

SUDARSHAN

14th July, 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

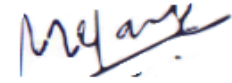
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 26th June, 2020, after announcement of the Audited Financial Results (Standalone and Consolidated) of the Company for the quarter and year ended 31st March, 2020.

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

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**Sudarshan Chemical Industries Limited
Q4 FY20 and Full Year FY20 Investor Earnings Call**

June 26, 2020

**MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR
MR. VIVEK THAKUR – GENERAL MANAGER (FINANCE)
MR. AMEY ATHALYE – DEPUTY GENERAL MANAGER –
(BUSINESS ANALYTICS)**

- Moderator:** Ladies and Gentlemen, Good Evening, and welcome to the conference call of Sudarshan Chemical Industries Limited Q4 FY '20 earnings organised by Batlivala & Karani Securities India Pvt. Ltd. At this moment all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time if you have a question please press “*” and “1”. I would now like to turn the conference over to Mr. Parth A. Please go ahead sir.
- Parth:** Thank you Yashasrhi, good afternoon everyone and thank you for joining us on the Sudarshan Chemical Industries Limited for Q4 FY '20 results conference call. We thank the management for giving us the opportunity to host the call. Today with us we have Mr. Rajesh Rathi Managing Director of Sudarshan Chemical Industries Limited, Mr. Vivek Thakur General Manager Finance and Mr. Amey Athalye Deputy General Manager Business Analytics. I would now like to handover the call to Mr. Rajesh Rathi for his opening remarks. Thank you and over to you sir.
- Rajesh Rathi:** Good evening ladies and gentlemen. Welcome to Sudarshan Chemicals Industries Limited Quarter and financial year ended March 2020 earnings conference call. Our investor presentation has already been uploaded on the stock exchange and Sudarshan website for your ready reference. I hope you have been able to access it. I will start with a business update and how recent global events around COVID-19 has impacted us and how we see this going forward. We operate in a globalised economy and have managed to partly mitigate the level of disruptions to our business given our earlier investments in setting up the right inhouse capabilities and prudent planning. Our business to some extent is dependent on importing certain raw materials from China and starting early January we had begun to increase our level of inventory to tide over the annual closures for the Chinese New Year. With our beefed-up inventory, we were covered for the remainder of the quarter. The situation in China improved by end-February as suppliers restarted their business and logistics on the ground recovered from the lockdown. Currently, we do not see any disruption in raw material supplies or in the pricing, and we are also maintaining adequate level of inventories. We continue to monitor the situation and barring any re-imposition of a lockdown we expect to maintain business as usual. On the demand side of business, we saw uptick in the demand from exports business as there was supply disruption from China and a tailwind to move supplies from China to India. We continue to see that shift building momentum accelerated by the COVID-19 crisis. We are witnessing high engagement levels with our existing customers as well as surge in new enquiries and this should give us a good opportunity to grow our business in the coming quarters. Due to COVID-19 situation, we saw an increase in demand since March and have been trying to fulfil the demand requirements to the best of our abilities. Our exports continue to be strong during such uncertain times. Now coming to the COVID-19 situation in India, lockdown started in last week of March but in Maharashtra where our plants are located, lockdown started earlier than the nation-wide lockdown. Our orderbook for the month of March was very strong but we were unable to convert a part of the orders into sales due to the lockdown, leading to lower sales for the quarter. I would also like to highlight that we were able to get government’s permission to restart our plants with necessary precautions within 3 weeks since the lockdown started as we cater to some of the essential sectors such as food packaging and personal care. The lockdown across the country was lifted only in phases and hence we have seen severe impact on our domestic business running into Q1FY21. Now on the quarterly performance, on a consolidated basis the total income from operations is at INR 449 crores as compared to INR 430 crores for the corresponding period for the previous year, up 4.5% on Y-o-Y basis. If we were to remove the impact of loss of certain confirmed orders due to the COVID-19 lockdown, as per Management view the revenue for the quarter could have been higher by ₹ 125 cr which would be about Rs 574 cr a growth of nearly 33% while EBITDA could have been higher by ₹ 45 cr at around ₹ 99 Cr. Gross Margin has recorded a significant growth of 429 bps this quarter with margins at 44.1% as compared to 39.8% for the corresponding period of the previous year. Our employee costs were higher on account of strengthening our R&D and management teams and we are now at more normalised levels. Profit after tax for the quarter at INR 27.3 crores is almost flat to INR 27.4 crores for the same period last year. Profit margin is at the same level compare to same period last year at 6.1% in Q4FY20 vs 6.0% in Q4FY19. On the capex front, we have invested about INR 255 crores in capex projects during Financial year 2019-20 and 345 cr worth of projects are in various stages of execution. We remain committed to deploying capital and invest in our business given confidence in the long-term demand for our products as per our plan. We are confident that the business will continue to deliver on our long-term growth trajectory, and we will continue to make the right calibrated investments to build a strong foothold in the pigments industry globally. With this I now open the floor for questions. Thank you.

- Moderator:** Ladies and gentlemen we will now begin the question and answer session. We have a question from Mr. Ankur from Axis Capital. Please go ahead.
- Ankur:** Hi Rathi ji, good afternoon and congratulation on decent performance give the challenges that we all are facing because of COVID. So sir I missed your opening summary on the project under execution part on the Capex bit. So, my first question is on that, if you can highlight that and since we had spoken on the expansion plans into newer segment the capacity expansion there. If you can please highlight that.
- Amey Athalye:** The projects worth 255 crore have been executed during the FY '19-'20 and there are various projects which are at the stage of execution about 345 crore which will go into the current year. However we are seeing about 6 months delay considering the COVID 19 situation.
- Ankur:** And any implications COVID had on our stated guidance for FY '21, is it mentioned that there was around 6 month delay. So one presume that further extension of 6 months on these projects as well?
- Rajesh Rathi:** No, I think the projects were to be completed in the earlier part of the year. I think this will be atleast delayed by atleast 6 months and that's our current estimate on all of the projects due to various issues. So all in all we expect quite a few of these to be completed in the first half of 6 months and I'm saying that it would go towards the second half now.
- Ankur:** Okay. The second question on the specialty and non-specialty bit. Now if I look at your quarter number or your full year number, there has been a healthy expansion in a year's margin which has flowed through from the profitability point of view. My understanding is specialty would have grown at a higher pace but if you can share the revenue mix number or the growth number between specialty and non-specialty. And if you can further cut in down between export and domestic.
- Rajesh Rathi:** So we have uploaded those numbers.
- Ankur:** Sir I have the export and domestic breakup but what I wanted was 2 things one was on the revenue mix between specialty and non-specialty and within exports let's say how big will be specialty among exports from that perspective. I have the absolute number of export and domestic data. But wanted a slightly deeper cut.
- Amey:** So specialty and non-specialty both portfolios so have muted growth in Q4 and in terms of exports and domestic fronts, export in Q4 was about 50% slightly higher than the full year export to domestic ratio.
- Ankur:** And just on the specialty and non-specialty breakup for the full year FY '20?
- Amey:** We don't give breakup in terms of the share of specialty vs non specialty.
- Ankur:** Okay, maybe if you can term out the growth then if that works because I think last time we did share on this.
- Rajesh Rathi:** We will consider sharing those numbers, we will try to put them on the website, if possible.
- Ankur:** Sure sir that will be great, I'll get on back to the queue
- Moderator:** Thank you Mr. Ankur. We have a question from Mr. Ashwini Agarwal from Ashmore. Please go ahead.
- Ashwini:** Good afternoon Rajesh, good afternoon team. Very encouraging sort of performance in very difficult times. So couple of questions, how are you seeing the situation now I mean you have enumerated in your presentation how some of your manufacturing started in early April and then gradually most of your other facilities are up over April and May. So what is the capacity utilization that you have been running at during Q1?
- Rajesh Rathi:** The challenges have been that we were slowly ramping up on capacities to ensure that we maintain the social distancing norms and also the labour availability. So we have been slowly ramping up our capacities in Roha and in Mahad our capacities still run at low rates. In Q1 we expect to have very muted growth or little less than last year. I think the major thing is like I have mentioned we are seeing good export demands. However demand from India has been very poor and that's been the challenge and I think Q2 we will look at really ramping up the India demand

- Ashwini:** Okay and your inventory from the balance sheet numbers that you put out along with the you result release showed an increase of about 92 crores of your inventories. I'm assuming this would be all on account of shipments that couldn't be completed in the last couple of weeks of March. Would it be a fair assumption to say that these sales would comeback in April-May?
- Rajesh Rathi:** No, I think there were 2 combined effects, one that India business was totally lost because the manufacturing stopped for a very long time. So that was one scenario and in terms of, in order us to supply and there was few challenges in the export front to ramp up the supplies.
- Ashwini:** Okay, so some of that inventories would still stay on your books as of the June quarter?
- Rajesh Rathi:** So there are two things, obviously we have looked at shipping something but I think we have also covered a lot of raw materials given the uncertainty what was happening. So as a mix we wouldn't see Q1 inventories to improve, we expect much improvement by 1st half.
- Ashwini:** Okay, that's useful. If we look at your proforma number for Q4, you are talking about a 17.2% EBITDA margin which is pretty much one of the highest that we have seen in a long time on a quarterly run rate basis. Was there any significant reason for this kind of a proforma margin or is this sort of once the COVID challenges are past us this is kind of the run rate which will be normal?
- Rajesh Rathi:** Our target is always to move towards the back to that percentage but I think if you are referring to the 17.2 if you look at there was a huge utilization that we could have done as I said from a management's view perspective on un-audited numbers we could have done 574 crores and equivalent to that utilization that growth would have been 33% and even the economy of scale the fixed cost gets well leveraged and that's where you saw the 17.2% margins.
- Ashwini:** Okay and would it be fair for me to assume, I know you don't give out these numbers that exports have offered a much better margin than domestic sales.
- Rajesh Rathi:** I think the margin really depends on the industry you serve rather than the geography. So there is slight geography trend but I think it's more towards industry.
- Ashwini:** Okay all the best and I'll come back in the queue.
- Moderator:** Thank you Mr. Agarwal. We have a question from Mr. Madhav from Fidelity Investments. Please go ahead.
- Madhav:** Hi sir good evening. Thank you so much for your time. I just wanted to understand that on the global side there has been an M&A transaction which went through or is about to be completed maybe this year or the next year. Once that happens can we expect that lot of more orders starts coming to Sudarshan or how should we sort of look at that because it's a fairly large transaction that's happening globally in the pigment case.
- Rajesh Rathi:** I think there are 2 points. We've been in the process of adding new products to our portfolio. We would have a better product mix as we progress that's one. And then of course there are strong tailwinds both to look at the tailwinds towards the India specialty chemical market, so they are part of that so moving away from China to this. In addition to this in the pigment business the one large transaction has been completed, the second may get completed. So that's the second tailwind I would say that is playing forth. So these are tailwinds and I wouldn't say that this one action would kind of automatically increase this but these are favourable trends and we need to see how do we grab more opportunity in the market.
- Madhav:** How does that really work at the customers end like say 2 of their suppliers consolidates into 1 which is a fairly large supplier for them. Like how does this work at the customers end like they start looking for more vendors for the supply that they want of pigments. If you could give some colour it will be helpful.
- Rajesh Rathi:** So I think given the combined wallet share depending on the customer if it's high they would look at that. And in general also those are diversification of their supplier to a wider supplier base. I think that's how it would kind of work with. And then from that perspective our product portfolio needs to match, our technical requirements needs to match and that's how it would get completed.
- Madhav:** Got it and just one last question from my side, in the India part of the business could you give us a split between the end industries that we serve like this could be between ink vs paint vs autos, if you could give us some sense there.

- Rajesh Rathi:** So right now we are splitting exports and domestic, we will see how to publish that information more openly.
- Madhav:** Okay thank you.
- Moderator:** Thank you. Participants you are requested to restrict your questions to 2 at a time. We have a question from Mr. Ritesh Gupta from Ambit Capital. Please go ahead sir.
- Ritesh:** Sir just wanted to get a clarification on so you did about 250 crores of Capex this year, you are looking at similar or higher Capex for FY '21 that will link to some of the specific products that you were looking to put out. So how is the plant roll out shaping up on that side so you could just highlight from a plant perspective that when they get commissioned and how is the situation on the plant that could commission somewhere on Q3-Q4.
- Rajesh Rathi:** I think from a perspective like I mentioned on our projects are running atleast six months delayed. Our priority was to allocate manpower for production and then for new capacities in view of manpower constraints. So like we mentioned we should be able to complete in progress is about 350 crores and we are hoping to have a more realistic timeline very soon because we are still gathering information to ensure execution. There have been 2 major issues obviously that much of manpower availability on the projects and second is lot of the equipment's are imported so you need technicians from abroad to travel which is restricted at least till 1st September. So those are going to be mixed issues where we see the exact execution timelines for this 350 crores of projects.
- Ritesh:** Is there spill over of that 250 crore also into that 350 crore or that 350 crore is fresh Capex that.
- Rajesh Rathi:** No. 227 Crore is completed and commissioned.
- Ritesh:** Okay and what's the ramp up on the project that has been completed, how is that client approval's etc. working. I think you commissioned something in second half so I was also asking about the second half projects, how is the ramp up.
- Rajesh Rathi:** For the capex projects executed recently, we are seeing slower ramp up due to Covid scenario. Since customers priorities are towards regular operations rather than testing new products, so there is a little bit slow down and we would get a clearer view in the next quarter.
- Ritesh.** On a sequential basis I see consistent improvement in gross margins over last 4 quarters. So I think your presentation shows 40% is almost gone to 44% in last 4 quarters. So is it already some molecules where you got approvals and they are driving that kind of gross margin improvement or is it more of raw material pressure kind of easing up because I think in FY '19 you had some raw material pressure as well so that is kind of easing up and that's why your gross margin are good.
- Rajesh Rathi:** As we are discussing we are gradually improving our product portfolio. So in that sense its multiple levers it's not one and there was special initiatives for cost reduction. So all of that put together is giving that impact.
- Ratish:** Thank you sir. All the best.
- Moderator:** Thank you. We have a question from Akul B. from IIFL.
- Akul:** Thank you so much for the opportunity. I just wanted to check on how is the outlook for revenues across the segments. Like you have already envisaging a Capex of 350 crores, so how is the demand shaping up? Has there been any kind of order losses like you did mention domestic business is suffering right now because of lockdown. So just wanted to get a sense on that.
- Rajesh Rathi:** So if you look at geography wise I think currently as I mentioned India is the worst affected. From a perspective of let's say each industry directionally what's happening is , Coating industry in India has been affected and there is been a delay in the last quarter. However some of the industries in US etc. in coatings saw an update because lot of people were staying home and most of them paint their house its do it yourself (DIY). So they were painting more houses, so there was demand which we saw was higher, so that was one trend which we saw in the coatings. In plastics whatever goes into food packaging etc. we saw a positive trend however other segments of plastic we saw it lower. In terms of automotive we saw the production was hit. These are the general trends is what I can give you.

- Akul:** Secondly again talking about Capex what's the target debt equity ratio that you are targeting on this? Are there any specific targets that you would like to maintain?
- Vivek:** With the Capex that is expected to happen this year, currently we are at 0.8x in debt equity term and we expect it to go up to about 1-1.1x
- Akul:** Okay, alright. Thank you so much. I'll get back in the queue.
- Moderator:** Thank you. We have a question from Mr. Naushad from Systematix. Please go ahead.
- Naushad:** Thank you for the opportunity. 2-3 questions I have. 1st on the margin side, if I look at the segmental reporting in the pigment business despite having similar quarterly run listed of around 400 crore rupees we have seen a sharp decline in the EBIT margin. Can you explain this?
- Rajesh Rathi:** We have planned for much higher sales and hence some of our costs, employee cost etc. which we had ramped up was much higher. Some of our RnD expenses were much higher. Even our Capex also you would see from a Capex perspective some of our depreciation and interest cost were higher. So that was primary reason for seeing a decline in EBIT margin.
- Naushad:** Was there any one off cost we face in this quarter in pigment division?
- Rajesh Rathi:** No.
- Naushad:** Similarly, in the segmental reporting the other segments have reported around 6 crore rupees of EBIT profit vs loss of around 50-60 lakh rupees last year. So what do we actually count under this other segment and what has helped to generate this 6 crore rupees of EBIT?
- Rajesh Rathi:** This was mainly our engineering business which is turned around now, which was suffering till last year so that's the business which is turned around, and we should be able to maintain similar margins on that business.
- Vivek:** And since many of the Capex projects are executed in Q4 the quarter performance has been very good for the engineering business.
- Naushad:** Okay, I have few more questions, I'll come back in queue. Thank you
- Moderator:** Thank you. We have a question from Mr. Manish Podar from Nippon India. Please go ahead.
- Manish:** Hi sir, just wanted to understand so this revenues which didn't occur due to COVID, these are postponed or lost permanently?
- Rajesh Rathi:** There was a part which was lost because India demand itself went away in April-May. In terms of exports we could get some business but a small part of it, the other part went away as we couldn't supply for 4-5 weeks. Whereas some of the export industry was fully functional so we did not lose that. So I would say only a partial demand from that we got, rest all was gone.
- Manish:** Would you be able to quantify that? Let's say out of this 125 crore would it be fair that 70-75 crores would come up in Q1?
- Rajesh Rathi:** No, not that high. I right now don't have a breakup but like I said a very marginal demand was over flowed to Q1. Also Q1 the ramp up in supplies was much slow form the manufacturing side.
- Manish:** Could you probably give us an idea how is demand panning for the mica products
- Rajesh Rathi:** Is there a particular reason only that product, just wanted to understand the background.
- Manish:** In my view it's largely discretionary in nature but there is some bit of supply constrain which happens given that there's a lot of import which happen for these sort of products. So just want to understand are we able to gain share due to that despite the discretion in which of the product.
- Rajesh Rathi:** No, I think there is a big cost difference between us and the imports and we don't participate in those markets of textile or plastics at all. We sell our micas into coatings.
- Manish:** So these orders which you got in Jan, Feb, March were these largely from the existing clients or were these new clients all together? And if I understand just for instance, when a product uses a particular colorant or chemical you can't really switch in the products which you cater to. So

- would it be fair that if you got a foot in the door for the new clients you would get repeated orders from this client going ahead?
- Rajesh Rathi:** I think from a perspective of most of this demand as you answered the question that people can't switch overnight so most of the demand was from existing customers. And this was a little bit of planned thing where some of our new approvals were coming in etc. which we were expecting some in the Q3 also but that got postponed and we got everything in Q4.
- Manish:** Got it. Thank you.
- Moderator:** Thank you. We have a question from Mr. Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit:** Thank you for the opportunity. Sir on page no. 18 of the presentation you have provided the 4 segments that we cater to. If you could give just a broader revenue bifurcation across these 4 segments for FY '20 and how was the growth across these segments and which one of these segments have been most impacted due to COVID-19 in FY '21?
- Rajesh Rathi:** As I mentioned if you look at the coating industry that was the most affected in India. However overseas coatings did see in some parts where there is do it yourself and people were mostly home they were painting more. So the demand seemed more. In terms of plastics the segment of food packaging went very well and in terms of ink also the food packaging segment did well. However the newspaper did not do very well. And cosmetic has been muted.
- Rohit:** Revenue bifurcation in terms of percentage across the four segments?
- Rajesh Rathi:** Right now we don't publicly give this but I think our number 1 is coatings, number two of our market is plastics, number three is printing inks and number four is cosmetics.
- Rohit:** Okay and sir in terms of Q4 employee cost and operating expenditure I understand that probably most of the Capex has been done in Q4 and that's a precise reason there has been increase in both these expenditure, so would this be a run rate going ahead atleast for a couple of quarters till the new Capex is not executed?
- Rajesh Rathi:** Could you please repeat the question again?
- Rohit:** Q4 staff cost and order operating expenses have gone up on a Q on Q basis as well as Y o Y basis, probably this is mainly due to maybe execution of our Capex so would this be the run rate going for the next couple of quarters until the new projects again come into effect and that will increase probably some operating expenditure as well as the staff cost?
- Rajesh Rathi:** The staff cost should not increase as much but in terms of depreciation and interest, yes that would be the correct way to look at it.
- Rohit:** Okay, thank you so much sir.
- Moderator:** Thank you. We have a question from Mr. Umesh Patel from PCG Asset Management. Please go ahead.
- Umesh:** Good evening to everyone. Wanted to know what proportion of raw material comes from China? If I'm not wrong I think bon acid is the key raw material, right?
- Rajesh Rathi:** I wouldn't say bon acid is the key raw material there are several raw materials which too come from China, but I think about 25% of raw material come from China.
- Umesh:** So is there any alternate source because of the current ongoing situation or manning few imports from China, is there particular sourcing availability in the world?
- Rajesh Rathi:** There are some products where there are alternatives however not for everything and that's one of the areas we are looking at how we derisk ourselves.
- Umesh:** Any benefit that would arise due to China to Indian players particularly in pigments and any price correction that you see because of the volatility in crude price and flow in domestic and global market?
- Rajesh Rathi:** No we don't see that as any corrections right now.
- Umesh:** Any benefit do you expect or your industry expect in pigment segment?

- Rajesh Rathi:** Not anything right now, but there are some products which China dumps in India so that's one concern area but other than that we don't see any particular benefit which we are looking at from the government right now.
- Umesh:** Sure and the last question is related to the yellow pigment which was supposed to start in April. Just wanted to know as you mentioned in the earlier remark that the new plant will start contributing but because of the delay it would get some delay in commissioning. So what is the revenue potential and when can we expect this to start contributing?
- Rajesh Rathi:** I think what had happened is, as I said all our new products are delayed by 6 months and the old project which was commissioned, we were not giving priority to that with the limited labour and limited areas of manufacturing. We were first producing material for supplies so that was our focus areas and also quite a few of our customers today have limited manpower to test new products. So there will be a delay, we cannot quantify that right now because we are not sure how things will change and ramp up.
- Umesh:** You also mentioned about the inventory, the 92 crore inventory which was carrying. So can you give us the breakup because of the lockdown what was the finished good inventory which is ready for export or ready to be shipped in domestic markets.
- Rajesh Rathi:** Right now top of my mind I wouldn't have it but I think quite a few of that inventory was built up for supplying to exports and which we probably we did some in April May but there were different challenges which I mentioned though we may have got rid of that inventory we had to put more inventories for raw materials given the current COVID situation uncertainties and that's where we did have a few concerns.
- Umesh:** Sure. Thank you.
- Moderator:** Thank you. We have a question from Mr. Arijit Joshi from Dolat Capital. Please go ahead.
- Arijit:** Hi and thanks for the opportunity. If you can give some clarity on what exactly has been happening in China because our interaction with some of the experts has sort of indicated that they could be coming back strongly with certain environmental norms over there being relaxed and since we have significant amount of Capex that is lined up in the near to midterm would that have any sort of negative bearing on our future prospects?
- Rajesh Rathi:** The situation of China is I think is that China has been ramping up certain capacities, of course it has not reached to full levels and I think there was a lot of pent up demand in China itself. I think quite a few of their suppliers were operating because the industries had opened up then, the manufacturers we focusing on the China demand. Right now that is their focus is, that's what our information is.
- Arijit:** Can you throw some light on the raw material situation that we are seeing. Have the prices normalized or are we expecting they could come down a little bit even more because I believe one of our competitors which is an MNC has very recently taken a price hike. Are we also planning to do that or we have done that already.
- Rajesh Rathi:** I'm not sure taking a price hike but we have not seen a major price hike in the industry. Obviously it's a very mixed scenario of muted demand of some products muted supplies. So I think we are going with caution that we don't lose any demand in this cycle.
- Arijit:** Just on the previous one if you can comment on the RM trend or how we are sensing it to be.
- Rajesh Rathi:** I think RM is pretty stable now.
- Arijit:** Sure sir that was very helpful. Thank you.
- Moderator:** Thank you. We have a question from Mr. Ashwini Agarwal from Ashmore. Please go ahead.
- Ashwini:** Couple of follow up question. One is that obviously with this lockdown your travel and market development activities would have come to halt. Does that sort of change things in a significant way for business plans because a lot of your business is to continuing customers that shouldn't have such a huge issue
- Rajesh Rathi:** I think as a long term we don't see much impact. Our sales team is in constant touch with customers. I think what short term impact we may have is people have limited resources on

- testing new products. So the question comes is I make my normal production and supply into the market or whether I test new products. I think so that's the challenge which people are facing. And that's where we need to balance out how things are happening. So that's the only short term challenge I would say.
- Ashwini:** Now that you have adopted the new tax regime with effect from 1st of April 2020 next year onwards it would be a straight cash tax rate equivalent to about 25% they would be no deferred tax etc. starting 1st April. Would that be the correct reading?
- Vivek:** Just to clarify we have not adopted the new tax regime. We expect to adopt in a future period. For the financial year ended we have not opted. Neither for this year we have decided as yet. So we will continue to review over situation and depending upon what is beneficial from a taxation perspective we will do that. However just to clarify the notes, whenever we adopt the new tax regime that time the liabilities which we have created as a deferred tax liability they will reverse at a lower rate. So the liabilities were created at a higher rate and will reverse at a lower rate so they have been restated and hence the tax impact during the current year have been on the lower side.
- Ashwini:** So just to understand what you have done is you have assumed that you may be shifting to the new standard at some point and therefore the net deferred tax has been restated to the new accounting standard and the difference being accounted for in Q4.
- Vivek:** Absolutely your understanding is right. And in the future whenever we expect to migrate to the new tax rate at that point of time what liabilities are they are restated now.
- Ashwini:** There should be no further change from there. So all those impacts have been captured now?
- Vivek:** Obviously this is an estimate and estimates can get revised but majorly things are not going to be much different.
- Ashwini:** On FX side you reported a 6 crore loss, usually this number is much smaller one for you and fairly consistent. Any particular reason.
- Vivek:** We have hedge policy based on which we hedge our exposures mostly committed exposure. And those committed exposures when hedges are taken they are required to be marked to market. And because of a very sudden depreciation those mark to market losses have been accounted.
- Ashwini:** Okay so didn't get the lift in your revenue line but you got a hit on your mark to market because the depreciation happened towards the end of the quarter.
- Vivek:** The sales has been recorded at the higher number because sales gets accounted at exchange rate on date of sale. So the sales number has also increased.
- Ashwini:** Just going back to the gross margin and EBITDA margin and those kind of jaws, in the past you have always said that we are investing in marketing, we have put out a team in Europe, built a R&D centre facility in Europe and invested a lot of money towards new development I am assuming that your gross margin lift is sort of partly accounting for a richer revenue mix and I'm also assuming there's a lot of these kind of fixed expenses are probably now more stable than they were in the past and that is going to be the key driver of you margins going ahead. Would that assumption be fair?
- Rajesh Rathi:** Yes absolutely.
- Ashwini:** Thank you, all the best
- Moderator:** Thank you. We have a question from Mr. Dhawan Shah from ICICI Securities. Please go ahead.
- Dhawan:** Thanks for the opportunities. Firstly about the other segment I just wanted to understand I mean what kind of engineering work do we do under this segment and any plans to exit from the non-core activities like we are have said in the past as well from the engineering side. If you can share thoughts on that.
- Rajesh Rathi:** So this is an engineering business under the brand of Rieco which focuses on pneumatic conveying systems, position control and size reduction. Current guideline from the Board is to see how we can revitalize that business and that's what the focus has been to ensure that we are able to turn around and I think the engineering management team has done a great job in turning around the

- business right now. This is under active review of the board as to what next steps we should be taking.
- Dhawan:** About the top line growth would it be possible to share the growth between the volume and the realization? And if you can also share the volume numbers I mean the sales volume number for the quarterly and the yearly basis that would be helpful for the pigment business.
- Rajesh Rathi:** I think we will look at these as there are couple of more requests so we will see what we can share from a competitive perspective and definitely share it on our website and also with everyone on the call, if possible in future
- Dhawan:** Sure sir. Thank you.
- Moderator:** Thank you. We have a question from Mr. Vikrant Kashyap from Kedia Securities. Please go ahead.
- Vikrant:** Good evening sir and congratulation on good performance despite these challenging conditions. You said your dependency on Chinese raw material for some products it's manageable from other sources for others you are looking for a way out. Do you think like are you planning for a backward indication kind of thing or any kind or permanent arrangement in domestic or export market. Could you share some light on that? Because we are seeing India China trade tension building up, so it's a long term impact that going to happen that what we see. What is your outlook over there?
- Rajesh Rathi:** So I think irrespective of the current situation because the current situation may be short term we don't know how this will pan out but I think irrespective of the situation, we were looking at 2 areas. One is from a de-risk and also from a value capturing perspective we were looking at making some of our backward integrated, we were looking at some molecules where we backward integrate. The second initiative towards this is where we wanted to look at some of the players in India who are small and how can we partner with them and help them build their capacities so that they can supply to us or restart some of the products they were making in the past.
- Vikrant:** On the export fronts you said there was good order build-up since March. Can you share which geographies are the change in pre COVID and post COVID scenario, which geographies do you think are doing well for you and are expected to do well?
- Rajesh Rathi:** I think some of the key markets in which we were investing in Europe, US we saw better demand and that's where we were kind of looking.
- Vikrant:** So if that situation improves post COVID does these two geographies for us will do better.
- Rajesh Rathi:** Yes, absolutely.
- Vikrant:** Thank you very much and wish you best of luck.
- Moderator:** Thank you. We have a question from Mr. Avishek Dutta from Prabhudas Lilladher. Please go ahead
- Avishek:** Hello sir, can I just get an update on how do you see the global markets shaping up. Is there any consolidation happening and how do you expect Sudarshan playing a role in the global markets going forward five years down the line?
- Rajesh Rathi:** I think to answer your question as we said that the top two consolidation is happening, the number three is buying number one that transaction is in process. The number two was in the market to sell the business but right now given the current situation they may be some delay. So that was one and of course the strong tailwinds from the China moving to India as a supply source.
- Avishekh:** Also are you seeing that China has increased the export benefits to around 13%, are you seeing increased competition from China because of that?
- Rajesh Rathi:** Not currently because I think their supplier ramp up is also happening right now. But I think in some of the commodity areas we will see some hit from that.
- Avishekh:** Okay. Thank you so much.

Moderator: Thank you Mr. Dutta. I would now like to handover the call to the management team for the closing comments. Please go ahead sir.

Rajesh Rathi: Thank you very much for your participation and thank you for your interest in Sudarshan. We are very bullish on the long term prospects of our business and we continue to invest for the future and I would also like to B&K for helping us with this call. Thank you.

Moderator: Thank you Ladies and Gentlemen, this thus concludes your conference for today. We thank you for your participation and for using I-junction conference service. You may please disconnect your line now and have a great day ahead, Thank You and have a great day.

(Note: This document has been edited for readability purpose)

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