

22/08/2018

DCS – Listing,
BSE Limited,
Limited,
1st Floor, New Trading Ring,
Rotunda Building, P.J.Towers,
Dalal Street, P.J.Towers,
Mumbai 4000 001

Listing Department,
National Stock Exchange of India

Exchange Plaza, 5th Floor,
Plot No.C/1, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051

Scrip Code - 506655

Scrip Code – SUDARSCHEM

Subject: Transcript of Conference Call with Investors

Dear Sir / Madam,

We attach herewith transcript of the Conference Call held with Investors for discussing the performance of the Company during the first quarter ended 30th June, 2018.

The aforesaid intimation is also being disclosed on the website of the Company, www.sudarshan.com

Thanking you,

Yours truly,

For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

MANDAR VELANKAR
DGM – LEGAL & COMPANY SECRETARY

22/08/2018

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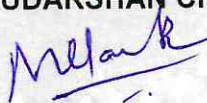
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Sudarshan Chemical Industries Limited
Global Head Office :
162 Wellesley Road, Pune - 411 001, India
Tel: +91 20 260 58 888 Fax: +91 20 260 58 222
Email : contact@sudarshan.com
www.sudarshan.com



“Sudarshan Chemical Industries Limited
Q1 FY2019 Earnings Conference Call”

August 13, 2018



ANALYST: MR. JIGAR JANI - EDELWEISS BROKING LIMITED

MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR - SUDARSHAN CHEMICALS INDUSTRIES LIMITED
MR. VIVEK THAKUR – ACTING CHIEF FINANCIAL OFFICER - SUDARSHAN CHEMICALS INDUSTRIES LIMITED
MR. AMEY ATHALYE – DEPUTY GENERAL MANAGER – ANALYTICS - SUDARSHAN CHEMICALS INDUSTRIES LIMITED

- Moderator:** Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited Q1 FY2019 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jigar Jani from Edelweiss Broking Limited. Thank you and over to you!
- Jigar Jani:** Good afternoon ladies and gentlemen. On behalf of Edelweiss Broking, I welcome all the participants who have logged in for the Q1 FY2019 conference call of Sudarshan Chemical Industries Limited. From the management team, we have Mr. Rajesh Rathie - Deputy Managing Director, Mr. Vivek Thakur – CFO and Mr. Amey Athalye – Deputy General Manager – Business Analytics. I would like to thank the management for giving us the opportunity to host this conference call and now I would like to hand over the call to Mr. Rajesh Rathie for his opening remarks post which we will open the floor for Q&A. Thank you and over to you Sir.
- Rajesh Rathie:** Thank you Jigar Jani Ji for giving us this opportunity to explain our numbers for the last quarter. Amey, can I request you to start with the results of slide #9.
- Amey Athalye:** Good evening everyone. Welcome to the call. I am on slide #9 to give an overall picture about the Sudarshan group. The overall group revenue last year was 1646 Crores, last quarter we have taken major step towards focus on the pigment business growth so the agrochemical which was the low margin business the divestment process has started. The brand formulation business, which is a trading business, the business transfer agreement has been reached. The other business which was Prescient Color as part of the subsidiary it was coming conflict in terms of the customer competition because pigment goes into plastic application so as a commitment towards growing the plastic segment, the Prescient Color subsidiary has been divested and the transaction was concluded on June 1, so now the management would entirely focus its attention on growing pigment business further and growing all the applications of coatings, plastics, ink and cosmetics.
- Rajesh Rathie:** I think part of the master batch business there was a conflict with our customers and part of our growth strategy to focus on pigment business that decision we are taken to divest the master batch business.
- Amey Athalye:** I will move to quarterly financial update, I am slide #11. So the overall revenue has grown compared to Q1 of last year by 14% from 300 Crore to about 343 Crores. There has been good improvement in terms of the operating profit. The margins have improved by 1.3% to about 16% in Q1 current year. The PBT has also grown from 11.1% to 11.5%.
- To explain the growth in operating profit last year we have taken a major project in terms of the manufacturing excellence. So there was some cost, which had come into the P&L; however, we have now seen the benefit in terms of lower utility consumption, lower plant maintenance cost, we had also commissioned windmill in April and we are getting power benefit in this year, so

that is reflecting in the operating profit margin. Since raw material side last six months we have seen the increase in trend so that is now getting compensated through the cost saving measures, which we had implemented to manufacturing excellence project.

Coming to key ratios, the debt equity ratio at June end is 0.46 and current ratio is also improved to 1.61; however, this is due to sales proceeds coming in from Prescient Color master batch business and once the funds get deployed in pigment expansion the ratio would again go back to the levels of March 2018.

Vivek Thakur: Because of the divestment proceeds the borrowings have come down which is reflecting in to a better debt equity ratio, once these funds are deployed as Amey mentioned these ratios will again go back to the earlier levels. Also the current ratio is looks better because of lower borrowing. Earnings per share the number which is shown on the slide is without considering the exceptional items related gain and this is normalize earning per share annualized based on the quarterly Q1 numbers.

Amey Athalye: On the business highlight side raw materials continued to increase and we are pushing selling price increases. There is some lag and there is still volatility in the raw materials due to environmental thresholds in China and so that is one area. However our EBITDA margins have improved about 1.3% due to all, the operational expense project which we have taken on cost reduction.

Rajesh Rathi For next quarter our focus is going to be further increases in customer prices and having a tight pricing control to improve the profitability, we expect raw material prices to stabilize by Q3. Cash flows from the divestment of master batch and agro business will be deployed for the expansion of pigment business, which was already planned in the beginning of the year.

Rajesh Rathi: Thank you so much and we will be more than happy to answer any questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have a first question from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Mr. Rathi. Congratulations for really good set of numbers.

Rajesh Rathi: Thank you Sir.

HR Gala: Sir few first bookkeeping questions, how much was the total consideration we received for the divestment of Prescient?

Vivek Thakur: Overall 104 Crores and the gain are about 89 Crores.

HR Gala: Yes, so 104 Crore is a gross consideration we received.

- HR Gala:** Okay. Sir the second question is you have just mentioned that in last Q1 we had some project related costs so how much was that element because apparently it does not seem like that much in any of the expenditure heads?
- Rajesh Rathi:** Which project Sir, not clear?
- HR Gala:** Pardon.
- Rajesh Rathi:** Which project you are saying?
- HR Gala:** You said know that in Q1FY2018 we had some project related one-time cost, which are not there in Q1 FY2019 that is one of the reasons why our EBITDA margin has slightly improved.
- Amey Athalye:** No what I mentioned is that there were a small amount of cost, it is not a material cost.
- Vivek Thakur:** In the previous quarters we have incurred expenditure on improvement and the results are seen in the current quarter profitability.
- HR Gala:** Okay. The third question pertains to as far as the GST is concerned we do considerable amount of exports so are we facing any inverse duty structure type of issues or the reimbursement of expenses and things like that after GST, export incentive and all that?
- Vivek Thakur:** In terms of input as well as output, there is 18% rate of GST. There is no inverted duty structure in our product, it that because in case of export there is normally no GST favour so normally there is a refund scenario.
- HR Gala:** Okay. And the level of export incentive that we used to get earlier and now in post GST any change?
- Vivek Thakur:** No there is no change in that.
- HR Gala:** Sir overall how is the business overview, how does the business looks like in India and globally for the relevant industries, where which are going to be our focus areas?
- Rajesh Rathi:** The business outlook looks very good Sir. It continue to grow I think customers are well engaged with us and to improve our positions.
- HR Gala:** Okay very good. So I think we are getting closer to our target of getting into the top Pigment players in the industry?
- Rajesh Rathi:** Yes.
- HR Gala:** Okay. Sir just last question from my side, any progress on the disposal of this Pune property Sir?

- Rajesh Rathi:** No Sir the board is kind of looking at that, so the board has setup a committee and I think they are looking at all options. Nothing immediate.
- HR Gala:** But do you see it happening in the near future because that will further augment our resources?
- Rajesh Rathi:** Sir I cannot comment on this because the board has set up a Committee and I am sure they will be looking at this.
- HR Gala:** Okay fine, thank you very much Sir. Wish you all the best.
- Rajesh Rathi:** Thank you.
- Moderator:** Thank you. We have our next question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. Sir first question if you can share some break up of value versus volume for Q1 FY2019?
- Rajesh Rathi:** About 10% volume growth.
- Anand Bhavnani:** Okay. Sir we have seen the crude oil has been at higher levels in last six months do you see a realization going forward increasing the lag effect that you mean to take for us to pass on the customers who will come up and we would be able to price higher?
- Rajesh Rathi:** Sir I think we are more effective due to the closure of several plants and capacity rather than crude oil, as we said that we are far away the value chain of crude oil so we do not kind of immediately get affected and hence the price volatility continues and we are looking at how we can pass on some of the increases which comes in.
- Anand Bhavnani:** Okay. And Sir overall for capex plan in which 1000 Crore of capex how much is already commissioned and what is the capacity utilization of the commissioned capex?
- Rajesh Rathi:** Approximately I am giving you ball-park figures almost 200 Crores to 225 Crores is commissioned and we should be, our plan is about 200 to 250 Crores of more investment this year.
- Anand Bhavnani:** So at the end of this year we will be half of Rs.1000 Crore capex plan would that be the right assessment?
- Rajesh Rathi:** A little less I would say.
- Anand Bhavnani:** Sir the commissioning of 225 Crore capex how much is the revenue potential and what is the current revenue being realized the capacity utilization current?

- Rajesh Rathi:** Whatever we put into plant and machinery the asset to turnover ratio is about four times. Of course some investments go into either backward integration infrastructure or cost reduction initiatives like we did the cogen plant, we did the windmills etc.,
- Anand Bhavnani:** Okay so out of the plant and machinery that have been put up what is the current utilization level this 225 Crore already commissioned?
- Rajesh Rathi:** Combined mix could be about 80% to 85%.
- Anand Bhavnani:** Sir significant gross margin expansion in Q1 FY2019 so do you see this sustaining rest of FY2019 was there any one off inventory some light on that?
- Rajesh Rathi:** There was no one off there was all systematic improvements.
- Anand Bhavnani:** So you see gross margin staying at these levels ballpark for rest of FY2019?
- Rajesh Rathi:** If everything going right, yes Sir.
- Anand Bhavnani:** Okay. And Sir lastly you have mentioned in the presentation that operational excellence are given us PBIT margin increases and some number you can share what the percentage claim?
- Rajesh Rathi:** Sorry come again Sir.
- Anand Bhavnani:** In the opening remarks you mentioned that certain projects cost reduction projects helped increase the PBIT margin what is the quantum that the increase that you see?
- Rajesh Rathi:** About 1.3%.
- Anand Bhavnani:** Okay. Thank you Sir, I will come back in the queue.
- Moderator:** Thank you. We have the next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.
- Vikrant Kashyap:** Good afternoon Sir. I have two questions, No.1 in recent past we have not been able to deliver consistent performance; Q1 results are also not good, when we can expect consistent performance in topline as well as bottomline?
- Rajesh Rathi:** So, this Q1 is not good our EBITDA margins up by 1.5% this growth of 14%-15%.
- Vikrant Kashyap:** But you see in our bottomline we are not been able to deliver what we were able to deliver a top-line and if you see.
- Rajesh Rathi:** Our EBITDA is up Sir.

- Vikrant Kashyap:** Sir I am not referring to EBITDA margin I am referring to bottomline, it is PAT and if I refer it with performance 2017-2018 on a consol basis our bottomline has been relatively similar and on the top-line side there has been good quarters but there has been a dips in-between so or when we are going to see consistent growth in top-line and bottom-line both?
- Rajesh Rathi:** So I need to understand your question first, you agree that Q1 there is a growth right,
- Vikrant Kashyap:** Yes there has been growth.....
- Rajesh Rathi:** In profit I am saying in the bottom line. Sir could you explain your question I am not understood.
- Vikrant Kashyap:** My question is in many of the quarters we have able to grow and in many of the quarter we have not been able to grow there has been slight dip, so is this need to see consistency in the growth in both top-line as well as bottom-line. If you compare our numbers consolidated number in 2017 bottom line was about 100 Crores the bottom line has not improved in 2018 and this quarter also run rate has been similar so when we will see growth in bottomline?
- Rajesh Rathi:** This quarter you are saying you agree that we have increased our profit margin. Again you are saying it has not grown. I am not understanding the question Sir, I am sorry. So either you have to talk in terms of numbers and ask us a question because you are contraindicating your
- Vikrant Kashyap:** Okay. Let me put it my same question, we have done relatively better in the margin front in this quarter what is the scope of further improvement in it?
- Rajesh Rathi:** We are continuously taking a lot of initiatives to improve bottomline and I think our EBITDA margins have improved and I think we should be able to maintain the EBITDA margin and control our fixed cost.
- Vikrant Kashyap:** So we would expect a further improvement from the current quarter's number?
- Rajesh Rathi:** Sir we do not give directional statements however like I said we should be able to maintain a good performance.
- Vikrant Kashyap:** Right Sir. One of our previous participants was asking Sir some Pune land. Was he referring to a land monetization part?
- Vivek Thakur:** Sir he was talking about the land monetisation of Pune Land
- Vikrant Kashyap:** Okay Sir thank you I will get back to queue.
- Moderator:** Thank you. We have a next question from the line of Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Good evening to all and thanks for taking my questions. Sir I would just like to understand that when you embark this 1000 Crore kind of capex plan and you had MoU with government of

Maharashtra I think it was a five year kind of plan by which you were supposed to execute this 1000 Crore kind of capex are we well on the track for the Rs.1000 Crore kind of capex or is there any change in those numbers?

Rajesh Rathi: Yes Sir we should be on track may be a year up and down but we should be on track.

Manoj Garg: Okay. And the second thing Sir like even I think that point of time you indicated that the aspiration is to become the third largest pigment company in the world and probably we had a project mission 5000 Crore kind of a revenue aspirations after completing this 1000 Crore kind of project again if I can understand where we are in the journey and how do you see things panning out over the next few years Sir?

Rajesh Rathi: Sir we have not given out any numbers 5000 Crores etc., and yes our aspiration of our vision is to become amongst three top players and we do see a strong growth in our pigment business and that is how we are focusing on the pigment business.

Manoj Garg: And Sir if I can understand about this 1000 Crore kind of capex which we are talking about over the next few years how much would be for the backward integration how much for the downstreams in terms of moving up the value chain?

Rajesh Rathi: Almost 80% to 90% towards upstream Sir.

Manoj Garg: And where we are expecting this forex kind of asset turnover.

Rajesh Rathi: Yes.

Manoj Garg: Sir last question if I can. I think HPP and effect pigment used to be around 35% of our revenues until fiscal year 2018 again like how do you see this mix moving up and probably that is something which will drive the margin upward, so from 35% where we can reach in these two segments HPP and effect pigment?

Rajesh Rathi: **Without getting into the product mix,** our whole growth strategy is to grow those two areas and that is where we are working.

Manoj Garg: Okay, I have some more questions I would be in the queue I wish you all the best Sir.

Moderator: We have the next question from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

Saravanan V: Yes, thanks for taking my question, in our current product portfolio how much of it is REACH compliant?

Rajesh Rathi: So we are completely REACH compliant.

Saravanan V: So what would that quantum be at this point?

Rajesh Rathi: Sir whatever we sell into Europe it is completely...

Saravanan V: What are the European sales at this point?

Vivek Thakur: About 200 Crores.

Saravanan V: What proportion of our sale is now sort of a commodity nature and how much of it is specialty?

Rajesh Rathi: I think all our growth is coming in the specialty areas and that is the business, which we are kind of driving towards the growth.

Saravanan V: So but we would still have some commodity component right?

Rajesh Rathi: Yes.

Saravanan V: How much that would be?

Rajesh Rathi: Right now we do not give that in the public domain Sir but our significant growth comes from the specialized products.

Saravanan V: Okay, so in the last call you had mentioned that in the next call you would be sharing out of this 200 Crore commission plus 250 Crore capex which is planned for FY2019 how much is towards capacity expansion how much is towards margin enhancement like so are you in a position to give the break up now?

Rajesh Rathi: We planned about 250 Crore expansion and approximately this year there is a major trend towards the backward integration so about 100 Crores would be towards backward integration margin expansion.

Saravanan V: Okay and out of the 200 Crores commission everything went into capacity or you would mention some percentage 80%-85% was for capacity enhancement?

Rajesh Rathi: I do not have the figures off hand but out of 200 Crore certain amount went towards margin expansion in terms of utilities cogen, windmills and solar.

Saravanan V: Understood. In terms of volume guidance you had mentioned that this year would be better than FY2018 are you still maintaining that?

Rajesh Rathi: Yes.

Saravanan V: The last question from my side last time we had some write offs in the subsidiary level are you seeing anything else coming out this year?

- Vivek Thakur:** Just to clarify last year was the first year for us for implementation of Ind-AS and we moved to expected credit loss model so for that these were provisions not exactly write offs. Having implemented that there is no major change as compared to last year.
- Saravanan V:** Thank you. I will join back the queue.
- Moderator:** Thank you. We have the next question from the line of Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Thank you for the opportunity Sir. On Prescient color was the revenue about 80 Crores and profit was 4 Crore?
- Vivek Thakur:** Yes, the numbers as far as I remember is these numbers which you are talking about they are also there in our annual report.
- Ritesh Poladia:** I will go through that. And Sir along with this prescient sale was there any plant or something we sold off?
- Rajesh Rathi:** Yes, Sir that is a entire Subsidiary was sold off.
- Ritesh Poladia:** So that is from Roha or Mahad side.
- Rajesh Rathi:** That was near Pune.
- Ritesh Poladia:** So it was a different plant?
- Rajesh Rathi:** Yes Sir.
- Ritesh Poladia:** Okay and Sir on this 250 Crores capex you said 100 Crores is backward integration could you give some example like last year we spent on the utilities, what this 100 Crores would be?
- Rajesh Rathi:** On backward integration Sir so kind of making some of the intermediates.
- Ritesh Poladia:** Okay, so some of the raw materials, which we are buying, we might be making in the facility?
- Rajesh Rathi:** Yes.
- Ritesh Poladia:** And Sir this 10% volume growth based on facility expansion do you see a higher growth in H2?
- Rajesh Rathi:** Yes, I think the way our whole idea is I think we have got all the basics right and we should see better growth.
- Ritesh Poladia:** Okay, Sir on new product development and new customer wins would you like to give some commentary on that?

- Rajesh Rathi:** On new product development Sir we expecting to launch seven to eight large products in this year and we are hopeful that we could do some in Q2 and the balance same in Q4.
- Ritesh Poladia:** New customer wins; in which side and which region and what would it be on cosmetic side or chemical side if you can give some commentary?
- Rajesh Rathi:** So we have a continuous process of new customer acquisitions and we had done a fresh outlook towards a go-to-market strategy and in all the areas industrial and cosmetics there are a continuous initiative to engage with new customers.
- Ritesh Poladia:** Right. That is all from my side. Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagaraj on Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Thanks for taking my question. My question pertains to value about the industry so we are being such largest producers the top five producers are those located in China or some other geographies that is a first question and I had a couple of related questions.
- Rajesh Rathi:** So we are the fourth largest pigment producer, the top three are located in Europe, Japan and US.
- Rohit Nagaraj:** When you are talking about volume growth so is it predominantly because the industry itself is growing by certain percentage or is it because there is some spillover or some of the capacity shut downs, which are happening, in other geographies?
- Amey Athalye:** Sorry can you please repeat your question?
- Rohit Nagaraj:** The volume growth that you are talking about for the industry as such so is it because?
- Rajesh Rathi:** The industry is growing at 3% to 4% globally.
- Rohit Nagaraj:** Right. And we are growing by about say 10% to 11% correct?
- Rajesh Rathi:** I think the value growth is 3%-4% and we have grown this quarter at 14%.
- Rohit Nagaraj:** Right. Sir part of it due to the capacity shutdowns which are happening at some of the geographies particularly in China and that is the region the spill over is coming to the producers in India and to us?
- Rajesh Rathi:** Sir I do not think we are not participating in some of those products market segments where China capacities have reduced. This is primary due to a sort of markets, which we have been investing in, and the segments we have been investing in the last couple of years.

- Rohit Nagaraj:** Right. And the last question on the pollution control so about our facilities are all those geo liquid discharge facilities or you are aiming to go in for further modifications and investments and what could be the investments?
- Rajesh Rathi:** Currently our pigment consumes a lot of water and generic effluent. None of our plants are zero discharge but we have the highest standards of effluent treatment plants we are compliant with all pollution control norms and we are well within legal limits, so we control even below the legal limits and for our Roha Plant we have direct discharge permission into the MIDC pipeline.
- Rohit Nagaraj:** Okay. So there are no further significant investments particularly for the pollution control activity?
- Rajesh Rathi:** We may do some activity in our Mahad site. Roha site we have already completed last year.
- Rohit Nagaraj:** And what could be the quantum if you could have any ballpark number?
- Rajesh Rathi:** It will be a minor amount Sir.
- Rohit Nagaraj:** Okay. Fair enough. Thank you Sir.
- Moderator:** Thank you. We have a next question from the line of Naushad Choudhary from Systematix. Please go ahead.
- Naushad Choudhary:** Thanks for the opportunity. A couple of questions I have, firstly you said your volume growth in this quarter was 10% right?
- Rajesh Rathi:** Yes.
- Naushad Choudhary:** So if you can highlight it from which part of your end user industry is driving the major growth in volume that would be great Sir?
- Rajesh Rathi:** It is coming from mainly our specialties, high performance pigments and effect.
- Naushad Choudhary:** Sir but that product have four five different end user applications like coating, cosmetics; ink so any specific end user industry which is driving the most?
- Rajesh Rathi:** So coatings and cosmetics.
- Naushad Choudhary:** Okay. Out of this volume growth is there any new product contribution in this quarter which was not there in last quarter same year?
- Rajesh Rathi:** Sorry come again.
- Naushad Choudhary:** What is the contribution of the new product in this quarter, which was not there in last year?

- Rajesh Rathi:** Sir I think the new product sales group takes time we have introduced new products but to ramp up complete volumes they do take some time.
- Naushad Choudhary:** So if you can quantify little bit out of 10% can we assume one or two percent was from the new product or was it completely from the old?
- Rajesh Rathi:** I do not have that number off hand right now. We can share that definitely.
- Naushad Choudhary:** Okay and this growth of 10% were equally divided in domestic and export market?
- Rajesh Rathi:** I think the growth levels were slightly towards the India market was slightly skewed towards India market otherwise balanced.
- Naushad Choudhary:** Sir last one Sir you said around Rs.200 investment we are doing in backward integration so if you can throw some light?
- Rajesh Rathi:** No I did not say 200 Crores I said above 100 Crores approximately 100 Crores.
- Naushad Choudhary:** So if you can talk about intermediate what product are we getting into?
- Rajesh Rathi:** So I think these are all intermediates for some of our pigments.
- Naushad Choudhary:** If you can name the products Sir it will be very helpful?
- Rajesh Rathi:** Sir right now we are not giving that in the public domain because of competitive information.
- Naushad Choudhary:** Thank you so much Sir.
- Moderator:** Thank you. We have a next question from the line of Saravanan Viswanathan from Unifi Capital. Please go ahead.
- Saravanan V:** Sir in your annual report also you mentioned about large unorganized sector in the Indian pigment industry, post GST what has been our experience you are seeing more volumes coming from them to you organized players like you?
- Rajesh Rathi:** Post GST I think we have not seen a major change because there are quite of these have become GST compliant too so from a perspective of business shifting due to GST has not happened much.
- Saravanan V:** Do you expect it to happen or I mean it is easy for them to migrate to GST and start complying?
- Rajesh Rathi:** So I think most of them are GST compliant Sir.

- Saravanan V:** Okay. And in terms of raw materials are you seeing any shortages which could affect your volume growth, see one is price increase which you will be able to pass on to a quarter's lag, but are there any even some?
- Rajesh Rathi:** Yes, we do see raw materials supplier disruptions. I think we did see at least two or three items, which had some disruptions, but now it looks the next quarter looks more smooth.
- Saravanan V:** Okay, so when you had mentioned that the full year volume will be higher than last year accounting for all these shortages also?
- Rajesh Rathi:** Yes Sir.
- Saravanan V:** Okay that is helpful. And again coming back to the REACH part so now you are at 250 Crore European sales so how fast you can scale this up; because in your annual report you had mentioned that REACH compliance comes at very high cost so considering that?
- Rajesh Rathi:** a lot of cost is incurred Sir already so all the products sold are compliant right so I do not think we have to incur any more costs.
- Saravanan V:** Okay and this can be scaled up also?
- Rajesh Rathi:** Yes, absolutely.
- Saravanan V:** Okay, that was helpful. Thank you.
- Moderator:** The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. Sir just wanted to understand in your annual report that you had mentioned that 18 Crores savings from cogen at Roha so this 18 Crore entirely has already been reflected in FY2018 earnings or some of it will be in FY2019?
- Vivek Thakur:** Cogen plant was implemented before last year, so last full year we had benefit out of cogen plant.
- Anand Bhavnani:** Okay so there is no benefit less incrementally gets reflected in FY2019?
- Vivek Thakur:** The cogen plant has a continuous and continued benefit.
- Anand Bhavnani:** Yes, so I just wanted to know the cogen plants was left in the second half then you might see part of it reflected in the first half because it would obviously get reflected in the half of last year, but as per you, it completely reflected in the FY2018. It was commissioned before the beginning of FY2018?
- Rajesh Rathi:** Yes, that is correct.

- Anand Bhavnani:** Okay. And Sir if I were to compare our industry pigments you know the dye manufacturers seem to be having a lot of technological edge but they are able to ease out close to 16% to 18% margin on the consistent basis, it is just that in this quarter we touched 16% prior to that 17%, 13% and 15% so just wanted to understand why is that margins for our product there is a high pigment is lesser than industrial manufacturers?
- Rajesh Rathi:** I think given the specialty chemical industry I think you see I do not know the tyre industry so I do not want to comment on that but if you see the specialty chemical industry the EBITDA margins are anywhere between 14% and 20% and our endeavour is to be towards the higher end of the EBITDA margins and so there are lot of initiatives towards that towards growth towards cost reduction and that is what going to help us.
- Anand Bhavnani:** Okay so any spends, should we be closer to let say 18%-19% in next three years time is there any mind-set that the company have?
- Rajesh Rathi:** Sir did you say dyes or tyres I missed that?
- Anand Bhavnani:** I asked about dye intermediates in dye stuff?
- Rajesh Rathi:** So dye intermediates are going through upswing completely. There are a lot of raw material shortages. There are lots of closures in China and that is why you are seeing this upward trend. I am sorry I misunderstood your question. That is where you are seeing a swing. The question is, is this sustainable is a real question because we do not know how the capacity things would come up. Pigment is little different because the volumes you know there are large volumes even out of China except for Esos, China is a major source and we want to see, and that is where our whole initiative is to go towards higher end by getting into higher end of the markets volume growth reduction in our fixed cost, more manufacturing efficiencies etc.
- Anand Bhavnani:** And Sir in rupee depreciation was it affects us positively or negatively for FY2019 how do you see this phasing out given that?
- Rajesh Rathi:** We are net exporters, so it is always positive for us.
- Anand Bhavnani:** And Sir for land how much is the ballpark figure that we might see when selling it?
- Rajesh Rathi:** This has looked at by the board right now. There are no valuations done there is nothing, there are lot of compliances, which the board is looking into so we are not looking at the market level.
- Anand Bhavnani:** Sir last question. The Agro business for consideration of 7-odd Crores and you will be seeing royalty of same. Sir can you elaborate on this, and have we received any upfront consideration for the sale?
- Rajesh Rathi:** Yes, agro, we have sold agro trade the bulk for formulation business and this business is sold for that is 7.5 Crores.

- Vivek Thakur:** 7 Crores upfront consideration the closing formalities are currently ongoing. We expect these formalities to be end of this quarter and there is also a royalty for name use for the company, which will continue for a period of four years.
- Anand Bhavnani:** Okay and this 7 Crores is net of debt. The debt is on the books of the company?
- Vivek Thakur:** Yes, so this is a formulation business, which is not very asset heavy, the employees have been transferred and other closing formalities are currently ongoing.
- Anand Bhavnani:** Okay. Thank you. I will come back in the queue.
- Moderator:** We have the next question from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Sir there is one question what kind of innovation index we must be having at present?
- Rajesh Rathi:** Sorry what index?
- HR Gala:** Innovation index, that means the turnover contributed by the new products launched in say two three years?
- Rajesh Rathi:** So we call new products introduced in the last five years current sales would be about 12% to 13%.
- HR Gala:** Okay that is very important to know. And Sir how much exports was there in this 346 Crore sales this quarter?
- Amey Athalye:** Yes, export would be about 50%.
- HR Gala:** Okay. Thank you very much Sir.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Thanks for taking my question. Sir how much was the raw material sourced from China in terms of percentage?
- Rajesh Rathi:** So I think overall imports are about 32% to 35% coming from China and others are from other countries.
- Rohit Nagaraj:** In terms of industry as I understand BASF, DIC they are competitors, so have we?
- Rajesh Rathi:** Can you repeat the question Sir?

- Rohit Nagraj:** From a competitive intensity perspective have we seen any other investments being currently done by the top three players are announced by them because I think we might be watching that pretty closely?
- Rajesh Rathi:** No not, we have not seen anything currently in that.
- Rohit Nagraj:** I just to get an understanding because we are investing heavily and we are competing with them in the exports market so just to get a perspective on the same.
- Rajesh Rathi:** Yes.
- Rohit Nagraj:** Thank you Sir.
- Moderator:** Thank you. We have a follow up question from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Sir you mentioned you have three companies which are ahead of us, can you give the names?
- Rajesh Rathi:** Sorry please repeat?
- Anand Bhavnani:** The three companies which are bigger than us, can you please share?
- Rajesh Rathi:** BASF, Clariant and DIC.
- Anand Bhavnani:** Okay. And Sir what would be the like their overall volume, what would be the volumes how far are we large in their number, which is the third player and when can we expect to, any guidance on the sense of volumes?
- Rajesh Rathi:** We do have internal plans to kind of and we are formulating the strategy on growing. I think may be this is the not the right investor call when we do a complete, when we meet in Mumbai together at that time we will talk more about the plan.
- Anand Bhavnani:** Right Sir. Sir you mentioned you have some competition from China on the low end of the market like can you give us sense how much that China sell in India import from India as a percentage of the overall Pigment market including the high performance pigment so what was the share here in the Indian market?
- Rajesh Rathi:** The Chinese share for organic pigment market is low in India; however, of course China does sell into other parts of the globe.
- Anand Bhavnani:** What would be the market share in other part lower markets are important for us so in pigments how big that would be?
- Rajesh Rathi:** China, so in terms of Azo Pigments still large and Effect pigments for industrial will be large.

- Anand Bhavnani:** Okay percentage wise do you have any?
- Rajesh Rathi:** Right now I do not have figures off hand.
- Moderator:** Thank you. We have the next question from the line of Jigar Jani from Edelweiss Broking Limited. Please go ahead.
- Jigar Jani:** Thanks for taking my question. Sir we talked about 100 Crores of backward integration projects this year what kind of margin expansion are we looking at after we complete it in terms of the EBTIDA margin expansion and secondly when are we likely to see the completion of it once we start it?
- Rajesh Rathi:** We should complete the projects by the end of this year and on the payback it is difficult to kind of give guidance on what but the outside each of these intermediates generally payback is between three to four years.
- Jigar Jani:** Okay and Sir this we had set up a subsidiary in China for both marketing as well as cost sourcing of our raw materials so has it helped us in sourcing better?
- Rajesh Rathi:** The process is on-going due to the disruptions right now it is difficult you know we have been able to it is not helped us in the cost initiatives but atleast we are able to get raw materials in time and supply to the customers I think when the disruptions of market is over that time we would see how we could get cost benefits.
- Jigar Jani:** Sir what is the royalty that we are likely to receive from the sale of this formulation business over the next four years on an annual basis approximately ballpark obviously it would depend on the sales but assuming similar sales as last year FY2018?
- Vivek Thakur:** We are expecting about 10 to 14 Crores royalty over a period of four years.
- Jigar Jani:** Okay and Sir we also had announced I think couple of quarters back some capex in Mahad so any updates on that or is this 250 Crore going to be at Roha or at Mahad?
- Rajesh Rathi:** These two investments are together between Roha and Mahad which we have been talking together.
- Jigar Jani:** Which is the 250 Crore this year spend right?
- Rajesh Rathi:** Yes, so it is all together.
- Jigar Jani:** So Sir the MoU is for both sites or was it only for Roha?
- Rajesh Rathi:** The first MoU for Roha and this is the another MoU, for Mahad.
- Jigar Jani:** Okay and Sir but 1000 Crore we committed only for Roha right?

- Rajesh Rathi:** Yes.
- Jigar Jani:** So that is on track, this would be a separate MoU at Mahad and we would be doing another mega project status application doing it right?
- Rajesh Rathi:** Yes, this will be smaller. Mahad is a smaller site.
- Jigar Jani:** Okay understood. I think there are some more questions in the line Sir you take those. Thanks.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir just a question on the mega project pardon for my ignorance but what are the incentives that you would be getting once we make the minimum investment as suggested by the government?
- Vivek Thakur:** There are three kinds of benefits one is if there is a GST refund if the sales is done in the domestic market, the second benefit is on the electricity duty that is the second benefit and the third benefit is on the stamp duty payable in the state of Maharashtra.
- Rohit Nagraj:** And Sir if I am nor wrong we need to make a minimum of 750 Crore fixed asset investment on the site so what is the moratorium period for the same and where are we currently in terms of this 750 Crore investments?
- Vivek Thakur:** There is a five-year window in which 750 Crore capex is required to be incurred. The period started for us in 2016. We have time till 2020.
- Rohit Nagraj:** Okay and till now what is the quantum of investments that we have done?
- Vivek Thakur:** That is about 200 Crores and this year we are also expecting lot of capex to happen.
- Rohit Nagraj:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Sir with respect to our Pune land just wanted to get some ballpark sense of the value of the land, currently we have lot of debt on books and with capex it can go up again so is the land significant to make the change as and when sold to debt levels?
- Vivek Thakur:** The debt equity currently is not very high. It is about 0.46. So debt is not very significant currently in the books but we have plans for expansion so we will obviously go for debt funding in future. As there is regulatory process pertaining to the land we are not expecting something in the near future.

- Rajesh Rathi:** We should be able to generate enough to sustain that growth, so we are not banking on business growth from the land.
- Anand Bhavnani:** It is a very encouraging sign, but just on the value that has been announced, is it 5 Crores, 10 Crores, 50 Crores or 100 Crores, just to get a ballpark sense of asset value?
- Rajesh Rathi:** Right now we do not have any market valuation in terms of the land we are still not in the market and ready for that so I would not be able to comment this.
- Anand Bhavnani:** Okay how many acres would it be?
- Rajesh Rathi:** Sir again I think we are not authorized to talk about the land in the investor call. We are here to talk about our business.
- Anand Bhavnani:** Perfect. Thank you.
- Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Jigar Jani.
- Jigar Jani:** Thanks Sir. Just one last question, this entire capex of 250 Crores part of it will be funded through proceeds we receive from Prescient sale would we be needing any additional debt per se and what would be that quantum this year that we would be borrowing extra for the capex?
- Rajesh Rathi:** Out of 250 Crores capex we have these proceeds net off cost and tax we will have about 70 Crores available with us so rest will be the debt.
- Jigar Jani:** Okay so the internal cash flow we would be generating that would be not utilized for capex this year?
- Rajesh Rathi:** So there will be internal accrual also but there will be so incrementally we will also need working capital and so part of the cash flows will get accrue towards that.
- Jigar Jani:** I would like to thank everybody who has joined on the call for taking the time out and attending the call and also thank the management team for taking the time out and answering all the queries of the investors. On behalf of Edelweiss Broking I would like to now close the call. Thank you very much for attending the call.
- Rajesh Rathi:** Thank you.
- Amey Athalye:** Thank you.
- Moderator:** Ladies and gentlemen on behalf of Edelweiss Broking Limited that concludes this conference, thank you for joining us. You may now disconnect your lines.