

## 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

SUDARSHAN

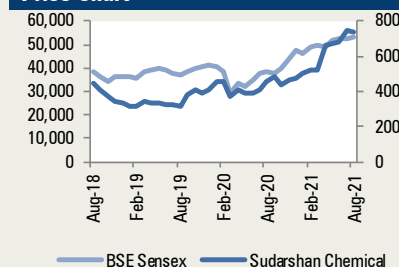
### Particulars

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

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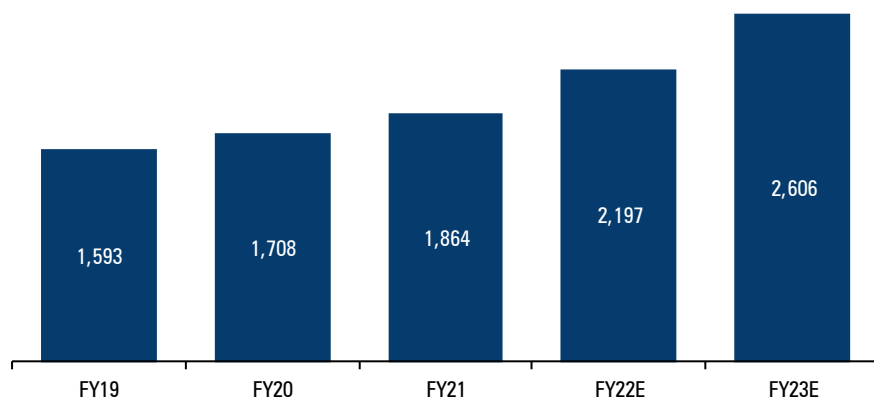
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### Key Financial Summary

(₹ 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	

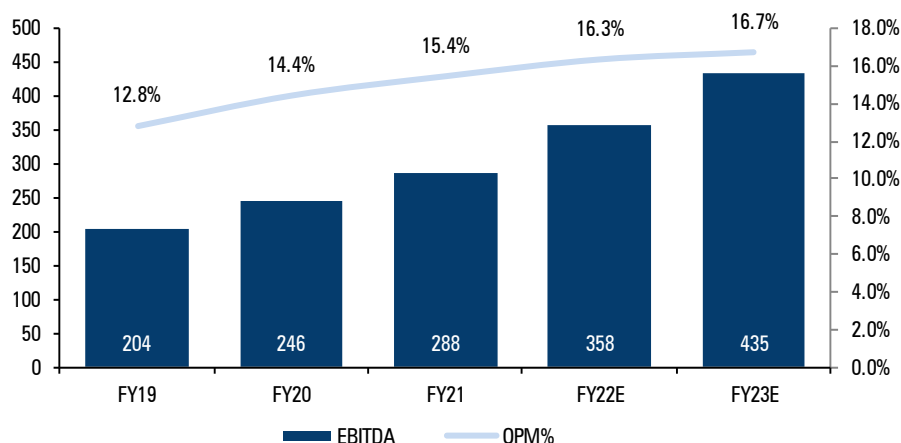
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



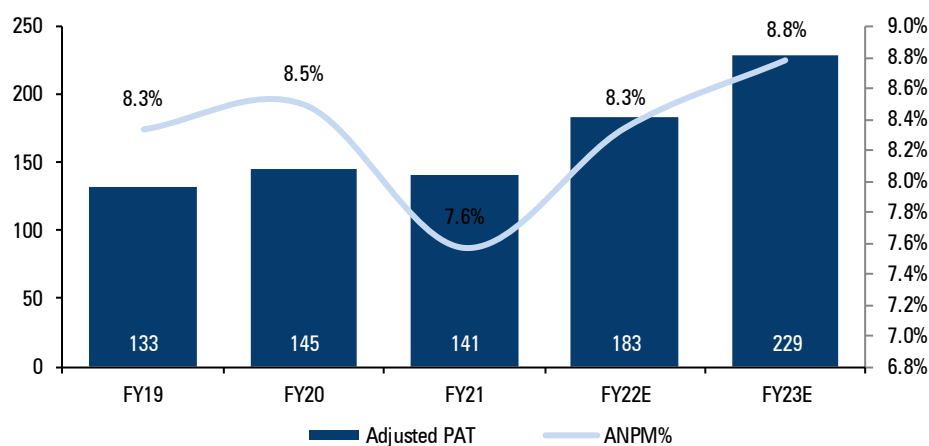
Source: Company, ICICI Direct Research

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
<b>EBITDA</b>	<b>246.3</b>	<b>287.8</b>	<b>358.5</b>	<b>435.2</b>
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
<b>PBT before Exceptional Item</b>	<b>163.2</b>	<b>190.4</b>	<b>258.8</b>	<b>323.0</b>
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
<b>PAT</b>	<b>145.1</b>	<b>141.1</b>	<b>183.2</b>	<b>228.8</b>
Growth (%)	9.3	-2.7	29.9	24.8
<b>EPS (Adjusted)</b>	<b>18.5</b>	<b>20.4</b>	<b>26.5</b>	<b>33.0</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(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
<b>CF from Operating activities</b>	<b>262.6</b>	<b>165.2</b>	<b>304.0</b>	<b>273.8</b>
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
<b>CF from Investing activities</b>	<b>-212.4</b>	<b>-265.4</b>	<b>-159.2</b>	<b>-149.7</b>
(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
<b>Net Cash Flow</b>	<b>10.9</b>	<b>8.2</b>	<b>78.7</b>	<b>46.3</b>
Cash and Cash Equivalent	4.8	15.6	23.8	102.6
<b>Cash</b>	<b>15.6</b>	<b>23.8</b>	<b>102.6</b>	<b>148.8</b>
<b>Free Cash Flow</b>	<b>8.8</b>	<b>-104.4</b>	<b>144.5</b>	<b>123.8</b>

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
<b>Source of Funds</b>	<b>1,168.8</b>	<b>1,370.9</b>	<b>1,508.8</b>	<b>1,680.5</b>
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
<b>Application of Funds</b>	<b>1,168.8</b>	<b>1,370.9</b>	<b>1,508.8</b>	<b>1,680.5</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
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
<b>Operating Ratios (%)</b>				
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
<b>Return Ratios (%)</b>				
RoE	21.3	19.0	20.8	21.8
RoCE	15.2	15.2	18.4	20.3
RoIC	15.6	18.8	19.6	21.6
<b>Valuation Ratios (x)</b>				
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
<b>Solvency Ratios</b>				
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 (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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