

12th November 2021

CMP – ₹597.3/-

View – Accumulate on dips

Q2FY22 Performance

- Sudarshan Chemical Industries Ltd. reported 16% Y-o-Y & 5% Q-o-Q topline growth on the back of higher growth from engineering segment (up 85% Y-o-Y) Q2FY22. Revenue from specialty and non-specialty pigment was up by 11% Y-o-Y to ₹3020mn and ₹1460mn respectively in Q2FY22.
- EBITDA at ₹529mn, dropped by 22% Y-o-Y and 15% Q-o-Q while EBITDA margins fell to 10.5% from ~16% on account of higher raw material expenditure coupled with employee costs.
- PAT was down 24.8% Y-o-Y to ₹227.6mn owing to subdued operational performance. PAT margins stood at 4.6% down 250bps Y-o-Y & 95bps Q-o-Q.

Important Statistics

MCAP (₹ Cr)	₹4057
52 Week H/L (₹)	791.95/439.9
NSE Code	SUDARCHEM
BSE Code	506655

Shareholding pattern (%)	Sep'21
Promoter Holding	35.7
FII	9.4
DII	9.8
Public	45.1

Key Concall Highlights

- Pigments business revenues were up 11.5% Y-o-Y to ₹4480mn, led by better growth from domestic pigment. Revenue from domestic pigment was up 18% Y-o-Y to ₹2390mn while exports were up 4% Y-o-Y to ₹2090mn.
- The revenue from speciality pigment increased 11% Y-o-Y to ₹3020mn while the same from non-speciality pigment was up 11% Y-o-Y to ₹1460mn.
- Capacity utilisation stood at ~ 60% during Q2FY22.
- The company witnessed input cost escalation across multiple intermediates for pigments. Moreover, a sharp increase in energy cost impacted margins
- Higher freight and power cost impacted other expenses, which, resulted in subdued operational performance. The inflation in power and freight cost is expected to be passed on with one quarter lag impact.
- Sudarshan has completed audits for yellow pigment and production expected to start from Q3FY22.
- Company has taken 5% price hike in Oct'21, however raw material price has increased in same period.

Financials

	(₹ mn)		
Particulars	FY19	FY20	FY21
Net Sales	15,930	17,082	18,641
EBITDA	2,040	2,463	2,888
EBITDAM%	12.8%	14.4%	15.4%
PAT	1,351	1,445	1,722
PATM%	8.3%	8.5%	9.2%
EPS (₹)	24.8	20.9	19.5
ROE (%)	23.8%	24.1%	23.1%
ROCE (%)	16.1%	16.7%	16.7%
P/E (x)	30.6	28.6	24.1
EV/EBITDA (x)	21.7	18.6	15.9

Source: Company Filing, Way2wealth Research

Key Risks

Slower than expected demand recovery in its key markets and 3rd wave of Covid -19.

View

Company reported better numbers on Revenue/PAT front on account of good demand recovery in its end user industries in domestic market. Company's EBITDA margins improved YoY basis from ~13% to ~15.7% in FY21. We remain positive on company's long term growth story given its capex plan of ₹5000-₹6000mn over FY22E, humongous opportunity in its user industry, increasing share of high value products and addition of high margin product launches. Further healthy balance sheet and strong return ratios boosts our confidence on the stock. **At the CMP of ₹597.3, the stock is trading at ~24x FY21 EPS which is at discount to its peers and thus we recommend investors to Accumulate the stock on dips.**

12th November 2021

CMP – ₹597.3/-

View – Accumulate on dips

Financial Highlights

(₹ mn)					
Particulars	Q2FY22	Q1FY22	Q2FY21	YoY	QoQ
Net Sales	4,980	4,739	4,289	16.10%	5.10%
Total Expenditure	4,451	4,119	3,612	23.20%	8.10%
EBITDA	529	620	677	-21.90%	-14.70%
EBITDAM	10.60%	13.10%	15.80%	-516.86 bps	-246.88 bps
Depreciation	215.75	210.17	218.92	-1.40%	2.70%
EBIT	313	410	458	-31.70%	-23.70%
EBITM	6.30%	8.60%	10.70%	-439.67 bps	-236.6 2bps
Other Income	10.27	6.99	18.15	-43.40%	46.90%
Interest	44.27	47.23	51.47	-14.00%	-6.30%
PBT	278.79	369.54	424.65	-34.30%	-24.60%
Tax	51.2	107.82	121.33	-57.80%	-52.50%
PAT	227.59	261.72	303.32	-25.00%	-13.00%
PATM	4.60%	5.50%	7.10%	-250.1 bps	-95.27bps
EPS	3.29	3.78	4.38	-25.00%	-13.00%

Source: Company Filing, Way2wealth Research

Disclaimer

Analyst Certification: I, Yogita Desai, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Yogita Desai, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement Sudarshan Chemical Industries Ltd. as on November 12th, 2021

Name of the Security	Sudarshan Chemical Industries Ltd
Name of the analyst	Yogita Desai
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

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients and would be happy to provide information in response to specific client queries.