

Agri Inputs | Q4FY23 Result Update

- Revenues grew by 3.3% YoY to Rs 14.8bn (D.est : Rs 16.4bn) with Gross margins expanding by 235bps YoY to 31.6% driven by higher sales in Europe.
- EBITDA grew by 9.6% YoY to Rs 3.2bn (D.est : Rs 3.4bn) translating to an EBITDA margin expansion of 124bps to 21.5%.
- PAT grew by 13.4% YoY to Rs 2bn (D.est : Rs 1.8bn) benefitting from a lower depreciation charge (down 5.7% YoY).

Recovery in Europe to drive growth in FY24

Sharda Cropchem registered a strong growth of 46.4% YoY in the European region which led to overall improvement in revenues as well as margins during Q4FY24. With moderation in energy costs, demand from Europe is showing signs of healthy pickup which is expected to improve further over FY24 and would thus drive the overall growth in FY24. We believe that the performance in NAFTA and LATAM would remain weak over FY24 with the pressure of higher channel inventories and adverse weather conditions.

Weak market conditions could pose some near term challenges

Generic Agrochemicals market is facing headwinds owing to sudden spike in supplies coming in from China. Channel inventories have gone up coupled with sharp correction in prices of key technicals. This has also led to deferment of purchases from channel as well as farmers leading to weaker offtake. We believe that this could have a negative bearing on the performance of the company in H1FY24 with normalisation in inventory levels and prices expected over the course of H2FY24.

Outlook and Valuation

We believe that despite near term concerns Sharda Cropchem will be able to achieve its guided revenue and margin target for FY24 largely led by improved performance in its largest region of Europe. We like SCHR on account of its 1. Asset light model 2. Strong product registrations (2,821 products registered with 1,143 products in the pipeline), 3. Strong presence in regulated markets, 4. Highly flexible operating model and widespread distribution network. We have broadly maintained our estimates for FY24/FY25, which are largely in line with the guidance provided by the company. We continue to maintain our Buy rating on the stock with target price of Rs 687 (14x FY25E EPS).

Q4FY23 Result (Rs Mn)

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	14,818	14,345	3.3	10,173	45.7
Total Expense	11,636	11,442	1.7	8,104	43.6
EBITDA	3,182	2,903	9.6	2,069	53.8
Depreciation	677	717	(5.7)	653	3.6
EBIT	2,506	2,185	14.7	1,416	77.0
Other Income	70	27	165.2	27	157.0
Interest	25	7	239.2	9	171.2
EBT	2,551	2,205	15.7	1,434	77.9
Tax	563	435	29.5	350	60.7
RPAT	1,988	1,770	12.3	1,084	83.4
APAT	1,988	1,770	12.3	1,084	83.4
			(bps)		(bps)
Gross Margin (%)	31.6	29.2	235	30.5	111
EBITDA Margin (%)	21.5	20.2	124	20.3	114
NPM (%)	13.4	12.3	108	10.7	276
Tax Rate (%)	22.1	19.7	234	24.4	(236)
EBIT Margin (%)	16.9	15.2	167	13.9	299

CMP	Rs 497
Target / Upside	Rs 687 / 38%
NIFTY	18,315

Scrip Details

Equity / FV	Rs 902mn / Rs 10
Market Cap	Rs 45bn
	USD 545.9mn

52-week High/Low	Rs 769/ 369
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Avg. Volume (no)	100,448
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Bloom Code	SHCR IN
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Price Performance	1M	3M	12M
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Absolute (%)	8	6	(23)
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Rel to NIFTY (%)	5	4	(41)
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Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	74.8	74.8	74.8
MF/Banks/FIs	12.8	12.6	12.9
FIs	2.4	2.4	2.1
Public / Others	10.1	10.2	10.1

Valuation (x)

	FY23P	FY24E	FY25E
P/E	13.1	11.4	10.1
EV/EBITDA	6.6	5.1	4.3
ROE (%)	16.5	16.5	16.3
RoACE (%)	15.6	15.7	15.6

Estimates (Rs bn)

	FY23P	FY24E	FY25E
Revenue	40.5	47.3	53.9
EBITDA	6.4	8.3	9.7
PAT	3.4	3.9	4.4
EPS (Rs.)	37.9	43.5	49.0

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Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimated	Variance (%)	Comments
Revenue	14,818	16,476	(10.1)	Lower than expected sales in NAFTA and LATAM
EBITDA	3,182	3,380	(5.9)	
EBITDA Margin (%)	21.5	20.5	95.9	Higher than expected opex
PAT	1,988	1,795	10.8	Lower than expected tax rate

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	47,310	48,201	(1.8)	53,935	53,396	1.0
EBITDA	8,298	8,426	(1.5)	9,704	9,870	(1.7)
EBITDA Margin (%)	17.5	17.5	6	18.0	18.5	(49)
PAT	3,928	3,863	1.7	4,425	4,435	(0.2)
EPS (Rs)	43.5	42.8	1.7	49.1	49.2	(0.2)

Source: Company, DART

Earning call KTAs
Operational Highlights

- Revenue growth of 3.3% YoY to Rs 14.8bn was driven by 2%+ price growth and improved product mix, forex gains +4.3% while witnessing a decline in volumes of 3%.
- Gross margin improved by 235bps YoY to 31.6% on the back of higher sales in the European region.
- NAFTA region witnessed lower offtake owing to weather related challenges. This however is expected to improve in the ensuing quarters.
- Company has a network of multiple suppliers based in China and India and has the flexibility to shift from one region to other based on the pricing environment.
- Total registrations as on 31st March 2023 stood at 2,821, while 1143 registrations are still in pipeline.

Pricing Environment

- Prices of technicals are on a downward trend which could provide some short term benefits as there is a time lag in passing of costs to end customers.

Registration Process

- Management indicated that registration process for off patented agrochemicals is time consuming and costly compared to off patent pharma products.
- They also highlighted that post expiry of patents the innovators continue to command a large market share of ~70-80% for a long period as it takes time for generic players to get registrations and achieve the desired quality of product.

Currency Movements

- Currencies saw a rebound in H2FY23 with appreciating Euros against dollar leading to Forex gain of ~Rs 242mn in H2FY23 vs a forex loss of Rs 818mn in H1FY23.

Gross margin split during Q4FY24 vs Q4FY22

- Europe – 36% vs 36%
- NAFTA – 24% vs 26%
- LATAM – 26.5% vs 15%
- ROW – 22% vs 22%
- Total – 31.6% vs 29.2% (up 235bps)**

Agrochemical business

Volume break-up geography wise for Agrochemical segment – Q4FY23 vs Q4FY22

- Europe – 8.2mn Kgs vs 6.9mn Kgs
- NAFTA – 3.2mn Kgs vs 4.4mn Kgs
- LATAM – 0.5mn Kgs vs 1.5mn Kgs
- ROW – 1mn Kgs vs 0.5mn Kgs
- Total – 12.9mn Kgs vs 13.3mn Kgs (down 3% YoY)**

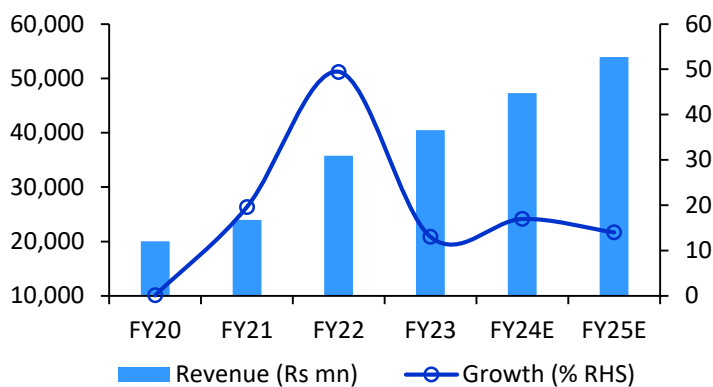
Capex

- Capex guidance – Rs 4bn (higher owing to rise in cost of registrations)

Guidance

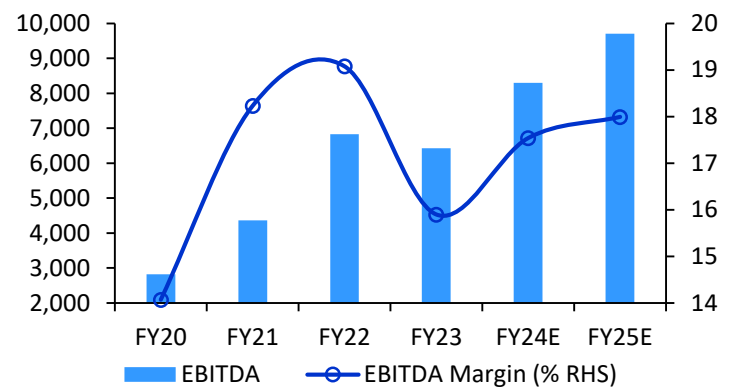
- Revenue growth for FY24 – 15-18% YoY (will be driven by mix of volume + product mix/pricing gains)
- Gross margin for FY24 – ~30%
- EBITDA margin for FY24 – 18-20%

Exhibit 3: Revenue (Rs mn) and Growth (%)



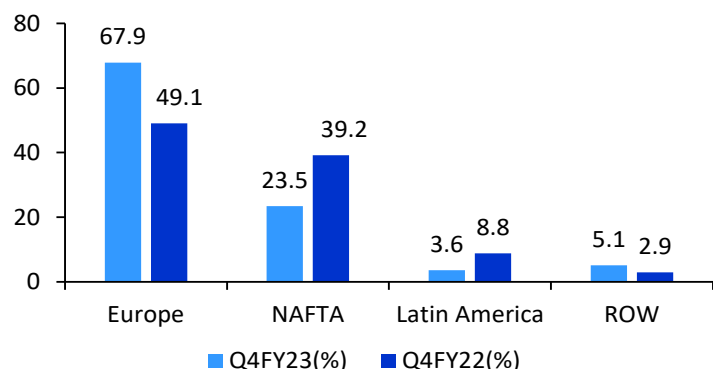
Source: Company, DART

Exhibit 4: EBITDA (Rs mn) & EBITDA Margin (%)



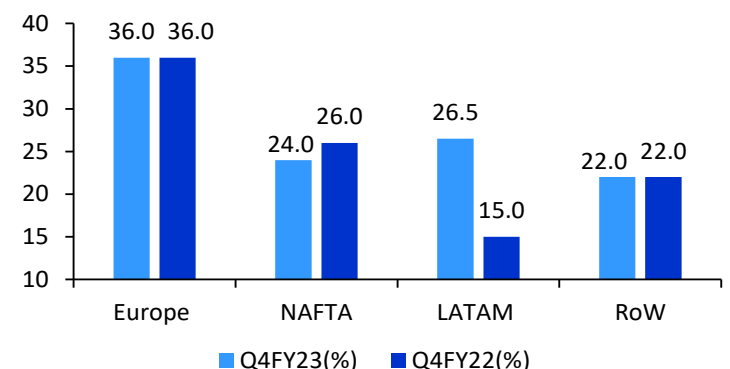
Source: Company, DART

Exhibit 5: Region Wise Agrochemical Revenue Share (%)



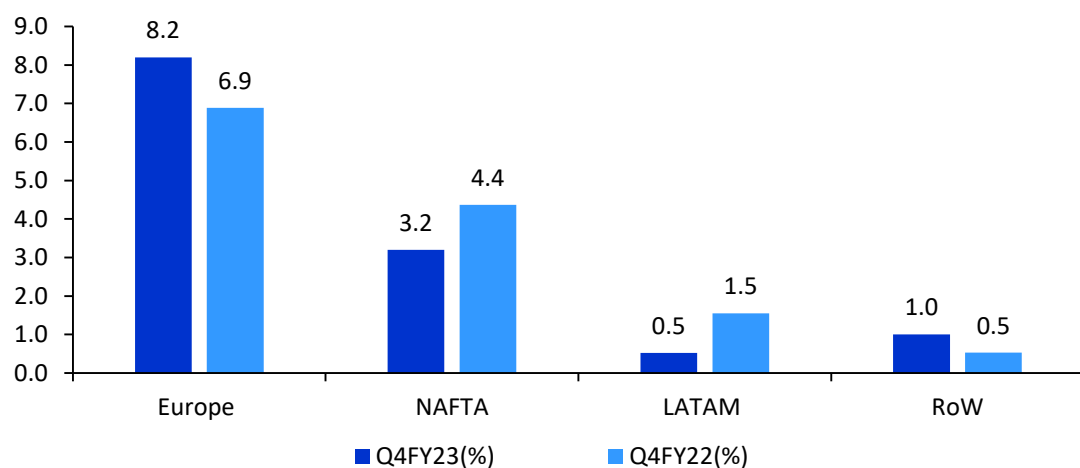
Source: DART

Exhibit 6: Region Wise Gross Margins (%)



Source: DART

Exhibit 7: Region Wise volumes (Mn Kgs)



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Revenue	35,798	40,452	47,310	53,935
Total Expense	28,969	34,021	39,013	44,231
COGS	24,998	28,608	33,117	37,485
Employees Cost	442	448	484	523
Other expenses	3,529	4,965	5,412	6,223
EBIDTA	6,829	6,431	8,298	9,704
Depreciation	2,453	2,481	3,378	4,121
EBIT	4,376	3,950	4,919	5,583
Interest	22	45	20	20
Other Income	289	403	350	350
Exc. / E.O. items	0	0	0	0
EBT	4,642	4,307	5,249	5,913
Tax	1,150	888	1,321	1,488
RPAT	3,493	3,420	3,928	4,425
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,493	3,420	3,928	4,425

Balance Sheet

(Rs Mn)	FY22A	FY23P	FY24E	FY25E
Sources of Funds				
Equity Capital	902	902	902	902
Minority Interest	3	4	4	4
Reserves & Surplus	18,222	21,418	24,444	27,966
Net Worth	19,125	22,320	25,346	28,868
Total Debt	380	30	30	30
Net Deferred Tax Liability	1,240	1,355	1,355	1,355
Total Capital Employed	20,748	23,708	26,734	30,256

Applications of Funds

Net Block	5,918	6,680	7,301	7,680
CWIP	2,122	2,039	2,289	2,439
Investments	0	0	0	0
Current Assets, Loans & Advances	29,343	34,710	36,425	39,795
Inventories	8,928	11,343	11,465	12,627
Receivables	15,400	18,333	19,337	21,602
Cash and Bank Balances	1,660	1,819	2,407	2,351
Loans and Advances	5	0	0	0
Other Current Assets	2,006	2,896	2,896	2,896
Less: Current Liabilities & Provisions	16,634	19,721	19,281	19,658
Payables	11,776	13,776	14,336	15,713
Other Current Liabilities	4,859	5,945	4,945	3,945
<i>sub total</i>				
Net Current Assets	12,708	14,990	17,144	20,137
Total Assets	20,748	23,708	26,734	30,256

E – Estimates

Important Ratios

Particulars	FY22A	FY23P	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	30.2	29.3	30.0	30.5
EBIDTA Margin	19.1	15.9	17.5	18.0
EBIT Margin	12.2	9.8	10.4	10.4
Tax rate	24.8	20.6	25.2	25.2
Net Profit Margin	9.8	8.5	8.3	8.2
(B) As Percentage of Net Sales (%)				
COGS	69.8	70.7	70.0	69.5
Employee	1.2	1.1	1.0	1.0
Other	9.9	12.3	11.4	11.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	197.7	87.6	246.0	279.2
Inventory days	91	102	88	85
Debtors days	157	165	149	146
Average Cost of Debt	4.2	22.0	67.5	67.5
Payable days	120	124	111	106
Working Capital days	130	135	132	136
FA T/O	6.0	6.1	6.5	7.0
(D) Measures of Investment				
AEPS (Rs)	38.7	37.9	43.5	49.0
CEPS (Rs)	65.9	65.4	81.0	94.7
DPS (Rs)	6.0	6.0	10.0	10.0
Dividend Payout (%)	15.5	15.8	23.0	20.4
BVPS (Rs)	212.0	247.4	280.9	320.0
RoANW (%)	19.8	16.5	16.5	16.3
RoACE (%)	18.3	15.6	15.7	15.6
RoAIC (%)	25.6	19.3	21.3	21.4
(E) Valuation Ratios				
CMP (Rs)	497	497	497	497
P/E	12.8	13.1	11.4	10.1
Mcap (Rs Mn)	44,853	44,853	44,853	44,853
MCap/ Sales	1.3	1.1	0.9	0.8
EV	42,229	42,745	42,157	42,213
EV/Sales	1.2	1.1	0.9	0.8
EV/EBITDA	6.2	6.6	5.1	4.3
P/BV	2.3	2.0	1.8	1.6
Dividend Yield (%)	1.2	1.2	2.0	2.0
(F) Growth Rate (%)				
Revenue	49.4	13.0	17.0	14.0
EBITDA	56.4	(5.8)	29.0	17.0
EBIT	64.3	(9.7)	24.5	13.5
PBT	50.0	(7.2)	21.9	12.7
APAT	52.4	(2.1)	14.9	12.7
EPS	52.4	(2.1)	14.9	12.7

E – Estimates

Cash Flow

Particulars	FY22A	FY23P	FY24E	FY25E
Profit before tax	4,642	4,307	5,249	5,913
Depreciation & w.o.	2,453	2,481	3,378	4,121
Net Interest Exp	22	45	20	20
Direct taxes paid	(747)	(630)	(1,321)	(1,488)
Change in Working Capital	(2,141)	(1,944)	(1,566)	(3,049)
Non Cash	0	0	0	0
(A) CF from Operating Activities	4,230	4,260	5,760	5,516
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,739)	(3,160)	(4,250)	(4,650)
Free Cash Flow	491	1,100	1,510	866
(Inc.)/ Dec. in Investments	(514)	1,025	0	0
Other	(18)	(1,294)	0	0
(B) CF from Investing Activities	(4,271)	(3,429)	(4,250)	(4,650)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(298)	(351)	0	0
Interest exp net	(22)	(45)	(20)	(20)
Dividend Paid (Incl. Tax)	(541)	(541)	(902)	(902)
Other	(43)	265	0	0
(C) CF from Financing	(904)	(672)	(922)	(922)
Net Change in Cash	(945)	158	588	(56)
Opening Cash balances	2,605	1,660	1,819	2,407
Closing Cash balances	1,660	1,819	2,407	2,351

E – Estimates

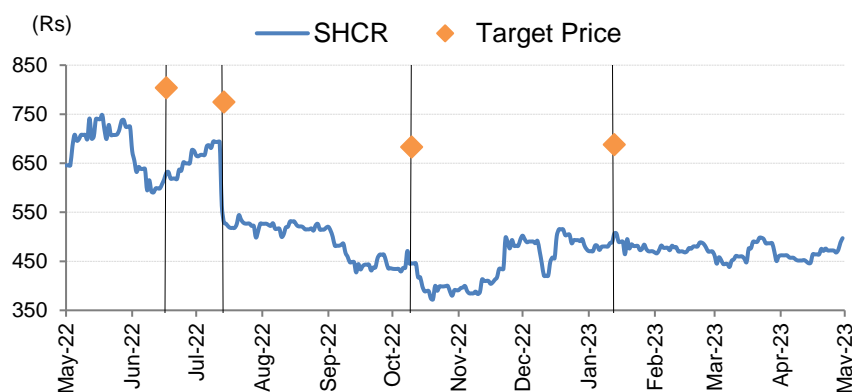
Notes

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 (Rs.)	Price (Rs.)
Jun-22	Buy	804	630
Jul-22	Buy	775	529
Oct-22	Buy	683	446
Jan-23	BUY	688	507

**Price as on recommendation date*

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