

## Sudarshan Chemical Industries Ltd.: Q1FY17 Result Update

Robust growth with margin expansion continues

CMP: INR 299

Target: INR 366

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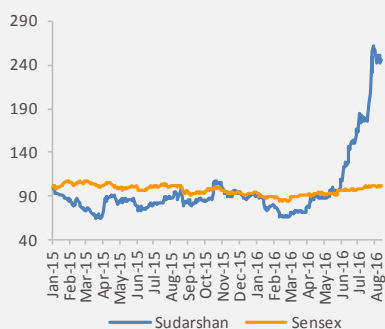
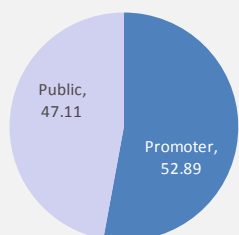
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### Bloomberg:

SCHI:IN

52-week range (INR):	332 / 78
Share in issue (Cr):	5.8
M cap (INR cr):	2,078
Avg. Daily Vol. BSE/NSE :(‘000):	414

### SHARE HOLDING PATTERN (%)



Date: 13<sup>th</sup> August, 2016

Sudarshan Chemical Industries Ltd. (Sudarshan) reported standalone Q1FY17 sales at INR 337 cr, 1% below our estimates but up 14% YoY. EBITDA and PAT were higher than our estimates by ~12% and ~16% respectively on account of lower raw material costs, improved productivity and slightly lower effective tax rate. Key highlights of the quarter were: (i) 12% YoY revenue growth in the standalone pigments business coupled with a two year high EBIT margins of 19.8% (ii) Standalone agrochemical sales registered the highest quarterly sales over the past two years of INR 50 cr, registering an increase of ~28% YoY. We have upgraded our consolidated FY17/18 net profit estimates by 8-9% considering the robust growth outlook and the margin expansion exhibited by the company in the current quarter; we reiterate our ‘BUY’ rating on the stock with a revised target price of INR 366/share.

### Strong operational performance driven by robust sales growth & lower raw material costs

Sudarshan’s Q1FY17 standalone revenues came in at INR 337 cr (up 14% YoY), were slightly below our estimates of INR 341 cr. Standalone EBITDA at INR 57 cr was ahead of our estimates by 14% driven by robust gross margin expansion in the standalone pigment business and lower than expected employee & other expenses driven by productivity improvements. Standalone EBIT margins came in at 14.8% driven by two year high margins of 19.8% in the standalone pigment business and a rebound in agrochemical sales. Lower interest expenses (down 3% YoY) and a lower effective tax rate (28% vs estimate of 30%) led to 73% YoY and 44% sequential increase in PAT which came in at INR 32cr beating our estimates of INR 24cr by 29%.

### Robust performance in pigments continues, Agrochemical segment show substantial recovery

Standalone pigments business registered sales and EBIT growth of 12% and 26% YoY respectively this quarter. Margins in the pigment business improved by 410bps YoY and 110 bps sequentially as the benefits of lower crude linked raw material continued in this quarter coupled with continuous improvement in productivity. The agrochemicals business posted a strong recovery this quarter to register sales of INR 50cr, an increase of 29% YoY with an EBIT margin of 7.3% down 20 bps sequentially but up 340 bps YoY.

### Outlook and valuations: Margin expansion provides additional boost; Re-iterate - BUY

We continue to believe that the growth story for Sudarshan remains intact with the planned expansion at Roha likely to further consolidate its dominant domestic market position and help further penetration in the key markets of Europe and North America through its marketing subsidiaries. Moreover, shift of product mix towards the high margin HPP/ Effect pigments, lower raw material prices, productivity improvements and more cost effective sourcing of raw materials from China are likely to support margins. We, therefore, revise our EBITDA and PAT estimates upwards by 9-10% / 8-9% respectively to account for the above mentioned factors while sales estimates remain largely unchanged. **We value the stock at 17x FY18E consolidated earnings of INR 21.5/ share and reiterate our ‘BUY’ recommendation on the stock with revised target price of INR 366/share.**

Year to March (INR Crs.)	Q1FY17E	Q1FY16	%Chg. YoY	Q4FY16	%Chg. QoQ	FY16	FY17E	FY18E
Net Revenues (incl Op. Inc.)	337	294	14	318	6	1,409	1,635	1,916
% Growth (yoy)							16	17
EBITDA	57	41	37	42	35	170	243	309
% Growth (yoy)							44	27
Adjusted Net profit	32	18	73	22	44	70	118	149
Adjusted Diluted EPS	4.6	2.6	73	3.2	44	10.1	17.0	21.5
Diluted P/E (x)						29.6	17.6	13.9
EV/EBITDA (x)						14.6	10.5	8.6
RoACE (%)						16.1	21.8	22.5

Note: Quarterly numbers are on standalone basis while yearly numbers and estimates are on a consolidated basis

## Q1FY17 Result Highlights (Standalone)

Year to March (INR Crs.)	Q1FY17	Q1FY16	%Change	Q4FY16	%Change	FY16	FY15	%Change
Net Revenues (incl. Op. Inc.)	337	294	14.5	318	6.0	1,207	1,088	10.9
Raw Materials Cost	193	174	11.2	179	8.1	701	666	5.2
Gross Profit	144	121	19.1	139	3.3	507	422	20.1
Operating Expenses	280	253	10.7	276	1.5	1,052	979	7.4
EBITDA	57	41	37.4	42	35.4	156	109	42.7
EBITDA margin	17	14		13		13	10	28.6
Depreciation	11	10	12.7	13	-9.8	44	40	10.2
Other income	4	1		8		12	23	-49.1
Net finance expense	6	6	-2.6	6	-4.6	25	33	-23.5
Profit before tax	44	26	67.6	31	40.4	98	60	65.2
Provision for taxes	12	8		9		27	17	56.1
Reported Net profit	32	18	73.2	22	43.7	72	42	68.9
As % of net revenues								
COGS	57	59		56		58	61	
Operating expenses	83	86		87		87	90	
EBITDA	17	14		13		13	10	
Reported net profit	9	6		7		6	4	
Tax Rate (% of PBT)	28	30		30		27	29	

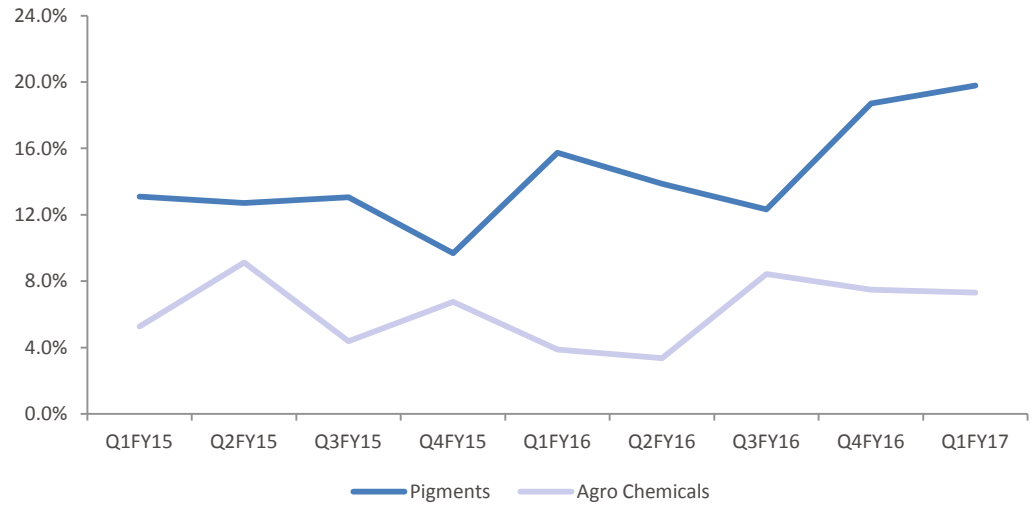
### Change in Consolidated Estimates

	FY17E			FY18E		
	Previous	Revised	%Change	Previous	Revised	%Change
Sales	1,633	1,635	0.1	1,907	1,916	0.4
EBITDA	223	243	9.3	282	309	9.6
EBITDA margins	14%	15%		15%	16%	
PAT	109	118	8.1	137	149	8.9
EPS	15.7	17.0	8.1	19.7	21.5	8.9

Quarterly Segmental Revenues (Standalone)

(INR Cr)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
<b>Revenues</b>									
Pigments	231	264	226	242	253	288	247	286	283
Agrochemicals	36	39	19	21	39	29	21	27	50
Others				10	3	6	4	5	3
<b>Total</b>	<b>267</b>	<b>303</b>	<b>246</b>	<b>273</b>	<b>294</b>	<b>323</b>	<b>272</b>	<b>318</b>	<b>337</b>

Quarterly Segmental EBIT Margin (Standalone)



Source: Edel Invest Research

## Consolidated Financials

Income statement (Standalone)					(INR crs)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Income from operations	1119	1218	1409	1635	1916
Total operating expenses	987	1088	1240	1391	1607
EBITDA	131	130	170	243	309
Depreciation and amortisation	37	42	48	53	66
EBIT	95	88	121	190	243
Interest expenses	43	41	37	41	50
Profit before tax	55	71	99	164	207
Provision for tax	20	17	29	46	58
Core profit	35	54	70	118	149
Extraordinary items	1	0	0	0	0
Profit after tax	36	54	70	118	149
Adjusted net profit	36	54	70	118	149
Equity shares outstanding (mn)	1	7	7	7	7
EPS (INR) basic	51	8	10	17	22
Diluted shares (Cr)	1	7	7	7	7
EPS (INR) fully diluted	51	8	10	17	22
Dividend per share	15	2	3	5	6
Dividend payout (%)	30	22	30	30	30

Common size metrics- as % of net revenues					(INR crs)
Year to March	FY14	FY15	FY16	FY17E	FY18E
Operating expenses	88.3	89.3	88.0	85.1	83.9
Depreciation	3.3	3.4	3.4	3.2	3.4
Interest expenditure	3.8	3.3	2.6	2.5	2.6
EBITDA margins	11.7	10.7	12.0	14.9	16.1
Net profit margins	3.2	4.5	5.0	7.2	7.8

Growth metrics (%)					
Year to March	FY14	FY15	FY16	FY17E	FY18E
Revenues	28.2	8.9	15.7	16.0	17.2
EBITDA	65.3	(0.9)	30.4	43.5	27.0
PBT	113.3	28.5	38.9	65.4	26.3
Net profit	59.3	54.3	29.3	68.6	26.3
EPS	59.3	(84.5)	28.7	68.7	26.3

**Balance sheet**

<b>As on 31st March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Equity share capital	7	14	14	14	14
Preference Share Capital	0	0	0	0	0
Reserves & surplus	264	249	300	383	488
Shareholders funds	271	263	314	397	501
Secured loans	323	280	334	412	509
Unsecured loans	118	152	96	118	146
Borrowings	440	432	430	530	655
Minority interest	0	0	0	0	0
<b>Sources of funds</b>	<b>711</b>	<b>694</b>	<b>744</b>	<b>926</b>	<b>1,156</b>
Gross block	592	644	715	915	1,115
Depreciation	264	311	359	412	478
Net block	327	333	358	503	637
Capital work in progress	7	8	15	0	0
Total fixed assets	334	341	373	503	637
Unrealised profit	0	0	0	0	0
Investments	0	0	0	0	0
Inventories	258	250	253	294	344
Sundry debtors	258	322	353	409	480
Cash and equivalents	15	23	25	43	66
Loans and advances	40	50	45	52	61
Other current assets	0	0	0	0	0
Total current assets	571	645	676	798	951
Sundry creditors and others	156	248	285	330	387
Provisions	18	23	8	8	8
Total CL & provisions	174	271	293	338	396
Net current assets	397	374	384	460	556
Net Deferred tax	-35	-36	-36	-36	-36
Misc expenditure	15	16	23	0	0
<b>Uses of funds</b>	<b>711</b>	<b>694</b>	<b>744</b>	<b>926</b>	<b>1,156</b>
Book value per share (INR)	392	38	45	57	72

**Cash flow statement****(INR crs)**

<b>Year to March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Net profit	34	54	70	118	149
Add: Depreciation	37	42	48	53	66
Add: Misc expenses written off	-1	-1	-7	23	0
Add: Deferred tax	10	2	0	0	0
Gross cash flow	80	96	111	194	215
Less: Changes in W. C.	66	-31	8	58	73
Operating cash flow	14	127	104	136	142
Less: Capex	29	49	80	183	200
<b>Free cash flow</b>	<b>-15</b>	<b>78</b>	<b>23</b>	<b>-47</b>	<b>-58</b>

**Ratios**

<b>Year to March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
ROAE (%)	13.3	20.3	24.3	33.2	33.2
ROACE (%)	12.9	11.9	16.1	21.8	22.5
Debtors (days)	84	97	91	91	91
Current ratio	3.3	2.4	2.3	2.4	2.4
Debt/Equity	1.6	1.6	1.4	1.3	1.3
Inventory (days)	84	75	66	66	66
Payable (days)	51	74	74	74	74
Cash conversion cycle (days)	118	97	83	83	83
Debt/EBITDA	3.4	3.3	2.5	2.2	2.1
Adjusted debt/Equity	1.6	1.6	1.3	1.2	1.2

**Valuation parameters**

<b>Year to March</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17E</b>	<b>FY18E</b>
Diluted EPS (INR)	50.6	7.8	10.1	17.0	21.5
Y-o-Y growth (%)	59.3	(84.5)	28.7	68.7	26.3
CEPS (INR)	104	14	17	25	31
Diluted P/E (x)	5.9	38.2	29.6	17.6	13.9
Price/BV(x)	0.8	7.9	6.6	5.2	4.1
EV/Sales (x)	0.6	2.0	1.8	1.6	1.4
EV/EBITDA (x)	4.8	19.1	14.6	10.5	8.6
Diluted shares O/S	0.7	6.9	6.9	6.9	6.9
Basic EPS	50.6	7.8	10.1	17.0	21.5
Basic PE (x)	5.9	38.2	29.6	17.6	13.9
Dividend yield (%)	0.5	0.6	1.0	1.7	2.1

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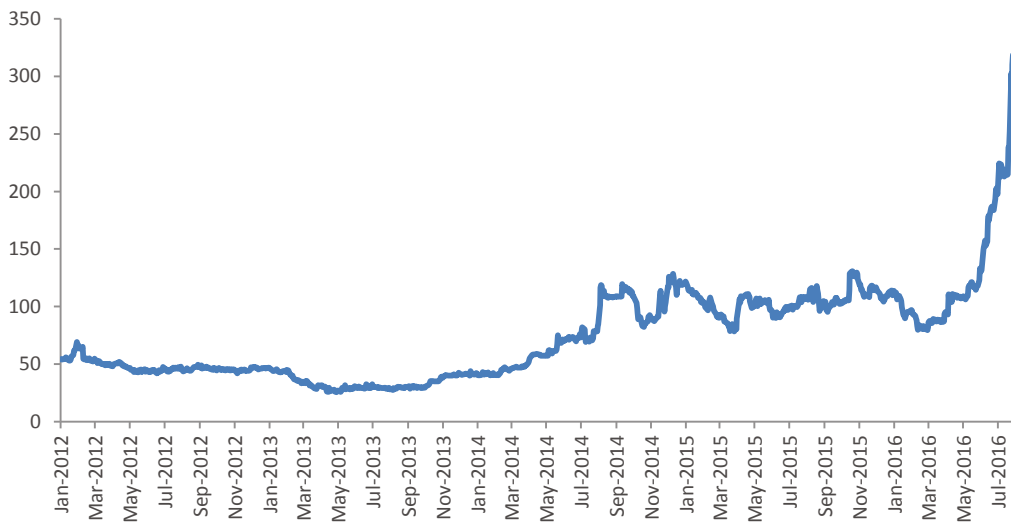
**Vinay Khattar**

Head Research

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Rating	Expected to
Buy	appreciate more than 25% over a 12-month period
Hold	appreciate up to 10% over a 12-month period
Reduce	depreciate more than 10% over a 12-month period

**Sudarshan Chemical 5 years price chart**



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