ANANDRATHI

India I Equities

Specialty Chemicals

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

15 February 2026

Sudarshan Chemical Industries

Rating: **BUY**

Target Price (12-mth): Rs.1,400

Share Price: Rs.925

Heubach drag drives earnings cut; integration thesis remains intact; BUY

Sudarshan Chemical Industries (SCHI) delivered a weak performance in Q3 FY26, led by weaker demand (especially in Europe and North America) and higher-than-expected customer inventory destocking especially in acquired (Heubach) portfolio. Revenue fell 12% q/q (y/y not comparable) to Rs21bn, with Heubach/Legacy business contributing Rs14.8/6bn (down 12% q/q and 8% q/q). Adj. EBITDA plummeted to Rs409m, with Heubach at Rs380m loss (margin at -2.6% vs. 1.5% in Q2) and Legacy pigment business at Rs815m (+3%y/y; 13.7% margin). Whilst the management further cut FY26 EBITDA guidance for Heubach to €16m (from €25-30m in Q2) on inventory liquidation, it reiterated €90-100m target by FY28/29, as synergies materialise. We have cut our EBITDA estimate by 19%/9% for FY27e/FY28e, largely factoring continued weakness at Heubach in the near-term led by earnings pressure from €30-40m inventory reduction. We remain constructive on the combined platform and maintain BUY on the stock with a lowered SOTP-based TP of Rs1,400/sh (from Rs1,540 earlier), implying 11x FY28e EV/EBITDA.

Demand recovery likely from Q4: Demand recovery is expected from Q4FY26, as destocking slows and global orders normalize (improvement already visible in Jan-Feb'26). Positive medium-term outlook on integration gains, supply-chain optimization, specialty-pigment focus and agile global footprint. RIECO Industries is also likely to deliver improved performance with business transformation and strict cost control.

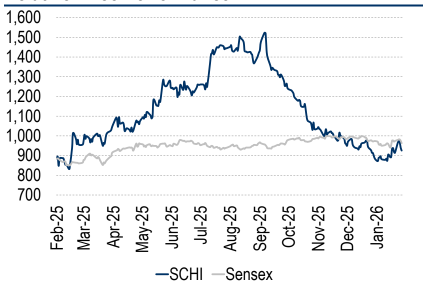
Outlook and Valuation: We project consolidated EBITDA at Rs10.6bn (10% margin) by FY28e, on legacy pigments/Heubach margin recovery to ~16%/~7% (improvement expected to be gradual rather than back-ended). Applying 13x/9x/9x EV/EBITDA to SCHI legacy/RIECO/Heubach (FY28e) yields an EV of Rs115bn and equity value of Rs110bn. We maintain BUY rating on the stock with a lowered SOTP-based TP of Rs1,400/sh (from Rs1,540 earlier), implying 11x FY28e EV/EBITDA. **Key Risks:** (a) Delay in Heubach's profit recovery; and (b) muted global demand.

Key Data	SCHI IN / SDCH.BO
52-week high / low	Rs1604 / 796
Sensex / Nifty	82627 / 25471
Market cap	Rs72bn
Shares outstanding	79m

Shareholding Pattern (%)	Dec'25	Sep'25	Jun'25
Promoters	8.2	8.2	16.4
- *of which, Pledged*	0.0	0.0	-
Free Float	91.8	91.8	83.6
- Foreign institutions	8.2	8.5	8.5
- Domestic institutions	24.6	24.2	23.5
- Public	59.0	59.1	51.6

Estimates Revision (%)	FY26	FY27	FY28
Sales	-3.1	-3.5	-3.6
EBITDA	-28.6	-19.0	-9.4
PAT	-83.3	-32.1	-10.8

Relative Price Performance



Source: Bloomberg

Key Financials (Y/E Mar)	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	25,388	33,456	94,780	99,536	1,05,998
Net profit (Rs m)	3,575	602	301	2,467	4,658
EPS (Rs)	16.1	20.8	3.8	31.4	59.3
P/E (x)	57.4	44.4	241.3	29.5	15.6
EV / EBITDA (x)	21.5	19.7	16.9	10.1	6.8
P / BV (x)	5.6	2.1	2.1	2.0	1.8
RoE (%)	11.3	7.1	0.9	7.0	12.2
RoCE (%)	10.8	6.0	1.6	6.4	10.9
Dividend yield (%)	0.6	0.1	0.1	0.7	1.3
Net debt / Equity (x)	0.3	0.0	0.2	0.1	-0.1

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Revenue	25,388	33,456	94,780	99,536	1,05,998
Growth (%)	10.3	31.8	183.3	5.0	6.5
Raw material	14,154	17,737	47,975	50,270	53,156
Employee & other expens.	8,070	11,908	41,959	41,625	42,278
EBITDA	**3,164**	**3,810**	**4,846**	**7,641**	**10,564**
EBITDA margin (%)	12.5	11.4	5.1	7.7	10.0
- Depreciation	1,412	1,662	3,950	4,000	4,100
Other income	171	334	900	990	1,089
Interest expense	369	483	1,433	1,380	1,380
PBT	1,554	1,999	364	3,251	6,173
Effective tax rates (%)	24	40	25	25	25
+ Associates / (Minorities)	0	29	29	29	29
Adjusted income	1,116	1,638	301	2,467	4,658
Extraord.items (Loss)/Profit	2,459	-1,036	-	-	-
Reported PAT	3,575	602	301	2,467	4,658
WANS	69	79	79	79	79
FDEPS (Rs)	16.1	20.8	3.8	31.4	59.3

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	138	157	157	157	157
Net worth	11,490	34,400	34,341	36,314	40,041
Debt	4,409	20,847	21,294	21,165	21,301
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**	**64,170**	**64,557**	**66,402**	**70,264**
Net tangible assets	10,947	29,510	26,582	24,582	22,482
Goodwill	68	68	68	68	68
CWIP (tang. & intang.)	145	1,402	2,000	2,000	2,000
Investments (strategic)	24	2,194	2,194	2,194	2,194
Investments (financial)	-	3,282	3,282	3,282	3,282
Current assets (excl. cash)	11,806	45,739	52,765	53,265	55,493
Cash	559	15,113	8,727	13,217	18,500
Current liabilities	6,739	33,137	31,059	32,205	33,754
Working capital	5,066	12,601	21,705	21,060	21,739
Capital deployed	**16,811**	**64,170**	**64,557**	**66,402**	**70,264**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	1,554	992	392	3,280	6,202
+ Non-cash items	1,675	2,048	4,483	4,390	4,391
Oper. prof. before WC	3,230	3,040	4,875	7,670	10,593
- Incr. / (decr.) in WC	-460	-1,844	-7,617	619	-715
Others incl. taxes	-835	-825	-1,578	-787	-1,508
Operating cash-flow	1,935	370	-4,320	7,502	8,370
- Capex (tang. + intang.)	(2,669)	933	2,000	2,000	2,000
Free cash-flow	4,604	-562	-6,320	5,502	6,370
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	333	92	60	493	932
+ Equity raised	-	9,950	0	-	-
+ Debt raised	-3,731	16,510	447	-129	136
- Fin investments	-124	2,175	-900	-990	-1,089
- Misc. (CFI + CFF)	395	13,060	1,353	1,380	1,380
Net cash-flow	265	14,554	-6,386	4,490	5,283

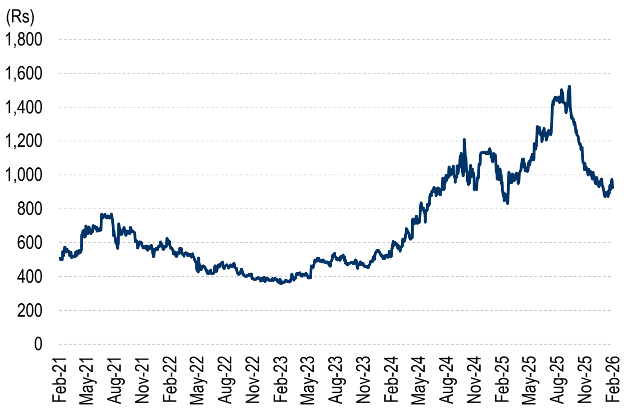
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	57.4	44.4	241.3	29.5	15.6
EV / EBITDA (x)	21.5	19.7	16.9	10.1	6.8
EV / Sales (x)	2.7	2.2	0.9	0.8	0.7
P/B (x)	5.6	2.1	2.1	2.0	1.8
RoE (%)	11.3	7.1	0.9	7.0	12.2
RoCE (%) - after tax	10.8	6.0	1.6	6.4	10.9
RoIC – after tax	11.3	7.1	0.9	7.0	12.2
DPS (Rs)	5.1	0.9	0.8	6.3	11.9
Dividend yield (%)	0.6	0.1	0.1	0.7	1.3
Dividend payout (%) - incl. DDT	31.6	4.2	20.0	20.0	20.0
Net debt / equity (x)	0.3	0.0	0.2	0.1	-0.1
Receivables (days)	84	134	73	73	73
Inventory (days)	63	269	105	97	94
Payables (days)	74	153	71	71	71
CFO : PAT %	173	23	-1,434	304	180

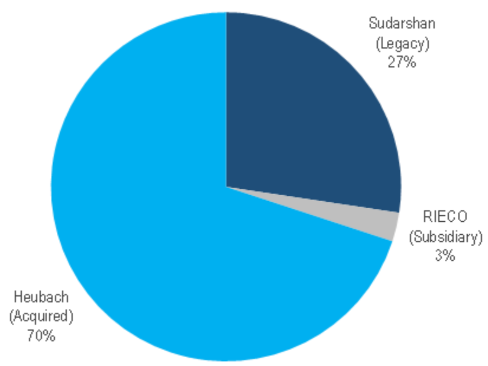
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Revenue Break-up (FY26e)



Source: Company

Change in Estimates

Fig 7 – Change in Estimates

(Rs m)	FY25	FY26e			FY27e			FY28e		
	Actual	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	**33,456**	**97,839**	**94,780**	**-3.1**	**103,162**	**99,536**	**-3.5**	**109,926**	**105,998**	**-3.6**
Change (%)	31.8	192.4	183.3		5.4	5.0		6.6	6.5	
EBITDA	**3,810**	**6,791**	**4,846**	**-28.6**	**9,434**	**7,641**	**-19.0**	**11,659**	**10,564**	**-9.4**
Change (%)	20.4	78.2	27.2		38.9	57.7		23.6	38.3	
EBIT	2,148	2,839	896	-68.4	5,399	3,641	-32.6	7,541	6,464	-14.3
Change (%)	22.6	32.2	-58.3		90.2	306.2		39.7	77.5	
Adj. PAT	**1,638**	**1,801**	**301**	**-83.3**	**3,632**	**2,467**	**-32.1**	**5,223**	**4,658**	**-10.8**
Change (%)	46.8	10.0	-81.6		101.6	718.7		43.8	88.8	
EPS (Rs)	**20.8**	**22.9**	**3.8**	**-83.3**	**46.2**	**31.4**	**-32.1**	**66.4**	**59.3**	**-10.8**

Source: Anand Rathi Research

Fig 8 – Actual vs. Estimates

Actual vs. Estimates	Actual	ARe	Deviation (%)	Cons. Estimate	Deviation (%)
(Rs m)	Q3FY26	Q3FY26		Q3FY26	
Net Revenue	21,030	22,022	-4.5	24,081	-13
EBITDA	379	956	-60.4	1,351	-72
EBITDA margin (%)	1.8	4.3	**-**	5.6	**-**
Adjusted PAT	-730	-78	NA	158	-561

Source: Company, Anand Rathi Research, Bloomberg

Quarterly Financials

Fig 9 – Consolidated Financials

(Rs m)	Q3FY26	Q3FY25	y/y (%)	Q2FY26	q/q (%)	9MFY26	9MFY25	y/y (%)
Net revenue	21,030	6,664	216	23,874	-12	69,973	19,961	251
Material cost	10,815	3,720	191	11,908	-9	34,951	10,813	223
Gross profit	10,215	2,944	247	11,966	-15	35,022	9,149	283
Employee expenses	3,953	558	609	4,157	-5	12,446	1,670	645
Other operating expenses	5,883	1,596	269	6,487	-9	18,951	4,939	31
Operating expenses	**20,651**	**5,874**	**252**	**22,552**	**-8**	**66,348**	**17,421**	**29**
EBITDA	**379**	**790**	**-52**	**1,322**	**-71**	**3,625**	**2,540**	**43**
Depreciation	1,006	365	175	972	3	2,968	1,091	172
EBIT	**(627)**	**424**	**-248**	**350**	**-279**	**657**	**1,450**	**-55**
Other income	142	45	216	288	-51	688	130	431
Interest cost	364	114	219	436	-17	1,241	273	354
PBT	(1,312)	47	-2,896	202	-750	(359)	886	-141
Tax	(68)	42	-263	102	-167	306	288	6
Sh. of Ass. / Minority interest	75	-	*NA*	93	-19	239	-	*NA*
PAT	**(1,169)**	**5**	**-22843**	**193**	**-706**	**(426)**	**599**	**-171**
Non-recurring items	(463)	(308)	*NA*	-	*NA*	(463)	(420)	*NA*
Adj. PAT	**(730)**	**313**	**-333**	**193**	**-478**	**61**	**1,018**	**-94**
Ad. EPS (Rs)	**(9.3)**	**4.5**	**-305**	**2.5**	**-478**	**0.8**	**14.7**	**-95**
Margins (%)			**y/y bps**		**q/q bps**			**y/y bps**
Gross margins	48.6	44.2	440	50.1	(155)	50.1	45.8	422
EBITDA margin	1.8	11.9	(1,005)	5.5	(374)	5.2	12.7	(755)
Adj. PAT margin	-3.5	4.7	(817)	0.8	(428)	0.1	5.1	(501)
% of revenue			**y/y bps**		**q/q bps**			**y/y bps**
Raw material cost	51.4	55.8	(440)	49.9	155	49.9	54.2	(422)
Employee expenses	18.8	8.4	1,043	17.4	138	17.8	8.4	942
Other operating expenses	28.0	24.0	402	27.2	80	27.1	24.7	234
Total Expenses	**98.2**	**88.1**	**1,005**	**94.5**	**374**	**94.8**	**87.3**	**755**
Segment Revenue (Rs m)			**y/y (%)**		**q/q (%)**			**y/y (%)**
Pigment (legacy)	5,963	6,012	-1	6,515	-8	18,254	18,503	-1
Pigment (Heubach)	14,790	0	*NA*	16,830	-12	50,440	0	*NA*
Others	517	654	-21	605	-15	1,626	1,468	11
Less: Inter-segment	240	2	10711	0	*NA*	240	10	2424
Total Revenue	**21,030**	**6,664**	**216**	**23,950**	**-12**	**70,080**	**19,961**	**251**
Segment EBITDA (Rs m)			**y/y (%)**		**q/q (%)**			**y/y (%)**
Pigment (legacy)	815	790	3	863	-6	2,550	2,740	-7
Pigment (Heubach)	(380)	-	*NA*	250	-252	650	-	*NA*
Others	(26)	(0)	*NA*	59	-144	35	(200)	*NA*
Adj. EBITDA	**409**	**790**	**-48**	**1,172**	**-65**	**3,235**	**2,540**	**27**

Source: Company, Anand Rathi Research

Earnings Concall – Key Takeaways

Strategic Integration

- **Operational stabilization:** Integration is progressing well with unified culture. Customer service development and technical marketing teams are set up across regions. The new GCC inaugurated at Pune will gradually strengthen capability and efficiency. SAP consolidation is underway to move from four systems to one integrated platform by Dec-26.
- **Value capture initiatives:** Focus continues towards supplier optimization, contract renegotiation, cost rationalization and recipe optimization. About Rs0.4bn fixed-cost savings were realized in Q3FY26, with further synergies expected as integration deepens.
- **WC efficiency to improve:** Initial priority post-acquisition was to rebuild customer trust and stabilise supply chain. Cutting stocks earlier could have disrupted service reliability. With confidence now restored, the company plans to reduce inventory by **€30-40m over the next three quarters**, with sales coming from existing (good-quality) inventory and no discounting. This will improve cash flow and reduce net debt, though lower production will temporarily impact reported EBITDA.

Outlook & Management Guidance

- **Revised EBITDA guidance.** FY26 business EBITDA is revised down to ~€16m (vs €25-30m guidance in Q2) as lower production amid targeted inventory liquidation of €30-40m temporarily depresses reported profitability for upcoming 3 quarters.
- **Recovery from Q4.** Demand is expected to improve with better sales momentum, easing destocking, and renewed orders from global accounts in Q4 with encouraging response received in Jan-Feb 2026.
- **Long-term guidance remains intact.** The management has kept its long-term (3-4 year) guidance unchanged, with a strategic target of €90-100m EBITDA, driven by cost saving, synergies and normalised revenue. Improvement from current levels is expected to be gradual rather than back-ended.

Market & Industry Trends

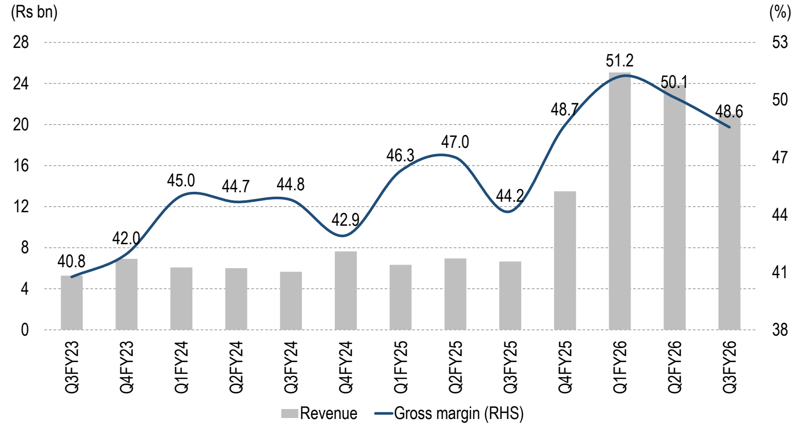
- **Global demand weakness to ease:** Pigment demand remains soft across paints, auto, industrial segments, across Europe and North America, but recovery is expected from Q4FY26, as destocking slows, tariff clarity improves and global orders pick up.
- **Muted demand in legacy pigments:** Legacy pigments saw a marginal dip in Q3, while domestic demand is showing the early signs of revival.

Other Highlights

- **Other Expenses:** In Q3FY26, the company reported Rs157m forex gain; Rs60m forex gain on redeemable preference shares and Rs90m expense on deal closure cost.
- **Debt Position:** Net debt stood at Rs11bn with borrowing cost of 5.5-6% and rest of finance cost being on accounting of leasing etc. Net WC remained steady at 25.6% of sales in 9MFY26 (vs. H1FY26).

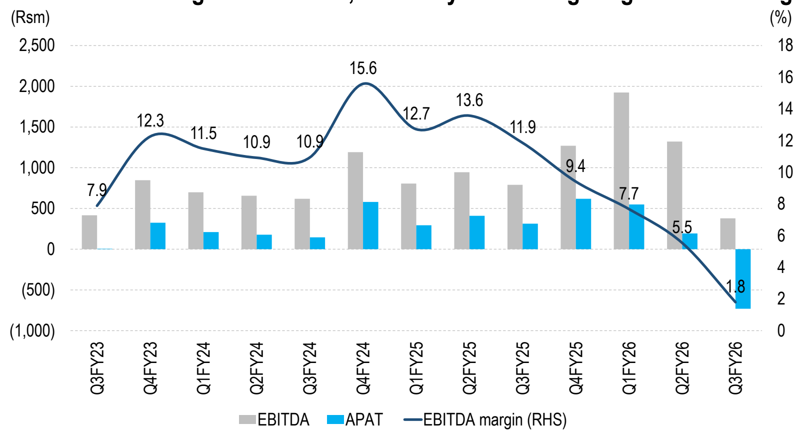
Quarterly Trends

Fig 10 – Destocking by global customers impacts Q3 growth



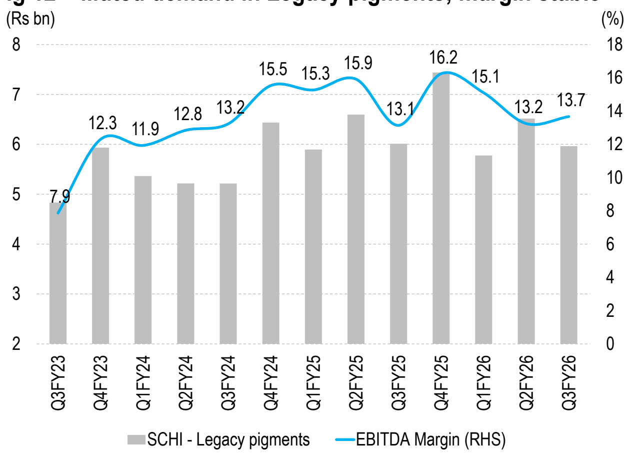
Source: Company, Anand Rathi Research

Fig 11 – Heubach's higher fixed-cost, inventory destocking drags EBITDA margin



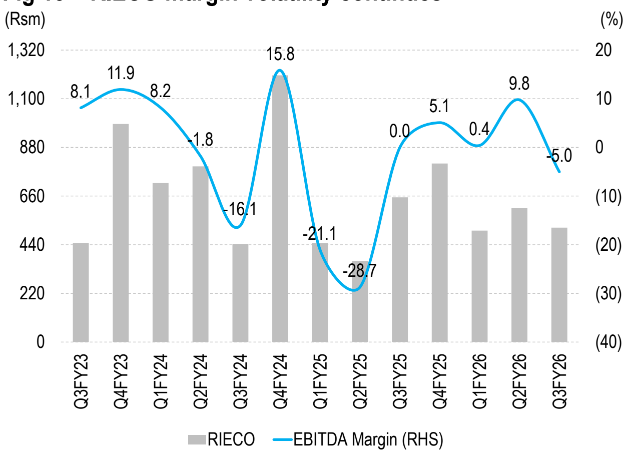
Source: Company, Anand Rathi Research

Fig 12 – Muted demand in Legacy pigments; margin stable



Source: Company, Anand Rathi Research

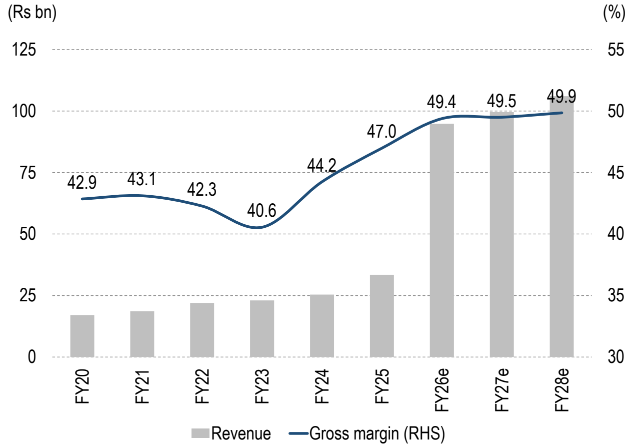
Fig 13 – RIECO margin volatility continues



Source: Company, Anand Rathi Research

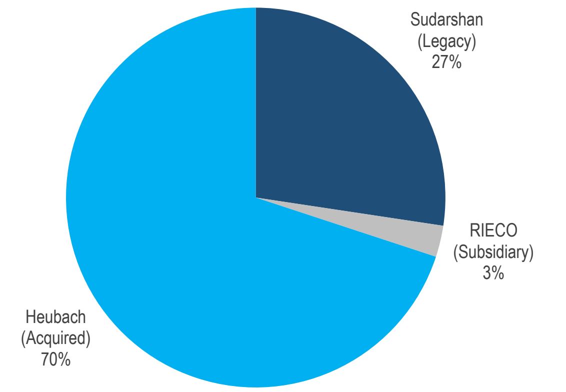
Story in Charts

Fig 14 – 4x revenue entity with a better gross margin



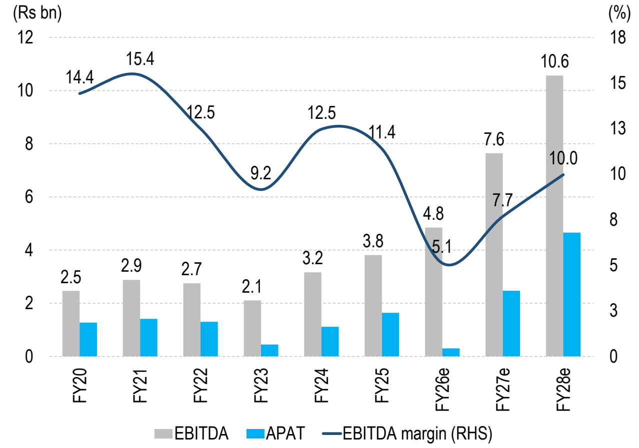
Source: Company, Anand Rathi Research; Note: FY25 is unadjusted for Heubach financials

Fig 15 – Revenue-mix dominated by acquired entity



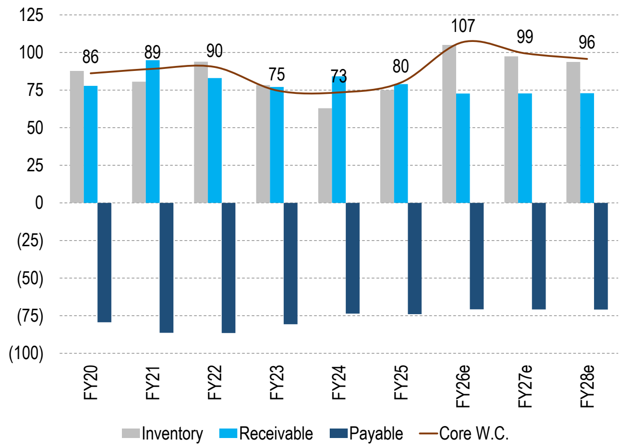
Source: Company, Anand Rathi Research

Fig 16 – Margin to pick up on improving cost efficiency



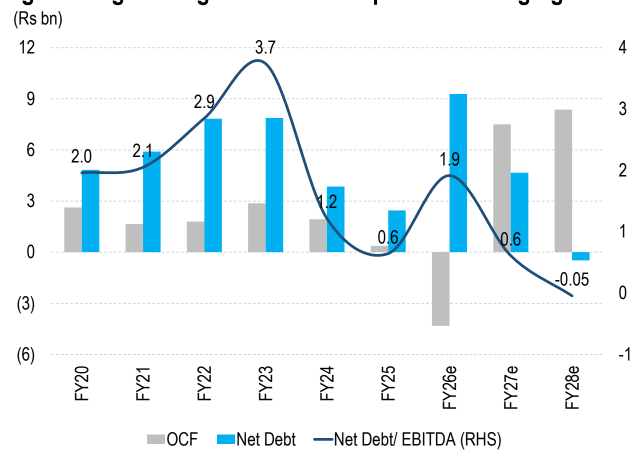
Source: Company, Anand Rathi Research; Note: FY25 is unadjusted for Heubach financials

Fig 17 – Stretched WC on supply-chain rebuild



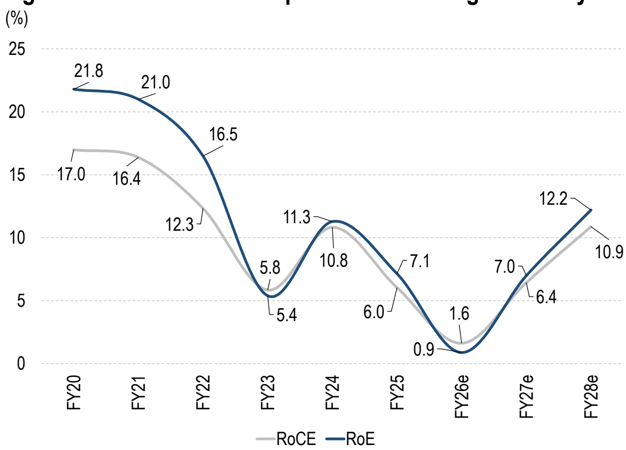
Source: Company, Anand Rathi Research Note: FY25 is unadjusted for Heubach financials

Fig 18 – High OCF generation to help BS deleveraging



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

Fig 19 – Return ratios to improve with earnings recovery



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

Outlook and Valuation

Given the near-term earnings reset (lower Heubach profitability and inventory liquidation-led EBITDA pressure), we moderate our forecasts. We expect consolidated revenue at ~Rs105bn (~4% cut) in FY28, led by gradual recovery and scale-up in Heubach. Consolidated EBITDA is estimated at ~Rs10.6bn (~9% cut) with 10% EBITDA margin, assuming legacy pigments sustains ~16% margin, Heubach gradually recovers to ~7% (from ~8% earlier), and RIECO improves to ~8% on transformation benefits. Applying 13x/9x/9x EV/EBITDA to SCHI legacy/RIECO/Heubach (FY28e) yields an EV of ~Rs115bn and equity value of ~Rs110bn. We maintain **BUY** rating on the stock with a lowered SOTP-based TP of **Rs1,400/sh** reflecting near-term softness but intact medium-term integration-led recovery.

Fig 20 – SOTP-based TP of Rs1,400/sh

(Rs m)	FY26e	FY27e	FY28e
Revenue (Rsm)	**94,780**	**99,536**	**105,998**
Sudarshan (parent)	25,961	28,531	31,364
RIECO (subs)	2,434	2,629	2,839
Heubach (global)	66,384	68,376	71,795

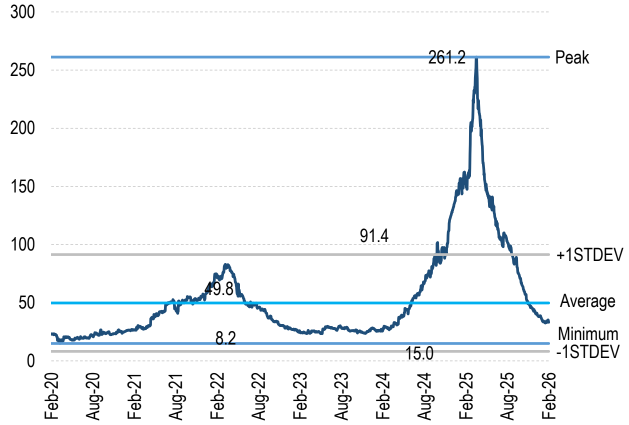
(Rs m)	FY26e	FY27e	FY28e	EV / EBITDA (x)	FY28 EV (Rs m)
EBITDA (Rsm)	**4,846**	**7,641**	**10,564**		**114,887**
Sudarshan (parent)	3,617	4,091	4,952	13	64,382
RIECO (subs)	34	131	227	9	2,044
Heubach (global)	1,195	3,419	5,385	9	48,461

EBITDA margin (%)	**5.1**	**7.7**	**10.0**
Sudarshan (legacy) - %	13.9	14.3	15.8
RIECO (subs) - %	1.4	5.0	8.0
Heubach (global) - %	1.8	5.0	7.5

Consol. net debt (Rs m)	**4,666**
Equity value (Rs m)	**110,221**
No. of shares – post-dilution (m)	**78.6**
Fair value (Rs/sh)	**1,400**

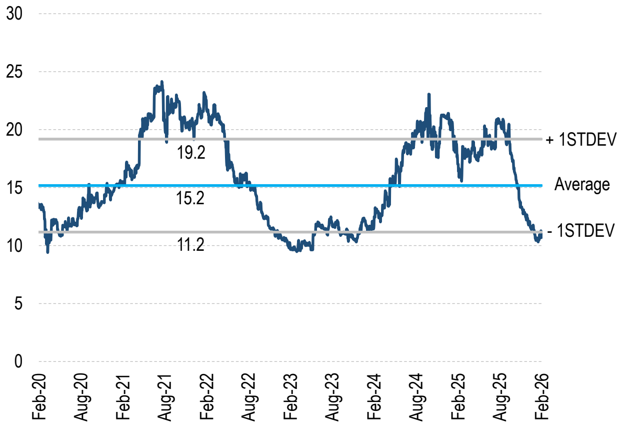
Source: Anand Rathi Research

Fig 21 – 1-Year Fwd. P/E Band



Source: Company, Anand Rathi Research

Fig 22 – 1-Year Fwd. EV/EBITDA Band



Source: Company, Anand Rathi Research

Key Risks

- Delay in Heubach profit recovery.
- Muted global demand environment.

Appendix

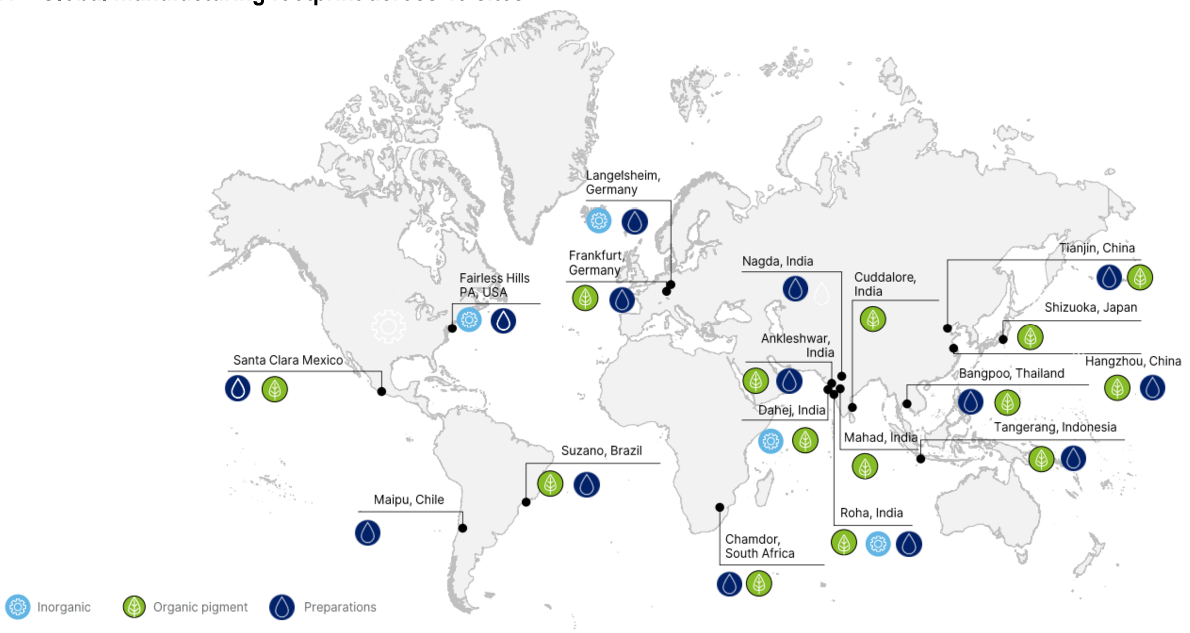
Fig 23 – Integration progress in 9MFY26 against 1 year key priorities.

NOT EXHAUSTIVE

Key year 1 priorities	Latest achievements
Customer centricity	Improved customer service e.g., with regional CSD teams
Value capture plan execution	Progress on the value capture work: 40 INR Cr fixed cost savings Q3 vs Q1 FY26
Optimized org and operating model	Inaugurated Global Capability Center (GCC) in Pune, gradual shift of applicable jobs from global teams to the GCC over the next 6-8 months
One Culture	Aligned purpose, mission, values with >90% of colleagues identifying and living the new culture
SAP S/4HANA RISE With SAP – Processes and systems integration	SAP integration (moving from 4 to one integrated system) well underway, expect fully harmonized system landscape by Dec 26

Source: Company

Fig 24 – Global manufacturing footprint across 19 sites



Source: Company

Appendix

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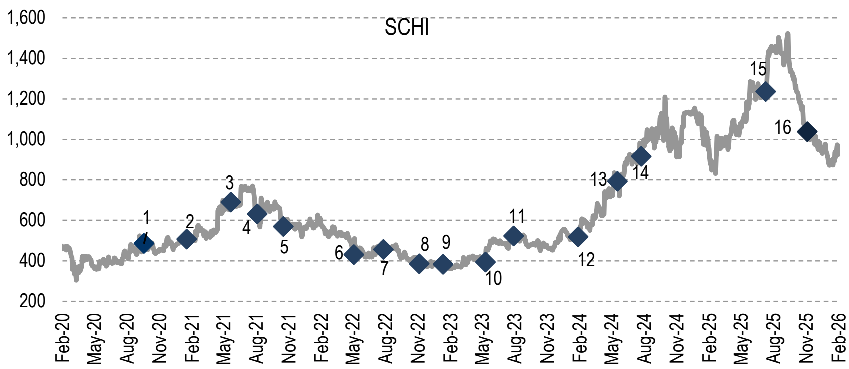

	Date	Rating	TP (Rs)	Share Price (Rs)
3	01-Jun-21	Buy	850	666
4	10-Aug-21	Buy	850	642
5	30-Oct-21	Buy	850	568
6	27-May-22	Buy	633	451
7	09-Aug-22	Buy	585	451
8	11-Nov-22	Buy	500	391
9	08-Feb-23	Hold	435	383
10	24-May-23	Hold	480	439
11	09-Aug-23	Hold	580	533
12	05-Feb-24	Hold	550	533
13	21-May-24	Hold	900	836
14	05-Aug-24	Hold	1,042	919
15	30-Jul-25	Buy	1,700	1,413
16	17-Nov-25	Buy	1,540	1,036

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