

Higher speciality share to aid margins further...

Sumitomo Chemical reported topline growth of 7.2% YoY to ₹ 561 crore largely led by herbicide (+21% YoY), PGR (+57% YoY), animal nutrition & environmental health segments (+41% YoY). On the other hand, revenue from insecticide (-4.3% YoY, ~39% of revenue) and metal phosphides (-4% YoY, ~10% of revenue) stayed subdued, denting the topline performance to that extent. OPM for the quarter expanded 514 bps YoY to 13.9% owing to improvement in gross margins due to a change in the product mix, leading to EBITDA growth of 70% YoY to ₹ 78 crore. OPM from agrochemical business expanded 565 bps YoY to 14.5% while the same from other segments was up 277 bps YoY to 7.9%. PAT was at ₹ 54.1 crore (+2274% YoY) against our estimate of ₹ 58.7 crore. The bottomline growth was led by a better operational performance and lower tax outgo (24% vs. 94%).

Strategy towards improving specialty share continues

The company has been reducing share of generic portfolio from its basket and improving the share of speciality business, which should expand gross margins for the overall business ahead. Revenue from speciality business for 9MFY21 increased 17% YoY to ₹ 718 crore while the same from generic remained at ₹ 1393 crore (up 2% YoY). This expanded gross margins by 431 bps YoY to 37.4% for 9MFY21. Going ahead, we expect the focus to continue on improving speciality share given the management also expects to increase CRAMS revenue mix by introducing five technical over the next two to three years. Further, we also expect increasing share from Nufarm along with higher growth from PGR, AND & EHD to aid speciality share and thereby bodes well for gross margins and OPM in the years to come.

FCF generation likely to be robust

We expect an improvement in OPM and control on working capital to improve FCF of the company, to a certain extent, which can be utilised for backward integration capex or better inorganic expansion. This, in turn, can improve RoCE further and, thereby, valuations.

Valuation & Outlook

We believe the strategy of the company would improve margins through changes in the product mix. The speciality business revenue share increased to 34% for 9MFY21 vs. 31% in 9MFY20. This led an improvement in the OPM (up 497 bps YoY to 18.8%) for 9MFY21. This was partly due to a favourable pricing scenario along with higher share of speciality business. Going ahead, we expect increasing share towards CRAMS, PGR, AND & EHD would aid this mix further and thereby group operational performance. This should support group return ratios, FCF and thereby valuations. We introduce FY23E and roll over our valuations on that. We value the company at 40x PER FY23E and arrive at a target price of ₹ 360 (vs. ₹ 335 earlier). We maintain our **BUY** recommendation on the stock.



Particulars

Particular	Amount
Market cap (₹ Crore)	15,324
FY20 Total Debt (₹ Crore)	0
FY20 Cash & Inv (₹ Crore)	179
EV (₹ Crore)	15,144
52 Week H/L	338/153
Equity Capital (₹ Crore)	499.1
Face Value (₹)	10

Key Highlights

- Strategy towards improving speciality share continues
- FCF generation to stay robust ahead
- Maintain BUY rating on stock with revised target price of ₹ 360

Key Risks

- Poor monsoon in domestic market can impact agrochemical consumptions and thereby growth
- Lower than anticipated launches for CRAMS segment to impact group performance

Research Analyst

Mitesh Shah
mitesh.shah@icicisecurities.com

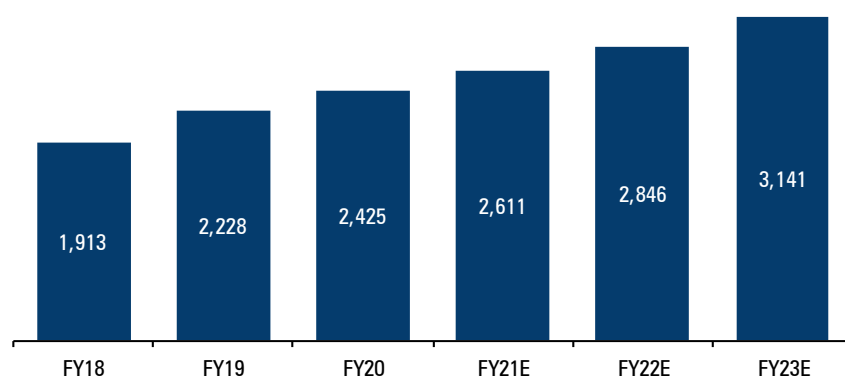
Dhavan Shah
dhavan.shah@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Revenue	1,912.9	2,228.4	2,424.7	2,611.5	2,845.8	3,141.0	9.0
EBITDA	217.1	290.6	333.2	472.7	537.9	621.9	23.1
EBITDA Margins (%)	11.3%	13.0%	13.7%	18.1%	18.9%	19.8%	
Adj. PAT	145.1	165.7	204.7	330.4	383.0	449.8	30.0
Adj. EPS (₹)	2.9	3.3	4.1	6.6	7.7	9.0	
EV/EBITDA	38.5x	28.9x	45.5x	30.9x	26.5x	22.3x	
P/E	105.6x	92.5x	74.9x	46.4x	40.0x	34.1x	
ROE (%)	15.2	15.8	16.8	21.7	20.5	19.8	
ROCE (%)	22.5	24.8	23.8	28.6	27.0	26.1	

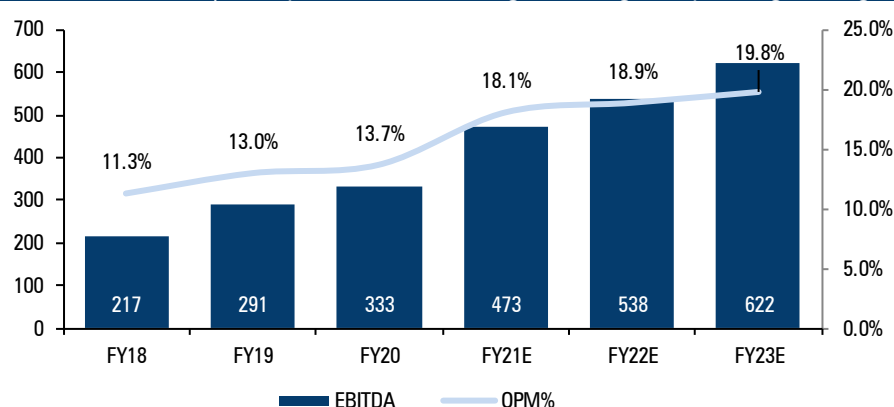
Financial story in charts

Exhibit 1: Revenue trend (₹ crore)



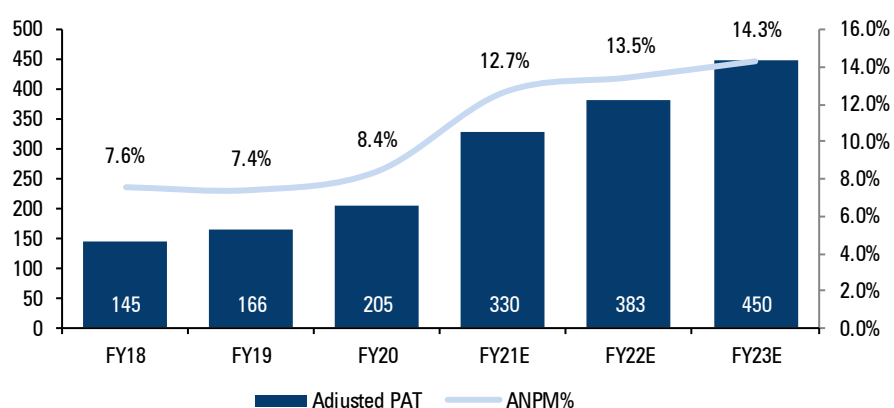
Source: Company, ICICI Direct Research

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



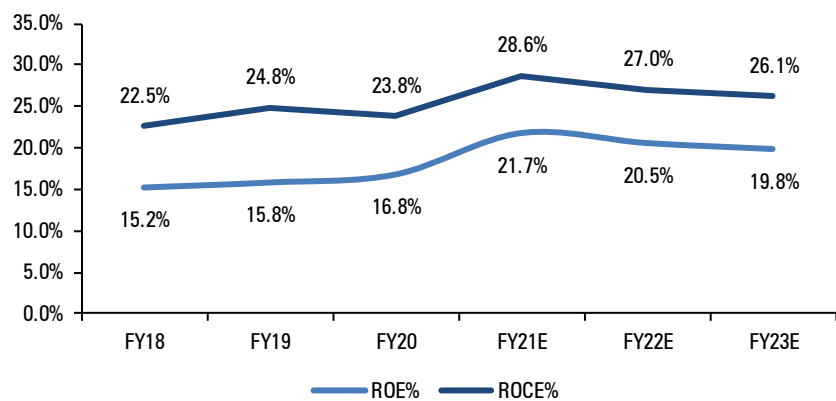
Source: Company, ICICI Direct Research

Exhibit 3: PAT trend



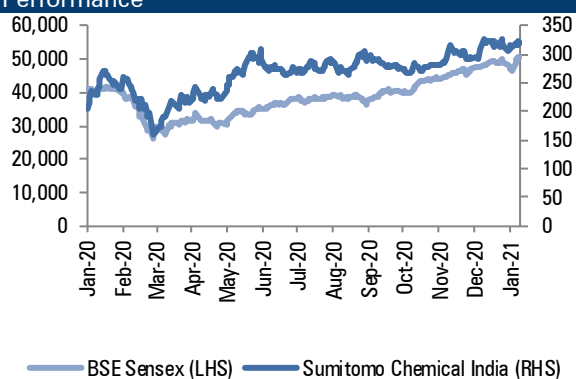
Source: Company, ICICI Direct Research

Exhibit 4: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 5: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	1,912.9	2,228.4	2,424.7	2,611.5	2,845.8	3,141.0
Cost Of Revenues	1,238.7	1,459.0	1,607.6	1,632.2	1,770.1	1,941.1
Gross Profit	674.2	769.5	817.2	979.3	1,075.7	1,199.9
Employee Cost	147.5	158.4	179.3	201.1	219.1	241.9
Other Operating Expenses	309.6	320.5	304.7	305.5	318.7	336.1
EBITDA	217.1	290.6	333.2	472.7	537.9	621.9
Other Income	30.5	7.6	10.7	19.0	28.1	38.4
EBITDA, including OI	247.5	298.2	343.9	491.7	566.0	660.4
Depreciation	23.7	27.8	41.0	45.2	50.4	55.6
Net Interest Exp.	2.8	3.7	5.5	6.0	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	440.5	510.6	599.7
Taxes	75.8	94.0	61.8	110.1	127.7	149.9
Tax Rate	34.3%	36.2%	23.2%	25.0%	25.0%	25.0%
PAT	145.1	165.7	204.7	330.4	383.0	449.8
Adjusted Net Profit	145.1	165.7	204.7	330.4	383.0	449.8
Adj. EPS (INR)	2.9	3.3	4.1	6.6	7.7	9.0
Shares Outstanding	27.5	27.5	49.9	49.9	49.9	49.9

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E	FY23E
PBT & Extraordinary	221.0	259.8	266.5	440.5	510.6	599.7
Depreciation	23.7	27.8	29.3	45.2	50.4	55.6
After other adjustments						
(Inc) / Dec in Working Capital	-100.0	-112.7	-9.4	243.0	-12.1	-51.3
Taxes	-83.1	-88.1	-81.4	-110.1	-127.7	-149.9
Others	-14.1	-9.2	16.4	6.0	5.0	5.0
Cash from Ops.	47.4	77.7	221.4	624.6	426.2	459.1
Purchase of Fixed Assets	-43.4	-39.7	-37.8	-33.5	-50.0	-50.0
Others	3.8	4.4	-80.1	-64.0	-50.0	0.0
Cash from Investing	-39.7	-35.3	-117.9	-97.5	-100.0	-50.0
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	-33.5	-43.3	-50.0
Cash from Financing	7.2	-65.5	-61.4	-33.5	-43.3	-50.0
Net Change in Cash	15.0	-23.1	42.2	493.6	282.9	359.1
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	587.1	870.1
END Cash & Bank	74.3	51.4	93.5	587.1	870.1	1,229.2

Exhibit 8: Balance sheet ₹ crore

Year end March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Liabilities						
Share Capital	274.6	274.6	499.1	499.1	499.1	499.1
Reserves	679.4	773.8	722.6	1,025.5	1,370.2	1,775.0
Total Shareholders Funds	954.0	1,048.4	1,221.8	1,524.7	1,869.3	2,274.2
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0
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	7.4	7.4	7.4
Other long term liabilities	0.0	0.0	19.4	0.0	0.0	0.0
Long term provisions	12.7	15.6	25.1	27.1	29.5	32.6
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	715.5	740.7	817.5
Other Current Liabilities	125.6	150.3	331.8	429.3	467.8	516.3
Short Term Provisions	2.3	2.6	9.7	10.4	11.3	12.5
Total Current Liabilities	665.3	769.4	832.5	1,155.2	1,219.8	1,346.4
Total Liabilities	1,658.4	1,860.0	2,106.2	2,714.3	3,126.1	3,660.5
Assets						
Net Block	266.7	279.3	284.6	279.4	279.0	273.4
Capital Work in Progress	4.5	3.2	6.5	0.0	0.0	0.0
Intangible assets under devl.	4.3	4.9	3.8	3.8	3.8	3.8
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	21.3	21.3	21.3
Long term loans and advances	7.3	7.8	5.3	5.7	6.3	6.9
Other Non Current Assets	5.1	4.4	39.0	42.0	45.7	50.5
Current Assets, Loans & Advances						
Current Investments	0.0	0.0	86.0	150.0	200.0	200.0
Inventories	609.3	680.6	588.0	672.5	701.7	774.5
Sundry Debtors	551.8	671.0	849.8	787.0	818.7	903.6
Cash and Bank	74.3	51.4	93.5	587.1	870.1	1,229.2
Loans and Advances	3.7	3.3	7.9	7.9	7.9	7.9
Other Current assets	106.7	135.1	120.4	157.4	171.5	189.3
Current Assets	1,345.7	1,541.4	1,745.6	2,362.0	2,769.9	3,304.5
Total Assets	1,658.4	1,860.0	2,106.2	2,714.3	3,126.1	3,660.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

Year end March	FY18	FY19	FY20	FY21E	FY22E	FY23E
Per share data (₹)						
Adj. EPS	2.9	3.3	4.1	6.6	7.7	9.0
Adj. Cash EPS	3.8	4.3	4.9	7.5	8.7	10.1
BV	34.7	38.2	24.5	30.5	37.5	45.6
DPS	0.0	0.0	0.0	0.6	0.8	0.9
Operating Ratios (%)						
Gross Margin (%)	35.2	34.5	33.7	37.5	37.8	38.2
EBITDA Margin (%)	11.3	13.0	13.7	18.1	18.9	19.8
PAT Margin (%)	7.6	7.4	8.4	12.7	13.5	14.3
Debtor Days	105	110	128	110	105	105
Inventory Days	116	111	89	94	90	90
Creditor Days	101	98	74	100	95	95
Cash Conversion Cycle	121	124	143	104	100	100
Return Ratios (%)						
Return on Assets (%)	8.8	8.9	9.7	12.2	12.3	12.3
RoCE (%)	22.5	24.8	23.8	28.6	27.0	26.1
RoE (%)	15.2	15.8	16.8	21.7	20.5	19.8
Solvency						
Total Debt / Equity	0.0	0.0	-	-	-	-
Interest Coverage	78.9	74.1	54.9	NM	NM	NM
Current Ratio	2.0	2.0	2.1	2.0	2.3	2.5
Quick Ratio	1.1	1.1	1.4	1.5	1.7	1.9
Valuation Ratios (x)						
EV/EBITDA	38.5	28.9	45.5	30.9	26.5	22.3
P/E	105.6	92.5	74.9	46.4	40.0	34.1
P/B	8.8	8.0	12.5	10.1	8.2	6.7
EV/Sales	4.4	3.8	6.2	5.6	5.0	4.4

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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