

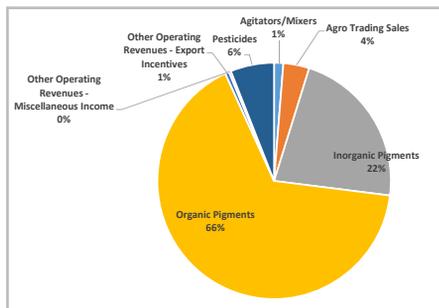


COMPANY NAME	: Sudarshan Chemical Ind.
BSE Code	: 506655
Time Duration	: 1 year
CMP	: ₹284 (as on 22 Dec., 2016)
Target Price	: ₹371

Our Mid-Bridge for the month of December 2016 is Sudarshan Chemicals. Sudarshan Chemicals is engaged in pigments and agro-chemicals business. Pigments contribute 89 per cent to the company's revenue, 10 per cent is contributed by agro-chemicals segment and the remaining one per cent from others. The company has diversified its geographical risk, with 43 per cent earnings coming from the exports market and the remaining 57 per cent from domestic markets. With this product and geographical mix, the company achieved growth of 13 per cent CAGR over the last five years. The EBITDA margin of the company has been growing at 17 per cent CAGR over the last five years owing to consistent focus on reducing working capital. The company has capex plans of Rs 150 crore for the current year. We expect it to grow at 11 per cent in topline and to give FY17E EPS of Rs 16.81. We see 30 per cent upside in the scrip from the current level.

Pigments segment drives the growth

The company stands among top four pigment players in the world. The company's pigment segment increased from 60 per cent in FY05 to 89 per cent in FY16. The pigment segment grew by 11 per cent in FY16 and it is expected to grow at the same pace going forward. The organic pigments contribute a major share of 66 per cent in the pigment segment which includes azo, pthalos and high performance pigments. These pigments have application in coatings, plastic colours, inks, cosmetics, automotive paints and machine paints, which is expected to attract good demand in the near term. The company's portfolio of clientele consists of top three automobile companies. The company's focused R&D expenditure coupled with aggressive sales team will enable it to expand its product portfolio, thereby adding more cream to the topline.



Diversified presence mitigates geographical risk

The company is one of the market leaders in the domestic market with 57 per cent share of revenue coming from the domestic market and the

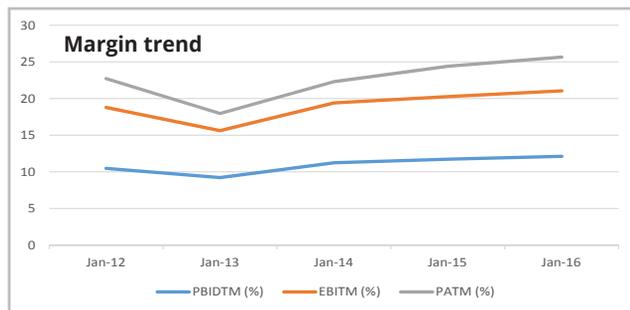
rest from the exports market. The company has achieved target of becoming a global leader from a local leader, with presence in over 70 countries, including Europe, Middle East, Africa, North America and Asia. The slowdown and the year end in the global markets can put pressure on Q3FY17 earnings, but we expect it to recover in Q4FY17 due to capex and stable global economic conditions. The company is also tapping new geographies which will add to the topline.

Capex plans

The company has aimed at a capex of Rs 1000 crore over the next five years, with Rs 200 crore of capex every year. The company has done capex of Rs 50 crore till H1FY17 which has been utilised to increase capacity by 17.5 per cent. The balance capex of Rs 150 crore will be incurred in H2FY17. After completion of capex, the company expects a turnover of Rs 4,000 crore mainly from the pigments segment. It also targeting ROCE of 30 per cent in six years.

Improved Margins

The company has maintained its EBITDA margin above 10 per cent and there has been continuous improvement in it. Meanwhile, it attained a PAT margin of 5 per cent in FY16, an improve-



ment from 2 per cent in FY13 due to reduction in finance cost.

Financial Performance

On a standalone basis in 2QFY17, the company reported increase in sales of 16.2 per cent YoY, while it registered growth of 7 per cent YoY in EBITDA. This was largely due to higher other operating income. At the PAT level, the company reported growth of 8.3 per cent due to higher other income and lower interest.

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations.

On a TTM basis, the company achieved sales growth of 4.6 per cent YoY coupled with 80 per cent YoY growth in other operating income, leading to EBITDA growth of 17 per cent YoY. This pulled up the growth in PAT growth by 45 per cent YoY.

The company has recorded improvement in ROA, ROE and ROCE since FY13. It delivered ROA, ROE and ROCE of 6 per cent, 24 per cent and 19 per cent, respectively in FY16 and it aims to deliver ROCE of 30 per cent after completion of capex. The company also focused on inventory management with application of Six Sigma technology. It improved its inventory turnover ratio to

6.53x in FY16 versus 4.70x in FY12.

Valuation

The company, with FY17E EPS of Rs 16.81, is trading at FY17E P/E of 16.3x. It has improved D/E to 0.93x in H1FY17 as against 1.06x in H1FY16 with higher interest coverage ratio of 8.54x in H1FY17 versus 5.22x in H1FY16. Considering the company's capex plans, consistent track record of growth, focused working capital management and expanding global reach, we recommend investors to BUY this scrip in the range of Rs 260-295 (CMP-283) with a target of Rs 371.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	1409.33	1218.15	1118.63	872.89	800.29
Total Income	1423.36	1241.84	1122.41	880.17	804.13
Total Expenditure	1239.76	1087.75	987.32	793.48	714.53
PBIDT	183.60	154.10	135.09	86.70	89.60
PAT	69.91	54.38	35.05	22.01	33.56
Dividend %	150.00	87.50	150.00	125.00	125.00
Adj. EPS(Rs)	10.10	7.86	5.06	3.18	4.85

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	1207.26	1088.29	1026.65	785.25	744.23
Total Income	1220.14	1113.18	1031.38	796.80	752.22
Total Expenditure	1050.40	978.07	902.06	714.22	662.54
PBIDT	169.74	135.11	129.32	82.59	89.67
PAT	71.63	42.41	34.42	21.06	36.15
Dividend %	150.00	87.50	150.00	125.00	125.00
Adj. EPS(Rs)	10.35	6.13	4.97	3.04	5.22

