Narnolia™

# DHANUKA

| | |
|---|---|
| Industry | Agro Chemicals |
| Bloomberg | DAGRI IN |
| BSE Code | 507717 |
| NSE Code | DHANUKA |

**23 May 2018**

| RATING | ACCUMULATE |
|---|---|
| CMP | 572 |
| Price Target | 657 |
| Previous Target | 770 |
| Potential Upside | 15% |

## Stock Info

| | |
|---|---|
| 52wk Range H/L | 929/536 |
| Mkt Capital (Rs Cr) | 2866 |
| Free float (%) | 25% |
| Avg. Vol 1M (,000) | 14 |
| No. of Shares (Crore) | 5 |
| Promoters Pledged % | |


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### Key Highlights

- ☑ Dhanuka Net Sales and PAT numbers are in line with our estimates.Net Sales grew by 17.9% YoY to Rs.185 Cr ( Vs our estimate Rs.180 Cr) while PAT growth by 18.4% to Rs.29 Cr. (Vs our estimate Rs.21 Cr).
- ☑ Steep fall in EBITDA by 11% QoQ due to product mix.
- ☑ Volume has grown approx 3 times in FY18 and expected to sustain same numbers in FY19 led by pipeline of 9(3) and 9(4) product launch.
- ☑ New speciality product in Indian market with 11 tie ups with global MNCs will boost the revenue in coming future.
- ☑ Due to favourable monsoon and couple of intiatives announced by government like increased in MSP, Dhanuka is expecting positive performance in FY19.
- ☑ Board of Directors has announced a payment of final dividend of 175% of Rs.3.50 per equity share of the face value of Rs.2 each.

### 4Q FY18 Result:

Dhanuka posted a good set of number in 4QFY18 led by higher volume and launch of new products. Net sales during the quarter grew by 16.9% YoY to Rs.185 cr Vs Rs.157 cr. EBITDA has fallen by 3.4% YoY to Rs.31 Cr in 4QFY18. Change in product mix impacted the fall in EBITDA margin by 17% in 4QFY18( 21 % in 4QFY17). PAT was flat to Rs.29 cr during the quater due to muted depreciation and finance cost.

### View and Valuation

Dhanuka performance in FY18 was impacted by lower crop prices and adverse effect from GST implementation. Dhanuka has guided to launch 5-6 products every year and 1-2 new launches under section 9(3) and 9(4) for next 3 years. We believe outlook of the company looks promising in the long term driven by strong revenue growth on account of regular launches of new products, mainly in the fast-growing Herbicide/ Fungicide segments and focus on new specialty products in Indian markets through tie up with global MNCs. However, despite having such strong growth driver our near term concern remains on the margin due to increase in prices of imported Raw material and uneven distribution of rainfall. Growth is expected to pick up in second half of FY19 on account of improved outlook: increased sowing, assuming normal monsoon and an increasing focus on high-margin products. Considering the above stances we maintain accumulate rating for the stock with 19x times of FY20 expected EPS and with reduced target price of Rs.657.

| KEY FINANCIAL/VALUATIONS | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| *Net Sales* | 829 | 873 | 963 | 1110 | 1295 |
| *EBITDA* | 140 | 169 | 166 | 206 | 246 |
| *EBIT* | 134 | 154 | 152 | 188 | 225 |
| *PAT* | 107.3 | 119.4 | 126.2 | 141.4 | 174.4 |
| *EPS (Rs)* | 21 | 24 | 26 | 29 | 36 |
| *EPS growth (%)* | -73% | 13% | 6% | 12% | 23% |
| *ROE (%)* | 22% | 23% | 20% | 19% | 20% |
| *ROCE (%)* | 28% | 30% | 24% | 25% | 25% |
| *BV* | 96 | 106 | 129 | 152 | 182 |
| *P/B (X)* | 6.1 | 7.5 | 4.3 | 3.8 | 3.2 |
| *P/E (x)* | 27.3 | 32.7 | 21.4 | 19.9 | 16.1 |

## 4Q FY 18 Results In line

# Good Performance

| Financials | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | YoY % | QoQ% | FY17 | FY18 | YoY % |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 157 | 218 | 348 | 222 | 185 | 17.9% | -16.4% | 873 | 963 | 10.2% |
| Other Income | 5 | 2 | 2 | 5 | 7 | 35.9% | 48.5% | 15 | 16 | 5.4% |
| COGS | 79 | 130 | 205 | 126 | 102 | 28.5% | -19.1% | 499 | 562 | 12.7% |
| Employee Cost | 25 | 23 | 28 | 27 | 28 | 12.6% | 2.0% | 98 | 106 | 8.9% |
| Other Expenses | 21 | 30 | 40 | 33 | 24 | 17.2% | -27.4% | 108 | 128 | 18.6% |
| EBITDA | 33 | 25 | 75 | 35 | 31 | -3.4% | -11.0% | 169 | 166 | -1.7% |
| Depreciation | 5 | 3 | 4 | 4 | 4 | -20.0% | -0.9% | 15 | 14 | -4.3% |
| Interest | 0 | 0 | 0 | 0 | 0 | -21.5% | -13.6% | 1 | 1 | -20.2% |
| PBT | 33 | 23 | 74 | 36 | 34 | 5.1% | -4.3% | 168 | 167 | -0.7% |
| Tax | 9 | 7 | 21 | 7 | 6 | -32.2% | -21.6% | 49 | 41 | -16.3% |
| PAT | 24 | 16 | 53 | 29 | 29 | 18.4% | 0.2% | 119 | 126 | 5.7% |

### Strong revenue growth

Dhanuka's net sales grew by 18% YoY to Rs. 185 cr (Vs Rs.157 cr in 4QFY17). Majorly contributed by insecticide by 54% in topline. Contribution from top 5 products in FY18 was increased to 26% which resulted in 10% growth in topline to Rs.963 cr in FY18. Forecast of normal monsoon was the key driver in FY18. As per the management volume has grown approx 3 times in FY18.

### Contraction in EBITDA Margin

EBITDA during the quarter posted a contraction of 3.4% YoY to Rs.31 Cr (earlier Rs.33 Cr in 4QFY17). Reason for the downfall was mainly due to product mix. EBITDA margin during 4QFY18 was also reduced from 21% to 17%. Outlook for EBITDA margin in FY19 is 18.5%

### Pricing outlook

From 3QFY18 onwards prices has significantly increased. Going forward, it is expecting to increase to 1-2% QoQ. Management is planning to pass on the increased price to customers.

### Favourable Government policies to support future growth

Emphasis of Union Budget 2018 on agriculture growth will strengthen Indian consumption story. The crop insurance scheme launched in last quarter as well as increase in MSP will aid agrochemical story going forward.

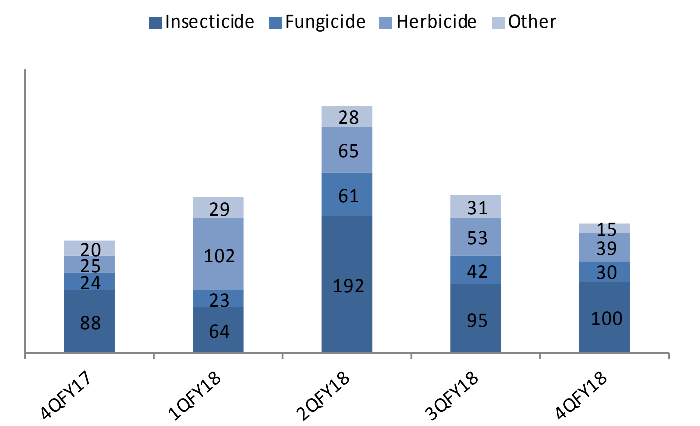
### New product launch will boost revenue in FY19

Management is planning to launch a new products in FY19 to control the plant disease in grapes and horticulture crops. Contribution of new products in FY18 was 20% in total revenue ( Vs more than18% in FY17). Mangement is expecting to maintain the same momentum in FY19. Launch of one product in Fungicide( in grapes) under 9(3) category and two products (one rice herbicide & one rice insecticide) under 9(4) category will significantly increase the revenue in FY19.

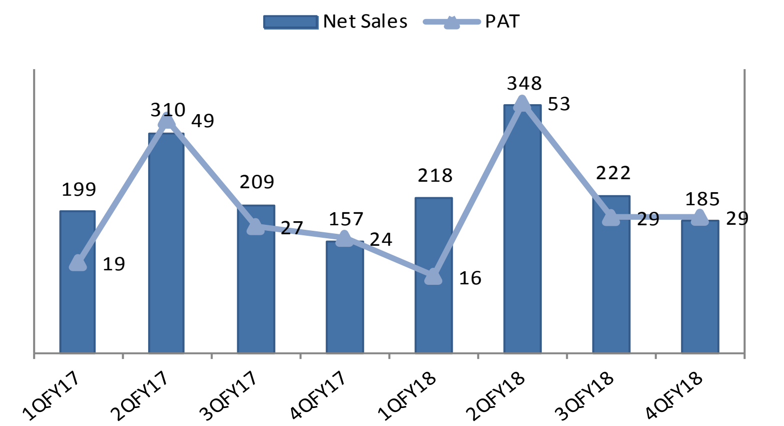
### Concall Highlights :

- ✓ Management exuded confidence that the company will achieve double digit growth in the FY2019 and EBITDA Margin of 18.5% if there is favorable monsoon as forecasted by skymet.
- ✓ Management continue to tie up With MNCs especially with Japanese Companies. Till now it has done 5 technical tie up and 6th will be coming next year ie FY19 with JAPAN (Name Not Disclosed).
- ✓ H1FY19 will be better than H1FY18 due to new product launches and good North East monsoon.
- ✓ Management has guided to launch 5-6 products every year and 1-2 new launches under section 9(3) for next 3 years.

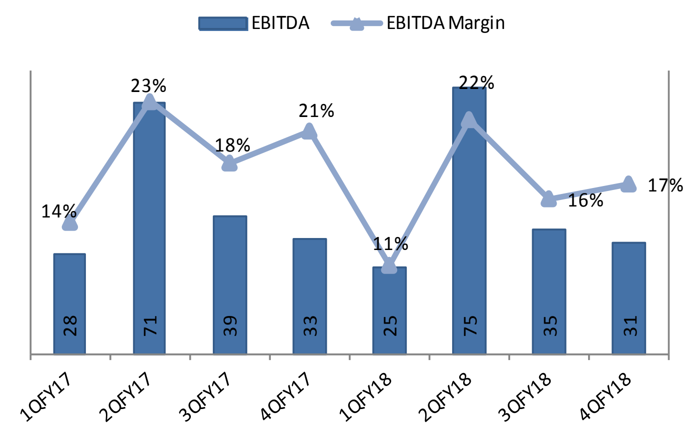
## Exhibit:Segment revenue



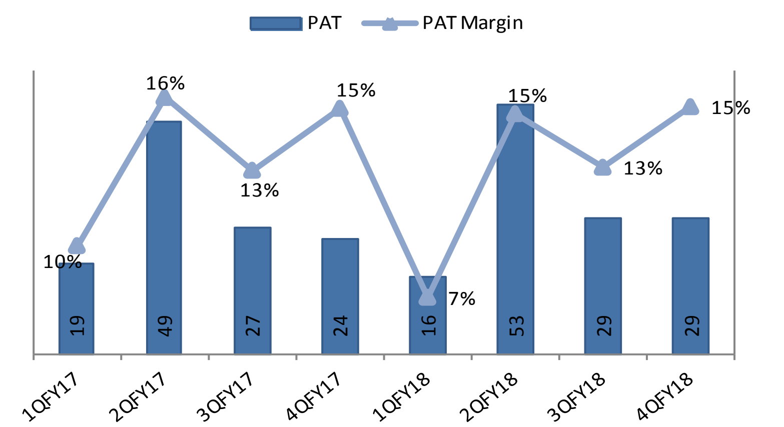

## Exhibit: Net Sales/ PAT



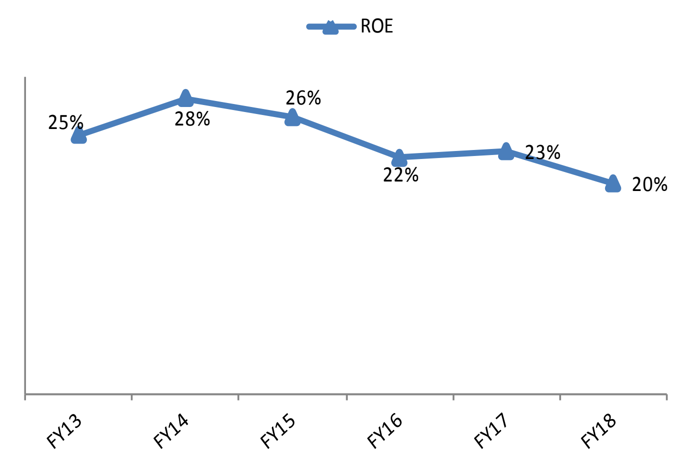

## Exhibit: EBITDA/ EBITDA Margin%



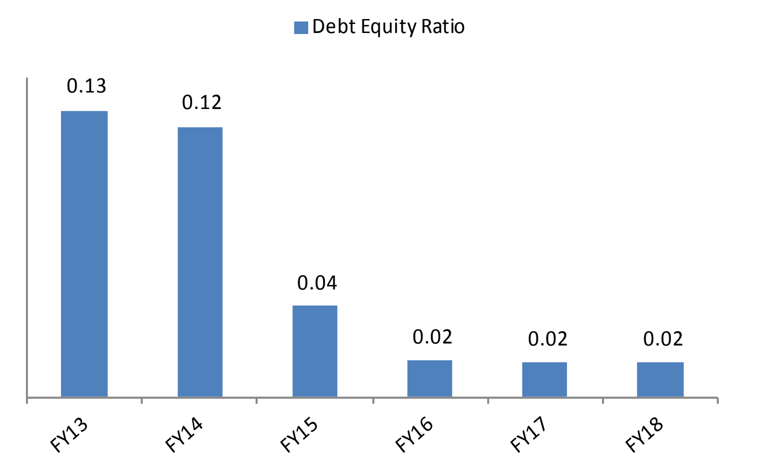

## Exhibit: PAT/ PAT Margin%




## Exhibit: ROE %




## Exhibit: Debt Equity Ratio



# Financial Details

## Balance Sheet

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| Share Capital | 10 | 10 | 3 | 10 | 10 | 10 | 10 | 10 |
| Reserves | *253* | *322* | *402* | *470* | *510* | *624* | *736* | *881* |
| **Networth** | **263** | **332** | **405** | **480** | **520** | **633** | 746 | 891 |
| *Debt* | 33 | 39 | 16 | 8 | 8 | 5 | 6 | 6 |
| Other Non Cur Liab | 13 | 15 | 17 | **21** | **24** | **0** | **0** | **0** |
| Total Capital Employed | 296 | 372 | 421 | 488 | 528 | 638 | 751 | 898 |
| *Net Fixed Assets (incl CWIP)* | *64* | *89* | *109* | *133* | *138* | *131* | *133.6* | *135.1* |
| *Non Cur Investments* | *0* | *1* | *5* | *43* | *47* | *89* | *89* | *89* |
| *Other Non Cur Asst* | *0* | *0* | *0* | *1* | *1* | *20* | *19.8* | *19.8* |
| **Non Curr Assets** | **82** | **110** | **145** | **207** | **212** | **245** | 248 | 250 |
| Inventory | 160 | 215 | 192 | 173 | 264 | 205 | 236 | 276 |
| *Debtors* | 151 | 171 | 194 | 186 | 184 | 208 | **240** | **280** |
| Cash & Bank | 5 | 2 | 4 | 2 | 4 | 11 | 17 | 43 |
| **Other Curr Assets** | - | - | **2** | **2** | **1** | **20** | 23 | 27 |
| *Curr Assets* | *338* | *407* | *449* | *450* | *501* | *577* | *704.6* | *869.2* |
| Creditors | 45 | 48 | 62 | 64 | 60 | 83 | 96 | 112 |
| Provisons | *10* | *15* | *31* | *4* | *6* | *0* | *0.5* | *0.6* |
| Other finicial liabilities | - | - | - | - | - | 41 | 41 | 41 |
| Other Curr Liab | 53 | 63 | 52 | 68 | 80 | 22 | 25 | 29 |
| Curr Liabilities | 109 | 126 | 145 | 136 | 147 | 146 | **162** | **182** |
| **Net Curr Assets** | **230** | **280** | **305** | **314** | **354** | **431** | **542** | **687** |
| Total Assets | 420 | 517 | 594 | 657 | 713 | 823 | 953 | 1,119 |

## Income Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| **Revenue from Operation** | 582 | 738 | 785 | 829 | 873 | 963 | 1,110 | 1,295 |
| Change (%) | 0% | 27% | 6% | 6% | 5% | 10% | 15% | 17% |
| EBITDA | 82 | 121 | 132 | 140 | 169 | 166 | 206 | 246 |
| Change (%) | *0%* | *47%* | *9%* | *6%* | *21%* | *-2%* | *24%* | *20%* |
| **Margin (%)** | 14% | 16% | 17% | 17% | 19% | 17% | 19% | 19% |
| Depr & Amor. | *4.5* | *4.8* | *5.9* | *5.9* | *14.8* | *14.2* | *18.4* | *21.5* |
| EBIT | *77* | *116* | *126* | *134* | *154* | *152* | *188* | *225* |
| Int. & other fin. Cost | *4* | *4* | *3* | *1* | *1* | *1* | *1* | *1* |
| Other Income | *7* | *5* | *6* | *13* | *15* | *16* | *11* | *20* |
| EBT | 81 | 116 | 129 | 145 | 168 | 167 | 198 | 244 |
| Exp Item | - | - | - | - | - | - | - | - |
| Tax | *16.3* | *23.2* | *23.3* | *38.0* | *48.8* | *40.8* | *56.4* | *69.5* |
| Minority Int & P/L share of Ass. | - | - | - | - | - | - | - | - |
| Reported PAT | 64 | 93 | 106 | 107 | 119 | 126 | 141 | 174 |
| **Adjusted PAT** | ***64.4*** | ***93.1*** | ***106.1*** | ***107.3*** | ***119.4*** | ***126.2*** | ***141.4*** | ***174.4*** |
| Change (%) | 0% | 45% | 14% | 1% | 11% | 6% | 12% | 23% |
| Margin(%) | *11%* | *13%* | *14%* | *13%* | *14%* | *13%* | *13%* | *13%* |

# Financial Details

## Key Ratios

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| ROE | 25% | 28% | 26% | 22% | 23% | 20% | 19% | 20% |
| ROCE | 29% | 35% | 31% | 28% | 30% | 24% | 25% | 25% |
| Asset Turnover | 1.4 | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 |
| Debtor Days | 94.5 | 84.5 | 90.1 | 81.8 | 77.0 | 78.9 | 78.9 | 78.9 |
| Inv Days | 100.2 | 106.2 | 89.1 | 76.0 | 110.6 | 77.7 | 77.7 | 77.7 |
| Payable Days | 28.2 | 23.8 | 28.9 | 28.2 | 25.2 | 31.5 | 31.5 | 31.5 |
| Int Coverage | 21.9 | 27.8 | 48.4 | 121.3 | 140.7 | 173.9 | 243.5 | 250.3 |
| *P/E* | *9.3* | *13.6* | *8.6* | *27.3* | *32.7* | *21.4* | *19.9* | *16.1* |
| Price / Book Value | *2.3* | *3.8* | *2.3* | *6.1* | *7.5* | *4.3* | *3.8* | *3.2* |
| *EV/EBITDA* | *7.2* | *10.5* | *6.9* | *20.9* | *23.1* | *16.2* | *13.5* | *11.2* |
| FCF per Share | *3.4* | *0.5* | *62.3* | *21.6* | *8.8* | *21.6* | *17.2* | *21.3* |
| Div Yield | 3.1% | 1.3% | 0.3% | 1.9% | 0.1% | 0.5% | 0.5% | 0.5% |

## Cash Flow Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| PBT | 81 | 116 | 129 | ` | 168 | 167 | 198 | 244 |
| (inc)/Dec in Working Capital | (23) | (66) | (4) | 31 | (64) | (28) | (55) | (69) |
| Non Cash Op Exp | 5 | 5 | 6 | 6 | 15 | 14 | 18 | 22 |
| Int Paid (+) | 4 | 4 | 3 | 1 | 1 | 1 | 1 | 1 |
| Tax Paid | (16) | (22) | (23) | (33) | (46) | (41) | (56) | (70) |
| others | (4) | (4) | (1) | (10) | (12) | - | - | - |
| **CF from Op. Activities** | **47** | **33** | **110** | **140** | **63** | **113** | **106** | **128** |
| *(inc)/Dec in FA & CWIP* | (28) | (29) | (25) | (27) | (19) | (7) | (21) | (23) |
| *Free Cashflow* | 19 | 5 | 85 | 113 | 44 | 106 | 85 | 104 |
| (Pur)/Sale of Inv | 7 | 7 | (46) | (45) | 29 | (75) | (50) | (49) |
| others | 2 | 2 | 1 | 6 | 10 | - | - | - |
| **CF from Inv. Activities** | **(19)** | **(19)** | **(70)** | **(66)** | **20** | **(82)** | **(71)** | **(72)** |
| inc/(dec) in NW | - | - | - | - | (80) | - | - | - |
| inc/(dec) in Debt | (6) | 6 | (24) | (8) | 0 | (3) | 1 | 1 |
| Int. Paid | (4) | (4) | (3) | (1) | (1) | (1) | (1) | (1) |
| Div Paid (inc tax) | (22) | (19) | (12) | (66) | - | (29) | (29) | (29) |
| others | | | | | | | | |
| **CF from Fin. Activities** | **(26)** | **(17)** | **(38)** | **(76)** | **(81)** | **(33)** | **(29)** | **(29)** |
| Inc(Dec) in Cash | 2 | (3) | 2 | (2) | 2 | (2) | 5 | 27 |
| Add: Opening Balance | 9 | 5 | 2 | 4 | 2 | 4 | 11 | 17 |
| Closing Balance | 11 | 2 | 4 | 2 | 4 | 2 | 17 | 44 |

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