Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Sumitomo Chemical India (SUMICHEM IN)

Rating: BUY | CMP: Rs475 | TP: Rs510

August 11, 2022

Q1FY23 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	510		510	
Sales (Rs. m)	35,708	41,854	35,826	41,845
% Chng.	*(0.3)*	-		
EBITDA (Rs. m)	7,142	8,789	7,344	8,913
% Chng.	*(2.8)*	*(1.4)*		
EPS (Rs.)	10.2	12.8	10.5	12.8
% Chng.	*(2.8)*	*(0.1)*		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	26,449	30,646	35,708	41,854
EBITDA (Rs. m)	4,869	5,999	7,142	8,789
Margin (%)	*18.4*	*19.6*	*20.0*	*21.0*
PAT (Rs. m)	3,454	4,235	5,081	6,389
EPS (Rs.)	6.9	8.5	10.2	12.8
Gr. (%)	*68.7*	*22.6*	*20.0*	*25.7*
DPS (Rs.)	0.8	1.0	1.2	1.5
Yield (%)	*0.2*	*0.2*	*0.3*	*0.3*
RoE (%)	*25.0*	*24.4*	*23.7*	*24.2*
RoCE (%)	*31.5*	*31.6*	*30.6*	*30.8*
EV/Sales (x)	8.8	7.6	6.5	5.5
EV/EBITDA (x)	47.6	38.8	32.4	26.0
PE (x)	68.6	55.9	46.6	37.1
P/BV (x)	15.4	12.3	10.0	8.1

Key Data — SUMH.BO | SUMICHEM IN

52-W High / Low	Rs.512 / Rs.341
Sensex / Nifty	58,817 / 17,535
Market Cap	Rs.237bn/ $ 2,982m
Shares Outstanding	499m
3M Avg. Daily Value	Rs.201.57m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	1.90
Domestic Institution	6.70
Public & Others	16.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.8	15.7	17.4
Relative	(6.7)	15.0	8.5

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Healthy all round performance...!!

Quick Pointers:

- Domestic and exports growth of 16% and 94% YoY for 1QFY23
- Better realizations coupled with superior operating leverage restricted EBITDA margin contraction by 20bps YoY to 19%

Sumitomo Chemical India (Sumitomo) reported robust set of numbers with revenue/EBITDA/PAT growth of 26%/25%/30% YoY during 1QFY23. Results were broadly in line with our and consensus estimate. Key highlights are: (a) Domestic and export revenue up +16% and +94% YoY in 1QFY23 respectively; (b) Specialty/generic contributed 25%/75%; (c) higher RM cost coupled with inability to fully pass on the entire inflated cost resulted into gross margins contraction by 100 bps YoY;(d) better operating leverage restricted EBITDA margin contraction by 20bps YoY to 19% ;(e) WC down 7days YoY to 96 days despite higher inventory built up; (f) launched 3 9(3) molecules in 1QFY23; (g) cash stood at Rs6.4bn in June'22.

We believe, Sumitomo will likely take a big leap given its (a) Comprehensive distribution network; (b) branded portfolio; (c) rising share of exports to overall revenues; (d) innovative product launches and (e) Parent's R&D capabilities that effectively anchor Sumitomo to outpace Indian agrochemical markets. We broadly maintain our FY23/24E estimates. We expect Sumitomo to post revenue/ EBITDA/PAT CAGR of 17%/22%/23% over FY22- 24E (FY18-22 CAGR of 13%/29%/31%), respectively. Maintain 'BUY' with unchanged TP of Rs510 based on 40xFY24E EPS.

- **Good show in challenging times:** Sumitomo reported strong revenue growth of 26% YoY at Rs9.8bn (PLe Rs9.7bn) primarily on the back of 16% and 94% YoY growth in domestic and exports business. We believe superior price realization in glyphosate (contributing to 16-17% of the 1QFY23 consolidated revenues) has in-turn resulted to strong performance of domestic business. Additionally, the company has been able to pass on the inflated cost in both the domestic and exports market. We anticipate market share gains in Glyphosate for Sumitomo chemicals, as higher RM prices have in turn made it unviable for smaller players to pass on this sort of inflated cost. Higher exports revenue was primarily driven by superior growth from Europe and South America up 278%/121% YoY in 1QFY23 and contributed 15%/35% to the1QFY23 exports revenue.

- **Superior operating leverage boosted margins:** Sumitomo's gross margins declined 100bps YoY at 35.1% largely led by inflationary RM scenario and lower volume offtake during the quarter. Despite price hikes taken in the recent past to offset the inflated cost, however lower volume off-take particularly in glyphosate has in turn impacted the margins. We are of the view that superior price realizations in generics coupled with price hikes in the recent past has in turn helped to mitigate gross margin contraction. While, stricter cost control measures coupled with superior operating leverage has restricted EBITDA margin contraction by 20bps YoY to 19%. PAT surged 30% YoY to Rs1.3bn (PLe Rs1.4bn).

- **Superior growth momentum likely to continue:** We believe that superior growth momentum is likely to continue primarily led by a) healthy demand and price realizations in domestic market; b) new specialized/ combination molecules launches in domestic market to support margins going forward; c) robust demand in the exports markets- particularly for generic molecules in LATAM markets; d) additional capex to service exports growth; received approval to supply 5 products in LATAM markets; capex of Rs1.2bn with revenue potential of Rs2-2.5bn over the next few years (Commercialization of 1st project in 1QFY23 and 2nd project in 1QFY24).

- **New product launches- well on track:** The company has launched 3 new 9(3) products in the domestic market in 1QFY23. The Company launched 3 unique proprietary 9(3) products – Sumi Blue Diamond, Pyclome and Danitol NXT in the domestic market. Going forward, the management intends to launch 6-8 new products (Specialized molecules) in the domestic market over the next 12-18 months which in turn would support the revenues and margins going forward. ITI stood at 10-12% in FY22; while the management intends to take it higher going forward supported by robust pipeline of products in the domestic market.

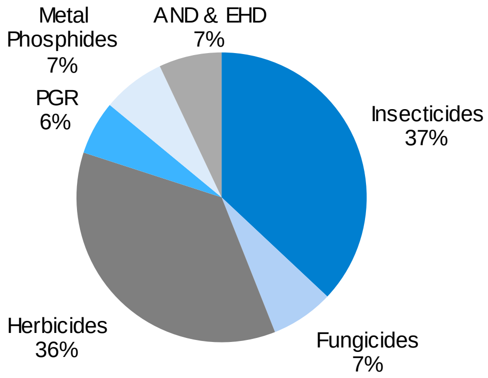
- **Higher inventory built-up led to surge in working capital:** Net working capital stood at 96days in June'22 as against 103 days in the same period last year. Inventory levels are on higher side primarily, led by anticipation of strong demand and protection against rising input cost. Sumitomo continues to focus on higher and faster cash collections which stood at Rs10.3bn for June'22. While, cash and cash equivalents stood at Rs6.4bn as on June'22.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)	FY23E	FY22	YoY gr. (%)
Revenues	**9,855**	**7,815**	***26.1***	**6,651**	***48.2***	**35,708**	**30,646**	***16.5***
Raw material	6,392	4,994	*28.0*	4,113	*55.4*	22,353	19,080	*17.2*
Staff costs	572	540	*6.1*	505	*13.2*	2,250	2,020	*11.4*
Others	1,016	779	*30.4*	942	*7.8*	3,964	3,547	*11.8*
Total expenditure	7,980	6,313	*26.4*	5,561	*43.5*	28,566	24,647	*15.9*
EBITDA	**1,876**	**1,502**	***24.9***	**1,089**	***72.2***	**7,142**	**5,999**	***19.0***
Interest	13	18	*(28.1)*	7	*81.4*	63	62	*2.0*
Depreciation	112	110	*1.8*	115	*(1.8)*	548	448	*22.2*
Other income	47	54	*(14.2)*	74	*(36.7)*	335	268	*25.0*
PBT	**1,797**	**1,427**	***25.9***	**1,041**	***72.5***	**6,866**	**5,757**	***19.3***
Tax	415	366	*13.5*	295	*40.9*	1,785	1,522	*17.3*
Adjusted net profit	**1,381**	**1,061**	***30.1***	**747**	***85.0***	**5,081**	**4,235**	***20.0***
Extraordinary items	-	-	*NA*	-	*NA*	-	-	*NA*
Net profit	**1,381**	**1,061**	***30.1***	**747**	***85.0***	**5,081**	**4,235**	***20.0***
Equity capital (FV INR 1)	499	499		499		499	499	
Adj. EPS (INR)	**2.8**	**2.1**	***30.1***	**1.5**	***85.0***	**10.2**	**8.5**	***20.0***
As % of net revenues								
Raw material	64.9	63.9		61.9		62.6	62.3	
Staff expenses	5.8	6.9		7.6		6.3	6.6	
Other expenses	10.3	10.0		14.2		11.1	11.6	
EBITDA	19.0	19.2		16.4		20.0	19.6	
Net profit	14.0	13.6		11.2		14.2	13.8	

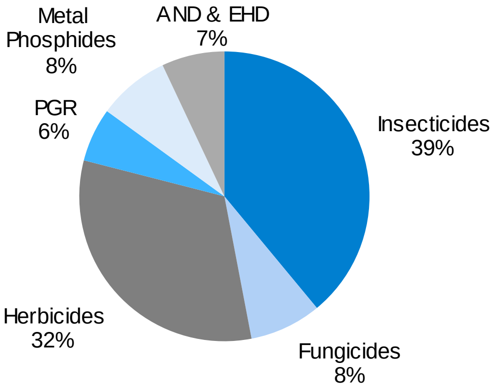
Source: Company, PL

Exhibit 2: Category-wise Revenue break-up- 1QFY22 (%)



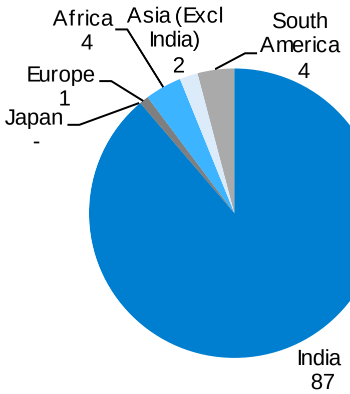
Source: Company, PL

Exhibit 3: Category-wise Revenue break-up-1Q FY23 (%)



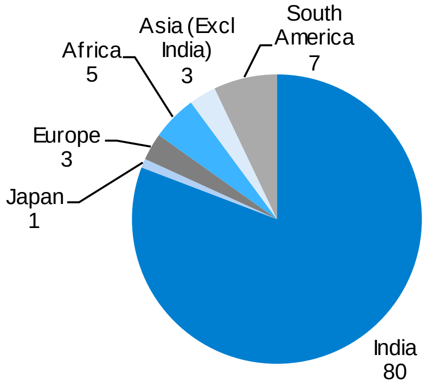
Source: Company, PL

Exhibit 4: Region-wise Revenue Break-up- 1QFY22 (%)



Source: Company, PL

Exhibit 5: Region-wise Revenue Break-up-1QFY23 (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	**26,449**	**30,646**	**35,708**	**41,854**
YoY gr. (%)	*9.1*	*15.9*	*16.5*	*17.2*
Cost of Goods Sold	16,554	19,080	22,353	26,033
Gross Profit	9,895	11,566	35,708	41,854
Margin (%)	*37.4*	*37.7*	*100.0*	*100.0*
Employee Cost	1,943	2,020	2,250	2,553
Other Expenses	3,084	3,547	3,964	4,478
EBITDA	**4,869**	**5,999**	**7,142**	**8,789**
YoY gr. (%)	*46.1*	*23.2*	*19.0*	*23.1*
Margin (%)	*18.4*	*19.6*	*20.0*	*21.0*
Depreciation and Amortization	466	448	548	675
EBIT	**4,403**	**5,551**	**6,594**	**8,114**
Margin (%)	*16.6*	*18.1*	*18.5*	*19.4*
Net Interest	56	62	63	64
Other Income	186	268	335	469
Profit Before Tax	**4,533**	**5,757**	**6,866**	**8,519**
Margin (%)	*17.1*	*18.8*	*19.2*	*20.4*
Total Tax	1,079	1,522	1,785	2,130
Effective tax rate (%)	*23.8*	*26.4*	*26.0*	*25.0*
Profit after tax	**3,454**	**4,235**	**5,081**	**6,389**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**3,454**	**4,235**	**5,081**	**6,389**
YoY gr. (%)	*68.7*	*22.6*	*20.0*	*25.7*
Margin (%)	*13.1*	*13.8*	*14.2*	*15.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**3,454**	**4,235**	**5,081**	**6,389**
YoY gr. (%)	*46.6*	*22.6*	*20.0*	*25.7*
Margin (%)	*13.1*	*13.8*	*14.2*	*15.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,454	4,235	5,081	6,389
Equity Shares O/s (m)	**499**	**499**	**499**	**499**
EPS (Rs)	**6.9**	**8.5**	**10.2**	**12.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	**4,613**	**5,936**	**7,686**	**9,436**
Tangibles	4,508	5,752	7,502	9,252
Intangibles	106	185	185	185
Acc: Dep / Amortization	**1,443**	**1,892**	**2,439**	**3,115**
Tangibles	1,443	1,892	2,439	3,115
Intangibles	-	-	-	-
Net fixed assets	**3,170**	**4,045**	**5,247**	**6,322**
Tangibles	3,064	3,860	5,062	6,137
Intangibles	106	185	185	185
Capital Work In Progress	43	211	211	211
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	2,902	3,560	3,560	3,560
Inventories	7,544	9,378	9,649	10,605
Trade receivables	8,482	8,431	10,761	12,614
Cash & Bank Balance	2,421	791	1,718	5,069
Other Current Assets	1,978	3,667	3,667	3,667
Total Assets	**26,678**	**30,096**	**34,827**	**42,061**
Equity				
Equity Share Capital	4,991	4,991	4,991	4,991
Other Equity	10,421	14,281	18,638	24,123
Total Networth	**15,412**	**19,272**	**23,629**	**29,114**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	153	247	-	-
Trade payables	5,983	5,172	5,676	6,628
Other current liabilities	5,151	5,405	5,521	6,319
Total Equity & Liabilities	**26,701**	**30,096**	**34,827**	**42,061**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	4,533	5,757	6,531	8,050
Add. Depreciation	466	448	548	675
Add. Interest	56	62	63	64
Less Financial Other Income	186	268	335	469
Add. Other	24	(47)	335	469
Op. profit before WC changes	5,078	6,220	7,477	9,258
Net Changes-WC	256	(2,576)	(1,981)	(1,059)
Direct tax	(1,079)	(1,426)	(1,785)	(2,130)
Net cash from Op. activities	**4,254**	**2,218**	**3,710**	**6,070**
Capital expenditures	(428)	(1,125)	(1,750)	(1,750)
Interest / Dividend Income	-	-	-	-
Others	(2,149)	(1,777)	-	-
Net Cash from Invt. activities	**(2,577)**	**(2,902)**	**(1,750)**	**(1,750)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	(247)	-
Dividend paid	(275)	(400)	(724)	(904)
Interest paid	(195)	(226)	(63)	(64)
Others	-	-	-	-
Net cash from Fin. activities	**(471)**	**(626)**	**(1,034)**	**(969)**
Net change in cash	**1,207**	**(1,311)**	**927**	**3,351**
Free Cash Flow	3,826	1,093	1,960	4,320

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	6.9	8.5	10.2	12.8
CEPS	7.9	9.4	11.3	14.2
BVPS	30.9	38.6	47.3	58.3
FCF	7.7	2.2	3.9	8.7
DPS	0.8	1.0	1.2	1.5
Return Ratio(%)				
RoCE	31.5	31.6	30.6	30.8
ROIC	38.7	31.0	29.9	34.3
RoE	25.0	24.4	23.7	24.2
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	139	151	151	145
Valuation(x)				
PER	68.6	55.9	46.6	37.1
P/B	15.4	12.3	10.0	8.1
P/CEPS	60.4	50.6	42.1	33.5
EV/EBITDA	47.6	38.8	32.4	26.0
EV/Sales	8.8	7.6	6.5	5.5
Dividend Yield (%)	0.2	0.2	0.3	0.3

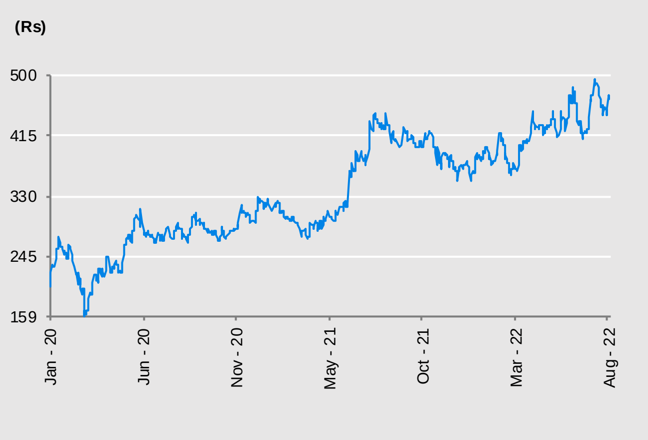
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	**9,099**	**7,071**	**6,651**	**9,855**
YoY gr. (%)	*0.8*	*26.2*	*24.6*	*26.1*
Raw Material Expenses	5,551	4,415	4,113	6,392
Gross Profit	3,548	2,657	2,537	3,464
Margin (%)	*39.0*	*37.6*	*38.1*	*35.1*
EBITDA	**2,150**	**1,268**	**1,089**	**1,876**
YoY gr. (%)	*(2.1)*	*62.5*	*53.6*	*24.9*
Margin (%)	*23.6*	*17.9*	*16.4*	*19.0*
Depreciation / Depletion	109	114	115	112
EBIT	**2,041**	**1,154**	**975**	**1,763**
Margin (%)	*22.4*	*16.3*	*14.7*	*17.9*
Net Interest	20	16	7	13
Other Income	84	147	74	47
Profit before Tax	**2,105**	**1,285**	**1,041**	**1,797**
Margin (%)	*23.1*	*18.2*	*15.7*	*18.2*
Total Tax	554	307	295	415
Effective tax rate (%)	*26.3*	*23.9*	*28.3*	*23.1*
Profit after Tax	**1,551**	**978**	**747**	**1,381**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,551**	**978**	**747**	**1,381**
YoY gr. (%)	*(1.9)*	*79.8*	*37.7*	*30.1*
Margin (%)	*17.0*	*13.8*	*11.2*	*14.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,551**	**978**	**747**	**1,381**
YoY gr. (%)	*(1.9)*	*79.8*	*37.7*	*30.1*
Margin (%)	*17.0*	*13.8*	*11.2*	*14.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,551**	**978**	**747**	**1,381**
Avg. Shares O/s (m)	499	499	499	499
EPS (Rs)	**3.1**	**2.0**	**1.5**	**2.8**

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	BUY	510	423
2	31-May-22	BUY	510	440
3	08-Apr-22	BUY	500	426
4	07-Feb-22	BUY	500	418
5	12-Jan-22	BUY	440	394
6	27-Dec-21	BUY	440	361

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,650	5,275
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	850	695
4	Godrej Agrovet	Accumulate	570	505
5	Insecticides India	Hold	680	881
6	P.I. Industries	BUY	3,450	3,028
7	Rallis India	BUY	230	205
8	Sharda Cropchem	BUY	740	564
9	Sumitomo Chemical India	BUY	510	423
10	UPL	BUY	1,020	767

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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