

Sudarshan Chemical Industries Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rs bn)
Rs600	Rs372	Rs750	25%	BUY	41.5

*as on 18th Aug, 2021

About the Company:

Sudarshan Chemical Industries Limited (Sudarshan) is one of largest pigment manufacturing company globally mainly engaged in the manufacturing of Organic, Inorganic, High Performance and Specialty Pigments for different applications. The company is a leading provider of organic pigments, pigment preparations used in coatings, paints, printing, plastics and other specialty applications. The product portfolio meets the demands for key market segments that include automotive, industrial, decorative and architectural paints and coatings and plastic applications. The company is widely recognized and well respected for its R&D capabilities globally, especially in the niche domain of High-Performance Pigments. It is the market leader in the pigment manufacturing business in India and also commands a significant global presence.

Result: Quick Glance

- The company has reported net sales of Rs4347mn as compared to Rs3323mn in the same quarter last year, growth of 30.8%
- The Ebitda margins for the quarter under review stood at 12.3% as compared to 17.3% in the corresponding quarter last year
- The net profit came in at Rs220mn as against Rs235mn in the same quarter last year
- EPS for the quarter under review stood at Rs3.2 as compared to Rs3.4 in the corresponding quarter last year

Conference Call Highlights:

- In Q1FY22, the demand in domestic market showed softness.
- Lockdown impacted the operations of the company, master batch or the plastic segment was impacted due to increased input costs while at the same time coating ink segment was also impacted on q-o-q basis.
- Gross margins stood at 47% as compared to 43% in the same period last year.
- There have been sharp increases in the intermediate prices for various chemistries and the company has been able to pass through the same to the customers; however, some pressure is also seen on select intermediates and this is likely to continue for the next 2-3 months. In addition to the RM price increases, the company is also seeing energy, freight and logistic cost rising.
- Domestic sales were at Rs2030mn vs Rs1200mn growth of 68% due to the low base effect.
- Traction in all product lines in exports is seen with revenues earned at Rs2500mn vs Rs2210mn, 13% upside y-o-y.
- Speciality sales stood at Rs3180mn as compared to Rs2400mn while the non-speciality contributed Rs1350mn as compared to Rs1010mn an uptick of 33%. With easing of restriction, the pickup in domestic is anticipated.
- Mahad facility has seen a production loss of 2 weeks with a production sales loss in July 2021.
- The Management mentions they on track to complete the current phase of the capex projects.
- Capex project of Rs1200mn is anticipated to be ended by September 2021; will also close all the capex by the end of this year.
- Management is slightly cautious in terms of cost pressure of coal, freight increase, RM escalation with many intermediates where the costs have increased and are expecting the margins to be under pressure.
- Sudarshan is looking at some product launches in September 2021; by Q3FY22-Q4FY22 product capex and product launches will have been completed.
- These new products are all speciality product launches; 3 products with 10-15-line products are anticipated to have commercial launches in FY22.
- H2FY24 is expected to see a ramp up in the yellow pigment; current year is the first year for yellow pigment.
- Mica based pigments on anti-dumping proposals is pending with Ministry of Finance, and the notification; margin profile for the same are not very different for this business, however is a good opportunity for Sudarshan.
- On the global demand and supply side, the industry is going through a consolidation phase, however, none of the capacities have gone out and many customers are looking at alternatives; and Sudarshan is seeing opportunities on the organic pigment side.

Financials:

Performance (Q1FY22)							
Q1FY22 Result (Rs mn)	June-21	June-20	y-o-y	Mar-21	q-o-q	FY21	FY22E
Total Revenue	4347	3323	30.8%	5195	(16.3%)	17085	18450
EBITDA	535	575	(6.8%)	683	(21.6%)	2661	2856
Other Income	7	2	-	26.6	(73.5%)	59	62
Interest	43	34	26.5%	41	5.2%	164	170
Depreciation	205	214	(4.3%)	210	(2.3%)	851	885
Exceptional Items	0	0	-	0	-	107	0
Tax	74	94	(21%)	64	16.5%	450	447
Net Profit	220	235	(6.3%)	395	(44.3%)	1362	1416

Outlook and Recommendations:

Sudarshan is a pure play with focus on the pigments and on the domestic front enjoys an estimated market share of ~35%. The company is expecting strong growth to come from all the segments including the coatings, inks, plastics and cosmetics. Sudarshan has been investing for growth in the last three years and the result of many of these capital expenditures are already gradually surfacing. Some of the plans chalked out by Sudarshan for further growth include the commissioning of the capex projects for existing and new products; focus on new businesses in a phased manner; starting cost improvement and value chain integration projects, expanding product portfolio, building globally competitive, continuously improving the net working capital, inventories and cash conversion cycle etc. The long-term prospects of the company stay intact and the Management is confident of growth via the on-going expansions, de-bottlenecking, backward integrations, optimization of processes, better price management, launch of new products and growth across all the segments. The capex will give a boost to the revenue growth as and when the phases of capex are commenced and commercialised. Domestic revenue normalcy or restoration is expected from Q3FY22 onwards. We continue to remain confident on the long-term prospects of the company and we maintain our target price of Rs750.

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