

Sumitomo Chemicals India

1 December 2022

Reuters: SUMH.BO; Bloomberg: SUMICHEM IN

Upgrading to BUY on lifting clouds post recent dip in stock

We have raised Sumitomo Chemicals India Ltd (SCIL) from ACCUMULATE to BUY based on the following factors: (a) Improved risk-reward at current valuation and (b) Stay order issued by the Delhi High Court over domestic Glyphosate sales for three months following the Government's notification last month for allowing the application of Glyphosate herbicide only by a Pest Control Operator (PCO). The stock is down 3% in three months and more than 8% from the closing price in the week ended Oct. 21, 2022 – the week before the Government's Oct. 25 order on Glyphosate. We maintain our FY23E/FY24E/FY25E estimates and target price (TP), using an unchanged PE of 35x on Sep24E EPS. We have built in healthy earnings growth and also captured the positive outlook for the Indian Crop Protection Chemicals (CPC) sector (aided by healthy crop prices/farm incomes), besides SCIL's pricing power, which supports margin expansion of 190bps/110bps in FY24E/FY25E. We have also built-in topline growth from the contract SCIL has won from its parent SCC, Japan to supply five molecules FY24E onwards. Also, we have learned from our channel checks that the healthy monsoon/soil moisture and 13.4%/11% YoY growth in area under Oil Seeds/Wheat are likely to support CPC demand growth in 2HFY23 rabi season.

Positives: (i) New products – 5 to 6 9(3) launches in FY23 – a high for SCIL and one of the highest ever launches in the Indian CPC sector. These are proprietary products and are likely to aid growth from FY24E (ii) Healthy long-term prospects, supported by Revenue/EPS CAGR of 16.9%/25.8% over FY22-FY25E (iii) ROIC of 36.3%/39% in FY24E/FY25E and (iv) Healthy net cash position of Rs14.67bn by FY25E.

We see SCIL sustaining new product launches: Around 6-8 new launches have been planned over the next 18 months. We also see healthy outlook for exports growth going forward, especially to the LatAm market (revenue share up from 4% to 10% in FY22; 5%/6% in 2QFY23/1HFY23 vs 7% in 1QFY23), including to SCC affiliate. Based on industry consensus, we believe that the positive agronomic conditions augur well for the Indian CPC sector in the FY23 Rabi season. The company expects to start supply of all the five molecules to SCC, Japan by 1QFY24E.

Glyphosate overhang has subsided as per Delhi High Court's stay order: We expect Glyphosate demand to regain normalcy following the Delhi High Court's three-month stay on the Government's order mandating spraying of Glyphosate by PCO personnel only. Industry is hopeful that the Government will amend this order in the interest of consumers and industry, as Glyphosate is reported to have been a significant herbicide for 40 years. This remove concerns over the initial Government order that had put pressure on the SCIL stock.

Channel checks: The current Rabi season is likely to be positive for the Indian CPC sector and SCIL is likely to see growth in 2HFY23 on a healthy base of 2HFY22. This is despite worries over the high-cost inventory and low-key pre-buying, as these are likely to have only a limited impact on SCIL. We also see demand growth reviving by Dec'22-Jan'23 from the lull seen in the last two months. The downward trend in RM prices could boost margins by FY24, but in the near term, liquidating the high-cost inventory could marginally hurt SCIL, which currently holds 3-4 months' inventory. We expect volume growth to revive in Glyphosate in 2HFY23 after being subdued in 1HFY23. The outlook on CPC supply chain remains stable despite worries over slowdown in Europe and China.

Risk: Crop/infestation growth being less than expected, delayed launch of new products, regulatory issues, lower-than-expected access to Japanese parent's innovator molecules & global reach and potential levy of royalty by the parent company.

BUY

Sector: Chemicals

CMP: Rs473

Target Price: Rs543

Upside: 15%

Ramesh Sankaranarayanan

Research Analyst

ramesh.s@nirmalbang.com

+91-22-6273 8145

Key Data

| | |
|--------------------------|-----------|
| Current Shares O/S (mn) | 499.1 |
| Mkt Cap (Rsbn/US\$bn) | 236.1/2.9 |
| 52 Wk H / L (Rs) | 541/341 |
| Daily Vol. (3M NSE Avg.) | 596,707 |

Price Performance (%)

| | 1-M | 6-M | 1-Y |
|----------------|-------|------|------|
| Sumitomo Chem. | (4.0) | 2.1 | 27.3 |
| Nifty Index | 3.4 | 13.5 | 9.3 |

Source: Bloomberg

| Bloomberg Consensus | FY23E | FY24E | FY25E |
|---------------------|-------|-------|-------|
| EPS | 10.58 | 12.73 | 15.58 |

Source: Bloomberg

[BSE filling on Delhi Court order for stay](#)
[SCIL 2QFY23 PPT](#)

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-----------------------------|--------|--------|--------|--------|--------|
| Revenue | 26,449 | 30,646 | 36,793 | 42,577 | 49,151 |
| Revenue gr (%) | 9.1 | 15.9 | 20.1 | 15.7 | 15.4 |
| EBITDA | 4,869 | 5,999 | 7,670 | 9,704 | 11,740 |
| EBITDA Margin (%) | 18.4 | 19.6 | 20.8 | 22.8 | 23.9 |
| Consol. Net Profit Adjusted | 3,454 | 4,236 | 5,517 | 7,006 | 8,496 |
| EPS (Rs) | 6.91 | 8.47 | 11.04 | 14.01 | 16.99 |
| EPS gr (%) | 46.6 | 22.6 | 30.3 | 27.0 | 21.3 |
| P/E (x) | 68.5 | 55.9 | 42.9 | 33.8 | 27.9 |
| EV/EBITDA (x) | 47.7 | 38.7 | 30.3 | 23.9 | 19.8 |
| EV/Revenue (x) | 8.9 | 7.7 | 6.4 | 5.5 | 4.8 |
| Dividend Yield % | 0.17 | 0.21 | 0.32 | 0.32 | 0.53 |
| Net Debt/(cash) Rsmn | -5323 | -4351 | -6082 | -9836 | -14671 |
| Pre-tax RoCE (%) | 23.5 | 22.8 | 23.9 | 24.4 | 23.8 |
| RoE (%) | 25.0 | 24.4 | 24.3 | 26.8 | 28.5 |
| ROIC (%) | 31.6 | 31.9 | 32.6 | 36.3 | 39.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Growth plans: SCIL has launched eight new products in 1HFY23, including three under 9(3) registrations after launching six products in FY22. It plans to focus on PGRS/Herbicides that offer higher growth as well as margins vis-à-vis other products and are in demand throughout the year. We believe that SCIL could be open to investing its free cash in M&A, apart from registration of new products and organic growth capex of Rs750mn per annum. We have learned that SCIL is also evaluating long-term growth capex at the Dahej site.

Positive about long-term outlook for SCIL: We expect SCIL to sustain and improve margins, driven by the thrust on high-margin segments. The company's R&D efforts are focused on off-patent products for India and exports to LatAm, Africa and APAC regions, which will entail capex for new capacity. The company plans to invest its cash for organic/inorganic growth over the next 4-5 years and would be open to buying digital/marketing services and start-ups in new technology space.

Rating rationale:

We have maintained FY23E/FY24E/FY25E estimates and **TP at Rs543, valuing it at 35x PE on Sep24E EPS**. We have raised the rating on SCIL from ACCUMULATE to BUY based on: (a) Improved risk-reward at current valuation and (b) The three-month stay order issued by the Delhi High Court over SCIL's domestic Glyphosate sales following the Government's notification last month on allowing application of Glyphosate herbicide only by PCOs. The stock is down 3.5% in three months and more than 10% from the closing price in the week ending Oct. 21, 2022 – the week before the Government's Oct. 25th order on mandating PCOs to apply Glyphosate.

Key positives:

Catalysts: SCIL offers MNC proxy exposure in the Indian CPC sector based on the potential for the following: (i) Growth in premium/generic products across categories in domestic/export markets (ii) New orders from SCC, Japan for five contracted molecules will commence from FY24E and (iii) Likely volume/price gains in the domestic CPC sector in FY23 on the back of improving Rabi sowing trends and healthy crop prices. In our view, the decline in input prices is likely to aid margin expansion for SCIL next year.

Long-term prospects for margin expansion are healthy on the back of the higher share of Specialty Products - currently at 30% as of 1HFY23.

- Revenue CAGR of 16.9% over FY22-FY25E, aided by new launches in PGR and CPC categories across crops. The company launched seven new products in FY21, six in FY22 and eight in 1HFY23, including three under India's 9(3) registration.
- Japanese parent is sourcing five molecules from SCIL for its Japan CPC operations. This offers an upside of Rs2.2bn at full-scale from FY24E and opens up further scope to meet SCC's overseas sourcing requirements of intermediates and Active Ingredients (AI).
- Mid-teens topline growth and EBITDA margin expansion from 19.6% to 23.9% will support 25.8% CAGR in EPS over FY22-FY25E. We see free cash flow (FCF) and ROIC rising from Rs581mn to Rs5.73bn and 31.9% to 39% over FY22-FY25E.
- The stock trades at PE of 30.5x on Sept'24E EPS vs 1-year median PE of 37.3x (short listing history).

Glyphosate overview

Glyphosate Market

Glyphosate is an active chemical used as a popular herbicide in India and across the world. China is considered to be the world leader in Glyphosate with an annual capacity of ~8,00,000 tonnes/annum. China plans to cut this production capacity by a third - 20,000 tonnes per month (cut of 2,40,000 tonnes/annum), from mid-Nov'22. This move by China is in accordance with the country's carbon emission norms.

Exhibit 1: Glyphosate market

| Glyphosate (in tonnes) | Capacity | Production | Exports |
|------------------------|----------|------------|---------|
| China | 80,0000 | 580,000 | 522,000 |
| World | 1200,000 | - | - |

Source: agronews; agropages.com; Nirmal Bang Institutional Research

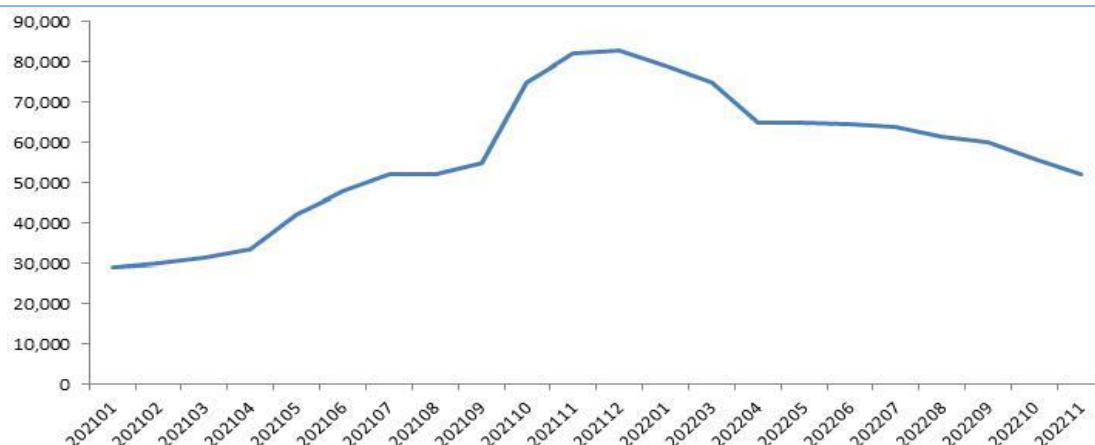
Positives for India:

Reduction in capacity by China: The reduction in capacity in China will be beneficial for India as Glyphosate, which is regarded as the most used pesticide in the world with a market size of ~US\$5.6bn, will create additional export opportunities for India. Plants in China are already running at full capacity, which indicates that demand in the market is strong. This, along with high exports (90% production is exported) from China provide evidence of high demand for Glyphosate in the global market.

Price levels still high: Price of Glyphosate moved from a low of RMB 20,000/tonne (US\$2,800/tonne) in January 2021 to RMB 83,000/tonne (US\$11,622/tonne) in December 2021 – up 415% in CY21. The price declined from RMB 79,000/tonne (US\$11,062/tonne) in January 2022 to RMB 52,000/tonne (US\$7,281/tonne) in mid-Nov'22 – down 34.2% YTD. The drop in RM prices and high inventory levels are leading to this current downward trend.

Demand to stay high in future: non-elastic demand for food, continuous expansion in GMO crop planting area and better cost performance over other burndown herbicides will push demand for Glyphosates, according to third-party research.

Exhibit 2: 2021-2022 Glyphosate Technical Price Indications (RMB/tonne)



Source: agronews; agropages.com; Nirmal Bang Institutional Research

Article source: <https://news.agropages.com/News/NewsDetail---44736.htm>, Nirmal Bang Institutional Research

Govt's October notification on Glyphosate application:

The Government, as per its notification (dated 25th Oct'22) has not banned the use of Glyphosate – it has only stipulated that this herbicide chemical has to be sprayed by a PCO.

- SCIL's 1HFY23 domestic sales volume of Glyphosate was down 40% YoY whereas 1HFY23 exports were up 451% YoY - albeit on a low base. Export markets are likely to see even greater traction in 2HFY23 as per normal trend in the past. The domestic Glyphosate volume was down mostly because of adverse climatic conditions, which delayed spraying. The management sees domestic sales of this chemical touching normal volume in Kharif FY24 season.
- We have learned that the industry, including SCIL, could counter the new guidelines on Glyphosate by offering value-added services to farmers in terms of setting up infrastructure for PCOs for spraying of Glyphosate. PCOs require 15 days of training time before being employed.
- Till date, the industry has not found any health hazard from the use of Glyphosate in prevalent Indian states (Maharashtra and Gujarat), where the usage is among the highest in India.
- We expect the situation to be normal in 1-2 months as market sales will revive to normal levels. Glyphosate is considered to be a very important herbicide with no major substitute for the broad spectrum of weeds/crops it can tackle. India has a market size of Rs11-12bn for Glyphosate, of which, SCIL accounts for ~30% share – ~Rs3.3-3.6bn, as per our channel checks.
- Based on our channel checks, we understand the following details: SCIL's domestic revenue from Glyphosate is normally ~85% with the rest coming from exports. In 1HFY23, SCIL's revenue was split 90%/10% in terms of domestic/export sales. The company's 1HFY23 Glyphosate export revenue stood at Rs530-540mn. The export share can touch 17% by the end of FY23. SCIL's gross margin from Glyphosate is lower at ~27.5% - lower than SCIL's blended margin.
- Gross margin from exports of other products is in line with the company's overall gross margin.
- **Cost impact on farmers for spraying Glyphosate:** This generally costs them Rs300-500/acre, as per our sources. The cost for the farmers who spray Glyphosate themselves (using hired PCOs) will be higher compared to those that use hired labour.

Earnings and TP

We have maintained our EPS estimates and TP using PE of 35x on Sept'24E.

Exhibit 3: Operating assumptions and margins

| Rsmn | FY20 | FY21 | FY22 | FY23E | FY24E | FY25E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Domestic Revenue - Branded | 15,712 | 18,001 | 18,884 | 22,273 | 25,613 | 29,455 |
| Domestic Revenue - Bulk | 3,686 | 3,951 | 5,020 | 5,765 | 6,457 | 7,232 |
| Total Domestic Revenue | 19,398 | 21,953 | 23,904 | 28,038 | 32,070 | 36,687 |
| Export Revenue - Branded | 1,697 | 1,574 | 1,618 | 2,116 | 2,539 | 2,996 |
| Export Revenue - Bulk | 3,152 | 2,923 | 5,124 | 6,639 | 7,967 | 9,467 |
| Total Export Revenue | 4,849 | 4,496 | 6,742 | 8,755 | 10,506 | 12,464 |
| Total Company Revenue | 24,247 | 26,449 | 30,646 | 36,793 | 42,577 | 49,151 |
| Growth - Domestic Revenue % | 12.7 | 13.2 | 8.9 | 17.3 | 14.4 | 14.4 |
| Growth - Export Revenue | 0.2 | -7.3 | 49.9 | 29.9 | 20.0 | 18.6 |
| Growth- Company Revenue % | 10.0 | 9.1 | 15.9 | 20.1 | 15.7 | 15.4 |
| Raw material/sales % | 66.3 | 62.6 | 62.3 | 62.7 | 62.2 | 62.2 |
| EBITDA Margin % | 13.7 | 18.4 | 19.6 | 20.8 | 22.8 | 23.9 |

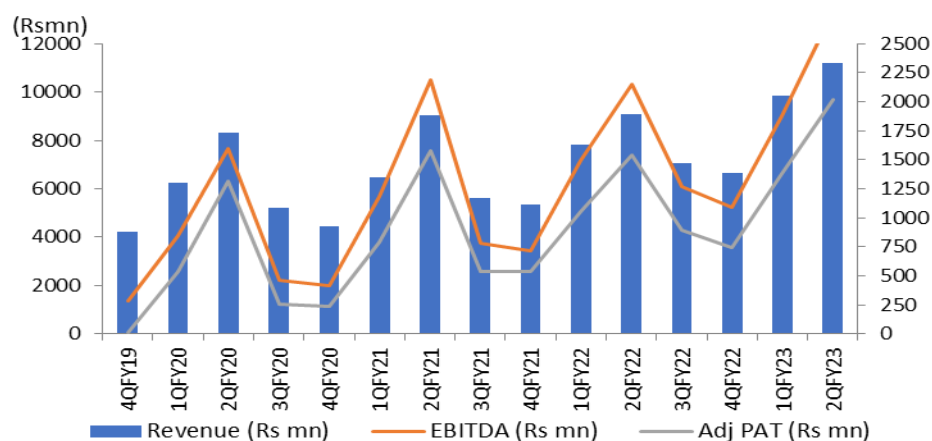
Source: Company, Nirmal Bang Institutional Equities Research

Sensitivity analysis:

- A 5% cut in revenue implies a 5.1%/5.1% hit on EPS in FY24E/FY25E.
- A 5% increase in COGS implies 14.1%/13.4% hit in FY24E/FY25E.

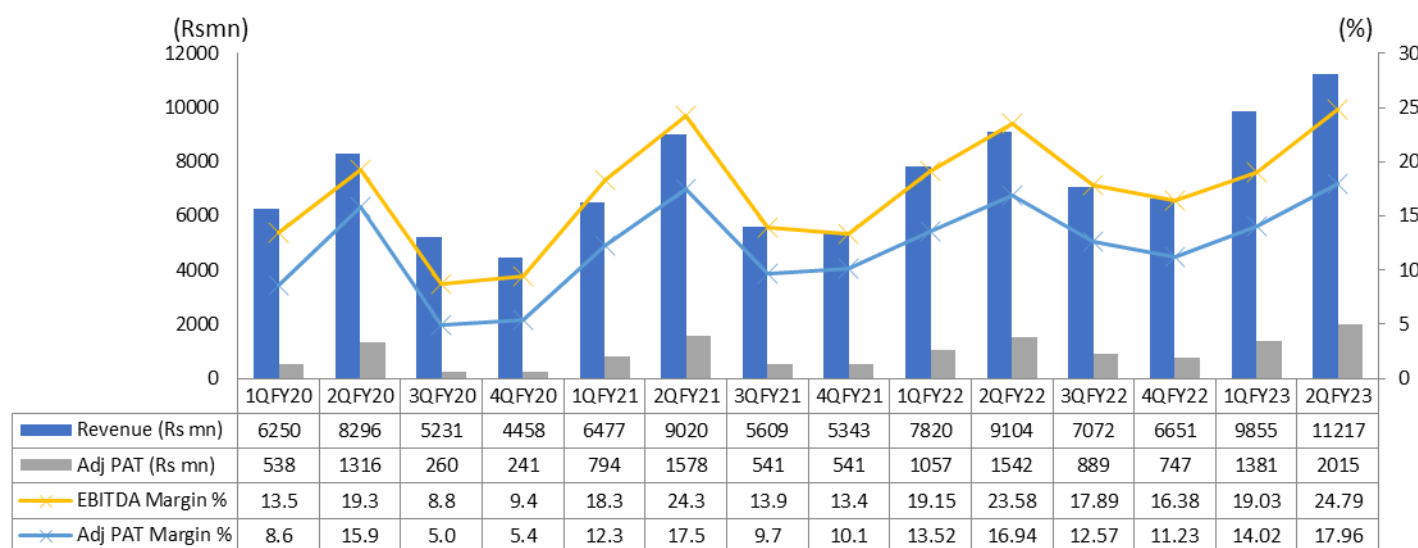
Financials in charts

Exhibit 4: Trend in quarterly Revenue, EBITDA and PAT



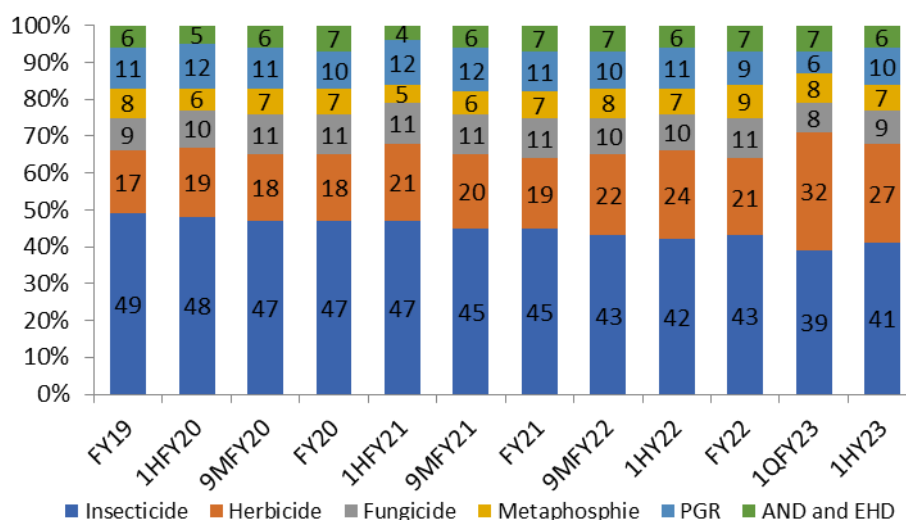
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Trend in quarterly Revenue, Earnings and Margins



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Category-wise revenue break-up



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Revenue mix

| Share % | FY20 | FY21 | FY22 | 1HFY21 | 1HFY22 | 9MFY21 | 9MFY22 | 4QFY21 | 4QFY22 | 1QFY23 | 1HFY23 |
|--------------------------|------|------|------|--------|--------|--------|--------|--------|--------|--------|--------|
| Domestic/Exports | | | | | | | | | | | |
| Domestic revenue | 80 | 83 | 78 | 86 | 85 | 85 | 81 | 77 | 69 | 80 | 81 |
| Export | 20 | 17 | 22 | 14 | 15 | 15 | 19 | 23 | 31 | 20 | 19 |
| Bulk/Brands | | | | | | | | | | | |
| Domestic -Brands | 81 | 82 | 92 | 88 | 83 | 85 | 80 | 91 | 76 | 78 | 82 |
| Domestic -Bulk | 19 | 18 | 8 | 12 | 17 | 15 | 20 | 9 | 24 | 22 | 18 |
| Export Brands | 35 | 35 | 8 | 27 | 28 | 29 | 24 | 32 | 24 | 32 | 29 |
| Export - Bulk | 65 | 65 | 92 | 73 | 72 | 71 | 76 | 68 | 76 | 68 | 71 |
| Generic/Specialty | | | | | | | | | | | |
| Generics | 71 | 68 | 70 | 66 | 67 | 66 | 69 | 74 | 73 | 75 | 70 |
| Specialty | 29 | 32 | 30 | 34 | 33 | 34 | 31 | 26 | 27 | 25 | 30 |

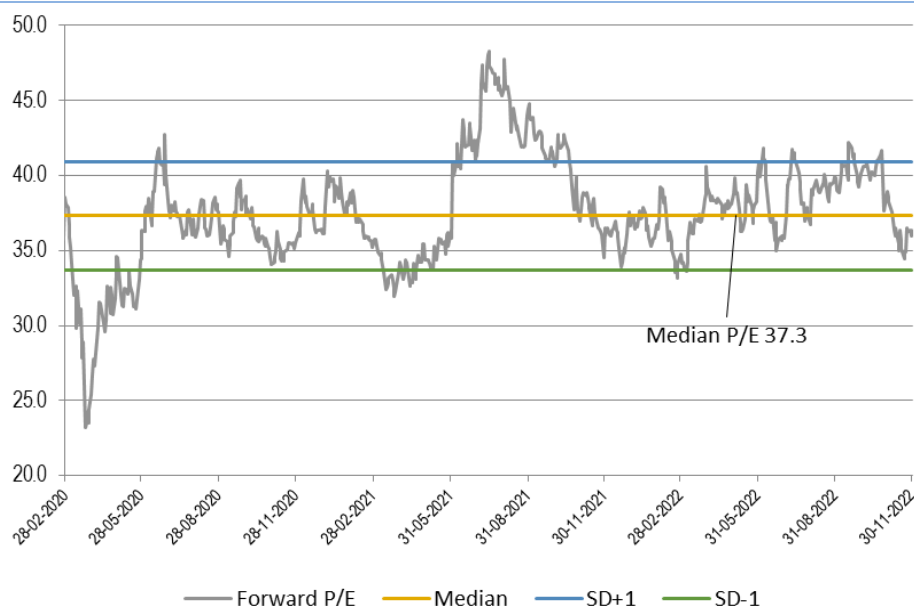
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Exports share (%) trend

| Exports pie % - countries/regions | FY20 | FY21 | 1QFY21 | 1QFY22 | 1HFY21 | 1HFY22 | 9M FY21 | 9M FY22 | FY21 | FY22 | 1QFY23 | 1HFY23 |
|-----------------------------------|------|------|--------|--------|--------|--------|---------|---------|------|------|--------|--------|
| India | 80 | 83 | 85 | 87 | 87 | 85 | 85 | 81 | 83 | 78 | 80 | 81 |
| SOUTH AMERICA | 2 | 4 | 2 | 4 | 3 | 5 | 3 | 8 | 4 | 10 | 7 | 6 |
| Asia ex India | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 3 | 3 |
| AFRICA | 6 | 5 | 4 | 4 | 3 | 3 | 3 | 4 | 5 | 4 | 5 | 4 |
| JAPAN | 3 | 3 | 5 | 0 | 4 | 3 | 4 | 4 | 3 | 4 | 1 | 3 |
| NORTH AMERICA | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 1 |
| EUROPE | 4 | 2 | 2 | 1 | 1 | 1 | 2 | 1 | 2 | 1 | 3 | 2 |
| AUSTRALIA | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 0 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: SCIL 1-year forward P/E trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: Peer group analysis

| | CMP | Mkt cap | Revenue (Rsmn) | | | Net Profit (Rsmn) | | | EPS (Rs.) | | | PE (x) | | |
|------------------------------|-------|----------|----------------|----------|----------|-------------------|--------|--------|-----------|--------|--------|--------|-------|-------|
| Company | (Rs) | (US\$mn) | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E | FY23E | FY24E | FY25E |
| Rated companies | | | | | | | | | | | | | | |
| UPL Limited | 790 | 7286 | 5,42,404 | 6,14,077 | 6,94,278 | 46,788 | 59,287 | 69,086 | 62.33 | 78.99 | 92.04 | 12.7 | 10.0 | 8.6 |
| Coromandel Industries | 930 | 3358 | 2,61,077 | 2,69,712 | 2,84,860 | 19,741 | 20,543 | 22,476 | 67.26 | 69.99 | 76.58 | 13.8 | 13.3 | 12.1 |
| PI Industries | 3493 | 6514 | 68,072 | 83,465 | 1,00,867 | 12,575 | 16,146 | 19,338 | 82.94 | 106.50 | 127.55 | 42.1 | 32.8 | 27.4 |
| SRF Ltd | 2366 | 8619 | 1,50,716 | 1,81,167 | 2,13,995 | 23,575 | 27,601 | 31,888 | 79.60 | 93.20 | 107.60 | 29.7 | 25.4 | 22.0 |
| Aarti Industries | 675 | 3006 | 65,749 | 82,684 | 97,564 | 5,759 | 9,079 | 10,918 | 15.90 | 25.00 | 30.10 | 42.4 | 27.0 | 22.4 |
| Navin Fluorine International | 4342 | 2645 | 19,067 | 28,557 | 34,718 | 2,834 | 4,636 | 5,629 | 57.30 | 93.70 | 113.80 | 75.8 | 46.3 | 38.2 |
| Average | | | | | | | | | | | | 36.1 | 25.8 | 21.8 |
| SCIL | 473 | 2903 | 36,793 | 42,577 | 49,151 | 5,517 | 7,006 | 8,496 | 11.04 | 14.01 | 16.99 | 42.9 | 33.8 | 27.8 |
| Non-rated companies | | | | | | | | | | | | | | |
| CPC peers | | | | | | | | | | | | | | |
| Bayer Crop Science | 4,630 | 2558 | 53,840 | 59,125 | 65,423 | 6,965 | 8,186 | 9,315 | 155.06 | 182.27 | 207.34 | 29.9 | 25.4 | 22.3 |
| BASF India | 2,661 | 1408 | 1,41,773 | 1,52,482 | NA | 5,619 | 6,133 | NA | 129.80 | 141.65 | NA | 20.5 | 18.8 | NA |
| Rallis India | 243 | 568 | 30,231 | 33,812 | 38,111 | 1,881 | 2,384 | 2,847 | 9.64 | 12.11 | 14.53 | 25.2 | 20.1 | 16.7 |
| Dhanuka Agritech | 705 | 400 | 16,613 | 18,832 | 19,914 | 2,250 | 2,554 | 2,941 | 48.56 | 55.15 | 63.69 | 14.5 | 12.8 | 11.1 |
| Average P/E | | | | | | | | | | | | 22.5 | 19.3 | 16.7 |

Source: Nirmal Bang Institutional Equities Research

Annexure -1: Extract from SCIL 2QFY23 concall KTAs

Business trends

- SCIL saw both price as well as volume increase in insecticides and herbicides (apart from Glyphosate).
- Bio-rational registration for three new products is underway in India under the Fertilizers Act.
- HTBT cotton is expected to be approved in about a month's time. This is expected to further drive-up demand for Glyphosate to ~12mn litres, as per management. Current consumption in India is ~3mn litres.
- **New products:** 3 insecticides, 1 fungicide, 1 metal phosphide and 3 PGR products were launched during 1HFY23. This included three 9(3) products - Sumi Blue Diamond, Pycrome and Danitol NXT.
- The company has also received registration for two products with large potential in the LatAm market. The plant for these products is likely to be ready in 4QFY23 and commercial exports are expected to start in 1QFY24.

Working capital

- The management feels that carrying high inventory levels may affect Rabi season (1-2 months) for the Indian CPC sector; but, SCIL does not carry high inventories. Net working capital stood at Rs9.42bn compared to Rs6.22bn in Sept'21. In terms of days, it increased from 72 days to 94 days during the same period.
- Maintained lower inventory levels compared to the previous two quarters on the back of improvement in input supply chain channels and decrease in input costs. Inventory days stood at 110 days as on Sept'22 compared to 136 days in June'22 and 111 days in Sept'21.
- Focused efforts on improving collections - collection in H1FY23 stood at ~Rs21.31bn compared to Rs18.75bn in H1FY22, up by 14% YoY. Trade receivable days stood at 101 as on Sept'22 vs 105 days in Sept'21. However, it slightly increased from 98 days, as on June'22.
- Cash, cash equivalents and liquid investments stood at ~Rs8bn, as on 30th Sept'22.

Capex:

- Regular maintenance capex of Rs700-750mn per annum and additional capex of Rs1.2bn over two years for five products to be manufactured for SCC, Japan. Revenue potential from this would be ~Rs2-2.5bn with margins similar to SCIL's current blended level.
- One project in Bhavnagar, Gujarat for an important global proprietary product has begun commercial production. Some revenue from this product will be visible from 2HFY23 and full potential will fructify FY24 onwards.
- Other four products will be ready for commercial production by 1QFY24 based on the scheduled expansion of Tarapur, which is to be completed by 1QFY24.
- Further investments will be made in FY26 for expansion of Dahej facility. The management indicated an additional capex at this site worth Rs2.5-3bn from FY24, pending finalisation – this is aimed at both Indian as well as export sales.
- Bhavnagar, Gujarat also has spare land, which is available for future expansion, especially in Tebuconazole Fungicide. The company sees 2x demand for SCC's proprietary combination product formulation in this category.
- The management does not expect slowdown in food demand and hence is positive about the consumption of pesticides, especially in India, which has very low level of consumption. It also stated that if the prices of raw materials fall, then they will take price cuts as necessary and will aim to increase volume to protect the overall absolute revenue and margins.
- The management expects a better rabi season vs kharif season with improving soil moisture.

SCIL Financials—Consolidated

Exhibit 11: Income statement

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenue | 26,449 | 30,646 | 36,793 | 42,577 | 49,151 |
| y/y | 9.08 | 15.87 | 20.06 | 15.72 | 15.44 |
| Raw Material Expenses | 16,554 | 19,080 | 23,084 | 26,500 | 30,592 |
| RM/Sales % | 62.6 | 62.3 | 62.7 | 62.2 | 62.2 |
| Employee cost | 1,943 | 2,020 | 2,191 | 2,322 | 2,485 |
| Power and fuel cost | 278 | 306 | 330 | 350 | 374 |
| Selling, Gen.&Admn.Exp. | 2,806 | 3,241 | 3,518 | 3,700 | 3,960 |
| EBITDA | 4,869 | 5,999 | 7,670 | 9,704 | 11,740 |
| y/y | 46.13 | 23.22 | 27.85 | 26.51 | 20.98 |
| Depreciation | 466 | 448 | 505 | 587 | 669 |
| EBIT | 4,403 | 5,551 | 7,165 | 9,117 | 11,071 |
| Interest Expense | 56 | 62 | 50 | 50 | 50 |
| Other Income | 186 | 268 | 307 | 357 | 407 |
| PBT (adjusted) | 4,533 | 5,757 | 7,422 | 9,424 | 11,428 |
| - Income Tax Expense | 1,079 | 1,522 | 1,904 | 2,418 | 2,932 |
| Consolidated PAT adj. | 3,454 | 4,236 | 5,517 | 7,006 | 8,496 |
| Exceptional items | - | - | - | - | - |
| Consolidated PAT reported | 3,454 | 4,236 | 5,517 | 7,006 | 8,496 |
| Diluted EPS (adjusted) | 6.91 | 8.47 | 11.04 | 14.01 | 16.99 |
| y/y | 46.62 | 22.62 | 30.27 | 26.97 | 21.27 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

| Y/E March (Rsmn) | FY21 | FY22 | FY23E | FY24E | FY25E |
|---------------------------------------|---------------|---------------|---------------|--------------|---------------|
| PBT | 4,533 | 5,757 | 7,422 | 9,424 | 11,428 |
| Add depreciation | 466 | 448 | 505 | 587 | 669 |
| Other adjustments | 590 | 15 | -257 | -307 | -357 |
| Change in W/C | 256 | 2,576 | 1,960 | 2,157 | 2,229 |
| Income tax | 1,079 | 1,426 | 1,904 | 2,418 | 2,932 |
| Cashflow from Operations (A) | 4,254 | 2,218 | 3,806 | 5,129 | 6,579 |
| Capex | 428 | 1,135 | 1,583 | 931 | 850 |
| Other Non-Current Assets | 1,969 | 502 | - | - | - |
| Other income | - | - | - | - | - |
| Free cashflow | 1,857 | 581 | 2,223 | 4,198 | 5,729 |
| Cashflow from Investing (B) | -2,397 | -1,637 | -1,583 | -931 | -850 |
| Ch in Borrowing | - | - | - | - | - |
| Dividends paid including dividend tax | 275 | 400 | 750 | 750 | 1,251 |
| Interest exp | 15 | 14 | 50 | 50 | 50 |
| Others (incl. QIP) | -708 | -1,477 | 308 | 357 | 407 |
| Cashflow from Financing (C) | -908 | -1,892 | -492 | -443 | -894 |
| Ch in Cash and Cash equiv | 948 | -1,311 | 1,730 | 3,755 | 4,835 |
| Opening cash | 935 | 1,883 | 572 | 2,302 | 6,057 |
| Closing cash | 1,883 | 572 | 2,302 | 6,057 | 10,892 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

| Y/E March (Rsmn): Consolidated | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---------------|---------------|---------------|---------------|---------------|
| Equity Share Capital | 4,991 | 4,991 | 4,991 | 4,991 | 4,992 |
| Reserves and Surplus | 10,421 | 14,281 | 19,048 | 25,304 | 32,549 |
| Networth | 15,412 | 19,272 | 24,040 | 30,296 | 37,542 |
| Non-controlling interest | 1 | 0 | 0 | 0 | 0 |
| Long Term Borrowings | 0 | 0 | 0 | 0 | 0 |
| Deferred Tax Assets / Liabilities | 50 | 139 | 139 | 139 | 139 |
| Other Long TermLiabilities+Provisions | 445 | 471 | 471 | 471 | 471 |
| Trade Payables | 5,983 | 5,172 | 6,696 | 7,749 | 8,945 |
| Other Current and financial Liabilities | 4,752 | 4,924 | 4,924 | 4,924 | 4,923 |
| Short Term Borrowings | 0 | 0 | 0 | 0 | 0 |
| Income tax liabilities | 0 | 47 | 47 | 47 | 47 |
| Short Term Provisions | 56 | 72 | 104 | 103 | 124 |
| Total Capital and Liabilities | 26,701 | 30,096 | 36,420 | 43,729 | 52,191 |
| Net Block | 2,782 | 3,540 | 3,907 | 4,206 | 4,439 |
| Goodwill on consolidation | 0 | 0 | 0 | 0 | 0 |
| CWIP plus IUD | 142 | 352 | 1,085 | 1,167 | 1,167 |
| Other Investments | 1 | 1 | 1 | 1 | 1 |
| Other Non-Current Assets | 731 | 983 | 961 | 924 | 872 |
| Currents Investments | 2,902 | 3,560 | 3,560 | 3,560 | 3,560 |
| Inventories | 7,544 | 9,378 | 10,158 | 11,754 | 13,569 |
| Sundry Debtors | 8,482 | 8,431 | 11,167 | 12,780 | 14,411 |
| Cash and other cash balances | 1,883 | 572 | 2,303 | 6,057 | 10,892 |
| Other Financial assets | 537 | 219 | 219 | 219 | 219 |
| Statutory receivables | 77 | 5 | 5 | 5 | 5 |
| Other current assets | 1,617 | 3,055 | 3,055 | 3,055 | 3,055 |
| Total Assets | 26,701 | 30,096 | 36,420 | 43,729 | 52,191 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

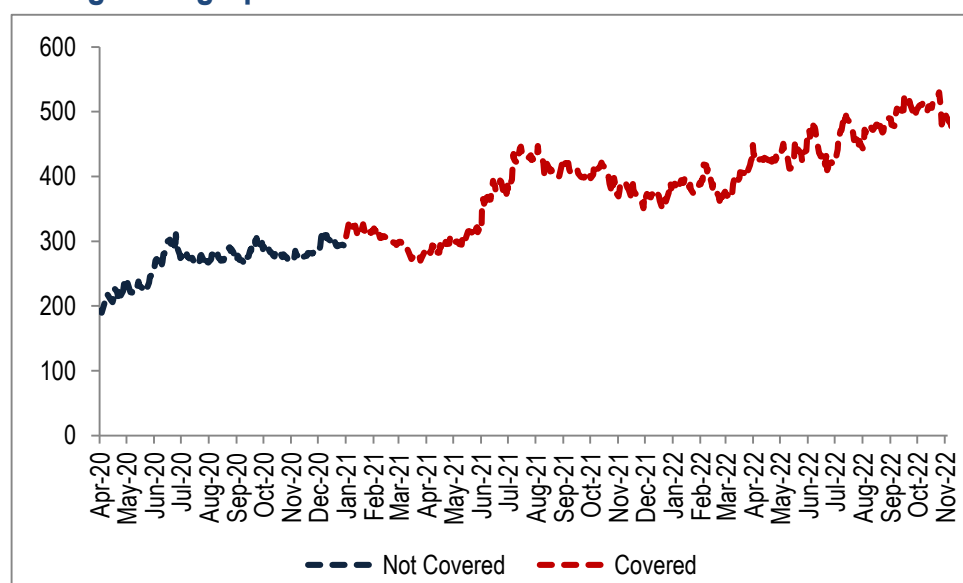
| Y/E March: Consolidated | FY21 | FY22 | FY23E | FY24E | FY25E |
|--|---------------|---------------|---------------|---------------|----------------|
| Profitability & return ratios | | | | | |
| EBITDA margin (%) | 18.4 | 19.6 | 20.8 | 22.8 | 23.9 |
| EBIT margin (%) | 16.6 | 18.1 | 19.5 | 21.4 | 22.5 |
| Adj Net profit margin (%) | 13.1 | 13.8 | 15.0 | 16.5 | 17.3 |
| RoE (%) | 25.0 | 24.4 | 24.3 | 26.8 | 28.5 |
| Pre-tax RoCE (%) | 23.5 | 22.8 | 23.9 | 24.4 | 23.8 |
| RoIC (%) | 31.6 | 31.9 | 32.6 | 36.3 | 39.0 |
| Working capital ratios | | | | | |
| Receivables (days) | 117 | 101 | 111 | 110 | 107 |
| Inventory (days) | 93 | 101 | 101 | 101 | 101 |
| Payables (days) | 75 | 66 | 66 | 66 | 66 |
| Cash conversion cycle | 135 | 135 | 145 | 144 | 141 |
| Leverage ratios | | | | | |
| Net debt (Rsmn) | -5,323 | -4,351 | -6,082 | -9,836 | -14,671 |
| Net Debt (cash)/Equity (X) | -0.35 | -0.23 | -0.25 | -0.32 | -0.39 |
| Net Debt/EBITDA | -1.09 | -0.73 | -0.79 | -1.01 | -1.25 |
| Valuation ratios | | | | | |
| EV/sales (x) | 8.78 | 7.58 | 6.31 | 5.46 | 4.73 |
| EV/EBITDA (x) | 47.72 | 38.73 | 30.29 | 23.94 | 19.79 |
| EV/FCF | 125.1 | 400.1 | 104.5 | 55.3 | 40.6 |
| P/E (x) | 68.52 | 55.88 | 42.90 | 33.78 | 27.86 |
| P/BV (x) | 15.36 | 12.28 | 9.85 | 7.81 | 6.30 |
| FCF Yield (%) | 0.25 | 0.25 | 0.96 | 1.81 | 2.47 |
| Dividend Yield (%) | 0.17 | 0.21 | 0.32 | 0.32 | 0.53 |
| Per share ratios | | | | | |
| EPS | 6.91 | 8.47 | 11.04 | 14.01 | 16.99 |
| Cash EPS | 7.84 | 9.37 | 12.05 | 15.19 | 18.33 |
| BVPS | 30.83 | 38.55 | 48.09 | 60.60 | 75.10 |
| DPS | 0.80 | 1.00 | 1.50 | 1.50 | 2.50 |

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

| Date | Rating | Market price (Rs) | Target price (Rs) |
|-------------------|------------|-------------------|-------------------|
| 30 December 2020 | Buy | 294 | 348 |
| 8 February 2021 | Accumulate | 318 | 349 |
| 2 June 2021 | Buy | 319 | 405 |
| 5 August 2021 | Accumulate | 430 | 426 |
| 24 September 2021 | Buy | 398 | 477 |
| 2 November 2021 | Buy | 378 | 477 |
| 4 February 2022 | Buy | 395 | 493 |
| 1 June 2022 | Accumulate | 464 | 493 |
| 26 August 2022 | Accumulate | 483 | 493 |
| 15 September 2022 | Accumulate | 494 | 529 |
| 1 November 2022 | Accumulate | 493 | 543 |
| 1 December 2022 | Buy | 473 | 543 |

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Ramesh Sankaranarayanan, research analyst and the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

| Team Details: | | | |
|----------------|------------------|-------------------------------|---|
| Name | | Email Id | Direct Line |
| Rahul Arora | CEO | rahul.arora@nirmalbang.com | - |
| Girish Pai | Head of Research | girish.pai@nirmalbang.com | +91 22 6273 8017 / 18 |
| Dealing | | | |
| Ravi Jagtiani | Dealing Desk | ravi.jagtiani@nirmalbang.com | +91 22 6273 8230, +91 22 6636 8833 |
| Michael Pillai | Dealing Desk | michael.pillai@nirmalbang.com | +91 22 6273 8102/8103, +91 22 6636 8830 |

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010