

14th February 2023

CMP – ₹375/-

View – **Sell**
Q2FY23 Result Update

- During Q3FY23, the company's revenue declined by 13% yoy ₹528Cr v/s ₹602Cr, EBITDA declined by 44% yoy & 3% qoq to ₹42Cr v/s ₹74Cr, EBITDA & PAT margins dropped to 8% v/s 12% yoy & 0.11% v/s 6% yoy, The sluggish growth due to subdued demand across geographies and segment which resulted in volume and pricing pressure.
- The pigment segment decline by 14% yoy to ₹483Cr v/s ₹560Cr, due to subdue demand across geographies and pricing pressure. While EBITDA margins dropped to 8% v/s 14% in Q3FY22 mainly due to increase in coal and logistics cost. The domestic division revenue decline by 18% yoy on account of buying decision deferment by domestic customer due to volatility in prices & supply chain disruption in polymers. Specialty/ Non specialty segment revenue declined by 9% yoy/ 23% to ₹341Cr & ₹143Cr in Q3FY23.
- **Key highlights :**
 - On the pigment industry, the company said that currently it is facing subdue demand across geographies which is resulting in volume and pricing pressure. India market demand continues to be soft in plastic and coating segment, has witnessed early sign of revival. Export demand subdued due to geo-political scenario and tightening monetary policy. In Europe market, the geo-political crisis resulted in higher energy cost and demand contraction whereas in US market demand has slowdown and China has imposed Anti-dumping duty on phthalocyanine pigment.
 - On the Capex front, the company has planned capex of ₹750Cr which is spread over 3 years, nearly ₹620Cr capex has completed, of which 85% of capex is put to use & started generating revenue. Overall capex is expected to commercialize by end of March 2023. The management is expecting asset turnover of ~2-2.5x on full utilization and estimated potential sale of ₹1500Cr.
 - Net Debt stood at ₹946Cr v/s ₹783Cr in FY22, Net debt to EBITDA slightly improved from 3x in FY22 to 4.5x in Q3FY23 and Net debt/equity stands at 1.2x in Q3FY23 & 1x in FY22. Cash conversion cycle increase to 112 days v/s 96 days in FY22.

Important Statistics

MCAP (₹ bn)	~₹27
52-Week H/L (₹)	588/341
NSE Code	SUDARSCHEM
BSE Code	506655

Shareholding Pattern (%) Dec'22

Promoter Holding	35.82
FII	2.81
DII	14.33
Public & Others	47.05

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%
Net Profit	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)	19.6	18.3	18.8	20.4
EV/EBITDA (x)	14.6	12.6	11.1	12.3

Key Risks

Surge in raw material prices, power & coal cost. The company's inability to pass it on customers

Outlook

- The Company reported 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 exports growth. EBITDA margins decline by 300bps to 13% v/s 16% in FY21 on account of higher RM & energy cost. The company's long term growth story given its ongoing capex of ₹750Cr over 3 years, humongous opportunity in its' user industry, increasing share of high value products and commercialization of new products (high margin). However, looking at current demand scenario, the company has reported sluggish performance especially on margin front where the company is unable to pass on the cost to the customers. Also, ramp up of capex will be delayed and it will take almost 2-3 years to meet potential targeted sales of ₹1500Cr.
- **At CMP of ₹375 Sudarshan chemical Ltd. is trading at ~12.35x FY22 EV/EBITDA & 20x FY22 PE, Hence, we recommend Sell rating on stock.**

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Consolidated Quarterly Performance

(₹ Cr)

Particulars	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %	9MFY23	9MFY22	YoY %
Net sales	520.58	596.65	-13%	521.36	0%	1591.62	1560.71	2%
Other operating income	7.44	5.11	46%	7.02	6%	18.93	12.93	46%
Total Income	528.02	601.76	-12%	528.38	0%	1610.55	1573.64	2%
Consumption of raw material	306.02	361.50	-15%	261.26	17%	923.30	956.49	-3%
Employees cost	43.88	47.38	-7%	44.06	0%	135.22	138.57	-2%
Other Expense	129.71	122.60	6%	117.59	10%	382.25	346.97	10%
Total Expenditure	486.36	527.88	-8%	485.51	0%	1484.60	1384.92	7%
EBITDA	41.65	73.88	-44%	42.87	-3%	125.95	188.72	-33%
EBITDA margin %	8%	12%		8%		8%	12%	
Depreciation	30.91	21.87	41%	26.95	15%	83.66	64.46	30%
EBIT/ Operating Profit	10.74	52.01	-79%	15.92	-33%	42.29	124.26	-66%
Interest	11.02	4.81	129%	9.34	18%	26.42	13.95	89%
Other income	0.99	1.56	-37%	1.42	-30%	3.25	3.29	-1%
PBT	0.71	48.76	-99%	8.00	-91%	19.11	113.60	-83%
Provision for current tax	-0.99	8.27	-112%	0.86	-215%	2.20	22.55	-90%
Provision for Deferred Tax	1.10	4.11	-73%	2.60	-58%	4.69	5.73	-18%
Reported PAT	0.60	36.38	-98%	4.54	-87%	12.22	85.32	-86%
PAT margins %	0.11%	6%		0.86%		0.76%	5%	
EPS (Basic & diluted)	0.09	5.26	-98%	0.66	-87%	1.77	12.32	-86%

Source: Company Filing, Way2wealth Research

Segment Performance

(₹ Cr)

Segments	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %	9MFY23	9MFY22	YoY %
Segment Revenue								
Pigments	483.21	559.88	-14%	476.21	1%	1485.54	1461.26	2%
others	44.80	41.88	7%	52.17	-14%	125.00	112.39	11%
Total	528.01	601.76	-12%	528.38	0%	1610.54	1573.65	2%
Less: Inter segmt rev.		0.00				0.00	0.00	
Net sales	528.01	601.76	-12%	528.38	0%	1610.54	1573.65	2%
						0.00	0.00	
Segment Results						0.00	0.00	
Pigments	8.62	56.82	-85%	14.00	-38%	41.90	132.70	-68%
EBIT margins %	2%	10%		3%		3%	9%	
others	3.10	-3.25	-195%	3.34	-7%	3.61	-5.15	-170%
EBIT margins %	7%	-8%		6%		3%	-5%	
total	11.72	53.57	-78%	17.34	-32%	45.51	127.55	-64%
Less: Interest	11.02	4.81	129%	9.34	18%	26.42	13.95	89%
Unallocated (inc/ exp (net))						0.00	0.00	
total PBT	0.70	48.76	-99%	8.00	-91%	19.09	113.60	-83%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Sudarshan Chemical Industries Ltd as on February 14th, 2023

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
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