

Sudarshan Chemical Industries Ltd.: Q1FY19 Result Update

Non-Core Investments Divested; Valuations capping upside

Sudarshan Chemical Industries Ltd. (Sudarshan) reported volume growth of 10% in Q1FY19 while registering an overall revenue growth of 14%. The Company is moving towards closure of the process of exiting its low margin non core assets by divesting both its agrochemicals and masterbatches business and utilizing the proceeds for investments towards capex in the pigment business. Management intends to spend INR 200 cr in FY19 out of which ~INR 80 cr is expected towards backward integration while the remaining is expected to be spend for new pigment lines and supporting infrastructure. We remain positive on the long term prospects of the company driven by the shift of product mix towards HPP, effect pigments as a part of the INR 1000 cr capex at Roha, cost saving initiatives like backward integration and energy self sufficiency and ambition to become the 3rd largest pigment player in the world. However, the current price seems to be reflect most of the upside from a medium term perspective with the stock currently trading at ~21x FY20E EPS. Consequently, we are moving the stock to soft coverage purely on valuations capping further upside and would re-initiate coverage at a more attractive price point.

Decent growth in pigment sales; Agrochemical segment and Prescient Color divested

Sudarshan's Q1FY19 standalone revenues came in at INR 343 cr (up 14% YoY) driven by 10% volume growth in the quarter. Standalone EBITDA at INR 55 cr was lower than our estimates by 12%. EBITDA margins came in 125 bps higher y-o-y at 16.0% and sequentially higher by 136 bps. Adjusted PAT came in at INR 25 cr, 18% lower vs. our estimate of INR 30 cr driven by lower than expected sales growth. Management has highlighted that raw material prices continue to increase driven largely by supply disruptions in China and selling price increases are being taken in phased manner. Raw material prices are expected to stabilize by end of Q3FY19. Moreover, operational excellence measures for cost control would result in EBITDA margin expansion in the future. Management has completed the divestment of its low margin agrochemical business and its masterbatch business (Prescient Color) and expects to use the net proceeds of ~INR 70 cr for capex expansion in FY19

INR 200 cr capex planned for FY19; INR 1000 cr capex at Roha on track

The company plans to spend around INR 200 cr in capex in FY19 with ~INR 80 cr to be used for backward integration for some product lines while the remaining capex is likely to be used for new product lines. Majority of the capex is expected to be funded by debt with internal accruals to be utilized for working capital requirements. All of the incremental capex is to be in HPP and Effect pigments space which is likely to be margin accretive than normal commoditized azo and phthalo pigments. Management highlighted that it is on track to complete its INR 1000 cr capex at Roha till CY2020 and the completion of this capex will allow the company to achieve its status as the 3rd largest player in the organic pigment space.

Long term growth story intact; Valuations capping further medium term upside

We continue to believe that the long term growth story for Sudarshan remains intact with the planned expansion at Roha and shift of product mix towards the high margin HPP/ Effect pigments. However, the current price seems to be pricing in most of the upside from a medium term perspective with the stock currently trading at 21x FY20E EPS. Consequently, we are moving the stock to soft coverage and would re-initiate coverage at a more attractive price point.

Year to March (INR Cr)	Q1FY19	Q1FY18	%Chg. YoY	Q4FY18	%Chg. QoQ	FY18	FY19E	FY20E
Net Revenues (incl Op. Inc.)	343	300	14	384	-11	1,455	1,685	1,961
% Growth (yoy)						-4	16	16
EBITDA	55	44	25	56	-2	195	266	356
% Growth (yoy)						-3	36	34
Adjusted Net profit	25	22	12	23	8	85	117	156
Adjusted Diluted EPS	3.6	3.2	12	3.3	8	12	17	22
Diluted P/E (x)						37	27	21
EV/EBITDA (x)						19	14	11
RoACE (%)						16	19	21

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Bloomberg:	SCHI:IN
52-week range (INR):	634.60 / 355.90
Share in issue (cr):	13.8
M cap (INR cr):	3,107
Avg. Daily Vol. BSE/NSE :('000):	139
Promoter Holding (%)	52.89

Date: 28th August 2018

Q1FY19 Result Highlights – Standalone operations

Year to March (INR Crs.)	Q1FY19	Q1FY18	% Change	Q4FY18	% Change
Net Revenues (Continuing operations)	343	300	14	384	-11
Raw Materials Cost	194	166	17	229	-15
Gross Profit	149	134	11	156	-4
Operating Expenses	288	256	12	328	-12
EBITDA	55	44	25	56	-2
EBITDA margin	16	15		15	
Depreciation	16	14	14	15	6
Other income	4	9		-4	
Exceptional Items	89				
Net finance expense	4	6	-33	6	-33
Profit before tax	129	33	287	31	311
Provision for taxes	33	11		8	
Reported Net profit	95	22	331	23	316
Adjusted Net profit	25	22	12	23	8
As % of net revenues					
COGS	57	55		59	
Operating expenses	84	85		85	
EBITDA	16	15		15	
Reported net profit	7	7		6	
Tax Rate (% of PBT)	26	34		27	

Consolidated Financials

Income statement		(INR crs)			
Year to March	FY17R	FY18R	FY19E	FY20E	
Income from operations	1282	1455	1685	1961	
Total operating expenses	1095	1260	1419	1605	
EBITDA	187	195	266	356	
Depreciation and amortisation	49	59	74	98	
EBIT	138	137	192	258	
Interest expenses	30	29	34	44	
Profit before tax	136	124	172	229	
Provision for tax	34	40	55	73	
Core profit	101	85	117	156	
Extraordinary items	2	1	0	0	
Profit after tax	103	86	117	156	
Adjusted net profit	103	86	117	156	
Equity shares outstanding (mn)	7	7	7	7	
EPS (INR) basic	15	12	17	22	
Diluted shares (Cr)	7	7	7	7	
EPS (INR) fully diluted	15	12	17	22	
Dividend per share	2	2	4	6	
Dividend payout (%)	17	20	20	20	

Common size metrics- as % of net revenues		(INR crs)			
Year to March	FY17R	FY18R	FY19E	FY20E	
Operating expenses	85.4	86.6	84.2	81.8	
Depreciation	3.8	4.0	4.4	5.0	
Interest expenditure	2.3	2.0	2.0	2.3	
EBITDA margins	14.6	13.4	15.8	18.2	
Net profit margins	8.1	5.9	7.0	7.9	

Growth metrics (%)					
Year to March	FY17R	FY18R	FY19E	FY20E	
Revenues	(9.1)	(4.4)	15.8	16.4	
EBITDA	10.0	(3.1)	35.9	34.2	
PBT	37.1	(8.8)	38.6	32.9	
Net profit	45.0	(18.0)	38.2	32.9	
EPS	47.8	(18.2)	36.1	32.9	

Ratios					
Year to March	FY17R	FY18R	FY19E	FY20E	
ROAE (%)	26.1	20.6	24.2	26.5	
ROACE (%)	16.0	15.5	18.8	21.1	
Debtors (days)	98	84	90	90	
Current ratio	2.1	2.1	2.2	2.1	
Debt/Equity	1.1	1.0	1.0	1.0	
Inventory (days)	74	68	70	70	
Payable (days)	92	91	91	91	
Cash conversion cycle (days)	80	61	69	69	
Debt/EBITDA	2.3	2.2	2.1	1.8	
Adjusted debt/Equity	1.1	0.9	1.0	1.0	

Valuation parameters					
Year to March	FY17R	FY18R	FY19E	FY20E	
Diluted EPS (INR)	14.9	12.4	16.9	22.5	
Y-o-Y growth (%)	47.8	(18.2)	36.1	32.9	
CEPS (INR)	22	21	28	37	
Diluted P/E (x)	31.2	37.4	27.5	20.7	
Price/BV (x)	8.5	7.3	6.1	5.0	
EV/Sales (x)	2.8	2.5	2.2	2.0	
EV/EBITDA (x)	19.5	18.6	14.1	10.8	
Diluted shares O/S	6.9	6.9	6.9	6.9	
Basic EPS	14.9	12.4	16.9	22.5	
Basic PE (x)	31.2	37.4	27.5	20.7	
Dividend yield (%)	0.5	0.5	0.7	1.0	

Balance sheet		(INR crs)			
As on 31st March	FY17R	FY18R	FY19E	FY20E	
Equity share capital	14	14	14	14	
Preference Share Capital	0	0	0	0	
Reserves & surplus	367	426	515	632	
Shareholders funds	381	440	528	646	
Secured loans	336	335	428	490	
Unsecured loans	96	96	123	141	
Borrowings	433	431	551	631	
Minority interest	0	0	0	0	
Sources of funds	814	871	1,079	1,277	
Gross block	503	589	789	1,039	
Depreciation	52	113	187	285	
Net block	452	475	601	753	
Capital work in progress	8	6	6	6	
Total fixed assets	460	481	607	759	
Unrealised profit	0	0	0	0	
Investments	0	0	0	0	
Inventories	261	273	323	376	
Sundry debtors	343	333	415	484	
Cash and equivalents	15	14	22	15	
Loans and advances	63	169	169	169	
Other current assets	-0	0	0	0	
Total current assets	682	790	930	1,044	
Sundry creditors and others	321	362	419	488	
Provisions	5	7	7	7	
Total CL & provisions	327	369	426	494	
Net current assets	355	421	504	549	
Net Deferred tax	-31	-45	-45	-45	
Misc expenditure	29	13	13	13	
Uses of funds	814	871	1,079	1,277	
Book value per share (INR)	55	64	76	93	

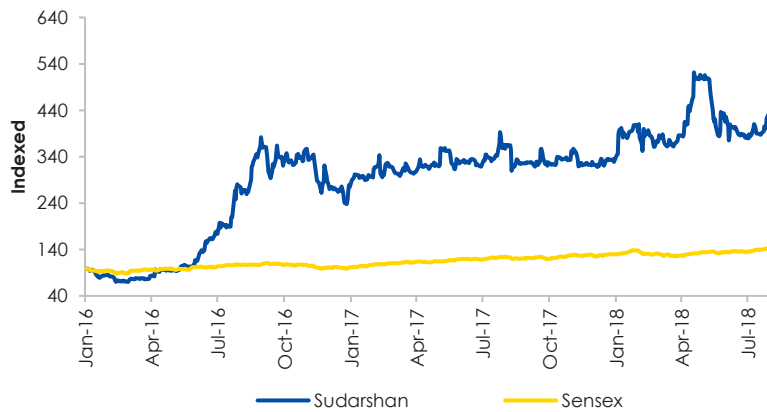
Cash flow statement		(INR crs)			
Year to March	FY17R	FY18R	FY19E	FY20E	
Net profit	99	83	117	156	
Add: Depreciation	49	59	74	98	
Add: Misc expenses written off	-13	16	0	0	
Add: Deferred tax	-5	14	0	0	
Gross cash flow	130	172	191	254	
Less: Changes in W. C.	-25	67	75	52	
Operating cash flow	155	105	116	201	
Less: Capex	136	80	200	250	
Free cash flow	20	25	-84	-49	

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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