



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**ESG Disclosure Score**

**NEW**

**ESG RISK RATING**  
Updated Dec 08, 2022 **34.41**

**High Risk**

NEGL	LOW	MED	<b>HIGH</b>	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

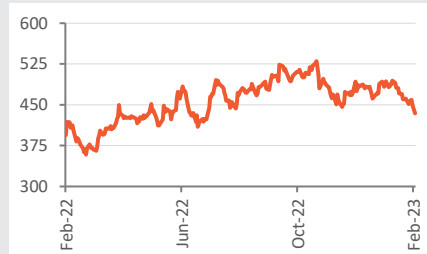
**Company details**

Market cap:	Rs. 21,680 cr
52-week high/low:	Rs. 541 / 341
NSE volume: (No of shares)	4.1 lakh
BSE code:	542920
NSE code:	SUMICHEM
Free float: (No of shares)	12.5 cr

**Shareholding (%)**

Promoters	75.0
FII	2.4
DII	5.5
Others	17.0

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-10.0	-9.8	-9.6	4.0
Relative to Sensex	-9.6	-8.7	-12.4	-1.0

Sharekhan Research, Bloomberg

**Sumitomo Chemical India Ltd**

**Muted Q3; recent correction offers investment opportunity**

<b>Agri Chem</b>	<b>Sharekhan code: SUMICHEM</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 434</b>	<b>Price Target: Rs. 550</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Q3FY23 results were weak as consolidated revenue missed the mark by 4% at Rs. 754 crore (up 7% y-o-y) and OPM of 16% was 228 bps below our estimate. Subdued revenue growth reflects decline in export revenue while miss in OPM was due to gross margin contraction. Operating profit/PAT of Rs. 120 crore/Rs. 90, down/up 5%/2% was 16%/11% below our estimate.
- Domestic revenue grew by 21% y-o-y led by price hike offsetting muted volume while export revenue declined steeply by 29% y-o-y due to de-growth in key export region of LatAm given high channel inventories.
- Capacity expansions, new product registrations, five proprietary products for the parent to drive a recovery in export revenue growth while market share gain in domestic market would result in industry leading growth for SCIL. Focus on high-margin herbicides/PGR bodes well for margin improvement.
- A sharp correction of 20% in the stock price from 52-week highs provides good entry opportunity for investors as earnings growth outlook is intact (expect 21% PAT CAGR over FY22-25E) led by leveraging technological capabilities of the parent and a massive opportunity in the CRAMS space. We maintain a Buy on SCIL with a revised PT of Rs. 550. Any strict domestic/foreign regulation on usage of key products could affect growth and valuation.

Sumitomo Chemical India Limited's (SCIL's) Q3FY23 performance was subdued with miss on of 4%/16% in consolidated revenue/operating profit at Rs. 754 crore/Rs. 120 crore, up/down 6.6%/4.8% y-o-y. Revenue miss was led by a steep decline of 29% y-o-y in export revenues to Rs. 143 crore while domestic revenue were up by 21% y-o-y. Exported revenue were weak due to slowdown in the Latin American market given high channel inventory while growth in domestic revenue was largely led by higher product prices offsetting muted volumes (higher channel inventory due to slow offtake during Kharif season). Product-wise revenues were also mixed with a good growth of 14%/20%/40% y-o-y from Insecticides/Herbicides/PGR and decline of 45%/28% y-o-y from Fungicides/Metal Phosphides. OPM of 16% (down 191 bps y-o-y) also missed our estimate of 18.3% due to 216 bps miss in gross margins at 35.3% (down 223 bps y-o-y). PAT of Rs. 90 crore, up 1.7% y-o-y and was 11% below our estimate of Rs. 101 crore due to miss in revenue/margin partially offset by higher other income (up 114% y-o-y) and lower-than-expected depreciation.

**Key positives**

- Domestic revenue growth of 21% y-o-y largely led by better product prices.

**Key negatives**

- Export revenues declined by 29% y-o-y in Q3FY23.
- Miss of 228 bps in OPM at 16%, down 191 bps y-o-y.

**Management Commentary**

- Management expects recent capacity expansion should help sustain high revenue growth (up 39% y-o-y in 9MFY23) in exports.
- Started commercial production for one global proprietary product while the second project involving multiple products is expected to begin commercial production in Q1FY2024.
- The company has recently received registrations for 2 unique proprietary 9(3) products and is in process of commercially launching these products in the market.
- The company launched four insecticides, one fungicide, one metal phosphide and three PGR products during 9MFY23.

**Revision in estimates** – We fine-tuned our FY2023-FY2025 earnings estimates.

**Our Call**

**Valuation – Maintain Buy on SCIL with a revised PT of Rs. 550:** We believe SCIL would continue to enjoy premium valuations versus domestic peers, given its superior earnings growth outlook (that could accelerate growth, given a massive revenue opportunity from contract manufacturing), its strong parental advantage (robust R&D capabilities, global distribution and financial strength), and a robust balance sheet (Rs. 800 crore of cash and cash equivalents as on September 30, 2022). Hence, we maintain our Buy rating on SCIL with a revised PT of Rs. 550. At the CMP, SCIL is trading at 33.3x its FY2024E EPS and 28.7x its FY2025E EPS.

**Key Risks**

Ban/restriction on use of products such as Glyphosate (that fetch 15% of revenue) could impact earnings outlook. Delay in raw-material supply from China could affect margins. Adverse weather conditions could affect demand for agri-inputs and affect earnings outlook.

**Valuation (Consolidated)**

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	3,065	3,636	4,181	4,706
OPM (%)	19.6	20.0	21.6	22.2
Adjusted PAT	424	523	651	757
% YoY growth	22.6	23.6	24.3	16.3
Adjusted EPS (Rs.)	8.5	10.5	13.0	15.2
P/E (x)	51.2	41.4	33.3	28.7
P/B (x)	11.2	9.2	7.5	6.2
EV/EBITDA (x)	36.0	29.1	23.0	19.3
RoNW (%)	24.4	24.4	24.8	23.6
RoCE (%)	33.0	32.3	32.8	31.3

Source: Company; Sharekhan estimates

## Subdued Q3 performance, earnings miss given muted revenue/margin

Q3FY23 performance was subdued with miss on of 4%/16% in consolidated revenue/operating profit at Rs. 754 crore/Rs. 120 crore, up/down 6.6%/4.8% y-o-y. Revenue miss was led by a steep decline of 29% y-o-y in export revenues to Rs. 143 crore while domestic revenue were up by 21% y-o-y. Exported revenue were weak due to slowdown in the Latin American market given high channel inventory while growth in domestic revenue was largely led by higher product prices offsetting muted volumes (higher channel inventory due to slow offtake during Kharif season). Product-wise revenues were also mixed with a good growth of 14%/20%/40% y-o-y from Insecticides/Herbicides/PGR and decline of 45%/28% y-o-y from Fungicides/Metal Phosphides. OPM of 16% (down 191 bps y-o-y) also missed our estimate of 18.3% due to 216 bps miss in gross margins at 35.3% (down 223 bps y-o-y). PAT of Rs. 90 crore, up 1.7% y-o-y and was 11% below our estimate of Rs. 101 crore due to miss in revenue/margin partially offset by higher other income (up 114% y-o-y) and lower-than-expected depreciation.

### Results (Consolidated)

Particulars	Rs cr				
	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
<b>Revenues</b>	<b>754</b>	<b>707</b>	<b>6.6</b>	<b>1,122</b>	<b>-32.8</b>
Total Expenditure	633	581	9.1	844	-24.9
<b>Operating profit</b>	<b>120</b>	<b>127</b>	<b>-4.8</b>	<b>278</b>	<b>-56.7</b>
Other Income	13	6	114.1	11	25.0
Interest	1	2	-18.7	1	-4.7
Depreciation	11	11	0.0	15	-25.1
<b>PBT</b>	<b>121</b>	<b>120</b>	<b>1.0</b>	<b>272</b>	<b>-55.5</b>
Tax	30	31	-1.0	71	-56.9
<b>Reported PAT</b>	<b>90</b>	<b>89</b>	<b>1.7</b>	<b>201</b>	<b>-55.1</b>
Equity Cap (cr)	50	50		50	
Reported EPS (Rs. )	1.8	1.8	1.7	4.0	-55.1
<b>Margins (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	16.0	17.9	-190.9	24.8	-880.7
NPM	12.0	12.6	-56.9	18.0	-595.5
Tax rate	25.2	25.7	-52.0	25.9	-76.5

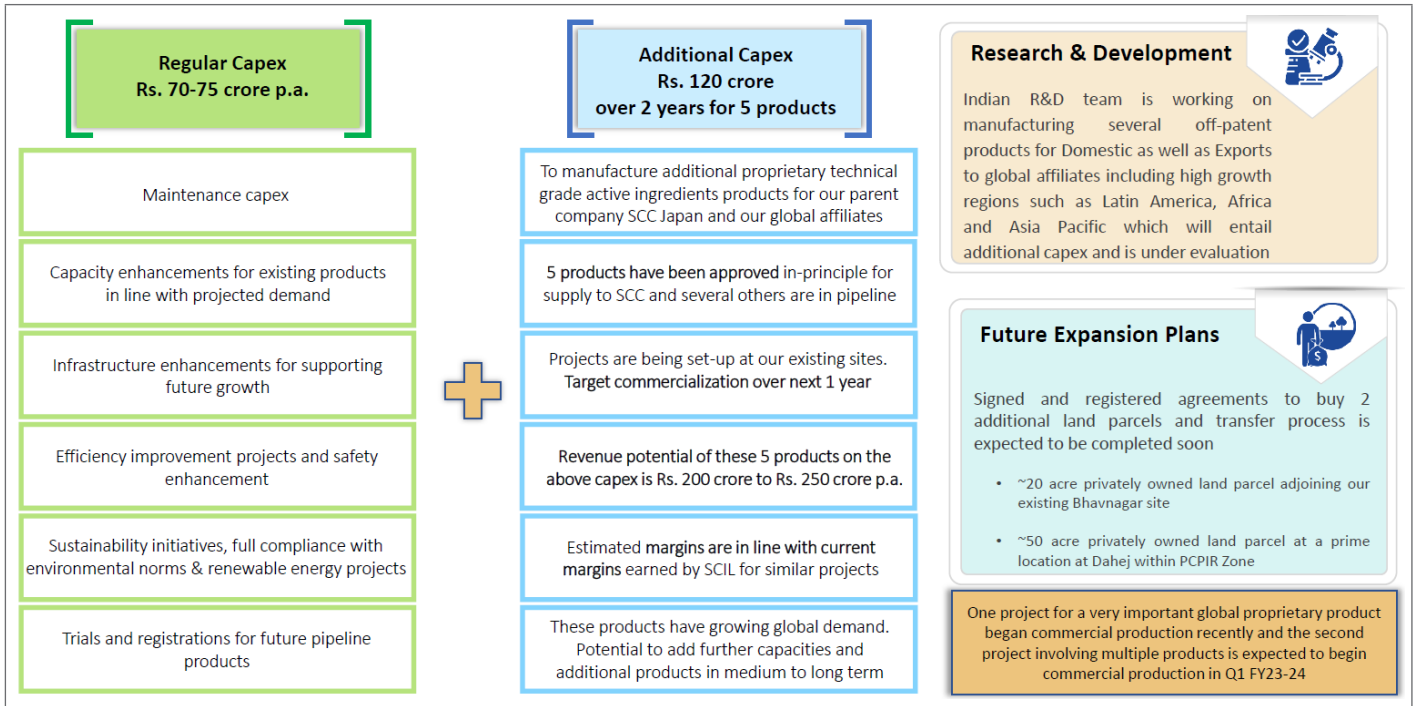
Source: Company; Sharekhan Research

### Product/geographical revenue break-up

Particulars	Rs cr				
	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Insecticides	366	321	14.1	480	-23.6
Herbicides	146	122	20.2	254	-42.3
PGR	75	54	40.1	152	-50.3
Metal Phosphides	53	73	-28.2	69	-23.2
Fungicides	39	71	-44.5	111	-64.6
AND & EHD	74	66	11.1	57	28.5
<b>Total revenues</b>	<b>754</b>	<b>707</b>	<b>6.6</b>	<b>1122</b>	<b>-32.8</b>
<b>Geography wise revenues</b>	<b>Q3FY23</b>	<b>Q3FY22</b>	<b>YoY (%)</b>	<b>Q2FY23</b>	<b>QoQ (%)</b>
Domestic	610	505	20.9	918	-33.5
Exports	143	202	-29.1	203	-29.6
<b>Total revenues</b>	<b>754</b>	<b>707</b>	<b>6.6</b>	<b>1122</b>	<b>-32.8</b>

Source: Company; Sharekhan Research

SCIL's capex plan remain intact



Source: Company

## Outlook and Valuation

### ■ Sector View – Rising food demand provides ample growth opportunities for agri-input players

The outlook for the Indian agrochemical industry is encouraging, primarily driven by rising foodgrain production and domestic demand, favourable regulatory reforms for farmers [government passed key agri-sector reforms namely Farmers’ Produce Trade and Commerce Bill, 2020, and Farmers’ (empowerment and protection) Agreement of Price Assurance and Farm Services Bill], and the vast opportunity from products going off-patent. The government’s focus is to double farmers’ income (higher MSP for crops). A near-normal monsoon and higher reservoir levels would augment demand for agri-inputs in India. We also expect exports from India to grow strongly, as India is being looked upon as the preferred supplier for agri-input products given supply disruption from China. Thus, we expect India’s agrochemical industry to witness 7-8% growth annually on a sustained basis in the next few years. Moreover, international markets such as Latin America (grew by 7.6% in CY2019) would continue to grow at a robust pace, supported by higher demand for crop protection and farm solutions mitigating slower growth in the US and Europe.

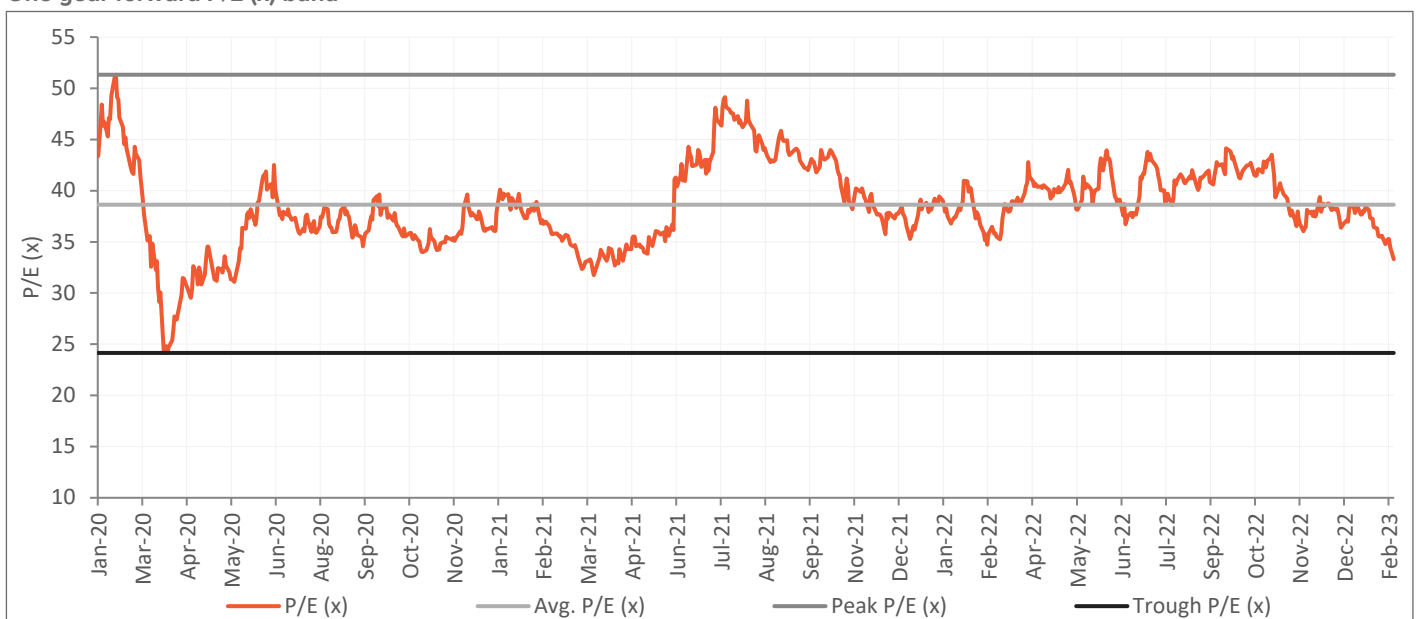
### ■ Company Outlook – Strong earnings growth prospects ahead

After the merger of ECCL, SCIL has become India’s third-largest agrochemical company with a revenue of Rs. 3,065 crore in FY2022. The acquisition provides strong revenue growth opportunities as both ECCL and SCIL are present in different crop-protection product portfolio and operate in different geographical areas (both in domestic and exports markets). Hence, we expect SCIL’s revenues to clock a 15% CAGR over FY2022-FY2025E. Moreover, margins are expected to expand by 265 bps and reach 22.2% by FY2025E, supported by synergies from ECCL’s merger and ramp-up of existing/new capacities. Thus, we expect SCIL’s earnings to report a 21% CAGR over FY2022-FY2025E. The revenue opportunity from CRAMS could further aid SCIL’s revenue and earnings growth.

### ■ Valuation – Maintain Buy on SCIL with a revised PT of Rs. 550

We believe SCIL would continue to enjoy premium valuations versus domestic peers, given its superior earnings growth outlook (that could accelerate growth, given a massive revenue opportunity from contract manufacturing), its strong parental advantage (robust R&D capabilities, global distribution and financial strength), and a robust balance sheet (Rs. 800 crore of cash and cash equivalents as on September 30, 2022). Hence, we maintain our Buy rating on SCIL with a revised PT of Rs. 550. At the CMP, SCIL is trading at 33.3x its FY2024E EPS and 28.7x its FY2025E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

SCIL manufactures, imports, and markets products for crop protection, grain fumigation, rodent control, bio pesticides, environmental health, professional pest control, and feed additives for use in India. SCIL has also marked its presence in Africa and several other geographies of the world. The company's product range comprises conventional chemistry sourced from its parent company, Sumitomo Chemical Company, and biological products sourced from US-based subsidiary, Valent Biosciences LLC, a leader in producing a range of naturally occurring, environmentally compatible pesticides, and plant growth regulators for over 40 years. The company also produces many technical grade pesticides at its state-of-the-art manufacturing units with indigenous R&D facility.

## Investment theme

Few crop protection chemicals are expected to be off patent in the coming years, thus genetic crop-protection chemicals should grow in double digits. Hence, the merger of ECCL (has 100% generic portfolio in the crop protection market along with backward integration of a few technical) bodes well for industry-leading revenue growth of SCIL. Cost synergies in terms of reduction in imported raw material (post ECCL merger) would drive strong margin expansion. Additionally, SCIL derives multiple benefits from its parent's R&D capabilities and global presence. CRAMS from parent would support medium to long term growth for SCIL

## Key Risks

- ◆ Ban on products such as glyphosate (15% of revenues) could impact earnings outlook.
- ◆ Delay in raw-material supply from China could lead to lower margins.
- ◆ Adverse weather conditions could affect demand of agri inputs and impact earnings outlook.

## Additional Data

### Key management personnel

Mukul Govindji Asher	Chairman and Independent Director
Chetan Shantilal Shah	Managing Director
Sushil Champaklal Marfatia	Executive Director
Hirogoshi Mukai	Non-executive Director

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corporation of India	3.60
2	Axis Asset Management Company Ltd	0.90
3	Vanguard Group Inc	0.70
4	L&T Mutual Fund Trustee Ltd	0.40
5	Invesco Asset Management India Private Limited	0.30
6	Union Mutual Fund	0.20
7	Norges Bank	0.20
8	BlackRock Inc	0.10
9	Quant Money Managers	0.04
10	Exide Life Insurance	0.04

Source: Bloomberg (old data)

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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