"Shree Pushkar Chemicals & Fertilisers Limited Q2 & H1 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shree Pushkar Chemicals & Fertilisers Limited Q2 & H1 FY'19 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Punit Makharia -- Chairman and Managing Director. Thank you and over to you sir.

Punit Makharia: Very good afternoon to all the ladies and gentlemen. A very warm welcome to the quarter ended Q2 FY19 earning calls of our company Shree Pushkar Chemicals & Fertilisers Limited. On the call I am joined with Mr. Sengupta – our Associate Director; Mr. Ratan Jha -- our CFO and SGA our investor relations advisor.

Our 'Results' and 'Presentations' have been made available on the stock exchanges and the same has been uploaded on our website and I hope all of you had a chance to look at it.

Let me take this opportunity to give you a Brief Overview of our Company's Overall Performance and its New Developments, post which Mr. Sengupta will take you through our Financial Performance.

Regarding the updates of the existing business, the Dyestuff segment has picked up its pace in the second quarter of the current financial year. The total volume sales went up by 31% translating into revenue growth of approximately 23% as compared to H1 FY18; however, the realization in the first half have been lower by roughly 7.5% and we expect improvement in this realizations as the increases in the prices of Dye Intermediates gets passed on to the Dyes business in the subsequent quarters. With the current capacity of 6000 tons per annum, we have a total capacity utilization of 55% which includes our recently commissioned additional capacity of 3,000 tons only in the beginning of the current financial year. Therefore, we expect a better utilization of the additional capacity in the coming quarters which will give operational leverage on the cost translating into the higher margin profiles. Till date, we have been marketing our Dyes without any brand but now we have launched our own brand DYECOL for Dyes. This would help us in creating an exclusive market for all our products along with the brand equity.

As far as our exports is concerned, in the last year H1'18 the company did a sales of Rs.12 crores and whereas in H1'19 the export went up till almost Rs.50 crores which is mainly come through the Dye business. The Dye Intermediates segment contributed roughly 60% of our total revenue in H1 FY19 as compared to approximately 56% of the revenues in H1 FY18. The sales volume during the same period declined by 3% with the revenue growth of 15%. This has been largely due to better realization of Dye Intermediates which remained subdued during the last financial year, from here on, we expect the realization to remain stable for the remaining part of the year. As informed earlier, we have completed all the expansion capacities in current facilities under

Dyes and Dye Intermediates segments. We have planned additional CAPEX of Rs.75 crores in the Dye Intermediates segment and Sulphur derivatives segment which is expected to come on stream by FY20.

We are already Blue Sign certified company and our manufacturing base are as per international EHA standards. The Blue Sign certification ensures the final textile product meets very stringent customer safety requirements worldwide and also provide confidence to the consumer to acquire sustainable products. In H1 FY19 the overall performance of fertilizer division has been modest on account of poor monsoon across the country. It contributes about 11.4% to the standalone sales in H1 FY19. Fertiliser division saw overall degrowth of about 15% compared to the same period of the last year.

Friends, we have recently acquired 100% equity of Kisan Phosphate Limited for Rs.9 plus crores. Kisan is into the similar segment in a separate geographical region for H1 FY19. The Company had overall sales of Rs.23.6 crores with the PAT of Rs.2.3 crores. The same has been included in the consolidated financial of this quarter. Currently, we are in the process of putting up a sulphuric acid plant of 100 tons per day capacity, of which 50% would be captively consumed resulting into a raw material cost saving by around 12%. We are also putting up a cogen power plant of 700 KW to cut down the power cost by around 35-40%. The above initiative would further boost the profitability of Kisan Phosphate. acid complex is slated to be commissioned by the third quarter of the current financial year.

As far as our Acid division goes, is mainly for supporting, our in-house acid requirement for our Dyes and Dye Intermediates division, only the surplus acid is sold to the local market. Friends, we are confident of building a sizeable and sustainable portfolio of value-added products for our customers and grow our Dyestuff business. We are a system partner of Blue Sign which will help us to give better access to the international markets and are in process of reaching out to the various international clientele with introduction of our brand DYECOL.

Now, I would like to hand over the call to Mr. Sengupta who will take you through the financial performance. Over to you, Mr. Sengupta.

S.N. Sengupta: Thank you, Mr. Punit. Good evening, everybody and thanks for joining on the call. Let me take you through our results highlights. As far as the consolidated H1 FY19 results are concluded, we will say that total revenue from operations stood at about Rs.212.9 crores. In FY19 EBITDA stood at about Rs.36.3 crores which is roughly about 17% margin. In FY'19 PAT stood at Rs.21.4 crores with the margin of about 10.1%.

As far as the quarterly results are concerned, total revenue grew by about 18.4% in the second quarter, that is Rs. 115.4 crores in Q2FY19 as compared to Rs.97.5 crores in Q1FY19. EBITDA also grew by 15.4% to about Rs.19.4 crores as against Rs.16.8 crores in Q1 FY19. PAT grew by about 34.6% to Rs.12.3 crores as compared to Rs.9.1 crores in Q1. The H1 FY19 standalone segments, the Dyes accounted for about 24.2% of the total revenue. The segment saw better growth in the second quarter basically because of exports. The Dye Intermediates which comprises of around 60.1% of the revenue in FY19 has been on an uptrend. The segment saw 15% revenue growth compared to the same period last year. Acid Complex forms about 2.6% of revenue. The division has seen de-growth in volume on account of increased captive consumption. The Fertiliser segment contributed about 11.4% to sales and witnessed a volume degrowth of about 25% and revenue degrowth of about 15% in H1 FY19. Lastly, the Cattle Feed which accounts for about 1.5% of our business.

With this now, I open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Ritika Garg from Equitas Investment. Please go ahead.

Ritika Garg: Sir, I wanted to know what is the realization of Dyestuff and how has the trend been in the past two quarters?

S.N. Sengupta: In Dyestuff, we have made the total sales was624.36 MT in the first quarter amounting to sales of about Rs.16.77 crores whereas if at all you take the second quarter Dyestuff was 1,033 MT, with the sales of about Rs.29.07 crores. The average rate realization which we got in the second quarter was about 2.81 lakh per ton as against 2.69 lakh per ton in the first quarter.

Punit Makharia: Ritika, basically when we talk about our Dyestuff business it is basically a mixture of many colors and products, right and many colors and products they have got a different strength and the qualities of the various products. What we are talking here is the average pricing in totality of all the dyes whatever is produced in Q1 and Q2. As a summary, you can take that approximately average price realization in the Dyestuff is Rs.281/Kg.

Ritika Garg: How do we expect it to move up because Dye Intermediates prices across all companies I can see have increased?

Punit Makharia: In Dyestuff it is not easy to get the price impact immediately, generally, it takes around two to three months to transfer the price increase from Intermediates to the Dyestuff. Now we believe is that somewhere in the Q4 the prices of the Dyestuff will be also positively impacted with the current prices of Intermediates.

Ritika Garg: Will be impacted means it will be negatively impacted?

Punit Makharia: In a positive side.

Ritika Garg: So, we will start seeing the impact from Q4 onwards?

Punit Makharia: Yes.

S.N. Sengupta: Yes, up to Q2 the rates have been quite cooperative and slowly now the rates are likely to improve basically because the increase in the Dye Intermediates and the ultimate results we will be able to see only in Q4.

Ritika Garg: Our exports have increased significantly but that has not resulted in any improvement in my margin?

Punit Makharia: That impact is going to be there in Q3 results because generally, we sell exports on almost 90-days basis, so whatever the shipments have been made in Q2, the payments have to be realized somewhere in this Q3, so the exchange rate benefit would be there in this Q3.

Ritika Garg: But our export margin is higher than domestic margin?

S.N. Sengupta: More or less it is the same.

Ritika Garg: So, all you are going to earn is the rupee depreciation extra?

S.N. Sengupta: The exports market is a much larger market than the domestic market. Therefore, everybody would try and see that their exports go up and actually this has happened and we have had an export growth right from 6% which was last year to roughly about 50% this year.

Ritika Garg: How do we expect our exports to be in H2?

S.N. Sengupta: H2 should also be good. On an average we have done about Rs.50 crores in H1 and it should be Rs.100 crores plus in full FY19, so more or less if at all you take this whatever we have got Rs.50 crores, that will be another say about Rs.55-60 crores further, so it will be Rs. 100 crores plus that is on a conservative basis.

Ritika Garg: Our standalone profitability has been pretty flat if I consider H1 FY18 and H1 FY19, the real bump up has come because of Kisan Phosphate, Rs.2 crores in my PAT has been contributed in H1 by Kisan Phosphate whereas in H1 of FY18 there was no contribution of Kisan?

S.N. Sengupta: Basically, what has happened is that if at all you take the net sales H1'18 was about Rs.174 crores and this year H1'19 is about Rs.190 crores.

Ritika Garg: Although I have commissioned my capacities and there is a structural change I believe because of China, we have not really been able to realize the benefit?

Punit Makharia: Let me give you a more elaborate thing is that basically what happens is that the Dye Intermediates section we have had a capacity increase as well as the Dye section. Now we are consuming our own intermediates. On an average, if at all you see, roughly about per Kg of dyes, we will be using somewhere around 0.7 Kg of our own intermediates. So, what will happen is that whatever intermediates, whatever we are producing, part of it goes to meet the dyes. Now the intermediate prices which have increased over the last about say 3-4-months or 6-months, that has still not passed on to the dyes. So, that is the reason. At the moment we are in a position to see this price rise is passed on to the dyes, then immediately you will find the growth.

Ritika Garg: But in Q3 also we are not seeing the price rise being passed on?

Punit Makharia: Too early to say anything because on an average in this one month we will not be able to gauge what the whole performance is going to be for the whole quarter.

Ritika Garg: Why does there been volume growth in all segments except Dyestuff, is that because a lot of the Dye Intermediates and Acid Complexes are being used in the manufacture of Dyestuff?

S.N. Sengupta: Yes, the major portion goes to the manufacturer of dyes with the intermediates, so therefore that is acid degrowth is there. As far as the intermediates are concerned, there has been growth but in the first quarter if at all you see the consumption of intermediates was less, in this quarter it has been much more. If at all you see H1'18 it was hardly anything. So, these intermediates though the prices have risen but a certain amount of intermediates have been consumed internally. So, whatever effective rate you can see overall, that does not give you an apparent rise as such.

Ritika Garg: But when we talk about volume growth and degrowth, do we not include how much we consume captively?

S.N. Sengupta: No. Here what we have done is I can tell you that your intermediates we have a capacity of 4,640 tons capacity for H1 2019 and of which we have produced somewhere around 4,285 tons which takes our capacity utilization to nearly about 92%. Of that 4,285 tons, 1,245 has gone for our captive consumption for dyes. So, whatever we have sold is hardly about 3,041 tons as against the production of 4,285 tons.

Ritika Garg: This volume degrowth of 3% in Dye Intermediates in Q2, is after factoring means is on this 4,200?

S.N. Sengupta: Yes, 4,285 tons is the production.

Ritika Garg: We had a volume degrowth on this production of 3%?

Punit Makharia: Actual situation is that if you see there is Dyes business of almost 1700 tons in H1, so we have used a lot of intermediates in producing 1700 tons of Dyestuff. So, approximately 80% is the total raw material cost of the Dyestuff in intermediates is consumed like that. So, whatever has been produced in our Dyes Intermediates division, most of that intermediates have been also consumed into the Dyestuff business. So, it does not reflect into the Dye Intermediates segment. But Mr. Sengupta gave you the figures also. By that way, it is 92% utilization.

S.N. Sengupta: What I am talking about is the 3% degrowth whatever you are talking about is exclusively for Dye Intermediates. As I explained to you if at all you take H1'18 figures, the total production was about 4033 tons where the capacity utilization was about 94% but the capacity was also less at 4,268 tons. Now of this in the H1'18 we had consumed internally about 800 tons of intermediates for the manufacture of dyes whereas here in H1'19 we have consumed nearly about 1250 tons for manufacture of dyes. There whatever is available though, our installed capacity has gone up because of the H Acid here, therefore our capacity utilization if at all you take we have sold 3,041, so the decrease is only marginal, as against 3,150 we have sold 3,041. So, that degrowth is basically because more captive consumption is from manufacture of dyes.

Ritika Garg: So, can you just tell me how much was our production in H1 FY18 of Dye Intermediates?

S.N. Sengupta: 4,033 to be exact.

Ritika Garg: Basically, the sales volume which is sold outside has gone down by 3%?

S.N. Sengupta: Yes.

Moderator: Thank you. We will take the next question from the line of Pragya Vishwakarma from Edelweiss. Please go ahead.

Pragya Vishwakarma: I missed on the volume numbers for Dyestuff and Dye Intermediates for your second quarter. Can you please repeat that?

S.N. Sengupta: H1'19 if at all you take we have total sales of Dyes is 1658 quantity wise and H1'18 the total sales of Dyes was 1261.

Pragya Vishwakarma: What was the average realization for the quarter for H Acid and Vinyl?

S.N. Sengupta: For H Acid you can talk about Rs.420-430 per kg and for Vinyl Sulphone this is ranging from Rs.265-275 per kg.

Pragya Vishwakarma: So, how is the pricing trend now -- do you still see it going up or has it stabilized at this level?

Punit Makharia: I think almost more or less it is stabilized presently at these levels but we look forward to betterment in the Q4 because looking at the dollar trend and also import from China is practically closed, we do not see any imports coming from China as far as H Acid and Vinyl Sulphone is concerned. So, we believe that in Q4 there should be some improvement but presently, yes, we look at these prices at a stable mode.

Pragya Vishwakarma: On the Fertilizer side, I think in the last call probably you indicated situation might improve from the coming quarters. But that does not seem to happen. So, when do you see fertilizer business going to the trend of maybe Rs.15-16 crores per quarter? At the subsidy end also, like how is the situation right now?

S.N. Sengupta: As far as our Maharashtra plant is concerned, because of the drought position in Maharashtra, you must have been read in all the papers also that almost 18-19 districts in Maharashtra are under drought and there is no water because of those issues. So, there is a little bit more offtake in terms of the sales of the fertilizer is concerned in Maharashtra but if you talk about our Kisan Phosphate that is in Haryana, there we are doing quite well and in this year we believe that we should be able to cross 60,000 tons of the sales in comparison with 48,000 tons of the sales in comparison to last year.

Pragya Vishwakarma: Any outstanding subsidy on the fertilizer end?

Punit Makharia: That is always in rotation, Pragya.

Pragya Vishwakarma: So, I think last time outstanding subsidy received in July, right?

Punit Makharia: No-no, it is a continuous process. Whenever there is outstanding, we receive the old one and the new one is also there. It is into circle. It is not like that any subsidy is received. What happens is that when the government introduced DBT and PoS machine, so certain hiccups were there, and still certain hiccups are there, but slowly and gradually these things are getting overhauled.

Pragya Vishwakarma: What is the outstanding amount as of now both for Kisan and Shree Pushkar?

Punit Makharia: Both outstanding amount in subsidy should be about Rs.10 crores but that figure we are not carrying with us.

Pragya Vishwakarma: On the margin front, I understand we have short-term contract, I am talking about Dye Intermediates and Dyestuff. So, do you see the pressure easing out because if you see a trend in last few quarters, we are losing on the standalone business our EBITDA margin has kind of shrunk a bit?. So, when do you see this reviving to the previous level?

Punit Makharia: If you talk about the EBITDA levels, definitely what you say is that in this quarter we have been flat in comparison with the last year quarter. But at least we are able to maintain our last year growth almost and overall if you see that there is a little bit down by around 1% in comparison with last year or less than 1% also. But we believe that in Q3 and Q4 we should be able to do better than the last period.

S.N. Sengupta: In H1'18 though the EBITDA was as high as about 18% if at all you talk about the full year 31.3.2018, there the EBITDA was 15.9%. Now in H1'19, we have an EBITDA level of about 17.33%. So, if at all you compare with last year whatever entire year EBITDA was about less than 16, this year it is more than 17. Now if this trend whatever we are saying that the prices are stable, the Dye prices are likely to rise, so we should be expecting a little better EBITDA over the next quarters.

Pragya Vishwakarma: Sir, my last question is on the employee cost because this particular quarter it has jumped by some 39% or so. So, any one-off kind of an item in this on a standalone basis?

S.N. Sengupta: There is a slight increase, not a very large increase, it has gone up by roughly about 18-20%.

Punit Makharia: This is a normal issue, Pragya, nothing extra because we increase certain capacities, so more people have been hired, like that, and plus when we have launched our brand like DYECOL, we have had few people from the industry for the marketing of the dyestuff. We have also established our south India office ; we have made an office in Tirupur , there also we have hired certain people. Now in Mumbai, we have started an application lab for the marketing of our Dyestuff. So, we have hired certain technical and marketing people as far as the Dyes marketing is concerned. So, I think it is mainly because of that.

Pragya Vishwakarma: What I was trying to understand is there is no one-off item in it but this is the new run rate, right for your employee cost?

S.N. Sengupta: Question is whenever we are talking in terms of increasing our dye sales, obviously, we have to establish our marketing network. Once we talk about marketing network means in addition to the dealership and distributorship but we should have our own marketing set up, that is what we are doing; we are already opening up marketing offices at least about five, six different places then as far as the quality is concerned whenever we are talking about exports, we are talking in terms of also a laboratory at our office itself where we are in a position to give the end results immediately to the customers who come in here. So, with all this, and then we have to have certain expert people from the marketing field who will be able to take companies sales forward. So, with all this if at all you take when we are talking in terms of launching our own product by the brand name obviously because this is definitely likely to give you better results. The moment the sales of Dye starts going up, you will see much better realization on branded products which all along we have been saying the same thing that the moment we introduce our own brands, then we will be in a position to have better realizations.

Moderator: Thank you. We will take the next question from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: Sir once again on this Dyestuff side, I think in the first half you have reported 1700 MT of the Dyestuff and in the second quarter it was 1000 MT and current capacity is around 6000 MT. So, how should we look at the next two quarters in this business – will we be able to do the 1000 MT kind of the run rate or we expect much more than that?

S.N. Sengupta: We are talking in terms of a pro rata capacity. Overall annual capacity is 6000 tons, of which the pro rata for the H1 is about 3000 tons, that is our capacity, 50%.

Bhagwan Chaudhary: We used only 1700 MT in the first half?

S.N. Sengupta: Correct, that is roughly about 55% utilization.

Bhagwan Chaudhary: My question is in the next two quarters, what kind of run rate can one expect from the Dyestuff because it was 1000 MT in the Q2, so will it be at the same level or there are chances of the volume to increase in that?

Punit Makharia: This would be an average rate of the same what we did in H1 and we believe that it would be a little bit higher than that, we should be somewhere around 1100 to 1200 tons per quarter in Q3 as well as the same kind of volume in Q4 also. On a consolidated basis, if you see annually, we should be touching close to 4000-4200 tons of Dyes.

Bhagwan Chaudhary: What can be maximum capacity utilization out of this 6000 tons for next year – is it possible 90, 95% kind of capacity utilization?

S.N. Sengupta: I would put it in a little different way. The question is that this marketing set up whatever we are doing for promoting our DYECOL business has been for most about 4-4.5-months. Now if at all you see the figures, we have in the Q1 a figure of about 624 tons of Dyestuff which are sold. If at all you take the Q2 figure it is 1033. So, if at all you take that there is a rise of nearly about 50-55% in the volume. This is if, at all on one quarter, you can extrapolate and find out what exactly happens. Our efforts in marketing going international, trying to promote our brand that is all going on. Now the take-off period we will not be able to precisely predict, but then we expect that every quarter the things are going to rise.

Bhagwan Chaudhary: But sir, in the last year in Q3 and Q4 as well you were doing 1000 MT kind of the sales of the Dyestuff?

S.N. Sengupta: Those are bulk sales. Now we are talking in terms of branded sales. There is a lot of difference between that.

Bhagwan Chaudhary: But sir when it comes to the pricing we are again at almost at the same level or the price realization is bit down?

S.N. Sengupta: Correct, as we said that, from last year to this year the intermediates prices have gone up, so last year the price realization which was there, our bulk sale was more, today now the average selling price in the market is low as compared to last year. There has been price realization dip by roughly about 15% or so. Now, this at the moment the intermediates price gets transferred to the dyes, obviously this should go up, this is point #1. Point #2 is the moment our brand picks up in the market, that will even give us additional margins. So, this is what we are trying to do. Whenever we are talking in terms of bulk and whenever we are talking in terms of branded products, these are two different segments of market.

Bhagwan Chaudhary: Second question is as we are expecting that there are chances in Q4 onwards the Dye Intermediates prices can go up again and then post that you see some price revision into the Dyestuff side…?

S.N. Sengupta: No-no, you have probably mistaken us. What Mr. Punit was explaining that whatever Dye Intermediates prices normally it takes about two to three months' time for the Dye Intermediates prices which has gone up to percolate up to the manufacturer of dyes. These three months what he said that fourth quarter we shall be able to see a rise in prices because of the rise in the price of the intermediates.

Bhagwan Chaudhary: But again Dye Intermediates prices are almost at the same level what it was two, three quarters back?

S.N. Sengupta: Yes.

Bhagwan Chaudhary: Still, you see the opportunity for a price hike in Dyestuff?

S.N. Sengupta: Obviously. What happens is that if at all you talk in terms of intermediates, too dyes the raw materials cost is roughly about 80%. Now suppose if at all you say that the intermediates prices have gone up and the dyes prices do not go up, then that margin whatever 20% we are getting, that will diminish further and that is not possible. So, in order for the dye industry to maintain itself or sustain the prices have to go. If the raw material prices go up, obviously it has to be passed on to the finished product.

Moderator: Thank you. We will take the next question from the line of Kushal Khandwala from Lucky Investment. Please go ahead.

Kushal Khandwala: Can you throw some light on the Auxiliary Textiles Chemicals segment and the kind of scale?

S.N. Sengupta: Auxiliary, we have not taken much at the moment because basically, we are trying to promote our own dyes first, that gets stabilized and then only we will go into textiles auxiliaries.

Punit Makharia: As of now those plants are little bit delayed, Mr. Kushal.

Kushal Khandwala: So, by when can we expect to be running at full capacity for the Dyestuff and the Dye Intermediates segments?

S.N. Sengupta: Capacity it will depend but still we should say within the next about three to four quarter we should be having….

Punit Makharia: I think in the Intermediates, we are already up to level, of 90%. As far as the Dyestuff is concerned, we are in the range of around 60%. Hopefully, in this year, we should be in levels of 65-70%. I believe to a reasonable this capacity utilization should be there by the end of this financial year.

Kushal Khandwala: So, why I am asking is once we are done with all the capacity in the Dyestuff which will be a major portion of our revenues including Dye Intermediates, so what then do you see future growth?

S.N. Sengupta: In the general phenomena, the moment we have better capacity utilization and we find the demand for our products, we obviously go for further capacity build up.

Kushal Khandwala: What is the future CAPEX plan as of now? I missed out on one where you mentioned Rs.75 crores. Can you just repeat?

S.N. Sengupta: We are going in for a further expansion of capacity wherein we will be going in for certain Dye Intermediates and some Sulphur based derivative products.

Kushal Khandwala: How much will it be?

S.N. Sengupta: The total outlay for the capex is roughly about Rs.75 crores.

Punit Makharia: For that the company has already acquired the land and the entire Rs.75 crores will be funded from the internal accruals of the company, company will not be going for any kind of debt raising, and any kind of further equity dilution, all the expansions would be funded by the internal accruals, required statutory applications have already been made to the environment department and those are under process, and we have already started placing the orders of this capital equipments to the various vendors.

Kushal Khandwala: In terms of tonnage how much will it be for Dyes?

S.N. Sengupta: We are not bringing for dyes immediately. Currently, we have about 55-60% capacity utilization. So, unless we reach levels of about 75-80%, we are not talking in terms of immediate increase in the capacity of dyes but then definitely we are going in for intermediates because you see what is happening is that once our intermediates capacity has already reached about 94-95%, and unless we add to intermediates, we may not be in a position to sustain the Intermediates market itself. So, that is what we are talking. It is a phase expansion which we are talking, the Rs.75 crores are the first phase. The moment we have this phase implementation under control then we will go in for further phase.

Kushal Khandwala: What is the cash flow generated from operations in H1?

S.N. Sengupta: We have cash generation of about Rs.23 crores in this H1.

Moderator: Thank you. We will take the next question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, on the Intermediate front, you are thinking of expanding your capacities, right. So, what can be the quantum in terms of capacity?

Punit Makharia: Mr. Kanodia, there is a mixture of three, four products together and the total CAPEX of three, four products together would be almost around 7,000 tons a year. Apart from that there is sulphur derivative chemistry also is in a range of around 75,000 tons a year, that is into the first phase.

Shashank Kanodia: So, this Sulphur chemistry is largely sulphuric acids or other derivative products?

Punit Makharia: Sulphuric acid is also there plus further more derivatives of the Sulphur.

Shashank Kanodia: Three, four products in the Intermediates, you mentioned 7,000 tons of capacity, are you doubling of your existing Dye Intermediates capacity?

Punit Makharia: We are not talking about any product, there are three, four different products but yes, we will be into the same kind of business fraternity.

Shashank Kanodia: When can we expect this to come onstream?

Punit Makharia: I think that should be somewhere in last quarter of FY20.

Moderator: Thank you. We will take the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: Sir, when we are saying that we are going for branded dyes, what kind of premium would we get by selling under our own brand vis-à-vis the way we were selling earlier?

Punit Makharia: Honestly speaking, why we are doing it own branding is that not by just taking a few percentages more, that is not the thought process we are doing our own branding and trying to reach that to the customer. Obviously, when you go to the customer, you get some better margins into that. But let me tell you honestly the whole thought process behind going to the market directly or going to the consumer directly is not only taking some more money into that. The whole process here is stability and sustainability. What we have been doing earlier is that we have been selling the dyes to the various bulk traders or some institutional business like that we have been doing it. Since we have the strength and the capacity that we can market our own products, so now what we are doing is that through a brand called DYECOL which is certified by Blue Sign,which is certified by GOTS, which is certified by ZDHC is that we are now promoting our own products and going to the market directly so that in future whenever we go directly into the market then we can establish ourselves as Dyestuff manufacture company.

Rohit Nagraj: So, initially are we targeting certain geographies for the same?

Punit Makharia: Yes, initially we are targeting Southern India and we are targeting Bangladesh and small part of Northern India.

Rohit Nagraj: Any exports opportunities or countries that we are currently targeting except Bangladesh?

Punit Makharia: If you see that in comparison with last year, our export business revenue has gone almost 4x from Rs. 12 crores to Rs. 50 crores. Now initially we have launched DYECOL brand in Bangladesh in September 2018. If you go on YouTube, and see the DYECOL launch, you will get to know much more details about the launch in Bangladesh.

Rohit Nagraj: On the pricing front, so last couple of quarters, we have seen that the Dye Intermediates prices have risen up and then subsided. But the impact we were not able to pass on the Intermediates prices to the Dyestuff and now also we are expecting that it will take another three, four months to pass on because the impact will come in Q4. So, any specific reason it is taking so long for us to pass on the price increase in Intermediates to Dyes, so is there any structurally issue why is it not happening across the industry, any thoughts on the same?

S.N. Sengupta: This is a very-very typical question. I would put it in a little different way is that if at all we are talking about the past, if at all you go to the history you will find that the fluctuations in prices have been very-very abnormal. A product which was selling for about Rs.400 to Rs.500/Kg went up to about Rs.1700 to Rs.1800/Kg and then it came down and again went up and things like that. So, what happens is that whenever the prices fluctuate to such an extent, then what happens is that people then do not build up much of inventory, they rely on their own inventory and quantum wise sales goes down. Now once there is a stability in that, then probably you will find that this is going to happen. Now when volatility in the market starts, then everybody of their opinion that probably it will be repetition of what has happened in the past. That is not what is happening now. The prices have gone up steadily and over a period of time it has sustained that price. Now over last about five or six months, the prices have been the same or marginally increased. Now if this sustains, then obviously the purchases of these or building up your inventories will stabilize and then we will be able to get a better rate.

Rohit Nagraj: As per your understanding, there is no issue in terms of demand as such, so it is just that the inventory unwinding and again restocking?

Punit Makharia: To add further to this subject, I would also like to share my opinion is that, whenever we do a dye marketing there are three or four different channels, like a company selling to a distributor, distributor selling to a dealer, then there is a sub-dealer, then there is a consumer. And when we sell Intermediate, this Intermediate will sell directly to dye manufacturer. This Intermediates is between us and the Dyes manufacturer when we sell the Dyes Intermediates. But when we go for marketing or Dyestuff that entire channel is through the dealer and distributor network. So, this substantial inventory is always there with the dealer and the distributor.

Moderator: We move to the next question from the line of Ritika Garg from Equitas Investment. Please go ahead.

Ritika Garg: Regarding the CAPEX in Kisan of 100 tons per day, what is the cost?

S.N. Sengupta: Total cost of that is around Rs.9.81 crores.

Ritika Garg: And Rs. 75 crores CAPEX that are doing in Shree Pushkar standalone, that is entirely to be funded by internal accrual, so there are no preferential allotment to promoters?

Punit Makharia: Yes, that is there; Rs. 15 crores of preferential allotment to the promoter and the balance Rs.60 crores is funded through the internal accruals.

Ritika Garg: So, there no debt being taken?

Punit Makharia: No.

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

Ankit Gor: If at all I missed, Q1 and Q2 if you can explain why there is no growth on a standalone basis, basic reasoning behind that, that would be of great help

S.N. Sengupta: More or less there has been a slight increase in the sales of the Dyes itself. If at all 80% of the total sales of the company is coming by way of Dyes and Dye Intermediates, remaining 20% comes by way of Acid, Cattle Feed and Fertilizers. Fertilizer has been low, this year we have had till now that has been a negative growth in fertilizer division, that is part #1. As far as the Intermediates are concerned, we are already having a capacity utilization of 92% to 94%. So, there is no reduction in the quantity manufacture. Now only thing is that whatever is passed on to the Dyes business since our trust on Dyes which is the ultimate product we are going in and the Dyes market prices have not gone up. So, volumetrically if at all you see there has been an increase from Q1 to Q2, but realization have been low, therefore more or less it appears to be flat about 7% or so is the growth.

Ankit Gor: Just to understand more clearly, one is you said there was a capacity constraint, secondly more and more Dye Intermediates we consumed internally to make Dyestuff, and third is subdued Fertilizer division, these were the three main reasons and also realizations?

S.N. Sengupta: Yes.

Ankit Gor: This sort of lackluster quarter on a standalone basis, we can expect even in 3Q considering these three or four events stay same?

S.N. Sengupta: No, I would like to explain that, even in the last quarter discussion we have been saying that this is likely to pass on. We were anticipating that the pass on from the Intermediates to the Dyes would take roughly about 2-2.5-months. Only thing that in this case, it is taking a little longer time. The moment the increase in the Intermediates prices percolates down to the Dyes, everything is going to be stabilized. So, you cannot conclude since this is lackluster in Q2 and therefore Q3 also will be. It is not lackluster. There has been a growth in terms of even the total sales by roughly about 7%. Intermediates sale has gone down, Fertilizer sales have gone down and everything has come to this Dyes and Dye Intermediates section. So, basically it is a very typical thing, it is probably a passing phase, from one area we are moving to the other. So, as soon as the prices get reflected into the Dyes, immediately things will appear to be much better.

Moderator: Thank you. The next question is from the line of Anshuman Mehta, individual investor. Please go ahead.

Anshuman Mehta: I wanted to ask that besides all expansions have been done, the next capacity expansion we expecting only in Kisan as of now, the captive power and sulphuric acid, am I correct?

S.N. Sengupta: That is one part of Kisan where we are totally reorganizing the whole set up after having taken over and now in the Shree Pushkar also there is an expansion which we have already said that we are going in for Rs.75 crores of expansion, we have already acquired 40 acres of land in the MIDC industrial area, we have also put up our application, the ToR has been sanctioned in terms of reference by the EIA authorities and now we are in the position of getting the final clearances. The moment we have these clearances in hand then we should be in a position to start our construction. We have already on our drawing board, all the equipment which are required, their designs, we have identified the suppliers and some places we have also gone in and placed orders. So, these things are going on. Nothing is apparent at the moment basically because unless we have the EIA clearance, we are unable to take it on the ground level.

Anshuman Mehta: What is the full form of EIA?

S.N. Sengupta: Environmental impact assessment.

Anshuman Mehta: Second question is that Punit ji was saying that we have had Blue Sign which is like for our Dye manufacturing thing, so will that not give us better pricing as compared to local manufacturers of Dye?

S.N. Sengupta: Yes, definitely, what is happening is considering the textiles industry, Blue Sign is considered to be #1, as far as the rating agency is concerned. Blue Sign, we are declared as the system partner with Blue Sign and they have Blue Sign product finder wherein our products are going to be displayed or being displayed and all international buyers, whenever they want to buy something, they normally go to the Blue Sign product finder and start picking up the manufacturers and then get in touch. So, the whole process is basically building up the retail outlet and Blue Sign is something which gives us the accreditation.

Anshuman Mehta: Just for my understanding like, how many Blue Sign approved companies are there in Asia, like India and China mainly?

Punit Makharia: In Asia, we do not have the data Mr. Anshuman, but for that, we need to visit the Blue Sign website, but in India, we can tell you that in domestic market there are hardly three or four companies of which we are one of them.

Moderator: Thank you. The next question is from the line of Naushad Chaudhari from Systematix Shares. Please go ahead.

Naushad Chaudhari: I wanted to understand on the Fertilizer business side. As it is a part of our entire value chain and from last two quarters we are facing challenges here in Fertilizer division and obviously it must be impacting our entire value chain, just wanted to understand how are we handling the inventory in Fertilizer division and your comment on that?

S.N. Sengupta: Fertilizer you have to talk in terms of the kharif and Rabi crop. Last year also happened the same thing and this year also it has happened like that that the monsoons have either been delayed or very erratic and therefore the cultivation has not been very good. In fact, this year it has been still worse than what it was last year; this year nearly about 17 districts have been declared drought-hit.

Naushad Chaudhari: That is what I am asking. Our DI production is increasing and the waste of DIs are used in Fertilizer division. So, if this division is not doing good how are we handling the entire value chain?

Punit Makharia: Naushad, are you trying to say is since the fertilizer volumes are going down, so our waste management system will get disturbed because fertilizer business will not be supportive of that? Naushad, very honestly speaking that is not the concern from our side. Whatever the waste we generate from our Intermediates business, definitely we consume in the Cattle Feed business as well as into the Fertilizer business. Let me tell you for the existing up till production level of 50,000 tons of fertilizers we have got enough waste what we generate from our existing business. As far as when we go above than 50,000 tons then we require certain acids from the outside. Let me tell you last year we did 45,000 or 47,000 tons of SSP in financial year '17-18 and in this financial year also we should be able to cross 40,000 tons. So, I do not think that concern is going to be there like waste management handling system. There should not be any issues as far as the DI business is concerned.

Moderator: Thank you. The next question is from the line of Ritika Garg from Equitas Investments. Please go ahead.

Participant: Actually, I wanted to ask that in your annual report you have mentioned that your first phase with CAPEX of Rs.75 crores that would include thionyl chloride with capacity of 18,000 tons per annum?

Punit Makharia: That is right.

Participant: That is a part of it right and that is your Dye Intermediates is 5,000?

Punit Makharia: That is right.

Participant: Because right now you have mentioned some 7000 right for Dye Intermediates.

Punit Makharia: Apart from that there are also one or two more products.

Participant: Total Dye Intermediates will be 7000 and the CAPEX remain the same Rs.75 crores only total?

Punit Makharia: Yes.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now hand the conference over to Mr. Punit Makharia for his closing comments. Over to you, sir.

Punit Makharia: Thank you all for joining us on the call. I hope we have been able to answer all of your queries. For any further queries, please get in touch with our Investor Relations advisor, SGA. Thanks once again.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Shree Pushkar Chemicals & Fertilizers Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.