Equity Research Report Agrochemicals.

# Dhanuka Agritech Ltd

# Equity **Research**

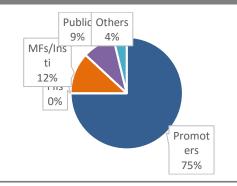
### Date: August 28, 2018

**Analyst Recommendation: BUY** 

BSE Code: 507717	NSE:	DHANUKA	Reuters Code:	DHNP.NS	Bloomberg Code:	DAGRI:IN
CMP: 1 Year Target -	Rs 537 Rs 638	Stron the ir India	<b>'s Rationale</b> <b>g distribution network:</b> Dateriors of rural India. The of with over 7,500 direct of ucts enjoy the reputation of	company has the dealers, selling to	second largest rural dist o approx. 80,000 retail	ribution network in ers and hence, its
Face Value Market Cap (Rscr)	2.0 2,636	has a regio comp	a robust ERP in place to m nal warehouses to ensure pany plans to further stren ers and retailers by 5% even	nanage supply ch speedy and time gthen its distribu	hain and logistics. It has ely delivery of products.	four zonal and 48 Going forward, the
52 week high/low Avg. Daily Volume (6m)	804/511 0.2 cr	techr Europ	g technical tie-ups with I nical collaboration with seven bean companies) to mark	eral leading globa ket their produc	al innovators (4 Americar cts in India. The com	n, 5 Japanese and 2 pany's widespread
Shares O/S (Cr) Book Value per Share (Rs)	4.9	make fast-g	bution network, strong con es it an ideal choice for glob growing Indian agrochemica rands and more than 200	oal innovators (fo als market. As a re	r technical tie-ups) lookii esult, Dhanuka has a stro	ng to foray into the ng bouquet of over
Sensex Nifty	38,897 11,738	advar innov	cules (accounting for two-t nced technologies as the vation. This in-turn has he rating superior return on ca	strength of glo elped the compa	obal innovators lies in	R&D and product
1 yr. Price Chart of Stoc	k and BSE	> New consi	product launches and far stently launched new produ- ng market share apart fro	vorable monsoo ucts over the last	few years which has help	ped the company in
DHANUKA	–Sensex (Rebased)		onment, Dhanuka clocked r hes. During this period,		'	/ /

800 300 Apr-18 Aug-18 Dec-17 Feb-18 Oct-17 Aug-17 Jun-18

Shareholding pattern as on 30<sup>th</sup> June 2018



momentum, in FY19, the company plans to launch five new products in the fungicide and herbicide category. Further, it is targeting to launch one 9(3) and two 9(4) high margin products along with 3-4 speciality products every year.

Valuation: We believe Dhanuka's strong product portfolio of over 80 brands with two third sales coming from Specialty molecules coupled with widespread distribution network and increased new launches makes this stock an attractive bet. The company has an asset light business model with robust operating cash flows, negligible debt levels and healthy return ratios. Further, increased budgetary allocation by the government towards agriculture sector, hike in MSP of crops and good monsoon augurs well for the demand outlook. Hence, we recommend 'BUY' rating on the stock with a target price of Rs638 based on 20.5x FY20E EPS.

	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	873	963	1,088	1,218
EBITDA (Rs. Cr)	169	166	188	218
Adj. profit (Rs.Cr)	119	126	137	153
Adj. EPS (Rs.)	24.3	25.7	27.9	31.1
P/E (x)	22.1	20.9	19.3	17.3
P/BV (x)	5.1	4.2	3.6	3.1
EV/EBITDA (x)	15.6	15.8	13.9	11.9
ROE (%)	23.9	21.9	20.0	19.3
ROCE (%)	33.3	28.8	27.5	27.5

## Wide-spread distribution network

DAL enjoys a strong pan-India distribution network spread in the interiors of rural India. The company has the second largest rural distribution network in India with over 7,500 direct dealers, selling to approx. 80,000 retailers and hence, its products enjoy the reputation of being house hold name for Indian farmers. The company has a robust ERP in place to manage supply chain and logistics. It has four zonal and 48 regional warehouses to ensure speedy and timely delivery of products. Going forward, the company plans to further strengthen its distribution network by increasing the number of dealers and retailers by 5% every year. This coupled with strong marketing & engagement initiatives such as farmer awareness & training programmes provide company a unique competitive edge over its peers.

Strong technical tie-ups with MNCs boosts product pipeline

Dhanuka has long-standing technical collaboration with several leading global innovators (4 American, 5 Japanese and 2 European companies) to market their products in India. The company's widespread distribution network, strong connect with farmers and better understanding of the market makes it an ideal choice for global innovators (for technical tie-ups) looking to foray into the fast-growing Indian agrochemicals market. As a result, Dhanuka has a strong bouquet of over 80 brands and more than 200 registrations & 500 SKUs including high margin speciality molecules (accounting for two-third of sales). It has also provided DAL access to newer and advanced technologies as the strength of global innovators lies in R&D and product innovation. This in-turn has helped the company to build an asset light business model generating superior return on capital employed. We believe DAL's technical tie ups with global innovators will strengthen its product portfolio and in-turn drive growth.



Strong product and brand portfolio

Continuous focus on strategic collaborations with international companies for technologically advanced and more effective products has helped Dhanuka to create a portfolio of over 80 brands with a mix of herbicides, insecticides, fungicides and plant growth regulators, among others. The company has a highly diverse product range with more than 200 registrations and 500 active SKUs. This allows company to address the needs of farmers across different crops, terrains and climates making it a one-stop solutions provider.

## New product launches and favourable monsoon to drive revenue growth

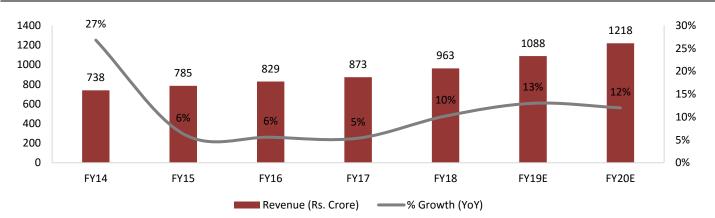
Dhanuka has consistently launched new products over the last few years which has helped the company in gaining market share apart from broadening its product offerings. Despite tough macro environment, Dhanuka clocked revenue CAGR of 7% over FY14-18 mainly led by new product launches. During this period, the company launched 24 new products. Continuing the momentum, in FY19, the company plans to launch five new products in the fungicide and herbicide category. Further, it is targeting to launch one 9(3) and two 9(4) high margin products along with 3-4 speciality products every year. We believe, the company's focus on improving product mix, innovative marketing strategies, new product launches, expanding distribution network and favorable monsoon will drive revenue CAGR of 12% over FY18-20E.



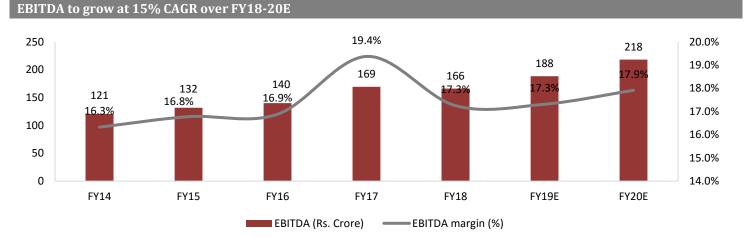
## EBITDA margin to stay robust

EBITDA margin has expanded by 92bps over FY14-18 on the back of improved product mix, launch of speciality and exclusive products, which generally enjoys higher EBITDA margin. While we expect EBITDA margin to remain stable in FY19E due to rising raw material prices and a weaker rupee which could drive up input cost, it is expected to expand by 60bps YoY in FY20E led by strong product pipeline (including speciality launches) and better operating leverage.

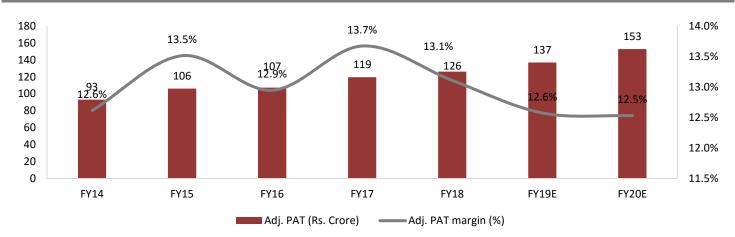
## Revenue to grow at 12% CAGR over FY18-20E



Source: Company, In-house research



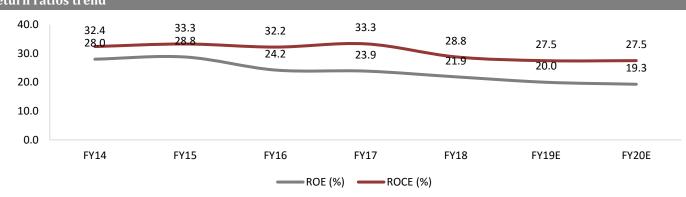
PAT to grow at 10% CAGR over FY18-20E



Source: Company, In-house research

# Equity Research

**Return ratios trend** 



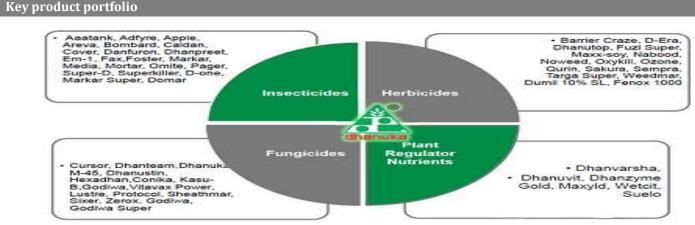
Source: Company, In-house research

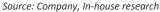
## **Outlook and Valuation**

We believe Dhanuka's strong product portfolio of over 80 brands with two third sales coming from Specialty molecules coupled with widespread distribution network and increased new launches makes this stock an attractive bet. The company has an asset light business model with robust operating cash flows, negligible debt levels and healthy return ratios. Further, increased budgetary allocation by the government towards agriculture sector, hike in MSP of crops and good monsoon augurs well for the demand outlook. Hence, we recommend 'BUY' rating on the stock with a target price of Rs638 based on 20.5x FY20E EPS.

## Dhanuka Agritech Ltd: Business overview

Dhanuka Agritech is the second largest Indian agrochemicals formulation company, which is engaged in manufacturing of a wide range of agro-chemicals like herbicides, insecticides, fungicides, miticides and plant growth regulators of various forms. It is part of crop care industry that provides agri inputs i.e. agro chemicals, which work as plant nutrients and protectants from insects, pests, diseases and weeds that affect the crop yield. It enjoys a pan-India presence through its marketing offices across all major states in India, with a network of over 7,500 distributors selling to approx. 80,000 retailers across India and reaching out to more than 10 million farmers. In terms of market penetration, Dhanuka has over 200 registrations along with 500 active SKUs, 30 branch offices and 48 warehouses across India. The company has three manufacturing units located at Sanand (Gujarat), Udhampur (Jammu and Kashmir) and Keshwana (Rajasthan). The manufacturing facility in Sanand is the second largest manufacture of granules in India. DAL is also engaged in the seeds business, though its contribution to the total turnover has remained modest.





### **Key Risks**

- Increasing competition
- Erratic weather and below normal monsoon
- Exchange rate fluctuation
- Geopolitical challenges

# **Balance sheet (Consolidated)**

(Rs crore)	FY17	FY18	FY19E	FY20E
Liabilities				
Paid up capital	10	10	10	10
Reserves and Surplus	510	624	725	836
Net worth	520	633	734	846
Minority interest	-	-	-	-
Total Debt	8	5	5	5
Other non- current liabilities	27	25	25	25
Total Liabilities	555	663	765	876
Assets				
Total fixed assets	138	131	123	115
Capital WIP	0	0	0	0
Goodwill	-	-	-	-
Investments	64	182	242	302
Net Current assets	337	339	388	448
Deferred tax assets (Net)	(12)	(13)	(13)	(13)
Other non- current assets	27	25	25	25
Total Assets	555	663	765	876

# Profit & Loss Account (Consolidated)

(Rs crore)	FY17	FY18	FY19E	FY20E
Total operating Income	873	963	1,088	1,218
Raw Material cost	499	562	683	758
Employee cost	98	106	120	135
Other operating expenses	108	128	96	108
EBITDA	169	166	188	218
Depreciation	15	14	15	16
EBIT	154	152	173	203
Interest cost	1	1	1	1
Other Income	15	16	16	16
Profit before tax	168	167	189	218
Tax	49	41	52	65
Profit after tax	119	126	137	153
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Adjusted PAT	119	126	137	153
E/o income / (Expense)	-	-		-
<b>Reported PAT</b>	119	126	137	153

# Equity Research

# Cash Flow (Consolidated)

Y.E March (Rs crore)	FY17	FY18E	FY19E	FY20E
Pretax profit	168	167	189	218
Depreciation	15	14	15	16
Chg in Working Capital	(70)	13	(30)	(44)
Others	(5)	(16)	(15)	(15)
Tax paid	(46)	(40)	(52)	(65)
Cash flow from operating activities	63	139	107	108
Capital expenditure	(20)	(7)	(7)	(7)
Chg in investments	29	(112)	(60)	(60)
Other investing cashflow	11	7	16	16
Cash flow from investing activities	20	(112)	(51)	(51)
Equity raised/(repaid)	(80)	-	-	-
Debt raised/(repaid)	0	(3)	-	-
Dividend paid	-	(15)	(35)	(41)
Other financing activities	(1)	(1)	(1)	(1)
Cash flow from financing activities	(81)	(20)	(36)	(42)
Net chg in cash	2	7	20	15

# Key Ratios & Valuations (Consolidated)

Y.E. March	FY17	FY18	FY19E	FY20E
Growth (%)				
Net Sales	5.2	10.6	13.0	12.0
EBITDA	20.9	-1.9	13.4	15.9
Net profit	11.3	5.7	8.4	11.6
Margin (%)				
EBITDA	19.4	17.3	17.3	17.9
NPM	13.7	13.1	12.6	12.5
Return Ratios (%)				
RoE	23.9	21.9	20.0	19.3
RoCE	33.3	28.8	27.5	27.5
Per share data (Rs.)				
EPS	24.3	25.7	27.9	31.1
DPS	0.6	5.5	6.0	7.0
Valuation(x)				
P/E	22.1	20.9	19.3	17.3
EV/EBITDA	16.0	16.2	14.2	11.9
EV/Net Sales	3.0	2.7	2.4	2.1
P/B	5.1	4.2	3.6	3.1
Turnover Ratios (x)				
Net Sales/GFA	4.7	4.9	5.4	5.8
Sales/Total Assets	1.3	1.3	1.2	1.2

# Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%.

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* DAL is a small-cap company.



Member: BSE, NSE, MCX, MCX-SX, CDSL

**Reg. office:** PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai - 400001, Maharashtra, India

Corp Office: 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai -400001, Maharashtra India

Tel: 91-22-67378001 Fax: 91-22-22646410

Dealing: 91-22-67378011 Institutional Dealing: 91-22-6737833

Email: research@mjpdirect.com Website: www.mjpdirect.com

Registration Number: NSE- INB/INF230989239; BSE- INB010989233

### **Disclaimer:**

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

### **Dion's Disclosure and Disclaimer:**

I, Abhishek Kumar Das, employee of Dion Global Solutions Limited (Dion) is engaged in preparation of this report and hereby certify that all the views expressed in this research report (report) reflect my personal views about any or all of the subject issuer or securities.

#### Disclaimer

This report has been prepared by Dion and the report & its contents are the exclusive property of the Dion and the client cannot tamper with the report or its contents in any manner and the said report, shall in no case, be further distributed to any third party for commercial use, with or without consideration.

Recipient shall not further distribute the report to a third party for a commercial consideration as this report is being furnished to the recipient solely for the purpose of information.

Dion has taken steps to ensure that facts in this report are based on reliable information but cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this report. It is hereby confirmed that wherever Dion has employed a rating system in this report, the rating system has been clearly defined including the time horizon and benchmarks on which the rating is based.

Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this report is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. Dion has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. This report is not to be relied upon in substitution for the exercise of independent judgment. Opinions or estimates expressed are current opinions as of the original publication date appearing on this report and the information, including the opinions and estimates contained herein, are subject to change without notice. Dion is under no duty to update this report from time to time.

Dion or its associates including employees engaged in preparation of this report and its directors do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of securities, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

The investments or services contained or referred to in this report may not be suitable for all equally and it is recommended that an independent investment advisor be consulted. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to individual circumstances or otherwise constitutes a personal recommendation of Dion.

#### **REGULATORY DISCLOSURES:**

Dion is engaged in the business of developing software solutions for the global financial services industry across the entire transaction lifecycle and inter-alia provides research and information services essential for business intelligence to global companies and financial institutions. Dion is listed on BSE Limited (BSE) and is also registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH100002771. Dion's activities were neither suspended nor has it defaulted with requirements under the Listing Agreement and / or SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with the BSE in the last five years. Dion has not been debarred from doing business by BSE / SEBI or any other authority.

In the context of the SEBI Regulations, we affirm that we are a SEBI registered Research Analyst and in the course of our business, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership

Dion confirms that:

(i) Dion/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein at the time of publication of this report.

(ii) It/its associates have no actual / beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report.

Further, the Research Analyst confirms that:

(i) He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company at the time of publication of this report.

(ii) He, his associates and his relatives have no actual/beneficial ownership of 1% or more securities of the subject company (ies) covered herein at the end of the month immediately preceding the date of publication of this report

### 2. Disclosures regarding Compensation:

During the past 12 months, Dion or its Associates:

(a) Have not managed or co-managed public offering of securities for the subject company (b) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (c) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject. (d) Have not received any compensation or other benefits from the subject company or third party in connection with this report

3. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abhishek Kumar Das employed as Research Analyst by Dion and engaged in the preparation of this report have not served as an officer, director or employee of the subject company

4. Disclosure regarding Market Making activity:

Neither Dion /its Research Analysts have engaged in market making activities for the subject company.

Copyright in this report vests exclusively with Dion.