

07 November 2016

Initiating Coverage (BUY)

## SHARDA CROP CHEM 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 1<sup>st</sup> 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 CROP CHEM 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
<b>Sharda Cropchem</b>	<b>386</b>	<b>19.9</b>	<b>3,663.9</b>	<b>0.74</b>	<b>21.6</b>	<b>(33.85)</b>	<b>179.1</b>	<b>14.36</b>	<b>3.89</b>
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
<b>Net Sales</b>	-	7,904	10,611	12,186	14,623	16,816	19,339
Other Operating Income	-	328	270	282	-	336	449
<b>Expenditure</b>	-	6,361	8,898	9,537	11,589	13,366	15,378
<b>EBITDA</b>	-	1,871	1,983	2,931	3,034	3,787	4,410
Depreciation	-	289	233	351	428	506	573
<b>EBIT</b>	-	1,582	1,750	2,580	2,606	3,281	3,837
Interest Expenses	-	14	8	6	9	9	11
<b>PBT</b>	-	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	-	-	-	-	-	-	-
<b>Net Income Before Adjustment</b>	-	1,111	1,230	1,750	1,769	2,273	2,691
Monority Int./Income from Assoc.	-	(0)	0	1	-	-	-
<b>Adjusted PAT</b>	-	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	-	-	-	-	-	-	-
<b>Net worth</b>	-	5,557	6,545	8,108	9,476	11,398	13,673
Minority Interest	-	0	0	1	-	1	1
<b>Loan Funds</b>	-	-	-	-	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
<b>Total Liabilities</b>	-	5,663	6,768	8,510	9,880	11,803	14,078
<b>Net block</b>	-	1,975	2,371	3,400	4,238	4,632	4,587
<b>Investment, Loan &amp; Adv.</b>	-	337	457	407	488	604	658
<b>Total Current Assets</b>	-	6,829	7,638	9,401	11,347	13,364	16,114
<b>Current Liabilities &amp; Provisions</b>	-	3,480	3,700	4,701	6,195	6,799	7,283
<b>Net Current Assets</b>	-	3,349	3,938	4,700	5,153	6,565	8,831
<b>Total Assets</b>	-	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
<b>Operating Cash Flow</b>	1,813	1,618	2,019	2,381
<b>Cash Flow from Investments</b>	(957)	(1,241)	(1,234)	(1,028)
<b>Cash Flow from Financing</b>	(882)	(276)	(359)	(425)
<b>Net Changes in Cash</b>	(26)	101	427	928
Opening Cash	248	649	749	1,176
<b>Closing Cash Balance</b>	222	749	1,176	2,104

**Disclaimer:** This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Wealth Discovery Securities Private Limited (hereinafter referred as WD) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

WD and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Sharda Cropchem Ltd.
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

#### Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

# Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.  
Optimising returns...

## Head Office

**Wealth Discovery Securities Pvt. Ltd.**

1206, 12th Floor,  
Kailash Building K.G. Marg.  
Connaught Place  
New Delhi-110001

Telephone:  
91 +11-43444-666  
91 +11-43444-623

Email:  
[info@wealthdiscovery.in](mailto:info@wealthdiscovery.in)

Website:  
<http://www.wealthdiscovery.in>