SUDARSHAN CHEMICAL INDUSTRIES LIMITED

Summary of the live interview of Mr Rajesh B.Rathi, Dy.Managing Director with CNBC TV 18 channel on 15th June, 2016

Below is the transcript of Rajesh Rathi's interview with Nigel D'souza and Reema Tendulkar on CNBC-TV18.

Nigel: Last year was a fairly good year if I take a look at it. You did around Rs 1,400 crore or thereabout. Could you tell us what was the capacity utilisation that you functioned at in the last fiscal year? What is the targeted capacity utilisation that you are looking to go to? Also break up your topline for us. How much of it comes in from exports and how much of it domestic?

A: If you look at our product pigments, basically colorants which are used in paints, plastics and cosmetic industries and the vision of our company is to become the fourth largest pigment player in the world. Today, we have the largest market share in India and we are the largest pigment manufacturer in India and we have seen significant traction in the three largest markets: Europe, North America and Asia. Our exports today would be about 60 percent would be exports and 50 percent would be India market. In years to come, we see the export percentage to go much higher up, not that our focus from the India market is going to go away, but 95 percent of the market is out of India. And since, we are focusing on these three regions which I said, it is natural that our export percentage would increase. Our capacity utilisations, I would say, we run between 85 and 90 percent. But we have a huge capital expenditure (Capex) plan and that is why we have a huge Capex plan as we are getting more entrenched into the global markets. We signed a memorandum of understanding (MoU) with Maharashtra government of Rs 1,000 crore of investment in the next five years. The first stage of the investment has already kicked off and we are already seeing very good utilisation of those capacities.

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Reema: How have the first two months of this quarter shaped up for you? In the prior quarter, you have had a revenue growth of 17 percent. Is that the revenue run rate we should expect even for FY17 or are we seeing signs of a pick up?

A: For the whole year, we should see a much better growth, only because we are getting more and more approvals into the international markets, Europe, Asia and North America. So, our sales growth should do better than last year.

Reema: How much better than last year? What should be the revenue growth rate for FY17?

A: That will be very difficult for me to say right now, but given that we are getting good traction in markets, you should see a good improvement on this.

Nigel: Can we do at least 17 percent that we saw on the last year? Can we match that number?

A: The vision of the company is to become the fourth largest pigment producer and we have great plans to grow. I would not like to dwell into the details.

Nigel: You were talking about becoming the fourth largest pigment player in the world, currently, what is your ranking and also, you were telling us that maybe exports, as a percentage of your total revenues could increase. So tell us what about the margins. For exports, what kind of margins do you enjoy and for domestic business as well, what kind of margins do you enjoy?

A: Since we started globalising our business, we have been changing our product portfolio to high performance pigments and which go into coatings and also effect pigments which go into cosmetics. Most of these products have a much better margin than the traditional pigments which we make and as our sales grow in these areas, our margins would definitely grow. We have several strategic initiatives within the company to grow the margins and especially a lot of focus on the return on capital employed and the earnings before interest, taxes, depreciation and amortisation (EBITDA) margins. So that has been our focus. So to give you an example on global inventories, a lot of focus on the planning cycles looking at how we can reduce our credit periods with our distributors our customers so that the capital employed reduces.

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Reema: Since there is so much focus on improving the EBITDA as well as the return on capital employed (ROCE), could you tell us what is the company's target for both these two parameters – EBITDA margins as well as ROCE?

A: Our vision in the next three years is that we should be growing our ROCE. I will not be able to tell you specifically for this year, but in the next 2-3 years, is to grow our ROCE margins beyond 30 percent.

Nigel: You were talking about a lot of expansion that is likely to come on stream. Have you funded all of that will you be looking to raise funds? What is that total number? Will you be looking to raise funds and also, once you are through with that, then what kind of capacities can we be basing ourselves for?

A: As I mentioned we are investing Rs 1,000 crore in the next five years and we are looking at how we get product approvals so on an approximate basis it would be about Rs 200 crore per year, but it could vary based on this, but the investment is going to be both through internal accruals and borrowings and that is our plan right now. As soon as we hit a particular capacity utilisation number, we will go in for further expansion our capacity, we have the required infrastructure, we have already expanded for the utilities, boilers, etc. So, now it is mainly the plants which take a lead time of about 4-6 months for the expansion.

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