Sumitomo Chemicals (SUMCH)

CMP: ₹ 378



Target Period: 12 months

BUY

CICI direct

November 2, 2021



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								



BSE Sensex —— Sumitomo Chemical India

Recent event & key risks

- Exports witnessed strong rebound
- Key Risk: (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

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(₹ 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	

Key takeaways of recent quarter & conference call highlight

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

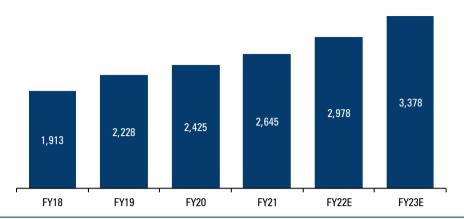
- Domestic business: Revenues were down 5% YoY to ₹ 758.2 crore, impacted by the branded business. The revenue from branded fell 12% YoY to ₹ 642.9 crore. On the other hand, bulk business reported growth of 69% YoY to ₹ 115.3 crore
- Export business: Revenue increased 46% YoY to ₹ 152.2 crore, driven 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

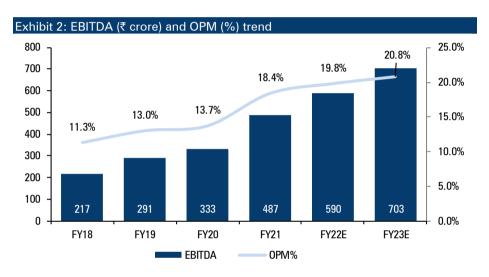
- The overall monsoon was just 1% below the long period average. The erratic nature of the same in Q2FY22 had a significant impact on the overall agricultural activities across India level
- The base of Q2FY21 was high, as on account of Covid-19 pandemic in Q1FY21, there was spillover of sales from the 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....

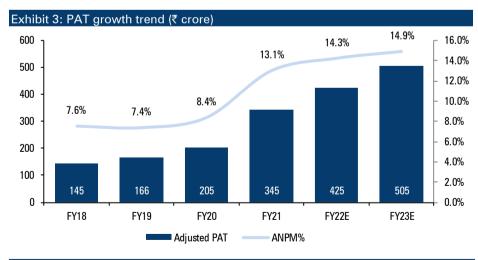
Exhibit 1: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and	loss statem	ent			₹	crore
Year end March	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	1,912.9	2,228.4	2,424.7	2,644.9	2,978.2	3,377.8
Cost Of Revenues	1,238.7	1,459.0	1,607.6	1,655.4	1,840.5	2,077.3
Gross Profit	674.2	769.5	817.2	989.5	1,137.7	1,300.4
Employee Cost	147.5	158.4	179.3	194.3	214.4	236.4
Other Operating Expenses	309.6	320.5	304.7	308.4	333.6	361.4
EBITDA	217.1	290.6	333.2	486.9	589.7	702.6
Other Income	30.5	7.6	10.7	18.6	28.4	39.6
EBITDA, including OI	247.5	298.2	343.9	505.4	618.0	742.2
Depreciation	23.7	27.8	41.0	46.6	53.6	72.8
Net Interest Exp.	2.8	3.7	5.5	5.6	5.0	5.0
Other exceptional items	0.0	-7.0	-30.9	0.0	0.0	0.0
PBT	221.0	259.7	266.5	453.3	559.4	664.4
Taxes	75.8	94.0	61.8	107.9	134.3	159.5
Tax Rate	34.3%	36.2%	23.2%	23.8%	24.0%	24.0%
PAT	145.1	165.7	204.7	345.4	425.2	504.9
Adjusted Net Profit	145.1	165.7	204.7	345.4	425.2	504.9
Adj. EPS (INR)	2.9	3.3	4.1	6.9	8.5	10.1
Shares Outstanding	27.5	27.5	49.9	49.9	49.9	49.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore												
Year end March	FY18	FY19	FY20	FY21	FY22E	FY23E						
PBT & Extraordinary	221.0	259.8	266.5	453.3	559.4	664.4						
Depreciation	23.7	27.8	41.0	46.6	53.6	72.8						
After other adjustments												
(Inc) / Dec in Working Capital	-100.0	-112.7	-9.4	25.6	-33.0	-93.5						
Taxes	-83.1	-88.1	-81.4	-107.9	-134.3	-159.5						
Others	-14.1	-9.2	4.7	7.9	5.0	5.0						
Cash from Ops.	47.4	77.7	221.4	425.4	450.8	489.2						
Purchase of Fixed Assets	-43.4	-39.7	-37.8	-43.3	-115.7	-140.0						
Others	3.8	4.4	-80.1	-214.4	0.0	0.0						
Cash from Investing	-39.7	-35.3	-117.9	-257.7	-115.7	-140.0						
Proceeds from issue of shares	0.0	0.0	0.0	0.0	0.0	0.0						
Borrowings (Net)	10.2	9.6	-19.7	0.0	0.0	0.0						
Others	-3.0	-75.1	-41.6	-47.1	-47.5	-55.5						
Cash from Financing	7.2	-65.5	-61.4	-47.1	-47.5	-55.5						
Net Change in Cash	15.0	-23.1	42.2	120.7	287.5	293.7						
Effects of foreign currency translation	0.0	0.0	0.0	0.0	0.0	0.0						
BF Cash & Bank	0.0	74.3	51.4	93.5	242.1	529.6						
END Cash & Bank	74.3	51.4	93.5	242.1	529.6	823.2						

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						crore
Year end March	FY18	FY19	FY20	FY21	FY22E	FY23E
Liabilities						
Share Capital	274.6	274.6	499.1	499.1	499.1	499.1
Reserves	679.4	773.8	722.6	1,042.1	1,424.7	1,879.1
Total Shareholders Funds	954.0	1,048.4	1,221.8	1,541.2	1,923.8	2,378.3
Minority Interest	0.0	0.0	0.0	0.1	0.1	0.1
Long Term Borrowings	0.0	0.0	0.0	0.0	0.0	0.0
Net Deferred Tax liability	26.4	26.6	7.4	5.0	5.0	5.0
Other long term liabilities	0.0	0.0	19.4	15.3	0.0	0.0
Long term provisions	12.7	15.6	25.1	29.2	32.9	37.3
Current Liabilities and Provisions						
Short term borrowings	10.1	19.7	0.0	0.0	0.0	0.0
Trade Payables	527.3	596.8	490.9	598.3	693.5	786.6
Other Current Liabilities	125.6	150.3	331.8	475.2	489.6	555.2
Short Term Provisions	2.3	2.6	9.7	5.6	6.3	7.2
Total Current Liabilities	665.3	769.4	832.5	1,079.2	1,189.4	1,349.0
Total Liabilities	1,658.4	1,860.0	2,106.2	2,670.1	3,151.3	3,769.8
Assets						
Net Block	266.7	279.3	319.5	309.3	325.7	442.9
Capital Work in Progress	4.5	3.2	6.5	4.3	50.0	0.0
Intangible assets under devl.	4.3	4.9	3.8	10.0	10.0	10.0
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0	0.0
Non-current investments	0.1	0.1	0.1	0.1	0.1	0.1
Deferred tax assets	24.8	18.8	21.3	18.5	18.5	18.5
Long term loans and advances	7.3	7.8	5.3	6.0	6.7	7.6
Other Non Current Assets	5.1	4.4	4.1	17.6	19.8	22.4
Current Assets, Loans & Advances						
Current Investments	0.0	0.0	86.0	290.2	290.2	290.2
Inventories	609.3	680.6	588.0	754.4	775.1	879.1
Sundry Debtors	551.8	671.0	849.8	848.2	938.3	1,064.2
Cash and Bank	74.3	51.4	93.5	242.1	529.6	823.2
Loans and Advances	3.7	3.3	7.9	7.7	7.7	7.7
Other Current assets	106.7	135.1	120.4	161.7	179.5	203.6
Current Assets	1,345.7	1,541.4	1,745.6	2,304.3	2,720.5	3,268.
Total Assets	1,658.4	1,860.0	2,106.2	2,670.1	3,151.3	3,769.

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios Year end March FY18 FY19 FY20 FY21 FY22E FY23E												
FY18	FY19	FY20	FY21	FY22E	FY23E							
2.9	3.3	4.1	6.9	8.5	10.1							
3.8	4.3	4.9	7.9	9.6	11.6							
34.7	38.2	24.5	30.9	38.5	47.6							
0.0	0.0	0.0	0.0	0.9	1.0							
35.2	34.5	33.7	37.4	38.2	38.5							
11.3	13.0	13.7	18.4	19.8	20.8							
7.6	7.4	8.4	13.1	14.3	14.9							
105	110	128	117	115	115							
116	111	89	104	95	95							
101	98	74	83	85	85							
121	124	143	139	125	125							
8.8	8.9	9.7	12.9	13.5	13.4							
23.2	25.3	24.8	29.8	29.3	28.1							
15.2	15.8	16.8	22.4	22.1	21.2							
0.0	0.0			-	-							
78.9	74.1	54.9	NM	NM	NM							
2.0	2.0	2.1	2.1	2.3	2.4							
1.1	1.1	1.4	1.4	1.6	1.8							
47.5	35.6	56.1	37.7	30.6	25.3							
130.0	113.9	92.2	54.6	44.4	37.4							
10.9	9.9	15.4	12.2	9.8	7.9							
5.4	4.6	7.7	6.9	6.1	5.3							
	2.9 3.8 34.7 0.0 35.2 11.3 7.6 105 116 101 121 8.8 23.2 15.2 0.0 78.9 2.0 1.1 47.5 130.0 10.9	2.9 3.3 3.8 4.3 34.7 38.2 0.0 0.0 35.2 34.5 11.3 13.0 7.6 7.4 105 110 116 111 101 98 121 124 8.8 8.9 23.2 25.3 15.2 15.8 0.0 0.0 78.9 74.1 2.0 2.0 1.1 1.1 47.5 35.6 130.0 113.9 10.9 9.9	2.9 3.3 4.1 3.8 4.3 4.9 34.7 38.2 24.5 0.0 0.0 0.0 35.2 34.5 33.7 11.3 13.0 13.7 7.6 7.4 8.4 105 110 128 116 111 89 101 98 74 121 124 143 8.8 8.9 9.7 23.2 25.3 24.8 15.2 15.8 16.8 0.0 0.0 - 78.9 74.1 54.9 2.0 2.0 2.1 1.1 1.1 1.4 47.5 35.6 56.1 130.0 113.9 92.2 10.9 9.9 15.4	2.9 3.3 4.1 6.9 3.8 4.3 4.9 7.9 34.7 38.2 24.5 30.9 0.0 0.0 0.0 0.0 35.2 34.5 33.7 37.4 11.3 13.0 13.7 18.4 7.6 7.4 8.4 13.1 105 110 128 117 116 111 89 104 101 98 74 83 121 124 143 139 8.8 8.9 9.7 12.9 23.2 25.3 24.8 29.8 15.2 15.8 16.8 22.4 0.0 0.0 - 78.9 74.1 54.9 NM 2.0 2.0 2.1 2.1 1.1 1.1 1.4 1.4 47.5 35.6 56.1 37.7 130.0 113.9 92.2 54.6 10.9 9.9 15.4 12.2	2.9 3.3 4.1 6.9 8.5 3.8 4.3 4.9 7.9 9.6 34.7 38.2 24.5 30.9 38.5 0.0 0.0 0.0 0.0 0.9 35.2 34.5 33.7 37.4 38.2 11.3 13.0 13.7 18.4 19.8 7.6 7.4 8.4 13.1 14.3 105 110 128 117 115 116 111 89 104 95 101 98 74 83 85 121 124 143 139 125 8.8 8.9 9.7 12.9 13.5 23.2 25.3 24.8 29.8 29.3 15.2 15.8 16.8 22.4 22.1 0.0 0.0 - - - 78.9 74.1 54.9 NM NM 2.0 2.0 2.1 2.1 2.3 1.1 1.1 1.4 1.							

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)																			
Company	CMP		N		EPS (₹)		P/E (x)		EV/EBITDA (x)				RoCE (%)	RoE (%)				
oompany	(₹)	TP(₹)	Rating	(₹ Cr)	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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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