

Sharda Cropchem Ltd. (SCL) : "Subscribe for listing gains "

4th September, 2014

Sharda group was originally promoted by Mr. RV Bubna, a chemical engineer from IIT, Bombay with 45 years of experience in the chemical industry. Today, SCL is a crop protection chemical company engaged in the marketing and distribution of a wide range of formulations and generic active ingredients globally. SCL is also involved in order based procurement and supply of belts, general chemicals, dye and dye intermediates. The Company has an asset light business model whereby it focuses on identifying generic molecules, preparing dossiers, seeking registrations, marketing and distributing formulations in fungicide, herbicide and insecticide segments through third party distributors and its own sales force. As of date SCL has over 440 third-party distributors and over 100 personnel in its own sales force. It has also recently entered into the biocide segment and has acquired several registrations from the existing registration holders, primarily, in Europe. As of August 05, 2014, it has over 180 Good Laboratory Practices ("GLP") certified dossiers and as of July 15, 2014, it owns over 1,040 registrations for formulations and over 155 registrations for generic active ingredients across Europe, NAFTA, Latin America and Rest of the world contributing 61.34%, 9.25%, 19.97% and 9.45% respectively to its unconsolidated total revenue from operations in agrochemicals.

SCL's topline and bottomline have witnessed a CAGR of 22.1% and 38.6%, respectively over the period FY10-14. In FY14, the company registered a consolidated topline of Rs. 782 crore with ~82.5% being contributed by the agro chemical business (Rs. 645 crore), ~15.8% being contributed by the conveyor belt business (Rs. 123 crore) and ~1.7% being contributed by other business (dyes). SCL holds intangible assets amounting to Rs. 197 crore as of FY14. It comprises Rs. 62 crore of intangible assets (registrations achieved) and Rs. 134 crore of intangible assets under development (registrations under way) The net working capital days of the Company has also improved over the last four years and at the end of FY2014 the net working capital days stood at 99 days as compared with 143 days in FY2010 thereby reducing the strain on cashflows. The Company enjoys strong return on capital employed (RoCE) of 25% and return on equity (RoE) of close to 20%.

The object of the issue is to get the benefit of listing on the bourses and to carry out the sale of the stake of the shareholders (Henderson Equity Partners (HEP) Mauritius, Sharda R. Bubna and Ramprakash V. Bubna).

Peer Comparison

Company	CMP (Rs.)	FV (Rs.)	OPM (%)	PAT Margin (%)	RONW (%)	BV (Rs.)	EPS (Rs.)	P/E (x)	P/BV (x)
Sharda Cropchem Ltd.	145-156	Rs. 10	21.9	13.12	19.3	61	11.85	13	2.5
PI Industries	440	Re. 1	18.9	11.67	27.1	51	13.84	32	8.6
Rallis India	237	Re. 1	14.9	8.66	21.1	37	7.81	30	6.4
UPL Ltd.	348	Rs. 2	19.7	8.71	18.1	122	21.59	16	2.8

At the upper band of the issue price, SCL is valued at 13x – FY14 Post issue EPS/share of Rs. 11.85/- at upper end of the price band. With due consideration to factors like a) asset light business model (no manufacturing undertaken and outsourcing from China for trading), b) core competency in registration with strong geographic spread & portfolio, c) strong distribution network and sourcing capabilities, d) healthy revenue and PAT CAGR of 22.1% and 38.6% respectively over the period FY11-FY14, e) positive operating cashflow with strong balance sheet, f) debt free company with strong return ratios, g) impressive cheap valuations against Indian listed peers who are engaged in both manufacturing as well as trading of agro chemicals, makes it an attractive investment opportunity, we recommend "SUBSCRIBE" to the issue for listing gains.

Issue date	Sep. 05 – 9 , 2014			
Issue size	Rs. 3,530 mn at upper end of the price band			
Face Value	Rs.10			
Price Band	Rs. 145 - 156 per share			
Lot size	90 equity Shares and in multiples thereof			
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%			
Type of issue	23 mn equity shares - Offer for sale by promoters and HEP Mauritius (PE investor)			
Equity shares post issue	90.2 mn equity shares			
Post issue market capitalization	Rs. 14,071 mn at upper price band			
Book Running Lead Managers	Edelweiss Fin .Services Ltd. IDFC Securities Ltd.			
IPO Grading	Grade 3/5 by CRISIL indicating average fundamentals			
Registrar to the issue	Karvy Computershare Pvt. Ltd.			
Shareholding Pattern (%)	Pre Issue	Post Issue		
Promoters	84.1	75		
Corporate bodies	15.9	-		
Public	-	25		
Total	100	100		
Y/e 31 Mar (Rs. mn)	FY14	FY13	FY12	FY11
Total income	7,819	7,777	6,135	4,418
EBITDA	1,458	1,400	1,225	806
EBITDA Margin (%)	18.6	18.0	20.0	18.2
Reported PAT	1,069	843	685	414
PAT margin (%)	13.7	10.8	11.2	9.4
Post issue EPS (Rs.)	11.85	9.34	7.59	23
P/E (x) at upper end of price band	13	17	21	7
Equity Capital	902	902	902	180
Networth	5,557	4,668	3,929	3,196
RoNW (%)	19	18	17	13

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