

Anti-dumping on mica to aid earnings by 5-10%...

About the stock: Established in 1951, Sudarshan Chemical is a leading player in the Indian colour pigment industry with ~35% market share and is also among the top four players globally.

- It has a wide portfolio of 4,000+ varieties of products of Azos, blue and green, high performance pigments (HPPs), effects, pigment preparations and inorganics
- Among end users, coatings industries contribute highest followed by plastics, inks, cosmetics and other applications

Anti-dumping duty on mica pigment: The Finance Ministry has imposed anti-dumping duty on natural mica-based pearl industrial pigments, excluding cosmetic-grade products. The duty will be ~US\$2-3/kg and will be levied for five years. As per the [initial document filed](#) by the company, overall import volumes for mica pigment from key geographies is at ~2181 MT at an imported price of ₹ 380/kg. The price undercutting is estimated to be ~20-30% as on inquiry date. Mica pigment currently contributes in low single digits to overall revenue of Sudarshan Chemical. Based on our calculation, sales volumes should be ~1300 MT against total capacity of ~3000 MT as per the [pre-feasibility study report](#) filed earlier. We expect potential earnings benefits due to price hike to be ~4-5% on FY21 PAT. We have not factored in any potential market share gains due to anti-dumping, going ahead. Any positive development can aid bottomline in high single digits on FY21 PAT.

What should investors do? The stock appreciated at 30% CAGR in last three years.

- We retain **BUY** rating on the back of better growth outlook from speciality pigments

Target Price and Valuation: We value Sudarshan Chemical at 25x P/E FY23E EPS to arrive at a revised target price of ₹ 825/share (earlier ₹ 795/share).

Key triggers for future price performance:

- Upcoming capex bodes well for speciality pigments revenue growth
- Higher share of value added business portfolio to improve margin profile of the business
- Allocation of incremental FCF towards organic/inorganic growth likely to expand return ratios further

Alternate Stock Idea: Apart from Sudarshan Chemical, in our chemical coverage we also like Neogen Chemical.

- For Neogen Chemical, future revenue growth is expected to be driven by increasing custom synthesis opportunity
- BUY with a target price of ₹ 1095

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Revenue	1,593.1	1,708.2	1,864.1	5.9%	2,196.6	2,605.8	18.2%
EBITDA	204.1	246.3	287.8	11.1%	358.5	435.2	23.0%
EBITDA Margins (%)	12.8%	14.4%	15.4%		16.3%	16.7%	
Adj.PAT	132.8	145.1	141.1	15.1%	183.2	228.8	27.3%
Adj. EPS (₹)	8.7	18.5	20.4		26.5	33.0	
EV/EBITDA	26.5x	21.8x	18.8x		14.9x	12.1x	
P/E	33.5x	33.7x	34.7x		26.7x	21.4x	
ROE (%)	10.7	21.3	19.0		20.8	21.8	
ROCE (%)	14.4	15.2	15.2		18.4	20.3	

SUDARSHAN

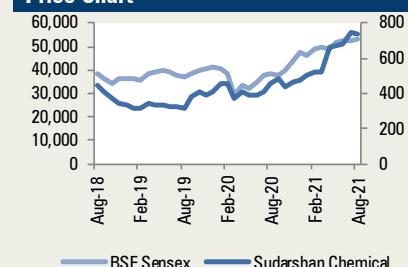
Particulars

Particular	Amount
Market cap (₹ Crore)	4,895
FY21 Total Debt (₹ Crore)	618
FY21 Cash & Inv (₹ Crore)	24
EV (₹ Crore)	5,489
52 Week H/L	792/422
Equity Capital (₹ Crore)	13.8
Face Value (₹)	2

Shareholding pattern

in %	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	42.7	40.0	40.0	39.6
DII	4.2	6.7	9.0	9.3
FII	8.1	9.3	9.4	8.8
Others	45.0	43.9	41.6	42.4

Price Chart



Recent event & key risks

- Anti-dumping on mica pigments imposed
- Key Risk:** (i) Slowdown in end user demand ii) Higher RMAT prices and inability to pass on to impact gross margins

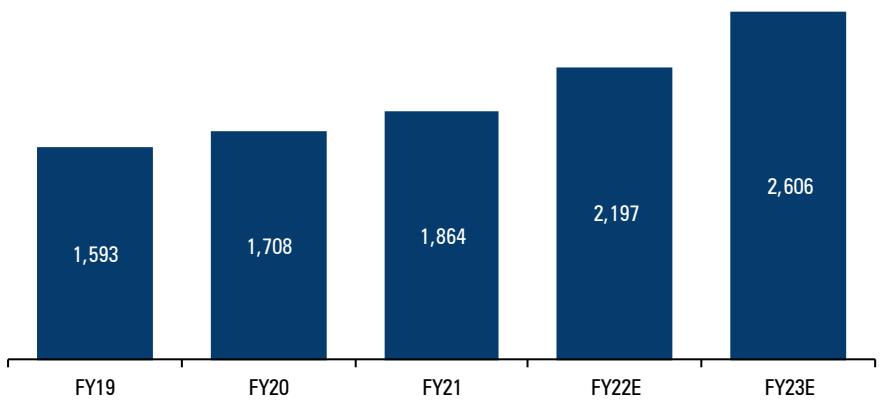
Research Analyst

Dhavan Shah
dhavan.shah@icicisecurities.com

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

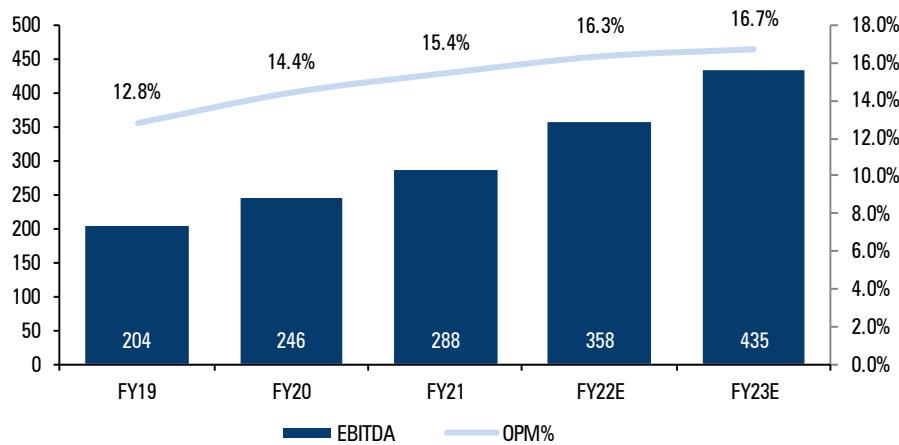
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



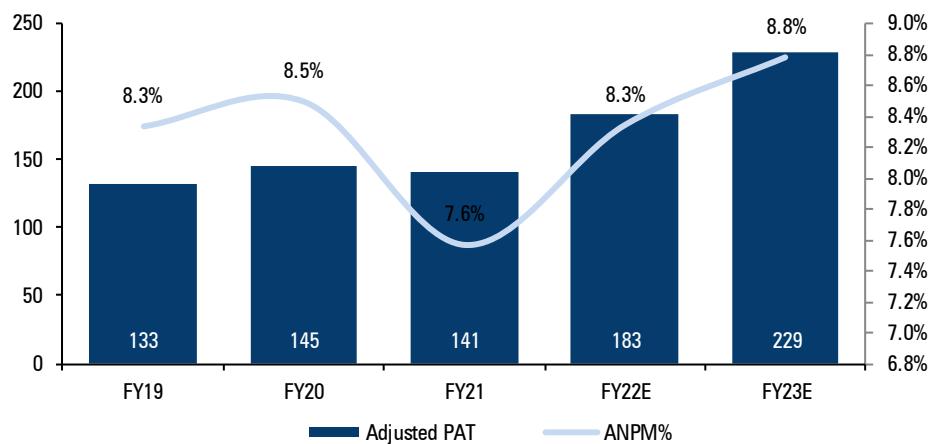
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	1,708.2	1,864.1	2,196.6	2,605.8
Growth (%)	7.2	9.1	17.8	18.6
Raw Material Expenses	976.2	1,060.5	1,193.0	1,407.1
Gross Profit	732.0	803.7	1,003.6	1,198.7
Gross Profit Margins (%)	42.9	43.1	45.7	46.0
Employee Expenses	145.8	155.7	186.9	216.3
Other Expenditure	340.0	360.2	458.2	547.2
Total Operating Expenditure	1,461.9	1,576.4	1,838.1	2,170.6
EBITDA	246.3	287.8	358.5	435.2
Growth (%)	20.7	16.8	24.6	21.4
Interest	14.2	17.9	18.9	18.9
Depreciation	73.5	86.5	84.1	106.3
Other Income	4.7	7.0	3.2	13.0
PBT before Exceptional Item	163.2	190.4	258.8	323.0
Less: Exceptional Items	-17.2	0.0	0.0	0.0
PBT after Exceptional Items	180.4	190.4	258.8	323.0
Total Tax	35.4	49.3	75.5	94.3
PAT before MI	145.1	141.1	183.2	228.8
PAT	145.1	141.1	183.2	228.8
Growth (%)	9.3	-2.7	29.9	24.8
EPS (Adjusted)	18.5	20.4	26.5	33.0

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	101.7	151.6	183.2	228.8
Add: Depreciation & Amortiza	73.5	86.5	84.1	106.3
Net Increase in Current Asset	-51.0	-176.1	-64.7	-180.9
Net Increase in Current Liabili	101.8	85.4	82.5	100.7
Others	36.6	17.8	18.9	18.9
CF from Operating activities	262.6	165.2	304.0	273.8
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Ass	-253.8	-269.6	-159.5	-150.0
Others	41.4	4.2	0.3	0.3
CF from Investing activities	-212.4	-265.4	-159.2	-149.7
(inc)/Dec in Loan	75.1	126.3	0.0	0.0
Dividend & Dividend tax	-100.2	-0.4	-47.2	-58.9
Other	-14.2	-17.4	-18.9	-18.9
CF from Financing activities	-39.4	108.5	-66.1	-77.8
Net Cash Flow	10.9	8.2	78.7	46.3
Cash and Cash Equivalent	4.8	15.6	23.8	102.6
Cash	15.6	23.8	102.6	148.8
Free Cash Flow	8.8	-104.4	144.5	123.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	13.9	13.8	13.8	13.8
Reserve and Surplus	586.9	729.7	865.8	1,035.6
Total Shareholders funds	600.8	743.6	879.6	1,049.4
Total Debt	498.6	535.0	535.0	535.0
Deferred Tax Liability	50.1	52.9	53.9	55.0
Long-Term Provisions	15.7	23.9	24.4	24.9
Other Non Current Liabilities	3.6	15.5	15.9	16.2
Source of Funds	1,168.8	1,370.9	1,508.8	1,680.5
Gross Block - Fixed Assets	870.2	939.9	1,368.4	1,518.4
Accumulated Depreciation	245.3	331.8	415.9	522.2
Net Block	624.9	608.0	952.4	996.2
Capital WIP	48.0	278.3	9.3	9.3
Goodwill	0.0	6.8	6.8	6.8
Fixed Assets	672.8	893.2	968.6	1,012.3
Investments	0.9	1.3	1.3	1.3
Other non-Current Assets	92.2	77.3	78.9	80.5
Inventory	410.7	411.6	481.4	571.1
Debtors	364.1	484.7	477.3	566.2
Other Current Assets	73.3	111.5	113.7	116.0
Cash	15.6	23.8	102.6	148.8
Total Current Assets	863.7	1,031.6	1,175.0	1,402.2
Creditors	371.7	441.1	519.8	616.7
Provisions	7.1	2.3	2.3	2.4
Other Current Liabilities	82.1	189.0	192.8	196.7
Total Current Liabilities	460.8	632.5	715.0	815.7
Net Current Assets	402.8	399.1	460.0	586.4
Application of Funds	1,168.8	1,370.9	1,508.8	1,680.5

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	21.0	20.4	26.5	33.0
Cash EPS	10.9	15.1	19.7	24.5
BV per share	86.8	107.4	127.1	151.6
Cash per Share	2.3	3.4	14.8	21.5
Dividend per share	7.6	5.3	6.8	8.5
Operating Ratios (%)				
Gross Profit Margins	42.9	43.1	45.7	46.0
EBITDA margins	14.4	15.4	16.3	16.7
PAT Margins	7.5	7.6	8.3	8.8
Cash Conversion Cycle	86.1	89.1	72.9	72.9
Asset Turnover	2.0	2.0	1.6	1.7
EBITDA conversion Rate	106.6	57.4	84.8	62.9
Return Ratios (%)				
RoE	21.3	19.0	20.8	21.8
RoCE	15.2	15.2	18.4	20.3
RoC	15.6	18.8	19.6	21.6
Valuation Ratios (x)				
P/E	33.7	34.7	26.7	21.4
EV / EBITDA	21.8	18.8	14.9	12.1
EV / Net Sales	3.1	2.9	2.4	2.0
Market Cap / Sales	2.9	2.6	2.2	1.9
Price to Book Value	8.1	6.6	5.6	4.7
Solvency Ratios				
Debt / EBITDA	2.0	1.9	1.5	1.2
Debt / Equity	0.8	0.7	0.6	0.5
Current Ratio	1.8	1.6	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP	M Cap		EPS (₹)			P/E (x)		EV/EBITDA (x)			RoCE (%)			RoE (%)				
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E			
PI Industries	3316	3,855	Buy	50,403	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	924	1,085	Buy	33,477	14.5	32.8	31.1	63.7	28.1	29.7	36.8	28.2	19.5	10.7	12.2	16.8	15.0	14.9	20.1
Sumitomo Chemical	431	505	Buy	21,513	6.9	8.5	10.1	62.3	50.6	42.6	43.1	35.1	29.0	29.8	29.3	28.1	22.4	22.1	21.2
Vinati Organics	1954	2,300	Buy	20,086	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Tata Chemical	824	925	Hold	20,997	10.1	39.1	42.6	81.9	21.1	19.3	15.8	10.0	8.3	4.1	7.1	7.7	1.8	6.6	6.9
Navin Fluorine	3720	3,712	Hold	18,413	45.0	53.0	73.1	82.6	70.2	50.9	57.5	49.7	33.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	320	400	Buy	6,215	11.4	12.7	16.0	28.1	25.1	20.0	18.4	16.8	13.0	18.0	17.7	20.0	13.9	13.9	15.3
Sudarshan chemical	707	825	Buy	4,895	20.4	26.5	33.0	34.7	26.7	21.4	18.8	14.9	12.1	15.2	18.4	20.3	19.0	20.8	21.8
Neogen Chemicals	897	1,095	Buy	2,093	13.4	18.8	28.8	66.8	47.7	31.2	35.6	26.7	19.4	15.1	16.5	20.1	17.1	19.8	23.7

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Dhavan Shah, MS (Finance), Siddhant Khandekar, Inter CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.