



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

SUDARSHAN CHEMICALS

WHAT WE LIKE

ESTABLISHED PLAYER IN AN INDUSTRY WITH BIG TAILWINDS

Sudarshan Chemicals has become the 4th largest pigment manufacturer globally. It is also the largest Pigment producer in India with **35% market share and exports to 85+ countries** around the world. Total world market size for pigments is expected to be \$10 billion out of which Sudarshan's addressable market size is at \$8.6 billion. Domestic demand for pigments also remains robust with **industry growth CAGR expected to be at >12%** for the near future.

WIDE RANGE OF PRODUCTS

Product portfolio includes:

Organic Pigments (addressable market=\$5 bn)

Inorganic Pigments (addressable market=\$3 bn)

Effect Pigments (addressable market=\$0.6 bn)

The above mentioned types of pigments cover classical azo pigments, specialized azo pigments, high performance pigments, pearlescent pigments, pthalos and pigment dispersions.

KEY INPUT IN MANY INDUSTRIES

The pigments mentioned above serve as a key input in the end-application industries of **Decorative coatings, Plastics, Automotive coatings, Inks, Cosmetics** and many others. The company makes **>4000 specifications** of its products enabling it cater to each and every diverse requirement for customers.

HIGH INVESTMENT INTO CAPEX

Over the last 10 yrs, Co has been able to invest around Rs 800 Cr in Capex without any equity dilution. **The company has a multi year capex plan of Rs 1400 Cr out of which Rs 450 Cr is done and Rs 340 Cr is under execution.** Even in the times of COVID-19 the company is still going forward with its FY21 capex target of Rs 250 Cr and has only delayed it due to unavoidable circumstances. Capex is expected to be used for launching new products, de-bottlenecking certain capacities, backward integration and even inorganic expansion.

STRONG FINANCIALS

Last 10 years

Revenue CAGR: 11%; Profit CAGR: 20%; ROE: 20%;

Although **Debt to Equity** is somewhat high at **0.83 times**, its is understandable as the company is in growth and expansion phase with large capex plans and outlays.

Interest Coverage Ratio is at a comfortable **11** times.

WHAT WE DON'T LIKE

RAW MATERIAL PRICE & PROCUREMENT RISK

Generally coal tars and other petrochemicals are used in making pigments. **Hence, raw material prices fluctuates a lot and poses a threat to performance.**

Another risk for raw materials is its dependence on China. **Sudarshan sources 25% of its RM needs from China.** Although it is looking to reduce this number, the risk will remain until it finds a reliable alternative.

FOREX RISKS

Sudarshan Chemicals is a major exporter with export revenues making close to half of overall sales and it even reached to 64% of total sales in Q1FY21 at the height of COVID-19. Thus the company faces severe forex fluctuation risks due to its high dependence on exports and the high number of export destinations.

ENVIRONMENTAL REGULATIONS & COMPLIANCE

Being a Specialty Chemicals Maker, Sudarshan Chemicals has to comply with rigorous environmental and regulatory standards regarding emissions, waste management, etc. **These current regulations may appear to be relaxed in comparison to developed economies at the moment but they are definitely going to get more and more stringent in the future, which will in turn increase compliance costs and efforts in the future.**

COMPETITION FROM GLOBAL GIANTS

Global giants like BASF, Clariant, Lanxess, Heubach, Sun Chemicals etc have a long established presence in the world market and are also making inroads into the domestic market. Competing against them is not easy. The Company has to remain agile and focused in protecting and enhancing its position in the global market.

HIGH VALUATION

We, at Smart Sync Services, believe that a commodity player trading at **26-27 times trailing earnings does not appear as an attractive valuation.** Also, the earnings in the last few years have been subdued. With the heavy Capex going underway, if the company can provide indications of robust revenue and profit growth going forward, this current valuation for Sudarshan Chemicals might look attractive then.

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