Andrei Stetsenko: Today we present the latest in our Dispatches from India video interview series, where we have conversations with Indian business leaders whom we hold in, the highest regard. My co-host Nireeksha and I are honored today to welcome Rahul Dhanuka.

Andrei Stetsenko: Rahul is the managing director of Dhanuka Agritech, and for the sake of disclosure, everyone listening and watching should know that Dhanuka is one of the businesses in the portfolio of Gymkhana Partners, which is the India dedicated partnership that I co-manage, and nothing that's stated here is investment advice.

Andrei Stetsenko: This is all meant to be educational. To begin, I'll just briefly introduce my relationship with Dhanuka. My partner, Steve Farley, and I, we've had the pleasure of meeting with M.K. Dhanuka, and other members of your management team, six times since 2014. I checked our records and confirmed that we bought our first shares in Dhanuka a few weeks after that first meeting over a decade ago and we're still shareholders today.

Andrei Stetsenko: Needless to say, Dhanuka is one of those companies where even when we were new to India and we met with them, it was already clear that this was an exceptional business.

Andrei Stetsenko: The two biggest strengths of the company, would you agree, today are your very strong partnerships with these, MNCs from Japan and Europe and the US, and also your pan-India distribution network? Which one came first? Did you have the distribution network and then have that big breakthrough with DuPont in the '90s or other way around?

Rahul Dhanuka: We acquired a sick unit way back in 1980, which was manufacturing generic agrochemical products. We went ahead and set up a chemical synthesis plant in 1985 and got listed on the stock exchange around the same time. While we did that this unit was manufacturing something called synthetic pyrethroids, which were like really popular products, hot products at that point of time, controlling cotton bollworms, as they are called sometimes American bollworms also.

Rahul Dhanuka: And these products, they did a great job in controlling those menacing pests. Dhanuka was quite popular with those products in the market and was able to set up a strong distribution network and build a good brand both for the products as well as for the company, which led to attracting DuPont and bringing their products to the Indian market through Dhanuka in 1992.

Nireeksha Makam: How difficult would it be for a company today to replicate a similar access to market or partnerships?

Rahul Dhanuka: Access to the Indian market and setting up a small distribution is probably not a big stuff even now. What is important is the trust we set up with our channel partners. Many of our channel partners are associated with us across third generation, 30 years, 40 years of relationship, what has gone in.

Rahul Dhanuka: It is the trust what matters here. Similarly, on the other side, in terms of our partnerships, what matters most is the trust. Replicating trust is always the challenge, I feel.

Andrei Stetsenko: After you had that breakthrough in the '90s with DuPont, did the rest of those relationships with, Nissan Chemical and BASF, were those as much of a kind of a long slog to finally get to those?

Andrei Stetsenko: Or was it easier once you had a few big names behind you?

Rahul Dhanuka: It was in 1997, when, we had our first relationship with Takeda Chemicals at that point of time, and then Mitsui Chemicals of Japan. And we introduced couple of products from both of them and did a great job within first three years of their introduction. Back to back came in Nissan Chemicals and Hokko Chemicals, again, chemical R&D companies, agrochemical R&D companies from Japan.

Rahul Dhanuka: And then again almost at the same time in 1999, we tied up with, at that point of time, Uniroyal Chemical. Now, all these relationships, they were kind of riding on the opportunity that Indian market, Indian opening economy, Indian agriculture offered. At the same time, they were looking for a partner they can depend upon, they can rely upon, they can entrust their R&D products upon.

Rahul Dhanuka: Now, what we introduced at that point of time were not necessarily patented products, but what we did with them in the Indian market in terms of the market access and most importantly, the way we worked on farmer education, that is probably what excited them.

Nireeksha Makam: In our understanding, unlike your Japanese partners, some of your MNC partners also have their own on-the-ground presence in India, right? How has that impacted the depth of, your strategic partnerships with them?

Rahul Dhanuka: It is not possible for them on their own to probably cover the entire expanse, the varied agro-climatic zones, the diversity, India offers.

Rahul Dhanuka: And there are challenges. There are challenges of say credit management from rural market. There are challenges around getting your product registration. It has a long gestation period and the turnaround times for each product introduced could be longer while the life cycles get shorter. In this scenario, Dhanuka offers a easy and a trusted go-to-market to both European and American MNCs, as well as to our Japanese partners to introduce their R&D products

Andrei Stetsenko: I just looked up some stats because I think when a US viewer or listener is thinking about farming, they might have an inaccurate assumption in mind about what your customer looks like. So the average US farm, just in terms of acreage, is more than 250 times the size of the average Indian farm.

Andrei Stetsenko: Obviously, India has the monsoon and the precipitation that runs off from the world's biggest mountain range. It's a completely different... You know, you have multiple plantings per year. It's a different climate. What does your selling relationship look like with a small scale farmer, who might only have a small number of acres

Rahul Dhanuka: India has 14 crore farmers. Ten percent of our formulation is farmers. I would say we barely scratch the surface as we deliver the revenue we do and the way we service our farmers in five grams and three point six gram sachet packets, as well as five liters and in some markets even 20-liter pack sizes.

Rahul Dhanuka: And yes, it's a very small percentage of our business which goes into a 200 hectare or a 300 hectare farm, which is mostly plantations, tea plantations in India. A large percentage of our farmer is less than one hectare landholding. And we get absolutely inspired by their simplicity and their hard work, which brings us back to these farmers every season, every cycle with a offering which can alleviate his condition in the field, save his crop from a insect pest or disease, or help him enhance his yields with a weed control or a plant growth enhancer.

Rahul Dhanuka: We are able to do this by deploying multilingual field force. So while India has more than thirty, thirty-five official languages, we are servicing farmers in close to twenty-one languages. So we deploy field forces which are conversant in farmers' local language and farmers' local dialect,

reaches out almost door to door to educate them, to understand their current challenges and offer solutions, sometimes on the spot, sometimes feeding this knowledge into our R&D ecosystem to come up with alternatives or back into our Japanese R&D ecosystem to seek a relatively long-term solution.

Rahul Dhanuka: So it's a very interesting cycle in terms of how we do it on field and how we feed our R&D ecosystem with ideas thrown up by our farmers.

Andrei Stetsenko: Who do you view as your most direct competitors? Because India has a huge array of agrochemical manufacturers, but distribution is a different game, as you know.

Rahul Dhanuka: In India, like we talked earlier, the agriculture opportunity is massive. So we have almost all large MNCs present and active in India. While they bring in their, uh, patented products or, uh, high-end technology, at the distribution front, I think so we practically compete with all, all of them, be it Corteva or BASF or Bayer or Syngenta, as are other Indian companies like UPL or PI.

Rahul Dhanuka: So we'll be competing with almost all of them

Andrei Stetsenko: if we could turn, to the financials obviously what the market's been disappointed about, which is, earnings and revenue, have been roughly flat for two fiscal years. But based on management's public commentary, you are optimistic that you're getting back on the growth track.

Andrei Stetsenko: What was the cause the two-year kind of slowdown, and what will be the drivers of your re-acceleration?

Rahul Dhanuka: Various factors which influence the slowdown, of course, include geopolitical tensions, changing price situations, and the way we are able to pass on the cost increase to the farmer based upon commodity prices as well. So these were various factors which impacted the growth, especially last year.

Rahul Dhanuka: The, the fundamentals of agriculture, the fundamentals of Indian economy, and the importance of what we provide to agriculture and this massive population remains same, in fact, stronger. The government of India is taking stronger position in terms of supporting the farmer. There are many more irrigation projects coming in, the electrification of the villages.

Rahul Dhanuka: So the electricity reaching the villages means we have more, uh, groundwater irrigation available to the farmer. Roads reaching out to the deep interiors, availability of easy and small transportation one ton or two-ton vehicles moving around means farmer has easier and better access to the commodity markets.

Rahul Dhanuka: Finance, Indian ecosystem of financing these small businesses, financing the farmer has really grown and become very robust and transparent over the years. We as a business can depend upon that financial ecosystem and rely upon that as we extend massive credit out there in the market. So these fundamentals remaining strong tells us that we are at the right place.

Rahul Dhanuka: Our own robust pipeline of products and recently introduced very powerful insecticides again from our Japanese partners, they tell us that we are going to have a great journey ahead of us. Further, we are going to introduce some biologicals also, some nutrition and plant growth promoters as well, which is another segment which is now, uh, is within our categories, is a category which is growing at a faster rate, and we are going to have a play in that category as well.

Rahul Dhanuka: With our distribution and farmer education capability, I think so we will be able to ramp up our products much faster than others.

Nireeksha Makam: And speaking of spending, if we look at the CapEx, especially when it comes to Dahej, I just wanna touch upon what role Dahej will play in this plan and what the improvement ramp up would be for capacity utilization there as well.

Rahul Dhanuka: So Dahej, as we've shared earlier, is a 40 acre land parcel, and, uh, we have set up one unit over here. This unit in its current form is going to probably hit its 70, 75% capacity utilization by this financial year end. So we'll be doing some capacity expansion within this unit. So Dahej speed is good.

Rahul Dhanuka: It's not what we expected when we came in and it-- we hit the real downturn in the chemical sector when we went live with Dahej. Yet the future is bright, I think so, with challenges appearing on various fronts in terms of the R&D companies being able to source their finished products or intermediates.

Rahul Dhanuka: Their outreach to Indian chemical manufacturers is stronger than ever. So I think so we are in the chemical sector. We have backward integrated into, uh, our, Dahej setup. We are hopeful of doing better over there. We have also acquired Bayer products, which we are bringing the manufacturing as well as the formulation we are bringing into the country, and that is where Dahej comes into play, both in terms of manufacturing capacities, getting a global footprint, and in terms of ramping up our business

Andrei Stetsenko: You, you mentioned acquiring products. Are you referring to the Bayer deal?

Rahul Dhanuka: That's right. Yeah

Andrei Stetsenko: who is paying whom and for what under that deal?

Rahul Dhanuka: Dhanuka is paying Bayer for acquiring two of their assets, which is iprovalicarb and trideminol, both of them Bayer's proprietary fungicides. And iprovalicarb finds opportunity in various horticulture crops, including grapes and potato, tomato, chili, and many other crops in India and various other European and Southeast Asian markets.

Rahul Dhanuka: Trideminol is another fungicide which finds opportunity is seed treatment of coffee and other crops. And this is what Dhanuka has acquired from Bayer International.

Andrei Stetsenko: is there an ongoing royalty that you pay as well?

Rahul Dhanuka: It is probably the other way around that Bayer still continues to sell the product in some markets

Andrei Stetsenko: You get a royalty from

Rahul Dhanuka: Yes, we accrue some benefits from there.

Rahul Dhanuka: Going forward, we are going to manufacture, uh, this product in India in our Dahej unit. We are going to introduce some more variants of the product.

Rahul Dhanuka: We are going to, uh, start our own distribution in some of the countries, and we are going to get the product registered in other countries where it is not already approved. So I think so this is a good foothold we got into international market, which was otherwise not available

Nireeksha Makam: Could we talk about the new products that you'll be introducing into the market? Any view on what the launch schedule is going to be? And also if we could also touch upon what R&D means to Dhanuka and how much of the overall revenue you usually spend on R&D and just how you prioritize it

Rahul Dhanuka: We launched one product already which was a Nippon Soda product, uh, a fungicide, and we are going to launch about five to six more products in, in this financial year, probably in another thirty or forty days.

Rahul Dhanuka: So this is what I can share about the new products. So we do two types of R&D here. One is for chemical synthesis, which is more of we are going to manufacture currently generic products here. So we are doing R&D around optimizing the products that we have already introduced in the Dahej unit, and we are doing R&D to introduce few more products in the Hege plant.

Rahul Dhanuka: Then we do a lot of formulation R&D, so we develop new effective formulation from the same products so that the delivery systems are becoming better, the use is becoming easier, and the chemical effectiveness is sharper on the target.

Rahul Dhanuka: So we do formulation R&D and, some of the formulated products, know-how we receive from our partners, yet we develop them in the Indian context, in the Indian agroclimatic tropical weather conditions that we have. And we develop our own formulations also, uh, so that, uh, we have a better access to the market with our versions.

Rahul Dhanuka: I think so our current spend on R&D would be significantly lower to say about zero point five percent or zero point six percent of our revenue

Andrei Stetsenko: Touching back on that Bayer deal that we were just discussing, would you agree that, uh, it has at least two major benefits for Januka? One is that it's going to help you, uh, ramp up capacity utilization at Dahej so that, that, uh, facility will become, uh, more commercially successful. And secondly, you've had this long discussed ambition to grow outside of India.

Andrei Stetsenko: But currently non-India is just a tiny, tiny, percentage of your sales. Would it be accurate to expect this deal to be a sort of a springboard to accelerate your foreign growth?

Rahul Dhanuka: Absolutely, Andrei. Bayer products are already approved in various countries, and our acquisition of, uh, these products gives us access to those markets and, that becomes a foothold in some of those markets. So which is really valuable to us. And then, of course, since we are going to manufacture this product in Dahej facility, one of the formulations is also a relatively advanced formulation, which we'll be introducing in India and probably globally for the first time.

Rahul Dhanuka: That also we are going to do in Dahej facility. So it is a better capacity utilization indeed. Both these advantages, they come from this acquisition

Nireeksha Makam: If you could just pivot into discussing the elephant in the room, which is the raw material cost increases that, Dhanuka faces, especially given the current geopolitical situation and following Russia's invasion into Ukraine, right? So can we talk about how Dhanuka managed this sharp increase?

Rahul Dhanuka: I don't think so it's an elephant in the room, because cost increase on the raw material front has been one aspect of it. The uncertainty about it has been the other aspect of it. So... And the uncertainty peaked for us on, 28th of February this year when another front on the war opened and the global turmoil, one more dimension, one more aspect was added to it, hitting the organic chemistry and the fuel at the same time.

Rahul Dhanuka: So most of the products, chemical products are coming out of petroleum, which is disturbed. Prices have gone up significantly. The supply chains have been completely disturbed. All this-- Now, at Dhanuka, we really work closely with our channel and the farmers so that we are able to pass on the increased costs to them properly.

Rahul Dhanuka: What is very challenging is the uncertainty around the product, the raw material, uncertainty about the prices, uncertainty about the availability, and the breaks in the supply chain. This uncertainty is more challenging to the farmer and has become almost as bad as the monsoon's uncertainty. Otherwise, cost increases in past, Dhanuka has been able to pass on, to the consumer effectively.

Andrei Stetsenko: We talked about, Dahej and how you're expecting to achieve a much better capacity utilization there, in the coming years. What about the facility that you're under- that's still under construction in Maharashtra, in Nagpur? Is the strategic thinking behind that different from Dahej?

Rahul Dhanuka: Dahej and Nagpur are two very fundamental facilities. Dahej is a chemical synthesis facility, and Dhanuka got into this chemical synthesis, like almost for the first time in two thousand and twenty-three, this got activated. Nagpur plant in Maharashtra that we are setting up is a formulation facility. So formulation facility is almost similar in terms of what it will produce, what we have at Keshwana, what we have in, Jammu, what we have in, Sanand, Ahmedabad.

Rahul Dhanuka: So it is almost a similar facility in terms of what it will produce. Formulated product in small packs, fifty ml or, five liter. So Dhanuka has a really long experience and deep experience of, doing that and running it. This facility would come live sometime in March or April two thousand twenty-eight.

Rahul Dhanuka: And, I think so we are hoping for about almost twenty-five percent of our, revenue coming from this unit's production, mostly for domestic. Yet, as we got into export markets, we discovered that there is opportunity for formulated products, small pack sizes in export markets as well. I think so we'll be able to service some of those segments better with this facility.

Nireeksha Makam: What would be the capacity utilization when this, goes live in year one?

Rahul Dhanuka: As we go live within six months, we should be doing about 40 to 50% capacity utilization and then ramping up much faster than a chemical synthesis plant. We are, going to set up a relatively automated plant here so that we can do this formulation and packaging in a relatively safer and more speedier environment.

Rahul Dhanuka: The choice will be between servicing higher volumes versus servicing demand faster. So we'll be servicing the changing demands faster with this facility. And ramping up a formulation facility is not much of a issue, so we'll be able to ramp it up much faster than the, Dahej plant

Andrei Stetsenko: The way Dhanuka has approached capital allocation, I think, is a, a great example of what I like to tell, American investors about the difference between many Indian companies and US companies where because Rahul, because your family, have a controlling stake in the business, when you make capital allocation decisions you don't make them lightly.

Andrei Stetsenko: It's not someone else's money to throw away. And so, you were in the running for this deal for FMC's India business, but you ultimately

didn't buy it. At the same time, you're investing at Nagpur and you've been repurchasing your stock, which again, is not that common among even Indian businesses.

Andrei Stetsenko: by my math, you've reduced your shares outstanding by 10% over the past decade, and the balance sheet does not have debt basically on it. You're a net cash company. so it's a long way of asking how you think about capital allocation and how you weigh these different, options for where to put capital.

Rahul Dhanuka: Share purchase is, I would say a f-a more friendlier way of rewarding our shareholders. So the family holds slightly less than 70%, of the stake in the company and, almost 30% is out there. So, we would be re-rewarding our shareholders either through dividend or a slightly tax friendlier manner of share buyback.

Rahul Dhanuka: So that's, that was a choice, uh, in terms of how to reward our shareholders. And, uh, we, we will continue to be rewarding our shareholders one of the either ways or the other options available in, in the Indian framework. So share buyback is part of rewarding the shareholder capital allocation, like we are going to set up a Nagpur plant, or we acquired Bayer assets.

Rahul Dhanuka: This is about what we look as opportunity in bringing value to our business, bringing value to our farmers, and servicing the market better than anyone else. So setting up Nagpur plant is part of how do we service the markets better than what we have done ourselves and better than anyone else. So I think so we'll continue to do capital allocation with the best of our ability and in all prudence.

Nireeksha Makam: Speaking about financial discipline, right? Uh, Dhanuka is unlevered. So is that an internal philosophy against debt? Do you prefer to grow organically?

Rahul Dhanuka: In fact, as an organization, as a family, as a business, we are looking out for inorganic growth opportunity, and we have evaluated a big one, and then we evaluated a couple of very small ones as well. We are still looking out for, uh, inorganic growth opportunity and acquisition opportunity, which will bring value to our shareholders as well as to our farmers.

Rahul Dhanuka: So we are looking out for that. And, uh, no, we are not averse to that. A large part of our growth journey was debt-driven and, the growth story in the past led us. The faith of our customers, the faith of our channel and

team members brought us to where we are in terms of being a debt-free company.

Rahul Dhanuka: And there is massive growth opportunity in what we are doing as it is because the treated acreages are still lesser per hectare consumption of crop protection chemicals is much lower. So there's a massive opportunity to grow here as it is. But then there are opportunities coming up in shape of biological products, opportunity coming up in shape of nutritions and few other technological inputs that the farmer, sometimes a new-age farmer is seeking and demanding.

Rahul Dhanuka: I think so we are really well-placed to do that inorganically as well

Andrei Stetsenko: I have just, one final closing question, piggybacking off what you just mentioned about technological inputs. I met a few years ago with a startup in India that does drone-assisted precision application of agrochemicals. And so, I'm sure this, also leverages AI, where you have, basically computer vision figuring out how to apply agrochemicals only exactly where they're needed, so there's less, much less wastage.

Andrei Stetsenko: Do you see that as an opportunity or a threat long term to your business?

Rahul Dhanuka: Technology when it is coming in is always an opportunity, I would say. And drones, to be specific, are going to be massive opportunity. Many times farmer is not spraying a chemical, A, due to unavailability of the labor at the ti-right time, or B, is not getting the benefit because of the wrong method of application.

Rahul Dhanuka: With drones, we will have access to uneven field. We will have more safer application of the product, and the labor shortage will be mitigated because of the speed and efficiency with which a drone will be able to spray. I think so this is a massive opportunity if we are able to convert our farmer into using this relatively new concept in technology, which as of now is costlier than the conventional labor which sprays, but is far more efficient and far more effective

Andrei Stetsenko: This has been a, a very, uh, wonderful introduction to your very fascinating business. Thank you very much for your time.Rahul, it was a pleasure learning more about Dhanuka

Rahul Dhanuka: Andrei, Nireeksha, thank you so much for, talking to me today. I hope it strengthens your confidence all the more

Andrei Stetsenko: Thanks

Nireeksha Makam: Yeah. Thanks, Rahul.