

Jan-Mar'22 Earnings Preview

April 8, 2022

Stable performance expected amid volatile environment

Exhibit 1: Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bayer Cropscience	BUY	4,823	5,350
Dhanuka Agritech	BUY	755	870
Godrej Agrovet	Acc	526	614
Insecticides India	HOLD	638	680
P.I. Industries	BUY	2,858	3,340
Rallis India	HOLD	263	280
Sharda Cropchem	BUY	664	630
Sumitomo Chemical India	BUY	426	500
UPL	BUY	803	990

Source: PL Acc=Accumulate

Top Picks

UPL

Sumitomo Chemicals

Rallis India

We expect agrochemical companies under our coverage to report revenue/EBITDA/PAT growth 18%/19%/16% YoY respectively primarily driven by healthy performance from export oriented players like UPL, Sharda Cropchem, PI Industries and Sumitomo Chemical. Better growth from exporters is driven by a) better weather conditions globally; b) robust agri-input demand scenario; c) remunerative crop prices globally and d) favorable currency impact. While on the domestic front, we expect companies to post subdued growth (mid to high single digit growth YoY) led by a) seasonally lean quarter for the domestic players; b) erratic weather conditions particularly in the Southern India; c) 3rd wave of COVID-19, limiting the movement of goods and people.

Our interaction with agrochemical dealers and industry players indicate that the domestic industry is likely to witness 7-10% YoY growth during 4QFY22 primarily driven by higher prices than volumes. Despite price led growth during the quarter the pressure on the margins is likely to persist as the industry has not been able to fully pass on the inflated cost amid a rising cost scenario. We rate UPL, Sumitomo Chemical and Rallis India as our top pick.

Remunerative crop prices bode well for the upcoming kharif season

Geo-political tensions between Russia and Ukraine has in turn resulted into disruption in global commodities value chain leading to sharp run-up in soft commodities as well. We note that, Ukraine is amongst the largest global exporters of wheat, Sunflower, barley, rapeseed and maize with a global exports market share of 10%/47%/17%/20%/14% respectively. While, Russia also has strong presence with global exports of 25%/18%/14% respectively in Sunflower, wheat and Barley. The domestic crop prices are witnessing catch-up rally with the global prices which in turn bode well for the overall farm economics ahead of the kharif season. While several weather forecasting agencies expects normal monsoon this year (96-104% of LPA) would boost rural sentiments.

Channel Checks takeaways

- Industry has taken price hike across products (effective from Nov'21 onwards to the tune of 5-7% hike across portfolio level) to mitigate inflated RM cost to farmers. Further hikes likely for the upcoming kharif season.
- Herbicide and fungicide category continues to do well (likely to benefit players like- PI Industries and UPL);
- Glyphosate prices continue with its northward trajectory (likely to benefit players like Bayer, Sumitomo Chemical).

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- Prices of glyphosate technical are on higher side led by supply side constraints; while other players have stopped purchasing as it becomes unviable for them to pass on this cost quantum to farmers; hence sales are lost to that extent (major beneficiaries Bayer Crop science, Sumitomo chemicals);
- Working Capital likely to be stretched for the industry (March'22 v/s March'21) led by higher cost inventory (in form of RM inventory) and slower receivables as compared to last year.

Revenue expectation

We expect agrochemical companies under our coverage to post revenue growth of 18% YoY in 4QFY22. Better revenue growth is likely to be driven by healthy performance from export oriented players like UPL, Sharda Crop chem, PI Industries and Sumitomo Chemical. While, we expect the domestic industry to post mid-single digit growth during 4QFY22 led by abnormally higher base of last year. The export focused players like UPL and Sharda Cropchem are expected to post decent performance led by better cropping season in Europe, LATAM and NAFTA regions (aided by favorable currency impact).

EBITDA expectation

We expect EBITDA for our agrochemical universe to grow by 19% YoY with margins largely to remain flat (up 20bps YoY) primarily driven by price hikes in the recent past to mitigate the RM inflation. Going forward, the industry is likely to take further price hikes ahead of the kharif season as the RM prices continues to remain elevated.

Exhibit 2: Q4FY22 Result Preview

Company Name		Q4FY22E	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	Remark
Bayer Cropscience	Sales	7,928	7,337	8.0	9,901	(19.9)	
	EBITDA	924	827	11.8	663	39.4	We expect mid-single digit revenue growth in domestic agrochemicals business; while assume decline in exports revenues. We expect margins to be largely flat on a YoY basis.
	Margin (%)	11.7	11.3		6.7		
	PBT	825	735	12.2	593	39.1	
	Adj. PAT	671	569	18.1	380	76.7	
Dhanuka Agritech	Sales	3,043	2,756	10.4	3,569	(14.7)	
	EBITDA	652	646	0.9	550	18.5	Assumed 10% YoY growth in revenues; supported by better volume and pricing mix. Margins likely to be under pressure led by inflated RM cost scenario.
	Margin (%)	21.4	23.5		15.4		
	PBT	692	676	2.4	569	21.6	
	Adj. PAT	509	486	4.7	425	19.8	
Godrej Agrovet	Sales	20,306	14,625	38.8	20,785	(2.3)	
	EBITDA	1,564	1,122	39.3	1,362	14.8	We expect 39% YoY growth in overall revenues primarily driven by 26%/318%/5%/5% YoY growth in animal feed/ vegetable oil/ crop protection and dairy business. Better realizations in vegetable oil and animal feed business likely to support the margins.
	Margin (%)	7.7	7.7		6.6		
	PBT	1,071	651	64.7	857	25.0	
	Adj. PAT	878	566	55.2	824	6.6	
Insecticides India	Sales	2,913	2,556	14.0	3,138	(7.2)	
	EBITDA	341	287	18.8	186	83.5	We assume 14% YoY growth in the revenues, while we expect the margins to expand by 50bps YoY led by superior product mix.
	Margin (%)	11.7	11.2		5.9		
	PBT	252	235	7.3	109	130.6	
	Adj. PAT	187	217	(13.7)	82	129.4	

Company Name		Q4FY22E	Q4FY21	YoY gr. (%)	Q3FY22	QoQ gr. (%)	Remark
P.I. Industries	Sales	13,955	11,971	16.6	13,563	2.9	Assumed 19% YoY growth in CSM business; while 2% YoY growth in domestic formulation business.
	EBITDA	2,829	2,274	24.4	2,965	(4.6)	
	Margin (%)	20.3	19.0		21.9		
	PBT	2,559	2,224	15.0	2,689	(4.8)	
	Adj. PAT	2,172	1,800	20.7	2,220	(2.2)	
Rallis India	Sales	5,242	4,713	11.2	6,281	(16.5)	We expect domestic/Int'l business to post growth of 8%/19% YoY in 4Q primarily led by favorable base in the business segments coupled with the gradual improvement in the Int'l business. We expect seeds segment to decline by 29% YoY in 4Q.
	EBITDA	244	178	37.2	674	(63.8)	
	Margin (%)	4.7	3.8		10.7		
	PBT	154	99	54.8	531	(71.0)	
	Adj. PAT	116	65	79.0	396	(70.6)	
Sharda Cropchem	Sales	13,206	10,881	21.4	8,798	50.1	We are estimating agrochemicals revenue growth of 19%/27%/7%/14% YoY growth in Europe/NAFTA/ROW/LATAM in 4QFY22. Better economics of scale coupled with better cost management and superior realizations is likely to boost EBITDA margins likely to be up by 70bps YoY.
	EBITDA	2,722	2,163	25.8	1,939	40.4	
	Margin (%)	20.6	19.9		22.0		
	PBT	2,243	1,669	34.4	1,358	65.2	
	Adj. PAT	1,591	1,340	18.8	1,022	55.7	
Sumitomo Chemical India	Sales	6,438	5,339	20.6	7,071	(9.0)	We estimate 21%/12% YoY growth in agrochemicals and Others business segment taking it to a total revenue growth of 20% YoY for Sumitomo chemical. Margins are likely to improve led by superior realization in Glyphosate.
	EBITDA	1,012	709	42.7	1,268	(20.2)	
	Margin (%)	15.7	13.3		17.9		
	PBT	914	613	49.1	1,285	(28.9)	
	Adj. PAT	651	542	20.0	978	(33.5)	
UPL	Sales	1,48,945	1,27,960	16.4	1,12,970	31.8	We are assuming 27%/4%/14%/4%/20% YoY growth in NAFTA/India/Europe/ROW/LATAM respectively. Margins to be supported by price hikes in the recent past (7-10% recently). Positive currency impact likely to support the growth.
	EBITDA	33,419	28,390	17.7	26,650	25.4	
	Margin (%)	22.4	22.2		23.6		
	PBT	21,088	17,030	23.8	13,850	52.3	
	Adj. PAT	12,841	11,286	13.8	9,795	31.1	

Source: Company, PL

Geo-political situation between Russia and Ukraine augurs well for domestic agriculture

Exhibit 3: Top Agri-commodity exports from Ukraine – 2021-22

Product	Volume (000'MT)	Value (USD mn)	Rank among global exporters	% of Global exports
Maize	27,500	5900	4	14%
Wheat	20,000	5100	5	10%
Barley	5800	1300	3	17%
Sunflower Oil	5750	6400	1	47%
Sunflower Meal	4850	NA	1	58%
Rapeseed	2700	1700	3	20%
Soyabean	1096	600	7	<2%
Sunflower	150	NA	7	5%

Source: Industry, PL

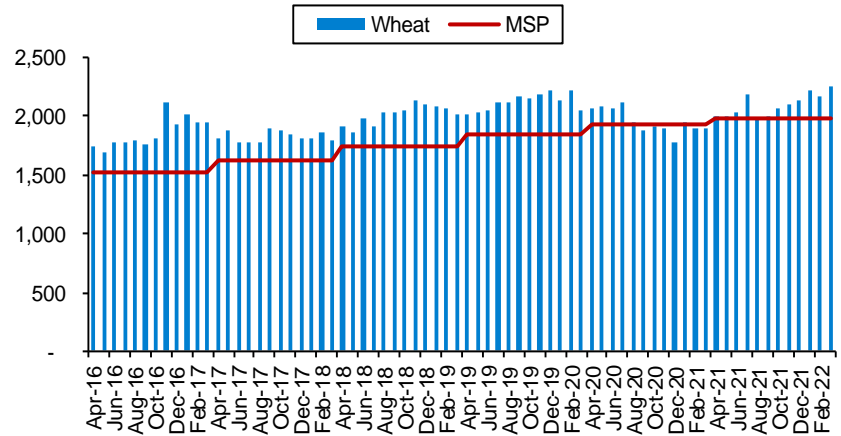
Exhibit 4: Top Agri-commodity exports from Russia – 2021-22

Product	Volume (000'MT)	Value (USD mn)	Rank among global exporters	% of Global exports
Wheat	32,917	10100	1	18%
Barley	5,156	905	4	13%
Maize	4,138	888	12	2%
Sunflower Oil	3,112	3464	2	25%
Soyabean	994	544	5	0.62%
Rapeseed Oil	600	602	3	

Source: Industry, PL

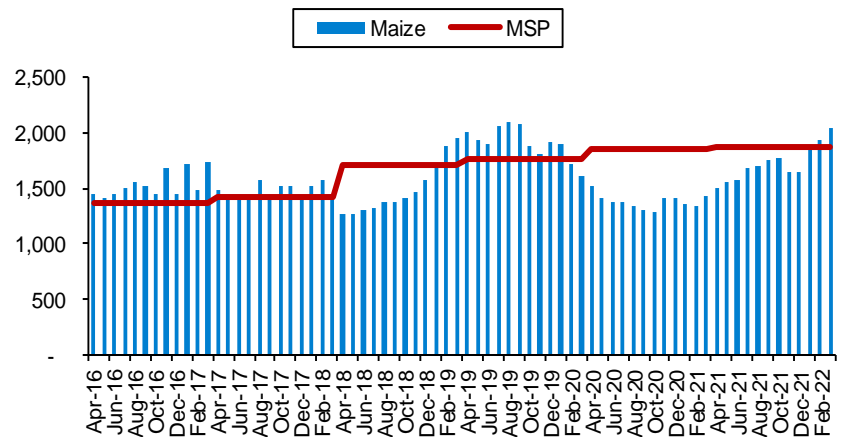
Prices of most of the agri-commodity is trading higher than the MSP's

Exhibit 5: Escalated geo-political tensions lift up domestic wheat prices



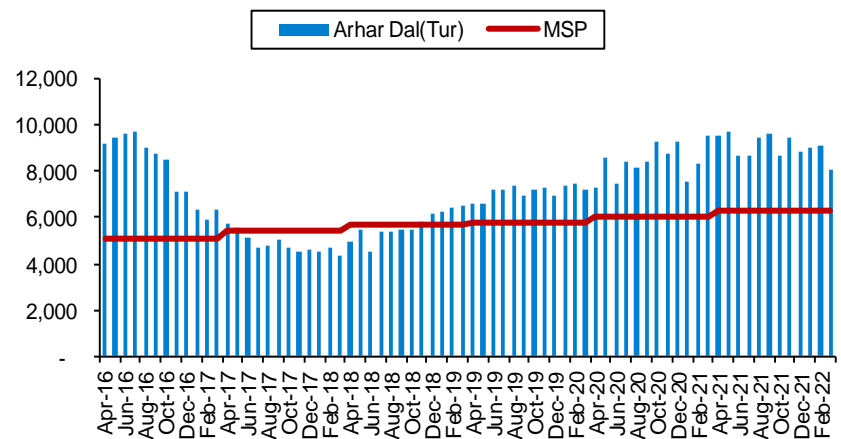
Source: Company, Industry

Exhibit 6: Domestic Maize prices witnessing a surge ahead of kharif season



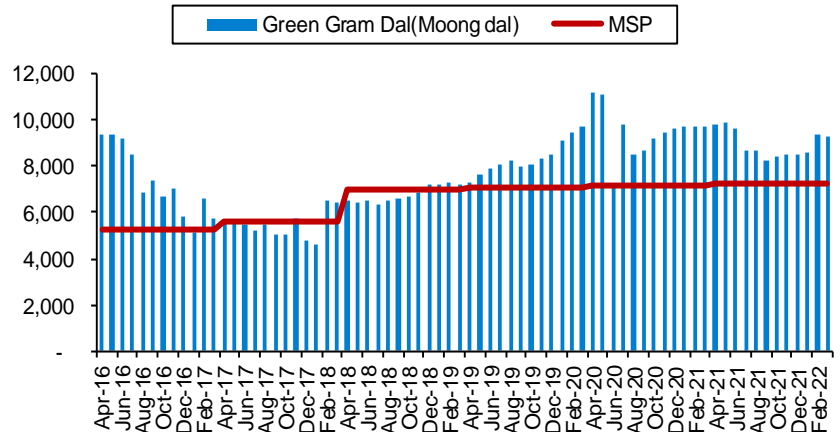
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Exhibit 7: Domestic pulses prices on the northward trajectory



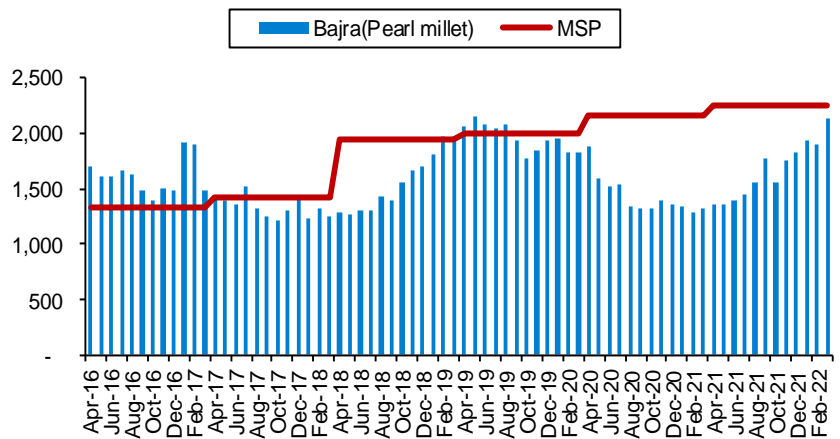
Source: Company, Industry

Exhibit 8: Pulses continues to trade higher than MSP



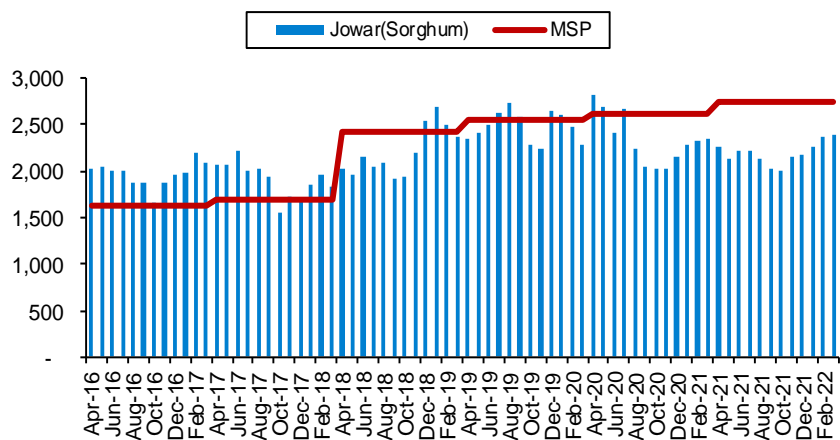
Source: Company, Industry

Exhibit 9: Bajra prices witnessing uptick



Source: Company, Industry

Exhibit 10: Jowar prices higher YoY; however still lower than MSP's



Source: Company, Industry



Exhibit 11: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs mn)				EBITDA (Rs mn)				PAT (Rs mn)				EPS (Rs)				RoE (%)				PE (x)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Bayer Cropscience	S BUY	4,823	5,350	216.5	42.6	45.6	50.2	55.2	8.1	7.0	8.7	10.2	6.2	5.1	6.7	8.0	137.2	114.2	149.7	178.3	24.1	18.8	21.4	21.9	35.1	42.2	32.2	27.0
Dhanuka Agritech	S BUY	755	870	35.2	13.9	14.6	16.1	17.7	2.7	2.6	3.1	3.5	2.1	2.1	2.4	2.7	45.2	44.1	51.8	58.1	28.0	23.4	22.9	21.5	16.7	17.1	14.6	13.0
Godrej Agrovet	C Acc	526	614	101.0	62.7	82.6	77.0	83.9	5.6	6.5	7.9	9.1	3.1	3.3	4.4	5.2	16.3	17.4	23.1	27.2	16.1	15.3	17.9	18.6	32.2	30.2	22.7	19.4
Insecticides India	S HOLD	638	680	12.6	14.2	15.2	16.4	17.7	1.5	1.7	1.9	2.2	1.0	1.0	1.2	1.3	47.5	52.4	58.3	68.3	12.7	11.9	11.8	12.3	13.4	12.2	10.9	9.3
P.I. Industries	C BUY	2,858	3,340	433.0	45.8	53.0	62.4	73.5	10.1	11.2	13.8	17.0	7.3	8.5	10.7	12.7	48.4	56.3	70.6	83.5	18.4	14.9	16.2	16.5	59.0	50.7	40.5	34.2
Rallis India	S HOLD	263	280	51.1	24.3	26.2	29.7	33.5	3.2	3.0	3.8	4.5	2.2	1.9	2.5	3.0	11.3	9.8	12.8	15.4	14.6	11.5	13.8	15.1	23.3	26.9	20.6	17.1
Sharda Cropchem	S BUY	664	630	59.9	24.0	34.7	40.3	47.0	4.2	6.7	8.0	9.4	2.3	3.2	3.7	4.4	25.4	35.3	40.9	48.3	15.2	18.2	17.9	18.0	26.1	18.8	16.2	13.8
Sumitomo Chemical India	C BUY	426	500	212.7	26.4	30.4	35.3	41.0	4.9	5.9	7.2	8.6	3.5	4.2	5.1	6.2	6.9	8.5	10.3	12.4	25.0	24.6	24.2	23.7	61.6	50.2	41.3	34.3
UPL	C BUY	803	990	614.6	386.9	452.7	492.3	535.1	85.6	99.1	111.3	123.1	30.7	38.6	46.9	54.4	40.1	50.5	61.4	71.1	17.9	20.0	20.9	20.6	20.0	15.9	13.1	11.3

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate

Exhibit 12: Change in Estimates - Agrochemicals

	Rating		Target Price			Sales						PAT						EPS					
	C	P	C	P	% Chng.	FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
						C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Bayer Cropscience	BUY	BUY	5,350	5,350	0.0%	50,202	50,202	0.0%	55,223	55,223	0.0%	6,723	6,723	0.0%	8,007	8,007	0.0%	149.7	149.7	0.0%	178.3	178.3	0.0%
Dhanuka Agritech	BUY	BUY	870	870	0.0%	16,102	16,102	0.0%	17,712	17,712	0.0%	2,414	2,414	0.0%	2,704	2,704	0.0%	51.8	51.8	0.0%	58.1	58.1	0.0%
Godrej Agrovet	Acc	Acc	614	615	-0.1%	76,983	76,983	0.0%	83,912	83,912	0.0%	4,441	4,441	0.0%	5,219	5,219	0.0%	23.1	23.1	0.0%	27.2	27.2	0.0%
Insecticides India	HOLD	HOLD	680	680	0.0%	16,386	16,386	0.0%	17,697	17,697	0.0%	1,151	1,151	0.0%	1,347	1,347	0.0%	58.3	58.3	0.0%	68.3	68.3	0.0%
P.I. Industries	BUY	BUY	3,340	3,400	-1.8%	62,375	63,258	-1.4%	73,500	74,554	-1.4%	10,698	10,884	-1.7%	12,654	12,876	-1.7%	70.6	71.8	-1.7%	83.5	85.0	-1.7%
Rallis India	HOLD	HOLD	280	280	0.0%	29,707	29,707	0.0%	33,486	33,486	0.0%	2,481	2,481	0.0%	2,986	2,986	0.0%	12.8	12.8	0.0%	15.4	15.4	0.0%
Sharda Cropchem	BUY	BUY	630	570	10.5%	40,333	39,834	1.3%	46,975	46,375	1.3%	3,693	3,382	9.2%	4,353	3,987	9.2%	40.9	37.5	9.2%	48.3	44.2	9.2%
Sumitomo Chemical India	BUY	BUY	500	500	0.0%	35,261	35,261	0.0%	41,041	41,041	0.0%	5,150	5,150	0.0%	6,205	6,205	0.0%	10.3	10.3	0.0%	12.4	12.4	0.0%
UPL	BUY	BUY	990	980	1.0%	4,92,346	4,88,126	0.9%	5,35,133	5,30,586	0.9%	46,934	46,285	1.4%	54,365	53,653	1.3%	61.4	60.5	1.4%	71.1	70.1	1.3%

Source: Company, PL

C=Current / P=Previous / Acc=Accumulate

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	5,350	4,684
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	870	777
4	Godrej Agrovet	Accumulate	615	528
5	Insecticides India	Hold	680	682
6	P.I. Industries	BUY	3,400	2,552
7	Rallis India	Hold	280	277
8	Sharda Cropchem	BUY	570	438
9	Sumitomo Chemical India	BUY	500	418
10	UPL	BUY	980	777

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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