



04/09/2014

SHARDA CROPCHEM

Recommendation: Subscribe



Issue Summary

Price Band (Rs)	145	156
Market Lot	90 shares	
Face Value	Rs 10	
Opens on	5 th Sep' 14	
Closes on	9 th Sep' 14	
Total no of shares	22,555,124 equity shares	
Pre-issue share capital	90,220,495 equity shares	
Post-issue share Capital	90,220,495 equity shares	
Issue Size (Rs cr)	327	352
P/E LATEST YEAR	12.2	13.1

Company & Business Profile

Incorporated in 2004, Sharda Cropchem Ltd (the Company) is a crop protection chemical company engaged in the marketing and distribution of a wide range of formulations and generic active ingredients globally. The Company is also involved in order based procurement and supply of belts, general, chemicals, dyes and dye intermediates. Over the years the Company has primarily grown organically and its 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.

Recently, the Company has also entered into the biocide segment and has acquired several registrations from the existing registration holders, primarily, in Europe. As of August 5, 2014, it had over 180 Good Laboratory Practices certified dossiers and as of July 15, 2014 it owned over 1,040 registrations for formulations and over 155 registrations for generic active ingredients across Europe, NAFTA, Latin America and Rest of the World.

Objects of the Issue

The objects of the offer are to achieve the benefits of listing of equity shares on the stock exchanges and sale of 22,555,124 equity shares by Henderson Equity Partners Mauritius, Sharda R. Bubna and Ramprakash V. Bubna. The listing of the equity shares will enhance the company's brand name and provide liquidity to the existing shareholders. Listing will also provide a public market for the equity shares in India. Further, the company shall not receive any proceeds from the offer.

Investment Positives

- **Diversified product portfolio:** The Company's agrochemical business offer a diverse range of formulations and generic active ingredients in fungicide, herbicide, insecticide and biocide segments. The agrochemical business has operations over 60 countries across Europe, NAFTA, Latin America and the rest of the world. In the non-agrochemical business, the product portfolio comprises belts, general chemicals, dyes and dye intermediates which enable it to cater to the varied demands of customers.

Shareholding Pattern

Net Issue	No. of Shares (Lacs)	%
QIB's	112.78	50
HNI	33.83	15
Retail	78.94	35
Total	225.55	100

BRLM

- Edelweiss Financial Services Ltd
- IDFC Securities Ltd

Listing

BSE, NSE

- **Asset light business model with core competence in registration of ingredients:** The Company has an asset-light business model whereby it focuses on identifying generic molecules, preparing dossiers, seeking registrations, and marketing and distributing formulations through third-party distributors or its own sales force. The Company's libraries of dossiers and number of registrations have increased rapidly.
- **Debt-free with strong return ratios:** The Company has a zero debt balance sheet and very positive return ratios. It has maintained a focus on capital efficiency and has demonstrated a consistent track record of profitability over the last three years.
- **Strong global distribution network:** Company is able to increase the penetration of formulations and generic active ingredients in various countries because its third party distributors and its own salesforce is present across the globe.

Concerns

- **Regulatory concerns:** The Company's operations are spread across various geographies and it realizes majority of its revenues from exports. Hence it has to abide by regulations of various jurisdictions. Change in regulations governing agro chemicals business in its market may affect company's topline.
- **Product Concentration:** The top 5 molecules of the company constitute approximately 36% of its consolidated topline and the top 10 molecules contributed approximately 60% of agro-chemical revenues in 2014. Such high degree of product concentration makes the company vulnerable to risk.
- **Currency Risk:** The Company's majority of revenues are realized from exports and hence currency fluctuations may widely affect profitability.
- **Registration failure or delay may adversely affect its performance:** The process of seeking registration is complex, expensive and time consuming. If the company unable to successfully obtain the registration, it will adversely affects its operations and profitability.

Financials

Restated Consolidated Financial Information of Profits and Losses: (Rs in crore)

Particulars	For the year ended				
	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Income:					
Revenue from operations	351.83	441.77	613.51	777.73	781.91
Other Operating income	0.00	0.00	0.00	0.00	0.00
Total revenue from operations	351.83	441.77	613.51	777.73	781.91
Expenses					
Purchase of traded goods	213.17	254.24	319.83	417.44	344.38
Raw material consumed	39.86	57.95	125.70	135.33	151.29
(Increase)/decrease in inventories of finished goods	-7.97	-2.88	-26.20	-8.48	18.38
Employee benefits expenses	5.23	8.41	10.87	13.59	18.13
Other expenses	39.63	43.46	60.83	79.87	103.94
Total expenses	289.93	361.18	491.01	637.74	636.11
Operating Profit	61.90	80.59	122.50	139.98	145.80
Depriciation	30.57	37.12	42.72	36.73	28.89
EBIT	31.33	43.47	79.78	103.25	116.91
Other Income	4.08	7.59	6.59	14.89	32.83
Finance Cost	0.15	0.21	0.14	0.36	1.37
PBT	35.26	50.85	86.24	117.78	148.37
Tax expenses/(credit)					
Current tax	3.12	11.09	16.94	29.56	40.28
Deffered tax expenses/Credit	3.20	-1.67	0.84	3.89	1.18
Total tax expenses	6.32	9.41	17.78	33.44	41.46
PAT before Minority Interst	28.94	41.43	68.46	84.34	106.90
Minority Interest	0.00	0.00	-0.26	-0.04	0.00
PAT	28.94	41.43	68.71	84.37	106.90

*Source: RHP, Sharda Cropchem

Valuations*

The company is priced at price/earnings (PE) ratio of 13x the upper price band of Rs 156 and 12x the lower price band of Rs 145 on FY2014 earning. This seems reasonable; given the company's strong balance sheet, healthy return ratios and earnings growth. Also, the offer price is at a discount to the comparable agrochemical companies in the industry (PE ratio is 25x FY2014 earnings). The company's diversified business model with a clear focus on registration of molecules makes its business strategy unique as compared to its peers.

The comparable peer is valued as follows:

Company	EPS (Rs.)	P/E
PI Industries	13.6	34
Rallis India	7.9	29
UPL Ltd.	21.5	16

*Source: RHP, Sharda Cropchem

Recommendation

We recommend investors to SUBSCRIBE for the IPO.

CONTACT | For IPO: 0731-4217261
or Your Nearest Arihant Investment Center

CLICK | www.arihantcapital.com

EMAIL | For research queries:
research@arihantcapital.com
For General and other queries:
contactus@arihantcapital.com

DISCLAIMER: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

ARIHANT capital markets ltd

3rd Floor Krishna Bhavan, 67 Nehru Road, Vile Parle (E), Mumbai - 400057.

Tel: +91.22.42254800, Fax: +91.22.42254880

Rgst Office: E-5 Ratlam Kothi, Indore – 452001.

Visit us at: www.arihantcapital.com