

February 28, 2020

### Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Bayer Cropscience	BUY	4,325	5288
Dhanuka Agritech	BUY	496	635
Godrej Agrovet	BUY	479	659
Insecticides India	BUY	473	896
P.I. Industries	Hold	1,526	1516
Rallis India	Acc	230	248
Sharda Cropchem	Acc	213	313
Sumitomo Chemical India	Acc	260	267
UPL	BUY	551	740

Source: Company, PL

## Chinese Agrochem shipments have commenced

*During our interaction with industry experts/companies across the Indian agrochemical industry, participants alluded that shipments of raw materials for agrochemicals from China has started albeit at a slower pace. ~2/3<sup>rd</sup> of the companies we interacted with have seen commencement of exports from Chinese ports starting 15<sup>th</sup>-20<sup>th</sup> February, rest are expecting shipments to restart in the next 5-6 days. Logistics movement within China has improved except in 3-4 provinces.*

*Many plants have also resumed production. March is an equally important month to monitor supplies as factories which are currently up & running may run out of raw materials and eventually shut down if the ancillary unit supplying those raw materials does not resume production. Chlorpyrifos, Glyphosate, Tebuconazole and difenoconazole are seeing short supply and 5-8% increase in price. While the supply chain situation has started to improve, the situation continues to remain watchful in the short term.*

*We like Dhanuka Agritech (turnaround in domestic agchem ind), Godrej Agrovet (Integrated play on Agri), Sharda Cropchem (likely business turnaround in FY21), Sumitomo Chemicals (strong earnings momentum in FY21 driven by new launches and cross selling opportunities) and UPL (Gaining market share across geographies) at current levels.*

## COVID poses a threat to both demand and supply of agchem

- The menace of Coronavirus continues to spread at a rapid pace moving beyond China into Europe, Iran extending even to the Americas. COVID poses a threat to both demand and supply of agrochemicals.
- Demand for agchem may get impacted due to reduction in animal protein consumption as a result of fear psychosis around COVID (though occurrence of COVID has no direct correlation with animal protein consumption).
- On the supply of raw material for agrochemicals, there is uncertainty due to temporary stoppage in exports from China since the COVID issue gathered steam. Continued uncertainty on raw material supplies poses a significant business risk for the industry before the start of Kharif season.

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## Key Takeaways are:

### Industry expert/Corporate 1:

- Shipments have started since 20<sup>th</sup> Feb.
- Have low requirement of Chinese raw material in Feb-March. See 10-15 day delay in getting the required materials.
- Don't see Kharif getting disrupted for the company.
- Expect some increase in agchem price globally

### Industry expert/Corporate 2:

- The company has all the materials in factory that it requires till May
- Currently we are not getting shipments

### Industry expert/Corporate 3:

- Have not seen shipments getting started yet but hearing news of products likely to get shipped in 5-7 days
- If supply chain issue persists then supplies of raw material for major products can be impacted.

### Industry expert/Corporate 4:

- Seeing some impact on supplies from China.
- Might take ~15 days for exports from China and ~3-4 months for situation to normalise.
- Seeing price increase of 15-20% in raw materials.

### Industry expert/Corporate 5:

- Agrochemical exports out of China has started.
- Since we are also dependent on indirect imports, we may see some impact if any our vendors are impacted by the supply chain issues.
- Foresee minimal impact on products imported from Japan, Europe or North America.

### Industry expert/Corporate 6:

- Not able to buy material from China. It will take 5-6 days more for shipment to get exported out of China.
- Not seeing any movement in Shanghai port, Shandong port, etc.
- Buy intermediates from China

**Industry expert/Corporate 7:**

- Few Shipments moved out from China on 15<sup>th</sup> Feb
- Few more planned for end of the month.
- 2<sup>nd</sup> half of March is very critical for the industry as
  - **Till date people have started to come for work but on alternate days.**
  - **Plants which were operating through the new year holidays are only working. Around 25% of the total plants are working.**
  - **Factories which are currently up & running may run out of raw materials and eventually shut down if the ancillary unit supplying those raw materials does not resume production.**

**Industry expert/Corporate 8:**

- Our shipments moved out from China on 8<sup>th</sup> Feb (received), 20<sup>th</sup> Feb.
- More shipments are likely to be exported during the end of month

**Industry expert/Corporate 9:**

- Our shipments have started to move from 24<sup>th</sup> February from China.
- People and products movement have started to increase.
- Shipped products are not only those good which were at the port warehouses but also products which were at company warehouse.
- Prices are stable

**Exhibit 2: Valuation Metrics**

Company	CMP (Rs)	TP (Rs)	M Cap		Net Sales (Rs mn)				EBITDA (%)				Adjusted PAT (Rs mn)			
			(Rs mn)	(\$ mn)	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
BYRCS	4,325	4,110	1,94,372	2,715	26,857	34,640	38,322	41,761	13.9	17.3	18.3	18.1	2,376	4,652	5,095	5,597
DAGRI	496	635	23,597	330	10,058	11,114	12,447	13,443	14.5	15.3	17.0	17.3	1,126	1,321	1,600	1,777
GOAGRO	479	659	92,021	1,286	58,707	71,668	80,540	89,413	7.8	7.2	8.5	8.8	3,290	2,797	3,942	4,644
INST	473	896	9,785	137	11,919	13,377	14,554	14,883	15.6	14.4	15.2	15.5	1,224	1,142	1,438	1,543
PI	1,526	1,516	2,10,432	2,940	28,409	34,761	44,424	53,058	20.2	21.5	21.2	21.5	4,077	4,911	6,080	7,467
RALI	230	248	44,748	625	19,840	23,387	26,381	29,333	12.1	12.7	14.1	14.8	1,554	1,971	2,405	2,834
SHCR	213	313	19,244	269	20,011	18,391	19,847	21,546	16.5	13.7	16.9	18.5	1,764	1,114	1,497	1,758
SUMICHEM	260	267	1,29,553	1,810	22,117	24,466	27,769	31,934	11.9	13.5	14.5	16.1	1,658	2,342	2,713	3,507
UPL	551	740	4,20,858	5,880	2,18,370	3,57,415	3,93,672	4,27,134	17.5	18.8	22.6	22.8	18,980	22,250	34,421	39,928

  

Company	Adjusted EPS (Rs)				Total Debt (Rs mn)				Net debt/Equity (x)				RoCE (%)			
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
BYRCS	69.2	103.5	113.4	124.5	-	-	-	-	-0.2	-0.1	-0.2	-0.3	18.5	30.4	34.7	31.2
DAGRI	23.7	27.8	33.6	37.4	222	76	85	92	-0.0	-0.2	-0.2	-0.3	20.5	21.7	24.0	23.0
GOAGRO	17.1	14.6	20.5	24.2	3,877	4,294	4,062	4,059	0.2	0.2	0.2	0.2	18.6	17.1	22.1	24.7
INST	59.2	55.2	69.6	74.7	2,965	1,418	-	-	0.4	0.2	-0.1	-0.1	20.6	18.1	21.3	21.0
PI	29.6	35.6	44.1	54.1	492	3,500	3,500	2,000	-0.1	0.1	0.1	-0.0	22.2	24.2	26.8	28.6
RALI	8.0	10.1	12.4	14.6	688	793	793	793	-0.1	-0.1	-0.1	-0.1	15.2	16.6	19.3	21.4
SHCR	19.5	12.3	16.6	19.5	0.9	0.9	0.9	0.9	-0.3	-0.3	-0.3	-0.4	17.8	8.1	11.7	12.7
SUMICHEM	6.0	4.7	5.4	7.0	197	-	-	-	-0.0	-0.1	-0.1	-0.1	23.2	26.0	28.8	33.1
UPL	37.2	29.1	45.1	52.3	2,91,390	2,55,610	2,19,610	1,83,610	1.8	1.4	1.0	0.7	9.5	10.0	15.1	17.0

  

Company	RoE (%)				P/E (x)				Price/Book Value (x)				EV/EBITDA (x)			
	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E	FY19	FY20E	FY21E	FY22E
BYRCS	13.0	26.1	27.7	25.2	62.5	41.8	38.1	34.7	7.9	11.6	9.7	8.0	38.9	32.0	27.1	24.6
DAGRI	17.6	19.1	20.0	19.3	21.0	17.9	14.7	13.3	3.7	3.2	2.7	2.4	16.1	13.2	10.3	8.9
GOAGRO	21.5	16.2	20.9	23.0	28.0	32.9	23.3	19.8	5.6	5.1	4.7	4.4	21.0	18.5	14.0	12.1
INST	20.3	16.0	17.1	16.2	8.0	8.6	6.8	6.3	1.5	1.3	1.1	1.0	6.8	5.8	4.2	3.8
PI	19.5	20.8	23.4	24.4	51.6	42.9	34.6	28.2	9.3	8.6	7.7	6.2	36.5	28.4	22.7	18.4
RALI	12.5	14.8	16.8	18.4	28.8	22.7	18.6	15.8	3.5	3.3	3.0	2.8	18.2	14.8	11.7	10.0
SHCR	14.6	8.5	10.7	11.5	10.9	17.3	12.9	10.9	1.5	1.4	1.3	1.2	4.8	6.0	4.4	3.4
SUMICHEM	16.6	20.9	21.6	24.9	43.0	55.3	47.8	36.9	6.8	10.9	9.8	8.7	26.9	39.0	31.8	24.9
UPL	15.9	14.1	19.0	19.3	14.8	18.9	12.2	10.5	1.9	2.5	2.2	1.9	14.3	9.7	7.0	6.0

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	5,288	4,255
2	Dhanuka Agritech	BUY	635	530
3	Godrej Agrovet	BUY	659	559
4	Insecticides India	BUY	896	488
5	P.I. Industries	Hold	1,516	1,545
6	Rallis India	Accumulate	248	220
7	Sharda Cropchem	Accumulate	313	268
8	Sumitomo Chemical India	Accumulate	267	264
9	UPL	BUY	740	543

**PL's Recommendation Nomenclature**

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



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