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Q3FY23 result review; TP
and earnings revision

Agriculture

Target price: Rs500

Earnings revision

(%)	FY23E	FY24E
Sales	↑ 3.8	↑ 3.8
EBITDA	↑ 3.8	↑ 3.8
EPS	↑ 4.0	↑ 3.8

Target price revision

Rs500 from Rs530

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	75.0	75.0	75.0
Institutional investors	8.6	8.5	7.6
MFs and others	2.5	2.6	3.0
FIs/Bank/Ins	4.1	3.6	2.1
FIs	2.0	2.3	2.5
Others	16.4	16.5	17.4

Source: BSE (Listed in Jan'20)

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score
indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

Sumitomo Chemicals



ADD
Maintained

Prolonged monsoon and high trade inventory impact primary sales

Rs449

Sumitomo's Q3FY23 was impacted by multiple one-offs such as (1) prolonged monsoon delayed sowing in Rabi season, (2) higher inventory in trade from Kharif season impacted primary sales in Q3FY23 and (3) there were lower sales of fungicides due to shift of agri cycle. However, we believe these issues are likely to reverse in next 1-2 quarters and model company to report revenue CAGR of 10.4% over FY23-25. We also note the exports to parent are likely to commence in next 12 months and it could be a structural re-rating driver for Sumitomo India. The company continued to introduce differentiated products with nine new product launches in 9MFY23. New launches are likely to set off revenue loss (if any) due to restrictions on usage of Glyphosate, key product for Sumitomo.

We model an earnings CAGR of 15% over FY22-FY25E and maintain **ADD** on the stock with a revised DCF-based target price of Rs500 (implied P/E 39x FY25E EPS; earlier TP: Rs530).

- **Q3FY23 result:** Sumitomo reported strong revenue and PAT growth of 6.6% and 1.7%, respectively YoY. EBITDA declined 4.8% YoY. Gross and EBITDA margins were down 223bps and 191bps, respectively. Higher other income due to cash accumulation and higher interest rates as well as 50bps lower effective tax resulted in 1.7% PAT growth in-spite of EBITDA decline.
- **High trade inventory impacted primary sales:** The company's revenue growth was affected due to (1) high trade inventory due to lower off-take during Kharif season and lower pest infestation and (2) delayed sowing in Rabi season due to prolonged monsoon. The revenues of fungicide were more affected.
- **Supplies to parent likely to commence in next 12 months:** Sumitomo's capex is as per targets and it plans to commercialize the new units for exports in next 12 months. We model commencement of supplies to Sumitomo's parent are likely to be structural rerating driver. The company plans to incur capex of Rs1.2bn and achieve sales of Rs2-2.5bn on an annualized basis with similar margins to the company.
- **Glyphosate sales to be impacted in near term:** With restrictions of usage on glyphosate, Sumitomo's earnings are likely to be impacted in near term. While we expect the industry and the company to invest in training of operators to use glyphosate, we model there will be impact on earnings in next 2-3 quarters.
- **Maintain ADD:** We model Sumitomo to report PAT CAGR of 15% over FY22-FY25E, and RoCE > 23% over FY22-25. We maintain our **ADD** rating on the stock and value it at a revised DCF-based target price of Rs500, implying a target P/E of 39x FY25E. Key risks are higher competition and steep inflation.

Market Cap	Rs224bn/US\$2.7bn
Bloomberg	SUMICHEM IN
Shares Outstanding (mn)	499.1
52-week Range (Rs)	530/359
Free Float (%)	25.0
FII (%)	2.5
Daily Volume (US\$'000)	2,693
Absolute Return 3m (%)	(8.5)
Absolute Return 12m (%)	13.9
Sensex Return 3m (%)	0.1
Sensex Return 12m (%)	4.8

Year ending Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	30,646	35,772	39,470	43,620
Adj Net Profit (Rs mn)	4,236	5,112	5,759	6,449
Dil. Rec. EPS (Rs)	8.5	10.2	11.5	12.9
% Chg YoY	22.1	20.7	12.7	12.0
P/E (x)	52.9	43.8	38.9	34.8
CEPS (Rs)	9.4	11.3	12.7	14.3
EV/EBITDA (x)	36.6	31.0	28.1	25.4
Dividend Yield (%)	0.1	0.1	0.1	0.1
RoCE (%)	30.9	29.5	26.3	23.9
RoE (%)	24.4	23.4	21.4	19.7

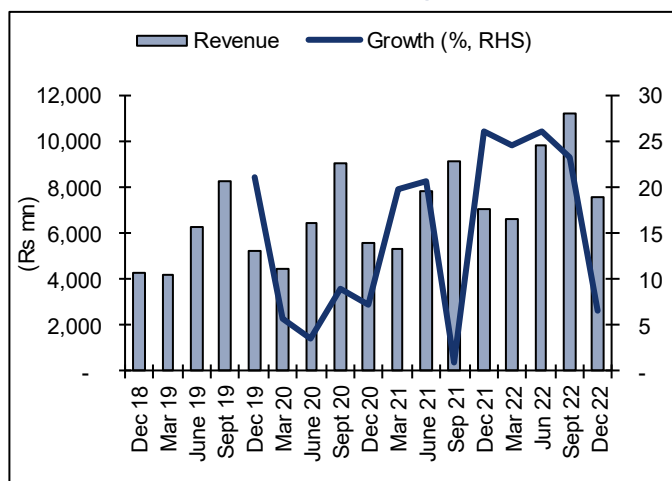
Please refer to important disclosures at the end of this report

Table 1: Q3FY23 financial performance*(Rs mn, year ending March 31)*

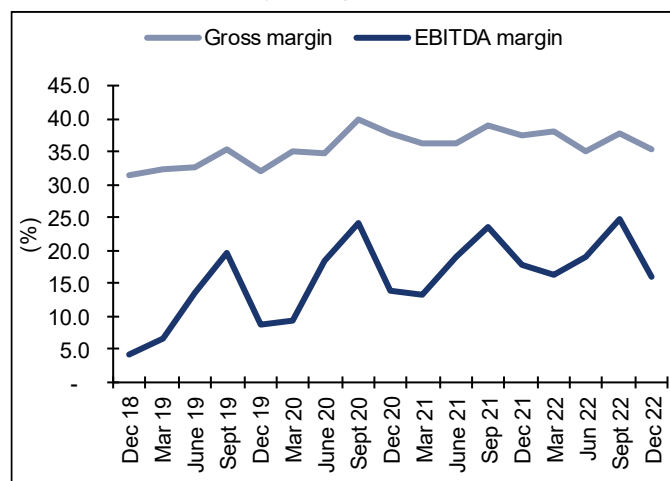
Y/e March	Q3FY23	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)
Revenue	7,537	7,072	6.6	11,217	(32.8)
Expenditure					
Raw materials	4,873	4,415	10.4	6,967	(30.1)
% of revenue	64.7	62.4		62.1	
Employee cost	523	518	1.0	543	(3.6)
% of revenue	6.9	7.3		4.8	
Other expenditure	936	873	7.1	926	1.1
% of revenue	12.4	12.4		8.3	
Total expenditure	6,332	5,807	9.1	8,436	(24.9)
EBITDA	1,204	1,265	(4.8)	2,780	(56.7)
EBITDA margin	16.0	17.9		24.8	
Other income	132	62	114.1	105	25.0
PBDIT	1,336	1,327	0.7	2,886	(53.7)
Depreciation	114	114	0.0	152	(25.1)
PBIT	1,222	1,213	0.8	2,734	(55.3)
Interest	13	16	(18.7)	14	(4.7)
PBT	1,209	1,197	1.0	2,720	(55.5)
Prov for tax	304	307	(1.0)	705	(56.9)
% of PBT	25.2	25.7		25.9	
Adjusted PAT	905	889	1.7	2,015	(55.1)
Extra ordinary items	(12)	5	(330.2)	3	(539.8)
Minority interest	-	(0)		-	
Reported PAT	893	894	(0.2)	2,017	(55.7)

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenue and revenue growth YoY

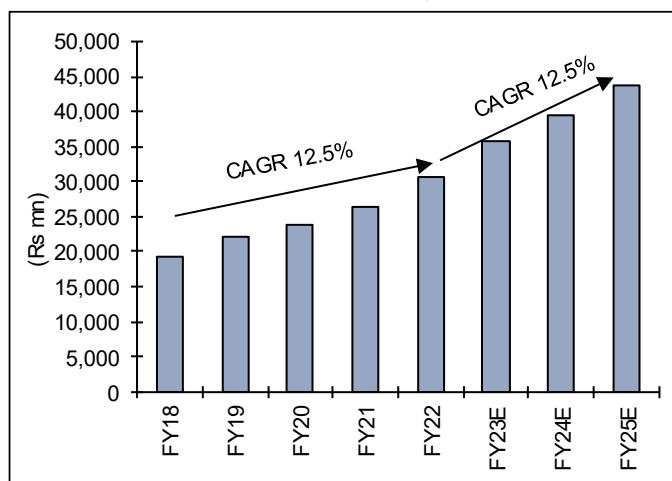
Source: Company data, I-Sec research

Chart 2: Profitability margins

Source: Company data, I-Sec research

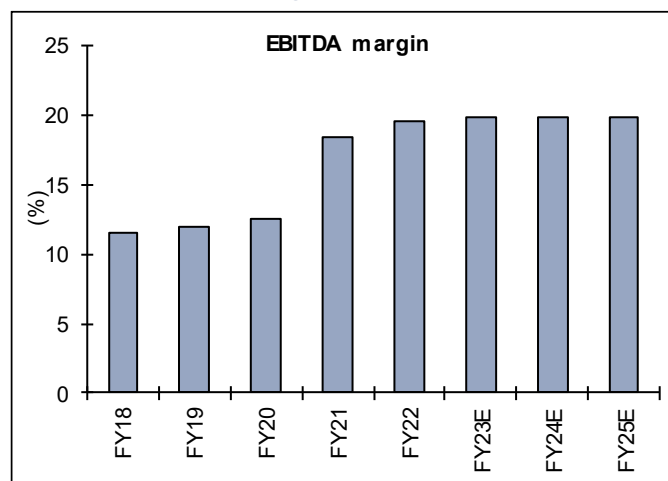
Key ratios – annual

Chart 3: Revenue and revenue growth



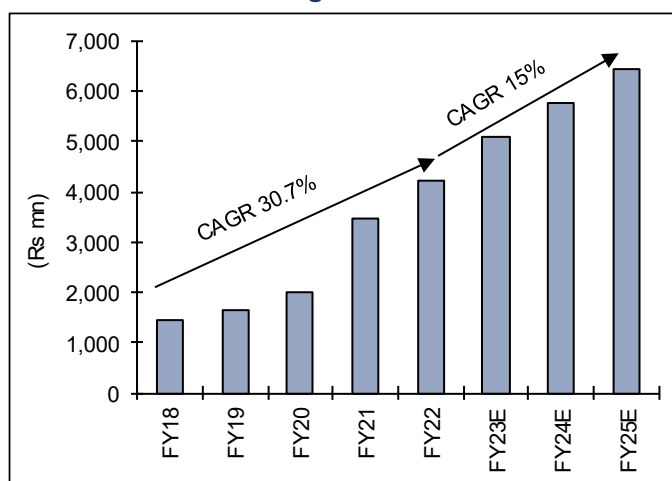
Source: Company data, I-Sec research

Chart 4: EBITDA margin



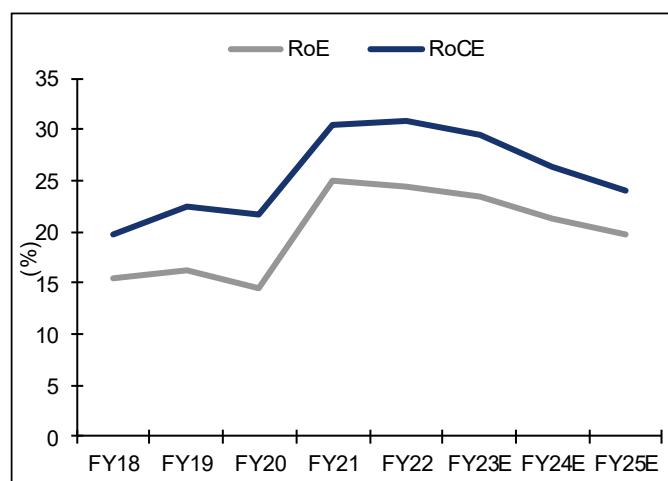
Source: Company data, I-Sec research

Chart 5: PAT and PAT growth



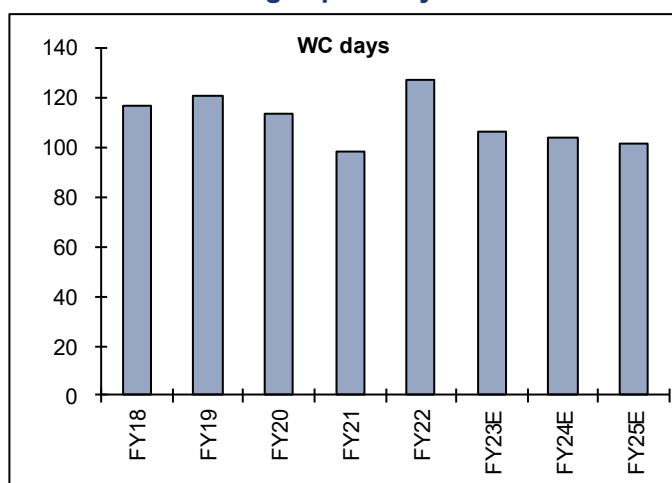
Source: Company data, I-Sec research

Chart 6: RoE and RoCE



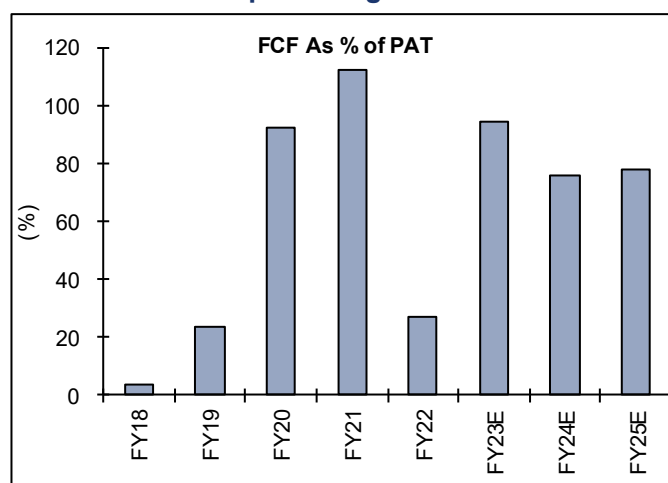
Source: Company data, I-Sec research

Chart 7: Net working capital days



Source: Company data, I-Sec research

Chart 8: FCF as a percentage of PAT



Source: Company data, I-Sec research

Valuations and risks

We model Sumitomo to report revenue and PAT CAGRs of 12.5% and 15% respectively over FY22-FY25E, and RoE to decline from 24.4% in FY22 to 19.7% in FY25E. At our revised DCF-based target price of Rs500, implied P/E works out to 39x FY25E EPS. Maintain **ADD**.

Table 2: DCF-based valuation

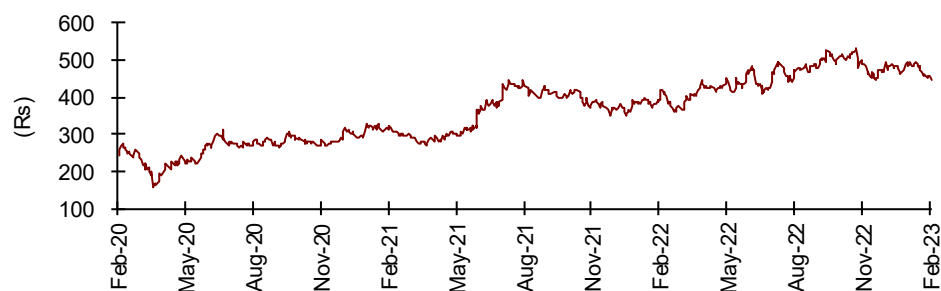
Particulars	Amt (Rs)
Cost of Equity	10.5%
Terminal growth rate	4.0%
Discounted interim cash flows	70,912
Discounted terminal value	1,78,660
Total equity value	2,49,573
Value per share (Rs)	500

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and/ or material increase in competitive pressures will likely result in downside to our estimates

Price chart



Source: Bloomberg

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	30,646	35,772	39,470	43,620
Operating Expenses	24,647	27,903	30,787	34,024
EBITDA	5,999	7,083	7,815	8,637
% margins	19.6	19.8	19.8	19.8
Depreciation & Amortisation	448	515	604	701
Gross Interest	62	42	42	42
Other Income	268	336	562	763
Recurring PBT	5,757	6,861	7,730	8,656
Less: Taxes	1,522	1,750	1,971	2,207
Less: Minority Interest	(0)	(0)	(0)	(0)
Net Income (Reported)	4,236	5,112	5,759	6,449
Extraordinaries (Net)	24	-	-	-
Recurring Net Income	4,259	5,112	5,759	6,449

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	21,660	24,942	27,589	31,183
of which cash & cash eqv.	791	1,800	2,325	3,545
Total Current Liabilities & Provisions	10,214	12,699	14,012	15,485
Net Current Assets	11,446	12,243	13,577	15,697
Investments	4,180	7,680	11,180	14,680
Net Fixed Assets	3,904	4,388	4,984	5,483
Capital Work-in-Progress	352	352	352	352
Total Assets	19,882	24,664	30,094	36,213
Liabilities				
Borrowings	471	471	471	471
Deferred Tax Liability	139	139	139	139
Minority Interest	0	(0)	(0)	(0)
Equity Share Capital	4,991	4,991	4,991	4,991
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	14,281	19,063	24,493	30,612
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	19,272	24,055	29,484	35,604
Total Liabilities	19,882	24,664	30,094	36,213

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Mar 22	Jun 22	Sept 22	Dec 22
Net sales	6,651	9,855	11,217	7,537
% growth (YoY)	24.5%	26.0%	23.2%	6.6%
EBITDA	1,089	1,876	2,780	1,204
Margin (%)	16.4	19.0	24.8	16.0
Other income	74	47	105	132
Extraordinaries (Net)	23	25	3	(12)
Adjusted Net profit	747	1,381	2,015	905

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow	4,839	5,627	6,363	7,150
Working Capital Changes	(2,576)	211	(808)	(901)
Capital Commitments	(1,125)	(1,000)	(1,200)	(1,200)
Free Cashflow	1,138	4,838	4,355	5,049
Cashflow from Investing Activities	(1,835)	(3,500)	(3,500)	(3,500)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(212)	-	-	-
Dividend paid	(400)	(329)	(329)	(329)
Change in Deferred Tax Liability	89	-	-	-
Chg. in Cash & Bank balance	(1,310)	1,009	526	1,220

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
EPS	8.5	10.2	11.5	12.9
Cash EPS	9.4	11.3	12.7	14.3
Dividend per share (DPS)	0.6	0.6	0.6	0.6
Book Value per share (BV)	38.9	48.5	59.3	71.6
Growth (%)				
Net Sales	15.9	16.7	10.3	10.5
EBITDA	23.2	18.1	10.3	10.5
PAT	22.1	20.7	12.7	12.0
Cash EPS	19.0	20.1	13.1	12.4
Valuation Ratios (x)				
P/E	52.9	43.8	38.9	34.8
P/CEPS	47.9	39.8	35.2	31.3
P/BV	11.5	9.3	7.6	6.3
EV / EBITDA	36.6	31.0	28.1	25.4
EV / Sales	7.2	6.1	5.6	5.0

Operating Ratios

Raw Material / Sales (%)	62.3	62.0	62.0	62.0
Employee cost / Sales (%)	6.6	7.2	7.2	7.2
SG&A / Sales (%)	2.4	2.4	2.4	2.4
Other Income / PBT (%)	4.7	4.9	7.3	8.8
Effective Tax Rate (%)	26.4	25.5	25.5	25.5
Working Capital (days)	34.8	29.2	28.5	27.9
Inventory Turnover (days)	111.7	87.6	87.6	87.6
Receivables (days)	100.4	116.8	116.8	116.8
Payables (days)	120.8	127.8	127.8	127.8
Net D/E (x)	(0.2)	(0.3)	(0.4)	(0.5)

Profitability Ratios (%)

Net Income Margins	13.8	14.3	14.6	14.8
RoACE	30.9	29.5	26.3	23.9
RoAE	24.4	23.4	21.4	19.7
Dividend Payout	6.5	5.4	4.8	4.3
Dividend Yield	0.1	0.1	0.1	0.1
EBITDA Margins	19.6	19.8	19.8	19.8

Source: Company data, I-Sec research

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