

16th August 2022

CMP – ₹462.30/-

View – **Accumulate on Dip**
Q1FY23 Result Update

- During Q1FY23, the company reported revenue growth of 17% yoy & declined by 12% qoq, this growth was driven by pigment & others segment. EBITDA for the quarter stood at ₹41Cr down 33% yoy& 52% qoq due to higher RM, logistic, power & fuel cost. While EBITDA margins stood at 8% v/s 13% in Q1FY23. PAT at ₹7Cr was down 73% yoy& 84% qoq, PAT margins stood at 1% v/s 6% in Q1FY23 and 7% in Q4FY22.
- The pigment segment grew by 16% yoy & declined by 6% qoq to ₹526Cr v/s ₹453Cr, due to subdued demand across geographies and pricing pressure. While EBITDA margins dropped to 8% v/s 14.5% in Q1FY22 mainly due to increase in coal and logistics cost. The domestic division revenue grew by 33% yoy& declined by 6% 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 11%/29% yoy to ₹352Cr & ₹174Cr in Q1FY22.

Key highlights:

- On the Capex front, the company has planned capex of ₹750Cr which is spread over 3 years, nearly ₹528Cr capex has completed, of which 70% of capex is put to use & started generating revenue. Project under implementation at ₹202Cr, it is delayed due to equipment delivery and expected to commercialize by end of 1HFY23. The management is expecting asset turnover of ~2-2.5x on full utilization and estimated potential sale of ₹1500Cr.
- During Q1FY23, the company has witnessed demand contraction across all geographies, subdued demand in Europe, China shut down due to covid, and India business started recovering on plastic side. The management expects volume recovery in q3FY23.
- 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 Q3FY23 on account of RM softening, capex streamline which will help to realize targeted margins in Q3FY23. It expect Q3FY23 will be better than Q2FY23.
- Net Debt stood at ₹871Cr v/s ₹819Cr in FY22, Net debt to EBITDA slightly improved from 3x in FY22 to 3.4x in Q1FY23 and Net debt/ equity stands at 1x in Q1FY23 & FY22. Cash conversion cycle increase to 114 days v/s 96 days in FY22.

Important Statistics

MCAP (₹ bn)	₹31.15
52-Week H/L (₹)	722.40/402
NSE Code	SUDARSCHEM
BSE Code	506655

Shareholding Pattern(%) Mar'22

PromoterHolding	35.82
FII	6.02
DII	13.01
Public& Others	45.15

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	25.0
EV/EBITDA (x)	17.4	14.9	13.1	14.0

Key Risks

- Surge in raw material prices, power & coal cost. The company has inability to pass it on customers.
- Delay in capex implementation could impact financials of company.

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- 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, however, it is expected to improve going ahead. 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 ₹462.30 Sudarshan chemical Ltd. is trading at ~14x FY22 EV/EBITDA & 25x FY22 PE, Hence, we recommend Accumulate on dip rating on stock.**

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Consolidated Quarterly Performance

(₹ Cr)					
Particulars	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Net sales	550	471	17%	623	-12%
Other operating income	4	3	55%	5	-3%
Total Income	554	474	17%	627	-12%
Consumption of raw material	330	254	30%	371	-11%
Employees cost	47	44	7%	45	4%
Other expenses	135	114	19%	125	8%
Total Expenditure	513	412	24%	541	-5%
EBITDA	41	62	-33%	86	-52%
EBITDA margin %	8%	13%		14%	
Depreciation	26	21	23%	25	4%
EBIT/ Operating Profit	16	41	-62%	61	-75%
Interest	6	5	28%	5	11%
Other income	1	1	20%	2	-51%
PBT	10	37	-72%	58	-82%
Provision for current tax	2	8	-70%	16	-85%
Provision for Deferred Tax	1	3	-67%	-3	-135%
Reported PAT	7	26	-73%	45	-84%
PAT margins %	1%	6%		7%	
EPS (Basic & diluted)	1.02	3.78	-73%	6.45	-84%

Source: Company Filing, Way2wealth Research

Segment Performance

(₹ Cr)					
Segments	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Segment Revenue					
Pigments	526.12	453.15	16%	558.40	-6%
others	28.03	20.74	35%	68.75	-59%
Total	554.15	473.89	17%	627.15	-12%
Less: Inter segmt rev.					
Net sales	554.15	473.89	17%	627.15	-12%
Segment Results					
Pigments	19.28	45.84	-58%	53.55	-64%
EBIT margins %	4%	10%		10%	
others	-2.82	-4.17	-32%	9.44	-130%
EBIT margins %	-10%	-20%		2%	
total	16.46	41.67	-61%	62.99	-74%
Less: Interest	6.06	4.72	28%	5.46	11%
Unallocated (inc/ exp (net))					
total PBT	10.40	36.95	-72%	57.53	-82%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Sudarshan Chemical Industries Ltd as on August 16th, 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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