

SUDARSHAN

9th November, 2020

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

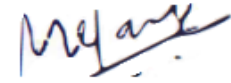
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 26th October, 2020, after announcement of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and half year ended 30th September, 2020.

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
Q2 FY2021 Earnings Conference Call”

October 26, 2020

**MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR
MR. NILKANTH NATU - CHIEF FINANCIAL OFFICER
MR. VIVEK THAKUR – GENERAL MANAGER (FINANCE)
MR. AMEY ATHALYE - DEPUTY GENERAL MANAGER
(FINANCE)**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of Sudarshan Chemical Industries Limited hosted by Anand Rathi Shares & Stockbrokers. 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nav Bhardwaj from Anand Rathi. Thank you and over to you Sir!

Nav Bhardwaj: Thank you. Good afternoon friends and welcome to the Sudarshan Chemical Industries Q2 FY2021 & H1 FY2021 earnings call. We have with us Mr. Rajesh Rathi, Managing Director, Mr. Nilkanth Natu, Chief Financial Officer, Mr. Vivek Thakur, GM, Finance, and Mr. Amey, Deputy GM, Finance. We will start with the initial remarks from Mr. Natu and then we can open the floor for Q&A. Mr. Natu over to you please!

Nilkanth Natu: Good evening ladies and gentlemen. Welcome to Sudarshan Chemicals Industries Limited Q2 FY21 earnings conference call and thank you for your continued interest in our Company. Our investor presentation has already been uploaded on the stock exchange and the company website for your ready reference. I hope you have been able to access it.

We will start with an update of the business and the key developments for the quarter. We entered the quarter with our Roha plant being impacted for initial two weeks due to the presence of COVID-19 positive cases; this also had led to some manpower disruption. We ramped up operations gradually to more normalised levels of production after the mandatory shut down and sanitization treatments. Our Q2 performance is reflective of the same. The teams have worked tirelessly and adapted remarkably to the new norms around social distancing etc. and we remain upbeat that we should be able to maintain our production levels.

We saw demand picking up significantly from August onwards in the domestic market to pre-Covid levels after being subdued for initial few months. Our Q2 FY21 domestic business is up 70% as compared to Q1 FY21 which is reflective of the broader economy in India now coming back to normal. We are seeing good traction across the portfolio with coating, plastics and inks particularly doing well. Exports continue to remain strong and accounted for approximately 56% of our business for the first half against 48% for the same period last year.

Moving to the split between speciality and non-speciality chemicals we have seen good growth this quarter in the non-speciality segment as demand came back after being subdued early on. Speciality continues to remain strong and this is reflective of our strong technical capabilities that we have invested in over the years.

Looking at the consolidated financial performance for the quarter and the half year. The total income from operations for Q2 is at INR 429 crores as compared to INR 425 crores for the corresponding period for the previous year, up 1% on Y-o-Y basis; growth in value and volume at similar levels (3%). Please note that we were impacted in the early weeks of Q2 and we would have reported better growth if it were not for the disruptions due to the temporary plant closure. For the half year our sales are down to INR 781 crores against INR 836 crores given the severe impact of COVID-19 in Q1 which we had estimated to be INR 45 crores of lost revenues. Adding this our H1 performance would in line with last year.

Our gross margin has inched up this quarter to 44.2% against 43.1% last year. The improvement in gross margins is because of our continuous improvement in product mix. Raw materials have remained relatively stable during the quarter.

EBITDA for the quarter was at Rs 68 cr and margins of 15.8%. Both these have improved on a QoQ or YoY basis on improved operational efficiencies. The COVID-19 pandemic resulted in certain cost cutting measures and other optimization efforts. There is now a greater focus on the conversion costs and our overall SG&A efforts. We expect these measures to continue as we revert to more normal levels of business as the country embarks on Unlock 4.0 and more.

Depreciation this quarter was at INR 21.9cr was higher by INR 4.8 cr as compared to Q2 FY20 given the capex over the last 12 months. For the half year depreciation was at INR 43 crore vs INR 34 crore. Our outflow towards capex projects for the first six months was at INR 106 cr against INR 95 cr last year. We had around INR 585 Crores of capex plan for FY20 and FY21; out of this we had already completed INR 225 Crores during FY20. As per current execution plan, we estimate to complete projects worth INR 250 Crores by end of this fiscal. Projects worth INR 110 Crores will spill over to FY22. We continue to believe that long term demand for our products remains unaffected and will be continuing with our capex and new product plans as stated, however nearer term we face challenges on getting the technicians to fly from abroad to help with installation and testing. As compared to the situation 3 months ago we are progressing better on capex projects.

We would also like to share an update on yellow pigment. Based on feedback certain modifications were required. From Mar to Sept 20, due to COVID-19, all the modifications were put on hold and only manufacturing activities were allowed. Oct'20 onwards, we have restarted working on this with full vigour and expect to re-launch by Mid-December.

Finally profit after tax for the quarter was at INR 30 cr and for the half year at INR 48.5 cr. During the current quarter, the Company has re-assessed the underlying assumptions based on the current business scenario and expansion plans and has decided to opt for the new tax regime

Moving to the balance sheet, we remain very strong and liquid, this quarter we took additional steps to improve our cash balances with strong focus on collections and inventory management.

I would now like to give you an update on how we are seeing the business evolve over the next few quarters. Traditionally Q3 remains softer, however given the recent uncertainties in Q1 and Q2, we expect some level of pent up demand from domestic side to flow through into the quarter. In addition, we continue to actively monitor the extent of the wave 2 of the pandemic as some of the European cities are now headed back into the lockdown. We are also monitoring these developments to assess if this is the real demand as against orders to fill up supply chains. At the moment, demand from both domestic and exports looks healthy and we are seeing good level of enquiries from both segments. Raw material prices remain stable and we are well stocked, though we will continue to remain alert. Overall manufacturing level at the plants is back to normal, supply side issues and logistics have recovered well, and our overall business is on a much stronger position than 6 months ago.

Our balance sheet remains strong and the business is well funded. We look forward to continuing to grow and deliver value to all our stakeholders. With this I now open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: I just wanted to get a sense on how the rest of the year looks like, I know you mentioned a little bit in your opening remarks but it is not very clear that you said it is seasonally weak but given that there will be some bit of pent up demand in the end market and this year should be strong and then the second one is on the capex that we have done almost close to 250 odd Crores in last two years and probably even more, we see an impact of that coming into depreciation, but how fast can we go through the product approval cycle and how long that will take to ramp up?

Rajesh Rathi: From our perspective we are seeing demand in the domestic back to pre-COVID levels, we want to make sure that it is not just filling up the supply chain but it is really consumer demand, which is increasing, and which will be sustained demand, so that is a little bit of the caution we want to see. We do see that before Diwali we have good demand, post Diwali the demand does drop in India, but we still feel that we should have a strong December to March so that is on the demand side. Exports are again fairly upbeat right now and we hope this trend continues. Why we are saying cautious as we are already seeing large waves of COVID coming into several countries, etc., and we are not sure how the economies would react to that, etc. On the capex front I think Mr. Natu explained there is some spillover of capex into the next year because of the COVID situation, we do feel that

there are certain capex, other than the Yellow Pigment related capex we have been able to leverage off, so there are two capex, which we see from the Jan quarter we should be able to do slightly better on that.

Ritesh Gupta: Got the point that this is ramping up a little bit, but ideally asset should start contributing to your topline growth and to EBITDA growth as well, so unless the base business is doing very badly and this should have resulted and it should result at least in the coming quarters at some point in time it should start delivering much better EBITDA growth right?

Rajesh Rathi: I think if you see on EBITDA margins has improved, because of COVID in spite of losing five, six weeks we have been marginally down in the six months from that perspective we do feel we are catching up so if you look at what happened in Q2 already Q2 we have matched last year's numbers.

Ritesh Gupta: You are saying that the base business has been a bit weak and kind of whatever 5% growth or whatever we have seen in the business is actually from the new product?

Rajesh Rathi: It is new product, it is partially we had to hold off like the yellow pigment due to COVID we had to held up the modification in the product on multiple situations and in Q2 like I said we have almost 3 to 4 weeks of supply issues, we still being able to maintain that. In all I think the first half of the year was on getting back to operations and now we are back on track to leverage or drive our capex and back on the growth story, so I think the next six months we should be able to see a better result from that perspective.

Ritesh Gupta: Just last one clarification there, you are not waiting for any product approvals, etc., which I think in the last quarter we had said that new product approvals have been delayed due to COVID that you do not think is a challenge anymore?

Rajesh Rathi: I think the question on Yellow pigment is that people have given a feedback we want some modification, etc., , so we are modifying the products, which we will complete that is what I mentioned and Mr. Natuji in his talk mentioned by December end we expect to complete that because we have just started that again after we completely put a hold on that, With that we should be in a better place to drive that.

Ritesh Gupta: Got it Sir thanks so much I will get back to the question queue. Thank you.

Moderator: Thank you. The next question is from the line of Amar Maurya from Alfaccurate Advisors. Please go ahead.

Amar Maurya: A little bit more clarity on the capex you said that around 550 Crores of capex is yet to be planned right?

- Nilkanth Natu:** What we said is we had the capex approval of 585 Crores out of this 225 Crores of capex we completed in FY2020 balance 250 Crores of capex we will complete by end of this fiscal and there has been a spillover of 100 plus Crores capex to next year fiscal FY2022 H1.
- Amar Maurya:** Fair enough and secondly Sir what would be the export and domestic mix in this particular quarter, or you can indicate the growth of the export or the domestic?
- Nilkanth Natu:** For the current year H1 domestic is at 44%, export is at 56%.
- Amar Maurya:** Thank you Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjay Jain:** Two questions from my side. One on the new product, last year in 4Q earnings call we mentioned two products, which were in the pipeline one we were expecting to launch in 2Q and other was probably in the 3Q or 4Q, any update on the new product launches, which we were planning and how are we looking the new product pipeline from here on?
- Rajesh Rathi:** Due to COVID I think we had delayed all our commissioning of capex where these new products were going to come from. I think some of the products we do expect to launch by March end and the other product we expect by next year H2 so September end.
- Sanjay Jain:** Okay September 2021 we are talking about?
- Rajesh Rathi:** Yes, so one by March 2021 and the second by September 2021, the Q3 quarter where we have launch.
- Sanjay Jain:** So it is roughly delayed by almost 9 months because of the COVID?
- Rajesh Rathi:** Yes.
- Sanjay Jain:** These are products tested with the customer, these are the fresh where we will go for the approval like yellow pigment or we have done some initial test of this?
- Rajesh Rathi:** Like we said we have done some initial tests, but I think the final approval comes through when we are commissioning the plant. We have built in some approval time from the customers.

Sanjay Jain: What is the capacity utilization for us in Q2 and again to rephrase the question, which was asked earlier if you can give what was the mix of domestic and export for Q2 specifically not for 1H?

Rajesh Rathi: So from a utilization perspective I think we almost lost half of July, partly July we were completely closed our Roha plant and partly it was working at I would say 30%, 40% capacity, rest of the month we are at about 80%, 85% capacity utilization, on the Q2 split between domestic and export domestic is at 51% and export is at 49% so it is the same mix.

Sanjay Jain: Thank you very much and that is it from my side.

Moderator: Thank you. The next question is from the line of Kunal Mehta from Vallum India Discovery Fund. Please go ahead.

Kunal Mehta: Sir I have single question on the capex, in simple words could you please help us understand the capex of 550 Crores, which we have planned and out of which we have mentioned that 225 Crores is there on the balance sheet right now and the rest you are working on it, so everything is put out in the public domain in the last few years and I just want to understand this 550 Crores capex could you please help us understand regarding what sort of products will this address to and in this whole capex including the one, which is there on the balance sheet and one which will come on the balance sheet how much of it is related to products you have already supplied and how much of it is aided by new products and regarding the new products could you give us an understanding and that would be very helpful, I understand that some products of today is about the yellow pigment for which we have been giving information in the last few quarters in the earnings calls?

Rajesh Rathi: As we have mentioned our capex can be divided into three areas one is the growth capex, second is margin improvement and third is the infrastructure, major portion of the capex is towards the growth capex, growth capex includes both existing volume, existing products where the volumes go up and new products included in that and so that is where we are driving this together both.

Kunal Mehta: If I have to split the quantum of capex between growth capex and I would say backward integration so 70% of the capex is growth capex could you put the number or what is the mix between these three buckets?

Rajesh Rathi: I think from a perspective right now our major emphasis is still on growth, the backward integration capex is still not started because there are two, three projects, which are on, but there are other improvements in terms of like the utilities, etc., where we are looking at margin improvement.

- Kunal Mehta:** Out of the 225 Crores capex, which we have capitalized and there we have commercialized the majority of this is related to yellow pigment product is that the correct assessment or it is related to the whole basket one of which is new product yellow pigment?
- Rajesh Rathi:** The whole basket and one portion of it is only the yellow pigment.
- Kunal Mehta:** The capex in FY2021, which is 225 Crores that is also primarily majorly related to capacity addition and new product addition that is right and the last leg of capex, which you would do that will be primarily for your margin improvement and backward integration is that the right way to look at it Sir?
- Rajesh Rathi:** There is a little bit of margin improvement really not so much of backward integration there are one or two small ones, but the major phase of backward integration would come after this.
- Kunal Mehta:** In FY2022?
- Rajesh Rathi:** Yes we are reviewing that
- Kunal Mehta:** Regarding the new products barring the yellow pigment, which you have announced in India publically would you announce on the later date when those plants are set up or could you mention it right now?
- Rajesh Rathi:** There are several high-performance pigments, which we are planning on and I think as we launch the products, we will talk a little more about it.
- Kunal Mehta:** Understood Sir. That is very helpful Sir and all the best for the coming quarters.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** I just had first one clarification regarding the September commentary we have given in the presentation, we have said that in September we reached the far highest ever production volumes and then the month wise revenue chart that we have given on slide #9 also shows that September revenues are much higher than those in the previous months, so if you could just help us understand what is the reason for this was, was this because of some pent up demand following the closure of the plant in June and July and did this come largely from the domestic market or was it also increased spent in the export side of the business?
- Rajesh Rathi:** I think the point of the graph is to demonstrate that like I mentioned H1 was all on the supply side issues, demand was never a concern what the graph demonstrates and I think that is the way we should look at it is that how we are coming back in a full force on the supply side so that is what demonstrating that August is the month, which we cross last year

sales and then September we did far better and that is the trend we expect now to go on, so that is the area, so it is more of demonstrating how the supply side is gearing up now, how the manufacturing is gearing up.

Abhijit Akella: Can we expect the September run rate to continue going forward now into 3Q so like October onwards will the monthly revenue run rate be at the same level?

Rajesh Rathi: I think like I mentioned there we do expect a good run, having said that like I mentioned there were two, three concerns, which we have is domestic obviously there is a slowdown after Diwali; however, we feel that there will be, given that it is just not filling up the supply chain and this real good demand, which is coming up people start painting their houses, construction is picking up, etc., that we expect good movement there and the second caveat that we felt is that in several countries the second wave of COVID was coming up, we are not sure how this affects the economies of those countries and exports so right from that perspective those are the only areas otherwise we do expect a good run.

Abhijit Akella: That is helpful Sir and my last question is just on the capex for the previous year the 225 Crores that Mr. Natu mentioned was executed last year have we seen any revenue contribution coming in from that capex already so far this year and was some element of that part of the September numbers that we have shown?

Rajesh Rathi: Obviously other than the new product the others are growth driven volume and those have started coming in.

Abhijit Akella: Sir any sense of like how much of the 225 Crores is already utilized and how much is utilized just a rough ballpark number in percentage terms it is more than half, less than half?

Rajesh Rathi: I do not have those numbers right now.

Abhijit Akella: Thank you so much.

Moderator: Thank you. The next question is from the line of Dhimant Shah from One-Up Financial. Please go ahead.

Dhimant Shah: Sir can you just give us some sense on the earlier asked questions on the capex you said this is predominantly growth so if you can help us explain that would the efficacy of the new capex be equivalent or more to the already done balance sheet efficiency that you seem to be showing so a) could you please answer that, number two possibly if you can also help us understand in terms of demand given the situation that we are in and possibly small advantage that we have as an alternate to China is there some advantage that we will possibly get in terms of being a more dependable supplier in all the three categories either

organic or inorganic or the effect pigments so if you can help us understand that and lastly on the balance sheet you seem to be spending something called intangible asset if you can just explain what that line item is?

Rajesh Rathi: The two major players are about to sell their business and China uncertainty is definitely an opportunity for a Indian player whether they can take up a leadership position and how does it grow and that has been our story to sell ourselves as a reliable alternate, reliable leader in the industry so that has been our ability.

Dhimant Shah: True, but is there any specific segment where we have seen this more authenticated in the sense that is this more...

Rajesh Rathi: It is very difficult to pan out now, it will take some time to see how it really works out in the sense really our customers from a perspective of China really willing to look at alternative given that the China government is come up with a 13% export rebate whereas India has withdrawn even the 2% rebate, which we used to get, so the competitiveness is also very important in this aspect it is not just this, so I think there are several factors which could pan out and we will have to see how result comes out. There was a time when even India we could not supply a couple of months whereas other countries during that time could supply that so I think if the entire story how we come out now, we still feel there is a great opportunity and it will play out, it should play out in our favor, more and more there are dialogues between key accounts talking about India sourcing strategy, which was never expected for decades, so that is the area. The entire capex, which is planned is obviously our capex is standing towards the growth capex, which is talking about also product mix change, which should help improve our balance sheet. Having said this I think the challenges of COVID have been multiple, entire working capital inventory levels, etc., were tremendously increased, our capex has got delayed a lot so from a balance sheet perspective both these items have not helped. We do expect that given that it is like all this will settle in, in the next six months we should be able to now drive our growth capex and we should be able to get better results in the coming years with this.

Dhimant Shah: So in other words this capex that when it finally comes into place will give you more superior turnover and related margins than the existing capex that is there is that a fair assessment?

Rajesh Rathi: Absolutely, if you see over years our EBITDA margins have improved and there is lot to do with how we changed our product mix and also held on to pricing.

Dhimant Shah: If you can just explain what that intangible is on the balance sheet intangible asset?

- Nilkanth Natu:** We implemented SAP 4 Hana project in the first quarter and this capitalization is towards this project implementation.
- Dhimant Shah:** Thank you for answering.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** My question is just on the export opportunity how is India faring in terms of competitiveness, how Sudarshan faring more specifically in terms of competition versus players in China, you mentioned a 13% export rebate as well today so when is this applicable and is that likely to impact us moving ahead in terms of volumes?
- Rajesh Rathi:** This has been applicable if I remember it is from April itself, I do not remember exact date, but it has been sometime, which is in the lower end of the products this does affect us, but in the more premium products high performance pigment products does not affect us as much.
- Madhav Marda:** In general if you were to look at Sudarshan Chemical's cost structure versus any of our global competition are we like more competitive or is there like some more you have the journey before we sort of reach that, how should we think about it broadly because the thought process is like if we have to keep getting market share and become a global top three player eventually just wanted to see or understand how that journey played out for us?
- Rajesh Rathi:** I think there are certain product ranges, which we have gained a better cost position; however, obviously to offset a 13% export benefit it is again not a level playing field and in certain areas we do get a little bit concern there; however, our goal on certain molecules when we talk about cost leadership and we complete some of our backward integration projects those will be quite useful in kind of improving our cost base further.
- Madhav Marda:** Last question from my side is we hear at least in some other chemical value chains the government wants to increasingly sort of making them sort of self reliant at least for the more basic chemical molecules as well, in pigments will that sort of need increase our investments in backward integration in the next three to five years or are we sort of reasonably already backward integrated when dependence is lower when it comes to China?
- Rajesh Rathi:** I think we still have 30% to 35%, which we import from China our raw materials and I think we will and that is where when I was talking about a little bit on what we would do on backward integration, it would help us improve our position from that perspective.
- Madhav Marda:** Thank you so much.

- Moderator:** Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** I had a couple of questions firstly if you could share your mix between specialty and nonspecialty portfolio and how have they grown or degrown during the quarter and half year?
- Nilkanth Natu:** As we have seen that both the portfolios have degrown at the same level as we have seen as our overall growth.
- Viral Shah:** What would be the mix of specialty in our portfolio?
- Rajesh Rathi:** I think that split we are not giving right now.
- Viral Shah:** Sir my second question is again on China what we have been given to understand that the environmental authorities there have shown some sort of laxity in implementing the strict environmental norms, which they had initiated some months back, so could you just throw some light on what is happening there and what is the kind of impact that is having on our end products as well as on the raw material side?
- Rajesh Rathi:** Right now we have not seen any kind of lag, the only thing which we find more is a little bit more on like I mentioned on the 13% export benefit that is what is coming across more strongly. However from a perspective right now we have not found anything which is changed from environment perspective.
- Viral Shah:** Just last question Sir what would be our net debt level as on the quarter end?
- Rajesh Rathi:** That I will share this with you in some time is that okay?
- Viral Shah:** Sure thank you so much, those were my questions.
- Moderator:** Thank you. The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.
- Nav Bhardwaj:** Sir a bit on the export side is it fair to assume that the product mix that is exported will have a better margin percentage as compared to what we do in the domestic market?
- Rajesh Rathi:** It really depends on the industry sector, which you said it right, if you are selling into base inks whether you sell it in India or abroad it would be pretty similar, if you are selling into coatings marginal differences but I think the industry sector matters more.
- Nav Bhardwaj:** That varies from quarter-to-quarter is that fair to assume?

- Rajesh Rathi:** Not quarter-to-quarter, it does not change from quarter-to-quarter, but it changes from industry base and from a quarter-to-quarter I think it does not change that much from quarter-to-quarter.
- Nav Bhardwaj:** The second question would be is it fair to assume that as a trend our contribution to revenue from exports is going to rise in the coming years or is it going to remain the same the halfway mark?
- Rajesh Rathi:** No, absolutely the potential in the export markets is more and it would increase in the next few years.
- Nav Bhardwaj:** Alright. Thank you. That is it from my side. All the best going ahead.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.
- Rajesh Kothari:** I have two questions first if you can tell us out of the total capex how much is basically for backward integration and by when that part of capex is going to get over and what benefit you will see was that backward integration project gets over?
- Rajesh Rathi:** Right now as I explained our current capex is more towards the growth revenue capex, there is a minor portion towards margin improvement, some of the major technologies which we were to execute for that is slightly delayed and as I mentioned we would start the execution of those technologies in the next financial year and we will get the benefits from year 2022.
- Rajesh Kothari:** Yes, so my question is how much is the capex what you are planning for that, by when that when you say 2022 means March 2022?
- Rajesh Rathi:** That capex will be finalized by the Board in the month of March 2021.
- Rajesh Kothari:** But that will be in your already approved project of 550 Crores over the number that includes the backward integration as well am I right, so the Board has already approved that?
- Rajesh Rathi:** No, a major part of this current project is towards growth capex it is not towards backward integration on margins major portion, there are few margin improvement project capex; however, the major portion would come in the next financial year.
- Rajesh Kothari:** So that will be the new capex altogether over and above 550 Crores that is what you are trying to say?
- Rajesh Rathi:** Yes.

- Rajesh Kothari:** That project basically I think by March 2021 you will finalize whatever that amount will be?
- Rajesh Rathi:** Yes.
- Rajesh Kothari:** So in your annual report it has been mentioned that company is looking for the drastic cost reduction so what is that is all about is it the same what you are talking and that will be done by March 2021 so why it is part of annual report?
- Rajesh Rathi:** That is also manufacturing cost reduction, which we have been doing that is how our EBITDA has been improved, manufacturing cost reduction initiative and purchase cost reduction.
- Rajesh Kothari:** What kind of total cost reduction program that is?
- Rajesh Rathi:** I cannot give that competitive information but there are several initiatives around manufacturing and purchase cost reduction.
- Rajesh Kothari:** Sir my second question is with the reference to the export competitiveness can you share some insights in terms of your improvement in market share, key customers getting orders getting the new wins some insights into that, that how that is progressing and what efforts you are taking to make sure that you will able to get it to the bigger clients in a bigger way?
- Rajesh Rathi:** We have broken in the last few years into major brands and now it is about building up portfolio with the clients so maybe one or two products to them now we will be selling more products to our clients there.
- Rajesh Kothari:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Anshul Saigal from Kotak PMS. Please go ahead.
- Anshul Saigal:** What is the kind of asset turns that are likely from the new capex is it in line with the existing asset terms or is it likely to be higher that is my first question for you?
- Rajesh Rathi:** We expect the asset turn to improve to about 3.
- Anshul Saigal:** This is we are saying from the new capex the asset terms are likely to be 3?
- Rajesh Rathi:** Yes.

- Anshul Saigal:** As you said this is a mix of new existing products and the growth capex and of course there is an element of margin improvement capex that we will be undertaking. If one just goes by that it seems that the products that you will be getting into will be relatively higher margin more specialty products as compared to the existing product basket so would it be also fair to assume that from the new capex the margin structure that one will get will be in excess of the current corporate margins?
- Rajesh Rathi:** Yes.
- Anshul Saigal:** The second question I have is could you just give a breakup of exports by Industry; can you just share the industry mix of exports?
- Rajesh Rathi:** Right now we are not publishing the industry mix.
- Anshul Saigal:** Broadly please if you could just give us some understanding of which industry, we are catering to is the mix of export industry similar to domestic or is it different?
- Rajesh Rathi:** I can tell you the trend, of course number one is industry is coatings and plastics then printing inks and then cosmetics and the difference between India and abroad would be printing inks and plastics would be slightly higher in India compared to the export.
- Anshul Saigal:** Cosmetics would be lowest in India is it?
- Rajesh Rathi:** Yes, cosmetic producers are more globally approved.
- Anshul Saigal:** In essence the mix is more or less the same as compared to India in the export market?
- Rajesh Rathi:** I just explained that the mix would be different I just said that in India printing ink and plastics would be a little higher, cosmetics would be a little lower.
- Anshul Saigal:** Fair to assume that given how you have in the past looked at higher end products in the cosmetics business, if I remember right there is something about cosmetic products being hurtful to the skin and you are going in more for organic cosmetics, etc., now is it fair to assume that cosmetics as a product category will start improving in the mix going forward?
- Rajesh Rathi:** Firstly we are not making any organic products as you mentioned organic, we do have organic chemistries, but most of our products for cosmetics is effect pigments, mix changes with our product mix where we go towards higher end applications globally not just cosmetics product other applications on the industrial side.
- Anshul Saigal:** Thank you so much this is helpful.

- Moderator:** Thank you. Ladies and gentlemen this would be the last question for today. The next question is from the line of Dhruv M from HDFC Asset management Company. Please go ahead.
- Dhruv M:** Sir the 13% tax rebate that you mentioned for China is it completely new moving from 0 to 13 or was it something else and follow up on this was so this was just started in March I believe, but it seems the exports are still doing extremely well so that is not impacting you in a way so any thoughts what is happening there?
- Rajesh Rathi:** It was 0 to 13 and you are right it was in March and I do not remember the exact time but it is sometime now and it is like I mentioned some of our low end products this would get affected, but our performance and higher end products are not much affected. Also there was a trend to look at India sourcing that is how our exports have not got affected. I am just hoping that the competitiveness in terms of given this 13% in our other low end products does not tilt in the China's favor because the 2% export benefit, which we did enjoy that has also gone, so now the difference between India and China has become 13%, so we are totally watching that and seeing how this pans out.
- Dhruv M:** Is it possible to share what would be the share of say the products where you are competing with China on this 13% where this 13% is applicable?
- Rajesh Rathi:** It is very difficult to estimate that because it is a full dynamic market size so it is from a perspective it is actually all the product range has 13% benefit now so it really depends on how it turns out, how customers are looking, how much is the difference, etc., and especially in Europe right.
- Dhruv M:** You mentioned that for the HPP segment the high performance there you see no competition even after the 13% so I was just wondering?
- Rajesh Rathi:** Competition in the sense China was not very active there, that is the reason I mentioned. Of course they do have a portfolio of that and if they do become active, we have to wait and watch.
- Dhruv M:** I have more questions but probably some other time thank you so much Sir.
- Nilkanth Natu:** Just to answer one question, which has been asked on the borrowing. The current net debt is at around 500 Crores level. Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question for today I now hand the conference over to the management for closing comments.

Nilkanth Natu: Thank you all for your time and interest in Sudarshan Chemicals. We remain confident on the long-term prospect of our business and look forward to engaging in the queue again. Thank you.

Moderator: Thank you. On behalf of Anand Rathi Shares & Stockbrokers that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Transcript has been edited for readability

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