



Worst behind; Green shoots few quarters away

Domestic revenue was affected due to delayed monsoon in the south region & lower reservoir level. Rabi acreage was also lower on YoY basis leading to delayed sowing. Exports saw a pain but management is confident of exports recovering back from 4QFY24. Supply to SCC Japan is expected to resume in 4QFY24 & some revenue shall be booked this fiscal year (Our estimate suggests : Rs.500 Mn). Also export to LATAM is expected to be positive going forward owing to seasonality in export market & demand recovery is expected to be strong.

Molecules for Rs.3bn capex will be approved post environmental clearance & feasibility study in calendar year 2024. SCIL has launched 6 new products in 9MFY24 & expected to launch several 9(3) molecules in upcoming year.

Looking at poor sowing in rabi season with lower reservoir levels we believe FY24 could be a wash out. However, export demand is picking up gradually. Gross margin expansion of ~450 bps in 3QFY24 over 3QFY23 is 1st step towards reversal & EBITDA margins are expected to reach company average once volume picks leading to better operating leverage. All agrochemical companies are maintaining short inventory cycles to manage prices better. FY25 will be key to watch out as SCIL's product launches should gain traction in domestic market & export recovery is expected over the next few quarters. However, this slow recovery keeps the EPS for FY26e to similar levels which was largely baked in our model.

With EPS growth of ~7% over FY23-26e we expect historical multiple to moderate in the range of 25-30x compared to 45-60x when EPS CAGR was closer to 30%+ as commanded by MNC companies in downturn cycle.

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net sales	26,449	30,612	35,110	27,373	36,552	44,241
EBIDTA	4,869	5,999	6,666	4,390	6,836	8,737
Margins	18.4	19.6	19.0	16.0	18.7	19.7
PAT (adj)	3,453	4,236	5,022	3,463	5,127	6,489
Growth (%)	68.8	22.6	18.6	-31.0	48.0	26.6
EPS	6.92	8.49	10.06	6.94	10.27	13.00
P/E (x)	58	47	40	58	39	31
P/B (x)	13	10	8	7	6	5
EV/EBITDA (x)	40	33	29	43	28	22
RoE (%)	25	24	23	14	18	19
ROCE (%)	33	34	31	19	24	26
RoIC (%)	35	29	28	20	24	26

Source: Company, Dalal & Broacha Research

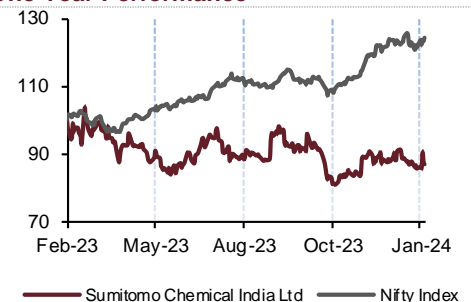
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	455	14

Market data

Current price	Rs	400
Market Cap (Rs.Bn)	(Rs Bn)	200
Market Cap (US\$ Mn)	(US\$ Mn)	2,406
Face Value	Rs	10
52 Weeks High/Low	Rs	482 / 371
Average Daily Volume	('000)	467
BSE Code		542920
Bloomberg		SUMICHEM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-23	Sep-23
Promoters	75	75
Public	25	25
Total	100	100

Source: Bloomberg

Key Risks :

- Product Ban
- Effect of low or erratic rainfall
- Change in government policies
- Parent having delisted subsidiary companies in past

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Valuation :

At CMP of Rs.400 stock trades at 31x FY26e EPS of Rs.13. We value company at 35x FY26e EPS arriving at a target price of Rs.455 & we have a "ACCUMULATE" rating on the stock.

Key financial highlights

- Revenue at INR 5,420 Mn, -28% YoY / -40% QoQ
- EBITDA (Excl OI) at INR 658 Mn, -45% YoY / -65% QoQ
- EBITDA margin (Excl OI) at 12.1% vs 16.0% / 20.8% in 3QFY23 / 2QFY24
- PAT at INR 571 Mn, -37% YoY / -62% QoQ
- EPS stood at INR 1.1 vs 1.81 / 2.87 in 3QFY23 / 2QFY24

Quarterly Financials

(Rs.Mn)	3QFY24	3QFY23	YoY Growth (%)	2QFY24	QoQ Growth (%)
Revenue from Operations	5,420	7,530	-28%	9,035	-40%
Other Income	269	132	104%	246	9%
Total RM Cost	3,265	4,873	-33%	5,569	-41%
Employee Benefits Expense	539	523	3%	589	-8%
Other Expenses	958	929	3%	997	-4%
Total Expenses	4,762	6,326	-25%	7,155	-33%
EBITDA (Excluding Other Income)	658	1,204	-45%	1,879	-65%
Depreciation and Amortisation Expenses	161	114	41%	158	2%
EBIT / PBIT	766	1,222	-37%	1,967	-61%
Finance Costs	12	13	-7%	12	-2%
EBT/ PBT	754	1,209	-38%	1,955	-61%
Tax Expense	183	304	-40%	487	-62%
Net Profit after Tax	571	905	-37%	1,468	-61%
Adj Earning Per Share	1.10	1.81	-40%	2.87	-62%
Margins (%)			(In bps)		(In bps)
Gross Margins	39.8%	35.3%	447	38.4%	140
EBITDA Margins (Excl Other Income)	12.1%	16.0%	-385	20.8%	-866
PAT Margins	9.6%	11.8%	-219	15.5%	-584
As a % to sales					
RM as a % to sales	60.2%	64.7%		61.6%	
EE Cost as a % to sales	9.9%	7.0%		6.5%	
Other exps as a % to sales	17.7%	12.3%		11.0%	

Source: Dalal & Broacha Research

Key Pointers

- Reservoir level @ 63% of live capacity as on 14th Dec 2023 (vs 79% LY / vs 68% for 10 Yr Long term average)
- Broad based lower reservoir levels of their live capacity on YoY basis [South @ 42% vs 79% ; Western @ 77% vs 86% ; Central region @ 73% vs 81%]
- Rabi Sowing @ 5.1% lower compared to previous year
- Supply to SCC Japan has started in expected to generate some revenue in 4QFY24 [Target commercialization over next 1 year ; Capex : Rs.1.2 bn & Revenue potential : Rs.2-2.5 bn p.a.]
- Capex for next phase of Rs.3bn will be approved by board once the receive environmental clearance & feasibility results. We believe even if newer molecules get approved from SCC Japan that would result in capex over FY26 & revenues will reflect in FY27
- Near term recovery is possible from [1] Speciality products scaling in domestic market [2] Supplies to SCC Japan for 5 molecules & [3] Incremental supplies to LATAM

Launches

- 9MFY24 : 6 Products
- Next Year : Company plans to launch several unique 9(3) molecules for domestic market

Management commentary on key points [As mentioned in investor PPT]

- Management expects domestic agrochemical demand to start normalizing from 4QFY24 based on improving realisations & demand normalisation with a key assumption of normal monsoon
- Export demand is also expected to revive from expected re-stocking by global players following the onset of cropping season in key export destinations (the LATAM, USA and Europe)

Valuation & Outlook

Looking at poor sowing in rabi season with lower reservoir levels we believe FY24 could be a wash out. However, export demand is picking up gradually. Gross margin expansion of ~450 bps in 3QFY24 over 3QFY23 is 1st step towards reversal & EBITDA margins are expected to reach company average once volume picks leading to better operating leverage. All agrochemical companies are maintaining short inventory cycles to manage prices better. FY25 will be key to watch out as SCIL's product launches should gain traction in domestic market & export recovery is expected over the next few quarters. However, this slow recovery keeps the EPS for FY26e to similar levels which was largely baked in our model.

With EPS growth of ~7% over FY23-26e we expect historical multiple to moderate in the range of 25-30x compared to 45-60x when EPS CAGR was closer to 30%+ as commanded by MNC companies in downturn cycle.

Valuation : At CMP of Rs.400 stock trades at 31x FY26e EPS of Rs.13. We value company at 35x FY26e EPS arriving at a target price of Rs.455 & we have a "ACCUMULATE" rating on the stock.

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net Sales	26,449	30,612	35,110	27,373	36,552	44,241
Operating Expenses	-16,554	-19,080	-22,706	-17,382	-23,210	-27,960
Employee Cost	-1,943	-2,020	-2,184	-2,454	-2,667	-2,898
Other Expenses	-3,084	-3,513	-3,554	-3,148	-3,838	-4,645
Operating Profit	4,869	5,999	6,666	4,390	6,836	8,737
Depreciation	-466	-448	-519	-612	-679	-752
PBIT	4,403	5,551	6,147	3,777	6,157	7,985
Other income	186	268	449	912	763	762
Interest	-56	-62	-54	-59	-65	-72
PBT	4,533	5,757	6,542	4,630	6,855	8,676
Profit before tax	4,533	5,757	6,542	4,630	6,855	8,676
Provision for tax	-1,079	-1,522	-1,520	-1,167	-1,727	-2,186
Profit & Loss from	-	-	-	-	-	-
Reported PAT	3,454	4,235	5,022	3,463	5,127	6,489
MI	-1	0	-	-	-	-
Owners PAT	3,453	4,236	5,022	3,463	5,127	6,489
Adjusted Profit	3,453	4,236	5,022	3,463	5,127	6,489

Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Equity capital	4,991	4,991	4,991	4,991	4,991	4,991
Reserves	10,421	14,281	18,826	21,874	26,232	31,748
Net worth	15,412	19,272	23,818	26,866	31,224	36,740
MI	1	0	0	0	0	0
Non Current Liabilities	669	738	702	762	831	910
Current Liabilities	10,637	10,086	9,172	7,788	10,197	12,186
TOTAL LIABILITIES	26,719	30,096	33,691	35,416	42,253	49,836
Non Current Assets	3,676	4,876	5,812	6,130	7,198	8,404
Fixed Assets	2,925	3,892	4,678	4,949	6,033	7,077
Right of Use Assets	311	364	332	381	439	505
Financial Assets	53	301	359	352	275	367
Deferred Tax Asset	204	216	349	349	349	349
Advances	8	8	6	6	6	6
Assets	176	95	87	91	96	101
Current Assets	23,044	25,220	27,879	29,286	35,055	41,432
Current investments	2,902	3,560	2,388	2,555	2,734	2,925
Inventories	7,544	9,378	8,887	8,334	11,128	13,406
Trade Receivables	8,482	8,431	9,461	7,499	10,014	12,121
Cash and Bank Balances	2,421	791	3,028	6,949	6,863	8,356
Advances	23	5	5	5	5	5
Other Financial Assets	169	1,745	2,849	2,849	2,849	2,849
Other Current Assets	1,503	1,310	1,261	1,095	1,462	1,770
TOTAL ASSETS	26,719	30,096	33,691	35,416	42,253	49,836

Cashflow (Rs mn)	FY21	FY22	FY23	FY24e	FY25e	FY26e
Net Profit	3,453	4,236	5,022	3,463	5,127	6,489
Add: Dep. & Amort.	466	448	519	612	679	752
Cash profits	3,919	4,684	5,541	4,076	5,807	7,241
(Inc)/Dec in						
-Sundry debtors	15	51	-1,029	1,961	-2,515	-2,107
-Inventories	-1,664	-1,834	491	553	-2,794	-2,277
-Loans/advances	-441	-1,209	-1,182	162	-372	-312
-Current Liab and Provisions	2,441	-620	-912	-1,372	2,421	2,002
Change in working capital	352	-3,612	-2,633	1,304	-3,260	-2,695
CF from Oper. activities	4,271	1,072	2,908	5,380	2,547	4,546
CF from Inv. activities	-2,498	-2,374	-159	-1,093	-1,922	-2,145
CF from Fin. activities	-287	-327	-513	-366	-712	-908
Cash generated/(utilised)	1,485	-1,629	2,237	3,921	-86	1,494
Cash at start of the year	935	2,421	791	3,028	6,949	6,863
Cash at end of the year	2,421	791	3,028	6,949	6,863	8,356

Ratios	FY21	FY22	FY23	FY24e	FY25e	FY26e
OPM	18.4	19.6	19.0	16.0	18.7	19.7
NPM	13.0	13.7	14.1	12.2	13.7	14.4
Tax rate	-23.8	-26.4	-23.2	-25.2	-25.2	-25.2
Growth Ratios (%)						
Net Sales	9.1	15.7	14.7	-22.0	33.5	21.0
Operating Profit	46.1	23.2	11.1	-34.1	55.7	27.8
PBIT	50.7	26.1	10.7	-38.5	63.0	29.7
PAT	68.8	22.6	18.6	-31.0	48.0	26.6
Per Share (Rs.)						
Net Earnings (EPS)	6.92	8.49	10.06	6.94	10.27	13.00
Cash Earnings (CPS)	7.85	9.38	11.10	8.17	11.63	14.51
Dividend	0.55	0.80	1.20	0.83	1.54	1.95
Book Value	30.88	38.61	47.72	53.82	62.55	73.61
Free Cash Flow	7.78	-0.46	2.82	6.50	1.05	5.07
Valuation Ratios						
P/E(x)	58	47	40	58	39	31
P/B(x)	13	10	8	7	6	5
EV/EBIDTA(x)	40	33	29	43	28	22
Div. Yield(%)	0.14	0.20	0.30	0.21	0.39	0.49
FCF Yield(%)	1.95	-0.12	0.70	1.62	0.26	1.27
Return Ratios (%)						
ROE	25%	24%	23%	14%	18%	19%
ROCE	33%	34%	31%	19%	24%	26%
RoIC	35%	29%	28%	20%	24%	26%

Source: Dalal & Broacha Research

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