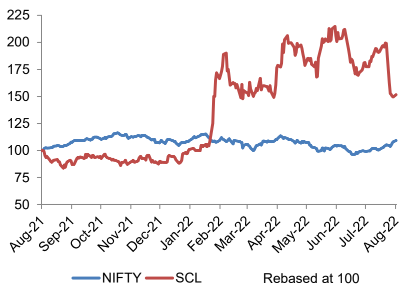
Sharda Cropchem Limited

02 August 2022

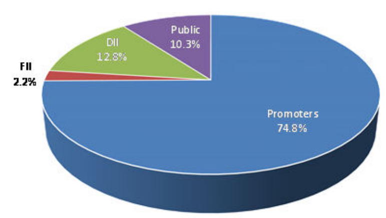
Profitability hit by FX impact but fundamental outlook remains intact — BUY

Sector	: Agrochemicals
Target Price	: ₹ 762
Current Market Price	: ₹ 526
Market Cap	: ₹ 4,742 crores
52-week High/Low	: ₹ 769/286
Daily Avg Vol (12M)	: 3,97,877
Face Value	: ₹10
Beta	: 0.40
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 538666
NSE Scrip Code	: SHARDACROP
Bloomberg Code	: SHCR IN
Reuters Code	: SHCR.NS
Nifty	: 17,340
BSE Sensex	: 58,116
Analyst	: Research Team

Price Performance



Shareholding Pattern



1Q FY23 Update

Results Analysis

- Sharda Cropchem Limited (SCL) reported solid growth in 1Q FY23 as revenues increased by 32.4% y-o-y to Rs 824.5 crore, driven by better product mix and price realisation.
- Gross margin was down ~390 bps y-o-y to 24.4% due to a depreciating EUR and higher freight costs. EBITDA margin (excluding write-off of intangible assets and intangible assets under development in 1Q FY22, and loss on fair valuation of investments in 1Q FY23) declined by ~360 bps y-o-y to 13.5%, broadly in line with the fall in gross margin.
- PAT fell by 40.6% y-o-y to Rs 22.6 crore as PAT margin declined by ~340 bps y-o-y to 2.7% due to lower operating profitability, loss on fair valuation of investments, and FX loss, partly offset by a net tax credit.

Outlook & Valuation

SCL reported strong revenue growth in 1Q FY23 but profitability took a beating due to the weakening of the EUR against the USD in line with other major currencies. With approximately a half of SCL's agrochem sales generated in EUR while a majority of the raw material is imported from China, which is denominated in USD, the company's profitability at both the operating and net levels suffered consequently. The impact on profitability was exacerbated by higher freight rates. However, we believe the company's business outlook remains fundamentally intact. Management reiterated its sales growth guidance of 15%-20% while guiding an EBITDA margin of 18%-20% (down from 20%-22% earlier) for FY23. The SCL stock last closed 65% up after reaching a high of Rs 745 (+133%) on 30 May 2022 since we initiated coverage on 10 August 2021. We revise our forecasts based on the growth achieved in 1Q FY23 and lower reported/guided profitability. At current levels, the SCL stock trades at an attractive level of 10.3x FY24E EPS. Based on an unchanged target P/E multiple of 15.0x FY24E, we maintain a BUY rating on the stock with a revised price target of Rs 762 (down from Rs 836), informing an upside of 45%.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E
Operating revenue	1,997.6	2,003.0	2,395.6	3,579.8	4,234.9	4,929.4
Growth		*0.3%*	*19.6%*	*49.4%*	*18.3%*	*16.4%*
EBITDA*	368.8	351.7	455.2	728.6	783.4	956.3
EBITDA margin	*18.5%*	*17.6%*	*19.0%*	*20.4%*	*18.5%*	*19.4%*
PAT	176.3	164.7	229.2	349.3	355.7	458.4
PAT margin	*8.8%*	*8.2%*	*9.6%*	*9.8%*	*8.4%*	*9.3%*
Diluted EPS (₹)	19.55	18.25	25.40	38.71	39.43	50.81

**Excluding write-off of intangible assets and intangible assets under development in 1Q FY22, and loss on fair valuation of investments in 1Q FY23*
Source: Company data, Khambatta Research

Tel: +91-(0)22 4027 3300
Fax: +91-(0)22 6641 3377
www.khambattasecurities.com

Financial Performance (Consolidated)

₹ crore	1Q FY22	4Q FY22	1Q FY23	Y-o-Y	Q-o-Q
Operating revenue	622.7	1,434.5	824.5	32.4%	-42.5%
EBITDA*	106.6	317.3	111.1	4.2%	-65.0%
EBITDA margin	*17.1%*	*22.1%*	*13.5%*	*-364 bps*	*-864 bps*
PAT	38.1	177.0	22.6	-40.6%	-87.2%
PAT margin	*6.1%*	*12.3%*	*2.7%*	*-337 bps*	*-960 bps*
EPS (₹)	4.22	19.62	2.51	-40.5%	-87.2%

**Excluding write-off of intangible assets and intangible assets under development in 1Q FY22, and loss on fair valuation of investments in 1Q FY23*
Note: Due to seasonality in the company's business, financial performance is primarily comparable on a y-o-y basis
Source: Company data, Khambatta Research

This space has been intentionally left blank

Tel: +91-(0)22 4027 3300
Fax: +91-(0)22 6641 3377
www.khambattasecurities.com

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).

Analyst Certification

I/We, Research Analysts and authors, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and Other Disclosures:

Khambatta Securities Limited (Khambatta Securities) is a full-service, integrated merchant banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

Khambatta Securities is one of the merchant bankers. We and our associates might have investment banking and other business relationship with companies covered by our Investment Research Department. Khambatta Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by Khambatta Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Khambatta Securities. While we would endeavor to update the information herein on a reasonable basis, Khambatta Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Khambatta Securities from doing so.

This report is based on information obtained from public domain and is believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Khambatta Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Khambatta Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

Khambatta Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of investment banking or merchant banking, brokerage services or other advisory services.
Khambatta Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Khambatta Securities or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Khambatta Securities nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research Analysts engaged in preparation of this Report (a) may or may not have any financial interests in the subject company or companies mentioned in this report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any other material conflict of interest at the time of publication of the research report.

It is confirmed that Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

Neither the Research Analysts nor Khambatta Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Khambatta Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report has been prepared by Khambatta Securities. Khambatta Securities has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.