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Q4FY20 result review and
earnings revision

Agriculture

Target price: Rs317

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 3.9	↑ 4.0
EBITDA	↑ 11.3	↑ 9.1
EPS	↑ 11.5	↑ 11.6

Target price revision

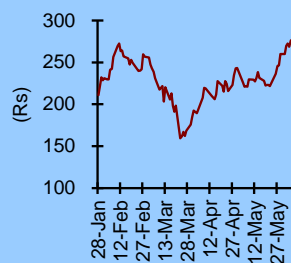
Rs317 from Rs263

Shareholding pattern

	Mar '20
Promoters	80.3
Institutional investors	3.7
MFs and others	0.9
FIs/Bank/Ins	3.7
FIIIs	0.1
Others	15.0

Source: BSE (Listed in Jan'20)

Price chart



Research Analyst:

Aniruddha Joshi

Aniruddha.joshi@icicisecurities.com
+91 22 6637 7249

INDIA

ICICI Securities

Sumitomo Chemicals

BUY

Maintain

Rs275

On track to gain market share in FY21

Three highlights from Sumitomo Q4FY20: (1) The company reported strong revenue growth of 5.7% in spite of lockdown and plans to launch multiple products in FY21, (2) With lower input prices and launch of differentiated products, EBITDA margin improved 170bps in FY20 and (3) Reduction in net working capital days to 112 in FY20 from 121 in FY19. We also believe the company is on track to gain market share in FY21 from smaller players. It will also benefit from financial discipline i.e. Net cash Balance Sheet, reduction in working capital days and Capex of ~2% of net sales. Maintain BUY with DCF-based TP of Rs317 (implied target P/E 47x FY22E; Earlier TP- Rs263).

- **Strong revenue growth in spite of lockdown:** The company reported 5.7% revenue growth in spite of lockdown for nine days. Though it has hiked prices of some SKUs, the revenue growth was largely volume led. While the production and logistics was impacted in lockdown-1, the company has managed to reach 70%+ production levels now. We model the company to report 1.5% revenue decline in FY21. The company is also on track to launch some new products in FY21.
- **Better EBITDA margins due to lower input prices:** With correction in raw material prices, gross and EBITDA margins were up 270bps and 280bps, respectively. The PBT was up 58.1% YoY. Sumitomo reported strong FY20 with revenue and PAT growth of 9.6% and 42.1%, respectively YoY. EBITDA margin improved 170bps to 13.7% in FY20 due to cost rationalization measures and some synergy benefits.
- **Expect market share gains in FY21:** We note smaller agrochemical companies are relatively more impacted than larger companies such as Sumitomo due to coronavirus led disruption. The smaller companies account for ~30% of the agrochemical industry in India. We expect Sumitomo to gain market share in FY21 from these smaller players. Its current market share is ~5%.
- **Net cash Balance Sheet and strong FCF generation:** With five manufacturing units, the company does not require any major investments in new production units in FY21-22. We also note the company is able to reduce the net working capital days with improving distribution network and launches of differentiated products. We expect its net working capital days to reduce to 106 in FY22 from 112 in FY20. With net cash Balance Sheet at end of FY20, we expect the company to pass through these tough times without any material impact on the Balance Sheet.
- **Maintain BUY:** We model the company to report revenue and PAT CAGRs of 9.5% and 19%, respectively, over FY20-FY22. We value the stock at a DCF-based target price of Rs317, implying a target P/E of 47x FY22E.

Market Cap	Rs138bn/US\$1.8bn	Year ending Mar	FY19	FY20	FY21E	FY22E
Bloomberg	SUMICHEM IN	Revenue (Rs mn)	22,117	24,247	23,895	29,066
Shares Outstanding (mn)	499.1	Adj Net Profit (Rs mn)	1,658	2,356	2,543	3,338
52-week Range (Rs)	276/159	Dil. Rec. EPS (Rs)	3.3	4.7	5.1	6.7
Free Float (%)	19.7	% Chg YoY	14.2	42.1	8.0	31.3
FII (%)	0.1	P/E (x)	82.8	58.3	54.0	41.1
Daily Volume (US\$'000)	NA	CEPS (Rs)	3.9	5.5	5.8	7.4
Absolute Return 3m (%)	15.8	EV/EBITDA (x)	51.8	41.2	40.3	31.5
Absolute Return 12m (%)	NA	Dividend Yield (%)	2.3	0.2	0.2	0.2
Sensex Return 3m (%)	(10.6)	RoCE (%)	22.6	24.5	22.1	24.1
Sensex Return 12m (%)	(13.5)	RoE (%)	16.3	17.5	19.1	21.0

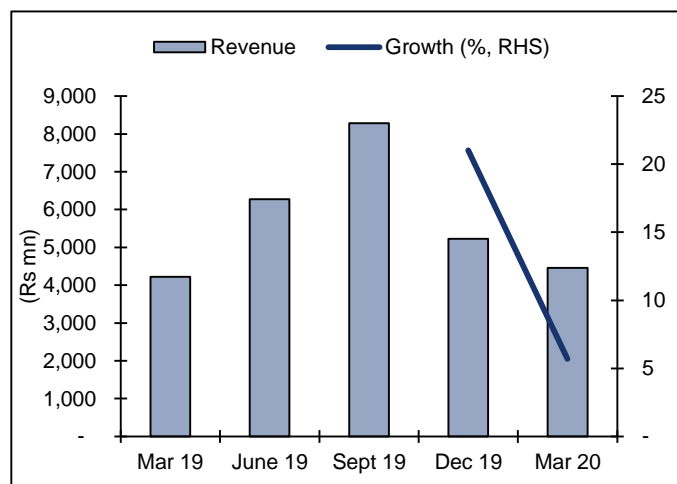
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Table 1: Q4FY20 financial performance*(Rs mn, year ending March 31)*

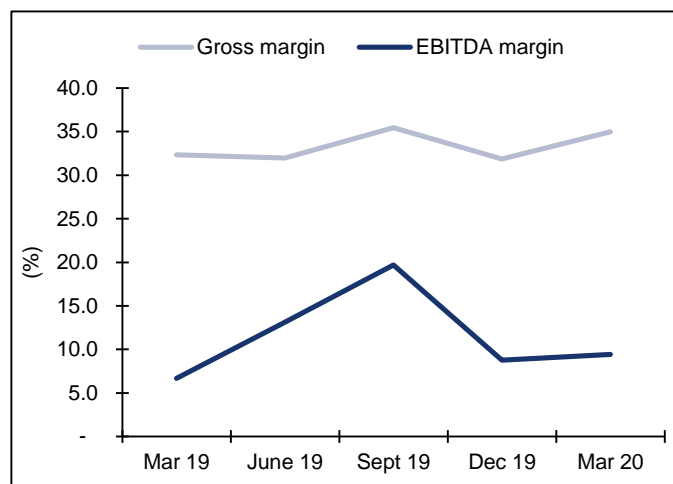
Y/e March	Q4FY20	Q4FY19	YoY gr.	Q3FY20	QoQ gr.
Revenue	4,458	4,217	5.7	5,230	(14.8)
Expenditure					
Raw materials	2,898	2,854	1.5	3,563	(18.7)
% of revenue	65.0	67.7		68.1	
Employee cost	465	381	21.9	446	4.2
% of revenue	10.4	9.0		8.5	
Other expenditure	675	701	(3.7)	764	(11.7)
% of revenue	15.1	16.6		14.6	
Total expenditure	4,038	3,936	2.6	4,773	(15.4)
EBITDA					
EBITDA	420	281	49.4	457	(8.2)
EBITDA margin	9.4	6.7		8.7	
Other income	51	17	192.9	13	296.0
PBDIT	470	298	57.8	470	0.1
Depreciation	129	74	74.3	97	33.0
PBIT	341	224	52.3	373	(8.5)
Interest	13	16	(21.0)	13	3.5
PBT	328	208	58.1	360	(8.9)
Prov for tax	87	191	(54.5)	100	(13.2)
% of PBT	26.5	92.3		27.8	
Adjusted PAT	241	16	1,403.4	260	(7.3)
Extra ordinary items	(79)	(32)	143.8	(232)	(65.9)
Minority interest	-	-		-	
Reported PAT	162	(16)	(1,082.9)	28	481.8

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenue and revenue growth

Source: Company data, I-Sec research

Chart 2: Profitability margins

Source: Company data, I-Sec research

Valuations and risks

We model Sumitomo to report revenue and PAT CAGRs of 9.5% and 19%, respectively, over FY20-FY22 and RoE to move from 17.5% in FY20 to 21% in FY22. At our DCF-based target price of Rs317, implied P/E works out to 47x on FY22E EPS. Maintain **BUY**.

Table 2: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity	11.4
Terminal growth rate	5.0
Discounted interim cash flows	45,014
Discounted terminal value	113,120
Total equity value	158,134
Value per share (Rs)	317

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and/ or competitive pressures

Major increase in input prices and/or competitive pressures will result in downside to our estimates.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Net Sales	22,117	24,247	23,895	29,066
Operating Expenses	18,991	20,406	19,988	24,095
EBITDA	2,646	3,332	3,405	4,360
% margins	12.0	13.7	14.3	15.0
Depreciation & Amortisation	278	410	333	369
Gross Interest	47	55	67	67
Other Income	278	107	409	558
Recurring PBT	2,598	2,974	3,414	4,481
Less: Taxes	940	618	871	1,143
Less: Minority Interest	-	-	-	-
Net Income (Reported)	1,658	2,356	2,543	3,338
Extraordinaries (Net)	1	(360)	-	-
Recurring Net Income	1,659	1,996	2,543	3,338

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Assets				
Total Current Assets	15,414	16,596	15,450	18,813
of which cash & cash eqv.	514	935	69	331
Total Current Liabilities & Provisions	7,564	8,237	8,244	10,028
Net Current Assets	7,850	8,359	7,207	8,785
Investments	312	1,506	4,806	6,206
Net Fixed Assets	2,793	2,846	3,015	3,046
Capital Work-in-Progress	81	103	-	-
Total Assets	11,036	12,814	15,028	18,037
Liabilities				
Borrowings	406	607	607	607
Deferred Tax Liability	146	(11)	(11)	(11)
Minority Interest	-	-	-	-
Equity Share Capital	2,746	4,991	4,991	4,991
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	7,738	7,226	9,440	12,449
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	10,484	12,218	14,432	17,441
Total Liabilities	11,036	12,814	15,028	18,037

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	June 19	Sept 19	Dec 19	Mar 20
Net sales	6,276	8,283	5,230	4,458
% growth (YoY)			21.0	
EBITDA	823	1,632	457	420
Margin (%)	13.1	19.7	8.7	9.4
Other income	14	30	13	51
Extraordinaries (Net)	(2)	(47)	(232)	(79)
Adjusted Net profit	518	1,337	260	241

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Operating Cashflow	1,905	2,406	2,877	3,708
Working Capital Changes	(1,127)	(87)	287	(1,317)
Capital Commitments	(390)	(485)	(400)	(400)
Free Cashflow	388	1,834	2,763	1,991
Cashflow from Investing Activities	(1)	(1,194)	(3,300)	(1,400)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	96	201	-	-
Dividend paid	(714)	(329)	(329)	(329)
Change in Deferred Tax Liability	(35)	(157)	-	-
Chg. in Cash & Bank balance	(231)	422	(866)	262

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (Rs)				
EPS	3.3	4.7	5.1	6.7
Cash EPS	3.9	5.5	5.8	7.4
Dividend per share (DPS)	6.3	0.6	0.6	0.6
Book Value per share (BV)	21.3	24.5	28.9	34.9
Growth (%)				
Net Sales	15.6	9.6	(1.5)	21.6
EBITDA	20.5	25.9	2.2	28.0
PAT	14.2	42.1	8.0	31.3
Cash EPS	14.7	42.8	4.0	28.9
Valuation Ratios (x)				
P/E	82.8	58.3	54.0	41.1
P/CEPS	70.9	49.6	47.7	37.0
P/BV	12.9	11.2	9.5	7.9
EV / EBITDA	51.8	41.2	40.3	31.5
EV / Sales	6.2	5.7	5.7	4.7
Operating Ratios				
Raw Material / Sales (%)	66.0	66.3	65.8	65.0
Employee cost / Sales (%)	7.3	7.4	7.4	7.4
SG&A / Sales (%)	2.4	2.4	2.4	2.4
Other Income / PBT (%)	10.7	3.6	12.0	12.4
Effective Tax Rate (%)	36.2	20.8	25.5	25.5
Working Capital (days)	33.2	30.6	29.9	29.1
Inventory Turnover (days)	112.3	88.5	87.6	87.6
Receivables (days)	110.7	127.9	127.8	127.8
Payables (days)	124.4	122.5	124.1	124.1
Net D/E (x)	(0.0)	(0.1)	(0.3)	(0.3)
Profitability Ratios (%)				
Net Income Margins	7.5	9.7	10.6	11.5
RoACE	22.6	24.5	22.1	24.1
RoAE	16.3	17.5	19.1	21.0
Dividend Payout	188.2	11.7	10.8	8.2
Dividend Yield	2.3	0.2	0.2	0.2
EBITDA Margins	12.0	13.7	14.3	15.0

Source: Company data, I-Sec research

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