

# Sharda Cropchem

## Buy

# DART

DOLAT ANALYSIS & RESEARCH THEMES  
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- Sharda Cropchem reported a healthy Q4FY20 performance beating our estimates on all fronts. Sales/EBITDA/PAT grew by 14.7 / 5.9 / 34.1% YoY to Rs 8.75/1.63/1.41bn respectively.
- Gross margins improved significantly by 522bps YoY to 36.2% on account of higher margins from Europe (38.6% in Q4FY20) and better product mix. EBITDA could have been better had it not been for higher other expenses and a forex loss, taking Opex up by 94.8% YoY to Rs 1.42bn.
- PAT remained healthy due to a lower tax rate (the company reversed deferred tax of Rs 2.24bn in Q4FY20) and was at Rs 1.41bn.

### Margin respite in ensuing quarters

We believe with enough availability of raw material and active ingredients in China, prices have stabilized. We are thus building in gross margin expansion of 130 bps and 150 bps in FY21/22E to 32.0/32.5% respectively. The management is likely to continue focusing on expanding its European footprint, given prospects of higher margins (now especially in countries like Germany and France). We are expecting growth in EU and NAFTA of 10.0% in FY21E. The company is expected to incur Rs 1.7-2.0bn in capex for FY21E which is largely for registration purposes. The company took a write off of Rs 546mn in its Intangible assets, there is a likelihood of few more write-offs in the ensuing years if the company decides to not renew registrations for certain molecules. However, it may not have a material impact on the company's financials.

### Outlook and Valuation

The management has guided for a 5-10% sales growth in FY21. We are building in a sales growth of 8.4/8.8% YoY to Rs 21.7/23.6bn. We expect EBITDA margin expansion of 150/40 bps YoY in FY21/22E owing to an easing RM scenario. Sharda Cropchem's rich experience in registrations and filling dossiers, net cash balance sheet (Rs 1.5bn cash as on FY20) and asset light business model is expected to drive profitability in the mid-term. We have revised our estimates upwards, considering recovery in Europe and NAFTA and an easing RM scenario. We are valuing Sharda Cropchem at 15.0x FY22E EPS and revise our target price to Rs 398/share. Maintain Buy.

### Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	8,756	7,633	14.7	3,827	128.8
Total Expense	7,122	6,091	16.9	3,433	107.5
EBITDA	1,633	1,542	5.9	394	314.0
Depreciation	350	380	(8.0)	339	3.3
EBIT	1,283	1,161	10.5	55	2213.1
Other Income	103	94	9.0	121	(15.4)
Interest	4	4	18.8	4	0.6
EBT	1,381	1,252	10.4	172	701.2
Tax	(35)	195	(118.1)	114	(131.2)
RPAT	1,417	1,056	34.1	59	2317.7
APAT	1,417	1,056	34.1	59	2317.7
			(bps)		(bps)
Gross Margin (%)	36.2	31.0	522	24.7	1156
EBITDA Margin (%)	18.7	20.2	(155)	10.3	835
NPM (%)	16.2	13.8	234	1.5	1465
Tax Rate (%)	(2.6)	15.6	(1818)	66.0	(6857)
EBIT Margin (%)	14.7	15.2	(56)	1.4	1321

CMP	Rs 239
Target / Upside	Rs 398 / 67%
BSE Sensex	35,231
NSE Nifty	10,383

### Scrip Details

Equity / FV	Rs 902mn / Rs 10
Market Cap	Rs 22bn
	US\$ 285mn
52-week High/Low	Rs 346/Rs 99
Avg. Volume (no)	22,770
NSE Symbol	SHARDACROP
Bloomberg Code	SHCR IN

### Shareholding Pattern Mar'20(%)

Promoters	74.8
MF/Banks/FIs	17.0
FII's	5.0
Public / Others	3.3

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	13.1	10.2	9.0
EV/EBITDA	7.0	5.4	4.8
ROE (%)	12.3	14.3	14.5
RoACE (%)	11.7	13.8	14.0

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	20,030	21,720	23,640
EBITDA	2,818	3,388	3,782
PAT	1,647	2,114	2,394
EPS (Rs.)	18.3	23.4	26.5

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**DOLAT CAPITAL**

## Conference Call Highlights

### Financial Update

- Sharda Cropchem reported sales growth of 14.7% YoY in Q4FY20 to 8.75bn with Europe growing by 21.1% and NAFTA by 13.9% while there was de-growth of 6.4% and 14.0% in LATAM and ROW respectively. Volume growth came in at 11% with a favourable product-price mix of 30.2% while forex fluctuations resulted in a 26.5 % decline.
- Gross margin expansion of 522 bps YoY in Q4FY20 to 36.2% was primarily on account of better price realizations and higher revenue growth coming from Europe specifically from high margin generating regions.
- EBITDA declined by 4.7% YoY from Rs 3.6 bn in FY19 to Rs 3.5 bn in FY20. EBITDA margin contracted by 91bps YoY to 17.6% in FY20 due to rise in other expenses, mainly due to amortization of Intangible assets to the tune of Rs 546.5mn during the current reporting period in line with the Ind AS framework.
- PAT declined by 6.6% YoY from Rs 1.7 bn in FY19 to 1.6 bn in FY20 due to increase in Forex loss from Rs 44.6 mn in FY19 to Rs 151.4 mn in FY20 & Higher depreciation of Rs 993.9 mn in FY19 as compared to Rs 1.3 bn in FY20.
- Better inventory management measures by the management led to improvement in working capital days from 87 days to 74 days as on 31st March 2020.
- Capex during the year stood at Rs 1.75bn bn in FY20 vs Rs 1.49 bn in FY19.

### Business Update

- The company reported good growth in the quarter in Europe which according the management was a function of pre-buying due to COVID related supply disruptions & the trend may not continue in the Q1FY21. The company was successful in gaining market share from MNC's in this region and also delivered higher margins (38.6% in Q4FY20) on account of better product mix and higher contribution from new registrations.
- Non-agrochemicals segment (which is largely dependent upon mining and construction activities where material handling is involved) took a hit due to COVID situation and consequent lockdown and scarcity of labour.
- In the midst of the COVID scenario, requests have been received from players in the developing countries for extension of payment period which has impacted liquidity and elevated receivable levels.
- The company has predominant exposure in Eastern European countries at the moment. The management hinted that more focused efforts would be made in the future to expand in countries like Germany & France where the performance has shown a subdued trend.
- The management stated that the net margins & registration costs are higher in Europe & NAFTA region as compared to the other geographies.
- The company has around 10-15 molecules under its portfolio where it is the sole generic manufacturer in Europe.
- Generics only have a 25% share in the NAFTA region where the balance 75% is controlled by the bigger MNC's.

- Management commented on aggression by multinational players in European markets and based on these trends expects very few opportunities for pricing improvement for the generics.
- The company holds second position in most of the European countries in terms of dealer preference. The management is exploring new market opportunities and also trying to improve penetration in current markets with new molecules & higher number of crops.
- Management threw light on impact of higher import duty scenario in NAFTA region due to the US- China trade war which has resulted in buying on shorter periods and smaller quantities due to the inability of the agriculture sector to absorb the higher import duties.

### Key Data Points

#### Volumes reported for the 4QFY20 are (Numbers in Mn/Kgs):

- Europe - 5.4
- NAFTA - 4.2
- LATAM - 0.50
- ROW - 0.75

#### Volumes reported for the FY20 are (Numbers in Mn/Kgs):

- Europe – 12.6
- NAFTA – 8.8
- LATAM– 2.4
- ROW – 2.6

#### Registrations pipeline Region wise as on 31st March FY20

- Europe- 1,230
- NAFTA- 210
- LATAM- 740
- ROW- 237
- Total – 2,417

#### The company reported the following margins -

##### For 4QFY20:

- Europe - 38.6%,
- NAFTA - 32%,
- LATAM - 29%,
- ROW - 20%

##### For the FY20:

- Europe - 37%,
- NAFTA - 24%
- LATAM - 28%
- ROW - 25%

### Capex and Guidances

- The management has guided a Capex in the range of Rs~1.7 to 2.0 bn for FY21.
- Due to un-availed MAT credit, the company plans to continue in the older tax regime at least for the next two years.
- The management guided that depreciation would remain in the range of Rs 1.3-1.4bn for FY21.

- The company is expected to maintain the current volume levels across all geographies.
- The management expects the gross margins in FY21 to be on similar levels of FY20 while the guidance for EBITDA margin is between 17-18% for FY21.
- The management has given a Revenue growth guidance of 5-10% for next year on the back on higher expectations from new registrations and continued growth momentum in Europe and NAFTA region.

**Exhibit 1: Actual V/s DART Estimates**

Particulars	Actual	Estimated	Variance (%)	Comments
Revenue	8,756	7,109	23.2%	
EBITDA	1,633	1,048	55.8%	Higher margins in Europe & favourable product mix
EBITDA Margin(%)	18.7	14.7	400	
PAT	1,417	564	151.0%	Higher margins & lower tax rates leading to deferred tax reversal

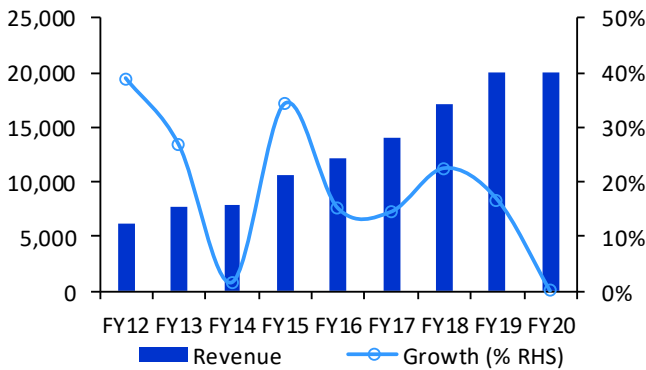
Source: Company, DART

**Exhibit 2: Change in Estimates**

Particulars	FY21E			FY22E		
	New	Previous	Change(%)	New	Previous	Change(%)
Revenue	21,720	20,004	8.6	23,640	23,176	2.0
EBITDA	3,388	2,480	36.6	3,782	3,801	(0.5)
EBITDA Margin(%)	15.6	12.4	320 bps	16.0	16.4	(40) bps
PAT	2,114	970	118.0	2,394	1,852	29.3
EPS(Rs)	23.4	10.7	118.0	26.5	20.5	29.3

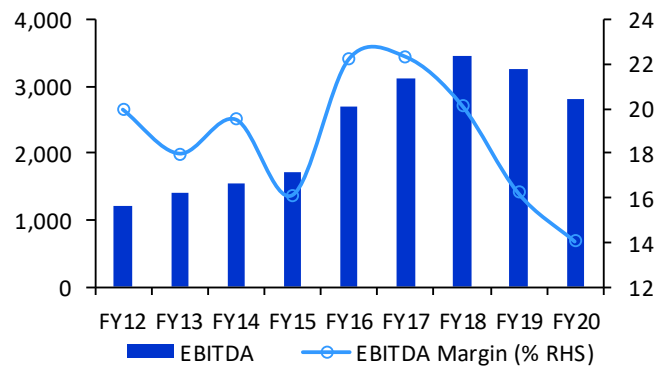
Source: Company, DART

**Exhibit 3: Revenue (Rs mn) and Growth (%)**



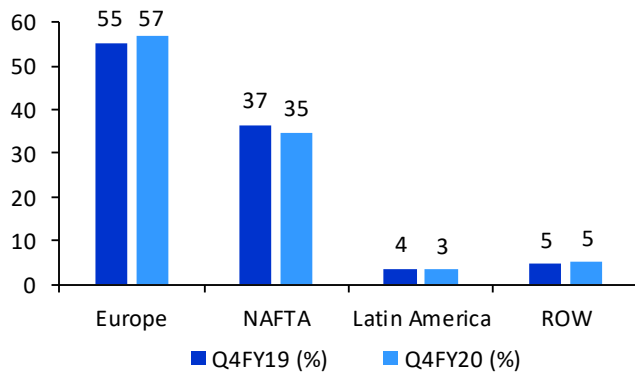
Source: Company, DART

**Exhibit 4: EBITDA (Rs mn) & EBITDA Margin (%)**



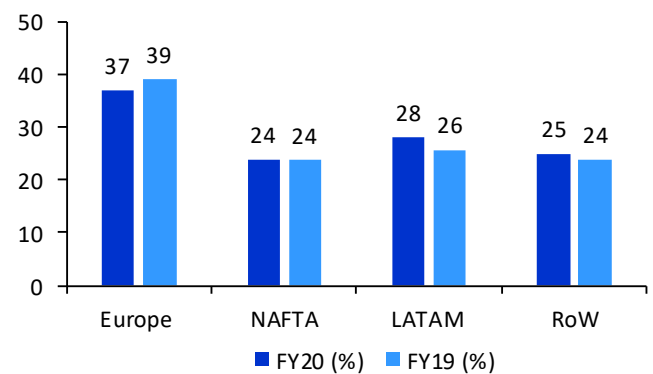
Source: Company, DART

**Exhibit 5: Region Wise Agrochemical Revenue Share (%)**



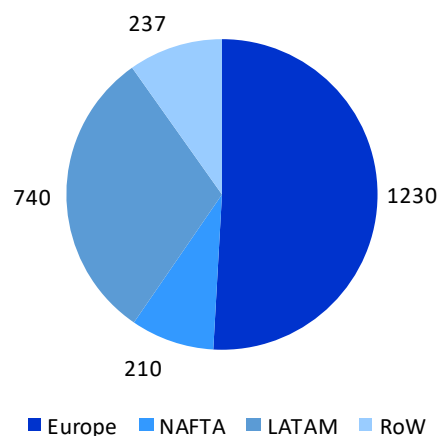
Source: Company, DART

**Exhibit 6: Region Wise Gross Margins (%)**



Source: Company, DART

**Exhibit 7: Product Registration Region Wise (As on 31st March 2020)**



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>20,011</b>	<b>20,030</b>	<b>21,720</b>	<b>23,640</b>
<b>Total Expense</b>	<b>16,763</b>	<b>17,212</b>	<b>18,331</b>	<b>19,857</b>
COGS	13,876	13,888	14,769	15,957
Employees Cost	334	349	391	449
Other expenses	2,553	2,975	3,171	3,451
<b>EBIDTA</b>	<b>3,249</b>	<b>2,818</b>	<b>3,388</b>	<b>3,782</b>
Depreciation	994	1,371	1,450	1,590
<b>EBIT</b>	<b>2,255</b>	<b>1,447</b>	<b>1,938</b>	<b>2,192</b>
Interest	84	19	15	5
Other Income	179	421	450	500
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>2,350</b>	<b>1,849</b>	<b>2,373</b>	<b>2,687</b>
Tax	587	202	259	293
RPAT	1,763	1,647	2,114	2,394
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>1,763</b>	<b>1,647</b>	<b>2,114</b>	<b>2,394</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	902	902	902	902
Minority Interest	2	3	3	3
Reserves & Surplus	11,937	13,126	14,706	16,459
<b>Net Worth</b>	<b>12,839</b>	<b>14,028</b>	<b>15,608</b>	<b>17,361</b>
Total Debt	1	1	10	5
Net Deferred Tax Liability	855	654	654	654
<b>Total Capital Employed</b>	<b>13,698</b>	<b>14,685</b>	<b>16,275</b>	<b>18,023</b>

### Applications of Funds

Net Block	5,915	5,777	6,327	7,827
CWIP	0	0	0	0
Investments	588	0	0	0
<b>Current Assets, Loans &amp; Advances</b>	<b>15,476</b>	<b>17,656</b>	<b>18,505</b>	<b>19,790</b>
Inventories	3,649	3,822	4,051	4,409
Receivables	8,114	9,894	9,819	10,686
Cash and Bank Balances	507	778	2,230	2,289
Loans and Advances	0	296	0	0
Other Current Assets	1,086	1,710	1,250	1,250
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,281</b>	<b>8,748</b>	<b>8,557</b>	<b>9,594</b>
Payables	6,361	6,867	6,677	7,213
Other Current Liabilities	1,920	1,881	1,881	2,381
<i>sub total</i>				
Net Current Assets	7,195	8,908	9,947	10,196
<b>Total Assets</b>	<b>13,698</b>	<b>14,685</b>	<b>16,275</b>	<b>18,023</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	30.7	30.7	32.0	32.5
EBIDTA Margin	16.2	14.1	15.6	16.0
EBIT Margin	11.3	7.2	8.9	9.3
Tax rate	25.0	10.9	10.9	10.9
Net Profit Margin	8.8	8.2	9.7	10.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	69.3	69.3	68.0	67.5
Employee	1.7	1.7	1.8	1.9
Other	12.8	14.9	14.6	14.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	26.9	75.5	129.2	438.5
Inventory days	67	70	68	68
Debtors days	148	180	165	165
Average Cost of Debt	9.9	2070.4	274.6	66.7
Payable days	116	125	112	111
Working Capital days	131	162	167	157
FA T/O	3.4	3.5	3.4	3.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	19.5	18.3	23.4	26.5
CEPS (Rs)	30.6	33.5	39.5	44.2
DPS (Rs)	5.0	5.5	5.5	5.5
Dividend Payout (%)	25.6	30.1	23.5	20.7
BVPS (Rs)	142.3	155.5	173.0	192.4
RoANW (%)	14.6	12.3	14.3	14.5
RoACE (%)	13.4	11.7	13.8	14.0
RoAIC (%)	17.1	10.7	13.9	14.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	239	239	239	239
P/E	12.2	13.1	10.2	9.0
Mcap (Rs Mn)	21,558	21,558	21,558	21,558
MCap/ Sales	1.1	1.1	1.0	0.9
EV	18,933	19,626	18,183	18,119
EV/Sales	0.9	1.0	0.8	0.8
EV/EBITDA	5.8	7.0	5.4	4.8
P/BV	1.7	1.5	1.4	1.2
Dividend Yield (%)	2.1	2.3	2.3	2.3
<b>(F) Growth Rate (%)</b>				
Revenue	16.8	0.1	8.4	8.8
EBITDA	(5.9)	(13.3)	20.2	11.6
EBIT	(18.1)	(35.8)	33.9	13.1
PBT	(18.2)	(21.3)	28.4	13.2
APAT	(7.6)	(6.6)	28.4	13.2
EPS	(7.6)	(6.6)	28.4	13.2
<b>Cash Flow</b>				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	5,026	658	3,236	3,800
CFI	319	(2,000)	(1,500)	0
CFF	(1,589)	(446)	(540)	(2,141)
FCFF	4,007	(575)	1,236	2,300
Opening Cash	612	1,237	1,767	2,463
Closing Cash	1,237	1,767	2,463	2,622

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-19	Accumulate	415	344
Jul-19	Buy	415	290
Oct-19	Buy	334	276
Jan-20	Buy	320	256
Mar-20	Buy	246	108
Mar-20	Buy	246	103

\*Price as on recommendation date

### DART Team

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