

CRAMS opportunities likely to expand ahead...

Sumitomo Chemical reported topline growth of 8.7% YoY to ₹ 902 crore vs. our expectation of ₹ 875 crore. The topline performance was led by higher growth from crop protection segment, which was at ₹ 868 crore (up 9% YoY) while revenues from other segment fell 4.8% YoY to ₹ 33.8 crore. Revenue from crop protection was led by better performance from herbicide (up 18% YoY) along with decent performance from PGR (up 13% YoY) and fungicides (up 8% YoY). Better gross margins (up 493 bps YoY) owing to change in the product mix along with benign RMAT prices translated into expansion in the operational performance by 501 bps YoY to 24.3%, leading to EBITDA growth of 37% YoY to ₹ 218.9 crore vs. our estimate of ₹ 185 crore. OPM from crop protection segment inched up to 25% (up 549 bps YoY) while the same from other segment fell 748 bps YoY to 6%. Higher taxes (26% vs. 15% in Q2FY20) impacted bottomline growth, which was up 20% YoY to ₹ 157.8 crore.

CRAMS pie to become sizeable in medium to long term

Sumitomo India has been doing one molecule under CRAMS portfolio for Sumitomo Japan (SCC Japan). Going ahead, the management expects one branded molecule to be launched every year for SCC Japan. Further, it plans to launch four to five technicals under CRAMS portfolio of which one may be launched next year and rest of the entire portfolio can be launched following next year. We believe apart from these molecules, SCC Japan acquired Nufarm last year, which can provide significant CRAMS opportunities to Sumitomo India. The company has been supplying Chlorpyrifos to Nufarm and plans to sell Tebuconazole, going ahead. Sumitomo India has received trial order for one molecule of 40 tonnes currently, which can be increased to 150-200 tonnes in years to come. We believe Sumitomo India's CRAMS segment has the potential to make high teens revenue contribution to the group revenue in the medium to long term. In turn, this can improve group margins further.

FCF generation to remain robust ahead

The company has generated FCF to the tune of ₹ 260 crore for H1FY21 vs. ₹ 83 crore last year. We believe that since the company plans to launch combination products along with a rise in sales contribution from PGR, fungicides and CRAMS can likely to expand gross margins further and thereby operational performance. The management envisages present working capital cycle will remain sustainable. Thus, with limited capex plans under way, we expect it would generate strong FCF going ahead. We expect part of that can likely to be utilised for inorganic opportunities, while partly would be funded for CRAMS capex. We expect this would be margin accretive and thereby improvement in the return ratios further.

Valuation & Outlook

We value the company at 45x PER FY22E and arrive a target price of ₹ 335/share, potential upside of 21%. We maintain **BUY** rating on the stock.



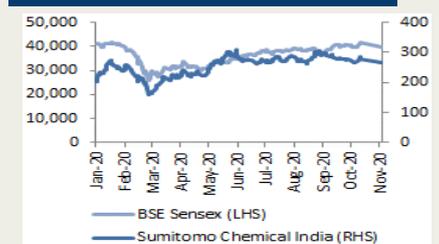
Particulars

Particular	Amount
Market cap (₹ Crore)	13,826
FY20 Total Debt (₹ Crore)	0
FY20 Cash & Inv (₹ Crore)	179
EV (₹ Crore)	13,647
52 Week H/L	317/153
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

Key Highlights

- CRAMS pie to become sizable in medium to long term
- FCF generation to remain robust ahead
- Maintain BUY rating on stock with target price of ₹ 335

Price Performance



Research Analyst

Mitesh Shah
mitesh.shah@icicisecurities.com

Dhavan Shah
dhavan.shah@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Revenue	1,912.9	2,228.4	2,424.7	2,695.1	3,007.9	11.4
EBITDA	217.1	290.6	333.2	439.3	502.3	22.8
EBITDA Margins (%)	11.3%	13.0%	13.7%	16.3%	16.7%	
Adj. PAT	145.1	165.7	204.7	324.0	371.9	34.8
Adj. EPS (₹)	2.9	3.3	4.1	6.5	7.5	
EV/EBITDA	34.7x	26.1x	41.0x	30.0x	25.8x	
P/E	95.3x	83.4x	67.5x	42.7x	37.2x	
ROE (%)	15.2	15.8	16.8	22.6	22.2	
ROCE (%)	22.5	24.8	23.8	28.7	28.2	

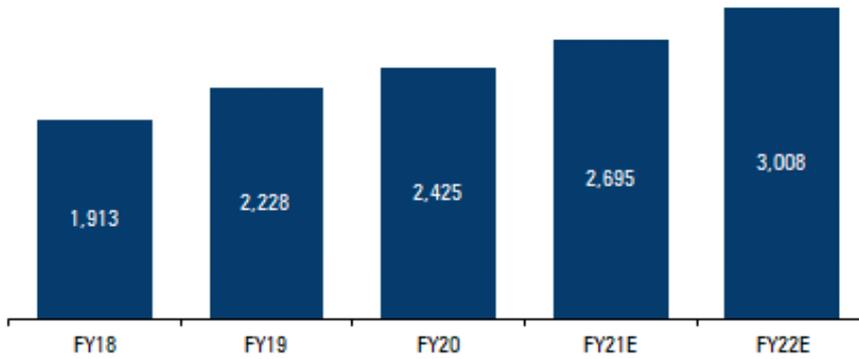
Source: Company, ICICI Direct Research

Conference Call Highlights:

- AND & EHD were impacted during the initial months of the year but the same has been recovering now
- Production level has revived in the last few months. It faced challenges in procuring input material in the initial stages
- Sumitomo India currently manufactures one proprietary product that is exported to Sumitomo Japan and will expand the portfolio, going ahead
- Revenue and cost synergies from Excel crop care integration have started flowing and would expand margins, going ahead
- They plan to launch several unique portfolios from the parent portfolio in India, going ahead
- They launched four new products of which three were insecticides and one PGR during the current year
- The management expects to have one proprietary product annually under CRAMS portfolio. Along with that, it plans to provide four to five technicals under CRAMS
- It also plans to launch few combination products going ahead (mix SCC prop products and SCI generic) – they have identified nine combination products
- Plans to increase PGR revenue contribution from Kharif and Rabi crops ahead
- Typically, it invests 15% of consolidated EBITDA every year in terms of capex. However, for CRAMS opportunities, the company has to incur additional capex, going ahead. The management expects better asset turn than normal chemical companies witnessing
- Product mix changes and stable input cost led to improvement in gross margins. This is a highly sustainable model based on the product launches pipeline
- Glyphosate - Sales contribution currently is 12-13%. No product constitutes more than 15% of overall revenue. We do not expect glyphosate sales to be impacted in the next five to seven years
- The parent company has been working on some molecule, which can offset any ban on glyphosate. They are not worried in terms of glyphosate sales owing to ban by few countries
- Growth in PGR and fungicides will be more owing to low base
- Sumitomo Nufarm - LatAm opportunities will be large. One of the molecule is consumed by Nufarm. Sumitomo India has got an order from Nufarm. Total 40 tonnes is trial order currently, which can be increased to 150-200 tonnes
- Chlorpyrifos - Can see big jump given that Nufarm is consuming more
- The management expects present working capital situation to be highly sustainable

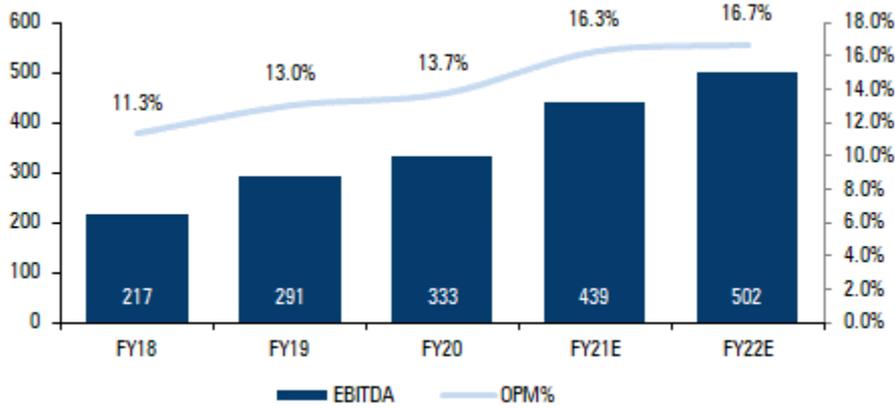
Financial story in charts

Exhibit 1: Revenue trend (₹ crore)



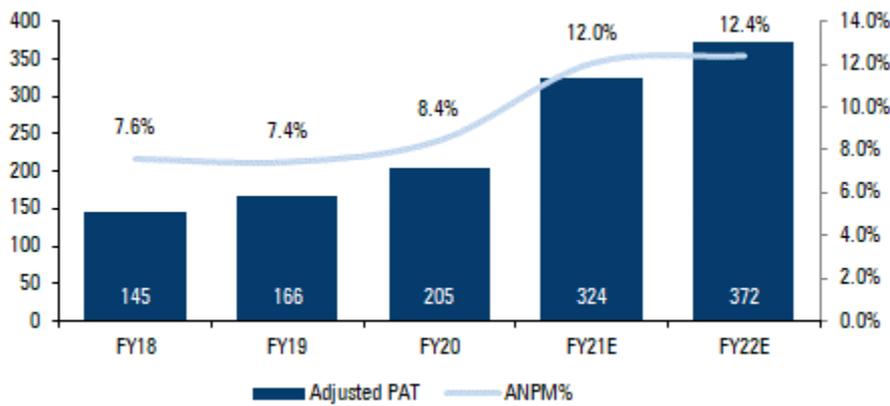
Source: Company, ICICI Direct Research

Exhibit 2: OPM likely to improve due to better gross margins, operating leverage



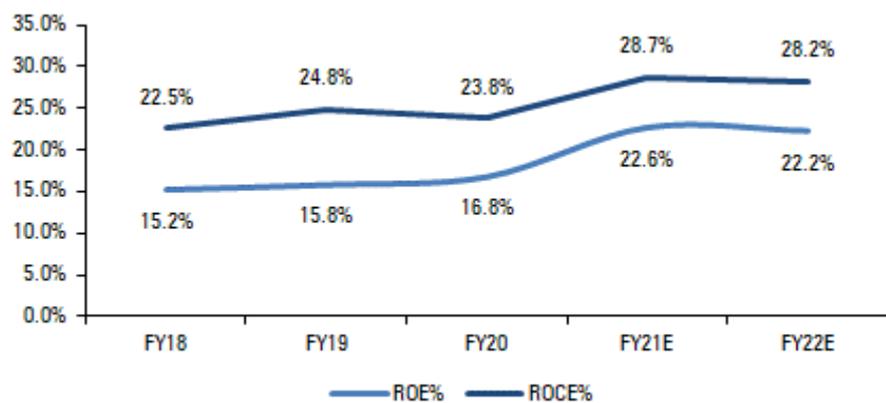
Source: Company, ICICI Direct Research

Exhibit 3: PAT trend



Source: Company, ICICI Direct Research

Exhibit 4: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
Year end March	FY18	FY19	FY20	FY21E	FY22E
Net Revenues	1,912.9	2,228.4	2,424.7	2,695.1	3,007.9
Cost Of Revenues	1,238.7	1,459.0	1,607.6	1,765.3	1,955.1
Gross Profit	674.2	769.5	817.2	929.8	1,052.8
Employee Cost	147.5	158.4	179.3	194.0	210.6
Other Operating Expenses	309.6	320.5	304.7	296.5	339.9
EBITDA	217.1	290.6	333.2	439.3	502.3
Other Income	30.5	7.6	10.7	26.6	30.0
EBITDA, including OI	247.5	298.2	343.9	465.9	532.3
Depreciation	23.7	27.8	41.0	45.2	49.3
Net Interest Exp.	2.8	3.7	5.5	0.0	0.0
Other exceptional items	0.0	-7.0	-30.9	0.0	0.0
PBT	221.0	259.7	266.5	420.7	483.0
Taxes	75.8	94.0	61.8	96.8	111.1
Tax Rate	34.3%	36.2%	23.2%	23.0%	23.0%
PAT	145.1	165.7	204.7	324.0	371.9
Adjusted Net Profit	145.1	165.7	204.7	324.0	371.9
Adj. EPS (INR)	2.9	3.3	4.1	6.5	7.5
Shares Outstanding	27.5	27.5	49.9	49.9	49.9

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					
	₹ crore				
Year end March	FY18	FY19	FY20	FY21E	FY22E
PBT & Extraordinary	221.0	259.8	266.5	420.7	483.0
Depreciation	23.7	27.8	29.3	45.2	49.3
After other adjustments					
(Inc) / Dec in Working Capital	-100.0	-112.7	-9.4	227.6	-24.8
Taxes	-83.1	-88.1	-81.4	-96.8	-111.1
Others	-14.1	-9.2	16.4	0.0	0.0
Cash from Ops.	47.4	77.7	221.4	596.7	396.4
Purchase of Fixed Assets	-43.4	-39.7	-37.8	-33.5	-40.0
Others	3.8	4.4	-80.1	-64.0	-50.0
Cash from Investing	-39.7	-35.3	-117.9	-97.5	-90.0
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0
Borrowings (Net)	10.2	9.6	-19.7	0.0	0.0
Others	-3.0	-75.1	-41.6	-113.4	-130.2
Cash from Financing	7.2	-65.5	-61.4	-113.4	-130.2
Net Change in Cash	15.0	-23.1	42.2	385.8	176.3
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0
BF Cash & Bank	0.0	74.3	51.4	93.5	479.3
END Cash & Bank	74.3	51.4	93.5	479.3	655.6

Exhibit 7: Balance sheet					
	₹ crore				
Year end March	FY18	FY19	FY20	FY21E	FY22E
Liabilities					
Share Capital	274.6	274.6	499.1	499.1	499.1
Reserves	679.4	773.8	722.6	933.2	1,174.9
Total Shareholders Funds	954.0	1,048.4	1,221.8	1,432.3	1,674.1
Minority Interest	0.0	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	26.4	26.6	7.4	7.4	7.4
Other long term liabilities	0.0	0.0	19.4	0.0	0.0
Long term provisions	12.7	15.6	25.1	27.9	31.2
Current Liabilities and Provisions					
Short term borrowings	10.1	19.7	0.0	0.0	0.0
Trade Payables	527.3	596.8	490.9	738.4	782.9
Other Current Liabilities	125.6	150.3	331.8	443.0	494.4
Short Term Provisions	2.3	2.6	9.7	10.7	12.0
Total Current Liabilities	665.3	769.4	832.5	1,192.2	1,289.3
Total Liabilities	1,658.4	1,860.0	2,106.2	2,659.9	3,002.0
Assets					
Net Block	266.7	279.3	284.6	279.4	270.1
Capital Work in Progress	4.5	3.2	6.5	0.0	0.0
Intangible assets under devel.	4.3	4.9	3.8	3.8	3.8
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	24.8	18.8	21.3	21.3	21.3
Long term loans and advances	7.3	7.8	5.3	5.9	6.6
Other Non Current Assets	5.1	4.4	39.0	43.3	48.3
Current Assets, Loans & Advances					
Current Investments	0.0	0.0	86.0	150.0	200.0
Inventories	609.3	680.6	588.0	694.1	741.7
Sundry Debtors	551.8	671.0	849.8	812.2	865.3
Cash and Bank	74.3	51.4	93.5	479.3	655.6
Loans and Advances	3.7	3.3	7.9	7.9	7.9
Other Current assets	106.7	135.1	120.4	162.4	181.3
Current Assets	1,345.7	1,541.4	1,745.6	2,306.0	2,651.8
Total Assets	1,658.4	1,860.0	2,106.2	2,659.9	3,002.0

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
Year end March	FY18	FY19	FY20	FY21E	FY22E
Per share data (₹)					
Adj. EPS	2.9	3.3	4.1	6.5	7.5
Adj. Cash EPS	3.8	4.3	4.9	7.4	8.4
BV	34.7	38.2	24.5	28.7	33.5
DPS	0.0	0.0	0.0	2.3	2.6
Operating Ratios (%)					
Gross Margin (%)	35.2	34.5	33.7	34.5	35.0
EBITDA Margin (%)	11.3	13.0	13.7	16.3	16.7
PAT Margin (%)	7.6	7.4	8.4	12.0	12.4
Debtor Days	105	110	128	110	105
Inventory Days	116	111	89	94	90
Creditor Days	101	98	74	100	95
Cash Conversion Cycle	121	124	143	104	100
Return Ratios (%)					
Return on Assets (%)	8.8	8.9	9.7	12.2	12.4
RoCE (%)	22.5	24.8	23.8	28.7	28.2
RoE (%)	15.2	15.8	16.8	22.6	22.2
Solvency					
Total Debt / Equity	0.0	0.0	-	-	-
Interest Coverage	78.9	74.1	54.9	NM	NM
Current Ratio	2.0	2.0	2.1	1.9	2.1
Quick Ratio	1.1	1.1	1.4	1.4	1.5
Valuation Ratios (x)					
EV/EBITDA	34.7	26.1	41.0	30.0	25.8
P/E	95.3	83.4	67.5	42.7	37.2
P/B	8.0	7.3	11.3	9.7	8.3
EV/Sales	3.9	3.4	5.6	4.9	4.3

Source: Company, ICICI Direct Research

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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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