MJP

Equity Research

Equity Research Report Agrochemicals.

Date: August 28, 2018

Dhanuka Agritech Ltd

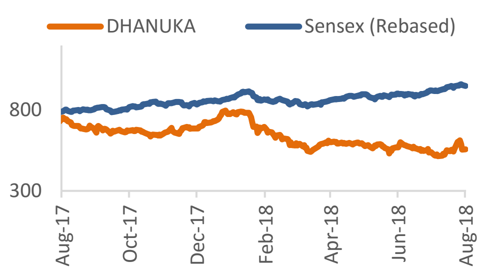
Analyst Recommendation: BUY

BSE Code:	507717	NSE:	DHANUKA	Reuters Code:	DHNP.NS	Bloomberg Code:	DAGRI:IN

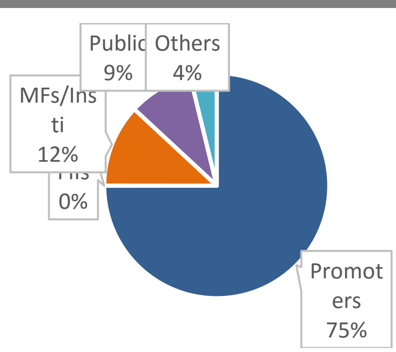
CMP:	**Rs 537**
1 Year Target -	**Rs 638**

Face Value	2.0
Market Cap (Rscr)	2,636
52 week high/low	804/511
Avg. Daily Volume (6m)	0.2 cr
Shares O/S (Cr)	4.9
Book Value per Share (Rs)	129.1
Sensex	38,897
Nifty	11,738

1 yr. Price Chart of Stock and BSE



Shareholding pattern as on 30th June 2018



Investor's Rationale

- **Strong 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.

- **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.

- **New product launches and favorable 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.

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.

Strategic Partnerships

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.

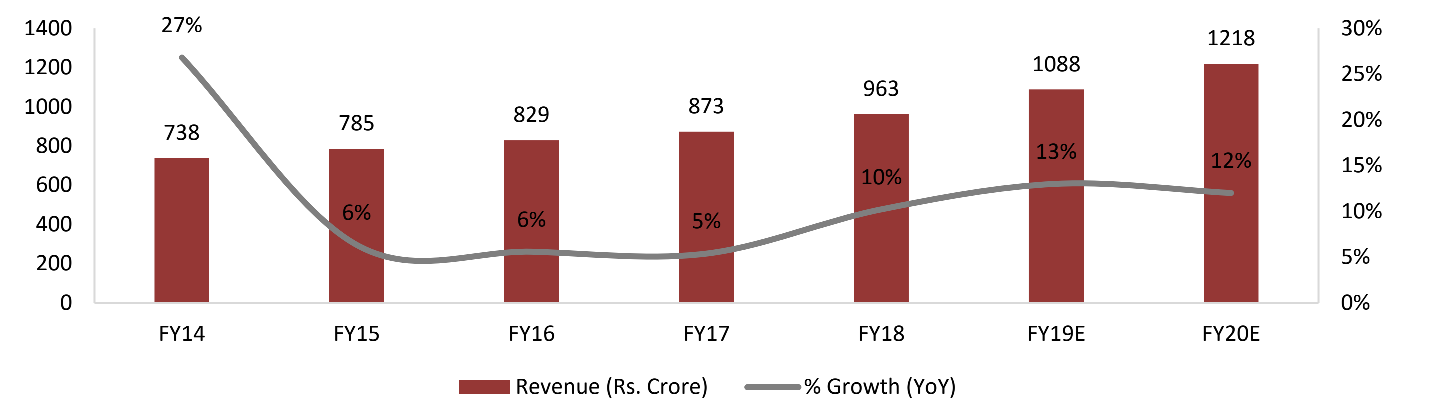
New product launches and favourable monsoon to drive revenue growth

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

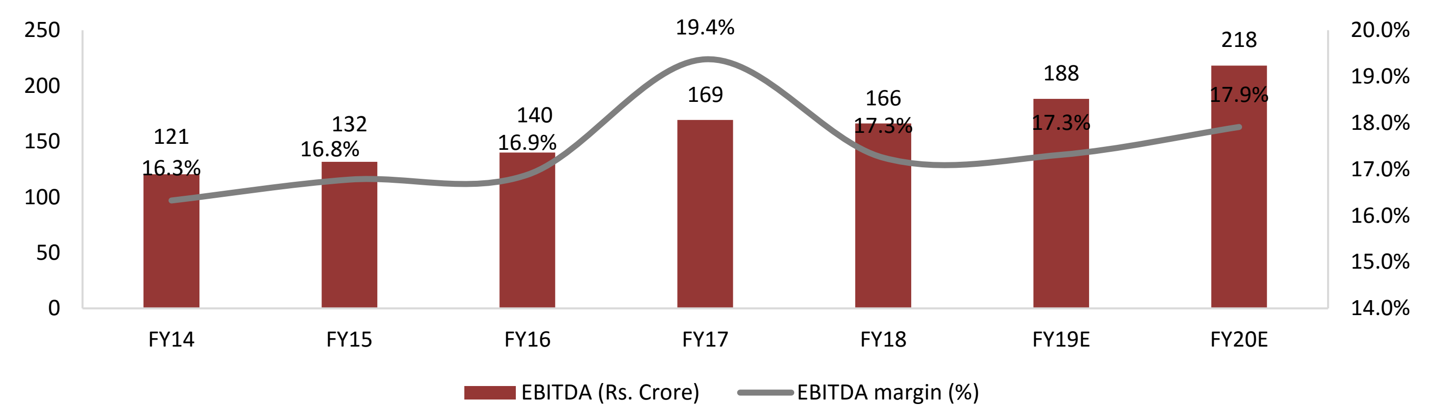
EBITDA margin has expanded by 92bps over FY14-18 on the back of improved product mix, launch of speciality and exclusive products, which generally enjoys higher EBITDA margin. While we expect EBITDA margin to remain stable in FY19E due to rising raw material prices and a weaker rupee which could drive 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

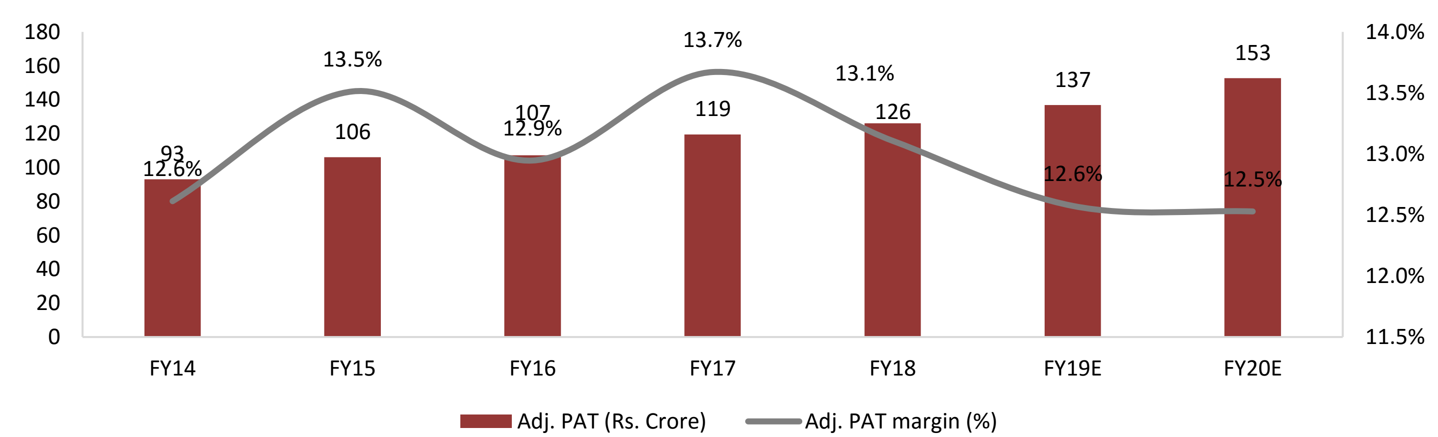


Source: Company, In-house research

EBITDA to grow at 15% CAGR over FY18-20E

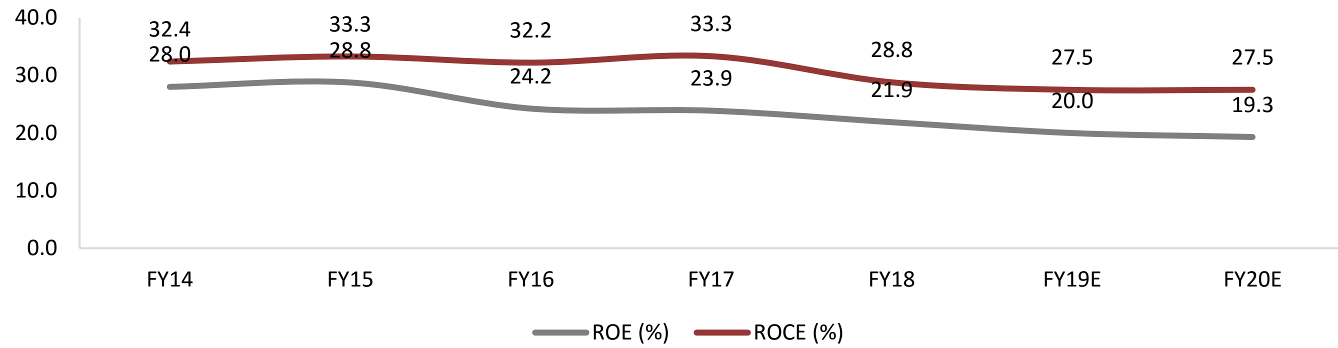


PAT to grow at 10% CAGR over FY18-20E



Source: Company, In-house research

Return ratios trend



Source: Company, In-house research

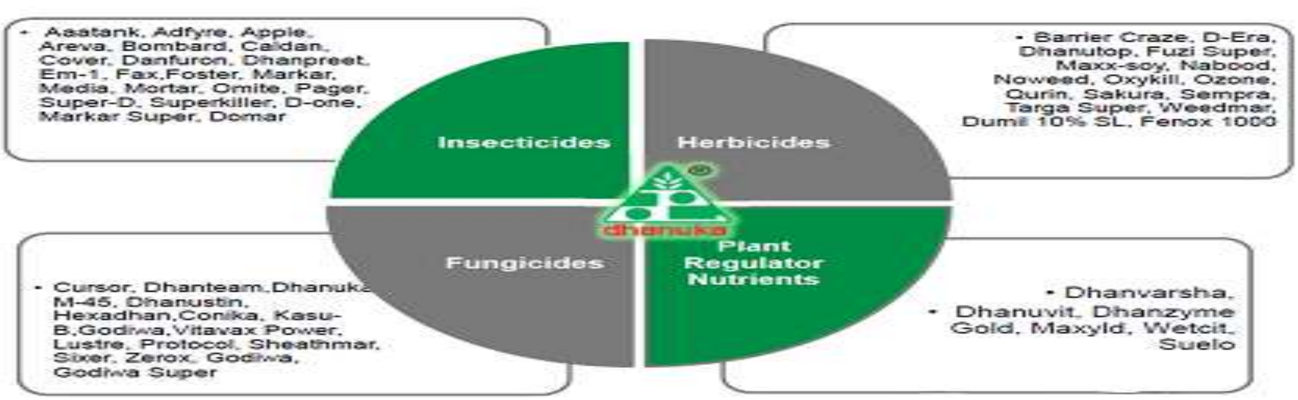
Outlook and Valuation

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 product portfolio



Source: Company, In-house research

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)	-	-		-
Reported PAT	**119**	**126**	**137**	**153**

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

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

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