

## Better monsoon, rise in few pesticide prices to aid performance

Sumitomo Chemical reported revenue growth of 5.7% YoY to ₹ 445.8 crore, led by 5.7% YoY growth from agrochemical segment and 5.8% YoY growth from non agrochemical segment. Better gross margins due to fall in RMA cost led to OPM expansion by 270 bps YoY to 9.4% resulting in EBITDA growth of 49% YoY to ₹ 42 crore. Adjusting exceptional item of integration cost, PAT was at ₹ 24.1 crore against ₹ 1.6 crore in Q4FY19. The robust bottomline growth during the quarter was aided by lower taxes along with higher other income and better operational performance.

## Better monsoon estimates to aid agrochemical consumptions

Given that majority of sectors in the domestic market were impacted due to lockdown along with demand/supply side challenges, only agricultural sector remained immune during this turbulent phase. This is evident from the fact of highest ever fertiliser sales ahead of Kharif season. This should also bolster the growth outlook for agrochemicals. Further, locust impact during Q1 should also improve the growth outlook for some agrochem companies like Sumitomo given it has a strong presence in few molecules for insecticide segment. H1 has around 65% share in overall revenue of the company. We expect that since there has been better monsoon estimates from IMD along with locust impact during the May, should potentially improve revenue visibility for SCI in the coming quarters.

## Strong FCF generation to improve valuations ahead

The company generated FCF to the tune of ₹ 103 crore, which led Sumitomo to repay its remaining ST debt of around ₹ 20 crore. The company is debt free now with liquid cash & investment is as ₹ 180 crore against ₹ 51 crore in FY19. Going ahead, we expect with increase in backward integration along with better payable terms should translate into improvement in the cash conversion cycle. Further, a likely improvement in OPM should eventually translate into better FCF and thereby valuations.

## Valuation & Outlook

We expect animal nutrition business along with CRAMS opportunity to change business mix in the medium to long term. This, in turn, could translate into improvement in the operational performance. Further, ECC's expertise into active manufacturing, should likely benefit SCI given that later largely depends on imports of key molecules. Thus, reduction in import and likely improvement in captive consumption should aid gross margins and thereby OPM. Given no major capex is lined up in the coming future, the company should likely generate decent FCF in the years to come. We value the company at 45x PER FY22E and arrive a target price of ₹ 315/share, with potential upside of 18%. We have a **BUY** rating on the stock.

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY19-22E
Net Revenue	1,912.9	2,228.4	2,424.7	2,744.3	3,099.6	11.6
EBITDA	217.1	290.6	333.2	406.2	474.2	17.7
EBITDA Margins (%)	11.3%	13.0%	13.7%	14.8%	15.3%	
Adj. PAT	145.1	165.7	204.7	296.3	349.5	28.2
Adj. EPS (₹)	2.9	3.3	4.1	5.9	7.0	
EV/EBITDA	33.4x	25.0x	39.3x	32.2x	27.3x	
P/E	91.5x	80.1x	64.9x	44.8x	38.0x	
ROE (%)	15.2	15.8	16.8	20.9	21.3	
ROCE (%)	22.5	24.8	23.8	26.5	26.9	

Source: Company, ICICI Direct Research



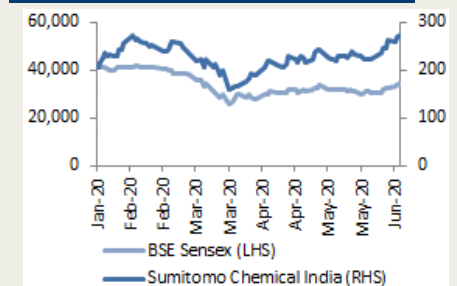
### Particulars

Particular	Amount
Market cap (₹ Crore)	13,477
FY20 Total Debt (₹ Crore)	0
FY20 Cash & Inv (₹ Crore)	179
EV (₹ Crore)	13,297
52 Week H/L	285/153
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

### Key Highlights

- Better monsoon estimates to aid agrochemical consumptions
- Strong FCF generation to improve valuations ahead
- Maintain BUY rating on the stock with a target price of ₹ 315

### Price Performance



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## Financial Summary

Exhibit 1: Profit and loss statement					₹ crore
Year end March	FY19	FY20	FY21E	FY22E	
<b>Net Revenues</b>	<b>2,228.4</b>	<b>2,424.7</b>	<b>2,744.3</b>	<b>3,099.6</b>	
Cost Of Revenues (incl Stock Adj)	1,459.0	1,607.6	1,816.7	2,045.7	
<b>Gross Profit</b>	<b>769.5</b>	<b>817.2</b>	<b>927.6</b>	<b>1,053.9</b>	
Employee Cost	158.4	179.3	186.6	207.7	
Other Operating Expenses	320.5	304.7	334.8	371.9	
<b>EBITDA</b>	<b>290.6</b>	<b>333.2</b>	<b>406.2</b>	<b>474.2</b>	
Other Income	7.6	10.7	23.8	26.7	
<b>EBITDA, including OI</b>	<b>298.2</b>	<b>343.9</b>	<b>429.9</b>	<b>500.9</b>	
Depreciation	27.8	41.0	45.2	49.3	
Net Interest Exp.	3.7	5.5	0.0	0.0	
Other exceptional items	-7.0	-30.9	0.0	0.0	
<b>EBT</b>	<b>259.7</b>	<b>266.5</b>	<b>384.8</b>	<b>451.6</b>	
Taxes	94.0	61.8	88.5	102.1	
Tax Rate	36.2%	23.2%	23.0%	22.6%	
<b>Net Income</b>	<b>165.7</b>	<b>204.7</b>	<b>296.3</b>	<b>349.5</b>	
Adj. NI after Minority interest	165.7	204.7	296.3	349.5	
Adj. EPS (INR)	3.3	4.1	5.9	7.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
Year end March	FY19	FY20	FY21E	FY22E	
<b>PBT &amp; Extraordinary</b>	<b>259.8</b>	<b>266.5</b>	<b>384.8</b>	<b>451.6</b>	
Depreciation	27.8	29.3	45.2	49.3	
After other adjustments					
(Inc) / Dec in Working Capital	-112.7	-9.4	-180.0	-100.2	
Taxes	-88.1	-81.4	-88.5	-102.1	
Others	-9.2	16.4	0.0	0.0	
<b>Cash from Ops.</b>	<b>77.7</b>	<b>221.4</b>	<b>161.5</b>	<b>298.6</b>	
Purchase of Fixed Assets	-39.7	-37.8	-33.5	-40.0	
Others	4.4	-80.1	0.0	0.0	
<b>Cash from Investing</b>	<b>-35.3</b>	<b>-117.9</b>	<b>-33.5</b>	<b>-40.0</b>	
Proceeds from issue of shares	0.0	0.0	0.0	0.0	
Borrowings (Net)	9.6	-19.7	0.0	0.0	
Others	-75.1	-41.6	-103.7	-122.3	
<b>Cash from Financing</b>	<b>-65.5</b>	<b>-61.4</b>	<b>-103.7</b>	<b>-122.3</b>	
Net Change in Cash	-23.1	42.2	24.3	136.3	
Effects of foreign currency transk	0.0	0.0	0.0	0.0	
Opening Cash & Bank	74.3	51.4	93.5	117.8	
<b>Closing Cash &amp; Bank</b>	<b>51.4</b>	<b>93.5</b>	<b>117.8</b>	<b>254.1</b>	

Exhibit 3: Balance sheet					₹ crore
Year end March	FY19	FY20	FY21E	FY22E	
<b>Liabilities</b>					
Share Capital	274.6	499.1	499.1	499.1	
Reserves	773.8	722.6	915.2	1,142.4	
<b>Total Shareholders Funds</b>	<b>1,048.4</b>	<b>1,221.8</b>	<b>1,414.3</b>	<b>1,641.5</b>	
Minority Interest	0.0	0.0	0.0	0.0	
Long Term Borrowings	0.0	0.0	0.0	0.0	
Net Deferred Tax liability	26.6	7.4	7.4	7.4	
Other long term liabilities	0.0	19.4	0.0	0.0	
Long term provisions	15.6	25.1	28.4	32.1	
<b>Current Liabilities and Provisions</b>					
Short term borrowings	19.7	0.0	0.0	0.0	
Trade Payables	596.8	490.9	616.5	679.4	
Other Current Liabilities	150.3	331.8	300.7	297.2	
Short Term Provisions	2.6	9.7	10.9	12.4	
Total Current Liabilities	769.4	832.5	928.2	988.9	
<b>Total Liabilities</b>	<b>1,860.0</b>	<b>2,106.2</b>	<b>2,378.4</b>	<b>2,670.0</b>	
<b>Assets</b>					
Net Block	279.3	284.6	279.4	270.1	
Capital Work in Progress	3.2	6.5	0.0	0.0	
Intangible assets under devl.	4.9	3.8	3.8	3.8	
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	18.8	21.3	21.3	21.3	
Long term loans and advances	7.8	5.3	6.0	6.8	
Other Non Current Assets	4.4	39.0	44.1	49.8	
<b>Current Assets, Loans &amp; Advances</b>					
Current Investments	0.0	86.0	86.0	86.0	
Inventories	680.6	588.0	706.7	764.3	
Sundry Debtors	671.0	849.8	939.8	1,019.0	
Cash and Bank	51.4	93.5	117.8	254.1	
Loans and Advances	3.3	7.9	7.9	7.9	
Other Current assets	135.1	120.4	165.4	186.8	
Current Assets	1,541.4	1,745.6	2,023.7	2,318.1	
<b>Total Assets</b>	<b>1,860.0</b>	<b>2,106.2</b>	<b>2,378.4</b>	<b>2,670.0</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
Year end March	FY19	FY20	FY21E	FY22E	
<b>Per share data (₹)</b>					
Adj. EPS	3.3	4.1	5.9	7.0	
Adj. Cash EPS	4.3	4.9	6.8	8.0	
BV	38.2	24.5	28.3	32.9	
DPS	0.0	0.0	2.1	2.5	
<b>Operating Ratios (%)</b>					
Gross Margin (%)	34.5	33.7	33.8	34.0	
EBITDA Margin (%)	13.0	13.7	14.8	15.3	
PAT Margin (%)	7.4	8.4	10.8	11.3	
Debtor Days	110	128	125	120	
Inventory Days	111	89	94	90	
Creditor Days	98	74	82	80	
Cash Conversion Cycle	124	143	137	130	
<b>Return Ratios (%)</b>					
Return on Assets (%)	8.9	9.7	12.5	13.1	
RoCE (%)	24.8	23.8	26.5	26.9	
RoE (%)	15.8	16.8	20.9	21.3	
<b>Solvency</b>					
Total Debt / Equity	0.0	-	-	-	
Interest Coverage	74.1	54.9	NM	NM	
Current Ratio	2.0	2.1	2.2	2.3	
Quick Ratio	1.1	1.4	1.4	1.6	
<b>Valuation Ratios (x)</b>					
EV/EBITDA	25.0	39.3	32.2	27.3	
P/E	80.1	64.9	44.8	38.0	
P/B	7.0	10.9	9.4	8.1	
EV/Sales	3.3	5.4	4.8	4.2	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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