

Agri Inputs

Channel Check Update

July 8, 2019

Exhibit 1: PL Agri Inputs Coverage

Company Names	Rating	CMP (Rs)	TP (Rs)
Bayer Cropscience	HOLD	3,402	3,783
Dhanuka Agritech	BUY	410	578
Insecticides India	BUY	640	887
P.I. Industries	Buy	1,125	1,278
Rallis India	Acc	153	173
Sharda Cropchem	Acc	312	402
UPL	BUY	662	752

Source: Company, PL

Cautious optimism post rain spells!!

We visited rural areas around Hyderabad and interacted with Agri-input channel partners and large farmers to understand the ground realities w.r.t. agriculture and agri-input sales in the largest agri-inputs market (Andhra Pradesh & Telangana combined). We interacted with mainly large farmers considering their key position to drive demand for agri-input companies.

Key takeaways are:

- Crop Sowing has been delayed by ~20 days (right from seeds to pesticides). Post rain spells in the last week of June, seed sales are nearing completion whereas enquiries for pesticides are picking up. Cotton acreage is expected to expand but Kaveri Seeds is unlikely to gain market share as Rasi Seeds' RCH659 brand is gaining traction. **Sale of illegal HTBT variety of seeds is rampant this year as well.**
- Large farmers use modern tools & techniques and have a very professional approach which enables them to earn healthy profit from farming, on sustainable basis. A horticulture farmer (~47 acres) earning ~Rs 25-30 lakhs p.a had invested Rs 2.5 lakh for metal wiring atop on his 2-acre tomato farm (net plantation area- 1 acre) and Rs 4.0 lakh in drip irrigation.
- Large farmers do not shy away from leasing large tracts of land for farming as it gives them economies of scale. One farmer had closed down his agri-input shop and started farming 2 years on a 100 acre leased land. Another farmer who was farming on 47 acres had taken 40 acres on lease.
- **Products of Bayer, Syngenta, PI, UPL, etc are widely accepted. In Seeds, brands like ATM and Jadoo of Kaveri Seeds, RCH 659 of Rasi, Ujwal of Tulasi seeds are well accepted. Urea of Nagarjuna Fertilisers and NPK grades of Godavari (Coromandel) are mostly used by farmers.**
- Due to delay in sowing this year, there is possibility of outbreak of thrips and whitefly.
- **Farmers had shown resistance in buying agrochemicals after large price increase last year in products like Profenofos, Phorate, etc. Phorate prices have increased from Rs 60/Kg last year to Rs 110/kg this year.**
- **Rallis, Adama, Nagarjuna, Swal and Crystal are offering higher credit periods** while PI, Bayer, Dhanuka and BASF offer lower payment timelines. Rallis is also offering lucrative cash discounts for prompt payments and willing to take back products even before 120 days.
- **Adama giving competition a run for their money:** Adama has become very aggressive in India. Apart from applying loss leader policy in Acephate, they are expanding distribution and making inroads by going through direct dealer model, offering higher credit period to dealers.

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AP & TG - Largest agri-input market in India

- We chose rural area around Hyderabad as Andhra Pradesh (AP) and Telangana (TG) are the major markets for agri-inputs. In fertilisers, these 2 states command ~10.2% volume market share in India. The agrochemical market size of these two states is ~Rs 35 bn (18% market share in India). The agrochemical market declined by ~10% in FY19 owing to patchy rainfall and low pest infestation. AP & TG have ~60 lakh farmers in the state.

Exhibit 2: AP & Telangana commands 12% & 6% market share in Indian agrochemical industry

Agrochemical market	Size (Rs bn)	Market share
Andhra Pradesh	23	12%
Telangana	12	6%
Total	35	18%

Source: PL Research

Exhibit 3: AP & TG commands ~10% volume market share in fertilizer ind.

In Mn tonnes	Andhra Pradesh		Telangana		Total	Market Share
	Kharif	Rabi	Kharif	Rabi		
Urea	0.627	0.791	0.785	0.598	2.801	8.8%
DAP	0.177	0.136	0.171	0.052	0.536	5.7%
NPK	0.468	0.670	0.702	0.348	2.188	22.8%
MoP	0.118	0.124	0.080	0.061	0.382	13.0%
SSP	0.088	0.076	0.024	0.017	0.204	5.0%
Compost	0.002	0.006	0.002	0.003	0.013	3.5%
Total	1.479	1.803	1.762	1.079	6.124	10.5%

Source: Gol, PL Research

Exhibit 4: Sowing is delayed by ~20 days in AP & TG

Crop (Lakh Ha)	AP (Kharif season)			AP (Rabi season)		Telangana (Kharif season)			Telangana (Rabi season)	
	FY 18	FY 19	YTFY20	FY 18	FY 19	FY 18	FY 19	YTFY20	FY 18	FY 19
Rice	13.6	13.5	0.8	7.0	6.1	7.6	10.3	0.3	7.3	6.1
Pulses	3.2	2.6	0.0	10.1	9.9	3.7	3.8	0.9	1.3	1.3
Coarse cereals	1.9	1.6	0.1	3.5	3.0	5.0	5.0	1.1	1.6	1.3
Oilseeds	7.1	7.2	0.4	1.2	1.0	2.1	2.2	-	1.5	1.2
Sugarcane	1.3	1.4	1.3	-	-	0.4	0.4	0.3	-	-
Jute & Mesta	0.1	0.0	0.0	-	-	-	-	-	-	-
Cotton	6.0	5.5	0.4	-	-	18.7	17.9	7.9	-	-
Total	33.1	31.7	3.0	21.7	20.0	37.4	39.6	10.5	11.7	9.9

Source: PL Research

- June was a month of deficit rainfall in AP & TG as well. Sowing got delayed by ~20 days, started only after mild rainfall and is nearing completion now. Cotton acreage is expected to expand by ~5-7% in the region while Maize is expected to decline steeply. After the havoc created by the impact of Fall Armyworm last year, farmers are moving away from maize despite remunerative market price. Paddy farmers are yet to start sowing and are awaiting more rainfall.

- Fertiliser and Agrochemical sales are expected to pick up July onwards. Due to lower liquidation, fertiliser industry is suffering from high inventory pan-India. Industry inventory at the end of May 2019 is expected to be ~1.6 mn tons (down 35% YoY) for Urea, ~23 mn tons (up 89% YoY) for DAP and 1.9 mn tons (up 31% YoY) for NPK.

KTAs from interaction with large farmers

Not shying away from farming on lease land: We interacted with few large farmers in Nalgonda district to understand their approach and mind-set for farming. These large farmers do not necessarily own all the farmland rather take land on lease. For instance, one farmer had closed down his agri-input shop and started farming 2 years back by taking 100 acres land on lease. Another farmer we interacted with was farming in 47 acres of land of which 40 acres was taken on lease.

Professional approach: The key difference between that we found while interacting with small/marginal farmer and large farmer is their approach to farming. The large farmers are much more professional in their approach and thus their confidence in farming comes from the practical application of the knowledge that is built over the years and hence are benefitting from it. For example, they use seeds and agrochemicals only after testing the same in their field rather than going by the advertisement or company demonstration.

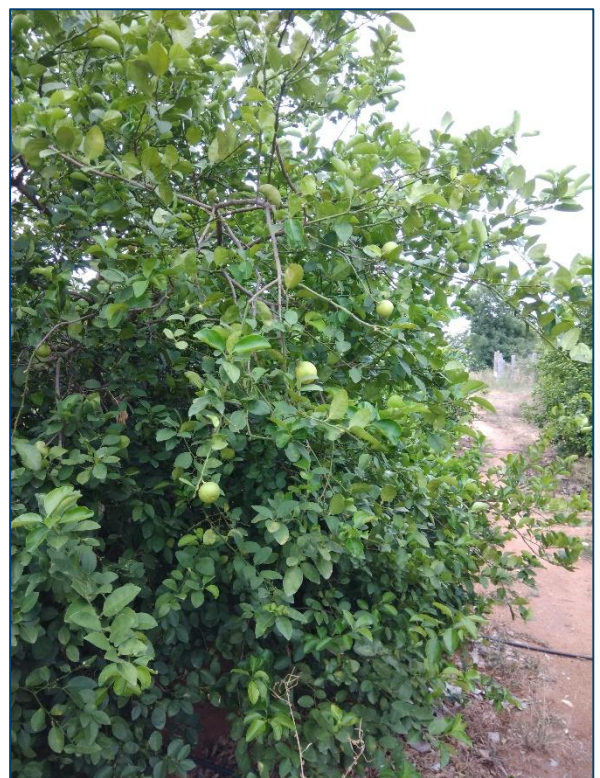
Using modern techniques in farming: Large farmers proactively use modern farming tools like drip irrigation and spray machines (from Japan). A horticulture farmer (~47 acres) earning ~Rs 25-30 lakhs p.a (we interacted with) had invested Rs 2.5 lakh for metal wiring atop on his 2-acre tomato farm (net plantation area- 1 acre) and Rs 4.0 lakh in drip irrigation. He got 50% subsidy on wiring and 90% subsidy on drip irrigation tools by the state government.

Target audience of agri-input companies: Large farmers are the target audience of the agrochemical companies as they account for ~35-40% of agrochemical consumption (in-terms of value) despite being less than 15% of total farmer population. They are also willing to invest in high-value products if the same offers high value proposition. A large agchem dealer had cited us about a recent event where he showcased a spray machine imported from Japan which attracted many enquiries, much more than what he had anticipated.

Products of Bayer, Syngenta, PI, UPL, etc are widely accepted: While these farmers are trying and testing products before putting-up large scale application, there were other farmers who preferred MNCs product mainly of PI Industries & UPL in the domestic space due to their quality, value proposition and frequency of field demonstration provided.

Farmers we interacted with, used seed brands such as ATM and Jadoo of Kaveri Seeds, RCH 659 of Rasi, Ujwal of Tulasi seeds. Some of the agrochemical they use are Confidor (Bayer), Ulala (UPL), Carina (PI), Sencor (Bayer). Urea of Nagarjuna Fertilisers and NPK grades of Godavari (Coromandel) are used prominently. Farmers were also appreciated the quality of Gromor outlets of Coromandel International.

Advising other farmers: Small farmers look up to large farmers for their advice on best practices in farming. On field days, corporates seek help from large farmers during product demonstration since small and marginal farmers are their vivid followers. One of the farmers with whom we interacted was also awarded by the Government of Telangana.





KTAs from interaction with distributors

- **Seed sales though delayed, is now almost complete:** Cotton seed sale is almost complete. Rasi Seeds has gained market share driven by traction for RCH659 brand. ATM and Jadoo brands from Kaveri's portfolio are popular in the region but according to channel checks the company has not been able to capitalise on the opportunities of expanding acreages due to the perception of higher infestation of mealybug pest in its seed variety and lower commission. Nuziveedu was a very good brand, but only 3-4 years back.
- **Sale of illegal HTBT variety of seeds is rampant this year as well:** According to seed dealers, all the illegal HTBT variety comes from Gujarat. Despite furore last year, rampant sale of these illegal variety has happened even this year. All the incremental growth in cotton sowing this year has been captured by the HTBT variety, leaving his cotton seed sales flat. There is confusion around Glyphosate ban but the officials are verbally requesting not use it.
- **Agchem placements picked up in last week of June:** June has been a very slow month for pesticide sales. Placement picked up only during the last week of June post initial bouts of rain. Herbicide sales was most impacted during June due to lower weed growth. **UPL and Adama are dumping products in the market.**
- Farmers generally downtrade in agrochemicals during low vegetable prices. They wait for Cotton and Chilli due to longevity of the crops.
- Due to delay in sowing this year, there is possibility of outbreak of thrips and whitefly. Focus of new products is not restricted to just disease management, they are also focusing on overall crop health and increasing the yield. Herbicide sales are expected to grow sharply due to untreated acreages and massive shortage of labour.
- Farmers had shown resistance in buying agrochemicals after large price increase last year in products like Profenofos, Phorate, etc. Phorate prices have increased from Rs 60/Kg last year to Rs 110/kg this year.

- Adama giving competition a run for their money:** Adama has become very aggressive in India. Apart from applying loss leader policy in Acephate, they are expanding distribution and making inroads by going through direct dealer model, offering higher credit period to dealers.
- Adama, Nagarjuna, Swal and Crystal are offering higher credit periods** while PI, Bayer, Dhanuka and BASF offer lower payment timelines. PI has no return policy to avoid wrong/excessive placement of product. It is different from others due to its quality, highest number of branded products.
- Companies are offering cash discount of upto 10% on cash sales of many molecules to limit receivables.
- Rallis offering higher credit period and well as lucrative cash discounts:** Rallis is offering higher credit period to dealers and is also offering lucrative cash discount for prompt payment. The company is also willing to take back products before 120 days, which will aid in reducing working capital of dealers/distributors.
- Working Capital has increased for the distributors even as profitability took a hit:** Working Capital has increased for the distributors by ~20% in the last 3 years while profitability has taken a hit. Dealers get credit period of ~45-60 days from corporates while they offer ~90-120-day credit to retailers. Retailers offer credit period of ~6 months to farmers.

Exhibit 5: Key products of some few companies according to the dealers we interacted

Company	Key products
Bayer	Regent, Nativo, Confidor
Godrej	Hitweed, Double, Combine
Dhanuka	Omite, Sempra, Targa Super, Dhanzyme, Dhanuvit
Rallis	Atrazine, Applaud, Takumi
PI Industries	Nominee Gold, Osheen, Foratox, Rokat, Header

Source: PL Research







Exhibit 6: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Bayer Cropscience	HOLD	3,402	3,783	27.1	26.9	29.3	32.8	4.1	3.7	4.2	5.3	2.7	2.4	2.9	3.6	77.8	69.2	83.2	105.4	13.9	13.0	14.3	16.2	43.7	49.2	40.9	32.3
Dhanuka Agritech	Buy	410	578	9.6	10.1	11.1	12.1	1.7	1.5	1.9	2.2	1.3	1.1	1.3	1.5	25.7	23.7	26.5	32.1	21.8	17.7	18.1	18.9	16.0	17.3	15.5	12.8
Insecticides India	BUY	640	887	10.7	11.9	13.3	14.6	1.5	1.9	2.1	2.3	0.8	1.2	1.2	1.4	40.6	59.2	56.9	68.2	16.6	20.3	17.2	19.0	15.8	10.8	11.2	9.4
P.I. Industries	Buy	1,125	1,278	22.8	28.4	34.6	41.2	4.9	5.7	7.2	9.3	3.7	4.1	5.1	6.3	26.6	29.6	37.1	45.7	20.8	19.5	20.7	21.5	42.3	38.1	30.3	24.6
Rallis India	Acc	153	173	17.9	19.8	21.6	24.3	2.6	2.4	2.6	3.2	1.7	1.6	1.6	2.0	8.6	8.0	8.3	10.2	14.6	12.5	12.3	14.2	17.8	19.2	18.4	15.1
Sharda Cropchem	Acc	312	402	17.1	20.0	22.7	26.0	3.5	3.3	4.1	5.0	1.9	1.8	2.0	2.4	21.1	19.5	22.3	26.7	18.2	14.6	14.9	15.9	14.8	16.0	14.0	11.7
UPL	BUY	662	752	173.8	218.4	357.4	396.5	35.2	41.1	77.9	89.6	18.1	22.0	29.5	36.8	35.5	43.2	38.6	48.2	21.9	18.5	19.1	18.9	18.6	15.3	17.2	13.7

Source: Company, PL

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Hold	3,783	3,359
2	Dhanuka Agritech	BUY	578	432
3	Insecticides India	BUY	887	650
4	P.I. Industries	BUY	1,278	1,200
5	Rallis India	Accumulate	173	157
6	Sharda Cropchem	Accumulate	402	319
7	UPL	BUY	752	698

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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