Pravin Sharma: Just a couple of questions. See, the Blue business has been always in a bread and butter for us, and it generates a lot of cash flow. Cash cow, yes. Which we actually are using to fund our other initiatives, other growth engines like API, AZO, and things like that. Now, the problem in the blue business is slightly worrying. Now, my two questions towards this are, first is, our customers in Europe who are buying Blue from us, the large ones like Clariant, DIC, Sun, whoever are there, and because of energy crisis, they are not buying.

Now, the war has been there for one and a half years now. So the supply chain is shifting, like there is no shortage of ink and people are consuming. Schools have opened, printing work has started, everything is in top gear. So is the supply chain shifting from Europe for the end products because pigment was one input into a bigger product, which these guys will be manufacturing? So, or they have found some new suppliers, how is the situation there?

Gokul Jaykrishna: So, thank you, Pravin bhai. So basically, the supply chain is not really shifting. There has been some shift of supply chain in this time because of unavailability of supply from Europe, but that has been only marginal. And Europe is starting to show some signs of recovery in terms of demand.

So if we talk about currently this quarter, April, May, June, so we are starting to see some revival from Sun, we are starting to see revival from Siegwerk. Clariant is also showing some revival, which has now been taken over by Heubach. They had really, really two very difficult quarters, and now they are getting back to this quarter, they are getting an order pipeline, which is better than any of the previous two quarters. So we are seeing a moving back to a little normalcy from the big European players. Clariant particularly is likely to improve its offtake this quarter, and so is Sun.

Pravin Sharma: Okay. And these guys, they have manufacturing facility predominantly in Europe or other parts of the world because of the crisis…

Gokul Jaykrishna: So each one is different. Clariant will be faster to recover because they have already shifted successfully their side to India. While if you look at any of the others, they are all still in Europe.

Pravin Sharma: And like Clariant, they are buying from us only?

Gokul Jaykrishna: They are buying from us, yes, Heubach. Clariant has been taken over by Heubach and they are buying from us.

Pravin Sharma: Okay, and my second question is…

Gokul Jaykrishna: But it was very weak. Demand was almost not there, literally not there in the December quarter, and very weak in the January, February, March quarter as well, which is looking better now.

Pravin Sharma: That's what is, I was trying to come up, this demand weakness was in our products, which is like, because of the inventories and end consumer side, or these guys would have their own inventories of finished products. But the thing is, the demand for the end product in terms of the ink and the plastics, that would have not reduced actually. You travel to Europe, you see things moving perfectly fine. So it was probably the inventory which was getting destock?

Gokul Jaykrishna: It was the inventory. See, the consumption had a little blip post-COVID, but no longer, like you said, if you really go and travel, travel is picked up, hotels are picked up and all. So consumption has picked up in Europe. And the supply was coming from overhang of the huge inventory, which was stuck in the global supply chain, in a massive way. I've never seen anything like this in my entire 20-25 years in the industry.

So that was actually honestly, probably the buildup was scary. I mean, that was the word. But luckily that buildup has completely been taken care of. So depending on company to company, but for example, Asahi Songwon Colors, our inventory levels are lower than they've ever been in the past five years.

Pravin Sharma: Now, coming back to China, putting up this anti-dumping duty on Indian pigments. Now, it is only on the pigments which are from India, Blue, which is supplied from India, or they actually look at country of origin and if it's coming from somewhere else, the duty applies to that also?

Gokul Jaykrishna: No, I think it is applicable only, Mitesh, you can correct me if I'm wrong, but I think it is applicable on Blue products coming out of India to China. Mitesh, can you throw a little light on it?

Mitesh Patel: It is only on India products.

Gokul Jaykrishna: Only on India products.

Pravin Sharma: India products but supplied from India. Like a lot of our customers would be buying and then they would be supplying for manufacturing facilities in China for inks. So is it rerouted? Probably they would be consuming.

Mitesh Patel: Yes, if they route through their Indian entities, then anti-dumping duty would be applicable.

Pravin Sharma: So what is the actual situation there on anti-dumping? They are going to reduce it, it's going to be there because China personally also consumes?

Gokul Jaykrishna: What we have done, Pravin bhai, is we have made a group of the pigment manufacturers who have come together. Us, Meghmani, Sudarshan, and many of the others have come together. We have jointly hired a lawyer who is very prominent and he's on our joint behalf fighting this battle with China and we have seen a little bit of success. Mitesh, have you seen some success in the centers of duties or are we likely to see some success?

Mitesh Patel: So they have reduced 2% anti-dumping duty and still we are fighting to reduce further.

Pravin Sharma: What is the current level? It is 13 or 15?

Gokul Jaykrishna: 14.2.

Pravin Sharma: 14.2, okay, which is huge. Now, is there any representation towards putting in India because a lot of AZO would be coming from China to India also. So is there any anti-dumping representation on Chinese AZO in India so that it's reciprocative in nature?

Gokul Jaykrishna: So immediate reaction from a lot of the Indian manufacturers was that, so we have started discussing that. But it is not developed to an extent where we have gone ahead and fight it. But we are looking to try and do that. See, what is happening, why that movement became slow, I'll tell you Pravin bhai.

The reason was because as we started moving in that direction, we saw over the last three to five months that the AZO business in India, particularly yellow is starting to get stronger. So Chinese yellow coming to India has stopped completely. So that movement itself became a little weak. Red made is still applicable. So logic is there to try that. And particularly to hit them back because they are hitting us with the blues. So we are still in talk but discussion.

Pravin Sharma: And we were talking, sir, coming to this AZO thing, you know, we were discussing earlier at the time of putting up this plan that after 50% we will go for second phase of. So at least for yellow, are we thinking of putting up additional line?

Gokul Jaykrishna: Yes sir, we will have to immediately. So that is what I earlier mentioned with the capex of INR 10 crores to INR 12 crores, we will be having to expand that pretty immediately. So I think we will commence that somewhere in this quarter and it should be finished in about eight months or nine.

Pravin Sharma: So that will, so right now our yellow is 1200 and red is 1200. So that will another 1200 in yellow, correct?

Gokul Jaykrishna: That is the objective, yes. Correct. With the capex of about INR 10 crores to INR 14 crores. But we will have to expand because we are already starting to reach utilization there.

Pravin Sharma: Sir, I was just curious to understand what is such good thing we are doing in yellow and what is such not so good thing I would say in red wherein there is a huge differential in offtake. Yellow is almost 100% but red is still in sample approval?

Gokul Jaykrishna: So we are starting to do better in the red also by the way. So this quarter we will see substantial improvement in red and in the future we have full intention of utilizing the red also. So we have broken through two particular products in red earlier, we only had two. So with two, now we have four products in the basket this quarter.

So our sales team will be successfully able to ramp up capacity there. But to answer your question more fundamentally, see the thing is the raw material availability for yellow locally is better, making us more competitive. And also the technical expertise of our people is more in the yellow. So we were able to quickly ramp up there and probably going forward as we grow, while we will utilize the full red line, the percentage of contribution of yellow and red to the top line yellow will probably continue to dominate with about 70%, 75% of top line to our turnover for a period of next three years.

Moderator: Thank you. Our next question is from the line of Rajesh Jain from NB Investments, please go ahead.

Rajesh Jain: At this blue capacity where you said we have generated around INR 335 crores revenues in FY '23. So what was the capacity utilization for the full year?

Gokul Jaykrishna: For the full year capacity utilization was overall capacity utilization was close to about 70%.

Rajesh Jain: 70?

Gokul Jaykrishna: Yes.

Rajesh Jain: So can I take for example, assuming that we can run it at around 90% or 95% as the maximum, is it possible I can say, we can go up to maybe around INR 400 crores at the current prices?

Gokul Jaykrishna: Yes, yes. That is a peak turnover that we could achieve. Yes, okay, fair enough.

Rajesh Jain: So the second thing you said, for example, regarding the revenues for FY '24, you have clearly spelled out that, how much time it will take for the improvement in the Blue segment is difficult, but at least you said for AZO from 45 it will become INR 90 crores, correct?

Gokul Jaykrishna: From 41 to, we are hoping to do 90, yes.

Rajesh Jain: Hoping to do 90. So whereas in Chhatral, even though if you come up with the, the intermediates, you know, you said that will ramp it up faster, maybe around 60%. Since those intermediates would be used as a raw material for Odhav plant…

Gokul Jaykrishna: It will not contribute to the top line as much.

Rajesh Jain: Yes, you are right, correct? Right, so that means whatever the revenue growth would be made…

Gokul Jaykrishna: But see, what will happen, I will just, see the thing is, the Chhatral company outside, Atlas India is a separate entity from Atlas Odhav. So it will still contribute to the top line of Atlas India, because Atlas India will have to sell it commercially to Atlas Odhav.

Rajesh Jain: Agreed, but when you look at the consolidated level, So it will not be, it will get squared off?

Gokul Jaykrishna: But it will show on a consolidated level, it will show a top line improvement. But I see what you're saying. I mean, it is actually a backward integration. So that will go away when we move pregabalin to Chhatral. That top line will go away.

Rajesh Jain: Okay, so regarding once you move the pregabalin to the Chhatral, and you said you would be introducing few products, new products, of high value at Odhav plant. Is the R&D work, all that has been completed, and is samples have been approved by the customer, or yet to be done?

Gokul Jaykrishna: You mean for the new products that we are likely to introduce?

Rajesh Jain: Yes.

Gokul Jaykrishna: Okay, that is under process. I mean, that is under progress. It is, I mean, we have already completed R&D work on two products, we have commercially launched two products. We are working on three others, and we are looking to get two or three others into the basket for research. So that's going to be an ongoing process.

The high value products, you know, two or three or four products will not fill up the Odhav capacity. So that is going to be a working process over a period of three years there to introduce newer and newer products. We have a research facility, which is a standalone facility in Odhav itself, separate from the plant, which we own, where we have a team which is doing research, and they are the ones who have developed the backward integrated raw materials internally, and are also developing the new products that will the higher value products over there.

Rajesh Jain: Okay, fair enough. So my second question is regarding your Dahej plant for the AZO dyes. Now, you have given two contradictory statements. One, see, we have been, you know, approaching the customers who are based out of Europe and maybe US or so. We had sent the samples and we were in the process of getting approval. So you also mentioned that demand in European countries is not so good. But at the same time, you said, you have given us a good news where you said, you know, we will be turning out EBITDA positive for the current year in that color. So how is that possible then?

Gokul Jaykrishna: By selling in the Indian market.

Rajesh Jain: So you mean to say out of the INR 45 crores sales that we have done, it is how much of that is in the Indian market only?

Gokul Jaykrishna: 90%. So there's no contradiction. So the European business that I was talking about where we are sampling is still ongoing. So once that comes, that will add to the value of the business. Currently, nothing in this INR 42 crores is coming from our major European customers, except TTC, our collaborators.

Rajesh Jain: Collaborators. So now, you've already given a, expected turnover of this segment of INR 90 crores. You know, in FY '24. Unfortunately for, very genuine and uncontrollable reasons like COVID and then the Ukraine war and so forth, some of you are not able to reach whatever the target that we keep for the Dahej plan. So my question to you is, what gives you this confidence again that, this, the Dahej unit will do INR 90 crores in FY '24?

Gokul Jaykrishna: So if you see the time, I agree, the time has been very difficult. We set up the plant in record time within budget, and it is a state of the art plant. However, since then, the market turned very sour and the whole year has been, as a new company, when you start, and the market is terrible, and particularly when your major quality customers, like, are in Europe.

So then things become extremely slow. Having said that, if you look at the month-on-month turnover, we have been increasing it substantially. So if you look at the turnover for the last quarter in the AZO business, we've already done reasonably well. And this quarter, April, May, June, is looking substantially better. July, August, September will again be better than April, May, June.

So quarter on quarter, the improvement in volumes is substantial. It is not 5%, 10%. So we are expecting this to continue. And the reason I'm saying, I mean, we could be off by INR 10 crores here or there, but basically I'm saying it based on April, May, both which we've had each month, the volumes have been better than the previous month. So May is the highest volume recorded so far at 120 tons for the AZO business. And June is likely to be better than that.

Rajesh Jain: So this you're saying, irrespective of whether we get the approval from the European companies or not, so you're targeting to do around INR 90 crores plus or minus 5, 10%?

Gokul Jaykrishna: Yes, it should be. So we cannot remain dependent on European things to come back. We have to be proactive. And luckily this is a new business, so we were proactive. We have managed well so far. And yes, so we would target, we probably may miss 90 if Europe doesn't come back, but I think Europe will come back. But even if it doesn't come back and nothing changes, we should still be able to do INR 70 crores, INR 75 crores.

Rajesh Jain: Okay. So you said already the yellow lines have been running at full capacity. Does it mean that have you started two shifts in the Dahej?

Gokul Jaykrishna: Yes, for the yellow lines, we have.

Rajesh Jain: And whatever this new line you're adding for yellow, is it under the existing, what we call building or are you going to put up a new building for that?

Gokul Jaykrishna: Existing building. See, that is the beauty of this. The capex that we did earlier was about INR 85 crores or INR 90 odd crores, and it is going to give us a turnover of INR 130 crores. And now the second phase of the capex, when we double the two capacities, we don't require the building. So the overall capex will be about INR 30 odd crores of which we are currently only doing the yellow one, which is about INR 12 crores, INR 13 crores.

Rajesh Jain: So that means, let us say that you add another line for red also. I'm just taking like after doing INR 30 crores of capex, can we say that that whole facility at the Dahej can give us more than INR 200 crores of turnover?

Gokul Jaykrishna: Yes, absolutely. Absolutely.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: Sir as you highlighted, like for yellow also, most of the sales are now happening in domestic and export approvals are still pending. So I just want to understand that what is the, in earlier calls you've highlighted that we have some problems of consistency and quality of the production. So is it like, is it due to some of technological knowledge handicaps that we have, or is it due to issues with the quality of the plant which we shifted from the partner to India, or is it due to the quality of the raw material? What is the…

Gokul Jaykrishna: So it is none of these, in pigment business, it just takes time. It is a very specialized product and it does take time. We have good talent. It is not because of, we didn't shift the plant from our partners, we put up a brand new facility. So it's state of the art and brand new. It's not an old facility. The facility is actually very, very good. And we've already sorted out this issue. So consistency does not remain a challenge anymore. Some of the products we are making are absolutely top class products now, consistently.

Vaibhav Badjatya: Okay. But then, so why the export approvals are still holding on? Why they're not…

Gokul Jaykrishna: They just take, you know, I will not take a long answer, but you know, what happens is, once you sample these guys, they have to make the product and shelf it for a period of three months before they sample it to their customers. Then their customers take some trials on that product and come back after, they have to shelf those products for three to six months.

And then they come back to our customers who come back to us with, one ton of order for commercial trials. So that whole process takes a lot of time to ramp up. So it is an easy two-year period minimum. That I'd always said from the beginning. And we are doing work on that. So, fortunately or unfortunately, the time in Europe was very, very weak anyway. So it was even slower.

Vaibhav Badjatya: Got it. And for red pigments, you have highlighted that it's still domestic RM availability is an issue. So what is, can you just help us understand what are the raw materials used, which is not in India for red pigments, which is a specific name, if you can name the raw material.

Gokul Jaykrishna: Methanol. Okay. But there are some others. Mitesh can you answer this?

Mitesh Patel: It's a Naphthol AS-IRG. That's a naphthol derivative.

Vaibhav Badjatya: Okay, got it. And on the blue side, given this China duty. So before the China duty, if you can help us understand what is the total quantum that was exported to China from India and also the total blue capacity in India, just to understand, what is the quantum of that impact of China?

Mitesh Patel: Let me say. So we don't have a figure right now, but it could be roughly around 3000 tons per year.

Vaibhav Badjatya: 3000 ton on the total blue capacity that India has, how much is approximately in the percentage number, I mean, how much is it?

Mitesh Patel: India export to China would be around 3000 tons. We do not have any exact figure.

Gokul Jaykrishna: But 3000 tons what India would be exporting to China per year.

Vaibhav Badjatya: Okay. And for this on the API side, you have said that we are going to now manufacture PMH and RCH and then current in-house, versus, you are procuring from somewhere else. So, I mean, if you can help us understand who are the competitor manufacturer of this raw material and is it like why it is high value, like relative in the sense that, is it very difficult to make and that's why we are announcing it so that we can capture the value or they are also more like commodity will go through the cycle and, you know, currently they are just having good margins?

Gokul Jaykrishna: No, they're not that difficult to make. So we'll make it, making anything backward integrated is going to add margins and because when anybody was selling to me raw material, he'd be keeping his own conversion cost and margins, adding margins to it. So unless you go backward integrated, you can't establish a competitive edge. What we want to do with pregabalin is with this move, we will be the largest player of pregabalin in India.

So if we have our own raw material, we'll be the only major player with pregabalin raw materials as well, giving us a competitive edge and then we take that technical products to other markets geographically outside of India and see if we can improve our margins.

Vaibhav Badjatya: Okay. Thank you. Yes. Yes. So last question on my side. So apart from raw material, you know, the biggest cost portion is electricity and this cost. So if you can highlight what steps are we taking in terms of are you planning to have some renewable capacity or to replace our, replace the source of the electricity or coal cost that we have currently?

Gokul Jaykrishna: We already have taken some steps to put up some renewable in wind and solar. But currently we are not, as I already mentioned the capex. So apart from these two capexes, we closed these two capexes and then enter a consolidation phase for two years. So, or at least a year and a half. So no new capexes anywhere.

Moderator: Thank you. Our next question is from the line of Piyush Goyal from Angel Bay. Please go ahead.

Piyush Goyal: So sorry for being late. I joined late initially some technical difficulties and I somehow I missed it. Apologies for that. So I don't want to repeat. I think a lot of things have been discussed. So I am only thinking that the worst is behind us now. And things will only start to look brighter from this point onwards.

And as I had advised or said to you that, our like it is a fortunate time for you or us rather that whenever we went into a ramp up mode and capital expenditure mode, our cash cow sort of died.

So it has put some strain on balance sheet. We are now running at around INR 16 crores per annum of interest cost. So we should get out of this debt trap as soon as possible.

And I think as you rightly mentioned that you will not be doing any capital expenditure and it will be all be consolidation for next year. I still believe that you have to buy out 22% in net loss. Then you need to complete several plant and then you also talking about INR 12 crores, INR 15 crores for the Dahej now.

So I think it's still you have a lot of capital expenditure on your hand. And if your cash cow is not supporting, mostly it will be done by debt. So that could be a red herring for me. But I'm sure you will take care of that. So other thing which I like about this con call, I never miss Asahi con call. Because this is just like a family conversation. I never seen such a relaxed and friendly conversation open on this conversation happening in any con call.

Gokul Jaykrishna: Thank you, Piyush bhai.

Piyush Goyal: Thank you so much for creating this kind of environment. And I literally asked when we have a con call because it is very important to have con calls in difficult times, in good times, everybody can have it.

Gokul Jaykrishna: Absolutely, this was important to have for sure.

Piyush Goyal: Very important to just to let people get a view. And actually we were expecting because things on the API and all this. So one question I have is, so I would like to congratulate your secretary and staff led by Saji. They are doing absolutely marvelous job. In fact, so congratulations on that. My question on your API part is, do we need the U.S. FDA approval for that?

Gokul Jaykrishna: No, we are not going to go for U.S. FDA approval. Our plan is only to go for European and some others, but not U.S.

Piyush Goyal: And this is too costly affair and very time consuming affair?

Gokul Jaykrishna: It is more complex than that. It is definitely costly. It is definitely time consuming. But what happens is if you go too early with U.S. FDA, any U.S. FDA facility, the productivity levels automatically because of the compliance issues come down a lot. And the plan just doesn't become a plan such as the API plan, such as our plan would find it difficult to break even only under those circumstances.

And two, there is also the threat of anytime some problem happening and the facility shutting down. Now, if this happens in the early stages of company's life, it would put the threat on the existence or successful strengthening of the business. So for the next three years, we don't have any plans for U.S. FDA, but we do have plans for European FDA. And I think with the facility between India and Europe and other countries outside India, we should be good enough to utilize capacity.

Piyush Goyal: I think that makes sense.

Gokul Jaykrishna: And to reflect on your comments, thank you for joining us regularly, first of all, Piyush bhai. And it is always good to be interacting with you. Having said that, yes, to reflect on some of the points, I think very definitely the worst of the quarters is behind us. This is one point. So the current quarter, April, May, June is going to be better than January, February, March. And we should not see a quarter such as January, February, March ever again, hopefully. That is one point.

Second, the business is bottoming out. Inventory levels are already bottomed out globally supply chain-wise. And if the business climate in terms of demand improves, then we should see a revival of the business back to its normalcy. And hence, even the cash cow business should be coming back. And then finally, to reflect upon the debt, yes, we are at 175. And with the two projects that we have undertaken, the Atlas Chhatral and the little bit in the ATC, which I already talked about, a total capex of about INR 40 odd crores. That is where we peak out at 210. And then we will de-lever as well in a very planned fashion.

Piyush Goyal: But that also includes the money which you have to pay out to buy the remaining 22% stake in Atlas?

Gokul Jaykrishna: Yes, for right now, I mean, that is in two stages, but yes, that should not be a challenge.

Piyush Goyal: So maybe you can talk to Atlas guys and then maybe they can defer the acquisition for maybe…

Gokul Jaykrishna: No, we won't need to do that. We are comfortable. We won't need to defer anything. And neither the completing the acquisition of that 11%, which will be coming due later this year. And no, we won't have to defer anything.

Piyush Goyal: No, that's great because I think at least it's self-sufficient, it's not gaining any money. So it is…

Gokul Jaykrishna: Exactly, that is a good thing. There is no, skeletons in the closet in the acquisition. This is a positive thing. It's a well-run business. And again, the cycle is playing out. It is probably likely to remain up currently seeing the bottom of the cycle, where we have seen prices of pregabalin crash from 4,500 to 3,500. And I think at 3,500 pregabalin should be bottoming out.

Piyush Goyal: Yes, so if I look at the acquisition cost, looking at the business, I think it was a good deal. It just unfortunately, the cycle has turned down. But I think it's a temporary, but I think it's a good acquisition at a cost which is paid INR 48 crores. It's a good deal, I guess.

Gokul Jaykrishna: Thank you very much, Piyush bhai. Yes, we think it was a good deal.

Piyush Goyal: I am quite hopeful and bullish on AZO part. It's definitely taken longer because of COVID or whatever?

Gokul Jaykrishna: Yes, unfortunately it took one whole year longer.

Piyush Goyal: But I think I am quite bullish and the growth will come only from these two engines now, AZO and API. And I hope you will continue to be a cash cow.

Gokul Jaykrishna: Thank you very much, Piyush.

Piyush Goyal: Maybe you can little bit of right issue, a smaller right issue, INR 30 crores, INR 40 crores to just get rid of more comfortable liquidity?

Gokul Jaykrishna: I think it's a positive suggestion. And this has come on my table already. I mean, internally from the team.

Piyush Goyal: That's great [inaudible 1:21:51].

Moderator: May I request the management to move to the next participant as Mr. Piyush Goyal has put the line on hold. Thank you. Our next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: I just wanted to clarify one thing. Since the new Chhatral plant will be supplying is primarily for backward integration. The statement that you made that we can achieve INR 800 crores to INR850 crores kind of revenue next two or three years when we ramp up the new facility as well as the JV Brownfield capital that we are doing.

So on a consolidated basis, I think INR 800 to INR 850 crores will not be reflected in the revenue as this will be getting knocked off from the subsidiary to the Atlas. On a consolidated basis, how much revenue can we do when we ramp up in the next two years?

Gokul Jaykrishna: So first of all, when I said 800, I didn't mention 800, 850. I said 800 is, I mean, to one of the questions which was asked, that question was very specific. 800 is the peak capacity which can be achieved in terms of turnover on a group level basis. I speak by that. Peak capacity, INR 800 crores turnover is possible to achieve.

However, the peak capacity is never achieved in these businesses. So I would say that we would be at INR 700 crores to INR 750 crores turnover. And yes, that accounts for the backward integration that is going be consumed. Despite that, we should be at INR 700 crores, INR 750 crores.

Ankit Gupta: Sure, sure. Also on this pregabalin thing, we are a large manufacturer there, but there are some of the other companies like Divis and Hikal who are global leaders in this molecule. So like, were you referring that in pregabalin in domestic market, we are the market leaders or just wanted to get some clarification on this statement?

Gokul Jaykrishna: I didn't get your question. I mean, so we are in the domestic market, the largest player. In the export market, you are right. Hikal and Divis and others are there. And that is where we would like to go with the new approvals that we get in Chhatral.

Ankit Gupta: Okay, okay, got the point. So on our long-term strategy for the API business, so you said that we'll also be looking to get UGMP approval and getting to other regulated markets. So if you can highlight over the next three to four years, what are our long-term plans for this API business? We want to diversify away from Pregabllin as well. So anything that you can highlight on our API business and what are our medium to long-term plans for this?

Gokul Jaykrishna: So I've already mostly spoken about it. So we don't have any other plans right now in terms of, you know, moving away from pregabalin. We are moving into pregabalin. So over the next three years, we'll consolidate our position and improve our position in Pregablin. That's why we have put up this Chhatral plant with backward integration that gives us more strength in the pregabalin market to be able to garner some export business as well, apart from the Indian business and improve the margins on the Indian business.

So, no, right now there's nothing much we have to add in terms of newer products. As I said, the R&D facility will continue to work on newer products. And this, as and when we develop, we will keep launching. Next con call I do, I hope that by that time, we would have launched at least two new small molecules. I mean, not game changers, but at least definitely introduce new molecules to our business portfolio and order.

Ankit Gupta: Sure, sure. And lastly, a question on your R&D team in Atlas, so how many team members we have and how many of them are PhDs so if you can highlight about that. And what are our plans for launching new products? You highlighted that two new products will be launched in next five to six months. So apart from that, what is our pipeline for launching new products over the next three years?

Gokul Jaykrishna: So I will answer the pipeline question basically two products, small products, we actually we are about to launch this quarter. And over the remaining part of the year, we are hoping to launch at least one or two new products. So that is, but that's not going to contribute tremendously to the top line, so it's not a game changer.

So one should not read too much into it, but it is showing the company's R&D capability in terms of putting up products which are more expensive in the range of INR 20,000, INR 40,000 a kilo. So we are experimenting with this and learning more than, depending on it, we are learning more about it so that we can prepare ourselves over the next five years. About the R&D facility, Mitesh

, can you just throw a very basic light on our people at the R&D center?

Mitesh Patel: So we have a total 10% team at R&D center. Out of that, one is PhD and one is around 20, 25 years experienced person. Who is heading the R&D?

Moderator: Thank you. Our next question is from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead.

Prateek Chaudhary: I just need one clarification on one of the questions that even the previous participant asked. You said the Chhatral facility will contribute around INR 200 crores. Is that the total internal plus external sales?

Gokul Jaykrishna:: Yes. No. That is just external sales. At peak, with the INR 70 crores capex, we should be able to get about INR 200 crores of top line from Chhatral, from the outward sales of Chhatral. That does not account for the raw materials made and consumed.

Prateek Chaudhary: So what I'm not able to follow through here is that we have said that Chhatral expansion would largely be for backward integration for our Odhav site?

Gokul Jaykrishna: No. I didn't say that. It is also for that. So it is definitely partly for the backward integration for not the Odhav site, for these six molecules that we make. But these six molecules that we make, we will start making at Chhatral itself. So it will be a backward integration for these six molecules that currently Odhav makes, which we will in the future make at Chhatral.

Prateek Chaudhary: And Odhav site would continue giving us around INR 100 crores, INR 230 crores per annum?

Gokul Jaykrishna: So as of now, it will continue. Till the time we shift these products from Odhav to Chhatral, which takes, as I said during one of the questions, approvals and other things, takes a year or two. And then as we shift product after product to Chhatral, we will add new products to Odhav.

Prateek Chaudhary: Okay, have you already filed the environment clearance at Odhav to launch these newer products?

Gokul Jaykrishna: Yes.

Prateek Chaudhary: And so on the AZO side, when are we likely to get those international approvals? And when will our partners begin to start their 20% offtake? Or maybe higher?

Gokul Jaykrishna: Our partners are already starting to take. But again, U.K. is extremely slow and soft. That is why they haven't been at 20%. But they are already doing 10%. So they have started. As far as our other major customers, when they will start, each will take its own time. But I would say about six months for some of them.

Prateek Chaudhary: Sir you were not audible. Your line was not.

Gokul Jaykrishna: I was saying, as far as our partner tenants is concerned, they're already buying from us. They contribute to 10% of our top line. And this will continue. The business for them also in Europe and U.K. has been soft. That's why they haven't been able to do 20%. But they should come to that sooner than later. And as far as other European customers or U.S. customers which are under testing, it will probably take six months or so, depending on customer to customer.

Prateek Chaudhary: And when you aspire to create a 5,000 metric ton capacity…

Gokul Jaykrishna: So I think, you see with the yellow. One and a half years. So within the year, we should be at about 30,600 tons. I mean, within a year's time from now.

Prateek Chaudhary: Okay. And the last question on the import duties that have been placed by China. So our understanding was that India was contributing a very major part of global production market share for the Blue business, which means that China must have been a very small part. And hence, what in your opinion is the Chinese government's rationale for supporting a very small part of the industry, which may not be in quantum ways, it may not be large. So are they, if the domestic industry in China, are they planning major investments in the Blue category?

Gokul Jaykrishna: And this is always in a definitely not. They are not planning any investments in the blue category. They're not going to do that. Clearly, they aren't comparable.

Moderator: Thank you. Due to time constraint, that was the last question of our question-and-answer session. I would now like to hand the conference over to Mr. Gokul Jaykrishna for closing comments. Over to you, sir.

Gokul Jaykrishna: Thank you, ladies and gents, for attending the meeting. I think we've had a very productive interaction. We had some very good questions. Particular thanks to Pravin Bhai and Piyush Bhai, who have always contributed regularly and always shown us some good ideas as well. So thank you to them and the rest of you as well. It was a pleasure to interact with you, particularly in this difficult time.

I think it is my responsibility to come forward and spend time and explain the business. Also, because we have, at this very difficult time, embarked upon a process which is going to play out over the next five years. And we hope to go into consolidation mode somewhere in the second half of 2024 and move from one location, one product, to multiple locations, multiple products, and eventually meet our goal of becoming a INR 1,000 crores business sooner than later. So thank you once again, and looking forward to interacting with you on the next call and coming up with better results, which I'm pretty confident compared to at least the previous two quarters in the coming quarters.

Moderator: Thank you. On behalf of Asahi Songwon Colors Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.