

Sudarshan Chemicals Q4FY21

Financial Results & Highlights

Brief Introduction:

Sudarshan Chemical Industries is manufactures and sells a wide range of Organic and Inorganic Pigments, Effect Pigments and Agro Chemicals. The Company also manufactures Vessels and Agitators for industrial applications.

Standalone Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	522	370	41.08%	464	12.50%	1714	1526	12.32%
PBT	46	32	43.75%	64*	-28.13%	181*	178**	1.7%
PAT	40	34	17.65%	45	-11.11%	136	149	-8.72%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	579	450	28.67%	509	13.75%	1871	1713	9.22%
PBT	64	30	113%	56	14.29%	190	180	6%
PAT	53	27	96%	39	35.90%	141	145	-2.76%

*Contains exceptional item of Rs 11 Cr

**Contains exceptional item of Rs 17 Cr

Detailed Results:

1. Consolidated revenues were up 29% YoY in Q4. Profit was up 96% YoY. EBITDA margin rose 320 bps YoY in Q4 to 15.2%.
2. Pigment business saw revenue rise of 33% YoY with capacity utilization of 86% and EBITDA margin at 15.8% vs 12% in Q4 last year. Gross margin was down 100 bps YoY to 42.9% in Q4 mainly due to sharp price increase in many intermediates, which normally gets passed on with a lag of 1 quarter.
3. Domestic revenues rose 5% YoY while export revenues rose 20% YoY in Q4FY21 for the pigment business. Specialty revenue rose 10% YoY while non-specialty revenue rose 15% YoY in the same period.
4. FY21 revenues were up 9.2% YoY. EBITDA margin for FY21 was up 100 bps YoY to 15.4%.
5. ROCE was at 14.8% vs 15.7% last year.
6. Debt to equity was at 0.8 times in FY21.
7. Cash Conversion Cycle was reduced to 86 days in FY21 from 93 days last year.
8. The pigment business saw 10% YoY revenue growth in FY21. Gross margin for the business was at 43.4% vs 42.8% last year. EBITDA margin for the business improved to 16% vs 14.7% last year.

9. Domestic revenues rose 6% YoY while export revenues rose 14% YoY in FY21 for the pigment business. Specialty revenue rose 8% YoY while non-specialty revenue rose 14% YoY in the same period.

Investor Conference Call Highlights

1. The rest of the ongoing multi-year capex is around Rs 307 Cr and it is expected to be completed in FY22.
2. The potential sales from this capex are expected to be around Rs 1000-1200 Cr on the base of FY20.
3. The major part of the investment for new products is over while some areas for volume expansion are pending according to the management.
4. The major launches in the recent past have been received well so far. The company is also looking at some more major launches in Q2 later.
5. The company is also looking at 2 potential M&As in the industry from 2 players looking to exit the business.
6. The next leg of growth capex will depend on how the currently planned new products are received and how long does it take for Sudarshan to complete backward integrations.
7. The company is also planning on an additional capex of Rs 135 Cr in FY22 which will be separate from the long-term planned capex of Rs 307 Cr.
8. Other expenses have risen in Q4 mainly due to a rise in coal prices and container shortage. Also, the higher share of specialty chemicals has increased the cost of manufacturing due to higher hazardous split costs.
9. The net debt as of March 2021 was at Rs 614 Cr.
10. Most of the multi-year growth capex of Rs 600 Cr, of which Rs 307 Cr is pending, is for specialty products.
11. The management states that the overall margins are subdued for Sudarshan as it has an international sales team and high R&D costs as compared to most competitors. But the management assures that all of this should yield a big benefit for the company in the future.
12. The maintenance capex for Sudarshan is around Rs 30-35 Cr per year.
13. RM prices have risen sharply across the board for the industry, but the management is not too concerned by it as demand is expected to remain intact.
14. The management has stated that the inflation impact due to the raw material price increases will be somewhere between 2% to 2.5%.
15. The company has not seen any disruption in terms of sales and has only seen some delays in logistics in April & May so far.
16. The management has stated that EBITDA should indeed rise from current levels of 15% in the next few years with the ramp-up of current capex and the operating leverage coming into play.

Analyst's View:

Sudarshan Chemicals is one of the largest pigment makers in the world. The company has had a good Q4 with export demand rising robustly and domestic demand remaining resilient. It is also looking to complete the remainder of the multi-year growth capex of Rs 600 Cr in FY22. Sudarshan was also able to increase EBITDA margins despite a fall in gross margin due to RM inflation. This was mainly due to the rise of specialty products contribution. It has also seen a good response to products launched so far in FY21 and is planning additional launches in Q2 later in FY22. It remains to be seen whether the



growth capex will deliver to its expectations in the given time frame and how long will it take for the company to reach its goal of cracking the global top 3 in the pigment industry. Nonetheless, given the company a strong position in both domestic and export markets and its steadily improving margins due to an improving product portfolio, Sudarshan Chemicals is a pivotal chemical sector stock to watch out for.

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