

## Multiple agrochem headwinds impact numbers...

**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 ~43% while ~24% is from herbicide, 9% from fungicide and 24% from other segments such as PGR AND & EHD

**Q4FY23 Results:** Topline numbers were below estimates led by lower demand from the domestic and international market.

- Reported revenue was down 2% YoY to ₹ 651.6 crore, led by 2.2% YoY de-growth in insecticides along with 10% YoY de-growth in fungicides
- Gross margins were down 682 bps YoY to 31.3% while EBITDA margin de-grew 402 bps YoY to 12.4%
- Absolute EBITDA was down 26% YoY to ₹ 80.6 crore while PAT declined 3% YoY to ₹ 72.1 crore

**What should investors do?** The stock appreciated at 20.4% CAGR in the last three years.

- We downgrade from BUY to **HOLD** rating on the back of 1) impending threat of Chinese dumping especially in the generic agrochem export markets 2) high-cost inventories and falling prices and 3) unexpected changes in the monsoon distribution pattern and changes associated with the same

**Target Price and Valuation:** We value Sumitomo Chemicals at 32x FY25E EPS of ₹13.2 to arrive at a target price of ₹ 420/share (earlier ₹ 525/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 of current product in the international market to aid export business

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

- Trigger for PI Industries future revenue growth would be strong order backlog in CSM and foray into pharma CDMO.
- BUY with a target price of ₹ 3880.

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-24E)
Net Revenue	2,228.4	2,424.7	2,644.9	3,064.6	3,511.0	12.0%	3,945.9	4,494.9	6.7%
EBITDA	290.6	333.2	486.9	599.9	666.6	23.1%	761.6	912.5	9.5%
EBITDA Margins (%)	13.0%	13.7%	18.4%	19.6%	19.0%		19.3%	20.3%	
Adj.PAT	165.7	204.7	345.4	423.5	502.2	31.9%	547.5	658.8	9.7%
Adj. EPS (₹)	3.3	4.1	6.9	8.5	10.1		11.0	13.2	
EV/EBITDA	36.4x	57.3x	38.5x	31.4x	28.1x		23.8x	21.0x	
P/E	116.3x	94.1x	55.8x	45.5x	38.4x		35.2x	29.2x	
ROE (%)	15.8	16.8	22.4	22.0	21.1		19.0	19.0	
ROCE (%)	25.3	24.8	29.8	30.2	27.7		25.6	25.5	

Source: Company, ICICI Direct Research



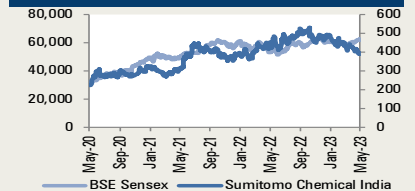
### Particulars

Particular	Amount
Market cap (₹ Crore)	19,289
FY23 Total Debt (₹ Crore)	0
FY23 Cash & Inv (₹ Crore)	303
EV (₹ Crore)	18,986
52 Week H/L	541/382
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

### Shareholding pattern

in %	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	75.0	75.0	75.0	75.0
DII	6.7	6.4	5.5	5.5
FII	1.9	2.1	2.4	2.4
Others	16.4	16.6	17.0	17.0

### Price Chart



### Recent event & key risks

- Commenced commercial operation at Bhavnagar plant in FY23
- **Key Risk:** (i) Higher inventory at the customer end leading to low volume growth ii) Better than expected exports traction

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## Key takeaways of recent quarter & conference call highlight

### Q4FY23 Results: Degrowth during quarter primarily led by both price, volume de-growth

- **Domestic business:** Revenues de-grew 10.1% YoY to ₹ 401.8 crore, largely driven by de-growth from bulk business, which was down 29% YoY to ₹ 80.4 crore while revenue from branded business was down 4% YoY to ₹ 321.5 crore

**Export business:** Revenue from export business increased 14% YoY to ₹ 249.7 crore, driven by growth in bulk and branded business. The revenue from bulk business was up 5% YoY to ₹ 174.8 crore while the same from branded rose 43% YoY to ₹ 74.9 crore

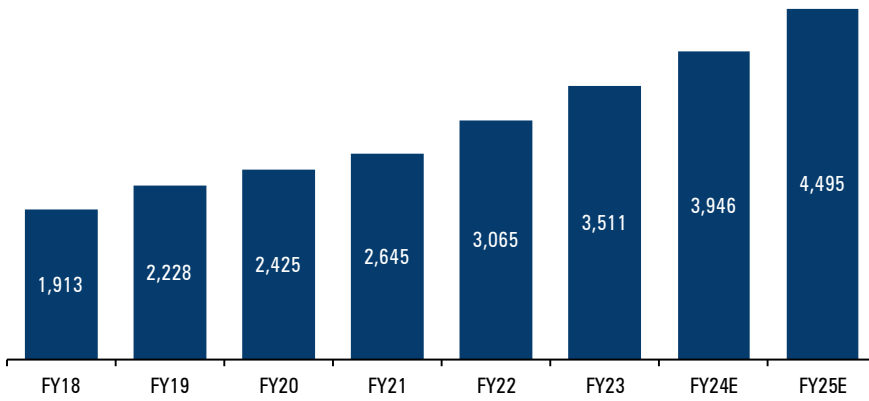
### Q4FY23 Earnings Conference Call Highlights

- H2FY23 was hit largely due to
  - Low insect infestation and weather-related disturbances such as late monsoons, erratic rainfall, uneven rain pattern and excess rain towards the end of monsoon period resulted in higher channel inventories and overall pessimism in the market
  - Chinese market opened up post Covid and the market witnessed excess supply situation resulting in prices getting softer and softer
  - To sum it up – Low demand, higher inventory, excess supply and falling prices have impacted H2FY23
- The situation was further aggregated by similar trends in other key exports market like Latin America. The decline was also impacted by a fall in revenue from fungicides segment
- The company introduced almost 10 new brands. Four were introduced in insecticides segment, four in PGR and one or two in the fungicide segment. Six out of the 10 brands are under 9(3) of the insecticides Act (which means it was introduced for the first time in the market). The company is expecting to launch another two products in the current fiscal year
- The company expects several 9(3) products to ramp up over the last few years and expects robust growth in coming years
- The company predicts limited adverse impact of El Nino situation, considering IMD forecast of 96% LPA for FY24
- The company expects growth to be driven by volumes. During the year, volumes for the products are likely to get increased and prices is likely to remain stable
- During the year, the company experienced good growth of sales in African and Latin American countries apart from shipments to parent companies in Japan. Further, the company has received regulatory approval for some selected products, which have exhibited robust demand and will serve as strong base for expansion of export business in coming years
- The company anticipates good growth, stability and profitability in herbicide, PGR and other products segments
- Update on Capex
  - On ₹ 120 crore capex – two Make in India projects to develop several proprietary products for parent company and for global affiliates is progressing as per the expected timelines
  - One project in Bhavnagar facility for one important molecule has already commenced commercial operations in FY23. (Note – The project contributes no revenue in FY23 topline)
  - Second project in Tarapur will start its commercial production in Q1FY24

- Operating margins of the project are expected to be in line with the company's margins
- Both the above projects are expected to contribute in FY24; however, it may not be at full capacity level in FY24
- India is considered now as a production hub for most Japanese companies
- The management predicts FY24 EBITDA margins to be ~19%
- During Q4FY23, the company received a refund of ~₹ 12 crore

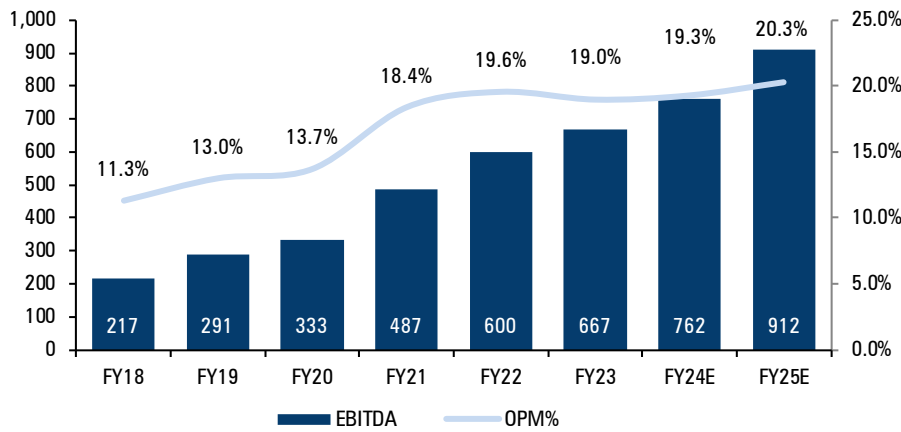
Financial story in charts....

**Exhibit 1: Revenue trend (₹ crore)**



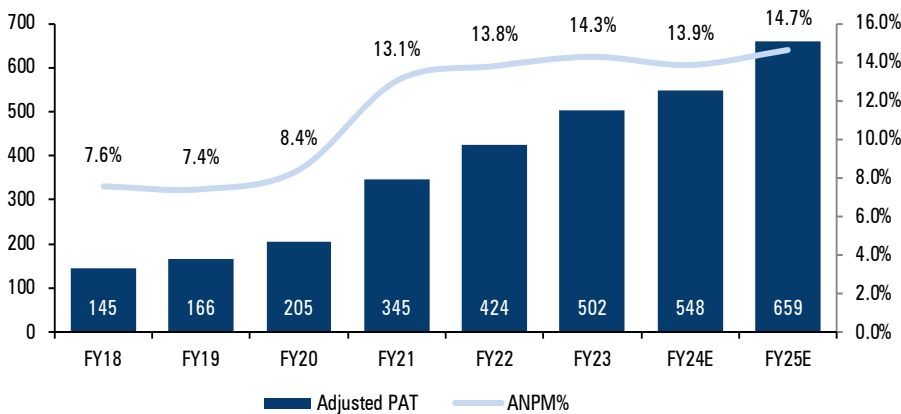
Source: Company, ICICI Direct Research

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



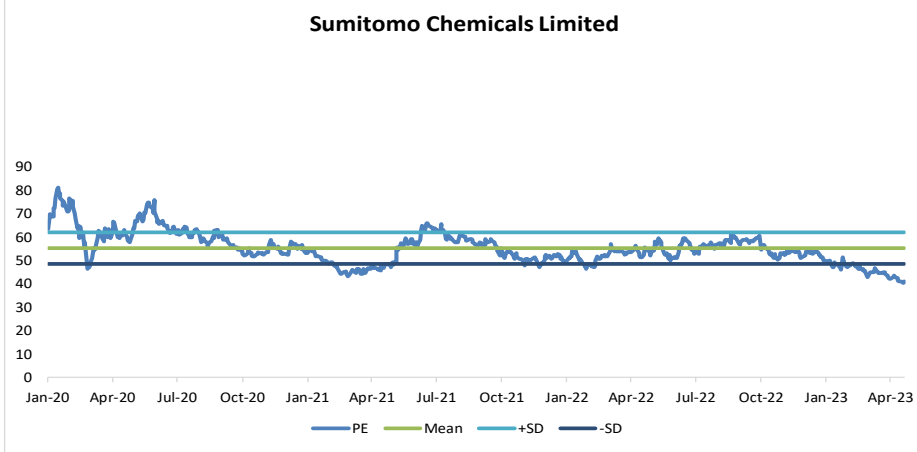
Source: Company, ICICI Direct Research

**Exhibit 3: PAT growth trend (₹ crore)**



Source: Company, ICICI Direct Research

Exhibit 4: PE Band



## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
Year end March	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>3,064.6</b>	<b>3,511.0</b>	<b>3,945.9</b>	<b>4,494.9</b>
Cost Of Revenues	1,908.0	2,270.6	2,525.4	2,831.8
<b>Gross Profit</b>	<b>1,156.6</b>	<b>1,240.3</b>	<b>1,420.5</b>	<b>1,663.1</b>
Employee Cost	202.0	218.4	244.6	278.7
Other Operating Expenses	354.7	355.4	414.3	472.0
<b>EBITDA</b>	<b>599.9</b>	<b>666.6</b>	<b>761.6</b>	<b>912.5</b>
Other Income	26.8	44.9	35.0	38.2
<b>EBITDA, including OI</b>	<b>626.7</b>	<b>711.4</b>	<b>796.6</b>	<b>950.6</b>
Depreciation	44.8	51.9	60.5	66.3
Net Interest Exp.	6.2	5.4	6.0	6.0
Other exceptional items	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>575.7</b>	<b>654.2</b>	<b>730.0</b>	<b>878.4</b>
Taxes	152.2	152.0	182.5	219.6
Tax Rate	26.4%	23.2%	25.0%	25.0%
<b>PAT</b>	<b>423.5</b>	<b>502.2</b>	<b>547.5</b>	<b>658.8</b>
Adjusted Net Profit	423.5	502.2	547.5	658.8
Adj. EPS (INR)	8.5	10.1	11.0	13.2
Shares Outstanding	49.9	49.9	49.9	49.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
Year end March	FY22	FY23	FY24E	FY25E
<b>PBT &amp; Extraordinary</b>	<b>575.7</b>	<b>654.2</b>	<b>730.0</b>	<b>878.4</b>
Depreciation	44.8	51.9	60.5	66.3
After other adjustments				
(Inc) / Dec in Working Capital	-257.6	-135.2	192.0	-161.4
Taxes	-142.6	-168.1	-182.5	-219.6
Others	1.5	-13.4	6.0	6.0
<b>Cash from Ops.</b>	<b>221.8</b>	<b>389.4</b>	<b>806.0</b>	<b>569.6</b>
Purchase of Fixed Assets	-113.5	-119.9	-135.0	-75.0
Others	-176.7	-207.3	0.0	0.0
<b>Cash from Investing</b>	<b>-290.2</b>	<b>-327.2</b>	<b>-135.0</b>	<b>-75.0</b>
Proceeds from issue of shares	0.0	0.0	0.0	0.0
Borrowings (Net)	0.0	0.0	0.0	0.0
Others	-62.6	-72.5	-60.8	-71.9
<b>Cash from Financing</b>	<b>-62.6</b>	<b>-72.5</b>	<b>-60.8</b>	<b>-71.9</b>
Net Change in Cash	-131.1	-10.4	610.3	422.8
Effects of foreign currency translation	0.0	0.0	0.0	0.0
BF Cash & Bank	242.1	79.1	302.8	913.1
<b>END Cash &amp; Bank</b>	<b>79.1</b>	<b>302.8</b>	<b>913.1</b>	<b>1,335.9</b>

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
Year end March	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Share Capital	499.1	499.1	499.1	499.1
Reserves	1,428.1	1,882.6	2,375.4	2,968.3
<b>Total Shareholders Funds</b>	<b>1,927.2</b>	<b>2,381.8</b>	<b>2,874.6</b>	<b>3,467.5</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	13.9	13.6	13.6	13.6
Other long term liabilities	24.7	17.7	0.0	0.0
Long term provisions	22.3	22.6	25.4	28.9
<b>Current Liabilities and Provisions</b>				
Short term borrowings	0.0	0.0	0.0	0.0
Trade Payables	517.2	490.6	810.8	923.6
Other Current Liabilities	497.1	436.5	648.6	738.9
Short Term Provisions	7.2	6.3	7.1	8.1
Total Current Liabilities	1,021.4	933.4	1,466.5	1,670.6
<b>Total Liabilities</b>	<b>3,009.6</b>	<b>3,369.1</b>	<b>4,380.1</b>	<b>5,180.6</b>
<b>Assets</b>				
Net Block	390.4	429.8	482.7	491.5
Capital Work in Progress	21.1	53.5	75.0	75.0
Intangible assets under devl.	14.1	17.7	17.7	17.7
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	30.0	0.0	0.0	0.0
Long term loans and advances	0.8	0.6	0.7	0.8
Other Non Current Assets	31.2	79.4	89.2	101.6
<b>Current Assets, Loans &amp; Advances</b>				
Current Investments	356.0	238.8	238.8	238.8
Inventories	937.8	888.7	1,189.2	1,354.6
Sundry Debtors	843.1	946.1	1,135.1	1,293.1
Cash and Bank	79.1	302.8	913.1	1,335.9
Loans and Advances	0.5	0.5	0.5	0.5
Other Current assets	305.5	411.1	237.8	270.9
Current Assets	2,522.0	2,787.9	3,714.5	4,493.8
<b>Total Assets</b>	<b>3,009.6</b>	<b>3,369.1</b>	<b>4,380.1</b>	<b>5,180.6</b>

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
Year end March	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Adj. EPS	8.5	10.1	11.0	13.2
Adj. Cash EPS	9.4	11.1	12.2	14.5
BV	38.6	47.7	57.6	69.5
DPS	1.0	1.0	1.1	1.3
<b>Operating Ratios (%)</b>				
Gross Margin (%)	37.7	35.3	36.0	37.0
EBITDA Margin (%)	19.6	19.0	19.3	20.3
PAT Margin (%)	13.8	14.3	13.9	14.7
Debtor Days	100	98	105	105
Inventory Days	112	92	110	110
Creditor Days	62	51	75	75
Cash Conversion Cycle	151	140	140	140
<b>Return Ratios (%)</b>				
Return on Assets (%)	14.1	14.9	12.5	12.7
RoCE (%)	30.2	27.7	25.6	25.5
RoE (%)	22.0	21.1	19.0	19.0
<b>Solvency</b>				
Total Debt / Equity	-	-	-	-
Interest Coverage	NM	NM	NM	NM
Current Ratio	2.5	3.0	2.5	2.7
Quick Ratio	1.6	2.0	1.7	1.9
<b>Valuation Ratios (x)</b>				
EV/EBITDA	31.4	28.1	23.8	21.0
P/E	45.5	38.4	35.2	29.2
P/B	10.0	8.1	6.7	5.6
EV/Sales	6.1	5.3	4.6	4.3

Source: Company, ICICI Direct Research

**Exhibit 9: 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	2570	3,000	Buy	76,218	63.5	72.7	79.4	34.4	30.0	27.5	21.3	19.3	17.8	23.8	21.9	20.6	22.1	20.9	19.4
PI Industries	3289	3,880	Buy	49,894	55.5	80.9	94.2	59.2	40.7	34.9	42.0	30.3	25.9	16.3	20.5	20.1	13.8	17.1	16.9
Aarti Industries	502	515	Hold	18,373	32.7	15.0	18.0	25.1	54.4	45.4	28.9	29.7	24.6	11.8	9.7	10.4	14.6	11.1	11.9
Tata Chemical	978	1,130	Buy	24,807	47.5	89.5	109.3	20.6	10.9	8.9	12.7	7.7	5.2	6.6	10.4	10.8	6.6	11.6	12.5
Vinati Organics	2027	2,055	Hold	20,829	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	386	420	Hold	19,289	8.5	10.1	11.0	45.5	38.4	35.2	31.4	28.1	23.8	30.2	27.7	25.6	22.0	21.1	19.0
Navin Fluorine	4748	5,160	Hold	23,539	52.3	75.7	91.1	90.8	62.7	52.1	66.0	44.2	35.4	17.8	17.2	17.5	14.0	17.2	17.7
Rallis India	206	223	Hold	4,000	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	417	370	Hold	2,885	18.8	4.4	18.1	19.2	81.8	19.9	11.9	16.9	9.7	10.9	4.7	12.3	15.6	3.6	13.2
Neogen Chemicals	1480	1,424	Hold	3,688	17.9	20.0	24.8	82.7	74.0	59.6	43.5	35.4	28.5	12.0	11.8	11.6	10.2	10.3	11.5
Astec Lifesciences	1483	1,350	Reduce	2,963	45.1	12.2	29.5	32.9	121.1	50.2	20.7	42.6	26.7	19.3	7.3	11.8	22.3	5.7	12.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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