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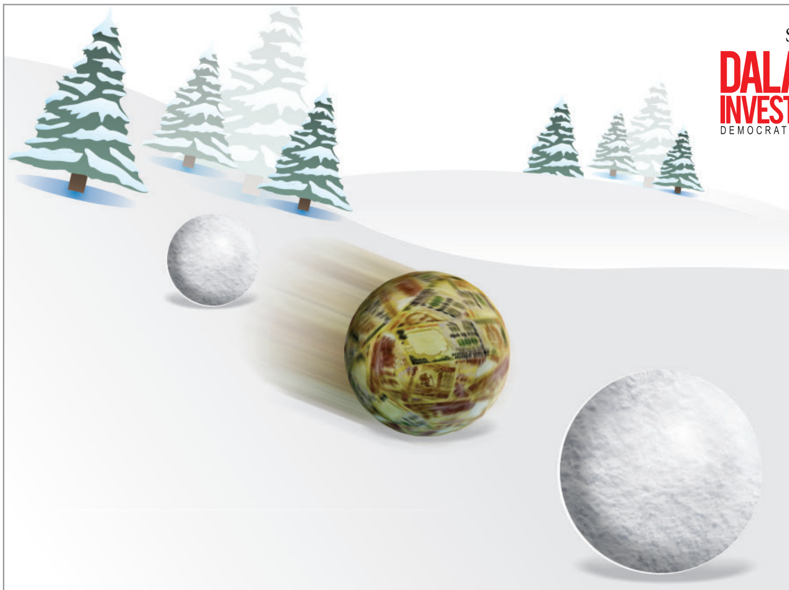
DEMOCRATIZING WEALTH CREATION

MID BRIDGE
THE MIDCAP MARVEL

February 2020



COMPANY NAME	:	**Dhanuka Agritech**
BSE Code	:	**507717**
Time Duration	:	**1 year**
CMP	:	**₹518.30 (as on 20 Feb., 2020)**
Target Price	:	**₹670**

The Mid Bridge recommendation for the month of February is Dhanuka Agritech. The company is engaged in the manufacturing and sales of agro-chemicals such as insecticides, pesticides, herbicides etc. Its manufacturing plants are located in Sanand (Gujarat), Udhampur (Jammu & Kashmir) and Keshwana (Rajathan).

Established distribution network

The company has a strong presence across the country with nearly 40 warehouses, 14 branch offices and 7,000 distributers. The company also has a separate R&D division and international collaborations with the world's leading agro-chemical companies. To further strengthen its market presence, the company is taking measured steps in revamping its distribution network. It plans to focus more on higher revenue generating opportunities using schemes such as Kohinoor scheme in 2016 and reducing the number of uncompetitive dealers.

New Product launch leads the top line

The company is exposed to certain risks regarding competitive intensity. Due to this nature of business, the company consistently focusses on its product launches and prudent marketing strategies. The monsoon of 2019 had extended its stay, which widely disturbed farming activities. But its performance in 9MFY20 shows a strong financial stability. The rising trend of revenue is driven by the sales coming from new launches. In FY19, it launched three new products while in FY20; it launched two more products-(Zapak-insecticide & Mycor-plant nutrient mycorrhiza). The end-uses of these launches have a wide scope for example; Zapak can cater armyworm of maze having eight to nine million hectare of the total farmed land. Mycor has developed a scope in nearly all the fruits, vegetables as well as sugarcane.

Going ahead, the company has a plan to launch six new products in FY21, three each in 9(3) and 9(4) molecules. In the 9(4) portfolio, it would launch two herbicides, one each for soya, cotton and an insecticide. Out of the three molecules, two would be grapes fungicide.

Geographical mix advantages in sustainability

The company has a strong geographical mix, which helps it in sustaining in adverse business scenarios. After several weak quarters, during Q2FY20, the company reported revenue growth, which is mainly driven by healthy volumes in northern and eastern markets, contributing to around 28 per cent and 12 per cent in total revenues. Penetration to the eastern region is a positive trigger for the company. After the recently concluded third quarter, the company guided for higher revenue generation abilities in January. This is due to delayed buying in the region after untimely rainfall during the last phase of the previous quarter. Such a diversified regional presence helps it in a slowdown in any one particular part or crop.

Raw Material procurement

The raw material procurement of nearly 30 per cent was largely dependent on imports from China. Due to an untimely closure of chemical companies in China and weak monsoon spread as well as exchange-related volatility, the company underwent higher costs in the past few years. Hence, it has worked towards reducing its exposure imports by a backward integration. Further, commenting on the recent virus-related impact, we see that it has an inventory of nearly 30 to 40 days. This could come handy for the company to sustain in near-term. In addition to this, its direct exposure to China is very low since the last few quarters due to its plant shutdowns. Though, we believe that due to a major business season in Q1 and Q2, any added input costs can be passed on to the consumers.

Governments push to further drive the growth

The farming sector gets a consistent support from the government through various ways, such as budget allocation and subsidies. Such initiatives would help to boost the sentiment. The government has set a target of doubling the farmer income by FY21 and an economy of USD 5 trillion Dollars, thereby, emphasising on rural growth. Agricultural credit schemes and subsidies can also prove favourable to the sector. Dhanuka Agritech, being one of the well-established players in the sector,

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owing to its diverse product offering, is certainly a beneficiary of these schemes.

Financial Performance

On the financial front, the company has achieved revenue growth of six per cent CAGR in the last five fiscal years. The subdued growth in top line was due to its lack of ability to pass onto higher input costs to the farmers. Though, in recent quarters, its volume growth in key regions is rising steadily and we expect to see a positive momentum here. On the margin front, raw material-related volatility kept its margins under pressure. The company has maintained its EBITDA margins in the range of 16 per cent to 18 per cent for the last five fiscal years. For FY19, it reported an EBITDA margin of 17 per cent. The net profit has grown by four per cent CAGR and the PAT margin stood at 12 per cent in the last five years.

Its financial numbers in the last few quarters has shown signs of a strong recovery. For the recently concluded Q3FY20, it reported healthy 25 per cent revenue growth and net profit growth of 36 per cent (adjusted for increased other income) while, its EBITDA margin expanded by nearly 400 bps, on YoY basis for this quarter.

Valuation and Outlook

The stock is currently trading at TTM EPS of Rs 27 and PE multiple of 19x. We foresee top line growth owing to an improved product mix, timely new launches and positive reservoir levels after an elongated monsoon last year. Though, the margins may see some pressure due to related price volatility of raw materials and disruption in China. Monsoon forecast will be another key trigger for the company. Hence, we see a strong growth potential-led by a positive sentiment for the stock. We recommend BUY for the scrip with a price target of Rs 670.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201903	201803	201703	201603	201503
Net Sales	1005.84	962.63	883.35	828.79	785.08
Total Income	1027.04	978.67	900.86	841.31	791.20
Total Expenditure	859.70	796.40	713.37	688.96	653.36
PBIDT	167.34	182.27	187.49	152.35	137.84
PAT	112.58	126.18	121.87	107.31	106.08
Dividend %	30.00	275.00	30.00	325.00	225.00
Adj. EPS(Rs)	23.66	25.71	24.83	21.45	78.42

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201912	201909	Q on Q Var%	201812	Y on Y Var%
Net Sales	271.49	402.03	-32.47	216.79	25.23
Total Expenditure	237.14	328.65	-27.84	195.30	21.42
PBIDT (Excl OI)	34.34	73.38	-53.20	21.49	59.81
PAT	27.67	60.00	-53.88	14.60	89.53
PBIDTM% (Excl OI)	12.65	18.25	-30.68	9.91	27.65
PBIDTM%	15.54	19.45	-20.10	11.66	33.28
PATM%	10.19	14.92	-31.70	6.73	51.41
Adj. EPS(Rs)	5.82	12.61	-53.85	2.97	95.96

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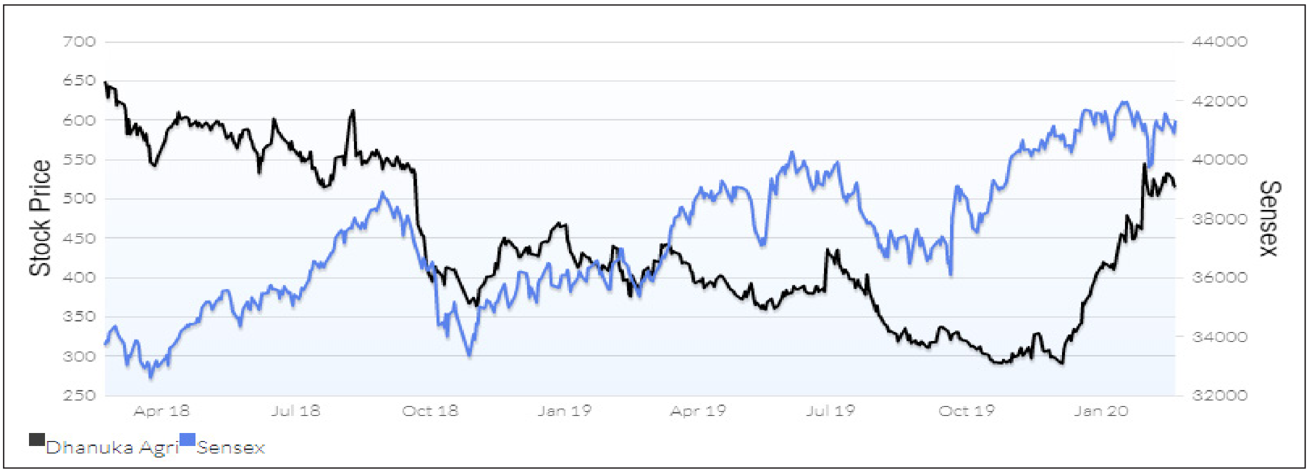
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40000
38000
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34000
32000
Sensex
Apr 18
Jul 18
Oct 18
Jan 19
Apr 19
Jul 19
Oct 19
Jan 20
Dhanuka Agri
Sensex