

SUMITOMO CHMICAL INDIA LTD

Sector

Agrochemicals

May 23, 2022

Buy at CMP: Rs 442 | Target: Rs 546 (23%) | SL: Rs 405



Script Details

BSE Group	A
BSE Code	542920
NSE Code	SUMICHEM
Bloomberg Code	SUMICHEM IN
Market Cap (INR Cr.)	22,087
Free Float (%)	25%
52wk High/Low	476 / 306
Avg. 20 Day Volume (Mn)	0.694
Face Value (INR)/ D. Yield (%)	10/ 0.18
Total Paid Up Eq. Shares (Mn.)	499.15

Share Holding Pattern (%)

Promoters	Public	Others
75	25	—

Share Price Relative Performance



Sumitomo Chemical India Ltd. (SCIL) is a subsidiary of Sumitomo Chemical Company Ltd. (SCCL), Japan, which is a diversified global chemical company. It manufactures, imports, and markets products for crop protection, grain fumigation, rodent control, bio-pesticides, environmental health, professional pest control and feed additives for use in India. SCIL has also marked its presence in Africa and several other countries (accounting for ~20% of sales).

Investment Rationale

- ◆ **Capex Plans to boost sales:** Company has planned a supplementary capex worth Rs 100 -110 cr to manufacture and export five proprietary products to its parent company. This capex is to be completed within span of two years and set to aid boost in exports. Company has targeted to commercialize the capex between FY22-FY23. The projects for these new products will come at our existing facilities and estimated operating margins are in line with current margins earned by our company for similar projects
- ◆ **Strong Parentage:** Sumichem's parent Sumitomo chemical company (Japan) Ltd is a leading R&D spender in world among agrochemical companies it spends ~9% of revenue on R&D. Strong parental support from SCCL gives SCIL unique advantages like access to world-class portfolio across geographies, greener chemistries and R&D expertise for developing proprietary products, financial strength and bigger market reach. SCCL has a strong pipeline of agro solutions and environmental health products with revenue potential of ~US\$1.4-1.8bn.
- ◆ **Balanced Product Portfolio:** Company is well-diversified both across product offerings and geographies. Its portfolio has presence in all agrochemical segments such as Insecticides (43% of revenue), Herbicides (22%), Fungicides (10%), PGRs (10%), Metal Phosphides (8%) and AND & EHD (7%) as of 9MFY21. Herbicides, PGRs and bio-rationales are high margin-high growth areas for the company.
- ◆ **Valuations:** SUMICHEM's stocks is trading at PE of 53.3(x) for TTM FY22. Backed by strong product portfolio and new capex, we estimate a 10% CAGR over FY22-25E, which implies a forward PE (x) of 40.4 for FY 25E. Its Historical average median PE is 52.2. Hence we recommend BUY on SUMICHEM at CMP of Rs. 442 with Target price of Rs. 546 (23%).

Year	Revenue	EBITDA	PAT	PE Ratio (x)	EV/EBITDA (x)
FY22E	2,932	527.7	410.5	53.4	37.1
FY23E	3,225	580.5	451.5	48.9	36.6
FY24E	3,547	638.6	497.7	44.5	34.2
FY25E	3,902	702.4	546.3	40.4	31.0

Source: Company Data, Ace Equity, GEPL Research

TECHNICAL VIEW

Observation

- Sumitomo chemicals has been moving in a strong uptrend since march 2020 as it maintains the higher highs and higher lows formation.
- For past 10 months the stock is moving in a rounding bottom pattern which is an accumulation pattern. We can witness a volume pick up at every rise in a stock price which shows bullish undertone of the stock
- The stock is showing relative outperformance as it trades just 8% lower from the life highs whereas Nifty is lower by about 13%. The stock has formed a long Bullish candle in the current week and sustains above the 20 week SMA (407).
- On the indicator front the MACD line is holding above the signal line indicating bullish momentum in the counter.



Inference & Expectations

- Sumitomo Chemicals is moving out of a accumulation pattern.
- Going ahead we expect the stock to move towards 460, a break above which will accelerate the momentum and take the stock higher to 530 levels.
- 405-410 will act as a major support on the downside.



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