

Sharda Cropchem (SHCR IN)

Rating: ACCUMULATE | CMP: Rs228 | TP: Rs254

June 26, 2020

Q4FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	254		218	
Sales (Rs. m)	21,739	23,861	19,539	21,208
% Chng.	11.3	12.5		
EBITDA (Rs. m)	3,009	3,542	3,130	3,667
% Chng.	(3.9)	(3.4)		
EPS (Rs.)	16.8	19.5	14.7	16.7
% Chng.	14.2	16.6		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	19,976	20,030	21,739	23,861
EBITDA (Rs. m)	3,223	2,818	3,009	3,542
Margin (%)	16.1	14.1	13.8	14.8
PAT (Rs. m)	1,764	1,446	1,515	1,756
EPS (Rs.)	19.6	16.0	16.8	19.5
Gr. (%)	(7.5)	(18.1)	4.8	15.9
DPS (Rs.)	4.0	3.5	3.2	3.7
Yield (%)	1.8	1.5	1.4	1.6
RoE (%)	14.6	10.8	10.5	11.3
RoCE (%)	17.2	10.8	10.4	11.2
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	5.3	6.3	5.6	4.6
PE (x)	11.6	14.2	13.6	11.7
P/BV (x)	1.6	1.5	1.4	1.3

Key Data

SHCR.BO | SHCR IN

52-W High / Low	Rs.346 / Rs.99
Sensex / Nifty	34,842 / 10,289
Market Cap	Rs.21bn/ \$ 271m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.7.5m

Shareholding Pattern (%)

Promoter's	74.79
Foreign	4.95
Domestic Institution	17.00
Public & Others	3.26
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	65.2	7.6	(26.2)
Relative	45.5	28.1	(16.4)

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Europe and NAFTA continues to be the growth driver

Quick Pointers:

- Volume growth of 11%
- European agrochem business grew by 23%

Sharda Cropchem reported better than expected results driven by 23% growth in Europe. Pre-buying was one of the key factors for good traction in business. Gross margin expansion of 512 bps was driven by geographical mix and demand for high margin products. Earnings have hit trough in FY20 in our view and we expect operating environment to improve going forward with both Europe and NAFTA being the growth drivers. Gross margin pressure is expected to ease with improvement in availability and reduction in price of raw materials. We expect Sharda to clock topline/EBITDA/PAT CAGR of 9%/12%/4% between FY20-22E. We have increased our topline/bottomline estimates by 11%/15% for FY21E and 13%/17% for FY22E and upgraded our target price to Rs 254 (Previous 218) based on 13x FY22E earnings.

5-10% topline growth guidance: The management has guided for topline growth of ~5-10% driven by good demand for high margin products, garnering new registrations, expanding crop presence and entering new geographies. Europe and NAFTA would continue to be the growth drivers.

Capex of Rs 1.7-1.8 bn for FY21: Sharda incurred capex of Rs 1.5 bn and Rs 1.8 bn for FY19 and FY20 respectively. In FY21, SHCR plans to invest Rs 1.8 bn in new registrations and re-registration of molecules.

Sharda continues to see traction despite procuring all the materials from China: SHCR buys all the raw materials from China but the company has not seen any negative impact of the same on the business, rather demand continues to be good. The company is unlikely to change its strategy of diversifying the sourcing away from China as no other geography can offer range of molecules at such an affordable price.

Exhibit 1: Demand for high margin products improve profitability

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	YoY gr. (%)	FY20	FY19	YoY gr. (%)
Net Sales	8,756	7,644	14.5	3,827	(56.3)	20,030	19,976	0.3
Expenditure								
Raw Materials	5,583	5,265	6.0	2,883	(48.4)	13,888	13,873	0.1
<i>% of Net Sales</i>	<i>63.8</i>	<i>68.9</i>		<i>75.3</i>		<i>69.3</i>	<i>69.5</i>	
Employee Cost	117	94	23.8	79	(31.8)	349	334	4.6
<i>% of Net Sales</i>	<i>1.3</i>	<i>1.2</i>		<i>2.1</i>		<i>1.7</i>	<i>1.7</i>	
Other Expenses	1,423	707	101.1	471	(66.9)	2,975	2,546	16.9
<i>% of Net Sales</i>	<i>16.3</i>	<i>9.3</i>		<i>12.3</i>		<i>14.9</i>	<i>12.7</i>	
Total Expenditure	7,122	6,067	17.4	3,433	(51.8)	17,212	16,753	2.7
EBITDA	1,633	1,577	3.6	395	(75.8)	2,818	3,223	(12.6)
<i>Margin (%)</i>	<i>18.7</i>	<i>20.6</i>		<i>10.3</i>		<i>14.1</i>	<i>16.1</i>	
Depreciation	350	380	(8.0)	339	(3.2)	1,371	994	38.0
EBIT	1,283	1,196	7.3	56	(95.7)	1,447	2,229	(35.1)
Interest	4	2	114.4	4	(0.4)	19	84	(77.2)
Other Income	103	58	77.7	121	18.3	421	206	104.0
PBT	1,381	1,252	10.4	172	(87.5)	1,849	2,351	(21.4)
Tax	(35)	195	NA	114	NA	202	587	(65.6)
<i>Tax Rate (%)</i>	<i>-2.6</i>	<i>15.6</i>		<i>66.0</i>		<i>10.9</i>	<i>25.0</i>	
RPAT	1,417	1,056	34.1	59	(95.9)	1,647	1,764	(6.7)
APAT	1,417	1,056	34.1	59	(95.9)	1,647	1,764	(6.7)

Source: Company, PL

Exhibit 2: Agchem segment driving growth in 4Q

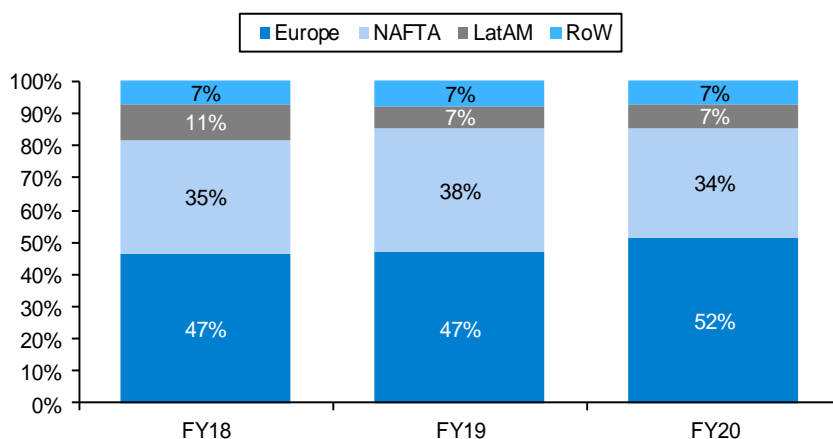
Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	YoY gr. (%)	FY20	FY19	YoY gr. (%)
Agrochemicals								
Revenue	8,223	6,898	19.2	3,115	164.0	16,850	16,822	0.2
EBIT	1,276	1,138	12.1	22	NA	1,275	1,971	(35.3)
<i>Margin (%)</i>	<i>15.5</i>	<i>16.5</i>		<i>0.7</i>		<i>7.6</i>	<i>11.7</i>	
Belts/Others								
Revenue	533	746	(28.5)	712	(25.1)	3,180	3,154	0.8
EBIT	111	126	(12.0)	102	8.7	529	446	18.5
<i>Margin (%)</i>	<i>20.9</i>	<i>16.9</i>		<i>14.4</i>		<i>16.6</i>	<i>14.1</i>	

Source: Company, PL

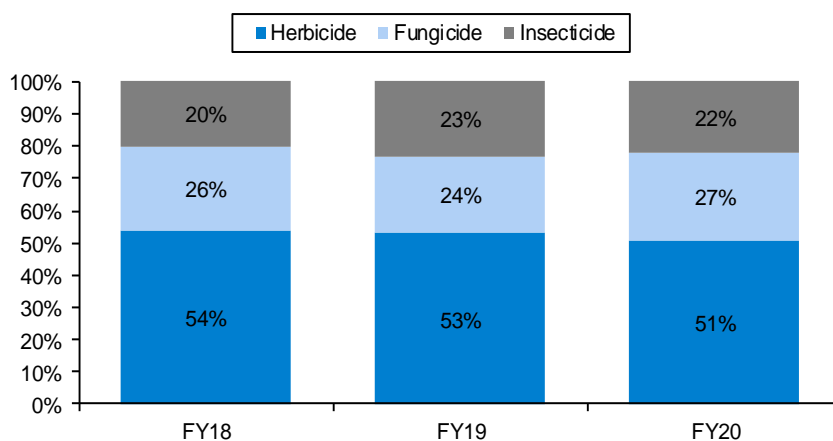
Exhibit 3: Volume growth of 11%

Break up of revenue growth	FY18	FY19	FY20
Currency impact	11%	17%	-11%
Price & Mix impact	1%	7%	6%
Volumes impact	11%	-7%	6%

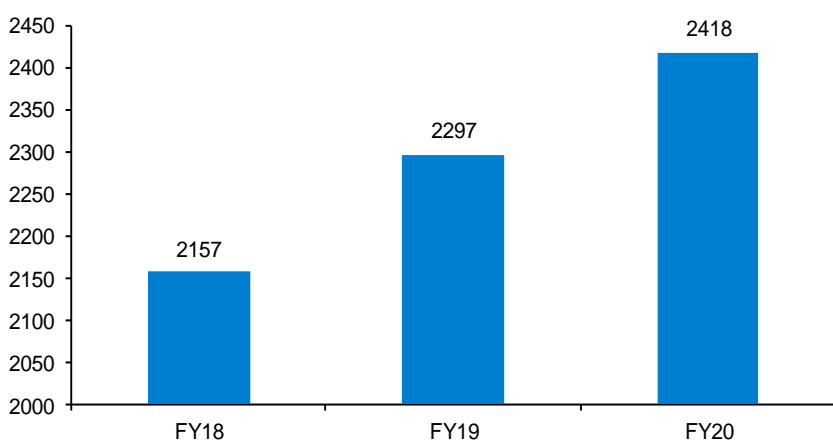
Source: Company, PL

Exhibit 4: Share of low margin geographies continues to increase


Source: Company, PL

Exhibit 5: SHCR's product portfolio is more tilted towards Herbicides


Source: Company, PL

Exhibit 6: Registrations portfolio looks attractive


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	19,976	20,030	21,739	23,861
YoY gr. (%)	17.0	0.3	8.5	9.8
Cost of Goods Sold	13,873	13,888	15,669	16,955
Gross Profit	6,102	6,143	6,070	6,906
Margin (%)	30.5	30.7	27.9	28.9
Employee Cost	334	349	370	406
Other Expenses	2,546	2,975	2,691	2,959
EBITDA	3,223	2,818	3,009	3,542
YoY gr. (%)	(6.7)	(12.6)	6.8	17.7
Margin (%)	16.1	14.1	13.8	14.8
Depreciation and Amortization	994	1,371	1,509	1,798
EBIT	2,229	1,447	1,500	1,744
Margin (%)	11.2	7.2	6.9	7.3
Net Interest	84	19	11	11
Other Income	206	421	431	507
Profit Before Tax	2,351	1,849	1,920	2,240
Margin (%)	11.8	9.2	8.8	9.4
Total Tax	587	403	403	482
Effective tax rate (%)	25.0	21.8	21.0	21.5
Profit after tax	1,764	1,445	1,517	1,758
Minority interest	-	0	2	2
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,764	1,446	1,515	1,756
YoY gr. (%)	(7.5)	(18.1)	4.8	15.9
Margin (%)	8.8	7.2	7.0	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,764	1,446	1,515	1,756
YoY gr. (%)	(7.5)	(18.1)	4.8	15.9
Margin (%)	8.8	7.2	7.0	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,764	1,446	1,515	1,756
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	19.6	16.0	16.8	19.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	6,211	8,027	9,727	11,427
Tangibles	181	349	340	400
Intangibles	6,030	7,679	9,387	11,027
Acc: Dep / Amortization	2,497	3,868	5,314	7,073
Tangibles	46	71	97	129
Intangibles	2,452	3,798	5,217	6,944
Net fixed assets	3,714	4,159	4,413	4,354
Tangibles	135	278	244	271
Intangibles	3,578	3,881	4,170	4,083
Capital Work In Progress	2,198	1,614	1,739	1,909
Goodwill	4	4	4	4
Non-Current Investments	89	116	116	116
Net Deferred tax assets	(855)	(654)	(654)	(654)
Other Non-Current Assets	492	725	288	336
Current Assets				
Investments	2,119	1,155	1,755	2,355
Inventories	3,649	3,822	4,169	4,576
Trade receivables	8,114	9,894	9,768	10,721
Cash & Bank Balance	1,237	1,534	1,943	2,019
Other Current Assets	243	296	283	310
Total Assets	22,033	23,472	24,625	26,860
Equity				
Equity Share Capital	902	902	902	902
Other Equity	11,937	13,126	13,920	15,291
Total Network	12,839	14,028	14,822	16,193
Non-Current Liabilities				
Long Term borrowings	1	1	1	1
Provisions	22	27	27	27
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,391	6,891	7,147	7,845
Other current liabilities	1,854	1,700	1,929	2,095
Total Equity & Liabilities	22,033	23,472	24,625	26,860

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	2,350	1,849	1,920	2,240
Add. Depreciation	994	1,371	1,509	1,798
Add. Interest	(4)	(9)	(431)	(507)
Less Financial Other Income	206	421	431	507
Add. Other	480	577	11	11
Op. profit before WC changes	3,820	3,787	3,009	3,542
Net Changes-WC	2,549	(1,699)	136	(629)
Direct tax	(808)	(625)	(395)	(472)
Net cash from Op. activities	5,561	1,463	2,750	2,441
Capital expenditures	(1,430)	(1,760)	(1,825)	(1,870)
Interest / Dividend Income	23	37	431	507
Others	(2,191)	1,045	(600)	(600)
Net Cash from Invt. activities	(3,598)	(678)	(1,993)	(1,963)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,689)	-	-	-
Dividend paid	(361)	(541)	(337)	(391)
Interest paid	(104)	(2)	(11)	(11)
Others	87	30	-	-
Net cash from Fin. activities	(2,067)	(513)	(348)	(402)
Net change in cash	(104)	273	408	76
Free Cash Flow	4,131	(297)	925	571

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	4,230	3,242	3,827	8,756
YoY gr. (%)	(7.5)	4.7	(18.8)	14.5
Raw Material Expenses	3,054	2,368	2,883	5,583
Gross Profit	1,176	874	945	3,173
Margin (%)	27.8	27.0	24.7	36.2
EBITDA	592	198	395	1,633
YoY gr. (%)	(30.5)	(42.9)	(16.9)	3.6
Margin (%)	14.0	6.1	10.3	18.7
Depreciation / Depletion	352	330	339	350
EBIT	239	(131)	56	1,283
Margin (%)	5.7	(4.1)	1.5	14.7
Net Interest	6	4	4	4
Other Income	109	88	121	103
Profit before Tax	342	(47)	172	1,381
Margin (%)	8.1	(1.5)	4.5	15.8
Total Tax	115	9	114	(35)
Effective tax rate (%)	33.5	(18.3)	66.0	(2.6)
Profit after Tax	228	(56)	59	1,417
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	228	(56)	59	1,417
YoY gr. (%)	(52.8)	(134.7)	(71.2)	34.1
Margin (%)	5.4	(1.7)	1.5	16.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	228	(56)	59	1,417
YoY gr. (%)	(52.8)	(134.7)	(71.2)	34.1
Margin (%)	5.4	(1.7)	1.5	16.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	228	(56)	59	1,417
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	2.5	(0.6)	0.6	15.7

Source: Company Data, PL Research

Key Financial Metrics

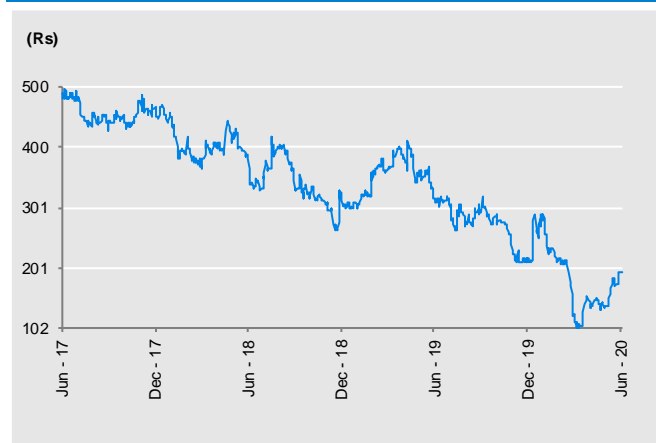
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	19.6	16.0	16.8	19.5
CEPS	30.6	31.2	33.5	39.4
BVPS	142.3	155.5	164.3	179.5
FCF	45.8	(3.3)	10.3	6.3
DPS	4.0	3.5	3.2	3.7
Return Ratio(%)				
RoCE	17.2	10.8	10.4	11.2
ROIC	17.4	10.5	11.0	12.3
RoE	14.6	10.8	10.5	11.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	98	124	114	114
Valuation(x)				
PER	11.6	14.2	13.6	11.7
P/B	1.6	1.5	1.4	1.3
P/CEPS	7.4	7.3	6.8	5.8
EV/EBITDA	5.3	6.3	5.6	4.6
EV/Sales	0.9	0.9	0.8	0.7
Dividend Yield (%)	1.8	1.5	1.4	1.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Revenues				
Europe	7,923	8,678	9,545	10,500
NAFTA	6,409	5,746	6,435	7,079
LatAM	1,223	1,196	1,292	1,395
RoW	1,255	1,213	1,286	1,389

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	Accumulate	218	149
2	23-Jan-20	Accumulate	313	268
3	03-Jan-20	Accumulate	306	290
4	31-Oct-19	Accumulate	306	276
5	03-Oct-19	Accumulate	405	286
6	25-Jul-19	Accumulate	379	290
7	16-Jul-19	Accumulate	402	315
8	08-Jul-19	Accumulate	402	312
9	04-Jul-19	Accumulate	402	319

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	6,010	4,450
2	Dhanuka Agritech	BUY	656	631
3	Godrej Agrovet	BUY	461	387
4	Insecticides India	BUY	730	401
5	P.I. Industries	Hold	1,544	1,594
6	Rallis India	Accumulate	246	222
7	Sharda Cropchem	Accumulate	218	149
8	Sumitomo Chemical India	Hold	267	276
9	UPL	BUY	497	371

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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