

10 August 2023

India | Equity research | Q1FY24 result update

## Sudarshan Chemical Industries

Speciality Chemicals

### Margins recover, but revenue growth faces headwinds

Sudarshan Chemical Industries' (SCIL) Q1FY24 print showed recovery in margins (partly optical with drop in prices) on lower input cost. India demand was impacted from destocking in coating segment while plastics business has started growing. International business revenue was impacted from macro-headwinds. Company has not witnessed increased competitive intensity from Chinese pigment producers compared to last year. SCIL now expects INR 12.5bn incremental revenue addition over next four years as it ramps-up new capacity. Pigment industry can see further industry consolidation with a Canada-based producer (among top 6-7 globally) undergoing financial stress. Gross profit margin improvement, as expected, driven by rise in contribution from the new capacity for HPP will have limited benefits as base products had some margin erosion.

We cut our EPS estimates by 8.5% for FY25E, but increase it by 2% for FY24E. Our target price is raised to INR 560 (from INR 550) as we increase the P/E multiple to 20x FY25E EPS (earlier: 18x). We downgrade the stock to **HOLD** (from **BUY**). Key risks: Major softness in demand, and slower margin recovery.

### Pigment revenue rose 2% YoY (down 9.6% QoQ)

Revenue from pigment business stood at INR 5.4bn and was impacted by destocking from domestic coating customers, which was partly offset by demand recovery in plastics. Domestic pigment sales were down 1.1% YoY (12% QoQ) to INR 2.7bn. Export revenue rose 5.4% YoY (down 7.2% QoQ) to INR 2.7bn. Europe saw slower demand, but competitive intensity from China has not deteriorated. A Canada-based MNC pigment player, who is among top 6-7 players globally, is undergoing financial stress, which should add to the already consolidating pigment industry. Anti-dumping duty on India phthalocyanine by China has hurt, but SCIL is not seeing any incremental pressure. Company expects gradual recovery in sales with the commissioning of entire capex, and expansion of new product portfolio on macro headwinds. It expects additional revenue potential of INR 13.5bn over the next four years now (earlier expectation: INR 15bn over next three years).

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	22,008	23,017	25,842	28,694
EBITDA	2,748	2,106	3,579	4,416
EBITDA Margin (%)	12.5	9.2	13.8	15.4
Net Profit	1,300	448	1,272	1,939
EPS (INR )	18.8	6.5	18.4	28.0
EPS % Chg YoY	(7.9)	(65.6)	184.1	52.4
P/E (x)	28.3	82.2	28.9	19.0
EV/EBITDA (x)	16.3	21.2	11.5	8.9
RoCE (%)	9.4	4.4	4.6	12.2
RoE (%)	16.5	5.4	68.6	15.1

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#### Market Data

Market Cap (INR)	37bn
Market Cap (USD)	444mn
Bloomberg Code	SCHI IN
Reuters Code	SDCH.BO
52-week Range (INR)	567 /341
Free Float (%)	58.0
ADTV-3M (mn) (USD)	1.8

Price Performance (%)	3m	6m	12m
Absolute	28.7	47.1	17.1
Relative to Sensex	7.8	9.6	13.6

ESG Disclosure	2021	2022	Change
ESG score	38.8	50.8	12.0
Environment	2.4	31.1	28.7
Social	29.1	36.3	7.3
Governance	84.9	84.9	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(3.0)	(4.5)
EBITDA	3.9	(3.2)
EPS	2.2	(8.5)

#### Previous Reports

25-05-2023: [Q4FY23 results review](#)

11-02-2023: [Q3FY23 results review](#)

### Gross profit margins are expected to be stable at ~45%

SCIL's gross profit margin rose 300bps QoQ to 45% on softening raw material prices and optically lower selling prices. Company expects gross profit margin to remain stable at current levels despite more HPP sales as base portfolio has seen some margin erosion. EBITDA grew 69% YoY to INR 0.7bn and EBITDA margin was at 11.5%, down 80bps QoQ. EBITDA margin will benefit from operating leverage with rise in plant utilisation levels going forward. Net profit had one-off gains from sale of land for INR 3.6bn in Q1FY24.

### Other highlights

**1)** SCIL pigment market share in India has remained stable at 35% as it has shredded some market in lower-end pigments (such as chrome) due to increased competitive intensity, but gained in HPP; **2)** SCIL had good response to its new products from international customers, but lower demand is delaying ramp-up; **3)** new product portfolio is heavily skewed towards exports, and fewer products are targeted for domestic customers; **4)** SCIL has started seeing signs of buyers showing preference for non-Chinese producers, which the company believes will be tailwinds for its growth; **5)** capex (of INR 0.4bn) will be limited toward maintenance.

#### Exhibit 1: Sudarshan Chemical (consolidated) financials

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue	5,542	5,284	5,280	6,912	6,081	(12.0)	9.7
COGS	3,305	3,239	3,128	4,011	3,345	(16.6)	1.2
<b>Gross profit</b>	<b>2,237</b>	<b>2,045</b>	<b>2,152</b>	<b>2,900</b>	<b>2,736</b>	<b>(5.7)</b>	<b>22.3</b>
GPM (%)	40.4	38.7	40.8	42.0	45.0		
Employee cost	473	441	439	487	513	5.3	8.5
% of revenue	8.5	8.3	8.3	7.0	8.4		
Other expenses	1,350	1,176	1,297	1,566	1,524	(2.7)	12.9
% of revenue	24.4	22.3	24.6	22.7	25.1		
<b>Total expenses</b>	<b>1,822</b>	<b>1,616</b>	<b>1,736</b>	<b>2,053</b>	<b>2,037</b>	<b>(0.8)</b>	<b>11.8</b>
<b>EBITDA</b>	<b>414</b>	<b>429</b>	<b>416</b>	<b>847</b>	<b>699</b>	<b>(17.5)</b>	<b>68.7</b>
EBITDA (%)	7.5	8.1	7.9	12.3	11.5		
Depreciation	258	270	309	306	346	13.2	34.1
<b>EBIT</b>	<b>156</b>	<b>159</b>	<b>107</b>	<b>542</b>	<b>353</b>	<b>(34.9)</b>	<b>125.8</b>
Other income	8	14	10	15	41	169.3	393.9
Finance cost	61	93	110	150	103	(31.5)	70.0
<b>PBT</b>	<b>104</b>	<b>80</b>	<b>7</b>	<b>406</b>	<b>291</b>	<b>(28.4)</b>	<b>180.0</b>
Tax	33	35	1	81	772	856.6	2,226.7
ETR (%)	31.9	43.3	16.5	19.9	265.4		
Exceptional item	-	-	-	-	3,151		
<b>Net profit</b>	<b>71</b>	<b>45</b>	<b>6</b>	<b>326</b>	<b>2,670</b>	<b>719.6</b>	<b>3,672.3</b>
Net profit (%)	1.3	0.9	0.1	4.7	43.9		
<b>EPS (INR)</b>	<b>1.0</b>	<b>0.7</b>	<b>0.1</b>	<b>4.7</b>	<b>38.6</b>	<b>719.6</b>	<b>3,672.3</b>

Source: I-Sec research, Company data

#### Exhibit 2: Sudarshan Chemical (consolidated) segmental financials

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
<b>Segment revenue</b>							
Pigments	5,261	4,762	4,832	5,935	5,364	(9.6)	2.0
Others	280	522	448	986	719	(27.1)	156.4
Intersegment elimination	-	-	-	-	-		
<b>Total</b>	<b>5,542</b>	<b>5,284</b>	<b>5,280</b>	<b>6,921</b>	<b>6,083</b>	<b>(12.1)</b>	<b>9.8</b>
<b>Mix (%)</b>							
Pigments	94.9	90.1	91.5	85.8	88.2		
Others	5.1	9.9	8.5	14.2	11.8		

Source: I-Sec research, Company data

**Exhibit 3: Sudarshan Chemical (consolidated) revenue breakup**

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
<b>Pigment</b>							
Specialty	3,520	3,310	3,410	4,120	3,630	(11.9)	3.1
Non specialty	1,740	1,450	1,430	1,810	1,740	(3.9)	-
<b>Total</b>	<b>5,260</b>	<b>4,760</b>	<b>4,840</b>	<b>5,930</b>	<b>5,370</b>	<b>(9.4)</b>	<b>2.1</b>
<b>Mix (%)</b>							
Specialty	66.9	69.5	70.5	69.5	67.6		
Non specialty	33.1	30.5	29.5	30.5	32.4		
<b>Pigment</b>							
Domestic	2,680	2,350	2,510	3,010	2,650	(12.0)	(1.1)
Export	2,580	2,420	2,320	2,930	2,720	(7.2)	5.4
<b>Total</b>	<b>5,260</b>	<b>4,770</b>	<b>4,830</b>	<b>5,940</b>	<b>5,370</b>	<b>(9.6)</b>	<b>2.1</b>
<b>Mix (%)</b>							
Domestic	51.0	49.3	52.0	50.7	49.3		
Export	49.0	50.7	48.0	49.3	50.7		

Source: I-Sec research, Company data

**Exhibit 4: Sudarshan Chemical (standalone) financials**

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue	5,158	4,535	4,653	5,415	5,248	(3.1)	1.7
COGS	3,227	2,819	2,842	3,298	3,079	(6.6)	(4.6)
<b>Gross profit</b>	<b>1,931</b>	<b>1,716</b>	<b>1,811</b>	<b>2,117</b>	<b>2,169</b>	<b>2.4</b>	<b>12.3</b>
GPM (%)	37.4	37.8	38.9	39.1	41.3		
Employee cost	324	324	292	330	347	5.4	7.3
% of revenue	6.3	7.2	6.3	6.1	6.6		
Other expenses	1,236	1,030	1,128	1,098	1,173	6.8	(5.1)
% of revenue	24.0	22.7	24.2	20.3	22.4		
<b>Total expenses</b>	<b>1,559</b>	<b>1,354</b>	<b>1,420</b>	<b>1,427</b>	<b>1,520</b>	<b>6.5</b>	<b>(2.5)</b>
<b>EBITDA</b>	<b>372</b>	<b>362</b>	<b>391</b>	<b>690</b>	<b>648</b>	<b>(6.0)</b>	<b>74.5</b>
EBITDA (%)	7.2	8.0	8.4	12.7	12.4		
Depreciation	252	261	301	297	337	13.4	33.7
<b>EBIT</b>	<b>120</b>	<b>101</b>	<b>90</b>	<b>393</b>	<b>312</b>	<b>(20.7)</b>	<b>160.2</b>
Other income	7	14	10	10	42	308.8	543.9
Finance cost	55	86	99	126	83	(34.1)	51.6
<b>PBT</b>	<b>71</b>	<b>29</b>	<b>1</b>	<b>277</b>	<b>271</b>	<b>(2.4)</b>	<b>278.7</b>
Tax	18	8	(13)	50	769	1,428.8	4,072.3
ETR (%)	25.8	29.0	(2,017.2)	18.1	284.0		
Exceptional item	-	-	-	-	3,151		
<b>Net profit</b>	<b>53</b>	<b>21</b>	<b>14</b>	<b>227</b>	<b>(498)</b>	<b>(319.4)</b>	<b>(1,038.5)</b>
Net profit (%)	1.0	0.5	0.3	4.2	(9.5)		

Source: I-Sec research, Company data

**Exhibit 5: Sudarshan Chemical (consolidated minus standalone) financials**

INR mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (%)	YoY (%)
Revenue	384	748	627	1,497	833	(44.3)	117.1
COGS	78	419	286	714	266	(62.7)	240.6
<b>Gross profit</b>	<b>306</b>	<b>329</b>	<b>341</b>	<b>783</b>	<b>567</b>	<b>(27.6)</b>	<b>85.6</b>
GPM (%)	79.6	44.0	54.4	52.3	68.1		
Employee cost	149	116	147	158	166	5.2	11.1
% of revenue	38.9	15.5	23.4	10.5	19.9		
Other expenses	114	146	169	468	351	(25.0)	208.3
% of revenue	29.7	19.6	26.9	31.3	42.1		
<b>Total expenses</b>	<b>263</b>	<b>263</b>	<b>316</b>	<b>626</b>	<b>517</b>	<b>(17.4)</b>	<b>96.5</b>
<b>EBITDA</b>	<b>43</b>	<b>67</b>	<b>26</b>	<b>157</b>	<b>50</b>	<b>(68.1)</b>	<b>18.1</b>
EBITDA (%)	11.1	8.9	4.1	10.5	6.0		
Depreciation	6	8	8	9	9	5.4	
<b>EBIT</b>	<b>36</b>	<b>58</b>	<b>18</b>	<b>148</b>	<b>41</b>	<b>(72.4)</b>	<b>12.5</b>
Other income	2	(0)	(0)	5	(1)	(114.2)	(139.1)
Finance cost	6	7	11	24	20		
<b>PBT</b>	<b>33</b>	<b>51</b>	<b>6</b>	<b>129</b>	<b>20</b>	<b>(84.2)</b>	<b>(37.2)</b>
Tax	15	26	14	30	4	(87.2)	(73.5)
ETR (%)	45.5	51.3	221.4	23.6	19.1		
Minority interest							
<b>Net profit</b>	<b>18</b>	<b>25</b>	<b>(8)</b>	<b>99</b>	<b>17</b>	<b>(83.3)</b>	<b>(6.8)</b>
Net profit (%)	4.6	3.3	(1.2)	6.6	2.0		

Source: I-Sec research, Company data

**Exhibit 6: Earnings revision (consolidated)**

Consolidated	Revised		Earlier		% change	
INR mn	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
<b>Financial</b>						
Revenue	25,842	28,694	26,633	30,042	(3.0)	(4.5)
EBITDA	3,579	4,416	3,446	4,559	3.9	(3.2)
EBITDA margin (%)	13.8	15.4	12.9	15.2		
Adj. PAT	1,272	1,939	1,244	2,118	2.2	(8.5)
Adj. EPS (INR )	18.4	28.0	18.0	30.6	2.2	(8.5)

Source: I-Sec research, Company data

**Exhibit 7: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	35.8	35.8	35.8
Institutional investors	17.1	17.3	17.8
MFs and others	12.4	12.3	12.2
FIs/Banks	-	-	-
Insurance	1.9	1.9	2.1
FIIIs	2.8	3.1	3.5
Others	47.1	46.9	46.4

Source: Bloomberg

**Exhibit 8: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>22,008</b>	<b>23,017</b>	<b>25,842</b>	<b>28,694</b>
Operating Expenses	6,556	7,228	8,178	8,796
<b>EBITDA</b>	<b>2,748</b>	<b>2,106</b>	<b>3,579</b>	<b>4,416</b>
EBITDA Margin (%)	12.5	9.2	13.8	15.4
Depreciation & Amortization	893	1,142	1,467	1,534
EBIT	1,855	964	2,112	2,882
Interest expenditure	194	415	391	256
Other Non-operating Income	50	48	50	52
<b>Recurring PBT</b>	<b>1,711</b>	<b>597</b>	<b>1,771</b>	<b>2,678</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	412	150	1,129	740
PAT	1,300	448	3,793	1,939
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	3,151	-
<b>Net Income (Reported)</b>	<b>1,300</b>	<b>448</b>	<b>6,944</b>	<b>1,939</b>
<b>Net Income (Adjusted)</b>	<b>1,300</b>	<b>448</b>	<b>1,272</b>	<b>1,939</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	12,051	11,649	12,850	14,930
of which cash & cash eqv.	353	294	493	1,255
Total Current Liabilities & Provisions	6,134	6,250	6,788	7,492
<b>Net Current Assets</b>	<b>5,917</b>	<b>5,399</b>	<b>6,063</b>	<b>7,438</b>
Investments	17	21	21	21
Net Fixed Assets	10,807	11,297	11,171	10,637
ROU Assets	-	-	-	-
Capital Work-in-Progress	2,847	445	445	445
Total Intangible Assets	356	409	68	68
Other assets	229	337	349	362
Deferred Tax assests	-	-	-	-
<b>Total Assets</b>	<b>17,476</b>	<b>17,577</b>	<b>17,805</b>	<b>18,683</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>8,187</b>	<b>8,175</b>	<b>4,675</b>	<b>3,675</b>
<b>Deferred Tax Liability</b>	<b>519</b>	<b>624</b>	<b>624</b>	<b>624</b>
Provisions	264	282	312	352
Other Liabilities	175	214	234	259
Equity Share Capital	138	138	138	138
Reserves & Surplus	8,193	8,144	11,822	13,635
<b>Total Net Worth</b>	<b>8,332</b>	<b>8,282</b>	<b>11,961</b>	<b>13,774</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>17,476</b>	<b>17,577</b>	<b>17,805</b>	<b>18,683</b>

Source Company data, I-Sec research

### Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	5,284	5,280	6,912	6,081
% growth (YoY)	6.1	(12.3)	10.2	9.7
EBITDA	429	416	847	699
Margin %	8.1	7.9	12.3	11.5
Other Income	14	10	15	41
Extraordinaries	-	-	-	3,151
Adjusted Net Profit	45	6	326	2,670

Source Company data, I-Sec research

### Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>2,384</b>	<b>2,066</b>	<b>5,601</b>	<b>3,676</b>
Working Capital Changes	(603)	804	(446)	(585)
Capital Commitments	(3,102)	(1,924)	(1,000)	(1,000)
<b>Free Cashflow</b>	<b>(1,321)</b>	<b>946</b>	<b>4,154</b>	<b>2,091</b>
<b>Other investing cashflow</b>	<b>26</b>	<b>13</b>	<b>50</b>	<b>52</b>
Cashflow from Investing Activities	36	31	50	52
Issue of Share Capital	-	-	-	-
Interest Cost	(194)	(347)	(391)	(256)
Inc (Dec) in Borrowings	1,992	(328)	(3,500)	(1,000)
Dividend paid	(411)	(343)	(114)	(126)
Others	(9)	(10)	-	-
Cash flow from Financing Activities	1,378	(1,027)	(4,005)	(1,382)
<b>Chg. in Cash &amp; Bank balance</b>	<b>93</b>	<b>(49)</b>	<b>199</b>	<b>761</b>
Closing cash & balance	253	204	493	1,255

Source Company data, I-Sec research

### Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	18.8	6.5	18.4	28.0
Adjusted EPS (Diluted)	18.8	6.5	18.4	28.0
Cash EPS	31.7	23.0	121.5	50.2
Dividend per share (DPS)	5.0	1.5	1.6	1.8
Book Value per share (BV)	120.4	119.6	172.8	199.0
Dividend Payout (%)	26.6	23.2	9.0	6.5
<b>Growth (%)</b>				
Net Sales	18.1	4.6	12.3	11.0
EBITDA	(4.5)	(23.3)	69.9	23.4
EPS (INR)	(7.9)	(65.6)	184.1	52.4
<b>Valuation Ratios (x)</b>				
P/E	28.3	82.2	28.9	19.0
P/CEPS	16.8	23.1	4.4	10.6
P/BV	4.4	4.4	3.1	2.7
EV / EBITDA	16.3	21.2	11.5	8.9
EV/SALES	2.0	1.9	1.6	1.4
Dividend Yield (%)	0.9	0.3	0.3	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	42.3	40.6	45.5	46.0
EBITDA Margins (%)	12.5	9.2	13.8	15.4
Effective Tax Rate (%)	24.1	25.1	63.8	27.6
Net Profit Margins (%)	5.9	1.9	4.9	6.8
NWC / Total Assets (%)	33.9	30.7	34.1	39.8
Net Debt / Equity (x)	0.9	1.0	0.3	0.2
Net Debt / EBITDA (x)	2.9	3.7	1.2	0.5
<b>Profitability Ratios</b>				
RoCE (%)	9.4	4.4	4.6	12.2
RoE (%)	16.5	5.4	68.6	15.1
RoC (%)	9.6	4.5	4.7	12.9
Fixed Asset Turnover (x)	2.8	2.1	2.4	2.8
Inventory Turnover Days	93.9	78.3	75.6	75.0
Receivables Days	83.0	77.1	75.2	75.5
Payables Days	86.5	80.7	78.5	78.6

Source Company data, I-Sec research

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