Sharda Cropchem

Accumulate

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Result Update

Margin headwinds + higher Opex and depreciation dent profitability

Sharda Cropchem (SHCR)'s sales/EBITDA/PAT declined 0.2/20.2/6.7% YoY to ₹ 7.64/1.54/1.05bn, respectively, in 4QFY19. The gross margin contracted 340 bps YoY, as an explosion in a chemical park in China in March-19, created supply shortage and increased raw material prices. Sales de-growth of 0.2% YoY was on account of a volume de-growth of 21.1%, value growth of 16.7% and forex led growth of 4.2%. SHCR has virtually no debt on its balance-sheet (net cash of ₹ 3.35bn as on 31st March-19). Sales from Europe and NAFTA grew 4.7/15.6% YoY to ₹ 3.7/₹ 2.5bn, respectively, in 4QFY19. However, Sales from LATAM and rest of the world de-grew 46.8/51.4% YoY to ₹ 255/331mn, respectively, in 4QFY19.

Other highlights: Other expenses grew 24.3% YoY to ₹ 742 mn on account of write-offs (₹ 420mn) in intangible assets under development, higher legal and professional expenses, and CSR cost of ₹ 40mn. The depreciation rose 105.1% YoY to ₹ 380mn, due to higher capitalization of intangible assets. The EBITDA margins declined 500bps YoY to 20.2%, largely due to a fall in gross margin and higher other expenses.

Outlook and valuation: We factor moderate growth in LATAM, as the region grapples with economic turmoil (growth of 8.0% in FY20E and FY21E). The higher RM prices are likely to persist until production in China resumes. We factor a gross margin of 31.3/32.1% in FY20E/FY21E (GM guidance has come down from the range of 35-37% to 31-34% in a year).The environmental authorities in China have become more stringent and there are frequent inspections that may lead to more plant closures, leading to more supply shortage (link).

We estimate a sales/EBITDA/PAT growth of 15.5/26.7/16.3% in FY20E and 15.6/20.8/22.8% in FY21E, respectively. We resume coverage on Sharda cropchem with an Accumulate rating, and a TP of ₹ 415 (15.0x FY21E EPS of ₹ 27.7).

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	7,644	7,659	(0.2)	4,714	62.1
Total Expense	6,102	5,727	6.5	4,242	43.9
EBITDA	1,542	1,932	(20.2)	473	226.0
Depreciation	380	185	105.1	233	63.1
EBIT	1,161	1,747	(33.5)	240	384.5
Other Income	92	19	395.6	46	100.9
Interest	2	46	(95.5)	4	(50.0)
EBT	1,252	1,719	(33.5)	282	344.6
Tax	195	587	(66.7)	79	148.1
RPAT	1,056	1,132	(6.7)	203	420.5
APAT	1,056	1,132	(6.7)	203	420.5
			(bps)		(bps)
Gross Margin (%)	31.1	34.5	(335)	29.4	166
EBITDA Margin (%)	20.2	25.2	(505)	10.0	1014
NPM (%)	13.8	14.8	(97)	4.3	952
Tax Rate (%)	15.6	34.1	(1852)	28.0	(1236)
EBIT Margin (%)	15.2	22.8	(761)	5.1	1011

CMP	₹ 347
Target / Upside	₹ 415 / 20%
BSE Sensex	37,066
NSE Nifty	11,157

Scrip Details

Equity / FV	₹ 902mn / ₹ 10
Market Cap	₹ 31bn
	US$ 445mn
52-week High/Low	₹ 446/₹ 255
Avg. Volume (no)	13,239
NSE Symbol	SHARDACROP
Bloomberg Code	SHCR IN

Shareholding Pattern Mar'19(%)

Promoters	74.8
MF/Banks/FIs	14.6
FIIs	6.0
Public / Others	4.6

Valuation (x)

	FY19A	FY20E	FY21E
P/E	17.8	15.3	12.5
EV/EBITDA	8.6	7.1	5.8
ROE (%)	14.6	14.8	15.5
RoACE (%)	13.4	13.9	14.7

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	20,011	23,119	26,720
EBITDA	3,249	4,115	4,943
PAT	1,763	2,051	2,501
EPS (₹)	19.5	22.7	27.7

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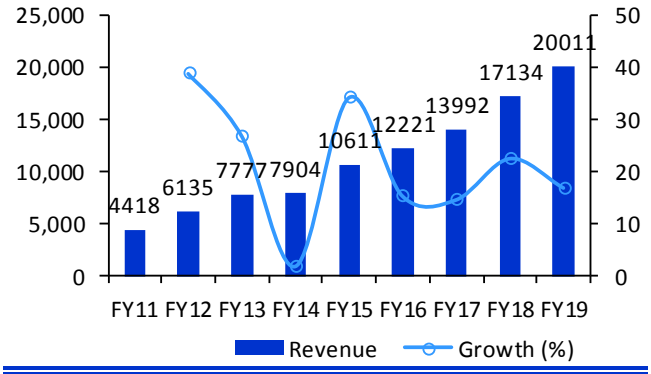
DOLAT CAPITAL

Conference call highlights:

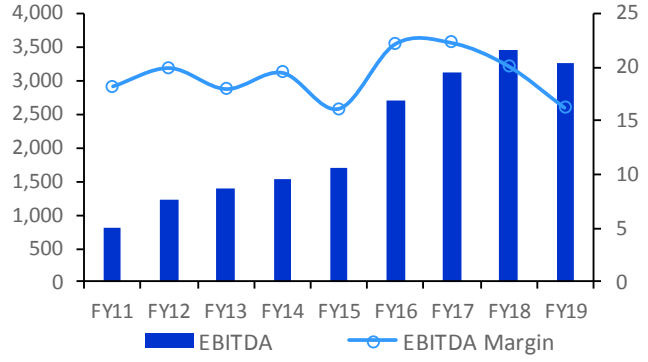
- Revenue growth was driven by better pricing & product mix and favourable foreign exchange gain which was partly offset by volume de-growth.
- SHCR has virtually no debt on its balance-sheet and has cash and cash equivalent of ₹ 3.35bn as on 31st March-19.
- The company has written of ₹ 422 mn of intangible assets under development from the CWIP causing other expense to increase. This increased depreciation for the quarter.
- Despite an increase in revenues in Europe, gross margins in the geography declined. Depreciation of the Euro against the USD also impacted margins.
- The management believes that Revenue growing in LATAM could be a challenge considering the current state of the region's economy.
- Outlook for NAFTA remains stable, however there could be near term challenges due to the recent floods in certain parts of North America.
- Gross margins contracted due to lower gross margins in Europe (which typically has a higher margin profile) coupled with environmental problems in China.
- The management has guided for a capex of ₹ 1.5-1.8bn for FY20.
- Sales guidance for FY20 remains robust to the tune of 20%.
- The company has a healthy registration pipeline.

Exhibit 1: Revenue (₹ mn) and Growth (%)



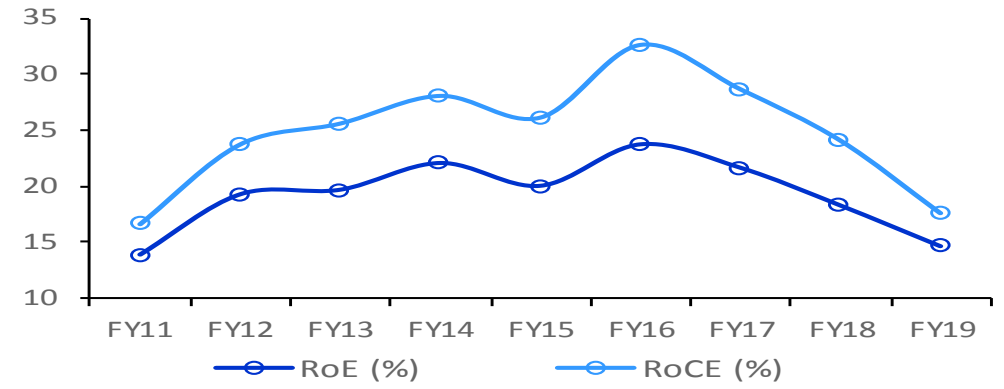
Source: DART, Company

Exhibit 2: EBITDA (₹ mn) & EBITDA Margin (%)



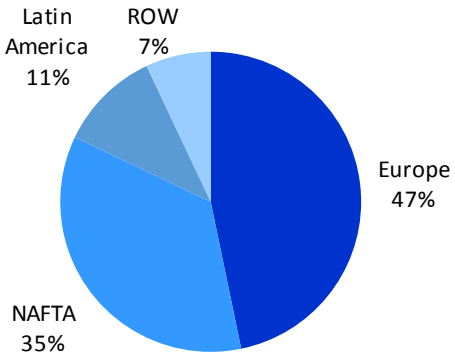
Source: DART, Company

Exhibit 3: ROC & ROCE (%)



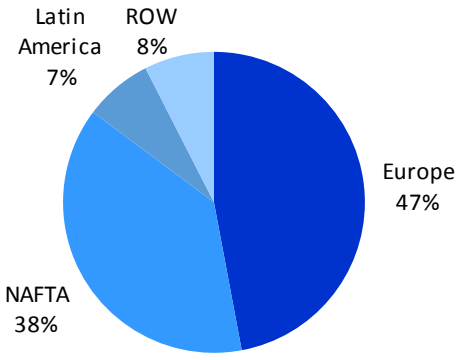
Source: DART, Company

Exhibit 4: Revenue Share FY18 (%)



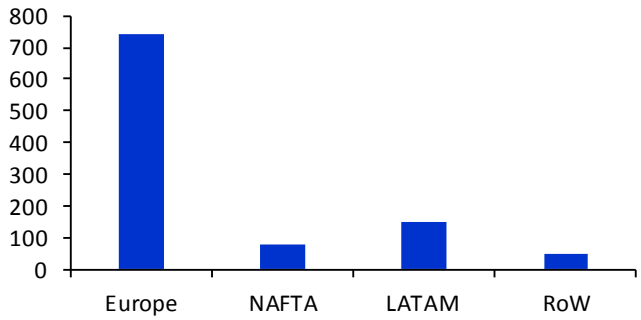
Source: DART, Company

Exhibit 5: Revenue Share FY19 (%)



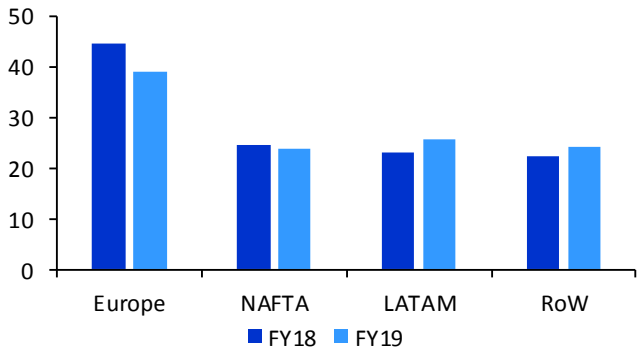
Source: DART, Company

Exhibit 6: Registrations Pipeline for Q4FY19 (Nos.)



Source: DART, Company

Exhibit 7: Geographic Gross Margin (%)



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	**17,134**	**20,011**	**23,119**	**26,720**
Total Expense	**13,680**	**16,763**	**19,004**	**21,777**
COGS	11,437	13,876	15,883	18,170
Employees Cost	335	334	393	534
Other expenses	1,907	2,553	2,728	3,073
EBIDTA	**3,454**	**3,249**	**4,115**	**4,943**
Depreciation	699	994	1,250	1,400
EBIT	**2,755**	**2,255**	**2,865**	**3,543**
Interest	49	84	1	3
Other Income	166	179	220	220
Exc. / E.O. items	0	0	0	0
EBT	**2,872**	**2,350**	**3,084**	**3,761**
Tax	964	587	1,033	1,260
RPAT	1,908	1,763	2,051	2,501
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**1,908**	**1,763**	**2,051**	**2,501**

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	902	902	902	902
Minority Interest	2	2	2	2
Reserves & Surplus	10,446	11,937	13,988	16,489
Net Worth	**11,348**	**12,839**	**14,890**	**17,391**
Total Debt	1,697	0	20	20
Net Deferred Tax Liability	831	910	910	910
Total Capital Employed	**13,879**	**13,751**	**15,822**	**18,323**
Applications of Funds				
Net Block	**5,862**	**5,915**	**6,315**	**6,515**
CWIP	0	0	0	0
Investments	767	642	0	0
Current Assets, Loans & Advances	**15,633**	**15,476**	**17,911**	**20,845**
Inventories	5,304	3,649	5,384	6,222
Receivables	8,919	8,114	9,839	11,372
Cash and Bank Balances	1,005	1,237	212	775
Loans and Advances	0	0	0	0
Other Current Assets	184	357	357	357
Less: Current Liabilities & Provisions	**8,383**	**8,281**	**8,404**	**9,038**
Payables	6,338	6,361	6,484	7,417
Other Current Liabilities	2,045	1,920	1,920	1,620
Net Current Assets	7,250	7,195	9,507	11,808
Total Assets	**13,879**	**13,752**	**15,822**	**18,323**

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	33.2	30.7	31.3	32.0
EBIDTA Margin	20.2	16.2	17.8	18.5
EBIT Margin	16.1	11.3	12.4	13.3
Tax rate	33.6	25.0	33.5	33.5
Net Profit Margin	11.1	8.8	8.9	9.4
(B) As Percentage of Net Sales (%)				
COGS	66.8	69.3	68.7	68.0
Employee	2.0	1.7	1.7	2.0
Other	11.1	12.8	11.8	11.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	56.8	26.9	2204.0	1362.8
Inventory days	113	67	85	85
Debtors days	190	148	155	155
Average Cost of Debt	5.7	9.9	13.0	13.0
Payable days	135	116	102	101
Working Capital days	154	131	150	161
FA T/O	2.9	3.4	3.7	4.1
(D) Measures of Investment				
AEPS (₹)	21.1	19.5	22.7	27.7
CEPS (₹)	28.9	30.6	36.6	43.2
DPS (₹)	4.0	5.0	5.5	5.5
Dividend Payout (%)	18.9	25.6	24.2	19.8
BVPS (₹)	125.8	142.3	165.0	192.8
RoANW (%)	18.2	14.6	14.8	15.5
RoACE (%)	16.1	13.4	13.9	14.7
RoAIC (%)	24.5	17.8	20.4	21.4
(E) Valuation Ratios				
CMP (₹)	347	347	347	347
P/E	16.4	17.8	15.3	12.5
Mcap (₹ Mn)	31,325	31,325	31,325	31,325
MCap/ Sales	1.8	1.6	1.4	1.2
EV	31,795	27,969	29,013	28,450
EV/Sales	1.9	1.4	1.3	1.1
EV/EBITDA	9.2	8.6	7.1	5.8
P/BV	2.8	2.4	2.1	1.8
Dividend Yield (%)	1.2	1.4	1.6	1.6
(F) Growth Rate (%)				
Revenue	22.5	16.8	15.5	15.6
EBITDA	10.6	(5.9)	26.7	20.1
EBIT	7.6	(18.1)	27.1	23.7
PBT	5.7	(18.2)	31.2	21.9
APAT	0.2	(7.6)	16.3	21.9
EPS	0.2	(7.6)	16.3	21.9

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	170	5,026	(35)	2,166
CFI	(1,628)	(2,821)	(1,008)	(1,600)
CFF	1,323	(2,207)	(516)	(643)
FCFF	(1,848)	3,979	(1,685)	566
Opening Cash	724	612	610	(949)
Closing Cash	612	610	(949)	(1,027)

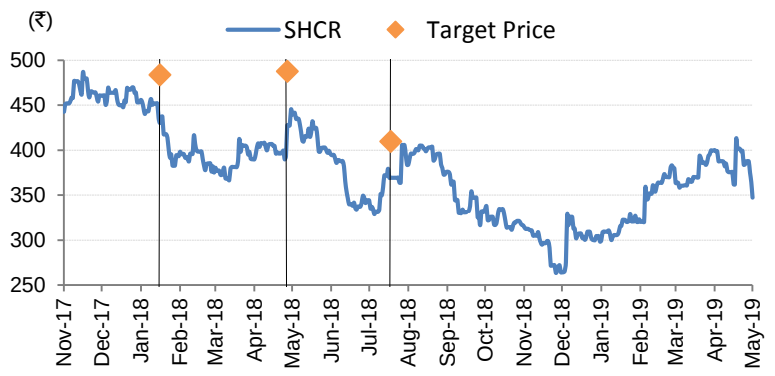
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jan-18	Accumulate	484	430
May-18	Accumulate	488	428
Aug-18	Accumulate	410	369

*Price as on recommendation date

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