

#### Strong quarter and significantly improved outlook

- SCHI's Q4FY24 result was a significant beat on estimates, led by higher than expected pigments volume growth in domestic market and turnaround in others (RIECO). Operating leverage benefits aided EBITDA margin by +332bps YoY/+465bps QoQ, wherein GM was +96bps/-186bps QoQ.
- Management indicated reaching optimum capacity utilization ahead of its previous guidance of 4 years (i.e. FY27); new capacity currently in an early utilization stage. Turbulence in global pigment industry following Heubach's insolvency is likely to accelerate SCHI's growth; increasing contribution of specialty pigments will drive superior EBITDA margins.
- We expect operating leverage to play out as capacity ramps up and generates healthy OCF (Rs6bn over FY25-26), enabling it to turn debt free by FY26 (vs net debt of Rs7.9bn/ Rs3.9bn in FY23/24). We increase our FY25/FY26 EBITDA estimates by 10%/12% to factor quicker ramp-up aided by industry tailwinds. Maintain 'Accumulate' rating with TP of Rs900 (26x FY26E EPS; earlier Rs730).

#### Profitability improvement driven by robust volume growth

Consolidated revenue at Rs7.6bn (+11%YoY/ +35%QoQ) on 8% YoY/ 23% QoQ pigments revenue growth (led by strong volumes) and ~22% YoY/+172% QoQ revenue growth for others (non-core; ~16% contribution). Pigments domestic/ exports revenue grew +15% YoY/ +2% YoY. Pigments gross margin improved 250bps YoY to 44% on softer input prices and better product mix; EBITDA margin improved +323bps YoY/ +230bps QoQ to 15.5%. Others segment recovered sharply; reported EBIT gain of Rs175mn (vs 85mn loss in Q3). APAT increased to Rs580mn (+78% YoY/ +298% QoQ), on better operating performance coupled with reduced interest cost (-44% YoY).

#### Improved outlook aided by strong industry tailwinds

SCHI remains well placed over medium-long term with earnings improvement coming by, on (1) better absorption of fixed overheads as demand improves in key markets, (2) comprehensive product portfolio (post capex) comparable to any tier-1 pigment manufacturer, enables tapping into industry consolidation tailwinds (accelerated by Heubach insolvency), (3) rising share of margin accretive specialty pigments (currently ~68% of revenue) given higher focus and commensurate capital allocation and (4) stability in input costs.

#### Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	7,642	6,912	10.6	5,658	35.1
Total Expense	6,452	6,065	6.4	5,039	28.0
EBITDA	1,191	847	40.6	619	92.5
Depreciation	357	306	16.7	355	0.5
EBIT	834	542	54.0	264	216.1
Other Income	30	15	94.2	43	(30.2)
Interest	84	150	(44.3)	86	(2.3)
EBT	780	407	91.9	221	253.3
Tax	200	81	147.5	75	166.7
RPAT	580	326	78.2	146	297.7
APAT	580	326	78.2	146	297.7
			(bps)		(bps)
Gross Margin (%)	42.9	42.0	96	44.8	(186)
EBITDA Margin (%)	15.6	12.3	332	10.9	465
NPM (%)	7.6	4.7	288	2.6	501
Tax Rate (%)	25.6	19.9	575	33.9	(831)
EBIT Margin (%)	10.9	7.8	308	4.7	625

CMP	Rs 835
Target / Upside	Rs 900 / 8%
NIFTY	22,529

#### Scrip Details

Equity / FV	Rs 138mn / Rs 2
Market Cap	Rs 58bn
	USD 698.0mn
52-week High/Low	Rs 893/ 390
Avg. Volume (no)	4,18,469
Bloom Code	SCHI IN

Price Performance	1M	3M	12M
Absolute (%)	33	44	113
Rel to NIFTY (%)	31	42	89

#### Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	35.8	35.8	33.2
MF/Banks/FIs	13.7	13.6	17.5
FII	4.6	4.2	4.5
Public / Others	45.9	46.4	44.8

#### Valuation (x)

	FY24A	FY25E	FY26E
P/E	51.8	31.6	24.3
EV/EBITDA	19.5	15.1	12.4
ROE (%)	11.3	14.9	17.1
RoACE (%)	4.5	11.8	14.3

#### Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	25.4	28.6	32.4
EBITDA	3.2	4.0	4.7
PAT	1.1	1.8	2.4
EPS (Rs.)	16.1	26.4	34.5

#### Director Research - Chemicals & Agri Inputs:

Nitesh Dhoot

Tel: +9122 40969763

E-mail: niteshd@dolatcapital.com

#### Project Executive Research: Krushna Parekh

Tel: +9122 40969755

E-mail: krushnap@dolatcapital.com

**Exhibit 1: Actual vs estimates**

Particulars (Rs mn)		Estimates		% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
Revenue	7,642	6,600	6,277	15.8	21.8	Stronger than expected volume growth
EBITDA	1,191	779	788	52.9	51.0	Operating leverage benefits; turnaround in
EBITDA Margin (%)	15.6	11.8	12.6	378 bps	302 bps	RIECO (others)
PAT	580	273	292	112.6	98.5	Higher operating profits coupled with
EPS (Rs)	8.4	3.9	4.2	112.6	98.5	lower interest costs, boosted PAT

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY24	FY25E			FY26E		
	Actual	Old	New	Chg. (%)	Old	New	Chg. (%)
Revenue	25,388	26,194	28,603	9.2	29,059	32,389	11.5
Change (%)	10.3	3.2	12.7		10.9	13.2	
EBITDA	3,164	3,640	4,009	10.1	4,222	4,747	12.4
Change (%)	50.2	15.0	26.7		16.0	18.4	
EBIT	1,752	2,224	2,550	14.7	2,756	3,201	16.2
Change (%)	81.8	26.9	45.5		23.9	25.5	
Adj. PAT	1,116	1,611	1,829	13.6	2,095	2,385	13.9
Change (%)	149.1	44.4	64.0		30.0	30.4	
EPS (Rs)	16.1	23.3	26.4	13.6	30.3	34.5	13.9

Source: Company, DART

## Earnings call KTA's

### Demand environment

- Improvement in global demand environment; EU demand witnesses an uptick; North America continues to register double digit growth and few other geographies seeing better demand. SCHI's exports grew 2% YoY / 23% QoQ.
- Seasonally strong quarter; Demand from plastics was strong; printing inks muted.
- Growth in non-specialty portfolio (+13% YoY/ +26% QoQ) was higher vs. specialty pigments (+7% YoY/ +23% QoQ); Domestic sales grew 15% YoY/ 26% QoQ.
- Management expects specialty pigments (export heavy) mix to improve to 72-74% (current 68%) as the new capacity ramps up. Europe, North & South America to lead exports growth for SCHI.
- The current tailwinds, especially turbulence in the global pigment industry would further accelerate growth of the company.

### Pigments Segment

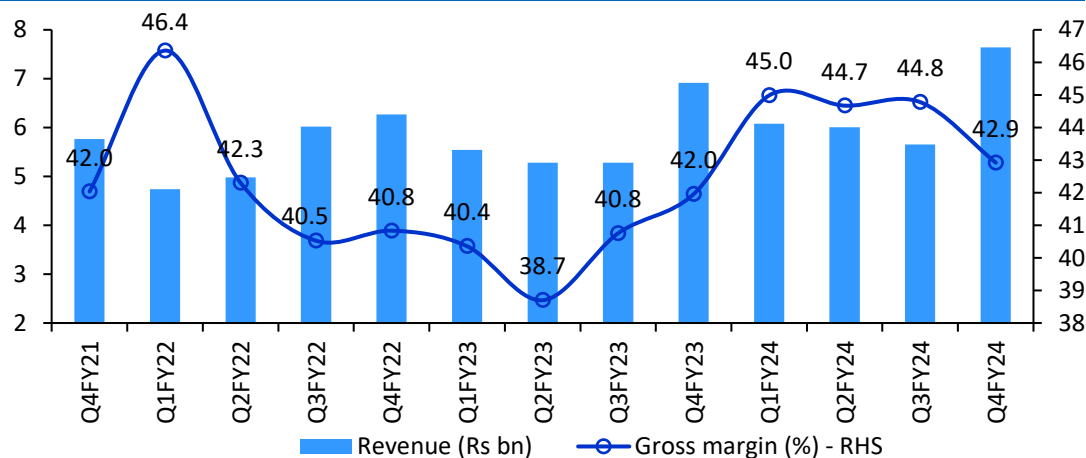
- Management expects approval cycle to accelerate in international markets and coatings could be the biggest opportunity (approval cycle of ~1 year could shorten to 4-6 months). Opportunity funnel has improved; product sampling has become fast paced.
- Exit of legacy players has expanded the opportunity for SCHI, company eyes sustainable volume gains through deep engagement with customers. Orders to increase with already approved customers, will be crucial to increase engagement with new customers.
- SCHI is uniquely positioned to capitalize on the tailwinds given its wide portfolio (~80% overlap with key global players), which is lacking with its peers in India and China.
- Management guided margins to improve gradually on higher specialty growth (higher margin) and operating leverage benefits.

### Other highlights

- Balance sheet strengthened with improving operating performance and better working capital management. Net debt reduced from Rs7.88bn in Mar'23 to Rs3.85bn in FY24; Net debt/EBITDA at 1.2x vs. 3.7x YoY. Debt retirement remains a key focus. Cash conversion cycle improved to 73 days. Given the near term scenario, there may be a need to increase inventory levels at the overseas marketing subsidiaries.
- RIECO Industries witnessed positive EBIT (at Rs175mn) after couple of weak quarters. It is on track to strengthen its performance further before divestment is re-evaluated.
- FY25 capex would be around Rs1bn (towards maintenance). Backward integration capex not to be taken up at least in the next 1 year. It is open to inorganic opportunities if there is a financial and strategic fit.

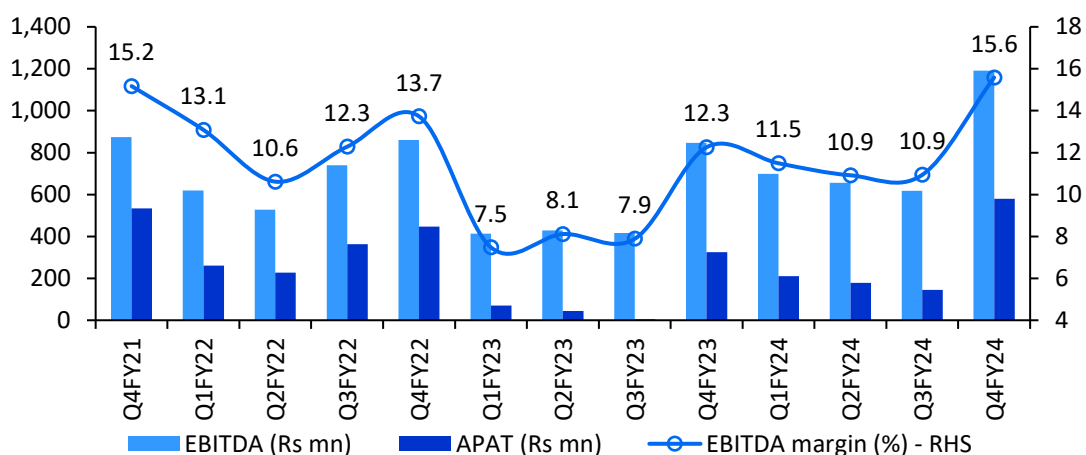
## Quarterly trends

**Exhibit 3: Rev growth led by higher pigment vol; GM down QoQ on RM cost pass through**



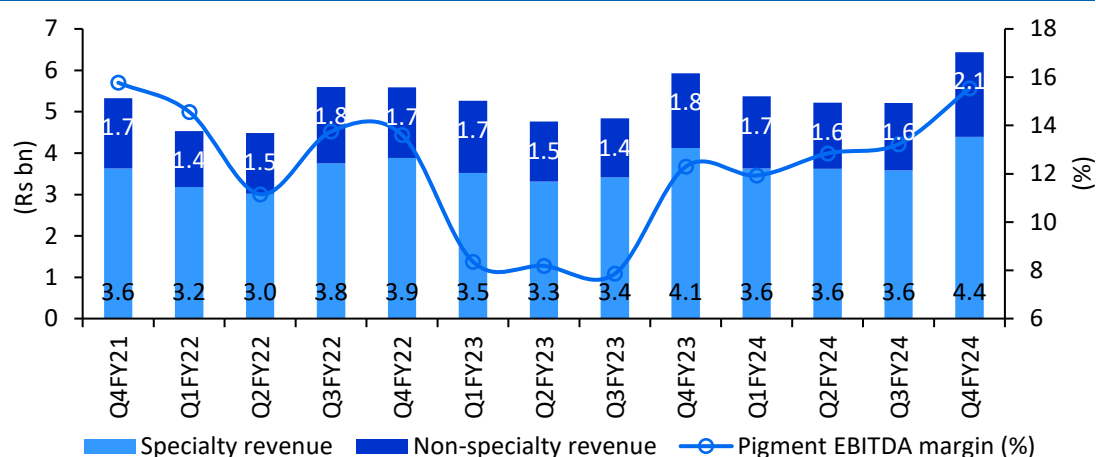
Source: Company, DART

**Exhibit 4: Healthy EBITDA margin improvement on operating leverage benefits**



Source: Company, DART

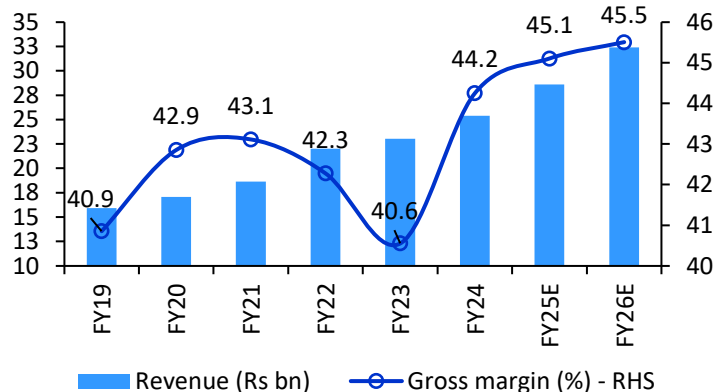
**Exhibit 5: Specialty and non-specialty pigments revenue trend**



Source: Company, DART

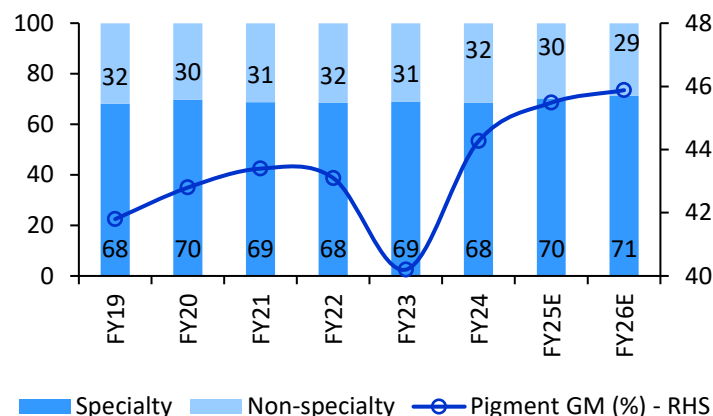
## Story in charts

**Exhibit 6: Steady revenue growth and rising gross margins**



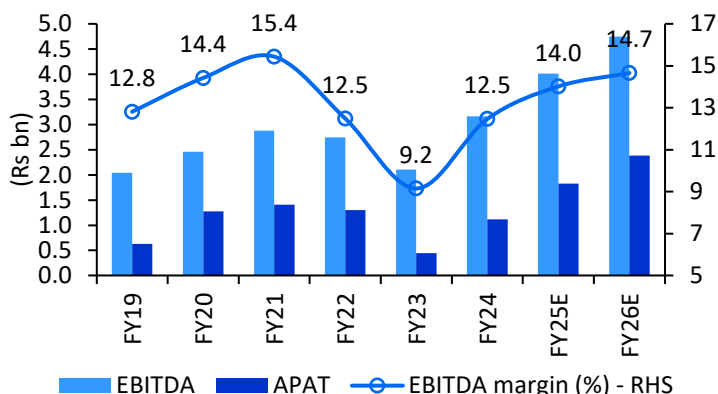
Source: Company, DART

**Exhibit 7: ...aided by business mix improvement**



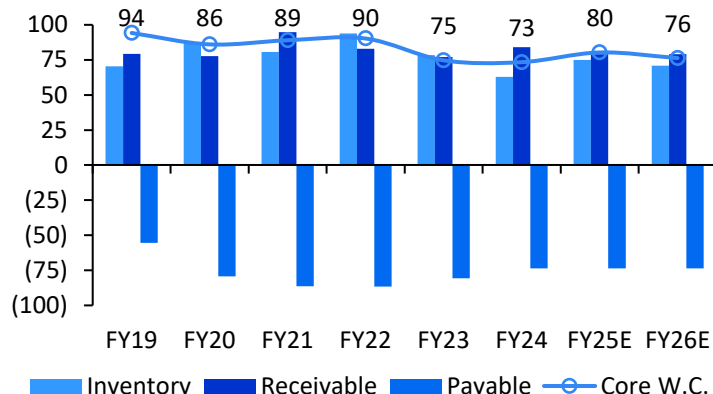
Source: Company, DART

**Exhibit 8: Capacity ramp-up to drive profitability**



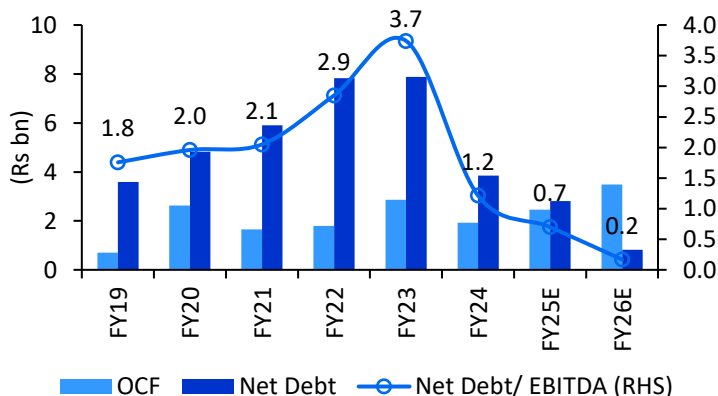
Source: Company, DART

**Exhibit 9: Working capital efficiency improves**



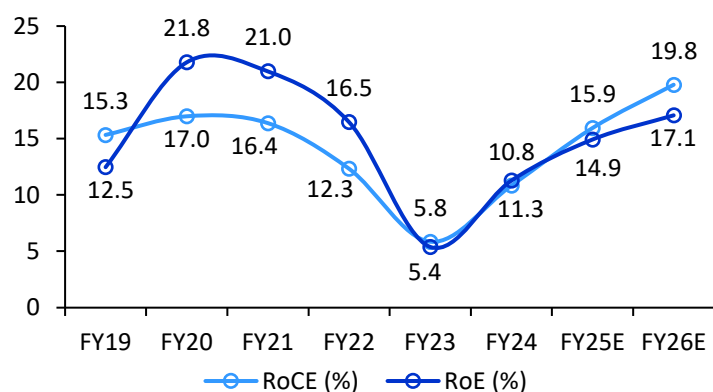
Source: Company, DART

**Exhibit 10: OCF of Rs6bn (FY25-26E) to aid debt reduction**



Source: Company, DART

**Exhibit 11: Return ratios to recover as capacity ramps-up**



Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
<b>Revenue</b>	<b>23,017</b>	<b>25,388</b>	<b>28,603</b>	<b>32,389</b>
<b>Total Expense</b>	<b>20,911</b>	<b>22,224</b>	<b>24,594</b>	<b>27,642</b>
COGS	13,683	14,154	15,702	17,651
Employees Cost	1,840	2,100	2,288	2,494
Other expenses	5,389	5,970	6,603	7,497
<b>EBIDTA</b>	<b>2,106</b>	<b>3,164</b>	<b>4,009</b>	<b>4,747</b>
Depreciation	1,142	1,412	1,459	1,546
<b>EBIT</b>	<b>964</b>	<b>1,752</b>	<b>2,550</b>	<b>3,201</b>
Interest	415	369	225	133
Other Income	48	171	120	120
Exc. / E.O. items	0	3,151	0	0
<b>EBT</b>	<b>597</b>	<b>4,705</b>	<b>2,446</b>	<b>3,188</b>
Tax	150	1,131	616	803
RPAT	448	3,575	1,829	2,385
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>448</b>	<b>1,116</b>	<b>1,829</b>	<b>2,385</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	138	138	138	138
Minority Interest	0	0	0	0
Reserves & Surplus	8,144	11,352	12,864	14,772
<b>Net Worth</b>	<b>8,282</b>	<b>11,490</b>	<b>13,002</b>	<b>14,910</b>
Total Debt	8,175	4,409	3,075	1,356
Net Deferred Tax Liability	1,120	1,410	1,410	1,410
<b>Total Capital Employed</b>	<b>17,577</b>	<b>17,309</b>	<b>17,487</b>	<b>17,675</b>

### Applications of Funds

Net Block	11,264	11,016	10,452	9,906
CWIP	443	145	250	250
Investments	21	24	24	24
<b>Current Assets, Loans &amp; Advances</b>	<b>12,100</b>	<b>12,272</b>	<b>13,688</b>	<b>15,339</b>
Inventories	4,941	4,376	5,877	6,300
Receivables	4,861	5,853	6,191	7,010
Cash and Bank Balances	294	559	260	534
Loans and Advances	585	410	419	429
Other Current Assets	1,419	1,074	940	1,065
<b>Less: Current Liabilities &amp; Provisions</b>	<b>6,250</b>	<b>6,149</b>	<b>6,927</b>	<b>7,845</b>
Payables	5,087	5,120	5,769	6,533
Other Current Liabilities	1,163	1,028	1,159	1,312
<i>sub total</i>				
Net Current Assets	5,850	6,124	6,760	7,495
<b>Total Assets</b>	<b>17,577</b>	<b>17,309</b>	<b>17,487</b>	<b>17,675</b>

E – Estimates

### Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	40.6	44.2	45.1	45.5
EBIDTA Margin	9.2	12.5	14.0	14.7
EBIT Margin	4.2	6.9	8.9	9.9
Tax rate	25.1	24.0	25.2	25.2
Net Profit Margin	1.9	14.1	6.4	7.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	59.4	55.8	54.9	54.5
Employee	8.0	8.3	8.0	7.7
Other	23.4	23.5	23.1	23.1
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	1.0	0.4	0.2	0.1
Interest Coverage	2.3	4.7	11.4	24.1
Inventory days	78	63	75	71
Debtors days	77	84	79	79
Average Cost of Debt	5.1	5.9	6.0	6.0
Payable days	81	74	74	74
Working Capital days	93	88	86	84
FA T/O	2.0	2.3	2.7	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	6.5	16.1	26.4	34.5
CEPS (Rs)	23.0	36.5	47.5	56.8
DPS (Rs)	5.0	4.8	5.3	6.9
Dividend Payout (%)	76.5	29.8	20.0	20.0
BVPS (Rs)	119.6	166.0	187.8	215.4
RoANW (%)	5.4	11.3	14.9	17.1
RoACE (%)	4.9	4.5	11.8	14.3
RoAIC (%)	5.6	10.3	15.0	18.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	835	835	835	835
P/E	129.2	51.8	31.6	24.3
Mcap (Rs Mn)	57,836	57,836	57,836	57,836
MCap/ Sales	2.5	2.3	2.0	1.8
EV	65,717	61,686	60,650	58,657
EV/Sales	2.9	2.4	2.1	1.8
EV/EBITDA	31.2	19.5	15.1	12.4
P/BV	7.0	5.0	4.4	3.9
Dividend Yield (%)	0.6	0.6	0.6	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	4.6	10.3	12.7	13.2
EBITDA	(23.3)	50.2	26.7	18.4
EBIT	(48.0)	81.8	45.5	25.5
PBT	(65.1)	687.6	(48.0)	30.4
APAT	(65.5)	149.1	64.0	30.4
EPS	(65.5)	149.1	64.0	30.4

E – Estimates



## Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
<b>Profit before tax</b>	<b>597</b>	<b>1,554</b>	<b>2,446</b>	<b>3,188</b>
Depreciation & w.o.	1,142	1,412	1,459	1,546
Net Interest Exp	401	328	105	13
Direct taxes paid	(112)	(835)	(608)	(794)
Change in Working Capital	804	(460)	(943)	(470)
Non Cash	37	(65)	0	0
<b>(A) CF from Operating Activities</b>	<b>2,870</b>	<b>1,935</b>	<b>2,458</b>	<b>3,483</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,906)	2,669	(1,000)	(1,000)
<b>Free Cash Flow</b>	<b>964</b>	<b>4,604</b>	<b>1,458</b>	<b>2,483</b>
(Inc.)/ Dec. in Investments	0	84	0	0
Other	13	41	120	120
<b>(B) CF from Investing Activities</b>	<b>(1,893)</b>	<b>2,793</b>	<b>(880)</b>	<b>(880)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(328)	(3,731)	(1,335)	(1,719)
Interest exp net	(347)	(350)	(225)	(133)
Dividend Paid (Incl. Tax)	(343)	(333)	(366)	(477)
Other	(10)	(45)	0	0
<b>(C) CF from Financing</b>	<b>(1,027)</b>	<b>(4,459)</b>	<b>(1,925)</b>	<b>(2,329)</b>
Net Change in Cash	(49)	269	(347)	274
<b>Opening Cash balances</b>	<b>305</b>	<b>256</b>	<b>524</b>	<b>177</b>
<b>Closing Cash balances</b>	<b>256</b>	<b>524</b>	<b>177</b>	<b>451</b>

E – Estimates

## Notes

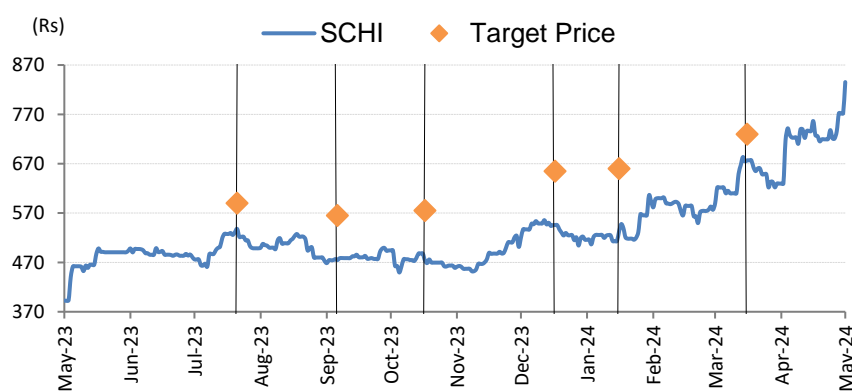


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-23	Accumulate	590	538
Sep-23	Accumulate	565	475
Nov-23	Buy	575	474
Jan-24	BUY	655	546
Feb-24	Buy	660	533
Apr-24	Accumulate	730	677

\*Price as on recommendation date

## DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

## CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	Director - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trader	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director Research - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

**Dolat Capital Market Private Limited.**

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

#### **Analyst(s) Certification**

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

#### **I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

#### **II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. 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 Dolat Capital Market Private Limited. and/or its affiliated company(ies) 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 a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

**For U.S. persons only:** This research report is a product of Dolat Capital Market Private Limited, under Marco Polo Securities 15a-6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be affected through Marco Polo or another U.S. registered broker dealer.



#### **Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: [research@dolatcapital.com](mailto:research@dolatcapital.com) | [www.dolatresearch.com](http://www.dolatresearch.com)