

Dhanuka Agritech

Refer to important disclosures at the end of this report

Covid-related cost savings lead to margin surprise

- Dhanuka Agritech (DAGRI) beat our EBITDA/PAT estimates by 21%/27% due to better-than-expected cost control and 200bps yoy improvement in gross margins. Revenue increased 8.9% yoy to Rs2.96bn, marginally above our estimate (Rs2.90bn).
- Management guided that some of the cost savings in 9MFY21 were related to travelling and marketing restrictions due to Covid-19 and would return in FY22E. We have factored in a 104bps decline in EBITDA margins to more normalized 17.6% (mgmt. guidance of 16-17%).
- DAGRI also announced that it will foray into technical manufacturing at its Dahej site. This would help DAGRI reduce import of certain technical and also help build the export segment in future.
- We have not factored in the new capex in our estimates as we await more details on the potential impact on margins and additional revenue. We raise our FY21E EBITDA/PAT by 11%/14% to factor in Q3 beat. We also increase our FY22/23E EBITDA/PAT by 7%/3% to incorporate higher revenue momentum and EBITDA margin. Maintain Buy with a revised TP of Rs910/sh (Rs890 earlier) based on 19x FY23E EPS.

Foray into technical manufacturing key trigger over FY22-23E

DAGRI has finally acted on its desire to enter technical manufacturing by announcing capex at its Dahej (Gujarat) site. The company will finalize the plan in next 6 months and expects to complete capex over 2.5 years (3 years from today). Management's initial estimate of capex is Rs2bn, subject to finalization of plans. Management guided that initially it will manufacture technical to substitute imports (mainly from China). However, it is in talks with its Japanese suppliers for contract manufacturing opportunity for technical as well. Management mentioned that these talks are at a very preliminary stage and would take time to reach a meaningful conclusion.

EBITDA margin guidance of 16-17% for FY22E appears conservative

DAGRI's 9MFY21 EBITDA margins improved 408bps yoy to 18.4% on the back of Covid-19-related cost savings of lower travel and digital marketing and 168bps improvement in gross margins. Management expects some of these cost to come back in FY22E and hence, expects EBITDA margin range of 16-17% for FY22 which we believe is conservative. We believe that DAGRI can deliver 17.5-18% EBITDA margins for FY22E. We are factoring in 17.6% EBITDA margin for FY22E. Gross margins improved 200bps yoy to 37% in Q3FY21 vs. our expectation of 90bps improvement. However, management alluded that raw material prices have started rising due to an increase in crude and intermediate prices. DAGRI intends to pass on the higher raw material costs.

Outlook: 25% ROE profile with strong balance sheet

We maintain Buy on DAGRI with a revised TP of Rs910/sh based on 19x FY23E EPS. We remain constructive given superior ROE of 25% (FY22-23E) and strong net cash balance sheet of Rs1.8bn/3.0bn/3.1bn as on FY21/22/23E. 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 \(page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,058	11,201	13,577	15,207	16,575
EBITDA	1,460	1,735	2,536	2,682	2,882
EBITDA Margin (%)	14.5	15.5	18.7	17.6	17.4
APAT	1,126	1,414	2,004	2,079	2,235
EPS (Rs)	22.9	29.7	43.0	44.6	48.0
EPS (% chg)	(10.8)	29.6	44.8	3.7	7.5
ROE (%)	17.4	20.9	27.0	25.3	25.2
P/E (x)	32.1	24.8	17.1	16.5	15.4
EV/EBITDA (x)	24.7	19.8	13.2	12.1	11.2
P/BV (x)	5.5	5.0	4.4	4.0	3.7

Source: Company, Emkay Research

CMP	Target Price
Rs 737	Rs 910 (▲)
as of (February 2, 2021)	12 months
Rating	Upside
BUY (■)	23.4 %

Change in Estimates

EPS Chg FY21E/FY22E (%)	14 / 7
Target Price change (%)	2.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	43.0	44.6
Consensus	40.6	45.1
Mean Consensus TP (12M)	Rs 957	

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.)	83,629
Daily Avg Turnover (US\$ mn)	0.9

Shareholding Pattern Dec '20

Promoters	75.2%
FIIIs	-%
DIIIs	12.0%
Public and Others	12.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	3	(7)	46
Rel. to Nifty (10)	(18)	(30)	16	

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:

Varshit Shah

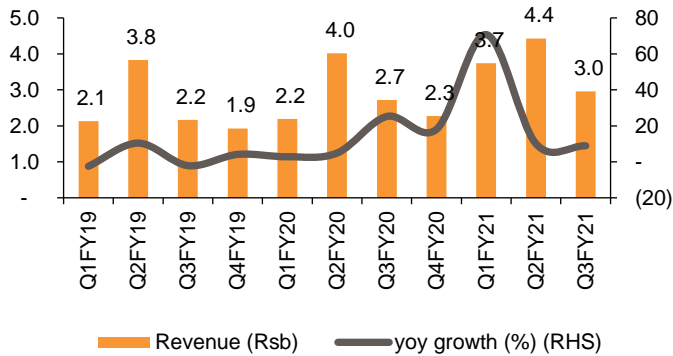
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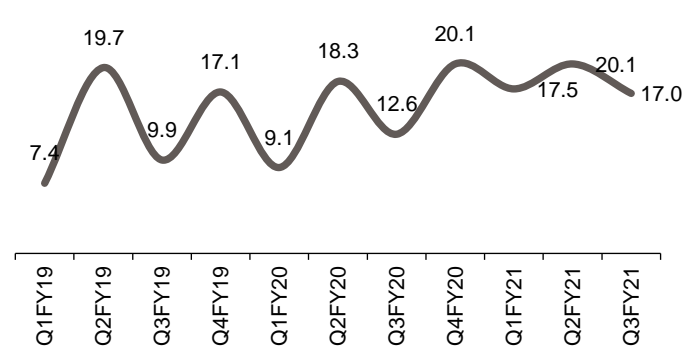
Story in Charts

Exhibit 1: 9% yoy revenue growth in 3QFY21



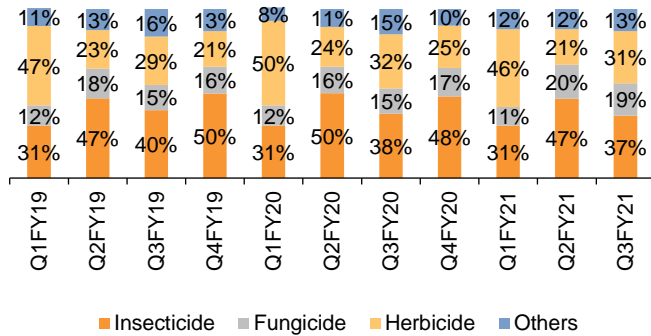
Source: Company, Emkay Research

Exhibit 2: 434bps EBITDA margin expansion in 3QFY21



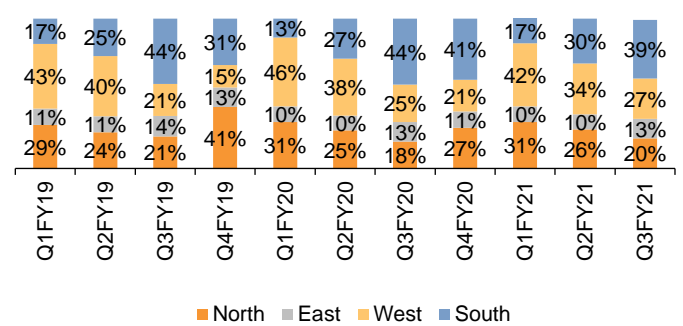
Source: Company, Emkay Research

Exhibit 3: Category mix (%)



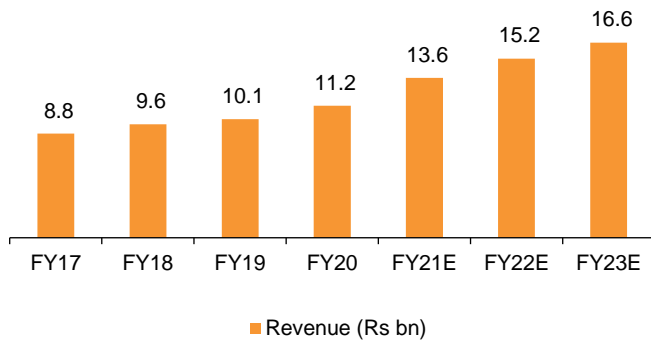
Source: Company, Emkay Research

Exhibit 4: Geographic mix (%)



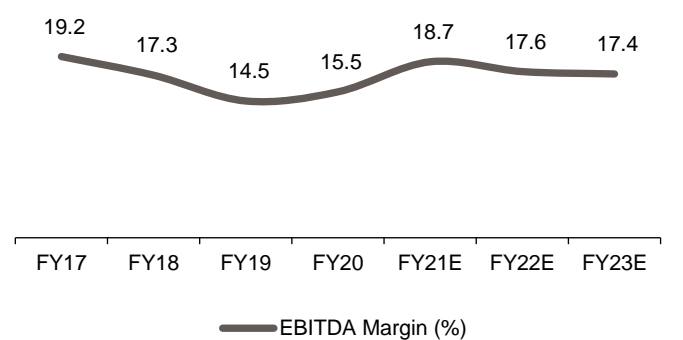
Source: Company, Emkay Research

Exhibit 5: 10% revenue CAGR over FY21-23E



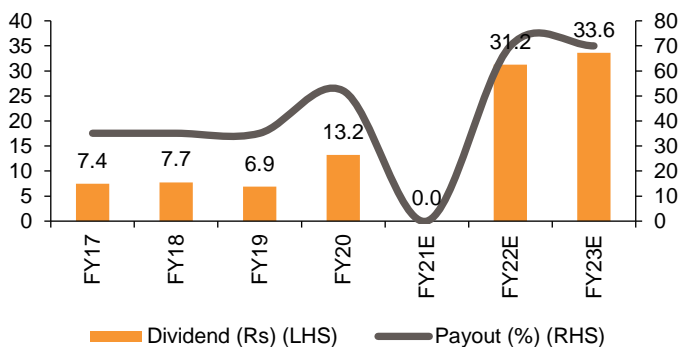
Source: Company, Emkay Research

Exhibit 6: 130bps EBITDA margin decline over FY21-23E



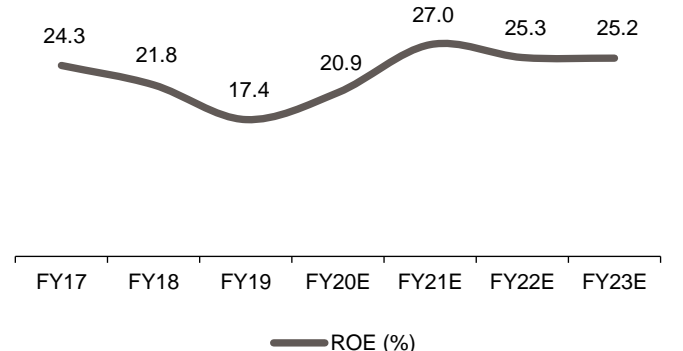
Source: Company, Emkay Research

Exhibit 7: Dividend payout to continue in FY22/FY23



Source: Company, Emkay Research

Exhibit 8: ROE (%)



Source: Company, Emkay Research

Exhibit 9: Actual vs Estimates (Q3FY21)

Rs mn	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net Sales	2,957	2,905	2,961	1.8%	-0.1%	Above our estimates
EBITDA	502	415	417	20.9%	20.3%	Above estimates due to lower emp. & other expense
EBITDA %	17.0	14.3	14.1	270 bps	290 bps	Above estimates due to gross margin expansion and better cost control
APAT	400	315	328	27.1%	22.0%	Above estimates due to EBITDA beat and higher other income

Source: Company, Bloomberg consensus, Emkay Research

Exhibit 10: Quarterly result summary

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue	2,715	2,276	3,738	4,424	2,957	8.9	(33.2)	11,119	8,925	24.6
Expenditure	2,371	1,818	3,086	3,534	2,454	3.5	(30.5)	9,074	7,648	18.6
as % of sales	87.4%	79.9%	82.5%	79.9%	83.0%			82%	86%	
Consumption of RM	1,393	1,194	2,072	2,194	1,435	3.0	(34.6)	5,700	4,517	26.2
as % of sales	51.3%	52.5%	55.4%	49.6%	48.5%			51%	51%	
Purchase of traded goods	368	107	385	549	424	15.4	(22.8)	1,358	1,299	4.6
as % of sales	13.5%	4.7%	10.3%	12.4%	14.3%			12%	15%	
Employee Cost	264	242	314	339	267	1.1	(21.2)	920	811	13.5
as % of sales	9.7%	10.6%	8.4%	7.7%	9.0%			8%	9%	
Other expenditure	346	276	315	452	329	(5.1)	(27.3)	1,096	1,021	7.3
as % of sales	12.8%	12.1%	8.4%	10.2%	11.1%			10%	11%	
EBITDA	343	458	653	890	502	46.2	(43.6)	2,045	1,277	60.1
Depreciation	42	37	32	32	41	(1.8)	28.0	105	126	(16.8)
EBIT	301	420	621	858	461	52.9	(46.3)	1,940	1,151	68.6
Other Income	78	87	74	82	94	19.6	14.0	250	164	52.1
Interest	4	4	3	3	10	181.9	260.7	16	12	34.9
PBT	376	503	692	937	545	44.7	(41.9)	2,174	1,303	66.8
Total Tax	100	113	174	236	144	44.9	(39.0)	555	279	99.1
PAT	277	390	518	701	400	44.7	(42.9)	1,619	1,025	58.0
EPS	5.8	8.2	10.9	14.7	8.6	47.8	(41.6)	34.2	21.5	58.9

Margins (%)						(bps)	(bps)			(bps)
Gross Margins	35.1	42.8	34.3	38.0	37.1	199	(87)	36.5	34.8	168
EBITDA	12.6	20.1	17.5	20.1	17.0	434	(313)	18.4	14.3	408
EBIT	11.1	18.5	16.6	19.4	15.6	449	(380)	17.4	12.9	455
EBT	11.0	18.3	16.5	19.3	15.2	428	(407)	17.3	12.8	454
PAT	10.2	17.1	13.9	15.8	13.5	335	(230)	14.6	11.5	308
Effective Tax rate	26.5	22.5	25.2	25.2	26.5	2	127	25.5	21.4	413

Source: Company, Emkay Research

Conference call highlights

Expansion to Technical manufacturing

- DAGRI plans to set up a technical manufacturing plant at its Dahej land with a capex outlay of Rs2bn through internal accrual.
- The plant would lead to backward integration, resulting in reduction in imports of raw materials to less than 20% (currently 25%) in 2-3 years after the commencement of the plant.
- DAGRI would explore export opportunities for these technical products as well.
- Management expects the plan to be finalized in coming few months.

Revenue

- Geography-wise revenue mix (Q3FY21): North (20%), West (27%), East (13%) and South (39%).
- Segment-wise revenue mix (Q3FY21): Herbicide (31%), insecticide (37%), Fungicide (19%) and others (13%).
- Management highlighted that growth has been witnessed in states of AP and TG in Jan'21 post excessive rainfall in Oct-Nov'20.

New product launches

- DAGRI plans to launch total 10 new products across segments in next two years, with two new 9(3) products (herbicides) expected in FY22.
- Innovation turnover index was at 11% for Q3FY21 (vs. 12% in FY20) and the target is to achieve 15%+ in coming few years.

Margins

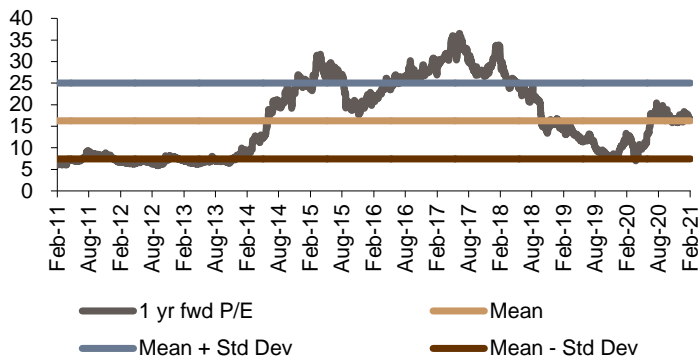
- Management expects operating expenses to increase by 10-12% yoy in FY22 as travel and physical marketing increase.
- Management expects EBITDA margin to be in the range of 16-17% for FY22.

Exhibit 11: 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	13,497	13,577	1%	14,712	15,207	3%	16,183	16,575	2%
EBITDA	2,289	2,536	11%	2,499	2,682	7%	2,796	2,882	3%
EBITDA %	17.0%	18.7%	172bps	17.0%	17.6%	65bps	17.3%	17.4%	11bps
APAT	1,760	2,004	14%	1,942	2,079	7%	2,171	2,235	3%
AEPS	37.8	43.0	14%	41.7	44.6	7%	46.6	48.0	3%

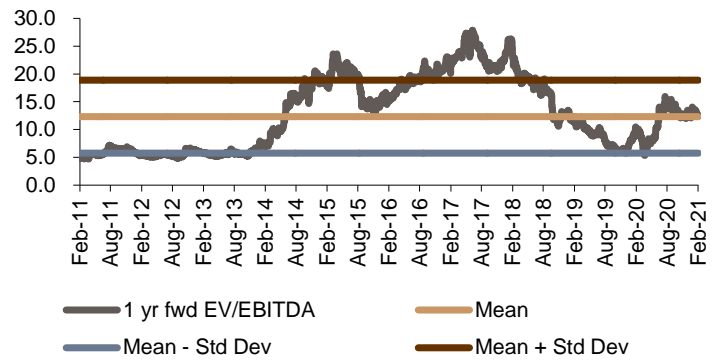
Source: Emkay Research

Exhibit 12: DAGRI 1-yr forward P/E



Source: Company, Bloomberg, Emkay Research

Exhibit 13: DAGRI 1-yr forward EV/EBITDA



Source: Company, Bloomberg, Emkay Research

Exhibit 14: Peer comparison

Company Name	Price (Rs)	Mkt Cap (Rs bn)	PE (x)			EV/EBITDA (x)			ROE (%)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UPL	566	433	13.9	12.3	10.8	7.6	6.5	5.8	15.3	15.3	15.4
PI Industries	2,064	313	46.4	33.9	27.8	30.3	22.8	18.3	17.5	16.8	17.5
Bayer CropScience*	5,215	234	34.7	30.1	27.1	25.6	22.2	19.3	23.6	23.4	22.4
Rallis India	270	53	24.5	21.5	19.2	16.1	13.4	11.5	14.3	14.5	14.5
Sharda Cropchem*	279	25	11.8	11.3	10.2	5.1	4.6	3.9	13.8	13.1	13.2
Dhanuka Agritech	737	35	17.1	16.5	15.4	13.2	12.1	11.2	27.0	25.3	25.2
Sumitomo Chemical*	315	157	50.4	41.1	34.1	34.1	28.2	23.6	22.9	23.2	23.6
Agro Chemicals Avg.			28.4	23.8	20.7	18.9	15.7	13.4	19.2	18.8	18.8

Source: *Bloomberg consensus, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	10,058	11,201	13,577	15,207	16,575
Expenditure	8,598	9,466	11,042	12,525	13,694
EBITDA	1,460	1,735	2,536	2,682	2,882
Depreciation	123	164	151	128	138
EBIT	1,336	1,571	2,385	2,554	2,743
Other Income	212	251	300	230	250
Interest expenses	9	16	8	8	8
PBT	1,540	1,806	2,677	2,776	2,985
Tax	414	392	672	697	750
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,126	1,414	2,004	2,079	2,235
Adjusted PAT	1,126	1,414	2,004	2,079	2,235

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	7,802	8,425	9,096
Net worth	6,590	6,969	7,895	8,518	9,189
Minority Interest	0	0	0	0	0
Loan Funds	222	80	80	80	80
Net deferred tax liability	122	53	53	53	53
Total Liabilities	6,934	7,103	8,028	8,652	9,322
Net block	1,060	1,137	998	1,020	1,032
Investment	1,203	1,589	1,589	1,589	1,589
Current Assets	5,972	6,522	7,427	9,675	10,587
Cash & bank balance	14	263	266	1,424	1,503
Other Current Assets	333	456	552	619	674
Current liabilities & Provision	1,587	2,113	2,022	3,669	3,922
Net current assets	4,385	4,409	5,405	6,006	6,665
Misc. exp	0	0	0	0	0
Total Assets	6,657	7,172	8,028	8,652	9,322

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	1,540	1,806	2,677	2,776	2,985
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(969)	158	(993)	557	(580)
Operating Cashflow	43	1,622	1,171	2,771	1,801
Capital expenditure	(47)	(104)	(149)	(150)	(150)
Free Cash Flow	(4)	1,518	1,022	2,621	1,651
Investments	681	(478)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	721	(443)	(149)	(150)	(150)
Equity Capital Raised	(825)	0	(1,000)	0	0
Loans Taken / (Repaid)	175	(192)	0	0	0
Dividend paid (incl tax)	(207)	(723)	0	(1,455)	(1,565)
Other Financing Cash Flow	0	1	(11)	0	0
Financing Cashflow	(866)	(929)	(1,019)	(1,463)	(1,573)
Net chg in cash	(101)	249	3	1,158	79
Opening cash position	114	14	263	266	1,424
Closing cash position	13	263	265	1,424	1,503

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	14.5	15.5	18.7	17.6	17.4
EBIT Margin	13.3	14.0	17.6	16.8	16.6
Effective Tax Rate	26.9	21.7	25.1	25.1	25.1
Net Margin	11.2	12.6	14.8	13.7	13.5
ROCE	23.0	26.0	35.5	33.4	33.3
ROE	17.4	20.9	27.0	25.3	25.2
RoIC	26.7	29.3	41.8	43.5	46.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	22.9	29.7	43.0	44.6	48.0
CEPS	25.5	33.2	46.3	47.4	51.0
BVPS	134.3	146.4	169.5	182.9	197.3
DPS	6.9	13.2	0.0	31.2	33.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	32.1	24.8	17.1	16.5	15.4
P/CEPS	29.0	22.2	15.9	15.6	14.5
P/BV	5.5	5.0	4.4	4.0	3.7
EV / Sales	3.6	3.1	2.5	2.1	2.0
EV / EBITDA	24.7	19.8	13.2	12.1	11.2
Dividend Yield (%)	0.9	1.8	0.0	4.2	4.6

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt/EBIDTA	(0.1)	(0.4)	(0.3)	(0.7)	(0.7)
Working Cap Cycle (days)	158.6	135.1	138.2	110.0	113.7

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4.5	11.4	21.2	12.0	9.0
EBITDA	(12.1)	18.8	46.2	5.7	7.5
EBIT	(12.0)	17.5	51.8	7.1	7.4
PAT	(10.8)	25.6	41.7	3.7	7.5

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	2,715	2,276	3,738	4,424	2,957
EBITDA	343	458	653	890	502
EBITDA Margin (%)	12.6	20.1	17.5	20.1	17.0
PAT	277	390	518	701	400
EPS (Rs)	5.8	8.2	10.9	14.7	8.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-20	Jun-20	Sep-20	Nov-20	Dec-20
Promoters	75.0	75.0	75.0	75.2	75.2
FIs	-	-	-	-	-
DIs	12.7	13.1	12.0	12.0	12.0
Public and Others	12.3	11.9	13.0	12.8	12.8

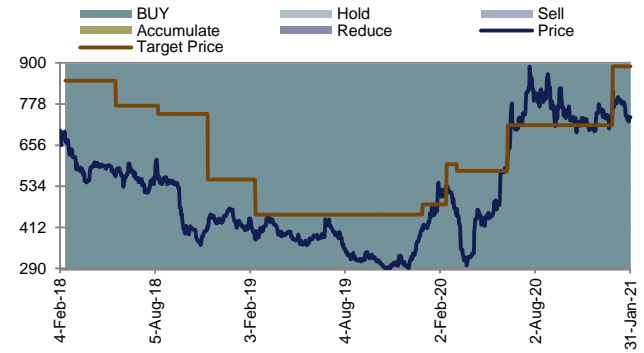
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Dec-20	815	890	12m	Buy	Varshit Shah
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
5-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
9-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
3-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



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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)
Agri Input & Chemicals	0.78	0.78	0%	0	100.00
Bayer CropScience*	0.09	0.08	-6%	-1	10.62
Chambal Fertilisers*	0.00	0.00	NA	0	0.00
Coromandel International	0.12	0.11	-6%	-1	14.44
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	0.20	0.21	4%	1	26.91
Rallis India	0.00	0.00	NA	0	0.00
Sharda Cropchem*	0.00	0.00	NA	0	0.00
UPL	0.37	0.37	1%	0	48.04
Cash	0.00	0.00	NA	0	0.00

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	3-Feb-20	3-Aug-20	2-Nov-20	1-Jan-21	1-Feb-21
EAP - Agri Input & Chemicals	100.0	98.1	103.8	107.4	112.5	115.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	96.1	100.1	103.5	108.5	111.2

*Performance measurement base date 1st April 2019

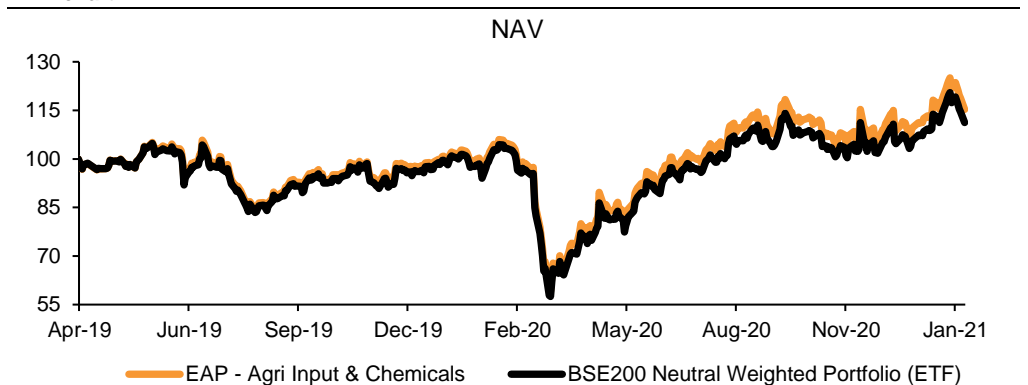
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Agri Input & Chemicals	2.5%	7.3%	11.1%	17.5%
BSE200 Neutral Weighted Portfolio (ETF)	2.5%	7.5%	11.1%	15.7%

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: 03 Feb 2021 03:28:03 (SGT)
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