

Sharda Cropchem Limited

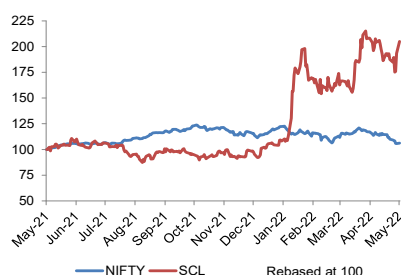
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Healthy outlook, supported by a solid quarter and year

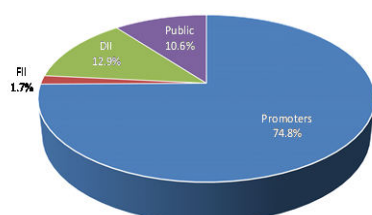
BUY

Sector	: Agrochemicals
Target Price	: ₹ 836
Current Market Price	: ₹ 685
Market Cap	: ₹ 6,176 crores
52-week High/Low	: ₹ 745/286
Daily Avg Vol (12M)	: 3,85,239
Face Value	: ₹10
Beta	: 0.62
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 538666
NSE Scrip Code	: SHARDACROP
Bloomberg Code	: SHCR IN
Reuters Code	: SHCR.NS
Nifty	: 15,842
BSE Sensex	: 52,974
Analyst	: Research Team

Price Performance



Shareholding Pattern



4Q FY22 Update

Outlook & Valuation

Sharda Cropchem Limited (SCL) recorded strong volume growth during FY22, which was further assisted by better product mix and price realisations, resulting in robust topline growth. Aided by healthy traction across the product range, the company's business continues to be driven by identification of new product registration opportunities, expansion and strengthening of distribution reach, and cost management with an eye to improve margins. Management has guided 15%-20% sales growth going forward and an EBITDA margin of 20%-22% in FY23, which is expected to be maintained in the medium term. The SCL stock appreciated by 56% since our BUY rating in the 3Q FY22 update report dated 25 January 2022, and by 114% since we initiated coverage on the company on 10 August 2021. With 4Q FY22 results beating our expectations and basis overall solid performance in FY22, we revise our forecasts upwards. At current levels, the SCL stock trades at 12.3x FY24E EPS. We believe the robust FY22 numbers and healthy guidance make a strong case for re-rating SCL as we increase our target P/E multiple to 15.0x (from 12.0x) FY24E. We maintain a BUY rating on the stock based on an upwardly-revised price target of Rs 836, informing an upside of 22%.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	1,998	2,003	2,396	3,580	4,202	4,836
Growth		0.3%	19.6%	49.4%	17.4%	15.1%
EBITDA *	369	352	455	729	870	1,025
EBITDA margin	18.5%	17.6%	19.0%	20.4%	20.7%	21.2%
PAT	176	165	229	349	420	503
PAT margin	8.8%	8.2%	9.6%	9.8%	10.0%	10.4%
Diluted EPS (₹)	19.55	18.25	25.40	38.71	46.57	55.75

Source: Company data, Khambatta Research; *excluding write-off of intangible assets and intangible assets under development

Results Analysis

- SCL reported robust results, beating our expectations. Revenues increased by 31.8% y-o-y to Rs 1,434.5 crore and 49.4% y-o-y to Rs 3,579.8 crore in 4Q FY22 and FY22, respectively, driven by strong volume growth across geographies, and better product mix and price realisations.
- FY22 agrochemicals-to-non-agrochemicals revenue mix was 84:16. Agrochem revenues grew by 46% while non-agrochem increased by 71% in FY22. The geographical split for agrochemicals revenues was

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Europe 46%, NAFTA 38%, LatAm 11% and RoW 5%. The geographical split for non-agrochemicals revenues was NAFTA 50%, Europe 31%, LatAm 5% and RoW 14%.

- Gross margin was down 210 bps y-o-y to 29.2% in 4Q FY22 while it declined 150 bps to 30.2% in FY22 due to higher freight costs. EBITDA margin (excluding write-off of intangible assets and intangible assets under development) fell marginally by 49 bps y-o-y to 22.1% in 4Q FY22 while it expanded by 135 bps to 20.4% in FY22 as the higher freight costs were more than offset by operating leverage and effective cost management.
- PAT grew by 32.2% y-o-y to Rs 177.0 crore in 4Q FY22 and by 52.4% to Rs 349.3 crore in FY22. PAT margin was flat on a y-o-y basis at 12.3% in 4Q FY22 while it expanded by 19 bps to 9.8% in FY22.

Financial Performance (Consolidated)

₹ crore	4Q FY21	3Q FY22	4Q FY22	Y-o-Y	Q-o-Q	FY21	FY22	Y-o-Y
Operating revenue	1,088.1	879.8	1,434.5	31.8%	63.0%	2,395.6	3,579.8	49.4%
EBITDA *	246.0	200.9	317.3	29.0%	57.9%	455.2	728.6	60.1%
EBITDA margin	22.6%	22.8%	22.1%	-49 bps	-72 bps	19.0%	20.4%	135 bps
PAT	133.9	102.2	177.0	32.2%	73.2%	229.2	349.3	52.4%
PAT margin	12.3%	11.6%	12.3%	3 bps	72 bps	9.6%	9.8%	19 bps
EPS (₹)	14.84	11.33	19.62	32.2%	73.2%	25.40	38.71	52.4%

Source: Company data, Khambatta Research; *excluding write-off of intangible assets and intangible assets under development

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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