



**“Sudarshan Chemical Industries Limited Q4 FY19
Earnings Conference Call”**

May 24, 2019

**MANAGEMENT: MR. RAJESH RATHI – MANAGING DIRECTOR
MR. VIVEK THAKUR – CHIEF FINANCIAL OFFICER
MR. AMEY ATHALYE – DGM (BUSINESS ANALYTICS)**

MODERATOR: MR. RITESH GUPTA – AMBIT CAPITAL

Moderator: Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited 4QFY19 Earnings Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you sir.

Ritesh Gupta: Thank you. On behalf of Ambit Capital, I welcome you all to the 4QFY19 earnings call of Sudarshan Chemicals. Today, we have with us Mr. Rajesh Rathi – Managing Director; Mr. Vivek Thakur - General Manager & Mr. Amey Athalye – DGM (Business Analytics) with us to discuss the quarter. I will now hand over the call to the management for their opening remarks.

Rajesh Rathi: Thank you, Mr. Gupta and Ambit Capital for hosting our Earnings Call. Good evening ladies and gentlemen. Welcome to Sudarshan's 4QFY19 and the full-year FY19 earnings conference call. We have already uploaded the presentation and I hope you have been able to have access to it.

Income from operations from the quarter was INR 389 crores vs INR 377 crores for the same period last year, a growth of 3%. On a consolidated basis for FY19, the income from operations is at INR 1,477 crores as compared to INR 1,329 crores, a growth of 11%. In the last one year, we have taken several steps to improve our sales effort. We have rolled out country specific go-to-market strategies. As part of that, we have also made several changes to our distribution model globally. The new strengthened sale structure will start yielding results in the coming quarters. Further, the trade dynamics between US and China is expected to benefit us and drive growth. Despite the sales growth being lower than our aspirations for the year, though we have done 11% growth, this is below our aspiration levels and one main issue has been competitive pressure in commodities which has led to muted growth; however, our Specialty portfolio grew by 20%.

On the cost side - The industry witnessed significant raw material price increases and supply disruptions in the last one year due to plant shutdowns in China. The raw material price increase passed on had a lag effect on customers which led to gross margin going down; however, in order to maintain EBITDA margins, we took several prudent cost management initiatives and that is how we have been able to improve our EBITDA margins in Q4 and for the year too. So, through some of these initiatives, we optimized some of our fixed costs. There were several savings in manufacturing overheads which we drove very aggressively and we avoided certain discretionary costs.

We have completed INR 72 crores of CAPEX last year. One of the strategic projects had to be put on hold as there is a great change in market landscape. Projects worth INR 200 crores are under implementation and further projects worth INR 100 crores are under evaluation. On the inventory side, in FY19, there was an inventory built-up and basically this inventory was built up to de-risk the supply chain, given the raw material descriptions. We were also transiting into

a new planning system which caused certain disconnection in the planning process. We kept a close watch on our inventory and increased levels to ensure continued supplies to our customers.

We have launched 25 products this year, though way below our target as a part of our strategy to focus on growing the pigment business. We entered into a business transfer agreement for our Industrial Mixing Solution Division on a going concern basis. The results of this business have been presented separately under discontinued operations. I am also pleased to inform that the Board of Directors has recommended a dividend of INR. 3.50 per share which is 175% and the Board has also recommended additional special dividend of INR 2.5 per share which is 125%. Together the total dividend for the financial year amounts to INR. 6 per share. This is of course subject to the approval of our shareholders in the Annual General Meeting.

To reiterate, we continue to focus on product innovation, enhancement of our product portfolio and expanding our market share in our focused markets. Our vision is to become a market leader in the pigment industry backed by our plans to enter new adjacencies. We are excited and energized about the potential that this market presents for us and we are confident of reaching our growth aspirations.

Since the presentation is already uploaded, we will not go through the presentation anymore. We would be more than happy to answer any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the Sandeep Nag from Ashmore. Please go ahead.

Sandeep Nag: I have two questions, the first one being that you mentioned about the China US situation. Our understanding also is that China has certain Azo capacity and maybe you can elaborate a little more for us on the China opportunity in terms of the tariff hike and how does that affect the Azo market or the HPP that is one. And the second is in China in late March, we have been hearing about additional capacity shutdowns in some of the intermediates there, how are you as a company managing that challenge?

Rajesh Rathi: I think for Pigments, there is a duty imposition of 25% which is a great opportunity for all non-Chinese players and we are hoping that this is not reversed and we will get the opportunity to open those. Having said this, currently some of the suppliers have bought in lot. Before this announcement, they have bought in lot of inventories into US but we are hoping in the next few months this inventory dries up. and we are able to see this price increase in that market and take this opportunity. Second was on the China, so I think on the China part there has been a great disruption in several raw materials and obviously there is a big demand-supply gap and which has really increased some of our key raw materials, even 3 to 4 times and we are passing on these increases to the customers. But the problem is the capacity and that is why we are looking at some strategic tie-ups in India to get these raw materials or even make some backward integration efforts on these raw materials.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.

Anand Bhavnani: My first question is on our other expenses. This quarter, our revenues have risen to INR 389 whereas other expenses have fallen to INR 61 crores as compared to INR 71 crores in Q3 FY19. So, the INR10 crores fall is significant given the rise in revenue, so can you help us understand the reason for it?

Rajesh Rathi: As I mentioned, we were seeing a gross margin shrink, so we took several measures to ensure that our fixed costs are optimized, so a lot of fixed cost reduction initiatives were undertaken. Second was due to some of the savings and manufacturing overheads and the third major part was that we were going to incur some of the discretionary costs which we avoided. So, that was the three-pronged approach to reduce some of those costs.

Anand Bhavnani: Sir, can you give us some sense of discretionary cost which you avoided and similarly overheads/ fixed cost reductions to get us better understanding of the exact workings of this other expenses?

Rajesh Rathi: Some of the areas where we are going to incur long-term cost funds are strategy projects, those we took a call to delay it. That is one area. The optimization of the fixed cost is a big focus on cost reduction, so that has yielded some result and manufacturing overheads where utility costs have been driven. Some of the savings will continue to stay but not all of them.

Anand Bhavnani: Sir, secondly in employee cost, again we have seen it has come down, so is it purely due to their strategic consulting project cost being no longer affected in this quarter or it is something else?

Rajesh Rathi: So, the employee cost would not include that. Employee cost is all salaries and wages. There are two parts to it. As we said, we optimized some of the salaries, some of the cost structures and that was the major part.

Anand Bhavnani: Sir, my second question is on the impairment that we have taken. This is with regards to the Rieco Industries, which I think currently we are planning to sell off, so just wanted to understand that is the impairment completely taken in this quarter or do we have any scope for impairment of any kind in coming quarters as well?

Rajesh Rathi: We are pretty confident that we will turn around this business.

Vivek Thakur: On conservative basis, the provision is done. Going forward, there is going to be a significant focus on the possibility of the business and the projects which are taken and we want to turn it around and considering our valuation estimates, we do not expect a further write off.

Anand Bhavnani: And cumulatively, in Rieco, over the last 2 years, how much write down have we taken?

Vivek Thakur: No, this is the only write down we have taken so far.

Anand Bhavnani: We had some one-off last year as well, was it in some other business which was for selling like Agro chemicals or Prescient colour because we did have some write down or something similar earlier as well?

Vivek Thakur: For other businesses we have sold during the FY 19, there are gains disclosed as exceptional gain. All these gains pertain to the divestment of Prescient and agrochemical businesses. These are all gains, there are no write-downs / impairment that we have done earlier for Rieco or other businesses.

Anand Bhavnani: And my last question is on our hedge accounting. Now I see that for the full year, overall in the other comprehensive income, we have profits of INR 7.7 crores due to hedge accounting whereas in the corresponding year I think we didn't have hedge accounting, so the gains were realized in other income completely, am I correct?

Vivek Thakur: That is right, previously till last year when we were not following hedge accounting, all the gains and losses were routed through P&L. Now to avoid volatility in profitability and to avoid the mismatch in cash outflows and inflows, we have started hedge accounting and because of that, there is an INR 7 crore gain which is sitting in the hedge reserve.

Anand Bhavnani: So last year, we haven't provided the like-to-like comparison, so can you share with us what would have been the breakup of other income and other cash flow hedge gains had we done the same accounting in FY18?

Vivek Thakur: The entire breakup of other income will be available when our annual report comes out.

Anand Bhavnani: But the accounting methodologies are different, so reconciliation will be shown in the forthcoming annual report, is it?

Vivek Thakur: Hedge accounting is only applied prospectively. There is no way to do it on a retrospective basis and quantify the impact, so you will have to may be consider these INR 7 crores which has gone into hedge reserve as something which would have probably impacted P&L.

Anand Bhavnani: Sir, in last one question, in terms of our CAPEX, you had guided that there will be some commissioning by Q2 of FY20, so is that progressing on time and is there any update that you can share about it?

Rajesh Rathi: As I mentioned, we completed INR 72 crores and INR 200 crores is under execution right now and further those INR 200 crores will get completed during this financial year at different times. Further, INR 100 crores today are under evaluation.

Anand Bhavnani: So these INR 72 crores were commissioned in what quarter and if you can give us some sense of whether this was backward integration or capacity addition?

Rajesh Rathi: Mainly it was in H2 and more than about 70% was towards capacity expansion and backward integration and about 30% was to enhance the infrastructure.

Moderator: Thank you. The next question is from the line of Chetan Thacker from ASK Investment. Please go ahead.

Chetan Thacker: Sir, just wanted to understand what was the volume growth this year? And from a medium-term perspective, how do you see volume growing for you in the next 3 to 5 years and how would the margin shape up going forward?

Rajesh Rathi: Basically, like I mentioned our commodities did not grow and in the Specialty, we had good growth. Currently, we are not giving the mix and volume variance and going forward, directionally, obviously we are not satisfied with the current growth and like I mentioned we have put in some sale structures in place which we expect to file during next year.

Chetan Thacker: And sir, this INR 200 crores additional projects that are lined up, out of this how much will go for capacity addition?

Rajesh Rathi: Almost 75% to 80% of it will go for capacity addition.

Chetan Thacker: And what kind of asset turns can we expect on this?

Rajesh Rathi: We don't have the numbers right now on board, but we can share it, it will be approximately, 2.5 to 3.

Chetan Thacker: For the CAPEX that you are doing for capacity addition and the segments that you are targeting, is it fair to assume that margins over a medium term would be higher than the current company average margins?

Rajesh Rathi: Yes.

Moderator: Thank you. The next question is from the line of Shrimant Jain from Unifi Capital. Please go ahead.

Shrimant Jain: Sir, in the previous quarter, you had discussed that you will be adding products and then in the opening commentary you mentioned about 25 products been added, so can you give us some sense of the overall ballpark revenue predictions that these products can have over the next year or couple of years, how are you expecting these to be. Are these margins wise similar to our existing products or are they higher margin products? Any sense of the contribution this can bring in?

Rajesh Rathi: These were not our blockbuster products which we had aimed to get in. The sales expectation, I don't currently have those numbers right now with me but some of them were for more in the cosmetic industry which takes a longer lead time to generate the sales and so the cosmetic

industry would take anywhere between 1 to 2 years to generate the sales. Half of those products introduced were in that area and for the balance, we will share this information separately.

Shrimant Jain: And sir, the earlier participant asked about the China impact due to the tariff, so have you seen any increase in the number of enquiries from customers in the US and how are you overall anticipating this to benefit us, would the benefits come in, let us say, like 6 months or a year? Can you give some updates on that?

Rajesh Rathi: As I mentioned in the US, we have more attraction, but right now only on May 10 or something the duty is hit and there is a lot of inventory which people had imported based on this anticipation, so the new price increase has not hit. We expect the inventory in the value chain to dry up in the US by June-July and definitely by July / August we expect a little more attraction.

Shrimant Jain: And sir, in your presentation you explained the gross margin hit, now you would have passed on some of the hikes to the customers, so can we anticipate us taking further hikes and passing on the complete price increase over the next couple of quarters or so or is it a realistic expectation or?

Rajesh Rathi: Like we have mentioned in our presentation, we expect the gross margin to bounce back and enable to pass on increases with this.

Shrimant Jain: And sir with regards to auto, we supply to lot of companies which in turn supply to autos and there has been a marked slowdown in the auto industry in last 6 months, so any impact we are seeing due to the auto industry slowdown in particular on our volumes?

Rajesh Rathi: Not really, because we are supplying mainly out of India and our market share is not that large there that we get hit by the slowdown, but I think we have not been really hit by that.

Shrimant Jain: And in cases of home paint, we saw in the company which we are catering to, that industry saw volume degrowth when they announced the results, like the lights of Asian paints, so any impact of slowdown in real estate or any demand from housing that might be leading to volume pressure for us?

Rajesh Rathi: So the volume growth is not at that level which we anticipated as I mentioned, but going forward, we are very bullish from this year to take us to a good volume growth.

Shrimant Jain: And more so trying to understand the underlying drivers, so that we can understand the business vertical. Is the driver slowdown in real estate construction and housing related demand or is it the slowdown in, let us say, moulded plastic furniture, what industries can I track to better understand demand environment for Sudarshan?

Rajesh Rathi: Some of the drivers obviously we are selling into, our main markets are decorative paints, auto paints, industrial paints and plastic masterbatches which go into coloration of wide range of goods. So definitely what we are seeing is if you look at usually the growth of colour is pretty

much linked to the growth of GDP, as the GDP grows and under it, obviously the drivers are paint demand. There are two ways, one is obviously the new constructions coming up but there is a lot of repaint of houses too right, so in that regard, that is one area which we do track on that and overall in the plastic region, we look at the overall plastic growth of the market.

Shrimant Jain: Sir, you mentioned early in the call that you reduced raw material list from China, you are looking at some strategic tie ups in India, so would these strategic tie ups involve any kind of joint venture or any kind of take acquisition in the suppliers, can you help us on that?

Rajesh Rathi: Right now, we are looking at three types in fact, first is do we backward integrate ourselves, then the second area we are looking at is also possible close relationship tie-ups without equity but a strong agreement back place & we also help in some of the technology and we provide the demand, that is the second area and the third, last would be we are looking at JV as area.

Shrimant Jain: At this point in time, have you earmarked any capital separately for this particular strategy and if you can give us some sense of?

Rajesh Rathi: Yes, we have.

Shrimant Jain: And sir, overall for the full year, what is your base case expectation of volume growth, ballpark number would also be fine, I am not looking for a pinpoint, but are we looking for a range of like 10% to 12% or 15% to 17%? Any ballpark range of volume growth that you think is realistic, possible for us in FY20?

Rajesh Rathi: I would like to give you forward looking numbers, but right now as our company policy, we don't do that. However, directionally, we are not satisfied with current numbers and all this work we are doing is to ensure that we are able to grow at a higher level and that is some of the areas we are strongly looking at.

Moderator: Thank you. The next question is from the line of Manoj Baheti from Carnelian Capital. Please go ahead.

Manoj Baheti: My question is, as you mentioned in the presentation that one of the strategic CAPEX project has been put on hold due to change in market landscape, so can you elaborate on this and how it will impact our goal of INR 1000 crores of CAPEX by FY23 and whether it will have any implication on our growth trajectory going forward?

Rajesh Rathi: From a competitive perspective, I would not like to mention the product line which we have put a hold on, however, these dynamics should change within a year or two. Right now, it doesn't look like, we have just been conservative, we don't want long payback projects. Given the current dynamics, the payback was very long and that was the first question, the second was from a INR 1000 crores perspective master plan-nothing gets affected.

Manoj Baheti: Despite of the CAPEX project that has been put on hold, 1000 crore CAPEX is intact, so you must be adding something else instead of this?

Rajesh Rathi: Yes and we expect the timing, this is the important molecule and we are expecting from a timing perspective, if it doesn't happen this year, it would happen in a year or two.

Manoj Baheti: And secondly sir, I think out of 1000 crores, 450 crores has already been done and 72 crores has been executed in FY19, so is it like we have to execute balance 450 crores kind of CAPEX by FY23?

Rajesh Rathi: I think the INR 450 figure includes expected capex of INR 200 crores this year, so we have completed, let us say, INR 250 and some projects from last year which are under implementation.

Manoj Baheti: So INR 250 plus INR 72 has been completed out of INR 1000 crores, right?

Rajesh Rathi: 250 includes 72 crores.

Moderator: Thank you. The next question is from the line of Sandeep Nag from Ashmore. Please go ahead.

Sandeep Nag: Sir, just a follow-up on the China intermediate situation, I understand that we are not giving obviously a forward-looking guidance on volumes, but at the same time, we have spent a lot of marketing muscle in the US and Europe and strengthened that part. Do you believe that this intermediate challenge could be a hindrance in the anticipated volume growth that the management is targeting internally or do you believe that we will be able to navigate around that and all the JVs and the backward integration that the changing of and because of that it won't impact volume growth, is that a fair assumption for industrialists to make?

Rajesh Rathi: I think from a perspective of very short term, it may get affected or it has got affected, however, as a little bit even a little longer short term I would say or midterm, I would say this is a great opportunity for players like us. It has also thrown a lot of questions in people's mind that how important reliability is and they are looking for more reliable partners out of China and when we complete some of our backward integration projects that will further enhance our reliability story.

Sandeep Nag: And by that you probably mean some of the Toluene derivatives like MNPT and all of that which is not being supplied as of now, we should have the technology and the capability to either do it inhouse or have a JV with someone for that. That is the guaranteed supply eventually. That is the correct understanding, right?

Rajesh Rathi: Yes, there are several raw materials which are under consideration today.

Ashwini: One question I had related to one project that you were trying to ramp up, you spoke about it a few months ago at one conference where there were some technical difficulties and your R&D

team from Germany had come down to the plant and were trying to resolve the difficulties, is that behind us and will we see a ramp up of those volumes in the coming 12 months?

Rajesh Rathi: I don't remember which project, but on an ongoing basis, we do have some scale up issues in some products, but most of are two of our large molecules, we have been able to scale up now and the capital expansion is in progress.

Ashwini: So, we should expect the positive impact of that to flow through over the next 12 months, notwithstanding the challenges on raw material supply in China and so on?

Rajesh Rathi: Absolutely.

Moderator: Thank you. The next question is from the line of Sonam Mukherjee from Edelweiss. Please go ahead.

Sonam Mukherjee: I just wanted to understand the INR 250 crores CAPEX completed earlier and the INR 72 crores CAPEX that you have completed this year, if you could give me some colour on an overall basis on how much of this is sweat assets and how much of this is infrastructure improvement, an idea if you can give?

Rajesh Rathi: I would say approximately 70% is towards capacity enhancement.

Sonam Mukherjee: Sir, another question is regarding the margins, you mentioned that the other expenses have come down because of certain cost elements which you have managed to restrict this time, just wanted to understand that going forward, do we see a similar cost structure leading to same level of EBITDA margin or would there be some changes?

Rajesh Rathi: You are saying going forward will it still remain at this level?

Sonam Mukherjee: Yes sir.

Rajesh Rathi: I have already answered that. I think I said that it wouldn't remain at this level. It would increase to a certain level So, there are certain projects in which we have provided the cost, but certain we have just postponed some of these costs, so some costs as soon as our gross margin starts improving, we would have to incur those costs.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alf Accurate Advisors. Please go ahead.

Rajesh Kothari: A few questions from my side. The first is, is it possible for you to share breakup of your sales between Coating, Plastics, Inks and Cosmetics?

Rajesh Rathi: Right now, we don't split that.

- Rajesh Kothari:** Not even any broad categorization?
- Rajesh Rathi:** Number one would be Coatings, number two Plastics, number three Inks and number four Cosmetics.
- Rajesh Kothari:** And would you like to give sales mix geography wise?
- Rajesh Rathi:** No, currently we are not giving that.
- Rajesh Kothari:** How much will be domestic growth and how much will be exports growth?
- Rajesh Rathi:** The split of export and domestic is about 53% to 47%.
- Rajesh Kothari:** So what would be the growth in domestic versus exports?
- Rajesh Rathi:** Both almost equal.
- Rajesh Kothari:** Both are almost equal for FY19 you mean?
- Rajesh Rathi:** Yes.
- Rajesh Kothari:** And Specialty chemical, you mentioned has registered strong growth of 20% plus. So, Specialty chemical right now is how much percent of your total revenue?
- Rajesh Rathi:** We don't provide that information, not Specialty chemicals, but Specialty pigments.
- Rajesh Kothari:** I do not require the exact number, but high single digit, double digit, mid teens, any guidance on that?
- Rajesh Rathi:** No sir, right now we don't give those.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, just one question on the industry front, you must be watching the competition closely, so how has been performance of the competitors over the last year from top 2 to 3 competitors in terms of their volume growth or their pricing growth etc.?
- Rajesh Rathi:** BASF and Clariant don't disclose the pigment level numbers, so they are combined into several businesses and however if you look at some of the other players, I think their sales has been flat and EBITDA margins have taken a dip.
- Moderator:** Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

- Vikrant Kashyap:** Sir, in the Q4 numbers you see tax outgo, your PBT is 30.4 crores and tax outgo is 16.63 crores, that is more than 50%, what explains that?
- Vivek Thakur:** If you look at the numbers, INR 30 crores includes the impairment, you will have to look at the numbers from continuing operations.
- Vikrant Kashyap:** So you are saying INR 12.8 is on INR 41 crores, right?
- Vivek Thakur:** Yes.
- Vikrant Kashyap:** So that is 31%, so you are seeing this on the same platform?
- Vivek Thakur:** Yes.
- Vikrant Kashyap:** And sir, in the last calls, you were also talking about some backward integration plant to reduce our dependency on China and you were mentioning that some of that has completed this year, so will this backward integration benefit will come in the numbers in coming quarters?
- Rajesh Rathi:** We have completed only one project. That benefit is being seen, but some of the major ones would come during this financial year. We have not completed those yet.
- Vikrant Kashyap:** It is the INR 200 crores projects, that is you are saying?
- Rajesh Rathi:** All INR 200 crore is not towards backward integration.
- Vikrant Kashyap:** Some of it.
- Rajesh Rathi:** Some of it, yes.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Sir, you mentioned to one of the queries in the call that we had some start up issue and we have rolled that, so congratulations for that. Just wanted to understand at this point in time, are we facing any further technical challenges of similar nature where we are facing scale up issues?
- Rajesh Rathi:** Sir, right now we don't, right now we are solving one problem after the other, but obviously it is a very dynamic situation till we launch the product. Each stage, we could have different issues, but we are confident that we will be able to solve those issues because we have really strengthened our scale up team.
- Anand Bhavnani:** Sir, due to the scale up issues in last year, can you give me the sense of how much revenue impact it would have caused or how much margin impact it would have led to any quantification

of these issues, so that we can adjust the year numbers accordingly because I think it has anyways negatively affected our performance, so if you can give us some sense of it?

Rajesh Rathi: I mean our entire new product sales which we expected to come in from this got hampered. We wanted to do the whole potential for those new products would have been about INR 300 crores going forward, so from that perspective some of those areas got delayed.

Anand Bhavnani: The products where we faced some scale-up challenges, are these entirely to contribute 300 crores over next few years or only segment of 300 crores?

Rajesh Rathi: Which segment?

Anand Bhavnani: Only a part of 300 crores. Sir, you said two products, we had scale-up challenges and overall from the new products, what do we expect when they mature?

Rajesh Rathi: As I mentioned to you, two major products we had issues and we were expecting to launch several new products which we have not been able to do, so the effect would be, I don't have the full effect right now, but it would be a large effect which we faced last year.

Anand Bhavnani: So these are kind of inputs to the other products that you would eventually manufacture?

Rajesh Rathi: No, these were new products which we are going to launch.

Anand Bhavnani: And we are now fairly stabilized in these two products, so the entire benefit can be realized in FY20?

Rajesh Rathi: Yes, in FY20, we should be launching some products.

Anand Bhavnani: Sir, a follow-up question on subsidiary, if I see we had profit last year of about a core in Rieco and this year it is INR 8 crores of losses INR 7.96, so can you help us understand what has drastically changed because in terms of revenue is similar, it was 108 last year and 116 this year, but at PAT level there is a sharp change, so what are the reasons?

Vivek Thakur: Two-three areas, one is engineering business as such is under some pressure. There were some old bad debt issues, customer recovery issues, so there are lot of one-off write-offs in this year's profitability including the inventory which was lying for several years, so we have taken those impacts. Also, a write down on that inventory considering that it could be a slow-moving inventory and we need to write it down, so a lot of receivables and inventory related write-downs have happened.

Anand Bhavnani: So, these 8 crores are at the PAT level for this particular subsidiary and then we again wrote down the investment value of the subsidiary at the standalone level, so there are two impacts, one is the P&L impact coming to the consolidated and then there is the balance sheet impact also with respect to this subsidiary, am I getting this correct?

- Vivek Thakur:** Yes, that is right.
- Anand Bhavnani:** And all of these impact are now behind this, are you confident of this or any P&L or balance sheet impact again happen in next year or beyond that?
- Vivek Thakur:** There is lot of emphasis to improve the performance and turn it around and basically the focus is on profitability, not necessarily on sales, so we are looking at booking only the highly profitable, high margin orders and we expect this business to turn around. On a conservative basis, we have taken the impairment on the investment value.
- Anand Bhavnani:** And lastly, when did we decide to sell this, this was in FY19?
- Rajesh Rathi:** This has been classified under discontinuing operation because we are continuously looking at divesting this business, so there is a plan and based on that plan, kind of evaluating various option, accordingly with the intent that this is not going to be continued, we move this to discontinued operation. This we have done from 31st March 2019.
- Moderator:** Thank you. The next question is from the line of Manoj Baheti from Carnelian Capital. Please go ahead.
- Manoj Baheti:** I just wanted to understand the competitive landscape, especially in the high performance pigment and how Sudarshan is placed in that and also it would be great if you can give us a breakup of your revenues between effect chemicals and HPP?
- Rajesh Rathi:** So I think from a competitive landscape, the main competitors are BASF and Clariant in this and then there are some molecules which are made in China which is the main competitive landscape on these high performance pigments. We obviously sell based on quality and consistency and the value of the product. It requires a lot of technical marketing application work to sell these products where Sudarshan is well poised to do that. So these are usually higher margin products. In terms of SBU switch, right now we don't give SBU switch from a competitive perspective.
- Manoj Baheti:** Sir, also if you can talk about like whatever CAPEX you are doing, is it mainly towards HPP side?
- Rajesh Rathi:** Yes, it is mainly towards HPP and Azo.
- Manoj Baheti:** And both are high margin products as compared to your other business, right?
- Rajesh Rathi:** Yes.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would not like to hand the conference over to the management for closing comments.

Rajesh Rathi: Thank you everyone for sparing your time and asking very valuable questions which kind of helps us reflect on our business too and we are looking forward to a great financial year next year. Thank you for all your support.

Moderator: Thank you. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Contact Details:

Registered Address:

162, Wellesley Road,

Pune, Maharashtra, 411001

CIN: L24119PN1951PLC008409

grievance.redressal@sudarshan.com / contact@sudarshan.com

Website: www.sudarshan.com