

21st November, 2019

DCS – Listing
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051

Scrip Code - 506655

Scrip Symbol - SUDARSCHEM

Dear Sir,

Sub : Transcript of Analysts / Institutional Investors Conference Call

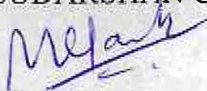
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 6th November, 2019, after announcement of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and half year ended 30th September, 2019.

The said transcript is also uploaded on the website of the Company.

Kindly take the same on record.

Thanking You,
Yours Faithfully,

For SUDARSHAN CHEMICAL INDUSTRIES LIMITED


MANDAR VELANKAR
DGM – LEGAL & COMPANY SECRETARY



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 Q2 FY 2020
Earnings Conference Call”**

November 06, 2019

**MANAGEMENT: MR. RAJESH RATHI -- MANAGING DIRECTOR,
SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. VIVEK THAKUR -- GENERAL MANAGER
(FINANCE), SUDARSHAN CHEMICAL INDUSTRIES
LIMITED
MR. AMEY ATHALYE -- DEPUTY GENERAL MANAGER
(FINANCE), SUDARSHAN CHEMICAL INDUSTRIES
LIMITED**

**MODERATOR: MR. SWARNABHA MUKHERJEE -- EDELWEISS
BROKING LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Sudarshan Chemical Industries Limited Q2 FY20 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Swarnabha Mukherjee from Edelweiss Broking Limited. Thank you and over to you, sir!

Swarnabha Mukherjee: Thank you. Good afternoon, ladies and gentlemen. On behalf of Edelweiss Broking I welcome all the participants who have logged in for the Q2FY20 Earnings Conference Call of Sudarshan Chemical Industries Limited.

From the management team we have Mr. Rajesh Rathi -- Managing Director; Mr. Vivek Thakur -- General Manager (Finance) and Mr. Amey Athalye -- Deputy General Manager (Finance).

I would like to thank the management for giving us the opportunity to host this call. And I would now like to handover the call to Mr. Rajesh Rathi for his opening remarks on the quarterly results, after which, we will open the floor for Q&A. Please go ahead, sir.

Rajesh Rathi: Thank you for Swarnabha and Edelweiss for hosting our earnings call this quarter. Good afternoon, ladies and gentlemen. Welcome to Sudarshan Chemical's Q2 performance update call. Our quarterly presentation has been uploaded on the stock exchange and the website for your ready reference. I hope you have been able to access it. For a more detailed review, I am going to ask my colleagues Vivek and Amey to give us a brief.

Amey Athalye: Thank you, Mr. Rajesh. Starting with the performance for the quarter.

On consolidated basis:

Total income from operations is at Rs. 400 crores as compared to Rs. 363 crores in the same period last year. We recorded growth of around 10% year-on-year. Operating profit has grown by about 36% year-on-year and stood at Rs. 63 crores. Sales growth in this quarter is driven by specialty segments portfolio growing by about 6% and non-specialty portfolio growing by about 6%.

We continue with the price pass through specifically in Azos, which is part of our specialty portfolio, while there was marginal pricing pressure in the non-specialty segments.

The quarter saw some impact on account of uncertainties around the government ban on single-use or disposable plastic. As a result, we saw a lot of indecision in September due to lack of clarity around the ban. It led to rescheduling of some of the orders from Q2 to Q3 from

masterbatch customers. This, coupled with the general economic slowdown, resulted in lower volumes for the quarter. However, we expect growth to continue in coming quarters.

Moving on to the performance around margins:

Q2FY20 gross margins stood at 42.6%. Margins bounced back to similar levels as seen last year, after the declines of Q3 and Q4FY19. For H1FY20 gross margins are at 42.2%, marginally higher as compared to 41.8% for FY19. The margin performance reflects our action on pricing to pass on input increases to the customer. Raw material prices were fairly stable this quarter.

As you can see, the gross margin picked up gradually over the last few quarters and is now expected to stabilize. EBITDA margins for the quarter at 15.7% as compared to 12.8%, for same period last year, up by about 300 basis points. Increase in gross margins, coupled with our continued focus on optimization of manufacturing costs, as well as overall administrative expenses, and some operating leverage on account of volume growth in this quarter led to EBITDA improvements.

For the half-year ended 30th September, Total Income from Operations is at Rs. 797 crores as compared to around Rs. 723 crores in the same period last year, a growth of about 10%. Specialty portfolio grew by about 9% and non-specialty portfolio grew by about 5%. Export as a percent to revenues is around 48% vs. 47% on the same period last year. EBITDA margins for H1FY20 are at 16% as compared to about 14.9% in the same period last year.

During the quarter, we have incurred a capex of approximately Rs. 55 crores, while overall spend till September end and is about Rs. 85 crores. We have completed commissioning of plant under the HPP family. This is the new color index, which we will now be taking to customers for approval based on plant production.

Some of our capex plans for August and September were pushed forward on account of heavy monsoons in recent months. So, capex amounting to approximate Rs. 50 crores is now expected to be completed in Q3.

In addition to this, the Board of Directors in its meeting held on 4th November have approved the proposal of incurring fresh capital expenditure of Rs. 125 crores, which is primarily aimed at expanding and enhancing our facilities in our Roha and Mahad sites.

We continue to focus on go-to-market strategy for sales growth, cost optimization initiatives and backward integration of raw materials, which is an important lever for us.

With this, I open the floor for questions. Thank you.

Rajesh Rathi:

Just to add to Amey's point, we have also launched a very important yellow high-performance segment. We are the only second serious player in the world to launch this product. It is a big feather in Sudarshan's cap to have completed that. Thank you. We are now open to questions.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Anand B. from Unified Capital. Please go ahead.
- Anand B.:** Thank you for the opportunity. I have three questions. My first question is on the yellow pigment that you just mentioned in the opening remarks. If you can give us some sense of the overall market size for this pigment and whether its domestic exports are in broadly what kind of ramp up do you see in this particular product?
- Rajesh Rathi:** Thank you. So, this product is a high-performance yellow pigment and goes into coatings and plastics. Its main application is for some digital inks. The market should approximately be about Rs. 250 crores.
- Anand B.:** Okay. And in terms of a ramp-up, are we like in terms of capacity completely up for this or we need to kind of make certain investments to be able to commercially produce this?
- Rajesh Rathi:** No, we have completed. It is a commercial launch. So, we have commissioned the plant and we will be launching the product by end of November.
- Anand B.:** Sure. My second question is on the impact on volumes due to plastic ban. So, in the opening remarks, you mentioned that some impact in terms of volumes if you can give us some quantification whether it was like a 5% volume impact or a 10% volume impact. And overall, at the company level, if you can give us some sense?
- Rajesh Rathi:** So, plastics has remained almost flat.
- Anand B.:** Okay. And we hope to recoup these volumes , whatever we lost in H1.
- Rajesh Rathi:** It is a very complex situation because I think there is still ambiguity in the mind of the master batch players on what constitutes as one-time plastic use. So, September was very concerning. October has been slightly better but not still at the normal level.
- Anand B.:** Year-on-year what would be the volume growth for Q2? In plastics?
- Rajesh Rathi:** We do not give that break-up, sir. But, as I said, we have been flat.
- Anand B.:** Okay. And lastly, you had indicated that in FY20 we would see two new major molecule launches. So, any update on that?
- Rajesh Rathi:** One molecule is already launched, as I mentioned.
- Anand B.:** So, this the yellow is one of the two. And the second one is on track for FY20 ?
- Rajesh Rathi:** Yes, sir.
- Anand B.:** Okay, fine.

- Moderator:** Thank you. Next question is from the line of Ashwini Agarwal from Ashmore. Please go ahead.
- Ashwini Agarwal:** So, you know, I am referring to this slide. It is not numbered, but it is titled “Robust Financial Performance”. I guess, it is I think 6th or 7th slides, it has two bar charts income from operations in rupees crores and EBITDA margin. So, the question is that, you know, revenues have been flattish for three quarters and EBITDA has been coming down. And the sense I am getting by reading everything is that exports are doing fine, HPP and specialty portfolio is doing fine, so domestic industry in the domestic business, which has probably been holding you back from growing faster. Is that interpretation correct?
- Rajesh Rathi:** So, I think from a growth perspective, we expected much better growth in domestic which is not coming. You are right. Otherwise, I would say that our growth has been at 10% on an overall basis. Our EBITDA margins have improved and from that perspective, you are looking at better price monitoring and cost optimization programs.
- Ashwini Agarwal:** Sir, what I am trying to understand and please correct me where I am wrong. The impression I have is that exports get you a better margin than domestic revenues because exports is more towards HPP’s and specialty portfolio. Domestic is where you do a lot of masterbatches, etc., as well and which tends to be less or lower from a margin contribution front. So, if I just look at the last three quarters, which is December quarter, June quarter, and September quarter, your revenues are flat within that the underlying trend is that domestic has not done as well as exports have done. So, what I am struggling to understand is that why has not the margin improved over the last three quarters then? If exports are what is kind of holding up that number and so domestic which has declined, then margin trajectory should have been the other way around?
- Rajesh Rathi:** Just to clarify, it is not domestic or exports. It depends on the product portfolio and the industry you are targeting. Within domestic also, we are looking at some segments. There are certain segments that are good, there are certain commodity segments where chrome pigments, etc., have a lower margin. Also, the EBITDA we are operating on is a fairly robust number and very good from an industry standard perspective. If you see for some of our global competitors, their margins have dipped considerably. So, from that perspective, we do feel that our performance has been robust.
- Ashwini Agarwal:** Sir, I agree with you. I think the performance of the company has done marvelously well, in a very difficult global and local environment, especially the raw material cost pressures that you guys experienced over the last couple of years. I probably should take it offline, but you know, I am not able to reconcile flattish revenues within improving underline sales mix with a declining EBITDA margin trend over the last three quarters. Maybe there is something more to it, I will probably take it offline. Thank you.
- Moderator:** Thank you. Next question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

- Ritesh Gupta:** Sorry, I joined the call a little bit late. But I just wanted to check on the growth side, when are you commissioning your HPP plants and what kind of revenues you are looking at in next few quarters or let us say when you see those HPP plants kind of getting commissioned and are there any more HPP plants, which are kind of under consideration and on a guidance from a revenue generating capex guidance? What is it that you are looking for in the rest of the FY20 and FY21?
- Rajesh Rathi:** So, thanks Ritesh Ji for joining the call. We have launched one major high-performance yellow pigment, the only second serious player in the world to launch this product. And we said the market for this product is about Rs. 250 crores. We have commissioned this plant and our product should get launched by November end. We would be launching a high performance in organic pigment by March end and then we expect to launch one larger molecule by June quarter next year. So that is the trajectory going forward. In terms of capex, we should be able to complete about Rs. 300 crores to Rs. 325 crores of capital expenditure by this year end.
- Ritesh Gupta:** And what is the break-up of this capex, so out of Rs. 300 crores - Rs. 325 crores how much is backward integration, how much is maintenance and how much is new revenue generating capex?
- Rajesh Rathi:** I do not have the figures right now in hand with me. We will definitely look at what we can publish.
- Ritesh Gupta:** But like half of it would be revenue generating is a fair understanding or it could be more...
- Rajesh Rathi:** It will be more revenue generating but I do not have the exact figures, so I do not want to give inaccurate information.
- Ritesh Gupta:** Got it. And sir, on the gross margin side, you did saw a good jump in this quarter sequentially and on a Y-on-Y basis as well. But we still see that the improvement is on the sequential basis. But the kind of margins you saw in Q1FY19, do you think that this is probably the normalized situation now or do you think with HPP products coming in the gross margins can be much higher than what you already see in terms of quarterly performance for the quarter?
- Rajesh Rathi:** I think there are two - three areas we have to consider. The company is putting in a lot of investment not in capital expenditure, but capability building as well, in terms of the entire sales and marketing teams, in terms of R&D, etc. So, given all those, you know, given that expenditure, etc., we do feel our EBITDA is robust. If you talk about a longer horizon, I think our vision is to obviously improve on margins once some of the inputs which we are placing would get fully scale up and be utilized.
- Ritesh Gupta:** Sure. But with HPP coming in, should we expect an improvement purely by a product mix changing? Or you think that is something which is of similar margin as what you probably are already doing?

- Rajesh Rathi:** I think it is a slow process. If you see the journey in the last three - four years, this is a slow process where we are improving our margins. But obviously, I mean, gross margin is not the only area we are looking at. We are looking at EBITDA margins, ROCEs, etc., I want to make sure that all levels are balanced well.
- Ritesh Gupta:** Right. And in terms of the Rs. 250 crore number that we talked about on the second-high performance yellow pigment, this you are saying is market size and I assume then that is more like a catalog product that you are trying to build or is this a dedicated capacity for a particular client?
- Rajesh Rathi:** No, this is catalog product. It is a global product.
- Ritesh Gupta:** Okay. And so, which means that you have a capacity, but clearly the utilization and the ramp up would be gradual.
- Moderator:** Thank you. The next question is from the line of Akul Broachwala from IIFL. Please go ahead.
- Akul Broachwala:** Just wanted to check with you, with regards to this yellow high-performance pigment at your launch. So, the market size that you have highlighted, so what is the market size growing currently? And the second thing to that is, how much is the market share that we are targeting for this particular product?
- Rajesh Rathi:** The market of pigments is growing at 3% to 4%. And I think, from our perspective, right now, while we are not disclosing numbers publicly, but we want to target this area. And it is strategically a very important molecule for us. Also, it does a lot for the brand of Sudarshan globally if we have been able to develop this entire technology in house and launch this product from inception within 18 months. So that shows our capability to do things.
- Akul Broachwala:** Got it. And second thing is what has been this quarter's export proportion as in you have given first-half mix but just wanted to check what has been export mix for this quarter?
- Rajesh Rathi:** We will check the number. One minute.
- Akul Broachwala:** Yes, sure.
- Rajesh Rathi:** Approximately 48% would be exports, 52% would be domestic.
- Akul Broachwala:** Got it. And have you moved on completely to this new tax regime of around 25%? Or how is it can your case?
- Vivek Thakur:** No, we have not moved to the new tax regime. According to our assessment, right now it is beneficial to continue into the old regime. We will keep assessing the situation on a quarterly and yearly basis. In the future, we will be moving to the new and lower tax regime.

- Akul Broachwala:** Okay, got it, just final question from my end. So, the other expenses like apart from the forex gain that you are reported of around Rs. 4 crores, there is some slight incremental other expenses which you have incurred. So, like should we assume this run rate to continue going ahead or there any other one-off items as well for this quarters other expenses?
- Rajesh Rathi:** So, there are couple expenses which will continue, I would say roughly about 50% would continue and there have been some one-off expenses, some of the ECL provisions which were one-time.
- Moderator:** Thank you. The next question is from the line of Srimant Jain from Unified Capital. Please go ahead.
- Srimant Jain:** Sir, just wanted to understand, in terms of gross margins, are we anticipating all the raw material gains have already come or they are yet to come? What is the outlook?
- Rajesh Rathi:** So, currently, we feel that raw material costs is stable. And for outlook we do not see any major disruption.
- Srimant Jain:** And any hikes that we are yet to take, and which are often in the second-half?
- Rajesh Rathi:** They might be few, but nothing very special.
- Srimant Jain:** Okay. And sir, I just wanted to understand, with respect to our strategy on raw materials, you mentioned in Q4 call that we are trying to do some joint ventures, in some case, we are trying to work closely with vendors for technical know-how. So, has any of these things happened which can ensure that any significant price hike from here on we do not have to bear the impact?
- Rajesh Rathi:** We have been able to backward integrate one or two molecules, and on the other areas there is no significant progress which I can report currently.
- Srimant Jain:** Sure. And lastly sir, in terms of our forex gain. So, forex gain led to lower other expenses. But is it fair to assume that it could lead to lower corresponding top-line? So, the net impact PBT levels would not be there?
- Rajesh Rathi:** No, I think there is a forex gain.
- Srimant Jain:** Okay, but we use cash flow hedging. So, the gain would lead to negative other expenses and correspondingly lower top-line. Is that a fair assumption?
- Rajesh Rathi:** Yes, the assumption is right. But there is a positive income on account of forex.
- Srimant Jain:** Yes, there is positive income. But at PBT level, would it be fair to say it is exceptional or not? At PBT level?

- Vivek Thakur:** It is a normal and you are right in saying that it has reduced sales.
- Srimant Jain:** Sure. And lastly, our tax rate if I see for the first-half it is quite low and we have not adopted the new regime. So, why is the tax rate so low?
- Vivek Thakur:** Under the Institute's guidance, it is required to estimate deferred assets and liabilities and when you are expecting to move to the new regime, at that point of time whatever deferred tax liabilities and assets are there in the books, they are required to be re-measured. So, while we have not moved to a new tax regime, we had to do this adjustment on account of the Institute's guidance.
- Srimant Jain:** Okay. And lastly, with respect to the capex, in one of the queries, you have mentioned that Rs. 325 crores worth of capex would be completed by the end of this year. How much of this Rs. 325 crores would have been undertaken in this year FY20 and would be affected in the books by the end FY20?
- Rajesh Rathi:** Yes, we are expecting to complete Rs. 300 crores to Rs. 325 crores by FY20.
- Srimant Jain:** But we would have incurred, some of it in FY19. So, I wanted the split pre-FY20 and in FY20 for this Rs. 325 crores.
- Rajesh Rathi:** The capitalization that would happen in FY20 is Rs. 300 crores to Rs. 325 crores. Have I understood your question, right?
- Srimant Jain:** Okay, so the entire, the Rs. 320 crores, which you are telling will be capitalized in FY20. How much of it was in the books before FY20?
- Rajesh Rathi:** There is nothing in the books.
- Srimant Jain:** Okay, so the Rs. 325 crores are being done in this year?
- Rajesh Rathi:** Yes, it will be completed this year.
- Srimant Jain:** Okay. But any of it was reflected in the books did we start commissioning in let us say FY19 and it was showing capital work-in-progress at the end of FY19.
- Rajesh Rathi:** Yes.
- Srimant Jain:** So, how much of it was either showing as capital work-in-progress at FY19, so that is my question.
- Vivek Thakur:** So, the capital work in progress at the beginning of the year was about Rs. 18 crores.
- Srimant Jain:** Rs. 18 crores. So, we would be doing Rs. 307 crores additional CAPEX the additional cash flow.

- Rajesh Rathi:** Yes, I would not take an active number of Rs. 325 crores I would say a range between Rs. 300 crores to Rs. 325 crores.
- Srimant Jain:** Okay, so even if I assume at the lower end, Rs. 282 crores of investments would be in this financial year?
- Rajesh Rathi:** Yes.
- Moderator:** Thank you. The next question is from the line of Parth Adhiya from B&K Securities. Please go ahead.
- Parth Adhiya:** So, my first question is related to the plastic ban. So, the plastic ban has been now delayed till 2020. So how are we planning to tackle the situation next calendar year?
- Rajesh Rathi:** So, there is some ambiguity around this. And though we really do not need to tackle it, we just need to ride the high if this does come up. It will be great opportunity for Sudarshan.
- Parth Adhiya:** Okay. And just anything on the tax rate guidance for FY20. So, any particular guidance that you can give for the whole year?
- Vivek Thakur:** On the taxation, as I mentioned for the earlier question – we kind of re-measure the deferred tax liabilities and for the full year we are expecting about Rs. 20 crores to Rs. 23 crores of the tax reversal happening, half of that has been done. Our effective tax rate is about 28% - 29%.
- Moderator:** Thank you. We will move on to the next question that is from the line of Ashwini Agarwal from Ashmore. Please go ahead.
- Ashwini Agarwal:** Hi, you know, just a couple of more questions. One is that when you look at your fixed assets investments, so you mentioned that you invested at Rs. 85 crores in first-half and the plan is Rs. 50 crores in Q3 and there is approval of another Rs. 125 crores in that has just been cleared by the board. So, will all have this be completed by March because that is how the arithmetic seems to be adding up otherwise you do not get to Rs. 300 crores growth this year.
- Rajesh Rathi:** Yes, you are right. A small part may get carried forward, but we expect to complete all the Rs. 300 crores, as I said Rs. 300 crores to Rs. 325 crores this year.
- Ashwini Agarwal:** And sir, based on the historical balance sheets, broadly, a fixed investment of Rs. 1 crore results in revenues of Rs. 3 crores over a period of time. Is this estimate correct?
- Rajesh Rathi:** We would say between Rs. 2.5 crores to Rs. 3 crores.
- Ashwini Agarwal:** I mean Rs. 3 crores are what we have sort of calculated, so Rs. 2.5 crores to Rs. 3 crores, is that the right number, the right multiple?
- Rajesh Rathi:** Yes.

- Ashwini Agarwal:** And what would be the gross debt and net debt numbers? I cannot make it out from the balance sheet because some of them are classified as other financial assets and other financial liabilities. Could you give me that, sir?
- Vivek Thakur:** About Rs. 40 crores are classified as other current liabilities. So, the debt number you can increase by about Rs. 40 crores.
- Ashwini Agarwal:** To revenue gross debt number? And in the cash flows, I saw something which kind of you know, threw me off a little bit, in the first-half there is a mutual fund investment you made of Rs. 50 crores which is on the balance sheet as of 30th September. At the same time, you have raised you know almost net Rs. 100 crores of new borrowings. I mean, is there a short-term cash mismatch because of which this is happening. This kind of appears a little odd to me.
- Vivek Thakur:** The borrowing was taken, almost at the end of September and there was some temporary mismatch because of which we invested the temporary surplus. You are right.
- Ashwini Agarwal:** Okay, and I am guessing that this is in anticipation of the capex in second-half.
- Vivek Thakur:** Yes.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, I wanted to understand the utilization of your assets currently and one observation is that you know, since past now about 13 - 14 quarters we are moving in a revenue size. So, just wanted to understand that you have spent about Rs. 400 crores of capex in the last four years plus this Rs. 300 crores. So, this is about Rs. 700 crores of capex and if I assume that the asset turn is whatever you said it about 2.5 you know which takes you to about whatever Rs. 1,600 crores - Rs. 1,700 crores of incremental revenue. So, first why is the asset investment we see in the last three - four years continuously but revenue is yet to flow in? If you could help us understand that part and what is the utilization currently?
- Rajesh Rathi:** So firstly, if you are looking at four years, you will have to look at the four years growth, you cannot look at just last three quarters growth, right? So that would answer your question
- Pritesh Chheda:** No, sir, I saw last 12 - 13 quarter, so we are in Rs. 350 odd crores; Rs. 350 crores - Rs. 400 crores but on the corresponding side we have spent Rs. 400 crores on capex and so I was just correlating that way.
- Rajesh Rathi:** Yes, I do not have the past 10 right now, I can get that later. That is, that is one area, our utilization is about 75% to 80% current.
- Pritesh Chheda:** So, this is after you spend those Rs. 300 crores - Rs. 400 crores that I see in the last three - four years and at the rate of Rs. 100 crores per annum.

- Rajesh Rathi:** Yes.
- Pritesh Chheda:** Okay, so that explains 1400 divided by 600 is about 2.5 and you are saying 80% utilization, okay. And this incremental Rs. 300 crores - Rs. 325 crores will also be a 2.5 - 3 times asset run rate, right?
- Rajesh Rathi:** Yes.
- Pritesh Chheda:** Okay, how much time do you think you will take to fully utilize this asset?
- Rajesh Rathi:** Right now, that is not the estimate we can give in open
- Pritesh Chheda:** Okay. And you can technically use the asset 100% or...
- Rajesh Rathi:** So usually good OEs are about 90%.
- Pritesh Chheda:** Okay. And my last question is from your presentation. So, there is one slide, which is slide number, okay, there is no slide number. So, there is this product portfolio where we have mentioned organic, inorganic, Azos, Phthalos. So, I just wanted to understand the opportunity full size here for India and internationally wherever we operate. So, what will be the combined opportunity and our market share? So, I do not want pigment wise, I just want at the India level if this is a portfolio that India level market sizes is x and our size is y; and at the global level market sizes this on our side is what.
- Rajesh Rathi:** So, we have given a global market size, right. We have given the global market size in the slide you can refer to that
- Pritesh Chheda:** Okay. So, the size is about \$8.5 million, this is the size of our relevant market size?
- Rajesh Rathi:** Yes.
- Pritesh Chheda:** And what it would be in India, for this thing for India?
- Rajesh Rathi:** India market size would be approximately Rs. 2,500 crores.
- Pritesh Chheda:** And our business in that is?
- Rajesh Rathi:** We are more present on the organic side. So, I will look at the organic market will be about 30%.
- Pritesh Chheda:** And this Rs. 2,500 crores you gave the total pigment or here you give organic.
- Rajesh Rathi:** I have given you total.
- Pritesh Chheda:** Okay. So, in organic, you will be 30% market share?

- Rajesh Rathi:** Yes.
- Pritesh Chheda:** Okay. And what the market growth rate for India and globally?
- Rajesh Rathi:** I cannot give market research report. But I think, you know, India was growing at 7% to 8% and globally the market is 3% to 4%.
- Moderator:** Thank you. We will move on to the next question. That is from the line of Nihil Parekh from Dhanki Securities Private Limited. Please go ahead.
- Kaushal:** Sir, this is Kaushal here. Thank you for the opportunity. Sir, I have two questions, one is if you can just share some more insight into the capacity expansion which is happening at the Roha and Mahad plants. So what extent, what will be the quantum of capacity edition coming up there and coming to the plastic part, if this particular single use plastic ban really happens, what could be the potential impact on our numbers on our volumes?
- Rajesh Rathi:** So, I think on the capital side, we already given them guidance we should be complete Rs. 300 crores to Rs. 325 crores.
- Kaushal:** So, sir I was talking about the capacity expansion in terms of social, what will be our tonnage growth?
- Rajesh Rathi:** We do not give those figures in public domain. In terms of the plastic ban, if you see the pigments or color pigments usage is not that very large, but there was a month where, there was confusion in people and the sentiments were not great. Hence, there was a complete showdown in that area. So, once I get there is a clarity, in terms of long-term, it is not a major, there will be some impact but not a very major one.
- Kaushal:** So, will it be possible for you to put a number to that?
- Rajesh Rathi:** No, not right now, we cannot get that. We are still estimating, it is a lot of confusion because there is no clarity on what that one-time plastic ban is.
- Moderator:** Thank you. We will move on to the next question. That is from the line of Vikarant Kashyap from Kedia Securities. Please go ahead.
- Vikarant Kashyap:** Sir, two questions. When we talk about domestic slowdown impacted our business. Plastic is one part. Has auto has impacted, and does it also impact our margins?
- Rajesh Rathi:** So, I think, what has affected us is the plastic area and the what our distribution channel sale is which reaches out to mid-sized customers. Those have been areas that have slowed.
- Vikarant Kashyap:** We have not witnessed any slowdown in auto industry
- Rajesh Rathi:** Our auto sales are more in to be exports than in India

- Vikarant Kashyap:** Okay. So, second question is related to your yellow HPP. So, how long is the approval for your product to be approved by the customers and when the revenue will come into our book?
- Rajesh Rathi:** Vikarant, so I did not understand.
- Vikarant Kashyap:** The yellow HPP Sir, so you have launched...
- Rajesh Rathi:** Yes, in the yellow HPP industry there are two areas - coatings should take six months to one year and plastics area would be up to six months.
- Vikarant Kashyap:** Okay. And since we are growing in exports, could you please share some sense in which pockets we are growing in terms of geography and application?
- Rajesh Rathi:** In exports, in general direction I can give our exports growth is good in coatings. Coatings has been very good area.
- Vikarant Kashyap:** Okay. Eurozone and U. S. is something that we are focusing on, right?
- Rajesh Rathi:** Yes.
- Vikarant Kashyap:** And since our overall revenue from export is improving from less than 47% to now 48%. And since our total revenue pool is also increasing, do we expect our margins that we have reported it should be stable and grow from here as our export pool increases?
- Rajesh Rathi:** Yes, I think, our margins should be stable and taking all measures that in the long-term growth, I think one thing within the margins as I explained, there is a lot of long-term things which we are doing in terms of expenditure in terms of capability building of the organization, R&D, sales, which we are incurring, currently without anything to benefit, right. So that is one area which, in the long-term will help us.
- Vikarant Kashyap:** Okay, thank you very much and wish you best of luck.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, generally, what would be the margin premium on specialty portfolio against the non-specialty portfolio?
- Rajesh Rathi:** We do not publish this data, this is sensitive from a competition perspective.
- Rohit Nagraj:** Okay, but a broader range.
- Rajesh Rathi:** Also, we do not do that.

- Rohit Nagraj:** Okay. On the cost optimization side, I think we have been doing since last few quarters. So, is there any further room left for any cost optimization in the coming quarters, which may affect our operating margins?
- Rajesh Rathi:** I think, our cost optimization is a continuous initiative. There are several opportunities coming up and we have a large program, in terms of six sigma and business excellence to kind of drive this initiative.
- Rohit Nagraj:** So, what is the margin expansion that we expect for will be on a year-on-year basis for the next couple of years through this initiative?
- Rajesh Rathi:** Sorry, come again.
- Rohit Nagraj:** So, what is the kind of margin expansion that we expect on a yearly basis, maybe 20 - 30 basis points, due to this continuous initiative?
- Rajesh Rathi:** That is one area which we strive for a lot of improvements but cannot give you a specific number on that.
- Rohit Nagraj:** Okay. And last quarter, we indicated that we have launched five new products and we plan to launch about 20 -25 new products in the global market. So, how has been the response for those new products and what is a kind of right now?
- Rajesh Rathi:** Right now, they are at the sampling stage with various customers and we hope that we are able to, in times to come we are able to convert it into some sales, in Q3.
- Moderator:** Thank you. The next question is from the line of Anand B. from Unified Capital. Please go ahead.
- Anand B.:** I have two questions. If I adjust our other expenses for FX gain, our other expenses in Q1 were Rs. 71.2 crores and in Q2 are Rs. 78.4 crores. So, there is about Rs. 7.2 crores increase sequentially. Can you help us understand the reasons for same?
- Rajesh Rathi:** The expenses mainly have increased in terms of as you are aware insurance for the chemical industry has risen almost seven to eight times. So, insurance costs had increase then the Minimum Wages Act has been revised. So, there is some increase there. And as I mentioned, there was some one-time ECL provision for that, we had to make some provisions.
- Anand B.:** So, broadly I think this ECL provision should also now continue, these will be a portion over the all the quarters broadly equally. So Rs. 78 crores per quarter is the other expenses run rate in the base case, is that the right way to think about them?
- Rajesh Rathi:** Amey and Vivek, can you comment on that?

- Vivek Thakur:** Yes, so half-yearly number is about Rs. 150 crores. Last year H1 it was Rs. 150 crores and this year, six months is about Rs. 143 crores, the same can be taken as a run rate.
- Anand B.:** Another question less on the half-year basis. So, last year there were some one-offs in the other expenses, is it? Or this year there are positive one-off, what is the run rate like for H2 should I take Rs. 143 crores or should I take Rs. 150 crores?
- Rajesh Rathi:** One minute. It should be at the same level, sir.
- Anand B.:** Rs. 150 crores?
- Rajesh Rathi:** Yes.
- Anand B.:** Okay. And in case of Rieco, we are planning to hive it up, but this quarter it has shown some positives. So, what is the trajectory from here on? I guess it might take a while, it might take a while to hive off. So, are we expecting from this or this is in base case would be breaking even what is the base case expectation for Rieco?
- Rajesh Rathi:** Yes, I think we are in the process of revitalizing Rieco and the Board is activity looking at this closely, and there is nothing substantially right now I can kind of report. This is a continuous process and as soon as the Board makes some decision, I would be more than happy to kind of report that here.
- Anand B.:** Sure. But we are not expecting any negatives from this business, right. Last year we had negative for six months.
- Rajesh Rathi:** We are not expecting any negative.
- Moderator:** Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.
- Rajesh Rathi:** I would thank everyone for your interest in Sudarshan and your time and effort. We hope that we have been able to do a good job in answering your questions. Look forward to your continued support. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf fiscal Edelweiss Broking Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.

Contact Details:

Registered Address: 162, Wellesley Road, Pune, Maharashtra, 411001

CIN: L24119PN1951PLC008409

e-mail - grievance.redressal@sudarshan.com / contact@sudarshan.com

Website: www.sudarshan.com