

Dhanuka Agritech

Refer to important disclosures at the end of this report

Resilient margins despite RM cost inflation

- Dhanuka Agritech (DAGRI) beat our Revenue/EBITDA/PAT estimates by 6%/21%/11%. DAGRI was able to maintain gross margins (+3bps yoy) despite raw material cost pressures. EBITDA margins expanded by 334bps yoy to 23.5% on cost-control initiatives and Covid-19-related savings.
- Management has guided for low-double digit volume growth in FY22, driven by higher acreage of soybean, oil seeds and pulses on government push and remunerative crop prices for farmers. We factor in 13.5% revenue growth for FY22E (vol: 12%, price: 1.5%).
- We have modelled a 78bps decline in EBITDA margin in FY22E as benefits from Covid-19-related savings (online marketing, lower travel spends) moderate. However, management has guided for 40-50bps headwind from these initiatives and aims to maintain EBITDA margins through product mix improvement.
- We raise FY22/23 EBITDA estimates by 9%/10% and PAT estimates by 7% as we increase our margin and revenue growth assumptions. We roll forward to June-23E EPS and maintain Buy with a revised TP of Rs990 (Rs910 earlier), based on an unchanged PE multiple of 19x.

Higher soybean and oilseed acreage to aid product mix

According to management, favorable commodity prices and government push should improve acreage in soybean, oilseeds and pulses, while cotton acreage should come down due to less favorable crop prices. DAGRI has a strong portfolio of generic and specialty molecules in these segments; hence, it should tweak product mix in favor of specialty and better-margin molecules. Management expects innovation turnover index to improve to 12% in FY22 from 10.5% in FY21.

Dahej capex to support backward integration in FY24E

DAGRI will execute Dahej capex in three phases: 1) formulation unit by FY22-end (Rs600-900mn); 2) MPP to manufacture synthetic Pyrethroids AI without backward integration by FY23-end (Rs1bn); and 3) MPP to manufacture products tied up with one of the Japanese customers (Rs1.2bn). From synthetic Pyrethroids plant, DAGRI expects to consume 35-50% of AI produced for captive consumption and rest to be sold to external customers. DAGRI has not received the environment clearance as of now, and any delay in it could push the timelines. Hence, while we have modelled some capex, we have not modelled any impact on revenue or margins in FY24E.

Price hikes and better product mix to help maintain gross margins

DAGRI remained confident of maintaining gross margins in FY22E as it has already raised prices and believes that the market is absorbing it. This leads us to increase our FY22/23 EBITDA margin assumptions by 98bps/103bps to 18.6%/18.4%. We maintain Buy rating with a revised TP of Rs990, based on 19x Jun-23E EPS. We suggest accumulating DAGRI on any price decline. **Key risks:** 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)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	11,201	13,875	15,748	17,165	18,538
EBITDA	1,735	2,691	2,931	3,161	3,381
EBITDA Margin (%)	15.5	19.4	18.6	18.4	18.2
APAT	1,414	2,106	2,217	2,389	2,521
EPS (Rs)	29.7	45.2	47.6	51.3	54.1
EPS (% chg)	29.6	52.1	5.3	7.8	5.5
ROE (%)	21.2	28.3	25.8	23.7	21.6
P/E (x)	30.0	19.7	18.8	17.4	16.5
EV/EBITDA (x)	24.0	14.8	13.6	12.5	11.6
P/BV (x)	6.0	5.3	4.5	3.8	3.3

Source: Company, Emkay Research

CMP	Target Price
Rs 892 as of (May 21, 2021)	Rs 990 (▲) 12 months
Rating	Upside
BUY (■)	10.9 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	7 / 7
Target Price change (%)	8.8
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	47.6	51.3
Consensus	45.9	50.5
Mean Consensus TP (12M)	Rs 949	

Stock Details

Bloomberg Code	DAGRI IN
Face Value (Rs)	2
Shares outstanding (mn)	47
52 Week H/L	952 / 460
M Cap (Rs bn/USD bn)	42 / 0.57
Daily Avg Volume (nos.)	137,570
Daily Avg Turnover (US\$ mn)	1.6

Shareholding Pattern Mar '21

Promoters	75.0%
FIIIs	-%
DIIIs	13.2%
Public and Others	11.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	25	23	26	84
Rel. to Nifty	18	21	7	10

Relative price chart



Source: Bloomberg

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Varshit Shah

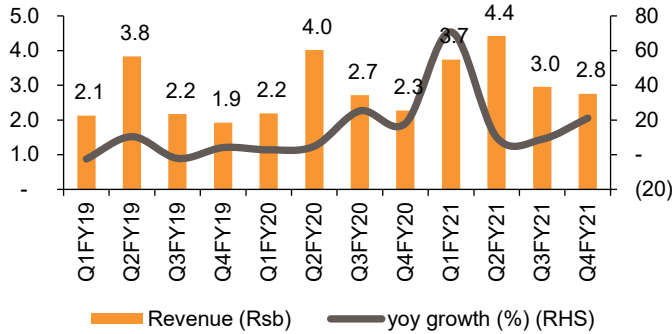
varshit.shah@emkayglobal.com
+91 22 6612 1358

Karan Shah

karan.shah@emkayglobal.com
+91 22 661 21257

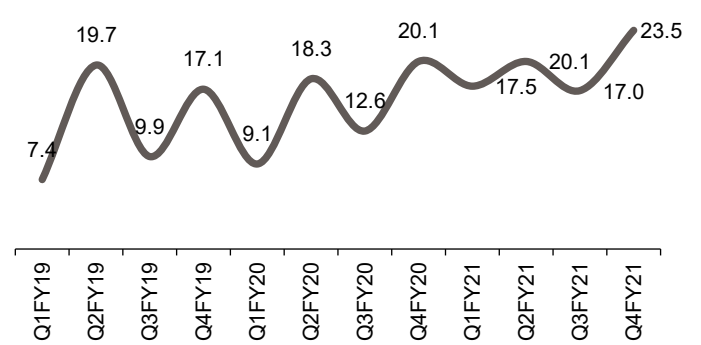
Story in Charts

Exhibit 1: 21% yoy revenue growth in Q4FY21 to Rs2.8bn



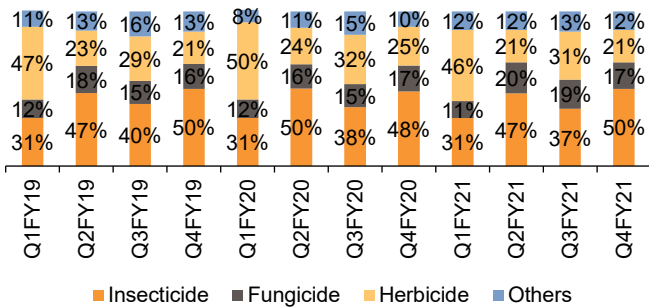
Source: Company, Emkay Research

Exhibit 2: EBITDA margin expanded by 334bps yoy to 23.5%



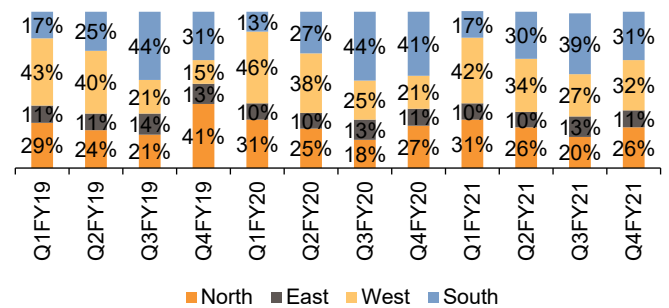
Source: Company, Emkay Research

Exhibit 3: Category mix (%)



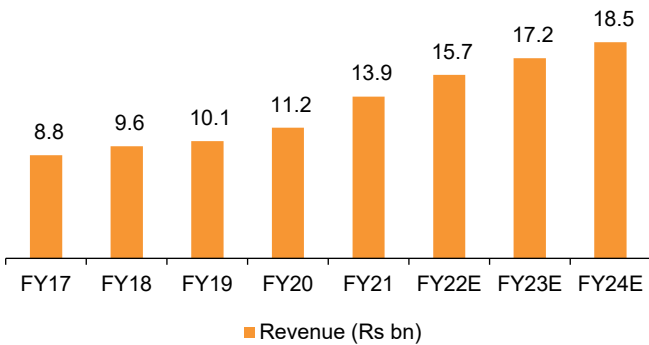
Source: Company, Emkay Research

Exhibit 4: Geographic mix (%)



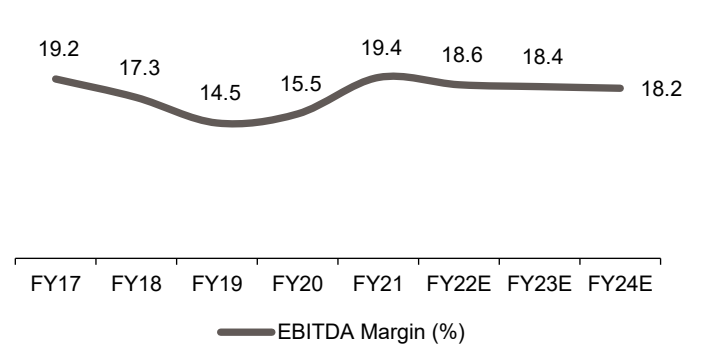
Source: Company, Emkay Research

Exhibit 5: 10% revenue CAGR over FY21-24E



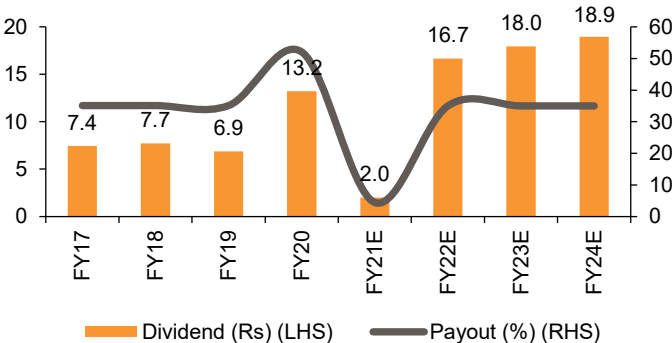
Source: Company, Emkay Research

Exhibit 6: EBITDA margin to moderate over FY21-24E



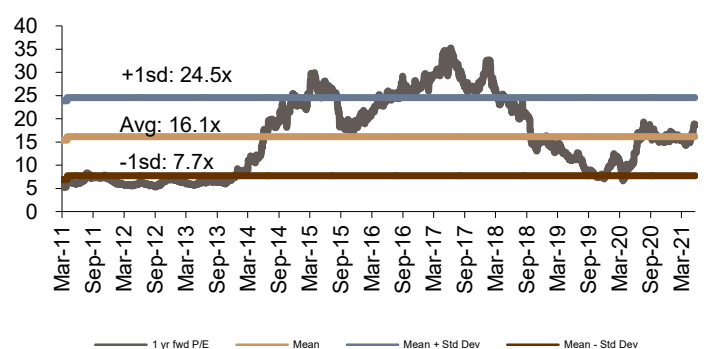
Source: Company, Emkay Research

Exhibit 7: Dividend payout to continue



Source: Company, Emkay Research

Exhibit 8: DAGRI is trading at 18.6x 1-yr forward P/E



Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q4FY21)

Rs mn	Actual	Emkay Estimate	Consensus Estimate	Emkay	Consensus	Comment
Net Sales	2,756	2,594	2,675	6.2%	3.0%	Beat our estimates
EBITDA	646	534	516	20.9%	25.3%	Above estimates due to lower other expense
EBITDA %	23.5	20.6	19.3	290 bps	420 bps	Above estimates due to better cost-control initiatives
APAT	486	438	444	11.2%	9.5%	Above estimates due to EBITDA beat

Source: Bloomberg consensus, Emkay Research

Exhibit 10: Quarterly result summary

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Revenue	2,276	3,738	4,424	2,957	2,756	21.1	(6.8)	13,875	11,201	23.9
Expenditure	1,818	3,086	3,534	2,454	2,109	16.0	(14.1)	11,184	9,466	18.1
as % of sales	79.9%	82.5%	79.9%	83.0%	76.5%			81%	85%	
Consumption of RM	1,194	2,072	2,194	1,435	1,521	27.4	6.0	7,221	5,711	26.4
as % of sales	52.5%	55.4%	49.6%	48.5%	55.2%			52%	51%	
Purchase of traded goods	107	385	549	424	54	(49.7)	(87.3)	1,412	1,406	0.4
as % of sales	4.7%	10.3%	12.4%	14.3%	2.0%			10%	13%	
Employee Cost	242	314	339	267	263	8.7	(1.6)	1,183	1,052	12.4
as % of sales	10.6%	8.4%	7.7%	9.0%	9.5%			9%	9%	
Other expenditure	276	315	452	329	272	(1.2)	(17.2)	1,368	1,297	5.5
as % of sales	12.1%	8.4%	10.2%	11.1%	9.9%			9.9%	12%	
EBITDA	458	653	890	502	646	41.2	28.7	2,691	1,735	55.1
Depreciation	37	32	32	41	47	25.2	13.4	152	164	(7.2)
EBIT	420	621	858	461	599	42.6	30.0	2,539	1,571	61.6
Other Income	87	74	82	94	87	0.8	(6.8)	337	251	34.3
Interest	4	3	3	10	11	185.4	11.2	27	16	73.0
PBT	503	692	937	545	676	34.3	24.1	2,849	1,806	57.7
Total Tax	113	174	236	144	189	67.2	31.2	744	392	89.8
PAT	390	518	701	400	486	24.7	21.5	2,106	1,415	48.8
EPS	8.2	10.9	14.7	8.6	10.4	27.4	21.5	44.7	29.7	50.2

Margins (%)						(bps)	(bps)			(bps)
Gross Margins	42.8	34.3	38.0	37.1	42.9	3	573	37.8	36.5	132
EBITDA	20.1	17.5	20.1	17.0	23.5	334	647	19.4	15.5	391
EBIT	18.5	16.6	19.4	15.6	21.8	328	616	18.3	14.0	427
EBT	18.3	16.5	19.3	15.2	21.3	304	610	18.1	13.9	422
PAT	17.1	13.9	15.8	13.5	17.7	51	411	15.2	12.6	255
Effective Tax rate	22.5	25.2	25.2	26.5	28.0	551	153	26.1	21.7	442

Source: Company, Emkay Research

Conference call highlights

Expansion plans at Dahej

- DAGRI plans to set up a formulation and technical plant at Dahej, Gujarat, with a capex outlay of Rs3bn, spread across FY22-24E.
- Management expects Phase-I to commission by Mar'22 and Phase-II by Mar'23. Environmental clearance for both the plants is in process.
- After the commencement of formulation plant in Phase-I, management expects to set up multipurpose plants (MPP) for manufacturing synthetic pyrethroids and weedicides.
- Management expects captive consumption of 35-50% of technicals that would be manufactured in these plants.
- DAGRI would explore export opportunities for these technical products as well.
- At full utilization, it expects to achieve Rs3.5bn in revenues, with EBITDA margin of 12-15% from this plant.

Revenue

- Geography-wise revenue mix (Q4FY21): North (26%), West (32%), East (11%) and South (31%).
- Segment-wise revenue mix (Q4FY21): Herbicide (21%), Insecticide (50%), Fungicide (17%) and Others (12%).
- Geography-wise revenue mix (FY21): North (26%), West (34%), East (11%) and South (29%).
- Segment-wise revenue mix (FY21): Herbicide (30%), Insecticide (41%), Fungicide (17%) and Others (12%).
- Management expects the growth momentum to continue with low-double digit volume growth and 1-1.5% further price hikes for FY22.
- The share of in-licensing molecule increased to 40% in FY21 from 37-38% a few years back.

New product launches

- DAGRI has a strong pipeline of products and plans to launch two new 9(3) products each in FY22 and FY23, along with other in-licensing products.
- The innovation turnover index stood at 12% for FY21 vs. 10.5% in FY20.

Margins

- Management expects to maintain gross margins through price hikes to offset the increase in raw material costs.
- Management believes it can try to maintain EBITDA margins. However, with travel and physical marketing expenses back in FY22, there could be a marginal impact on EBITDA margins compared with FY20.

Balance sheet

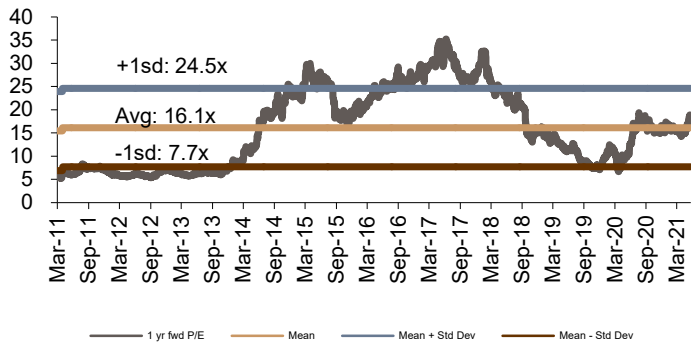
- Cash conversion cycle improved to 113 days from 123 days in FY20 on lower inventory and receivable days
- The board has recommended a dividend of Rs2/share for FY21 (DAGRI also did a buyback in FY21 at Rs1,000/share).

Exhibit 11: Changes in estimates

Rs mn	FY22E			FY23E			FY24E
	Old estimates	New Estimates	% Change	Old estimates	New Estimates	% Change	Introduced
Net sales	15,207	15,748	4%	16,575	17,165	4%	18,538
EBITDA	2,682	2,931	9%	2,882	3,161	10%	3,381
EBITDA %	17.6%	18.6%	98bps	17.4%	18.4%	103bps	18.2%
APAT	2,079	2,217	7%	2,235	2,389	7%	2,521
AEPS	44.6	47.6	7%	48.0	51.3	7%	54.1

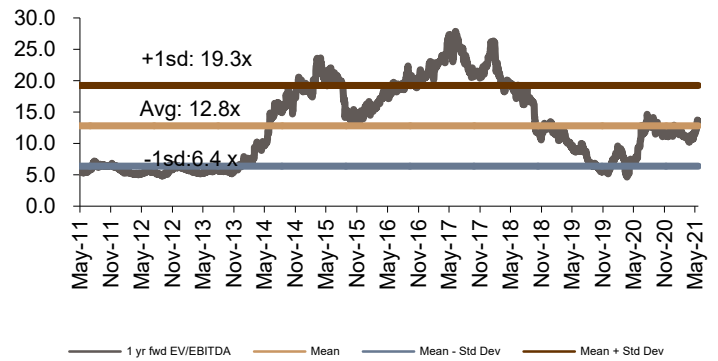
Source: Company, Emkay Research

Exhibit 12: DAGRI is trading at 18.6x 1-yr forward P/E



Source: Company, Bloomberg, Emkay Research

Exhibit 13: DAGRI is trading at 13.5x1-yr forward EV/EBITDA



Source: Company, Bloomberg, Emkay Research

Exhibit 14: Peer valuation

Domestic company	Price (Rs)	Mkt Cap (Rs bn)	PE (x)			EV/EBITDA (x)			ROE (%)		
			FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UPL	780	596	19.2	16.6	13.7	9.8	8.4	7.4	18.2	19.1	19.5
PI Industries	2,565	389	53.0	40.1	32.6	37.1	28.2	22.7	18.4	16.8	17.6
Bayer CropScience*	5,404	243	41.8	33.8	29.8	29.8	24.6	21.3	21.1	22.8	22.1
Rallis India	314	61	27.8	24.0	21.8	18.8	15.6	13.7	14.6	15.1	14.8
Sharda Cropchem*	347	31	14.7	14.1	12.8	6.6	6.0	5.1	14.3	13.3	13.5
Dhanuka Agritech	892	42	19.7	18.8	17.4	14.8	13.6	12.5	28.3	25.8	23.7
Sumitomo Chemical*	313	156	47.8	40.7	34.3	32.5	28.2	23.8	23.4	22.7	22.4
Agro Chemicals Avg.			32.0	26.9	23.2	21.3	17.8	15.2	19.8	19.4	19.1

Source: *Bloomberg estimates, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	11,201	13,875	15,748	17,165	18,538
Expenditure	9,466	11,184	12,816	14,004	15,157
EBITDA	1,735	2,691	2,931	3,161	3,381
Depreciation	164	152	144	172	226
EBIT	1,571	2,539	2,788	2,989	3,155
Other Income	251	337	180	210	220
Interest expenses	16	27	8	8	8
PBT	1,806	2,849	2,960	3,191	3,367
Tax	392	744	744	802	846
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	1,414	2,106	2,217	2,389	2,521
Adjusted PAT	1,414	2,106	2,217	2,389	2,521

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	95	93	93	93	93
Reserves & surplus	6,943	7,769	9,209	10,762	12,401
Net worth	7,038	7,862	9,302	10,856	12,494
Minority Interest	0	0	0	0	0
Loan Funds	80	84	84	84	84
Net deferred tax liability	53	83	83	83	83
Total Liabilities	7,172	8,028	9,469	11,022	12,661
Net block	1,137	1,568	1,574	2,202	2,976
Investment	1,589	2,780	1,603	1,603	1,603
Current Assets	6,522	6,786	9,413	10,574	11,609
Cash & bank balance	263	15	992	1,307	1,567
Other Current Assets	456	80	646	704	760
Current liabilities & Provision	2,113	3,182	3,922	4,357	4,727
Net current assets	4,409	3,604	5,492	6,217	6,882
Misc. exp	0	0	0	0	0
Total Assets	7,172	8,028	9,469	11,022	12,661

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	1,806	2,849	2,960	3,191	3,367
Other Non-Cash items	0	0	0	0	0
Chg in working cap	158	169	(910)	(410)	(405)
Operating Cashflow	1,622	2,311	1,457	2,159	2,350
Capital expenditure	(104)	(123)	(874)	(1,000)	(1,200)
Free Cash Flow	1,518	2,188	583	1,159	1,150
Investments	(478)	(1,300)	1,177	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(443)	(1,266)	303	(1,000)	(1,200)
Equity Capital Raised	0	(1,232)	0	0	0
Loans Taken / (Repaid)	(192)	(32)	0	0	0
Dividend paid (incl tax)	(723)	0	(776)	(836)	(883)
Other Financing Cash Flow	1	(11)	0	0	0
Financing Cashflow	(929)	(1,302)	(783)	(844)	(890)
Net chg in cash	249	(257)	977	316	260
Opening cash position	14	263	15	992	1,307
Closing cash position	263	15	992	1,307	1,567

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	15.5	19.4	18.6	18.4	18.2
EBIT Margin	14.0	18.3	17.7	17.4	17.0
Effective Tax Rate	21.7	26.1	25.1	25.1	25.1
Net Margin	12.6	15.2	14.1	13.9	13.6
ROCE	26.3	37.8	33.9	31.2	28.5
ROE	21.2	28.3	25.8	23.7	21.6
RoIC	29.3	48.6	49.6	45.3	41.0

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	29.7	45.2	47.6	51.3	54.1
CEPS	33.2	48.5	50.7	55.0	59.0
BVPS	147.9	168.8	199.7	233.1	268.2
DPS	13.2	2.0	16.7	18.0	18.9

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	30.0	19.7	18.8	17.4	16.5
P/CEPS	26.9	18.4	17.6	16.2	15.1
P/BV	6.0	5.3	4.5	3.8	3.3
EV / Sales	3.7	2.9	2.5	2.3	2.1
EV / EBITDA	24.0	14.8	13.6	12.5	11.6
Dividend Yield (%)	1.5	0.2	1.9	2.0	2.1

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Net Debt/EBIDTA	(0.4)	(0.7)	(0.5)	(0.6)	(0.6)
Working Cap Cycle (days)	135.1	94.4	104.3	104.4	104.6

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11.4	23.9	13.5	9.0	8.0
EBITDA	18.8	55.1	8.9	7.8	7.0
EBIT	17.5	61.6	9.8	7.2	5.6
PAT	25.6	48.9	5.3	7.8	5.5

Quarterly (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Revenue	2,276	3,738	4,424	2,957	2,756
EBITDA	458	653	890	502	646
EBITDA Margin (%)	20.1	17.5	20.1	17.0	23.5
PAT	390	518	701	400	486
EPS (Rs)	8.2	10.9	14.7	8.6	10.4

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-20	Sep-20	Nov-20	Dec-20	Mar-21
Promoters	75.0	75.0	75.2	75.2	75.0
FIs	-	-	-	-	-
DIs	13.1	12.0	12.0	12.0	13.2
Public and Others	11.9	13.0	12.8	12.8	11.8

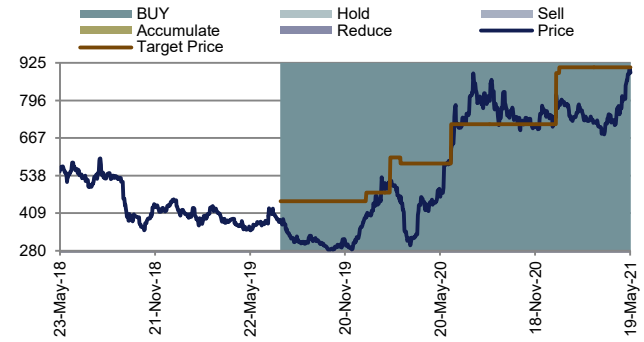
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Mar-21	727	910	12m	Buy	Varshit Shah
3-Jan-21	782	910	12m	Buy	Varshit Shah
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	520	600	12m	Buy	Varshit Shah
30-Dec-19	404	480	12m	Buy	Varshit Shah
9-Nov-19	294	450	12m	Buy	Varshit Shah
23-Sep-19	322	450	12m	Buy	Varshit Shah
19-Jul-19	378	450	12m	Buy	Varshit Shah

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Agri Input & Chemicals



Analyst: Varshit Shah

Contact Details

varshit.shah@emkayglobal.com
+91 22 6612 1358

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	0.93	0.93	0%	0	100.00
Bayer CropScience*	0.08	0.07	-12%	-1	7.76
Chambal Fertilisers*	0.00	0.01	NA	1	0.97
Coromandel International	0.11	0.10	-11%	-1	10.31
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	0%	0	26.40
Rallis India	0.00	0.00	NA	0	0.00
Sharda Cropchem*	0.00	0.00	NA	0	0.00
UPL	0.50	0.51	2%	1	54.56
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	21-May-20	20-Nov-20	18-Feb-21	20-Apr-21	20-May-21
EAP - Agri Input & Chemicals	100.0	83.3	108.3	118.6	127.4	148.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	80.6	104.3	114.6	122.8	142.9

*Performance measurement base date 1st April 2019

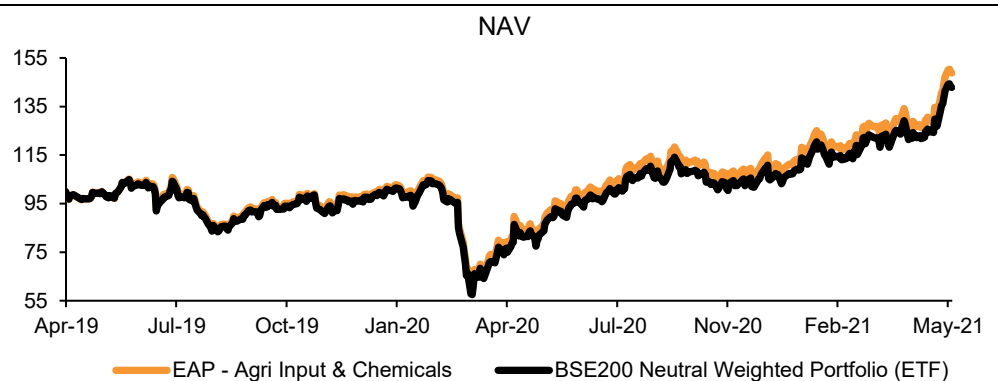
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Agri Input & Chemicals	16.7%	25.4%	37.3%	78.6%
BSE200 Neutral Weighted Portfolio (ETF)	16.3%	24.7%	37.0%	77.1%

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%

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com