

16 May 2022

Sharda Cropchem

Strong quarter; earnings growth intact in tough market; Buy

On 24% volume and 25% pricing growth, Sharda's revenue/PAT grew 49%/52% in FY22. Management talked of 15-20% revenue growth in FY23 with a 20-22% EBITDA margin supported by strong agri demand globally. We are positive about Sharda's future performance, considering its focus on registrations, rising share of high margin products and deeper penetration in markets. Further, internally-funded capex and FCF would strengthen its balance sheet. We expect its revenue/profit to clock 15%/16% CAGRs over FY22-24.

Realisation-driven growth in Q4. Higher prices (up 42% y/y) across regions helped Sharda to record 32% y/y, 63% q/q, revenue growth to Rs14.3bn despite volumes dropping 11% y/y. Volumes fell mainly due to shipping and logistic issues, apart from the higher base. More stocks available than peers helped Sharda to gain market share in FY22. The EBITDA margin rose 100bps y/y, though q/q down 116bps, to 20.9%, supported by operating efficiencies and economies of scale, partially hurt by higher freight costs. Profit grew 32% y/y, 73% q/q, to Rs1,770m on the better margins and lower tax expenses.

Outlook: Capex in FY22 was Rs3.8bn and management maintained its guidance of Rs3.8bn-Rs4bn capex in FY24. It said short-term issues regarding supplies and logistics would have no major impact on Q1 FY23 performance. If the lockdown in China persists, it would impact supplies for short term. Management says it is seeing positive traction in old and new products. The company is expanding its range of products in each region for future growth. Management guided revenue growth of 15-20% with ~30-32% gross margins and ~20-22% EBITDA margins in FY23.

Valuation. The stock trades at 14x FY23e and 12x FY24e earnings. We maintain our Buy rating, though with a revised TP of Rs835, valuing the stock at 16x FY24e earnings. We expect high growth momentum, a strong balance sheet, free cash-flows and strong return ratios over FY22-24. **Risks:** Forex movements, dependence on China for raw material, delay in registrations.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	20,030	23,956	35,798	41,417	47,078
Net profit (Rs m)	1,647	2,292	3,493	4,050	4,717
EPS (Rs)	18.3	25.4	38.7	44.9	52.3
PE (x)	35.3	25.4	16.7	14.4	12.3
EV / EBITDA (x)	18.8	13.3	8.0	6.6	5.2
PBV (x)	4.1	3.6	3.0	2.6	2.2
RoE (%)	12.3	15.2	19.8	19.4	19.2
RoCE (%)	11.7	14.2	18.2	18.0	18.0
Dividend yield (%)	0.6	0.8	0.8	1.0	1.2
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs.835

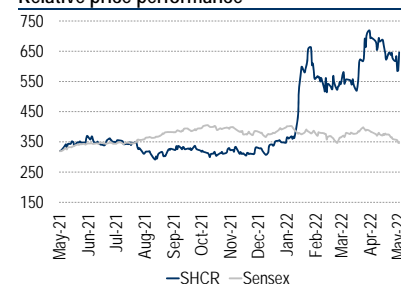
Share Price: Rs.645

Key data	SHCR IN / SHCR.BO
52-week high / low	Rs745 / 286
Sensex / Nifty	52930 / 15808
3-m average volume	\$2.1m
Market cap	Rs58bn / \$752.4m
Shares outstanding	90m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	74.8	74.8	74.8
- of which, Pledged	-	-	-
Free float	25.2	25.2	25.2
- Foreign institutions	1.7	1.0	0.9
- Domestic institutions	12.8	12.7	13.6
- Public	10.7	11.4	10.7

Estimates revision (%)	FY23e	FY24e
Sales	7.9	8.4
EBITDA	7.9	8.4
PAT	16.0	12.0

Relative price performance



Source: Bloomberg

Bhawana Israni

Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	20,030	23,956	35,798	41,417	47,078
<i>Growth (%)</i>	0.3	19.6	49.4	15.7	13.7
Direct costs	13,886	16,360	24,998	28,578	32,013
SG&A	3,185	3,428	3,806	4,556	5,179
EBITDA	2,959	4,168	6,994	8,283	9,886
<i>EBITDA margins (%)</i>	14.8	17.4	19.5	20.0	21.0
- Depreciation	1,371	1,704	2,453	2,961	3,684
Other income	280	658	124	249	282
Interest expenses	19	28	22	23	23
PBT	1,849	3,095	4,642	5,547	6,462
<i>Effective tax rate (%)</i>	10.9	25.9	24.8	27.0	27.0
+ Associates / (Minorities)	0.3	0.4	0.2	-	-
Net income	1,647	2,292	3,493	4,050	4,717
Adjusted income	1,647	2,292	3,493	4,050	4,717
WANS	90	90	90	90	90
FDEPS (Rs / sh)	18.3	25.4	38.7	44.9	52.3
FDEPS growth	(6.6)	39.2	52.4	15.9	16.5
<i>Gross margins (%)</i>	30.7	31.7	30.2	31.0	32.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	902	902	902	902	902
Net worth	14,028	16,143	19,125	22,567	26,576
Debt	172	808	466	466	466
Minority interest	3	3	3	3	3
DTL / (Assets)	654	868	1,240	1,240	1,240
Capital employed	14,856	17,822	20,834	24,276	28,286
Net tangible assets	278	209	144	144	144
Net intangible assets	3,881	5,231	5,774	6,486	7,051
Goodwill	4	4	-	-	-
CWIP (tang. & intang.)	1,614	1,310	2,122	2,449	1,200
Investments (strategic)	-	-	-	-	-
Investments (financial)	1,155	830	1,344	1,344	1,344
Current asset (ex cash)	14,961	18,388	26,338	30,359	34,508
Cash	1,534	2,605	1,660	2,801	5,664
Current liabilities	8,572	10,756	16,548	19,306	21,625
Working capital	6,389	7,632	9,790	11,053	12,883
Capital deployed	14,856	17,822	20,834	24,276	28,286

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT adj. OI and interest	1,588	2,464	4,540	5,322	6,203
+ Non-cash items	1,371	1,704	2,453	2,961	3,684
Oper. prof. before WC	2,959	4,168	6,994	8,283	9,886
- Incr. / (decr.) in WC	1,963	1,243	2,158	1,263	1,831
Others incl. taxes	403	581	779	1,498	1,745
Operating cash-flow	593	2,345	4,057	5,523	6,311
- Capex (tang. + intang.)	1,233	2,682	3,739	4,000	3,000
Free cash-flow	(640)	(337)	318	1,523	3,311
Acquisitions					
-Div.(incl. buyback, tax)	434	451	451	607	708
+ Equity raised	-	-	-	-	-
+ Debt raised	171	636	(341)	-	-
- Fin Investments	(964)	(325)	514	-	-
-Misc. items (CFI+CFF)	(237)	(898)	(43)	(225)	(259)
Net cash-flow	298	1,071	(945)	1,141	2,863

Source: Company, Anand Rathi Research

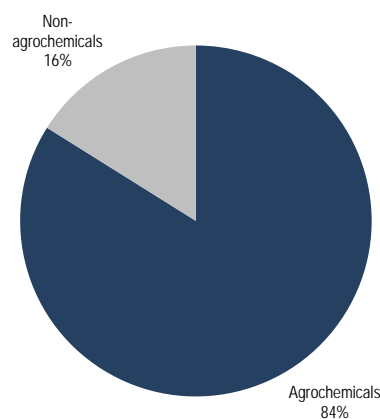
Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	35.3	25.4	16.7	14.4	12.3
EV / EBITDA (x)	18.8	13.3	8.0	6.6	5.2
EV / Sales (x)	2.8	2.3	1.6	1.3	1.1
P/B (x)	4.1	3.6	3.0	2.6	2.2
RoE (%)	12.3	15.2	19.8	19.4	19.2
RoCE (%) - after tax	11.7	14.2	18.2	18.0	18.0
RoIC	14.8	17.4	21.8	21.4	22.9
DPS (Rs / sh)	4.0	5.0	5.0	6.7	7.8
Dividend yield (%)	0.6	0.8	0.8	1.0	1.2
Dividend payout (%) - incl. DDT	21.9	19.7	12.9	15.0	15.0
Net debt / equity (x)	(0.2)	(0.2)	(0.1)	(0.2)	(0.2)
Receivables (days)	180	177	157	157	157
Inventory (days)	100	117	130	132	134
Payables (days)	181	181	172	168	168
CFO : PAT %	36.0	102.3	116.2	136.4	133.8

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Segment-wise revenue contribution


Source: Company

Result update; Concall highlights

Operational highlights

- Q4 revenue shot up 32% y/y, 63% q/q, to Rs14.3bn, driven by a better product mix and higher realizations across regions, partially hurt by volumes declining.
- In FY22 volume growth was 24% y/y, though in Q4 FY22 volumes declined 11% y/y. A year ago, exceptional growth was seen in volumes due to the Covid recovery globally.
- The gross margin contracted 211bps y/y, 469bps q/q, to 29.2%, partially hurt by higher freight costs.
- The EBITDA margin improved 100bps y/y, (declined 116bps q/q), to 20.9%, boosted by effective cost management and economies of scale.
- Supported by revenue growth and lower tax expenses, PAT rose 32% y/y, 73% q/q, to Rs1,770m.
- In Q4 FY22, the company had a forex loss of Rs92m.

Segment / region-wise performance

The agrochemicals division's revenue rose 24% y/y, 72% q/q, to Rs12.4bn. Revenue from Europe, NAFTA, LATAM and RoW grew respectively 14%, 26%, 174% and -17% y/y.

Sharda reported strong product growth in Q4. Herbicides revenue grew 39% y/y to Rs7.4bn, followed by fungicides, up 21% y/y to Rs3.7bn. Revenue of insecticides declined 20% y/y to Rs1.4bn.

Revenue of its non-agrochemicals business grew 129% y/y, 22% q/q, to Rs1.9bn. Revenue from Europe, NAFTA, LATAM and RoW grew respectively 104%, 213%, 69% and 8% y/y.

Fig 7 – Segment-wise revenue trend (Rs m)

	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Agrochemicals	2,363	3,113	8,227	3,072	3,443	4,022	10,048	5,343	5,029	7,233	12,430
<i>Growth % y/y</i>	-1	-18	19	-2	46	29	22	74	46	80	24
<i>% share</i>	73	81	94	79	81	81	92	86	78	82	87
Non-agrochemicals	877	711	534	817	805	916	834	884	1,399	1,565	1,910
<i>Growth % y/y</i>	23	-23	-28	-23	-8	29	56	8	74	71	129
<i>% share</i>	27	19	6	21	19	19	8	14	22	18	13
Total	3,240	3,824	8,761	3,889	4,248	4,938	10,882	6,227	6,428	8,798	14,340

Source: Company

Fig 8 – Segment-wise EBIT (Rs m) and margin trend (%)

	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Agrochemicals	(182)	22	1,276	197	175	611	1,516	581	287	1,146	1,907
<i>Growth % y/y</i>	(177)	(83)	12	24	(196)	2,685	19	195	64	88	26
<i>EBIT margin %</i>	(7.7)	0.7	15.5	6.4	5.1	15.2	15.1	10.9	5.7	15.8	15.3
Non-agrochemicals	145	102	111	138	148	149	155	104	129	214	315
<i>Growth % y/y</i>	44	(23)	(11)	(19)	2	46	40	(25)	(13)	44	103
<i>EBIT margin %</i>	16.6	14.4	20.8	16.9	18.4	16.3	18.6	11.8	9.2	13.7	16.5

Source: Company

Fig 9 – Region-wise revenue break-up – agrochemicals

	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Europe	1,328	1,005	4,679	1,567	2,142	1,350	5,353	2,510	2,155	3,018	6,100
Growth % y/y	37	-15	23	-6	61	34	14	60	1	124	14
% share	56	32	57	51	62	34	53	47	43	42	49
NAFTA 567		1,376	2,863	882	800	1,709	3,859	1,750	1,795	3,116	4,870
Growth % y/y	-39	-33	14	-7	41	24	35	98	124	82	26
% share	24	44	35	29	23	42	38	33	36	43	39
LATAM 279		327	275	405	302	390	402	848	708	486	1,100
Growth % y/y	-5	84	11	26	8	19	46	109	134	25	174
% share	12	11	3	13	9	10	4	16	14	7	9
RoW 189		405	410	218	199	573	434	235	371	603	360
Growth % y/y	-2	5	27	2	5	42	6	8	86	5	-17
% share	8	13	5	7	6	14	4	4	7	8	3
Total	2,363	3,113	8,227	3,072	3,443	4,022	10,048	5,343	5,029	7,223	12,430

Source: Company

Fig 10 – Product-wise revenue break-up – agro-chemicals

	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Herbicides	1,087	1,470	4,331	1,498	1,745	2,027	5,285	2,542	2,609	3,623	7,360
Growth % y/y	3	-28	7	-10	61	38	22	70	50	79	39
% share	46	47	53	49	51	50	53	48	52	50	59
Insecticides	622	692	1,659	850	886	1,137	1,707	1,440	1,591	1,704	1,370
Growth % y/y	-23	-23	40	13	42	64	3	69	80	50	-20
% share	26	22	20	28	26	28	17	27	32	24	11
Fungicides	654	951	2,237	724	812	858	3,056	1,361	829	1,906	3,700
Growth % y/y	26	12	35	0	24	-10	37	88	2	122	21
% share	28	31	27	24	24	21	30	25	16	26	30
Total	2,363	3,113	8,227	3,072	3,443	4,022	10,048	5,343	5,029	7,233	12,430

Source: Company

Fig 11 – Region-wise revenue break-up – non-agrochemicals

	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22
Europe	189	235	198	299	251	262	265	243	413	595	540
Growth % y/y	-2	22	-11	15	33	12	34	-19	65	127	104
% share	22	33	37	37	31	29	32	27	30	38	28
NAFTA	413	267	224	340	358	457	352	386	702	692	1,100
Growth % y/y	135	-11	16	-18	-13	71	57	14	96	51	213
% share	47	38	42	42	44	50	42	44	50	44	58
LATAM	32	60	16	30	65	66	59	50	77	42	100
Growth % y/y	-45	110	-74	67	106	11	268	67	18	-36	69
% share	4	8	3	4	8	7	7	6	6	3	5
RoW	243	149	96	148	131	131	158	205	207	236	170
Growth % y/y	-14	-62	-64	-59	-46	-12	64	39	58	80	8
% share	28	21	18	18	16	14	19	23	15	15	9
Total	877	711	534	817	805	916	834	884	1,399	1,565	1,910

Source: Company

Concall highlights

- Growth in FY22/Q4:
 - volumes: 24%/down 11%
 - prices: 25%/42%
 - Volume break-up (FY22/Q4): Europe 20.3%/-4%; LATAM 112%/170%; NAFTA 14%/-30%; RoW 5%/-40%
 - Gross margin break-up (FY22/Q4): Europe ~36%/~35-36%; NAFTA ~30%/26%; LATAM ~15%/15%; RoW ~22%/22-23%
 - Registrations received in FY22: Europe 94, LATAM 8, NAFTA 37, RoW 4
- Q4 volumes were down 11%, largely in NAFTA (down 30%) followed by Europe (down 4%). LATAM grew 170%. Volume decline in Q4 was due to the high base and logistics and shipping issues.
- The higher freight rates and logistic issues hurt the gross margin in Q4. To deliver products on time, the company has used air transport which compounded costs during Q4.
- The growth in FY22 and Q4 was mainly driven by a better product mix and higher realisations.
- The belting business grew a strong 71% y/y to Rs5.7bn with contribution to reach 16% (14% a year ago).
- RoW market declined 18% y/y in Q4. Management said that these countries are not well regulated and duplicate products are sold there. Hence, margin maintenance is difficult. The company shifted its focus to developed countries where margins are high.
- Strengthening distribution network –to gain market share
 - Number of distributors increasing
 - Volumes also increasing
- Management said prices are being passed on with some lag. The major challenge is logistics as ships are not moving.
- Management said that channel inventory is expected to decline as freight costs and shipping times have increased. It would be difficult to maintain channel inventory.
- Supplies from China were impacted from Q2 FY22, normalized in Q3FY22 but were again impacted from Q4 FY22. Currently, with lockdowns in many areas, shipments are impacted, and ports are closed. The company is expecting no major impact on performance in Q1 FY23. If lockdowns persist for very long in China, it would impact the performance in Q2 FY23.
- The present adverse climate conditions in the US would have an impact on growth.
- Per management, LATAM is doing well. The major focus is on Europe and NAFTA.
 - Outlook for FY23: revenue growth 15-20%; gross margins ~30-32%; EBITDA margins ~20-22%; capex Rs3.8bn-4bn

Fig 12 – Financial trend

Particulars (Rs m)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Income	4,248	4,938	10,881	6,227	6,428	8,798	14,345	31.8	63.0	23,956	35,798	49.4
RM costs	2,928	3,233	7,471	4,401	4,629	5,814	10,153	35.9	74.6	16,360	24,998	52.8
Employee expenses	74	97	119	101	105	108	127	7.4	17.4	373	442	18.3
Other expenses	678	646	1,128	694	664	936	1,070	(5.2)	14.3	3,055	3,364	10.1
EBITDA	568	962	2,163	1,031	1,029	1,939	2,995	38.5	54.5	4,168	6,994	67.8
Depreciation 423		404	522	539	606	590	717	37.4	21.5	1,704	2,453	43.9
Interest 7		4	8	6	4	4	7	(4.8)	68.2	28	22	(20.1)
Other income	165	223	36	179	(3)	14	(66)	NA	NA	658	124	(81.1)
Exceptional items	-	-	-	-	-	-	-			-	-	
PBT	302	776	1,669	665	415	1,358	2,205	32.1	62.4	3,095	4,642	50.0
Tax 112		293	330	284	95	336	435	31.8	29.4	802	1,150	43.3
PAT	191	483	1,339	381	320	1,022	1,770	32.1	73.2	2,292	3,493	52.4
MI (0)		0	(0)	(0)	(0)	0	0	NA	NA	(1)	0	-
Consol. PAT	190	483	1,339	381	320	1,022	1,770	32.2	73.2	2,291	3,493	52.4
Diluted EPS (Rs)	2.1	5.4	14.8	4.2	3.5	11.3	19.6	32.2	73.2	25.4	38.7	52.4

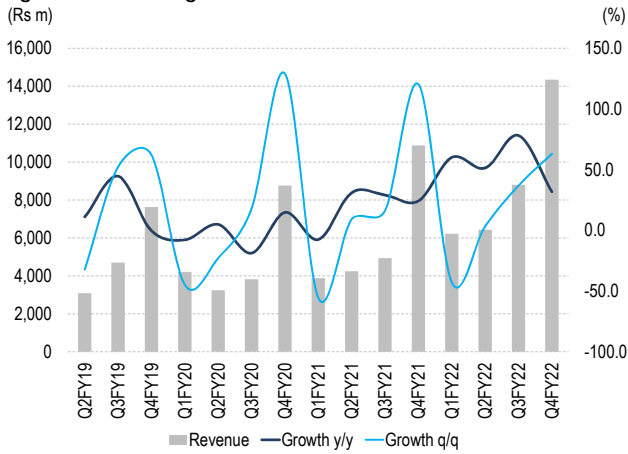
Source: Company, Anand Rathi Research * MI – Minority interest

Fig 13 – Quarterly trend, as percent of sales

Particulars (%)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	bps y/y	bps q/q	FY21	FY22	bps y/y
Gross margins	31.1	34.5	31.3	29.3	28.0	33.9	29.2	(211)	(469)	31.7	30.2	(154)
Employee costs	1.7	2.0	1.1	1.6	1.6	1.2	0.9	(20)	(34)	1.6	1.2	(32)
Other expenses	16.0	13.1	10.4	11.1	10.3	10.6	7.5	(291)	(318)	12.8	9.4	(335)
EBITDA margins	13.4	19.5	19.9	16.5	16.0	22.0	20.9	100	(116)	17.4	19.5	214
Depreciation	10.0	8.2	4.8	8.7	9.4	6.7	5.0	20	(171)	7.1	6.6	(26)
Interest	0.2	0.1	0.1	0.1	0.1	0.0	0.1	(2)	0	0.1	0.1	(5)
Other income	3.9	4.5	0.3	2.9	(0.1)	0.2	(0.5)	(79)	(61)	2.7	0.3	(240)
PBT margins	7.1	15.7	15.3	10.7	6.5	15.4	15.4	3	(7)	12.9	13.0	5
Effective tax rate	36.9	37.8	19.8	42.7	22.9	24.7	19.7	(4)	(502)	25.9	24.8	(116)
PAT margins	4.5	9.8	12.3	6.1	5.0	11.6	12.3	3	72	9.6	9.8	19

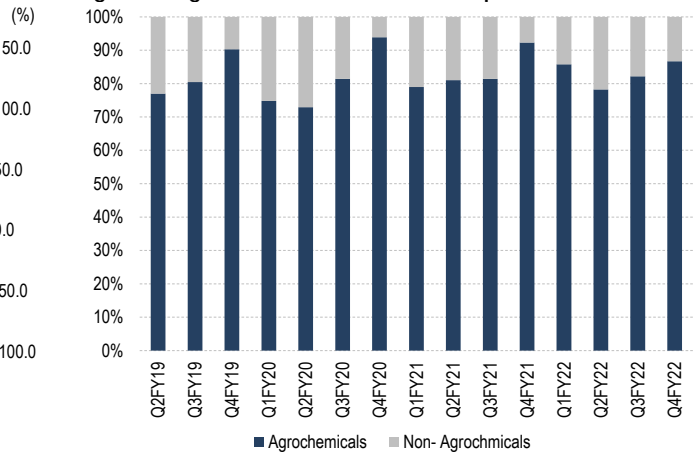
Source: Company, Anand Rathi Research

Fig 14 – Revenue growth trend



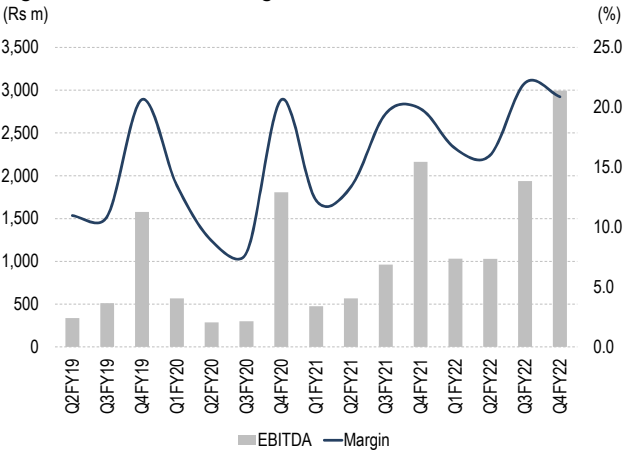
Source: Company

Fig 15 – Segment-wise revenue break-up



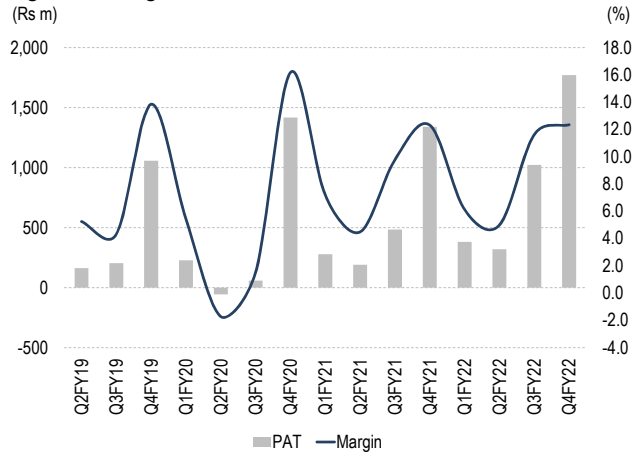
Source: Company

Fig 16 – EBITDA and margin trends



Source: Company

Fig 17 – PAT growth trend



Source: Company

Valuation

Fig 18 – Change in estimates

(Rs m)	Old		Revised		Change %	
	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Revenue 38,	389	43,449	41,417	47,078.7	9	8.4
EBITDA	7,678	9,124	8,283	9,886.7	9	8.4
PAT	3,491	4,213	4,050	4,717.16	0	12.0

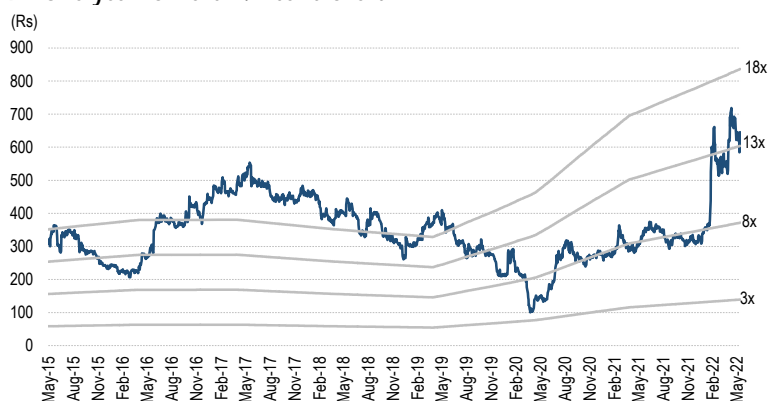
Source: Anand Rathi Research

Considering the persistent strong growth momentum (a 16% PAT CAGR over FY22-24, the sturdy business model, a healthy pipeline of formulations and active-ingredient registrations, a better revenue mix across regions and consistent RoEs and RoCEs, we are upbeat about the company's mid- to long-term prospects.

Further, assurance has risen about a sustainable revenue steam, driven by a strong pipeline of registrations across regions, and its announcement of registrations of formulations and active ingredients.

At present, the stock trades at 14x FY23e and 12x FY24e earnings. We maintain our Buy rating on it, with a higher TP of Rs835, based on 16x FY24e. We expect high growth momentum, a strong balance sheet, free cash-flows and strong return ratios over FY22-24.

Fig 19 – One-year-forward P/E band chart



Source: Bloomberg, Anand Rathi Research

Key risks

Dependence on the monsoon is an inherent risk for agro-chemicals. Other factors specific to the company are

- **Delay in registrations.** Delays in securing registrations would lead to loss of revenue in coming quarters due to the seasonal nature of the business.
- **Forex volatility.** Being a global manufacturer, the company is vastly exposed to foreign currency movements. It primarily sources active ingredients and formulations from China in dollars, and sells to the EU in euros. Since a substantial portion of its revenue and expenditure is in foreign currencies, to a certain extent it enjoys a natural hedge. Its foreign-currency exposure over and above this natural hedge may curtail its profits.

- **Climatic conditions.** Crop-protection products are affected by extreme climatic conditions (floods, droughts, etc.), an inherent risk.
- **Dependence on Chinese suppliers.** The company is completely dependent on China and local vendors for active ingredients and formulations. Adverse movements in Chinese currency, rising labour and environmental-compliance costs could markedly impact the competitiveness of Chinese manufacturers, which could affect Sharda's sourcing.
- **Global context, high stocks with distributors, returns of sales.** If distributors are unable to sell products due to the global slowdown, there are high chances of sales-returns increasing, and impacting the company's revenues.

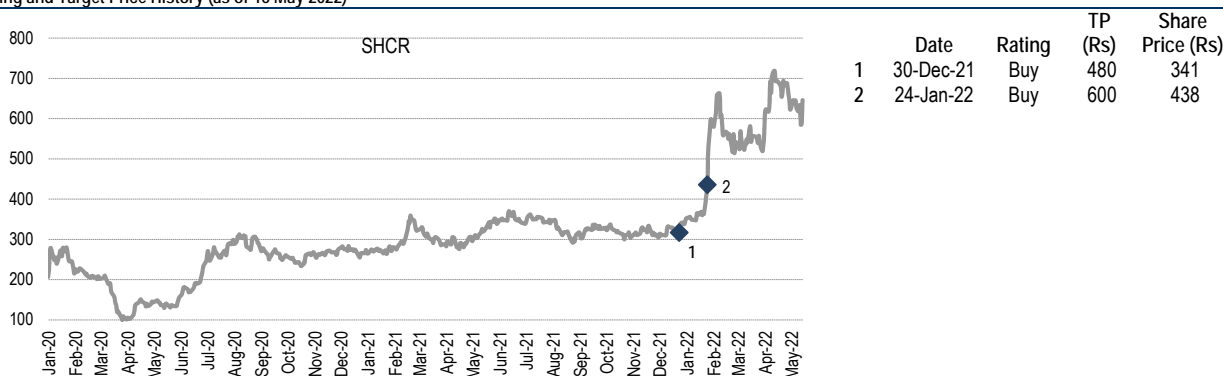
Appendix

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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