

July 24, 2023

Q1FY24 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		BUY	
Target Price	540		640	
Sales (Rs. m)	43,391	47,730	45,693	50,262
% Chng.	(5.0)	(5.0)		
EBITDA (Rs. m)	6,609	8,195	8,150	9,327
% Chng.	(18.9)	(12.1)		
EPS (Rs.)	30.7	38.3	42.0	45.7
% Chng.	(26.8)	(16.2)		

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	35,798	40,452	43,391	47,730
EBITDA (Rs. m)	6,994	7,007	6,609	8,195
Margin (%)	19.5	17.3	15.2	17.2
PAT (Rs. m)	3,493	3,420	2,772	3,458
EPS (Rs.)	38.7	37.9	30.7	38.3
Gr. (%)	52.4	(2.1)	(18.9)	24.7
DPS (Rs.)	3.0	6.0	5.0	5.0
Yield (%)	0.6	1.2	1.0	1.0
RoE (%)	19.8	16.5	11.8	13.3
RoCE (%)	25.0	21.6	15.1	17.0
EV/Sales (x)	1.1	1.0	1.1	0.9
EV/EBITDA (x)	5.8	5.9	6.9	5.1
PE (x)	12.4	12.7	15.7	12.6
P/BV (x)	2.3	1.9	1.8	1.6

Key Data

SHCR.BO | SHCR IN

52-W High / Low	Rs.705 / Rs.369
Sensex / Nifty	66,385 / 19,672
Market Cap	Rs.43bn/ \$ 531m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.157.01m

Shareholding Pattern (%)

Promoter's	74.82
Foreign	2.00
Domestic Institution	12.75
Public & Others	10.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.2)	(1.6)	(30.6)
Relative	(13.9)	(9.6)	(41.4)

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Sharda Cropchem (SHCR IN)

Rating: ACCUMULATE | CMP: Rs481 | TP: Rs540

Subdued results; near term outlook bleak.!!

Quick Pointers:

- Volume/Price decline of 11%/18% YoY; FX up 6.5% YoY in 1QFY24.
- Management downward revised its FY24E revenue growth guidance to 8-10% YoY (earlier ~15% YoY).

We trim our FY24/25E estimates by 27%/16% and downgrade the rating to 'Accumulate' (Earlier Buy) citing near term pressure on both revenues and margins, led by adverse weather conditions in key geographies and high inventory concerns both at manufacturer and distributor levels which in turn exerts pressure on revenue growth and margins.

Sharda Cropchem (SHCR) reported subdued set of results with revenue decline of 23% YoY to Rs6.3bn (PLe Rs8.0bn), led by volume/price de-growth of 11%/18%YoY partially aided by positive FX variance of 6.5% YoY. Gross margins (GM) contracted 1670bps YoY to 8.7% (lowest in the last 10 years), largely led by a) high cost inventory provisions of Rs710mn; b) higher sales return of Rs1.35bn; and c) acute pressure on price realizations particularly in the NAFTA region. Lower GM coupled with higher opex up 530bps YoY has resulted into an EBITDA loss of Rs688mn (incl. IU&AD write-off of Rs27mn in 1QFY24 V/s Rs29mn in 1QFY23). Citing cautious near term growth outlook, management has revised downward their FY24E revenue growth guidance to 8-10% (earlier ~15%) thereby putting pressure on margins (EBITDA margins guided earlier at 18-20% for FY24E). Accordingly, we downgrade our rating to 'ACCUMULATE' from Buy earlier with revised TP of Rs540 (earlier Rs640) based on 14XFY25 EPS.

- Global Agrochemical Industry reeling under immense pressure:** SCHR posted revenue decline of 23% YoY to Rs6.4bn (PLe Rs8.0bn) primarily led by subdued performance across business segments. Agrochemicals/Non-agrochemicals revenues declined by 23% YoY each to Rs4.7bn/Rs1.6bn. Subdued performance in agrochemicals segment was largely on the back of a) lower volumes in Europe and LATAM markets due to high inflation, b) ongoing recession and c) adverse weather conditions. While, on the non-agrochemicals segment every geography barring RoW (up 96% YoY) declined by 63%/26%/15% YoY in Europe/ NAFTA/LATAM respectively.
- High inventory provision & sales return led to gross margin contraction:** Gross margins contracted by 1670bps YoY to 8.7% largely led by immense pressure on price realizations (particularly in the NAFTA region) coupled with provisioning of high cost inventory (Rs710mn impact) and higher sales return of Rs1.35bn in 1QFY24. Lower gross profit coupled with higher other expenses (up 540bps YoY) (incl. IU&AD write-off of Rs27mn in 1QFY24 vs Rs29mn in 1QFY23) resulted in EBITDA loss of Rs688mn. PAT loss stood at Rs886mn.

Other Key Highlights:

Revenue Breakup:

- **Agrochemicals- All regions posted revenue decline:** Agrochemicals revenues declined by 21%/14%/52%/18% YoY in Europe/ NAFTA/ LATAM/ RoW in 1QFY24.
- **Non-agrochemicals- Barring RoW, all geographies post revenue decline:** Non-agrochemicals revenues declined by 63%/26%/15% YoY in 1QFY24. However, RoW witnessed revenue growth of 96% YoY in 1QFY24.
- **SCHR has spent Rs1.55bn capex** (largely towards product registrations across geographies) in 1QFY24. For full year, management has guided capex to be ~Rs4.0bn.
- **Net Working Capital stretched; stood at 120 days up 29 days YoY in 1QFY24** as against 90 days in 1QFY23 largely led by (a) increase in inventory/receivable days by 17 and 11 days respectively. While payable days remained flat YoY (down by 1 day) in 1QFY24. Further, company had sales return of ~Rs1.35bn.
- **Downward revision of guidance:** Management revised downward their revenue guidance to 8-10% from earlier ~15% growth owing to challenging demand environment across regions. Further, they remained cautious on margins in the near term (gross margins guided earlier to be in the range of 26-30% for FY24E). Management remained cautious on attaining lower end of the margin guidance.

Exhibit 1: Q1FY24 Result Overview (Rs mn)

Y/e March	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY24E	FY23	YoY (%)
Revenue	6,378	8,245	(22.7)	14,818	(57.0)	43,391	40,452	7.3
Raw material costs	5,820	6,151	(5.4)	10,139	(42.6)	31,676	28,608	10.7
Gross profit	557	2,094	(73.4)	4,679	(88.1)	11,716	11,844	(1.1)
Employee costs	92	85	8.4	152	(39.5)	481	448	7.3
Other expenses	1,153	1,048	10.0	1,464	(21.2)	4,626	4,389	5.4
Total operating expenses	1,245	1,133	9.9	1,615	(22.9)	5,106	4,837	5.6
EBITDA	(688)	961	NA	3,064	NA	6,609	7,007	(5.7)
Depreciation	703	547	28.4	677	3.9	3,079	2,481	24.1
EBIT	(1,390)	414	NA	2,387	NA	3,530	4,526	(22.0)
Less: Interest Expense	13	8	70.0	25	(47.9)	45	45	(0.2)
Add : Other Income	355	(230)	NA	189	NA	211	-173	NA
Profit Before Tax	(1,048)	176	NA	2,551	NA	3,696	4,307	(14.2)
Less: Provision for Tax	(162)	(50)	223.2	563	NA	924	888	4.1
Adjusted Profit	(886)	226	NA	1,989	NA	2,772	3,420	(19.0)
Exceptional items	0	0	NA	0	NA	0	0	
Reported Profit	(886)	226	NA	1,989	NA	2,772	3,420	(19.0)
Equity capital (FV Rs 10)	902	902		902		902	902	
No. of Diluted shares outstanding (mn)	90	90		90		90	90	
Adjusted Diluted EPS	(9.8)	2.5	NA	22.0	NA	30.7	37.9	(19.0)
As % of revenues								
COGS	91.3	74.6		68.4		73.0	70.7	
Gross profit	8.7	25.4		31.6		27.0	29.3	
Employee costs	1.4	1.0		1.0		1.1	1.1	
Other expenses	18.1	12.7		9.9		10.7	10.8	
Total operating expenses	19.5	13.7		10.9		11.8	12.0	
EBITDA	(10.8)	11.7		20.7		15.2	17.3	
Net profit	(13.9)	2.7		13.4		6.4	8.5	

Source: Company, PL

Exhibit 2: Revenues declined across segments

Sales Breakup	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Agrochemicals	5,343	5,029	7,232	12,432	6,149	5,756	8,419	13,156	4,753
Non - Agrochemicals	884	1,399	1,566	1,913	2,097	1,459	1,754	1,662	1,624
Total	6,227	6,428	8,798	14,345	8,245	7,215	10,173	14,818	6,378
Growth %									
Agrochemicals	73.9	46.1	79.8	23.7	15.1	14.4	16.4	5.8	(22.7)
Non – Agrochemicals	8.2	73.9	71.0	129.4	137.2	4.3	12.0	(13.1)	(22.5)
Total	60.1	51.3	78.2	31.8	32.4	12.2	15.6	3.3	(22.7)

Source: Company, PL

Exhibit 3: Subdued demand coupled with higher channel inventory drags the overall agrochemicals performance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Europe	2,510	2,162	3,037	6,100	3,120	2,380	3,300	8,930	2,460
NAFTA	1,750	1,810	3,110	4,870	1,920	2,300	3,940	3,090	1,660
RoW	230	352	579	360	280	440	710	670	230
Latam	850	704	506	1,100	830	640	470	470	400
Total Agrochem Sales	5,340	5,029	7,232	12,430	6,150	5,760	8,420	13,160	4,750
Growth %									
Europe	60.2	1.0	124.8	14.0	24.3	10.1	8.6	46.4	(21.2)
NAFTA	98.5	126.6	81.9	26.2	9.7	27.0	26.7	(36.6)	(13.5)
RoW	5.5	76.3	1.3	(17.1)	21.7	25.0	22.7	86.1	(17.9)
Latam	109.6	132.4	29.8	173.6	(2.4)	(9.1)	(7.2)	(57.3)	(51.8)
Total	73.8	46.1	79.8	23.7	15.2	14.5	16.4	5.9	(22.8)

Source: Company, PL

Exhibit 4: Barring RoW; all geographies posted revenue decline in Non-agrochemicals segment

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Europe	240	420	595	540	590	320	260	190	220
NAFTA	390	700	689	1,100	1,140	830	1,150	1,110	840
RoW	210	210	235	170	230	210	260	310	450
Latam	50	70	47	100	130	100	90	50	110
Total	890	1,399	1,566	1,910	2,090	1,460	1,760	1,660	1,620
Growth %									
Europe	(19.7)	67.7	127.2	103.8	145.8	(23.8)	(56.3)	(64.8)	(62.7)
NAFTA	14.7	94.9	57.4	212.5	192.3	18.7	66.9	0.9	(26.3)
RoW	41.2	61.0	79.3	7.6	9.5	0.1	10.7	82.4	95.7
Latam	70.0	7.3	(44.9)	69.5	160.0	43.0	91.6	(50.0)	(15.4)
Total	8.9	73.9	71.0	129.0	134.8	4.4	12.4	(13.1)	(22.5)

Source: Company, PL

Exhibit 5: Lower volumes coupled with intense pressure on price realizations drags overall performance

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Volume	48.2	60.8	51.0	(11.0)	(2.5)	(23.0)	9.0	(3.0)	(11.0)
Price	8.2	(10.6)	26.5	42.0	38.0	34.0	6.7	2.0	(18.5)
Exchange	3.7	1.1	0.8	0.3	(3.3)	2.0	0.0	4.3	6.5
Total	60.1	51.3	78.3	31.3	32.2	13.0	15.7	3.3	(23.0)

Source: Company, PL

Exhibit 6: Continue to invest in product registrations- Spent Rs1.5bn in 1QFY24; Capex for FY24 stands at Rs4.0bn

Geography	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Europe	1,347	1,370	NA	1,420	1,445	NA	1,490	1,532	NA
NAFTA	237	252	NA	273	280	NA	293	292	NA
RoW	238	238	NA	241	241	NA	243	243	NA
Latam	748	750	NA	752	753	NA	750	754	NA
No. of registrations	2,570	2,610	2,645	2,686	2,719	2,750	2,776	2,821	2,859

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	35,798	40,452	43,391	47,730
YoY gr. (%)	49.4	13.0	7.3	10.0
Cost of Goods Sold	24,998	28,608	31,676	33,889
Gross Profit	10,800	11,844	43,391	47,730
Margin (%)	30.2	29.3	100.0	100.0
Employee Cost	442	448	481	529
Other Expenses	3,072	4,270	4,426	4,868
EBITDA	6,994	7,007	6,609	8,195
YoY gr. (%)	67.8	0.2	(5.7)	24.0
Margin (%)	19.5	17.3	15.2	17.2
Depreciation and Amortization	2,453	2,481	3,079	3,764
EBIT	4,540	4,526	3,530	4,431
Margin (%)	12.7	11.2	8.1	9.3
Net Interest	22	45	45	40
Other Income	124	(173)	211	219
Profit Before Tax	4,642	4,307	3,696	4,610
Margin (%)	13.0	10.6	8.5	9.7
Total Tax	1,150	888	924	1,153
Effective tax rate (%)	24.8	20.6	25.0	25.0
Profit after tax	3,493	3,420	2,772	3,458
Minority interest	0	0	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,493	3,420	2,772	3,458
YoY gr. (%)	52.4	(2.1)	(18.9)	24.7
Margin (%)	9.8	8.5	6.4	7.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,493	3,420	2,772	3,458
YoY gr. (%)	52.4	(2.1)	(18.9)	24.7
Margin (%)	9.8	8.5	6.4	7.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,493	3,420	2,772	3,458
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	38.7	37.9	30.7	38.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	13,755	17,092	21,092	25,092
Tangibles	13,755	17,092	21,092	25,092
Intangibles	-	-	-	-
Acc: Dep / Amortization	7,981	10,462	13,541	17,305
Tangibles	7,981	10,462	13,541	17,305
Intangibles	-	-	-	-
Net fixed assets	5,774	6,630	7,551	7,787
Tangibles	5,774	6,630	7,551	7,787
Intangibles	-	-	-	-
Capital Work In Progress	2,266	2,088	2,088	2,088
Goodwill	0	0	0	0
Non-Current Investments	-	-	-	-
Net Deferred tax assets	(1,240)	-	-	-
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	1,344	319	319	319
Inventories	8,928	11,343	13,017	11,606
Trade receivables	15,400	18,333	20,260	21,632
Cash & Bank Balance	1,660	1,819	(2,643)	1,050
Other Current Assets	-	-	-	-
Total Assets	36,143	43,508	43,568	47,457
Equity				
Equity Share Capital	902	902	902	902
Other Equity	18,222	21,418	23,647	26,561
Total Network	19,125	22,320	24,549	27,463
Non-Current Liabilities				
Long Term borrowings	380	30	-	-
Provisions	23	27	27	27
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	11,776	13,776	15,687	16,319
Other current liabilities	4,836	7,352	3,302	3,644
Total Equity & Liabilities	36,143	43,508	43,568	47,457

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	4,642	4,307	3,696	4,610
Add. Depreciation	2,453	2,481	3,079	3,764
Add. Interest	-	-	-	-
Less Financial Other Income	124	(173)	211	219
Add. Other	121	184	(411)	(419)
Op. profit before WC changes	7,217	6,972	6,364	7,955
Net Changes-WC	(3,798)	(3,037)	(5,740)	1,014
Direct tax	(748)	(653)	(924)	(1,153)
Net cash from Op. activities	2,671	3,283	(300)	7,816
Capital expenditures	(2,338)	(2,441)	(4,000)	(4,000)
Interest / Dividend Income	-	-	-	-
Others	259	989	411	419
Net Cash from Invt. activities	(2,079)	(1,452)	(3,589)	(3,581)
Issue of share cap. / premium	-	-	-	-
Debt changes	(350)	(399)	(30)	-
Dividend paid	(541)	(553)	(543)	(543)
Interest paid	-	-	-	-
Others	(19)	(19)	-	-
Net cash from Fin. activities	(910)	(971)	(573)	(543)
Net change in cash	804	1,245	(4,462)	3,692
Free Cash Flow	333	842	(4,300)	3,816

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	7,215	10,173	14,818	6,378
YoY gr. (%)	12.2	15.6	3.3	(22.7)
Raw Material Expenses	5,244	7,073	10,139	5,820
Gross Profit	1,971	3,100	4,679	557
Margin (%)	27.3	30.5	31.6	8.7
EBITDA	1,037	1,945	3,064	(688)
YoY gr. (%)	0.8	0.3	2.3	(171.5)
Margin (%)	14.4	19.1	20.7	(10.8)
Depreciation / Depletion	604	653	677	703
EBIT	433	1,292	2,387	(1,390)
Margin (%)	6.0	12.7	16.1	(21.8)
Net Interest	4	9	25	13
Other Income	(284)	152	189	355
Profit before Tax	146	1,434	2,551	(1,048)
Margin (%)	2.0	14.1	17.2	(16.4)
Total Tax	25	350	563	(162)
Effective tax rate (%)	16.9	24.4	22.1	15.4
Profit after Tax	121	1,084	1,989	(886)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	121	1,084	1,989	(886)
YoY gr. (%)	(62.1)	6.1	12.4	(491.5)
Margin (%)	1.7	10.7	13.4	(13.9)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	121	1,084	1,989	(886)
YoY gr. (%)	(62.1)	6.1	12.4	(491.5)
Margin (%)	1.7	10.7	13.4	(13.9)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	121	1,084	1,989	(886)
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	1.3	12.0	22.0	(9.8)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	38.7	37.9	30.7	38.3
CEPS	65.9	65.4	64.9	80.0
BVPS	212.0	247.4	272.1	304.4
FCF	3.7	9.3	(47.7)	42.3
DPS	3.0	6.0	5.0	5.0
Return Ratio(%)				
RoCE	25.0	21.6	15.1	17.0
ROIC	22.5	19.1	10.3	13.5
RoE	19.8	16.5	11.8	13.3
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	0.1	0.0
Net Working Capital (Days)	128	143	148	129
Valuation(x)				
PER	12.4	12.7	15.7	12.6
P/B	2.3	1.9	1.8	1.6
P/CEPS	7.3	7.4	7.4	6.0
EV/EBITDA	5.8	5.9	6.9	5.1
EV/Sales	1.1	1.0	1.1	0.9
Dividend Yield (%)	0.6	1.2	1.0	1.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Revenues	35,800	40,450	43,391	47,730
Europe	13,790	17,740	19,337	21,270
NAFTA	11,530	11,250	12,038	13,241
LatAM	3,150	2,390	2,199	2,419
RoW	1,570	2,090	2,195	2,414

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	640	554
2	12-May-23	BUY	640	497
3	11-Apr-23	BUY	660	470
4	25-Jan-23	BUY	660	507
5	05-Jan-23	BUY	660	486
6	21-Oct-22	BUY	660	446
7	04-Oct-22	BUY	740	431
8	25-Jul-22	BUY	740	564

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,720	4,582
2	Chambal Fertilizers & Chemicals	Hold	300	273
3	Coromandel International	BUY	1,310	961
4	Dhanuka Agritech	BUY	950	794
5	Godrej Agrovet	Hold	420	464
6	Insecticides India	Accumulate	550	448
7	P.I. Industries	BUY	4,560	3,857
8	Rallis India	Reduce	180	221
9	Sharda Cropchem	BUY	640	554
10	Sumitomo Chemical India	BUY	550	449
11	UPL	BUY	850	670

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

ANALYST CERTIFICATION

(Indian Clients)

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