

Ref: ASCL/SEC/2022-23/58

November 21, 2022

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 NOVEMBER 17, 2022 WITH INVESTORS AND ANALYST ON THE FINANCIAL PERFORMANCE OF Q2FY23

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, November 17, 2022 at 2:00 p.m. (IST) with investors and analyst on the financial performance of Q2FY23.

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 VARGHESE
JOSEPH

Digitally signed by SAJI VARGHESE JOSEPH
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Date: 2022.11.21 11:30:46 +05'30'

SAJI JOSEPH

Company Secretary and Compliance Officer

Encl: As above

Asahi Songwon Colors Ltd.

CIN: L24222GJ1990PLC014789

Regd. Office: "Asahi House", 13, Aaryans Corporate Park, Nr. Shilaj Railway Crossing, Thaltej-Shilaj Road, Thaltej, Ahmedabad-380 059, Gujarat. India

Tele : 91-79 6832 5000 • Fax : 91-79 6832 5099 • Web Site: www.asahisongwon.com





“Asahi Songwon Colors Limited
Q2 FY ‘23 Earnings Conference Call”
November 17, 2022



**MANAGEMENT: MR. GOKUL JAYKRISHNA – JOINT MANAGING
DIRECTOR AND CHIEF EXECUTIVE OFFICER – ASAHI
SONGWON COLORS LIMITED
MR. PRATIK SHAH – CHIEF FINANCIAL OFFICER –
ASAHI SONGWON COLORS LIMITED
MR. MITESH PATEL – VICE PRESIDENT STRATEGY
AND GROWTH – ASAHI SONGWON COLORS LIMITED
MR. SAJI JOSEPH – COMPANY SECRETARY AND
COMPLIANCE OFFICER – ASAHI SONGWON COLORS
LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '23 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 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. Abhishek Mehra. Thank you. And over to you, sir.

Abhishek Mehra: Thank you Rutuja. Good afternoon and welcome everyone. And thank you for joining this Q2 FY '23 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'll 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. Pratik Shah, Chief Financial Officer; Mr. Mitesh Patel, Vice President Strategy and Growth; and Mr. Saji Joseph, Company Secretary and Compliance Officer.

We will be starting the call with a brief overview of the financial performance and it will be followed by the Q&A session. I want 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 our annual reports, which you will find on our company website. With that said, I will now handover the call to Mr. Gokul Jaykrishna. Over to you, sir.

Gokul Jaykrishna: Good afternoon, ladies and gentlemen. I'm happy to welcome you to our con-call and thanking you all for attending the Q2 FY '23 call. This also happens to be the H1 '23 -- FY '23 call as well. So we will briefly look at the quarter results, but also the half yearly performance as well. And once I give you a little brief, you all have already looked at the results, so you know the basics, but I'll just run the group through the results in -- very brief on the consolidated basis. And then I'll open the floor for questions, and I'll take all your questions.

So as you can see, we have had a vertical quarter, one of the most difficult and challenging quarters in almost a decade, if not a little more than that. The general environment for pigments, dyes, colorants and chemical seems to be extremely challenging. And from various points of view, demand has been subdued over the last three months and continues to remain so currently. Raw material prices, which had risen from last year by about 25% to 40%, they are starting to come-off, but the inventory losses that all companies who are owning raw material as well as finished goods tend to feel. So that takes its own time to funnel through the system.

And at the same time, the situation in Europe, all of you are very well aware of, is extremely tricky and unpredictable due to the Ukraine impact and the energy cost over there. Just to give you a little idea of what's going on in Europe, the largest chemical company in the world, BASF, which is located out of Europe is shut down. So, this is like you don't hear this in a long time that BASF has to shut down its main Ludwigshafen plant. But that is the kind of situation Europe is going through.

In relation to, we are very, very fortunate here in India, thanks to the dynamic handling of the situation by the Narendra Modi government and also decently strong general economic conditions prevailing in India relative to the rest of the world, things are not as bad as they are in Europe.

Now coming to the financial performance. Our quarter, we reported a turnover of INR 127 crores on a consolidated basis. This compares to a INR 94 crore turnover in the corresponding three months. And if you look at the performance on a half yearly basis, we reported a revenue of INR 291 crores. So this compares to INR 192 crores in the corresponding six months for this financial year.

Moderator:

I am sorry interrupt you sir. Mr. Gokul Jaykrishna your voice is breaking.

Gokul Jaykrishna:

So coming to the financial performance, I will start again that the quarter we reported a turnover topline of INR 127 crores. This compares to a topline of INR 95 crores for the corresponding three months on a consolidated basis. The half yearly performance stands at INR 291 crores as compared to INR 192 crores in the previous six months comparable basis.

So you can see that there has been a significant increase in the turnover. This of course is coming on back of the acquisition of the pharmaceutical business of Atlas that Asahi has acquired. And that is working out reasonably well even in these very challenging times. On the profit before tax basis, we reported a very dismal performance of only INR 29 lakhs as compared to INR 6.35 crores in the corresponding quarter. And on a six-monthly basis, we made INR 5.82 crores on a PBT basis as compared to INR 12.82 crores in the previous corresponding quarter.

And then coming to the EBITDA performance on the consolidated basis, we made an EBITDA of INR 7.5 crores. And on a six-monthly basis, the EBITDA came to INR 19.26 crores as compared to INR 20.64 crores in the previous six months. So these are the basic numbers. With this, I mean, I've already given you a brief of the headwinds that currently are faced by the pigment industry in general. It is not PAT for Asahi, definitely, it is one of the weakest number -- set of numbers we have presented in a decade or more even.

But however, if one looks at it in relative terms to the performance of other pigment businesses or dyes companies in the space, you will see that it's quite reasonable. We are reasonably strong on EBITDA and on topline also we have done quite well. Our finance costs have certainly gone up, and this is due to the leverage buyout of the pharmaceutical business.

The pharmaceutical business has been bought over by Asahi with a stake of 78% and we have paid INR 48 crores amount upfront for this, which has been partially leveraged. And then of course, we acquired a INR 20 crore debt with the company when we bought it as well. So, this is the reason why our leverage has gone up. And the reason for some of the numbers showing a little negatively is also because of the rise in the finance cost. This, of course, is temporary and we will go back to our longer-term goals in terms of our numbers and morale.

With that, I'd like to open the floor for questions.

Moderator:

The first question is from the line of Prateek Chaudhary from Saamarthya Capital.

Prateek Chaudhary:

So we have -- I think quarter-on-quarter, there was a significant decline in our revenues in our standalone blue business, could you bifurcate the price rate that into volume decline versus realization decline because the growth basket has fallen materially?

Gokul Jaykrishna:

So Prateek, you are right, there has been a significant decline in our Q-on-Q in our standalone blue business. So our total production is down by 22%, if you compare it to the previous comparable quarter. And in terms of value, in terms of sales value, it is down by 32%. So the basic -- both the reasons you mentioned are prevalent. I mean the number one reason is decline in volume because we have lost a significant volume due to the poor demand conditions.

The demand conditions remain quite sluggish and weak and most of our customers have been caught on the same port in terms of inventory, they have a lot of inventory, and everybody in the world is seeming like they want to destock. We want to destock too. So all our customers and us and our competitors, everybody is in a destocking mode -- and thus, when you club this with a weak demand, you can imagine that there is going to be a huge pressure on how much you can actually produce without significant increase in inventories.

So productivity was down by 22% in terms of volume. And in terms of sales, it was down by about 32%. And so this was a combination of poor demand, so drop in productivity and also prices coming off. So it's a combination of the two, I would say, about 70% due to the drop in volumes and 30% due to the prices coming off.

And also add to this the fact that the inventory that we carry, whether it's finished goods or raw materials, is now being used and this inventory is obviously cost a company more because the prices have come off now, while the finished good prices are coming off further. So the inventory that we have caught with is also resulted in making the profit before tax and profit and the profit numbers seen back?

Prateek Chaudhary:

And what would your view be on change in market share if any among your share of business with our customers?

Gokul Jaykrishna:

So I think our share of business in percentage to has actually improved. Because we are maintaining a productivity of about 75-odd percent. We normally in the Blue business, we are talking standalone right now. So the standalone, we normally do about close to 100%, and we

strive to do 100% all the time. And we manage this over a number of quarters. I mean, I don't remember in the last eight quarters when we have missed the target in the Blue crude business of making 100% productivity. Now we are at 75%.

Now if you compare it to others and generally, the market, the demand is significantly lower than a drop of 25%. So a lot of our competitors are either closed or running below 50%. And hence, if you look at it simply in percentage terms, our market share in the Blue business has gone up. And it probably -- it is difficult to give you an exact number, but it would be a decent increase in market share in terms of percentage terms.

But that is not very relevant because that doesn't help us right now. See, in a market which is growing and demand is strong, any improvement in market share is going to add to your bottom line. Now it protects bottom line, yes. But still, I mean, it doesn't save us from the vagaries of the market right now.

Prateek Chaudhary: And you also happen to mention about inventory losses -- so given that we are still sitting on a very high inventory, would we still expect inventory losses to hit us in the next one or two quarters?

Gokul Jaykrishna: Not one or two quarters, but probably for a quarter. Yes. However, having said that, I perceive -- I think that we have already brought the inventory down by about 20%, and we will strive to bring it down by another 20% to get it back to where we are comfortable and normally a sticking act. So we are obviously off the peak of inventory levels now. So the worst of that inventory level is over, and I see it declining further from where we are now moving towards our desired levels of inventory. And this should take no more than a quarter I think.

Prateek Chaudhary: And when you see your spreads normalizing spreads between your raw material basket and your finished good prices?

Gokul Jaykrishna: Again, it should bottom out in this December end quarter. And then start normalizing in the first quarter of the calendar year, the last quarter of the financial year.

Moderator: The next question is from the line of Krisha Kansara from Molecule Ventures.

Krisha Kansara: Sir, my first question is regarding the environment of the industry. So I understand that the operating environment in the pigment industry and chemical industry in general also is not very conducive. But by when do you expect to ramp up the Azoplant to, let's say, optimum capacity utilization?

Gokul Jaykrishna: Sorry, I didn't get your name. Can you just her your name again?

Krisha Kansara: Krisha Kansara.

Gokul Jaykrishna: Please Yes. So thank you for your question. Yes, the general environment in the chemical industry, the dyes and pigment industry, the colorant industry is very, very sluggish. And I --



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it's very difficult to pinpoint as to how long this will last. I'll give you my take on it. I think we are already seeing a bottoming out. So I don't see it getting worse. We have already reached that point where we are at the worst point. And from here, I do expect the improvement. When this improvement will come through or how long this -- the bottom phase will last without going any further down is difficult to guess. My best guess, three months.

So we should be bottoming out by end of December and then the first quarter of the -- from, January '23 onwards, we should see green shoots in demand coming back because by that time, I do expect that most global companies and even for that matter, large Indian companies who are consumers of these products would have seen a bottoming out post-Christmas in their inventory levels. See, you also clubbed this with Christmas coming in and things will probably be slow for another month. then come January, people will see that they are already destocked a lot.

And if then you see any green shoots in demand, then we could see a reasonably quick upturn in the demand scenario compared to where we are now. And that's why I say that we have probably we are already at the bottom and not going to get worst. And then to answer your question about the AZO business. So -- and in the AZO business, we were very fortunate in the quarter period, our team did an exceedingly a wonderful job in putting up the plant just under the budget that we have set out to do.

And that has really stood us in good stead. If we were to put up the plant today, it would have probably cost us 25% to 30% more. The cost of land, the cost of steel, cement, construction, labor, everything is shot up since then. So we were very fortunate in terms of capex to have completed the budget in good time and under the budget that we have set out to do. And that was completely financed through equity by us and our JV partners. So there was no debt at that time on the balance sheet. Now similarly, when we started the plant and now we are into the first year of operations in that sense.

We have seen that the market conditions have been very, very bad. And the worst I've seen in over a decade. So that has put a lot of pressure, and we have not been able to get utilization levels because of a poor demand as we would like. So we continue to do utilization of about 35%. This is, of course, not what we expect because the demand scenario is weak. However, the good thing is the team at our tag facility is now reasonably well set and products also one after the other, are getting said. We are getting good breakthroughs. Sales-wise, our team is doing a good job in this two or four market conditions and other businesses, a new start-up business in the AZO side of the pigment.

And we are now steadily doing about 60 to 70 tons of production and sales on a monthly basis. We should look to ramp up this immediately as the demand goes up. So very difficult to predict, but coming January, February, March quarter, we should see a reasonable uptick and go definitely beyond the 110, 120 tons per month scenario, whereby we'll be at about 55% utilization.



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Krishna Kansara: And sir, one question related to the AZO capex only. So can you give us an idea on the time line by when we'll start the second phase of this particular capex?

Gokul Jaykrishna: So we would have liked to start the second phase in the first half of the next calendar year. However, this is going to be pushed back given the current demand scenario and we've almost lost six months in that sense. So I would say that towards the second half of the calendar year '23 is when we will probably get into that phase of switching on the project for doubling the capacity.

Krishna Kansara: H2 of calendar year '23, correct?

Gokul Jaykrishna: Or financial year, yes, somewhere in that area, H2 of the next financial year.

Krishna Kansara: And sir, my second question is on debt. So for the first time, you are seeing this kind of debt on our balance sheet. So is this something that you're comfortable with and especially some challenging time?

Gokul Jaykrishna: So certainly, we are comfortable with the debt. So that answer, I'll give you straight away. I mean, Yes, the debt has gone up. This is a conscious decision in terms of growth, and we wouldn't have done it if we were not comfortable. If you look at the, so on the comfort level first, very quickly, if you look at our debt debt-to-equity ratio, it is on at 0.45x equity, debt is 0.45x equity on a standalone basis and 0.65x equity on a consolidated basis.

So by any financial parameter, if you look, 0.65x equity is still remaining very conservative. So in that sense, we are comfortable. We have leveraged consciously in adding the Dahej plant to our portfolio and spreading our wings across the spectrum of pigments looking to 10 years' future. Also, we have acquired the API business in the pharmaceutical space of Atlas Life Sciences, and this is also now owned by Asahi. So there is leverage coming in from both of these places for a number of years, Asahi was known as too conservative, too slow, debt-free company and well run, but not growing at all.

Now we have responded and we have completed that strong phase of five years of consolidation in 2020. And now we are entering five years of growth phase. So between now, now we are already in 2022 and going into '23. So by '25, you will see that the company in terms of growth levels, is there another level. You can already see the basic green shoots of this coming through. If you look at the top line for the six months, it is at INR 291 crores, so this is more than what we do on an annual basis for the past five years generally.

We have done in six months. So our top line, if you compare to the last four years to five years, when it was stagnant in the INR 280 crores region has almost doubled out. And this is just the beginning because the pharmaceutical business that we have acquired comes with a parcel of land in Chattral, which we are leveraging and putting up an expansion project with

backward integration, which is going to result in EBITDA expansion in the API business, which currently are low in the plant that we have acquired.

Krishna Kansara: Sir, you mentioned about the API business. So I have one question related to that also. So are we seeing any challenges in our API business because since the time we have acquired, the margins have declined severely. So what is your outlook of the API business as of now?

Gokul Jaykrishna: Yes. Thank you for this question. This was something on my mind. I wanted to any way brief the group about this because it's a new business that we've acquired. So it's been about six months since we acquired it. The market conditions in the API business generally, not only ours, but generally the market leader in the spaces, Divis and Laurus Labs and all, you can see that all of these API companies have been struggling to maintain margins because the pricing pressure is there. So we have no exception. It is similar to the rest of the API industries. Our product prices have also come off a bit and the market environment is challenging.

Having said that, if you look at the, if I just looked in detail at the six months gone by since we procure the business, and I get great comfort because we have been able to increase top line in these extremely challenging times. This augurs very well as we go into expansion into the Chatral business, which should, which is going also ahead of schedule, it was scheduled to start in Diwali. So October, November of '23. And now we are ahead of schedule, and we should be probably starting in September or even aiming to start in August of '23.

So it augurs very well as we go into the expansion phase that our top line is doing quite well. As for the margins, yes, prices have come off and so the margins, our EBITDA margins, which were at about 7% in the API business has come off to 3.5%. So they have almost the halved in terms of EBITDA margins. However, cash flow has been the saving grace, cash flow has improved. And our borrowings in the API business has reduced significantly by about INR 4 crores. This, given the current market situation augurs very well. Our cash flow is good as well as the creditor periods are also working out pretty good. So the general business is running smoothly.

Krishna Kansara: Sir, I have one last question regarding debt only. So what is the repayment plan currently, given that we still have the ongoing capex, and we also have an expansion plan on the card. So what does the repayment schedule look like?

Gokul Jaykrishna: So on a consolidated basis, the debt is at INR 175 crores to INR 180 crores currently, as we speak, it said about closer to INR 170 crores. And we see it peaking out at about INR 210 crores. This is taking into consideration the capex that we are doing in Chatral, the capex is INR 60 crores. So roughly INR 60 crores, give or take 5%. So given that we see debt peaking out at about INR 210 crores.

And if you look at our ratio at INR 210 crores in terms of debt equity, it will comfortably remain at about 0.75. So in that sense, we are comfortable in terms of repayment of debt, of course, it has a five year repayment schedule for the new loans and the other, the current loans that we have, we have only INR 60 crores of long-term debt. So in that sense, those INR 60

crores of debt will come for repayment on a regular schedule. We will add about INR 30 crores to INR 40 crores of long-term debt given the Chattral project. So total long-term debt should not exceed INR 100-odd crores. And this will have a regular repayment schedule and payment, and we should be deleveraging again from that peak.

Moderator: The next question is from the line of Nagesh Jain from NJ Investments.

Nagesh Jain: Sir, my first question is regarding the drop in the demand in China due to COVID lockdowns. Recently, the Chinese government have imposed anti-dumping duty on Phthalocyanine grades from India. So just wanted to know, would that affect Asahi?

Gokul Jaykrishna: Thank you, Nagesh. So the Chinese lockdown, it is difficult to decode the impact of that. But the anti-dumping duty is an easier one to answer. Generally, we don't, in any way both China-related question, we don't have any direct exports to China. So we have no direct impact of the Chinese business in terms of our market share per se or our business.

And also with the duty, the pigment manufacturers of India have gotten together. I am a part of that group and a member, and we are fighting the Chinese against the anti-dumping duty. However, having said that, the impact of that on Asahi in terms of the duties, directly is nothing because we don't export anything to China. So we don't have to grapple with the problems that some other customers who are exporting directly to China are grappling right now with containers onboard or orders yet to be shaped and all of that stuff.

The impact is kind of indirect because with this duty of 17 or 17.5%, which looks like the current thing, there would be a dent in the Phthalocyanine being exported from India to China and that competition could come into other areas of the global market. So that is an indirect impact that will be making the market a little subdued, but no direct impact on Asahi per se. And also the Chinese business right now, as you said, because of the COVID thing is slow anyway. So I don't see a major impact of this coming out of it.

Nagesh Jain: Sir, my next question is, you had mentioned the capacity utilization of CPC Blue that is around 75%. So I just wanted to know about the Alpha and Beta. So one is first the Alpha Blue. See, we had some issues earlier regarding supply of this grade to Clariant because if that portion of the business was taken over by Heubach. So just wanted to have that been started out and supplies have become normal?

Gokul Jaykrishna: Yes. So thank you for this question. There is something good that I can report on the Alpha yes. The problems that we did have problems with the product when we started with Clariant, and these have been sorted out. And after back Heubach taken over Clariant, the Alpha business is going on with Heubach right now, and that's been sorted out. And on the utilization, we are at CPC about 70%, we will probably continue to remain in the area of about 60%, 65% for a while. And then as I said, January, February, March, we should see much better numbers.

Nagesh Jain: Sir, what is the utilization for Alpha and Beta Blue, sir?



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- Gokul Jaykrishna:** So Alpha – Beta Blue utilization has been quite good. I think it is about 80%, which is normally what we do in the Beta business. However, the sales have been slow. So there has been some build-up in inventory. But otherwise, Beta utilization has not dropped. Alpha utilization has dropped to -- for the last two months to zero. However, we've just restarted and Alpha should be coming to 70% in -- probably in January, February, March, we should see 75% utilization in the Alpha business.
- Nagesh Jain:** Sir, my next question is on the Beta. See, there, we had a tie-up with the DIC for supplying this grade. And BSE was selling their inks business to concentrate more on the Pigments business of their -- so that will affect our Beta Blue sales to them?
- Gokul Jaykrishna:** I did not understand the question. We do have a relationship -- ongoing relationship with DIC, and we are a lead supplier to them. But I didn't understand the question, if you could repeat?
- Nagesh Jain:** Yes. We supply Beta Blue to DIC for their inks business.
- Gokul Jaykrishna:** Correct.
- Nagesh Jain:** I believe they have selling up that inks business to concentrate more on pigments. So I just want to know, first of all, whether this information is correct and if it is correct, will that affect our Beta Blue sales?
- Gokul Jaykrishna:** No. So I don't think -- I mean, I'm not privy to this information. DIC is a ink company who has acquired Clariant and gotten into the pigment business in that sense, but they do remain a ink company with 35% of the world's market share. And I don't think they have plans to sell the ink business.
- Nagesh Jain:** So because we are one of the major -- our major customer in Beta Blue is DIC, if I have understood correctly?
- Gokul Jaykrishna:** Yes, that is correct. That is correct.
- Nagesh Jain:** So sir, my next question is the INR 45 crores is the sales from the subsidiary as well as the joint venture. If you take out the difference between the standalone and the consolidated. Just wanted to know how much it is from the subsidiary. If you could give us the breakup there?
- Gokul Jaykrishna:** Pratik bhai, can you give the breakup of the...
- Pratik Shah:** Yes, sure. I just you make...
- Nagesh Jain:** Sir, in the meantime, I have one more question. Like as of now you had mentioned the utilization is still at around 35% and expect it to reach around 55% by January, February. I just wanted to know whatever the samples we had sent to different customers for the approval and all, have we received any approvals during the last quarter?

- Gokul Jaykrishna:** Yes, we have -- see that we have seen a number of samples, and we have also received a decent approvals and also orders. So we are doing 60 tons of pigment of 60 to 70 tons of sales, of which about 45-odd tons local. So we have got internationally as well as locally good decent approvals in actually five of our products.
- Nagesh Jain:** Now this -- whatever the approvals we have received, can you name the companies? Is it like Sun Chemical or like where ever or like where you are approaching them?
- Gokul Jaykrishna:** I would not like to go into the names right now because -- it is a little sensitive in these market conditions, given the poor market conditions, we don't want to disclose the breakup of customer names. But the big accounts have not yet started.
- Nagesh Jain:** That is fair.
- Gokul Jaykrishna:** So the names you mentioned are still under trials and their demand in Europe is very slow. So - - but yes, they are under trial, and we have got some approval.
- Nagesh Jain:** Sir, any -- that data they could get a subsidiary and JV?
- Management:** Yes. The breakup is from NPA subsidiary, it is INR 34 crores. And from Azure subsidiary, it is INR 11crores.
- Nagesh Jain:** Okay. So that means the Azo business still we must be making last sir?
- Gokul Jaykrishna:** Yes, absolutely.
- Moderator:** The next question is from the line of Vipulkumar Shah from Sumangal Investment.
- Vipulkumar Shah:** So my first question is, sir, what is the value addition we get when we convert CPC into Alpha and beta in percentage terms?
- Gokul Jaykrishna:** Pratik bhai, can you take this question in terms of value addition?
- Pratik Shah:** Yes. Sir. Just a moment.
- Vipulkumar Shah:** Yes, sir. And can you give the EBITDA of our AZO business subsidiary also, you said the revenue was INR 11 crores, right?
- Gokul Jaykrishna:** Yes, that's right. INR 11 crores. And EBITDA there is negative.
- Vipulkumar Shah:** Yes. But can you quantify it, sir?
- Gokul Jaykrishna:** Yes. Pratik, we will do that also in numbers. Can you quantify the EBITDA for the AZO business?
- Pratik Shah:** Yes, Just. It's negative INR 2 crores.



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Vipulkumar Shah: Minus INR 2 crores.

Pratik Shah: For the quarter ended September.

Vipulkumar Shah: And what is the sort of valuation we get for alpha and beta as compared to CPC blue?

Pratik Shah: Sir, is it okay if you take this question offline one-on-one with you?

Vipulkumar Shah: Yes. Whom should I contact sir?

Pratik Shah: You can get in touch with our Compliance Officer, Mr. Saji Joseph.

Gokul Jaykrishna: Saji Joseph.

Vipulkumar Shah: Sorry.

Pratik Shah: Mr. Saji Joseph, who is our Company Secretary and Compliance Officer, you can get in touch with him.

Vipulkumar Shah: No problem, sir. And sir, you said you had sizable inventory losses in this quarter. So if it is possible, please quantify the inventory loss also that if it is possible?

Gokul Jaykrishna: Pratik bhai, can you?

Pratik Shah: It won't be possible right now. So we'll take this one-on-one with you, and we will come back on this particular question as and when we are ready with the requiring formation.

Vipulkumar Shah: And sir, what is the EBITDA breakeven level for our subsidiary for this AZO pigment business?

Gokul Jaykrishna: So generally, the EBITDA breakeven level, I would say, would be in the area of about 55% to 60%.

Vipulkumar Shah: So right now, we are at around 30%, right?

Gokul Jaykrishna: 30%, 35%.

Vipulkumar Shah: 40%, 45%.

Gokul Jaykrishna: No. 30%, 35%.

Vipulkumar Shah: So we are long away from...

Gokul Jaykrishna: Yes, because the demand is very low. We are at 35% right now, and it would normally take about 55%, 60% utilization for breakeven.

Vipulkumar Shah: So considering the current demand by which period you think we'll be able to reach 55% utilization in that...



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- Gokul Jaykrishna:** We would hope to do that in January, February, March.
- Vipulkumar Shah:** No. Considering the demand situation, we will be able to do it in January?
- Gokul Jaykrishna:** Yes. We are hoping to do it. But then as you rightly said, it's considering the demand. The demand could get stronger or weaker one cannot predict right now, how it will be in January, February, March, but I do think that it's going to be improving. And if it improves, definitely, our plant is already geared to make 180 tons of pigment. So that should not be a problem once the market is better.
- Vipulkumar Shah:** And sir, it's a little confusing. So what is the difference between the AZO pigment and alpha and beta Blue. So both are same or they are totally different products?
- Gokul Jaykrishna:** No. They're completely different products. Alpha and beta Blue are Phthalocyanine pigments and red and yellows are AZO pigments. So they are completely different in terms of the, I mean, one is red and yellow and the others are blue and green. But the application the end application is the same, inks, paints, plastics, rubber, textile, dispersions...
- Vipulkumar Shah:** And sir, since 50% of our revenue is coming from exports, and it must be dollars. So we must have got some tailwind of the currency in this quarter also, no?
- Gokul Jaykrishna:** Yes.
- Vipulkumar Shah:** Still even after that tailwind we have reported loss at that level?
- Gokul Jaykrishna:** Yes.
- Vipulkumar Shah:** And you said inventory losses will continue in this quarter also, right?
- Gokul Jaykrishna:** Yes. It will take a couple of months or a month or so for it to settle down.
- Vipulkumar Shah:** And sir, lastly, regarding this AZO business, if I remember correctly, you have, our JV partner is supposed to lift 20% of the production. So we are operating at 30%. So we are not able to sell any meaningful quantity outside of our JV partner, is that understanding correct?
- Gokul Jaykrishna:** Yes, that is to an extent, correct. We are not able to export quantities much beyond the JV partner. But locally, we have done very well. Locally, we are doing about 45 tons. So the JV partner is contributing 15 tons, 20 tons.
- Vipulkumar Shah:** Rest all is sold domestically.
- Gokul Jaykrishna:** Yes. The rest all we have a number of customers. So product approvals have come through to many customers already. And the problem is, I mean, whether it is my JV partner, whether it's Sun, name the company, whichever company you talk about, generally, the demand is very slow. It's very difficult to push material to customers when you have a startup.

- Vipulkumar Shah:** And sir, my last question regarding our API business. I think there, we have taken expansion, which is roughly around INR 60 crores, right?
- Gokul Jaykrishna:** Correct.
- Vipulkumar Shah:** So post expansion, what type of EBITDA we can expect from that business?
- Gokul Jaykrishna:** Post expansion, we could expect EBITDA of about INR 15-odd crores from the business.
- Vipulkumar Shah:** INR 15-odd crores, in percentage terms.
- Gokul Jaykrishna:** Even INR 20 crores.
- Vipulkumar Shah:** In percentage terms, it will be more than 5%?
- Gokul Jaykrishna:** Yes. It will be more than 5%. Certainly, more than 5%.
- Moderator:** The next question is from the line of Praveen Sharma an Individual Investor.
- Praveen Sharma:** Gokul bhai, I have a question and this destocking scenario, which is playing out. Now end consumer demand, the end product demand, which is paint, inks, plastics, that particular thing you are witnessing slowdown or it's the destocking thing because what I'm seeing all over is the pains demand, automobile sales are roaring. The textile sales are good and the ink, the world has opened, the ink demand has also gone up. So it's the end consumer, end product demand and consumer demand, which is facing the problem or the intermediaries are actually destocking. What is the scenario?
- Gokul Jaykrishna:** I think there is a combination of the two. And because generally, let me put it this way, it is basically a major destocking that is taking place in the industry globally in our industry. This is because we saw two years of increase in prices, whether it's raw material or our own prices, our top line, our EBITDA, our numbers, our profits, everything continued to increase for two years every quarter. And whether it is me or my competitor or my supplier or my customer, everybody was buying material more than they needed. For example, let us talk about Assai. So as Asahi, we operate in on the Japanese system of just in time. So we keep very minimal inventory levels of anywhere between seven to 15 days.
- For two years, we changed that policy to maximum inventory that we can store. So we were doing 30 days to 45 days of inventory stocking during two years period. This paid off very well, continuously. It continued to be well every quarter because every time the order inventory, next quarter, the prices would go up and we would think that we are pretty good at it. Similarly, our customers did the same thing. So they ordered more than they needed from me or anyone else. And they stocked up too because every time they stocked up next quarter, the prices go up and they think that, okay, this is really good that we have stacked up, otherwise, we would have paid much more. So everybody was in a cycle where they were stocking more than the needed and more than they consume.

Then about four, five months, three months, four months back, as you know very well, generally, commodities and demand and prices all started to come off. As soon as people saw this happening for more than two months, one month was okay, two months was okay, but the third month, then they immediately decided that, okay, now what if the prices are actually going to come down? And this immediately urgently started the policy that let us not hold any material. And because they don't want to hold any material and they are holding a lot, they had to destock. So the destocking effect was major, it wasn't normal. It was 2x what it should normally or even in some cases 3x, not for me, but generally for a lot of people. That made the whole demand environment extremely slow. Top it up with general global scenario where Europe is doing extremely, badly right now because of the Ukraine crisis. And general inflationary conditions that are prevailing in the world, everybody is spending a little less.

So, yes, I mean, what you said is right in paint and some of these in packaging industries, we have seen some revival of demand, but it has fallen sharply over the six months. Now we are seeing bottoming out or revival of it slowly. So it will take about three months, four months for this revived demand to show up after the destocking of inventories over.

So clubbed with destocking of inventory at high stock levels and a slow global scenario with inflationary pressures and lower spending across the globe. Yes, people started spending on travel, post-COVID, hotels and flights and restaurants and all. But generally, because of the energy problems, a lot of businesses in Europe are slow and consumption there is generally slow, people are afraid how they'll go through winter. So because of this scenario, general demand was very slow. So the two combined together made a very prolonged slowdown, which is now bottomed out.

Praveen Sharma: But as far as AZO is concerned, the major supplier was China. So there, the supply choke is also there, correct. So do we see any supply chock of AZO production from China? And hence, when this destocking will be over the -- we will immediately get an impetus in terms of higher production and higher demand for us?

Gokul Jaykrishna: So on a macro level, what you are saying is something that we've always thought is possible to play out. Immediately, right now, the demand is so sluggish that the slide chocking up from China, it's not completely dried up because AZO production in, like you said, China is dominant in AZOs unlike Phthalocyanine, where India dominate completely and China is afraid of India. -- in AZOs, China is 70% of the global market. But their supply is not completely dried up. Despite COVID supply being slow, the market is so much slow that it hasn't trickled down to India as much as one would have liked. But on a macro level, this thing is likely to happen sooner or later.

Praveen Sharma: And these automotive paints and all those things, which are sold domestically in India because we are seeing rolling demands of automobile here in India and other paints are, of course, part of automobile integral part of the raw material for automobile industry. This demand the buyer buy globally, these like Suzuki will buy you from Japan and then the supply here? Or how does it happen the paint because we are only pigments. Ultimately, this will go -- our product

is a part of a particular product, which is further a part of another product, which will go into the end consumer product requirements. So it's a supply chain. So the domestic buying by the large players, it happens through the global channels or it domestically also they buy?

Gokul Jaykrishna: So normally, this is happening through global channels, which is the top automakers have their channel of supply for that particular paint and this is coming through global channels. And the volumes are not huge. The business is good, but the volumes are very small.

Praveen Sharma: Same thing ink's printing inks and packaging Inc., this all happens, like demand scenario in India is pretty good. I was wondering whether the buying happens through the global channels or it happens domestically...

Gokul Jaykrishna: No, not in ink. Unlike paint in ink, it doesn't happen through any global challenge, it will probably come directly towards...

Praveen Sharma: And as far as this API business is concerned, once this expansion is over and we are backwardly integrated, do you see -- is there a scenario there also demand by the time we do expansion, the demand will slow down or something or this PG product, which is the API which we supply has a constant demand and it doesn't undergo a cyclical structure because at the end of the day, it's a pharmaceutical product?

Gokul Jaykrishna: This is a very good question. I'm glad you asked this. This is a very, very thoughtful and smart question. So I'll give you a very clear answer on this. So Pregabalin is our main product. In the new plant also, we are going to put up some capacity for Pregabalin. Of course, we are going in with backward integration. So our EBITDA numbers and our reliance on suppliers is going to diminish substantially.

We plan to make CMH making us completely self-reliant. Not only that, we would start selling some of the CMH make in the open market as well. So that will make us a very strong in that sense in the in the pregabalin business. We also hope to go in for exports there in a major way. And now to talk about pregabalin, as you said. So unlike many of the other products in the API space, pregabalin is in its initial stage of growth. And it doesn't -- it also is not looking like a product dependent on too much of obsolescence risk.

So I think over the next five years or seven years, we should see a very good time in terms of demand for the pregabalin business. And talking about the cyclical nature of it. So we are already seeing cyclically a downturn in the pregabalin or even in the general API space. So I think, hopefully, by the time the plant starts, we should be able to catch the cycle on the upside. The cycle is always right now on the downside. And again, I would probably say that in January, February, March, we may see bottoming out of that cyclical trend that we normally see.

Praveen Sharma: Yes, pharmaceutical industry is also undergoing destocking -- and there, the end user product demand is not a concern because at the end of that pharmaceutical is an essential commodity. So I think things will improve from there



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- Gokul Jaykrishna:** We are actually -- no, thank you for your questions. They were very big well thought out. And we are very optimistic about this entry into the pharmaceutical API business, wise gives us a good diversification as well as it sets us up for 10 years. And you can see that we are nearing now INR 250 crores , INR 200 crores and INR 300 crores of turnover on a half yearly basis. So we should be at about INR 550-odd crores plus on a full year basis immediately.
- Moderator:** Next question is from the line of Prerit Choudhary from Green Portfolio.
- Prerit Choudhary:** So I have a couple of questions. So first one is related to the balance sheet -- so in H1, we added some new plant, property and equipment. So if you can give a breakup of a what you...
- Gokul Jaykrishna:** I could not hear you. Are you on speaker because there is echo. I can't hear you.
- Prerit Choudhary:** So I just wanted the breakup of new plant property and equipment that we got in the H1. So can you provide me the breakup of plant, property and equipment then that is added in the first half of this year?
- Gokul Jaykrishna:** Pratik bhai can you...
- Pratik Shah:** Basically, per se, there is no addition. The impact is only coming out of consolidation because of the API business getting consolidated for the first half.
- Prerit Choudhary:** No. But let me compare it to the FY '22 numbers. The assets have actually grown...
- Gokul Jaykrishna:** So on a stand-alone basis, you mean for Asahi songwan?
- Prerit Choudhary:** No. On the consolidated basis.
- Management:** That is what I'm saying. See, on a consolidated basis, the only difference it is making is because of business will be getting consolidated for the first time.
- Prerit Choudhary:** My next question is on capital work in progress. So we have very significant addition during the H1. So what are the breakup for the same?
- Gokul Jaykrishna:** It is mainly pertaining to the API expansion project at Chhatral.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Gokul Jaykrishna for closing comments.
- Gokul Jaykrishna:** Good. Thank you, ladies and gentlemen, for attending the call. I really am happy with the interest that we are seeing from the group, and there were some very, very good questions, and I enjoyed interaction with the group. I would like to leave you all on a note of positivity. I think turnover-wise, Asahi has done quite well in this half year, reaching INR 290 crores. This was our aim, which we set out to have that we should cross the INR 500 crores to INR 600 crores top line mark and set ourselves well with little diversified business and outlook for the next 10 years.



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Last one year, we have been able to do that -- do this pretty well. The top line is already starting to reflect that. We have a whole range of pigments where we earlier only had a full range of blues. And now we also have an entry in the API business through a well-run, profitable ongoing company.

So it gives me great pleasure in trying to go forward over the next three years, consolidating this growth phase and taking the company to a new level. We hope for the caveats are that we hope for improvement in the market conditions, which are really fairly poor currently, one of the worst I have seen in over a decade. And as soon as this improves, I think we should be placed well to take advantage of the upswing. And I think when the upswing comes, this may take three months, this may take six months, but I think the upswing, the longer it takes the stronger the upswing will be. Thank you for attending the conference.

Moderator:

On behalf of Asahi Songwon Colors Ltd that concludes this conference. Thank you for joining us, and you may now disconnect your lines.