

CMP: ₹ 438

Target: ₹ 525 (20%)

Target Period: 12 months

February 6, 2023

BUY

Weak domestic demand impacts Q3 revenues...

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 like PGR, AND & EHD

Q3FY23 Results: Topline numbers were below estimates led by lower demand from domestic market while the international market reported decent numbers.

- Reported revenue was up 6.6% YoY to ₹ 753.7 crore, led by 14.1% YoY growth in insecticides along with 20.1% YoY growth in herbicides
- Gross margins were down 223 bps YoY to 35.3% while EBITDA margin degrew 191 bps YoY to 16%
- EBITDA was down 5% YoY to ₹ 120.4 crore while PAT increased 2% YoY to ₹ 90.5 crore

What should investors do? The stock appreciated at 24.08% CAGR in the last three years.

- We retain **BUY** rating on the back of 1) better growth outlook from outsourcing opportunity of SCC Japan, 2) increase in farmer's income and the company's ability to pass on the escalation cost, 3) new molecules to aid revenue growth, going ahead

Target Price and Valuation: We value Sumitomo Chemicals at 38x FY25E EPS of ₹ 13.8 to arrive at a target price of ₹ 525/share (earlier ₹ 570/share).

Key triggers for future price performance:

- Potential of five molecules, which will be supplied to SCC Japan. Estimated revenues from five molecules is ~ ₹ 250-300 crore
- Potential opportunity of technical manufacturing for Nufarm to improve export share meaningfully
- Growing demand for current product in international market to aid export business

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

- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 2550

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	4 year CAGR (FY18-22)	FY23E	FY24E	FY25E	2 year CAGR (FY22-24E)
Net Revenue	2,228.4	2,424.7	2,644.9	3,064.6	12.5%	3,638.5	4,144.5	4,602.7	14.5%
EBITDA	290.6	333.2	486.9	599.9	28.9%	742.2	853.8	948.2	16.5%
EBITDA Margins (%)	13.0%	13.7%	18.4%	19.6%		20.4%	20.6%	20.6%	
Adj.PAT	165.7	204.7	345.4	423.5	30.7%	539.6	621.1	689.7	17.6%
Adj. EPS (₹)	3.3	4.1	6.9	8.5		10.8	12.4	13.8	
EV/EBITDA	41.3x	65.1x	43.8x	35.7x		28.4x	24.2x	23.0x	
P/E	131.9x	106.8x	63.3x	51.6x		40.5x	35.2x	31.7x	
ROE (%)	15.8	16.8	22.4	22.0		22.4	20.9	19.2	
ROCE (%)	25.3	24.8	29.8	30.2		30.1	28.1	25.8	

Source: Company, ICICI Direct Research



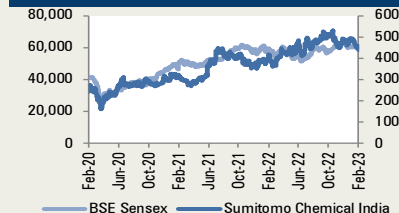
Particulars

Particular	Amount
Market cap (₹ Crore)	21,860
FY22 Total Debt (₹ Crore)	0
FY22 Cash & Inv (₹ Crore)	435
EV (₹ Crore)	21,425
52 Week H/L	541/341
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

Shareholding pattern

in %	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	75.0	75.0	75.0	75.0
DII	6.4	6.7	6.4	5.5
FII	1.7	1.9	2.1	2.4
Others	17.0	16.4	16.6	17.0

Price Chart



Recent event & key risks

- Delhi High Court stayed the Union Government's notification restricting the use of glyphosate through PCO for three months
- **Key Risk:** (i) Restriction on use of glyphosate (herbicide product) in India (ii) Higher inventory at the customer's end leading to low volume growth

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Karan Khona
karan.khona@icicisecurities.com

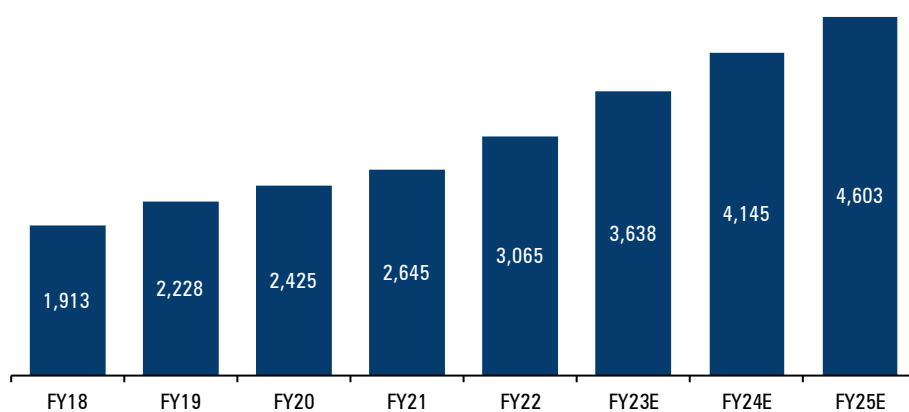
Key takeaways of recent quarter & conference call highlight

Q3FY23 Results: Growth during quarter primarily led by price growth

- **Domestic business:** Revenues grew 3.9% YoY to ₹ 524.6 crore, largely driven by growth from the branded business, which was up 19% YoY to ₹ 430.2 crore while revenue from the bulk business was down 34.5% YoY to ₹ 94.4 crore
- **Export business:** Revenue from the export business increased 13% YoY to ₹ 229.1 crore, driven by growth in the bulk and branded business. The revenue from the bulk business was up 5% YoY to ₹ 171.8 crore while the same from branded rose 49% YoY to ₹ 57.3 crore. In terms of geography, the revenue from Asia (excluding India) surged 60% YoY to ₹ 22.6 crore while the same from Africa was at ₹ 58.8 crore (up 30% YoY)

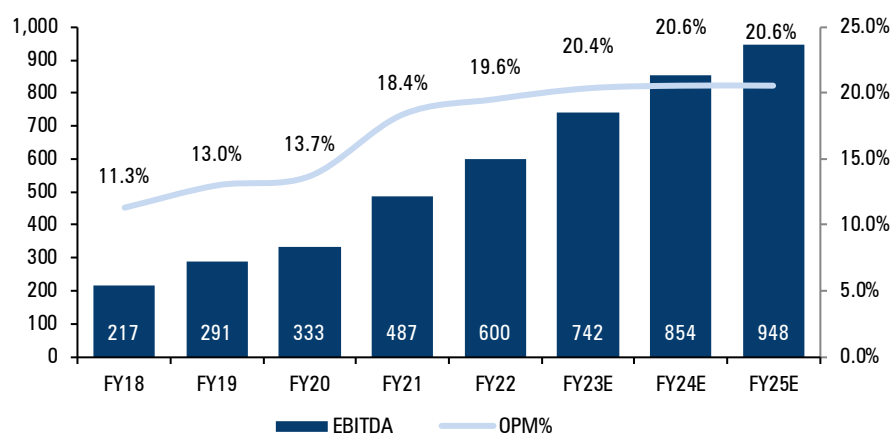
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



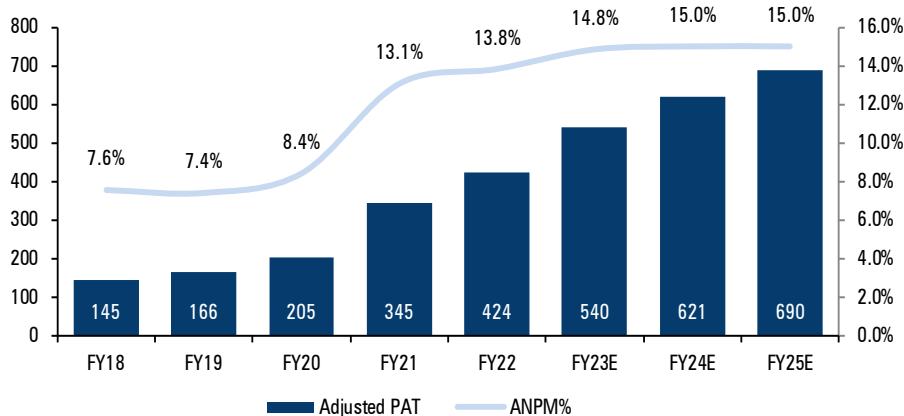
Source: Company, ICICI Direct Research

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	FY25E	
Net Revenues	2,644.9	3,064.6	3,638.5	4,144.5	4,602.7	
Cost Of Revenues	1,655.4	1,908.0	2,255.9	2,569.6	2,853.7	
Gross Profit	989.5	1,156.6	1,382.6	1,574.9	1,749.0	
Employee Cost	194.3	202.0	229.2	257.0	285.4	
Other Operating Expenses	308.4	354.7	411.1	464.2	515.5	
EBITDA	486.9	599.9	742.2	853.8	948.2	
Other Income	18.6	26.8	26.7	32.3	38.2	
EBITDA, including OI	505.4	626.7	768.9	886.1	986.3	
Depreciation	46.6	44.8	43.5	52.0	60.8	
Net Interest Exp.	5.6	6.2	6.0	6.0	6.0	
Other exceptional items	0.0	0.0	0.0	0.0	0.0	
PBT	453.3	575.7	719.4	828.1	919.6	
Taxes	107.9	152.2	179.9	207.0	229.9	
Tax Rate	23.8%	26.4%	25.0%	25.0%	25.0%	
PAT	345.4	423.5	539.6	621.1	689.7	
Adjusted Net Profit	345.4	423.5	539.6	621.1	689.7	
Adj. EPS (INR)	6.9	8.5	10.8	12.4	13.8	
Shares Outstanding	49.9	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	FY25E	
PBT & Extraordinary	453.3	575.7	719.4	828.1	919.6	
Depreciation	46.6	44.8	43.5	52.0	60.8	
After other adjustments (Inc) / Dec in Working Capital	25.6	-257.6	-19.7	-92.0	-128.4	
Taxes	-107.9	-142.6	-179.9	-207.0	-229.9	
Others	7.9	1.5	6.0	6.0	6.0	
Cash from Ops.	425.4	221.8	569.4	587.1	628.0	
Purchase of Fixed Assets	-43.3	-113.5	-130.0	-135.0	-135.0	
Others	-214.4	-176.7	0.0	0.0	0.0	
Cash from Investing	-257.7	-290.2	-130.0	-135.0	-135.0	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0	
Borrowings (Net)	0.0	0.0	0.0	0.0	0.0	
Others	-47.1	-62.6	-60.0	-68.1	-75.0	
Cash from Financing	-47.1	-62.6	-60.0	-68.1	-75.0	
Net Change in Cash	120.7	-131.1	379.5	384.0	418.1	
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0	
BF Cash & Bank	93.5	242.1	79.1	458.6	842.6	
END Cash & Bank	242.1	79.1	458.6	842.6	1,260.6	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						₹ crore
Year end March	FY21	FY22	FY23E	FY24E	FY25E	
Liabilities						
Share Capital	499.1	499.1	499.1	499.1	499.1	
Reserves	1,042.1	1,428.1	1,913.7	2,472.6	3,093.3	
Total Shareholders Funds	1,541.2	1,927.2	2,412.8	2,971.8	3,592.5	
Minority Interest	0.1	0.0	0.0	0.0	0.0	
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0	
Net Deferred Tax liability	5.0	13.9	13.9	13.9	13.9	
Other long term liabilities	15.3	24.7	0.0	0.0	0.0	
Long term provisions	29.2	22.3	26.5	30.2	33.6	
Current Liabilities and Provisions						
Short term borrowings	0.0	0.0	0.0	0.0	0.0	
Trade Payables	598.3	517.2	697.8	851.6	945.8	
Other Current Liabilities	475.2	497.1	598.1	681.3	756.6	
Short Term Provisions	5.6	7.2	8.5	9.7	10.8	
Total Current Liabilities	1,079.2	1,021.4	1,304.4	1,542.6	1,713.1	
Total Liabilities	2,670.1	3,009.6	3,757.6	4,558.5	5,353.1	
Assets						
Net Block	309.3	390.4	427.9	505.9	580.2	
Capital Work in Progress	4.3	21.1	70.0	75.0	75.0	
Intangible assets under devl.	10.0	14.1	14.1	14.1	14.1	
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0	
Non-current investments	0.1	0.1	0.1	0.1	0.1	
Deferred tax assets	18.5	30.0	30.0	30.0	30.0	
Long term loans and advances	6.0	0.8	0.9	1.0	1.1	
Other Non Current Assets	17.6	31.2	37.0	42.1	46.8	
Current Assets, Loans & Advances						
Current Investments	290.2	356.0	356.0	356.0	356.0	
Inventories	754.4	937.8	1,146.4	1,249.0	1,387.1	
Sundry Debtors	848.2	843.1	996.8	1,192.3	1,324.1	
Cash and Bank	242.1	79.1	458.6	842.6	1,260.6	
Loans and Advances	7.7	0.5	0.5	0.5	0.5	
Other Current assets	161.7	305.5	219.3	249.8	277.4	
Current Assets	2,304.3	2,522.0	3,177.6	3,890.2	4,605.8	
Total Assets	2,670.1	3,009.6	3,757.6	4,558.5	5,353.1	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adj. EPS	6.9	8.5	10.8	12.4	13.8
Adj. Cash EPS	7.9	9.4	11.7	13.5	15.0
BV	30.9	38.6	48.3	59.5	72.0
DPS	0.0	1.0	1.1	1.2	1.4
Operating Ratios (%)					
Gross Margin (%)	37.4	37.7	38.0	38.0	38.0
EBITDA Margin (%)	18.4	19.6	20.4	20.6	20.6
PAT Margin (%)	13.1	13.8	14.8	15.0	15.0
Debtor Days	117	100	100	105	105
Inventory Days	104	112	115	110	110
Creditor Days	83	62	70	75	75
Cash Conversion Cycle	139	151	145	140	140
Return Ratios (%)					
Return on Assets (%)	12.9	14.1	14.4	13.6	12.9
RoCE (%)	29.8	30.2	30.1	28.1	25.8
RoE (%)	22.4	22.0	22.4	20.9	19.2
Solvency					
Total Debt / Equity	-	-	-	-	-
Interest Coverage	NM	NM	NM	NM	NM
Current Ratio	2.1	2.5	2.4	2.5	2.7
Quick Ratio	1.4	1.6	1.6	1.7	1.9
Valuation Ratios (x)					
EV/EBITDA	43.8	35.7	28.4	24.2	23.0
P/E	63.3	51.6	40.5	35.2	31.7
P/B	14.2	11.3	9.1	7.4	6.1
EV/Sales	8.1	7.0	5.8	5.0	4.7

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	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3333	3,710	Buy	50,572	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
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	2032	2,320	Hold	20,890	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	438	525	Buy	21,860	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	3963	4,450	Hold	19,635	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	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	379	515	Hold	2,621	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	1245	1,645	Buy	3,109	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	1710	2,215	Buy	3,356	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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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