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Sector Update
INDIA
AGRICULTURE

19 April 2017

India Agrochemicals

Channel checks: South spoils the party in Q4

Our interactions with agrochemical dealers and players indicate that (a) a below-normal northeast monsoon has severely affected the southern region, (b) pan-India *rabi* acreage is up 6% YoY but the states of Tamil Nadu and Karnataka have posted declines, (c) southern reservoirs are at very low storage levels, and (d) below-par agrochem demand is expected to keep industry growth in the lower single digits in Q4FY17. We like RALI and DAGRI in the space.

- **Tamil Nadu and Karnataka worst hit by errant northeast monsoon:** After two consecutive drought years, rainfall across India was normal during the *kharif* crop season. However, the poor northeast monsoon (Oct-Dec'16) has hit the states of Tamil Nadu and Karnataka hard. The southern peninsula witnessed a 60% departure from the long period average (LPA) rainfall during the northeast monsoon.

- **Rabi acreage up 6% YoY, wheat and pulses gained:** Overall crop acreage was up 6% YoY during the *rabi* season, primarily led by wheat (+7% YoY) and pulses (+11% YoY) and driven by the northern states. Our channel checks suggest that the wheat crop in Madhya Pradesh and Uttar Pradesh performed extremely well in terms of acreage as well as prices. However, rice and coarse cereals witnessed a drop in acreage by 12% YoY and 6% YoY respectively due to poor rainfall in the south.

- **Reservoir level up 32% YoY, south significantly below long-term average:** As on date, India's reservoir level is at 31% of the overall live storage capacity vs. 23% last year – this is 2% higher than the average of the past 10 years. Region-wise reservoir levels stand as follows: north – 23% vs. 23% last year, east – 49% vs. 34%, west – 39% vs. 20%, central – 43% vs. 31% and south – 12% vs. 15%. Reservoir storage in the south is significantly lower than the last 10-year average of 23%.

- **Agrochemicals – subdued Q4 expected:** *Our channel checks suggest that the agrochem industry is likely to grow in lower single digits YoY in Q4FY17, backed by higher pricing to manage rising input costs, even as industry volumes have declined.* Imported raw material cost from China has inched up significantly since December led by lot of plant shutdowns on account of environment norms. Our checks indicate that prices of glyphosate, imidacloprid and paraquat have risen by 15-100% since December. On the whole, we expect revenues for our coverage universe to grow at 10% YoY in Q4 (ex-UPLL where the merger with Advanta has been underway since Q1FY17).

- **FY18 could be a challenging year for PI:** PI's largest selling product *Nomineegold* (bispyribac sodium) is likely to see tough competition in FY18 as Insecticide India (*Green Label* brand), Gharda Chemicals (*Takila*), Godrej Agrovat and Adama (Narkis) are all launching rival products, many of which are at prices 5-7% lower than *Nomineegold. We believe that Adama can offer tough competition to PI.*

- **Good monsoon key near-term trigger; we remain long-term positive:** The monsoon will be a key factor to watch in the near term. We are structurally positive on the agrochemical space over the long term and like RALI and DAGRI.

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Recommendation snapshot

Company	Ticker	CMP (Rs)	TP (Rs)	Rating
Bayer CropScience	BYRCS IN	3,754	4,660	HOLD
Dhanuka Agritech	DAGRI IN	825	890	BUY
PI Industries	PI IN	825	910	HOLD
Rallis India	RALI IN	247	290	BUY
Sharda Cropchem	SHCR IN	496	490	HOLD
UPL	UPLL IN	760	780	BUY

Fig 1 - RCML agrochemical universe: Valuation matrix

Company	Mcap (Rs bn)	EPS CAGR (FY16-19E) (%)	P/E (x) FY16	P/E (x) FY17E	P/E (x) FY18E	P/E (x) FY19E	EV/EBITDA (x) FY16	EV/EBITDA (x) FY17E	EV/EBITDA (x) FY18E	EV/EBITDA (x) FY19E	RoE (%) FY16	RoE (%) FY17E	RoE (%) FY18E	RoE (%) FY19E
Bayer Cropscience	134	22.3	44.5	37.0	28.9	24.4	30.6	24.6	19.1	15.8	15.9	19.1	20.9	21.0
Dhanuka Agritech	41	18.5	38.1	33.4	27.9	22.9	28.7	22.8	19.1	15.7	24.0	23.5	24.2	25.0
PI Industries	113	17.6	36.8	27.2	26.8	22.6	26.2	21.7	19.2	15.8	29.6	30.7	24.6	23.6
Rallis India	49	20.7	34.4	27.6	23.4	19.6	21.4	18.5	15.5	12.9	16.8	18.5	19.4	20.5
Sharda Cropchem	44	18.7	26.2	21.1	18.4	15.7	15.4	12.6	10.6	8.7	22.6	23.0	22.0	21.5
UPL	407	14.5	22.8	21.3	18.4	15.2	12.2	11.6	9.9	8.3	22.3	22.3	20.6	20.8

Source: RCML Research

Fig 2 - Q4FY17 estimates

(Rs mn)		Sales Q4FY17E	Sales Q4FY16	Sales % YoY	EBITDA Q4FY17E	EBITDA Q4FY16	EBITDA % YoY	PAT Q4FY17E	PAT Q4FY16	PAT % YoY
Dhanuka Agritech	Standalone	1,920	1,744	10.1	345	301	14.7	265	239	11.1
PI Industries	Standalone	6,103	5,740	6.3	1,171	1,073	9.1	921	934	(1.4)
UPL*	Consolidated	52,664	43,397	21.4	12,546	9,813	27.9	6,715	5,922	13.4
Rallis India	Consolidated	3,803	3,483	9.2	480	419	14.7	262	253	3.7
Bayer Cropscience	Standalone	5,852	5,272	11.0	414	200	107.0	353	165	113.9
Sharda Cropchem	Consolidated	5,920	5,244	12.9	1,665	1,519	9.6	1,092	1,018	7.3
Total		**76,262**	**64,880**	**17.5**	**16,622**	**13,325**	**24.7**	**9,608**	**8,530**	**12.6**
Total (Ex UPL)		**23,598**	**21,483**	**9.8**	**4,076**	**3,512**	**16.0**	**2,893**	**2,608**	**10.9**

Source: RCML Research, Company | *Q4FY16 figures are excluding Advanta

Fig 3 - Revenue growth

Company (%)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E	FY19E
Dhanuka Agritech	21.3	20.2	7.8	10.0	26.8	6.3	5.6	9.8	15.0	15.0
Rallis India	5.2	21.1	17.4	14.4	19.8	4.3	(10.6)	13.7	14.5	14.1
Bayer Cropscience	16.2	23.9	6.3	19.9	19.1	14.7	0.5	11.8	14.6	14.8
PI Industries	17.2	32.8	22.1	31.0	38.6	21.6	8.1	8.8	11.6	16.4
UPL	10.7	5.5	32.9	20.0	17.3	12.3	10.0	22.1	12.4	12.5
Sharda Cropchem	(26.4)	25.6	38.9	26.8	1.6	34.2	14.8	14.5	14.8	15.0
Insecticides India	34.8	20.4	15.9	17.3	32.9	11.6	2.5	15.2	15.0	16.2
Overall growth	**10.6**	**13.6**	**24.0**	**20.0**	**19.5**	**13.3**	**6.3**	**17.6**	**13.1**	**13.6**

Source: RCML Research, Bloomberg

Fig 4 - Northeast monsoon (from 1 Oct 2016 to 31 Dec 2016)

Regions	Actual rainfall (mm)	Normal rainfall (mm)	% departure from LPA
Country as a whole	69.2	127.2	(46)
Northwest	16.7	62.7	(73)
Central	68.5	79.6	(14)
South peninsula	109.8	273.3	(60)
East and northeast	125	171.4	(27)

Source: IMD

Fig 5 - Crop-wise acreage during rabi season

Crops	Normal area (mn ha)	Area sown (mn ha) 2015-16	Area sown (mn ha) 2016-17	Change (%)	States with higher area sown	States with lower area sown
Wheat	**30.41**	**29.73**	**31.78**	**6.9**	Madhya Pradesh (0.91mn Ha), Uttar Pradesh (0.33mn Ha), Maharashtra (0.22mn Ha), Rajasthan, Jharkhand, Haryana, Chhattisgarh, Bihar	Gujarat, Karnataka, West Bengal, Punjab
Rice	**4.36**	**2.90**	**2.56**	**(11.7)**	Telangana, Chhattisgarh, Orissa	Tamil Nadu (0.5mn Ha), Andhra Pradesh (0.14mn ha), Karnataka, West Bengal
Pulses	**14.07**	**14.37**	**15.97**	**11.1**	Maharashtra, Rajasthan, Madhya Pradesh, Jharkhand, Uttar Pradesh, Telangana, West Bengal, Orissa, Andhra Pradesh, Chhattisgarh	Karnataka, Haryana, Gujarat, Bihar, Tamil Nadu, Punjab
Gram	8.84	8.95	9.90	10.7		
Lentil	1.48	1.37	1.67	21.3		
Fieldpea	0.95	0.96	1.13	17.4		
Kulthi	0.23	0.42	0.38	(10.8)		
Urdbean	0.77	0.80	0.87	9.0		
Moongbean	0.92	0.62	0.64	3.4		
Lathyrus	0.52	0.39	0.43	9.5		
Others	0.37	0.86	0.96	12.0		
Coarse cereals	**6.52**	**6.10**	**5.76**	**(5.6)**	Madhya Pradesh, Bihar, West Bengal, Gujarat, Tamil Nadu, Chhattisgarh, Uttar Pradesh	Karnataka, Maharashtra, Andhra Pradesh, Telangana, Punjab, Rajasthan
Jowar	3.83	3.74	3.22	(13.9)		
Bajra	0.39	0.02	0.03	8.7		
Ragi	0.06	0.07	0.05	(33.3)		
Maize	1.56	1.51	1.65	9.5		
Barley	0.69	0.76	0.82	7.5		
Oilseeds	**8.49**	**7.94**	**8.44**	**6.2**	Jharkhand, Uttar Pradesh, Rajasthan, Madhya Pradesh, West Bengal	Karnataka, Andhra Pradesh, Tamil Nadu, Odisha, Maharashtra, Gujarat
Rapeseed and Mustard	6.32	6.45	7.06	9.3		
Groundnut	0.85	0.60	0.62	3.4		
Safflower	0.21	0.12	0.10	(18.8)		
Sunflower	0.49	0.32	0.17	(47.4)		
Sesamum	0.30	0.07	0.06	(19.7)		
Linseed	0.31	0.29	0.38	31.1		
Others	0.02	0.09	0.06	(36.3)		
Total	**63.84**	**61.04**	**64.51**	**5.7**		

Source: Government of India

Fig 6 - Storage status of 91 reservoirs as on 13 Apr 2017

Rivers of India	Live cap. at FRL	2016-17 Storage		2015-16 Storage		Last 10 years average storage		% departure w.r.t. average of 10 years
	(bcm)	(bcm)	(%)	(bcm)	(%)	(bcm)	(%)	
Ganga	28.10	13	45.0	8	30.1	7.6	26.9	67.2
Indus	14.73	3	21.3	3	22.2	4.3	29.4	(27.6)
Narmada	17.41	7	37.4	5	28.4	4.7	27.1	38.1
Tapi	7.40	4	50.2	2	23.4	2.9	38.9	29.1
Mahi	4.01	2	44.3	1	24.4	1.6	39.1	13.4
Sabarmati	0.74	0	31.7	0	26.7	0.2	24.4	30.2
Rivers of Kutch	0.89	0	7.7	0	31.6	0.2	17.0	(55.0)
Godavari	15.39	5	33.9	3	20.0	4.4	28.5	19.2
Krishna	32.83	3	8.8	3	8.2	6.8	20.7	(57.5)
Mahanadi and neighbouring	13.18	7	56.3	5	35.6	5.4	41.0	37.1
Cauvery and neigbouring	8.36	1	9.1	2	22.6	2.7	32.0	(71.5)
West flowing rivers of south	14.77	4	27.4	4	30.1	5.0	34.1	(19.9)
Total	**157.80**	**48**	**30.7**	**37**	**23.2**	**46**	**28.9**	**6.0**

Source: Central water commission

Fig 7 - Region-wise storage status of 91 reservoirs

Regions	Filling position of 91 reservoirs w.r.t. FRL								Departure from normal storage
	100%	91-99%	81-90%	71-80%	61-70%	51-60%	41-50%	40% and below	
North	-	-	-	-	-	1	-	5	Himachal Pradesh (-44%), Punjab (36%), Rajasthan (9%)
East	-	-	-	2	-	2	5	6	Jharkhand (36%), Orissa (40%), West Bengal (52%), Tripura (225%)
West	-	-	1	1	-	2	5	18	Gujarat (17%), Maharashtra (-13%)
Central	-	-	-	-	2	2	1	7	Uttar Pradesh (99%), Uttarakhand (-42%), Madhya Pradesh (78%), Chhattisgarh (21%)
South	-	-	1	-	-	-	-	30	Telangana & Andhra Pradesh (-71%), Andhra Pradesh (-65%), Telangana (50%), Karnataka (-39%), Kerala (-30%), Tamil Nadu (-81%)
Total reservoirs	**-**	**-**	**2**	**3**	**2**	**7**	**11**	**66**	

Source: Central water commission

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