Contraire

BONANZA WEALTH MANAGEMENT RESEARCH

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Dhanuka Agritech – BUY

CMP	: 774
Target Price	: 948
Upside	: 22.5%+
Stop Loss	: 680 (closing basis)

Investment Thesis

Recently, the stock price of Dhanuka Agritech Ltd. (Dhanuka) corrected by ~22% from 52-week high of Rs.930 despite reporting good set of numbers in the recent quarters owing to new product launches which boosted volume growth.

Dhanuka is India's second largest agro-chemical formulations company in domestic branded sales focusing on speciality molecules from global innovators. It has grown at revenue CAGR of around 11% over FY11-17, following an asset light model of producing formulations only and not technicals, which it sources from global partners. It has 11 tie-ups with global MNCs, which ensure new specialty products in Indian markets. Dhanuka has regularly launches new products, mainly in the fast-growing Herbicide/ Fungicide segments and over the years, it has a strong basket of ~100 products, which offer better margins, and fetching the company exclusive licenses from global players to market them in India. We expect, new launches will do well in the years to come and lead a healthy revenue growth going forward.

With a strong 100% domestic focus, Dhanuka caters to various segments like insecticides, herbicides, fungicides and plant regulator nutrients. Its focus on developing new products has enabled it to diversify and brace it to reduce segmental risk and to augment desired growth. In the last 4-5 years, it has launched five products every year. It intends to introduce a total of 5-7 products each year, of which two to three would be innovative 9(3) molecules and two to four 9(4) products. To develop new products, Dhanuka has strategically partnered with various MNCs, majority have been signed for durations spanning more than a decade. These associations will help Dhanuka to introduce eco-friendly and highly effective products, which will result in higher yields for farmers.

Financials

- During the past 5 years, revenue of Dhanuka grew at a CAGR of 10.5% while PAT grew at a CAGR of 15.9% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	7,851	8,288	8,732	10,042	11,548
EBITDA	1,317	1,398	1,690	1,943	2,234
% growth	-9.3	6.2	20.8	15.0	15.0
PAT	1,061	1,073	1,194	1,373	1,576
EPS (INR)	21.6	21.9	24.3	28.0	32.1
P/E (x)	33.5	33.1	29.8	25.9	22.5
RoE (%)	25.7%	22.3%	23.0%	24.1%	25.1%

- Dhanuka has reported a healthy 11.4% YoY growth in revenue in Q2FY18 to Rs.3,480mn owing to new product launches which boosted volume growth in the quarter.

Stock Data

Stock Data	
Market Cap (INR MN)	37,984
Market Cap ($ MN)	598.20
Shares O/S (in MN)	49.10
Avg. Volume (3 month)	41,000
52-Week Range (Rs.)	930 / 629

Shareholding Pattern

Shareholding Pattern	
Promoters	75.00%
FIIs	0.00%
Institutions	10.88%
Others (incl. body corporate)	14.12%

Performance (%)	1M	6M	1Yr
Absolute	8.4%	-15.7%	0.9%
BSE 500	2.5%	11.9%	38.3%

Key Ratios

Key Ratios	
Div Yield	0.1%
TTM PE	29.7x
ROE	23.1%
TTM EPS (INR)	24.4/-

- Dhanuka's EBITDA has only grew by 7.5% YoY in Q2FY18 to Rs.750mn due to higher other expenditure and employee cost (7.1% and 9.6% YoY) along with higher raw material cost. As a result, EBITDA margin has declined by 79bps to 21.5% in Q2FY18.
- PAT for Q2FY18 of Dhanuka was at Rs.528mn, higher by 5.3% YoY due to strong revenue growth.

Key Business Highlights

- Dhanuka manufactures a wide range of agro-chemicals like herbicides, insecticides, fungicides, miticides, plant growth regulators in various forms like – liquid, dust, powder and granules.
- Dhanuka serves farmers, planters and pest control operators through its four formulations facilities, one each in Jammu, Haryana, Gujarat and Rajasthan. It has a pan-India presence across all region with West, North, South and East contributed 38%, 28%, 24% and 10%, respectively, to H1FY18 revenues.
- Dhanuka has one of the largest distribution networks in India with over 8,800 distributors/dealers selling to over 80,000 retailers and catering to 10 million farmers across India. The Company has technical tie-ups with 4 American, 5 Japanese & 2 European Companies.

Valuation

- New launches by Dhanuka normally offer better margins as it gets an exclusive license from MNCs to market them in India. Over the years, the share of incremental revenue from new products has improved substantially leading to robust revenue growth and expansion of OPM. The revenue contribution from new products has touched 20% in FY16 from 15% in FY15. Out of the newly added products, some of them have proved extremely beneficial to the company, typically adding ~Rs.1-1.5bn to the total revenue. Going ahead, Dhanuka's product launch will be focused more towards the fastest growing herbicide segment in the domestic market.
- Dhanuka's manufacturing plants are located at Gurgaon (Haryana), Sanand (Gujarat), largest capacity for granules in India, and Udhampur (Jammu and Kashmir). In March, 2016 it has commissioned a new plant at Keshwana in Rajasthan which is amongst the largest liquid formulations facilities in India at full capacity. Keshwana plant has liquid capacity of 25,000 kilo litres and 7,500 metric tonnes of powder capacity which triples its powder and liquid manufacturing capacity. The management expects the unit can generate ~Rs.10.0bn revenue at full capacity in the next 3-4 years.
- Over the last six years, Dhanuka has doubled its distributor network to 8,800 catering to ~80,000 retailers with reach increasing to 600 districts. The company target to further strengthen its distribution network by 5% every year. It has formed a team of 1,500 doctors called Dhanuka Doctors to train farmers on new technologies through field exhibitions and demonstrations.
- With India's second largest agrochemical formulations company, strong basket of 80 products, intends to introduce a total of 5-7 products each year, exclusive license from MNCs to market in India, new capacity addition and strong distributor network, we value Dhanuka at 29.50x FY19E EPS of Rs.32.10 to arrive at target price of Rs.948.00, an upside of ~22.5%.

Risk & Concern

- Any new better product launched by competitor in agrochemical or seed segment may risk to growth prospect of Dhanuka.
- Rupee depreciation may impact margins as Dhanuka imports one-third of its raw materials.
- Delay in minimum support price (MSP) increase reduces purchasing power of farmers and impact demand for pesticides.

Graphs & Charts

Figure 1: Net Sales Trend

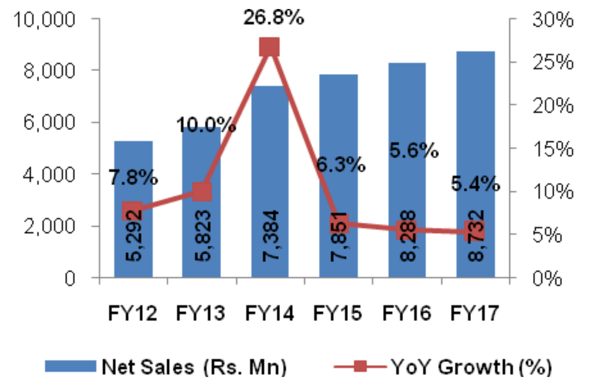


Figure 2: EBITDA & EBITDA Margin Trend

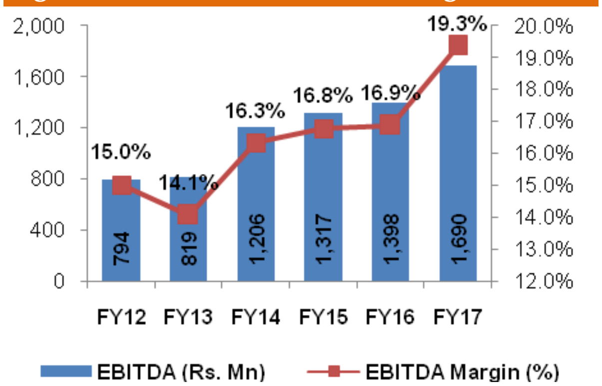


Figure 3: PAT Trend

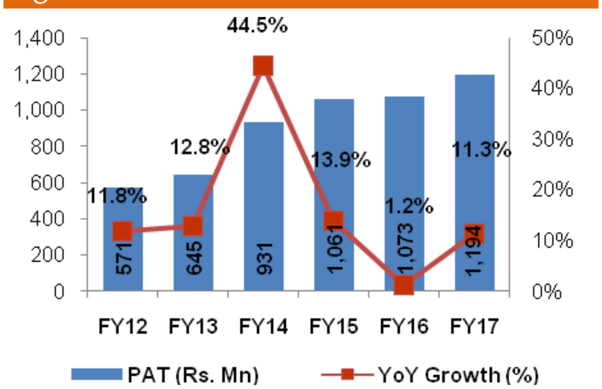
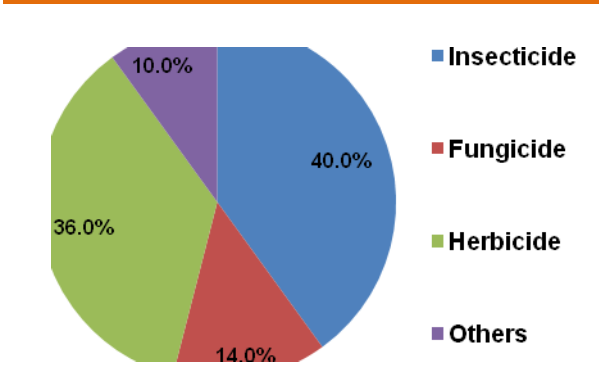


Figure 4: Category-wise Revenue Break-up



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