

Dhanuka Agritech (DAGRI IN)

Rating: BUY | CMP: Rs741 | TP: Rs953

February 2, 2021

Q3FY21 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		ACCUMULATE	
Target Price	953		868	
Sales (Rs. m)	15,078	16,284	15,139	16,350
% Chng.	(0.4)	(0.4)		
EBITDA (Rs. m)	2,714	2,947	2,725	2,959
% Chng.	(0.4)	(0.4)		
EPS (Rs.)	47.6	52.9	46.0	50.4
% Chng.	3.5	5.0		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	11,201	13,833	15,078	16,284
EBITDA (Rs. m)	1,735	2,607	2,714	2,947
Margin (%)	15.5	18.9	18.0	18.1
PAT (Rs. m)	1,346	2,080	2,215	2,466
EPS (Rs.)	28.3	44.7	47.6	52.9
Gr. (%)	19.6	57.9	6.5	11.3
DPS (Rs.)	6.0	1.8	10.5	11.6
Yield (%)	0.8	0.2	1.4	1.6
RoE (%)	19.9	27.4	24.7	22.7
RoCE (%)	22.8	32.1	28.2	25.4
EV/Sales (x)	3.1	2.4	2.1	1.9
EV/EBITDA (x)	19.9	12.8	11.8	10.3
PE (x)	26.2	16.6	15.6	14.0
P/BV (x)	5.0	4.3	3.5	2.9

Key Data

DHNP.BO | DAGRI IN

52-W High / Low	Rs.936 / Rs.261
Sensex / Nifty	49,798 / 14,648
Market Cap	Rs.35bn / \$ 483m
Shares Outstanding	48m
3M Avg. Daily Value	Rs.121.07m

Shareholding Pattern (%)

Promoter's	75.18
Foreign	-
Domestic Institution	11.98
Public & Others	12.84
Promoter Pledge (Rs bn)	0.89

Stock Performance (%)

	1M	6M	12M
Absolute	(5.2)	(6.4)	46.6
Relative	(8.9)	(29.3)	17.0

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Better sales mix drive profitability

Quick Pointers:

- To invest Rs 2 bn in a new technical plant
- Healthy product pipeline

We upgrade DAGRI to BUY (from Accumulate) with revised target price of Rs 953 (Previous 868) based on 18x FY23 EPS of Rs 53 as we roll forward to FY23 estimates. We have also increased our PAT estimates for FY21-23 by 4-5%. DAGRI reported better than expected EBITDA growth of 46% to Rs 502 mn (PLe Rs 405 mn) driven by better sales mix and sharp growth in fungicides segment. Q4 is expected to be another good quarter driven by demand, due to deferment of season from Q3 and low base effect due to lockdown in Q4. Its robust pipeline of 10 new products will drive growth for the next 2 years. DAGRI plans to invest Rs 2 bn to set up a technical manufacturing plant at Dahej for backward integration and venturing into exports. The announcement highlights the intent and project specification will be finalised in the next 6 months. The plant is likely to be commercialised after 2.5-3 years. We have not factored any impact on the financials as budget of the project is yet to be finalised. Moderation in dividend payout is likely for next 2 years, as DAGRI would fund capex with internal accruals. Return ratios may also be impacted post commencement of investment in the technical plant. We believe that this is the right time for investment, as it will secure raw material supply and open up export markets at a time when MNCs are diversifying away from China.

Fungicides and top selling products driving growth: Topline growth of 9% was driven by 38% growth in fungicide sales and healthy demand for top selling products like Targa Super, Chempa, EM-1 and Lustre. DAGRI had launched 2 new fungicides which drove segment sales. Kirari (AI- Amisulbrom), inlicensed from Nissan chemicals is for control of downey mildew which is most feared disease in grapes. Nissodium (Cyflufenamid), inlicensed from Nisso chemicals is for control of powdery mildew.

To invest Rs 2 bn in a new technical plant: The management expressed their intent to invest Rs 2 bn in a new technical plant on its Dahej land. The company plans to manufacture few AIs which will be used for backward integration and eventually for exports. They are in discussion with one of the Japanese companies for some sort of a partnership for new project. The budget and other specific details are likely to get frozen over the next 6 months commercial production is expected to start after 2.5-3 years. DAGRI plans to fund the project with internal accruals.

Healthy launch pipeline: DAGRI plans to launch 10 new molecules over next 2 years with more focus on 9(3) molecules. The company has launched 6 new products in FY21 (5 in FY20). Dhanuka is trying to make portfolio more monsoon agnostic by launching more products catering to drought resistant seeds (like Cempa).

Exhibit 1: Gross margin expansion driving EBITDA growth

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	9MFY21	9MFY20	YoY gr. (%)
Net Sales	2,957	2,715	8.9	4,424	(33.2)	11,119	8,925	24.6
Expenditure								
Raw Materials	1,859	1,761	5.6	2,743	(32.2)	7,059	5,816	21.4
<i>% of Net Sales</i>	<i>62.9</i>	<i>64.9</i>		<i>62.0</i>		<i>63.5</i>	<i>65.2</i>	
Employee Cost	267	264	1.1	339	(21.2)	920	811	13.5
<i>% of Net Sales</i>	<i>9.0</i>	<i>9.7</i>		<i>7.7</i>		<i>8.3</i>	<i>9.1</i>	
Other Expenses	329	346	(5.1)	452	(27.3)	1,096	1,021	7.3
<i>% of Net Sales</i>	<i>11.1</i>	<i>12.8</i>		<i>10.2</i>		<i>9.9</i>	<i>11.4</i>	
Total Expenditure	2,454	2,371	3.5	3,534	(30.5)	9,074	7,648	18.6
EBITDA	502	343	46.2	890	(43.6)	2,045	1,277	60.1
<i>Margin (%)</i>	<i>17.0</i>	<i>12.6</i>		<i>20.1</i>		<i>18.4</i>	<i>14.3</i>	
Depreciation	41	42	(1.8)	32	28.0	105	126	(16.8)
EBIT	461	301	52.9	858	(46.3)	1,940	1,151	68.6
Interest	10	4	182.2	3	260.5	16	12	34.9
Other Income	94	78	19.5	82	14.0	250	164	52.1
PBT	545	376	44.7	937	(41.9)	2,174	1,303	66.8
Tax	144	100	44.9	236	(39.0)	555	279	99.1
<i>Tax Rate (%)</i>	<i>26.5</i>	<i>26.5</i>		<i>25.2</i>		<i>25.5</i>	<i>21.4</i>	
RPAT	400	277	44.7	701	(42.9)	1,619	1,025	58.0
APAT	400	277	44.7	701	(42.9)	1,619	1,025	58.0

Source: Company, PL

Exhibit 2: Fungicides clocked 37% growth in sales

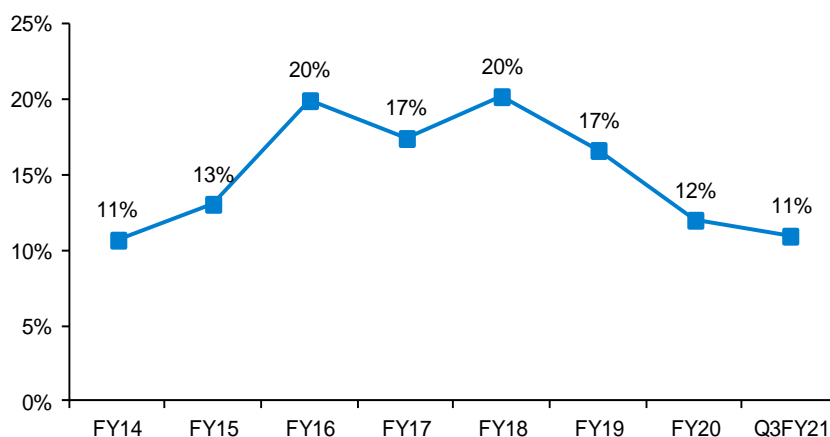
	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Insecticides	872	961	674	2,018	1,032	1,104	1,159	2,079	1,094
Fungicides	325	400	261	632	407	533	411	885	562
Herbicides	620	310	1,085	944	869	412	1,720	929	917
Others	351	255	170	426	407	227	449	531	384

Source: Company, PL

Exhibit 3: North & West clocks 21% & 18% growth in sales respectively

	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
North	464	792	677	1,019	489	615	1,159	1,150	591
South	946	598	275	1,072	1,195	930	636	1,327	1,153
West	465	246	1,008	1,530	679	480	1,570	1,504	796
East	293	290	229	399	353	250	374	442	384

Source: Company, PL

Exhibit 4: Innovation Turnover Rate likely to have bottomed out in FY20


Source: Company, PL

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

Geog Break Up (% of revenue)	FY15	FY16	FY17	FY18	FY19	FY20
North	25.3%	26.0%	25.5%	26.0%	27.9%	25.0%
West	29.7%	29.0%	29.9%	32.0%	31.5%	33.0%
East	13.2%	13.0%	11.1%	11.0%	12.1%	11.0%
South	31.7%	34.0%	33.5%	32.0%	28.5%	31.0%

Source: Company, PL

Exhibit 6: Share of herbicides is expected to grow in FY21

Segment wise Break up (% of revenue)	FY15	FY16	FY17	FY18	FY19	FY20
Insecticides	43.3%	45.0%	44.2%	42.2%	42.7%	43.0%
Fungicides	15.8%	14.0%	15.2%	15.1%	15.5%	15.0%
Herbicides	29.8%	30.0%	29.8%	31.8%	28.9%	31.0%
Others	11.1%	11.0%	10.8%	10.9%	12.9%	11.0%

Source: Company, PL

Exhibit 7: Key Products

Segment	Herbicides	Fungicides	Insecticides	PGRs
Number of products	25	16	38	9
% of Rev (Q3'21)	31%	15%	43%	11%
Key products	Barrier Craze, D-Era, Dhanutop, Fuzi Super, Maxxsoy, Nabood, Noweed, Oxykill, Ozone, Qurin, Sakura, Semptra, Targa Super, Weedmar, Dumil 10% SL, Fenox 1000, Dhanutop Super	Cursor, Dhanteam, Dhanuka M-45, Dhanustin, Hexadhan, Conika, Kasu-B, Godiwa, Vitavax Power, Lustre, Protocol, Sheathmar, Sixer, Zerox, Godiwa, GodiwaSuper, Spectrum	Aaatank, Adfyre, Apple, Areva, Bombard, Caldan, Cover, Danfuron, Dhanpreet, Em-1, Fax, Foster, Markar, Media, Mortar, Omite, Pager, Super-D, Superkiller, D-one, Markar Super, Domar	Dhanvarsha, Dhanuvit, Dhanzyme Gold, Maxyld, Wetcit, Suelo

Source: Company, PL

Exhibit 8: Top 10 Molecules (33% of revenue)

Herbicides	Insecticides	PGRs
Targa Super, Weedmar Super	EM-1, Cover liquid, Caldan 4G, Largo, Caldan SP, Cover granules	Dhanzyme Gold Liquid, Dhanzyme Gold Granules

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	11,201	13,833	15,078	16,284
YoY gr. (%)	11.4	23.5	9.0	8.0
Cost of Goods Sold	7,117	8,646	9,348	10,015
Gross Profit	4,084	5,187	5,730	6,269
Margin (%)	36.5	37.5	38.0	38.5
Employee Cost	1,052	1,197	1,357	1,466
Other Expenses	1,297	1,383	1,659	1,856
EBITDA	1,735	2,607	2,714	2,947
YoY gr. (%)	18.8	50.3	4.1	8.6
Margin (%)	15.5	18.9	18.0	18.1
Depreciation and Amortization	164	147	157	161
EBIT	1,571	2,460	2,557	2,786
Margin (%)	14.0	17.8	17.0	17.1
Net Interest	16	18	20	20
Other Income	251	339	423	529
Profit Before Tax	1,806	2,781	2,961	3,295
Margin (%)	16.1	20.1	19.6	20.2
Total Tax	460	701	745	829
Effective tax rate (%)	25.5	25.2	25.2	25.2
Profit after tax	1,346	2,080	2,215	2,466
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,346	2,080	2,215	2,466
YoY gr. (%)	19.6	54.6	6.5	11.3
Margin (%)	12.0	15.0	14.7	15.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,346	2,080	2,215	2,466
YoY gr. (%)	19.6	54.6	6.5	11.3
Margin (%)	12.0	15.0	14.7	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,346	2,080	2,215	2,466
Equity Shares O/s (m)	48	47	47	47
EPS (Rs)	28.3	44.7	47.6	52.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	1,654	1,741	1,791	1,841
Tangibles	1,615	1,697	1,741	1,791
Intangibles	40	44	50	50
Acc: Dep / Amortization	480	627	784	945
Tangibles	464	615	771	932
Intangibles	16	12	13	13
Net fixed assets	1,174	1,114	1,007	896
Tangibles	1,151	1,082	970	859
Intangibles	23	32	37	37
Capital Work In Progress	37	10	10	10
Goodwill	-	-	-	-
Non-Current Investments	1,030	1,040	1,044	1,048
Net Deferred tax assets	(53)	(53)	(53)	(53)
Other Non-Current Assets	418	401	437	472
Current Assets				
Investments	597	597	2,097	3,597
Inventories	2,499	2,880	3,139	3,391
Trade receivables	2,424	2,767	3,098	3,346
Cash & Bank Balance	263	629	511	680
Other Current Assets	445	499	542	588
Total Assets	9,323	10,629	12,640	14,843
Equity				
Equity Share Capital	95	93	93	93
Other Equity	6,982	7,998	9,786	11,773
Total Network	7,077	8,091	9,879	11,867
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	57	28	30	33
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	80	91	101	109
Trade payables	1,132	1,099	1,198	1,294
Other current liabilities	764	921	1,002	1,081
Total Equity & Liabilities	9,323	10,629	12,640	14,843

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	1,806	2,781	2,961	3,295
Add. Depreciation	164	147	157	161
Add. Interest	16	18	20	20
Less Financial Other Income	251	339	423	529
Add. Other	(158)	(339)	(423)	(529)
Op. profit before WC changes	1,828	2,607	2,714	2,947
Net Changes-WC	157	(708)	(444)	(357)
Direct tax	(364)	(673)	(715)	(796)
Net cash from Op. activities	1,621	1,226	1,555	1,794
Capital expenditures	(104)	(108)	(99)	(100)
Interest / Dividend Income	139	339	423	529
Others	(478)	-	(1,500)	(1,500)
Net Cash from Inv. activities	(443)	230	(1,176)	(1,071)
Issue of share cap. / premium	-	(1,000)	-	-
Debt changes	(142)	11	10	8
Dividend paid	(723)	(83)	(487)	(542)
Interest paid	(16)	(18)	(20)	(20)
Others	(50)	-	-	-
Net cash from Fin. activities	(930)	(1,090)	(498)	(554)
Net change in cash	248	367	(119)	169
Free Cash Flow	1,484	1,118	1,456	1,694

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	28.3	44.7	47.6	52.9
CEPS	31.7	47.8	50.9	56.4
BVPS	148.7	173.7	212.1	254.8
FCF	31.2	24.0	31.3	36.4
DPS	6.0	1.8	10.5	11.6
Return Ratio(%)				
RoCE	22.8	32.1	28.2	25.4
ROIC	19.4	28.6	29.6	31.1
RoE	19.9	27.4	24.7	22.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.3)	(0.4)
Net Working Capital (Days)	124	120	122	122
Valuation(x)				
PER	26.2	16.6	15.6	14.0
P/B	5.0	4.3	3.5	2.9
P/CEPS	23.4	15.5	14.5	13.1
EV/EBITDA	19.9	12.8	11.8	10.3
EV/Sales	3.1	2.4	2.1	1.9
Dividend Yield (%)	0.8	0.2	1.4	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	2,276	3,738	4,424	2,957
YoY gr. (%)	18.1	70.7	10.0	8.9
Raw Material Expenses	1,301	2,457	2,743	1,859
Gross Profit	975	1,281	1,681	1,098
Margin (%)	42.8	34.3	38.0	37.1
EBITDA	458	653	890	502
YoY gr. (%)	38.6	226.9	21.3	46.2
Margin (%)	20.1	17.5	20.1	17.0
Depreciation / Depletion	37	32	32	41
EBIT	420	621	858	461
Margin (%)	18.5	16.6	19.4	15.6
Net Interest	4	3	3	10
Other Income	87	74	82	94
Profit before Tax	503	692	937	545
Margin (%)	22.1	18.5	21.2	18.4
Total Tax	113	174	236	144
Effective tax rate (%)	22.5	25.2	25.2	26.5
Profit after Tax	390	518	701	400
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	390	518	701	400
YoY gr. (%)	45.8	250.1	16.8	44.7
Margin (%)	17.1	13.9	15.8	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	390	518	701	400
YoY gr. (%)	45.8	250.1	16.8	44.7
Margin (%)	17.1	13.9	15.8	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	390	518	701	400
Avg. Shares O/s (m)	48	48	48	47
EPS (Rs)	8.2	10.9	14.7	8.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	Accumulate	868	791
2	30-Oct-20	Accumulate	868	735
3	10-Oct-20	Hold	857	733
4	25-Aug-20	Hold	857	852
5	22-Jul-20	Hold	857	894
6	7-Jul-20	BUY	656	725
7	10-Jun-20	BUY	656	631
8	16-Apr-20	BUY	519	457
9	13-Feb-20	BUY	635	530

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	6,090	5,747
2	Coromandel International	Reduce	676	810
3	Dhanuka Agritech	Accumulate	868	791
4	Godrej Agrovet	Accumulate	587	533
5	Insecticides India	BUY	595	469
6	P.I. Industries	Hold	2,026	2,332
7	Rallis India	Accumulate	321	285
8	Sharda Cropchem	BUY	383	275
9	Sumitomo Chemical India	Hold	307	324
10	UPL	Accumulate	601	561

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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