



Growing The Pest-free Way



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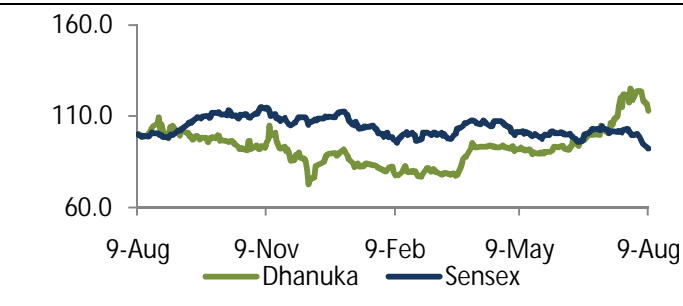
Dhanuka Agritech Ltd

Recommendation	BUY
CMP (10 August 2011)	Rs. 103
Target Price	Rs. 141
Sector	Agrochemicals

Stock Details

BSE Code	507717
NSE Code	DHANUKA
Bloomberg Code	DAGRI IN
Market Cap (Rs cr)	516
Free Float (%)	25%
52- wk HI/Lo (Rs)	115/63
Avg. volume BSE (Quarterly)	82,919
Face Value (Rs)	2.0
Dividend (FY 11)	100 %
Shares o/s (Cr)	5.0

Relative Performance	1Mth	3Mth	1Yr
Dhanuka	10.4%	22.8%	12.8%
Sensex	-10.6%	-9.0%	-7.8%



Shareholding Pattern 30th June 11

Promoters Holding	75.0%
Institutional (Incl. FII)	8.6%
Corporate Bodies	6.5%
Public & others	17.9%

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Year	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY10A	407.5	21.1%	57.7	14.2%	36.3	8.9%	7.3	14.2	43.9%
FY11A	486.2	19.3%	71.1	14.6%	51.1	10.5%	10.2	10.1	38.2%
FY12E	593.2	22.0%	87.5	14.7%	64.2	10.8%	12.8	8.0	33.0%
FY13E	723.6	22.0%	107.0	14.8%	78.9	10.9%	15.8	6.5	32.1%

Company Overview

Dhanuka Agritech is a 25 years old, agro chemical company catering to only formulations segment of the industry. It is fifth largest player in domestic market with market share of approximately 6%. The Company has three manufacturing facilities in Gurgaon, Sanand and Udhampur.

Investment Rationale

- Industry geared up for robust growth: Indian population is growing at about 1.6% p.a. and it is expected that India would have the largest population in the world by 2040. Such high growth will result in higher food consumption for which feasible options increasing productivity and reduce wastage. It is also estimated that up to 30% of crop gets damaged by pests. The Indian Crop Protection industry is estimated to grow by about 12-15% for next 2-3 years. Such a growth offers significant latent potential to grow for agrochemicals companies.
- Increased Minimum Support Prices: Increase in the minimum support prices have provided more cash in the hands of the farmers. More money enables the farmers to have surplus money, which can be spent on crop protection like pesticides, thereby increasing productivity.
- Compelling valuations: The company has a healthy balance sheet and has consistently maintained robust ROE and ROCE ratios (both above 30% since last 6-7 years). Debt/Equity ratio is at comfortable level of 0.35x in FY11 and gong forward it is expected to come down further. The company has enjoyed above industry margins both at EBITDA (14.6% FY11) and at PAT (10.5% FY11) level. However, despite having such strong financials, the performance is not reflected in the company's valuations and the stock is trading at 8.1x FY12E and 6.5x FY13E earnings, which is lower than the industry standards. Considering significant under valuation we believe that the stock definitely demands higher valuation and should get re-rated.

Valuation & Recommendation

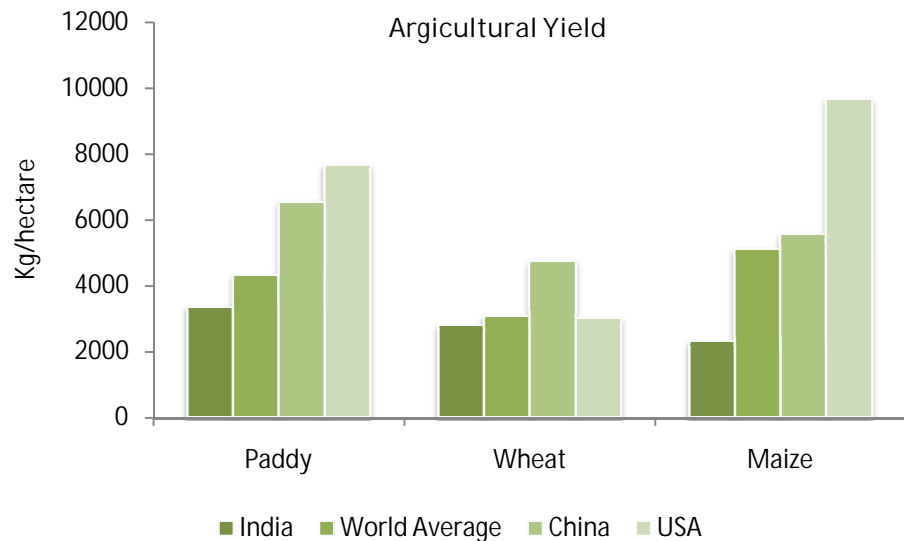
We believe the outlook for the company looks promising with factors like the low per-capita consumption of pesticides, which provides opportunities for growth, increased demand for food grains and the rising awareness about pesticide usage among the farming community.

Based on our EPS of Rs. 12.8 for FY12E and a target multiple of 11x we arrive at target price of Rs. 141. We recommend "BUY" on Dhanuka Agritech Limited with a target price of Rs. 141 indicating a potential upside of 37%.

Investment Rationale

Industry geared up for robust growth

India has a large population size of 1.13 billion and offers a growing market for agricultural and food products. However compared to other countries, India faces a greater challenge, since with only 2.3% world's total land area; it has to ensure food security of its populations, which is about 17.5% of world's population. In addition, Population in India is growing at about 1.6% per annum and it is expected that India would have the largest population in the world by 2040. This will result in higher food consumption. Although India has the largest area under agriculture in the world for major crops like paddy and wheat, still India lags behind in terms of 'per hectare' productivity



Source: Company, Nirmal Bang Research

In order to meet the demand of food grains, there are three major options for enhanced production and sustainability on long-term basis, namely

- (i) Area expansion (our view - not feasible),
- (ii) Enhancing per hectare productivity (our view - most desirable), and
- (iii) Along with the above options, saving the losses caused by insect pests, diseases and weeds through rational use of pesticides (our view - can be easily achieved with little more awareness)

It is estimated that up to 30% of crop gets damaged by pests (includes insects, fungus and weeds). Given that such a high percentage of crops get damaged by pests it becomes important to prevent or reduce such losses. Agrochemicals play a vital role in preservation of crops, growth of agricultural and ensuring food security.

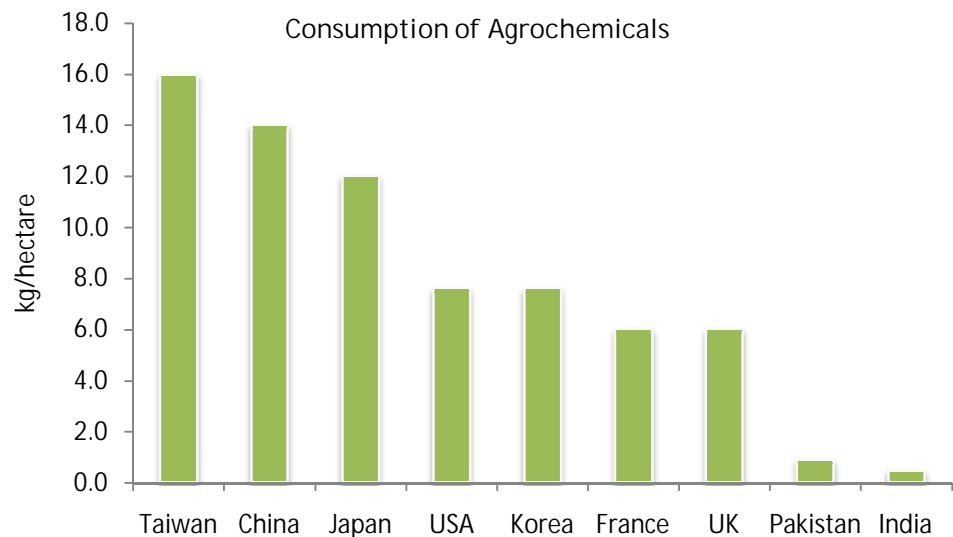
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The agrochemical industry can be broadly divided into herbicides, insecticides, fungicides and others. Herbicides prevent or reduce weeds. They mainly replace or reduce mechanical weeding and thereby help in reducing soil erosion, water loss and providing better-targeted nutrition to the plants. Insecticides are used to control insects and pests that reduce crop yields and quality. Fungicides prevent and cure fungal plant diseases, which affect crop yields and quality.

It has been estimated that every rupee spent on plant protection saves on an average the produce worth five rupees.

India's consumption of agrochemical is one of the lowest in the world, standing at 0.48kg per hectare. However we believe this weakness has set the stage for potential growth going forward. We feel that Indian agrochemical industry is definitely poised for robust growth in coming years.



The Indian Crop Protection industry is estimated to grow by about 12-15% for next 2-3 years which offers significant latent potential to grow for agrochemicals companies.

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Increased Minimum Support Prices have made crops more valuable

Government has increased the Minimum Support Prices (MSP) for almost all the crops. This has provided more cash in the hands of the farmers. More money enables the farmers to have surplus money, which can be spent on discretion items like crop protection thereby increasing productivity.

Also with higher MSP the value of the same crop has increased which the farmer can't afford to lose.

Crops /(Rs per Qtl)	FY08	FY09	FY10	FY11	% inc from FY08 to FY11
Paddy	645	850	950	1,000	55%
Red Gram	1,550	2,000	2,300	2,800	81%
Green Gram	1,700	2,520	2,760	3,170	86%
Black gram	1,700	2,520	2,520	2,900	71%
Cotton	1,800	2,500	2,500	2,500	39%
Groundnut	1,550	2,100	2,100	2,300	48%
Soybean	1,050	1,390	1,390	1,440	37%
Wheat	1,000	1,080	1,100	1,120	12%

Source: Company data, Nirmal Bang Research

Dhanuka derives half of its revenues from crops like Paddy and Pulses, which have benefitted most from the increased MSP

Crop wise revenue	% of FY11 revenues
Paddy	27.0%
Pulses	20.6%
Vegetables & Others	18.0%
Cotton	14.6%
Others (Wheat, Tea, Sugarcane, Potatoes, Groundnut)	19.8%

Source: Company data, Nirmal Bang Research

Another factor that is pushing the demand of herbicides is, increase in reach of NREGS (The National Rural Employee Guarantee Act) due to which more and more people are moving towards the urban and semi-urban areas from villages hence reducing the available manpower for agricultural works. This trend has made the manpower limited and expensive which has made way for increased usage of herbicides. Hence, herbicides segment is expected to grow handsomely in coming period.

Share of herbicides in India's basket of pesticides consumption is also increasing at phenomenal pace

Agrochemicals Used	Global	India
Insecticides	23%	64%
Fungicides	26%	16%
Herbicides	48%	20%
Others	3%	-

Worldwide herbicides accounts highest share in the pesticides industry whereas in India it is still at nascent stage however it is expected to increase in coming years, with increasing cost of labor.

Capacity expansion

Dhanuka Agritech has three facilities in various parts of the country - Gurgoan, Udampur and Sanand. The company is currently in process of doubling its capacity at Sanand Plant from existing 21,000 tonnes to 42,000 tonnes with an investment outlay of Rs 40 cr. The expanded facility would be operational by Mar'12 and its full benefit would be visible in FY13.

Recently the company has raised Rs 34 cr from a P/E fund called "2020 India Equity Fund" and allotted 8.52% of equity in exchange at the rate of Rs 82.2 per share to fund the expansion. This has also brought down the promoter's holding within the prescribed limit of 75% from earlier 90% holding.

Tie-up with global giants

Dhanuka Agritech is a pure formulations company. For technical's (raw materials), it has tied up with global giants at attractive conditions. This helps the company in supplying best quality products at competitive prices. Some of such giants are:

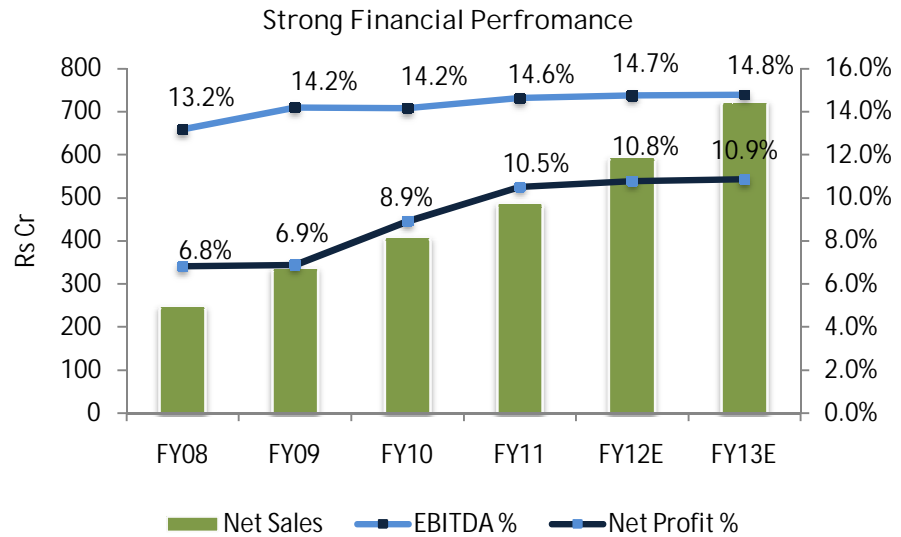
- Nissan Chemical Industries Ltd., Japan
- Sumitomo Chemical Company Ltd., Japan
- FMC Corporation, USA
- DuPont Crop Protection, USA

Relationship with such large multinationals shows strong execution capabilities of the company.

Currently the company is sourcing 55% of its requirements from such players, which we believe would go up in future, enhancing margins.

Consistent performance

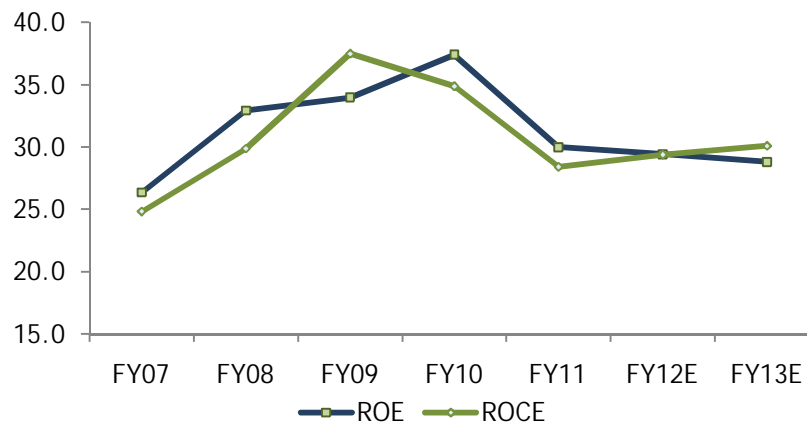
Dhanuka has been growing at an impressive CAGR of 25% over the period FY07-FY11 with net profit growth rate of 48.5% over same period. EBITDA and Net profit margins have improved from 11.0% and 5.2% in FY07 to 14.6% and 10.5% respectively in FY11, which are among the highest in the industry. The company has been able to deliver such consistent performance due to huge basket of 80 plus brands and agreements with global giants for technical. The strong growth is expected to continue in future also on back of six new product launches in FY12 as compared to four launches in FY11, tie-up with multinationals for more products, wide and strong distribution network of over 6,000 distributors/dealers etc. We expect Dhanuka Agritech's revenues to grow at CAGR of 22.0% over 2011-13 and PAT to grow at 24.2% over same period.



Source: Company, Nirmal Bang Research

Compelling valuations

The company has a healthy balance sheet and has consistently maintained robust ROE and ROCE ratios (both above 30% since last 6-7 years except in FY07). Debt/Equity ratio is at comfortable level of 0.35x in FY11 and going forward it is expected to come down further. The company has enjoyed above industry margins both at EBITDA (14.6% FY11) and at PAT (10.5% FY11) level. However, despite having such strong financials, the performance is not reflected in the company's valuations and the stock is trading at 8.1x FY12E and 6.5x FY13E earnings, which is lower than the industry standards. We believe that with agrochemical industry would grow in the range of 12-15% for next 2-3 years and Dhanuka will outperform the industry both on top-line and bottom-line levels. Considering significant under valuation and strong growth, we believe that the stock definitely demands higher valuation and should get re-rated.



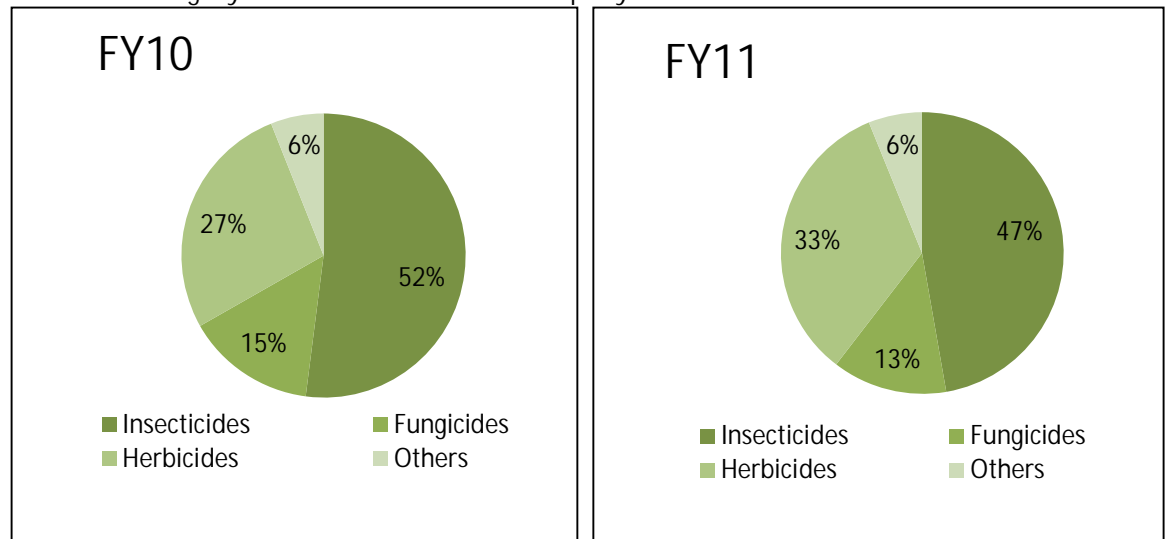
Source: Nirmal Bang Research

Return ratios have declined in FY11 because of additional equity issued to '2020 Equity Investors'

Company Overview

Dhanuka Agritech is a 25 years old, agro chemical company catering to only formulations segment of the industry. Dhanuka commenced its operations in 1980, with the acquisition of Northern Minerals Limited (NML), a sick company engaged in the manufacturing of pesticide formulations. Dhanuka promoters turned it around in record time of two years. Today it is fifth largest player in domestic market with market share of approximately 6% in market size of Rs 7,000 cr. Company has three manufacturing facilities in Gurgaon, Sanand and Udampur. It has one of the largest distribution network in India with over 6000 distributors / dealers selling to over 65,000 retailers. Its products are used by over 10 million farmers in India

Category wise revenues of the company



Source: Nirmal Bang Research

Share of herbicides into total sales of the company is increasing, which is a positive trend as it provides huge potential to grow. Dhanuka's top brand "Targa Super", which is a Rs 100 cr brand, is also from herbicides segment and is setting the growth momentum for the company.

Contribution from Top Brands

Brands	Licensed from	% to sales
Targa Super	Nissan	22%
Caldan	Sumitomo	10%
Omite	Chemtura	6%

Source: Company, Nirmal Bang Research

Dhanuka derives across India however West region is the strongest region for the company

Targa Super was introduced around two years; the company expects the high growth to continue in future also

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Dhanuka's Zone wise revenue is as under

Zones	FY11	FY10
North Zone	21.4%	24.2%
East Zone	13.6%	14.2%
West Zone	36.7%	33.8%
South Zone	26.9%	26.5%

Source: Company, Nirmal Bang Research

In addition with pesticides, the company derives revenues (albeit miniscule) from seeds and wind mill

Seeds: Currently Dhanuka Agritech has small division of seeds contributing negligible sales (FY11 Rs 3.9 cr - 0.73% of sales) however the company has big plans for future. Dhanuka sees it as potential growth segment and is looking for a target for some strategic investment for initial period before starting full-fledged

Windmill: Dhanuka has set up a windmill facility with installed capacity of 1.5 MW. The project is functioning since Dec'09. The main objective of setting up of this facility was to avail tax benefit. Total Capex was around Rs 9 cr in FY10.

Future Strategy:

Dhanuka initially started its business with technicals however after a fire in its factory (which destroyed the whole premises), the company discontinued with technicals and carried on with formulations business. More than two decades later now, the company is again evaluating the potential of backward integration. For this, the company is looking to buy a land in Dahej region with investments of around Rs 5-6 crs. However, it would take another 2-3 years for whole project to commence operations. We believe that the backward integration would support the margins of the company in long term.

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Risks and Concerns

- Erratic rains or delay in Monsoon: In India, more than 90% agricultural and allied activities are dependent on timely rains. Any delay or abnormal pattern in rains can destroy the crops and sales projections of company. Moreover, due to erratic rains, pest attack can be delayed (as happened last year when rains continued till Nov and Dec) which derails the growth plans of the company
- Change in government policy: Regular change in regulatory policies like banning some molecule can affect the company's and/or projections for future.
- Spurious formulations: Local companies with spurious formulations create a threat for the industry in general and for Dhanuka in particular
- Dependence on One Brand: Currently the company is deriving more than 20% of revenues from one brand - Targa Super and expects strong growth to continue in future also. Any slowdown in the sales of the brand or disagreement with Nissan (with which Dhanuka has tied up for technicals) can derail the company from achieving its growth projections.

Peer Comparison

We are comparing Dhanuka Agritech with other large and mid-sized agrichemical companies.

Dhanuka has higher than average EBITDA margins and enjoys one of the best PAT margins in the industry however, the stock is still trading at a very low multiple as compared to its peers. We believe the main reason for this is that company had been not investor friendly until now and always avoided lime light. However, the company now intends to focus on brand visibility and as a step in this direction, it was listed on NSE lately. Until recently 90% of equity was held by promoters and 5% by corporate bodies which restricted the trading activity in the stock. Due to low volumes and poor investor relations, the stock always remained in shadows. However, we feel that with better visibility and increase in public shareholding the company would be definitely re-rated which is evident from recent run up of the stock.

Particulars	Net Sales (Rs Cr)	EBITDA (Rs Cr)	Margin (%)	PAT (Rs Cr)	Margin (%)	EPS (Rs)	Price (Rs)	Mcap (Rs Cr)	EV (Rs Cr)	PE (x)	EV/		
											EBITDA (x)	P/BV (x)	
Insecticides India	450.1	45.1	10.0%	32.2	7.2%	25.4	367.0	465.4	499.7	14.4	1.1	11.1	3.0
Rallis India	1065.7	171.3	16.1%	126.0	11.8%	6.5	162.9	3167.9	3270.6	25.1	3.1	19.1	6.3
United Phosphorus	5804.5	584.8	10.1%	557.6	9.6%	12.1	150.0	6924.7	7850.8	12.4	1.4	13.4	1.9
PI Industries	718.6	122.5	17.0%	64.1	8.9%	51.2	1005.5	1259.2	1499.5	19.6	2.1	12.2	6.0
Meghmani Organics	1024.7	131.8	12.9%	38.0	3.7%	1.5	10.5	266.5	958.8	7.0	0.9	7.3	0.5
Average	1812.7	211.1	13.2%	163.6	8.2%					15.7	1.7	12.6	3.5
Dhanuka	486.2	71.1	14.6%	51.1	10.5%	10.2	103.2	516.2	571.5	10.1	1.2	8.0	3.0

FY11 financials

Source: Company data, Capital Line, Nirmal Bang Research

Valuation and Outlook

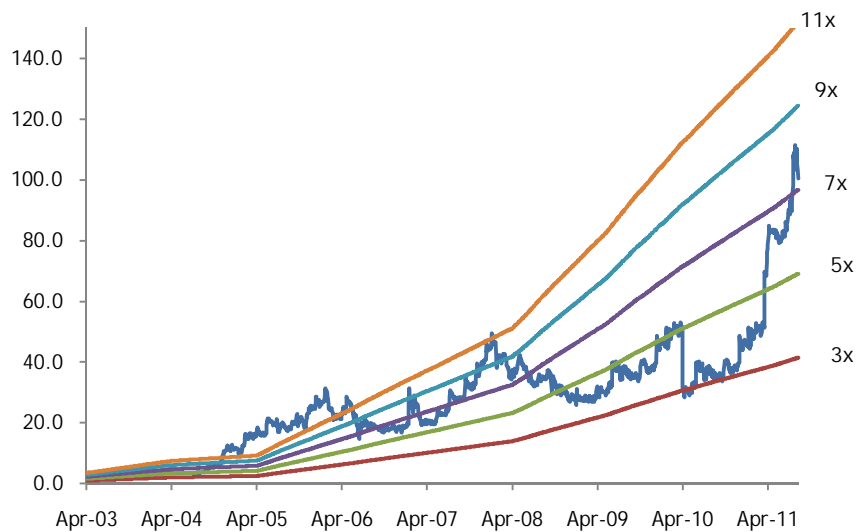
Dhanuka has been growing at steady pace in the past. The total revenue and the net profits of the company have grown at an impressive CAGR of 24.8% and 48.5%, respectively during FY07-11. EBITDA and Net profit margins have improved from 11.0% and 5.2% in FY07 to 14.6% and 10.5% respectively in FY11, which are among the highest in the industry.

We believe the outlook for the company looks promising with factors like the low per-capita consumption of pesticides which provides opportunities for growth, increased demand for food grains and the rising awareness about pesticide usage among the farming community.

At CMP, the stock trades at a P/E ratio of 8.1x and 6.5x of FY12E and FY13E EPS respectively. Based on our EPS of Rs. 12.8 for FY12E and a target multiple of 11x we arrive at target price of Rs. 141. We recommend "BUY" on Dhanuka Agritech Limited with a target price of Rs. 141 indicating a potential upside of 37%.

One year forward P/E Chart

On an average, the stock has always remained above 9x multiple however due to financial turmoil and adverse market conditions during FY09 and FY10, the stock has slipped below its average



Source: Nirmal Bang Research

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Financials - Consolidated

P&L (Rs. Cr)	FY 10A	FY 11A	FY 12E	FY 13E
Net Sales	407.5	486.2	593.2	723.6
% change	21.1%	19.3%	22.0%	22.0%
EBITDA	57.7	71.1	87.5	107.0
EBITDA margin (%)	14.2%	14.6%	14.7%	14.8%
Depn & Amort	3.1	4.9	5.5	6.9
Operating income	54.6	66.3	82.0	100.1
Interest	6.8	6.5	6.5	6.3
Other Income	1.2	7.4	9.0	10.0
PBT	49.0	67.2	84.4	103.8
Tax	12.7	16.1	20.3	24.9
EO	0.0	0.0	0.0	0.0
Adj PAT	36.3	51.1	64.2	78.9
PAT margin (%)	8.9%	10.5%	10.8%	10.9%
Sh o/s - Diluted	5.0	5.0	5.0	5.0
Adj EPS	7.3	10.2	12.8	15.8
EPS growth (%)	56.6%	40.7%	25.5%	23.0%
Cash EPS	7.9	11.2	13.9	17.2

Quarterly (Rs Cr)	Jun.10	Sept.10	Dec.10	Mar.11
Net Sales	80.0	166.0	113.1	127.1
EBITDA	12.7	21.1	17.6	19.7
Dep & Amorz	0.9	0.9	1.8	1.2
Operating Income	11.8	20.1	15.8	18.5
Interest	1.7	1.4	1.9	1.4
Other Inc.	1.0	3.7	1.7	0.9
PBT	11.1	22.5	15.6	18.0
Tax	2.4	6.2	3.2	4.4
EO	0.0	0.0	-0.1	-0.1
PAT	8.8	16.3	12.4	13.7
EPS (Rs.)	1.8	3.3	2.5	2.7

Ratios	FY 10A	FY 11A	FY 12E	FY 13E
EBITDA margin (%)	14.2%	14.6%	14.7%	14.8%
PAT margin (%)	8.9%	10.5%	10.8%	10.9%
PAT Growth (%)	56.6%	40.7%	25.5%	23.0%
Price Earnings (x)	14.2	10.1	8.0	6.5
ROE (%)	43.9%	38.2%	33.0%	32.1%
ROCE (%)	39.4%	34.0%	32.0%	32.7%
Debt/Equity Ratio (x)	0.6	0.4	0.3	0.2
Price/BV (x)	5.3	3.0	2.4	1.9
EV / Sales	1.4	1.2	0.9	0.8
EV / EBITDA	9.9	8.0	6.4	5.2

Balance Sheet (Rs Cr)	FY 10A	FY 11A	FY 12E	FY 13E
Share Capital	9.2	10.0	10.0	10.0
Reserves & Surplus	87.9	160.5	208.1	263.9
Net Worth	97.1	170.5	218.1	273.9
Net Deferred Tax Liab	1.7	2.8	2.8	2.8
Total Loans	57.7	60.2	58.2	56.2
Total Liabilities	156.5	233.4	279.1	332.9
Net Fixed Assets	38.2	38.3	48.4	61.6
Capital WIP	0.4	0.8	5.2	5.0
Investments	0.0	0.0	0.0	0.0
Cash & Bank	2.0	5.0	13.8	11.0
Inventories	111.3	141.9	169.0	206.2
Debtors & Other CA	112.4	173.9	206.3	251.7
CL & P	108.0	127.1	164.3	203.1
Net CA	117.8	193.6	224.9	265.8
Misc Exp	0.0	0.7	0.6	0.5
Total Assets	156.5	233.4	279.1	332.9

Cash Flow (Rs. Cr)	FY 10A	FY 11A	FY 12E	FY 13E
Operating Cash Flow				
Op CF before tax & WC	58.3	75.9	93.6	113.2
Change in WC	-24.9	-77.1	-27.2	-50.3
Tax	-12.7	-16.1	-20.3	-24.9
CF from Operation	20.7	-17.2	46.1	38.0
Investing Activities				
Capex	-15.8	-4.3	-20.0	-20.0
Inv & Oth Income	0.6	2.6	3.0	4.0
CF from Investing	-15.3	-1.7	-17.0	-16.0
Financing				
Dividend Paid	-6.4	-7.5	-11.7	-16.5
Sh Capital & Premium	0.0	33.9	0.0	0.0
Interest Paid	-6.8	-6.5	-6.5	-6.3
Loans & Others	6.4	1.9	-2.0	-2.0
CF from Financing	-6.8	21.9	-20.2	-24.8
Net Chg. in Cash	-1.3	2.9	8.9	-2.9
Cash at beginning	3.4	2.0	5.0	13.8
Cash at end	2.0	5.0	13.8	11.0

Per Share Data	FY 10A	FY 11A	FY 12E	FY 13E
Adj EPS	7.3	10.2	12.8	15.8
BV per share	19.4	34.1	43.6	54.8
Cash per share	0.4	1.0	2.8	2.2
Dividend per share	1.3	2.0	2.8	3.9

Note

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