

Shubh Nivesh



Improved visibility on sales and margins front...

About the stock: Established in 1951, Sudarshan Chemical is a leading player in the Indian colour pigment industry with ~35% market share and is also the third largest player globally.

- Pigments account for ~92% of the business. It owns a wide portfolio of 4,000+ varieties of products. It owns 2 Manufacturing plants in Mahad & Roha and a dedicated R&D centre in the outskirts of Pune. Exports account for 45-50% of the pigment business.
- Among end users, coatings industries contribute highest followed by plastics, inks, cosmetics and other applications.

Investment Rationale

- Q3FY24 results- Domestic sales picking up, exports still muted – Revenues grew 7% YoY to ₹ 566 crore driven by domestic pigment sales (49% of the revenues) which grew 11% to ₹ 278 crore. Exports pigment (43% of the revenues) on the other hand grew just 5% to ₹ 244 crore. EBITDA grew 48% to ₹ 62 crore and margins stood at 11%. Significant jump in EBITDA was attributable to ~400 bps improvement in GPM. Pigment segment EBITDA grew 82% to ₹ 69 crore and margins stood at 13.3%. On the other hand, Reico Industries (reported under Others segment) reported loss at the EBITDA level. PAT improved 2.5x to ₹ 15 crore. As of December 2023, the Net debt stood at ₹ 434 crore while Net debt/EBITDA stood at 1.5x.
- Margins seems to have bottomed out, better operating leverage likely to pan out - EBITDA margins are hovering around 11-12% level for the last four quarters, indicating issues regarding slowdown in export pigments business even as the GPM kept on improving due to benign raw material prices. The exports slowdown was attributable to slowdown in Europe. On the other hand, for the US, the management expects destocking activity to be over by Q4 and good recovery from thereon. The company has announced launch of 4 new pigments in the domestic market and 2 new pigments in the exports market. We expect better margins trajectory on the back of improving operating leverage.

Rating and Target price

- We recommend BUY on the back of 1) Sustained focus on margin accretive Specialty pigments (2/3rd of the portfolio and improving) for which the company has incurred significant capex, 2) resilient domestic growth story for pigments with 10-12% trending growth rate, 3) Visible green shoots in the exports market especially the US and opportunities brewing from global consolidations and exits of larger players, 4) Recovery expected in the ROCE on the back of improved profitability and Asset Turnover
- We value Sudarshan at 22x FY26E EPS of ₹ 32 with a target price of ₹ 705 / share
- This is our high conviction small cap Idea

Key Financial Summary

(Rs Crore)	FY20	FY21	FY22	FY23	3 year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Revenue	1,708.2	1,864.1	2,200.8	2,301.7	10.5%	2,438.7	2,691.4	2,993.8	9.2%
EBITDA	246.3	287.8	274.8	210.7	-5.1%	272.8	364.9	464.2	30.1%
EBITDA Margins (%)	14.4%	15.4%	12.5%	9.2%		11.2%	13.6%	15.5%	
Adj.PAT	145.1	141.1	130.0	44.8	-32.4%	328.4	142.0	221.7	70.4%
Adj. EPS (I)	18.5	20.4	18.8	6.5		12.1	20.5	32.0	
EV/EBITDA	17.8x	15.6x	17.1x	22.4x		16.0x	11.7x	8.8x	
P/E	30.6x	27.7x	30.1x	87.3x		46.6x	27.5x	17.6x	
ROE (%)	21.3	19.0	15.6	5.4		7.6	11.7	16.1	
ROCE (%)	15.2	14.4	10.9	5.7		8.2	11.7	16.5	

Source: Company, ICICI Direct Research

SUDARSHAN

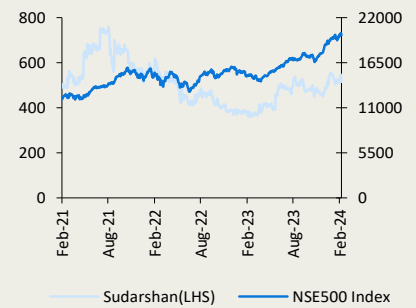
Particulars

Particular	Amount
Market Cap	Rs 3912 crore
Debt (FY23)	Rs 829 crore
Cash (FY23)	Rs 29 crore
EV	Rs 4712 crore
52 week H/L	592/351
Equity capital	Rs 13.8 crore
Face value	Rs 2

Shareholding pattern

in %	Mar-23	Jun-23	Sep-23	Dec-23
Promoter	35.8	35.8	35.8	35.8
DII	14.2	14.3	13.7	13.6
FII	3.1	3.5	4.7	4.2
Others	46.9	46.4	45.9	46.4

Price Chart



Recent Event & Key risks

- Recently launched four new pigments in India and two abroad.
- Key Risk:** (i) Slower than expected recovery in exports (ii) Adverse operating leverage in case of delays and postponements

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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