

19th February, 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 6th February, 2020, after announcement of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter and nine months ended 31st December, 2019.

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 FY2020 Earnings Conference Call”

February 06, 2020

ANALYST: MR. ANKUR PERIWAL – AXIS CAPITAL LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited's Q3 FY2020 earnings conference call hosted by Axis Capital 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. Ankur Periwal from Axis Capital Limited. Thank you and over to you Sir!

Ankur Periwal: Thanks. Good evening friends and welcome to Sudarshan Chemical Industries Q3 FY2020 post result earnings call. As usual we will start the call with the initial discussions from the management on the quarterly performance followed by an interactive Q&A session. From the management side, we have with us Mr. Rajesh Rathi, Managing Director, Mr. Vivek Thakur, General Manager, Finance and Mr. Amey Athalye, Deputy General Manager. Over to you Mr. Rathi for your initial comments!

Rajesh Rathi: Thank you Ankur and Axis Capital for hosting our earnings call this quarter. Good evening ladies and gentlemen. Welcome to Sudarshan Chemicals Q3 and nine months ended December 2019 earnings conference call. Our quarterly 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.

Before talking about the quarterly performance, I would like to highlight that the financial results for the quarter include results from RIECO Industries, which was earlier classified under discontinued operations. Currently the mandate given for sale is withdrawn as the first focus is to turnaround this business and hence the financial results for this subsidiary have now been included in the consolidated results and previous quarter numbers have been restated wherever necessary.

On the quarterly performance, on a consolidated basis the total income from operations is at INR 424 crores as compared to INR 391 crores for the corresponding period for the previous year, up 8.3% on Y-o-Y basis. Operating profit has recorded a significant growth of 58% this quarter with margins at 14.9% as compared to 10% for the corresponding period of the previous year. Profit after tax for the quarter is at INR 28 crores as compared to INR 18 crores for the same period last year. Profit margins have been nearly doubled from 4.2% in Q3FY19 to 7.1% in this quarter.

I will now focus on the performance highlights of our core pigment business. The topline growth for pigments has been at 12% with revenues at INR 391 crores as compared to INR 349 crores in the same period last year. Traditionally Q3 has been a soft quarter for pigment sales, despite this I am happy to share that we have had a broad-based growth this quarter driven by both our specialty and non-specialty pigment portfolio. Both segments grew double digits with our specialty pigments portfolio growing at 13% Y-o-Y and our non-specialty pigments portfolio growing at 10% Y-o-Y.

Our initiatives on implementing sales network and country specific go-to-market strategies, continuing additions to our new products has helped us achieve these results and also our continuous focus on cost reduction. I would like to reiterate that we are confident of the growth continuing in the upcoming quarters given our competitive advantage across products, process reliability and EHS standards. Our gross margins have now stabilized at around 43% for the quarter similar to what we delivered in the previous quarter. On a Y-o-Y basis our gross margin had improved by 300bps at the back of our efforts on pricing prudence and cost optimization.

For 9MFY20, our gross margins stand at 42.4% as compared to 41.2% for the corresponding period of previous year. Raw material prices were fairly stable this quarter; however, with the worsening of coronavirus crisis we may see some adverse movement in prices of a few raw materials. Most of our Chinese vendors have resumed their production; however, material movement from the plant to port is expected to resume only after the highways are opened, which is about mid-February. We continue to monitor the situation very closely. We expect to have a very normal quarter without many disruptions. We also expect that this may give good opportunity for Sudarshan in the mid-term and long-term products.

The EBITDA margin for the quarter is at about 14.9% as compared to 10.2%, an improvement of 470 bps. Improved gross margins and continued control over cost has thus maintained these numbers. On the capex front, we expect to complete by this financial year projects worth about INR 230 crores. We remain committed to deploying capital and invest in our business given a confidence in the long-term demand for our products. I am also happy to share with you that during this quarter we have incorporated a wholly owned subsidiary in Japan, Sudarshan Japan would primarily be engaged in the sales of color pigments in Japan.

I would like to restate that Sudarshan is well placed to continue on its rapid growth trajectory at the back of our focus on the go-to-market strategy, innovation of new products, adjacencies, businesses and cost leadership. These continue to be a very important lever for us.

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. Ladies and gentlemen, we will wait for the moment while the question queue assembles. The first question is from the line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Just on the new capacities that you have been putting out for this specialty pigment, could you just give us an update on that? You have commissioned a plant during this quarter so has the dispatches from that particular plant like the products has got expected from the client, etc., how are we there and could we see an improvement in the growth trajectory once this INR 230 Crores of capex get fully commissioned and probably you start getting some approvals there?

Rajesh Rathi: Sure, once the INR 230 crores is commissioned we definitely expect a good growth trajectory and I am assuming you are referring to the last quarter's call where we talked about the yellow pigment. We are kind of beginning sampling now to a customer. we had to go through some

- tests, etc., and that is more on the higher end so that will take some time for getting results. But in all I think all these investments into new molecules are definitely going to help our growth.
- Ritesh Gupta:** Got it and for that particular molecule, in that particular plant as you said will go through some bit of a close and probably will take two to three quarters to start showing up in the revenues and this quarter there was no impact of that per se into the number?
- Rajesh Rathi:** No.
- Ritesh Gupta:** When do these INR 230 crores gets commissioned?
- Rajesh Rathi:** We are expecting this to get commissioned by March end.
- Ritesh Gupta:** This quarter?
- Rajesh Rathi:** Yes.
- Ritesh Gupta:** Some part of it is backward integration as well right, so not all of it is revenue generating capex?
- Rajesh Rathi:** In this INR 230 crores, mostly is revenue generating or EBITDA generating.
- Ritesh Gupta:** Either it benefits on revenue either it benefits you on the cost side is what you are saying?
- Rajesh Rathi:** Yes.
- Ritesh Gupta:** Just on the coronavirus bit do you expect some kind of disruption coming in because I think last one or two years also when China prices had gone up I think you had faced some challenges on the gross margin side so while some of it gone away completely in last one or two quarters, but do you see some of those challenges may come back again probably let us say may be intermittently for a quarter or two, but you gave some commentary there but probably on dispatches also and what is the latest view there, could there be a chance that you might actually struggle for? So, is it just a pricing impact that you would see, or you can actually see a complete disruption in the production because one of the intermediates are just not available?
- Rajesh Rathi:** So right now, what we understand is that at the epicenter we have only one of our supplier located. It coincided with the Chinese New Year so after the Chinese New Year some of our Chinese Suppliers have begun production. Right now, the movement of material in China is a problem that is expected to kind of open up after some say February 10-15, so given the current assessment we do not see any major disruption coming up. However, this does give us a long-term advantage in the sense from a competitor advantage perspective. China did have a political issue, environment issue and now this issue, so that makes supplier out of India may be stand out a little more and strategically when global players are looking at their buying decisions we are hoping that this would be more in favor of India and Sudarshan.
- Ritesh Gupta:** Sure, and that is more on the side of non-specialty portfolio?

- Rajesh Rathi:** Yes.
- Ritesh Gupta:** Okay Sir. Thank you so much.
- Rajesh Rathi:** On the specialty side of the portfolio.
- Ritesh Gupta:** Okay.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Thank you so much and congrats on a good quarter. Sir this last quarter you had indicated about INR 300 crore capex plan for this year, so is that now been revised down a little bit to INR 230 crores and if so, is there a delay and a spillover of capex into FY2021 now?
- Rajesh Rathi:** Yes, you are right, I think our earlier estimates was about INR 300 crores, but I think some of my equipment also comes from China, which has got little delayed and some of the process stabilizations may take longer and that is why our current estimates is to be that we would complete somewhere around INR 225 to INR 230 crores, the balance would get spilled over for the next year.
- Abhijit Akella:** Okay and so in that context is there a number for FY2021 that we can work with in terms of full year capex?
- Rajesh Rathi:** So yes, I think for next year we have a similar number going ahead.
- Abhijit Akella:** IN 200-250 crores again for next year?
- Rajesh Rathi:** Yes.
- Abhijit Akella:** Sir I also just wanted to check when we first announce this INR 1000 crore plan may be about close to three years ago I think we initially went rather slow in the first couple of years. We did only about INR 200 crores in the first couple of years, but now this year there seems to be a marked acceleration and then next year again you are talking about a similar number so what really has changed, are we getting more traction from customer in terms of product approvals is that what is giving us the confidence to go ahead with enhanced capex?
- Rajesh Rathi:** You have to remember that we have to develop this entire technology in-house so developing the technology in-house making sure that environmentally we are completely compliant then designing a plant then installing the plant. So that is the time, which it could take to make things happen. The customers are extremely engaged with us and it was a matter of stabilizing the technology and the process and then making sure that we are very confident on the investment.
- Abhijit Akella:** Understood Sir and last piece from my end, post the acquisition of BASF business by Sun Chemicals I guess Sun Chemical is now on the verge of becoming by far the number one in the pigment industry, are we seeing that given the scale of their business, which is probably more

than \$1.5 billion that customers are may be a little bit uncomfortable with how large they are and therefore there is some deconsolidation measures whereby new business could get awarded to other vendors like Sudarshan down the line, so any signs of any such things?

- Rajesh Rathi:** Like I said last time there were lot of favorable winds towards us. It is not just the size of their business but also generally in an acquisition like this there is a lot of portfolio rationale, which goes on, there is a lot of internal focus in getting things right and which does impact customer service. So, given the second player - Clariant is also looking to divest, there is definitely favor towards wins, on top of this with quite a few of the Chinese players there has been environmental issues as you know and now the coronavirus. So, given this there is definitely favorable winds towards Sudarshan or any player like us.
- Abhijit Akella:** Great. Thank you so much Sir. Wish you all the best. I will come back in queue for any more.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. So, I have two questions, one was about a new product launch, I understand in Q2 you had mentioned about a product launch in June of 2020 so is that product launch coming along on time or are there any updates on that which you can share?
- Rajesh Rathi:** Yes, that is going on, on time.
- Anand Bhavnani:** Secondly you had spoken about pearlescent pigment in the last concall. You had mentioned India imports quite a bit of it and we were planning a capex for it so any on ground developments as to how much is the capex and a way what is the likely timeline by which you would be able to do the sampling for pearlescent pigments?
- Rajesh Rathi:** For pearlescent pigments, the capex is in progress and by the end of Q1 we should be able to sample from there.
- Anand Bhavnani:** So roughly in June we will have the pigment HPP launch and also the pearlescent would be around that time?
- Rajesh Rathi:** Yes.
- Anand Bhavnani:** This pearlescent capacity would be roughly what percentage of our overall capacity?
- Rajesh Rathi:** So, we do not publish that, this is sensitive information.
- Anand Bhavnani:** Sure, and lastly Sir you had changed the plants on the industrial mixing business. We are now planning to continue it, if you can help us understand what was the drivers for us to change our mindset on this and now is it fair to assume that over let us say next three to five years we will continue to hold this business so what is the current thought process and what led to change in last three six months on this?

- Rajesh Rathi:** So, we were looking for a good potential seller. We were not able to get the right value for the business mainly because the business needed to be turnaround. So right now, the focus is on turning around the business. The Board is actively looking on it and very closely monitoring that and there is no mid-term or long-term decision been taken on that as to how many years, what to do, etc. Our primary focus is just to make sure that the numbers turnaround.
- Anand Bhavnani:** So, this turnaround that we are trying to make this happen, would it require any capital investments and if you can give us some sense of how much incrementally you would have to invest in this business for it to turnaround?
- Rajesh Rathi:** No, I think if you see the numbers, this quarter it is already turnaround it was more of operational discipline. We do not expect to make any investment in this right now further investments.
- Anand Bhavnani:** Sure. I will come back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thank you for the opportunity. Sir this capex of INR 230 crores how much will be for the backward integration and how much for the product sale?
- Rajesh Rathi:** I had roughly indicated last time about 70% would be revenue generating.
- Anurag Patil:** Sir on this revenue generating part so margin profile would be similar to current profile or it will be higher or lower?
- Rajesh Rathi:** For the new investments?
- Anurag Patil:** Yes, for new capex.
- Rajesh Rathi:** We expect a better margin profile.
- Anurag Patil:** Okay. Fine Sir that is it. Thank you very much.
- Moderator:** Thank you. The next question is from Chetan Thacker from ASK Investment Managers. Please go ahead.
- Chetan Thacker:** Sir just wanted to understand this new capex that have been approved, is there an internal set benchmark for the kind of ROC that you are looking at and below which these capex will not be commissioned and what would that number be ball-park?
- Amey Athalye:** So normally when we look at investment decisions we look at about three to four years payback period while evaluating capex proposals. So that is what we target and then make a decision.
- Chetan Thacker:** So, this INR 230 crores would also qualify in that?

- Amey Athalye:** Yes, all investment go through that parameter.
- Chetan Thacker:** Okay that is it from my end. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rishab Botra from Sharekhan. Please go ahead.
- Rishab Botra:** Sir you mentioned that Q4 will not see any major impact but how about the supplies, in Q1 what kind of raw material and finished goods do we hold?
- Rajesh Rathi:** Can you repeat your question; we are not able to hear you clearly.
- Rishab Botra:** Sir you had mentioned in the call that Q4 business will not be impacted owing to China virus factor but what about Q1 numbers I mean how performance will be in Q1?
- Rajesh Rathi:** So, it is very difficult to predict right now how the virus gets contained and how much is the effect of it. Our current estimates is that only one of our supplies is affected and if this is at the same stage we do not expect any disruptions in Q1 however if this does get worsened we may get affected.
- Rishab Botra:** So, the quantity which is being supplied by supplier do we source it from other suppliers also?
- Rajesh Rathi:** Obviously we have two suppliers, but it does not mean that our one supplier will be able to supply the entire quantities.
- Rishab Botra:** Last year Q3 FY2019 our tax rate was lower and this time it is on higher side so any specific reason why the tax rate had been around 14% last year and 30% now?
- Vivek Thakur:** Yes, Rishab there was a change in the tax regime in September quarter, and under that tax regime there was an option which was given to corporate to either move on to a lower tax rate or continue under the old regime. We have evaluated that and decided to continue under the old regime as of now. When this option is evaluated companies also required to evaluate that in future when we expect to move to the new regime and accordingly we measure the deferred tax. Accordingly, there were some positive change to the tax number, deferred tax liability got reduced and which was adjusted for the six months in the last quarter. So that is why there was a normal reduction in the last quarter.
- Rishab Botra:** Sir I am comparing Q3 FY2019 with Q3 FY2020 not Q2 FY2020 with Q3 FY2020, so I am referring December – December period.
- Vivek Thakur:** Sorry I got your question incorrectly then. From last year Q3, when we filed the returns the returns in books are reconciled and accordingly tax adjustments are passed on. So, if you refer to our note there is an INR 90 lakh expense of the prior years, which was posted in that period.
- Rishab Botra:** But if we adjust that also the taxation that remains too low in last year as compared to current year?

- Vivek Thakur:** No, in fact this year we have less tax and also adjusting for a 80IA benefit that we have started availing this year, tax rate this year is lower.
- Rishab Botra:** I mean if I can get it corrected offline it will be fine.
- Vivek Thakur:** Sure.
- Rishab Botra:** Thanks.
- Moderator:** Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.
- Bhavin Chedda:** Sir if I missed it earlier, you said that one of the raw material suppliers out of the two are impacted by the Chinese virus right, but you do not think your operations would get much impacted so is it you are sitting on inventory or the other one covers the shortfall from the first one?
- Rajesh Rathi:** Amongst all our suppliers probably one is affected right now. There are several suppliers there.
- Bhavin Chedda:** So, you do not see any issues in raw material and in terms of pricing of these raw materials what are the price ranges both in key raw materials and also on the pigments finished product side after this virus how have the prices moved?
- Rajesh Rathi:** So right now, like I said after this virus China is not opened up yet, we do not expect much movement in prices. As I mentioned the production of most of our suppliers is on because they are not located in the highly affected areas, so we do not expect much impact right now.
- Bhavin Chedda:** Okay and on the finished goods prices since obviously the China exports would have also slowed down or expected to slow down over the next couple of months so do you see opportunities, or do you see your European or US clients enquiring more of the product and is there any sense if we have seen any enquiries during the last month or so?
- Rajesh Rathi:** We are looking at several good enquiries, however, too fast to run to a conclusion that this is going to be a long-term or a mid-term kind of opportunity. China anyway like I said it was a coincidence that it was shut for Chinese New Year, so it is just opening up.
- Bhavin Chedda:** So, they have already extended their company holidays by another 12-13 days or so.
- Rajesh Rathi:** So that would not give you, that is a too smaller period what is happening so let us see that.
- Bhavin Chedda:** Sure. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Sandeep Nag from Ashmore. Please go ahead.
- Sandeep Nag:** If we look at the last four quarters of income from operations the run rate has been roughly about INR 400 crores, should we start expecting an uptick only post commissioning of the new

capacity and if so how much will that be, that is my first question, the second question is for the full year FY2021 what growth rate should we be thinking of from Sudarshan?

Rajesh Rathi: Of course, given the capex and looking at new molecules our growth rate should be a big stimulus for our growth, given that we do not give guidance for the future, I would not be able to give you a number as to saying that, but I would say that the numbers should look much better.

Sandeep Nag: The reason why we have seen this rough run rate of about INR 400 crores is only because we had a few technological challenges we were figuring out because of new tax and because this capacity got little delay hence the number was at this run rate correct?

Rajesh Rathi: We did not have technology challenges I would say this was the planned capex, which was to come out, there are few delays because it was very aggressive capex plan. From a perspective I would say, to answer your question yes, a new products or the adjacency businesses have not contributed to the current INR 400 crores what you are talking about the growth, so this is all growth based on our streamlining of go-to-market strategy, etc.

Sandeep Nag: Last question from my side, the bulk of the additional capex that culminates into revenues will be high performance pigments revenues or will they continue to be the existing mix?

Rajesh Rathi: High performance, effect pigments.

Sandeep Nag: Got it. Thank you so much.

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

S Dudoria: Thank you for the opportunity. So, I understand that FY2019 we had attempted to setup a sales force to penetrate better in European and north American markets, if you can give us some sense of how that strategy is panning out and is there any change in that strategy?

Rajesh Rathi: We have had a good sales team in several of the geographies, the latest one which we have added is Japan now and otherwise that is how we are reaching out to our customers.

S Dudoria: Okay and is there any specific clients that we have added having put on the ground in Europe, North America, has there been any additional incremental business that has come?

Rajesh Rathi: We have added several customers, but I cannot name a particular customer.

S Dudoria: With regards to the yellow pigment now it is about five six months that the samples have been shared, is it fair to expect that it will take three, six more months and may be from H2 of FY2021, we might start seeing it contributing revenues, is that a fair expectation?

- Rajesh Rathi:** No, so those samples have been I mean less than two months, one and half months late, it is late October or something that we were looking at, so the expectation should be I would say yes, I would say Q3 next year.
- S Dudoria:** When we spoke in May this year for the Q4 concall you had mentioned that in FY2019 we have some scale up challenges and then we had a teams from Germany. So, all those challenges are behind us or we are still facing some stabilization issues in the new products?
- Rajesh Rathi:** There are several new products, which we are looking at and that is a technology and that is one by one process for which we are looking to commercialize. So, there are already three major products like I said where we are now establishing spending the capex on and we expect in the next year more several more products to come on stream.
- S Dudoria:** We do not have any stabilization challenges in any of the products as of today?
- Rajesh Rathi:** So, there are off and on, there are few challenges which we have overcome, there are off and on challenges but there is nothing major.
- S Dudoria:** Lastly with regards to our overall capex plan is it fair to assume that we will be using all the cash that we generate this year as well as next year in capex and beyond that token and the basic dividend that we have most of the money would go into capex, is that a fair assumption?
- Rajesh Rathi:** We are financing this through obviously internal accruals and debt.
- S Dudoria:** So, I presume that cash flows are likely to go to capex, the dividend will continue at the same kind of level which it was previously for this year as well as next year because of the capex that you said next year capex also be similar what we are doing this year INR 250 crores, so most of the cash flow will go for the capex right?
- Rajesh Rathi:** Yes.
- S Dudoria:** Lastly in terms of real estate we had our office in Pune we are contemplating there is a plan to shift the office elsewhere and use the land which comprises of the old factory to generate additional cash flows through real estate development or something like that, any update on that plant?
- Rajesh Rathi:** I think the land matter is being looked at by the Board and there are legal procedures, etc., which are being attended and currently there is no active plan, which I can report to you on this.
- S Dudoria:** Thank you. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.

- Rohit Ohri:** I really like this concept of LEAP, which you are working towards lead, enhance accelerate and perform, in line with the same concept I was looking at the future prospects, you have already touched upon the big yellow, I understand that there is a market of around INR 250 crores or so, so in this 250 Crores wherein you probably will be the second biggest player what sort of market share do you intent to capture may be the initial stages and if you can just give a guideline for the next three years or so?
- Rajesh Rathi:** I think our aim would be to look at about 20% market share for this product and obviously we have to build this step by step.
- Rohit Ohri:** Correct. So, Sir with this slight a bit of delay in big yellow there are these other two products that you were looking at the molecules, which were more or less of a catalogue products so do these also get deferred into probably the quarters to come or are they in line with March and June which you had actually spoken about in the last concall?
- Rajesh Rathi:** So, I think we expect one molecule in June, which we have a plan on, the second one would be by the end of Q2.
- Rohit Ohri:** So, these are pigments for plastic is it fair to assume that?
- Rajesh Rathi:** One of them is a pigment for plastic, one is both coatings and plastics.
- Rohit Ohri:** Sir you have already touched upon China and their issues, my next question maybe it is slightly granular but what are your views or if you can give an outlook for phthalocyanine blue and green?
- Rajesh Rathi:** I think as we know that blue and green dominated by India and the Indian players will continue dominating, we do have excess capacity on these molecules in India and I think most of our products have now become cost driven.
- Rohit Ohri:** Sir is not that we have a bigger share in terms of the market share when we compare with the other players?
- Rajesh Rathi:** Sorry.
- Rohit Ohri:** The market share that we have or which we enjoy in phthalocyanine is not that great or is not that big is it fair to assume?
- Rajesh Rathi:** Yes, that is not our focus.
- Rohit Ohri:** Sir I have another question which is towards the building capability, which you were spoken about and is quite evident from the numbers and margins that you are giving, you have opened a branch in Germany so is this a sales office or is this an R&D center that you have worked upon?

- Rajesh Rathi:** It is a branch office of our subsidiary in Europe and mainly we do have a small R&D facility there.
- Rohit Ohri:** Sir last question if I can squeeze, there was a bit of the promoters give up some shares, which would be around INR 15 to INR 16 crore of rupees where do you intend to park these proceeds into?
- Rajesh Rathi:** We have not bought any of the shares.
- Rohit Ohri:** So, the money has not come into the company is it fair to assume?
- Rajesh Rathi:** Yes.
- Rohit Ohri:** Because I thought that you might be revitalizing RIECO and the proceeds would have been parked into that?
- Rajesh Rathi:** No RIECO is on its own, we are not putting any more funds or anything else.
- Rohit Ohri:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Thank you so much for taking the follow-up. Just on the new product strategy going forward, we have mentioned that in the yellow pigment we are basically only the second player to manufacture that product, I just wanted to understand that in the other two products, which are coming up as well as the other large ones we are planning to introduce in the coming years, is there a similar thought process strategy in the sense that we want to basically compete with the innovator of these products and grab a sizable share in these markets or is there another sort of thought process underlying this?
- Rajesh Rathi:** So, on effect pigments we are not competitive, so it is a cost leadership drive, so with a new process we should be able to compete. On the other two product lines, yes, we are looking to be innovative and have product differentiations.
- Abhijit Akella:** So, the dream plan is to basically broaden our product portfolio to match what the innovators are making today, and it is not so much to get into the areas where the Chinese may be more competitive?
- Rajesh Rathi:** Absolutely Sir.
- Abhijit Akella:** Okay great and one last thing was just on the tax rate Sir; the footnote does mention that you planned to adopt the lower tax rate at some point in the future the 25% so can we assume that say by FY2022 we will probably be adopting it?

- Rajesh Rathi:** We are reviewing the situation closely because we do have some benefits out of Cogen, etc., and whenever the balance comes we would change the tax regime, whichever is more favorable.
- Abhijit Akella:** In the interim what kind of tax rate can we assume?
- Rajesh Rathi:** 25% to 26%
- Abhijit Akella:** Okay great. Thank you so much Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from Alf Accurate Advisors. Please go ahead.
- Amar Maurya:** Thanks a lot for the opportunity Sir. Sir number one, you alluded about the specialty chemical growth can you also talk about what was the contribution of specialty chemical in this particular quarter and for the nine months and the same for the last year?
- Amey Athalye:** In terms of the margin split currently we are not sharing.
- Amar Maurya:** No, I am not talking about the margins Sir I am talking about the revenue mix and the specialty in this current quarter as well as in the nine month and the same for the last year?
- Amey Athalye:** The revenue split we are not sharing. We are giving the volume growth.
- Amar Maurya:** No why I am asking is Sir, this margin expansion, which you have seen over the last year is it broadly because of the mix change happening or it is because of some pricing increase, which you have seen in your existing portfolio?
- Amey Athalye:** So, we have a pricing governance running along with the mix improvement and that is helping the overall margins.
- Amar Maurya:** So, in this quarter we had seen almost around 500 basis point margin improvement so this is how much would be because of the mix change?
- Amey Athalye:** I think if you recollect last year there was upswing in terms of the intermediate and there were raw material disruptions also, which was causing every quarter pass through effects to the customer, so this corrected with fairly stable raw material price range.
- Amar Maurya:** So, this margin looks comfortable going forward, this 13.5% to 14% kind of margin?
- Amey Athalye:** We expect to have stable margins.
- Moderator:** The next question is from the line of Manish Poddar from Nippon India. Please go ahead.

- Manish Poddar:** Sir actually there has been a reclassification of shares, which has happened in the last week, so just wanted to understand is there any incremental reclassification that will happen going ahead and what is the reason for the same?
- Rajesh Rathi:** This was the one which was declared.
- Manish Poddar:** So incrementally this is largely done am I right?
- Rajesh Rathi:** Yes.
- Manish Poddar:** That is all from me. Thanks.
- Moderator:** Thank you. The next question is from the line of Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Thank you for the opportunity. I have two questions, Sir FY2019 we had some consulting projects, which were high cost so in FY2020 I presume we did not have any such so can you give us a broad difference in our other expenses due to the nine-month difference and other expenses due to consulting cost in last year versus no consulting cost this year?
- Rajesh Rathi:** The project is continuing and there is no substantial change.
- Anand Bhavnani:** So, we are still having the same consulting appointment, there were other expenses for nine months like INR 195 Crore last year it was INR 204 Crore, so I thought maybe this INR 9 crore difference could be due to this lower other expenses?
- Amey Athalye:** So, like we mentioned we have been very focused on cost reduction initiative so there are various ideas and improvement opportunities that we identified, and we are having every opportunity worked upon for implementation to cost reduction.
- Anand Bhavnani:** So, this is like INR 65 odd crore is the new quarterly kind of run rate for other expenses, is safe to assume that this will maintain because the reduction should be of permanent in nature so is it fair to expect that other expenses will continue at the current run rate?
- Amey Athalye:** So, part of the other expenses from the operational point will vary based on the increase in volume and some will continue to have cost reduction ideas being implemented.
- Anand Bhavnani:** Okay and last year when margins were hurt due to raw material supply concerns from China we had explored doing some joint ventures or building close relationship with vendors by sharing some technical knowhow with them so has any of those plans been taken forward and if you can update on those strategies to reduce raw material reliance?
- Rajesh Rathi:** That stream has been a little slow. On the partnerships, some of the partnerships have not fructified yet, we are still in talks and in the next financial year the cost leadership initiative will have focus.

- Anand Bhavnani:** Fine and we are seeing lot of slow down worries in the auto sector domestically, I believe we do not supply to autos domestically so hence we unlikely to see any demand challenges on that front, is my understanding correct?
- Rajesh Rathi:** Yes.
- Anand Bhavnani:** Globally do we cater to autos and is there any demand concern from that perspective?
- Rajesh Rathi:** Yes, we do supply to them, but there is no demand concern there.
- Anand Bhavnani:** Sure. Thank you I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Rishab Botra from Sharekhan. Please go ahead.
- Rishab Botra:** I am just asking the same on the taxation part, if we compare Q3 FY2019 there was a tax rate of around 14%, tax paid was around INR 2.68 Crores on a PBT of INR 19 crores whereas in current quarter current year there has been a tax of INR 12.8 crores on a PBT of INR 42 crores so I am not able to understand why there was a lower tax rate in last year as compared to 30% in current year?
- Vivek Thakur:** While the effective tax rate (ETR) for the year 2018-19 was 30%, for Q3 the ETR was 16.23%. The lower ETR for Q3 of FY 19 was attributable to recognition of certain one time items including MAT credit, upon finalization of tax returns. In FY 20 Q3 the ETR was 30 %. This lower ETR is due to certain tax benefits to which the company is entitled from this year onwards and remeasurement of deferred tax liability as explained in the note 8 of the standalone financial results.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments.
- Rajesh Rathi:** Thank you all of you for sparing your valuable time and taking your time gives us great insights with all your questions and great motivation and thank you so much for your confidence and with your wishes we will continue to do a good work. Thank you so much and thank you Axis.
- Moderator:** Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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