India Research – Stock Broking

Agrochemicals

THEME REPORT

The three variables to look at analyzing the industry's growth are Agricultural Crop Yield, Commodity Price Increases and Volume growth of Crop Protection Chemicals. Out of these three variables, Crop Protection Chemicals volume increase can be considered to be dependent upon Agricultural Crop Yields and Commodity Price Increase. Thus an analysis of the time series evolution in these two independent variables and the dependent variable becomes important.

The field crops have not seen any significant increase in acreage area, further increasing the dependence on yield growth for production increase. Though Minimum Support Prices (MSPs) are not a complete proxy and thus the most reliable price indicators, yet, their long term evolution characteristics would provide us with an understanding of price-inflation in agri-commodities seen in India and the correlation with various agricultural inputs.

Volume increase in crop-protection chemicals has seen a CAGR of 6.14% in the last 7 years i.e. from FY07 to FY14, but, this growth can be misleading if not broken up into domestic consumption growth and export volume growth. Break-up of growth into these two segments show that the bulk of the growth has been achieved by export volume growth.

Correlation Conclusion: The domestic consumption increase can be considered to be more importantly dependent upon Crop Yield Growth (both field crops and horticulture) than increase in MSPs. This is also because MSPs increase has been more a function of non Crop-Chemical inflation. This also brings to the fore the importance of a strong product strategy and good monsoons.

Valuation and Outlook

Insecticides India's technicals led growth is expected to help the company improve its return ratios significantly above the FY14 levels. The expected growth in FY15E, FY16E and FY17E has not been fully factored into the present valuation (conservative PE levels). We initiate a coverage on INST with a **"BUY"** recommendation and a price target of Rs. 1073 for an investment horizon of 9-12 months providing a potential upside opportunity of 46%.

Excel Crop Care's performance is expected to be significantly impacted by the drop in Glyphosate prices. The same reason has led to a sharp 40% plus correction in the stock price. Sharp drop in Glyphosate prices are expected to get corrected in next few quarters. This along with upcoming capex in Gajod provide better growth visibility. We initiate a coverage on Excel Crop Care with a **"BUY"** recommendation and a target price of Rs. 1072 for an investment horizon of 9 to 12 months obtained by giving a PE multiple of 15 to FY16E EPS, giving an upside potential of 31%.

Dhanuka Agritech, as per our understanding, needs significant price hikes to go beyond a normalized growth level (top-line). The present macro situation, both domestically and globally (dropping agrochemicals price index in China for the last 2 quarters) precludes such a scenario and thus can put a cap on the growth possibilities. We initiate a coverage on Dhanuka Agritech with a **"SELL"** recommendation and a target price of Rs. 559.

Insecticides India (BUY)

CMP*	735
Target Price	1073
Upside (%)	46
Mkt Cap (Rs.mn/US$ mn)	9329 / 149
52-wk High/Low (Rs.)	932 / 209
3M Avg. daily volume (mn)	0.02

Excel Crop Care (BUY)

CMP*	816
Target Price	1072
Upside (%)	31
Mkt Cap (Rs.mn/US$ mn)	8978 / 143
52-wk High/Low (Rs.)	1350 / 435
3M Avg. daily volume (mn)	0.01

Dhanuka Agritech (SELL)

CMP*	665
Target Price	559
Upside (%)	(16)
Mkt Cap (Rs.mn/US$ mn)	33263 / 531
52-wk High/Low (Rs.)	710 / 231
3M Avg. daily volume (mn)	0.03

*Source: Bloomberg; *CMP as on Mar 13, 2015*

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Industry Structure at a glance

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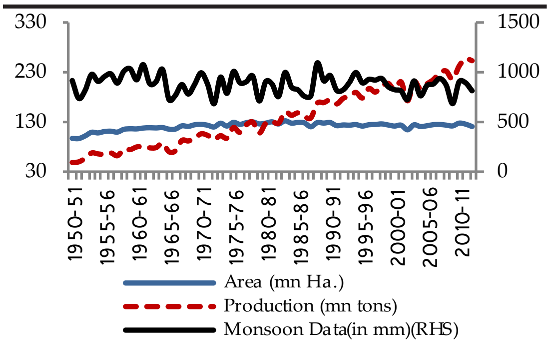
Industry Structure at a glance

Crop Yield Growth (and not MSP growth) affect the pesticide volume growth - MSPs more a function of non-Crop Chemical inflation

Exhibit 1: Net Sown Area under food grains (in mn Ha) vs. Production (in mn tons) and Monsoon data (in mm)



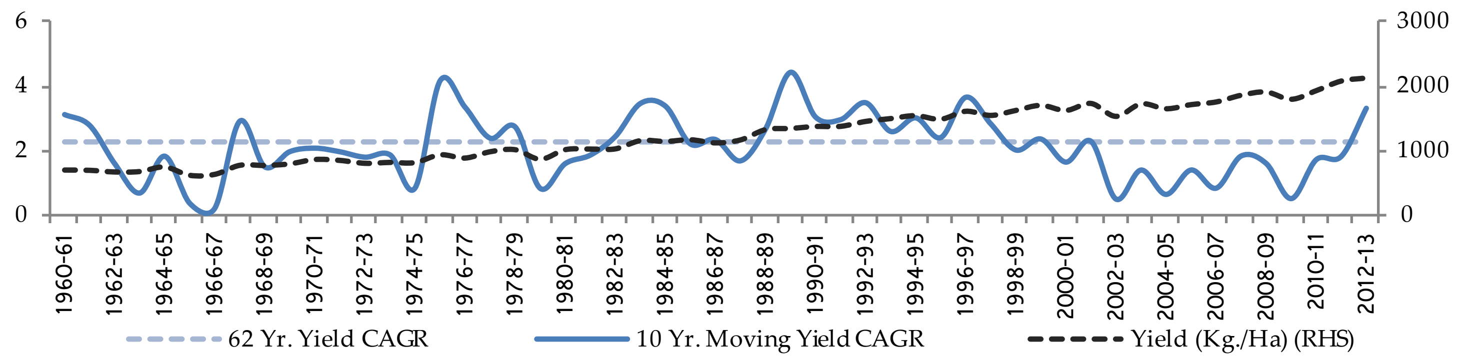
Source: Company, Karvy Research

The three variables to look at analyzing the industry's growth are Agricultural Crop Yield, Commodity Price Increases and Volume growth of Crop Protection Chemicals. Out of these three variables, Crop Protection Chemicals volume increase can be considered to be dependent upon Agricultural Crop Yields and Commodity Price Increase. Thus an analysis of the time series evolution in these two independent variables and the dependent variable becomes important.

Field Crop & Horticulture Crops - Dependence on Yield Growth for production increases:

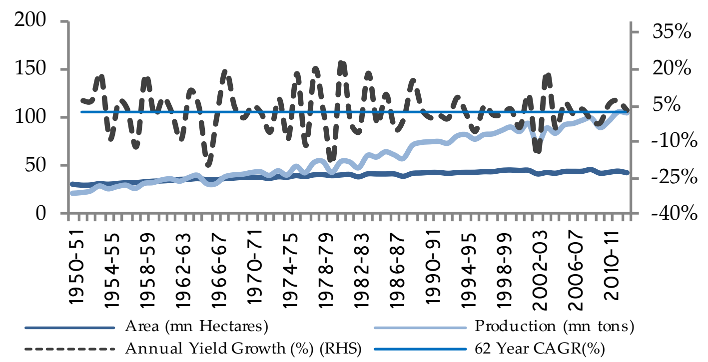
Field Crops : Based on the historic data analysis, it can be seen that Food Grains have seen a 62 year CAGR in yield of around 2.3%. This gets corroborated by the yield growth seen in important field crops (Food grains and Non-food grains) like Rice, Wheat, Maize/Corn, Soybean, Cotton and Sugarcane. The 62 Year/42 Year CAGR in yield for these crops were 2.13%, 2.5%, 2.5%, 3.4%, 2.8% and 1.13% respectively. The field crops have not seen any significant increase in acreage area though, further increasing the dependence on yield growth for production increase.

Exhibit 2: 10yr moving CAGR (%) in Yield per Ha. vs. 62 Yr CAGR (%) in Yield per Ha. vs. Yearly Yield per Ha.



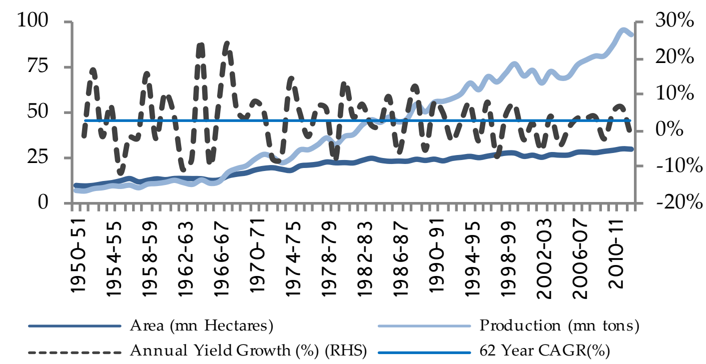
Source: Company, Karvy Research

Exhibit 3: Rice - Area, Production & Annual Yield Growth



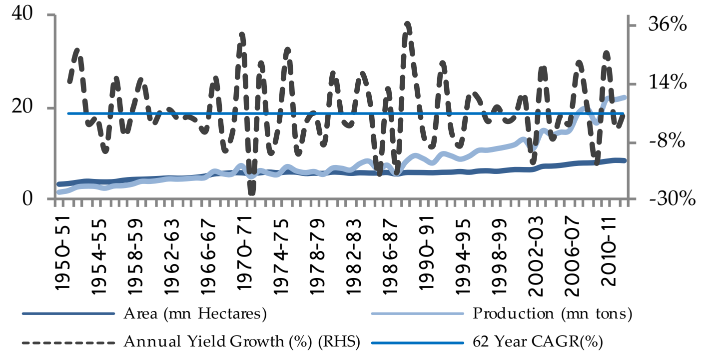
Source: Company, Karvy Research

Exhibit 4: Wheat - Area, Production & Annual Yield Growth



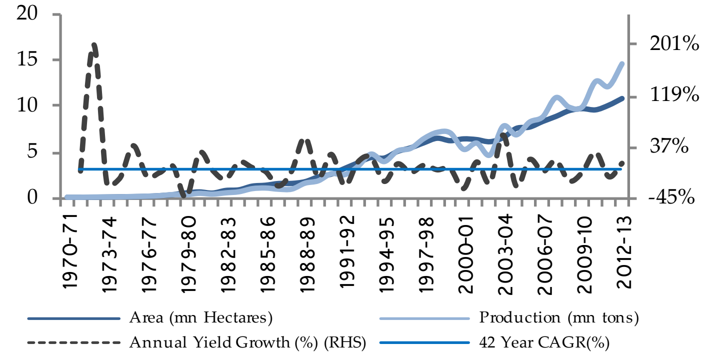
Source: Company, Karvy Research

Exhibit 5: Maize - Area, Production & Annual Yield Growth



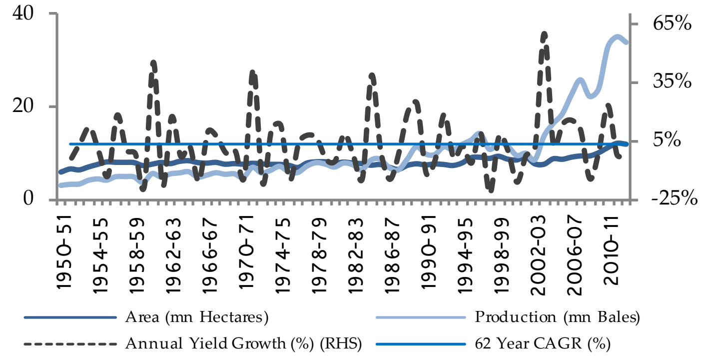
Source: Company, Karvy Research

Exhibit 6: Soybean - Area, Production & Annual Yield Growth



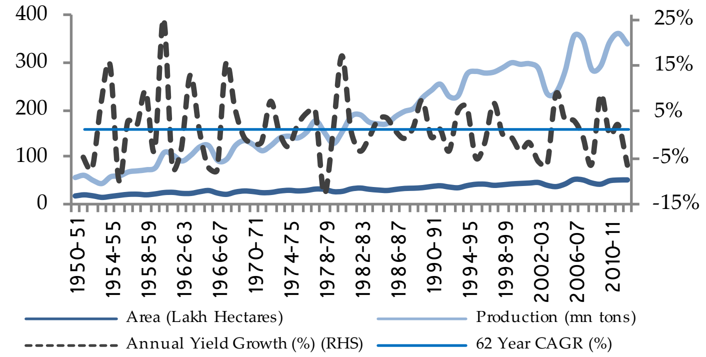
Source: Company, Karvy Research

Exhibit 7: Cotton - Area, Production & Annual Yield Growth



Source: Company, Karvy Research

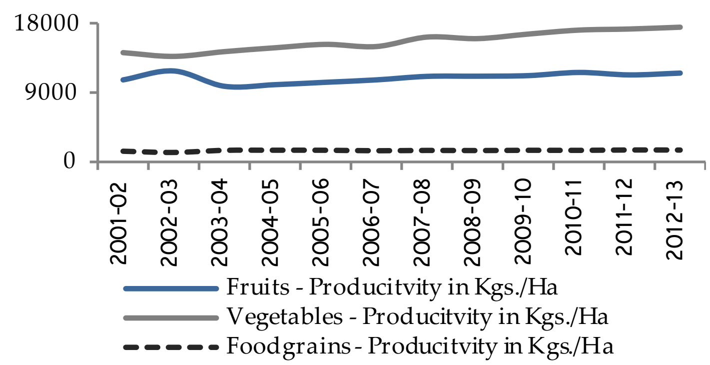
Exhibit 8: Sugarcane - Area, Production & Annual Yield Growth



Source: Company, Karvy Research

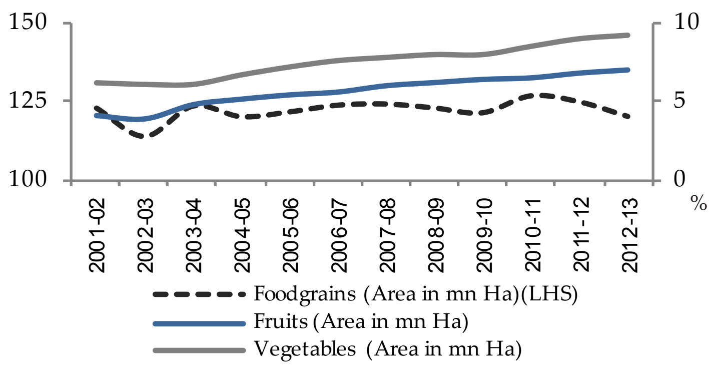
Horticulture Crops: Have seen a significant production increase (11 year period data from 2001-02 to 2012-13) led by both increase in area under these crops and also an increase in productivity. Area under fruits and vegetables has increased by 70% and 50% respectively in a period of 11 years (2001-02 to 2012-13). Yield CAGR in these 11 years has been 0.75% and 1.85%. In this same period, the area under Field crops has not seen any change (varied between 113.9 mn Ha and 126.7 mn Ha) but the yield increase was to the tune of 1.09%.

Exhibit 9:Productivity of Fruits, Vegetables & Foodgrains



Source: Company, Karvy Research

Exhibit 10: Area under Fruits, Vegetables & Foodgrains

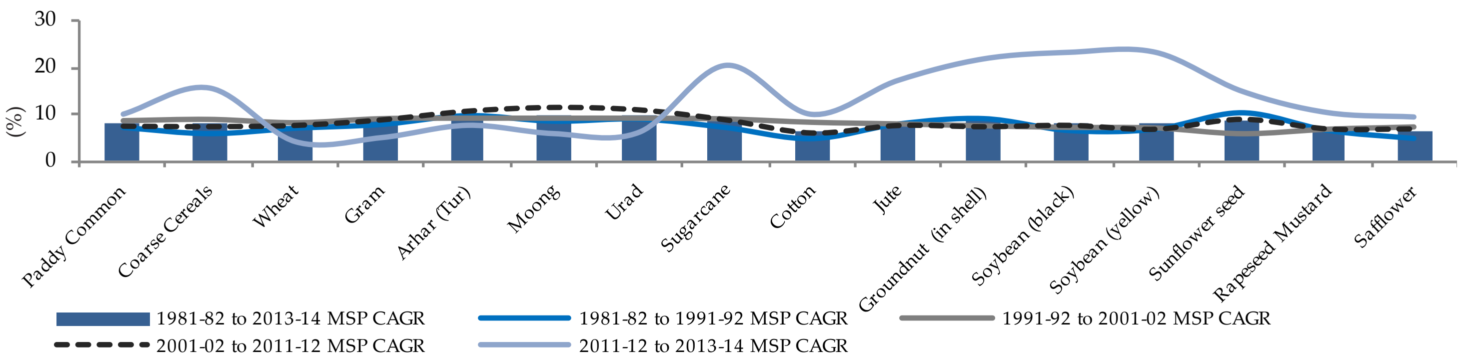


Source: Company, Karvy Research

Commodity Price Increases - MSPs taken as a proxy

Though MSPs are not a complete proxy and thus the most reliable price indicators, yet, their long term evolution characteristics would provide us with an understanding of price-inflation in agri-commodities seen in India and the correlation with various agricultural inputs. The 10 Year CAGR in MSPs and the 33 Year CAGR in MSPs indicate towards an average price inflation of around 7% across the reviewed 16 crops. MSPs declared by Commission for Agricultural Costs and Prices (CACPs) have been seen to be having a higher correlation with Farm Labour wage hikes (as per one of their research papers). The reason for this being, labour wages constitute 30% of the total agri input costs followed by land cost and capital cost at 27% and 19% respectively. Fertilizers constitute 5% of the total input costs.

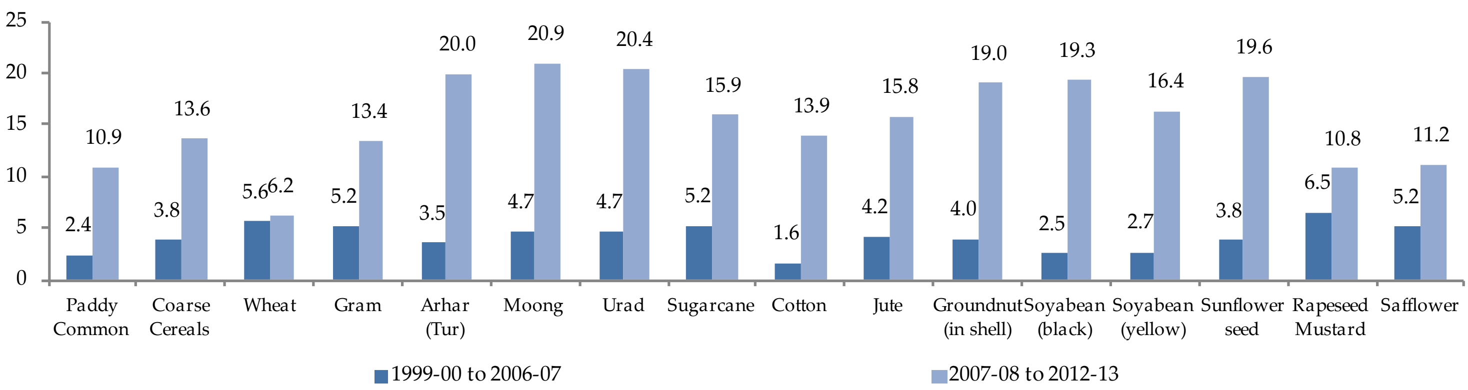
Exhibit 11: Trajectory in MSPs



Source: Company, Karvy Research

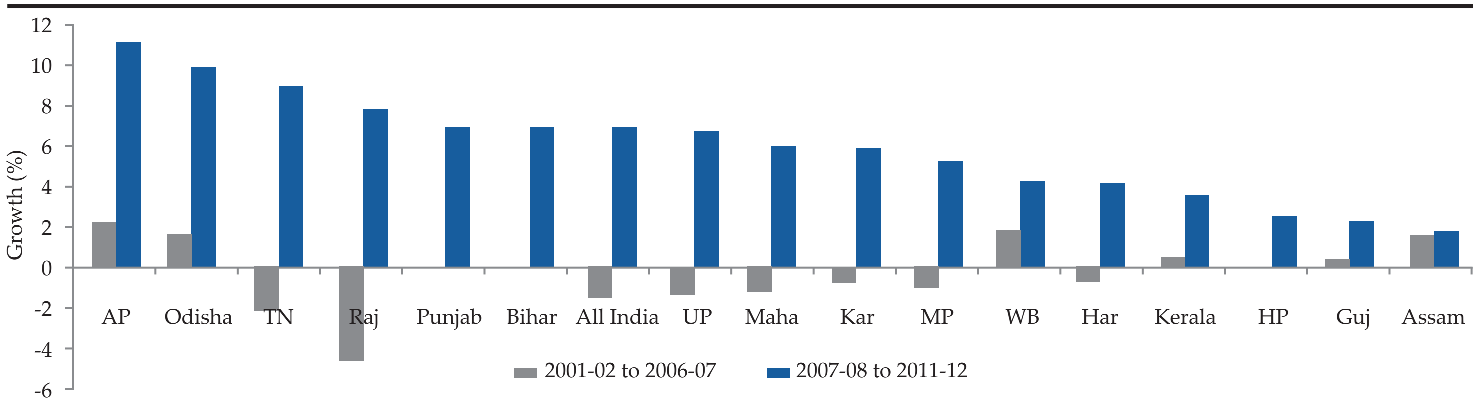
The Exhibits below show the high correlation between MSPs and labour wage hikes. The relationship/correlation has been shown by breaking the last 14 years time series data into two parts; first part being 1999-2000 to 2006-07 and the second part being 2007-08 to 2012-13. The high increase in MSPs in the second part of the data was necessitated by a significant yearly labour wage hikes caused by the starting of MNREGA program (promulgated in the last part of FY06, but impact was felt starting from FY07).

Exhibit 12: MSPs average yearly hikes - 1999-00 to 2006-07 vs. 2007-08 to 2012-13



Source: Company, Karvy Research

Exhibit 13: State-wise Growth in Real Farm Wages, 2001-02 to 2006-07 and 2007-08 to 2011-12



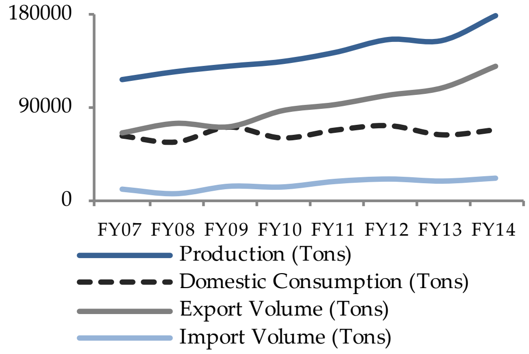
Source: CACP, Karvy Research

Crop Protection Chemicals Volume Increase - An export led volume growth

Volume increase in crop-protection chemicals has seen a CAGR of 6.14% in the last 7 years i.e. from FY07 to FY14 but, this growth can be misleading if not broken up into domestic consumption growth and export volume growth. Break up of growth into these two segments shows that bulk of the growth has been achieved by export volume growth.

Domestic Consumption Growth: The CAGR in domestic consumption volumes of crop protection chemicals, whose volumes can be considered as a significnat proxy for the industry in India (this is being said on the premise that, the consumption figures for these technicals make up close to around 70% of the total pesticides consumption), is around 1.5% in 7 years spanning from FY07 to FY14.

Exhibit 14: Production, Consumption & Export Volumes of Pesticide Technicals



Source: Company, Karvy Research

Export Volume Growth: Export Volumes CAGR on the other hand in the last 7 years has been to the tune of 10.3%. Few of the top performing pesticides in this category were Cypermethrin, Quinalophos, 2,4-D and Isoproturon. Based on the data available, the top three markets (country-wise) are Brazil, USA and Nigeria.

Final Analysis - Yield and not MSPs drive consumption - Strong product strategy and monsoons are key drivers

Correlation Conclusion: The domestic consumption increase can thus be considered to be more importantly dependent upon Crop Yield Growth (both field crops and horticulture) than increase in MSPs. This is also because, **MSPs increase has been more a function of non Crop-Chemical inflation**. This also brings to the fore the importance of a strong product strategy and good monsoons.

Exhibit 15 (a): Comparative valuation summary

	R	TP (Rs.)	Upside (%)	EBITDAM (%)			RoE(%)			EV/EBITDA (x)			PE(x)		
				FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Insecticides India	B	1073	46	12.0	12.5	13.0	25.3	25.5	25.0	12.1	9.8	8.1	13.1	12.3	9.9
Excel Crop Care	B	1072	31	11.5	11.5	11.5	24.3	19.9	18.2	7.2	6.8	6.4	11.1	11.4	10.8
Dhanuka Agritech	S	559	(16.0)	16.5	15.5	15.5	27.8	21.8	19.5	24.6	24.5	22.9	31.7	33.1	31.1

Srouce: Karvy Research; R; Rating, B: Buy, S: Sell, TP: Target Price

Exhibit 15 (b): Comparative valuation summary

	Sales (Rs. mn)			EBITDA (Rs. mn)			NPM (%)			PAT (Rs. mn)			EPS (Rs.)		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Insecticides India	10500	11765	13099	1260	1471	1703	6.7	7.7	8.6	709	908	1133	56	60	74
Excel Crop Care	10431	10622	11283	1200	1222	1298	7.7	7.3	7.3	806	785	835	73	71	76
Dhanuka Agritech	8153	8642	9161	1345	1340	1420	12.8	11.6	11.4	1050	1005	1053	21	20	21

Srouce: Karvy Research,

Exhibit 16: Comparative stock price performance - Absolute & Relative to Sensex

	CMP (Rs.)	Mkt cap. (Rs. mn)	Absolute Return (%)				Relative to Sensex Return			
			1m	3m	6m	12m	1m	3m	6m	12m
Insecticides India	735	9329	(7)	(16)	1	214	(5)	(21)	(6)	141
Excel Crop Care	816	8978	(7)	(27)	(22)	66	(5)	(31)	(28)	27
Dhanuka Agritech	665	33263	16	29	41	164	18	21	31	102

Source: Company, Karvy Research

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Insecticides India Ltd

Bloomberg Code: INST IN

BUY

Increasing chemistry and process strength led institutional sales to help achieve above industry growth

Increasing chemistry and process strength in technical's is expected to increase revenue contribution from this segment to 22.9% in FY17E from around 10.4% in FY14. Contribution from Navratna and Super 11 brands combined (product strategy started in FY15E) is expected to decrease from around 69% (in FY14) of the total revenues to around 65.7% in FY17E.

Increasing capacity utilization at Dahej's Technicals facility is expected to help the company to reduce the dependence on purchased goods. Economies of scale and higher margin, priced technicals & formulations are expected to help the company increase EBITDA margins to around 12.5% in FY16E and 13.0% in FY17E.

Improving profitability starting from FY15E (expectedly sustaining & marginally improving) will significantly improve the RoE and RoCE, but, a dropping growth rate in topline and profits because of a weaker operating environment will lead to marginal drop in both these ratios in FY16E (only RoCE) and FY17E. RoE is expected to come in at 25.5% and 25.0% in FY16E and FY17E respectively as compared to 25.3% in FY15E.

Improving working capital discipline is expected to reduce the net working capital (revenue days), though in FY15E it is expected to increase to around 113 days (significant increase in receivables) and then drop down to 93 and 89 days in FY16E and FY17E respectively.

Valuation and Outlook

INST's technicals led growth is expected to help the company improve its return ratios significantly above the FY14 levels. The expected growth in FY15E, FY16E and FY17E has not been fully factored into the present valuation (even at conservative PE levels). We initiate a coverage on INST with a **"BUY"** recommendation and a price target of Rs. 1073 for a investment horizon of 9-12 months providing a potential upside opportunity of 46%.

Key Risk

- Delays in the introduction of expected launch of a herbicide technical.
- Less than normal monsoons for the second year in a succession in FY16.

Exhibit 17: Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	6167	8641	10500	11765	13099
EBITDA	692	816	1260	1471	1703
EBITDA Margin (%)	11.2	9.4	12.0	12.5	13.0
Adj. Net Profit	352	398	709	908	1133
EPS (Rs.)	27.7	31.4	55.9	59.7	74.4
RoE (%)	17.8	17.4	25.3	25.5	25.0
PE (x)*	14.4	7.0	13.1	12.3	9.9

*Source: Company, Karvy Research; *P/E multiples for FY13 & FY14 are based on historic market price*

P/E(x), P/BV(x) and EPS calculated without considering the impact of Bonus Issue

Recommendation (Rs.)

CMP *(as on Mar 13, 2015)*	735
Target Price	1073
Upside (%)	46

Stock Information

Mkt Cap (Rs.mn/US$ mn)	9329 / 149
52-wk High/Low (Rs.)	932 / 209
3M Avg. daily volume (mn)	0.02
Beta (x)	0.73
Sensex/Nifty	28315 / 8607
O/S Shares (mn)	12.7
Face Value (Rs.)	10

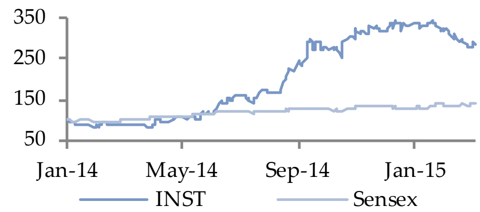
Shareholding Pattern (%)

Promoter	74.7
FIIs	4.1
DIIs	6.5
Others	14.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	(16)	1	214
Relative to Sensex	(5)	(21)	(6)	141

Relative Performance*



*Source: Bloomberg, *Indexed to 100*

Technical View

Insecticide has retraced nearly 35% from the top of its rally from 217 to 930 levels and bouncing back from there. Next major support for the stock is seen at 660-670 levels and resistance is seen at 780 levels. However the stock is still holding above its 200 day EMA level indicating the long term trend is bullish.

Analyst Contact

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Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs.mn)	FY15E	FY16E	FY17E
Net sales	10500	11765	13099
Optg. Exp (Adj for OI)	9242	10296	11397
EBITDA	1260	1471	1703
Depreciation	130	163	176
Other Income	12	35	9
Interest	300	230	142
PBT	841	1111	1392
Tax	132	203	260
PAT	709	908	1133
Profit & Loss Ratios			
EBITDA margin (%)	12.0	12.5	13.0
Net profit margin (%)	6.7	7.7	8.6
P/E (x)	13.1	12.3	9.9
EV/EBITDA (x)	12.1	9.8	8.1
Dividend yield (%)	0.4	0.4	0.4

Source: Company, Karvy Research

Company Background

Insecticides India Ltd (IIL) is into manufacturing of pesticides and plant growth regulators from its six plants in Gujarat, Rajasthan and J&K. It has 2 technicals manufacturing plants in Chopanki (Rajasthan) and Dahej (Gujarat). It has four formulation plants in Dahej (Gujarat), Chopankii (Rajasthan), Samba (J&K) and Udhampur (J&K). It has a total technicals manufacturing capacity of 11800 MT and formulations manufacturing capacity of 59,200 MT. It sells close to 120 formulations and has tie ups with international companies like AMVAC, USA for products like Thimet and Nuvan and with Nissan Chemicals for products like Hakama and Pulsor. IIL has also set up a R&D facility in joint venture with Oatsuka Agri Techno Co. Ltd to invent new agro chemical molecules with 20-30% stake in this JV. It has 20 products under its flagship brand categorizations of Navratna and Super 11.

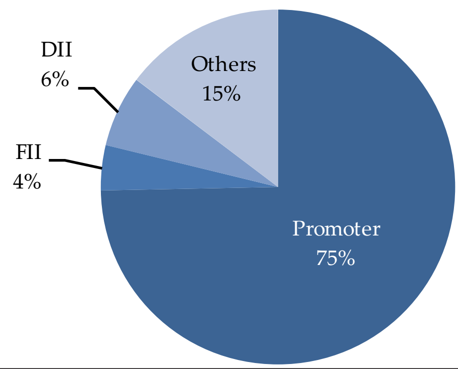
Balance sheet (Rs.mn)	FY15E	FY16E	FY17E
Total Assets	**9820**	**11030**	**11861**
Net Fixed assets	150	150	150
Current assets	7268	8232	8895
Other assets	187	343	434
Total Liabilities	**9820**	**11030**	**11861**
Networth	3129	3991	5078
Debt	2995	2552	1668
Current Liabilities	3491	4275	4892
Deferred Tax	157	156	155
Balance Sheet Ratios			
RoE (%)	25.3	25.5	25.0
RoCE (%)	24.7	24.1	22.4
Net Debt/Equity	0.9	0.5	0.3
Equity/Total Assets	0.6	0.6	0.5
P/BV (x)	3.0	2.3	1.8

Source: Company, Karvy Research

Cash Flow (Rs.mn)	FY15E	FY16E	FY17E
EBITDA	1260	1471	1703
Other Income	(12)	(35)	(9)
Interest	300	230	142
Tax	(132)	(203)	(260)
Changes in WC	(1056)	216	(304)
CF from Operations	70	1482	1138
Capex	(250)	(250)	(250)
Investment	0	(110)	(80)
CF from Investing	(238)	(325)	(321)
Change in Equity	0	0	0
Change in Debt	569	(443)	(884)
Interest Paid	(300)	(230)	(142)
Dividends	(46)	(46)	(46)
CF from Financing	224	(719)	(1071)
Change in Cash	56	438	(255)

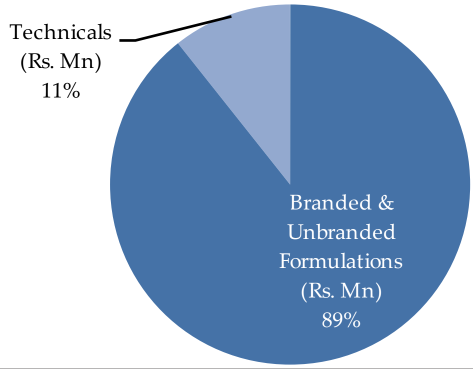
Source: Company, Karvy Research

Exhibit 18: Shareholding Pattern (%)



Source: Company, Karvy Research

Exhibit 19: Revenue Break-up (%)



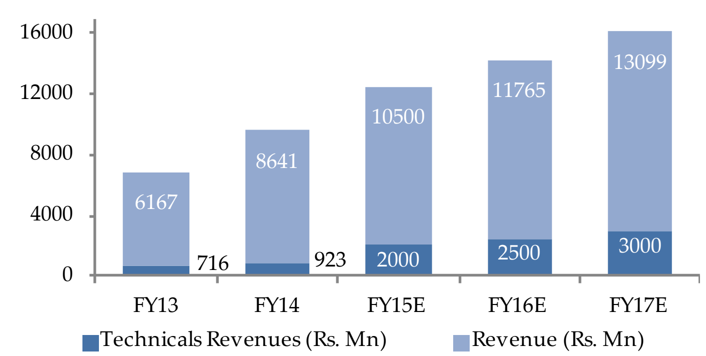
Source: Company, Karvy Research

Increasing Chemistry Strength is expected to lead to higher institutional sales and compensate for any weakness in the revenue growth in Navratna and Super 11 brands portfolio:

Increasing chemistry strength – close to 40 approved and pending technicals registration with Central Insecticides Board & Registration (CIBR) and 16 process patents (1 approved)- has opened up the possibility of non-linearity in revenue growth in the technicals segment by virtue of getting into production of high priced (per kg terms) technicals. Apart from the technicals shown to be registered with CIBR as of 20th August, 2014 (Post 353rd meeting of the registration committee of CIBR); the company has got registrations for 2 more herbicide technicals, 4 more insecticide technicals and 1 fungicide technical. Out of these new registrations; a secn. 9(3) registration for herbicide technical (group 2) will be one of the most important growth triggers for the company in FY16E. This along with an insecticide technical registration (group 12) approved close to 14 months back are expected to help the company increase the revenue contribution from institutional sales segment and also help the company report higher growth rates. In addition, the company is awaiting another technical registration approval which will be acting as an additional trigger for top-line growth in institutional sales.

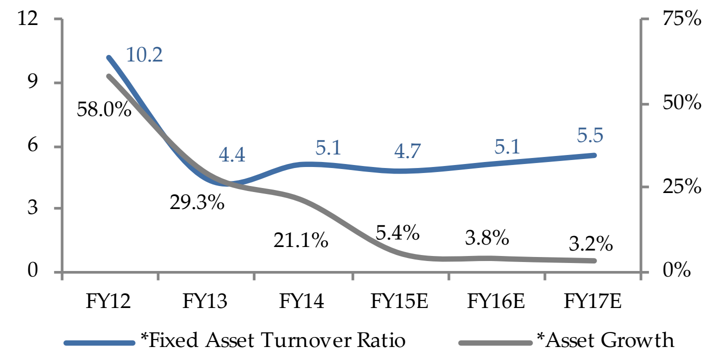
Increasing Asset milking - the main revenue growth trigger: Cumulative incremental revenues (increase in revenue over the previous year) from this stream over three years (FY15E, FY16E and FY17E) would be in the range of Rs. 1500 to Rs. 2000 million. The increasing production of Cotton insecticide technical, newly introduced Soybean technical and to be launched Wheat herbicide technical will be expectedly boosting the Gross profits by Rs. 240 million in FY15E, close to Rs. 400 million in FY16E and Rs. 720 million in FY17E. This gross profit increase along with higher capacity utilization is expected to help the company achieve payback in EBITDA terms by FY18E, as the capex for Dahej technical facility was Rs. 2000 million.

Exhibit 20: Technicals vs. Total Revenues



Source: Company, Karvy Research

Exhibit 21: Asset Milking

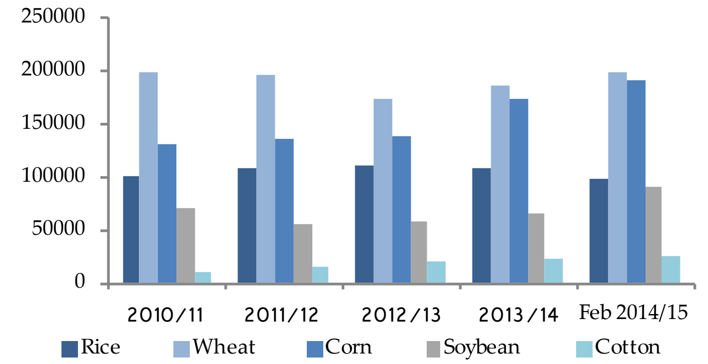


Source: Company, Karvy Research

Segment wise Revenue break-up: Branded sales have been divided into three categories namely: Navratna, Super 11 and Others. The company's internal target is to achieve 50% and 25% of the total branded sales from Navratna and Super 11 portfolio of brands respectively. As of FY15 (9M), these two categories have contributed 45% and 24% of the total branded sales. Going forward, these two product categories taken together, are expected to contribute 67.1% and 65.7% in FY16E and FY17E respectively. Technicals, on the other hand, are expected to see an increase in revenue contribution; technicals are expected to increase from 10.7% in FY14 to around 22.9% in FY17E.

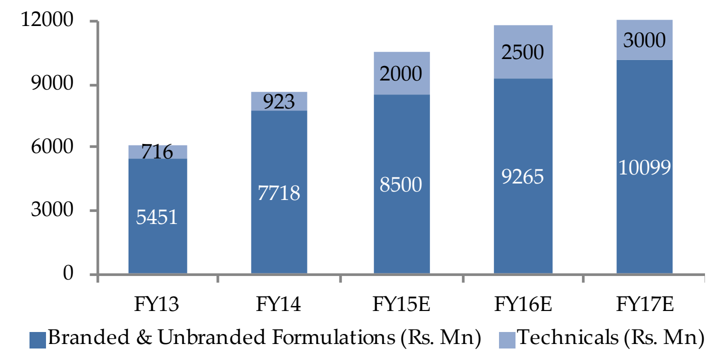
Navratna and Super 11: Decreasing revenue contribution from Navratna and Super 11 is attributed to some extent by a significant drop in the prices of Glyphosate and increasing scrutiny of neo nicotinoids (Exhibits show the monthly price data in China). These factors along with weak monsoons in FY15 and weak pricing environment are expected to affect the volume and price growth in FY16E. Considering the present inflationary trend in various farm inputs and expectedly weak international pricing scenario in important crop categories, figures of FY17E have been estimated on the assumption of below par MSP increase (i.e. below the long term 30 year average of 7 percent).

Exhibit 22: Worldwide Ending Stocks (000 MTs)



Source: Company, Karvy Research

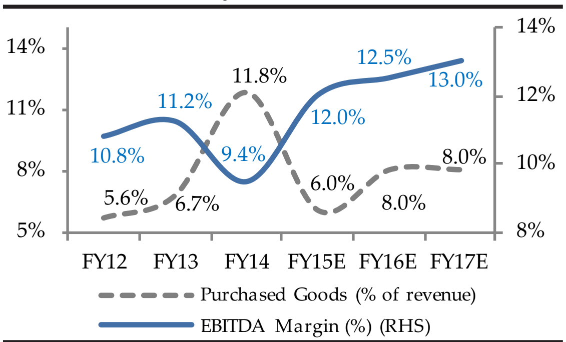
Exhibit 23: Revenue Break Up



Source: Company, Karvy Research

Increasing Utilization of Technicals Capacity in Dahej

Exhibit 24: Cost Dynamics and EBITDAM



Source: Company, Karvy Research

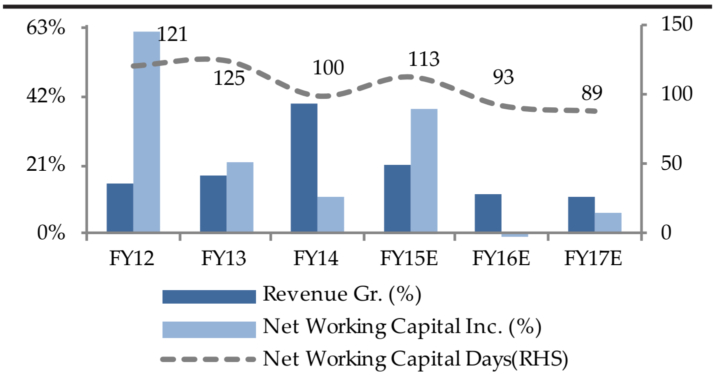
Utilization of capacity at Dahej was around 34% in FY14 which is expected to reach around 75% in this year. The increased utilization of capacity at Dahej is expected to allow the company to reduce the dependence on purchased goods to less than 10% of the total revenue going forward. Not only has the company been able to significantly scale up the revenue from the sale of technicals but it has also used this opportunity to generate another growth platform in the form of Super 11 Category of brands which are mainly based on the technicals being manufactured by the company. This will be increasing the economies of scale for the company and thus contribution towards revenues after covering up the fixed costs.

These factors are expected to increase EBITDA margins to 12% in FY15E, 12.5% in FY16E and 13.0% in FY17E. The increased scale will help the company to achieve break even at the operating level, the high price realization and gross margin technicals will help the company to achieve faster break-even on Rs. 2000 million capex incurred on Dahej technicals plant.

Net Working Capital Cycle requirements expected to decrease from FY17E

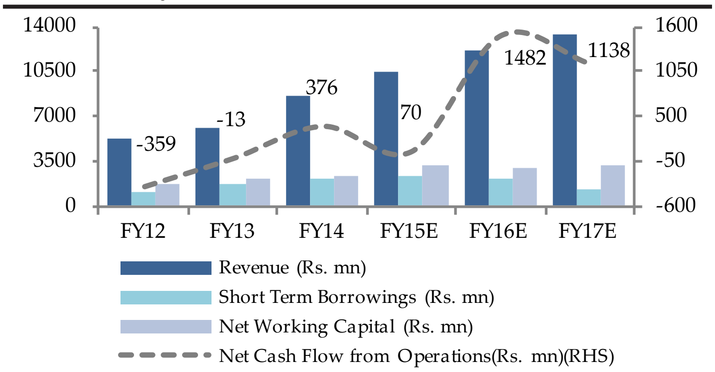
Sustenance of operating margins and an expected stability in net working capital requirements are expected to help the company reduce the debt on the books and thus the finance costs. This would reverse the continuous increase in finance costs seen starting from FY12 and expected to continue till FY15E, hence increasing the PBT margins of the company.

Exhibit 25: Revenue vs. Net Working Capital Days



Source: Company, Karvy Research

Exhibit 26: Revenue vs. Working Capital & Operational Cash Flow Dynamics



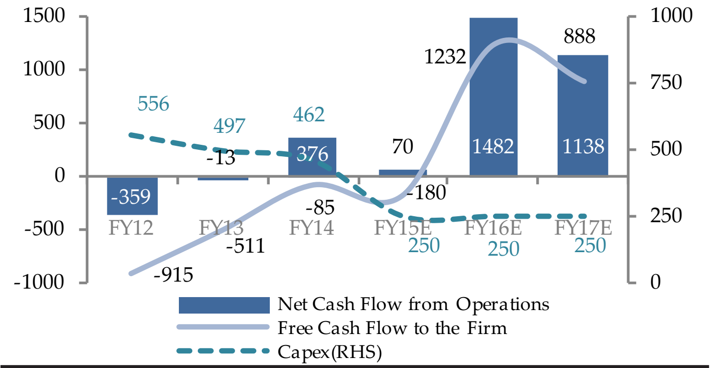
Source: Company, Karvy Research

As seen from the exhibit, net working capital in terms of revenue days would be increasing because of a significant increase in receivables as a percentage of revenues. Increase in receivables in FY15E is expected because of a weak operating environment prevailing in the industry as such. Increase in net working capital days is expected to come down going forward as the technicals led revenue growth would be more non-linear in nature and the unexpected negative surprises seen in this fiscal are also expected to bring in more caution into inventory planning.

Increasing Free Cash Flows to help finance the capex requirements of the future and also lower the debt requirements of the company:

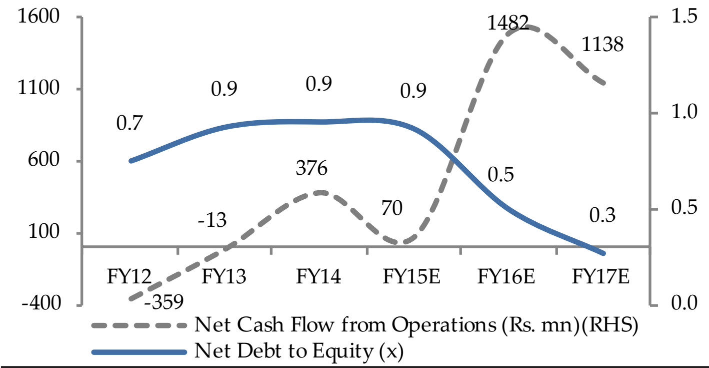
IIL is expected to see a significant increase in net free cash flow from operations (post meeting the capex) in FY16E and FY17E. Any significant increase in capex beyond the expected levels is expected to be driven by 100% or more capacity utilization of technicals plant in Dahej. This is not expected to happen before FY17E. The need for this capex to a great extent can be taken care of by increasing free cash flows and at the same time higher probability of lower interest rates will act as a cushion. Stability in the Indian Rupee will also help the company take the benefit of lower hedging premiums.

Exhibit 27: Cash Flow and Capex (Rs. mn)



Source: Company, Karvy Research

Exhibit 28: Cash Flow vs. Leverage

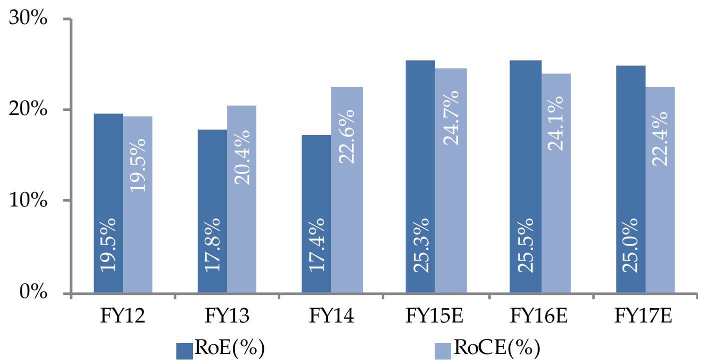


Source: Company, Karvy Research

Significant improvement in return ratios:

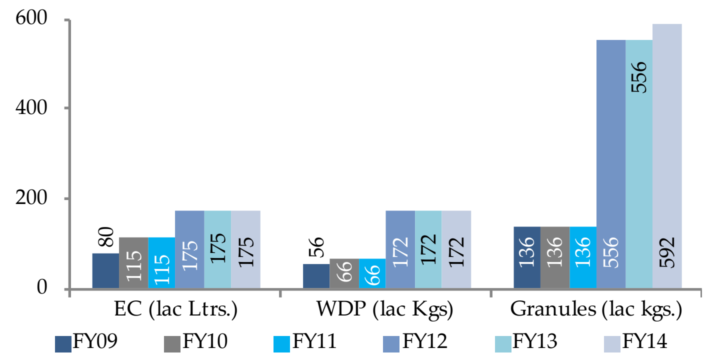
Improving profitability starting from FY15E, and expectedly sustaining going forward, is expected to significantly improve the RoE and RoCE of the company in FY15E. The expected slowing growth rate in top-line and bottom-line because of a weak operating environment will lead to a marginal drop in both these ratios in FY16E and FY17E. This could stand corrected if the monsoons are normal to above-normal and at the same time, farmers profitability metrics improve.

Exhibit 29: Return Ratios



Source: Company, Karvy Research

Exhibit 30: Capacity Build-up



Source: Company, Karvy Research; WDP: Water Dispersible Powder
EC: Emulsifiable concentrate

Exhibit 31: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
India Business (Standalone)					
Revenue	8641	10500	11765	13099	Revenue growth is expected to come closer to a stable state because of weak sectoral macro environment.
Revenue Growth (%)	40.1	21.5	12.0	11.3	
EBITDA	816	1260	1471	1703	EBITDA Margins are expected to remain stable considering the soft commodity pricing environment and the launch of some high priced technicals by the company.
EBITDA Margins (%)	9.4	12.0	12.5	13.0	
PAT (normalized)	398	709	908	1133	This can be considered normalized PAT as the tax and excise duty incentives flowing in through the plants in Udhamour and Samba are expected to flow through for some more years.
Fully Diluted EPS (Rs.)	31	56	60	74	
Fully Diluted EPS Growth (%)	13.2	78.0	6.8	24.7	
Capex (ex. Acquisition) - cash capex	462	250	250	250	
Net CFO	376	70	1482	1138	
Free Cash Flow	(85)	(180)	1232	888	

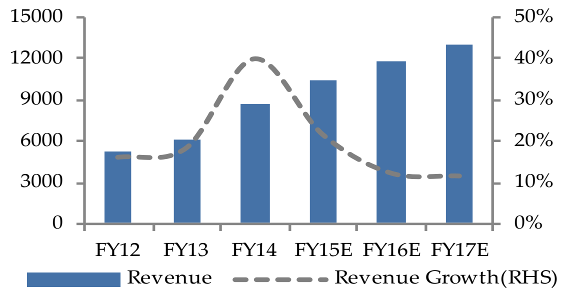
Source: Company, Karvy Research

Exhibit 32: Karvy vs. Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs.mn)				
FY15E	10500	10296	1.9	Have assumed a partial recovery in Q4 of FY15E based on an assumption of improvement in revenue inflow from technicals.
FY16E	11765	12415	(5.5)	Weak macro environment in terms of pricing power and international agri-commodity prices (by virtue of high ending stocks) are the main fulcrum for this divergence.
FY17E	13099	14908	(13.8)	Assumed continuing weakness in monsoons going forward even in FY17E based on the past periodicity of El-Nino of 2 to 7 years. In addition, high ending stocks in some of the major field crops act as a dampener.
EBITDA (Rs.mn)				
FY15E	1260	1126	10.6	Have assumed a partial recovery in Q4 of FY15E based on higher revenue inflow from technicals. Also, a new launch by the company will aid in small margin growth.
FY16E	1471	1457	0.9	Lower revenue growth estimates and assumption of no major expansion in EBITDA margins on a YoY basis is the reason.
FY17E	1703	1849	(8.6)	Lower revenue growth estimates and assumption of no major expansion in EBITDA margins on a YoY basis is the reason.
EPS (Rs.)				
FY15E	56	46	18.5	Have assumed a partial recovery in Q4 of FY15E based on higher revenue inflow from technicals. Also, differences would exist in interest expenses and tax rates assumptions. In Q3FY15E, the tax rates of the company came down significantly to take advantage of exports to South East Asian Nations.
FY16E	72	64	10.3	Major differences are on the assumptions made in the tax rates and interest expense out-go.
FY17E	89	85	4.4	Assumed a significant drop in FY17E debt levels and the remaining quantum of divergence arises because of lower revenue estimates.

Source: Bloomberg, Karvy Research

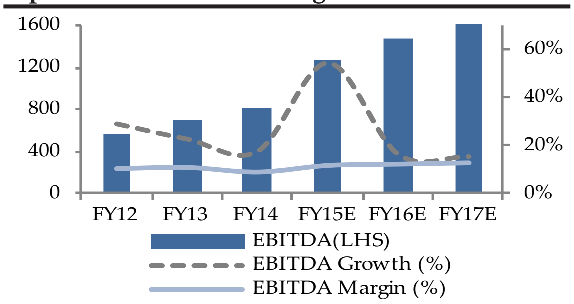
Exhibit 33: Revenue Growth to Moderate going forward (Rs. mn)



Source: Company, Karvy Research

Revenue growth of the company is expected to taper down from the continuous increase seen till FY14. Starting from FY15E, we expect the growth rate to taper down to 11.3% by FY17E. This is on the back of expectations of very low price growth and weak to normal volume growth in formulations. This to some extent has been compensated by non-linear revenue growth in technicals.

Exhibit 34: Higher Capacity utilization led expansion in EBITDA Margins



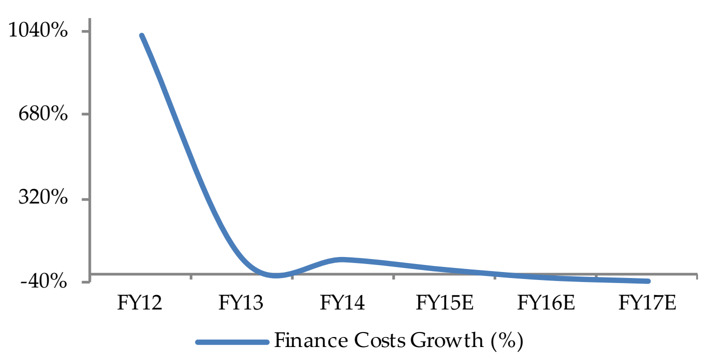
Source: Company, Karvy Research

EBITDA margins are expected to expand on the back of increasing capacity utilization at Dahej and release of high priced & higher gross margin technicals. Expansion in margins is expected to be around 250 basis points in FY15E and 50 basis points in FY16E and FY17E .

PAT Growth & Margins

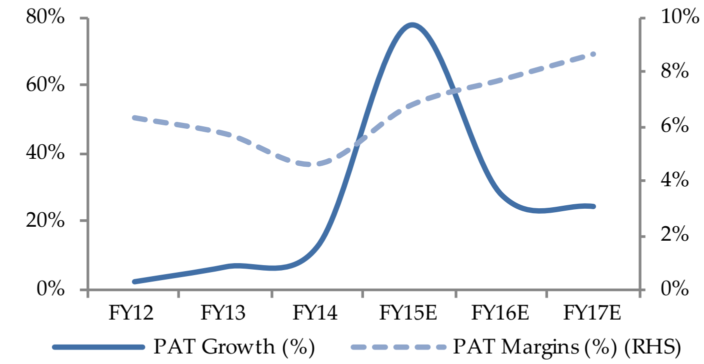
PAT growth for the company reached its peak in FY15E, and thereon the PAT growth is expected to be higher than the revenue growth, on the back of expansion in operating margins. This along with an improvement in trade payables will relatively decrease the working capital requirement and thus decrease debt on the books.

Exhibit 35: Lowering Finance Costs



Source: Company, Karvy Research

Exhibit 36: Stable PAT margins & moderating PAT Growth



Source: Company, Karvy Research

Exhibit 37: Company Snapshot (Ratings)

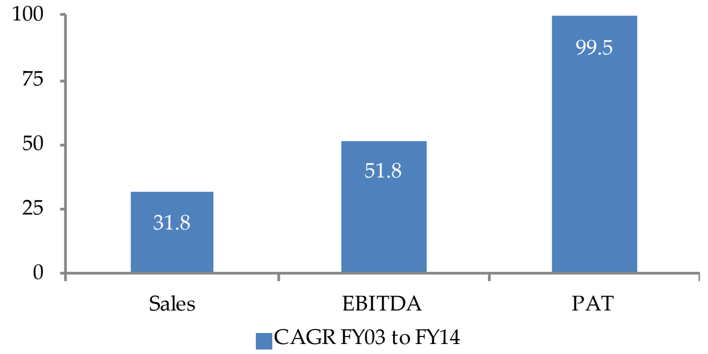
	Low				High
	1	2	3	4	5
Quality of Earnings			✓		
Domestic Sales			✓		
Exports	✓				
Net Debt/Equity			✓		
Working Capital requirement			✓		
Quality of Management			✓		
Depth of Management			✓		
Promoter			✓		
Corporate Governance			✓		

Source: Company, Karvy Research

Valuation:

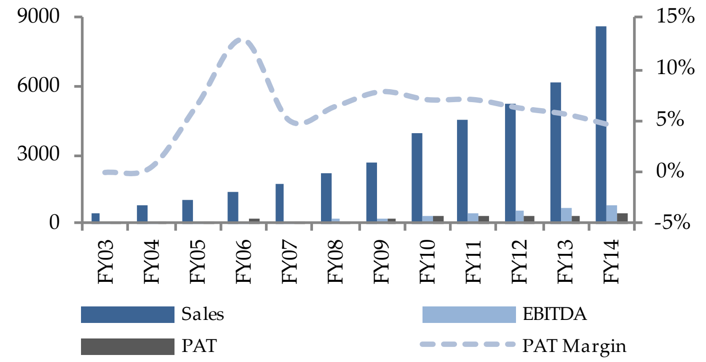
As seen from the exhibit below, IIL has been able to grow at a very fast clip starting from FY03. The biggest compounded yearly growth has been seen in PAT, driven mainly by the company's ability to increase the profit margins. This was possible because of the success seen in the branding efforts of the company and also because of successful backward integration into technical manufacturing. This pace of growth though cannot be assumed to be sustainable for the very long term, which in turn has to reflect in the valuations of the company.

Exhibit 38: Historic Growth of Sales, EBITDA and PAT (%age)



Source: Company, Karvy Research

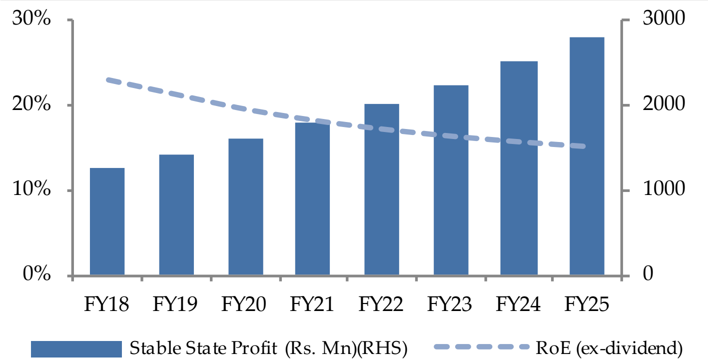
Exhibit 39: Historic Sales, EBITDA, PAT (Rs. mn) & PAT Margins (%)



Source: Company, Karvy Research

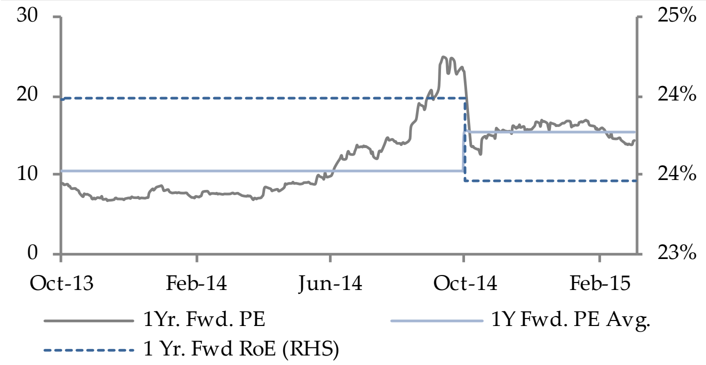
Though the profit growth in the past has been high and the company has moved up in terms of improving its EBITDA margins; but going forward, only a structural change in Indian market or success of the company in increasing the export market share is what can (taking the safest case) sustain the growth of profit close to the FY15E levels. This becomes evident even through decreasing growth rates being expected in FY16E and FY17E. Thus, considering a stable state growth rate of levels of around 11% to 12% (as these are the levels being expected in FY16E and FY17E, post a very conservative increase in the sales of formulations and a product portfolio expansion based technical's growth) we see a stable state RoE of around 15%. We thus have valued IIL at 15x of FY16E earnings leading to a per share valuation of Rs. 1073 for a investment horizon of 9-12 months representing an upside of 46%. This valuation also provides certain amount of margin of safety for the investors .

Exhibit 40: Stable State Profit Growth & RoE Profile



Source: Company, Karvy Research

Exhibit 41: 1 Yr. Fwd. PE, RoE & Avg. 1 Yr. Fwd. PE



Source: Company, Karvy Research

Though the 1 Yr. Fwd. PE is just above the stable state RoE, it is justified considering the improving margin profile of the company. Margins of the company are expected to sustain above the levels assumed by us. If and when this margin profile drops below the expectations, company is expected to see an equivalent correction in PE multiple.

Key Risks

- Significant erosion in the prices of new herbicide technical to be launched and newly launched technicals.
- Significantly below normal monsoons in FY16E and FY17E.

Financials

Exhibit 42: Income Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Revenues	6167	8641	10500	11765	13099
Growth (%)	18.2	40.1	21.5	12.0	11.3
Operating Expenses	5475	7825	9242	10296	11397
EBITDA	692	816	1260	1471	1703
Growth (%)	23.0	18.0	54.4	16.7	15.8
Depreciation & Amortization	58	67	130	163	176
Other Income	2	5	12	35	9
EBIT	634	750	1130	1308	1526
Interest Expenses	174	269	300	230	142
PBT	463	485	841	1111	1392
Tax	111	87	132	203	260
Adjusted PAT	352	398	709	908	1133
Growth (%)	7.0	13.2	78.0	28.1	24.7

Source: Company, Karvy Research

Exhibit 43: Balance Sheet

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Cash & Investments	47	90	146	585	330
Sundry Debtors	1165	1279	2310	2235	2489
Inventory	2254	3117	3631	4038	4461
Loans & Advances	779	710	904	1064	1269
Investments	0	111	111	220	300
Gross Block	1979	2433	2833	3083	3333
Net Block	1404	1706	0	0	0
CWIP	449	537	150	150	150
Miscellaneous	225	364	352	432	479
Total Assets	**6322**	**7914**	**9820**	**11030**	**11861**
Current Liabilities & Provisions	2050	2847	3495	4283	4908
Debt	2001	2426	2995	2552	1668
Other Liabilities	150	176	201	204	207
Total Liabilities	4200	5449	6691	7038	6783
Shareholders Equity	127	127	169	169	169
Reserves & Surplus	1995	2339	2960	3822	4909
Total Networth	**2122**	**2466**	**3129**	**3991**	**5078**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Networth & Liabilities	**6322**	**7914**	**9820**	**11030**	**11861**

Source: Company, Karvy Research

Exhibit 44: Cash Flow Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
PBT	464	487	841	1111	1392
Depreciation	58	67	130	163	176
Interest	119	159	300	230	142
Tax Paid	(107)	(84)	(132)	(203)	(260)
Inc/dec in Net WC	(534)	(251)	(1056)	216	(304)
Other Income	(2)	(2)	(12)	(35)	(9)
Other non cash items	(11)	2	0	0	0
Cash flow from operating activities	(13)	376	70	1482	1138
Inc/dec in capital expenditure	(467)	(459)	(250)	(250)	(250)
Inc/dec in investments	0	(111)	0	(110)	(80)
Others	2	2	12	35	9
Cash flow from investing activities	(465)	(567)	(238)	(325)	(321)
Inc/dec in borrowings	503	437	569	(443)	(884)
Issuance of equity	0	0	0	0	0
Dividend paid	(37)	(45)	(46)	(46)	(46)
Interest paid	(119)	(159)	(300)	(230)	(142)
Others	0	0	0	0	0
Cash flow from financing activities	347	234	224	(719)	(1071)
Net change in cash	(131)	43	56	438	(255)

Source: Company, Karvy Research

Exhibit 45: Key Ratios

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin (%)	11.2	9.4	12.0	12.5	13.0
EBIT Margin (%)	10.3	8.7	10.8	11.1	11.7
Net Profit Margin (%)	5.7	4.6	6.7	7.7	8.6
Dividend Payout ratio	0.11	0.10	0.05	0.05	0.04
Net Debt/Equity	0.9	0.9	0.9	0.5	0.3
RoE (%)	17.8	17.4	25.3	25.5	25.0
RoCE (%)	20.4	22.6	24.7	24.1	22.4

Source: Company, Karvy Research

Exhibit 46: Valuation Parameters

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs.)	27.7	31.4	55.9	59.7	74.4
DPS (Rs.)	3.00	3.00	3.00	3.00	3.00
BV (Rs.)	167.4	194.4	185.5	236.7	301.1
PE (x)*	14.4	7.0	13.1	12.3	9.9
P/BV (x)*	2.4	1.1	3.0	2.3	1.8
EV/EBITDA (x)*	10.2	6.3	12.1	9.8	8.1
EV/Sales (x)*	1.1	0.6	1.5	1.2	1.0

*Source: Company, Karvy Research; * Represents PE, P/BV, EV/EBITDA and EV/Sales multiples for FY13 & FY14 are based on historic market price*

India Research – Stock Broking

Excel Crop Care Ltd

Bloomberg Code: EXCC IN

BUY

Significant drop in Glyphosate prices to cap the revenue upside in short to medium term

Glyphosate Price Drop: Excel Crop Care's base product portfolio of Glyphosate, Profenofos, Chlorpyriphos, Alumnium Phosphide and Zinc Phosphide contribute close to 60% of the company's revenues. Sharp drop seen in Glyphosate's prices (of around 20% or more in 2Qtrs.) is expected to cap the top-line growth to around 1.8% and lead to a marginal decline in the bottom-line by about 3% in FY16E.

Gajod Capex: In the medium to long term, capex in Gajod with high concentration towards Fungicides, Fumigants and Biocides is expected to start turning around the cycle for the company starting from FY17E and leading to make up close to 83% of the total new proposed capacity and help the company increase its offerings for even rabi season. Fungicides capacity addition also includes a high value combination fungicide which is presently sold by a MNC at high price.

Rebound in Glyphosate Prices: A possible rebound in the prices of Glyphosate because of possible drop in capacities by virtue of inspection by Ministry of Environmental Protection (MEP) of China. In the first round of inspection, out of 10 manufacturers only 4 could pass through, showing the possibility of drop in capacities. Apart from this, introduction of Roundup Ready Flexi Cotton seeds in FY17E can also help in arresting the price decline.

Product Diversification: Increasing diversification into specific acting herbicides of Group 3 and Group 4 will also help the company in the longer term.

Valuation and Outlook

Excel Crop Care's performance is expected to be significantly impacted by the drop in Glyphosate prices. The same reason has led to a sharp 40% plus correction in the stock price. Sharp drop in Glyphosate prices are expected to get corrected in next few quarters. This along with upcoming capex in Gajod provides better growth visibility. We initiate a coverage on Excel Crop Care with a **"BUY"** recommendation and a target price of Rs. 1072 for an investment horizon of 9 to 12 months obtained by giving a PE multiple of 15 to FY16E EPS, giving an upside potential of 31%.

Key Risks

- Significant delays in Gajod capacity expansion.
- Less than normal monsoons in FY16E.
- Continued drop in the prices of Glyphosate.

Exhibit 47: Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	7791	9841	10431	10622	11283
EBITDA	511	1012	1200	1222	1298
EBITDA Margin (%)	6.6	10.3	11.5	11.5	11.5
Adj. Net Profit	211	661	806	785	835
EPS (Rs.)	19.2	60.0	73.3	71.3	75.9
RoE (%)	8.8	24.1	24.3	19.9	18.2
PE (x)*	8.0	8.2	11.1	11.4	10.8

*Source: Company, Karvy Research; *P/E multiples for FY13 & FY14 are based on historic market price*

Recommendation (Rs.)

CMP *(as on Mar 13, 2015)*	816
Target Price	1072
Upside (%)	31

Stock Information

Mkt Cap (Rs.mn/US$ mn)	8978 / 143
52-wk High/Low (Rs.)	1350 / 435
3M Avg. daily volume (mn)	0.01
Beta (x)	0.8
Sensex/Nifty	28315 / 8607
O/S Shares(mn)	11.0
Face Value (Rs.)	10

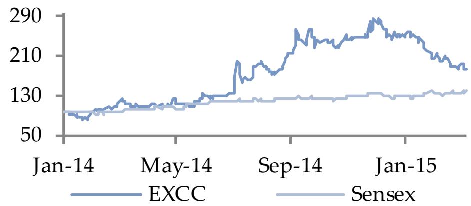
Shareholding Pattern (%)

Promoter	24.7
FIIs	0.0
DIIs	9.4
Others	65.9

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(7)	(27)	(22)	66
Relative to Sensex	(5)	(31)	(28)	27

Relative Performance*



*Source: Bloomberg, *Indexed to 100*

Technical View

Excel crop has witnessed a sharp correction on account of profit booking from its all time high of 1350 to 790 levels and bounced back to 815 levels. The stock has minor support at 790 levels and next major support comes around 770 levels. On the upside the stock may face resistance at 950 levels.

Analyst Contact

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prashant.kanuru@karvy.com

Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs.mn)	FY15E	FY16E	FY17E
Net sales	10431	10622	11283
Optg. Exp (Adj for OI)	9232	9401	9986
EBITDA	1200	1222	1298
Depreciation	165	180	195
Other Income	75	80	90
Interest	3	0	0
PBT	1152	1122	1193
Tax	345	336	358
PAT	806	785	835
Profit & Loss Ratios			
EBITDA margin (%)	11.5	11.5	11.5
Net profit margin (%)	7.7	7.3	7.3
P/E (x)	11.1	11.4	10.8
EV/EBITDA (x)	7.2	6.8	6.4
Dividend yield (%)	1.6	1.6	1.6

Source: Company, Karvy Research

Company Background

Excel Crop care was born out of the demerged portfolio of agricultural products segment of Excel Industries Limited. Excel Crop care is into manufacturing of crop protection chemicals and growth enhancers. In crop protection chemicals segment, it manufactures Insecticides (Chlorpyriphos, Profenosfos, Imidacloprid and Group 21 insecticides), Herbicides (Glyphosate, Pyridine and Pyridine Carboxylic Acid), Fungicides (Triazoles and Methoxyacrylates) and Fumigants (Aluminium and Zinc Phosphide). Excel Crop care has three manufacturing facilities located at Bhavnagar & Gajod, Gujarat (technicals and formulations) and Silvassa (formulations). It has five wholly owned subsidiaries; Excel Crop Care (Australia) Pty Ltd; Excel Crop Care (Europe) N.V., ECCL Investments and Finance Ltd, Excel Crop Care (Africa) Limited and Excel Brasil Agronegocious Ltd. Presently, the company is carrying out a major capacity expansion in Gajod (Fungicides & Fumigants).

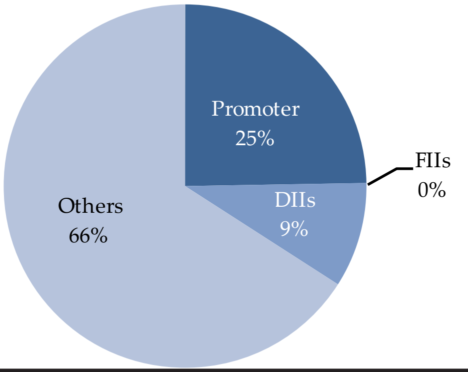
Balance sheet (Rs.mn)	FY15E	FY16E	FY17E
Total Assets	**6808**	**7430**	**8232**
Net Fixed assets	1459	1500	1528
Current assets	5231	5811	6585
Other assets	118	119	119
Total Liabilities	**6808**	**7430**	**8232**
Networth	3642	4256	4920
Debt	29	0	0
Current Liabilities	2918	2967	3136
Deferred Tax	105	107	80
Balance Sheet Ratios			
RoE (%)	24.3	19.9	18.2
RoCE (%)	19.6	17.6	16.4
Net Debt/Equity (x)	(0.1)	(0.2)	(0.1)
Equity/Total Assets (x)	0.5	0.6	0.6
P/BV (x)	2.5	2.1	1.8

Source: Company, Karvy Research

Cash Flow (Rs.mn)	FY15E	FY16E	FY17E
EBITDA	1200	1222	1298
Other income	(27)	(27)	(27)
Interest	3	0	0
Tax	(345)	(336)	(358)
Changes in WC	100	(24)	(99)
CF from Operations	**1082**	**988**	**984**
Capex	(250)	(250)	(250)
Investment	(124)	(219)	(482)
CF from Investing	**(354)**	**(441)**	**(697)**
Change in Equity	0	0	0
Change in Debt	(308)	(29)	0
Dividends	(210)	(237)	(263)
CF from Financing	**(521)**	**(265)**	**(263)**
Change in Cash	212	287	24

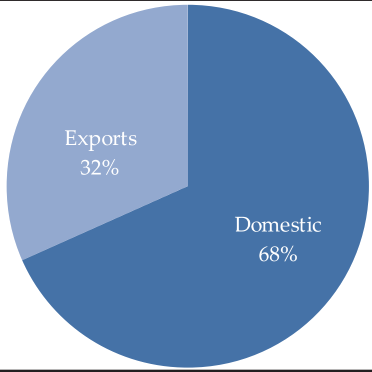
Source: Company, Karvy Research

Exhibit 48: Shareholding Pattern (%)



Source: Company, Karvy Research

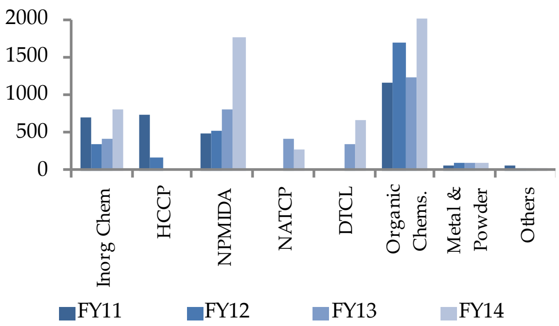
Exhibit 49: Revenue Break-up (%)



Source: Company, Karvy Research

High dependence on few products, a weak pricing and demand environment to put the performance under pressure in the medium term:

Exhibit 50: Changing Raw Material Mix

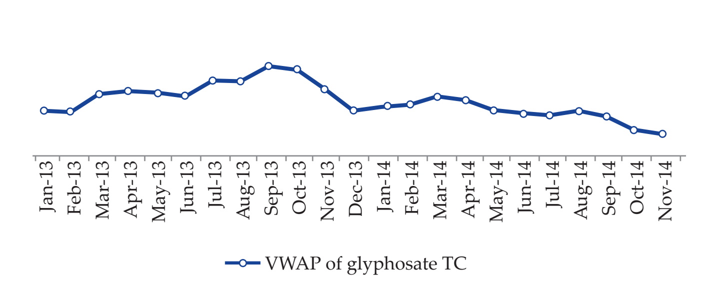


Source: Company, Karvy Research

EXCC's top 5 products contribute close to 60% of the revenues. Out of these top 5 products, the company's dependence on Glyphosate is highest (30% or above). The high dependence on Glyphosate, Chlorpyriphos, Profenofos, Aluminium Phosphide and Zinc Phosphide can be seen from the changing pattern of raw material mix over the three years period of FY11 to FY14. Excel Crop Care has completed its transition away from Endosulfan. Its increasing dependence on Glyphosate and Chlorpyrifos (the highest selling organophosphate insecticide) can be seen from the changing raw material mix.

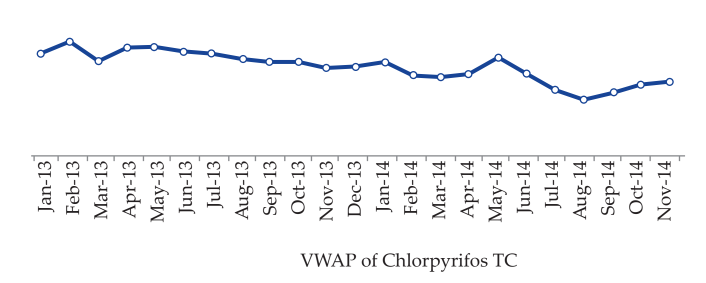
Significant drop in prices of Glyphosate while the prices of Chlorpyriphos remain stable: The exhibits below show the price charts of Glyphosate and Chlorpyrifos as given by the Chinese Industry Association. As seen from these exhibits, the prices of Glyphosate have seen significant price erosion as the pace of inspections by MEP of China did not reach certain provinces thus increasing the supply into the market. On the other hand, Chlorpyriphos prices remained stable on the back of pending investigations on the impact of Neo-nicotinoid insecticides on pollinators. The drop in Glyphosate prices are expected to shave off close to 9% in the aggregate top-line in FY16E on a Y-o-Y basis.

Exhibit 51: VWAP of glyphosate TC during Jan 2013 to Nov 2014



Source: Company, Karvy Research

Exhibit 52: VWAP of Chlorpyrifos TC during Jan 2013 to Nov 2014



Source: Company, Karvy Research

Medium to Long Term positives

Capacity addition in Gajod: EXCC is going in for a major capacity expansion at Gajod. The total capex spend for this facility would be Rs. 28 Cr and the major capacity thrust would be on Fungicides and Fumigants. Apart from the fungicides and Fumigants, two neo-nicotinoid insecticides will be seeing a significant capacity addition as a part of this capex project. Also, there will be a significant capacity expansion in Biocides.

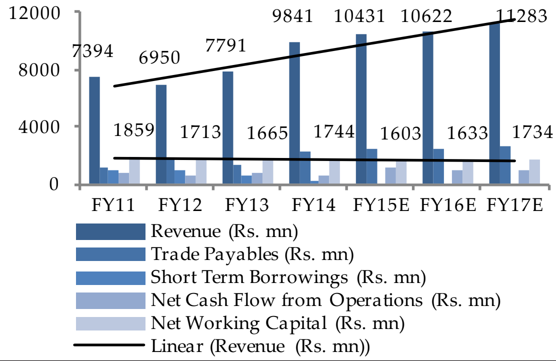
The increase in formulation capacities will be to the tune of 34990 Tons per annum. Out of this, Fungicides capacity (standalone and combination) additions will be to the tune of 18000 Tons per annum (this is the highest figure as per the data available); fumigants capacity addition will be to the tune of 11000 tons per annum and biocides capacity addition will be to the tune of 6000 tons per annum. These capacity additions are expected to increase the present revenue contribution of Fumigants, Fungicides, PGRs and Biocides from around 20% to 30% and higher. High priced fungicide belonging to Group 11 and combination formualtions of Group 11 and Group 3 fungicides are expected to provide certain amount of non-linearity to the top-line growth. These along with other organic fungicides will be leading to a faster expansion of top-line.

A possible drop in Glyphosate capacities post the MEP inspections in China: The price erosion seen in glyphosate is expected to see certain amount of correction as more plants are expected to close down post the environmental assessment by MEP (Ministry of Environment Protection) in China. Out of the 10 manufacturers who applied for the first round of inspection only four have passed; in the second round, 18 manufacturers have applied for inspection (as of 2010 there were 131 registrants). This, brings certain amount of stability with an upward bias in Glyphosate prices going forward. Apart from this, introduction of Roundup Ready Flexi Cotton seeds in FY17E can also help in arresting the price decline.

Stated diversification into specific action herbicides: The company has stated its intent of diversifying into specific herbicides (targeting broad leaf weeds) belonging to Group 2 and Group 3 herbicides. This would allow the company to cushion itself against heavy dependence on one product in this segment.

Good Working Capital Discipline

Exhibit 53: Increasing Trade Payables and decreasing short term borrowings

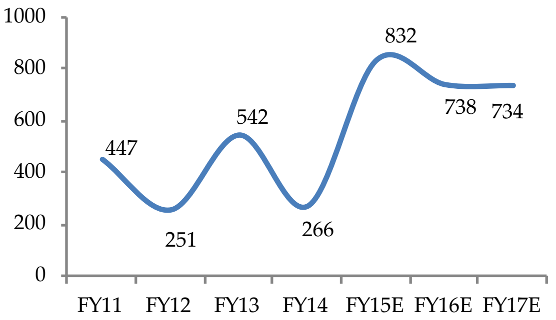


Source: Company, Karvy Research

There has been a significant increase in trade payables, and this has started from FY14 and is expected to continue even going forward as the company has reached volume scales in certain products to sustain the same levels of working capital discipline. This along with inventory discipline is expected to further reduce the short-term borrowing requirements and also generate more cash flow from operations.

Free Cash Flow from Operations

Exhibit 54: Increasing Free Cash Flows (Rs. mn)



Source: Company, Karvy Research

Increasing free cash flow from operations will help the company to increase its ability to source the capex requirements from internal accruals and not go for any significant borrowing increase. This will also take care of the Gajod capacity expansion.

Chemistry – Strength

The process chemistry strength can be ascertained by the patents owned by the company.

No.	Title of Invention
1	Drying and baking implement
2	Novel coated granules containing insecticide
3	Spray device with shield
4	Portable fumigator
5	A process for the preparation of the insecticide Imidacloprid
6	A process for the preparation of a herbicide formulation of Glyphosate (n-phosphonomethylglycine)
7	A process for the preparation of pesticide aluminum phosphide and a vertical reactor for carrying out the process

Organic expansion into Brazil

The company intends to organically expand into Brazil in 3 to 4 years and has also opened up a wholly owned subsidiary. Considering the long gestation period required for the starting of commercial operations, this is only a consideration for the long term.

Exhibit 55: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
India Business (Standalone)					
Revenue	9841	10431	10622	11283	
Revenue Growth (%)	26.3	6.0	1.8	6.2	This can be considered to be normalized growth under the present conditions of lower prices of Glyphosate. Recovery in the same depends upon factors which cannot be predicted with certainty.
EBITDA	1012	1200	1222	1298	EBITDA and EBITDA Margins derived through gross margins and other overhead expenses are expected to be stable as the present soft commodity cycle (especially Crude) and the slow down in China are expected as a support to the present levels of EBITDA margins, if not push them up. The reason for this conservatism is that present sectoral macro scenario warrants it.
EBITDA Margins (%)	10.3	11.5	11.5	11.5	
Combined Normalized PAT	661	806	785	835	This is the normalized in the present and expected macro scenarios described above.
Fully Diluted EPS (Rs.)	60	73	71	76	
Fully Diluted EPS Growth (%)	213	22	(3)	6	
Capex (ex. Acquisition) - cash capex	258	250	250	250	
Net CFO	523	1082	988	984	
Net Debt	165	(355)	(670)	(695)	
Free Cash Flow	266	832	738	734	

Source: Company, Karvy Research

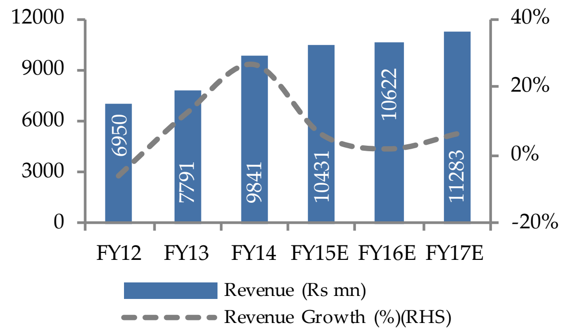
Exhibit 56: Karvy vs. Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs.mn)				
FY15E	10431	11834	(11.9)	Assumed a significant impact of drop in prices of Glyphosate, which contributes close to 30% of the total revenues.
FY16E	10622	14200	(25.2)	Significant drop in prices of Glyphosate are not expected to correct much. This along with weak macro pricing environment (corroborated by the chinese Agro Chemicals Price Index data and high ending stocks of Soybean, Corn and Cotton) are the reasons.
FY17E	11283	17041	(33.8)	Assumed a slight correction in the prices of Glyphosate and start of Gajod operations. But, weak pricing environment is expected to continue as some clear triggers are not visible. Also added to this is the probability of El Nino affecting the monsoons (occurrence periodicity of 2 to 7 years), thus avoiding assumption of significant recovery in macro situations.
EBITDA (Rs.mn)				
FY15E	1200	1302	(7.9)	Assumed a significant impact of drop in prices of Glyphosate, which contributes close to 30% of the total revenues.
FY16E	1222	1562	(21.8)	The delay in capex in Gajod along with no expected significant improvement in prices of Glyphosate and weak macro environment.
FY17E	1298	1874	(30.8)	Lower base of FY16E along with growth not expected to be on par with FY14 are the major reasons.
EPS (Rs.)				
FY15E	73	76	(3.4)	Lower Revenues, EBITDA and interest expenses.
FY16E	71	91	(21.7)	Reasons as mentioned above for Revenues and EBITDA.
FY17E	76	110	(30.8)	Reasons as mentioned above for Revenues and EBITDA.

Source: Bloomberg, Karvy Research

Revenue growth to moderate going forward

Exhibit 57:

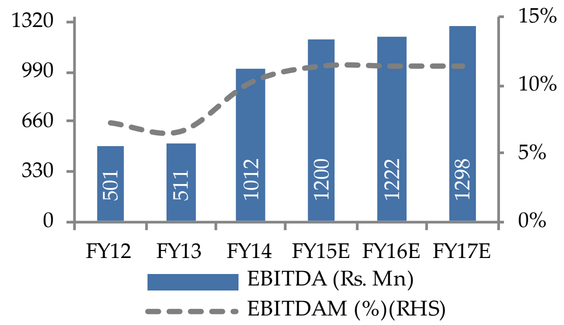


Source: Company, Karvy Research

Revenue growth of the company is expected to moderate from the levels seen in FY14 and expected to taper down to around 6% in FY15E, see a significant drop in FY16E and then recover back to around 6.4% in FY17E. This is mainly because of significant drop in the prices of Glyphosate (more pronounced on a Year-on-Year basis) and a weak pricing environment prevailing in the industry. This apart, any weakness in monsoon will increase the pricing pressure on the industry further more. Added to all the above factors, it will also be the weak pricing environment seen in non-food crops.

EBITDA is expected to remain stable owing to a supportive macro environment

Exhibit 58:

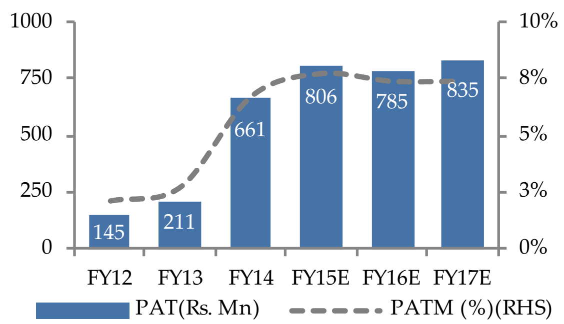


Source: Company, Karvy Research

EBITDA margins are expected to remain stable around 11.5% supported by falling raw material prices (like NPMIDA) and stable prices of organophosphate insecticides and stability in the prices of neo-nicotinoid insecticides (with a downward bias). These factors along with new product introductions are expected to help the company maintain EBITDA margins at FY15E levels.

Net Profit margins are expected to remain stable-supported by lower borrowing costs and stable EBITDA margins

Exhibit 59:



Source: Company, Karvy Research

Net Profit margins of the company is expected to remain stable with a small amount of downward bias. The drop in profits expected in FY16E is because FY15E had an exceptional item of Rs. 45 million being written back (for the inventory of Endosulfan which the company was able to sell). The FY17E PAT is expected to go up on a Year-on-Year basis as no such exceptional item has been factored into the estimates of FY16E.

Exhibit 60: Company Snapshot (Ratings)

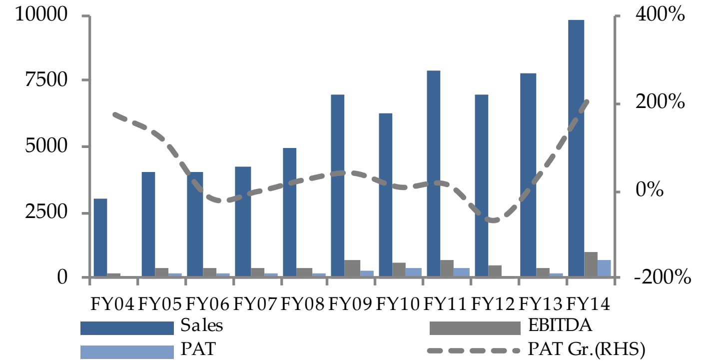
	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports			✓		
Net Debt/Equity				✓	
Working Capital req				✓	
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance			✓		

Source: Company, Karvy Research

Valuation

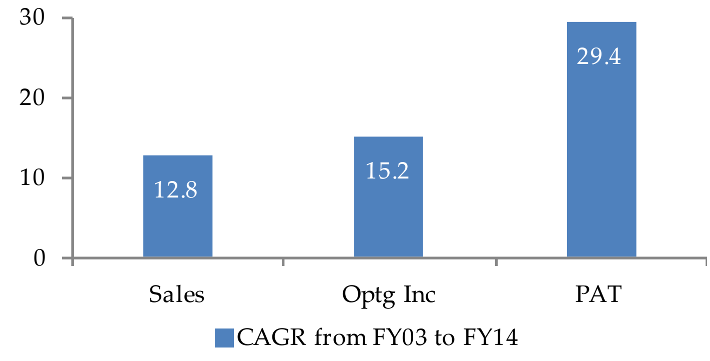
EXCC's valuations still have a certain amount of margin of safety. This could be ascertained in terms of possible conservative build up of net worth of the company going forward. The historic CAGR growth seen in operating revenue, operating income and PAT are 12.8%, 15.2% and 29.4% respectively (FY03 to FY14). The only blip seen by the company were in the years FY06, FY07 and FY12. Out of these years, FY06 and FY07 were the years where the impact of MNREGA led wage hike were seen even in production volume drop. FY12 profit drop was driven by a special situation the company found itself in because of Supreme Court ban on Endosulfan. The profit growth of the company can thus be safely assumed to above industry levels by virtue of the proven ability of the company to maintain strong product strategy (with the risk of above comfort level dependence on one product).

Exhibit 61: Historic Performance Chart (Rs. mn; %)



Source: Company, Karvy Research

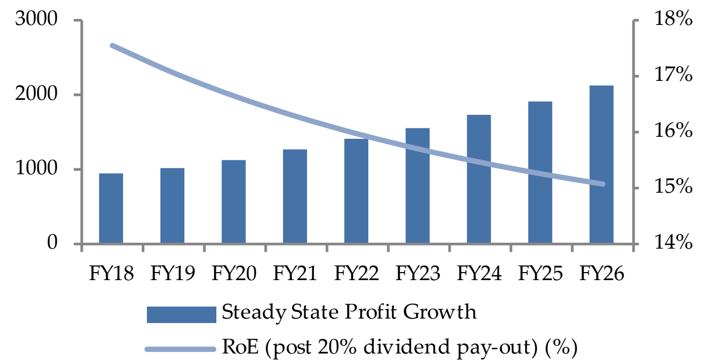
Exhibit 62: Historic Growth Rates (%)



Source: Company, Karvy Research

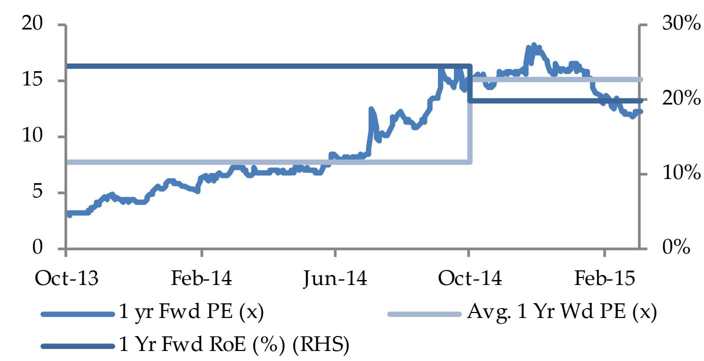
Considering a stable state growth, the company will be able to maintain an RoE of above 15% (post a dividend payout of 20% of profits). Valuation based on the stable state allows us to value the company at around 15x the FY16E EPS giving a per share valuation of Rs. 1072. This is even getting corroborated by the Avg. 1 Yr Fwd. PE which is around 15. This has been the case in the scenario of a dropping RoE which is expected to continue going forward. Unless the growth scenario improves, the 1Yr Fwd. PE will remain at the same multiple.

Exhibit 63: Steady State Profit Growth & RoE



Source: Company, Karvy Research

Exhibit 64: 1 Yr. Fwd. PE, RoE & Avg. 1 Yr Fwd PE



Source: Company, Karvy Research

Key Risks

- Significantly below normal monsoons in FY16E & FY17E.
- Significant drop in the prices of Chlorpyriphos & Profenofos.
- Further drop in the prices of Glyphosate.
- Delay in setting up of new capacity in Gajod beyond the first half of FY17E.

Financials

Exhibit 65: Income Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Revenues	7791	9841	10431	10622	11283
Growth (%)	12.1	26.3	6.0	1.8	6.2
Operating Expenses	7280	8830	9232	9401	9986
EBITDA	511	1012	1200	1222	1298
Growth (%)	2.1	97.8	18.6	1.8	6.2
Depreciation & Amortization	141	140	165	180	195
Other Income	63	66	75	80	90
EBIT	432	938	1110	1122	1193
Interest Expenses	131	49	3	0	0
PBT	301	954	1152	1122	1193
Tax	90	294	345	336	358
Adjusted PAT	211	661	806	785	835
Growth (%)	45.4	212.7	22.0	(2.6)	6.3

Source: Company, Karvy Research

Exhibit 66: Balance Sheet

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Cash & Investments	270	172	507	1013	1520
Sundry Debtors	1505	1594	1669	1700	1805
Inventory	1548	2481	2366	2409	2559
Loans & Advances	437	654	653	656	666
Investments	23	22	22	22	22
Gross Block	2345	2535	2785	3035	3285
Net Block	1346	1402	1459	1500	1528
CWIP	9	24	0	0	0
Miscellaneous	101	129	132	130	133
Total Assets	**5239**	**6479**	**6808**	**7430**	**8232**
Current Liabilities & Provisions	1974	3009	3026	3059	3227
Debt	672	336	29	0	0
Other Liabilities	103	123	108	111	82
Total Liabilities	2748	3469	3163	3170	3309
Shareholders Equity	55	55	55	55	55
Reserves & Surplus	2430	2951	3587	4201	4865
Total Networth	**2485**	**3006**	**3642**	**4256**	**4920**
Minority Interest	**3**	**1**	**1**	**1**	**1**
Total Networth & Liabilities	**5239**	**6479**	**6808**	**7430**	**8232**

Source: Company, Karvy Research

Exhibit 67: Cash Flow Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
PBT	302	954	1107	1122	1193
Depreciation	141	140	165	180	195
Interest	131	49	3	0	0
Tax Paid	(91)	(323)	(345)	(336)	(358)
Inc/dec in Net WC	164	(223)	100	(24)	(99)
Other Income	(22)	(26)	(27)	(27)	(27)
Other non cash items	47	(47)	81	74	80
Cash flow from operating activities	**672**	**523**	**1082**	**988**	**984**
Inc/dec in capital expenditure	(124)	(253)	(250)	(250)	(250)
Inc/dec in investments	188	79	(124)	(219)	(482)
Others	23	34	20	28	35
Cash flow from investing activities	**87**	**(140)**	**(354)**	**(441)**	**(697)**
Inc/dec in borrowings	(556)	(336)	(308)	(29)	0
Issuance of equity	0	0	0	0	0
Dividend paid	(26)	(39)	(210)	(237)	(263)
Interest paid	(133)	(49)	(3)	0	0
Others	0	0	0	0	0
Cash flow from financing activities	**(714)**	**(424)**	**(521)**	**(265)**	**(263)**
Net change in cash	48	(19)	212	287	24

Source: Company, Karvy Research

Exhibit 68: Key Ratios

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin (%)	6.6	10.3	11.5	11.5	11.5
EBIT Margin (%)	5.5	9.5	10.6	10.6	10.6
Net Profit Margin (%)	2.7	6.7	7.7	7.3	7.3
Dividend Payout ratio	0.2	0.2	0.2	0.2	0.2
Net Debt/Equity	0.2	0.1	(0.1)	(0.2)	(0.1)
RoE (%)	8.8	24.1	24.3	19.9	18.2
RoCE (%)	12.0	19.3	19.6	17.6	16.4

Source: Company, Karvy Research

Exhibit 69: Valuation Parameters

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs.)	19.2	60.0	73.3	71.3	75.9
DPS (Rs.)	3	12.5	13	13	13
BV (Rs.)	226	273	331	387	447
PE (x)*	8.0	8.2	11.1	11.4	10.8
P/BV (x)*	0.7	1.8	2.5	2.1	1.8
EV/EBITDA (x)*	4.1	5.5	7.2	6.8	6.4
EV/Sales (x)*	0.3	0.6	0.8	0.8	0.7

*Source: Company, Karvy Research; *Represents PE, P/BV, EV/EBITDA and EV/Sales multiples for FY13 & FY14 are based on historic market price*

India Research – Stock Broking

Dhanuka Agritech Ltd

Bloomberg Code: DAGRI IN

SELL

Weak pricing environment expected to cap the top-line growth

Dhanuka's new product launches done in the last 4 years are not expected to turn into the top 5 products thus increasing the dependence on old workhorses in generating the revenue growth. This along with tough macro conditions (domestic and international) are expected to keep the revenue growth in FY16E and FY17E to normalized levels of 6%.

Lower EBITDA Margins: EBITDA margins are expected to drop down to 15.5% in FY16E and FY17E in a tough macro environment. This is expected to be driven by a 50 to 100 basis points drop in gross margins as compared to FY15E levels.

Low probability of new blockbusters is expected to lead to a drop in fixed asset turnover ratio and significantly impact the RoE and RoCE in FY16E and FY17E. Fixed Asset turnover ratio is expected to drop down to 5.5x in FY17E from a peak of 13.5x in FY12. This is because of the commissioning of Keshwana plant and less than proportionate increase in revenues. RoE and RoCE are expected to drop down to 21.8% in FY16E and 19.5% in FY17E.

New Launches with high potential: Success of the new herbicides Sakura and Sempra (both Group 2 herbicides) can be adjudged only after 2 to 3 years. Declining production of Soybean crop in the last three years (and weakness in international prices) and the present state of affairs of Sugarcane farmers does not indicate high volume off-take of high price herbicide.

Valuation and Outlook

Dhanuka Agritech, as per our understanding, needs significant price hikes to go beyond a growth level (top-line). The present macro situation, both domestically and globally (dropping agrochemicals price index in China for the last 2 quarters) precludes such a scenario and thus can put a cap on the growth possibilities. We intiate a coverage on Dhanuka Agritech with a "SELL" recommendation and a target price of Rs. 559.

Key Risks

- More than normal monsoons in FY16E.
- Success of newly launched herbicides – Sempra and Sakura in a short time.

Exhibit 70: Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	5823	7384	8153	8642	9161
EBITDA	818	1204	1345	1340	1420
EBITDA Margin (%)	14.0	16.3	16.5	15.5	15.5
Adj. Net Profit	643	930	1050	1005	1053
EPS (Rs.)	12.9	18.6	21.0	20.1	21.0
RoE (%)	26.9	31.2	27.8	21.8	19.5
PE (x)*	9.1	13.6	31.7	33.1	31.6

*Source: Company, Karvy Research; *P/E multiples for FY13 & FY14 are based on historic market price*

Recommendation (Rs.)

CMP *(as on Mar 13, 2015)*	665
Target Price	559
Upside (%)	(16)

Stock Information

Mkt Cap (Rs.mn/US$ mn)	33263/531
52-wk High/Low (Rs.)	710/231
3M Avg. daily volume (mn)	0.04
Beta (x)	0.78
Sensex/Nifty	28315 / 8607
O/S Shares(mn)	50.02
Face Value (Rs.)	2

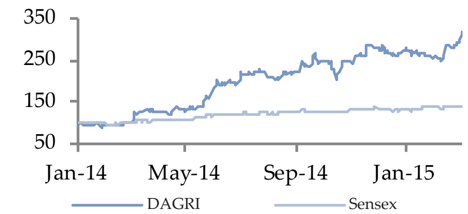
Shareholding Pattern (%)

Promoter	75.0
FIIs	5.7
DIIs	4.7
Others	14.7

Stock Performance (%)

	1M	3M	6M	12M
Absolute	16	29	41	164
Relative to Sensex	18	21	31	102

Relative Performance*



*Source: Bloomberg, *Indexed to 100*

Technical View

Dhanuka is in a secular uptrend from 135 levels and reached its all time high of 710 in march 2015. The stock is trading well above its 21/50/100/200 day EMAs and it is in a strong bullish momentum. The stock has minor resistance at 710 levels and support at 600 levels.

Analyst Contact

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Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs.mn)	FY15E	FY16E	FY17E
Net sales	8153	8642	9161
Optg. Exp (Adj for OI)	6808	7303	7741
EBITDA	1345	1340	1420
Depreciation	48	108	148
Other Income	50	50	60
Interest	9	0	0
PBT	1338	1282	1332
Tax	163	232	288
PAT	1050	1005	1053
Profit & Loss Ratios			
EBITDA margin (%)	16.5	15.5	15.5
Net profit margin (%)	12.8	11.6	11.4
P/E (x)	31.7	33.1	31.6
EV/EBITDA (x)	24.6	24.5	22.9
Dividend yield (%)	0.4	0.6	0.6

Source: Company, Karvy Research

Company Background

Dhanuka Agritech Ltd (DAGRI) manufactures a wide range of agrochemicals like herbicides, insecticides, fungicides, miticides and plant growth regulators in various forms – liquid, dust, powder and granules. DAGRI has a pan India presence through its marketing offices and 8000 distributors/ dealers selling to over 75000 retailers. DAGRI relies on the technical tie-ups with 4 American and 4 Japanese companies to source new products and market them exclusively (not all of them). DAGRI has a strong presence in formulations manufacturing through its three existing manufacturing units in Gurgaon (Haryana), Sanand (Gujarat) and Udhampur (J&K). It is presently setting up a new formulations manufacturing plant in Keshwana (liquids capacity of 25,000 KL and Solids/Granules to around 10,000 tons), Rajasthan. The present cumulative manufacturing capacity stands at 35,900 tons of solids/granules and over 11,000 KL of liquids. It has 80 branded formulations.

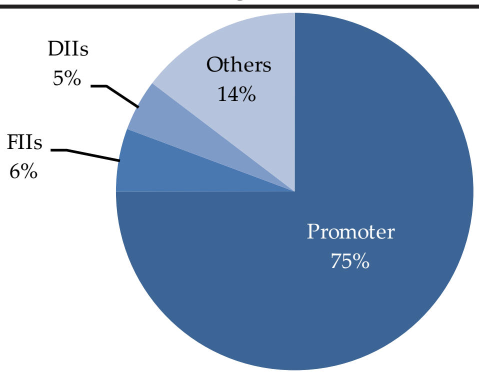
Balance sheet (Rs.mn)	FY15E	FY16E	FY17E
Total Assets	**5964**	**6803**	**7736**
Net Fixed assets	1362	1614	1816
Current assets	4458	5044	5774
Other assets	144	145	146
Total Liabilities	**5964**	**6803**	**7736**
Networth	4225	4990	5803
Debt	86	0	0
Current Liabilities	1437	1622	1705
Deferred Tax	52	17	45
Balance Sheet Ratios			
RoE (%)	27.8	21.8	19.5
RoCE (%)	30.3	24.7	22.1
Net Debt/Equity (x)	0.0	(0.1)	(0.1)
Equity/Total Assets (x)	0.7	0.7	0.8
P/BV (x)	7.9	6.7	5.7

Source: Company, Karvy Research

Cash Flow (Rs.mn)	FY15E	FY16E	FY17E
EBITDA	1345	1340	1420
Other Income	(50)	(50)	(60)
Interest	9	0	0
Tax	(288)	(276)	(280)
Changes in WC	20	(356)	(319)
CF from Operations	**1077**	**708**	**821**
Capex	(461)	(270)	(292)
Investment	0	0	0
CF from Investing	**(411)**	**(220)**	**(232)**
Change in Equity	0	0	0
Change in Debt	(308)	(86)	0
Dividends	(150)	(239)	(239)
CF from Financing	**(466)**	**(326)**	**(239)**
Change in Cash	199	162	350

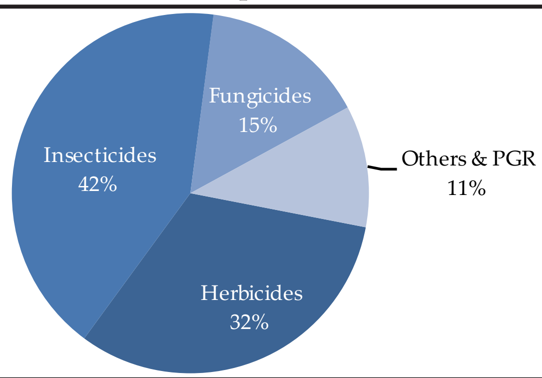
Source: Company, Karvy Research

Exhibit 71: Shareholding Pattern (%)



Source: Company, Karvy Research

Exhibit 72: Revenue Break-up (%)



Source: Company, Karvy Research; PGR: Plant Growth Regulators

Dhanuka's Business Model and the Industry Structure: DAGRI's product portfolio is not mainly driven by the base (the word base here means – molecules which are commodity type and not even a generic) technical molecules making up the main volume drivers. DAGRI's dependence on Paddy, Cotton and Soyabean is more through other technicals belonging to Group 4 of Insecticides and Group 1 of Herbicides. The company derives close to half (or more) of its top 20 products revenues from these 2 technicals. This thus increases the dependence of the company on few crops and also shows that its business model does not depend upon creating market share in at least a few of the top base molecules. This is also the case because, DAGRI has not worked on increasing its chemistry strength and integrate backwards. DAGRI 's dependence is more on Novel molecules to generate higher margin revenues (presently contribution from these molecules is below 40% and is expected to go up to 50% in another 2 to 3 years). But, even in this space, DAGRI has not been able to generate a blockbuster after TARGA Super (inlcuding its Combo products).

Qualitative Assessment of recent product launches:

DAGRI continues to base its strategy of growth around in-licensing of molecules from its Japanese and American partners. Thus, a qualitative assessment of the product launches is needed to understand the possibility of the company being able to come out with another blockbuster(s). The analysis done has been based on approximate import data of various technicals and also the presence of competition in the technicals/formulations space. Considering the list of the new technicals registered under secn. 9(3), we do not expect a major blockbuster to be coming through their way, as bulk of these 9(3) registrations are small tweaks to the existing products and most of secn. 9(4) registrations already have strong presence of competitors.

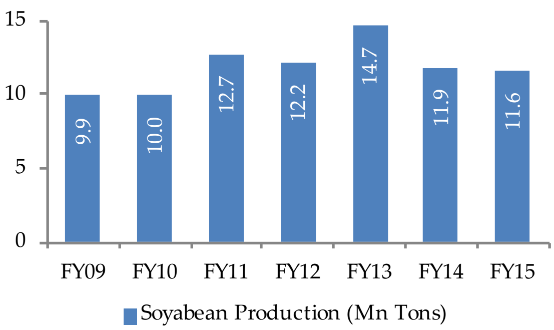
Exhibit 73: Product Launches in Last 5 years

Year & Product	Category	Remarks
FY11		
Adfyre	Insecticide	A highly used Neonicotinoid insecticide with a very strong presence of domestic and MNC players.
Zerox	Fungicide	This Triazole chemical family fungicides market potential could not be ascertained as the import quantity is very low (in terms of usage for spraying on crops) and the data from Central Insecticides Board & Registration (CIBR) is also not substantial. But, looking at the import data, this product does not look very exciting as of now.
Mykel	Fungicide	A Triazole chemical family fungicide. Based on the available import data, the product does not look very exciting.
FY12		
Brigade	Insecticide	A Pyrethroid group insecticide, the base volumes are not as big as that of some of the organophosphate and neo-nicotinoid insecticides. Also, a comparable peer in the country manufactures the technical and has its own formulation product which it considers to be among its top 20 products.
Bombard	Insecticide	A Pyrethroid group insecticide. The volume base for this insecticides looks very low based on the import data available.
Vitavax Ultra	Fungicide (Combo Formulation)	A combo formulation. Based on the import data available for Vitavax, the product sales are just around 3% of the total sales (maximum), even after including the import data of Thiram, this product does not look like a potential big seller.
FY13		
Fluid	Insecticide	A group 28 Insecticide, this product is one of the novel molecules in the industry used more against the Lepidopteran insects. There is an already well entrenched MNC player in the Industry. Though this product looks promising, it has to be seen how strongly the company will be able to break in and capture the market share.
Fuzi Super	Herbicide	A Group 2 rice herbicide (broad leaf weed herbicide). The sales volumes of the product are good and is one of the promising products for the company.
Lustre	Fungicide (Combination Fungicide)	A rice (Sheath Blight) combination fungicide. This is another one of the promising products for the company. This is because Carbendazim is one of the most widely used fungicides in the country but, is a low value product. It however remains to be seen, how well the company will perform in increasing the volumes of this higher value combination fungicide going forward.

FY14		
Defend	Insecticide	This is a Phenylpyrazole chemical group insecticide, that acts against both Hemiptera and Lepidoptera groups of insects. But, the technical of this insecticide is already being manufactured by quite a few domestic players thus impacting the ability of the company to compete on the price and volume front simultaneously.
Media Super	Insecticide	A high selling neonicotinoid insecticide, in which there are quite a few deeply entrenched players. Though this is a high volume insecticide but, many domestic players also have technical manufacturing capability which gives them an advantage.
Danfuron	Insecticide	This is a novel insecticide from Bayer Crop Science but has already been launched by the innovator in the country. Going by the product labelling, this product is mainly meant for action against Lepidopteran insect family on rice. The present sales volume looks low (i.e. the present market size).
Protocol	Fungicide	A multi-site activity Fungicide, volumes data do not indicate, this being a potential volume churner as the export volumes are significantly higher than the import volumes.
FY15E		
Sakura	Herbicide	This Soybean herbicide, being launched with a higher concentration of the technical, will be commercially launched in FY16 Kharif season. Though this a higher soya herbicide of the already existing soya herbicide of the company, this product is up against dropping tonnages of soya crop and the competition from a new entrant into this segment.
Sempra	Herbicide	A costly group 2 herbicide for Sugarcane crop will be taking few seasons to pick up pace. Also, the farmers of this crop are not in the financially best of positions. This is expected to impact the volume off-take of the product and thus restrict the volume upside.
Mortar	Insecticide	This is slightly different formulation of an already existing product of the company. The present product is among the top 5 products of the company.
Pager	Insecticide	A Group 12 Insecticide, the technical of which is being manufactured by a domestic peer. This competitor is also counting it among its top 20 products. The potential thus does not look very attractive.
Jackal	Insecticide	A Pyrethroid group insecticide which is used mainly registered in India for use in the public health space. But, in combination with some neonicotinoids, it is used against both Lepidopteran and Hemipteran insect classes.

Source: Company, Karvy Research

Exhibit 74: Soybean Production India



Source: Company, Karvy Research

Based on the assessment/analysis done in the table above, it is mainly the products launched in the FY13 which are expected to be better performers as compared to the products launched in the last 5 years. But, the sales contribution of even these products is marginally above 5% which is not very encouraging. Thus, the company would continue to depend upon the old workhorses to generate its growth even going forward. This taken along with expected continuing weakness in Soybean crop and on comparing with similar (pricing and monsoon) conditions seen in the past, we expect less than FY15E top-line growth for FY16E and FY17E.

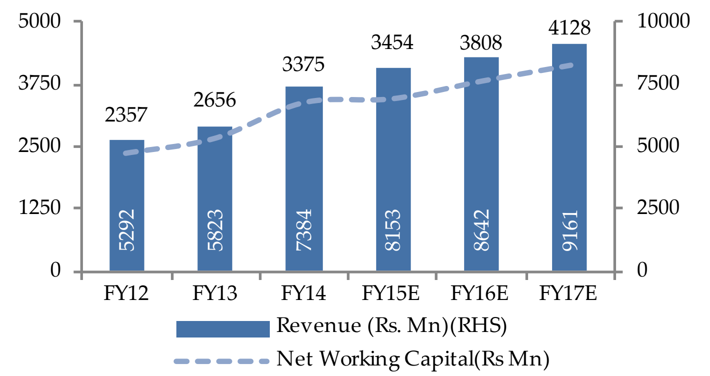
Increasing competition, lack of technical manufacturing strength and no export revenues also weigh on the company's growth potential:

Unlike many other peers in the industry, Dhanuka does not have chemistry strength (Process Chemistry), which if available for at least the top 10 base molecules would help the company increase its volumes and also tap the export markets in a significant way. Lack of this ability is expected to reduce the probability of Dhanuka growing at a faster clip in the coming two years.

Drop in return ratios but, a good working capital discipline in terms of Net Working Capital to provide the support and stability.

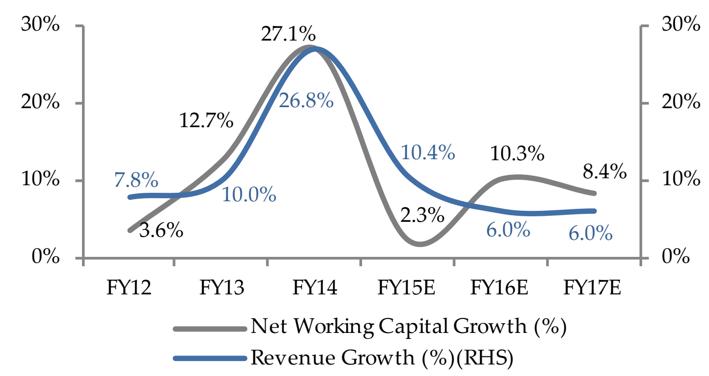
The expected slowing growth rate of revenues to more normalized levels is expected to bring down the return ratios of the company going forward. Any increase in dividend out-go though can increase the RoE in the present slack period. This is a lower probability scenario as the company intends to spend on registrations, other maintenance and expansion capex in the next two to three years. Also, the Asset turnover ratio is expected to come down going forward as the ongoing and planned capex is not expected to lead to a proportional or more than proportional increase in revenues going forward. What provides stability to the performance parameters is the working capital discipline which keeps the debt requirements of the company under check. Expectedly higher depreciation on the back of commissioning of Keshwana Plant in Rajasthan is expected to increase depreciation significantly in FY16E which along with expenses incurred for new registrations will further increase the depreciation entry in FY17E. This factor along with normalized growth levels is expected to lead to a Y-o-Y profit de-growth of 4.2% in FY16E and a profit growth of 4.7% in FY17E. This is expected to lead to a drop in RoE to 19.5% in FY17E from a peak of 31.2% seen in FY14.

Exhibit 75: Revenue & Net Working Capital



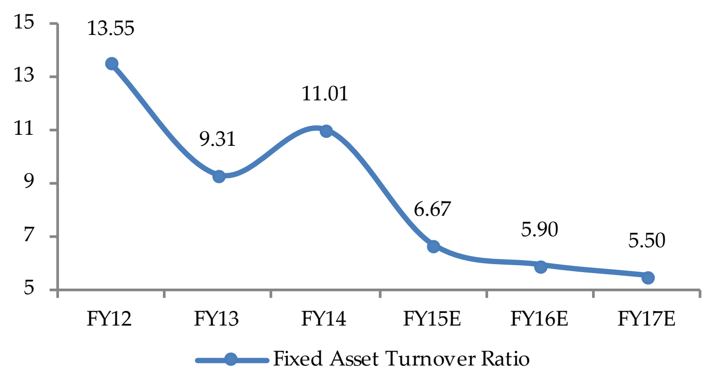
Source: Company, Karvy Research

Exhibit 76: Net Working Capital & Revenue Growth (%)



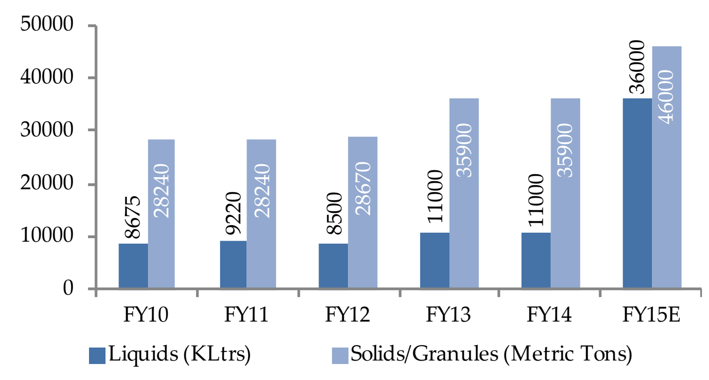
Source: Company, Karvy Research

Exhibit 77: Fixed Asset Turnover Ratio (x)



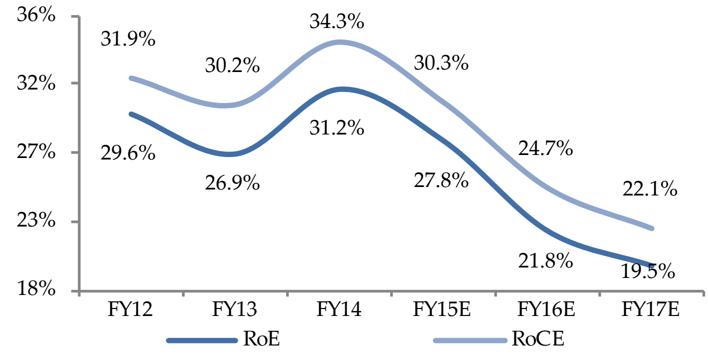
Source: Company, Karvy Research

Exhibit 78: Capacity Growth



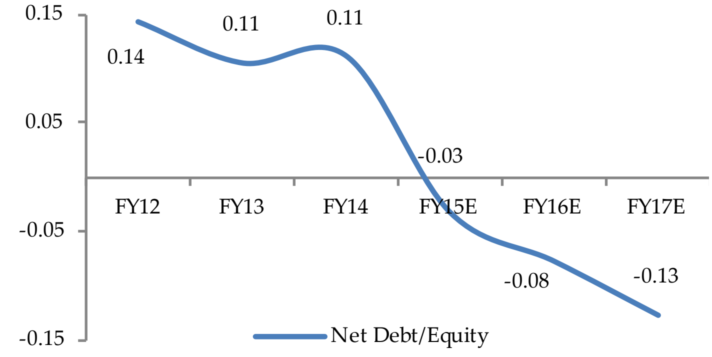
Source: Company, Karvy Research

Exhibit 79: RoE & RoCE Progression



Source: Company, Karvy Research

Exhibit 80: Net Debt/Equity (x)



Source: Company, Karvy Research

Company needs 2 to 3 blockbusters to lift up the growth rates into double digits:

After Targa, Dhanuka has not come out with a product that matches the revenue generation of this blockbuster. Though the company is betting on newly launched herbicides, the high value of these products would get the volume required only if the farmers earn the required level of profits. Also, the ramp-up in revenue generation would take some time (2 to 3 years), thus, making these a possible long term triggers than short to medium triggers.

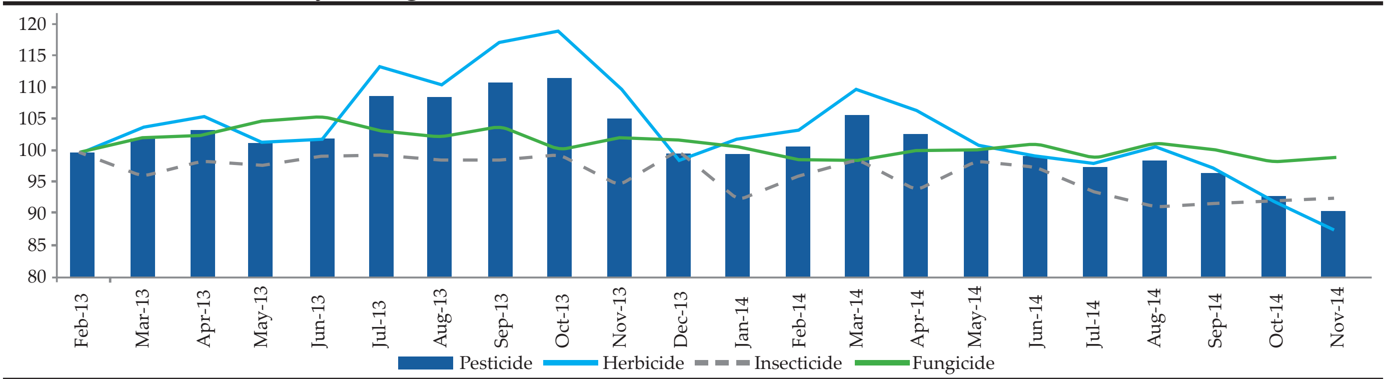
But, as the products spread is wide and the company has a strong and well spread out marketing network, we expect them to manage an average growth of around 6% under conditions of normal to sub-normal monsoons.

Price Hikes: The industry is not expected to see price hikes in FY16E and FY17E to the extent seen in FY13, FY14 and FY15E. Price hikes for these years were justified by depreciating rupee and increasing commodity prices and also sustained by normal to above-normal monsoons. Going forward, the probability of this scenario sustaining looks to be low and thus the expectation.

Global Scenario-another dampener:

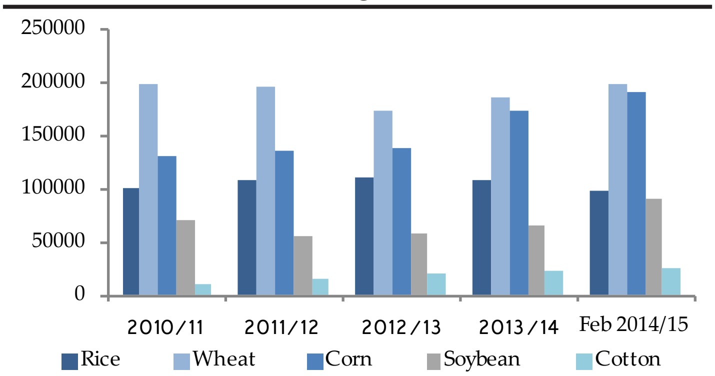
Globally, high ending stocks of Cotton, Corn and Soybean are expected to keep the prices under pressure which along with, dropping Agro Chemicals price index in China is expected to keep the pricing environment subdued going forward. Even an above-normal monsoon may not lead to above-normal price hike for the company. The reason for this being that, industry will only have normal number of sprays (normal monsoons) in staple crops like Paddy and Wheat but, any slackness in Cotton and Soybean can acts as a neutralizer.

Exhibit 81: CAPI Tendency during Feb 2013 to Nov 2014



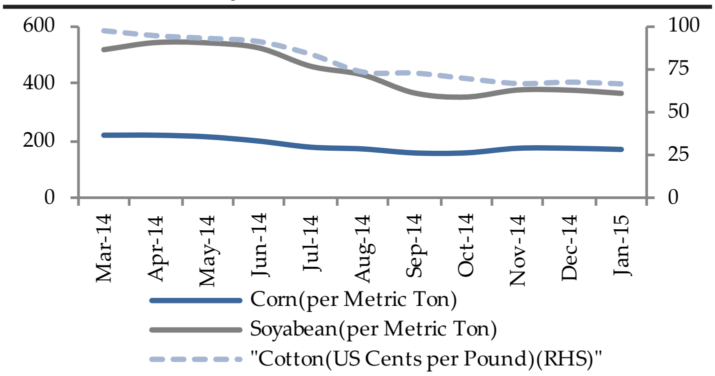
Source: Company, Karvy Research; CAPI: Chinese Agrochemicals Price Index

Exhibit 82: Worldwide Ending Stocks (000 MTs)



Source: Company, Karvy Research

Exhibit 83: Monthly Price Movement



Source: Company, Karvy Research

Exhibit 84: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
India Business (Standalone)					
Revenue	7384	8153	8642	9161	Revenue Growth rates are expected to normalize to the previous years levels because of increasing probability of a lower price hikes scenario. Also, in company specific terms, dropping production of soybean along with increasing domestic competition in its top 3 products (out of top 10) also is expected to put pressure on the company's performance.
Revenue Growth (%)	26.8	10.4	6.0	6.0	
EBITDA	1204	1345	1340	1420	EBITDA Margins are expected to drop by around 100 basis points and reach levels seen in FY12. This can see a further downside pressure of 50 basis points if other expenses go up significantly
EBITDA Margins (%)	16.3	16.5	15.5	15.5	
PAT (normalized)	930	1050	1005	1053	The drop in PAT and EPS growth in FY16 is because of the expected significant increase in Depreciation because of the expected commissioning of the Keshwana plant by the end of FY15.
Fully Diluted EPS (Rs)	18.6	21.0	20.1	21.0	
Fully Diluted EPS Growth (%)	44.6	12.9	(4.2)	4.7	
Capex (ex. Acquisition) - cash capex	308	461	270	292	
Net CFO	334	1077	708	821	
Net Debt	371	(136)	(384)	(734)	
Free Cash Flow	25	616	438	529	

Source: Company, Karvy Research

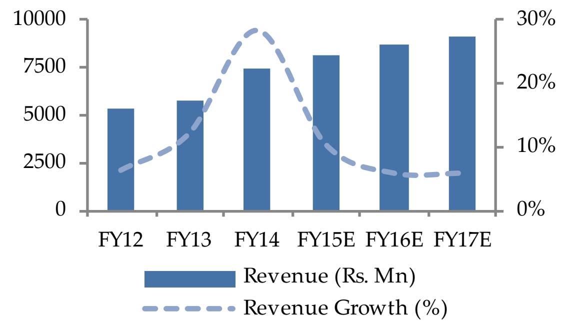
Exhibit 85: Karvy vs. Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs.mn)				
FY15E	8153	8170	(0.2)	Weak macro-environment
FY16E	8642	9900	(14.6)	Weaker pricing environment and assumption of no new blockbusters are the reasons.
FY17E	9161	11690	(27.6)	Weaker pricing environment and assumption of no new blockbusters are the reasons. Continuance of assumption of weaker pricing environment is driven by the commodity cycle and the probable threat of El Nino still persisting (periodicity of occurrence is 2 to 7 years).
EBITDA (Rs.mn)				
FY15E	1345	1420	(5.6)	Assumed a drop in gross margins to overcome tough situations.
FY16E	1340	1760	(31.4)	Lesser estimated revenue growth and assumption of no new blockbuster are the reasons.
FY17E	1420	2090	(47.2)	Lesser estimated revenue growth and assumption of no new blockbuster are the reasons.
EPS (Rs.)				
FY15E	21.0	21.4	(2.0)	Variations could be because of differences in interest expense calculations.
FY16E	20.1	26.0	(29.3)	Lesser estimated revenue growth and assumption of no new blockbuster are the reasons.
FY17E	21.0	31.2	(48.3)	Lesser estimated revenue growth and assumption of no new blockbuster are the reasons.

Source: Bloomberg, Karvy Research

Capped & Stable revenue growth going forward

Exhibit 86:

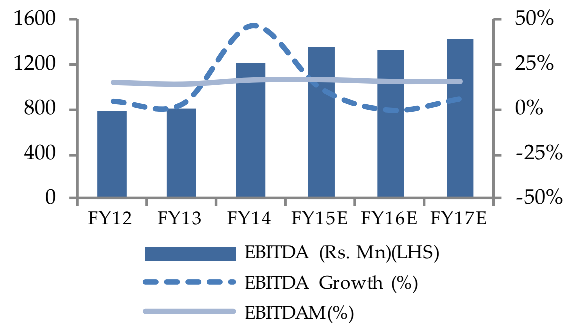


Source: Company, Karvy Research

Revenue growth is expected to normalize to levels of around 6% (as seen in previous years- when the impact of volatile commodity prices had not yet started building up into the pricing) in FY15E and FY16E.

Stable EBITDA Margins

Exhibit 87:

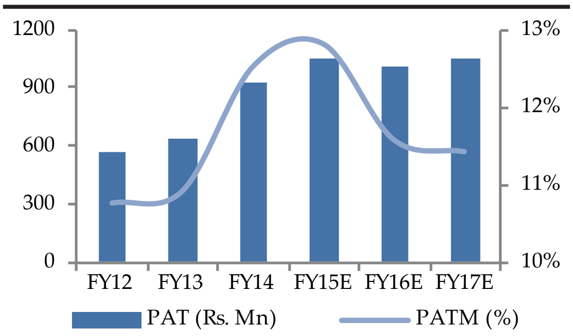


Source: Company, Karvy Research

EBITDA Margins are expected to drop down to 15.5% in the backdrop of a weak pricing environment. They are expected to remain stable around these levels, helped by a drop in commodity prices. Any significant increase in other expenses can act as a dampener though.

Marginal Drop in Net Profit Margins

Exhibit 88:



Source: Company, Karvy Research

Net Profit Margins of the company are expected to drop in the range of 20 to 30 basis points. This small drop is mainly driven by deferred tax adjustments and not due to decrease in PBT, as at current PBT level, profits are expected to increase by 3% and 7% in FY16E and FY17E respectively

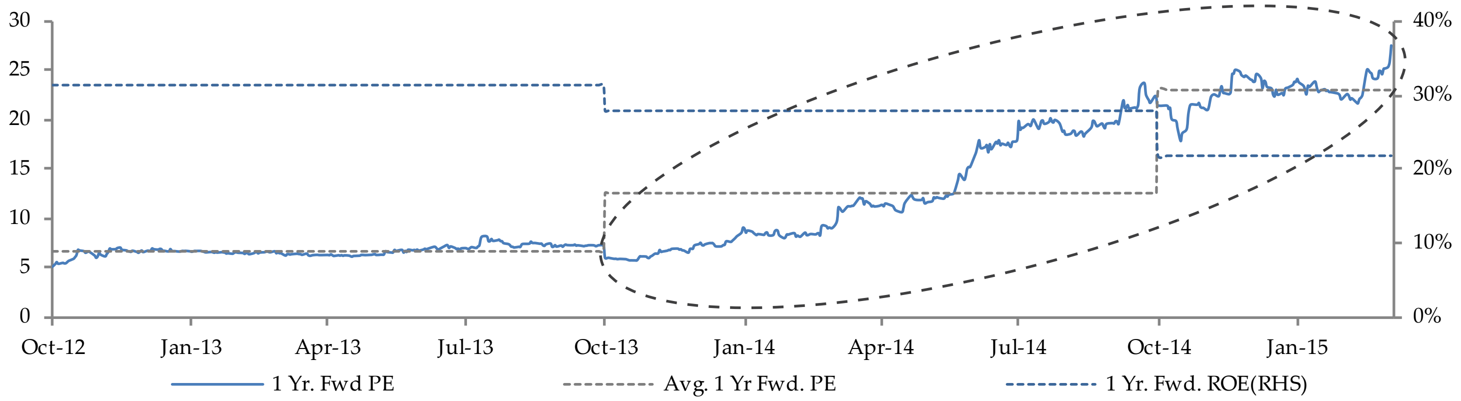
Exhibit 89: Company Snapshot (Ratings)

	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports	✓				
Net Debt/Equity				✓	
Working Capital req				✓	
Quality of Management				✓	
Depth of Management				✓	
Promoter				✓	
Corporate Governance					

Source: Company, Karvy Research

Valuation

Exhibit 90: RoE Vs EPS Growth



Source: Company, Karvy Research

The PE growth expansion was driven by increasing RoE. This RoE growth was driven by PAT growth, which was aided by price hikes and volume growth during the year of good monsoons (especially in FY14). These business dynamics are not expected to play in the present macro and sectoral scenario. Also, a lack of strong base chemicals portfolio, zero technicals manufacturing capability and zero exports revenues affect the company's ability to grow at a pace on par with some of its peers. Because of these reasons, we do not expect the PE expansion to sustain going forward and thus value the company at 28 times the FY16E EPS at a price of **Rs. 559**, representing a downside of 15.9%, which is on par with the expected RoE in FY15E. The Exhibit above shows that, 1 Yr. Fwd. PE is in a continuous expansion mode which is not justified by the expected significant drop in profit growth and thus a dropping RoE.

Key Risks

- Any significant improvement in South West Monsoons, in terms of being above normal, can impact the call as the industry's ability to go for higher price hikes will be enhanced.
- Any decision by the company to establish a technicals capacity in JV with foreign players can help the company enhance its competitive ability.

Financials

Exhibit 91: Income Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Revenues	5823	7384	8153	8642	9161
Growth (%)	10.0	26.8	10.4	6.0	6.0
Operating Expenses	5005	6180	6808	7303	7741
EBITDA	818	1204	1345	1340	1420
Growth (%)	3.1	47.3	11.7	(0.4)	6.0
Depreciation & Amortization	45	48	48	108	148
Other Income	70	48	50	50	60
EBIT	772	1156	1297	1232	1272
Interest Expenses	35	42	9	0	0
PBT	807	1162	1338	1282	1332
Tax	163	232	288	276	280
Adjusted PAT	643	930	1050	1005	1053
Growth (%)	12.9	44.6	12.9	(4.2)	4.7

Source: Company, Karvy Research

Exhibit 92: Balance Sheet

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Cash & Investments	136	23	222	384	734
Sundry Debtors	1507	1709	1875	2161	2382
Inventory	1599	2148	2191	2305	2443
Loans & Advances	321	382	303	329	351
Investments	0	10	10	10	10
Gross Block	926	988	1588	1938	2288
Net Block	626	671	1222	1464	1666
CWIP	8	3	13	223	140
Miscellaneous	3	3	0	0	0
Total Assets	**4205**	**5168**	**5964**	**6803**	**7736**
Current Liabilities & Provisions	1086	1263	1437	1622	1705
Debt	330	394	86	0	0
Other Liabilities	161	186	215	190	228
Total Liabilities	1577	1843	1739	1812	1933
Shareholders Equity	100	100	100	100	100
Reserves & Surplus	2528	3225	4125	4890	5703
Total Networth	**2628**	**3325**	**4225**	**4990**	**5803**
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Networth & Liabilities	**4205**	**5168**	**5964**	**6803**	**7736**

Source: Company, Karvy Research

Exhibit 93: Cash Flow Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
PBT	808	1163	1338	1282	1332
Depreciation	45	48	48	108	148
Interest	35	42	9	0	0
Tax Paid	(161)	(224)	(288)	(276)	(280)
Inc/dec in Net WC	(227)	(659)	20	(356)	(319)
Other Income	(23)	(22)	(50)	(50)	(60)
Other non cash items	(12)	(15)	0	0	0
Cash flow from operating activities	**466**	**334**	**1077**	**708**	**821**
Inc/dec in capital expenditure	(279)	(288)	(461)	(270)	(292)
Inc/dec in investments	71	72	0	0	0
Others	23	22	50	50	60
Cash flow from investing activities	**(185)**	**(194)**	**(411)**	**(220)**	**(232)**
Inc/dec in borrowings	(64)	64	(308)	(86)	0
Issuance of equity	0	0	0	0	0
Dividend paid	(215)	(193)	(150)	(239)	(239)
Interest paid	(35)	(42)	(9)	0	0
Others	0	0	0	0	0
Cash flow from financing activities	**(314)**	**(170)**	**(466)**	**(326)**	**(239)**
Net change in cash	(33)	(31)	199	162	350

Source: Company, Karvy Research

Exhibit 94: Key Ratios

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin (%)	14.0	16.3	16.5	15.5	15.5
EBIT Margin (%)	13.1	15.6	15.8	14.2	13.8
Net Profit Margin (%)	10.9	12.5	12.8	11.6	11.4
Dividend Payout ratio	0.2	0.2	0.1	0.2	0.2
Net Debt/Equity	0.1	0.1	0.0	(0.1)	(0.1)
RoE (%)	26.9	31.2	27.8	21.8	19.5
RoCE (%)	30.2	34.3	30.3	24.7	22.1

Source: Company, Karvy Research

Exhibit 95: Valuation Parameters

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs.)	12.9	18.6	21.0	20.1	21.0
DPS (Rs.)	2.8	4.0	2.5	4.0	4.0
BV (Rs.)	53	66	84	100	116
PE (x)*	9.1	13.6	31.7	33.1	31.6
P/BV (x)*	2.2	3.8	7.9	6.7	5.7
EV/EBITDA (x)*	7.5	10.8	24.6	24.5	22.9
EV/Sales (x)*	1.0	1.8	4.1	3.8	3.6

*Source: Company, Karvy Research; *Represents PE, P/BV, EV/EBITDA and EV/Sales multiples for FY13 & FY14 are based on historic market price*

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	<5%

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