

Dharmaj Crop Guard

Capacity addition to drive growth



Kyon ki bhaiya, sabse bada rupaiya.

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Not Rated
Capacity addition to drive growth

Incorporated in 2015, 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 for B2C and B2B customers.

The company's manufacturing facility is located in Ahmedabad, Gujarat, India. Dharmaj Crop Guard Limited also has a research and development ("R&D") centre at its manufacturing facility. It exports products to more than 20 countries in Latin America, East African Countries, the Middle East and Far East Asia.

Over FY20-22, Dharmaj's revenue/ EBITDA/PAT grew at a CAGR of 25.8%/ 34.7%/ 38.0% to INR 398 cr/ INR 44 cr/29 cr respectively, while, EBITDA and PAT margins improved by 220bps (to 11.2%) and 180bps (to 7.2%), respectively.

Dharmaj's proposed issue size is INR 251.2 cr out of which INR 216 cr is a fresh issue and the remaining INR 35.2 cr is OFS. The proposed fresh issue will be utilized for

- Funding capital expenditure towards setting up of a manufacturing facility at Saykha, Bharuch, Gujarat;
- Funding incremental working capital requirements
- Repayment and/or pre-payment, in full and/or part, of certain borrowings
- General corporate purposes.

Through the OFS, the promoters are selling 14,83,000 shares, which will reduce the promoter stake from 100% (pre-issue) to 73.02% (post-issue).

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	199	17.9	10.8	9.0	5.4	3.2	10.5	30.4	28.5	74.4	22.6	45.8
FY21	302	31.1	21.0	10.2	6.9	6.2	16.7	37.2	34.6	38.2	14.2	26.6
FY22	394	44.3	28.7	11.2	7.2	8.5	25.1	33.8	32.3	27.9	9.4	18.9

Industry	Agrochemical
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Issue Details

Listing	BSE & NSE
Open Date	28 th Nov 2022
Close Date	30 th Nov 2022
Price Band	INR 216-237
Face Value	INR 10
Market Lot	60 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	14%
Fresh Issue	86%
Issue Size (Amt)	INR 251.2 cr
Issue Size (Shares)	1,05,96,924
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	2,46,83,372
Post issue sh (nos)	91,13,924
Post issue M Cap	6160.8

Shareholding (%)	Pre (%)	Post (%)
Promoter	100	73
Non Promoter	0	27
TOTAL	100	100

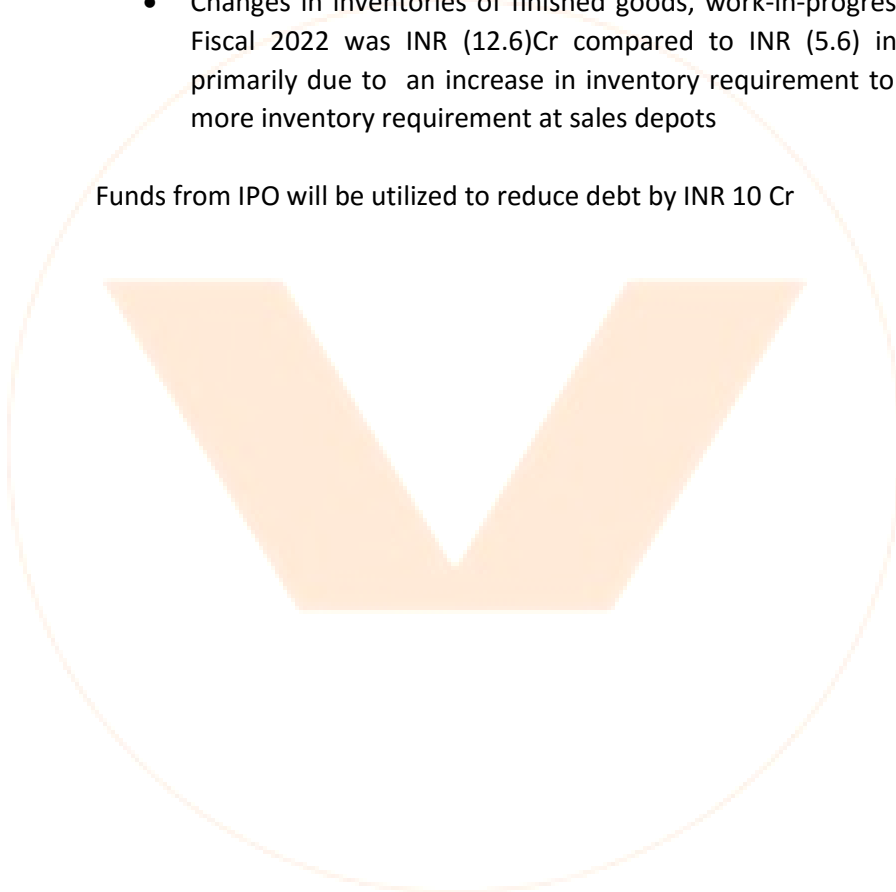
Financial Analysis

FY20-22 Performance: Revenue remained flat but profit margins increased

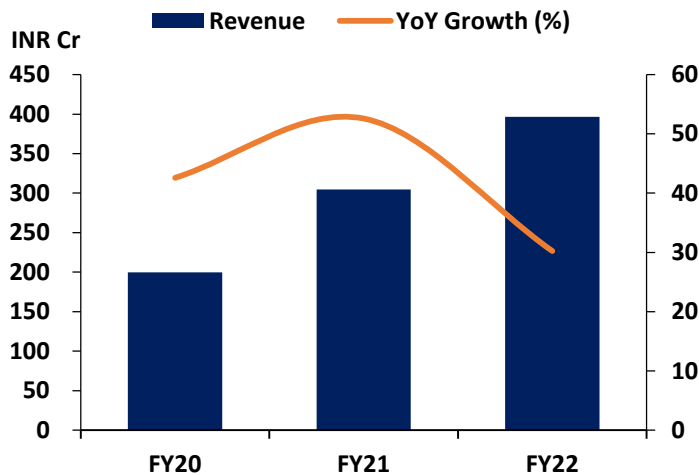
During FY20-22, Dharmaj's revenue grew at a CAGR of 25.8% to INR 394 Cr and PAT grew at a CAGR of 38% to INR 29 Cr primarily due to

- Increase in sales of branded products, institutional sales and addition of more dealers and customers.
- Increase in the total manufacturing capacity from 9,150 MTPA in FY20 to 25,550 MTPA in FY22.
- Changes in inventories of finished goods, work-in-progress and stock-in-process for Fiscal 2022 was INR (12.6)Cr compared to INR (5.6) in FY20. The increase was primarily due to an increase in inventory requirement to cater increased sales and more inventory requirement at sales depots

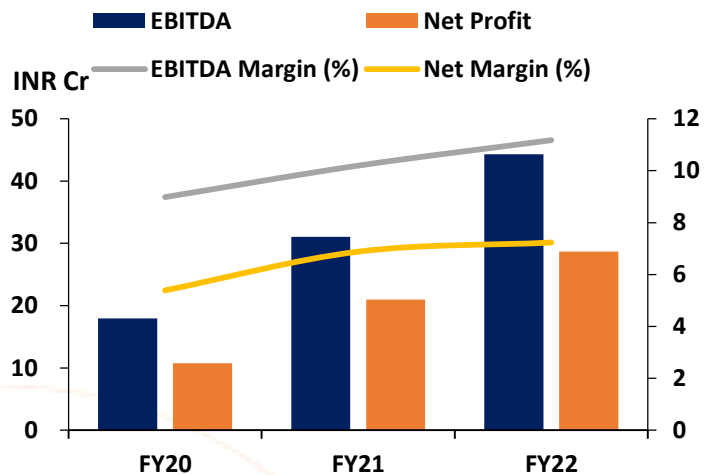
Funds from IPO will be utilized to reduce debt by INR 10 Cr



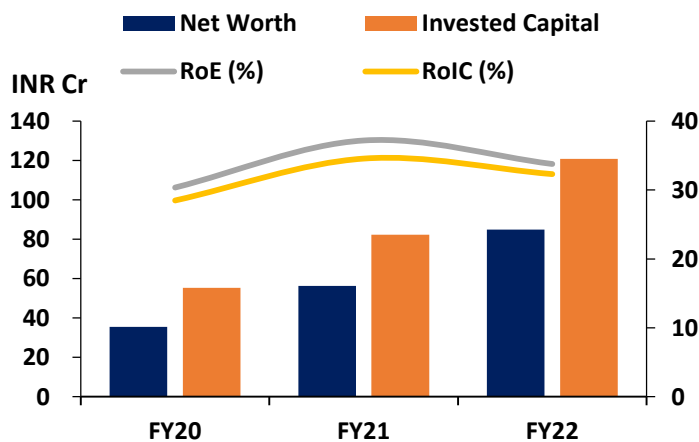
Revenue grew at a CAGR of 25.8%



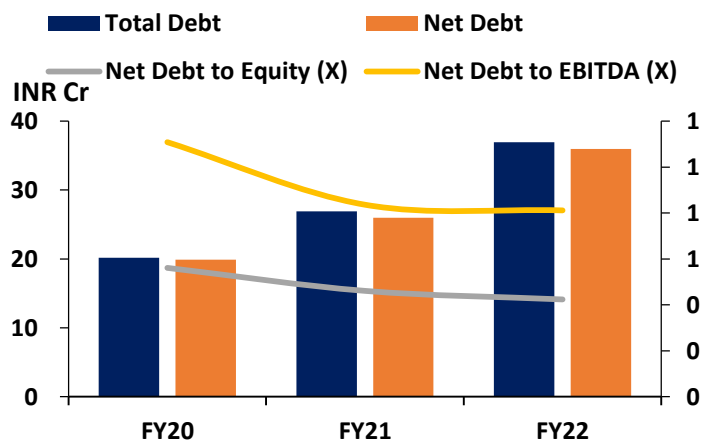
Consistent Growth in EBITDA and PAT Margins



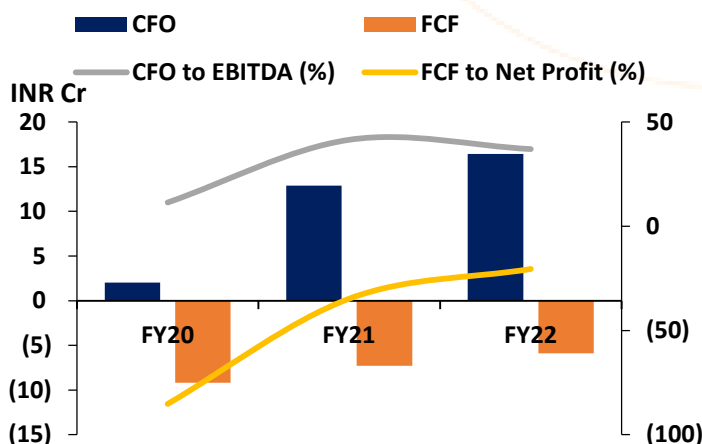
Return ratios followed profitability performance



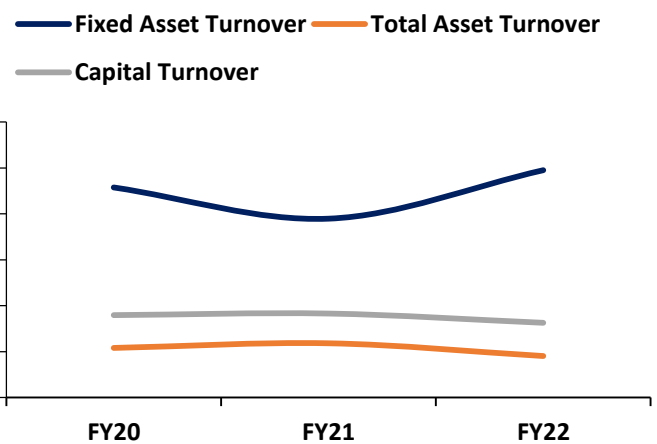
Higher working capital requirements and recent capex increased the debt levels



utilization of funds for new capacities impacted the cash flows



Fixed Asset Turnover to increase as Capacity Utilization increases



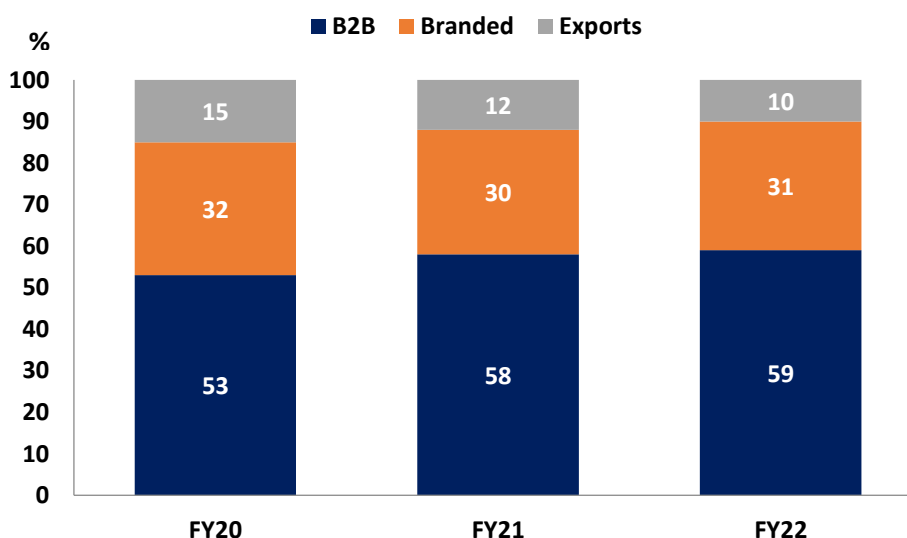
Source: Company Reports

Understanding the business of Dharmaj Crop Guard Ltd

Incorporated in 2015, 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 for B2C and B2B customers. Dharmaj Crop Guard Limited export products to more than 20 countries in Latin America, East African Countries, the Middle East and Far East Asia.

Dharmaj 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.

Segmentation of Revenue



Source: Company Data

Product Portfolio

Insecticides: It manufactures a wide range of insecticides to suit the requirement of farmers in preventing and curating different crops from being damaged by insects. It develops effective, safe, and sustainable range of insecticides to help farmers and prevent the crops from damage. Some of its top branded insecticides products are Padgham, Lubrio, Nilaayan, Dahaad, Prudhar and Remora amongst others.

Fungicides: Dharmaj manufactures a wide range of fungicides that protect crops from diseases caused by pathogenic organisms. Fungicide is a specific type of pesticide that is responsible for controlling fungal diseases by inhibiting the fungal growth and killing the fungus. Some of its top branded fungicides products are Gagandip, Sajaag, Lokraj, Rishmat and Kaviraj amongst others.

Herbicides: Herbicides effectively eliminate weeds and thus reduce mechanical and manual weeding. They also prevent soil erosion and the wastage of resources, ensuring optimum consumption of the resources by the desired plants. Some of its top branded herbicides products are Dharozar, Aatmaj, Rodular, Dharolik, Kohha, Kawayat Super and Sadavirum amongst others.

Plant growth regulator: Dharmaj also manufactures plant growth regulator which are also known as plant hormones and helps in increasing the crop yield and improving its quality. Some of its top branded plant growth regulator products are Rujuta, Greenoka, and Stabilizer amongst others.

Micro Fertilizers: The company manufactures micro fertilizers such as sulphur, zinc, boron and ferrous which work towards increasing the production of crops and making the soil more fertile. Micro fertilizers are required for crops to deliver maximum yield from crops. Under this category it sells branded products such as Zeekasulf, Aakuko, Thandaj and Zusta amongst others.

Antibiotics: Antibiotics are a major tool to treat the bacterial issues of plants and tree fruits. Antibiotic boost and develop the immune system of plants. Under this category the company sells its brand product namely Retardo.

Product Profile



Insecticide

- Imidacloprid
- Alpha Cypermethrin
- Malathion
- Bifenthrin
- Lambda Cyhalothrin



Herbicides

- Pendimethalin
- Metribuzin
- Glyphosate
- 2,4-D Amine Salt
- Metsulfuron Methyl



Fungicides

- Mancozeb
- Chlorothalonil
- Hexaconazole
- Metalaxyl
- Tebuconazole



Micro-Fertilizers

- Micro Nutrient
- Antibiotic



Plant Growth Regulator

- Amino Acids
- Ethephon
- Silicon Adjuvent
- Cytokinins Enzymes
- Gibberellic Acid



antibiotics

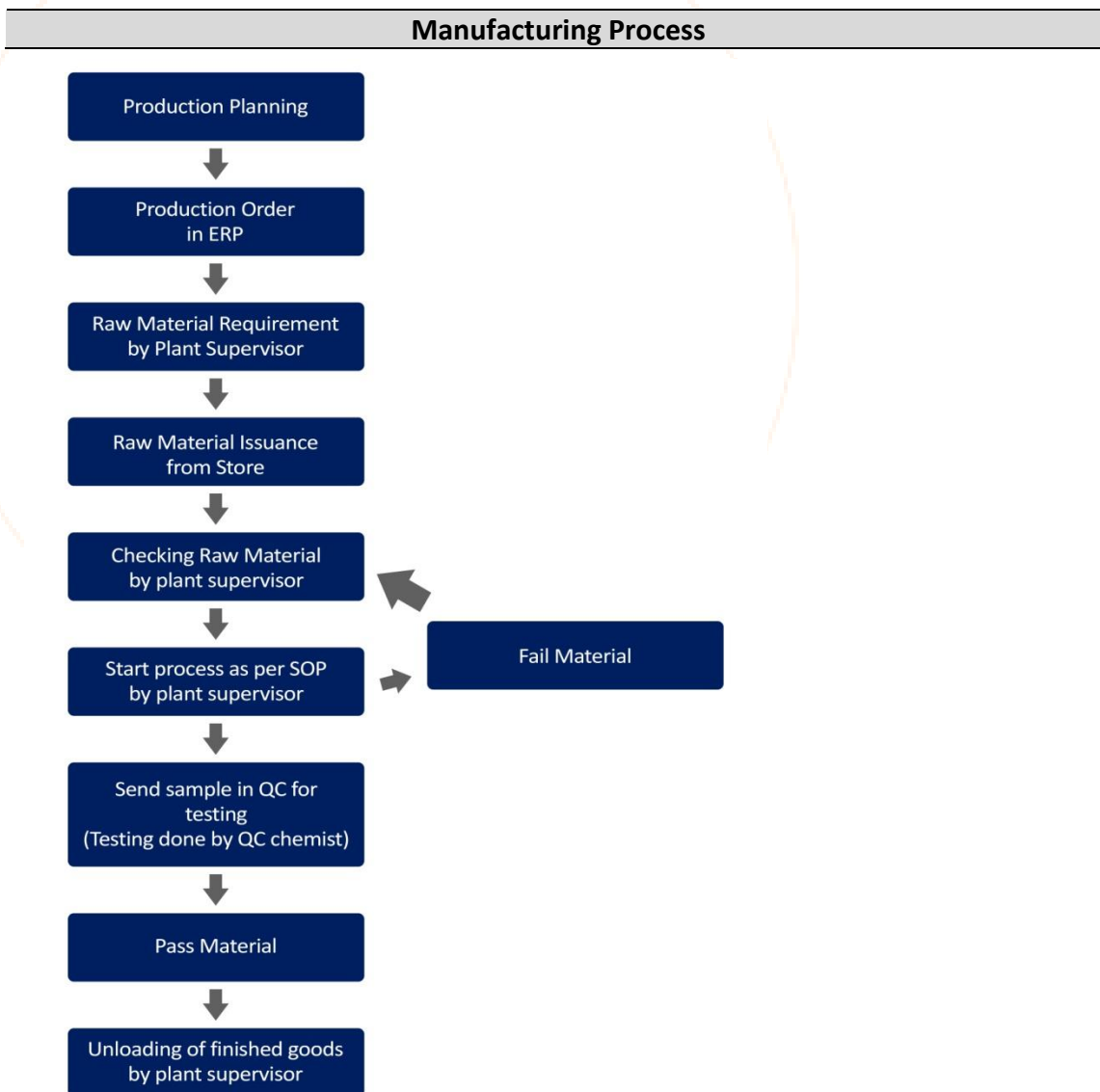
- Validamycin

Source: Company Data

Dharmaj's Manufacturing Capacity

The company's manufacturing facility is located in Ahmedabad, Gujarat, India. The aggregate installed capacity of the manufacturing facility for agro-chemical formulations is 25,500 MT. The management has installed a soil bio reactor at its manufacturing facility which is used to treat waste/ sewage water and to remove pollutants. The plant is also installed with solar power panels to generate green power in order to optimally use the electricity which is sourced from third parties during the manufacturing process. The aggregate capacity of the installed solar power panels is 85,320 KW per annum. Dharmaj Crop Guard Limited also has a research and development ("R&D") centre at the manufacturing facility.

The company has established an extensive, pan-India distribution network for its domestic branded products business. These are sold in 17 states through a network comprising over 4,362 dealers having access to 16 stock depots in India supporting the distribution of its branded products, as of September 30, 2022.



Source: Company Data

Indian pesticides industry

In the global agrochemicals market, India is the 4th largest producer led by USA, Japan and China. Also, India is a net exporter of agrochemicals and has emerged as the 13th largest exporter of pesticides globally

The upward momentum in the pesticides industry output is expected to continue going forward backed by the growth in food consumption in domestic market amid an expected increase in population, government support towards agriculture, demand from export markets, horticulture and floriculture market among others. The penetration of pesticides and agrochemicals in India is low and this poses an opportunity for growth for agrochemical producers. In addition to this, the government's aim to reduce dependency on China and improve self-sufficiency is expected to support the industry's backward integration and thus its growth. These factors are estimated to increase the pesticides industry output at a CAGR of 3.5%-4.0% by 2026-27

Outlook of pesticides production by 2026-27 for technical grade (thousand tonnes)

Segment	2021-22	2026-27P	CAGR (%)
Insecticides	109	134	4-4.5%
Fungicides	121	139	2-3%
Herbicides	54	67	4.5-5.5%
Others	11	14	5-5.5%
Total	295	354	3.5-4%

Source: Company Data

Low per hectare pesticides consumption in India

Of the total pesticides produced in India, domestic chemical pesticides consumption accounted and averaged at around 28% during the period 2016-17 to 2020-21. The small share of consumption is primarily due to low pesticides per hectare consumption in India, which is one of the lowest internationally.

The per hectare consumption of pesticides in India is minimal 0.6 kg compared to the per hectare consumption of 13 kg and 12 kg in China and Japan, respectively. India's per hectare consumption is low even than the world average of 2.6 kg per hectare and that of Asia which stood at 3.7 kg per hectare.

Government support

The government provides aid to the rural economy through various budget announcements that aim at reviving rural areas and raising farmer's income. In addition to this, growth in credit facilities to farmers through institutional credit mechanisms and low interest rate farm loans are likely to motivate farmers towards usage of pesticides that helps increase the productivity and yields of crops. Besides, increase in minimum support price (MSP) of crops also may contribute to pesticides usage.

Strengths

Diversified portfolio of products and consistent focus on quality and innovation

The company has developed a niche portfolio of agro-chemical products. It has diversified its product portfolio since incorporation and have 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

Dharmaj manufactures and sells general insect and pest control chemicals for Public Health and Animal Health protection. It provides crop protection solutions to the farmer to maximize productivity and profitability. It 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 also obtained registration of from the CIB&RC for 6 agrochemical technicals for manufacturing and sales in India as well as for export.

Strong R&D capabilities with focus on innovation and sustainability.

The company has a research and development ("R&D") centre at its manufacturing facility. It also has a quality control laboratory at the manufacturing facility, which primarily monitors the quality of the raw materials and finished goods. Further, its quality control laboratory has received a certificate of accreditation from NABL. Strong R&D capabilities allows the company to discover new mixtures and register new formulations for our agrochemical business.

Established distribution network with strong branded products and stable relationship with institutional customers

Dharmaj has a pan-India sales and dealer presence in 17 states with a dedicated sales force that provides customer service and undertakes product promotion. As of September 30, 2022, its network comprised over 4,362 dealers having access to 16 stock depots supporting the distribution of our branded products in 17 states of India. As of September 30, 2022, the company exported its products to approximately 66 customers across 25 countries. As of September 30, 2022, the company had a sales team of 195 employees, who are responsible for managing institutional sales and branded sales, the distribution channel and product promotion at the farmer level.

Experienced Promoters and management team.

Promoters and management team have significant experience in the agrochemical industry. Among the promoters, Rameshbhai Ravajibhai Talavia who is the Chairman and Managing Director, has over 28 years of experience in the agrochemical industry. Jamankumar Hansarajbhai Talavia, Whole time Director, has over 22 years of experience in the agriculture industry. Management team's industry experience, knowledge and relationships with suppliers and customers have led to company's growth

Key Strategies

Enhancing manufacturing capabilities through backward integration and expanding company's product portfolio

As a part of Dharmaj's expansion plans and in order to achieve backward integration for its operations, the company has acquired around 33,489.73 sq. mtrs of land at Saykha Industrial Estate, Bharuch, Gujarat, India on leasehold basis for 99 years from GIDC to set up a manufacturing facility for Agrochemical Technicals and its intermediates which will be used for internal consumption as well as for sales in domestic and international market, which will give the company more competitive strength.

The company has obtained registration of 6 agrochemical technicals from CIB&RC and applied for registration of 17 agrochemical technicals to CIB&RC for manufacturing and sales in India as well as for exports. Pursuant to the setup of this manufacturing facility, the company's profit margins on its products would resultantly increase due to backward integration

By setting up the Technicals manufacturing facility the company will augment its manufacturing capabilities to produce domestic grade agrochemicals, which, along with our export registrations, will allow it to complement its formulations business.

The total capacity of the plant would be 8000 MTPA out of which 5000 MTPA would be used for MPBD and CMAC (capacity for intermediates of technical) and the rest 3000 MTPA would be used for synthetic pyrethroid technical.

The total capex outlay for this capacity is INR 175 Cr out of which 105 Cr will be funded via IPO proceeds.

Targeting new customers, expanding existing customer business and increasing market share in domestic and international markets.

Dharmaj increased its market share in India for agrochemical products in recent years by increasing its product portfolio organically and the company intends to continue to evaluate opportunities to capitalize on industry consolidation and acquire other products and brands to grow its portfolio. The company intends to continue to utilize its R&D capabilities and manufacturing expertise and focus its investment in product enhancement.

Strengthening business through effective branding, promotional and digital activities

The company intends to strengthen its existing brand building activities including dealer training programs, field demonstrations, field shows, farmers training programs, jeep campaigns and participation in various national and international exhibitions for marketing its products. The company has also made a strategic investment in an agritech company "Khetipoint Private Limited" which has developed an online digital marketplace platform "Khetipoint" which aims to connect Farmers from across India to their retailers and company experts. On this platform, farmers can share their farming related practical problems / issues with the experts and get the solution.

Dharmaj's Key Managerial Personnel

Key Person	Designation	Details
Rameshbhai Ravajibhai Talavia	Chairman and Managing Director	He holds a bachelor's degree in Science (Agriculture) from the Gujarat Agricultural University. 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.
Jamankumar Hansarajbhai Talavia	Whole Time Director	He holds a bachelor's degree in Science (Agriculture) from the Gujarat Agricultural University. Previously, he was working with E.I.D. Parry (India) Limited, Coromandel Fertilizers Limited and Crop Life Science Limited. He has been associated with the Company since its incorporation. He heads the manufacturing and purchase processes at our manufacturing facility.
Jagdishbhai Ravjibhai Savaliya	Whole Time Director	He holds a bachelor's degree in Science from the Saurashtra University. He heads the research and development and production process at our manufacturing facility. He has over 21 years of experience in various aspects of agro chemical industry.
Deepak Bachubhai Kanparia	Independent Director	He holds a bachelor's degree in Technology (Agricultural Engineering) from Gujarat Agricultural University and diploma in Computer Applications from Datatech Computer. He has over 23 years of experience in various aspects of agro chemical industry.
Vishal Domadia	CFO and Head Corporate Strategy	He holds a bachelor's degree in Science (Agriculture) from Junagadh Agricultural University, master's degree in Business Administration (Agribusiness) from Allahabad Agricultural Institute.

Source: Company Reports

Key Risks & Concerns

- 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 its agrochemicals and any failure to successfully obtain such registrations or maintain the statutory and regulatory permits and approvals required to operate the company’s business and manufacturing facility would adversely affect its operations, results of operations and financial condition.
- Typically Dharmaj 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.
- As an agrochemical company, its business is sensitive to weather conditions such as rains, drought, floods, cyclones and natural disasters, as well as events such as pest infestations. This can result in our sales in a particular region varying substantially from year to year. Weather conditions can also result in earlier or later sowings and affect the levels of pest infestations, which may affect both the timing and volume of company’s sales or the product mix
- The company is subject to significant risks and hazards when operating and maintaining its manufacturing facility, including the manufacture, usage and storage of various flammable, corrosive or hazardous substances, for which its insurance coverage might not be adequate.

Issue Structure and Offer Details

The proposed issue size of Dharmaj's IPO is INR 251.2 cr (INR 216 cr fresh issue and INR 35.2 cr OFS) and the price band for the issue is in the range of INR 216-237 and the bid lot is 60 shares and multiples thereof.

Issue Structure		
Investor Category	Allocation	No. of shares offered
QIB	Not more than 50% of the Offer	52,98,462
NIB	Not less than 15% of the Offer	1,589,539
Retail	Not less than 35% of the Offer	3,708,923
<i>Number of shares based on a higher price band of INR 237</i>		
<i>Source: Company Reports</i>		

Details of the selling shareholders		
Promoter Selling shares	Amount offered	No of shares
ManjulabenRameshbhai Talavia	Not more than INR 16.7 Cr	7,09,500
MuktabenJamankumar Talavia	Not more than INR 15.5 Cr	6,56,000
Domadia Artiben	Not more than INR 2 Cr	87,500
Ilaben Jagdishbhai Savaliya	Not more than INR 0.7 Cr	30,000
<i>The amount is based on a higher price band of INR 237</i>		
<i>Source: Company Reports</i>		

Dharmaj's financial summary and analysis

Fig in INR Cr (unless specified)	FY20	FY21	FY22	Fig in INR Cr (unless specified)	FY20	FY21	FY22
Income Statement				Per share data & Yields			
Revenue	199.6	302.4	394.2	Adjusted EPS (INR)	3.2	6.2	8.5
<i>YoY Growth (%)</i>	<i>42.6</i>	<i>52.6</i>	<i>30.2</i>	Adjusted Cash EPS (INR)	3.8	7.0	10.1
Raw Material Cost	151.3	232.9	308.6	Adjusted BVPS (INR)	10.5	16.7	25.1
<i>RM Cost to Sales (%)</i>	<i>75.8</i>	<i>76.5</i>	<i>77.8</i>	Adjusted CFO per share (INR)	0.6	3.8	4.9
Employee Cost	7.5	11.2	12.7	CFO Yield (%)	0.3	1.6	2.0
<i>Employee Cost to Sales (%)</i>	<i>3.8</i>	<i>3.7</i>	<i>3.2</i>	Adjusted FCF per share (INR)	(2.7)	(2.2)	(1.7)
Other Expenses	22.8	29.4	31.0	FCF Yield (%)	(1.1)	(0.9)	(0.7)
<i>Other Exp to Sales (%)</i>	<i>11.4</i>	<i>9.7</i>	<i>7.8</i>	Solvency Ratio (X)			
EBITDA	17.9	31.1	44.3	Total Debt to Equity	0.6	0.5	0.4
<i>Margin (%)</i>	<i>9.0</i>	<i>10.2</i>	<i>11.2</i>	Net Debt to Equity	0.6	0.5	0.4
<i>YoY Growth (%)</i>	<i>70.8</i>	<i>73.2</i>	<i>42.8</i>	Net Debt to EBITDA	1.1	0.8	0.8
Depreciation & Amortization	2.2	2.6	5.3	Return Ratios (%)			
EBIT	15.8	28.5	39.1	Return on Equity	30.4	37.2	33.8
<i>Margin (%)</i>	<i>7.9</i>	<i>9.3</i>	<i>9.8</i>	Return on Capital Employed	21.1	25.4	23.9
<i>YoY Growth (%)</i>	<i>85.9</i>	<i>80.6</i>	<i>37.3</i>	Return on Invested Capital	28.5	34.6	32.3
Other Income	0.9	1.2	2.1	Working Capital Ratios			
Finance Cost	2.2	1.4	2.6	Payable Days (Nos)	61	47	84
Interest Coverage (X)	7.0	20.1	14.9	Inventory Days (Nos)	50	52	58
Exceptional Item	0.0	0.0	0.0	Receivable Days (Nos)	61	43	79
PBT	14.5	28.2	38.5	Net Working Capital Days (Nos)	51	49	53
<i>Margin (%)</i>	<i>7.2</i>	<i>9.3</i>	<i>9.7</i>	Net Working Capital to Sales (%)	13.9	13.3	14.5
<i>YoY Growth (%)</i>	<i>106.8</i>	<i>94.9</i>	<i>36.7</i>	Valuation (X)			
Tax Expense	3.7	7.2	9.8	P/E	74.4	38.2	27.9
<i>Tax Rate (%)</i>	<i>25.6</i>	<i>25.7</i>	<i>25.5</i>	P/BV	22.6	14.2	9.4
PAT	10.8	21.0	28.7	EV/EBITDA	45.8	26.6	18.9
<i>Margin (%)</i>	<i>5.4</i>	<i>6.9</i>	<i>7.2</i>	EV/Sales	4.1	2.7	2.1
<i>YoY Growth (%)</i>	<i>114.2</i>	<i>94.8</i>	<i>36.9</i>	Cash Flow Statement			
Min Int/Sh of Assoc	0.0	0.0	0.0	PBT	14.5	28.2	38.5
Net Profit	10.8	21.0	28.7	Adjustments	(0.3)	4.8	4.6
<i>Margin (%)</i>	<i>5.4</i>	<i>6.9</i>	<i>7.2</i>	Change in Working Capital	(8.4)	(12.9)	(16.9)
<i>YoY Growth (%)</i>	<i>114.2</i>	<i>94.8</i>	<i>36.9</i>	Less: Tax Paid	(3.7)	(7.2)	(9.8)
Balance Sheet				Cash Flow from Operations	2.0	12.9	16.4
Share Capital	16.5	16.5	24.7	Net Capital Expenditure	(14.6)	(18.1)	(23.4)
Total Reserves	19.0	39.9	60.2	Change in Investments	0.0	0.4	(0.5)
Shareholders Fund	35.4	56.3	84.9	Cash Flow from Investing	(14.6)	(17.7)	(23.9)
Long Term Borrowings	5.1	15.2	25.3	Change in Borrowings	0.1	6.9	10.2
Deferred Tax Assets / Liabilities	(0.2)	0.0	(0.2)	Less: Finance Cost	(2.2)	(1.4)	(2.6)
Other Long Term Liabilities	1.2	1.7	2.2	Proceeds from Equity	14.2	0.0	0.0
Long Term Trade Payables	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Long Term Provisions	0.2	0.3	0.4	Dividend Paid	0.0	0.0	(0.2)
Total Liabilities	41.8	73.6	112.7	Cash flow from Financing	12.1	5.5	7.5
Net Block	21.8	39.1	40.1	Net Cash Flow	(0.5)	0.7	(0.0)
Capital Work in Progress	2.3	1.1	17.7	Forex Effect	0.0	0.0	0.0
Intangible assets under developmen	0.0	0.0	0.7	Opening Balance of Cash	0.8	0.3	1.0
Non Current Investments	0.0	0.0	0.5	Closing Balance of Cash	0.3	1.0	1.0
Long Term Loans & Advances	5.4	4.9	4.0				
Other Non Current Assets	1.1	0.7	2.6				
Net Current Assets	11.1	27.8	47.1				
Total Assets	41.8	73.6	112.7				

Source: Ventura Research

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Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608