SUDARSHAN

11th November, 2023

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

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

Dear Sir / Madam,

Sub : Transcript of Analysts / Institutional Investors Conference Call

We are enclosing herewith transcript of the conference call with analysts / institutional investors, which took place on Monday, 6th November, 2023, after announcement of the Unaudited Financial Results (Stand-alone and Consolidated) for the quarter and half year ended 30th September, 2023.

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

Kindly take the same on record.

Thanking You,
Yours Faithfully,
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

Mandar Meenanath Velankar
Digitally signed by Mandar Meenanath Velankar
Date: 2023.11.11 17:07:53 +05'30'

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

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Corporate Identity No.: L24119PN1951PLC008409

SUDARSHAN

"Sudarshan Chemical Industries Limited
Q2 and H1 FY '24 Results Conference Call"
November 06, 2023

SUDARSHAN ICICI Securities CHORUS CALL

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

MODERATOR: **MR. SANJESH JAIN – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Earnings Conference Call of Sudarshan Chemical Industries Limited, hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjesh Jain from ICICI Securities. Thank you, and over to you, Mr. Jain.

Sanjesh Jain: Thanks, Michelle. Good morning, everyone. Thank you for joining on Sudarshan Chemical Industries Limited Q2 and H1 FY '24 Results Conference Call. We have Sudarshan Chemical Industries Limited management on the call, represented by Mr. Rajesh Rathi, Managing Director; and Mr. Nilkanth Natu, Chief Financial Officer.

I would like to invite Mr. Nilkanth Natu to initiate with the opening remarks, post which we will have a Q&A session. Over to you, sir.

Nilkanth Natu: Thank you. Thank you, ICICI Securities and Mr. Sanjesh for hosting our earnings call. Good morning, ladies and gentlemen. Welcome to Sudarshan's Q2 FY '24 Earnings Conference Call. Our investor presentation has been uploaded on the stock exchanges for your ready reference.

I would like to take you through the financial highlights for this quarter. On overall basis, there has been a growth in the top line as well as improvement in the EBITDA margin. However, global uncertainties and macroeconomic factors coupled with recent geopolitical development, continues to be the key challenge.

The quarterly performance on a consolidated basis for the quarter, total income from operations stood at INR601 crores as compared to INR528 crores for the same period last year, higher by 14% year-on-year. EBITDA for the quarter stood at INR66 crores as compared to INR43 crores in Q2 FY '23, and EBITDA margin is at 10.9% compared to 8.1% over the same period last year. Profit after tax stood at INR18 crores compared to INR5 crores for the same period last year.

Coming to H1 performance, on a half yearly basis, total income from operations stood at INR1,209 crores versus INR1,083 crores in the same period last year, a growth of 12%. EBITDA for the first half is at INR135 crores versus INR84 crores last year, and EBITDA margin is at 11.2% for the current half year versus 7.8% over the same period last year. PAT is at INR39 crores compared to INR12 crores for the same period in the last year.

Now going into the details of our pigment business; for the Q2 FY '24, income from operations stood at INR522 crores as compared to INR476 crores for the same period last year, a growth of 10% year-on-year. On a sequential basis, revenue is marginally lower by 3% compared to INR536 crores of Q1 FY '24. India sales for the quarter is at INR272 crores, higher by 16% as compared to INR235 crores in the same period last year. On a sequential basis, India sales is marginally higher by 3%, compared to INR265 crores of Q1 FY '24.

Export for the quarter were at INR250 crores compared to INR242 crores, higher by around 3% year-on-year. On a sequential basis, export revenue is lower by 8% compared to INR272 crores of Q1 FY '24, mainly due to weak demand resulting from inflationary pressure in EU, U.S. and effects of destocking. We continue to be vigilant towards the international geographies, considering the recent geopolitical issues and global macroeconomic situation.

In Plastics segment, we continue to see relatively stable demand and ink segment has seen improvement in demand in Q2 FY '24. We expect this to continue in the coming quarters. We continue to see subdued demand scenario from coating segment, majorly due to domestic players, deferring buying decisions, owing due to falling price regime and also due to the late festival season. Demand in the Coating segment is expected to pick up in H2 FY '24.

Specialty segment sales stood at INR362 crores as compared to INR330 crores for the previous year same quarter, 10% year-on-year higher. On a sequential basis, the revenue has remained flat as compared to INR363 crores of Q1 FY '24. Non-specialty sales for the quarter is at INR160 crores, which was higher by 10% as compared to the same period last year. On a sequential basis, revenues lower by 8% compared to INR174 crores on Q1 FY '24.

We are seeing healthy and progressive engagement with our customers for our product basket offering from the recently commissioned capex. Gross margin of pigment business for the quarter increased to 44.8% as against 38.8% for the same period previous year, comparing with the sequential quarter, gross margin have gone up by 190 basis points. This is mainly due to lower price, raw material prices and change in the product mix.

During the quarter, we continue to see softer raw material costs and coal prices as compared to the previous year. Logistics costs have remained stable in Q2 FY '24, while it has come off from the peak levels seen earlier from the previous year. Further evolving geopolitical environment can pose some uncertainty, which may have impact on crude prices and other intermediary prices.

EBITDA for the quarter stood at INR67 crores in Q2 FY '24 compared to INR39 crores for the previous quarter. EBITDA margin stood at 12.8% as compared to 8.2% over the same period last year.

On a sequential basis, EBITDA is higher by 90 basis points. In H1 FY '24, total income from operations for pigment business stood at INR1,058 crores versus INR1,002 crores in the same period last year, a growth of 5%. EBITDA for H1 is at INR131 crores versus INR83 crores last year, and EBITDA margin is at 12.3% versus 8.3% over the same period last year.

Now coming to the Balance Sheet: the balance sheet of the company has strengthened with stable business operation in current first half of the year and funds received from monetization of the assets. The net debt of the company has reduced substantially to INR445 crores in Q2 FY '24 from INR926 crores in Q2 FY '23 and INR503 crores in Q1 FY '24. The reduction in debt has resulted in improved net debt-to-EBITDA to 1.7x in Q2 compared to 3.8x in Q2 of the last year. The working capital cycle has been effectively managed, thereby, resulting into the cash conversion base at 82 days in current quarter, compared to 90 days in the sequential quarter Q1 and 108 days in Q2 of the last year.

On ESG focus, before we conclude our management commentary, I would like to take this opportunity to highlight our ESG focus. Sudarshan always maintained high standards in this area, as seen from the direct discharge permission for treated effluents from Roha plant. British Safety Council 5-Star Ratings Sword of Honor Award and Sudha CSR work in the plant location community.

Our focus is further enhanced with clearly formulated vision to be the global leader in pigment industry, by operating responsibly and growing sustainability. To achieve this, we have formulated a strategy towards key pillars of the environment responsibility, strengthening social inclusiveness, business accountabilities, with continuous focus on manufacturing excellence. We believe that companies will get differentiated based on the ESG practices in coming years, and our continued focus and sustainability journey with concentrated efforts, will strongly position us globally.

To summarize, positive tailwinds from the external factors, such as consolidation of top players in the industry, China plus one, India gaining economic momentum due to continuing global uncertainties are expected to favor Indian pigment industry. However, we continue to be cautious, considering evolving geopolitical situation and global macroeconomic situation.

We are well prepared internally with all the capex projects being commissioned, with widening of the product portfolio, cost-efficient operation and capacities to quickly ramp up. We are confident in our growth journey and are committed to deliver the long-term value to our stakeholders.

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

Moderator: Thank you very much. We'll take the first question from the line of Madhav from Fidelity. Please go ahead.

Madhav: Just wanted to get an update on now that our product ranges are finally ready, we have our expanded capacity in place. Could you just help us understand how the traction is building up? Not from a near-term perspective, I understand there are geopolitical challenges that could happen near term. But if you take a 2-year, 3-year view on the company, could you give us some sense? Are we like in a better shape to sort of gain more business in export market, from like a 3-year perspective?

Nilkanth Natu: Thanks, Madhav, Nilkanth here. So as we mentioned in our opening commentary, we have recently commissioned our capex and the product offering in terms of our new products has been well received from the customer. As we mentioned, considering the current scenario, we are seeing this ramp-up to happen over a period of 4 years. And with this, whatever the internal target we have set for ourselves, in the first half, we are achieving those. So we are on track in terms of achieving the target for this ramp-up, and you will see those results coming in, over a period.

Madhav: And this 4-year is, in your view, you're being a little bit conservative or is more realistic? Like what kind of assumptions are we making?

Nilkanth Natu: Madhav, the 4-year view, which we are right now giving is more based on the conservative basis, given the current geopolitical scenario and the macroeconomic conditions, while our endeavour remains for the quick ramp-up, 4 years is more on the conservative side.

Madhav: Sure. And the second question I had was, you know now that our product mix has expanded, and we have more, how should I say, like more specialty portfolio in place versus what Sudarshan was 5 years back. If you look at our margin profile before COVID, where we used to do 14%, 15% EBITDA margin, would it be fair to say if we take a 3-year, 4-year view that EBITDA margin should be higher? We don't want an exact number, but just given the change in the product portfolio, margin should be higher versus what it was over a 5-year period before COVID?

Nilkanth Natu: So Madhav, to answer this, yes, directionally, it should be higher than what we had seen earlier as a 15%. If I say that we had the EBITDA margin of 15% in '21, which given the new capex, which are put to use, more focus will be on the specialty, over the period of the time horizon which you have mentioned 3 years to 5 years period, I see that structurally, the gross margin and the EBITDA should move up, and we should see the EBITDA margin higher than the numbers which we had reported earlier. But it is over a period of time. Directionally, what you're interpreting is correct.

Moderator: We'll take the next question from the line of Ankur Periwal from Axis Capital.

Ankur Periwal: First question on the pricing or the overall growth on the revenues front. So congratulations for a decent performance across domestic specialty, as well as the export bit. Just trying to understand, how should we look at this growth from a pricing and volume breakup perspective? Is pricing a component here or it's largely volume driven?

Nilkanth Natu: Hi Ankur. Nilkanth here. So as we mentioned, we are seeing the softening in the raw material prices, logistics cost and coal costs. So the current revenue scale up which we are seeing, is more from the volume front, because there has been the softening of the price regime, which we have seen in the first half. So it is more driven from the volume side.

Ankur Periwal: Sure. And Natuji, just a clarification, the RM deflation, has this been passed through in Q2 or we'll be passing it on, let's say, next quarter onwards?

Nilkanth Natu: So we have passed on this, Ankur. So this is the softening of the raw material prices, other costs, we do the pass on every quarters.

Ankur Periwal: Okay. Second question on the global competitive and our positioning as well as from a landscape perspective. We have been seeing excess capacities in China, which has kept prices under pressure for most of the chemical companies and for most of the chemicals. How is competition for us, given that there were certain plant shutdowns earlier? And China, in dyes they are big, but in pigments, probably you can highlight how the demand-supply situation sort of pans out there?

Rajesh Rathi: Ankurji, this is Rajesh Rathi. I think the situation has 2 sides sir. One is the industry in general is probably passing through a worst phase. If you see our European competitors or the large players, they are not doing well either. Also, given the demand scenario, especially in the major geographies, if you talk about U.S., Europe, China, Japan, is not very good right now. So the situation is tough, but I think we are able to make good traction, given our goals, our whole story line and on the whole strategy on growth over a very reliable and a broad-based product manufacturer.

Ankur Periwal: Sure, Rathiji. But any new capacity coming in globally or maybe excess of supply given the demand is lower and hence.

Rajesh Rathi: No, I think we're seeing a shutdown in capacities, certain capacities in Europe have shut down, no major addition of capacities in China, I would say.

Ankur Periwal: Great. And from a new product approval or, let's say, ramp-up perspective, I know the macro has been weak, so probably won't be look at or won't be right to look at the ramp up as such. But from a product approval perspective, where are we for our new products that have been commissioned?

Rajesh Rathi: I think we're doing quite well, sir. Whatever our original plan was, we are right on track. The next 1.5 years to 2 years would be to see how can we expedite that and do that. But as of now, we are on track sir.

Ankur Periwal: Great, sir. Just one last question, if I may, for Natuji. Our working capital has improved in this quarter, largely led by lower inventory. Is it sustainable? What are your thoughts there?

Nilkanth Natu: So Ankur, as we guided earlier, we were at around 25% last year, and we said that our endeavor is to be in the range of 20% to 22%, given the situation around. So right now also, we are at around 21% of the working capital. And I expect that we will be in the same range of 20% to 22%. I don't expect major jump in the working capital. It has been fairly managed, and we will continue our focus in managing our working capital efficiencies.

Moderator: We'll take the next question from the line of Archit Joshi from B&K Securities.

Archit Joshi: I have a few questions, sir. Firstly, just wanted to pick your brains on a comment that you have made in the presentation, with respect to value chain integration in some of the projects, can you elaborate what sort of value chains are we looking at here? Is this in the current scheme of things with respect to the product portfolio we have, or there is an exploration of any other HPP sort of a pigment in the value chain?

Nilkanth Natu: Archit, Nilkanth here. So you are referring to the transcript or the presentation?

Archit Joshi: No, sir, the slide, business outlook, FY '24 and beyond, wherein we have mentioned commencing execution of cost improvement and value chain integration projects.

Rajesh Rathi: So I think that what it means is, some of our backward integration projects will continue to focus, some of the waste streams, which are generated and getting some value out of it. I think those are the 2 areas which we are focusing on.

Archit Joshi: Okay. So there is nothing new on the product side, right? Or any other...

Rajesh Rathi: No. I think we've completed all the products. Nothing new on the product side.

Archit Joshi: Okay. Okay. Got it, sir. Sir, secondly, with respect to the application areas, if I split this into 3 larger categories of the industries that we service, paints coatings, wherein you have mentioned auto and decor, and packaging and inks, plastics packaging and inks. So where exactly are we seeing pain globally? I see that you have seen some traction sequentially in the domestic front. But where do we see this destocking or demand banks being prevalent on the exports market?

Rajesh Rathi: The question is only pertaining to export market? So export, I think it's more of a geography phenomenon, , rather than the applications where I think in U.S., we are seeing U.S. was doing well till last year and this year, we are seeing a major effect and a lot of destocking happening in U.S.

Europe is at the same trend as last year, a little bit improvement, but China has also been it's more of a geography phenomenon rather than the industry areas globally, in the exports market, international markets.

Archit Joshi: Got it, sir. Sir, if I just put it in the ascending order, U.S. followed by Europe and then China, would that be a fair assumption, where we are seeing more pain?

Rajesh Rathi: So in general, as a market, I think China, U.S., Europe, I would put that in the sequence. But for us, our largest stakes are in U.S. and Europe.

Archit Joshi: Got it sir. Sir, one last, this quarter, our subsidiary, if I just do a console minus standalone; subsidiary performance seems to have improved quite a bit. Can you throw some light on what's driving this and what should be a fair run rate to look at, going ahead, with respect to the subsidiary performance?

Nilkanth Natu: So Archit, so you are mentioning about the RIECO, correct?

Archit Joshi: Yes.

Nilkanth Natu: Yes. So in terms of the RIECO, they are receiving the good order, being in the capital goods industry, they are seeing the up cycle and current order book and the revenues you have seen in the current year, it has been at INR151 crores compared to the last year of INR80 crores, and they are positive in terms of the EBITDA and EBT. So they have turned around over the last 2 years period in terms of their performance. And we expect that this trend to continue for the current year. And we should see the decent improvement over INR233 crores of the last year in terms of the revenue.

Moderator: We'll take the next question from the line of Yogesh Bathia from Sequent Investments.

Yogesh Bathia: I wanted to ask, can you tell us from the new facility, what is the revenue that we have booked in this quarter, and what are the expenses that we are currently incurring for this facility?

Nilkanth Natu: Hi Yogesh, this is Nilkanth here. So currently, we are not publishing that number, as we mentioned that we are on target, as far as our internal targets, and the revenue ramp up, the sizeable ramp-up we should see in the coming year. So this is from our side.

Yogesh Bathia: Basically, if we get some sense on the expenses side also, we'll be able to understand that if the margins are subdued because of the excess cost of the facility, or something of that sort. It will give us some idea that how far are the margins expanding for the company?

Nilkanth Natu: Yogesh, Nilkanth here. So as you have rightly mentioned in your question, so currently, the capacities which are there for the new products are utilized at the lower end of the cycle. So as we improve our utilization, we will see the benefits of the higher utilization getting into the gross margin and contribution margin over the period.

So currently, we are monitoring all the parameters. And whatever we have taken for this particular year, considering the utilization level, we are achieving those numbers. So maybe I request you to be at least, maybe a couple of quarters, you will see the performance getting into there, and then we will start looking at it separately.

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

Nitesh Dhoot: So my first question is on the European distribution tie-up. I mean, how are we or have we really started benefiting from there and how do we see this tie up for the next 2 years, 3 years going forward?

Rajesh Rathi: So I think we are engaging well with the European distribution tie-up. Like we said, these were for midsize and smaller companies going through a product approval cycle. And I think in times to come, it should expand. So right now, the groundwork is going on with that.

Nitesh Dhoot: Sure. So my next question is on the sale of RIECO Industries, I think we had planned earlier for disposing this arm. So where are, we as far as that proposal was concerned?

Rajesh Rathi: So the Board is constantly reviewing the area, at what stage we should be doing that. And as soon as they come to some conclusion, we will definitely come back to everyone.

Nitesh Dhoot: Right. And sir, just lastly, on capacity utilization, you mentioned that, I mean, your new facilities, obviously, are at lower utilizations. But I mean, I just wanted to ask, on the pigment EBITDA margins. Right now, we are at 12.8%. So on an optimum utilization, where can we see these margins going forward? I understand that from a product portfolio perspective, these will add to the margins. But purely from the utilizations of the previous facilities, ex of the new products that you've added, where can we head to?

Nilkanth Natu: So Nitesh, Nilkanth here, as I mentioned earlier, what we are seeing this year is, getting back our margin trajectory, which we have seen in the last year, up from 9% to now 12%; 12.5%, and this is a positive incremental change, which we are seeing. A couple of factors which has helped us is, one, is the softening of the RM prices, good governance in terms of the pricing, in terms of the pass-through as well as the pricing in terms of the products which are being offered. And third is also the volume gain, which we had seen in the current year. All these factors are benefiting us in terms of getting back to our margin trajectory back by to 12.5%, maybe 3% to 4% up from the last year.

Now structurally, I see this particular year, wherein we should see the margin momentum to continue. And once we go back to the higher level of the utilization with the new products being also getting scaled up in the years to come. As I mentioned to Madhav earlier, we should directionally see our EBITDA margin going up from whatever the highest level, which we had seen earlier at 15% plus, but this will be over a period, and this we will continue to monitor as a management.

But directionally, it has to go and scale back to the level which we had seen earlier over a period of time. And right now, we are seeing that particular momentum in the first 2 quarters also, which is positive for us.

Nitesh Dhoot: Yes, sir, certainly. That's very helpful. Sir, just one last thing, I mean, on the domestic side, which new segments have driven the growth for us in Q2?

Nilkanth Natu: So on the domestic front, the plastics segment has continued doing well. So that segment has given us a good growth.

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

Rohit Nagraj: Sir, my first question is, in your comment, you mentioned that European some of the capacities have shut down. So what is your assessment in terms of, whether these are permanent shutdowns or mothballed, or whether it is because of the current crisis in terms of the energy and high cost, these capacities have been shut down?

Rajesh Rathi: It's a permanent shutdown.

Rohit Nagraj: And just a clarification, are these sizable capacities in the overall scheme of global capacities?

Rajesh Rathi: I would say, I wouldn't say they have reasonable from a perspective of, if you look at the total European capacity for that product line.

Rohit Nagraj: Fair enough. Sir, second question is one of the articles suggested that RIECO Industries is planning to increase its workforce to about 500 plus by 2025, and we are focusing more on the powder processing and bulk material handling solutions. So just wanted your view on this particular subsidiary of ours. At one point in time, you were trying to divest it and then it turned around in the last couple of years. So what is the focus on this part of the business? And on a normalized basis, what could be the margin trajectory for RIECO? And I understand that quarterly fluctuations may be there, depending on projects, but on a yearly basis, so what could be the margin trajectory?

Rajesh Rathi: So as mentioned earlier, sir, RIECO is not absolutely core business for Sudarshan, and the Board is constantly reviewing at the performance and what should be the future plan, I think. As soon as there is more clarity and what we are doing, we will definitely come back to you.

Moderator: We'll take the next question from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: First is on the product portfolio that we are expanding and the European shutdown? Can you give us some update on the new product launches which have happened, as we're getting the approval, have we started supplying them? Where are we in terms of milestone on those new products?

Nilkanth Natu: Thank you, Sanjeshji. So as I mentioned earlier in my opening remarks also, and to a couple of questions also, we are seeing a very healthy and progressive engagement with our customers for our new product offering from our recently commissioned capex. We are seeing the approval for our products being given by the customer and the engagement with the customer is ongoing.

As I mentioned, in terms of our internal target for this current year, as far as the revenue from the new product is concerned, we are absolutely on target, and we will continue our drive to get the new business from this product.

Sanjesh Jain: And what will be the contribution of new products today in our overall revenue basket?

Nilkanth Natu: So currently, as we mentioned, it is at the lower end of the capacity utilization. So it is not that significantly material to report the number. So once we scale up to a number in a year's time, we will start publishing that. We will look at it, how to publish that number.

Sanjesh Jain: Second question is on the European shutdown and 2 particular products seeing a supply shock, how many of those products are in our portfolio, will we benefit out of it?

Rajesh Rathi: I think the European shutdown will benefit more on the printing ink areas and some plastic areas, but mainly printing ink areas.

Sanjesh Jain: Printing and, sorry?

Rajesh Rathi: Plastics.

Sanjesh Jain: Plastics. Okay.

Rajesh Rathi: I could go for or we could just understand U.S. market.

Sanjesh Jain: U.S. auto coating segment, we were trying to expand our footprint...

Rajesh Rathi: Automotive segment is not just U.S., but it was a global phenomenon, which we made good progress on that and we continue to work on it sir.

Sanjesh Jain: Got it. One last one on the Chinese side, we have seen increased supplies from China, both raw material as well as finished product. We also buy a lot from China and we are also competing with them. Is it positively impacting this or do you think that it is still detrimental for us?

Rajesh Rathi: Sir, can you please repeat your question? Again, there was some lag?

Moderator: Mr. Jain, there is a disturbance. I mean, like we are feeling that you are not in the network area. And previously when, please talk from the place from where you were talking previously.

Sanjesh Jain: I was talking on the China side. China, we have seen increased production. So we do buy from China as well as we do compete with the Chinese on the end market. How is...

Moderator: We'll take the next question from the line of Rohan from Nuvama.

Rohan: Sir, first question if you can just share for the current quarter in revenue, the contribution from volume growth and the price decline, if you can give some sense on that?

Nilkanth Natu: Nilkanth here. Since there has been a very broad product range and the values are, you know, the range of the value is very high. So we are not declaring it in terms of the volume as such. But as I mentioned to Ankur earlier, we are seeing the softening in the raw material prices and other costs. So sales revenue which we are seeing now in our quarterly numbers, as well as in the previous quarter, majority of this is coming from the volume side. And this also gets translated in our EBITDA percentage compared to the last year. So majority of this thing is also getting driven from the volume side.

Rohan: Okay. But in general, with the falling raw material prices, this overall basket would have seen some decline in average realization? What I'm just trying to get at, our volume growth would have been much higher than 12% in revenue growth. So that's what I just wanted to understand.

Nilkanth Natu: Yes. So sir, as you have rightly mentioned, raw material prices have declined. So majority of the, the revenue is from the volume side, and this is also giving us a benefit in terms of our gross margin percentage in terms of our realization, while our realization per kg has gone down due to the softening of the prices. But in terms of our percentage EBITDA, we are seeing the positive sign.

Rohan: Okay. Sir, second question is on our non-pigment, though it's very small in terms of revenue contribution, but seems like that we have incurred some losses there in our non-pigment basket. Any particular reason, any inventory losses or something like that?

Nilkanth Natu: Yes. So sir, in the quarter 2, your observation is correct. In the quarter 2, they had an overrun in the project business, and they have executed a couple of big project orders. And in the quarter 2, we had seen, due to the size of the project, it got slightly delayed and that time delay has caused some overrun in the costs, which has been reflected in the quarter 2 performance.

Rohan: So it should normalize going forward, right? I mean even the non-pigment business is also profitable. It's not like that, that it will be...

Nilkanth Natu: In the H1 performance, they are profitable. For Q2, there has been a dip, due to the project delay, time delay, execution and the related costs. H1 they are positive, and we expect that for the current year, they will remain profitable.

Rohan: Sir, you just share the what will be the going forward share of specialty in pigment? I mean, mix, how it is likely to change, and what kind of average margin difference we have between specialty versus commoditized rate of the pigments?

Nilkanth Natu: So sir, if you have seen our specialty and non-specialty split, it has been fairly 2/3, 1/3, 67% specialty and 33% on the non-specialty side. While majority of our current capex is on the specialty side, once the scale-up starts in terms of the new capex, we see that the tilt towards the specialty revenue will go up maybe by a couple of basis points, maybe upward 70% and which will further drive our gross margin as a percentage, because the specialty always has some shade better in terms of the gross margin.

I think the next question was the difference between the specialty and non-specialty gross margin. So as we mentioned earlier, the difference between these 2 is in the range of 4% to 5%.

Rohan: Okay. So just last from my side, and I'll come back in queue. Sir, we have seen a very solid volume growth for you in the current quarter, though the world markets are struggling, the export markets are definitely under pressure, with the end user industries even including auto paints and all and everything, showing the weakness, a lot of inventory destocking that's what we are hearing in China dumping.

Irrespective of that, we have grown very significantly in volume. Where, what was the main driver for this volume growth, and have we taken some share from Europe and replaced some of the European suppliers? And how is the pressure basically coming from China, because we have been hearing a lot of pressure in commodity grade coming from China. So how, what was the main driver for the growth for us in the current quarter?

Rajesh Rathi: Our entire strategy is to get market share in these newer geographies, which we are entering. And we've been now successful with the broader portfolio, and our connection with the customers looking at and saying that a story on being broad portfolio and being a reliable supplier. So we are able to penetrate more in the market with this. So obviously, the growth isn't there, and obviously and hence we are taking market share.

Rohan: So these are basically new geographies which we have entered with a new product that has helped us in volume growth. However, there is pressure in terms of overall volume in the market?

Rajesh Rathi: Can you please repeat?

Rohan: Sir, I'm saying that the volume growth driver for us was basically more product launches with the new geographies. However, in general, there was still a weakness in the market, in terms of end user industries or volume growth, in general, industry would have lost volume in the first half or current quarter?

Rajesh Rathi: Yes. So industry has lost volume, but we, it's not just the new products, but even our existing products, given we have been able to piggyback our existing products with our new products, and it's having a better engagement with the customers, given the broad portfolio now, So it's not just getting the new product sales, but also having getting a larger buy on the existing products.

Rohan: Okay. And this was mainly in exports market. You also added new territories, that's what has helped.

Rajesh Rathi: Yes,.

Rohan: However, sir, the presentation represents that Q1 versus Q2, the exports market have declined. So it's clearly indicating that the exports have not done well from Q2 versus Q1. A lot of growth is only driven from the domestic. So...

Rajesh Rathi: Looking at a longer trend, like if you compare last Q2 to Q2, from that perspective, it's a much better growth..

Nilkanth Natu: So sir, if you also look at the H1 number, so quarter being a very point period comparison, if you really see the H1 performance compared to the last year, we are seeing 5% net increase in our export revenue from INR499 crores to INR522 crores. As we explained, given the backdrop of falling prices, this 5% is the value, but there has been a good amount of the volume growth, which we have seen in the export market. That is what Mr. Rathi was highlighting.

Moderator: We'll take the next question from the line of Aryan Paresh Makwana from Axis Securities.

Aryan Makwana: So my question is on the top line front. So we had said that we expect some INR3,000 crores to INR3,300 crores top line in the next 3 years to 4 years. So shall we stay on the same guidance or are there some revisions expected?

Nilkanth Natu: Sir, can you repeat your question, please?

Aryan Makwana: Yes. So my question was on top line front. So we had said that earlier that we expect that INR3,000 crores to INR3,300 crores of top line in the next 3 years to 4 years. So can we expect the same guidance or are there any revisions?

Nilkanth Natu: Yes. So earlier we said that we should do that into around 3 years period as we have guided now the market, that conservative estimate for us to scale up the revenue from the new capex is 4 years. So we expect that this guidance is valid now for 4 years or over a 4 year period time.

Moderator: We'll take the next question from the line of Madhav from Fidelity.

Madhav: I just wanted to check that in the Q1 call, we mentioned about the Canadian pigment suppliers looking to scale down capacity. I think this call we are mentioning about a European player or few European peers looking to scale down capacity. So it seems like demand/supply outlook, if you see in the last 3 years, 4 years, seems to have improved quite a bit, which is kind of showing up in our volume market share also picking up. Is that a fair assessment that we're making of the pigment industry globally, from Sudarshan?

Rajesh Rathi: So Europe, I would say, one supplier has decided on reduced capacity. I think also last year and now even, the industry is going through troubled time. So it's a matter of how and when talking about one of the suppliers who was in France, I think probably the strong players are able to kind of walk through this industry. It's not been favourable with the Indian industry getting antidumping duty in China, So from this perspective, since we have a broader product range, and we have a good story line where we are able to capitalize on some of the tailwinds of the industry, That's where I think our growth story is and will continue.

Madhav: And how much longer before the destocking in the pigment value chain comes to an end? Is it another quarter or 2 quarters before the destocking occurs?

Rajesh Rathi: Because I don't understand this destocking and I keep asking customers how much stock did you have that you are still destocking, right? So but on a more serious note, people expect to destock in Q3 in the international markets, especially being the year end. And Q1 onwards, we expect not Q4, sorry, Q4 onwards, we expect stock building, again, buying to start in a normal way.

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

Archit Joshi: Sir, I just wanted to check with you with respect to the business that we are into on the supply chain side. So you mentioned that we have a European distribution setup. Sir, compared to maybe a few quarters back or maybe a few years back, has there been a change with respect to the way we do business? Have most of our sales been largely B2B driven with the customer directly or has there been a distribution angle always?

Rajesh Rathi: We've always had a dual distribution policy, where we deal with the major customers directly as a company sales person, and that's where we maintain our stocks too. And for the smaller customers, we use distribution. The only difference now is, we had different distributors in different geographies in Europe. Now we have a pan European distributor.

Archit Joshi: Okay. So would that mean, sir, for the larger customers also that we have in Europe, the model will be led by distributors?

Rajesh Rathi: Can you please repeat the question, sir?

Archit Joshi: Yes. Sir, I was asking, like Rathi sir said, there's a pan distributor for the European geography. Would that mean most of our sales in Europe, even with the larger customers are through the distribution model?

Rajesh Rathi: I'll repeat again. We have a dual distribution system. We do direct customers, the direct customers are handled by our sales team directly, and we supply directly to them from our stocks in Europe. We earlier had our smaller customers earlier, we had distributors country-wise, for which we have now replaced them with a pan-European distributor.

Archit Joshi: Got it. Got it, sir. And meanwhile, speaking of the same issue, we were sort of targeting some market share gains because of the level of consolidation that we saw in the last few years, among the multinational companies. Would that have a positive bearing to the current dual distribution model that we are having, or would the next leg of market share gains that we might gain in the future, would that be through our existing relationship with some of the large customers or the model seems to be tilting more towards smaller customers, where distribution is kind of able to generate more sales for us?

Rajesh Rathi: I think the consumption on the larger customers have much better consumption, So I think we'll continue growing with the existing customers, our larger customers, and we should be doing more with the larger customers. On the smaller customers, we are not doing so well. With this new distribution arrangement, we are hoping that we are able to penetrate the market better.

Moderator: We'll take the next question from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: So just on the pigment revenue mix, in terms of applications, that is coatings, plastics and inks, so where are we currently and where do you see this mix, say, 3 years down the line, when the new products have ramped up?

Rajesh Rathi: So we have 4 areas of our business; coatings, plastics, printing inks and cosmetics, and we are focusing on growth in coatings, plastics and cosmetics, So we look at as we go on our trend, we to answer your question in the next 3 years, this should grow. And there should be a larger growth in the coatings area. We already have a very good presence in plastics.

Nitesh Dhoot: Sure. Sir, just in terms of numbers, I mean, if you can give, say, in FY '23, what percentage of our revenues came from coatings, plastics, inks and cosmetics separately?

Nilkanth Natu: So as Mr. Rathi mentioned, coating and plastic continues to be a significant application for us. Cosmetics is a niche application, but it has as a percentage of the sale, it is not that material to report. But we'll continue our drive to get the cosmetics margins are better there.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

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

Moderator: Thank you very much sir. On behalf of ICICI Securities Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.