

SUDARSHAN CHEMICAL INDUSTRIES LTD.

JULY 21, 2016

SECTOR CHEMICALS

RECOMMENDATION

Buy @ 210, Target 270



DYNAMIC LEVELS™

Report By: Surbhi Bagaria – surbhi@dynamiclevels.com





Sudarshan Chemical Industries Ltd- Top Performer in Chemicals

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CMP Rs 239

Buy Level:210

Target: 270

P/E: 20.9

Sudarshan Chemical Industries Ltd.

Sudarshan is a leading color & effect pigment manufacturer with experience of over 60 years and market share of more than 30%. Sudarshan started manufacturing pigments in 1952 with a handful of inorganic pigments and has since flourished with a breadth of products that cover classical pigments, high performance pigments, effect pigments and pigment dispersions. They primarily serve the coatings, plastics, inks and cosmetics markets. The Company has an international presence through its subsidiaries in North America, Europe and owns some well-regarded brands in the industry. The Company also is in process of setting up a Wholly Owned Subsidiary in China for sourcing key raw materials, servicing of customers in Asia pacific region and also to explore trading activity from China.

Financial Highlights:

- Total Income recorded a growth of 16% YoY
- PBT increased 37%
- PAT increased 29% on consolidated and 69% on standalone from 42.41 Cr to 71.63 Cr
- EPS stood at Rs 10.10 compared to 7.86 in FY 2015

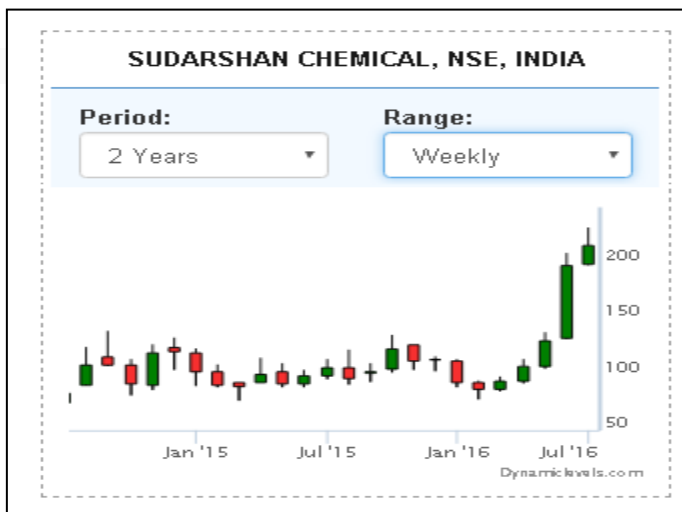


Chart Hypothesis: Sudarshan has shown buying from 78 Levels to 244 giving a return of 185% in 5 months

Sudarshan Chemical Share Price Performance	
EXCHANGE SYMBOL	SUDARSHAN CHEMICAL
Current Price * (Rs.)	218.00
Face Value (Rs.)	2
52 Week High (Rs.)	244.45 (21-Jul-16)
52 Week Low (Rs.)	78.00 (12-Feb-16)
Life Time high (Rs.)	231.60 (05-Jul-16)
Life Time low (Rs.)	3.62 (05-Sep-00)
Average Daily Movt.	8.12
Average Volume	471014
1 Month Return (%)	23.22
P/E Ratio (x)	20.94
Book Value	48.03
Market Cap	1498.77 (Cr)
% of Promoter holding pledged	NIL

Company Profile Of Sudarshan Chemical	
Date of Incorporation	19-Feb-1951
Date of Listing	16-Jan-1995
Management	
Name	Designation
Pradeep R Rathi	Chairman & MD
Rajesh B Rathi	Deputy MD
Rati F Forbes	Ind. Non-ED
Subramanian Padmanabhan	Ind. Non-ED
Shrikrishna N Inamdar	Ind. Non-ED
Sanjay K Asher	Ind. Non-ED
Dara N Damania	Ind. Non-ED
Shubhalakshmi A Panse	Ind. Non-ED
Naresh T Raisinghani	Non Exe.Non Ind.Director
Narayandas J Rathi	Non ED
Kishor L Rathi	Non ED
Registered Office Address	
162, Wellesley Road,411001,Pune,Maharashtra,India	
Website	
http://www.sudarshan.com	



Business Areas:

Coatings: It covers range of heavy metal free organic pigments offers exceptional choice to formulate bright solid colors.

Its transparent and semi-transparent colors are easily combined with Sudarshan's Sumica™ pearlescent pigments, or with metallic pigments, to produce durable special effect colors for the automotive industry. They are suitable for interior and exterior use. The extensive range of pigments and dispersions offers excellent value in-use providing a one-stop solution for decorative paints.

Plastics: Pigment ranges to provide a palette with a wide spectrum of colors and performance for plastic applications. Sudarshan is the only pigment producer with the capability of offering this breadth of options, with a leading range of heavy metal free organic pigments.

The transparent colors in the range are easily combined with pearlescent pigments, in Sumica™ range or metallics to produce excellent special effects which are stable to extrusion & moulding processes, plastic coatings & packaging. They are suitable for interior and exterior applications.

Inks: Sudarshan produces a high quality range of classical organic pigments for the coloration of publication and commercial printing inks for magazines, direct mail and other commercial printing. Sudarshan specializes in pigments for liquid ink with comprehensive color range offers high quality, consistent, organic pigments at an affordable price, ideal for direct letterpress, gravure, flexo and screen printing. We support ink manufacturers with excellent technical service, support and customized products – a partnership approach, providing solutions that make sense.

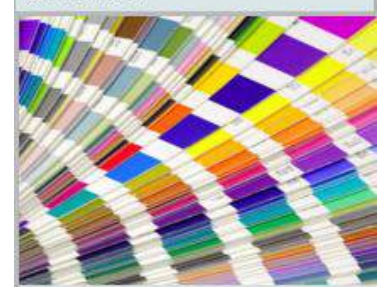
Cosmetics: Its range of pigments brings brilliancy and shimmer to distinguish products in the personal care and color cosmetics space. This lustrous range includes products based on natural and synthetic mica technology which perfectly complement the softer effects offered.



> COATINGS



> PLASTICS



> INKS



> COSMETICS



Brands:

Sudarshan's Product portfolio includes recognized brands like:

- Sudaperm
- Sudafast,
- Sudafast,
- Sumica
- Sumicos.

Sudaperm

A premium range of the highest performance pigments, with technical benefits for the most demanding plastic and coatings applications.

Sudafast

A consistently high quality range of medium performance organic pigments, increasing options available for coloration

Sudacolor

A well designed range of organic pigments that provides the best combination quality, value and easy-use.

Sudadur

An extensive range of traditional inorganic pigments that impart excellent color, durability and coverage for the most demanding applications.

Sudafine

A Complementary range of High pigment content, water based, resin free, pastes in easy-to-use stir-in form, for decorative paints and other applications

Sumica TM & Sumica

A comprehensive range of mica based pigments that impart brilliant visual effects and stunning lustre to add value to your products



Industry Structure and Developments:

Outlook for Pigments:

The Pigment Industry worldwide is one of the dominant industries with collective revenues of over USD 5 billion. The growth of the Pigment Industry has more or less moved in tandem with the growth of Global economy. Growth in per capita income leading to growth in per capita spending fuels demand for Pigments ranging from paints to plastics to polymer, ink to cosmetics and more, encompassing every sphere of life. The Company is leader in the domestic Pigment manufacturing Industry with a 35% market share. The Company manufactures a wide range of Organic, Inorganic and Effect Pigments catering to domestic and export markets and mainly paint, inks, plastics, cosmetics, fashion accessories and automobiles as the user industries. The Company's Pigments are exported to most of the discerning markets in Europe, America and Asia. The manufacturing activity is carried out at Roha and Mahad factories with R&D facilities at Ambadvet (Sutarwadi), Dist. Pune. There is an excess capacity for the manufacture of commodity pigments worldwide. This results in intense price competition in the commodity segments market. The China factor also continues to affect the Pigment industry.

Opportunities and Threats:

There exists opportunities for growth in the Pigment Industry considering the low per capita income spending as compared to the developed economies. The Indian Paint Industry in particular has undergone sophistication in the last couple of years in terms of high end Product range and technological competence. This along with growing domestic housing needs hold promise for varied Pigment applications. Automotive paints and Personal care segment on the back of increasing disposable income of a growing middle class provides opportunity for growth. Inks and plastics market also holds lot of promise as the Paper and Printing Industry is poised to record growth.

Pigment manufacturers in the developed countries, owing to high manufacturing costs and stringent environment control regulations are shifting their manufacturing bases to developing countries. This provides an opportunity to Indian manufacturers to get exposed to world class manufacturing practices. The Pigment Industry has to address the issues of REACH Compliance as also issues relating to clean and green environment apart from the competitive pressure from the China and other developed markets. Volatility in the price of inputs and the volatility of the Rupee vis a vis the US Dollar is a matter of concern and needs to be tackled if the Indian Pigment Industry has to remain competitive. Another matter of concern is the gestation period involved in evaluation and acceptability of the Company's Products by overseas customers and the costs associated with it, since many times proposals do not get converted into firm orders.



Pigment Outlook:

The Company's globalization plans and its strong base in the Indian Market provides a great opportunity for growth. Also the Company's strategy of focusing among others on High Performance Pigments and specialized Azo Pigments provide a great future. The Indian Pigment Industry has evolved from a basic Pigment producer to that of a knowledge intensive industry catering to requirement of colorants for all segments. The domestic demand for Pigments offers opportunity to the Company to improve its market share. Many new High Performance and Effect Pigments are also being launched for cosmetic and coating markets. The Company's strategy of setting up sales offices to cater to European and North American Customers is expected to give push to Pigment exports as the Company is better equipped to understand and comply with their preferences. As a result of the slowdown in Western markets, end consumers of Pigment Products are on the lookout for alternative suppliers to meet their varied requirements. Sudarshan with a wide range of High Performance Pigments as also Effect Pigments is ideally placed to meet their requirements. As a consequence of all these actions, the Company expects better results during the current year.

Agro Chemicals Outlook:

As India continues to grow its economy in a bigger way, agriculture sector must also keep pace in improving its infrastructure, efficiency and productivity in a sustainable manner and contribute to the food security of population of over a billion. Weather fluctuations continue to affect agriculture sector significantly. During 2014-15, the overall climatic conditions were not favourable to the agriculture sector. Sowing season did not progress well as per expectations. Overall, the cultivable land available was much less than the previous year 2013-14. Late rain at the end of season led to crop damage in various states. Unseasonal rains in February and March, 2015 also led to crop damage. The Agro Chemicals Industry has also seen a change in the Product mix owing to change in the crop pattern as also due to change in the pattern of Pest formation. The average per hectare consumption of agrochemicals in India is comparatively lower than consumption in USA, Japan and other developed countries. This augurs well for the Agro Chemical Industry. Rapid growth in acreage of Bt Cotton hybrids resulting in improvement in yield of cotton crop is opening new opportunities for more consumption of pesticides for the control of sucking pests and plant growth nutrients. India being a tropical country, the consumption pattern of pesticides is tilted towards insecticides, accounting for around 58-60% of the crop protection chemical market. It is followed by herbicides and fungicides at 20% and 18% respectively.

The Crop Protection Industry witnessed growing uncertainties owing to variations in the monsoon spread in some parts of the country, change in climatic conditions, and fluctuation in end product prices due to variable raw material costs as also unavailability of key raw materials from China. The Industry also witnessed further slide in the demand for conventional products.



Company Financials

Income Statement (In Cr)	FY 2015	FY 2016	Growth %
	Annual	Annual	
Net Sales/Income from operations	1,212.28	1,397.35	15.27%
Other Operating Income	5.88	11.98	103.74%
Total Income From Operations	1,218.15	1,409.33	15.69%
Increase/Decrease in Stocks	-11.17	-4.94	-55.77%
Consumption of Raw Materials	533.24	787.58	47.70%
Purchase of Traded Goods	208.56	34.68	-83.37%
Employees Cost	94.01	103.35	9.94%
Depreciation	41.91	48.1	14.77%
Other Expenses	264.87	321.28	21.30%
Total Expenditure	1,131.43	1,290.05	14.02%
Operating Profit	86.73	119.28	37.53%
Other Income	21.83	14.03	-35.73%
P/L Before Int., Excpt. Items & Tax	108.56	133.31	22.80%
Interest	36.97	34.34	-7.11%
P/L Before Tax	71.59	98.97	38.25%
Tax	17.21	29.06	68.86%
Net Profit For the Period	54.38	69.92	28.58%
Equity Share Capital	13.85	13.85	0.00%
Reserves	248.75	300.11	20.65%
EPS (Rs.)	7.86	10.1	28.50%

Quarterly Result Analysis:

- Total income from operations increased by 15% YoY.
- Interest Exp fell by 7% from 36.97 to 34.34 Cr which shows that Sudarshan is reducing its debt burden.
- Net profit increased by 28.5%
- EPS increased 28.5% from 7.8 Rs to 10.1 Rs.

Key Financials	FY 2014	FY 2015	FY 2016
Total Revenue	1,186.3	12,181.5	13,973.5
Growth Over Prior Year	28.2%	8.9%	14.7%
EBITDA	1,332.6	1,289.1	1,673.8
Margin %	11.9%	10.6%	12.0%
EBIT	964.9	870.0	1,192.8
Margin %	8.6%	7.1%	8.5%
Net Income	350.5	543.8	699.2
Margin %	3.1%	4.5%	5.0%
Diluted EPS Excl. Extra Items	5.06	7.86	10.10
Growth Over Prior Year	59.2%	55.2%	28.5%



<i>Balance Sheet (In Mn)</i>	FY 2015	FY 2016	Growth%
ASSETS			
Cash And Equivalents	115.8	249.9	
Short Term Investments	88.3	-	
Total Cash & ST Investments	204.1	249.9	22.44%
Accounts & Notes Receivable	3,222.2	3,529.4	9.53%
Total Receivables	3,222.2	3,529.4	9.53%
Inventories	2,501.7	2,531.4	1.19%
Prepaid Exp.	78.2	-	
Restricted Cash	21.4	-	
Other Current Assets	419.6	450.5	7.39%
Total Current Assets	6,447.1	6,761.2	4.87%
Net Property, Plant & Equipment	3,151.5	3,663.7	16.25%
Long-term Investments	3.0	382.8	
Other Long-Term Assets	508.8	70.9	
Total Assets	10,110.4	10,878.7	7.60%
LIABILITIES			
Short-term Borrowings	2,704.0	1,741.4	-35.60%
Accounts Payable	1,884.3	2,152.6	14.24%
Other Current Liabilities	826.6	1,143.0	38.27%
Total Current Liabilities	5,414.9	5,037.0	-6.98%
Long-Term Debt	1,613.3	2,184.2	35.39%
Other Non-Current Liabilities	456.3	518.0	13.52%
Total Liabilities	7,484.4	7,739.1	3.40%
Additional Paid In Capital	270.6	138.5	
Comprehensive Inc. and Other	2,355.4	3,001.1	27.41%
Total Common Equity	2,626.0	3,139.6	19.56%
Total Equity	2,626.0	3,139.6	19.56%
Total Liabilities And Equity	10,110.4	10,878.7	7.60%

Balance Sheet Analysis:

- *Current liabilities have decreased by 6.98%*
- *Short term Investment increased by 22.4%*
- *Short term Borrowing decreased 35.6%*
- *Total Equity has increased 19.5%*
- *Current Assets have increased 7.39%*

Current Capitalization (Millions)

Share Price (inr)	215.7
Shares Out.	69.2
Market Capitalization (inr)	14,928.9
- Cash & Short Term Investments	249.9
+ Total Debt	3,925.6
+ Pref. Equity	0.0
+ Total Minority Interest	0.0
= Total Enterprise Value (inr)	18,604.5
Book Value of Common Equity	3,139.6
+ Pref. Equity	0.0
+ Total Minority Interest	0.0
+ Total Debt	3,925.6
= Total Capital	7,065.1



Cash Flow (In Mn)	FY 2013	FY 2014	FY 2015
Net Income	220.1	350.5	543.8
Depreciation & Amort., Total	263.6	367.6	419.1
Other Non-Cash Adj	(48.4)	54.1	62.2
Changes in Non-Cash Capital	(492.7)	(688.4)	(247.8)
Cash from Ops.	(57.5)	83.9	777.3
Capital Expenditure	(1,206.9)	(309.3)	(567.4)
Sale of Property, Plant, and Equipment	1.8	3.5	3.1
Cash Acquisitions	-	-	(0.1)
Invest. in Marketable & Equity Secur.	-	-	(0.1)
Other Investing Activities	(4.0)	17.6	(86.8)
Cash from Investing	(1,208.9)	(288.2)	(651.4)
Net Short Term Debt Issued/Repaid	512.9	199.7	352.7
Long-Term Debt Issued	1,386.4	457.6	1,241.9
Long-Term Debt Repaid	(464.9)	(624.8)	(1,524.9)
Total Debt Issued/Repaid	1,434.3	32.5	69.7
Pref. Dividends Paid	(100.6)	(101.2)	(121.5)
Total Dividends Paid	(100.6)	(101.2)	(121.5)
Cash from Financing	1,333.7	(68.7)	(51.8)
Net Change in Cash	67.4	(273.1)	74.1

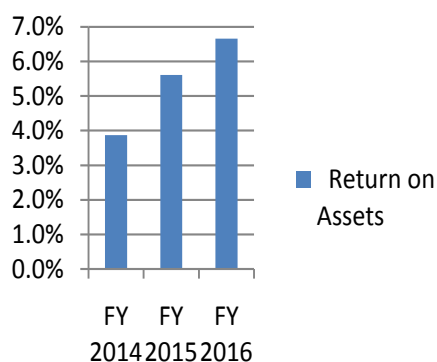
WACC	FY 2014	FY 2015	FY 2016
Equity			
Cost of Equity	10.9%	10.8%	13.0%
Weight of Equity	44.2%	56.2%	62.5%
Debt			
Cost of Debt	7.5%	8.2%	7.1%
Weight of Debt	55.8%	43.8%	37.5%
WACC	9.0%	9.7%	10.8%

Capital Structure	FY 2014	FY 2015	FY 2016
	Millions	Millions	Millions
Hist Market Cap	3,491.1	5,541.6	6,545.2
ST Borrowings	2,574.1	2,704.0	1,741.4
LT Borrowings	1,830.8	1,613.3	2,184.2
Pref Equity	0.0	0.0	0.0
Total Capital	7,896.1	9,858.9	10,470.8

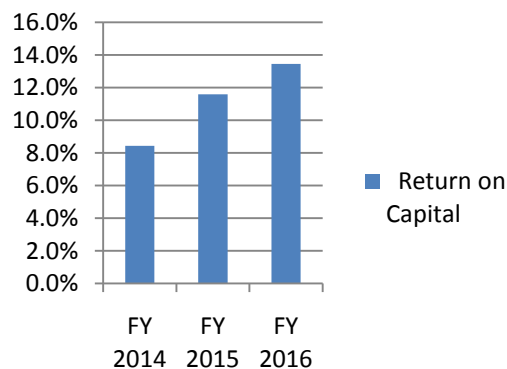


Ratio Analysis	FY 2014	FY 2015	FY 2016	% Growth
Profitability				
Return on Assets	3.9%	5.6%	6.7%	18.81%
Return on Capital	8.4%	11.6%	13.4%	16.03%
Return on Equity	13.3%	20.4%	24.3%	18.99%
Margin Analysis				
EBITDA Margin	11.9%	10.6%	12.0%	13.20%
EBIT Margin	8.6%	7.1%	8.5%	19.53%
Earnings from Cont. Ops Margin	8.6%	7.1%	8.5%	19.53%
Net Income Margin	3.1%	4.5%	5.0%	12.08%
Normalized Net Income Margin	3.1%	4.5%	5.0%	12.08%
Free Cash Flow Margin	-2.0%	1.7%	--	
Asset Turnover				
Total Asset Turnover	1.2x	1.3x	1.3x	6.01%
Fixed Asset Turnover	3.4x	3.8x	4.1x	7.12%
Accounts Receivable Turnover	4.8x	4.2x	4.1x	-1.36%
Short Term Liquidity				
Current Ratio	1.3x	1.2x	1.3x	12.74%
Quick Ratio	0.6x	0.6x	0.8x	18.58%
Cash from Ops. To Curr Liab	0.0x	0.0x	0.0x	31.62%
Avg. Days Sales Out.	76.4x	87.0x	88.4x	1.66%
Long Term Solvency				
Total Debt/Equity	162.5%	164.4%	125.0%	-23.95%
Total Debt/Capital	61.9%	62.2%	55.6%	-10.64%
LT Debt/Equity	67.6%	61.4%	69.6%	13.24%
LT Debt/Capital	25.7%	23.2%	30.9%	33.05%

Return on Assets



Return on Capital



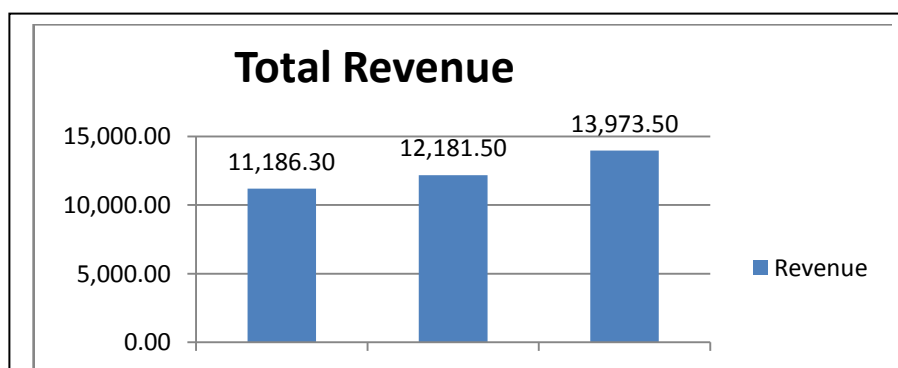


WACC	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Equity					
Cost of Equity	10.5%	9.6%	11.4%	12.6%	11.7%
Weight of Equity	63.8%	44.8%	31.9%	45.2%	57.5%
Debt					
Cost of Debt	8.7%	6.7%	4.8%	5.2%	7.2%
Weight of Debt	36.2%	55.2%	68.1%	54.8%	42.5%
Preferred Equity					
Cost of Pref Equity	--	--	--	--	--
Weight of Pref Equity	0.0%	0.0%	0.0%	0.0%	0.0%
WACC	9.8%	8.0%	6.9%	8.6%	9.8%

Capital Structure	FY 2014		FY 2015		FY 2016	
	Millions	% of Total	Millions	% of Total	Millions	% of Total
Hist Market Cap	3,491.1	44.2%	5,541.6	56.2%	6,545.2	62.5%
ST Borrowings	2,574.1	32.6%	2,704.0	27.4%	1,741.4	16.6%
LT Borrowings	1,830.8	23.2%	1,613.3	16.4%	2,184.2	20.9%
Pref Equity	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total Capital	7,896.1	100.0%	9,858.9	100.0%	10,470.8	100.0%

Revenue By Product	FY 2014	FY 2015	FY 2016
Revenue	11,186.3	12,181.5	13,973.5
Pigments	10,086.6	10,640.9	11,831.4
Agro Chemicals	1,099.7	1,155.0	1,163.0
Other Operations		385.6	1,098.9

Revenue By Geography	FY 2014	FY 2015	FY 2016
Revenue	11,186.3	12,181.5	13,973.5
India	8,302.9	9,113.5	NA
Exports	2,883.4	3,068.1	NA





Shareholding Pattern:

Shareholding Pattern	Mar-16	Dec-15	Sep-15	Jun-15	Mar-15
Promoter and Promoter Group (%)	52.89	52.89	52.89	52.89	52.89
Indian	52.89	52.89	52.89	52.89	52.89
Foreign	NIL	NIL	NIL	NIL	NIL
Institutions (%)	3.39	3.57	3.58	3.65	5.59
FII	2.85	0.00	3.01	3.07	5.01
DII	0.53	3.57	0.56	0.58	0.58
NonInstitutions (%)	43.72	43.53	43.53	43.45	41.51
Bodies Corporate	NIL	NIL	1.82	1.89	1.87
Others	43.72	43.53	41.71	41.56	39.64
Custodians	NIL	NIL	NIL	NIL	NIL
Total no. of shares (cr.)	6.92	6.92	6.92	6.92	6.92

Peer Comparison:

Peer Comparison	SUDARSHAN CHEM	CLARIANT CHEM	ATUL LTD
Latest Fiscal Year:	03/2016	03/2016	03/2016
Latest Available Period Date:	3/31/2016	12/31/2011	3/31/2016
52-Week High	244.75	864.00	2,148.95
52-Week High Date	7/21/2016	10/15/2015	7/15/2016
52-Week Low	78.00	585.00	1,150.00
52-Week Low Date	2/12/2016	3/1/2016	8/25/2015
Daily Volume	134,797	2,454	9,985
Current Price:	238	698.70	2,125.10
52-Week High % Change	-1.2%	-19.2%	-1.1%
52-Week Low % Change	185%	19.4%	84.8%
Total Common Shares (M)	69.2	26.7	29.7
Market Capitalization	14,939.2	16,118.0	63,034.2
Total Debt	3,925.6	2.0	2,759.5
Preferred Stock	-	-	-
Minority Interest	-	-	56.2
- Cash and Equivalents	249.9	284.5	247.0
Current Enterprise Value	18,614.9	15,835.6	65,602.9

It shows that the share has given highest return from recent year.



Investment Rationale:

- Sudarshan has the largest market share in India and is the largest pigment manufacturer in India and has significant presence in three largest markets: Europe, North America and Asia.
- Sudarshan expects exports % to up which is currently 60%, 95% market is out of India.
- It has signed a MOU with Maharashtra Govt of Rs. 1000 Cr in the next five years, the first stage of investment has already kicked off.
- It expects the upcoming quarters to be better as it getting more approvals from international markets, Europe, Asia and North America so sale growth is expected to be better than last year.
- Sudarshan aims to be the fourth largest pigment producer.
- Co aims to grow ROCE margin beyond 30% in the next 2-3 years.
- The company expects to improve the performance by laying more emphasis on Technical and Bulk as well as brand Business. Notwithstanding availability constraints of key raw materials and difficult market conditions, the current year should end on a positive note.
- The Company's globalization plans and its strong base in the Indian Market provides a great opportunity for growth. Also the Company's strategy of focusing among others on High Performance Pigments and specialized Azo Pigments provide a great future.
- Sudarshan is not dependent that much on crude. When crude prices came down from \$130 to \$35.50 that was not reflected in their balance sheet because it has a very marginal effect in the bottom-line of the company. So even if crude price goes up, that is not going to have any impact on the balance sheet.
- **Sudarshan** aspires to become the fourth largest company in the world and third largest company has a turnover of Rs 10,000 crore. This company is only Rs 1400 crore. So this indicates that the company aspires to grow rapidly.

*We recommend BUY in **Sudarshan Chemical** @ 210 with the Target of 270 as Sudarshan Chemical is the largest pigment manufacturer in India and 4th largest in the world having significant presence in three largest markets: Europe, North America and Asia. The Company's globalization plans and its strong base in the Indian Market provides a great opportunity for growth. Also the Company's strategy of focusing among others on High Performance Pigments and specialized Azo Pigments provide a great future.*



Disclaimer:

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We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered. SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on for certain operational deviations.

Answers to the Best of the knowledge and belief of Dynamic/ its Associates/ Research Analyst who prepared this report

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