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Technical Analysis on Equity Markets: Sumitomo Chemicals India Ltd.

I. Background

As Rupa Mansingh makes her way through the teeming hundreds entering the stately corporate office, she is in a daze. The early morning chaos, the metro crowd, the cacophony of commuters, as they fill into the 'factory of finance' are all lost on her. Her mind remains on the chart she saw yesterday. Will the downward channel be tested today?

Rupa is an equity dealer with a leading Public Sector bank, India Bank, having joined the bank around five years back. Given her background in economics, banking was not too difficult. Within a year she was inducted into the bank treasury, a prestigious opportunity for her level of seniority. Last year she was moved to the front office the 'Mecca of treasury': and now she was an equity dealer. While initially nervous, and without any formal training, Rupa took to trading quite easily. Charts were a comfort ground, given the long training in economics and while initially she did more of fundamental analyses, she found herself being drawn to the inherent precision of technical tools.

Technical analysis is the methodological study of charts to forecast prices: while fundamental analysis delves into why the market moved the way it did, technical analysis iterates that price reflects all information: in other words, whatever factors which impact the security have already been captured in the current price (Murphy, 1999, Roy Trivedi and Kyal 2020). In the fast-paced markets of today, Rupa found it easier to base her trading decisions on indicators and patterns that show up on the chart, rather trying to understand the intrinsic factors that moved the market. Often even without any change in the fundamentals of a company, the stock price moved, suggesting to understand sentiment more than the fundamental analysis will be needed.

Today her mind was on a chemical sector company Sumitomo Chemicals India Ltd. (SCIL), which is one of the leading players in the industry, majorly engaged in domestic marketing of products of its

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The case is based on secondary data only. Both authors have contributed equally to the case and teaching note.

Japanese parent -Sumitomo Chemical Company Limited, covering the sectors agrochemicals, animal nutrition, and environmental health business segments. (Screener,n.d). While the trend seems to be down on the daily chart, it seems to be testing the lower bound of a channel which exists on the longer time-frame charts (Weekly & Monthly). Looking at the momentum indicators on different timeframe conflicting signals emerge. Her gut instinct suggested that the bottom formation may have been complete for the stock and it may look to reverse the current downtrend. However, it is possible that the channel may break and the scrip moves down. She is faced with a difficult choice on what to do:

1. Go long based on her gut feeling as the signals on short term suggest.
2. Wait for some more data points (as the result date is near)
3. Go short on the stock as the long-term charts still seem bearish.

II. The Company

The company, Sumitomo Chemicals, is into speciality chemicals and is an MNC with the FII holdings of 3.65% (as on June 25) which has gone up from 3.36% (June 2024) (Screener, n.d). Also, the DII have increased stake in the company to the extent of 8.15% (Jun 2025) as against 7.13% (Jun 2024). The market cap of the company is 25765 crores and trades at a P/E ratio of 46.58 compared to sectoral PE ratio of 25.81. A brief overview of the numbers is as per below (Screener, n.d):

	Mar 2024	Mar 2025
Sales Rs Lacs	2833	3090
Operating Profit Rs Lacs	474	623
Net Profit Rs Lacs	370	502
Margin	17%	20%
EPS	7.41	10.06

The P/E Ratio is 46.58 and Market Cap: 25765 crores. Trades at a high valuation compared to its peers but the ROCE of 25% is highest among the peer group. Sales/ Operating Profit/ Margins seem stable

Technical analysis

Technical analysis starts with trend analysis. The trend is the underlying secular movement of the price that can be seen from the chart. The success of technical analysis indicators comes from the ability to recognize trend. The basic premise of technical analysis is that the market moves in trends, which can be recognized through suitable indicators (Roy Trivedi 2020). It is basically a visual analysis, and therefore getting trend right from chart analysis is crucial for the trader. Importantly, trend for the prices of any security will vary across time frames and therefore it is very crucial to choose the right time frame for the analysis.

The thumb rule is to start with the broadest time frame as it gives an idea of the major trend in that particular security. We can see the monthly chart for Sumitomo here. The trend is up as it is forming a series of Higher High & Higher Lows within an upward sloping channel. However, the stock is currently testing the lower bound of the channel after a Divergence was seen between the Momentum Indicator & the Price on monthly time frame. On Monthly timeframe the red candles may show a bearish bias, but since the stock is testing the lower bound it may find a support at these levels. The indication may come from the lower timeframe charts.

Chart 1



Source: Investing.com

Going down to the lower time frame, the weekly chart suggested that the overall trend seems to be up within an upward sloping channel. However, the stock is currently trading near the lower bound of the channel, in case the stock is not able to find support at the current levels (given that the result date very near) it may correct to 487 (the June 2025 lows), which suggests she has to closely watch the levels. The Momentum Indicators also do not give any clear picture on the trajectory of the stock.

Chart 2



Source: Investing.com

Further on the Daily Charts, she sees another interesting setup. The price is also currently testing the lower bound. While the indicators on the monthly and weekly chart seem to be showing mixed signals, on the daily chart we see downtrend may end, as some positive signals have started to emerge:

1. MACD lines showing a crossover (bullish)

2. RSI @ 37.5 near the oversold zone
3. While divergence is not yet spotted, a green candle may give an early sign of reversal



Source: Investing.com

The Nifty chart is given below for reference:



Source: LSEG

III. The decision

Rupa knew as a dealer, that since the stock is very near to its result date (which may cause volatility) she has two choices before her.

1. To keep a watch and enter a trade whenever the signal is clear.
2. Based on the signals enter a Trade at current level of 515 with a Target price of 550 with a stop Loss at 487. The overall risk-reward for the trade would be 1:1.

Should she take a long position in the Stock? Wait for the result day? Or go short on the stock as the long-term charts still seem bearish?

References

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