

10th February, 2021

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 29th January, 2021, after announcement of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and nine months ended 31st December, 2020.

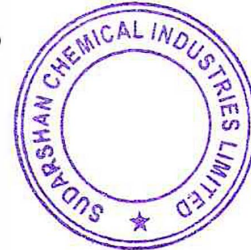
The said transcript is also uploaded on the website of the Company.

Kindly take the same on record.

Thanking You,
Yours Faithfully,

For SUDARSHAN CHEMICAL INDUSTRIES LIMITED


MANDAR VELANKAR
DGM – LEGAL & COMPANY SECRETARY



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“Sudarshan Chemical Industries Limited
Q3 FY2021 Earnings Conference Call”

January 29, 2021



ANALYST: MR. ARCHIT JOSHI - DOLAT CAPITAL

**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)
MR. MANDAR VELANKAR - COMPANY SECRETARY**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2021 Earnings Conference Call of Sudarshan Chemical Industries Limited hosted by Dolat 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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Archit Joshi from Dolat Capital. Thank you and over to you Sir!

Archit Joshi: Thanks Margaret. Good afternoon one and all. On behalf of Dolat Capital, I would like to welcome you all to the Q3 FY2021 Earnings Conference Call of Sudarshan Chemical. We have with us today, Mr. Rajesh Rathi, Managing Director, Mr. Nilkanth Natu, Chief Financial Officer, Mr. Vivek Thakur, GM, Finance, and Mr. Amey, Deputy GM, Finance, and Mr. Mandar Velankar, Company Secretary. Thanks a lot gentlemen for giving us the opportunity to host this call. Without further ado, I would now like to hand over the floor to Mr. Rajesh Rathi, the Managing Director of Sudarshan Chemical for his opening remarks, post which we will have the floor open for Q&A round. Thanks and over to you Sir!

Rajesh Rathi: Thank you so much for hosting us Dolat Capital. Mr. Natu would be taking us through our quarterly results and year till date results and he will be also talking about our capex program. I am glad to inform you that last quarter the company did deliver good results and I hope you found them inline with your expectations. Over to Mr. Natu, CFO to take us through the quarter and YTD performance.

Nilkanth Natu: Thank you, Sir. Good evening ladies and gentlemen. Welcome to Sudarshan Chemical Industries Limited Q3 FY21 earnings conference call and thank you for your continued interest in our Company. Our investor presentation has already been uploaded on the stock exchanges and the company website for your ready reference. I hope you have been able to access it. Please note that anything said on this call that reflects our outlook for the future, or that could be construed as a forward-looking statement must be viewed in conjunction with the risks that the company faces.

I will start with an update of the Pigment business. Pigment business grew by 22% YoY amid good traction in all major segments of coating, plastics and inks. We saw strong demand coming back in the domestic business reflecting the fast-paced recovery of the Indian economy from the COVID-19 disruption. Export business continues to remain resilient.

Moving to the split between Speciality and Non-speciality, the non-speciality segment has seen good growth as demand has picked up since previous quarter, after remaining subdued during the early months of the COVID-19 pandemic. Demand on the Speciality segment continues to remain buoyant, which is reflective of our strong technical capabilities built over the years. YoY volume growth in Specialty at 21% while Non-Specialty at 24%.

Now looking at the consolidated financial performance for the quarter. The total income from operations for Q3 stood at INR 506 crores as compared to INR 424 crores for the corresponding period for the previous year, up 20% on Y-o-Y basis. Growth in revenue is driven by strong growth in domestic sales as economic growth picks up pace and continued strong demand from our export business.

Consolidated gross margin is flat at 42.8% in Q3FY21 vs 43% in same period previous year. Pigment business saw price increases in some of select intermediates during Q3. We are already in the process of passing the incremental costs to our customers. However, there is usually a lag of a quarter in passing the cost to customers. This coupled with lower export benefits due to ceiling on MEIS income as per government notification impacted pigment business gross margins compared to Q2FY21.

Please note that the export incentives from MEIS scheme were capped by the government from Sep-20 which also impacted gross margins. The Government has introduced a new scheme called Remission of Duties and Taxes on Exported Products (RoDTEP) and we await more clarity in terms of rates and eligibility for coverage of all exports.

Our employee cost has gone up this quarter as the annual increments became effective from October 2020. Other Expenses have gone up which are in line with higher production and sales levels.

EBITDA for the quarter was at INR 80 crores as compared to the INR 63 crores for the corresponding period in the previous year, up 27% Y-o-Y. EBITDA margins in Q3 at 15.7% which is higher by 0.9% YoY.

Depreciation this quarter was at INR 21.7 crores, in line with previous quarter. YoY increase is on account of capitalisation done during FY20.

Profit after tax for the quarter was at INR 43 crores as compared INR 30 crores during the same period in previous year. PAT grew by 45% Y-o-Y.

During the quarter while filling the Income tax return for FY 2019-20, the Company evaluated its option for the New Tax Regime under section 115BAA in the context of status of other available tax benefits and opted for the New Tax Regime effective FY19-20 onwards.

During the quarter, the company has assessed its investment in its wholly owned subsidiary 'Rieco Industries Limited' and consequently reversed impairment amounting to INR 10.7 crores based on improved performance over last two years.

Coming to the consolidated financial performance for the nine months. Total income is up 2% on a Y-o-Y basis to INR 1,288 crores against INR 1,259 crores which shows that demand is normalizing, and the revenue trajectory is getting back to pre-Covid levels.

Gross margins have improved by 1.2% to 43.6% versus 42.4% of previous year. We continue to focus on our pricing actions and product mix improvement initiatives.

EBITDA margins have improved by 0.3% to 15.6% in versus 15.3% of previous year.

Profit after tax for nine months at INR 94 crores vs INR 96 crores in the same period previous year.

To sum up, the operational performance for the first nine months of FY21, Q1 was predominantly a supply side and logistics issue, Q2 saw us addressing these issues very well with demand starting to come back to normalcy and in Q3 we are seeing a strong demand environment, coupled with efficient production leading to better, improved growth.

Now I will share update on our capex plans. 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. We have progressed well on these capex projects. However, second wave in Europe and restricted travels continues to have bottleneck in movement of technical personnel from Europe and China. Due to this we expect few projects to get further delayed.

As per current execution plan, our best endeavor is to complete projects worth INR 150 Crores by end of this fiscal. Projects worth INR 210 Crores will get commissioned during FY22.

Coming to update on high performance yellow pigment, we have made good progress in last few months on process and product improvements. We have taken product trials and now in process of sampling with the key customers. We expect customer approvals by Q1FY22 and thereafter sales.

Now I would now like to give you an update on how we are seeing the business evolve over the next few quarters. We expect demand environment to remain robust in the coming quarter as the Indian as well as world economy returns to normalcy. Even though this quarter we did not have impact on our numbers due to lockdowns in various countries across Europe and America, we continue to monitor the situation very closely. At the moment, demand from both domestic and exports looks healthy and we are seeing a good level of enquiries from clients across the segments and product portfolio. On raw material front we see price increases in some of key inputs however expect to see stability in coming months. Our sales side actions are already underway to calibrate pricing decisions to pass on cost increases. Overall manufacturing level at the plants is back to pre-Covid levels and we expect to continue on growth path going forward.

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 Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: Thank you and good afternoon all. Thanks for taking the question. First question is on the mix for export and the domestic sale if you can give the breakup, within the pigment, how much was export and how much was the domestic sales?

Nilkanth Natu: Current compositions between domestic and export business for pigment for the quarter, domestic sales are at 56%, export is at 44%.

Sanjesh Jain: Got it, thank you. The second question on the future product pipeline, now given that demand pickup is robust and strong probably we would not have expected this kind of bounce back in Q3 clearly a surprise on the volume side, do we now plan to accelerate the new product launches, what is the plan for the new product launches in FY2022?

Rajesh Rathi: From October, November onwards we have accelerated our capex projects for the new product launches and that is where as Mr. Natu mentioned we are making out best endeavor to complete at least 150 Crores of our projects. There are challenges where German and Chinese engineers are still not able to travel for the commissioning of some of the equipments, which has taken a longer time to get things done, but we are making our best step forward to get that going. We expect even if there are some spill overs, the entire capex should get completed by the end of H1 next year.

- Sanjesh Jain:** So, the product launches plan for FY2022?
- Rajesh Rathi:** Sorry, what was the question?
- Sanjesh Jain:** Sir, I wanted to understand what are the plans for the new product launches for FY2022?
- Rajesh Rathi:** So, like we said we are looking at launching 4 or 5 major high performance pigments in the next year.
- Sanjesh Jain:** So, you are telling that we will have at least 4 to 5 new product launches in FY2022 and we are ready with the capacity for it?
- Rajesh Rathi:** Yes, I am saying well we have about 20 to 25 new product launches, but out of which 4 or 5 will be the major ones.
- Sanjesh Jain:** Got it. Just last bookkeeping question, that is mainly on the employee cost, I was looking that employee cost inflation has been quite high, in FY2018 we had an employee cost of 942 million, if I take this quarter and annualize it, it is like 1.7 billion, so we have a cost inflation on the last 3 years on the employee side close to 75%, what explains this while the revenues have not gone up to that extent?
- Nilkanth Natu:** So, couple of reasons, if you see the employee cost for the quarter, one of the reasons is the increment, which we had given in this quarter, second is also we have done some scaling up in terms of the new hire considering the growth capex, which we are planning and considering also our projection, and third thing is also we are expanding in the new market, so as you are aware from our annual report we had made clear that we have incorporated subsidiary in Japan, we have also hired local talent there so as to reach out the new market, so this is the combined effect of the three.
- Sanjesh Jain:** So, we mean to tell that we have taken the incremental retrospectively to that extent this 0429 million is not the representative annual, is that the right understanding?
- Rajesh Rathi:** Could you repeat again?
- Sanjesh Jain:** So, this 429 million is a sustainable number, the number should remain here, is that right understanding or there is someone off retrospective impact or a bonus impact we may see a taper of next quarter?
- Nilkanth Natu:** No, this will remain at this level subjective to new addition and to clarify, the increments and all that which have been given were not from retrospective effect.

- Sanjesh Jain:** Okay, were not from that retrospective. So, these numbers are fairly sustainable, and do we expect the same kind of inflation in employee cost or we expect the employee cost inflation to be much more moderate in the coming quarters?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** Thank you and best wishes.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** Good afternoon. Thank you so much for you time. I actually just wanted to understand some thoughts on your side on the export scale up. So you know all the people that we are hiring and the marketing and sales that we are doing in the market and obviously there is expectation of market share gains for Sudarshan in the coming 5 odd years, so you can just help us understand how that export market is doing for us?
- Rajesh Rathi:** I think just to talk about a little bit the last market where we needed to expand was in Japan and Japan as you are aware the market takes longtime to get there, but once you are in you stay there for longtime and the margins are very good and that is how we have made a lot of investment in the Japanese market, which the sales will take sometime to generate, but there is a very good traction and opportunity funnel is very interesting.
- Madhav Marda:** Any other key geographies that you looking at apart from Japan or in the existing markets, how you are seeing like expected to have good traction in the coming year or coming couple of years?
- Rajesh Rathi:** Yes, I think with our new product launches and the customer relationship that is where most of our new product sales would come from, Europe, US, Southeast Asia, Japan these are the key markets where we will get more traction.
- Madhav Marda:** Got it and the second question was on the growth margins that we have, so obviously I do not want the number, but given that we are launching these new HPP products and the new yellow pigment, etc., so can we expect this generally the gross margins should keep improving for the next 2 to 3 years for the company?
- Rajesh Rathi:** Yes, I think with the better product mix we should be able to do a better job.
- Nilkanth Natu:** As Rajesh, Sir, said that we will see that, but only one point here is this will get gradual scale up, may be in the next 2 to 3 years, so full impact will come after a couple of years, but may be in between we can see some expansion.

- Madhav Marda:** Got it, I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Ashwini Agarwal from Ashmore Investment Management. Please go ahead.
- Ashwini Agarwal:** Good afternoon Rajesh and Nilkanth and team. Congratulations on good set of numbers. So, one you know metric you would present very often in your quarterly reports seems to be these two lines, the gross margin has one line and the EBITDA margin has other line and for the longest time we could see the gross margin increasing, but EBITDA used to go down and at this time around it is little bit of opposite in the sense the gross margins have come down, but EBITDA has grown and gross margin decreases primarily on account of raw material cost, which you are trying to pass on and any benefit going away, which hopefully we will get replaced by RoDTEP. If that be the case and you got yellow on 39 launch coming up and you have got a couple of other launches coming up, should we expect the gross margin to go back to 44% to 45% in the next 12 to 24 months and EBITDA margins to increase by about 100 basis points considering all your investments have now in on head count, etc.?
- Rajesh Rathi:** So, I think there are two areas, one area is that the new products should give us two areas, so if you replay our strategies we have four pillars of growth, one is the go to market strategy, where we looked at the markets and we have said what is the best we do to reach our customers,. The number two area was looking at new products, how can we make our product portfolio, which is as good as number one and number two player together, which I think by this H1 our product portfolio will be there, the third area was looking at few adjutancy's where we get into like, not really adjutancies, but specialized business I would say like digital ink etc., which take a little longer, but I think it goes up a higher margin businesses and the fourth is the cost reduction where we are looking at saying that 4 to 5 molecules we really become cost leaders where we can substantially get larger market share, so I would say that a good amount of work is happening on the first three pillars already, but some of the benefits we will see in years to come of the first three pillars, so fourth pillars will now start playing in, we start to develop the technologies for some of these areas, we are putting in this and that execution will happen and you will see that may be not getting executed next year, may be the year after that and that is how we are looking at post increase in volume, increase in better mix would help to improve the EBITDA margins.
- Ashwini Agarwal:** And in your opening remarks you spoke about this new product where trials are on and commercial supply should start in April, I assume you are referring to yellow 139, would that assumption be right?

- Rajesh Rathi:** Yes, I think yellow 138, due to COVID we had stopped all work on it. We started to work on it and we are saying that we should hope that we start generating the quality our internal directions seems that the what the customer requires I think we have made that, those parameters have come out and now we are instead of doing a full tone launch we are getting customer feedback from a few customers, so we expect that in the H1 of FY22, we should start seeing some sales and also start building that opportunities funnel?.
- Ashwini Agarwal:** Okay and last question, Sir, you had spoken about two launches, one in March, which was an inorganic compound and another in September of calendar 2021, are those launches on track or they have also got pushed out by couple of months?
- Rajesh Rathi:** So, we are still trying to meet the March deadline though it is a tough one, but we are still trying to go for it and the September one may get pushed by one or two months, but nothing major.
- Ashwini Agarwal:** Thank you so much and all the best. I will back with more questions.
- Moderator:** Thank you. The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.
- Nav Bhardwaj:** Good afternoon, Sir. Congratulations on your good set of numbers. My question is could you share some light as to what is the current market share in effect pigments in the domestic and post this expansion, how we see that going ahead in the next couple of years?
- Rajesh Rathi:** Sorry, could you repeat again once?
- Nav Bhardwaj:** If you could share what is our current market share in the effect pigments in the domestic market and probably post commercialization of our capacity in the next couple of years where do we see our market share in effect pigments in the domestic market?
- Rajesh Rathi:** They are too competitively sensitive information of break of that; however, I would say that in general trend few years ago we did have a good percentage of market share, which has dropped substantially now, and we hope to get back substantial one.
- Nav Bhardwaj:** In the double digit for sure, right?
- Rajesh Rathi:** I would not like to comment
- Nav Bhardwaj:** No worries. Sir, another question was we have the subsidiary Rieco, what is our plan on divesting it or keeping it or reviving it, so that it contributes better to us in the future, could you shed some light that what are you thinking or try to?

- Rajesh Rathi:** So, I think the team has done a good job in getting the turnaround or managing the working capital and generating cash and that is where the management has also take a view of reversal of impairment provision, which we have made, so the company right now has done the turnaround and the Rieco board as well as Sudarshan board would like to see this going forward, as of now there is no plan, which has come to the consideration of the board.
- Nav Bhardwaj:** Fair enough. That is it from my side and all the best the going ahead.
- Nilkanth Natu :** One clarification, the valuation for business is done by independent valuers accordingly impairment provision is reversed.
- Nav Bhardwaj:** Sure.
- Moderator:** Thank you. The next question is from the line of Viral Shah from ENAM Holdings. Please go ahead.
- Viral Shah:** Yes, Mr. Rajesh congratulations for good performance. I had two questions, firstly could you say how the demand is in Asia for the end user industries coating, plastic how is it panning out?
- Rajesh Rathi:** So, I think I would answer this geography wise, I think Asia, especially India is looking good, it has really ramped up in plastics and printing ink, we are seeing a good uptake too; however, Europe and North America, we are seeing right now due to the second wave little bit of subdued demand especially in plastics.
- Viral Shah:** Sir, one on the outlook on the domestic sales side, which so many new players are trying to enter the market and a possible shifts that we may see from the unorganized to organized segment, how you are looking at targeting the domestic paint industry and over the next 3 to 5 years, how are you looking at this segment of the market?
- Rajesh Rathi:** Before also the coating market has always been a very important market and we continue engaging very closely with the all key customers including new large entrants and we do have a good account management team that cater to these customers well.
- Viral Shah:** Just a follow up to this and last question, how big is the coating as a percentage of revenue for us?
- Rajesh Rathi:** I think it is a largest one in our share.
- Viral Shah:** Thank you so much, Sir.

- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** Thank you very much for the opportunity. Sir, I think you have mentioned this in your opening remarks, but I think it was not clear to me and I would request you to repeat, so just wanted to understand as on H2 balance sheet, we had capital working progress of 125 Crores and we would have done some capex in this quarter also, so could you please give me the amount of un-commissioned capex on the books as on date and as on March 2021, which we would be having that is my first question?
- Rajesh Rathi:** Kunal, we are expecting the commissioning and the capital project execution during FY2021, Rs.150 Crores, so this is a number, which we are expecting for this year and the next year we are expecting around 210 Crores in FY2022.
- Kunal Mehta:** Okay, as on March 2022, we are seeing that there would not be any major un-commissioned capex, so we would technically our internal target is to get done most of the capex at least for this round to get it done by March 2022 of roughly around 150 Crores plus 210 Crores, 360 Crores that is a number we have to work with on the addition side till March 2022?
- Rajesh Rathi:** Yes, you are absolutely correct.
- Kunal Mehta:** Sir, just last question from my end, wanted to understand regarding the 4 to 5 high performance pigments, which we are launching in the next may be 12 to 18 months, could you please throw some light on the financial potential of these products, I mean each product what could be the contribution towards the topline and anything on an average basis or may be ballpark basis of course at a fully scaled up level, which will take think be a year or 2 or more than that, so anything will be very helpful?
- Rajesh Rathi:** It is a very valid question and I think from our full disclosure perspective the team is looking at what we can share with everyone without having any competitive issues, so we will come with that, but in general I would not give you specific answers, but our NPD potential of growth was a very high potential for growth for us to get there and at a full utilization perspective we would be looking at asset turnover of two to two and half.
- Kunal Mehta:** Okay, two and two-and-a-half times on a scale of this new 360 Crores of total the stronger capex that is the way we should look at it?
- Nilkanth Natu:** Kunal, we need to break this between two, so there is a capex for growth and there are few capex projects for EBITDA and infrastructure, you can take 70% of that for the growth.

- Kunal Mehta:** Got it, that picture is very clear. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Abhijeet Akella from IIFL. Please go ahead.
- Abhijeet Akella:** Good afternoon and thank you so much for the opportunity. Sir, just wanted to check that in the capex that have already been commissioned and also that is in the work, so we have already done some in the last couple of years, has that already started contributing to the revenues or is that still expected to come and so by when would we expect to start to see the revenues from that coming and second, the capex that is now underway 150 Crores this year, 210 Crores next year, by when would you expect it to fully start commissioning, contributing at full capacity utilization to the revenues?
- Nilkanth Natu:** yes, the capex, which we have you know we have completed in FY2020, we are on track as far as the utilization is concerned, but as you are aware that normally the capitalization and the process post capitalization and getting the full benefit will take around 2 to 3 years time and we would like to assure you that we are on target and the full scale benefit will come in the next 2 to 3 years.
- Abhijeet Akella:** Got it, that is helpful, Sir. The second thing I just wanted to ask is do we track the percentage of revenues from new products, products launched in the last 3 years or 5 years, however, we define NPD, do we track that percentage for Sudarshan, where does it stand right now, so that was the question?
- Rajesh Rathi:** It is a good question. I think as you may have seen in the last 2 to 3 years we track and we define NPD as 3 years; however, we have not had major launches, all of our launches have got delayed hence the percentage, our vision is that they should be at least 15% to 20% of our sales going forward.
- Abhijeet Akella:** Okay, but where it currently stands right now?
- Rajesh Rathi:** It would be quite small because we have not made major launches.
- Abhijeet Akella:** Understood, got it. Thank you so much and wish you all the best for the future.
- Moderator:** Thank you. The next question is from the line of Ankur from Axis Capital. Please go ahead.
- Ankur:** Sir, congratulations for a good set of numbers and thanks for taking my question. Sir, one clarification first, you mentioned there are around 4 to 5 major high performance products that we are planning to launch, will this be including the two products that we were launching in March and September?

- Rajesh Rathi:** Yes, absolutely this is our whole plan.
- Ankur:** Sure, and from a capacity availability perspective the capex number that we mentioned 210 Crores incremental over FY2022, will be suffice for all these HPP products?
- Rajesh Rathi:** Yes, absolutely.
- Ankur:** Great and another question on the capex side, Mr. Natu did mention that almost 70% of the capex that you are doing is, is towards growth capex while the rest is going into back end infra or integration, but does that mean that the margin profile of the incremental revenue will also be superior given most of the capex that we are spending on is on the high performance side, which in any case will be margin accretive?
- Rajesh Rathi:** Yes, absolutely right. We are spending some money to on effect pigments also amongst that, so yes, but you are right, Sir.
- Ankur:** Fair enough and on the operating margin, so this expansion will be more on the gross margin front right, the operating leverage further panning out since you mentioned that most of the overheads or manpower addition is largely done considering this quarter as a base, so the operating leverage will be a top up to that?
- Rajesh Rathi:** Yes, as I mentioned earlier there is a product mix change and there will be also volume mix, which will help leverage the fixed cost.
- Ankur:** Correct. Fair enough and lastly, if you can put some comment on the global competitive scenario given BASF is already there with DIC, but any changes, which have happened or post-COVID, pre-COVID any changes on the global scenario there, your comment please, thanks?
- Rajesh Rathi:** I think currently as you are aware the BASF and Sun integration is happening and we have told that they will announce something by April, the Clariant still in the market, which is still not completed, also some of the assets as a fall out BASF Sun in the US market may come into the market to be sold.
- Ankur:** Great, Sir. Thanks a lot for your comments.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

- Madhav Marda:** Thanks for the follow up. Actually what I wanted to ask you is, given this integration, which is underway between BASF and Sun Chemicals, I think the expectation is that there will be some product portfolio because of the competition they will let go, so are we seeing any increased enquiry flow for Sudarshan products, so because of this integration which is underway right now?
- Rajesh Rathi:** No, I think there are enquires, but currently given the COVID waves that is a negative sentiment in some of the market especially in Europe and US market, so there are both areas of things which we are looking at.
- Madhav Marda:** And the other question was on the employee cost side, just wanted to know have we hired the senior and midlevel people that you require for the business scaling up going ahead or is there more hiring pending considering the capex that we are doing in the market that we are getting into?
- Rajesh Rathi:** Could you repeat your question, sorry?
- Madhav Marda:** Sir, I just want to check that given that the business is expected to scale up in the coming few years, are we done with the hiring of the senior manpower that you require in different geographies or there will be some more hiring, which is there to come, is it already in the fixed cost base for us or is there going to be more addition in the coming couple of years?
- Rajesh Rathi:** Most of the hiring is done, there could be some incremental hiring in some of the regions, but most of it is completed.
- Madhav Marda:** Thanks.
- Moderator:** Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.
- Susmit Patodia:** Good afternoon, Sir. Few questions, one is our gross block will reach to about 13 to 1400 Crores in full year, how much topline in this gross margin that we would be able to generate obviously I understand it will take 2 to 3 years from FY2022, but what could be topline that you aspire?
- Nilkanth Natu:** I would not like to put any specific numbers, I would say that we are putting up this project, which has certain portion around 70% on the growth and we would like to see the asset turn of around 2 to 2.5 with various capex projects, so you will be able to know this.

- Susmit Patodia:** Got it, perfect. Sir, my second question is if the DBT comes through in urea then that significantly change our positioning in the blue and green because we know how some parts of the industry are not well?
- Rajesh Rathi:** You are talking about the antidumping duty?
- Susmit Patodia:** No, I am thinking ahead in the future that for example, DBT comes through in urea, and there are some aspects of the blue and green pigment that gets some issues that happen that significantly increase Sudarshan's competitive advantage?
- Rajesh Rathi:** No, one think is we do not consume urea because do not make crude blue.
- Susmit Patodia:** I know that, but?
- Rajesh Rathi:** But of course the urea price would increase I think 60% to 70% of the global blue and green is produced in India and everyone is in the industry and I guess the whole market price would increase.
- Susmit Patodia:** Got it. Thank you and best of luck.
- Moderator:** Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Thanks for the opportunity. Sir, on the capex front, so we have the total capex plan of 1000 Crores of which the approved one is 585 Crores and given that 1000 Crores capex plan will have an asset turnover of 2 to 2.5x, we are talking about 2000 to 2500 Crores of revenue; however, this would be based on FY2015 or FY2016, so the base here after which the 1000 Crores capex has been planned, what should we take it as a date here, so that the revenues on that this year would be the brief revenue and then additional 2000 Crores to 2500 Crores come from the incremental capex, so the bench revenue was 1400 Crores to 1500 Crores over which this additional capex will generate incremental revenue so that assumption right, thank you?
- Nilkanth Natu:** Currently, what we are referring to in terms of capex is 585 Crores and as I mentioned, the composition 70% is for growth, so that 2 to 2.5 will be asset turn and as I mentioned earlier that it will also depend on scaling up process, which normally will take around 2 to 3 years for any projects post commissioning and that can be taken as a basis.
- Rohit Nagraj:** Right, I understand this part, I was just referring to our earlier gross block before putting up this 585 Crores, so that revenue was 1200 Crores to 1300 Crores over and above this 585 Crores will add to the revenues that you had mentioned in terms of 70% growth capex?

- Nilkanth Natu:** I understood, so, for this particular working we can consider FY2019 as a base.
- Rohit Nagraj:** Fair enough, that is really helpful. Second question again on similar aspect, so what will be your aspirational EBITDA margin post the capex is completed within the next one-and-a-half to 2 years and the plants are stabilized and operating at the optimal capacity utilization, thank you?
- Nilkanth Natu:** We do not give the forward-looking statement, but yes, we expect the EBITDA margin to increase from the current year.
- Rohit Nagraj:** Fair enough, Sir. Thank you so much and best of luck.
- Moderator:** Thank you. The next question is from the line of Mitesh Shah from ICICI Direct. Please go ahead.
- Mitesh Shah:** Thanks for taking my question and congratulations for the good set of numbers. I have a couple of questions, last time you have said that you see the increase in the Chinese competition because of the incentives they got, so what is the current situation now?
- Rajesh Rathi:** It currently stays the same, we are still looking at new incentive scheme to come up for us and hopefully, we should get back and if we get back the 2% will be helpful.
- Mitesh Shah:** The second question was you have one of the highest quarterly run rate this quarter, so is that any one off like a pent-up demand have you seen this quarter would be expecting sustainable numbers of Q3?
- Rajesh Rathi:** So, good point, I think we have seen a fairly good demand in September, I think it is a question of our ability to supply, and this quarter we have been able to supply properly having managed the COVID situation now, we hope that next quarter also we see a fairly good demand, the picture looks good currently and we hope that we are able to demonstrate a good result.
- Mitesh Shah:** That is great. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.
- Madhav Marda:** Thank you so much, Sir. It is my third question, just one last one, MEIS impact which would there this quarter, how much would be impact in absolute term, if you could quantify that will be very helpful?

- Nilkanth Natu:** the MEIS impact for the quarter is around 2.4 Crores, or Rs.24 million.
- Madhav Marda:** Got it and this is largely like to have a similar impact expected even in the next couple of quarter right until the RoDTEP clarity comes through?
- Nilkanth Natu:** Madhav, we have the MEIS up to December quarter because that was the last date for MEIS, the RoDTEP new scheme is got introduced from January 1, 2021. The challenge there is as I mentioned in my remarks the rates have not been yet notified, the government is in the process of notifying the rate for key sectors like textile, auto and steel, the rate for chemical industry or rate for any industry is not yet notified, so we cannot comment on this, we are not also knowing the rate yet, so once the rates get notified within the next quarter we will be able to give better information.
- Madhav Marda:** That is it from my side. 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 our long-term prospect of our business and we look forward to engaging with you again. Thank you.
- Moderator:** Thank you. On behalf of Dolat Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.