



Worst behind; Green shoots few quarters away

Falling prices, high cost inventory on books, erratic monsoons coupled with high channel inventory were key reasons for poor performance in Q2FY24. Management has mentioned that high cost inventory is now over & normalised growth in domestic & export market is likely to resume from Q4FY24 or early Q1FY25. Supply to SCC Japan was delayed further with commercial production starting in Q2FY24 but supply likely to begin in H2FY24 only, FY25 will be the 1st full year which will reflect Rs.2.5 bn of revenue from SCC Japan. Key export market LATAM (high growth segment) still is facing pricing issue & high channel inventory. Management is confident that 25-30 products launched in last 3-4 years will start showing good results once the dust settles. Capex guidance continues at 15% of EBITDA. With surplus of ~Rs.14 bn company may look for smaller acquisitions. Company's current focus would be to stabilise current agrochemical opportunity whereas continue on-going talks for newer molecules & newer segment of IT chemicals for later stage.

Although near term challenges persist for the industry & SCIL, we believe long term triggers (launch of bio-rationals in India, introduction on new parent molecules, supply of technicals to LATAM affiliates & focus on high growth verticals within existing product basket) continue to remain intact. At CMP of Rs 381, SCIL trades at 32x/28x FY25E/26E EPS of Rs 11.9/13.7. Factoring in low growth of EPS of ~11% over FY23-26e vs historical growth rate of 35% over FY20-23 we taper down our valuation multiple from 40x to 35x arriving at a target price of Rs.478 (35x FY26e EPS of Rs.13.7 inline with other MNC agrochemical companies). We have changed our rating from BUY to ACCUMULATE.)

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	26,449	30,612	35,110	30,355	41,009	45,887
EBIDTA	4,869	5,999	6,666	5,135	7,995	9,170
Margins	18.4	19.6	19.0	16.9	19.5	20.0
PAT (adj)	3,453	4,236	5,022	4,008	5,914	6,818
Growth (%)	68.8	22.6	18.6	-20.2	47.6	15.3
EPS	6.92	8.49	10.06	8.03	11.85	13.66
P/E (x)	55	45	38	48	32	28
P/B (x)	12	10	8	7	6	5
EV/EBITDA (x)	38	31	28	35	23	19
RoE (%)	25	24	23	16	20	19
ROCE (%)	33	34	31	21	27	26
RoIC (%)	35	29	28	21	25	28

Source: Company, Dalal & Broacha Research

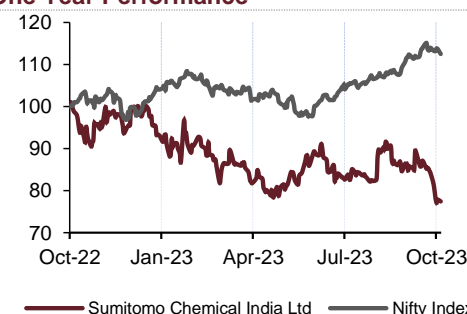
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	478	25

Market data

Current price	Rs	381
Market Cap (Rs.Bn)	(Rs Bn)	190
Market Cap (US\$ Mn)	(US\$ Mn)	2,287
Face Value	Rs	10
52 Weeks High/Low	Rs	504.2 / 373.2
Average Daily Volume	('000)	904
BSE Code		542920
Bloomberg		SUMICHEM.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-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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Key financial highlights

- **Revenue** at INR 9,035 Mn, -19.5% YoY / +24.7% QoQ

Domestic revenue degrowth in H1 : -15% [Price : ~-3% & Volume : ~-12%]

Export revenue degrowth in H1 : -50% [Price : ~-20% & Volume : ~-30%]

(Key Reasons : High cost inventory at the start of the yr, liquidation completed by July 2023 ; erratic monsoon ; high channel inventory in the system ; pricing reversal ; demand headwinds)

- **EBITDA (Excl OI)** at INR 1 879 Mn, -32.4% YoY / +133% QoQ

(Note : QoQ not comparable due to seasonality & low base)

Key reasons : drastic revision of wages closer to +25% on YoY basis by Gujarat govt. ; SCIL has 4 plants in Guajrat & 1 plant in Maharashtra)

- **EBITDA margin (Excl OI)** at 20.8% vs 24.8% / 11.1% in Q2FY23 / Q1FY24

Cost reduction efforts already on to maintain company level EBITDA margin

- **PAT** at INR 1,434 Mn, -28.8% YoY / +132.6% QoQ

EPS stood at INR 2.87 vs 4.04 / 1.24 in Q2FY24 / Q1FY24

Quarterly Financials

(Rs.Mn)	Q2FY24A	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)
Revenue from Operations	9,035	11,217	-19%	7,242	25%
Other Income	246	105	133%	175	40%
Total RM Cost	5,569	6,967	-20%	4,989	12%
Employee Benefits Expense	589	543	8%	601	-2%
Other Expenses	997	926	8%	847	18%
Total Expenses	7,155	8,436	-15%	6,436	11%
EBITDA (Excluding Other Income)	1,879	2,780	-32%	806	133%
Depreciation and Amortisation Expenses	158	152	4%	135	17%
EBIT / PBIT	1,967	2,734	-28%	846	132%
Finance Costs	12	14	-10%	13	-7%
EBT/ PBT	1,955	2,720	-28%	833	135%
Tax Expense	487	705	-31%	209	133%
Net Profit after Tax	1,468	2,015	-27%	625	135%
Adj Earning Per Share	2.87	4.04	-29%	1.24	133%
Margins (%)			(In bps)		(In bps)
Gross Margins	38.4%	37.9%	47	31.1%	724
EBITDA Margins (Excl Other Income)	20.8%	24.8%	-399	11.1%	967
PAT Margins	15.5%	17.8%	-234	8.3%	714
As a % to sales					
RM as a % to sales	61.6%	62.1%		68.9%	
EE Cost as a % to sales	6.5%	4.8%		8.3%	
Other exps as a % to sales	11.0%	8.3%		11.7%	

Source: Dalal & Broacha Research

Concall KTAs :

Management commentary on key points

- High-cost inventory now out of system & will continue to maintain PAT margins at historical levels (~13-14%)
- Input prices have stabilised & expect the same to continue till Jan-24
- On ground situation for upcoming Rabi season: closer to ~70% reservoir level which is lower compared to historical levels ; Less possibility of 2nd monsoon in south west region, however company doesn't see much impact for its product
- Indication in export market seem to be +ve but will have to wait & watch how it translates into sales
- Shipments or revenue booking not started to SCC Japan (Parent) in H1 ; May seem some revenue in FY24 but will try to achieve ~Rs.2.5bn sales as guided in FY25
- Don't see major impact of China on domestic agrochemicals

Future growth prospects

- Dahej plant (~50 acres) likely to get environmental clearance in 2024
- IT Chemicals : not on priority list but talks are on which will drive future growth
- Capex plan for FY25 : 15% of EBITDA of FY24 (SCC Japan capex is over & above that) ; Rs.3 bn capex planned over 2-3 years
- Launched 6 products in H1FY24 & close to 25-30 products in last 3-4 years ; Management expects these products to scale in upcoming years once demand comes back

Barrix Acquisition

- Reason for acquisition: Greener chemistry which is not done by parent ; government focus on greener chemistry ; complementary product to existing portfolio
- Looking for export opportunity in next 2-3 years (opportunity size is huge,not specifically quantified)

Glyphosate (Key molecule contributing ~15-17% of topline)

- Prices have declined by 23% on YoY basis but volume has seen a growth of 5%
- Price decline on account of fall in china glyphosate prices
- Export of glyphosate majorly happens in H2
- **Glufosinate** : Substitute of glyphosate launched in AP where glyphosate is banned

High cost Inventory impact on PAT margins

- Q1 : 12-15% ; July : 8% ; Aug : 5% ; Sept : 1.5%
(Our calculation : Normalised PAT degrowth in H1FY24 vs H1FY23 removing high cost inventory impact = ~ -35% vs -40% reported)

Valuation & Outlook

We believe FY24 could be a wash out as demand uncertainty & price erosion continues to weigh on company & sector. FY25 could be a normal year with demand likely to come back from Q1FY25.

Sumitomo Chemicals India Ltd is likely to close FY24e with an expected EPS of ~Rs.8.03 (equivalent to FY22 EPS of Rs.8.49 & degrowth of 20% over FY23 EPS).

This is 3rd consecutive quarter of de-growth with Q4FY23/Q1FY24/Q2FY24 revenues de-growing at -2%/-26.5%/-19.5% & Q4FY23/Q1FY24/Q2FY24 EPS de-growing at -3.4%/-55.3%/-28.8% on YoY basis (Intensity of degrowth has slowed down but in our opinion still remains a poor performance compared to other agrochemical companies)

Although near term challenges persist for the industry & SCIL, we believe long term triggers (launch of bio-rationals in India, introduction on new parent molecules, supply of technicals to LATAM affiliates & focus on high growth verticals within existing product basket) continue to remain intact. At CMP of Rs 381, SCIL trades at 32x/28x FY25E/26E EPS of Rs 11.9/13.7. Factoring in low EPS growth of ~11% over FY23-26e vs historical growth rate of 35% implying a PEG closer to 1x over FY20-23 we taper down our valuation multiple from 40x to 35x arriving at a target price of Rs.478 (35x FY26e EPS of Rs.13.7 inline with other MNC agrochemical companies). **We have changed our rating from “BUY” to “ACCUMULATE”.**

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	26,449	30,612	35,110	30,355	41,009	45,887
Operating Expenses	-16,554	-19,080	-22,706	-19,275	-26,041	-29,001
Employee Cost	-1,943	-2,020	-2,184	-2,454	-2,667	-2,898
Other Expenses	-3,084	-3,513	-3,554	-3,491	-4,306	-4,818
Operating Profit	4,869	5,999	6,666	5,135	7,995	9,170
Depreciation	-466	-448	-519	-630	-691	-686
PBIT	4,403	5,551	6,147	4,505	7,305	8,484
Other income	186	268	449	912	667	703
Interest	-56	-62	-54	-59	-65	-72
PBT	4,533	5,757	6,542	5,358	7,906	9,115
Profit before tax	4,533	5,757	6,542	5,358	7,906	9,115
Provision for tax	-1,079	-1,522	-1,520	-1,350	-1,992	-2,297
Profit & Loss from	-	-	-	-	-	-
Reported PAT	3,454	4,235	5,022	4,008	5,914	6,818
MI	-1	0	-	-	-	-
Owners PAT	3,453	4,236	5,022	4,008	5,914	6,818
Adjusted Profit	3,453	4,236	5,022	4,008	5,914	6,818

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	22,353	27,380	33,175
Net worth	15,412	19,272	23,818	27,345	32,372	38,167
MI	1	0	0	0	0	0
Non Current Liabilites	669	738	702	762	831	910
Current Liabilites	10,637	10,086	9,172	8,571	11,367	12,617
TOTAL LIABILITIES	26,719	30,096	33,691	36,678	44,570	51,694
Non Current Assets	3,676	4,876	5,812	6,747	7,533	7,020
Fixed Assets	2,925	3,892	4,678	5,567	6,338	5,648
Right of Use Assets	311	364	332	381	439	505
Financial Assets	53	301	359	352	305	411
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	29,931	37,037	44,674
Current investments	2,902	3,560	2,388	2,555	2,734	2,925
Inventories	7,544	9,378	8,887	9,242	12,485	13,904
Trade Receivables	8,482	8,431	9,461	8,316	11,235	12,572
Cash and Bank Balances	2,421	791	3,028	5,750	6,088	10,583
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	1,214	1,640	1,835
TOTAL ASSETS	26,719	30,096	33,691	36,678	44,570	51,694

Cashflow (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Profit	3,453	4,236	5,022	4,008	5,914	6,818
Add: Dep. & Amort.	466	448	519	630	691	686
Cash profits	3,919	4,684	5,541	4,638	6,605	7,504
(Inc)/Dec in						
-Sundry debtors	15	51	-1,029	1,144	-2,919	-1,336
-Inventories	-1,664	-1,834	491	-355	-3,244	-1,419
-Loans/advances	-441	-1,209	-1,182	43	-431	-200
-Current Liab and Provisions	2,441	-620	-912	-590	2,808	1,262
Change in working capital	352	-3,612	-2,633	243	-3,785	-1,693
CF from Oper. activities	4,271	1,072	2,908	4,881	2,819	5,811
CF from Inv. activities	-2,498	-2,374	-159	-1,728	-1,652	-359
CF from Fin. activities	-287	-327	-513	-432	-829	-957
Cash generated/(utilised)	1,485	-1,629	2,237	2,721	338	4,495
Cash at start of the year	935	2,421	791	3,028	5,750	6,088
Cash at end of the year	2,421	791	3,028	5,750	6,088	10,583

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
OPM	18.4	19.6	19.0	16.9	19.5	20.0
NPM	13.0	13.7	14.1	12.8	14.2	14.6
Tax rate	-23.8	-26.4	-23.2	-25.2	-25.2	-25.2
Growth Ratios (%)						
Net Sales	9.1	15.7	14.7	-13.5	35.1	11.9
Operating Profit	46.1	23.2	11.1	-23.0	55.7	14.7
PBIT	50.7	26.1	10.7	-26.7	62.1	16.1
PAT	68.8	22.6	18.6	-20.2	47.6	15.3
Per Share (Rs.)						
Net Earnings (EPS)	6.92	8.49	10.06	8.03	11.85	13.66
Cash Earnings (CPS)	7.85	9.38	11.10	9.29	13.23	15.03
Dividend	0.55	0.80	1.20	0.96	1.78	2.05
Book Value	30.88	38.61	47.72	54.78	64.85	76.46
Free Cash Flow	7.78	-0.46	2.82	4.49	1.34	8.29
Valuation Ratios						
P/E(x)	55	45	38	48	32	28
P/B(x)	12	10	8	7	6	5
EV/EBIDTA(x)	38	31	28	35	23	19
Div. Yield(%)	0.14	0.21	0.31	0.25	0.47	0.54
FCF Yield(%)	2.04	-0.12	0.74	1.18	0.35	2.17
Return Ratios (%)						
ROE	25%	24%	23%	16%	20%	19%
ROCE	33%	34%	31%	21%	27%	26%
RoIC	35%	29%	28%	21%	25%	28%

Source: Dalal & Broacha Research

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