Sharekhan by BNP PARIBAS

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Stock Update

Result Update

# Sudarshan Chemical Industries Ltd

## Record revenue, EBITDA for pigment business

| Speciality Chemicals | Sharekhan code: SUDARSCHEM |
|---|---|

| Reco/View: Buy | ↔ | CMP: Rs. 965 | Price Target: Rs. 1,224 | ↑ |
|---|---|---|---|---|

↑ Upgrade ↔ Maintain ↓ Downgrade

**3R MATRIX**

| | + | = | - |
|---|---|---|---|
| Right Sector (RS) | ✓ | | |
| Right Quality (RQ) | ✓ | | |
| Right Valuation (RV) | ✓ | | |

+ Positive = Neutral – Negative

**What has changed in 3R MATRIX**

| | Old | | New |
|---|---|---|---|
| RS | | ↔ | |
| RQ | | ↔ | |
| RV | | ↔ | |

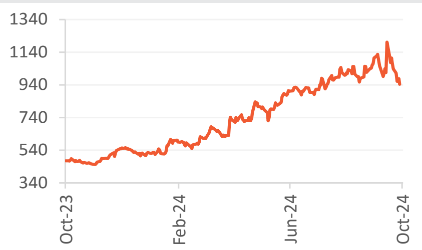
**Company details**

| | |
|---|---|
| Market cap: | Rs. 6,680 cr |
| 52-week high/low: | Rs. 1,235/448 |
| NSE volume: (No of shares) | 10.0 lakh |
| BSE code: | 506655 |
| NSE code: | SUDARSCHEM |
| Free float: (No of shares) | 4.8 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 30.6 |
| FII | 8.4 |
| DII | 19.8 |
| Others | 41.3 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -12.6 | 5.9 | 33.5 | 103.3 |
| Relative to Sensex | -6.1 | 7.6 | 25.0 | 78.5 |

Sharekhan Research, Bloomberg


## Summary

- Revenues reached Rs. 696 crore, marking a 16% y-o-y increase and a 10% q-o-q rise, with exports growing by 44% y-o-y.
- EBITDA stood at Rs. 94 crore, up 44% y-o-y and 17% q-o-q, driven by growth in the specialty pigments portfolio.
- Margins improved to 14%, up 266 bps y-o-y and 86 bps q-o-q, while PAT reached Rs. 30 crore, up 67% y-o-y and 2% q-o-q.
- Recovery in export demand and ramp-up of new projects would drive growth. We have tweaked our estimates for FY25-26 and introduced FY27. Hence, we maintain a Buy rating with a revised PT of Rs. 1,224, ascribing a multiple of 24x on FY27 EPS.


**Sudarshan Chemical Industries Limited (SCIL), achieved significant financial milestones in Q2FY25, with revenue reaching Rs. 696 crore, marking a robust 16% increase compared to the same quarter last year and a 10% rise from the previous quarter, driven partially by an impressive 44% growth in exports y-o-y. EBITDA stood at Rs. 94 crore, up 44% y-o-y and 17% q-o-q, primarily fuelled by the successful expansion of the specialty pigments portfolio. Additionally, margins improved to 14%, rising 266 bps y-o-y and by 86 bps q-o-q, highlighting effective cost management and operational efficiency. Finally, PAT reached Rs. 30 crore, representing a substantial 67% rise as compared to the same quarter last year and a modest 2% rise from the previous quarter, further underscoring the company's strong performance and growth trajectory.**

## Key positives

- Export revenue rose 44% y-o-y.
- Gross margin rose on stellar show by specialty pigments portfolio
- Y-o-Y volume growth drove operating leverage, boosting EBITDA Margins

## Management Commentary

- Company anticipates reaching approximately Rs. 1,500 crore in 3-4 years, potentially doubling the current standalone figure of Rs. 750 crore.
- There are no indications of rising raw material prices.
- Looking ahead, SCIL aims to capture around 20% of the organic pigment market.
- Additionally, there will be no new incremental capital expenditures.

## Our Call

**Valuation – Maintain Buy on SCIL with a revised PT of Rs. 1,224:** After a good recovery in FY24, recent numbers give hope of a strong growth over FY2025-FY2026E with tailwinds of a demand recovery in the global market and ramp-up of new capex. Bankruptcy of the company's German competitor, Heubach would drive consolidation in the industry and bodes well for company's long-term growth. We have changed our margin assumptions, and it leads to a significant 50%/40% growth in earnings estimate for FY25-26. Hence, we maintain a Buy rating on SCIL with a revised PT of Rs. 1,224. At CMP, the stock trades at 30x/24x its FY2026E/FY2027E EPS.

## Key Risks

- Lower demand amid an economic slowdown and intense competition from Chinese products could impact revenue/earnings growth.
- Higher raw-material prices and delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movements might affect margins.

**Valuation (Consolidated)** Rs cr

| Particulars | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Revenue | 2,302 | 2,539 | 2,837 | 3,152 | 3,530 |
| OPM (%) | 9% | 13% | 14% | 15% | 16% |
| Adjusted PAT | 45 | 118 | 156 | 221 | 282 |
| % y-o-y growth | -65% | 162% | 32% | 41% | 28% |
| Adjusted EPS (Rs.) | 6.50 | 17.00 | 22.54 | 31.87 | 40.80 |
| P/E (x) | 148x | 57x | 43x | 30x | 24x |
| EV/EBITDA (x) | 34x | 21x | 19x | 17x | 13x |
| P/BV (x) | 8x | 5x | 5x | 4x | 4x |
| RoCE (%) | 6% | 11% | 16% | 18% | 18% |
| RoE (%) | 5% | 36% | 17% | 18% | 18% |

Source: Company; Sharekhan estimates

## Q2FY2025 conference call highlights

- Pricing stays stable, with no declines observed in the segments where the company operates.
- SCIL is prioritising cost control over pricing strategies to establish a profitable business.
- There is significant momentum in new products.
- Capex directed toward specialty products for the global coatings and plastics markets.
- While the initial capex plan was expected to span four years, the company now aims to complete it within 3-4 years.

**Results (Consolidated)** Rs cr

| Particulars | Q2FY25 | Q2FY24 | YoY (%) | Q1FY25 | QoQ (%) |
|---|---|---|---|---|---|
| **Revenue** | **696** | **601** | **16%** | **634** | **10%** |
| Total Expenditure | 602 | 535 | 12% | 553 | 9% |
| **Operating profit** | **94** | **66** | **44%** | **81** | **17%** |
| Other Income | 5 | 6 | -13% | 4 | 42% |
| Interest | 9 | 10 | -8% | 7 | 26% |
| Depreciation | 37 | 35 | 3% | 36 | 36% |
| **PBT** | **54** | **26** | **106%** | **41** | **31%** |
| Tax | 13 | 8 | 54% | 12 | 11% |
| **Adjusted PAT** | **30** | **18** | **67%** | **29** | **2%** |
| EPS (Rs. ) | 4.3 | 2.6 | -32.7 | 4.3 | -27 |
| **Margins (%)** | | | **BPS** | | **BPS** |
| OPM | 14% | 11% | 266bps | 13% | 86bps |
| NPM | 4% | 3% | 132bps | 5% | -35bps |
| Tax rate | 24% | 32% | -796bps | 28% | -448bps |

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - De-focus of global players, rising demand to help Indian dyes and pigments segment to report a 10% CAGR over FY2019-FY2025

Dyes and pigments segment is the second largest sub-segment, with a 22% share in the Indian specialty chemicals industry. The segment posted a 7.3% CAGR over FY2014-FY2019, with a market size of ~$7 billion in FY2019 and is expected to register a 10% CAGR over FY2019-FY2025 and reach USD12.5 billion by FY2025. De-focus on global players and increased demand for textiles, paints, and plastic would drive substantial growth for dyes and pigments in India. Prominent domestic players are expected to further consolidate their position, supported by reliable raw-material sourcing, strong research and development (R&D) capabilities, the right product portfolio, strong marketing capabilities, and robust adherence to global environmental compliance standards (given the polluting nature of the manufacturing process of dyes and pigments).

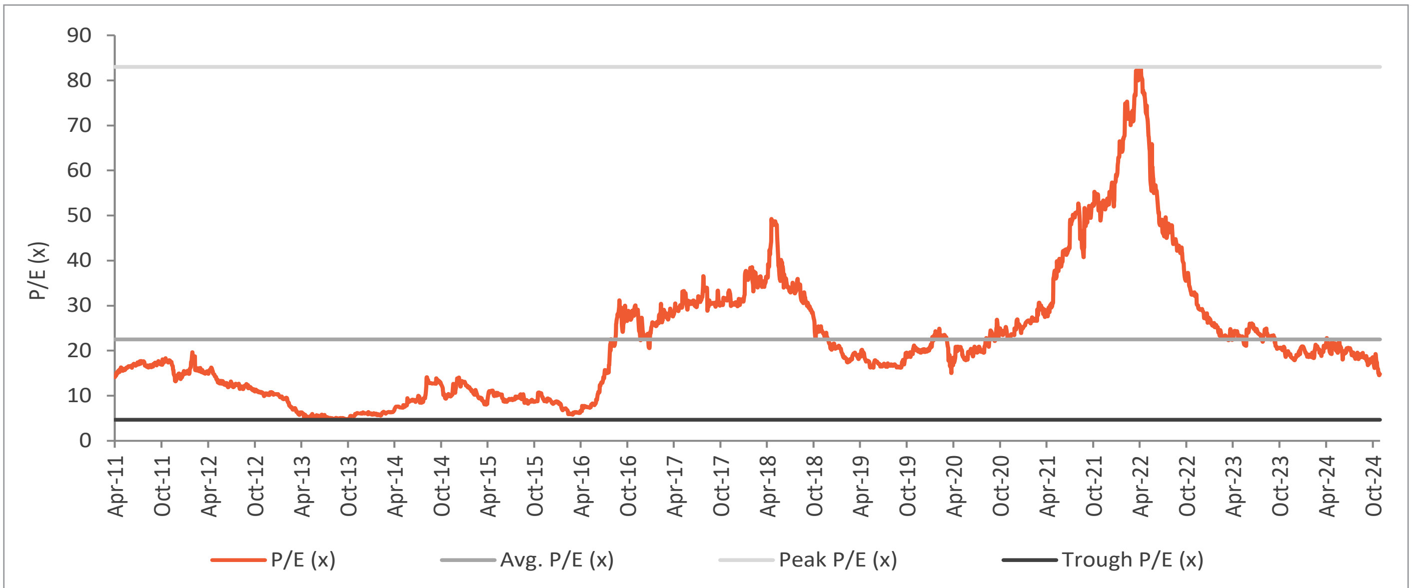
### ■ Company outlook - Demand recovery; ramp-up of new capacities to drive earnings recovery

Recent recovery in pigment demand and softening of input costs along with lower freight cost bode well for revenue and margin recovery over FY2025-FY2026. SCIL has completed its Rs. 750 crore capex plan and ramp-up of new capacities/products would drive medium to long-term growth and would scale up SCIL's position in both domestic and global markets and is expected to benefit from the exit of two global peers from the space.

### ■ Valuation - Maintain Buy on SCIL with a revised PT of Rs. 1,224

After a good recovery in FY24, recent numbers give hope of a strong growth over FY2025-FY2026E with tailwinds of a demand recovery in the global market and ramp-up of new capex. Bankruptcy of the company's German competitor, Heubach would drive consolidation in the industry and bodes well for company's long-term growth. We have changed our margin assumptions, and it leads to a significant 50%/40% growth in earnings estimate for FY25-26. Hence, we maintain a Buy rating on SCIL with a revised PT of Rs. 1,224. At CMP, the stock trades at 30x/24x its FY2026E/FY2027E EPS.

**One-year forward P/E (x) band**




Source: Sharekhan Research

## About company

Established in 1952 and headquartered in Pune, SCIL is India's largest and the world's fourth largest manufacturer of colour pigments. The company has a domestic market share of ~35% and global market share of ~3% in organic pigments. The company's product portfolio comprises organic, inorganic, and effect pigments, serving four main end-uses: coatings, plastics, inks, and cosmetics. SCIL has two manufacturing units – at Roha (established 1973) and Mahad (1993), both of which are located in Raigad district (Maharashtra) with a combined capacity of 37,000 tonne per annum (tpa).

## Investment theme

SCIL is a leading world-class colour solutions provider focusing on exceptional and sustainable results, which help in customer retention. Significant growth opportunities are available for players in India as innovators seek a reliable partner for assured sourcing. The situation in China has not changed much due to the ongoing government clampdown because of environmental and compliance issues. SCIL has completed its Rs. 750 crore capex plan and the ramp-up of new capacities/products would drive medium to long-term growth and would scale up SCIL's position in both domestic and global markets and is expected to benefit from the exit of two global peers from the space.

## Key Risks

- Lower demand amid economic slowdown and intense competition from Chinese products could impact revenue/earnings growth.
- Higher raw-material prices and delay in the ability to pass on price hikes adequately, adverse forex fluctuations, and interest rate movements might affect margins.

## Additional Data

**Key management personnel**

| | |
|---|---|
| Pradeep Rathi | Chairman |
| Rajesh Balkrishna Rathi | Managing Director |
| Nilkanth Natu | Chief Financial Officer |

Source: Company

**Top 10 shareholders**

| Sr. No. | Holder Name | Holding (%) |
|---|---|---|
| 1 | HDFC Asset Management Co Ltd | 7.33 |
| 2 | Axis Asset Management Co Ltd/India | 4.06 |
| 3 | Mirae Asset Global Investments Co | 3.47 |
| 4 | Franklin Resources Inc | 2.04 |
| 5 | Kedia Vijay Kishanlal | 1.44 |
| 6 | ICICI Prudential Asset Management | 1.39 |
| 7 | FIL Ltd | 1.37 |
| 8 | BAJAJ FINSERV MUTUAL FUND | 1.21 |
| 9 | Dimensional Fund Advisors LP | 0.76 |
| 10 | FundRock Management Co SA | 0.46 |

Source: Bloomberg

## Understanding the Sharekhan 3R Matrix

| | |
|---|---|
| **Right Sector** | |
| **Positive** | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies |
| **Neutral** | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies |
| **Negative** | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| **Right Quality** | |
| **Positive** | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance. |
| **Neutral** | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable |
| **Negative** | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet |
| **Right Valuation** | |
| **Positive** | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment. |
| **Neutral** | Trading at par to historical valuations and having limited scope of expansion in valuation multiples. |
| **Negative** | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple. |

Source: Sharekhan Research

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