



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	■	↑	■

Company details

Market cap:	Rs. 22,412 cr
52-week high/low:	Rs. 482/336
NSE volume: (No of shares)	5.3 lakh
BSE code:	542920
NSE code:	SUMICHEM
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	75.0
FII	2.6
DII	6.0
Others	16.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	17.2	15.1	12.8
Relative to Sensex	9.3	14.0	1.2	-7.5

Sharekhan Research, Bloomberg

Sumitomo Chemical India Ltd

Favorable outlook; upgrade to buy

Agri Chem

Sharekhan code: SUMICHEM

Reco/View: Buy



CMP: Rs. 449

Price Target: Rs. 550



Upgrade



Maintain



Downgrade

Summary

- Company reported a revenue of Rs. 674 crore (up 3.5% y-o-y and 24.4% q-o-q), in line with expectations. Operating margin at 20.8% (up 840 bps y-o-y) was far ahead than expectations of 16.2%. The margin beat was led by high gross margins as the company had liquidated all the high cost inventory by Q2. PAT of Rs. 110 crore was up 52% y-o-y.
- This year's domestic performance was affected by below normal monsoons and low reservoir levels. Export sales were impacted due to the low demand, pricing pressure and inventory de-stocking.
- Management expects domestic demand to start normalizing in the coming year, which would improve product realization and support domestic sales. Overall, company expects volume growth of 12-15% in FY25.
- Improvement in the domestic demand on the back of normal monsoon forecast, ramp-up of already completed capex and increase in margins bodes well for the company. We have increased both our FY25/26 earnings estimates by 17%. Hence, we revise our rating to Buy from Hold on SCIL with a PT of Rs550.

Q4FY2024 performance was good with consolidated revenue at Rs. 674 crore (up 3.5% y-o-y and 24.4% q-o-q). Operating profit margin of 20.8% (up 840 bps y-o-y) was a huge beat because of gross margins of 41.7% (up 1060 bps y-o-y). Company had liquidated all the high cost inventory in an aggressive manner by Q2, which has resulted in a benefit in the gross margin now. Consequently, Operating profit of Rs. 140 crore was up 73% y-o-y. Consolidated PAT of Rs. 110 crore was up 52% y-o-y, better than expectations of Rs. 82 crore due to margins.

Key positives

- Gross margins rose to 41.7% in the quarter vs 31.1% in Q4FY23.

Key negatives

- Tarapur plant is yet to ramp-up because of the slowdown in the global market.

Management Commentary

- The sector faced challenges throughout the year. Domestic demand was affected by a bad monsoon and the subsequent low reservoir levels. Export demand was impacted by poor demand, price pressure and inventory destocking.
- Company expects domestic demand to improve in FY25 (80% of revenue) on the back of normal forecast of monsoon. Overall, company aims to grow volume by 12-15% in the coming year.
- Company reported good gross margins due to liquidation of high-cost inventory which was completed earlier. It can sustain the current gross margins level (41.7%)
- One round of capex of Rs. 120 crore has been completed and it can bring in Rs. 250-300 crore of revenue. Now, company is looking to do a capex of Rs. 250 crore.
- The Bhavnagar facility was operating at 50% capacity in FY24. Aim to ramp-up to full capacity in the coming year. Tarapur factory will take time to increase sales and company has applied for environmental clearance for the Dahej facility.

Revision in estimates – We have increased our FY25-26 earnings estimate to factor in the higher margins and improved operating performance.

Our Call

Valuation – Revise to Buy with a PT of Rs. 550: Domestic demand is going to improve with the forecast of a normal monsoon. Company has given a volume growth guidance of 12-15%. Improvement in domestic demand, ramp-up of previous capex and increase in gross margin bodes well for the earnings growth of the company. We have increased our FY25/26 earnings estimate by 17%. Hence, we revise our rating to Buy from Hold with a PT of Rs. 550. At CMP, the stock trades at 41x/32x of FY25/26 earnings estimate, which is lower than the historic valuations.

Key Risks

- Adverse weather conditions can impact the demand.
- A delay in raw-material supply from China and unfavorable variation in their prices.

Valuation (Consolidated)

	Rs cr				
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue	3,065	3,511	2,844	3,327	3,893
OPM (%)	19.6	19.0	16.7	20.4	21.8
Adjusted PAT	424	502	370	544	692
% YoY growth	22.6	18.6	-26.4	47.0	27.2
Adjusted EPS (Rs.)	8.5	10.1	7.4	10.9	13.9
P/E (x)	52.9	44.6	60.6	41.2	32.4
P/B (x)	11.6	9.4	9.2	7.8	6.5
EV/EBITDA (x)	37.2	33.2	46.8	32.2	25.2
RoNW (%)	24.4	23.3	15.3	20.4	21.8
RoCE (%)	33.0	30.1	20.7	27.0	28.9

Source: Company; Sharekhan estimates

Earnings call summary:

Macro environment: The agrochemical sector faced several extraordinary challenges, both globally and in India. This includes adverse weather conditions, poor demand, inventory reductions, downward price trends, supply chain disruptions, and above all, compounded by various geopolitical situations. Company expects the situation to normalize in the short term with recovery in key markets like Latam and above normal rainfall prediction in India.

Revenue: Barrix acquisition was fully consolidated from December 15 with a revenue of Rs. 10-12 cr in the quarter. Overall domestic sales stood at 80% of revenue and rest comprised exports. Lower-than-average rainfall had affected the domestic business this year, there was both price and volume reductions. Exports declined due to substantial pricing pressure, destocking by global manufacturers and elevated energy level. Prices have dropped 25% in the last year. There was a significant pricing decline in the generic portfolio while in specialty there was a 2% price decline. Volume decrease in specialty chemicals was 8-9%. Overall, company is looking to grow volumes by 12-15% in FY25. In FY24, insecticides contributed 41% to revenues, while herbicides, plant growth regulators and fungicides contributed 22%, 10% and 8% respectively.

Margins: Company liquidated all high-cost inventory in a short period of time. Margins increased in the quarter on account of better cost management, increased operational efficiency and higher gross margin. Gross margins will be maintained at current level. Due to the green power the company is going to put up, there will be savings of 1.5-2 crore unit and at Rs. 4/unit, savings would be at Rs. 6-8 crore.

New launches: Company launched three herbicides, 1 insecticide and 2 fungicides in FY24, will focus on sales ramp-up in coming quarters. It is having preliminary discussions with the parent with regards to opportunity in electronic chemicals space in India.

Capex: Company had done a Rs. 120 crore capex recently and expecting Rs. 250-300 crore revenue from it in 1-2 years. New capex cycle will be of Rs 250-300 crore. Maintenance capex will be worth Rs. 53 crore in FY25. Bhavnagar plant is producing at 40-50% capacity and it is exported. Expecting full 100% utilization this year. Tarapur plant is ready for commercial production but it won't be ramped up this year due to the weak demand situation. The facility is only for exports to affiliate companies. For the Dahej plant, company has submitted application for environmental clearance. It will take 18 months to ramp up after the clearance is received in December.

Forex: There won't be any impact of the Yen's depreciation as all purchase transactions are in INR and selling is US Dollar denominated.

Results (Consolidated)

	Rs cr				
Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Net Sales	674	652	3.5	542	24.4
Total Expenditure	534	571	-6.4	476	12.1
Operating profit	140	81	73.3	66	112.9
Other Income	27	17	61.4	27	-0.6
Interest	1	1	-6.7	1	6.8
Depreciation	17	14	19.0	16	3.6
PBT	149	82	81.6	75	97.5
Tax	39	9	309.7	21	88.6
PAT	110	72	51.7	55	100.9
Equity Cap (cr)	50	50		50	
EPS (Rs)	2.2	1.5	51.7	1.1	100.9
Margins(%)			BPS		BPS
OPM	20.8	12.4	837.9	12.1	864.5
NPM	16.3	11.1	518.6	10.1	621.2
Tax rate	26.1	11.6	1454.9	27.4	-124.0

Source: Company, Sharekhan Research

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 [the 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 see a 7-8% growth annually on a sustained basis in the next few years. Moreover, international markets such as Latin America would continue to grow at a robust pace, supported by higher demand for crop protection and farm solutions mitigating slower growth in the U.S. and Europe.

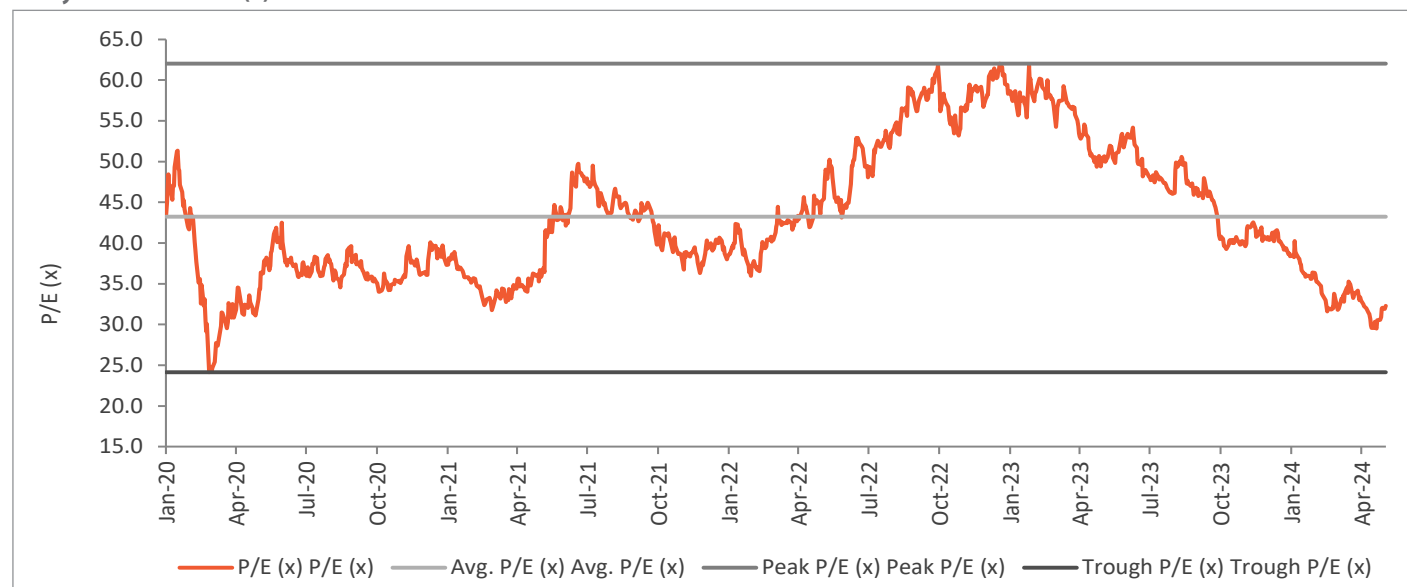
■ Company outlook - Near-term concerns; long term intact given massive CRAMS opportunity

High channel inventory and pricing pressure given rising Chinese supplies makes growth challenging in the exports segment. Having said that, SCIL's long term growth outlook remain intact as new product launches would drive market share in domestic market and exports have large growth potential supported by massive CRAMS opportunity from the parent company. We expect FY24-26 PAT to grow by 37% y-o-y to Rs. 447 crore due to good growth from domestic market and margin expansion.

■ Valuation - Revise to Buy with a PT of Rs. 550

Domestic demand is going to improve with the forecast of a normal monsoon. Company has given a volume growth guidance of 12-15%. Improvement in domestic demand, ramp-up of previous capex and increase in gross margin bodes well for the earnings growth of the company. We have increased our FY25/26 earnings estimate by 17%. Hence, we revise our rating to Buy from Hold with a PT of Rs. 550. At CMP, the stock trades at 41x/32x of FY25/26 earnings estimate, which is lower than the historic valuations.

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 U.S.-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 the parent would support medium to long-term growth for SCIL..

Key Risks

1) Adverse weather conditions can impact the demand. 2) A delay in raw-material supply from China and unfavorable variation in their prices.

Additional Data

Key management personnel

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

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	1.42
2	ICICI Prudential Asset Management	0.94
3	Vanguard Group Inc/The	0.93
4	360 ONE Asset Management Ltd	0.83
5	Axis Asset Management Co Ltd/India	0.66
6	BlackRock Inc	0.43
7	L&T Mutual Fund Trustee Ltd/India	0.42
8	PGIM India Asset Management Pvt Lt	0.32
9	Aditya Birla Sun Life Asset Manage	0.3
10	Tata Asset Management Pvt Ltd	0.27

Source: Bloomberg

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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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