



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	✓	↔	✓

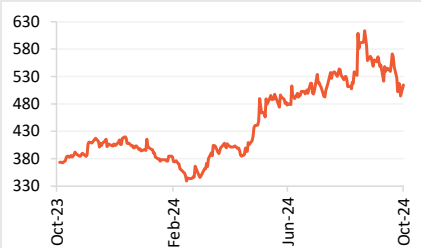
Company details

Market cap:	Rs. 27,603 cr
52-week high/low:	Rs. 628/336
NSE volume: (No of shares)	31.15 lakh
BSE code:	542920
NSE code:	SUMICHEM
Free float: (No of shares)	12.5 cr

Shareholding (%)

Promoters	75.0
FII	3.5
DII	7.0
Others	14.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.2	-3.6	27.2	34.9
Relative to Sensex	-1.7	-2.0	18.7	10.1

Sharekhan Research, Bloomberg

Sumitomo Chemical India Ltd

Margins rebound to levels last seen two years ago

Agri Chem

Sharekhan code: SUMICHEM

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 553

Price Target: Rs. 659



Downgrade

Summary

- Sumitomo's reported revenue of Rs. 988 crore, marking a 9% increase compared to the same period last year and an 18% rise from the previous quarter, exceeding our projections by 5%.
- EBITDA stood at Rs. 245 crore, up 31% y-o-y and 52% q-o-q, surpassing our estimates by 30%.
- PAT stood at Rs. 67 crore, up 29% y-o-y and 51% q-o-q.
- Improved domestic demand on account of good monsoon, ramp-up of already completed capex, and increased margins bodes well for the company. We have increased our FY2025/FY2026 earnings estimates and have introduced FY2027 estimates. Hence, we have revised our PT to Rs. 659.

During Q2FY2025, Sumitomo reported revenue of Rs. 988 crore, up 9% y-o-y and 18% q-o-q, exceeding estimates by 5%. EBITDA reached Rs. 245 crore, reflecting a 31% y-o-y increase and a 52% q-o-q rise, surpassing projections by 30%. PAT stood at Rs. 67 crore, marking a 29% y-o-y increase and a 51% q-o-q rise. Despite lower volume growth, the company focused on maintaining profitability by closely monitoring and optimising purchase and sales prices to protect margins. This strategic emphasis on margins led to a gross profit margin improvement of 421 bps y-o-y, reaching 42.6%, driven by a focus on high-margin new products, normalisation of export markets, and effective cost management in procurement. Employee and operating expenses remained stable, allowing the increased gross profit to translate directly into higher profitability.

Key positives

- From June to September 2024, the figure was 107.6% of its long-term average, marking the highest level since 2020.
- The company's new products, including Meshi, Ormie, and Portion, drove a 65% increase compared to the same period last year.
- Strong sales recoveries were observed in key regions, including Japan and South America.

Key negatives

- Unpredictable weather patterns, especially irregular and excessive rainfall, disrupted the application of agrochemical products.
- Cotton acreage experienced a notable decline of nearly 40% in Northern India, further worsened by an infestation of pink bollworm.

Management Commentary

- Sumitomo anticipates ongoing volume growth; however, prices may remain stable.
- The company anticipates export growth will outpace domestic growth due to a low base from last year.
- The company anticipates that the Bhavnagar plant will achieve full production and commercialisation this year.
- The company strives to achieve an EBITDA level of 18-20% annually.

Revision of estimates: We have increased our FY2025-FY2026 earnings estimates to factor in higher margins and improved operating performance and have introduced estimates for FY2027.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 659: Domestic demand is showing signs of improvement with better monsoon in August and September, improved domestic demand, and ramp-up of previous capex. We have increased our FY2025/FY2026 earnings estimates and have introduced FY2027 estimates. Hence, we have revised our PT to Rs. 659. At the CMP, the stock trades at 49x/40x its FY2026/FY2027 earnings estimates, which is lower than its historic valuations.

Key Risks

- Adverse weather conditions can impact demand.
- Any delay in raw-material supply from China and unfavourable price variation.

Valuation (Consolidated)

Particulars	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	3511	2844	3271	3925	4710
OPM (%)	19%	17%	19%	20%	21%
Adjusted PAT	502	370	444	566	700
YoY growth	19%	-26%	20%	28%	24%
Adjusted EPS (Rs.)	10.06	7.41	8.89	11.34	14.02
P/E	55x	75x	62x	49x	40x
P/BV	12x	11x	10x	8x	7x
EV/EBITDA	41x	58x	44x	35x	28x
RoCE (%)	27.1%	20.2%	20.8%	22.6%	23.6%
ROE (%)	21.1%	15.1%	15.7%	17.0%	17.7%

Source: Company; Sharekhan estimates

Q2FY2025 Concall Highlights

- ◆ Gross profit margin increased by 421 bps y-o-y to 42.6%, fuelled by the launch of new products, stabilisation of export markets, and effective cost optimisation in procurement.
- ◆ The company is optimistic about its sustainable input costs and expects selling prices to remain stable during the Rabi season, leading to improved margins compared to historical levels.
- ◆ The company expects input costs to remain stable in H2FY2025 as well.
- ◆ While inventory overhang in export markets posed a challenge last year, the situation has significantly improved.
- ◆ The company plans to invest approximately Rs. 300 crore in capital expenditure in a phased approach, potentially increasing it to Rs. 600-700 crore for full site development.
- ◆ The company recognised the excess capacity in China and noted that Chinese suppliers continue to supply to the market based on current conditions.
- ◆ In the first half of the year, the company launched six new products and obtained EC clearance for all of them without any specific conditions.
- ◆ The company has experienced 65% growth in its overall new product portfolio, which includes offerings like dry basic copper and bromalin – both introduced last year.

Results (Consolidated)

					Rs cr
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	988	903	9%	839	18%
Total Expenditure	743	716	4%	678	10%
Operating profit	245	188	31%	161	52%
Other Income	31	25	27%	26	20%
Interest	1	1	-2%	1	3%
Depreciation	16	16	0%	15	36%
PBT	260	195	33%	171	52%
Tax	67	52	29%	44	51%
Adjusted PAT	181	143	26%	127	43%
EPS (Rs.)	3.85	2.87		2.54	
Margins (%)			BPS		BPS
OPM	25%	21%	402bps	19%	561bps
NPM	18%	16%	248bps	15%	325bps
Tax rate	26%	27%	-80bps	26%	-11bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Declining margins and global market pressures

Agrochemical companies are facing significant challenges, as demonstrated by a decline in operating margins to 12.23% in FY2024. This downturn can be attributed to several factors, including the El Niño phenomenon disrupting weather patterns and crop yields, global destocking leading to oversupply and pricing pressure, and high-cost inventory. Additionally, substantial rebates to stimulate export demand—especially from Latin America, North America, and Europe—have created further difficulties due to subdued demand and ongoing destocking by major industry players. With approximately 55% to 60% of India's agrochemical exports directed towards Latin American and U.S. markets, the industry is particularly vulnerable. The situation is exacerbated by a surge in supply from China following the end of its zero-COVID policy, which has increased competition with expanded capacities for key generic molecules. While destocking appears to be nearing its lowest point, a rebound in demand and price stability is anticipated in FY2025.

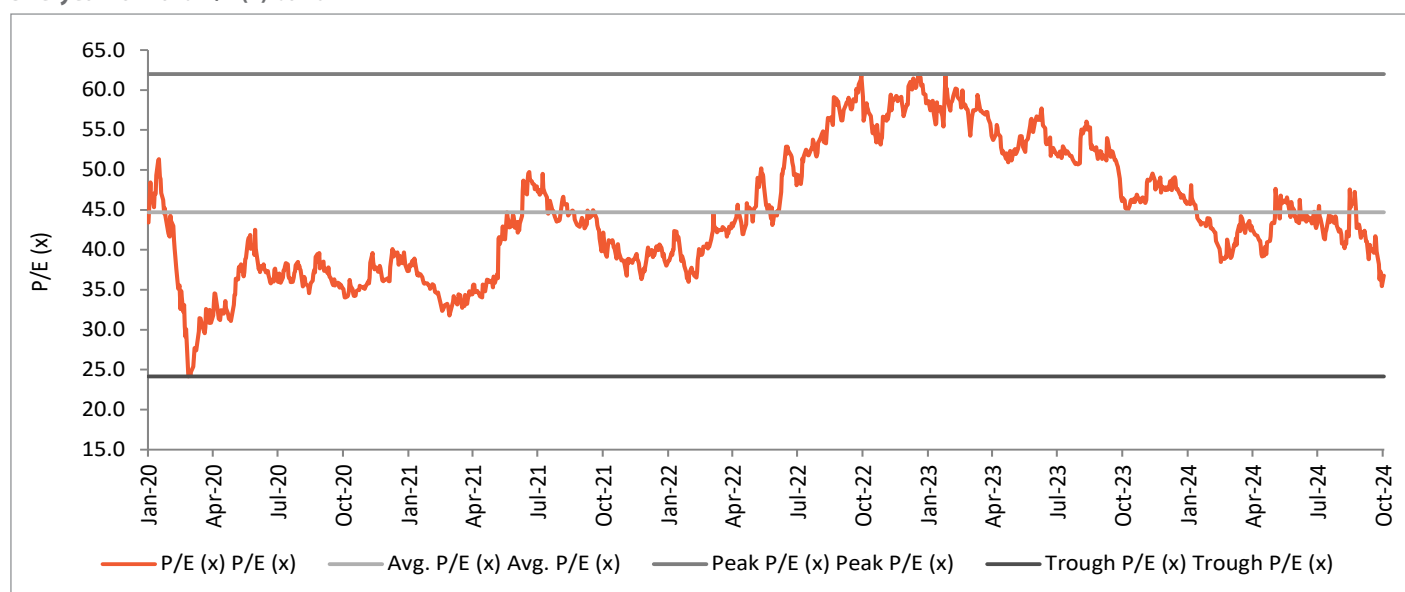
■ Company outlook - Near-term concerns getting resolved; long-term intact given massive CRAMs opportunity

High channel inventory and pricing pressure, given rising Chinese supplies, makes growth challenging in the exports segment. The company's long-term growth outlook remains intact as new product launches would drive market share in the domestic market and exports have a large growth potential supported by massive CRAMs opportunity from the parent. We expect FY2024-FY2026 PAT to grow by 58% to Rs. 584 crore due to good growth from the domestic market and margin expansion.

■ Valuation – Maintain Buy with a revised PT of Rs. 659

Domestic demand is showing signs of improvement with better monsoon in August and September, improved domestic demand, and ramp-up of previous capex. We have increased our FY2025/FY2026 earnings estimates and have introduced FY2027 estimates. Hence, we have revised our PT to Rs. 659. At the CMP, the stock trades at 49x/40x its FY2026/FY2027 earnings estimates, which is lower than its historic valuations.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Sumitomo 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. The company 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 an indigenous R&D facility.

Investment theme

A 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 a 100% generic portfolio in the crop protection market along with backward integration of a few technical) bodes well for the industry-leading revenue growth of Sumitomo. Cost synergies in terms of reduction in imported raw material (post ECCL's merger) would drive strong margin expansion. Additionally, the company derives multiple benefits from its parent's R&D capabilities and global presence. CRAMS from the parent would support the company's medium to long-term growth.

Key Risks

1) Adverse weather conditions can impact demand. 2) Any delay in raw-material supply from China and unfavourable price variation.

Additional Data

Key management personnel

Chetan Shantilal Shah	Managing Director
Suresh Ramachandran	Deputy Managing Director
Sushil Champaklal Marfatia	Whole Time Director
Anil Nawal	CFO

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Plutus Wealth Management LLP	1.18
2	The Vanguard Group Inc.	0.97
3	L&T Mutual Fund Trustee Ltd. (India)	0.94
4	360 ONE Asset Management Ltd.	0.87
5	Axis Asset Management Co Ltd. (India)	0.69
6	Aditya Birla Sun Life Asset Manage	0.65
7	IDFC Mutual Fund/India	0.48
8	PGIM India Asset Management Pvt. Ltd.	0.44
9	Blackrock Inc.	0.4
10	Union Mutual Fund/India	0.28

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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