

# SUDARSHAN CHEMICAL INDUSTRIES LTD

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## Sudarshan Chemical acquires Heubach Group's global business

### With Heubach acquisition SCIL becomes 2nd largest global pigment player

Sudarshan Chemical Industries (SCIL)'s global subsidiary Sudarshan Europe B.V. has entered into a definitive agreement to acquire the Global Pigment Business Operations of the Heubach Group. The acquisition is valued at approximately ₹11.8 bn and is expected to be completed within next 3-4 months. This deal is seen as a significant move by SCIL to expand its footprint in the global specialty chemicals industry, with Heubach's operations spanning across 19 sites worldwide. This acquisition will not only bolster SCIL's product portfolio but also enhance its access to key markets in Europe, the Americas, and the Asia-Pacific region. The acquisition is in line with SCIL's strategy to explore new geographies be it in Asia, Europe or South America in a bid to increase sale. Sudarshan is a leader in the domestic market, commanding a 35% market share. The Company leverages its expansive product portfolio, combined with the resilience of the Indian economy, to ensure sustained growth in domestic and export markets. This acquisition would increase SCIL's revenue from ₹2.5 bn to ₹10.6 bn a whopping >4x jump in its revenues (as of current EUR-INR rate).

The Heubach Group has a 200-year history and became the second largest pigment player in the world after acquiring Clariant's BU Pigments in 2022. Heubach had over a €1 bn Euros in revenue in FY21 and FY22 each, with strong global footprint especially in Europe, Americas, and the Asia Pacific region. Sudarshan Chemical is set to benefit from Heubach's diverse pigment offerings, which include organic and inorganic pigments, dispersions, dyes, and anti-corrosion pigments. Regulatory approvals from the Competition Commission of India and other jurisdictions are required for the acquisition. The company expects the acquisition to significantly expand its market presence and enhance its product offerings, making it a major player in the global pigments space. Heubach reported revenues of €879 mn in FY23, €1,069 mn in FY22 and €1,138 mn in FY21.

### Key Monitorables

- We are seeking clarity from the management of SCIL regarding the valuation and funding of the deal.
- SCIL has acquired an entity which is 3.5x of its current revenues in a possibly bankruptcy deal, we seek clarity on how SCIL is planning to turnaround Heubach's loss making global operations.
- Although the synergies are very much clear, we seek some clarity on the company's plan to leverage Heubach's global entities.

### Key Triggers in the Global Pigment Industry

- Global Organic Pigment Market- The global organic pigments market has been valued at \$5.6 bn in 2023. The global demand for organic pigments is expected to grow at a CAGR of 4.4% from 2024 to 2034, reaching a market value of \$8.9 bn by the end of 2034.
- Global Pigment Industry- The global colour dyes & pigments market is anticipated to grow at a CAGR of around 5% over the next few years, due to factors like the construction industry's expansion, increased automotive production, technological advancements in pigment technology, growing demand from plastics, paints and coatings sectors, and rising disposable incomes worldwide.

### HOLD

Current Market Price (₹)	1,201
12 M Price Target (₹)	1,117
Potential upside (%)	(7)

### Stock Data

Sector :	Dyes & Pigments
FV (₹) :	2
Total Market Cap (₹ bn) :	81
Free Float Market Cap (₹ bn) :	56
52-Week High / Low (₹)	1,218 / 812
BSE Code / NSE Symbol	506655 / SUDARSCEM
Bloomberg :	SCHI IN

### Shareholding Pattern

(%)	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	30.55	33.22	35.82	35.82
MFs	20.27	13.03	9.14	9.31
FPIs	6.71	4.49	4.21	4.64
Bodies Corporate	3.49	3.33	6.37	6.20
Insurance	0.65	2.68	2.68	2.68
Others	38.33	43.25	41.78	41.35

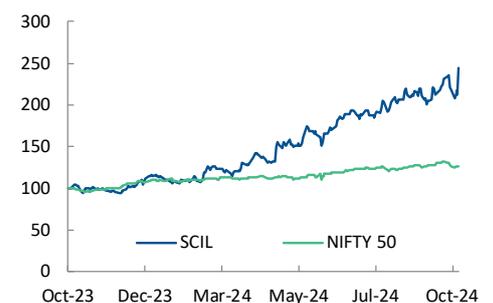
Source: BSE

### Price Performance

(%)	1M	3M	6M	12M
SCIL	21.8%	29.2%	76.4%	143.8%
Nifty 50	0.2%	2.7%	9.7%	26.0%

\* To date / current date : October 11, 2024

### SCIL vs Nifty 50



- Specialty Portfolio to outperform: SCIL's 69% of revenues are coming from Specialty portfolio which is a key growth area for SCIL. The Specialty chemicals account for 20% of the global chemicals industry's \$4 Trillion, with India's overall specialty chemical market expected to increase at a CAGR of 12% to \$64 bn by 2025.
- Demand Softness in China: China's economic slowdown, including a sluggish real estate market, weaker domestic demand for textiles, and low consumer confidence and spending, impacting pigment manufacturers.
- Demand Softness in Europe: The war in Ukraine and overall global economic jitters create uncertainty, making consumers cautious about spending. De-industrialisation policy and increasing energy prices in Europe are leading to lower competitiveness of the regional chemical industry.
- Consolidation trend in Industry: Turbulence in the global pigment industry is pushing companies towards consolidation.
- Material price stability: Raw materials have stabilised, and it is a sign of ease for manufacturers as costs are on a downward trajectory



### Initiated Coverage on SCIL

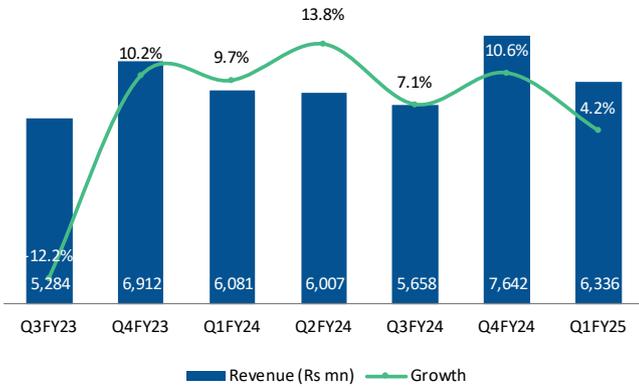
#### Valuation & View

We initiated coverage on SCIL in Oct-23 at ₹478 on the back of tailwinds like a) consolidation in Pigment industry, (permanent shutdowns in capacities in Europe and Heubach GmbH Insolvency) b) high inflation in developed economies, c) weak geopolitical scenario, d) sharp volatility in commodity prices and e) supply chain disruptions are expected to hit mid-sized and small Pigment players resulting in benefit to major players like SCIL and, the similar tailwinds have played out in the overall Pigment industry with German based 2nd largest Pigment player Heubach GmbH declaring bankruptcy and now SCIL going on and acquiring the same company reflects its ambitious plans in becoming the largest player in the pigment industry. With an estimated 4x jump in SCIL's topline post Heubach's acquisition will place SCIL as a 2nd largest player in the global pigment market.

Post this acquisition, the combined entity will have a comprehensive pigment portfolio of high-quality products and a strong presence in major markets including Europe and the Americas. It will enhance SCIL's product portfolio, giving it deeper access to customers and a diversified asset footprint across 19 sites globally. We firmly believe that SCIL with its new capex and unutilised capacities and now Heubach's acquisition is poised to gain further market share in the exports market amid weak global players. We further continue to believe in the above-mentioned tailwinds and hence we retain our forecasts, with further clarity on the Heubach's global entity financials we will update the financials and TP for SCIL. Even after a ~15% jump in the stock price it currently trades at 34x its FY26 EPS of ₹35 (as per our estimates for SCIL). We have factored in FY25E/FY26E EBITDA margin of 14.6%/16%. For now we give **'HOLD'** rating on SCIL and expect Revenue/EBITDA/PAT CAGR of 13%/36%/75% respectively mainly owing to continued uptick in domestic as well as export sales led by its Specialty portfolio.

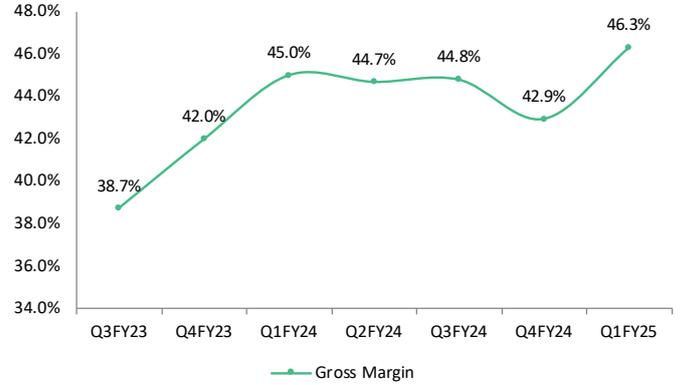
Historical Financials in Charts

Consistent revenue growth amid uncertainties

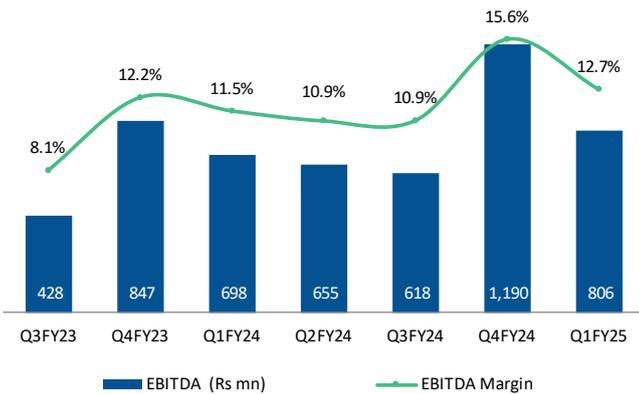


Source: SCIL, LKP Research

Gross margins at peak in Q1FY25 amid low RM costs

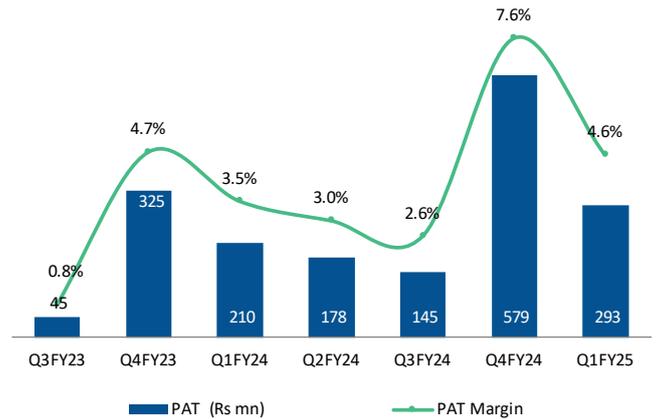


EBITDA margins recovered sharply in Q1FY25 as operating leverage plays out



Source: SCIL, LKP research

PAT margins stay consistent; Sequentially down 295bps due to seasonality



**P/BV(x) mean and standard deviation**



Source: ACE Equity, LKP Research

**MCAP/Sales(x) mean and standard deviation**



Source: ACE Equity, LKP Research

## Profit and Loss Statement

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
<b>Revenue from Operations</b>	<b>22,008</b>	<b>23,017</b>	<b>25,388</b>	<b>28,917</b>	<b>33,312</b>
Raw Material Cost	12,704	13,683	14,154	16,020	18,222
Employee Cost	1,840	1,840	2,100	2,313	2,698
Other Exp	4,716	5,389	5,970	6,362	7,062
<b>EBITDA</b>	<b>2,748</b>	<b>2,106</b>	<b>3,164</b>	<b>4,222</b>	<b>5,330</b>
<i>EBITDA Margin(%)</i>	<i>12.5%</i>	<i>9.2%</i>	<i>12.5%</i>	<i>14.6%</i>	<i>16.0%</i>
Depreciation	893	1,142	1,412	1,593	2,219
<b>EBIT</b>	<b>1,855</b>	<b>964</b>	<b>1,752</b>	<b>2,629</b>	<b>3,111</b>
<i>EBIT Margin(%)</i>	<i>8.4%</i>	<i>4.2%</i>	<i>6.9%</i>	<i>9.1%</i>	<i>9.3%</i>
Other Income	50	48	171	205	246
Interest	194	415	369	263	130
Exceptional items	0	0	3151	0	0
<b>Adj PBT</b>	<b>1,711</b>	<b>597</b>	<b>1,554</b>	<b>2,571</b>	<b>3,227</b>
<b>Reported PBT</b>	<b>1,711</b>	<b>597</b>	<b>4,705</b>	<b>2,571</b>	<b>3,227</b>
<i>PBT Margin(%)</i>	<i>7.8%</i>	<i>2.6%</i>	<i>6.1%</i>	<i>8.9%</i>	<i>9.7%</i>
<i>Adj PBT margin (%)</i>	<i>7.8%</i>	<i>2.6%</i>	<i>18.5%</i>	<i>8.9%</i>	<i>9.7%</i>
Tax	412	150	1,131	645	810
Tax on exceptional items	-	-	692	-	-
<b>Adj PAT</b>	<b>1,300</b>	<b>448</b>	<b>1,116</b>	<b>1,926</b>	<b>2,417</b>
<i>Adj PAT Margins (%)</i>	<i>5.9%</i>	<i>1.9%</i>	<i>4.4%</i>	<i>6.7%</i>	<i>7.3%</i>
Exceptional items	0	0	0	0	0
<b>Reported PAT</b>	<b>1,300</b>	<b>448</b>	<b>4,267</b>	<b>1,926</b>	<b>2,417</b>
<i>Rep PAT Margins (%)</i>	<i>5.9%</i>	<i>1.9%</i>	<i>16.8%</i>	<i>6.7%</i>	<i>7.3%</i>

## Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24	FY 25E	FY 26E
<b>Equity and Liabilities</b>					
Equity Share Capital	138	138	138	138	138
Reserves & Surplus	8193	8144	11352	13277	15695
<b>Total Networkth</b>	<b>8332</b>	<b>8282</b>	<b>11490</b>	<b>13416</b>	<b>15833</b>
Long term Borrowings	3686	4492	1933	1119	305
Deferred tax liability	595	716	911	1227	1708
Other Non-Current liabilities	438	496	591	2158	2330
<b>Total non-current liab and provs</b>	<b>4719</b>	<b>5705</b>	<b>3435</b>	<b>4503</b>	<b>4344</b>
<b>Current Liabilities</b>					
Short term Borrowings & Provisions	4526	3710	2511	2516	1766
Trade Payables	5218	5087	5120	5623	6024
Other current liabilities	892	1136	993	1205	1356
<b>Total current liab and provs</b>	<b>10636</b>	<b>9933</b>	<b>8625</b>	<b>9344</b>	<b>9146</b>
<b>Total Equity &amp; Liabilities</b>	<b>23687</b>	<b>23920</b>	<b>23550</b>	<b>27263</b>	<b>29323</b>
<b>Assets</b>					
Gross block	11,866	15,681	15,681	17,212	19,367
Net block	7915	10733	10397	10672	12201
Capital WIP	2732	443	145	185	210
Other non current assets	989	1095	1075	1643	1809
<b>Total fixed assets</b>	<b>11636</b>	<b>12271</b>	<b>11618</b>	<b>12501</b>	<b>14220</b>
Inventories	5660	4941	4376	6024	6185
Trade receivables	5007	4861	5853	6265	6024
Cash & Bank Balance	353	294	559	1418	1756
Other current assets	1032	1268	1145	1055	1137
<b>Total current Assets</b>	<b>12051</b>	<b>11364</b>	<b>11933</b>	<b>14763</b>	<b>15102</b>
Assets held for sale	-	285	0	0	0
<b>Total Assets</b>	<b>23687</b>	<b>23920</b>	<b>23550</b>	<b>27263</b>	<b>29323</b>

## Key Ratios

YE Mar	FY22	FY23	FY 24	FY 25E	FY 26E
<u>Per Share Data (Rs)</u>					
Adj. EPS	18.8	6.5	16.1	27.8	34.9
CEPS	31.7	23.0	36.5	50.8	67.0
BVPS	120.4	119.6	166.0	193.8	228.7
<u>Growth Ratios(%)</u>					
Revenue	18.1%	4.6%	10.3%	13.9%	15.2%
EBITDA	-4.5%	-23.3%	50.2%	33.4%	26.2%
EBIT	-7.8%	-48.0%	81.8%	50.0%	18.4%
Adj.PAT	-7.8%	-65.6%	149.2%	72.6%	25.5%
<u>Valuation Ratios (X)</u>					
PE	27.7	75.1	57.7	33.4	26.6
P/CEPS	16.5	21.1	25.5	18.3	13.9
P/BV	4.3	4.1	5.6	4.8	4.1
EV/Sales	2.0	1.8	2.7	2.3	1.9
EV/EBITDA	16.0	19.7	21.6	15.7	12.1
<u>Operating Ratios (Days)</u>					
Inventory days	92.6	77.3	62.1	75.0	77.0
Receivable Days	81.9	76.0	83.0	78.0	75.0
Payables day	85.3	79.6	72.6	70.0	75.0
Debt to Equity (x)	0.98	0.99	0.38	0.24	0.10
<u>Performance Ratios (%)</u>					
AROA (%)	5.5%	1.9%	4.7%	7.1%	8.2%
AROE (%)	15.6%	5.4%	9.7%	14.4%	15.3%
AROCE (%)	14.2%	6.9%	11.7%	14.7%	15.4%
Asset Turnover(x)	2.12	1.67	1.62	1.68	1.72
Inventory Turnover(x)	3.9	4.7	5.8	4.8	5.4

## Cash Flow

(₹ mn)	FY22	FY23	FY 24	FY 25E	FY 26E
PBT	1711	597	1554	2571	3227
Depreciation	893	1142	1412	1593	2219
Interest	194	415	369	263	130
Other Adjustments	-46	23	118	1422	1782
Operating CF before WC changes	2752	2178	3453	5849	7358
Changes in working capital	-576	804	-460	276	-586
Tax paid	-381	-112	-835	-645	-810
<b>Cash flow from operations (a)</b>	<b>1796</b>	<b>2870</b>	<b>1935</b>	<b>5182</b>	<b>3725</b>
Capital expenditure	-3102	-1924	-785	-1572	-2180
Other investing activities	22	31	3578	0	0
<b>Cash flow from investing (b)</b>	<b>-3080</b>	<b>-1893</b>	<b>2793</b>	<b>-1572</b>	<b>-2180</b>
<b>Free cash flow (a+b)</b>	<b>-1284</b>	<b>978</b>	<b>4728</b>	<b>3611</b>	<b>1544</b>
Proceeds from long term borrowings	1923	2232	0	0	0
Repayment of long term borrowings	-1373	-1453	-2668	-815	-814
Other flows in financing activities	828	-1805	-1791	-1850	-393
<b>Cash flow from financing (c)</b>	<b>1378</b>	<b>-1027</b>	<b>-4459</b>	<b>-2665</b>	<b>-1206</b>
<b>Net chng in cash (a+b+c)</b>	<b>93</b>	<b>-49</b>	<b>268</b>	<b>946</b>	<b>338</b>
<b>Closing cash &amp; cash equivalents</b>	<b>253</b>	<b>204</b>	<b>472</b>	<b>1418</b>	<b>1756</b>

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