Dhanuka Agritech Ltd
Agro Chemicals

BUY
Target Price
1,810

Positive Outlook on Rabi Season; Management Upgrades Margin Guidance

Est. Vs. Actual for Q2FY25: Revenue: INLINE; EBITDA: BEAT; PAT: BEAT

Change in Estimates post Q2FY25

FY25E/FY26E: Revenue: -1%/-2%; **EBITDA:** 10%/9%, **PAT:** 11%/6%

Recommendation Rationale

- **Positive Rabi acreages outlook:** Dhanuka reported a 33% QoQ revenue growth despite significantly higher sales returns (~Rs 100 Cr) and pricing pressure. While the overall rainfall has been very good, heavy rains in August and September impacted insecticide volumes. However, the introduction of new products helped the company improve its topline. Going forward, with a good reservoir position and a favourable groundwater situation, Rabi acreages are expected to show a positive trajectory. The management also mentioned that pricing pressures seem to be easing, and prices may have bottomed out during the quarter.
- **New products to spur margin growth:** During the quarter, the company witnessed margin expansion, driven largely by a favourable product mix and new product introductions, along with significant growth in its superstar category during Navratra. Despite a negative turnover in generics during Q2, high-margin product volumes performed better compared to low-margin products. This led to stronger-than-estimated margins for the quarter, prompting the management to upgrade its margin guidance. For FY25, the management had previously guided a decline of 100 bps (YoY) in margins, which has now been revised to an improvement of 100 bps, as new introductions like Purge, LaNevo, and MYCORe SUPER continue to receive strong market response.

Sector Outlook: Positive

Company Outlook & Guidance: The company revised its revenue growth guidance for FY25 from 18-20% to 16%. However, on the upside, it has revised its margin guidance, projecting a 200 bps improvement over the previous guidance (YoY improvement of 100 bps compared to an earlier expected decline of 100 bps). The management remains optimistic about delivering healthy growth in FY25 and improving EBITDA margins, driven by a favourable product mix, stable/improving prices, and a strong Rabi season. Additionally, Dhanuka is taking steps to optimize its inventory levels and expects normalization by the end of the next quarter.

Current Valuation: 18x FY27E (Earlier 22x FY26E)

Current TP: Rs 1,810/share (Earlier TP: Rs 1,763/share)

Recommendation: We upgrade our rating on the stock from HOLD to BUY.

Financial Performance: Dhanuka Agritech Ltd reported a strong set of numbers. The company posted revenue of Rs 654 Cr, up 6% YoY and 33% QoQ, in line with our estimate of Rs 666 Cr. EBITDA came in at Rs 160 Cr, up 13% YoY and registering a robust growth of 123% QoQ, beating our estimate of Rs 142Cr. The company achieved an impressive EBITDA margin of 24.4%, elevated YoY due to better operating performance, compared to 22.9% in Q2FY24. PAT stood at Rs 118Cr, up 15% YoY and showing strong growth of 140% QoQ, exceeding our estimates by 14%.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	654	6%	33%	666	-2%
EBITDA	160	13%	123%	142	12%
EBITDA Margin	24%	148bps	986bps	21%	309bps
Net Profit	118	15%	140%	103	14%
EPS (Rs)	25.8	149bps	806bps	22.5	255bps

Source: Company, Axis Securities Research

(CMP as of 6th November 2024)

CMP (Rs)	1,616
Upside /Downside (%)	12%
High/Low (Rs)	1,926/790
Market cap (Cr)	7,346
Avg. daily vol. (1m) Shrs.	22,609
No. of shares (Cr)	4.56

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	70.2	70.2	70.3
FIIs	1.5	1.5	2.0
DIIs	18.9	19.3	19.0
Retail	9.4	9.0	8.7

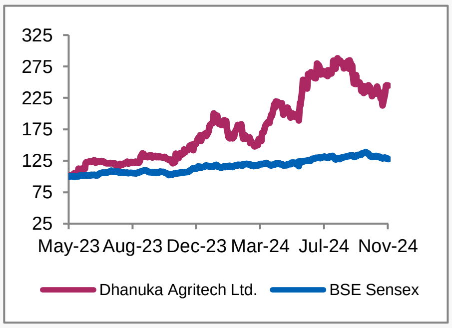
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1759	2072	2463
EBITDA	327	404	537
Net Profit	239	292	388
EPS (Rs)	52.5	64.1	85.2
PER (x)	18.1	25.2	19.0
P/BV (x)	3.3	4.6	3.7
EV/EBITDA (x)	13.0	17.8	13.4
ROE (%)	20.3%	20.2%	21.7%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1%	-2%
EBITDA	10%	9%
PAT	11%	6%

Relative Performance



Source: AceEquity, Axis Securities Research

Sani Vishe
Research Analyst
Sani.vishe@axissecurities.in

Shivani More
Research Associate
Shivani.more@axissecurities.in

Outlook:

- We expect that reduced inventory levels at customers are likely to lead to improved pricing and demand for Dhanuka Agritech and other agrochemical players. Favourable water reservoir levels are also expected to support revenue growth, particularly for companies with higher exposure to the Indian agricultural market. Additionally, the company's Dahej plant, which currently has a negative EBITDA, is expected to support revenue and margin growth as utilization improves over the next two years.

Valuation & Recommendation:

- Dhanuka continued to demonstrate its ability to withstand various industry challenges and pressure on both revenues and profitability. The company's strategy of focusing on introducing new, innovative, high-margin products, supported by its robust on-ground distribution network, has been crucial to its resilient performance. With prices possibly bottoming out, Dhanuka appears well-positioned to deliver stronger performance. We have rolled forward our estimates to FY27E, taking these factors into account. **Accordingly, we value the stock at 18x FY27E (vs 18x FY26E), upgrading our rating from HOLD to BUY, with a revised target price of Rs 1,810/share. The TP implies a 12% upside from the current market price (CMP).**

Recommendation Rationale & Key Highlights

- **Revised Guidance for FY25:** The management has adjusted its revenue growth guidance from 18-20% to 16% for FY25. However, it has upgraded the margin guidance by 200 bps over the previous forecast, resulting in a YoY margin improvement of 100 bps in FY25.
- **Agriculture Scenario:** Reservoir levels across the country are at their highest in the last 10 years. While heavy rains during the crop maturity stage caused some damage in certain areas, overall higher rainfall is expected to enhance acreage in the future. The management anticipates that Kharif production for the country will be about 5% higher. With a strong reservoir position and favourable groundwater conditions, the company is optimistic about a robust Rabi season ahead.
- **Sales Return:** In Q2, the company experienced a significant increase in sales returns, over 40% higher than the previous quarter. The total sales return in Q2 amounted to approximately Rs 100Cr, mainly due to reduced pesticide consumption in July and August caused by delayed and continuous monsoon. The management mentioned that most of the sales returns have been accounted for in Q2, with limited returns expected in Q3.
- **Elevated Inventory (Working Capital):** The inventory buildup was driven by heavy returns in July and August, continued rains in September, and reduced spraying activity. However, management expects inventory levels to align with expectations by the end of this FY.
- **Pricing and Volumes:** The company reported approximately 10% volume growth in Q2. Adjusting for sales returns, the growth would have been even higher. The pricing impact in Q2 was around 4%, compared to over 6% in Q1. For the full year, management expects a pricing impact of around 3%. While prices seem to have stabilized and may improve, there remains a risk of a 2-3% price decline over the next six months.
- **Partnership Products:** Currently, partnership products contribute about one-third of the company's revenue, and this is projected to increase to 33-36% over the next 2-3 years.
- **Dahej Plant:** Dhanuka has established a new chemical R&D lab and commenced operations at its Dahej chemical synthesis plant, aiming for breakthroughs in chemical synthesis. Currently, the Dahej plant is incurring a negative EBITDA of Rs 4.75Cr, with revenue at Rs 8Cr in Q2. The revenue guidance remains unchanged at Rs 250Cr, with an expected EBITDA break-even when plant revenue reaches Rs 150-200Cr.

Revenue Mix

	Geography Wise				Segment Wise		
	Q4FY24	Q1FY25	Q2FY25		Q4FY24	Q1FY25	Q2FY25
North	26%	31%	29%	Insecticides	44%	25%	43%
East	14%	8%	12%	Fungicides	16%	10%	21%
West	20%	42%	28%	Herbicides	28%	50%	17%
South	40%	19%	31%	Others	12%	15%	19%

Key Risks to Our Estimates and TP

- Global recessionary environment, especially a long recession, which could affect demand for upstream players
- Any adverse developments in raifall may affect the demand for PIs products in the Indian market.
- Delay in Capex and commercialization of new molecules could affect growth. Stress on ROCE in initial phases of acquisition.

Change in Estimates

	Revised		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,072	2,463	2,091	2,518	-1%	-2%
EBITDA	404	537	366	491	10%	9%
PAT	292	388	263	365	11%	6%
EPS	64.1	85.2	57.7	80	11%	6%

Source: Company, Axis Securities Research

Q2FY25 Result Review

Particular (Rs Cr)	Q2FY24	Q1FY25	Axis Sec Est	Q2FY25	YoY (%)	QoQ %	Axis Sec Var
Net Sales	**618**	**494**	**666**	**654**	**6%**	**33%**	**-2%**
Gross Profit	249	171	250	276	**11%**	**61%**	**10%**
Gross Margins %	*40.3%*	*34.7%*	*37.5%*	*42.2%*	189bps	753bps	468bps
Staff Cost	44	43	45	47	**6%**	**9%**	**5%**
Other Operating expenses	63	57	63	70	**10%**	**23%**	**10%**
EBITDA	**142**	**72**	**142**	**160**	**13%**	**123%**	**12%**
EBITDA margins (%)	***22.9%***	***14.5%***	***21.3%***	***24.4%***	**148bps**	**986bps**	**309bps**
Depreciation	10	12	12	13	28%	3%	6%
Interest	1	1	1	1	39%	26%	5%
Other Income	6	7	8	11	88%	51%	35%
PBT	137	66	137	157	15%	138%	14%
Tax (incl deferred)	35	17	34	39	12%	132%	14%
PAT	**102**	**49**	**103**	**118**	**15%**	**140%**	**14%**
PAT margins (%)	**16.5%**	**9.9%**	**15.4%**	**18.0%**	**149bps**	**806bps**	**255bps**
EPS	**22.3**	**10.7**	**22.5**	**25.8**	**15%**	**140%**	**14%**

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**1,700**	**1,759**	**2,072**	**2,463**	**2,849**
Growth (%)	15.1	3.4	17.8	18.9	15.7
Operating Expenses	-1,422	-1,431	-1,668	-1,926	-2,217
Operating Profit	**279**	**327**	**404**	**537**	**633**
Other Operating Income					
EBITDA	**279**	**327**	**404**	**537**	**633**
Growth (%)	5.8	17.5	23.4	32.9	17.8
Depreciation	-18	-41	-53	-61	-67
Other Income	45	35	42	45	48
EBIT	**306**	**322**	**393**	**521**	**613**
Finance Cost	-3	-3	-3	-3	-3
Exceptional & Extraordinary					
Profit Before Tax	**303**	**319**	**390**	**518**	**610**
Tax (Current + Deferred)	-69	-80	-97	-129	-152
P / L from Discontinuing Operations					
Profit / (Loss) For The Period	**234**	**239**	**292**	**388**	**458**
P / L of Associates, Min Int, PrefDiv					
Reported Profit / (Loss)	234	239	292	388	458
Adjusted Net Profit	234	239	292	388	458

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	9	9	9	9	9
Reserves & Surplus	1,052	1,291	1,583	1,972	2,429
Shareholder's Funds	**1,061**	**1,300**	**1,593**	**1,981**	**2,438**
Non-Current Liabilities	**46**	**45**	**45**	**45**	**45**
Long-Term Borrowings	3	2	2	2	2
Other Non-Current Liabilities	43	43	43	43	43
Current Liabilities	**309**	**287**	**282**	**288**	**313**
ST Borrowings, Current Maturity	4	0	0	0	0
Other Current Liabilities	305	286	282	288	313
Total (Equity and Liabilities)	**1,405**	**1,579**	**1,920**	**2,314**	**2,796**
Non-Current Assets	**509**	**537**	**602**	**679**	**736**
Fixed Assets (Net Block)	318	350	372	411	468
Non-Current Investments	159	168	190	228	228
Long-Term Loans and Advances	0	0	0	0	0
Other Non-Current Assets	32	19	40	40	40
Current Assets	**895**	**1,025**	**1,317**	**1,635**	**2,060**
Cash & Current Investments	99	72	157	157	379
Other Current Assets	796	953	1,160	1,478	1,681
Total (Assets)	**1,405**	**1,579**	**1,920**	**2,314**	**2,796**
Total Debt	7	2	2	2	2
Capital Employed	1,111	1,346	1,638	2,026	2,484

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	**303**	**319**	**390**	**518**	**610**
Depreciation	18	41	53	61	67
Change in Working Capital	-50	-175	-212	-312	-178
Total Tax Paid	-73	-79	-97	-129	-152
Others	-42	-32	-39	-42	-45
Operating Cash Flow (a)	**155**	**73**	**95**	**95**	**303**
Capital Expenditure	-140	-73	-74	-100	-125
Change in Investments	81	15	-22	-29	-28
Others	23	48	21	45	48
Investing Cash Flow (b)	**-35**	**-10**	**-75**	**-84**	**-105**
Free Cash Flow (a+b)	**120**	**63**	**19**	**11**	**198**
Equity Raised / (Repaid)	-0				
Debt Raised / (Repaid)	5	-4			
Dividend (incl. Tax)	70				
Others	-176	-3	-3	-3	-3
Financing Cash Flow (c)	**-101**	**-7**	**-3**	**-3**	**-3**
Net Chg in Cash (a+b+c)	**19**	**55**	**16**	**8**	**195**

Source: Company, Axis Securities Research

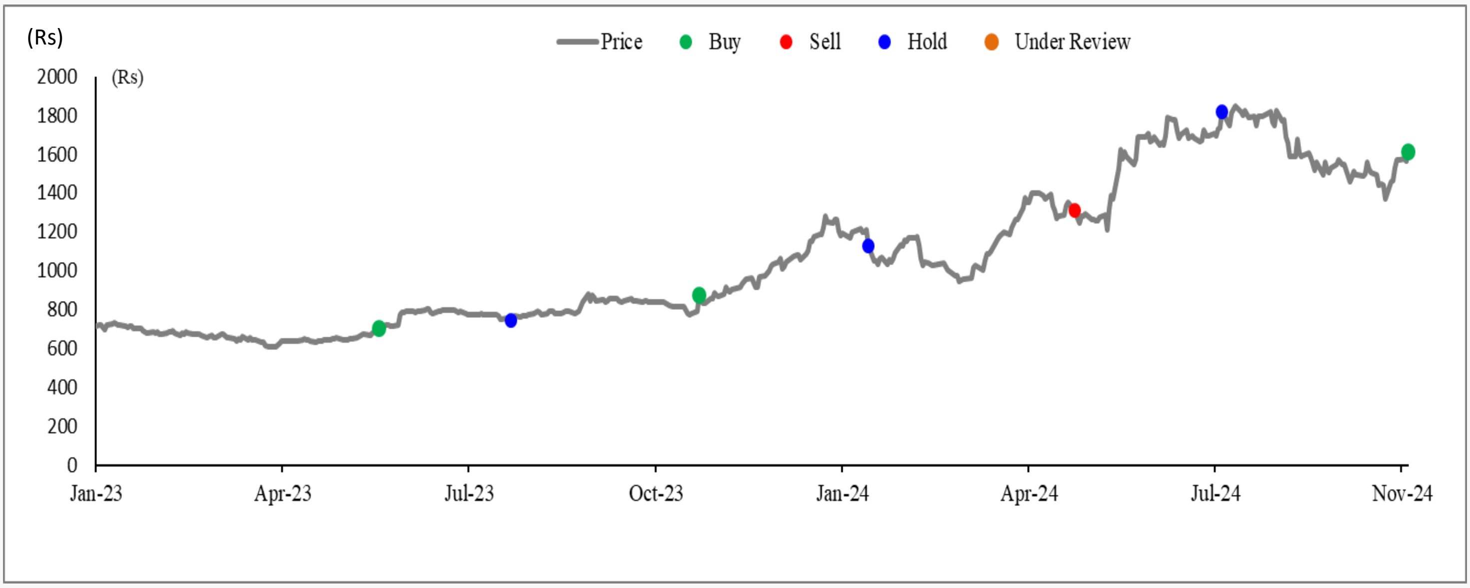
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Adjusted EPS (Rs)	50.1	52.5	64.1	85.2	100.4
Growth	*11.8*	*4.6*	*22.3*	*32.8*	*17.9*
Book Value / Share (Rs)	227.8	285.3	349.4	98.6	115.1
EBITDA Margin	16.4	18.6	19.5	21.8	22.2
EBIT Margin	18.0	18.3	19.0	21.2	21.5
Tax Rate	22.9	25.0	25.0	25.0	25.0
ROCE	29.3	26.2	26.3	28.4	27.2
Total Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Debt / Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Du Pont Analysis - ROE					
Net Profit Margin	13.7	13.6	14.1	15.8	16.1
Asset Turnover (x)	1.3	1.2	1.2	1.2	1.1
Leverage Factor (x)	1.4	1.3	1.2	1.2	1.2
Return on Equity	23.4	20.3	20.2	21.7	20.7

Source: Company, Axis Securities Research

Dhanuka Agritech Price Chart and Recommendation History



Date	Reco	TP	Research
28-May-23	HOLD	800	Result Update
02-Aug-23	HOLD	800	Result Update
08-Nov-23	BUY	950	Result Update
05-Feb-24	HOLD	950	Result Update
21-May-24	SELL	1,170	Result Update
05-Aug-24	HOLD	1,763	Result Update
07-Nov-24	BUY	1,810	Result Update

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in.;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parć, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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