AsahiSongwon®

Ref: ASCL/SEC/2023-24/46

October 30, 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 OCTOBER 27, 2023 WITH INVESTORS AND ANALYST ON THE FINANCIAL PERFORMANCE OF Q2FY24

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 Friday, October 27, 2023 at 11:00 a.m. (IST) with investors and analyst on the financial performance of Q2FY24.

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: 2023.10.30 17:22:11 +05'30'

SAJI JOSEPH
Company Secretary and Compliance Officer

Encl: As above

"Asahi Songwon Colors Limited

Q2 FY'24 Earnings Conference Call"

October 27, 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 – EXECUTIVE DIRECTOR – ASAHI SONGWON COLORS LIMITED

MR. ARJUN G. JAYKRISHNA – EXECUTIVE DIRECTOR – ASAHI SONGWON COLORS LIMITED

Asahi Songwon Colors Ltd.
Q2FY24 Conference Call
27th Oct 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Conference Call for Asahi Songwon Colors Limited September 2023 result discussion.

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 and operator by pressing "*", then "0" on your touch tone phone. Please note that the conference is being recorded.

I now hand the conference over to Mr. Abhishek Mehra. Thank you and over to you, Sir.

Abhishek Mehra: Welcome, everyone, and thank you for joining this Q2 FY24 earningsConference 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 M. Jaykrishna, Joint Managing Director and CEO, Mr. Arjun Jaykrishna Executive Director, Mr. Mitesh Patel, Executive Director and Mr. Saji V Joseph, Company Secretary and Compliance Officer.

We'll be starting the call with a brief overview of the business and the financial performance in Q2FY24, which will be followed by the Q&A session.

I'd like to remind you all that everything set 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 the risks 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.

Mr. Gokul: Good morning, ladies and gentlemen, and it's a pleasure to welcome you to our industry call this morning our performance for the quarter was consistent with our prior guidelines of achieving break even at that level.

In this quarter, we have been able to do that despite very challenging market conditions and very tepid demand. So in the last investor call when we had had a very poor performance earlier, we had envisaged that the markets will improve. This has not happened. The demands we made very sluggish even now, particularly in Europe though we have seen pickup in US, which is very promising and India remains very strong eminent. So our concentration in business in India also has been consistently going up.

However, despite this market conditions we are happy that our team has been able to improve operating performance and due to that what we had earlier, very negative performance, we have broken even at the PAT level as we had envisaged and guided earlier. I will take you through some of the highlights that have happened in the last few months. One, we have been able to successfully sell the silica land at a price of Rs. 48 crores and this has resulted in a net profit of about Rs. 24 crores.

This transaction was completed extremely smoothly and the proceeds have all been received the tax on the transaction also paid and everything is completed. This has resulted in improved debt position of the company where we had last con call guided that our peak debt would probably be coming to about Rs. 225 crores at peak level sometime in 2020.

For now, we have revised that guidance to a peak debt level of Rs. 170 crores, so this is much improved from the earlier guidance that we have given. This is based on two things. One, the sale of land which has brought in free cash as the land was not going to be utilized after our move to buy the pharma business. And put up a new Greenfield project of pharma, etc. So this went on very smoothly.

The second reason for improved guidance on the overall long term total debt would be our improved cash flow. So all three verticals are showing improved cash flows despite not being very profitable. And so that is one of the highlights. The second one, this is a major one just on Dusshera 24th of October, we have commissioned and broken ground on our Greenfield project of Atlas Life Sciences in CHATRAL.

So the intermediate section of Atlas in CHATRAL is now operational from 24th of October this year. This puts us in a much better position for the next six months at our at last order site as well because we hope to be completely self-reliant in two of our main raw materials N1 and N2 from the month of January itself or January of 24.

The third fact that I wanted to just bring to your highlight and then Arjun our ED w ill in detail and give his views on it, but our ATC team at the haze has done extremely well and despite very challenging demand scenario and no improvement in the market, we have EBITDA of broken even at ATC. Finally, as we had foreseen, except the fact that we had not forcing the demand to be this week.

So we are happy that despite the poor demand, we've been able to have EBITDA of breakeven coming up and we look forward to one improving in the next quarter or definitely in the last quarter of the financial year and then that will have us very well placed going forward.

The final thing on a consolidated basis where we had a PBT of -7.7 and a half crores, we are nearly breaking even on PBT basis on a consult basis. So this is reassuring in the current circumstances when markets are very challenging. And gives us a lot of hope that with the efforts that our team has put in to reduce cost and improve overall performance. We should be able to take advantage of the markets when they revive and get back to normal profitability level.

With that, I would like to hand it over to Arjun to give his views on the recent performance.

Arjun: Thank you so much. So good morning everyone. I'll run you through a quick summary of the performance and update you on the recent performance for the ATC part of it and briefly touch upon the API segment as well.

So we continue to witness improvements in AZO business as has been mentioned by our CEO right now in the last quarter, we operated at around 40 to 45% capacity utilization. Despite the challenging market and challenging market conditions for AZO pigments, in general, our performance in this segment is showing progressive improvement.

So this quarter, we successfully were able to launch a few new products in the Red pigment range as well. And these continuous products traditions have played a pivotal role in scaling up as a business, despite the poor market conditions. On the yellow side, our capital expenditure for expanding our capacity in the yellow pigments remains on schedule and we anticipate that we will have it completed by Q1 FY25.

As the market conditions improve, whenever that may be, we are confident that our AZO business will reflect the positive returns on our investment. And while we achieved break even at the EBITDA level for the AZO business this quarter, our subsequent goal is to reach breakeven at the PAT level in the forthcoming quarters, so it is a challenging time to continue and improve on the performance.

However, the team is working really hard and we are exploring several new opportunities in terms of launching new products as well as trying to expand our customer segment. So that we are well positioned to grow even in these bad conditions and be ready and well positioned when the time comes for us with the market picking up.

Turning now to our API segment, I am extremely delighted to announce the commencement of our commercial production at our intermediate plant this week. This move will significantly assist us in sourcing to two of our crucial raw materials, which are essential for the API's produced. We project the ramp up of this intermediate facility by the end of Q3 FY24, which will in turn enhance our margins in the API business. The remainder of our CapEx is progressing as planned and is set for completion this quarter.

On a consolidated note, it is evident that our business is nearing the culmination of its current CapEx cycle each of our business segments is steadily advancing past their challenging phases. And while a surge in demand might still be a few quarters away, we remain steadfast in our belief of achieving a sequential improvement in our financial performance. And we hope that we are able to use the momentum of the last month in both are as well as API businesses to motivate the team to keep working harder and keep this performance and the slow but steady growth on going despite very challenging conditions and hope to give a good performance in the coming quarters as well. Here you may open the floor for questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aditya Khetan from SMIFS Institutional Equities Please go ahead.

Aditya Khetan: So my first question is you've mentioned in your opening remarks that demand continues to remain weak. So for the current month, are you witnessing any sort of improvement and if we say that demand is built, so if we can highlight how much is the inventory in the pipeline and how much more months of inventory these stocking we can more see so demand could remain weak and how is the situation in the international markets in US and Europe and by when we can see improvement if and all if we hope to see that?

Management: So to answer your question, the demand still continues to be very typically to be very honest I don't see an immediate demand revival this month or next month. For sure, it may be January, February, and March at the earliest.

That we would see a demand revival. In my view, the latest could be by April, May. That is the kind of time horizon in my view that we will see in terms of demand revival, so at least quarter and probably maximum two quarters before demand revives. So now we do not wait for demand. We have to work in this environment. And I've already addressed the entire team and we are prepared to improve our performance given the same weak demand environment. This can be achieved by two ways one is increasing the basket of products, which we are successfully doing, as Arjun mentioned in his con call at API at the behest plant, we will do the same with the Atlas plant with the staff of the CHATRAL facility as well.

And we have also so that is brought by increased number of products and the range of products is one way to mitigate weak demand scenario and the 2nd is by increasing the breadth and the number of your custom base so we are approaching new customers and we are doing this successfully in two ways.

In ATC, of course we are new and we are approaching a lot of new customers, gaining new customers with the old view business. We have gained some customer base in India as well. So the business in India which where the demand is good. We have strengthened and are improving as a percentage. It's already now 40%-45% of our overall business, which it used to be A10.

So these are the two strategies we apply to so that we are not reliant on just demand revival we should be prepared for demand revival in a way where we are reduced and improve our cost efficiencies. So whenever the demand revival comes, we find ourselves in terms of cost and very efficient, better than we were before.

And two with a broader range of products and increased range of customers that would probably put us in the best position to take advantage of the demand whenever it comes. This is what we can control and impact ourselves the demand itself. We have no control over. So we do not want to worry much about the demand.

We don't care if it doesn't come for the next three months, we will still continue to improve our Q on Q performance.

Aditya Khetan: OK, Sir, is there any situation of an excess inventory still into the pipeline? And so that is also like.

Management: Good question. Sorry I didn't ask for that earlier, so this problem is now already sorted out. We had a huge problem of in inventory overhang for which we suffered losses over the last six to nine months. As you all know, that is why that was one of the key factors why our performance was negative at a pack level, and even slightly negative at a better level. These days are over.

So I will take you through all the three verticals. So I answer your question very directly. So in the blue business, our inventories today extended 600 tons where it's so that 1400 tons in November of 22. We were at 1400 to 1500 tons. Today we are at 550 to 600 tons and this is the minimum inventory we like to have which is we make about production of about 1200 to 1300 tonnes of blue. So holding a 500 to 600 tons, 10 to 15 days. Inventory is the bare minimum we need to do for our customers also the inventory that we now hold is not high cost inventory because the prices and the markets have bottomed down. And we are not seeing in the last 2-3 months any deterioration in the markets.

While there is no demand available, there is no deterioration and inventory is completely over. So now there is no inventory sitting on our books where it will result in locals as it did for six months with Atlas at Odor. Our inventory levels are at absolutely close to 0 on the finished good side, we have no inventory, and not even a reach inventory and we are booked at last order in the pre gathering business for the next 40-50 days.

This is the first time in the last 12 months that we are sold out for a month and 1/2 or two earlier we were fighting to sell materials because the markets.

Moderator: The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav: I'm trying to understand that on a stand-alone basis, we did a peak quarterly revenue of around Rs. 120 crore in June22 to which has now reduced to Rs. 58 crore. So basically it is just half. So if you could just give us some idea that how much was the volume, the growth and how much was the realization the growth from peak till now?

Management: So prices have come up about 25% and volumes have come up by about 35-40%.

Keshav: OK, Sir. And also now, with crude prices again being up what kind of impact do you see on our realizations going forward and margins?

Management: So we see that margins and realizations both have bottomed down. This is, to me, in my opinion, this is very clear even despite a weak demand scenario, we see improvement, gradual slow improvement in both volumes as well as margins as we go forward and prices have bottomed down, so prices while because of the weak demand scenario, the prices are going to shoot up quickly.

However, we are seeing that prices have bottomed out. So there is going to be a gradual upward move in the prices of pigments as well. Same for the API.

Keshav: Sir, also, if you could give us some idea that you operate at full capacity utilization then Sir, what kind of revenue can we generate in our all three segments?The blue, the AZO as well as the API.

Management: So the combined revenue that we can generate at peak performance without counting CHATRAL facility of Atlas and clarifying this because it's a new facility and right now there's no point of counting it. So we can generate a peak revenue of about Rs. 400 crores in the blue business, about Rs. 150 crores in the ATC business a nd about Rs. 125 crores in Atlas Odor business.

Keshav: Sir. And also with this new CapEx of around Rs. 70 crore what kind of IRR do you expect on this statement?

Management: So the CapEx is going to be in the range of Rs. 70 to 75 crores and we are looking at a turnover of about 200 plus. So Rs. 225 crores at peak levels from this CapEx when the API plant came the intermediate plant. Both are operational and we estimate the bitter margin of anywhere between 12 to 16% of course it won't be 16% in the initial year. But eventually, at peak performance, we should get EBITDA margins of about 15%, so the math will be easy I mean Rs. 225 cross turnover on 75 crores of CapEx with the EBITDA of 15%.

Keshav: Great. Lastly if it's your API revenues year on year they have fallen from 70 crores to 23.5 crore. So I'm trying to understand have the volumes realization gone down or was the plant in operational? So what exactly was the reason for such a fall?

Management: You're talking about the half yearly.

Keshav: No, Sir. I'm talking about quarter second quarter.

Management: Second quarter API business 70 crore.

Keshav: Sir, in the segment results, maybe it might be a misprint,

Management: Alok can you clarify this? Because I am confused with the quarterly revenue of 70 crores in the API business. Maybe a typo. Please clarify.

Alok: Its typo.

Management: So I'll still keep the question. So there is, I mean obviously it's not that drastic, there is some reduction in the overall turnover the typo in the first quarter. This quarter yes, your number is right 25 crores and it's below or slightly below our estimate, but not in a huge way. I attribute that again to a combination of weaker demand. So the volumes were lower by about 15% in the order Atlas facility and the prices were of the pregabalin and main product prices. Sell from 4000 to 3000, so about 25% reduction in prices. So this was a combination that resulted in some depletion in the turnover in October, November, and December of this year. We see that the turnover should be inching back to its quarterly norm.

Moderator: Thank you. The next question is from the line of Vaibhav Barjatya from Honesty and Integrity investment.

Vaibhav Barjatya: So I have couple of questions on the pigment business and couple of on the API business. So first on the pigment 1, so see from a relatively longer term perspective, we see some of your competitors are positioning themselves more as a competitor to international companies like the GIC and their forward integrating into that domain of the business while we continue to be positioned as a supplier to these companies. So any thought on how your, whether you want to make that transition at a later date or do you think that transition just doesn't fit our business profile?

Management: So right now for the pigment business, we don't intend to get into forward integration in any of our pigment businesses, which is master batch paints or things. However one cannot tell too long term as of right now we have no such plans for the next couple of years. As Arjun mentioned in his introductory speech, we are coming towards long CapEx cycle, probably one of our most aggressive CapEx cycle in the history of 25-30 years of our existence.

This has run the last 24 months and is coming to an end in the next few months. In the next three to four months, we have only about 20 crores of CapEx to go 10 at Atlas CHATRAL Greenfield project and about 10-12 at ATC Yellow. And that would be the end of our CapEx cycle and then we go into our euro of your consolidation. So we have no future plans of capital allotment to expansion right now we would like to rather fulfill the potential of the existing capacities. Arjun, do you want to comment on it. Anything you have.

Vaibhav Barjatya: So sorry, Sir just to interrupt in between, but for example like, I don't know my understanding might be wrong here, but for example, the guy like Sudarshan they always say that DIC clearly and these companies are their competitors. While so while for us I think they are our customers, so I just want to understand that why this is the difference and whether you want to migrate apart.

Management: So we are happy to be having DIC and Heubach and Clariant as our customers and they are excellent companies and we have a lot of potential to grow supplying to these companies. Arjun, you want to comment?

Arjun: No, I think you said it perfectly, but to answer that question, yeah, I think, we definitely one of the things we pride ourselves is being the lead and primary supplier to the top in the world. For example DIC son, we are also lead supplier to clarify it. So we definitely aim to continue this. We aim to continue our presence in our supply to them. We hope to have wholesome pigment supply to them and we see them as a very large global MNC player and with them growing and further being stronger. DIC taking over BASF. We see that there is more growth for us to do business and we are getting stronger in global scheme, which allows us as well to use our relationship with them to increase our business, support them and together have Asahi grow as their supplier, which is Asahi growing, is of primary importance and our view of doing that would be support them and they are very large very strong MNCS and we think that they will do really well and we hope to keep growing our business with them.

Vaibhav Barjatya: OK, got it.

Management: I will further clarify. This is a good question. So do not mistake what me and Arjun said, meaning that we are not competing with them I mean we clearly compete with Clariant and even DIC for that matter, at times for the pigment business. What we were trying to answer was that we have no intention for getting into forward integration into things or plastic. But that doesn't mean that we are not going to compete with them in pigment. So let me clarify them in pigments, then we will continue to compete with them. And I feel that we will definitely be far more competitive than competitive than them. And that is why we feel that overall, I mean I don't want to name anyone. But we will gain not only growth in the pigment business from the incremental growth in the business that we see, the generic growth in the business that we see year on year, but we will also gain because we will compete better with various companies in the pigments without name and some of them could be big multinationals too, and they recognize this already, that it is not possible. It probably won't be possible for them to compete with companies such as Asahi, and they would probably transfer some of the business either to Asahi in a relationship or we will eat into some other pigment businesses as well.

So as far as pigments are concerned, we are there to compete with all of these companies. What we meant is we are not going to go in for forward integration at this stage for the next two years.

Vaibhav Barjatya: So I think that answers my question. And secondly that's kind of a historical questions, but I just want to understand the logic. So when we as of now we have already closed to the completion of CapEx cycle. But when we originally decided to put CapEx at various fields. You have earlier highlighted that there was an environmental permission issue for expansion of blue business at existing location. So why have we never considered at that point of time any Greenfield expansion of the blue business as such? Was it at that time related to market or is it something else?

Management: So we have debated this question that was the obvious thing. I mean when if you look back five years into our business, even three years back, we were a single product, blue single location, Baroda Company right now and we are market leaders in the work of whom we are #1 in the world the blue this is our strength.

We know the blue business inside out and we feel that we are the best competitive company. If you take customer profile, quality profile, volume profile and put it together. So the obvious question when we have to decide three or five years back what we want to expand into obvious answer was blue.

However, at the board level and the strategic level in the company, we came to a conclusion that we do not want to put any new further money into the blue business because blue is already dominated in a significant way by India and we do not have any incremental growth coming from competing outside India companies and gaining their business like we could gain ASO business from China something like that.

So we have strategically decided and we stick to that we will not expand or put capital into the blue business on a Greenfield expansion side because what would do is that would innovate be hitting our own business because we would have to then approach lower quality customers with lower margins, lower pricing and that would hamper our business with our quality customers that we have.

Moderator: The next question is from the line of Dhiren Anurag an individual Investor please go ahead.

Dhiren Anurag: Firstly, congratulations on commissioning of the new project. I think it is especially commendable that you have gone ahead with this project even during the current industry scenario and have completed it on time as you have committed. So my first question is regarding the new API site only. I think in the AGM before you have communicated and even today that the lower potential of the site is Rs. 200 to 225 crores. So I just wanted to get some clarification that this includes the value of intermediates also which will be produced or you are only talking about the external sales potential of this site and the value of intermediates which we consume internally is different.

Management: And to answer your questions, the turnover that the real would be the turnover from same so internal use would be over and above.

Dhiren Anurag: Just to understand if we add the intermediates as well or if we take them at market value, then what is the value of production out of that site. It is like more than 250 crores because we are talking about the impressive Forex assets on a Rs. 70-75 crore CapEx. So if we include the value of intermediates, then what is the value of production from that site?

Management: So as Arjun said, the turnover of 225crores would be stick only from the API side and he clarified that the intermediate business that we consume internally is not counted in that 200 crore turnover. So he has the asset turnover on an edge sector would be quite a bit more with the turnover to investment of 75 would look to 200, say 210 to 275 and but if you add the intermediate that will self-consume at market value, The X Factor would be more. The turnover that would be I think in the range of about 60 or crores or 70 Arjun, any number that you have, what the intermediate, the two products that we make if we sell consume at market cost what it would be?

Arjun: Its total size, potential turnover would be 350 to 400 crores.

Management: Yeah. So I would say added 100 to 120 crores would be what the intermediates would be considered as if you considered at market value that we'll consume internally.

Dhiren Anurag: Understood. OK, this is quite for impressive in terms of the fixed asset term. So we are able to achieve this because the 70-75 does not include the value of land which we had acquired from the subsidiary otherwise this would have been lower or is it like we are doing N-1 N-2 manufacturing and that is the assets one is higher. Because if we compare it to what the current like fixed data returns for many of the API plants coming up even 3 is a very impressive number. So here we are talking about at least more than 4-4.5. Maybe if we include the value of intermediates as well.

Management: So I think you answered part of it yourself. I think the N-1, N-2 is a very large factor. That is the reason we have done this project. Apart from this, we also projections they're giving, although achievable, we will have to work quite hard to get them. We have a state-of-the-art plan now, so we are hoping that these numbers would be able to get a slightly better price and go to slightly better markets as well.

Where right now we would be in the more unregulated markets, we would move to slightly more regulated market and that would be one reason the N-1, N-2 obviously is the largest reason and 3rd we have worked on over the past few months, some molecules, obviously we don't have the R&D expenditure and large pharma companies would have yet, but we recognize the importance of R&D in pharma and we have worked on other products as well, which we small products these would not be too till.

However they are products we have worked on which will be made in a new factory which will assist these turnover numbers as well and hopefully help us achieve the numbers we have quoted as you said, which are as always which the benchmark we have said. And hopefully we'll be able to report that we have achieved it in the coming quarters as we do start the flat, however, it will take time as that said, since it's a brand new plan but once it is all established in the long term, we should be able to achieve these numbers.

Dhiren Anurag: So the intermediates are that we are producing for pregabalin, CHM and RCMH. Are we going to manufacture any other molecules from these intermediates or they're only dedicated for the pregabalin or if you're going to leverage this for like some other API as well we may not do currently?

Management: We would be as of right now we have started it only for pregabalin to intermediate and if we have anything in excess from what we use, we would probably be selling it into the market. And a similar strategy to what we have done in the blue pigment business we consume, we make CPC Blue Group the main raw material for the blue pigment and we make in excess of what we consume and we sell that to some of the multinational.

Dhiren Anurag: So in pregabalin like post, these two intermediates, would it be safe to say that we would be the most integrated player? I think it's a four step process and we would be covering it till the very first step only. So is it safe to say that you would be one of the most competitive cost producers in India post the expansion?

Management: Yes, it is safe to say that however, we do really have a long way to go. Still we have said as a strategy and what we have discussed previously in calls as well we have a strong position. Because of knocking backward integrated, we are not able to, despite having a large enough market share in India, we are not able to get the numbers we want. This will definitely make us. In India, one of the more dominant players in terms of backward integration, and they already have a good market. What we aim to do is raise our level in terms of compliance, which is the reason for a large investment in this plant and means not only to India. And the non-regulated markets to more regulated markets where we have obviously other competitors who are much larger players than much more resilient players. But we hope that this backward integration and the state-of-the-art plant will allow us to move to that level while we also have the Indian market in mind and growth within this segment where we are going to be dominant but to raise our level for the slightly more regulated market as well. So that is where we'll work really hard and aims to put our presence there as well

Dhiren Anurag: So just one last thing. So from a capital allocation point of view like this recent line monetization was a very welcome move. So is there any such other assets available, which the company may look to monetize and potentially if we look at the value that we are currently getting in the market. So in terms of market capitalization, maybe deploy some capital towards or buy that or something which actually use to the long term investors because I see there's a lot of value three years ago. So we were at the same market cap but in three years basically we've added two new businesses of equal size and opportunity as compared to the blue one. So any thoughts on this would be really welcome.

Management: So the first question answer is no, we don't have any other assets like the land parcel we sold that we would monetize and get money from.

So we have done buybacks in the past. And we will hope to have surplus capital sometimes in the future. So at that time the option would be either to do another buyback an existing shareholder. And as you rightly said from the valuation point of view, we were three years back, but on the turnover or investment or business side of things, we have become much more difficult in terms of the company of course the times have been tough because interest rates have gone up and markets have crashed and that's why we probably had a difficult here but certainly we would either look to do a new capital allocation into the existing lines of businesses which are most profitable after two years or three years or if we don't have anything obvious than repay our shareholders buyback.

Moderator: Thank you. The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.

Rupesh: I have three or four questions. So first question is, if we look at the blue standalone business over multiple years, our gross margin has been between 40 to 45%. But in last maybe 10-11 quarters it has really reduced and we understand because of whatever chemical price inflation, whatever has happened. So this quarter we have seen improvement, so the gross margin in blue business has gone to 37%. So do you expect that we will be in this 40 to 45% range in blue business going forward?

Management: We always been in that 40 to 44% or the range generally if you take a little up and down. But generally in that range and of course, because of the exceptional poor market conditions we had gone down to really bad levels. We at 37-37.5% now and our aspiration would again be to get to 40-45% range. However, I do not see it going to 45% anytime in the next couple of quarters and for the improvement we would be unhappy if he aren't at 40 or slightly.

Rupesh: And another question is in this intermediate plant, what would be current gross margin of a class life and how would it move once we start consuming these intermediates?

Management: So I'll honestly not like to dwell on that right now because we are very new. So we normally give any guidance or comments forward-looking I am very precise and accurate and we hope that we live up to it with the API business you can understand very new so it will be very difficult for me to guide on the intermediate business. However, I can tell you that overall EBITDA margins of the API business that we are in the final API business should improve because of the intermediate. That is why we went into this business and it should improve from say a better level of a six odd percent to 12 odd percent to startit.

Rupesh: That is good enough, Sir. And another maybe supplementary question to that is the capacity we have is to intermediates. So how much do we need for our own consumption and how much would we need for external?

Management: We have around 15 to 20% excess capacity of intermediates.

Rupesh: My next question is in API products, you have said that other than intermediates, we are building a capacity of around 200 crore. So can you talk about top three products which will become 30-40-50 crores size which are these products? Other than pregabalin which will give us this 200 crores revenue.

Management: For the 200 crore API, revenue from the new CHATRAL plant, we would probably depend on the same 6 molecules that we make would have the predominant one with the pregabalin. So I would assume that probably early 100 crores would come from the pregabalin and the balance 100 crores from the five other molecules and some minor revenues would come from new molecules that Arjun does upon.

Rupesh: I see. And my final question is, in the AGM, you have talked about that you was looking at some cost breakthrough in some red products. So if you can give an update on that have we achieved that cost?

Management: I think it was mentioned we have been working quite hard to optimize these products of what we have discussed earlier in the past few meetings over the last year or more than that. Even the red side hand proven to be a little more difficult than the yellow hand, primarily we are competing a lot with China obviously you hold the dominant space in AZO reds and for the Reds everyone asks so whoever all Indian manufacturers have to still purchase some raw materials for the red from China, so that was the reason why there was a price issue in the red as compared to China.

To answer specifically your question, yes, we have been able to get a cost breakthrough in one of the key products we are working on this and because of this cost breakthrough we are able to compete with China. It is something we have taken pride in.

However, it is not something that will give us crazy margin. It will allow us to compete with China, which is a very difficult change in red. So we are hoping there are several discussions going on as I said and we are hoping that this process breakthrough we have had to get sales which is the most important thing right now and allow us to compete globally with China and whatever small capacity and allow us to pump up the red line as well which will be a big factor to get ATC to the next level.

Moderator: The next question is from the line of Nikhil from SIMPL. Please go ahead.

Nikhil: I have two questions. One is if we look at our quarterly performance, there is a significant improvement in the gross margin even though the sales on the pigment side has been. So and even in the call you mentioned that you would like to see the gross margins around 35 to 40%, 45% may take some time. So this improvement is led by what like is the realizations improving or is it there were inventory write offs in previous quarter which is not there now? Just some light on that.

Management: To answer your question, I think as you've analyzed correctly despite the turnover not being better we have improved our margin there are a few factors here. One key factor which I'm personally not involved in at all. So I'll give full credit to Dad and our procurement has been good. Our procurement has always been one of our big strengths and we have leveraged relationship. And leverage that strength to get good procurement and get that very effectively done. So that is one reason why our margin are better.

Second what we have discussed earlier as well, the market being bad, we have seen that globally inventories are starting to reduce so people are now despite poor markets having to buy products. So we have always tried we have always make sure to try it after he has a very high quality manufacturer, which we will always hope to sustain.

So we have seen this clearly because of us having still maintaining a very good quality product, good procurement efficiency and hence we have seen a comeback to some extent, at least in the margins, despite demand not yet coming back to you. Just to add to it the inventory overhang that we had causing some of the pain earlier. This inventory overhang again repeat is over.

Nikhil: So whatever happens to the pricing you believe this 30-35 is a sustainable margin and moving to 40-45 will depend upon how prices be right?

Management: Yes.

Nikhil: Secondly, if I look at some of the players on the specialized pigments, some of the largest players like Venator and all have filed for Chapter 11 and all. So are you seeing that there is a constraint on the capacities? Or in the last 1 1/2 years. Since the issues have been with the industry, are you seeing that capacities are going out of the market or companies are going out? And if you can just help us understand how the capacity is at the global level and whenever things change? Do you think that we would be able to take a larger market share than what we have done all these years?

Management: This is a very interesting question. I'm glad you asked it. One of the gentlemen's earlier also kind of referred to it when they asked whether we would like to compete with tendencies. So the thing at the end I clarified that in the pigment space where we are willing to compete with everyone and we feel that we should be the strongest the most efficient pigment player in the world. So what is likely to happen some of these bankruptcies that you see randomly, globally will probably continue because they are going to not be able to compete with the likes of us. It's not just me, but maybe some other companies as well, and the likes of India the business will over a period of time migrate to India in some pockets and we would be happy to take advantage of that business and maybe even partner with some companies if they would like to without their capacity and make it with.

Nikhil: And just last question, see we've seen in many commodity kind of businesses. That the MNCS eventually try to get out of the commodity business and try to go higher in the value addition or the specialized kind of a product range. And this is across industries which are not even related to pigments, but in other chemicals. Are you seeing in last 2-3 years what we have seen there is a lot of consolidation which has happened change of hands from carry and going to huge, so many things happening. Are you seeing that on the commodity plus kind of a segment, there is a gap which is getting created with players exiting?

Management: Certainly. And this will continue at in sporadic periods of time. But yes, there is a gap. That is being created and there is a gap that is likely to happen going forward. That is one of the reasons why we put up this plant at the age for 80.

Nikhil: OK. Lastly, if we have to fill in this gap incrementally or what would be the three or four key priorities which we would have to work on? I know our brand in the blue and in the pigment space is pretty strong, but other than that, what additional we would need to do we have the capacity, we have the brand, but other than what are the key requirements you believe the company has to fulfill in order to capture a larger share?

Management: So, that this question passes for the blue correct. I think what you mentioned those are two important factors obviously that we do have a brand value globally. And also we continue to have a good product now in order to increase or expand our share. I think we have mentioned earlier as well, in previous AGM as well that we have always maintained a very high customer level. We've always only taken the absolute top clients and there was a reason for this which is because we have had these large clients buying consistently from us month on month for year in order to grow the blue business, I think it is important for us to maintain our quality despite increasing our cost efficiency as best we can.

So not to change the product too much and at the same time make sureto be probably a little more aggressive in certain customer acquisition and activity such as that to gain other high quality customers. But in terms of the blueprint and how we make the product and stuff like that, we continue to keep the same in terms of brand value there is still work for us to be done and there is still globally opportunities for us to take which will require us to have a probably a little better distribution channel and target maybe a certain areas well established companies which are not probably as dust and increase our distribution network there so that we can grow our business despite keeping the quality standards that we have always kept.

Moderator: The next question is from the line of Pratik Kulkarni from Kamayakya Wealth Management. Please go ahead.

Pratik Kulkarni: I just wanted to know the updates for the approval from the European authority in our API businesses.

Management: That is our ultimate goal. However, we are very new. So the CHATRAL plan just started the 24th of October this year. So we get the intermediate plan running, then we get the API plan running in the next three to six months and then we apply for European exhibition. It's a long way to go yet, but yeah, we do definitely aim. We have put up the Greenfield plant with the aim to get European exhibition.

Pratik Kulkarni: OK. And on our AZO side business, we were looking for people from customers in the European region, but as we can see that the European region is currently going through a tough phase. Then are we focusing on these approvals or are focusing ship through domestic markets?

Management: So in terms of our focus, the European economy is going through a difficult time. Companies that are going through difficult times coupled with the general slowdown in the chemical industry is why we have not yet had large orders and breaks. There it continues to be a market where we feel demand will come back. And we will continue our exercise with them, continue to use our relationships in Europe, which we have worked on for a long time and make sure that we have approvals in place, trial orders try to get the trial orders out and in place, so that when the demand comes back, they are able to look at us for commercial orders, because this is a very time consuming effort with the MNC since they need several step approval whether it is from the lab to the pilot to the plant trials and then subsequently, there customer approvals as well.

So it's a long process which we will continue to do and we hope that when the market returns, it will be a full exercise for us even though we have to wait quite some time.

In the meantime, as also as you rightly mentioned, the domestic market is doing better than the European market. We have taken up more of an effort in the domestic market where as well it is not great demand but it is better than Europe for sure.

So we have focused on that. Most of our growth from as you rightly said and we will continue to put effort in the local market as well. We see India as a market that will continue to grow and being an Indian company Indian player, we are proud to say that the as though we have done a lot of work in India and a lot of the current growth has come from domestic sales.

So while we continue to work on our European customers and we are very hopeful that whenever maybe not immediately but in future quarters when the demand there rises and comes back, we will be well positioned to also leverage that business, putting the AZO business in a stronger position at thattime.

Moderator: Thank you. The next question is from the line of Praveen Sharma and individual investor.

Praveen Sharma: I have only two questions first is on this PG with this API coming up our consumption should immediately ramp up, correct, because we will be house consuming for the raw material for the PG. So will it reflect in the margins of PG which we are producing currently to the tune of 100-120 crores?

Management: Definitely. The whole premise of setting up this Greenfield project, one of the main premise was that we improve our 3PG margins, which EBITDA margins were we had a good business. We bought, but the margins were always poor, so with this going into L1 and L2 starting of the CHATRAL facility should improve the margins to 12% if it's a straight away PG, which was earlier at 6%. That is likely to happen in the very early stages also.

Praveen Sharma: I want to just confirm that it will not undergo any approval from the end customer. They don't take approvals for the raw material.

Management: No, there is no N1, N2. The two raw materials of PG that we just started the intermediate plant in CHATRAL. So these don't require any customer approvals from a single customer of PG.

Praveen Sharma: My second question is regarding blue. The blue always has been a cash cow and the capacity I didn't think in last five years any major capacity have come up and the kind of end user industry demand we see it is going up exponentially whether it is automobiles plastics, real estate painting and packaging, Inc. But where did the demand for the blue pigment first disappear? Means my question is it undergoing some kind of obsolesce wherein? There is some alternative product which has taken the place of blue and beta blue, alpha blue and or where is the demand suddenly disappeared in last two years?

Management: the second one is simple, so no blue is not likely to see any obstacles. There is absolutely no substitute for 15 beta blue and alpha blue, and there is nothing even in these, so there won't be a substitute, at least for five years. I personally think for the 10 or 15 years there won't be any substitute, but atleast we can be certain that for the next five years there is going to be no substitute.

The demand now where it is gone is a puzzling question. We have also tried to ask it ourselves and figure out what's happening. This demand scenario is generally happening not only in the blue but also in the Esso market for example, the dive market or some other. The bulk chemical markets as well, but to answer the question on blue, I mean it seems like in a 0 of 2% inventory environment, the foreigners, the Western countries, US and Europe were holding material for 6/6.

Now suddenly it is 6%. They are faced with 5-6% and 7% interest cost and which they have not seen in their entire lifetime of 20 years. This made them panic and that they are now thinking of going to very low levels of inventory because it's very difficult to carry inventory at 6-7%. But it used to be easy free to carry inventory at 1%, so their whole mindset changed.

That mindset changed this whole one year exceptional momentum of reduction, global inventory level charged with that declining market conditions and declining product crisis resulted in very abnormal conditions in the demand now over a period of time this will whether itself out, I think we have the back end of the low demand environment.

And we though I don't foresee a sudden jump in demand, but I already see a bottoming out of demand and probably 3 months we will see a gradual approval demand. You rightly said the various industries such as packaging Ink was adopted or paints are reasonably good businesses, and these are likely to be good over the future and hence I think the general business of Blues, or pigments in general will have its cash flow statement in place.

Praveen Sharma: Great. Thank you and congratulations on this good sale of the land. I think these are excellent opportunities and we are well equipped and we have a domain expertise kind of thing in this. So I think we can continue doing that buying cheaper land and then selling it at a higher price.

Management: Thank you so much, Praveen. I appreciate your words. And we will keep our eye out from time to time, if we can advocate capital where we can make some extra money for the shareholders, is always the possibility in India especially.

Moderator: The next question is from the line of Aditya from Securities Investment Management Company. Please go ahead.

Aditya: I have a couple of questions regarding our pigment business. So if you could just let me know the end user industry mix or a blue pigment for us and for the industry?

Management: So for us it is something we have discussed in past many results we had in previously been a ink end user oriented supplier and we had done very well over the years with this business. However, this was a thing we have realized a few years back where you see that the printing specifically was a segment that is in general not growing.

It's steady and even has slightly growth from time to time. Yes, it continues to be a large volume segment. And there are large players that are continuing to have very large volumes for printing. So we have maintained our printing business, but at the same time, we've made sure to increase our exposure in specifically 3 segments. One is plastics, one is cooking and one is packaging inks, so within the inks we have increased the exposure to packaging ink.

Packaging are obviously pretty fast growing segment as consumer goods continue to rise from something as simple as additional processed foods being sold in supermarkets etc. Those are all end segments where we have increased our focus plastic being another one which has shown good growth and coatings as well. So these are the three segments where we have consciously made an effort over the last few years to increase our exposure in the Blues and for the AZO as well right from the start.

We have made sure to have a much larger exposure to these products than the other one other quick comment in terms of end application use. So wehave largely been focused on water based applications as compared to solvent based in the blue over the years. As time goes by, companies are realizing and appreciating this as solvent bases work for the environment.

So lot of companies are attempting to move towards water based and this is where our core expertise is and has been over the years, so we will continue our focus on water based. We will continue as we have done for the past years to increase the exposure for packaging in plastics and coatings. And we will make sure to mold the end application such that we still have a position in the printing. We are still a dominant supplier for that end application while also increasing these as we have done for the past few years consciously.

Aditya: Sir, what would be the share of these three new industries currently and what was it say, 5 to 6 years back?

Management: So if I have to give you numbers, I can say that maybe5 to 6 years back we would be maybe six years back around 70% roughly going into printing. Now that has reduced to, I would say around 45%. So it's been a very large change. We have increased these three segments quite a bit and we hope to grow these segments continuously as they keep getting stronger in the end application as well.

Aditya: Got it. And what would be the difference in margins between all these 3 industries, because I believe some industries would require higher specificity of the product, some industries would have higher margins. We just help us explain which industries have higher margin.

Management: So honestly, I I'll tell you, for example, Ihad some meetings with some customers last week and within that meeting we discussed the difference between products that go into plastics and products that go into fiber. So the fiber grid, for example, has a higher margin and higher requirements in termsof several technical points. Now it is, clear that the higher volume products will be going into the ink, plastics, coatings and applications which are less nation have much more competition, leading to lower margin.

So the large volume business, honestly, even the business that is growing such as the plastics and coatings very honestly does not have a special margin or a higher margin. It is just the business that has an end application growth is why we have decided to focus on it.

So we are not able to get much superior margin, but it is a growing industry and we hope to grow our volumes as demand comes back.

Aditya: So in a pigment business, what I understand is the chemistry of the product remains the same for a number of years and if new players start entering the market, the margins start to deteriorate and that is why the players tend to move up the value chain and tend to get more into the higher performance. So if you just help us explain have we seen this phenomena in a blue pigment and AZO pigment business that more and more players are gaining entry into this segment which have diluted our margins, keeping aside the unusual conditions now currently, but even then have the margins diluted or we used to make around 8 to 9 years back?

Management: I can say that yes, I mean compared to say 8 to 10 years back, obviously the competition has grown substantially. There are a lot more players in the industry and I'll also mention here that this is a phenomenon as you said, has happened in several industries here as well.

We have seen this and this is one of the reasons why the margins have got cut because that there is a lot of people have come in and led to oversupply, it is a phenomenon that is happening here as well as in several industries we know about it and although it is obviously additional challenge, we aim to keep our dominant position and we are confident of keeping our dominantposition in the Blues where we do feel that we have a technology and we have a product that is superior to most in the market and hence we hope to cater a clientele that requires and appreciates the higher quality.

We hope to keep the dominant position despite higher competition in the last year, which I am sure will continue to be the case with oversupply, but we will not let that deter us. We hope to and are confident of keeping our dominant position in the views.

So I will add to what Arjun said this has happened over the last five to seven years that newer players have come in because the margins were good, the business is good no competition, no obselency rate and good 45% gross margins. However, it is a cyclical thing that many times suddenly people come in and the new ones are obviously are weaker players. They don't know the business, they don't know the geographical mapping of the industry or making pigments, is more art than it isscience. The time so they come into the business not knowing the business well and over a period of a few years, they did that away as well.

This cyclical increased competition and then dying of some of the weak ones happens across industries. It is likely to happen here as well. We are already seeing that the overcapacity came in newer capacities that came in over the last 2-3 years in these tough days of the last 12 to 18 months, half of them have already died and some others are going either away so that will lead the field a little more leveled out as is always done and also what it will do is the stronger players, as Arjun said, what we would aspire to do we would aspire to go as you also mentioned in your question into higher value added products. So for pesos for example, now that we started with the with the base products and we are coming at about 55% utilization levels as we move towards 75% utilization levels over the next 6-8 months, we will keep automatically towards the higher end of the utilization cycle going for low volume higher value product and go up the margin chain up the value chain and go into HPC high performance pigments is value because we see a lot of hope in this business.

Aditya: And Sir, what would be the difference in margins on a gross level between blue pigment and an AZO pigment? Just a rough range?

Management: Blue, as you already know, I mean earlier somebody mentioned it very well that is exactly the margin profile about 40%, in AZO report it would also be stabilized, I mean probably I would say it's similar. We are new, so blue I can comment with a lot of authority, AZO it will take me a little while to see how things go. But it should be in the same range. Probably 35% for AZO and to the CapEx to turnover cycle is slightly better.

Aditya: Right and, Sir, what I understand is the blue pigment is dominated by Indian players, while AZO pigment is dominated by Chinese players. But what I believe is blue pigment and bluer a commodity product than an AZO pigment, which you also mentioned so. While China more dominant in AZO pigment, because China is more of a commodity play because they try to sell in bulk and that is why they get the cost advantage which is help us and that's what has happened which has led to being China being a dominant play in the AZO pigment business.

Management: This is a very long story, blue is dominated by India. We have 75 maybe I think 85% of the global market share now and probably in India will get 90% even because I even see further capacity, whatever small capacities are happening in Blues out of India made that so we may end up getting all of it and if the AZO we have only about 10% of the global market 75% is in China now. Why this has happened in a very long story but to long matter short with the blues the raw material availability in India is complete. It is always been that way. So the majors, when they came from Europe and Japan, they selected India as a natural partner for blue. And hence we created a great infrastructure for the blue business with AZO lethal particularly for the rest, and also at one point of time five years back for the yellows, the key raw materials were coming from where more available in China and India didn't have these raw materials, but the large bulk chemicals for making the AZO, hence the foreign companies migrated to China 1st and that is why they developed this strength.

What is happening now in the yellow business just 6 to 8 months back, India has become completely self-reliant. When we started the business a year and a half back for the yellow people regularly buying from China, today we don't need to buy a kilo from China. That is how quickly the structure for the AZO industry is likely to change in India.

Aditya: Noted, Sir. And for just one last question, showing your answer to a previous participant, we mentioned that we are supplying to Sun and Clarion just as a company strategy. Why do we want to pay a contract manufacturer for these players and not directly sell to the end customers or have our own distribution channel? Because only then we'll be able to have our own brand and grow faster in the international market. So if we just explain what is the company strategy over here or are the customers only looking for bigger players who have better balance sheets or have higher revenue or different product profiles. That is why they look for bigger plays and not smaller players like us.

Management: So to answer that question, I think this question is blue, is it?

Aditya: Yes. For blue.

Management: So for the Blues, I think what was made clear at the start of this call I mean in pigment, we continue to sell to the top MNCS we will continue to do this a lot of our products that we sell to them go into their manufacture for example, Sun uses our products to make Ink in house in their own plants. Now here we will continue to be their supplier and we want to be the one they supply to. Here we are able to unlock higher margin than we would by supplying thelot of other people so one is that. 2nd in terms of the wind supply, apart from us supplying to them for their end use, we are also able to sell in the market. I mean we do compete with them as with everyone else, when we sell our products in the mall. And this will continue and we will make sure to do this, I mean in the pigment selling space, we will continue to keep growing ourselves and try to increase the brand value as a direct product aswell what we sell to the big MNSis what we will continue to sell is for their use of inks where we are not competingwith them at all.

So it is a business that we are doing where they are buying from us and using that for me printing, packaging, plastics, whatever that may be. So that will continue as is and with the smaller players and with other business segments, we will use our own brand and that we will be competing with everybody. I mean, whoever may come, we don't have any, anyone. We won't compete.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Gokul Jaykrishna for closing comments. Please go ahead Sir.

Gokul Jaykrishna: So thank you everyone for ladies and gentlemen, thank you for attendingour concall. I end this concall with a very positive note and thought there is a lot of energy within the company that we have added the new Greenfield facility at last, there is also a lot of energy that we have broken even on EBITDA basis. Finally, after a very difficult start to the business and. ATC AZO plant in the hedge and we've already been able to monetize the Shiykha land parcel at a very good rate and made a good profit from that. So generally there's a lot of energy that we take away in the last couple of months after a very training 6 to 12 month.

And I look forward to now rating out for the improved demand scenario to play out and we should position ourselves to take very good advantage of it when it comes. Thank you once again and look forward to having you in my nextconcall.

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.