

# Dharmaj Crop Guard

Chemical | India

IPO | 26 November 2022

## Crop Protector with PAN India Presence and Global Footprints

### About the Company

Dharmaj Crop Guard (Dharmaj) is an agrochemical company incorporated in 2015, which manufactures a wide range of agrochemical formulations including insecticides, fungicides, herbicides and plant growth regulators to the B2C and B2B customers. The company also provides crop protection solutions to the farmers to assist them in maximizing productivity and profitability. The company is coming out with an IPO comprising fresh issue of ~9.1mn shares and OFS of ~1.5mn shares, aggregating a total of Rs2.5bn. The company will utilise the funds for capex and working capital requirements, and repayment of borrowings.

### PAN India Presence

Dharmaj has established an extensive, pan-India distribution network for branded products business. Their branded products are sold in 17 states through network comprising over 4,362 dealers with access to 16 stock depots in India to bolster its distribution. It also sells its products to institutional clients across India and international markets. The company has its manufacturing facility in Ahmedabad which also houses a research and development centre.

### Global Footprint

Dharmaj exports its products to more than 20 countries in Latin America, East Africa, the Middle East and Far East Asia. The company has sold more than 196 institutional products to 600+ customers based in India and international markets. Moreover, the company exported its products to 60+ customers across 20 countries. The company sells its agrochemical products in granules, powder and liquid forms. Additionally, it manufactures and sells general insect and pest control chemicals for Public Health and Animal Health protection.

### Healthy Intellectual Properties

Dharmaj obtained 464 registrations for agrochemical formulations from Central Insecticides Board & Registration Committee (CIB&RC), out of which 269 agrochemical formulations are for sale in India and abroad, while 195 agrochemical formulations are exclusively for exports. Additionally, they have also applied for registrations of 18 agrochemical formulations and 17 agrochemical technicals from the CIB&RC, which are pending at various stages. Dharmaj has over 157 trademark registrations including branded products. The formulations are sold as branded products to customers and as of Sep'22, the company had 118+ branded formulations sold to farmers.

### Industry Standard Certifications

The company's manufacturing facility is certified with ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 for development and manufacturing of agrochemical formulations. Moreover, robust process and product audit and quality rating are conducted within the facility. The company checks quality using chemical and physical testing parameters which are instated to ensure adherence to defined process and product specifications.

### Financials in Brief

The Company has increased its manufacturing capacity from 9,150MTPA in FY20 to 25,500MTPA in FY22. During FY20-22, its revenue and EBITDA clocked a CAGR of 41% and 57% respectively, while EBITDA margin expanded from 9% in FY20 to 11.2% in FY22. The company reported a revenue of Rs3.9bn (up 30% YoY) in FY22, -while EBITDA grew by 43% YoY to Rs443mn in FY22. PAT stood at Rs287mn in FY22, up from Rs210mn in FY21 and Rs108mn in FY20. For 4MFY23, it reported revenue of Rs2.2bn, EBITDA margin of 12.2% and PAT of Rs184mn. The company's registered ROE has expanded to 33.8% in FY22 from 30.4% in FY20. It has reduced its Net Debt/Equity ratio to 0.4x in FY22 from 0.6x in FY20.

### Our View

Based on FY22 earnings, the company is valued at 27.9x P/E, 18.9x EV/EBITDA and 2.1x EV/Sales. The track record of decent financials, diverse agrochemicals portfolio, enough domestic and global footprint, better quality assurance process and in-house R&D capabilities, are key positives. However, the Agro Chemical business is very competitive, with several large players dominating the market. It also needs strict technical expertise, quality requirements, regular inspections and audits by clients. The manufacturing of agrochemical formulations is complex any failure to follow specific protocols and procedures can impact the business. All these are key challenges for this business. **The IPO is aggressively priced with expensive valuation compared to other listed players and hardly leaves anything meaningful on the table for investors.**

| IPO Details                        |                     |
|------------------------------------|---------------------|
| Price Band (Rs)                    | Rs216-Rs237         |
| Face Value (Rs)                    | 10                  |
| Issue Open/Closing Date            | 28-Nov-22/30-Nov-22 |
| Fresh Issues (mn)                  | 9.1                 |
| OFS (mn)                           | 1.5                 |
| Total Issue (mn)                   | 10.6                |
| Minimum Bid Qty. (Nos)             | 60                  |
| <b>Issue Size (Rs bn)*</b>         | <b>2.51</b>         |
| QIB / HNI / Retail                 | 50%/15%/35%         |
| <b>Implied Market Cap (Rs bn)*</b> | <b>8.0</b>          |

*\*At a higher band*

| Object of the Issue |   |
|---------------------|---|
| ▶                   | Funding Capex and working capital requirements. |
| ▶                   | Repayments of certain borrowings.               |

| Key Risk |   |
|----------|---|
| ▶        | Failure to obtain registrations from the CIB&RC for agrochemicals.                                |
| ▶        | Subject to strict technical specifications, quality requirements, regular inspections and audits. |
| ▶        | Inability to identify evolving industry trends, technological advancements, customer preferences. |
| ▶        | Unscheduled or unplanned shutdowns in manufacturing operations.                                   |
| ▶        | Dependent on the availability of real estate financing.   |

| Shareholding (%) | Pre-Issue | Post-Issue |
|------------------|-----------|------------|
| Promoters        | 100.0     | 68.7       |
| Others           | -         | 31.4       |

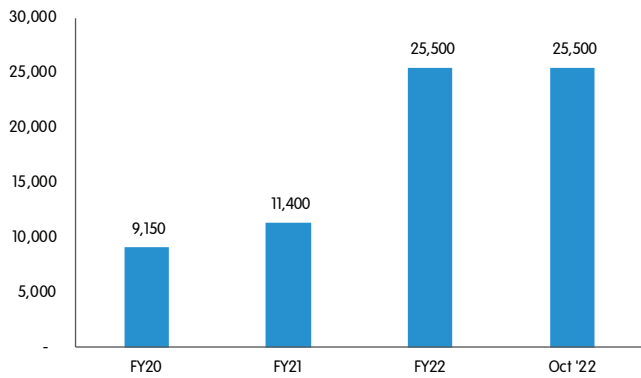
| Key Financials         |       |       |       |
|------------------------|-------|-------|-------|
| (Rs mn)                | FY20  | FY21  | FY22  |
| Revenue                | 1,982 | 3,024 | 3,942 |
| EBITDA                 | 179   | 311   | 443   |
| EBITDA Margin (%)      | 9.0   | 10.3  | 11.2  |
| PAT                    | 108   | 210   | 287   |
| PAT Margin (%)         | 5.4   | 6.9   | 7.3   |
| EPS (Rs)               | 3.2   | 6.2   | 8.5   |
| P/E (x)                | 74.5  | 38.2  | 27.9  |
| EV/EBITDA (x)          | 45.8  | 26.6  | 18.9  |
| EV/Sales (x)           | 4.1   | 2.7   | 2.1   |
| Net Worth              | 354   | 563   | 849   |
| RoE (%)                | 30.4  | 37.2  | 33.8  |
| Gross Debt             | 202   | 269   | 369   |
| Net Block              | 217   | 387   | 389   |
| Net Asset Turnover (x) | 9.1   | 7.8   | 10.1  |

*Source: RHP*

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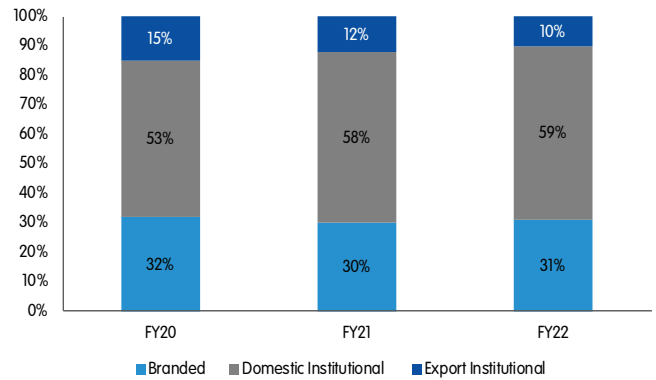
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Exhibit 1: Installed Capacity (MTPA)



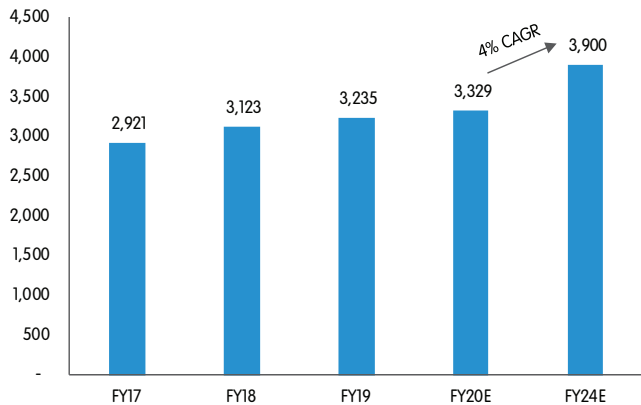
Source: RHP

Exhibit 2: Segmentation of Total Revenue (%)



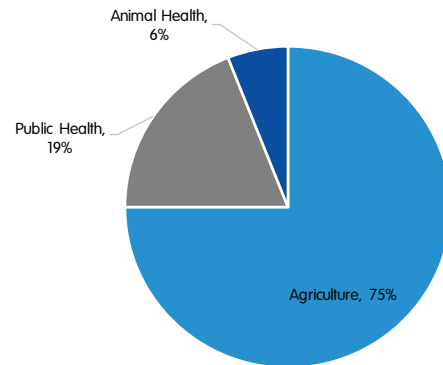
Source: RHP

Exhibit 3: Global Pyrethroids Market (\$ mn)



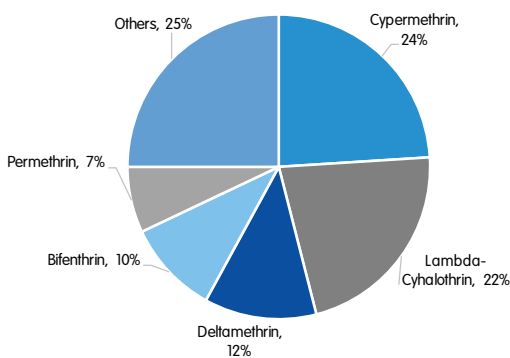
Source: RHP, Industry Sources

Exhibit 4: Share of User Industries in Global Pyrethroids Market (FY20E - \$3.3bn)



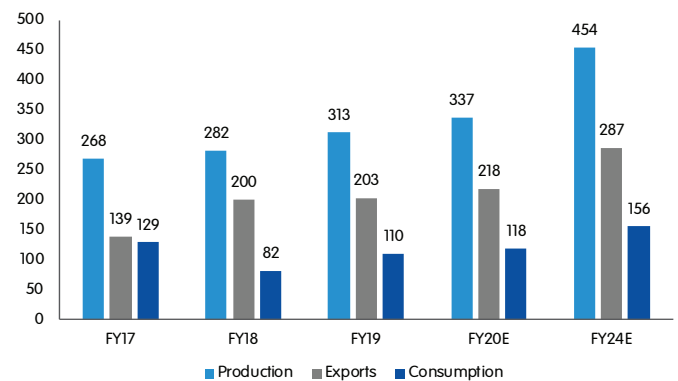
Source: RHP, Industry Sources

Exhibit 5: Global Pyrethroids Market by Product Type



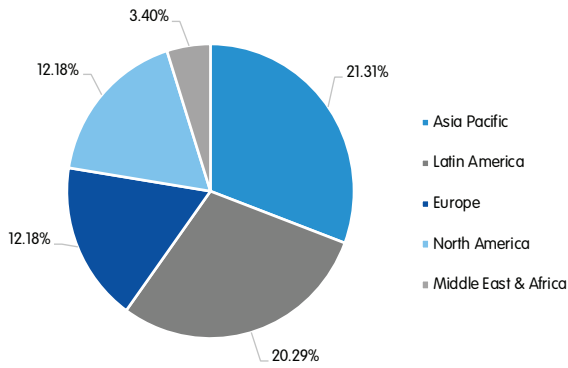
Source: RHP, Industry Sources

Exhibit 6: Indian Pyrethroids Market (\$mn)



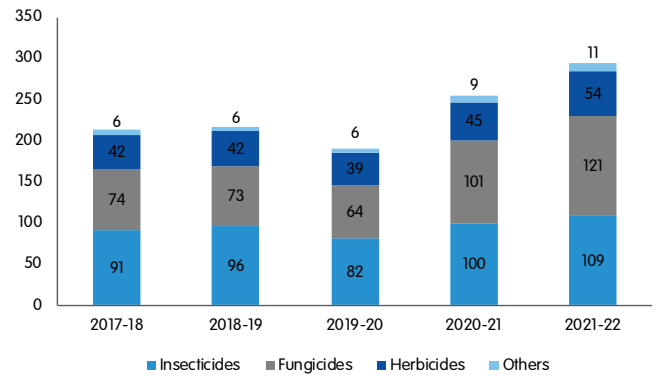
Source: RHP, Industry Sources

Exhibit 7: Region-Wise Share of Global Pesticides Market 2021 (\$ bn)



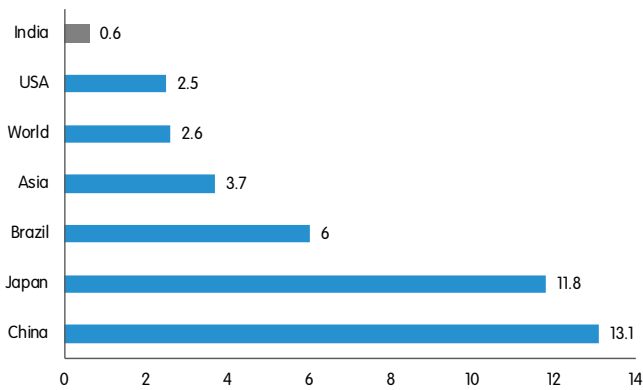
Source: RHP, Industry Sources

Exhibit 8: Pesticide Production Trend in India ('000 Tonnes)



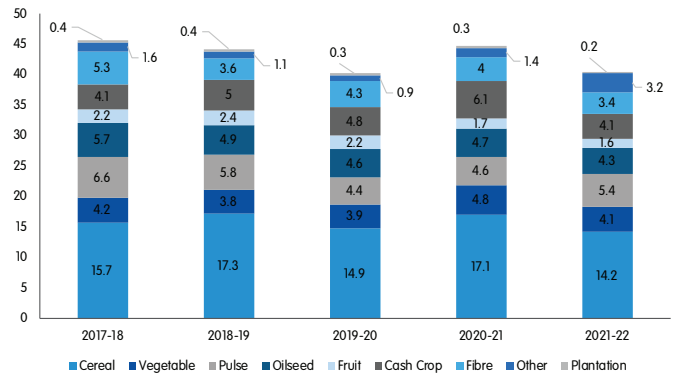
Source: RHP, Directorate of Plant Protection, Quarantine & Storage

Exhibit 9: Pesticides Consumption in 2017 (Kg/Ha)



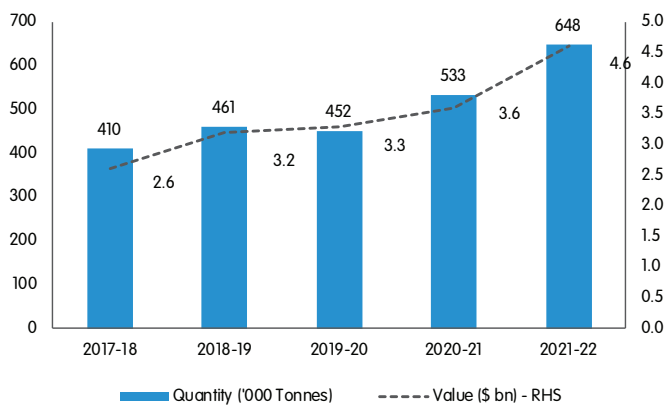
Source: FICCI March 2021

Exhibit 10: Commodity-Wise Consumption of Chemical Pesticides (Technical Grade) ('000 Tonnes)



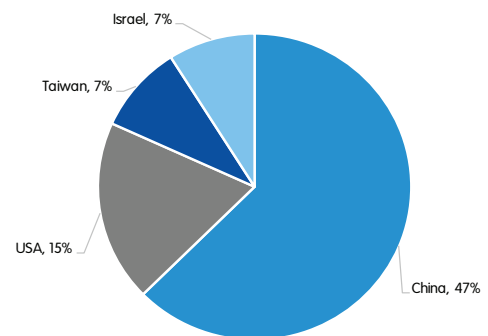
Source: RHP, Directorate of Plant Protection, Quarantine & Storage

Exhibit 11: Indian Pesticides Export



Source: RHP, Directorate of Plant Protection, Quarantine & Storage

Exhibit 12: Volume-Wise Top Source of Pesticides Imports for India 2020-21 (%)



Source: CMIE

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