

25 July 2024

Sharda Cropchem

Q1 above expectation, growth momentum to continue; retaining a Hold

Rating: **Hold**

Target Price: Rs.576

Share Price: Rs.552

Strong volume recovery across regions and a better product mix helped Sharda Cropchem to deliver a better-than-expected Q1. Further, with strong recovery likely in global agrochemicals and better pricing, revenue would grow ~15-20% in FY25 (in Q4 FY24, guided to 12-15% for FY25). The company is focusing on expanding its reach by penetrating current markets and entering new ones, which would support growth in the long run. We like the company, considering its unique asset-light model, with operations in the highly regulated markets of Europe and America.

Volumes support Q1 growth. With agrochemical volumes up a huge 48.9% y/y across markets, the company reported 23.1% y/y revenue growth, beating our expectation. Non-agrochemical business volumes fell 39.1% y/y. The gross margin was 29.2%, in line with the last 32-quarter average of 30.3% (vs. 8.7% a year back), with good demand and a favourable product mix. Supported by the expanded gross-margin, the EBITDA margin rose to 9.8% vs. negative 10.8% last year.

Guidance. Management maintained its growth guidance and expects ~15-20% EBITDA margins and volume growth in FY25. Prices are better q/q and would improve ahead with better demand, according to management. Further, deeper penetration in the global market would support volumes. No major mismatch in demand and supply is seen in the global agrochemicals market; however, companies are offering competitive prices to maintain their market shares. Per management, prices would improve ahead. It is focusing on securing more registrations and is planning ~Rs4bn-4.5bn capex in FY25.

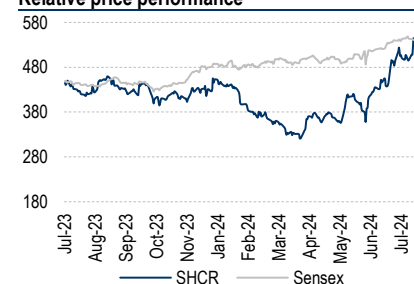
Valuation. Considering strong Q1 recovery and management guidance, we slightly raise our estimates and value the company at 15x FY26e earnings (15x the eight-year average), with a higher TP of Rs576, and retain our Hold recommendation. **Risks:** Forex movements, no major improvement in realisations, delay in registrations.

| Key data | SHCR IN / SHCR.BO |
|--------------------|-------------------|
| 52-week high / low | Rs563 / 318 |
| Sensex / Nifty | 80040 / 24406 |
| 3-m average volume | \$1.6m |
| Market cap | Rs50bn / \$593.9m |
| Shares outstanding | 90m |

| Shareholding pattern (%) | Jun'24 | Mar'24 | Dec'23 |
|--------------------------|--------|--------|--------|
| Promoters | 74.8 | 74.8 | 74.8 |
| - of which, Pledged | - | - | - |
| Free float | 25.2 | 25.2 | 25.2 |
| - Foreign institutions | 2.0 | 2.1 | 2.1 |
| - Domestic institutions | 12.9 | 12.4 | 12.4 |
| - Public | 10.3 | 10.6 | 10.7 |

| Estimates revision (%) | FY25e | FY26e |
|------------------------|-------|-------|
| Sales | 1.8 | 2.7 |
| EBITDA | 1.8 | 2.7 |
| PAT | 8.3 | 9.0 |

Relative price performance



Source: Bloomberg

| Key financials (YE Mar) | FY22 | FY23 | FY24 | FY25e | FY26e |
|-------------------------|--------|--------|--------|--------|--------|
| Sales (Rs m) | 35,798 | 40,452 | 31,630 | 36,524 | 42,480 |
| Net profit (Rs m) | 3,493 | 3,420 | 319 | 2,537 | 3,466 |
| EPS (Rs) | 38.7 | 37.9 | 3.5 | 28.1 | 38.4 |
| PE (x) | 14.4 | 14.7 | 157.3 | 19.8 | 14.5 |
| EV / EBITDA (x) | 6.8 | 6.9 | 16.5 | 8.2 | 6.2 |
| PBV (x) | 2.6 | 2.2 | 2.2 | 2.0 | 1.8 |
| RoE (%) | 19.8 | 16.5 | 1.4 | 10.8 | 13.3 |
| RoCE (%) | 18.2 | 15.5 | 1.4 | 10.2 | 12.7 |
| Dividend yield (%) | 0.9 | 1.1 | 0.5 | 0.8 | 1.0 |
| Net debt / equity (x) | (0.1) | (0.1) | (0.2) | (0.1) | (0.1) |

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Net revenues | 35,798 | 40,452 | 31,630 | 36,524 | 42,480 |
| Growth (%) | 49.4 | 13.0 | -21.8 | 15.5 | 16.3 |
| Direct costs | 24,998 | 28,608 | 23,424 | 25,384 | 29,099 |
| SG&A | 3,806 | 4,837 | 5,374 | 5,296 | 5,735 |
| EBITDA | 6,994 | 7,007 | 2,832 | 5,844 | 7,646 |
| EBITDA margins (%) | 19.5 | 17.3 | 9.0 | 16.0 | 18.0 |
| - Depreciation | 2,453 | 2,481 | 2,671 | 3,073 | 3,740 |
| Other income | 124 | -173 | 594 | 657 | 765 |
| Interest expenses | 22 | 45 | 36 | 37 | 37 |
| PBT | 4,642 | 4,307 | 719 | 3,392 | 4,635 |
| Effective tax rate (%) | 24.8 | 20.6 | 55.6 | 25.2 | 25.2 |
| + Associates / (Minorities) | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Net income | 3,493 | 3,420 | 319 | 2,537 | 3,466 |
| Adjusted income | 3,493 | 3,420 | 319 | 2,537 | 3,466 |
| WANS | 90 | 90 | 90 | 90 | 90 |
| FDEPS (Rs) | 38.7 | 37.9 | 3.5 | 28.1 | 38.4 |
| FDEPS growth (%) | 52.4 | -2.1 | -90.7 | 695.7 | 36.6 |
| Gross margins (%) | 30.2 | 29.3 | 25.9 | 30.5 | 31.5 |

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|----------------------------|---------------|---------------|---------------|---------------|---------------|
| Share capital | 902 | 902 | 902 | 902 | 902 |
| Net worth | 19,125 | 22,320 | 22,371 | 24,528 | 27,474 |
| Debt | 466 | 30 | 183 | 183 | 183 |
| Minority interest | 3 | 4 | 4 | 4 | 4 |
| DTL / (Assets) | 1,240 | 1,355 | 1,425 | 1,425 | 1,425 |
| Capital employed | 20,834 | 23,708 | 23,983 | 26,139 | 29,086 |
| Net tangible assets | 144 | 50 | 182 | 182 | 182 |
| Net intangible assets | 5,774 | 6,630 | 6,900 | 7,924 | 9,316 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| CWIP (tang. & intang.) | 2,122 | 2,039 | 2,829 | 2,731 | 1,600 |
| Investments (strategic) | - | - | - | - | - |
| Investments (financial) | 1,344 | 319 | 1,589 | 1,589 | 1,589 |
| Current asset (excl. cash) | 26,338 | 32,573 | 26,624 | 30,315 | 34,834 |
| Cash | 1,660 | 1,819 | 2,157 | 761 | 1,384 |
| Current liabilities | 16,548 | 19,721 | 16,297 | 17,363 | 19,818 |
| Working capital | 9,790 | 12,852 | 10,327 | 12,952 | 15,015 |
| Capital deployed | 20,834 | 23,708 | 23,983 | 26,139 | 29,086 |

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (Rs m)

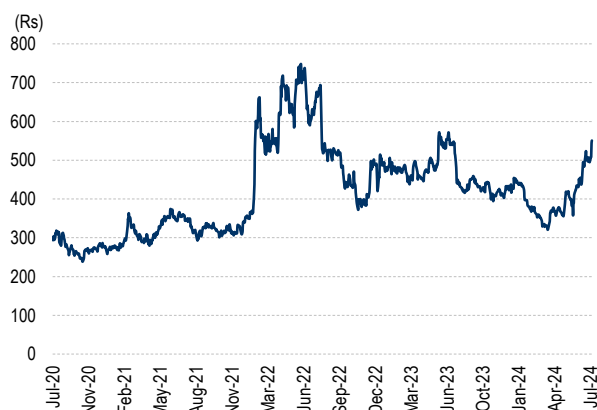
| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|----------------------------|-------|---------|---------|---------|-------|
| PBT adj. OI and interest | 4,540 | 4,526 | 161 | 2,771 | 3,907 |
| + Non-cash items | 2,453 | 2,481 | 2,671 | 3,073 | 3,740 |
| Oper. prof. before WC | 6,994 | 7,007 | 2,832 | 5,844 | 7,646 |
| - Incr. / (decr.) in WC | 2,158 | 3,062 | (2,525) | 2,625 | 2,063 |
| Others incl. taxes | 779 | 773 | 329 | 855 | 1,168 |
| Operating cash-flow | 4,057 | 3,172 | 5,029 | 2,364 | 4,415 |
| - Capex (tang. + intang.) | 3,739 | 3,160 | 3,863 | 4,000 | 4,000 |
| Free cash-flow | 318 | 12 | 1,166 | (1,636) | 415 |
| Acquisitions | | | | | |
| -Div. (incl. buyback, tax) | 451 | 541 | 271 | 381 | 520 |
| + Equity raised | - | - | - | - | - |
| + Debt raised | (341) | (437) | 153 | - | - |
| - Fin. investments | 514 | (1,025) | 1,270 | - | - |
| -Misc. items (CFI+CFF) | (43) | (99) | (559) | (621) | (728) |
| Net cash-flow | (945) | 158 | 338 | (1,396) | 623 |

Source: Company, Anand Rathi Research

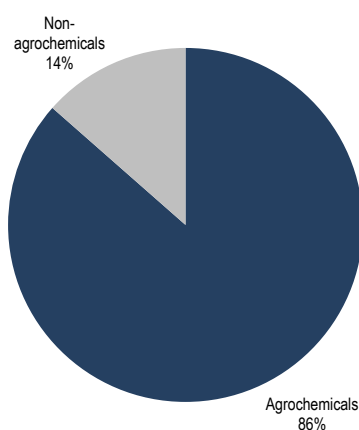
Fig 4 – Ratio analysis

| Year-end: Mar | FY22 | FY23 | FY24 | FY25e | FY26e |
|---------------------------------|-------|-------|---------|-------|-------|
| P/E (x) | 14.4 | 14.7 | 157.3 | 19.8 | 14.5 |
| EV / EBITDA (x) | 6.8 | 6.9 | 16.5 | 8.2 | 6.2 |
| EV / Sales (x) | 1.3 | 1.2 | 1.5 | 1.3 | 1.1 |
| P/B (x) | 2.6 | 2.2 | 2.2 | 2.0 | 1.8 |
| RoE (%) | 19.8 | 16.5 | 1.4 | 10.8 | 13.3 |
| RoCE (%) - after tax | 18.2 | 15.5 | 1.4 | 10.2 | 12.7 |
| RoIC | 21.8 | 17.5 | 1.6 | 11.7 | 14.0 |
| DPS (Rs) | 5.0 | 6.0 | 3.0 | 4.2 | 5.8 |
| Dividend yield (%) | 0.9 | 1.1 | 0.5 | 0.8 | 1.0 |
| Dividend payout (%) - incl. DDT | 12.9 | 15.8 | 84.9 | 15.0 | 15.0 |
| Net debt / equity (x) | (0.1) | (0.1) | (0.2) | -0.1 | -0.1 |
| Receivables (days) | 157 | 165 | 173 | 164 | 164 |
| Inventory (days) | 91 | 102 | 114 | 110 | 106 |
| Payables (days) | 120 | 124 | 106 | 101 | 100 |
| CFO : PAT % | 116.2 | 92.8 | 1,577.3 | 93.2 | 127.4 |

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

Fig 6 – Segment-wise revenue, FY24


Source: Company

Result update, Concall highlights

Operational highlights

- Supported by 41.2% y/y volume growth in Q1, revenue grew 23.1% y/y to Rs7.8bn, partially hurt by lower realisation in the agrochemicals business.
- Despite tough market conditions, the company did better in Q1 owing to greater product availability, demand and stable prices.
- Per management, no major mismatch in demand and supply is seen in the global agrochemicals market; however, companies are offering competitive prices to maintain market shares. Management indicated that prices would improve ahead.
- The performance of the non-agrochemicals business was hurt due to logistics issues post the Red Sea crisis and higher freight rates.
- The gross margin expanded to 29.2% vs. 8.7% in Q1 FY24 due to strong volume growth, stable prices and inventory benefits.
- Supported by gross-margin expansion, the EBITDA margin rose to 9.8% vs. a negative 10.8% a year prior.
- Other expenses were more mainly due to higher legal expenses on registration and an ~Rs830m forex loss vs. a Rs950m gain in the previous year corresponding quarter.
- Q1 profit was Rs273m vs. an Rs886m loss a year ago.
- Q1 FY25 volume growth
 - Agrochemicals up 48.9% y/y
 - Non-agrochemicals down 39.1% y/y
 - Overall up 41.2% y/y
- Gross margin break-up, region-wise
 - Europe ~35.5%
 - NAFTA ~22%
 - LATAM ~32%
 - RoW ~38%
- Per management, 80% of granted registrations contribute to revenue. Total registrations granted as on 30th Jun was 2,928. The break-up of the number of registrations region-wise
 - Europe - 1,625
 - NAFTA - 300
 - LATAM - 750
 - RoW - 250
- The company had ~1,040 registrations in its pipeline across markets as on 30th Jun'24.
- Capex
 - Q1 FY25: Rs780m
 - FY25: Rs4bn-4.5bn.

Outlook

- The company maintained its guidance of ~15-20% each EBITDA margins and volume growth in FY25.
- Management is optimistic about the non-agrochemical segment's performance and hopes things improve ahead.

Segment- / region-wise performances

Agrochemicals revenue grew 42.9% y/y to Rs6.8bn, supported by strong 49% volume growth, partially hurt by lower realisations. Volumes doubled in Europe, while strongly recovering in other markets.

Non-agrochemicals revenue plunged 34.8% y/y (though q/q up 7.9%) to Rs1.1bn, hurt mainly by higher freight costs (due to the Red Sea issue) and longer shipping time. Some customers deferred orders due to higher costs.

Fig 7 – Segment-wise revenue trend

| (Rs m) | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|--------------------------|--------------|---------------|--------------|--------------|---------------|---------------|--------------|--------------|--------------|---------------|--------------|
| Agrochemicals | 7,233 | 12,430 | 6,150 | 5,760 | 8,420 | 13,160 | 4,750 | 4,410 | 5,080 | 12,150 | 6,790 |
| Growth % y/y | 80 | 24 | 15 | 15 | 16 | 6 | -23 | -23 | -40 | -8 | 43 |
| % share | 82 | 87 | 75 | 80 | 83 | 89 | 75 | 76 | 80 | 93 | 86 |
| Non-agrochemicals | 1,565 | 1,910 | 2,100 | 1,460 | 1,750 | 1,660 | 1,620 | 1,400 | 1,240 | 970 | 1,060 |
| Growth % y/y | 71 | 129 | 138 | 4 | 12 | -13 | -23 | -4 | -29 | -42 | -35 |
| % share | 18 | 13 | 25 | 20 | 17 | 11 | 25 | 24 | 20 | 7 | 14 |
| Total | 8,798 | 14,340 | 8,250 | 7,220 | 10,170 | 14,820 | 6,370 | 5,810 | 6,320 | 13,120 | 7,850 |

Source: Company

Fig 8 – Segment-wise EBIT and margin

| (Rs m) | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|--------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Agrochemicals | 1,146 | 1,907 | (184) | (120) | 951 | 2,141 | (1,456) | (586) | (192) | 1,906 | 76 |
| Growth % y/y | 88 | 26 | NA | NA | (17) | 12 | 693 | 387 | (120) | (11) | (105) |
| EBIT margin % | 15.8 | 15.3 | (3.0) | (2.1) | 11.3 | 16.3 | (30.7) | (13.3) | (3.8) | 15.7 | 1.1 |
| Non-agrochemicals | 214 | 315 | 432 | 289 | 510 | 476 | 433 | 307 | 293 | 160 | 223 |
| Growth % y/y | 44 | 103 | 315 | 124 | 138 | 51 | 0 | 6 | (42) | (66) | (49) |
| EBIT margin % | 13.7 | 16.5 | 20.6 | 19.8 | 29.1 | 28.7 | 26.7 | 21.9 | 23.7 | 16.5 | 21.0 |

Source: Company

Fig 9 – Region-wise revenue break-up – agrochemicals

| (Rs m) | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|---------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|
| Europe | 3,018 | 6,100 | 3,120 | 2,380 | 3,160 | 8,930 | 2,460 | 2,310 | 2,310 | 7,820 | 3,640 |
| Growth % y/y | 124 | 14 | 24 | 10 | 5 | 46 | -21 | -3 | -27 | -12 | 48 |
| % share | 42 | 49 | 51 | 41 | 38 | 68 | 52 | 52 | 45 | 64 | 54 |
| NAFTA | 3,116 | 4,870 | 1,920 | 2,300 | 3,960 | 3,090 | 1,660 | 1,330 | 1,840 | 3,400 | 2,490 |
| Growth % y/y | 82 | 26 | 10 | 28 | 27 | -37 | -14 | -42 | -54 | 10 | 50 |
| % share | 43 | 39 | 31 | 40 | 47 | 23 | 35 | 30 | 36 | 28 | 37 |
| LATAM | 486 | 1,100 | 830 | 640 | 500 | 470 | 400 | 500 | 340 | 330 | 400 |
| Growth % y/y | 25 | 174 | -2 | -10 | 3 | -57 | -52 | -22 | -32 | -30 | 0 |
| % share | 7 | 9 | 13 | 11 | 6 | 4 | 8 | 11 | 7 | 3 | 6 |
| RoW | 603 | 360 | 280 | 440 | 800 | 670 | 230 | 270 | 590 | 600 | 260 |
| Growth % y/y | 5 | -17 | 19 | 19 | 33 | 86 | -18 | -39 | -26 | -10 | 13 |
| % share | 8 | 3 | 5 | 8 | 10 | 5 | 5 | 6 | 12 | 5 | 4 |
| Total | 7,223 | 12,430 | 6,150 | 5,760 | 8,420 | 13,160 | 4,750 | 4,410 | 5,080 | 12,150 | 6,790 |

Source: Company

Fig 10 – Product-wise revenue break-up – agro-chemicals

| (Rs m) | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|---------------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|
| Herbicides | 3,623 | 7,360 | 3,540 | 3,270 | 4,950 | 6,530 | 2,520 | 2,420 | 2,800 | 5,430 | 3,180 |
| Growth % y/y | 79 | 39 | 39 | 25 | 37 | -11 | -29 | -26 | -43 | -17 | 26 |
| % share | 50 | 59 | 58 | 57 | 59 | 50 | 53 | 55 | 55 | 45 | 47 |
| Insecticides | 1,704 | 1,370 | 1,050 | 1,250 | 970 | 2,450 | 990 | 1,300 | 1,180 | 2,140 | 1,540 |
| Growth % y/y | 50 | -20 | -23 | -21 | -43 | 79 | -6 | 4 | 22 | -13 | 56 |
| % share | 24 | 11 | 17 | 22 | 12 | 19 | 21 | 29 | 23 | 18 | 23 |
| Fungicides | 1,906 | 3,700 | 1,560 | 1,240 | 2,500 | 4,180 | 1,240 | 690 | 1,100 | 4,580 | 2,070 |
| Growth % y/y | 122 | 21 | 8 | 50 | 31 | 13 | -21 | -44 | -56 | 10 | 67 |
| % share | 26 | 30 | 25 | 22 | 30 | 32 | 26 | 16 | 22 | 38 | 30 |
| Total | 7,233 | 12,430 | 6,150 | 5,760 | 8,420 | 13,160 | 4,750 | 4,410 | 5,080 | 12,150 | 6,790 |

Source: Company

Fig 11 – Region-wise revenue break-up – non-agrochemicals

| (Rs m) | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|--------------|
| Europe | 595 | 540 | 590 | 320 | 260 | 200 | 220 | 230 | 240 | 160 | 160 |
| Growth % y/y | 127 | 104 | 143 | -23 | -56 | -63 | -63 | -28 | -8 | -20 | -27 |
| % share | 38 | 28 | 28 | 22 | 15 | 12 | 14 | 16 | 19 | 16 | 15 |
| NAFTA | 692 | 1,100 | 1,140 | 830 | 1,150 | 1,110 | 840 | 860 | 750 | 600 | 680 |
| Growth % y/y | 51 | 213 | 195 | 18 | 66 | 1 | -26 | 4 | -35 | -46 | -19 |
| % share | 44 | 58 | 55 | 57 | 66 | 66 | 52 | 61 | 60 | 62 | 65 |
| LATAM | 42 | 100 | 130 | 100 | 80 | 50 | 110 | 80 | 70 | 50 | 120 |
| Growth % y/y | -36 | 69 | 160 | 30 | 90 | -50 | -15 | -20 | -13 | 0 | 9 |
| % share | 3 | 5 | 6 | 7 | 5 | 3 | 7 | 6 | 6 | 5 | 11 |
| RoW | 236 | 170 | 230 | 210 | 260 | 310 | 450 | 230 | 180 | 160 | 90 |
| Growth % y/y | 80 | 8 | 12 | 1 | 10 | 82 | 96 | 10 | -31 | -48 | -80 |
| % share | 15 | 9 | 11 | 14 | 15 | 19 | 28 | 16 | 15 | 16 | 9 |
| Total | 1,565 | 1,910 | 2,090 | 1,460 | 1,750 | 1,670 | 1,620 | 1,400 | 1,240 | 970 | 1,050 |

Source: Company

Fig 12 – Financial trend

| Particulars (Rs m) | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | % Y/Y | % Q/Q | FY23 | FY24 | % Y/Y |
|-------------------------|---------------|---------------|----------------|--------------|--------------|---------------|--------------|-------------|---------------|---------------|---------------|---------------|
| Income | 10,173 | 14,818 | 6,378 | 5,808 | 6,325 | 13,121 | 7,851 | 23.1 | (40.2) | 40,452 | 31,630 | (21.8) |
| RM costs | 7,073 | 10,139 | 5,820 | 4,352 | 4,669 | 8,583 | 5,562 | (4.4) | (35.2) | 28,608 | 23,424 | (18.1) |
| Employee expenses | 126 | 152 | 92 | 92 | 94 | 147 | 112 | 21.7 | (24.2) | 448 | 424 | (5.3) |
| Other expenses | 1,028 | 1,345 | 1,153 | 1,014 | 868 | 1,843 | 1,407 | 22.0 | (23.7) | 4,270 | 4,878 | 14.2 |
| EBITDA | 1,945 | 3,182 | (688) | 349 | 695 | 2,548 | 770 | L2P | NA | 7,126 | 2,904 | P2L |
| Depreciation | 653 | 677 | 703 | 740 | 686 | 543 | 648 | (7.8) | 19.4 | 2,481 | 2,671 | 7.7 |
| Interest | 9 | 25 | 13 | 46 | 9 | 2 | 8 | (40.9) | 395.1 | 45 | 70 | 55.0 |
| Other income | 152 | 70 | 355 | 99 | 122 | (20) | 193 | (45.7) | NA | (292) | 556 | NA |
| PBT | 1,434 | 2,551 | (1,048) | (338) | 121 | 1,984 | 308 | L2P | NA | 4,307 | 719 | (83.3) |
| Tax | 350 | 563 | (162) | (63) | 75 | 549 | 35 | NA | NA | 888 | 400 | (55.0) |
| PAT | 1,084 | 1,989 | (886) | (276) | 46 | 1,435 | 273 | L2P | NA | 3,420 | 319 | (90.7) |
| Diluted EPS (Rs) | 1,084 | 1,989 | (886) | (276) | 46 | 1,435 | 273 | L2P | NA | 3,420 | 319 | (90.7) |

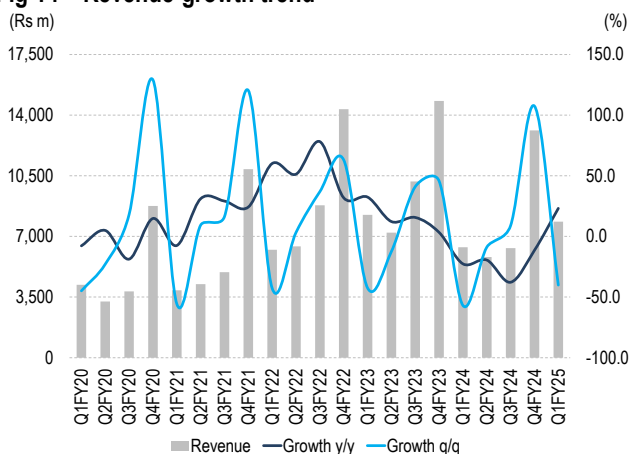
Source: Company, Anand Rathi Research * MI – Minority interest

Fig 13 – Quarterly trend, as percent of sales

| Particulars (%) | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | Q3 FY24 | Q4 FY24 | Q1 FY25 | bps y/y | bps q/q | FY23 | FY24 | bps y/y |
|-----------------------|-------------|-------------|---------------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|--------------|
| Gross margins | 30.5 | 31.6 | 8.7 | 25.1 | 26.2 | 34.6 | 29.2 | 2,042 | (543) | 29.3 | 25.9 | (333) |
| Employee costs | 1.2 | 1.0 | 1.4 | 1.6 | 1.5 | 1.1 | 1.4 | (2) | 30 | 1.1 | 1.3 | 23 |
| Other expenses | 10.1 | 9.1 | 18.1 | 17.5 | 13.7 | 14.0 | 17.9 | (16) | 387 | 10.6 | 15.4 | 486 |
| EBITDA margins | 19.1 | 21.5 | (10.8) | 6.0 | 11.0 | 19.4 | 9.8 | L2P | NA | 17.6 | 9.2 | (843) |
| Depreciation | 6.4 | 4.6 | 11.0 | 12.7 | 10.9 | 4.1 | 8.3 | (277) | 412 | 6.1 | 8.4 | 231 |
| Interest | 0.1 | 0.2 | 0.2 | 0.8 | 0.1 | 0.0 | 0.1 | (11) | 9 | 0.1 | 0.2 | 11 |
| Other income | 1.5 | 0.5 | 5.6 | 1.7 | 1.9 | (0.2) | 2.5 | (311) | 261 | (0.7) | 1.8 | NA |
| PBT margins | 14.1 | 17.2 | (16.4) | (5.8) | 1.9 | 15.1 | 3.9 | L2P | NA | 10.6 | 2.3 | (838) |
| Effective tax rate | 24.4 | 22.1 | 15.4 | 18.5 | 61.7 | 27.7 | 11.5 | (395) | (1,620) | 20.6 | 55.6 | 3,500 |
| PAT margins | 10.7 | 13.4 | (13.9) | (4.7) | 0.7 | 10.9 | 3.5 | L2P | NA | 8.5 | 1.0 | (744) |

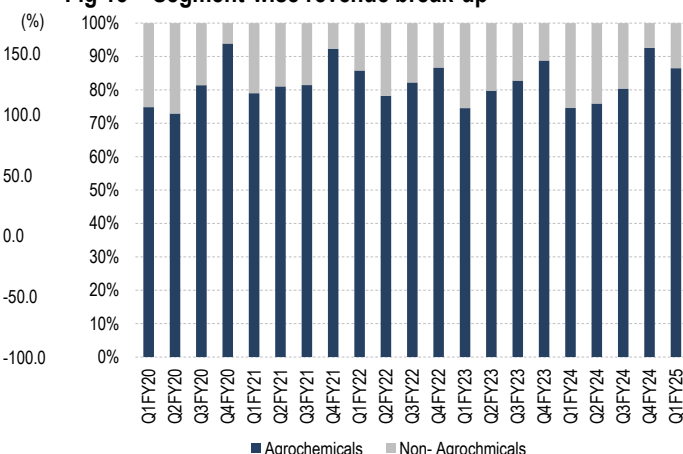
Source: Company, Anand Rathi Research

Fig 14 – Revenue-growth trend



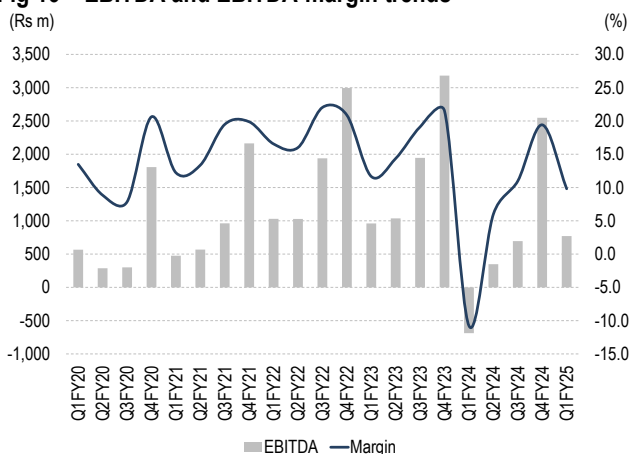
Source: Company

Fig 15 – Segment-wise revenue break-up



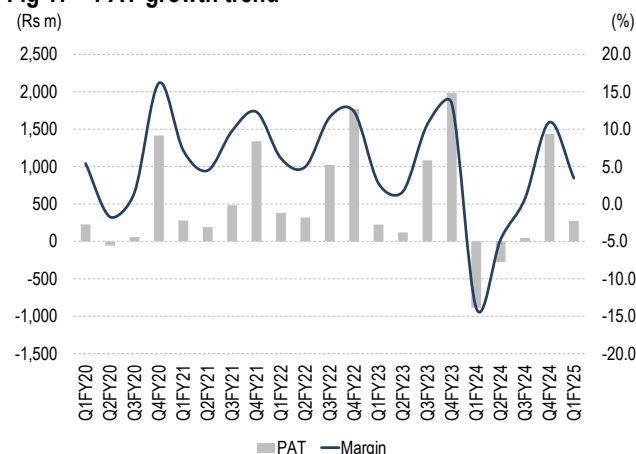
Source: Company

Fig 16 – EBITDA and EBITDA-margin trends



Source: Company

Fig 17 – PAT-growth trend



Source: Company

Valuation

Fig 18 – Change in estimates

| (Rs m) | Old | | New | | % change | |
|---------|--------|--------|--------|--------|----------|------|
| | FY25e | FY26e | FY25e | FY25e | FY25 | FY25 |
| Revenue | 35,864 | 41,348 | 36,524 | 42,480 | 1.8 | 2.7 |
| EBITDA | 5,738 | 7,443 | 5,844 | 7,646 | 1.8 | 2.7 |
| PAT | 2,342 | 3,179 | 2,537 | 3,466 | 8.3 | 9.0 |

Source: Anand Rathi Research

Considering Sharda's sturdy, asset-light business model, healthy formulations pipeline, active-ingredient registrations, better regional revenue mix and consistent RoEs and RoCEs, we are upbeat about its long-term prospects.

Considering strong recovery in Q1 and management guidance, we slightly raise our estimates and value the company at 15x FY26e earnings (15x the eight-year average), with a higher TP of Rs576.

Fig 19 – One-year-forward P/E band chart



Source: Bloomberg, Anand Rathi Research

Key risks

Monsoon-dependence is an inherent risk in agrochemicals, generally. Other factors specific to the company are

- **Delay in registrations.** Delay in securing registrations would lead to revenue loss because of the seasonal nature of the business.
- **Forex volatility.** As a global manufacturer, the company is vastly exposed to foreign currency. It primarily sources active ingredients and formulations from China in dollars and sells to the EU in euros. Since a substantial portion of its revenue and expenditure is in foreign currencies, to a certain extent, it enjoys a natural hedge. Its foreign-currency exposure over and above this may curb profits.
- **Climate.** Crop-protection products are affected by extreme climatic conditions (floods, drought, etc.), an inherent risk.
- **Dependence on Chinese suppliers.** The company depends on China and local vendors for active ingredients and formulations. Adverse movements in Chinese currency, rising labour and environmental

compliance costs could notably affect the competitiveness of Chinese manufacturers, which could restrict the company's sourcing.

- **Global context; high stocks with distributors; sales returns.** If distributors are unable to sell products due to the global slowdown, chances of sales-returns increase, thereby hurting revenue.

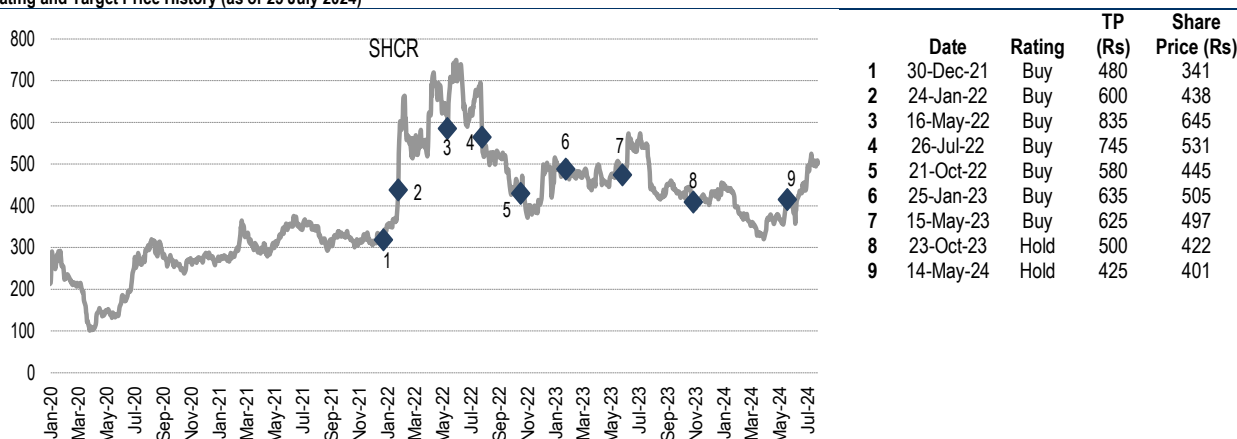
Appendix

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|------------------------------------|------|-------|------|
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| Mid Caps (101st-250th company) | >20% | 0-20% | <0% |
| Small Caps (251st company onwards) | >25% | 0-25% | <0% |

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