

20th November, 2015

DCS – Listing
The BSE Limited
1st Floor, New Trading Ring,
Rotunda Buildings, P.J.Towers,
Dalal Street Fort,
Mumbai – 400 001.

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (E),
Mumbai-400051

Dear Sirs,

Re.: Clause No. 36 of the Listing Agreement.

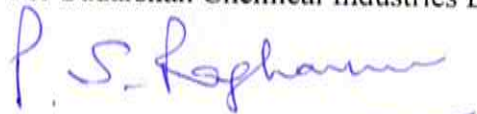
This is to inform that the Company has received credit rating from India Ratings & Research today i.e. 20th November, 2015 for its borrowing programme.

The rating given by India Ratings & Research is 'IND A' with positive outlook. We attach herewith copy of the rating letter.

Kindly take the above information on record and further place the same on your Notice Board, Website for the information of our shareholders, investors and general public at large.

Thank you.

Yours truly,
For Sudarshan Chemical Industries Limited



P.S.Raghavan
Company Secretary

Encl : As above.



Sudarshan Chemical Industries Limited
Global Head Office :
162 Wellesley Road, Pune - 411 001, India
Tel: +91 20 260 58 888 Fax: +91 20 260 58 222
Email : contact@sudarshan.com
www.sudarshan.com

India Ratings Revises Sudarshan Chemical's Outlook to Positive; Affirms 'IND A'

20

By Sumit Shashwat

NOV 2015

India Ratings and Research (Ind-Ra) has revised Sudarshan Chemical Industries Limited's (SCIL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND A'.

The Outlook revision reflects the improvement in SCIL's standalone profitability in 1HFY16, leading to a substantial improvement in its standalone and consolidated credit profiles.

Ind-Ra continues to take a consolidated view of SCIL and its subsidiaries, namely Prescient Color Limited (100% subsidiary), RIECO Industries Limited (100% subsidiary), Sudarshan Europe B.V. (100% subsidiary) and Sudarshan North America Inc. (step-down subsidiary), for the rating purpose. All the companies are in the same line of business except RIECO Industries which is into engineering business. Prescient Color manufactures colours and additive master batches, while Sudarshan Europe and Sudarshan North America are the marketing and trading arms of SCIL. SCIL has provided corporate guarantees to the debt of two of its subsidiaries.

KEY RATING DRIVERS

Improved 1HFY16 Performance: SCIL achieved revenue of INR6,175.1m in 1HFY16 (1HFY15: INR5,702.1m) while operating EBITDA was INR830.3m (INR641.4m). Operating EBITDA margin improved to 13.4% in 1HFY16 (1HFY15: 11.2%) due to lower raw material prices and restructuring gains due to a reduction in manpower by company in FY15. EBITDA margin had declined to 10.7% in FY15 (FY14: 11.9%) due to an increase in raw material prices, forex volatility and one-time restructuring cost despite the company's efforts to minimise other expenses at 21.3% of the revenue (23%). SCIL's gross margin improved to 40.8% in 1HFY16 (1HFY15: 38.2%, FY15: 38.8%, FY14: 40.8%) due to lower commodity prices.

Capex Plans: SCIL has planned debt-funded capex of INR1,100m (70% debt and 30% equity) through FY16 and FY17 to increase its capacity for azo pigments and high-performance pigments, a 8MW captive power plant, and to increase the capacity of its effluent treatment plant. This company expects to complete the capex by October 2016. SCIL has also planned additional capex of INR520m for FY17.

Credit Metrics to Further Improve: Net leverage (net debt/EBITDA) reduced to 3.15x in FY15 (FY14: 3.22x) and interest coverage (gross interest/EBITDA) increased to 3.37x (3.09x) on lower interest cost of INR387m (FY14: INR429m) and lower debt levels of INR4,317m (INR4,405m). The lower interest cost in FY15 was due to the refinancing of high-cost rupee term loans with low-cost external commercial borrowings. Ind-Ra expects the credit metrics to improve in FY16 as well despite the capex due to improved EBITDA margins. For 1HFY16, on a standalone basis, interest coverage improved to 6.7x and net leverage reduced to 1.85x on account of higher EBITDA.

Moderate Liquidity: SCIL's cash flow from operations increased to INR760m in FY15 from INR62m in FY14 due to lower working capital and has been positive since FY14. Free cash flow has turned positive and was INR71m in FY15 (FY14: negative INR348m), despite large capex of INR567m in FY15 (INR309m), due to the higher cash flow. The company's use of the fund-based limits was 67% on average and that of non-fund-based limits was 61% on average for the 12 months ended September 2015. SCIL's net working capital cycle reduced to 159 days in FY15 (FY14: 186 days, FY13: 208 days) due to lower inventory days of 125 in FY15 (144, 168).

Forex Risk: The company is exposed to forex risk as export forms 44% of the total revenue and imported raw materials form 35% of the total raw material consumption. SCIL also has unhedged euro denominated external commercial borrowings. SCIL hedges (90%) its net exposure using forward covers and options.

End-use Industry: The ratings remain constrained by the cyclical nature in the end-user paints and inks industry, as it accounts for around 65% of the total revenue.

Long Track Record and Market Leader: SCIL has over 60 years of operating track record and according to company management; it has a leadership position in the Indian pigment industry with a market share of around 35%. The company's management also has a 30-year-long operating experience.

RATING SENSITIVITIES

Positive: A sustained improvement in the EBITDA margins with a higher proportion of revenue from value-added pigments resulting in an improvement in the overall credit profile with the net leverage being sustained below 2.5x could result in a positive rating action.

Negative: Deterioration in the EBITDA margins and/or any debt-led capex over and above agency's expectation leading to the net leverage being sustained above 3.0x could lead to Ind-Ra revising the outlook back to Stable.

COMPANY PROFILE

SCIL is a leading manufacturer of pigments, which accounted for 89% of the total FY15 revenue. Pesticides and trading sales account for 4% and 7%, respectively, of the company's revenue. It has manufacturing plants in Roha and Mahad.

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://INDIARATINGS.CO.IN/UNDERSTANDINGCREDITRATINGS](http://INDIARATINGS.CO.IN/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

Rating Outstanding

Long Term Issuer Rating	IND A / Positive	
Term loan	IND A / Positive	INR 1366.5 m
Fund Based Working Capital Limit	IND A / Positive	INR 2237.5 m
Fund/Non-Fund Based Working Capital Limit	IND A1	INR 1012.5 m
Term loan	Provisional IND A / Positive	INR 750 m
Term Deposit	IND IA+ / Positive	INR 900 m

Applicable Criteria

Corporate Rating Methodology

Treatment and Notching of Hybrids in Nonfinancial Corporates