



INDEPENDENT **EQUITY** **RESEARCH**

Sudarshan Chemical Industries Ltd

Initiating coverage

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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Sudarshan Chemical Industries Ltd

Value-added pigments to add more colour

Fundamental Grade 4/5 (Superior fundamentals)
Valuation Grade 3/5 (CMP is aligned)

Industry Diversified Chemicals

Pune-based Sudarshan Chemicals Ltd (Sudarshan) is one of the leading domestic manufacturers of pigments (colouring agents) with ~30% market share, a wide product portfolio and a large client base. CRISIL Equities expects growth in end-user industries and a change in product mix to impel Sudarshan ahead. We assign Sudarshan a fundamental grade of **4/5**, indicating that its fundamentals are **superior** relative to other listed securities in India.

Wide range of products to cater to growth in end-user industries

CRISIL Equities expects the domestic pigment industry to grow at a healthy 15% driven by end-user industries like paints, inks, cosmetics and plastics. A diverse product portfolio and doubling of capacity by December 2011 position Sudarshan well to cater to the growing demand. While the other pigment players manufacture pigments of certain types and colours, over the years Sudarshan has expanded its product portfolio to include pigments of various types and varied colours.

Increase in realisations due to change in product mix

Sudarshan is increasingly focussing on value-added pigments such as effect and high performance pigments (used in paints, inks, cosmetics, fashion accessories and automobiles), which command higher realisations and margins. The contribution of effect and high performance pigments has increased from 10% in FY07 to 17% in FY10. Given that Sudarshan is the only manufacturer of such pigments in India, it stands tall to tap the growth opportunity in this segment.

Debt-based capex and expansion delay pose a risk

Sudarshan plans to fund its capacity expansion largely via debt (75%); balance would be through internal accruals. This increases the company's debt-equity ratio to 1.1x from 0.8x in FY10. Also, although the capacity expansion plans are currently on track, any delay could have an adverse impact on our revenue assumptions.

Revenue CAGR of 12%; margins to improve

We expect revenues to grow at a two-year CAGR of 12% to Rs 9.2 bn in FY13 largely driven by 15% growth in the pigments segment. EBITDA margins are expected to stabilise at ~14%. We expect EPS to increase from Rs 56.2 in FY11 to Rs 87.1 by FY13.

Valuations – the current price is aligned with fair value

CRISIL Equities has used the discounted cash flow method to value Sudarshan and arrived at a fair value of Rs 764 per share. This fair value implies P/E multiples of 10.2x FY12E and 8.8x FY13E earnings. We initiate coverage on Sudarshan with a valuation grade of **3/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,621	5,942	7,235	8,059	9,212
EBITDA	542	827	842	1,112	1,317
Adj Net income	120	411	389	520	603
Adj EPS-Rs	17.3	59.4	56.2	75.2	87.1
EPS growth (%)	151.9	243.6	17.1	8.0	15.9
PE (x)	6.2	6.6	13.5	10.1	8.7
P/BV (x)	0.7	2.0	2.9	2.4	2.0
RoCE (%)	20.6	31.7	22.6	22.8	23.7
RoE (%)	12.3	34.9	24.4	25.7	25.0
EV/EBITDA (x)	2.9	4.4	8.2	6.4	5.6

NM: Not meaningful; CMP: Current Market Price

Source: Company, CRISIL Equities estimate

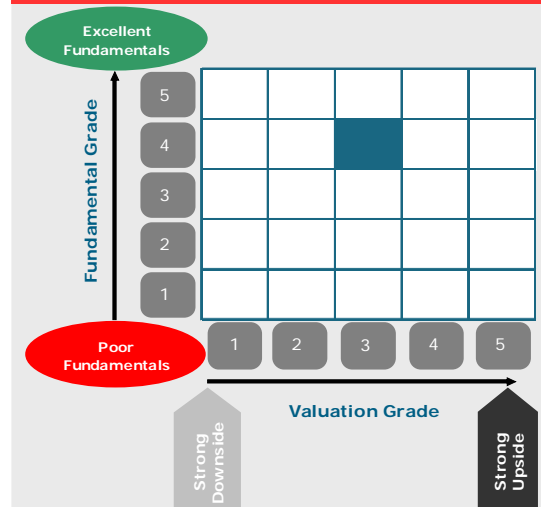


June 07, 2011

Fair Value Rs 764

CMP Rs 760

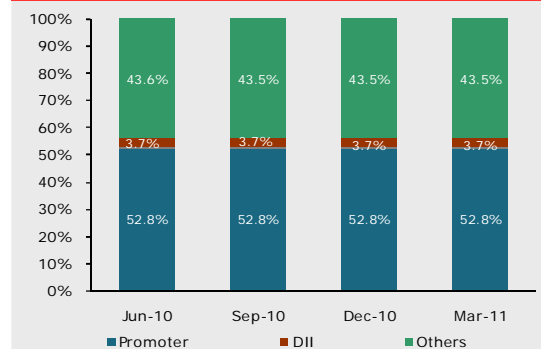
CFV MATRIX



KEY STOCK STATISTICS

NIFTY	5532
NSE ticker	SUDARSCHEM
Face value (Rs per share)	10
Shares outstanding (mn)	7
Market cap (Rs mn)/(US\$ mn)	5,262/117
Enterprise value (Rs mn)/(US\$ mn)	6,177/138
52-week range (Rs) (H/L)	804/538
Beta	0.2
Free float (%)	47.2%
Avg daily volumes (30-days)	1,120
Avg daily value (30-days) (Rs mn)	0.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Sudarshan	2%	12%	14%	50%
NIFTY	-1%	0%	-8%	8%

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Table: 1 Sudarshan: Business environment

Product / Segment	Pigments	Agrochemicals
Revenue contribution (FY11)	88%	12%
Revenue contribution (FY13)	90%	10%
Product / service offering	Manufacturing of various types of standardised pigments, effect and high performance pigments	Manufacturing of formulations and intermediates for agrochemicals
Geographic presence	The company primarily supplies to the domestic market. Also exports to Middle East, South Africa and Europe FY10 break-up - domestic : 67%, exports : 33%	Caters only to the domestic market
Market position	Market leader with a share of ~30% in India	One of the small players in the fragmented agrochemicals industry
Industry growth expectations	The pigment industry is expected to grow at 15% over the next three-four years driven by end-user industries: paints, inks, plastic and plastic products	The agrochemicals industry is expected to grow at 8%
Sales growth (FY08-FY11– 3-yr CAGR)	22%	1%
Sales forecast (FY11-FY13 – 2-yr CAGR)	15%	5%
Demand drivers	<ul style="list-style-type: none"> • Growth in end-user industries namely decorative paints, inks, masterbatches and cosmetics • Growth in paints used for automotive industry 	<ul style="list-style-type: none"> • Increase in area under cultivation for agriculture • Increase in usage of insecticides for crop protection
Key competitors	Clariant Chemicals, BASF, Meghmani Organics, Pidilite Industries	Number of small players in the agrochemicals industry

Source: Company, CRISIL Equities

Grading Rationale

One of the leading pigment manufacturers in India

Sudarshan is one of India's leading manufacturers of pigments with close to 30% share of the Rs 25 bn domestic pigment industry. Pigments are colouring substances in powder form and are mainly used in the manufacturing of paints, inks, plastics and cosmetics. The company earns two-thirds of its revenues from the domestic market while the remaining is contributed by exports to the Middle East, South Africa and Europe.

The industry is divided thus: large players like Sudarshan, Clariant Chemicals, BASF India, Meghmani Organics and Pidilite Industries command 70% of the market, while the unorganised sector makes up the balance 30%.

Table 2: Organised players in the pigments industry

Major Players	Capacity (tonnes per annum)	Production (tonnes)	Revenues* (Rs mn)
Clariant Chemicals	28,027	15,690	3,287
Meghmani Organics	24,420	14,318	2,815
Sudarshan Chemicals	20,503	16,699	5,129
BASF India	7,350	6,176	NA
Pidilite Industries	3,144	NA	1,229

* FY10 Revenues from pigments only

Source: CRISIL Equities

Key differentiating factor: Wide range of products

While the other pigment players manufacture pigments of certain types and colours, over the years Sudarshan has expanded its product portfolio to include pigments of various types and varied colours. Along with standard pigments, it manufactures effect and high performance pigments which are used in paints and coatings for automobiles. This has helped Sudarshan build a base of over 1,000 customers comprising leading manufacturers of paints, inks, plastics and cosmetics. We believe with such a varied product offering and a large customer base will drive Sudarshan's growth in the pigments market.

Table 3: Strong clientele

User industry	Key clients
Paints	Asian Paints Ltd, Kansai Nerolac Paints Ltd, Berger Paints Ltd
Inks	DIC India Ltd, Sakata Inx (India) Ltd, Flint Group India Private Ltd, Rollwalla, Camlin
Containers & packaging	Uflex Ltd
Plastics	Perfect Colourants & Plastics Pvt Ltd, S M Polymers, Hitech

Source: CRISIL Equities

Growth in end-user industries to drive demand

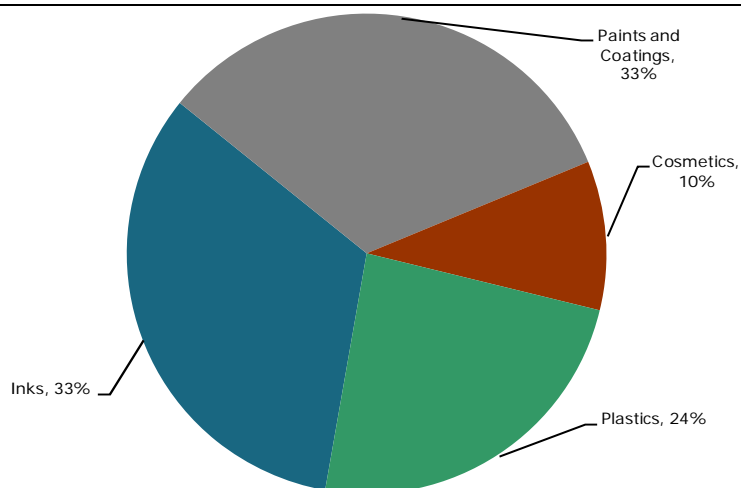
Pigments are primarily used in paints and coatings, inks, plastic and plastic products, textiles and cosmetics industries. Except the textile industry, Sudarshan caters to all the other end-user industries. Paints and inks comprise two-thirds of its total revenues, while plastic and cosmetics comprise one-third.

Sudarshan's USP: a wide range of products

A large client base of more than 1,000 customers

Demand for pigments is expected to be strong driven by end user industries

Figure 1: Revenue break-up



Source: CRISIL Research

The economic development in India over the past five years and the resultant rise in income levels have given a boost to consumer spending, consequently pushing up the sales of paints, inks, plastics, packaging and cosmetics.

With strong growth expected in all these industries, demand for pigments is expected to significantly increase. Besides, the shift in production of chemicals from the developed to emerging economies of Asia such as India over the past decade has resulted in higher growth in the local chemicals sector.

Paint industry - strong growth prospects

As per CRISIL Research, the domestic paints industry registered a CAGR growth of 15% over 2004-05 to 2009-10. The industry is expected to grow at a similar rate over the next three-four years driven by growth in housing, automobiles, consumer durables sectors, and heightened activity in the construction sector.

Plastic and plastic products – healthy growth ahead

As per industry sources, the plastics and plastic products industry is estimated to grow at 10-11%, driven by demand from packaged foods and FMCG industries. The rise in disposable income is expected to increase the spending on food, expanding the domestic food market from US\$ 181 bn to US\$ 258 bn by 2015. The economic development is also expected to increase the consumption of packaged foods and FMCGs, which is expected to grow at ~12% over the next three years, as per industry sources. The increased consumption of both food and FMCGs, and the replacement of metals or glass with plastics, is expected to improve the demand for plastics and, thereby, masterbatches, where pigments are used.

Ink and cosmetics - growing with retail

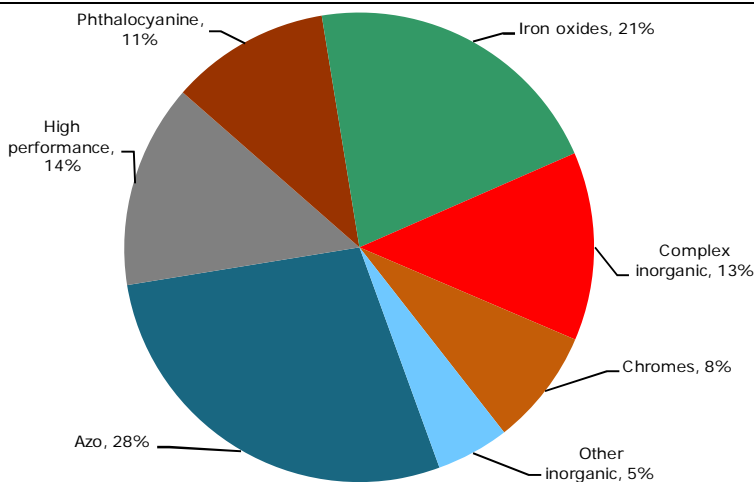
The inks and cosmetics industry has been growing at a rate of 12% over the past four-five years. Further, the growth of the retail sector also led to an increase in consumer packaging and printing which has resulted in higher consumption of inks. CRISIL Research expects the retail industry to grow at

13.5% over the next three years. The cosmetics industry is expected to grow at 12% annually over the next two-three years.

Changing product mix – increased contribution from value-added pigments to improve realisations

Sudarshan has been increasingly focussing on value-added products such as effect and high performance pigments. The increase in demand for high performance pigments in both the global and domestic markets has increased the contribution from these pigments to the global pigments industry from 8% in 2008 to 14% in 2009.

Figure 2: High performance pigments constitute 14% of the global pigment industry

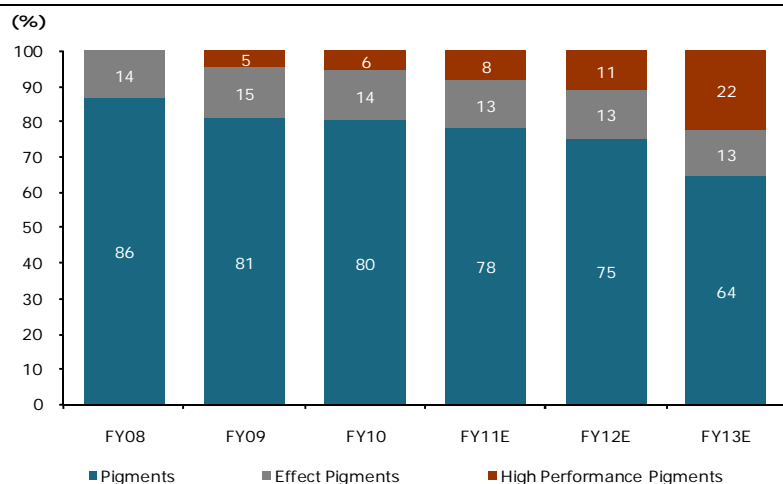


Source: Industry sources

Effect and high performance pigments are also used in paints, cosmetics, inks, fashion accessories and automobile industries. The realisations and margins from these pigments are much higher compared to the normal pigments; realisations on high performance pigments are on an average higher by 5x with margins of 25% compared to 14% margins on normal pigments. The contribution of the effect and high performance to pigment revenues has increased from 14% in FY07 to ~20% in FY10 and we expect it to increase further to ~35% in FY13.

Sudarshan is increasingly focussing on effect and high performance pigments which is expected to boost margins

Figure 3: Increasing contribution of value-added products



Source: Industry sources

Sudarshan - the only manufacturer of effect pigments in India

Sudarshan is the only manufacturer of effect pigments in India which places it on a confirmed growth trajectory. It started manufacturing effect pigments in FY07. Effect pigments, which were earlier imported, give a special metallic (glossy) effect to the end products and are widely used in coatings, cosmetics and other products like beads, artificial jewellery and many other products used in the fashion industry. Sudarshan's effect pigments offer pearl, gold, silver effects. Sudarshan supplies effect pigments to both local and international markets.

High performance pigments add further value to portfolio

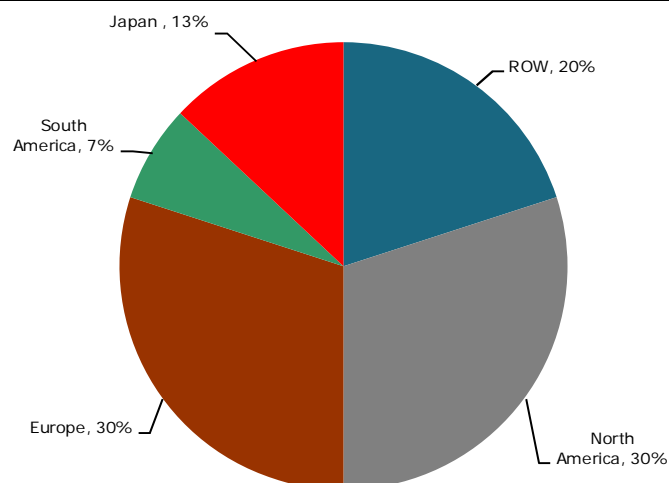
Sudarshan accelerated the pace of new products with the launch of high performance pigments in FY09. High performance pigments are used in paints and coatings for the automobile industry. The pigments are globally in demand for long lasting effects on automobiles, and enjoy realisations which are 4-5x higher than the standard pigments. Sudarshan's high performance business grew from Rs 185 mn in FY09 to Rs 295 mn in FY10. As per industry sources, HPPs contribute to ~14% of the global pigment market, with a continuous rise in its contribution over the last few years.

Focus on international markets

The global pigment market is estimated at US\$ 20 bn with North America and Europe accounting for 60% share, being the world's largest consumers of pigments.

Effect pigments currently contribute ~12% of Sudarshan's revenue

Figure 4: World market for pigments



Source: CRISIL Research

Given the higher volumes of high performance pigments internationally, mainly in the US and Europe, Sudarshan is increasingly looking to tap these markets. The company formed two wholly owned subsidiaries in Europe and North America in FY07 and FY09, respectively. They are marketing subsidiaries sans a manufacturing facility. They will source the products from the India-based parent company. With a current network of 15 dealers, Sudarshan is building up its own client base in the US and Europe. CRISIL Equities expects Sudarshan's strategy to strengthen itself in the US and Europe will bear fruit over the next two to three years.

Debt-based capex plans: doubling existing capacity + setting up a captive power plant

In order to cater to the increasing demand for pigments both globally and locally, Sudarshan is doubling capacity of organic and inorganic pigments with a capex programme. This will be largely financed through debt, with ~25% from internal accruals. Phase I of the expansion, involving expansion of organic pigments, is scheduled to start commercial production by July 2011; the balance will be completed by December 2011. Sudarshan is also setting up a 2.5 MW coal-based power plant, which will lead to a cost reduction of ~1% in power costs. The total cost of the power plant is expected to be Rs 200 mn and is expected to be operational by July 2011.

Competition from unorganised players = low bargaining power to pass on increased costs

The unorganised players, with ~30% share, paint a competitive landscape in the industry. Although the large players including Sudarshan offer superior quality products, a large number of unorganised players cater to local customers. Given the intensity of competition, the players' bargaining power with clients is low, thereby resulting in vulnerability to fluctuation in raw material prices. Additionally, excess capacity in the industry further reduces the bargaining power of the pigment suppliers.

Sudarshan is strengthening its position in the US and Europe, the key global markets for pigments

Agrochemicals business: restructuring and change in business model yields results

Agrochemicals constitute 12% of Sudarshan's total business. This business was making losses till FY08; it used to manufacture agrochemicals and intermediates for the farmer. The company had a network of 935 dealers in FY08, resulting in high fixed costs, and high levels of debtors and inventories.

In FY09, Sudarshan opted for restructuring and adopted a business model with lower fixed costs and low capital requirement; it moved to B2B from B2C. Though this meant lower growth, the focus was on profitability. The company started selling intermediates to major agrochemical players such as United Phosphorus, Bayer Cropscience and Excel Cropcare. The company also reduced dealer strength to 653 and changed its policies to sell only against advances. As a result of the revamp, the division turned around in Q1FY09 with EBIT margin of 4.7% in FY09. Although we expect the agrochemicals business to grow at a moderate rate of 5% over the next three-four years, it no longer would be a drag on Sudarshan's profitability.

The strategic shift of business to B2B from B2C resulted in turnaround of Sudarshan's agrochemicals business in FY09

Key risks

Volatility in input costs can adversely affect margins

The prices of basic chemicals required for pigment manufacturing are fairly volatile. Since the industry is competitive with a large number of unorganised players, the ability to pass on the prices is limited. This could lead to fluctuations in the company's margins.

Competition in international markets

Sudarshan faces competition from global majors like BASF-Ciba, Clariant and Lanxess in Europe and the US. Although we believe that the company will be fairly successful in these markets, there could be a risk to our growth assumption given competition in these markets.

Delay in capacity expansions

The company plans to expand capacity to tap future growth in the industry. Although the capacity expansion plans are currently on track, any delay could have an adverse impact on our revenue assumptions.

**Volatility in input prices
can have an adverse
impact on margins**

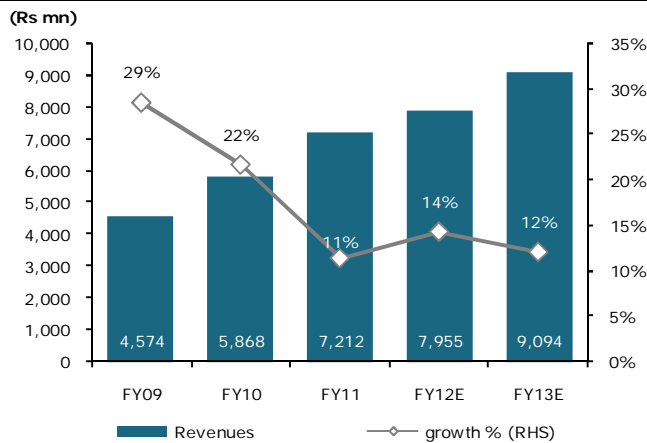
Financial Outlook

Revenues to grow at two-year CAGR of 12%

Consolidated revenues are expected to increase at a two-year CAGR of 12% to Rs 9.2 bn by FY13. The growth is expected to be primarily driven by 15% growth in pigments, with a nominal 5% growth in agrochemicals. Contribution from pigments is also expected to increase from 88% in FY11 to 90% in FY13, while that of agrochemicals is expected to decrease from 12% in FY11 to 6% in FY13.

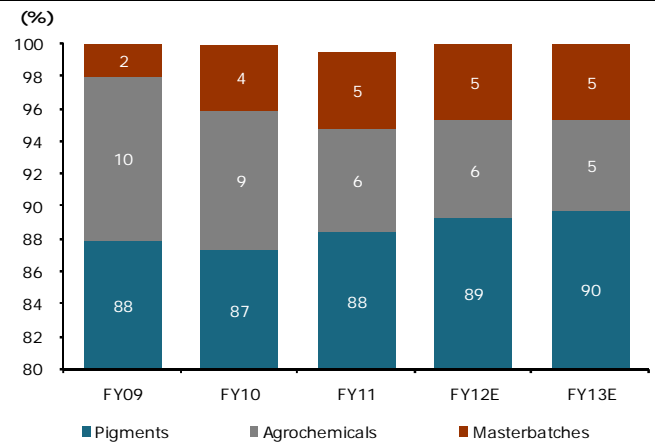
Revenue growth from FY11-13 to be driven by 15% growth in pigments

Figure 5: Revenue and revenue growth



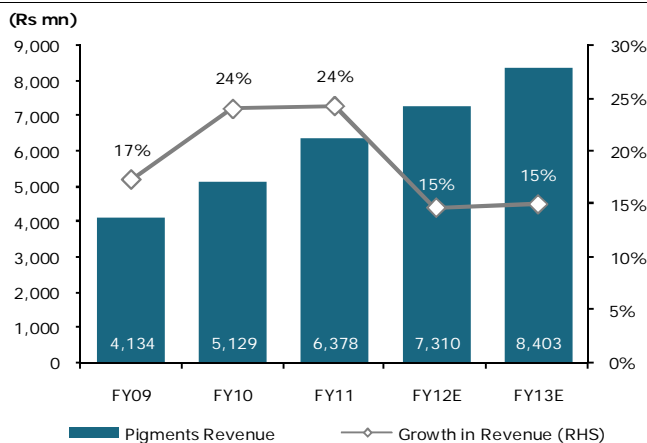
Source: Company, CRISIL Equities

Figure 6: Increasing contribution of pigments



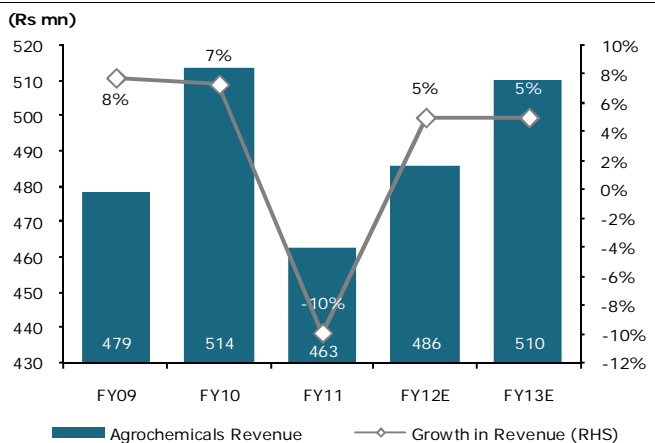
Source: Company, CRISIL Equities

Figure 7: Pigment division to log strong growth



Source: Company, CRISIL Equities

Figure 8: Agrochemicals to log moderate growth



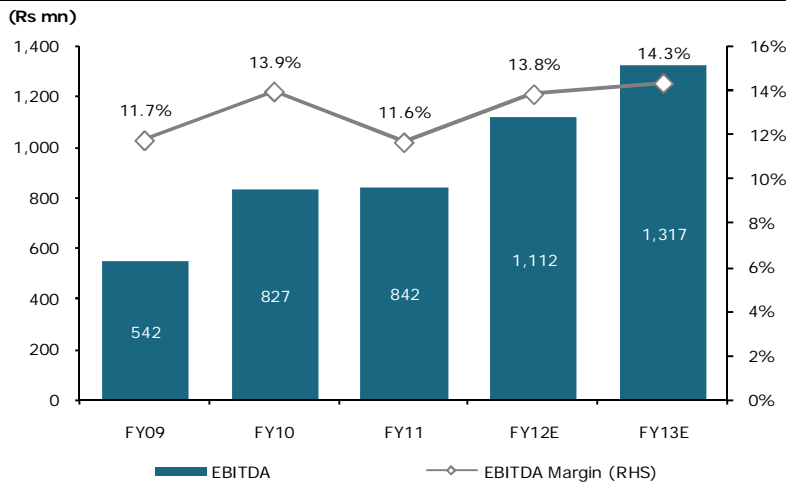
Source: Company, CRISIL Equities

EBITDA margins to stabilize around 14%

EBITDA margins are expected to improve by ~270 bps from 11.6% in FY11 to 14.3% in FY13. The increase in margins is expected to be driven by decline in power and fuel costs (the company is putting up a captive power plant) and increasing contribution from effect and high performance pigments which enjoy higher margins.

EBITDA margins to expand given the savings in power costs and increased contribution from high performance pigments

Figure 9: EBITDA and EBITDA margins



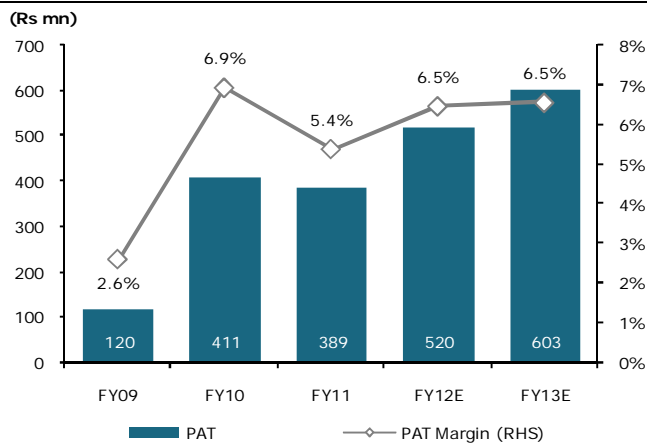
Source: CRISIL Equities

PAT to grow at a three-year CAGR of 12%, EPS to increase from Rs 56.2 in FY11 to Rs 87.1 in FY13

Sudarshan’s PAT is expected to grow at a 12% CAGR to Rs 603 mn by FY13, primarily driven by revenue growth. PAT margin is expected to inch up from 5.4% in FY11 to 6.5% in FY13 which is lower despite 270 bps increase in EBITDA due to increased interest costs. We expect EPS to increase from Rs 56.2 in FY11 to Rs 87.1 in FY13.

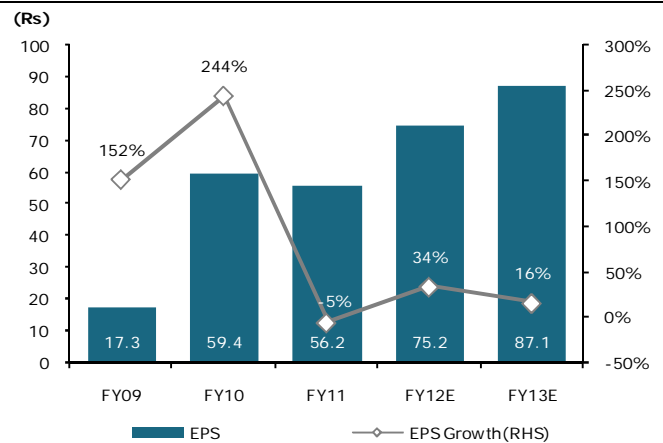
PAT to grow at 14% CAGR primarily driven by revenue growth

Figure 10: PAT and PAT margins



Source: Company, CRISIL Equities

Figure 11: EPS and EPS growth



Source: Company, CRISIL Equities

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Second generation of family run business

Sudarshan was promoted by two brothers Dr. R. J. Rathi and Mr. L. J. Rathi. Sudarshan's management is led by Mr K. L. Rathi who is the executive chairman and Mr Pradeep R. Rathi, vice chairman and managing director, who are the second generation of the promoters.

Turnaround in agrochemical business

The management restructured the agrochemicals business in FY09 and adopted a different business model to reduce the fixed costs. This turned around the agrochemicals division which returned to profitability after losses in FY07 and FY08. The turnaround in the agrochemical business is a testimony of a strong, proactive and able management.

Professional set-up and strong second line

Sudarshan has a professional set-up and a strong second line of management. Based on our interactions, we believe the second line is reasonably experienced. We believe the internal processes and management information systems are adequate.

**Sudarshan has been in
the pigments business
since 1952**

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Equities analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, Sudarshan's corporate governance is good supported by an independent board and good board practices.

Board composition

The board consists of 10 members, of whom six are independent directors, which meets the requirement under Clause 49 of SEBI's listing guidelines. Chairman of the board, Mr K. L. Rathi, is an executive member. Given the background of directors, we believe the board is well experienced.

Professional members on board

Sudarshan's board comprises eminent members like Mr Bansidhar Mehta, a leading chartered accountant in India, who is also on the board of Clariant Chemicals, Gillette India, Bharat Bijlee; and Mr P. P. Chhabria, co-founder of the Finolex group. The board includes members like Mr S. N. Inamdar, an advocate who is on the board of a few Kirloskar group companies and also on the board of Finolex Industries.

Professionalism depicted in strategic decisions

The restructuring of business in agrochemicals was overseen by a committee of independent directors set up for the purpose.

Board's processes

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. The company has all the necessary committees – audit, remuneration, selection and shareholders'/investors' grievance - in place. The audit committee is chaired by an independent director.

Valuation Grade: 3/5

We have used the discounted cash flow (DCF) method to value Sudarshan and arrived at a fair value of Rs 764 per share. The fair value implies P/E multiples of 10.2x FY12E and 8.8x FY13E earnings. The stock is currently trading at Rs 760 per share. Consequently, we initiate coverage on Sudarshan with a valuation grade of **3/5**, indicating that the market price is **aligned** with the fair value.

Key DCF assumptions

- We have considered the discounted value of the firm's estimated free cash flow from FY13 to FY20.
- We have assumed capital expenditure of ~Rs 1,000 mn between FY12 and FY13 and a maintenance capex of Rs 150 mn per annum thereafter. We have also considered capex of Rs 600 mn in the terminal year.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period until FY20.

WACC computation

	FY13-20	Terminal value
Cost of equity	16.60%	16.60%
Cost of debt (post tax)	6.70%	6.70%
WACC	12.34%	11.65%
Terminal growth rate		3.00%

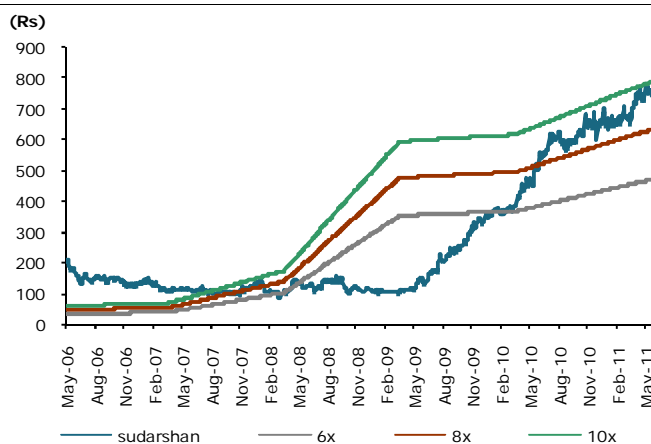
Sensitivity analysis to terminal WACC and terminal growth rate

		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal WACC	9.9%	842	936	1,059	1,225	1,462
	10.9%	731	801	890	1,005	1,161
	11.9%	644	698	764	847	955
	12.9%	575	616	667	728	807
	13.9%	518	551	590	638	696

Source: CRISIL Equities estimates

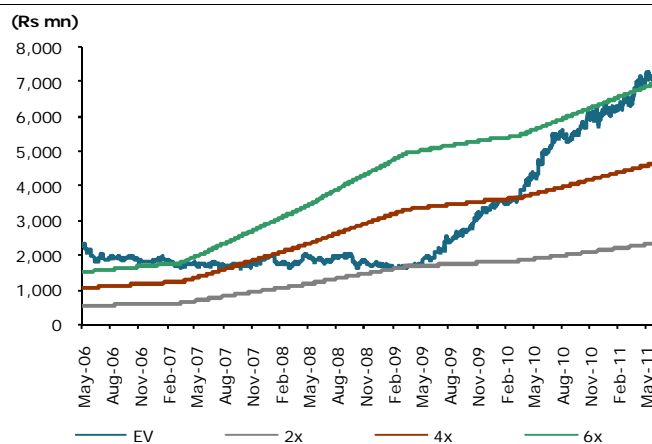
We assign a fair value of Rs 764 per share and initiate coverage with a valuation grade of 3/5

One-year forward P/E band



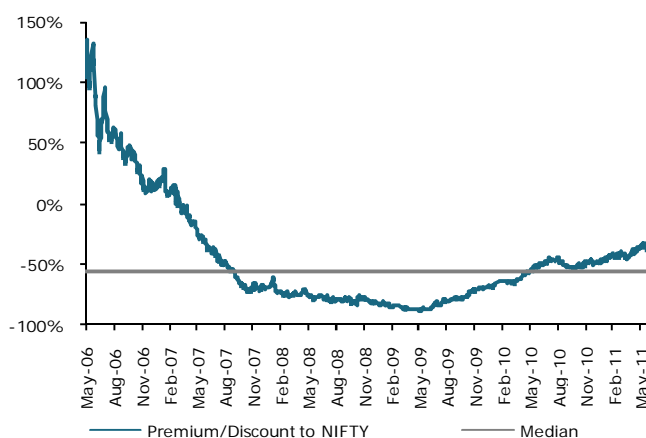
Source: NSE, BSE, Company, CRISIL Equities

One-year forward EV/EBITDA band



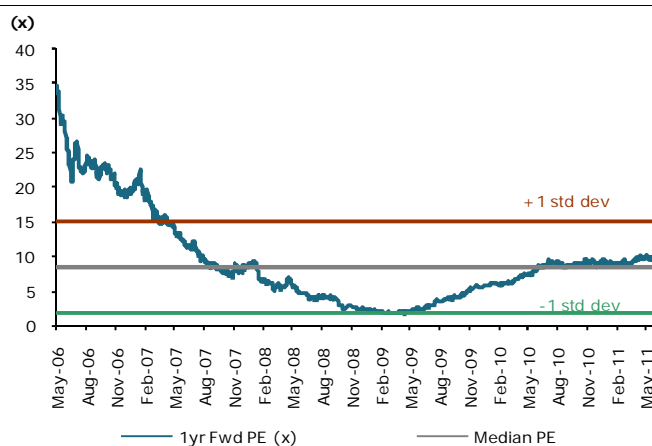
Source: NSE, BSE, Company, CRISIL Equities

P/E – premium / discount to NIFTY



Source: NSE, BSE, Company, CRISIL Equities

P/E movement



Source: NSE, BSE, Company, CRISIL Equities

Peer comparison

Companies	M.cap (Rs mn)	Price/Earnings (x)			Price/Book (x)			RoE (%)		
		FY10	FY11	FY12E	FY10	FY11	FY12E	FY10	FY11	FY12E
Sudarshan Chemicals Ltd	5,262	6.6	13.5	10.1	2.0	2.9	2.4	34.9	24.4	25.7
BASF India Ltd	25,884	15.0	21.7	15.5	1.7	2.6	2.2	15.9	12.2	18.0
Clariant Chemicals (I) Ltd	18,889	17.2	NA	NA	5.3	NA	NA	31.5	NA	NA
Meghmani Organics Ltd	3,120	7.9	8.2	NA	0.9	0.6	NA	9.4	7.1	NA

*NA=not available

Source: Industry sources, CRISIL Equities

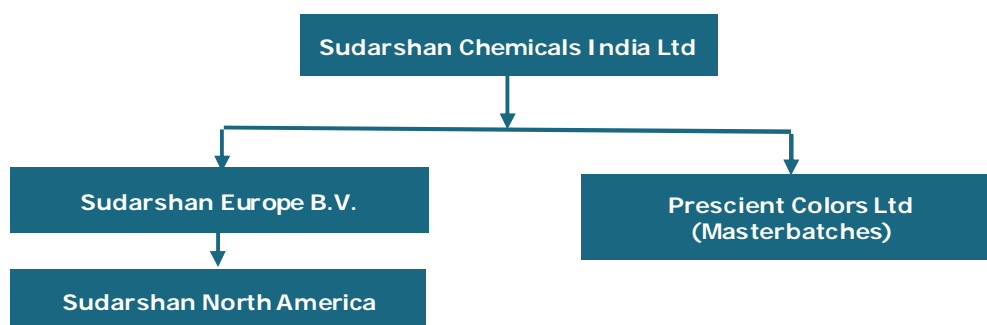
Company Overview

Sudarshan was incorporated in 1951 as a private limited company and converted into a public limited company in 1973. It was listed on the Bombay Stock Exchange (BSE) in 1981 and on the National Stock Exchange (NSE) in 1995. It belongs to the Pune-based Rathi group. The company manufactures a range of organic and inorganic pigments, mica-based effect pigments, high performance pigments, chemical intermediates and agro chemicals (insecticides). The brands owned by the company are Sudaperm, Sudafast, Sudacolor, Sudadur, Sudatex, Sudafine and Sumica.

Sudarshan exports to Middle East, Turkey, Africa, Latin America, Russia, Europe and America. The company had also entered into the area of environmental engineering in collaboration with Radian Corporation (USA). The company has a continuous R&D programme with over 100 technologists working on new and customized solutions. Sudarshan employs 1200 staff.

Business segments	Contribution to revenues (%)		
	FY09	FY10	FY11
Pigments	88	87	89
Agrochemicals	10	9	6
Master batches	2	4	5

Group Structure



Source: Company, CRISIL Equities

Manufacturing facility

The company's manufacturing facilities are located in Roha and Mahad in Maharashtra. SCIL has a production capacity of 10,422 metric tonnes per annum (MTPA) for organic pigments, 10,081 MTPA for inorganic, 3,520 MTPA for agrochemicals.

Milestones

1982	Started producing agrochemicals
1989	Agreement with DIC India Ltd, the largest pigments and printing ink producer in the world
1993	First chemical company in India to be awarded the ISO 9001 certificate. It is also accredited with ISO 14001, ISO 18000 and ISO 17025 international quality standards
1995	Set up an ETP plant for effluent discharge
2007	Started production of effect pigments - is the only effect pigment producer in India
2009	Started production of high performance pigments
2010	Won the SAP ACE Award for Customer Excellence, 2010 in the category of "Best Run Award in Medium Enterprises – Manufacturing"

Annexure: Financials

Income statement

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,621	5,942	7,235	8,059	9,212
EBITDA	542	827	842	1,112	1,317
EBITDA margin	11.7%	13.9%	11.6%	13.8%	14.3%
Depreciation	136	145	144	180	208
EBIT	406	683	698	932	1,110
Interest	183	75	115	168	218
Operating PBT	222	608	584	764	892
Other income	(7)	2	39	24	22
Exceptional inc/(exp)	-	-	93	-	-
PBT	215	610	716	788	914
Tax provision	95	199	234	268	311
Minority interest	-	-	-	-	-
PAT (Reported)	120	411	482	520	603
Less: Exceptionals	-	-	93	-	-
Adjusted PAT	120	411	389	520	603

Ratios

	FY09	FY10	FY11	FY12E	FY13E
Growth					
Operating income (%)	15.5	28.6	21.7	11.4	14.3
EBITDA (%)	80.1	52.7	1.8	32.1	18.5
Adj PAT (%)	151.9	243.6	(5.5)	33.8	15.9
Adj EPS (%)	151.9	243.6	(5.5)	33.8	15.9
Profitability					
EBITDA margin (%)	11.7	13.9	11.6	13.8	14.3
Adj PAT Margin (%)	2.6	6.9	5.4	6.5	6.5
RoE (%)	12.3	34.9	24.4	25.7	25.0
RoCE (%)	20.6	31.7	22.6	22.8	23.7
RoIC (%)	15.8	23.7	18.8	18.7	18.9
Valuations					
Price-earnings (x)	6.2	6.6	13.5	10.1	8.7
Price-book (x)	0.7	2.0	2.9	2.4	2.0
EV/EBITDA (x)	2.9	4.4	8.2	6.4	5.6
EV/Sales (x)	0.3	0.6	1.0	0.9	0.8
Dividend payout ratio (%)	54.1	24.5	17.7	25.8	25.8
Dividend yield (%)	8.7	3.7	1.6	2.6	3.0
B/S ratios					
Inventory days	71	69	52	71	72
Creditors days	49	63	58	50	45
Debtor days	57	75	85	89	84
Working capital days	80	66	77	93	96
Gross asset turnover (x)	1.7	2.1	2.2	2.1	2.1
Net asset turnover (x)	5.3	6.3	5.6	4.7	4.6
Sales/operating assets (x)	4.9	5.8	5.2	4.4	4.4
Current ratio (x)	2.5	2.3	2.8	3.2	3.2
Debt-equity (x)	0.9	0.8	1.1	1.0	0.9
Net debt/equity (x)	0.8	0.7	0.9	0.8	0.8
Interest coverage	2.2	9.1	6.1	5.6	5.1

Per share

	FY09	FY10	FY11	FY12E	FY13E
Adj EPS (Rs)	17.3	59.4	56.2	75.2	87.1
CEPS	37.0	80.3	76.9	101.2	117.1
Book value	146.4	194.6	266.0	318.7	379.6
Dividend (Rs)	9.4	14.6	12.3	19.4	22.5
Actual o/s shares (mn)	6.9	6.9	6.9	6.9	6.9

Balance Sheet

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Liabilities					
Equity share capital	69	69	69	69	69
Reserves	944	1,278	1,773	2,137	2,559
Minorities	-	-	-	-	-
Net worth	1,013	1,347	1,842	2,206	2,628
Convertible debt	-	-	-	-	-
Other debt	933	1,018	1,964	2,164	2,364
Total debt	933	1,018	1,964	2,164	2,364
Deferred tax liability (net)	69	59	122	122	122
Total liabilities	2,015	2,424	3,928	4,492	5,114
Assets					
Net fixed assets	912	962	1,605	1,802	2,200
Capital WIP	52	112	112	112	112
Total fixed assets	964	1,074	1,717	1,914	2,312
Investments	(0)	(0)	(0)	(0)	(0)
Current assets					
Inventory	719	855	773	1,214	1,388
Sundry debtors	762	1,232	1,748	1,987	2,145
Loans and advances	190	173	528	242	276
Cash & bank balance	91	103	302	270	181
Marketable securities	3	23	23	23	23
Total current assets	1,766	2,386	3,374	3,736	4,014
Total current liabilities	715	1,059	1,187	1,181	1,235
Net current assets	1,051	1,327	2,187	2,555	2,779
Intangibles/Misc. expenditure	-	24	24	24	24
Total assets	2,015	2,424	3,928	4,492	5,114

Cash flow

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	215	610	623	788	914
Total tax paid	(120)	(209)	(171)	(268)	(311)
Depreciation	136	145	144	180	208
Working capital changes	104	(244)	(662)	(399)	(313)
Net cash from operations	336	302	(66)	301	498
Cash from investments					
Capital expenditure	(179)	(278)	(787)	(377)	(605)
Investments and others	3	(20)	-	-	-
Net cash from investments	(176)	(298)	(787)	(377)	(605)
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(116)	85	946	200	200
Dividend (incl. tax)	(65)	(101)	(99)	(156)	(181)
Others (incl. extraordinary)	23	23	205	(0)	0
Net cash from financing	(158)	8	1,052	44	19
Change in cash position	2	12	199	(32)	(89)
Closing cash	91	103	302	270	181

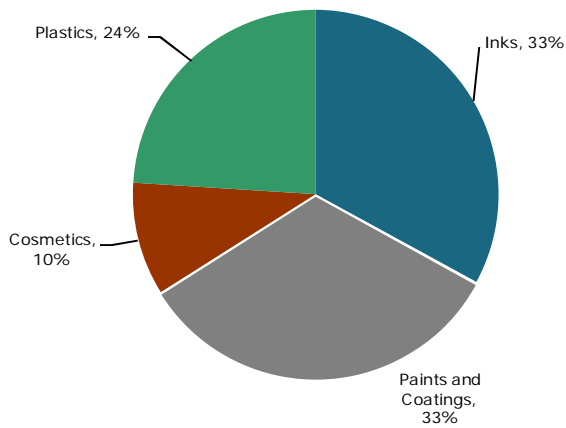
Quarterly financials

(Rs mn)	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11
Net Sales	1,576	1,571	1,922	1,662	1,908
Change (q-o-q)	20%	0%	22%	-14%	15%
EBITDA	211	204	297	190	229
Change (q-o-q)	19%	-3%	45%	-36%	20%
EBITDA margin	13.4%	13.0%	15.4%	11.5%	12.0%
PAT	135	111	167	170	96
Adj PAT	135	111	167	76	96
Change (q-o-q)	59%	-18%	50%	-54%	26%
Adj PAT margin	8.6%	7.1%	8.7%	4.6%	5.0%
Adj EPS	19.5	16.0	24.1	11.0	13.9

Source: CRISIL Equities

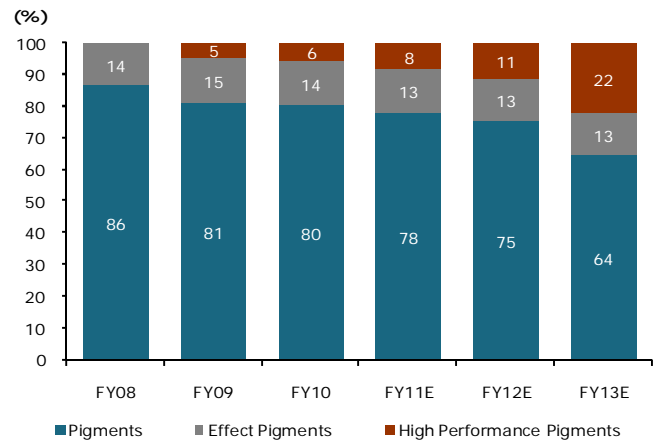
Focus Charts

Revenue break-up



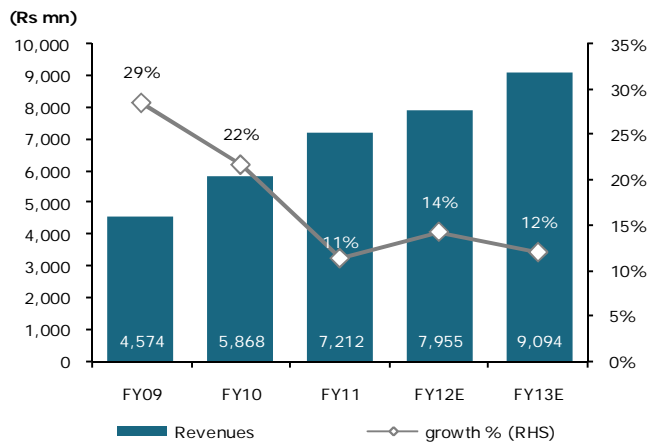
Source: Company, CRISIL Equities

Increasing contribution from value-added pigments



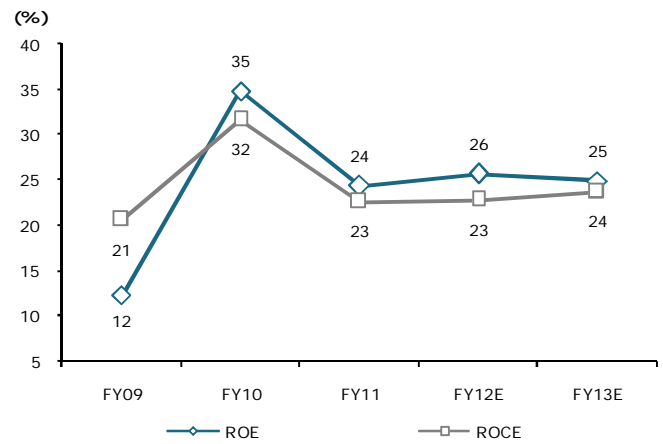
Source: Company, CRISIL Equities

Revenue and revenue growth



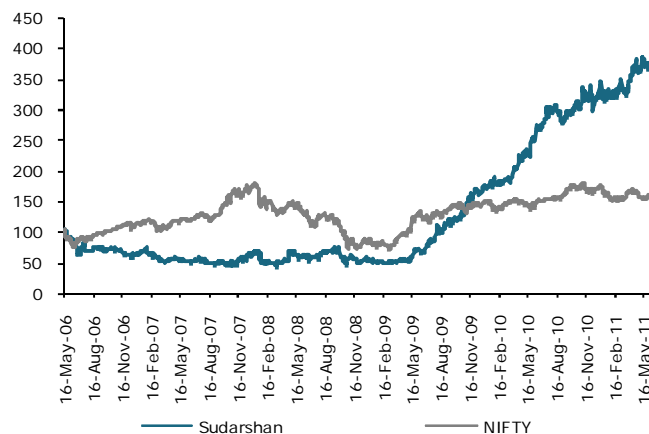
Source: Company, CRISIL Equities

RoCE and RoE



Source: Company, CRISIL Equities

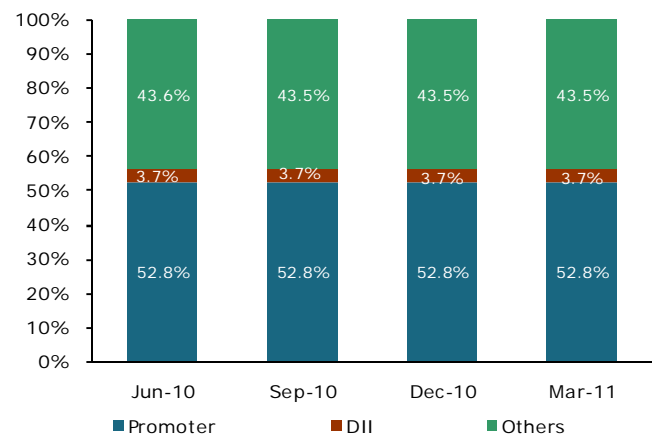
Share price movement



Indexed to 100

Source: NSE, BSE, CRISIL Equities

Shareholding pattern



Source: Company, CRISIL Equities

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