

- Dhanuka Agritech reported a subdued 1QFY22 performance owing to higher raw material prices, weaker rainfall in June-21 and lower herbicide consumption.
- Sales witnessed a de-growth of 2.7% YoY to Rs 3.64bn.
- EBITDA de-grew by 6.4% YoY to Rs 611mn and PAT de-growth was at 6.2% YoY to Rs 486mn.

Gross margins stood at 33.7%, down by 50bps YoY as input costs soaring higher across the herbicide, insecticide and fungicide pack. EBITDA margins saw a proportionate decline of 66 bps YoY to 16.8%. Innovation turnover index too saw a slump to only 9% in 1QFY22 owing to challenges related to mobility, distribution and expansion coupled with higher sales of generics during the quarter under review. The management expects the raw material price trend to be on the higher side.

Outlook and valuation

We expect volume growth to be stronger in the ensuing quarters as the underlying demand remains robust and 1QFY22 was particularly a challenging quarter. Monsoons have now normalised which should improve the demand for pesticides during August and September, also shortage of labour is likely to provide a positive thrust on the herbicide demand as well. With challenges related to travel soothing we expect distribution and expansion activities to gain pace thereby rolling out new product launches faster towards the end consumer. Dhanuka Agritech should however face margin woes in the interim as prices of key active ingredients from China remain on the higher side. The capex outlay of ~Rs 3.0bn over FY22-24E is likely to be executed in two phases. Starting with a formulation plant in FY23E and a technical manufacturing capacity in FY24E (of which ~40-50% will be used in-house). The company is expected to incur Rs 800mn during FY22 towards capital expenditure. We remain upbeat on the company's newfound focus towards backward integration and exports of technicals. We have fine-tuned our estimates in-line with the company's guidance. We expect the company to grow Sales/EBITDA/PAT by 13.2/14.1/11.9% over FY21-23E to Rs 17.7/3.5/2.6bn respectively. We value Dhanuka Agritech at 22x FY23E EPS of Rs 1,246/share. Maintain Buy.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	3,638	3,738	(2.7)	2,756	32.0
Total Expense	3,027	3,086	(1.9)	2,109	43.5
EBITDA	611	653	(6.4)	646	(5.4)
Depreciation	38	32	20.6	47	(18.6)
EBIT	573	621	(7.8)	599	(4.4)
Other Income	77	74	5.2	87	(11.3)
Interest	9	3	224.8	11	(21.0)
EBT	642	692	(7.3)	676	(5.0)
Tax	156	174	(10.7)	189	(17.7)
RPAT	486	518	(6.2)	486	(0.1)
APAT	486	518	(6.2)	486	(0.1)
			(bps)		(bps)
Gross Margin (%)	33.7	34.3	(54)	42.9	(913)
EBITDA Margin (%)	16.8	17.5	(66)	23.5	(665)
NPM (%)	13.4	13.9	(49)	17.7	(429)
Tax Rate (%)	24.3	25.2	(92)	28.0	(374)
EBIT Margin (%)	15.8	16.6	(87)	21.8	(600)

CMP	Rs 949		
Target / Upside	Rs 1,246 / 31%		
NIFTY	15,763		
Scrip Details			
Equity / FV	Rs 93mn / Rs 2		
Market Cap	Rs 44bn		
	USD 594mn		
52-week High/Low	Rs 1,054 / 658		
Avg. Volume (no)	297,856		
Bloom Code	DAGRI IN		
Price Performance			
1M	3M	12M	
Absolute (%)	(1)	23	21
Rel to NIFTY (%)	(1)	15	(19)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	75.2	75.0	70.0
MF/Banks/FIs	11.6	13.2	14.3
FII	0.0	0.0	0.0
Public / Others	13.2	11.8	15.7

Valuation (x)

	FY21A	FY22E	FY23E
P/E	21.0	18.9	16.8
EV/EBITDA	15.7	13.9	12.0
ROE (%)	28.0	26.2	23.9
RoACE (%)	27.8	25.8	23.6

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	13,875	15,698	17,772
EBITDA	2,691	3,048	3,501
PAT	2,106	2,343	2,637
EPS (Rs.)	45.2	50.3	56.6

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Dhanuka Agritech launched 2 new products during the quarter. ONEKILL is a 9(3) formulation which is a combination of Quinalofop-ethyl 4% + Oxyfluorfen 6% EC, is targeted for the Onion crop while TORNADO containing Quinalofop Ethyl + Imazethapyr is used to control broad leaf as well as narrow leave weeds in Soybean and other crops.

Exhibit 1: Actual vs Estimates (Rs Mn)

Particulars	Actual	Estimated	Variance %	Comments
Revenue	3,638	4,224	(13.9)	Lower than volume growth
EBITDA	611	781	(21.8)	
EBITDA Margin(%)	16.8	18.5	(17.0)	Higher than expected raw material prices
PAT	486	596	(18.4)	

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	15,698	15,698	-	17,772	17,772	-
EBITDA	3,048	3,048	-	3,501	3,501	-
EBITDA Margin(%)	19.4	19.4	-	19.7	19.7	-
PAT	2,343	2,343	-	2,637	2,637	-
EPS(Rs)	50.3	50.3	-	56.6	56.6	-

Source: DART, Company

Concall Highlights

Zone wise Revenue Mix (Q1FY22)

- North – 28%
- East – 10%
- West – 44%
- South – 18%

Category wise Revenues mix (Q1FY22)

- Insecticides – 29%
- Fungicide – 12%
- Herbicides – 48%
- Others – 11%

Operational Highlights

- India witnessed low rainfall during the period of 15th June to 15th July 21 which negatively impacted the Herbicide consumption.
- Delay in monsoons resulted in loss of consumption of ~7-10%.
- However, rainfall has picked up pace during the 2nd half of July 21 which provides a positive outlook for Q2FY22 performance.
- Performance for the quarter was impacted due to pressure on pricing and supply of raw materials.
- High competition, higher inventory and lower consumption levels were the key detriments which limited the company's ability to pass on RM price increases.

- With rainfall normalising the demand has started to pick up leading to increased consumption levels which will enable the company to take price hikes starting August 21.
- Management expects the higher RM prices and pricing pressure to continue in Q2FY22 and does not expect margins to improve next quarter.
- Disruptions caused by 2nd wave of Covid in India had a negative bearing on the business operations for the quarter.
- Management has maintained its timeline for completion of its formulation plant by the end of March 2023.
- Delay in monsoon has resulted in delay in sowing which in turn has led to farmers shifting over to other crops like onion, tur etc.
- The management mentioned that the intensity of rainfall in the month of Aug and Sept 21 will decide the pesticides consumption levels and expects huge offtake of pesticides if rainfall remains consistent over the next 2 months.
- Erratic rainfall in Q1FY22 has resulted in the management changing its revenue growth guidance to a low double digit number.
- Strong performance over the last 2 years is attributable to – 1. Companys branding and marketing activities; 2. Aggressive supply chain support to primary as well as secondary channel; 3. New product launches.
- Capex spend for FY22 towards new plant will be ~Rs 800mn.
- Post slowdown in rainfall, more than 80% of regions across India have been witnessing normal rainfalls in the 2nd half of July 21.
- The management believes the rise in raw material prices to be a structural change for the industry and the prices will continue to remain high moving ahead.
- Covid pandemic along with stricter regulatory mechanism being introduced for spurious and fake products has severely impacted the unorganized market operations.
- However, management is of the view that with the pandemic effect slowing down the unorganized players could come back into action.
- Company will look to improve its revenue share from fungicide as new additions in the grape fungicide portfolio gather momentum.
- Prevailing high commodity prices are favorable for the farmers and will help drive the demand for agrochemicals going forward.
- Inventory levels have been high in July 21 due to lower offtake in the month of June 21.
- Company has began work on its greenfield project in Dahej,Gujarat.
- Q1FY22 saw higher sale of generics.

New Product Launches

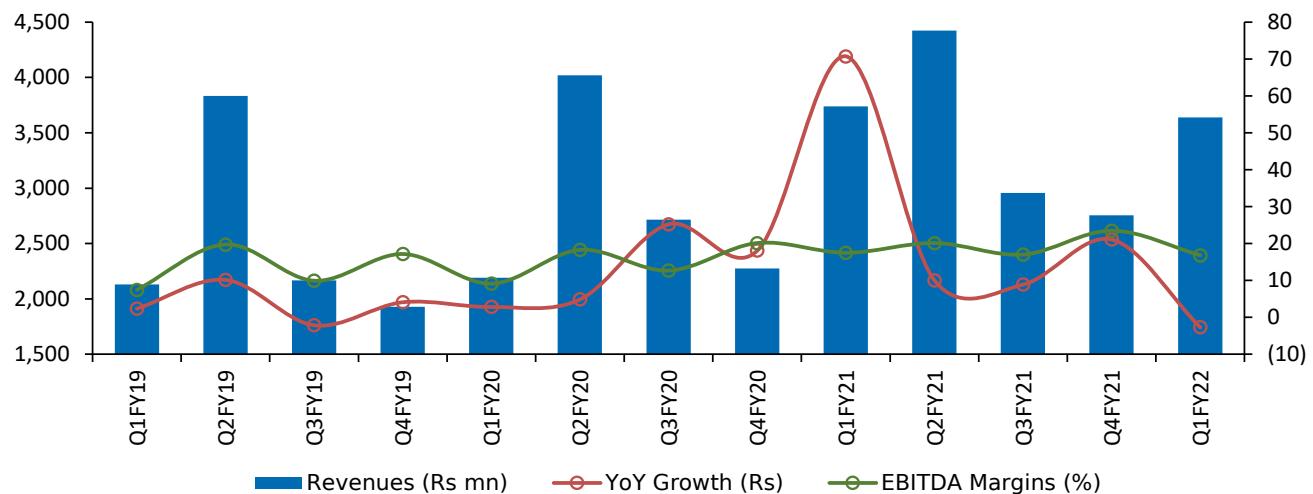
- Co-marketing product named Tornado (Quizalofop ethyl 7.5% + Imazethapyr 15% EC) which is a broad-spectrum herbicide for post-emergence control of Broadleaf & Narrow-leaf weeds in soybean and other crops.
- 9 (3) molecule named ONEKIL (Quizalofop-ethyl 4% + Oxyfluorfen 6% EC) which is a combination herbicide to tackle all kind of weeds in Onions.

Innovation Turnover Index

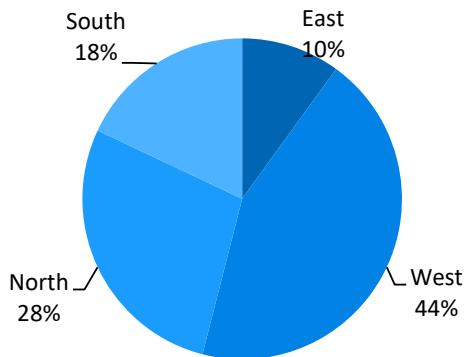
- Innovation Turnover Index (ITI) has declined from 20% in FY18 to 11% in FY21 (9% in FY22) as new products have not been able to achieve the expected volume levels.
- Also the disruptions caused by Covid pandemic has severely impaired the company's ability to distribute and expand the reach of its newly launched products.
- Company has been slow in introduction of new products in FY19 and FY20 resulting in lower ITI index in FY20 and FY21 but is expected to catch up with higher number of new products under its pipeline.

Guidance

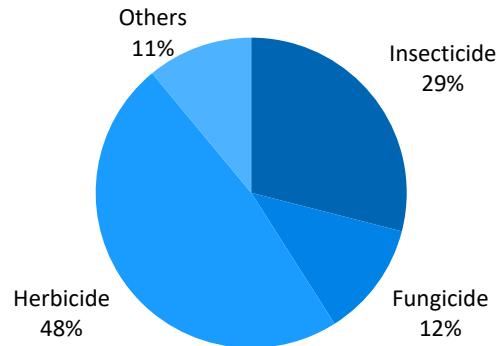
- Other expenses which were down during Q1FY22 are expected to increase significantly over the remaining part of the year and are expected to rise by ~15% YoY in FY22.
- Management estimates the industry growth rate in Q1FY22 to be ~10-12% YoY and expects full year industry growth to be in the same range.
- Receivables in FY22 are expected to be on similar level as last year.

Exhibit 3: Consolidated Revenues vs EBITDA Margin


Source: DART, Company

Exhibit 4: Geography Wise Revenue Breakup (Q1FY22)


Source: DART, Company

Exhibit 5: Segment Wise Revenue Breakup (Q1FY22)


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	11,201	13,875	15,698	17,772
Total Expense	9,466	11,184	12,651	14,271
COGS	7,117	8,633	9,777	11,047
Employees Cost	1,052	1,183	1,301	1,431
Other expenses	1,297	1,368	1,573	1,793
EBIDTA	1,735	2,691	3,048	3,501
Depreciation	164	152	258	329
EBIT	1,571	2,539	2,790	3,173
Interest	16	27	6	6
Other Income	251	337	347	358
Exc. / E.O. items	0	0	0	0
EBT	1,806	2,849	3,131	3,524
Tax	392	744	788	887
RPAT	1,415	2,106	2,343	2,637
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,415	2,106	2,343	2,637

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	95	93	93	93
Minority Interest	0	0	0	0
Reserves & Surplus	6,982	7,870	9,820	12,037
Net Worth	7,077	7,963	9,914	12,130
Total Debt	80	84	84	84
Net Deferred Tax Liability	53	83	83	83
Total Capital Employed	7,210	8,130	10,080	12,297

Applications of Funds

Net Block	1,175	1,670	2,394	2,665
CWIP	37	76	100	1,000
Investments	991	903	903	903
Current Assets, Loans & Advances	7,120	8,663	10,217	11,488
Inventories	2,499	2,955	3,441	3,895
Receivables	2,424	2,427	3,441	3,895
Cash and Bank Balances	263	15	69	430
Loans and Advances	314	402	402	402
Other Current Assets	1,023	988	988	988
Less: Current Liabilities & Provisions	2,113	3,183	3,534	3,759
Payables	1,132	1,086	1,229	1,217
Other Current Liabilities	981	2,096	2,305	2,542
<i>sub total</i>				
Net Current Assets	5,008	5,481	6,683	7,729
Total Assets	7,210	8,130	10,080	12,297

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	36.5	37.8	37.7	37.8
EBIDTA Margin	15.5	19.4	19.4	19.7
EBIT Margin	14.0	18.3	17.8	17.9
Tax rate	21.7	26.1	25.2	25.2
Net Profit Margin	12.6	15.2	14.9	14.8
(B) As Percentage of Net Sales (%)				
COGS	63.5	62.2	62.3	62.2
Employee	9.4	8.5	8.3	8.1
Other	11.6	9.9	10.0	10.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	100.9	94.3	476.8	542.2
Inventory days	81	78	80	80
Debtors days	79	64	80	80
Average Cost of Debt	10.3	33.0	7.0	7.0
Payable days	37	29	29	25
Working Capital days	163	144	155	159
FA T/O	9.5	8.3	6.6	6.7
(D) Measures of Investment				
AEPS (Rs)	30.4	45.2	50.3	56.6
CEPS (Rs)	33.9	48.5	55.8	63.7
DPS (Rs)	12.3	2.0	7.0	7.5
Dividend Payout (%)	40.4	4.4	13.9	13.2
BVPS (Rs)	151.9	171.0	212.8	260.4
RoANW (%)	21.0	28.0	26.2	23.9
RoACE (%)	20.5	27.8	25.8	23.6
RoAIC (%)	22.9	33.7	30.8	29.0
(E) Valuation Ratios				
CMP (Rs)	949	949	949	949
P/E	31.2	21.0	18.9	16.8
Mcap (Rs Mn)	44,189	44,189	44,189	44,189
MCap/ Sales	3.9	3.2	2.8	2.5
EV	43,409	42,381	42,327	41,965
EV/Sales	3.9	3.1	2.7	2.4
EV/EBITDA	25.0	15.7	13.9	12.0
P/BV	6.2	5.5	4.5	3.6
Dividend Yield (%)	1.3	0.2	0.7	0.8
(F) Growth Rate (%)				
Revenue	11.4	23.9	13.1	13.2
EBITDA	18.8	55.1	13.2	14.9
EBIT	17.6	61.6	9.9	13.7
PBT	17.3	57.7	9.9	12.6
APAT	25.7	48.8	11.3	12.6
EPS	25.7	48.8	11.3	12.6

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	1,866	2,314	1,458	2,288
CFI	(413)	(376)	(1,005)	(1,500)
CFF	(911)	(906)	(398)	(426)
FCFF	1,670	1,627	453	788
Opening Cash	318	860	1,892	1,946
Closing Cash	860	1,892	1,946	2,307

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.)
Oct-20	BUY	1,035	736
Feb-21	BUY	1,103	737
May-21	BUY	1,246	892

*Price as on recommendation date

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