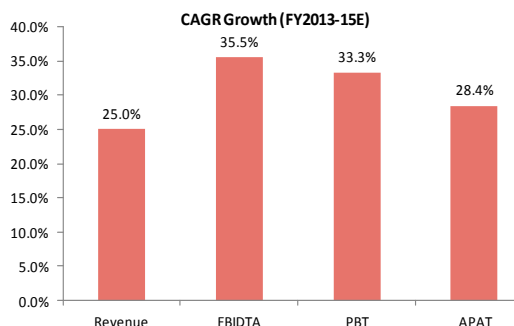


Agrochemicals
Sector Outlook- Positive



| | |
|-----------------------|------------|
| Recommendation | Buy |
| CMP (₹) | 153 |
| Price Target (₹) | 212 |
| Upside (%) | 39 |
| 52 Week H / L ₹ | 166/112 |
| BSE 30 | 20282 |

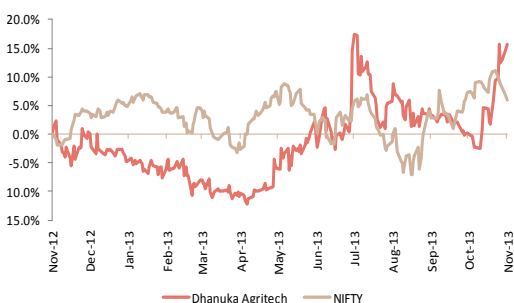
Key Data

| | |
|-----------------------|--------|
| No. of Shares, Mn. | 50.0 |
| Mcap, ₹ Mn | 7651.5 |
| Mcap, USD Mn @ ₹60 | 144.4 |
| 2 W Avg Qty (BSE+NSE) | 98120 |

Share holding, Sept'13

| | |
|-----------------|------|
| Promoters | 75.0 |
| FII | 8.3 |
| DII | 0.8 |
| Public & Others | 16.0 |

| Performance | 1 M | 3 M | 6 M | 12 M |
|-------------------|------|-----|------|------|
| Stock Return % | 15.5 | 9.4 | 22.9 | 15.7 |
| Relative Return % | 16.8 | 2.2 | 24.4 | 9.8 |



Rohit Nagraj
rohit.n@sunidhi.com
Phone: +91-022-61131320

Dhanuka Agritech reported stellar Q2FY14 numbers backed by volume growth and margin expansion. QoQ revenue growth of 22.8% was primarily on account of higher volumes with 5-6% price increases. Emphasis on high margin product sales led to EBITDA margin expansion by 240bps YoY and 210bps QoQ at 17.2%. Thus operating margin expansion led to 35.3% YoY and 84.8% QoQ jump in PAT at ₹321mn. The management has guided for margin expansion in FY14. Work on its new facility in Keshwana, Rajasthan has begun which is likely to be commissioned by Q3FY15E. We believe that with new product additions the company is likely to exhibit better growth rate going ahead with margin expansion. We remain optimistic on the growth prospects of the company and hence recommend 'Buy' with a price target of ₹212.

Revenue jump backed by volumes: DAL reported 22.8% YoY jump in revenues at ₹2.5bn which was backed primarily by volumes along with 5-6% price increases. Good monsoon across geographies helped the agrochemicals volume growth. Sales of its flagship product Targa Super also supported the overall volume growth. Top 10 products accounted for over 43% of the revenues in Q2FY14.

Healthy margin expansion of 240bps YoY: Higher emphasis on high margin products and cost rationalization led to 240bps YoY and 210bps QoQ expansion in EBITDA margins at 17.2%. Operating profit thus jumped by 42.8% YoY and 73.6% QoQ at ₹437mn.

Operating profit expansion trickles down to bottom-line: interest outgo was lower QoQ at ₹5mn while other income was higher at ₹11mn thus benefitting the bottom-line. Overall, operating margin expansion trickled down to bottom-line, which surged 35.3% YoY and 84.8% QoQ at ₹321mn.

New facility to commence operations by Q3FY15E: DAL has started work on its new facility in Keshwana, Rajasthan which is likely to be commissioned by Q3FY15E. Company is expected to spend over ₹500mn on this facility which would be funded entirely through internal accruals. The new facility would enhance DAL's production capabilities for newer products. The Gurgaon facility would be shifted to the new location and the land would be monetized after about 2-3 years.

First innovative product expected in H2FY14E: Management has guided for introduction of one innovative product in H2FY14E which would further enhance revenue potential for the company. Outlook for H2FY14E also remains positive with industry growth pegged at about 25-30% (equally in terms of volume and price increases). New facility at Keshwana would further enhance production capabilities of the company. We believe that the company is all set to achieve its target of achieving ₹10bn revenues by FY16E. We like DAL due to its free cash flow, sustainable high return ratios, margin expansion, low debt and progressive introduction of new products. The stock is available at 8.8x and 7.2x FY14E and FY15E EPS of ₹17.4 and ₹21.2 respectively. We have assigned 10x multiple for DAL and recommend 'Buy' with a price target of ₹212.

| Financials | Revenues ₹ mn | EBIDTA ₹ mn | Net Profit ₹ mn | EPS ₹ | P/E x | EV/EBIDTA x | ROAE % |
|------------|------------------|----------------|--------------------|----------|----------|----------------|-----------|
| FY11 | 4,910 | 759 | 511 | 10.2 | 15.0 | 10.2 | 38.2 |
| FY12 | 5,292 | 794 | 571 | 11.4 | 13.4 | 9.6 | 29.7 |
| FY13 | 5,823 | 819 | 644 | 12.9 | 11.9 | 9.3 | 27.0 |
| FY14E | 7,744 | 1,239 | 873 | 17.4 | 8.8 | 6.3 | 29.3 |
| FY15E | 9,097 | 1,503 | 1,062 | 21.2 | 7.2 | 5.2 | 28.3 |

Source: company, Sunidhi Research



Quarterly Performance

| Quarterly (₹ mn) | Q1FY12 | Q2FY12 | Q3FY12 | Q4FY12 | Q1FY13 | Q2FY13 | Q3FY13 | Q4FY13 | Q1FY14 | Q2FY14 | YoY% | QoQ(%) |
|-------------------------------|---------------|--------------|---------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|-------------|-------------|
| Revenues | 948 | 1,940 | 1,105 | 1,301 | 1,079 | 2,063 | 1,397 | 1,323 | 1,662 | 2,534 | 22.8 | 52.5 |
| <i>Q-o-Q growth (%)</i> | <i>(14.2)</i> | <i>104.6</i> | <i>(43.0)</i> | <i>17.7</i> | <i>(17.1)</i> | <i>91.3</i> | <i>(32.3)</i> | <i>(5.3)</i> | <i>25.6</i> | <i>52.5</i> | <i>0.0</i> | <i>0.0</i> |
| Raw Materials Cons. | 713 | 1,213 | 597 | 670 | 894 | 1,197 | 671 | 741 | 1,226 | 1,654 | 38.2 | 35.0 |
| <i>% of net sales</i> | <i>75.2</i> | <i>62.5</i> | <i>54.0</i> | <i>51.5</i> | <i>82.9</i> | <i>58.0</i> | <i>48.0</i> | <i>56.0</i> | <i>73.8</i> | <i>65.3</i> | <i>0.0</i> | <i>0.0</i> |
| Purchase of products | 76 | 119 | 64 | (1) | 143 | 123 | 44 | 12 | 44 | 186 | 51.7 | 326.7 |
| <i>% of net sales</i> | <i>8.0</i> | <i>6.1</i> | <i>5.8</i> | <i>(0.0)</i> | <i>13.2</i> | <i>6.0</i> | <i>3.2</i> | <i>0.9</i> | <i>2.6</i> | <i>7.4</i> | <i>0.0</i> | <i>0.0</i> |
| Employee Costs | 89 | 115 | 104 | 109 | 103 | 134 | 118 | 121 | 133 | 162 | 20.7 | 21.6 |
| <i>% of net sales</i> | <i>9.4</i> | <i>5.9</i> | <i>9.4</i> | <i>8.4</i> | <i>9.6</i> | <i>6.5</i> | <i>8.5</i> | <i>9.2</i> | <i>8.0</i> | <i>6.4</i> | <i>0.0</i> | <i>0.0</i> |
| Others | (88) | 211 | 214 | 294 | (216) | 304 | 406 | 211 | 8 | 95 | (68.6) | 1112.8 |
| <i>% of net sales</i> | <i>(9.3)</i> | <i>10.9</i> | <i>19.3</i> | <i>22.6</i> | <i>(20.1)</i> | <i>14.7</i> | <i>29.0</i> | <i>16.0</i> | <i>0.5</i> | <i>3.8</i> | <i>0.0</i> | <i>0.0</i> |
| EBITDA | 158 | 282 | 127 | 229 | 155 | 306 | 158 | 238 | 252 | 437 | 42.8 | 73.6 |
| <i>Q-o-Q growth (%)</i> | <i>25.0</i> | <i>78.4</i> | <i>(55.0)</i> | <i>80.2</i> | <i>(32.1)</i> | <i>97.1</i> | <i>(48.2)</i> | <i>50.5</i> | <i>5.6</i> | <i>73.6</i> | <i>0.0</i> | <i>0.0</i> |
| <i>EBITDA Margin (%)</i> | <i>16.7</i> | <i>14.5</i> | <i>11.5</i> | <i>17.6</i> | <i>14.4</i> | <i>14.8</i> | <i>11.3</i> | <i>18.0</i> | <i>15.1</i> | <i>17.2</i> | <i>0.0</i> | <i>0.0</i> |
| Dep. & Amor. | 11 | 11 | 12 | 12 | 11 | 11 | 12 | 12 | 12 | 11 | 5.5 | (1.3) |
| EBIT | 147 | 271 | 115 | 217 | 145 | 295 | 147 | 226 | 240 | 426 | 44.2 | 77.3 |
| Interest expenses | 15 | 12 | 19 | 9 | 9 | 6 | 11 | 8 | 10 | 5 | (21.7) | (48.4) |
| Other Income | 0 | 1 | 1 | 2 | 7 | 5 | 5 | 14 | 4 | 11 | 127.3 | 199.2 |
| EBT | 133 | 260 | 98 | 210 | 142 | 294 | 140 | 231 | 234 | 432 | 47.0 | 84.3 |
| Provision for tax | 32 | 50 | 19 | 28 | 30 | 57 | 24 | 53 | 61 | 111 | 95.7 | 83.0 |
| <i>Effective tax rate (%)</i> | <i>24.1</i> | <i>19.4</i> | <i>19.8</i> | <i>13.2</i> | <i>21.3</i> | <i>19.3</i> | <i>16.8</i> | <i>22.8</i> | <i>25.9</i> | <i>25.7</i> | <i>0.0</i> | <i>0.0</i> |
| Net Profit | 101 | 210 | 78 | 182 | 112 | 237 | 117 | 179 | 173 | 321 | 35.3 | 84.8 |
| <i>Q-o-Q growth (%)</i> | <i>28.6</i> | <i>108.0</i> | <i>(62.6)</i> | <i>132.6</i> | <i>(38.5)</i> | <i>111.4</i> | <i>(50.7)</i> | <i>53.0</i> | <i>(2.9)</i> | <i>84.8</i> | <i>0.0</i> | <i>0.0</i> |
| <i>PAT Margin (%)</i> | <i>10.6</i> | <i>10.8</i> | <i>7.1</i> | <i>14.0</i> | <i>10.3</i> | <i>11.5</i> | <i>8.3</i> | <i>13.4</i> | <i>10.4</i> | <i>12.6</i> | <i>0.0</i> | <i>0.0</i> |

Source: Company, Sunidhi Research



Valuations Summary

| Year End-March | FY11 | FY12 | FY13 | FY14E | FY15E |
|----------------------------|-------|-------|-------|-------|-------|
| Per share (₹) | | | | | |
| EPS | 10.2 | 11.4 | 12.9 | 17.4 | 21.2 |
| CEPS | 11.2 | 12.3 | 13.8 | 18.5 | 22.5 |
| BVPS | 34.1 | 42.9 | 52.5 | 66.5 | 83.6 |
| DPS | 2.0 | 2.2 | 2.8 | 3.0 | 3.5 |
| Payout (%) | 22.8 | 22.4 | 25.3 | 20.1 | 19.3 |
| Valuation (x) | | | | | |
| P/E | 15.0 | 13.4 | 11.9 | 8.8 | 7.2 |
| P/BV | 4.5 | 3.6 | 2.9 | 2.3 | 1.8 |
| EV/EBITDA | 10.2 | 9.6 | 9.3 | 6.3 | 5.2 |
| Dividend Yield (%) | 1.3 | 1.4 | 1.8 | 2.0 | 2.3 |
| Return ratio (%) | | | | | |
| EBIDTA Margin | 15.5 | 15.0 | 14.1 | 16.0 | 16.5 |
| PAT Margin | 10.4 | 10.8 | 10.9 | 11.2 | 11.6 |
| ROAE | 38.2 | 29.7 | 27.0 | 29.3 | 28.3 |
| ROACE | 36.7 | 30.7 | 27.9 | 35.6 | 35.0 |
| Leverage Ratios (x) | | | | | |
| Long term D/E | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Debt/Equity | 0.3 | 0.1 | 0.1 | 0.2 | 0.1 |
| Interest Coverage | 11.0 | 13.6 | 21.9 | 28.6 | 34.0 |
| Current ratio | 2.5 | 2.6 | 2.9 | 2.9 | 3.2 |
| Growth Ratios (%) | | | | | |
| Income growth | 20.3 | 7.8 | 10.0 | 33.0 | 17.5 |
| EBITDA growth | 30.2 | 4.6 | 3.1 | 51.3 | 21.3 |
| PAT growth | 40.7 | 11.8 | 12.8 | 35.4 | 21.7 |
| Turnover Ratios | | | | | |
| F.A Turnover x | 12.6 | 13.5 | 9.1 | 9.2 | 8.9 |
| Inventory Days | 156.7 | 145.8 | 151.0 | 150.0 | 150.0 |
| Debtors Days | 101.0 | 102.9 | 93.2 | 95.0 | 95.0 |
| Payable days | 57.6 | 57.0 | 42.5 | 45.0 | 45.0 |

Income Statement(₹ mn)

| Year End-March | FY11 | FY12 | FY13 | FY14E | FY15E |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 4,910 | 5,292 | 5,823 | 7,744 | 9,097 |
| Op. Expenses | 4,151 | 4,498 | 5,004 | 6,505 | 7,595 |
| EBITDA | 759 | 794 | 819 | 1,239 | 1,503 |
| Other Income | 26 | 6 | 69 | 34 | 40 |
| Depreciation | 49 | 45 | 45 | 53 | 65 |
| EBIT | 737 | 755 | 843 | 1,221 | 1,478 |
| Interest | 65 | 55 | 35 | 41 | 42 |
| Prov., Write offs | 0 | 0 | 0 | 0 | 0 |
| PBT | 673 | 700 | 808 | 1,179 | 1,436 |
| Tax | 161 | 129 | 163 | 307 | 373 |
| PAT | 511 | 571 | 644 | 873 | 1,062 |
| Minority | 0 | 0 | 0 | 0 | 0 |
| Prior Period Adj | 0 | 0 | 0 | 0 | 0 |
| Sh. of Associates | 0 | 0 | 0 | 0 | 0 |
| Ex. ordinary | 0 | 0 | 0 | 0 | 0 |
| Adj PAT | 511 | 571 | 644 | 873 | 1,062 |

Source: Company, Sunidhi Research

Balance Sheet (₹ mn)

| Year End-March | FY11 | FY12 | FY13 | FY14E | FY15E |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Equity and Liabilities | | | | | |
| Share Capital | 100 | 100 | 100 | 100 | 100 |
| Reserves and Surplus | 1,605 | 2,046 | 2,528 | 3,225 | 4,082 |
| Total Shareholders funds | 1,705 | 2,146 | 2,628 | 3,325 | 4,182 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Non-Current Liability | | | | | |
| Long Term Borrowings | 174 | 57 | 0 | 0 | 0 |
| Deferred Tax Liabilities (Net) | 28 | 26 | 28 | 28 | 28 |
| Long Term Liab/ Provisions | 115 | 133 | 133 | 133 | 133 |
| Current Liabilities | | | | | |
| Short Term Borrowings | 402 | 338 | 330 | 330 | 330 |
| Trade Payables | 522 | 543 | 450 | 628 | 732 |
| Other Current Liabilities | 496 | 564 | 531 | 531 | 531 |
| Short Term Provisions | 136 | 150 | 105 | 204 | 234 |
| Grand Total | 3,576 | 3,956 | 4,205 | 5,180 | 6,171 |
| Assets | | | | | |
| Non Current Assets | | | | | |
| Fixed Assets | 388 | 390 | 632 | 830 | 1,016 |
| Intangible assets | 2 | 3 | 6 | 8 | 10 |
| Deferred Tax Assets | 0 | 0 | 0 | 0 | 0 |
| Non-Current Investments | 0 | 0 | 0 | 0 | 0 |
| Long Term Loans & Advances | 128 | 182 | 180 | 180 | 180 |
| Other non-current assets | 0 | 0 | 3 | 3 | 3 |
| Current Assets | | | | | |
| Current Investments | 0 | 153 | 82 | 82 | 82 |
| Inventories | 1,419 | 1,388 | 1,599 | 2,095 | 2,441 |
| Trade Receivables | 1,377 | 1,512 | 1,507 | 2,044 | 2,401 |
| Cash and Cash Equivalents | 50 | 87 | 54 | (203) | (104) |
| Short Term Loans & Advances | 212 | 242 | 141 | 141 | 141 |
| Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Grand Total | 3,576 | 3,956 | 4,205 | 5,180 | 6,171 |
| Cash flow Statement | | | | | |
| Year End-March | FY11 | FY12 | FY13 | FY14E | FY15E |
| PBT | 673 | 700 | 808 | 1,179 | 1,436 |
| Depreciation | 49 | 45 | 45 | 53 | 65 |
| Interest Exp | 65 | 55 | 35 | 41 | 42 |
| Others | (26) | (6) | (69) | (34) | (40) |
| CF before W.cap | 759 | 794 | 819 | 1,239 | 1,503 |
| Inc/dec in W.cap | (710) | (217) | (209) | (754) | (570) |
| Op CF after W.cap | 49 | 577 | 610 | 485 | 932 |
| Less Taxes | 150 | 131 | 161 | 307 | 373 |
| Excp. & Prior Period Adj | 0 | 0 | 0 | 0 | 0 |
| Net CF From Operations | (101) | 446 | 450 | 179 | 559 |
| Inc/(dec) in F.A + CWIP | (43) | (33) | (269) | (253) | (253) |
| Others | 27 | 6 | 69 | 34 | 40 |
| CF from Invst Activities | (17) | (27) | (200) | (218) | (213) |
| Loan Raised/(repaid) | (96) | (117) | (57) | 0 | 0 |
| Equity Raised | 0 | 0 | 0 | 0 | 0 |
| Dividend | (117) | (128) | (151) | (176) | (205) |
| Others | 359 | (136) | (77) | (41) | (42) |
| CF from Fin Activities | 147 | (381) | (284) | (217) | (247) |
| Net inc /(dec) in cash | 29 | 38 | (34) | (257) | 99 |
| Op. bal of cash | 20 | 50 | 87 | 54 | (203) |
| Cl. balance of cash | 50 | 87 | 54 | (203) | (104) |



Sunidhi's Rating Rationale

The price target for a **large cap stock** represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as **Outperform**, the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as **Underperform**, the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as **Neutral**.

(For Mid & Small cap stocks from 12 months perspective)

| | |
|------------|-----------------------------------|
| BUY | Absolute Return >20% |
| ACCUMULATE | Absolute Return Between 10-20% |
| HOLD | Absolute Return Between 0-10% |
| REDUCE | Absolute Return 0 To Negative 10% |
| SELL | Absolute Return > Negative 10% |

Apart from Absolute returns our rating for a stock would also include subjective factors like macro environment, outlook of the industry in which the company is operating, growth expectations from the company vis a vis its peers, scope for P/E re-rating/de-rating for the broader market and the company in specific.

SUNIDHI SECURITIES & FINANCE LTD

Member: National Stock Exchange (Capital, F&O & Debt Market) & The Stock Exchange, Mumbai

SEBI Registration Numbers: NSE: INB 230676436 BSE: INB 010676436

Maker Chamber IV, 14th Floor, Nariman Point, Mumbai: 400 021

Tel: (+91-22) 6636 9669 Fax: (+91-22) 6631 8637 Web-site: <http://www.sunidhi.com>

Disclaimer: "This Report is published by Sunidhi Securities & Finance Ltd. ("Sunidhi") for private circulation. This report is meant for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. While utmost care has been taken in preparing this report, we claim no responsibility for its accuracy. Recipients should not regard the report as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without any notice and this report is not under any obligation to update or keep current the information contained herein. Past performance is not necessarily indicative of future results. This Report accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. Sunidhi and its associated companies, directors, officers and employees may from time to time have a long or short position in the securities mentioned and may sell or buy such securities, or act upon information contained herein prior to the publication thereof. Sunidhi may also provide other financial services to the companies mentioned in this report."