SUDARSHAN

30th May, 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 Tuesday, 24th May, 2023, after announcement of the Audited Financial Results (Stand-alone and Consolidated) for the quarter and year ended 31st March, 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: 2023.05.30 16:38:21 +05'30'

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

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Corporate Identity No.: L24119PN1951PLC008409

"Sudarshan Chemical Industries Limited Q4 FY23 Earnings Conference Call"

May 24, 2023

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

MODERATORS: **MR. TEJAS SONAWANE – DOLAT CAPITAL**

Moderator: Ladies and gentlemen, Good morning and welcome to the Sudarshan Chemical Industries Limited Q4 FY23 Earnings Conference Call hosted by Dolat Capital.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Tejas Sonawane from Dolat Capital. Thank you and over to you.

Tejas Sonawane: Thank you Ryan. Good morning everyone. On behalf of Dolat Capital, I would like to thank the management of Sudarshan Chemical Industries Limited for giving us the opportunity to host their Q4 FY23 Earnings Conference Call.

From the management Team we have with us today Mr. Rajesh Rathi – Managing Director and Mr. Nilkanth Natu – Chief Financial officer.

Without further ado, I would like to hand over the call to the management for their opening remarks post which we will open the forum for a Q&A session. Thank you and over to you Sir.

Nilkanth Natu: Thank you Ryan. Thank you, Dolat Securities and Mr. Tejas, for hosting our earnings call. Good morning ladies and gentlemen welcome to Sudarshan's Q4 FY23 Earning 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 the overall basis, it has been a strong performance in the 4th quarter of the current financial year both on sales and margin side compared to the challenging quarters of Q2 and Q3 of FY23.

On a consolidated basis for the quarter, total income from operations stood at INR 691 Cr as compared to INR 627 Cr for the same period last year, higher by 10% YoY.

EBITDA for the quarter stood at INR 85 Cr as compared to INR 86 Cr in Q4FY22. EBITDA margins stood at 12.3% as compared to 13.7% over the same period last year.

Profit after Tax stood at INR 33 Cr as compared to INR 45 Cr for the same period last year.

Sequentially revenue has grown by 31% at INR 691 Cr compared to INR 528 Cr of Q3'FY23 and EBIDTA has grown by 100% + at Rs 85 Cr compared to Rs 42 Cr of Q3'FY 23 with improvement in EBIDTA margin from 7.90% in Q3 to 12.3% in Q4'FY23.

On yearly basis, total income from operations on consolidated basis stood at INR 2,302 Cr vs INR 2,201 Cr for FY22, a growth around 5%. EBITDA for period ending 31st March 23, at INR 211 Cr vs INR 275 Cr last year. EBITDA margin at 9.2% vs 12.5% over same period last year. PAT is at INR 45 Cr compared to INR 130 Cr for the same period in last year.

Now going into details of our Pigment business.

Q4'FY23 has been the strong quarter both on domestic and export markets.

For the Q4FY23, Income from operations stood at INR 594 Cr as compared to INR 558 Cr for the same period last year, growth of 6%YoY. On a Sequential basis, revenue is higher by 23% compared to Rs. 483 Cr of Q3'FY23.

India sales for the quarter at INR 301 Cr as compared to INR 286 Cr in same period last year. On a sequential basis, India sales is higher by 20% compared to INR 251 Cr of Q3'FY23

Exports for the quarter were at INR 293 Cr as compared to INR 272Cr, higher by around 8% YoY. On sequential basis, revenue is higher by 26% compared to Rs 232 Cr of Q3'FY 23

In both, Domestic and export markets, we have seen early sign-of demand revival in plastic and coating segment.

Specialty pigments sales stood at INR 412 Cr as compared to INR 388 Cr for previous year same quarter, 6% YoY higher On sequential basis, revenue grew by 21% compared to Rs 340 Cr of Q3'FY 23. Non-Specialty sales for the quarter stood at INR 181 Cr as compared to INR 171 Cr for the same period last year while on sequential basis, revenue grew by 27% compared to Rs 143 Cr of Q3'FY 23.

Gross Margins for pigments for the quarter stood at 41.5% as compared to 41% for the same period last year. Comparing with the sequential quarter, it shows improvement over Q3'FY23 which was at 40.0%. After experiencing the volatility in Raw Material prices for first 3 quarters, we are seeing softening of RM prices now in Q4'FY 23 due to drop in basic cost drivers such as crude oil, benzene, toluene. This should help in stabilizing the Gross Margin levels.

Apart from raw material costs, we are seeing softening of energy costs in Q4 and also reduction in Coal prices which should benefit manufacturing cost in the coming quarters. Logistic costs are coming off the peak level seen earlier and we expect this trend to continue.

EBITDA for the quarter stood at INR 73 Cr in Q4FY23 as compared to INR 76 Cr for the previous year same quarter. EBITDA margins stood at 12.3% as compared to 13.7% over the same period last year. Sequentially EBIDTA has grown by 93% compared to INR 38Cr in Q3'FY 23. EBIDTA % also shows improvement over sequential quarter EBIDTA Margin, reported at 7.8%.

Given the difficult external environment, management has aggressively focused on cost reduction initiatives throughout the year. Overall increase in sales, softening of RM and other costs and aggressive push on cost reduction has helped in increase in margin and EBIDTA for the quarter under review.

However, we will have to continue with pricing decisions with calibrated approach to balance on volume growth.

We have worked extensively on reduction of working capital especially on inventory level, Accounts receivables releasing free cashflow which has helped in reducing the working capital debt levels.

On yearly basis, total income from operations stood at INR 2,079 Cr vs INR 2,020 Cr in same period last year, a growth around 3%. EBITDA for period ending 31st March 23, at INR 194 Cr vs INR 269 Cr last year. EBITDA margin at 9.3% vs 13.3% over same period last year.

The company has on 6th April 2023, executed Deed of Conveyance with Birla Estate Private Limited to sell Company's freehold, clear and marketable titled land admeasuring approximately 5.76 acres along with the structures standing thereon located at 162 Wellesley Road, Pune – 411 001, Maharashtra, India, for a total net consideration of Rs. 356 Crores. The company has completed the said transaction and the company plans to strengthen the balance sheet from the proceeds from the transactions.

Now let me inform you the status of the CAPEX projects which will drive the company's future growth. I am happy to inform you that we have successfully commissioned all the capex projects in this financial year. With this we have transformed our product portfolio with one of the widest and most comprehensive product range in the industry.

For new product lines, we are getting good responses from customers and these products are at an advanced stage of evaluation.

Given the current global scenario we expect a slow ramp up in the short term but are confident in mid-term Capex will accrue the expected benefits

There are many positive tailwinds from external side like consolidation of top players in the industry, supply disruptions from prominent player in North America, emergence of India as key global manufacturing industry and softening of raw material prices and energy costs etc. which will be positive for the company.

At the same time, we are very well prepared internally with all the capex projects being commissioned, with wider range of product portfolio, cost efficient operations and capacities to quickly ramp up the sales.

To summarize, the year had been challenging for the pigment industry on sales as well as margin front. We had seen these pressures in the first three quarters of the current FY. Q4'Fy 23 shows strong revival and performance on overall business & financial parameters. We are confident in our growth journey and look forward to continuing the same and delivering value to all our stakeholders.

With this. Now I open the floor for questions and answer session. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. Our first question comes from Sanjesh Jain with ICICI Securities. Please go ahead.

Sanjesh Jain: I have few questions first on the China competition, we have been hearing from the other chemical company that China is getting aggressive, the domestic consumption has slowed down and that has led to a lot more aggressive Chinese operator for the export market and now that the commodity is also softening and demand even on the global side does not look very exciting considering all this situation how should we expect FY24 for Sudarshan Chemical?

Rajesh Rathi: So, I think China if you compare the last year, last year China's demand was at the lowest due to the various lockdowns etc. and there was surplus production. So, that trend I think has improved or at the same time you are right we do not see that ramp up happening on that. The second thing which has happened is there has been anti-dumping duties post in China for blue and green pigments from India. So, both I think from a perspective of India supplying blue green pigments into China that has become a concern for the entire industry and China surplus whatever they have in terms of supplies they have been kind of I would say supplying at very aggressive cost in Asia and other regions. So, I feel from a perspective of last year the situation is slightly better, but the situation still remains concerning and that is where we differentiate ourselves with some of our product portfolio and the services which we offer to our end customers.

Sanjesh Jain: So, considering that our all the CAPEX program are completed and commodity prices have also used reached out, how should we see the revenue growth for FY24, can we achieve a 20% growth considering that we had a very soft quarter here in FY23, do you see a challenge to that and again you did mention that you have seen revival in both coating and plastic segment I think that there is a little bit of confidence, but purely from the sales perspective is that 20% kind of growth really achieved?

Rajesh Rathi: I think first from an external tailwind perspective we are very good tailwinds as Mr. Natu explained in the conference. A lot of top players consolidating little bit internally focus, lot of focus on India as a key hub at the same time, we are also well prepared with our CAPEXs and the product portfolio offering. So, I cannot give the subtle answer in this market. I cannot give you a figure saying that this is what it is, but we do feel that the worst is over and we should be able to kind of move on from here in the right direction.

Sanjesh Jain: Next on the margin perspective first one the gross margin, second one the other expenses. Gross margin on a consolidated basis we are at 43% and the segment you mentioned that we are at 41.5%. Historically, we were at anywhere between 43% to 44%, but 200 basis point improvement can be achieved with this softening in commodity is that the right understanding. Second on the other expenses there has been a drop in coal prices, credit cost and everything, but from our other expenses perspective it still shows a very high inflation of 25%, 26% for our revenue growth of 10%, can you help us reconcile us the other expenses?

Nilkanth Natu: So, on the gross margin perspective yes what we are seeing is the gross margin of 43.5% in the year of FY21 when there were normalized cost consideration. What we are now seeing in the current quarter the gross margin of 41.5% compared to the earlier quarters which were at around 40% or sub-40%. We expect that this stabilization in the raw material cost. One is the softening and second is the stabilization in the raw material prices should help us because earlier we have seen it has not been only the inflation, but the timing during the quarter also we used to get those disruption in the raw material prices. Given the stable outlook I expect that this particular gross margin trend should continue. It is also the impact we have seen in the couple of earlier quarters, the demand pressure and the pricing pressure, due to that wherein the certain pass through were difficult, with the current revival in the demand we expect that this level should get stabilized and we should get some uptick in the coming quarter if the raw material prices remain at the same level. On the other expense side while I agree with your observation. On totality the company has done aggressive cost push in terms of the various cost levers. A couple of factors which has impacted during the year is one, is on the FOREX exchange loss amount which is around 16 crores which has been published in the notes. This is due to the CAPEX loan and it is more structural and we monitor it based on our XIRR basis. So, we are aware of those variability in the foreign exchange. Second factor also which has impacted during the quarter and overall, during the year is our RIECO business has also shown a good growth and the site expenses related to that has gone up during the quarter as well as corresponding year and the certain factors which was also impacted during this particular year is the rising coal cost. So, while we saw the stabilization coming in the Quarter 4, but the coal cost predominantly were higher in the first three quarters, which has also impacted that variability in the other costs while we have taken a lot of measures in controlling the other experiences which are more of a discretionary. Second, the company has to reach to the customer as a part of key customer engagement and key account management. We have also started investing in what I can say as a good business expenditure, which is travel as well as the exhibition cost. So, we have reached out and we have participated in a couple of exhibitions in the last quarter and in the H2 of this financial year. So, with this the other expenses is on a slightly higher side, but these are more of a structural and which are from the long-term perspective.

Sanjesh Jain: For next year this should significantly normalize, right?

Nilkanth Natu: Absolutely. So, while there has been a focus on cost reduction, which helped us during this year, the focus remains constant. We would like to cut the cost whether it is a fixed or variable. The manufacturing operation has become very cost efficient and we will continue that trend. We will be prudent in that matter.

Sanjesh Jain: My last set of question is in the new product contribution now that we have commission the CAPEX, what is the number of products we anticipate and what is the contribution we expect in next two years from the new product in our overall revenue and what is the capacity utilization as of FY24 for us and what is the CAPEX plan for FY24?

Rajesh Rathi: So, I think from a CAPEX perspective we have completed our CAPEX plan completely. We do not expect any CAPEX except the regular maintenance CAPEX or any minor CAPEX coming up, but otherwise the CAPEX program is full on. As Mr. Natu explained in the note I think all our products are put to use now so several chemistries have been launched whether it's the violet 23 new product, yellow 138 which we have introduced earlier. Various versions we have launched through this CICP complex pigments, CICP we have launched, solvent dyes we have launched. So, all our product portfolio now is complete and we have launched this. We expect we are already seeing a good attraction for these product line. We in the short term we expect a little slower ramp up given the economy slowdown, but we are very confident in the three year, four year horizon we should be able to meet our midterm horizon, we should be able to meet our CAPEX targets on benefits.

Sanjesh Jain: And the capacity utilization?

Rajesh Rathi: So, right now we have ramped up our capacities and we are ready to go. I think right now we are not publishing from a competitive sensitive information, but we have enough headroom to grow with the CAPEX program.

Moderator: Thank you. Our next question comes from Ankur Periwal with Axis Capital. Please go ahead.

Ankur Periwal: So, continuing with the product side you did mention launch of many products there from a stability perspective. Have we reached a stable state here or there could be some sort of time taken for these products?

Rajesh Rathi: So, we have launched these products sir now it is the time to get the approvals and we ramp up sales on that. So, from an internal perspective we are all ready now. Now it is all getting approvals and pushing those products into the market.

Ankur Periwal: From technicality teething trouble typically, it may take time for the product to stabilize that part is done it is only the product approval?

Rajesh Rathi: Absolutely right.

Ankur Periwal: And so second question related to that from a product positioning or the target market perspective are large part of these products domestic market oriented or international and how much time will it take in both the geography?

Rajesh Rathi: It is a global product range and we expect to realize the benefits between three to four years.

Nilkanth Natu: As Mr. Rathi mentioned these are the niche product and as we already mentioned earlier these are into the Specialty pigment side. So, the market will be both in domestic as well as the export markets, slightly the tilt will be on the export side. As Mr. Rathi also explained technically these products are proven. Customer approval, we are in the process of getting these approvals. So, it will help us in both the market going forward.

Ankur Periwal: Just on the product approval timelines so I understand different products may be different, but broadly a range will be helpful?

Rajesh Rathi: The approval time kind of varies between three months to six months so we started this process. What we are saying is that the ramp up earlier expected would be slightly slower given the slowdown in the market. So, from that perspective especially some geographies like Europe etc. means here slightly lesser uptake than what we were expecting initially, but we should soon see a ramp up in the midterm side given the tailwinds which we have.

Ankur Periwal: On the margin front we have seen a good jump on a QoQ basis as well, just trying to understand the earlier delays in RM inflation or the pricing like discounts that we were facing earlier both of them are largely through and now there could be some benefits of RM deflation let us say starting next quarter?

Nilkanth Natu: So, I agree with you. So, with softening of the RM prices and with the stable RM environment, given that we also have the good Q4 wherein our sales number were higher, the effect of this RM fresh purchasing or new pricing should come in and which we are seeing in Q4 also and if this trend continues, we expect that this will get stabilized and we should see the normalized gross margin going forward.

Ankur Periwal: And this normalize will be the historical average of around 42% to 43% odd?

Nilkanth Natu: If you really see historically, we were in the range of if you see from FY19 to FY22 we were in the range of you know 41% to 43.5%. I would like to have the number maybe 42% - 42.5% on normalized basis. So, maybe 100 basis points further, but it will take time to go to that level. I am right now expecting the current level of the gross margin to sustain for a quarter as we move along with the new inventories coming in and with all that we should be at the midpoint level soon.

Ankur Periwal: And the last bit from my side for the quarter specifically if I look at the consolidated and standalone which is the subsidiary revenue had seen a pretty sharp jump, so could you help us understand what exactly are these subsidiary revenues for these are largely the marketing entities that we have and correspondingly the overheads are also slightly elevated here, so just to clarity on that?

Nilkanth Natu: Ankur ji if you really see the performance on the segment side so there has been the increase in the RIECO business revenue from 44 crore to 96 crore on the consolidated basis. While our business in USA, Mexico and to some extent Europe also has helped us in revival of the demand there and overall growth on the foreign subsidiaries has been also good in Q4. In terms of the other expenses which have been elevated as I mentioned earlier RIECO being a site-oriented business into the capital good industry with the revenue getting doubled between Q3 and Q4 there has been some ramp up in the cost there and couple of spent which we did in the Q4 on the execution and reaching out to the customer has slightly given me the elevated Q4 cost, but we see it should get normalized in the coming quarters.

Moderator: Thank you. Our next question comes from Amar Maurya with AlfAccurate Advisors. Please go ahead.

Amar Maurya: Couple of questions from my side, firstly sir what would be the volume growth for us in this quarter?

Nilkanth Natu: We have not published yet the volume data, but just to give you the directional number the growth has been good in terms of the volume pickup compared to the Q3.

Amar Maurya: And this volume pickup was largely let us say from the coating segment or from your basically the plastic segment?

Nilkanth Natu: So, Amar this volume pick up or volume growth we have seen in both the markets domestic as well as export and in both predominant segments which are plastic and coating both. See with the plastic segment what we had earlier also said in the couple of quarters Q1, Q2 wherein we have seen that there was a lot of raw material variability in the plastic segment, which was on polymer side, it was the variability in the prices and second was the availability and with the scenario wherein the raw material prices were very much elevated the master batch manufacturer used to hold their buying decisions which we have seen in the earlier quarter. Now with the stabilization in the raw material prices and with the stable outlook we have seen the pickup in the plastic segment and we expect this to continue.

Amar Maurya: And sir in the coating the coating is largely linked to the automobile or this is decorative coating let us say in the export perspective?

Nilkanth Natu: It is in both slightly the tilt is on a higher side as far as the decorative coating is concerned.

Amar Maurya: Both in global market also?

Nilkanth Natu: Yes sir.

Moderator: Thank you. Our next question comes from Nitesh Dhoot with Prabhudas Lilladher. Please go ahead.

Nitesh Dhoot: So, my first question is on the market share so for few years now I saw a presentation our domestic market share has remain constant at 35%, so why is it that we have not been able to gain market share despite the increased focus towards the pigment business over the years and will this increase especially with the large CAPEX that has been put on ground over the last couple of years?

Rajesh Rathi: So, I think from a domestic market what we are able to gain is more on this product Specialty product side. There is fierce competition on some of the commodity products. So, though we will lose on that side we are able to gain on the Specialty product side and I think we will continue our trend towards focusing on the Specialty side. We do see good tailwinds coming in with lot of investment in the paint section which in the paint manufacturing area and we are really focusing on the participating on that growth only.

Nitesh Dhoot: Another question is whether there is a meaningful difference between the pigments which you sell in the domestic market and then in exports in terms of end applications and the pricing of the products?

Rajesh Rathi: So, sir I mean some of the product portfolio is so even the Indian market is changing where a lot of Specialty products are getting used, but the percentage of usage in some of the advanced economies I would say is more there and that is how the product I would say the product mix changes and certain product range we do not take it globally, some of the inorganic chrome pigments or the iron oxide pigments etc. We do not sell these globally, we sell only in India.

Moderator: Thank you. Our next comes from Gagan Dixit with Elara Capital. Please go ahead.

Gagan Dixit: I think the quarterly trend looks like your Specialty this domestic and the quarter-on-quarter basis includes almost 70 crore something while I see similar growth in this export revenue also this 60 crore plus, so can I safely assume that this mostly your Specialty growth is driven by the export market revival that is more or you say relatively as compared to domestic?

Nilkanth Natu: If I see the domestic and export split which is 51%, 49% and as you mentioned there has been a 60-crore growth in the exports quarter-on-quarter similar way we have seen 50 crore in the Q3 to Q4 for the domestic. The Specialty and Non-Specialty tilt is between 69% and 31% as a basket and we see this particular growth coming in from both the markets, which is domestic as well as export. As Mr. Rathi mentioned a couple of inorganic products are not being marketed in those export markets because of the regulations, so there is a slight tilt in the export market on the Specialty side.

Gagan Dixit: And sir which are the export market you see more revival because as I see in the presentation that you mentioned still the problem is still going on in the Europe this demand is flat and also they have a China issues also. So, if you can indicate that I mean overall, just on the quarter-on-quarter basis or where I mean the demand is more this ramping up as compared to others?

Rajesh Rathi: I think sir as a long-term trend we see great potential in the Americas even in the South American market which we are also focusing and driving our growth. There are several initiatives which should really help us in the midterm including Europe, for example, Europe we have on boarded BASF subsidiary BTC as a distributor and it also talks our, it is also testimony of we being a reliable and high quality supplier that BASF BTC has taken us on board and this will definitely help us strengthen our midterm perspectives in reaching out to small and medium customers. So, each geography I would say has the area it depends on how it plays out right. So, with Europe probably demand revising I think these two areas should help us. Americas we are driving growth. So, these are some of the areas which we are going in Japan the digital ink market and Korea digital ink market is very favorable which we are selling some of our products in the digital inks and we are ramping up our sales there.

Gagan Dixit: Sir, regarding the China competition in the export market, so typically this on the pricing front typically is there any Chinese price advantage or they are at par with your product prices?

Rajesh Rathi: So, it depends on the product range there is definitely a product range where we are not able to compete especially in some of the commodities. So, those are the areas where we with China we are not able to compete. On the other Specialty areas if the presence of Chinese is less, but we are able to compete on those areas.

Moderator: Thank you. Our next question comes from Rohit Nagraj with Centrum Broking. Please go ahead.

Rohit Nagraj: Sir first question is on the Specialty and Non-Specialty mix, so currently you mentioned 69% to 31% over the next three years once we ramp up the newer CAPEX of 750 crores will this mix change more towards 75%-25% or what is your perspective?

Nilkanth Natu: So, with respect to the Specialty and Non-Specialty tilt which is at around 69% and 31% currently with the CAPEX program which is commissioned and major focus is on the Specialty side. We expect this particular tilt will be on the Specialty wherein the Specialty current percentage in terms of the revenue should move up from 69%. I would not like to put the number as such, but it should be around on the higher side compared to what we have seen now with respect to the Specialty. So, upward direction will be there. Second thing is also between India and domestic what we have seen 51% and 49% which is fairly a balanced mix. With this CAPEX being commissioned the tilt also should slightly move on the export side going forward.

Rohit Nagraj: And second question is particularly on the balance sheet side, so we have seen a very strong improvement in working capital to 74 days from 96 days, so earlier probably it was closer to 90 to 100 days, is this 75 days of working capital sustainable going forward and second question is given that we have received the money from land sale, what is the kind of debt reduction that we expect by FY24?

Nilkanth Natu: So, on the working capital side as you have rightly mentioned, we are at now 74 days of the net working capital cycle and as I mentioned in my opening remarks the great work done by the team internally to reduce the inventories and also to make the operation lean and with the collection of the account receivable. If you really see our networking capital as a percentage to sale is at around 20% and historically we used to operate between 24% to 25% earlier and earlier we indicated as a management that we would like to go gradually to the 20% level and we were targeting 22% as one of the midway to get into that particular aspiration level, but happy to share that we are at around 20% at the yearend while there may be certain variability in this particular percentage during the year based on the raw material supplies availabilities maybe some strategic call. We expect and we will work towards maintaining this level plus minus 1% that is something I can look at and that has also helped during this particular year for the debt number despite the EBITDA being down by 70 - 80 crore, our debt number are flat which is between 794 -796 crore in terms of the net debt. Regarding your second question on the land monetization so yes this land monetization will help us in improving our balance sheet. Currently we are at around 794 crore of the number and if I see the net debt if I consider this 300 plus crore of land monetization we are as closer to 500 crore. So, we as a management has taken a call to reduce that debt over a period and we should be more leaner in the next year as far as the debt numbers are concerned.

Rohit Nagraj: Just one clarification during FY23 were there any onetime consultancy charges for the projects which were undertaken and which will not be recurring in FY24?

Nilkanth Natu: Come again Rohit.

Rohit Nagraj: Any consultancy charges that we had paid for any third-party consultant I think we were working on the margin improvement projects with some of the external consultants, is there any I mean onetime expense for those consulting charges during FY23 and which may not recur incrementally?

Nilkanth Natu: Rohit we did not have any one timer consultancy charges on the margin improvement etc. in the current financial year FY23. So, there was no one timer there.

Moderator: Thank you. Our next question comes from Archit Joshi with B&K Securities. Please go ahead.

Archit Joshi: Sir, I have just one question so the market leader has kind of indicated that there are a couple of areas where there has been an improvement and the outlook in cosmetics and displays as a category within which pigments are used that is showing some signs of revival, I just wanted to understand if we have any exposure to these industries where we can see some revival globally. Also they have mentioned that some of the key categories like coatings, plastics and printing inks are still dealing under a lot of pressure with respect to inventory adjustment, in our view, when do we see this reversing for us specifically even if it is not for the industry?

Rajesh Rathi: So, I think for us yes cosmetics and dispersions are important segment for our growth too. However, if you look at the market size compared to the entire market size these two markets size are quite small compared to percentage to the total market. So, though we will be growing there whether they have a significant impact on our overall perspective is the question, but these are very important segment strategic segments for us to grow. With this sir so it is a competitive area and we are seeing some improvements compared to last year on the demand side from these the three traditional industrial sector which you spoke about and so we do believe that the worst in demand things are over and there is a gradual improvement which is coming up.

Archit Joshi: Sir while you say that the dispersions or the cosmetics these categories are pretty small in the overall scheme of things can you throw some light on this displays business or the display industry where exactly are these pigments I mean from the application perspective is it more towards electronics and laptops or with smart phones growing quite significantly, would this be a growing area going ahead if you can share some of your insights on this segment?

Rajesh Rathi: So, this comes under digital links and under digital links there are two segments. One is the inkjet, the toners and displays widespread displays. So, overall perspective these are the areas where these products go. We think it is a strategic area which is a good growth area though the entire volume is this the margin should also be better and that is how we had embarked on this. All our development work in this area was completed between our R&D in India and Germany lab and our product ranges completely ready and these are the products which we are really selling into Japan and Korea now and we are several approvals in this area.

Moderator: Thank you. Our next question comes from Aatur with ICICI Prudential Mutual Fund. Please go ahead.

Aatur: Just two questions one what would be our CAPEX number for next year in terms of ballpark range?

Nilkanth Natu: So, as we mentioned the majority of the CAPEX program is over and this year will be the stabilization phase for us. So, we will only continue with the sustenance and the maintenance CAPEX. We would not like to put the number, but it will not be significant.

Aatur: Our engineering business, which was a small portion has been ramping up well. So, any evaluation to eventually sell it or any thoughts on how one thing given it is non-core?

Nilkanth Natu: Aatur yes so there has been a revival in the RIECO business. The board is also looking at this revival and this year has earmarked in terms of the turnround compared to last year. So, board will take at an opportune time the decision regarding that. As of now there is no discussion in terms of this.

Moderator: Thank you. Our next question comes from Madhav Marda with FIL. Please go ahead.

Madhav Marda: The sense I am getting is you are sounding much more confident on ramping up the new capacity versus earlier and probably seems like there could be some like decent market share gain opportunities which has been the thought process in Europe, South America and North America, is that right understanding on having that finally all this consolidation which is happening in the pigment industry and our new CAPEX coming in product portfolio expanding now all of those things are coming together and now we should see like steady growth of course materials is something not in our control, but what is in our control seems like things are falling into place is that is that the right sense I am getting?

Rajesh Rathi: I think Madhav ji well summarized like you said so we were always very confident about our CAPEX program that was the area of transformation for the company in order for its growth and good sustainable growth, so given that we have so many headwinds in the last two years when we began the CAPEX program. We did face it very well I think and we have now kind of completed the whole CAPEX program. We too feel that the ramp up will be there. The first initial part may be a little tougher because of the slowdown, but I think given that there has been no dirt of attracting the customer for the product line. So, there is a lot of full layer, how we ramp up is the real question in the short term is a little bit of a concern, but I think in the overall midterm period we are very confident that we should meet our CAPEX benefit targets.

Madhav Marda: And then the second question was seems like our gross margins like Mr. Nilkanth also said that one quarter more maybe and then we should see some bit more of an uptake on the gross margin side and even on the fixed cost side there has been obviously like high freight cost I think on the other expenses and then high coal prices. So, all these things I think and we have always like if I look before COVID used to be 14%. 15% EBITDA margin range, so do you think we can get back there towards the end of FY24 as we approach like Quarter 3 Quarters 4 of course given like macros remaining and inflation remaining where it is, on a steady basis our margins can see some more uptake from gross margins and little bit more on the other cost side?

Nilkanth Natu: So, as I mentioned here with the gross margin stabilization currently at 41.5% with the raw material stabilization and the stable outlook I expect that this trend should continue and should sustain and if it continues then definitely it will reflect in terms of the EBITDA. While we had historically achieved the number of 15% in FY21 given the market scenarios then, would not like to put the number as of now for what will be the EBITDA for the next year, but directionally with this stabilization coming in and overall the confidence of volume bounce back, I expect it should help us in improving the EBITDA percentage in a couple of quarters.

Madhav Marda: And last question the land proceeds already come in like we have already received the money from the land?

Nilkanth Natu: Yes, Madhav we have received the money in this financial year in April.

Moderator: Thank you. Our next question comes from Chetan Thacker with ASK Investment Managers Limited. Please go ahead.

Chetan Thacker: Sir, just wanted to understand more from a medium-term point of view so we have historically seen your gross profit margin in the range of 41% to 43% given that the product that we have launched and we filled the basket in, would it be a fair understanding that over a medium term we can add couple of basis point to this range as those products increase in terms of contribution and that plus the efficiencies will eventually drive the OPM over a more medium term?

Nilkanth Natu: So, directionally yes given the current range of what we have seen earlier 41% to 43% more stabilized range of 42% where the Specialty and Non-Specialty take was around 69% - 31% with the ramp up and the new product CAPEX which are more in the high-performance pigment Specialty side directionally in the coming year this should give us a better benefit in terms of the gross margin.

Chetan Thacker: And the capacities that we set up fair to assume in three years if things go normally which we have not seen some time, but still assuming it goes most of these capacities would then be utilized that would be a fair understanding?

Rajesh Rathi: Absolutely. So, given the current scenario we are expecting that this ramp up will be during three to four years period of time.

Moderator: Thank you. Our next question comes from Jainam Ghelani with Svan Investments. Please go ahead.

Jainam Ghelani: Sir, I missed the initial part so could you tell me what was the amount we received in the land deal?

Nilkanth Natu: So, we have received 356 crore in terms of our land monetization.

Jainam Ghelani: Sir assuming we achieve peak utilization in three to four year what can be our current revenue like that revenue the peak revenue that can be reached in three to four years or with our current capacity?

Rajesh Rathi: So, assuming the capacity ramp up from the new product CAPEX and the full utilization. We expect that the revenue with the current normalized rising scenario should be in the range of around 3,000 to 3,300 crores going forward in the next three to four years period of time.

Moderator: Thank you. Our next question comes from Jay Ketan Shah with Capital PMS. Please go ahead.

Jay Ketan Shah: A couple of questions mainly on the Specialty side when you say that you are trying to increase the mix to Specialty product and already has started the work what is the approach of the company is it more like we do the sector or a client and then we look at creating entry barrier using chemistry or it more of a pool from the client saying that this is the kind of application they are looking at and then you become a helping hand to them, so I just wanted to understand one is that question and second like you said.

Rajesh Rathi: Sorry to disturb you there was some disturbance can you please repeat the question?

Jay Ketan Shah: When you say that the mix between Specialty and the not so Specialty is going to be leaning more towards Specialty what is the approach of the company, is it more that you first choose a typical chemistry and try to create entry barriers for the peers or is it more like the client ask you to make something which is technically challenging in a way you can pay in terms of chemistry which kind of gives you a more like what is the approach when you say Specialty of the company?

Rajesh Rathi: So, I think three years ago we embarked on looking at a whole global strategy and how what is going to differentiate us in the market. The answer came out very clearly that we have several capabilities which we can exploit in and one area was in the differentiated product range because the commodity product range was already very crowded and we could see the writing on the walls that the margins in that area is going to reduce and this is where we are seeing a lot of blood bath if you look at the phthalocyanine or other pigments. So, that was the overall strategy to kind of travel the difficult path in creating this product portfolio and I am very glad to say that right from scratch to developing the chemistry to budget trials to commercializing this on the plant putting up the whole plants this our internal team has been able to do this and it is a wide variety of chemistries when we talk about all the product range we are saying. It is not in the pigment industry you have one product which is going to give you like a bullet of 4,000 crores or something it is a very, very broad portfolio where you have to look at. So, from that been our strategy then of course once this was clear in our strategy then we started engaging with customers on what was their pathway obviously at each stage lab samples were exchanged, detailed discussions were happening and we are right now in the stage where this has got fructified into real products where we are engaging with customers now for these products.

Jay Ketan Shah: And secondly I wanted to ask you said that there is a lot of movement happening in the paint manufacturing sector, so are you guys looking to even tap into the pigment dispersion chemistry like someone like what Ducol Organic or Saujanya are doing, so are we even looking as that as an ancillary stream of revenue or we focus on pigment itself?

Rajesh Rathi: So, pigment dispersion is an important strategy, but we would never compete with our customers and that's how we had exited our master batch business also where we said we want one of our values is going to be and it is a close partnership I mean how one of the pillars of our differentiation is customer intimacy and building that trust. So, we would never compete in fact with our customers you mentioned about Saujanya very dear customer to us and we would never think of competing, but what we do is on the pigment dispersion side, coating companies are always making a make or buy decision and from that perspective so that is where we work with the customer to make those product a pigment dispersions for them. So, that is one segment for coatings for pigment dispersions, but there are Specialty applications where pigment dispersions also go in and we are again ramping up our product range to reach out there and we have already done that actually.

Moderator: Thank you. Ladies and gentlemen we have reached the end of the question-and-answer session. I would now like to hand the conference over to Mr. Nilkanth Natu for closing comments.

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

Moderator: Thank you. On behalf of Dolat Capital that can close this conference. Thank you for joining us. You may now disconnect your lines.

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