

# Dhanuka Agritech

Refer to important disclosures at the end of this report

## Market share gains to continue

**CMP: Rs 739**  
as of (December 24, 2020)

**TP: Rs 890 (▲)**  
12 months

**Rating: BUY (■)**

**Upside: 20.5 %**

- We upgrade our earnings estimates for DAGRI and retain Buy as we expect the company to continue to outperform the industry and generate robust cash flow. Accordingly, we raise the TP by 25% to Rs890 (Mar'22), based on 19x FY23E EPS, from Rs715 (Jun'21).
- Our recent interaction with DAGRI management affirms our positive view on the stock. Management is confident of outperforming industry growth in Q3 and FY22 despite seeing some deceleration in Nov-Dec'20, partly due to the base effect (25% revenue growth yoy in Q3FY20).
- We remain constructive on DAGRI in view of: 1) four new product launches in H1FY21, with two more slated for launch in H2FY21; 2) above-industry revenue growth - channel checks indicate 5% revenue growth for DAGRI in Q3FY21 vs. 3-4% for industry; 3) solid cash generation; 4) robust RoE (24-25% over FY21-23E); and 5) attractive dividend yield (3.9%/4.3% for FY22/23E). Our estimates do not incorporate any demand upside from Agricultural marketing reforms ([link](#)) in the medium-to-long term.
- We raise our FY21/22/23 profit estimates by 9%/10%/14%. We upgrade EPS estimates by 12%/13%/16% due to the share buyback in FY21. We also increase payout ratios to 70% for FY22/23E from 45% earlier.

### New launches on track

Management guided that they are on track to launch two new products in H2FY21, taking total launches to six in FY21. Management remains confident of launching 5-6 new products in FY22 as well. Aggressive new launches should help DAGRI maintain a higher growth rate than the industry going into FY22.

### Strong cash generation to continue; expect higher payouts

We expect DAGRI to generate OCF of Rs4bn over FY22-23. With capex of Rs300m over FY22-23E, DAGRI will have surplus cash of Rs3.7bn to distribute to shareholders. Even after assuming Rs2.8bn in dividend payouts for FY22-23E (Rs1.4bn/Rs1.5bn in FY22/23E), DAGRI will still have cash balances of Rs2.8/Rs2.9bn in FY22/23E. Hence, we expect higher payouts to shareholders during FY22-23E. We increase our estimates for the dividend payout ratio in FY22-23E to 70% from 45% on the back of robust cash generation.

### Outlook: 24% RoE over FY21-23E with strong balance sheet

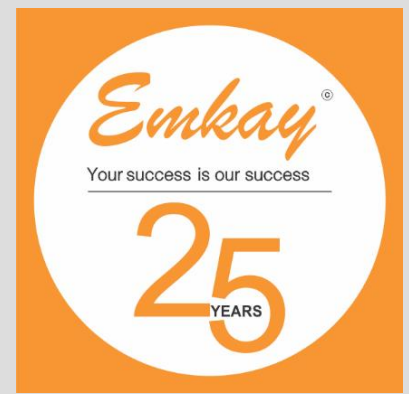
We value DAGRI at 19x FY23E EPS, given superior RoE of 24% and 11% EPS CAGR over FY21-23E. The balance sheet remains strong with cash of Rs1.6bn/Rs2.8/Rs2.9bn in FY21/22/23E. The stock is trading at an FCF yield of 7.2%/4.8% FY22/23E, which is attractive. Maintain Buy with a revised TP of Rs890. Key risks include: 1) lower rainfall affecting demand for agrochemicals, 2) fewer pest attack, and 3) sharp increase in raw material prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Agri Input & Chemicals \(Page 7\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,058	11,201	13,497	14,712	16,183
EBITDA	1,460	1,735	2,289	2,499	2,796
EBITDA Margin (%)	14.5	15.5	17.0	17.0	17.3
APAT	1,126	1,414	1,760	1,942	2,171
EPS (Rs)	22.9	29.7	37.8	41.7	46.6
EPS (% chg)	(10.8)	29.6	27.1	10.4	11.8
ROE (%)	17.4	20.9	24.1	24.5	25.4
P/E (x)	32.2	24.9	19.5	17.7	15.8
EV/EBITDA (x)	24.8	19.8	14.8	13.1	11.6
P/BV (x)	5.5	5.0	4.5	4.2	3.9

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	12/13
Target Price change (%)	24.5
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	37.8	41.7
Consensus	40.2	44.6
Mean Consensus TP (12M)	Rs 953	

### Stock Details

Bloomberg Code	DAGRI IN
Face Value (Rs)	2
Shares outstanding (mn)	48
52 Week H/L	936 / 261
M Cap (Rs bn/USD bn)	35 / 0.48
Daily Avg Volume (nos.)	69,976
Daily Avg Turnover (US\$ mn)	0.7

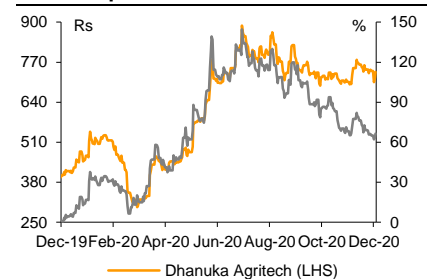
### Shareholding Pattern Nov '20

Promoters	75.2%
FII's	-%
DII's	12.0%
Public and Others	12.8%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	6	(4)	3	96
<b>Rel. to Nifty</b>	1	(21)	(21)	77

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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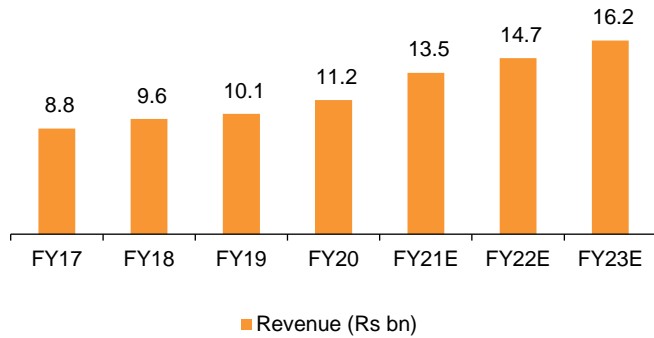
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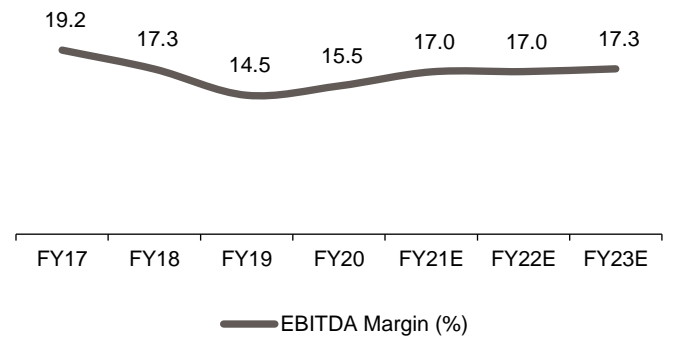
# Story in Charts

**Exhibit 1: 9% Revenue CAGR over FY21-23E**



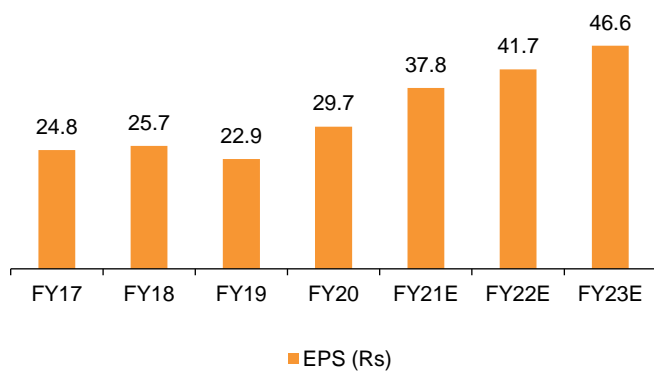
Source: Company, Emkay Research

**Exhibit 2: 32bps EBITDA margin expansion over FY21-23E**



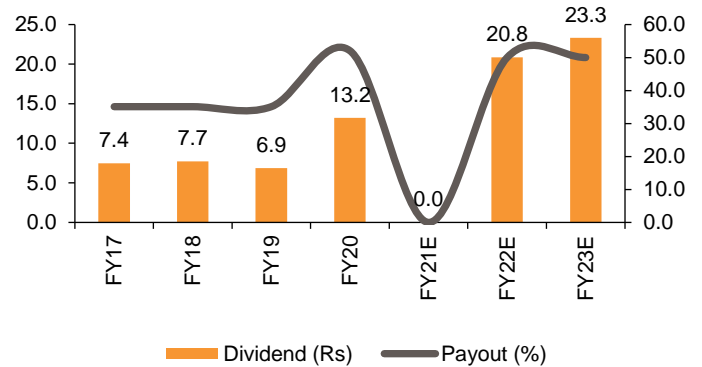
Source: Company, Emkay Research

**Exhibit 3: 11% EPS CAGR over FY21-23E**



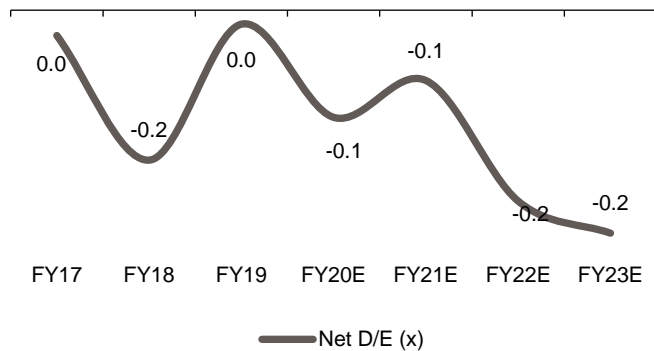
Source: Company, Emkay Research

**Exhibit 4: Dividend payout to continue in FY22/FY23E**



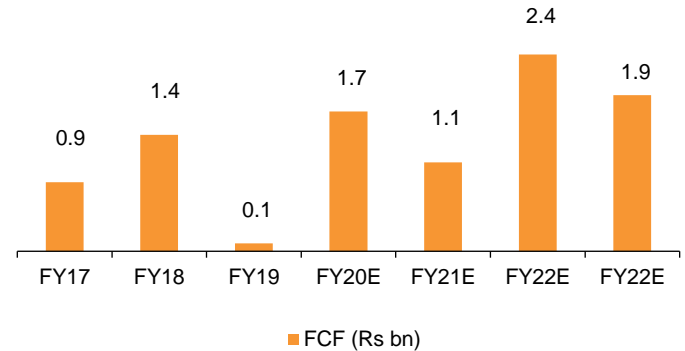
Source: Company, Emkay Research

**Exhibit 5: Healthy balance sheet position**



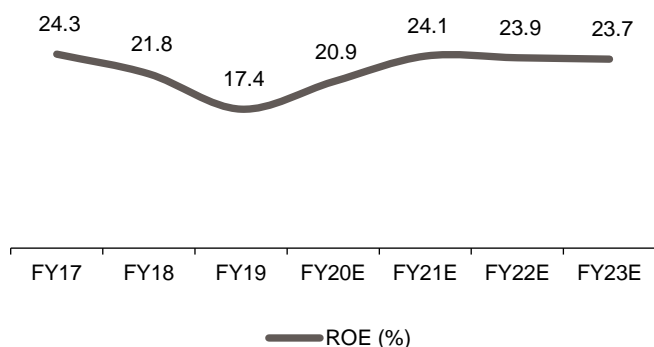
Source: Company, Emkay Research

**Exhibit 6: Robust FCF generation**



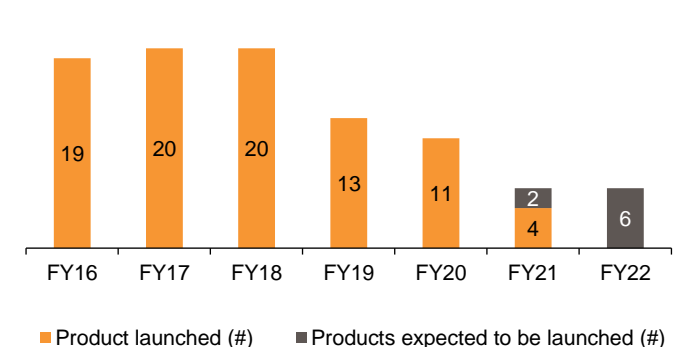
Source: Company, Emkay Research

**Exhibit 7: ROE to remain steady at 23-24%**



Source: Company, Emkay Research

**Exhibit 8: New product launches to continue on track**



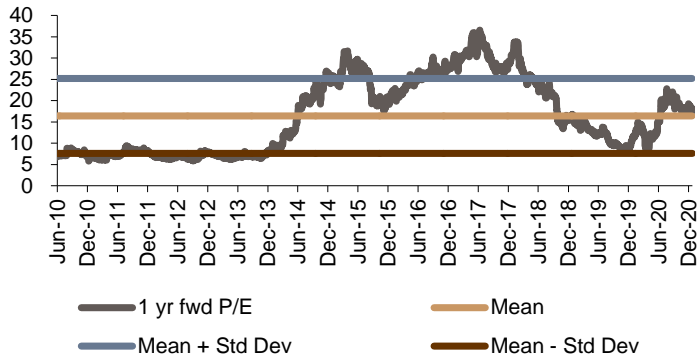
Source: Company, Emkay Research

**Exhibit 9: Changes in estimates**

Rs mn	FY21E			FY22E			FY23E		
	Old estimates	New Estimates	% Change	Old estimates	New Estimates	% Change	Old estimates	New Estimates	% Change
Net sales	12,769	13,497	6%	13,918	14,712	6%	15,031	16,183	8%
EBITDA	2,106	2,289	9%	2,301	2,499	9%	2,508	2,796	11%
EBITDA %	16.5%	17.0%	47bps	16.5%	17.0%	45bps	16.7%	17.3%	59bps
APAT	1,608	1,760	9%	1,761	1,942	10%	1,909	2,171	14%
AEPS (Rs)	33.8	37.8	12%	37.0	41.7	13%	40.1	46.6	16%

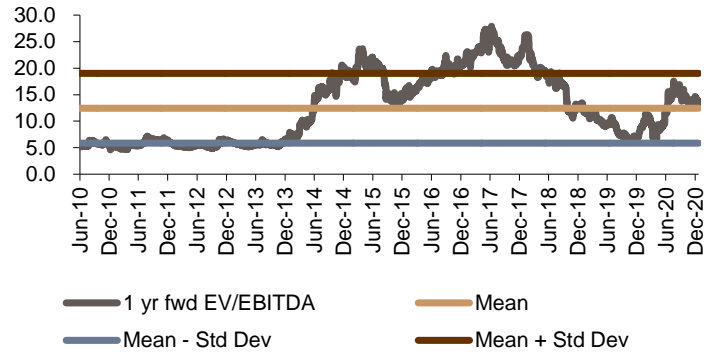
Source: Emkay Research

**Exhibit 10: DAGRI is trading at 17.7x 1-yr forward PE**



Source: Emkay Research, Bloomberg

**Exhibit 11: DAGRI is trading at 13.6x 1-yr forward EV/EBITDA**



Source: Emkay Research, Bloomberg

**Exhibit 12: Peer valuations**

Company Name	Mkt Cap (USD mn)	PE (x)			EV/EBITDA (x)			ROE (%)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UPL	4,609	11.8	10.8	9.4	6.6	5.8	5.1	14.2	13.9	14.3
PI Industries	4,586	50.2	36.7	30.0	32.9	24.7	19.9	17.5	16.8	17.5
Bayer CropScience*	3,125	33.9	29.4	26.4	24.9	21.3	18.5	23.9	23.7	22.5
Rallis India	704	24.2	21.1	18.6	15.6	13.0	11.0	14.4	14.7	14.8
Sharda Cropchem*	322	12.0	10.5	10.1	5.5	4.7	4.0	12.7	12.6	13.1
<b>Dhanuka Agritech</b>	<b>480</b>	<b>19.5</b>	<b>17.7</b>	<b>15.8</b>	<b>14.8</b>	<b>13.1</b>	<b>11.6</b>	<b>24.1</b>	<b>24.5</b>	<b>25.4</b>
Sumitomo Chemical*	1,998	48.1	39.3	32.4	32.5	26.9	22.7	22.7	23.0	22.9
<b>Agro Chemicals Avg.</b>		<b>28.5</b>	<b>23.6</b>	<b>20.3</b>	<b>18.9</b>	<b>15.6</b>	<b>13.2</b>	<b>18.5</b>	<b>18.4</b>	<b>18.4</b>

Source: Emkay Research, \* Bloomberg estimates

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>10,058</b>	<b>11,201</b>	<b>13,497</b>	<b>14,712</b>	<b>16,183</b>
<b>Expenditure</b>	<b>8,598</b>	<b>9,466</b>	<b>11,208</b>	<b>12,213</b>	<b>13,387</b>
<b>EBITDA</b>	<b>1,460</b>	<b>1,735</b>	<b>2,289</b>	<b>2,499</b>	<b>2,796</b>
Depreciation	123	164	151	128	138
<b>EBIT</b>	<b>1,336</b>	<b>1,571</b>	<b>2,138</b>	<b>2,371</b>	<b>2,657</b>
Other Income	212	251	220	230	250
Interest expenses	9	16	8	8	8
<b>PBT</b>	<b>1,540</b>	<b>1,806</b>	<b>2,350</b>	<b>2,593</b>	<b>2,900</b>
Tax	414	392	590	651	728
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>1,126</b>	<b>1,414</b>	<b>1,760</b>	<b>1,942</b>	<b>2,171</b>
<b>Adjusted PAT</b>	<b>1,126</b>	<b>1,414</b>	<b>1,760</b>	<b>1,942</b>	<b>2,171</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	95	95	93	93	93
Reserves & surplus	6,495	6,874	7,557	8,140	8,791
<b>Net worth</b>	<b>6,590</b>	<b>6,969</b>	<b>7,650</b>	<b>8,233</b>	<b>8,884</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>222</b>	<b>80</b>	<b>80</b>	<b>80</b>	<b>80</b>
Net deferred tax liability	122	53	53	53	53
<b>Total Liabilities</b>	<b>6,934</b>	<b>7,103</b>	<b>7,783</b>	<b>8,366</b>	<b>9,017</b>
<b>Net block</b>	<b>1,060</b>	<b>1,137</b>	<b>998</b>	<b>1,020</b>	<b>1,032</b>
<b>Investment</b>	<b>1,203</b>	<b>1,589</b>	<b>1,589</b>	<b>1,589</b>	<b>1,589</b>
<b>Current Assets</b>	<b>5,972</b>	<b>6,522</b>	<b>7,178</b>	<b>9,266</b>	<b>10,195</b>
Cash & bank balance	14	263	45	1,203	1,355
Other Current Assets	333	456	549	598	658
<b>Current liabilities &amp; Provision</b>	<b>1,587</b>	<b>2,113</b>	<b>2,018</b>	<b>3,545</b>	<b>3,835</b>
<b>Net current assets</b>	<b>4,385</b>	<b>4,409</b>	<b>5,160</b>	<b>5,721</b>	<b>6,360</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>6,657</b>	<b>7,172</b>	<b>7,783</b>	<b>8,366</b>	<b>9,017</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>1,540</b>	<b>1,806</b>	<b>2,350</b>	<b>2,593</b>	<b>2,900</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(969)	158	(969)	598	(487)
<b>Operating Cashflow</b>	<b>43</b>	<b>1,622</b>	<b>950</b>	<b>2,675</b>	<b>1,830</b>
Capital expenditure	(47)	(104)	(149)	(150)	(150)
<b>Free Cash Flow</b>	<b>(4)</b>	<b>1,518</b>	<b>801</b>	<b>2,525</b>	<b>1,680</b>
Investments	681	(478)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>721</b>	<b>(443)</b>	<b>(149)</b>	<b>(150)</b>	<b>(150)</b>
Equity Capital Raised	(825)	0	(1,000)	0	0
Loans Taken / (Repaid)	175	(192)	0	0	0
Dividend paid (incl tax)	(207)	(723)	0	(1,359)	(1,520)
Other Financing Cash Flow	0	1	(11)	0	0
<b>Financing Cashflow</b>	<b>(866)</b>	<b>(929)</b>	<b>(1,019)</b>	<b>(1,367)</b>	<b>(1,528)</b>
<b>Net chg in cash</b>	<b>(101)</b>	<b>249</b>	<b>(218)</b>	<b>1,158</b>	<b>153</b>
Opening cash position	114	14	263	45	1,203
<b>Closing cash position</b>	<b>13</b>	<b>263</b>	<b>44</b>	<b>1,203</b>	<b>1,355</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	14.5	15.5	17.0	17.0	17.3
EBIT Margin	13.3	14.0	15.8	16.1	16.4
Effective Tax Rate	26.9	21.7	25.1	25.1	25.1
Net Margin	11.2	12.6	13.0	13.2	13.4
ROCE	23.0	26.0	31.7	32.2	33.5
ROE	17.4	20.9	24.1	24.5	25.4
RoIC	26.7	29.3	37.5	40.7	45.9

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	22.9	29.7	37.8	41.7	46.6
CEPS	25.5	33.2	41.0	44.4	49.6
BVPS	134.3	146.4	164.2	176.8	190.7
DPS	6.9	13.2	0.0	29.2	32.6

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	32.2	24.9	19.5	17.7	15.8
P/CEPS	29.0	22.3	18.0	16.6	14.9
P/BV	5.5	5.0	4.5	4.2	3.9
EV / Sales	3.6	3.1	2.5	2.2	2.0
EV / EBITDA	24.8	19.8	14.8	13.1	11.6
Dividend Yield (%)	0.9	1.8	0.0	4.0	4.4

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	(0.1)	(0.4)	(0.2)	(0.7)	(0.7)
Working Cap Cycle (days)	158.6	135.1	138.3	112.1	112.9

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	4.5	11.4	20.5	9.0	10.0
EBITDA	(12.1)	18.8	32.0	9.2	11.9
EBIT	(12.0)	17.5	36.1	10.9	12.1
PAT	(10.8)	25.6	24.4	10.4	11.8

<b>Quarterly (Rs mn)</b>	<b>Q4FY19</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>
Revenue	1,927	2,190	4,020	2,715	2,276
EBITDA	330	200	734	343	458
<b>EBITDA Margin (%)</b>	<b>17.1</b>	<b>9.1</b>	<b>18.3</b>	<b>12.6</b>	<b>20.1</b>
PAT	268	148	600	277	390
<b>EPS (Rs)</b>	<b>5.6</b>	<b>3.1</b>	<b>12.6</b>	<b>5.8</b>	<b>8.2</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Nov-20</b>
Promoters	75.0	75.0	75.0	75.0	75.2
FIs	-	-	-	-	-
DIs	12.1	12.7	13.1	12.0	12.0
Public and Others	12.9	12.3	11.9	13.0	12.8

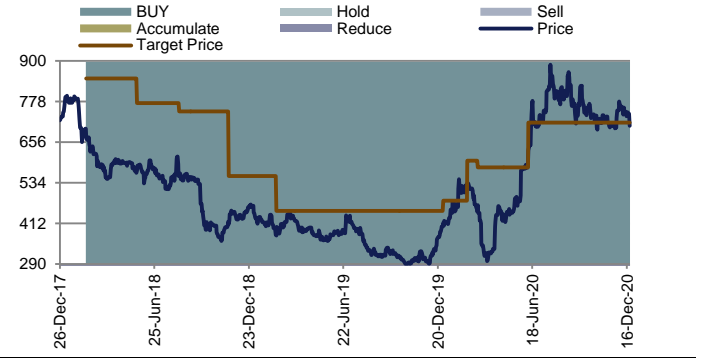
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
10-Jun-20	631	715	12m	Buy	Varshit Shah
19-May-20	468	580	12m	Buy	Varshit Shah
17-May-20	487	580	12m	Buy	Varshit Shah
13-Apr-20	464	580	12m	Buy	Varshit Shah
05-Mar-20	467	580	12m	Buy	Varshit Shah
14-Feb-20	532	600	12m	Buy	Varshit Shah
30-Dec-19	414	480	12m	Buy	Varshit Shah
09-Nov-19	301	450	12m	Buy	Varshit Shah
23-Sep-19	330	450	12m	Buy	Varshit Shah
19-Jul-19	388	450	12m	Buy	Varshit Shah
22-May-19	359	450	12m	Buy	Amar Mourya
03-Apr-19	400	450	12m	Buy	Amar Mourya
13-Feb-19	376	450	12m	Buy	Amar Mourya
11-Jan-19	431	554	12m	Buy	Amar Mourya
14-Nov-18	410	554	12m	Buy	Amar Mourya
11-Aug-18	555	748	12m	Buy	Pratik Tholiya
22-May-18	570	773	12m	Buy	Pratik Tholiya
14-Feb-18	675	847	12m	Buy	Pratik Tholiya

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Agri Input & Chemicals



### Analyst: Varshit Shah

#### Contact Details

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#### Sector

Agro-Chemicals and Fertilizers

#### Analyst bio

Varshit Shah is a Chartered Accountant and a commerce graduate from Narsee Monjee College of Commerce and Economics, Mumbai. He comes with total eight years of experience across sectors such as Chemicals, Education, Telecom, IT and Midcaps. His team currently covers 12 stocks in Agro Chemicals, Fertilizers and Midcaps.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Agri Input &amp; Chemicals</b>	<b>0.78</b>	<b>0.78</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Bayer CropScience*	0.09	0.09	-6%	-1	11.12
Chambal Fertilisers*	0.00	0.00	NA	0	0.00
Coromandel International	0.12	0.11	-6%	-1	14.51
DCM Shriram*	0.00	0.00	NA	0	0.00
Deepak Fertilisers*	0.00	0.00	NA	0	0.00
Dhanuka Agritech	0.00	0.00	NA	0	0.00
GSFC*	0.00	0.00	NA	0	0.00
Insecticides India*	0.00	0.00	NA	0	0.00
PI Industries	0.24	0.25	4%	1	31.51
Rallis India	0.00	0.00	NA	0	0.00
Sharda Cropchem*	0.00	0.00	NA	0	0.00
UPL	0.33	0.33	1%	0	42.87
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

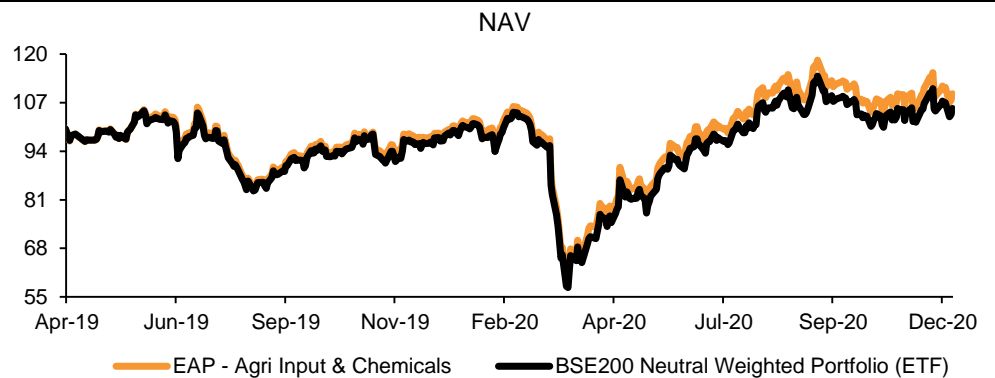
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	25-Mar-20	24-Jun-20	23-Sep-20	23-Nov-20	23-Dec-20
EAP - Agri Input & Chemicals	100.0	63.8	100.6	114.3	109.2	109.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	62.1	97.3	110.2	105.2	105.5

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 28 Dec 2020 08:10:51 (SGT)

Dissemination Date: 28 Dec 2020 08:11:51 (SGT)

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