

November 02, 2018

## Sharda Cropchem Ltd.

### Q2 FY19 Result Update

Sharda Cropchem Ltd. (SHCR) reported Q2 FY19 revenues at INR 309.7 crore; down 32% QoQ and up 11% YoY. EBITDA was reported : INR 35 crore; down 51% QoQ and up 2% YoY. The company reported PAT at INR 16.2 crore; down 53% QoQ and 34% YoY, Cost of raw materials decreased by 39% QoQ to INR 96 crore. Revenue from agrochemical segment is at INR 239 crore down 37% QoQ and up 5% YoY.

Revenue from non-agrochemical segment is at INR 70 crore down 9% QoQ and up 38% YoY. Segmental EBIT for agro is at INR 23 crore down 50% QoQ and 8% YoY. Segmental EBIT for non-agro is at INR 10 crore up 11% QoQ and 25% YoY. Total debt has been significantly reduced from Rs 1,697 mn to Rs 401 mn, backed by healthy free cash flow generation during H1 FY19. The break-up between herbicides, fungicides and insecticides stood at 48%, 27% and 25% respectively.

### Operational Update:

- Total number of registrations were 2,289 as of Q2 FY19 as compared to 2,157 as of Q2 FY18.
- The company has another 930 registrations in pipeline across geographies.
- Revenue contribution from Top 10 molecules is 50.6% in H1 FY19 as against 53.9% in H1 FY18.

### Reduction in debt:

SHCR managed to reduce debt from INR 170 crore to INR 40 crore due to healthy cash flow of INR 90 crore during the quarter. The debt was on account of unsecured loan from the promoter of the company taken in the second half of previous year. This amount was considerable reduced during the quarter.

### Focus on NAFTA region:

As seen in the past, the management faced a lot of authority issues in LatAM region and due to drought conditions in Northern Europe, the revenues from the region suffered during the quarter. The management continues to focus on NAFTA regions as the market conditions are favourable and they have been receiving new registrations in the region. As well as the management expects the margins in the region to remain intact.

### Favourable market & product mix:

The major drivers of agrochemicals industry are increasing demand for food with rising population and consumer awareness associated with the benefits of fertilizers and pesticides in crop production. Development in technology to boost farm production with increasing government investments in agriculture to increase crop yields provides huge opportunities to this market. During the quarter, even though the volumes suffered but revenues remain intact due to favourable product mix with margins that the company have seen in the past.

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	1,222.1	1,399.6	1,713.9	2,030.8	2,783.2
<i>Growth</i>		15%	22%	18%	37%
EBITDA	271.4	312.8	345.9	363.9	693.3
<i>Growth</i>		15%	11%	5%	91%
EBIT	261.8	272.7	292.3	287.5	588.3
<i>Growth</i>		4%	7%	-2%	105%
PAT	175.2	191.3	191.0	192.4	392.3
<i>Growth</i>		9%	0%	1%	104%
EPS in INR	19.4	21.2	21.2	21.3	43.5
P/E	16.2	14.8	14.8	14.7	7.2
EV/EBITDA	6.4	10.2	7.7	4.0	3.1

Source: Company, NSPL Research

\* Read last page for disclaimer &amp; rating rationale

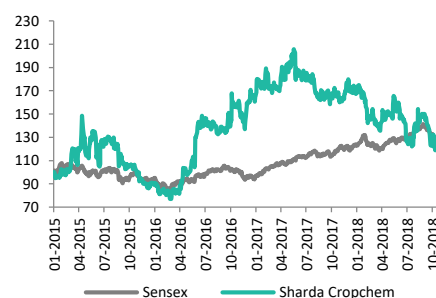
# STRONG BUY\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	314	384	
		22% ▲	

Market Data	
Industry	Agrochemicals
Sensex	34432
Nifty	10412
Bloomberg Code	SHCR:IN
Face Value (INR)	10
52-w H/L	504/308
Market Cap (INR Crores)	2834

Valuation Data	FY18	FY19E	FY20E
P/E (x)	14.84	14.73	7.23
EPS (INR)	7.67	4.03	3.11

### Sharda Cropchem Vs SENSEX



### Shareholding Pattern

	Sep'18	Jun'18	Mar'18
Promoters	74.78	74.78	74.78
FIIs	5.98	6.03	7.88
DIIs	15.3	14.62	12.89
Others/ Retail	3.94	4.57	4.45



(INR Crores)	Sep-18	Jun-18	QoQ	Sep-17	YoY
Sales	309.74	457.35	-32%	278.16	11%
Expenses	275.03	386.07	-29%	228.08	21%
EBITDA	34.71	71.28	-51%	50.08	-31%
EBITDA Margin	11%	16%	-28%	18%	-38%
Other Income	18.23	3.27	457%	1.45	1157%
Depreciation	19.68	18.35	7%	17.58	12%
EBIT	33.26	56.20	-41%	33.95	-2%
EBIT Margin	11%	12%	-13%	12%	-12%
Interest	4.16	3.60	16%	0.07	5843%
Profit before tax	29.10	52.60	-45%	33.88	-14%
Tax	12.90	18.37	-30%	9.48	36%
Net Profit	16.20	34.23	-53%	24.40	-34%
PAT Margin	5%	7%	-30%	9%	-40%

Source: Company, NSPL Research

#### Valuation:

Sharda Cropchem has strong geographical presence in more than 80 countries with an established global marketing & distribution network. They have superior sourcing capabilities with an established access to cost competitive manufacturers in China and India. Significant promoter experience and experienced management team.

The crop protection market was USD 62.87 billion in 2016 and is estimated to reach USD 87.83 billion by 2022 at a growth rate of 5.73% compounded annually. Insecticides, Fungicides, Herbicides, and Seed treatment are the major segments in the crop protection market. Herbicides market is expected to be the fastest growing segment for the period.

SHCR has increasingly been successful in getting bio-pesticides registration in many geographies. Bio-pesticides are less harmful as compared to regular synthetic pesticides. As a result, they typically affect only the target pest and other organisms that are closely related to it, as against broad-spectrum conventional pesticides, which can be harmful to other organisms. Although the bio-pesticide segment generated a small fraction of the revenue generated by the chemical industry, the segment is likely to grow at an average CAGR of 3.4% going ahead.

At CMP of INR 314.2, the company is trading at 3.1x FY20E EV/ EBITDA and 7.2x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 5x for EV/EBITDA and 9x for PE to arrive at an average target price of INR 384 which is an upside of 22%.

#### Conference call highlights:

- Net working days at 102 days v 69 days due to lower trade payables. Trade payables lower on account of high inventory, the amount of which was already paid.
- During the quarter, company had a free cash flow of INR 90 crore, which helped in clearing some debt.
- Total debt reduced from INR 170 crore to INR 40 crore.
- Region-wise volume detail (in tonnes):
  1. Europe - 19.3 lac
  2. Nafta - 14 lac
  3. Latam - 4 lac
  4. Row - 4.95 lac
  5. 42.72 lac vs 46 lac
- The volumes have decreased by 7% YoY basis.
- Volumes and revenue from Europe suffered due to drought conditions in Northern Europe.
- Herbicides revenues grew by 13.0% YoY in H1 FY19 to INR 281 crore, fungicides revenues grew by 9.4% YoY in H1 FY19 to INR 155 crore
- Insecticides revenues grew by 41.1% YoY in H1 FY19 to INR 182 crore
- Even though margins are under pressure in the current quarter, the management expects to maintain gross margins of 31-34% going ahead.
- The management said that there has been very low percentage of Euro/ US hedge as they expect Euro expected to go up against the Dollar.
- The capex for remaining of the financial year is expected to be around INR 100-150 crore and the company has spent around INR 63-64 crore in H1 2019.
- The situation in China is expected to change as raw materials sourcing pain are going down, and build up in inventory has also helped the company.
- The price impact the company is facing this quarter is at 11%, the management expects this problem to continue as innovators are not increasing prices.
- During the quarter, volumes are down but revenue is up due to product mix
- The management expects NAFTA region to grow higher going ahead due to less headwinds as compared to other regions.
- During the quarter, other income was higher due to forex gain.

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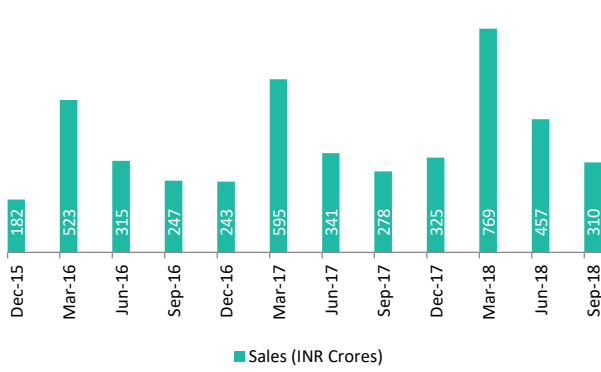
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#### NALANDA SECURITIES PRIVATE LIMITED

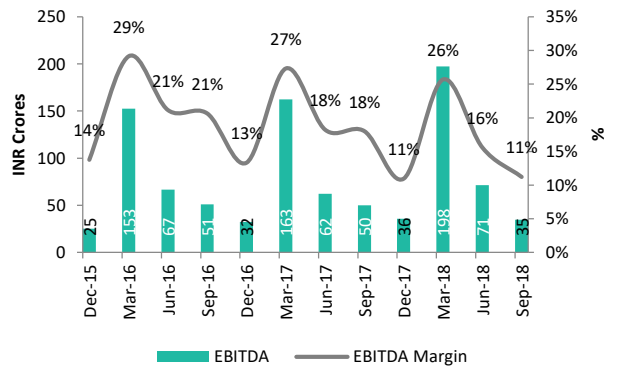
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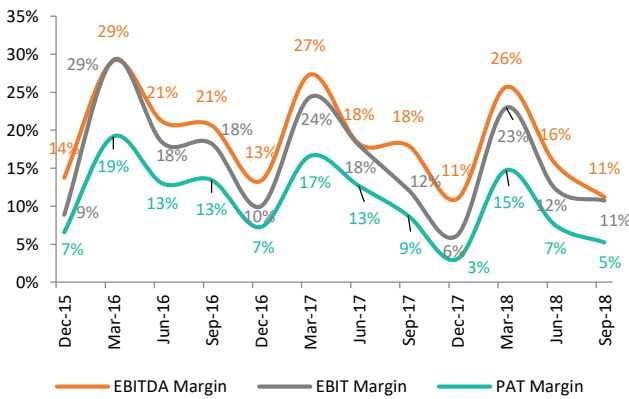
### Sales (INR Crores)



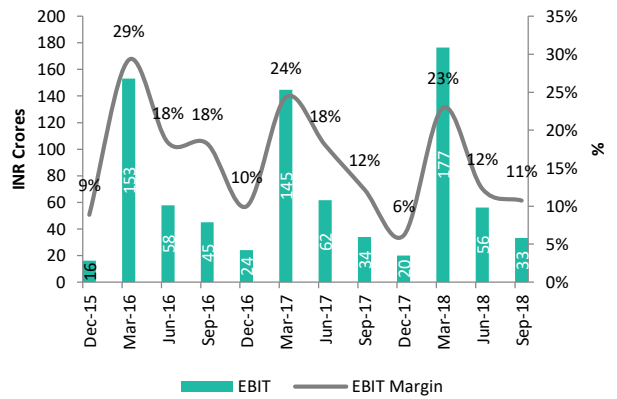
### EBITDA & EBITDA Margin



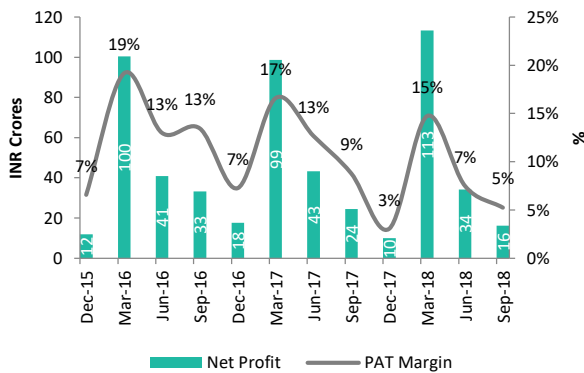
### Margin Comparison



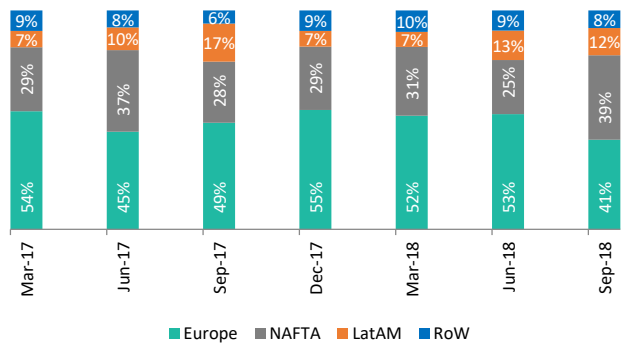
### EBIT & EBIT Margin



### PAT & PAT Margin



### Region-wise Revenue Segmentation



Source: Company, NSPL Research



Profit & Loss (INR crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	1,222.1	1,399.6	1,713.9	2,030.8	2,783.2
COGS	784.2	897.4	1,143.7	1,418.2	1,779.8
Employee Expenses	27.3	28.9	33.5	35.2	36.9
Other Expenses	139.1	160.6	190.7	213.5	273.2
<b>EBITDA</b>	<b>271.4</b>	<b>312.8</b>	<b>345.9</b>	<b>363.9</b>	<b>693.3</b>
D&A	35.1	56.3	69.9	98.2	125.6
Other income	25.5	16.3	16.3	21.8	20.6
<b>EBIT</b>	<b>261.8</b>	<b>272.7</b>	<b>292.3</b>	<b>287.5</b>	<b>588.3</b>
Interest Expense	0.6	0.0	4.9	0.3	0.3
<b>PBT</b>	<b>261.3</b>	<b>272.7</b>	<b>287.5</b>	<b>287.2</b>	<b>588.0</b>
Exceptional Items	6.7	0.0	2.3	0.0	0.0
Tax	86.1	81.4	96.4	94.8	195.7
<b>PAT</b>	<b>175.2</b>	<b>191.3</b>	<b>191.0</b>	<b>192.4</b>	<b>392.3</b>
<b>EPS in INR</b>	<b>19.4</b>	<b>21.2</b>	<b>21.2</b>	<b>21.3</b>	<b>43.5</b>

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	90.2	90.2	90.2	90.2	90.2
Reserves & Surplus	715.2	869.6	1044.6	1276.1	1704.5
Shareholders Fund	805.4	959.8	1134.8	1366.3	1794.7
Non Controlling Interest	0.1	0.0	0.2	0.2	0.2
- Long Term Borrowings			0.1		
- Deferred Tax Liabilities(Net)	54.8	80.7	83.1	78.1	8.6
- Other financial Liabilities	0.9	0.6	3.3	0.6	0.5
- Provisions	0.9	1.2	2.1	2.4	3.3
<b>Total Non Current Liabilities</b>	<b>56.7</b>	<b>82.4</b>	<b>88.6</b>	<b>81.2</b>	<b>12.4</b>
- Short Term Borrowings	2.0	0.2	169.6	40.0	40.0
- Trade Payables	383.7	457.4	649.7	738.2	926.5
- Other financial Liabilities	59.7	97.2	106.2	125.8	172.4
- Other Current Liabilities	19.4	47.4	52.4	62.1	85.2
- Current Tax Liabilities (Net)	3.9	4.5	24.0	15.3	5.9
- Short Term Provisions	0.4	0.5	0.6	0.7	1.0
<b>Total Current Liabilities</b>	<b>469.2</b>	<b>607.3</b>	<b>1002.5</b>	<b>982.2</b>	<b>1230.9</b>
<b>TOTAL Equities &amp; Liabilities</b>	<b>1331.4</b>	<b>1649.6</b>	<b>2226.2</b>	<b>2429.9</b>	<b>3038.3</b>

**ASSETS**

- Fixed Assets	1.4	1.0	10.7	12.6	15.0
- Capital Work in Progress		1.3			
- Goodwill	0.4	0.4	0.4	0.4	0.4
- Other Intangible Assets	128.4	208.5	215.2	265.8	290.0
- Intangible Assets under development	209.9	231.1	360.0	300.5	406.0
- Long term loans	0.1				
- Other Financial Assets		0.0	0.0	0.0	0.0
- Deferred tax asset (net)	2.2	3.4	7.3	4.4	5.0
-Non current tax assets (net)	40.5	40.6	40.0	40.3	40.2
- Other Non Current Assets	6.0	9.8	29.3	34.9	45.1
<b>Total Non Current Assets</b>	<b>388.8</b>	<b>496.0</b>	<b>662.9</b>	<b>658.9</b>	<b>801.6</b>
- Other Current Financial Assets	2.0	0.9		0.5	0.2
- Current Investments	90.2	60.7	22.1	22.2	22.5
- Inventories	159.8	287.8	530.4	582.8	731.4
- Loans	0.1	0.1		0.0	0.0
- Trade Receivables	620.0	672.6	891.9	1061.1	1373.3
- Cash and cash equivalents	64.9	108.0	101.0	83.1	81.2
- Other Current Assets	5.6	23.7	18.0	21.4	27.7
<b>Total Current Assets</b>	<b>942.6</b>	<b>1153.6</b>	<b>1563.3</b>	<b>1771.1</b>	<b>2236.3</b>
<b>TOTAL ASSETS</b>	<b>1331.4</b>	<b>1649.6</b>	<b>2226.2</b>	<b>2429.9</b>	<b>3038.3</b>

Source: Company, NSPL Research

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Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	261.3	272.7	287.5	287.2	588.0
Operating profit before working capital changes	269.2	313.5	371.0	383.4	711.3
Operating profit after working capital changes	265.9	238.6	97.0	267.9	493.2
Less income tax paid	-69.3	-56.1	-79.7	-94.8	-195.7
<b>Cash Flow from Operating</b>	<b>196.6</b>	<b>182.4</b>	<b>17.2</b>	<b>173.1</b>	<b>297.5</b>
(Incr)/ Decr in Gross PP&E	-0.4	-3.5	-9.9	-96.2	-123.2
<b>Cash Flow from Investing</b>	<b>-120.3</b>	<b>-348.0</b>	<b>-791.0</b>	<b>-2,177.0</b>	<b>128.0</b>
<b>Cash Flow from Financing</b>	<b>-88.9</b>	<b>-37.9</b>	<b>132.3</b>	<b>44.0</b>	<b>44.1</b>
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>-5.7</b>	<b>41.0</b>	<b>-10.9</b>	<b>20.6</b>	<b>-1.9</b>
Cash at the Start of the Year	38.0	32.3	73.2	62.5	83.1
<b>Cash at the End of the Year</b>	<b>32.3</b>	<b>73.2</b>	<b>62.5</b>	<b>83.1</b>	<b>81.2</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Profitability</b>					
Return on Capital (%)	32%	28%	22%	20%	32%
Return on Equity (%)	22%	20%	17%	14%	22%
<b>Margin Trend</b>					
EBITDA Margin (%)	22%	22%	20%	18%	25%
Net profit Margin (%)	14%	14%	11%	9%	14%
<b>Solvency</b>					
Total Debt / Equity	0.00	0.00	0.15	0.10	0.08
<b>Valuation Ratios</b>					
P/E	16.2	14.8	14.8	14.7	7.2
EV/EBITDA	6.4	10.2	7.7	4.0	3.1

Source: Company, NSPL Research

# OUR RECENT REPORTS



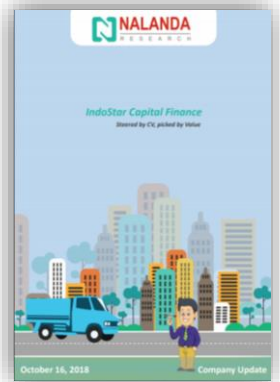
**Dalmia Bharat**



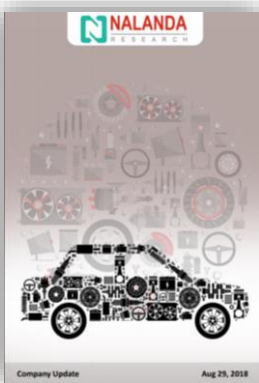
**Coromandel International**



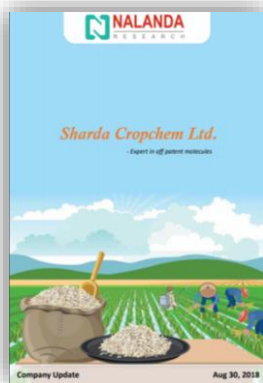
**Meghmani Organics**



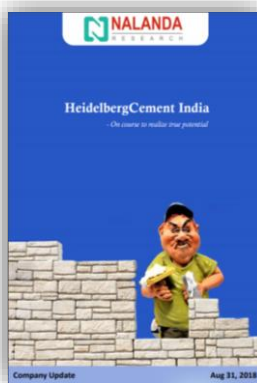
**IndoStar Capital**



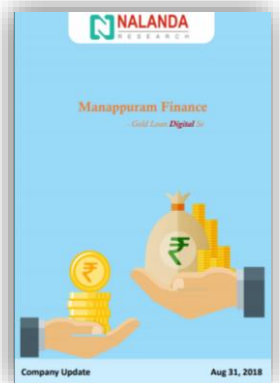
**Minda Industries**



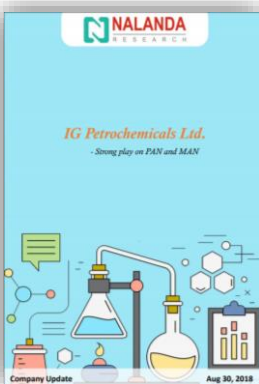
**Sharda Cropchem**



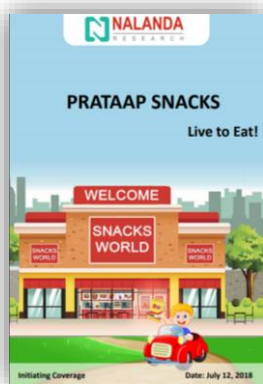
**Heidelberg Cements**



**Manappuram Finance**



**IG Petrochemicals**



**Prataap Snacks**



**Aarti Industries**



**Shriram Transport**



Sharda Cropchem Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 02, 2018	314	384	Strong Buy	Buy	5% - 15%
August 30, 2018	397	504	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> <li>NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F &amp; O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI</li> <li>SEBI Registration Number: INH000004617</li> </ul>
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
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