



IDEA2ACT - Buy: Sudarshan Chemical

Reco Price

Target Price

₹ 466-482

₹ 557

Sudarshan Chemical: Buy Rs466-482; 12-Months Target: Rs557.

Sudarshan Chemical Industries (SCIL) has grown to become India’s largest manufacturer of colour pigments. Its estimated market share in India stands at ~35%. The company’s product portfolio comprises organic, inorganic and effect pigments serving four main end-uses: coatings, plastics, inks and cosmetics.

Having steadily gained market share and become the world’s 4th-largest colour pigment producer SCIL is well-placed to continue rapid growth in the context of the imminent exit of its two largest global competitors (BASF and Clariant).

The company’s low-cost manufacturing advantage, technical capabilities, wide product portfolio, growing client relationships, and environmental compliance are its key strengths. Input cost pressures, which impacted FY19 financials, are now fading. SCIL has a Capex plan worth Rs10bn for the next few years, which is expected to drive incremental revenues of ~Rs40bn and RoCE of ~30%. Capex will be oriented towards higher-value segments (high-performance pigments) with a superior margin profile.

Management guided an improved performance in 2Q on the back of a pick-up in domestic demand (to ~90% of pre-Covid levels vs. ~60% in 1Q) and resumption of plant operations post mid-July.

However, new orders and capex are delayed by ~6 months due to labour shortages, travel restrictions and other bottlenecks. Our positive stance remains predicated on the longer-term growth story.

We raise FY21ii EPS by 9% to Rs17.0 post the 1Q earnings beat but leave FY22/23ii EPS largely unchanged at Rs23.7/Rs31.6.

Technically, the stock is on a verge of giving a long-term bullish Cup & Handle breakout on the weekly chart, further accentuating our bullish stance on the stock. **We recommend a buy on Sudarshan Chemicals with a target price of Rs557 (~20x Sep-22ii P/E).**



Previous Recommendations:

Date	Stock Name	Reco Price	Target Price	P & L %	Status
26-May-20	Emami Limited	205	241	18%	Target Achieved
2-Jul-20	ITC	201	235	-3%	Open
2-Jul-20	NHPC	19.5	24	23%	Target Achieved
15-Jul-20	HCL Tech	610	695	14%	Target Achieved
30-Jul-20	INDIGO	920	1074	17%	Target Achieved
11-Aug-20	JB Chemicals & Pharmaceuticals	750	867	6%	Open
13-Aug-20	UPL	480	555	3%	Open
18-Aug-20	Crompton Consumer	256	299	4%	Open

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