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### Q1FY22 result review and earnings revision

## Speciality Chemicals

Target price: Rs762

### Earnings revision

(%)	FY22E	FY23E
Revenue	↓ 0.0	↓ 0.0
EBITDA	↓ 1.2	↓ 1.2
PAT	↓ 1.5	↓ 0.6

### Target price revision

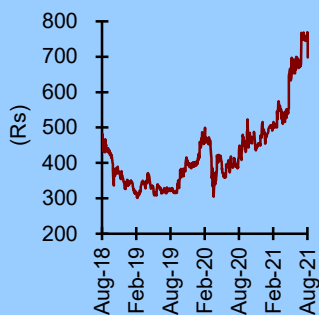
Rs762 from Rs708

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	40.0	40.0	39.6
Institutional investors	16.1	18.4	18.1
MFs and other	5.0	7.3	7.5
Banks/FIs	1.5	1.4	1.4
FIs	9.6	9.6	9.2
Others	43.9	41.6	41.3

Source: NSE

### Price chart



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INDIA

**ICICI Securities**

## Sudarshan Chemical Industries

**ADD**

**Maintained**

**Rs698**

### Margin pressure from cost inflation

Sudarshan Chemical Industries' (SCIL) Q1FY22 EBITDA was lower than expected at Rs620mn, down 29% QoQ / up 8% YoY, and was hit due to lockdown in India (revenues down 26% QoQ) and rise in operating costs. Gross profit margin expansion of 430bps QoQ was result of low-cost inventory, and SCIL sees near-term margins to remain volatile due to higher raw material prices. Further, higher coal and freight costs have put margins under pressure. Q2FY22 revenues will be adversely impacted due to Mahad plant closure for two weeks. Company sees new plant commissioning and product launches to help grow revenues from H2FY22 onward. We marginally cut our EPS estimates by ~1% each year for FY22E and FY23E, but increase the target price to Rs762 (earlier: Rs708), implying 26x FY23E P/E (earlier: 24x). Maintain ADD.

- **India pigment revenues fell 26% QoQ.** SCIL's revenues from the pigment segment grew 33% YoY to Rs4.5bn on low base, but dipped 15% QoQ due to lower revenues in India market (down 26% QoQ to Rs2bn), due to lockdown. Categories worst affected in India are: plastics, coatings and inks. International revenues were steady at Rs2.5bn, up 13% YoY (down only 3.8% QoQ). Specialty pigment revenues shrunk 12% QoQ to Rs3.2bn, while non-specialty revenues fell 21% to Rs1.4bn. Q2FY22 will be impacted due to Mahad plant closure for two weeks on heavy rainfall, but H2FY22 should benefit from new product launches and commercialisation of new facilities. Company also has three new product category launches planned (pushed from Sep'21 to Q3/Q4FY22) with 10-15 products in each category. New yellow pigment continues to grow, but SCIL expects inflection point in revenues only in Q3FY23.
- **Margins to remain volatile in near term.** SCIL's gross profit margin rose 430bps QoQ to 46.4% benefiting from low-cost inventories. It expects price rise in multiple intermediates, which will keep margins under pressure in the near term. Margins were also hit due to rise in fuel and freight costs. Employee costs too witnessed high inflation resulting from two increments and investment in sales personnel for the international market. Subsidiary RIECO incurred EBIT loss of Rs42mn (vs Rs34mn profit in Q4FY21) on lower revenues due to lockdown-driven difficulty in execution. Company sees RIECO margins normalising in FY22. We expect SCIL's EBITDA margins to improve on the back of higher revenues, stabilisation of gross profit margins, and better product mix.
- **Capex continues.** Company is in the process of executing capex of Rs380mn, which was a spillover from FY21; this should help commercialise Rs3.07bn of investments; of which Rs1.2bn will come in Q3FY22, and remaining in Q4FY22. SCIL is also in the process of incurring capex of Rs1.35bn on infrastructure announced in FY21.

Market Cap	Rs48.3bn/US\$651mn
Reuters/Bloomberg	SDCH.BO/SCHI IN
Shares Outstanding (mn)	69.2
52-week Range (Rs)	770/408
Free Float (%)	60.4
FII (%)	9.2
Daily Volume (US\$'000)	3,710
Absolute Return 3m (%)	11.2
Absolute Return 12m (%)	56.8
Sensex Return 3m (%)	11.2
Sensex Return 12m (%)	44.6

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	17.1	18.6	22.1	24.5
Rec. Net Income (Rs mn)	1.4	1.4	1.8	2.0
EPS (Rs)	19.0	20.4	26.4	29.3
% Chg YoY	26.5	7.3	29.6	10.9
P/E (x)	33.4	34.2	26.4	23.8
CEPS (Rs)	31.5	32.9	41.0	46.1
EV/E (x)	21.6	18.8	14.3	12.9
Dividend Yield (%)	1.8	1.7	0.9	0.9
RoCE (%) (pre-tax)	17.0	16.4	18.7	18.2
RoE (%)	24.7	21.0	22.5	21.1

Please refer to important disclosures at the end of this report

**Table 1: Sudarshan Chemical (consolidated) financials**

(Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	3,523	4,289	5,064	5,765	4,739	(17.8)	42.6
COGS	1,972	2,394	2,897	3,342	2,542	(23.9)	31.8
<b>Gross profit</b>	<b>1,551</b>	<b>1,895</b>	<b>2,166</b>	<b>2,424</b>	<b>2,197</b>	<b>(9.3)</b>	<b>57.6</b>
GPM (%)	44.0	44.2	42.8	42.0	46.4		
Employee cost	368	365	429	395	441	11.6	73.6
% of revenue	10.4	8.5	8.5	6.8	9.3		
Other expenses	653	853	942	1,154	1,137	(1.5)	100.8
% of revenue	18.5	19.9	18.6	20.0	24.0		
<b>Total expenses</b>	<b>1,021</b>	<b>1,218</b>	<b>1,370</b>	<b>1,549</b>	<b>1,577</b>	<b>1.8</b>	<b>92.4</b>
<b>EBITDA</b>	<b>530</b>	<b>677</b>	<b>796</b>	<b>875</b>	<b>620</b>	<b>(29.1)</b>	<b>7.9</b>
EBITDA (%)	15.0	15.8	15.7	15.2	13.1		
Depreciation	216	219	217	214	210	(1.7)	(1.7)
<b>EBIT</b>	<b>314</b>	<b>458</b>	<b>580</b>	<b>661</b>	<b>410</b>	<b>(38.0)</b>	<b>13.6</b>
Other income	3	18	26	23	7	(70.1)	217.7
Finance cost	39	51	46	42	47		
<b>PBT</b>	<b>278</b>	<b>425</b>	<b>559</b>	<b>642</b>	<b>370</b>	<b>(42.4)</b>	<b>12.3</b>
Tax	96	121	168	108	108	(0.0)	14.8
ETR (%)	34.5	28.6	30.0	16.8	29.2		
Exceptional item	-	-	-	-	-		
<b>Net profit</b>	<b>182</b>	<b>303</b>	<b>392</b>	<b>534</b>	<b>262</b>	<b>(51.0)</b>	<b>43.9</b>
Net profit (%)	5.2	7.1	7.7	9.3	5.5		
<b>EPS (Rs)</b>	<b>2.6</b>	<b>4.4</b>	<b>5.7</b>	<b>7.7</b>	<b>3.8</b>	<b>(51.0)</b>	<b>43.9</b>

Source: Company data, I-Sec research

**Table 2: Sudarshan Chemical (consolidated) segmental**

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
<b>Segment revenue</b>							
Pigments	3,413	4,020	4,771	5,326	4,532	(14.9)	32.8
Others	110	269	293	440	207	(52.8)	89.3
Intersegment elimination	-	-	-	-	-		
<b>Total revenue</b>	<b>3,523</b>	<b>4,289</b>	<b>5,064</b>	<b>5,765</b>	<b>4,739</b>	<b>(17.8)</b>	<b>34.5</b>
<b>Revenue mix (%)</b>							
Pigments	96.9	93.7	94.2	92.4	95.6		
Others	3.1	6.3	5.8	7.6	4.4		

Source: Company data, I-Sec research

**Table 3: Sudarshan Chemical (consolidated) segmental**

Rs mn	Q1FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)
<b>Pigment</b>					
Specialty	2,400	3,290	3,630	3,180	(12.4)
Non specialty	1,010	1,480	1,700	1,350	(20.6)
<b>Total</b>	<b>3,410</b>	<b>4,770</b>	<b>5,330</b>	<b>4,530</b>	<b>(15.0)</b>
<b>Mix (%)</b>					
Specialty	70.4	69.0	68.1	70.2	
Non specialty	29.6	31.0	31.9	29.8	
<b>Pigment</b>					
Domestic	1,200	2,610	2,730	2,030	(25.6)
Export	2,210	2,160	2,600	2,500	(3.8)
<b>Total</b>	<b>3,410</b>	<b>4,770</b>	<b>5,330</b>	<b>4,530</b>	<b>(15.0)</b>
<b>Mix (%)</b>					
Domestic	35.2	54.7	51.2	44.8	
Export	64.8	45.3	48.8	55.2	

Source: Company data, I-Sec research

Table 4: Sudarshan Chemicals (standalone)

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	3,323	3,951	4,616	5,195	4,347	(16.3)	30.8
COGS	1,928	2,308	2,702	3,138	2,441	(22.2)	26.6
<b>Gross profit</b>	<b>1,394</b>	<b>1,643</b>	<b>1,914</b>	<b>2,058</b>	<b>1,906</b>	<b>(7.4)</b>	<b>36.7</b>
<i>GPM (%)</i>	<i>42.0</i>	<i>41.6</i>	<i>41.5</i>	<i>39.6</i>	<i>43.8</i>		
Employee cost	254	243	306	284	329	15.9	29.5
<i>% of revenue</i>	<i>7.6</i>	<i>6.2</i>	<i>6.6</i>	<i>5.5</i>	<i>7.6</i>		
Other expenses	566	757	847	1,091	1,042	(4.5)	84.1
<i>% of revenue</i>	<i>17.0</i>	<i>19.2</i>	<i>18.3</i>	<i>21.0</i>	<i>24.0</i>		
<b>Total expenses</b>	<b>820</b>	<b>1,000</b>	<b>1,153</b>	<b>1,375</b>	<b>1,371</b>	<b>(0.3)</b>	<b>67.2</b>
<b>EBITDA</b>	<b>575</b>	<b>642</b>	<b>761</b>	<b>683</b>	<b>535</b>	<b>(21.6)</b>	<b>(6.8)</b>
<i>EBITDA (%)</i>	<i>17.3</i>	<i>16.3</i>	<i>16.5</i>	<i>13.1</i>	<i>12.3</i>		
Depreciation	214	215	213	210	205	(2.4)	(4.3)
<b>EBIT</b>	<b>361</b>	<b>428</b>	<b>548</b>	<b>473</b>	<b>331</b>	<b>(30.2)</b>	<b>(8.3)</b>
Other income	2	5	25	27	7	(73.7)	218.2
Finance cost	34	47	43	41	43	5.2	26.5
<b>PBT</b>	<b>329</b>	<b>386</b>	<b>531</b>	<b>459</b>	<b>295</b>	<b>(35.8)</b>	<b>(10.4)</b>
Tax	94	108	184	64	74	16.4	(20.7)
<i>ETR (%)</i>	<i>28.5</i>	<i>28.0</i>	<i>34.7</i>	<i>13.9</i>	<i>25.3</i>		
Exceptional item	-	-	107	-	-		
<b>Net profit</b>	<b>235</b>	<b>278</b>	<b>347</b>	<b>395</b>	<b>220</b>	<b>(44.3)</b>	<b>(6.3)</b>
<i>Net profit (%)</i>	<i>7.1</i>	<i>7.0</i>	<i>7.5</i>	<i>7.6</i>	<i>5.1</i>		

Source: Company data, I-Sec research

Table 5: Sudarshan Chemicals (consolidated minus standalone)

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	QoQ (%)	YoY (%)
Revenue	200	338	448	570	392	(31.2)	95.9
COGS	44	85	196	204	101	(50.5)	131.6
<b>Gross profit</b>	<b>157</b>	<b>253</b>	<b>252</b>	<b>366</b>	<b>291</b>	<b>(20.4)</b>	<b>86.0</b>
<i>GPM (%)</i>	<i>78.2</i>	<i>74.7</i>	<i>56.3</i>	<i>64.2</i>	<i>74.3</i>		
Employee cost	114	122	122	111	112	0.7	(1.9)
<i>% of revenue</i>	<i>57.0</i>	<i>36.0</i>	<i>27.3</i>	<i>19.5</i>	<i>28.5</i>		
Other expenses	87	96	95	63	95	49.7	8.3
<i>% of revenue</i>	<i>43.6</i>	<i>28.5</i>	<i>21.2</i>	<i>11.1</i>	<i>24.1</i>		
<b>Total expenses</b>	<b>201</b>	<b>218</b>	<b>217</b>	<b>174</b>	<b>207</b>	<b>18.5</b>	<b>2.5</b>
<b>EBITDA</b>	<b>(45)</b>	<b>34</b>	<b>35</b>	<b>192</b>	<b>85</b>	<b>(55.8)</b>	<b>(289.0)</b>
<i>EBITDA (%)</i>	<i>(22.4)</i>	<i>10.2</i>	<i>7.8</i>	<i>33.6</i>	<i>21.6</i>		
Depreciation	2	4	3	4	6	32.9	
<b>EBIT</b>	<b>(47)</b>	<b>30</b>	<b>32</b>	<b>188</b>	<b>79</b>	<b>(57.7)</b>	<b>(269.4)</b>
Other income	1	13	0	(3)	(0)	(99.7)	(101.2)
Finance cost	5	5	3	2	4		
<b>PBT</b>	<b>(51)</b>	<b>39</b>	<b>29</b>	<b>183</b>	<b>75</b>	<b>(59.0)</b>	<b>(246.4)</b>
Tax	2	13	(16)	44	33	(24.0)	1,549.0
<i>ETR (%)</i>	<i>(4.0)</i>	<i>34.1</i>	<i>(57.3)</i>	<i>24.0</i>	<i>44.5</i>		
Minority interest				(107)			
<b>Net profit</b>	<b>(53)</b>	<b>25</b>	<b>45</b>	<b>32</b>	<b>42</b>	<b>30.6</b>	<b>(178.2)</b>
<i>Net profit (%)</i>	<i>(26.5)</i>	<i>7.5</i>	<i>10.0</i>	<i>5.6</i>	<i>10.6</i>		

Source: Company data, I-Sec research

Table 6: Earnings revision

Consolidated Rs mn	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Financial</b>						
Revenue	22,058	24,518	22,058	24,518	(0.0)	(0.0)
EBITDA	3,735	4,180	3,778	4,229	(1.2)	(1.2)
<i>EBITDA margin (%)</i>	<i>16.9</i>	<i>17.0</i>	<i>17.1</i>	<i>17.2</i>		
PAT	1,830	2,028	1,858	2,041	(1.5)	(0.6)
EPS (Rs)	26.4	29.3	26.8	29.5	(1.5)	(0.6)

Source: Company data, I-Sec research

## Financial summary

Table 7: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	17,082	18,641	22,058	24,518
Operating Expenses	14,619	15,763	18,323	20,338
EBITDA	2,463	2,878	3,735	4,180
% margins	14.4	15.4	16.9	17.0
Depreciation & Amortisation	735	865	1,012	1,165
Net Interest	142	179	360	389
Other Income	47	70	73	76
Recurring PBT	1,633	1,904	2,436	2,702
Add: Extraordinaries	166	-	-	-
Less: Taxes	353	493	606	673
Net Income (Reported)	1,445	1,411	1,830	2,028
Recurring Net Income	1,445	1,411	1,830	2,028

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	8,637	10,316	13,511	15,245
of which cash & cash eqv.	156	238	1,428	1,668
Total Current Liabilities & Provisions	7,344	8,593	10,162	11,462
Net Current Assets	1,293	1,722	3,349	3,784
Investments	9	13	13	13
<b>of which</b>				
Strategic/Group	-	-	-	-
Other Marketable	-	-	-	-
Net Fixed Assets	6,751	8,932	8,729	9,864
Other non-current	900	773	836	890
Total Assets	8,952	11,440	12,927	14,551
<b>Liabilities</b>				
Borrowings	2,250	3,081	3,081	3,081
Deferred tax liability	501	529	529	529
Long term liabilities and provisions	193	395	467	520
Equity Share Capital	138	138	138	138
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	5,869	7,297	8,712	10,283
Net Worth	6,008	7,436	8,850	10,422
Total Liabilities	8,952	11,440	12,928	14,551

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	4,289	5,064	5,765	4,739
% growth (YoY)	1.0	19.6	28.4	34.5
EBITDA	677	796	875	620
Margin (%)	15.8	15.7	15.2	13.1
Other income	18	26	23	7
Add: Extra ordinaries	-	-	-	-
Net profit	303	392	534	262

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	2,123	2,559	3,128	3,507
Working Capital Changes	508	(907)	(927)	(697)
Capital Commitments	(2,554)	(2,696)	(810)	(2,300)
Free Cashflow	78	(1,044)	1,392	510
Cashflow from Investing Activities	355	37	73	76
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	751	1,269	500	500
Dividend paid & Others	(1,144)	(184)	(775)	(846)
Chg. in Cash & Bank balance	40	78	1,189	240

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Reported EPS	20.9	20.4	26.4	29.3
Dividend per share (DPS)	12.3	12.0	6.0	6.6
Book Value per share (BV)	86.8	107.4	127.8	150.5
<b>Growth Ratios (%)</b>				
Operating Income	15.7	9.1	18.3	11.2
EBITDA	16.8	16.8	29.8	11.9
Recurring Net Income	3.4	(2.3)	29.6	10.9
Diluted Recurring EPS	26.5	7.3	29.6	10.9
Diluted Recurring CEPS	6.5	4.4	24.8	12.4
<b>Valuation Ratios</b>				
P/E	33.4	34.2	26.4	23.8
P/CEPS	22.2	21.2	17.0	15.1
P/BV	8.0	6.5	5.5	4.6
EV / EBITDA	21.6	18.8	14.3	12.9
EV / Operating Income	3.1	2.9	2.4	2.2
EV / Operating FCF	682.6	(51.9)	38.5	105.5
<b>Operating Ratios</b>				
Other Income / PBT (%)	2.9	3.7	3.0	2.8
Effective Tax Rate (%)	21.7	25.9	24.9	24.9
NWC / Total Assets (%)	14.4	15.1	25.9	26.0
Inventory Turnover (days)	87.7	80.6	79.7	79.6
Receivables (days)	77.8	94.9	97.4	99.1
Payables (days)	79.4	86.4	87.8	89.0
Net Debt/EBITDA Ratio (x)	2.0	2.1	1.4	1.3
Capex % of sales	14.9	14.5	10.0	9.4
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	8.5	7.6	8.3	8.3
RoCE (pre-tax)	17.0	16.4	18.7	18.2
RoIC	13.5	12.3	14.9	15.1
RoNW	24.7	21.0	22.5	21.1
Dividend Yield	1.8	1.7	0.9	0.9
Gross Margins	42.9	43.1	43.7	43.6
EBITDA Margins	14.4	15.4	16.9	17.0

Source: Company data, I-Sec research

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#### ANALYST CERTIFICATION

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