

# DHARMAJ CROP GUARD LIMITED

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IPO NOTE



# OVERVIEW

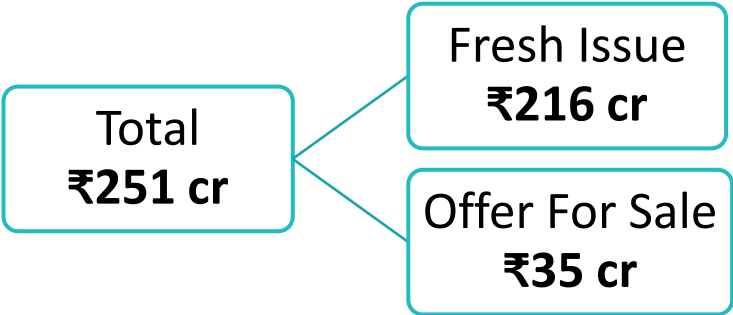
**Dharmaj Crop Guard Limited** is an agrochemical company. It is engaged in the business of manufacturing, distributing and marketing a wide range of agrochemical formulations such as insecticides, fungicides, herbicides, plant growth regulators, micro fertilizers and antibiotics to the B2C and B2B customers. The company also provides crop protection solutions to the farmers to assist them to maximize productivity and profitability.

## FINANCIAL HIGHLIGHTS

Particulars	FY20	FY21	FY22
Revenue from Operations	198	302	394
EBITDA	19	32	46
Net Profit	11	21	29

₹ crore

## ISSUE SIZE



## ISSUE DETAILS

Issue Date	28 <sup>th</sup> Nov'22 – 30 <sup>th</sup> Nov'22
Price Band	₹216-₹237
Bid Lot	60 Shares
Issue Size	₹251 cr
No. of Shares (Post Issue)	3.38 cr
Post-Issue Implied Market Cap*	₹801 cr
P/E Ratio (FY22)*	27.6x

\* At upper price band

# ABOUT THE COMPANY

- **Dhamraj Crop Guard Limited** manufactures and sells various formulations of insecticides, fungicides, herbicides, plant growth regulators, micro fertilizers, and antibiotics. As on 30<sup>th</sup> September 2022, it had obtained 464 registrations for agrochemical formulations from the central insecticides board and registration committee (CIB&RC), out of which 269 agrochemical formulations are for sale in India as well as for export and 195 agrochemical formulations are exclusively for exports. Additionally, it has also applied for 8 agrochemical formulations and 17 agrochemical technical from the CIB&RC, which are pending at various stages.
- The company had 157 **trademark registrations** including branded products. Its formulations are sold as branded products to customers. As on 30<sup>th</sup> September 2022, it had over 118 branded formulations that are sold to farmers. It sells bulk products to institutional customers domestically and in the international markets.
- Further, as on 30<sup>th</sup> September 2022, it had more than 154 **institutional products** that were sold to more than 600 customers based in India and in the international markets. As on 30<sup>th</sup> September 2022, it exported products to more than 66 customers across 25 countries. Currently, DCGL has more than 4,200 dealers/distributors in 17 states with 16 stock depots.
- It **exports** products to more than 25 countries in Latin America, East African countries, the Middle East and Far East Asia. It sells agrochemical products in granules, powder, and liquid forms to its customers. Additionally, DCGL manufactures and sells general insect and pest control chemicals for public health and animal health protection. In FY23, ~9.9% of its revenues were from its export business.
- The **manufacturing facility** is located at Kerala and Gujarat. Currently the aggregate installed capacity of its manufacturing facility for agro-chemical formulations is 25,500 MT. As a part of its **expansion plans** and in order to achieve **backward integration** for its operations, the company also acquired around 33,489 sq. meters of land at Gujarat. It had already obtained registrations of 6 agrochemical technicals and have applied for registration of 17 agrochemical technicals to be manufactured in this new facility.

# ABOUT THE COMPANY

Brief details of the main products manufactured and sold by the company under various categories are as follows:

- **Insecticides** enable protection of the crops from insects by either preventing their attack or destroying them. They help in controlling the pest population below a desired threshold level.
- **Fungicides** find their application in fruits, vegetables and rice. They are vital to contract postharvest losses in vegetables and fruits. Fungicides are used to prevent fungi attack on crops and to handle diseases on crops. Protectants and eradicants are two types of fungicides. Protectants protects or hinders fungal growth and eradicants destroys the diseases on usage.
- **Herbicides** also known as weedicides are used to destroy unwanted plants. Unavailability of cheap labour leads to major usage of herbicides in rice and wheat crops. The demand for herbicides is seasonal as they develop in damp, warm climate and perishes in cold spells.
- **Plant growth regulators** are substances that are applied to crops with the aim to enhance nutrition efficiency, abiotic stress tolerance and crop quality traits.
- **Micro fertilisers.**
- **Anti-biotic product.**



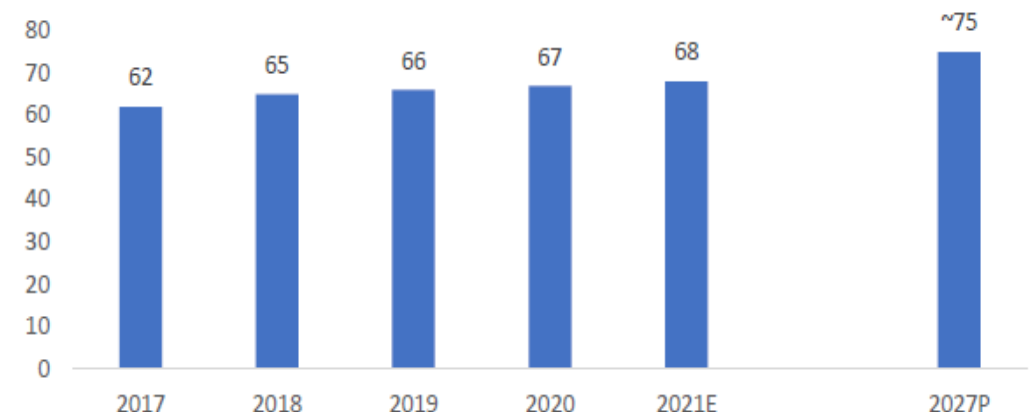
## SECTOR OUTLOOK

- Asia Pacific and Latin America together accounted for ~60% of the **global pesticides market** in CY21. This was followed by Europe and North America with a market share of around 18% each and the two markets together contributed ~\$24 billion during the year. Middle East and Africa remained the smallest market accounting for 4% of the global pesticides market with a size of around \$3 billion. The **global pesticides industry** is estimated to grow at a CAGR of ~1.6%-1.8% during the period CY22-CY27 and is likely to reach approximately \$75 billion by CY27.
- Of the **global market size** of around \$59 billion in the FY21, herbicides accounted for the highest share of about \$25 billion (more than 40% of the industry). The other two major segments fungicides and insecticides contributed approximately \$17 billion and \$15 billion, respectively.

Region - wise outlook estimates for global pesticides industry

Region-wise market (USD billion)	2021	2027P	CAGR
Asia Pacific	21	~26	3.4%-3.7%
Latin America	20	~22	1.9%-2.0%
Europe	12	~10	(2.8%) to (2.9%)
North America	12	~14	2.2% to 2.4%
Middle East and Africa	3	~3	1.8% to 2.0%

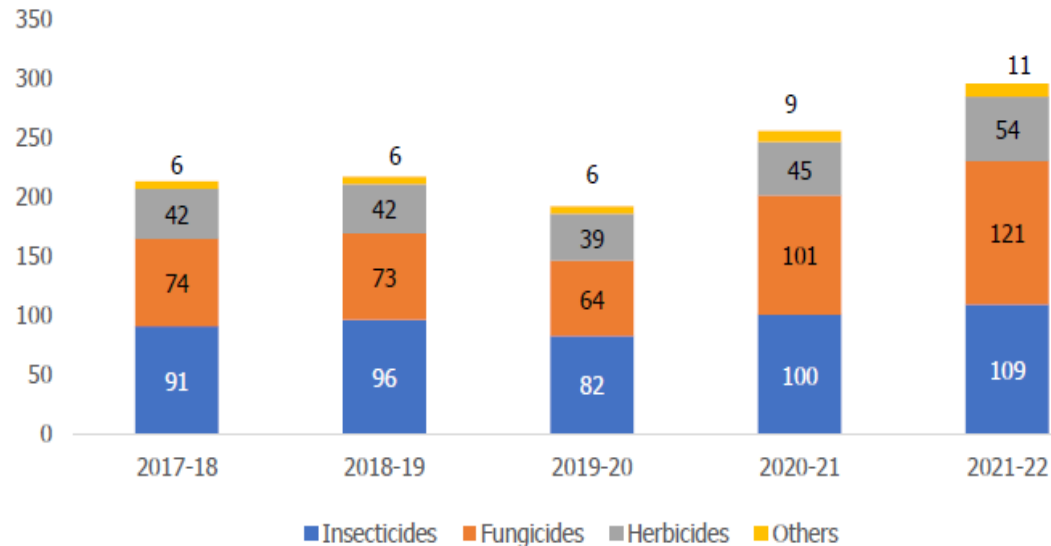
Trend in global pesticides market (USD billion)



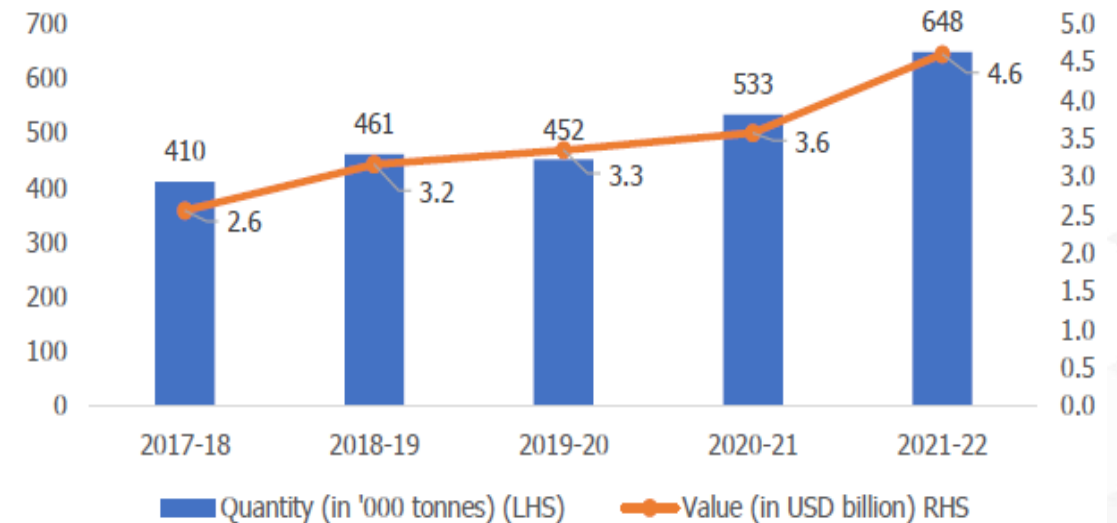
# SECTOR OUTLOOK

- In the global agrochemicals market, India is the **4<sup>th</sup> largest producer** led by USA, Japan and China. Also, India is a net exporter of agrochemicals and has emerged as the 13<sup>th</sup> largest exporter of pesticides globally.
- Of the total pesticides produced in India, **domestic chemical pesticides consumption** accounted and averaged at around 28% during the period FY16-FY17 to FY20-FY21. The small share of consumption is primarily due to low pesticides per hectare consumption in India, which is one of the lowest internationally.
- **India exports pesticides** to various countries across the world. Of all the nations, the key export destination for India is Brazil that held a dominant share of 20% in FY21-FY22 followed by USA, Bangladesh and Vietnam that accounted for 13.2%, 5.7% and 5.6%, respectively. The other countries to which exports from India ranged between 2%-2.6% included Indonesia, Australia and Thailand.

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



Trend in exports of pesticides by India



# COMPETITIVE LANDSCAPE



## RALLIS INDIA LIMITED

- Market Cap: ₹4,670 cr
- Revenue: ₹2,604 cr
- EBITDA Margin: 11.6%
- PAT margin: 6.3%
- ROE: 9.7%
- P/E: 28.5x



## BHARAT RASAYAN

- Market Cap: ₹4,197 cr
- Revenue: ₹1,301 cr
- EBITDA Margin: 20.4%
- PAT margin: 13.5%
- ROE: 22.9%
- P/E: 22.5x



## INDIA PESTICIDES LIMITED

- Market Cap: ₹2,887 cr
- Revenue: ₹716 cr
- EBITDA Margin: 31.7%
- PAT margin: 22.1%
- ROE: 24.8%
- P/E: 19x



## HERANBA INDUSTRIES LIMITED

- Market Cap: ₹2,081 cr
- Revenue: ₹1,450 cr
- EBITDA Margin: 19.2%
- PAT margin: 13.0%
- ROE: 26.5%
- P/E: 11.7x



## DHAMRAJ CROP GUARD LIMITED

- Market Cap: ₹801 cr
- Revenue: ₹394 cr
- EBITDA Margin: 11.7%
- PAT margin: 7.3%
- ROE: 34.6%
- P/E: 27.6x



# OBJECTS OF THE OFFER

The company proposes to utilize the **net proceeds** towards funding the following objects:

- Funding capital expenditure towards setting up of a manufacturing facility at Saykha, Bharuch, 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.

## PROPOSED UTILISATION OF NET PROCEEDS

Particulars	Total Expenditure (₹ crore)
Funding capital expenditure towards setting up of a manufacturing facility	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	●



# RISK FACTORS

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- **Alternative pest management** and **crop protection** measures, such as, organic farming, bio-technology products, pest resistant seeds or genetically modified crops may reduce the demand of the agro-chemicals products. The growth and acceptance of such alternative pest management and crop protection products and measures by consumers may have an adverse effect on the sales of chemical pesticides which may, in turn, affect the financial condition and results of operations of the company.
- **Competition** in this business is based on pricing, relationships with customers, product quality and customization. The company is exposed to the risk of losing market share to cheaper imports from other countries. It also faces pricing pressures from multinational companies that can produce chemicals at competitive costs and consequently, supply the products at cheaper prices.
- A portion of its revenues are denominated in **foreign currencies**. As a result, it is exposed to foreign currency exchange risks which may adversely impact the results of operations. In FY23, ~9.9% of its revenues were from its export business.
- The company is witnessing an increasing trend towards its **working capital cycle**. In FY21 and FY22, its trade receivables were ₹36.2 crore and ₹86 crore, respectively, which represented 11.9% and 21.7%, respectively, of the total income for such periods. The receivable turnover days was 44 days and 80 days in FY21 and FY22, respectively.

# PROMOTER BACKGROUND AND SHAREHOLDING

**Rameshbhai Ravajibhai Talavia**, the chairman and managing director of the company. Previously, he was working with E.I.D. Parry (India) Limited as senior marketing officer and Crop Life Science Limited as director. He has over 28 years of experience in various aspects of agro chemical industry.

The promoters and promoter group of the company holds **100%** stake in the company which includes:

- **Rameshbhai Ravajibhai Talavia – 36.5%**
- **Jamankumar Hansarajbhai Talavia – 33.4%**
- **Manjulaben Rameshbhai Talavia – 10.8%**
- **Muktaben Jamankumar Talavia – 10.3%**

Shareholding	Pre IPO	Post IPO
<b>Promoter &amp; Group</b>	100%	69%
<b>Public</b>	0%	31%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Allocation of offer	Share in Issue (₹ crore)	% of Issue
<b>QIB</b>	125	50%
<b>NIB</b>	38	15%
<b>Retail</b>	88	35%
<b>Total</b>	<b>251</b>	<b>100%</b>

Major Shareholders	Shareholding % Pre Issue	Shareholding % Post Issue	% of OFS Issue
<b>Manjulaben Rameshbhai Talavia</b>	10.8%	5.8%	47.8%
<b>Muktaben Jamankumar Talavia</b>	10.3%	5.6%	44.2%
<b>Domadia Artiben</b>	0.6%	0.2%	5.9%
<b>Ilaben Jagdishbhai Savaliya</b>	0.1%	-	2.0%

# STATEMENT OF PROFIT AND LOSS

Particulars	Data for the period (₹ crore)			Data for four months period
	2020	2021	2022	31 <sup>st</sup> July 22
<b>Revenue From Operations</b>	198	302	394	221
Other Income	1	1	2	0
<b>Total Income (I)</b>	199	304	396	221
Cost of materials, Purchase of stock & changes in Inventories & WIP	160	248	327	197
Changes in Inventories	(6)	(9)	(13)	(17)
Employee Benefits Expense	8	12	14	6
Finance Costs	2	1	3	1
Depreciation and Amortization Expense	2	3	5	2
Other Expenses	17	20	22	8
<b>Total Expenses (II)</b>	185	275	358	197
<b>Profit Before Tax (III) = (I-II)</b>	15	28	39	25
Total Tax Expense (IV)	4	7	10	6
<b>Net Profit for the Period (III-IV)</b>	11	21	29	18

# STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31 <sup>st</sup> March (₹ crore)			Data as on
	2020	2021	2022	31 <sup>st</sup> July 22
Property, plant and equipment	24	40	57	67
Intangibles	0	0	2	2
Other Non-Current Assets	7	6	7	4
Inventories	28	44	63	81
Trade Receivables	33	36	86	146
Bank Balance and Cash & Cash Equivalents	0	1	1	1
Other Current Assets	0	2	4	5
<b>Total Assets</b>	<b>93</b>	<b>129</b>	<b>220</b>	<b>306</b>
Total Equity	35	56	85	103
Borrowings Non-Current	5	15	25	36
Non-Current Liabilities	1	2	3	3
Current Borrowings	15	12	12	15
Trade Payables	141	91	39	33
Other Current Liabilities	6	4	4	2
<b>Total Liabilities and Equity</b>	<b>93</b>	<b>129</b>	<b>220</b>	<b>306</b>

# STATEMENT OF CASH FLOW

Particulars	Data for the year ended 31 <sup>st</sup> March (₹ crore)			Data for the four months ended
	2020	2021	2022	
Net cash generated from / (used in) operating activities (A)	2	13	16	(2)
Net cash generated from / (used in) investing activities (B)	(15)	(18)	(24)	(12)
Net cash generated from / (used in) financing activities (C)	12	6	8	14
Net increase / (decrease) in cash and cash equivalents (A+B+C)	(1)	1	0	0

# KEY METRICS

Particulars	Data for the year ended 31 <sup>st</sup> March			Data for four months ended
	2020	2021	2022	31 <sup>st</sup> July 2022
EBITDA (₹ crore)	19	32	46	27
EBITDA margin (%)	9.4%	10.6%	11.7%	12.2%
Profit/(loss) after tax (₹ crore)	11	21	29	18
PAT margin (%)	5.4%	6.9%	7.3%	8.3%
Working Capital Cycle (days)	40	34	39	110
ROCE (%)	28.8%	34.5%	32.9%	16.0%
ROE (%)	30.6%	37.4%	34.6%	18.2%

# SWOT ANALYSIS

## Strengths

Wide customer base

## Opportunities

Diversified array of products

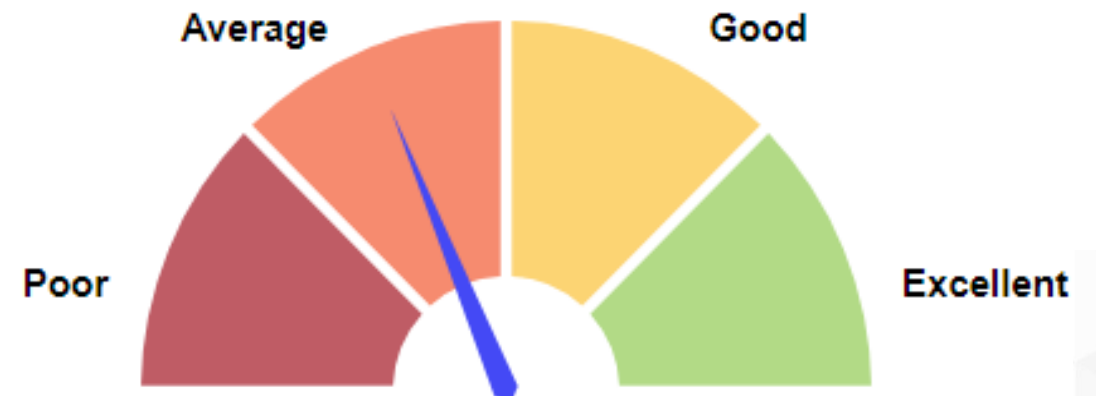
## Threats

Intense competition

## Weakness

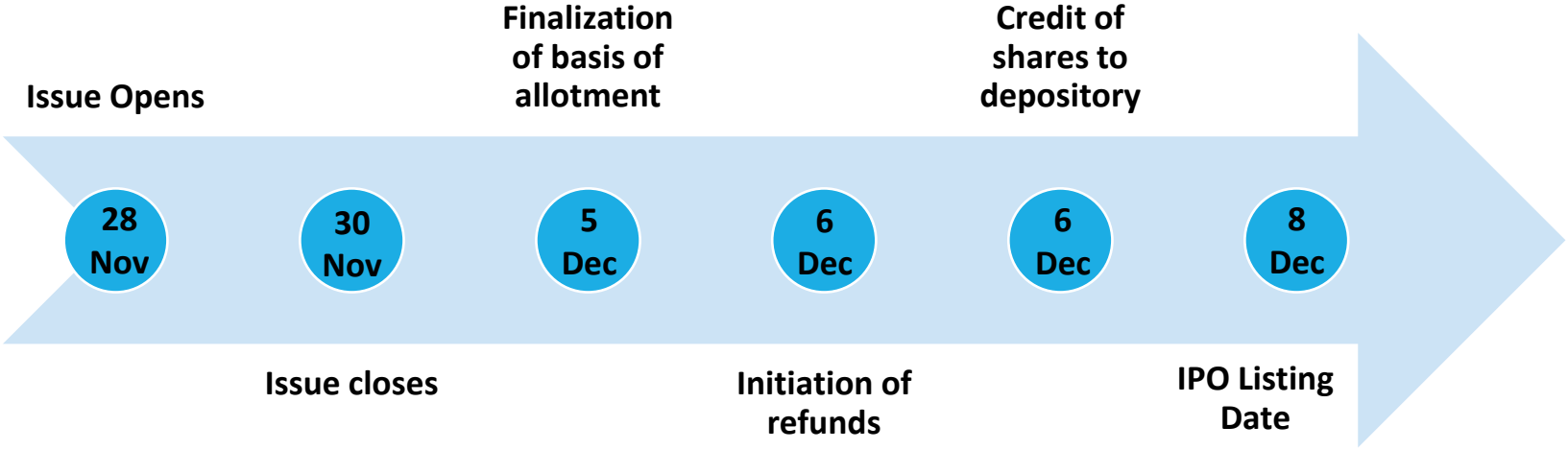
Comparatively smaller player

- Some of the **institutional customers** includes Atul Limited, Heranba Industries Limited, Meghmani Industries Limited, Bharat Rasayan Limited, etc. The wide customer base helps to identify the products demand in the market and eventually helps to promote its new products.
- The company faces **competition** from both domestic as well as multinational corporations and the inability to compete effectively could result in the loss of customers.
- Owing to the **commodity driven** nature of its business, the company hardly benefits from the operating leverage, as a major portion of its cost is variable in nature.





# TIMELINES



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