

Dhanuka agritech reported a muted 1QFY20 performance, Sales/EBITDA grew by 2.8/25.9% YoY to ₹ 2.19bn/200mn respectively. PAT de-grew by 8.6% YoY to ₹ 148mn. Results were below our estimates on all fronts. Gross margins continue to be under pressure as rising prices of certain technicals (Cartap Hydrochloride – technical for 'Caldan') could not be passed on. Though gross margins saw a contraction of 110bps YoY to 34.1%, EBITDA margins expanded by 170 bps YoY owing to lower employee costs (down 7.9% YoY) and other expenses (down 7.1% YoY).

New product launches to fuel growth

Dhanuka Agritech launched Largo and Chempa in May-19. Largo is a Thripicide (Insecticide) and offers control on Thrips on crops like Cotton and Chilli. Largo can also be used to control fall army worm in Maize. The management is witnessing strong interest from the farmer community for Largo and expects Largo to be a growth driver for the company. Largo's placements are expected to pick up in 2QFY20. Dhanuka has also launched Chempa which is a Paddy herbicide and will soon be launching APPLY for Paddy in FY20. The management expects to launch 2 more insecticides and 1 bio nutrient in FY20. With new launches coming in, Dhanuka agritech is expected to deliver sales growth of 9.4% YoY to ₹ 11.0bn in FY20.

Outlook and Valuation

We are expecting Sales/EBITDA/PAT growth of 9.4/25.4/23.1% for FY20E to ₹ 11.0/1.8/1.3bn. Dhanuka's asset light business model (FY19 Asset turns: 1.5x), superior return ratios (ROE/RoCE: 17.7/16.5% in FY19 expected to expanded by 170/200bps to 19.4/18.5% in FY21E) and launch of new products (6 new launches expected in FY20E including Chempa, Apply and Largo) are expected to drive growth. We wish to call out that gross margins could be under pressure until the situation in China stabilizes, this remains a key challenge. We are valuing Dhanuka agritech 16x FY21 EPS of ₹ 32.9, we believe that while a sharp recovery in Margins and profitability is unlikely Dhanuka's product launches and optimisation of costs and dealer network could provide respite to earnings in FY21. We re-initiate coverage with a Buy rating and a target price of ₹ 526.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	2,190	2,130	2.8	1,927	13.6
Total Expense	1,990	1,971	1.0	1,597	24.6
EBITDA	200	159	25.9	330	(39.5)
Depreciation	27	31	(13.6)	30	(11.8)
EBIT	173	128	35.5	300	(42.4)
Other Income	38	86	(56.1)	64	(41.6)
Interest	2	2	2.1	3	(35.9)
EBT	208	211	35.5	361	(42.3)
Tax	60	49	22.5	93	(35.3)
RPAT	148	162	(8.6)	268	(44.7)
APAT	148	162	(8.6)	268	(44.7)
			(bps)		(bps)
Gross Margin (%)	34.1	35.2	(110)	42.0	(792)
EBITDA Margin (%)	9.1	7.4	167	17.1	(802)
NPM (%)	6.8	7.6	(84)	13.9	(713)
Tax Rate (%)	29.0	23.4	564	25.9	313
EBIT Margin (%)	7.9	6.0	191	15.6	(766)

CMP	₹ 388
Target / Upside	₹ 526 / 36%
BSE Sensex	38,397
NSE Nifty	11,419

Script Details

Equity / FV	₹ 95mn / ₹ 2
Market Cap	₹ 18bn
	US\$ 268mn
52-week High/Low	₹ 620/₹ 351
Avg. Volume (no)	24,227
NSE Symbol	DHANUKA
Bloomberg Code	DAGRI IN

Shareholding Pattern Jun'19(%)

Promoters	75.3
MF/Banks/FIs	12.0
FIIIs	0.0
Public / Others	12.7

Valuation (x)

	FY19A	FY20E	FY21E
P/E	16.4	13.3	11.8
EV/EBITDA	12.6	9.8	8.3
ROE (%)	17.7	20.0	19.4
RoACE (%)	17.1	19.3	19.0

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	10,058	11,005	12,401
EBITDA	1,460	1,831	2,069
PAT	1,126	1,385	1,564
EPS (₹)	23.7	29.1	32.9

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Higher raw material prices continue to dent margins

With the on-going environmental concerns in China, higher import prices of technicals and generics have persistently challenged the industry's ability to absorb the RM inflation and to pass on to the farmer. ~20% of Dhanuka's COGS has been witnessing inflationary conditions, while ~30-40% of the prices have witnessed a downfall and the remainder has been flattish. Prices of key technicals like Cartap Hydrochloride that could not be passed on have kept Gross margins under check and an immediate recovery in the ensuing quarters or for FY20 is unlikely.

Conference call highlights:

Business updates

- Imported prices of key technical continue to dent margins, the management does not expect any recovery in FY20 and expects Gross margins to be at the same level as that of FY19.
- Gross margins continued to be under pressure as rising prices of certain technicals (Cartap Hydrochloride – technical for 'Caldan') could not be passed on.
- ~20% of Dhanuka's COGS has been witnessing inflationary conditions, while ~30-40% of the prices have witnessed a downfall and the remainder has been flattish.
- Volume growth was flat for Q1FY20.
- Delay in sowing due to late onset of monsoon has resulted in postponement of sales, the placement of key products is expected to be better in 2QFY20.
- Due to the late arrival of monsoon, the farmers have found it prudent to rotate their crops for better remuneration. The management believes that the farmers are moving away from Paddy (which requires high moisture soil content) to Oilseeds and Pulses (lower moisture soil content).
- As per the management, if the farmers move towards sowing of Millets and Sorghum, sales of Agro-chemicals could be impacted as the crops are not intensive for agro-chemical investment.
- Geography wise Sales Breakup in 1QFY20 - North – 31%, West – 46%, East – 10% and South – 13%.
- Segment wise Sales breakup in 1QFY20 - Insecticide – 31%, Fungicide 12%, Herbicide 50% and Others – 8%.

New Product Launches

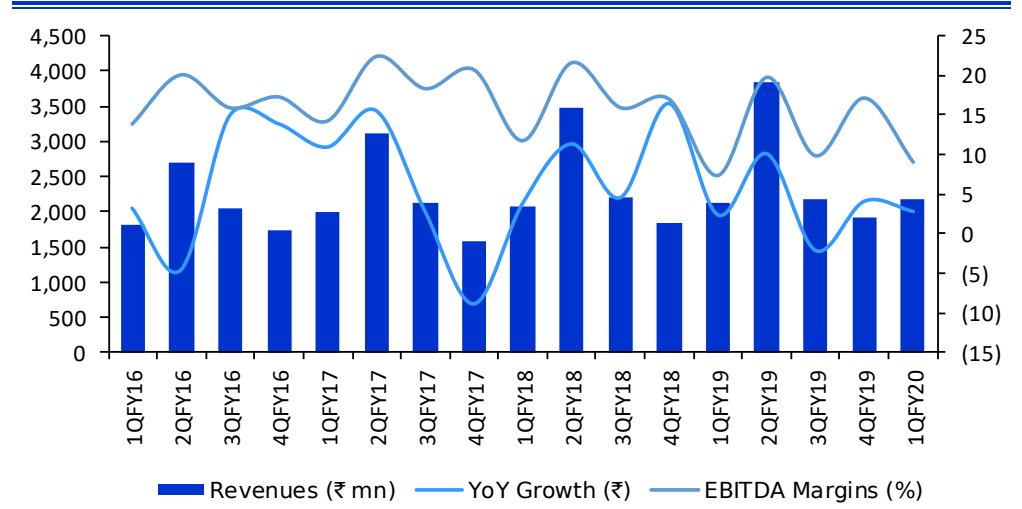
- Dhanuka Agritech launched Largo and Chempa in May-19. Largo is a Thripicide (Insecticide) and offers control on Thrips on crops like Cotton and Chilli.
- Largo can also be used to control fall army worm in Maize. The management is witnessing strong interest from the farmer community for Largo and expects Largo to be a growth driver for the company.
- Largo's placements are expected to pick up in 2QFY20. Dhanuka has also launched Chempa which is a Paddy herbicide and will soon be launching APPLY for Paddy in FY20.
- The management expects to launch 2 more insecticides and 1 bio nutrient in FY20. With new launches coming in, Dhanuka agritech is expected to deliver sales growth of 9.4% YoY to ₹ 11.0bn in FY20.

Financial Overview

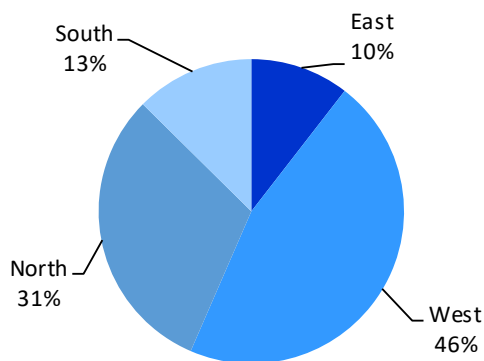
- Other expenses saw a decline of 7.1% to ₹ 311 mn due to savings in employee related cost on the back of reduction in the total number of employees.
- Company has optimized its distribution channel by cutting down its distribution partners from 8,500 to 7,000.
- The company expects the Capex to be in the range of ₹ 30-50 mn for FY20.
- The management mentioned that the promoters are expected to pledge their shares to raise money for the recent acquisition of Orchid Pharma by Dhanuka Laboratories.

Challenges

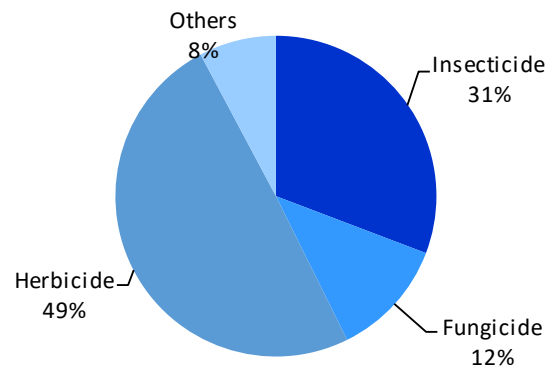
- The industry is witnessing challenges in keeping the fall army worm at bay in the Maize crop.
- Fall army worm has entered Karnataka, Maharashtra and Andhra Pradesh and has started harming the Maize acreage. The Fall army worm has also started spreading to other parts of the country like Uttar Pradesh, Madhya Pradesh and Bihar.
- The government currently has recommended 4 products which can be used to tackle Fall army worm out of which Dhanuka has 3 of the products in their portfolio.

Exhibit 1: Consolidated Revenues vs EBITDA Margin


Source: Company, DART

Exhibit 2: Geography Wise Revenue Breakup (Q1FY20)


Source: Company, DART

Exhibit 3: Segment Wise Revenue Breakup (Q1FY20)


Source: Company, DART

Exhibit 4: Kharif crop sowing as on 17-07-19 (mn hectare)

Crop	Kharif-19	Kharif-18	% change
Rice	14.0	15.4	(9.4)
Pulses	6.2	7.4	(15.9)
Coarse Cereals	10.2	11.0	(7.4)
Oilseeds	11.1	11.9	(7.1)
Sugarcane	5.0	5.2	(3.9)
Jute & Mesta	0.7	0.7	(4.9)
Cotton	9.6	9.3	3.9
Total	56.7	60.9	(6.8)

Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	9,626	10,058	11,005	12,401
Total Expense	7,966	8,598	9,174	10,332
COGS	5,622	6,167	6,455	7,272
Employees Cost	1,065	1,047	1,195	1,338
Other expenses	1,279	1,385	1,524	1,722
EBIDTA	1,661	1,460	1,831	2,069
Depreciation	142	123	141	157
EBIT	1,519	1,336	1,690	1,913
Interest	9	9	12	12
Other Income	160	212	207	213
Exc. / E.O. items	0	0	0	0
EBT	1,670	1,540	1,885	2,114
Tax	408	414	499	550
RPAT	1,262	1,126	1,385	1,564
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,262	1,126	1,385	1,564

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	98	95	95	95
Minority Interest	0	0	0	0
Reserves & Surplus	6,235	6,327	7,369	8,561
Net Worth	6,334	6,422	7,464	8,656
Total Debt	47	222	122	122
Net Deferred Tax Liability	133	122	122	122
Total Capital Employed	6,514	6,766	7,708	8,900

Applications of Funds

Net Block	1,309	1,169	1,192	1,231
CWIP	1	10	50	50
Investments	895	898	898	898
Current Assets, Loans & Advances	6,022	6,277	7,291	8,635
Inventories	2,050	2,068	2,442	2,752
Receivables	2,080	2,187	2,442	2,752
Cash and Bank Balances	114	13	398	1,122
Loans and Advances	531	329	329	329
Other Current Assets	322	1,375	1,375	1,375
Less: Current Liabilities & Provisions	1,713	1,587	1,718	1,913
Payables	830	775	784	883
Other Current Liabilities	883	812	934	1,030
Net Current Assets	4,309	4,690	5,573	6,722
Total Assets	6,514	6,766	7,713	8,900

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	41.6	38.7	41.3	41.4
EBIDTA Margin	17.3	14.5	16.6	16.7
EBIT Margin	15.8	13.3	15.4	15.4
Tax rate	24.4	26.9	26.5	26.0
Net Profit Margin	13.1	11.2	12.6	12.6
(B) As Percentage of Net Sales (%)				
COGS	58.4	61.3	58.7	58.6
Employee	11.1	10.4	10.9	10.8
Other	13.3	13.8	13.8	13.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	173.9	149.7	138.4	156.6
Inventory days	78	75	81	81
Debtors days	79	79	81	81
Average Cost of Debt	13.9	6.6	7.1	10.0
Payable days	31	28	26	26
Working Capital days	163	170	185	198
FA T/O	7.4	8.6	9.2	10.1
(D) Measures of Investment				
AEPS (₹)	26.5	23.7	29.1	32.9
CEPS (₹)	29.5	26.3	32.1	36.2
DPS (₹)	5.7	0.6	6.0	6.5
Dividend Payout (%)	21.4	2.5	20.6	19.8
BVPS (₹)	133.1	135.0	156.9	181.9
RoANW (%)	21.8	17.7	20.0	19.4
RoACE (%)	21.3	17.1	19.3	19.0
RoAIC (%)	25.8	20.3	24.0	25.4
(E) Valuation Ratios				
CMP (₹)	388	388	388	388
P/E	14.6	16.4	13.3	11.8
Mcap (₹ Mn)	18,458	18,458	18,458	18,458
MCap/ Sales	1.9	1.8	1.7	1.5
EV	17,466	18,362	17,877	17,153
EV/Sales	1.8	1.8	1.6	1.4
EV/EBITDA	10.5	12.6	9.8	8.3
P/BV	2.9	2.9	2.5	2.1
Dividend Yield (%)	1.5	0.2	1.5	1.7
(F) Growth Rate (%)				
Revenue	9.0	4.5	9.4	12.7
EBITDA	(2.2)	(12.1)	25.4	13.0
EBIT	(2.0)	(12.0)	26.5	13.2
PBT	(2.6)	(7.8)	22.4	12.1
APAT	3.5	(10.8)	23.1	12.9
EPS	3.5	(10.8)	23.1	12.9

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	1,512	215	1,040	1,308
CFI	(474)	18	(200)	(200)
CFF	(216)	(954)	(456)	(384)
FCFF	1,443	223	840	1,108
Opening Cash	217	1,039	318	703
Closing Cash	1,039	318	703	1,427

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Feb-18	Accumulate	751	675
May-18	Accumulate	665	584

*Price as on recommendation date

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