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Q4FY23 result review;
target price, rating and
earnings revision

Speciality Chemicals

Target price: Rs550

Earnings revision

(%)	FY24E	FY25E
Revenue	↑ 5.2	↑ 4.7
EBITDA	↑ 3.8	↑ 7.6
PAT	↑ 4.3	↑ 13.5

Target price revision

Rs550 from Rs405

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	35.8	35.8	35.8
Institutional investors	18.3	17.1	17.3
MFs and other	12.0	12.4	12.3
Banks/FIs	1.9	1.9	1.9
FIIIs	4.4	2.8	3.1
Others	45.9	47.1	46.9

Source: NSE

ESG disclosure score

Year	FY21	FY22	Chg
ESG score	40.2	36.5	(3.7)
Environment	2.4	2.4	-
Social	33.3	22.1	(11.2)
Governance	84.9	84.9	-

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

Source: Bloomberg, I-sec research

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INDIA



Sudarshan Chemical Industries

BUY

Upgrade from Add

Rs440

Multiple tailwinds

Sudarshan Chemical Industries' (SCIL) Q4FY23 print showed early signs of demand revival across categories. SCIL sees tailwinds from recovery in demand; it is receiving good response for its new products, which are niche chemistries; ramp up in new capacity to provide pigment segment revenue visibility of Rs30-33bn and softening raw material prices will help normalise margins. SCIL has already started its margin-recovery journey, and expects further improvement in next few quarters as inflation in other expenses drop. We believe the company has remarkably worked on improving its balance sheet which will benefit from proceeds of land sales (Rs3.6bn) and stable net working capital at 20% of sales (down from 24-25%). We expect net debt / EBITDA to dip to ~1x by FY24. We have raised our adjusted EPS estimates by 4-14% over FY24-25, and accordingly, increased target price to Rs550 (from Rs405), valuing the company at 18x FY25E EPS (prior: 15x). We upgrade the stock to BUY (from Add). Key risks: Major softness in demand, and slower margin recovery.

- **Pigment revenue rose 6.3% YoY (22.8% QoQ).** Revenue from pigment business stood at Rs5.9bn on increased demand across geographies and categories of plastics and coatings. Domestic pigment sales were up 4.9% YoY (up 19.9% QoQ) to Rs3bn. Export revenue rose 7.7% YoY (26.3% QoQ) to Rs2.9bn. The company benefited from reduced competitive intensity from China; however, it continues to be hurt from anti-dumping duty on India phthalocyanine by China. SCIL expects gradual recovery in sales with the commissioning of entire capex, and expansion of new product portfolio. It has now expanded presence in niche chemistries with colors such as yellow, violet etc. It anticipates to reach total pigment sale of Rs30-33bn in next three years.
- **Margin recovery kickstarts; enough tailwinds for improvement.** SCIL's gross profit margin rose 120bps QoQ to 42% on softening raw material prices. It expects margin recovery to continue for pigment segment where margin in Q4FY23 stood at 41.2% vs 43.5% in FY22 driven by softening raw-material cost. EBITDA dipped 1.3% YoY to Rs847mn (up 2x QoQ) and EBITDA margin improved by only 440bps QoQ to 12.3% as other expenses rose 25.6% YoY due to forex losses, new plants commissioning cost, higher coal cost and rise in travel and exhibitions. The company expects inflation to reduce significantly in FY24. Net profit dipped 27% YoY to Rs326mn in Q4FY23.
- **Other highlights.** 1) SCIL has sold its Pune land for Rs3.6bn. The proceeds will be used to reduce debt; 2) company has commissioned the entire capex planned in FY23 with new product lines and new chemistries majorly in specialty pigments; 3) it does not expect incremental impact from China and it has been equally competitive in specialty; 4) it sees significant tailwind for business from industry consolidation, preference for India-based producers, falling raw-material prices, and company preparedness with wide range of products, and capacities; 5) net working capital is 20% of total assets (down from 24-25%) which it expects to remain stable; 6) net debt was Rs8bn in FY23 and SCIL expects to drop net debt below Rs5bn in FY24 from land proceeds and strong FCF generation; and 7) FY24 capex will be largely for maintenance.

Market Cap	Rs30.5bn/US\$368mn
Reuters/Bloomberg	SDCH.BO/SCHI IN
Shares Outstanding (mn)	69.2
52-week Range (Rs)	487/360
Free Float (%)	64.2
FII (%)	3.1
Daily Volume (US\$'000)	713
Absolute Return 3m (%)	20.7
Absolute Return 12m (%)	(3.6)
Sensex Return 3m (%)	4.2
Sensex Return 12m (%)	15.9

Year to March	FY22	FY23	FY24E	FY25E
Revenue (Rs bn)	22.0	23.0	26.6	30.0
Rec. Net Income (Rs bn)	1.3	0.4	4.4	2.1
EPS (Rs)	18.8	6.5	18.0	30.6
% Chg YoY	(7.9)	(65.6)	177.9	70.2
P/E (x)	23.3	67.6	6.8	14.3
CEPS (Rs)	31.7	23.0	82.2	49.5
EV/E (x)	13.9	18.0	9.9	7.1
Dividend Yield (%)	1.1	0.3	0.4	0.4
RoCE (%) (pre-tax)	12.3	5.5	11.4	16.1
RoE (%)	16.5	5.3	41.0	15.1

Please refer to important disclosures at the end of this report

Table 1: Sudarshan Chemical (consolidated) financials

Rs mn	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	QoQ (%)	YoY (%)
Revenue	6,272	5,542	5,284	5,280	6,912	30.9	10.2
COGS	3,710	3,305	3,239	3,128	4,011	28.2	8.1
Gross profit	2,561	2,237	2,045	2,152	2,900	34.8	13.2
GPM (%)	40.8	40.4	38.7	40.8	42.0		
Employee cost	454	473	441	439	487	11.0	7.3
% of revenue	7.2	8.5	8.3	8.3	7.0		
Other expenses	1,247	1,350	1,176	1,297	1,566	20.7	25.6
% of revenue	19.9	24.4	22.3	24.6	22.7		
Total expenses	1,701	1,822	1,616	1,736	2,053	18.3	20.7
EBITDA	861	414	429	416	847	103.4	(1.6)
EBITDA (%)	13.7	7.5	8.1	7.9	12.3		
Depreciation	248	258	270	309	306	(1.1)	23.2
EBIT	613	156	159	107	542	404.8	(11.6)
Other income	17	8	14	10	15	54.9	(10.3)
Finance cost	55	61	93	110	150	36.5	175.6
PBT	575	104	80	7	406	5,715.0	(29.4)
Tax	129	33	35	1	81	6,921.7	(37.3)
ETR (%)	22.4	31.9	43.3	16.5	19.9		
Exceptional item	-	-	-	-	-		
Net profit	447	71	45	6	326	5,477.4	(27.1)
Net profit (%)	7.1	1.3	0.9	0.1	4.7		
EPS (Rs)	6.5	1.0	0.7	0.1	4.7	5,477.4	(27.1)

Source: Company data, I-Sec research

Table 2: Sudarshan Chemical (consolidated) segmental financials

Rs mn	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	QoQ (%)	YoY (%)
Segment revenue							
Pigments	5,584	5,261	4,762	4,832	5,935	22.8	6.3
Others	688	280	522	448	986	120.0	43.4
Intersegment elimination	-	-	-	-	-		
Total	6,272	5,542	5,284	5,280	6,921	31.1	10.4
Mix (%)							
Pigments	89.0	94.9	90.1	91.5	85.8		
Others	11.0	5.1	9.9	8.5	14.2		

Source: Company data, I-Sec research

Table 3: Sudarshan Chemical (consolidated) revenue breakup

Rs mn	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	QoQ (%)	YoY (%)
Pigment							
Specialty	3,830	3,520	3,310	3,410	4,120	20.8	7.6
Non specialty	1,760	1,740	1,450	1,430	1,810	26.6	2.8
Total	5,590	5,260	4,760	4,840	5,930	22.5	6.1
Mix (%)							
Specialty	68.5	66.9	69.5	70.5	69.5		
Non specialty	31.5	33.1	30.5	29.5	30.5		
Pigment							
Domestic	2,870	2,680	2,350	2,510	3,010	19.9	4.9
Export	2,720	2,580	2,420	2,320	2,930	26.3	7.7
Total	5,590	5,260	4,770	4,830	5,940	23.0	6.3
Mix (%)							
Domestic	51.3	51.0	49.3	52.0	50.7		
Export	48.7	49.0	50.7	48.0	49.3		

Source: Company data, I-Sec research

Table 4: Sudarshan Chemical (standalone) financials

Rs mn	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	QoQ (%)	YoY (%)
Revenue	5,078	5,158	4,535	4,653	5,415	16.4	6.6
COGS	3,011	3,227	2,819	2,842	3,298	16.1	9.5
Gross profit	2,067	1,931	1,716	1,811	2,117	16.9	2.4
<i>GPM (%)</i>	<i>40.7</i>	<i>37.4</i>	<i>37.8</i>	<i>38.9</i>	<i>39.1</i>		
Employee cost	318	324	324	292	330	12.9	3.5
<i>% of revenue</i>	<i>6.3</i>	<i>6.3</i>	<i>7.2</i>	<i>6.3</i>	<i>6.1</i>		
Other expenses	1,084	1,236	1,030	1,128	1,098	(2.7)	1.3
<i>% of revenue</i>	<i>21.4</i>	<i>24.0</i>	<i>22.7</i>	<i>24.2</i>	<i>20.3</i>		
Total expenses	1,403	1,559	1,354	1,420	1,427	0.5	1.8
EBITDA	665	372	362	391	690	76.5	3.8
<i>EBITDA (%)</i>	<i>13.1</i>	<i>7.2</i>	<i>8.0</i>	<i>8.4</i>	<i>12.7</i>		
Depreciation	242	252	261	301	297	(1.5)	22.4
EBIT	422	120	101	90	393	338.4	(6.8)
Other income	51	7	14	10	10	(0.3)	(79.7)
Finance cost	48	55	86	99	126	27.1	163.1
PBT	425	71	29	1	277	43,217.2	(34.7)
Tax	129	18	8	(13)	50	(489.4)	(61.0)
<i>ETR (%)</i>	<i>30.3</i>	<i>25.8</i>	<i>29.0</i>	<i>(2,017.2)</i>	<i>18.1</i>		
Exceptional item	-	-	-	-	-		
Net profit	296	53	21	14	227	1,575.0	(23.3)
<i>Net profit (%)</i>	<i>5.8</i>	<i>1.0</i>	<i>0.5</i>	<i>0.3</i>	<i>4.2</i>		

Source: Company data, I-Sec research

Table 5: Sudarshan Chemical (consolidated minus standalone) financials

Rs mn	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	QoQ (%)	YoY (%)
Revenue	1,194	384	748	627	1,497	138.5	25.4
COGS	700	78	419	286	714	149.3	2.0
Gross profit	494	306	329	341	783	129.5	58.4
<i>GPM (%)</i>	<i>41.4</i>	<i>79.6</i>	<i>44.0</i>	<i>54.4</i>	<i>52.3</i>		
Employee cost	136	149	116	147	158	7.4	16.2
<i>% of revenue</i>	<i>11.4</i>	<i>38.9</i>	<i>15.5</i>	<i>23.4</i>	<i>10.5</i>		
Other expenses	162	114	146	169	468	177.3	188.5
<i>% of revenue</i>	<i>13.6</i>	<i>29.7</i>	<i>19.6</i>	<i>26.9</i>	<i>31.3</i>		
Total expenses	298	263	263	316	626	98.3	110.0
EBITDA	196	43	67	26	157	515.9	(19.9)
<i>EBITDA (%)</i>	<i>16.4</i>	<i>11.1</i>	<i>8.9</i>	<i>4.1</i>	<i>10.5</i>		
Depreciation	6	6	8	8	9	11.6	
EBIT	191	36	58	18	148	744.1	(22.2)
Other income	(34)	2	(0)	(0)	5	(1,336.6)	(115.1)
Finance cost	7	6	7	11	24		
PBT	151	33	51	6	129	1,935.3	(14.2)
Tax	(0)	15	26	14	30	116.8	(19,150.0)
<i>ETR (%)</i>	<i>(0.1)</i>	<i>45.5</i>	<i>51.3</i>	<i>221.4</i>	<i>23.6</i>		
Minority interest							
Net profit	151	18	25	(8)	99	(1,380.9)	(34.5)
<i>Net profit (%)</i>	<i>12.6</i>	<i>4.6</i>	<i>3.3</i>	<i>(1.2)</i>	<i>6.6</i>		

Source: Company data, I-Sec research

Table 6: Earnings revision (consolidated)

Rs mn	Revised		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	26,633	30,042	25,328	28,704	5.2	4.7
EBITDA	3,446	4,559	3,321	4,236	3.8	7.6
<i>EBITDA margin (%)</i>	<i>12.9</i>	<i>15.2</i>	<i>13.1</i>	<i>14.8</i>		
Adj. PAT	1,244	2,118	1,193	1,866	4.3	13.5
Adj. EPS (Rs)	18.0	30.6	17.2	26.9	4.3	13.5

Source: Company data, I-Sec research

Price chart

Source: Bloomberg

Financial summary

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	22,008	23,017	26,633	30,042
Operating Expenses	19,260	20,911	23,187	25,482
EBITDA	2,748	2,106	3,446	4,559
% margins	12.5	9.2	12.9	15.2
Depreciation & Amortisation	893	1,142	1,242	1,309
Net Interest	194	415	519	384
Other Income	50	48	50	52
Recurring PBT	1,711	597	1,734	2,918
Add: Extraordinaries	-	-	3,204	-
Less: Taxes	412	150	490	800
Net Income (Reported)	1,300	448	4,448	2,118
Recurring Net Income	1,300	448	4,448	2,118

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	12,051	13,365	15,250	17,483
of which cash & cash eqv.	353	2,518	2,985	3,586
Total Current Liabilities & Provisions	10,636	12,495	9,775	10,672
Net Current Assets	1,415	870	5,475	6,810
Investments	17	17	17	17
of which				
Strategic/Group	-	-	-	-
Other Marketable	-	-	-	-
Net Fixed Assets	11,163	12,050	11,807	11,498
Other non current	456	471	505	543
Total Assets	13,051	13,406	17,803	18,868
Liabilities				
Borrowings	3,686	3,686	3,686	2,686
Deferred tax liability	595	595	595	595
Long term liabilities and provisions	438	450	512	585
Equity Share Capital	138	138	138	138
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus	8,193	8,537	12,871	14,864
Net Worth	8,332	8,676	13,010	15,003
Total Liabilities	13,051	13,406	17,803	18,868

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Jun-22	Sep-22	Dec-22	Mar-23
Net sales	5,542	5,284	5,280	6,912
% growth (YoY)	16.9	6.1	(12.3)	10.2
EBITDA	414	429	416	847
Margin (%)	7.5	8.1	7.9	12.3
Other income	8	14	10	15
Add: Extraordinaries	-	-	-	-
Net profit	71	45	6	326

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	2,384	1,957	6,160	3,760
Working Capital Changes	(603)	707	(609)	(700)
Capital Commitments	(3,102)	(2,029)	(1,000)	(1,000)
Free Cashflow	(1,321)	636	4,551	2,059
Cashflow from Investing Activities	36	48	50	52
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	1,992	2,000	(3,500)	(1,000)
Dividend paid & Others	(614)	(519)	(634)	(510)
Chg. in Cash & Bank balance	93	2,165	467	601

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs)				
Reported EPS	18.8	6.5	64.3	30.6
Dividend per share (DPS)	5.0	1.5	1.7	1.8
Book Value per share (BV)	120.4	125.3	187.9	216.7
Growth Ratios (%)				
Operating Income	18.1	4.6	15.7	12.8
EBITDA	(4.5)	(23.3)	63.6	32.3
Recurring Net Income	(7.9)	(65.6)	893.6	(52.4)
Diluted Recurring EPS	(7.9)	(65.6)	177.9	70.2
Diluted Recurring CEPS	(3.7)	(27.5)	257.9	(39.8)
Valuation Ratios				
P/E	23.3	67.6	6.8	14.3
P/CEPS	13.8	19.0	5.3	8.8
P/BV	3.6	3.5	2.3	2.0
EV / EBITDA	13.9	18.0	9.9	7.1
EV / Operating Income	1.7	1.6	1.3	1.1
EV / Operating FCF	(28.8)	59.7	7.5	15.7
Operating Ratios				
Other Income / PBT (%)	2.9	8.0	2.9	1.8
Effective Tax Rate (%)	24.1	25.1	28.2	27.4
NWC / Total Assets (%)	10.8	6.5	30.8	36.1
Inventory Turnover (days)	93.9	79.2	76.9	76.8
Receivables (days)	83.0	76.2	75.0	75.8
Payables (days)	86.5	80.2	78.8	79.5
Net Debt/EBITDA Ratio (x)	2.9	3.6	1.1	0.5
Capex % of sales	14.1	17.4	3.8	3.3

Return/Profitability Ratios (%)

Recurring Net Income Margins	5.9	1.9	16.7	7.1
RoCE (pre-tax)	12.3	5.5	11.4	16.1
RoIC	9.6	4.4	9.6	14.0
RoNW	16.5	5.3	41.0	15.1
Dividend Yield	1.1	0.3	0.4	0.4
Gross Margins	42.3	40.6	43.5	44.0
EBITDA Margins	12.5	9.2	12.9	15.2

Source: Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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