

CMP: ₹ 378

Target: ₹ 505 (34%)

Target Period: 12 months

BUY

November 2, 2021

## CRAMS offers strong visibility 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 around 19% is from herbicide, 9% from fungicide and 20% from other segments such as PGR, AND & EHD

**Q2FY22 Results:** Overall numbers were below our estimates, impacted by subdued herbicides sales.

- Reported revenue growth of 1% YoY to ₹ 910.4 crore, impacted by sluggish growth from herbicides (-20.6% YoY)
- Gross margins fell 90 bps YoY to ~39% while EBITDA margin contracted 70 bps YoY to 23.6%
- EBITDA was down 2% YoY to ₹ 214.7 crore
- PAT declined 2% YoY to ₹ 154.2 crore owing to lower-than-expected operational performance

**What should investors do?** The stock appreciated at 63% CAGR in last two years.

- We retain **BUY** rating on the back of better growth outlook from outsourcing opportunity of SCC Japan

**Target Price and Valuation:** We value Sumitomo Chemicals at 50x P/E FY23E EPS to arrive at a target price of ₹ 505/share (earlier ₹ 505/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

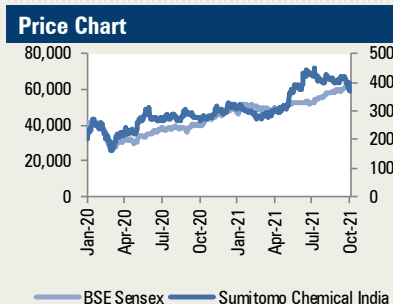
**Alternate Stock Idea:** Apart from Sumitomo Chemicals, in our chemical coverage we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1570



Particulars	
Particular	Amount
Market cap (₹ Crore)	18,868
FY21 Total Debt (₹ Crore)	0
FY21 Cash & Inv (₹ Crore)	532
EV (₹ Crore)	18,335
52 Week H/L	460/266
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

Shareholding pattern				
in %	Dec-20	Mar-21	Jun-21	Sept-21
Promoter	75.0	75.0	75.0	75.0
DII	6.6	6.3	6.6	6.1
FII	1.2	1.1	1.2	1.3
Others	17.2	17.6	17.2	17.6



Recent event & key risks	
• Exports witnessed strong rebound	
• <b>Key Risk:</b> (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	

Research Analyst	
Siddhant Khandekar	siddhant.khandekar@icicisecurities.com
Dhavan Shah	dhavan.shah@icicisecurities.com

## Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	3 year CAGR (FY18-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Revenue	2,228.4	2,424.7	2,644.9	11.4%	2,978.2	3,377.8	13.0%
EBITDA	290.6	333.2	486.9	30.9%	589.7	702.6	20.1%
EBITDA Margins (%)	13.0%	13.7%	18.4%		19.8%	20.8%	
Adj. PAT	165.7	204.7	345.4	33.5%	425.2	504.9	20.9%
Adj. EPS (₹)	3.3	4.1	6.9		8.5	10.1	
EV/EBITDA	35.6x	56.1x	37.7x		30.6x	25.3x	
P/E	113.9x	92.2x	54.6x		44.4x	37.4x	
ROE (%)	15.8	16.8	22.4		22.1	21.2	
ROCE (%)	25.3	24.8	29.8		29.3	28.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlight

### Q2FY22 Results: Poor growth from herbicides primarily due to erratic rains impacts crop care performance

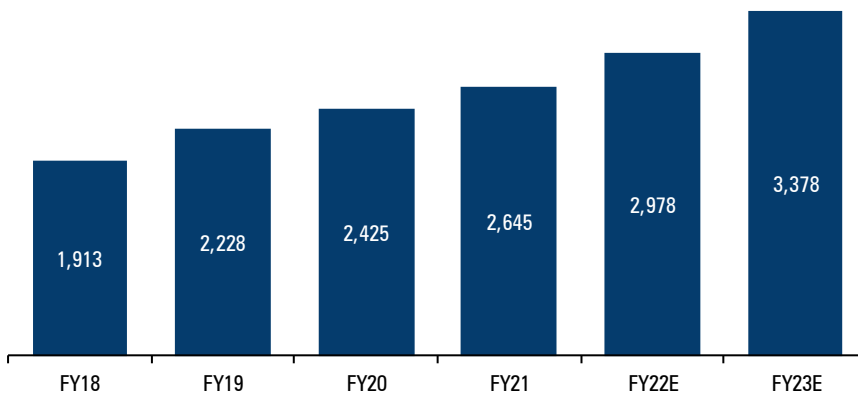
- **Domestic business:** Revenues were down 5% YoY to ₹ 758.2 crore, impacted by the branded business. The revenue from branded fell 12% YoY to ₹ 642.9 crore. On the other hand, bulk business reported growth of 69% YoY to ₹ 115.3 crore
- **Export business:** Revenue increased 46% YoY to ₹ 152.2 crore, driven by both bulk and branded business. The revenue from branded was higher by 85% YoY to ₹ 39.6 crore while the same from bulk was up 36% YoY to ₹ 112.6 crore

### Q2FY22 Earnings Conference Call highlights

- The overall monsoon was just 1% below the long period average. The erratic nature of the same in Q2FY22 had a significant impact on the overall agricultural activities across India level
- The base of Q2FY21 was high, as on account of Covid-19 pandemic in Q1FY21, there was spillover of sales from the first quarter to second quarter in the last fiscal year
- Launched one new product in herbicides, fungicides and insecticides group each
- The company plans to launch six new products in the coming year for domestic market, which should support growth for the segment
- Margins for specialty segment was impacted due to annual price contract. New price revision is expected to happen in the next financial year
- Specialty segment has gross margins of around 40-45% against generic having gross margins of 28-30%.
- Five molecules for SCC Japan would come from next year of which one is expected to come in the early next FY, while rest can come in H2
- Tebuconazole and chlorpyrifos have been witnessing strong demand in LatAm market, which should support growth for Sumitomo India
- The company has been able to taken price hike for key molecules from the beginning of Q3FY22
- More focused towards organic growth. Will be doing capex of ₹ 100-110 crore for CRAMS and around ₹ 70 crore maintenance capex every year

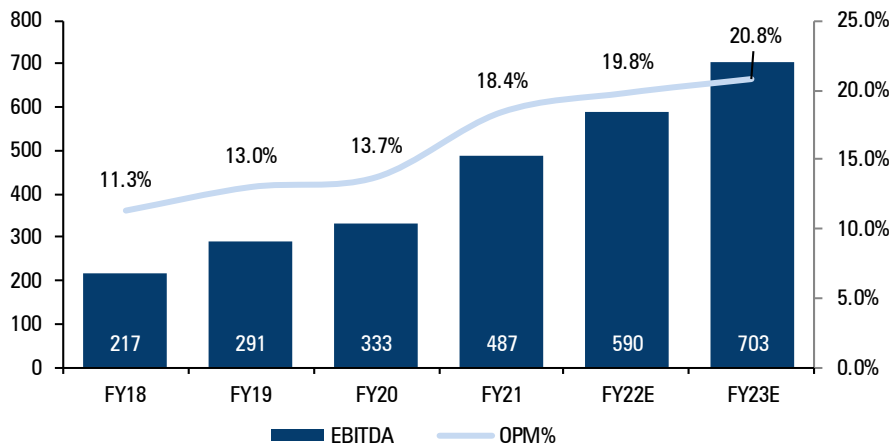
Financial story in charts....

Exhibit 1: Revenue trend (₹ crore)



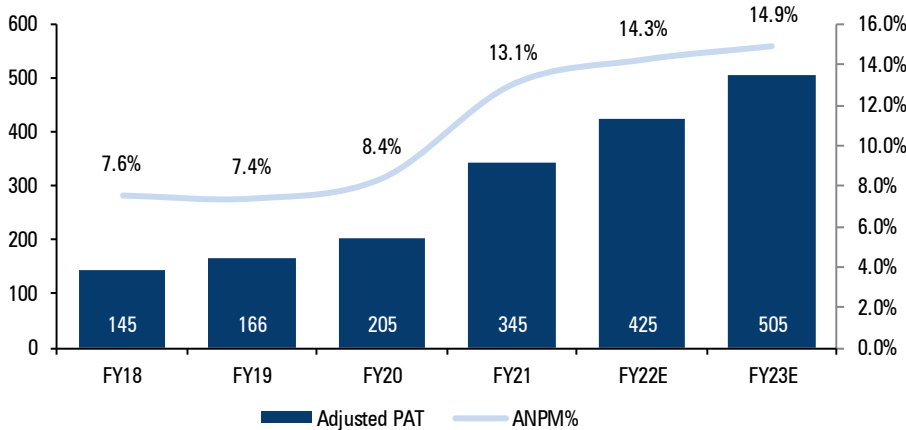
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research



**Exhibit 8: ICICI Direct coverage universe (Chemicals)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	2963	3,855	Buy	44,961	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	964	1,120	Buy	34,775	14.5	18.8	32.0	66.5	51.3	30.1	38.3	29.0	19.2	10.7	11.0	16.1	15.0	12.8	18.3
Tata Chemical	890	1,035	Buy	22,679	10.1	39.9	49.3	88.5	22.3	18.0	16.9	11.2	8.9	4.1	6.6	7.7	1.8	6.8	7.9
Vinati Organics	1970	2,300	Buy	20,252	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Sumitomo Chemical	378	505	Buy	18,868	6.9	8.5	10.1	54.6	44.4	37.4	37.7	30.6	25.3	29.8	29.3	28.1	22.4	22.1	21.2
Navin Fluorine	3397	3,710	Hold	16,829	45.0	53.0	73.1	77.8	66.0	47.9	54.0	46.7	31.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	265	305	Hold	5,161	11.4	9.7	14.0	24.8	29.0	20.2	16.2	18.7	12.9	18.0	14.0	18.4	13.9	11.0	14.0
Sudarshan chemical	568	735	Buy	3,935	20.4	19.4	29.4	27.9	29.2	19.3	15.4	16.2	11.2	15.2	12.8	17.3	19.0	16.0	20.4
Neogen Chemicals	1236	1,570	Buy	2,884	13.4	18.8	28.4	92.1	65.7	43.5	47.9	35.8	26.3	15.1	16.5	18.9	17.1	19.8	23.4
Astec Lifesciences	1200	1,575	Buy	2,351	33.2	39.6	51.3	36.1	30.3	23.4	22.7	19.0	14.9	18.9	19.7	21.0	21.0	20.3	21.0

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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