

## Agri Input and Chemicals Q4FY17 Results Preview

Multiple headwinds to impact Q4

**Sumant Kumar**  
+91 22 66242474  
sumant.kumar@emkayglobal.com

**Pratik Tholiya**  
+91 22 66121377  
pratik.tholiya@emkayglobal.com

- **Successive failure of North-East monsoon since last two years and below normal rainfall (82-85% of LPA) in South India during South-West monsoon has result in drought like situation in Tamil Nadu and Karnataka and few districts of AP and Telangana**
- **Our interaction with agri-input dealers and farmers in these states suggest that due to low water levels in reservoirs, yields of most crops are likely to drop by as much as 30-40%. Rabi acreages in TN stood at mere 45% of total. In addition, prices of crops especially vegetables continue remain weak thus affecting farmers' profitability. Subsequently, there could be some moderation in consumption for high value agri-inputs due to down trading by farmers**
- **From our interaction with the management of various agrochemical companies, we understand that prices of technical are on the rise due to closure of capacities in China. Companies have started to build inventory, which will stretch their working capital in FY17. We believe, domestic technical manufacturers such as Insecticides India could benefit.**
- **Despite low base of last year and normal monsoon in current year, we believe Q4 performance of domestic companies would be flat to negative due to higher inventories in the system, low pest attack and cash crunch due to demonetization. Aggregate revenue growth at 11% for the industry is driven by Sharda (+15% yoy) and UPL (14% yoy) as Q4 is peak season for Europe, Latin America and North America. Higher growth is UPL is also due to consolidation of Advanta from this year. EBITDA and PAT is expected to grow at 13% and 10%, respectively.**
- **While valuations of all agrochemical companies continue to remain rich, we draw comfort in UPL and Dhanuka Agritech at current valuations and are our top picks in this space.**

# Agri Input - Agrochemicals

Name			Mar'17E	Dec'16	Mar'16	% Chg YoY	% Chg QoQ	Comments
<b>Bayer CropScience</b>								
CMP(Rs)	3,775	Net Sales (Rs mn)	5,325	6,949	5,272	1.0%	-23.4%	Bayer is likely to report subdued revenue growth of 1% yoy to Rs5.3bn on the back of weak demand environment. We model for substantial improvement in EBITDA margins of 220bps to 6% while EBITDA is estimated to record 60% yoy growth on a low base of last year. We estimate PAT growth of 76% yoy.
Mkt Cap (Rs bn)	133	EBITDA (Rs mn)	319	460	200	59.7%	-30.5%	
Reco	Hold	EBITDA Margin (%)	6.0	6.6	3.8	221 bps	-62 bps	
Target Price (Rs)	4,340	PAT (Rs mn)	291	368	165	76.4%	-20.9%	
% Upside	15%	EPS (Rs)	8.2	10.4	4.7	76.4%	-20.9%	
<b>Dhanuka Agritech</b>								
CMP(Rs)	779	Net Sales (Rs mn)	1,726	2,090	1,744	-1.0%	-17.4%	On the back of lower pest infestation and drought like situation in south India Dhanuka's estimated revenue is likely to decline by 1% yoy to Rs 1.7bn. EBITDA margins could marginally contract by 15bps to 17.1% and EBITDA is estimated to decline by 2% yoy. Higher tax rate (as no MAT benefit like last year) would result in PAT dropping of 12% yoy.
Mkt Cap (Rs bn)	39	EBITDA (Rs mn)	296	388	301	-1.9%	-23.8%	
Reco	Buy	EBITDA Margin (%)	17.1	18.6	17.3	-15 bps	-144 bps	
Target Price (Rs)	900	PAT (Rs mn)	250	266	285	-12.1%	-6.0%	
% Upside	16%	EPS (Rs)	5.0	5.3	5.7	-12.1%	-6.0%	
<b>Insecticides India</b>								
CMP(Rs)	528	Net Sales (Rs mn)	1,756	1,591	1,781	-1.4%	10.4%	We expect muted revenue growth of 1% yoy has weak demand environment to hamper growth in formulation as well as technical segment. Margins may see 30bps improvement to 4.8% resulting in 5% yoy growth in EBITDA to Rs 85mn. Company may not enjoy tax benefits like last quarter. However, Adjusted PAT growth is estimated at 136% yoy as last year company suffered forex loss, which is likely to be absent this year.
Mkt Cap (Rs bn)	11	EBITDA (Rs mn)	85	161	81	4.5%	-47.2%	
Reco	Buy	EBITDA Margin (%)	4.8	10.1	4.6	27 bps	-527 bps	
Target Price (Rs)	715	PAT (Rs mn)	11	54	5	136.6%	-78.9%	
% Upside	35%	EPS (Rs)	0.5	2.6	0.2	136.6%	-78.9%	

# Agri Input - Agrochemicals

Name			Mar'17E	Dec'16	Mar'16	% Chg YoY	% Chg QoQ	Comments
<b>PI Industries</b>								
CMP(Rs)	833	Net Sales (Rs mn)	5,942	5,003	5,848	1.6%	18.8%	We estimate flattish growth in CSM business while domestic business is likely to register 3% yoy growth. Net Sales to post 2% yoy growth while 240bps improvement in margins to 17% will lead to 18% EBITDA growth. APAT is estimated at Rs 763mn (+3% yoy). Order book position is likely to remain muted due to weak demand in global markets.
Mkt Cap (Rs bn)	115	EBITDA (Rs mn)	1,018	1,034	859	18.4%	-1.6%	
Reco	Accumulate	EBITDA Margin (%)	17.1	20.7	14.7	243 bps	-354 bps	
Target Price (Rs)	1,010	PAT (Rs mn)	763	940	739	3.2%	-18.8%	
% Upside	21%	EPS (Rs)	5.6	6.9	5.4	3.2%	-18.8%	
<b>Rallis India</b>								
CMP(Rs)	248	Net Sales (Rs mn)	3,564	3,520	3,483	2.3%	1.2%	Rallis is likely to post muted consolidated revenue growth of 2% on the back of a 3% growth in standalone business while seed revenues would drop by 5%. We expect 130 bps margin contraction as our channel check suggests the company has taken price cuts to push sales. EBITDA to drop by 8% while PAT to drop by 37% yoy.
Mkt Cap (Rs bn)	48	EBITDA (Rs mn)	384	424	419	-8.4%	-9.4%	
Reco	Accumulate	EBITDA Margin (%)	10.8	12.0	12.0	-127 bps	-127 bps	
Target Price (Rs)	236	PAT (Rs mn)	203	254	323	-36.9%	-20.0%	
% Upside	-5%	EPS (Rs)	1.0	1.3	1.7	-36.9%	-20.0%	
<b>Sharda Cropchem</b>								
CMP(Rs)	486	Net Sales (Rs mn)	6,031	2,429	5,244	15.0%	148.3%	We estimate revenue to register 15% yoy growth primarily on the back of increased traction in European region and improving demand environment in LatAM. We expect margins to contract 200 bps to 27% due to rising prices of raw material in China and appreciating rupee. EBITDA to register 7% yoy growth. We expect PAT at Rs 1094mn (+7.5% yoy). New registrations will be key driver for revenue growth.
Mkt Cap (Rs bn)	44	EBITDA (Rs mn)	1,628	356	1,519	7.2%	358.0%	
Reco	Hold	EBITDA Margin (%)	27.0	14.6	29.0	-196 bps	1,236bps	
Target Price (Rs)	445	PAT (Rs mn)	1,094	155	1,017	7.5%	605.8%	
% Upside	-8%	EPS (Rs)	12.2	1.7	11.3	7.5%	605.8%	

# Agri Input - Agrochemicals

Name			Mar'17E	Dec'16	Mar'16	% Chg YoY	% Chg QoQ	Comments
<b>UPL</b>								
CMP(Rs)	732	Net Sales (Rs mn)	49,525	39,873	43,397	14.1%	24.2%	UPL revenue growth to be driven mainly by Latin America (+25% yoy), and North America (+10% yoy) and Europe (+8% yoy) while growth in Indian and ROW could remain flattish (~0-2% yoy). We estimate 14% yoy revenue growth primarily driven by increased volumes. We estimate 14% EBIDTA while EBITDA margin are likely to remain flat. PAT is expected at Rs6.6bn registering a growth of 13% yoy.
Mkt Cap (Rs bn)	371	EBITDA (Rs mn)	11,193	7,503	9,813	14.1%	49.2%	
Reco	Buy	EBITDA Margin (%)	22.6	18.8	22.6	-1 bps	378 bps	
Target Price (Rs)	873	PAT (Rs mn)	6,593	4,571	5,841	12.9%	44.2%	
% Upside	19%	EPS (Rs)	14.9	10.3	13.2	12.9%	44.2%	

- Government has reduced the subsidy on Phosphorous (P) and Potash (K) by 9% and 20% respectively on the back of falling prices of phosphoric acid and potash. However, due to sharp increase in prices of ammonia in the recent months, subsidy on Nitrogen (N) has increased by 20%. Subsidy on Sulphur (S) has increased by 10%.
- Our interaction with various company management suggests that prices of new inventory may not reduce significantly due to rising cost of ammonia and phosphoric acid. On the other hand, companies may not be able to increase prices as well, due to the looming threat of El-Nino which may impact consumption of fertilisers.
- Sales of DAP/MOP increased by 3%/32% yoy during Rabi (up to Feb'17). However, sales of urea and complexes dropped 6% yoy and 11% yoy due to higher channel inventory. Global urea prices declined 12% MoM as new capacities have come on stream in China. Prices of phosphatic fertilisers remained largely unchanged due to sluggish demand.
- Currently, the inventory in the system for DAP is ~1.5mn MT while for NPK it is slightly higher at ~1.8mn MT. Our channel check indicates that this inventory will be sold at current prices and it should get consumed by mid-May post which new inventory will come in the market.
- Government will be rolling out DBT on pan-India level from 1st June. Under the new system, subsidy disbursement to companies will be based on actual sales to farmers captured on point-of-sale (POS) machines installed. This is likely to increase the working capital requirement for the companies as the manufacturing goes on throughout the year while farmer purchases only during start of the season.
- Aggregate revenue growth of fertiliser companies to drop by 3% yoy while improvement in operating leverage and lower cost of inputs to boost EBITDA margins by 250bps yoy to 12%. Thus EBITDA growth is expected at 28% and PAT is projected to post 29% yoy growth. We expect interest cost to reduce as subsidy disbursement due to improvement in subsidy disbursement and additional payment through special banking arrangement. This will reduce in working capital and debt.
- We maintain our preference for Coromandel International (market leader in primary market of south India, increasing presence in non-primary market and higher contribution from non-fertiliser segment that commands better margins) and Deepak Fertilisers (likelihood of resumption of gas supply and expectation of receiving pending subsidy in Q1FY18).

# Agri Input – Fertiliser and Chemicals

Name			Mar'17E	Dec'16	Mar'16	% Chg YoY	% Chg QoQ	Comments
<b>Chambal Fertilisers</b>								
CMP(Rs)	87	Net Sales (Rs mn)	14,147	24,353	15,953	-11.3%	-41.9%	Revenues to decline by 11% due to drop in volumes of urea by ~10% yoy on the back of high channel inventory and late sowing while revenue of shipping business would decline as the company sold one ship early this year. Rising prices of ammonia to put pressure on gross margins which would lead to 20% yoy drop in fertiliser EBIT. PBT to increase by 8% yoy to Rs762mn
Mkt Cap (Rs bn)	36	EBITDA (Rs mn)	1,062	2,440	1,235	-14.0%	-56.5%	
Reco	Accumulate	EBITDA Margin (%)	7.5	10.0	7.7	-23 bps	-251 bps	
Target Price (Rs)	85	PAT (Rs mn)	534	1,302	826	-35.4%	-59.0%	
% Upside	-2%	EPS (Rs)	1.3	3.1	2.0	-35.4%	-59.0%	
<b>Coromandel International</b>								
CMP(Rs)	327	Net Sales (Rs mn)	27,536	22,708	30,468	-9.6%	21.3%	Consolidated revenues likely to drop 10% yoy to Rs27.5bn on the back of lower offtake especially in south region. Company's non fertiliser business is expected to report healthy growth of 15% yoy. We estimate 27% yoy increase in EBIDTA with 270 bps margin improvement led by lower input prices. PAT is likely to increase by 32% yoy on low base of last year.
Mkt Cap (Rs bn)	95	EBITDA (Rs mn)	2,548	2,372	2,000	27.4%	7.4%	
Reco	Buy	EBITDA Margin (%)	9.3	10.4	6.6	269 bps	-119 bps	
Target Price (Rs)	418	PAT (Rs mn)	1,216	1,118	924	31.6%	8.7%	
% Upside	28%	EPS (Rs)	4.2	3.8	3.2	31.6%	8.7%	
<b>Deepak Fertilisers</b>								
CMP(Rs)	259	Net Sales (Rs mn)	10,562	10,588	10,868	-2.8%	-0.2%	Delay in restoration of gas availability continues to impact the fertiliser business as company continues to depend on trading and is using high-cost LNG. Fertiliser revenues to drop 16.55 yoy. Chemical revenues likely to post 5% growth. Chemical business margins are likely to improve by 350bps yoy to 16.5%. Interest cost is expected to increase due to increase in debt. We should be closely watching development on resuming its gas supply under pooled mechanism
Mkt Cap (Rs bn)	23	EBITDA (Rs mn)	1,205	1,347	932	29.2%	-10.6%	
Reco	Buy	EBITDA Margin (%)	11.4	12.7	8.6	283 bps	-132 bps	
Target Price (Rs)	325	PAT (Rs mn)	334	466	259	28.8%	-28.4%	
% Upside	26%	EPS (Rs)	3.8	5.3	2.9	28.8%	-28.4%	

# Agri Input – Fertiliser and Chemicals

Name			Mar'17E	Dec'16	Mar'16	% Chg YoY	% Chg QoQ	Comments
<b>DCM Shriram</b>								
CMP(Rs)	329	Net Sales (Rs mn)	13,708	14,483	13,836	-0.9%	-5.4%	We expect growth of 18% in chemical business as the new capacity has become operational. However, higher coal cost to put pressure on profitability. Sugar business performance to increase by 9%yoy. Agri business's performance could decline due to stoppage of complex trading and lower offtake of urea. Company's EBIDTA is expected increase by 42% yoy led by sugar and chemical segment while PAT to post 100% yoy growth
Mkt Cap (Rs bn)	53	EBITDA (Rs mn)	1,775	1,886	1,250	42.0%	-5.8%	
Reco	Accumulate	EBITDA Margin (%)	13.0	13.0	9.0	391 bps	-7 bps	
Target Price (Rs)	327	PAT (Rs mn)	1,096	1,364	542	102.4%	-19.6%	
% Upside	-1%	EPS (Rs)	6.7	8.4	3.3	102.4%	-19.6%	
<b>GSFC</b>								
CMP(Rs)	118	Net Sales (Rs mn)	15,904	11,503	17,016	-6.5%	38.3%	We expect 12% yoy drop in complex fertiliser revenues while fertiliser margins to fall 120bps yoy. Uptick in Caprolactam – Benzene spread to drive chemical segment revenues (+10% yoy). Chemical segment to post EBIT of Rs405mn vs. loss of Rs402mn in Q4FY16. This will lead to sharp improvement in Company's EBITDA (87% yoy) and 435bps margin expansion.
Mkt Cap (Rs bn)	47	EBITDA (Rs mn)	1,385	785	741	86.8%	76.3%	
Reco	Buy	EBITDA Margin (%)	8.7	6.8	4.4	435 bps	188 bps	
Target Price (Rs)	130	PAT (Rs mn)	854	612	326	162.2%	39.6%	
% Upside	10%	EPS (Rs)	2.1	1.5	0.8	162.2%	39.6%	
<b>Tata Chemicals</b>								
CMP(Rs)	616	Net Sales (Rs mn)	39,375	40,471	40,070	-1.7%	-2.7%	Prices of soda ash is expected to remain flat qoq as there is expectation of new capacity coming up this year. US operations are likely to see improved performance (revenue +4% yoy) while BMGL will remain muted due to Kenya. However, domestic agri segment to remain under pressure resulting in 2% yoy drop in consolidated revenues. While EBITDA and PAT to increase by 25% and 16% yoy respectively.
Mkt Cap (Rs bn)	157	EBITDA (Rs mn)	6,538	6,584	5,201	25.7%	-0.7%	
Reco	Accumulate	EBITDA Margin (%)	16.6	16.3	13.0	363 bps	34 bps	
Target Price (Rs)	653	PAT (Rs mn)	2,808	2,636	2,423	15.9%	6.5%	
% Upside	6%	EPS (Rs)	11.0	10.3	9.5	15.9%	6.5%	



# Valuation Matrix

Company Name	Price (Rs)	Mkt Cap (Rs bn)	Reco	Target Price (Rs)	Sales (Rs mn)		EBITDA (Rs mn)		EBITDA Margin (%)		PAT (Rs mn)		EPS (Rs)		Book Value (Rs)	
					FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
<b>Agri Input &amp; Chemicals</b>		<b>1,173</b>			<b>869,154</b>	<b>832,904</b>	<b>128,458</b>	<b>131,834</b>	<b>14.8</b>	<b>15.8</b>	<b>70,820</b>	<b>69,755</b>	<b>26.8</b>	<b>31.5</b>	<b>162.0</b>	<b>183.3</b>
Bayer CropScience	3,775	133	Hold	4,340	49,961	0	6,764	0	13.3	0.0	5,111	0	144.6	0.0	700.4	0.0
Chambal Fertilisers	87	36	Accumulate	85	88,855	94,263	9,328	9,897	10.5	10.5	5,060	5,283	12.2	12.7	83.8	94.2
Coromandel International	327	95	Buy	418	118,150	130,247	11,363	13,124	9.6	10.1	5,735	6,766	19.7	23.2	98.4	111.1
DCM Shriram	329	53	Accumulate	327	64,899	68,904	8,159	8,890	12.5	12.8	4,727	5,329	29.0	32.7	172.8	195.9
Deepak Fertilisers	259	23	Buy	325	47,344	52,488	5,462	6,021	11.5	11.5	1,993	2,384	22.6	27.0	206.2	226.8
Dhanuka Agritech	779	39	Buy	900	10,793	12,412	2,102	2,482	19.5	20.0	1,527	1,798	30.5	36.0	132.2	155.5
GSFC	118	47	Buy	130	62,912	0	6,026	0	9.6	0.0	4,239	0	10.6	0.0	132.4	0.0
Insecticides India	528	11	Buy	715	12,883	15,005	1,430	1,710	11.1	11.4	730	924	35.3	44.7	247.8	283.6
PI Industries	833	115	Accumulate	1,010	26,986	30,916	5,937	6,801	22.0	22.0	4,469	5,102	32.6	37.2	135.2	164.9
Rallis India	248	48	Accumulate	236	20,820	23,735	3,252	3,680	15.6	15.5	2,002	2,293	10.3	11.8	59.8	68.7
Sharda Cropchem	486	44	Hold	445	16,290	18,663	3,421	3,919	21.0	21.0	2,175	2,507	24.1	27.8	127.0	148.9
Tata Chemicals	616	157	Accumulate	653	165,240	174,127	27,762	29,540	16.8	17.0	11,682	12,791	45.8	50.2	307.1	345.6
UPL	732	371	Buy	873	184,023	212,145	37,453	45,768	20.4	21.6	21,373	24,578	42.2	48.5	216.8	258.3

Company Name	DPS (Rs)		PE (x)		PB (x)		EV/EBITDA (x)		ROCE (%)		ROE (%)		Dividend Yield (%)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
<b>Agri Input &amp; Chemicals</b>	<b>5.3</b>	<b>5.9</b>	<b>16.6</b>	<b>16.8</b>	<b>2.7</b>	<b>2.9</b>	<b>10.7</b>	<b>8.8</b>	<b>14.8</b>	<b>16.3</b>	<b>17.6</b>	<b>18.4</b>	<b>1.2</b>	<b>1.1</b>
Bayer CropScience	22.5	0.0	26.1	0.0	5.4	0.0	17.8	0.0	33.8	0.0	22.5	0.0	0.6	0.0
Chambal Fertilisers	1.9	1.9	7.1	6.8	1.0	0.9	10.8	11.1	10.1	9.3	15.4	14.3	2.2	2.2
Coromandel International	9.0	9.0	16.6	14.1	3.3	2.9	10.1	8.6	21.0	23.5	21.0	22.2	2.8	2.8
DCM Shriram	6.5	8.0	11.3	10.1	1.9	1.7	7.7	6.9	18.8	19.2	17.9	17.7	2.0	2.4
Deepak Fertilisers	5.5	5.5	11.4	9.6	1.3	1.1	8.4	7.5	10.6	11.7	11.4	12.5	2.1	2.1
Dhanuka Agritech	9.2	10.8	25.5	21.7	5.9	5.0	17.9	15.0	32.6	32.9	25.0	25.0	1.2	1.4
GSFC	2.2	0.0	11.1	0.0	0.9	0.0	10.0	0.0	8.1	0.0	8.3	0.0	1.9	0.0
Insecticides India	7.1	8.9	15.0	11.8	2.1	1.9	8.8	7.3	17.7	19.6	15.1	16.8	1.3	1.7
PI Industries	6.4	7.5	25.6	22.4	6.2	5.1	19.2	16.7	31.4	29.9	26.7	24.8	0.8	0.9
Rallis India	2.2	2.2	24.1	21.0	4.1	3.6	15.0	13.2	23.3	23.7	18.3	18.3	0.9	0.9
Sharda Cropchem	1.0	1.0	20.2	17.5	3.8	3.3	12.1	10.4	27.0	26.7	20.6	20.1	0.2	0.2
Tata Chemicals	10.0	10.0	13.4	12.3	2.0	1.8	7.4	6.7	12.9	13.5	15.8	15.4	1.6	1.6
UPL	5.5	6.0	17.4	15.1	3.4	2.8	10.8	8.3	19.2	22.4	21.2	20.4	0.8	0.8

## Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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