

15 February 2026

Heubach reset leads to earnings volatility

The stock price of Sudarshan Chemical (SCHI IN) has fallen 11% in the past three months, and it underperformed the NSE Small-Cap Index (down 6%), due to margin concerns post the Heubach acquisition and weakening of dyes & pigments demand globally. SCHI delivered a weak Q3FY26 quarter, with consolidated PAT taking a hit by continued softness in global pigment demand, prolonged customer destocking in legacy Heubach products, and adverse mix & pricing in the acquired business. While legacy SCHI margin remain resilient at ~13% in pigments, the acquired Group fell into EBITDA loss in Q3, prompting management to revise down FY26 Heubach profitability guidance. The company highlighted early signs of Heubach customers restocking during January–February and reiterate confidence in a multi-year margin recovery, led by integration progress, value capture, and working capital normalization. Based on revised FY26 guidance for acquired business (Heubach), we decrease our EBITDA estimates by 5% for FY26E, 4% for FY27E and 8% for FY28E. We roll over TP to FY28 estimates. We retain **Accumulate** with a TP of INR 1,047.

PAT turns red due to losses at Heubach: SCHI reported an adjusted EBITDA of INR 379mn, down 71% QoQ with net loss of INR 699mn vs our estimates of INR 200mn. The company reported a revenue of INR 21.0bn, down 12% QoQ. Q3 EBITDA loss for the Heubach Group was INR 380mn vs modest profit in Q2. Revenue from the legacy business was down 3% YoY to INR 6.5bn. Management attributed the Heubach decline to volume deleverage, mix deterioration, pricing pressure, and high inventory at customer-end, which continues to unwind slower than expected post the insolvency phase. Importantly, legacy SCHI pigments remain structurally stable, delivering ~13% EBITDA margin.

Heubach guidance reset – business EBITDA cut; recovery back-ended: Management has lowered Heubach's FY26 business EBITDA target to ~EUR 16mn from EUR 25mn, with Q4 likely to contribute EUR 9–10mn, driven by improving sales momentum and accelerating value capture. In the medium term, management continues to target a significant profitability turnaround, and targets to EUR 90–100mn business EBITDA by FY28–29. However, the company flagged reported EBITDA may remain temporarily depressed for the next few quarters, due to a reduction of legacy finished goods inventory (~EUR 30–40mn), which could lead to overhead release impact of ~EUR 9–12mn – negative for accounting profitability but positive for operating cashflow and balance sheet deleveraging.

Retain Accumulate with a TP of INR 1,047: Based on revised FY26 guidance for acquired business (Heubach), we decrease our EBITDA by 5% for FY26E, 4% for FY27E and 8% for FY28E. We roll over TP to FY28 estimates. We retain **Accumulate** with a TP at INR 1,047. Our TP is based on a DCF valuation, assuming a 4% terminal growth rate and a 10.9% cost of capital.

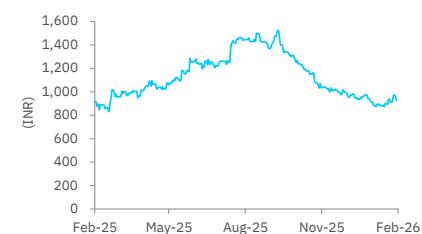
Rating: **Accumulate**
Target Price: **INR 1,047**
Upside: **13%**
CMP: **INR 925**
As on 13 February 2026

Key data

Bloomberg	SCHI IN
Reuters Code	SDCH.NS
Shares outstanding (mn)	79
Market cap (INR bn/USD mn)	73/802
EV (INR bn/USD mn)	89/984
ADTV 3M (INR mn/USD mn)	91/1
52 week high/low	1,604/796
Free float (%)	91

Note: as on 13 February 2026; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Promoter	23.9	16.4	8.2	8.2
% Pledge	0.0	0.0	0.0	0.0
FII	8.0	8.5	8.4	8.2
DII	23.6	23.5	23.8	24.6
Others	44.5	51.6	59.6	59.0

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(1.7)	3.4	11.1
Sudarshan Chemical	(10.7)	(36.0)	1.1
NSE Mid-cap	(1.8)	3.8	15.5
NSE Small-cap	(6.4)	(4.0)	10.3

Source: Bloomberg

Key financials

YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	25,388	33,456	92,886	100,383	107,681
YoY (%)	10.3	31.8	177.6	8.1	7.3
EBITDA (INR mn)	3,164	3,810	5,586	7,350	9,200
EBITDA margin (%)	12.5	11.4	6.0	7.3	8.5
Adj PAT (INR mn)	1,116	1,594	655	2,198	3,058
YoY (%)	149.2	42.9	(58.9)	235.5	39.1
Fully DEPS (INR)	16.1	20.3	8.3	28.0	38.9
RoE (%)	11.3	6.1	1.6	5.2	6.9
RoCE (%)	10.8	5.6	2.5	5.1	7.8
P/E (x)	57.4	45.6	110.9	33.1	23.8
EV/EBITDA (x)	28.2	23.4	16.0	12.1	9.7

Note: Pricing as on 13 February 2026; Source: Company, Elara Securities Estimate

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Total Revenue	25,388	33,456	92,886	100,383	107,681
Gross Profit	11,234	15,719	47,516	51,035	54,517
EBITDA	3,164	3,810	5,586	7,350	9,200
EBIT	1,752	2,148	1,596	3,307	5,103
Interest expense	369	483	1,657	1,868	1,814
Other income	171	363	1,233	1,995	1,389
Exceptional/ Extra-ordinary items	2,459	(1,036)	-	-	-
PBT	4,013	992	1,172	3,434	4,678
Tax	439	390	321	1,030	1,403
Minority interest/Associates income	-	(44)	(196)	(206)	(216)
Reported PAT	3,574	558	655	2,198	3,058
Adjusted PAT	1,116	1,594	655	2,198	3,058
Balance Sheet (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Shareholders' Equity	11,490	40,383	41,053	42,938	45,506
Minority Interest	-	-	-	-	-
Trade Payables	5,120	13,985	14,190	11,342	10,856
Provisions & Other Current Liabilities	1,028	10,633	8,891	9,002	9,423
Total Borrowings	4,409	20,847	23,347	23,347	19,347
Other long term liabilities	1,502	11,460	33,131	33,183	32,892
Total liabilities & equity	23,550	97,307	120,612	119,812	118,024
Net Fixed Assets	10,543	23,466	26,376	29,233	32,035
Goodwill	68	68	68	68	68
Intangible assets	287	1,309	1,309	1,309	1,309
Business Investments / other NC assets	719	10,792	10,624	10,699	10,772
Cash, Bank Balances & treasury investments	559	15,113	26,595	16,679	6,007
Inventories	4,376	24,652	24,216	27,776	31,172
Sundry Debtors	5,853	12,250	21,278	22,996	24,667
Other Current Assets	1,145	9,657	10,145	11,052	11,993
Total Assets	23,550	97,307	120,612	119,812	118,024
Cash Flow Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Cashflow from Operations	1,935	370	16,487	(2,624)	1,360
Capital expenditure	(785)	(946)	(6,900)	(6,900)	(6,900)
Acquisitions / divestitures	-	-	-	-	-
Other Business cashflow	3,578	(14,538)	1,233	1,995	1,389
Free Cash Flow	4,728	(15,113)	10,820	(7,530)	(4,150)
Cashflow from Financing	(4,463)	29,667	662	(2,386)	(6,522)
Net Change in Cash / treasury investments	265	14,553	11,482	(9,916)	(10,672)
Key assumptions & Ratios	FY24	FY25	FY26E	FY27E	FY28E
Dividend per share (INR)	4.6	4.5	2.3	6.6	9.0
Book value per share (INR)	166.0	513.9	522.5	546.5	579.1
RoCE (Pre-tax) (%)	10.8	5.6	2.5	5.1	7.8
ROIC (Pre-tax) (%)	11.1	7.0	3.8	7.6	9.4
ROE (%)	11.3	6.1	1.6	5.2	6.9
Asset Turnover (x)	2.3	2.0	3.7	3.6	3.5
Net Debt to Equity (x)	0.3	0.1	(0.1)	0.2	0.3
Net Debt to EBITDA (x)	1.2	1.5	(0.6)	0.9	1.4
Interest cover (x) (EBITDA/ int exp)	8.6	7.9	3.4	3.9	5.1
Total Working capital days (WC/rev)	87.2	459.7	341.8	219.7	187.9
Valuation	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	57.4	45.6	110.9	33.1	23.8
P/Sales (x)	2.9	2.2	0.8	0.7	0.7
EV/ EBITDA (x)	28.2	23.4	16.0	12.1	9.7
EV/ OCF (x)	46.1	240.7	5.4	(34.0)	65.5
FCF Yield	0.0	0.0	0.0	0.0	0.0
Price to BV (x)	5.6	1.8	1.8	1.7	1.6
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Note: Pricing as on 13 February 2026; Source: Company, Elara Securities Estimate

Exhibit 1: Quarterly financials

Consolidated (INR mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Q3FY26E	Variance (%)
Revenue	21,030	6,664	215.6	23,874	(11.9)	24,113	(12.8)
EBITDA	379	790	(52.0)	1,322	(71.3)	1,335	(71.6)
Depreciation	1,006	365	175.3	972	3.5	982	2.5
Interest cost	364	114	218.9	436	(16.5)	436	(16.5)
Other income	217	45	383.2	381	(43.0)	381	(43.0)
Profit before exceptional items	(774)	355	NA	295	NA	299	NA
Exceptional item	454	308	47.3	0	NA	0	NA
PBT	(774)	355	NA	295	NA	299	NA
Tax	(68)	42	NA	102	NA	99	NA
Adj. PAT	(706)	313	NA	193	NA	200	NA
Reported PAT	(1,160)	5	NA	193	NA	200	NA
Minority Interest	(7)	0	NA	76	NA	0	NA
Adj. PAT to equity holders	(699)	313	NA	117	NA	200	NA
Adj. EPS (INR)	(8.9)	4.0	NA	1.5	NA	2.5	NA

Source: Company, Elara Securities Estimate

Conference call highlights

- ▶ Heubach subdued performance was due to destocking. Usually, the last 10 days of December are adversely affected in the EU and LATAM. Q3 demand was even lower than management's earlier anticipation. Tariffs also hit demand from US customers.
- ▶ Fixed cost is high in the Heubach Group; so, lower demand sees enhanced impact on EBITDA.
- ▶ Low demand from end-use industries like coatings and plastics affected Q3 performance. Management said customers had built up inventory during Heubach insolvency, and inventory depletion was slower than expected. Buying from global customers was seen in January-February 2026
- ▶ SCHI targets business EBITDA (excluding inventory impact) for the Heubach Group to be EUR 9-10mn in Q4FY26 and EBITDA for FY26 at EUR 16mn. SCHI expects Heubach Group EBITDA to reach EUR 90-100mn by FY28-29.
- ▶ The company is planning to reduce finished good inventory by EUR 30-40mn in the next three quarters. This may lead to reduced net debt as it will increase cashflow. However, reported profitability may see impact from changes in inventory.
- ▶ Heubach may see sales growth, likely due to selling finished goods inventory. Production volume may stay lower than sales volume.
- ▶ In the legacy business, demand slowdown was in the domestic market until November; in Heubach, earnings took a hit due to inventory destocking.
- ▶ Some raw materials prices have increased. Management says the impact of increasing Benzene price is minuscule on business.
- ▶ The company has captured value of INR 400mn in Q3 vs Q1FY26 as per its value capture plan.
- ▶ SCHI legacy business growth may reach 10-11% in the long term, but not immediately.
- ▶ Cost reduction initiatives will be undertaken in the next year and full benefits will be seen at end of next year.
- ▶ SCHI targets employee cost at 12-13% of revenue in the long term.
- ▶ Net debt is ~INR 11.2bn. Management says interest rate is 5.75-6.00% on borrowings, which were undertaken for the acquisition and overall debt. The remaining interest payment is as per Ind-AS accounting for leases.
- ▶ Management says this is a turnaround year for Rieco Industries Ltd (RIECO).

- ▶ SCHI says post Heubach acquisition, the company has the broadest product portfolio in the industry, and it is serving new markets, including cell phones, digital inks, and personal care.
- ▶ Management says it has already implemented changes in manufacturing. Manufacturing operations from some sites like Frankfurt are already transferred to India.

Exhibit 2: DCF valuation

(INR per share)	
PV of FCFF over FY28-33E	222
PV of terminal value	954
EV of the firm	1,176
Less: Net Debt	139
Add: Dividend payout	10
Target price	1,047

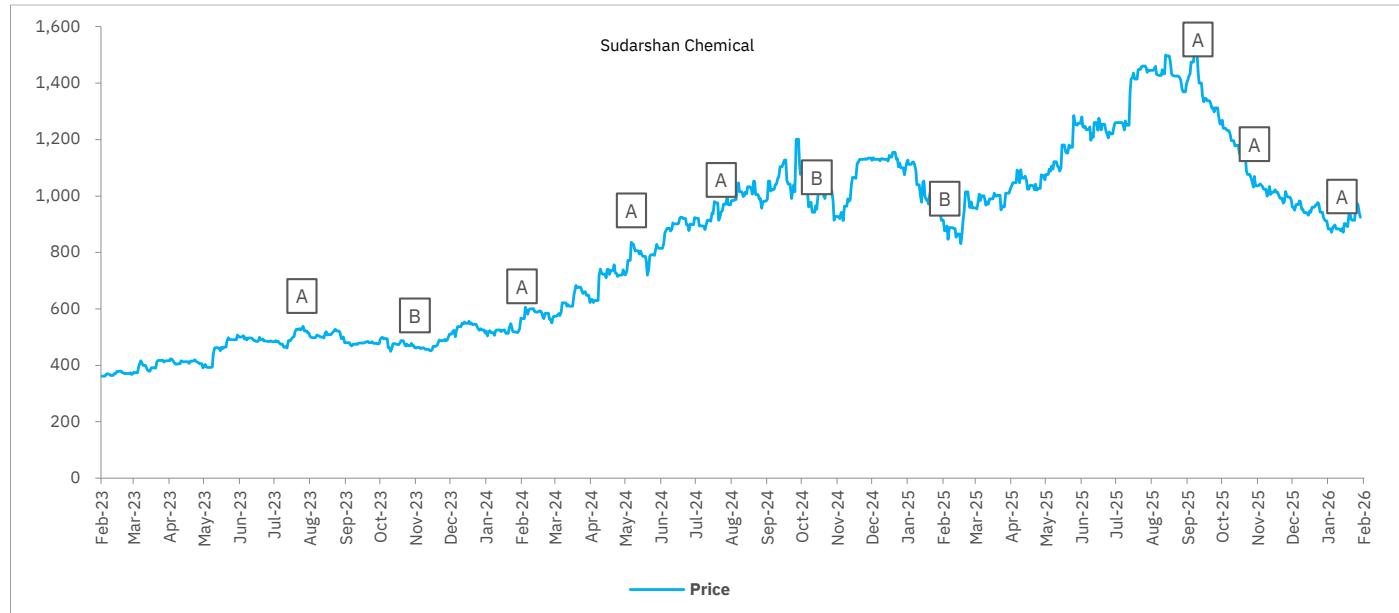
Source: Elara Securities Estimate

Exhibit 3: Change in estimates

(INR mn)	Earlier			Revised			% Change YoY		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	102,760	109,572	116,989	92,886	100,382	107,681	(9.6)	(8.4)	(8.0)
EBITDA	5,881	7,655	9,986	5,586	7,350	9,200	(5.0)	(4.0)	(7.9)
EBITDA margin (%)	5.7	7.0	8.5	6.0	7.3	8.5	29	34	1
Net Profit	708	2,243	3,672	655	2,198	3,058	(7.5)	(2.0)	(16.7)
EPS (INR)	9.0	28.5	46.7	8.3	28.0	38.9	(7.5)	(2.0)	(16.7)

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
09-Aug-2023	Accumulate	558	532
15-Nov-2023	Buy	558	464
16-Feb-2024	Accumulate	656	566
21-May-2024	Accumulate	965	835
07-Aug-2024	Accumulate	1,053	943
29-Oct-2024	Buy	1,186	953
17-Feb-2025	Buy	1,114	877
25-Sep-2025	Accumulate	1,707	1,441
13-Nov-2025	Accumulate	1,275	1,070
28-Jan-2026	Accumulate	1,047	884

Guide to Research Rating

BUY (B) Absolute Return >+20%

ACCUMULATE (A) Absolute Return +5% to +20%

REDUCE (R) Absolute Return -5% to +5%

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