

- Dhanuka Agritech reported a healthy Q4FY20 performance with Sales/EBITDA/PAT growing at 18.1/38.6/45.8% to Rs 2.2bn / 458mn / 390 mn. Sales were in-line (D.est: Rs 2.31bn) with our estimates while EBITDA/PAT came ahead of our estimates (D.est: Rs 409mn/313mn).
- Sales growth was driven by higher volume growth of 19.0%, the company has taken price hikes for the upcoming Kharif season.
- Gross margins expanded by 84 bps YoY due to a favorable product mix and with RM costs stabilizing.
- Employee cost and other expenses grew by 1.8/14.0% YoY to Rs 242/276mn. A higher other income and a lower tax rate YoY, fueled PAT growth of 45.8% YoY.

New product launches to fuel growth

Dhanuka Agritech has launched 7 new products in FY20 and 1QFY21 – Dabuch (Soyabean Herbicide – in licensed from Corteva), Dozomac (Cotton Herbicide -with Godrej Agrovet), Apply (Paddy BPH), Largo (Tripicide which offers control on Thrips on crops like cotton and Chilli), Chempa (Paddy Herbicide), Zapak (Insecticide) and Mycor (Plant Nutrient). The 2 grape fungicides which are expected to be launched in FY21 will be in In-licensed from Japan. As per the management, the sales potential of all the newly launched molecules is ~Rs 4.0-5.0bn (~45% of FY20 topline).

Outlook and Valuation

We are expecting Sales/EBITDA/PAT CAGR of 14.5/22.7/19.1% over FY20-22E to Rs 14.6/2.6/2.0bn. Dhanuka's asset light business model, superior return ratios (ROE/RoCE: 21.5/20.7% in FY22E) and the recent product launches are expected to drive growth. We expect Dhanuka Agritech to navigate through the pandemic with the help of a normal monsoon, strong distribution and product brand re-call. We believe that on the back of normalization of technical prices margins will stabilize over the next few quarters. We continue to be positive on Dhanuka Agritech, value Dhanuka Agritech at 17x FY22E EPS and maintain our Buy rating on the stock with a target price of Rs 717/share.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	2,276	1,927	18.1	2,715	(16.2)
Total Expense	1,818	1,597	13.8	2,371	(23.3)
EBITDA	458	330	38.6	343	33.3
Depreciation	37	30	22.7	42	(11.1)
EBIT	420	300	40.2	301	39.5
Other Income	87	64	34.5	78	10.6
Interest	4	3	20.1	4	9.9
EBT	503	361	39.4	376	33.7
Tax	113	93	21.0	100	13.7
RPAT	390	268	45.8	277	41.0
APAT	390	268	45.8	277	41.0
			(bps)		(bps)
Gross Margin (%)	42.8	42.0	84	35.1	770
EBITDA Margin (%)	20.1	17.1	298	12.6	747
NPM (%)	17.1	13.9	326	10.2	695
Tax Rate (%)	22.5	25.9	(341)	26.5	(397)
EBIT Margin (%)	18.5	15.6	292	11.1	737

CMP	Rs 631
Target / Upside	Rs 717 / 14%
BSE Sensex	34,314
NSE Nifty	10,116

Script Details

Equity / FV	Rs 95mn / Rs 2
Market Cap	Rs 30bn
	US\$ 398mn
52-week High/Low	Rs 653/Rs 275
Avg. Volume (no)	57,433
NSE Symbol	DHANUKA
Bloomberg Code	DAGRI IN

Shareholding Pattern Mar'20(%)

Promoters	75.0
MF/Banks/FIs	12.7
FII	0.0
Public / Others	12.3

Valuation (x)

	FY20A	FY21E	FY22E
P/E	21.2	17.2	15.0
EV/EBITDA	16.9	12.8	10.6
ROE (%)	21.0	22.4	21.5
RoACE (%)	20.5	22.0	21.2

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	11,201	13,142	14,683
EBITDA	1,735	2,259	2,612
PAT	1,415	1,746	2,008
EPS (Rs.)	29.7	36.7	42.2

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Exhibit 1: Actual vs DART Estimates (Rs mn)

Particulars	Actual	Estimated	Variance (%)	Comment
Revenue	2,276	2,313	(1.6)	In Line
EBITDA	458	409	11.9	Better product mix and lower RM prices
EBITDA Margin (%)	20.1	17.7	242	Better product mix and lower RM prices
PAT	390	313	24.7	Higher other income and lower tax rate

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E			Comments
	New	Previous	Change (%)	New	Previous	Change (%)	
Revenue	13,142	12,401	6.0	14,683	13,559	8.3	The management has guided a double-digit volume growth
EBITDA	2,259	2,101	7.5	2,612	2,312	13.0	Margins expected to expand by 100-200 bps
EBITDA Margin(%)	17.2	16.9	25bps	17.8	17.0	74bps	
PAT	1,746	1,578	10.6	2,008	1,741	15.3	
EPS(Rs)	36.7	33.2	10.6	42.2	36.6	15.3	

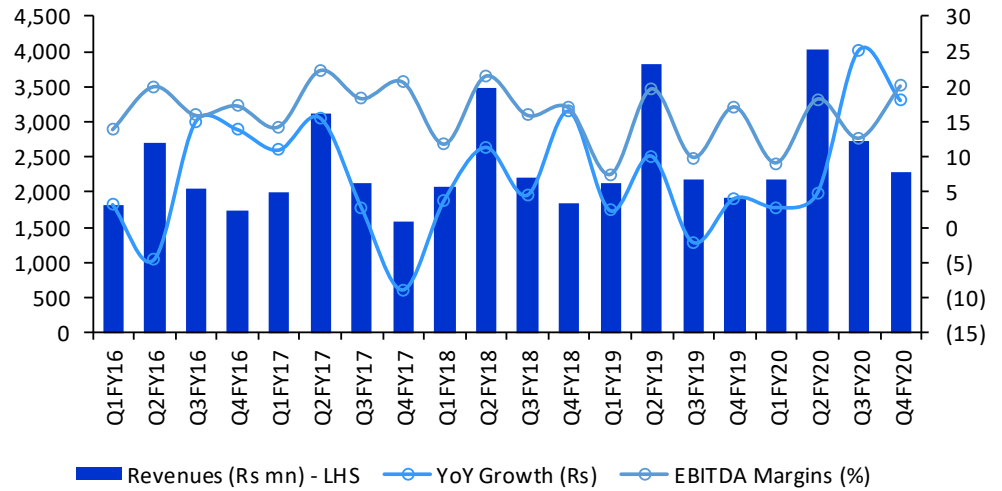
Source: DART, Company

Concall Highlights

- The Covid-19 pandemic which caused lockdown and closure of operations from 24th March 2020 resulted in partial deferment of sales of ~Rs 200-250 mn of March 2020 to Q1FY21.
- The company has launched 2 new products in the month of June 2020 – 1st one is a Soybean and Groundnut pre-emergent herbicide named 'Dabuch' introduced with the help of Corteva and the 2nd one is 'Dozomac' which is a cotton herbicides developed with the help of Godrej Agrovet.
- The Covid-19 outbreak has caused delay in launch of its 2 new Grape fungicides and are expected to be launched over the next couple of quarters.
- The management said that the company is witnessing increased sales of Herbicides due to shortage of labour. Herbicides usage is expected to bump up structurally. Farmers have shifted to producing other stable crops which involve less labour work and higher mechanization.
- Shortage of labour is expected to increase labour costs in the short term.
- The company has specifically seen increased sale of Chempa – a rice herbicide launched in FY20 as the absence of labourers has made it impossible for Rice cultivators to do transplanting and they are opting for direct seeded rice approach which requires higher herbicide usage and involves higher mechanization.
- The management mentioned that the new products launched year along with the newly launched products in June 2020 – total of 7 products have a cumulative revenue potential of ~Rs 4-5bn.
- Gross margin expansion of 84 bps YoY in Q4FY20 was a result of favourable product mix and normalization of RM prices.
- The management expects margin levels in FY21 to be on similar lines as of last year with slight improvement.
- The company took price hikes of ~5-6 % for a few of its generics with ~2% on an overall basis in the month of April and May 2020.

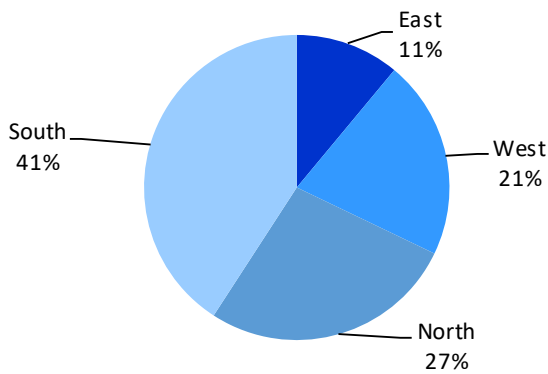
- The recent Locust attacks provided the company with opportunities to participate in government tenders for sale of around 7-8 products from its Insecticide portfolio.
- The management does not expect the recently announced draft notification of putting a ban on sale of 27 pesticides to be implemented soon and mentioned that the company's diverse portfolio has ready alternatives available which however are in the higher price range than the current products.
- Revenues for FY20 grew by 11.4% to Rs 11.2bn with volumes contributing 12.7% while there was value decline of 1.3%.
- Capex for FY21 is expected to be in the range of Rs 50 mn to 100 mn.
- Innovation index turnover saw a fall from 17% in FY19 to 12% in FY20 which is expected to improve in the coming year led by robust pipeline of new launches.
- The management expects good growth in the coming Q1FY21 and for the full year FY21 driven by normal monsoon predictions, higher acreages and improved kharif performance.
- Zone wise revenue break-up FY20
 - North – 25%
 - East – 11%
 - West – 33%
 - South – 31%
- Category wise revenue break-up FY20
 - Insecticides – 43%
 - Fungicides – 15%
 - Herbicides – 31%
 - Others – 11%

Exhibit 3: Consolidated Revenues vs EBITDA Margin



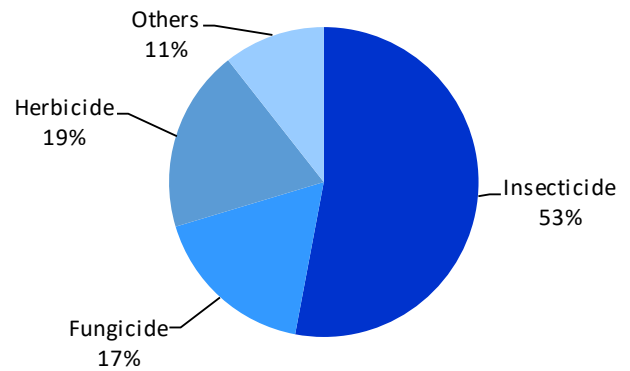
Source: Company, DART

Exhibit 4: Geography Wise Revenue Breakup (Q4FY20)



Source: Company, DART

Exhibit 5: Segment Wise Revenue Breakup (Q4FY20)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	10,058	11,201	13,142	14,683
Total Expense	8,598	9,466	10,883	12,072
COGS	6,167	7,117	8,227	9,192
Employees Cost	1,047	1,052	1,126	1,227
Other expenses	1,385	1,297	1,530	1,653
EBIDTA	1,460	1,735	2,259	2,612
Depreciation	123	164	177	186
EBIT	1,336	1,571	2,082	2,425
Interest	9	16	7	9
Other Income	212	251	258	266
Exc. / E.O. items	0	0	0	0
EBT	1,540	1,806	2,333	2,683
Tax	414	392	587	675
RPAT	1,126	1,415	1,746	2,008
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,126	1,415	1,746	2,008

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	95	95	95	95
Minority Interest	0	0	0	0
Reserves & Surplus	6,327	6,982	8,423	10,030
Net Worth	6,422	7,077	8,518	10,125
Total Debt	222	80	122	122
Net Deferred Tax Liability	122	53	53	53
Total Capital Employed	6,766	7,210	8,694	10,301

Applications of Funds

Net Block	1,169	1,175	1,086	1,000
CWIP	10	37	50	50
Investments	898	991	991	991
Current Assets, Loans & Advances	6,277	7,120	8,547	10,446
Inventories	2,068	2,499	3,004	3,356
Receivables	2,187	2,424	2,952	3,299
Cash and Bank Balances	13	263	656	1,857
Loans and Advances	329	314	314	314
Other Current Assets	1,375	1,023	1,023	1,023
Less: Current Liabilities & Provisions	1,587	2,113	1,981	2,187
Payables	775	1,132	936	1,046
Other Current Liabilities	812	981	1,044	1,141
<i>sub total</i>				
Net Current Assets	4,690	5,008	6,566	8,259
Total Assets	6,766	7,210	8,694	10,301

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	38.7	36.5	37.4	37.4
EBIDTA Margin	14.5	15.5	17.2	17.8
EBIT Margin	13.3	14.0	15.8	16.5
Tax rate	26.9	21.7	25.2	25.2
Net Profit Margin	11.2	12.6	13.3	13.7
(B) As Percentage of Net Sales (%)				
COGS	61.3	63.5	62.6	62.6
Employee	10.4	9.4	8.6	8.4
Other	13.8	11.6	11.6	11.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	149.7	100.9	294.5	283.7
Inventory days	75	81	83	83
Debtors days	79	79	82	82
Average Cost of Debt	6.6	10.3	7.0	7.0
Payable days	28	37	26	26
Working Capital days	170	163	182	205
FA T/O	8.6	9.5	12.1	14.7
(D) Measures of Investment				
AEPS (Rs)	23.7	29.7	36.7	42.2
CEPS (Rs)	26.3	33.2	40.4	46.1
DPS (Rs)	0.6	12.0	6.5	7.0
Dividend Payout (%)	2.5	40.4	17.7	16.6
BVPS (Rs)	135.0	148.7	179.0	212.8
RoANW (%)	17.7	21.0	22.4	21.5
RoACE (%)	17.1	20.5	22.0	21.2
RoAIC (%)	20.3	22.9	27.8	29.4
(E) Valuation Ratios				
CMP (Rs)	631	631	631	631
P/E	26.7	21.2	17.2	15.0
Mcap (Rs Mn)	30,039	30,039	30,039	30,039
MCap/ Sales	3.0	2.7	2.3	2.0
EV	29,943	29,258	28,908	27,707
EV/Sales	3.0	2.6	2.2	1.9
EV/EBITDA	20.5	16.9	12.8	10.6
P/BV	4.7	4.2	3.5	3.0
Dividend Yield (%)	0.1	1.9	1.0	1.1
(F) Growth Rate (%)				
Revenue	4.5	11.4	17.3	11.7
EBITDA	(12.1)	18.8	30.2	15.6
EBIT	(12.0)	17.6	32.5	16.5
PBT	(7.8)	17.3	29.2	15.0
APAT	(10.8)	25.7	23.4	15.0
EPS	(10.8)	25.7	23.4	15.0
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	313	1,866	764	1,711
CFI	(80)	(413)	(102)	(100)
CFF	(954)	(911)	(270)	(410)
FCFF	321	1,670	662	1,611
Opening Cash	1,039	318	860	1,253
Closing Cash	318	860	1,253	2,454

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 (Rs.)	Price (Rs.)
Jul-19	Buy	526	380
Jul-19	Buy	526	399
Nov-19	Buy	558	301
Feb-20	Accumulate	595	496
Mar-20	Buy	512	301
Mar-20	Buy	512	322

*Price as on recommendation date

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