Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Sumitomo Chemical India (SUMICHEM IN)

Rating: BUY | CMP: Rs434 | TP: Rs590

February 6, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	590		610	
Sales (Rs. m)	40,977	46,769	43,729	50,538
% Chng.	*(6.3)*	*(7.5)*		
EBITDA (Rs. m)	8,400	9,915	9,052	10,664
% Chng.	*(7.2)*	*(7.0)*		
EPS (Rs.)	12.4	14.8	13.2	15.3
% Chng.	*(5.8)*	*(3.5)*		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	30,646	36,020	40,977	46,769
EBITDA (Rs. m)	5,999	7,060	8,400	9,915
Margin (%)	*19.6*	*19.6*	*20.5*	*21.2*
PAT (Rs. m)	4,235	5,176	6,183	7,364
EPS (Rs.)	8.5	10.4	12.4	14.8
Gr. (%)	*22.6*	*22.2*	*19.4*	*19.1*
DPS (Rs.)	1.0	1.2	1.5	1.5
Yield (%)	*0.2*	*0.3*	*0.3*	*0.3*
RoE (%)	*24.4*	*24.1*	*23.5*	*22.8*
RoCE (%)	*31.6*	*30.2*	*29.4*	*28.3*
EV/Sales (x)	6.9	5.9	5.1	4.4
EV/EBITDA (x)	35.4	29.9	24.8	20.5
PE (x)	51.1	41.8	35.0	29.4
P/BV (x)	11.2	9.1	7.5	6.1

Key Data	SUMH.BO | SUMICHEM IN
52-W High / Low	Rs.541 / Rs.341
Sensex / Nifty	60,507 / 17,765
Market Cap	Rs.216bn/ $ 2,615m
Shares Outstanding	499m
3M Avg. Daily Value	Rs.166.81m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.44
Domestic Institution	5.52
Public & Others	17.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.0)	(8.1)	3.6
Relative	(12.9)	(11.3)	0.4

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Temporary blip; long term story intact

Quick Pointers:

- Domestic and exports grew 4% and 13% YoY in 3QFY23.
- Balance sheet continues to be healthy - Collections up 19% YoY to Rs29.9bn with cash balance of Rs8.9bn as on Dec'22.

We trim our EPS estimates for FY23/24/25E by 3%/6%/4% respectively, citing challenging environment in domestic market due to higher channel inventory and pricing pressure. Sumitomo chemicals India (SUMICHEM) reported revenue/EBITDA/PAT growth of +7%/-5%/-8% YoY lower than our and consensus estimates in 3QFY23 largely led by sluggishness in domestic market (up 4% YoY), while exports continued to post double digit growth (up 13% YoY). High cost inventory coupled with higher sales return exerted pressure on margins. Going forward, management remained cautious on the domestic market citing higher inventory exerting pressure on revenue growth as well on margins (likely to take couple of quarters to normalize). Exports segment, on the other hand, will likely sustain its double digit growth momentum (9MFY23 up 38% YoY), led by commercialization of new products (from 1QFY24). We expect SUMICHEM to post Revenue/ EBITDA/PAT CAGR of 15%/18%/20% over FY22-25E (FY18-22 CAGR of 13%/29%/30%). Maintain 'BUY' with revised TP of Rs590 (Rs610 earlier) based on 40XFY25E EPS.

- **Subdued 4% YoY growth in domestic business:** SUMICHEM reported modest revenue growth of 7% YoY at Rs7.5bn (PLe Rs8.6bn), primarily on the back of domestic and exports business growth of 4% YoY and 13% YoY. Domestic business was under pressure due to a) adverse weather conditions; b) higher channel inventory; c) lower demand and d) steep decline in revenues of fungicide segment (Tebuconazole- contributing ~10% to revenues) that impacted volume growth. However, lower demand was partially offset by better realizations (Glyphosate- Volumes under pressure; still, prices remained strong). Exports, however, continued to post double digit revenue growth (up 13% YoY) primarily driven by superior growth from Europe, Asia and Africa up 113%/60%/30% YoY in 3QFY23. Further higher channel inventory in LATAM markets have resulted in 5% YoY revenue decline during 3Q'23.

- **Lower liquidation has resulted in margins contraction at 220bps YoY:** Gross margins contracted 220bps YoY at 35.3%, largely led by high cost inventory and inability to fully pass on entire inflated cost. Lower gross margins were partially mitigated by better cost control efficiencies (operating expenses down 40bps YoY) resulting in EBITDA margin contraction of 190bps YoY to 16%. PAT down by 8% YoY to Rs9.0bn (PLe Rs11.2bn).

Other Highlights

- **New product launches- well on track:** SUMICHEM launched 9 new products in the domestic market in 9MFY23 (4 insecticides, 1 fungicide, 1 metal phosphide, and 3 PGRs). The Company launched 3 new unique proprietary 9(3) products such as Sumi Blue Diamond, Pyclome and Danitol NXT in the domestic market. Additionally, the company has recently received registrations for 2 more unique proprietary 9(3) products and is in process of commercially launching them in the market. This in-turn would support revenues and margins, in the near term.

- **Robust market collection in 9M'23 up 19% YoY led to decent WC:** Net working capital stood at 99days in December'22 as against 91 days in the same period last year. Inventory days were down 15 days YoY due to company maintaining lower inventory amid a falling RM cost scenario and easing out of supply chain; while continuous focus towards improving collections have resulted in lower receivable days (down 5 days YoY to 100). Collections during 9MFY23 were up 19% YoY to Rs29.9bn. However, cash and cash equivalents stood at Rs8.92bn as on December'22.

- **Capex of Rs1.2bn- Well on track; likely to aid growth going forward:** SUMICHEM had earlier announced capex of Rs1.2bn to manufacture proprietary products for the parent over and above its annual maintenance capex of Rs0.7bn. Of this one project is for an important global proprietary product (commercial production already started in 2QFY23) and the 2nd project involves multiple products (expected to begin commercial production from 1QFY24). Although the company has not formally announced capex going forward, however the management 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.

- **Sumitomo Japan downgraded EBITDA guidance in 2H citing pricing pressure:** Sumitomo Chemicals, Japan (parent) has reported Revenue/EBITDA growth of 20%/16% YoY during 3Q (33%/69% YoY in 9M) **(Refer Exhibit-2)**. Company has revised downward its EBITDA estimates for 2H from 77 to 67 bn Yen **(Refer Exhibit- 3)** citing demand supply mismatch exerting pressure on pricing for its product Methionine (Animal Nutrition product for poultry) in few geographies and piling up of inventories in the LATAM markets. Methionine- is one of the Top-10 products for Sumitomo Chemicals India. Our interaction with the management suggest that any issues with respect to this product is not likely to meaningfully impact the workings of Sumitomo India, as this product comes at a very low margins (4-5% EBITDA margins).

Exhibit 1: Q3FY23 Result Overview (Rs mn)

Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Revenues	**7,537**	**7,071**	***6.6***	**11,217**	***(32.8)***	**28,608**	**23,986**	***19.3***
Raw material	4,873	4,415	*10.4*	6,967	*(30.1)*	18,232	14,960	*21.9*
Staff costs	523	516	*1.4*	539	*(2.8)*	1,635	1,508	*8.4*
Others	936	872	*7.3*	927	*0.9*	2,878	2,597	*10.8*
Total expenditure	6,332	5,803	*9.1*	8,433	*(24.9)*	22,745	19,065	*19.3*
EBITDA	**1,204**	**1,268**	***(5.0)***	**2,784**	***(56.7)***	**5,864**	**4,920**	***19.2***
Interest	13	16	*(18.7)*	14	*(4.7)*	40	54	*(26.5)*
Depreciation	114	114	*0.1*	152	*(25.1)*	378	333	*13.5*
Other income	132	147	*(10.3)*	107	*23.3*	285	285	*0.1*
PBT	**1,209**	**1,285**	***(5.9)***	**2,725**	***(55.6)***	**5,730**	**4,817**	***19.0***
Tax	304	307	*(1.0)*	705	*(56.9)*	1,425	1,227	*16.1*
Adjusted net profit	**905**	**978**	***(7.5)***	**2,020**	***(55.2)***	**4,306**	**3,590**	***19.9***
Extraordinary items	-	-	*NA*	-	*NA*	-	-	*NA*
Net profit	**905**	**978**	***(7.5)***	**2,020**	***(55.2)***	**4,306**	**3,590**	***19.9***
Equity capital (FV Rs 10)	499	499		499		499	499	
Adj. EPS (INR)	**1.8**	**2.0**	***(7.5)***	**4.0**	***(55.2)***	**8.6**	**7.2**	
As % of net revenues								
Raw material	64.7	62.4		62.1		63.7	62.4	
Staff expenses	6.9	7.3		4.8		5.7	6.3	
Other expenses	12.4	12.3		8.3		10.1	10.8	
EBITDA	16.0	17.9		24.8		20.5	20.5	
Net profit	12.0	13.8		18.0		15.1	15.0	

Source: Company, PL

Exhibit 2: Strong performance in CP segment reported by Sumitomo Chemicals, Japan (Parent) during 3Q and 9MFY22

Particulars (Bn Yen)	3QFY22	3QFY21	YoY gr. (%)	2QFY22	QoQ gr. (%)	9MFY22	9MFY21	YoY gr. (%)
Revenue- Health & Crop Sciences	145.3	121.5	*20%*	141.3	*3%*	439.2	331	*33%*
EBITDA	10.9	9.4	*16%*	14.4	*-24%*	47.2	27.8	*70%*

Source: Company, PL

Exhibit 3: Margins for 2H revised downwards from earlier guidance

Particulars (Bn Yen)	Previous	Revised	(% Change)
Revenue- Health & Crop Sciences	645	645	*0%*
EBITDA	77	67	*-13%*

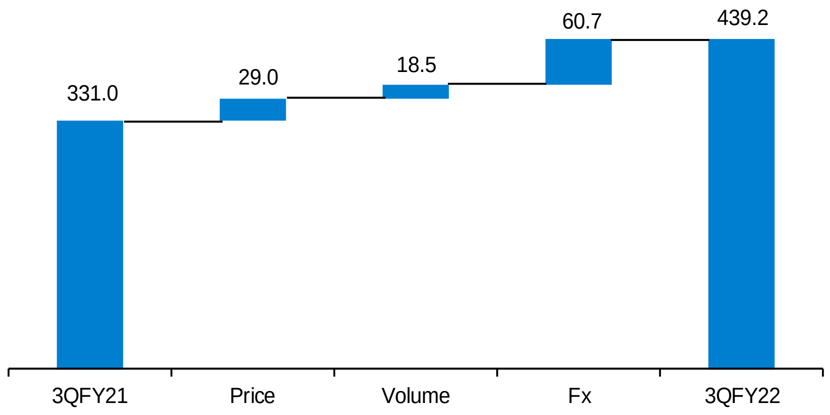
Source: Company, PL

Exhibit 4: Revenue growth for 9MFY22-Sumitomo Chemicals, Japan

Particulars	Gr. (in bn Yen)	Commentary
Price	+29	Increased prices for Generic Products in LATAM. Increased prices for Methionine
Volume	+18.5	Increased shipments of CP products in LATAM and India
FX	+60.7	

Source: Company, PL

Exhibit 5: Revenue Variance- Led by a combination of price, volume and FX



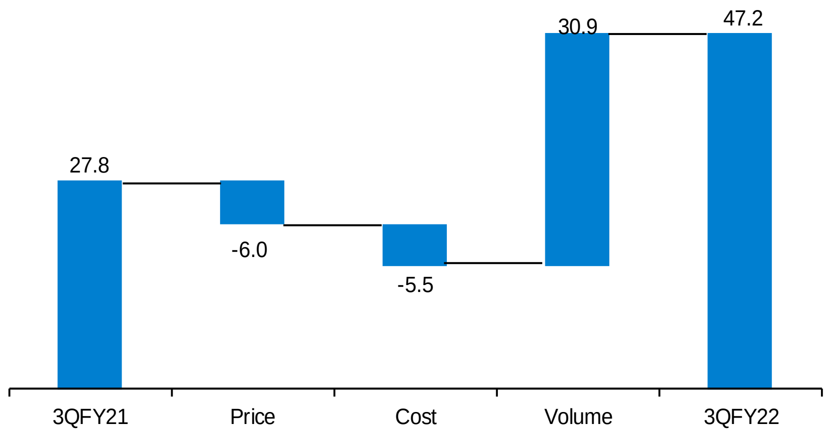
Source: Company, PL

Exhibit 6: EBITDA growth for 9MFY22-Sumitomo Chemicals, Japan

Particulars	Gr. (in bn Yen)	Commentary
Price	-6	Increased prices for generics in LATAM Terms of trade deteriorated for Methionine due to increased RM Prices and Fuel costs
Cost	-5.5	Expenses related to business expansion has increased.
Volume	+30.9	Increased shipments in LATAM and India. Increased Net Income on exports and and Profit from forex due to weak Yen.

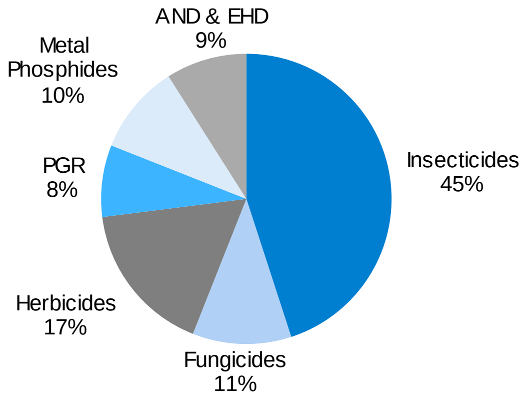
Source: Company, PL

Exhibit 7: EBITDA Variance- Led by higher volumes



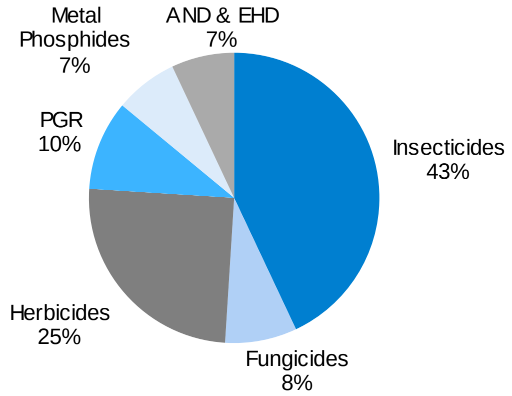
Source: Company, PL

Exhibit 8: Category-wise Revenue break-up- 9MFY22 (%)



Source: Company, PL

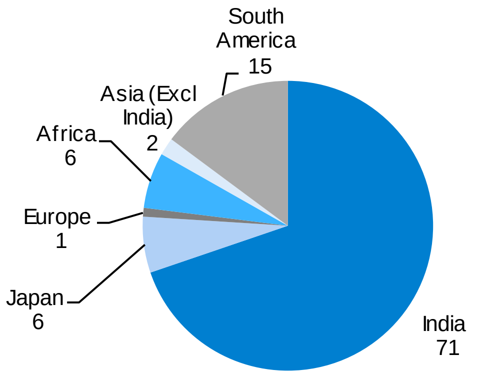
Exhibit 9: Category-wise Revenue break-up-9M FY23 (%)



Source: Company, PL

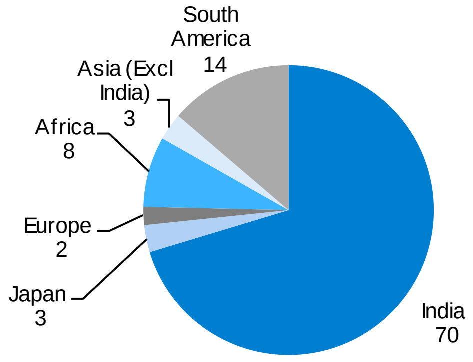
Europe, Asia and Africa up 113%/60%/30% YoY; while LATAM declined by 5% YoY in 3Q'23

Exhibit 10: Region-wise Revenue Break-up- 3QFY22 (%)



Source: Company, PL

Exhibit 11: Region-wise Revenue Break-up-3QFY23 (%)



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	**30,646**	**36,020**	**40,977**	**46,769**
YoY gr. (%)	*15.9*	*17.5*	*13.8*	*14.1*
Cost of Goods Sold	19,080	22,909	25,816	29,278
Gross Profit	11,566	13,111	15,162	17,492
Margin (%)	*37.7*	*36.4*	*37.0*	*37.4*
Employee Cost	2,020	2,161	2,459	2,759
Other Expenses	3,547	3,890	4,303	4,817
EBITDA	**5,999**	**7,060**	**8,400**	**9,915**
YoY gr. (%)	*23.2*	*17.7*	*19.0*	*18.0*
Margin (%)	*19.6*	*19.6*	*20.5*	*21.2*
Depreciation and Amortization	448	525	656	794
EBIT	**5,551**	**6,535**	**7,745**	**9,121**
Margin (%)	*18.1*	*18.1*	*18.9*	*19.5*
Net Interest	62	62	59	56
Other Income	268	429	557	752
Profit Before Tax	**5,757**	**6,902**	**8,243**	**9,818**
Margin (%)	*18.8*	*19.2*	*20.1*	*21.0*
Total Tax	1,522	1,725	2,061	2,455
Effective tax rate (%)	*26.4*	*25.0*	*25.0*	*25.0*
Profit after tax	**4,235**	**5,176**	**6,183**	**7,364**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**4,235**	**5,176**	**6,183**	**7,364**
YoY gr. (%)	*22.6*	*22.2*	*19.4*	*19.1*
Margin (%)	*13.8*	*14.4*	*15.1*	*15.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**4,235**	**5,176**	**6,183**	**7,364**
YoY gr. (%)	*22.6*	*22.2*	*19.4*	*19.1*
Margin (%)	*13.8*	*14.4*	*15.1*	*15.7*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,235	5,176	6,183	7,364
Equity Shares O/s (m)	**499**	**499**	**499**	**499**
EPS (Rs)	**8.5**	**10.4**	**12.4**	**14.8**

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**	**2,417**	**3,072**	**3,866**
Tangibles	1,892	2,417	3,072	3,866
Intangibles	-	-	-	-
Net fixed assets	**4,045**	**5,270**	**6,614**	**7,820**
Tangibles	3,860	5,085	6,429	7,636
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	9,778	10,679	11,321
Trade receivables	8,431	10,855	12,349	14,095
Cash & Bank Balance	791	1,491	4,666	9,231
Other Current Assets	3,667	3,667	3,667	3,667
Total Assets	**30,096**	**34,846**	**41,760**	**49,918**
Equity				
Equity Share Capital	4,991	4,991	4,991	4,991
Other Equity	14,281	18,733	24,012	30,471
Total Networth	**19,272**	**23,725**	**29,003**	**35,462**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	247	-	-	-
Trade payables	5,172	5,752	6,675	7,547
Other current liabilities	5,405	5,369	6,083	6,909
Total Equity & Liabilities	**30,096**	**34,846**	**41,760**	**49,918**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,757	6,473	7,686	9,066
Add. Depreciation	448	525	656	794
Add. Interest	62	62	59	56
Less Financial Other Income	268	429	557	752
Add. Other	(47)	429	557	752
Op. profit before WC changes	6,220	7,489	8,958	10,667
Net Changes-WC	(2,576)	(2,281)	(759)	(688)
Direct tax	(1,426)	(1,725)	(2,061)	(2,455)
Net cash from Op. activities	**2,218**	**3,482**	**6,138**	**7,525**
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)	(62)	(59)	(56)
Others	-	-	-	-
Net cash from Fin. activities	**(626)**	**(1,032)**	**(963)**	**(960)**
Net change in cash	**(1,311)**	**700**	**3,175**	**4,565**
Free Cash Flow	1,093	1,732	4,138	5,525

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	**6,651**	**9,855**	**11,217**	**7,537**
YoY gr. (%)	*24.6*	*26.1*	*23.3*	*6.6*
Raw Material Expenses	4,113	6,392	6,967	4,873
Gross Profit	2,537	3,464	4,249	2,664
Margin (%)	*38.1*	*35.1*	*37.9*	*35.3*
EBITDA	**1,089**	**1,876**	**2,784**	**1,204**
YoY gr. (%)	*53.6*	*24.9*	*29.5*	*(5.0)*
Margin (%)	*16.4*	*19.0*	*24.8*	*16.0*
Depreciation / Depletion	115	112	152	114
EBIT	**975**	**1,763**	**2,632**	**1,090**
Margin (%)	*14.7*	*17.9*	*23.5*	*14.5*
Net Interest	7	13	14	13
Other Income	74	47	107	132
Profit before Tax	**1,041**	**1,797**	**2,725**	**1,209**
Margin (%)	*15.7*	*18.2*	*24.3*	*16.0*
Total Tax	295	415	705	304
Effective tax rate (%)	*28.3*	*23.1*	*25.9*	*25.2*
Profit after Tax	**747**	**1,381**	**2,020**	**905**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**747**	**1,381**	**2,020**	**905**
YoY gr. (%)	*37.7*	*30.1*	*30.2*	*(7.5)*
Margin (%)	*11.2*	*14.0*	*18.0*	*12.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**747**	**1,381**	**2,020**	**905**
YoY gr. (%)	*37.7*	*30.1*	*30.2*	*(7.5)*
Margin (%)	*11.2*	*14.0*	*18.0*	*12.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**747**	**1,381**	**2,020**	**905**
Avg. Shares O/s (m)	499	499	499	499
EPS (Rs)	**1.5**	**2.8**	**4.0**	**1.8**

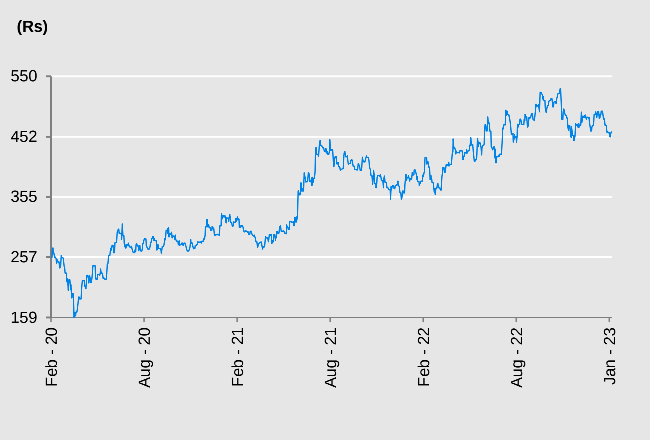
Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	8.5	10.4	12.4	14.8
CEPS	9.4	11.4	13.7	16.3
BVPS	38.6	47.5	58.1	71.0
FCF	2.2	3.5	8.3	11.1
DPS	1.0	1.2	1.5	1.5
Return Ratio(%)				
RoCE	31.6	30.2	29.4	28.3
ROIC	31.0	29.6	32.0	35.2
RoE	24.4	24.1	23.5	22.8
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	151	151	146	139
Valuation(x)				
PER	51.1	41.8	35.0	29.4
P/B	11.2	9.1	7.5	6.1
P/CEPS	46.2	38.0	31.6	26.5
EV/EBITDA	35.4	29.9	24.8	20.5
EV/Sales	6.9	5.9	5.1	4.4
Dividend Yield (%)	0.2	0.3	0.3	0.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	610	490
2	31-Oct-22	BUY	610	493
3	04-Oct-22	BUY	510	511
4	11-Aug-22	BUY	510	475
5	04-Jul-22	BUY	510	423
6	31-May-22	BUY	510	440
7	08-Apr-22	BUY	500	426
8	07-Feb-22	BUY	500	418

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,630	4,800
2	Chambal Fertilizers & Chemicals	BUY	410	317
3	Coromandel International	BUY	1,200	903
4	Dhanuka Agritech	BUY	940	700
5	Godrej Agrovet	Accumulate	570	472
6	Insecticides India	Hold	700	715
7	P.I. Industries	BUY	4,350	3,328
8	Rallis India	Hold	240	224
9	Sharda Cropchem	BUY	660	507
10	Sumitomo Chemical India	BUY	610	490
11	UPL	BUY	1,070	757

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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