

SUDARSHAN CHEMICAL INDUSTRIES

On track to become second-largest pigment player globally...

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Sudarshan Chemical Industries Ltd (SCIL) reported robust earnings performance led by an overall recovery in the domestic markets. Its revenue came in at ₹7.6 bn in Q4FY24 as against ₹6.9 bn in the year-ago quarter up by 11% YoY on the back of double-digit volume growth recovery in the domestic market and some of the key export markets during the quarter. SCIL's EBITDA & PAT came in at ₹1.2 bn/₹579 mn up by 41%/78% YoY, the growth is albeit on a low base of last year the growth has so far sustained mainly owing to its diversified product mix and demand recovery in the domestic as well as key export markets. Its domestic vs export split during the quarter stood at 54% & 46% vs 51% & 49% in the year-ago quarter respectively. Pigments business saw a strong 24% sequential recovery during the quarter as the segment reported highest ever EBITDA of ₹1.0 bn up 37% YoY with Pigments revenue of ₹6.4 bn up by 9% YoY. Domestic/Exports revenue from pigment business came in at ₹3.5 bn/₹3.0 bn in Q4FY24 vs ₹3.0 bn/₹2.9 bn in Q4FY23 showing a decent growth of 15%/2% YoY respectively. According to the management strong volume growth in both specialty and non-specialty pigments coupled with robust growth in domestic sales, particularly plastics segment contributed to growth in its pigment biz. SCIL's Gross/EBITDA/PAT margin in Q4FY24 stood at 42.8%/15.6%/7.6% as against 42.0%/12.2%/4.7% showing an improvement of 96bps/332bps/288bps respectively SCIL's EBITDA and Gross margins continued to revive from FY23 lows as a result of improvement in gross margin of its pigments business (44% in Q4FY24 vs 42% in Q4FY23) which was mainly due to significant traction for its specialty products particularly High Performance Pigments (HPPs) which are more margin accretive in nature.

The management commentary suggests sequential improvement in Europe sales and continued momentum in North America market. As far as the end-user industry is concerned demand from plastics outperformed, however printing inks demand remained muted, Coatings saw a sustainable uptick in demand during the quarter. Demand in the coating segment is expected to be strong going ahead as the bigger opportunities lies in coatings. Overall, in FY24 its Revenue/EBITDA/PAT stood at ₹25.4 bn/3.2 bn/1.1 bn up by 10.3%/50.2%/149.2% YoY respectively beating our expectations by 2%/16%/2% respectively.

Key Financials	FY 22	FY 23	FY 24	FY 25E	FY 26E
Total Income (₹ mn)	22,008	23,017	25,388	28,434	31,278
EBITDA margins	12.5%	9.2%	12.5%	14.2%	14.9%
PAT margins	5.9%	1.9%	16.8%	6.6%	7.2%
EPS (₹)	18.8	6.5	16.1	27.0	32.4
P/E (x)	27.7	75.1	50.6	30.2	25.1
P/BV (x)	4.3	4.1	4.9	4.2	3.6
EV/EBITDA (x)	16.0	19.7	19.0	14.2	12.0
Adj ROE*	15.6%	5.4%	9.7%	14.0%	14.4%
Adj ROCE	5.5%	1.9%	4.7%	6.9%	7.9%

*PAT except exceptional items

Rating	BUY
Current Market Price (₹)	815
12 M Price Target (₹)	973
Potential upside (%)	19

Stock Data

Sector :	Dyes & Pigments
FV (₹) :	2
Total Market Cap (₹ bn) :	58
Free Float Market Cap (₹ bn) :	37
52-Week High / Low (₹)	893 / 388
BSE Code / NSE Symbol	506655 / SUDARSCEM
Bloomberg :	SCHI IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
Promoter	33.22	35.82	35.82	35.82
MFs	13.03	9.14	9.31	12.21
FPIs	4.49	4.21	4.64	3.48
Bodies Corporate	3.33	6.37	6.20	3.39
Insurance	2.68	2.68	2.68	2.06
Others	43.25	41.78	41.35	43.04

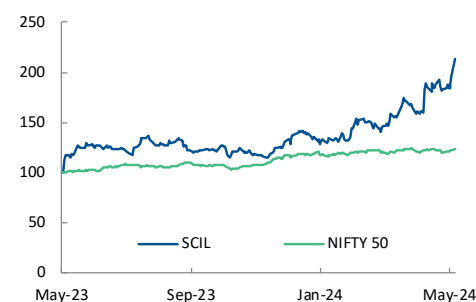
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
SCIL	32.7%	43.7%	81.2%	113.0%
Nifty 50	1.7%	2.1%	13.9%	23.0%

* To date / current date : May 21, 2024

SCIL vs Nifty 50



Pigments revenue up for fourth consecutive quarter; Export market sees sustained growth

SCIL's revenue from pigment business stood at ₹6.4 bn higher by 8.5% YoY and a strong 23.5% on a QoQ basis on the back of strong volume growth in both specialty and non-specialty pigments coupled with robust sales in the domestic markets which was up 15% YoY as the company continues to gradually ramp-up its new facilities. Its newly launched products are seeing healthy and progressive engagement from customers and on-time approval cycles. Demand environment has comparatively improved in overall FY24 as compared to last year and the company expects this growth momentum to continue going ahead as the current turbulent environment (post Heubach's insolvency) in the pigment market provides a golden opportunity for the company. Also, the company is expecting much faster ramp-up of its newly capitalised capacities as compared to earlier and a consistent increase in picking up of its specialty pigments. Currently only ~1/3rd of its newly commissioned capacities are getting utilised and the current events have led to an improvement in interaction with global customers and approval velocity for its Specialty portfolio (Azo & HPPs). Its Specialty vs Non-Specialty mix came in at 68%/32% in Q4FY24 and in FY24 too this mix stands at 68%/32% respectively.

The management is committed to sustainable and ethical business methods and is very optimistic about the company's long-term growth possibilities especially after recent events in the overall pigments market. Additionally, they anticipate a sustained order book going ahead from their Specialty portfolio from the Domestic as well as Export markets. On the operational front the company's cash conversion cycle was significantly improved despite headwinds among the global pigment players. The working capital cycle has been well handled. The company's Net debt/EBITDA has significantly decreased from 3.8x in Q4FY23 to 1.2x Q4FY24. Its cash conversion cycle came down significantly from as high as 88 days in Q3FY24 to 66 days. For FY25 and beyond the management is committed to achieving profitable growth and has faith in the long-term value proposition of the business. Going forward, the management continues to remain focused on expanding its already diverse product portfolio, penetrating in select international geographies, achieving deeper customer penetration with focus on its specialty segment. They are also confident in the company's long-term value proposition and intend to concentrate on generating profitable growth by accelerating sales ramp-up from newly commissioned capex projects.

Strong margin uptick continues; Growth in specialty portfolio/export market remains key in sustaining margins

SCIL's EBITDA margin rose 332bps YoY to 15.7% from 12.2% and up 464bps sequentially on the back of ramp-up of its specialty portfolio and strong domestic sales during the quarter. The company expects margin improvements from the operating leverage as they scale their export and specialty products portfolio. The company has already launched over five products across their Specialty portfolio during the year FY24. SCIL's EBITDA grew 41% YoY to ₹1.2 bn. EBITDA margin will benefit from operating leverage with further rise in the capacity utilisation levels going forward.

Quarterly Performance

(₹ mn)	Q4FY24	Q4FY23	YoY	Q3FY24	QoQ
Sales	7,642	6,912	10.6%	5,658	35.1%
Raw Material	4,362	4,011	8.7%	3,124	39.6%
Employee Cost	525	487	7.7%	536	-2.0%
Other expenses	1,565	1,566	-0.1%	1,379	13.5%
Total Operating expenses	6,452	6,065	6.4%	5,039	28.0%
EBITDA	1,191	847	40.6%	619	92.5%
EBITDA Margin	15.6%	12.3%	332 bps	10.9%	465 bps
Depreciation	357	306	16.7%	355	0.5%
EBIT	834	542	54.0%	264	216.1%
Other Income	30	15	94.2%	43	-30.2%
Interest	84	150	-44%	86	-2.3%
Exceptional items	-	-	-	-	-
Profit Before Tax	780	406	92.0%	221	253.3%
Tax	200	81	147.5%	75	166.7%
Tax rate (%)	26%	20%	575 bps	34%	(831) bps
Profit after tax	579	325	78%	145	298.8%
PAT Margin	7.6%	4.7%	288 bps	2.6%	501 bps
EPS (₹)	8.4	4.7	78%	2.1	298.8%

Source: SCIL, LKP Research

Segment revenue

(₹ mn)	Q4FY24	Q4FY23	YoY	Q3FY24	QoQ
Pigments	6,437	5,935	8%	5,215	23%
Others	1,206	986	22%	443	172%
Less: Intersegment	0.7	9.1	-92%	0.5	44%
Total	7,642	6,912	11%	5,658	35%
Mix (%)					
Pigments	84%	86%		92%	
Others	16%	14%		8%	
Pigment					
Specialty	4,377	4,095		3,580	22%
Non specialty	2,060	1,840		1,630	26%
Mix (%)					
Specialty	68%	69%		69%	
Non specialty	32%	31%		31%	
Pigment					
Domestic	3,154	3,086		2,780	13%
Export	3,283	2,849		2,399	37%
Mix (%)					
Domestic	49%	52%		53%	
Export	51%	48%		46%	

Source: SCIL, LKP Research



Initiated Coverage on SCIL

Outlook

We initiated coverage on SCIL in Oct-23 at ₹478 (TP ₹640 & CMP ₹815- 71% upside till now) on the back of tailwinds like a) consolidation in pigment industry, (permanent shutdowns in capacities in Europe) b) high inflation in developed economies, c) weak geopolitical scenario, d) sharp volatility in commodity prices and e) supply chain disruptions are expected to hit mid-sized and small pigment players resulting in benefit to major players like SCIL and, the similar tailwinds have played out in the overall pigment industry with German based 2nd largest pigment player Heubach GmbH declaring bankruptcy.

We further anticipate that SCIL can gain significant market share from the current turbulence in the export markets and it has already accelerated ramp-up of its new capacities especially in its specialty portfolio. Additionally, faster approvals may stem from the anticipated supply shortage. The stable and consistent nature of the pigment business is expected to lead to significant and lasting market share gains for SCIL. We further continue to believe in the above-mentioned tailwinds and hence we upgrade our forecast to Revenue/EBITDA/PAT CAGR of 11%/30%/71% over FY23-26E from 9.2%/20%/56% earlier, mainly owing to continued uptick in domestic as well as export sales led by specialty portfolio. We have factored in a FY25E/FY26E EBITDA margin of 14.2%/14.9%. We retain 'BUY' and further increase our TP to ₹973 (30x FY26E EPS of ₹32.4) from ₹640 earlier.

Key Concall Highlights Q4FY24

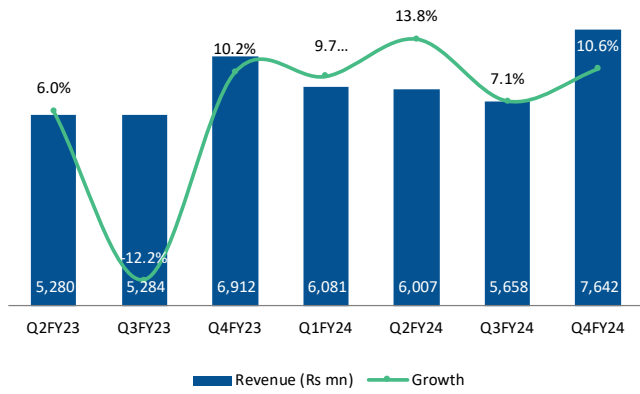
- The company saw strong volume growth in both its specialty and non-specialty portfolio owing to strong uptick in domestic sales. SCIL saw double-digit volume growth for full year FY24.
- There is healthy and progressive engagement with customers for new products. These products should reach optimum capacity within four years.
- Revenues in the non-pigment segment (RIECO Industries) saw significant uptick in Q4FY24. The board has not finalized anything on its disinvestment yet.
- Management maintains its guidance on achieving revenue target of ₹3-3.3 bn in the next three years at full capacity utilisation. Ramp-up in production of additional capacity will lead to higher revenue share from the specialty and export market.
- Management is confident in the long-term growth prospects of the Indian pigment industry, as it continues to see sequential improvement in Europe sales followed by continued momentum in North America.
- Focus on deeper penetration in select international geographies and engagement with key accounts for customized product development.
- The current turbulence in the pigment market with Heubach declaring insolvency is a golden opportunity for SCIL and it is completely focused on growth. The management believes it is uniquely placed with its diversified portfolio among other competitors in India and China with narrow portfolios.

Key Risks:

- Uncertain geopolitical or macro environment
- Volatility in key raw material prices

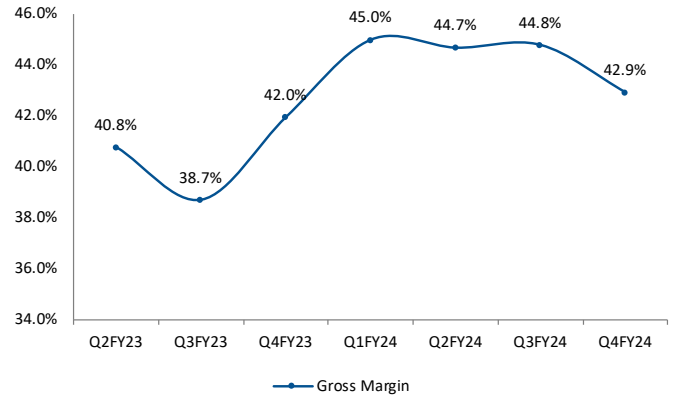
Historical Financials in Charts

Consistent revenue growth continues for 5th consecutive quarter

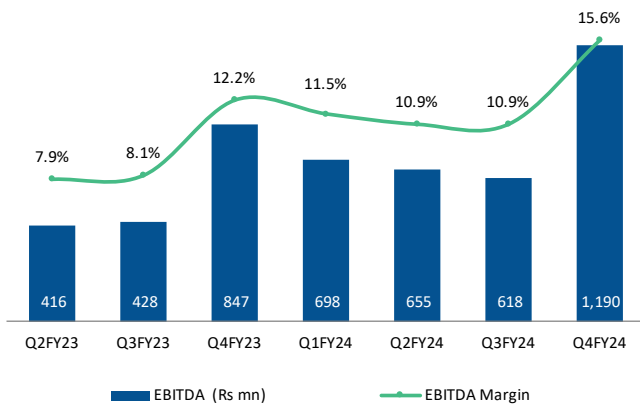


Source: SCIL, LKP Research

Sustaining Gross Margin remains a key

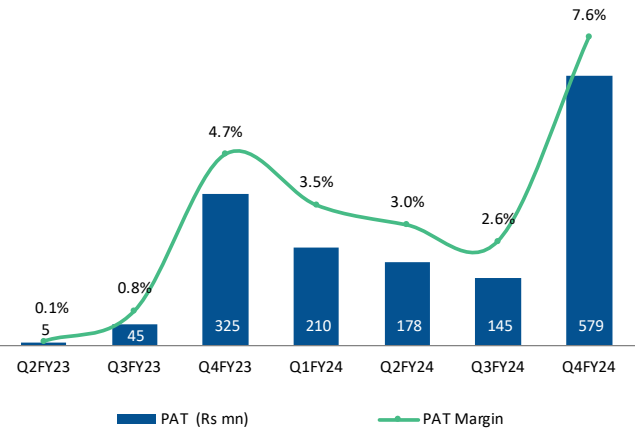


Margin coming back to double digits consistently

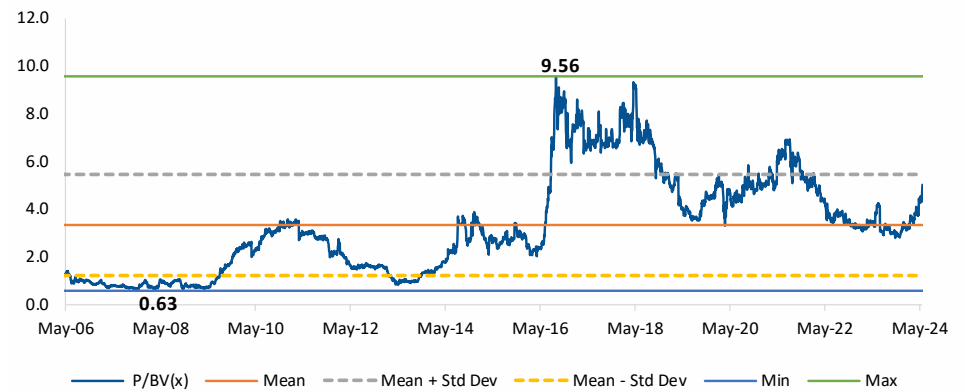


Source: SCIL, LKP research

PAT margins recovered significantly in Q4FY24

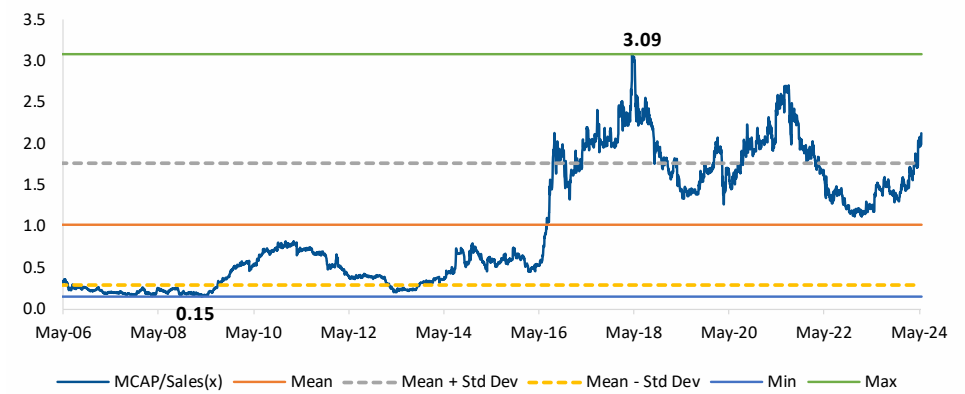


P/BV(x) mean and standard deviation



Source: ACE Equity, LKP Research

MCAP/Sales(x) mean and standard deviation



Source: ACE Equity, LKP Research

Profit and Loss Statement

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
Revenue from Operations	22,008	23,017	25,388	28,434	31,278
Raw Material Cost	12,704	13,683	14,154	15,724	16,663
Employee Cost	1,840	1,840	2,100	2,275	2,417
Other Exp	4,716	5,389	5,970	6,398	7,535
EBITDA	2,748	2,106	3,164	4,038	4,663
<i>EBITDA Margin(%)</i>	<i>12.5%</i>	<i>9.2%</i>	<i>12.5%</i>	<i>14.2%</i>	<i>14.9%</i>
Depreciation	893	1,142	1,412	1,484	1,781
EBIT	1,855	964	1,752	2,553	2,882
<i>EBIT Margin(%)</i>	<i>8.4%</i>	<i>4.2%</i>	<i>6.9%</i>	<i>9.0%</i>	<i>9.2%</i>
Other Income	50	48	171	205	246
Interest	194	415	369	263	130
Exceptional items	0	0	3151	0	0
Adj PBT	1,711	597	1,554	2,496	2,998
Reported PBT	1,711	597	4,705	2,496	2,998
<i>Adj PBT margin (%)</i>	<i>7.8%</i>	<i>2.6%</i>	<i>6.1%</i>	<i>8.8%</i>	<i>9.6%</i>
<i>PBT Margin(%)</i>	<i>7.8%</i>	<i>2.6%</i>	<i>18.5%</i>	<i>8.8%</i>	<i>9.6%</i>
Tax	412	150	1,131	626	753
Tax on exceptional items	-	-	692	-	-
Adj PAT	1,300	448	1,116	1,869	2,246
<i>Adj PAT Margins (%)</i>	<i>5.9%</i>	<i>1.9%</i>	<i>4.4%</i>	<i>6.6%</i>	<i>7.2%</i>
Exceptional items	0	0	0	0	0
Reported PAT	1,300	448	4,267	1,869	2,246
<i>RPAT Margins (%)</i>	<i>5.9%</i>	<i>1.9%</i>	<i>16.8%</i>	<i>6.6%</i>	<i>7.2%</i>

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities					
Equity Share Capital	138	138	138	138	138
Reserves & Surplus	8,193	8,144	11,352	13,221	15,467
Total Networkth	8,332	8,282	11,490	13,360	15,605
Long term Borrowings	3,686	4,492	1,933	1,119	305
Deferred tax liability	595	716	911	1,143	1,371
Other Non-Current liabilities	438	496	591	2,135	2,236
Total non-current liab and provs	4,719	5,705	3,435	4,396	3,912
Current Liabilities					
Short term Borrowings & Provisions	4,526	3,710	2,511	2,509	1,738
Trade Payables	5,218	5,087	5,120	5,687	5,845
Other current liabilities	892	1,136	993	1,185	1,273
Total current liab and provs	10,636	9,933	8,625	9,381	8,855
Total Equity & Liabilities	23,687	23,920	23,550	27,137	28,373
Assets					
Gross block	11,866	15,681	15,681	16,925	18,185
Net block	7,915	10,733	10,397	10,494	11,456
Capital WIP	2,732	443	145	185	210
Other non current assets	989	1,095	1,075	1,621	1,718
Total fixed assets	11,636	12,271	11,618	12,301	13,385
Inventories	5,660	4,941	4,376	5,924	6,082
Trade receivables	5,007	4,861	5,853	5,766	5,924
Cash & Bank Balance	353	294	559	2,109	1,899
Other current assets	1,032	1,268	1,145	1,037	1,083
Total current Assets	12,051	11,364	11,933	14,836	14,988
Assets held for sale	-	285	-	-	-
Total Assets	23,687	23,920	23,550	27,137	28,373

Key Ratios

YE Mar	FY22	FY23	FY 24	FY 25E	FY 26E
<u>Per Share Data (Rs)</u>					
Adj. EPS	18.8	6.5	16.1	27.0	32.4
CEPS	31.7	23.0	36.5	48.4	58.2
BVPS	120.4	119.6	166.0	193.0	225.4
<u>Growth Ratios(%)</u>					
Revenue	18.1%	4.6%	10.3%	12.0%	10.0%
EBITDA	-4.5%	-23.3%	50.2%	27.6%	15.5%
EBIT	-7.8%	-48.0%	81.8%	45.7%	12.9%
Adj.PAT	-7.8%	-65.6%	149.2%	67.6%	20.1%
<u>Valuation Ratios (X)</u>					
PE	27.7	75.1	50.6	30.2	25.1
P/CEPS	16.5	21.1	22.3	16.8	14.0
P/BV	4.3	4.1	4.9	4.2	3.6
EV/Sales	2.0	1.8	2.4	2.0	1.8
EV/EBITDA	16.0	19.7	19.0	14.2	12.0
<u>Operating Ratios (Days)</u>					
Inventory days	92.6	77.3	62.1	75.0	77.0
Receivable Days	81.9	76.0	83.0	73.0	75.0
Payables day	85.3	79.6	72.6	72.0	74.0
Debt to Equity (x)	0.98	0.99	0.38	0.24	0.10
<u>Performance Ratios (%)</u>					
AROA (%)	5.5%	1.9%	4.7%	6.9%	7.9%
AROE (%)	15.6%	5.4%	9.7%	14.0%	14.4%
AROCE (%)	14.2%	6.9%	11.7%	14.4%	14.8%
Asset Turnover(x)	2.12	1.67	1.62	1.68	1.72
Inventory Turnover(x)	3.9	4.7	5.8	4.8	5.1

Cash Flow

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
PBT	1,711	597	1,554	2,496	2,998
Depreciation	893	1,142	1,412	1,484	1,781
Interest	194	415	369	263	130
Other Adjustments	-46	23	118	1,313	1,344
Operating CF before WC changes	2,752	2,178	3,453	5,556	6,254
Changes in working capital	-576	804	-460	310	102
Tax paid	-381	-112	-835	-626	-753
Cash flow from operations (a)	1,796	2,870	1,935	5,396	5,492
Capital expenditure	-3,102	-1,924	-785	-1,285	-1,435
Other investing activities	22	31	3,578	790	790
Cash flow from investing (b)	-3,080	-1,893	2,793	-495	-645
Free cash flow (a+b)	-1,284	978	4,728	4,902	4,847
Proceeds from long term borrowings	1,923	2,232	-	-1,687	-2,039
Repayment of long term borrowings	-1,373	-1,453	-2,668	-815	-814
Other flows in financing activities	828	-1,805	-1,791	-763	-2,205
Cash flow from financing (c)	1,378	-1,027	-4,459	-3,265	-5,057
Net chng in cash (a+b+c)	93	-49	268	1,637	-210
Closing cash & cash equivalents	253	204	472	2,109	1,899

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