

Dhanuka Agritech Ltd

Revenue in line with estimates

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Chemicals

Dhanuka Agritech Ltd's (Dhanuka's) Q2FY12 revenues were broadly in line with CRISIL Research's expectations, even as operating profitability and PAT were marginally better than expected. Revenue expansion was driven by above average monsoon as well as ~2.7% growth in sowing of kharif crops. We expect volume growth in the pesticide industry to be healthy in the rabi season (H2FY12) and maintain our revenue and earnings estimates for Dhanuka. We also maintain our fundamental grade of **4/5**.

Q2FY12 result analysis

- Revenues grew by 14.3% y-o-y to Rs 1,941 mn from Rs 1,697 mn as the company's various segments (insecticides, fungicides, herbicides and plant growth regulators) posted good growth. Overall sales volume increased 10-12% y-o-y.
- EBITDA margin was in line with Q2FY11 at 14.6%. While Dhanuka benefited from the 290 bps y-o-y decline in raw material costs as a percentage of sales, it was set off by ~29% q-o-q increase in employee costs. Rise in employee costs is due to expansion of sales force as well as salary increases. Overall employee count increased by 10% in H1FY12.
- The company reported PAT of Rs 209 mn against Rs 163 mn in Q2FY11, implying a growth rate of 28.6%. Dhanuka's effective tax rate at 19.5% was lower than Q2FY11 on account of higher proportion of sales from its Udhampur plant, which currently enjoys income tax benefits.

Key developments

- In October 2011, the government announced a 15-38% hike in MSP for rabi crops including wheat and pulses. We expect this to have a positive impact on the agri input sector as it will increase the ability of pesticide producers to pass on the hikes in raw material costs.

Earnings estimates maintained

We have broadly maintained our earnings estimates for Dhanuka for FY12 and FY13. The company has deferred its expansion plans for the Sanand facility and so we have lowered our capex projections. Consequently, there is only a marginal revision in FY12 and FY13 projections.

Valuation: Current market price is aligned

We continue to use the discounted cash flow method to value Dhanuka. We maintain our fair value estimate at Rs 109 per share. At the current market price of Rs 102, the valuation grade is **3/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	3,369	4,085	4,862	5,753	6,732
EBITDA	480	586	711	853	958
Adj PAT	232	363	509	611	695
Adj EPS-Rs	5.1	7.9	10.2	12.2	13.9
EPS growth (%)	37.1	56.6	28.8	19.8	13.8
Dividend yield (%)	4.4	3.2	2.0	2.5	2.9
RoCE (%)	41.3	40.2	38.1	35.5	34.5
RoE (%)	38.8	43.9	38.1	31.5	28.4
PE (x)	6.3	6.5	10.0	8.4	7.4
P/BV (x)	2.2	2.4	3.0	2.3	1.9
EV/EBITDA (x)	4.1	5.0	8.0	6.3	5.4

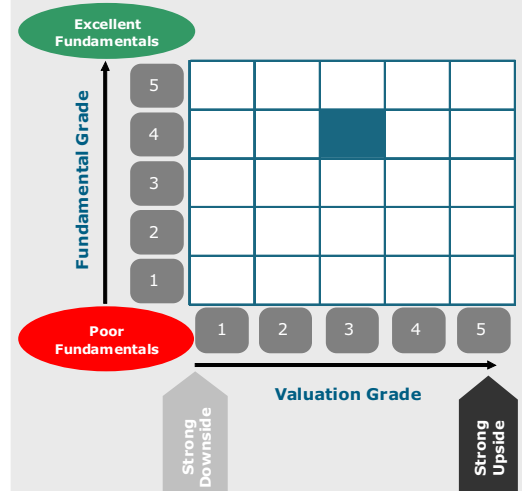
Source: Company, CRISIL Research estimate

November 16, 2011

Fair Value Rs 109

CMP Rs 102

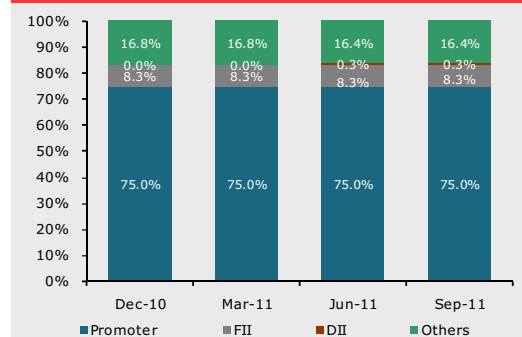
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5069/16883
NSE / BSE ticker	DHANUKA
Face value (Rs per share)	2
Shares outstanding (mn)	50.0
Market cap (Rs mn)/(US\$ mn)	5,112/105
Enterprise value (Rs mn)/(US\$ mn)	5,663/117
52-week range (Rs) (H/L)	119/83
Beta	0.67
Free float (%)	25.0
Avg daily volumes (30-days)	62,034
Avg daily value (30-days) (Rs mn)	6.4

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
DHANUKA	-1%	-3%	24%	14%
NIFTY	0%	1%	-7%	-15%

ANALYTICAL CONTACT

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