

February 13, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	635		423	
Sales (Rs. m)	12,447	13,443	11,621	12,550
% Chng.	7.1	7.1		
EBITDA (Rs. m)	2,116	2,326	1,917	2,171
% Chng.	10.4	7.1		
EPS (Rs.)	33.6	37.4	30.3	34.7
% Chng.	10.9	7.7		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	10,058	11,114	12,447	13,443
EBITDA (Rs. m)	1,460	1,700	2,116	2,326
Margin (%)	14.5	15.3	17.0	17.3
PAT (Rs. m)	1,126	1,321	1,600	1,777
EPS (Rs.)	23.7	27.8	33.6	37.4
Gr. (%)	(8.0)	17.3	21.2	11.0
DPS (Rs.)	0.5	6.2	7.4	9.3
Yield (%)	0.1	1.2	1.4	1.8
RoE (%)	17.6	19.1	20.0	19.3
RoCE (%)	20.5	21.7	24.0	23.0
EV/Sales (x)	2.5	2.2	1.9	1.7
EV/EBITDA (x)	17.2	14.2	11.0	9.6
PE (x)	22.4	19.1	15.8	14.2
P/BV (x)	3.9	3.4	2.9	2.6

Key Data

DHNP.BO | DAGRI IN

52-W High / Low	Rs.566 / Rs.287
Sensex / Nifty	41,460 / 12,175
Market Cap	Rs.25bn / \$ 354m
Shares Outstanding	48m
3M Avg. Daily Value	Rs.44.22m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	-
Domestic Institution	12.07
Public & Others	12.93
Promoter Pledge (Rs bn)	2.66

Stock Performance (%)

	1M	6M	12M
Absolute	17.0	62.2	41.1
Relative	18.1	44.6	22.6

Prashant Biyani

prashantbiyani@plindia.com | 91-22-66322260

Growth triggers ahead

Dhanuka Agritech reported mixed set of results. Benefits of higher than anticipated topline growth of 25% (PLe- 15%) was off-set by continued gross margin contraction (11th straight quarter) of 146 bps. Higher other income (up 107% YoY) drove APAT growth. Business momentum is expected to maintain in 4Q driven by wheat herbicide sales & in FY21 driven by new launches (6 in FY21- 3 each in 9(3) and 9(4)) and turnaround in domestic agchem business. DAGRI's fortunes are entirely dependent on the domestic agriculture industry hence rapid growth is expected to continue in FY21 with remunerative crop prices, healthy soil moisture levels and higher water reservoir levels as a result in above normal monsoon in 2019. We have revised our topline/EBITDA/PAT estimates by 7%/10%/11% for FY21E and 7%/7%/0.8% for FY22E. We roll forward to FY22E earnings and maintain our Buy rating with revised target price of Rs 635 (Previous- 423) based on 17x (Previous 13x) FY22E earnings.

Broad-based growth: Topline growth was broad based both segment wise and region wise. Segment wise, Herbicides and Fungicides segment has driven growth with 40% and 26% respectively. Geographically, West, East and South grew by 46%, 21% and 26% respectively.

6 new launches planned in FY21: Dhanuka plans to launch 6 new molecules in FY21, 3 each in 9(3) and 9(4). 9(3) molecules is likely to be launched in H2 while 9(4) molecules will be launched in 1H. In the 9(4) portfolio, DAGRI plans to launch 2 herbicides (1 each for Soya and Cotton) and an insecticide. Out of 3 (3) molecules, 2 would be grapes fungicide.

In Q3FY20, DAGRI launched Zapak and Mycor. Zapak is 9(4) combination insecticide (Thiamethoxam + Lambda-cyhalothrin) while Mycor is a soil nutrient for paddy, sugarcane and F&V.

Exhibit 1: Broad based topline growth, operating leverage benefits driving profits

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	QoQ gr. (%)	9MFY20	9MFY19	YoY gr. (%)
Net Sales	2,715	2,168	4.9	4,020	(32.5)	8,925	8,131	9.8
Expenditure								
Raw Materials	1,761	1,375	13.9	2,612	(32.6)	5,816	5,049	15.2
<i>% of Net Sales</i>	<i>64.9</i>	<i>63.4</i>		<i>65.0</i>		<i>65.2</i>	<i>62.1</i>	
Employee Cost	264	235	(2.4)	311	(15.1)	811	809	0.2
<i>% of Net Sales</i>	<i>9.7</i>	<i>10.8</i>		<i>7.7</i>		<i>9.1</i>	<i>10.0</i>	
Other Expenses	346	344	(21.8)	364	(4.7)	1,021	1,143	(10.7)
<i>% of Net Sales</i>	<i>12.8</i>	<i>15.9</i>		<i>9.0</i>		<i>11.4</i>	<i>14.1</i>	
Total Expenditure	2,371	1,953	6.8	3,287	(27.8)	7,648	7,002	9.2
EBITDA	343	215	(3.0)	734	(53.2)	1,277	1,130	13.0
<i>Margin (%)</i>	<i>12.6</i>	<i>9.9</i>		<i>18.3</i>		<i>14.3</i>	<i>13.9</i>	
Depreciation	42	30	78.9	57	(26.8)	126	93	35.5
EBIT	301	185	(6.6)	676	(55.4)	1,151	1,036	11.0
Interest	4	1	181.9	6	(39.4)	12	6	106.0
Other Income	78	38	101.0	48	63.2	164	148	11.3
PBT	376	221	(3.7)	719	(47.6)	1,303	1,178	10.6
Tax	100	75	(39.3)	119	(16.1)	279	320	(13.0)
<i>Tax Rate (%)</i>	<i>26.5</i>	<i>34.1</i>		<i>16.5</i>		<i>21.4</i>	<i>27.2</i>	
RPAT	277	146	9.0	600	(53.9)	1,025	858	19.4
APAT	277	146	9.0	600	(53.9)	1,025	858	19.4

Source: Company, PL

Exhibit 2: All segment grew in double digits

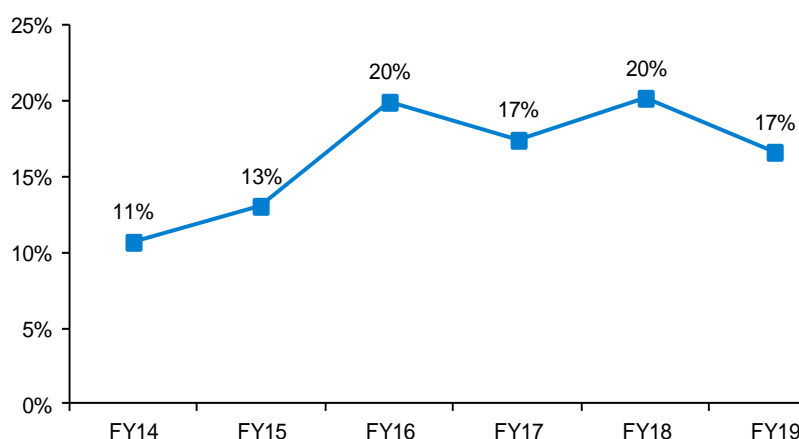
	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Insecticides	649	1,809	872	961	674	2,018	1,032
Fungicides	256	672	325	400	261	632	407
Herbicides	1,007	873	620	310	1,085	944	869
Others	219	479	351	255	170	426	407

Source: Company, PL

Exhibit 3: West and South grew by 46% and 26% respectively

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20
North	621	928	464	792	677	1,019	489
South	370	957	946	598	275	1,072	1,195
West	914	1,541	465	246	1,008	1,530	679
East	225	408	293	290	229	399	353

Source: Company, PL

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


Source: Company, PL

Exhibit 5: Revenue mix well balanced between North, East and South

Geog Break Up (% of revenue)	FY15	FY16	FY17	FY18	FY19
North	25.3%	26.0%	25.5%	26.0%	27.9%
West	29.7%	29.0%	29.9%	32.0%	31.5%
East	13.2%	13.0%	11.1%	11.0%	12.1%
South	31.7%	34.0%	33.5%	32.0%	28.5%

Source: Company, PL

Exhibit 6: Fungicide revenue share should catch up for balance growth across all the key segments

Segment wise Break up (% of revenue)	FY15	FY16	FY17	FY18	FY19
Insecticides	43%	45%	44%	42%	42.65%
Fungicides	16%	14%	15%	15%	15.53%
Herbicides	30%	30%	30%	32%	28.85%
Others	11%	11%	11%	11%	12.87%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	10,058	11,114	12,447	13,443
YoY gr. (%)	4.5	10.5	12.0	8.0
Cost of Goods Sold	6,167	7,068	7,717	8,133
Gross Profit	3,891	4,045	4,730	5,310
Margin (%)	38.7	36.4	38.0	39.5
Employee Cost	1,047	1,067	1,183	1,371
Other Expenses	1,385	1,278	1,431	1,613
EBITDA	1,460	1,700	2,116	2,326
YoY gr. (%)	(12.1)	16.5	24.4	9.9
Margin (%)	14.5	15.3	17.0	17.3
Depreciation and Amortization	123	171	178	184
EBIT	1,336	1,530	1,938	2,142
Margin (%)	13.3	13.8	15.6	15.9
Net Interest	9	15	12	12
Other Income	212	185	213	245
Profit Before Tax	1,539	1,700	2,139	2,375
Margin (%)	15.3	15.3	17.2	17.7
Total Tax	414	379	538	598
Effective tax rate (%)	26.9	22.3	25.2	25.2
Profit after tax	1,126	1,321	1,600	1,777
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,126	1,321	1,600	1,777
YoY gr. (%)	(10.8)	17.3	21.2	11.0
Margin (%)	11.2	11.9	12.9	13.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,126	1,321	1,600	1,777
YoY gr. (%)	(10.8)	17.3	21.2	11.0
Margin (%)	11.2	11.9	12.9	13.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,126	1,321	1,600	1,777
Equity Shares O/s (m)	48	48	48	48
EPS (Rs)	23.7	27.8	33.6	37.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	1,554	1,594	1,644	1,694
Tangibles	1,516	1,553	1,600	1,644
Intangibles	37	41	44	50
Acc: Dep / Amortization	385	556	734	917
Tangibles	373	546	722	904
Intangibles	12	10	12	13
Net fixed assets	1,169	1,038	910	776
Tangibles	1,143	1,007	878	739
Intangibles	25	31	32	37
Capital Work In Progress	10	10	10	10
Goodwill	-	-	-	-
Non-Current Investments	933	942	947	951
Net Deferred tax assets	(122)	(122)	(122)	(122)
Other Non-Current Assets	298	321	347	367
Current Assets				
Investments	305	905	1,505	2,105
Inventories	2,068	2,314	2,592	2,799
Trade receivables	2,187	2,375	2,660	2,873
Cash & Bank Balance	13	295	460	863
Other Current Assets	387	252	288	312
Total Assets	8,353	9,486	10,878	12,307
Equity				
Equity Share Capital	95	95	95	95
Other Equity	6,327	7,295	8,485	9,743
Total Networkth	6,422	7,390	8,581	9,838
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	24	22	25	27
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	222	76	85	92
Trade payables	775	913	989	1,068
Other current liabilities	634	685	765	824
Total Equity & Liabilities	8,353	9,486	10,878	12,307

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	1,539	1,700	2,139	2,375
Add. Depreciation	123	171	178	184
Add. Interest	9	15	12	12
Less Financial Other Income	212	185	213	245
Add. Other	(119)	(202)	(234)	(249)
Op. profit before WC changes	1,552	1,684	2,095	2,322
Net Changes-WC	(969)	(22)	(521)	(366)
Direct tax	(542)	(364)	(517)	(574)
Net cash from Op. activities	42	1,298	1,057	1,382
Capital expenditures	(47)	(83)	(92)	(99)
Interest / Dividend Income	88	185	213	245
Others	681	(600)	(600)	(600)
Net Cash from Inv. activities	721	(498)	(479)	(454)
Issue of share cap. / premium	(825)	-	-	-
Debt changes	175	(147)	10	7
Dividend paid	(207)	(348)	(410)	(520)
Interest paid	(9)	(15)	(12)	(12)
Others	2	-	-	-
Net cash from Fin. activities	(864)	(509)	(412)	(525)
Net change in cash	(101)	291	165	403
Free Cash Flow	(19)	1,215	965	1,283

Source: Company Data, PL Research

Key Financial Metrics

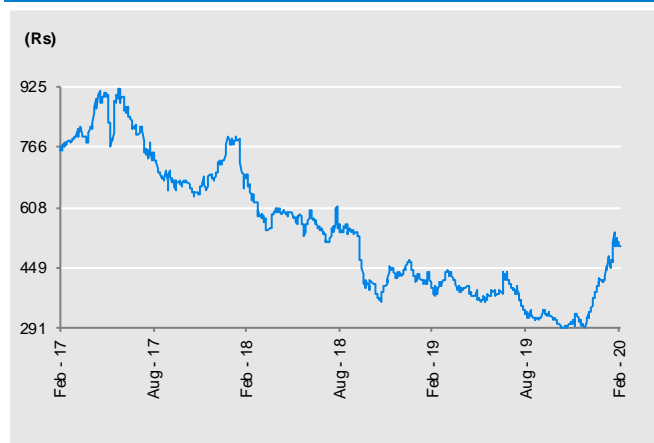
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	23.7	27.8	33.6	37.4
CEPS	26.3	31.3	37.4	41.2
BVPS	135.0	155.3	180.3	206.8
FCF	(0.4)	25.5	20.3	27.0
DPS	0.5	6.2	7.4	9.3
Return Ratio(%)				
RoCE	20.5	21.7	24.0	23.0
ROIC	15.8	20.3	23.8	25.3
RoE	17.6	19.1	20.0	19.3
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.2)	(0.2)	(0.3)
Net Working Capital (Days)	126	124	125	125
Valuation(x)				
PER	22.4	19.1	15.8	14.2
P/B	3.9	3.4	2.9	2.6
P/CEPS	20.2	16.9	14.2	12.9
EV/EBITDA	17.2	14.2	11.0	9.6
EV/Sales	2.5	2.2	1.9	1.7
Dividend Yield (%)	0.1	1.2	1.4	1.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	1,927	2,190	4,020	2,715
YoY gr. (%)	4.1	2.8	4.9	25.2
Raw Material Expenses	1,118	1,443	2,612	1,761
Gross Profit	809	746	1,408	954
Margin (%)	42.0	34.1	35.0	35.1
EBITDA	330	200	734	343
YoY gr. (%)	5.0	25.9	(3.0)	59.9
Margin (%)	17.1	9.1	18.3	12.6
Depreciation / Depletion	30	27	57	42
EBIT	300	173	676	301
Margin (%)	15.6	7.9	16.8	11.1
Net Interest	3	2	6	4
Other Income	65	38	48	78
Profit before Tax	361	208	719	376
Margin (%)	18.7	9.5	17.9	13.9
Total Tax	93	60	119	100
Effective tax rate (%)	25.9	29.0	16.5	26.5
Profit after Tax	268	148	600	277
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	268	148	600	277
YoY gr. (%)	(6.6)	(8.6)	9.0	89.8
Margin (%)	13.9	6.8	14.9	10.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	268	148	600	277
YoY gr. (%)	(6.6)	(8.6)	9.0	89.8
Margin (%)	13.9	6.8	14.9	10.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	268	148	600	277
Avg. Shares O/s (m)	48	48	48	48
EPS (Rs)	5.6	3.1	12.6	5.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	BUY	423	416
2	13-Nov-19	BUY	423	299
3	3-Oct-19	BUY	466	311
4	19-Jul-19	BUY	578	394
5	16-Jul-19	BUY	578	389
6	8-Jul-19	BUY	578	410
7	4-Jul-19	BUY	578	432
8	21-May-19	BUY	578	366
9	5-Apr-19	BUY	624	388
10	11-Mar-19	BUY	624	442

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	5,288	4,255
2	Dhanuka Agritech	BUY	423	416
3	Godrej Agrovet	BUY	659	559
4	Insecticides India	BUY	896	488
5	P.I. Industries	Hold	1,355	1,444
6	Rallis India	Accumulate	248	220
7	Sharda Cropchem	Accumulate	313	268
8	Sumitomo Chemical India	BUY	206	-
9	UPL	BUY	740	543

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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