

# DHANUKA AGRITECH

Innovation, the mantra for growth

India Equity Research | Miscellaneous

We recently met Dhanuka Agritech's (DAL) management to get a sense of the domestic agrochemical industry and the company's future business prospects. Management highlighted that deficient monsoon, correction in agro commodity prices and higher agrochemical channel inventory have impacted both industry and company growth during FY15. The recent unseasonal rains have further worsened the situation. However, DAL continues to be upbeat on its long-term growth prospects, riding its innovative products' pipeline. The company is confident of growing revenues at 20-25% CAGR over next 2-3 years on 2-3 innovative product launches per annum considering normal weather condition. It also expects to scale up EBITDA margin to 20% from current 17% over the period. We believe a vibrant distribution network, tie ups with innovators, launch of new products and Rajasthan capex will propel DAL's growth going ahead. We maintain 'BUY'.

## Innovative product launches to accelerate growth

DAL has launched two 9(3) products in FY15 and expects to launch 2-3 products per annum over next 2-3 years. The company launched herbicide 'Sempra' in Feb'15 and is confident it could be a blockbuster product over next 3 years. In-licensed from Nissan Chemicals, Sempra is expected to improve sugarcane crop yields by 8-10%.

## Key highlights

DAL already has tie ups with four US and Japanese players each. Recently, the company tied up with another Japanese player, and expects to seal another one soon. The company is in the midst of setting up a formulation plant in Rajasthan at capex of INR0.50bn, and the plant is expected to go on-stream by Q1FY16.

## Outlook and valuations: In fast lane; maintain 'BUY'

We estimate DAL to post sales and PAT CAGR of 20.0% and 27.4% (FY08-14 CAGR of 19.9% and 32.9%), respectively, over FY15-17E led by new product launches, strong distribution network and capacity expansion in Rajasthan. The company has robust operating cash flow, minimal debt and healthy RoE/RoCE (>30%) with good dividend payout (>20%). We maintain 'BUY' with TP of INR600 based on 18x FY17E EPS. The stock is trading at 25x FY16E and 20x FY17E EPS, respectively.

### Financials

Year to March	FY13	FY14	FY15E	FY16E
Net revenues (INR mn)	5,823	7,384	7,975	9,570
Revenue growth (%)	10.0	26.8	8.0	20.0
EBITDA (INR mn)	819	1,205	1,372	1,742
Core profit (INR mn)	644	931	1,029	1,338
EPS (INR)	12.9	18.6	20.6	26.7
EPS growth (%)	12.8	44.5	10.6	29.9
P/E (x)	52.0	36.0	32.5	25.0
ROAE (%)	27.0	31.3	27.9	29.5

### EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Outperformer

### MARKET DATA (R: DHNP.BO, B: DAGRI IN)

CMP	: INR 670
Target Price	: INR 600
52-week range (INR)	: 705 / 231
Share in issue (mn)	: 50.0
M cap (INR bn/USD mn)	: 34 / 534
Avg. Daily Vol. BSE/NSE ('000)	: 68.8

### SHARE HOLDING PATTERN (%)

	Current	Q2FY15	Q1FY15
Promoters *	75.0	75.0	75.0
MF's, FI's & BKs	4.7	4.4	3.6
FII's	5.7	5.6	5.8
Others	14.7	15.0	15.7
* Promoters pledged shares (% of share in issue)	:		NIL

### PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	1.4	6.9	5.4
3 months	6.1	0.2	(5.9)
12 months	69.9	198.9	129.0

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### Key highlights of meeting

- **Market outlook:** Management highlighted deficient monsoon, correction in agro commodity prices and higher channel inventory have impacted the agrochemical industry and company's growth during FY15. The recent unseasonal rains has further worsened the situation. However, DAL has normal channel inventory. Further, this has resulted in a delay in recovery of receivables. Nonetheless, the company is quite optimistic about future outlook of the agrochemical industry.
- **Guidance:** Notwithstanding the challenging environment in FY15, DAL continues to maintain its YoY sales growth guidance of 7-8%. The company is confident to grow revenues at 20-25% CAGR over next 2-3 years on 2-3 innovative product launches per annum taking into consideration normal weather conditions. Further, EBITDA margin is expected to scale to 20% from current 17% levels over the same period.
- **Impact of correction in crude oil prices:** Management stated raw material prices are in correction mode post the steep slide in global crude oil prices. DAL has started passing on benefits of the same to farmers, which is likely to support volumes going forward. The company expects to improve gross margins from Q1FY16.
- **Distribution network:** DAL has distribution network of over 8,000 direct dealers and 75,000 retailers. The company proposes to bolster the same by 5% per annum, going forward.
- **Product launches u/s 9(3):** DAL has launched two 9(3) products in FY15 and expects to launch 2-3 products p.a. over next 2-3 years.

The company launched herbicide '*Sempra*' in Feb 2015 and is confident it could be a blockbuster product over next three years. It has in-licensed this product from Nissan Chemicals and the product is expected to improve sugarcane crop yields by 8-10%.

DAL launched the pesticide *Mortar* in August 2015. A resistance breaker catering to paddy and vegetable crops, *Mortar* is a novel product formulated in-house.

The company received registration of *Sakura* in May 2014 and expects to launch it soon. *Sakura* is a weedicide for soyabean and will come in-license from Nissan Chemicals.

DAL also expects to launch 2 exclusive 9(3) products in FY16—herbicide (for soyabean crops) and insecticide (for rice and horticulture crops).

- **Product '*Lustre*':** DAL launched fungicide '*Lustre*' in FY13 and management indicated it has doubled sales YoY in FY15. The product volumes are expected to double in FY16.
- **Capex:** The Keshwana plant is expected to come on stream in Q1FY16. DAL has incurred INR0.30bn on the project this far.

## Company Description

DAL manufactures a wide range of agrochemicals covering herbicides/weedicides, insecticides, fungicides, plant growth regulators in various forms—liquid, dust, powder and granules—and reaches out to more than 10mn farmers. The company has a pan-India presence via marketing offices in all major states in the country, with a network of more than 8,000 distributors/ dealers selling to over 75,000 retailers. It has technical tie ups with three US and four Japanese companies. It has three manufacturing units located at Gurgaon (Haryana), Sanand (Gujarat) and Udhampur (J&K).

## Investment Theme

DAL, an established agrochemical player in India, boasts of a unique asset-light business model underpinned by core focus on marketing and distribution network, giving it an edge over competitors. The unique business model renders DAL the preferred partner of global innovators to venture into the rapidly surging Indian agrochemicals market. Moreover, a promising launch pipeline of six exclusive products over the next three years is bound to propel the company's growth into higher gear. Of these, three products will be in herbicides, the fastest growing category in domestic agrochemicals industry. Thus, a vibrant distribution network, tie ups with innovators and launch of new products place DAL in a sweet spot to capture emerging opportunities in domestic agrochemicals market.

We estimate DAL to post sales and PAT CAGR of 15.9% and 21.5% (FY08-14 CAGR of 19.9% and 32.9%), respectively, over FY14-17E bolstered by new product launches further supported by strong distribution network and capacity expansion in Rajasthan. The company has robust operating cash flow, minimal debt and healthy RoE/RoCE (>30%) with good dividend payout (>20%).

## Key Risks

**Weather:** The crop protection industry faces risk of seasonal weather. Weather can trigger pest infestations as well as affect demand for crop-protection products. In the domestic market, sales are highly seasonal, primarily during the monsoon. Any adverse weather changes will negatively affect DAL's sales.

**Genetically modified (GM) crops:** The use of crop protection products is significantly less for GM crops. Hence, growth and acceptance of GM crops by consumers may adversely affect DAL's business.

**Dependency on global innovators for technical sourcing:** DAL is dependent on global innovators for the supply of technical/active ingredients in its key products. Technicals' supply disruption could adversely impact the company's earnings.

**Adverse currency movement:** 30% of raw material costs are imported for DAL. Hence, any sharp INR movement could impact the company's earnings adversely. However, we believe it can pass on the impact to customers with a lag.

**Regulatory risks:** DAL has to register products in India before launching. Hence, any negative regulatory changes could adversely impact the industry as well as DAL.

## Financial Statements

## Key Assumptions

Year to March	FY14	FY15E	FY16E	FY17E
<b>Macro</b>				
GDP(Y-o-Y %)	6.9	7.4	8.0	8.7
Inflation (Avg)	9.5	6.7	5.0	5.0
Repo rate (exit rate)	8.0	7.5	6.8	6.5
USD/INR (Avg)	60.5	61.0	62.0	62.0
<b>Company</b>				
Net sales growth	28.3	8.0	20.0	20.0
Excise duty as % of gross sales	10.9	10.9	10.9	10.9
<b>Cost assumptions</b>				
Raw material cost as % of net sales	63.2	62.9	62.5	62.5
Employee cost as % of net sales	7.9	8.1	7.5	7.1
Administrative exp as % of net sales	12.6	11.8	11.8	11.5
<b>Financial assumptions</b>				
Net borrowings (INR mn)	371	(138)	(746)	(1,433)
Tax rate as % of PBT	19.9	21.0	21.0	22.5
Capex (INR mn)	288	377	110	100
Debtor days	79	85	83	83
Inventory days	146	156	140	138
Payable days	36	37	35	35
Cash conversion cycle (days)	189	204	188	186
Depreciation as % of gross block	4.9	5.0	5.0	5.0
Interest rate as % of average gross debt	10.7	56.7	-	-

## Income statement

(INR mn)

Year to March	FY14	FY15	FY16E	FY17E
Net revenue	7,384	7,975	9,570	11,484
Materials costs	4,670	5,016	5,981	7,177
Gross profit	2,714	2,959	3,589	4,306
Employee costs	582	646	718	815
Other Expenses	927	941	1,129	1,321
Operating expenses	1,509	1,587	1,847	2,136
Total operating expenses	6,179	6,603	7,828	9,313
EBITDA	1,205	1,372	1,742	2,170
Depreciation and amortisation	48	54	84	89
EBIT	1,157	1,318	1,658	2,082
Other income	48	10	40	80
Interest expenses	42	25	5	5
Profit before tax	1,163	1,303	1,693	2,157
Provision for tax	232	274	356	485
Net profit	931	1,029	1,338	1,672
Profit After Tax	931	1,029	1,338	1,672
Profit after minority interest	931	1,029	1,338	1,672
Basic EPS (INR)	18.6	20.6	26.7	33.4
Shares outstanding (mn)	50	50	50	50
Diluted EPS (INR)	18.6	20.6	26.7	33.4
CEPS (INR)	19.6	21.7	28.4	35.2
Dividend per share (INR)	4.0	5.0	6.5	7.5
Dividend payout (%)	21.5	24.3	24.3	22.4

## Common size metrics

Year to March	FY14	FY15	FY16E	FY17E
Operating expenses	20.4	19.9	19.3	18.6
Gross margin	36.8	37.1	37.5	37.5
Interest expenditure	0.6	0.3	0.1	-
EBITDA margins	16.3	17.2	18.2	18.9
EBIT margins	15.7	16.5	17.3	18.1
Net profit margins	12.6	12.9	14.0	14.6

## Growth ratios (%)

Year to March	FY14	FY15	FY16E	FY17E
Revenues	26.8	8.0	20.0	20.0
EBITDA	47.1	13.8	27.0	24.6
Net profit	44.5	10.6	29.9	25.0
EPS	44.5	10.6	29.9	25.0

Balance sheet		(INR mn)			
As on 31st March	FY14	FY15	FY16E	FY17E	
Equity capital	100	100	100	100	
Reserves & surplus	3,225	3,962	4,919	6,151	
Shareholders funds	3,325	4,062	5,019	6,251	
Short term debt	394	44	-	-	
Total Borrowings	394	44	-	-	
Deferred tax liability (net)	36	36	36	36	
<b>Sources of funds</b>	<b>3,755</b>	<b>4,142</b>	<b>5,055</b>	<b>6,288</b>	
Gross block	973	1,073	1,673	1,773	
Accumulated depreciation	315	369	452	541	
Tangible assets	658	704	1,221	1,232	
Intangible assets	13	13	13	13	
CWIP (incl. intangible)	223	500	10	10	
Total net fixed assets	893	1,217	1,243	1,255	
Investments	10	10	10	10	
Non current investments	10	10	10	10	
Cash and equivalents	23	182	746	1,433	
Inventories	2,148	2,130	2,458	2,950	
Sundry debtors	1,709	1,857	2,176	2,611	
Loans and advances	382	382	382	382	
Other assets	3	3	3	3	
Total current assets (ex cash)	4,242	4,372	5,019	5,946	
Trade payable	482	522	623	747	
Other current liabilities and	931	1,117	1,340	1,608	
Total current liabilities &	1,413	1,639	1,963	2,355	
Net current assets (ex cash)	2,829	2,733	3,056	3,591	
<b>Uses of funds</b>	<b>3,755</b>	<b>4,142</b>	<b>5,055</b>	<b>6,288</b>	
Book value per share (INR)	66.5	81.2	100.3	125.0	

Free cash flow		(INR mn)			
Year to March	FY14	FY15	FY16E	FY17E	
Reported Profit	931	1,029	1,338	1,672	
Add: Depreciation	48	54	84	89	
Others	14	-	-	-	
Gross cash flow	993	1,083	1,421	1,760	
Less: Changes in WC	659	(96)	323	534	
Operating cash flow	334	1,179	1,098	1,226	
Less: Capex	288	377	110	100	
<b>Free cash flow</b>	<b>45</b>	<b>802</b>	<b>988</b>	<b>1,126</b>	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted Price to Earnings		EV/EBITDA (X)		Return on Average Equity	
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Dhanuka Agritech	33,513,065	32.6	25.1	24.3	18.8	27.9	29.5
Bayer Cropscience	1,998	32.3	25.5	22.0	17.4	20.2	21.2
PI Industries	1,405	36.8	28.6	24.5	19.9	30.1	30.1
Rallis India	752	31.1	23.4	17.6	13.7	20.8	23.8
UPL	2,904	15.9	12.6	8.3	6.9	20.1	21.5
Median	-	32.3	25.1	22.0	17.4	20.8	23.8
AVERAGE	-	23.5	18.4	15.8	12.6	23.8	25.2

Source: Edelweiss research

Cash flow metrics		FY14	FY15	FY16E	FY17E
Year to March					
Operating cash flow		334	1,179	1,098	1,226
Investing cash flow		(195)	(377)	(110)	(100)
Financing cash flow		(170)	(643)	(425)	(439)
Net cash flow		(32)	159	564	687
Capex		(289)	(377)	(110)	(100)
Dividends paid		(193)	(293)	(380)	(439)

Profitability and efficiency ratios

Year to March	FY14	FY15	FY16E	FY17E
Return on Average Equity (ROE)	31.3	27.9	29.5	29.7
Pre-tax Return on Capital	34.8	33.5	36.1	36.8
ROA	27.6	26.1	29.1	29.5
Inventory days	146	156	140	138
Debtors days	79	85	83	83
Payable days	36	37	35	35
Cash conversion cycle (days)	189	204	188	186
Current ratio (x)	3.0	2.8	2.9	3.1
Interest coverage ratio	27.6	52.7	331.6	416.4

Operating ratios

Year to March	FY14	FY15	FY16E	FY17E
Total asset turnover	2.2	2.0	2.1	2.0
Fixed asset turnover	11.4	11.5	9.8	9.3
Equity turnover	2.5	2.2	2.1	2.0

Valuation parameters

Year to March	FY14	FY15	FY16E	FY17E
Diluted EPS (INR)	18.6	20.6	26.7	33.4
Y-o-Y growth (%)	44.5	10.6	29.9	25.0
CEPS (INR)	19.6	21.7	28.4	35.2
Diluted Price to Earnings Ratio	36.0	32.6	25.1	20.0
Price to Book Ratio (P/B) (x)	10.1	8.3	6.7	5.4
EV/Sales (x)	4.6	4.2	3.4	2.8
EV/EBITDA (x)	28.1	24.3	18.8	14.8
Dividend yield (%)	0.6	0.7	1.0	1.1
Market Capitalisation	33,513	33,513	33,513	33,513

## Additional Data

### Directors Data

Ram Gopal Agarwal	Chairman	Mahendra Kumar Dhanuka	Managing Director
Arun Kumar Dhanuka	Executive Director	Rahul Dhanuka	Executive Director
Mridul Dhanuka	Executive Director	Sachin Bhartiya	Non Executive Director
Subhash Lakhotia	Non Executive Director	Indresh Narain	Non Executive Director
Shrikrishna Khetan	Non Executive Director	Subhash Chander Gupta	Non Executive Director
Priya Brat	Non Executive Director	Vinod Jain	Non Executive Director

Auditors - Dinesh Mehta & Co

*\*as per last available data*

### Holding Top -10

	Perc. Holding		Perc. Holding
AM Bros Fintrade Pvt Ltd	11.06	WisdomTree Asset Management	0.22
2020 Equity Investors	5.00	Dimensional Fund Advisor	0.02
HDFC Asset Management Co Ltd	4.70		
Morgan Stanley Dean Witter	0.60		
Liberty Sales Pvt Ltd	1.33		

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
16 Apr 2014	Hdfc Midcap Opportunity Fund	Buy	899200	231.00
16 Apr 2014	2020 Equity Investors Ltd	Sell	1000000	231.00

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
23 Feb 2015	HDFC Mutual Fund	Buy	175000.00
30 Sep 2014	M/s A M Bros Fintrade Private Ltd	Buy	205600.00
30 Sep 2014	Manish Dhanuka	Sell	205600.00
26 Sep 2014	M/s A M Bros Fintrade Private Limited	Buy	205600.00

*\*as per last available data*

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**Coverage group(s) of stocks by primary analyst(s): Miscellaneous**

Agro Tech Foods, Bayer Cropscience, CCL Products India, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Supreme Industries, Solar Industries, UPL

**Recent Research**

Date	Company	Title	Price (INR)	Recos
16-Feb-15	PI Industries	An all rounder; Result Update	560	Buy
11-Feb-15	Jain Irrigation Systems	Result disappoints; optimistic outlook; Result Update	66	Buy
06-Feb-15	Dhanuka Agritech	Tepid growth mirrors industry performance; Result Update	509	Buy

**Distribution of Ratings / Market Cap**

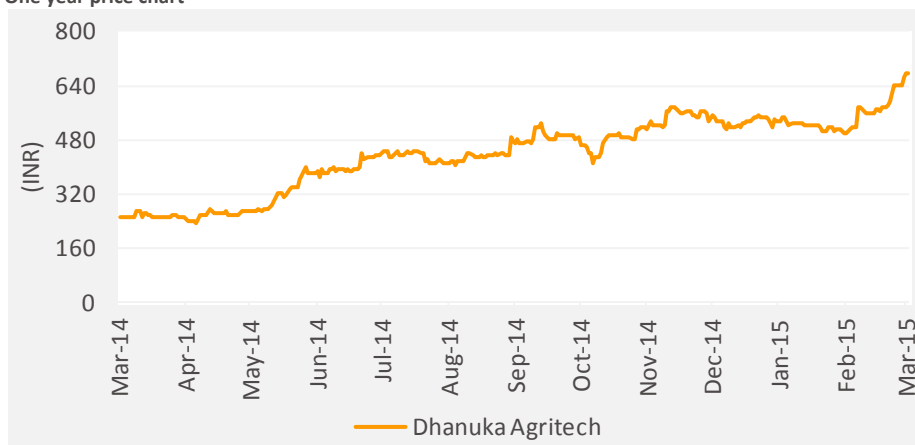
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	152	45	8	205
* stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	151	51	3	

**Rating Interpretation**

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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