

# SUDARSHAN

18<sup>th</sup> June, 2021

DCS – Listing  
BSE Limited  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001

Listing Department  
National Stock Exchange of India Limited  
Exchange Plaza, C-1, Block G,  
Bandra Kurla Complex,  
Bandra (East), Mumbai – 400 051

**Scrip Code - 506655**

**Scrip Symbol - SUDARSCHEM**

Dear Sir,

**Sub : Transcript of Analysts / Institutional Investors Conference Call**

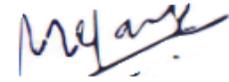
We are enclosing herewith a transcript of the conference call with analysts / institutional investors, which took place on 31<sup>st</sup> May, 2021, after announcement of the Audited Financial Results (Standalone and Consolidated) of the Company for the quarter and year ended 31<sup>st</sup> March, 2021.

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  
Q4 FY21 Earnings Conference Call”**

**May 31, 2021**

**MANAGEMENT: MR. RAJESH RATHI - MANAGING DIRECTOR  
MR. NILKANTH NATU - CHIEF FINANCIAL OFFICER  
MR. VIVEK THAKUR - GENERAL MANAGER-FINANCE  
MR. AMEY ATHALYE - DEPUTY GENERAL MANAGER-  
FINANCE  
MR. MANDAR VELANKAR - COMPANY SECRETARY**

**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the Sudarshan Chemical Industries Limited Q4 FY2021 earnings conference call hosted by HDFC Securities Limited. As a reminder, all participant lines will be in the listen only mode. 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. Request you all to also join the Zoom link to view the presentation, which the management will run us through. The Zoom link is only for video presentation.

I now hand the conference over to Mr. Nilesh Ghuge from HDFC Securities. Thank you and over to you, Nilesh.

**Nilesh Ghuge:** Yes, thank you Ali. Good evening all. On behalf of HDFC Securities, I welcome everyone to this conference call for Sudarshan Chemical Industries Limited, to discuss the results for the quarter and full year ended March 2021. It is a pleasure of having with us the management team from Sudarshan Chemical represented by Mr. Rajesh Rathi – Managing Director; Mr. Nilkanth Natu – Chief Financial Officer; Mr. Vivek Thakur – General Manager-Finance; Mr. Amey Athalye – Deputy General Manager-Finance and Mr. Mandar Velankar – Company Secretary. Without further ado, I will now hand over the floor to the management for making the opening comments. Over to you, sir.

**Rajesh Rathi:** Thank you, Nilesh and HDFC Securities for hosting our earnings call. Good evening, ladies and gentlemen and welcome to Sudarshan’s Q4 and full year ended FY21 earnings conference call. Our investor presentation has been uploaded on the stock exchanges and our website for your ready reference. I would also like to highlight that starting this quarter we have enhanced our presentation with a set of disclosure to help stakeholders have a better insight on our business. This is our first step towards setting standards in investor communication.

Going forward once a year, we will do a video call or a live interaction and the other quarterly calls we would continue on the audio format.

To give you a glimpse of the company, Sudarshan has become a leading world class color solution provider with emphasis where we want to create sustainable and exceptional results. We have two world class sites, in Roha and Mahad which are very much scalable from both, the effluent treatment and infrastructure perspective and we have a dedicated R&D site on the outskirts of Pune.

In terms of our people we have more than 60 channel partners, more than 50 to 60 dedicated sales people and more than 2,000 plus workforce. Focus of our business is only colors and pigments and we are not forward integrated where like some of our competitors, we do not compete with our customers. We have also created a very good global reach with exports to more than 85 countries. In terms of our reach, we have created a direct sales office in all the important continents. For example, wherever we have offices, we have our dedicated sales

team, a dedicated technical service representative, and we carry our own stocks in that area. The latest addition of our subsidiaries is Sudarshan Japan.

In terms of our journey, the last 10 years has shown a fantastic growth. Our growth CAGR has been more than 10% and we have now become a pure pigment player. We did have small businesses in agrochemicals, masterbatch and engineering businesses, some of which we have already divested. I would say 10 to 12 years ago it would have been difficult to globally look at where we stand, but today we stand very tall being the third largest pigment producer in the world.

Our domestic market share is more than 35% in India. In the last 10 years there has been a big transformation in our R&D, though we always were a technically led company. We have laid a great emphasis on both R&D and application labs and created world class centers in both India and Germany. Having transformed our product range in the last 10 years from a commodity based classical pigments into high performance pigments range and cosmetic range.

Our renewable energy stands at about 20%. Ten years ago we had 0%. In terms of our CAGR as I mentioned, 10% growth in revenue and earnings per share in the last three year itself has more than doubled. We continue to invest and that is how our gross block has increased.

There is a huge market which we address. The direct addressable market I would say is around \$8.6 billion and the largest market for us is paints or coatings. Then plastics, inks followed by cosmetics. And we have a very niche range for each of these applications.

If you look at the pigment industry update due to COVID-19, some of these segments have been doing better than the others. For example, plastics industry has seen a moderate to low impact mainly because a lot of it goes into food packaging, plastics or hygiene products or personal care products. Packaging inks has really seen a low impact, mainly because it is again food packaging and of course food packaging has increased as all of us stay indoors.

I would say paints or coatings that is one of the last things where someone would want to get our house painted and has had some impact. In terms of the industry structure, the top two players have been wanting to divest. This is also where we have great tailwinds from both these areas. The top two players want to divest, and China has had several environment, health related issues. And that is where I think India and companies like Sudarshan have a great potential for growth. Potentially we see some long-term changes in supply chain, disruption in raw materials etc. where we see raw material increases.

If you look at our CAPEX plan, we had embarked some time ago on an INR 600 crores ambitious CAPEX plan. Out of which some of our CAPEX did get delayed because of COVID, but I am glad to inform you that none of our CAPEX were cancelled.

Only the CAPEX which has not been invested, is about INR 38 crores out of it. And in terms of the CAPEX which we have incurred, the put to use is about INR 293 crores and INR 269

crores is still balance, which is work in progress. These have not been completed or put to use. Out of the INR 293 crores, INR 222 crores was put to use in FY20 and INR 71 crores in FY21. We estimate the balance INR 307 crores should get put to use in this financial year. The potential of the sales from this CAPEX would be about INR 1,000 crores to INR 1,200 crores at full capacities. Natu sir, over to you.

**Nilkanth Natu:**

Thank you Mr. Rathi. Good evening everyone. I will briefly update you on our financial performance of fiscal year 2021 and for the quarter Q4FY21.

Starting with full year performance,

Total income from operations on Consolidated basis was at INR 1,864 cr as compared to INR 1,708 cr for the previous year, a growth of 9%. In spite of the COVID disruptions continuing in H2 of FY21, we were well placed to mitigate the challenges to our business caused by the nation-wide lockdown in H1. H1FY21 revenues stood at INR 781 cr, while H2FY21 revenues were strong and stood at INR 1,083 cr.

EBITDA for the year was at INR 288 cr with margins of 15.4% as compared to INR 246 cr in the previous year, with margins at 14.4%. Profit after tax excluding exceptional items at INR 140 cr as compared to INR 109 cr.

Sudarshan has invested for growth in last three years. ROCE has been steady and stands at 14.8% for FY21 while Earnings per Share has increased by 81% to INR 20.2. Other key financial ratios remain healthy.

For FY21, income from operation of pigment business stood at INR 1,753 cr as compared to INR 1,590 cr over the previous year, a growth of 10% YoY. EBITDA has improved from 14.7% in FY20 to 16% in FY21.

Export sales at INR 897 cr as compared to INR 783 cr in FY20, a growth of 14% YoY. Domestic sales grew by 6% YoY and stood at INR 856 cr.

Sales from our speciality pigment business at INR 1,203 cr which is 69% of our revenues. Non-speciality sales contribute 31% of our revenues and stood at INR 550 cr.

Now coming to quarterly financial performance,

Our consolidated income from operations for the quarter stood at INR 577 cr as compared to INR 449 cr for the corresponding period of the previous year, recording a robust growth of 28% YoY.

EBITDA for the quarter stood at INR 87 cr as compared to INR 54 cr in Q4FY20. EBITDA margins at 15.2% as compared to 12% for the same period last year.

Profit after tax at INR 48 cr as compared to INR 17 cr during the same period last year. PAT grew by 176% YoY. As highlighted on the previous call, we opted for the new tax regime from FY19-20.

Now on the Pigment business, income from operations stood at INR 533 cr, a growth of 33% YoY. Company continues to see good traction on domestic & exports markets as also in all categories of product lines.

Gross Margins for the quarter stood at 42.9% as compared to 43.9% during the same period of the previous year. Withdrawal of export incentive scheme (MEIS) had an impact of ~1% on margins YoY. Details of the rates under the new scheme RoDTEP yet to be released and thus income has not been accrued. We saw sharp price increases midway through the quarter in the several intermediate products. We are in the process of passing on these incremental costs to our customers, however normally there is a lag of a quarter in completing the entire process.

Domestic sales for the quarter were at INR 273 cr as compared to INR 206 cr, a growth of 33% YoY. Export sales stood at INR 260 cr as compared to INR 196 cr, growing 32% YoY.

Speciality Sales stood at INR 363 cr as compared to INR 284 cr for previous year same quarter, up 28% YoY. Specialty sales includes revenues from Azo, High performance pigments, cosmetics and dispersions. Non-Specialty sales for the quarter stood at INR 170 cr as compared to INR 118 cr for the same period last year, up 43% YoY. Non-specialty sales include revenues from Phthalocyanine, inorganic & effect pigments for use in plastics & textile industries.

I want to highlight that we have enhanced our disclosures from this quarter to share domestic and exports split along with specialty and non-specialty pigment sales. This being transition quarter, we will share volume growth data as well. Specialty volume grew 27% compared to Q4FY20 while Non-Specialty grew by 42%. Going forward we will disclose only value split which is more representative of business drivers.

Coming to business outlook,

Capex projects under commissioning to drive future growth and bring in EBITDA improvement. We will continue focus on expanding product portfolio and deeper penetration in select international geographies. Improvement in Return on Capital Employed will continue as a key initiative.

Our manufacturing plants continue to operate in line with the various directives of the Government amidst second wave. We at Sudarshan continue to deploy & practice necessary safety precautions regularly, to ensure continuity & uninterrupted functioning of our plants. Safety and welfare of our employees continues to be of utmost importance to us as we continue to deliver on our stated goals.

We look forward to continuing our growth journey and delivering value to all our stakeholders. With this I now open the floor for questions and answers session. Thank you.

- Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ankur Periwal from Axis Capital. Please go ahead.
- Ankur Periwal:** So, my first question on the gross margin front. While you did mention that some pass through you know the pass through is taking. It typically takes one quarter or so, three or four months there. Trying to understand whether we have taken any price hikes in the last quarter in Q4 or all the price hikes are to happen let us say starting this quarter which is April onwards?
- Rajesh Rathi:** Natu Ji, if you want to add, I think we have already started that price increase discussion and we did pass on some increases in March too.
- Nilkanth Natu:** I think you have covered. So, Ankur, we have started doing the price increases. A couple of customer we have initiated, couple of customer we will start getting the price increases from this quarter.
- Ankur Periwal:** And second thing. Just as a follow up to this now incrementally if I go back our earlier commentary as well a large part of the CAPEX is going into the premium, the specialty segment there, right. So, ideally speaking, the margin expansion should continue going ahead, given a favorable growth on the specialty side wherein we are expanding capacity. Will that be a fair understanding?
- Rajesh Rathi:** Yes, I think it is a good mix. I think we do have good specialties coming up and good products which will be coming up. So, it would help definitely.
- Ankur Periwal:** Sir, another question on the slide #9 where in we had explained our CAPEX plan. So, INR 600 odd crores and you had highlighted a revenue potential of INR 1,200 crores on that. So, just one clarification. This INR 1,200 crores incremental revenue is on total INR 600 crores CAPEX because that includes a number which was incurred in financial year 20 and 21 as well, or this is incremental started taking 21 as a piece?
- Rajesh Rathi:** This is total for the INR 600 crores investment.
- Ankur Periwal:** Okay and if I go back to your commentary wherein we had sort of being, let us say a leading player in selective products at a global level. With all these CAPEX coming in, we believe last part of that investment is already done or there could be a second phase of this investment which maybe can happen in 6 months out or 12 months out?
- Rajesh Rathi:** I think major part of the investment for the new products will be done. However, we would require if you may recall one of our areas we want to grow is a little bit on the cost leadership and we would require investments in that area going forward.

- Ankur Periwal:** Sure, so will that mean some bit of investments related to backward integration there? Will that be right?
- Rajesh Rathi:** Yes, and also like I said major part of the investment for new products is over, but we may need some investment, depending on the responses, etc. and some areas for volume growth.
- Ankur Periwal:** Sure, and lastly, if you can just provide some color on the response on the market on the new products which we had launched given the COVID scenario so how has been the response both in the domestic as well as in the international markets?
- Rajesh Rathi:** So, far the response has been good on the products which we have launched, but some of our major launches would happen in Q2 this year. So, that is Q2 this year, so we are eagerly waiting for that. But whatever we have launched so far has been a good response.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** I just wanted to get an update from you on the two players that are looking to sort of exit the market and then like you also mentioned the trends from China are also favorable for the company. So, have the two players already started sort of divesting some of their portfolio because of the M&A? That will be happening or that is the trigger which will play out more in the future, which had already started happening?
- Rajesh Rathi:** I think if you are asking me, there are two potential M&As. One is close to happen and the second one is still in the process for it to happen. Is that the question, sir?
- Madhav Marda:** Yes, that is right. And then the one which is close to happening in that can we expect that for some of the specialty pigment portfolios they will end up divesting it because of Competition Commission reasons and then that sort of helps us, especially with the new CAPEX have come in for possession?
- Rajesh Rathi:** So, I think there are two parts to it. That is obviously given that two big players are merging and we are hoping that, it will give some sense that customers who want to divest their portfolio. So, major potential one we are looking for, to gain from...
- Madhav Marda:** And the other question that I had was, right now it seems like we are coming to the end of one phase of our growth CAPEX. Once the INR 600 crores CAPEX comes in, then I am assuming for the next sort of three years or we are covered with the CAPEX that we have already done, and it will be more about sweating the assets and ramping up the revenues. So, the next major leg of growth CAPEX probably is more 2023-2024. Is that how we should be thinking right now?
- Rajesh Rathi:** So, like I mentioned, we will be definitely will be sweating these assets before we make the next phase of expansion. But like I mentioned, we do require certain CAPEXes for some

backward integration, etc. And from a growth perspective, we will wait first to see how we get the response on some of these products, and we may require some investments there.

**Madhav Marda:** And just last question from my side. The next leg of CAPEX that we do, will we need to start at a new Greenfield site with like a new land parcel or existing plants have more space?

**Rajesh Rathi:** No, so everything will be brownfield here.

**Madhav Marda:** We still have more scope for expanding?

**Rajesh Rathi:** Yes.

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

**Viral Shah:** Sir, just continuing on the CAPEX bit. Sir, I needed more clarity. Here in the presentation you have mentioned that the current CAPEX plan is INR 600 crores whereas earlier we have guided for INR 1,000 CAPEX plan. So, I think in part you did mention that some of it will be for backward integration. So, is it right to understand that you will spend INR 400 crores for backward integration? Also just a related question. I think sometime back you had come out with a press release stating that the board has approved FY22 CAPEX plan at INR 135 crores. So, this differential of INR 135 crores, INR 38 crores, can you help us understand that as well?

**Rajesh Rathi:** So, firstly, I think the INR 1,000 crores was a mega investment plan which we had signed with the Government of Maharashtra that over some period we would make that investment. The INR 600 crores CAPEX plan which was approved by the Board, which we are executing right now. And INR 135 crores is being planned over and above this INR 600 crores, which the Board has sanctioned.

**Viral Shah:** So, would it be fine to assume that FY22 CAPEX outflow will be INR 175 crores? That is INR 135 crores plus INR 38 crores....

**Rajesh Rathi:** We have not put to use the balance. So, it depends on what you are talking about, which number you are referring to. We will be putting. I do not have the chart in front of me, Mr. Natu can you please clarify.

**Nilkanth Natu:** So, Viral, there are two parts to it. So, for FY22 out of this INR 600 crores we will put to use is around INR 307 crores out of which already INR 269 crores incurred as a CWIP. Balance INR 38 crores we will be incurring. That is first part. Second part, I think you are referring to INR 135 crores of FY22 new CAPEX which has been approved, so we expect around 80% to 90% of the cash outflow for the year.

**Viral Shah:** Secondly on the other expenses during the quarter. On a quarter on quarter basis they were higher by around INR 20 crores so can you just explain if there was some one-off or is it largely operational in nature? What will the cost for this entry?

- Nilkanth Natu:** So, Viral, I will split this into two parts. One thing is there has also been a revenue growth and the production growth. So, if I can see that out of that 40% to 50% is getting attributable to that increase in the numbers. One is on the sales side; other thing is on the production side. Apart from that also we have seen in couple of increases in Q4. One is the increase in the coal rate. Second thing also we had also seen the freight costs are going up in Q4 due to non-availability of the containers. As you are aware that in this particular situation, there has been so much of constraint that the cost of the shipment has also gone up. And there has been a Forex movement around INR 2 crores. And also, in the Q4 we had higher share of our specialty production which also increased the cost in our manufacturing which is attributable to the hazardous waste costs. These are the couple of elements which have contributed quarter-on-quarter increase in other expenses.
- Viral Shah:** And just last question, sir. What would be our net debt at the end of the quarter?
- Rajesh Rathi:** Viral, currently we are at around INR 600 plus crores. So, I would not like to put the number as such for the next quarter. Currently our debt to equity is around 0.8. Rather than getting into a quarter because quarter is a short period, I would like to see what will be the debt to equity at the year end.
- Viral Shah:** Sorry, let me just rephrase. My question was on the March 2021 year ending debt?
- Nilkanth Natu:** Yes, so Viral, March 2021 year end debt, net debt is at INR 614 crores.
- Moderator:** Thank you. The next question is from the line of Dhruvam from HDFC CFE Fund. Please go ahead.
- Dhruvam:** Just a clarification on the previous. So, you mentioned the CAPEX for the year is for FY22 will be around INR 135 crores but in the slide, you have mentioned that the remaining CAPEX is about INR 38 crores for FY22. So, the remaining is for?
- Rajesh Rathi:** That is the balance out of the INR 600 crores. Natu Ji, why do not you take down?
- Nilkanth Natu:** So, the slide which you can see in our deck, that is the slide number 9. It gives the overall plan against the INR 600 crores CAPEX plan. So, that balance INR 38 crores is out of our initial plan of INR 600 crores. The INR 135 crores is the new CAPEX which has been sanctioned in the last board meeting.
- Dhruvam:** And this CAPEX is pertaining to new set of products or the backward integration?
- Rajesh Rathi:** No, this is more towards the infrastructure.
- Dhruvam:** Okay so I am trying to understand will this give a revenue boost, or this should give just a margin boost that is the objective?

- Rajesh Rathi:** The INR 135 crores, majorly will be looking at some of the infrastructures etc. for further growth for the future.
- Dhruvam:** The second question was you mentioned that the share of specialty for you for the full year basis is upwards of 60% almost 69% if I am not wrong in FY21 and the future CAPEX the INR 600 crores CAPEX, which is giving a revenue of about INR 1,000 crores. I would believe that the share is broadly similar, 60:40 or 70:30.
- Sir, but one of the argument earlier was that the incremental CAPEX has a higher share of specialty and that is the result it should give a margin boost overall. So, from FY20, FY21 levels it should give a margin boost. But it seems the specialty share remains broadly the same. So, just wanted to understand what am I missing? Is it that the new set of products are much more value accretive than the existing specialty share or what is it?
- Rajesh Rathi:** Natu Ji, you want to take this question?
- Nilkanth Natu:** Yes, so as you rightly said, and what we have also presented is the specialty revenues stands at 69%. I also briefed earlier the majority of the CAPEX which we are doing right now INR 600 crores the major focus is on the specialty growth also. So, going forward I expect that the revenue from specialty to show an incremental growth on this particular INR 1,000 crores to INR 1,200 crores revenue what we are projecting. So, it will take the ratio slightly more on the specialty side. And that will also give us a benefit in terms of our margin.
- Dhruvam:** So, would the incremental INR 1,000 crores of revenue, INR 1,100 crores of revenue have probably what 80% odd share of specialty or more, the objective is, will it give us significant delta in margins?
- Nilkanth Natu:** So, I would not like to put the number, but to give an assurance that or rather to give the broad macro level view is that this CAPEX is predominantly is on the specialty side.
- Dhruvam:** And just one last question quickly is you mentioned in your slide that your capacity utilization is 86%. Would that in the quarter? I am not sure about the full year numbers if you can share that? And second related to that is in FY20 you have capitalized about INR 220 crores of the INR 600 crores plan. So, given the utilization level is about 86%, would it be fair to say that large part of the FY20 CAPEX that we had done I mean of this INR 600 crores plan is visible in the FY21 numbers? Or I mean the 86% number can go even higher significantly? I mean probably 95%?
- Rajesh Rathi:** So, I think to add kind of what we are looking I think 86% is a good number which we would want to target kind of going forward, maybe go towards the 90%, etc. I think most of the growth will come from the CAPEX which we are putting in now.
- Dhruvam:** So, just for clarity, can you share what will be the utilization for the full year? I believe Q4 would be much higher because of the India run rate or because the first quarter was very weak. What could be the full year utilization?

- Rajesh Rathi:** Natu Ji, would you have the number?
- Nilkanth Natu:** No, so my submission here is rather than looking at a full year number, the reason why we have given the Q4 because this is more a normalized period. H1 we saw the disruption and now going forward we see that the normalized operation will be there. So, that is the reason we thought that we will only put the Q4 number.
- Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.
- Kunal Mehta:** Firstly, just wanted the breakup of INR 600 crores CAPEX between the infra-CAPEX and the growth CAPEX? Could you please give us a break up?
- Nilkanth Natu:** So, the reason why we want to present this slide is the entire INR 600 crores has a mix of the various elements. But finally what we are looking at as a company. Rather than splitting that between growth and infrastructure we see this on a holistic basis. This INR 600 crores is needed in various buckets for us to aspire to get the revenues of INR 1,000 crores to INR 1,200 crores.
- Kunal Mehta:** And secondly I wanted to understand I was just looking at the margins of our business presently we are at almost I would say at the present capacity of both the plants we are operating at a full capacity and we have a fairly good share of specialty business where I would believe these are higher products which are having higher EBITDA margins.
- So, when I look at the margin which we are running at, at this level of utilization and when I compare it to other players in India who are the listed ones I mean Meghmani and Ultramarine I cannot understand the reason why we are running at 16% margin, whereas these competitors who are operating on I would say despite the fact that we have the organic high performance pigments also in our portfolio and we have a lot of the much higher value added products also whereas these competitors are focused on these blue and green pigments and the ultra main pigments, which are compared to be low generation I mean the older generation products.
- So, what I wanted to understand is what is the reason we cannot even on this level of existing plant utilizations and this level of demand, we cannot go to more than 17%, 18% margin? I mean can we go to 20% margin even in this base business right now?
- Rajesh Rathi:** We are building the organization for the future and preparing for the growth. So, there is a lot more high cost which is involved in doing so. So, for example, many of our Asian competitors will not have many international sales teams on their board. That is a huge cost which we incur. We have the cost on R&D which we explained.
- There are several overheads, direct sales costs which a company like us incurs because we believe that this in the short term this may not give us benefits, but in the long term it is a very big sustainable benefit for us.

- Kunal Mehta:** So, just one final question from so just wanted to understand this when I look at so the new CAPEX of this INR 600 crores CAPEX I wanted to understand what if I look at it in tonnage terms, what portion of this CAPEX is already dedicated to the products which we have right now in our product basket and where we already have the market reach and the customer relationship ready for us to leverage those products and what tonnage would you attribute to the products where we are now getting into and updating our color index or coverage of the current index. So, how much tonnage would we allocated to the products which we are manufacturing right now in terms of the total tonnage we are adding through this INR 600 crores CAPEX?
- Rajesh Rathi:** So, I think this information is a little confidential to talk about how we split this up.
- Moderator:** Thank you. The next question is from the line of Paras Nagda from Enam. Please go ahead.
- Paras Nagda:** I had two specific questions. The first one being what is the kind of maintenance CAPEX in your business on an INR 932 crores gross blocks that we have created what is the kind of maintenance CAPEX that we can expect from this business?
- Rajesh Rathi:** Natu sir?
- Nilkanth Natu:** So, normally we see the maintenance CAPEX which is incurred over a period is in the range of INR 30 crores to INR 35 crores per year.
- Paras Nagda:** And the same trajectory should continue going ahead?
- Rajesh Rathi:** So, it will be increased in the same percentage.
- Paras Nagda:** Sir, my next question is on raw material inflation. We have seen lot of your input raw material prices going up sharply. What is the kind of raw material inflation as well as if you could give us some color on the procurement and sourcing strategy also? With respect to China how much is the current China mix and the whole raw metal basket how it is moving?
- Rajesh Rathi:** I think basically we have seen all around increase in raw materials in several of the categories a very steep increases, and whether they were acetic acid based or whether they were phthalic, urea based, etc. So, we have seen all around increase in raw material cost. The split of our China and India is not changed much. It still remains.
- We are hoping that looking at how the commodity prices in metals etc. everything has increased. We are hoping that things will settle down and our endeavor has been to really drive these pass on to our customers. Having said this, the increases are quite steep, and we remain concerned that it should not finally affect the ultimate demand when the cost increases are so high.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Nippon India AIF. Please go ahead.

- Manish Poddar:** So, just one question. Can you probably help me understand let us say in this incremental sales which you have had for the full year, roughly about INR 155 crores. Now, how much of that would be let us say from new customers versus the existing customers?
- Rajesh Rathi:** So, that is a little bit too narrower data point to share.
- Manish Poddar:** Because what I am trying to understand is that our against strategy was that you want to increase shares from the existing customers and at the other side if you look at it a lot of the number 1, 2 players is getting consolidated or let us say there is some sort of shareholder change which is happening up there.
- So, just trying to understand let us say this utilization levels that you have got in Q4, is that a function of existing clients ramping up orders significantly or is that a function of new clients? Just a broader split let us say 70:30, 60:40 any number on that will be helpful? I am just trying to understand how are you getting traction let us say on the new versus the old clients:
- Rajesh Rathi:** No, I think in general we have maintained a trend, so I cannot give you a percentage, but we have maintained our same trend of saying that how we have engaged with our existing customers and got a better wallet share or newer products approved.
- Manish Poddar:** Would you be able to help me quantify let us say what sort of information would you have seen at the RM level and till blended let us say by let us say April or May how much of that would have passed out?
- Rajesh Rathi:** Natu sir?
- Nilkanth Natu:** So, I have certainly said earlier that there has been a sharp increases in several intermediate that also we have said in our commentary, and it has been across, and the percentages are varying. But we see this inflation impact due to the raw material price increases will be somewhere in between 2% to 2.5%.
- Moderator:** Thank you. The next question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.
- Sanjesh Jain:** Couple of questions. First on the again sorry to hop on the CAPEX and the revenue potential. A small clarification. We said that we have a utilization of 86% in the Q4 if I analyze it, it is like a INR 2,000 odd crores of revenue we are looking at and when we say INR 1,000 crores of incremental revenue from entire INR 600 crores of CAPEX and we are looking at targeting close to 90% kind of on utilization level. So, just want to get a number what will be the revenue assuming no new CAPEX is done from the existing CAPEX what should be the peak revenue that we should be able to achieve?
- Rajesh Rathi:** Sir, can you please repeat your question there was some lag here?

- Sanjesh Jain:** My question was that now that we are at 86% utilization level in Q4 and if I analyze it, it is like INR 2,000 crores of annual revenue and we have said that the incremental INR 600 crores of revenue will bring in INR 1,000 crores to INR 1,200 crores of revenue. So, what would be the peak revenue assuming no new CAPEX is incurred? From the existing gross block what could be the peak revenue we can achieve assuming the gross block we are talking is FY22?
- Rajesh Rathi:** Couple of points here is the potential of INR 1,000 crores to INR 1,200 crores and having said so we have put couple of CAPEX and that to put to use. It will give you know this particular projects are in the initial ramp up phase, so going forward we will see the utilization as well as the potential of this revenue going up further. What we are expecting that within next three to four years, once all the CAPEXes are fully ramped up we will get around INR 1,000 crores to INR 1,200 crores. So, that is the number which we would like to get.
- Sanjesh Jain:** So, sir, my question was here that what we are talking of this INR 1,000 crores what is the base number we are looking at? It is an FY19 base number, or it is FY21 base number, what is the base number we should hold on and then look at this INR 1,000 crores, INR 1,200 crores of incremental revenue?
- Rajesh Rathi:** Yes, so then for this particular base number, I think we can refer FY20 because in FY20 we have done the CAPEX which was in the Q4. So, FY20 can be taken as a base.
- Sanjesh Jain:** Okay, so basically on FY20 we are talking of an additional INR 1,000 crores to INR 1,200 crores of revenue. That is the fair understanding, right?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** Second question again is on the non-specialty part. The growth looks phenomenally strong. This is despite Chinese increasing the rebate and India cutting the rebate. So, it looks like we have combated well. What has been the reason behind this? How will we able to achieve this growth despite such a strong headwind?
- Rajesh Rathi:** It was a demand supply gap on certain product lines, and that is how we could achieve this growth.
- Sanjesh Jain:** And this is sustainable, right? The revenue number is sustainable. There is no one off gain or?
- Rajesh Rathi:** It is not one off, but the growth rates may not be sustainable, but of course we will maintain.
- Sanjesh Jain:** Absolute revenue I am talking about exit revenue that is sustainable, right?
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** My last question again on a gross profit margin which Natu said that we may look at a pressure of 200 to 250 basis points. So, will we go back to say 40% before we jump back to 44%. Is that the right understanding? Or you think this time it will be a much smoother transition than last

time when the volatility in the raw material prices, we went up to 37%? So, what changes the scenario this time over the last time is the raw material more widespread, and it is easily passable or how should we see this entire gross profit margin trend, say over next four quarters?

**Nilkanth Natu:** Yes, so a couple of points is on the inflation side when we say that the raw material inflation is in between the range of 2% and 2.5%. It is more on the input side. So, there has also been a pricing actions which are in place. And as mentioned earlier we are in the process of increasing the prices and passing on this raw material increases to our end customers.

As also briefed by Rajesh sir earlier that we have to balance the act because the couple of raw material price increases have been very sharp. So, we need to also see that how we will be able to pass it on to the market. We do not want to give a number, but it is not that the entire 2% and 2.5% will be the number which is pulling down the gross margins. Our endeavor will be to try to minimize the impact as far as far as possible so as to maintain the number in the narrowest range.

**Sanjesh Jain:** Just one last bookkeeping question. Can you give out the breakup of specialty and non-specialty? Again I missed couple of them actually? Natu Ji, I know you said it in your initial remark, but I think I missed a couple of products?

**Nilkanth Natu:** Yes, so when we talk about specialty we talk about Azo, high performance pigment, cosmetic and dispersion and non-specialty we talk about Phthalos, inorganic and the effect pigment.

**Moderator:** Thank you. Next question is from the line of Gagan Thareja from Kotak. Please go ahead.

**Gagan Thareja:** The first question is pertaining to the fixed asset turn ratio on the CAPEX. I think if I refer back to your previous call last quarter's call you have indicated that the total CAPEX of INR 575 crores of which 70% is for capacity addition and on that we will get a fixed asset turn of 2.5 and if I go further back down to previous call transcripts, I think generally been indicating that fixed asset turns could be in the order of 3 or even more on this CAPEX.

But now you are saying INR 600 crores of CAPEX will give you INR 1,000 crores to INR 1,200 crores of revenue which is 2x. So, what changed and why is that fixed asset turn ratio not in line with what you have been indicating in the past?

**Rajesh Rathi:** I think there are two points. When we were talking about the ratios that time I think and that is why we wanted to talk about the total we were talking only the revenue generating kind of CAPEXes, whereas now we are talking about in totality all the CAPEXes including the infrastructure CAPEX and the EBITDA CAPEX.

**Gagan Thareja:** So, what you are saying is that there is actually INR 400 crores of CAPEX which is revenue generating because on using 2.5 as the benchmark that will give INR 1,000 crores and INR 200 crores. Am I right in that understanding?

- Rajesh Rathi:** I do not know which figure sir, this is not clear to me?
- Gagan Thareja:** No, what I am trying to say is that around INR 600 crores you get a turnover of INR 1,200 crores, which means an aggregate turn of two, right, 1,200 divided by 600. But you are saying that actually only on capacity addition portion out of that INR 600 crores you can get an asset turn of 2.5, which means only INR 400 crores out of INR 600 crores is the capacity addition because INR 400 crores into 2.5 is INR 1,000 crores and the rest is infrastructure. Is that the correct way to look at it?
- Rajesh Rathi:** Yes.
- Gagan Thareja:** And again, referring back to your previous quarter's conference call. You had indicated a CAPEX of INR 575 crores, and you said 30% if I understood the transcript correctly, was related to cost or backward integration measures. I mean is that what the balance INR 200 crores out of the total INR 600 crores is about?
- Rajesh Rathi:** The INR 600 crores there is a mix of revenue in infrastructure and revenue. And just to clarify, it is a mix of infrastructure, revenue, and EBITDA generation and in terms of if you take only the revenue generation, that is what I said, that is how the statement was made on a 2.5 times that time.
- Gagan Thareja:** And how much if it is for EBITDA generation if you could give some ballpark idea there?
- Rajesh Rathi:** No, we are not splitting it up completely on that perspective.
- Gagan Thareja:** And the INR 135 crores that you have got the board approval for is entirely focused on backward integration or is it focused at substituting the China supply chain?
- Rajesh Rathi:** As I mentioned earlier, the INR 135 crores is for putting up some infrastructure and getting on some trials for some of the new products. Nothing on revenue generating.
- Gagan Thareja:** And lastly, from my side as the revenue mix moves, a little bit more towards specialty or maybe a little bit more towards exports. And does that impact your receivables and inventory cycle in any way?
- Rajesh Rathi:** No.
- Moderator:** Thank you. The next question is from the line of proven from Dhruvam from HDFC Fund. Please go ahead.
- Dhruvam:** So, the question is on the INR 135 crores CAPEX. I just wanted to understand this better. This infra CAPEX is it for the future expansions that you will do and that is why you are putting probably the infra, the road and other things or is this to support the existing INR 600 crores CAPEX that we are doing?

- Rajesh Rathi:** No, existing already all the infrastructure is there. This infrastructure is more in terms of the effluent treatment etc. for future expansion.
- Dhruvam:** So, whenever we expand the next set of capacities or whenever we are not?
- Rajesh Rathi:** Yes, it takes longer for some of the infrastructure to come up, and that is how we are setting it up.
- Dhruvam:** So, the next set of CAPEX then you announce will have a numerically higher asset turn because some part of the CAPEX has already been incurred in terms of the utilities?
- Rajesh Rathi:** When we come to that set of numbers we would definitely talk about those numbers.
- Dhruvam:** But just to make it clear this is not something to support the existing CAPEX plans, this CAPEX is not to support existing to deliver the revenue for existing?
- Rajesh Rathi:** No.
- Moderator:** Thank you. The next question is from the line of Rohit Nagaraj from Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** So, the first question is the in the last couple of months that is April and May have we seen any kind of logistics and supply chain related challenges both from our sourcing perspective as well as exports and will that have an impact on the ensuing quarters as well?
- Rajesh Rathi:** Sir, we did find challenges in terms of logistics, etc. We have seen cost increases however, we have not had any disruption in terms of some delays etc., and not any disruption in terms of sales.
- Rohit Nagaraj:** So, sir, the second question is, once the current CAPEX program is completely implemented, including the 135 crores that we have talked about. So, what is the peak debt that we are looking at?
- Rajesh Rathi:** Nahu sir, you want to take this?
- Nilkanth Natu:** I would not like to put the number, but going forward I see that this debt-to-equity ratio which we are looking at, it would be better than the current.
- Moderator:** Thank you. We will take the last question from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Yes, I just wanted to understand that if I look at our EBITDA margins that we have done in Q4, we are sort of at a decently healthy number at 15% despite the MEIS impact of 1% plus there is some inflation coming in because of container availability and higher coal prices, etc.

And then of course, like you said, we have invested in manpower R&D for future potential for the business. So, of course I am not looking for guidance and the number, but if I take all these numbers into account, it seems like our steady state margin should be sort of closer to the 20% plus because there are so many numbers that are built into our current sort of margin profile. Is that like a fair understanding to have broadly, directionally over the next three to four years if you look at the business?

**Rajesh Rathi:** Natu sir?

**Nilkanth Natu:** So, as a part of our overall initiatives and our overall plans, we would like our EBITDA percentage on the growth track. Putting the number what you are saying at 20% I would not like to put that, but yes we would like to increase this percentage going ahead. Couple of factors, which will also help us in the next three to four years.

One is the ramp up of the current CAPEX which are getting put to use over the next three to four years, which will also give us a good operating leverage and we will be on the growth trajectory as far as EBITDA percentage is concerned. I would not like to put the number as of now.

**Madhav Marda:** And if most of the investment are around manpower in terms of the international sales force that we put in place is the majority of it already in place or do we still need to hire more senior level people in the international market? So, that part of the investment is already in the numbers like that?

**Nilkanth Natu:** I said earlier, we have invested for growth and the right organization setup has been also our priority. Majority of the hiring in terms of the overseas markets and the set up has been completed and I do not see there will be further increase in terms of overseas manpower.

**Moderator:** Thank you. I now hand the conference over to the management for their closing comments.

**Nilkanth Natu:** Thank you all for your time and interest in Sudarshan Chemicals. We remain confident on the long-term prospect of our business and look forward to engaging with you again. Thank you. Stay safe.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of HDFC Securities, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

---

(This document has been edited for readability purposes)

Contact Details:  
Registered Address:  
162 Wellesley Road,  
Pune, Maharashtra, 411001  
CIN: L24119PN1951PLC008409  
[grievance.redressal@sudarshan.com](mailto:grievance.redressal@sudarshan.com) / [contact@sudarshan.com](mailto:contact@sudarshan.com)  
Website: [www.sudarshan.com](http://www.sudarshan.com)