

30 July 2025

Sudarshan Chemical Industries

Integration on track; Heubach margin levers active; Buy

Rating: **Buy**

Target price (12-mth): Rs.1,700

Share price: Rs.1,413

Driven by the initial consolidation of Heubach (for 28 days; y/y, q/q not comparable), which brought Rs5.25bn revenue and a 55.8% gross margin in Mar, Sudarshan Chemicals' Q4 FY25 revenue was up 77% y/y to Rs13.5bn and adj. EBITDA, 24% y/y to Rs1.48bn. The Heubach integration is going well, and initial cost rationalization measures led to the Rs220m EBITDA (a 4.2% margin). The legacy pigment business is expected to grow 10–11% with steady margins (15–16%), while Heubach is guided to deliver €35m EBITDA in FY26 and €90m–100m (9–10% EBITDA margin) in 3–4 years. European plants will focus on specialties, and RIECO Inds. (the engineering subsidiary) is expected to turn around with better execution (7–8% EBITDA margin guidance). We resume coverage with a Buy rating and a sum-of-parts target price of Rs1,700 (implied 12x Sep'27 EV/EBITDA for the consolidated entity).

Improved outlook supported by integration synergies. The outlook for the pigment business is strong with the Heubach acquisition unlocking various synergies, including product integration, deeper market access in Europe and the Americas and valuable technologies, including key IPs on critical intermediates. Besides, backward integration will reduce dependence on China.

Valuation. We estimate consolidated EBITDA improving to Rs12.5bn (an 11% margin) in FY28, led by margin expansion at Heubach (from ~5% to 9%) and stable Sudarshan (standalone) performance (~15.6%). RIECO's EBITDA margin is expected to gradually recover to 8–9%. We assign 15x/10x/10x EV/EBITDA to SCHI legacy/RIECO/Heubach (Sep'27), arriving at a sum-of-parts-based enterprise value of Rs140bn and an equity value of Rs132.5bn, translating to a target price of Rs1,700.

Risks: Delay in Heubach operating profit recovery; muted global demand

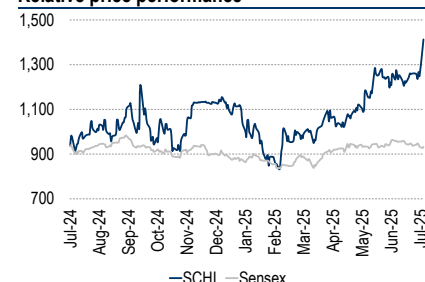
Key financials (YE Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	25,388	33,456	100,476	106,761	113,600
Net profit (Rs m)	3,575	602	2,127	3,756	5,366
EPS (Rs)	16.1	20.8	27.1	47.8	68.3
P/E (x)	87.7	67.8	52.2	29.6	20.7
EV / EBITDA (x)	32.1	30.8	15.0	11.4	9.0
P / BV (x)	8.5	3.2	3.1	2.8	2.6
RoE (%)	11.3	7.1	6.0	10.0	13.0
RoCE (%)	10.8	5.7	6.8	10.0	12.6
Dividend yield (%)	0.4	0.1	0.4	0.7	1.0
Net debt / Equity (x)	0.3	0.1	0.2	0.1	-0.0

Source: Company, Anand Rathi Research

Key data	SCHI IN / SDCH.BO
52-week high / low	Rs.1,469 / 796
Sensex / Nifty	81,482 / 24,855
Market cap	Rs.107bn
Shares outstanding	79m

Shareholding pattern (%)	Jun'25	Mar'25	Dec'24
Promoters	16.4	23.9	27.6
- of which, Pledged	-	-	-
Free Float	83.6	76.1	72.5
- Foreign institutions	8.5	8.0	8.7
- Domestic institutions	23.5	23.6	18.7
- Public	51.6	44.6	45.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Revenues	25,388	33,456	100,476	106,761	113,600
Growth (%)	10.3	31.8	200.3	6.3	6.4
Raw material	14,154	17,737	47,571	50,739	53,267
Employee & other expens.	8,070	11,908	44,865	45,737	47,819
EBITDA	3,164	3,810	8,040	10,286	12,514
EBITDA margins (%)	12.5	11.4	8.0	9.6	11.0
- Depreciation	1,412	1,662	3,952	4,035	4,118
Other income	171	334	200	221	243
Interest expense	369	483	1,491	1,501	1,522
PBT	1,554	1,999	2,797	4,970	7,116
Effective tax rate (%)	24	41	25	25	25
+ Associates / (Minorities)	0	29	29	29	29
Adjusted income	1,116	1,638	2,127	3,756	5,366
Extraord.items (Loss)/Profit	2,459	-1,036	-	-	-
Reported PAT	3,575	602	2,127	3,756	5,366
WANS	69	79	79	79	79
FDEPS (Rs)	16.1	20.8	27.1	47.8	68.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	1,554	992	2,826	4,999	7,145
+ Non-cash items	1,675	2,049	5,243	5,316	5,398
Oper. prof. before WC	3,230	3,041	8,069	10,315	12,543
- Incr. / (decr.) in WC	-460	-1,844	-5,147	-1,673	-1,981
Others incl. taxes	-835	-825	-2,155	-1,208	-1,742
Operating cash-flow	1,935	372	766	7,433	8,820
- Capex (tang. + intang.)	(2,669)	933	2,000	2,000	2,000
Free cash-flow	4,604	-561	-1,234	5,433	6,820
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	333	92	425	751	1,073
+ Equity raised	-	9,950	0	-	-
+ Debt raised	-3,731	16,510	6	328	389
- Fin investments	-124	2,175	-200	-221	-243
- Misc. (CFI + CFF)	395	13,062	1,340	1,501	1,522
Net cash-flow	265	14,553	-2,793	3,729	4,856

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

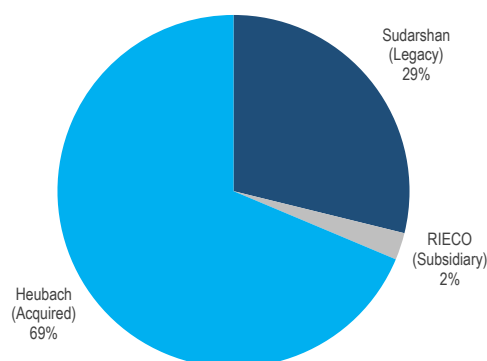
Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	138	157	157	157	157
Net worth	11,490	34,401	36,102	39,107	43,399
Debt	4,409	24,847	24,852	25,180	25,569
Minority interest	-	5,982	5,982	5,982	5,982
DTL / (Assets)	911	2,940	2,940	2,940	2,940
Capital employed	16,811	68,170	69,877	73,210	77,891
Net tangible assets	10,947	29,510	26,809	24,774	22,656
Goodwill	68	68	68	68	68
CWIP (tang. & intang.)	145	1,402	2,000	2,000	2,000
Investments (strategic)	24	2,193	2,193	2,193	2,193
Investments (financial)	-	3,282	3,282	3,282	3,282
Current assets (excl. cash)	11,806	45,739	55,633	58,785	62,360
Cash	559	15,113	12,320	16,049	20,905
Current liabilities	6,739	29,137	32,429	33,942	35,574
Working capital	5,066	16,601	23,204	24,843	26,786
Capital deployed	16,811	68,170	69,877	73,210	77,891
Contingent liabilities	-	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	87.7	67.8	52.2	29.6	20.7
EV / EBITDA (x)	32.1	30.8	15.0	11.4	9.0
EV / Sales (x)	4.0	3.5	1.2	1.1	1.0
P/B (x)	8.5	3.2	3.1	2.8	2.6
RoE (%)	11.3	7.1	6.0	10.0	13.0
RoCE (%) - after tax	10.8	5.7	6.8	10.0	12.6
RoIC - after tax	11.3	7.1	6.0	10.0	13.0
DPS (Rs)	5.1	1.5	5.4	9.6	13.7
Dividend yield (%)	0.4	0.1	0.4	0.7	1.0
Dividend payout (%) - incl. DDT	31.6	7.3	20.0	20.0	20.0
Net debt / equity (x)	0.3	0.1	0.2	0.1	-0.0
Receivables (days)	84	134	73	73	73
Inventory (days)	63	269	104	104	103
Payables (days)	74	153	71	71	71
CFO : PAT %	173	23	36	198	164

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up, FY26e



Source: Company

Earnings Call Takeaways

Strategic integration

- **A €1bn entity created.** The company acquired the Heubach Group (legacy Clariant pigments) to build a global pigment platform with combined turnover of ~€1bn.
- **Portfolio synergies.** Legacy Sudarshan (India) was strong in organic and effect pigments. Heubach adds strength in corrosion protection, dyes and dispersions. Minimal cannibalization due to complementary portfolios. Where overlaps exist, strategies are in place to preserve value.
- **Global manufacturing footprint.** The group now operates 19 manufacturing sites across 11 countries, in decorative and auto paints, personal care, agrochemicals, stationery and digital inks.
- **Integration underway.** One-SAP system being developed; over 70% of global workforce aligned with the new culture.
- **FY26 integration cost** guided to at €10m (~Rs0.9bn).
- **Depreciation** guidance for the acquired group: €23m–24mn annually.
- **FY26 working capital** to be high due to stocks (supply-chain rebuild); no major change expected in receivables/payables - to offset.
- **No large capex required** over 3-4 years; only annual maintenance capex and some strategic backward-integration projects.
- **Acquisition consideration** of €151.9m fully paid.

Outlook & management guidance

- €35m EBITDA target in FY26 for Heubach (post-integration costs).
- €90m-100m EBITDA target in 3-4 years, implying 9-10% margin.
- Legacy Sudarshan to grow at 10–11% for next couple of years, maintaining EBITDA margins (15-16%).
- Expect to delever fully over 3–4 years via internal cash generation; current net debt ~Rs6.5bn.

EBITDA margin expansion drivers

- 18-month structured cost-reduction program (procurement, operations, SG&A, IT).
- Re-gaining lost business and optimising product portfolio.
- High-cost European region used only for specialty products (Frankfurt site right-sized pre-acquisition). Strategy focused on high-value manufacturing and reliability.

Market & Industry trends

- Global organic pigment market pegged at \$5bn, a~3% CAGR.
- Market continues to be faced with headwinds from geopolitical uncertainties, tariffs and de-stocking.
- Customers looking for long-term partners; over 100 customer meetings held post-integration to restore trust.

Other Highlights

- All contingent liabilities evaluated and provisioned during Purchase Price Allocation (PPA).
- Working capital at fair value; no major write-offs required.
- FY26 expected to be a year of supply-chain re-building and stabilisation.

Transaction details

Acquisition overview

- On 3rd Mar'25, Sudarshan's wholly-owned subsidiary Sudarshan Europe B.V. completed the acquisition of the Heubach Group's global pigment business through an asset and share deal.
- Purchase price: €151.9m (~Rs14bn)
- Financing: a) Equity raise by SCHI (Rs8bn via a QIP and Rs1.95bn via preferential allotment), b) debt raised by Sudarshan Europe

Accounting treatment

- The transaction has been accounted under Ind AS 103 as a business combination using the acquisition method.
- Fair values of assets and liabilities of Heubach at 3rd Mar'25 have been provisionally recorded.
- The Purchase Price Allocation (PPA) is provisional and expected to be finalised in a year.
- Current estimates put the fair value of net assets acquired (incl. intangibles) as exceeding the purchase consideration, leading to recognition of Capital Reserve (ie, gain on bargain purchase) of Rs12.44bn, shown under Other Comprehensive Income.

Fig 7 – Capital Reserve (gain on bargain purchase)

Particulars	(Rs m)
Purchase consideration (paid in cash)	13,899
Non-controlling interest fair value	5,963
Total Consideration (A)	19,862
Fair value of net assets acquired	56,478
Fair value of identified intangibles	870
Liabilities assumed	(22,784)
Deferred tax on adjustments	(2,263)
Net Assets (B)	32,301
Capital Reserve (B - A)	12,439

Source: Company, Anand Rath Research

Other key notes to accounts (FY25)

1. Exceptional items

- FY25: Rs1.04bn (loss), primarily on account of transaction and other costs related to the Heubach acquisition.
- FY24: Rs3.15bn (gain) from sale of Wellesley Road (Pune) land.

2. Equity fundraising

- **QIP** (Jan'25): 7.476m shares @ Rs1,070 each = Rs8.0bn (net of costs Rs121.4m)
- **Preferential allotment** (Jan'25): 1.869m shares @ Rs1,043.33 each = Rs1.95bn
- **Warrants issued:** 0.98m to promoters @ Rs1,019.75; 25% upfront (Rs249.8m received)

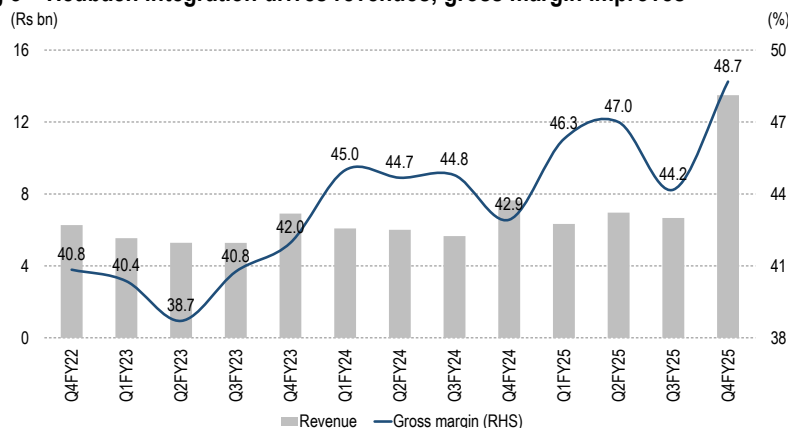
3. Investments in subsidiary. Rs7.4bn infused in **Sudarshan Europe non-convertible redeemable preference shares** carrying 5.5% cumulative dividend.

4. Non-controlling interest. Arising due to the Heubach acquisition structure, **NCI was Rs5.98bn** in Mar'25.

5. NCD disclosure. Unsecured NCDs of Rs990m issued in Jul'22 were repaid in full by Jul'25.

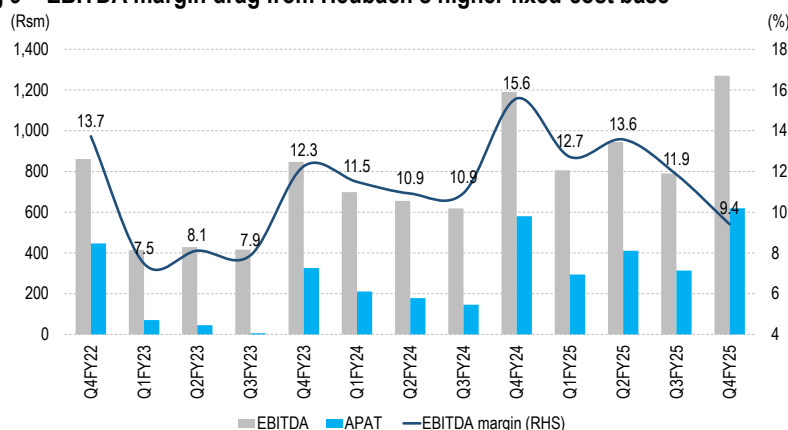
Quarterly trends

Fig 8 – Heubach integration drives revenues; gross margin improves



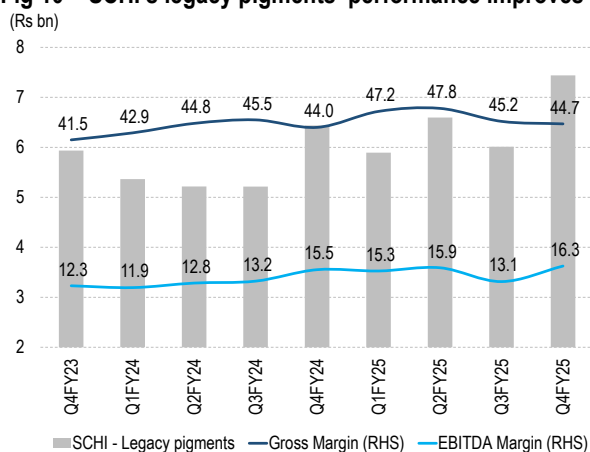
Source: Company, Anand Rathi Research

Fig 9 – EBITDA margin drag from Heubach's higher fixed-cost base



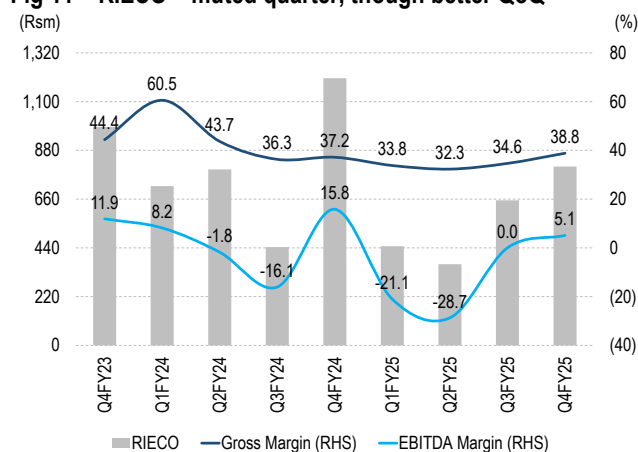
Source: Company, Anand Rathi Research

Fig 10 – SCHI's legacy pigments' performance improves



Source: Company, Anand Rathi Research

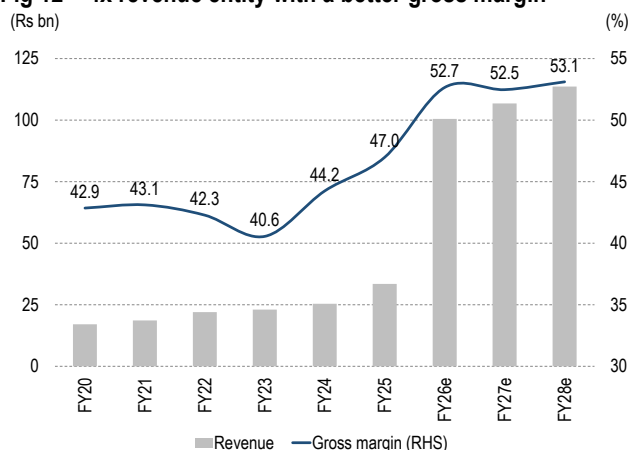
Fig 11 – RIECO – muted quarter, though better QoQ



Source: Company, Anand Rathi Research

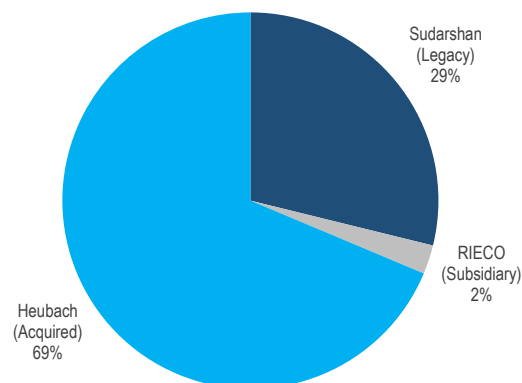
Story in Charts

Fig 12 – 4x revenue entity with a better gross margin



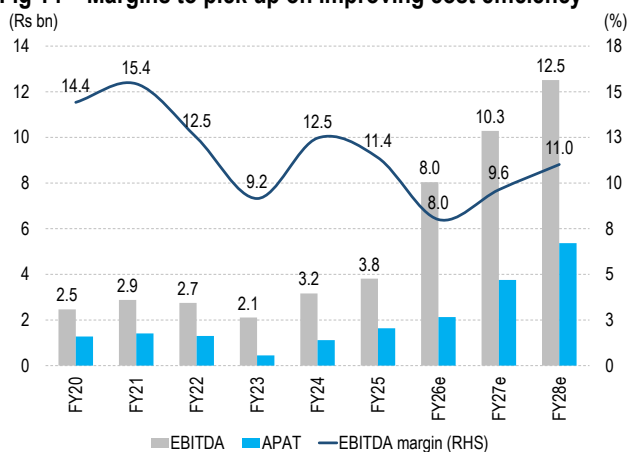
Source: Company, Anand Rathi Research

Fig 13 – Revenue mix dominated by acquired entity



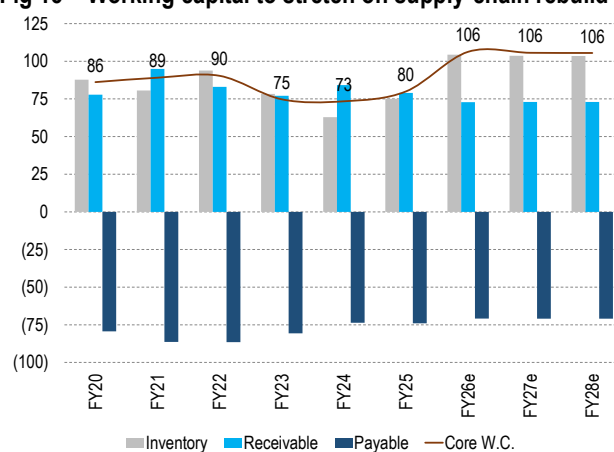
Source: Company, Anand Rathi Research

Fig 14 – Margins to pick up on improving cost efficiency



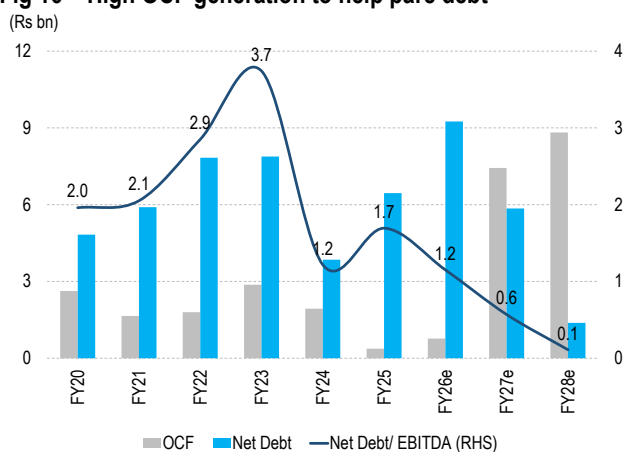
Source: Company, Anand Rathi Research

Fig 15 – Working capital to stretch on supply-chain rebuild



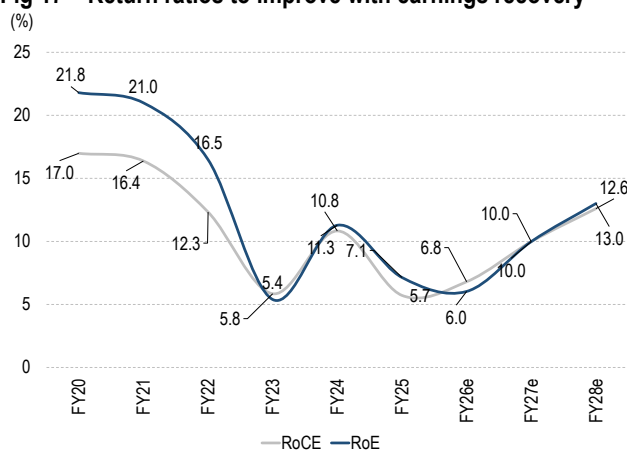
Source: Company, Anand Rathi Research Note: FY25 is unadjusted for Heubach financials

Fig 16 – High OCF generation to help pare debt



Source: Company, Anand Rathi Research

Fig 17 – Return ratios to improve with earnings recovery



Source: Company, Anand Rathi Research

Valuation

Factoring in its three key businesses-legacy (pigments), RIECO Inds. (the engineering subsidiary) and Heubach (global pigments)-we value the company on a sum-of-parts basis. We estimate consolidated revenue to grow to Rs100.5bn in FY26 and Rs113.6bn in FY28, driven largely by consolidation, recovery and a scale-up in Heubach. EBITDA is expected to rise to Rs8.0bn in FY26 and Rs12.5bn in FY28, implying margin expansion from 8% to 11% as synergies, cost rationalisation and a better product-mix play out. Heubach's EBITDA margin is projected to rise from 5% to 9%, while the legacy (pigments) business would be steady at ~15.6%. We assign 15x EV/EBITDA to the legacy pigments business, and 10x each to RIECO and Heubach, arriving at an enterprise value of Rs140bn and an equity value of Rs132.5bn, translating to a fair value of Rs1,700/sh.

Fig 18 – Sum-of-parts based TP at Rs1700

(Rs m)	FY26e	FY27e	FY28e
Revenue	100,476	106,761	113,600
Sudarshan (legacy)	28,973	32,249	34,506
RIECO (subs)	2,503	2,753	3,028
Heubach (global)	69,000	71,760	76,066

				EV / EBITDA (x)	Sep'26 EV (Rs m)
EBITDA (Rs m)	8,040	10,286	12,514		140,095
Sudarshan (legacy)	4,440	5,043	5,396	15.0	78,285
RIECO (subs)	150	220	273	10.0	2,464
Heubach (Global)	3,450	5,023	6,846	10.0	59,346

EBITDA margin	8.0%	9.6%	11.0%
Sudarshan (legacy)	15.3%	15.6%	15.6%
RIECO (subs)	6.0%	8.0%	9.0%
Heubach (global)	5.0%	7.0%	9.0%

Consol. net debt (Rs m)	7,550
Equity value (Rs m)	132,545
No. of shares – post-dilution (m)	78.6
Fair value (Rs/ sh)	1,700

Source: Anand Rathi Research

Fig 19 – One-year-forward P/E band



Source: Company, Anand Rathi Research

Fig 20 – One-year-forward EV/EBITDA band



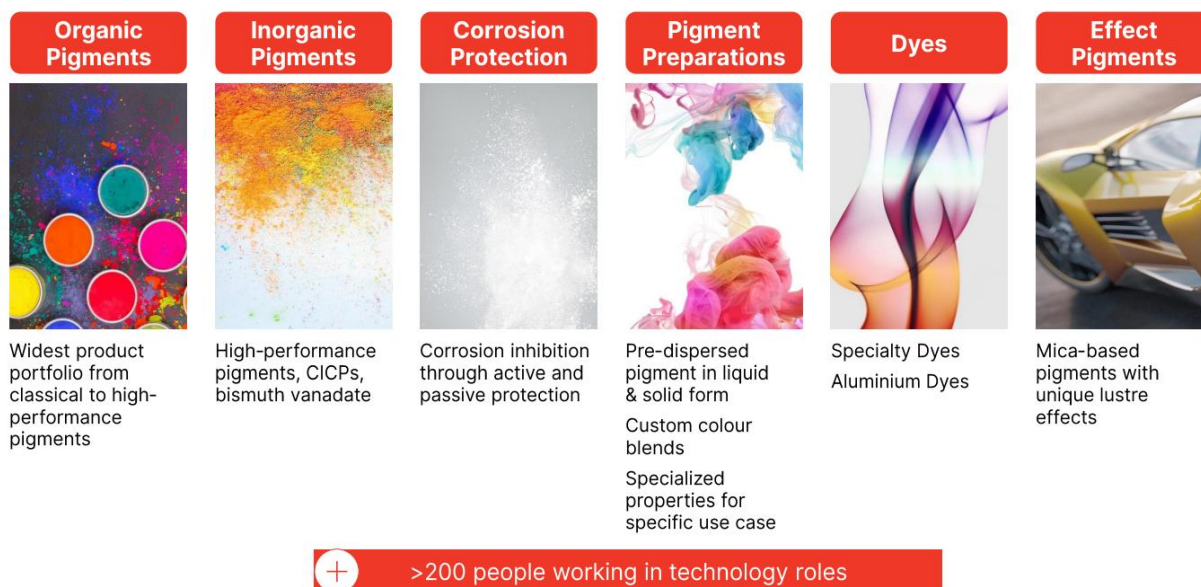
Source: Company, Anand Rathi Research

Key Risks

- Slower-than-expected turnaround; synergies with Heubach operations
- Weak global demand environment
- Delay in RIECO's margin recovery due to execution or order issues

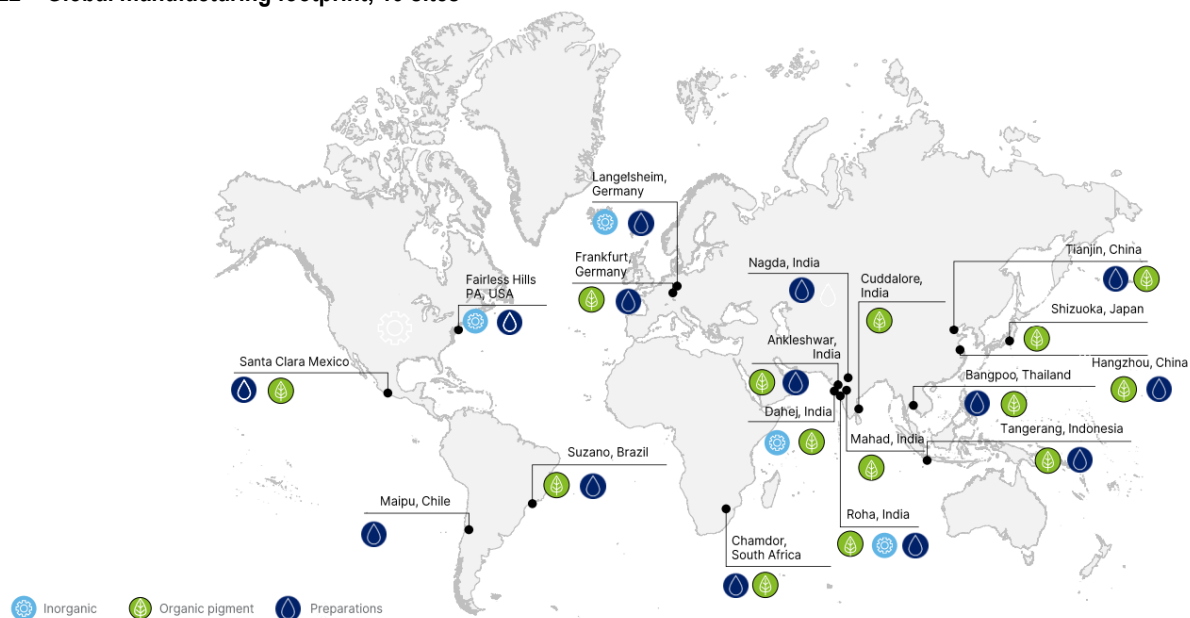
Appendix

Fig 21 – Broadest portfolio in the industry



Source: Company

Fig 22 – Global manufacturing footprint, 19 sites



Source: Company

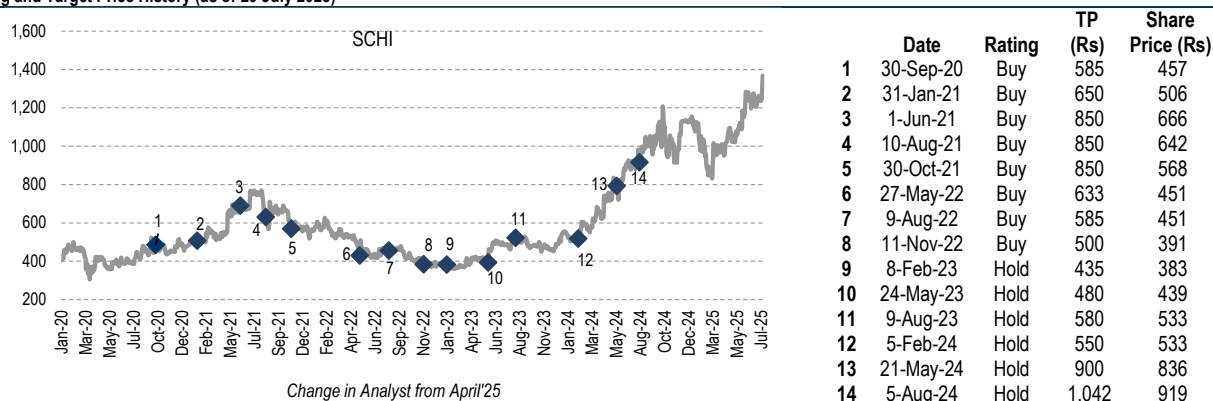
Appendix

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