

August 1, 2023

## Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	500		550	
Sales (Rs. m)	36,583	41,606	39,351	44,976
% Chng.	(7.0)	(7.5)		
EBITDA (Rs. m)	6,768	8,363	7,673	9,220
% Chng.	(11.8)	(9.3)		
EPS (Rs.)	10.0	12.4	11.4	13.7
% Chng.	(12.0)	(9.4)		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	30,612	35,110	36,583	41,606
EBITDA (Rs. m)	5,999	6,666	6,768	8,363
Margin (%)	19.6	19.0	18.5	20.1
PAT (Rs. m)	4,235	5,022	5,003	6,201
EPS (Rs.)	8.5	10.1	10.0	12.4
Gr. (%)	22.6	18.6	(0.4)	23.9
DPS (Rs.)	1.0	1.2	1.5	1.5
Yield (%)	0.2	0.3	0.4	0.4
RoE (%)	24.4	23.3	19.3	20.3
RoCE (%)	31.6	28.3	23.8	25.0
EV/Sales (x)	6.6	5.7	5.4	4.7
EV/EBITDA (x)	33.7	30.1	29.4	23.4
PE (x)	48.6	41.0	41.2	33.2
P/BV (x)	10.7	8.7	7.4	6.2

### Key Data

SUMH.BO | SUMICHEM IN

52-W High / Low	Rs.541 / Rs.382	
Sensex / Nifty	66,528 / 19,754	
Market Cap	Rs.206bn / \$ 2,505m	
Shares Outstanding	499m	
3M Avg. Daily Value	Rs.174.75m	

### Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.51
Domestic Institution	5.50
Public & Others	16.96
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(5.4)	(9.2)	(8.6)
Relative	(8.0)	(18.7)	(20.9)

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## Subdued quarter; near term outlook bleak

### Quick Pointers:

- Domestic and exports declined 21% and 49% YoY.
- Balance sheet continues to be healthy; collections up 6% YoY to Rs36.8bn with cash balance of Rs8.3bn as on March'23.

**We trim our FY24/25E EPS estimates by 12%/9%, citing challenging environment both in domestic and exports markets in terms of higher channel inventory and pricing pressures. Sumitomo Chemicals India (SUMICHEM) reported lower than estimated results with Revenue/EBITDA/PAT decline of 27%/57%/55% YoY (PLe decline of 1%/13%/16% YoY) largely led by subdued demand environment in both domestic and export markets (down 21% and 49% YoY respectively). Provisions on high cost inventory coupled with sheer pressure on realizations in key molecules and lower absorption of fixed cost exerted pressure on margins (Gross margins and EBITDA margins down 400bps/790bps YoY respectively). Going forward, management remains cautious on the exports market citing higher channel inventory exerting pressure on revenue growth as well on margins (likely to take couple of quarters to normalize). However, pick-up in monsoon activities over last fortnight has in-turn improved ground sentiments in the domestic market. We expect Revenue/EBITDA/PAT CAGR of 9%/12%/11% over FY23-25E (FY18-23 CAGR of 13%/25%/28%). Maintain 'BUY' with revised TP of Rs500 (Rs550 earlier) based on 40XFY25E EPS.**

- Lackluster demand environment impacted overall growth:** Consolidated revenues declined 27% YoY at Rs7.2bn (PLe Rs9.8bn), primarily led by 21% YoY and 49% YoY decline in domestic and exports business. Subdued performance during 1QFY24 was largely led by a) adverse weather conditions in domestic market led by delayed monsoons this year; b) high carryover inventory from last year; c) opening up of China post COVID-19 restrictions leading to huge demand-supply mismatch for raw materials in the global market resulting in huge pricing pressure and d) subdued demand environment in key regions like LATAM, Europe and NAFTA. Exports continued to be under pressure with Europe /NAFTA/Africa/Asia(Excl. India)/LATAM declined by 51%/27%/56%/51%/58% YoY respectively. Going forward, we believe export demand likely to be under check in the subsequent quarters as demand recovery (if at all) is expected from 2HFY24.
- Pressure on price realizations with inventory provisioning impacted margins:** Gross margins contracted 400bps YoY at 31.1%, largely led by provisions of high cost inventory and steep decline in price realizations. Lower gross margins coupled with low absorption of fixed cost has resulted in EBITDA margin contraction of 780bps YoY to 11.2% (PLe 16.7%). Going forward, management cited of early visibility of RM prices bottoming out (for few molecules) and improvement in demand scenario (particularly in the domestic market) can result in margin improvement over subsequent quarters.

### Other Highlights:

- New product launches well on track:** SUMICHEM launched 4 new products in the domestic market in 1QFY24 (3 new herbicides- Ambit (Oxadiargyl 1% + Pretilachlor 6% GR), Treasure (Tembotrione 34.4% SC), and Blog (Glufosinate Ammonium 13.5 SL) and, 1 new insecticide- Yunico (Chlorantraniliprole 0.4% w/w GR). Further, the Company is gearing up to launch several unique first-time registrations in India which are expected to ramp up over next few years.
- Working Capital:** Net working capital stood at 94 days in 1QFY24 as against 96 days in the same period last year. Inventory days were up 11 days YoY to 147 days due to delayed onset of monsoons resulting in lower liquidation and higher carryover of inventory from last year. While, receivables increased by 4 days YoY to 102 days primarily owing to challenging domestic environment and payable days were up 10 days YoY to 102 days. Collections during 1QFY24 were up 4% YoY to Rs10.1bn. While, cash and cash equivalents stood at Rs12.5bn as on June'23.
- Capex- 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 and 2<sup>nd</sup> involves multiple products (commercial production have already started for both these projects and are expected to generate revenues in FY24). Management alluded that around Rs1-1.2bn would be contributed from this projects in FY24.

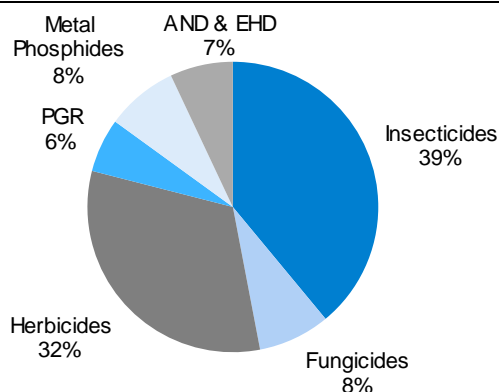
**Exhibit 1: Q1FY24 Result Overview (Rs mn)**

Y/e March	Q1FY24	Q1FY23	YoY gr. (%)	Q4FY23	QoQ gr. (%)	FY24E	FY23	YoY gr. (%)
<b>Revenues</b>	7,242	9,855	(26.5)	6,516	11.2	37,351	35,110	6.4
Raw material	4,989	6,392	(21.9)	4,474	11.5	24,838	22,706	9.4
Staff costs	598	572	4.4	545	9.7	2,241	2,184	2.6
Others	849	1,016	(16.5)	691	22.8	3,548	3,554	(0.2)
Total expenditure	6,435	7,980	(19.4)	5,710	12.7	30,628	28,444	7.7
<b>EBITDA</b>	<b>808</b>	<b>1,876</b>	<b>(56.9)</b>	<b>806</b>	<b>0.2</b>	<b>6,723</b>	<b>6,666</b>	<b>0.9</b>
Interest	13	13	1.8	14	(4.1)	51	54	(5.0)
Depreciation	135	112	20.3	140	(3.6)	598	519	15.3
Other income	175	47	275.7	165	6.2	552	449	23.0
<b>PBT</b>	<b>834</b>	<b>1,797</b>	<b>(53.6)</b>	<b>816</b>	<b>2.2</b>	<b>6,625</b>	<b>6,542</b>	<b>1.3</b>
Tax	216	415	(47.9)	95	127.8	1,656	1,520	9.0
<b>Adjusted net profit</b>	<b>618</b>	<b>1,381</b>	<b>(55.3)</b>	<b>721</b>	<b>(14.4)</b>	<b>4,969</b>	<b>5,022</b>	<b>(1.1)</b>
Extraordinary items	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>618</b>	<b>1,381</b>	<b>(55.3)</b>	<b>721</b>	<b>(14.4)</b>	<b>4,969</b>	<b>5,022</b>	<b>(1.1)</b>
Equity capital (FV Rs 10)	499	499		499		499	499	
<b>Adj. EPS (INR)</b>	<b>1.2</b>	<b>2.8</b>	<b>(55.3)</b>	<b>1.4</b>	<b>(14.4)</b>	<b>10.0</b>	<b>10.1</b>	<b>(1.1)</b>
<b>As % of net revenues</b>								
Raw material	68.9	64.9		68.7		66.5	64.7	
Staff expenses	8.3	5.8		8.4		6.0	6.2	
Other expenses	11.7	10.3		10.6		9.5	10.1	
EBITDA	11.2	19.0		12.4		18.0	19.0	
Net profit	8.5	14.0		11.1		13.3	14.3	

Source: Company, PL

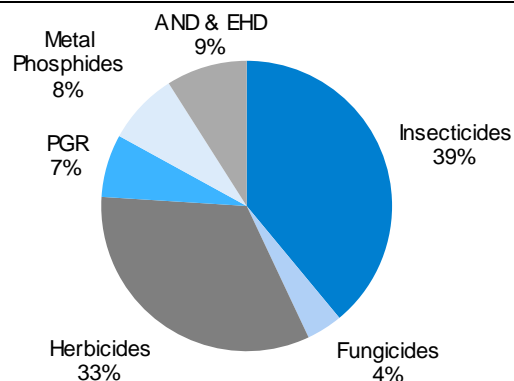
## Low contribution from Fungicides in 1QFY24; while herbicides contributed 33% to revenues

Exhibit 2: Category-wise Revenue break-up- 1QFY23 (%)



Source: Company, PL

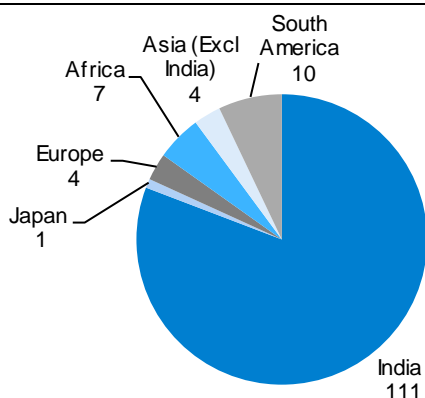
Exhibit 3: Category-wise Revenue break-up-1QFY24 (%)



Source: Company, PL

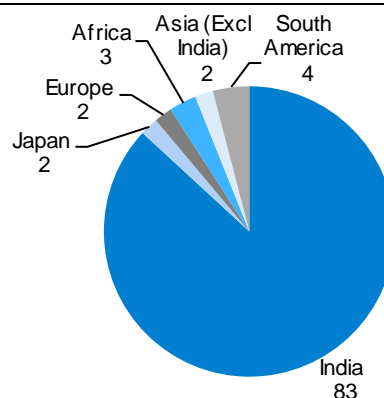
## Europe/NAFTA/LATAM/Africa/Asia(Excl India) declined by 51%/27%/58%/56%/51% YoY

Exhibit 4: Region-wise Revenue Break-up- 1QFY23 (%)



Source: Company, PL

Exhibit 5: Region-wise Revenue Break-up-1QFY24 (%)



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Net Revenues</b>	<b>30,612</b>	<b>35,110</b>	<b>36,583</b>	<b>41,606</b>
YoY gr. (%)	15.7	14.7	4.2	13.7
Cost of Goods Sold	19,080	22,706	24,145	27,252
Gross Profit	11,532	8,265	12,438	14,354
Margin (%)	37.7	23.5	34.0	34.5
Employee Cost	2,020	2,184	2,195	2,247
Other Expenses	3,513	3,554	3,475	3,745
<b>EBITDA</b>	<b>5,999</b>	<b>6,666</b>	<b>6,768</b>	<b>8,363</b>
YoY gr. (%)	23.2	11.1	1.5	23.6
Margin (%)	19.6	19.0	18.5	20.1
Depreciation and Amortization	448	519	598	736
<b>EBIT</b>	<b>5,551</b>	<b>6,147</b>	<b>6,170</b>	<b>7,627</b>
Margin (%)	18.1	17.5	16.9	18.3
Net Interest	62	54	51	49
Other Income	268	449	552	690
<b>Profit Before Tax</b>	<b>5,757</b>	<b>6,542</b>	<b>6,670</b>	<b>8,267</b>
Margin (%)	18.8	18.6	18.2	19.9
Total Tax	1,522	1,520	1,668	2,067
Effective tax rate (%)	26.4	23.2	25.0	25.0
<b>Profit after tax</b>	<b>4,235</b>	<b>5,022</b>	<b>5,003</b>	<b>6,201</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>4,235</b>	<b>5,022</b>	<b>5,003</b>	<b>6,201</b>
YoY gr. (%)	22.6	18.6	(0.4)	23.9
Margin (%)	13.8	14.3	13.7	14.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>4,235</b>	<b>5,022</b>	<b>5,003</b>	<b>6,201</b>
YoY gr. (%)	22.6	18.6	(0.4)	23.9
Margin (%)	13.8	14.3	13.7	14.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,235	5,022	5,003	6,201
<b>Equity Shares O/s (m)</b>	<b>499</b>	<b>499</b>	<b>499</b>	<b>499</b>
<b>EPS (Rs)</b>	<b>8.5</b>	<b>10.1</b>	<b>10.0</b>	<b>12.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,936</b>	<b>6,886</b>	<b>8,886</b>	<b>10,886</b>
Tangibles	5,752	6,670	8,670	10,670
Intangibles	185	216	216	216
<b>Acc: Dep / Amortization</b>	<b>1,892</b>	<b>2,410</b>	<b>3,009</b>	<b>3,745</b>
Tangibles	1,892	2,410	3,009	3,745
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,045</b>	<b>4,475</b>	<b>5,877</b>	<b>7,141</b>
Tangibles	3,860	4,260	5,662	6,925
Intangibles	185	216	216	216
Capital Work In Progress	211	535	535	535
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	3,560	2,388	2,388	2,388
Inventories	9,378	8,887	10,269	10,561
Trade receivables	8,431	9,461	11,025	12,539
Cash & Bank Balance	791	3,028	4,384	7,725
Other Current Assets	3,667	4,905	4,905	4,905
<b>Total Assets</b>	<b>30,096</b>	<b>33,691</b>	<b>39,395</b>	<b>45,805</b>
<b>Equity</b>				
Equity Share Capital	4,991	4,991	4,991	4,991
Other Equity	14,281	18,826	22,924	28,221
<b>Total Network</b>	<b>19,272</b>	<b>23,818</b>	<b>27,916</b>	<b>33,212</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	247	177	-	-
Trade payables	5,172	4,906	6,418	7,041
Other current liabilities	5,405	4,790	5,061	5,553
<b>Total Equity &amp; Liabilities</b>	<b>30,096</b>	<b>33,691</b>	<b>39,395</b>	<b>45,805</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,757	6,542	6,118	7,578
Add. Depreciation	448	519	598	736
Add. Interest	62	54	51	49
Less Financial Other Income	268	449	552	690
Add. Other	(47)	(188)	552	690
Op. profit before WC changes	6,220	6,927	7,320	9,052
Net Changes-WC	(2,576)	(1,352)	(1,163)	(692)
Direct tax	(1,426)	(1,681)	(1,668)	(2,067)
<b>Net cash from Op. activities</b>	<b>2,218</b>	<b>3,894</b>	<b>4,489</b>	<b>6,294</b>
Capital expenditures	(1,125)	(1,195)	(2,000)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	(1,777)	(2,077)	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,902)</b>	<b>(3,272)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	(177)	-
Dividend paid	(400)	(499)	(904)	(904)
Interest paid	(226)	(226)	(51)	(49)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(626)</b>	<b>(725)</b>	<b>(1,133)</b>	<b>(953)</b>
<b>Net change in cash</b>	<b>(1,311)</b>	<b>(104)</b>	<b>1,356</b>	<b>3,341</b>
Free Cash Flow	1,093	2,698	2,489	4,294

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	8.5	10.1	10.0	12.4
CEPS	9.4	11.1	11.2	13.9
BVPS	38.6	47.7	55.9	66.5
FCF	2.2	5.4	5.0	8.6
DPS	1.0	1.2	1.5	1.5
<b>Return Ratio(%)</b>				
RoCE	31.6	28.3	23.8	25.0
ROIC	31.0	28.9	24.1	28.0
RoE	24.4	23.3	19.3	20.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	151	140	148	141
<b>Valuation(x)</b>				
PER	48.6	41.0	41.2	33.2
P/B	10.7	8.7	7.4	6.2
P/CEPS	44.0	37.2	36.8	29.7
EV/EBITDA	33.7	30.1	29.4	23.4
EV/Sales	6.6	5.7	5.4	4.7
Dividend Yield (%)	0.2	0.3	0.4	0.4

Source: Company Data, PL Research

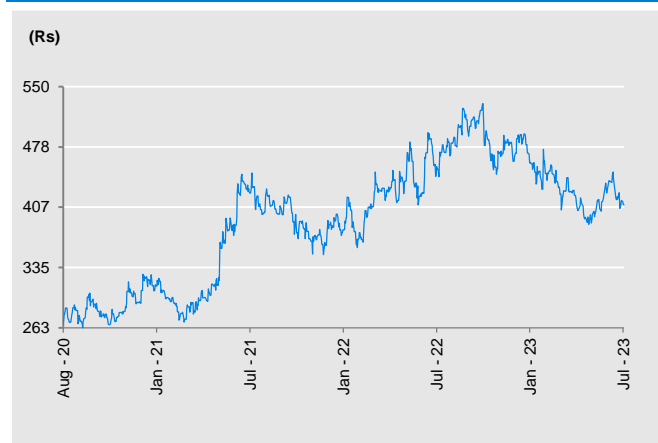
## Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
<b>Net Revenue</b>	<b>11,217</b>	<b>7,530</b>	<b>6,516</b>	<b>7,242</b>
YoY gr. (%)	23.3	6.5	(1.9)	(26.5)
Raw Material Expenses	6,967	4,873	4,474	4,989
Gross Profit	4,249	2,657	2,042	2,254
Margin (%)	37.9	35.3	31.3	31.1
<b>EBITDA</b>	<b>2,784</b>	<b>1,204</b>	<b>806</b>	<b>808</b>
YoY gr. (%)	29.5	(5.0)	(26.0)	(56.9)
Margin (%)	24.8	16.0	12.4	11.2
Depreciation / Depletion	152	114	140	135
<b>EBIT</b>	<b>2,632</b>	<b>1,090</b>	<b>665</b>	<b>672</b>
Margin (%)	23.5	14.5	10.2	9.3
Net Interest	14	13	14	13
Other Income	107	132	165	175
<b>Profit before Tax</b>	<b>2,725</b>	<b>1,209</b>	<b>816</b>	<b>834</b>
Margin (%)	24.3	16.1	12.5	11.5
Total Tax	705	304	95	216
Effective tax rate (%)	25.9	25.2	11.6	25.9
<b>Profit after Tax</b>	<b>2,020</b>	<b>905</b>	<b>721</b>	<b>618</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,020</b>	<b>905</b>	<b>721</b>	<b>618</b>
YoY gr. (%)	30.2	(7.5)	(3.4)	(55.3)
Margin (%)	18.0	12.0	11.1	8.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,020</b>	<b>905</b>	<b>721</b>	<b>618</b>
YoY gr. (%)	30.2	(7.5)	(3.4)	(55.3)
Margin (%)	18.0	12.0	11.1	8.5
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,020</b>	<b>905</b>	<b>721</b>	<b>618</b>
Avg. Shares O/s (m)	499	499	499	499
<b>EPS (Rs)</b>	<b>4.0</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	550	449
2	19-May-23	BUY	550	386
3	11-Apr-23	BUY	590	428
4	06-Feb-23	BUY	590	434
5	05-Jan-23	BUY	610	490
6	31-Oct-22	BUY	610	493
7	04-Oct-22	BUY	510	511
8	11-Aug-22	BUY	510	475

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,720	4,582
2	Chambal Fertilizers & Chemicals	Hold	300	273
3	Coromandel International	BUY	1,330	980
4	Dhanuka Agritech	BUY	950	794
5	Godrej Agrovet	Hold	420	464
6	Insecticides India	Accumulate	550	448
7	P.I. Industries	BUY	4,560	3,857
8	Rallis India	Reduce	180	221
9	Sharda Cropchem	Accumulate	540	481
10	Sumitomo Chemical India	BUY	550	449
11	UPL	BUY	850	670

## PL's Recommendation Nomenclature (Absolute Performance)

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



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