

October 31, 2023

## Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	450		500	
Sales (Rs.m)	31,274	34,922	36,583	41,606
% Chng.	(14.5)	(16.1)		
EBITDA (Rs.m)	5,629	7,019	6,768	8,363
% Chng.	(16.8)	(16.1)		
EPS (Rs.)	8.4	10.5	10.0	12.4
% Chng.	(16.6)	(15.8)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	35,110	31,274	34,922	39,491
EBITDA (Rs. m)	6,666	5,629	7,019	7,543
Margin (%)	19.0	18.0	20.1	19.1
PAT (Rs. m)	5,022	4,172	5,222	5,558
EPS (Rs.)	10.1	8.4	10.5	11.1
Gr. (%)	18.6	(16.9)	25.2	6.4
DPS (Rs.)	1.2	1.5	1.5	1.5
Yield (%)	0.3	0.4	0.4	0.4
RoE (%)	23.3	16.4	17.9	16.5
RoCE (%)	28.3	19.7	21.5	19.8
EV/Sales (x)	5.3	5.9	5.2	4.5
EV/EBITDA (x)	27.8	32.6	25.7	23.4
PE (x)	37.9	45.6	36.5	34.3
P/BV (x)	8.0	7.0	6.1	5.3

### Key Data

SUMH.BO | SUMICHEM IN

52-W High / Low	Rs.504 / Rs.373	
Sensex / Nifty	64,113 / 19,141	
Market Cap	Rs.190bn/ \$ 2,287m	
Shares Outstanding	499m	
3M Avg. Daily Value	Rs.141.8m	

### Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.58
Domestic Institution	6.07
Public & Others	16.35
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(9.7)	(5.3)	(20.6)
Relative	(7.3)	(9.7)	(25.7)

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## Underwhelming results cloud near-term forecast

### Quick Pointers:

- Domestic and exports declined 10% and 62% YoY in 2QFY24.
- Balance sheet continues to be healthy; collections at Rs20bn in 1HFY24 with cash balance of Rs13.8bn as on Sept'23.

**We trim our FY24/25/26E EPS estimates by 17%/16%/20%, 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 20%/32%/29% YoY largely led by subdued demand environment in both domestic and export markets (down 10% and 62% YoY respectively). With provisioning of high cost inventory largely behind, GM's expanded 50bps YoY to 38.4% as against 37.9% in Q2FY23. However, higher employee costs coupled with higher other expenses up 170bps YoY and 280bps YoY to 6.5% and 11.1% has resulted into EBITDA margin contraction of 400bps YoY to 20.8% during Q2FY24. Going forward, management remained cautious on exports market citing higher channel inventory exerting pressure on revenue growth as well as margins (likely to take couple of quarters to normalize). We expect Revenue/ EBITDA/PAT CAGR of 12%/16%/15% over FY24-26E (FY18-23 CAGR of 13%/25%/28%). Maintain 'BUY' with revised TP of Rs450 (Rs500 earlier) based on 40XFY26E EPS.**

- Lackluster demand environment impacted overall growth:** Consolidated revenues declined 20% YoY at Rs9.0bn (PLe Rs11.9bn), primarily led by 10% YoY and 62% YoY decline in domestic and exports business. Subdued performance in 2QFY24 was largely led by a) adverse weather conditions in the 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 into huge pressure on pricing and d) subdued demand environment in key regions like LATAM, Europe and NAFTA. Exports continued to be under pressure, as Europe/NAFTA/Africa/Asia (Excl India)/LATAM declined by 86%/20%/69%/46%/65% YoY respectively. Going forward, we believe export demand is likely to be under check in subsequent quarters as well, because demand recovery (if at all) is expected from 2HFY24.
- Provisioning of high cost inventory largely behind:** Management highlighted that provisioning of high cost inventory is largely done and in Q2FY24 gross margins expanded 40bps YoY at 38.4%. However, higher employee costs coupled with higher other expenses YoY up by 170bps and 280bps YoY to 6.5% and 11.1% have resulted into EBITDA margin contraction of 400bps YoY to 20.8% during Q2FY24. Going forward, management highlighted that with RM prices bottoming out, there can be improvement in margins profile in the subsequent quarters. Also, EBITDA margin profile is likely to go back to 19-20% from FY25E.

## Other Highlights:

- **New product launches well on track:** SUMICHEM launched 6 new products in the domestic market in 1HFY24 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) and, 2 new fungicides – Rumpus (TriBasic Copper Sulfate 34.5% W/V SC) and Cuflo (TriBasic Copper Sulfate 34.5% W/V SC). Further, the company is also 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 70 days in 2QFY24 as against 94 days in the same period last year. Inventory days were down 14 days YoY to 96 days due to lower level of operations. While, receivables were down by 5 days YoY to 96 days primarily owing to challenging improvement in collections, payable days remained flat at 75 days as against 74 days in Sep-22. Collections during 1HFY24 were down 6% YoY to Rs20.0bn. While, cash and cash equivalents stood at Rs13.8bn as on Sep'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> involving multiple products (commercial production have already started for both these projects and are expected to generate revenues in FY24). Management alluded that both these plants will run at 80-100% capacity utilization in FY25E and contribute meaningfully to the topline. At peak utilization, contribution from these projects would be in the range of 2-2.5bn and estimated margins would be in-line with current margins.

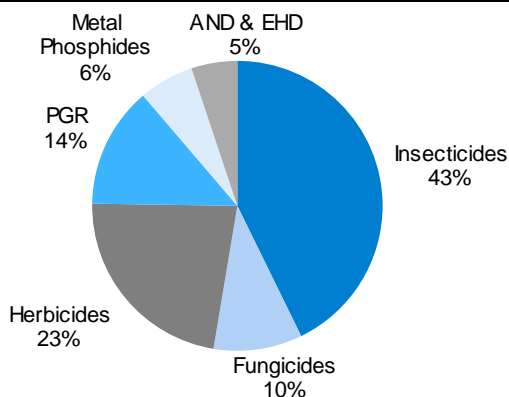
**Exhibit 1: Q2FY24 Result Overview (Rs mn)**

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	1HFY24	1HFY23	YoY gr. (%)
<b>Revenues</b>	9,035	11,217	(19.5)	7,242	24.7	16,277	21,072	(22.8)
Raw material	5,569	6,967	(20.1)	4,989	11.6	10,558	13,359	(21.0)
Staff costs	586	539	8.8	598	(2.0)	1,183	1,111	6.5
Others	999	927	7.8	849	17.7	1,848	1,943	(4.9)
Total expenditure	7,154	8,433	(15.2)	6,435	11.2	13,589	16,413	(17.2)
<b>EBITDA</b>	<b>1,881</b>	<b>2,784</b>	<b>(32.4)</b>	<b>808</b>	<b>132.8</b>	<b>2,688</b>	<b>4,659</b>	<b>(42.3)</b>
Interest	12	14	(9.7)	13	(6.9)	26	27	(4.1)
Depreciation	158	152	3.7	135	16.6	293	265	10.7
Other income	247	107	131.1	175	41.1	422	153	175.0
<b>PBT</b>	<b>1,957</b>	<b>2,725</b>	<b>(28.2)</b>	<b>834</b>	<b>134.7</b>	<b>2,791</b>	<b>4,521</b>	<b>(38.3)</b>
Tax	520	705	(26.2)	216	140.7	737	1,120	(34.2)
<b>Adjusted net profit</b>	<b>1,437</b>	<b>2,020</b>	<b>(28.9)</b>	<b>618</b>	<b>132.6</b>	<b>2,055</b>	<b>3,401</b>	<b>(39.6)</b>
Extraordinary items	-	-	NA	-	NA	-	-	NA
<b>Net profit</b>	<b>1,437</b>	<b>2,020</b>	<b>(28.9)</b>	<b>618</b>	<b>132.6</b>	<b>2,055</b>	<b>3,401</b>	<b>(39.6)</b>
Equity capital (FV Rs 10)	499	499		499		499	499	
<b>Adj. EPS (INR)</b>	<b>2.9</b>	<b>4.0</b>	<b>(28.9)</b>	<b>1.2</b>	<b>132.6</b>	<b>4.1</b>	<b>6.8</b>	
<b>As % of net revenues</b>								
Raw material	61.6	62.1		68.9		64.9	63.4	
Staff expenses	6.5	4.8		8.3		7.3	5.3	
Other expenses	11.1	8.3		11.7		11.4	9.2	
EBITDA	20.8	24.8		11.2		16.5	22.1	
Net profit	15.9	18.0		8.5		12.6	16.1	

Source: Company, PL

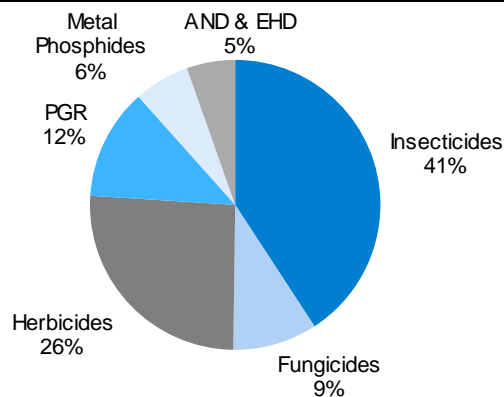
## Lower Contribution from Insecticides during 2QFY24; while herbicides contributed to 26% to revenues in 2QFY24

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



Source: Company, PL

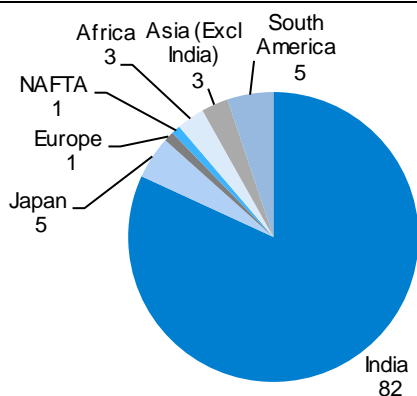
Exhibit 3: Category-wise Revenue break-up-2QFY24 (%)



Source: Company, PL

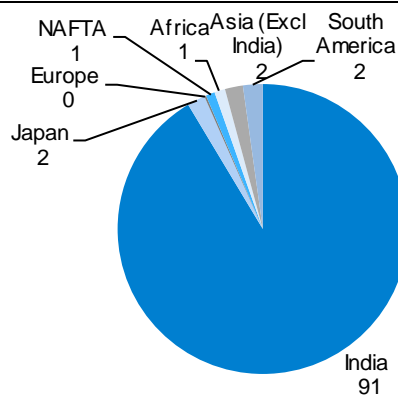
## All regions declined significantly; Europe/NAFTA/LATAM/Africa/Asia(Excl India) declined by 86%/20%/65%/69%/46% YoY

Exhibit 4: Region-wise Revenue Break-up- 2QFY23 (%)



Source: Company, PL

Exhibit 5: Region-wise Revenue Break-up-2QFY24 (%)



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>35,110</b>	<b>31,274</b>	<b>34,922</b>	<b>39,491</b>
YoY gr. (%)	14.7	(10.9)	11.7	13.1
Cost of Goods Sold	22,706	20,797	22,874	24,879
Gross Profit	8,265	10,477	12,048	14,612
Margin (%)	23.5	33.5	34.5	37.0
Employee Cost	2,184	1,876	1,886	2,606
Other Expenses	3,554	2,971	3,143	4,462
<b>EBITDA</b>	<b>6,666</b>	<b>5,629</b>	<b>7,019</b>	<b>7,543</b>
YoY gr. (%)	11.1	(15.6)	24.7	7.5
Margin (%)	19.0	18.0	20.1	19.1
Depreciation and Amortization	519	598	736	857
<b>EBIT</b>	<b>6,147</b>	<b>5,031</b>	<b>6,283</b>	<b>6,686</b>
Margin (%)	17.5	16.1	18.0	16.9
Net Interest	54	51	49	50
Other Income	449	583	729	875
<b>Profit Before Tax</b>	<b>6,542</b>	<b>5,563</b>	<b>6,963</b>	<b>7,511</b>
Margin (%)	18.6	17.8	19.9	19.0
Total Tax	1,520	1,391	1,741	1,953
Effective tax rate (%)	23.2	25.0	25.0	26.0
<b>Profit after tax</b>	<b>5,022</b>	<b>4,172</b>	<b>5,222</b>	<b>5,558</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>5,022</b>	<b>4,172</b>	<b>5,222</b>	<b>5,558</b>
YoY gr. (%)	18.6	(16.9)	25.2	6.4
Margin (%)	14.3	13.3	15.0	14.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,022</b>	<b>4,172</b>	<b>5,222</b>	<b>5,558</b>
YoY gr. (%)	18.6	(16.9)	25.2	6.4
Margin (%)	14.3	13.3	15.0	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,022	4,172	5,222	5,558
<b>Equity Shares O/s (m)</b>	<b>499</b>	<b>499</b>	<b>499</b>	<b>499</b>
<b>EPS (Rs)</b>	<b>10.1</b>	<b>8.4</b>	<b>10.5</b>	<b>11.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>6,886</b>	<b>8,886</b>	<b>10,886</b>	<b>12,636</b>
Tangibles	6,670	8,670	10,670	12,420
Intangibles	216	216	216	216
<b>Acc: Dep / Amortization</b>	<b>2,410</b>	<b>3,009</b>	<b>3,745</b>	<b>4,602</b>
Tangibles	2,410	3,009	3,745	4,602
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>4,475</b>	<b>5,877</b>	<b>7,141</b>	<b>8,034</b>
Tangibles	4,260	5,662	6,925	7,818
Intangibles	216	216	216	216
Capital Work In Progress	535	535	535	535
Goodwill	-	-	-	-
Non-Current Investments	1	1	1	1
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	2,388	2,388	2,388	2,388
Inventories	8,887	9,535	8,974	9,812
Trade receivables	9,461	9,425	10,524	11,901
Cash & Bank Balance	3,028	4,676	7,577	11,224
Other Current Assets	4,905	4,905	4,905	4,905
<b>Total Assets</b>	<b>33,691</b>	<b>37,353</b>	<b>42,056</b>	<b>48,812</b>
<b>Equity</b>				
Equity Share Capital	4,991	4,991	4,991	4,991
Other Equity	18,826	22,094	26,412	31,065
<b>Total Network</b>	<b>23,818</b>	<b>27,086</b>	<b>31,403</b>	<b>36,057</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	177	-	-	-
Trade payables	4,906	5,959	5,982	6,542
Other current liabilities	4,790	4,308	4,670	6,213
<b>Total Equity &amp; Liabilities</b>	<b>33,691</b>	<b>37,353</b>	<b>42,056</b>	<b>48,812</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	6,542	4,980	6,234	6,636
Add. Depreciation	519	598	736	857
Add. Interest	54	51	49	50
Less Financial Other Income	449	583	729	875
Add. Other	(188)	583	729	875
Op. profit before WC changes	6,927	6,212	7,748	8,417
Net Changes-WC	(1,352)	(41)	(153)	(113)
Direct tax	(1,681)	(1,391)	(1,741)	(1,953)
<b>Net cash from Op. activities</b>	<b>3,894</b>	<b>4,781</b>	<b>5,855</b>	<b>6,351</b>
Capital expenditures	(1,195)	(2,000)	(2,000)	(1,750)
Interest / Dividend Income	-	-	-	-
Others	(2,077)	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(3,272)</b>	<b>(2,000)</b>	<b>(2,000)</b>	<b>(1,750)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	-	(177)	-	-
Dividend paid	(499)	(904)	(904)	(904)
Interest paid	(226)	(51)	(49)	(50)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(725)</b>	<b>(1,133)</b>	<b>(953)</b>	<b>(954)</b>
<b>Net change in cash</b>	<b>(104)</b>	<b>1,647</b>	<b>2,902</b>	<b>3,647</b>
Free Cash Flow	2,698	2,781	3,855	4,601

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	10.1	8.4	10.5	11.1
CEPS	11.1	9.6	11.9	12.9
BVPS	47.7	54.3	62.9	72.2
FCF	5.4	5.6	7.7	9.2
DPS	1.2	1.5	1.5	1.5
<b>Return Ratio(%)</b>				
RoCE	28.3	19.7	21.5	19.8
ROIC	28.9	20.4	24.4	24.6
RoE	23.3	16.4	17.9	16.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	140	152	141	140
<b>Valuation(x)</b>				
PER	37.9	45.6	36.5	34.3
P/B	8.0	7.0	6.1	5.3
P/CEPS	34.4	39.9	32.0	29.7
EV/EBITDA	27.8	32.6	25.7	23.4
EV/Sales	5.3	5.9	5.2	4.5
Dividend Yield (%)	0.3	0.4	0.4	0.4

Source: Company Data, PL Research

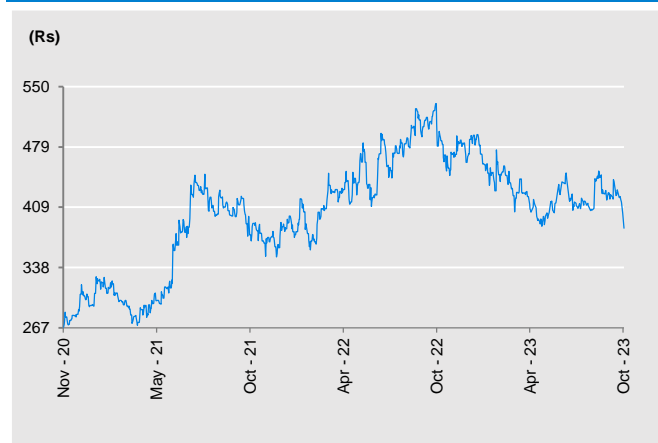
## Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>7,530</b>	<b>6,516</b>	<b>7,242</b>	<b>9,035</b>
YoY gr. (%)	6.5	(1.9)	(26.5)	(19.5)
Raw Material Expenses	4,873	4,474	4,989	5,569
Gross Profit	2,657	2,042	2,254	3,465
Margin (%)	35.3	31.3	31.1	38.4
<b>EBITDA</b>	<b>1,204</b>	<b>806</b>	<b>808</b>	<b>1,881</b>
YoY gr. (%)	(5.0)	(26.0)	(56.9)	(32.4)
Margin (%)	16.0	12.4	11.2	20.8
Depreciation / Depletion	114	140	135	158
<b>EBIT</b>	<b>1,090</b>	<b>665</b>	<b>672</b>	<b>1,723</b>
Margin (%)	14.5	10.2	9.3	19.1
Net Interest	13	14	13	12
Other Income	132	165	175	247
<b>Profit before Tax</b>	<b>1,209</b>	<b>816</b>	<b>834</b>	<b>1,957</b>
Margin (%)	16.1	12.5	11.5	21.7
Total Tax	304	95	216	520
Effective tax rate (%)	25.2	11.6	25.9	26.6
<b>Profit after Tax</b>	<b>905</b>	<b>721</b>	<b>618</b>	<b>1,437</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>905</b>	<b>721</b>	<b>618</b>	<b>1,437</b>
YoY gr. (%)	(7.5)	(3.4)	(55.3)	(28.9)
Margin (%)	12.0	11.1	8.5	15.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>905</b>	<b>721</b>	<b>618</b>	<b>1,437</b>
YoY gr. (%)	(7.5)	(3.4)	(55.3)	(28.9)
Margin (%)	12.0	11.1	8.5	15.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>905</b>	<b>721</b>	<b>618</b>	<b>1,437</b>
Avg. Shares O/s (m)	499	499	499	499
<b>EPS (Rs)</b>	<b>1.8</b>	<b>1.4</b>	<b>1.2</b>	<b>2.9</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	BUY	500	438
2	01-Aug-23	BUY	500	413
3	06-Jul-23	BUY	550	449
4	19-May-23	BUY	550	386
5	11-Apr-23	BUY	590	428
6	06-Feb-23	BUY	590	434
7	05-Jan-23	BUY	610	490

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Hold	472	489
2	Bayer Cropscience	Accumulate	4,720	5,270
3	Bharat Petroleum Corporation	Hold	365	347
4	Bharti Airtel	Accumulate	936	926
5	Clean Science and Technology	Hold	1,418	1,410
6	Deepak Nitrite	Reduce	1,854	2,125
7	Dhanuka Agritech	BUY	950	854
8	Fine Organic Industries	Hold	4,710	4,921
9	GAIL (India)	BUY	136	125
10	Godrej Agrovet	Hold	420	515
11	Gujarat Fluorochemicals	Accumulate	3,230	2,846
12	Gujarat Gas	Accumulate	480	425
13	Gujarat State Petronet	BUY	327	290
14	Hindustan Petroleum Corporation	Hold	263	258
15	Indian Oil Corporation	Hold	97	90
16	Indraprastha Gas	Hold	539	460
17	Insecticides India	Accumulate	550	514
18	Jubilant Ingrevia	Hold	462	484
19	Laxmi Organic Industries	Reduce	220	254
20	Mahanagar Gas	Hold	1,065	1,015
21	Manglore Refinery & Petrochemicals	Hold	94	96
22	Navin Fluorine International	Accumulate	4,128	3,719
23	NOCIL	Hold	228	226
24	Oil & Natural Gas Corporation	BUY	202	181
25	Oil India	BUY	341	296
26	P.I. Industries	BUY	4,850	3,421
27	Petronet LNG	Hold	208	202
28	Rallis India	Reduce	190	217
29	Reliance Industries	BUY	2,618	2,266

## 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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