

# Sudarshan Chemical Industries

**Rs 322**
*Set to regain its shine*

BSE Sensex: 39,513

Nifty-50: 11,811

## FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS(Rs)*
1603 (12)	1207.26	12.90%	155.75	12.88	168.63	26.35	142.28	43.79	98.49	0	98.49	19.55	53.5	7.7
1703 (12)	1292.86	13.40%	173.47	22.73	196.2	24.5	171.7	49.88	121.82	0	121.82	26.52	68.19	9.9
1803 (12)	1305.8	15.00%	195.28	10.79	206.07	23.31	182.76	57.69	125.07	0	125.07	40.24	84.83	12.2
1903 (12)	1432.86	14.10%	202.36	5.79	208.15	13.85	194.3	64.82	129.48	83.36	212.84	63.32	149.52	13.4
2003(12P)	1604.8	15.10%	242.33	7.5	249.83	15.51	234.31	71.95	162.36	0	162.36	48.71	113.65	16.4

\* Annualised on current equity of Rs 13.85 crore. Face Value: Rs 2. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. (P): Projections. Figures in Rs crore.  
Source: Capitaline Database

Incorporated in 1952, Sudarshan Chemical Industries (Sudarshan) is a globally renowned player in the Pigment Industry and manufactures a wide range of Organic and Inorganic Pigments, Effect Pigments and other products with facilities at Roha and Mahad, Dist. Raigad, Maharashtra.

The company has also set up an ultra modern R&D Facility at Ambedvet (Sutarwadi), Pune, India.

It was the first chemical company in India to be awarded the ISO 9001 certificate in 1993. The company is now also accredited with ISO 14001, OHSAS 18001 and ISO 17025 international quality standards.

Sudarshan's manufacturing plants are located at Roha and Mahad, Dist. Raigad in the State of Maharashtra. Both plants manufacture various types of pigments.

Sudarshan entered global markets in 2008 through its wholly-owned subsidiaries in North America, Europe and currently it has an extensive presence globally in the organic pigments market, with sales in over 60 countries worldwide. During the last decade, the company has been aggressively expanding into international markets. It is the management aspiration to establish Sudarshan as a leading brand, worldwide.

Sudarshan's subsidiaries in Europe and North America continue to aggressively tap new markets and key potential customers. It markets its product portfolio via its own sales channels in India and the Indian sub-continent, the Middle East, Turkey, Africa, Latin America and Russia, serviced from head office in Pune, India.

Pigment business - A strong, dominant and experienced player with 35% market share. The company is leader in the domestic Pigment manufacturing Industry with a 35% market share. Its Pigments are also exported to most of the discerning markets in Europe, America and Asia. Sudarshan is 4<sup>th</sup> largest pigment manufacturing company in the world and is the largest pigment player in India.

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.



## STOCK DATA

BSE Code	:	506655
BSE Group	:	A
NSE Code	:	SUDARSCHM
Bloomberg	:	SCHI IN
Reuters	:	SDCH.BO
Par Value	:	Rs 2
52-week High/Low	:	Rs 509 / Rs 291
Sector	:	Chemicals

## SHAREHOLDING PATTERN\*

Category	% of equity
Foreign	: 6.67
Institutions	: 3.67
Govt Holding	: 0
Corporate Holding	: 2.6
Promoters	: 52.89
Public & Others	: 34.17
Total	: 100

\* as on 31-03-2019

Source: Capitaline Databases

Pigment business of the company mainly comprises of manufacturing of High Performance Pigments and Commodity Pigments apart from customized pigments for niche segments catering to domestic and international customers as also manufacture of Effect Pigments for cosmetics, coating applications etc. The product offerings include recognized brands such as Sudaperm, Sudafast, Sudacolor, Sumica and Sumicos. Company's development focus is on high performance pigments mainly for automotive coatings and engineering plastics that are produced in state of the art manufacturing facilities at Roha and Mahad.

#### **Pigment is applied across several 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 pearlescent pigments, or with metallic pigments, to produce durable special effect colors for the automotive industry and for engineering segment.

**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.

**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.

**Cosmetics:** Its range of pigments brings brilliancy and shimmer to distinguish products in the personal care and color cosmetics space.

#### **Opportunity loss for China is an opportunity for the company**

US China trade war has resulted in higher duties being imposed by US on Chinese pigments. This has opened out many opportunities for Indian pigment players.

The benefits of the tariff hike to Indian players will start from FY 20 onwards, as the US customers had built up inventory in anticipation of the tariff hike in FY19.

China is also struggling with environmental issues. Due to many issues on environment and hazards, many chemical factories have been closed down.

Chinese companies are infact looking at various Indian companies in specialty segment for a strategic tie up. Some molecules were made in China are being stopped and the company is in early stage of discussion with some players for manufacturing them here.

To sum up, the competitive landscape and the opportunities post Chinese disruption has improved for the company which will result in better margins and profitability going forward.

#### **On track for becoming 3<sup>rd</sup> largest pigment player in the world**

The company has given a roadmap of capex of Rs 1000 crore from FY 18 to FY 22. After spending Rs 200 crore in FY 19, of which Rs 80 crore is used for backward integration for some product lines in Roha, another Rs 200 crore is planned for FY 20. The company expects an asset turn ratio in upwards of 2.75 to 3 times.

All of the incremental capex is to be in high performance and effect pigments space which is likely to be margin accretive than normal commoditized azo and phthalo pigments.

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It leader in the domestic Pigment manufacturing Industry with a 35% market share. Its Pigments are also exported to most of the discerning markets in Europe, America and Asia

The company is doing lot of backward integration to reduce its dependency on imports. It has also strategically tied up for its raw material requirements and scale benefits will accrue gradually as these new capacities come on stream.

The completion of this capex will allow the company to improve its status to the 3<sup>rd</sup> largest player in the organic pigment space.

#### **Exports will remain strong**

Around 53% of total sales are from exports and rest 47% is from domestic market.

About 73% of the total product range is exported to overseas markets. The customers are served through a distribution network operating in USA, Europe, South Africa, South America, Turkey, with sales representatives in USA and Europe. It has also setup warehouses in Europe and USA. The Company's overseas subsidiaries in Netherlands and North America set up with the objective of marketing and selling Pigments continue to record improved performance.

With increased enquires on exports given Chinese issues and with new derivatives of pigment capacities, the company's export momentum will continue.

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 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.

#### **Research and Development Centre**

Recognizing the need for continuous development, Sudarshan has set up a dedicated well-equipped Research and Development Centre to develop cutting edge products to keep pace with evolving customer requirements. The R&D facilities are located at Roha, Dist. Raigad and Ambadvet, Amrlevadi, Tal, Mulshi, Dist, Pune.

The company has a continuous R&D programme, with over 100 technologists working on new and customised solutions. The certification of ISO 9001, ISO 14001 and OHSAS - ISO 18001 from BVQI is a testimony to the company's commitment towards quality, safety and sustainable environment friendly approach.

The company's R&D laboratories are recognized by the Department of Scientific & Industrial Research (DSIR). Its labs are also ISO 17025:2001 certified by National Accreditation Board for Testing and Calibration Laboratories (NABL), Government of India and has received recognition for a further period of 4 years i.e. upto March 31, 2016 from the Ministry of Science & Technology, New Delhi.

#### **Divesting non-core to focus and expand only in core business**

Apart from Pigments, the company was also in business of Agro chemicals (both manufacturing and trading), Masterbatches (manufacturing through its wholly owned subsidiary Prescient colour) and industrial mixing solution (IMS) business.

In June 18, the company divested its Prescient colour business to Americhem Inc for around Rs 94 crore. Also during the same month, the company approved to transfer Agro chemicals business for a fixed consideration of Rs 7 crore and a variable component in terms of royalty payable on sales. The fixed assets for Agro chemical division is used for Pigment division.

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The company is doing lot of backward integration to reduce its dependency on imports. It has also strategically tied up for its raw material requirements and scale benefits will accrue gradually as new capacities come on stream

In April 19, the company divested its IMS business to GMM Pfaudler for a consideration of Rs 29 crore.

The consideration of all these divestitures is being used for the expansions in pigment division which now remains the core business of the company.

#### **FY19 show**

Net sales for Mar 19 quarter was up by 3% to Rs 388.53 crore. OPM was up by 120 bps to 1.3% thus resulting in a OP of Rs 59.59 crore up by 12%. Other income stood at Rs 2.47 crore as against negative other income of Rs 3.73 crore due to forex losses. Interest cost was down by 25% to Rs 4.18 crore.

After providing depreciation of Rs 16.64 crore up by 11%, PBT stood at Rs 41.24 crore up by 43%. There was an EO loss of Rs 10.8 crore pertaining to impairment in investment value of subsidiary as compared to Nil for Mar 18 quarter, thus PBT after EO stood at Rs 30.44 crore up by 5%.

After providing total tax of Rs 16.63 crore, up by 120% PAT stood at Rs 13.81 crore down by 35%. The provision on subsidiary Rieco Industries is done on conservative basis and management is confident of turning around this company completely by end of FY 20.

For FY 19, net sales stood at Rs 1432.86 crore up by 10%. OPM was lower by 90 bps to 14.1% restricting the OP growth to 4% to Rs 202.36 crore. Other income was down by 46% to Rs 5.79 crore. Interest cost was lower by 41% to Rs 13.85 crore and depreciation was up by 12% to Rs 64.82 crore. Thus, PBT was up by 4% to Rs 129.48 crore.

There was and EO income of Rs 83.36 crore (net of EO loss adjustment of Rs 10.8 crore on impairment in value in one of the subsidiary) pertaining to profit on sale of a subsidiary for FY 19 as compared to Nil for FY 18 thus PBT after EO stood at Rs 212.84 crore up by 70%. After providing total tax of Rs 63.32 crore up by 57%, PAT for FY 19 stood at Rs 149.52 crore up by 76%.

#### **Encouraging outlook**

There exists good opportunities for growth in the Pigment Industry considering the low per capita income spending in India 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 also provides opportunity for growth. Inks and plastics market also holds lot of promise as the Paper and Printing Industry is poised for consistent growth.

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.

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The completion of this capex will allow the company to improve its status to the 3<sup>rd</sup> largest player in the organic pigment space

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With increased enquires on exports given Chinese issues and with new derivatives of pigment capacities, the company's export momentum will continue

The management has taken several steps to improve sales globally. Have rolled out country specific go to market strategies and have changed its distribution model globally which will start yielding results in coming quarters.

The company has launched 25 new products in FY 19 as pigment derivatives majority of them were in cosmetic segment.

It is seeing strong traction for volumes from some main markets like decorative paints, engineering paints, industrial paints and plastic masterbatches which go into coloration of wide range of goods.

Coatings, plastics, coatings and inks continue to form a major sales category of the company all of which are seeing strong demand.

The shift of product mix towards effect pigments as a part of the Rs 1000 crore capex at Roha, cost saving initiatives like backward integration and energy self sufficiency would mean better earnings prospects for the company.

### Valuation

For FY 20, we expect the company to register standalone net sales and PAT of Rs 1604.8 crore and Rs 113.65 crore respectively. This gives an EPS of Rs 16.4. At current market price of Rs 322, the share trades at 20.0 times its expected FY 20 earnings.

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

### SUDARSHAN CHEMICAL INDUSTRIES: RESULTS

	1903(03)	1803(03)	VAR. (%)	1903 (12)	1803 (12)	VAR. (%)
Sales	388.53	376.85	3%	1432.86	1305.80	10%
OPM (%)	15.3%	14.1%		14.1%	15.0%	
OP	59.59	53.19	12%	202.36	195.28	4%
Other income	2.47	-3.73	LP	5.79	10.79	-46%
PBIDT	62.06	49.46	25%	208.15	206.07	1%
Interest	4.18	5.57	-25%	13.85	23.31	-41%
PBDT	57.88	43.89	32%	194.30	182.76	6%
Depreciation	16.64	14.95	11%	64.82	57.69	12%
PBT	41.24	28.94	43%	129.48	125.07	4%
EO	-10.80	0.00	0%	83.36	0.00	0%
PBT after EO	30.44	28.94	5%	212.84	125.07	70%
Current tax	16.63	7.57	120%	63.32	40.24	57%
PAT	13.81	21.37	-35%	149.52	84.83	76%
EPS* (Rs)	#	#		13.4	12.2	

\* Annualised on current equity of Rs 13.85 crore. Face Value: Rs 2. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax.

#EPS can not be annualised due to seasonality in business. Figures in Rs crore.

Source: Capitaline Database