

14th November 2022

CMP – ₹388.25/-

View – Accumulate on Dip

Q2FY23 Result Update

- During Q2FY23, the company reported revenue growth of 6% yoy & declined by 5% qoq, this growth was driven by pigment & others segment. EBITDA for the quarter stood at ₹43cr decline by 19% yoy & up by 3% qoq due to higher RM, logistic, power & fuel cost. While EBITDA margins stood at 8% v/s 11% in Q2FY22. PAT at ₹4.54cr was down 80% yoy & 36% qoq. PAT margins stood at 1% v/s 5% in Q2FY22 and 1% in Q1FY23.
- The pigment segment grew by 6% yoy & declined by 9% qoq to ₹476cr v/s ₹448cr, due to subdued demand across geographies and pricing pressure. While EBITDA margins dropped to 8% v/s 11% in Q2FY22 mainly due to increase in coal and logistics cost. The domestic division revenue decline by 2% yoy & 13% qoq on account of buying decision deferment by domestic customer due to volatility in prices & supply chain disruption in polymers. Specialty/ Non specialty segment revenue grew by 10%/ declined by 1% yoy to ₹331cr & ₹145cr in Q1FY23.

Key highlights :

- 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 has commissioned & started generating revenue. Project under implementation at ₹110cr and will be investing ₹20cr. Overall capex is expected to commercialize by end of Dec end. The management is expecting asset turnover of ~2-2.5x on full utilization and estimated potential sale of ₹1500cr.
- During Q2FY23, the company has witnessed demand contraction in export market especially in Europe on account of subdued demand and in China due to zero covid policy which impacted demand. India business has witnessed recovering on plastic side. The management expects volume recovery from new products ramp up.
- The company is witnessing good demand for new products, also in advance stage of evaluation for new products. The management expects major turnaround to be happened in 2HFY23 on account of RM softening, capex streamline which will help to realize targeted margins.
- Net Debt stood at ₹918cr v/s ₹783cr in FY22, Net debt to EBITDA slightly **improved** from 3x in FY22 to 3.8x in Q2FY23 and Net debt/ equity stands at 1.2x in Q2FY23 & 1x in FY22. Cash conversion cycle increase to 108 days v/s 96 days in FY22.

Important Statistics

MCAP (₹ bn)	~₹26.95
52-Week H/L (₹)	640/388
NSE Code	SUDARSCHEM
BSE Code	506655

Shareholding Pattern(%) Sep'22

Promoter Holding	35.82
FII	4.16
DII	14.18
Public& Others	45.84

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)	20.0	18.7	19.1	20.8
EV/EBITDA (x)	15.0	13.0	11.4	12.7

Key Risks

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

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Outlook

- The Company reported CAGR of 11% in revenue, 9% in EBITDA and 14% PAT over FY18-FY22. We remain positive on 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).
- **At CMP of ₹388.25 Sudarshan chemical Ltd. is trading at ~13x FY22 EV/EBITDA & 21x FY22 PE, Hence, we recommend Accumulate on dip rating on stock.**

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Consolidated Quarterly Performance

(₹ Cr)

Particulars	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Net sales	521.36	493.06	6%	549.68	-5%	1071.04	964.06	11%
Other operating income	7.02	4.94	42%	4.48	57%	11.50	7.83	47%
Total Income	528.38	498.00	6%	554.15	-5%	1082.53	971.89	11%
Consump of raw material	323.87	287.32	13%	330.00	-2%	654.35	541.49	21%
Employees cost	44.06	47.10	-6%	47.29	-7%	91.35	91.19	0%
Other Expense	117.59	110.72	6%	134.95	-13%	252.54	224.37	13%
Total Expenditure	485.51	445.14	9%	512.73	-5%	998.24	857.04	16%
EBITDA	42.87	52.86	-19%	41.43	3%	84.29	114.85	-27%
EBITDA margin %	8%	11%		8%		8%	12%	
Depreciation	26.95	21.58	25%	25.80	4%	52.75	42.59	24%
EBIT/ Operating Profit	15.92	31.29	-49%	15.63	2%	31.54	72.25	-56%
Interest	9.34	4.42	111%	6.06	54%	15.40	9.14	68%
Other income	1.42	1.03	38%	0.84	69%	2.26	1.73	31%
PBT	8.00	27.89	-71%	10.40	-23%	18.40	64.84	-72%
Provision for current tax	0.86	6.52	-87%	2.33	-63%	3.19	14.28	-78%
Provision for Deffered Tax	2.60	-1.40	-286%	0.99	163%	3.59	1.62	121%
Reported PAT	4.54	22.77	-80%	7.09	-36%	11.63	48.94	-76%
PAT margins %	1%	5%		1%		1%	5%	
EPS (Basic & dilluted)	0.66	3.29	-80%	1.02	-36%	1.68	7.07	-76%

Source: Company Filing, Way2wealth Research

Segment Performance

(₹ Cr)

Segments	Q2FY23	Q2FY22	YoY %	Q1FY23	QoQ %	1HFY23	1HFY22	YoY %
Segment Revenue								
Pigments	476.21	448.23	6%	526.12	-9%	1002.33	901.38	11%
others	52.17	49.77	5%	28.03	86%	80.20	70.51	14%
Total	528.38	498.00	6%	554.15	-5%	1082.53	971.89	11%
Less: Inter segmt rev.						0.00	0.00	
Net sales	528.38	498.00	6%	554.15	-5%	1082.53	971.89	11%
						0.00	0.00	
Segment Results						0.00	0.00	
Pigments	14.00	30.04	-53%	19.28	-27%	33.28	75.88	-56%
EBIT margins %	3%	7%		4%		3%	8%	
others	3.34	2.27	47%	-2.82	-218%	0.52	-1.90	-127%
EBIT margins %	6%	5%		-10%		1%	-3%	
total	17.34	32.31	-46%	16.46	5%	33.80	73.97	-54%
Less: Interest	9.34	4.42	111%	6.06	54%	15.40	9.14	68%
Unallocated (inc/ exp (net))						0.00	0.00	
total PBT	8.00	27.89	-71%	10.40	-23%	18.40	64.83	-72%

Source: Company Filing, Way2wealth Research

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