

## Company Overview

Dharmaj Crop Guard Limited (DCGL), an agrochemical company, is engaged in manufacturing, distributing, and marketing a wide range of agrochemicals such as insecticides, fungicides, herbicides, plant growth regulators, micro fertilizers, and antibiotics to B2C and B2B customers. The company markets and distributes its own branded agrochemical products, the ones in-licensed by them and other generic brands to Indian farmers. For its domestic branded business, it has a well-established distribution network that comprises over 4,362 dealers having access to 16 stock depots and a presence in 17 states. On the global front, the company has extended its export reach to more than 25 countries in Latin America, East African countries, the Middle East, and Far East Asia. Presently, the company has one manufacturing facility in Gujarat, with an aggregate installed capacity of 25,500 MT for its agrochemical formulations. As a part of its expansion plan and to achieve backward integration of its operations, DCGL has acquired additional land in Gujarat where it plans to set up a manufacturing facility for agrochemical technicals and its intermediaries in the future.

## Objects of the issue

The IPO proceeds will be used towards the following purposes:

- ⇒ Funding capital expenditure towards setting up of a manufacturing facility at Saykha, Baruch, Gujarat
- ⇒ Funding incremental working capital requirements of the company
- ⇒ Repayment and/or pre-payment, in full and/or part, of certain borrowings of the company
- ⇒ General Corporate Purposes

## Investment Rationale

### A well-diversified product portfolio mix

Since its incorporation, DCGL has focused on diversifying its product portfolio mix and is a manufacturer of agrochemical products in various categories such as insecticides, fungicides, herbicides, plant growth regulators, micro fertilizers, and antibiotics. Additionally, the company is involved in manufacturing and selling general insect and pest control chemicals for Public Health and Animal Health protection. Thus, the company's move to develop a niche and diversified product portfolio of agrochemicals has enabled it to de-risk business operations.

### Strong domestic and global pesticides demand

Indian pesticides and other agrochemicals market grew at a CAGR of 4.5% from ₹368 billion in 2013-14 to ₹439 billion in 2017-18. Going forward, the overall Indian pesticides and other agrochemicals industry is estimated to increase at a CAGR of 7.5%-8.5% by 2026-27. The expected traction in international markets and an increase in domestic usage of pesticides in India will benefit the company's revenues. Additionally, an opportunity amounting to around USD 5 billion going off-patent in pesticides in 2026-27 provides ample room for Indian manufacturers to increase their pesticide exports. The industry tailwinds coupled with a superior product mix and strong R&D capabilities are likely to aid Dharmaj Crop Guard's business performance going forward.

## Valuation and Outlook

The company aims to further diversify its customer base and increase its market share in the agrochemical business. To achieve this goal, the company focuses on strengthening its business through effective branding of its own products and acquiring other brands to grow its product portfolio mix. Moreover, the set-up of the new factory will enhance the manufacturing capabilities of the business and lead to better profit margins due to backward integration. However, a low level of capacity utilization of around 35% in FY2022 remains a key concern for the business. On the upper end of the price band, the issue is valued at a P/E of 20.4x based on FY2022 earnings which we feel is fairly priced. Hence, we recommend a **"SUBSCRIBE"** rating for the benefit of listing gains.

Issue Details	
Offer Period	28 <sup>th</sup> Nov - 30 <sup>th</sup> Nov, 2022
Price Band	INR.216 to INR.237
Bid Lot	60
Listing	BSE & NSE
Issue Size (no. of shares in mn)	11.48/10.59
Issue Size (INR. in bn)	2.48/2.51
Face Value	10

Issue Structure	
QIB	50%
NIB	15%
Retail	35%
BRLM	Elara Capital (India) Private Limited Monarch Network Capital Limited
Registrar	Link Intime India Private Limited

Particulars	Pre Issue %	Post Issue %
Promoter	77.20%	56.38%
Promoter Group	22.80%	12.26%
Public	0.00%	31.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407

**Dharmaj Crop Guard Ltd.****Income Statement (Rs in millions)**

Particulars	July 31, 2022	FY22	FY21	FY20
<b>Revenue</b>				
Revenue from Operations	2209	3942	3024	1982
<b>Total Revenue</b>	<b>2209</b>	<b>3942</b>	<b>3024</b>	<b>1982</b>
<b>Expenses</b>				
Cost of Materials Consumed	1954	3207	2405	1567
Purchases of Stock in Trade	0	6	9	3
Change in inventory of Stock-in-Trade	(174)	(126)	(85)	(56)
Employee benefit expenses	57	137	120	82
Manufacturing and Operarions costs	19	57	65	40
Other expenses	84	219	199	167
<b>Total Operating Expenses</b>	<b>1941</b>	<b>3499</b>	<b>2714</b>	<b>1803</b>
<b>EBITDA</b>	<b>269</b>	<b>443</b>	<b>311</b>	<b>179</b>
Depreciation and amortisation expense	16	53	26	22
Other income	2	21	12	9
<b>EBIT</b>	<b>255</b>	<b>411</b>	<b>296</b>	<b>167</b>
Finance costs	9	26	14	22
Exceptional Item	0	0	0	0
<b>PBT</b>	<b>246</b>	<b>385</b>	<b>282</b>	<b>145</b>
Current tax	63	101	70	38
Adjustment of Tax Relating to Earlier Years	0	0	(0.03)	0
Deferred Tax charge	(1)	(3)	2	(1)
MAT Credit reversed/(availed)	0	0	0	0
<b>Total tax</b>	<b>62</b>	<b>98</b>	<b>72</b>	<b>37</b>
<b>PAT</b>	<b>184</b>	<b>287</b>	<b>210</b>	<b>108</b>

Source: RHP, BP Equities Research

**Cash Flow Statement (Rs in million)**

Particulars	July 31, 2022	FY22	FY21	FY20
Cash Flow from operating activities	(23)	164	129	20
Cash flow from investing activities	(116)	(239)	(177)	(146)
Cash flow from financing activities	140	75	55	121
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(0)</b>	<b>(0)</b>	<b>7</b>	<b>(5)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10</b>	<b>10</b>	<b>3</b>	<b>8</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>3</b>

Source: RHP, BP Equities Research



# Dharmaj Crop Guard Ltd.

## Balance Sheet (Rs in millions)

Particulars	July 31, 2022	FY22	FY21	FY20
<b>Equity and Liabilities</b>				
Share Capital	247	247	165	165
Other Equity	786	602	399	190
<b>Net worth</b>	<b>1033</b>	<b>849</b>	<b>563</b>	<b>354</b>
<b>Financial Liabilities</b>				
Borrowings	365	253	152	51
Provisions	5	4	3	2
Deferred tax liabilities	0	0	0	0
Other non-current liabilities	29	22	17	12
<b>Total Non Current Liabilities</b>	<b>399</b>	<b>280</b>	<b>173</b>	<b>65</b>
<b>Current Liabilities</b>				
Borrowings	151	116	117	151
Trade Payables				
(a) total outstanding dues of creditors other than micro enterprises and small enterprises	1411	914	391	332
Other Financial Liabilities	1	1	0	0
Short Term Provisions	0	0	0	0
Other current liabilities	14	32	41	21
Current tax liabilities	49	4	3	3
<b>Total Current Liabilities</b>	<b>1626</b>	<b>1067</b>	<b>552</b>	<b>506</b>
<b>Total liabilities</b>	<b>2025</b>	<b>1346</b>	<b>725</b>	<b>572</b>
<b>Total Equity and Liabilities</b>	<b>3058</b>	<b>2195</b>	<b>1289</b>	<b>926</b>
<b>Assets</b>				
Property, plant and equipment	385	389	387	217
Capital work in Progress	283	177	11	23
Intangible Assets	11	11	4	1
Intangible Assets under development	10	7	0	0
Investments	5	5	0	0
Other Financial Assets	6	10	10	10
Deferred tax assets	3	2	0	2
Other non-current assets	27	55	46	56
<b>Total Non current assets</b>	<b>730</b>	<b>658</b>	<b>458</b>	<b>309</b>
Inventories	811	629	436	276
<b>Financial Assets</b>				
Trade Receivables	1455	860	362	333
Cash and cash equivalents	9	10	10	3
Loans and Advances	1	1	1	0
Other Financial Assets	0	1	1	1
Other current assets	51	38	22	3
<b>Total Current Asset</b>	<b>2327</b>	<b>1538</b>	<b>830</b>	<b>617</b>
<b>Total Assets</b>	<b>3058</b>	<b>2195</b>	<b>1289</b>	<b>926</b>

Source: RHP, BP Equities Research

### Key Risks

- ⇒ The company does not enter into long-term agreements with the majority of its customers which could lead to an adverse effect on its business results, results of operations, and financial condition.
- ⇒ The increasing use of alternative pest management and crop protection measures such as biotechnology products, pest-resistant seeds or genetically modified crops may reduce the demand for the company's products and adversely affect business operations.
- ⇒ The business is subject to climatic conditions and is cyclical. Thus, unfavorable local and global weather patterns may impact the company's performance

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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