

January 31, 2018

Sharda Cropchem Ltd.

Q3FY19 Result Update

Sharda Cropchem Ltd. (SHCR) reported Q3FY19 revenues at INR 471.45 crore; up 52% QoQ and 45% YoY. EBITDA was INR 52 crore; up 49% QoQ and 45% YoY. The company reported PAT at INR 25 crore; up 53% QoQ and 150% YoY. Revenue from agrochemical segment is at INR 380 crore up 59% QoQ and 40% YoY.

Revenue from non-agrochemical segment is at INR 92 crore up 31% QoQ and 70% YoY. Segmental EBIT for agro is at INR 14 crore down 39% QoQ and 7% YoY. Segmental EBIT for non-agro is at INR 13 crore up 31% QoQ and 63% YoY. The break-up on a 9M basis between herbicides, fungicides and insecticides stood at 49%, 24% and 27% respectively.

Revenues in Europe increased by 25.2% in Q3 FY19. Revenues in NAFTA grew by 77.9% due to improved performance in USA. Revenues in LATAM declined by 59.7% in Q3 FY19 due to lower sales in Argentina. Revenues in ROW grew by 126.7%.

Operational Update:

- Total number of registrations were 2,412 as of Q3 FY19 as compared to 2,157 as of March 18.
- The company has another 913 registrations in pipeline across geographies.
- Revenue contribution from Top 10 molecules is 49.4% in 9M FY19 as against 50.3% in 9M FY18.

Key highlights were:

The management has mentioned that overall volumes and realization grew 19% and 17% YoY respectively. The segments of agrochemicals and non agrochemical business grew 40% and 67% YoY respectively. All geographies have shown robust growth except LatAm. SHCR maintained its guidance for 20% YoY (4QFY19 10-15% YoY) revenue growth in FY19E. The management also emphasized that raw material situation from China is improving.

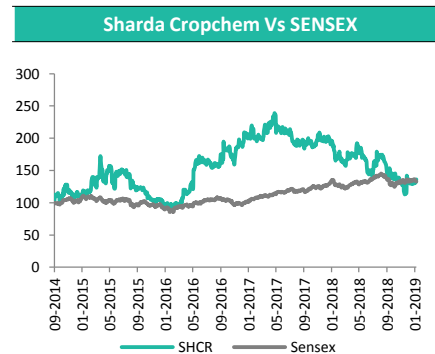
NAFTA and RoW aided growth for the Belts division: The business has shown recent pick up due to repeat orders and investments in the segment. Belts division has shown a sharp growth aided by nearly tripling of sales in RoW region and 58.9% growth in NAFTA region. According to the management, growth in the Belts division is expected to sustain on the back of higher order inflows for SHCR.

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	318	372	
		16% ▲	

Market Data	
Industry	Agrochemicals
Sensex	36,257
Nifty	10,831
Bloomberg Code	SHCR:IN
Face Value (INR)	10
52-w H/L	464.4/ 259.95
Market Cap (INR Crores)	2872

Valuation Data	FY18	FY19E	FY20E
P/E (x)	18.09	12.23	10.25
EV/EBITDA	10.19	6.30	5.21



Shareholding Pattern			
	Dec'18	Sep'18	Jun'18
Promoters	74.78	74.78	74.78
FIIs	5.81	5.98	6.03
DIIs	15.83	15.3	14.62
Others/ Retail	3.58	3.94	4.57

Financial Snapshot (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	1,222.1	1,399.6	1,713.9	2,275.7	2,447.5	3,096.4
Growth		15%	22%	33%	8%	27%
EBITDA	271.4	312.8	345.9	427.6	524.4	718.8
Growth		15%	11%	24%	23%	37%
EBIT	261.8	272.7	292.3	351.3	419.4	555.2
Growth		4%	7%	20%	19%	32%
PAT	175.2	191.3	191.0	234.9	280.1	370.4
Growth		9%	0%	23%	19%	32%
EPS in INR	19.4	21.2	21.2	26.0	31.0	41.0
P/E	12.02	22.96	18.09	12.23	10.25	7.75
EV/EBITDA	7.53	13.70	10.19	6.30	5.21	3.91

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale



(INR Crores)	Dec-18	Sep-18	QoQ	Dec-17	YoY
Sales	471.45	309.74	52%	325.46	45%
Expenses	419.72	275.03	53%	289.80	45%
EBITDA	51.73	34.71	49%	35.66	45%
EBITDA Margin	11%	11%	-2%	11%	0%
Other Income	4.60	18.23	-75%	2.72	69%
Depreciation	23.32	19.68	19%	18.34	27%
EBIT	33.00	33.26	-1%	20.04	65%
EBIT Margin	7%	11%	-35%	6%	14%
Interest	0.42	4.16	-90%	0.16	160%
Profit before tax	32.59	29.10	12%	19.88	64%
Tax	7.88	12.90	-39%	9.98	-21%
Net Profit	24.71	16.20	53%	9.90	150%
PAT Margin	5%	5%	0%	3%	72%

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.

At CMP of INR 318.3, the company is trading at 5.2x FY20E EV/ EBITDA and 10.3x FY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 7x for EV/EBITDA and 12x for PE to arrive at an average target price of INR 372.5 which is an upside of 16%.

Conference call highlights:

- During the quarter, depreciation grew 19% QoQ and 27% YoY because of higher capitalisation of intangible assets.
- The management mentioned that they have written off intangible asset worth INR 31.4 crore.
- The working capital situation has eased off because of inventory management and China situation stabilizing.
- For the 9M FY19, capex done is of INR 100.8 crore.
- During the quarter, volume impact +19%, currency +9% and price & product stands at +17 %.
- The gross margins are as follows; Europe 42%, NAFTA 26.5%, LatAm 15% and RoW 26%.
- SHCR has repaid loans worth INR 170 crore which has made the company debt free.
- The management has declared an interim dividend of INR 2.

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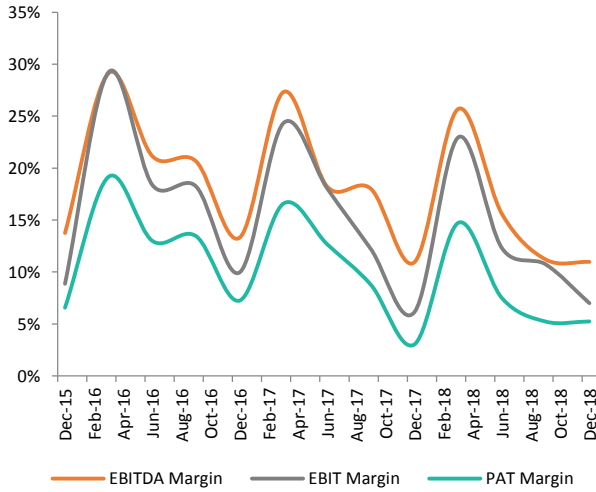
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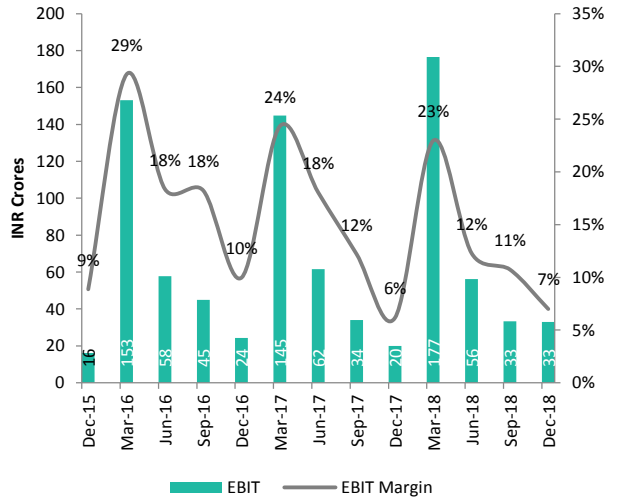
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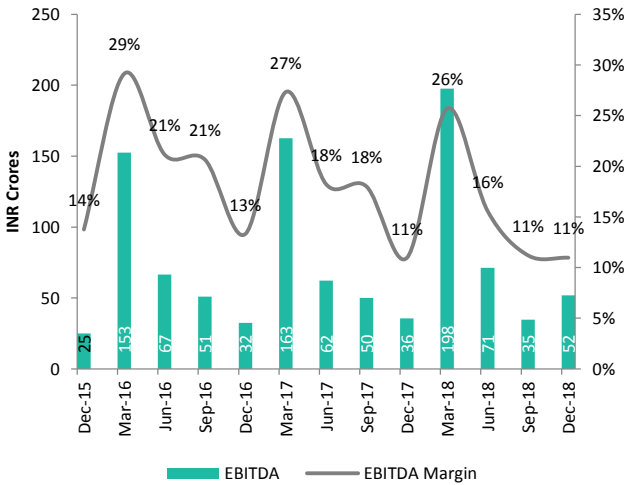
QoQ Margin Comparison



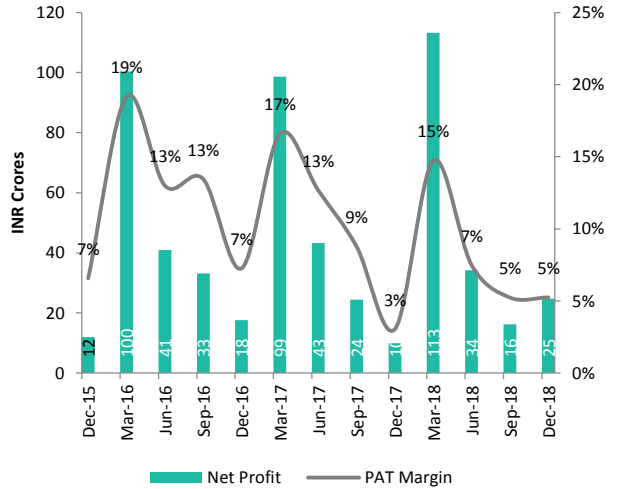
EBIT & EBIT Margin



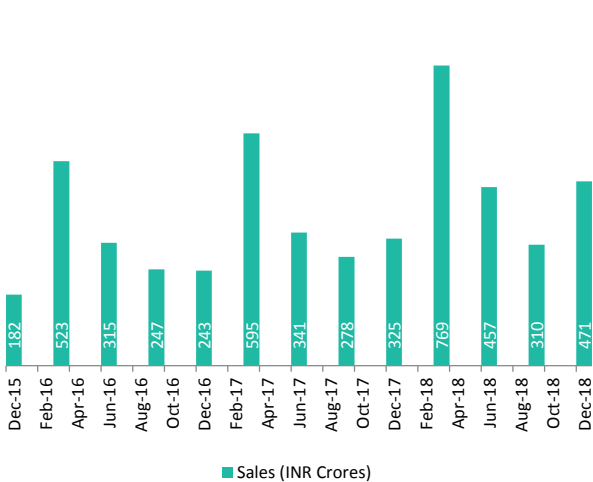
EBITDA & EBITDA Margin



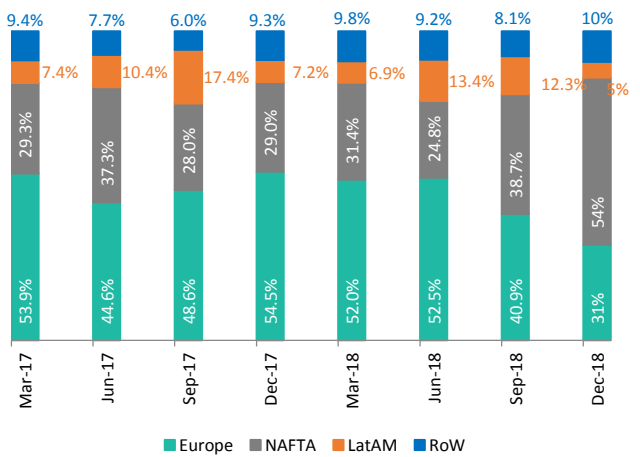
PAT & PAT Margin



Sales (INR Crores)



Region-wise Revenue Breakup



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net sales	1,222.1	1,399.6	1,713.9	2,275.7	2,447.5	3,096.4
COGS	784.2	897.4	1,143.7	1,576.6	1,613.0	1,992.4
Employee Expenses	27.3	28.9	33.5	35.2	36.9	38.7
Other Expenses	139.1	160.6	190.7	236.3	273.2	346.5
EBITDA	271.4	312.8	345.9	427.6	524.4	718.8
D&A	35.1	56.3	69.9	98.2	125.6	184.0
Other income	25.5	16.3	16.3	21.8	20.6	20.3
EBIT	261.8	272.7	292.3	351.3	419.4	555.2
Interest Expense	0.6	0.0	4.9	0.1	0.3	0.2
PBT	261.3	272.7	287.5	351.2	419.1	555.0
Exceptional Items	6.7	0.0	2.3	0.0	0.0	0.0
Tax	86.1	81.4	96.4	116.3	139.0	184.6
PAT	175.2	191.3	191.0	234.9	280.1	370.4
EPS in INR	19.4	21.2	21.2	26.0	31.0	41.0

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	90.2	90.2	90.2	90.2	90.2	90.2
Reserves & Surplus	715.2	869.6	1044.6	1318.6	1634.8	2041.2
Shareholders Fund	805.4	959.8	1134.8	1408.8	1725.0	2131.5
Non Controlling Interest	0.1	0.0	0.2	0.2	0.2	0.2
- Long Term Borrowings			0.1			
- Deferred Tax Liabilities(Net)	54.8	80.7	83.1	75.0	10.0	129.0
- Other financial Liabilities	0.9	0.6	3.3	0.6	0.5	0.5
- Provisions	0.9	1.2	2.1	2.7	2.9	3.7
Total Non Current Liabilities	56.7	82.4	88.6	78.3	13.4	133.2
- Short Term Borrowings	2.0	0.2	169.6	40.0	40.0	40.0
- Trade Payables	383.7	457.4	649.7	863.9	839.6	1037.1
- Other financial Liabilities	59.7	97.2	106.2	141.0	151.6	191.8
- Other Current Liabilities	19.4	47.4	52.4	69.6	74.9	94.7
- Current Tax Liabilities (Net)	3.9	4.5	24.0	18.7	4.2	27.2
- Short Term Provisions	0.4	0.5	0.6	0.8	0.9	1.1
Total Current Liabilities	469.2	607.3	1002.5	1134.0	1111.2	1391.9
TOTAL Equities & Liabilities	1331.4	1649.6	2226.2	2621.4	2849.8	3656.8

ASSETS

- Fixed Assets	1.4	1.0	10.7	12.6	15.0	18.1
- Capital Work in Progress		1.3				
- Goodwill	0.4	0.4	0.4	0.4	0.4	0.4
- Other Intangible Assets	128.4	208.5	215.2	265.8	290.0	405.9
- Intangible Assets under development	209.9	231.1	360.0	300.5	406.0	669.8
- Long term loans	0.1					
- Other Financial Assets		0.0	0.0	0.0	0.0	0.0
- Deferred tax asset (net)	2.2	3.4	7.3	4.4	5.0	5.6
- Non current tax assets (net)	40.5	40.6	40.0	40.3	40.2	40.2
- Other Non Current Assets	6.0	9.8	29.3	39.0	45.1	57.7
Total Non Current Assets	388.8	496.0	662.9	663.1	801.6	1197.6
- Other Current Financial Assets	2.0	0.9		0.5	0.2	0.3
- Current Investments	90.2	60.7	22.1	22.2	22.5	22.6
- Inventories	159.8	287.8	530.4	691.1	662.9	818.8
- Loans	0.1	0.1		0.0	0.0	0.0
- Trade Recievables	620.0	672.6	891.9	1000.9	1156.4	1478.8
- Cash and cash equivalents	64.9	108.0	101.0	219.2	178.2	103.6
- Other Current Assets	5.6	23.7	18.0	23.9	27.7	35.4
Total Current Assets	942.6	1153.6	1563.3	1957.8	2047.9	2459.5
TOTAL ASSETS	1331.4	1649.6	2226.2	2621.4	2849.8	3656.8

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	261.3	272.7	287.5	351.2	419.1	555.0
Operating profit before working capital changes	269.2	313.5	371.0	447.4	542.5	736.3
Operating profit after working capital changes	265.9	238.6	97.0	425.7	397.5	496.2
Less income tax paid	-69.3	-56.1	-79.7	-116.3	-139.0	-184.6
Cash Flow from Operating	196.6	182.4	17.2	309.5	258.4	311.6
(Incr)/ Decr in Gross PP&E	-0.4	-3.5	-9.9	-96.2	-123.2	-180.9
Cash Flow from Investing	-120.3	-348.0	-791.0	-2,177.0	128.0	129.0
Cash Flow from Financing	-88.9	-37.9	132.3	43.8	44.1	44.0
Incr/(Decr) in Balance Sheet Cash	-5.7	41.0	-10.9	156.7	-41.0	-74.6
Cash at the Start of the Year	38.0	32.3	73.2	62.5	219.2	178.2
Cash at the End of the Year	32.3	73.2	62.5	219.2	178.2	103.6

RATIOS	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profitability						
Return on Capital (%)	32%	28%	22%	24%	24%	26%
Return on Equity (%)	22%	20%	17%	17%	16%	17%
Margin Trend						
EBITDA Margin (%)	22%	22%	20%	19%	21%	23%
Net profit Margin (%)	14%	14%	11%	10%	11%	12%
Solvency						
Total Debt / Equity	0.00	0.00	0.15	0.03	0.08	0.05
Valuation Ratios						
P/E	12.0	23.0	18.1	12.2	10.3	7.8
P/B	1.0	3.0	3.0	2.0	2.0	3.0
EV/EBITDA	7.5	13.7	10.2	6.3	5.2	3.9

Source: Company, NSPL Research

