

**Sumitomo Chemical India Ltd (SCIL)**

**- Play on the MNC Agro Chemical Space**

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Recommendation : Buy  
CMP : Rs 193  
Sector : Agrochemicals

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NSE Code : SUMICHEM  
BSE Code : 542920

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### Financial break up

Market Cap (Rs. Cr) : 9484  
EPS (FY19) : 6.58  
PE : 29.33  
Face Value : Rs.10/-

### Share Holding Pattern:

Promoters : 80.30  
Others : 19.70

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**Background:** SCIL was formed by merger of Sumitomo Chemical India and Excel Crop Care creates a single entity with a focused approach towards Crop protection products (94%), Environmental Health Division & Animal Nutrition Division (6%) in India. SCIL's Animal Nutrition division (AND) deals in additives used in poultry feeds for maintaining chicken health and is highly effective alternative to antibiotics. SCIL's Environmental Health Division (EHD) deals in pest control chemicals which are sold to city level municipalities, professional pest control companies and companies manufacturing household insecticides.

### Patent Registrations

The company strives to obtain, along with the relevant registrations for their products, the necessary patents and other intellectual property rights over the products. As on date, the company holds 27 patents across various geographical locations. Having such patents will give the company an upper hand, ultimately enabling them to engage in diversifying their product portfolio.

### Diversified Product Portfolio

SCIL is engaged in the manufacture of a diverse range of products in the health and crop sciences sector. The Health & Crop Sciences sector is responsible for the manufacture and sale of chemical/biorational pesticides, fertilizers, feed additives, insecticides for household and pest control, as well as active pharmaceutical ingredients and intermediates. The company is engaged in animal nutrition, agro solutions and environmental health. These products assist the agricultural industry, moving towards stabilizing the yield of crops and livestock, preventing the spread of infectious diseases, and sustaining human lives around the world.

### Strong distribution network

SCIL will benefit from its strong brand image and market leading position across various product categories. The dual brand portfolio of Excel Crop Care and SCIL enables the company to offer products at all price points serving multiple sub-segments. The distribution coverage of the combined entity covers pan-India with +13000 distributors, strong presence with both retailers and farmers. While ECC had distributors spread across India, SCIL's distributors are concentrated in few regions. SCIL will also benefit from proven go-to-market initiatives and deep farmer connect of ECC.(Excel Crop Care)

### Outlook & Valuation

We recommend a **Buy** on SCIL for long term investors. Given the Diversified product portfolio, Patent Registrations, Marque clientele, Strong distribution network and Capacity Expansion are key positives for the stock. At the CMP of INR 193, the stock trades at 29.33x Consolidated EPS of FY19. The key risks to the business include Raw Material Availability, Monsoon Failure leading to lower demand and Alternate crop protection measures are the key risks of the company.

## **Investment Arguments**

### **Company Profile:**

SCIL was formed by merger of Sumitomo Chemical India and Excel Crop Care creates a single entity with a focused approach towards Crop protection products (94%), Environmental Health Division & Animal Nutrition Division (6%) in India. The product range stands enhanced to Crop Protection, Grain Fumigation and Rodent Control, Bio Pesticides to Environmental Health, Professional Pest control and Feed Additives.

SCIL would be into domestic manufacturing of generic molecules, import of proprietary molecules from Japan and biological products sourced from USA based associate, Valent Biosciences LLC. Valent Biosciences LLC has for over 40 years been producing a range of naturally occurring, environmentally compatible pesticides and plant growth regulators.

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SCIL's Environmental Health Division (EHD) deals in pest control chemicals which are sold to city level municipalities, professional pest control companies and companies manufacturing household insecticides.

### **Diverse Product Portfolio**

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Under the animal nutrition category, the company is engaged in the supply and manufacture of methionine for feed additive use, which is one of the essential amino acids for the development and growth of livestock. The company aims to continuously contribute to the production of efficient and environment friendly livestock through the supply of good-quality products. SCIL's products under agro solutions include a full range of both chemically and biologically derived pesticides, herbicides and Plant Growth Regulators. Similarly, as part of environment health, provide solutions to many pest-associated problems like dengue, malaria, and damage by termites. Through development and marketing of household and professional pest control products, the company seeks to keep people healthy and their lives pest-free.

### **Top Products**

The Company produces various categories of crop protection chemicals like insecticides, herbicides, fungicides, plant supplements, bio-fertilizers and plant growth regulators. The top products of the company are:

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Sl. No	Product Name	Product Category	Indicative Use
1	Glyphosate	Herbicide	Tea Gardens, Non-Cropped
2	Profenophos	Insecticide	Cotton, Soya bean
3	Dantotsu	Insecticides	Vegetables
4	Tebuconazole	Fungicides	Wheat, Soya bean, Chilli
5	Progibb	Plant Growth Regulator	Citrus Fruits
6	Aluminum Phosphide	Fumigant	Warehousing of Food Grains
7	Chlorpyrifos	Insecticide	Paddy, Beans, Gram
8	DL-Methionine	Animal Nutrition	Poultry

The Top 10 products contribute 45% of revenue while top 20 would be ~65%. No product or molecules contributes more than 15% of revenue while no single customer represents more than 10% of revenue.

### **Continuous R&D Investment**

The Company is of the firm belief that R&D is a vital element for their growth. In line with this belief, the company has been constantly endeavoring to make regular investments in R&D to further expand their product portfolio and to identify more suitable methods of product formulation, manufacture, packaging and other allied activities. The R&D team comprises of qualified and dedicated team of scientists with an inhouse team of chemical engineers and is equipped with sophisticated equipment which are required for developing newer processes that are economic and environmentally safe. The company believes that innovation in product and processes would be the key factors in determining the Company's future expansions.

### **Strategic Manufacturing Locations**

The production facilities of the company are situated strategically. The company has five plants, four of which are located in Gujarat and one in Maharashtra. The Tarapur and Gajod plants are engaged in production and manufacturing whereas the Vapi plant handles the formulation and packaging. The Silvassa plant is a dedicated unit for the formulation of "Glyphosate" and other specialty products. Similarly, the Bhavnagar plant conducts the manufacture of technical products as well as the formulation. The plants are well connected to all major cities with its proximity to main highways, ports etc. thereby increasing the company's efficiency in transporting the products.

### **Increasing Capacity**

The Company plans to invest every year on an average of around 5% of its consolidated net operating revenue in capacity expansion and for upgradation of manufacturing facilities. This includes planned investment for certain molecules of SCIL which are under evaluation. We believe that if crystallized, the full benefits of this investment would be incremental and realized in the long run.

Further, products which are similar and are manufactured in the plants of both the Transferor and Transferee Companies shall now be integrated thereby freeing up of capacity in other plants which could be utilized for expansion of operations and product portfolio.

## **Strong Brand Image & Distribution network**

SCIL will benefit from its strong brand image and market leading position across various product categories. The dual brand portfolio of Excel Crop Care and SCIL enables the company to offer products at all price points serving multiple sub-segments.

The distribution coverage of the combined entity covers pan-India with +13000 distributors, strong presence with both retailers and farmers. While ECC had distributors spread across India, SCIL's distributors are concentrated in few regions. SCIL will also benefit from proven go-to-market initiatives and deep farmer connect of ECC. Deep in-depth knowledge of own research products also facilitates launch of Specialty products. To support the traditional marketing system, the company is also running parallel digital marketing across its own 17 websites which has ~6342 visitors daily.

## **Outsourcing Potential**

Excel Crop Care's cost competitive manufacturing capabilities, SCIL's focus on Indian markets, diversifying supply chain strategy and India emerging as a key player in chemical manufacturing are expected to drive business towards the company from the parent. SCIL Parent is already working on 2 molecules (1 insecticide and 1 herbicide) for SCIL out of which 1 will be launched in 2021. SCIL is currently manufacturing 1 of these for which it wants to shift production to India. These molecules have the opportunity to become sizeable in 2-3 years from launch.

## **Brand Development**

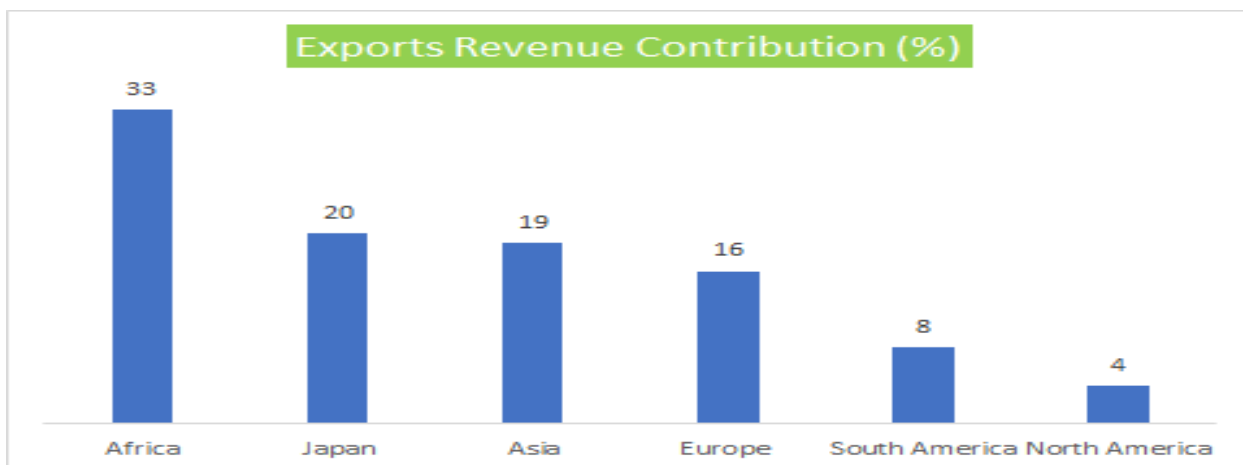
The company believes that their continued investment in R&D would lead to the development of new products and new brands. Such products, along with their existing products will require brand development. Product launches require constant planning and it entails on-field demonstration of our products, training of farmers in using the products, building awareness among the various stakeholders in relation to the products etc. The brand development exercise is logistically challenging and requires constant time and attention.

## **Expanding Exports Business**

The company is engaged in exporting their products to various countries around the world. A substantial portion of their revenue may be attributed to exports. The company plans to tap into various international markets, which will increase their export business. The company also intend to improve the coordination with the subsidiaries for an improved global marketing and distribution channel.

SCIL's exports are well diversified across geographies. Africa accounts for 33% of exports as Excel Crop care (ECC) has large presence in that geography through its own distribution reach.

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### **Patent Registrations**

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### **Key Risks**

#### **Seasonal Fluctuations**

The agrochemical business of the Company is seasonal and is heavily dependent on rainfall, climatic conditions, soil conditions, salinity of soil, prevalence of pests and pest complex of a crop which makes the performance of the agricultural sector as a whole or the levels of production of a particular crop relatively unpredictable. Accordingly, if the agricultural industry in the regions in which the Company operates is adversely affected by unfavorable climatic conditions, thereby affecting the crop conditions, it will affect the demand of the products in such region and will further result into reduction of their sales.

#### **Alternate crop protection measures**

The business of the Company could be adversely affected by introduction of alternative crop protection / production measures such as organic farming, biotechnology products, pest resistant seeds or genetically modified crops. The growth and acceptance of such alternative pest management and crop protection products and measures by consumers may have an adverse effect on the sales of chemical pesticides which may, in turn, affect the financial condition and results of operations of the Company. Zero budget farming is another such alternative to crop protecting chemicals which is a farming methodology that involves no use of chemical fertilizers. The concept has been introduced in the union budget 2019 by the Government of India. Implementation of the said program may impact the sale of agrochemical fertilizers, thereby causing a decline in the business operations and revenue of the company.

## Availability of raw materials

The price and availability of raw materials for the manufacture of products could affect the profitability of the Company. The Company's business is dependent on continued availability of raw materials. The Company's business may be adversely affected if it is unable to renew its contracts with raw material suppliers. Further, a large portion of the raw materials are sourced from China, which is the dominant producer of the said raw materials. Any interruption in the availability of raw materials may adversely affect Company's business, financial condition and results of operations. Similarly, in the event suppliers face a plant shutdown or other problems which would likely affect the continued supply of raw materials to the Company, production may be delayed as a result of which payments to the company may be delayed and/or remain unrealized. For maintaining an uninterrupted supply chain, the company is dependent upon various third -party logistics partners which are indirectly dependent upon the prices of crude oil in the international market. Therefore, any increase or fluctuation in the price of crude oil in the international market may increase our cost of transportation and/or logistics, thereby decreasing their profit margin.

## Financials

### Standalone P&L

PROFIT & LOSS ACCOUNT (In Rs. Cr.)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
INCOME					
REVENUE FROM OPERATIONS [GROSS]	758.95	826.5	898.72	1,933.96	2,173.74
Less: Excise/Sevice Tax/Other Levies	54.13	62.22	65.34	48.79	0
REVENUE FROM OPERATIONS [NET]	704.82	764.28	833.38	1,885.17	2,173.74
TOTAL OPERATING REVENUES	705.81	765.28	836.29	1,910.74	2,206.35
Other Income	8.29	25.78	10.46	30.54	27.89
TOTAL REVENUE	714.1	791.06	846.75	1,941.29	2,234.24
EXPENSES					
Cost Of Materials Consumed	316.62	310.45	397.15	1,077.01	1,328.81
Operating And Direct Expenses	0	0	0	0	0
Changes In Inventories Of FG,WIP And Stock-In Trade	-15.34	-7.18	-43.83	-44.97	-102.04
Employee Benefit Expenses	35.14	41.78	60.53	146.59	160.42
Finance Costs	0.38	0.41	0.96	2.84	3.65
Depreciation And Amortisation Expenses	6.29	7.44	6.95	23.73	27.79
Other Expenses	105.41	127.47	143.99	308.88	329.28
TOTAL EXPENSES	656.08	684.01	743.61	1,720.59	1,976.25
PROFIT/LOSS BEFORE EXCEPTIONAL, EXTRAORDINARY ITEMS AND TAX	58.03	107.05	103.14	220.7	257.99
Exceptional Items	0	0	0	0	0
PROFIT/LOSS BEFORE TAX	58.03	107.05	103.14	220.7	257.99
TAX EXPENSES-CONTINUED OPERATIONS					
Current Tax	21.25	40	0	79.65	94.03
Less: MAT Credit Entitlement	0	0	0	0	0
Deferred Tax	1.96	2.42	-1.16	-2.46	-3.34
Tax For Earlier Years	0	0	42.7	-1.58	0.3
TOTAL TAX EXPENSES	23.21	42.42	41.54	75.61	90.99
PROFIT/LOSS AFTER TAX AND BEFORE EXTRAORDINARY ITEMS	34.82	64.63	61.61	145.09	167
Diluted EPS (Rs.)	0	2.77	2.38	2.91	3.35



## Standalone Balance Sheet

BALANCE SHEET (In Rs. Cr.)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	232.99	232.99	274.59	274.59	274.59
<b>TOTAL SHARE CAPITAL</b>	<b>232.99</b>	<b>232.99</b>	<b>274.59</b>	<b>274.59</b>	<b>274.59</b>
Reserves and Surplus	-1.56	63.07	359.74	664.86	760.72
<b>TOTAL RESERVES AND SURPLUS</b>	<b>-1.56</b>	<b>63.07</b>	<b>359.74</b>	<b>664.86</b>	<b>760.72</b>
<b>TOTAL SHAREHOLDERS FUNDS</b>	<b>231.43</b>	<b>296.05</b>	<b>634.32</b>	<b>939.44</b>	<b>1,035.31</b>
<b>NON-CURRENT LIABILITIES</b>					
Long Term Borrowings	0	0	0	0	0
Deferred Tax Liabilities [Net]	0	0.58	0	18.07	14.59
Other Long Term Liabilities	0	0	0	1.74	5.22
Long Term Provisions	0.93	2.07	3.59	12.71	15.64
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>0.93</b>	<b>2.65</b>	<b>3.59</b>	<b>32.53</b>	<b>35.45</b>
<b>CURRENT LIABILITIES</b>					
Short Term Borrowings	0	0	0	10.15	19.75
Trade Payables	152.33	183.37	166.7	527.57	596.43
Other Current Liabilities	69.85	91.41	111.58	132.15	156.75
Short Term Provisions	11.14	2.88	6.25	2.29	2.58
<b>TOTAL CURRENT LIABILITIES</b>	<b>233.32</b>	<b>277.65</b>	<b>284.53</b>	<b>672.16</b>	<b>775.51</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>	<b>465.68</b>	<b>576.35</b>	<b>922.45</b>	<b>1,644.13</b>	<b>1,846.27</b>
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	49.82	52.18	52.54	264.79	277.05
Intangible Assets	0.85	0	0	1.93	2.14
Capital Work-In-Progress	0	0	7.4	4.45	3.19
Other Assets	0	0	0	0	0
<b>FIXED ASSETS</b>	<b>50.67</b>	<b>52.78</b>	<b>59.94</b>	<b>275.43</b>	<b>287.24</b>
Non-Current Investments	0.03	0.11	277.41	1.74	0.9
Deferred Tax Assets [Net]	1.84	0	0.58	0	0
Long Term Loans And Advances	27.89	17.59	13.79	7.26	7.85
Other Non-Current Assets	0	0	0	27.74	22.8
<b>TOTAL NON-CURRENT ASSETS</b>	<b>80.43</b>	<b>70.48</b>	<b>351.71</b>	<b>312.17</b>	<b>318.79</b>
<b>CURRENT ASSETS</b>					
Current Investments	0	0	0	0	0
Inventories	188.37	235.2	277.59	605.16	680.04
Trade Receivables	152.69	183.28	221.19	550.89	668.94
Cash And Cash Equivalents	25.31	72.01	37.97	65.74	40.18
Short Term Loans And Advances	18.83	15.21	33.88	3.66	3.34
Other Current Assets	0.06	0.18	0.11	106.51	134.99
<b>TOTAL CURRENT ASSETS</b>	<b>385.25</b>	<b>505.87</b>	<b>570.73</b>	<b>1,331.97</b>	<b>1,527.48</b>
<b>TOTAL ASSETS</b>	<b>465.68</b>	<b>576.35</b>	<b>922.45</b>	<b>1,644.13</b>	<b>1,846.27</b>



## Standalone Cash Flow Statement

Cash Flow Statment In Rs. Cr.)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
NET PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS AND TAX	58.03	107.05	103.14	220.7	257.99
Net CashFlow From Operating Activities	3.87	52.45	-20.72	48.82	74.76
Net Cash Used In Investing Activities	7.83	-5.34	-289.41	-39.57	-34.99
Net Cash Used From Financing Activities	0.1	-0.41	276.1	7.18	-65.45
Foreign Exchange Gains / Losses	0	0	0	0	0
NET INC/DEC IN CASH AND CASH EQUIVALENTS	11.79	46.7	-34.04	16.44	-25.68
Cash And Cash Equivalentes Begin of Year	13.51	25.3	72	48.53	64.97
Cash And Cash Equivalentes End Of Year	25.3	72	37.96	64.97	39.29

## Standalone Key Financial ratio's

KEY FINANCIAL RATIOS (In Rs. Cr.)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Basic EPS (Rs.)	1.49	2.77	2.38	2.91	3.35
Diluted EPS (Rs.)	0	2.77	2.38	2.91	3.35
Cash EPS (Rs.)	1.76	3.09	2.5	6.15	7.09
Book Value /Share (Rs.)	9.93	12.71	23.1	34.21	37.7
Dividend / Share(Rs.)	0	0	0	0	2
PBDIT/Share (Rs.)	2.78	4.93	4.04	9	10.54
PBIT/Share (Rs.)	2.51	4.61	3.79	8.14	9.53
PBT/Share (Rs.)	2.49	4.59	3.76	8.04	9.4
Net Profit/Share (Rs.)	1.49	2.77	2.24	5.28	6.08
PBDIT Margin (%)	9.16	15.01	13.27	12.94	13.11
PBIT Margin (%)	8.27	14.04	12.44	11.69	11.85
PBT Margin (%)	8.22	13.98	12.33	11.55	11.69
Net Profit Margin (%)	4.93	8.44	7.36	7.59	7.56
Return on Networth / Equity (%)	15.04	21.82	9.71	15.44	16.13
Return on Capital Employed (%)	25.13	35.97	16.31	22.99	24.43
Return on Assets (%)	7.47	11.21	6.67	8.82	9.04
Total Debt/Equity (X)	0	0	0	0.01	0.02
Current Ratio (X)	1.65	1.82	2.01	1.98	1.97
Quick Ratio (X)	0.84	0.97	1.03	1.08	1.09

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