

20th April, 2025

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001
Scrip Code – 506655
Scrip Code NCDs - 974058

National Stock Exchange of India Limited
Exchange Plaza, C - 1, Block - G,
Bandra Kurla Complex,
Bandra (East), Mumbai – 400 051
Scrip Symbol - SUDARSCHEM

Dear Sir / Madam,

Sub : Credit Rating Intimation

Further to our intimation *vide* letter dated 23rd October, 2024 and 22nd January, 2025 and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time, and all other applicable provisions, if any, we write to inform that Crisil (An S&P Global Company) has removed its earlier rating ‘Rating Watch with Developing Implications’ and has reaffirmed its rating as ‘Crisil A1+’ on Company’s Rs. 50 Crore Commercial Paper as follows:

Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook	Rating Action
• Rs. 50 Crore Commercial Paper	Crisil A1+ / Watch Developing (Continues on ‘Rating with Developing Implications’)	Crisil A1+ (Removed from ‘Rating Watch with Developing Implications’)	Reaffirmed as Crisil A1+ (Removed from ‘Rating Watch with Developing Implications’)

A copy of the Report covering the rationale for the rating is available on Crisil’s website and is also enclosed herewith.

This is for your information and records.

Thanking You,
Yours Faithfully,
For SUDARSHAN CHEMICAL INDUSTRIES LIMITED

MANDAR VELANKAR
GENERAL COUNSEL AND COMPANY SECRETARY

Rating Rationale

April 19, 2025 | Mumbai

Sudarshan Chemical Industries Limited

Rating removed from 'Watch Developing'; Rating Reaffirmed

Rating Action

Rs.50 Crore Commercial Paper	Crisil A1+ (Removed from 'Rating Watch with Developing Implications'; Rating Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

Crisil Ratings rating on the commercial paper programme of Sudarshan Chemical Industries Limited (SCIL) has been removed from 'Rating Watch with Developing Implications' and reaffirmed at '**Crisil A1+**'.

Earlier on October 22, 2024, the rating on commercial paper programme of SCIL was placed on 'Rating Watch with developing implications' following the announcement of a definitive agreement entered into by SCIL to acquire the global pigment operations of the Heubach group of Germany on a debt-free basis for a total consideration of EURO 127.5 million (approximately Rs 1,180 Crore) through its wholly owned subsidiary Sudarshan Europe B.V. (SEBV). The transaction includes acquisition of assets and share deal of Heubach group by SEBV. The transaction will trigger a mandatory open offer to public shareholders in accordance with the provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("SEBI SAST Regulations, 2011") for acquisition of up to 26% stake in Heubach's group listed Indian entity, Heubach Colorants India Limited, entailing a maximum consideration of Rs. 346 crore. The acquisition has been funded through a mix of equity and debt. Accordingly, Sudharshan's Board of Directors had approved a proposal for raising funds of Rs. 1,000 crore plus green shoe option up to 25% by way of issuance of equity shares or any other eligible securities ("Securities") through permissible modes. On March 03, 2025, the company announced the completion of the acquisition of Global Pigment Business Operations of Heubach Group of Germany.

The acquisition was completed through debt of around Rs. 1,600 crore (EURO 175 million) and equity raise of around Rs. 1,000 crore (includes Rs. 25 crore received out of warrants of Rs. 100 crore subscribed by promoter Mr. Rajesh Rathi; balance Rs. 75 crore expected over the next 18 months). The debt taken has 15-month moratorium with a ballooning repayment structure with repayment starting from September 2027.

The 'Watch' resolution, along with the reaffirmation of the short-term rating, reflects the expectation that the company will maintain a sizeable corpus of unencumbered liquidity Rs. 800-850 crore over the medium term, until restructuring of the recently acquired business of Heubach group is completed. This liquidity is expected to provide adequate coverage for exceptional expenses expected during the turnaround phase and also act as a financial buffer, ensuring timely availability of additional funds in case of unforeseen exigencies.

However, given the acquisition is materially large and also debt levels have risen, a material delay in turning around operations and improving profitability of Heubach group will be critical to sustain the company's credit risk profile. Besides, incremental debt related to the transaction will impact key debt protection metrics over the near to medium term. Moreover, any imposition of reciprocal tariffs by US across different geographies will need to be closely monitored, as such developments could materially impact the company's business volumes, pricing competitiveness, and overall profitability thereby exerting additional pressure on key debt metrics. Consequently, both the operational and financial recovery of the acquired business and evolving global trade dynamics will remain key monitorables.

Revenue growth of the company's existing business is expected to continue however, it may moderate owing to looming geo-political headwinds. While the operating margin of existing business will sustain at current level of around 13%, the consolidated operating margin is expected to reduce due to initial lower operating profitability of the Heubach Group, as well as post-acquisition spend on turnaround and re-optimisation of manufacturing operations. As a result, during initial period, the financial risk profile is expected to moderate to average levels, from earlier comfortable levels. Debt protection metrics will moderate considerably due to higher debt; adj. gearing to remain over 1.0 time over the medium term, while gross debt to operating profit before interest, taxes, depreciation & amortisation (OPBDIT) will peak at around 4 times during the

turnaround phase (1.42 times as on March 31, 2024), as the value unlocking of synergies will accrue once the restructuring phase is completed. Interest cover is also seen at modest levels of just around 3 times over the medium-term. That said, the company is expected to maintain material liquidity buffer to cover for any exigency that may arise for business operations and for debt re-payment obligations. In the near to medium term the company is estimated to hold unencumbered liquid surplus of Rs. 800-850 crore. Incrementally, the company has also earmarked Rs. 350 crore to fund the open offer. Going forward, the accrual of synergy benefits through the turnaround strategy shall remain a key monitorable.

The acquisition will help Sudharshan emerge as a leading global pigment company with a presence across 19 countries, as well as 17 manufacturing facilities in 11 countries. The Heubach group is the second largest player in the global pigment sector and is estimated to have reported revenues of close to around EURO 800 million. However, the Heubach group faced financial challenges recently, due to headwinds from the Ukraine-Russia conflict leading to high energy prices, which was followed by weak demand scenario in key European markets. This impacted profitability and along with high debt levels led to the group filing for bankruptcy. Post-acquisition, SCIL's group revenues will witness a material increase with inclusion of Heubach group turnover and its market position in the pigments business will solidify.

The rating also continues to reflect the extensive experience of the promoters in the pigment industry and the established market position of SCIL. The ratings also factor in the diversified product range and end-user industry and customer profile, strong distribution network and marquee clientele, and average financial risk profile supported by healthy financial flexibility. These strengths are partially offset by the working capital requirements, exposure to risks related to volatility in commodity prices, and weak profitability of the Heubach Group.

For the first nine months of fiscal 2025, SCIL's revenues increased by around 12% on-year to Rs. 1,996 crore, on the back of 17% on-year growth in pigment revenues, partially offset by the engineering division business i.e., RIECO Industries Ltd (RIECO) witnessed sharp decline in revenues during the said period (Rs. 146 crore revenue during the first nine months of fiscal 2025 as against Rs. 196 crore revenues during the corresponding period last fiscal). That said, RIECO's performance during the third quarter of fiscal 2025 (Rs. 65 crore during 3Q'FY25 as against Rs. 45 crore during the same period of corresponding fiscal) has shown improvement compared to first half of fiscal 2025 (Rs. 81 crore during 1H'FY25 as against Rs. 151 crore during the same period of last fiscal) on the back of better execution of order book. The pigment division revenues accounted for around 93% of the total revenues of SCIL during the period ending December 31, 2024. Demand continued to be healthy in the first nine of the fiscal 2025, with pigment revenues increasing by 17% on-year to Rs. 1,850 crore on the back of 18% y-o-y growth in specialty pigments followed by 16% y-o-y growth in non-specialty pigments. The volume ramp-up from the recent completed growth capex coupled with healthy domestic demand and strong recovery in overseas markets, translated to healthy growth in pigment revenues. In terms of geographic mix, pigment revenues from domestic markets increased by around 7% y-o-y during the period ended December 2024 to Rs. 873 crore, and export revenues during the same period increased by 28% y-o-y to Rs. 977 crore.

Operating margins improved 160 basis points (bps) during the nine-month ended December 31, 2024, to 13.2% on the back of improving product and geographic mix, and stable raw material prices. The volume ramp-up from recent completed growth capex pertaining to specialty pigments owing to favorable demand drivers, translated to the 160-bps operating margin expansion. Specialty pigment revenues as a percentage of total pigment revenues improved to 69% during the said period, as against, 68.5% during the same period of last fiscal, and overseas revenue mix as a percentage of total pigment revenues improved to 52.8% during the first nine months of fiscal 2025, as against 48.5% during the same period of last fiscal. Consequently, operating profitability increased by around 28% on-year to Rs. 263 crore.

Analytical Approach

Crisil Ratings has combined the business and financial risk profiles of SCIL and its subsidiaries, Sudarshan Europe B.V., Sudarshan North America, Inc., Sudarshan Shanghai Trading Company Ltd, Sudarshan Mexico S de R.L.de CV, Sudarshan Japan K.K., and Heubach Group including Heubach Colour Pvt Ltd, Heubach Pigments Pvt Ltd, and other Heubach companies. All these companies are collectively referred to as the Sudarshan group and have significant managerial, operational, and financial linkages. Crisil Ratings has also consolidated the business and financial risk profiles of RIECO Industries Ltd, which is a wholly owned subsidiary of SCIL and also because of the support committed by the group and its track record demonstrated earlier. In addition, the capital reserve generated from the transaction has been adjusted from network.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Healthy market position in the pigment industry**

SCIL is the largest pigment manufacturer in India, with a market share of around 33%, and as per company estimates, is the third largest pigment manufacturer in the world. The products are used in various end-user industries such as decorative and automotive coatings, plastics, inks, and cosmetics. The company, with a product base comparable to global leaders, aims to add more products to its portfolio. Its strong network comprises more than 60 channel partners and subsidiaries in the USA, the Netherlands, China, Mexico and Japan; for distribution of pigments worldwide & procurement of raw materials. Exports accounted for 53% of revenue during the nine months ended December 31, 2024. The company is likely to see its growth strengthen further including global market position, aided by new products

launched as a part of capex program which is recently concluded and the “Go to Market” strategy initiative of the company post the easing macro-economic headwinds and global uncertainties. Tailwinds like ongoing consolidation in the industry and the China plus one strategy may also benefit the company.

Currently, specialty pigments product portfolio accounts for around 69% of pigment business revenues, and the proportion is said to increase with new product launches within High Performance Pigments (HPPs) and Complex Inorganic Color Pigments (CICPs). The new products from the capex investments have higher skewness towards overseas markets, given the global shift toward specialty pigments

Post-acquisition, Sudharshan’s group revenues will witness a material increase with inclusion of Heubach group turnover and its market position in the pigments business will solidify. The company will also emerge as a leading player in the global pigment industry.

- **Average financial risk profile supported by healthy financial flexibility**

SCIL had undertaken a debt funded expansionary capex of Rs. 750 crore undertaken over fiscals 2020-23. As a result, adjusted gearing sharply increased from 0.87 time as on March 31, 2020, to 1.04 time as on March 31, 2023. However, following demand headwinds impacting capex ramp-up and profitability, the company’s debt to OPBDIT and adj. gearing peaked at 3.59 times and 1.05 times respectively as on March 31, 2023. During fiscal 2024, the company had monetised freehold land, and the proceeds of Rs. 287 crore (net of tax) were utilised towards the reduction of high-cost borrowings and prepayment of external commercial borrowings (ECB); as a result, adj. gearing and debt to OPBDIT improved to 0.42 time and 1.42 time as on March 31, 2024.

However, as a result of the large debt funded acquisition, SCIL’s financial risk profile is expected to moderate to average levels from earlier comfortable levels. Adj. gearing is expected to remain over 1.0 time over fiscal 2026-28, and debt to OPBDIT to also peak at around 4 times during fiscal 2026-27, before gradually improving to below 1.0 time and 2.0 times respectively post fiscal 2028. Interest cover is expected to remain over 3 times in the medium term. Going forward, the improvement in leverage will be driven by value unlocking of synergies, subsequent to the completion of the turnaround exercise. The company is nevertheless expected to maintain sufficient liquidity cover in the form of unencumbered cash and unutilised bank lines to cover business operations and support debt re-payment obligations, in the event of insufficient accruals. In addition, the company has a strong relationship with the lenders and hence shall be able to raise sufficient funds in case of exigency.

Weaknesses:

- **Return metrics and operating margins to be temporarily impacted owing to the acquisition of stressed Heubach Group**

Operating margins will contract considerably post full, year consolidation of the Heubach Group pigment operations and factoring in expenses related to post-merger and re-optimisation of manufacturing operations. The execution of the turnaround strategy shall be critical to ensure operating margins and return on capital employed (RoCE) return to healthy levels of 9-10% and over 10-12% respectively.

- **Large working capital requirement and susceptibility to volatility in raw material prices**

Gross current assets (GCA; net of cash) days stood at 176 days as on September 30, 2024 (164 days as on March 31, 2024). Inventory requirement remains high as the company has multiple stock keeping units for pigments and several distribution centers both in India and abroad. That said, while GCA days (net of cash) is high, the net working capital cycle stood moderate at around 20 days as on September 30, 2024 (as against 38 days as on March 31, 2024). The sustenance of the net working capital cycle of around 25-35 days shall keep working capital intensity limited and thereby resulting in limited reliance on external funding.

However, SCIL’s operating profitability margins remain susceptible to volatility in raw material prices such as benzene, toluene, naphthalene, and liner low density polyethylene, which are essentially crude linked. Sharp increase in key raw material prices over fiscal 2022-23 resulted in operating profitability margins to contract to around 12.7% during fiscal 2022 and 10.0% during fiscal 2023 from over 13% in the previous fiscal years. That said, cost plus model pertaining to straight pass through of commodity inflation, limits the impact of sharp increases in raw material prices.

Liquidity: Strong

Expected annual net cash accrual of Rs. 200-350 crore along with expected unencumbered cash surplus of Rs. 800-850 crore over the medium term, shall be sufficient to meet yearly debt repayment obligations of Rs. 170-350 crore (stepped up repayment structure) and capital expenditure spends of Rs. 200-250 crore between fiscals 2026-2028. Also, the company has access to fund-based limits of Rs. 515 crore (average 12 months drawing power is Rs. 360 crore), which on-average during the past six months through to February 2025 has been utilised to the tune of 46%.

ESG Profile

Crisil Ratings believes that the Environment, Social, and Governance (ESG) profile of SCIL supports its existing strong credit risk profile.

The chemical sector has a high impact on the environment because of the high greenhouse gas (GHG) emissions, high hazardous waste generation by its core operations. The sector has a social impact because of its large workforce, the impact on the health and wellbeing of its workers and the local community on account of its nature of operations.

Sudarshan Chemical Industries Ltd has continuously focused on mitigating its environmental and social impact.

SCIL's Key ESG highlights:

- SCIL has set a target to reduce Green House Gases (GHG) emissions by 42% by fiscal 2032 from its fiscal 2021 baseline. Also, the company plans to attain zero waste to landfill by fiscal 2032.
- Further it has set a target to decrease specific water consumption by 20% by fiscal 2026 from its 2021 baseline. In fiscal 2024, its specific water intensity reduced by around 40% to 32.54 KL per crore of revenue, in line with its target.
- SCIL's lost time injury frequency rate (LTIFR) stood at nil for employees and 0.58x for workers in fiscal 2024, higher than the previous fiscal (reported nil LTIFR for workforce).

There is growing importance of ESG among investors and lenders. SCIL's commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its share of overseas borrowings in its overall debt and access to both domestic and foreign capital markets.

Rating sensitivity factors

Downward factors

- Any significant decline in revenue and operating profitability of the acquired businesses resulting in overall operating margin remaining in mid-single digit for a prolonged period thereby impacting annual cash accruals.
- Substantial increase in working capital requirement or debt-funded capex, leading to delay in expected correction of key debt protection metrics i.e. net debt-to-EBITDA remaining above 3 times at end of fiscal 2027.
- Faster than expected depletion in unencumbered liquidity due to large dividend payout or higher-than-expected post-acquisition expenses expected to be incurred over the near to medium term.

About the Company

SCIL is a globally renowned pigment player and the largest in India, manufacturing a wide range of organic and inorganic pigments and mica-based effect pigments. The company, which was established in 1951, remained focused on the domestic market till 2006. The joint venture with Dainippon Ink Corporation (DIC) was operational between 1990 and 2006, post which SCIL went global, establishing its footprint in North America Europe and other geographies. The company has two manufacturing facilities in Roha and Mahad (both in Maharashtra).

During the nine months ended December 31, 2024, Sudharshan registered a profit after tax of Rs. 60 crore (Rs. 294 crore in corresponding period of fiscal 2024, which also includes exceptional income pertaining to the gain on sale of freehold land) on net sales of Rs. 1,996 crore (Rs.1,775 crore). Promoter shareholding as on January 31, 2025 stood at 24.28% (27.55% as on December 31, 2024) with recent change in shareholding due to equity raise, and open market sale by some of the promoters.

Key Financial Indicators- Crisil Ratings adjusted numbers

As on / for the period ended March 31		2024	2023
Revenue	Rs crore	2,539	2,302
Profit after tax (PAT)	Rs crore	357	45
PAT margin	%	14.08	1.95
Adjusted debt/Adjusted networkth	Times	0.42	1.05
Adjusted interest coverage	Times	8.60	4.95

Any other information: Not applicable

Note on complexity levels of the rated instrument:

Crisil Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

Crisil Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name Of Instrument	Date Of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Complexity Levels	Rating Outstanding with Outlook
NA	Commercial Paper	NA	NA	7-365 days	50.00	Simple	Crisil A1+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Sudarshan Europe B.V.	Full	Wholly owned subsidiaries, same business and significant managerial, operational, and financial linkages
Sudarshan North America, Inc.	Full	
Sudarshan (Shanghai) Trading Company Ltd	Full	
Sudarshan Mexico S de R.L.de CV	Full	
Sudarshan Japan K.K	Full	
Sudarshan Brasil LTDA	Full	
Blitz F24-522 GmbH	Full	
Blitz F24-523 GmbH	Full	
Blitz F24-524 GmbH	Full	Wholly owned subsidiaries commitment of support and past demonstrated track record of support
RIECO Industries Ltd	Full	
Heubach Colour Pvt Ltd	Full	
Heubach Pigments Pvt Ltd	Full	Wholly owned subsidiaries, same business and significant managerial, operational, and financial linkages
Heubach Toyo Colour Pvt Ltd	Equity Method	
Heubach Colorants India Ltd	Full	Joint venture partnership with Heubach Colour Pvt Ltd
		Subsidiary with same business and significant managerial, operational, and financial linkages

Annexure - Rating History for last 3 Years

Instrument	Current			2025 (History)		2024		2023		2022		Start of 2022
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	50.0	Crisil A1+	20-01-25	Crisil A1+/Watch Developing	22-10-24	Crisil A1+/Watch Developing	25-09-23	Crisil A1+	30-12-22	Crisil A1+	Crisil A1+
			--		--	10-09-24	Crisil A1+		--		--	--

All amounts are in Rs.Cr.

Criteria Details**Links to related criteria**

[Criteria for manufacturing, trading and corporate services sector \(including approach for financial ratios\)](#)

[Basics of Ratings \(including default recognition, assessing information adequacy\)](#)

[Criteria for consolidation](#)

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