

Rating: BUY | CMP: Rs366 | TP: Rs578

May 21, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	578		624	
Sales (Rs. m)	11,064	12,060	11,425	12,453
% Chng.	(3.2)	(3.2)		
EBITDA (Rs. m)	1,881	2,231	1,977	2,229
% Chng.	(4.8)	0.1		
EPS (Rs.)	26.5	32.1	30.8	34.7
% Chng.	(14.0)	(7.4)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	9,626	10,058	11,064	12,060
EBITDA (Rs. m)	1,661	1,460	1,881	2,231
Margin (%)	17.2	14.5	17.0	18.5
PAT (Rs. m)	1,262	1,126	1,262	1,528
EPS (Rs.)	25.7	23.7	26.5	32.1
Gr. (%)	3.5	(8.0)	12.1	21.1
DPS (Rs.)	5.5	0.5	6.0	7.0
Yield (%)	1.5	0.1	1.6	1.9
RoE (%)	21.8	17.7	18.1	18.9
RoCE (%)	26.0	20.5	24.6	25.7
EV/Sales (x)	1.8	1.7	1.5	1.3
EV/EBITDA (x)	10.2	11.9	8.6	6.9
PE (x)	14.2	15.5	13.8	11.4
P/BV (x)	2.8	2.7	2.3	2.0

Key Data

DHNP.BO | DAGRI IN

52-W High / Low	Rs.620 / Rs.355
Sensex / Nifty	38,970 / 11,709
Market Cap	Rs.17bn/ \$ 250m
Shares Outstanding	48m
3M Avg. Daily Value	Rs.10.44m

Shareholding Pattern (%)

Promoter's	75.26
Foreign	-
Domestic Institution	10.89
Public & Others	13.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.4)	(17.4)	(35.0)
Relative	(8.0)	(25.4)	(42.3)

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Earnings have hit trough, turnaround in the offing

Dhanuka Agritech (DAGRI) reported better than expected results driven by high growth in Northern market (sales up 22% YoY). It has hit earnings trough in FY19 with 5% revenue growth and 11% profit decline because of its inability to pass RM cost increase amidst tepid demand environment. FY20 is expected to be a turnaround year for DAGRI where growth would be coming from new launches (6 new launches, ITR @ 17%) and overhauling marketing strategy. DAGRI's fortunes are entirely dependent on the domestic agriculture industry hence earnings volatility is expected to be high depending on the monsoon and performance of the domestic agrochemical industry. We have reduced our revenue/PAT estimates by 3%/14% for FY20E and 3%/7% for FY21E. We expect revenue/EBITDA/PAT to grow at a CAGR of 9%/24%/17% between FY19-21E. Retain our BUY rating with revised target price of Rs 578 based on 18x FY21E earnings.

6 launches planned in FY20: DAGRI plans to launch 6 new products in FY20 of which 3 have already been launched (Brand – Chempa, Apply and Largo). Chempa (pyrazosulfuron technical) is a pre and post emergent herbicide to control broad leaf weeds, sedges and grassy weeds in paddy. Apply (Pymetrozine technical) is a new technology based systemic and translaminar insecticide to control BPH. Largo (Spinetoram technical) is a thripicide to control of pest in cotton crop. Out of the remaining 3 launches, one is a 9(3) grapes fungicide and others are 9(4) insecticides. According to the management, out of 5 molecules that the government has advised to spray for control of Fall Armyworm pest, Dhanuka has 3 in its portfolio which are EM1, Cover and Largo.

Revamping of marketing team underway: Dhanuka Agritech is revamping its marketing network to accelerate overall business growth. It is focusing more on high revenue generating customers via its Kohinoor scheme and also weeding out uncompetitive dealers. The total dealer count has almost reduced by 1000 dealers from 7500 dealers at the end of FY18 to 6500 now. Focus on expanding retailer network continues to be another focus area as various promising markets have emerged in the deep interiors of the country. Our channel checks indicated that there has been substantial increase in the number of dealers falling under Kohinoor category, in the last 1 year.

Results better than estimates: Dhanuka reported better than expected set of results. Topline grew by 4.1% to Rs 1.9 bn (PLe- Rs 1.8 bn) driven by 22% growth in sales in Northern India. Gross margin contracted by 311 bps YoY to 42.0% but reduction in employee cost (down 277 bps) and other expenses (down 48 bps) led to marginal EBITDA margin expansion of 15 bps to 17.1% (PLe- 16.2%). PBT grew by 4.7% YoY to INR 361 mn (PLe- INR 329 mn). Tax rate was came in higher than expected at 26% (PLe- 23%) leading to PAT decline of 6.6% YoY (PLe INR 254 mn).

Other Highlights: (a) Costs to remain under check over the next 2 years. (b) FY19 saw 1.4% volume growth (c) Capex is expected to be in the range of INR 30-40 mn. (d) There are no concrete plans to enter into technical manufacturing at this stage.

Exhibit 1: Results better than expected driven by higher sales in Northern region

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Sales	1,927	1,851	4.1	2,168	10,058	9,626	4.5
Expenditure							
Raw Materials	1,118	1,016	10.0	1,375	6,167	5,622	9.7
<i>% of Net Sales</i>	<i>58.0</i>	<i>54.9</i>		<i>63.4</i>	<i>61.3</i>	<i>58.4</i>	
Employee Cost	237	279	(15.0)	235	1,047	1,065	(1.7)
<i>% of Net Sales</i>	<i>12.3</i>	<i>15.1</i>		<i>10.8</i>	<i>10.4</i>	<i>11.1</i>	
Other Expenses	242	241	0.3	344	1,385	1,279	8.3
<i>% of Net Sales</i>	<i>12.5</i>	<i>13.0</i>		<i>15.9</i>	<i>13.8</i>	<i>13.3</i>	
Total Expenditure	1,597	1,536	3.9	1,953	8,598	7,966	7.9
EBITDA	330	314	5.0	215	1,460	1,661	(12.1)
<i>Margin (%)</i>	<i>17.1</i>	<i>17.0</i>		<i>9.9</i>	<i>14.5</i>	<i>17.2</i>	
Depreciation	30	36	(15.3)	30	123	142	(13.1)
EBIT	300	279	7.6	185	1,336	1,518	(12.0)
Interest	3	2	41.6	1	9	9	2.3
Other Income	65	69	(6.2)	38	212	160	32.3
PBT	361	345	4.7	221	1,540	1,670	(7.8)
Tax	93	59	59.7	75	414	408	1.3
<i>Tax Rate (%)</i>	<i>25.9</i>	<i>17.0</i>		<i>34.1</i>	<i>26.9</i>	<i>24.4</i>	
RPAT	268	286	(6.6)	146	1,126	1,262	(10.8)
APAT	268	286	(6.6)	146	1,126	1,262	(10.8)

Source: Company, PL

Exhibit 2: Fungicides sales clocked 35% growth in 4Q

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Insecticides	614	1,476	952	1,000	649	1,809	872	961
Fungicides	218	489	421	296	256	672	325	400
Herbicides	973	1,142	532	389	1,007	873	620	310
Others	275	372	310	148	219	479	351	255

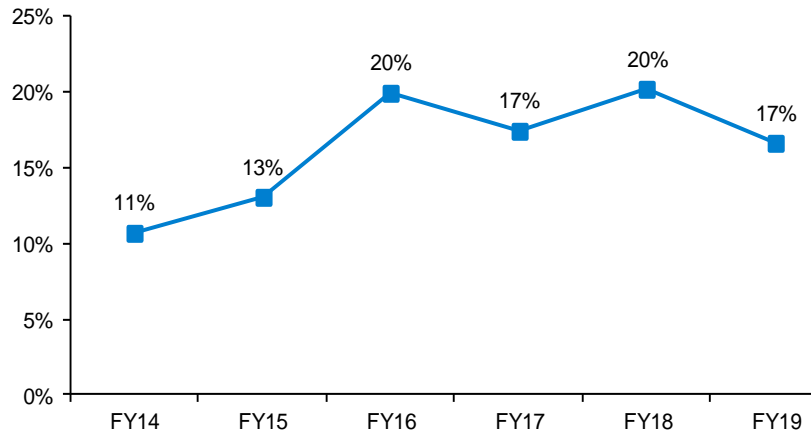
Source: Company, PL

Exhibit 3: North reported sharp growth due to prolonged winter season

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
North	739	974	354	648	621	928	464	792
South	331	835	1,085	648	370	957	946	598
West	777	1,322	532	259	914	1,541	465	246
East	233	348	244	296	225	408	293	290

Source: Company, PL

Exhibit 4: Innovation Turnover Rate continues to be +17%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	9,626	10,058	11,064	12,060
YoY gr. (%)	9.0	4.5	10.0	9.0
Cost of Goods Sold	5,622	6,167	6,639	7,055
Gross Profit	4,004	3,892	4,426	5,005
Margin (%)	41.6	38.7	40.0	41.5
Employee Cost	1,065	1,047	1,084	1,206
Other Expenses	1,279	1,385	1,460	1,568
EBITDA	1,661	1,460	1,881	2,231
YoY gr. (%)	(2.2)	(12.1)	28.8	18.6
Margin (%)	17.2	14.5	17.0	18.5
Depreciation and Amortization	142	123	128	130
EBIT	1,518	1,336	1,753	2,101
Margin (%)	15.8	13.3	15.8	17.4
Net Interest	9	9	10	10
Other Income	160	212	140	189
Profit Before Tax	1,670	1,540	1,883	2,280
Margin (%)	17.3	15.3	17.0	18.9
Total Tax	408	414	621	752
Effective tax rate (%)	24.4	26.9	33.0	33.0
Profit after tax	1,262	1,126	1,262	1,528
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,262	1,126	1,262	1,528
YoY gr. (%)	3.5	(10.8)	12.1	21.1
Margin (%)	13.1	11.2	11.4	12.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,262	1,126	1,262	1,528
YoY gr. (%)	3.5	(10.8)	12.1	21.1
Margin (%)	13.1	11.2	11.4	12.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,262	1,126	1,262	1,528
Equity Shares O/s (m)	49	48	48	48
EPS (Rs)	25.7	23.7	26.5	32.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	1,599	1,583	1,613	1,643
Tangibles	1,562	1,544	1,572	1,599
Intangibles	37	39	41	44
Acc: Dep / Amortization	290	414	541	672
Tangibles	283	405	531	660
Intangibles	7	9	10	12
Net fixed assets	1,309	1,169	1,071	971
Tangibles	1,280	1,138	1,040	939
Intangibles	30	31	31	32
Capital Work In Progress	1	10	10	10
Goodwill	-	-	-	-
Non-Current Investments	934	933	942	946
Net Deferred tax assets	(133)	(122)	(122)	(122)
Other Non-Current Assets	211	298	243	265
Current Assets				
Investments	925	305	905	1,505
Inventories	2,050	2,068	2,364	2,577
Trade receivables	2,080	2,187	2,364	2,577
Cash & Bank Balance	114	13	338	630
Other Current Assets	228	387	263	291
Total Assets	8,227	8,353	9,521	10,824
Equity				
Equity Share Capital	98	95	95	95
Other Equity	6,235	6,327	7,437	8,573
Total Networkth	6,334	6,422	7,532	8,668
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	18	24	22	24
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	47	222	78	85
Trade payables	830	775	849	925
Other current liabilities	630	634	642	699
Total Equity & Liabilities	8,227	8,353	9,521	10,824

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,670	1,540	1,883	2,280
Add. Depreciation	142	123	128	130
Add. Interest	9	9	10	10
Less Financial Other Income	160	212	140	189
Add. Other	(91)	(223)	(140)	(189)
Op. profit before WC changes	1,730	1,449	1,881	2,231
Net Changes-WC	58	(853)	(229)	(340)
Direct tax	(403)	(507)	(597)	(722)
Net cash from Op. activities	1,385	88	1,055	1,169
Capital expenditures	(69)	(25)	(75)	(72)
Interest / Dividend Income	71	212	140	189
Others	(1,120)	614	(600)	(600)
Net Cash from Inv. activities	(1,118)	801	(535)	(483)
Issue of share cap. / premium	-	(828)	-	-
Debt changes	(34)	175	(145)	7
Dividend paid	(154)	(29)	(332)	(391)
Interest paid	(9)	(9)	(10)	(10)
Others	-	(8)	-	-
Net cash from Fin. activities	(196)	(699)	(487)	(394)
Net change in cash	70	191	34	292
Free Cash Flow	1,314	63	980	1,097

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	2,130	3,834	2,168	1,927
YoY gr. (%)	2.4	10.2	(2.1)	4.1
Raw Material Expenses	1,380	2,294	1,375	1,118
Gross Profit	749	1,539	793	809
Margin (%)	35.2	40.2	36.6	42.0
EBITDA	159	756	215	330
YoY gr. (%)	(49.6)	-	-	-
Margin (%)	7.4	19.7	9.9	17.1
Depreciation / Depletion	31	32	30	30
EBIT	127	724	185	300
Margin (%)	6.0	18.9	8.5	15.6
Net Interest	2	2	1	3
Other Income	86	24	38	65
Profit before Tax	211	746	221	361
Margin (%)	9.9	19.5	10.2	18.7
Total Tax	49	196	75	93
Effective tax rate (%)	23.4	26.2	34.1	25.9
Profit after Tax	162	550	146	268
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	162	550	146	268
YoY gr. (%)	0.3	4.2	(49.0)	(6.6)
Margin (%)	7.6	14.4	6.7	13.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	162	550	146	268
YoY gr. (%)	0.3	4.2	(49.0)	(6.6)
Margin (%)	7.6	14.4	6.7	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	162	550	146	268
Avg. Shares O/s (m)	49	49	49	48
EPS (Rs)	3.3	11.2	3.0	5.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	25.7	23.7	26.5	32.1
CEPS	28.6	26.3	29.2	34.8
BVPS	129.0	135.0	158.3	182.2
FCF	26.8	1.3	20.6	23.1
DPS	5.5	0.5	6.0	7.0
Return Ratio(%)				
RoCE	26.0	20.5	24.6	25.7
ROIC	23.9	15.8	20.0	23.3
RoE	21.8	17.7	18.1	18.9
Balance Sheet				
Net Debt : Equity (x)	(0.2)	0.0	(0.2)	(0.2)
Net Working Capital (Days)	125	126	128	128
Valuation(x)				
PER	14.2	15.5	13.8	11.4
P/B	2.8	2.7	2.3	2.0
P/CEPS	12.8	13.9	12.5	10.5
EV/EBITDA	10.2	11.9	8.6	6.9
EV/Sales	1.8	1.7	1.5	1.3
Dividend Yield (%)	1.5	0.1	1.6	1.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-19	BUY	605	418
2	12-Feb-19	BUY	624	374
3	11-Mar-19	BUY	624	442
4	5-Apr-19	BUY	624	388

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,517	4,240
2	Dhanuka Agritech	BUY	624	388
3	Insecticides India	BUY	896	640
4	P.I. Industries	BUY	1,278	1,106
5	Rallis India	Accumulate	173	150
6	Sharda Cropchem	Accumulate	401	375
7	UPL	BUY	1,127	972

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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