

# Initiating Coverage Sudarshan Chemical Industries Ltd.

September 24, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Specialty Chemicals	Rs 664.4	Buy at CMP and more on dips to Rs 587	Rs 734	Rs 783	2 quarters

HDFC Scrip Code	SUDCHEEQNR
BSE Code	506655
NSE Code	SUDARSCHEM
Bloomberg	SCHI:IN
CMP Sept 23, 2021	664.4
Equity Capital (Rs cr)	13.8
Face Value (Rs)	2
Equity Share O/S (cr)	6.9
Market Cap (Rs cr)	4599.1
Book Value (Rs)	107.4
Avg. 52 Wk Volumes	442350
52 Week High	794
52 Week Low	433
<b>Share holding Pattern % (Jun, 2021)</b>	
Promoters	39.6
Institutions	18.1
Non Institutions	42.4
Total	100.0

### Our Take:

Sudarshan Chemical Industries Ltd (Sudarshan) is the largest producer of pigments in India and fourth largest in the world. From being a manufacturer of pigments, agro chemicals, and master batch businesses, Sudarshan has over 70+ years evolved in to a pure pigment manufacturer. Today, the company manufactures an extensive range of organic, inorganic and effect pigments and dispersions. The product offerings include recognised brands as Sudaperm, Sudafine, Sudafast, Sudatex, Sudacolor, Sumica, Sudadur and Sumicos. The company's pigment business has grown by over 10% CAGR over the last 10 years.

Pigment is the largest raw material for paints and coatings. It also has key applications in plastics, packaging inks and cosmetics business. The Indian Paint Association has estimated India's paint industry to achieve a CAGR of 12%, driven by decorative and industrial paints. During FY21, apart from the paints industry, rest had a moderate to low impact owing to use in essential goods as food packaging, medicine packaging in pharma and hygiene products.

According to the company, as of FY21, the global colour pigment market is estimated at \$10 bn. Of this, Sudarshan has market opportunities of \$ 8.6 bn (Effect pigments \$ 0.6 bn; organic pigments \$ 5 bn; inorganic pigments \$ 3 bn). Sudarshan has a domestic market share of 35%+ (up from ~30% in 2011) in FY21. The China+1 policy adopted by chemical companies across the world would help raise Sudarshan's market share further. The anti-dumping duty (ADD) on Mica based pigments could further help company increase its market-share.

The company has two manufacturing facilities - at Roha and Mahad - Dist. Raigad, Maharashtra. The installed capacity stands at 37,000 MTPA. The Roha facility manufactures Azos, HPPs, effect pigments and dispersions, while Mahad facility manufactures blue and green pigments, HPPs, and effect pigments. Sudarshan exports to over 85+ countries, with technical teams to support applications. It has 10 sales offices, 50+ sales members and 60 channel partners. It has offices in North America, Europe, China, Mexico and Japan, with share of exports rising in the last three years from 49% to 51% in FY21.

Sudarshan embarked upon Rs 600 crore CAPEX in FY20. Of this Rs 293 crore (Rs 222 crore in FY20 and Rs 71 crore in FY21) has been put to use and Rs 269 crore is still work in progress, with Rs 38 crore yet to be invested. The management expects potential sales to reach Rs



**HDFCsec Retail research stock rating meter**

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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1,000-1,200 crore, once it completes its capex and all its facilities are running at full capacities. The company has plans to expand its addressable market by launching 20-25 new products each year, with focus on specialty pigments.

Sudarshan's yellow pigment is expected to go full swing from FY23 onwards, with part of the sales likely in FY22.

### Valuation & Recommendation:

Q1FY22 saw demand fluctuation on the domestic front, marred by logistics issues, container unavailability and raw material price rise. However, the company expects full year margins to turnaround and achieve a normalized margin levels by year-end. The company has an order pipeline of 10-15 products to be launched under specialty category, each under three product lines, by the end of this fiscal. It expects to see some robust product launches getting completed by Q3FY22 end as well.

During Q2FY22, company's Mahad plant was shut for two weeks due to floods and resumed operations on 08 August, 2021. Capacity utilisation during Q1FY22 was at ~ 81%.

Increased exports footprint, new additions to product lines (yellow pigment), CAPEX nearing completion, plants getting back to normalcy post second wave of Covid and lower debt levels provide a stable future outlook. Further, anti-dumping duty (ADD) on mica-based pigments (although forms a small percentage to company's business) will be of benefit. Also, subsidiary turnaround should further increase top-line in the coming quarters. The consolidation in the pigment industry too is expected to have a positive impact on the market share of Sudarshan. Moreover, Sudarshan's long-term rating has been upgraded by a notch to AA- from A+ by India Ratings in April 2021 thereby raising its credit worthiness.

The company has three National Accreditation Board (NABL) accredited and DSIR approved labs. Last year, it started a laboratory in Germany to be in sync with the global trends. We like the stock, on the back of healthy demand, high market share, strong CAPEX drive, newer additions of products, and China+1 policy adopted by companies worldwide. Despite Capex spend of Rs 600 crore, it will generate FCF of Rs 645 crore over FY21-23E. We expect Sudarshan's PAT to grow at a 16.9% CAGR over FY21-23E, led by a 10.8% CAGR in revenue.

**We feel investors can buy the stock at CMP and add more on declines at Rs. 587 (18x FY23E EPS) for base case target of Rs 734 (22.5x FY23E EPS) and bull case target price of Rs 783 (24x FY23E EPS) over the next two quarters.**



## Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Net Sales	473.9	576.5	-17.8	352.3	34.5	1593.0	1708.2	1864.1	2185.5	2542.3
EBITDA	62.0	87.5	-29.1	53.0	17.0	204.0	246.3	287.8	337.0	432.6
Depreciation	21.0	21.4	-1.6	21.6	-2.6	65.6	73.5	86.5	94.6	115.2
Other Income	0.7	2.3	-70.1	0.3	129.2	79.3	21.8	7.0	6.7	8.0
Interest Cost	4.7	4.2	11.5	3.9	21.2	17.0	14.2	17.9	19.6	21.3
Tax	10.8	10.8	0.0	9.6	12.4	68.0	35.3	49.3	59.5	78.2
APAT	26.2	53.4	-51.0	18.2	43.8	101.1	131.1	141.1	170.1	225.8
Diluted EPS (Rs)	3.8	7.7	-51.0	2.6	43.8	14.6	18.9	20.4	24.6	32.6
RoE-%						20.1	22.4	21.0	21.3	24.5
P/E (x)						45.5	35.1	32.6	27.0	20.4
EV/EBITDA						24.3	20.6	18.0	15.5	12.0

(Source: Company, HDFC sec Research)

## Recent Triggers

### Anti-Dumping Duty (ADD) on Natural Mica augurs well for the company

The Ministry of Finance, through a notification dated 26 August, 2021, has issued new Anti-Dumping Duty rates for natural Mica based Pearl Industrial Pigments, excluding cosmetic grade that origin from China. The duty rate shall be same for export to any country, including China. The anti-dumping duty, in the range of Rs 150-210/kg (~US\$2-3/kg) imposed under this notification shall be levied for a period of five years and is payable in Indian currency. Currently, India is importing ~2,181 MT of mica-based pigments at a price of Rs 380/kg. Sudarshan being the sole producer of pigments in India, this duty will help its profitability. Although, Mica pigments (effect pigment) contribute a low proportion to the total revenue, there could be potential market share gains and earnings benefits on the company's existing Mica-based pigment sales volume, in the form of probable price hikes. This will also encourage the company to increase its Mica-based pigment sales volumes.

### Decent Q1FY22 performance even after being hit by the second wave

On a consolidated basis, total income from operations stood at Rs 473.9 crore, as compared to Rs 352 crore for the same period last year, reporting a growth of 35% YoY. EBITDA for the quarter stood at Rs 62 crore, as compared to Rs 53 crore in Q1FY21, a growth of 17% YoY. EBITDA margins stood at 13%, as compared to ~15% over the same period last year. Financial performance of company's subsidiary Rieco was impacted, which caused reduction in the consolidated profit by ~Rs 4.2 crore. PAT stood at Rs 26.2 crore, as compared to Rs 18 crore for the same period last year. PAT was up 43.8% YoY. The pigments business revenue was up 32.8% YoY at Rs 453 crore. EBITDA for the pigments business stood at Rs 66 crore, as compared to Rs 54 crore in Q1FY21. Specialty sales were up 32% YoY, at Rs 318 crore.



### **Upcoming CAPEX will spill over in FY22E with full ramp up in FY23E**

The company initiated Rs 600 crore worth CAPEX in FY20, which is expected to be fully implemented by FY22 (Rs 293 crore already incurred in FY20 and FY21), wherein CAPEX of Rs 120 crore will be completed by end September 2021. The rest Rs 187 crore (Rs 38 crore yet to be invested) is work in progress and will be completed by end FY22. Multiple projects which are now in the final stages of implementation are likely to soon get commercialised, which will leave the company with product portfolio equivalent to that of global leaders. These products are all into specialties.

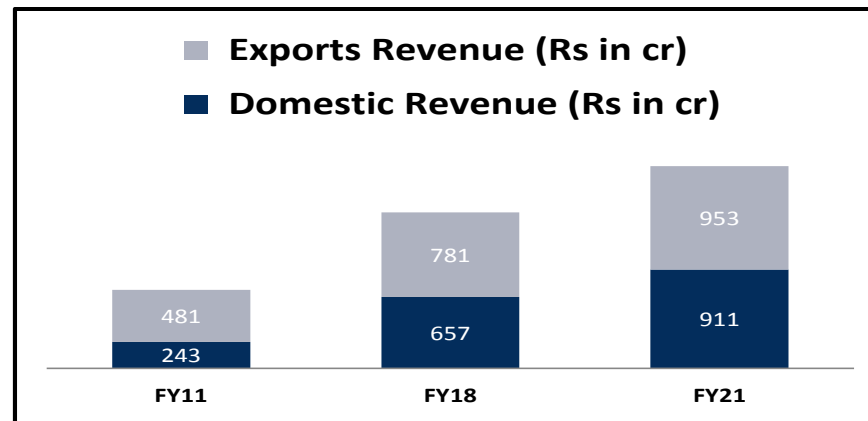
Further, in H2FY20, through its strong R&D capabilities, the company launched high-performance yellow pigment. It is a strategically crucial molecule for the company and is expected to bring in some sales by this fiscal, with a major ramp up by H2FY23. As any CAPEX takes about three years to scale up, FY21 is counted as year one for yellow pigment. This CAPEX is estimated to contribute Rs 1,000-Rs 1,200 crore (as projected by the management) by FY23. Further, inclination towards higher-margin and higher-realisation specialty products such as azo pigments, cosmetics and pigment dispersions vs. non-specialty ones should benefit the company in the longer run.

The product finds its applications in coatings, plastics and digital inks (main applicant industry). With this, it became the second company globally to have it in its product portfolio. It developed the entire technology in-house and launched it within 18 months of inception. This pigment has better fastness properties used in most industrial paint applications.

In addition, the company has plans to launch an organic pigment and a large molecule in H1FY22, which will have plastics and coatings industry as its end customer. These new pigments will start contributing in FY23. All these products will drive the company's margins once commissioning phase completes.

### **Stable and increasing export share with domestic demand expected to pick up from Q3FY22**

The export operations of the company have increased over the years due to bright demand prospects. Exports accounted for 55% of revenue for the pigment segment during Q1FY22. As per the management, exports in general are showing a good trend. Q1FY22 was marked with some hurdles on the domestic front. However, the company expects its sales to pick up by Q3FY22. During Q1FY22, the company continued to see good traction on the exports front in all categories. Exports for the quarter were at Rs 250 crore, as compared to Rs 221 crore, growth of 13% YoY. On the domestic front too, sales increased 68% YoY, owing to lower base effect. Demand for the company's products is expected to remain unaffected in the longer term.



(Source: Company, HDFC sec)

### The COVID factor has given way to industry consolidation which will boost Sudarshan

The spread of Corona Virus beyond China is causing a concern for the global economic environment, as supplies from China (accounts for more than 45% of the global share in chemical raw material supply) received a major blow. Although, China has gradually started production, this has resulted in inching up of chemical prices, which will be beneficial for Indian chemical players as global agro and specialty chemical companies are eyeing India as a reliable partner. This opportunity can be well utilized by companies like Sudarshan, by acquiring global clients and building long-term relationships.

Due to relatively lenient environmental norms and availability of experienced manpower at a relatively lower wage, chemical manufacturers across India enjoy advantage of low production cost compared to their European peers. It also helps scale up and win business for complementary pigment chemistries. Two major global players (Clariant AG and BASF SE) are moving away from the pigment business, which could act as a tailwind for Indian pigment manufacturers. Sudarshan is in a sweet spot to seize this opportunity, by offering products similar to those of global players. This global level consolidation in the organic pigment category makes India a good alternative, which Sudarshan is banking on.





## Long term Triggers

### **Company's products find its end usage in diverse industries**

Sudarshan is a solution-driven global supplier, manufacturing colour solutions with high-end pigments at its core. Today, Sudarshan handles a diverse set of products (4,000+ varieties of products), ranging from organic, inorganic and effective pigments, to performance colorants, pearlescent pigments and specialty chemicals. Serving as a key input to the end-user industry, these pigments cover classical azo pigments. The company's extensive range of pigments and dispersions offer excellent value, providing a one-stop solution for decorative paints. Its pigments are used by a wide range of industries, which include paints, plastics, inks, cosmetics, textiles and other applications. Its product offerings are used by broad range of industries, from items related to daily life, such as textiles, cosmetics and food packaging, to industrial materials including automotive components, electrical equipment parts and construction materials. The pigments are classified under the categories viz- Organic Pigments, Inorganic Pigments, and Effect Pigments.

Sudarshan's primary focus area is organic pigments. The global shift from heavy metal based inorganic pigments to safer organic pigments will continue to benefit organic pigments market segment of the company. The company also has the advantage of inorganic pigments, which are formed from minerals and are an older pigment category. They do not, however, impart the same colour brilliance and depth as organic pigments. However, there exist niche chemistries within inorganic pigments such as CICPs and Cadmiums, which continue to command a price premium due to their durability in certain outdoor and high temperature applications. Sudarshan is focused on growing in these high-performance categories as well.

Organic Pigments	Inorganic Pigments	Effect Pigments
Azo	Chromes	Pigments with mica base and coated with oxides to give shimmer and glow
Phthalos	Cadmiums	Mainly used in plastics, automotive coatings and cosmetics applications
HPPs	Iron Oxides	
Dispersions	Made of mineral compounds	
Coloured material made of organic compound with pigment properties	Mainly oxides, sulphides of one or more than one metals	
<u>Usage:</u> Commonly used for coatings, plastics, inks & textile applications	<u>Usage:</u> Used for plastics and industrial coatings	<u>Usage:</u> Used in plastics, automotive coatings, cosmetics applications

(Source: Company, HDFC sec Research)



### **High entry barriers characterise today's chemical industries which play in favour of the company**

Today chemical industry is characterised by high-entry barriers and remains highly competitive. Most of the manufacturers are present in the bulk chemical segment, where economies of scale are critical to sustain this thin-margin business. This calls for high upfront capital investment, creating a barrier for smaller firms. Due to product differentiation, today's chemical industry has been transformed from commoditisation to specialisation. The changing customer needs for specialty and high-performance pigments, which require strong R&D capabilities, technical knowhow, long gestation periods (6-24 months) and good customer relations, also work as high entry barriers restricting new entrants, blocking fresh competition.

### **The company has a healthy market position and wide distribution network**

Sudarshan is the largest pigment manufacturer in India and as per company estimates it is the fourth largest pigment manufacturer in the world, with overall market share of about 35% in India and 3% in the globe, as of FY21. The company has a wide product base, comparable to global leaders, and aims to add more products to its portfolio. The company has a global workforce of 2000+ and a strong distribution network for pigments, including 60 channel partners and overseas subsidiaries in USA, Netherlands, China, Mexico and Japan. Further, the company has a wholly-owned Chinese subsidiary that is engaged in distributing pigments in local markets and improving sourcing efficiencies. Following its strategy to become the third-largest pigment manufacturer globally, it is now looking to venture in to untapped geographies. Last year, it opened a subsidiary, Sudarshan Japan Limited, in Japan to serve the local market there. It also plans to expand in South East Asia and South Korea.

The global market position of Sudarshan is expected to improve further over medium term, given the ongoing consolidation in the industry. The growth is also expected to be supported by new product launches as well as planned capacity expansion over medium term. Having this global scale is essential to success in pigments, as it leads to sustainable growth, cheaper feedstock and access to cutting-edge technologies.

Management aims to feature in the top-3 of the global pigment market. It's strategy to achieve top-3 status is based on (1) developing R&D for sustainable growth, (2) excelling in manufacturing and operations, (3) strengthening global presence, and (4) focusing on core business.





## **The company enjoys derived demand from various governmental schemes and policies favouring the Indian paint industry**

The company focuses mainly on the paint and ink industry, which will benefit from various governmental policies. The four key end-user industries for the pigment business are paints/coatings, plastics and packaging ink & cosmetics. Government's policies such as 'Housing for All/ affordable housing' measures have helped fresh demand for painting and will help re-painting demand in the future. Pradhan Mantri Awas Yojana (PMAY), an initiative by the Government of India, ensures affordable housing for all in the urban areas, with a target of building 20 million affordable houses by March 31, 2022. It has two components: one for the urban poor and the other for the rural poor. Under the urban component, a demand of 11.2 million houses has been validated. In Fiscal 2020, the number of houses sanctioned under the scheme had crossed 10 million.

Smart cities - In order to sustain rapid urbanization in India, the Government launched the Smart City Mission in 2015, with an intention to develop 109 cities as Smart Cities over the next 5 years. This is expected to lead to a larger number of commercial and residential complexes being built, driving the demand for decorative paints.

AMRUT - Atal Mission for Rejuvenation and Urban Transformation was launched by the Government to provide basic civic amenities which will involve renovation of 500 cities.

- Urbanization – The rise in urbanization, supported by demand for real estate and improved infrastructure, has increased the demand for application of paint. India's trajectory of urbanization has grown well from 25.6% in 1990 to 34.5% in 2019 (34.9% in 2020 (estimated)). The rise in urbanization, supported by demand for real estate and improved infrastructure, has increased paint application. The UN expects that by 2030, approximately 40% of the population of India will reside in urban areas. Urban areas contributed 47.0% of India's GDP in 2000 and are expected to contribute to 70.0% of India's GDP in 2030.
- Real Estate Sector Growth – The residential real estate sector (top 7 cities) has remained resilient in 2019, with sales increasing 6% year-on-year despite muted consumption expenditure. However, there have been challenges in 2020 owing to the impact of ongoing Covid pandemic. The first quarter of Fiscal 2020 witnessed a decline in sales on a year-on-year basis, as the buyers deferred their purchase decisions due to the impending crisis. This led to the sales declining by nearly 30% in the first quarter of Fiscal 2020 on a year-on-year basis. The real estate sector in India is expected to reach US\$ 1 trillion by 2030. By 2025, it is estimated to contribute 13% to India's GDP. Emergence of nuclear families, rapid urbanization and rising household income are likely to remain the key drivers for growth of real estate.

Indian economy is expected to grow at 11.5% in 2021, driven by growth in private investment stimulated by reforms / schemes, pent up demand of high- and mid-income consumers and fiscal spending on building assets and infrastructure.



## Concerns

- High inventory requirements due to maintenance of multiple SKUs of pigments (over 4000+), multiple distribution centres of company overseas and within India, adversely impact its working capital requirements. However, Sudarshan has been able to balance it by matching its receivable days with payable days over the last few years, reducing dependence on day-to-day debt.
- There has been sharp increase in the prices of intermediates used in various pigment chemistries. Although, the company was able to pass on majority of the cost increases to customers, it continues to see price pressure on select intermediates. This is likely to continue for next couple of months.
- Apart from raw material cost increases, there has been an upsurge in energy and logistics prices. Coal prices have increased more than 50% and freight costs escalated ~50-60%, with rising concerns over container unavailability. In addition, the sector is facing polymer availability issue and pricing issues.
- The company derives 30-35% of its raw material from China, where environmental restrictions have led the prices to rise recently. Although, manufacturers are able to pass on increases in the input costs, but with a quarter lag. This timing difference in passing on costs causes fluctuations in their margins. However, the Indian government's constant efforts to make Indian chemical manufacturers self-reliant could bring hope.
- Long approval periods involved in launching a product.
- Large CAPEX is going to weigh on the debt structure of the company, where it is going to increase from Rs 500 crore to Rs 700 crore from FY20 to FY23E.
- Management has indicated that China has introduced 13% export rebate for chemicals, while the Indian government has removed 2% export rebate on chemicals. This could provide a stiff competition to Indian chemical companies, impacting their low margin products.
- For FY21, the domestic division contributed nearly 56% of the total revenues, while the exports contributed nearly 44%. Fluctuations in Indian currency value may adversely affect company's financials.
- Two-week production loss in the Mahad facility owing to flood could put an impact on the overall production/sales for Q2FY22.
- Higher-than-expected employee cost (increasing over the years) and other expenses are some other risks that might mar the margins.
- Promoter holding less than 50%.

## Peer Comparison (Consolidated)

	Mcap (Rs cr)	Sales				EBITDA Margin (%)				PAT			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
<b>Sudarshan Chemicals</b>	<b>4599.1</b>	<b>1708.2</b>	<b>1864.1</b>	<b>2185.5</b>	<b>2542.3</b>	<b>14.4</b>	<b>15.4</b>	<b>15.4</b>	<b>17.0</b>	<b>131.1</b>	<b>141.1</b>	<b>170.1</b>	<b>225.8</b>
Deepak Nitrite	33678.0	4229.7	4359.8	6336.5	7038.5	24.3	28.6	27.3	25.9	611.0	775.8	1138.7	1190.8
Navin Fluorine	19371.8	1061.6	1179.4	1380.9	1779.6	24.8	26.2	24.5	26.5	385.5	221.6	285.2	378.8



	RoE (%)				P/E				EV/EBITDA			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
<b>Sudarshan Chemicals</b>	<b>22.4</b>	<b>21.0</b>	<b>21.3</b>	<b>24.5</b>	<b>35.1</b>	<b>32.6</b>	<b>27.0</b>	<b>20.4</b>	<b>20.6</b>	<b>18.0</b>	<b>15.5</b>	<b>12.0</b>
Deepak Nitrite	46.2	39.6	40.4	31.5	55.1	43.4	29.6	28.3	33.9	27.4	19.8	18.6
Navin Fluorine	31.0	14.6	16.5	19.3	50.4	87.7	68.1	51.3	72.4	60.8	55.5	39.6

(Source: Company, HDFC sec Research)

### About the company

Sudarshan Chemical Industries Limited (Sudarshan) is a colour and effect pigment manufacturer. It operates through various segments, which include Pigments, Agro chemicals and others. The company's pigments segment is engaged in the manufacturing of Azos, Blue and Green, High-Performance Pigments, Effects, Pigment Preparations and Inorganics. The Agro chemical segment offers products which are generic in nature. The company supplies pigments to paints, plastics, inks, cosmetics, textile and other applications. It produces a range of classical organic pigments for the coloration of publication and commercial printing inks for magazines, direct mail and other commercial printing. With over 70 years of operating track record, Sudarshan has built strong relationships with customers and suppliers. China has been a major player in Global chemical business. Since last couple of years, Chinese Chemical Industry has been facing many challenges because of stricter environmental norms.

We believe it is positioned well to achieve the top-3 status globally, by focusing on its core business, developing R&D, expanding to new markets, and improving manufacturing and operations. We also believe that having this global scale is essential to success in pigments as it leads to sustainable growth, cheaper feedstock, and access to cutting-edge technologies.

The company supplies pigments to paints, plastics, inks, cosmetics, textile and other applications. It produces a range of classical organic pigments for the coloration of publication and commercial printing inks for magazines, direct mail and other commercial printing. The company offers its pigments under various brands, including Sudaperm, Sudafast, Sudacolor, Sudadur, Sudafine, Sumicos, Prestige and Sumica. Its pigments are exported to various markets in Europe, America and Asia. It has over two production facilities at Roha and Mahad in India.

### What is Pigment?

A pigment is a material that changes the colour of reflected or transmitted light as the result of wavelength-selective absorption. In other words, it is a substance that appears in a certain colour as it selectively absorbs certain wavelength of the light. The primary purpose of



pigments is to provide colour to materials, whether they are textiles or paints. Some people often consider pigments and dyes to be the same but they are different. The major difference between them is in terms of their solubility. While a dye can dissolve in liquid, pigments can dissolve in liquid with the help of a binder. Dyes are primarily applied in the textiles and paper industry, while pigments are used in industries such as colouring paints, inks, cosmetics and plastics.

## Financials – Consolidated Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>1593.0</b>	<b>1708.2</b>	<b>1864.1</b>	<b>2185.5</b>	<b>2542.3</b>
Growth (%)		7.2	9.1	17.2	16.3
Operating Expenses	1389.0	1461.9	1576.4	1848.5	2109.7
<b>EBITDA</b>	<b>204.0</b>	<b>246.3</b>	<b>287.8</b>	<b>337.0</b>	<b>432.6</b>
Growth (%)		20.7	16.8	17.1	28.4
EBITDA Margin (%)	12.8%	14.4%	15.4%	15.4%	17.0%
Depreciation	65.6	73.5	86.5	94.6	115.2
<b>EBIT</b>	<b>138.5</b>	<b>172.8</b>	<b>201.2</b>	<b>242.4</b>	<b>317.3</b>
Other Income	79.3	21.8	7.0	6.7	8.0
Interest expenses	17.0	14.2	17.9	19.6	21.3
<b>EBT</b>	<b>200.7</b>	<b>180.4</b>	<b>190.4</b>	<b>229.6</b>	<b>304.0</b>
Tax	68.0	35.3	49.3	59.5	78.2
<b>RPAT</b>	<b>135.1</b>	<b>144.5</b>	<b>141.1</b>	<b>170.1</b>	<b>225.8</b>
<b>APAT</b>	<b>101.1</b>	<b>131.1</b>	<b>141.1</b>	<b>170.1</b>	<b>225.8</b>
Growth (%)		29.7	7.6	20.5	32.8
<b>EPS</b>	<b>14.6</b>	<b>18.9</b>	<b>20.4</b>	<b>24.6</b>	<b>32.6</b>

## Balance Sheet

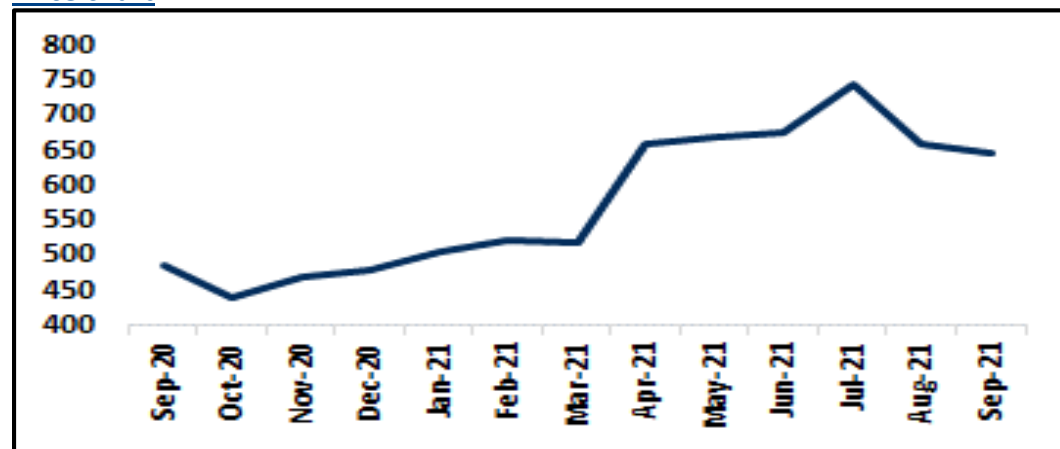
(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>SOURCES OF FUNDS</b>					
Share Capital	13.8	13.8	13.8	13.8	13.8
Reserves And Surplus	553.9	586.9	729.7	840.3	975.8
Total Equity	567.7	600.8	743.6	854.1	989.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long-term Debt	113.1	225.0	308.1	426.1	426.1
Short-term Debt	254.0	273.6	306.0	306.0	306.0
<b>Total Debt</b>	<b>367.1</b>	<b>498.6</b>	<b>614.1</b>	<b>732.1</b>	<b>732.1</b>
Deferred Tax Liability	54.6	44.6	49.0	50.5	52.0
Long-term Provision and others	15.7	19.3	39.5	40.2	41.0
<b>TOTAL SOURCES OF FUNDS</b>	<b>1005.1</b>	<b>1163.2</b>	<b>1446.1</b>	<b>1676.9</b>	<b>1814.7</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	465.0	627.1	614.9	856.5	891.1
Capital WIP	24.0	48.0	278.3	112.1	87.3
LT Loans And Advances	32.1	84.5	73.4	74.9	76.4
Total Non-current Investments	0.0	0.9	1.3	1.3	1.3
<b>Total Non-current assets</b>	<b>521.1</b>	<b>760.4</b>	<b>967.9</b>	<b>1044.8</b>	<b>1056.1</b>
Inventories	307.7	410.7	411.6	482.5	561.3
Debtors	346.1	364.1	484.7	568.2	661.0
Cash and Cash Equivalents	8.1	15.6	23.8	108.3	157.8
Other Current Assets	175.3	73.3	111.5	113.7	116.0
<b>Total Current Assets</b>	<b>837.3</b>	<b>863.7</b>	<b>1031.6</b>	<b>1272.8</b>	<b>1496.1</b>
Creditors	242.2	371.7	441.1	517.2	601.6
Other Current Liabilities & Provns	111.1	89.1	112.2	123.5	135.8
Total Current Liabilities	353.3	460.8	553.4	640.7	737.4
Net Current Assets	484.0	402.8	478.2	632.1	758.7
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1005.1</b>	<b>1163.2</b>	<b>1446.1</b>	<b>1676.9</b>	<b>1814.7</b>



## Cash Flow Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
<b>Reported PBT</b>	<b>203.1</b>	<b>179.9</b>	<b>190.4</b>	<b>229.6</b>	<b>304.0</b>
Non-operating & EO Items	-79.3	-21.8	-7.0	-6.7	-8.0
Interest Expenses	17.0	14.2	17.9	19.6	21.3
Depreciation	65.6	73.5	86.5	94.6	115.2
Working Capital Change	-69.3	88.7	-67.2	-69.5	-77.0
Tax Paid	-58.2	-45.3	-44.8	-58.0	-76.7
<b>OPERATING CASH FLOW ( a )</b>	<b>78.9</b>	<b>289.1</b>	<b>175.7</b>	<b>209.5</b>	<b>278.8</b>
Capex	-73.6	-259.7	-304.6	-170.0	-125.0
Investments	0.5	-0.9	-0.4	0.0	0.0
Non-operating Income	79.3	21.8	7.0	6.7	8.0
Others	0.5	-52.3	11.0	-1.5	-1.5
<b>INVESTING CASH FLOW ( b )</b>	<b>6.7</b>	<b>-291.0</b>	<b>-287.0</b>	<b>-164.8</b>	<b>-118.5</b>
Debt Issuance/(Repaid)	-63.8	131.5	115.5	118.0	0.0
Interest Expenses	-17.0	-14.2	-17.9	-19.6	-21.3
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-8.2	-100.2	-41.5	-59.5	-90.3
Others	-2.6	-7.7	63.4	0.8	0.8
<b>FINANCING CASH FLOW ( c )</b>	<b>-91.7</b>	<b>9.4</b>	<b>119.5</b>	<b>39.7</b>	<b>-110.8</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-6.1</b>	<b>7.5</b>	<b>8.2</b>	<b>84.4</b>	<b>49.5</b>

## Price chart



## Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E
<b>PROFITABILITY RATIOS (%)</b>					
EBITDA Margin	12.8	14.4	15.4	15.4	17.0
EBIT Margin	8.7	10.1	10.8	11.1	12.5
APAT Margin	6.3	7.7	7.6	7.8	8.9
RoE	20.1	22.4	21.0	21.3	24.5
RoIC	5.3	12.0	13.3	13.8	15.6
<b>SOLVENCY RATIOS (X)</b>					
Net Debt/EBITDA	1.8	2.0	2.1	1.9	1.3
Net D/E	0.6	0.8	0.8	0.7	0.6
<b>PER SHARE DATA (Rs)</b>					
EPS	14.6	18.9	20.4	24.6	32.6
CEPS	24.1	29.6	32.9	38.2	49.3
DPS	6.0	6.3	6.0	8.6	13.0
BVPS	82.0	86.8	107.4	123.4	142.9
<b>TURNOVER RATIOS (Days)</b>					
Debtors	79.3	77.8	94.9	94.9	94.9
Inventory	70.5	87.7	80.6	80.6	80.6
Payables	93.8	139.0	151.8	153.6	152.7
<b>VALUATION</b>					
P/E (x)	45.5	35.1	32.6	27.0	20.4
P/BV (x)	8.1	7.7	6.2	5.4	4.6
EV/EBITDA (x)	24.3	20.6	18.0	15.5	12.0
EV/Revenues (x)	3.1	3.0	2.8	2.4	2.0
Dividend Yield (%)	0.9	0.9	0.9	1.3	2.0

(Source: Company, HDFC sec Research)



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicalities of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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