SUDARSHAN

22nd October, 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 in relation to execution of definitive agreement to acquire Global Pigment Business of Heubach Group

We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on Tuesday, 15th October, 2024, in relation to execution of definitive agreement to acquire Global Pigment Business of Heubach Group.

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: 2024.10.22 19:04:19 +05'30'

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

Sudarshan Chemical Industries Limited

Discussion on acquisition of Global Pigment Business of Heubach Group

October 15, 2024

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

CO-ORDINATOR: **MR. ANKUR PERIWAL – AXIS CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Sudarshan Chemical Industries Limited Conference Call hosted by Axis Capital Limited. The discussion will be on regarding acquisition of Global Pigment Business of Heubach Group. 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. Thank you, and over to you, sir.

Ankur Periwal: Thank you, Neha.. Thank you everyone, for joining in and welcome to Sudarshan Chemical Industries Limited Conference Call to discuss the acquisition of Global Pigment Business of Heubach Group. The call will start with a brief management discussion followed by an interactive Q&A session. Sudarshan Chemical Industries Limited's management is represented by Mr. Rajesh Rathi, Managing Director Mr. Nilkanth Natu, Chief Financial Officer; and Mr. Amey Athalye, General Manager of Finance.

Over to you, Mr. Natu, for your initial remarks.

Nilkanth Natu: Thank you, Ankur and Axis Capital for hosting the investor call. Good morning to all of you, and thank you for joining us to discuss to Sudarshan's proposed acquisition of Heubach Global Pigment Business following signing of a definitive agreement on 11th October 2024. Transaction is subject to regulatory approvals. I hope you all had a chance to access the Press Release and Investor deck uploaded on stock exchanges. Certain statements made or responses given to the questions during today's call may pertain to future expectation and plans.

Our disclaimer regarding such forward-looking statement can be referred to in our investor presentation. As we are in silent period for Q2 FY '25 financial results, we will be addressing questions only related to acquisition of Heubach Pigment Business and will not be able to answer any other questions.

Since we are yet to get regulatory approval, we will not be able to talk about revenue, profitability or other balance sheet metrics for Heubach Group. However, we'll stick to qualitative comments about the deal rationale and strategic levers to make this into profitable business.

With this, I would now like to invite Mr. Rajesh Rathi to talk about the deal.

Rajesh Rathi: Thank you so much, Mr. Natu and Ankur and Axis Capital for hosting this call for us. I'm delighted and excited to announce that through this acquisition, Sudarshan's dream of becoming a truly global player with a global asset footprint is coming through today. To give you some facts, the revenue for CY'23 was about EUR900 million of Heubach. There are 17 manufacturing sites and 33 stock points. The legacy of this company has been for more than 200 years. We at Sudarshan are very excited about this opportunity.

We also have a very healthy global sales spread through the important markets like Europe, North America, ROW, they have a strong presence in paints, plastics, inks and digital inks. I would also like to tell you that all manufacturing sites are very well maintained and all are in very good running conditions with a very respectable capacity utilization.

Just to give you a little bit of history, until 2021, the company had revenues close to EUR 900 million and had a consistent profitability track record. In '22, S.K. Capital Heubach acquired this Clariant's business, at a combined valuation of about EUR1 billion as they paid about EUR850 million for the Clariant business plus the valuation of the Heubach business itself.

However, post this acquisition, Heubach faced several challenges. There were headwinds from the Ukraine-Russia conflict, leading to global inflation and demand reduction. I mean not only Heubach, the entire pigment and chemical industry got affected, but the pigment industry was quite badly affected as we saw a big demand reduction in Europe and China.

However, some of the other pigment industries could respond faster and recover well. Heubach also had significant debt on their balance sheet and rising interest rates, which weakened their balance sheet. Some of their integration efforts may not have been able to capture all the benefits and this created a financial distress situation for a great organization, which has been profitable for many years.

So, I think, we at Sudarshan, are very excited, as I mentioned, one of the areas which Sudarshan had a shortfall is that we didn't have a global asset footprint. All our manufacturing assets were based in India. So, this gives us a very good coverage to us and the customers for them we have derisked. This transaction is potentially EBITDA and EPS accretive. And we strongly believe that we would be able to add value to all our stakeholders.

Talking about the deal, we entered into the Asset Purchase Agreement for the insolvent entities in Germany and a Share Purchase Agreement to acquire solvent entities of Heubach Group. We bought this business at a debt-free basis. We do expect some cash infusion for working capital, restructuring, meeting some of the regulatory requirements with a tune of about EUR100 million. And this acquisition would be through a cash consideration funded by a mix of debt and equity.

The deal is expected to be closed in the first quarter of 2025, subject to regulatory clearances. At Sudarshan, as I mentioned, we are very confident of making this acquisition a great success. There are several levers we are looking at. Firstly, we would integrate all these entities or businesses into one unified organization from day 1.

We would capture synergies across SG&A, manufacturing and procurement. A strong focus on working capital and cash management to release some cash in the future. We want to create a culture of customer centricity, our core value of Seva in Sudarshan, we would want to bring this part of the culture into this new organization and we would want to bring in agility and efficiency.

Lastly, I think we always believe people make a difference. We create a high-performing management team with excellent quality of execution, skills and technical competency. To talk about the areas of value capture, we think that there will be four levers for us. First is to restructure some of the operations where some of the sites may not be performing well.

The second we find the big lever in SG&A optimization, which also includes efficient IT system, manufacturing cost and procurement cost reductions. And lastly, in the last 1 or 2 years, there has been some volume loss, which we feel we will be able to regain by having the right customer connects and focus.

Thank you so much, and we'll be more than happy to answer any questions you may have.

Moderator: The first question is from the line of Sanjesh Jain: from ICCI Securities Limited.

Sanjesh Jain: I have a few of them. First on you said that they had a lot of financial trouble, the merged entity of Clariant and Heubach and that led to them looking to sell out at a distress valuation. But if I look at the entire deal structure, the debt still sits with them, it really doesn't give me an impression that it was only a financial restructuring they were looking at, they were also looking to completely sell off the operations, which was, I think, bleeding for last 1- 1.5 years.

And if I look at the Clariant own disclosure, and BASF when they were looking, they were talking of the Western pigment company losing market share because cost leadership was moving more towards India and China. In this context, how do we look at this entire turnaround plan for the acquired entity?

Rajesh Rathi: When we look at it, this entity has got certain valuable technology, great customer connect and strong in marketing and sales. Sudarshan brings on table low-cost and a great manufacturing facility in India. These are complementary capabilities over a period of time through an integration process, the synergies of the both organization will be tapped, and we will be moving to create a successful organization, and that is going to be at the -- that will form the bed of the pillars on which this new organization will be built.

Sanjesh Jain: No, that's fair. I think that organization possessed it even while it's in the previous avatar, then why that entity was not able to capitalize on that was my whole question?

Rajesh Rathi: Due to confidentiality reasons, we would not be able to disclose into some of the details. But what I can assure you is that we have captured what -- how would we turn around this business and create value and bring back the glory, which this company always had. through some of our levers, which I just shared.

Sanjesh Jain: I respect that. Probably, I will take this question once the merger is fully completed. But a follow-up question, sir, is that you said that we want to bring in low-cost manufacturing efficient, I would call it more efficient manufacturing process in the unified entity. This also means that we may look at reducing the footprint of the plant to become more agile, and increase overall utilization of the unified entity.

Rajesh Rathi: So, I think we definitely feel that Europe has a manufacturing place for specialties. So, we would create the European manufacturing sites into specialty, serving the specialty markets. These specialty products are very sticky. And we would be able -- Europe would be able to cater to these areas, And any commodities or manufacturing or intermediate or raw materials would be shifted to LCCs.

Sanjesh Jain: Okay. So, we will be looking at realigning where commodity and backward integration will be focused at India entity and specialty and contract manufacturer will be focused in the European entity? Is that the way to look at, say, 2 years, 3 years down the line how the unified entity will look at?

Rajesh Rathi: Yes.

Sanjesh Jain: Got it. A follow-up question on India entity. So, we will now post-merger have 2 listed entity in India. How do you plan to integrate that? And will there be an open offer and more cash outflow to India entity buyout?

Rajesh Rathi: Our legal team is still working on the details of the open offer, and it will be announced as per the regulatory time lines.

Sanjesh Jain: And on the integration of India business?

Rajesh Rathi: As I said, from a legal entity perspective, whether we operate as two different, but as a business, we will be one unified business.

Sanjesh Jain: Got it. On the talent retention because now we are talking of one unified entity, so what will happen to the existing top management who were managing the business of the merged entity of Clariant and Heubach. How would the organization structure look like?

Rajesh Rathi: So, from day 1, we will fully integrate this organization. We would want to create a high-quality management team with good technocrats and execution skills. This will be based on meritocracy from the combined organization.

Sanjesh Jain: Got it. I think these were my initial questions. For more, I will come back in the queue. Thanks and best of luck for the merger and the way forward.

Moderator: The next question is from the line of Jignesh Kamani from Nippon Mutual Fund.

Jignesh Kamani: Congratulations for the great deal. Just one more on the cash requirement and the funding requirements in immediate basis and over a period of the next 2 or 3 years, I just want to find like, just if you think about -- as you say, we acquired more asset transfers in large part with revenue of, say, close to around INR8,000 crores. So, what would be working capital requirements? Say, if you take about Sudarshan in stand-alone company, our working capital is close to around 20 -25 percentage. Say if I go with them, my number is then close to around INR 1,500 crores to INR2,000 crores. Our requirement will be there for the working capital largely and say, additionally, once we take our entity.

Second thing, if there will be accumulated growth in the past, and there will be -- being since the plant is there in Europe with regulation requirement is very stringent. There have been many contingent liability and everything. And assuming that accumulated losses might continue in the future, there might be additional loss funding for next 2 or 3 year requirement from our side. And third, you can say and indeed also as you mentioned that we will need to, you can say, take a 25 percentage of an offering, which will also require, I can say. So, if you think about...

Rajesh Rathi: Let me take, your, first question,? I think I understood the second question was on contingency liabilities? So as per our due diligence, there are no significant potential contingent liabilities, which exists there. So that gives us the comfort. The first question?

Jignesh Kamani: And not even the pension liability and other part.

Rajesh Rathi: No. All those have been through our due diligence. We have got that comfort that there are no significant liabilities coming across. And your first question was, sir, regarding?

Jignesh Kamani: Working capital requirement because...

Rajesh Rathi: We are acquiring the asset. We are acquiring the insolvency entities with agreed limits of inventory and the solvent entities has a going concern as a regular working capital. We don't see a major infusion required for working capital. There will be some, required which I mentioned some of our cash infusion or cash outlay, which we are planning, we have included that, but it's a small amount.

Jignesh Kamani: Just to understood, like INR8,000 crores kind of revenue assuming 20 percentage or 25% of the working capital to sales will need to close to around INR 1,500 crores to INR 2,000 crores in working capital largely. So that has to be financed either through bank loan at the entity level of the...

Rajesh Rathi: As I mentioned, we would inherit that working capital.

Jignesh Kamani: That will be part of the loan or how the post...

Rajesh Rathi: No. It will come to us as a working capital. As I mentioned, this transaction is a debt-free

Jignesh Kamani: Sir, if we inherit the working capital also?

Rajesh Rathi: Yes

Jignesh Kamani: And third on the time line of the restructuring and the synergy considering the regulation requirement is very stringent and everything. How is it difficult to, you can say, the manufacturing, you can say, realignment and manufacturing costs, reoptimized manpower or reduced I think how is difficult, it will be considering the regulatory environment, the European and what will be the time line you can before you earmark you can say?

Rajesh Rathi: So, our integration and our value capture planning, we are already working on. Our execution will start –from day 1 when we close the deal. and from our perspective, the time line, the significant value capture would happen in a year but to get full benefit, probably it will take 2 years.

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

Archit Joshi: Congrats on this great deal. A few questions on numbers. Earlier, yesterday in the interview you said that the entire entity was doing a little north of EUR100 million in operating profits or EBITDA terms. Now given that the German entity was insolvent, like you mentioned earlier, but the other entities were pretty healthy in generating cash, what would have been there the entire entity's EBITDA as we close the calendar year '23 because you have sales numbers that you have given for the last calendar year?

Rajesh Rathi: Sir, due to confidentiality reasons and given the antitrust laws, we are not able to speak about the EBITDA numbers, the sales numbers we have seen. The number which I had shared was pre-acquisition, which is a public information before 2021, the EBITDA numbers.

Archit Joshi: Sure, sir. But can we assume that because there are 17 manufacturing plants and the plant in Germany was insolvent, and that was only entity making operating losses and the other ones were fairly profitable, would that at least be an assumption that we can make?

Rajesh Rathi: Yes.

Archit Joshi: Sir, just one more question on when the deal that has happened with Heubach and S.K. Capital, which was another entity involved in the acquisition of Clariant, what was the agreement with S.K. Capital? When did they exit? If you can share some information on that also?

Rajesh Rathi: Sir, I think we won't be in a position to answer any of those questions from a confidentiality perspective. We are still under confidential obligations.

Moderator: The next question is from the line of Madhav from Fidelity Investments.

Madhav: I just wanted to understand that given that this was previously owned by a private equity company and they had tried to combine 2 entities, Heubach and Clariant, just the key question is, what is it that we will do differently with the combined entity, which the previous management or the previous owners did not do, given that Sudarshan is a smaller company and acquiring a company, which is 3x the size in terms of sales? So, some of the synergies that you speak about in terms of SG&A or procurement, how do we execute that, which the previous management could not do? I'm just trying to understand like what's sort of our advantage versus the previous one?

Rajesh Rathi: Sure. Excellent question, sir. And I think, firstly, we do understand the pigment business well. And we've created one of the most profitable pigment company globally today. So that's just one indicator that we do understand the pigment business well. We know where -- and our cash management and cost consciousness has been very good, So that should give first the comfort, And now this gives us opportunity to scale up

So, what will be do differently, I think first thing is that we would integrate all the entities into one unified organization. We will see one Sudarshan, We will create one culture in the company. And I think a lot of the industry does not take into account how important it is to have the right people and the right culture in the company This is what we would be focusing from day 1.

The second is, of course, capturing value, which we feel we are quite good at. We are not saying that we will grow exponentially. We are just saying in the first 2 or 3 years, our focus is going to generate EBITDA profitability through various levers, which I just described. And the second area is going to be working capital and cash management. There is a great potential, I spoke about manufacturing procurement, but also on the SG&A. There's a big potential on SG&A, which we could generate a good profitability.

Madhav: And just one more. The second question from my side is, how much scope there is to shift production from some of these sites overseas to the India site because that seems like, at least in my view, a very clear synergy, given that we have a low-cost manufacturing operation. So, is there big scope to shift key products to our site in India and then obviously, which is much more profitable?

Rajesh Rathi: Sure. I think one push -- like I described sort of big lever is the SG&A. Of course, the second lever is creating the German sites into specialty plants. They make great specialty products. We will focus on those specialty products and see how we can enhance those production. And the commodities and some of the intermediates, either we'll relocate or we will make, make or buy a decision on the raw materials.

Madhav: Okay. Just a follow-up. Would that mean that we would need to probably just do a bit more of capex at our India site, given that there is a fair bit of products and intermediates, which can be shifted maybe at least on the commodity side? Would you expand our India site to cater to this?

Rajesh Rathi: No. First 2 or 3 years, we don't see a need. Between all the sites, which we would have in LCC, we would have enough assets to bring this back. So, we don't envision any capexes. In fact, from a cash management perspective, we would not be making any major capex.

Madhav: Okay. And the funding structure will maybe...

Moderator: Sorry to interrupt you, sir. I request you to come back for a follow-up question. The next question is from the line of Nilesh Ghuge from HDFC Securities Limited.

Nilesh Ghuge: Sir, just one question. Can you compare the existing Sudarshan Chemicals business and the new entities business in terms of the product quality, the types of customers, market and the technology and the R&D front?

Rajesh Rathi: Good question, sir. I think just talking at a broad level, of course, I can't go into details. I think Heubach has a strong focused products and markets in the coatings and digital inks area. Sudarshan is quite strong, in plastics, and also some of the cosmetic industries, which we serve. So, from that perspective, we do have complementary strengths.

Nilesh Ghuge: Sir, in terms of market technology that this new entity has and that we are not yet developed or do not have that, and also in terms of R&D capabilities?

Rajesh Rathi: In the last 5 years, sir, we've considerably enhanced our R&D capabilities, too. So, I would not say that we don't have. I think, however, given the 200 years legacy of this company, we would greatly benefit in both technology, manufacturing practices. And we will definitely be sharing our best practices post-closure.

Moderator: The next question is from the line of Chetan Cholera from Pragya Equities Private Limited.

Chetan Cholera: Which other Indian operations other than Heubach Colorants, we will get along with this deal?

Rajesh Rathi: Heubach has got two companies in India, one is Heubach Colorants and another is Heubach India Private Limited, so both the companies and Heubach India Private Limited has got certain underlying entities also. So, both these will come to us.

Chetan Cholera: Okay. And how the fundraising will be there, debt and equity?

Rajesh Rathi: As it was mentioned, it will be through a mix of debt and equity. Once it is finalized, the decision in this regard is taken by the Board, we will share with you.

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

Rohit Nagraj: Sir my first question is, when the Europe is now struggling in terms of leaving the manufacturing probably from Europe to other countries due to various operational challenges, we have gone ahead and we have bought a company. Obviously, it's a defunct company, and so we've got it at distressed valuations. Do we have -- I mean are there any chances that over a period of maybe 3 to 5 years, the manufacturing operations from these countries can be shifted to India due to its low cost and efficiencies, et cetera?

Rajesh Rathi: Thank you, sir. So firstly, I would say, I do not know what your definition of defunct. So, I would like to again clarify that all the assets are in a great working condition. Major part of the business is solvent, and it's like a going concern. And all assets are well maintained, decent capacity utilization. And I think a lot of questions are being asked around Germany. Let me tell you that Germany is only about 30% of the manufacturing. So, what we are really acquiring is truly a global company, which we feel we'll be able to turn around very well in front of this. We do have a strong turnaround plan, which I already presented and very confident that we will be able to add great value to our stakeholders.

So, there are 2 points to emphasize again for the entire team here that Germany approximately presents only 30% of the product manufacturing, rest is all global. Secondly, we would enhance Germany to become a specialty production site, which it will make it self-sustaining and profitable on its own.

Rohit Nagraj: Sure. Sir, second question is on our Slide 9, we have given the rationale about the deal, where we have said that this transaction is potentially EBITDA and EPS accretive deal. Does this mean that as of now, if we consolidate, probably it may not be EBITDA or EPS accretive, given the current state of business, the entity is operating at? And unfortunately, we have not given the last couple of years other financials apart from the revenue numbers. So just wanted to get a sense of it. And if you want to skip it from regulatory reasons, probably you can skip it.

Rajesh Rathi: No. I think I would like to clarify that when we mean that this transaction will be potentially EBITDA accretive, it will be great value adding to the stakeholders. That does not mean that currently it is negative.

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

Nitesh Dhoot: Congratulations on the deal and fast execution on such a large acquisition, and wish you best for the future. My first question is that the largest player in the space, DIC, has been making money only in its home market and losing money overseas quite largely for quite some time, and the maximum operating margin you made was around 8% and that too 5 years back. So where can we get these in terms of margins and...

Rajesh Rathi: Sir, your line is very bad. We can't follow you at all.

Nitesh Dhoot: Sir, I will just repeat my question.

Rajesh Rathi: No, I understood DIC, but I could not follow the rest.

Nitesh Dhoot: Is it any better sir?

Rajesh Rathi: Yes, now it's better.

Nitesh Dhoot: I was asking that DIC has been making money only in its home market, Japan. And everywhere else they have been losing money and that too for quite some time. I mentioned that the operating margins they have made, the maximum operating margin they have made was around 8% and that too 5 years back. So where can we get to in terms of margins for that? Again, I mean how do you do see the consolidated margin...

Rajesh Rathi: Sure. I think from a market perspective; I would say that the market is healthy and it's growing. Globally, it's growing at 3%. From a perspective of whether there are 2, 3 levers, which we feel may not have been executed in the other organizations, and we feel that we are confident about this. I think the first one is about how do you operate as a lean company in terms of working capital, cash, costs. How do you create a customer-centric organization instead of being an internally focused organization?

We do feel that some of the areas, which Sudarshan has been successful, that we need to bring that is culture part. Of course, we would also like to learn Heubach's culture and integrate well. So, we will integrate as one organization. We will be customer-centric and agile, and we'll continue to be very efficient in our operations. There's a huge lever on the SG&A side, which we would be able to enhance and start working from day 1 on. That gives us the confidence that we will be making it a very value-adding company.

Nitesh Dhoot: Okay. Sir just, I mean, would it be possible to give some sense on what the...

Rajesh Rathi: Your line is very bad, I'm sorry, but we can't follow anything, sir. Can you get into a better reception area?

Nitesh Dhoot: Sir, I was asking in terms of numbers, I mean, would it be possible to share what are SG&A costs, what our employee costs would be as a percentage of Heubach's revenue, if at all, some idea you can share?

Rajesh Rathi: Sir, would love to, but given the confidentiality agreements and the antitrust laws, we can't today share them. I'm sure post-closing, from a legal perspective, we would be able to do that.

Nitesh Dhoot: All right. No problem. Can I just have one more question?

Moderator: Sorry to interrupt you sir, I request you to come back for a follow-up question. The next question is from the line of Dhruv Bhatia from Edelweiss Mutual Fund.

Dhruv Bhatia: Sir, a couple of questions. First is on the cost front. You did talk about each of the line items, but in your best understanding, which is the lowest -- low-hanging fruits in your sense where you can -- once you integrate this business into one where we could start to see some cost benefits starting to play out? That's question number one. Question number two is, could you talk about the balance sheet in terms of what is the asset base and the liability base? And if you could just break up the asset into what is the working capital and what's the gross block?

Rajesh Rathi: I think, firstly, sir, the biggest lever I feel is the SG&A cost and the manufacturing cost savings. I think these are two big levers, which we would start executing this from day 1. Regarding the balance sheet numbers, sir, given the confidentiality nature of this, we can't reveal the numbers today.

Dhruv Bhatia: But have you bought it more than onetime book, less than onetime book, any sense there?

Rajesh Rathi: We cannot reveal that.

Dhruv Bhatia: Sure. And just lastly, sir, I mean, you did mention that the contribution from Germany as an asset base is 30%. Could you just provide the split across, I mean, how big would Asia be and from both capacity standpoint and from a sales standpoint, a little bit of color on the geography mix?

Rajesh Rathi: No, sir. That I can't because those will be giving too many details. I think this was -- I did mention the German numbers only from a perspective of aligning concerns because there was a big fear on Germany, this being a complete German business, right, that's where I could, but I can't share any more details.

Moderator: The next question is from the line of Ranjit from IIFL Securities Limited.

Ranjit: Congratulations on realizing your dream of becoming the leading global pigment player. My first question is on the process. So, we believe that it was both solvent and insolvent is what we have bought. So, was it through a competitive bidding process that we have bidded for these assets and the highest bidder has got it or it was through a one-on-one negotiation?

Rajesh Rathi: This was a normal process. It started with NBO where there were several, probably 15 companies participating. And that's how the funnel kept getting narrowed down. And in the end, Sudarshan was able to sign the definite agreement.

Ranjit: Second question is on the fundraising plans. We have a Board meeting scheduled soon, and the acquisition is also going to be funded through a mix of equity and debt. Given that we have a bit of a low promoter holding around 30-odd percent, will that be a limiting factor in raising funds through fresh equity?

Rajesh Rathi: No, absolutely, sir. I think it will be a combination of equity and debt. As you all are aware, the Board has always been very conservative on debt. So, it will be a combination of debt and equity, and the Board would make a decision soon. And from a promoter holding, just to give you more clarity, none of the promoters other than me have any executive role in the organization. And as in the past, some of the promoter groups may have chosen to not continue as a promoter, but they continued being shareholders and supported management wholeheartedly and have been very committed to Sudarshan's growth story. Going forward, we don't see this as a concern.

Ranjit: One last question, if I may, please. So, in India, we do have a business where at times we have been overdependent on China for the raw materials. How are these assets, Are they fairly backward integrated? Or they do remain a bit of an asset light and have dependence for the raw materials?

Rajesh Rathi: Over the years, Sudarshan on its own had reduced its dependence on China by working on either technologies on our own and getting these products toll manufactured. With this acquisition, we would also acquired several more IP on some of the critical intermediates. So, I think our dependence will continue to reduce.

Moderator: The next question is from the line of Abhijit Akella from Kotak Securities Limited.

Abhijit Akella: I just wanted to confirm if I got this guidance right. In one of the media interviews a day or two back, it was mentioned that the EBITDA of the consolidated entity could go to INR 800 crores in 3 years from about INR300 crores today. Is that the kind of target you're holding out? Just wanted to confirm that.

Rajesh Rathi: No, sir. I think we're not sharing numbers. I mean, of course, the fact of the matter is that Sudarshan's last year's EBITDA was INR300 crores plus. And this year Sudarshan itself should be in a better position, given the positive trends. As we said that we do have a very aggressive plan for turning around the business, but currently, we can't make any statements on numbers.

Abhijit Akella: Okay. Got it, sir. And just the other one for me was any sense of what the market share of the combined entity would be in the global segment market?

Rajesh Rathi: Sorry, sir.

Abhijit Akella: Just what would the market share of the combined entity be in the global pigment industry, please?

Rajesh Rathi: Right. So, I think between, once Sudarshan and Heubach gets combined, we will be a strong number 2, right, very close to the #1 player. From antitrust perspective and confidentially, I can't share market share numbers currently.

Moderator: The next question is from the line of Jatin Sangwan from Burman Capital.

Jatin Sangwan: I need more clarity on this INR925 crores number that you've given for working capital restructuring and open offer. So, if I include your open offer, the number would be around INR300 crores or so. And working capital since you are already taking whatever is there in the balance sheet, it wouldn't be much. So why are the restructuring costs so high?

Rajesh Rathi: Like I mentioned, sir, I think we are looking at having -- firstly, there would be some working capital infusion. There would be some minor capex on restructuring, and we are also keeping some buffer cash, which may be required as we integrate together. There will also be some areas where we would be working on some restructuring, which may require some cash. So that's the reason we are providing for everything so that we want to ensure that we have leg room to focus on the business and not worry on the cash set.

Jatin Sangwan: Sure, got it. Now, sir, with the acquisition of Heubach, we will become the second biggest player and very close to #1 player. So, do you think it will give us more pricing power and margins to improve in our stand-alone entity, too?

Rajesh Rathi: Sir, I think it's all about delivering value to the customer. Sudarshan's attitude has never been to kind of have this, and we will continue to ensure that we add value to our customers. And based on our value, we would be looking at how we can enhance. So, we do feel that we would have, from both technical marketing also from an R&D perspective, a lot more through this acquisition to add value to our customer.

Jatin Sangwan: Got it. And sir, what's the maximum debt-to-equity ratio that we are comfortable with? Since we will be raising a lot of debt and equity for this transaction.

Moderator: The next question is from the line of Meet Gada from Emkay Global Securities.

Meet Gada: Congratulations on the agreement. I had just one question. I wanted to understand like what will be the complementary set of customers for Sudarshan and Heubach and where we'll be losing some customers over there?

Moderator: Ladies and gentlemen, we have lost the management line connection. Please stay connected while we reconnect them. We have the management back on the call. Please, sir, go ahead with your question.

Meet Gada: Congratulations on the agreement. I wanted to just check that what will be the amount of revenue which we'll be completing at with Heubach and together? Let's say, there is X customer and you both are competing for the same, so how much loss of sales will be happening on that front?

Rajesh Rathi: Sir, can you please repeat your question once because there was some disturbance in the line.

Meet Gada: Sir, wanted to understand that, so you initially said that you have complementary benefits. So currently, there might be products wherein they will be going for the same applications. So over there, will there be any loss of revenue when we are competing together or when we are as one Sudarshan?

Rajesh Rathi: Meet, thank you for your question. As we mentioned, the company do not have much overlap in the product. However, given the confidentiality agreement and antitrust law, we will not be able to give you more specifics on this.

Meet Gada: Understood, sir. And will there be a change in terms of branding of the product, and it will be going by the name of Sudarshan's set of brands or...

Rajesh Rathi: It's too early to say that, but I think in the next 3 or 4 months, we would define our branding strategy and also the product strategy.

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

Dhavan Shah: Sir, my question is on the Germany, I think you mentioned that 30% of the manufacturing comes from Germany. So, is this the only insolvent entity or is there any other insolvent entities also? And if you can share the mix of revenue between insolvent and solvent entities and what will be the mix of revenue between specialty and commodity of Heubach?

Rajesh Rathi: Sir, only the German entity is insolvent, the rest of the business is solvent. From a confidentiality perspective, we can't give the revenue split. And from a trend perspective, I can tell you that the it's a very good mix of specialty products.

Dhavan Shah: Okay. So, is it fair to assume that this 30% manufacturing from Germany is largely from the commodity side, and this will be eventually phased to -- eventually transferred to the Indian operation?

Rajesh Rathi: No, sir, I don't think -- that's not a good assumption. I think it's a mix of specialty and commodities and intermediates.

Dhavan Shah: Okay. And other solvent entities are also mainly mixed in the commodity? Or are they more towards the specialty ones?

Rajesh Rathi: It's a mix, sir.

Dhavan Shah: Got it. And do you foresee that the Indian Heubach entities will also be used to manufacture the commodity pigments going forth? Or they will manufacture the same kind of products, what they are doing right now?

Rajesh Rathi: Like I mentioned, sir, I think we'll be one unified company and the manufacturing strategies will be quiet, so specialties in Europe. The pigment preparations on the regional side and LCCs on the commodity and intermediate side probably.

Dhavan Shah: Sure, sir. And the last one is only on the gross spread of acquisition, if you can share the numbers, I mean what is the -- you already mentioned that 17 sites has been acquired. So, what is the value of those 17 sites, replacement value or any number that you can share?

Rajesh Rathi: From a confidentiality perspective, unfortunately, I can't share these numbers currently.

Moderator: The next question is from the line of Parth Mehta: from Vallum Capital.

Parth Mehta: Congratulations on the great acquisition. Just a couple of questions from my end. If you could just help me understand, I mean, in the yesterday's interview, you had mentioned that the high energy cost in the Europe impacted Heubach's operations. So how do we plan on absorbing those high energy costs once the acquisition and operations are resumed once acquisition is completed?

Rajesh Rathi: Good question, sir. I would like to clarify what I was saying is that in -- when the Ukraine and Russia conflict started, the entire pigment industry, chemical industry faced a huge challenge, including Sudarshan, of very high global inflation, high energy crisis and reduction of demand. That attributed to the kind of loss EBITDA reduction of the pigment industry and impacted the profitability. But it was a onetime serious event, which was over. As you can see from Sudarshan's numbers, we were quickly able to bounce back, and as things came back to normal. What I mentioned is Heubach could not come back at the same speed. And also, they had balance sheet side of issues, and that's what caused the insolvency.

Parth Mehta: Okay. And just to have a clear understanding on this, once we consolidate the entity and with the given size and scale, will we have enough pricing power or enough influence on the pricing that will help us maintain our margins and absorb such kind of costs in the future?

Rajesh Rathi: Like I mentioned, sir, Sudarshan's culture has never been of pricing power, but what we would want to create is the real value additions for our customers and it will be a combination of three levers. One is, of course, the product technology itself, technical marketing and our customer service. This combination, we would be able to add great value to our customers, and that's where customers would value it and give us -- would recognize the value.

Parth Mehta: Okay. Just last one. If you could help me, what would be the gross margins of Heubach? You may not give me confidential info, but if you can just give me whatever is in the public?

Rajesh Rathi: There's no information in the public, and that's why we are not able to give you this information.

Moderator: The next question is from the line of Amar Moriya from Lucky Investments.

Amar Moriya: Number one, as you said that the manufacturing of Germany is 30%. So, does this also mean that the Germany as an entity also contributes around 30% of your revenue as well?

Moderator: Ladies and gentlemen, we have lost management line connection. Please stay connected while we reconnect them. Ladies and gentlemen, thank you for patiently holding. We have the management line back on the call. Sir, please go ahead with your questions.

Amar Moriya: Sir, I wanted to understand, like you said Germany as an entity is 30% manufacturing base, what would be the revenue contribution from Germany as an entity?

Rajesh Rathi: Sir, I cannot comment on the revenue from a confidentiality perspective. The manufacturing products, sir, I think I just wanted to give you all a feel of that. This is not all a German business. So that's why I used this number. And of course, 30% is an approximate number. But just wanted to give you all kind of a trend sense, right? Otherwise, I can't give you all any more information on this.

Amar Moriya: And secondly, sir, you highlighted that SG&A cost reduction is relatively low-hanging compared to the manufacturing restructuring. So, let's say, whenever this deal gets culminated, how fast we can basically see the reduction in the SG&A?

Rajesh Rathi: So, I think we are detailing out each initiative, but I think in the first year, we should be able to capture some of the SG&A costs. And that's where we would look at it. Some of the manufacturing cost initiatives also we would be able to capture in one year -- in the first year.

Amar Moriya: And secondly, sir, when you say the restructuring, so are we -- I mean, do we have to do a complete closure of some of the entity's plant over there? Or it will be like, as you said, some shift from commodity to specialty will happen at every entity level?

Rajesh Rathi: We don't envision, sir, any closure of any plants. We do feel that it's a big advantage to have a global manufacturing footprint. We will see how to ensure that the capacity utilization efficiencies of each plant is enhanced. And from a product strategy perspective, I already spoke about our manufacturing strategy.

Moderator: The next question is from the line of Sandeep Abhange from LKP Securities Limited.

Sandeep Abhange: I just wanted to understand, like you mentioned Germany is almost 30% of the overall Heubach Group. Just wanted to understand the debt part, like whatever the debt amount is, I'm not asking the debt amount, but can we say that most of the debt is from the German entity and not from their other parts of businesses?

Rajesh Rathi: So, the debt is on the overall business, right? And what we are acquiring is on a debt-free basis.

Sandeep Abhange: Okay. And also, on the Heubach part, what are the major synergies which we are looking at in terms of the products and in terms of the product mix as well as the geography-wise synergies? What are the synergies you're looking at? Can you elaborate on this?

Rajesh Rathi: I think, firstly, from a market perspective, industry perspective, I think Heubach has great strength in coatings. Sudarshan has strength in plastics, so we could enhance both these areas. The second area is Sudarshan has a very moderate presence in some of these geographies like Europe, Americas. And whereas Heubach does have a good presence in these markets. So, this will help some of our complementary products also in market.

Moderator: The next question is from the line of Sanjesh Jain from ICICI Securities Limited.

Sanjesh Jain: Just one question. On a combined basis at the 3 years' time frame, where do we see our EBITDA margin on an unified basis settling as per your estimate? Will it be way to where we are today at what, 15%, 16% EBITDA margin? Will margin drift lower because of this consolidated entity towards 10%, 11%? Or we can still manage this 15% kind of an EBITDA margin?

Rajesh Rathi: I think from a 3-year perspective, the combined entities, I would say somewhere in the region of teens, but I think very difficult to give you -- pinpoint exact numbers. But I think, I would say, somewhere in between the numbers which you were speaking.

Sanjesh Jain: Got it. And with this acquisition, how much backward integration we will become as an unified entity? Will we improve the backward integration from what we are today?

Rajesh Rathi: Yes, sir, it will definitely improve our backward integration and the future would provide -- there's a lot of IP on some of the backward integration also available.

Sanjesh Jain: And from the Sudarshan perspective, this will also save the capex going forward because we have now lot of capacity available globally. That means the organic growth capex, which otherwise would have done, would be a saving for us.

Rajesh Rathi: Absolutely. I think within a year -- we would have utilized our own capacities within a year and 2. And we would have required a lot of capacities to be put in. In fact, if we needed to get to this size, probably we would have to put a greenfield plant because we wouldn't be able to do 3x of capex at this site, right? So definitely, sir, absolutely.

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

Archit Joshi: Sir, just one question on the funding part. So, the INR1,180 crores deal along with that close to INR925 crores, so we'll be potentially raising something north of INR2,000 crores. I just wanted to understand the time lines of this. Obviously, the acquisition money will be paid upfront, but this incremental capital infusion that we might require, would that be a part of the current funding plan or that will happen over a period of time? This is just for bookkeeping purposes, if you can elaborate a bit on that.

Rajesh Rathi: We would plan for the entire finance in our master plan, but the funding would be required over the 1-year period, I would say.

Archit Joshi: Sure, sir. Just one small follow-up there. I think we already have some debt on our own books, close to INR450 crores. And would we have any number in mind, let's say, 3 years down the line because this might take a while to not just integrate, but also start accruing benefits from the integrated entity. At what level of, let's say, gross debt-to-EBITDA, we might want to settle in a 3-year time frame?

Rajesh Rathi: Our current Net debt is in the range of INR350 crores. And as I mentioned, our Board has always been conservative on this. And hence, it would be funded through a mix of debt and equity. We would come back to you on more numbers once our silence period is over. And also, the Board has taken a decision on how we fund this.

Moderator: The next question is from the line of Jignesh Kamani from Nippon Mutual Funds.

Jignesh Kamani: Just on the manufacturing side. So, you mentioned that you have 17 manufacturing facility across the 11 country. So, some of the facility might be high cost in nature, be it high energy cost or high labour cost and everything. And it implies, you need to take some bold decision. So, as a part of the state where they operate or country they operate, is there a restriction or as part of the deal any restriction which will restrict your freedom to downsize the particular facility or even if you want to shut down or right size the employee?

Rajesh Rathi: As I mentioned, the only area where we look at is Germany. Germany, we would be -- there was a continuous rightsizing of the sites in progress, and we will get a rightsized plant. We will inherit a rightsized plant when we close the deal. So, we don't see any major going -- after that, we see there will be minor adjustments, but nothing major from a restructuring perspective.

Moderator: The next follow-up question is from the line of Madhav from Fidelity Investments.

Madhav: Just one follow-up on my side was, you also said that SG&A is the key -- one of the important levers for synergy and margin expansion. Basically, could you give some more qualitative sense? Does that come from letting go of some people at the acquired entity? And/or is it any sales force that we have an overlap? Where exactly versus SG&A synergy exactly come from? If you could give us some better sense.

Rajesh Rathi: Absolutely, sir. SG&A, first, is looking at the IT, right? The IT costs are quite high. The second is the entire back-end operations, whether it's finance, back end, HR, IT back end. So, these are the other levers. And of course, having a lean efficient organization going forward and a very noncomplex, a very simple organization, So, these are some of the areas of the SG&A levels.

Moderator: Ladies and gentlemen, we'll take this as the last question. I would now like to hand the conference over to the management for closing comments.

Nilkanth Natu: Thank you, Axis Capital, and thank you all the participants on the call. Thank you for joining this Sudarshan's call on the current acquisition and we remain confident in our growth journey, and we remain confident in having your trust going forward. 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.

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