

October 30, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	358		348	
Sales (Rs. m)	24,162	26,523	23,861	26,009
% Chng.	1.3	2.0		
EBITDA (Rs. m)	4,337	4,894	4,164	4,565
% Chng.	4.2	7.2		
EPS (Rs.)	25.9	29.1	25.6	27.8
% Chng.	1.1	4.8		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	20,030	22,013	24,162	26,523
EBITDA (Rs. m)	2,818	3,798	4,337	4,894
Margin (%)	14.1	17.3	18.0	18.5
PAT (Rs. m)	1,446	2,105	2,337	2,624
EPS (Rs.)	16.0	23.3	25.9	29.1
Gr. (%)	(18.1)	45.6	11.0	12.3
DPS (Rs.)	3.5	4.4	4.9	5.5
Yield (%)	1.3	1.6	1.8	2.0
RoE (%)	10.8	14.3	14.3	14.2
RoCE (%)	10.8	14.8	14.5	14.1
EV/Sales (x)	1.1	0.9	0.8	0.6
EV/EBITDA (x)	7.7	5.3	4.3	3.5
PE (x)	16.9	11.6	10.4	9.3
P/BV (x)	1.7	1.6	1.4	1.2

Key Data

SHCR.BO | SHCR IN

52-W High / Low	Rs.329 / Rs.99
Sensex / Nifty	39,750 / 11,671
Market Cap	Rs.24bn / \$ 329m
Shares Outstanding	90m
3M Avg. Daily Value	Rs.30.95m

Shareholding Pattern (%)

Promoter's	74.82
Foreign	4.63
Domestic Institution	16.93
Public & Others	3.62
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.2	83.0	(2.9)
Relative	(2.3)	50.7	(2.7)

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Growth momentum to continue

Quick Pointers:

- 5-10% topline growth guidance
- Cushion on gross margin to continue

Sharda reported better than expected results driven by strong demand from Europe & NAFTA region, new product introduction and better penetration. Declining raw material cost led to 412 bps expansion in gross margin. With improving operating environment, FY21 is expected to be a turnaround year for SHCR with both Europe and NAFTA to be growth levers. Growth momentum is expected to continue driven by expanding distribution reach, new molecule introduction and strong demand for generic molecules. Cushion on gross margin pressure is expected to continue with better availability and reduction in raw material prices. We have increased our Topline/EBITDA/APAT estimates by 1%/3%/1% for FY21, 1%/4%/1% for FY22 and 2%/7%/5% for FY23. Maintain BUY with revised TP of Rs358 (Previous 348) based on 13x Sep'22 earnings.

5-10% topline growth guidance: The management has guided for a topline growth of ~5-10% driven by good demand for high margin products, garnering new registrations, expanding crop presence and entering new geographies. SHCR is deepening its penetration in Europe, NAFTA, Mexico, etc. Europe and NAFTA would continue to be growth drivers.

Capex of Rs 1.7-1.8 bn for FY21: Sharda incurred capex of Rs1.5bn and Rs1.8bn for FY19 and FY20 respectively. For FY21 SHCR plans to invest ~Rs1.7- 1.8bn in new registrations and re-registration of molecules. Capex for 1H21 stood at Rs1.3bn v/s Rs0.9bn YoY.

Sharda continues to see traction despite procuring all materials from China: SHCR buys all raw materials from China and has not seen any negative impact on its business, rather demand continues to be good. Company is unlikely to change its strategy of diversifying the sourcing away from China as no other geography can offer range of molecules at such an affordable price. Global hatred against China is also not getting reflected in businesses, rather goods are being asked for and accepted as a very normal course.

Exhibit 1: Gross margin expansion and forex gain drove profitability

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	YoY gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Net Sales	4,248	3,242	31.0	3,889	(8.4)	8,137	7,472	8.9
Expenditure								
Raw Materials	2,928	2,368	23.6	2,727	(6.8)	5,655	5,422	4.3
<i>% of Net Sales</i>	<i>68.9</i>	<i>73.0</i>		<i>70.1</i>		<i>69.5</i>	<i>72.6</i>	
Employee Cost	74	72	2.4	84	13.1	158	153	3.3
<i>% of Net Sales</i>	<i>1.7</i>	<i>2.2</i>		<i>2.2</i>		<i>1.9</i>	<i>2.0</i>	
Other Expenses	608	603	0.8	468	(23.0)	1,075	1,082	(0.6)
<i>% of Net Sales</i>	<i>14.3</i>	<i>18.6</i>		<i>12.0</i>		<i>13.2</i>	<i>14.5</i>	
Total Expenditure	3,610	3,043	18.6	3,279	(9.2)	6,889	6,657	3.5
EBITDA	638	198	221.8	610	(4.4)	1,248	815	53.2
<i>Margin (%)</i>	<i>15.0</i>	<i>6.1</i>		<i>15.7</i>		<i>15.3</i>	<i>10.9</i>	
Depreciation	423	330	28.4	355	(16.2)	778	682	14.0
EBIT	215	(131)	NA	255	18.9	470	133	254.9
Interest	7	4	63.9	8	14.3	16	10	51.4
Other Income	95	88	7.2	100	5.3	194	173	12.6
PBT	302	(47)	NA	347	14.8	649	295	120.1
Tax	112	9	1,184.9	68	(39.3)	179	123	45.2
<i>Tax Rate (%)</i>	<i>36.9</i>	<i>-18.3</i>		<i>19.5</i>		<i>27.6</i>	<i>41.9</i>	
RPAT	191	(56)	NA	279	46.4	470	171	174.0
APAT	191	(56)	NA	279	46.4	470	171	174.1

Source: Company, PL

Exhibit 2: Margin expansion in both the segments

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	YoY gr. (%)	H1FY21	H1FY20	YoY gr. (%)
Agrochemicals								
Revenue	3,443	2,365	45.6	3,072	12.1	6,515	5,536	17.7
EBIT	175	(182)	NA	197	(11.0)	372	(23)	NA
<i>Margin (%)</i>	<i>5.1</i>	<i>-7.7</i>		<i>6.4</i>		<i>5.7</i>	<i>-0.4</i>	
Belts/Others								
Revenue	805	877	(8.2)	817	(1.5)	1,622	1,935	(16.2)
EBIT	148	145	2.0	138	7.1	286	315	(9.1)
<i>Margin (%)</i>	<i>18.4</i>	<i>16.6</i>		<i>16.9</i>		<i>17.7</i>	<i>16.3</i>	

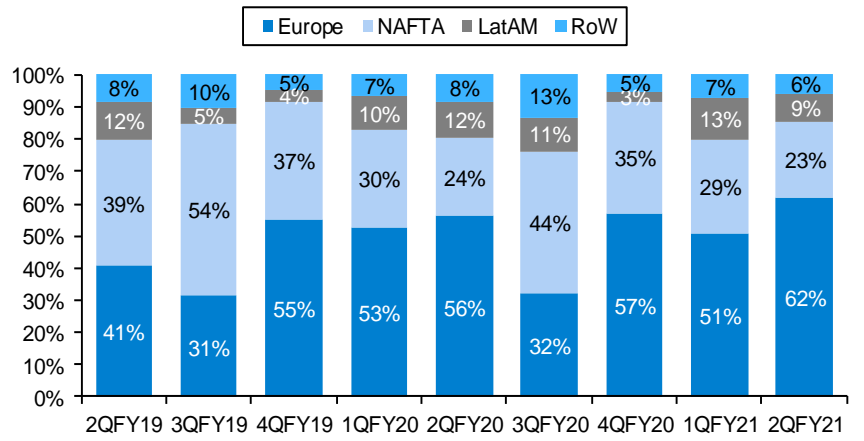
Source: Company, PL

Exhibit 3: Volume down by 23%

Break up of revenue growth	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Currency impact	7.5%	9.1%	16.7%	0.7%	2.8%	-1.0%	-26.7%	4.1%	23.0%
Price & Mix impact	11.3%	16.7%	4.2%	-3.8%	5.3%	-25.0%	30.2%	-8.2%	2.4%
Volumes impact	-7.4%	19.1%	-21.1%	-4.2%	-3.1%	7.3%	11.3%	-3.7%	5.6%

Source: Company, PL

Exhibit 4: Europe accounted for 62% of revenue in Q2'21



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	20,030	22,013	24,162	26,523
YoY gr. (%)	0.3	9.9	9.8	9.8
Cost of Goods Sold	13,888	15,079	16,491	18,102
Gross Profit	6,143	6,934	7,672	8,421
Margin (%)	30.7	31.5	31.8	31.8
Employee Cost	349	374	435	451
Other Expenses	2,975	2,761	2,899	3,077
EBITDA	2,818	3,798	4,337	4,894
YoY gr. (%)	(12.6)	34.8	14.2	12.8
Margin (%)	14.1	17.3	18.0	18.5
Depreciation and Amortization	1,371	1,623	1,961	2,298
EBIT	1,447	2,175	2,376	2,595
Margin (%)	7.2	9.9	9.8	9.8
Net Interest	19	11	11	11
Other Income	421	503	614	761
Profit Before Tax	1,849	2,667	2,979	3,345
Margin (%)	9.2	12.1	12.3	12.6
Total Tax	403	560	641	719
Effective tax rate (%)	21.8	21.0	21.5	21.5
Profit after tax	1,445	2,107	2,339	2,626
Minority interest	0	2	2	2
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,446	2,105	2,337	2,624
YoY gr. (%)	(18.1)	45.6	11.0	12.3
Margin (%)	7.2	9.6	9.7	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,446	2,105	2,337	2,624
YoY gr. (%)	(18.1)	45.6	11.0	12.3
Margin (%)	7.2	9.6	9.7	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,446	2,105	2,337	2,624
Equity Shares O/s (m)	90	90	90	90
EPS (Rs)	16.0	23.3	25.9	29.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	7,968	9,558	11,358	13,158
Tangibles	393	335	398	461
Intangibles	7,575	9,223	10,960	12,697
Acc: Dep / Amortization	3,808	5,426	7,344	9,404
Tangibles	114	99	134	174
Intangibles	3,694	5,327	7,210	9,231
Net fixed assets	4,160	4,132	4,014	3,753
Tangibles	279	236	264	287
Intangibles	3,881	3,896	3,750	3,466
Capital Work In Progress	1,614	1,761	1,933	2,122
Goodwill	4	4	4	4
Non-Current Investments	116	116	116	116
Net Deferred tax assets	(654)	(654)	(654)	(654)
Other Non-Current Assets	725	400	447	502
Current Assets				
Investments	1,155	1,755	2,355	2,955
Inventories	3,822	4,222	4,634	5,087
Trade receivables	9,894	9,891	10,857	11,917
Cash & Bank Balance	1,534	2,595	3,253	4,405
Other Current Assets	296	286	314	345
Total Assets	23,473	25,310	28,087	31,377
Equity				
Equity Share Capital	902	902	902	902
Other Equity	13,126	14,489	16,391	18,721
Total Networkth	14,028	15,391	17,293	19,623
Non-Current Liabilities				
Long Term borrowings	1	1	1	1
Provisions	27	27	27	27
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,891	7,237	7,944	8,720
Other current liabilities	1,700	1,955	2,122	2,306
Total Equity & Liabilities	23,473	25,310	28,087	31,377

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,849	2,667	2,979	3,345
Add. Depreciation	1,371	1,623	1,961	2,298
Add. Interest	(9)	(503)	(614)	(761)
Less Financial Other Income	421	503	614	761
Add. Other	577	11	11	11
Op. profit before WC changes	3,787	3,798	4,337	4,894
Net Changes-WC	(1,699)	55	(637)	(700)
Direct tax	(625)	(549)	(628)	(705)
Net cash from Op. activities	1,463	3,304	3,072	3,489
Capital expenditures	(1,760)	(1,736)	(1,972)	(1,989)
Interest / Dividend Income	37	503	614	761
Others	1,045	(600)	(600)	(600)
Net Cash from Inv. activities	(678)	(1,833)	(1,958)	(1,828)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(541)	(400)	(444)	(499)
Interest paid	(2)	(11)	(11)	(11)
Others	30	-	-	-
Net cash from Fin. activities	(513)	(411)	(455)	(510)
Net change in cash	273	1,060	659	1,151
Free Cash Flow	(297)	1,568	1,100	1,500

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	16.0	23.3	25.9	29.1
CEPS	31.2	41.3	47.6	54.6
BVPS	155.5	170.6	191.7	217.5
FCF	(3.3)	17.4	12.2	16.6
DPS	3.5	4.4	4.9	5.5
Return Ratio(%)				
RoCE	10.8	14.8	14.5	14.1
ROIC	10.5	16.6	17.4	18.4
RoE	10.8	14.3	14.3	14.2
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Net Working Capital (Days)	124	114	114	114
Valuation(x)				
PER	16.9	11.6	10.4	9.3
P/B	1.7	1.6	1.4	1.2
P/CEPS	8.7	6.5	5.7	5.0
EV/EBITDA	7.7	5.3	4.3	3.5
EV/Sales	1.1	0.9	0.8	0.6
Dividend Yield (%)	1.3	1.6	1.8	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	3,827	8,756	3,889	4,248
YoY gr. (%)	(18.8)	14.5	(8.1)	31.0
Raw Material Expenses	2,883	5,583	2,727	2,928
Gross Profit	945	3,173	1,162	1,320
Margin (%)	24.7	36.2	29.9	31.1
EBITDA	395	1,633	610	638
YoY gr. (%)	(16.9)	5.9	(1.0)	221.8
Margin (%)	10.3	18.7	15.7	15.0
Depreciation / Depletion	339	350	355	423
EBIT	56	1,283	255	215
Margin (%)	1.5	14.7	6.6	5.1
Net Interest	4	4	8	7
Other Income	121	103	100	95
Profit before Tax	172	1,381	347	302
Margin (%)	4.5	15.8	8.9	7.1
Total Tax	114	(35)	68	112
Effective tax rate (%)	66.0	(2.6)	19.5	36.9
Profit after Tax	59	1,417	279	191
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	59	1,417	279	191
YoY gr. (%)	(71.2)	34.1	22.7	(439.7)
Margin (%)	1.5	16.2	7.2	4.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	59	1,417	279	191
YoY gr. (%)	(71.2)	34.1	22.7	(439.7)
Margin (%)	1.5	16.2	7.2	4.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	59	1,417	279	191
Avg. Shares O/s (m)	90	90	90	90
EPS (Rs)	0.6	15.7	3.1	2.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Oct-20	BUY	348	247
2	25-Aug-20	BUY	348	307
3	14-Aug-20	BUY	348	289
4	07-Jul-20	Accumulate	254	273
5	26-Jun-20	Accumulate	254	228
6	16-Apr-20	Accumulate	218	149
7	23-Jan-20	Accumulate	313	268
8	03-Jan-20	Accumulate	306	290
9	31-Oct-19	Accumulate	306	276

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	6,421	5,707
2	Coromandel International	Reduce	676	723
3	Dhanuka Agritech	Hold	857	733
4	Godrej Agrovet	Accumulate	513	533
5	Insecticides India	BUY	612	458
6	P.I. Industries	Hold	2,000	2,021
7	Rallis India	Hold	275	262
8	Sharda Cropchem	BUY	348	247
9	Sumitomo Chemical India	Hold	295	283
10	UPL	BUY	606	497

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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