

Sudarshan Chemicals Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	464	389	19.28%	396	17.17%	1192	1156	3.11%
PBT	64	39	64.10%	39	64.10%	135	146	-7.53%
PAT	45	27	66.67%	28	60.71%	97	115	-15.65%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	509	425	19.76%	431	18.10%	1292	1263	2.30%
PBT	56	41	37%	42	33.33%	126	150	-16.00%
PAT	39	28	39%	30	30.00%	88	118	-25.42%

Detailed Results:

1. Consolidated revenues were up 20% YoY. Profit was up 39% YoY.
2. EBITDA margin for Q3 was up 80 bps YoY to 15.7%.
3. 9M sales were up 2.3% YoY mainly due to plant shutdown during the lockdown in Q1. EBITDA margins in 9M were up 30 bps YoY at 15.6%.
4. Production is back to pre-covid levels.
5. EBITDA for pigment business was up 34% YoY in Q3 with EBITDA margin at 16.3% from 14.9% last year.
6. Gross margin was down 20 bps in Q3 at 42.8%.
7. ROCE was at 13.3% in 9M. Debt to equity was at 0.9 times in 9M.
8. Earnings per share were at Rs 13.3 in 9M.

Investor Conference Call Highlights

1. Pigment business grew 22% YoY with good traction in coating, plastics and paint.
2. Volume growth in specialty is at 21% YoY, while Non-Specialty is at 24% YoY.

3. The gross margins were lower YoY in Q3 because of lower export benefits and lag in passing on incremental cost rises to customers.
4. The management expects the demand environment to remain robust in the coming quarters as the Indian as well as world economy returns to normalcy.
5. Domestic to export mix for pigment sales was at 56:44.
6. The company has accelerated its capex projects for the new product launches. It is expected to launch 4 or 5 high-performance pigments and a total of 20-25 products in the next year.
7. The company is looking to expand its market reach in key export destinations like Japan, USA, EU & South East Asia.
8. The management has stated that as the product mix shifts to higher margin products, overall gross margins should improve going forward. The full impact of these changes will be visible in a few years.
9. Despite being cost leaders, the fall in gross margins was accompanied by a rise in EBITDA margins. This is mainly due to changing product mix and focus on specialized business.
10. The company is looking to do a full-blown launch for yellow 128 in H1FY22.
11. The company is looking to complete the launch of the inorganic compound in March as scheduled but the Sep product launch is expected to be delayed by 1-2 months.
12. The bookings for plastic and inks have been robust from Asia and India but they have been subdued from USA & EU due to the ongoing 2nd wave of COVID-19.
13. The company is looking at asset turnover of 2.5 times from the new product launches at full scale.
14. The full scale benefit from the completion of capex projects is expected to be realized in 2-3 years after completion.
15. The newly launched products are expected to account for 15-20% of sales going forward.
16. The MEIS impact for Q3 was at Rs 2.4 Cr.

Analyst's View:

Sudarshan Chemicals is one of the largest pigment makers in the world. The company has had a good Q3 with domestic demand coming back robustly and export demand remaining resilient. It also has a launch schedule for 20-25 new products including 5 high-performance pigments in FY22. Sudarshan was also able to increase EBITDA margins despite a slight fall in gross margin. This was mainly due to the shift to a better product mix. It is also doing well to focus on expanding market reach in fast-growing export markets and associating with key players in the ever-rising domestic paints industry. It remains to be seen how the new products are received 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.

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