

20th December, 2016

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Listing Department,
National Stock Exchange of India Limited,
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Plot No.C/1, G Block,
Bandra Kurla Complex, Bandra (East),
Mumbai 400 051

Dear Sir,

**Sub : TRANSCRIPT OF THE INVESTORS / ANALYSTS CON CALL held on
16th December, 2016**

**Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements)
Regulations, 2015 – Schedule III PART A**

We enclose herewith the transcript of the Investors / Analysts Conference call held on
16th December, 2016 at 4.00 P.M.

Kindly take the above on record and further arrange to publish the same in your website
for the information of our shareholders, investors and public at large.

Thank you.

Yours truly,

For Sudarshan Chemical Industries Limited



P.S.Raghavan
Company Secretary

Encl : As above



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**“Sudarshan Chemical Industries Limited Q2 FY-17
Earnings Conference Call”**

December 16, 2016



**MANAGEMENT: MR. PRADEEP RATHI – CHAIRMAN & MANAGING
DIRECTOR, SUDARSHAN CHEMICAL INDUSTRIES
LIMITED**

**MR. RAJESH RATHI – DEPUTY MANAGING DIRECTOR,
SUDARSHAN CHEMICAL INDUSTRIES LIMITED**

**MR. VIVEK THAKUR – ACTING CHIEF FINANCIAL
OFFICER, SUDARSHAN CHEMICAL INDUSTRIES
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**MR. AMEY ATHALYE – SENIOR MANAGER-
ANALYTICS, SUDARSHAN CHEMICAL INDUSTRIES
LIMITED**

**MODERATORS: MR. JIGAR JANI – EDELWEISS FINANCIAL SERVICES
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited Q2 FY17 Conference Call hosted by Edelweiss Broking Limited. As a reminder, all participants' 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. I now hand the conference over to Mr. Jigar Jani from Edelweiss. Thank you and over to you, sir.

Jigar Jani: Good afternoon, ladies and gentlemen. On behalf of Edelweiss Broking I welcome all participants logged in for the Q2 FY17 Conference Call of Sudarshan Chemical Industries Limited.

From the management team we have Mr. Pradeep Rathi – Chairman & Managing Director; Mr. Rajesh Rathi – Deputy Managing Director; Mr. Vivek Thakur – Acting CFO and Mr. Amey Athalye – Senior Manager-Analytics on the call.

I would first like to thank the management for giving us the opportunity to host this conference call and now would like to handover the call to Mr. Rajesh Rathi for his opening remarks. Please go ahead, sir.

Rajesh Rathi: Thank you so much, Mr. Jani for the introductions. So what I plan to do is within the next 20 minutes give you all an overview of Sudarshan's business and look at quarterly results. We have already circulated the presentation to everyone so I would really request if everyone can refer to that. So we are on Slide #5.

So just to give you a glance of where Sudarshan is today. We are today the fifth largest pigment producer in the world. Our consolidated revenues for FY16 were about Rs. 1,409 crores and our businesses

include pigments which we make organic, inorganics pigments and. Agrochemicals . Our employee strength is 1,000 plus. Our two manufacturing locations are in Roha and Mahad in the State of Maharashtra Raigad district . We have an R&D center which is located very close to Pune. It is a dedicated R&D and a technical application lab center. We have sales in more than 70 countries and a salesforce of 50 plus sales team and 60 plus channel partners.

So if you look at our global presence, we have our global head office in Pune. Our Europe office is located in Amsterdam and our team operates out of Amsterdam and services the entire Europe. In USA our office is located in New Jersey. We are just about to start two new subsidiaries one in Mexico, and other one in Brazil. Shanghai office is now fully operational for both sourcing and for selling.

So if you look at our pigments we have organic pigments, Azos, Phthalocyanines and amongst Azos there are certain specialty and high performance and then our cosmetics in organics and then we have agrochemicals.

So just looking at our financial trend for the last four or five years our sales CAGR has been at 13% and EBITDA CAGR at 17%. If you look at our revenue mix our pigment percentage has changed in the last 10 years from 60% of the total revenue to about 89%. And our exports to domestic market is close to about 57% to 43%.

So little bit on the evolution of our journey. Sudarshan was started in 1952 and since 1952 I would divide the first phase up to 1989 when in before that we were kind of a domestic oriented company with sporadic exports in few of the countries. Our phase 2 was when he had Dainippon Ink & Chemicals as JV partners with and there was great exchange of technology plus global access. In 2008 we decided that our aspirations were much bigger and hence we decided to go on our

own and our current phase is what we are talking about . Phase 3 is which I am going to talk a little bit about.

So just to recap a little bit on the phase 3. Our objective was to increase our global presence become a first divisional player and be among the top four pigment players in the world. Ten years ago when we started this journey we were not even among the top 20 players. So I think basically our strategy was to kind of shift our brand from becoming a toll manufacturer to becoming a direct marketer to get direct access to the market so that we know our customer requirements well. We are able to service ourselves well. A change to the product mix from more of a commodity to specialty in the commodities . We sold lot of inorganics. Also during that period we realised that the markets which we were serving earlier were kind of low end market , general printing inks, plastics coatings whereas now we have moved towards a more specialized market , automotive, machine colorants, cosmetics and plastics.

Just to give you a overview there are various estimates of the pigment global market between Rs. 5.5 billion to Rs. 6 billion but we have taken a conservative figure of Rs. 5.5 billion. Out of which the market size of the products which we manufacture would be about Rs. 3.5 billion and our primary focus first is on plastics and coatings market which is about 50% of that and the India market is estimated to be about close to Rs. 1,500 crores.

Our prime market is coatings which is paints for all types of paints. Plastics again all types of plastics. In printing inks we target the higher end of the applications, food packaging, UV inks etc. In cosmetics we look at our cosmetics and personal care. Our competitive advantage has been R&D and EHS . We claim to be one of the companies where we create our own technology. The reliability is a very important factor

for in our industry we are a very process driven organization with a mindset of continuous improvement.

If you look at our journey it is from 1984 when we started with philosophy of TQM that was first implemented to later on in the early 2000 we started with Six-Sigma. We were the first Chemical Company to be ISO 9001 certified. After that we have had various certifications to the latest one being the British Safety Council Five Star rating for our safety practices. As I mentioned on technology we have a dedicated R&D center very close to Pune which is going through a complete renovation operation in terms of equipments etc right now and it should be completed by January. So this would also give a push to our new products and also EHS in our industry is a very important part because we do consume a lot of water and generate a lot of fluid hence that has been a great focus at Sudarshan.

We are probably the only Company in this region to get a direct discharge permission to the sea from the pollution control authority. Our track record for environment has been very, very good.

Now moving more to our quarterly results. Our Q2 results we grew at 5%. It was a disappointing kind of numbers for us. This was mainly because of several reasons. Some of our markets in Middle East where we have a large market share Saudi has not been doing very well. So our businesses has dropped there. Some of the African countries like Nigeria, Egypt the currency availability and the economies has not been doing very well. And Europe in terms of user industry where we sell we have seen certain slowdowns.

Having said that the EBITDA margins compared to the last year's quarter has improved by 17% and net profit by 45%. This was generally due to some sourcing efficiency gains, however we did have some onetime expenses for this quarter. If you look at our financial ratios among Slide #20 and financial results compared to last quarter I

think compared to last year our performance overall has been very good.

And on Slide #21, our key ratios debt-to-equity has been 0.93% so there has been an improvement. Interest coverage ratio is improved to 8.54% and our current ratio is 1.38% and asset-to-turnover ratio of 1.86%. Some of the highlights of the business I think is on Slide #22 We have added about Rs. 50 crores of new CAPEX. This CAPEX has given us an increased capacity of about 17.5%. We are getting ready for the next financial year and we are also looking at probably our last quarter Q4 where we see a good demand. So we are getting ready for that.

We are continuing our focus on two elements reduction on our working capital, great focus on inventories, receivables and to sustain margins several strategic initiatives are continuing. So if you look at our business outlook demonetization has had some effect on our industries. If you look at our coatings industry, if you look at our rubber and EVA industry in India we have seen a suppressed demand in these areas. Some of the international markets like Middle East, Egypt and Nigeria and Brazil we continue to see some challenges though we feel in Q4 we would recover some part of these losses and we expect to complete our CAPEX of about Rs. 150 crores by this year end.

So this was the gist of performance of our Q2 quarter and we will be very happy to answer any questions.

Moderator:

Thank you very much. We will now begin with the question-and-answer session.

We take our first question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

- Dheeresh Pathak:** I want to know what percentage of pigment revenue comes from Europe and what comes from Africa, what comes from Middle East so if you could give a broad geographic mix of these pigment segment revenues?
- Rajesh Rathi:** Currently I think in the public domain we are not kind of given a competitive perspective, we are not breaking up our regions. We would look at this in the near future but currently we are not doing this but from a perspective of this year we feel by this year end in some of these areas we should be able to make up some of the sales which we have lost. We have looked at lot of new opportunities where even if there was surplus demand in some of these markets and we have been able to get approvals for these opportunities which should turn into sales in the last quarter.
- Dheeresh Pathak:** Okay, which is the largest geographies you had just mentioned the largest export geography?
- Rajesh Rathi:** No okay other than India our largest would be Middle East and Africa together.
- Dheeresh Pathak:** Okay and did you mentioned that you are doing Rs. 150 crores CAPEX for FY17?
- Rajesh Rathi:** Yes, approximately Rs. 150 crores.
- Dheeresh Pathak:** Okay and then what was that Rs. 50 crores number that you mentioned you said that...
- Rajesh Rathi:** We have completed by September. By September we have already put to use Rs. 50 crores of CAPEX which has given us a capacity increase of about 17.5%.
- Dheeresh Pathak:** Okay so balance remaining Rs. 100 crores would happen in the next six months?

Rajesh Rathi: Yes.

Dheeresh Pathak: From September to March okay and then what are CAPEX plans for FY18 if you drawn them?

Rajesh Rathi: So the approximate plan for the next five years is about Rs. 200 crores per year. But we kind of take a very cautious approach. We will finalize the next year's plans somewhere in February and March. We have a board meeting in March so we will kind of finalize that during that time but we would be ready for a next year's growth plans with this Rs. 150 crores investment.

Dheeresh Pathak: Okay so based on the weakness, that you called out in some of your export markets there is no meaningful change in your CAPEX plans and your growth outlook which you highlighted at the analyst meet?

Rajesh Rathi: Yes, I think if you look at, yes, there could be some issues in Q3 and maybe but next year definitely we would kind of we are looking at making up whatever our short concerns. Like I mentioned we have looked at new opportunities. Our sales team also have been hunting for new opportunities and we have been able to convert some of these opportunities.

Moderator: Thank you. We take our next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Sir, my first question would be to u , we have an ambitious CAPEX ahead of us, given that we plan to be one of the global leaders. I mean how are we going to look at the debt-to-equity over the next few years as we reach probably to be one of the top three you know pigment players?

Rajesh Rathi: So Vivek, can you take us through our expectation with this Rs. 1000 crores investment? Again I am going to say that we are going to be very careful it is not that we are going to invest this Rs. 1,000 crores

tomorrow we are going to be very cautious about it, we are going to see how our market develops. But on an overall basis, I would request Mr. Vivek Thakur, DGM-Finance to share our overall plan on the numbers.

Vivek Thakur: Yeah, so Mr. Padmanabhan, basically with this Rs. 1,000 crores CAPEX we expect a healthy turnover of about Rs. 4,000 crores which will be coming from the high value added kind of pigments. So Rs. 4,000 crores is the total turnover we expect once the entire CAPEX is put into place. So which will happen over a period of next five years. So basically this CAPEX in addition to the CAPEX there will be working capital requirements and on the current estimate, we estimate this requirement to be about Rs. 800 crores or so. So total capital employed on this we are targeting a return on capital employed of 30% and we are confident of getting this at the current EBITDA margin which is about 15%. So over a period of next six years, this is what we have expected and the total funding of this will be decided over a period of time and we will continue to review the approval situation, internal accruals and what the shortfall is going to be funded by either bank loans or we will decide at an appropriate time on how to fund the gap.

Sudarshan Padmanabhan: Sir, the second thing is we had pointed out some weakness in the global scenario, I mean what has really causing this kind of a slowdown that is happening because I think we are putting up CAPEX and so is a lot of our peers in the industry? And I mean there is something that we are looking at from a short-term basis or something that can actually drag in for some time? If you can give some color on the demand and supply situation?

Vivek Thakur: So as I mentioned some of the oil kind of related economies if you look at Nigeria, you look at Saudi and you know some of these countries and Egypt the availability of US dollars has been a concern,

not in Saudi but the other two countries I mentioned. So even if there was a demand our customers could not open LCs and in these countries we work on advance basis. So what we are looking at is if we are not able to make or get our budgeted numbers in these areas we will be looking at numbers or getting these numbers from Asia, we are focusing a lot on more on Asia. Europe continues to be our focus and North America. So next year we will be looking at these to make up these numbers.

Sudarshan Padmanabhan: Sir, just one more thing from my side. I think you know globally there is a lot of opportunities available specifically in the automobile space and the high performance pigment. I mean if somewhere I think if you can throw some light upon, I am sure that the entire approval process and things are you know fairly long drawn. Where are we in this you know approval line can when can we expect you know to move in more visibly in the high performance pigment and specifically into automobiles and other European and US companies?

Rajesh Rathi: So our journey is on. I think as we are strictly engaged with the top two or three customers of automotive paint manufacturers. As you mentioned some of the approval cycles are very long. We are already in the midst of the approval cycles. We expect some of the approvals and some cases we have received approvals. We have already started selling so there is a relationship which is developed. They like our value proposition, they like what we are doing and there are certain products which are in pipeline which we should be able to see some results in six months to an year.

Sudarshan Padmanabhan: Sure and any one offs in this quarter sir I mean if you can quantify?

Rajesh Rathi: So the one offs was on the contract the bonus payment you want to specify, Vivek?

Vivek Thakur: Yeah, so there were some one-time payments of bonus to contract workmen. So it is also included in the publication notes it is about Rs. 1.2 crores.

Moderator: Thank you. We take our next question from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: Sir, you have just mentioned you are targeting Rs. 4,000 crores of turnover over next five years and in media we have also talked about it many a times that we are targeting for fourth player in the world with a 30% kind of ROC. So are we saying we are looking for 25% kind of growth on year-over-year basis?

Rajesh Rathi: So I would not want to speculate too much far in advance, but I think as I mentioned we have plans and we are going to see how the market develops. We are kind of we are looking at the market development and acceptability of our products. And as one thing we have learnt we are implementing our CAPEX within three to four months. Hence what we do is, once we reach a utilization level of about 85% etc. we will put in the new CAPEX. So we are extremely careful while making that investment so that we are not over investing, and we do not have large unutilized capacities. But on an overall master and strategy plan this is what we have mentioned, but I would not want to kind of speculate on a year to year growth.

Vikrant Kashyap: That is fine. You have also talked about launching new products and that will give you an incremental kind of revenue. So how many products have you rolled out in FY17 till now or what are we planning for say FY17 and FY18 how many new products are we coming with?

Rajesh Rathi: So on an average FY16-17 our target is to roll out about 30 to 35 products and a similar number next year.

- Vikrant Kashyap:** Similar number next year? How many we have actually rolled out in this year?
- Rajesh Rathi:** I would not have the number right now on my hand. I would have to look at the number but probably 30% to 40% of our overall target of the year we would have rolled out.
- Vikrant Kashyap:** Sir, my last question would be we have talked about many times that we are looking for global expansion and growth. And how much growth are we targeting in India?
- Rajesh Rathi:** Sir India continues to be our very important market as we have a very large market share and we have excellent relationships. So we do continue to beat the market. We want to at least grow 2x the market growth whatever at least two times of what the market is growing.
- Moderator:** Thank you. We take our next question from the line of Pawan Kumar from Unifi Capital. Please go ahead.
- Pawan Kumar:** Sir, the first question was regarding the seasonality in the business. You see I observed your numbers in 2012, 2013, 2014 and 2015 H2 has been significantly weaker than H1 whereas in 2016 both were relatively. Is there any kind of data point that we are missing or any particular reason for that?
- Rajesh Rathi:** Sir, historically our Q3 is our weakest quarter. One is the post Diwali the Indian market is this and then you have Christmas in Europe and North America. So and there is a holiday season during that time. So a lot of there is a surplus for Q3. And also there is a financial year end for all the global companies. So these factors kind of make Q3 not to be very strong but Q4 kind of makes up for that. And generally we have seen from our past trends if you look at between H1 and H2 it could be about 55% to 45%. So it is kind of Q3 is weak but Q4 kind of adds on a strong quarter.

Pawan Kumar: So can we expect some steady performance from here on from the year 2016 maybe H1, H2 more or less 10%, 20% variation bands?

Rajesh Rathi: Again sir I do not want to speculate but I think yes, I think it should not vary that much.

Pawan Kumar: You had mentioned that there are two focus areas, so one is reduction of working capital and sustaining current levels of margins. So as regards sustaining current levels of margins, in terms of material cost fluctuations and currency fluctuations how do you see insulating that part? If material cost pass through in all your contracts with your customers, present contracts?

Rajesh Rathi: Generally what we do is other than in any long term contracts we do have a clause for any raw material variations that we can pass on. And the second thing we do is usually our prices for a quarter are fixed and generally for that quarter our raw materials costs are also covered. So we if the prices if the raw material cost do increase for the next quarter we do look at the market situation as to how the market has moved and then take a call. So we are never kind of in a deadlock situation that we cannot so we make an informed choice whether we should pursue that business or not.

Pawan Kumar: Okay understood. So in terms of reduction of working capital what are the steps that you propose to take, are you going to I mean cut down certain geographies which are historically sought higher credits period what are the proposals?

Rajesh Rathi: There is a three pronged attack. One is on our planning systems to improve our inventories. So there is a big, big planning cycle kind of we are looking at our operational excellence program right on which is on the way and we should be able to complete this entirely by this April. But we would start seeing results on that inventory front from next quarter itself. The second is in terms of our customer payments, in

terms of distributors, we did have a long credit cycle with them we are trying to get them into seven days of payment and with the vendors we are working on a longer credit period from them.

Pawan Kumar: Okay and what level of your current sales from distributors and what is directly to the end using industry?

Rajesh Rathi: We approximately 70:30.

Pawan Kumar: 70 is through distributors?

Rajesh Rathi: 70 is direct.

Pawan Kumar: Okay 70 is direct and balance is distributors. Then one last macro question. So as many companies or even many countries look to reduce the carbon footprint do you see over a mid to long term perspective the need for pigments itself would come down?

Rajesh Rathi: Could you repeat that question, please?

Pawan Kumar: No, as more and more countries and even many companies are looking to reduce their carbon footprint, do you think that the need for pigments itself could come down from a very long term perspective?

Rajesh Rathi: No, absolutely not. I think we bring color to the world so you would not want to see a white and a black world. So I think from that perspective I do not think women will stop using lipsticks and blushes and stuff like that. We see colored cars, we see colored printed areas. So I do not think that it should have any effect on so much. However, we have lot of initiatives within the company to reduce the carbon footprint.

Pawan Kumar: So when you mentioned that EHS is one of your competitive hedge, so in what sense you meant that, you meant it because your EHS

compliant you will get global orders or from what perspective you meant that?

Rajesh Rathi: Sir, EHS provides a huge reliability. If you look at quite a few of our Chinese and Indian suppliers lot of plants do get shut down because of non-compliance. Pigments uses a lot of water we generate a lot of effluent and so to deal with this effluent you require good technology. And it is a large cost. In an addition to this we do have lot of programs where we are looking at whether we can recycle water, how we can reduce our water consumption. Safety again we are dealing with a lot of solvents, we are dealing with a lot of hazardous chemicals. So safety becomes a very, very important part in the industry. So these two kind of parts can create a havoc for the continuity of the business.

Moderator: Thank you. We take our next question from the line of Niraj Mansingka from Goldman Sachs Asset Management. Please go ahead.

Niraj Mansingka: Just one question. What are the various scenarios which will lead to your enhancing the CAPEX run rate or slowing down?

Rajesh Rathi: I think it is our success rate in the marketplace. Success rate in the marketplace are kind of looking at how well we are entrenched in some of the new geographies and that would kind of determine how we put our CAPEX. So this CAPEX is not a Greenfield CAPEX it is all incremental CAPEX so we are putting up we have lot of vacant land in Roha. So we are putting up small lines as we start getting our approvals. And that is the big advantage in us where it is not a very high risk environment and our engineering team has done a fantastic job in kind of reducing the lead time of these capital investments which gives us a great advantage in de-risking our investments.

Niraj Mansingka: And would this assume that there are certain approvals as you go ahead and that is how you scale up your CAPEX?

Rajesh Rathi: Absolutely, sir.

Niraj Mansingka: And any color on that?

Rajesh Rathi: Sir, right now I think it would be we do have certain approvals we also have certain new chemistries which we are ready with to launch. So we will so that is where we are currently made the investments. We have also made this year the investment which we started but it will get completed by this quarter end is on to reduce some of our manufacturing costs which will give us a long-term advantage.

Niraj Mansingka: And sir last impact and you touched on the demonetization is there any impact for you for this quarter or probably?

Rajesh Rathi: For a short term we have seen an impact of this. As I mentioned the core team's demands has been suppressed in some of the rubber industries we have seen suppressed demand.

Niraj Mansingka: So basically then you will see more depressed Q3 because Q3 generally is depressed on the cyclical way as well?

Rajesh Rathi: Yeah, so Q3 yes, Q3 is a little bit of, yes.

Moderator: Thank you. We take our next question from the line of Jinal Fofalia from Alf Accurate Advisors. Please go ahead.

Jinal Fofalia: Sir, as you have said that you know demonetization has taken some impact on your business. Suppose demonetization would you like to give some guidance for your FY17 numbers, your topline growth?

Rajesh Rathi: I do not think on the full year basis we do not expect it to have to a big adverse effect. There has been a short-term effect. For example, what with this current availability of money one would kind of postpone some of the discretionary expense. For example, if you are painting a house, this post Diwali before Diwali you cannot paint your house,

with this current situation probably you would kind of spend your money on other resources rather than painting your house. But once this availability becomes better I think people would know and it is expected to turnaround.

Jinal Fofalia: But if you can just get some numbers it will be great?

Rajesh Rathi: Sir, I would not like to speculate. We would definitely be doing a Q3 call and we would explain that more in detail.

Jinal Fofalia: Okay another question is you said that you are targeting a 4x as a turnover I mean Rs. 1,000 crores of CAPEX so what all are the strategies, I mean what are all the right steps that you are going to take to generate 4x of asset turnover?

Rajesh Rathi: So one, we are looking at one as I mentioned this is a brown field project. It is not a greenfield project. So all the infrastructure is already in place. So most of the investment is going to be on plant and machinery right. Second is we are looking at high value items like high performance pigments effect, specialty zones where the turnover is high and we are really scrutinizing and tightening the CAPEX expenses. So we have looked at lot of cheaper sources but reliable sources of plant and machinery to be sourced out of India or within India. So these are some of the strategies we have looked at in this area.

Jinal Fofalia: Okay, sir another last question if I may. See if you could just give your segmental breakup like you know what percentage contribution comes from automotive segment likewise if you can just put some segmental numbers?

Rajesh Rathi: So right now these numbers are not in the public domain. But we will consider this in the future to get these numbers out in the public domain.

Moderator: Thank you. We take our next question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question pertains to at the industry level what type of a growth do you expect from the Indian markets and from the export markets?

Rajesh Rathi: You are saying at the pigment industry level?

Charulata Gaidhani: Yes.

Rajesh Rathi: The pigment industry level the India market grows at about 8% to 10% and the global market grows at about last year it has been about 3% to 4%.

Charulata Gaidhani: Okay you expect the same rate to continue over the next two years?

Rajesh Rathi: Yes.

Charulata Gaidhani: Okay and what is Sudarshan's position in this amidst the competition in the market? In India I believe you are the market leaders, what is the market share?

Rajesh Rathi: In India we are the market leaders we have about 35% market share and we are very much ahead of the number 2. And in terms of globally we are today the number 5 pigment player.

Charulata Gaidhani: Okay do you see competition from the larger players eating up into your business?

Rajesh Rathi: No, I think what we are doing is we are eating into their market share. I mean Europe, North America, Asia which were some of the new markets for us we are kind of eating their market share.

Charulata Gaidhani: Okay but now with there would have been a drop in realization over the last one year. With that do you see do you think there is a preference towards pigments from Clariant or? Yeah, my question

pertains to internationally with the drop-in prices, would you be facing competition from Clariant and are you seeing business getting eaten up?

P.R. Rathi : As Mr. Rajesh Rathi was mentioning it is Sudarshan who is eating up the market share of competitors in Europe and North America likes of Clariant and other.

Charulata Gaidhani: Okay and how much is the business from Europe and North America?

Rajesh Rathi: The geography split is not in the public domain currently so.

Charulata Gaidhani: Okay, yeah then my second question pertains to you said you were expecting a pick up in demand in Q4, what is the reason for the pick up?

Rajesh Rathi: Every if you look at historically, Q4 is a very strong quarter for us and as I mentioned Q3 is a weak quarter because of post Diwali syndrome and the Christmas and the global companies have their year end. That makes Q3 a little bit of a slow quarter.

Moderator: Thank you. We take the next question from the line of H. R. Gala from Pranav Advisors. Please go ahead.

H. R. Gala: Sir, just one question in terms of EBITDA margin. Although our sales did not increase that much, we have already reached about 17% in the first half. Now when we go over next five years by spending Rs. 1,000 crores CAPEX and Rs. 4,000 crores incremental sales, do not you think that the EBITDA margin should jump from this level?

Rajesh Rathi: Yes, because we will be leveraging our fixed costs and however we do expect some few percentage point increases but not substantial increases because we would have a working capital and term loans to kind of look at from that perspective.

- H. R. Gala:** Yeah, but that will be interest part of it. I think the EBITDA percent which we have about....
- Rajesh Rathi:** But then I think what would happen is we estimate this margins to increase by a few percentage point because we will be leveraging our fixed costs.
- H. R. Gala:** Yeah, exactly. So what kind of the ideal margin you will be looking at say at the end of fifth year by 2020 or even ahead of it? Could it be more than 20% easily?
- Rajesh Rathi:** Sir, I kind of all hope and wish that we even go beyond that. But I would not like to speculate. There will be a speculation and it would not be a right thing to do. But we have like I mentioned we have all efforts to ensure that our EBITDA margins and ROC are kind of keeping improving.
- H. R. Gala:** That is right. Sir, another question now this crude oil prices have started increasing and there is a possibility that it will further increase if the production is curtailed. How will it impact our overall working capital cycle and our ability to pass on as you said that you do have clause in your long-term contracts?
- Rajesh Rathi:** Right, we do not see much issues in passing of costs . As part of our raw material costs increases we do not see a major effect because we are far ahead in the value chain and a very small percentage of our raw materials kind of directly linked to the crude oil. However a more important part is that China is the major source for most of the raw materials and the major thing is there is a very tight environment control in China and lot of plants get shut down. So it all really depends on the supply and demand gaps pricing.
- H. R. Gala:** Okay sir, do you expect at some time in future you know in many industries Chinese plants have shut down for a variety of reasons like

pollution and environmental control is one, the higher wages etcetera. Do you think they can get back to the production level?

Rajesh Rathi: Sir, I think the Chinese environment laws are very strict and now they are implementing those norms. So which is a very good thing and hence it becomes a level playing field now. So from a level playing field I think some of the players are not competitive from that perspective and some of the people who have gone business I do not think they would come back.

H. R. Gala: Okay but any major concern?

Rajesh Rathi: We are not happy with the current growth that has been a concern I would say.

H. R. Gala: Apart from that there is nothing like demonetization could be one quarter more at the most?

Rajesh Rathi: Yeah, absolutely.

Moderator: Thank you. We take our next question from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: I just wanted to understand the USP of our products. So just I was wondering if you are targeting for Rs. 4,000 crores of turnover in the next five years obviously those customers might be getting served from other clients. So once we develop those products and go to those clients to pitch the products which we have developed for them what would be the USP of our products and why those clients should shift from existing suppliers to us?

Rajesh Rathi: Yeah, I think two areas. One thing as I mentioned some of the markets which we are looking at our product performance would be equivalent or better than the top three companies. In terms of our focus on the pigment business versus and the strategic relationships which we have

developed they are welcoming new players in the industry. And given the overall package in terms of our own technology, the EHS our products having a good performance in the application, overall it makes in a very good package to kind of for our customers to partner with us and that has been the reason why we have got good traction from some of the global customers.

Naushad Chaudhary: Okay and you said this market size globally is around Rs. 5.5 billion, if I heard it correctly. Is it for the organic pigment or the entire pigment industry size?

Rajesh Rathi: It is only organic pigment, sir.

Naushad Chaudhary: Only organic and what would be the total pigment market size globally?

Rajesh Rathi: Sir, we are into organic pigments and effects pigments. So we do not make TiO₂ and black which are the major products.

Naushad Chaudhary: And is there any particular trend you see between the organic and inorganic pigments within the pigment industry?

Rajesh Rathi: So I think basically people kind of tend to use in terms of organic pigments more because they are more environmental friendly. Some of the inorganic pigments have heavy metals in them and hence people do prefer organic pigments.

Naushad Chaudhary: So this Rs. 5.5 billion is organic, can I assume around Rs. 10 billion to Rs. 12 billion would be the total market of the size of the pigment industry?

Rajesh Rathi: It will be larger than that I do not have the number on top of my hand but it will be much larger than that.

Naushad Chaudhary: And is there any chance for unorganized player to be in this organic pigments, is there any unorganized market also in India?

Rajesh Rathi: There are several Indian and Chinese players also in the market but they do not have the product depth, the product range which we have. Most of the Indian companies do focus only on blue and green pigments.

Naushad Chaudhary: And the entire 100% business comes from the branded product, we do not do any contract manufacturing or any such kind of thing?

Rajesh Rathi: Yeah, absolutely it is all manufactured by us.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Jigar Jani for closing comments.

Jigar Jani: Thank you for taking the time out and attending the conference call and thank you to all the participants as well for attending the conference call. We would like to now close the call. Thanks.

Rajesh Rathi: Thank you.

Moderator: Thank you very much. On behalf of Edelweiss Broking Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.