

2nd June 2022

CMP – ₹461/-

View – **Accumulate on Dip**
Q4FY22 Result Update

- During Q4FY22, the company reported revenue growth of 9% YoY/4% QoQ to ₹623Cr, this growth was driven by pigment & other segment. EBITDA for the quarter stood at ₹86Cr down 2% Y-o-Y on account of higher operating expenditure (energy and logistics costs) however up ~17% Q-o-Q while EBITDA margins stood at 14% in Q4FY22. PAT at ~45 cr was down 16% Y-o-Y, up 23% Q-o-Q on the back of lower operating profitability. PAT margins stood at 7% in Q4FY22 compared to 9% in Q4FY21 and 6% in Q3FY22.
 - Pigment segment revenue grew by 5% YoY/ flat in QoQ to ₹558Cr in Q4FY22, this steady performance led by 5% yoy growth in domestic & export business. The domestic market witnessed modest impact of 3rdcovid wave. Specialty & non specialty business revenue stood at 5%/3% yoy to ₹383Cr/₹176Cr respectively. Gross margins consistently stood at 41-42% & EBITDA margins decline to 13.7% v/s 15.8% in Q4FY21.
 - Other segment revenue grew by 56% YoY/ 64% QoQ to ₹69Cr v/s ₹44Cr in Q4FY21.
- During FY22, the company reported revenue growth of 18% YoY to ₹2183Cr, growth led by good domestic and export growth. EBITDA decline by 5% yoy to ₹275Cr on account of higher operating expenditure (energy and logistics cost), EBITDA margins decline by 300bps to 13% v/s 16% in FY21. PAT margin stood at 6% compared to 8% in FY21.
 - Pigment segment revenue grew by 15% YoY to ₹2020Cr, this growth driven by domestic (21% YoY) & international business (10%yoy). The company has witnessed demand contraction across all geographies. Gross margin stood at 43% & EBITDA margins decline at 13% v/s 16% in FY21 on account of sharp increase in energy cost, input cost continues to be at an elevated level across multiple intermediates & due to logistic disruption lead to cost escalation and tight container availability.
 - Other segment revenue grew by 63% yoy to ₹181Cr v/s ₹111Cr in FY21.
 - Specialty & non specialty revenue grew by 15% yoy/ 17% yoy to ₹1378Cr & ₹642Cr respectively. The company has focus on growing specialty pigment portfolio.

Key highlights:

- On the Capex front, the company has planned capex of ₹750Cr over the 3 years, of which ₹520Cr capex has been utilized and 70% of capex has started generating revenue. Project under implementation at ₹210Cr, it is delayed due to equipment delivery and expected to commercialize by end of 1H FY23. The management is expecting asset turnover of ~2-2.5x on full utilization and an estimated potential sale of ₹1500Cr.
- Capacity utilization in pigments business stood at 76% in Q4FY22 v/s 80% in Q3FY22.
- During Q4FY22, the company has witnessed demand contraction across all geographies, subdued demand in Europe, China shut down due to covid, in the US, demand was good and India business lost volume due to price hike.

Important Statistics

MCAP (₹ Cr)	₹3,211
52-WeekH/L (₹)	794.0/418.95
NSE Code	SUDARSCHEM
BSE Code	506655

Shareholding Pattern(%) Mar'22

Promoter Holding	35.82
FII	7.92
DII	11.55
Public & Others	44.71

Financials

	(₹ cr)			
Particulars	FY19	FY20	FY21	FY22
Revenues	1,593	1,708	1,864	2,183
EBITDA	204	246	288	275
EBITDA Margin(%)	12.81%	14.40%	15.45%	12.59%
NetProfit	81	109	140	130
EPS(₹)	19.52	20.88	20.38	18.77
RoE(%)	14%	18%	19%	16%
RoCE(%)	15%	16%	15%	12%
P/E(x)	23.6	22.1	22.6	24.6
EV/EBITDA (x)	17.4	14.9	13.1	14.5

- The management said that optimum utilization of capacities and cost competitiveness will help in keeping steady growth in Non-Specialty & specialty portfolio. The company has taken price hike to pass on input costs to the end customers.
- On the R&D front, the company is in process of commercializing several new molecules, also developing high performance pigment and working on technology to improve backward integration for existing as well as new pipeline. Going ahead, the growth will be driven by the launch of new molecules.
- Net Debt stood at ₹819Cr v/s ₹614Cr in FY21: Net debt to EBITDA slightly increased from 2x in FY21 to 3x in FY22 and Net debt/ equity stands at 0.94x v/s 0.8x in FY21.

Key Risks

- Sharp surge in raw material prices and inability to pass it on customers.
- Delay in capex implementation could impact financials of company.

View

The Company reported a CAGR of 11% in revenue, 9% in EBITDA and 14% PAT over FY18-FY22. During FY22, the Company reported revenue growth of 18% YoY to ₹2183Cr, growth led by good domestic and export growth. EBITDA margins decline by 300bps to 13% v/s 16% in FY21 on account of higher RM & energy costs, however, it is expected to improve going ahead. We remain positive about the company's long term growth story given its ongoing capex of ₹750Cr over three years, humongous opportunity in its user industry, increasing share of high value products and commercialization of new products (high margin).

At CMP of ₹461 Sudarshan Chemical Industries Ltd. is trading at ~25x FY22 EV/EBITDA & 14x FY22 PE, Hence, we recommend Accumulate on dip rating on the stock.

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 View – **Accumulate on Dip**
Consolidated Financial Highlights

(₹ mn)

Particulars	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %	FY22	FY21	YoY %
Net sales	623	573	9%	597	4%	2183	1844	18%
Other operating income	5	3	46%	5	-10%	18	20	-11%
Total Income	627	577	9%	602	4%	2201	1864	18%
Consump of raw material	371	335	11%	358	4%	1271	1061	20%
Employees cost	45	39	15%	47	-4%	184	156	18%
Administrative & other Expense	125	115	8%	123	2%	472	360	31%
Total Expenditure	541	489	11%	528	3%	1926	1576	22%
EBITDA	86	87	-2%	74	17%	275	288	-5%
EBITDA margin %	14%	15%	(143bps)	12%	144 bps	13%	16%	300 bps
Depreciation	25	21	16%	22	13%	89	87	3%
EBIT/ Operating Profit	61	66	-7%	52	18%	186	201	-8%
Interest	5	4	29%	5	14%	19	18	9%
Other income	2	2	-27%	2	10%	5	7	-29%
PBT	58	64	-10%	49	18%	171	190	-10%
Provision for current tax	16	3	357%	8	90%	38	40	-3%
Provision for Deffered Tax	-3	7	-139%	4	-169%	3	10	-70%
Reported PAT	45	53		36	23%	130	141	-8%
PAT margins %	7%	9%	(215bps)	6%	108 bps	6%	8%	170bps
EPS (Basic & dilluted)	6.45	7.72	-16%	5.26	23%	18.77	20.39	-8%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Sudarshan Chemical Industries Ltd as on June 2nd, 2022

Name of the Security	Sudarshan Chemical Industries Ltd.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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