

CRISIL IER

Independent Equity Research

Enhancing investment decisions



Dhanuka Agritech Ltd

Q1FY18 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL		CRISIL	
Fundamental Grade	Assessment	Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Dhanuka Agritech Ltd

September 25, 2017

GST destocking, slow pick-up in south India dented growth

Fundamental Grade: 4/5 (Superior fundamentals) Valuation Grade: 4/5 (CMP has upside)
Industry: Agrochemicals Fair Value: ₹821 CMP: ₹661

Dhanuka Agritech Ltd's Q1FY18 results were below our expectations. Revenue increased merely 3.9% y-o-y to ₹2,080 mn owing to 1) inventory destocking by dealers in June following GST implementation and 2) poor rainfall in south India (one-third of revenue). These factors impacted revenue growth of other agrochemical players - revenues of Bayer Ltd, Rallis India Ltd, PI Industries (domestic) declined 14%, 5% and 15%, respectively. Dhanuka's EBITDA margin contracted 246 bps y-o-y to 11.8% bps owing to higher material costs and other expenses. Following lower EBITDA (down 14.1% y-o-y), PAT declined 18.9% y-o-y to ₹161 mn. In the coming quarters, we expect 1) settling of GST-led disruption, as the company and dealers start adjusting to the system, 2) pick-up in sowing in south India led by the India Meteorological Department's (IMD's) forecast of above-normal rainfall in the southern peninsula, 3) higher sowing of sugarcane and cotton, and 4) steady traction of new products, to boost the company's sales. We remain positive on the industry's long-term prospects and maintain our fundamental grade of **4/5**.

Herbicides contributed the highest; traction in new products a key growth enabler

In Q1FY18, herbicides reported highest revenue contribution (46.7%), followed by insecticides (29.5%), others (13.2%) and fungicides (10.5%). According to the company, Sempra (a key sugarcane herbicide) performed well owing to higher sowing of sugarcane. Our channel checks in key sugarcane growing areas, confirm the product has garnered positive response from farmers. The company continues to focus on introducing new products. In Q1FY18, it launched one 9(3) product - Foster - for the floriculture space. It plans to launch two 9(4) broad spectrum insecticides in the coming quarters.

Higher input costs led to margin contraction

EBITDA margin contracted 246 bps y-o-y to 11.8% owing to higher raw material costs as a percentage of sales (up 126 bps y-o-y to 62.4%) and other expenses (up 14% y-o-y owing to high conference and seminar expenses). For the remaining year, we expect margin to be higher than in Q1 owing to higher sales and improvement in the product mix. However, we expect EBITDA margin to contract 100 bps y-o-y to 18.7% in FY18 owing to expected increase in input costs on account of gap in future supplies created by closure of factories in China. Also, materialisation of Central Insecticides Board and Registration Committee's recent recommendation on capping prices could adversely impact margin.

Kharif sowing flat despite normal monsoon

While south and central India have received -16% and -9% below LPA rainfall, respectively, north-west, east and north-east have received 3% above LPA each until August 16. Despite normal monsoon, until August 18, 2017 kharif sowing was flat at ~98 mn hectares (down 0.8% y-o-y). This season, cotton and sugarcane sowing is up 18% and 9% y-o-y, respectively, driven by increase in global prices. This has helped offset decline in oilseeds sowing (down 10% y-o-y). Going forward, smoothening of GST implementation and above normal monsoon in the southern peninsula, as forecast by the IMD, is expected to increase sowing.

We maintain our fair value of ₹821 per share

We maintain our earnings estimates for FY18-19E. Consequently, we maintain the discounted cash flow (DCF)-based fair value of ₹821. At the current market price of ₹661, our valuation grade is **4/5**.

KEY FORECAST

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Operating income	7,900	8,310	8,767	10,130	11,820
EBITDA	1,367	1,422	1,725	1,896	2,201
Adj net income	1,051	1,039	1,194	1,293	1,499
Adj EPS (₹)	21.0	20.8	24.3	26.4	30.6
Dividend yield (%)	0.7	1.0	0.9	2.6	2.1
RoCE (%)	33.0	29.8	31.0	32.3	34.6
RoE (%)	28.3	23.3	23.9	24.1	25.5
PE (x)	31.6	32.0	27.3	25.2	21.7
P/BV (x)	8.1	6.9	6.3	5.9	5.2
EV/EBITDA (x)	24.0	23.0	18.8	17.1	14.7

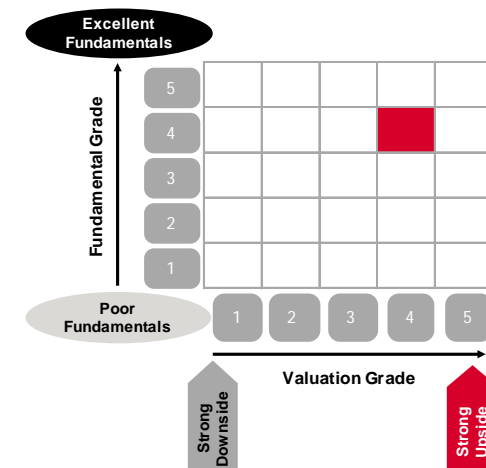
NM: Not meaningful; CMP: Current market price # Abridged financials

Source: Company, CRISIL Research estimates

 For detailed initiating coverage report please visit: www.crisil.com

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

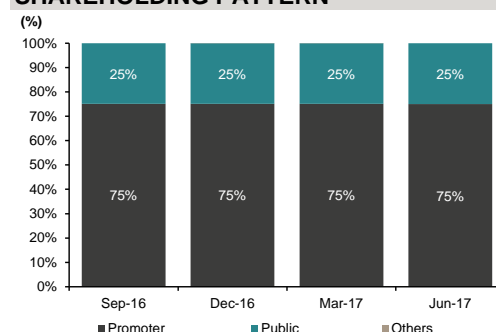
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	9872/31626
BSE ticker	DHANUKA
Face value (₹ per share)	2
Shares outstanding (mn)	49
Market cap (₹ mn)/(US\$ mn)	37,221/575
Enterprise value (₹ mn)/(US\$ mn)	37,257/576
52-week range (₹)/(H/L)	930/580
Beta	0.7
Free float (%)	24.9%
Avg daily volumes (30-days)	26,860
Avg daily value (30-days) (₹ mn)	19

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Dhanuka	-3%	-22%	-16%	2%
NIFTY 500	2%	5%	11%	16%

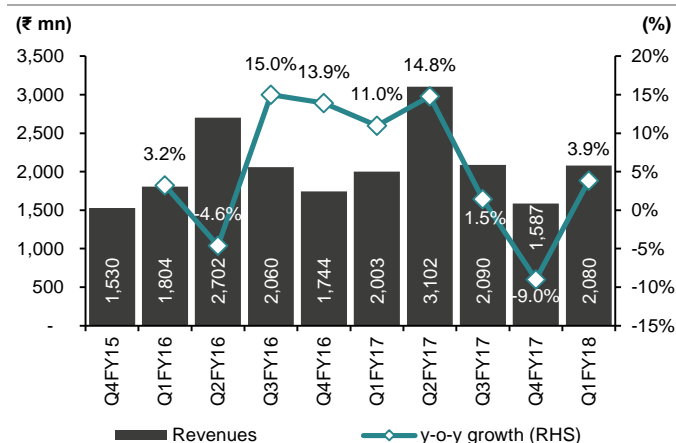
Q1FY18 Results Summary

₹ mn	Q1FY18	Q4FY17	Q1FY17	q-o-q (%)	y-o-y (%)
Operating Income (net of excise)	2,080	1,587	2,003	31.1	3.9
Raw materials cost	1,298	791	1,225	64.2	6.0
Raw materials cost (% of net sales)	62.4%	49.8%	61.2%	1258bps	126bps
Employees cost	234	248	227	(5.7)	3.1
Other expenses	302	206	265	46.9	14.0
EBITDA	245	342	286	(28.2)	(14.1)
EBITDA margin	11.8%	21.6%	14.3%	-975bps	-246bps
Depreciation	34	45	32	(24.3)	7.1
EBIT	211	297	254	(28.8)	(16.8)
Interest and finance charges	3	3	3	4.8	2.0
Operating PBT	208	294	251	(29.2)	(17.0)
Other Income	20	35	35	(41.2)	(40.9)
Extraordinary Income/(expense)				NM	NM
PBT	229	329	285	(30.4)	(19.9)
Tax	67	86	86	(22.3)	(22.1)
PAT	161	242	199	(33.4)	(18.9)
Adj PAT	161	242	199	(33.4)	(18.9)
Adj PAT margin	7.8%	15.3%	9.9%	-750bps	-218bps
No of equity shares (mn)	49	49	50	-	(1.9)
Adj EPS (₹)	3.3	4.9	4.0	(33.4)	(17.4)

NM: Not Meaningful

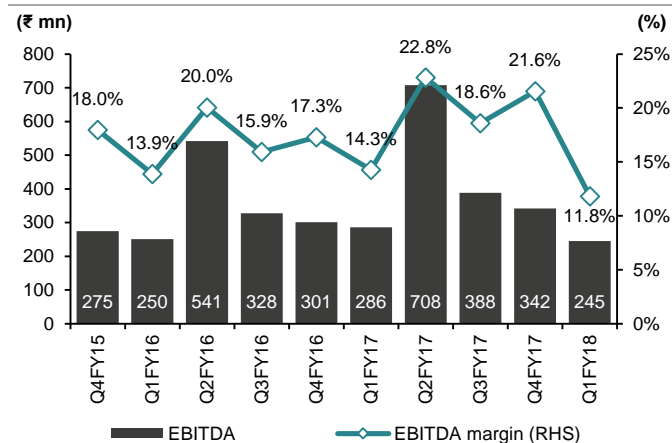
Source: Company, CRISIL Research;

Revenue increased 3.9% y-o-y



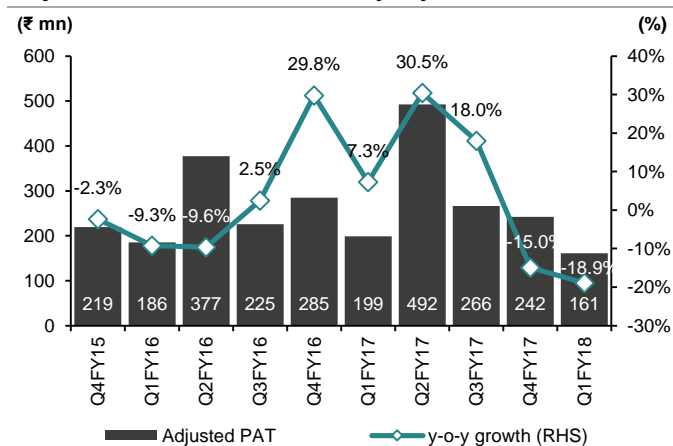
Source: Company, CRISIL Research

EBITDA margin contracted 246 bps y-o-y to 11.8%



Source: Company, CRISIL Research

Adjusted PAT decreased 18.9% y-o-y



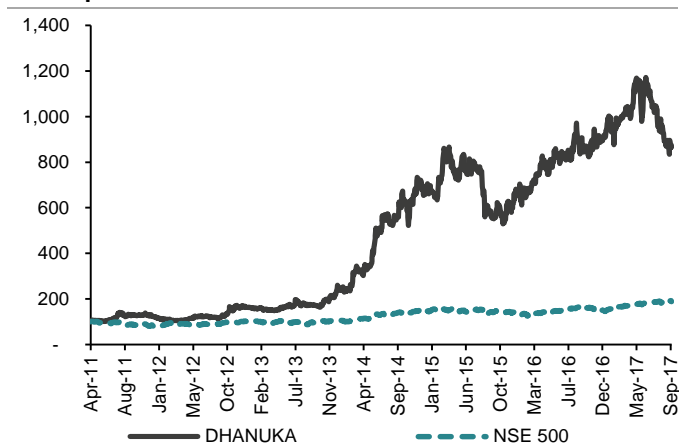
Source: Company, CRISIL Research

Insecticides remains the largest contributing segment

Region-wise contribution	Q1FY18	Q1FY17
North	35.5%	34.1%
East	11.2%	9.2%
South	15.9%	38.5%
West	37.3%	17.4%
Category-wise contribution		
Insecticide	29.5%	28.2%
Fungicide	10.5%	10.1%
Herbicide	46.7%	55.8%
Others	13.2%	5.7%

Source: Company, CRISIL Research

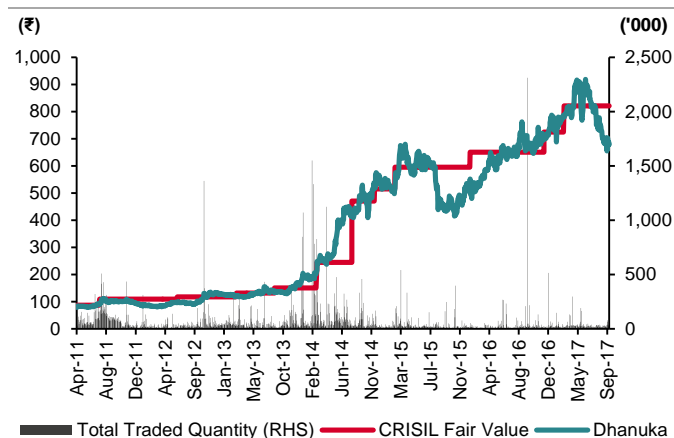
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



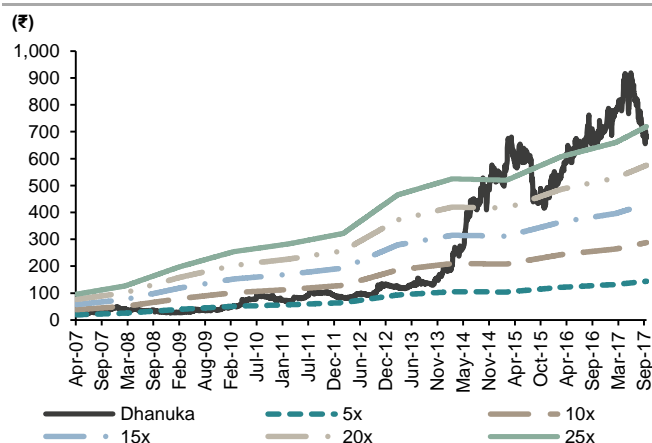
Source: NSE, BSE, CRISIL Research

Valuation

Grade: 4/5

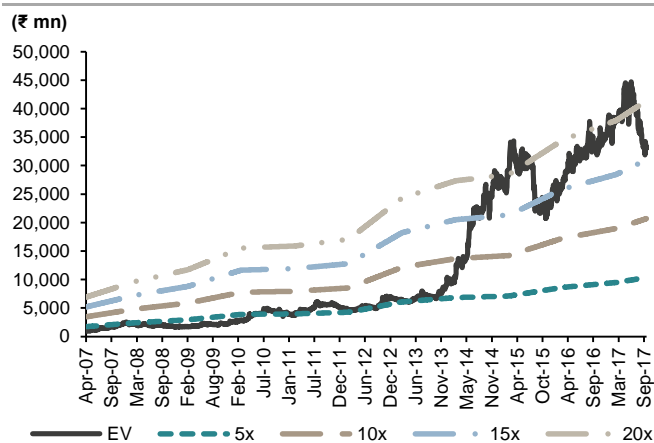
We maintain our earnings estimates for FY18-19E. Consequently, we maintain the DCF-based fair value of ₹821. This fair value implies P/E multiples of 31.1x and 26.9x on FY18E and FY19E EPS, respectively. The stock currently trades at ₹661, implying P/E multiples of 25.2x and 21.7x on FY18E and FY19E EPS, respectively. At the current market price, our valuation grade is 4/5.

One-year forward P/E band



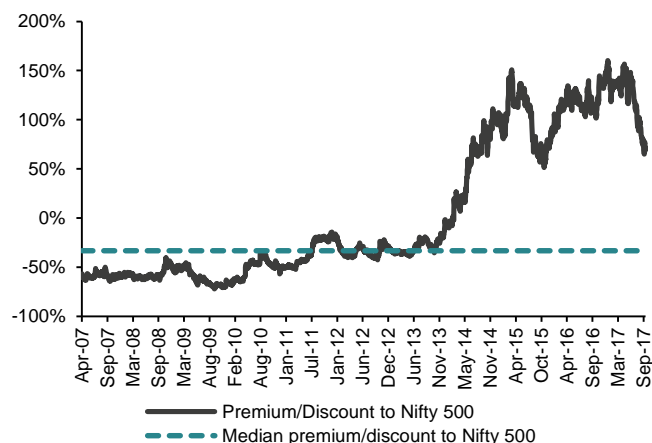
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



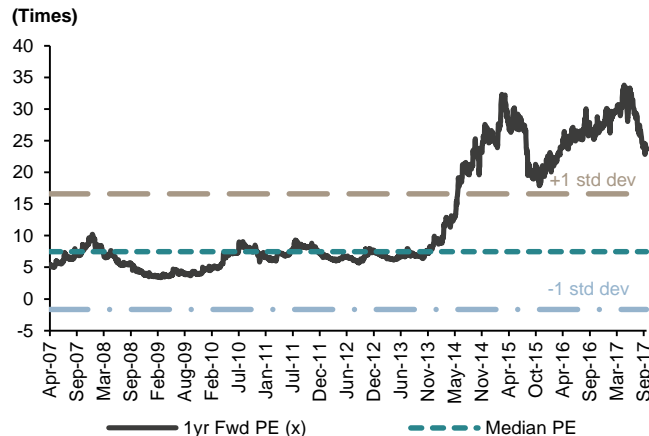
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Dhanuka Agritech Ltd

Date	Nature of report	Fundamental	Fair value	Valuation	CMP
		grade		grade	(on the date of report)
06-Apr-10	Initiating coverage	3/5	₹52	3/5	₹50
04-Jun-10	Q4FY10 result update	3/5	₹67	3/5	₹71
11-Aug-10	Q1FY11 result update	3/5	₹72	3/5	₹82
12-Nov-10	Q2FY11 result update	3/5	₹79	2/5	₹93
04-Feb-11	Q3FY11 result update	3/5	₹87	4/5	₹72
03-Jun-11	Q4FY11 result update	3/5	₹87	3/5	₹84
11-Jul-11	Detailed report	4/5	₹109	4/5	₹91
04-Aug-11	Q1FY12 result update	4/5	₹109	3/5	₹110
16-Nov-11	Q2FY12 result update	4/5	₹109	3/5	₹102
16-Feb-12	Q3FY12 result update	4/5	₹109	4/5	₹88
25-Jun-12	Detailed Report	4/5	₹117	4/5	₹96
23-Aug-12	Q1FY13 result update	4/5	₹117	5/5	₹93
09-Nov-12	Q2FY13 result update	4/5	₹117	3/5	₹126
12-Mar-13	Q3FY13 result update	4/5	₹132	3/5	₹122
24-May-13	Q4FY13 result update	4/5	₹132	3/5	₹129
05-Jul-13	Detailed report	4/5	₹132	3/5	₹133
04-Sep-13	Q1FY14 result update	4/5	₹150	4/5	₹137
27-Nov-13	Q2FY14 result update	4/5	₹150	3/5	₹156
03-Mar-14	Q3FY14 result update	4/5	₹244	4/5	₹201
22-May-14	Q3FY14 result update	4/5	₹244	2/5	₹311
12-Aug-14	Detailed report	4/5	₹470	4/5	₹419
14-Nov-14	Q2FY15 result update	4/5	₹515	3/5	₹521
11-Feb-14	Q3FY15 result update	4/5	₹595	4/5	₹510
24-Jun-15	Q4FY15 result update	4/5	₹595	3/5	₹630
03-Sep-15	Q1FY16 result update	4/5	₹595	5/5	₹475
01-Dec-15	Q2FY16 result update	4/5	₹650	4/5	₹525
14-Jan-16	Detailed report	4/5	₹650	4/5	₹552
25-Feb-16	Q3FY16 result update	4/5	₹650	4/5	₹539
15-June-16	Q4FY16 result update	4/5	₹650	3/5	₹650
30-Aug-16	Q1FY17 result update	4/5	₹650	2/5	₹732
08-Dec-16	Q2FY17 result update	4/5	₹724	3/5	₹701
06-Mar-17	Q3FY17 result update	4/5	₹821	3/5	₹788
12-Jun-17	Q4FY17 result update	4/5	₹821	3/5	₹885
25-Sept-17	Q1FY18 result update	4/5	₹821	4/5	₹661

Annexure: Financials

Income statement						Balance Sheet					
(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E	(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Operating income	7,900	8,310	8,767	10,130	11,820	Liabilities					
EBITDA	1,367	1,422	1,725	1,896	2,201	Equity share capital	100	100	98	98	98
EBITDA margin	17.3%	17.1%	19.7%	18.7%	18.6%	Reserves	4,012	4,704	5,100	5,424	6,125
Depreciation	59	58	148	152	169	Minorities	-	-	-	-	-
EBIT	1,309	1,364	1,576	1,744	2,032	Net worth	4,112	4,804	5,199	5,522	6,223
Interest	26	11	11	1	-	Convertible debt	-	-	-	-	-
Operating PBT	1,283	1,353	1,565	1,742	2,032	Other debt	158	77	79	-	-
Other income	10	103	117	124	138	Total debt	158	77	79	-	-
Exceptional inc/(exp)	9	34	-	-	-	Deferred tax liability (net)	35	83	116	83	83
PBT	1,302	1,489	1,682	1,866	2,170	Total liabilities	4,305	4,964	5,393	5,605	6,306
Tax provision	242	416	488	573	671	Assets					
Minority interest	-	-	-	-	-	Net fixed assets	679	1,313	1,383	1,684	1,809
PAT (Reported)	1,060	1,073	1,194	1,293	1,499	Capital WIP	610	206	-	-	-
Less: Exceptionals	9	34	-	-	-	Total fixed assets	1,289	1,520	1,383	1,684	1,809
Adjusted PAT	1,051	1,039	1,194	1,293	1,499	Investments	57	384	468	538	538
Ratios						Current assets					
	FY15	FY16	FY17#	FY18E	FY19E	Inventory	1,917	1,726	2,645	2,359	2,753
Growth						Sundry debtors	1,939	1,858	1,843	2,165	2,526
Operating income (%)	6.8	5.2	5.5	15.6	16.7	Loans and advances	250	491	576	608	650
EBITDA (%)	12.5	4.0	21.3	9.9	16.1	Cash & bank balance	35	18	43	61	88
Adj PAT (%)	12.8	(1.1)	14.9	8.3	15.9	Marketable securities	418	550	174	174	174
Adj EPS (%)	12.8	(1.1)	17.1	8.3	15.9	Total current assets	4,557	4,643	5,280	5,367	6,190
Profitability						Total current liabilities	1,621	1,602	1,738	1,983	2,232
EBITDA margin (%)	17.3	17.1	19.7	18.7	18.6	Net current assets	2,936	3,040	3,542	3,383	3,959
Adj PAT Margin (%)	13.3	12.5	13.6	12.8	12.7	Intangibles/Misc. expenditu	23	20	-	-	-
RoE (%)	28.3	23.3	23.9	24.1	25.5	Total assets	4,305	4,964	5,393	5,605	6,306
RoCE (%)	33.0	29.8	31.0	32.3	34.6	Cash flow					
RoIC (%)	27.6	26.6	28.6	29.3	31.1	(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Valuations						Pre-tax profit	1,293	1,456	1,682	1,866	2,170
Price-earnings (x)	31.6	32.0	27.3	25.2	21.7	Total tax paid	(244)	(368)	(456)	(605)	(671)
Price-book (x)	8.1	6.9	6.3	5.9	5.2	Depreciation	59	58	148	152	169
EV/EBITDA (x)	24.0	23.0	18.8	17.1	14.7	Working capital changes	165	13	(833)	177	(549)
EV/Sales (x)	4.3	4.0	3.7	3.2	2.8	Net cash from operations	1,272	1,159	542	1,591	1,119
Dividend payout ratio (%)	21.2	30.3	24.7	64.5	45.8	Cash from investments					
Dividend yield (%)	0.7	1.0	0.9	2.6	2.1	Capital expenditure	(299)	(288)	(12)	(453)	(294)
B/S ratios						Investments and others	(459)	(459)	292	(70)	-
Inventory days	91	76	111	86	86	Net cash from investments	(758)	(747)	281	(523)	(294)
Creditors days	73	81	85	84	81	Cash from financing					
Debtor days	87	87	77	75	75	Equity raised/(repaid)	-	-	(2)	(0)	-
Working capital days	115	109	138	113	114	Debt raised/(repaid)	(236)	(81)	2	(79)	-
Gross asset turnover (x)	7.8	6.9	5.9	5.6	5.5	Dividend (incl. tax)	(271)	(392)	(342)	(970)	(798)
Net asset turnover (x)	11.8	8.3	6.5	6.6	6.8	Others (incl extraordinary)	9	34	-	-	-
Sales/operating assets (x)	6.8	5.9	6.0	6.6	6.8	Net cash from financing	(498)	(439)	(342)	(1,049)	(798)
Current ratio (x)	2.8	2.9	3.0	2.7	2.8	Change in cash position	16	(27)	480	19	27
Debt-equity (x)	0.0	0.0	0.0	-	-	Closing cash	35	18	43	61	88
Net debt/equity (x)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Quarterly financials					
Interest coverage (EBITDA/interest)	53	124	158	NM	NM	(₹ mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Interest coverage (EBIT/interest)	50	119	144	NM	NM	Net Sales	2,003	3,102	2,090	1,587	2,080
Per share						Change (q-o-q)	15%	55%	-33%	-49%	31%
	FY15	FY16	FY17#	FY18E	FY19E	EBITDA	286	708	388	342	245
Adj EPS (₹)	21.0	20.8	24.3	26.4	30.6	Change (q-o-q)	-5%	148%	-45%	-52%	-28%
CEPS	22.2	21.9	27.4	29.5	34.0	EBITDA margin	14.3%	22.8%	18.6%	21.6%	11.8%
Book value	82.2	96.1	105.9	112.5	126.8	PAT	199	492	266	242	161
Dividend (₹)	4.5	6.5	6.0	17.0	14.0	Adj PAT	199	492	266	242	161
Actual o/s shares (mn)	50.0	50.0	49.1	49.1	49.1	Change (q-o-q)	-30%	147%	-46%	-51%	-33%
						Adj PAT margin	9.9%	15.9%	12.7%	15.3%	7.8%
						Adj EPS	4.1	10.0	5.4	3.3	3.3

Source: CRISIL Research

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About CRISIL Limited

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