

CMP: ₹ 476

Target: ₹ 565 (19%)

Target Period: 12 months

BUY

August 12, 2022

Strong export growth to bolster performance ahead...

About the stock: Incorporated in 2000, Sumitomo Chemical India (SCI) is present in the three business verticals of agro solutions (ASD), environmental health (EHD) and animal nutrition business (AND).

- SCI provides solutions for insecticide, herbicide, fungicide, plant growth regulator (PGR) under agro segment. Under animal nutrition, it manufactures methionine for feed additive use
- In terms of revenue contribution, insecticide constitutes ~51% while ~19% is from herbicide, 9% from fungicide and 20% from other segments such as PGR, AND & EHD

Q1FY23 Results: Topline numbers were above our estimates led by strong growth from fungicide and insecticides while margins missed owing to higher RMAT cost.

- Reported revenue was up 26% YoY to ₹ 985.5 crore, led by 44% YoY growth in the fungicide along with 34% YoY growth in insecticides
- Gross margins were down 100 bps YoY to 35.1% while EBITDA margin contracted 20 bps YoY to 19%
- EBITDA was up 25% YoY to ₹ 187.6 crore
- PAT increased 31% YoY to ₹ 138.1 crore, supported by marginal lower taxes (23% vs. 26% in Q1FY22)

What should investors do? The stock appreciated at 28.7% CAGR in the last two years.

- We retain **BUY** rating on the back of better growth outlook from outsourcing opportunity of SCC Japan besides stable and enduring business model

Target Price and Valuation: We value Sumitomo Chemicals at 45x P/E FY24E EPS to arrive at a target price of ₹ 565/share (earlier ₹ 520/share).

Key triggers for future price performance:

- Upcoming capex for five molecules, which will be supplied to SCC Japan. Capex is earmarked at ₹ 100-110 crore with an asset turn of around 2-2.5x
- Potential opportunity of technicals manufacturing for Nufarm to improve export share meaningfully
- Allocation of incremental FCF towards organic/inorganic growth likely to expand return ratios further

Alternate Stock Idea: Apart from Sumitomo Chemicals, in our chemical coverage we like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1645

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	4 year CAGR (FY18-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	2,228.4	2,424.7	2,644.9	3,064.6	12.5%	3,708.4	4,200.7	17.1%
EBITDA	290.6	333.2	486.9	599.9	28.9%	756.5	865.4	20.1%
EBITDA Margins (%)	13.0%	13.7%	18.4%	19.6%		20.4%	20.6%	
Adj. PAT	165.7	204.7	345.4	423.5	30.7%	546.2	625.2	21.5%
Adj. EPS (₹)	3.3	4.1	6.9	8.5		10.9	12.5	
EV/EBITDA	44.9x	70.8x	47.7x	38.9x		30.4x	26.1x	
P/E	143.4x	116.1x	68.8x	56.1x		43.5x	38.0x	
ROE (%)	15.8	16.8	22.4	22.0		22.6	21.0	
ROCE (%)	25.3	24.8	29.8	30.2		30.4	28.2	

Source: Company, ICICI Direct Research



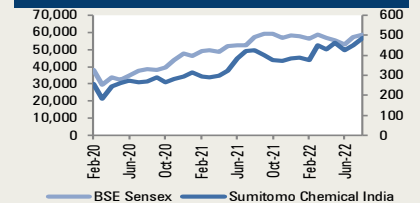
Particulars

Particular	Amount
Market cap (₹ Crore)	23,809
FY22 Total Debt (₹ Crore)	0
FY22 Cash & Inv (₹ Crore)	435
EV (₹ Crore)	23,374
52 Week H/L	521/341
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

Shareholding pattern

in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	75.0	75.0	75.0	75.0
DII	6.1	6.2	6.4	6.7
FII	1.3	1.4	1.7	1.9
Others	17.6	17.5	17.0	16.4

Price Chart



Recent event & key risks

- Exports witnessed strong growth for the quarter
- **Key Risk:** (i) Adverse weather situation in domestic and export market to curb growth ii) Higher RMAT prices and inability to pass on to impact gross margins

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Key takeaways of recent quarter & conference call highlight

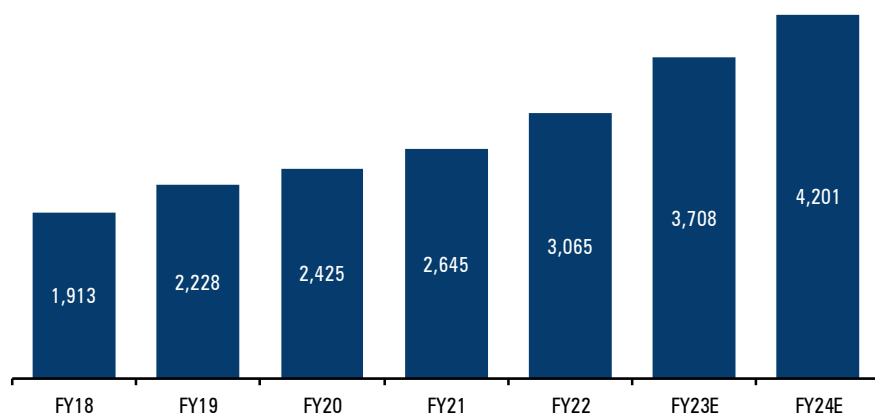
Q1FY23 Results: Strong growth from herbicides, fungicides lead overall performance

- **Domestic business:** Revenues grew 16% YoY to ₹ 788.4 crore, largely driven by robust growth from branded business, which was up 12% YoY to ₹ 615 crore. Revenue from bulk business was up 34.2% YoY to ₹ 173.5 crore

Export business: Revenue increased 94% YoY to ₹ 197.1 crore, driven by bulk and branded business. The revenue from bulk business was up 91% YoY to ₹ 134 crore while the same from branded rose by 100% YoY to ₹ 63.1 crore. In terms of geography, the revenue from South America surged by 121% YoY to ₹ 69 crore while the same from Europe was at ₹ 29.6 crore (up 278% YoY)

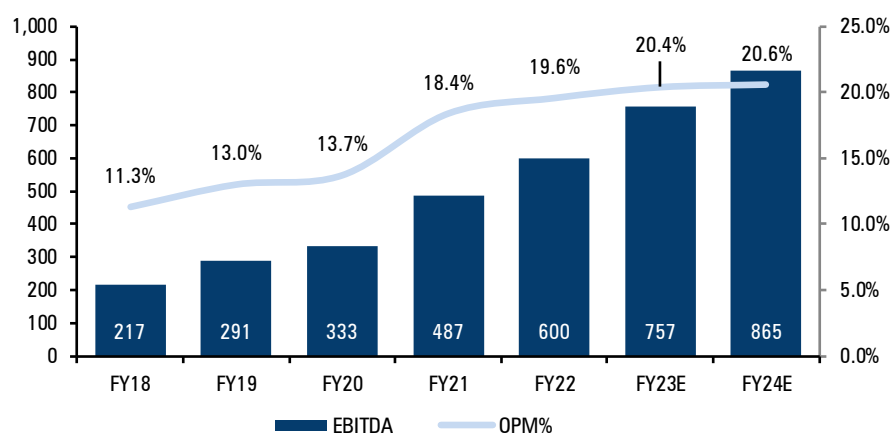
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



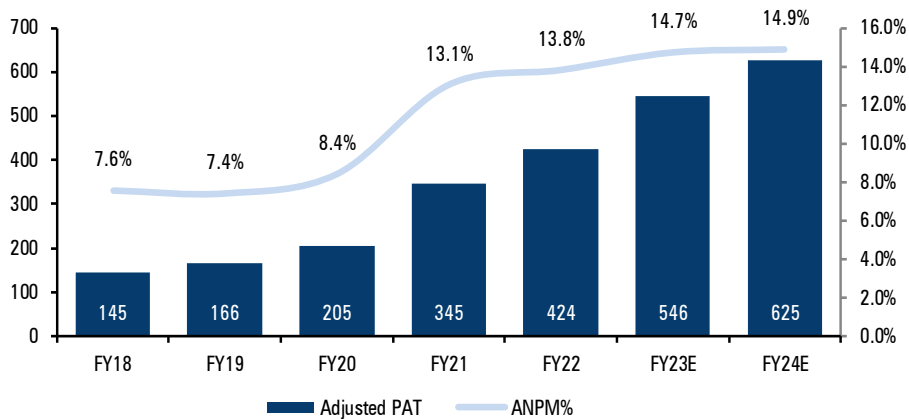
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Net Revenues	2,644.9	3,064.6	3,708.4	4,200.7
Cost Of Revenues	1,655.4	1,908.0	2,299.2	2,604.5
Gross Profit	989.5	1,156.6	1,409.2	1,596.3
Employee Cost	194.3	202.0	233.6	260.4
Other Operating Expenses	308.4	354.7	419.0	470.5
EBITDA	486.9	599.9	756.5	865.4
Other Income	18.6	26.8	26.5	32.1
EBITDA, including OI	505.4	626.7	783.0	897.5
Depreciation	46.6	44.8	48.7	57.8
Net Interest Exp.	5.6	6.2	6.0	6.0
Other exceptional items	0.0	0.0	0.0	0.0
PBT	453.3	575.7	728.3	833.6
Taxes	107.9	152.2	182.1	208.4
Tax Rate	23.8%	26.4%	25.0%	25.0%
PAT	345.4	423.5	546.2	625.2
Adjusted Net Profit	345.4	423.5	546.2	625.2
Adj. EPS (INR)	6.9	8.5	10.9	12.5
Shares Outstanding	49.9	49.9	49.9	49.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	453.3	575.7	728.3	833.6
Depreciation	46.6	44.8	48.7	57.8
After other adjustments				
(Inc) / Dec in Working Capital	25.6	-257.6	-40.2	-87.2
Taxes	-107.9	-142.6	-182.1	-208.4
Others	7.9	1.5	6.0	6.0
Cash from Ops.	425.4	221.8	560.8	601.9
Purchase of Fixed Assets	-43.3	-113.5	-140.0	-140.0
Others	-214.4	-176.7	0.0	0.0
Cash from Investing	-257.7	-290.2	-140.0	-140.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0
Borrowings (Net)	0.0	0.0	0.0	0.0
Others	-47.1	-62.6	-60.6	-68.5
Cash from Financing	-47.1	-62.6	-60.6	-68.5
Net Change in Cash	120.7	-131.1	360.1	393.4
Effects of foreign currency translation	0.0	0.0	0.0	0.0
BF Cash & Bank	93.5	242.1	79.1	439.3
END Cash & Bank	242.1	79.1	439.3	832.6

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	499.1	499.1	499.1	499.1
Reserves	1,042.1	1,428.1	1,919.7	2,482.4
Total Shareholders Funds	1,541.2	1,927.2	2,418.8	2,981.5
Minority Interest	0.1	0.0	0.0	0.0
Long Term Borrowings	0.0	0.0	0.0	0.0
Net Deferred Tax liability	5.0	13.9	13.9	13.9
Other long term liabilities	15.3	24.7	0.0	0.0
Long term provisions	29.2	22.3	27.0	30.6
Current Liabilities and Provisions				
Short term borrowings	0.0	0.0	0.0	0.0
Trade Payables	598.3	517.2	711.2	863.2
Other Current Liabilities	475.2	497.1	609.6	690.5
Short Term Provisions	5.6	7.2	8.7	9.8
Total Current Liabilities	1,079.2	1,021.4	1,329.5	1,563.5
Total Liabilities	2,670.1	3,009.6	3,789.2	4,589.6
Assets				
Net Block	309.3	390.4	502.7	584.9
Capital Work in Progress	4.3	21.1	0.0	0.0
Intangible assets under devl.	10.0	14.1	14.1	14.1
Goodwill on Consolidation	0.0	0.0	0.0	0.0
Non-current investments	0.1	0.1	0.1	0.1
Deferred tax assets	18.5	30.0	30.0	30.0
Long term loans and advances	6.0	0.8	0.9	1.0
Other Non Current Assets	17.6	31.2	37.7	42.7
Current Assets, Loans & Advances				
Current Investments	290.2	356.0	356.0	356.0
Inventories	754.4	937.8	1,168.4	1,266.0
Sundry Debtors	848.2	843.1	1,016.0	1,208.4
Cash and Bank	242.1	79.1	439.3	832.6
Loans and Advances	7.7	0.5	0.5	0.5
Other Current assets	161.7	305.5	223.5	253.2
Current Assets	2,304.3	2,522.0	3,203.7	3,916.7
Total Assets	2,670.1	3,009.6	3,789.2	4,589.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	6.9	8.5	10.9	12.5
Adj. Cash EPS	7.9	9.4	11.9	13.7
BV	30.9	38.6	48.5	59.7
DPS	0.0	1.0	1.1	1.3
Operating Ratios (%)				
Gross Margin (%)	37.4	37.7	38.0	38.0
EBITDA Margin (%)	18.4	19.6	20.4	20.6
PAT Margin (%)	13.1	13.8	14.7	14.9
Debtor Days	117	100	100	105
Inventory Days	104	112	115	110
Creditor Days	83	62	70	75
Cash Conversion Cycle	139	151	145	140
Return Ratios (%)				
Return on Assets (%)	12.9	14.1	14.4	13.6
RoCE (%)	29.8	30.2	30.4	28.2
RoE (%)	22.4	22.0	22.6	21.0
Solvency				
Total Debt / Equity	-	-	-	-
Interest Coverage	NM	NM	NM	NM
Current Ratio	2.1	2.5	2.4	2.5
Quick Ratio	1.4	1.6	1.5	1.7
Valuation Ratios (x)				
EV/EBITDA	47.7	38.9	30.4	26.1
P/E	68.8	56.1	43.5	38.0
P/B	15.4	12.3	9.8	8.0
EV/Sales	8.8	7.6	6.2	5.4

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3200	3,710	Buy	48,550	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2238	2,320	Hold	23,000	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	476	565	Buy	23,809	8.5	10.9	12.5	56.1	43.5	38.0	38.9	30.4	26.1	30.2	30.4	28.2	22.0	22.6	21.0
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	455	515	Hold	3,153	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1422	1,645	Buy	3,545	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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