

# Sharda Cropchem

₹ 379

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Sep 30, 2016

## Company Background

Sharda Cropchem Ltd. (Sharda Crop) is engaged in the marketing and distribution of a wide range of formulations and generic active ingredients globally. It's core strength lies in identifying generic molecules, preparing dossiers, seeking registrations, marketing and distributing formulations or generic active ingredients in fungicide, herbicide and insecticide segments. The company has also recently entered into the biocide segment and has acquired several registrations from the existing registration holders, primarily, in Europe. The Company has over 180 GLP certified dossiers and owns over 1765 registrations for formulations and over 200 registrations for generic active ingredients across Europe, NAFTA, Latin America & RoW. Sharda Crop, with its network of suppliers and its presence worldwide, is also catering to customer needs for organic and inorganic chemicals, spread over a variety of industries. Some of the main industries - that it caters to are - Water Treatment, Food & Food ingredients, Other Industrial applications. It also procures and supplies Conveyor belts and is also in the insecticide and pesticide business through its European Subsidiary, Sharda Biocide.

## Key Highlights

- ➔ Sharda Procures formulations and generic active ingredients in their finished form from third party manufacturers for onward sale. It also procures generic active ingredients for preparation and sale of formulations wherein it outsources the process of preparation of formulations to third party formulators. This enables the company to offer diversified range of formulations and generic active ingredients in fungicide, herbicide and insecticide segments for protecting different kind of crops as well as serve turf and specialty markets and in biocide segment as disinfectants, thereby catering to full market demand.
- ➔ Agrochemicals worth ~ USD 5 bn are expected to go off-patent by 2020. Globally, patented products constitute 22% share of the total agrochemical market which is expected to decrease to 15% by 2020 as a result of the patent cliff. This will create a huge upside potential for the generics segment of the industry over the next decade. Since the core competence of Sharda Cropchem is new registrations of old molecules this will be beneficial.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	5,759.7	7,970.1	9,980.6
Rev. growth (%)	0.36	38.38	25.23
EBITDA (INR mn)	1,405.7	1,668.9	1,802.1
Net profit (INR mn)	886.6	981.7	1,708.5
Shares outstanding (mn)	90.2	90.2	90.2
EPS (INR)	9.5	10.4	18.8
EPS growth (%)	21.67	9.27	81.10
P/E (x)	24.39	30.68	12.43
RONW (%)	18.29	17.79	25.91
ROCE (%)	28.46	27.50	38.36

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## Info Codes

Reuters	: SHCR.BO
Bloomberg	: SHCR:IN
NSE	: SHARDACROP
BSE	: 538666

## Market Data

52 Wk Range (₹)	: 203 / 417
Shares in Issue (mn)	: 90.2
Mkt. Cap (₹ bn)	: 34.24
BSE 2 Wk Avg Vol	: 14000

## Share Holding Pattern (%)

Promoters Holding	: 75.00
Corporate Holding	: 01.22
Domestic Institution	: 14.17
Foreign Institution	: 06.10
Public & Others	: 03.51

## Investment Theme

Sharda Cropchem is a fast-growing global agrochemicals company with a peer position in the generic crop protection chemicals industry. Its vast and growing library of dossiers and Intellectual Property Rights (IPRs) give it solid foundations for growth in the marketplace, especially in Advanced Markets such as Europe, North America and Latin America. It gives Sharda Crop the ability to operate in a diversified range of formulations and generic active ingredients globally. The company generated its 60% + revenue from top 10 products which shows specialization and experience of the company in them. The company has been growing at a very good pace and it is more likely that this growth rate will continue looking at the 818 registrations in pipeline for various areas. We feel the company has less competition and more specialization.

**A-Grow Chemicals**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	5,405.9	7,693.2	42.3	9,316.0	21.1
Other Income	353.8	276.9	(21.7)	664.6	140.0
Change in Stocks	(163.8)	9.9	(106.0)	223.3	2,155.6
Raw Material Con.	2,928.4	4,823.1	64.7	6,036.6	25.2
Employee Exp.	118.1	171.3	45.0	206.0	20.3
Indirect Taxes	0.0	0.0	-	0.0	-
Other Exp.	880.5	1,183.4	34.4	1,004.4	(15.1)
Operating Exp.	3,927.0	6,177.8	57.3	7,247.0	17.3
Operating Profit	1,668.9	1,802.2	8.0	2,956.9	64.1
Total Interest	52.1	68.3	31.1	68.3	0.0
Gross Profit	1,616.8	1,733.9	7.2	2,888.6	66.6
Net Dep.	288.8	232.0	(19.7)	349.4	50.6
Total Taxation	441.4	520.2	17.9	830.7	59.7
Net Profit/Loss	886.6	981.7	10.7	1,708.5	74.0

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15	Mar 16
<b>SOURCES OF FUNDS</b>	<b>4,533.3</b>	<b>5,166.4</b>	<b>6,252.1</b>	<b>7,343.2</b>
Equity Share capital	902.2	902.2	902.2	902.2
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	3,628.9	4,262.7	4,967.3	6,416.3
Secured Loans	0.0	0.0	378.3	17.5
Unsecured Loans	2.2	1.5	4.3	7.2
<b>USES OF FUNDS</b>	<b>4,533.3</b>	<b>5,166.4</b>	<b>6,252.1</b>	<b>7,343.2</b>
Gross Block	640.1	2,497.2	2,962.3	3,700.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	0.0	1,865.1	2,089.7	2,408.4
Net Block	640.1	632.1	872.6	1,291.6
Capital Work in Progress	883.9	1,334.7	1,487.6	2,098.4
Investments	982.2	1,756.6	961.8	833.5
Current Assets	4,342.0	3,853.3	5,542.1	7,015.9
Less : Current Liabilities	2,436.4	2,576.9	2,760.7	4,097.2
Total Net Current Assets	1,905.6	1,276.4	2,781.4	2,918.7
Misc. Expenses not writtenoff	121.5	166.6	148.7	201.0
<b>NOTE</b>				
Book Value of Unquoted Investments	970.1	1,756.6	961.8	833.5
Market Value of Quoted Investments	12.1	0.0	0.0	0.0
Contingent Liabilities	0.0	782.8	0.0	0.0
Dividend (%)	30.0	20.0	25.0	30.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	1,554.7	1,367.3	4,295.6	2,415.2
Cost Of Sales	1,287.2	1,076.4	3,078.1	1,821.6
Operating Profit	267.5	290.9	1,217.5	593.6
Other Income	212.4	21.9	328.5	38.9
Adjusted PBDIT	479.9	312.8	1,546.0	632.5
Financial Expenses	0.0	0.0	5.4	0.1
Depreciation	72.5	81.7	100.2	126.8
Other Write Offs	0.0	5.4	8.5	0.2
Adjusted PBT	407.4	225.7	1,431.9	505.4
Tax Charges	113.9	79.8	471.9	176.3
Reported Profit	293.5	145.9	960.0	329.1
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	293.5	145.9	960.0	329.1

**52 Week Index Relative Percentage Appreciation**

**Sharda Crop vs SENSEX**
**Risks Associated**

- Being a global player, the main source of revenue is in several foreign currencies, primarily, U.S. Dollars, Euros and British Pound. Due to the difference in time between sales and receivables, the foreign exchange rate at which the sale is recorded in the books of accounts may not be the same as the foreign exchange rate at which the sale is realised.
- As a global generic agrochemical player, the Company can face high risks from patent laws which allow the innovator company to extend their patents. This may lead to unnecessary delay in formulations and generic active ingredients and adversely affect business. The extension of patent terms or the extension of exclusivity in the marketplace by the respective regulatory authorities may delay our introduction of formulations and generic active ingredients and may adversely affect business.
- Because of its global presence, the Company is governed by laws, rules and regulations of many countries. Being in the agrochemical industry, the Company will be affected by changes in government policies related to agriculture. Adverse changes in such policies relating to the agrochemical sector could be in the nature of curb in government expenditure on agriculture, reduction in incentives and changes in subsidies in the export policy for crops, or changes in price of commodities. It may also affect the ability of farmers to realise minimum support prices for their products which could lead to inability of farmers to spend on agrochemical inputs, thereby adversely affecting their demand and the sales of our formulations and generic active ingredients.

## Sharda Crop

### In a Nutshell

Some of the positive points of Sharda are its presence in multiple geographies, diversification in terms of geographies and a robust product portfolio which reduces the risks of adverse market. Unlike global giants, the Company follows an asset light business model whereby it keeps its competitiveness in identifying generic molecules, preparing dossiers, seeking registrations, marketing and distributing formulations through third party distributors or its own sales force. The model helps the Company pay unfettered attention, invest capital and time, thereby helping focus on competence. The business model is consistent with the nonagrochemical operations too. The actual core competence of the company lies in identifying opportunities in generic molecules and corresponding formulations and generic active ingredients, preparing dossiers and seeking registrations in the relevant jurisdictions. As a result of its focused efforts in seeking registrations in different countries and its investment of time and capital towards this objective, the library of dossiers and the number of registrations owned by Sharda Crop have increased progressively also giving it a specialization in the subject. The Company has maintained relationships with multiple manufacturers and formulators in the agrochemical industry, mainly in China and India, from where it sources, specifically to de-risk the Company, by not being dependent on a single or limited supplier. This also helps the Company get the optimal pricing from the market. With the objective of increasing presence in the agrochemical value chain, it has set up own sales force in various countries in Europe as well as in Mexico, Colombia, South Africa and India. With all this the company now supplies to over 76 countries across Europe, NAFTA, Latin America.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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