



Long term outlook intact

SCIL saw revenue de-growth on account of demand headwinds & high channel inventory in the system. Similar trends were seen in LATAM markets which affected the exports. Additional capex of Rs.1,250Mn over 2 years for 5 products is on track with a revenue potential of Rs 2000 Mn to 2500 Mn which shall start commercial production from FY25. One key global proprietary molecule has started commercial production in Q4FY23 and multiple other products will start commercial production from Q1FY24.

Key financial highlights

- Revenue at INR 6,516 Mn, -2% YoY / -14% QoQ
- EBITDA (Excl OI) at INR 806 Mn, -26% YoY / -33% QoQ
- EBITDA margin (Excl OI) at 12.4% vs 16.4% / 16% in Q4FY22 / Q4FY23
- PAT at INR 721 Mn, -3% YoY / -20% QoQ
- EPS stood at INR 1.45 vs 1.5 / 1.81 in Q4FY22 / Q3FY23

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	26,449	30,646	35,124	40,671	49,106
EBIDTA	4,869	5,999	6,666	7,544	9,273
Margins	18.41	19.58	18.98	18.55	18.88
PAT (adj)	3,453	4,235	5,022	5,477	6,691
Growth (%)	68.8	22.6	18.6	9.1	22.2
EPS	6.92	8.49	10.06	10.97	13.40
P/E (x)	56	46	38	35	29
P/B (x)	13	10	8	7	6
EV/EBITDA (x)	39	31	28	25	20
RoE (%)	22	22	21	19	19
ROCE (%)	30	30	28	26	26
RoIC (%)	35	29	28	25	27

Source: Dalal and Broacha

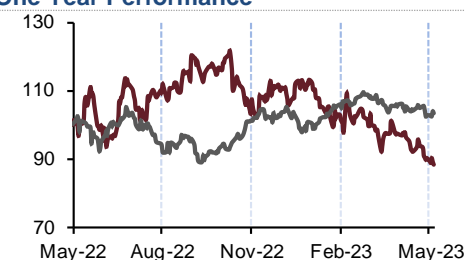
Rating	TP (Rs)	Up/Dn (%)
BUY	536	39

Market data

Current price	Rs	386
Market Cap (Rs.Bn)	(Rs Bn)	193
Market Cap (US \$ Mn)	(US \$ Mn)	2,335
Face Value	Rs	10
52 Weeks High/Low	Rs	540.8 / 382
Average Daily Volume	(000)	259
BSE Code		542920

Bloomberg **SUMICHEM.IN**
Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
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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Quarterly Financials

(Rs.Mn)	Q4FY23A	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
Revenue from Operations	6,516	6,651	-2%	7,537	-14%
Other Income	165	74	124%	132	25%
Total RM Cost	4,474	4,113	9%	4,873	-8%
Employee Benefits Expense	545	505	8%	523	4%
Other Expenses	691	942	-27%	936	-26%
Total Expenses	5,710	5,561	3%	6,332	-10%
EBITDA (Excluding Other Income)	806	1,089	-26%	1,204	-33%
Depreciation and Amortisation Expenses	140	115	23%	114	23%
EBIT / PBIT	830	1,049	-21%	1,222	-32%
Finance Costs	14	7	92%	13	6%
EBT/ PBT	816	1,041	-22%	1,209	-32%
Tax Expense	95	295	-68%	304	-69%
Net Profit after Tax	721	747	-3%	905	-20%
Adj Earning Per Share	1.45	1.50	-3%	1.81	-20%
Margins (%)			(In bps)		(In bps)
Gross Margins	31.3%	38.1%	-682	35.3%	-401
EBITDA Margins (Excl Other Income)	12.4%	16.4%	-402	16.0%	-361
PAT Margins	11.1%	11.1%	-3.2	11.8%	-73
As a % to sales					
RM as a % to sales	68.7%	61.9%		64.7%	
EE Cost as a % to sales	8.4%	7.6%		6.9%	
Other exps as a % to sales	10.6%	14.2%		12.4%	

H2FY23 saw volume and margin contraction but price hikes were taken across all portfolio segments.

Source: Dalal & Broacha Research

Key Points to note :

Demand outlook:

- > Demand during Q4FY23 was hit across industry due to low post infestation and China reopening leading to softening of prices which created demand headwinds & high channel inventory in the system. Similar trends were seen in LATAM markets which affected the exports.
- > Demand outlook for Q1 will remain bleak due to liquidation of high cost inventory but the management believes the prices have bottomed out in the mid of Q1FY24 and improvement should happen from Q2/Q3 onwards.
- > Also LATAM is facing headwinds on account of high channel inventory. H2FY24 should see an uptick.
- > Company trying to optimize product mix to mitigate demand risk

Product launches & update:

- > 6 new 9(3) products were launched in FY23. Full impact of these would be reflected in FY24.
- > 4 insecticides, 4 PGR, 1 fungicide, 1 metal phosphide were launched during FY23.

Capex :

- > Supply of one key molecule for parent (SCC Japan) to start contributing from Q1FY24 at the Bhavnagar plant
- > Earlier capex guidance of Rs.125 crs maintained which will contribute Rs.200-250 crs of topline (Asset T/O of 2x)
- > The company is in talks with the Parent for another top class 5 to 6 molecules for which the capex and potential turnover would be bigger than the already announced.

Other details:

- > Cash as on 31st December 2022 stands at Rs.827 crores
- > In FY23, domestic market growth was driven by price increase and export market was driven by volume and price increase.
- > Recently the parent company SCC Global acquired a company in Bio-rationals and they are looking towards North America, Europe and India (fastest growing market)
- > Glyphosate contributed 18% to topline in FY23 wherein volume was down by 18% but value growth was ~50%. The company has started gear up for Kharif 2023 as they don't see any demand impacted despite being sold through PCO's.

Valuation & Outlook

We believe even in such challenging situations Sumitomo Chemicals India Ltd has performed well compared to peers. Near term challenges continue across industry & for company. However this provides a good opportunity for investors to enter/revisit the stock on any correction as long term fundamentals continue to remain intact & Sumitomo has multiple levers of growth in place.

At CMP of Rs 387, SCIL trades at 29x FY25E EPS of Rs.13.4. **We have a BUY Rating on the stock & value SCIL at 40x FY25E EPS to arrive at a target price of Rs 536, an upside of 39%.**

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	26,449	30,646	35,124	40,671	49,106
Operating Expenses	-16,554	-19,080	-22,706	-26,843	-31,674
Employee Cost	-1,943	-2,020	-2,184	-2,420	-2,675
Other Expenses	-3,084	-3,547	-3,568	-3,864	-5,484
Operating Profit	4,869	5,999	6,666	7,544	9,273
Depreciation	-466	-448	-519	-611	-711
PBIT	4,403	5,551	6,147	6,933	8,562
Other income	186	268	449	449	449
Interest	-56	-62	-54	-59	-65
PBT	4,533	5,757	6,542	7,323	8,945
Profit before tax	4,533	5,757	6,542	7,323	8,945
Provision for tax	-1,079	-1,522	-1,520	-1,845	-2,254
Profit & Loss from Reported PAT	3,454	4,235	5,022	5,477	6,691
MI	-1	0	-	-	-
Owners PAT	3,453	4,235	5,022	5,477	6,691
Adjusted Profit	3,453	4,235	5,022	5,477	6,691
Balance Sheet (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	4,991	4,991	4,991	4,991	4,991
Reserves	10,421	14,281	18,826	23,633	29,655
Net worth	15,412	19,272	23,818	28,625	34,647
MI	1	0	0	0	0
Non Current Liabilites	496	610	539	586	641
Current Liabilites	10,810	10,214	9,334	13,725	16,240
TOTAL LIABILITIES	26,719	30,096	33,691	42,936	51,527
Non Current Assets	3,676	4,876	5,812	8,030	8,798
Fixed Assets	2,925	3,892	4,678	6,882	7,634
Right of Use Assets	311	363	332	332	332
Financial Assets	53	301	359	359	359
Deferred Tax Asset	204	216	349	359	370
Advances	8	8	6	6	6
Assets	176	95	87	91	96
Current Assets	23,044	25,221	27,879	34,906	42,729
Current investments	2,902	3,560	2,388	2,626	2,889
Inventories	7,544	9,378	8,887	12,870	15,186
Trade Receivables	8,482	8,431	9,461	11,143	13,454
Cash and Bank Balances	2,421	792	3,028	4,151	7,084
Advances	23	5	5	5	5
Other Financial Assets	169	1,745	2,849	2,849	2,849
Other Current Assets	1,503	1,310	1,261	1,261	1,261
TOTAL ASSETS	26,719	30,096	33,691	42,936	51,527

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Profit	3,453	4,235	5,022	5,477	6,691
Add: Dep. & Amort.	466	448	519	611	711
Cash profits	3,919	4,684	5,541	6,088	7,402
(Inc)/Dec in					
-Sundry debtors	15	51	-1,029	-1,682	-2,311
-Inventories	-1,664	-1,834	491	-3,983	-2,316
-Loans/advances	-441	-1,209	-1,182	-15	-15
-Current Liab and Provisions	2,441	-620	-912	4,394	2,518
Change in working capital	352	-3,612	-2,633	-1,285	-2,125
CF from Oper. activities	4,271	1,072	2,908	4,803	5,278
CF from Inv. activities	-2,498	-2,374	-159	-3,053	-1,726
CF from Fin. activities	-287	-327	-513	-627	-618
Cash generated/(utilised)	1,485	-1,629	2,237	1,123	2,933
Cash at start of the year	935	2,421	792	3,028	4,151
Cash at end of the year	2,421	792	3,028	4,152	7,084
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	18.4	19.6	19.0	18.5	18.9
NPM	13.0	13.7	14.1	13.3	13.5
Tax rate	-23.8	-26.4	-23.2	-25.2	-25.2
Growth Ratios (%)					
Net Sales	9.1	15.9	14.6	15.8	20.7
Operating Profit	46.1	23.2	11.1	13.2	22.9
PBIT	50.7	26.1	10.7	12.8	23.5
PAT	68.8	22.6	18.6	9.1	22.2
Per Share (Rs.)					
Net Earnings (EPS)	6.92	8.49	10.06	10.97	13.40
Cash Earnings (CPS)	7.85	9.38	11.10	12.20	14.83
Dividend	0.55	0.80	1.20	1.20	1.20
Book Value	30.88	38.61	47.72	57.35	69.41
Free Cash Flow	7.76	-0.72	-0.39	5.63	5.99
Valuation Ratios					
P/E(x)	56	46	38	35	29
P/B(x)	13	10	8	7	6
EV/EBIDTA(x)	39	31	28	25	20
Div. Yield(%)	0.14	0.21	0.31	0.31	0.31
FCF Yield(%)	2.00	-0.19	-0.10	1.45	1.55
Return Ratios (%)					
ROE	22%	22%	21%	19%	19%
ROCE	30%	30%	28%	26%	26%
RoIC	35%	29%	28%	25%	27%

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