

Retail Research	IPO Note
Sector: Agro Chemical	Price Band (Rs): 216 - 237
28 th November 2022	Recommendation: Subscribe

DHARMAJ CROP GUARD LIMITED

Company Overview:

Incorporated in 2015, Dharmaj Crop Guard Ltd is an agrochemical company engaged in the business of manufacturing, distributing, and marketing of a wide range of agro chemical formulations such as insecticides, fungicides, herbicides, plant growth regulator, micro fertilizers and antibiotic to the B2C and B2B customers.

The company has obtained registrations from the CIB&RC to manufacture 464 agrochemical formulations out of which 269 agrochemical formulations are for sale in India as well as for exports and 195 agrochemical formulations are exclusively for exports. It has 157 trademark registrations including 118 branded products.

The company provides crop protection solutions to farmers and sells bulk products to institutional customers across 17 states in India and exports to more than 25 countries in Latin America, East African Countries, Middle East and Far East Asia. It also provides

Its manufacturing facility is located at Kerala GIDC Estate, Gujarat with an installed capacity for agro-chemical formulations of 25,500 MT.

Key Highlights:

Diversified portfolio of products: The Company has developed a niche portfolio of agro-chemical products. It has diversified product portfolio and has grown into a multi-product manufacturer of agrochemical products such as insecticides, fungicides, herbicides, plant growth regulator, micro fertilizers and antibiotic. This diversification across products and categories has allowed it to de-risk its business operations.

Established distribution network with strong branded products and stable relationship with institutional customers: The Company has a pan-India sales and dealer presence in 17 states with a dedicated sales force that provides customer service and undertakes product promotion. Network comprises over 4,362 dealers having access to 16 stock depots supporting the distribution of its branded products. It exports products to approximately 66 customers across 25 countries.

R&D capabilities with focus on innovation and sustainability: The Company has a quality control laboratory at its manufacturing facility, which primarily monitors the quality of raw materials and finished goods.

Valuation:

At the upper price band of Rs 237, Dharmaj Crop Guard Ltd. is valued at a P/E multiple of 27.9x its FY22 earnings and post issue market capitalization of Rs 801 crores.

The company plans to enhance its manufacturing capabilities through backward integration and expand its product portfolio.

The issue is fairly priced. We recommend investors to **SUBSCRIBE** to the issue.

Issue Details	
Date of Opening	28 th Nov 22
Date of Closing	30 th Nov 22
Price Band (Rs)	216 – 237
Issue Size (Rs cr)	248 – 251
No. of shares	Fresh Issue : 1,00,00,000 – 91,13,924 OFS : 14,83,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	749 – 801
BRLMs	Elara Capital (India) Pvt Ltd Monarch Network Capital Ltd
Registrar	Link Intime India Pvt Ltd
Bid Lot	60 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	55,000 Shares
Employee Discount	5%

Objects of Fresh Issue	
Particular	(Rs Cr.)
Funding capital expenditure towards setting up of a manufacturing facility at Saykha, Bharuch, Gujarat	105
Funding incremental working capital requirements of the Company	45
Repayment and/or pre-payment, in full and/or part, of certain borrowings of the Company	10
General corporate purposes	[●]

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	2,46,83,372	100.00
Public & Others	0	0.00
Total	2,46,83,372	100.0

Post Issue @ Rs 216 per share	No. of Shares	%
Promoter & Promoter Group	2,32,00,372	66.89
Public & Others	1,14,83,000	33.11
Total	346,833,372	100.0

Post Issue @ Rs 237 per share	No. of Shares	%
Promoter & Promoter Group	2,32,00,372	68.65
Public & Others	1,05,96,924	31.35
Total	3,37,97,296	100.0

Source: RHP, SSL Research

Risk Factors

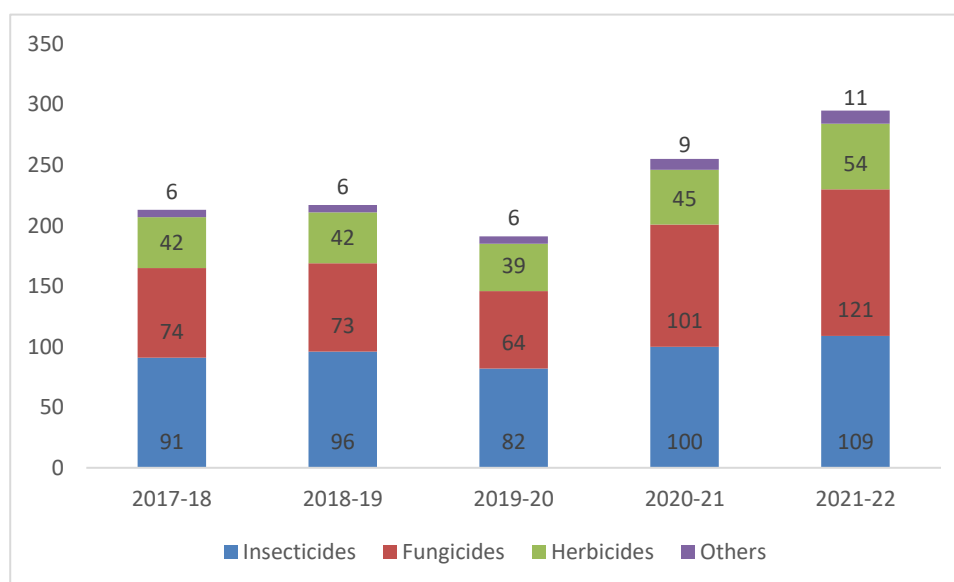
- The company requires certain approvals and licenses in the ordinary course of business, including certain registrations from the Central Insecticides Board and Registration Committee (“CIB&RC”) for agrochemicals.
- The company is subject to strict technical specifications, quality requirements, regular inspections and audits by its customers.
- The company typically does not enter into long-term agreements with majority of its customers, which would have a material adverse effect on its business, results of operations and financial condition.
- The company’s business is subject to climatic conditions and is cyclical in nature. Seasonal variations and unfavourable local and global weather patterns may have an adverse effect on its business, results of operations and financial condition.

Growth Strategy

- Enhance its manufacturing capabilities through backward integration and expand its product portfolio
- Targeting new customers, expanding existing customer business and increase its market share in domestic and international markets
- Expanding its Public Health and Animal Health product segment
- Strengthening up its business through effective branding, promotional and digital activities

Industry Overview

Trend in production of pesticides in India ('000 tonnes)



(Source: RHP)

It can be seen from the above chart that in terms of volume, insecticides accounted for the largest share of around 41% on an average during the period 2017-18 to 2021-22 followed by herbicides, fungicides and others that held a share of about 37%, 19% and 3%, respectively. In the 5 year period, insecticides (the largest segment) grew at a CAGR of 4.7% while fungicides increased at a faster CAGR of 13.2% on account of a 58% and 20% jump in its output during 2020-21 and 2021-22, respectively. Herbicides rose at a CAGR of 6.4% in 2017-18 to 2021-22 and others increased at a CAGR of 15.6% during these 5 years.

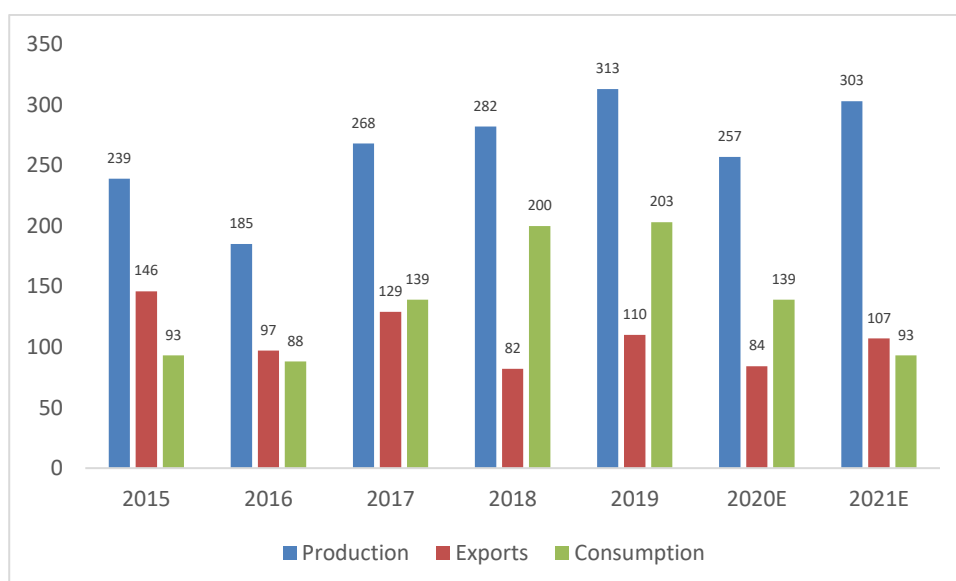
Trend in exports of pesticides by India



(Source: RHP)

India is net exporter of pesticides and the outbound shipments account for a significant share of the total market size of the Indian agrochemicals industry. Exports of pesticides (technical and formulations both) grew at a CAGR of 12.1% from 410 thousand tonnes in 2017-18 to 648 thousand tonnes in 2021-22, the highest exports made so far by India. It is to be noted that export CAGR increased at a faster pace compared to that of production, which grew at a CAGR of 8.7%. Moreover, the export value of pesticides grew at a relative higher CAGR of 22% from USD 2.6 billion (Rs.165 billion) in 2017-18 to USD 4.6 billion (Rs.365 billion) in 2021-22.

Trend in India’s Pyrethroids market (USD million)



(Source: RHP)

The Indian pyrethroids production value had increased at a CAGR of 10% from USD 185 million in 2016 to USD 303 million in 2021 and the production volume of pyrethroids grew at a CAGR of 11% from 10,721 tonnes in 2015 to 18,143 tonnes in 2021.

Financial Snapshot

Dharmaj Crop Guard Limited				
(Rs. Cr.)	Pre Issue	Pre Issue	Pre Issue	Pre Issue
	FY20	FY21	FY22	4M-FY23
Particulars				
Price Band (Rs)	237	237	237	237
Net Sales	198.2	302.4	394.2	220.9
Total Income	199.2	303.6	396.3	221.2
EBIDTA	17.9	31.1	44.3	26.9
PAT	10.8	21.0	28.7	18.4
Equity Share Capital	16.5	16.5	24.7	24.7
No of Equity Shares (in cr)	1.6	1.6	2.5	2.5
Face Value	10.0	10.0	10.0	10.0
EPS (Rs)	8.6	12.7	11.6	7.4
CMP	237.0	237.0	237.0	237.0
Cash and Bank	0.30	1.0	0.95	0.9
Debt	20.2	26.9	36.9	51.6
Market Cap	390.0	390.0	585.0	585.0
BV per share (Rs)	21.4	34.1	33.6	41.0
PE(x)	27.5	18.6	20.4	-
P/BV (x)	11.1	6.9	7.1	5.8
Enterprise Value	409.9	416.0	621.0	635.6
Mcap/Sales (x)	2.0	1.3	1.5	-
EV/Sales (x)	2.1	1.4	1.6	-
EV/EBIDTA (x)	22.9	13.4	14.0	-
EBITDA Margins (%)	9.0	10.3	11.2	12.2
Net Margins (%)	5.4	6.9	7.3	8.3
ROE (%)	-	45.9	41.3	-
ROCE (%)	-	42.8	40.6	-
Debt/Equity	0.6	0.5	0.4	0.5
Net worth	35.2	56.1	82.8	101.2

(Source: RHP, SSL Research)

(Rs. Cr.)	FY20	FY21	FY22
Net Sales	1,98.2	302.4	394.2
EBITDA	17.9	31.1	44.3
Net Profit	10.8	21.0	28.7
EBITDA Margin (%)	9.0	10.3	11.2
Net Profit Margin (%)	5.4	6.9	7.3

(Source: RHP, SSL Research)

Peer Comparison – FY22

Particulars (Rs cr)	Dharmaj Crop Guard	Rallis India	India Pesticides	Punjab Chemical & Crop Protection	Bharat Rasayan	Astec Lifesciences	Heranba Industries
CMP	239	241	250	1176	10138	2129	521
Sales	221	2,604	716	933	1,301	677	1,450
EBITDA	44	302	227	141	265	165	279
Net Profit	29	164	158	83	176	90	189
PE (x)	27.9	29.4	18.9	18.2	24.0	42.8	11.7
Market Cap	801	4,646	2,881	1,442	4,212	4,173	2,083
EBITDA Margin (%)	11.2	11.6	31.7	15.1	20.4	24.3	19.2
RoE (%)	14.3	9.7	24.8	37.0	22.9	22.7	26.5
RoCE (%)	16.8	13.0	40.3	41.9	27.8	22.2	37.7
M.Cap/Sales(x)	2.0	1.8	4.0	1.5	3.2	6.2	1.4

(Source: RHP, SSL Research)

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