SUDARSHAN

5th November, 2018

DCS – Listing
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, P.J. Towers,
Dalal Street, Mumbai – 411 001

Scrip Code - 506655

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No.C/1, G Block,
Bandra Kurla Complex (East), Mumbai – 411 051

Scrip Symbol - SUDARSCHEM

Dear Sir,

Sub : Transcript of analysts / institutional investors Conference Call

We are enclosing herewith transcript of conference call with analysts / institutional investors, which took place on 30th October, 2018, after announcement of Unaudited Financial Results for the quarter and half year ended 30th September, 2018.

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

Kindly take the same on record.

Thank You

Yours Truly,

For Sudarshan Chemical Industries Limited

Mandar Velankar
DGM – Legal & Company Secretary

Sudarshan Chemical Industries Ltd. Pune

Encl : As above

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SUDARSHAN

"Sudarshan Chemical Industries Limited Q2 FY2019 Earnings Conference Call"

October 30, 2018

SUDARSHAN Edelweiss Ideas create, values protect CHORUS CALL

ANALYST:	**MR. JIGAR JANI - EDELWEISS BROKING LIMITED**
MANAGEMENT:	**MR. RAJESH RATHI - MANAGING DIRECTOR - SUDARSHAN CHEMICAL INDUSTRIES LIMITED** **MR. VIVEK THAKUR – CHIEF FINANCIAL OFFICER - SUDARSHAN CHEMICAL INDUSTRIES LIMITED** **MR. AMEY ATHALYE – DY. GENERAL MANAGER – ANALYTICS - SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

Moderator: Good day ladies and gentlemen and welcome to the Q2 FY2019 Earnings Conference Call of Sudarshan Chemical Industries Limited 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 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. Jigar Jani from Edelweiss. Thank you and over to you Sir!

Jigar Jani: Thank you. Good afternoon ladies and gentlemen. On behalf of Edelweiss Broking, I welcome all the participants who have logged in for the Q2 FY2019 conference call of Sudarshan Chemical Industries Limited. From the management team, we have Mr. Rajesh Rathi, Managing Director, Mr. Vivek Thakur, CFO and Mr. Amey Athalye, Manager –Analytics. I would like to thank the management for giving us the opportunity to host this conference call and now I would like to hand over the call to Mr. Rajesh Rathi for his opening remarks on the results after which we will open the floor for Q&A. Please go ahead Sir.

Rajesh Rathi: Thank you so much Mr. Jani for this opportunity to talk to our investors. In the last quarter I think there have been a lot of challenges with all the environment issues in China, which led to a lot of raw material availability issues and also unprecedented price increases and in spite of this we have been able to talk about sales growth and have been able to maintain a fairly balanced margins. We had to always balance between growth and margins and that has been the delicate balance in the last quarter. I request Vivek and Amey to lead the rest of the conference.

Amey Athalye: Sure. Thank you Mr. Rathi. Welcome everyone. This is Amey Athalye from Sudarshan side. I will start with slide having half yearly financial snapshot slide number 9. Total income from operations has increased by 17% from around Rs.615 Crores to about Rs.720 Crores. Operating profit is maintained at around 15.5% while profit before tax has improved from 8.9% last year to 10.2%.

Moving to the next slide, which has a summary P&L. Like Mr. Rathi mentioned we have seen raw material cost going up since mid of Q3 last year. We are pursuing customer price increases and those are getting implemented. There is still a shortfall in passing on the absolute price increase to the customers, so the cost of goods sold is seen increasing in a six monthly basis by about 1% compared to last year. The absolute increase in employee cost is coming from annual increments along with planned recruitment especially some of the senior positions considering the growth strategy that we are pursuing, so that is part of the planned increase. In terms of the manufacturing variable cost, we are seeing continuing reduction because of the manufacturing excellence project that was initiated last year so there is a lower utility consumption and also the savings coming from the windmill commissioning. This is part of the other expense in the quarterly publication.

Finance cost reduction in absolute value that is derived mainly because of the working capital borrowings those are lower after sale of master batch subsidiary in May.

Coming to Q2 quarterly financial update. Total income has increased by about 20% compared to last year Q2. There is a growth in absolute terms in the operating profit and profit before tax by 9% and 26% respectively.

The next slide presents the gross margin trend over the last six quarters. The COGS for FY2018 has been adjusted for the excise duty effect because last year till Q1 we had excise duty, which was forming part of the sales value and also in terms of the COGS so that impact as stated in the notes to the quarterly publication has been adjusted in the slide. This is the third quarter where we have seen the customer price increases since the raw material price escalation started. We did improve gross margins to 43% in Q1 of current year; however, there were some sharp price increases that we have seen in some of the raw materials during Q2. Normally we see a quarter lag in passing on the raw material increases to the customers so there is a drop in gross margins to 41% in Q2 of current year. We have already initiated discussions with the customers to increase the prices further. Having said this Q3 is historically soft quarter in terms of the sales demand post domestic festive season and also in terms of the overseas geographies where calendar year is yearend for the customers. So we are taking calibrated view in terms of pushing the price increases and also balancing the growth. On a year-to-date basis we are at 42% gross margin level, which is in line with the full last year gross margins.

Moving to the next slide, debt equity ratio is at 0.52. This is again coming from the reduction in borrowings because we have generated funds from the sale of master batch subsidiary and agro brand formulation business in current year. The current ratio is higher. This is on account increase in inventory in current quarter and lower borrowings effect. On the inventory point to mention that inventory buildup majority of it is planned. Since we are seeing raw material prices increasing sharply there were certain material availability challenges in some of the intermediates and raw material stocks. We have selectively increased the inventory levels to ensure that continuity of supplies with the customers. In addition to this, some of the production lines have planned shutdown during Q3 for capacity debottlenecks on the upside and also towards annual plant maintenance, so the inventory has been built up in specific finish materials in order to cover normal demand during Q3. Normalized EPS on an annualized basis has moved from 12.4 end of March to 14.6 at the end of Q2.

In terms of the business highlights, the capacity increase and backward integration projects worth about Rs.200 Crores are under implementation. The raw material situation is like I mentioned earlier those are at a high level and we are pursuing the selling price increases with the customers and distributors. Effective July 1, 2018, company has adopted hedge accounting as part of the Ind-AS 109 financial instruments. Going forward we do see customer price increases continuing into Q3 and we are keeping tight control in terms of the overheads to maintain the profitability and the capex plan, which I have mentioned will continue in to Q3 and Q4. This is from our side, we are happy to now receive questions and explain results further.

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

Anand Bhavanani: Thank you for the opportunity. Sir if you can help us understand the change in other income from Rs.4.1 Crores to negative Rs.1.5 Crores in this particular quarter and the hedge accounting impact of Rs.8.97 Crores in other comprehensive income?

Vivek Thakur: Thank Mr. Bhavanani. Just to clarify corresponding period of last year there was a forex gain, Gains are accounted as other income. This year because there is a significant volatility and a sharp depreciation in rupee therefore because of the mark-to-market fluctuation of the receivables, payables and the hedges, which we have taken there is a FX loss considering that we adopt a very stringent policy of hedging of risk management perspective wherein 90%. Of exposures are hedged. Therefore on forward contracts due to depreciation in rupee which is more than the premiums, there is a forex loss recorded during this period. Hope this explains the other income movement.

Regarding hedge accounting, just to give you a perspective - the context in which we have adopted hedge accounting is to reduce volatility in Profit and loss account. Without the hedge accounting we will have to account for mark-to-market of the forward contracts at each reporting period in the profit and loss account, at each reporting date this mark-to-market creates a volatility in the P&Ls and distorts the performance of the Company at those dates. By application of hedge accounting we are able to match the cash flows and match the of timing of recognition of gains and losses, which correspond to these mark-to-market fluctuations. Since we have taken foreign currency borrowings which were taken in foreign currency to kind of act as a natural hedge for the future sales, which is highly probable. Hence, this foreign currency loan is designated as a hedge against the future export, so whenever rupee depreciates the liabilities on these loans increases, but we also realize more money from our future export.

Anand Bhavanani: Sir, in order to compare the fallen rupee in Q1 and Q2 the falls are roughly similar in percentage terms, yet in the other income the swing has been Rs.5.5 Crores. So what is different in Q2 that for the same percentage fall in rupee we had a negative impact to the tune of 5.5 Crores quarter-on-quarter?

Vivek Thakur: If you look at the movement in rupee, the movement increased significantly post July. So first quarter the trend was upward but not very sharp movement, but the fall has been sudden post July that has been the case. If you look at the levels where we were in July, we were at about 69 or so and from there we have seen 74 levels at the end of the quarter.

Anand Bhavanani: Actually rupee fell, from March 31, 2018 it was 65 it fell to 68.44 on June 30, 2018 and from June 30, 2018 68.44 it fell to 72.52 for September 20, 2018, so percentage falls are 5.3% and 6%, not material difference in terms of percentage fall, so are we talking about accounting on the last day of the period or do you take some averaging for your overall calculations of rupee dollar rates?

Vivek Thakur: Mark-to-market happens at the end of each reporting date, on the reporting date.

Anand Bhavanani: Sir then on reporting date basis there is not much difference in the fall in rupee in Q1 and Q2?

Vivek Thakur: Many of our liabilities, foreign currency, loan liabilities are in Euro. Euro numbers if you look at there has been a very sharp depreciation.

Anand Bhavanani: Sir secondly I wanted to understand how would DIC's exit impact us, how much of our revenues was coming from sales to DIC and with the existing shareholding how would their approach towards business relationship with us changed?

Vivek Thakur: DIC's shareholding was just as an investment and it has nothing to do with the supplies, which we make to DIC, it continues on pure commercial terms.

Anand Bhavanani: Lastly sir volume wise, what was the year-on-year and quarter-on-quarter volume sold if you can give us a sense of that?

Amey Athalye: On a year-on-year basis the volume increases about 12%.

Anand Bhavanani: Quarter-on-quarter how much would be the difference?

Amey Athalye: Q1 and Q2?

Anand Bhavanani: Yes.

Amey Athalye: That is actually **not** ready.

Anand Bhavanani: Sir other expenses wise, there has been rise of Rs. 4 Crores sequentially it was Rs.70 Crores in Q1 and Rs.74 Crores in Q2 so what explains that?

Amey Athalye: So we have some long-term projects, which are going on in terms of the future growth strategy so there are some professional fees, which we have booked in current quarter.

Anand Bhavanani: Thank you for the opportunity. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thank you for the opportunity. Sir can you give us some more idea on the Rs.200 Crores capex, which is under implementation, how much would be for capacity increase, how much would be the backward integration, what is the actual amount spent and to be spent in six months and next year, when this would come on stream?

Amey Athalye: We have about 60% to 65% of this going into capacity expansion, about 30% going into backward integration for some of the intermediates and remaining is kind of infrastructure and overall improvement in the plant setup.

Ritesh Poladia: How much is already spent off 200 Crores?

Amey Athalye: All the projects are in progress and if you see increase in CWIP that is about Rs.30 Crores compared to March.

Ritesh Poladia: So Rs.30 Crores would be for this Rs.200 Crores and when this would come on stream?

Amey Athalye: There are various staggered dates in which we are looking at commissioning between Q3, Q4 and some of the projects might go into early next year also.

Ritesh Poladia: So by next June this Rs.200 Crores capex would come on stream?

Amey Athalye: Yes.

Ritesh Poladia: How much would be the capacity increase?

Amey Athalye: Sir, I think this would be competitive information and currently since we are not disclosing capacity in public domain we would not be able to share the information.

Ritesh Poladia: If you can give us in percentage terms that is also fine and what is the current capacity utilization?

Amey Athalye: Current capacity utilization is about 80% to 85%.

Ritesh Poladia: And you are not comfortable in giving what is the percentage capacity increase?

Amey Athalye: We would not able to reveal that.

Ritesh Poladia: No problem sir. Thank you very much. I will come back in queue.

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

Shrimant Jain: Sir I wanted to understand auto and domestic, how would it impact us?

Amey Athalye: Could you repeat your question please?

Moderator: Mr. Shrimant Jain I would request you to speak in the handset mode and repeat your question please.

Shrimant Jain: I wanted to understand what percentage of our revenue comes through auto and how would a slowdown in the auto impact us?

Rajesh Rathi: So I think again we are not giving industry wise split, but our products go globally and they are not India specific, so India specific auto may be a little low, I think globally we are selling and we are not seeing any slowdown as such.

Shrimant Jain: Hope in Q1 you mentioned that price increases are being taken and we see that overall margins would be stable, but in Q2 our margins contracted sharply, so for H2 what is the guidance, do we anticipate margins to bounce back to 16% or it is unlikely, what is the current experience that you are having in pricing discussions with the customers?

Rajesh Rathi: The issue has been that we have been passing on the absolute cost increases.

Amey Athalye: So what happens is that if you have experience the price increase in absolute terms we are able to pass that on; however, in terms of the percent to sales the ratio gets impacted because to maintain same level of profitability we have to pass on in excess of the raw material increase that we have seen so that has also been an arithmetic challenge that we see in terms of the margins.

Rajesh Rathi: Going forward I think the raw material prices in a month or two should stabilize and after I think we should see better margins in the whole of H2.

Shrimant Jain: With respect to rupee depreciation you mentioned our supplies of raw material from China got impacted, how much of the margins can get impacted because rupee has depreciated so how the rupee Yuan equation and do you think there is any potential for margin compression due to rupee fall against Yuan?

Vivek Thakur: Because we are net exporters, so we are not majorly impacted from that perspective.

Vivek Thakur: Our imports from China are Dollar currency, Yuan versus Dollar any fluctuation we kind of adjust vendor prices also. Also so our imports are mainly on a dollar basis and we have exports in Dollar as well as Euros, we are net exporter in both currencies. Depreciation helps us positively.

Shrimant Jain: Lastly sir in terms of capex how has been our capex panning since our last concall, are we on track is that functioning at a faster pace than our last concall or is it at a slower pace than we expected at the time of last concall, so if you can give us a sense of how the projects are coming along are there any hiccups, are there any troubles we are facing in any particular projects that we are executing?

Amey Athalye: We are on track in terms of the timelines and most of the projects are progressing as we have planned.

Shrimant Jain: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.

Alok Ranjan: Thank you for giving the opportunity Sir. Sir you mentioned that the volatility that we are seeing in the raw material and that is why the margins are under compression that we may see improvement in the next two to three months, so could you give some sense on why we feel that we will be on upward trajectory in terms of the margins?

Rajesh Rathi: So one is because the prices should stabilize we have been doing a catch up and like I explained that we are able to pass on the absolute cost increases and not the percentage increases, which in terms as a mathematical equation on an EBITDA basis and margin levels it kind of slows down.

Alok Ranjan: Sir how is your reading in terms of raw material costing do you see that it will moderate in the next that means how are we placed in terms of the cost curve, are we near the peak?

Rajesh Rathi: As I mentioned we are seeing some increases more coming in one or two months and then it should stabilize.

Alok Ranjan: Fine Sir. My next question is regarding the inventory situation, so we have seen that the inventory has increased compared to the March end could you give some sense on why this increased inventory has happened?

Amey Athalye: So there are certain areas where because of this raw material situation we had to increase our coverage and also create more stocks. There was also plant shutdown for some capacity expansions for which we have to create certain capacities,

Amey Athalye: Like I mentioned during the opening comments, during Q3 some of the production lines where we have some additional debottlenecks planned, I am talking some of the capacity, also there are some plant shutdowns that we have during this Q3 so we have created finishing material stock in considering the normal demand that we see for those production lines.

Alok Ranjan: Actually if I look into the segments I see the EBIT of other segment that has increased considerably, so can you just elaborate why this increase has happened in the others portion?

Vivek Thakur: The other segment is the engineering business of ours, which is a division and we manufacture industrial mixers. There is good order execution during the H1 of this year and hence profitability has been good.

Alok Ranjan: Fine. Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap on Kedia Securities. Please go ahead.

Vikrant Kashyap: Sir good afternoon and congrats on good number despite being challenging environment. I have two questions. One related to exports. Sir how has been our exports in the last quarter, what kind of growth we have seen and what is your outlook on exports going forward?

Rajesh Rathi: I think the growth rates have been very similar we do see a good outlook for the H2 on the exports front.

Vikrant Kashyap: So it has been like 20% growth we have seen in the exports too?

Rajesh Rathi: Approximately yes.

Vikrant Kashyap: We see similar kind of market scenario going forward?

Rajesh Rathi: Yes.

Vikrant Kashyap: Sir you have talked about you have booked some expenses relating to professional fee for your future long-term strategy?

Rajesh Rathi: Yes.

Vikrant Kashyap: Would you like to throw some light whom you have hired for that creating that opportunity and how it is going to benefit the company in the long run?

Rajesh Rathi: We have NDA with the party and we cannot take the name, but I think we have hired a Tier-I consulting company who is helping us execute a five-year growth strategy.

Vikrant Kashyap: Can you give some sense when you are going to implement whether it is for domestic market or export market or for mix?

Rajesh Rathi: It is a global strategy where we want to become among the top 3 pigment players in the next five years, which we described and that is the part of our progress.

Vikrant Kashyap: Thank you very much and wish you best of luck.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management Co. Please go ahead.

Dheeresh Pathak: Thank you. Sir on the hedging side did you say that net exposure for the next one year is now hedged?

Amey Athalye: We hedge generally for the committed exposures and there is a cycle of about four to five months period where we have order execution being ready so from sales order to the execution and realization of money there is a four or five-month period, which is what we cover.

Dheeresh Pathak: Are you hedging the balance sheet receivable or payable exposure or are you hedging the future sales exposure?

Vivek Thakur: We only manage the committed exposure. It may be in from of unexecuted sales order or it could be a receivable. Correspondingly there could be a purchase order or there could be a payable, so this is exposure we hedge.

Dheeresh Pathak: Let us say at the end of Q2 now for Q3 would the entire sales of Q3 or the net exposure of Q3 would that be now hedged already?

Vivek Thakur: Not necessarily. It depends upon what order pipeline we have and when that is going to be executed and money is yet to be realized, so we cannot necessarily say, but when you say next quarter generally our trade period is 90 days so whatever sales is done and money is going to come, we have complete visibility from cash flow perspective.

Rajesh Rathi: I think whatever orders we are committed that is covered.

Dheeresh Pathak: On the raw material side like out of your cost of goods sold is everything sort of import parity price linked, how is it can you just give some colour on that?

Rajesh Rathi: Can you explain that question. It is not clear to me. What do you mean by import parities?

Dheeresh Pathak: So you might be buying let us say naphthalene or benzene based or CPC Blue related products, so either you will be importing them or if you are paying in Dollar terms or you will be paying in rupee terms to a domestic supplier, but the price could be Dollar linked, so whatever is the exchange rate and the Dollar price you pay in rupees, but it is effectively Dollar purchase because supplier is marking to market every time, so can you just explain like out of the total cost of goods sold how much is actually sort of Dollar based buying?

Rajesh Rathi: I think from a perspective right now the situation is a suppliers market, so right now we have been buying raw materials at escalated prices. We have to buy it from our regular sources also, but other sources as the availability has been a issue. Usually Indian raw materials are not Dollar linked, we have about 35% imports Dollar based.

Dheeresh Pathak: 35% of purchases is imports?

Rajesh Rathi: Right.

Dheeresh Pathak: The balance 65% also some of it would be sort of Dollar linked like I was explaining earlier right?

Rajesh Rathi: Not so much in that.

Dheeresh Pathak: If you take the three buckets naphthalene based products, benzene based products and CPC Blue they would constitute like what percentage roughly of your cost of goods sold?

Rajesh Rathi: I would not have the number at hand right now.

Dheeresh Pathak: These three categories are all Dollar linked right CPC Blue is Dollar linked, naphthalene, and benzene is all Dollar linked right?

Rajesh Rathi: CPC is pretty much domestic.

Dheeresh Pathak: The seller in India would not it link it to the Dollar price?

Rajesh Rathi: No.

Dheeresh Pathak: But naphthalene and benzene are Dollar linked that will be a correct understanding?

Rajesh Rathi: Naphthalene would be import, not so much of benzene area, benzene is a temporary issue where there are very few international suppliers right now.

Dheeresh Pathak: Then this EBIT margin that we see for the pigment division this is quite low as you explained because of the raw material cost push and you are saying you are passing on the absolute per kg increase, so is it fair to expect now in next few quarters it will remain at this like 9.5% to 10% range because mathematical things are not making sense now so can you just help guide us to have better expectation for the next few quarters?

Rajesh Rathi: You are talking about EBIT margins?

Dheeresh Pathak: Yes in our segment data, you categorize pigments and others right and the pigment segment margins have come down to 9.4% versus 13% in the June quarter, so as you were explaining right you are passing on the absolute cost push and that is resulting to lower margins?

Rajesh Rathi: I think the 13% to 9.4% is not a correct comparison, so I think I will request Amey or Vivek to throw a light on that. The only thing, which has happened is the EBITDA margin has moved by 1% point right so that is the only difference in the Q1 to Q2 right and that has mainly happened due to what we explained is that we are passing on the absolute cost increases only and as I explained in one or two months I think raw material situation should get stabilized. We should be able to pass on these increases and so I would say Q2 should look similar, but Q4 would look much better there.

Dheeresh Pathak: Sir actually if you look at your segmental results, the pigment EBIT is Rs.34 Crores versus Rs.44 Crores in the last quarter and I am assuming in absolute volume terms you would have sold more volumes in September quarter than you did in June quarter so on a EBIT per kg basis also you are earning lesser although you are passing on absolute price increases on your cost side you are still earning lesser EBIT per kg of pigment sold versus what you earned in the June quarter, so that means you are still not able to fully pass on the cost?

Rajesh Rathi: We will not able to just reply to that right now. We will have to study this, but I think what we do is we will put up a clarification note on this margin by tomorrow evening if that is fine.

Dheeresh Pathak: I can maybe take it offline also. Thank you.

Moderator: Thank you. The next question is form the line of Sanjiv Jain from ICICI Securities. Please go ahead.

Sanjiv Jain: Thanks for the opportunity. One question on the raw material side how much of our import comes from China that is one, number two the backward integrations, which we are doing now so how much it will reduce our dependence on China with this backward integration that is it from my side? Thank you.

Rajesh Rathi: About 35% is from China. This backward integration right now there are some critical raw materials, which we are going into backward integration. It is not possible obviously to do backward integrate into all currently, but we have a longer term strategy three to four years where we are looking at several more items to look at backward integration, so in a short term basis our China dependency would be there.

Sanjiv Jain: I understand that, but just want to understand this entire import we are doing 35% is all from China?

Rajesh Rathi: All three almost.

Sanjiv Jain: Number two we are putting a significant amount like Rs.70 Crores kind of a thing in backward integration so is it fair to look at like we will come down to say 30% or less than that in terms of import once this entire capacity comes online?

Rajesh Rathi: No because some of these backward integrations are going to be replacing the India centric.

Sanjiv Jain: Got it. That is it from my side. Thank you.

Moderator: Thank you. The next question is form the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead. Rohit Nagraj from Sunidhi Securities your line is in the talk mode can you please go ahead with your question?

Rohit Nagaraj: Sir on the Rs.200 Crores capex that we have mentioned based on growth strategy how many years would it be sufficient for?

Rajesh Rathi: How many years would it be sufficient in the sense?

Rohit Nagaraj: In terms of growth, so we are making almost.

Rajesh Rathi: It will kind of give us for one-and-a-half financial years about.

Rohit Nagaraj: May be sometimes toward the later half of FY2020 we would have to again go in for future capacity expansion?

Rajesh Rathi: Yes.

Rohit Nagaraj: When we say that we want to be top three players in the world over the next five years so is it based on the understanding that the other players are not increasing the capacity and we are expanding our capacity and as a reason we will be going one notch up?

Rajesh Rathi: I think we are basically obviously gaining market share and that has been our strategy and from a perspective yes other businesses are not growing and we are going to be growing substantially so that is how we will reach the top three players?

Rohit Nagaraj: Just taking the question from earlier participant about the DIC stake fail so was there any arrangement wherein we had some supplies because they had stake in our company or there was a pure commercial investment from their end?

Rajesh Rathi: I think till 2007 I do not remember the exact year, but one of those years, till 2004 or 2005 I think they had 29% equity and at that time they had board positions. At that time, we ended our JV partnership and they diluted their shareholding from 29% to 8%. They kept the 8% because they thought it is good investment, but I think looking at their own investment strategies, etc., they have decided to dilute this stake. We do not have a distribution agreement, we do sell certain products on the merits of the value of the product and that will continue. That has nothing to do with this stakes here.

Rohit Nagaraj: Sir just one last question how much of our sales are contributed by say top 10 products and by top 10 customers?

Rajesh Rathi: Right now I do not think we give this information in the public domain.

Rohit Nagaraj: Fair enough. Thank you so much.

Moderator: Thank you. The next question is form the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Thank you for the opportunity Sir. You just mentioned that there would be some debottlenecking happening in Q3, so how much capacity increase would that give?

Vivek Thakur: I think it is very difficult to split up the Q3 to Q4. I think as we have mentioned about Rs.200 Crores of capacities are in progress they will be gradually coming on line.

Vivek Thakur: Debottlenecking will have some incremental capacities, but the main fillip is going to come from the new capex, which we are putting.

Keyur Shah: Fine. Thank you.

Moderator: Thank you. The next question is form the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Good evening to all of you and thanks for taking my question. Sir recently SABIC has acquired Clariant and I think they are talking about more focus on master batches and given that Clariant is one of the key dominant players in the pigment industry how do you see SABIC focus on this line of the business and do you think that probably it will open more room for us in terms of focusing on the pigment side?

Rajesh Rathi: I think Clariant has decided to, they have declared that they are looking at their master batch and both pigment business they are looking at how to divest that business. Yes it is a good opportunity for us. Let us see how things work out in the market and when this happens.

Manoj Garg: Fair enough. Like in the near term we do understand that there is significant raw MAT prices coming from China, but if we look at little may be midterm kind of vision of the management and given that larger part of incremental revenues are going to come from high performance pigments and may be from effect kind of pigments where do you see the margins are likely to stabilize for us?

Rajesh Rathi: As I mentioned I think Q4 we should be looking at stabilizing the pricing. The next one or two months are critical to see how things stabilize. We expect in one or two months what seems to stabilize in China.

Manoj Garg: Sure, but if I have to talk about two to three years from here on?

Rajesh Rathi: No, I think two to three years I would say even Q4 onwards I think things should be far better.

Manoj Garg: Any aspirational goals, which we are looking in terms of our operating profitability like whether it should be 15% plus or 18% kind of plus, any aspirational goals, which you are talking about?

Rajesh Rathi: We have several initiatives to see how to improve our EBITDA margins and currently we are not talking about our aspirations. Only we do have some internal aspirations, which we are working towards.

Manoj Garg: I wish you all the best.

Moderator: Thank you. The next question is form the line of Jigar Jani from Edelweiss Broking Limited. Please go ahead.

Jigar Jani: Thanks for taking my questions. Sir I have two questions one on the backward integration spend that we are doing out of the Rs.200 Crores, which is approximately Rs.70 Crores odd what kind of margin improvement are we envisaging once this backward integration is fully completed?

Rajesh Rathi: I think if you look at the project itself in that particular product line we should be able to improve our margins by about 5% to 6% in terms of contribution margin and however more importantly I think we should become far more competitive in those product lines and should be able to get a better market share. Today in some of those product lines we are not competitive, so it is going to help both in terms of margin improvements, but also getting market share.

Jigar Jani: Great Sir and Sir we had I think couple of quarters back also announced a mega project Mahad any updates on that?

Rajesh Rathi: I think we are waiting for the final government clearances, which we expect to happen by November and then our project there would take off on full speed.

Jigar Jani: That would be also HPP pigments or it would be some another reach?

Rajesh Rathi: It will be mainly in the **phathlos** areas.

Jigar Jani: Sir just a clarification on this other segment this was a quarter where we have seen significantly higher sales as well as profitability, so what would be our projection for this segment? How should we project the sales and the profitability for this segment because it is kind of a grey area for us?

Vivek Thakur: It is a very small if you see the percentage on an annual basis I think the turnover about Rs.22 Crores to Rs.25 Crores. There will be some moderate industry growth there. We are not investing a lot in that, but it is a very small segment Sir compared to the others, so our major strategy will continue to be on pigment side.

Jigar Jani: What I was saying is that you have already done Rs.17 Crores in the first half in that segment and I think in terms of profitability also we have almost surpassed what we have done in the full year for FY2018, so we did around Rs.3 Crores, we have already done Rs.4 Crores in the profitability, so would you say that this will normalize with some kind of growth on a full year basis that H2 will be slightly lower on this segment as compared to H1?

Vivek Thakur: We executed some large orders in Q1 and Q2 considering the order backlog, which we had. There is not going to be a substantial increase in sales at least in H2 unless some big orders are received, so H2 we expect to be muted. H1 was a very strong performance from Mixers division.

Jigar Jani: Sir today itself BASF have filed a press release stating that they have just removed the pigment business and put it into the global pigment business so any view on that?

Rajesh Rathi: Can you please repeat Jigar please?

Jigar Jani: Along with the BASF results today they have also filed a release wherein they are just removing the pigment business, which was under BASF India and moving it into their global subsidiary, which is they trade in Germany, so any view on that or how does that impact you?

Rajesh Rathi: It is a pretty tactical move Sir. I do not have the details from this, but it is not a major strategic move from that.

Jigar Jani: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is form the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.

Rohit Nagaraj: Sir you said that we have had some plant shutdown, which we have built up the inventory so is it safe to assume that our volumes will not get impacted in Q3 and Q4?

Rajesh Rathi: No, shutdown is almost over now. It will get over by mid November.

Vivek Thakur: That is the reason why we have built stock that sales should not get impacted.

Rohit Nagaraj: Sir one question on the Mahad project so once we get the environmental approvals how much time would it take for us to commercialize production from that particular plant may be in terms of years?

Rajesh Rathi: I think it will take for about 9 to 10 months.

Rohit Nagaraj: And investment for this particular project will be in a separate SPV or so?

Vivek Thakur: No, it is part of the ongoing business.

Vivek Thakur: It is a brownfield expansion within the existing plant.

Rohit Nagaraj: So this investment will be over and above the Rs.200 Crores that we have currently and we search for the next one year or so.

Vivek Thakur: No, there may be small additional more capex, but some has been already included in part of this 200.

Rohit Nagaraj: Part of this Rs.200 Crores is include I mean part of capex has been done in the Mahad facility as well?

Vivek Thakur: Yes.

Rohit Nagaraj: Thank you so much.

Moderator: The next question is from the line of Shrimant Jain from Unifi Capital. Please go ahead. Shrimant Jain from Unifi Capital, can you please go ahead with your question?

Shrimant Jain: Thank you for the opportunity. I just want to understand shall we talk about getting to the number three player globally so the DIC I believe is the number three currently and if I am not mistaken their revenues are about $600 million, am I correct on that data point?

Rajesh Rathi: Yes.

Shrimant Jain: Even if I assume that we get to number three in five or six years, our dollar revenues are currently around $220 million, so in dollar terms we will have to provide 23% to get into number three assuming DIC does not grow at all, do you think that kind of growth is possible for us, 23% dollar terms and we are geared up and ready as an organization to get there?

Rajesh Rathi: So we are doing a lot of work to get ready then, I would not say we are already there ready, but there are a lot of initiatives within the company to get ready for the next phase of the growth.

Shrimant Jain: 23% is something in dollar terms, something not which is out of our reach, would that be the right interpretation, we can get there if we get certain plan, certain strategic executions right, would that be the right way to see, it is fairly within the bounce of the company to grow, 23% dollar terms over next five years?

Rajesh Rathi: Sir you know we do not give any forward looking numbers, but from a perspective we are the company is gearing up for growth and there is a transformation going on within the company every function to gear up for growth.

Shrimant Jain: Sir secondly I see there is lot of tariff being put on Chinese chemical reports into US, so if you can help us understand if pigments is one of the categories where these tariffs are being levied and if there is any potential for Sudarshan to increase, so if you can elaborate on that like what kind of?

Rajesh Rathi: So right now the first phase of tariffs have happened and pigment is also part of it; however, we have not seen any increase in prices in the market by the Chinese either their distributors have absorbed it or you know the suppliers improving, I do not know if there is support from government, but right now we have not seen any price increases, we expect a second phase of increase in tariffs in December, if that is implemented I think that will be a huge opportunity for us to gain market share in US.

Shrimant Jain: In India how do you see volume growth, let us say for a two-year period, what kind of volume growth is possible for us, can we have mid teens kind of numbers or if no single digit what is the outlook for the next two years in Indian market?

Rajesh Rathi: We are very bullish on the Indian market. I think we have a strong position, very good products, we are improving our product portfolio and we want to kind of capitalize on our good work and relationship we have developed over the years, so we are very bullish on the market.

Shrimant Jain: Sir lastly just wanted to understand H2 versus H1 how much should be the difference like our H2 is generally slower if I correctly believe then H1, so how do you see the revenue split between H1 and H2, since now we have you know sold out the agrochemical business and must a bad business how do you see the H1 and H2 revenue split?

Rajesh Rathi: Generally sir, only Q3 is slow, Q4 is a very strong quarter for us, so in general H2 is I would say stronger than H1.

Shrimant Jain: Given that we are talking about price hikes being taken in Q3 and Q4 profitability remaining improving so would it be right to you know put one plus one and conclude that H2 we might certainly be better than H1 FY2019 in terms of absolute EBITDA and absolute PAT?

Rajesh Rathi: I would not want to comment on forward looking numbers, but I think the intention is always to look at improving our margins and as I mentioned I think we have done all the right things to happen if we did not have these disruptions in raw materials in this last quarter we should have seen better numbers both topline and bottomline.

Shrimant Jain: Lastly one housekeeping query in our other income apart from the FX do we have any other contributing factors?

Vivek Thakur: Nothing significant.

Shrimant Jain: So it is only currency movement that was reflected in other income and sir that you mention to one of the participants that you will clarify on EBIT margins for pigment segment, kindly do keep us posted at Unifi also. Thank you very much.

Rajesh Rathi: For everyone sake we will also upload the clarification on our website.

Shrimant Jain: Great sir. Thank you. Good luck for the next quarter.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Yeah, good evening sir. So this disruption in raw material side was from a domestic source or from the import side, in the quarter which you mentioned?

Rajesh Rathi: No sir. This was all from China, mainly from China, but because China disruption has happened a lot of capacities of India went towards exports also, so I think generally the whole industry was disrupted.

Bhavin Chheda: Now is this back to normal or you are still facing?

Rajesh Rathi: So there are certain molecules, which have got back to normal, but there are few molecules which are still a concern. We are also seeing some price increases still going on and as I mentioned in one or two months we feel they should stabilize.

Bhavin Chheda: What was your HI sales mix between exports and domestic?

Amey Athalye: Exports was around 48% and domestic about 52%.

Bhavin Chheda: And are you sharing the sales mix between HPP and Blue and Green, roughly if you can give the mix?

Amey Athalye: Right now we do not give that in the public domain sir from a competitive perspective.

Bhavin Chheda: Thank you.

Moderator: Thank you, Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Jigar Jani for closing comments.

Jigar Jani I would like to thank the management for taking their time out for answering all of our questions and queries and also would like to thank all the participants and the investors who have joined the call and have attended the call and for the queries. Thank you Sir and thank you everybody for joining. We will close the call.

Amey Athalye: Thank you.

Moderator: Thank you, Ladies and gentlemen with that we conclude today's conference call on behalf of Edelweiss Broking Limited. Thank you for joining us. You may now disconnect your lines.