

PORTFOLIO MANAGEMENT SERVICES

Newsletter: April 2019

DHFL Pramerica Phoenix Strategy



Pramerica

Dear Investor,

In this newsletter we would like to discuss on Dhanuka Agritech and why we chose that company in our portfolio.

Dhanuka Agritech is a domestic formulation of various agrochemicals like insecticides, fungicides and herbicides. It was started in 1980 by R G Agarwal and his brother M K Dhanuka who have nearly 4 decades of experience in the agrochemicals business.

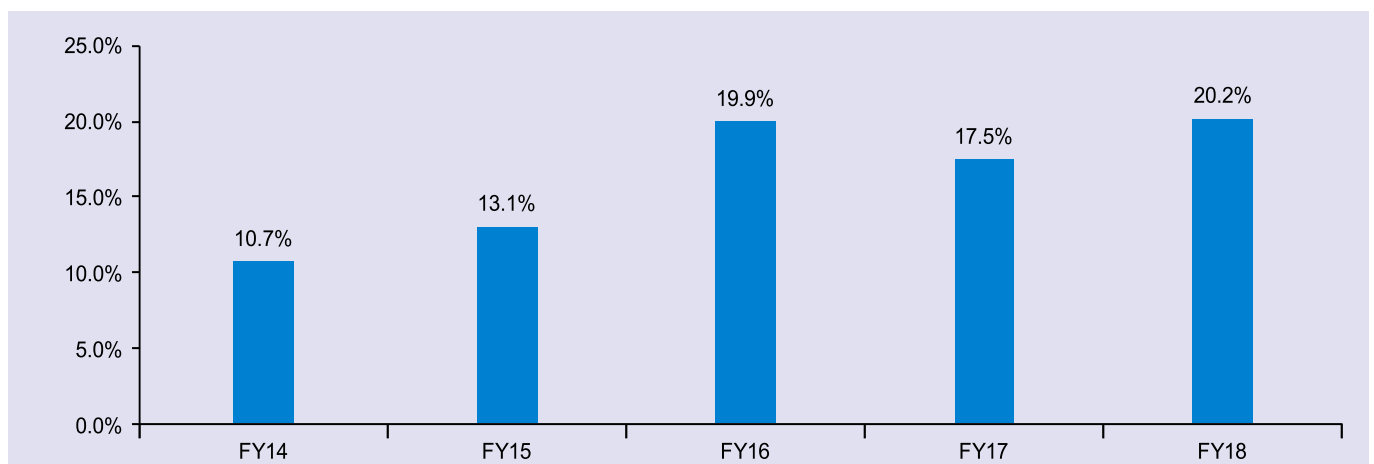
It has a basket of 80 products with 100% of sales coming from domestic markets. Two third of the revenue comes from specialty chemicals. The company benefits from its technical tie-ups with 10 large agrochemical MNCs in India and such tie-ups form ~50% of revenue. Many of the tie-ups are exclusive. The tie-ups are with DuPont, FMC, Oro Agri, Arysta Lifesciences, Sumitomo Chemicals, Mitsui Chemicals, Nissan Chemical Industries, Hokko Chemical and OAT Agri. Most of the tie ups have been active for more than 10 yrs. These tie ups help it in launching the products which are new to the Indian market. It has been launching between 4 to 8 products ever year. Success of new products launched in last few years has helped the company in improving its sales from products launched in last three years to nearly 20% from 10% in FY 2014.

New product launches in last 7 years: -

FY12	FY13	FY14	FY15	FY16	FY17	FY18
Brigade	Dhazyme Gold GR	Mortar	Sempre	Dhanvarsha	Conika	Dumil
Vitavax Ultra	Fluid	Defend	Mortar	Dozo	Maxx-Soy	Fenox-1000
Wetcit	Lustre	Media Super	Sakura	Goldy	HiDice Super	Godiwa
Bombard	Onestar	Danfuron	Pager	Cover	Delight	Godiwa Super
	Fuzi Super	Protocol	Oxykill		Fujita	Markar Super
	Maxyld				Aashito	D-One
					Bullon	Suelo
						Domar

Source: Company, PL

Innovation Index for the company in last few years:-



Source: Company, PL

It is having second largest rural distribution network in the country with 7,500 direct dealers selling to 80,000 retailers and the products are used by more than 10 million farmers.

Dhanuka has good geographical diversification of revenues with 26% coming from North, 11% from East, 31% from West and 32% from South. On products side also the company has maintained a diversified basket of products with insecticides contributing 42%, fungicide 15%, herbicide 32% and others 11% to the revenue. The top 5 products contribute 26% of the revenue.

Financial Highlights: -

Dhanuka Agritech Ltd. [INR-Crore]	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	10 yr CAGR	5 yr CAGR	3 yr CAGR
Total Income	589.25	743.20	791.20	841.31	900.86	978.67	14.65%	10.68%	7.35%
Total Expenditure	500.41	617.85	653.36	688.96	713.37	796.40	13.96%	9.74%	6.82%
PBIDT	88.85	125.34	137.84	152.35	187.49	182.27	18.29%	15.46%	9.76%
PBIT	84.30	120.50	131.98	146.44	172.64	168.06	18.10%	14.80%	8.39%
PBT	80.78	116.34	129.38	145.34	171.55	167.01	20.26%	15.64%	8.88%
PAT	64.45	93.14	106.08	107.31	121.87	126.18	22.25%	14.38%	5.95%
Cash Profit	68.99	97.97	111.94	113.22	136.72	140.38	22.10%	15.27%	7.84%
Cash Flow from Operations	46.57	33.36	109.91	139.69	63.13	138.47			
ROCE(%)	30.27	36.06	32.98	31.96	33.93	28.79			
RONW(%)	27.00	31.29	28.77	24.24	24.32	21.85			
PBIDTM(%)	13.74	15.12	15.89	16.78	18.73	18.67			
PATM(%)	9.97	11.23	12.23	11.82	12.18	12.92			
Adjusted EPS	12.88	18.62	78.42	21.45	24.83	25.71			
Equity Dividend %	140.00	200.00	225.00	325.00	30.00	275.00			

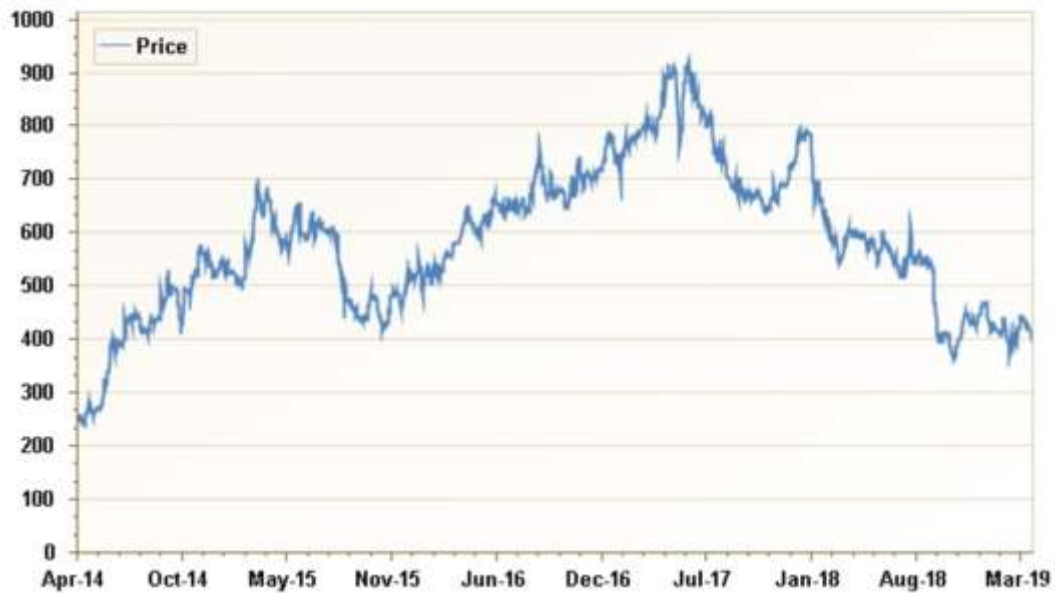
Source: ACE Equity

The revenue and profit of the company has grown at 15% and 22% CAGR respectively in last 10 yrs. But in last three years the revenue and profit have grown at 7% and 6% CAGR because of poor monsoon and low increase in MSP's. Also, there has been a sharp rise in the price of raw material and currency depreciation leading to margin compression. We believe these are cyclical factors and would mean revert in a year or two which should result in improvement in revenue growth and margins for the company.

The stock has corrected significantly in last two years because of the above-mentioned reasons. The company has used the opportunity to do two buybacks, first time in 2017 and then in 2019. After these two buybacks the company remains debt free.

Dhanuka Agritech Ltd.

[Source: ACE Equity]



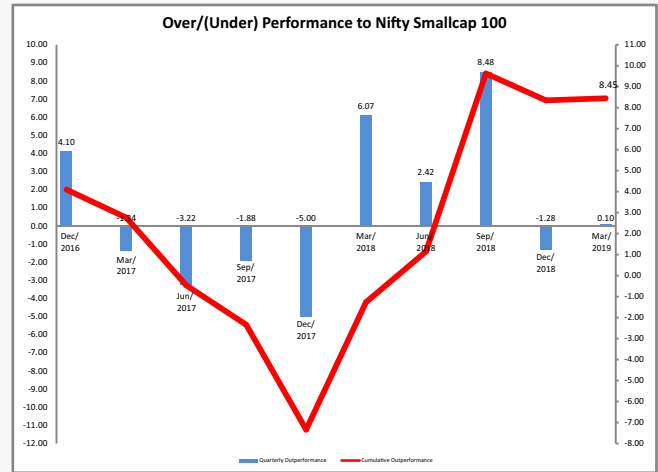
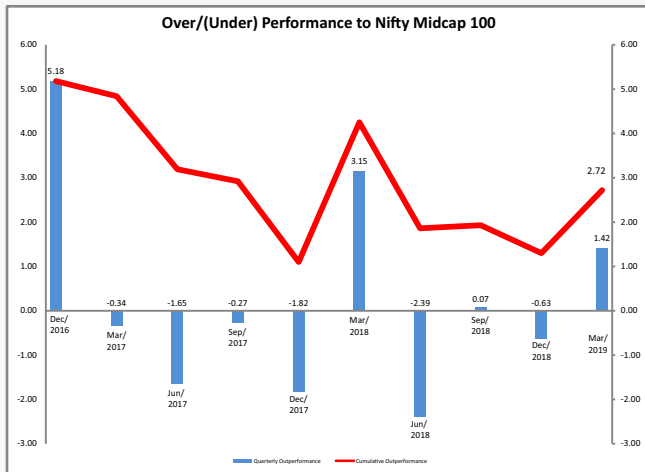
The penetration of agrochemicals is low in India compared to other countries and hence there is a huge opportunity to grow. Coupled with that the monsoon was poor and raw material prices had gone through the roof resulting in most stocks in agrochemical trading at multiyear low; we think this is an important sector to look out for opportunities, in the next few quarters.

Given the strong balance sheet, asset-light model, management focused on India business, good brands and indication by the management for ramping-up its new product pipeline, low consumption of agrochemicals per hectare in India and at 18 times FY 2019 Bloomberg Estimates we believe the stock is cheap. Hence, we have added the stock in the portfolio.

Yours Sincerely,

(Himanshu Upadhyay)
Portfolio Manager

DHFL PRAMERICA PHOENIX STRATEGY KEY PORTFOLIO PERFORMANCE INDICATORS



Performance depicted as at the above stated date is based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance may or may not be sustained in future.

Top 15 Holdings of DHFL Pramerica Phoenix Strategy as on March 29th, 2019

Date of Purchase	Equity	Sector	%
Aug/2016	Federal Bank Ltd	Banks	4.75%
Aug/2016	Great Eastern Shipping Co Ltd	Shipping	4.59%
Aug/2016	JB Chemicals & Pharmaceuticals Ltd	Pharmaceuticals	4.01%
Mar/2018	Cummins India Ltd	Engineering	3.40%
Sep/2016	Apar Industries Ltd	Power Equipment	3.38%
Aug/2016	Sobha Ltd	Residential/Commercial/Sez Project	3.20%
Jan/2018	Indian Bank	Banks	3.17%
Aug/2016	Ahluwalia Contracts India Ltd	Cement Products	3.15%
Apr/2018	Mahanagar Gas Ltd	LPG/CNG/PNG/LNG SUPPLIER	3.14%
Apr/2017	Hexaware Technologies Ltd	Computers - Software	3.11%
Jul/2017	Mayur Uniquoters Ltd	Textiles	3.07%
Aug/2016	Oberoi Realty Ltd	Residential/Commercial/Sez Project	2.83%
May/2018	Kirloskar Brothers Ltd	Compressors / Pumps	2.82%
Sep/2016	D B Corp Ltd	Printing And Publishing	2.82%
May/2017	MOIL Ltd	Industrial Minerals	2.77%
	Total		50.21%

Model Portfolio Details

Portfolio Details as on March 29th, 2019	
Weighted average RoE	13.91%
Portfolio PE (1-year forward) (Based on FY 20)	12.92
Portfolio dividend yield	1.49%

Portfolio Composition as on March 29th, 2019	
Large Cap	3.00%
Mid Cap	21.50%
Small Cap	66.50%
Cash	9.00%

Large Cap: Market cap of the 100th company in the Nifty 500 (sorted by market cap in descending order) as on March 29th, 2019

Midcap: Market cap below 100th company to the market cap of the 250th company in the Nifty 500 (sorted by market cap in descending order) as on March 29th, 2019

Small Cap: Market cap lower than the 250th company in the nifty 500 (sorted by market cap in descending order) as on March 29th, 2019

The above holding represents top 15 holdings of DHFL Pramerica Phoenix Strategy based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on the date stated above, excluding any temporary cash investments. The above holdings do not represent the model portfolio being offered to the clients (including prospective clients) and hence it is possible that these stocks may not be part of the portfolios constructed for new clients. The above holdings are for illustration purpose only and it should not be considered as investment recommendation or analysis or advice or opinion from the Portfolio Manager on the above mentioned stocks. The above portfolio holdings are provided on an "as is" basis, and the Portfolio Manager makes no express or implied warranties or representations with respect to the accuracy, completeness, reliability, or fitness of the above portfolio holdings or any financial results you may achieve from their use. In no event shall the Portfolio Manager, its directors or employees or its affiliates have any liability relating to the use of the portfolio holdings.

DHFL Pramerica Phoenix Strategy Portfolio Performance as on March 29th, 2019

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
1 Month	8.39%	9.19 %	12.44 %
3 Months	3.56%	2.14%	3.46%
6 Months	7.09%	6.44 %	8.48 %
1 Year	-3.62%	-2.66 %	-14.37 %
2 Years	4.13%	3.47 %	-1.49 %
Since inception date 01/08/2016	9.63%	8.29 %	3.52 %
Portfolio Turnover Ratio*	27.47%		

*Portfolio Turnover ratio for the period April 1st, 2018 to March 29th, 2019

Consolidated Portfolio CY Performance of DHFL Pramerica Phoenix Strategy

Period	Portfolio	NIFTY MIDCAP 100	NIFTY SMALLCAP 100
01-08-2016 to 31-12-2016	1.08	-2.85	-5.01
CY 2017	42.13	47.26	57.3
CY 2018	-12.72	-15.42	-29.08
CY 2019 till 29-03-2019	3.56	2.14	3.46
01-08-2016 to 29-03-2019	9.63	8.29	3.52

Important Disclosures regarding the consolidated portfolio performance: Performance depicted as at the above stated date is based on all the client portfolios under DHFL Pramerica Phoenix Strategy existing as on such date, using Time Weighted Rate of Return (TWRR) of each client and then computing an arithmetic average for the overall strategy. Past performance is no guarantee of future returns. The above portfolio performance is after charging of expenses (as depicted above). Return for period upto 1 year is absolute. Since inception date stated is considered to be the date on which the first client investment was made under the strategy. Please note that the actual performance for a client portfolio may vary due to factors such as expenses charged, timing of additional flows and redemption, individual client mandate, specific portfolio construction characteristics or other structural parameters. These factors may have impact on client portfolio performance and hence may vary significantly from the performance data depicted above. Neither the Portfolio Manager, nor its directors or employees shall in any way be liable for any variation noticed in the returns of individual client portfolios. The Portfolio Manager does not make any representation that any investor will or is likely to achieve profits or losses similar to those depicted above.

Investment objective of DHFL Pramerica Phoenix Strategy: The objective of the strategy is to generate capital appreciation over the long term by investing in a portfolio of equity of Indian companies

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