

- Dhanuka Agritech reported a strong 1QFY21 performance beating our estimates on all fronts. Sales growth of 70.7% YoY to Rs 3.73bn came in due to a strong volume growth of 72.5% YoY (D.Est: Rs 2.67bn).
- EBITDA and PAT grew by 226.9% and 250.1% YoY to Rs 653mn and Rs 518mn respectively. EBITDA growth was a function of a strong operating leverage, control on other expenses (up marginally by 1.2% YoY to Rs 315mn) and a marginal gross margin expansion of 20bps YoY to 34.3% led to a strong growth in absolute EBITDA
- PAT growth was cushioned by a lower tax rate of 25.2% as against 29.0% in 1QFY20 coupled with a growth in other income by 95.4% YoY to Rs 74mn.

New product launches to fuel growth

Dhanuka Agritech launched 2 new products within this quarter namely Dabooch and Dozo Maxx and have launched 5 new products in FY20. Contribution of new products within 1QFY21 has been 7.4%, the management expects to improve Innovation turnover index (ITI) from 12% in FY20 to 14% in FY21. The company to launch 2 more 9(3) Fungicides in FY21 – namely Nisodium (Technical: Cyflufenamid) which is in-licensed from Nippon Soda Japan and Kirari (Technical: Amisulbrom) which is in-licensed from Nissan Chemicals Japan. We expect Dhanuka Agritech to continue its growth momentum on the back of new product launches. 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

Sensing strong growth momentum for Dhanuka Agritech, we have upgraded our valuation multiple. Following a strong Kharif Season and on the back of an encouraging monsoon season, we expect Rabi season to have an encouraging output as well. We are also anticipating a robust EBITDAM expansion of 170/60 bps YoY to 17.2/17.8% in FY21 and FY22 respectively. Dhanuka Agritech's asset-light model, strong free-cash flows and a net cash balance-sheet exuded confidence in the management to venture a buy-back program of Rs 1.0bn (with ~1 mn shares in the know). We maintain our positive stance on Dhanuka Agritech, however with the recent run-up and an upgrade in P/E multiple we find limited upside from the CMP. We are now valuing Dhanuka Agritech at 22.0x FY22E EPS, with a target price of Rs 922/share and revise our rating to accumulate.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	3,738	2,190	70.7	2,276	64.3
Total Expense	3,086	1,990	55.0	1,818	69.7
EBITDA	653	200	226.9	458	42.6
Depreciation	32	27	17.5	37	(15.5)
EBIT	621	173	259.5	420	47.8
Other Income	74	38	95.4	87	(15.1)
Interest	3	2	30.1	4	(30.6)
EBT	692	208	232.1	503	37.6
Tax	174	60	188.1	113	54.0
RPAT	518	148	250.1	390	32.8
APAT	518	148	250.1	390	32.8
			(bps)		(bps)
Gross Margin (%)	34.3	34.1	19	42.8	(856)
EBITDA Margin (%)	17.5	9.1	834	20.1	(265)
NPM (%)	13.9	6.8	710	17.1	(329)
Tax Rate (%)	25.2	29.0	(385)	22.5	269
EBIT Margin (%)	16.6	7.9	873	18.5	(185)

CMP	Rs 889
Target / Upside	Rs 922 / 4%
BSE Sensex	37,903
NSE Nifty	11,133

Script Details

Equity / FV	Rs 95mn / Rs 2
Market Cap	Rs 42bn
	US\$ 567mn
52-week High/Low	Rs 936/Rs 275
Avg. Volume (no)	1,54,446
NSE Symbol	DHANUKA
Bloomberg Code	DAGRI IN

Shareholding Pattern Jun'20(%)

Promoters	75.0
MF/Banks/FIs	13.1
FII	0.0
Public / Others	11.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	29.9	24.2	21.1
EV/EBITDA	23.9	18.2	15.3
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	3,738	2,672	39.9%	Higher than expected volume growth
EBITDA	653	437	49.4%	Same
EBITDA Margin (%)	17.5	16.4	111 bps	Same
PAT	518	337	53.9%	Same

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs mn)	FY21E			FY22E		
	New	Previous	Change (%)	New	Previous	Change (%)
Revenue	13,142	13,142	-	14,683	14,683	-
EBITDA	2,259	2,259	-	2,612	2,612	-
EBITDA Margin(%)	17.2	17.2	-	17.8	17.8	-
PAT	1,746	1,746	-	2,008	2,008	-
EPS(Rs)	36.7	36.7	-	42.2	42.2	-

Source: DART, Company

Concall Highlights

Operational Highlights

- Sales growth came in at the back of a 72% volume growth.
- The plant operations were stabilized in April 2020 and were running at full capacity by mid May 2020. The company gained market share from the unorganized sector owing to a robust supply distribution network and early ramp up in utilization.
- Market share gains for organized sector are likely to be even more at the outset of pesticide management bill and awareness amongst farmers about spurious chemicals.
- The board has approved a buy-back of Rs 1.0bn, at a maximum buy-back price of Rs 1,000/share. This is equivalent to a buy-back of 1.0mn shares. The board has acknowledged the intention of the promoters to participate in the buy-back.
- The company witnessed ~10% sales of Q4FY20 spilling over to Q1FY21. Also, some of the consumption demand from Q2FY21 is reflected in Q1FY21.
- Despite preponement of sales the management expects a reasonable growth to occur in Q2FY21.
- Rabi season last year was exceptionally well which also led to higher revenue in April and May from South zone and is difficult to replicate in FY21. Therefore, bulk of the growth will be from 1HFY21.
- Gross margins will most likely be better in Q2FY20 YoY because of better product mix and lower base.
- The company was a beneficiary of sales of pesticides due to locust attack indirectly. The company has not participated in any tenders issued by the government for locust control.
- Working capital in the current quarter has increased by 15 days.
- The company did aggressive advertisement for Sempra and Targa Super in the current quarter.

- Herbicides performed exceptionally well in Q1FY21. The management is expecting the herbicides business segment to contribute ~31% and insecticides to contribute ~43% of the revenues in FY21.
- Channel inventory for the current kharif season was lower than last year. It is anticipated that inventory levels in the market be largely similar with an expectation of higher sales/consumption.
- The company strategizes consolidating its distribution networks and penetrating the same in rural India. This is expected to increase throughput from existing channels and garner more volumes from new channels.

New Launches

- The company to launch 2 more 9(3) Fungicides in FY21 – namely Nisodium (Technical: Cyflufenamid) which is in-licensed from Nippon Soda Japan and Kirari (Technical: Amisulbrom) which is in-licensed from Nissan Chemicals Japan. These products are exclusive to the company.
- The company has launched 2 new herbicides products in Q1FY20 namely Dabooch and Dozo Maxx. These products are not exclusive to the company.
- Contribution of new products within Q1FY21 has been 7.4%, the management expects to improve Innovation turnover index (ITI) from 12% in FY20 to 14% in FY21.
- The company is planning to launch 2-3 new products in FY21.
- The company's focus is to make its business model monsoon agnostic and is launching products like Chempa for direct seeded rice which requires lesser water.

Guidance

- The management is guiding for more than 25% sales growth in FY21. The management is also guiding for 100 Bps EBITDA margin expansion.
- Capex expected for FY21 to be between Rs 50 mn to 100 mn.
- The company has guided to launch 4-5 new products every year. The company to focus more on in-licensing as R&D is not strong in India.

Revenue Break-Up

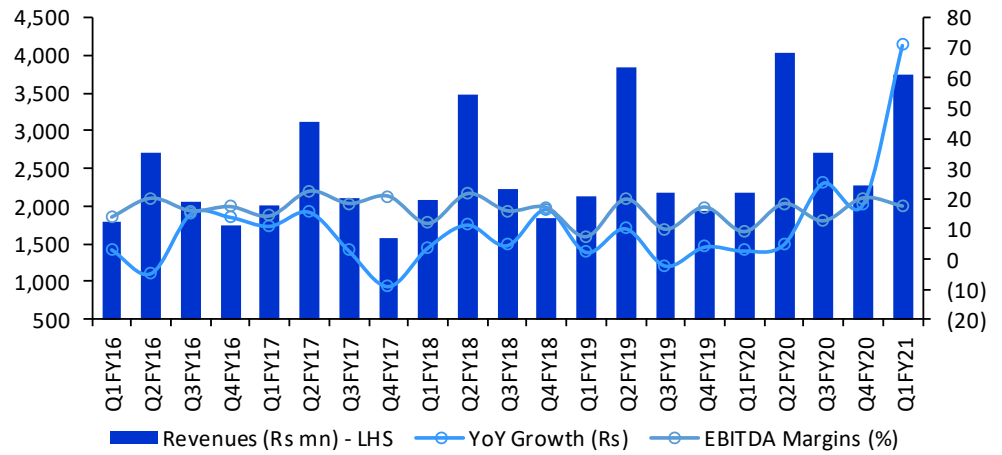
Zonal Break Up

- North zone- 31%
- East zone- 10%
- West zone- 42%
- South zone- 17%

Segment Wise Break Up

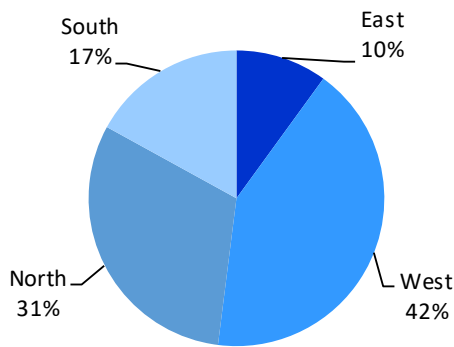
- Insecticides 31
- Fungicides- 11
- Herbicides- 46%
- Others- 12%

Exhibit 3: Consolidated Revenues vs EBITDA Margin



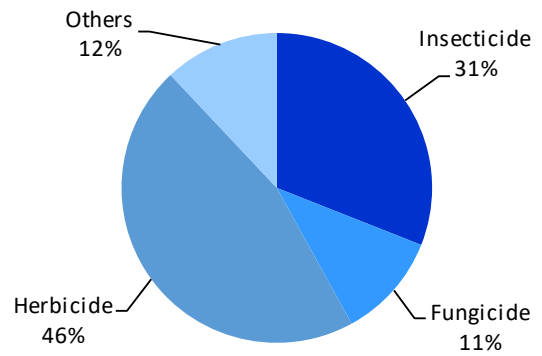
Source: Company, DART

Exhibit 4: Geography Wise Revenue Breakup (Q1FY21)



Source: Company, DART

Exhibit 5: Segment Wise Revenue Breakup (Q1FY21)



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)	889	889	889	889
P/E	37.6	29.9	24.2	21.1
Mcap (Rs Mn)	42,276	42,276	42,276	42,276
MCap/ Sales	4.2	3.8	3.2	2.9
EV	42,180	41,496	41,145	39,944
EV/Sales	4.2	3.7	3.1	2.7
EV/EBITDA	28.9	23.9	18.2	15.3
P/BV	6.6	6.0	5.0	4.2
Dividend Yield (%)	0.1	1.4	0.7	0.8
(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

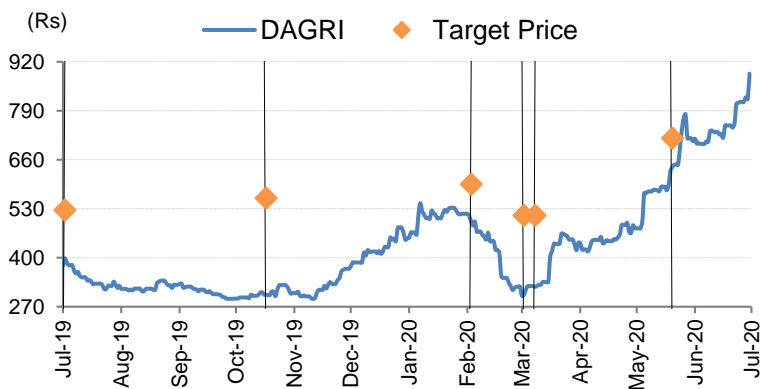
E – Estimates

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	399
Nov-19	BUY	558	301
Feb-20	Accumulate	595	496
Mar-20	Buy	512	301
Mar-20	Buy	512	322
Jun-20	Buy	717	641

**Price as on recommendation date*

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