20 July 2026

Sumitomo Chemicals

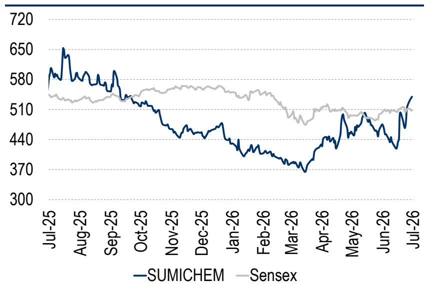
Semiconductor Chemicals - A new and high-quality growth leg in making; maintain BUY

Rating: **BUY**
Target Price: Rs.650
Share Price: Rs.535

Key Data	SUMICHEM IN / SUMH.BO
52-week high / low	Rs665 / 363
Sensex / Nifty	78151 / 24334
Market cap	Rs270bn
Shares outstanding	499m

Shareholding Pattern (%)	Mar-26	Dec-25	Sep-25
Promoters	75.0	75.0	75.0
- of which, Pledged	-	-	-
Free float	25.0	25.0	25.0
- Foreign institutions	3.4	3.4	3.7
- Domestic institutions	9.0	8.7	8.5
- Public	12.6	13.0	12.9

Relative Price Performance



Source: Bloomberg

We believe the proposed semiconductor collaboration in India between Tata Electronics and Sumitomo Chemical is expected to be housed under or closely tied to the listed entity SCIL (JV between SCC-Japan and SCIL, with majority being held with SCIL). Our conviction rests on (1) SCIL management confirming active discussions with SCC's ICT & Mobility Solutions division for a high-purity semiconductor-chemicals facility, with an announcement imminent; (2) SCC's FY25 investor materials already flagging India under "planning for commercialization of high-purity chemicals"; (3) SCC's stated commitment in respecting minority shareholder rights; and (4) SCIL's materiality to the parent, contributing ~12% of group PAT in FY25 and ~45-50% of parent's current Market-Cap. If structured under SCIL, our back of envelope analysis suggests an incremental EBITDA of ~Rs3bn from FY30E (~25% above current estimates). With a 30% capital subsidy under ISM 2.0 and potential state-level incentives, the project is expected to be ROCE-accretive. Reflecting higher probability of this business landing in the listed entity, we raise our target multiple from 36x to 40x, arriving at a revised TP of Rs650/share.

Semiconductor vertical likely to be routed through SCIL: Despite SCC's global presence (Korea, Taiwan, China, Vietnam, USA) in semiconductor materials being held through wholly owned subsidiaries, we believe Indian operations are likely to be under or closely tied to the listed entity SCIL **(JV between SCC-Japan and SCIL, with majority held by SCIL)**. Supportive evidence is that management has framed semiconductor-chemicals discussion as a project "in India" being explored with SCC's ICT & Mobility dept. (SCIL's own disclosure that carries this line). There can be possibility that SCC sets up a new wholly owned Indian subsidiary that merely leases SCIL's land, in which case SCIL captures rent rather than semiconductor margin.

Semiconductor revenues likely to reflect from FY30e onwards: On a standalone basis, we forecast SCIL to deliver ~15% organic EBITDA CAGR over FY26-30E. Assuming, if the deal is structured under SCIL, our back of envelope analysis suggests an incremental EBITDA of ~Rs3bn from FY30E onwards (~25% above current estimates). Further, with a 30% capital subsidy under ISM 2.0 and the likelihood of additional state-level incentives, the project is expected to be ROCE-accretive from the outset **(Refer-Figure-16)**.

Is it captured in valuation? Despite recent run-up in stock price, we believe SCIL still offers a meaningful upside from current levels. At CMP, SCIL trades at 34x FY28E EPS a discount to where we think it deserves to be, for three reasons: (a) long-term growth estimates have moved higher; (b) SCIL warrants a premium to peers given its superior execution, strong parentage, and a debt-free, cash-generative balance sheet; and (c) the semiconductor opportunity is a structural re-rating catalyst- as SCIL evolves from a pure-play agrochemical name into an 'agrochemicals + semiconductor materials' franchise, a category that should command a meaningfully higher valuation multiple. That said, we raise our target multiple from 36x to 40x. Maintain BUY with a revised TP of Rs650/share (earlier Rs570), based on 40x FY28E EPS.

Himanshu Binani
Research Analyst

Quick Glance – Financials and Valuations (Consolidated)

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Revenue	28,439	31,485	32,383	36,025	41,586
Growth (%)	-19.0	10.7	2.9	11.2	15.4
Raw material	17,751	18,589	18,774	20,894	24,203
Employee & other expen	5,943	6,575	6,901	7,439	8,151
EBITDA	**4,746**	**6,321**	**6,709**	**7,691**	**9,232**
EBITDA margin (%)	16.7	20.1	20.7	21.4	22.2
- Depreciation	622	661	661	683	805
Other income	957	1,201	1,467	1,834	2,293
Interest expense	51	59	78	79	80
PBT	5,029	6,802	7,276	8,764	10,640
Effective tax rates (%)	26	26	25	25	25
+ Associates/(Minorities)	2	9	0	-	-
Adj. income	3,695	5,055	5,590	6,573	7,980
Extraord. items (loss)/profit	-	-	-161	-	-
Reported PAT	3,695	5,055	5,430	6,573	7,980
WANS	499	499	499	499	499
FDEPS (Rs)	7.4	10.1	11.2	13.2	16.0

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	4,991	4,991	4,991	4,991	4,991
Net worth	24,416	29,011	33,897	39,565	46,641
Debt	190	328	418	418	418
Minority interest	30	39	41	41	41
Deferred tax liability/(asset)	-141	254	275	275	275
Capital employed	**24,495**	**29,633**	**34,630**	**40,299**	**47,374**
Net tangible assets	5,812	5,755	5,939	7,007	8,202
CWIP (tang. and intang.)	40	94	25	25	25
Investments (strategic)	3,457	4,572	8,872	8,872	9,315
Investments (financial)	1	671	2,655	2,921	3,213
Current assets (excl. C&CE)	21,612	28,113	26,039	29,346	33,091
Cash	1,833	428	1,207	5,633	8,740
Current Liabilities	8,261	10,000	10,107	13,505	15,213
Working capital	13,351	18,113	15,932	15,841	17,879
Capital deployed	**24,495**	**29,633**	**34,630**	**40,299**	**47,374**

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
PBT	5,029	6,802	7,276	6,930	8,348
+ Non-cash items	673	707	726	762	884
Oper. profit before WC changes	5,702	7,509	8,001	7,691	9,232
- Incr./(decr.) in WC	-3,900	180	669	-91	2,038
Others incl. taxes	2,030	2,814	2,878	357	368
Operating cash-flow	7,572	4,515	4,455	7,426	6,827
- Capex (tangible + intangible)	619	286	421	1,750	2,000
Free cash-flow	6,953	4,229	4,034	5,676	4,827
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	257	239	245	904	904
+ Equity raised	-	-	-	-	-
+ Debt raised	-	-	15	-	-
- Fin.investments	3,585	3,634	2,899	266	736
- Misc. items (CFI and CFF)	3,113	440	599	79	80
Net cash-flow	-3	-84	307	4,427	3,107

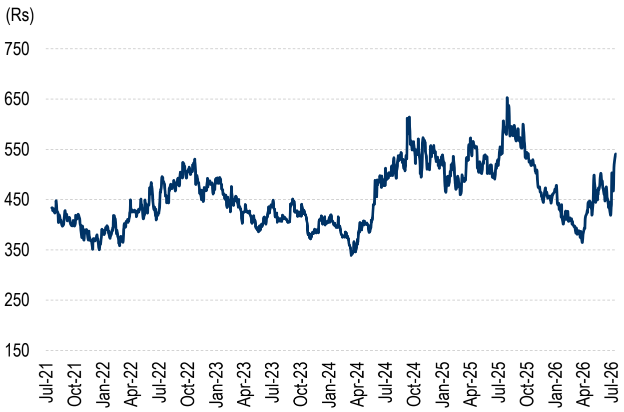
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
P/E (x)	72.3	52.8	47.8	40.6	33.5
EV/EBITDA (x)	55.2	41.4	38.0	32.5	26.7
EV/ Sales (x)	9.2	8.3	7.9	6.9	5.9
P/B (x)	10.9	9.2	7.9	6.7	5.7
RoE (%)	15.3	18.9	18.3	17.9	18.5
RoCE (%) - after tax	15.4	18.9	17.2	17.8	18.5
RoIC (%) - after tax	15.3	18.9	17.8	17.9	18.5
DPS (Rs)	1.5	1.5	1.3	1.5	1.5
Dividend yield (%)	0.3	0.3	0.2	0.3	0.3
Dividend payout (%)	20.3	14.8	12.0	11.4	9.4
Net debt/equity (x)	-0.2	-0.2	-0.4	-0.4	-0.4
Receivables (days)	107	87	86	85	89
Inventory (days)	154	129	143	138	131
Payables (days)	183	179	195	206	217
CFO : PAT (%)	205	89	80	113	86

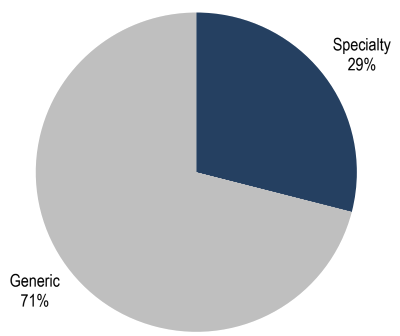
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Segment-wise Break-up (FY26)



Source: Company

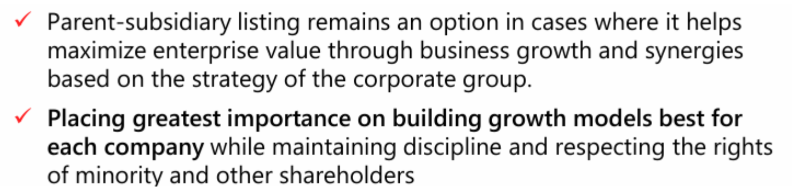
Excerpts from SCIL's and SCC, Japan investors materials

"In addition, ICTM is focusing on expanding its manufacturing facilities for semiconductor-related businesses and expanding business areas. We are building a semiconductor chemical factory in the United States to pursue business development in that country, and we have also begun to move into the growing Indian markets"- ***SCC, Japan Integrated Report 2025***

"The Company is also exploring high-purity chemicals for the semiconductor business in India." ***SCIL- Annual Report 2026***

"Our parent has also developed real confidence in our R&D, encouraging our teams to improve upon the technical know-how transferred from Japan. We are also jointly exploring the prospect of high-purity chemicals for the semiconductor industry in India." ***SCIL Annual Report 2026***

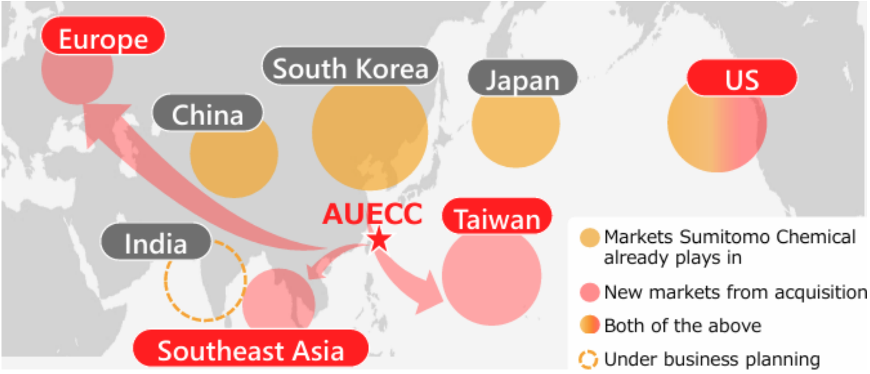
Fig 7 – Minority Shareholder's interests remain the TOP PRIORITY for the group


✓ Parent-subsidiary listing remains an option in cases where it helps maximize enterprise value through business growth and synergies based on the strategy of the corporate group.

✓ **Placing greatest importance on building growth models best for each company** while maintaining discipline and respecting the rights of minority and other shareholders

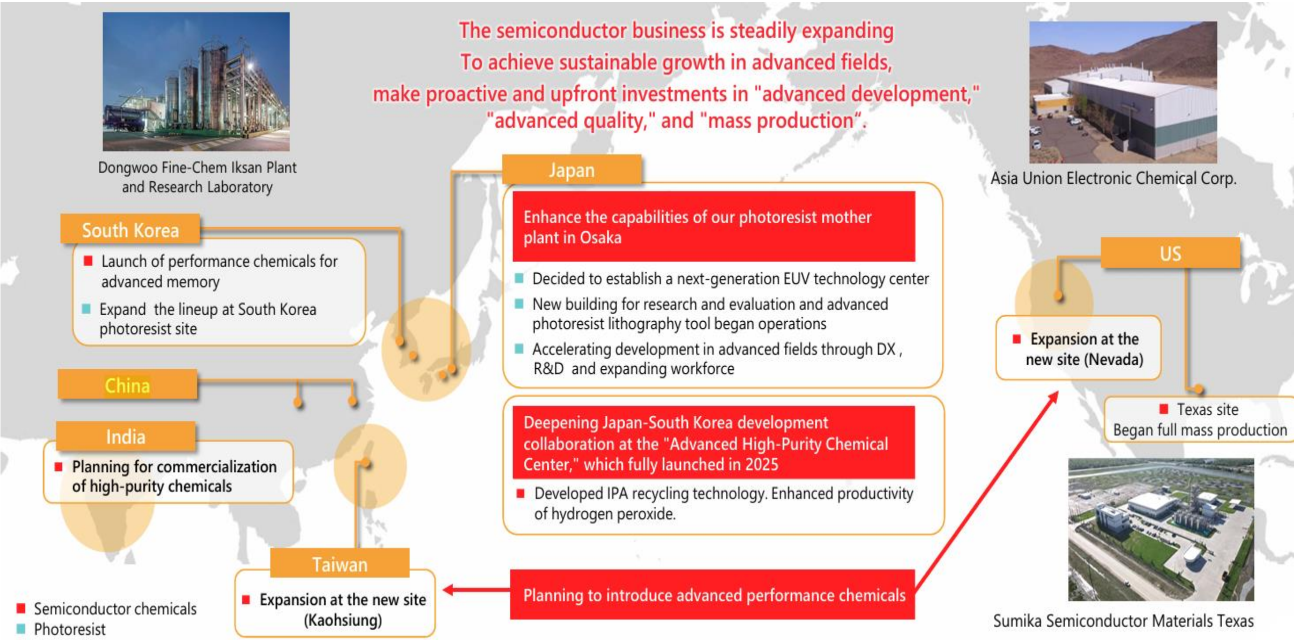
Source: Company

Fig 8 – High Purity Chemicals: Expansion of business territory focusing India



Source: Company

Fig 9 – Solidify the position as a world-class player in cutting-edge photoresist and high-purity chemicals



Source: Company

- **The opportunity- Tata Electronics, Dholera creates India's first fab-materials demand pool; with announcement of more such fab units expected in India in the future:** Tata Electronics' Dholera fab (300mm; 28–110nm mature nodes on PSMC technology; 50,000 wafers/month; ~Rs910bn capex) will make power-management ICs, display drivers, microcontrollers and logic for automotive, computing, communications, IoT and AI end-markets. ***A fab of this scale consumes a continuous high-volume stream of process chemicals- the very categories in which SCC is a global-scale supplier. Crucially, high-purity wet chemicals do not travel well (they are heavy, freight-intensive and degrade in transit at parts per trillion purity), so global practice is to produce them next to the fab.*** This is precisely why SCC has built local supply beside every major fab cluster — Korea (Dongwoo), the US (Texas), Taiwan (AECC) and China — and why India, with its first commercial fab, now warrants the same localisation. **Further, we believe this is just the beginning — the government's push to build out a complete semiconductor ecosystem in India should drive more such fab units going forward.**

Fig 10 – Likely Corporate structure for Semiconductor in India by SCC, Japan and its Pro's and Con's

	Investment through SCIL (listed entity)/JV	Investment through a new wholly-owned SCC vehicle
Structure	SCIL injects semiconductor capex builds at existing site or a new site	New 100% owned entity leases/shares SCIL land
Minorities	25% float participates in the business mix shift	Minorities largely excluded; SCIL books rent / shared-service income only
Reference/ Source	FY26 Annual Report discloses SCIL itself 'jointly exploring'; SCC's latest investor presentation reveals India as a favoured destination for semiconductor capex; India elevated to top tier; new royalty shows willingness to monetise via the listed entity	100% of SCC's global semiconductor precedent is wholly owned subsidiaries; segment architecture separates ICT from agro

Source: Anand Rathi Research

Fig 11 – All Semiconductor Material Business are operated through their 100% owned subsidiaries of SCC, Japan

Semiconductor Subsidiaries of SCC	Region	Role / status (100%-owned unless noted)
Dongwoo Fine-Chem	South Korea	Core ICT subsidiary, photoresists & high-purity chemicals
Sumika Semiconductor Materials Texas	USA	High-purity process-chemicals
Sumika Electronic Materials	China / Vietnam	High-purity chemicals & high-purity materials
SCAT (Sumitomo Chem. Advanced Technologies)	Arizona, USA	Gallium Arsenide (GaAs) epitaxial wafers & high-purity chemicals
AUECC (Asia Union Electronic Chemical)	Taiwan	High-purity wet process chemicals
GlaSSEM (glass-core-substrate JV)	South Korea	JV via Dongwoo: Samsung Electro-Mechanics 66% / Dongwoo 34%

Source: Anand Rathi Research

- **SCC isn't a one stop shop for Fab materials- Its strength lies in few concentrated areas:** We believe SCC can realistically supply about **20–40% of everything Dholera's fab needs to buy** - not the whole pie, but a solid and defensible chunk. This slice leans towards high-volume, easier to localize chemical products rather than the cutting-edge EUV materials used in the most advanced chips. Few areas where SCC is strong are: **1) Wet chemicals** (sulphuric acid, nitric acid, hydrogen peroxide, ammonia, IPA) — this has been SCC's core business since 1978, and they're expanding capacity by FY30; **2) Photoresists** — SCC is one of the top 5 global players, with products that fit Dholera's older-generation chip technology (i-line/KrF), **3) Aluminium sputtering targets** — SCC is the only company in the world that makes both the raw material and the finished target. Older chip nodes still use aluminium wiring, so this fits well. **(Refer Figure-12 and 13).**

Fig 12 – Tata Electronics, Dholera Plant- Products

Item	Detail
Nodes / wafer	28, 40, 55, 90, 110nm · 300mm · PSMC technology
Products	Power-management ICs, display drivers, microcontrollers, HPC logic
End markets	Automotive, computing, communications, IoT, AI
Capacity / capex	50,000 wafer-starts/month; Rs910bn (~USD11bn)
Technology partner	Powerchip (PSMC), Taiwan
Materials partner	Merck (MoU Sept-2025) — primary high-purity materials; FUJIFILM

Source: Anand Rathi Research

Fig 13 – Products likely to be manufactured in SCIL, where the localisation need is highest and SCC has strong base

SCC / Dongwoo's Products	Required at Tata Electric's plant in Dholera	Localisation logic
High-purity wet chemicals (H_2SO_4, H_2O_2, NH_4OH, IPA)	Yes — high volume	Strongest — freight/purity economics
i-line / KrF photoresists	Yes	Strong
Functional (etchant, thinner, BARC, cleaners)	Yes	Strong
Aluminium sputtering targets (6N)	Yes — mature-node Al wiring	Specialty + monopoly fit
ArF-immersion / EUV resists	No	None
Glass-core substrate, advanced etchants, bonding/PSPI	No (Dholera); partial (Assam OSAT)	None / low

Source: Anand Rathi Research

- **Govt. subsidies through ISM 2.0 - Likely to be the real game changer.** India's expanded semiconductor support program (ISM 2.0, ~Rs1.25tn) will cover ~30% of the cost for high-purity chemicals, gases, and materials. Further, we believe there is likely to be state-level incentives as well in terms of capital subsidy for setting up the capex in the respective state. Tata electronics assembly unit at Assam is what we refer to wherein the total capex is ~Rs270bn of which ~Rs103 bn getting re-imbursed by the Central Govt. and ~Rs38bn getting re-imbursed by the Govt of Assam. ***Combined total of Rs140bn (~52% of project cost) reimbursed by Govt. Hence, we view that this would roughly cut SCIL's own investment in half which matters a lot, because it turns an otherwise average business (low-teens profit margins) into one that clears the company's benchmark on return ratios (~17–18% RoCE).***

Fig 14 – Six pillars of Semicon India 2.0 & Subsidy

#	Pillars	Segment	Govt Incentive
1	Design of chips	Strategic & commercial chips	Grant + equity co-invetsment or royalty based funding
2	Machines and materials	Equipment chemicals, gases, materials	30%
3	Setting up more Fabs	Silicon, display, compound, etc.	40% for silicon fabs, 35% for other fabs
4	Further strengthening the ATMP/OSAT industry	Advanced & legacy packaging	35% for advanced packaging 25% for conventional packaging
5	Research & Development	Advanced technologies	Up to 75% (centre+state)
6	Talent development	Design & manufacturing talent	Up to 75% (centre+state)

Source: GOI

Fig 15 – Subsidy for Semiconductor Material

- Manufacturing: Chemicals, Gases, Materials
- Ecosystem Development (150-500 items required)
- Domestic Consumption and Exports
- Financial support: 30% of Capex on pari-passu

Source: GOI

Scenario Analysis- How numbers likely to look

Fig 16 – Scenario analysis of SCIL Plant and Capital Outlay

Particulars (Rs Crs.)	Scenario-1	Scenario-2	Scenario-3
Gross Capital Outlay for SCIL (Rs Cr.)	**500**	**1,000**	**1,500**
Plant Utilisation (%)	85%	85%	85%
Govt. Subsidy- 50% Capital Subsidy (Rs Cr)	250	500	750
SCIL's out of pocket Capex (Rs Cr)	250	500	750
Revenue (Rs Cr.)	**510**	**1,020**	**1,530**
EBITDA (Rs Cr)	**92**	**184**	**275**
EBITDA Margins (%)	*18.0%*	*18.0%*	*18.0%*
Depreciation (Rs cr.)	25	50	75
EBIT (Rs cr)	**67**	**134**	**200**
Interest (Rs cr)	3	6	10
PBT (Rs cr)	64	127	191
Tax (Rs cr)	16	32	48
PAT (Rs cr)	**48**	**95**	**143**
Other details			
Maintenance capex (Rs cr)	15	31	46
Working capital (Rs cr)	102	204	306
Own capital employed (Net capex + WC) (Rs cr)	352	704	1,056
Gross capital employed (Gross + WC) (Rs cr)	602	1,204	1,806
Debt (Rs cr)	38	75	113
Return Ratios			
ROCE- Own Capital, Pre-tax (Subsidised)	**19.0%**	**19.0%**	**19.0%**
ROCE- Own Capital, Post-tax	14.2%	14.2%	14.2%
ROCE- Gross Capital, Pre-tax (Non-Subsidised)	11.1%	11.1%	11.1%
ROE- PAT / Own Equity	**15.2%**	**15.2%**	**15.2%**

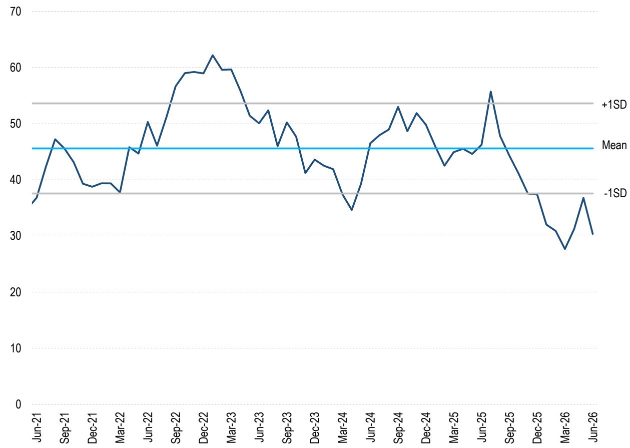
Source: Anand Rathi Research
Please Note: Assumptions
Asset turnover assumed to be 1.2x
Govt. Subsidy- ISM 2.0 (30% of capex amount) + State Govt. incentive (20% of capex amount) total 50% of capex
Working Capital assumed to be 20% of revenues
Plant life assumed to be 20 years using straight line method
Debt assumed to be 15% of SCIL's capex amount
Maintenance capex assumed to be 3% of revenues
Interest Cost assumed at 8.5%
Tax rate assumed at 25%

- **Revenue to reflect from FY30–31e onwards as capex and the ISM 2.0 subsidy come into play:** We expect the earnings contribution to be back-ended and to reflect from FY30–31e onwards. The sequence is deliberate: 1) a formal announcement and capital commitment, 2) followed by plant construction and 3) 12–18-month qualification cycle with Tata/PSMC, with commercial ramp as the fab itself fills.

Could add ~25% to Valuation

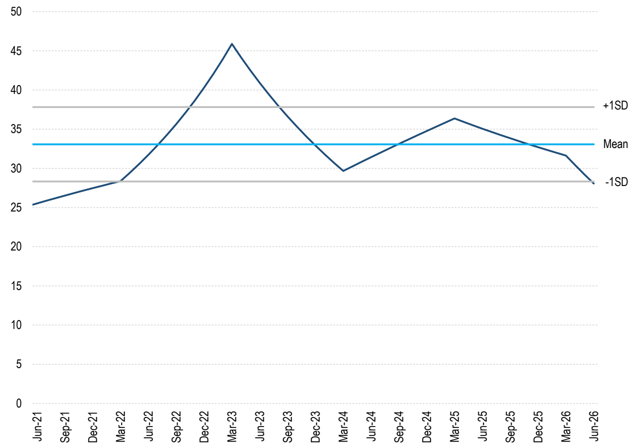
We broadly maintain our estimates for FY27/28e and await for official announcement from the company. Our long-term growth forecast SCIL to post ~15% organic EBITDA CAGR over FY26-30E. The Semiconductor optionality can add ~25% to our EBITDA estimates from FY30E onwards. We increase our target multiple from 36x earlier to 40x given (a) higher long term growth v/s our earlier estimates; (b) target multiple of 40x is higher v/s peers because of superior execution, strong parentage and a debt-free, cash-generative balance sheet; (c) semiconductor opportunity a distinct re-rating lever, as SCIL migrates from a pure play agrochemical name towards a 'agrochemicals plus semiconductor materials' franchise, a category which should command a structurally higher valuation multiple. That said, we maintain our positive stance on SCIL and remain our preferred pick in the agrochemicals space. Maintain BUY with a revised TP of Rs650/share (earlier Rs570/share), valuing the company at 40x FY28E EPS.

Fig 17 – PE chart



Source: Bloomberg, Anand Rathi Research

Fig 18 – EV/EBITDA chart



Source: Bloomberg, Anand Rathi Research

Key events to watch out for in the near-medium term (thesis-confirming signals)

- A formal SCIL/SCC announcement of the India high-purity semiconductor-chemicals facility (management guides "soon"), and — the key structural tell — that the capex is approved and booked through listed SCIL.
- A semiconductor-specific capex figure and confirmation of ISM 2.0 eligibility/quantum.
- Progress on a supply/qualification relationship with Tata Electronics, and any electronic-materials appointment to SCIL's board.

Key Risks to our thesis:

- **Structure risk (our key monitorable):** SCC houses the semiconductor build in a new wholly owned Indian entity rather than listed SCIL, in which case SCIL earns rent/tolling rather than the chemical margin. We view this as low-probability given the parent's stated respect for minority-shareholder rights, but flag it as the single most important item to track.
- **Competitive intensity:** Tata's materials MoU with Merck (its named primary high-purity materials partner); an exclusive arrangement would cap SCIL to a second source / niche role.
- **Execution/timing:** slippage at Dholera and the 12–18-month qualification cycle could push the revenue inflection beyond FY30–31.
- **Margin mix:** the first, wet-chemical-led wave is lower-margin than SCIL's existing business; blended margins improve only as higher-IP grades (resists, targets) localise.
- **Core-business risks:** adverse weather in the home market, commodity-price volatility, and a complete ban on glyphosate (~14-15% of FY26 revenue).

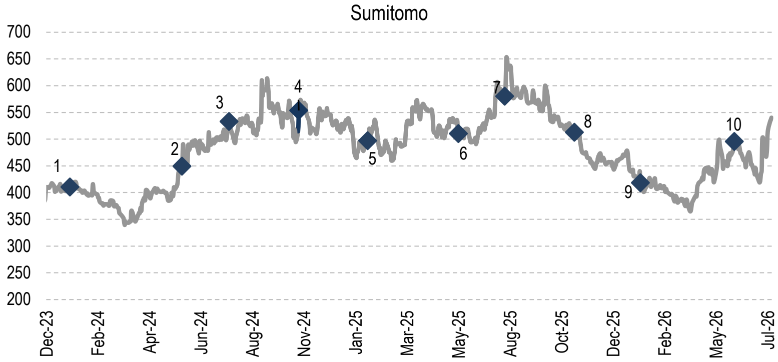
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 16 July 2026)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	01-Jan-24	Buy	500	410
2	28-May-24	Buy	530	449
3	29-Jul-24	Buy	570	497
4	29-Oct-24	Buy	620	553
5	28-Jan-25	Buy	630	492
6	28-May-25	Buy	620	510
7	04-Aug-25	Buy	690	635
8	29-Oct-25	Buy	630	512
9	28-Jan-26	Buy	560	402
10	28-May-26	Buy	570	495

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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