

# SUDARSHAN CHEMICAL INDUSTRIES LTD

SPECIALITY CHEMICALS INDUSTRY

BSE Scrip Code: 506655

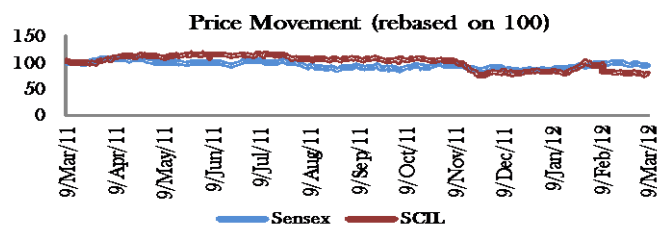
CMP Rs.525<sup>1</sup> March 9, 2012

## KEY EQUISTATS

Market Capitalisation	Rs. Crores	363
Enterprise Value	Rs. Crores	554
52 Week High / Low	Rs.	779/501
Diluted EPS (Consolidated, FY11)	Rs.	67.6
P/E (FY11)	times	7.8
Regression Beta	times	0.2
Average Daily Volumes*	Lakhs	0.0

\* BSE + NSE for last 52 weeks

## STOCK PERFORMANCE



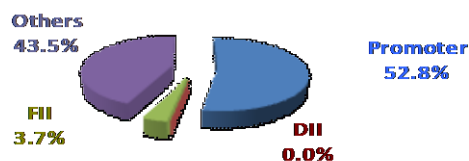
Returns	1M	3M	6M	1 Yr
Absolute	-3%	0%	-24%	-23%
Rel. to Sensex	-2%	-9%	-28%	-20%

## FINANCIAL SNAPSHOT

Rs. Crores	FY09	FY10	FY11
Net operating income	464	599	765
EBITDA	51	87	99
EBITDA margins	11.0%	14.5%	13.0%
PAT	13	42	42
PAT margins	2.8%	6.9%	5.5%
Gearing (times)	0.9	0.9	0.9
RoCE	18.2%	31.6%	24.4%
RoE	13.4%	35.2%	23.5%
P/E (times)			7.8
EV/EBITDA (times)			5.6

Financial Year: (April, 1 - March, 31)

## SHARE HOLDING PATTERN



## ANALYTICAL CONTACTS

Amod Khanorkar	General Manager	+91-22-6754 3520
Jumana Badshah	Manager	+91-22-6754 3481

<sup>1</sup> CMP: Current Market Price

### Leading manufacturer of pigments in India

Sudarshan Chemical Industries Ltd (SCIL) is a prominent player in the pigments market for over 50 years, supplying to paints, plastics, inks, construction, textile and cosmetics manufacturers worldwide. The company has around 35 per cent market share in the domestic market. The company also enjoys a huge international presence in the organic pigments market, with sales in over 40 countries worldwide. About 34 per cent of SCIL's total product range is exported and over 45 per cent of the colour pigments sales are to overseas markets.

### Presence in world pigments market too

SCIL manufactures, sells and exports pigments and agri-chemicals in India and abroad. The company formed two wholly-owned foreign subsidiaries i.e. Sudarshan Europe BV in December 2007 and Sudarshan North America, Inc in April 2009, in order to further strengthen and consolidate its position in the global pigment market and have a direct sales presence in the European and American markets. SCIL's exports grew at a CAGR of 33 per cent between FY06 (refers to the period April 1 to March 31) and FY11.

### Key concerns

- Foreign exchange fluctuations as exports contributed 34 per cent of total revenues in FY11.
- Volatility in raw material prices such as sodium bichromate, organo phosphorous intermediates, etc
- Increasing competition from domestic and international player.

### Valuations

SCIL is currently trading at trailing P/E and EV/EBITDA multiples of 7.8x and 5.6x, respectively.



## HISTORY AND BACKGROUND

### Background

Established in 1951, Sudarshan Chemical Industries Limited (SCIL) (part of the Rathi group of companies), based out of Maharashtra, is engaged in manufacturing and selling pigments and agri-chemicals in India and abroad. The company formed two wholly-owned foreign subsidiaries i.e. Sudarshan Europe BV in December 2007 and Sudarshan North America, Inc in April 2009, in order to further strengthen and consolidate its position in the global pigment market and have a direct sales presence in the European and American market.

### Operations

It has manufacturing units at Pune, Roha and Mahad in Maharashtra, with installed capacities of 10,422 tonnes per annum (TPA) of inorganic pigments, 10,081 TPA of organic pigments and dyestuffs, 2,500 TPA of intermediates and 3,520 TPA of pesticides. The company has a research and development laboratory recognised by Department of Scientific and Industrial Research.

### Industry segments

The company has presence primarily in two industry segments -

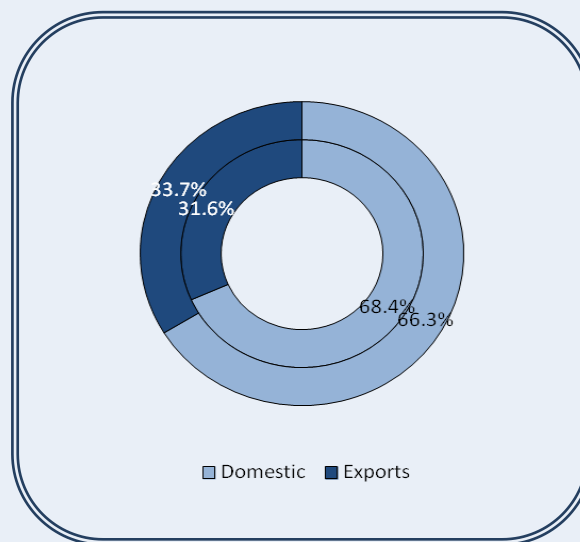
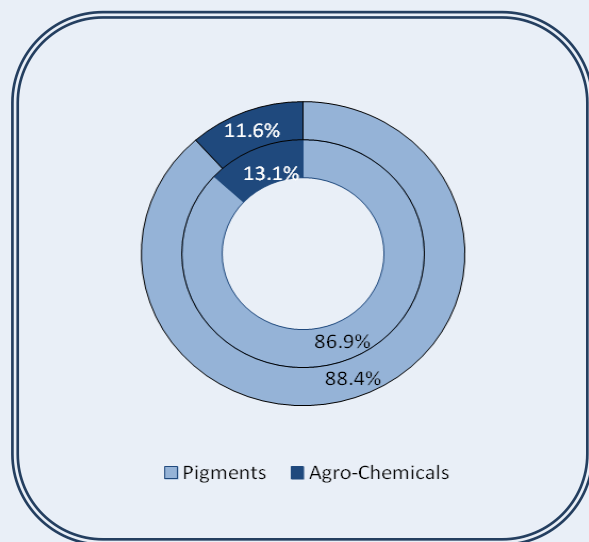
- Pigments
- Agrochemicals

Within the pigments business, SCIL offers a range of organic and inorganic pigments, mica-based effect pigments, chemical intermediates and pesticides. The company manufactures high-performance pigments and commodity pigments apart from customised pigments for niche segments. It also manufactures effect pigments for cosmetics and coating applications. The colour pigments are sold under the brand names “Sudaperm”, “Sudafast”, “Sudacolor”, “Sudadur”, “Sudatex” and “Sudafine” and effect pigments are sold under the brand names “Sumica”, “Sumica WR” and “SumiCos” to paints, plastics, inks, construction, and textile and cosmetics industries. The pigment business contributed around 88.4 per cent of the total sales in FY11.

The agro-chemicals business on the other hand which contributed to around 11.6 per cent of the revenue in FY11 for SCIL includes products such as insecticides, fungicides, herbicides and plant growth regulators.



FY11: Product-wise Revenue Break up    FY11: Geography-wise Revenue Break up



Source: Company and CARE Research

Note: Inner circle represents FY10 and out circle represents FY11.

SCIL: Peer comparison

(FY11)	Units	Sudarshan Chemical	Meghmani Organics	Deepak Nitrate	Camlin Fine
Net operating income	Rs. Crores	765	1,013	668	186
EBITDA	Rs. Crores	99	143	62	24
PAT	Rs. Crores	42	38	26	7
Growth in net operating income	%	27.7%	24.5%	23.8%	32.0%
EBITDA Margin	%	13.0%	14.1%	9.3%	12.9%
PAT Margin	%	5.5%	3.8%	3.9%	3.8%
RoCE	%	24.4%	7.6%	13.7%	18.7%
RoE	%	23.5%	7.0%	11.4%	18.8%
Price/Earnings (P/E) Ratio	times	7.8	5.7	6.7	16.0
Price/Book Value(P/BV)	times	1.6	0.4	0.7	0.5
Enterprise Value (EV)/EBITDA	times	5.6	6.3	3.6	3.2

Source: Capitaline and CARE Research



## FINANCIAL PERFORMANCE AND ANALYSIS

**Top line grew by 27.7 per cent y-o-y in FY11**

The top line grew by 27.7 per cent y-o-y from Rs.599 crore in FY10 to Rs.765 crore in FY11. This revenue growth was mainly driven by 1) the agrochemicals segment (revenue up 24.7 per cent y-o-y) and 2) Other income (up 65 per cent y-o-y)

**Higher raw material costs led to EBITDA margin contraction**

While the EBITDA on the absolute basis in FY11 was at Rs.99 crore - up 14.5 per cent y-o-y, the EBITDA margins were lower at 13 per cent - down 150 bps y-o-y. The decline in margins was mainly on account of higher raw material cost (55.4 per cent of total revenues in FY11 as compared to 51.8 per cent in FY10). Other expenses (as a per cent of total revenues) declined from 18.5 per cent in FY10 to 17.1 per cent in FY11.

**PAT flat on y-o-y basis**

PAT for FY11 of Rs.42 crore remained flat comparing on y-o-y basis mainly on account of 1) higher interest costs (up 19 per cent y-o-y) and 2) higher extra ordinary expenses of Rs..6.2 crore in FY11 vs extra ordinary income of Rs.0.45 crore in FY10. Consequently, net profit margins were lower at 5.5 per cent in FY11 as against 6.9 per cent in FY10.

**SCIL: Consolidated Financial Performance (FY07-11)**

(Rs. Crore)	FY07	FY08	FY09	FY10	FY11
Net operating income	396.2	404.4	463.7	599.2	765.5
EBITDA	27.4	32.8	50.9	86.7	99.3
PAT	4.1	4.8	13.1	41.6	42.1
Fully Diluted EPS* (Rs.)	5.5	6.4	15.9	57.4	67.6
EBITDA margins	6.9%	8.1%	11.0%	14.5%	13.0%
PAT margins	1.0%	1.2%	2.8%	6.9%	5.5%

Source: Capitaline and CARE Research



## EXPANSION, NEW INITIATIVES AND CONCERNS

**Expansion plans and initiatives**

- The company plans to double some production lines to maintain its market presence in Europe, North America and China. The capital expenditure is expected to be financed partly through borrowings and partly through internal accruals.

**Key concerns**

- Foreign exchange fluctuations as exports contributed 34 per cent of total revenues in FY11.
- Volatility in raw material prices such as sodium bichromate, organo phosphorous intermediates, etc.
- Increasing competition from domestic and international players.



## SECTOR OUTLOOK

The Indian Agrochemicals industry, with a production of 82,000 MT in FY2010 has remained stable compared to the previous year. The Indian Agrochemical industry is the fourth largest in the world only behind the US, Japan and China and has undergone many changes over the years. In India, the agrochemicals industry has grown significantly over the last 30-40 years from a mere Rs.400 crore to over Rs.8,000 crore currently. The industry (domestic plus exports) registered a CAGR of 26.9% in the last three years (between FY07 to FY10) with most of the growth coming from exports. Consumption of pesticides per hectare in India is also low at 600 grams compared to 7 kg in US and 13 kg in China, leading to domestic pesticide consumption at only about 40,000 MT per annum.

Low consumption of pesticide can be attributed to various factors like higher dependence on monsoon, lower level of irrigation, lack of awareness amongst farmers on benefits of pesticides, fragmented land holdings coupled with only 25% of the total cultivable land area (around 140 mn hectares) being under plant protection measures.

The industry is classified into three main segments: Insecticides, Herbicides and Fungicides. In the Indian crop protection market, insecticides account for the largest share at 55% as tropical climate is more conducive for growth of insects. It is then followed by fungicides at 20%, Herbicides at 20% and Bio-pesticides market share in India remains insignificant at 5%. In terms of consumption pattern, it is used primarily for paddy (rice) pesticides - 28%, cotton pesticides at 20% and others at 52%. Globally, herbicides & fungicides have a higher share.

The domestic market is characterised by seasonal demand, higher capacities, low off-take, low R&D expense, pressure on price realizations, menace of spurious goods & high credit periods. This has led domestic companies to focus more on the exports market. India is a net exporter of pesticides with exports growing at a CAGR of 29.05% in the last five years and forming almost 49.5% of the total sales for 2007-08. Hence, exports account for over 50% of total Indian agrochemicals industry turnover. Inherent advantage of low-cost manufacturing and qualified manpower has also led to competitiveness in exports. Further, India also has good potential to emerge as a destination for contract research in crop protection industry. Globally, due to consolidation in the crop protection industry, the top five global MNCs control almost 59% of the global market. In India however, the industry is very fragmented with about 30-40 large manufacturers and approximately 800 formulators.



## CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
<b>Income Statement</b>					
Net operating income	396.2	404.4	463.7	599.2	765.5
EBITDA	27.4	32.8	50.9	86.7	99.3
Depreciation and amortisation	11.7	12.2	13.6	14.5	14.4
EBIT	15.7	20.6	37.2	72.2	84.9
Interest	10.1	12.1	15.7	11.2	13.3
PBT	5.6	8.5	21.5	61.0	71.6
Ordinary PAT (After minority interest)	4.1	4.8	12.0	41.2	48.2
PAT (After minority interest)	4.1	4.8	13.1	41.6	42.1
Fully Diluted Earnings Per Share* (Rs.)	5.5	6.4	15.9	57.4	67.6
Dividend, including tax	1.7	2.1	5.5	8.7	8.7
* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share					
<b>Balance sheet</b>					
Net worth (incl. Minority Interest)	94.2	93.5	101.3	134.7	222.7
Debt	95.0	105.0	93.3	115.5	205.5
Deferred Liabilities / (Assets)	10.9	9.4	6.9	5.9	12.1
<b>Capital Employed</b>	<b>200.2</b>	<b>207.9</b>	<b>201.5</b>	<b>256.1</b>	<b>440.3</b>
Net Fixed Assets (incl. Capital WIP)	81.2	92.2	96.4	109.8	184.2
Investments	0.6	0.6	0.3	2.3	0.3
Loans and Advances	59.3	12.0	19.0	17.3	27.5
Inventory	74.8	79.7	71.9	85.5	167.9
Receivables	88.4	92.6	76.2	136.8	170.1
Cash and Cash Equivalents	8.6	9.0	9.1	10.3	14.8
Current Assets, Loans and Advances	231.0	193.2	176.3	250.0	380.2
Less: Current Liabilities and Provisions	112.6	78.1	71.5	105.9	124.4
<b>Total Assets</b>	<b>200.2</b>	<b>207.9</b>	<b>201.5</b>	<b>256.1</b>	<b>440.3</b>
<b>Ratios</b>					
Growth in Operating Income		2.1%	14.7%	29.2%	27.7%
Growth in EBITDA		19.7%	54.9%	70.5%	14.5%
Growth in PAT		17.5%	174.0%	218.3%	1.1%
Growth in EPS		16.1%	150.6%	260.0%	17.9%
EBITDA Margin		8.1%	11.0%	14.5%	13.0%
PAT Margin		1.2%	2.8%	6.9%	5.5%
RoCE		10.1%	18.2%	31.6%	24.4%
RoE		5.1%	13.4%	35.2%	23.5%
Debt-Equity (times)		1.1	0.9	0.9	0.9
Interest Coverage (times)		1.7	2.4	6.5	6.4
Current Ratio (times)		2.5	2.5	2.4	3.1
Inventory Days		72	57	52	80
Receivable Days		84	60	83	81
Price / Earnings (P/E) Ratio					7.8
Price / Book Value(P/BV) Ratio					1.6
Enterprise Value (EV)/EBITDA					5.6

Source: Capitaline, CARE Equity Research



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**HEAD OFFICE**

Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-67543456, Fax: +91-22-67543457.

**NEW DELHI**

3rd Floor, B -47, Inner Circle, Near Plaza Cinema,

Connaught Place, New Delhi - 110 001

Tel: +91-11-23318701 / 23716199.

**KOLKATA**

3rd Floor, Prasad Chambers (Shagun Mall Building), 10A,  
Shakespeare Sarani, Kolkata - 700 0717

Tel: +91-33-40181600 / 40181602 / 40181621.

**CHENNAI**

Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769,

Anna Salai, Chennai 600 002

Tel: +91-44-28497812/28490811

**AHMEDABAD**

32, Titanium, Prahaladnagar Corporate Road, Satellite,

Ahmedabad - 380 015

Tel: +91-79-40265656.

**HYDERABAD**

401, Ashoka Scintilla, 3-6-520, Himayat Nagar,

Hyderabad - 500 029

Tel: +91-040 40102030

**BANGLORE**

Unit No. 8, I floor, Commander's Place,

No. 6, Raja Ram Mohan Roy Road, (Opp. P F Office),

Richmond Circle, Bangalore - 560 025

Tel: +91-80-22117140

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P J Towers, Dalal Street, Mumbai. Tel: 22721233/34 www.bseindia.com

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