

07 November 2016

Initiating Coverage (BUY)

SHARDA CROPCHEM LTD

CMP

INR 386

Target Price

INR 479

Stock Details

Industry	AGROCHEMICAL
Bloomberg Code	SHCR:IN
BSE Code	538666
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	34,825.1
52wk. Low/High (Adjusted) ((Rs.))	203.25/461.50

Shareholding Pattern sept '16

Promoter (%)	75.00
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	25.00
No. of Share Outstanding (mn)	90.22

Valuation Summary

	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	23.35	19.91	21.00	19.00
EV/EBITDA (x)	14.12	11.66	11.95	11.05
P/BV (x)	4.39	4.30	3.92	3.79

*TTM for Current Year

Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	12,186	14,623	16,816	19,339
EBITDA	2,931	3,034	3,787	4,410
Net Profit	1,750	1,769	2,273	2,691
EPS (Rs.)*	13.6	19.4	19.6	25.2

*Un adjusted

Key Ratios

	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	18.2	23.5	20.8	22.2
EBIT Margin (%)	16.1	20.7	17.9	19.2
Net Pro. Margin (%)	11.3	14.0	12.1	13.3
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	20.3	23.9	20.1	21.8
RoCE (%)	21.7	20.6	19.2	21.0

We recommend 'BUY' on SHARDA CROPCHEM for a target of INR 479 - valuing the company at P/E 19x of FY18E Earning.

INVESTMENT RATIONALE:

- An asset light business model
- Core competency in identifying opportunities
- Global distribution network
- Strong geographic spread and diversified portfolio
- Experienced management team and personnel
- Strong sourcing capabilities
- Strong Financial performance
- Expanding presence in existing markets and penetrating new geographic markets.

VALUATIONS AND VIEW:

It is a fast growing global agrochemicals company with an asset light business model. The Company is primarily a crop protection chemical company engaged in marketing and distribution of a wide range of formulations and generic active ingredients (AIs) globally. **We value the business at 19x FY18E EPS and recommend a BUY rating on the stock with a target price of INR 479 per share.**

One Year Price / Volume



RISK & CONCERNS:

- **Exchange Rate Fluctuations:** Being a global player, movement in the foreign exchange rate affect the results of our operations, cash flows, liquidity and financial condition.
- **Extension of Patents:** High risks from patent laws which allow the innovator company to extend their patents.
- **Changes in Government Policies:** Company will be affected by changes in government policies related to agriculture.
- **Subject to Weather Conditions:** The overall effect of weather conditions makes our operations relatively unpredictable and seasonal.

COMPANY BACKGROUND:

Sharda Cropchem Limited is a fast growing global agrochemicals company with an asset light business model. It is engaged in marketing and distribution of a wide range of formulations and generic active ingredients globally. The geography from where the Company's major revenues come from includes the highly-developed European countries and the US markets. Over the years, Sharda has gained significant presence in other regulated markets such as Latin America and Africa. The Company operates within two business verticals – the Agrochemicals business and the Non Agrochemicals business.

The Company is primarily a crop protection chemical company engaged in marketing and distribution of a wide range of formulations and generic active ingredients (AIs) globally.

Products-

- Agro Chemicals
- Conveyor Belts
- Industrial Chemicals
- Sharda Biocide

INDUSTRY OVERVIEW:

The agrochemicals has been increasing over the last few decades driven by the need to improve overall agricultural productivity, in order to safeguard adequate food availability and sufficiency for the growing global population. Each year, global agrochemical players spend a sizable proportion of their revenues towards development of new crop protection molecules. India is placed as the fourth largest producer and has become the fastest growing markets for agrochemicals in the world. The industry is penetrated by global giants who have operations in India and also local Indian players with scalable operations catering to both domestic and exports markets. Broadly, agrochemicals are classified into insecticides, fungicides, herbicides and other pesticides. Insecticides are used to limit insects below a certain level, thereby improving crop yields by preventing damage such as plant defoliation, boring of parts of the plant, etc. Fungicides are agrochemicals that control fungal diseases by either inhibiting or killing the causative fungi, thereby improves productivity, reduces blemishes on crop and improves storage life and quality of harvested crop. Herbicides are the agrochemicals used to kill unwanted plants. Biocides is an emerging category and is currently a small proportion of the market but has a huge growth potential considering its non-toxic nature. Projected Value of Global Crop Protection Chemicals Industry by 2019 US\$ 71.3 Billion

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
UPL	672	22.9	34,087.7	0.63	166.2	44.72	3,540.6	15.67	4.66
P I Inds.	166	20.3	659.0	0.37	101.4	77.98	544.1	21.96	5.24
Bayer Crop Sci.	4,054	42.9	14,330.7	0.42	159.1	2.12	1,103.8	9.19	7.00
Atul	2,173	22.5	6,445.4	0.46	82.3	(2.00)	698.8	8.56	4.56
Sharda Cropchem	386	19.9	3,663.9	0.74	21.6	(33.85)	179.1	14.36	3.89
Monsanto India	2,333	31.9	4,027.8	1.29	0.9	108.15	96.5	155.48	8.56
Dhanuka Agritech	670	21.0	37,150.1	0.97	19.4	4.26	198.8	10.17	4.30

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	2,718.40	2,082.40	1,565.90	1,369.70	4,299.49	58.16%	213.90%
Other Income	103.1	101.9	244.1	19.5	324.6		
Total Income	2,821.50	2,184.30	1,810.00	1,389.20	4,624.09	63.89%	232.86%
Expenditure	-2,072.20	-1,265.00	-1,282.20	-1,081.80	-3,086.70		
As a % of Sales	76.23%	60.75%	81.88%	78.98%	71.79%		
Interest	-0.6	0	0	0	-5.4	800.00%	
PBDT	748.7	919.3	527.8	307.4	1531.99		
As a % of Sales	27.54%	44.15%	33.71%	22.44%	35.63%		
Depreciation	-66	-91.4	-72.5	-81.7	-100.2		
PBT	682.7	827.9	455.3	225.7	1431.79	109.72%	534.38%
As a % of Sales	25.11%	39.76%	29.08%	16.48%	33.30%		
Tax	-240.9	-161.4	-129.2	-79.8	-471.9	95.89%	491.35%
Net Profit	441.8	666.5	326.1	145.9	959.99	117.29%	557.98%
As a % of Sales	16.25%	32.01%	20.83%	10.65%	22.33%		
Equity							
EPS (Rs)					10.64		
CEPS (Rs)					11.75		
OPM %					35.96		
NPM %					22.33		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	-	7,904	10,611	12,186	14,623	16,816	19,339
Other Operating Income	-	328	270	282	-	336	449
Expenditure	-	6,361	8,898	9,537	11,589	13,366	15,378
EBITDA	-	1,871	1,983	2,931	3,034	3,787	4,410
Depreciation	-	289	233	351	428	506	573
EBIT	-	1,582	1,750	2,580	2,606	3,281	3,837
Interest Expenses	-	14	8	6	9	9	11
PBT	-	1,568	1,742	2,575	2,597	3,272	3,827
Tax	-	457	529	840	842	1,015	1,158
Other Income	-	-	17	16	14	16	23
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	-	1,111	1,230	1,750	1,769	2,273	2,691
Monority Int./Income from Assoc.	-	(0)	0	1	-	-	-
Adjusted PAT	-	1,111	1,230	1,750	1,769	2,273	2,691

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	-	902	902	902	902	902	902
Reserves & surplus	-	4,655	5,643	7,206	8,574	10,496	12,771
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	-	5,557	6,545	8,108	9,476	11,398	13,673
Minority Interest	-	0	0	1	-	1	1
Loan Funds	-	-	-	-	2	0	(2)
Net deferred tax liability	-	102	216	389	389	389	389
Other Long-term Liabilities	-	0	-	-	-	-	-
Long-term Provisions	-	2	5	9	11	13	15
Total Liabilities	-	5,663	6,768	8,510	9,880	11,803	14,078
Net block	-	1,975	2,371	3,400	4,238	4,632	4,587
Investment, Loan & Adv.	-	337	457	407	488	604	658
Total Current Assets	-	6,829	7,638	9,401	11,347	13,364	16,114
Current Liabilities & Provisions	-	3,480	3,700	4,701	6,195	6,799	7,283
Net Current Assets	-	3,349	3,938	4,700	5,153	6,565	8,831
Total Assets	-	5,663	6,768	8,510	9,880	11,803	14,078

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	1,813	1,618	2,019	2,381
Cash Flow from Investments	(957)	(1,241)	(1,234)	(1,028)
Cash Flow from Financing	(882)	(276)	(359)	(425)
Net Changes in Cash	(26)	101	427	928
Opening Cash	248	649	749	1,176
Closing Cash Balance	222	749	1,176	2,104

Research Analyst Details

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