

October 31, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	610		510	
Sales (Rs. m)	43,729	50,538	41,854	48,551
% Chng.	4.5	4.1		
EBITDA (Rs. m)	9,052	10,664	8,789	10,438
% Chng.	3.0	2.2		
EPS (Rs.)	13.2	15.3	12.8	15.0
% Chng.	2.8	1.7		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	30,646	37,328	43,729	50,538
EBITDA (Rs. m)	5,999	7,466	9,052	10,664
Margin (%)	19.6	20.0	20.7	21.1
PAT (Rs. m)	4,235	5,348	6,567	7,628
EPS (Rs.)	8.5	10.7	13.2	15.3
Gr. (%)	22.6	26.3	22.8	16.2
DPS (Rs.)	1.0	1.2	1.5	1.5
Yield (%)	0.2	0.2	0.3	0.3
RoE (%)	24.4	24.8	24.6	23.2
RoCE (%)	31.6	31.9	31.3	29.8
EV/Sales (x)	7.9	6.5	5.4	4.6
EV/EBITDA (x)	40.3	32.3	26.3	21.8
PE (x)	58.1	46.0	37.4	32.2
P/BV (x)	12.8	10.3	8.3	6.8

Key Data

SUMH.BO | SUMICHEM IN

52-W High / Low	Rs.541 / Rs.341
Sensex / Nifty	60,747 / 18,012
Market Cap	Rs.246bn/ \$ 2,970m
Shares Outstanding	499m
3M Avg. Daily Value	Rs.271.98m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.05
Domestic Institution	6.39
Public & Others	16.54
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(2.1)	14.7	30.9
Relative	(7.4)	7.7	27.8

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Outperformance continues.!!

Quick Pointers:

- Domestic and exports growth of 17% and 56% YoY for 1HFY23
- Management hinted for Rs2.5bn capex in FY24; to provide better earnings visibility going forward

Sumitomo Chemical India (Sumitomo) reported robust set of numbers with revenue/EBITDA/PAT growth of 23%/30%/30% YoY during 2QFY23. Results were ahead of our and consensus estimate. Key highlights are: (a) Domestic and export revenue up +17% and +56% YoY in 1HFY23 respectively; (b) Specialty/generic contributed 30%/70%; (c) despite price hikes taken in the recent past to fully offset the inflated cost, however lower volume off-take particularly in glyphosate (volumes down ~40% YoY in 1HFY23) has in turn impacted the margins;(d) better operating leverage resulted into EBITDA margin expansion of 120bps YoY to 24.8% ;(e) WC up 22days YoY to 94 days led by higher inventory; (f) cash stood at Rs8.0bn in September'22; (g) Management hinted for Rs2.5bn capex in FY24; to provide better earnings visibility going forward

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. Factoring in better 1HFY23 performance, we increase our FY23/24E estimates by 5%/3% respectively. We expect Sumitomo to post revenue/EBITDA/PAT CAGR of 18%/21%/22% over FY22-25E (FY18-22 CAGR of 13%/29%/31%), respectively. We introduce and roll forward our valuations to FY25E. Maintain 'BUY' with revised TP of Rs610 (Rs510 earlier) based on 40x FY25E EPS.

- Good show in challenging times:** Sumitomo reported strong revenue growth of 23% YoY at Rs11.2bn (PLe Rs10.6bn) primarily on the back of 17% and 56% YoY growth in domestic and exports business. We believe superior price realization in glyphosate (contributing to ~16-17% of 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 SUMICHEM, as tighter supplies from Bayer AG led by recent force majeure by Bayer Global (citing RM availability issues) coupled with 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, Asia and South America up 147%/85%/48% YoY in 1HFY23.

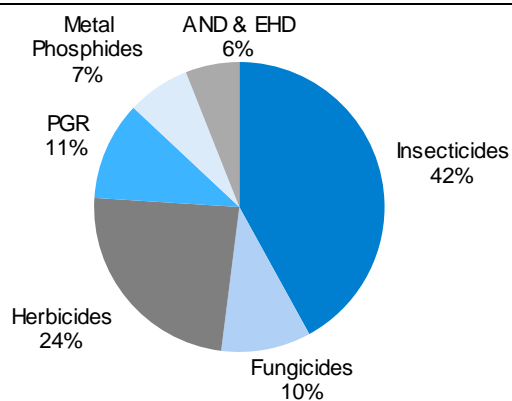
- **Superior operating leverage boosted margins:** Sumitomo's gross margins declined 110bps YoY at 37.9% largely led by erratic weather conditions resulting into lower volume offtake. Despite price hikes taken in the recent past to offset the inflated cost, however lower volume off-take particularly in glyphosate (volumes down ~40% YoY in 1HFY23) 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 restricted gross margin contraction. While, stricter cost control measures coupled with superior operating leverage has resulted into EBITDA margin expansion of 120bps YoY to 24.8%. PAT surged 30% YoY to Rs2.0bn (PLe Rs1.7bn).
- **Govt.'s order to restrict usage of Glyphosate through PCO's not likely to impact materially:** Although the Govt. has issued a final order on use of Glyphosate through Pest Control Officers (PCO's) only however the management doesn't foresee any major material impact of it over the longer term. Management cited that volumes of Glyphosate was down by ~40% YoY in 1HFY23 largely led by erratic monsoons, however the revenues from this product is largely flat on a YoY basis (aided by better realizations). Management also suggested that Gross margins in this product was ~27.5% for 1HFY23 as compared to 35% in the same period last year. However, we believe that despite a higher revenue contribution of glyphosate to the overall revenues (16-17% of Consolidated revenues) the earnings impact assuming 100% phasing out of this product would be restricted to ~8-9% (being a pure generic product).
- **Capex of Rs2.5bn in FY24 to provide better earnings visibility:** SUMICHEM had earlier announced capex of Rs1.2bn to manufacture proprietary products for the parent with additional maintenance capex of Rs0.7bn for capacity enhancements and de-bottling. Of this one project is for an important global proprietary product (commercial production already started in 2QFY23) and the 2nd project involves multiple products is expected to begin commercial production from 1QFY24. **Although the Company has not formally announced capex going forward, however the MD has hinted for a capex of Rs2.5bn capex in FY24 (with asset turnover of 2-2.5x and EBITDA margins of 18-19%). We believe, as and when this is formally announced it would provide stable earnings visibility for the next few years.**
- **Superior growth momentum likely to continue:** We believe 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; capex of Rs1.2bn with revenue potential of Rs2-2.5bn over the next few years (Commercialization of 1st project in 1HFY23 and 2nd project in 1QFY24).

- **New product launches- well on track:** SUMICHEM launched 8 new products in the domestic market in 1HFY23 (3 insecticides, 1 fungicide, 1 metal phosphide, and 3 PGRs). The Company launched 3 unique proprietary 9(3) products – Sumi Blue Diamond, Pyclome and Danitol NXT in the domestic market. Going forward, the management proposes 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.
- **Higher inventory built-up led to surge in working capital:** Net working capital stood at 94days in September'22 as against 72 days in the same period last year. Inventory levels are on higher side primarily, led by high cost inventory and anticipation of strong demand. Sumitomo continues to focus on higher and faster cash collections which stood at Rs21.3bn for 1HFY23. While, cash and cash equivalents stood at Rs8.0bn as on September'22.

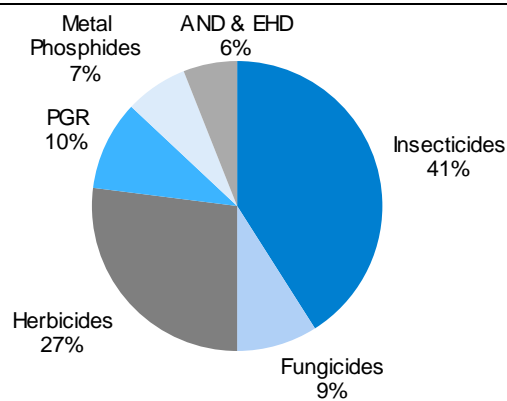
Exhibit 1: Q2FY23 Result Overview (Rs mn)

Y/e March	Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)	FY23E	FY22	YoY gr. (%)
Revenues	11,217	9,099	23.3	9,855	13.8	21,072	16,914	24.6	37,328	30,646	21.8
Raw material	6,967	5,551	25.5	6,392	9.0	13,359	10,546	26.7	23,628	19,080	23.8
Staff costs	539	452	19.1	572	(5.9)	1,111	992	12.0	2,240	2,020	10.9
Others	927	946	(2.0)	1,016	(8.7)	1,943	1,725	12.6	3,994	3,547	12.6
Total expenditure	8,433	6,949	21.4	7,980	5.7	16,413	13,262	23.8	29,862	24,647	21.2
EBITDA	2,784	2,150	29.5	1,876	48.4	4,659	3,652	27.6	7,466	5,999	24.4
Interest	14	20	(31.3)	13	4.9	27	38	(29.8)	52	62	(15.0)
Depreciation	152	109	39.3	112	35.3	265	220	20.4	548	448	22.2
Other income	107	84	27.5	47	129.4	153	138	11.1	362	268	35.0
PBT	2,725	2,105	29.5	1,797	51.7	4,521	3,532	28.0	7,227	5,757	25.5
Tax	705	554	27.3	415	69.8	1,120	920	21.8	1,879	1,522	23.5
Adjusted net profit	2,020	1,551	30.2	1,381	46.2	3,401	2,612	30.2	5,348	4,235	26.3
Extraordinary items	-	-	NA	-	NA	-	-	NA	-	-	NA
Net profit	2,020	1,551	30.2	1,381	46.2	3,401	2,612	30.2	5,348	4,235	26.3
Equity capital (FV Rs 10)	499	499		499		499	499		499	499	
Adj. EPS (INR)	4.0	3.1	30.2	2.8	46.2	6.8	5.2		10.7	8.5	26.3
As % of net revenues											
Raw material	62.1	61.0		64.9		63.4	62.3		63.3	62.3	
Staff expenses	4.8	5.0		5.8		5.3	5.9		6.0	6.6	
Other expenses	8.3	10.4		10.3		9.2	10.2		10.7	11.6	
EBITDA	24.8	23.6		19.0		22.1	21.6		20.0	19.6	
Net profit	18.0	17.0		14.0		16.1	15.4		14.3	13.8	

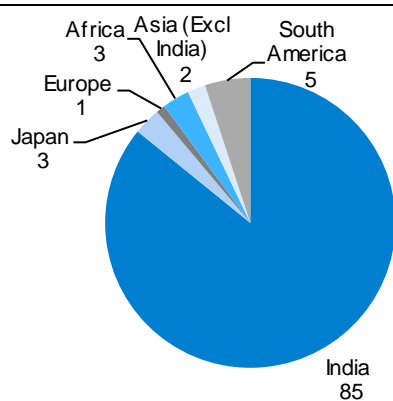
Source: Company, PL

Exhibit 2: Category-wise Revenue break-up- 1HFY22 (%)


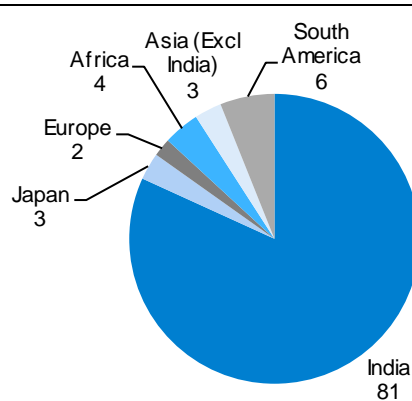
Source: Company, PL

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


Source: Company, PL

Exhibit 4: Region-wise Revenue Break-up- 1HFY22 (%)


Source: Company, PL

Exhibit 5: Region-wise Revenue Break-up-1HFY23 (%)


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	30,646	37,328	43,729	50,538
YoY gr. (%)	15.9	21.8	17.1	15.6
Cost of Goods Sold	19,080	23,628	27,418	31,637
Gross Profit	11,566	13,699	16,311	18,901
Margin (%)	37.7	36.7	37.3	37.4
Employee Cost	2,020	2,240	2,667	3,032
Other Expenses	3,547	3,994	4,592	5,205
EBITDA	5,999	7,466	9,052	10,664
YoY gr. (%)	23.2	24.4	21.2	17.8
Margin (%)	19.6	20.0	20.7	21.1
Depreciation and Amortization	448	548	694	840
EBIT	5,551	6,918	8,358	9,824
Margin (%)	18.1	18.5	19.1	19.4
Net Interest	62	52	55	58
Other Income	268	362	452	543
Profit Before Tax	5,757	7,227	8,755	10,309
Margin (%)	18.8	19.4	20.0	20.4
Total Tax	1,522	1,879	2,189	2,680
Effective tax rate (%)	26.4	26.0	25.0	26.0
Profit after tax	4,235	5,348	6,567	7,628
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,235	5,348	6,567	7,628
YoY gr. (%)	22.6	26.3	22.8	16.2
Margin (%)	13.8	14.3	15.0	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,235	5,348	6,567	7,628
YoY gr. (%)	22.6	26.3	22.8	16.2
Margin (%)	13.8	14.3	15.0	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,235	5,348	6,567	7,628
Equity Shares O/s (m)	499	499	499	499
EPS (Rs)	8.5	10.7	13.2	15.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	5,936	7,686	9,686	11,686
Tangibles	5,752	7,502	9,502	11,502
Intangibles	185	185	185	185
Acc: Dep / Amortization	1,892	2,439	3,133	3,972
Tangibles	1,892	2,439	3,133	3,972
Intangibles	-	-	-	-
Net fixed assets	4,045	5,247	6,553	7,714
Tangibles	3,860	5,062	6,369	7,529
Intangibles	185	185	185	185
Capital Work In Progress	211	211	211	211
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	3,560	3,560	3,560	3,560
Inventories	9,378	9,946	11,188	12,135
Trade receivables	8,431	11,249	13,179	15,231
Cash & Bank Balance	791	1,446	4,689	9,360
Other Current Assets	3,667	3,667	3,667	3,667
Total Assets	30,096	35,340	43,060	51,890
Equity				
Equity Share Capital	4,991	4,991	4,991	4,991
Other Equity	14,281	18,905	24,567	31,291
Total Network	19,272	23,897	29,559	36,283
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	247	-	-	-
Trade payables	5,172	5,850	6,993	8,090
Other current liabilities	5,405	5,593	6,509	7,518
Total Equity & Liabilities	30,096	35,340	43,060	51,890

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,757	6,866	8,303	9,766
Add. Depreciation	448	548	694	840
Add. Interest	62	52	55	58
Less Financial Other Income	268	362	452	543
Add. Other	(47)	362	452	543
Op. profit before WC changes	6,220	7,827	9,504	11,206
Net Changes-WC	(2,576)	(2,520)	(1,113)	(893)
Direct tax	(1,426)	(1,879)	(2,189)	(2,680)
Net cash from Op. activities	2,218	3,428	6,202	7,633
Capital expenditures	(1,125)	(1,750)	(2,000)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	(1,777)	-	-	-
Net Cash from Invt. activities	(2,902)	(1,750)	(2,000)	(2,000)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	(247)	-	-
Dividend paid	(400)	(724)	(904)	(904)
Interest paid	(226)	(52)	(55)	(58)
Others	-	-	-	-
Net cash from Fin. activities	(626)	(1,023)	(959)	(962)
Net change in cash	(1,311)	655	3,243	4,671
Free Cash Flow	1,093	1,678	4,202	5,633

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	8.5	10.7	13.2	15.3
CEPS	9.4	11.8	14.5	17.0
BVPS	38.6	47.9	59.2	72.7
FCF	2.2	3.4	8.4	11.3
DPS	1.0	1.2	1.5	1.5
Return Ratio(%)				
RoCE	31.6	31.9	31.3	29.8
ROIC	31.0	30.7	33.9	36.3
RoE	24.4	24.8	24.6	23.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	151	150	145	139
Valuation(x)				
PER	58.1	46.0	37.4	32.2
P/B	12.8	10.3	8.3	6.8
P/CEPS	52.5	41.7	33.9	29.0
EV/EBITDA	40.3	32.3	26.3	21.8
EV/Sales	7.9	6.5	5.4	4.6
Dividend Yield (%)	0.2	0.2	0.3	0.3

Source: Company Data, PL Research

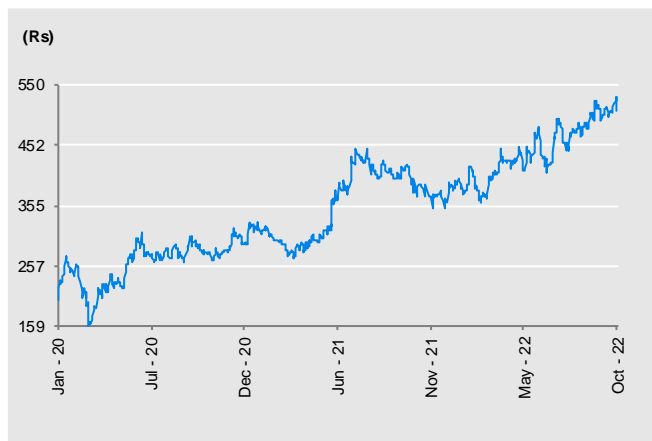
Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	7,071	6,651	9,855	11,217
YoY gr. (%)	26.2	24.6	26.1	23.3
Raw Material Expenses	4,415	4,113	6,392	6,967
Gross Profit	2,657	2,537	3,464	4,249
Margin (%)	37.6	38.1	35.1	37.9
EBITDA	1,268	1,089	1,876	2,784
YoY gr. (%)	62.5	53.6	24.9	29.5
Margin (%)	17.9	16.4	19.0	24.8
Depreciation / Depletion	114	115	112	152
EBIT	1,154	975	1,763	2,632
Margin (%)	16.3	14.7	17.9	23.5
Net Interest	16	7	13	14
Other Income	147	74	47	107
Profit before Tax	1,285	1,041	1,797	2,725
Margin (%)	18.2	15.7	18.2	24.3
Total Tax	307	295	415	705
Effective tax rate (%)	23.9	28.3	23.1	25.9
Profit after Tax	978	747	1,381	2,020
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	978	747	1,381	2,020
YoY gr. (%)	79.8	37.7	30.1	30.2
Margin (%)	13.8	11.2	14.0	18.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	978	747	1,381	2,020
YoY gr. (%)	79.8	37.7	30.1	30.2
Margin (%)	13.8	11.2	14.0	18.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	978	747	1,381	2,020
Avg. Shares O/s (m)	499	499	499	499
EPS (Rs)	2.0	1.5	2.8	4.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	BUY	510	511
2	11-Aug-22	BUY	510	475
3	04-Jul-22	BUY	510	423
4	31-May-22	BUY	510	440
5	08-Apr-22	BUY	500	426
6	07-Feb-22	BUY	500	418
7	12-Jan-22	BUY	440	394
8	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	4,803
2	Chambal Fertilizers & Chemicals	BUY	480	320
3	Coromandel International	BUY	1,200	973
4	Dhanuka Agritech	BUY	850	658
5	Godrej Agrovet	Accumulate	570	520
6	Insecticides India	Hold	920	701
7	P.I. Industries	BUY	3,450	2,956
8	Rallis India	BUY	250	226
9	Sharda Cropchem	BUY	660	446
10	Sumitomo Chemical India	BUY	510	511
11	UPL	BUY	1,020	700

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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