AsahiSongwon®

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November 02, 2021

1. To,
The General Manager
Department of Corporate Services
BSE Limited
1st Floor, New Trading Ring
Rotunda Building, P. J. Tower
Dalal Street, Fort
Mumbai - 400 001
BSE Scrip Code: 532853

2. To,
The General Manager (Listing)
National Stock Exchange of India Ltd
5th Floor, Exchange Plaza
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (East)
Mumbai - 400 051
NSE Trading Symbol: ASAHISONG

SUB: TRANSCRIPT OF CONFERENCE CALL HELD ON OCTOBER 28, 2021 WITH INVESTORS AND ANALYST ON THE FINANCIAL PERFORMANCE OF Q2FY22

REF: REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirements) Regulation 2015, we are enclosing herewith the transcript of Conference Call held on Thursday, October 28, 2021 at 1:00 p.m. (IST) with investors and analyst on the financial performance of Q2FY22.

The said transcript will also be made available at the website of the Company at www.asahisongwon.com.

This is for your information and records.

Thanking you,

Yours faithfully,
For, **ASAHI SONGWON COLORS LIMITED**

SAJI JOSEPH
Company Secretary and Compliance Officer

Encl: As above

“Asahi Songwon Colors Limited Q2 FY-22 Earnings Conference Call”

October 28, 2021

MANAGEMENT: MR. GOKUL JAYKRISHNA - JOINT MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER.
MR. ARJUN JAYKRISHNA - EXECUTIVE DIRECTOR.
MR. MITESH PATEL - SENIOR GENERAL MANAGER, COMMERCIAL &STRATEGY.
MR. PRATIK SHAH - CHIEF FINANCIAL OFFICER.
MR. SAJI JOSEPH - COMPANY SECRETARY AND COMPLIANCE OFFICER.

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY22 Earnings Conference Call for Asahi Songwon Colors Limited.

As a reminder, all participant lines will be in 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 operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Mehra. Thank you. And over to you, sir.

Abhishek Mehra: Welcome everyone. And thank you for joining this Q2FY22 Earnings Conference Call of Asahi Songwon Colors Limited. The results and investor updates have been emailed to you and are also available on all the Stock Exchanges. In case anyone does not have a copy of the same, please do write to us and we will be happy to send it over to you.

To take us through the results of this quarter and answer your questions we have today with us

Mr. Gokul Jaykrishna - Joint Managing Director and Chief Executive Officer.

Mr. Arjun Jaykrishna - Executive Director.

Mr. Mitesh Patel - Senior General Manager, Commercial &Strategy.

Mr. Pratik Shah - Chief Financial Officer.

Mr. Saji Joseph - Company Secretary and Compliance Officer.

We will be starting the call with a brief overview of the financial performance which will be followed by the Q&A session.

I would like to remind you all that everything said in this call, reflecting any outlook for future, which can be constituted as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the Company faces. These uncertainties and risks are included but not limited to what we have mentioned in the Prospectus filed with SEBI and the subsequent Annual Reports, which you will find on our website.

With that said, I will now handover the call to Mr. Jaykrishna. Over to you, sir.

Gokul Jaykrishna: Very good afternoon to everybody and welcome you all to the Earnings Call for Q2 '22 and H1 '22. It is my pleasure to be speaking today to all of you. And thank you very much for your participation today.

Since we last spoke, the environment around us has significantly changed, some for the better, some for the worse. The environment of COVID, which was a very impending threat to the global business and even to the health of everybody around and we had seen the worst of it in India in the second leg of COVID, seems to be well past us. And I thank to God that, we have passed it and we don't see a third wave. I think the country as a whole has somehow managed this extremely well. And we are probably seeing that India is even better placed off than countries like U.S. and Europe today, for which I take great pride.

This is a healthy sign going ahead for business, because things are starting to roll back to normalcy. Having said that, there are other forces in the business environment which are very disruptive, which all of you being in the investment business and finance business are fully aware of. I like to call it the 'Holy Trinity'. It is the disruptive nature of the rise in raw material pricing that we are seeing, which is unprecedented. It is also the rise in coal and energy costs. And third an extremely uncertain is the freight cost and availability of containers.

So, this 'Holy Trinity' has caused disruption of mega proportions, which I at least in the last two decades being in business has not witnessed together. It remains up to well-run companies to manage this disruption. We don't see it as a threat. We actually see it as an opportunity in two ways, one, such disruptions make it extremely difficult for poorly managed businesses or unorganized sector to withstand the disruptive nature of the forces. This automatically becomes a big advantage for the companies which are better planned and financially stronger. So, that they can take advantage, and take additional market share beyond what the 5% growth that the industry generally 4% to 5% international growth that the industry witnesses.

At Asahi, I am proud to say that our team has worked hard through this COVID and this price disruptive nature of disruption and managed this reasonably well. And we have managed to acquire additional customers, and also grow beyond the 5% given the opportunity that has when presented.

And the third and final thing the 'China Plus One' situation continues to play out. We do continue to get calls from major customers and multinationals globally about a second supply source, from Asahi in place of the Chinese that they have been dependent on in the past. This augurs well for the next 5 years or 10 years for our business.

With this, I will just go into the key highlights for Asahi's standalone numbers for Q2 & H1 FY22.

Q2 FY22, these are bullet points just so that it is simple rather than talking in paragraph.

- Q2FY22, turnover growth of 50% from Rs. 62 crores to Rs. 95 crores in Q2 FY22.
- H1FY22 saw a turnover growth of 51% from Rs. 120 crores in H1FY21 to Rs. 190 crores in H1FY22.

This basic overall top-line growth was equally driven by volumes and prices. I would say approximately 25% of the 50% growth came through volume growth. And about 25% odd came through price increases. Both of these trends are very encouraging, when we discuss it at the Board and strategic level within the Company.

We believe that the volume trend that we have gained, which was unexpected, we had never budgeted that we would grow much in the Blue business. Of course we have a lot of unlimited opportunity to grow in the AZO business. However, in the Blue business, even in the last call, one or two people had asked about the growth potential and I had guided that we don't see much at all. However, we have seen a 20% to 25% top-line growth in volume alone.

And the second trend of price, cost increases driven by the 'Holy Trinity' of raw material, coal and freight costs, we have been successfully able to pass on to our customers, which has accounted for the balance 25% of the 50% top-line growth. Both of these trends are encouraging. How sustainable is the price trend, will probably depend on the raw material and the price increases that we are seeing. But we are confident within the Company, the 20% to 25% volume growth seems sustainable. And we have acquired new customers and increased our strength and breadth. Based on this we hope to see your overall year-on-year growth of approximately 35% to 36% in the top-line of Asahi, in FY22, compared to FY21.

Now talking a little about the bottomline, Q2FY22 EBITDA stood at Rs. 12 crores which is the same as the Q2FY21 EBITDA number. So, there wasn't any much change. We were able to mitigate the raw material price increases, freight and coal price increases by increasing our top-line. So, where there could have been a possible dent in bottom-line we maintained a flat EBITDA.

H1FY22 EBITDA number came at Rs. 24 crores compared to Rs. 23 crores in H1FY21, which is a 4% improvement in the EBITDA.

EBITDA margins were under pressure which was fully expected with the cost increases that we have been witnessing which is completely unprecedented and extremely difficult to not only manage, but even to forecast. We have been able to, as I already mentioned, pass on these increases. However, I mean you all know from the last call that we price our customers on a quarterly price and volume contract. While when we procure, we normally procure for a month or maximum two. So, there is a possible 45-day lag which has been telling on the EBITDA margins. And hence we have seen a drop in the EBITDA percentage margins. However, we have maintained the absolute number as per last year.

Now just a little word on another good development that I would like to share with you, last call, six months back, Alpha Blue was like a thorn in the flesh of Asahi and we have spent three years in which we have invested three years back about Rs. 8 crores to Rs. 9 crores and not gotten any result. I am happy to make a note that now we are starting to see very good traction. Q2FY22 saw a volume of 114 tonnes in Alpha Blue compared to 32 tonnes in

Q2FY21. And this compares to 62 tonnes in the last quarter. So, we have made very good inroads. In Q4FY22, we expect this to be doubled at about 225 metric tonnes, from where we are in Q2FY22. This would take us 100% utilization.

I, would like to thank our young team, I had nothing to do with this, I was hardly involved in this business. It is Arjun and Mitesh, the two of them lead this business out of the two years or three years of doldrums and suddenly we are seeing and looking at 100% utilization in the coming few quarters.

With that I will let Arjun give a quick word on the Alpha business, before I talk a little about the AZO JV.

Arjun Jaykrishna: So, as our CEO said, I think we have finally got to a good traction, with the product. We have got it technically approved in the leading MNCs around the world. Following the technical approval has started orders to all these big MNCs as well. And in fact, we are currently flooded with orders, which is a good problem to have.

And as the CEO mentioned, we should be looking at 100% utilization in Jan/Feb/March, which is a positive sign, and it is one of the things the Company has been wanting to do since a while. And the marketing team as well as the production and technical team are all pleased with the results. And we hope to carry on with consistency and maintain 100% efficiency for the quarters to come.

Gokul Jaykrishna: So, just to add to what Arjun said, we are very happy with the quality that we have achieved in Alpha Blue. And this is now converted into commercial orders from multinational majors such as Clariant. And the full future of Alpha Blue now looks good, and it should start contributing to the bottom-line.

Now the final word on the JV, the AZO JV in Dahej, before I open the platform for questions. So, H1FY21 had very little activity in terms of top-line. Most of the work was done at the lab plant and marketing areas, working with customers for sample approvals, and getting the products fine-tuned to the requirements of our customers. We have two different kinds of customers.We have the big three or four customers, which you all are aware of, are the same in the Blue business who account for majority of our Blue markets. These guys have not yet come into commercial order stage. However, we have now got a lot of inroads into smaller customers who take lesser time for product approvals. And the volumes for the H2FY22 are going to start looking much better. And we should look to probably EBITDA breakeven in Q1 FY23.

With this, I would like to close my comments and not take too much time. And leave it to Abhishek, before that I will just add a couple of lines to the opportunity that this JV and this AZO business offers to Asahi, because it seems to be like a very large opportunity. It is the global scale of the AZO business, is three to three and a half times that of the Thalo business, the Blue and the Green business. And in the Blue and the Green business, 75% of the global market is dominated and catered to by India, of which Asahi is the leading player. But in the AZO market, it is a very different situation with China leading the global market with a 75% market share, and India probably having only 10%. And only two significant AZO players in India, Sudarshan and Pidilite. So, this gives tremendous opportunity for making future growth over the next 5 to 7 years, if we get our act right.

And with the Dahej plant, which is a state-of-the-art plant, we are very well poised to take advantage of this opportunity. With that, I would like to hand it back to Abhishek, and then we can have questions.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin with Question and Answer session. The first question is from the line of Parth Agrawal from Ladderup Wealth Management. Please go ahead.

Parth Agrawal: So, I understand top-line growth has been fantastic in the last few quarters. And as you have mentioned that it is driven equally between price and volume. So, you seem convinced that the volume growth will sustain, if you can elaborate on that, why do you think it will sustain going forward?

Gokul Jaykrishna: Honestly, I will give you a very honest answer. Internally, strategically, we were not, and we have always been honest, even in the past. So, we have always guided that we won't expect much from the blue business in terms of top-line growth, while we continue to fine-tune the bottom-line.

However, now, with this COVID hitting last year in March 2020, a lot of things changed. First of all, Asahi was the first Blue manufacturer in the world to get back into operation. And none of our supplier or customer orders had to be renegotiated or even delayed. So, this left a very good taste in the mouth of the customers. And I mean, they were all very good old customers. But suddenly they were really happy that they were buying from Asahi and not from anybody else.

Now, what this also did, is because the other customers around the world who were not buying from us, and were outsourcing from other people, realized that they don't have any material for April, May and June of year 2020. And they started knocking our doors. And we took full advantage of it and we priced the material higher than we would to our regular customers, took a pound of flesh, but we did, our productivity was managed well. We managed labor in COVID times very well. So, due to that, we acquired a few new customers. And this was the 10% or 15% additional volume that we got from competition, which is over and above the 5% normal volume growth that 3% to 5% that globally you would see.

Why would this be sustainable, is because the disruptions continue. After COVID we had a second leg of COVID and now we have the worst of it all, with this 'Holy Trinity'of price rises in raw material, energy and freight. With these price rises the uncertainty in supply chain has become as bad as it was in the early COVID time. And again, people are forced to rely on very reliable solid customers who are financially in a position to buy inventory and pay and acquire raw material because acquiring raw material has become a challenge.

When this happened for a sustained period of two years, a lot of the customers switch over and then it is very difficult to switch back to alternate or older supplies. And also there is unorganized sector, to which some of them, I mean, I would say 10% or 15% of the unorganized players will not make it past this disruption, because they have been so badly hit financially. So, that is why we are pretty confident now that we should be able to maintain the volume growth that we have now got.

Parth Agrawal: The second question I have regarding the raw material. So, there has been sharp rise, just a little bit on how much percentage is it that we will be able to pass on to the customer and how much would we have to take a hit on our margins? And generally, just a similar questions on that line is, if you pass on to your customers, so generally how many days like this is there, if there is a price increase today, then within how many days or months do you pass it on to your customers?

Gokul Jaykrishna: To answer your question of what degree, what percentage of the raw material increases would we be able to pass on to the customer, it seems like we should be able to pass on most of, if not all the cost increases. But there and thereabouts, but we are pretty confident that we have done it in the past six quarters, and it looks like the market is pretty robust. And customers are seeing that, this is real, it is not India centric, it is not Asahi centric, it is a global phenomenon. And thus, we are pretty confident that we would be able to pass on most if not all the price increases.

The second point, which is a very good question, that what is the lag? Now there is a lag. And that does have an impact on EBITDA margins, because the price and take orders from our major customers globally for about 60% to 65% of our business on a quarterly basis. So, for example, sitting here today, we are completely sold out for December end quarter. There is no sales work to be done at all. And January, February, March, sales remains completely open. So, this is as transparent as I can be, in terms of trying to give you a reply.

While raw material that we have procured, is going to last us till probably 15th of November. We have increased our inventory levels of raw materials significantly, by almost 100% in volume terms, because earlier, we used to follow a just-in-time inventory management system, whereby we would be happy to have a 15-day inventory. We have on an average basis to 40 to 45 days, because availability of the raw materials could actually result in long shutdowns of the plant and disruptions in supply. And we have the financial capability to be able to manage inventory.

Also, because the trend is of rising prices, so if we were not to try and mitigate this, and keep the 25 days of the quarter open, it would just leave us more vulnerable. But having said that, there is a vulnerability of 45 days on EBITDA margins while we price them for January, February, March, we will take that raw material price, increase hit in EBITDA for a month or two while the lag period, plays out.

Parth Agrawal: Third question that I have is on the AZO pigment that you have mentioned. So, I think TCC had committed some buying quantities so have they started picking up that volume? Or is it yet to start and if it is yet to start then when will it start?

Arjun Jaykrishna: So, I will answer the question and give a very quick general update on the customer we are working with for the AZO and the outlook we are having right now. So, in terms of the current business, the TTC has already started picking up material, of course. So, in general, all the big MNCs including BASF, Clariant, DIC as well as not as big companies, but one with an equally good, very solid quality control methods such as TTC, they take around one year for new products to be approved at the earliest, one to one and a half to two years in fact, to get new product approvals.

TTC obviously has expedited the process for us. We have got a number of products already approved and commercial shipments of some of the products already gone. We further are planning a few containers to be departing next month, November. So, TTC is already accounting for a good amount of our sales.

For the other the big MNCs as well, we are already working on it, and we hope to shorten the timeline of approval which we are confident of doing. And we hope within the next six months, at least one or two of the big MNCs will contribute to our sales. So, the good benefit in this is that currently we are working with TTC as well as a bunch of other customers, in different end application industries as well as different geographies, who we have started catering to already. These are obviously smaller volumes than the MNC. But it gives us a good diversification where we are entering the market and it puts us in good shape for when the big MNCs, we have already started getting some approvals for some of the CI as we move on to larger trials and hopefully commercial orders in the near future, we will be well positioned to cater to them and have a solid base with the companies we are already working with.

And TTC, specifically it has given us a big advantage because following the testing process and the quality control level that they have, it is top of the world. So, we are well positioned with all our testing and all our compliance as well. We are proud to say that our products have very good compliance and we have done a lot of that testing which will help us in the big MNCs going forward and set good practices for a top quality….

Moderator: Thank you. The next question is from the line of Navid Virani from Bastian capital. Please go ahead.

Navid Virani: Just wanted to understand the reason behind this rise in receivables. So, receivables as a percentage of sales if I see, I am seeing an inch up. So, just wanted to understand the reason for such rise?

Gokul Jaykrishna; So, as receivables, basically in absolute numbers would have gone up because of the increase in the turnover. But if you look at the receivables in terms of days, at least what I have and our CFO, Pratik will correct me if I am wrong. But FY21, we had 86 days receivables, which we have brought down to 79 days in H1FY22. So, there has been a decrease in the days from 86 to 79, we would continue to work towards 70. But 70 is the optimal solution. We are not that away from that optimal receivable in terms of days. But Pratik, can you throw a little light on Navid's question.

Pratik Shah: Navid, just to answer your question what Mr. Gokul has mentioned, I think it is fully correct, if you look on an average basis, absolute debtors figures are increasing as you have rightly pointed out, but in terms of days on average debtors figures, between FY21 and H1FY22, the number of days outstanding has reduced by around 7 days. And in absolute number is you must have seen the top-line which has increased by 50%.

Navid Virani: So, I just wanted to understand our receivables policy, just wanted to understand are we being more lenient with the newer customers or not? So, that is the reason I asked that question.

Gokul Jaykrishna: Right, fair enough, that's a very fair question, and the answer is yes, we have to be slightly lenient with newer quality customers. So, we make a very clear distinction in the new customer. There are two sets a top quality new customers and there are, because there is a lot of specially we don't go for poor quality customers at all, but customers who we would not rank at the top-end, in that case we are not linear. However, if we get a very good customer then we have to because our competition is normally getting more credit than our internal target of 70 days of average. Our competition may be at 90. So, when we are acquiring, so say older customers who are used to working with us are on a particular system. However, when we acquire new customers and if they are top quality, they do demand at times. And we have to be slightly flexible till we get them into the fold on a longer term basis.

However, it remains upon the marketing team to make sure that the overall policy of receivables in the Company is maintained. And overall days, as I already mentioned to you our internal targets, we should not be deviating too much from it, because financially, we have always been very prudent. We have had zero bad debts in 25 years, and we don't intend to start now.

Navid Virani: My second question was on the AZO pigment. So, I just wanted to understand that given the size of the opportunity of the market, and the 'China plus One' theme playing out in our favor. Do you think we have been a little too cautious with our expansion plans there?

Gokul Jaykrishna: Yes, you could probably say that. I mean, yes, we haven't run away too aggressively, we could and we had discussed this honestly, internally at a strategic level, also and even at the Board level. What I can share is, Asahi's DNA generally has been conservative. We decided that we would like to see a 60% utilization on a quarterly basis for a couple of quarters. And then we would kick on for doubling the capacity. This was a conscious decision. Yes, it is a bit conservative, I mean, we could also be more aggressive and if we get good traction in Q3, and Q4, we could switch on the expansion gear and go into, because financially, we are more than capable of easily doing it even now. However, we were wanting to be prudent and get things a little stable and confident before we move into it.

See, after all, in the Blue business, we are very confident, we can probably say that, arguably we are the best player of Blue in the world. However, in the AZO business, we are completely new. There is a lot of synergies, particularly with application and customers. However, the business is completely new to us. So, we don't want to be overconfident. We want to, we don't mind playing second supplier. We don't have aims of being a first supplier in AZO as of now for the next 3 to 4 years, even if we have made good inroads as a second supplier that should be very satisfying.

So, I could share with you very openly that as soon as we hit 60% utilization levels, we would be immediately going in for doubling the capacity, but we have been a bit conservative, yes.

Navid Virani: Yes, that was helpful and it was good to hear that we have expansion plans on the cards. Third bit was again on AZO. So, I remember you mentioning in the last conference call that you have not yet taken a call on the ramping up strategy of AZO. So, are there any further developments there? Are we looking to bring up volume with low margin products, or we will take the longer route of getting approvals for high margin technical products from new customers?

Gokul Jaykrishna: So, Arjun, probably answered a bit of it, but I will throw more light on it. And Arjun if you want to add you can add to it. But basically, we have a strategy of marketing in two ways. One is the MNC customers which are synergistic with the Blue business and customers that we have. And these as Arjun said, are very large customers globally, but take a lot of time. So, as of December, we expect zero volumes coming out of our top three Blue customers for AZO. However, say if you take 18 months from now or FY23 then I would say 50% or more would come from these three customers. So, that hasn't started.

On the second set of customers where we have already started seeing significant success and orders commercial orders coming in and that is why Arjun mentioned that Q3 December ended we will see decent volume, and March ended quarter will see again very decent volume, would all be coming mostly from a newer customers.

I will also like to share that we have now acquired of a General Manager Marketing with a 22 years' experience with one of the leading companies in India. And he has got tremendous strength for marketing within India, which Asahi generally lacks. So, this is going to boost our sales within India and we are already starting to see some volume traction in number of customers we have already started supplying to over a dozen customers in India, small quantities, but it has already started.

Navid Virani: So, lastly, just wanted to understand what kind of risks can we face in the ramping up our AZO production?

Gokul Jaykrishna: So, the risks are that, I mean, what could be the traditional risk, if you don't get the quality up to the mark, is one. In this very disruptive times, if you don't get access to raw material in time, which some of our competitors are already facing that could be another risk. However, this risk as of today, is lesser than it was a three months back, it is still there because we are new, but like in the Blue, I would say there is no risk because we are at the top end of the chain in Blue. So, we see there is no risk there. In the AZO business, there is some risk, when we talk again, after six months in March, I think the risk would be significantly reduced by that. But I am seeing that risk is already reduced compared to three months back, because we are starting to see some volumes now, good volumes.

Moderator: Thank you. Our next question is from the line of Aashav Patel from Molecule Ventures. Please go ahead.

Aashav Patel: My first question is that our CPC new business has been increased in terms of top-line from Rs. 60 crores odd to Rs. 90 crores odd. So, as far as my limited understanding goes, globally the market size is not growing fast so, was the gain entirely between change in market share?

Gokul Jaykrishna: So, the growth from 62 to 95 is coming half from volumes, of which, a lot of it is due to market share. And the second half is coming from our passing on the raw material price increases to our customers. So, these are the two areas in which it is coming from. As I earlier said, we expect that the volume part of it looks sustainable.

Aashav Patel: Okay, and what about the margin part, sir? Is it possible to clock the earlier 20% margin range again?

Gokul Jaykrishna: We never had 20% margins, I mean, we would probably, our EBITDA margins have historically been around 15%. We would be happy to see some improvement in it by a percentage or two if we do some very good skillful engineering work. So, we do oscillate around that 15% to 16% mark. We should continue to be around that mark.

In our business on a QonQ basis, it would oscillate. I mean, we could be at 18% for a quarter or two or 13% for a quarter or two. This is quite normal, because I already referred that we have a 45-day lag on a quarterly basis where we are open to either raw material price increase, or a decrease, an increase could hurt or decrease could benefit. Over a period of time, it averages out. And that's why our overall margins if you take a longer-term perspective of 5 years are very comfortable.

Moderator: Thank you. The next question is from the line of Praveen Sharma as an Individual Investor. Please go ahead.

Praveen Shah: I have a couple of questions, first is, looking at blockbuster performance in Alpha, aren't we looking for further expansion in Alpha because, it requires a lot of legwork to get approval from the big clients. And once we have got it, shouldn't we try for capturing more market share and in ramping up our further capacity further from, say, right now it is, I think 1000 metric tonnes per annum, so shouldn't we ramp up further from there, since a lot of effort has already gone.

Gokul Jaykrishna: I am actually smiling, it's a great question. So, actually, I will put it up and I will take it up with the strategic team, also. We should be thinking about it, there is no doubt about it. And the opportunity is there.

Praveen, but having said that, it is not going to be that easy, because getting permission for additional capacity in Alpha, at the location where we are, is, I wouldn't say unlikely, but extremely difficult. That is our biggest hurdle for ramping up Alpha. Otherwise, everything that you said is very logical. But yes, now that you have said it, I would definitely take another cue and see if our strategic team can work out and see even if they can ramp up by 20%, 30%. We should ideally, given, if we did not have a constraint of the permissions that we hold, to make the product, we should be doubling it, easily. But we do have that and that's real. Let me take it to the strategic team thanks for your point. And if at all, we can even ramp it up by 20% that would be nice.

Praveen Shah: Second, since we are witnessing a lot of volumes in the Blue part, also the CPC Blue and Beta Blue. So, somewhere, as you said that 25% volume growth was there. So, I think we would be hitting capacity constraint there also, correct?

Gokul Jaykrishna: Yes, of course.

Praveen Shah: So, further volume growth is not possible and the conventional, apart from Alpha, the Beta and CPC part also --

Gokul Jaykrishna: Overall, if you look at it, you are right, I mean, we probably can't get beyond 5% growth from here in terms of volume. We have already unlocked whatever underutilization there was by grabbing this volume, but you are right, I mean, we have a constraint over there in terms of our capacity overall.

Praveen Shah: Just to harp more on the Blue part because this has been our bread and butter for a very long time and we have no very established player there. So, are there ways to look around for capacity because market may not grow, it may grow by 4% or so per annum. But there may be a shift of the market share in favor of Asahi. So, we should look at that angle also, I don't know whether it's possible, because environmental clearance and other issues are there.

Gokul Jaykrishna: So, Praveen, again I really thank you for this. I am happy that you brought it up on the call and I would be happy to take this to my strategic team. We should be actually thinking about this. Having said that, I don't see potential at our current size beyond 5% because as you said the constraints that we have. However, there is always a possibility of alternate location or I mean somewhere else --

Praveen Shah: Inorganic acquisition can also be there because many of them are bleeding.

Gokul Jaykrishna: Yes. So, I think both these inorganic opportunity and a Greenfield opportunity is a very fair suggestion and we haven't honestly considered it very systematically at the Board and the strategic level, but I would be happy to do that.

Praveen Shah: The second question is from AZO, wherein, we as per the presentation I think we are looking at 25% utilization in Q3 for AZO. So, the TTC part itself was committed to be around 20%, so this 25% actually is 20% from TTC and 5% from others or it's; because TTC I am fairly confident that it will come sooner or later. So, if this is 25% over and above TTC, it's very good.

Gokul Jaykrishna: Yes I will let Arjun comment on it, but just a quick comment is, TTC's approval processes are more stringent than the top three MNCs that we deal with. So, they are high-end quality conscious customer. So, they take a lot of time and this is good, because that will make us a strong Company in the long term. In the shorter term, we are slightly behind where we should be because the processes with TTC take longer, but in the long term I think it will make us a stronger Company. Arjun, can you take that.

Arjun Jaykrishna: So, I think as you said, I think, firstly the TTC, what we have decided, like you said, that is sooner or later going to be fully timed out. We are slowly like Dad, said already getting approvals and already started shipment. In terms of how much they take from us, basically what the deal we have with them is as long as we match the quality, then they would essentially be taking all their pigments requirements from us. But this however is a combination of all the CIs. So, as we establish the different, the various products and we get approvals for them, based on that the volumes will be starting with TTC. And as soon as we can, they will obviously be giving us as much business as possible. So, we hope to carry that on side-by-side, like you said also maintain our other marketing processes, and go for all the different customers, we already started sampling to, as well as the MNCs and then also TTC, of course.

Praveen Shah: Okay. So, the 25% in this quarter is mostly domestic, correct.

Arjun Jaykrishna: Right.

Praveen Shah: And when do we see, because if I recall correctly, we were looking at further expansion of 2200 MT, once we had 50%, so when are we actually expecting that hitting 50% and going into the next expansion?

Gokul Jaykrishna: See, we were planning, of course the endeavor would be to do it as soon as possible, yes you are right, as soon as we do hit 50% or 60% we will go into doubling the capacity. This is a decision that has already been taken and approved by the Board. When is, I mean I don't like to, I wouldn't like to answer exact number because, I don't like to be wrong in the end. But if I were to guess then I should think that in April, May, June I think we should be getting to that.

Praveen Shah: And are we, getting because TTC anyway is having 49% equity in ATC, which is very significant part. So, are we getting any support from them in the marketing and sales initiatives, like because at the end of the day it's their Company and their product, their technology also at the stake, and we are actually doing lot of legworks in terms of environmental care and production, manpower management, COVID and all these things, but are they supposed to give us a leeway into their client basis and increase the sales part there.

Gokul Jaykrishna: See, TTC has been extremely supportive. I cannot imagine of a better Joint Venture partner having now with them for one and a half year. Particularly, technically they have been supporting our technical team like anything, I mean I can't start thanking them for that. On the marketing side, we have a buyback arrangement where, as Arjun mentioned, the entire volumes that they consume and buy for their dispersions will eventually be coming out of ATC production.

However on the pure commercial marketing the agreement is that it will be all done by us. So, they have no commitment for anything. But yes, they have been otherwise extremely supportive, giving us a lot of leads in Europe, including, because they have various, they have 13 establishments around the world. And even in areas like geographies like Brazil, where we have zero sales and presence, they already have a presence. They have already introduced us to their business partner there. And I think Arjun and our marketing team have already acquired 11 tonnes order from that Company, just to give an idea that in that sense they are helping a lot. But they have no direct responsibility in terms of sales and marketing.

Praveen Shah: And, if I read correctly in the presentation it's mentioned that 1200+1200 for Red and Yellow, so are the capacities color specific or they can be interchanged?

Gokul Jaykrishna: They can be interchanged.

Praveen Shah: So, it means if Yellow is doing very well, if I could see in the press release then we can actually go the entire capacity for Yellow.

Gokul Jaykrishna: You are right. And this is a possibility. When you Red to Yellow it is possible, but you have to do a shutdown and a cleaning up profit. But other than that, yes. There is a theoretical possibility that if the traction on Yellows is for example more, we could convert, even the entire capacity to Yellow.

Praveen Shah: Is there any, this is the last two question, is plan for the other land parcel at Saykha which we are thinking or we are now completely focused on AZO itself?

Gokul Jaykrishna: So, right now, Praveen we are just focused on the AZOs and we also would keep eye out on a small opportunity of inorganic growth, if it comes about, with the strong cash position of the Company. So, we haven't really spent too much bandwidth on monetizing the Saykha parcel. It remains a very valuable thing on the balance sheet. And we hope to let's see how it goes, but I don't have a good answer for you on that, yet.

Praveen Shah: Just extension to the question, the Saykha land environmental clearance also includes the Blue, Alpha Blue, Beta and CPC or it is only the AZO part which we have taken.

Gokul Jaykrishna: No, it does include the Blues as well. So, I don't want to mislead the listeners, I mean we don't have a strategic plan to start Blue there. So, if you talk this Red, I mean I just know, I am clarifying --. Yes it's too bigger land for Blue, if we decide something which is not conducive to be made with Blue, then we would be compromising the land parcel, plus putting up additional Blue, because things are good right now, maybe an aggressive move and then later on if the market isn't good, then finding sales and all is an issue. So, we have to think about various things.

Moderator: Thank you. The next question is from the line of Ankit from Bamboo Capital. Please go ahead.

Ankit: On the Azo side, on the 2400 tonnes per annum capacity, what can be the maximum revenue that we can conclude?

Gokul Jaykrishna: So, the volume of 2400, the value would depend on the pricing, right now it is very difficult to put a number, because it is so potentially disruptive.

Mitesh Patel: Yes, it could be max 150 crores.

Gokul Jaykrishna: I would think Rs. 150 crores to Rs. 160 crores from the current capacity.

Ankit: And let's say when we cross 50%, 60%.

Gokul Jaykrishna: Again, I would like to qualify that, because it could come down to Rs. 135 crores if prices fall. If prices rise the way they are it could go to Rs. 160 crores to Rs 170 crores also.

Arjun Jaykrishna: Just to add to the question, see this is, the differencing from Blue here is that it is not easy, one, because we have already a bunch of products which are priced very, very differently, I mean even if I comment for examples two of our very established products which are both doing well, for example the Yellow 83 and the Yellow 12. The Yellow 83 would be like a $20 per kg product whereas the Yellow 12 is $6 per kg product. So, every single depend on the mix of Cis mix of which we are already doing nine different CIs which are established and commercialized. As we move ahead and we become stronger, we will have further CIs being added step by step. And based on how much of each CIs we do the overall possibility of revenue from the sales will depend heavily on this. So, it would not be easy to assume right now what volumes and what revenue we can do. Not purely business situation also because of the product wise monthly production and sales.

Ankit: So, taking a broad view, let's say somewhere around Rs. 125 crores, so let's Rs. 150 crore and Rs. 170 crore, there is a broad range we can put.

Gokul Jaykrishna: Yes, Rs. 150 crore like Mitesh said, I think you know Rs. 140 crore to Rs. 150 crore thereabout.

Ankit: On the margin side, will this be also like 15%, 16% kind of margins if possible let's say once we cross 15% to 16% capacity utilization.

Gokul Jaykrishna: Ankit, this is an interesting question because overall, eventually, yes it should be around that area, 15% to 16%. However this is after we expand our capacity. Before expanding at the current capacity, we would be probably constraint to reach 16%.

Ankit: So, with current capacity, what kind of margins can we look at?

Gokul Jaykrishna: Very difficult to actually put a number on it. We are just learning things in the AZO thing, I mean but it would be, as I said, 15%, 16% may not be possible on the current capacity. However when we ramp up and double it, the doubling is going to happen at half the cost. Return on equity, return on capital employed and the margins all are going to come, change significantly once we do that.

Ankit: One question on the strategic part, broader part, we have been looking at this Company for a long time. And our sales has been growing at a relatively lower pace. But now over the past year or two and currently as well, with Arjun also joining you in the business, is does seem that we have become a bit aggressive, of course there are tailwinds from 'China Plus One' policy which is helping us. So, you have this interest on AZO part you have formed with JV which has a potential to actually, let's say when you do further expansion it has a potential to reach 10000 tonne per annum, and let's say on a broader level somewhere around Rs. 600 crore or Rs. 500 to Rs. 600 crores of revenue capability. From your talk it does seem that there are certain opportunities we are looking on the inorganic front as well.

So, can we say that, we do see our growth rate increasing significantly over the next 3 to 5 years, with the kind of measures we have already taken in and other measures which are planned for the medium to long term?

Gokul Jaykrishna: Yes, definitely, we were a bit too conservative. We are now becoming a little more aggressive. We have Arjun, who has joined in, a young blood, engineering, bring some value. Also we have increased the depth apart from Arjun, it's not just him, we have increase the depth of the organization, and me and Mitesh are working actively on the strategic side, to further broaden the managerial bandwidth of the Company.

If we are able to improve this over the year or two, we don't see why we can, not easily double in 3 to 5 years. If we don't, that would be disappointing, we should be able to do a little better than that, because you rightly pointed out, there is a clear potential of a Rs. 300 crores to Rs. 600 crores business on the direct side.

Ankit: And we do have another land of level of Saykha,, we might even look for acquisition or any inorganic opportunities which come up.

Gokul Jaykrishna: Yes, so one inorganic, the Company is financial strong, can take not very large but we can take advantage of some small opportunities if they come by. But if not then the Saykha parcel as two of you have mentioned today, is a large parcel, it is twice the size of the Dahej parcel. So, 115,000 square meters, so that potential is always there. However we have not done any strategic work mentally on it.

Ankit: And inorganic opportunity will also be in the same line of business pigment or you might also be looking at some other segments or some other new areas on the chemical side.

Gokul Jaykrishna: So, we are not actively looking at inorganic opportunity in pigments at all. We were at one point of time, but when we went into Dahej, now we would not, now whatever we do, because the pigment headwind in Dahej itself could be significant. I mean there is a lot we could do. So, our energy should be concentrated only on that in pigment.

Moderator: Thank you. Our next question is from the line of Piyush Goel as an Individual Investor. Please go ahead.

Piyush Goel: So, a couple of things, I was reading your article in Times Of India or I think Economist Times where there was report that lot of units and everything closed down, because of this raw material prices. And so lot of people have already asked that question that that could become your potential acquisition targets if you want to, given the bottleneck you have in your current location. So, that is one thing.

The second thing is, like if I am seeing the quarter-over-quarter results like last quarter you did about Rs. 97 crores, but this quarter you have done only Rs. 94 crore. So, despite all price increases caused by raw material prices, but our revenue has gone down a tad bit. So, is it because of volume gone down or what is the reason for that?

Gokul Jaykrishna: I will take the second one first. The turnover is just, the difference is Rs. 1 crore, so there is not any change in the turnover. Prices have gone up a bit. Volumes were a little down. So, that is about it. I mean and the volumes down were due to logistic freight issues, but yet we maintained the similar top-line to the previous quarter.

So, there is, like you read in Times of India, and I think now it started broadly being reported, lot of the unorganized sector is coming under pressure because of this two years of disruption from COVID and raw material and freight and coal and energy and everything. There is a huge financial pressure where unorganized sector players are now finding it very difficult to do business. And because of this unprecedented raw material rises, they are not in a position to be able to manage this. Some of them can't get access to supply, because suppliers won't give them credit anymore. They don't have the money to buy. If I have to buy at 30-day credit instead of 90, I will just do it. I mean every Company won't be able to do it.

So, the small ones are finding it difficult, some of them are close down or I wouldn't say close down but reduced productivity which is a logistics as well raw material availability and finance issues. This is how some of the volume growth came to us. And because this disruption doesn't seem like, it's going to be over next week. They could be a permanent opportunity for us in getting this volume. Beyond what we have already got the 20% volume which we hope to continue to maintain. We have had various people like you and couple of other suggest about potential inorganic or Greenfield growth in the Blue business. While we have not thought of very seriously there may come a time when inorganic growth opportunity in Blue, may become possible. However we have to be very mindful that if we do anything in that area, it becomes with a lot of disadvantages in terms of no other manufacturer of Blue is at our level, in terms of quality or cost efficiencies. So, when you have a sweet spot of quality, the best quality in the world and the most cost-efficient plant in the world, if you go inorganically buying something, which won't be either of them, you are always going to compromise your business in EBITDA term. So, this is a conscious thing that we always think about, however Piyush the opportunity you say is real, because things may come up at 50 paisa or 70 paisa to a Rs. 1, if people are into a bad financial mess.

Piyush Goel: I also understand that it could be very impulsive decision because you may be buying at the peak of the cycle, which may not be good at long term as well, I understand that. The second part was like I saw the consolidated numbers, so I think ATC has contributed just about a crore in the turnover for the whole quarter which is a little disappointing. So, it is ramp up is taking slightly longer than expected. Why the contribution is very tiny from TTC part.

Gokul Jaykrishna: Yes Piyush, the first H1 has contributed almost nothing, it is zero. I already mentioned that in my introductory speech. And yes, it is slightly disappointing. We are probably I would say to be honest about a quarter behind where we had originally planned or targeted to be. The reason for this are quite a few, but one of the main of the major reason because the CI numbers on which our team strategically decided to do work on, are not low-end ones, the high-end ones are taking longer time for approvals and longer time to get the quality right. Even if we get the quality right, then the customer will say, oh but I want our $20 product, he will say, please tweak the shade for me, they won't say it for a $5 product. So, these challenges, so I think we have adjusted internally, strategically that we could be three or five months behind our original plan in ramping up. But over a longer period of time, this should be rewarding because it will make our team much more stronger.

And also second is TTC, their approval policies are very stringent and very strict. I already mentioned again, earlier that they are stronger than the three MNCs that we deal with. So, this pushes back the approval process, even for example, TTC buying all its product. They want to buy, we want to give, but the approval process with TTC is very strict and it takes longer than we would have assumed. So, again a three month lag, but this is going to help us a lot because it is already helping, Arjun mentioned that where we would expect 18 to 24 months, to get commercial business from the big three MNCs, because of this TTC's stringent approach and their support to our technical team, we could be doing it as soon as 8 months or 12 months. So, that means about 4 to 5 months from now we could see commercial business coming out of one or two of the big firm.

I forgot to answer, you asked about how it is happening now. And this I should take. So, while H1 was as good as zero at, as 1 crore is as good as zero. We do expect that we should be around, you know I don't want to say anything futuristic, but we should be around Rs. 8 crores to Rs. 9 crores for quarter ending December and about Rs. 20 crores to Rs. 25 crores for the full year.

Piyush Goel: And last thing from my side is like I want to congratulate you and your secretarial team led by Saji that you guys have continuously improved on your all secretarial practices. We are having a quarterly result within October. And we are today having a con-call followed by that and investor presentation. The annual report looks fantastic. So, I think very well done on all those fronts, and that makes Company a great from good.-

Gokul Jaykrishna: Thank you very much Piyush for your kind words. It's always encouraging to have investors on the con-call as well. We had two investors today, you and Praveen and we have got some very good inputs from both. I am proud to have investors like you on with our side.

Piyush Goel: I have seen you for the last 10 years almost now, I have been an investor with you for period. And we have seen this and changing and just keep up the work.

Moderator: Thank you. The next question is from the line of Sagar Gokani, as an Individual Investor. Please go ahead.

Sagar Gokani: Yes, so the question is, you know if you look at the raw material cost as a percentage of sales that has gone up from 50% in the same period last year, to about 61%. So, when do you see it's returning to 50%, is that next quarter or will take some more time.

Gokul Jaykrishna: So, your numbers are absolutely accurate. Yes, it has gone from 50% in September ended '20, to 61% in September ended '21. This is primarily due to the raw material, coal and freight increases. But I mean mostly the raw material is contributing to this rise. Now when this will change so I will give you very clear answer on when it will change. It should change when the raw material prices start tapering off. There will be a quarter in which we are booked out and the raw material prices start falling. And then we will again see that it will fallback.

Having said that I want to clarify that 50% should not be used as a benchmark, nor should 61%, 62% be used as a benchmark. We are normally at about 55% to 57%, 58%. And that should be kind of the benchmark. And we should, I don't know when but we should soon enough be going back to that benchmark.

Sagar Gokani: And one question on the power and fuel cost. So, is that also something which you are able to pass on to the customers.

Gokul Jaykrishna: So, yes the overall cost of raw materials, power and freight everything has increased. And we are happy to report to all of you that, yes we have been able to successfully pass on this rises pretty well. The reason is simple because the demand seems to be strong. Customers are understanding, they have been with us for more than 10, 15 years. They know that we won't ask for price increases unless they are really required. And then the third and most important thing is because this is not a local India or a Asahi phenomenon, it is a global phenomenon, they themselves realize that everywhere including their own cost, in their countries whether it's Japan, Germany or USA, has gone up. And they have to pass on to their customers or end users. End users around the world are now starting to accept that this is real and we have to pay more for what we buy in terms of physical product. However, lot of the technology products are becoming much cheaper. So, that is balancing of the inflationary trend.

Sagar Gokani: So, if I just look at a big picture, so on one side you mentioned that the volume expansion was about 50% of the growth, and the growth itself was around 50%. So, let's say around 25% was the volume growth, and you also said that you have been able to pass on the raw material cost as well as rather power, fuel, freight cost. So, the question really is, why don't we see any operational efficiencies coming in, when you have such volume expansion, I mean you shouldn't the profitability be higher, just because the volumes are going up.

Gokul Jaykrishna: You question is valid, see I already tried to answer it earlier. We are trying for operational efficiencies and actually we have done a good base. However the EBITDA margins in terms of percentage have dropped because of the lag period of passing on. While we are able to pass on yes, but if you talk about current quarter as I mentioned already. We are already sold out till December. Now if urea prices GNFC raises tomorrow, I mean this is going to be a hit on me.

But if it decreases, it's going to be my benefit. So, this is what caused that QonQ margin pressure, in percentage term.

However we have made it up with volume and price increases, and total turnover increase, and some operational efficiencies. But yes, there is always a room for more operational efficiencies and particularly this Alpha that we are working on right now, our young team is working on more operational efficiencies in a very proactive manner.

Sagar Gokani: As I see it in the quarter results, there is about a drag about Rs. 1.5 crores on account of the new JV. And you mentioned that the turnover of that will be around Rs. 20 crores for the rest of the year. So, what's the profitability that we can assume, so right now we are at a (-1.5) plus, minus a few percentages.

Gokul Jaykrishna: We would continue to be negative. We cannot we expecting profitability from this 20 tonnes, these levels of productivity. I already mentioned earlier, I think I did mention it that we hope to EBITDA breakeven in Q1FY23. So, we would bleed a bit. The bleeding should reduce from what it is in H1, H2 should be left for sure.

Sagar Gokani: So, what's the breakeven quantity, in terms of the tonnes?

Gokul Jaykrishna: I would not want to share that for two reasons, one you know it would look, I mean this is in public domain and it's access to all of our competitors. And two honestly, very honestly we wouldn't be able to even pinpoint the exact breakeven quantities, because the daily changes in raw material cost are so heavy and the pricing changes in the product are so heavy, that to pinpoint a breakeven --. We have a breakeven internal number in mind, but if you excuse me, that would not be, I don't want to mislead people --

Sagar Gokani: What I was trying to understand is from a capital allocation point of view what is the typical payback period or some return ratios that you look at when you are doing these investment decision, that's where ours coming from.

Gokul Jaykrishna: So, typically return on capital invested, we should be looking at 20% ROC, is what we generally try to do, when we take capital investment decision. This we try and do.

Sagar Gokani: And that's over what period of time?

Gokul Jaykrishna: Generally, I mean on a year-on-year basis, when we allocate capital to new projects, we hope to get a 20% ROC on a routine basis, once it is fully operational.

Moderator: Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference, over to Mr. Gokul Jaykrishna, for closing comments. Thank you and over to you, sir.

Gokul Jaykrishna: Thank you everyone for listening in on the call today and attending. We have had some very proactive questions. I am very thankful to all of you for these. We do also take inspiration from this questions and also some guidance. And I can assure you, there is a couple of points raised today, which I would like to take at a strategic level within the Company as well. What we do of cause, I can't comment on, but there has been some very proactive and positive questions which I take value out of.

I thank you all for this and we look forward to a bright future and take advantage of the AZO scale-up that is potential over the next 5 years. And we also will work hard to mitigate the challenges of this 'Holy Trinity' raw material, cost increases that we are faced. They may put Q-on-Q challenges from time to time in EBITDA percentage is but we are confident of returning back to our main, on a normal basis, on a sustainable basis. Thank you all.

Moderator: Thank you very much. Ladies and gentleman on behalf of Asahi Songwon Colors Limited, that concludes this conference. Thank you all for joining us and you may not disconnect your lines.