10 May 2013

Clariant Chemicals India Limited

Postal ballot

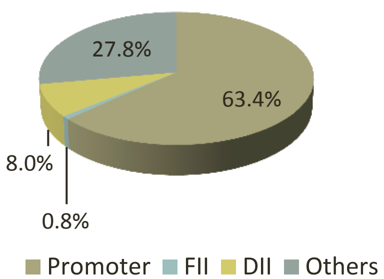
Outcome date	:	20 May 2013	4:00 pm
Receipt deadline	:	15 May 2013	5:00 pm
Notice date	:	26 March 2013	
Registered office	:	P.O. Sandoz Baug, Kolshet Road, Thane, Maharashtra - 400607	
E-mail Id	:	mail@csraginichokshi.com	

Company Profile

BSE: 506390 | NSE: CLNINDIA
ISIN: INE492A01029
Industry: Dyes and Pigments
Index: BSE500 / CNX500
Face Value: Rs. 10.0
Mkt Price: Rs. 461.5
Fiscal Year End: December

Promoter

Ebito Chemiebeteiligungen AG (30.6%),
Clariant International Ltd. (22.8%),
Clariant Participations Ltd. (10.0%)



Financials

Particulars	FY12 (Rs. bn)
Total Income	11.1
Net Worth	5.0
Equity Capital	0.26
Market Cap.	12.3
Overview	
52 week H/L(Rs.)	674.0-456.0
Current P/E(x)	12.3
Current P/B(x)	2.5

Source: IiAS Research, Market sources

Write to us

Institutional Investor Advisory Services
15th Floor, West Wing, PJ Tower
Dalal Street, Mumbai -400 001
Email: solutions@iias.in
www.iias.in

Company overview

Clariant Chemicals (India) Ltd. ('CCIL' or 'the company') is a specialty chemicals company. It manufactures pigments, additives, masterbatches, textile chemicals, paper specialties, emulsions, and oil and mining services. Its manufacturing plants are located at Roha, Kolshet (Maharashtra), Cuddalore and Kanchipuram (Tamilnadu). The company is promoted by EBITO Chemiebeteiligungen AG (30.6%), Clariant International AG (22.8%) and Clariant Participations AG (10%). These three together hold 63.4% equity shares in the Company. Clariant AG, Switzerland **('Clariant)** is the ultimate holding company.

Agenda Items

#	Type*	Description of resolution	IiAS Recommendation	Indicators See Legend
1	O	Sale of textile chemicals, paper specialties and emulsions ("TPE business") to US based SK Capital Partners	**AGAINST**	G M R S T V

*O: Ordinary

Executive Summary (click on respective link for detailed analysis)

Sale of businesses

CCIL proposes to sell its textile chemicals, paper specialties and emulsions ("TPE business") to US based SK Capital Partners following Clariant's move to exit globally from these businesses. Total consideration for the sale of TPE business is Rs 2092 mn. CCIL's TPE business accounts for 35% of its net sales.

As Clariant proposes to exit these businesses, it makes limited strategic sense for CCIL to remain in these businesses as global support and as access to know-how in future is uncertain. However, the company's disclosures are inadequate and based on limited disclosure, valuation should be higher. We recommend voting AGAINST the resolution.

The company has not provided any information related to revenue and profitability of the TPE businesses, assets and liabilities held by these businesses.

Therefore, we have assumed following four cases:

a. EBITDA margin is same across all businesses i.e. 14.6%
b. EBITDA margin is same as that of company's peer – Atul Ltd. i.e. 13.7%
c. EBITDA margin at 10%
d. EBITDA margin at 8%

In all the above cases except d., it is observed that the consideration of Rs 2091 mn paid to Indian business is relatively lower than the consideration for sale of the global business.

Shareholders should ask the company:

- to provide sufficient information pertaining to revenue and profitability of the TPE business
- to provide reasons for lower consideration to India business than the consideration for the global business
- to provide details about the utilization of proceeds from the sale of TPE business (India). Whether it has plans to pay dividends to the shareholders or to make investments in profitable businesses?

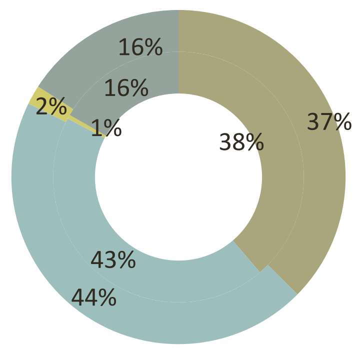
In case the company confirms that margins for these businesses in India are ~8% or below, investors may consider voting for.

Financial Performance (standalone)

Particulars (Rs. bn)	FY10	FY11	FY12
Total income	10.0	10.0	11.1
EBIDTA	1.8	4.1	1.6
EBIDTA margin (%)	18.0	41.1	14.6
PBT [1]	1.7	1.5	1.3
PBT margin (%)	17.0	15.0	11.7
PBT [2]	1.6	3.9	1.4
PBT margin (%)	16.0	39.0	12.6
PAT	1.1	3.0	1.0
PAT margin (%)	11.0	30.0	9.0
EPS (Rs.)	42.2	114	38
ROANW (%)	30.6	70.6	20.4
ROACE (%)	30.6	67.6	19.1
Debt/EBIDTA (x)	-	-	-

[1] Excluding exceptional items
[2] Including exceptional items
Source: Company filings

Segment revenue



Inner ring represents FY11 data: Total op. revenue Rs. 9.8 bn
Outer ring represents FY12 data: Total op. revenue Rs. 10.9 bn

Exceptional items: IiAS notes that CCIL has sold its non-core assets and two of its businesses in the past few years. The company sold premises of Rs.93.1 mn in FY11 and land and infrastructure in Thane for Rs.2405 mn in FY12. In FY10 the company sold 'flexible laminating adhesive' business for Rs.36 mn and sold 'diketene and intermediate' business during FY09 for Rs.52.3 mn. The net profit of the company (including extraordinary item) for FY09, FY10, FY11 and FY12 is Rs.1081 mn, Rs.1124 mn, Rs. 3040 mn and Rs.1013 mn respectively.

Public Shareholding > 1% holding

Sr. No.	Name of Shareholder	Total number of shares held (million)	Shareholding as %age of total
1	UTI Dividend Yield Fund	1.1	4.1
2	HDFC Trustee Company Ltd	0.4	1.4
	Total	**1.5**	**5.5**

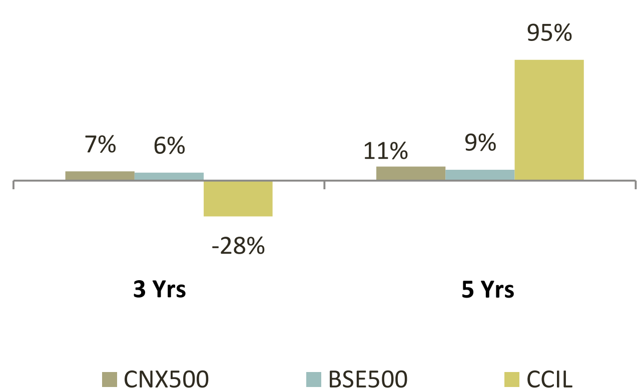
Source: BSE filings

Change in Shareholding Pattern (%)

Year	Promoter	FII	DII	Others
Mar-13	63.4	0.8	8.0	27.8
Dec-12	63.4	1.0	7.9	27.7
Sep-12	63.4	1.0	8.0	27.6
Jun-12	63.4	1.1	8.0	27.5
Mar-12	63.4	1.1	8.0	27.5
Mar-11	63.4	0.8	6.3	29.5
Mar-10	63.4	0.6	5.1	30.9
Mar-09	63.4	0.2	7.3	29.1
Mar-08	63.4	0.2	11.8	24.6

Source: BSE

Price Performance



3 Yrs: 01 May 2010 to 30 April 2013
5 Yrs: 01 May 2008 to 30 April 2013
Source: BSE

Category: Sale of business

Resolution 1: Sale of textile chemicals, paper specialties and emulsions businesses (“TPE business”) to the wholly-owned subsidiary of SK Capital Partners

IiAS Recommendation: AGAINST

Divestment of businesses to SK Capital Partner

In June 2012, Clariant announced its goals to be achieved by 2015.
These included:

- An EBITDA margin of >17%
- A return on invested capital (ROIC) that is higher than the average in the company’s peer group

As a part of this strategy Clariant decided to divest a number of businesses including its textile chemicals, paper specialties and emulsions, leather services and detergent – “discontinued operations”.

In December 2012, Clariant announced divestment of its textile chemicals, paper specialties and emulsion (TPE) business globally to a wholly owned subsidiary of SK Capital Partners (a US based company) for a consideration of 502 mn Swiss Franc (CHF), equivalent to Rs.28815 mn. Clariant has decided to sell these businesses and planned to focus more on the businesses which have higher profitability. EBIDTA margin of the discontinued operations is 7.6% in FY12, whereas that of continued operations is 13.3%.

Following the global sale of the TPE business, CCIL has announced the sale of its TPE business for a consideration of Rs 2091 mn to a wholly-owned subsidiary of SK Capital. All the assets and liabilities directly relating to TPE business will be transferred to SK Capital. The sale also includes textile chemicals plant covering approximately 9,100 square meters in Roha.

Atul Ltd and Sudarshan Chemicals Ltd are in the same line of business i.e. specialty chemicals. EBITDA margin of these two companies is tabled below.

Table1: EBITDA margin of peers for FY12

Particulars (Rs. Mn)	Sales	EBITDA	EBITDA margin
Atul Ltd	20014	2746	13.7%
Sudarshan Chemicals Ltd.	7442	886	11.9%

Table 2: Key financials for FY12

Particulars (Rs mn)	Clariant [a]	CCIL [b]	CCIL [c]	CCIL[d]	CCIL [e]
Net sales	84689	3749	3749	3749	3749
EBITDA	4068	546	513	375	300
EBITDA Margin (%)	4.8	14.6	13.7	10.0	8.0
Actual consideration	28765	2091	2091	2091	2091
EBITDA Multiple (x)	7.07	3.83	4.07	5.58	6.97
Consideration at 7.07x EBITDA	-	3860	3626	2651	2121

[a] Includes financials of ‘performance chemicals’ and ‘textile chemicals’ business. Performance chemicals business includes paper specialties, emulsions and detergents & intermediaries businesses.
[b] Assumed that the margin of domestic TPE business is same across all businesses.
[c] Assumed that the margin of domestic TPE business is same that of Atul Ltd.
[d] Assumed that the margin of domestic TPE business lower than both the peers at 10%.
[e] Assumed that the margin of the domestic TPE business is at 8.0%

Insufficient Disclosure and transparency
The notice of the postal ballot does not mention whether the transaction value is certified by external independent valuer. Information related to the amount and nature of assets and liabilities held by this business is not available to shareholders. The company has also not mentioned about the operational efficiencies of this businesses including its profit margin. The only financial information available with the shareholders is that the TPE business accounts for 35% of the net sales of the company. In absence of any financial information the reasonableness of the amount paid as consideration to CCIL cannot be judged. However, as discussed, it appears lower than what its parents has received.

A huge disparity between parent and India valuation
In absence of information we have assumed that the EBIDTA margin is same across the company. Further we have considered contributions from its ‘performance chemicals’ and ‘textile’ business for calculating the financials (refer Table 2) of Clariant. Performance chemicals business of the company includes paper specialties (included in slump sale), emulsions (included in slump sale) and detergents & intermediaries (not included in slump sale).

It is seen in from table 2, that the consideration paid to Indian business is relatively lower than the considerations for the global business. As part of the global deal Clariant’s global TPE business is valued at Rs. 28.8 bn (at an exchange rate of 1 CHF = Rs.57.3). This works out to 7.07 times its EBIDTA (global business) while, domestic business is valued at 4.07 times EBITDA (assuming EBITDA margin of Atul Ltd.). Such a significant discount is in spite of the fact that the global business’ EBIDTA margin (4.8%) is around one third that of domestic business (13.7%). At 7.07 times EBIDTA, the consideration of the domestic business should have been in the range between Rs 2651 mn and Rs.3860 mn, i.e. 27% to 85% higher than the proposed consideration.

The promoters own 100% in most of its global subsidiaries; 63.4% in India
Clariant has around 135 subsidiaries all over the world. All these, except 13 subsidiaries, are wholly-owned. Its subsidiaries in China, Germany and Great Britain are either wholly-owned or substantially owned. In India, it has three subsidiaries namely CCIL (holding: 63.4%), Italtino India Pvt. Ltd. (100%) and Sud-Chemie Adsorbents Pvt. Ltd. (100%). We observe, in most of the cases, Clarian has 100% holding in the subsidiaries. Assuming like-to-like numbers, the EBITDA multiple for the 100% owned business is higher than the Indian business, which is 63.4% owned.

No information regarding the use of proceeds from the sale of TPE business
We expect that the proceeds from the sale of TPE business will be distributed to shareholders as dividend.

CCIL is debt free. It has cash and equivalents (investment in mutual funds) of 61% of its gross block as at 31 March 2012. CCIL is also a healthy dividend paying company. Its dividend payout ratio for FY12 increased from 61.1% in FY11 to 84.1% in FY12. Given this payout, the company might consider a one-time special dividend.

Shareholders should seek confirmation regarding the use of proceeds, in case the sale goes through.

We recommend voting **AGAINST** the resolution. IiAS is of the opinion that the shareholders should ask the company to provide sufficient amount of information pertaining to the importance of divested businesses in India, basic information like revenue and profitability of these businesses and reasons for lower consideration being received by the Indian subsidiary.

In case the company confirms that margins for these businesses in India are ~8% or below, investors may consider voting for this resolution.

Legend

IiAS publishes voting recommendations on shareholder resolutions. These recommendations are non-binding in nature. Investors may have their own voting parameters which may, in some aspects, differ from those of IiAS. On such occasions, investors should use these recommendations as a guiding tool.

The data and regulations reviewed while arriving at a recommendation are disclosed to the investors. The objective is to offer investor clarity regarding the basis for our recommendations.

Please note that voting recommendations do not constitute advice to buy, sell or hold securities.

Indicator	Meaning	Description	Common Examples
G	Governance Issue	This symbol is used for resolutions which indicate poor corporate governance practices or non-compliance with the regulatory provisions. Consequently, they are usually accompanied with an **AGAINST** recommendation. IiAS may also include measures/best practices which the company can adopt to improve its governance record.	Managerial remuneration, Auditor appointments
M	Minority shareholder impact	This symbol is used for resolutions which negatively affect the minority shareholders of the company. IiAS usually recommends voting **AGAINST** such resolutions as they benefit the controlling or a class of shareholders at the expense of others.	Preferential warrants, Differential rights
R	Moderate - High Risk	This symbol is used for operating decisions taken by the company management and IiAS will usually recommend voting **FOR** such resolutions. However, they carry an element of risk which may subsequently have a negative impact on the financials. Investors are therefore advised to review the risk factors highlighted by IiAS in its analysis before voting.	Any resolution
S	Strategic	Indicates a strategic decision of the company, the long term impact of which cannot be accurately ascertained at the time of proposal. These may be accompanied with a **FOR** or **AGAINST** recommendation based on a preliminary review of data provided to investors. IiAS recommendations on such strategic decisions are dependent primarily on short-term indicators like market reaction, analyst opinions, valuation impact, etc. Investors may choose to support a resolution in expectation of higher returns.	Mergers, Amalgamations, Hive-offs, Entering new lines of business
T	Transparency Issue	Indicates lack of adequate information. Even though IiAS provides both **FOR** and **AGAINST** recommendations on such resolutions (based on available data), investors are advised to seek further clarifications from the company. Investors should take into account any additional information received from the company before voting.	Any resolution
V	Valuation	Refers to a valuation impact on the company's financials. These resolutions are likely to impact the company's margins and long term profitability. IiAS typically will recommend voting **AGAINST** such a resolution. Investors are advised to critically review the company's proposal in such cases. However, they may choose to support a resolution in expectation of higher returns.	Increase in borrowings. Related party transactions, Excessive dilution

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