



“Sudarshan Chemical Industries Limited
Q3 FY2019 Earnings Conference Call”

February 11, 2019

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Moderator: Ladies and gentlemen, good day and welcome to the Sudarshan Chemical Industries Limited Q3 FY2019 earnings conference call hosted by ICICI Securities. 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 call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now hand the conference over to Mr. Sanjesh Jain. Thank you and over to you Sir!

Sanjesh Jain: Thank you Greff. Good afternoon everybody. On behalf of ICICI Securities, I welcome all the participants to Q3 FY2019 conference call of Sudarshan Chemical Industries Limited. From the management team, we have Mr. Rajesh Rathi –Managing Director, Mr. Vivek Thakur – CFO and Mr. Amey Athalye – Deputy General Manager – Business Analytics. I would like to thank the management for giving us this opportunity to host this earning call. With this, I would like to handover the call to Mr. Rathi for his opening remarks. Thank you and over to you Sir!

Rajesh Rathi: Thank you ICICI Securities for hosting our Q3 FY2019 earnings call. Good evening ladies and gentlemen, welcome to the Sudarshan Chemical Industries Limited earnings conference call for the quarter three for financial year 2019.

Starting with the performance for the quarter revenues were at INR 348 Crores as compared to INR 324 Crores in the same period last year, a modest growth only 7% year-on-year in a seasonally very soft quarter. The nine-month revenues are at about Rs.1067 Crores as compared to Rs.962 Crores, a growth of about 11% over last year. There were majorly two impacts. In India, our business was severely impacted as some of the master batch producers saw the impact from the plastic ban in various states. This was also coupled with some shutdowns in the northern market in NCR area. The input price volatility could not be translated into selling prices for ink producers, which again impacted some of our sales in the ink industries. In overseas market, the demand was soft and specially being the holiday season, we did experience certain lower demands. However as of today, we see some of these pressures easing out in the market.

In terms of the gross margins the Q3 margins are at 39% as compared to 41% for the same period. This was mainly because of the raw material prices continued to increase and as discussed earlier, the intermediate prices have started going up from Q4 of FY2018. Sudarshan did catch up with certain customer price increases; however, some of the impacts had to be absorbed or we could only pass on some of the absolute increases in raw material cost. We also follow a usual quarterly pricing with direct customers and distributors and there is a quarterly lag in passing on the prices. All these combined effects led to gross margin reducing to 39%. The raw material prices now seem to have stabilized, and from here on we should have a strong recovery in margins.

Our EBITDA was at Rs.37 Crores as compared to Rs.46 Crores in the same period, margins were mainly impacted due to higher raw material cost, increased employee cost from recruitment of some strategic senior and mid management positions to support our long-term growth globally, also some cost towards long-term strategic projects were also incurred. These fixed costs could

not be completely leveraged. Additional cost as you were aware our agro business was discontinued and some employees of this divisions were absorbed in the pigment division and additional costs have been incurred on that part.

On the capex front, we had planned Rs.250 Crores out of which Rs.200 Crores are under various stages of implementation and in the next six months, these projects should get completed. Moving on to the business highlights, we continue to deliver very strongly on backward integration initiatives. We completed backward integration of one of our key raw materials and we have also launched eight new products. We have also received certain awards for a people processes. The Golden Peacock Award. We continue to focus on product innovation, enhancement of product portfolio and expanding our footprints in newer territories. Our vision is to become a market leader in the pigment and it is backed by very strong plans in entering new segments. We are constantly evaluating and focusing on both organic and inorganic opportunities that come our way, we are excited and energized about the potential that this market represents for us and confident of reaching our growth aspirations.

I think we have already sent out the presentation to all of you and with this, would be more than to happy to answer any questions.

- Moderator:** Thank you very much Sir. Our first question is from Anand Bhavnani from Unifi Capital. Please go ahead.
- Anand Bhavnani:** Hello. So, my first question is about margins, I wanted to understand we discussed in Q2 that we will be taking a hike in order to pass on the raw material price hike to customers, so if you can help us understand how much of the hike was taken and if there is any further hike yet to be taken in Q4 quarter?
- Rajesh Rathi:** Sir we have passed on the one quarter lag of the raw materials; however, there were more raw material cost increases which we saw and that is what it hit us in that quarter.
- Anand Bhavnani:** Was there any hikes taken in Q3 or not?
- Amey Athalye:** Yes, so in Q3 also we continued to increase customer side selling prices and we have mentioned during the quarter, we had to take calibrated view in terms of managing the sales growth and margins. But to that extent, we passed on some of the raw material increases during Q3 to customers.
- Anand Bhavnani:** So, is there any further hike left to be taken by us in Q4 or Q1 of next year?
- Rajesh Rathi:** So, there are very few, most of the increases now we have passed on which will be effective from Q4.
- Anand Bhavnani:** Okay, secondly Sir if I were to see year-on-year top line growth of this 7%, this seems it is largely price-led. So, volumes wise the growth does not seem to be coming and is there any

strong reasons for it or this is business as usual and volume growth are likely to be remaining subdued?

Rajesh Rathi: So, I think a couple of things Sir like I explained India markets – last year we saw a very strong Q3 given the post GST period, this quarter we did not see an increase plus we have a very strong forte in plastic market but we saw a very soft demand in the plastic side. The second area was that – in terms of exports I think given the holiday seasons, some of the orders did get postponed. In terms of the volume, we really lost out on some of the commodity segments versus the specialty segments; I think we could register almost a 15% to 16% value growth.

Anand Bhavnani: Okay, Sir so in terms of volume plastic, how much ballpark is it part of our business and how much did it kind of volume drop off in that segment?

Rajesh Rathi: So, I do not have a breakup right now segment wise.

Anand Bhavnani: Okay and Sir given that it seems plastic ban being considered incrementally in more places in India, what is the outlook for that particular segment like do you anticipate double digit kind of growth returning into plastics or will it like still be single digit from hereon on going forth?

Rajesh Rathi: It is a good question sir. I think from a perspective of what we have looked at some different segments of plastics and we are also looking at certain specialties where we can grow our business to other segments to compensate for some of these losses from the India perspective.

Anand Bhavnani: Okay and Sir lastly on capex you mentioned that Q3 we might see some commissioning of capex, so any update on if you had any capex commissioning in Q3 and for Q4 any capex is to be commissioned?

Rajesh Rathi: We expect Q4 some of the projects getting completed. In Q3 nothing has been put to use right now. All projects are in progress.

Anand Bhavnani: Okay, we though in Q2 con call you mentioned there will be some commissioning in Q3, so is it delayed due to some specific reasons?

Rajesh Rathi: There were some delays, of which some are happening as we speak now in January.

Anand Bhavnani: Okay and what would be the reason for the delay?

Rajesh Rathi: Some of the delays were in some commercialization.

Anand Bhavnani: Okay. Fine. I will come back in the queue.

Moderate: Thank you. The next question is from Shiv Kumar also from Unifi Capital. Please go ahead.

Shiv Kumar: Sir in terms of our asset turns, the capex that is to be commissioned, do we see assets turn for this capex, we commissioning Q4 to be around 4 that was guided earlier?

- Rajesh Rathi:** It should be between 3 to 4 Sir.
- Shiv Kumar:** Okay, so are we – because capex amount was around Rs.250 Crores, so are we expecting let us say Rs.750 Crores of revenue for this particular capex would that be the right way to interpret this?
- Rajesh Rathi:** So, I think there are – like I described there were different categories of projects. There was plant and machinery, there were some infrastructure related and some were backward integration. The backward integration would result into EBITDA improvements and not sales area.
- Shiv Kumar:** So, the net asset turn would be how much, if the gross asset turn is roughly 3 and 4, what is the net asset turn?
- Rajesh Rathi:** I think we will come back to the exact figures.
- Shiv Kumar:** Okay and for the capex to be commissioned in Q3, utilization, can we expect it to be 100% utilized in FY2020?
- Rajesh Rathi:** Next year, yes.
- Shiv Kumar:** Okay. Thank you. I will come back in the queue.
- Moderate:** Thank you very much. The next question is from Ritesh Poladia from Girik Capital. Please go ahead.
- Ritesh Poladia:** Thanks for the opportunity Sir. Sir my question is on your notes to accounts of point 7 and 8 that effective portion of your cash flow hedging, what is the nature of this item, are these unexecuted forwards of receivables or is this on which the sales has happened during the quarter, if you can give some explanation that would be very good?
- V. V. Thakur:** We implemented hedge accounting on 1st July 2018 and the loans, the long-term currency loans which are taken for the purpose of capex, has been taken as a hedge to our long-term future receivables, which is going to happen in the subsequent years, so the receivables and the loan against that are designated as a hedge as a natural hedge and the effective portion of that goes into the hedge reserve. So that is the amount, which is mentioned in the note number 7. There is a forex income of Rs.12.73 Crores, which has gone to the hedge reserves. So, Euro whatever movement happened from last quarter to this quarter, the gain on ECB has been taken here.
- Ritesh Poladia:** Because it is written also that effective portion of the hedge has been accumulated in the other comprehensive in terms of - it is not in the P&L, it is into the reserve side.
- Ritesh Poladia:** It is in the balance sheet.
- Ritesh Poladia:** On point #8, there is a translation net loss; can you give us what is the quantity of this?

- V. V. Thakur:** This is the other income number. This is a standard note, there is no loss on translation of foreign currency monetary item, this is a standard note.
- Ritesh Poladia:** So, there is no translation in this quarter?
- V. V. Thakur:** Yes.
- Ritesh Poladia:** Okay. On the question on business, Sir can you give some volume growth or degrowth in the domestic exports in specialty chemical side, some qualitative remarks would be very helpful for us.
- Rajesh Rathi:** So, I think in terms of exports, our demand is picking up and we should see a good healthy sales growth in the next Q4 quarter, in terms of like I mentioned in India, plastic segment has some subdued performance, but I think from overall perspective, we have several other opportunities, which we are chasing, some of the other specialties where we are looking to grow.
- Ritesh Poladia:** Thank you very much Sir.
- Moderate:** Thank you very much. The next question is from Kushal Maheshwari of Omniscient Capital. Please go ahead.
- Kushal Maheshwari:** Hello.
- Rajesh Rathi:** Yes Sir.
- Kushal Maheshwari:** Good afternoon. Sir I had two questions. One is on the backward integration front; can you just tell me which all raw materials have we completed our backward integration on and what percentage of raw material cost do they constitute and what kind of improvements in EBITDA will we expect?
- Rajesh Rathi:** As I said we have completed only one backward integration that is for our effect business and the spend on that raw material was about Rs.25 Crores.
- Kushal Maheshwari:** Okay. And Sir I know this has been discussed earlier, so can you just give me - where do we stand on a Rs.1000 Crores capex plan cumulatively how much capex has been incurred and still we expect to do further capex only after where 85% utilization has been occurred?
- Rajesh Rathi:** Yes Sir. Once we have completed this Rs.250 Crores, this utilization happened, and then we will go in the next phase.
- Kushal Maheshwari:** Okay, and what is the cumulative amount of capex that has been done out of the Rs.1000 Crores?
- V. V. Thakur:** Including this year, we would have spent about Rs.450 Crores on the total Rs.1000 Crores capex.
- Kushal Maheshwari:** Rs.450 Crores, so ideally the entire Rs.1000 Crores capex should be done by which year?

- V. V. Thakur:** 2020.
- Kushal Maheshwari:** 2020, so what is the capex that is going to be incurred in the next year, is that the differential Rs.550 Crores?
- Rajesh Rathi:** So, the capex plan of Rs.1000 Crores is for the next five years till 2023.
- Kushal Maheshwari:** Okay, till 2023.
- Rajesh Rathi:** 2023.
- Kushal Maheshwari:** Okay that is from my side. Thank you.
- Moderate:** Thank you very much. The next question is from Ankit Gor of Systematix. Please go ahead.
- Ankit Gor:** Hi. Thank you, gentlemen, good evening. My question with regards to phthalic anhydride, since the antidumping duty has been removed, and will it turn substantially positive or moderate positive since it is probably this basic raw material for CPC pigments, and if yes then what is the probably – if you can quantify some gain even in some margin percentage or something like that that will be helpful.
- Rajesh Rathi:** We do not make CPC, so we are buying CPC today.
- Ankit Gor:** Okay Sir probably you had a plan to go to backward integration in crude blue probably if I am right, any comment probably that will help us in...?
- Rajesh Rathi:** So right now, we have not – that project will kick start – no, it is not kick started, and it will take at least a year to implement.
- Ankit Gor:** Sure, just clarifying one thing – this Rs.1000 Crores, how much it will be on backward and forward I am just confirming this number, if you can give me some number?
- Rajesh Rathi:** We will send a clarification note Sir on a detailed number.
- Ankit Gor:** Thank you very much Sir.
- Moderate:** Thank you. The next question is from Vikrant Kashyap of Kedia Securities. Please go ahead.
- Vikrant Kashyap:** Sir good afternoon. In the opening remarks, you did mention that exports growth was softened due to holiday season; do we see revival in growth in quarter Q4 onwards?
- Rajesh Rathi:** Yes, Sir absolutely.
- Vikrant Kashyap:** Yes. And will we be able to back to the previous quarter's growth in exports ?

- Rajesh Rathi:** Yes, Sir I think last year also we had a very good Q4, so I think looking at that we are making all efforts to see, how we can catch up on the growth on Q4.
- Vikrant Kashyap:** Okay. You did mention you have launched eight new products in nine months, so how much is the revenue potential from these launches?
- Rajesh Rathi:** From what Sir?
- Vikrant Kashyap:** New product, you have launched...
- Rajesh Rathi:** The potential of these eight products should be about Rs.30 Crores Sir.
- Vikrant Kashyap:** Per annum?
- Rajesh Rathi:** Yes Sir.
- Vikrant Kashyap:** And they are into specialty segment?
- Rajesh Rathi:** Yes Sir.
- Vikrant Kashyap:** Okay and Sir you also talked about a strong margin improvement from Q4 onwards because you have been able to pass on most of the raw material price increases, so what do you mean by strong margin improvement, how much percentage we can expect?
- Rajesh Rathi:** Sir we do not give particular numbers, but as guidance I would say directionally Q3 was not a very good quarter, and Q4 onwards should be much better improvement.
- Vikrant Kashyap:** Back to normal at least?
- Rajesh Rathi:** Yes Sir.
- Vikrant Kashyap:** Okay Sir. Thank you and one more thing, in the opening remarks, you also talked about organic and inorganic growth opportunities, so are we scouting for any inorganic opportunity right now?
- Rajesh Rathi:** Yes Sir, we are continuously on the radar.
- Vikrant Kashyap:** Okay sir. Thank you very much and wish you best of luck.
- Rajesh Rathi:** Thank you Sir.
- Moderate:** Thank you. The next question is a followup from Shiv Kumar. Please go ahead.
- Shiv Kumar:** Thank you. Sir gross margin wise, we are 39% in this quarter, and you mentioned that no further price hike or very little price hikes are yet to come, so are we expecting margins to improve purely from fall in raw material prices or any operating – how do you kind of explain from here

on margin improvement, how is it possible, what drivers would be leading to any margin improvement?

Rajesh Rathi: I think on one trend is the raw materials are softening, and that should give us a better leverage and most of our price increases would have become effective in the Q4 quarter.

Shiv Kumar: Okay and Sir you mentioned about product which has been backward integrated and we were spending Rs.25 Crores on it, I am assuming this Rs.25 Crores is annual figure, not a quarterly figure, is it?

Rajesh Rathi: Yes Sir.

Shiv Kumar: Okay, so after let say the commissioning in Q4 capex, how much more backward integration in absolute term we would have as far as our cost of good sold was, so would it be incrementally Rs.25 more Crores, 50, 75 or how much in Crores?

Rajesh Rathi: So Q4 is a combination of both capacities and some backward integration, right now we do not have breakup of that from our perspective.

Shiv Kumar: Okay, Sir can you like share it if I get in touch with you offline?

Rajesh Rathi: Sir we just evaluate to ensure that, it is not very sensitive information, so we just evaluate and let you know sir and if we do we will publish it for all.

Shiv Kumar: Okay and Sir for inorganic you said you are on the radar. So, any kind of ballpark number or any amount that you have kind of laid out separately for this strategy and if you can throw some color on it.

Rajesh Rathi: I think we are looking at opportunities, which look at strengthening either our product portfolio or our market spread, which helps in our EBITDA margin, improvement of backward integration. So, we are looking out for the right opportunity Sir.

Shiv Kumar: But any for outlay for it like any figures that you have kind of thought in the vicinity of let us say Rs.50 Crores, Rs.100 Crores, Rs.150 Crores what kind of upper limit you have set yourself for this particular capital allocation?

Rajesh Rathi: There are not many opportunities, but it will all depend on the opportunities which come up.

Shiv Kumar: Sir the rational for my question is more about your debt levels because we are doing refill capex and so if you can give us ballpark upper limit to this inorganic capital allocation strategy that you might pursue, that will help us understand the overall balance sheet outlook.

Rajesh Rathi: We will ensure that debt to equity ratio does not get in to over leverage...we are not overlapping when we are looking at anything.

- Shiv Kumar:** Okay. Thank you.
- Moderate:** Thank you very much. Next question is from Pawan Kumar of Ratnatraya Capital. Please go ahead.
- Pawan Kumar:** Sir so overall the challenges that we faced on the raw material front in the previous two quarters and because of supply disruptions in China, so are those particular capacities in terms of raw material, are they coming back or what is the situation right now?
- Rajesh Rathi:** So, I think certain capacities of China coming back on screen and we should even see February and March some more capacities coming in, was that your question?
- Pawan Kumar:** Yes, and how much of our RM do we source from China as of now?
- Rajesh Rathi:** Around 35% to 40%.
- Pawan Kumar:** Okay and post our backward integration initiatives that we have taken, where can this 35%-40% moved to Sir after everything is complete?
- Rajesh Rathi:** So, I think it is a pretty dynamic figure right because you keep substituting raw materials either from India and going there etc., so it is a difficult question to answer from that perspective as an end result.
- Pawan Kumar:** But maybe are we trying to get it to somewhere around 20%-25% at least the range?
- Rajesh Rathi:** So, I think there are both issues, there are issues on India side also on certain raw materials. So, it is not a question only on China that we are facing, I think certain raw material disruptions are happening on the India side too, so I think that is the range. We do not have aim to reach a certain percentage at China what we are looking at is how do we derisk ourselves on each of the category of these raw materials.
- Pawan Kumar:** Okay. Any progress on the auto paint side Sir?
- Rajesh Rathi:** Yes sir, there are good progresses. We are getting more and more approvals in that.
- Pawan Kumar:** Okay, can we see some good amount of traction on the commercial volume side going forward from the segment, if so from the – maybe or from what time – maybe on the medium term how much will it take? Sir I was just asking how much time will it take us to actually ramp up commercial production on the auto paint side.
- Rajesh Rathi:** Sir I think usually time cycle to get a product approval ranges between one to two years and every third we are getting some products approved.
- Pawan Kumar:** Okay, so we are still maybe six months or one year away, right?

- Rajesh Rathi:** Sir I would say that every year we have some products approved and that pie keeps increasing.
- Pawan Kumar:** Okay and my last question this export potential in terms of volume growth, does it still remain at around 15% or is that number now lower?
- Rajesh Rathi:** Sorry, export growth you are saying?
- Pawan Kumar:** Yes. Export volume growth potential Sir, I am just talking about it in terms of potential.
- Rajesh Rathi:** That is where we are planning our growth.
- Pawan Kumar:** Okay, but 15% is possible, realistic?
- Rajesh Rathi:** We do not give forward looking numbers but I think directionally it should be positive Sir.
- Pawan Kumar:** Okay. Fine. Thanks. I will get back in the queue.
- Moderate:** Thank you very much. Next question is from Dheeresh Pathak for Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Yes. Sir thank you. For nine months, can you share the volume growth in the domestic market?
- Rajesh Rathi:** I think we can split the growth on the specialties and commodities globally that is what we are giving our numbers. I think we will probably do those numbers.
- Dheeresh Pathak:** Okay. All right and which raw material are the ones which are causing this pain on the gross margin, if you can highlight a few names that will be helpful to understand.
- Rajesh Rathi:** There are several benzenes based, so all the azo-related pigment raw materials we have been having disruptions.
- Dheeresh Pathak:** Okay and so one backward integration we are doing is Rs.25 Crores that is also benzene related, is it?
- Rajesh Rathi:** No, that is related to effect pigment Sir.
- Dheeresh Pathak:** That is related to sorry what?
- Rajesh Rathi:** That is related to effect pigments, not Azo pigments.
- Dheeresh Pathak:** Okay and sir I was – the breakup for domestic I was asking because domestic paints companies have had for nine months very good volume growth, and obviously 40% of our business would be paints on the domestic side, we are not seeing that reflect, are we seeing that growth on the paint coating side?

- Rajesh Rathi:** On the coating side, our coating group has been normal Sir, nothing very – I mean very average growths from that segment.
- Dheeresh Pathak:** But coating would represent these companies like Asian Paints, Berger, Kansai right, so if they are growing volume in high teens, are we not seeing that business growth in our exposure to those companies?
- Rajesh Rathi:** In product mix, some colors, which we have seen the demand on us; it has not been that matters
- Dheeresh Pathak:** Okay Sir. Thank you.
- Moderate:** Thank you. The next question is from Rohit Nagaraj of Sunidhi Securities. Please go ahead.
- Rohit Nagaraj:** Thanks for taking my question. Sir just taking the raw material question a little further so are we see the raw material pressure easing from the materials, which are currently being imported from China or is it for the raw materials, which are predominantly crude based and crude prices have started stabilizing?
- Rajesh Rathi:** Sir your voice was not clear. Can you repeat your question?
- Rohit Nagaraj:** Yes. One minute, is it clear now?
- Rajesh Rathi:** Yes.
- Rohit Nagaraj:** Sir my question was related to raw material, so the easing in raw material price pressure is for the raw materials, which are currently being imported from China or is it for the crude-based raw materials where the crude prices have now been stabilized?
- Rajesh Rathi:** No, Sir I think it was our price increases were nothing do with the crude price, it was all due to the environment impacts both in China and India and what happened is lot of plants, wherever the plants got shut, there was supply shortages and that is where the prices increased and these happened both in terms of supposing there was a shutdown in China or lot of the Indian capacities got consumed, they are supplying China too.
- Rohit Nagaraj:** Right, so the supply side pressure is easing now or let...
- Rajesh Rathi:** Yes Sir. Lot of capacities are coming back.
- Rohit Nagaraj:** So, these are the ones, which are in India or in China, so...?
- Rajesh Rathi:** Both - they were interrelated, so both Sir, some China capacities are opening up and that has helped.
- Rohit Nagaraj:** Okay. Thank you so much.

- Moderate:** Thank you. The next question is from Ashwin Reddy of Samatva Investment. Please go ahead.
- Ashwin Reddy:** Hi. Thank you for the opportunity. I asked the question regarding the Chinese supply coming back, you just explain a bit more because obviously last two to three years have been quite tough for the entire industry in terms of supply chain have been disrupted by environmental norms and everything. Can you just give some more light on what is coming back and how are they coming back, has the cost structure gone up or some color on that please.
- Rajesh Rathi:** So, I think obviously in China, there were certain areas, which were outside red color zones and in some of these red color zones lot of industries were shutdown. There are few industries, where capacities are coming back, we have seen some back in January and we are seeing more capacities, which are going to get opened up in February and March and as the capacities are opening up, and we are able to see an ease of demand and ease of supply and hence the prices are falling back.
- Ashwin Reddy:** Okay and Sir just to summarize on your supply side, the situation is improving but also on the demand side or in terms of the competition that was also going up because of the same reason?
- Rajesh Rathi:** So, I think this was a global supply demand mismatch and that is why the prices increased, so supply demand gap is narrowing now that is where the price pressure is off a little bit.
- Ashwin Reddy:** I understood. All right. Thank you so much.
- Moderate:** Thank you. The next question is a follow up from Kushal Maheshwari. Please go ahead.
- Kushal Maheshwari:** Sir, can you just give me the breakup of the revenues between organic pigments and effect-based pigments and also the margin of HPPs and mica based?
- Rajesh Rathi:** We do not give out SBU wise details from a competitive perspective. We could share some data which we will make it public on the website, whatever data we can publish.
- Kushal Maheshwari:** Okay. Can you just shed some light on how – what will your strategy be to increase – say the share of HPP pigment in your overall pigment portfolio?
- Rajesh Rathi:** Your question is how are we going to increase our HPP portfolio?
- Kushal Maheshwari:** Yes.
- Rajesh Rathi:** So, I think our whole global strategy has been based on increasing our sales in specialty, not just HPPs, so we are targeting the plastics and coatings market globally. We are making all efforts to penetrate every market and that is how our product mix is going to change.
- Kushal Maheshwari:** Okay. Thank you so much. That was very helpful.
- Rajesh Rathi:** Thank you Sir.

- Moderate:** Thank you. Next question is from Dheeresh Pathak. Please go ahead.
- Dheeresh Pathak:** Thank you again. Sir, the nine-month employee cost also is high - increase of 20% or so and not commensurate with the increase in the top line, so can you explain that?
- Rajesh Rathi:** As I mentioned in my opening remarks that we are preparing for the long-term growth, we have recruited several strategic senior and mid management positions globally and some of these global positions are high-cost positions and for the growth, we have also created several new positions and that is what has caused the increase in employee cost.
- Dheeresh Pathak:** Whatever vacancies or whatever gaps we had and are there still some gaps to be filled?
- Rajesh Rathi:** No, most of the gaps have been filled Sir.
- Dheeresh Pathak:** Okay and Sir in my earlier question, when I was asking on the growth in the domestic paint side, why I still did not get the clarity that why the growth is not inline with the Indian paint companies do?
- Rajesh Rathi:** So, I think two or three reasons, I think the products where we are supplying to them are those product range has not grown to the same extent and that is why our growth has been subdued in that matter.
- Dheeresh Pathak:** Okay. Can you give more specific like – and water based, solvent based, distemper, emulsion, which categories we are not present in, can you...?
- Rajesh Rathi:** We are - I can share that data more in detail, however I don't have that offhand.
- Dheeresh Pathak:** 5% plus market on the domestic coating side that market share has the growth been maintained?
- Rajesh Rathi:** We have maintained that Sir.
- Dheeresh Pathak:** Okay Sir. Thank you.
- Moderate:** Thank you. The next question is from Sanjesh Jain of ICICI Securities. Please go ahead.
- Sanjesh Jain:** Thanks for the opportunity Sir. One question on the pricing side, you said that we are yet to take some pricing increase by a quarter lag, which will help us in restoring some of the lost margin. So, this price hike more in terms of domestic market or it is more in export market where we still need to take the price increase?
- Rajesh Rathi:** I think both the markets where we did have agreement for one quarter, the quarter on quarter this so both the markets where we had to kind of increase prices.
- Sanjesh Jain:** Okay. So, it is basically across the segment we are yet to take the price hike.

- Rajesh Rathi:** Yes. We got – I think it was a lag of that one quarter and that is what...
- Sanjesh Jain:** Okay. On the expenditure side, we have done one power plants, which should – we said that in the annual report it will give us some Rs.18 Crores of saving on that I believe is a part of other expenditure and if I adjust for it, on a Y-o-Y basis our cost has gone by some Rs.10 Crores, last quarter we did mention that we have hired a consultant for long-term project, when is this cost getting normalized, and when can we see that benefit of backward integration the cost side coming to us?
- Rajesh Rathi:** No, the cogen plant benefit is already coming. As I mentioned it in my opening remarks, there are two major increases. One increase is based on the employee cost where we have created new strategic position, where we have done a lot of hiring and second is on the long-term initiative projects. Those are the two major costs, which have increased.
- Sanjesh Jain:** Can you explain a little bit what does the long-term initiative plan includes?
- Rajesh Rathi:** Those are the ones which we were talking about legal and the consulting charges.
- Sanjesh Jain:** So, these are mostly like filing the product there and what is the nature of it that is what I was...?
- Rajesh Rathi:** These are the one where we are working on the long-term strategy with the consultant that is the cost.
- Sanjesh Jain:** Okay. So, this should be there for another how many quarters?
- Rajesh Rathi:** Sorry.
- Sanjesh Jain:** This cost should be there for another how many quarters? It is a recurring cost or it is the one-time consultation, which we have spreading across few quarters?
- Rajesh Rathi:** It is a recurring cost for the next four months.
- Sanjesh Jain:** Okay, so another quarter or so.
- Rajesh Rathi:** Yes, about I would say two quarters.
- Sanjesh Jain:** Another two quarters then that should significantly come off.
- Rajesh Rathi:** Yes.
- Sanjesh Jain:** Okay. That is helpful. That is, it from my side and thanks for the opportunity and best of luck.
- Moderate:** Thank you. Ladies and gentlemen, we have no further question so I would like to hand the call back to management for some for closing comments.

Rajesh Rathi: Thank you very much ICICI Securities and everyone who is on the call and thank you for your interest in Sudarshan. We will be more than happy to come up with better results for the next quarter's conference call. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of ICICI Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability)