SUDARSHAN

28th May, 2024

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

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

Dear Sir / Madam,

Sub : Transcript of Analysts / Institutional Investors Conference Call

We are enclosing herewith transcript of the conference call with analysts / institutional investors, which took place on Tuesday, 21st May, 2024, after announcement of the Audited Financial Results (Stand-alone and Consolidated) for the quarter and year ended 31st March, 2024.

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

Kindly take the same on record.

Thanking You,
Yours Faithfully,
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

Mandar Meenanath Velankar
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Date: 2024.05.28 18:56:25 +05'30'

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

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"Sudarshan Chemical Industries Limited

Q4 FY '24 Earnings Conference Call"

May 21, 2024

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

MODERATOR: **MR. ANKUR PERIWAL - AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the Sudarshan Chemical Industries Limited Q4 FY '24 Earnings Conference Call hosted by Axis Capital 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ankur Periwal from Axis Capital. Thank you, and over to you, sir.

Ankur Periwal: Yes. Thank you, Manisha. Good morning, everyone, and welcome to Sudarshan Chemical Industries Limited Q4 and 12-month FY '24 post-result earnings call. The management team from Sudarshan Chemical Industries Limited will be represented by; Mr. Rajesh Rathi, Managing Director; Mr. Nilkanth Natu, Chief Financial Officer; and Mr. Amey Athalye, General Manager, Finance. We'll start the discussion with a brief management overview on the earnings performance, followed by an interactive Q&A session. Over to you, Natu ji, for the initial comments.

Nilkanth Natu: Thank you, Ankur. Thank you, Axis Capital and Ankur Periwal for hosting our earnings call for Q4 FY '24. Good morning, all of you and thanks for joining to discuss Sudarshan quarter 4 FY '24 and financial year '24 financial results. It is a pleasure to be with all of you.

During the call, we could make forward-looking statements. These statements consider the environment we see as of today and carry risks and uncertainties that could cause our actual results to differ from those expressed in today's call. We do not undertake to update any forward-looking statements made on this call. We have uploaded our financial results and investor presentation on the stock exchanges.

Now I will request Mr. Rajesh Rathi to give his perspective on the business side.

Rajesh Rathi: Thank you, Mr. Natu. Thank you Axis Capital and Mr. Periwal for hosting the earnings call. I'm very pleased to report that our pigment business has delivered a robust financial performance in FY '24. We went through a phase of subdued performance in FY '23, however we have bounced back much stronger. This quarter and fiscal year is a milestone moment for our pigment business. We have achieved highest ever quarterly EBITDA above INR100 crores in Q4 and an annual EBITDA above INR300 crores in the financial year FY '24.

At the same time, we've made a strong foundation for future growth. This turnaround in business performance is a result of our overall strategy on building Sudarshan's core pillars towards Leap to 3, which we are working for the past few years. One of our strong pillar is focus on Research and Development. We have more than 100-plus technical members working in R&D under the leadership of global pigment veterans and the team constantly strives to explore new products, technology and processes that can be used to develop superior and sustainable color solutions.

The R&D center is well equipped with the state-of-art equipment, a world-class application lab and analytical testing facility, thus enhancing the product development and scale-up process.

This has helped us in creating the widest product portfolio in the industry, which is at par with any Tier 1 supplier. This gives us a definite edge offering a holistic solution to our customers.

Our second pillar is world-class manufacturing. We have two world-class manufacturing sites located in Roha and Mahad. In fact, after the expansion, Roha is one of the largest single pigment manufacturing site globally. We have created global scale capacities and infrastructure in terms of best-in-class affluent treatment plants, warehousing. With our world-class manufacturing capabilities, Sudarshan is well positioned as a global reliable pigment supplier.

To enable our reach to customers, Sudarshan has established a strong go-to-market framework, consisting of local regional sales teams, customer service support, technical marketing teams and local stocking points. This has resulted in Sudarshan serving all significant pigment markets directly.

We believe that our growth should be sustainable and for this, we have a well defined sustainability pillar. We already have more than 60% to 70% of our purchase power from green energy. In addition to this, we have a strong decarbonization plan, and we have committed to SBTi targets.

We have many accolades for our care for society. We moved our focus from "workplace safety" to "process safety" and set up a strong corporate governance framework.

All the above pillars have strengthened Sudarshan and has provided a unique opportunity to take the global leadership position. The current tailwinds, such as Make in India initiative, the turbulence in the global pigment industry and the uncertain global geopolitical situation would further accelerate the growth for the company.

I would like to conclude by expressing my gratitude to all our stakeholders for their continued support and faith in us. I look forward to growing together with all of you and achieving our collective vision of being a global leading color solution provider.

I will now request Mr. Natu to speak about some of the financial highlights.

Nilkanth Natu: Thank you, Mr. Rathi. I will begin with the quarterly financial performance.

On a consolidated basis for the quarter, total income from operations stood at INR764 crores compared to INR691 crores for the same period last year, higher by 11%. EBITDA for the quarter is at INR119 crores compared to INR85 crores in quarter 4 FY '23, higher by 41%. EBITDA margin stood at 15.6% as compared to 12.3% over the same period last year. Profit after tax is at INR57 crores compared to INR33 crores for the same period last year.

On the annual performance for FY 23-24, total income from operations on a consolidated basis is at INR2,539 crores versus INR2,302 crores in FY '23, a growth of 10%. EBITDA for the period is INR316 crores versus INR211 crores last year, higher by 50%. EBITDA margin has improved by 330 basis points and seen at 12.5% versus 9.2% during FY '23.

Net profit is at INR110 crores compared to INR45 crores for the year FY '23.

Now going into the details of our pigment business. For Q4FY '24, income from operations stood at INR644 crores compared to INR594 crores for the same period last year, a growth of 8%. On a sequential basis, operating revenue has grown by 23%.

Domestic sales for the quarter is at INR345 crores, higher by 15% compared to INR301 crores same period last year. On a sequential basis, domestic sales have grown by 24% compared to INR278 crores of Q3 FY '24. Exports for the quarter grew to INR299 crores versus INR293 crores in the same period last year, higher by around 2%. On a sequential basis, exports have grown by 23% compared to INR244 crores of Q3 FY '24.

Year-on-year, flat sales in exports is owing to continued challenge in the Europe market. While Europe region has shown improved demand environment quarter-on-quarter, this region has registered marginal degrowth on an annualized basis. North America market continues to register double-digit growth on sequential and year-on-year basis. Other major export geographies have also shown improvement in the demand scenario. We continue to remain watchful towards international geographies considering the geopolitical issues.

Specialty Pigment sales stood at INR439 crores compared to INR412 crores in the same period last year, higher by 7%. On sequential basis, revenue has grown by 23% compared to INR358 crores in Q3 FY'24. Non-specialty sales for the quarter is at INR205 crores, higher by 13% as compared to the same period last year. On a sequential basis, non-specialty revenue has grown by 25% compared to INR163 crores of Q3 FY'24.

Gross margins of Pigment business for the quarter is increased by 250 basis points to 44% as against 41.5% for the same period previous year. Year-on-year increase in the gross margin is due to softening of the raw material prices and also improvement in the product mix.

EBITDA for the quarter is at INR100 crores in quarter four FY'24, the highest ever EBITDA for the quarter as compared to INR73 crores in the same period last year, which is higher by 37%.

This is the highest ever EBITDA we have achieved in our Pigment business. EBITDA margin stood at 15.6% as compared to 12.3% over the same period last year. On a sequential basis, EBITDA margin is higher by 230 basis points. Speaking about the financial year performance of Pigment business. The total income from operations stood at INR2,223 crores versus INR2,079 crores in the same period last year, a growth of 7%. We did see double-digit volume growth in this year.

However, value growth is lower due to price pass-through. Gross margin has improved to 44.3% for March '24 as compared to 40.2% for FY'23. EBITDA is at INR300 crores, which is highest ever versus INR194 crores in the previous year and EBITDA margin has increased by 420 basis points to 13.5% versus 9.3% in the previous year.

The company has, during the year, declared interim dividend of INR3.6 per share, which is 180% and the Board has recommended final dividend of INR1 per share, which is 50% of its value, taking total dividend outflow to 230% for the year, which translates to the dividend pay-out of 35% of profit after tax.

Now coming to the balance sheet. The balance sheet of the company as at 31st March, 2024, has strengthen and this is reflecting from the improved financial ratios. The net debt of the company stood at INR394 crores in Q4 FY'24, down from INR797 crores in Q4FY'23 at INR434 crores in Q3FY'24. With the overall better results from the operation and monetization of assets during Q1 FY'24, the debt of the company has reduced substantially resulting in better financial ratios.

The net debt to EBITDA stands at 1.2x as of March '24 compared to 3.8x in Q4 FY'23 and 1.5x in Q3 FY'24. Debt-to-equity stands at 0.3x at March 31st, 2024, compared to 1x in Q4 FY'23 and 0.4x in Q3 FY'24. The working capital cycle has been effectively managed throughout the year, thereby resulting into cash conversion days of 66 days in Q4 FY'24 as compared to 74 days in the last year Q4 FY'23, which has, in turn, improved the current ratio to 1.4x compared to 1.1x last year same quarter.

To summarize, it has been a good quarter and financial year. We are poised for growth given the capabilities we have built and strong tailwinds in our favour. We are confident that our long-term prospects remain intact. We remain confident in our growth strategy and continue towards commitment to deliver long-term value to our stakeholders. With this, we now open the session for Q&A. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Sanjesh Jain from ICICI Securities.

Sanjesh Jain: Yes good morning sir. Thanks for taking my question. First on the global scenario of the Pigment, now that it looks like we are back to the growth track and utilizing the network. How do you see next year spanning out for the Pigment business? And how is this global supply chain disruption going to aid us, that’s number one. Number two, which of the geographies do you think will benefit Sudarshan. Will it be more North America or Europe or rest of the world?

Number three, there is consolidation in the industry. Can you help us understand which are the Pigment category where you think the opportunities are rising and will Chinese competition is more benign say as – and so it’s more competitive, high-performance for Pigment or less competitive. More colour into it would be helpful. This is initial questions. Thank you. Hello, operator?

Moderator: Yes, sir.

Sanjesh Jain: I hope I was audible, right?

Moderator: Yes, sir.

Rajesh Rathi: Yes. Sorry, I was just saying that if you could repeat the first question for me, there were two, three questions, right?

Sanjesh Jain: Okay. First question is on the Pigment growth for next year, considering that there is a shift in the industry and which geography do we think we are better placed to capitalize that? That's number one. Number two, from your perspective, where are we well placed and where the competition is more benign, say and AZO versus HPP versus effect pigment? And probably a follow-up question is on the application, which are the applications which will benefit because of all this. Yes.

Rajesh Rathi: So, I think there are two, three areas to answer your question for our growth. From a perspective, Sudarshan has been investing in itself on the journey of becoming a global leading player. We're trying to set the four, five pillars, which we've been working on and which are now playing out. So we've created the broadest product portfolio, created a good world-class manufacturing facility.

And given the current events, when you've seen a lot of turbulence in the pigment industry, it gives us a golden opportunity of accelerating our growth. And so in terms of quantifying the numbers, I would say, our margins are back to normal and now we are really focusing on growth. With the recency of the event and the uncertainty, it is very difficult to give you a pointed number.

However, I can tell you directionally that with all these positive tailwinds, we are very deeply engaged with customers, the velocity of our opportunity funnel has really accelerated. So we do see a good set of numbers coming forward. In terms of our global landscape, I think Sudarshan has a very unique place where we are placed now in terms of being the global reliable supplier with the broadest product portfolio. There are other competitions from China and India with a narrow product portfolio and a limited go-to-market strategy. So that's where, we kind of distinguish ourselves or that's our USP in the market.

Sanjesh Jain: No, again, my question was which geography do you think we are better placed to grow that's all from my side?

Rajesh Rathi: So geography is definitely Europe, North America, South America. I think all these geographies are going to be playing a significant role in our growth going forward and that's where the engagement is more.

Sanjesh Jain: No, I think I asked a question on the portfolio overlap versus the consolidation happening. I know we have the broadest portfolio, but that broadest portfolio does it overlap with the customers who are in the turbulence and number two how long does that approval cycle for those product takes if somebody wants to replace them?

Rajesh Rathi: So, yes, we probably have the most complementary product with the global players probably 80% of our portfolio would be complementary and we have been preparing ourselves where we've been like I said the opportunity has accelerated. Now it depends on customer to customers. Some customers have really decided to accelerate the approval process and so whatever would have taken 6 months or 1 year; could happen in 3 to 4 months.

Sanjesh Jain: So that process has already begun. Is that understanding right?

Rajesh Rathi: Yes the process has begun and a customer for the base and the biggest opportunity we have is in the coatings industry and the approval process generally is in year, but we feel this will get shortened.

Sanjesh Jain: Got it. That is very helpful. Second question on the gross profit margin. Though I understand Y-o-Y has improved, but sequentially there has been a drop in the gross profit margin. Any particular reason because I think the raw materials still remains at a very reasonable level and what is the reason for a decline in the gross profit margin sequentially and I don't see mixing too different in this quarter versus previous quarter?

Rajesh Rathi: So I think this is a pass-through of raw material prices. We were able to hold a larger portion in Q3 than Q4. That's one reason. Mr. Natu, you would like to add anything more?

Nilkanth Natu: One reason as we explained is we were able to hold on the raw material price pass-through in Q3 compared to Q4. Also, there has been a marginal product mix between the specialty also. There has been a product mix changes and the inventory effect. So total put together we see that our gross margin for the quarter has been in the range of around 44% which is if you really see on a long-term basis, it is a long-term average.

Sanjesh Jain: But I think we -- over a period our mix has only become better with more high performance, more effect. So long-term average is not a benchmark we're looking at.

Nilkanth Natu: Yes, Mr. Sanjesh. So I agree with you. The long-term average the reason why we mentioned is both the raw material inflationary trend we had seen that are coming back to the normalcy. And as you rightly mentioned the mix would play out favorably in the coming years.

Sanjesh Jain: That’s very clear. Thanks sir I will come back in the queue for more questions and best of luck for the coming quarters.

Nilkanth Natu: Thank you Sanjesh.

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

Madhav Marda: My question was on the margin profile for Sudarshan over the next 2 years or 3 years. If you look at the past I think our product mix used to be very different than what it is today and we've been working for the last 4 years, 5 years to expand the portfolio which seems like is the case now. So given that through COVID used to...

Nilkanth Natu: You're not clearly audible. Maybe can you be slightly closer to the mic and slightly slow down the pace. It is coming -- I'm not able to hear it clearly.

Madhav Marda: I will just speak a little loudly little slower. My question basically was that if you look at Sudarshan's margin profile pre-COVID we used to be in that 14% to 15% range. That is in our product portfolio. We used to be very different than what it is today. And I think since 2017 or '18, we've been speaking about expanding this portfolio which seems that it is in place now. So my question was that if you think from a 2 year, 3 year perspective as some of these newer product SKUs starts giving s for us, can the margin profile of the company move above that 14%, 15% into the, let's say, 17%, 18% range. I don't want an exact number, but directionally is there scope for margins to be higher in the coming few years versus what it was pre-COVID?

Rajesh Rathi: So that's a very good question. I think there are two factors. I think if you see average before COVID our margins probably were around 14%. One year was kind of outlier, but our endeavor first now was to come back on margins and create a healthy balance sheet which has happened now. Now we are focused on growth.

We need to get growth first and then again focus on optimizing and improve our margins. So going forward definitely economies of scale should play up and our EBITDA margins should improve going forward.

Madhav Marda: And could you give some sense in terms of how different the gross profit margins are for the newer portfolio versus the older portfolio like how many is it like 300 basis points, 400 basis points higher or how different is the margin profile broadly?

Rajesh Rathi: Natuji, would you like to take this question?

Nilkanth Natu: So we don't give the specific between the specialty product portfolio and the range between the specialty product portfolio. But as Mr. Rathi has mentioned that the new capex is more on the specialty side and that on the higher performance pigment. We see that overall basis our margin -- it should be margin accretive once we see the capex ramp up happening.

Madhav Rathi: Understood. Thank you so much.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

Rohit Nagraj: Thanks for the opportunity and congrats on good set of numbers and margin recovery. Sir, first question is on the sequential side in domestic. So domestic again we have shown a very strong growth. So which in all are the segments that we have seen this growth and which in all segments are still relatively lagging behind?

Rajesh Rathi: So in India, usually the Q4 quarter is a stronger quarter and what we found is in this quarter a lot of our plastic customers the ramp-up has happened and they were also stocking up. So plastics stood very well. I think printing inks was in muted growth.

Rohit Nagraj: Sure. And second question is globally the second largest player has called off for an insolvency. So are you seeing any signs of traction because of that and I mean based on our talks with our customers across the geographies how does the foreseeable future looks like? And what is your understanding of the entire phenomenon that because of the insolvency would there be any capacities which have already gone out of the system or will go out of the system?

Rajesh Rathi: So sir I think it's a dual effect. I think we were positioning ourselves as a global reliable supplier and that's what we've been engaging with our customers. I would also like to admit that the current event has accelerated product samplings, more in-depth interaction with customers and our velocity of opportunity funnel has improved. That's the current scenario from the perspective of the market. And your second question -- sorry, could you repeat your second question?

Rohit Nagraj: Yes. So have we seen any capacity going off the screen or whenever we are talking to our customers, customers are now looking at incremental order flow to us given that there could be some disruptions.

Rajesh Rathi: Yes, sure. So wherever we are already approved, we are seeing a better flow, but I think what's more important is a lot many new set of customers are getting engaged, which is very important for us. It's not that the capacity is going off as it is very difficult to comment right now because of the recency of the event. So, it will take some time to kind off to come to that stage.

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

Archit Joshi: Congrats on a very solid Q4 performance. So my first question is with regards to the new assets that we have capitalized after the INR750 crores capex that we did. I just wanted to understand what would be the utilization levels of the new assets given a strong operating leverage that we saw in the fourth quarter? Point being trying to understand is on the current base, how much would be the realizable sale that we can garner from the leftover utilization that we have?

Rajesh Rathi: Natu Ji, would you like to address a few things and I can add on?

Nilkanth Natu: Sure, So on the new capex ramp up, these new capex projects, we have commissioned in the FY '23. And as we guided the market then -- these products has been well received by the customer. The approvals are in place, and we are seeing the good traction. The targets which we are setting for us as a company for the first year, we are on target for that. And we earlier guided the market that it will be the gradual ramp up. So we are seeing that we are on track in terms of getting those assets utilized over a period. Mr. Rathi, over to you if you would like to add anything.

Rajesh Rathi: Yes. So I think on your question on how this plays out, we are hoping that we are able to, our earlier guidance was that we will get these assets fully utilized in four years. We are hoping that we would be able to, accelerate this now, but it's too early to comment on what that period would be.

Archit Joshi: Sure. Sir, one final question on the previously spoken of comments on the insolvency proceedings. Sir, obviously, there are multiple subsidiaries of the incumbent. And I think the news is that there's only insolvency proceeding happening in -- with their parent entity. Would you have any assessment of the scenario across the group given that they have a sizable market position in terms of market share. And would these lead to irreversible opportunities for us in garnering whatever market share that we can with the enhanced stocks that we are having with our customers as on date? Thank you, sir.

Rajesh Rathi: So, sir, I think, it has definitely created a big uncertainty in the market, which has opened up some of the doors for us And we started a deeper engagement with our customers. Now, how this plays out and how this works out is going to, time will -- we will find out in recent times. But I would say that we are looking at not one-off demands. We are looking at ensuring that we are deeply engaged, we are able to get a sustained order book, and we are not playing with one-off demands.

Moderator: The next question is from the line of Noel Vaz from Union Asset Management.

Noel Vaz: Yes. I just had one query. So what has been the price -- I mean I think you had mentioned that the recovery in FY '24 versus '23 has been largely volume-lead. So, how do we see pricing in fourth quarter versus third quarter and fourth quarter versus first quarter? Thank you.

Rajesh Rathi: Mr. Natu, would you like to take this question?

Nilkanth Natu: Sure. Thank you. So as we have seen during the year, the raw material prices have been, you know, more or less stable after the Q 2. Between Q3 and Q4, we saw the raw material prices were fairly stable. And as I mentioned in my opening commentary and then in the follow-up question, you know, we had done the raw material pass-through, which is very calibrated, during these two quarters. But in terms of the pricing differentiation between Q3 and Q4, there has not been much data.

Noel Vaz: Okay. And Q4 versus Q1 so far?

Rajesh Rathi: Can you repeat the question, please?

Noel Vaz: 1Q as in the current quarter, which we are in, versus the fourth quarter average. I mean, is it higher, lower?

Nilkanth Natu: Versus the last year, correct? Q4 to Q1, you are talking about?

Noel Vaz: Yes.

Rajesh Rathi: Yes, sequentially.

Nilkanth Natu: Yes,. So as I mentioned, between Q3, Q4, sequentially, it has been fairly stable. If I compare with the Q1, it has been a steady decline in the raw material prices. And last year Q1 FY '24 compared to now Q4 '24, we have seen the sequential price reduction compared to the H1.

Noel Vaz: Okay. And regarding capex for FY '25, how much are we looking at? And what will be the focus of the capex?

Rajesh Rathi: Natu Ji, we've already given the guidance, right?

Nilkanth Natu: Yes.

Rajesh Rathi: Do you want to take this?

Rajesh Rathi : The capex is mainly maintenance led. And the figure for capex is around INR100 crores.

Moderator: The next question is from the line of Dhavan Shah from Alfaccurate Advisors.

Dhavan Shah: My question is on the growth of the fourth quarter. So we did roughly 35% quarter-on-quarter growth. I understand that the fourth quarter is always the largest one. But can you share, I mean, how much of the incremental revenue has come up from the recently, we did the capex of roughly INR700-odd crores. So how much of that revenue comes from the new capex? And at what utilization that capex operating right now?

Rajesh Rathi: So as I have given the guidance, our capacity was going to get utilized in 4 years and we would be this was the first year of our capex. So we were at around 1/4, I mean that kind of number less than that as some of the capex has got online a little later, right. Natuji, would you like to add more?

Nilkanth Natu: Yes. So thank you Mr. Rathi. As we mentioned in our opening commentary and the follow-up question, this has been a gradual ramp-up. And currently, what we see the current scale-up for the first year has been as per the target which has been defined. And we don't declare the capacity utilization as a group. So I would not like to comment on that, but it is in the early utilization stage for this capital.

Dhavan Shah: Sure. And on the quarter-on-quarter and Y-o-Y, what we are seeing the margin improvement in EBITDA. This is largely coming from the lower O&M, I mean, operating and maintenance machine expenditure. And if I look at the breakup of these manufacturing costs, I think the majority of them are variable like power and fuel, freight. And given that the volumes have been increased, so what led the lower other cost during this quarter. Can you please explain?

Rajesh Rathi: Natuji?

Nilkanth Natu: So as Mr. Rathi also mentioned that we worked on the dual strategy. One is the growth and then the coupled with the EBITDA improvement. So there are two effects. During the quarter, the revenue has been on a sequential basis, has grown up, which is normally the strong quarter during the year. At the same time, we have also seen that on the other expense side, we have seen the reduction in the coal prices, which has also helped the company in lowering the manufacturing cost. Third effect is overall increase in the revenue and with the cost being moderated or lower has also helped us in better operating leverage. Thank you.

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

Nitesh Dhoot: Congratulations on a good set of numbers. So my first question is with the strong volume growth coming through and with a healthy improvement in cash flows and the balance sheet, are we looking to reevaluate the backward integration capex?

Rajesh Rathi: I will take it. So basically, our focus right now is on growth and given the opportunity of what we have on board, we are focused on that currently. We are getting some benefit of our backward integration because we get some of our raw materials toll manufactured, right, the technologies which we have developed.

We don't see this investment coming back in the next -- this financial year at least for the backward integrations. So that's what the board has taken. I think we wanted to ensure that our balance sheet becomes very healthy. But the technologies are developed. And though we are not getting all the benefits of -- if you are able to make them ourselves as we get it toll manufactured at a higher price.

Nitesh Dhoot: Sure, sir. So are we buying the competitors, domestic assets or any part of it?

Rajesh Rathi: So sir, I think, firstly, like I said, we wanted to ensure that the debt which has gone to a very high level. So first thing was to manage the debt Because this was not by design. The Board never wanted us to -- this was only because of COVID happening -- our capex is getting delayed and the geopolitical situation, which came in So from that perspective, from an M&A perspective, once now our balance sheet is also healthy. We want to make sure that we don't take on debt very much. But at the same time, we are very open to any inorganic opportunities if it makes financial and strategic sense.

Nitesh Dhoot: And sir, are we reevaluating the divestment of Rieco Industries Limited by which is now that, you know it is an EBIT positive and there's a turnaround happened. So are we reevaluating the divestment there?

Rajesh Rathi: So I think there's a scope to improve the operations further and we are now focused first on strengthening the business performance. So that's where the Board is taking a decision to transform that company too.

Nitesh Dhoot: Which is why precisely I ask that now with the rising focus further on the pigment business, this noncore business could be reevaluated. But thank you for your answer that. Wish you all the best. These were the questions from my end. Thanks a lot.

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

Dhruv Muchhal: Question was in the last few quarters, we have seen improvement in your working capital days, cash conversion days that we report. So is that broadly achieved? Or is there still further scope? And broadly, if you can give some sense, is this because of some change in industry structure? Or this is something that internally we've achieved?

Rajesh Rathi: This is defiantly, internal what we've achieved, we've improved our planning cycles or inventory management greatly. There may be a slight scope, in further improvement, but I think we are very much to that level. Natuji, would you like to add?

Nilkanth Natu: Thank you, Mr. Rathi. So Dhruv as Mr. Rathi has explained, there has been a lot of process improvements, which we have done and which we have driven it internally. And if you really see the last entire year, the working capital cycle has improved and we will continue that. Currently, it is at 66 days so maybe the optimal days, but we will also look for any further opportunities. However, given the current short-term scenario and the way market is looking out, as you know, given the recency of the event, we might take some calls in terms of the stocking up at our overseas marketing arms. But otherwise, we remain confident that this working capital efficiency will remain in the system.

Dhruv Muchhal: Got it Yes, sure. And sir, my second question is broadly probably just a clarification. If you look at the performance of the last few quarters, it has been given primarily domestic and primarily non-specialty, which would suggest that your specialty is yet to reasonably ramp up, which is more, I think, to export and relatively higher margin products.

So I understand you don't give exact margin guidance, but it is reasonable to assume that 15%, 16% that you have currently has a meaningful scope of improvement as some of your new product segment starts to deliver, primarily on the exports and the specialty side. That would be a fair understanding?

Nilkanth Natu: Dhruv, can you please repeat the question. There was a some disturbance at my end.

Rajesh Rathi: I could hear it. He is talking about Q2. So I think two areas,. One is, I think as we mentioned, our baseload will be the some of the non-specialties, which is already there. There would be improvements, of course, some margins coming through specialties and as we ramp up the capex,. But more importantly, I think where the margin improvements will come in through economics of scale as our fixed costs gets leveraged. That's what we give the main increase in margins going forward.

Moderator: The next question is from the line of Sabyasachi Mukerji from Bajaj Bajaj Finserv AMC.

Sabyasachi Mukerji: A very good set of numbers. Two questions primarily. One is on the peak revenue potential from our current fixed asset base, A few quarters back, you had guided that it would be somewhere around INR3,000 crores to INR3,300 crores in the overall pigment business. Now if I look at FY'24 specialty versus non-specialty, specialty is somewhere around INR1,500 crores, whereas non-specialty is INR700 crores. Can we get a sense of the peak revenue segment wise, specialty. What can be our peak revenue potential vis-a-vis non-specialty?

Rajesh Rathi: Natu Ji? I don't -- I'm not sure what numbers...

Nilkanth Natu: Yes. So, thanks, Sabyasachi, for this question. So currently, the revenue mix between the specialty and non-specialty 2/3, 1/3 which is 67%, 68% to 32% in the non-specialty side. Given the recently commissioned capex, majority of them, which is on the specialty side. So when we guided the market of INR3,300 crores, we also guided them saying that we expect the tilt in the specialty to go upward maybe in the percentage point by -- around 4% to 5% across number. So that tilt will be closer to 72% to 74% number compared to the now based on the full utilization of the newly commissioned capex.

Sabyasachi Mukerji: Okay. That's helpful. A follow-up to that, directionally, our exports and specialty mix should improve. And that should further help in margin improvement? I know this is a bit repetitive in nature, but just wanted to have your views on it?

Nilkanth Natu: So, thanks, Sabyasachi. So, as we had mentioned that directionally, what we see is , specialty segment and export as a market, we should see the growth coming in. And it is more -- the margin will be led more by the increase in the specialty segment over a period, which will have the margin accretive profile for us as a company.

Sabyasachi Mukerji: Second question on the -- you have mentioned in one of the slides in the presentation that Y-o-Y growth in full year non-specialty segment is due to improvement in the Phthalocyanine pigments. You reported about 9% growth whereas the specialty pigments segment saw 6% Y-o-Y growth in revenues. This in value terms, if you could help us, what would be the volume growth in both non-specialty and specialty?

Nilkanth Natu: Yes. So sir, we don't give the specific volume growth number. But as we have mentioned that during this year, we have seen a volume growth, which is on the higher double digit. Between specialty and non-specialty on the overall period, I see both the segments are performing equally well. Barring the quarterly abbreviation, but otherwise, on a yearly performance, both the segment growth has been in line.

Sabyasachi Mukerji: Okay. Thank you. That's all from my side. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Jatin Sangwan from Burman Capital. Please go ahead.

Jatin Sangwan: Thank you for taking my question. I wanted to ask how much of our sales come directly to clients and how much of our sales comes from distributors?

Rajesh Rathi: So I think we always have a dual distribution strategy in every geography. So the range of our direct business would be between 60% to 70% and our distribution would be balanced.

Jatin Sangwan: And you mentioned that you are seeing increased traction after the Heubach bankruptcy announcement. So I wanted to understand under which category of pigment Azo, HPP pigments are we seeing increased traction?

Rajesh Rathi: So sir, I think we are seeing for our specialty products more traction.

Jatin Sangwan: And under speciality, we count Azo pigments and HPP pigments?

Rajesh Rathi: Yes. HPP, yes.

Jatin Sangwan: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Sen from Robo Capital. Please go ahead.

Aditya Sen: Hi, thank you for the opportunity. So with the ramp-up of the new capacity, how much volume growth do we anticipate for FY'26 and FY'27, any guidance there?

Rajesh Rathi: So I think from a perspective, sir, we don't give volume. But like I said, directly, we are seeing a good traction. And we should be able to grow our business. But I think we won't be able to give you particular numbers. Natu Ji, would you like to add anything?

Nilkanth Natu: Yes. So, sir, we don't give the number for forward-looking statements. But as Mr. Rathi has mentioned, there have been a lot of positive tailwinds company is poised and having a lot of capabilities built up over a period. So, we expect this current year should be good in terms of overall performance. But directionally it will be good, but we would not like to put a number.

Aditya Sen: All right, sir. Got it. Thank you.

Moderator: Thank you. Due to time constraint, that will be the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Nilkanth Natu: Thank you, Axis Capital and Ankur Periwal, and thank you all for participating, for your time and interest in Sudarshan Chemical Industries Limited and putting forth business questions. 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. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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