

# Sudarshan Chemical

## Demand tapers

We maintain REDUCE on Sudarshan Chemical (SCIL), with a price target of INR 489 (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). Q1 EBITDA was 2% above our estimate owing to a 7% rise in revenue, offset by higher-than-expected other expenses. APAT was 8% below our estimate owing to higher-than-anticipated depreciation and finance cost.

- Financial performance:** Revenue grew 10% YoY (and fell 12% QoQ) to INR 6,081mn. Domestic demand is expected to pick up in H2FY24 and exports shall remain moderated due to a recessionary global macroeconomic situation. EBITDA grew 69% YoY and fell 18% sequentially to INR 699mn. EBITDA margin came in at 12% (+402/-77bps YoY/QoQ), owing to softening of input costs and lag in the pass-through in selling price.
- Pigment segment (88% of the revenue mix):** Revenue grew by 2% YoY to INR 5,364mn, and EBIT grew 80% YoY to INR 346mn. EBIT margin for the segment came in at ~6%, +279/-103bps YoY/QoQ.
- Call takeaways:** (1) Exports accounted for 51% of revenue for the pigment segment. (2) Speciality pigments constituted 68% of the revenue for the pigment segment in Q1. (3) In Q1, the company concluded the sale of its freehold land, which led to an exceptional gain of INR 3,151mn. APAT is adjusted for the same. (4) The plastics industry is witnessing favourable demand in the domestic market, whereas the ink and coatings industry is undergoing destocking in anticipation of further price reductions and given the prevailing demand slowdown.

### Financial summary (consolidated)

INR mn	Q1 FY24	Q4 FY23	QoQ (%)	Q1 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,081	6,912	(12.0)	5,542	9.7	22,008	23,017	24,252	26,944	29,751
EBITDA	699	847	(17.5)	414	68.7	2,748	2,106	3,240	3,688	4,000
APAT	211	326	(35.3)	71	197.8	1,300	448	1,227	1,652	1,987
AEPS (INR)	3.0	4.7	(35.3)	1.0	197.8	18.8	6.5	17.7	23.9	28.7
P/E (x)						28.4	82.6	30.1	22.4	18.6
EV/EBITDA(x)						16.3	21.3	12.3	10.5	9.3
RoE (%)						16.5	5.4	14.2	17.4	19.0

Source: Company, HSIE Research

### Change in estimates (consolidated)

Y/E Mar	FY24E Old	FY24E New	% Ch	FY25E Old	FY25E New	% Ch
EBITDA (INR mn)	3,117	3,240	4.0	3,568	3,688	3.4
Adj. EPS (INR/sh)	18.0	17.7	(1.6)	23.5	23.9	1.4

Source: Company, HSIE Research

## REDUCE

CMP (as on 09 Aug 2023)	INR 532
Target Price	INR 489
NIFTY	19,633

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 454	INR 489
	FY24E	FY25E
EPS %	-1.6%	+1.4%

### KEY STOCK DATA

Bloomberg code	SCHI IN
No. of Shares (mn)	69
MCap (INR bn) / (\$ mn)	37/450
6m avg traded value (INR mn)	117
52 Week high / low	INR 567/341

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	28.4	46.7	16.7
Relative (%)	21.5	38.1	4.6

### SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	35.82	35.82
FIs & Local MFs	14.18	14.29
FPIs	3.12	3.48
Public & Others	46.88	46.41
Pledged Shares	0.00	0.00

Source: BSE

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