

CMP: ₹ 840

Target: ₹ 1030(23%)

Target Period: 12 months

BUY

May 21, 2024

## Strong all-round performance; improved visibility...

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 the third largest player globally.

- For FY24, Pigments accounted for ~88% of the business. It owns a wide portfolio of 4,000+ varieties of products. It owns 2 Manufacturing plants in Mahad & Roha and a dedicated R&D centre in the outskirts of Pune. Exports account for 45-50% of the pigment business.
- Among end users, coatings industries contribute highest followed by plastics, inks, cosmetics and other applications

### Investment Rationale:

- Q4FY24- Solid recovery in Pigments and engineering segments – Revenues grew 11% / 35% YoY / QoQ to ₹ 764 crore. While Pigment sales grew 9% / 23% YoY / QoQ to ₹ 644 core, Rieco sales (engineering division) grew 24% / 203% YoY / QoQ to ₹ 114 core. EBITDA grew 41% / 92% YoY / QoQ to ₹ 119 crore and margins stood at 15.6% driven better operating leverage in Pigments and improved profitability in Rieco. PAT grew 78% / 297% YoY / QoQ to ₹ 58 crore.
- Firing on all cylinders; things can only improve from hereon- Recovery in exports (driven by Europe) aided the Pigments growth which grew ~23% QoQ to ₹ 299 crore. Domestic Pigment sales also grew 24% QoQ to ₹ 345 crore. Rieco sales were boosted by strong order book execution. The numbers were a significant beat across the board. Recent launches are expected to keep the momentum going. EBITDA margins at 15.6% were highest among last many quarters and despite some softness in GPM (which looks transitory). The ₹~700 crore growth capex, which the company spend over the last three years (up to FY23) has just started to materialise in FY24. This suggests that the margins are expected to get significant boost from the economies of scale.
- Global turmoil is expected to benefit the company- Global pigments major Heubach GmbH has recently filed an application for the opening of regular insolvency proceedings in Germany. Sudarshan is the third largest pigment player in the world after DIC and Heubach. Insolvency proceedings for Heubach and its possible outcome may provide incremental opportunities for Sudarshan in the global markets. The company has sufficient capacities to cater to incremental international demand.

### Rating and Target price

- Our target price is ₹ 1030 based on 26x FY26E EPS of 39.6.

SUDARSHAN

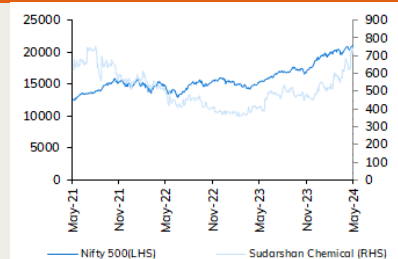
### Particulars

Particular	Amount
Market cap (₹ Crore)	5,815
FY24 Total Debt (₹ Crore)	467
FY24 Cash & Inv (₹ Crore)	56
EV (₹ Crore)	6,226
52 Week H/L	575/345
Equity Capital (₹ Crore)	13.8
Face Value (₹)	2

### Shareholding pattern

in %	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	35.8	35.8	35.8	33.2
DII	14.3	13.7	13.6	17.5
FII	3.5	4.7	4.2	4.5
Others	46.4	45.9	46.4	44.8

### Price Chart



### Key risks

- Slower than expected recovery in exports
- Cost overrun, pricing pressure in key Pigments could hamper margins progress

### Research Analyst

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### Key Financial Summary

(₹Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Revenue	1,708.2	1,864.1	2,200.8	2,301.7	10.5%	2,539.4	2,828.4	3,198.1	11.6%
EBITDA	246.3	287.8	274.8	210.7	-5.1%	317.0	412.5	528.7	35.9%
EBITDA Margins (%)	14.4%	15.4%	12.5%	9.2%		12.5%	14.6%	16.5%	
Adj.PAT	145.1	141.1	130.0	44.8	-32.4%	358.0	180.2	274.1	82.9%
Adj. EPS (₹)	18.5	20.4	18.8	6.5		16.4	26.0	39.6	
EV/EBITDA	25.9x	22.5x	24.3x	31.7x		19.9x	14.9x	11.2x	
P/E	46.0x	41.7x	45.3x	131.4x		51.8x	32.7x	21.5x	
ROE (%)	21.3	19.0	15.6	5.4		9.9	14.1	18.3	
ROCE (%)	15.2	14.4	10.9	5.7		11.1	15.0	20.3	

Source: Company, ICICI Direct Research

Exhibit 1: Quarterly Summary

(₹ crore)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Total Operating Income	506.4	576.5	473.9	498.0	601.8	627.2	554.2	528.4	528.0	691.2	608.3	601.0	565.8	764.3	10.6	35.1
Raw Material Expenses	289.7	334.2	254.2	287.3	357.9	371.0	330.5	323.9	312.8	401.1	334.5	332.3	312.4	436.2	8.7	39.6
% of Revenue	57.2	58.0	53.6	57.7	59.5	59.2	59.6	61.3	59.2	58.0	55.0	55.3	55.2	57.1	-1.7	3.4
Gross Profit	216.6	242.4	219.7	210.7	243.9	256.1	223.7	204.5	215.2	290.0	273.8	268.7	253.4	328.1	13.1	29.5
Gross Profit Margin (%)	42.8	42.0	46.4	42.3	40.5	40.8	40.4	38.7	40.8	42.0	45.0	44.7	44.8	42.9	2.3	-4.1
Employee Expenses	42.9	39.5	44.1	47.1	47.4	45.4	47.3	44.1	43.9	48.7	51.3	52.6	53.6	52.5	7.7	-2.0
% of Revenue	8.5	6.8	9.3	9.5	7.9	7.2	8.5	8.3	8.3	7.0	8.4	8.7	9.5	6.9	-2.6	-27.5
Other Expenditure	94.2	115.4	113.7	110.7	122.6	124.7	135.0	117.6	129.7	156.6	152.4	150.2	137.9	156.5	-0.1	13.5
% of Revenue	18.6	20.0	24.0	22.2	20.4	19.9	24.4	22.3	24.6	22.7	25.1	25.0	24.4	20.5	-9.6	-16.0
Total Expenditure	426.7	489.1	411.9	445.1	527.9	541.1	512.7	485.5	486.4	606.5	538.2	535.1	503.9	645.2	6.4	28.0
% of Revenue	84.3	84.8	86.9	89.4	87.7	86.3	92.5	91.9	92.1	87.7	88.5	89.0	89.1	84.4	-3.8	-5.2
EBITDA	79.6	87.5	62.0	52.9	73.9	86.1	41.4	42.9	41.6	84.7	70.0	65.9	61.9	119.2	40.7	92.4
EBITDA Margin (%)	15.7	15.2	13.1	10.6	12.3	13.7	7.5	8.1	7.9	12.3	11.5	11.0	10.9	15.6	27.2	42.4
Depreciation	21.7	21.4	21.0	21.6	21.9	24.8	25.8	27.0	30.9	30.6	34.6	35.4	35.5	35.7	16.7	0.5
Interest	4.6	4.2	4.7	4.4	4.8	5.5	6.1	9.3	11.0	15.0	10.3	9.6	8.6	8.4	-44.3	-2.3
Other Income	2.6	2.3	0.7	1.0	1.6	1.7	0.8	1.4	1.0	1.5	4.1	5.7	4.3	3.0	94.2	-30.2
Less: Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-315.1	0.0	0.0	0.0		
PBT	55.9	64.2	36.9	27.9	48.8	57.5	10.4	8.0	0.7	40.6	344.4	26.5	22.1	78.1	92.1	252.8
Total Tax	16.8	10.8	10.8	5.1	12.4	12.9	3.3	3.5	0.1	8.1	77.2	8.4	7.5	20.0	147.5	166.7
Tax rate (%)	30.0	16.8	29.2	18.4	25.4	22.4	31.9	43.2	16.3	19.9	22.4	31.5	33.9	25.6	28.8	-24.4
PAT	39.2	53.4	26.2	22.8	36.4	44.7	7.1	4.5	0.6	32.6	267.1	18.2	14.6	58.1	78.4	296.9
PAT Margin (%)	7.7	9.3	5.5	4.6	6.0	7.1	1.3	0.9	0.1	4.7	43.9	3.0	2.6	7.6	61.3	193.8
EPS (₹)	5.7	7.7	3.8	3.3	5.3	6.5	1.0	0.7	0.1	4.7	38.6	2.6	2.1	8.4		

Source: Company, ICICI Direct Research

### Q4FY24 Conference call highlights

- The company has a team of +100 members working in R&D under working under global industry veterans.
- The company has established a strong go-to-market framework consisting of local regional sales teams, customer service support, technical marketing teams, and local stocking points.
- 60-70% of sales are via direct channel and the remaining via distributors.
- The management expects to cash-in on global turmoil with its product offerings and available capacities.
- ~80% of the pigment product portfolio is overlapping with that of leading global players.
- Customer approval cycle has come down from 6-12 months to 3-4 months.
- The management expects biggest opportunities to emanate from Coating industry and expects approval cycle to go down further.
- Sequential decline in GPM mainly on account of higher passthrough benefits for raw material price reductions passed on to the customers besides change in product mix (higher non-specialty sales compared to specialty).
- The management expects GPM to improve further on the back of better product mix.
- Specialty contribution in the overall Pigment sales is expected to improve from 60-62% to 70-72% in the due course.
- The company is getting inquiries from new set of customers.

## Financial Tables

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Total Operating Income	2,301.7	2,539.4	2,828.4	3,198.1
Growth (%)	4.6	10.3	11.4	13.1
Raw Material Expenses	1,368.3	1,415.4	1,546.6	1,727.0
Gross Profit	933.5	1,124.0	1,281.8	1,471.1
Gross Profit Margins (%)	40.6	44.3	45.3	46.0
Employee Expenses	184.0	210.0	226.3	247.4
Other Expenditure	538.8	597.0	643.0	695.1
Total Operating Expendit	2,091.1	2,222.4	2,415.9	2,669.4
<b>EBITDA</b>	<b>210.7</b>	<b>317.0</b>	<b>412.5</b>	<b>528.7</b>
Growth (%)	-23.3	50.5	30.1	28.2
Interest	41.5	36.9	26.4	19.2
Depreciation	114.2	141.2	160.0	160.0
Other Income	4.8	17.1	14.1	16.0
<b>PBT before Exceptional It</b>	<b>59.8</b>	<b>156.0</b>	<b>240.3</b>	<b>365.5</b>
Less: Exceptional Items	0.0	-315.1	0.0	0.0
PBT after Exceptional Iter	59.8	471.1	240.3	365.5
Total Tax	15.0	113.1	60.1	91.4
PAT before MI	44.8	358.0	180.2	274.1
<b>PAT</b>	<b>44.8</b>	<b>358.0</b>	<b>180.2</b>	<b>274.1</b>
<b>Adjusted PAT</b>	<b>44.8</b>	<b>113.5</b>	<b>180.2</b>	<b>274.1</b>
Growth (%)	-65.5	153.5	58.7	52.1
<b>EPS (Adjusted)</b>	<b>6.5</b>	<b>16.4</b>	<b>26.0</b>	<b>39.6</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Equity Capital	13.8	13.8	13.8	13.8
Reserve and Surplus	814.4	1,135.2	1,261.5	1,480.2
Total Shareholders funds	828.2	1,149.0	1,275.4	1,494.1
Total Debt	829.1	467.1	367.1	267.1
Deferred Tax Liability	71.6	91.1	92.9	94.8
Long-Term Provisions	28.2	31.8	32.4	33.0
Other Non Current Liabilit	12.8	4.6	4.7	4.8
<b>Source of Funds</b>	<b>1,770.0</b>	<b>1,743.6</b>	<b>1,772.5</b>	<b>1,893.8</b>
Gross Block - Fixed Asset	1,586.4	1,703.0	1,767.5	1,867.5
Accumulated Depreciatio	467.1	608.2	768.2	928.2
Net Block	1,119.3	1,094.7	999.3	939.3
Capital WIP	44.5	14.6	50.0	50.0
Goodwill	6.8	6.8	6.8	6.8
Fixed Assets	1,170.6	1,116.1	1,056.1	996.1
Investments	2.1	2.4	2.4	2.4
Other non-Current Assets	54.4	43.2	44.1	45.0
Inventory	494.1	437.6	503.7	569.5
Debtors	486.1	585.3	619.9	701.0
Other Current Assets	155.2	114.5	116.6	119.1
Cash	29.4	55.9	112.1	221.3
Total Current Assets	1,164.9	1,193.3	1,352.3	1,610.8
Creditors	508.7	512.0	581.2	657.1
Provisions	2.7	3.5	3.6	3.6
Other Current Liabilities	110.6	95.9	97.8	99.8
Total Current Liabilities	622.0	611.4	682.5	760.5
Net Current Assets	542.9	581.9	669.8	850.3
<b>Application of Funds</b>	<b>1,770.0</b>	<b>1,743.6</b>	<b>1,772.5</b>	<b>1,893.9</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit/(Loss) after taxation	59.7	155.4	180.2	274.1
Add: Depreciation & Amortizat	114.2	141.2	160.0	160.0
Net Increase in Current Assets	69.4	-63.2	-103.0	-149.2
Net Increase in Current Liabiliti	11.0	17.2	71.1	78.0
Others	32.6	-57.2	26.4	19.2
<b>CF from Operating activities</b>	<b>287.0</b>	<b>193.5</b>	<b>334.7</b>	<b>382.1</b>
Investments	0.0	0.0	0.0	0.0
(Purchase)/Sale of Fixed Asset:	-190.6	266.9	-100.0	-100.0
Others	1.3	12.4	1.7	1.7
<b>CF from Investing activities</b>	<b>-189.3</b>	<b>279.3</b>	<b>-98.3</b>	<b>-98.3</b>
(inc)/Dec in Loan	-32.8	-373.1	-100.0	-100.0
Dividend & Dividend tax	-34.3	-33.3	-53.9	-55.5
Other	-35.7	-39.5	-26.4	-19.2
CF from Financing activities	-102.7	-445.9	-180.2	-174.6
<b>Net Cash Flow</b>	<b>-4.9</b>	<b>26.8</b>	<b>56.2</b>	<b>109.2</b>
Cash and Cash Equivalent	35.3	29.4	55.9	112.1
<b>Cash</b>	<b>30.4</b>	<b>56.3</b>	<b>112.1</b>	<b>221.3</b>
<b>Free Cash Flow</b>	<b>96.4</b>	<b>460.4</b>	<b>234.7</b>	<b>282.1</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
<b>Per share data (₹)</b>				
Reported EPS	6.5	51.7	26.0	39.6
Cash EPS	5.0	9.7	18.3	31.6
BV per share	119.6	166.0	184.2	215.8
Cash per Share	4.2	8.1	16.2	32.0
Dividend per share	1.5	6.7	7.8	8.0
<b>Operating Ratios (%)</b>				
Gross Profit Margins	40.6	44.3	45.3	46.0
EBITDA margins	9.2	12.5	14.6	16.5
PAT Margins	1.9	4.5	6.4	8.6
Cash Conversion Cycle	75	73	70	70
Asset Turnover	1.5	1.5	1.6	1.7
EBITDA conversion Rate	136.3	61.0	81.1	72.3
<b>Return Ratios (%)</b>				
RoE	5.4	9.9	14.1	18.3
RoCE	5.7	11.1	15.0	20.3
RoIC	5.7	10.5	15.7	22.7
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	131.4	51.8	32.7	21.5
EV / EBITDA	31.7	19.9	14.9	11.2
EV / Net Sales	2.9	2.5	2.2	1.9
Market Cap / Sales	2.6	2.3	2.1	1.8
Price to Book Value	7.1	5.1	4.6	3.9
<b>Solvency Ratios</b>				
Debt / EBITDA	3.9	1.5	0.9	0.5
Debt / Equity	1.0	0.4	0.3	0.2
Current Ratio	1.8	1.9	1.8	1.8
Quick Ratio	1.0	1.1	1.1	1.1
Inventory days	78	63	65	65
Debtor days	77	84	80	80
Creditor days	81	74	75	75

Source: Company, ICICI Direct Research

## ANALYST CERTIFICATION

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