Sudarshan Chemical

Bounce-back in demand

We maintain REDUCE on Sudarshan Chemical (SCIL), with a price target of INR 454 (WACC 11%, terminal growth 3.5%). SCIL has product offerings similar to those of the global players but has been unable to gain market share, post the exit of the global majors. The stock is trading at 19x FY25E EPS, which we believe is contextually high (RoE of 14/17% for FY24/FY25E). Q4 EBITDA/APAT were 89/579% above our estimates, mainly owing to a 26% rise in revenue, lower-than-anticipated raw material cost and tax rate.

- **Financial performance:** Revenue grew 10/31% YoY/QoQ to INR 6,912mn on the back of a strong recovery of demand across geographies. EBITDA remained flat YoY and grew 103% sequentially to INR 847mn. EBITDA margin came in at 12.3% (-147/+437bps YoY/QoQ), improving sequentially, owing to softening of raw material prices, reduced energy and logistics cost.
- **Pigment segment (86% of the revenue mix):** Revenue grew by 6% YoY to INR 5,935mn, and EBIT fell 17% YoY to INR 444mn. EBIT margin for the segment came in at ~8%, -211/+569bps YoY/QoQ. There has been a volume growth in Q4 in both domestic as well as export markets. The plastics and coatings segments are also showing signs of demand recovery as polymer prices have cooled off and aren't volatile anymore.
- **Call takeaways**: (1) Exports accounted for 49% of revenue for the pigment segment. (2) Speciality pigments constituted 69% of the revenue for the pigment segment in Q4. (3) The INR 750mn Capex project has come on stream fully. All new products that are majorly speciality in nature have been launched and are under the customer approval stage. The company has received positive responses from its customers, although it expects the ramp-up in these products to be gradual, given the global recessionary scenario. (4) SCIL plans on reducing its debt by paying it off with the consideration received of INR ~3.6bn on sale of its freehold land in Apr-23.
- **Change in estimates:** We raise our FY24/25 EPS estimates by 57.2/8.6% to INR 18.0/23.5 to factor in the gross margin guidance given by the management, owing to a reduction in raw material, energy and logistics costs, and reduced interest cost, owing to the repayment of the debt by the company.

Financial summary (consolidated)

INR mn	Q4 FY23	Q3 FY23	*QoQ (%)*	Q4 FY22	*YoY (%)*	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	6,912	5,280	*30.9*	6,272	*10.2*	18,641	22,008	23,017	23,405	26,603
EBITDA	847	416	*103.4*	861	*(1.6)*	2,878	2,748	2,106	3,117	3,568
APAT	326	6	*5,477.1*	447	*(27.1)*	1,411	1,300	448	1,247	1,629
AEPS (INR)	4.7	0.1	*5,477.1*	6.5	*(27.1)*	20.4	18.8	6.5	18.0	23.5
P/E (x)						21.4	23.3	67.6	24.3	18.6
EV/EBITDA(x)						12.6	13.9	18.1	10.7	9.0
RoE (%)						21.0	16.5	5.4	14.4	17.2

Source: Company, HSIE Research

Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	**2,721**	**3,117**	**14.5**	**3,506**	**3,568**	**1.8**
Adj. EPS (INR/sh)	**11.5**	**18.0**	**57.2**	**21.7**	**23.5**	**8.6**

Source: Company, HSIE Research

REDUCE

CMP *(as on 24 May 23)*	**INR 440**
Target Price	**INR 454**
NIFTY	**18,285**

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 427	INR 454
EPS %	**FY24E**	**FY25E**
	+57.2%	+8.6%

KEY STOCK DATA	
Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (INR bn) / ($ mn)	30/372
6m avg traded value (INR mn)	59
52 Week high / low	INR 496/341

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	20.7	14.3	(4.6)
Relative (%)	16.8	15.1	(18.9)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-23
Promoters	35.82	35.82
FIs & Local MFs	14.34	14.18
FPIs	2.80	3.12
Public & Others	47.04	46.88
Pledged Shares	0.00	0.00

Source: BSE

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Disclosure:
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