

SUDARSHAN

29th August, 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

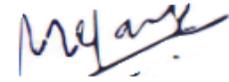
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 10th August, 2020, after announcement of the Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended 30th June, 2020.

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

Kindly take the same on record.

Thanking You,
Yours Faithfully,

For SUDARSHAN CHEMICAL INDUSTRIES LIMITED



MANDAR VELANKAR
DGM – LEGAL & COMPANY SECRETARY





“Sudarshan Chemical Industries Limited
Q1 FY2021 Earnings Conference Call”

August 10, 2020

**MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR -
SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. NILKANTH NATU - CHIEF FINANCIAL OFFICER -
SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. VIVEK THAKUR – GENERAL MANAGER (FINANCE) -
SUDARSHAN CHEMICAL INDUSTRIES LIMITED
MR. AMEY ATHALYE - DEPUTY GENERAL MANAGER
(FINANCE) - SUDARSHAN CHEMICAL INDUSTRIES
LIMITED
MR. MANDAR VELANKAR - COMPANY SECRETARY -
SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Sudarshan Chemical Limited Q1 FY2021 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: Thank you. Good evening friends and welcome to Sudarshan Chemical Industries Q1 FY2021 earnings call. As usual we have with us Mr. Rajesh Rathi, Managing Director, Mr. Nilkanth Natu, Chief Financial Officer, maiden conference call for him, Mr. Vivek Thakur, GM, Finance, Mr. Amey Athalye, Deputy GM, Finance and Mr. Mandar, Company Secretary. We will start with initial remarks from Mr. Rathi and then we can open the floor for Q&A. Mr. Rathi, over to you please.

Rajesh Rathi: Thank you Ankur, Good evening ladies and gentlemen. Welcome to Sudarshan Chemicals Industries Limited Q1 FY21 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 would like to take this opportunity to introduce Mr. Nilkanth Natu who has joined us as CFO. In his role, he will be working very closely with Mr. Vivek Thakur and his team to achieve Sudarshan’s vision. I welcome Mr Natu to Sudarshan. Mr Natu and I look forward to engaging with you all in subsequent calls and meetings. Let me start with an update of the business and the key developments for the quarter. I would like to thank the team at Sudarshan that worked seamlessly and effectively to allow us to restart our operations earlier than expected. The teams have worked tirelessly to give us an early start, however the quarter has been relatively unusual and challenging for us. We had to deal with the country wide lockdown in the month of April which was slowly lifted through the quarter. In addition to this, in early June, our Roha plant was impacted as Cyclone Nisarga made its way across the Konkan belt in the state of Maharashtra. Cyclone Nisarga, was one of the strongest cyclones to hit Maharashtra and we had to take precautionary steps which affected productivity at the plant. We also had to restore some of the property damage caused by the cyclone. Finally, towards the end of June we had to shut down our plant in Roha for health and safety of our employees as COVID19 cases were detected at the plant. These factors resulted in a slow ramp up of production through the quarter. In addition to this during the quarter we also faced a challenge with availability of manpower to operate the plant. This start stop nature of operations has resulted in loss of economies of scale and efficiencies which has had an impact on the financial performance for the quarter. Demand during the quarter for international markets was strong. In our view Q1 was more impacted by supply and logistics challenge and was not a demand issue as we had adequate order backlog. Looking at the financial performance for the quarter, on a

consolidated basis the total income from operations is at INR 352 crores as compared to INR 411 crores for the corresponding period for the previous year, down 14% on Y-o-Y basis. Pigments accounted for 97% of the revenue and was at Rs 341cr. The drop in revenue is primarily due to lower number of days operations and running plants at lower utilisation levels. If we were to exclude the COVID19 related reasons our revenue for the quarter would have been Rs 397 crores and pigment revenue at Rs 386 crore. Our gross margin has also seen a significant growth and was at 44% for the quarter vs 41.1% in Q1 FY20. The improvement in gross margins is because of our continuous improvement in product mix and prudent pricing strategy. Margins have also benefitted from a relatively stable raw material environment during the quarter. EBITDA for the quarter was at Rs 53 cr and margins of 15%. Both these are marginally down as compared to Q1 FY20 as we have not been to absorb the full cost base given the lower levels of operations. If we were to exclude the impact of COVID 19 lockdowns, our EBITDA would have been at Rs 65cr at a margin of 16.4% reflective of our operating leverage. Finally Profit from continuing operations excluding tax was at Rs 18.2cr vs 28.2cr in Q1FY20. Depreciation this quarter was higher by Rs 4.5 cr as compared to Q1 FY20 given the capex over the last 12 months. ROCE for the quarter 11%, however one needs to adjust the same for 3 items. Firstly, we lost around 8 days in the quarter due to the Roha shutdown, next we had loss of efficiencies and economies of scale through the quarter and finally the asset utilisation for the newly commissioned capex is still to ramp up. Adjusting for this the ROCE for the quarter would be 15.8%. I would now like to give you an update on how we are seeing the business evolve over the next few quarters. While we have lost around 15 days of production due to the plant closure at Roha due the Covid-19 positive cases, we expect to make it up during Q2 itself. While export demand has been strong over the last few months, we are now seeing early signs of demand pick up from domestic customers as well and we hope this sustains. The demand is across customers and sub segments and we shall be able to share more details in our next update. On the raw material front we are well positioned. Our business is dependent on importing certain raw materials from China and we believe that there will be certain level of dependence on China in the medium term. We have taken steps to strategically stock up on certain raw materials as well create alternative domestic suppliers of scale who can successfully partner with us. While there are some logistics challenges in Q1 these have been easing as the country slowly returns to normalcy. Moving to Capex, there is no change in our strategy or long-term plans. We are assessing the pace of execution of the existing projects as these have been impacted by non-availability of labour and specialised technicians from abroad. In addition, we are prioritising our existing manufacturing and orders vs new testing. We continue to remain confident in the demand environment for our products and will be able to share a capex target for the year once execution on the sites improves. In summary this is just a temporary delay in our capex schedule. Finally, I would like to reiterate again that we are seeing increased in orders and enquires from our clients, our supply situation is improving as the plants begin to operate at more normalised levels which should result in an improved financial performance. Our

balance sheet remains strong and the business is well funded to be able to deliver a resilient performance in these challenging times. 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 all for your time and interest in Sudarshan Chemicals. We remain confident on the long-term prospects of our business and look forward to engaging with you again. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sameer Dosani from Carnelian Asset Management. Please go ahead.

Manoj Bahety: This is Manoj here from Carnelian. My first question is, in the last couple of months, we were seeing like lot of noise around shift from China like mainly all European countries, US, they want to reduce the dependence over China, so in this backdrop, are you seeing some signs of higher order flow or higher opportunity from that part of the world and also if you can give some colour like in terms of competitive scenario, in terms of costing or in terms of chemistry capability, how do you see India versus China basically on the pigment side of the business? Thanks.

Rajesh Rathi: I think on the first question, there is definitely favorable statements where most of the key accounts and customers would be looking at an alternate source to China. India does become a natural supplier source, so that is the big positive. Now we have to see how in the long run this turns into real opportunities. We have seen already much better demand from the export market currently. Now whether this is only short-lived, or this gets sustained is one of the areas we need to look at just for that. Of course whatever our strategy and our goal was to drive the programs through new products, better reach that we are continuing. In terms of China I think you have to segregate players, but I think in general if you want to talk about ~~the lack reach~~, the lack of technical market for application lab capabilities, so that is one of the major gaps which the China industry has and of course the sustainability part looking at their own affluent treatment capability, these are three areas I would definitely kind of say that some of the other players.

Manoj Bahety: You mentioned that one is the technical capabilities, third one is affluent treatment gap, right?

Rajesh Rathi: I said technical marketing and application lab capability, so that was one I shared then the next one would be sales reach and the third is their entire sustainability part on looking at the entire environment and treating the affluent.

Manoj Bahety: Thanks for taking this question. My second question is like looking at the earlier signs where the business is likely to shift from China to India especially chemical industries likely to benefit a lot, so in this background how you are preparing Sudarshan in terms of

incremental capex or putting up incremental capacities to capture this kind of opportunity and lastly if you can also cover what kind of in terms of absolute value capex you are planning for the current as well as in the following year?

Rajesh Rathi: Our vision is to be among the top three players in the industry and as such our transformation involves introduction of much better product portfolio looking at some areas where we gain cost leadership and we have already worked on a better reach to customers and we have had a full-fledged capex program which is under execution right now.

Manoj Bahety: What is the quantum of the capex program Sir, if you can, you mentioned that you are going to reduce that will get delayed by six months?

Rajesh Rathi: I did not say we are reducing, in fact I said we are not going to reduce at, so we are going to say that we are very bullish on our capex program, but however due to the execution will get delay by six months.

Manoj Bahety: Thanks for taking my question and wish you all the best.

Moderator: Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Thank you for the opportunity. I had two questions. First was in the previous conference calls we had mentioned about launch of some blockbuster products, so where are we beyond that and when should we start expecting revenue traction from those products?

Rajesh Rathi: Like I mentioned some of our capex programs have been delayed by three to six months and currently we are reestimating based on looking at when we can start projects

Viral Shah: Would it be fair to say that the revenues from most of these blockbuster products in all likelihood will come in the next year and not in the current financial year?

Rajesh Rathi: Yes, some of them, because some of the projects would not get completed.

Viral Shah: To the previous question, what would be our capex outflow for FY2021?

Rajesh Rathi: 2021, we had an outflow of about Rs.250 Crores, how much we are able to execute we are estimating that.

Viral Shah: Okay and just last question on the net debt number, what was your net debt number as on end of the quarter?

Rajesh Rathi: Sorry.

- Viral Shah:** What would be our net debt number?
- Vivek Thakur:** Net debt is approx. Rs.500 Crores.
- Viral Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** Thanks Rajesh Ji and good afternoon. Couple of questions; first on the demand side, when we say that international demand has been strong, but India demand is recovering, just to understand where is India demand versus pre-COVID we are at 60% level, 70% level that is one? Number two, one interesting point you made that demand was not so much of a challenge, but supply was a challenge and July particularly we had a 15 days kind of a shutdown, now we are in almost mid of August, how much have the production recover versus pre-COVID level? That is the first two questions. I will come up with few more questions after this.
- Rajesh Rathi:** I will answer the second question. The second question I think production in Roha plant was shut for about 21 days partly in June and partly in July and the production is getting ramped up and soon we should reach the pre-COVID level, we have not still reached there, but we will reach the pre-COVID levels of production. Sorry what was your first question?
- Sanjesh Jain:** Same on the demand side, how are we in terms of domestic demand versus pre-COVID?
- Rajesh Rathi:** July we saw domestic demand recover to about 70% to 80% levels, August, the indication looks like at least we should reach 90% to 100% almost the same levels of last year as an overall demand for that.
- Sanjesh Jain:** One on the RM side, we had a slight volatile crude prices and it is continuing to remain lower than what it was last year, should that benefit us in terms of lower raw material prices?
- Rajesh Rathi:** I think from a raw material perspective things have got more stable. It is probably one or two raw materials, which have slightly disrupted, but other than that everything looked stable and we are expecting that this year there should be good stability in terms of raw material.
- Sanjesh Jain:** I was more thinking of decline in the raw material prices.
- Rajesh Rathi:** Yes, so we have seen a decline and that is where it helped our margins also and I think we should be able to maintain the current levels.

- Sanjesh Jain:** These margins are more sustainable given the way raw material prices are?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** That is it from my side. Thank you, Rajesh Ji, for the answer.
- Moderator:** Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.
- Abhijit Akella:** Good afternoon Sir. Thank you so much for taking my questions. The first one was just with regard to the demand kind of scenario that you are seeing in each of your four key end-use industry, coatings, plastics, inks and cosmetics, so if you could just talk about which of these segments have been impacted more, which of these less and also in the presentation, you have spoken about some early signs of demand pickup, if you could please just talk about which of the segment you are seeing those signs of pickup? Thanks.
- Rajesh Rathi:** I think business is impacted by the automotive, if you look at the impact and the amount of recovery I would say automotive would be the largest (and the least would be probably packaging, food packaging has seen an increase in demand and in terms of plastics I would say is somewhere in between, so that has been the demand scenario and in terms of recovery we spoke about I just answered the question I think we were talking more on the domestic side of India subcontinent.
- Abhijit Akella:** That is helpful and second just on the previous capexes that you have already executed, for example, the yellow pigment plant that had come in last year, should we expect that the products approval by the customer for those new products also is getting delayed and therefore the revenue realization from those projects will also take a little bit longer and by when should we sort of start to expect those to start contributing to the financial?
- Rajesh Rathi:** There are two areas, I think some of our customers have not had enough bandwidth in the lab test as we are focusing on manufacturing first everyone is doing the same. The second area is that we needed to make some more tweaks on the products and those tweaks and relaunch, we have also held at doing that manufacturing and supply first and then we relook at it. My expectation is that the delay would take at least I would say four to six months.
- Abhijit Akella:** Our previous expectation was that may be some of these new products might have started contributing later in FY2021 then may be that expectation now get shifted to somewhere in the middle of FY2022, is that fair?
- Rajesh Rathi:** Yes.
- Abhijit Akella:** Thank you so much Sir. Wish you all the best for the future.

- Moderator:** Thank you. The next question is from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.
- Nav Bhardwaj:** Thank you for taking my question. Short question I had on the new capacities that we have planned for the coming two years. The product that we are going to generate out of them, how much of that is going to be an import substitution and how much is that going to be a new product altogether, if you could quantify in terms of some numeric value?
- Rajesh Rathi:** Currently, there is a very small amount which is towards import substitution, everything is towards new products or revenue generation, there is some capex in that for EBITDA improvements, so better utilities, better more efficient utilities etc. Our major focus on driving, the backward integration of cost leadership, the focus will come on this year more when we have now dedicated team and our R&D etc., driving this.
- Nav Bhardwaj:** Of the total investment what could be appropriated towards EBITDA improvement and how much would be for revenue generation do we have split on that?
- Rajesh Rathi:** I really do not have, but I am requesting Vivek and Amey to maybe we can answer this towards the end or put it upon the website.
- Nav Bhardwaj:** Thank you Sir. That is it from my side. All the best going ahead.
- 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. In terms of price hike across our products, is there any price hikes which has been initiated and do we expect any price hikes in the coming quarter, because as far as RM scenario is concerned, you said that most of the prices have come down and probably remained stable, so what is the scenario on the product pricing front?
- Rajesh Rathi:** You are very right. Product pricing other than one or two products nothing much needs to be increased. We are working on those couple of products, other than that it is pretty stable scenario.
- Rohit Nagraj:** Last quarter we had indicated revenue impact of about Rs.125 Crores due to COVID, this quarter is about Rs.45 Crores, so in total about Rs.175 Crores impact due to COVID, how much of that would we be able to recover?
- Rajesh Rathi:** Just to clarify Rs.45 Crores which we have reported is only for the last week of June.
- Rohit Nagraj:** Totally for Q1 I would say?

Rajesh Rathi: It is not for Q1, because Q1 is much larger loss, if you combine everything together because we started late in April, there was Nisarga, this quantification was for the only the last one week of June where our plant was completely shut and as such our demand like I said it has not been an issue obviously we have not been able to, supply has been an issue, so the question is how do we ramp up supplies from here, but I do not think we would be able to make up some of those losses but I think in terms of Q2 we are quite bullish that though we have lost 15 days, August and September hoping that we are able to ramp up our production, we should be able to make up some losses, but we were not able to make up the entire losses of what has happened.

Rohit Nagraj: That is really helpful. In terms of our availability on the plant front, if the demand again comes back to pre-COVID level and probably this demand, which has gone due to COVID, if it comes that we are sufficient in terms of capacities to execute the demand in subsequent quarters?

Rajesh Rathi: Yes, absolutely I think capacity wise we are okay.

Rohit Nagraj: Just one last clarification, in last concall we had mentioned about the capex that about Rs.345 Crores of capex were under execution and if I am right currently we said that for FY2021 the capex is to Rs.250 Crores, so this is primarily because six months delayed due to COVID issue?

Rajesh Rathi: Good point Sir. I think there was slight mix up, on my part. Rs.255 Crores was what we completed last year. This year you are right the execution what we are doing is Rs.345 Crores; however, we are not exactly determined how much of that capex will get pushed into the next year as we start because there are several uncertainties, one is, when are we able to start those projects again given the manpower situation and whether we are able to ensure complete social distancing where this capex labour or team does not get mixed up with our regular manufacturing, our whole endeavour is going to be throughout this year, we do not want any more disruptions due to COVID on our manufacturing, so that is the first priority and that is how we will then prioritize the project, so first priority is manufacturing.

Rohit Nagraj: Thanks for that Sir. Just one last bit of question in terms of industry, could you give us the top five players globally on the segment side and what is the kind of revenue profile each of these have because you have mentioned that we want to move up probably to third position, just to understand what is the gap between may be fourth and third player and how the first two players have packed up?

Rajesh Rathi: Of course, between the fourth and third player, there is a very large gap and given the time scenario we want to get there and the gap I would say that if you looked at third player currently, this would be growth to about 500 million.

Rohit Nagraj: Thanks a lot Sir and best of luck.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: First, you did mention better outlook or better sort of a demand visibility in the international market, if you can slightly highlight from which geography are we seeing traction, is it the existing ones which we are getting US, Europe or there are certain new territories, new geographies we are targeting, within US, Europe or even Japan?

Rajesh Rathi: Japan of course takes much longer to get any traction, so Japan right now there is nothing happening, it is mainly US, Europe regions and some of the regions in South East Asia and South America where we are seeing more demand.

Ankur Periwal: Okay and a question related to that given the international consolidation that we have been seeing while one that is finalized, other is still work-in-progress, is there any incremental, did it mention on the incremental enquiries there, but from our preparedness to target that market we are seeing slightly higher capex last year FY2020, this year also looks slightly elevated depending upon how we are able to scale up and may be even next year probably the numbers will look slightly on the higher side, so taking cue from the earlier question that you mentioned, it is number three is at USD \$500 million, what sort of your growth or vision plans from a three, four year perspective, what one look forward to?

Rajesh Rathi: As a process obviously, I cannot answer this question on time-bound basis, but our whole focus is on the three areas which we want to drive towards that vision is one is to go to market strategy and how do we improve our reach. The second is getting our product portfolio in line or better than the leaders and I think by next year, our portfolio will be very comprehensive as for example, second largest player would not have effect pigments, we already have effect pigments, we will improve some of our effect pigments. We have several high performance pigments which we are adding on and the third area I would say is looking at cost leadership and certain areas where we can backward integrate and may be six or seven molecules we will get a very good market share, so given these areas we are driving each stream, so the fundamentals of what we are driving remained the same and they are very strong. Given the COVID scenario there could be a delay, but I think the direction wise it is similar.

Ankur Periwal: That is helpful. That is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix. Please go ahead.

Ankit Gor: Thank you Sir. My question with regards to backward integration, if you can give us some detail, we have been trying to do this not depending much on China where backward integration or setting up JVs since the last two quarters, where are we now and if we have any firm plans can you just talk a bit about it that is my part?

Rajesh Rathi: There are two parts. We are already working on the JV part, but here we have expedited our area where we are looking at a few molecules where we want to backward integrate, so we setup a special cell in R&D to develop some of these technologies, there are minor, two, three products which we have already executed and we did get some benefit out of it when there was a crisis; however, we need to scale this up and ensure that we are able to carry this out. In terms of this becomes sharper focus given the current some of the issues which we are having in the industry.

Ankit Gor: By when we can see some impact in C&S in terms of cost saving?

Rajesh Rathi: It is very difficult because all this will require capex, so our capex program is delayed, so it is a little very difficult to talk about it, but definitely not this year. I would say the second half of next year, but right now, I would not be able to give you kind of timeline on that.

Ankit Gor: With deferment of capex, where are we in deferment in revenue and probably deferment in cost saving, can you just quantify that would be helpful?

Rajesh Rathi: We are not deferring anything. From a perspective of the business, we wanted to do all capexes, it all really depends on how we are able to get labour, how we are able to get some of the equipment installation teams that is what determines how the capex would get through and we are working through these, these are very uncertain things, so I cannot tell you the exact number, that how much is getting delayed or what is happening, because we still do not have, I do not know when will people be given visa to travel, when can they visit here, what will be the protocol etc.

Ankit Gor: Lastly from my side Sir, if you can just remind us how much capex is done out of Rs.1000 Crores what we have announced a few years back at the end of FY2020 and how much is yet to be incurred? Thank you.

Rajesh Rathi: I am giving you approximate numbers, I am sure the team will give you, out of Rs.1000 Crores, Rs.450 Crores would have been completed and right now the execution is on Rs.340 Crores that will get completed.

Ankit Gor: Thank you very much.

- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investment. Please go ahead.
- Mithun Soni:** Thanks for the opportunity. Just one couple of clarifications, you said whatever Rs.45 Crores of revenue what you have lost in this quarter that was only for the June and would have been some loss at the Roha plant because of COVID which you will recoup, is this my reading correct?
- Rajesh Rathi:** No. What I said is throughout the quarter we have had much larger loss than Rs.45 Crores where April was a lockdown, , we slowly started ramping up then there was the Nisarga Cyclone and someone's question I answered saying that Rs.45 Crores was only the impact of the whole one week where we had COVID cases in June. In July that shutdown continues, July also we were shut till July 15, 2020, but what we are saying is that so we have already lost 15, 16 days of production and we are slowly ramping up, we have not still reached pre-COVID times on manufacturing, so what my point was that we will try and make up some of this loss of July 15 days through this August and September.
- Mithun Soni:** Logically through this August, September basically how many days we were off in the month of April because of this COVID lockdowns?
- Rajesh Rathi:** There was a slow ramp up in April, though we started our manufacturing, there was a slow ramp up then there was a shutdown for a week for Nisarga and one week in June. Generally I would say I do not have the right number, but just back of the envelope it would be right almost a month.
- Mithun Soni:** Then basically we can go back to March 2020 quarter, the run rate from Q2 because adjusted everything 440, 450 what we did in March that should be the normal run rate, is that the right way to look at it? This time you will only have 15 days of lost sales, there is no initial April lost sales.
- Rajesh Rathi:** Right, absolutely, in the Q2 right?
- Mithun Soni:** Yes in the Q2 and then in Q3, you will get further benefit because you will not even have 15 days of losses.
- Rajesh Rathi:** I hope that is.
- Mithun Soni:** What would be our utilization across the plants and on a normalized let us say now today what is our current utilization, in September if you were able to go through without any problems and what will be our utilizations?

- Rajesh Rathi:** Currently we have lot of back orders, so we are trying to complete all our areas of this, so current scenario would not determine proper scenario to talk about capacity utilization because of so much production loss.
- Mithun Soni:** If I were to look it in a different way, if I were to go for Rs.440 Crores, Rs.450 Crores of topline random number, I am just giving the numbers, so that would translate to how much 70% utilization, 80% utilization?
- Rajesh Rathi:** We would not have those figures right now. We will try and share those later.
- Mithun Soni:** And capex what we have done last year, has that started giving us revenue or not yet?
- Rajesh Rathi:** No not yet.
- Mithun Soni:** So no revenue has come from the 450 Crores of capex which has already been done so far?
- Rajesh Rathi:** Last year we did not do 450.
- Mithun Soni:** Last year we did 250, correct.
- Rajesh Rathi:** So before that of course that has started giving in that was partly revenue that was partly do with utilities and infrastructure etc., so from that perspective last year's entire 250 Crores has not started generating revenue that is what we are saying.
- Mithun Soni:** When will that start contributing to revenue?
- Rajesh Rathi:** Some of the newer products in that would take six months at least.
- Mithun Soni:** That 250 Crores of capex is dedicated for new products?
- Rajesh Rathi:** Not everything I do not have the breakup right now.
- Mithun Soni:** Sir if you can just give a little bit like broad outlook on the type of the products in terms of the value-added or routine commodity products, what will be the mix today and how once the new products come in six months where do you see in say FY2020 next year. Let us say in FY2022 how do you see the mix of the product in value added terms in terms of the most specialized products if you can just give some flavor then it would be?
- Rajesh Rathi:** All our capex are towards specialized products and the mix would turn towards more specialties there is a complex scenario right now saying that when are we able to commercialize some of these new products, new projects, and get this going so I think once

there is a little bit of clarity when we have on how we are going to be able to execute the projects, etc., kind of give that a better outlook.

Mithun Soni: Okay currently the existing plants other than the 250 the rest of the plants would be running at full utilization?

Rajesh Rathi: I have already answered that question.

Mithun Soni: With backlog, I am talking?

Rajesh Rathi: With the backlog but we are not able to run full production yet.

Mithun Soni: One more last question this is this our opex was lower this quarter like should we take this as a normalized run rate or was this like any particular savings which you got?

Rajesh Rathi: I think there are two to three factors I am going to request Mr. Thakur to talk about it. There was forex issue which has contributed.

Vivek Thakur: So if you compare with the immediately preceding quarter there is a reduction of about 38 Crores in this June compared to March, of that 10 Crores pertains to forex fluctuation – March 20 we had a forex loss and in June 20 we have forex gain this variance itself is 10 Crores and above that we had one customer where we had a provided for expected credit loss. This was a one off in March quarter and in the quarter pertaining to June we have emphasized a lot of effort on our AR collection so the ECL provisions have actually come down so that variance is 6 Crores.

Mithun Soni: How much was that provision?

Vivek Thakur: The variation from March to June is about 6 Crores.

Mithun Soni: So how much provision you did in the March quarter?

Vivek Thakur: 3.5 Crores once we provided and this quarter, we have a reversal because we have been able to collect a lot of money from our AR effort. These two are the major amount and top of that a lot of travel expenses has been avoided during the quarter, plant we have already done a lot of maintenance and repair work in the March quarter that is not there. Overall, out of 37 Crores 26 to 27 Crores is explained.

Mithun Soni: Should we take that about whatever we were doing in last second and third quarter like above 80 Crores to 81 Crores, is that our normalized run rate can we take that as a normalized run rate?

- Vivek Thakur:** Yes, I think June 2019 was 71 Crores which can be taken as normal baseline
- Mithun Soni:** Then it was about 82 Crores and 84 Crores.
- Vivek Thakur:** So 75 odds can be taken as a good benchmark.
- Mithun Soni:** 75 odds. Okay. Thank you. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sameer Dosani from Carnelian Asset Management. Please go ahead.
- Sameer Dosani:** Just one follow-up question. What is our total capex plan, you mentioned it is 1400 odd Crores right?
- Rajesh Rathi:** Sorry.
- Sameer Dosani:** What is our total capex plan sir including the capex which we have done last year, this year and in coming couple of years?
- Rajesh Rathi:** We had a total outlay of 1000 Crores.
- Sameer Dosani:** Okay and out of which 450 Crores we have already done right?
- Rajesh Rathi:** Yes.
- Sameer Dosani:** Any plan how we are going to fund remaining 550 Crores of capex it will be like mainly internal accrual plus debt?
- Rajesh Rathi:** Yes Sir.
- Sameer Dosani:** Like once we do the entire capex what kind of debt you are targeting in the balance sheet?
- Vivek Thakur:** Today's debt as I see normal consolidated basis is about 500 Crores and we have further this year capex we are going to draw another 200 odd Crores.
- Sameer Dosani:** That will take 700 but thereafter we have remaining 550 Crores of upcoming capex in the coming year also Sir. So the debt will go up further from here and what will be the peak debt once we have done with our capex?
- Vivek Thakur:** This 1000 Crores capex which we spoke about of that a large part is getting completed by end of this year and some part of that will overshoot to next year. We are talking about this

year debt level and thereafter depending upon how we are seeing the scale up happening accordingly we recalibrate our capex plan.

Sameer Dosani: Okay, 1000 Crores capex will be getting over by this so you are saying 550 to 600 Crores will be a peak debt, right?

Vivek Thakur: About 700 Crores would be the peak debt.

Sameer Dosani: Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraints we take the last question from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Sir out of the overall 1000 Crores of capex what would be the fixed asset turnover for the incremental capex?

Rajesh Rathi: Definitely 1:3.

Dhiral Shah: 1:3, okay and Sir, out of the 1000 Crores how much amount of the capex we would be spending on capacity enhancement?

Rajesh Rathi: About 60% to 70%.

Dhiral Shah: What would be the payback period for incremental capex Sir?

Rajesh Rathi: Generally our payback is about four years.

Dhiral Shah: Okay, four years. Lastly for our raw materials are we dependent on China?

Rajesh Rathi: We have got 25% of our raw materials coming from China.

Dhiral Shah: Are you looking for any other sources or you feel this source is sustainable maybe in coming years?

Rajesh Rathi: Short term we cannot do much but long term we do have a plan as to how we can look at different sources and what we can do.

Dhiral Shah: That is it from my side. All the best.

Moderator: Thank you. I now hand the conference over to Mr. Rathi for closing comments.

Rajesh Rathi: Thank you all for your time and interest in Sudarshan. We remain confident on the long-term prospects of our business and look forward to engaging with you again. Thank you so much.

Moderator: Thank you. On behalf of Axis Capital that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

Please note the document has been edited for readability purpose

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