Bid for Long Term

Key Data	
Floor Price (Rs)	265
Face Value (Rs)	10/-
Issue Size (Rs)	264.55cr
Total offered	99,82,914
Retail	
Issue Opens	June 29, 2020
Issue Closes	June 29, 2020
Offered shares	9,98,291
NSE Code	SUMICHEM
BSE Code	542920
52 Week High	317.45
52 Week Low	152.50
Source:BSE	

Associate

Karan Desai
E: karan.desai@acm.co.in
D: +91 22 2858 3221

Sumitomo Chemical India Ltd

Company Background:

Incorporated in year 2000, Sumitomo Chemical India (SCI) is a wholly owned subsidiary of Japanese chemical major, Sumitomo Chemical Company Ltd(SCCL). SCI is into agrochemical, animal nutrition and environmental health solutions. The company has been selling proprietary products of its parent in the domestic market. Agro Solutions is the largest revenue contributor with 94% while the rest comes from the other two businesses. SCI provides solutions for insecticide, herbicide, fungicide, plant growth regulator (PGR) under agro segment. Under animal nutrition, it manufactures methionine for feed additive use, which is one of the essential amino acids for the development and growth of livestock. It has manufacturing plants in Gujarat and Maharashtra and Dadar & Nagar Haveli.

Sumitomo Chemical Corporation Japan acquired a majority stake in Excel Crop Care (ECC) in 2016. SCCL Japan held 44.98% in ECC while ~19.98% was held by SCI before the merger. To simplify the structure of the Indian entity, the company merged ECL recently with SCI and issued 51 shares of SCI for two shares of ECC. This led SCCL Japan to hold ~80.3% stake in the company with the rest held by the public.

Issue Details:

The promoter of the company – Sumitomo Chemical Company Ltd, proposes to sell up to 49,91,457 equity shares representing 1% of the total paid-up equity share capital of the company and face value of Rs.10/- each, with an option to additionally sell up to 49,91,457 equity shares representing 1% of the total paid-up equity share capital of the company. The floor price has been set at Rs.265/- per share.

Allocation Methodology:

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on June 26, 2020 for institutional bidders. Retails investors for whom 10% shares have been reserved will get to bid on June 29, 2020.

Rationales:

Established presence in the crop protection segment

A diversified product portfolio including insecticides, weedicides, fungicides, fumigants and rodenticides as well as plant growth nutrition products, bio-rationals and plant growth regulators, well-balanced technical and formulations manufacturing capabilities and access to SCCL's proprietary products has helped SCI establish itself as one of major players in this space. Product portfolio is well diversified with company's agro chemical products covering multiple crop segments in both Kharif and Rabi season and non-agrochemical including animal nutrition and environment health products. With over 13,700 distributors, SCIL's distribution network covers close to 85% of mainland India, providing geographic diversity. Further, close to 20% of the revenue is generated from export markets.

Strong Parentage backup

Sumitomo Chemical Company Ltd Japan Spends 7-8% of sales on research activity every year. This has helped SCC Japan to build a strong patented product portfolio under the crop science segment. SCCL holds 12,600+ Patents of which ~34% are in Health & Crop Science. SCCL plans to enter into next generation herbicide and increase the revenue from plant growth regulators (PGR). Both these new portfolios are estimated to provide incremental business opportunities in coming years. Since R&D is done at the parent level, new molecule development can provide the Indian entity access to launch formulation in the domestic market. Moreover, SCI's parental advantage should also help the company win some CRAMS contracts. SCI is already negotiating with Sumitomo Japan for two to three molecules. Hence, this opens up another revenue stream for the company.

Integration of Excel Crop Care to provide synergies

ECC has a strong product portfolio in rice, soybean, and cotton while the same for SCI is in wheat, sugarcane and fruits & vegetables. This should translate into the company offering end-to-end crop solutions to the domestic market. Further, ECC has a strong presence in the north, west market while the same for SCI remains in south, east with a combined distributor size of around 13700. An increase in product offerings across different states and leveraging the expertise of each other's distributor strength is expected to improve revenue per distributor in the medium term. Also, ECC procured overall active material requirement from captive consumption. On the other hand, SCI was procuring 35% of actives from third parties mainly from China while the rest was sourced from other countries like Japan, US and domestic market. Since ECC has technical manufacturing capacity, this merger is expected to curb technical purchase from third party and increase captive consumption.

Strong financial performance

The revenue of the merged entity (including Excel Crop Care) over the same period was at Rs.2200 crore with growth at 11% CAGR in FY11-19. In the last three years FY18-FY20, SCI's operating revenues and profitability have grown by a CAGR of 13% and 19% respectively. Further, during the same period, company's operating profit grew by a CAGR of 24%. The company's operating margin has improved from 11.3% in FY18 to 13.7 % in FY20. Company is virtually debt free. In addition, their return on capital employed has improved from 25.2% in FY18 to 29.1% in FY20.

Recommendations:

At the floor price of Rs.265 /-, the stock trades at 64.63x its FY20 EPS of Rs.4.1. SCCL Japan merged ECC with SCI with a view to becoming the largest crop protection chemical company in India. Since both players are competent in different crops along with reach in distribution channel across different geographies, we expect the group to witness revenue synergies, going ahead. Further, ECC's expertise in active manufacturing should benefit SCI given the latter largely depends on imports of key molecules. Thus, a reduction in import and likely improvement in captive consumption should aid financial performance going ahead. **Hence, we recommend to BID for the OFS on a long-term basis.**

Asit C. Mehta
INVESTMENT INTERRMEDIATES LTD.

Email: retailresearch@acm.co.in

Research Analyst Registration Number: INH000002483

CIN: U65990MH1993PLC075388

An ISO 9001:2015 Certified Company