# Ever green

## The marketing strength of Dhanuka Agritech combines with smart global tie-ups to contribute handsomely to its growth

Dhanuka Agritech, an Indian manufacturer of agrochemicals, is expected to churn out financial figures in the year that has just ended, which would warm any investor's heart. The company achieved net sales of ₹589.25 crore and net profit of ₹64.44 crore in 2012-13, against the previous year's corresponding sales of ₹529.81 crore and net profit of ₹57.13 crore.

If the company's financial achievements for the first nine months of the last year are to provide any clue, it is expected to better its previous year's performance in 2013-14 by a wide margin. In the first three quarters of the last year, it achieved a cumulative top line of ₹586.13 crore and a net profit of ₹70.67 crore *vis-à-vis* the sales figure of ₹451.13 crore and net profit of ₹46.58 crore in the corresponding nine months of the previous year. This comes to nearly 30 per cent growth in its top line and 50 per cent in its bottom line. The company's share price for its ₹10 share was about ₹240 on 17 April, against the annual high of ₹286 and low of ₹116.

Dhanuka Agritech was set up in 1968 by R.G. Agarwal, its present chairman, with his younger brother M.K. Dhanuka, its managing director. Displaying foresight, the brothers expected the impending doom of not only textile imports, which had been their family's mainstay until then, but also of the textile mills sector in general.

This prompted them to change course, to avoid being caught in the universal decline that was to later set in, in textiles in India. They saw an opportunity in the fertiliser distribution business that had been booming at that time. "In those days, fertilisers were in short supply and one could sell for cash," says Dhanuka.


*M.K. Dhanuka: well placed*

Moving forward, the company diversified into pesticides in the 1970s. This too had been in short supply and one could sell for cash. Initially, it bought products from other pesticides manufacturers and distributed them under its own label – a policy that was to later help it build a strong field network.

With supply constraints persisting in pesticides, the company saw an opportunity in manufacturing. It took over a sick pesticides unit in Gurgaon in 1980. This gave it a prestige that is due to any manufacturer in India.

The Gurgaon unit had been set up in 1960 as a contract manufacturing unit by its former owner. Until its closure, it was manufacturing pesticides on contract for ICI in India. But, when these products were discontinued by the latter, it turned sick. At the time of acquisition by Dhanuka Agritech, the unit had an annual turnover of ₹7 lakh and a licence to manufacture four pesticide molecules.

### COMPETITIVE EDGE

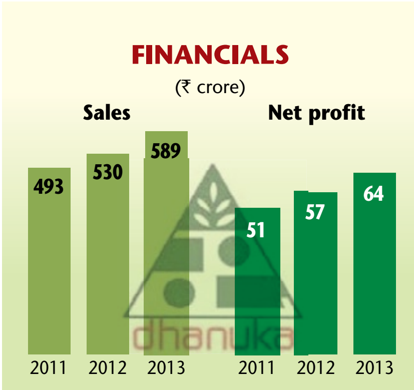
If Dhanuka were to launch its own molecules, it would have to conduct trials for each of them in four different agricultural zones in India. This would cost over ₹10 crore *vis-à-vis* ₹2 crore for every product, which it now has to spend on establishing only the bio equivalence of imported molecules in Indian conditions.

After the take over, Dhanuka Agritech gradually began expanding its product portfolio with regular approvals from the ministry of agriculture and Central Insecticides Board. As things have shaped up, the Gurgaon unit has since grown to be the largest among its four manufacturing units. "When we took-over, it had only one acre of land. We have since expanded and the unit now has over six acres of land," says Dhanuka.

### Healthy growth

The company went public in 1985 with the expansion of its Sohna unit in Gurgaon. It began manufacturing active ingredient called Synthetic Pyrethroides, which is used against American Bollworm, a pest that infests cotton, vegetable and paddy crops.

Besides Gurgaon, the company now has three more units – Udhampur in Jammu, Sanand in Gujarat, and Keshwana in Rajasthan. Clearly, it could not have achieved this expansion without continuing healthy growth of its top line. In 2000, the company's turnover was just ₹100 crore, "It



*Mridul and Rahul: tied for success*

is likely to cross ₹750 crore in the year that has just ended," says Rohit Nagaraj, senior research analyst, Sunidhi Securities & Finance.

Indeed, the company which has faced competition from global giants like Bayer, DuPont, Dow Chemicals, Cheminar and Syngenta, has held its own in the Indian market and prospered. While 13 MNCs and 20 Indian companies control among them 75 per cent of the agrochemicals' business in India, Dhanuka Agritech ranks second behind Rallis, among the leading listed companies in India. Rallis, of course, among other things, manufactures basic chemicals, which are used in manufacturing pesticides formulation.

On a larger canvas that includes MNCs, it is ranked fifth, solely on the strength of its formulations business. The company's focus is entirely domestic and it does not export any of its products. One of the main reasons for the company's success over the years has been the periodic self-assessment by its management of its capabilities in ever changing circumstances.

With the opening up of the Indian economy in the 1990s, the company understood its limitations well against the global giants' financial strengths to research new molecules (and focus largely on developing technical grade pesticides that can be used in formulations). It instead saw its real advantage in developing and marketing formulations based on the formers' patented molecules.

Thus, sensing competition from the MNCs, after a fire at its Sohna plant in 1996, the company shut down its only plant that was manufacturing APIs. But, before that in 1992, in its first tie-up with Dupont, it had launched methomyl molecule in India under a brand name Dunet.

Dunet turned out to be a money spinner. In just five years of its launch its sales rose to 1 million litres. Dunet's phenomenal success against American Bollworm gave Dhanuka Agritech's top line a fillip. It crossed ₹25 crore sales in 1997.

Since launching a new molecule of pesticide is always difficult, the company purchased 100 motor cycles and appointed as many agriculture graduates to train farmers in the use of Dunet. This marketing and field network has since expanded and paid handsome dividends.

On strength of this, the company has been able to net tie-ups with global companies like Hokka Chemicals (1995), Sumitomo (1997), Mitsui Chemicals (2000) and Nissan Chemicals (2001) – all from Japan; and Chem Tura and FMC Corporation from the US in 2004 and 2006 respectively. Most of these tie-ups are exclusive, where the company imports technical grade pesticides from them for producing its formulations.

These tie-ups have allowed it to stay ahead of the competition in India. Even the cheaper products from China have not been able to make dent its growth. The company now has a portfolio of 80 molecules and 400 SKUs (stock keeping units).

### Another advantage

Dhanuka Agritech has 500 employees in marketing and a field staff of 1,500. They are designated 'Dhanuka Doctors' by the company. These 'doctors' cover 12 villages every morning and as many the same evening, six days a week. The farmers are trained with the aid of multimedia and spot demos. "This network allows us to penetrate deep in to Indian hinterlands and bond with the farmers," says Rahul Dhanuka, executive director of the company.

Backing their efforts is the company's formidable national distribution network with more than 7,500 distributors across India. It

**COMPETITION**

(₹ crore)

| Name | Marketcap | Turnover | Net profit |
|---|---|---|---|
| Bayer Crop Science | 5,420.16 | 2,725.30 | 1,161.70 |
| Rallis India | 3,385.70 | 1,323.78 | 119.38 |
| PI Industries | 3,375.51 | 1,150.53 | 96.34 |
| Monsanto India | 2,839.72 | 442.42 | 67.34 |
| Dhanuka Agritech | 1,368.03 | 586.93 | 64.45 |
| Excel Crop Care | 557.05 | 764.91 | 21.42 |
| Sabero Organics | 424.83 | 514.83 | 7.73 |
| Insecticides | 357.66 | 616.68 | 35.32 |
| Meghmani Organics | 226.34 | 749.74 | 5.78 |
| Bharat Rasayan | 132.26 | 187.56 | 9.59 |
| Excel | 80.70 | 383.94 | 14.82 |

*Caption:*

reaches out to over 70,000 retailers and, through them, to more than 10 million farmers in the country.

Apart from conserving capital, the company's global tie-ups bring with them yet another advantage. Having products with a package of extensively tested toxicity data, spares it the need of having to generate its own data for approval by the Indian authorities.

A herbicide from Nissan, Targa Super, which is used against the weeds in soyabean, cotton, black gram and a couple of other crops, is the company's star product. It contributes around 12 per cent to its top line.

"With ₹3.5 crore annual sales, Targa Super accounts for a major share of our total turnover," says Ashish Saoji, a Nagpur dealer of the company. The company's other major products are Caldan, which is the highest selling insecticide in India; Dhanzyme, a plant growth regulator and Marker, an insecticide. Dhanuka Agritech has been ranked thrice in the past few years, among the top performing companies by sales in Asia Pacific in 'under $1.0 billion' category, by *Forbes*. "No other agrochemicals company in India has as many as the seven tie-ups that Dhanuka Agritech has," says Mridul Dhanuka, executive director of the company, attributing it to the company's overall success over the years.

In 2013, the company launched a new fungicide, Lustre, in India. The initial response to the launch has been good. But, it takes nearly three years to establish a new pesticide and Lustre's fate will be known only then.

In 2010, the company signed an MoU with Otsuka Chemicals of Japan to launch its six molecules in India for the first time. The registration work for these products is in progress. Beginning 2015, it will be launching two of these products each year for the next three years. With its marketing reach, one can expect the company to do well with these launches.

"The company is debt free," says V.K. Bansal, CFO, Dhanuka Agritech. "There is no long term debt on its books." This augurs well for Dhanuka in these testing times. Ajay Parmar, an analyst at Emkay Global, adds, "The company has a good record of paying dividends. Going forward, one can expect 25 per cent compound average growth rate in its top line."

These projections are, of course, 'weather permitting'. Nonetheless the company is well placed to face any challenge that may arise due to the vagaries of nature.

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