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ArihantCapital
Generating Wealth

Initiating Coverage
19th January 2026

Sudarshan Chemical Industries Ltd.

Global Reach, local Edge: Sudarshan's Heubach bet

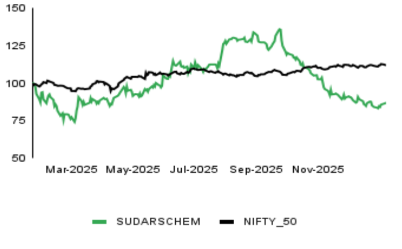
CMP: INR 873	
Target Price: INR 1470	
Rating: Buy	
Stock Info	
BSE	506655
NSE	SUDARSCHEM
Bloomberg	SUDARSCHEM:IN
Reuters	SUDARSCHEM.BO
Sector	Pigments
Face Value (INR)	2
Equity Capital (INR Mn)	157
Mkt Cap (INR Mn)	68,540
52w H/L (INR)	1,604 / 796
Avg. Yearly Volume (in 000')	193

Shareholding Pattern %
(As on Sept, 2025)

Promoters	8.2
DIIs	24.2
FIIs	8.54
Others	59.10

Stock Performance (%)	1M	6M	1Y
SUDARSCHEM	-9.75	-30.52	-21.83
Nifty 50	-1.31	2.14	9.78

SUDARSCHEM Vs Nifty



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Sudarshan Chemical Industries Ltd (SCHI) represents a compelling acquisition-driven growth story at inflection point. Following the March 2025 acquisition of the global Heubach pigments business—a transformational deal that added ~INR 7.5 bn+ in annual revenues and consolidated its position as the largest independent pigment manufacturer globally—the company is poised for ~20% EBITDA CAGR over FY26-30E coupled with 1060bps expansion in ROCE over the same period. We initiate with a BUY rating with a target price of INR 1,470 base on 10x EV/EBITDA multiple on Dec'27 EBITDA anchored on: (1) global scale achievement elevating margins by 350-370bps through operational synergies, (2) 10+ year runway of high-margin specialty pigments with secular tailwinds from industry consolidation and China+1 supply chain diversification, and (3) modest valuation of 6.3x FY28E EBITDA— in-line with global specialty chemicals peers despite superior growth. While bleak demand outlook, higher cost base in Heubach and integration complexity present near-term headwinds, the EBITDA margin (post-Heubach) is expected to stabilize at 10.5-11% by FY29E (~7% in FY26E) driving 19%/44% CAGR in EBITDA/PAT over FY26E-30.

Investment Rationale:

Global scale multiplication: The acquisition of Heubach on a cash-free, debt-free basis for INR 13.4 bn is a step-change event elevating SCHI in the top two global pigment player with an estimated market share of ~15% (from 3.5%). The deal adds a vast global manufacturing footprint of 17 international sites, bringing the total to 19, and an annualized revenue base of ~INR 7.5 bn (cons. INR 100-105 bn). This provides immediate scale, broader portfolio with higher specialty mix, a diversified geographic presence that mitigates geopolitical tariff risks, and access to a broader, well-established customer base. The combined operations have led to revenue quadrupling to ~INR 100+ bn from FY24 base of INR 25.4 bn expected to grow ahead of industry growth given higher specialty mix supported by regulatory tailwinds.

Significant margin expansion levers: Management has outlined a clear strategy to drive cost normalization through: (1) capturing significant cost synergies from the Heubach integration across SG&A, manufacturing, procurement, and IT expected to drive ~370bps contraction in acquired entity operating costs (likely to drove ~260bps expansion in EBITDA margin) over FY26E-30; (2) unlocking operating leverage from the recently completed INR 7.5 bn domestic capex program focused on high-margin specialty pigments likely to drive ~110bps EBITDA margin expansion over FY26-30, which is currently in its early utilization phase; and (3) a strategic portfolio shift towards higher-value products (post Heubach acquisition) which have elevated Gross margins to 52-53% from 44-45% in FY24.

Positioned to capitalize on Industry shifts: Sudarshan is exceptionally well-placed to benefit from structural shifts in the global chemical industry. The ongoing "China-plus-one" strategy among global customers, coupled with recent turbulence and consolidation in the pigment sector, presents a "golden opportunity" for stable, cost-competitive suppliers. Sudarshan's expanded global footprint and a broad product portfolio comprising over ~90% (pigment universe) will enable it to win market share from distressed competitors and accelerate customer approvals.

- **Addressable market** of USD 10-11 bn (pigments)
- **India cost advantage** (15-20% structural cost edge) + best-in-class environmental compliance (EcoVadis Gold, CDP B ratings)

Valuation and Outlook

Sudarshan Chemical Industries Ltd represents a rare combination of secular growth visibility, transformational M&A execution, and valuation upside in the global pigments market. The Heubach acquisition catapults SCHI from a regional India-focused player to the largest independent pigment manufacturer globally, with exposure to premium OEM customers across automotive, coatings, and cosmetics. Assuming execution-on-plan, EBITDA margins are expected to expand toward 10.5-11% by FY28 (vs. current ~7%), driving ROCE improvement to 12.5-14% (from 5% currently), and free cash flow generation of ~INR 10bn over FY26-28 leading to SCHI becoming Net cash by FY27end (from Net Debt of ~INR 4bn currently) supports 44%+ EPS CAGR through FY28.

We initiate coverage on the stock with a "BUY" rating and 12m target price of INR 1,470 valuing at 11x Dec'27 EBITDA of INR 11.05 bn based on : (1) 12-month visibility on Heubach synergy realization, (2) specialty pigments demand sustained by regulatory phase-outs + China+1 tailwinds, (3) ROCE improvement trajectory visible post-integration (FY27-28), and (4) modest valuations of 6x FY28E EBITDA— in-line with global peers despite superior growth profile.**. At INR 873 (CMP), the stock offers ~68% upside to our INR 1,470 12m target**

Near-Term Risks:

- Heubach integration (assumed 12-18 months) creates execution risk; FX headwinds on Euro revenues.
- Demand headwinds in automotive coatings (China slowdown) and printing inks (digitalization).

Summary	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	25,388	33,456	1,00,124	1,07,159	1,14,726
EBIDTA	3,164	3,810	7,066	9,055	11,720
Net Profit	1,131	1,949	2,011	3,876	5,967
Diluted EPS	16.3	24.8	25.6	49.3	75.9
P/E (x)	56.0	36.9	35.7	18.5	12.0
EV/EBIDTA (x)	21.4	22.1	10.4	7.5	5.4
P/BV (x)	5.5	1.8	1.7	1.6	1.4
ROE (%)	0.1	0.1	0.0	0.1	0.1
Debt/Equity (x)	0.3	0.2	0.1	(0.0)	(0.1)

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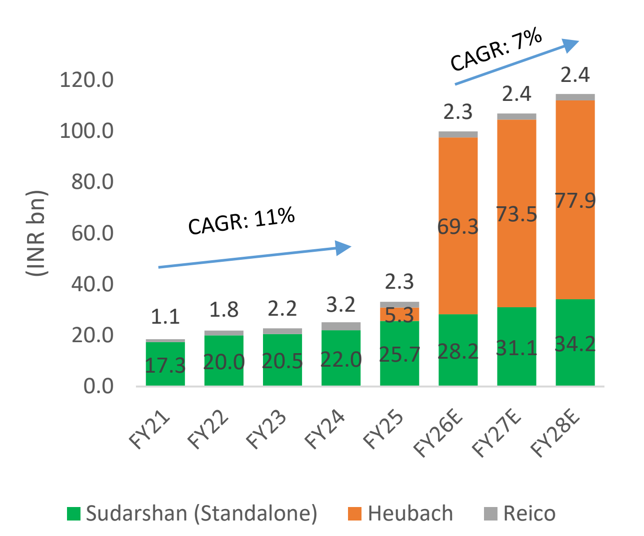
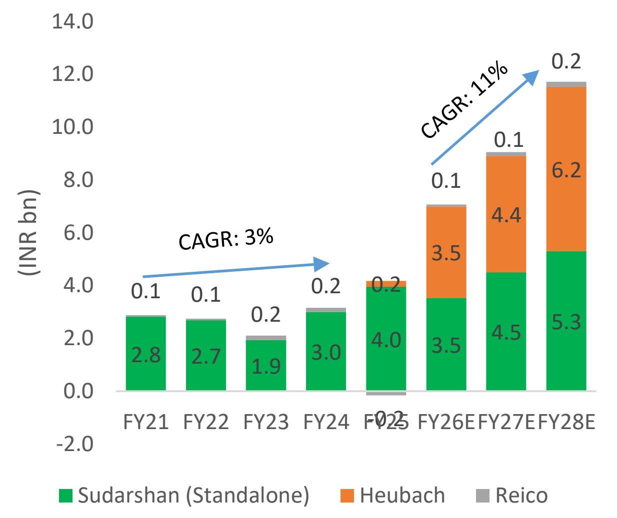
Story in Charts

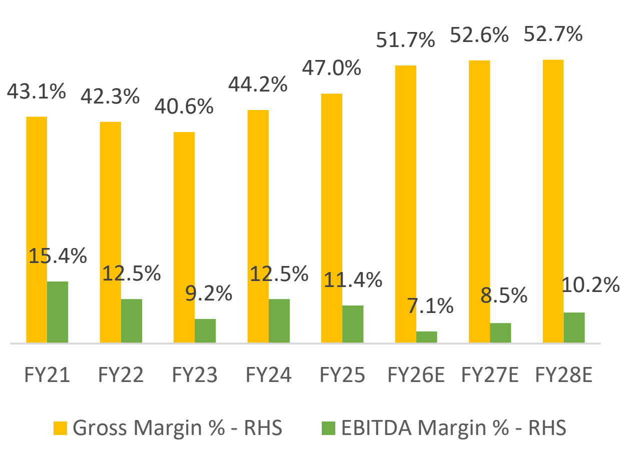
Revenue CAGR of 7% over FY26-28 on portfolio expansion



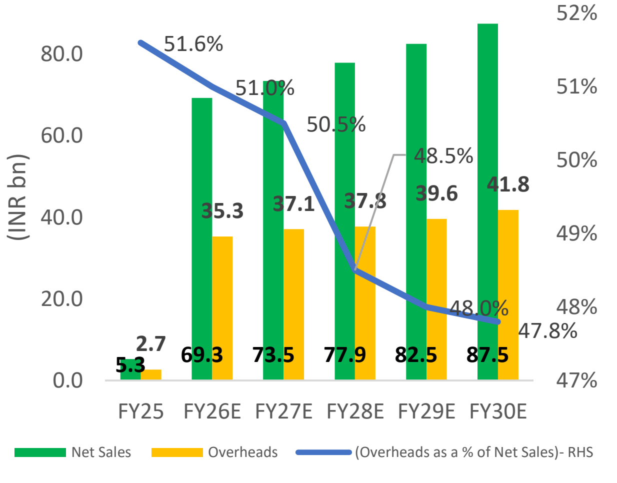
EBITDA CAGR of 11% over FY26-28 on cost rationalisation



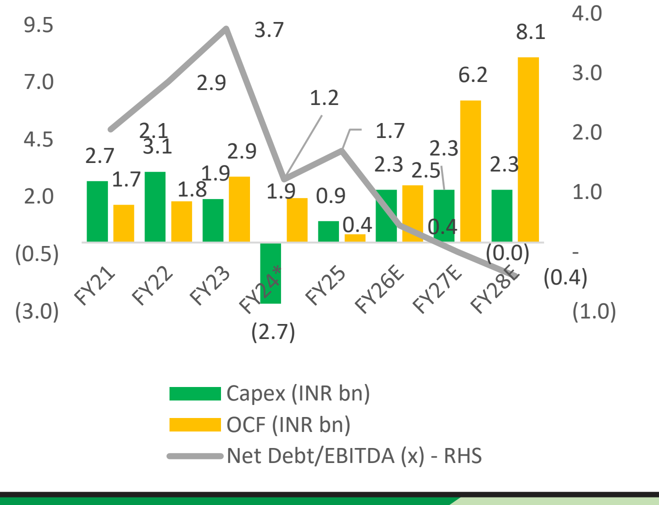
Margin expansion to be driven by mix and synergies



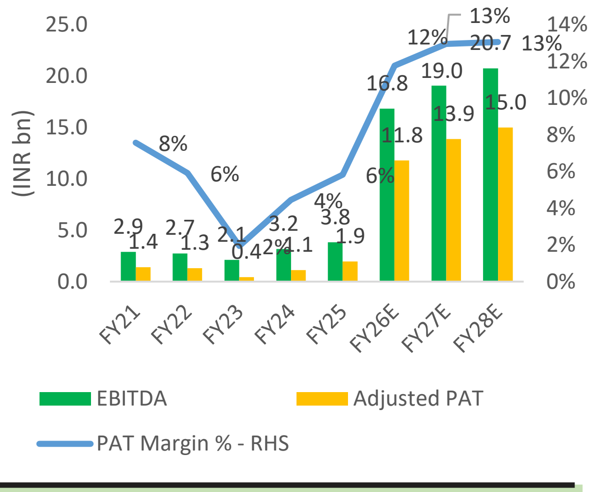
Moderation in overhead costs in the offing



Healthy cash generation and lean capex leading to high FCF



Margin expansion to drive 44% CAGR in PAT

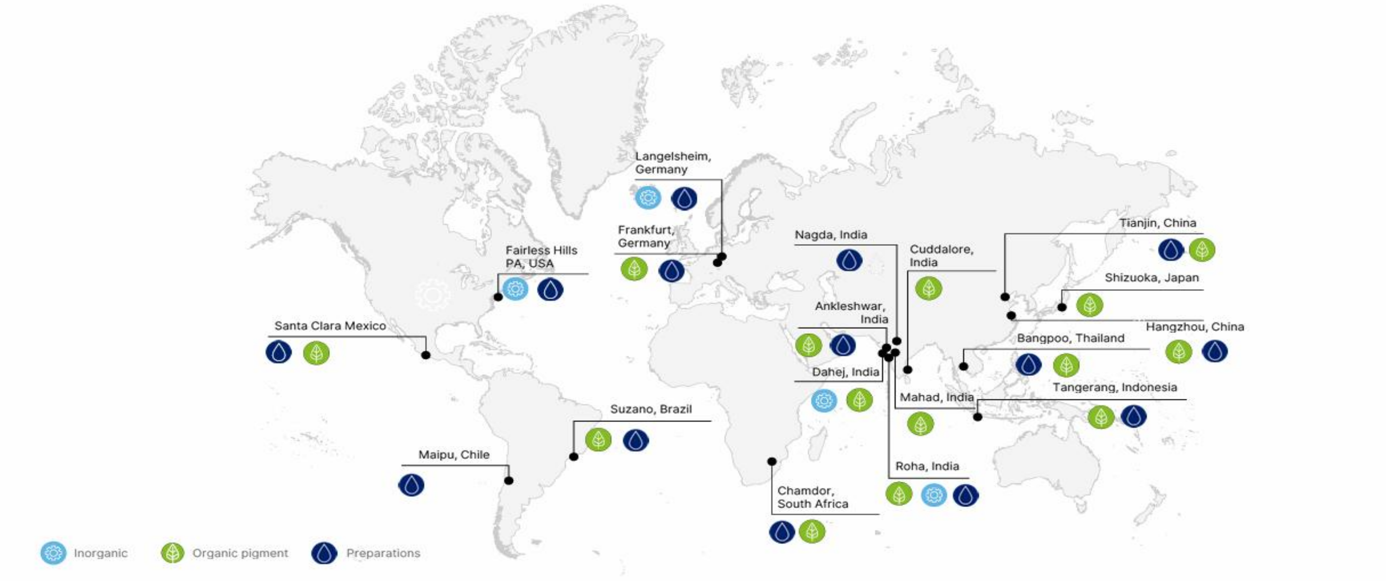


Heubach Acquisition – A Step-Change in Scale and Scope

Global Scale Transformation

The Heubach acquisition is transformational for Sudarshan, reshaping the company from a regional pigment player into a global platform. The combined entity will operate 19 manufacturing sites across 11 countries, materially diversifying demand and mitigating country-specific and tariff-related risks while enhancing manufacturing and supply-chain flexibility.

Global, Diversified Manufacturing Footprint of 19 Pigment Sites



Source: Company AR, Arihant Research

Acquisition Delivers Scale with improved product mix

While Sudarshan's legacy gross margins stood at 44.3% in FY24, the acquired group operates at a significantly higher margin profile, with management reporting an acquired group gross margin of 56%

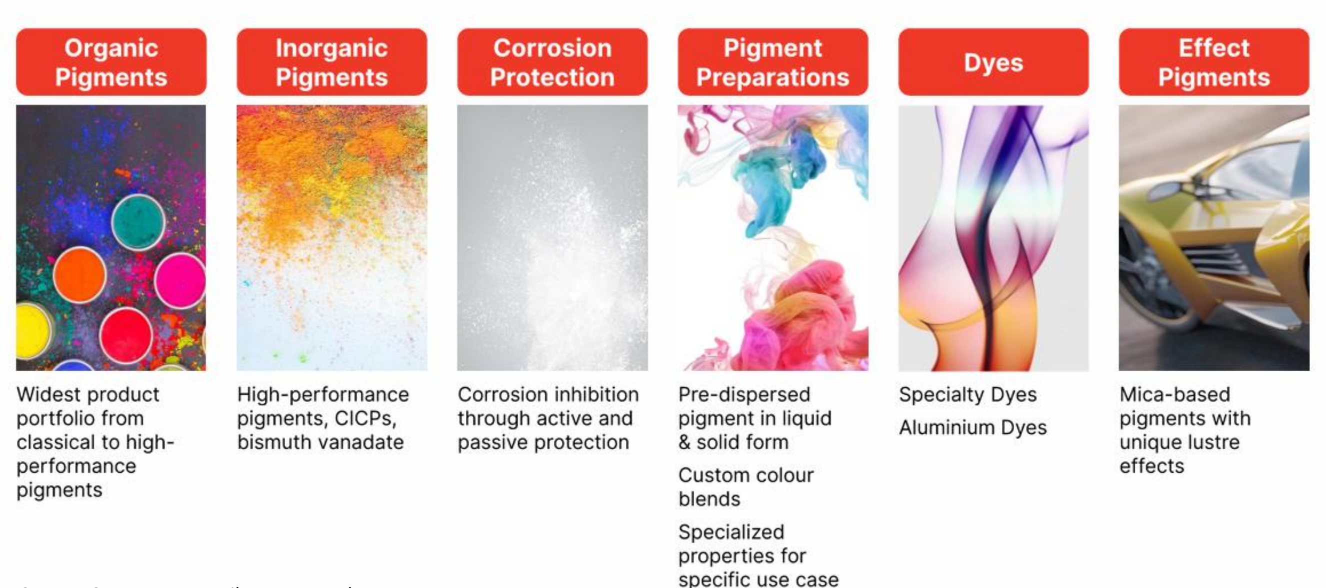
The Heubach acquisition adds INR70–75bn of revenue with a materially higher share of specialty pigments versus Sudarshan's legacy mix. As a result, the transaction not only scales Sudarshan's revenue by ~4x but also lifts consolidated gross margins from ~44% in FY24 to ~52% currently. We forecast Heubach to deliver a topline CAGR of ~6% over FY26–30, driven by resilient end-market demand, relatively benign competitive intensity and structural industry tailwinds, supporting a ~7% CAGR in Sudarshan's consolidated revenue over the same period.

Heubach Financials

Heubach (INR, Mn)	FY25	FY26E	FY27E	FY28E
Revenue	5,250	69,300	73,458	77,865
Growth (YoY%)	5%	10%	6%	6%
Gross Profit	2,930	38,808	41,504	43,994
Gross Margin %	56%	56%	57%	57%
EBITDA	221	3,465	4,407	6,229
EBITDA Margin %	4%	5%	6%	8%

Source: Company AR, Arihant Research

Broadest portfolio in the Industry



Source: Company AR, Arihant Research

"When we benchmarked IT costs, the IT cost by at least 3 to 4 times higher than the world benchmark was“

"renegotiating infrastructure contracts" and "rationalizing high-cost apps“

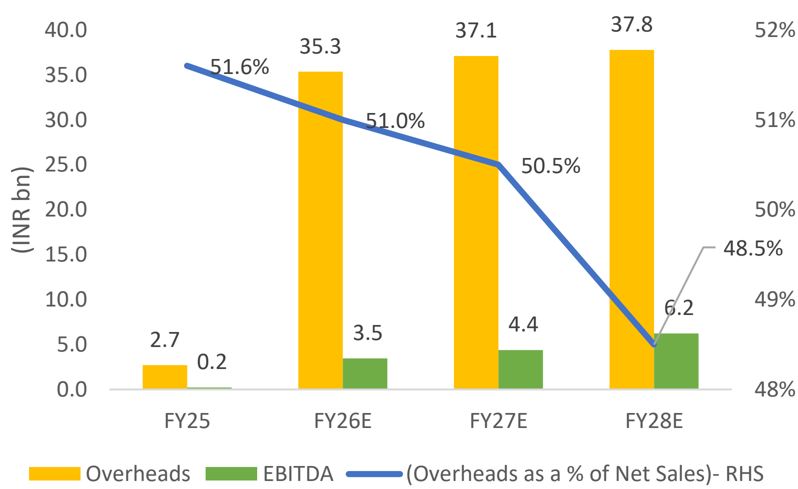
A central pillar of the turnaround is moving from "four different SAP systems" and approximately "70 to 80 applications" into a single, unified "ONE SAP" platform to drive global efficiency

– M.D Mr. Rajesh Rathi

Heubach delivers substantial scale, geographic reach, and specialty mix uplift versus Legacy Sudarshan, yet trails on operational profitability due to expanded manufacturing footprint, elevated procurement costs, and Clariant integration overhang.

Management has outlined a turnaround roadmap with emphasis on rapid integration and disciplined synergy capture. SG&A rationalisation and procurement efficiencies to drive EBITDA accretion; enhanced working capital discipline will unlock cashflows, accelerate deleveraging, and boost RoCE.

Synergies in IT and Procurement to drive cost rationalization in Heubach



Source: Company AR, Arihant Research

Cost rationalization drive to deliver 300-400bps Heubach cost contraction, driving consolidated EBITDA margin expansion of 300-350bps over FY26-30.

Management noted that the integration of three legacies (Sudarshan, Heubach, and Clariant) required a shift from a "day-to-day survival" mindset under previous ownership to a "plan to win" culture.

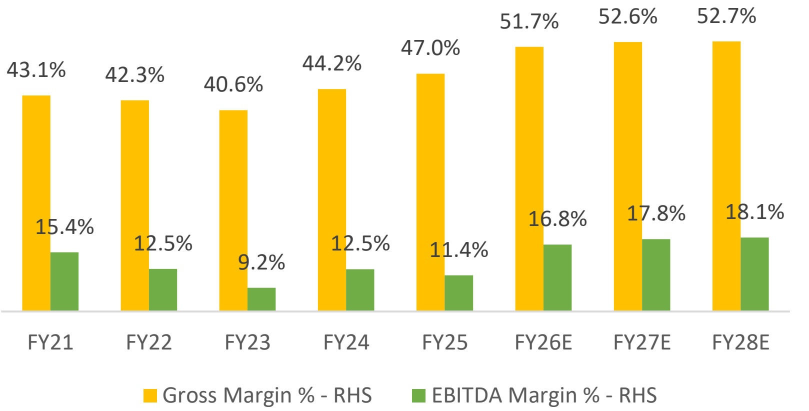
Heubach Group (which had already acquired Clariant Pigments in 2022) remained "in fact still two companies" with "very limited integration of data, systems, culture, and processes"

ONE SAP consolidation (4 systems, 70-80 apps cut from 3-4x industry benchmark), clean-sheet procurement leveraging Asian sourcing, in-sourcing, plus Integrated Management Office driving master planning, organisation, value capture, and change management across the unified platform.

Heubach margin expansion drivers

Heubach gross margins poised for further uplift via: (1) procurement shift to competitive Asian sources with clean-sheet rebate negotiations on combined volumes; (2) recipe harmonisation across 19 sites targeting best-yield processes for core products; (3) in-sourcing key products previously outsourced; and (4) Frankfurt site rightsizing—shifting commodity production to low-cost India while retaining high-end specialties in Germany.

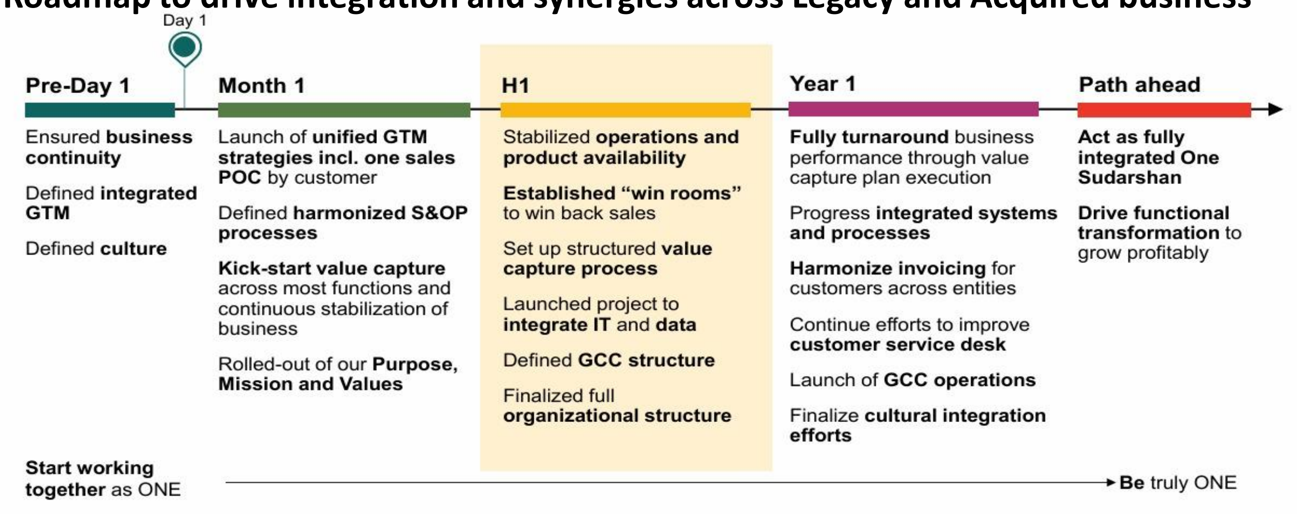
Procurement synergies and process optimization to grant further fillip to cons. Margin trajectory



Source: Company AR, Arihant Research

Heubach manufacturing/procurement optimization—via Asian sourcing, recipe harmonization, in-sourcing, and Frankfurt rightsizing—to deliver incremental 100-110bps consolidated gross margin expansion atop mix-driven improvement over FY26-30.

Roadmap to drive integration and synergies across Legacy and Acquired business

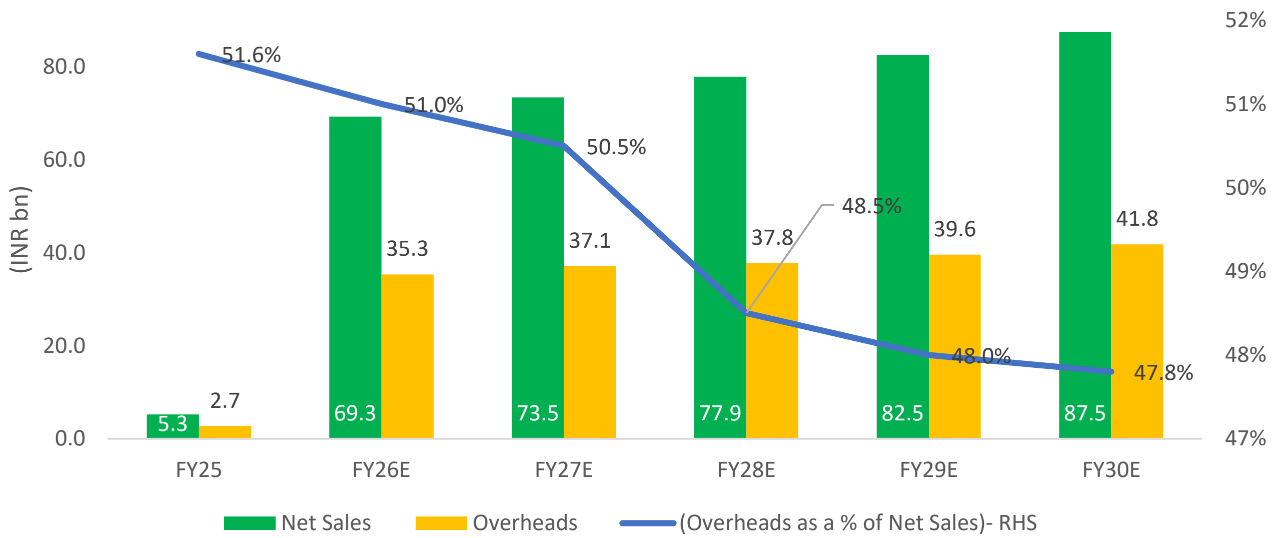


Source: Company AR, Arihant Research

Growth in Heubach to be driven by following levers:

- **Winning back lost businesses** -Sudarshan's "plan to win" targets Heubach's lost business through dedicated win-rooms and direct engagement with 100+ key customers to restore trust post-distress.
- **Cost rationalisation** - Asian procurement shift, recipe harmonisation, in-sourcing, Frankfurt rightsizing—drive 100-110bps incremental gross margin atop mix benefits. SG&A synergies expected to drive ~200bps contraction in consolidated overheads over FY26-30.

ONE Sudarshan plan to drive normalization in overheads



Source: Company AR, Arihant Research

Cost optimization initiatives are expected to drive 300-400bps Heubach cost contraction, yielding 300-350bps consolidated EBITDA margin expansion over FY26-30, additionally 100-110bps incremental gross margin from manufacturing/procurement optimisation atop mix benefits.

Heubach EBITDA turnaround targets €90-100mn within 3-4 years, supported by 6% topline CAGR amid resilient demand and industry tailwinds. While enhanced working capital discipline accelerates deleveraging and lifts ROCE.

The Value Capture Plan and Structural Synergies

- Organizational Rationalization: SCIL is actively optimizing its global organizational structure by removing duplicate roles and streamlining support functions like Finance, HR, and IT.
- IT Unification: A major driver of administrative efficiency is the "ONE SAP" initiative, which integrates 26 separate systems into a single intelligent platform. This is expected to provide a "single source of truth" for management reporting and robust control over global operations.
- SG&A Optimization: Management identified that legacy IT and back-end costs were significantly higher than industry benchmarks, presenting a major lever for cost reduction.

Operational and Manufacturing Excellence

- Process Efficiency: The company is standardizing Overall Equipment Effectiveness (OEE) tracking and harmonizing critical KPIs across all locations.
- Recipe Harmonization: Significant cost savings are being realized by comparing yields and "recipes" across different sites to identify the most efficient manufacturing methods.
- Germany Rightsizing: Management is transitioning the higher-cost German manufacturing sites to focus exclusively on high-end specialty products, while shifting commodity and intermediate production to more competitive Indian sites through in-sourcing.

Strategic Procurement and Supply Chain

- Clean-Sheet Negotiations: SCIL has moved to clean-sheet-based negotiations to secure better volume rebates and contract terms.
- Asia-Led Sourcing: The company is shifting its procurement focus from high-cost European sources to more competitive Asian markets, leveraging its deep knowledge of the Indian and regional supply chains.

Organic Growth Engine Firing Up

All major capex projects under this INR 7.5 bn plan were successfully completed and commissioned in FY23

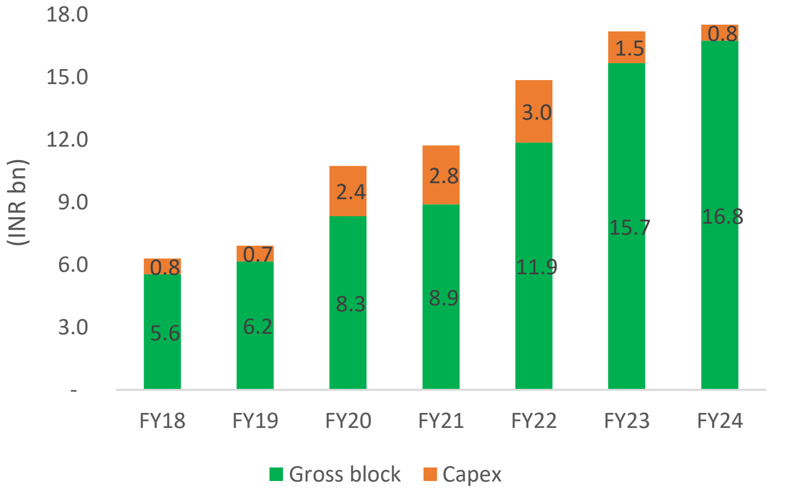
Specialty Capex Ramp-Up

Sudarshan's recently completed INR 7.5bn domestic capex programme— ramping up utilisation—bolsters specialty and high-performance pigments capacity, the new capacities are margin-accretive. As utilization ramps up, expect strong operating leverage from volume fill-up alongside favourable product mix shift to higher-value applications, delivering standalone topline growth while meaningfully lifting ROCE through the cycle.

The conclusion of this cycle allowed SCIL to launch four new, high-demand, high-value product verticals: CICP (Complex Inorganic Color Pigments), Solvent Dyes, Pigment Preparations, and Digital Inks.

Through these investments, the R&D team developed a CICP portfolio that covers "around 80-90% of the total range of products available in the industry," aligning SCIL's offering with Tier 1 global competitors.

~80% surge in gross block led by Rs 7.5 bn capex over FY20-24

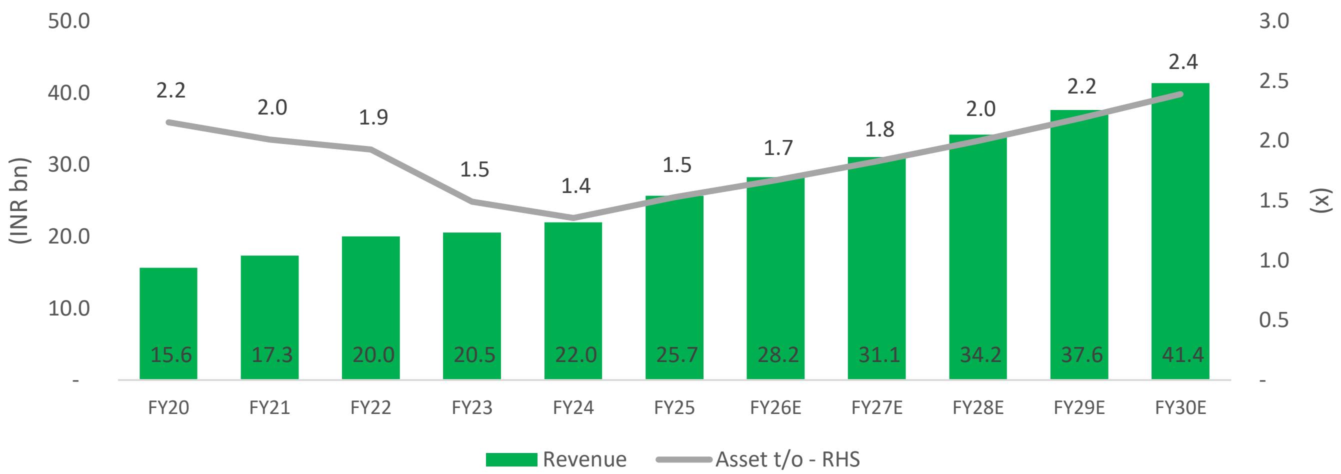


Source: Company AR, Arihant Research

The capex is expected to generate incremental revenue of Rs ~15 bn (~2x asset turns) over 3-4 years.

Sudarshan's INR 7.5bn capex over FY20-23 systematically addressed three imperatives: (1) scaling capacity for existing product lines to capture volume growth; (2) expanding into new segments to plug critical portfolio gaps and diversify revenue streams; and (3) upgrading Effluent Treatment Plant (ETP) infrastructure to support full utilisation of expanded capacities while ensuring regulatory compliance for sustainable long-term operations.

Revenue growth to be aided by utilization ramp-up



Source: Company AR, Arihant Research

The company now supplies colors for global electronics leaders like iPhone and Samsung, including specific pigments used in the iPhone 17 and 17 Pro

Capex-Driven Specialty Mix & Margin Revival

SCHI commissioned its INR 7.5bn capex programme end-FY23, unlocking INR 15bn peak revenue potential from enhanced capacities. With current utilisation at 65-70%, we expect standalone revenue to ramp-up from INR 26.7bn (FY25) to INR 35-36bn by FY30 amid tepid industry outlook—upside acceleration likely on demand recovery tailwinds.

The expansion allowed SCIL to become a preferred partner for automotive and decorative segments, which require high-performance pigments capable of withstanding extreme weathering

Expanding application base into specialities

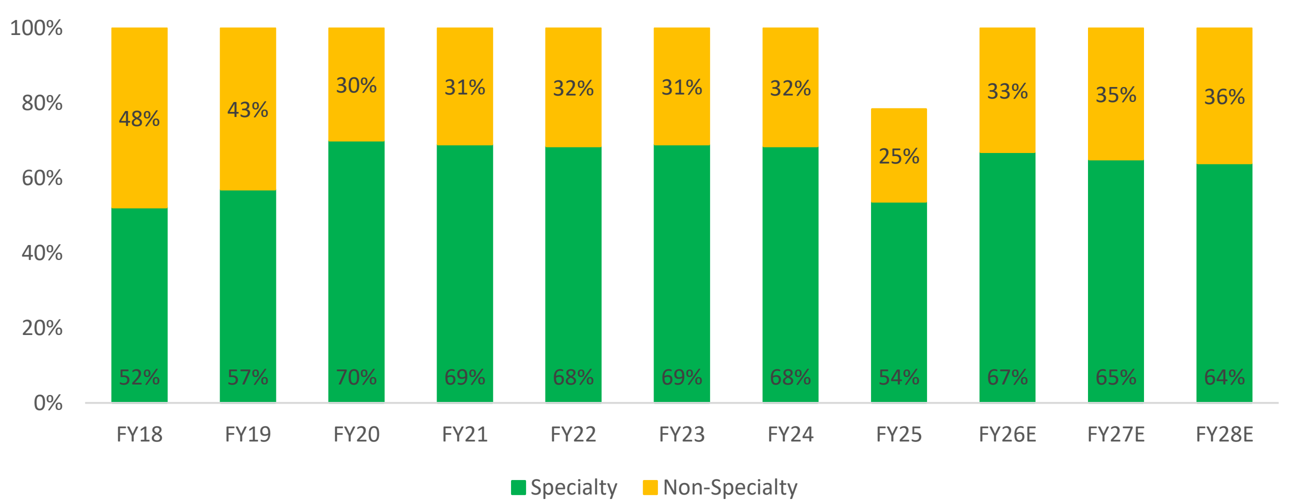
Source: Company AR, Arihant Research

In the High-Performance Pigments (HPP) space, SCIL targeted specific "gaps" by adding yellow and violet pigments, which allowed their range to cover ~90% of the addressable market

Capex-Driven Specialty Mix & Margin Revival

Sudarshan's capacity additions predominantly target value-accretive specialty pigments (over 2/3 EBITDA contribution), driving topline acceleration and gross margin expansion. New revenue streams prove margin-accretive as specialty share accelerates, complemented by RM inflation pass-through. Expect gross margin revival through favorable mix shift alongside sustained EBITDA growth trajectory.

Specialty contribution has increased over last 5 years



Source: Company AR, Arihant Research

Margin expansion driven by multiple levers

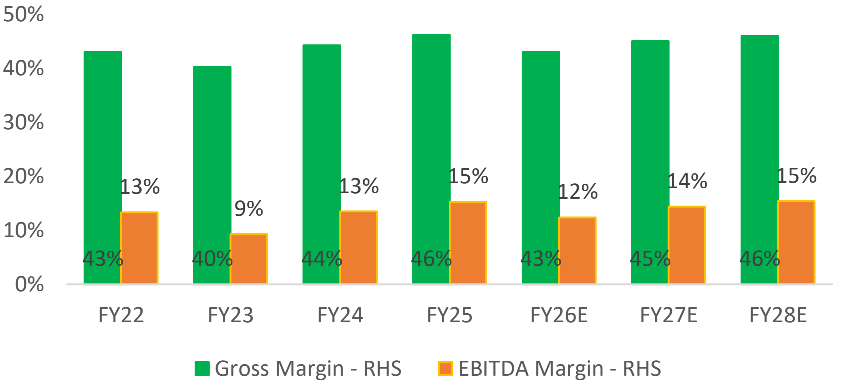
Shift in mix, specifically the ramp-up of HPP and CICP, helped lift gross margins to a new baseline of 45%+, compared to the historical average of ~43%

Mix improvement through new margin accretive products/segments

Sudarshan's capacity expansions strategically allocate ~40% towards value-accretive specialty products, catalysing topline acceleration while structurally enhancing gross margins through superior product mix.

- Higher share of specialty pigments (over two-thirds of Standalone EBITDA currently).
- Share of specialty pigments to grow at a faster clip, leading to better overall margin profile along with acceleration in EBITDA growth.

Higher contribution of specialty portfolio driving margin expansion



Source: Company AR, Arihant Research

Improving operating leverage through ramp-up in capacity utilisation

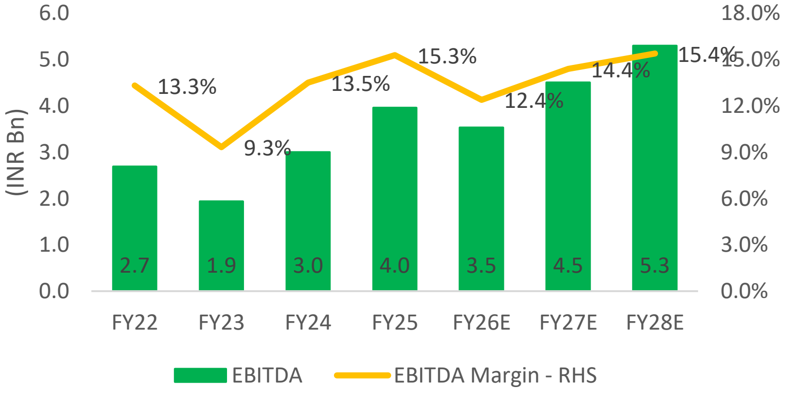
Management targets a return to 14%–15% EBITDA margins at domestic operations as production volumes ramp up to meet demand, ensuring optimal absorption of fixed manufacturing costs

Demand revival is expected to accelerate capacity utilisation further (current utilization at 65-70%). Sudarshan has maintained its 35%+ market share in domestic market and is well placed for share gains on demand revival.

Heubach integration optimises global footprint via non-specialty Azo/commodity production shift from high-cost Germany to upgraded Roha/Mahad facilities—low-cost hubs filling recent capex headroom, unlocking debottlenecking for superior asset turns across unified platform.

ONE Sudarshan is maximizing domestic utilization by transferring non-specialty Azo and commodity lines from high-cost German facilities to world-class Indian hubs like Roha and Mahad

Improving utilization driving operating leverage led margin expansiom



Source: Company AR, Arihant Research

SCHI's India operations to peak out in FY28E with moderate margin expansion

We estimate Sudarshan's standalone business to reache peak capacity by FY28E, led by 35% domestic market share with Heubach-driven volume transfers. New capacities in India will absorbs organic growth from resilient coatings/plastics/inks demand plus non-specialty Azo/commodity production shifted from high-cost Germany.

Sudarshan standalone revenues are likely to deliver 7-8% CAGR from INR 25.7bn (in FY25) to INR 41.3bn by FY30, driven by: (i) sustained specialty product growth; (ii) Heubach integration absorbing lower-value Azo volumes. While, mix improvement and capacity utilisation ramp will drive ~300bps EBITDA margin expansion, driving 10% EBITDA CAGR from ~INR 4bn (FY25) to INR 6.4bn (FY30).

Application segment wise share and CAGR

End-Use	Estimated Share	CAGR	Regulatory Tailwind	SCHI Exposure
Coatings (Automotive)	45%	6-8%	EV metallic/effect shift (+5%)	High (Heubach Tier-1 OEM base)
Printing Inks	25%	2-4%	Digital ink shift (+8%)	Medium (growing digital inks capability)
Plastics	20%	7-9%	Azo phase-out (+6%)	High (HPP adoption)
Cosmetics	10%	10-12%	Naturals/mineral trend (+3%)	High (proprietary cosmetics-grade formulations)

Favorable Industry Dynamics and Market Share Gains

Market Consolidation – Reshaping Competitive Landscape

The global pigment industry has undergone structural consolidation through three major transactions—DIC's acquisition of BASF's pigments business, Heubach's acquisition of Clariant Pigments, and Sudarshan's subsequent acquisition of Heubach—effectively rationalising the top 5 players into a concentrated top 2 structure dominated by scale franchises with broad portfolios and global reach.

The outcome is a highly concentrated top tier of scale players boasting broad technology portfolios, diversified exposure across coatings, plastics, inks and specialty applications, and extensive last-mile customer penetration. **ONE Sudarshan now ranks among the two largest pure-play pigment franchises globally, seamlessly blending legacy Sudarshan's dominance in India and emerging markets with Heubach/Clariant's established leadership in Europe, the US and automotive/industrial coatings ecosystems**.

BASF/Clariant pigment exits (2018-22) vacated USD 1.5bn+ market. As sole pure-play global independent with excess capacity, SCHI captures this via Heubach-enhanced reach across ~120 countries, integrated supply chains and technical service networks.

Recent management commentary and industry checks confirm that large OEMs and global ink/coating majors are rebalancing vendor lists to secure at least two system-relevant suppliers for mission-critical colour solutions, following supply disruptions, European energy shocks and isolated insolvencies during 2023–25. Amid a shrinking pool of viable alternatives in complex organics and specialty segments, this dynamic materially bolsters Sudarshan's positioning to capture incremental wallet share in global key accounts through contract renewals and reformulations under the consolidated industry structure.

Key observations on the Global Pigment market:

• Market is increasingly consolidated, but not all integrations have created more successful companies.
• Geopolitical volatility underlines the importance of global manufacturing footprints and truly global partners.
• Future growth is driven by custom solutions and deep pigment expertise.

The global pigment landscape was contested by five major players: Sudarshan, Heubach, Clariant, BASF, and Sun Chemical. Today, through consolidation, only two global forces remain: the DIC Group (which now includes BASF and Sun Chemical) and ONE Sudarshan.

BASF and Clariant's phased exits from specialty pigments (2018–22) vacated ~USD 1.5bn+ in addressable market. As the sole pure-play global independent pigment producer with excess capacity, SCHI is uniquely positioned to capture this opportunity. Post-Heubach, it serves ~120 countries via integrated supply chains and technical service networks that fragmented competitors struggle to match. Pre-acquisition, SCHI held 3–3.5% of the global organic pigments market (vs. leader's ~15–18%); ongoing regulatory pressures on legacy suppliers (LANXESS, Huntsman) and rising ESG standards favour vertically integrated, low-carbon leaders like ONE Sudarshan.

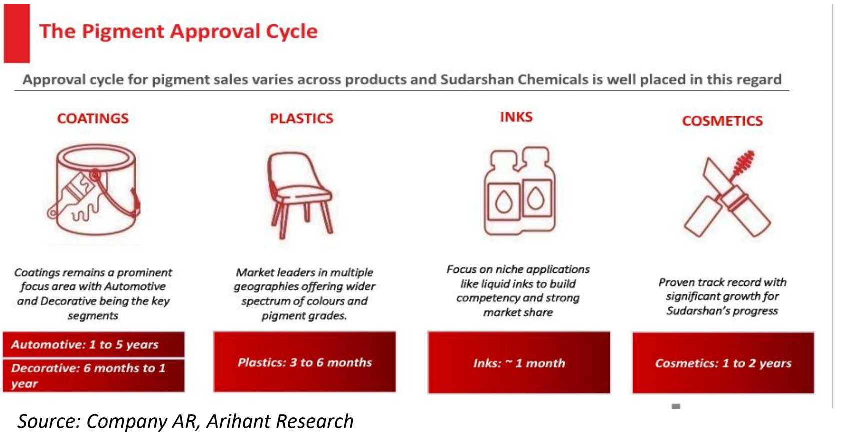
Unlike its primary global competitor with diversified chemical exposure, **ONE Sudarshan** now operates as the sole large-scale pure-play pigment franchise globally. This focus enables 100% R&D and capex allocation to colour technology and customer-centric innovation.

Structural Tailwinds Position Sudarshan as Key Consolidation Beneficiary

Sudarshan now operates in a structurally favorable external environment, with multiple long-cycle tailwinds converging in its favour.

- The China-plus-one sourcing shift has entrenched itself as a core procurement strategy, with global customers actively reallocating volumes away from China towards reliable, REACH-compliant suppliers in India.
- Simultaneously, persistently high energy costs and tightening environmental regulations in Europe continue to pressure local pigment producers, accelerating capacity rationalization and industry consolidation, particularly among sub-scale and financially stressed players.

Industry consolidation resulting in faster approval cycles for SCHI



Source: Company AR, Arihant Research

Broadest Industrial Moat: Consolidation has granted Sudarshan the industry's most expansive portfolio, featuring approximately 1,600 pigment products across 63 brands. This breadth allows them to serve virtually every niche, from automotive coatings and digital inks to cosmetics and construction

This combination of supply-side disruption and customer-led diversification is creating a visible opportunity pipeline, reflected in rising enquiries and sample approvals highlighted in recent commentary. With a portfolio encompassing ~90% of the total offerings in the industry and a broad application presence across coatings, plastics, digital inks, and corrosion protection Sudarshan is well positioned to secure faster qualification cycles, win share from weakened incumbents, and emerge as a key beneficiary of the ongoing consolidation and supply-chain de-risking trend.

Market Dynamic

- The global pigment industry has consolidated from five major players to just two. Sudarshan is now the only global player focused exclusively on pigments.

The Opportunity

- Competitor instability creates a 'golden opportunity' for customers to de-risk their supply chain and partner with a stable, specialized leader.

Sudarshan's Advantage

- A highly complementary product portfolio (80% overlap with global players).
- Accelerated customer approval processes are shortening the sales cycle.

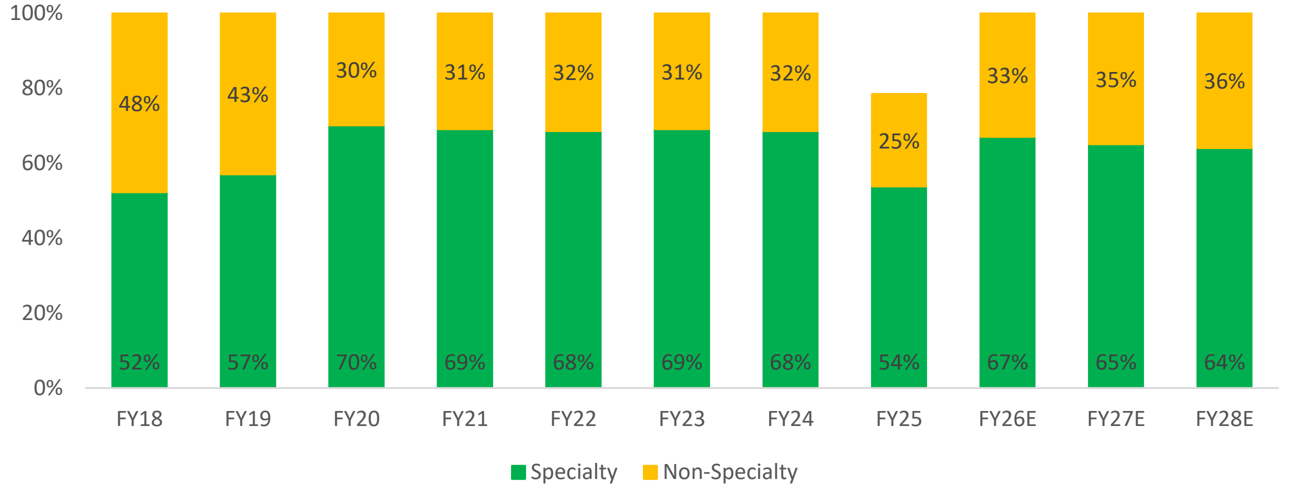
Specialty Pigments Mix Shift – Margin Accretion Engine

SCHI vs. Peers
Unlike commodity-tied peers, Sudarshan's chronological transformation positions it for sustained 15–22% specialty margins, outpacing DIC's historical ceiling and redefining pure-play leadership.

Historical Commodity Dependence
Sudarshan initially grappled with commodity dominance (azos, phthalocyanines), where overcapacity and competitive intensity capped global pigment EBITDA at 8–11%. DIC, the industry leader, peaked at ~8% operating margin in CY20 due to heavy exposure. This era constrained Sudarshan's operating margins to 5–8% for azos and phthalocyanine mirroring peer vulnerabilities.

Strategic Pivot Initiation (Pre-Heubach)
Management explicitly pivoted from "industry clutter" to pure-play specialties—HPPs, CICPs, digital inks—targeting 14–15% EBITDA. USD 7mn tech centre investment accelerated R&D, yielding ~150 new brands in four years and covering 90% of HPP market. FY25 milestone: Completed Pigment Violet 23 range for demanding automotive/industrial coatings, plastics and inks.

Specialty contribution has increased over last 5 years



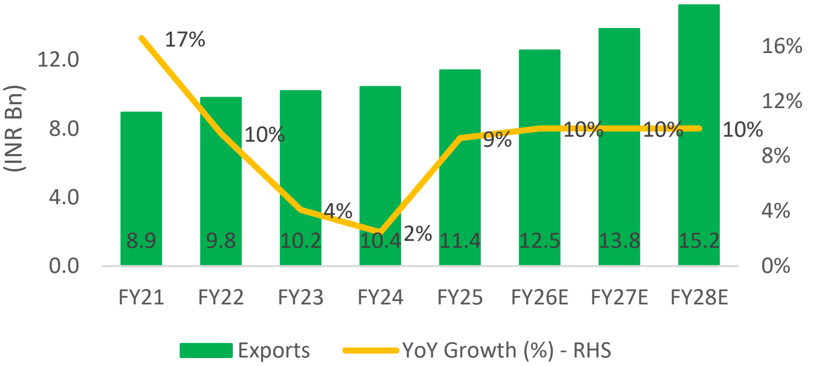
Source: Company AR, Arihant Research

FY16-FY24, SCHI grew specialty/HPP share from ~25% to >45% of total revenue. Gross margins expanded from 42% to 43-44% despite commodity headwinds

Revenue Acceleration & Global Penetration
This shift drove FY24–25 standalone revenue up 18% YoY, with 32% specialty export growth. Sudarshan penetrated high-barrier electronics, supplying approved dyes/pigments for iPhone 17/17 Pro and Samsung ecosystems—elevating from commoditised supplier to tech-validated partner. Heubach acquisition (organic/effect pigments, 80% EBITDA) perfectly complemented the core portfolio.

Global HPPs market ~USD 3.2 bn, growing 7-9% CAGR; Heubach leads in cosmetics (10-12% share), specialty coatings. Combined entity targets 8-10% global market share by FY28 (vs. current ~4%).

Exports growth has recovered driven by higher specialty offtake



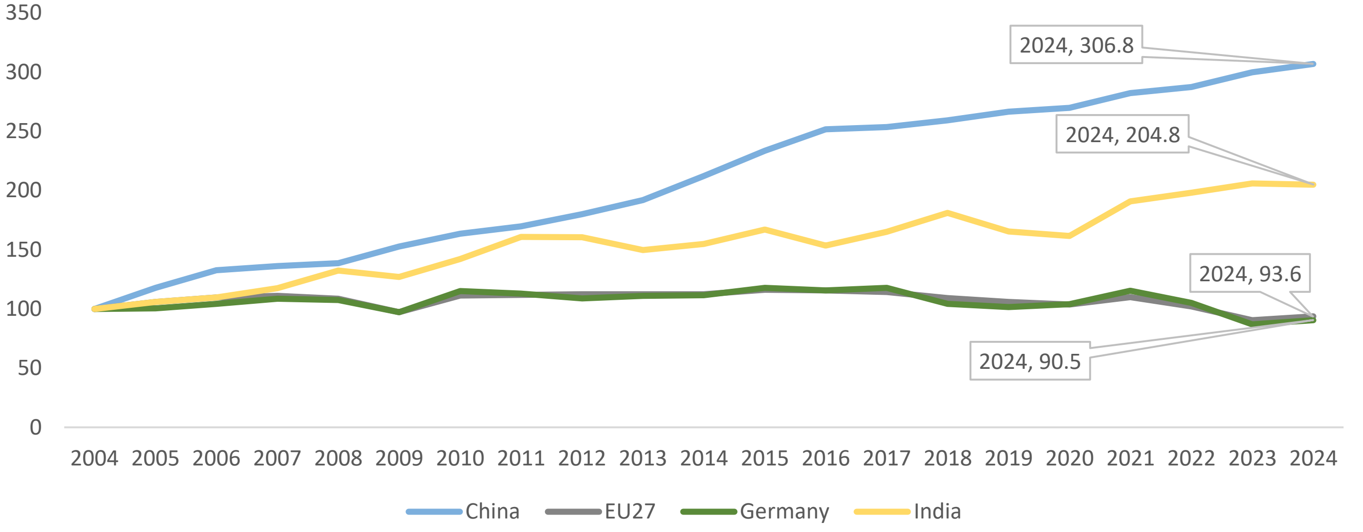
Source: Company AR, Arihant Research

India Cost Advantage + Green Narrative = Structural Margin Protection

Cost Arbitrage & Sustainability Moat
SCHI's Roha and Mahad plants operate at 15-20% unit cost advantage vs. Europe/Americas due to labor (4x cheaper), raw materials (China proximity), and land. Post-Heubach, selective relocation of non-core production (especially commodity azos) to India from Germany/Italy can drive 300-400 bps EBITDA margin expansion over FY27-FY28.

India’s lower production costs—driven by cheaper energy, labour and logistics—grant Sudarshan a ~20–30% edge over European peers, enabling competitive scaling in complementary chemistries. Post-Heubach, this advantage unlocks synergies across 19 sites. Consolidated EBITDA margins held at 11–12% through FY25 despite industry turbulence, outpacing DIC’s historical ~8% peak.

Indexed labour productivity indicates a ~2x productivity in India against EU27

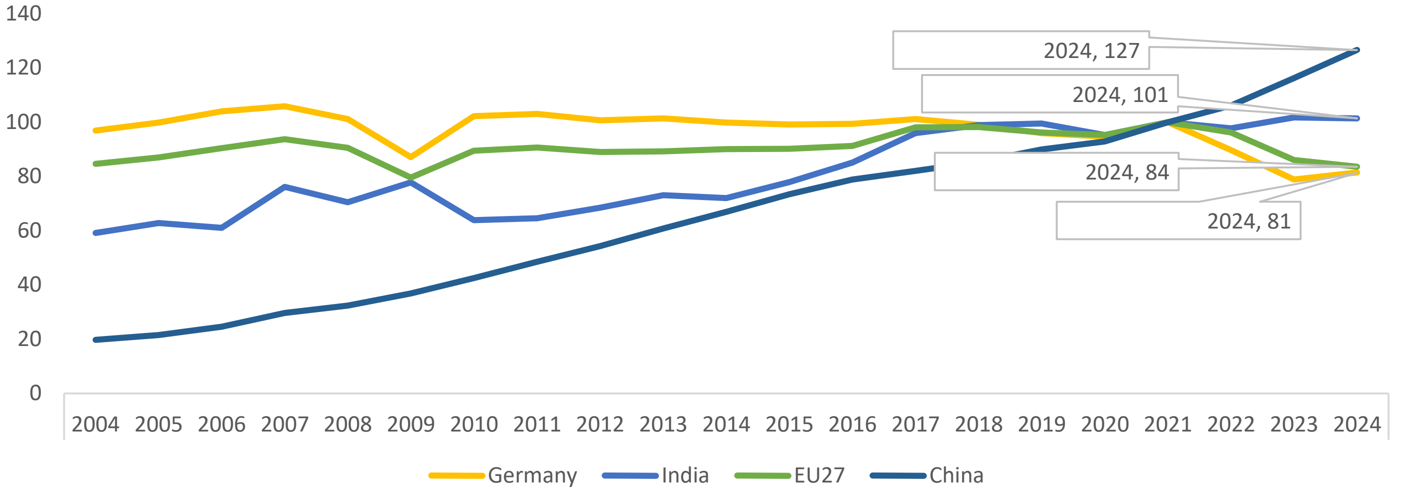


Source: Company AR, Arihant Research

ESG Moat: SCHI's EcoVadis Gold rating (85th percentile globally; top 3% in chemicals) along with SBTi approved decarbonization targets (Scope 1/2 emissions reduction: 40% by 2030) attract premium OEM customers (Tier-1 automotive, CPG) increasingly benchmarking suppliers on carbon footprint. This justifies 10-15% pricing premiums on specialty grades vs. legacy suppliers with higher-carbon footprints.
Sustainability certifications, carbon footprint tracking by end-customer verticals.

Heubach's eco-portfolio (Heucophos, Heucorin anticorrosives; NIR-black recyclables; biodegradable PLA/PHA pigments) aligns with rising ESG mandates. EcoVadis Gold-rated Sudarshan serves 120+ countries with 1,600+ products, ensuring better ESG compliance vs localised supply; peers face legacy carbon penalties. This structural moat targets sustained 10-11% EBITDA, insulating against commodity volatility.

Chemical Production Index indicates lower production in Europe since 2021



Source: Company AR, Arihant Research

Regulatory Tailwinds – Organic Pigment Shift

Addressing Regulatory Barriers: Sudarshan has proactively implemented measures to reduce Persistent Organic Pollutants (POPs) and ensure low VOC (Volatile Organic Content) in its products to comply with stringent international standards, including EU REACH, US Toxic Substances Control Act (TSCA), and USFDA

Regulatory Phase-Out Dynamics

Global phase-out of commodity azo systems is not just regulatory rhetoric but a quantifiable demand reallocation towards high-performance organics and effect pigments. EU REACH restricts azo dyes that can release any of 22–24 carcinogenic aromatic amines above 30 ppm in textiles and leather, with surveys showing around 2–3% of tested consumer textiles historically breaching this limit, triggering stepped-up enforcement and supplier substitution.

Parallelly, POP-related curbs on UV absorbers such as UV-328 in coatings, combined with tightening VOC norms in automotive and industrial paints, are pushing OEMs towards higher-chroma, higher-fastness HPPs and complex organic/effect pigments. Against this backdrop, the global HPP market is estimated at around USD ~6 bn in 2025 and is projected to grow at roughly 5–6% CAGR through 2030–34, with Asia-Pacific (32% share) the fastest-growing region—an end-market dynamic that directly aligns with SCHI's portfolio mix shift.

Green Innovation Focus: In FY25, approximately 80% of R&D investments were specifically directed toward technologies that improve environmental outcomes, such as enhancing solvent recovery and reducing POPs in high-end formulations

SCHI's Compliant Innovation Response

On the supply side, Sudarshan's R&D team has launched close to 150 brands over the last four years and commercialised 25+ incremental specialty products in FY24–FY25, including a proprietary yellow HPP with an 18-month development/scale-up cycle and cosmetics-grade phthalocyanines designed to meet stringent amine, heavy metal and residual solvent thresholds.

Management's internal estimates suggest that regulatory-led substitution can add 300–400bps to organic volume growth in specialty portfolios through FY27–FY28E, supporting a gradual but steady increase in specialty contribution and a structural dilution of commodity exposure from a majority mix towards sub-50% over the medium term. Combined with Heubach's high-value organic and effect pigment franchise—taking the combined entity's targeted global organic share from ~4% pre-merger towards 8–10% by FY28E—this regulatory backdrop effectively transfers value from legacy azo-heavy peers to integrated HPP/effect platforms such as ONE Sudarshan.

Near-Term Catalysts (FY26-FY27):

Successful Integration of Heubach

- Positive early signals will include management commentary on initial wins in SG&A rationalization and procurement synergies within the first year of integration.

Ramp-up of Domestic Capex

- Quarterly results showing a steady increase in utilization rates of the new specialty pigment facilities will provide tangible evidence of operating leverage and margin expansion.

Major Customer Wins

- Public announcements of new, long-term contracts with large global customers would serve as strong validation of the market share gain thesis and the company's enhanced competitive positioning.

EBITDA margin stabilization at 9%+; ROCE improvement to 9% from 5% in FY25.

Strength

Cost advantage: 15-20% structural cost edge vs. Europe (labor, land, raw materials)

Domestic dominance: 35% market share in India; unmatched local presence

ESG credentials: EcoVadis Gold; SBTi targets; renewable energy adoption (70%)

Capex efficiency: Asset-light model; high asset turnover

M&A execution: Successfully integrated 3+ acquisitions (Heubach being largest)

Weakness

Scale gap: Post-Heubach, still 1/4 the revenue of DIC Corp

Lower Margin: 7-8% target EBITDA margin vs. 24-26% for DIC/Huntsman

R&D productivity: Lower R&D spend but also lower patents/year vs. Tier-1 peers

Developed-market brand: Heubach brand equity strong in Europe/Americas; SCHI brand nascent outside India/Asia

Technology IP: Over-reliance on Chinese/German suppliers for advanced intermediates

Financial Analysis:

SCHI has grown its Revenue/EBITDA/PAT at at a CAGR of 10%/7%/-4% xx% over FY20-24 with ROCE ranging from 6-16%. RoE's have trended lower from FY19 onwards as capex was front loaded and EBITDA margins declined from 14% to 12.5% over the period as utilization in new capacities ramped at a gradual pace.

Revenue growth to remain muted amidst industry tailwinds

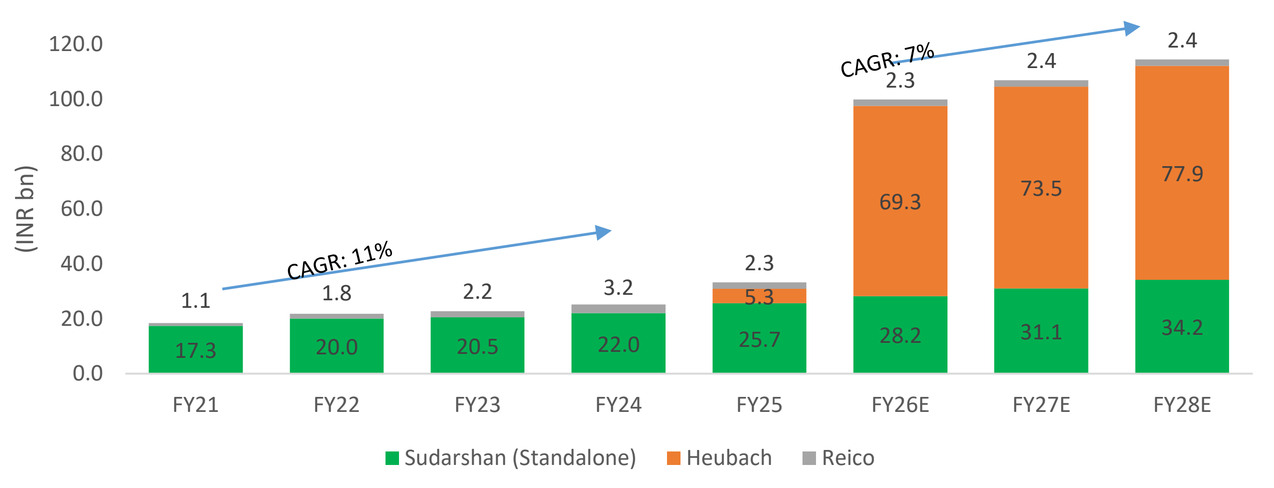
Pigment industry headwinds persist into early FY26—reflected in Q1 revenue surge (295% YoY to INR 25.1 bn on Heubach consolidation) but Q2 moderation (INR 23.9 bn, -5% QoQ; EBITDA margins ~5.5%) amid soft coatings/plastics demand and customer inventory destocking. Management guides recovery from Q4FY26, trimming acquired group EBITDA to EUR 25–30mn but affirming 3–4yr structural targets.

ONE Sudarshan remains optimally positioned via specialty mix (>45% revenue), 85-country footprint and Heubach synergies to capture rebalancing. European distributor tie-ups and geographic expansion underpin mid-term share gains in a structurally upbeat HPP/organics market (~USD 7bn, 5–6% CAGR).

We expect the industry to remain under duress over the short term as recovery is pushed back to FY26end; however, the structural outlook for the market remains upbeat. We see Sudarshan advantageously placed in terms of product profile, geographic reach, and manufacturing prowess to capitalize on demand recovery. We also remain optimistic about the strategic initiatives taken by Sudarshan for rationalizing cost structure.

- We model a 7% CAGR in revenues for Sudarshan over FY26-30E – to be largely led by market share gains globally, given its enhanced product portfolio.

SCHI's revenue to grow at 7% CAGR over FY26-28E driven by portfolio expansion

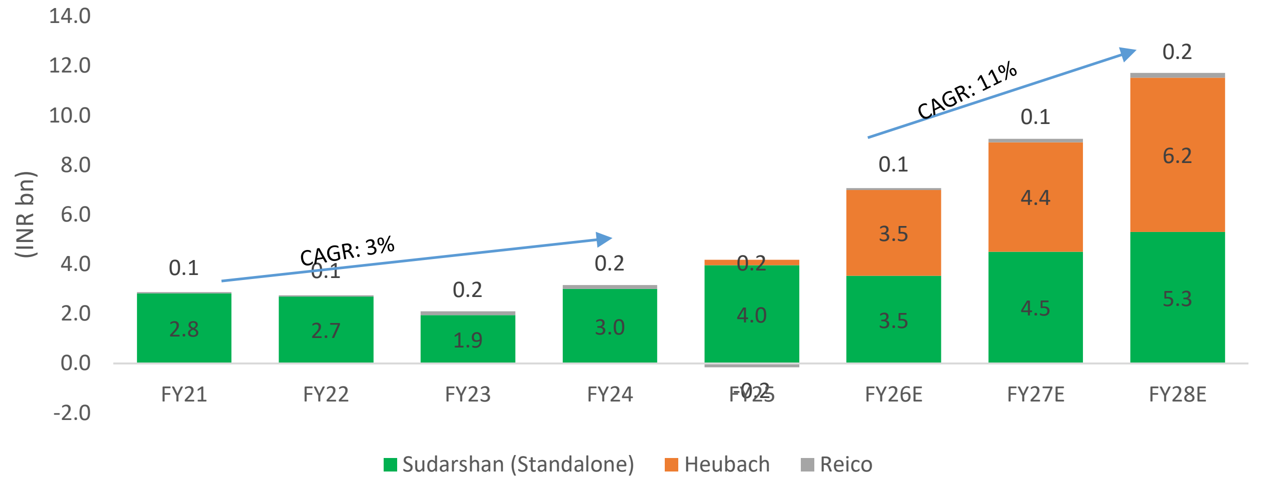


Source: Company AR, Arihant Research

Margin to rebound as integration synergies and operating leverage kicks in

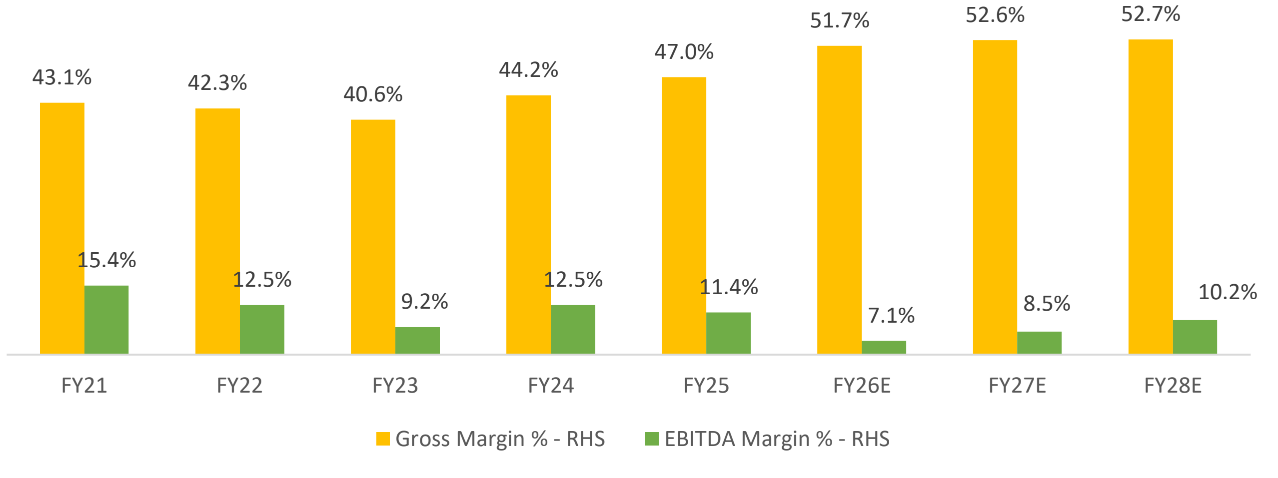
Management's cost normalization roadmap rests on three pillars: (1) Heubach synergies delivering ~370bps opex contraction (SG&A, procurement, manufacturing, IT) across FY26–30E; (2) operating leverage from INR 7.5bn specialty capex unlocking 100–150bps EBITDA expansion as utilization ramps; and (3) portfolio upgrade post-Heubach lifting gross margins to 52–53% (FY24: 44–45%).

SCHI's EBITDA to grow at 11% CAGR over FY26-28E driven by synergies and operating leverage



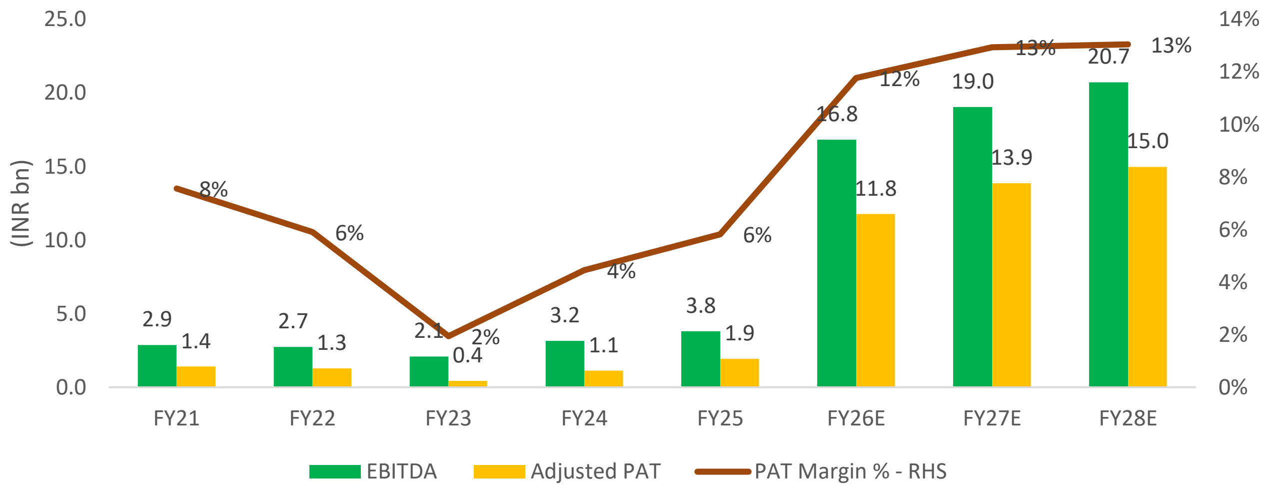
Source: Company AR, Arihant Research

Sustained improvement in margin trajectory on the back of mix improvement and lower overheads



Source: Company AR, Arihant Research

PAT expected to grow ~8x over F25-28E

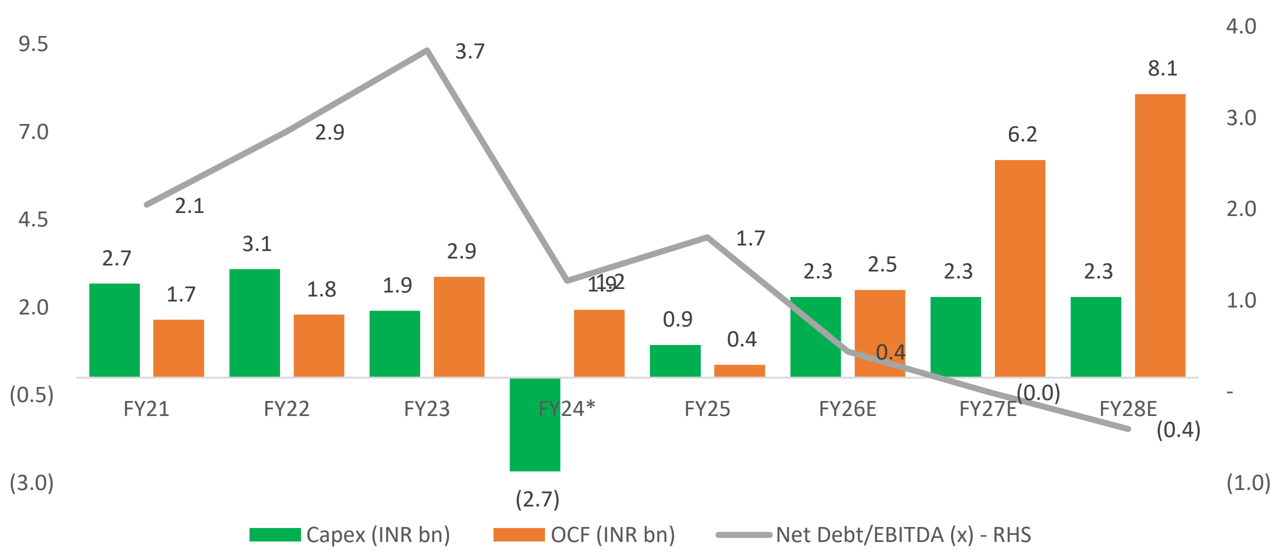


Source: Company AR, Arihant Research

Balance sheet to turn net cash on strong internal accruals

Sudarshan's net debt had spiked to INR 6.5 bn in FY25 driven by its Heubach acquisition. Its net debt is now down to INR ~3 bn. Further, given most of its capex is already completed, Sudarshan targets to use its strong operating cash flows to repay debt further – we expect the company to turn net cash by FY27E, as it is expected to generate free cash flows of ~INR 4 bn over FY25-26E.

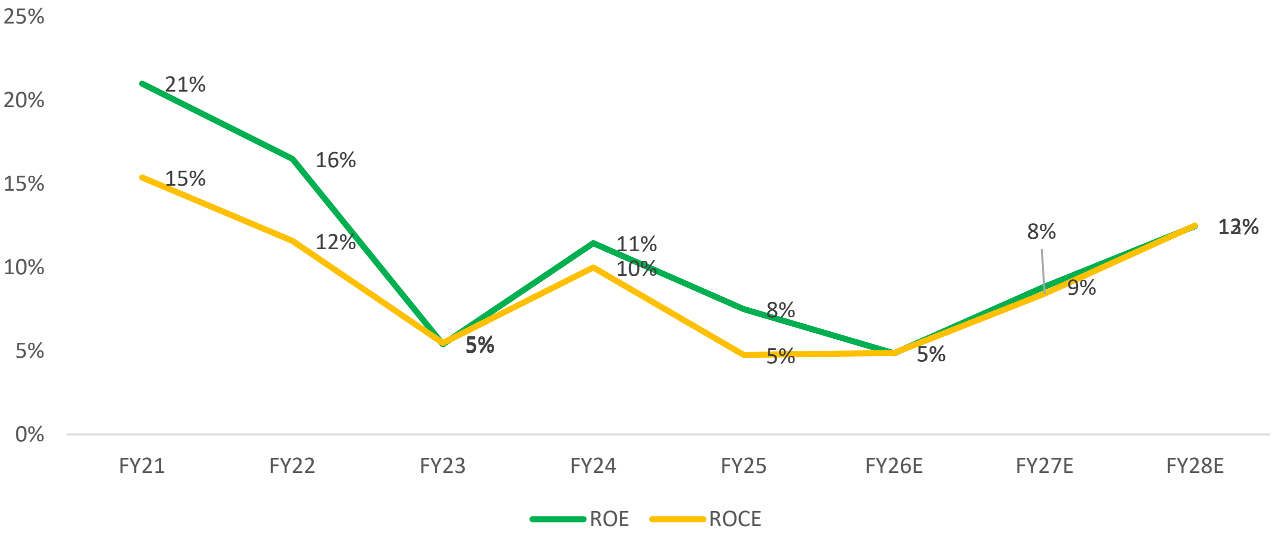
Strong cash generation from operations and lean capex trajectory to drive robust FCF generation



Source: Company AR, Arihant Research

Returns had been trending lower over FY18-25 due to high capex intensity, slow pickup in utilization ramp up and tepid demand. However, we expect the ROCE/RoE to retrace to 13-14% from 4.9% over FY25-30E driven by (i)Higher GM margins from Heubach contribution, (ii)Synergy benefits from cost rationalization drivning EBITDA growth, (iii) moderating working capital cycle, (iv)Net cash by FY27end on the back of strong cash generation.

Improving returns on improving profitability and higher cash generation



Valuation and Outlook

Sudarshan Chemical Industries Ltd (SCHI) offers sustained revenue growth prospects, successful inorganic expansion via the Heubach acquisition, and compelling valuation within the global pigments sector. The transaction establishes SCHI as the largest independent pigment producer worldwide, with established customer relationships among premium OEMs across automotive, coatings, and cosmetics end-markets. We estimate EBITDA margin expansion to 10-10.5% by FY28 (vs. 7% currently), ROCE improvement to 13-14%, and annual free cash flow generation of ~INR 10 bn. These factors support net debt/EBITDA below 1.0x and EPS CAGR above 40% through FY28, contingent on planned synergies materializing on schedule.

At INR 873 (CMP), the stock offers 68% upside to our INR 1,470 target on: (1) 12-month visibility on Heubach synergy realization, (2) specialty pigments demand sustained by regulatory phase-outs + China+1 tailwinds, (3) ROCE improvement trajectory visible post-integration (FY27-28), and (4) trading at 6x FY28E EBITDA/11x FY28E EPS vs. peer average—a 10-15% valuation discount despite superior growth profile.

Risks are material but well-managed: integration execution risk mitigated by experienced management + detailed 100-day plan; commodity cycle risk hedged by accelerated mix shift to specialty; demand weakness risk offset by emerging market diversification.

Initiate coverage with a BUY rating and INR 1,470 12-month target price for long-term investors with medium-term risk tolerance.

Cross-cycle valuations suggest a good entry point

ONE Sudarshan offers an attractive cross-cycle entry following a ~22% 1-year share price correction, with current market cap at ~INR 7bn. Earnings moderated in FY25/H1 FY26 amid Heubach integration costs, RM inflation and customer destocking (Q2 PAT -66% YoY to INR 100mn; H1 consolidated PAT INR 570mn), despite Q1 revenue surging 295% YoY to INR 2.5bn. Execution delays in global approvals and export sales teams contributed to multiples compression from 19x to ~3x TTM EV/EBITDA.

Historical 5–10 year 1-year forward averages stood at 37.2x PE/10x EV/EBITDA, but industry headwinds and integration ambiguity have driven current FY26E multiples to 20x PE/3x EV/EBITDA—well below historical norms. Re-rating catalysts materialise over FY26–28E through Heubach synergies (370bps opex savings), specialty capacity ramp and 11–12% EBITDA target, implying FY27E EV/EBITDA of 7–11x for a pure-play leader targeting 12–15% global share amid HPP tailwinds.

Exhibit: Sudarshan's valuations sharply declined in the past year; currently trading at 20x 1-year forward P/E

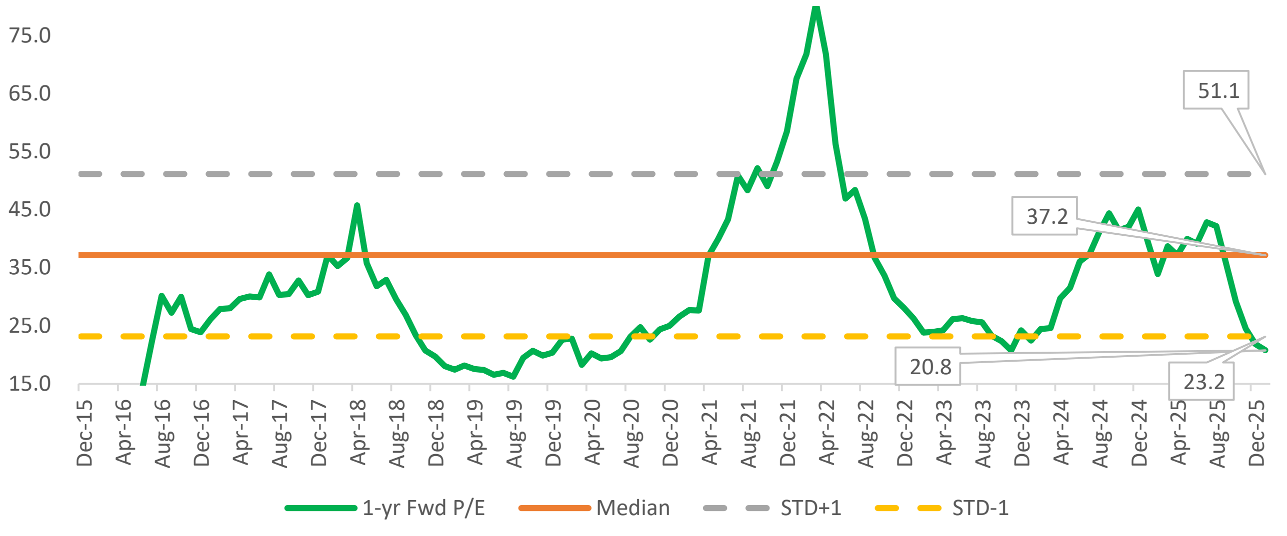
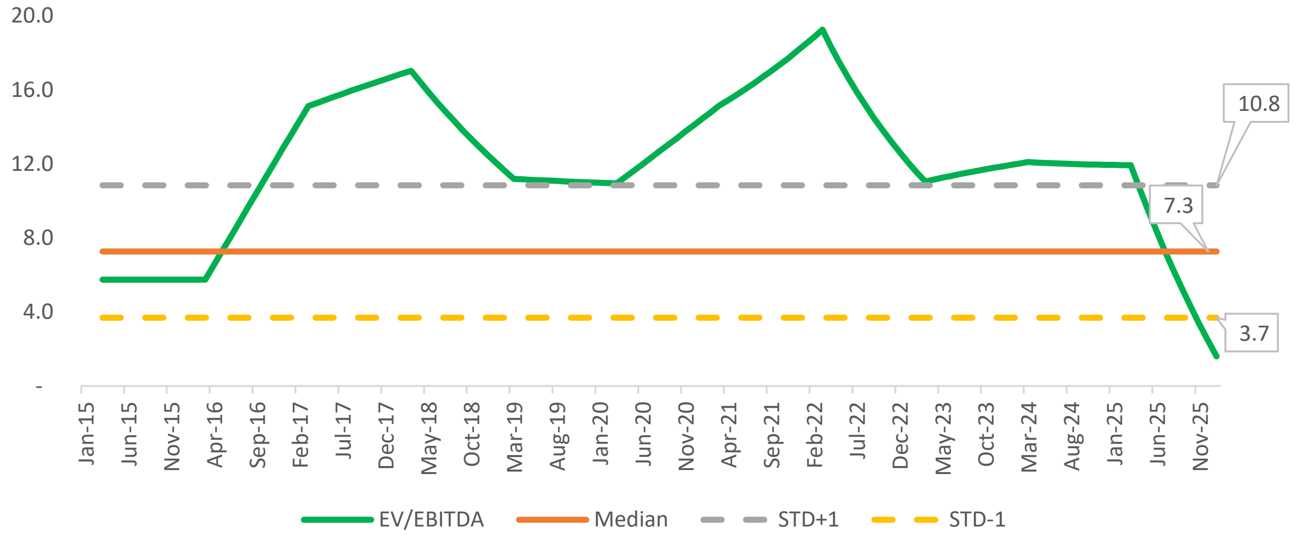


Exhibit: Sudarshan's valuations sharply declined in the past year; currently trading at 20x 1-year forward EBITDA/EV



Key Risks

1. Heubach Integration Execution Risk - M&A integration failure; key talent attrition in R&D/sales; synergy delays/shortfalls
Mitigation: (1) Detailed 100-day integration plan (already underway); (2) Quarterly synergy tracking against targets
Historical Precedent: SCHI's prior M&A (RIECO, subsidiaries) completed on-time; risk mitigated by management experience

2. Commodity Price Volatility / Spread Compression - Azo pigment demand collapse (regulatory phase-out acceleration) or iron oxide commodity cycle downturn; gross margins compression of 200-300 bps; pass-through delays.

- **Exposure:** 45% of revenue exposed to commodity cycles (classical azo + iron oxides). Gross margin at 43-44% (vs. 41-42%).
- **Impact:** EBITDA margin stays at 7-8% through FY28 (vs. 10-11% base case). EPS impact: -20%.
- **Mitigation:** (1) Accelerated mix shift to specialty; (2) Long-term contracts with tier-1 OEMs (fix commodity pricing); (3) In-sourcing raw materials

3. Demand Weakness in Key End-Markets
- **China auto production slowdown (-5% to -10% Y/Y; current: -2.5%);** Europe construction deceleration; US coatings demand plateau; printing ink digitalization accelerates faster than expected
- **Exposure:** Automotive coatings (direct: 15% revenue; indirect through Heubach 40%+ exposure). Combined impact: 30-35% revenue concentration.
- **Scenario:** Revenue CAGR drops to 4% (vs. 7% base case).
- **Mitigation:** (1) Emerging market exposure (India, SE Asia) growing 15%+ CAGR; (2) Specialty pigments less cyclical than commodity (HPPs counter-cyclical in premiumization); (3) Diversification into digital inks, cosmetics (non-automotive end-use)

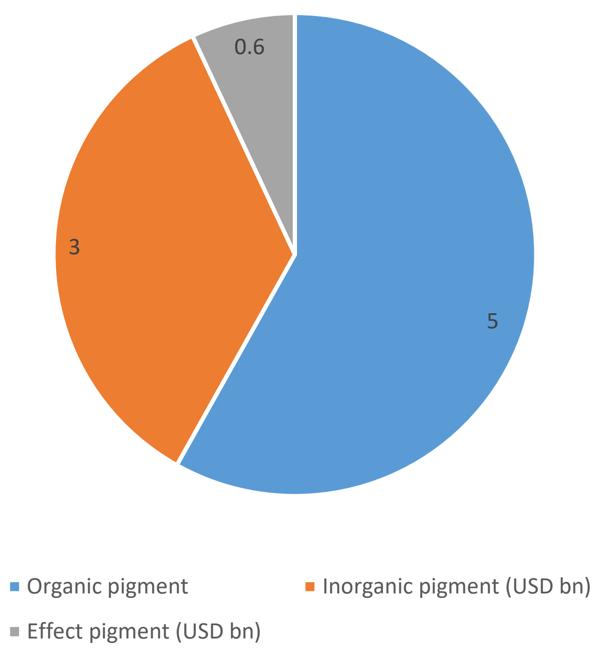
Industry Landscape & Value Chain

Global Pigments Market Structure

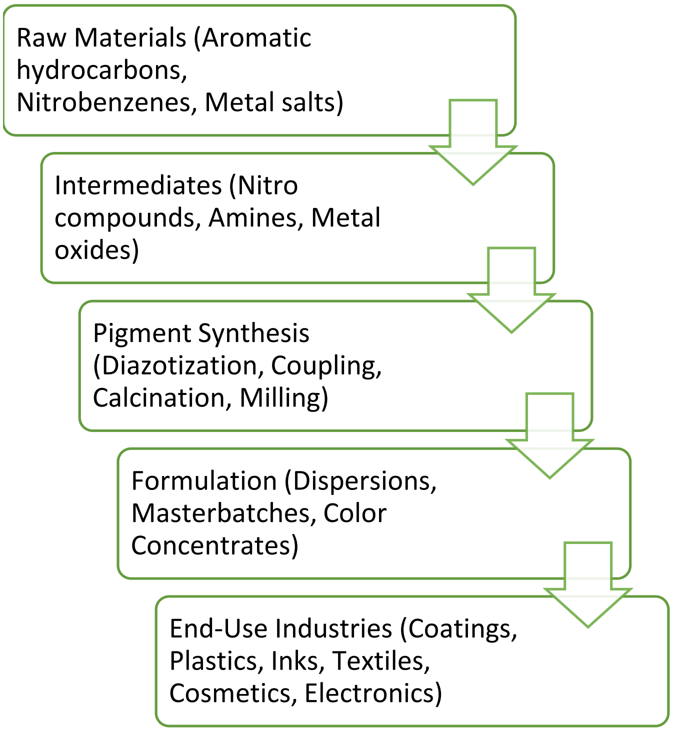
The USD 11 bn global pigments market (2024) is bifurcated:

- **Commodity Segment (65% of market):** Azo, iron oxides, titanium dioxide. Characterized by intense Chinese competition, 8-12% EBITDA margins, price-based competition. Dominated by Chinese producers (Longyu, Lomon Billions; 30% share) and legacy Western players (LANXESS, DyStar, Venator).
- **Specialty Segment (35% of market)**: HPPs, effect pigments, functional pigments. 18-28% EBITDA margins; innovation-driven; customer lock-in via approvals. Leaders: DIC Corp (Japan), Sensient (USA), SCHI (India), Clariant (Now Sudarshan), Huntsman (divesting).

Global pigment market (excluding black, white and mettalic pigments)



Value Chain Architecture



SCHI's Position: Integrated across synthesis (Roha, Mahad) + formulation (Heubach's Italian, German, US facilities post-acquisition); handles 40-50% of value chain, yielding 200-300 bps EBITDA advantage over non-integrated competitors.

Raw Material Sourcing: SCHI sources 30% from China (intermediates), 40% from India (captive), 30% from European suppliers.

Industry Dynamics: Secular Growth Drivers

- **Construction & Infrastructure (30% of market)**: Global construction growth of 4-5% CAGR (IMF); developing markets (India +8%, SE Asia +7%) outpacing developed markets. SCHI's iron oxide and inorganic pigments poised for 6-8% CAGR through FY28.

- **Automotive Coatings (20% of market, but 30% of specialty pigments demand):** Electric vehicle (EV) adoption driving demand for specialty metallic and effect pigments (premium OEM requirement). Global EV penetration: 13% (2024), targeting 35% by 2030. SCHI's effect pigment capacity (pre-Heubach) at ~15 kt; Heubach adds ~25 kt. Demand from EV OEMs growing 18-20% CAGR.

- **Printing & Packaging (25% of market):** Shift from traditional offset printing to digital printing (inkjet) driving demand for digital inks (10-15% CAGR). SCHI investing in digital ink formulations; Heubach's cosmetics expertise translates well to personal care packaging (growing 12% CAGR).

- **Regulatory Phase-Outs (15% upside):** EU Azo Dye Restrictions (2024 implementation), POP restrictions in automotive paints, and China's VOC reductions favor SCHI's organic HPP portfolio. Market estimates suggest ~5-8% volume shift from restricted azos to HPPs by 2028.

- **China+1 Diversification (20-25% upside):** Following US-China trade tensions and geopolitical stress, multinational end-users (Sherwin-Williams, PPG, Huntsman, Arkema) are re-sourcing from China to India, Mexico, and US. SCHI positioned as preferred non-Chinese source; Heubach brings Western OEM relationships.

Competitive Intensity & Consolidation

The pigments industry is consolidating. Recent M&A:
- BASF divested pigments to DIC (2020) for ~USD 1 bn
- Clariant divested pigments to Heubach (2019), then Sudarshan acquired Heubach (2025)
- Huntsman divesting pigments (ongoing; seeking buyers)

Industry Consolidation:– Fragmented mid-tier (50+ players globally) with top 5 holding ~35% share. SCHI's Heubach acquisition leapfrogs it to Tier-1 status, but Tier-2 Chinese/Indian producers remain unconsolidated.

Industry Overview

Industry Overview – Pigments Market		
Size	**Outlook**	**Competitive Landscape**
Global industry size – $21bn **Segmentation by type** **• Inorganic ($17bn)** **• Organic ($3.3bn)** **• Specialty pigment and others ($1.6bn)**	**Drivers** • Increasing demand for paints and coatings in auto industry in Europe and APAC with more demand for sustainable coatings • Shifting trends towards glossy colours by automotive users is driving demand • Consistent industrial developments in Middle East and APAC • Consistent demand from textile and plastics industry	• Global pigment market is consolidated with top five players accounting for more than 50% of the global market share • Top 10 companies include BASF, Chemours, Venator (Previously Huntsman), Kronos, Clariant, DIC, Tronox, Lomon Billions and Sudarshan Chemicals. • Out of the top 10, Chemours, Venator, Kronos, Tronox and Lomon Billions are mainly present in titanium dioxide pigments, an area where Sudarshan lacks presence. • The top 4 in Sudarshan's relevant market are BASF, Clariant, Sudarshan and DIC
• Within inorganic, titanium dioxide is the largest, followed by zinc oxide. Other inorganic pigments include carbon black, iron oxide and lead chromate. Sudarshan has presence only in iron oxides and lead chromates. • Most of the inorganic pigments specifically titanium dioxide and carbon black, though large in size, are commodities and scale is the only advantage. • Organic pigments is an area where Sudarshan has presence across the entire spectrum.	**Restraint** • Stringent government regulations on solvent based coatings due to VOC emissions • Constant push from regulatory authorities such as EPA and REACH to limit the use of solvent based coatings **Opportunity** • Shifting focus towards eco-friendly products that contain low levels of VOC and are non-petroleum based • There is a high demand for eco-friendly coatings that contain low levels of VOC. The major players in the industry are recognizing the need to manufacture bio-based products that are derived from plants and other organic and renewable sources	**DIC** – Performance products segment offers dispersions and is involved in the production of pigments, high performance and formulation additives and resins. The pigments are used in printing and packaging, paints and coatings. It offers pigments under Fine Chemicals segment where it manufactures a wide range of materials ranging from indispensable to digital devices, including liquid crystal materials and organic pigments for colour filters, coatings and plastics. **One Sudarshan** – Care Chemicals segment includes pigment unit, which produces organic pigments, pigment preparations, and specialty dyes. The pigments are used in coatings, printing, plastics, consumer products, and other special applications.
Segmentation by end use industry • Paints and coatings ($10bn) • Plastics ($4.9bn) • Printing inks ($4.1bn) • Textiles ($1.5bn) • Others ($1bn) **Segmentation by region** • Asia-Pacific ($10.1bn) • Europe ($5.1bn) • North America ($4.7bn) • South America ($1bn) • Middle East and Africa ($1.1bn)		

Organic, Inorganic and Effects Pigments

Particulars	Organic Pigments	Inorganic Pigments	Effect Pigments
Nature	Colored materials made carbon chains with pigment properties	Chemical compounds not based on carbon	Consisting of metallic flakes acts as miniature mirrors
Sourcing	From natural and synthetic sources	Metallic compounds and salts such as chromates, metallic oxides, sulphates etc	Produced from silver, titanium, and platinum and can be natural and synthetics
Type	Azo, Phthalocyanine, Alizarin, Arylide and others	Titanium Dioxide, Iron Oxide, Carbon Black	Mica flake
Application	Printing Ink, Paints, Plastics, Rubber, Optoelectronics, Cosmetics	Building & Construction, Automotive, Packaging, Paper & Printing, Textiles, and Others	Automotive Industry, Coatings, Paintings and Personal Care Industry
Properties	Good chemical resistance, light fastness, chemical stability, bright & strong colors	Heat Stability, chemical inertness, durability and weather resistance	Transparent, durable and chemical resistance
Key players- Globally	VOXCO Pigments and Chemicals Pvt Ltd, Meghmani organics, Asahi Songwon, Trust Chem Co., Changzhou Longyu pigments chemicals (China), Ferro Corporation(US), DIC corporation, Toyocolor co., Dainichiseika Color & Chemicals Mfg. Co. (Japan)	Venator (UK), The Chemours Company, Tronox Ltd, Kronos Worldwide, Inc., Ferro Corporation, Alabama Pigments Company, Cabot Corporation, DyeStar, INEOS Pigments (US) LANXESS, Carl Schlenk AG, ECKART GmbH (GERMANY) Cathay Industries, Lomon Billions, Jiangsu Yuxing Industry & Trade Co., Ltd. (China), Dominion Colour Corporation (Canada)	Huntsman Corp., Altana AG, Merck KGaA, DIC Corporation, Sensient Industrial Colours, Geotech International B.V., Kolortek Co., Ltd
Key players- Domestic	VOXCO Pigments and Chemicals Pvt Ltd, Tata Pigments, VOXCO Pigments and Chemicals Pvt Ltd	Tata Pigments, VOXCO Pigments and Chemicals Pvt Ltd	
Expected CAGR over five years	3 - 5%	3 - 5%	-3 - 5%

Company Overview & Business Model

Establishing the Business

1951
- Started manufacturing units in Pune

1961
- Started manufacturing of Organic pigments

1967
- Commenced exporting globally

1973
- Inaugurated manufacturing facility at Roha

1976
- Got listed on BSE

Next Leap in Technology

1989
- Collaborated with the world leader, DIC, Japan

1993
- Became the first Indian chemical company to be ISO:9001 certified

1994
- Initiated manufacturing plant in Mahad for Phthalos and Effect pigments

1999
- Introduced SAP across all functions

Going Global

2006
- Achieved a net revenue of INR 4bn. Created a state-of-the art technology R&D centre at Sutarwadi

2007
- Set up Sudarshan Europe BV, a subsidiary

2009
- Expanded footprints in the USA, incorporated Sudarshan North America Inc.

2010
- Received a Sword of Honour from the British Safety Council

2014
- Achieved a net revenue of INR 10bn

2017
- Certified as a dream company to work for in the Chemical Sector

Raising the Bar

2018
- Established Sudarshan Mexico S. de R.L de CV.

2020
- Established Sudarshan Japan Limited

2023
- Successfully completed commissioning of Capex programme for INR 7.5bn. Launched a wid prod

2024
- Strong business performance led by volume growth. Highest ever pigment annual and Q4 EBITDA

2025
- Acquiring the Heubach Group, including Clariant's pigments bu

Company Overview & Business Model

Sudarshan Chemical Industries Ltd (SCHI), established in 1951 and headquartered in Pune, India, has evolved into the largest pigment manufacturer in India and 2nd-largest globally following its March2025 acquisition of the Heubach Group (representing a 270-year pigment legacy dating to 1806 in Germany). The company operates as a pure-play colour solutions provider, having systematically exited non-core agro-chemicals and masterbatch businesses to concentrate exclusively on pigment manufacturing and technical coatings applications.

As of FY25, SCHI generated consolidated revenues of INR 2.5 bn with, serving 80+ countries via a global workforce of 2,000+ employees and an extensive distribution network of 60+ channel partners and 50+ in-house sales professionals.

Sudarshan Chemical, traditionally India's largest pigment producer, has now been transformed into a leading global player following its landmark acquisition of Heubach's pigment business. The company is a world-class color solutions provider, manufacturing a wide range of organic and inorganic pigments, effect pigments, and dispersions.

Portfolio Evolution: The company's explicit strategic pivot from commodity-heavy "industry clutter" (azos, phthalocyanines) toward HPPs and CICPs has driven gross margin expansion from 42% (FY16) to 44–45% (FY24), despite commodity headwinds. Post-Heubach consolidation, gross margins are projected to reach 52–53% as the organic/effect pigments portfolio (representing 80% of Heubach EBITDA) seamlessly overlaps with SCHI's core offerings.

Product Portfolio & Market Positioning

SCHI manufactures an extensive portfolio of 6,000+ pigment varieties across three primary categories:

Organic Pigments – Classical azo pigments (commodity, 5–8% EBITDA margin), phthalocyanines (specialty, 8–12% margin), and HPPs (15–22% margin). The company has strategically elevated its organic pigment offering toward higher-value chemistries, expanding specialty share from 25% (FY16) to 45%+ (FY24). Recent breakthroughs include a proprietary yellow HPP (only 2nd global commercialisation) and full Pigment Violet 23 range completion, critical for high-durability automotive and industrial coatings.

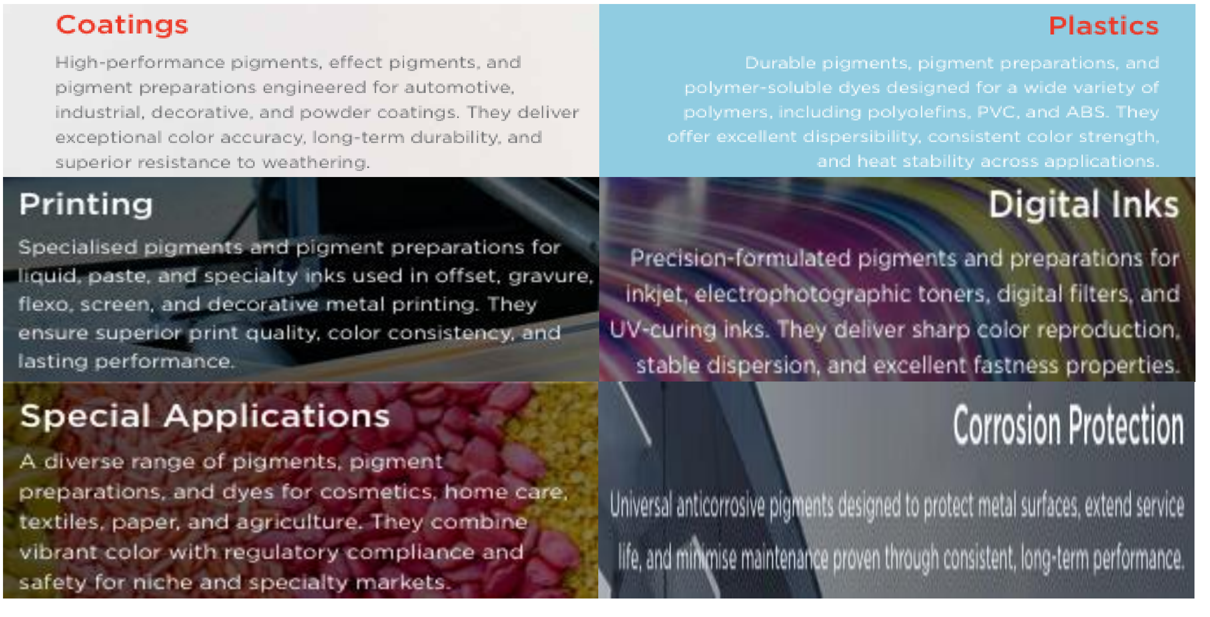
Inorganic Pigments – Chromes (general-purpose), cadmiums (premium, outdoor/temperature-resistant), and iron oxides (commodity-adjacent). These serve niche applications in outdoor coatings and high-temperature environments where durability commands price premiums.

Effect Pigments – Mica-based pearlesents (coated oxides imparting shimmer and glow) and cosmetic-grade effects (colour filters, inkjet applications). Primary applications span automotive finishes, engineering plastics, and beauty/personal care formulations.

Broad and evolving application base

Source: Company AR, Arihant Research

Application base further broadened by Heubach acquisition



Source: Company AR, Arihant Research

End-Market Applications & Customer Base

The global colour pigment market represents an USD 10bn opportunity, of which SCHI estimates USD 8.6bn is addressable across four primary end-use segments:

Coatings (USD 5.0bn) – Decorative paints and automotive coatings remain the largest application. The Indian paint industry is projected to achieve 12% CAGR, supported by government housing schemes (PMAY, Smart Cities Mission, AMRUT), urbanisation trends (34.9% of India's population expected in urban areas by 2030), and strong real estate demand forecasts targeting USD 1bn market size by 2030.

Plastics (USD 3.0bn addressable) – SCHI commands leadership positions in multiple geographies due to deep application expertise and polymer-soluble dye capabilities. Growth drivers include rising demand for engineering resins, sustainability-focused bioplastics (PLA, PHA), and global "China+1" supply chain rebalancing.

Inks (Specialty focus) – The company targets niche, high-margin segments including liquid inks, offset printing, and emerging digital inks/inkjet applications. This segment is experiencing structural tailwinds from premiumisation and the shift toward digital printing technologies.

Cosmetics & Personal Care (Growing segment) – Effect pigments for colour filters, eyeshadows, and nail care products represent a high-margin, high-approval-barrier segment. SCHI is building targeted capabilities here with Heubach's legacy cosmetics expertise.

60–70% of sales occur through direct channels (OEM partnerships with tier-1 coatings manufacturers), whilst 30–40% flow through distributor networks via 60+ channel partners and regional sales teams.

Competitive Moat Assessment:

- **Strong**: Regulatory approval barriers (18-24 month customer qualification cycles); long-term OEM relationships; integrated manufacturing
- **Moderate**: Technology IP (not defensible at Tier-1 level; high reverse-engineering risk); cost advantage (eroding as India wages rise 8-10% CAGR)
- **Emerging**: ESG/sustainability positioning (nascent but growing competitive differentiator)

Management Quality, Governance & ESG

Management & Promoter Track Record

Promoter Family (Rathi Group): 70+ year tenure; pioneered pigments manufacturing in India (1952). **Rajesh B. Rathi** (Managing Director, 30+ year company tenure) led the transformation to specialty chemicals and global expansion.

Capital Allocation Track Record:

- **Capex Discipline:** FY17-FY25, company invested INR 8.5 bn in capacity (Roha expansion, Mahad debottlenecking, R&D centers in Germany/US). ROI tracking: FY24 ROCE of 11.8% improving toward 14%+ by FY27. Capex intensity declining.
- **Debt Management:** Aggressively deleveraged post-COVID; net debt fell from INR 8 bn (FY23) to INR 3.9 bn currently. Post-Heubach, committed to sub-1.2x net debt/EBITDA; divestment of non-core assets (Japan subsidiary JV sold; RIECO (pneumatic systems) sold) demonstrates portfolio discipline.
- **Dividend Policy:** Progressive dividend increase; FY25 proposed dividend of INR 4.50/share (225% of FV; ~35% payout ratio). Sustainable given FCF generation post-Heubach.

Board of Directors

Rajesh B Rathi

- Chairman
- Mr Rajesh Rathi has completed BE Mr Rajesh Rathi has completed BE (Mechanical) from MIT, Pune; BSc (Mechanical) from MIT, Pune; BSc (Chemical) from Ohio University, USA and MBA from the University of Pittsburgh, USA. He has been associated with the Company for more than three decades.

Mr. Ashish Vij

- Wholetime Director
- Mr. Ashish Vij holds a BE in Chemical Engineering from Punjab University and is a certified Six Sigma Black Belt and Lean Practitioner. He has completed a Strategy Intervention Programme from IIM Calcutta's Strategy Academy and has been associated with the company for over 15 years.

Amitabha Mukhopadhyay

- Non-Executive Non-Independent Director
- Mr. Amitabha Mukhopadhyay is a Fellow Chartered Accountant and practicing lawyer with over 30 years of experience leading finance, legal, and business functions at Thermax, Tata AutoComp, and Tata Steel. He serves as a director on boards including Foseco India, Parag Milk Foods, Sanghvi Movers, and Quick Heal Technologies.

Mrs. Anu A. Wakhlu

- Non-Executive and Independent Director
- Anu Wakhlu is an industry professional in an industry professional in the field of Human Resource Development. She has over 30 years' experience in the field of HRD, Leadership Development,Organizational Change and Coaching across various Industry Segments especially in the Manufacturing Sector in India and Globally.

Apurva Chandra

- Non-Executive Independent Director
- Mr. Apurva Chandra is a retired IAS officer with over 36 years of government service. He held senior roles across key ministries, including Defence, Health, Labour, and Industries. He joined the restructured IL&FS Board in May 2025 and chaired the ILO Governing Body during COVID-19.

Ms. Bhumika Batra

- Non-Executive and Independent Director
- Ms. Batra is a law graduate, and a fellow member of The Institute of Company. She is also a recipient of Secretaries of India. She is also a recipient of Executive Program in Management from Cornell University, USA. She is a Partner of Crawford Bayley & Co., one of the oldest law. She possesses over 20 years of experience in regulatory and legal practice, specializing in corporate law.

Mr. Naresh T. Raisinghani

- Non-Executive and Independent Director
- Mr. Naresh Raisinghani is the CEO and Executive Director of BMGI, India engaged in providing consultancy services to reputed corporate houses. He has completed his Owner / President Management Program from Harvard Management and his Bachelors in Mechanical Engineering from University of Mumbai. Mr. Raisinghani is widely regarded as a leading thinker and an expert on Operational Excellence, Innovation and Strategy Deployment.

Rajendra Mariwala

- Non-Executive Independent Director
- Mr. Rajendra Mariwala holds a Master's degree in Chemical Engineering from Cornell University and has over three decades of experience in fragrances and specialty chemicals. He has led competitive businesses for 18 years and serves as a director on boards including Marico, Kaya, Westlife Foodworld, Apcotex Industries, and Eternis Fine Chemicals.

Mrs. Sudha P. Navandar

- Non-Executive and Independent Director
- Mrs. Navandar is a Chartered Accountant, US CPA, Insolvency Professional, and DISA-certified auditor. A partner at Pravin R. Navandar & Co., she has over 30 years of experience in audit and corporate consultancy and is actively involved in insolvency matters, including formulation of resolution plans.

Sanjay Asher

- Non-Executive Independent Director
- Mr. Sanjay K. Asher (61) is a Senior Partner at Crawford Bayley & Co., India's oldest law firm. A Chartered Accountant, Advocate, and Solicitor, he specializes in M&A, cross-border transactions, joint ventures, private equity, and capital markets, advising businesses across sizes.

Management

Rajesh B Rathi

- Chairman
- Mr Rajesh Rathi has completed BE Mr Rajesh Rathi has completed BE (Mechanical) from MIT, Pune; BSc (Mechanical) from MIT, Pune; BSc (Chemical) from Ohio University, USA and MBA from the University of Pittsburgh, USA. He has been associated with the Company for more than three decades.

Mr. Ashish Vij

- Wholetime Director
- Mr. Ashish Vij holds a BE in Chemical Engineering from Punjab University and is a certified Six Sigma Black Belt and Lean Practitioner. He has completed a Strategy Intervention Programme from IIM Calcutta's Strategy Academy and has been associated with the company for over 15 years.

Eiichi Shimizu

- Head of Sales – North Asia

Frank Bursch

- President – North America Operations

Fernando Hernández Espinosa

- Head of Sales – North LATAM

Geraldo Ventola

- Head of Sales – South LATAM

Himanshu Trivedi

- AVP – Sales, India Sub-continent

Hitendra Tewari

- Head of Sales – MEA, Turkey & CIS

Maik Edler

- Head of Sales – Europe

Ramesh Dumbre

- AVP – Business Development (Sales)

Sambit Roy

- Global Head – Technical Marketing & Head of Sales (Special Applications & SEAP)

Mahesh Mettelloo

- AVP – Corporate Development

Dr. Klaus Baumgart

- Chief Technology Officer

Aditya Challa

- Chief Procurement Officer

Sandeep Mhalgi

- Chief Information Officer

Shivalika Raje

- Head – People Practices & Chief Sustainability Officer

Nilkanth Natu

- Chief Financial Officer
- Nilkanth J.Natu is currently the CFO at Sudarshan Chemical Industries Ltd. Prior to this, he worked as the CFO at Automobile Corp of Goa Ltd. He graduated from the University of Pune with an undergraduate degree.

Mandar Velankar

- General Counsel & Company Secretary

Financial Tables

Balance Sheet As at 31st Mar, Rs mn	FY24	FY25	FY26E	FY27E	FY28E
Assets					
Inventories	4,376	24,652	24,688	26,423	28,289
Trade Receivables	5,853	12,250	24,688	26,423	28,289
Cash & Bank Balance	559	15,113	3,916	1,043	1,498
Other Current Assets	1,145	9,657	7,408	7,111	6,753
Total Non-Current Assets	11,618	35,637	34,202	32,717	30,991
Total Assets	**23,550**	**97,308**	**94,902**	**93,716**	**95,819**
EQUITY AND LIABILITIES					
Equity Share Capital	138	157	157	157	157
Other Equity	11,352	40,226	42,057	45,329	50,134
Net Worth	**11,490**	**40,383**	**42,214**	**45,486**	**50,291**
Borrowings	4,409	20,847	10,319	4,319	-
Other Non-Current Liabilities	1,502	11,460	11,460	11,460	11,460
Trade Payables	5,120	13,984	24,688	26,423	28,289
Other Current Liabilities	1,028	10,633	6,222	6,029	5,780
Total Equity & Liabilities	**23,550**	**97,307**	**94,902**	**93,716**	**95,819**

Source: Company, Arihant Capital Research

Income Statement (INR, Mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**25,388**	**33,456**	**1,00,124**	**1,07,159**	**1,14,726**
% Growth	10.3%	31.8%	199.3%	7.0%	7.1%
Gross Profit	11,234	15,719	51,790	56,363	60,461
Gross Profit Margin %	44%	47%	52%	53%	53%
Employee Costs	2,100	3,560	3,916	4,308	4,739
Operating & Other Expenses	20,124	26,085	89,142	93,796	98,267
EBITDA	**3,164**	**3,810**	**7,066**	**9,055**	**11,720**
EBITDA Margin %	**12.5%**	**11.4%**	**7.1%**	**8.5%**	**10.2%**
Depreciation	1,412	1,662	3,735	3,785	4,026
Other Income	171	334	351	368	387
EBIT	**1,923**	**2,482**	**3,681**	**5,639**	**8,081**
Finance Cost	369	483	1,035	539	230
Exceptional Items	3,151	(1,036)	-	-	-
PBT	4,705	963	2,646	5,100	7,852
Income Tax	1,131	390	635	1,224	1,884
Extraordinary Items	2,443	(1,376)	-	-	-
Adjusted PAT	**1,131**	**1,949**	**2,011**	**3,876**	**5,967**
PAT Margin %	**4.5%**	**5.8%**	**2.0%**	**3.6%**	**5.2%**

Source: Company, Arihant Capital Research

Cash Flow Statement					
Y/E Mar, Rs mn	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
PBT	1,554	1,999	2,646	5,100	7,852
Operating Profit before WC Changes	**3,230**	**3,039**	**7,066**	**9,055**	**11,720**
Tax Paid	(835)	(825)	(635)	(1,224)	(1,884)
Cash Flow from Operating Acctivities	**1,935**	**370**	**2,497**	**6,201**	**8,080**
Cash Flow from Investing Activities	**2,793**	**(15,484)**	**(1,949)**	**(1,932)**	**(1,913)**
Cash Flow from Financing Activities	**(4,459)**	**25,959**	**(11,743)**	**(7,143)**	**(5,711)**
Net Change in Cash & Cash Equivalents	268	10,845	(11,196)	(2,873)	455
Opening Cash & Cash Equivalents	204	473	15,113	3,917	1,044
Closing Cash & Cash Equivalents	**559**	**15,113**	**3,917**	**1,044**	**1,500**

Source: Company, Arihant Capital Research

Ratios	FY24	FY25	FY26E	FY27E	FY28E
Per Share data					
EPS	16.3	24.8	25.6	49.3	75.9
BVPS	166.0	513.9	537.2	578.9	640.0
Valuation (x)					
P/E	56.0	36.9	35.7	18.5	12.0
P/BV	5.5	1.8	1.7	1.6	1.4
EV/EBITDA	21.4	22.1	10.4	7.5	5.4
Return Ratios (%)					
Gross Margin	44%	47%	52%	53%	53%
EBITDA Margin	12%	11%	7%	8%	10%
PAT Margin	4%	6%	2%	4%	5%
ROE	11%	8%	5%	9%	12%
ROCE	10%	5%	5%	8%	13%
Liquidity ratios					
Total D/E	0.3	0.2	0.1	0.0	-0.1
Turnover Ratios					
Asset Turnover	1.1	0.6	0.0	0.0	0.0
Receivable Days	84	134	90	90	90
Inventory Days	63	269	90	90	90
Payable Days	74	153	90	90	90

Summary	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	25,388	33,456	1,00,124	1,07,159	1,14,726
EBIDTA	3,164	3,810	16,836	19,050	20,731
Net Profit	1,131	1,949	11,781	13,871	14,977
Diluted EPS	16.3	24.8	25.6	49.3	75.9
P/E (x)	56.0	36.9	35.7	18.5	12.0
EV/EBIDTA (x)	21.4	22.1	10.4	7.5	5.4
P/BV (x)	5.5	1.8	1.7	1.6	1.4
ROE (%)	0.1	0.1	0.0	0.1	0.1
Debt/Equity (x)	0.3	0.2	0.1	(0.0)	(0.1)

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Stock Rating Scale	**Absolute Return**
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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