

29 July 2024

Sumitomo Chemical

Exports back in growth trajectory, stable outlook; maintaining a Buy

In line with our estimates but higher than that of the consensus, Sumitomo Chemicals reported a decent set of Q1 figures, with revenue/EBITDA/PAT rising 16/100/105% y/y. Revenue growth was largely driven by 14/24% y/y growth (domestic and exports). The gross margin rose a considerable 780bps y/y (though q/q down 280bps) on a combination of procurement efficiencies and optimum product pricing strategies amid a volatile environment, and cost-control steps for fixed direct overheads.

Healthy gross margin rise; likely to continue in the near term. Stable raw material prices, liquidation of high-cost stocks in previous quarters and greater procurement efficiencies in Q1 pushed up the gross margin 780bps y/y to 38.9%, though q/q down 280bps owing to the inferior product mix. In the near term, management is confident of maintaining the gross margin at the present level, if prices stay favourable.

Product launches on track; likely to reap benefits in FY25. In FY24, the company launched six brands in agrochemicals (Ambit, Treasure, Blog, Yunico, Rumpus, CuFlow). Management talked of having received registrations for three more 9(3) molecules (for cotton, rice and vegetables), to be launched in the current year.

Guidance. With slight greenshoots visible in inventory liquidation and export demand reviving, exports are likely to be better ahead q/q with full recovery mostly from H2. On the domestic side, rainfall till now has surpassed expectations, leading to increased acreages in major crops coupled with the lower base of H1 FY24, which would result in double-digit volume growth with steady margins.

Outlook, Valuation. We largely maintain our FY25e EPS and raise our FY26e EPS. We expect the company to clock 17/36% revenue/ PAT CAGRs over FY24-26. We maintain a Buy, with a higher TP of Rs570 (earlier Rs530), 42x FY26e EPS.

Risks: Adverse weather, a complete ban on glyphosate (~15-16% of FY24 revenues).

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	30,612	35,110	28,439	33,581	38,833
Net profit (Rs m)	4,235	5,022	3,697	5,419	6,789
EPS (Rs)	8.5	10.1	7.4	10.9	13.6
P/E (x)	59.5	50.2	68.2	46.5	37.1
EV / EBITDA (x)	41.3	37.0	52.0	36.2	28.4
P/BV (x)	13.1	10.6	10.3	8.7	7.2
RoE (%)	24.4	23.3	15.3	20.3	21.3
RoCE (%)	24.4	23.3	15.4	20.4	21.4
Dividend yield (%)	0.2	0.2	0.3	0.3	0.3
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.3

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: Rs.570

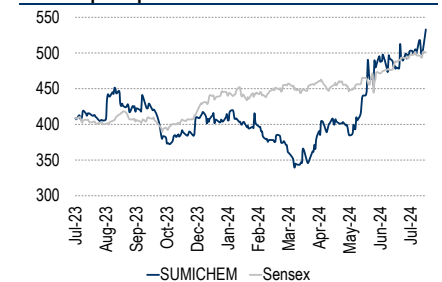
Share Price: Rs.497

Key data	SUMICHEM IN
52-week high / low	Rs541 / 336
Sensex / Nifty	81203 / 24800
3-m average volume	\$6m
Market cap	Rs266bn / \$3176.8m
Shares outstanding	499m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	75.0	75.0	75.0
- of which, Pledged	-	-	-
Free float	25.0	25.0	25.0
- Foreign institutions	3.1	2.7	2.6
- Domestic institutions	7.1	6.6	6.0
- Public	14.8	15.6	16.4

Estimates revision (%)	FY25e	FY26e
Sales	0.1	0.1
EBITDA	0.1	4.9
PAT	0.1	4.5

Relative price performance



Source: Bloomberg

Himanshu Binani
Research Analyst

Quick Glance – Financial and Valuations (consolidated)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Revenues	30,612	35,110	28,439	33,581	38,833
<i>Growth (%)</i>	15.7	14.7	-19.0	18.1	15.6
Raw material	19,080	22,706	17,751	20,652	23,688
Employee & other expen	5,533	5,737	5,943	6,179	6,679
EBITDA	5,999	6,666	4,746	6,750	8,466
<i>EBITDA margins (%)</i>	19.6	19.0	16.7	20.1	21.8
- Depreciation	448	519	622	718	797
Other income	268	449	957	1,244	1,555
Interest expense	62	54	51	50	48
PBT	5,757	6,542	5,029	7,226	9,175
<i>Effective tax rates (%)</i>	26	23	26	25	26
+ Associates / (Minorities)	-	-	-	-	-
Adjusted income	4,235	5,022	3,697	5,419	6,789
Extraord. items (loss)/profit	-	-	-	-	-
Reported PAT	4,235	5,022	3,697	5,419	6,789
WANS	499	499	499	499	499
FDEPS (Rs)	8.5	10.1	7.4	10.9	13.6

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	4,991	4,991	4,991	4,991	4,991
Net worth	19,272	23,818	24,416	28,931	34,816
Debt	247	177	185	-	-
Minority interest	0	0	30	-	-
Deferred tax liability / (asset)	-	-	-	-	-
Capital employed	19,519	23,995	24,631	28,931	34,816
Net tangible assets	4,045	4,475	5,812	7,094	8,047
CWIP (tang. and intang.)	211	535	40	40	40
Investments (strategic)	3,560	2,388	3,457	3,457	3,457
Investments (financial)	1	1	1	1	1
Current assets (excl. C&CE)	21,488	23,264	21,989	24,305	26,729
Cash	791	3,028	1,833	4,189	8,154
Current Liabilities	10,577	9,696	8,502	10,155	11,613
Working capital	10,911	13,568	13,487	14,149	15,116
Capital deployed	19,519	23,995	24,631	28,931	34,816

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	5,757	6,542	5,029	5,982	7,620
+ Non-cash items	510	573	673	768	845
Oper. profit before WC changes	6,267	7,114	5,702	6,750	8,466
- Incr./ (decr.) in WC	2,576	1,352	-3,926	663	967
Others incl. taxes	1,473	1,869	2,030	563	831
Operating cash-flow	2,218	3,894	7,598	5,524	6,668
- Capex (tangible + intangible)	1,125	1,195	1,311	2,000	1,750
Free cash-flow	1,093	2,698	6,287	3,524	4,918
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	400	499	3,098	904	904
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	-	-185	-
- Fin. investments	1,777	2,077	3,006	-	-
- Misc. items (CFI and CFF)	226	226	185	79	48
Net cash-flow	-1,311	-104	-3	2,355	3,965

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	59.5	50.2	68.2	46.5	37.1
EV / EBITDA (x)	41.3	37.0	52.0	36.2	28.4
EV / Sales (x)	8.1	7.0	8.7	7.3	6.2
P/B (x)	13.1	10.6	10.3	8.7	7.2
RoE (%)	24.4	23.3	15.3	20.3	21.3
RoCE (%) - after tax	24.4	23.3	15.4	20.4	21.4
RoIC (%) - after tax	24.4	23.3	15.3	20.3	21.3
DPS (Rs)	1.0	1.2	1.5	1.5	1.5
Dividend yield (%)	0.2	0.2	0.3	0.3	0.3
Dividend payout (%)	11.8	11.9	20.2	13.8	11.0
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.3
Receivables (days)	101	93	107	86	89
Inventory (days)	162	147	154	114	114
Payables (days)	208	163	187	165	168
CFO : PAT (%)	52	78	205	102	98

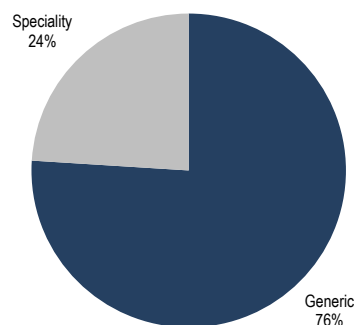
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Segment-wise break-up, 1QFY25



Source: Company

Fig 7 – Quarterly

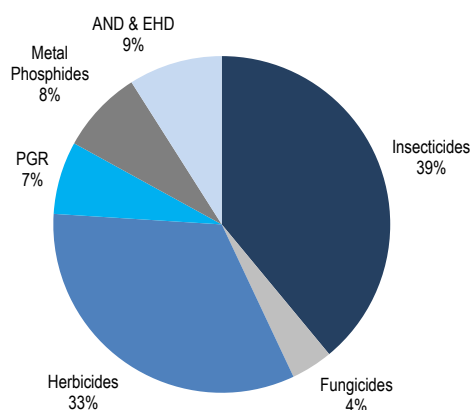
(Rs m)	Q1 FY25	Q1 FY24	Y/Y (%)	Q4 FY24	Q/Q (%)	FY24	FY23	Y/Y (%)
Revenues	8,389	7,242	15.8	6,742	24.4	28,439	35,110	(19.0)
Raw material	5,125	4,989	2.7	3,927	30.5	17,751	22,706	(21.8)
Staff costs	655	601	9.1	592	10.8	2,320	2,184	6.2
Others	998	847	17.9	821	21.5	3,623	3,554	1.9
Total expenditure	6,778	6,436	5.3	5,340	26.9	23,694	28,444	(16.7)
EBITDA	1,611	806	99.8	1,402	14.9	4,746	6,666	(28.8)
Interest	12	13	(10.9)	13	(9.1)	51	54	(5.3)
Depreciation	149	135	9.9	168	(11.4)	622	519	19.9
Other income	260	175	48.4	267	(2.6)	957	449	113.3
PBT	1,711	833	105.3	1,488	15.0	5,029	6,542	(23.1)
Tax	444	216	105.2	389	14.0	1,332	1,520	(12.3)
Adj. net profit	1,267	617	105.4	1,099	15.3	3,697	5,022	(26.4)
Extraordinary items	-	-	NA	-	NA	-	-	NA
Net profit	1,267	617	105.4	1,099	15.3	3,697	5,022	(26.4)
Equity capital (FV: Rs.10)	499	499		499		499	499	
Adj. EPS (Rs)	2.5	1.2	105.4	2.2	15.3	7.4	10.1	(26.4)

As % of net revenue

Raw material	61.1	68.9		58.3		62.4	64.7	
Staff expenses	7.8	8.3		8.8		8.2	6.2	
Other expenses	11.9	11.7		12.2		12.7	10.1	
EBITDA	19.2	11.1		20.8		16.7	19.0	
Net profit	15.1	8.5		16.3		13.0	14.3	

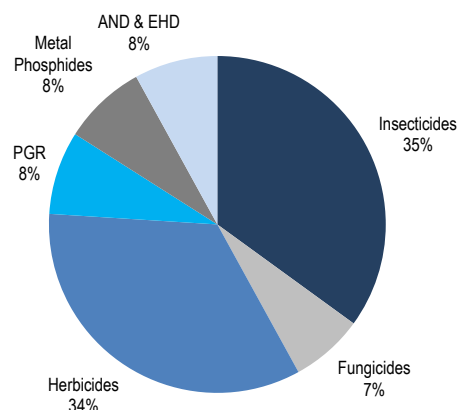
Source: Company

Fig 8 – Category-wise revenue break-up, Q1 FY24



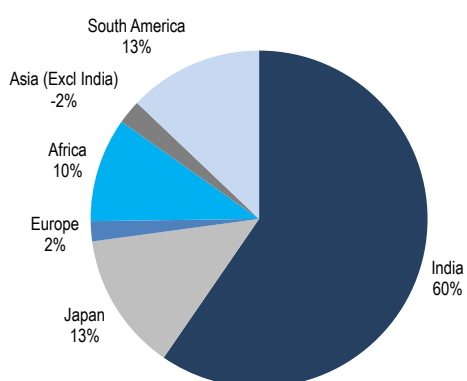
Source: Company, Anand Rathi Research

Fig 9 – Category-wise revenue break-up, Q1 FY25



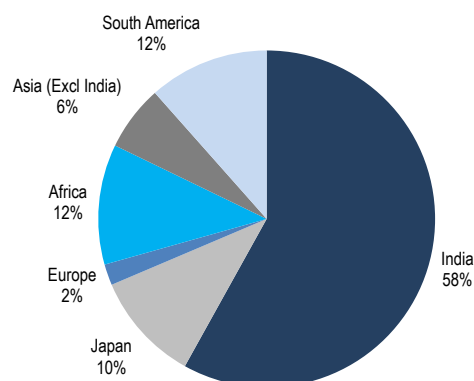
Source: Company, Anand Rathi Research

Fig 10 – Region-wise revenue break-up, Q1 FY24



Source: Company, Anand Rathi Research

Fig 11 – Region-wise revenue break-up, Q1 FY25



Source: Company, Anand Rathi Research

Other highlights

- Product launches on track.** In its home market, the company launched six products in FY24: an insecticide, Yunico (chlorantraniliprole); two fungicides, Rumpus and CuFlow (tri basic copper sulfate), and three herbicides, Blog (glufosinate ammonium), Ambit (oxadiagyl + pretilachlor) and Treasure (tembotrione)). Management spoke of having received registrations for three more 9(3) molecules (for cotton, rice, vegetables), to be launched this year.
- Focus on cash collection resulted in better working capital.** Net working capital days were 60 in Q1 FY25 vs. 94 the year prior. Inventory days fell 43 y/y to 104 due to better inventory management and faster stock turnover. The company's continuous focus on improving collections resulted in fewer receivable days (down 20 y/y to 82). Payable days fell by 11 to 42. Cash collections rose 2% y/y to Rs10.4bn in Q1 vs. Rs10.1bn last year. Cash and equivalents in Jun'24 were Rs15.3bn.
- Capex on track; likely to aid growth ahead.** The company had earlier announced Rs1.2bn capex (over and above its annual Rs0.7bn maintenance capex) to manufacture five proprietary products for the parent company. Both these projects were commercialised earlier, with

minimal revenue contribution in FY24 owing to global demand-supply mismatches. Revenue has been lower and is likely to be subdued in FY25 as well, with full benefits from FY26. Further, management indicated pending environmental clearances for the announced project on the recently purchased 50 acres at Dahej (Gujarat) for further capacity expansion. It expects approvals by end-CY24; commercialisation is likely in the next 18-24 months, post-approvals.

Valuation

Fig 12 – Change in estimates

(Rs m)	FY25e			FY26e		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	33,538	33,581	0.1	38,782	38,833	0.1
EBITDA	6,741	6,750	0.1	8,067	8,466	4.9
EBITDA margins (%)	20.1	20.1	-	20.8	21.8	100bps
PAT	5,413	5,419	6.3	6,494	6,789	4.5
EPS	10.8	10.9	0.1	13.0	13.6	4.5

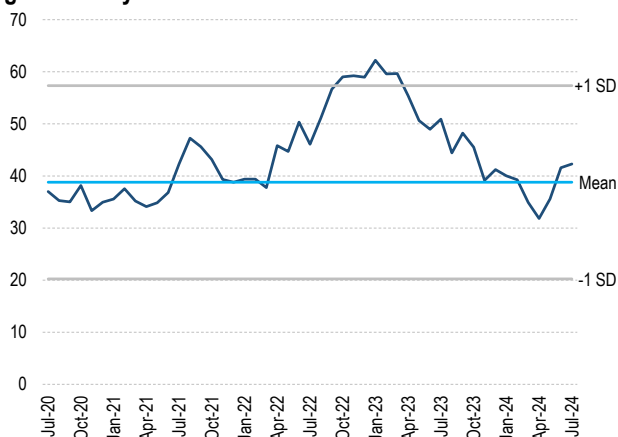
Source: Anand Rathi Research

Sumitomo Chemicals' Q1 performance was in line with ARe, but ahead of that of the consensus, aided by healthy improvement in revenue and gross margin. The gross margin was better from a combination of procurement efficiencies and optimum product pricing strategies amid a volatile environment, and cost control measures for fixed direct overheads.

We believe, with initial green shoots in inventory liquidation and revival in export demand, exports are likely to see q/q improvement with full recovery (if at all) mostly from H2. Domestically, rainfall has exceeded expectations, resulting in more acreage of major crops, which would keep sentiment upbeat.

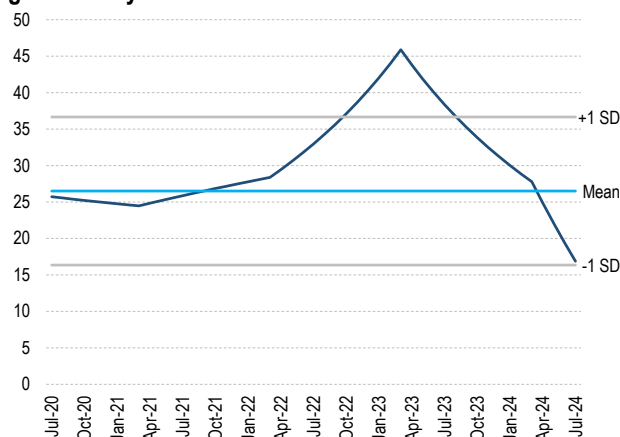
We largely maintain our FY25e and raise our FY26e 5%. We expect the company to clock 17/36% revenue/PAT CAGRs over FY24-26. We maintain a Buy, with a higher TP of Rs570 (earlier Rs530), 42x FY26e EPS.

Fig 13 – One-year-forward PE



Source: Bloomberg, Anand Rathi Research

Fig 14 – One-year-forward EV/EBITDA



Source: Bloomberg, Anand Rathi Research

Risks

- Adverse weather in the home market.
- Volatile commodity prices globally.
- A complete ban on glyphosate (~15-16% of FY24 revenues).

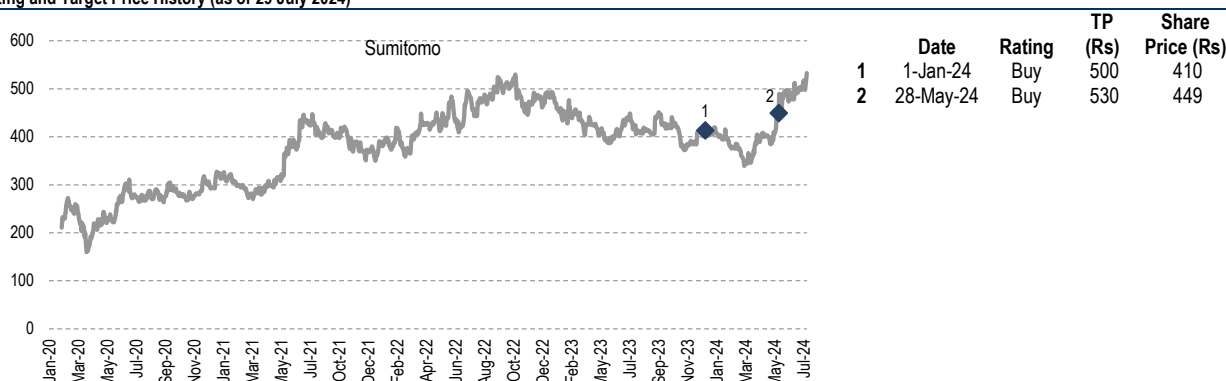
Appendix

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Additional information on recommended securities/instruments is available on request.

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