

Buy

- Dhanuka Agritech reported a decent set of 2QFY21 numbers in spite of a challenging environment amidst excessive rainfalls in Aug-20, Sept-20, low pest infestation and a reasonably filled channel inventory. Sales grew by 10.0% YoY to Rs 4.42bn, which was led by an equivalent volume and pricing growth.
- EBITDA grew by 21.3% YoY to Rs 890mn owing to easing input costs.
- PAT grew by 16.8% YoY to Rs 701mn owing to a higher other income (up 71% YoY) and low depreciation (down 44% YoY).

Product launches to propel growth

The company in Q2FY21 launched 2 new 9(3) fungicides for grapes Kirari and Nisodium. Kirari – in-licensed from Japanese firm Nissan Chemical, Nisodium in-licensed from Japanese firm Nippon Soda. Kirari and Nisodium are grape fungicides to take care of Downy Mildew and Powdery Mildew respectively. Company has launched a total of 4 products in H1FY21, 2 of 9(3) and 2 of 9(4) and the management expects these products to contribute Rs 500-600mn to the revenue in the next 3 years.

Outlook and valuation

Dhanuka Agritech exuded some confidence in building capabilities for themselves in the active ingredient space, which could act as a key differentiator in the long-run. Integration in the value chain is looked upon the best way to curb dependence on China and could be the way forward for the agro-chemical industry. We await more details on the same as the management is expected to crystallise the plans on the drawing board by end of FY21. Given the strategic direction of the company, coupled with a strong brand re-call for key in-license products and focus on product launches Dhanuka Agritech is well placed to garner growth in FY21-23E. We have fine-tuned FY21E/FY22E estimates and rolled forward FY23E estimates. We revise target price to Rs 1,035/share @22x FY23E EPS. We have a buy rating on the stock.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	4,424	4,020	10.0	3,738	18.3
Total Expense	3,534	3,286	7.5	3,086	14.5
EBITDA	890	734	21.3	653	36.3
Depreciation	32	57	(43.8)	32	2.1
EBIT	858	676	26.8	621	38.0
Other Income	82	48	71.1	74	11.7
Interest	3	6	(52.6)	3	2.4
EBT	937	719	30.4	692	35.4
Tax	236	119	99.1	174	35.5
RPAT	701	600	16.8	518	35.3
APAT	701	600	16.8	518	35.3
			(bps)		(bps)
Gross Margin (%)	38.0	35.0	297	34.3	372
EBITDA Margin (%)	20.1	18.3	186	17.5	265
NPM (%)	15.8	14.9	92	13.9	199
Tax Rate (%)	25.2	16.5	870	25.2	3
EBIT Margin (%)	19.4	16.8	256	16.6	277

CMP	Rs 736
Target / Upside	Rs 1,035 / 41%
NIFTY	11,642

Scrip Details

Equity / FV	Rs 95mn / Rs 2
Market Cap	Rs 35bn
	USD 470mn
52-week High/Low	Rs 936/ 275
Avg. Volume (no)	1,02,926
Bloom Code	DAGRI IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	(6)	152
Rel to NIFTY (%)	(6)	(11)	153

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	75.0	75.0	75.0
MF/Banks/FIs	12.0	12.0	12.0
FIIIs	0.0	0.0	0.0
Public / Others	13.0	13.0	13.0

Valuation (x)

	FY21E	FY22E	FY23E
P/E	18.9	17.2	15.6
EV/EBITDA	14.1	12.6	11.1
ROE (%)	23.8	21.8	20.2
RoACE (%)	23.4	21.5	19.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	13,404	14,883	16,529
EBITDA	2,401	2,670	2,968
PAT	1,858	2,041	2,240
EPS (Rs.)	39.0	42.9	47.1

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Gross margins – a relief long over-due

With raw material prices easing, gross margins improved by 300 bps YoY. Chinese manufacturers of active ingredients are known to have shifted their bases from the east to the north and the west in China and have been scaling up their capacities. Inflationary pricing environment in FY20 has subsided now and we believe that gross margins of ~38% are here to stay for a couple of more quarters.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	Estimated	Variance	Comments
Revenue	4,424	4,623	(4.3)	Excessive rainfall in August and September caused lower pest infestation leading to low insecticide sales
EBITDA	890	903	(1.5)	EBITDA In-line
EBITDA Margin(%)	20.1	19.5	58	
PAT	701	685	2.3	PAT In-line

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Change(%)	New	Previous	Change(%)
Revenue	13,404	13,142	2.0	14,883	12,401	20.0
EBITDA	2,401	2,259	6.3	2,670	2,612	2.2
EBITDA Margin(%)	17.9	17.2	72	17.9	21.1	(313)
PAT	1,858	1,746	6.4	2,041	2,008	1.6
EPS(Rs)	39.0	36.7	6.4	42.9	42.2	0.8

Source: DART, Company

Concall Highlights

Business performance

- The company's sales in Q2FY21 increased by 10% YoY, volume and pricing growth were equal in the sales growth.
- Sales growth was lower due to deficit rainfall in July which impacted the Herbicide sales and excessive rainfall in August and September which impacted the Pesticide sales.
- Excessive rainfall in Maharashtra, Gujarat, Andhra Pradesh, Telangana led to lower spraying as farmers could not venture out during rains.
- Lower pest infestation impacted sales of insecticides/pesticides.
- Other expenses in Q2FY21 was higher due to 425mn cost of construction of new office and higher CSR expenses and office rent.
- Gross margins in Q2FY21 were higher by 297bps YoY due to better product mix.
- Innovation turnaround Index at 11% in Q2FY21 vs 13% Q2FY20.

CAPEX

- The company appointed a vice president to oversee new projects – especially venturing into technical manufacturing to reduce dependence on China.
- The management will give further updates on the same by end of FY21.
- The company in Q2FY21 has setup a new R&D centre in Palwal, Haryana.

- As per the management, Capex not an issue for the company, company is cash rich and has money parked in Mutual funds.

Channel Inventory

- Channel Inventory for the company is lower than the industry.
- Channel inventory is higher than before but the management does not expect receivables to increase or bad debt or delays in receiving payment.
- Inventory for the 1HFY21 increased due to lower sales of insecticides, the company planned for a bumper 2QFY21 and had stocked crop protection insecticides which could not be liquidated.

Product launch

- The company in Q2FY21 launched 2 new 9(3) fungicides for grapes Kirari and Nisodium in 1HFY21.
- Kirari – in-licensed from Japanese firm Nissan Chemical, Nisodium in-licensed from Japanese firm Nippon Soda.
- Kirari and Nisodium are grape fungicides to take care of Downy Mildew and Powdery Mildew respectively.
- The company has exclusive marketing rights in India and distribution rights for both the new launches.
- Company has launched a total of 4 products in H1FY21, 2 of 9(3) and 2 of 9(4) and the management expects these products to contribute Rs 500-600mn to the revenue in the next 3 years and no major impact on the gross margins.
- Dhanuka Agritech is expected to launch 2 9(3) products in 2HFY21.

Raw material situation

- Prices of the raw materials imported from China have been on the downward trend due to sluggish demand.
- The management does not expect the prices to rise in H2FY21 but reduce or be stable.
- The company has 40% of the dependency on Japan so incase of war the management does not expect more than 3-4 molecules to be impacted.
- The company and the industry had to reduce prices of a major chunk of crop protection chemicals due to demand impact from excessive rainfall.

Working capital

- Debtors of the company increased by 4% as compared the growth in revenue of 31% in H1FY21.
- Inventory in H1FY21 was higher due to higher impact on sales of Insecticide but the management expects it to monetize the Insecticide inventory in Q3FY21.

Geographic Breakup (Q2FY21 vs Q2FY20)

- North: 26% vs 25%
- East: 10% vs 10%
- West: 34% vs 38%
- South: 30% vs 27%

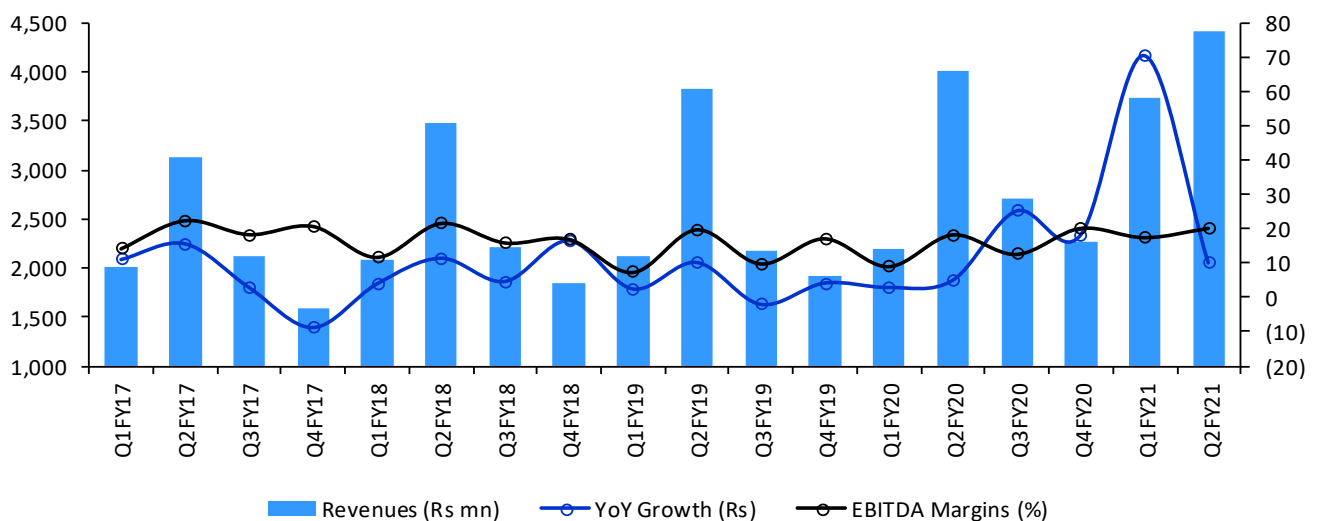
Product break-up

- Insecticide: 47%
- Fungicide: 20%
- Herbicide: 21%
- Others: 12%

Outlook and Guidance

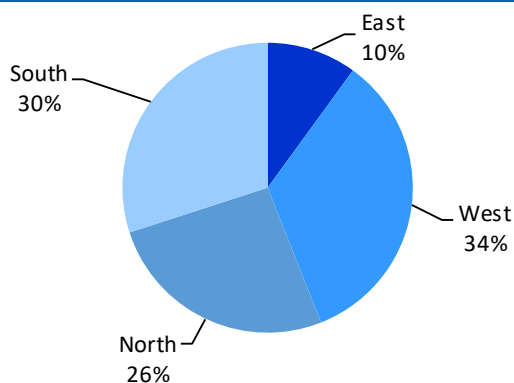
- The management expects similar growth of Q2FY21 in Q3FY21 as Q3FY21 was a terrific quarter for the company and the growth will be on a higher base and therefore assumes gross margins to be higher 40bps YoY in Q2FY21.
- The management expects growth for FY21 to be in the range of 22-25% due to higher spending power with the farmers from a good Kharif season to be able to spend during Rabi season.
- Given a very good H1FY21 for the industry and expectation of better H2FY21 than last year, the management expects the Industry to grow in the range of 10-15% and the company to grow by 15-20% in FY22.

Exhibit 3: Consolidated Revenues vs EBITDA Margin



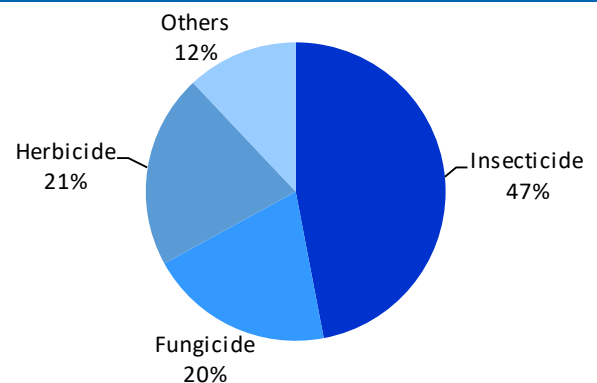
Source: DART, Company

Exhibit 4: Geography Wise Revenue Breakup (Q2FY21)



Source: DART, Company

Exhibit 5: Segment Wise Revenue Breakup (Q2FY21)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	11,201	13,404	14,883	16,529
Total Expense	9,466	11,003	12,213	13,560
COGS	7,117	8,310	9,228	10,248
Employees Cost	1,052	1,136	1,227	1,326
Other expenses	1,297	1,556	1,758	1,987
EBIDTA	1,735	2,401	2,670	2,968
Depreciation	164	177	208	248
EBIT	1,571	2,224	2,462	2,720
Interest	16	7	9	9
Other Income	251	266	274	282
Exc. / E.O. items	0	0	0	0
EBT	1,806	2,483	2,727	2,993
Tax	392	625	686	753
RPAT	1,415	1,858	2,041	2,240
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,415	1,858	2,041	2,240

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	95	95	95	95
Minority Interest	0	0	0	0
Reserves & Surplus	6,982	8,462	10,102	11,912
Net Worth	7,077	8,558	10,197	12,008
Total Debt	80	122	122	122
Net Deferred Tax Liability	53	53	53	53
Total Capital Employed	7,210	8,733	10,373	12,183

Applications of Funds

Net Block	1,175	1,086	1,878	2,630
CWIP	37	50	50	50
Investments	991	991	991	991
Current Assets, Loans & Advances	7,120	8,621	9,667	10,946
Inventories	2,499	3,063	3,402	3,778
Receivables	2,424	3,011	3,343	3,713
Cash and Bank Balances	263	612	987	1,520
Loans and Advances	314	314	314	314
Other Current Assets	1,023	1,023	1,023	1,023

Less: Current Liabilities & Provisions	2,113	2,016	2,214	2,434
Payables	1,132	955	1,060	1,177
Other Current Liabilities	981	1,061	1,154	1,257

sub total

Net Current Assets	5,008	6,605	7,453	8,512
Total Assets	7,210	8,733	10,373	12,183

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	36.5	38.0	38.0	38.0
EBIDTA Margin	15.5	17.9	17.9	18.0
EBIT Margin	14.0	16.6	16.5	16.5
Tax rate	21.7	25.2	25.2	25.2
Net Profit Margin	12.6	13.9	13.7	13.6
(B) As Percentage of Net Sales (%)				
COGS	63.5	62.0	62.0	62.0
Employee	9.4	8.5	8.2	8.0
Other	11.6	11.6	11.8	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	100.9	314.6	288.0	318.2
Inventory days	81	83	83	83
Debtors days	79	82	82	82
Average Cost of Debt	10.3	7.0	7.0	7.0
Payable days	37	26	26	26
Working Capital days	163	180	183	188
FA T/O	9.5	12.3	7.9	6.3
(D) Measures of Investment				
AEPS (Rs)	29.7	39.0	42.9	47.1
CEPS (Rs)	33.2	42.8	47.3	52.3
DPS (Rs)	12.0	6.5	7.0	7.5
Dividend Payout (%)	40.4	16.6	16.3	15.9
BVPS (Rs)	148.7	179.9	214.3	252.4
RoANW (%)	21.0	23.8	21.8	20.2
RoACE (%)	20.5	23.4	21.5	19.9
RoAIC (%)	22.9	29.5	28.1	27.1
(E) Valuation Ratios				
CMP (Rs)	736	736	736	736
P/E	24.8	18.9	17.2	15.6
Mcap (Rs Mn)	35,037	35,037	35,037	35,037
MCap/ Sales	3.1	2.6	2.4	2.1
EV	34,256	33,950	33,575	33,041
EV/Sales	3.1	2.5	2.3	2.0
EV/EBITDA	19.7	14.1	12.6	11.1
P/BV	5.0	4.1	3.4	2.9
Dividend Yield (%)	1.6	0.9	1.0	1.0
(F) Growth Rate (%)				
Revenue	11.4	19.7	11.0	11.1
EBITDA	18.8	38.4	11.2	11.2
EBIT	17.6	41.5	10.7	10.5
PBT	17.3	37.4	9.8	9.8
APAT	25.7	31.3	9.8	9.8
EPS	25.7	31.3	9.8	9.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,866	793	1,785	1,972
CFI	(413)	(102)	(1,000)	(1,000)
CFF	(911)	(342)	(410)	(438)
FCFF	1,670	691	785	972
Opening Cash	318	860	1,209	1,584
Closing Cash	860	1,209	1,584	2,118

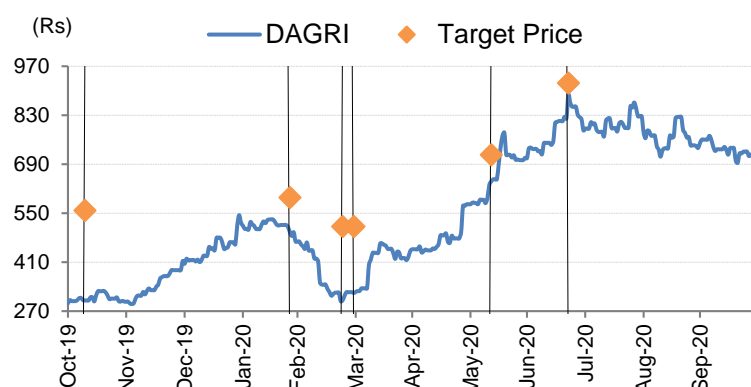
E – Estimates

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.)
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
Jul-20	Accumulate	922	889

*Price as on recommendation date

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