SMART SYNC SERVICES

Sudarshan Chemicals Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	396	382	3.66%	332	19.28%	727	765	-4.97%
PBT	39	43	-9.30%	33	18.18%	72	107*	-32.71%
PAT	28	43	-34.88%	23	21.74%	51	88	-42.05%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	431	426	1.17%	353	22.10%	781	836	-6.58%
PBT	42	47	-10.64%	28	50.00%	70	109*	-35.78%
PAT	30	46	-34.78%	18	66.67%	49	89	-44.94%

*Includes exceptional item of Rs 19.32 Cr from the sale of its Industrial Mixing Solutions Division

Detailed Results:

1. Consolidated revenues were up 1% YoY. Profit was down 35% YoY and up 66% QoQ in Q2.
2. EBITDA margin for Q2 was up 20 bps YoY to 15.8%.
3. H1 sales were down 6.6% YoY mainly due to plant shutdown during the lockdown in Q1. EBITDA margins in H1 were down only 10 bps YoY at 15.4%.
4. EBITDA for pigment business was flat YoY in Q2 at 16.3%.
5. Gross margins improved to 44.2% in Q2 vs 43.2% a year ago.
6. ROCE was at 12.8% in Q2. Debt to equity was at 0.9 times in H1.
7. Earnings per share were at Rs 7.2 in Q2.

Investor Conference Call Highlights

1. Domestic business improved 70% QoQ in Q2.
2. In Q2, the Roha plant was impacted for initial 2 weeks due to the presence of COVID-19 cases.
3. Demand in the domestic market is back to pre-covid levels since August. Raw materials have remained relatively stable during the quarter.

4. Capex outflow in H1 was at Rs 106 Cr. Out of the planned capex outlay of Rs 585 Cr in FY20 & FY21, the company has completed Rs 225 Cr in FY20. Projects worth INR 110 crores will spill over to FY22.
5. The company expects to relaunch Yellow pigment by mid-December.
6. The management expects demand to remain strong post-Diwali due to pent up demand pressure.
7. In H1, domestic sales were at 44% of total sales while exports were at 56%.
8. The planned product launches from before have all been delayed by more than 6-9 months due to COVID-19.
9. Capacity utilization in July was at 30-40% and for the rest of the quarter, it rose to 80-85% levels.
10. The revenue mix in Q2 was at 51% for domestic and 49% for exports.
11. The company reached one of its highest ever production volumes in September indicating that there is a lot of pent-up demand in the market.
12. The main concerns going forward for the company are the seasonal demand slowdown seen in the past in the industry post-Diwali and the rise of the 2nd wave of COVID-19 in export destinations in the near future.
13. The management has stated that the majority of capex is aimed at growth and there is indeed some room for backward integration projects which are expected to improve margins slightly.
14. The management continues to stress that there are good tailwinds for Sudarshan with 2 major players about to sell their business and uncertainties from creating opportunities for other players to rise up to a leadership position.
15. The management has stated that the announced export rebate by China for its domestic companies mainly affects product sales at the lower end and higher-end products do not see much impact from it.
16. The company has indeed gained a better cost position in a part of the range and it is aiming to achieve cost leadership in certain molecules and enhance this leadership through backward integration projects.
17. The company is still dependent on China for 30-35% of its RM needs currently.
18. The management has admitted that the potential in the export market is greater and the contribution of exports is expected to rise in the future.
19. The company expects to start seeing the benefits of its capex projects from 2022 onwards.
20. The company also looking to finalize capex beyond the Rs 550 Cr mentioned above and this will be finalized by the Board by March ’21.
21. After the new capex is done, the management expects asset turnover to improve to 3 times.
22. The major industries that the company caters to are coatings, plastics, printing inks, and cosmetics in that order. Printing inks and plastics is higher in India than in exports.

23. Most of the cosmetics customers are global players.
24. The company is looking to shift product mix towards higher-end applications globally, not just cosmetics, but for all other applications from the industrial side.
25. The debt level for the company is at Rs 500 Cr currently.

Analyst's View:

Sudarshan Chemicals is one of the largest pigment makers in the world. The company has done well to improve its gross margins steadily throughout FY20 and continue to do so in H1 so far. The company did suffer a bit from the plant shutdown at the start of Q2 from COVID infections. But the demand for the company products remains stable and the management expects to remain consistent due to the pent-up demand pressure. The company has a good opportunity for growth from the China substitution movement and the exit of 2 major players in the global pigments industry. It is also doing well to reduce dependence on China for raw materials and looking for opportunities for backward integration which would further its priority of establishing cost leadership. It remains to be seen how the domestic market will recover for the company 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.