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Agrochemicals: This time it's different

Sensex: 72240
Nifty: 21731

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Agrochemicals: This time it's different

After a series of one-off events globally, starting from the Covid-19 pandemic to escalated geo-political tensions arising from the Russia-Ukraine and Israel-Hamas wars, the need to secure food supplies has become the top priority for every nation. Consequently, we believe that the structural growth story of the agrochemicals sector is intact, impelled by a) rising domestic demand; b) shrinking arable land (rising yields being the only way out); c) substantial opportunities to explore products going off-patent in the next decade; d) stringent environmental norms in China, offering domestic manufacturers an edge and e) strategic tie-ups with global giants

- **Current slowdown not as bad as the last one.** Domestic agrochemicals companies (those we initiate here) clocked 8.7% revenue CAGR over FY14-16 as two consecutive years of below-normal rains (FY15 and FY16), greater channel stocks and pressure on farm incomes curbed sales. Cash-flows were strained, and the below-normal monsoons led to industry-wide muted volume and price cuts. We believe that the pressure this time will not be as severe as during the last slowdown (FY15/16) given a) on-ground demand is strong unlike during the last slowdown when farmers had down-traded to second-rate products driven by pressure on farm output prices; b) green shoots visible in terms of moderation in channel stocks across regions (barring US markets); c) Crop prices (domestic and global) continue to be remunerative; d) the government's thrust on improving farm income; e) expectations of special aid from the government to the farming community in case of crop damage or losses (due to adverse weather, etc.) given Lok Sabha elections next year

- **Improving farm economics.** The government's thrust on doubling farmers' incomes via a) higher MSPs for crops (average 22% increase across crops in the last five years); b) more area under irrigation (currently ~52% of net sown area, against ~40% a few years back (implies greater crop yields); c) heightened procurement efficiencies and d) higher agricultural credit, augurs well for the sector. We believe efforts to boost crop yields and farmers' awareness of crop-protection benefits would drive domestic demand in agrochemicals

- **Off-patent molecules to power growth.** Agrochemicals worth ~$6bn are going off-patent globally by 2030. We believe generic companies especially in developing countries (where they have limited R&D facilities as well as less balance-sheet strength to carry these costs) would be major beneficiaries as a) these molecules already come with greater efficacy to fight specific pests and have better markets and targeted crops; hence it is easy for generics manufacturers to lever their distribution networks; b) generics manufacturers break the exclusivity of molecules/companies; hence, such products no longer enjoy a pricing advantage and it becomes easier for farmers to adopt such products. We believe this augurs well for domestic agrochemicals manufacturers as it would result in the opening up of huge opportunities for domestic companies, both in domestic formulations as well in exports

- **We initiate coverage on four companies in this report, recommending Buys on Bayer Crop Science, Dhanuka Agritech, Sumitomo Chemicals and UPL**

Current slowdown not as bad as the last one

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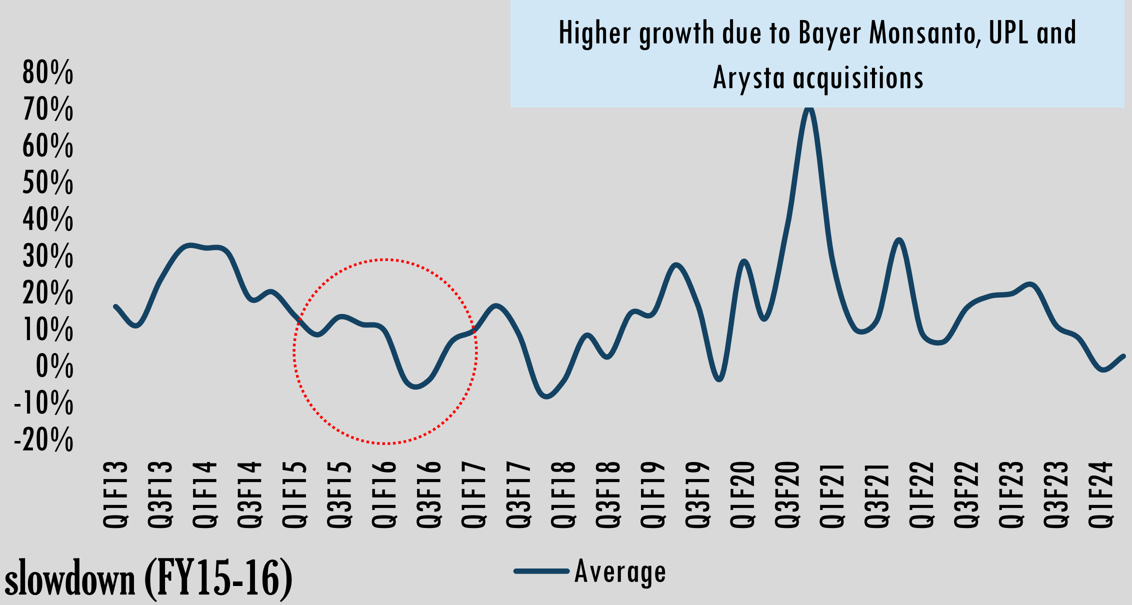
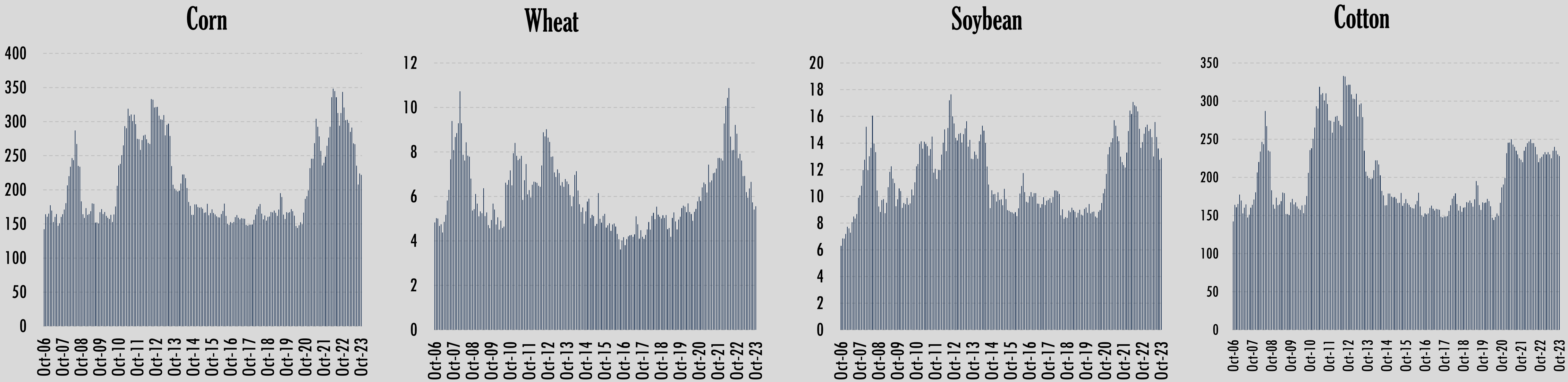
- On-ground demand is still sturdy unlike during the last slowdown when farmers down-traded to second-rate products, driven by pressure on farm output prices
- Green-shoots evident in terms of modest channel inventories across regions (barring the US)
- Crop prices continue to be remunerative both domestically and globally
- The government's thrust on raising farm income
- Expectations of special aid from the government to the farming community in case of crop damage or losses (due to adverse weather, etc.) given the Lok Sabha elections next year.

Domestic agrochemicals companies' revenue growth over the years, %



Prices of major crops ($/tonne) under pressure during the last slowdown (FY15-16)



Source: GOI; Anand Rathi Research

Current slowdown not as bad as the last one (Cont.)

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Commentaries from global agrochemical companies suggest healthy on-ground demand

Companies	3QCY23- Commentary	CY23 Outlook
FMC	**NAFTA -** Channel and diamide partners have been reducing inventory resulting in lower volumes. However, in Canada branded diamides experienced robust growth, primarily led by increased insect pressure. New products contributed to 28% of the branded sales in the last 5 years. **LATAM -** Destocking was much worse than anticipated in Brazil. Despite this, on-ground application remains steady as growers continue to protect their crops. **EMEA -** Branded diamides continued to outperform as against the rest of the product portfolio. FX continues to be a headwind. However, during the quarter, company saw price increase of more than 10%. **Asia -** Adverse weather conditions in Australia, Indian and some parts of ASEAN countries continued to hurt company's performance. Branded diamides continued to see good growth during the quarter. Inventory reduction efforts by channel partners has led to lower volumes. Forex continues to be a headwind.	• Revenue is expected to be in the range of \$4.48bn-\$4.72bn a decline of 21% YoY, led by lower volumes. • EBITDA is expected to be in the range of \$0.97bn-\$1.03bn, down 29% YoY.
Corteva	**Crop Protection business:** • Volumes declined during the quarter, primarily led by exit from key regions(Russia) coupled with lower uptick in the crop protection business. • NAFTA- Lower volumes on channel inventory management and strategic product exits; price declines led by competitive pressure. • LATAM- Volume decline led by elevated channel inventory and shift in timing of farmers purchase • EMEA- Lower volumes driven by seasonal demand shift into first half; strong price execution driven by new products • APAC- Pricing gains driven by differentiated technology; currency headwinds driven by Indian rupee and Australian dollar • Biologicals continued to perform well and have contributed around \$22mn to EBITDA during 1HCY23. • Pricing gains in EMEA offset by declines in North America and Latin America, driven by competitive pressure **• Demand at farmer's level continue to be healthy with LATAM market showing improvement from 2HCY23. Crop Protection market is expected to grow at low single digits during CY23.**	• Revenue is expected to be in the range of \$17.0bn-\$17.3bn,-2% YoY (earlier guidance of \$17.9-\$18.2bn +3% YoY), primarily led by lower CP volumes in NAFTA and LATAM region. • EBITDA is expected to be in the range of \$3.25bn-\$3.45bn +4% YoY (earlier guidance of \$3.5-\$3.65bn +11% YoY.) due to superior performance in the seeds business. • EBITDA margins to be up +100bps YoY (earlier +130bps YoY). • Free cash flow to be in the range of earlier \$ 0.6-1.0bn (earlier guidance of \$1.0-\$1.2bn).
Bayer AG (Germany)	**Herbicides business** witnessed significant decline in sales led by lower volumes and prices for glyphosate-based products in particular. Overall, decrease in volumes was driven by destocking and unfavorable weather conditions. **Corn Seed & Traits** rose significantly led by price increase in all regions **Fungicides** was up considerably, mainly due to higher volumes in Latin America Insecticides increased especially in Europe/Middle East/Africa due to higher prices and volumes. However, revenues declined in Brazil was largely led by lower prices. **Herbicides** recorded substantial price declines (glyphosate-based products). Higher volumes in all regions were insufficient to offset this effect.	• Revenue de-growth of 5% YoY (Vs +3% YoY guided earlier); Expects glyphosate based herbicides sales to decline by 30-35% YoY (Earlier guided to decline by 15-20% YoY) • EBITDA margins guided at 21% (earlier in the range of 25-26%). • EBITDA margins guided at 21% (earlier in the range of 25-26%).
Sumitomo Chemicals	• Demand for methionine remained mute during the quarter and prices have dropped significantly. • Company indicated that higher inventories in LATAM market has resulted into significant drop in shipments. • Extreme weather conditions coupled with higher channel inventories has impacted sales in the Asian market.	Revenue is expected to be at Yen610bn; up 2% YoY (Price/Vol/FX of -4%/+9%/-3%). EBITDA at Yen62bn; up 8% YoY (Price/Vol/FX of -40%/-3%/+51%). EBITDA margins to be at 10.2% up+60bps YoY.

Source: Company; Anand Rathi Research

Improving farm economics

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Government thrust on doubling farmers' incomes augurs well for agronomics

- Contribution of agriculture to GVA is above 20%, the highest in the last decade
- Incessant focus of government on agriculture through higher budgetary allocations under various schemes like crop insurance, interest subsidy, PK-Kisan, PMKSY, etc. augurs well for overall farm economics
- The focus on doubling farmers' incomes through raising crop MSPs supports the overall argument (MSPs up 35% in the last five years)
- With stagnant arable land and rising population, increasing yields through agrochemicals is the way ahead

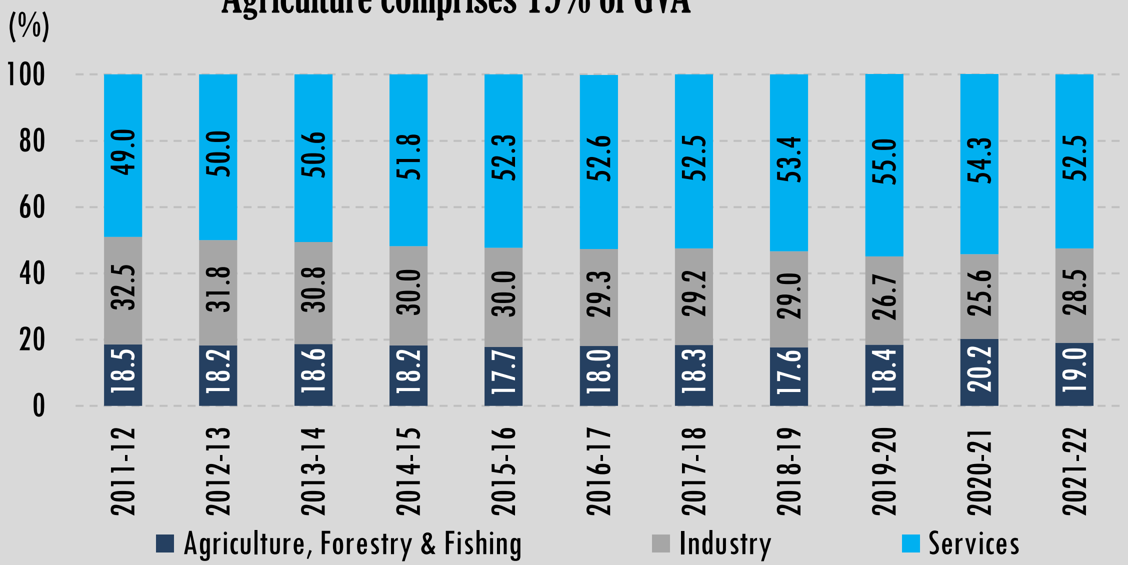
Stagnant land; increasing yields through better agri-inputs is the way ahead

Year	Foodgrains		
	Area (m ha)	Production (m tonnes)	Yield (kg/ha)
1990-91	127.8	176.4	1,380
1995-96	121.0	180.4	1,491
2000-01	121.1	196.8	1,626
2005-06	121.6	208.6	1,714
2010-11	126.7	244.5	1,930
2011-12	124.8	259.3	2,078
2012-13	120.8	257.1	2,129
2013-14	125.0	265.0	2,120
2014-15	124.3	252.0	2,028
2015-16	122.7	252.2	2,056
2016-17	129.2	275.1	2,129
2017-18	127.6	284.8	2,233
2018-19	124.2	283.4	2,281
2019-20	127.6	296.7	2,325
2020-21	129.8	310.7	2,394
2021-22	130.5	315.7	2,419

Budgetary allocation in the increasing trend augurs well for the sector

Particulars (Rs bn)	Revised 2020-21	Actual 2021-22	Budget 2022-23	Revised 2022-23	Budget 2023-24
Crop Insurance Scheme	153	135	155	124	136
Interest subsidy for short-term credit to farmers	198	215	-	-	-
Market intervention scheme, price support scheme	10	-	195	220	230
Pradhan Mantri Annadaata ani Sanrakshan Yojna	3	-	-	-	-
PM-Kisan	650	668	680	600	600
PMKSY	26	18	-	-	-
National Food Security Mission	19	10	-	-	-

Agriculture comprises 19% of GVA



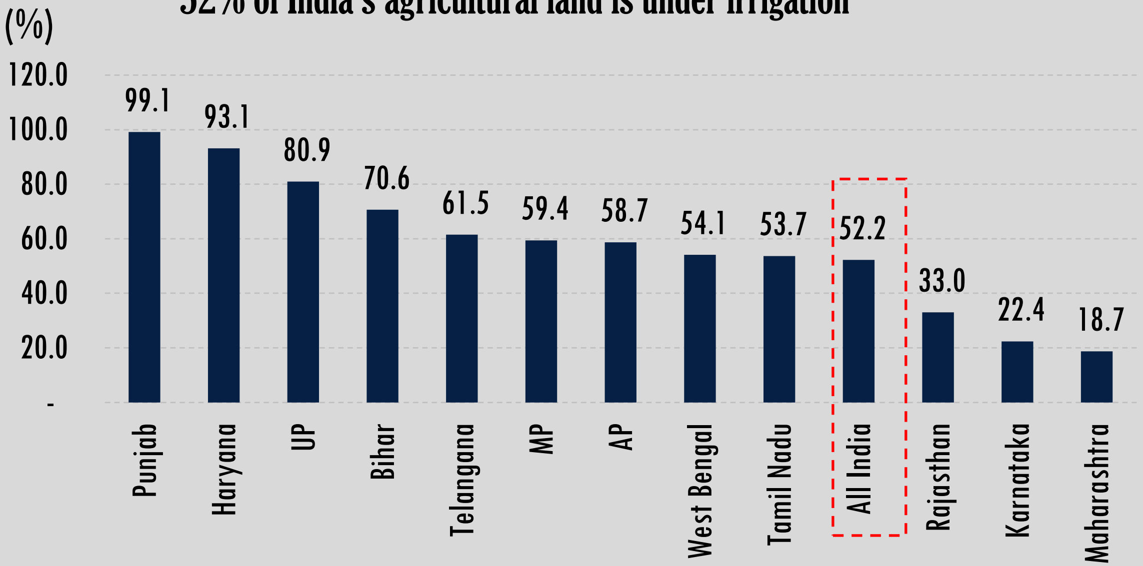
Source: GOI; Anand Rathi Research

Improving farm economics (cont.)

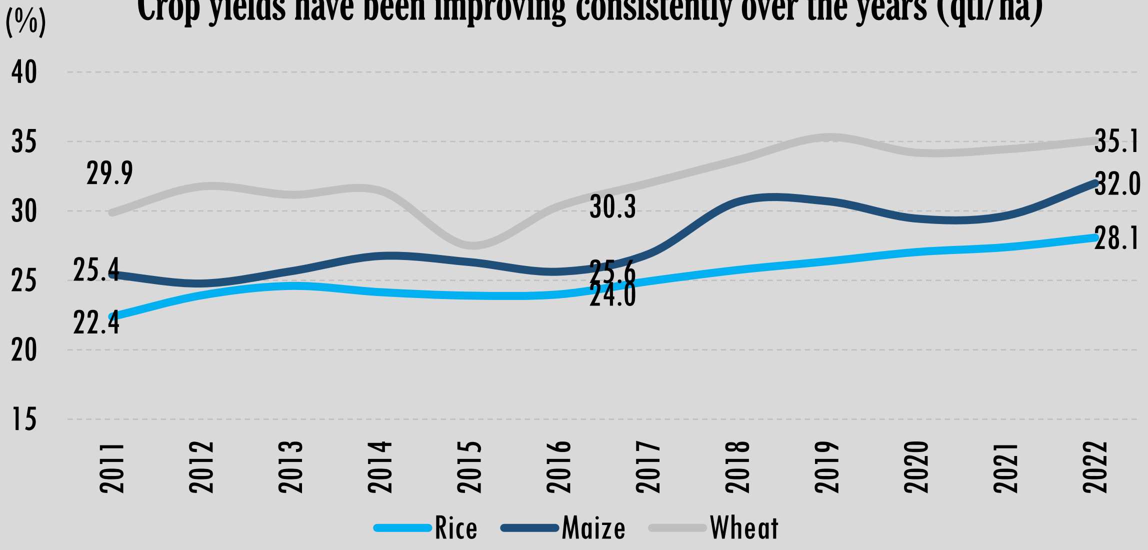
Wider irrigated area >> enhanced agri-input usage >> better yield

- Irrigated land is currently 52% of net sown area and increasing, boosted by enhanced awareness /spending by government on efficient use of water through sprinkler and drip irrigation (per drop, more crop)
- We believe more irrigated area augurs well for the agriculture sector overall, aided by a) more intense cropping; b) greater consumption of agri inputs; c) higher yields; d) reduced dependence on rainfall
- Yields for major crops such as rice, wheat and maize have been trending northward
- Remunerative commodity prices in the domestic market support the entire argument

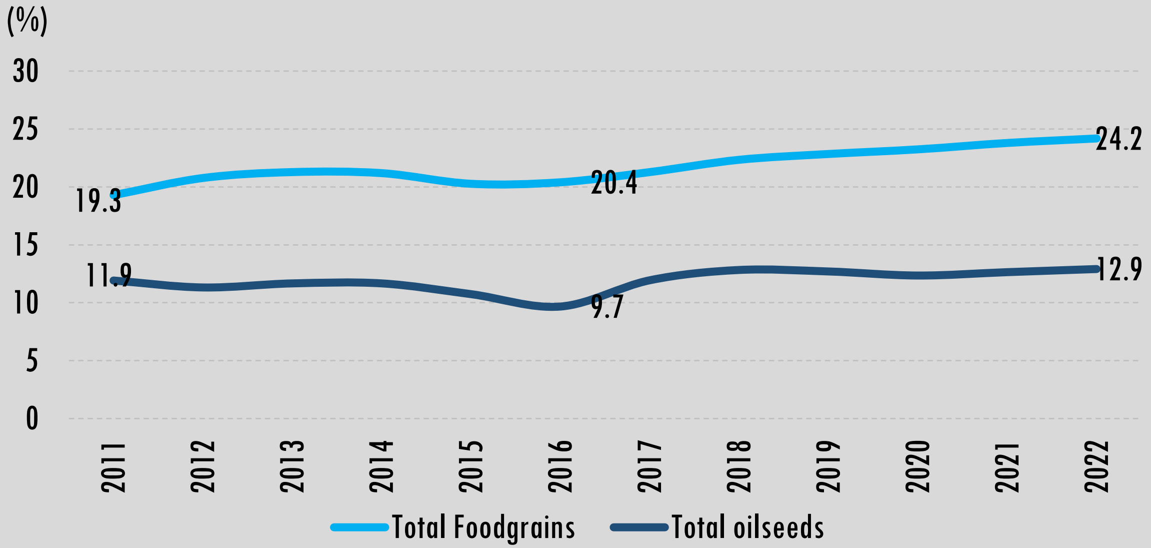
52% of India's agricultural land is under irrigation



Crop yields have been improving consistently over the years (qtl/ha)



Foodgrains and oilseed yield trends over the years (qtl/ha)



Source: GOI; Anand Rathi Research

Prices of major crops continue to be above MSPs

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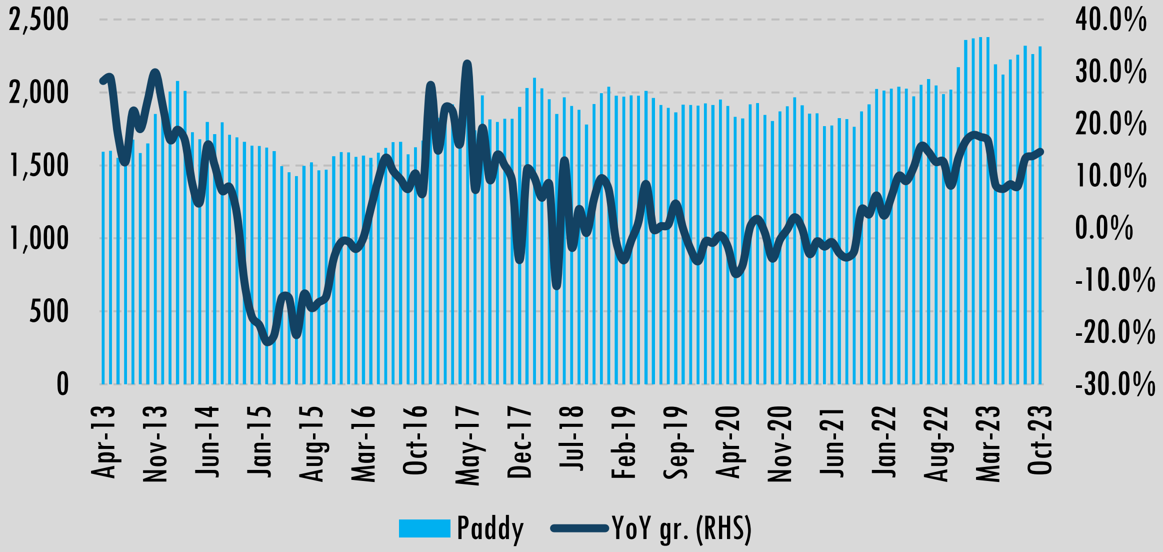
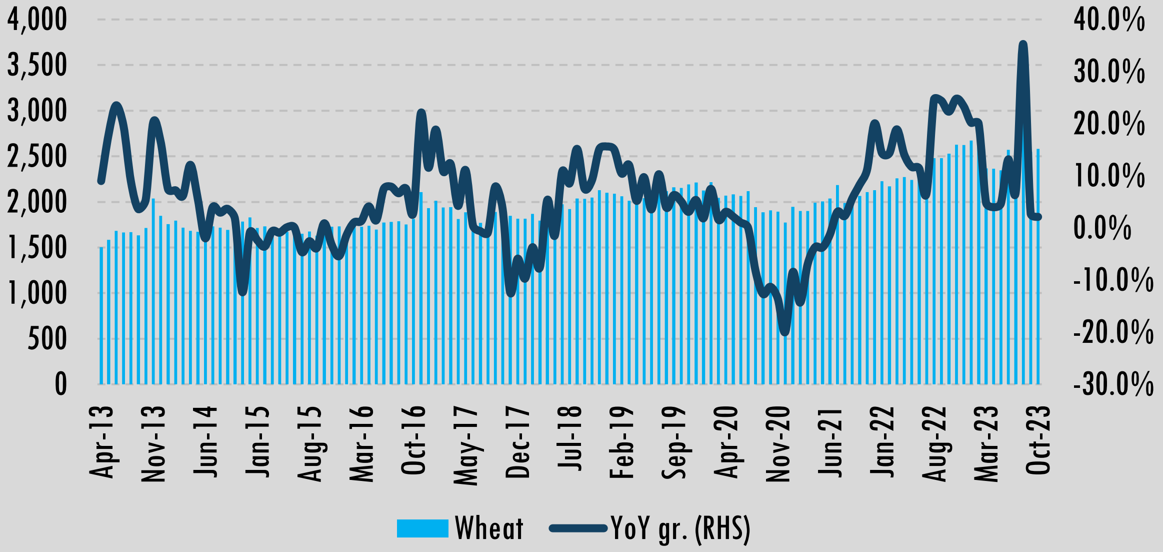
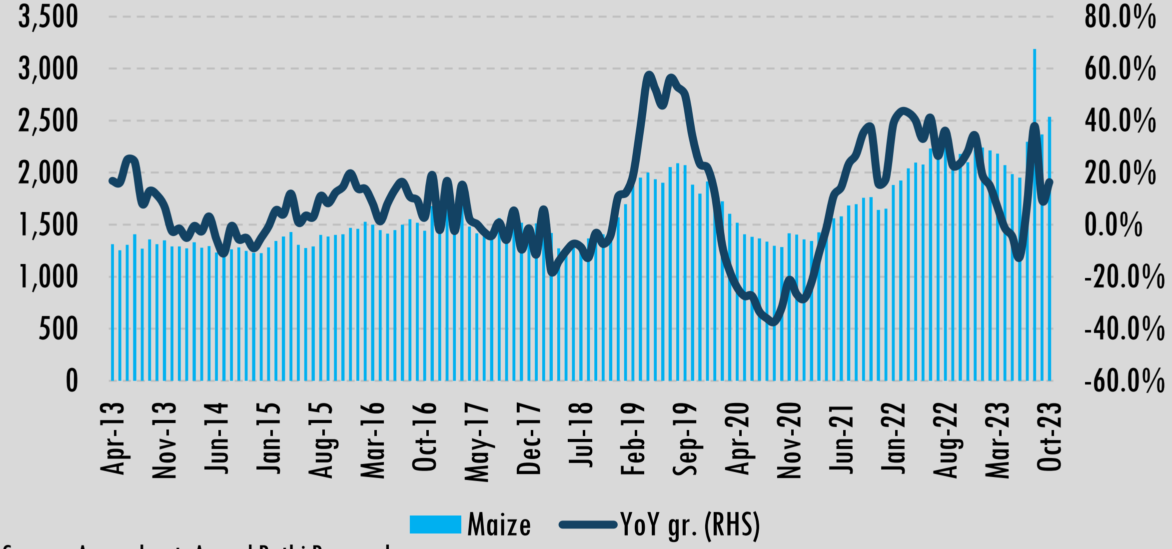
Paddy prices 6% above MSP and up 15% y/y



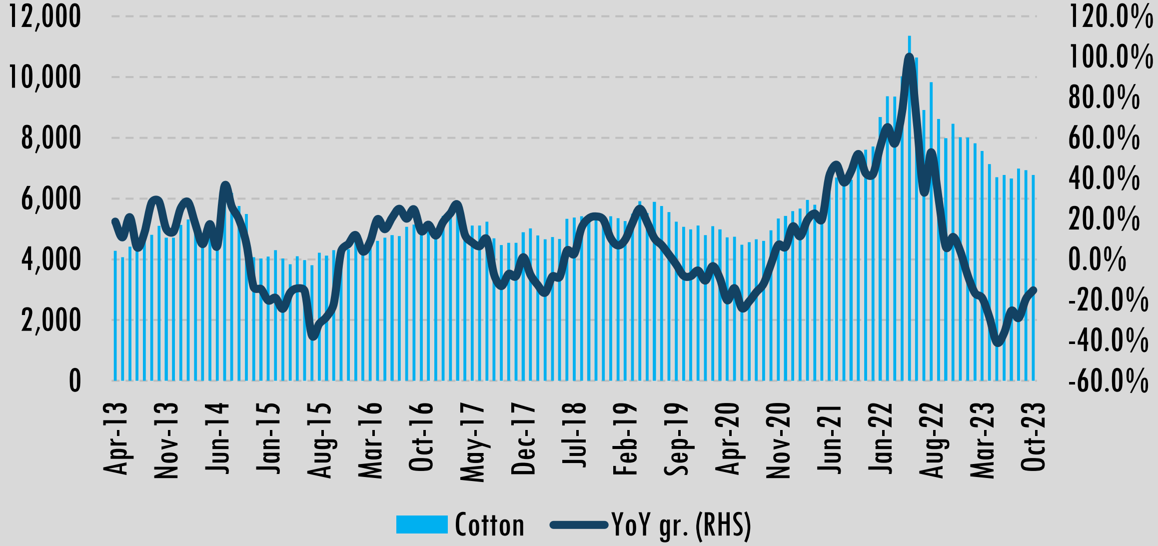
Wheat prices 13% above MSP and up 2% y/y



Maize prices 21% above MSP and up 16% y/y



Cotton prices 2% above MSP; however is down 15% y/y



Source: Agmarknet, Anand Rathi Research

Average increase in MSPs of crops has been 22% over the last five years

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Commodity (Rs/qtl)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	CAGR 13-24 (%)
Kharif crops													
Paddy common	1,250	1,310	1,360	1,410	1,470	1,550	1,750	1,815	1,868	1,940	2,040	2,183	5.2
Paddy (F) / Grade 'A'	1,280	1,345	1,400	1,450	1,510	1,590	1,770	1,835	1,888	1,960	2,060	2,203	5.1
Jowar hybrid	1,500	1,500	1,530	1,570	1,625	1,700	2,430	2,550	2,620	2,738	2,970	3,180	7.1
Jowar Maldandi	1,520	1,520	1,550	1,590	1,650	1,725	2,450	2,570	2,640	2,758	2,990	3,225	7.1
Bajra	1,175	1,250	1,250	1,275	1,330	1,425	1,950	2,000	2,150	2,250	2,350	2,500	7.1
Maize	1,175	1,310	1,310	1,325	1,365	1,425	1,700	1,760	1,850	1,870	1,962	2,090	5.4
Ragi	1,500	1,500	1,550	1,650	1,725	1,900	2,897	3,150	3,295	3,377	3,578	3,846	8.9
Tur (Arhar)	3,850	4,300	4,350	4,625	5,050	5,450	5,675	5,800	6,000	6,300	6,600	7,000	5.6
Moong	4,400	4,500	4,600	4,850	5,225	5,575	6,975	7,050	7,196	7,275	7,755	8,558	6.2
Urad	4,300	4,300	4,350	4,625	5,000	5,400	5,600	5,700	6,000	6,300	6,600	6,950	4.5
Groundnut	3,700	4,000	4,000	4,030	4,220	4,450	4,890	5,090	5,275	5,550	5,850	6,377	5.1
Sunflower seed	3,700	3,700	3,750	3,800	3,950	4,100	5,388	5,650	5,885	6,015	6,400	6,760	5.6
Soyabean Black	2,200	2,500	2,500	-	-	-	-	-	-	-	-	-	
Soyabean Yellow	2,240	2,560	2,560	2,600	2,775	3,050	3,399	3,710	3,880	3,950	4,300	4,600	6.8
Sesamum	4,200	4,500	4,600	4,700	5,000	5,300	6,249	6,485	6,855	7,307	7,830	8,635	6.8
Niger seed	3,500	3,500	3,600	3,650	3,825	4,050	5,877	5,940	6,695	6,930	7,287	7,734	7.5
Medium-staple cotton	3,600	3,700	3,750	3,800	3,860	4,020	5,150	5,255	5,515	5,726	6,080	6,620	5.7
Long-staple cotton	3,900	4,000	4,050	4,100	4,160	4,320	5,450	5,550	5,825	6,025	6,380	7,020	5.5
Rabi crops													
Wheat	1,350	1,400	1,450	1,525	1,625	1,735	1,840	1,925	1,975	2,015	2,125	2,275	4.9
Barley	980	1,100	1,150	1,225	1,325	1,410	1,440	1,525	1,600	1,635	1,735	1,850	5.9
Gram	3,000	3,100	3,175	3,500	4,000	4,400	4,620	4,875	5,100	5,230	5,335	5,440	5.6
Lentil (masur)	2,900	2,950	3,075	3,400	3,950	4,250	4,475	4,800	5,100	5,500	6,000	6,425	7.5
Rapeseed / mustard	3,000	3,050	3,100	3,350	3,700	4,000	4,200	4,425	4,650	5,050	5,450	5,650	5.9
Safflower	2,800	3,000	3,050	3,300	3,700	4,100	4,945	5,215	5,327	5,441	5,650	5,800	6.8
Commercial crops													
Jute	2,200	2,300	2,400	2,700	3,200	3,500	3,700	3,950	4,225	4,500	4,750	5,050	7.8
Sugarcane	170	210	220	230	230	255	275	275	285	290	305	315	5.8
Copra (milling)	5,250	5,250	5,250	5,550	5,950	6,500	7,511	9,521	9,960	10,335	10,590	10,860	6.8
Copra (ball)	5,500	5,500	5,500	5,830	6,240	6,785	7,750	9,920	10,300	10,600	11,000	11,750	7.1

Off-patent molecules to fuel growth

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Agrochemicals worth ~$6bn are going off-patent by 2030

- India is the fourth largest producer of agrochemicals after the U.S., Japan, and China, and has emerged as the 13th largest exporter of pesticides. It is a major hub of generic pesticide production. The fact that 22 such molecules will be emerging from their patent periods would substantially expand offerings of Indian companies and help fetch extra revenue
- Industry data suggest that ~30-40% of the off-patent molecules are taken up by generic manufactures, while ~60-70% are not adopted by generic manufacturers, primarily driven by a) limited market and applicability in regions; b) unavailability and lower capability to manufacture the intermediates

What does it mean for the generic manufacturers?

- Generic companies especially in developing countries (where they have limited R&D facilities and less balance sheet strength to carry such costs) would be major beneficiaries of the molecules going off-patent
- As there are already addressable markets for these molecules, with greater efficacy to fight pests (better markets and targeted crops), it becomes easy for generics manufacturers to lever their distribution networks
- Generic manufacturers break the exclusivity of molecules/ companies. Hence, that particular product has no pricing advantage, and it becomes easier for farmers to adopt that product
- We believe this augurs well for domestic agrochemicals manufacturers, as it would result in opening up vast opportunities for domestic companies, in both domestic formulations as well in exports

Source: Company, Anand Rathi Research

22 molecules worth $6bn going off-patent by 2030

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Sl. No.	Molecule	Inventor	Market $ m, 2019	Patent expiry	Use
1	Bixafen	Bayer Crop Science	276	2023	Broad spectrum fungicide for cereals
2	Chlorantraniliprole	Corteva/FMC	1,750	2024	Chewing insects of soybean, F&V, rice, cotton, maize, pome fruit, sugarcane potato, and cereals.
3	Cyantraniliprole	Corteva/FMC/Syngenta	120	2026	Effective against the larval stages of lepidopteran insects; and also on thrips, aphids, and some other chewing and sucking insects on a variety of crops.
4	Fenpyrazamine	Sumitomo Chemical	11	2022	Highly effective against grey mold, stem rot, and brown rot in fruits and vegetables.
5	Flubendiamide	Bayer Crop Science	507	2024	Mainly effective for controlling lepidopteron pests including resistant strain in rice, cotton, corn, grapes, other fruits, and vegetables.
6	Fluopicolide	Bayer Crop Science	45	2024	Fungicide for grapes, potatoes, fruits, and vegetables.
7	Fluopyram	Bayer Crop Science	87	2024	Used against fungal diseases such as gray mold (Botrytis), powdery mildew, apple scab, Alternaria, Sclerotinia, and Monilinia.
8	Fluxapyroxad	BASF SE	491	2022	Broad spectrum fungicide for cereals, soybean, specialty crops, and turf.
9	Isopyrazam	Syngenta AG	129	2023	Broad spectrum fungicide. Controls a wide range of fungal pathogens including Septoria tritici, Puccinia recondita, and Puccinia striformis on wheat, Pyrenophora teres, Rhynchosporium secalis, and Ramularia collocygni on barley, Puccinia recondita on rye, and triticale and Pyrenophora avenae on oats. It also controls Mycospaerella fijiensis on banana.
10	mandipropamid	Syngenta AG	179	2023	Late blight of potato and tomato. Also used in tobacco, F&V, and vine.
11	Penflufen	Bayer Crop Science	170	2024	Potato: Black Scurf (Rhizoctonia solani), Silver Scurf (Helminthosporium solani), Dry rot (Fusarium spp.). Cereals: Root rot (Rhizoctonia spp.), Smut, (Rape, Soybean, Cotton), and a number of seed-borne pathogens.
12	Penthiopyrad	Corteva Agriscience	85	2024	It offers unique RootingPower ™ that results in stronger, healthier roots for higher crop productivity.
13	Pinoxaden	Syngenta AG	421	2026	Highly selective systemic herbicide used to control monocotyledonous grass weeds in crops such as wild oats, rye-grass, and black grass in winter and spring wheat and winter and spring barley. Controls a broad spectrum of grass weeds in wheat.
14	Pyriofenone	Ishihara	5	2024	Fungicide developed for the control of powdery mildew in cereals and grape vines.
15	Pyroxsulam	Corteva Agriscience	215	2024	Broad spectrum grass and broadleaf weeds of cereals.
16	Sedaxane	Syngenta AG	108	2024	Long-lasting protection against difficult-to-control seed-, soil-, and air-borne pathogens such as: Rhizoctonia spp., Ustilago spp. (on cereals), Tilletia caries, Urocystis occulta, Pyrenophora graminea, Microdochium nivale, Typhula spp., Sphacelotheca reiliana, Macrophomina, Sclerotium spp. and also some activity on Verticillium, Phoma, Helminthosporium solani, Phakopsora, Cochliobolus sativus of cereals, soybeans, canola/oilseed rape, corn, potatoes, rice, sugar beets, cotton, and pulses. It offers unique RootingPower ™ that results in stronger, healthier roots for higher crop productivity.
17	Thiencarbazone-methyl	Bayer Crop Science	155	2024	Herbicide used for the selective control of grasses and broadleaf weeds primarily in corn.
18	Valifenalate	Ishihara	25	2024	Used to control mildew in many crops including grapes, potatoes, and tomatoes.
19	Benzovindiflupyr	Syngenta AG	419	2028	Control broad range of fungal diseases-blight, mildew, rust, scab, leafspot on corn, soybean, ornamentals, turf, etc.
20	Sulfoxaflor	Corteva Agriscience	190	2027	Sucking pests of turf, soybean, cotton, cereals, and F&V.
21	Saflufenacil	BASF	225	2024	Broadleaf weeds of soybean, maize, sugarcane, cereals, non-crop, and orchards.
22	Aminopyralid	Corteva Agriscience	160	2021	Broad spectrum weedicide for pasture, rangeland, oil palm, rubber, F&V, and cereals.

Source: Company, Anand Rathi Research

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Global Agro-chemicals

Global agrochemicals sector

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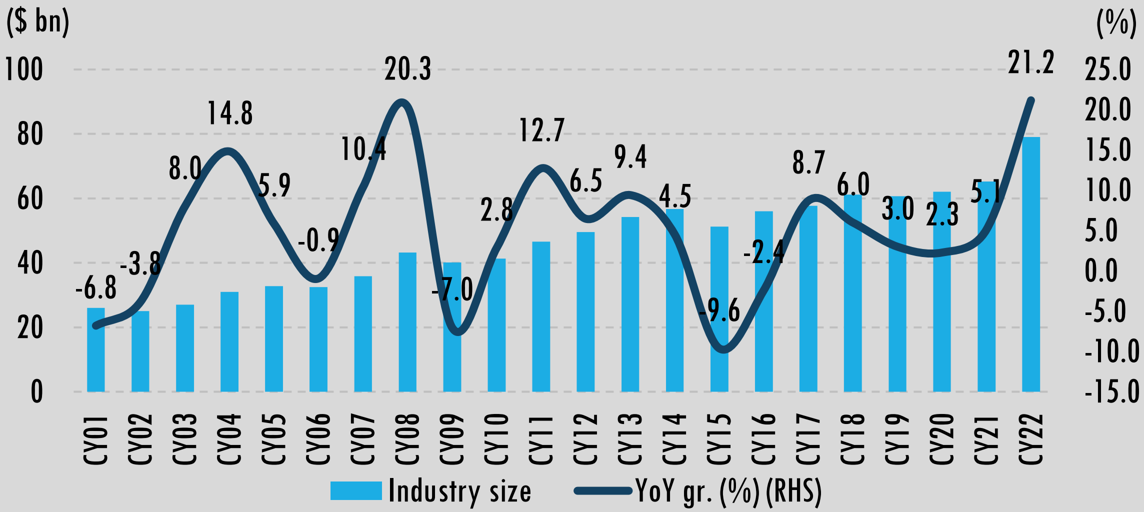
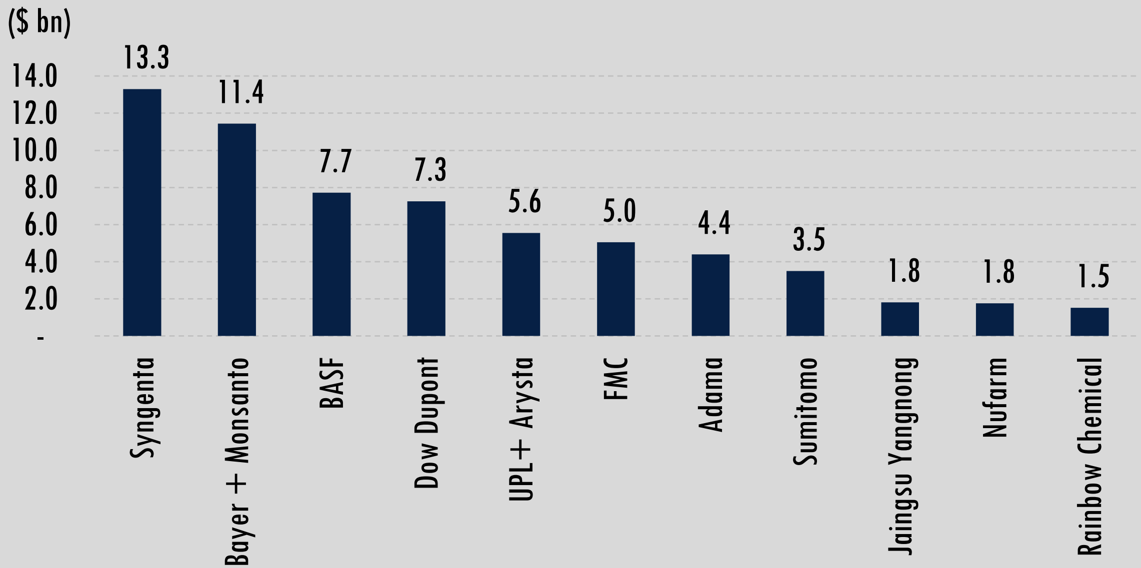
Oligopolistic structure

- In the last few years, many global agrochemicals companies have acquired or merged their business operations to counter fluctuating demand, currencies and crop prices, which had affected their sales and profit margins
- Despite several challenges and uncertainties in the past, the global agriculture sector has registered a 7% CAGR over CY01-22, to $79bn while, ahead, it is expected to grow healthily
- With consolidation largely in place, the global agrochemicals and seeds sector is now controlled by four large manufacturers (against six earlier) commanding a lion's share of 55-60% in the global agrochemicals market
- The oligopolistic structure globally is likely to result in a) superior pricing power; b) concentrated product portfolios; c) revenue and cost synergies arising from wider distribution networks, cross-selling products and removal of double spending on operational overheads

Global agrochemicals posted a 7% CAGR over CY01-22 (%)



Oligopolistic structure controlled by the big four



Source: Industry, Anand Rathi Research

Global agrochemicals sector (cont.)

Sharper focus of every nation to secure food security is likely to keep the sector's outlook bright

- We believe that the sector's long-term prospects of increasing yields is intact propelled by a) growing demand for food; b) shrinking arable land and water and c) stagnant yields. Ultimately, greater consumption of food drives demand for agri-inputs like seeds, fertilizers, agrochemicals and irrigation
- Far better growth is expected from developing nations in APAC, LATAM, Africa and the RoW on account of better resources available and larger investments in agri technology
- Of the overall agrochemicals growth, herbicides is likely to grow much faster than other categories, primarily driven by a) higher agricultural wage rates; b) less available farm labor; c) changes in farm policies in various emerging economies like LATAM
- The global agrochemicals sector can be broadly categorized as innovators and generics players. Per Philips McDougall, the shares of revenue of patented and generics molecules are 20:80. Innovators are R-D based patented product players, while off-patented product players are termed generics manufacturers
- Geographically, Europe, Latin America, Asia, NAFTA and the Middle East/Africa constitute 20%, 28%, 32%, 17% and 3% respectively of the global agrochemicals market
- Category-wise, herbicides, insecticides, fungicides and others constitute 46%, 26%, 25% and 3% respectively of the global agrochemicals market

Source: Company, Anand Rathi Research

Global agriculture: Market segment break-up

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- Geographically, Europe, Latin America, Asia, NAFTA and the Middle East/Africa constitute 20%, 28%, 32%, 17% and 3% respectively of the global agrochemicals market
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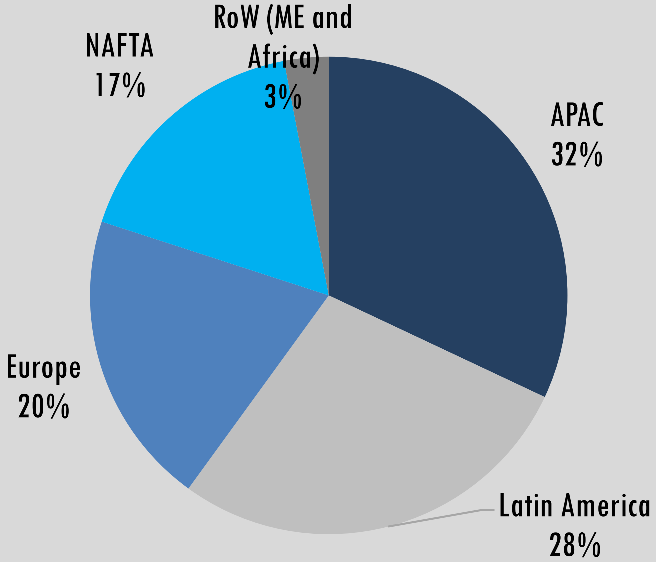
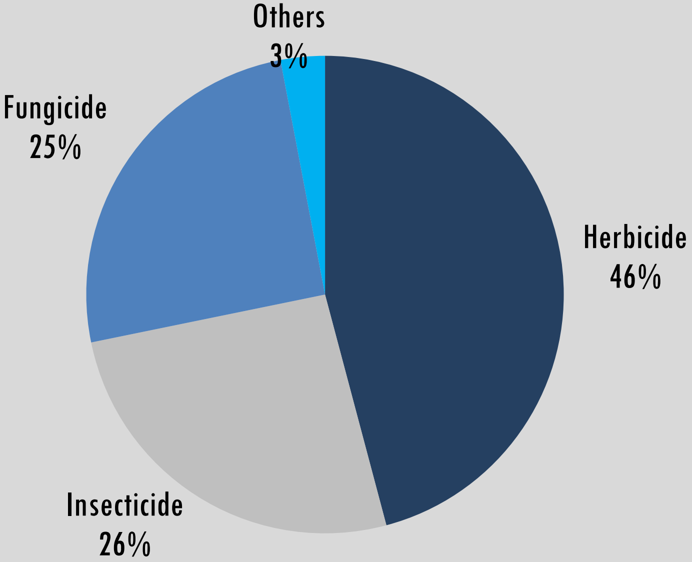
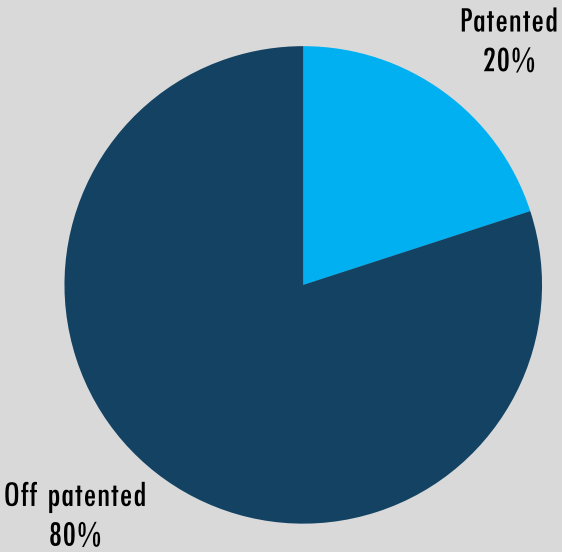
APAC and LATAM comprise 60% of the global market



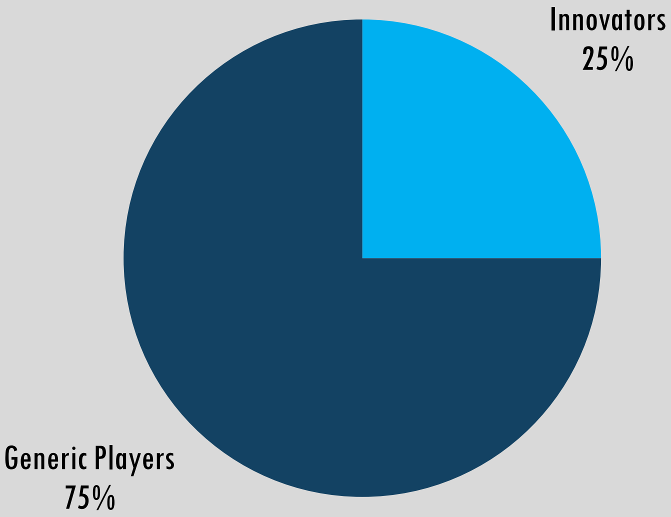
Herbicides continue to dominate global markets



Off-patent molecules comprise are 80% of global markets

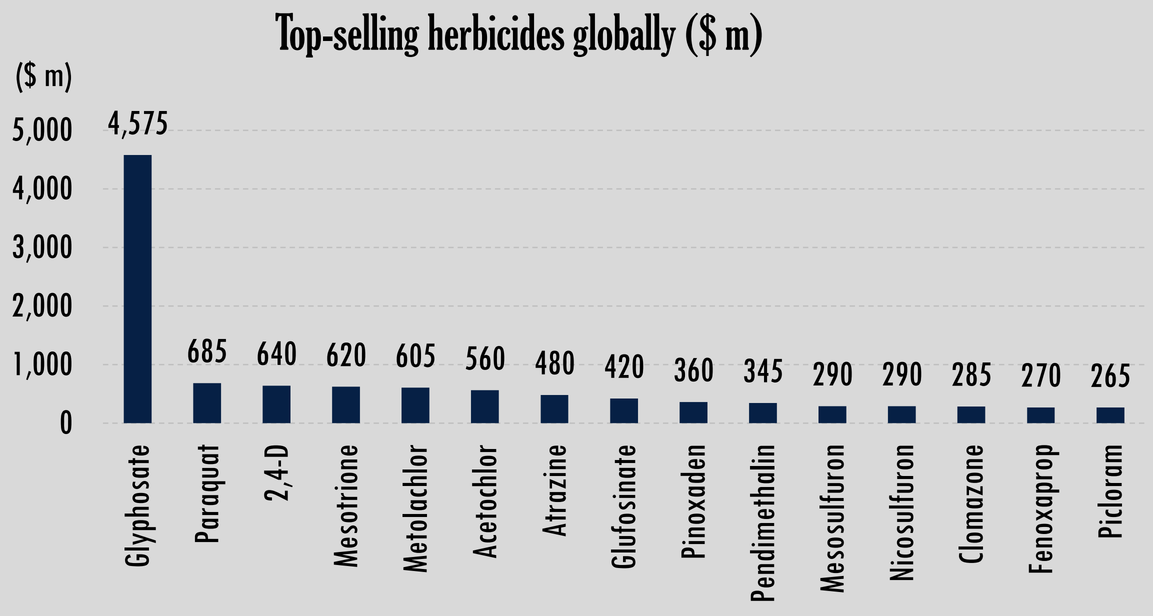


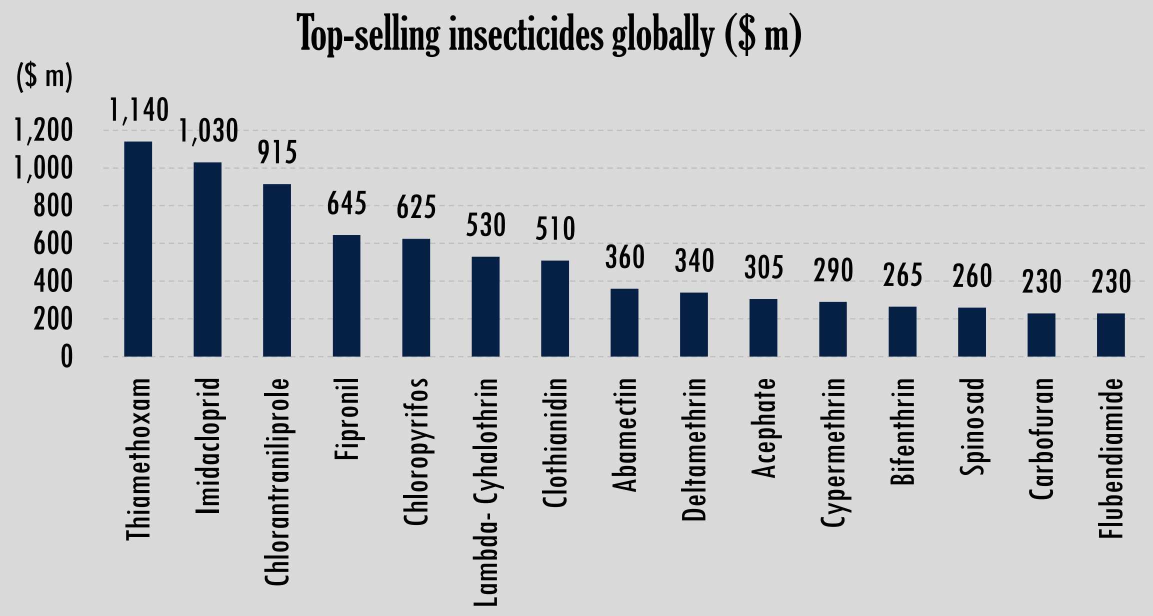
Generics manufacturers cover 75% of global markets

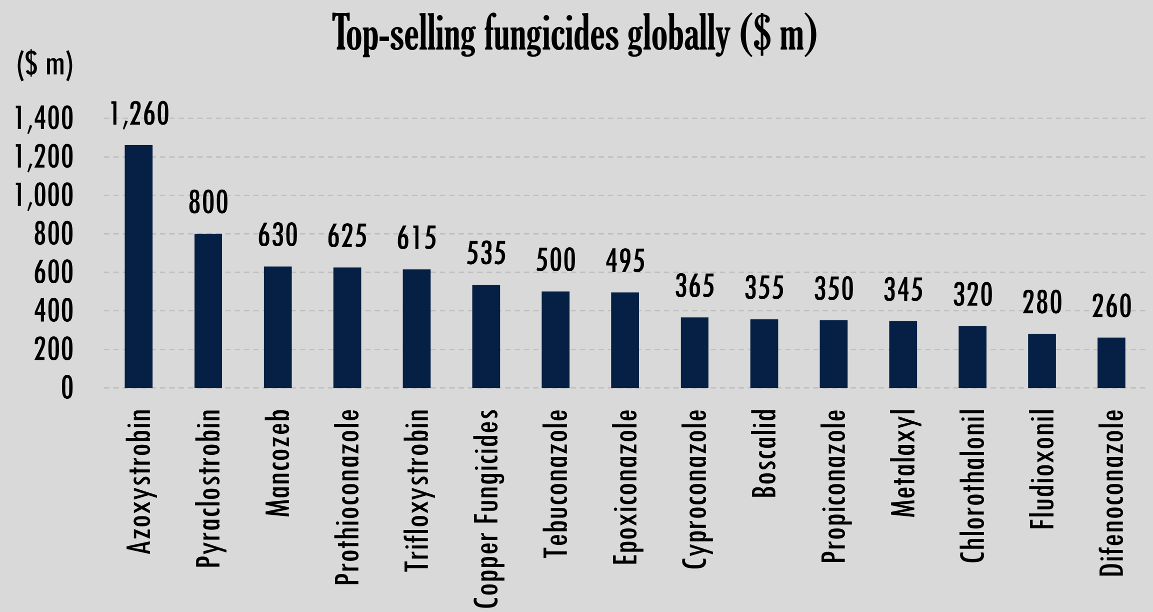


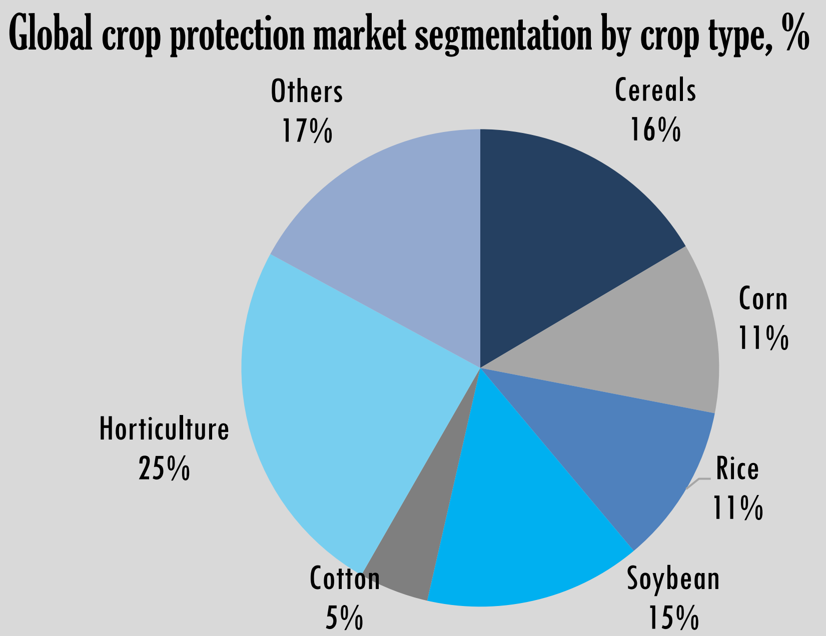
Source: Industry, Anand Rathi Research

Global agriculture: Top-selling molecules









Source: Industry, Anand Rathi Research

Global bio-pesticides: Evolving growth driver

- The increase in demand for sustainable agricultural practices, integrated pest management, organic farming and the growing need to curb post-harvest losses have encouraged development of agricultural biologicals
- The global bio-pesticides market is projected to record a 14.7% CAGR from $5.3bn in CY22 to $8.7bn by CY25. With rising concerns about health and environmental degradation, the use of bio-pesticides is rising
- Bio-insecticides is likely to lead the bio-pesticides segment, the greatest use coming from horticulture (fruit and vegetables)

Key drivers

- Mounting demand for organic food and organic agriculture across the globe would be the key demand driver for the global bio-pesticide market. As consumers are increasingly becoming aware of chemicals used in food production and the potential hazards of chemical residues on food, they are supporting chemical-free production alternatives, pushing growers to organic farming, thereby, driving demand for bio-pesticides
- The high costs associated with developing synthetic crop-protection products require extensive R&D activity and go through regulatory approvals as opposed to bio-pesticides, which are less expensive and have quick development processes. Hence, due to its cost-effectiveness, smaller companies/start-ups are venturing into this market with limited research budgets. This in turn has resulted in keen competition for major agricultural biologicals manufacturers

Limitations

- Biological products have a short or limited shelf life and a high probability of contamination

Key manufacturers globally

- Major bio-pesticide manufacturers include Bayer Crop Science AG, Marrone Bio Innovation, Certis USA, Dow Chemicals, Isagro SPA, Camson Bio-technologies, Andermatt Biocontrol AG, and BASF Corporation

2 Domestic Agro-chemicals

Domestic agrochemical industry

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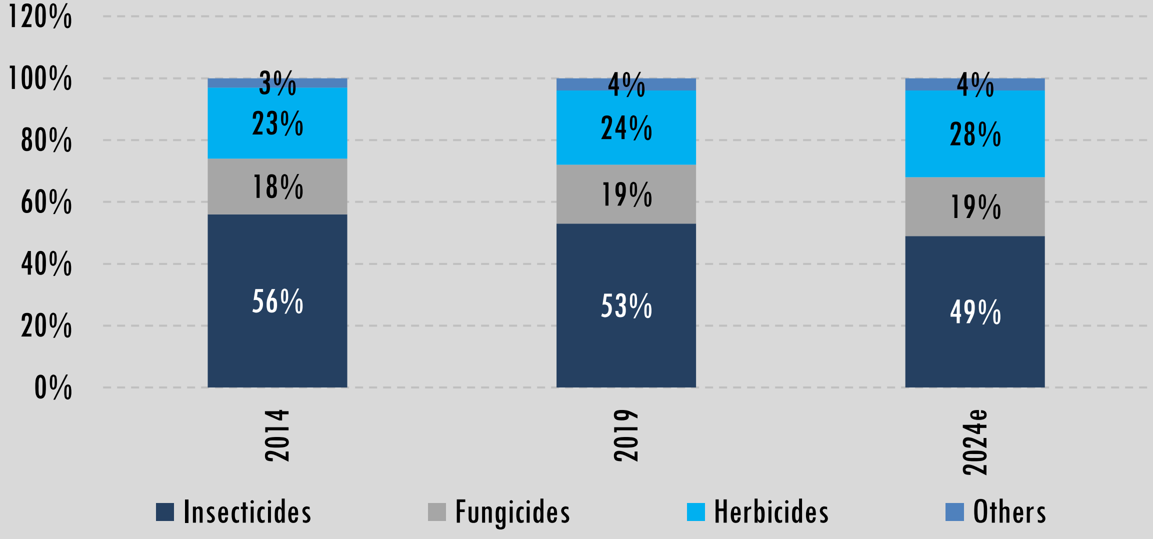
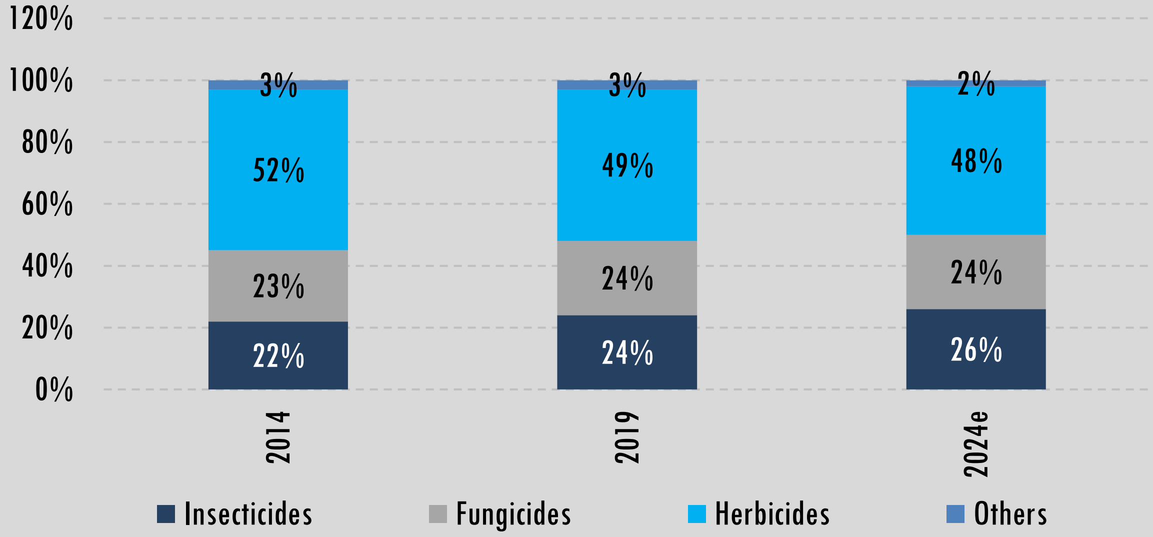
Long-term growth story intact

- The share of agriculture in India's GDP was ~20% in FY21 (Rs446bn, the highest in the last 17 years)
- The domestic agrochemicals sector has been going through structural changes, driven by a) rising domestic demand; b) tighter supplies from China; c) substantial opportunities to explore products going off-patent; and d) strategic partnerships with global giants
- With >50% of the population dependent on farming and their constrained income growth in the last few years, the government's thrust on doubling farmers' incomes through higher MSPs for crops, increased irrigation coverage, better procurement and higher agricultural credit augur well for the sector
- India is the fourth largest producer of agrochemicals after the USA, Japan and China. Its agrochemicals sector has recorded a 9% CAGR over 2015-20 and is now worth $4.2bn, revenues coming equally from exports and domestically
- Export revenue is estimated to come at an expedited rate by 2024, likely 55% of total revenues, to $5.7bn
- With rising labor costs globally; we expect India would follow the global trend of greater herbicide consumption in the medium to longer term

India's pesticide consumption largely skewed toward insecticides (%)



Herbicides dominate global agrochemicals (%)



Source: Industry, Anand Rathi Research

Per-capita consumption much below global averages

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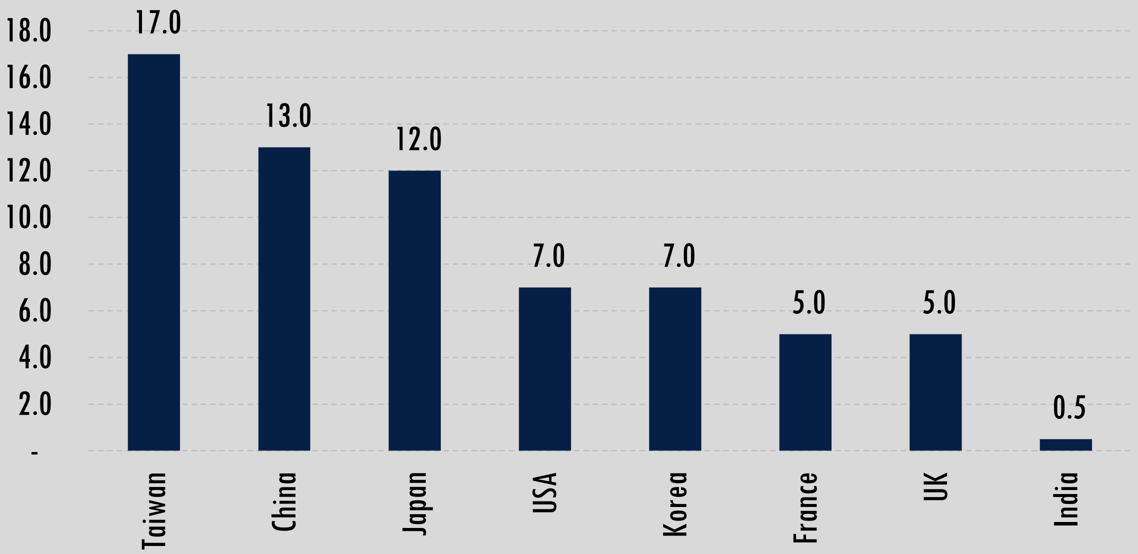
- In terms of cropped area, India is the leading producer of rice, wheat and cotton. The area treated with agro-chemicals, however, is much lower than global averages (~35-40%)
- India's share in global agricultural output is 12%, but India's share in global pesticide use is just around 1%
- While domestic consumption of agro-chemicals, at ~0.58 kg/hectare, is substantially below global standards
- The top-five states (AP, Punjab, MH, Karnataka, Gujarat) consume >60% of total agrochemicals in India
- Paddy and cotton are the major crops on which agro-chemicals are used (>60% of total agrochemicals used)

Per-capita consumption of agrochemicals much below global averages (kg/hectare)



Country-wise – value of agri-output, pesticide use and AI registrations

Country	Value of agri output ($ bn)	Pesticide use (tonnes)	No. of AIs registered
China	968	1,763,000	681
India	401	50,410	279
EU	239	368,588	489
USA	193	407,779	323
Brazil	94	377,176	477
Japan	57	51,006	583
Australia	36	50,922	561
World	3,342	4,116,832	NA

Source: Industry, Anand Rathi Research

Sector largely skewed toward insecticides

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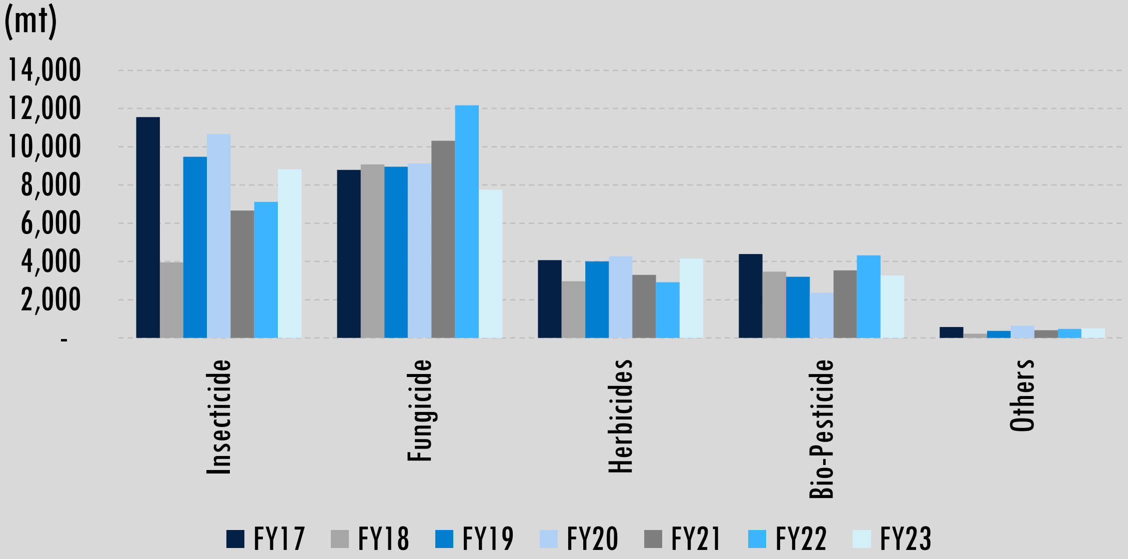
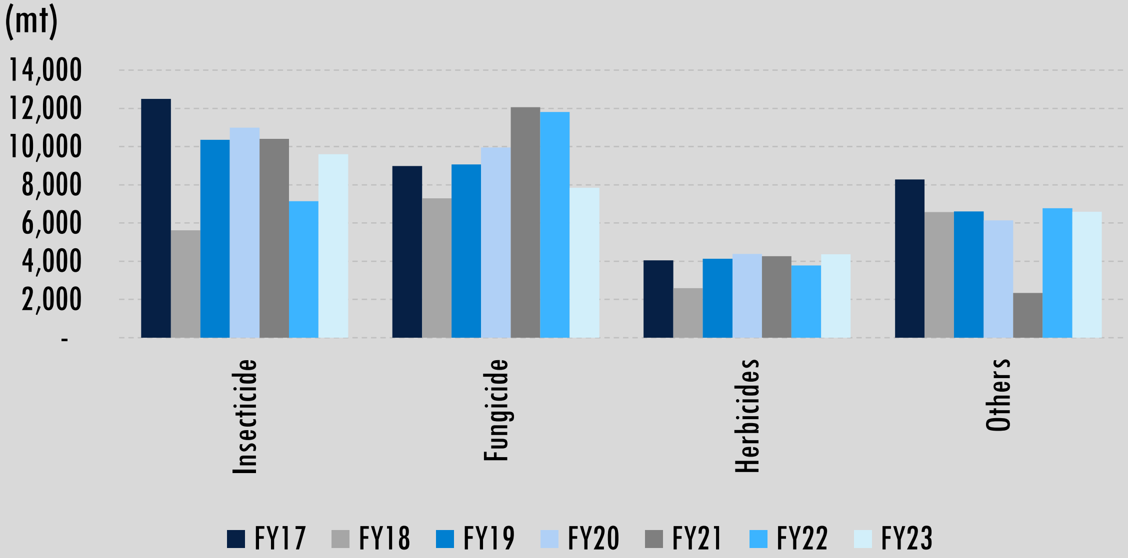
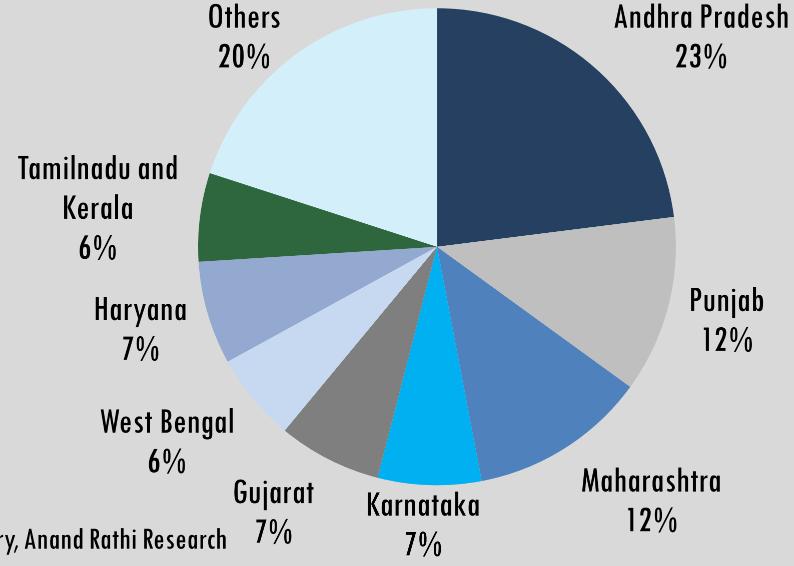
Category-wise consumption of pesticides over the years (tonnes)



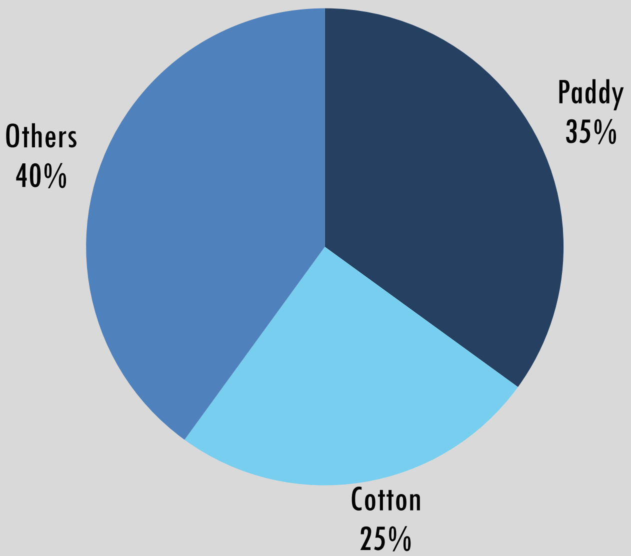
Demand for indigenous pesticides over the years (tonnes)



Top-five states, >60% consumption



Paddy and cotton dominate the domestic insecticides market



Source: Industry, Anand Rathi Research

Domestic agrochemicals: consumption trend by category

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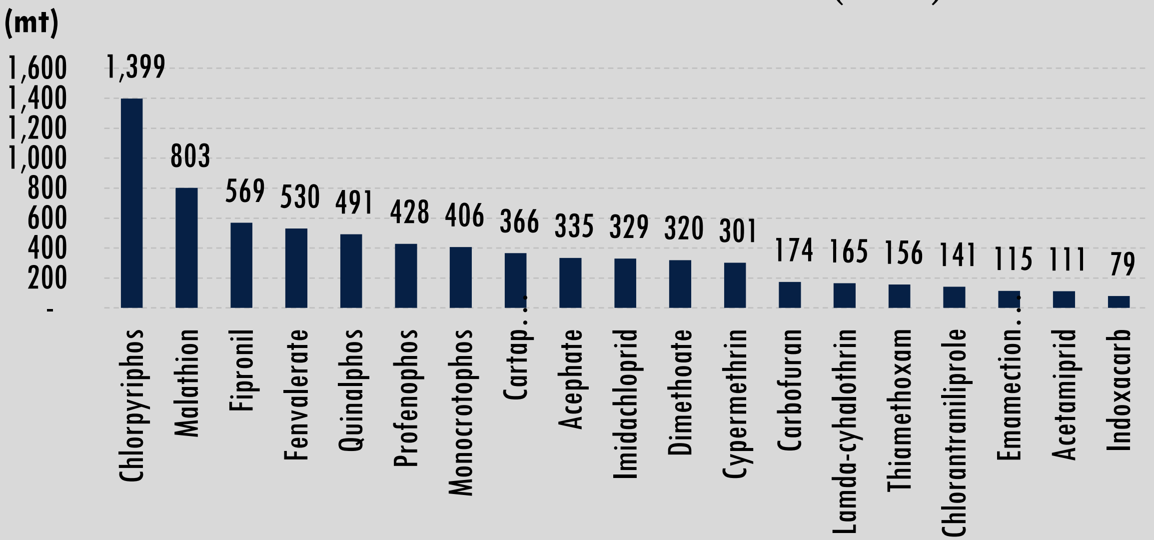
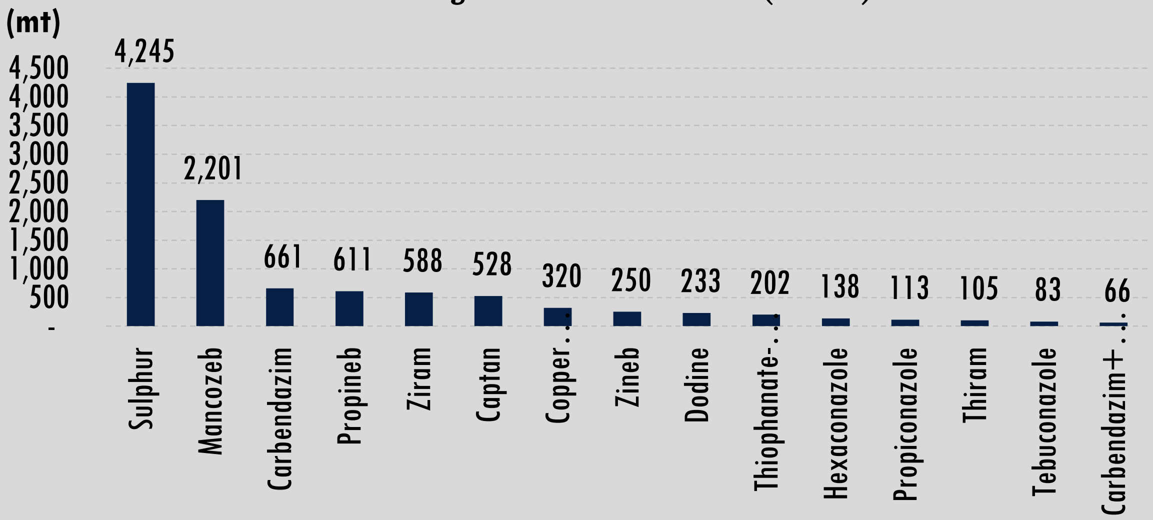
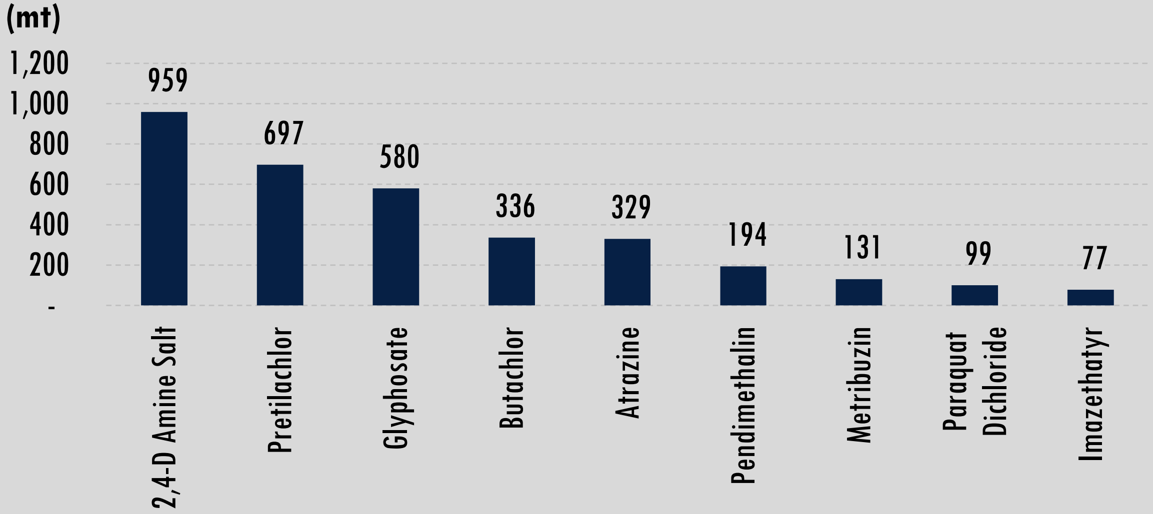
Most consumed insecticide in India in FY23 (tonnes)



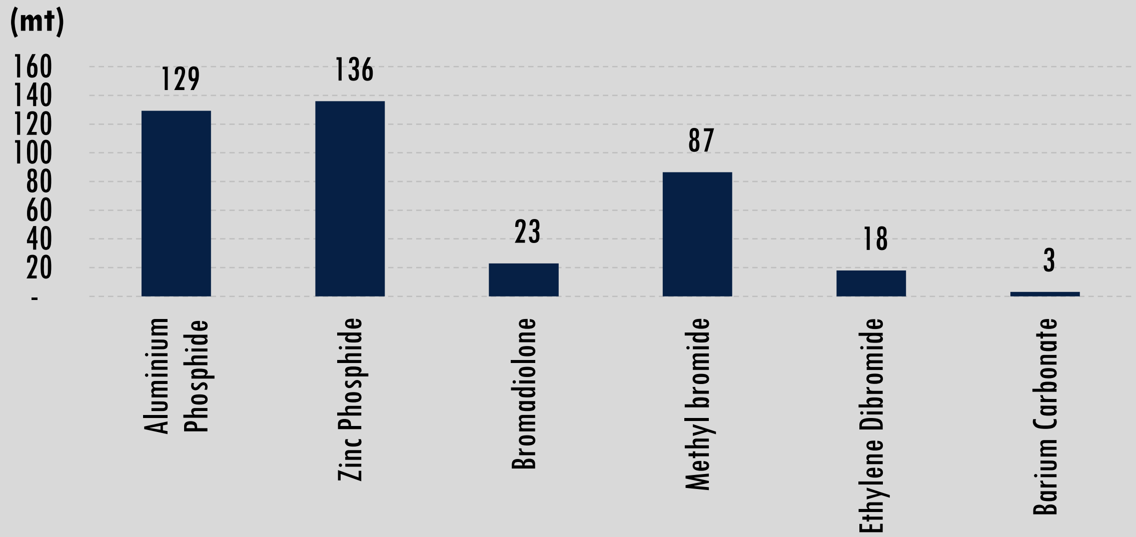
Most consumed fungicide in India in FY23 (tonnes)



Most consumed herbicide in India in FY23 (tonnes)



Most consumed rodenticide in India in FY23 (tonnes)



Source: Industry, Anand Rathi Research

Domestic bio-pesticides market: developing opportunity

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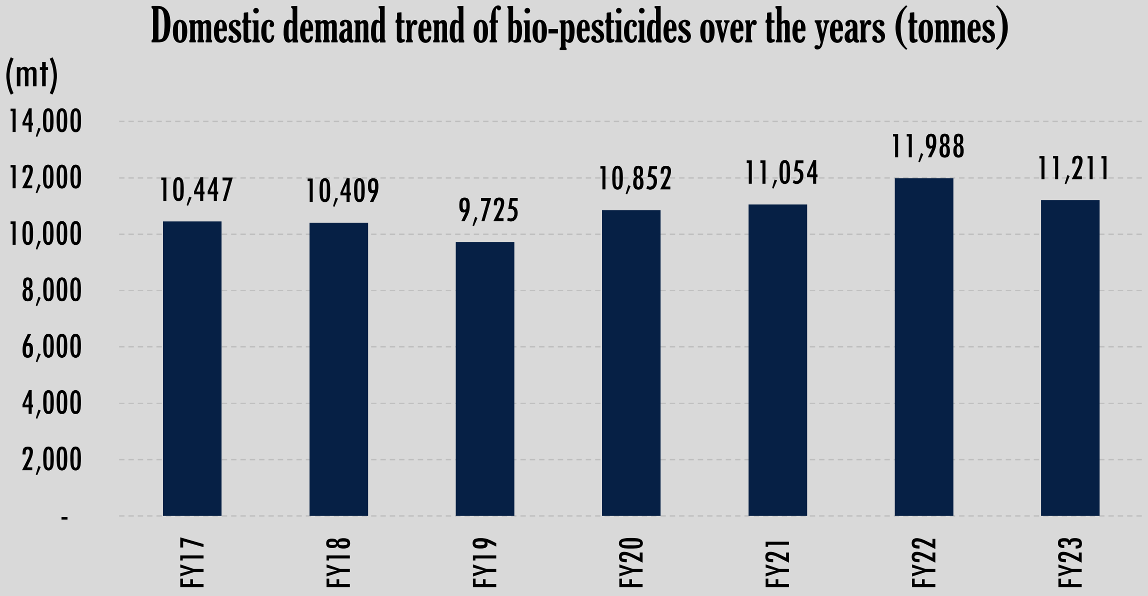

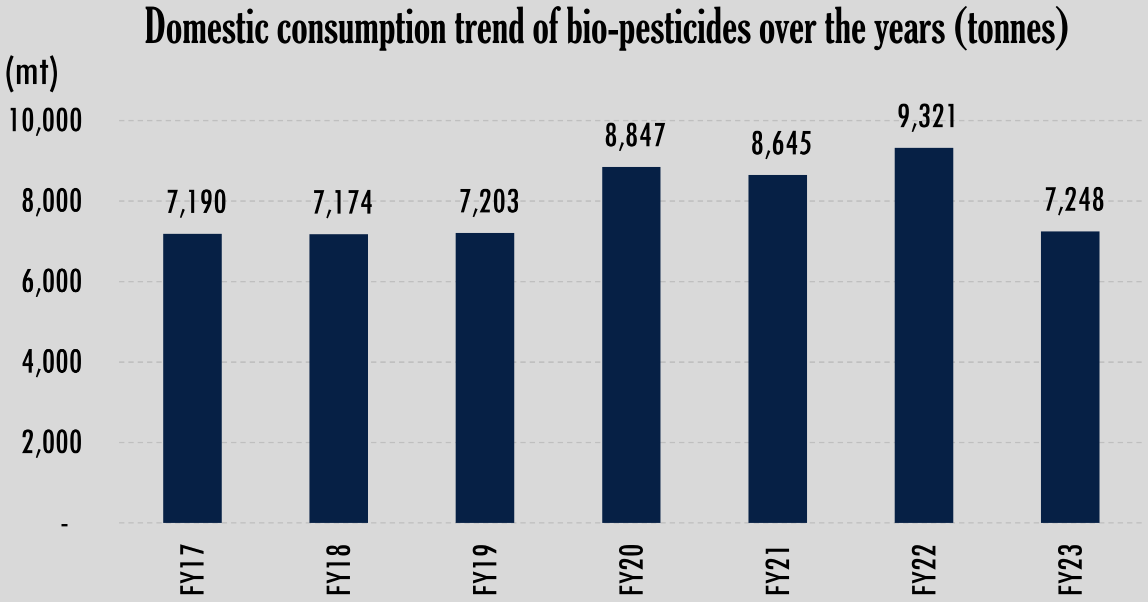

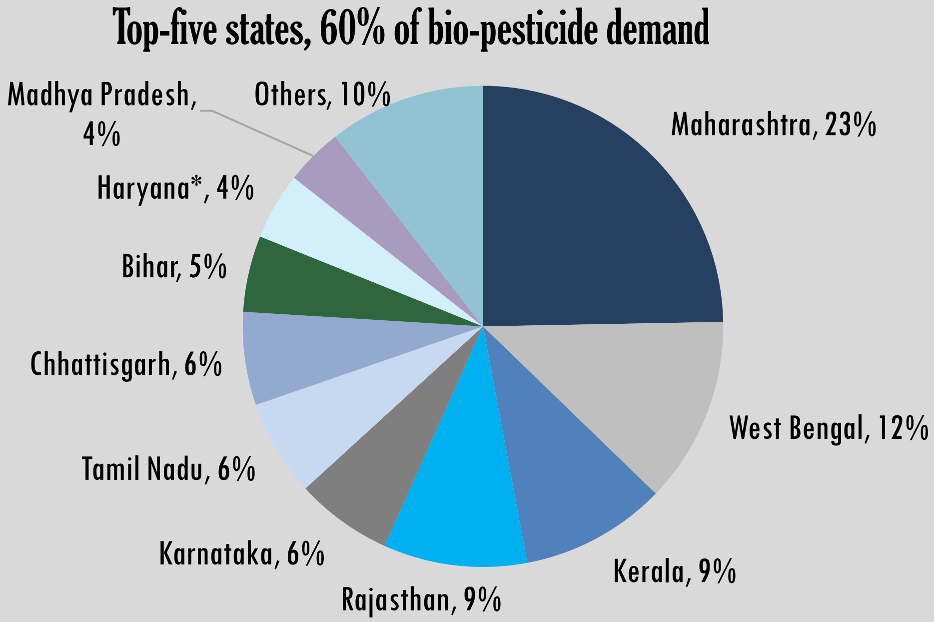

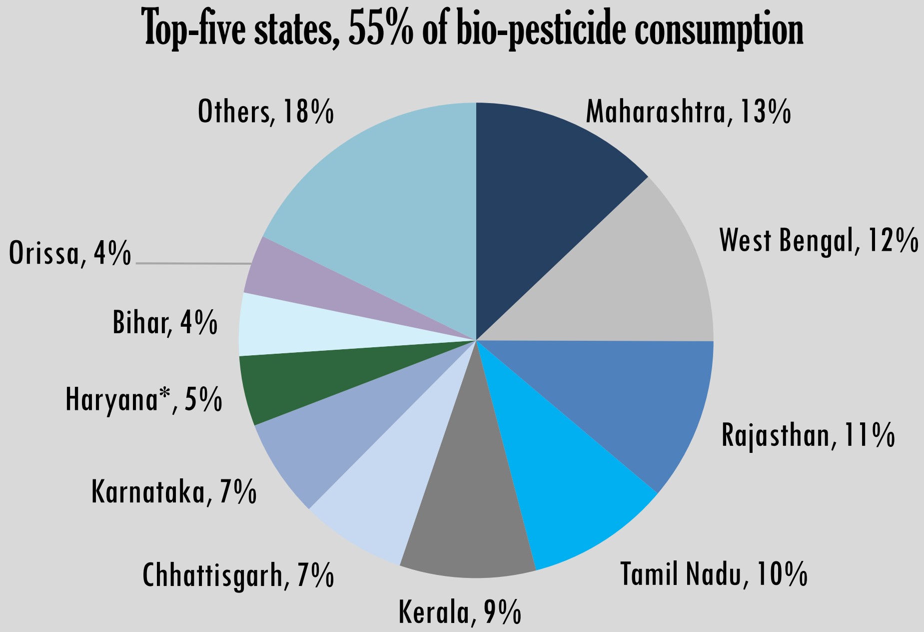

Source: Industry, Anand Rathi Research

Competitive positioning of domestic agrochemicals companies

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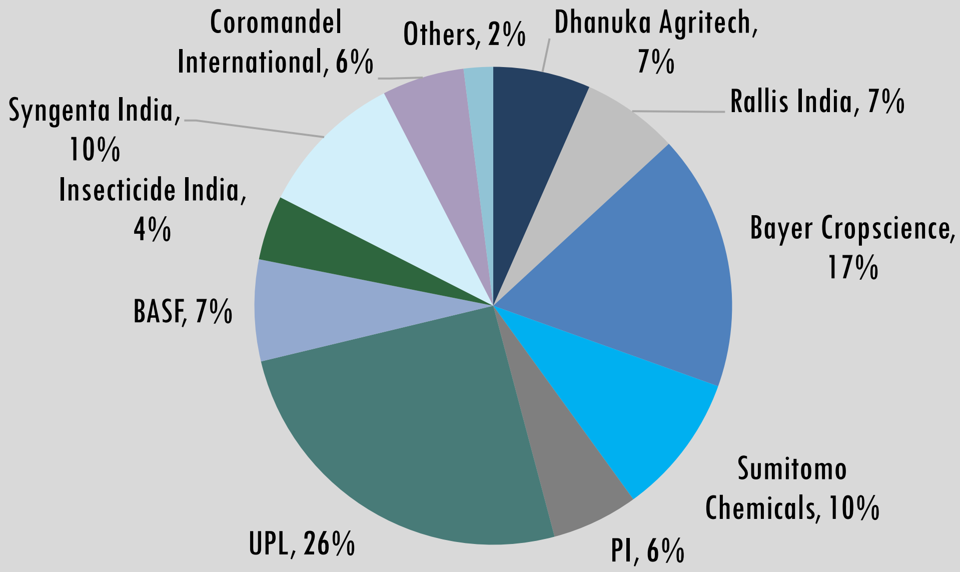
Business model of agrochemicals companies and revenue (%) from various segments

Company / Segments	Agro-chemicals/ Agri-inputs					Other segments
	Domestic			Exports		
	Technical mfg.	Brand-named formulations	In-licensing tie-ups	CRAMS	Exports	
Bayer Crop Science		88			7	Seeds - 5
Dhanuka Agritech		52	48			
Insecticides India		63-68	15-20			
PI Industries		39		61		
Rallis India		56			27	Seeds - 16
Sharda Cropchem					88	Belts - 12
UPL	18				82	
Coromandel Int'l	51				49	

Market shares of domestic agrochemicals companies



Competitive positioning of domestic companies

Categories	Bayer Crop Science	Sumitomo Chemical	Rallis India	Dhanuka Agritech	PI Industries	UPL Ltd	Insecticides India	Sharda Cropchem
Business Model	Innovator	Innovator	Inlicensing & Generics	Inlicensing & Distribution	CSM & Inlicensing	Generic Giant	Inlicensing & Generics	Generics Registration
Brand Value/Recall	★★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★
Pricing	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★	★★
Distribution Network	★★★★★	★★★★★	★★★★	★★★★	★★★	★★★★	★★★	★★★★
Product Mix	★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★	★★★★
New Product launches	★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★

Source: Industry, Anand Rathi Research

Our View

ANANDRATHI

We cover four companies in this report, recommending **Buys** on Bayer Crop Science, Dhanuka Agritech, Sumitomo Chemicals and UPL.

Top Pick

Sumitomo Chemical: We prefer Sumitomo Chemicals (India) in agrochemicals, as we believe worst in terms of volume growth and pricing pressure is largely behind and expect gradual recovery as higher stocks piled up globally have started to normalise (barring the US). Price drops in the last few months seem to have been arrested for now. Hence, we believe a gradual recovery in revenue growth and margins cannot be ruled out. Further, the company is poised to post 4%/7% revenue/PAT CAGRs over FY23-26 (FY18-23: 13%/28%). The company had a healthy 28% RoE, 23% pre-tax RoCE and net cash balance sheet in FY23. We initiate coverage on Sumitomo Chemicals with a Buy at a TP of Rs.490, 40x FY26e EPS.

Current slowdown not as bad as the last one

Domestic agrochemicals companies (those we cover) clocked an 8.7% revenue CAGR over FY14-16 as two consecutive years of below-normal rains (FY15 and FY16) coupled with greater channel stocks and pressure on farm incomes curbed sales. Cash-flows were strained, and the below-normal monsoons led to industry-wide price cuts and subdued volumes. We believe that the pressure this time will not be as severe as the last slowdown (FY15/16) given a) on-ground demand is still strong unlike during the last slowdown when farmers down-traded to less expensive products driven by pressure on farm output prices; b) green-shoots visible in terms of modest channel stocks across regions (barring the US); c) crop prices—domestic and global—continue to be remunerative; d) the government's thrust on improving farm income; e) expectations of special aid from the government to the farming community in case of crop damage or losses (due to adverse weather, etc.) given Lok Sabha elections next year.

Source: Industry, Anand Rathi Research

Recommendation synopsis

Sumitomo Chemicals, India – Near term hiccups; long-term intact; Buy

Strong parental advantage to support growth. Strong parental support from Sumitomo Chemical Corporation (SCC) gives its Indian subsidiary unique advantages such as a) access to SCC's portfolio; b) technical and R&D expertise to develop proprietary products and c) financial strength and a wider market reach.

To be the 'go to guy' for SCC's generic exports globally. The Indian arm is the only technical and generic grade manufacturing site of the SCC group outside Japan. It intends to enhance exports by levering SCC's global supply chain and marketing network (received approvals for five molecules). We expect its export revenue to record a 35% CAGR over FY24-FY26 (FY20-FY23: 23%) on the back of SCC's intent to maximise synergies from the integration of Nufarm's distribution business in LATAM and Sumitomo India's exports.

Outlook and Valuation. Considering the above, the company is poised to post 4%/7% revenue/ PAT CAGRs over FY23-26 (FY18-23: 13%/28%). Further, the company had a healthy 23% RoE, a 30% pre-tax RoCE and a net-cash balance-sheet in FY23. We initiate coverage with a Buy at a TP of Rs.500, 40x FY26e EPS

Bayer Crop Science – Market dominance likely to endure; Buy

Market dominance in domestic agrochemicals. Strong brand recall and superior products have helped Bayer Crop Science dominate domestic agrochemicals with a ~17% market share (in FY23), and a ~40-45% market share in rice hybrids.

Product launches to propel growth. The company is on track to launch several innovative products from the parent in the next few years (it launched 25 products over FY15-FY24 ytd). This in turn would support overall growth ahead. The company has registered three products in FY23 and FY24 ytd, likely to reap benefits in future

Outlook and Valuation. The better product mix (greater contribution of maize hybrids in overall revenue) has in turn resulted in the company's decent margin improvement in H1 FY24 despite the uncertain crop protection environment. Ahead, we believe dominance in domestic crop protection and the greater contribution from maize hybrids would support earnings. The company is likely to post 10%/13% revenue/PAT CAGRs over FY23-FY26. The earnings growth trajectory is robust, with debt-free balance sheets and strong cash-flows. We initiate coverage on the company with a Buy at a TP of Rs6,500, 30x FY26e EPS

Recommendation Synopsis

ANANDRATHI

Dhanuka Agritech – Making a foray into technical manufacturing to aid sustainable growth; Buy

Asset-light business model with an extensive distribution network. Dhanuka Agritech has a unique asset-light business model (three formulations facilities; focusing on new products, supported by tie-ups with global giants) reinforced by an extensive marketing network (6,500 dealers/distributors, 80,000 retailers), giving it an edge over competitors

Foray into technical manufacturing to aid sustainable growth: The company' made a foray into technical manufacturing at Rs3bn capex (to be spent over FY22-24; funded through internal accruals) at Dahej, Gujarat (with Rs1.5bn-2bn revenue potential in FY24 and Rs3bn from FY25). Phase-1 of the formulations unit has already gone commercial from Aug'23 (with one molecule currently; potential to manufacture 4-5 molecules at this MPP), while the technical unit will go commercial by FY24. It will largely take care, through backward integration, of generics required

Outlook and Valuation. We believe the successful execution and ramp-up of the Dahej project would set the company on the next leg of growth, which would lead to re-rating the stock over the longer term. The company has a good distribution-led business model with robust RoE (>23%) and balance sheet. We expect it to register 13%/ 13% revenue/PAT CAGRs over FY23-FY26, boosted by the healthy demand context and product launches. We initiate coverage on the company with a Buy at a TP of Rs.1,200, 16x FY26e EPS

UPL – Challenges subsiding; Buy

LATAM is the key region for UPL (~40% of revenue). Brazil is the fastest growing region for UPL (FY23e ~$1.5bn revenue; ranked fourth-largest in Brazil). It brings >50% to LATAM revenues and is expected to grow twice that of the industry over next few years on its strong product pipeline and widening distribution reach

Margins expected to recover from H2 FY24. We expect a gradual recovery in margins from H2 FY24 (now showing early signs), as the drop in finished goods prices (in line with the fall in RM prices) seems to be arrested. This, liquidation of high-cost stocks and stable RM costs are likely to result in margin expansion in H2. UPL generates ~60% of its annual revenue/ profitability in the second half of the year, with the last quarter bringing ~30%. Thus, we expect a strong margin expansion in Q4 to be aided by a) greater operating leverage and b) low base

Outlook and Valuation. We anticipate the better performance in H2 FY24, particularly in Q4, to be driven by the improved demand context across markets (barring NAFTA), supported by higher commodity prices. We expect UPL to clock 3%/12% revenue/PAT CAGRs over FY23-26. We initiate coverage on the company with a Buy at a TP of Rs.690, 10x FY26e EPS

Valuation Snapshot

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Company	CMP (Rs)	TP (Rs)	M Cap (Rs mn)	Rating	Target Multiple (x)	Revenue FY23	Revenue FY24e	Revenue FY25e	Revenue FY26e	Revenue CAGR FY22-26(%)	EBITDA FY23	EBITDA FY24e	EBITDA FY25e	EBITDA FY26e	EBITDA CAGR FY22-26(%)	Adjusted PAT FY23	Adjusted PAT FY24e	Adjusted PAT FY25e	Adjusted PAT FY26e	Adjusted PAT CAGR FY22-26(%)
BYRCS	5,492	6,500	246,591	BUY	30x	51,397	56,023	61,625	67,788	10.0	9,242	11,036	12,017	13,422	10.3	6,752	8,087	8,788	9,796	10.1
DAGRI	1,018	1,200	46,399	BUY	16x	17,002	19,202	21,623	24,286	12.5	2,787	3,495	4,022	4,567	14.3	2,335	2,727	3,022	3,403	11.7
SUMICHEM	410	500	204,650	BUY	40x	35,110	28,969	34,926	39,987	17.5	6,666	4,635	6,566	7,917	30.7	5,022	3,574	5,113	6,179	31.5
UPL	590	700	442,500	BUY	10x	535,760	506,762	542,529	589,866	7.9	111,600	101,298	121,186	136,720	16.2	37,094	24,979	41,440	51,542	43.6

Company	Adjusted EPS (Rs) FY23	Adjusted EPS (Rs) FY24e	Adjusted EPS (Rs) FY25e	Adjusted EPS (Rs) FY26e	Net Debt (INR Mn) FY23	Net Debt (INR Mn) FY24e	Net Debt (INR Mn) FY25e	Net Debt (INR Mn) FY26e	Net debt/Equity (x) FY23	Net debt/Equity (x) FY24e	Net debt/Equity (x) FY25e	Net debt/Equity (x) FY26e	RoE(%) FY23	RoE(%) FY24e	RoE(%) FY25e	RoE(%) FY26e	RoCE (%) FY23	RoCE (%) FY24e	RoCE (%) FY25e	RoCE (%) FY26e
BYRCS	150.4	180.1	195.7	218.2	(9,091)	(14,559)	(19,139)	(24,706)	(0.3)	(0.4)	(0.5)	(0.6)	25.8	27.1	24.9	23.7	34.8	36.5	33.4	31.7
DAGRI	51.2	59.8	66.3	74.7	(962)	(2,355)	(4,523)	(7,042)	(0.1)	(0.2)	(0.3)	(0.4)	23.1	23.1	21.0	19.7	30.1	30.1	28.3	26.5
SUMICHEM	10.1	7.2	10.2	12.4	(5,239)	(7,484)	(9,831)	(13,597)	(0.2)	(0.3)	(0.3)	(0.4)	23.3	14.2	17.9	18.5	30.3	19.1	24.0	25.2
UPL	49.5	33.3	55.3	68.7	198,420	164,667	134,019	96,266	0.7	0.6	0.4	0.3	15.3	9.1	13.9	15.5	14.3	12.1	16.0	18.2

Company	PE(x) FY23	PE(x) FY24e	PE(x) FY25e	PE(x) FY26e	Price/Book Value (x) FY23	Price/Book Value (x) FY24e	Price/Book Value (x) FY25e	Price/Book Value (x) FY26e	EV/EBITDA (x) FY23	EV/EBITDA (x) FY24e	EV/EBITDA (x) FY25e	EV/EBITDA (x) FY26e
BYRCS	36.5	30.5	28.1	25.2	9.1	7.6	6.5	5.5	19.4	15.7	14.1	12.2
DAGRI	19.9	17.0	15.4	13.6	4.4	4.4	4.4	4.4	18.2	17.6	13.6	11.3
SUMICHEM	40.7	57.3	40.0	33.1	8.6	7.7	6.7	5.7	29.9	42.5	29.7	24.1
UPL	12.4	18.3	11.1	8.9	1.7	1.6	1.5	1.3	6.0	6.2	5.0	4.1

Source: Industry, Anand Rathi Research

3 Companies

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Rating: Buy
Target Price: Rs.6,500
Current market price: Rs.5,502

Bayer Crop Science (BYRCS)

Market dominance likely to persist

Key data	BYRCS IN
52-week high / low	Rs5625 / 3920
Sensex / Nifty	72240 / 21,731
3-m average volume	$1.4m
Market cap	Rs245bn / $2948.8m
Shares outstanding	45m

Shareholding (%)	Sep'23	Jun'23	Mar'23
Promoters	71.4	71.4	71.4
- of which, Pledged	0.0	0.0	0.0
Free float	28.6	28.6	28.6
- Foreign institutions	3.3	3.2	3.2
- Domestic institution	13.2	13.1	12.7
- Public	12.1	12.3	12.6

BYRCS - Investment Summary

ANANDRATHI

Summary

Bayer Crop Science has highest brand re-call and most extensive distribution network in India (~80,000 distributors), giving it a distinct edge over other manufacturers. We believe its long-term growth prospects are intact on its merger with Monsanto India, primarily led by (a) paired products; (b) innovative products from the parent and (c) leading position in maize and hybrid paddy seeds

Dominates domestic agrochemicals

Superior products and strong brand recall have helped the company dominate the domestic agrochemicals market (a ~17% market share in FY23, and ~40-45% in rice hybrids

Launches to propel growth

The company is on track to launch several innovative products from the parent in the next few years (it launched 25 products over FY15-FY24 ytd). This in turn would support overall growth ahead. The company has registered three products in FY23 and FY24 ytd, likely to reap benefits in future

Favorable risk-reward

The superior product mix (greater contribution of maize hybrids in revenue overall) has in turn resulted in decent margin betterment in H1 FY24 despite the uncertain environment in crop protection. Ahead, we believe its dominance in domestic crop protection and the greater contribution from maize hybrids would support earnings. The company is likely to post 10%/13% revenue/PAT CAGRs over FY23-FY26. It has a robust earnings growth trajectory, debt-free balance sheet and strong cash-flows. We initiate coverage on the stock with a Buy at a TP of Rs.6,500, 30x FY26e EPS

BYRCS - Investment summary

ANANDRATHI

Valuation

The superior product mix (greater contribution of maize hybrids in overall revenue) has in turn resulted in decent margin improvement in H1 FY24 despite the uncertain environment in the crop protection business. Ahead, we believe its dominance in domestic crop protection and the greater contribution from maize hybrids would support earnings. The company is likely to post 10%/13% revenue/PAT CAGRs over FY23-FY26. It has a robust earnings growth trajectory, debt-free balance sheet and strong cash-flows. We initiate coverage on the company with a Buy at a TP of Rs.6,500, 30x FY26e EPS.

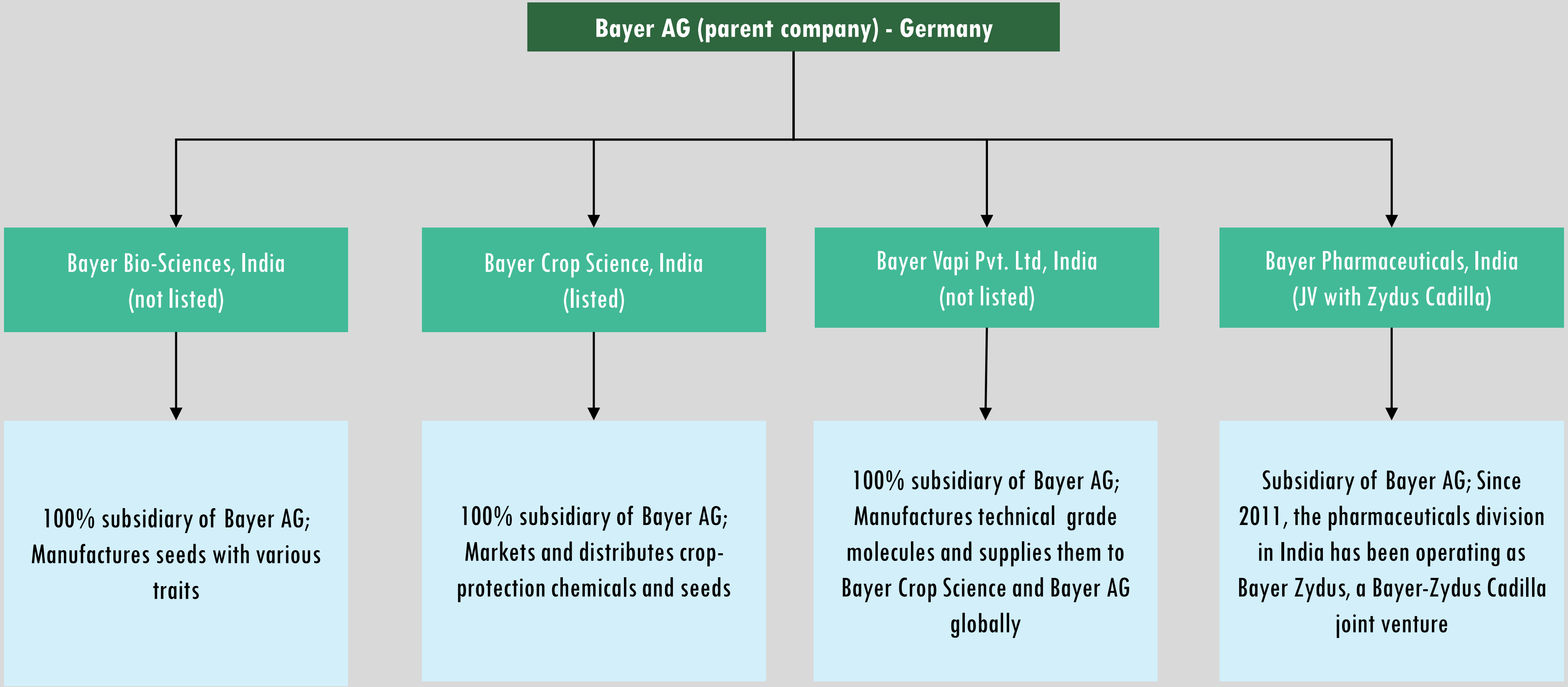
Key risks

1) Poorer-than-expected monsoons
2) Ban on glyphosate (~14-15% of FY23 revenue)

Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rsm)	47,344	51,397	56,023	61,625	67,788
Net profit (Rsm)	6,453	7,582	8,087	8,788	9,796
EPS (Rs)	133.3	150.4	180.1	195.7	218.2
PE (x)	39.2	34.8	29.0	26.7	24.0
EVEBITDA (x)	27.9	24.4	19.9	17.9	15.6
PBV (x)	9.3	8.7	7.2	6.2	5.3
RoE (%)	23.6	25.8	27.1	24.9	23.7
RoCE (%)	22.7	24.7	26.1	24.1	23.0
Dividend yield (%)	0.7	0.6	1.0	1.1	1.1
Net debt/equity (x)	-0.3	-0.3	-0.5	-0.5	-0.6

Source: Company, Anand Rathi Research

BYRCS – Group companies of Bayer AG (Germany) in India



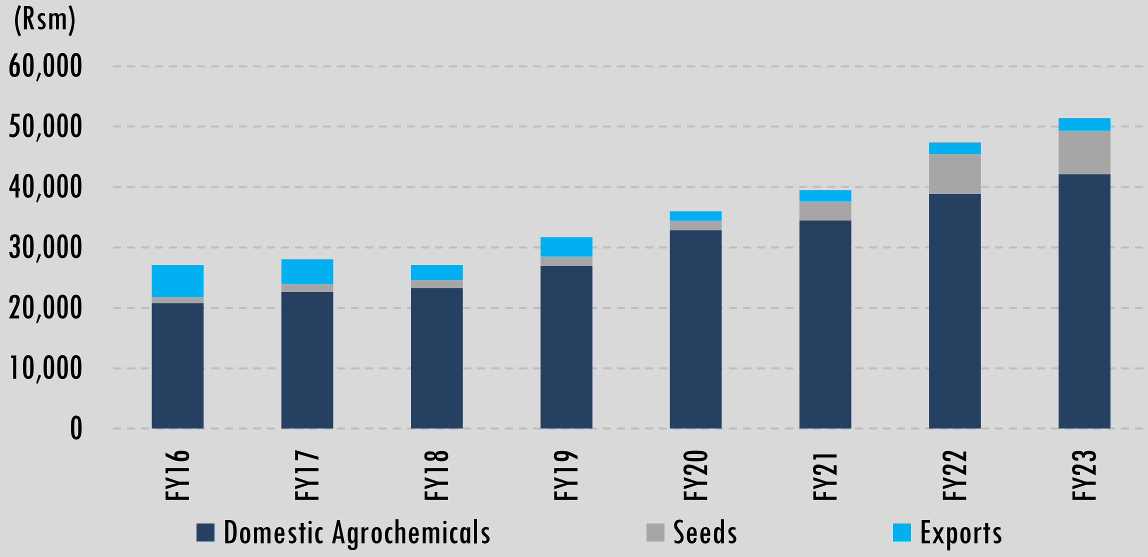
Bayer Crop Science (the listed entity) is more of a marketing and distribution company. The manufacturing (Bayer Vapi Pvt. Ltd) and seeds (Bayer Bio Sciences) businesses are 100% subsidiaries of Bayer AG, the parent company of Bayer Crop Science.

Source: Company, Anand Rathi Research

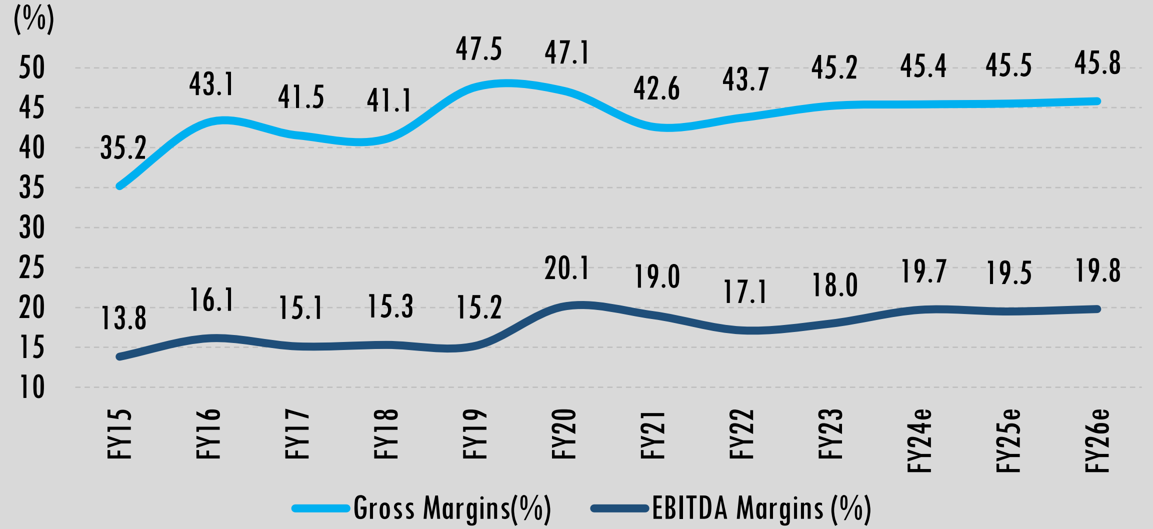
BYRCS - Story in charts

ANANDRATHI

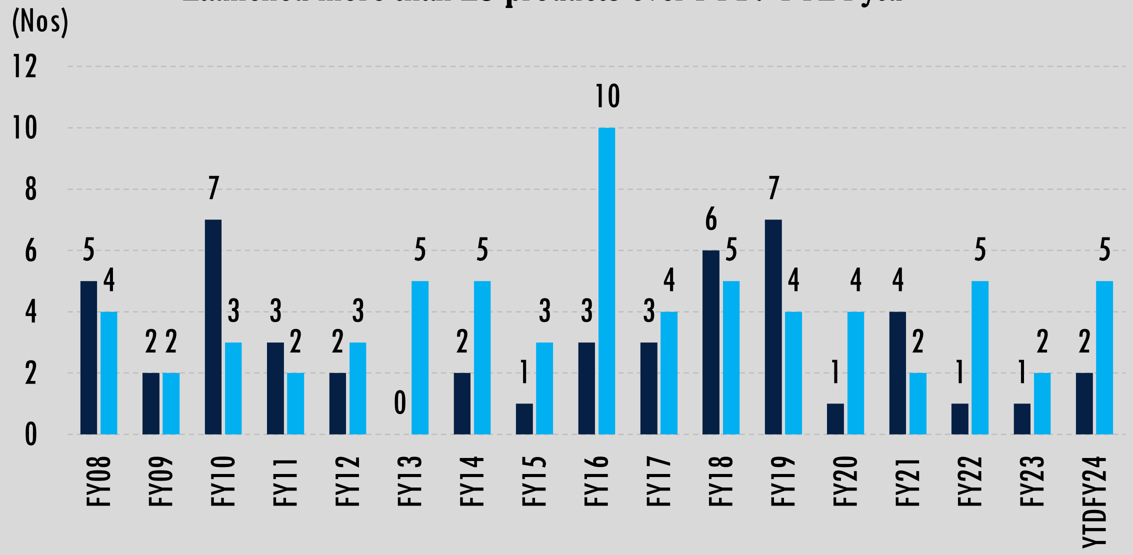
Strong performance in CP offset by declining exports (Rs m)



Margins in improving trend, aided by better corn seed sales (%)



Launched more than 25 products over FY17-FY24 ytd



16 product registrations received (FY21-FY24 ytd)

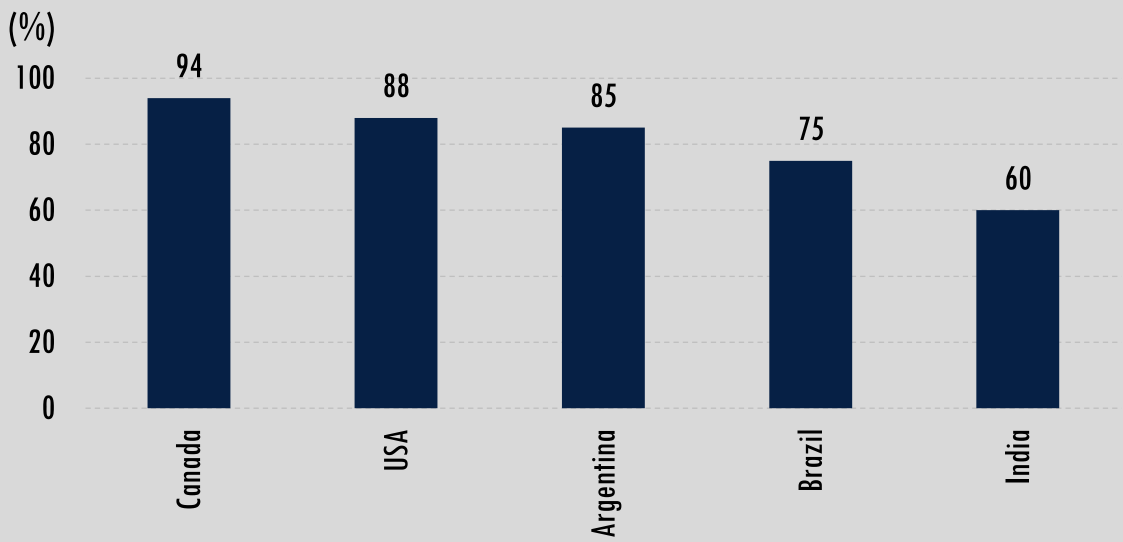
	Technical Name	Registration Section	Remarks
FY21	Fipronil Technical 90% w/w min	9(4)	Technical import
	Tetraniliprol Technical 90%	9(3)	For export only
	Cyclanilide technical 97% w/w min	9(3)	Technical import
	Ethiprole technical 94.5% min	9(3)	Indigenous manufacture
	Cyclanilide technical 97% w/w min	9 (3)	Technical import
	Tetraniliprole technical 89% w/w min	9 (3)	Technical import
	Tetraniliprole 18.18% w/w SC	9 (3)	Indigenous manufacture
	Pyroxasulfon 85% WG	9 (4)	Technical import
FY22	Thidiazuron technical 98% w/w min	9(3)	Technical import
	Fipronil Technical 95.0% w/w min	9(4)	Import
	Imidacloprid 17.1% SL	9(3)	Indigenous manufacture
	Fipronil technical 95.0% w/w min	9(4)	Import
	Delatmethrin 25% WG	9(3)	Import
FY23	Tetraniliprole 40.34% FS	9(3)	Indigenous manufacture
YTDFY24	Fluopyram 21.37% + Trifloxystrobin 21.37%	9(3)	Indigenous manufacture
	Tetraniliprole 10.08% + Thiacloprid 30.25% SC	9(3)	Indigenous manufacture

Source: Company, Anand Rathi Research

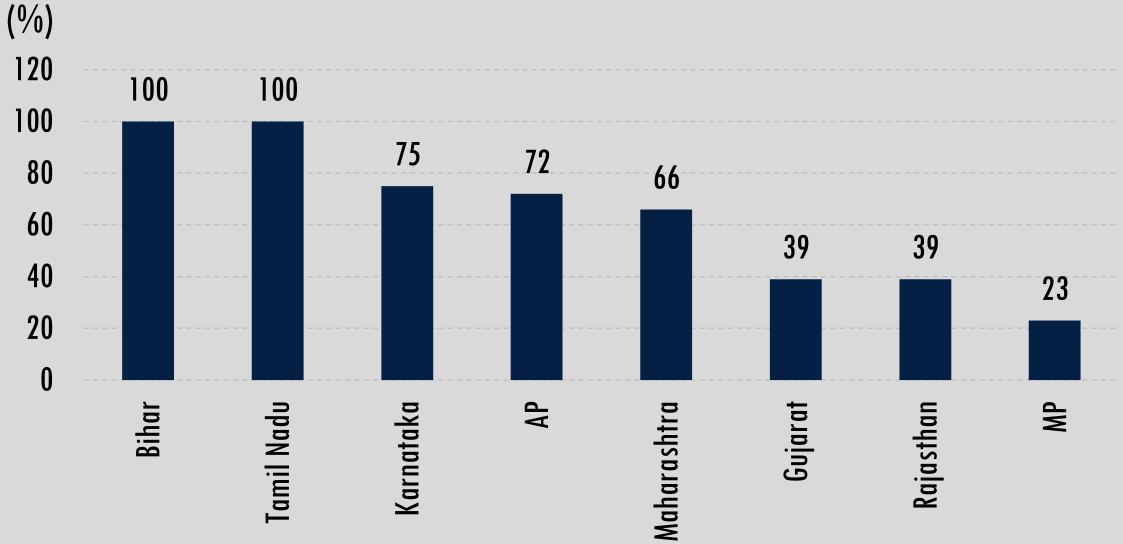
BYRCS - Only 60% maize hybridization in India; scope for further improvement

ANANDRATHI

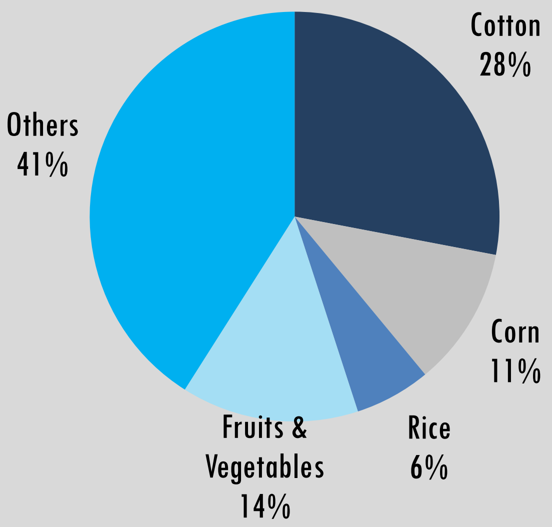
Global maize hybridization trend (%)



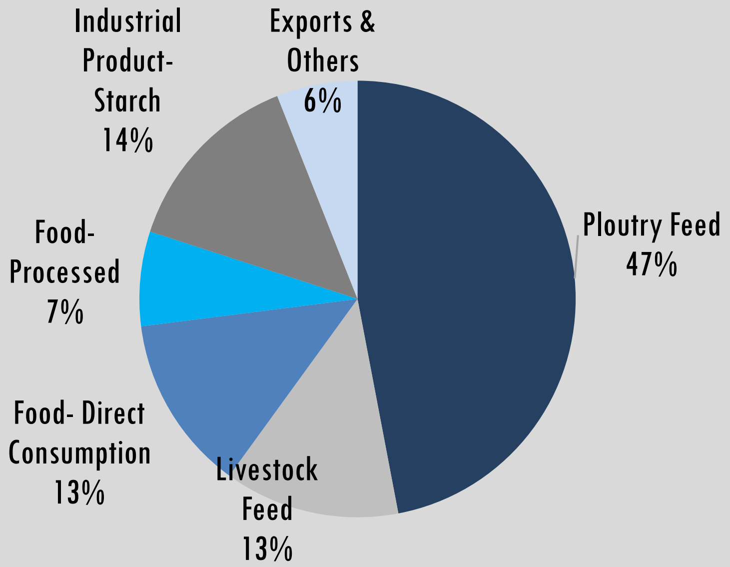
Bihar and Tamil Nadu have reached 100% maize hybridization (%)



Maize accounts for 11% of the seed industry (%)



Feed industry consumes >60% of maize (%)



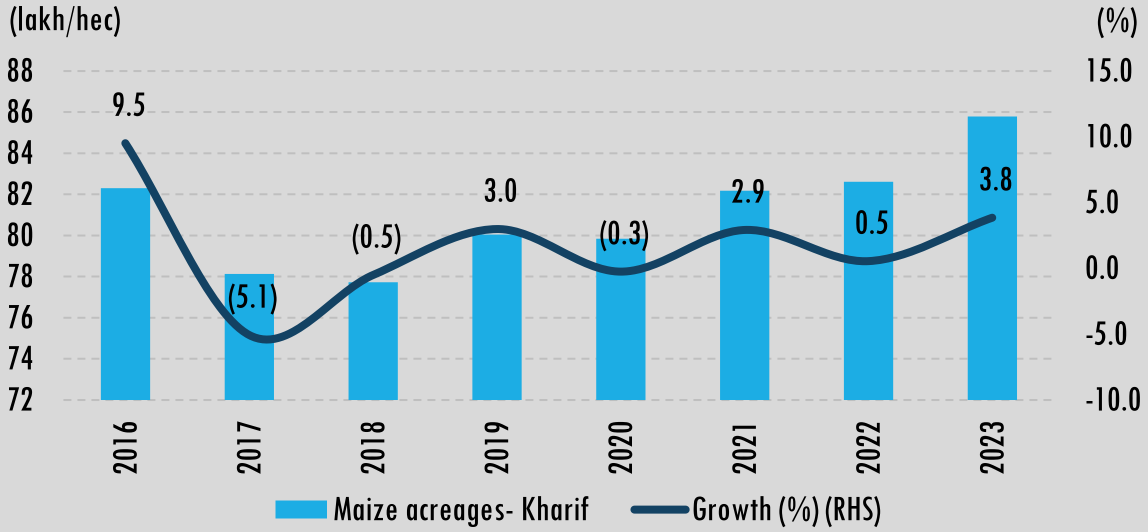
- The domestic seed industry is estimated at ~Rs190bn, of which maize seeds has an 11% share
- More than two-thirds of the maize produced in India is for feed and other industrial uses. The feed industry in India is registering a 9% CAGR, throwing up huge opportunities for maize producers
- The top-seven maize-producing states account for three-fourths of maize production in India
- The top-five maize-producing states (Karnataka, AP, MH, Rajasthan and Bihar) account for two-thirds of India's maize production
- Only two states (Bihar, TN) have 100% hybridization of maize. Hybridization has a direct and positive co-relation with greater yields

Source: Company, Anand Rathi Research

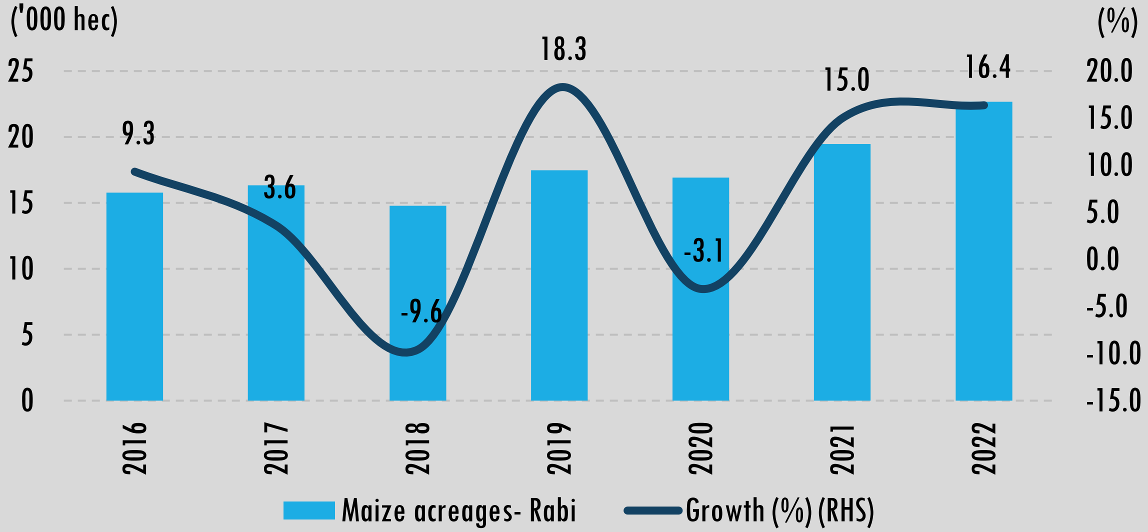
BYRCS – Healthy maize acreages + higher price realisations = strong performance

ANANDRATHI

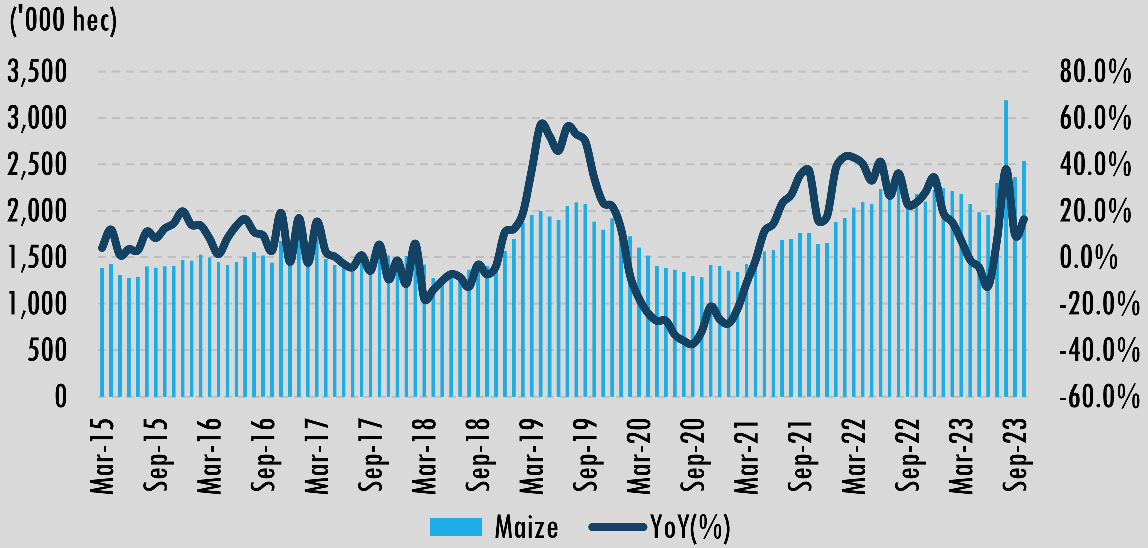
Pick-up in kharif maize acreages in FY22 and FY23 …



… followed by higher acreages in rabi FY23



Strong maize prices in domestic markets



- 'Dekalb'- maize hybrids are the company's top selling product. Currently, maize and rice are the two major crops for the merged entity
- The strong performance in its maize hybrids business in FY23 and H1 FY24 has resulted in higher margins (the FY23 gross margin up 150bps y/y)
- We believe that remunerative maize prices in the domestic market (up 17% y/y in Nov'23) should support growth in the near/medium term

Source: Company, Anand Rathi Research

BYRCS - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	47,344	51,397	56,023	61,625	67,788
Growth (%)	11.1	8.6	9.0	10.0	10.0
Raw material	26,642	28,160	30,588	33,586	36,741
Employee & other expenses	12,591	13,995	14,398	16,023	17,625
EBITDA	**8,111**	**9,242**	**11,036**	**12,017**	**13,422**
EBITDA margins (%)	17.1	18.0	19.7	19.5	19.8
- Depreciation	645	795	883	927	1,017
Other income	546	639	716	689	689
Interest expense	129	223	227	216	205
PBT	8,351	9,693	10,641	11,563	12,889
Effective tax rate (%)	1,898	2,111	2,554	2,775	3,093
+ Associates/(Minorities)	-	-	-	-	-
Adjusted income	5,985	6,752	8,087	8,788	9,796
Extraordinary item (Loss)/Profit	468	830	-	-	-
Reported PAT	6,453	7,582	8,087	8,788	9,796
WANS	45	45	45	45	45
FDEPS (Rs/share)	133.3	150.4	180.1	195.7	218.2

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	449	449	449	449	449
Net worth	25,243	27,121	32,505	38,050	44,602
Total debt (including Pref)	-	-	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	-73	-	-	-	-
Capital employed	**25,170**	**27,121**	**32,505**	**38,050**	**44,602**
Net tangible assets	5,264	5,431	5,548	5,621	5,605
CWIP (tangible and intangible)	133	29	29	29	29
Investments (Strategic)	261	256	256	256	256
Investments (Financial)	385	411	411	411	411
Current Assets (ex Cash) Incl LT	29,539	31,979	34,416	37,402	40,597
Cash	7,874	8,680	14,148	18,728	24,295
Current Liabilities	18,286	19,665	22,302	24,398	26,591
Working capital	11,253	12,314	12,114	13,005	14,006
Capital deployed	**25,170**	**27,121**	**32,505**	**38,050**	**44,602**
Contingent Liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

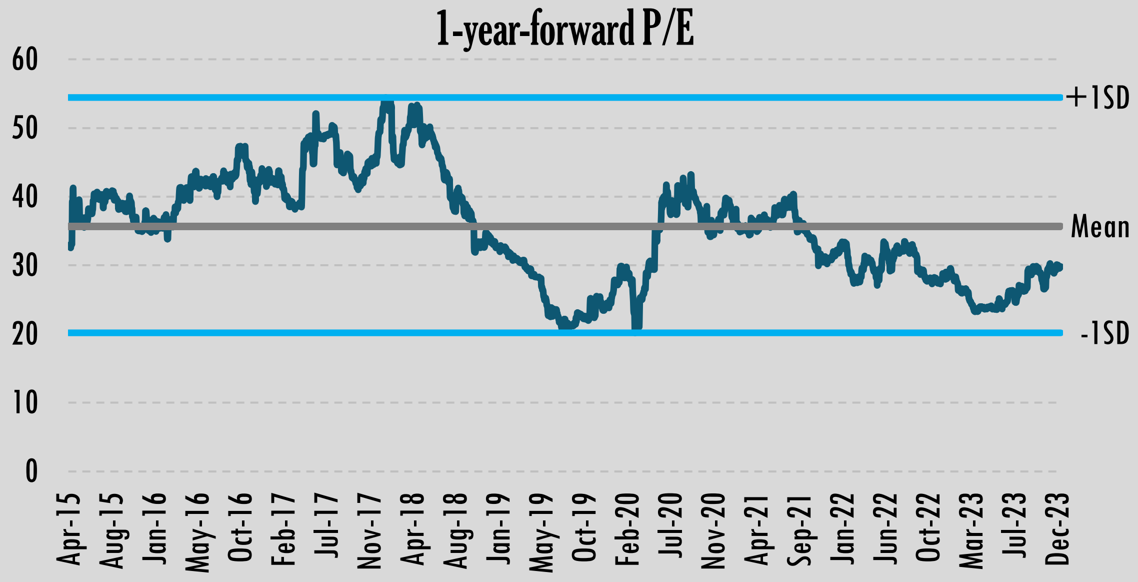
BYRCS - Financials

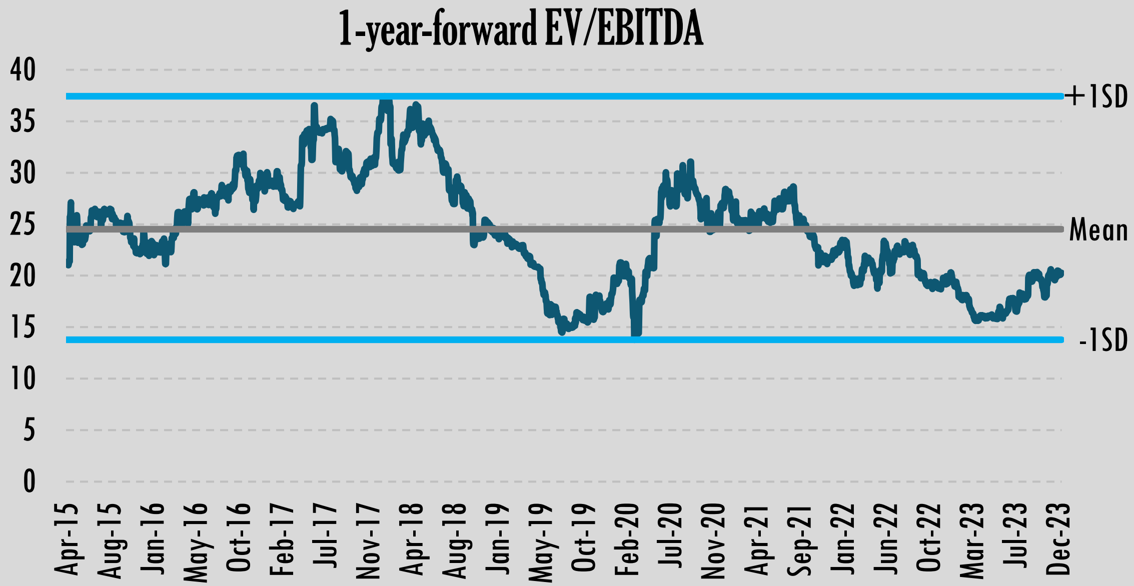
Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	8,468	9,901	10,641	11,563	12,889
+ Non-cash items	774	1,018	1,111	1,143	1,222
Operating profit before WC changes	9,242	10,919	11,752	12,706	14,111
- Incr./(decr.) in WC	4,062	1,409	-200	891	1,002
Others incuding taxes	3,025	3,417	3,497	3,680	3,988
Operating cash-flow	2,155	6,093	8,455	8,135	9,122
- Capex (tangible + Intangible)	473	726	1,000	1,000	1,000
Free cash-flow	1,682	5,367	7,455	7,135	8,122
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	6,728	5,611	2,703	3,244	3,244
+ Equity raised	-	-	-	-	-
+ Debt raised	-263	-409	-	-	-
- Fin Investments	-1,115	-1,559	-716	-689	-689
- Misc. Items (CFI + CFF)	42	112	-	-	-
Net cash-flow	-4,236	794	5,468	4,580	5,567

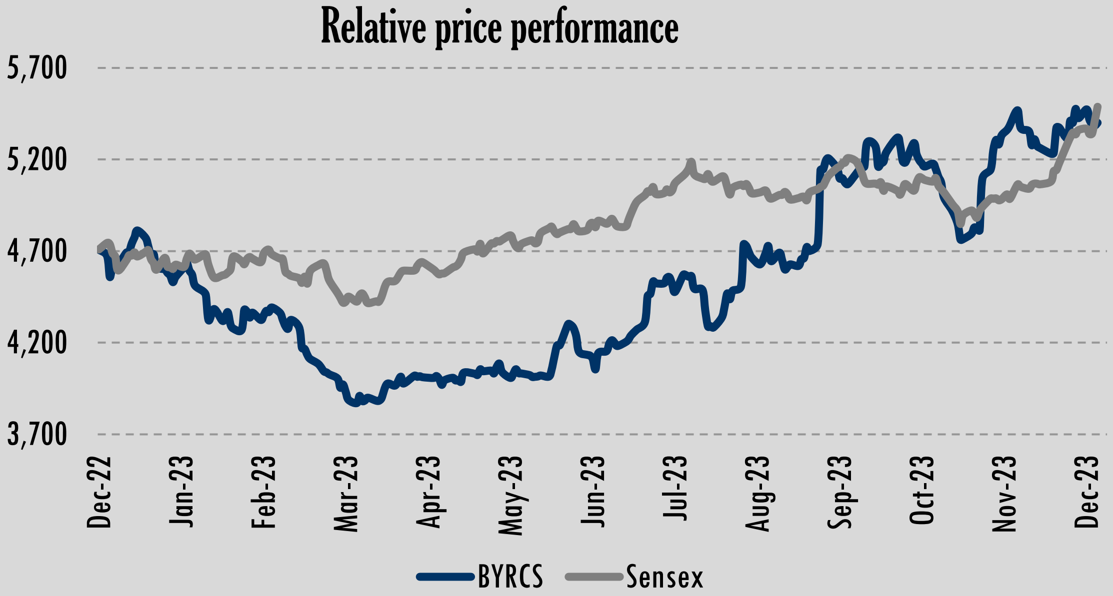
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	39.2	34.8	29.0	26.7	24.0
EV/EBITDA (x)	27.9	24.4	19.9	17.9	15.6
EV/sales (x)	4.8	4.4	3.9	3.5	3.1
P/B (x)	9.3	8.7	7.2	6.2	5.3
RoE (%)	23.6	25.8	27.1	24.9	23.7
RoCE (%) - After tax	22.7	24.7	26.1	24.1	23.0
RoIC (%) - After tax	24.3	23.7	26.5	26.8	27.8
DPS (Rs per share)	35.0	30.0	50.0	60.0	60.0
Dividend yield (%)	0.7	0.6	1.0	1.1	1.1
Dividend payout (%)	31.6	24.0	33.4	36.9	33.1
Net debt/equity (x)	-0.3	-0.3	-0.5	-0.5	-0.6
Receivables (days)	68	70	66	66	66
Inventory (days)	194	215	225	224	224
Payables (days)	113	110	109	108	108
CFO:PAT%	36	90	105	93	93
FCF:PAT% - includ M&A payout	28	79	92	81	83

Source: Company, Anand Rathi Research

BYRCS – Valuation Charts







Source: Bloomberg, Anand Rathi Research

Rating: Buy
Target Price: Rs.1,200
Current market price: Rs.1058

Dhanuka Agritech (DAGRI)

Making a foray into technical manufacturing to aid sustainable growth

Key data	DAGRI IN
52-week high / low	Rs1064 / 603
Sensex / Nifty	72240 / 21,731
3-m average volume	$1m
Market cap	Rs48bn / $572.7m
Shares outstanding	46m

Shareholding (%)	Sep'23	Jun'23	Mar'23
Promoters	70.2	70.2	70.2
- of which, Pledged	0.0	0.0	0.0
Free float	29.8	29.8	29.8
- Foreign institutions	2.2	3.6	4.1
- Domestic institution	18.2	17.2	16.6
- Public	9.4	9.0	9.1

DAGRI - Investment Summary

ANANDRATHI

Summary

Asset-light business model with an extensive distribution network. Dhanuka Agritech has a unique asset-light business model (three formulation facilities; focus on new products supported by tie-ups with global giants), re-inforced by an extensive marketing network (6,500 dealers/distributors, 80,000 retailers), giving it an edge over competitors

Foray into technical manufacturing to sustain growth

The company made a foray into technical manufacturing (Rs3bn capex over FY22-24, funded via internal accruals) at Dahej, Gujarat (with Rs1.5bn-2bn potential revenue in FY24 and Rs3bn from FY25). Phase-1 of the formulations unit was commercialised in Aug'23 (currently, one molecule; potential to manufacture 4-5 molecules at this MPP), while the technical unit will be commercialised by end-FY24. Backward integration will largely take care of generics required.

Product launches to propel growth

The company intends to launch at least one 9(3) product each year, with a few more in-licensed products in coming years. Revenue from in-licensed products was 40% in FY23; ahead, it is likely to be in the same range. The company launched five products in FY24 ytd at an innovation turnover index (ITI) of 16.4%. Ahead, it is confident of improving this figure to 12% by FY25 led by robust pipeline of launches

Favorable risk-reward

We believe the execution and ramp-up of the Dahej project will set the company on the next leg of growth, which would lead to re-rating the stock over the longer term. DAGRI has a strong distribution-led business model with a strong RoE (>23%) and balance sheet. We expect it to clock 13%/13% revenue/PAT CAGRs over FY23-FY26, boosted by healthy demand and product launches. We initiate coverage on Dhanuka Agritech with a Buy at a TP of Rs.1,200 16x FY26e EPS

DAGRI - Investment summary

ANANDRATHI

Valuation

We believe the execution and ramp-up of the Dahej project will set the company on the next leg of growth, which would lead to re-rating the stock over the longer term. DAGRI has a strong distribution-led business model with a strong RoE (>23%) and balance sheet. We expect it to clock 13%/13% revenue/PAT CAGRs over FY23-FY26, boosted by healthy demand and product launches. We initiate coverage on Dhanuka Agritech with a Buy at a TP of Rs.1,200, 16x FY26e EPS.

Key risks

1) Poorer-than-expected monsoons
2) Delay in ramp-up of technical capacities in Dahej

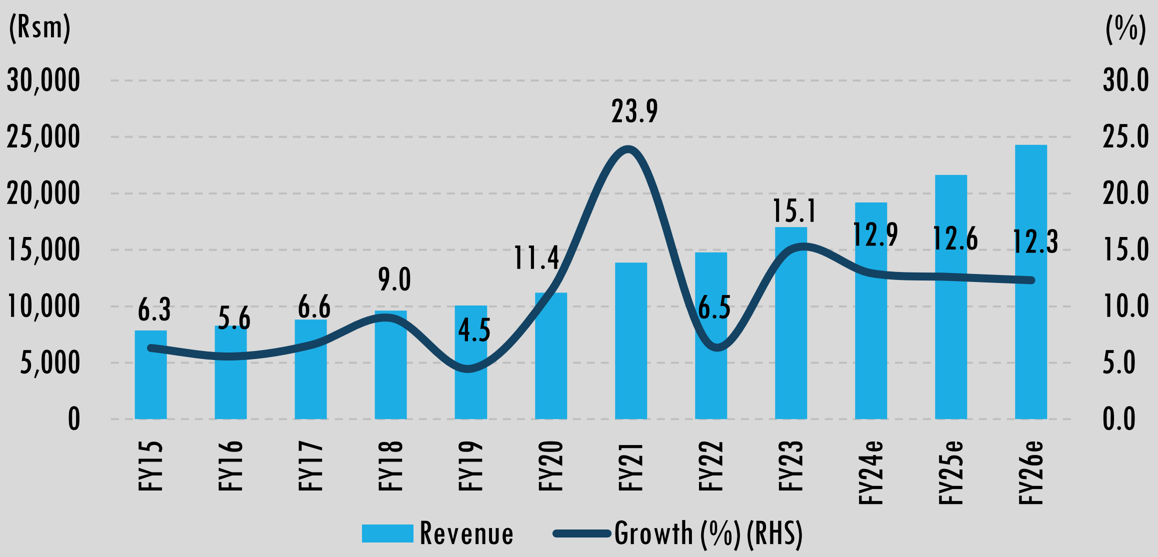
Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rsm)	14,778	17,002	19,202	21,623	24,286
Net profit (Rsm)	2,088	2,335	2,727	3,022	3,403
EPS (Rs)	44.8	51.2	59.8	66.3	74.7
PE (x)	20.4	17.8	15.3	13.8	12.2
EVEBITDA (x)	14.5	14.0	10.8	8.8	7.2
PBV (x)	4.3	3.9	3.2	2.7	2.2
RoE (%)	23.8	23.1	23.1	21.0	19.7
RoCE (%)	23.8	23.1	23.1	21.0	19.7
Dividend yield (%)	0.7	0.2	0.7	0.7	0.7
Net debt/equity (x)	-0.4	-0.2	-0.3	-0.4	-0.5

Source: Company, Anand Rathi Research

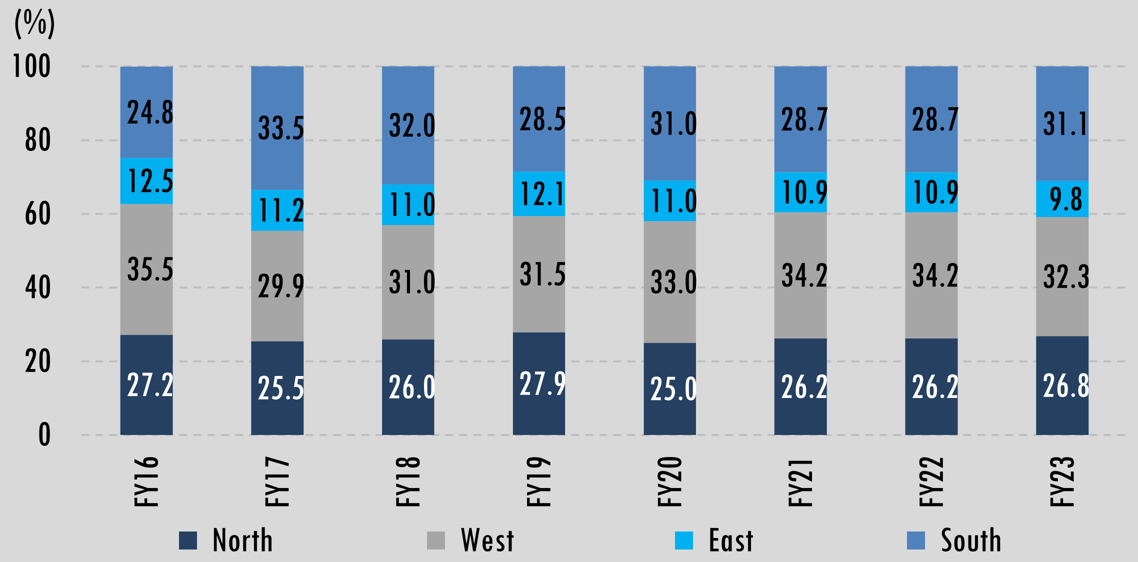
DAGRI – Story in charts

ANANDRATHI

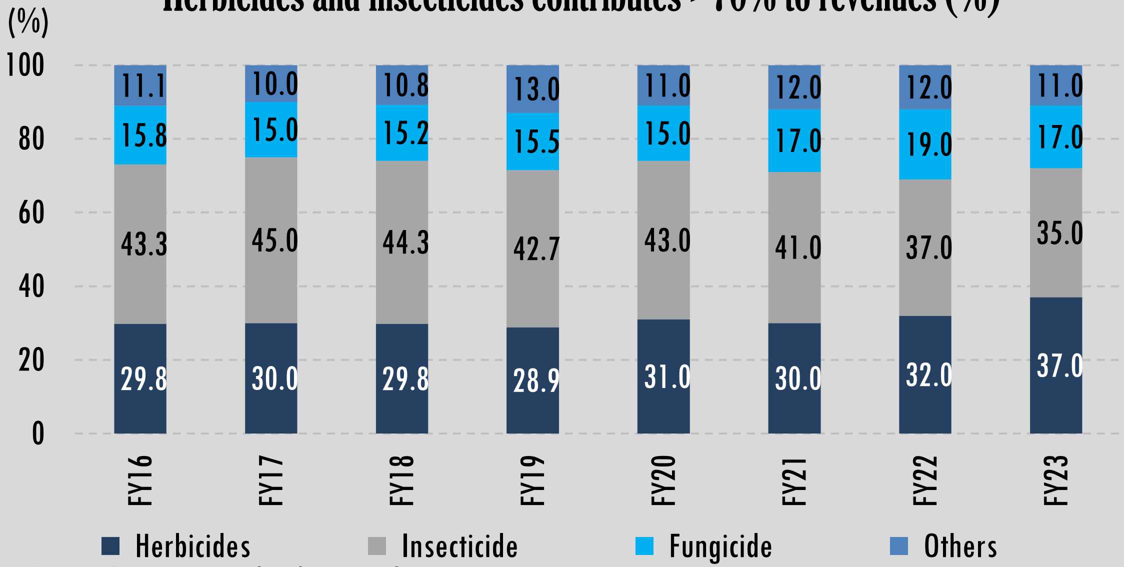
Revenue and revenue growth trends (%)



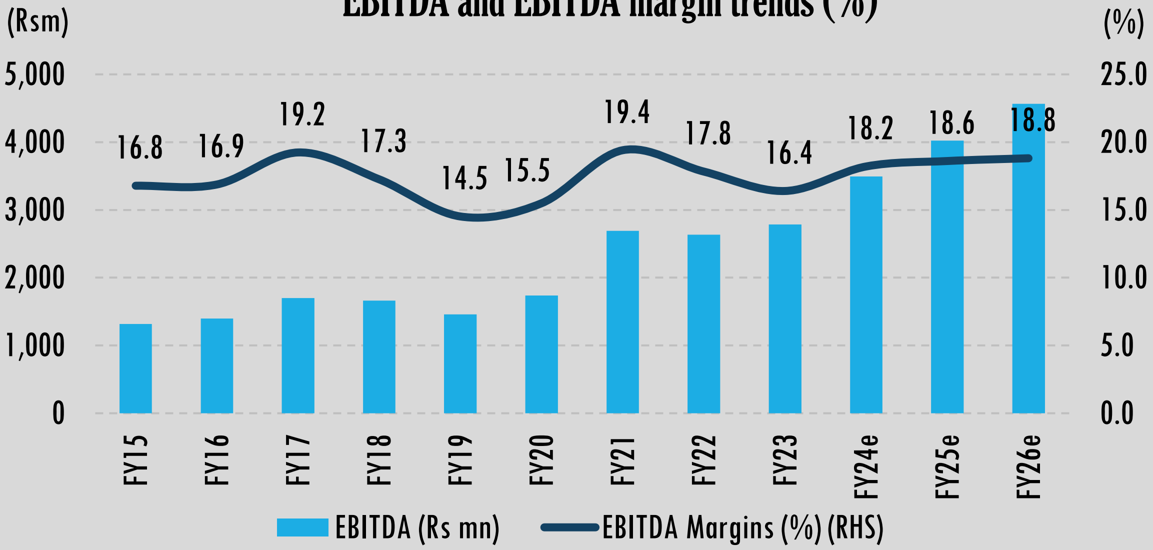
West and South contributes >60% of revenue (%)



Herbicides and insecticides contributes >70% to revenues (%)



EBITDA and EBITDA margin trends (%)

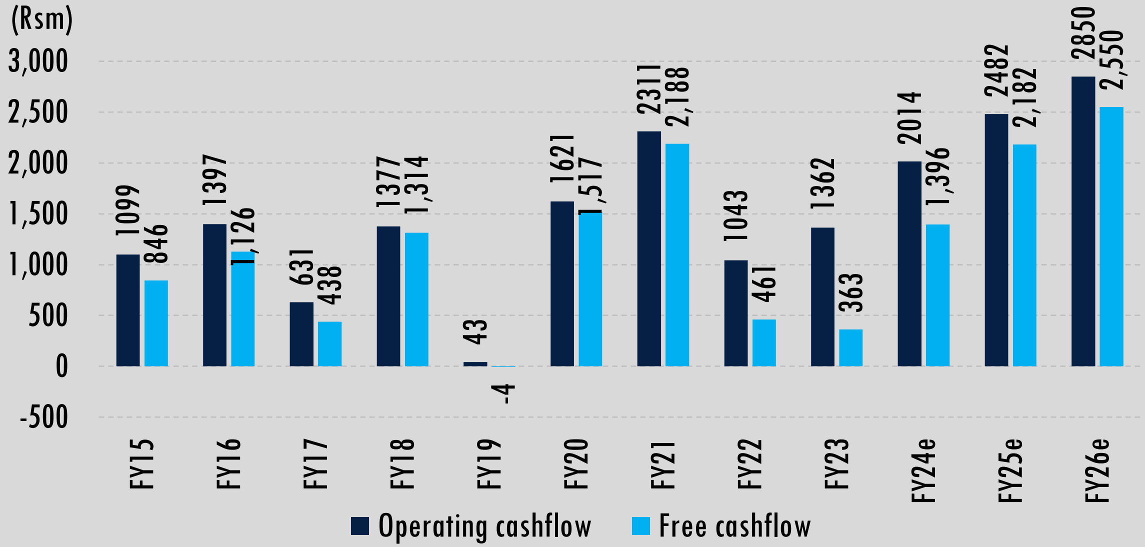


Source: Company, Anand Rathi Research

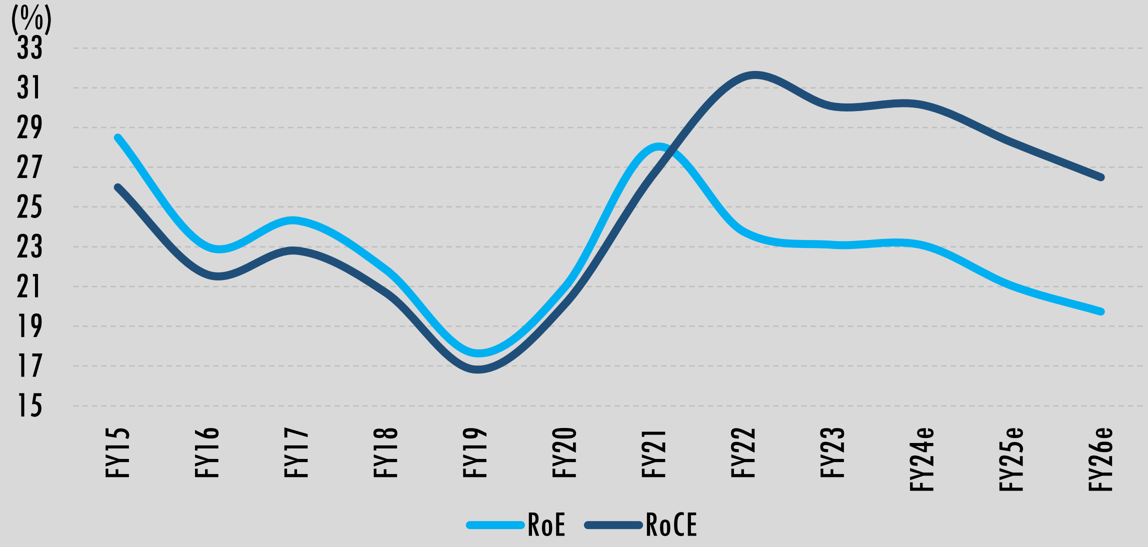
DAGRI - Story in charts

ANANDRATHI

Likely to generate Rs6.5bn free cash over FY23-26 (Rs m)



Ahead, return ratios likely to be upward of 20% (%)



Source: Company, Anand Rathi Research

32 products launched in the last six years (FY18-FY24 ytd)

FY18	Dumil	Herbicide
	Fenox - 1000	Herbicide
	Godiwa	Fungicide
	Godiwa Super	Fungicide
	Marker Super	Insecticide
	D-one	Insecticide
	Suelo	Soil health enhancer
	Domar	Insecticide
FY19	Apply	Insecticide
	Largo	Thripicide
	Chempa	Herbicide
FY20	Mycore	Soil health enhancer
	Zapac	Insecticide
	Pro-rin	Insecticide
	Prodhan	Insecticide
FY21	Dabooch	Herbicide
	Dozo Maxx	Herbicide
	Kirari	Fungicide
	Nissodium	Fungicide
	Craze-D	Herbicide
	Ripple	Insecticide
FY22	Onekil	Herbicide
	Tornado	Herbicide
FY23	Zanet	Fungicide
	Decide	Insecticide
	Implode	Herbicide
	Mesotrax	Herbicide
	Downil	Biological fungicide
	Spornil	Biological weedicide
	Whiteaxe	Insecticide
YTDFY24	Tizom	Herbicide
	Semacia	Insecticide

DAGRI - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	14,778	17,002	19,202	21,623	24,286
Growth (%)	*6.5*	*15.1*	*12.9*	*12.6*	*12.3*
Raw material	9,391	11,155	12,194	13,687	15,349
Employee & other expenses	2,753	3,061	3,514	3,914	4,370
EBITDA	**2,634**	**2,787**	**3,495**	**4,022**	**4,567**
EBITDA margins (%)	17.8	16.4	18.2	18.6	18.8
- Depreciation	163	176	280	298	315
Other income	336	448	358	340	323
Interest expense	32	31	32	25	25
PBT	2,775	3,027	3,541	4,039	4,550
Effective tax rate (%)	23	23	25	25	-
+ Associates/(Minorities)	-	-	-	-	-
Adjusted income	2,088	2,335	2,727	3,022	3,403
Extraordinary item (Loss)/Profit	-	-	-	-	-
Reported PAT	2,088	2,335	2,727	3,022	3,403
WANS	47	46	46	46	46
FDEPS (Rs/share)	44.8	51.2	59.8	66.3	74.7

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	93	91	91	91	91
Net worth	9,604	10,613	13,010	15,703	18,776
Total debt (including Pref)	10	38	-	-	-
Minority interest	-	-	-	-	-
Deferred tax Liability/(Asset)	56	24	24	24	24
Capital employed	**9,669**	**10,675**	**13,034**	**15,726**	**18,800**
Net tangible assets	1,587	1,646	3,466	3,469	3,454
CWIP (tangible and intangible)	483	1,532	50	50	50
Investments (Strategic)	1,398	1,589	1,589	1,589	1,589
Investments (Financial)	1,961	958	958	958	958
Current Assets (ex Cash) Incl LT	7,668	8,285	9,231	10,199	11,270
Cash	24	43	1,397	3,565	6,084
Current Liabilities	3,452	3,378	3,658	4,103	4,604
Working capital	4,216	4,907	5,574	6,096	6,666
Capital deployed	**9,669**	**10,675**	**13,034**	**15,726**	**18,800**
Contingent Liabilities	93	91	91	91	91

Source: Company, Anand Rathi Research

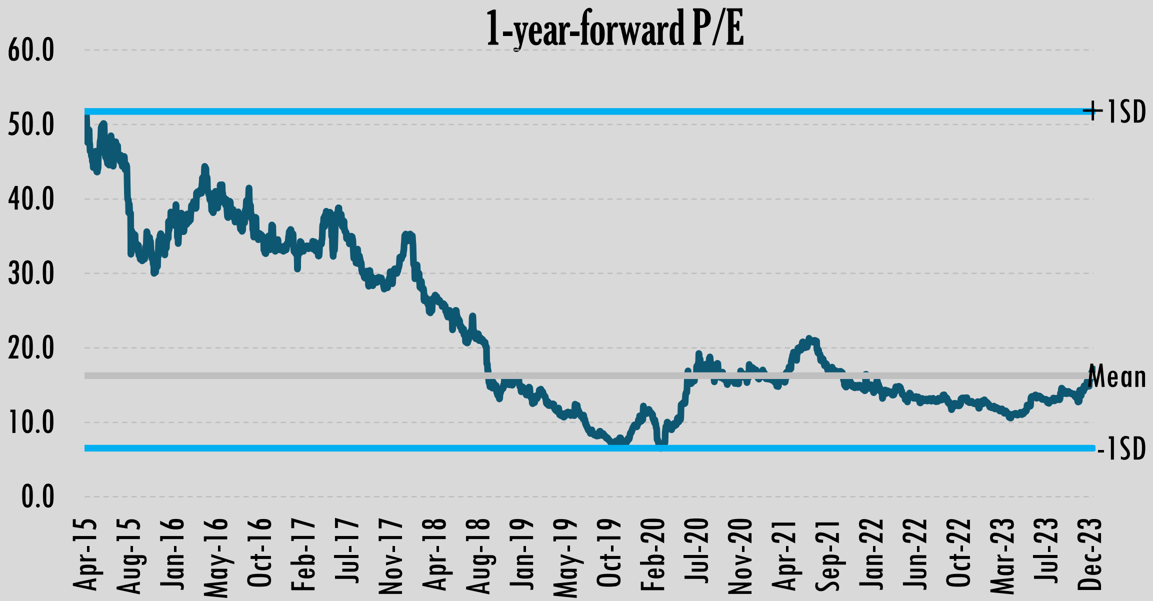
DAGRI - Financials

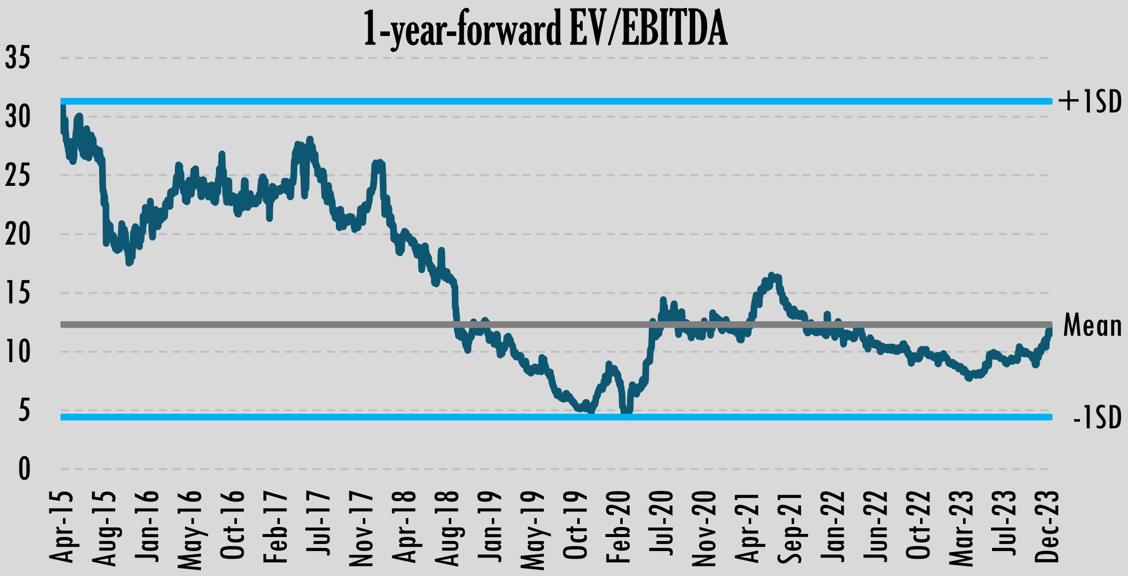
Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	2,775	3,027	3,541	4,039	4,550
+ Non-cash items	195	207	312	323	340
Operating profit before WC changes	2,970	3,234	3,853	4,362	4,890
- Incr./(decr.) in WC	1,018	711	667	522	570
Others incuding taxes	909	1,161	1,172	1,358	1,470
Operating cash-flow	1,043	1,362	2,014	2,482	2,850
- Capex (tangible + Intangible)	192	992	618	300	300
Free cash-flow	851	370	1,396	2,182	2,550
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	502	318	329	329	329
+ Equity raised	-	-1,048	-	-	-
+ Debt raised	-74	28	-38	-	-
- Fin Investments	234	-1,018	-358	-340	-323
- Misc. Items (CFI + CFF)	32	31	32	25	25
Net cash-flow	9	20	1,355	2,168	2,519

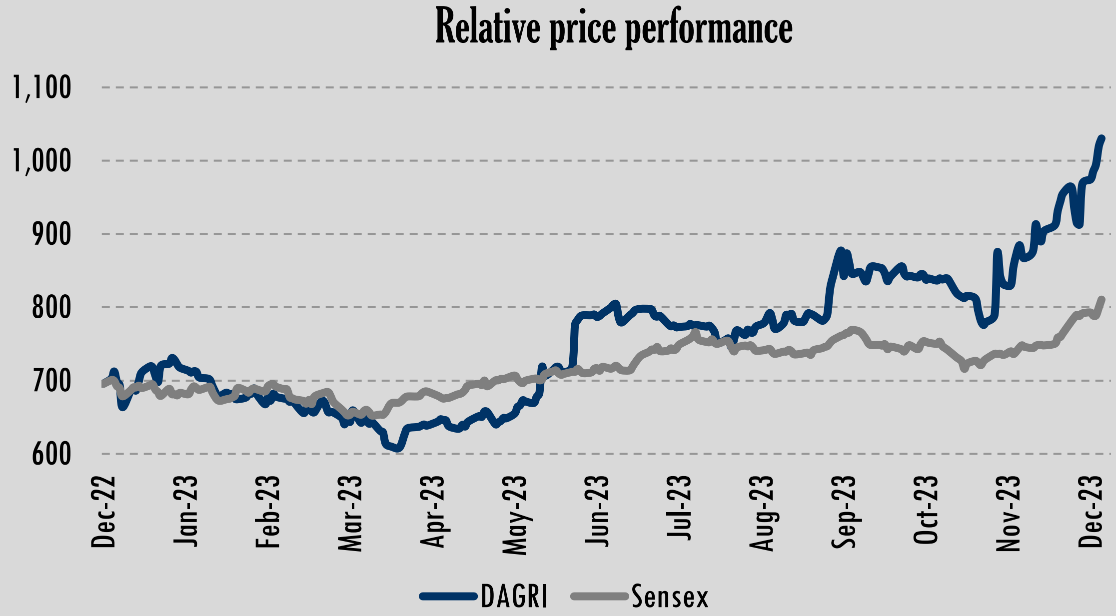
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	20.4	17.8	15.3	13.8	12.2
EV/EBITDA (x)	14.5	14.0	10.8	8.8	7.2
EV/sales (x)	2.6	2.3	2.0	1.6	1.4
P/B (x)	4.3	3.9	3.2	2.7	2.2
RoE (%)	23.8	23.1	23.1	21.0	19.7
RoCE (%) - After tax	23.8	23.1	23.1	21.0	19.7
RoIC (%) - After tax	24.4	22.1	22.4	21.6	22.6
DPS (Rs per share)	6.0	2.0	6.0	6.0	6.0
Dividend yield (%)	0.7	0.2	0.7	0.7	0.7
Dividend payout (%)	16.1	4.7	12.1	10.9	9.7
Net debt/equity (x)	-0.4	-0.2	-0.3	-0.4	-0.5
Receivables (days)	65	67	70	71	71
Inventory (days)	125	113	109	109	109
Payables (days)	55	57	54	52	52
CFO:PAT%	50	58	74	82	84
FCF:PAT% - includ M&A payout	41	16	51	72	75

Source: Company, Anand Rathi Research

DAGRI – Valuation Charts







Source: Bloomberg, Anand Rathi Research

ANANDRATHI

Rating: Buy
Target Price: Rs.500
Current market price: Rs.404

Sumitomo Chemicals (SUMICHEM)

Near term hiccups; long-term intact

Key data	SUMICHEM IN
52-week high / low	Rs499 / 371
Sensex / Nifty	72240 / 21,731
3-m average volume	$1.3m
Market cap	Rs206bn / $2480.9m
Shares outstanding	499m

Shareholding (%)	Sep'23	Jun'23	Mar'23
Promoters	75.0	75.0	75.0
- of which, Pledged	0.0	0.0	0.0
Free float	25.0	25.0	25.0
- Foreign institutions	2.6	2.5	2.4
- Domestic institution	6.1	5.5	5.5
- Public	16.3	17.0	17.1

SUMICHEM - Investment Summary

ANANDRATHI

Summary	Strong parental advantage to support growth: Strong parental support from Sumitomo Chemical Corporation (SCC) gives SCIL unique advantages like a) access to world class portfolio across geographies; b)greener chemistries and R&D expertise for developing proprietary products; and c) financial strength and larger market reach
To be the 'Go to guy' for SCC's generic exports globally	Sumitomo Chemicals is the only technical and generic grade manufacturing site for the SCC group outside Japan. It intends to increase exports by levering SCC's global supply chain and marketing network (approvals received for five molecules). We expect export revenue to come at a 35% CAGR over FY24-FY26 (FY20-23: 23%) on SCC's intent to maximize synergies on the integration of Nufarm's distribution business in LATAM and Sumitomo's export business
SCIL's merger with ECC, a boon for both	The company's merger with ECC, a boon for both: On the amalgamation of Excel Cropcare, Sumitomo Chemicals, India, is one of the top three domestic agrochemicals manufacturers (~10% market share). Further, the merger brings benefits such as a) integrated production facilities in formulations and technicals; (b) enhanced distribution reach: >13,000 distributors, 40,000 dealers; (c) sharper focus on specialty/brand-named molecules; (d) healthy product pipeline of specialty molecules
Favorable risk-reward	With all the above, the company is poised to post 4%/7% revenue/PAT CAGRs over FY23-26 (FY18-23: 13%/28%). Further, it had a healthy 23% RoE, 30% pre-tax RoCE and net cash balance sheet in FY23. We initiate coverage on Sumitomo Chemicals with a Buy at a TP of Rs.500, 40x FY26e EPS

SUMICHEM - Investment summary

ANANDRATHI

Valuation

With all the above, the company is poised to post 4%/7% revenue/PAT CAGRs over FY23-26 (FY18-23: 13%/28%). Further, it had a healthy 23% RoE, 30% pre-tax RoCE and net cash balance sheet in FY23. We initiate coverage on Sumitomo Chemicals with a Buy at a TP of Rs.500, 40x FY26e EPS.

Key risks

1) Poorer-than-expected monsoons
2) Ban on glyphosate (15-16% of FY23 revenue)

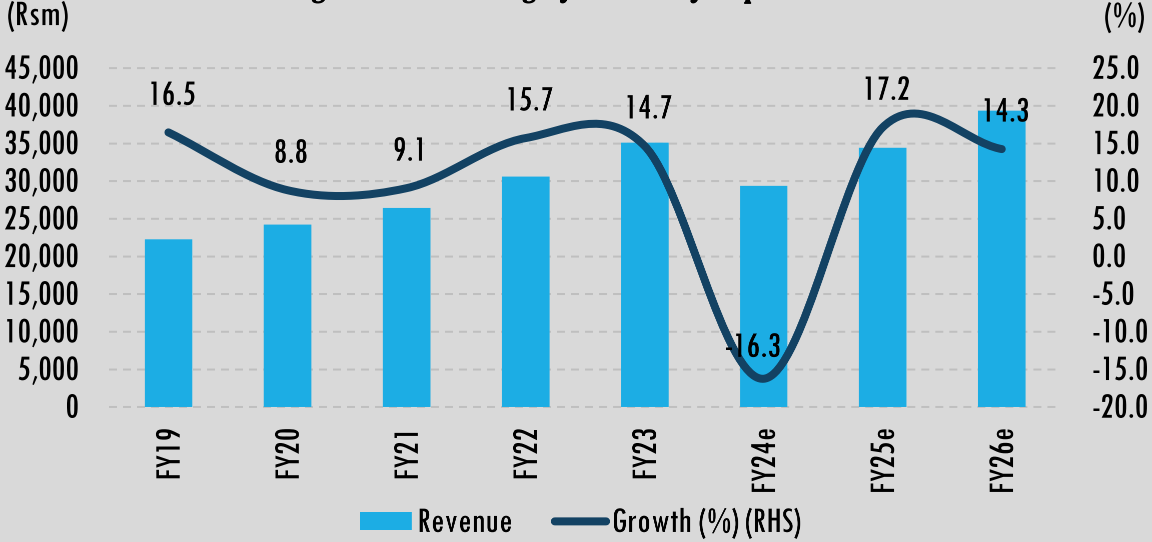
Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rsm)	30,612	35,110	28,969	34,709	39,705
Net profit (Rsm)	4,235	5,022	3,574	5,083	6,138
EPS (Rs)	8.5	10.1	7.2	10.2	12.3
PE (x)	48.3	40.7	57.3	40.3	33.3
EVEBITDA (x)	33.4	29.9	42.5	29.9	24.3
PBV (x)	10.6	8.6	7.7	6.7	5.7
RoE (%)	24.4	23.3	14.2	17.8	18.4
RoCE (%)	24.4	23.3	14.3	17.9	18.6
Dividend yield (%)	0.2	0.3	0.4	0.4	0.4
Net debt/equity (x)	-0.2	-0.2	-0.3	-0.3	-0.4

Source: Company, Anand Rathi Research

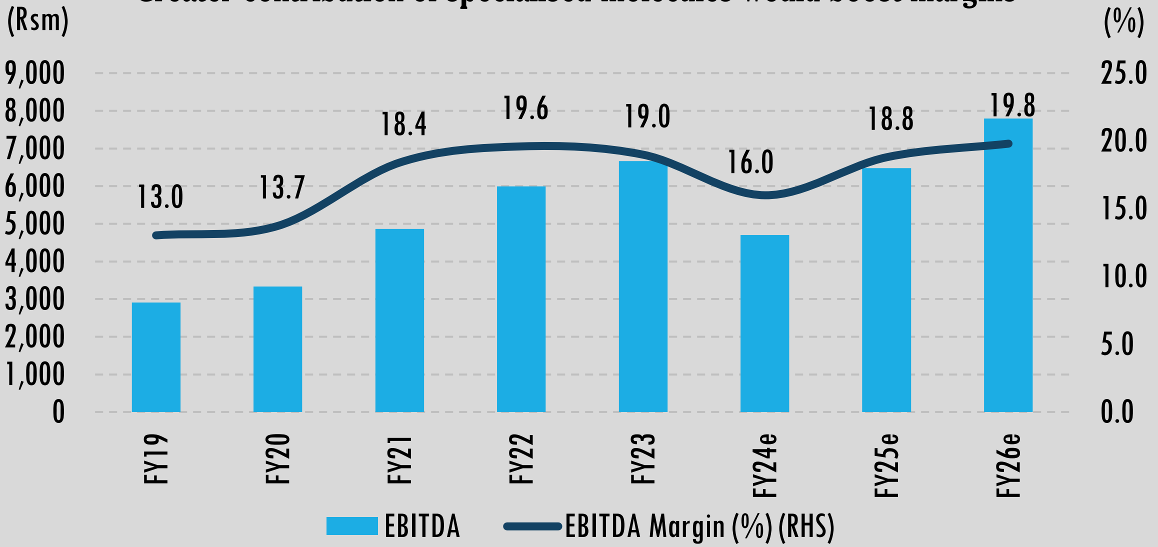
SUMICHEM – Story in charts

ANANDRATHI

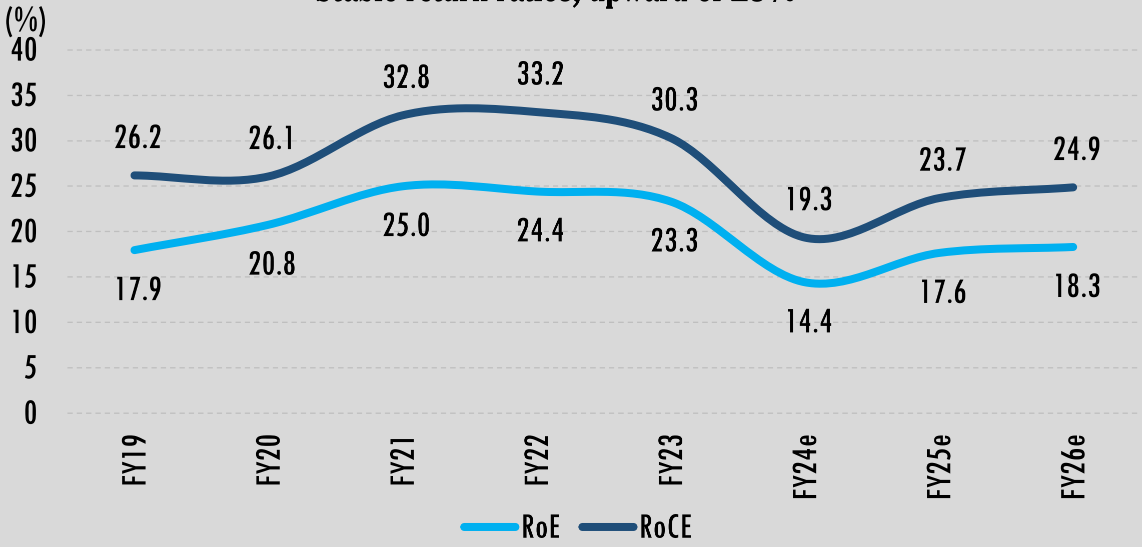
Revenue growth to be largely driven by export revenue



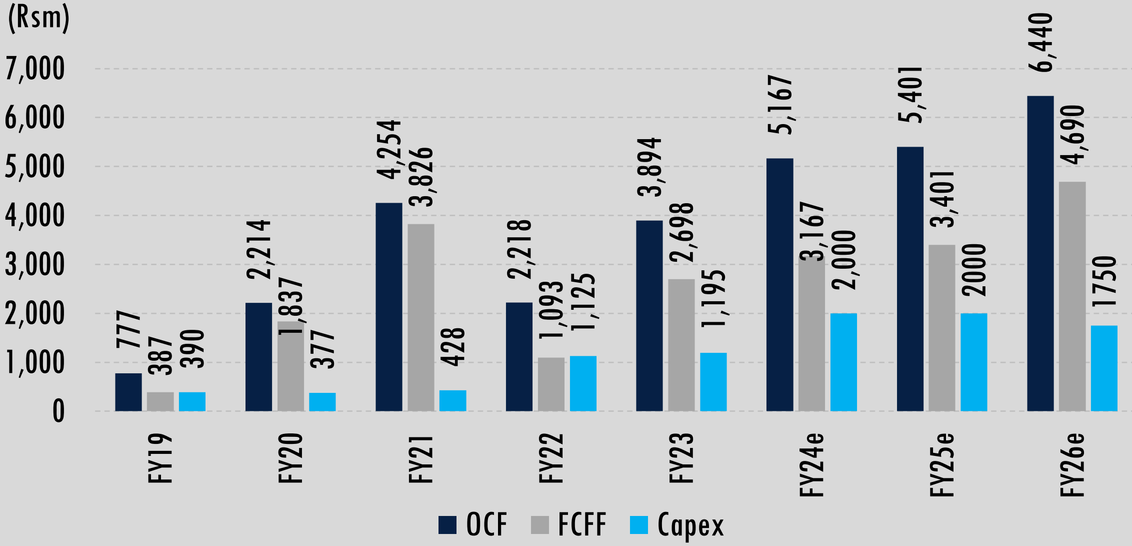
Greater contribution of specialised molecules would boost margins



Stable return ratios, upward of 25%

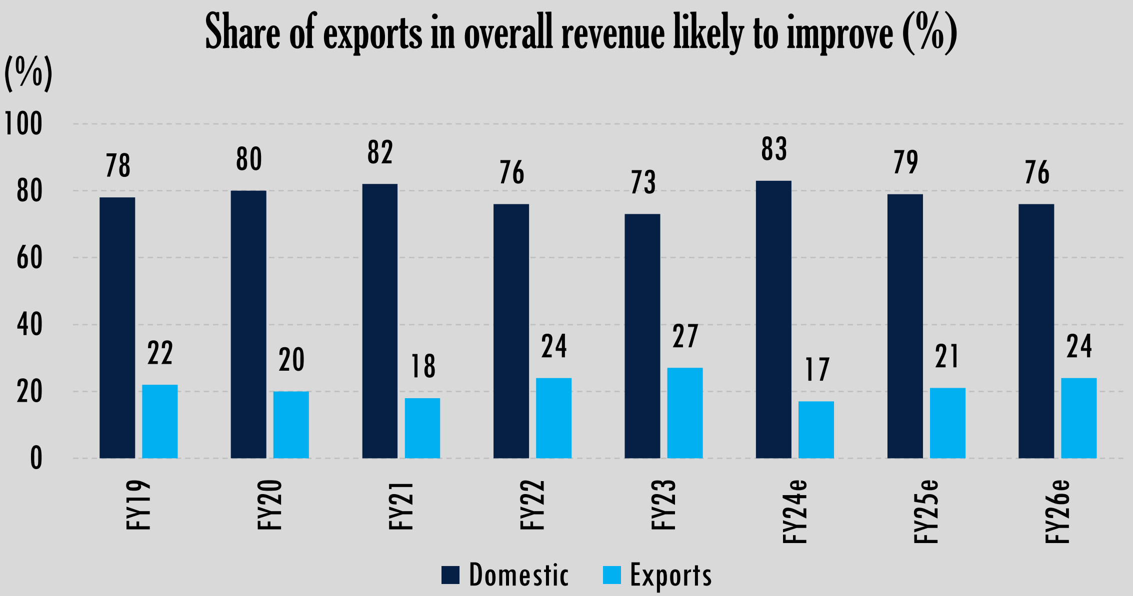


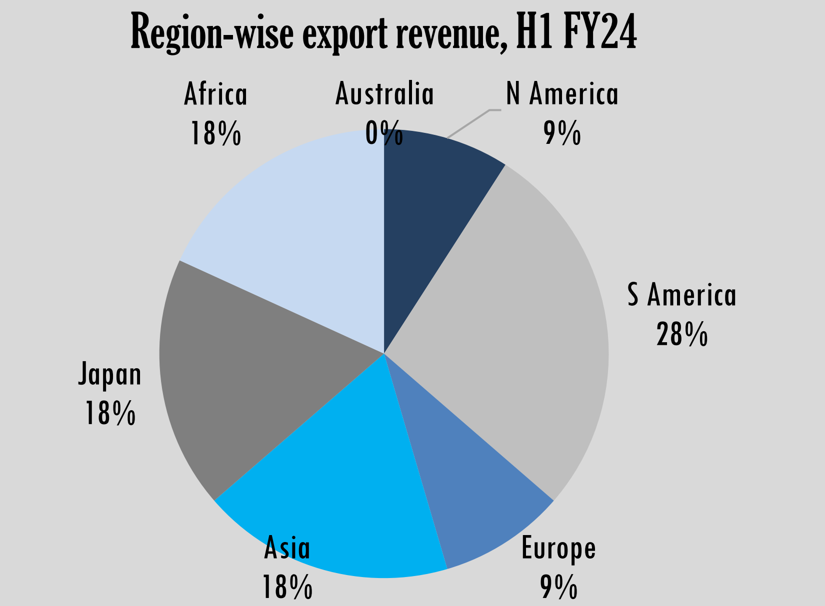
Likely to generate Rs11bn free cash over FY23-26

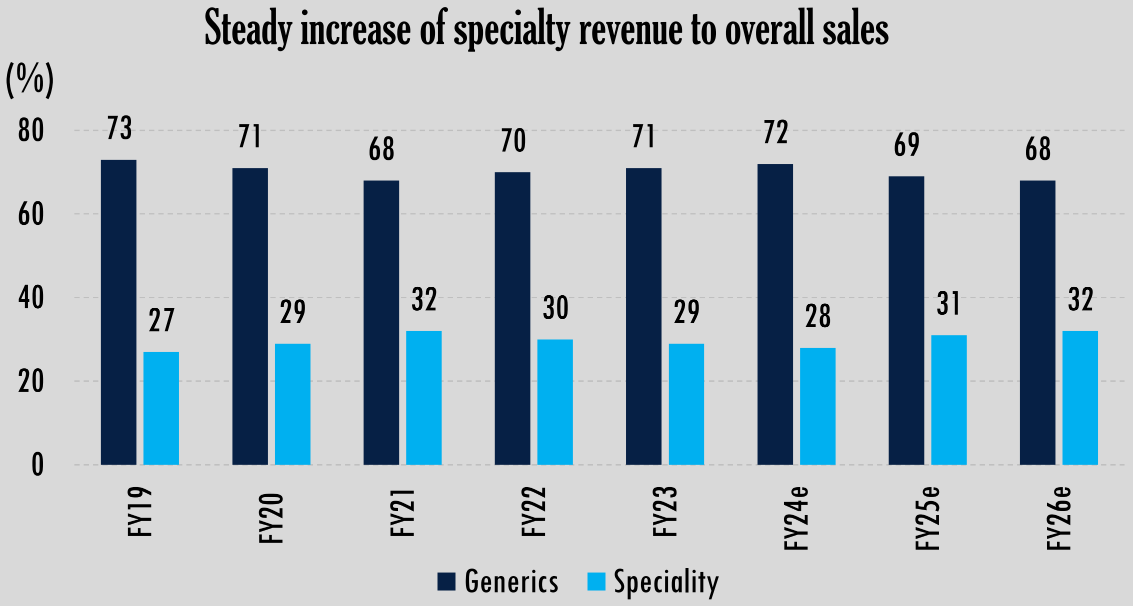


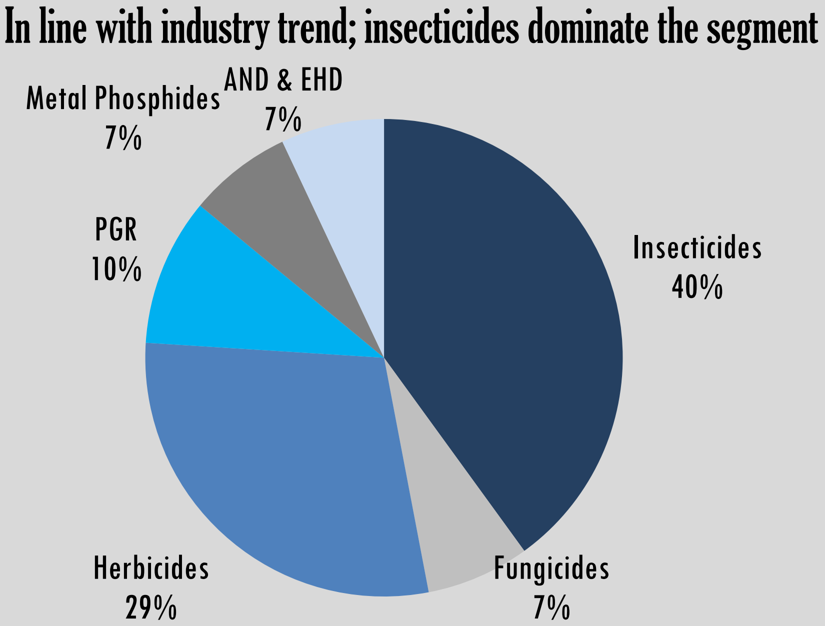
Source: Company, Anand Rathi Research

SUMICHEM - Story in charts









Source: Company, Anand Rathi Research

SUMICHEM – Enhanced focus on specialty molecules to drive growth

ANANDRATHI

Consistently banking on registrations; fifteen 9(3) registrations in the last five years

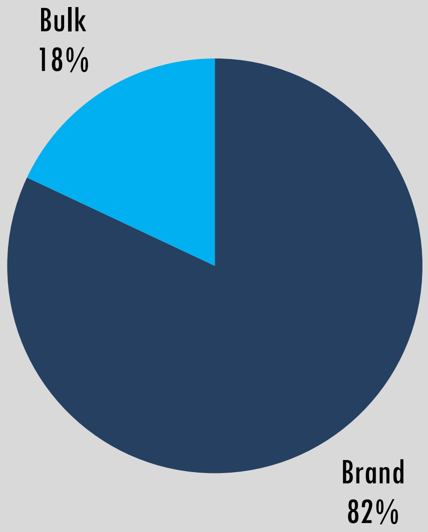
Year	Company	Technical Name	Registration Section
FY24	Sumitomo Chemicals, India	Clothianidin technical 98% w/w min	9(4)
FY24	Sumitomo Chemicals, India	Profenofos 50% + Fenpropathrin 5% EC	9(3)
FY24	Sumitomo Chemicals, India	Etoxazole technical 94.6% w/w	9(3)
FY24	Sumitomo Chemicals, India	Etoxazole 6% + Abamectin 1.5% SC	9(3)
FY24	Sumitomo Chemicals, India	Imezathapyr technical 98% w/w min.	9(4)
FY23	Sumitomo Chemicals, India	Gibberellic acid 0.1% GR	9(3)
FY23	Sumitomo Chemicals, India	Ethaboxam technical 97.0% w/w min	9(3)
FY23	Sumitomo Chemicals, India	Ethaboxam 40% SC	9(3)
FY23	Sumitomo Chemicals, India	Gibberellic acid 1.8% + 6-Benzyl Adenine 1.8% L (Promalin)	9(3)
FY23	Sumitomo Chemicals, India	Tribasic copper sulphate 34.5% SC	9(3)
FY22	Sumitomo Chemicals, India	Pyriproxyfen technical 95% w/w	9(3)
FY22	Sumitomo Chemicals, India	Clothianidin 3.5% + Pyriproxyfen 8% SE	9(3)
FY22	Sumitomo Chemicals, India	Fenpropathrin 10% EW	9(3)
FY22	Sumitomo Chemicals, India	Pyriproxyfen 10% EW	9(3)
FY21	Sumitomo Chemicals, India	Clothianidin Technical 95% w/w min	9(3)
FY21	Sumitomo Chemicals, India	Cartap hydrochloride technical 98% w/w min	9(4)
FY21	Sumitomo Chemicals, India	Gibberellic acid 0.1% GR	9(3)
FY21	Sumitomo Chemicals, India	Clothianidin 0.5% w/w GR	9(3)
FY20	Excel Crop Care	Paclobutrazole 40% w/w SC	9(3)
FY20	Excel Crop Care	Flumioxazine Technical 96% w/w min	9(3)

Key products

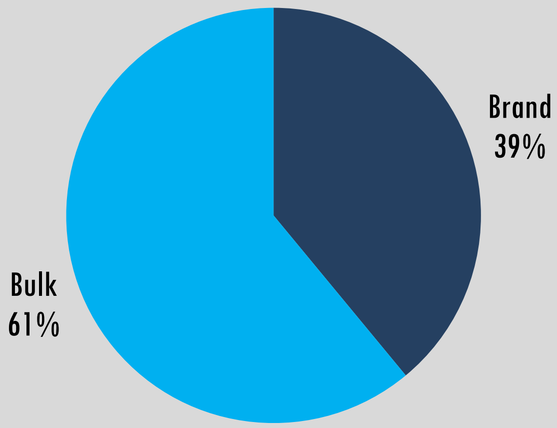
Key products	Category	Use
Glyphosate Fenpropathrin	Herbicide Insecticide	Paddy, cotton, tea gardens, non cropped
Profenophos Pyriproxyfen	Insecticide	Cotton, soybean
Clothianidin	Insecticide	Vegetables
Tebuconazole	Fungicide	Wheat, soybeans, chillies
Gibberallic acid	PGR	Citrus fruits
Aluminium phosphide	Fumigant	Warehousing of foodgrains
Chlorpyriphos	Insecticide	Paddy beans, gram
DL-Methionine	Animal nutrition	Poultry

Source: Company, Anand Rathi Research

Domestic: bulk and brand-named break-up (%)



Exports: bulk and brand-named break-up (%)



SUMICHEM - Financials

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	30,612	35,110	28,969	34,709	39,705
Growth (%)	15.7	14.7	-17.5	19.8	14.4
Raw material	19,080	22,706	19,062	22,561	24,816
Employee & other expenses	5,533	5,737	5,272	5,623	7,028
EBITDA	**5,999**	**6,666**	**4,635**	**6,525**	**7,862**
EBITDA margins (%)	19.6	19.0	16.0	18.8	19.8
- Depreciation	448	519	624	747	882
Other income	268	449	807	1,050	1,364
Interest expense	62	54	53	51	50
PBT	5,757	6,542	4,765	6,777	8,294
Effective tax rate (%)	26	23	25	25	26
+ Associates/(Minorities)	-	-	-	-	-
Adjusted income	4,235	5,022	3,574	5,083	6,138
Extraordinary item (Loss)/Profit	-	-	-	-	-
Reported PAT	4,235	5,022	3,574	5,083	6,138
WANS	499	499	499	499	499
FDEPS (Rs/share)	8.5	10.1	7.2	10.2	12.3

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	4,991	4,991	4,991	4,991	4,991
Net worth	19,272	23,818	26,487	30,665	35,899
Total debt (including Pref)	247	177	-	-	-
Minority interest	0	0	-	-	-
Deferred tax Liability/(Asset)	-	-	-	-	-
Capital employed	**19,519**	**23,995**	**26,487**	**30,665**	**35,899**
Net tangible assets	4,045	4,475	5,851	7,104	7,972
CWIP (tangible and intangible)	211	535	535	535	535
Investments (Strategic)	3,560	2,388	2,388	2,388	2,388
Investments (Financial)	1	1	1	1	1
Current Assets (ex Cash) Incl LT	21,488	23,264	22,801	23,929	26,617
Cash	791	3,028	5,097	7,457	11,201
Current Liabilities	10,577	9,696	10,185	10,749	12,815
Working capital	10,911	13,568	12,616	13,181	13,802
Capital deployed	**19,519**	**23,995**	**26,487**	**30,665**	**35,899**
Contingent Liabilities	-	-	-	-	-

Source: Company, Anand Rathi Research

SUMICHEM - Financials

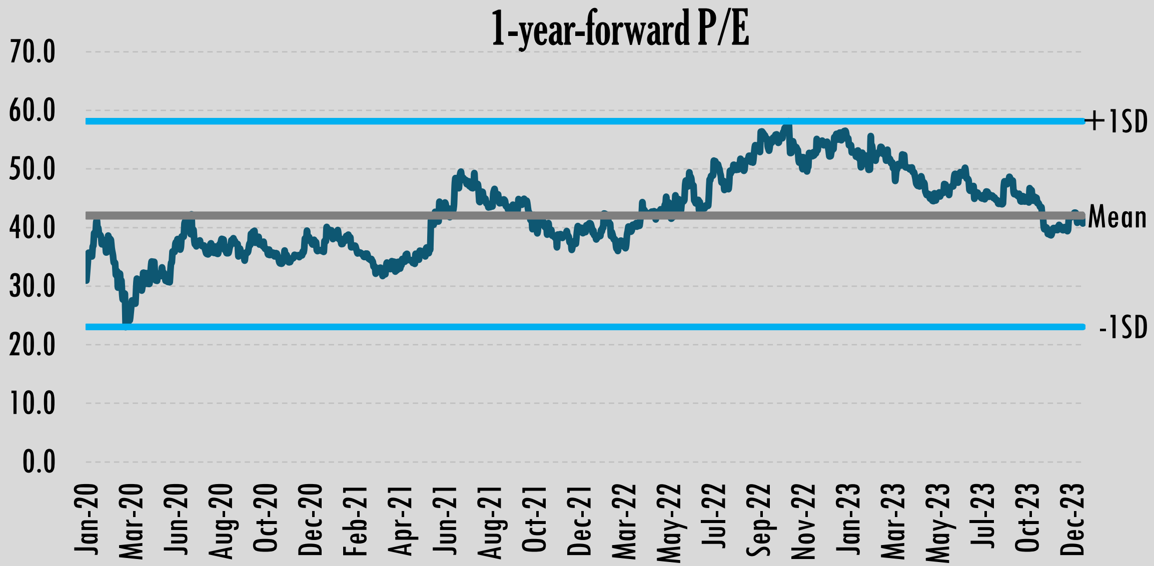
ANANDRATHI

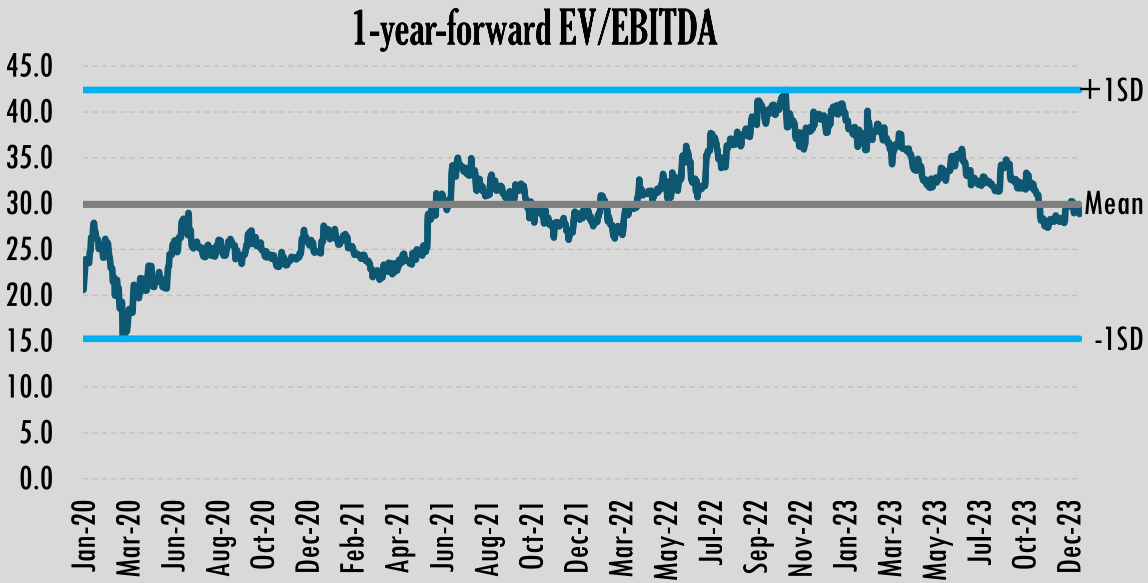
Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	5,757	6,542	3,958	5,727	6,930
+ Non-cash items	510	573	677	798	932
Operating profit before WC changes	6,267	7,114	4,635	6,525	7,862
- Incr./(decr.) in WC	2,576	1,352	-952	564	622
Others incuding taxes	1,473	1,869	384	645	792
Operating cash-flow	2,218	3,894	5,203	5,316	6,448
- Capex (tangible + Intangible)	1,125	1,195	2,000	2,000	1,750
Free cash-flow	1,093	2,698	3,203	3,316	4,698
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	400	499	904	904	904
+ Equity raised	-	-	0	-	-
+ Debt raised	-	-	-177	-	-
- Fin Investments	1,777	2,077	-	-	-
- Misc. Items (CFI + CFF)	226	226	53	51	50
Net cash-flow	-1,311	-104	2,068	2,361	3,743

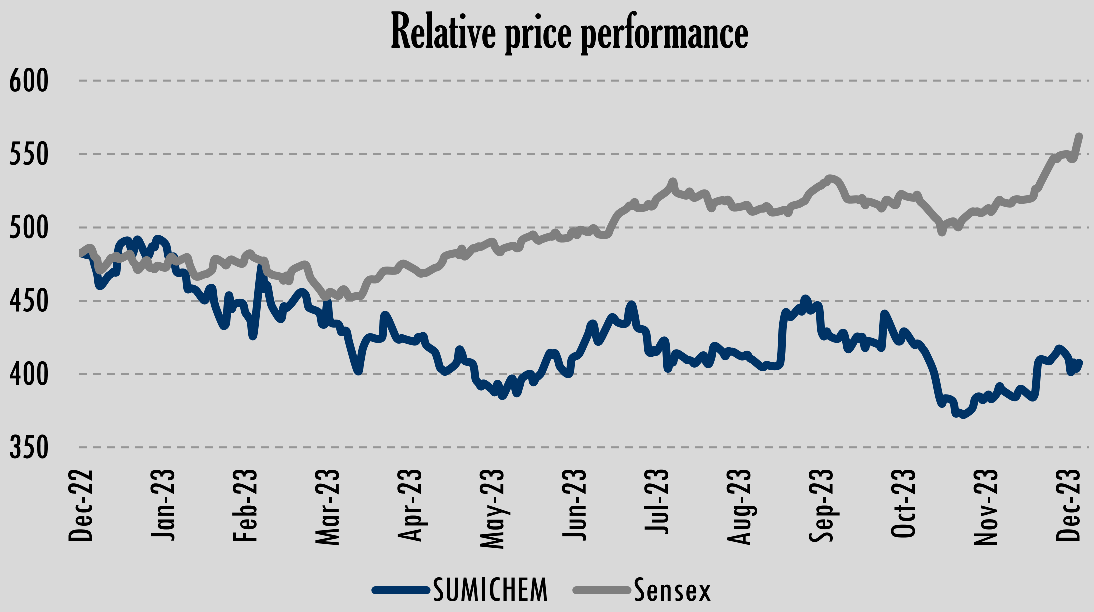
Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	48.3	40.7	57.3	40.3	33.3
EV/EBITDA (x)	33.4	29.9	42.5	29.9	24.3
EV/sales (x)	6.6	5.7	6.8	5.6	4.8
P/B (x)	10.6	8.6	7.7	6.7	5.7
RoE (%)	24.4	23.3	14.2	17.8	18.4
RoCE (%) - After tax	24.4	23.3	14.3	17.9	18.6
RoIC (%) - After tax	24.4	23.3	14.2	17.8	18.4
DPS (Rs per share)	1.0	1.2	1.5	1.5	1.5
Dividend yield (%)	0.2	0.3	0.4	0.4	0.4
Dividend payout (%)	11.8	11.9	20.9	14.7	12.2
Net debt/equity (x)	-0.2	-0.2	-0.3	-0.3	-0.4
Receivables (days)	101	93	115	101	103
Inventory (days)	162	147	173	143	134
Payables (days)	208	163	190	169	173
CFO:PAT%	52	78	146	105	105
FCF:PAT% - includ M&A payout	26	54	90	65	76

Source: Company, Anand Rathi Research

SUMICHEM – Valuation Charts







Source: Bloomberg, Anand Rathi Research

Agrochemicals
Initiating coverage

UPL (UPLL)

Challenges subsiding!

Rating: Buy
Target Price: Rs.690
Current market price: Rs.588

Key data	UPLL IN
52-week high / low	Rs780 / 528
Sensex / Nifty	72240 / 21,731
3-m average volume	$16.8m
Market cap	Rs455bn / $5481.2m
Shares outstanding	751m

Shareholding (%)	Sep'23	Jun'23	Mar'23
Promoters	32.3	32.3	32.3
- of which, Pledged	0.0	0.0	0.0
Free float	67.7	67.7	67.7
- Foreign institutions	33.6	38.0	38.7
- Domestic institution	17.3	15.2	14.4
- Public	16.8	14.4	14.5

UPL - Investment Summary

ANANDRATHI

Summary

Top generics manufacturer globally: UPL is one of the top five agrochemicals manufacturers globally. It is the top global generics manufacturer with a well-balanced product portfolio across regions and crops

LATAM, the key region (~40% of revenue)

Brazil is the fastest growing region for UPL (~$1.5bn revenue estimated for FY23; the fourth largest in Brazil). The country brings >50% to LATAM revenue, and is expected to grow twice the industry growth over next few years on the back of the company's strong product pipeline and wide distribution

Margins expected to recover from H2 FY24

We expect a gradual recovery in margins from H2 FY24 as the drop in finished goods prices (in line with the fall in RM prices) seems to be arrested now. This, liquidation of high-cost stocks inventory and stable RM costs are likely to result in margin expansion in H2 FY24. ~60% of UPL's annual revenues/profits arise in the second half, with the fourth quarter bringing ~30% to annual revenues. Thus, we expect the strong margin expansion in Q4 FY24 to be aided by a) superior operating leverage and b) the low base

Favorable risk-reward

We anticipate the better performance in H2 FY24, particularly in Q4, to be driven by greater demand across markets (barring NAFTA), supported by higher commodity prices. We expect UPL to clock 3%/12% revenue/PAT CAGRs over FY23-26. We initiate coverage on the company with a Buy at a TP of Rs.690, 10x FY26e EPS

UPLL - Investment summary

ANANDRATHI

Valuation

We anticipate the better performance in H2 FY24, particularly in Q4, to be driven by greater demand across markets (barring NAFTA), supported by higher commodity prices. We expect UPL to clock 3%/12% revenue/PAT CAGRs over FY23-26. We initiate coverage on the company with a Buy at a TP of Rs.690, 10x FY26e EPS

Key risks

1) Volatile global commodity prices
2) Adverse weather in key markets: LATAM, NAFTA
3) Adverse forex movements

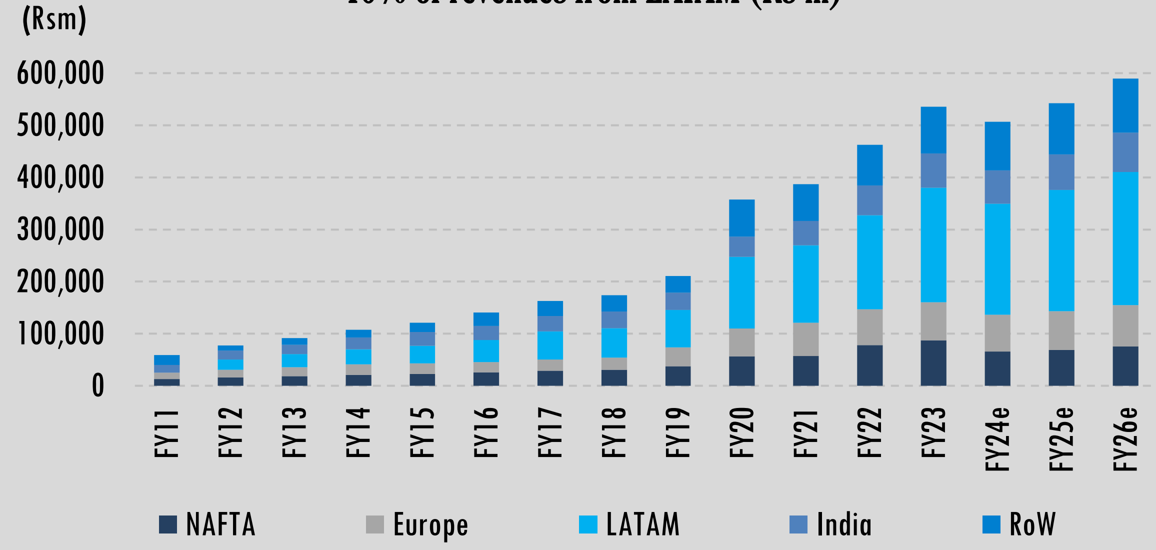
Financial Summary Y/E Mar	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rsm)	462,400	535,760	506,762	542,529	589,866
Net profit (Rsm)	36,260	35,700	22,979	39,440	49,542
EPS (Rs)	50.9	49.5	33.3	55.3	68.7
PE (x)	11.6	11.9	17.7	10.7	8.6
EVEBITDA (x)	6.4	5.6	5.8	4.6	3.8
PBV (x)	2.0	1.6	1.6	1.4	1.3
RoE (%)	19.7	15.3	9.1	13.9	15.5
RoCE (%)	11.6	11.8	10.7	13.0	14.2
Dividend yield (%)	1.7	1.7	1.7	1.7	1.7
Net debt/equity (x)	0.8	0.6	0.4	0.3	0.2

Source: Company, Anand Rathi Research

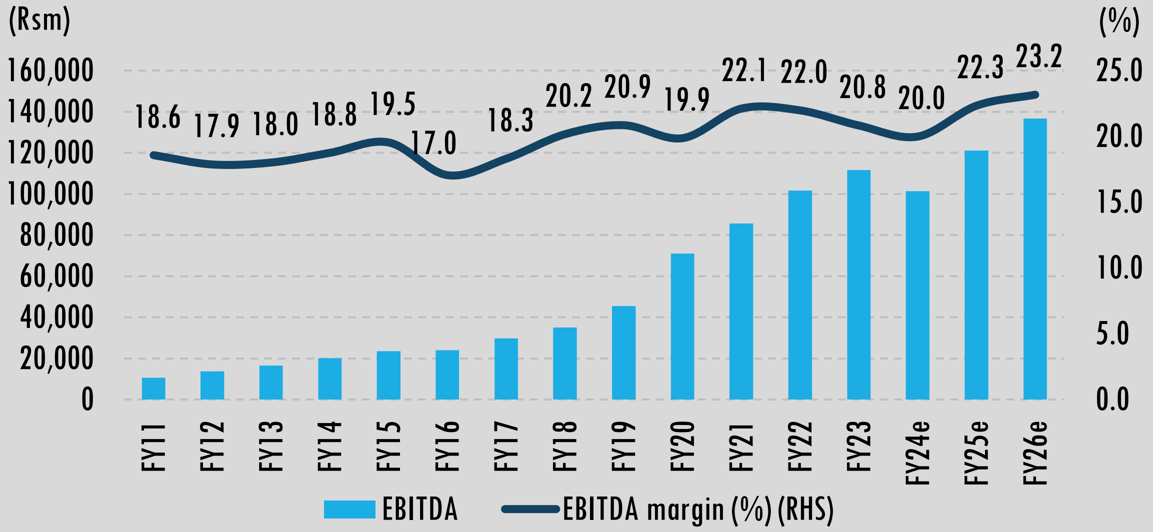
UPLL – Story in charts

ANANDRATHI

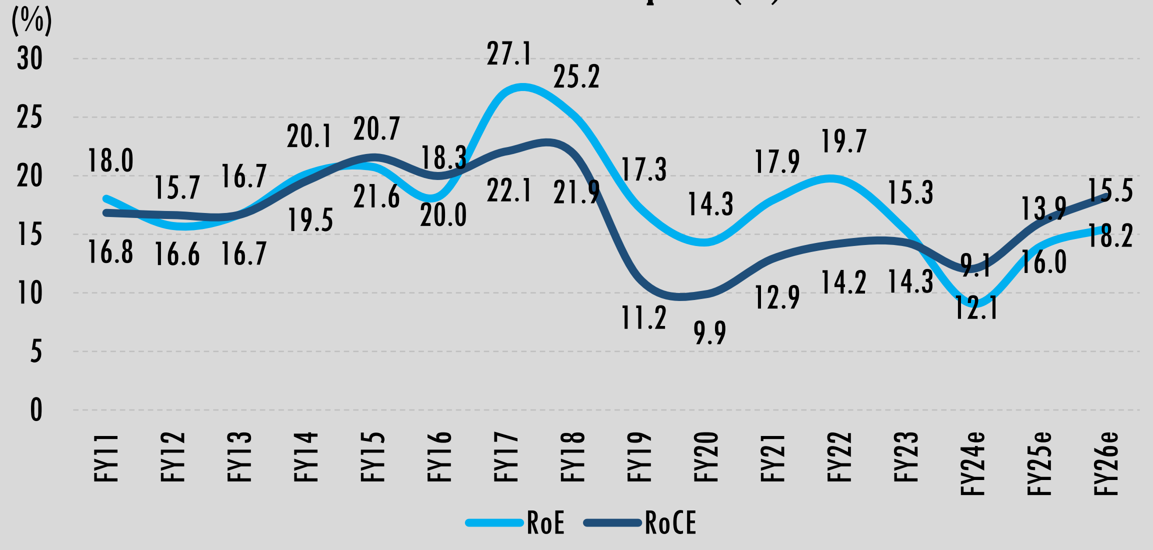
40% of revenues from LATAM (Rs m)



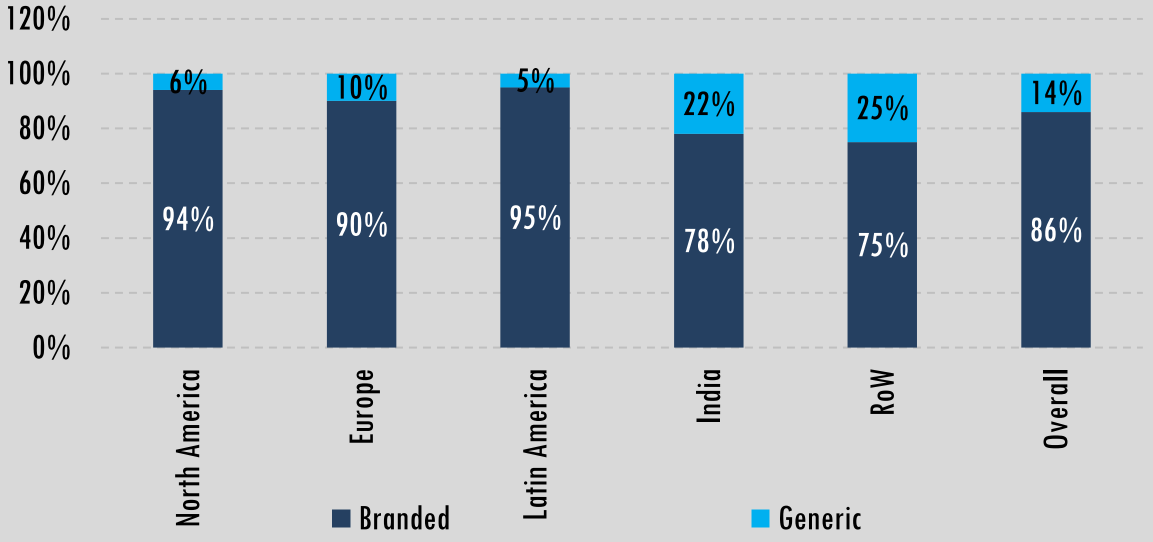
Sharper focus on differentiated products likely to support margins (%)



Return ratios to improve (%)



Rising share of brand-named products in the overall portfolio (%)



Source: Company, Anand Rathi Research

UPLL – Business re-structuring to unlock growth

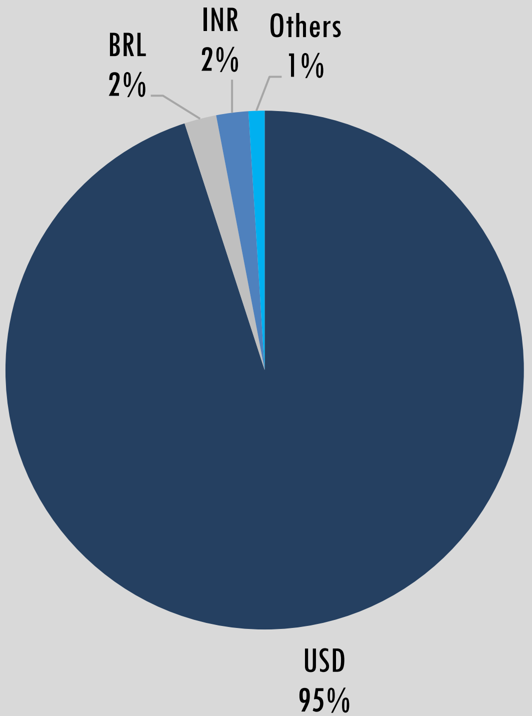
Unlocking value, Unleashing growth

Platforms	International crop protection platform	India crop protection platform	Global seeds platform	Manufacturing & Specialty chemicals
	UPL Corporation; Cayman	UPL Sustainable Agri Solution	Advanta Enterprise	UPL
UPL Holding (%)	78	91	87	100
Partners	ADIA TPG	ADIA TPG Brookfield	KKR	
Growth ambition	To be the fastest growing large crop-protection manufacturer by offering innovative crop-care solutions	Transform Indian agriculture with outcome-oriented solutions, enhancing economic resilience of >100m growers	Establish a leading position in specialty crops through a combination of organic growth initiatives and bolt-on acquisitions	Continue scaling up the platform rapidly capitalising on the strong sector tailwinds and enormous market potential

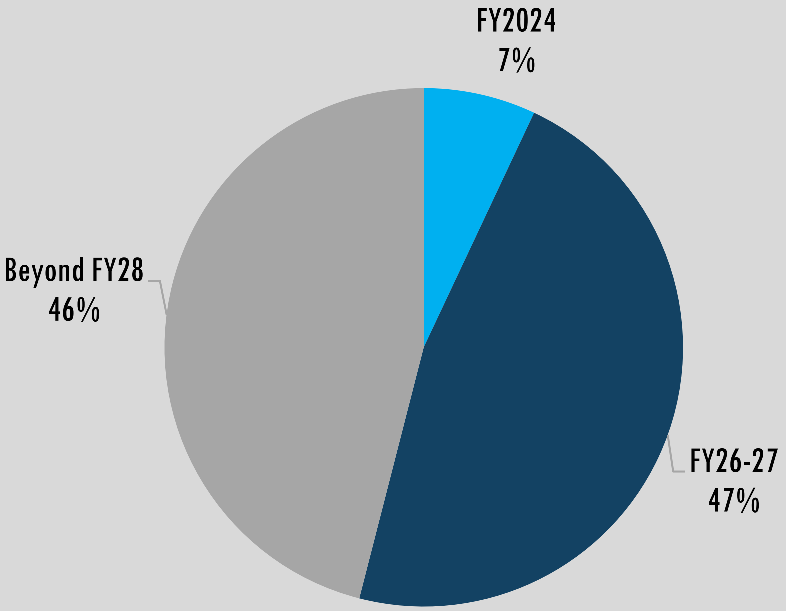
Source: Company, Anand Rathi Research

UPLL – Debt profile

Debt profile by currency (%)



Debt Profile by maturity (%)



Quarterly variation in debt (Rs m)

Particulars	Q1 FY21 *	Q2 FY21 *	Q3 FY21 *	Q4 FY21 *	Q1 FY22 *	Q2 FY22 *	Q3 FY22 *	Q4 FY22 *	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Gross debt	355,730	345,680	307,480	267,600	280,850	301,330	304,190	288,520	331,090	355,360	357,890	259,850	330,690	369,200
Cash	104,620	79,750	35,920	48,530	36,320	28,680	36,650	69,600	36,430	40,380	52,750	60,970	38,890	32,370
Net debt	251,110	265,930	271,560	219,070	244,530	272,650	267,540	218,920	294,660	314,980	305,140	198,880	291,800	336,830

Source: Company, Anand Rathi Research

UPLL - Financials

ANANDRATHI

Income statement (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	462,400	535,760	506,762	542,529	589,866
Growth (%)	*19.5*	*15.9*	*-5.4*	*7.1*	*8.7*
Raw material	220,720	272,810	261,489	265,839	286,085
Employee & other expenses	140,030	151,350	143,974	155,504	167,061
EBITDA	**101,650**	**111,600**	**101,298**	**121,186**	**136,720**
EBITDA margins (%)	22.0	20.8	20.0	22.3	23.2
- Depreciation	23,590	25,470	28,348	29,928	31,824
Other income	-3,550	-4,870	-3,750	-850	-850
Interest expense	22,950	29,630	35,200	32,500	30,600
PBT	54,217	53,024	36,000	59,908	75,446
Effective tax rate (%)	11	15	15	15	16
+ Associates/(Minorities)	6,770	6,870	3,921	7,782	10,152
Adjusted income	38,917	37,094	24,979	41,440	51,542
Extraordinary item (Loss)/Profit	2,657	1,394	2,000	2,000	2,000
Reported PAT	36,260	35,700	22,979	39,440	49,542
WANS	765	750	750	750	750
FDEPS (Rs/share)	50.9	49.5	33.3	55.3	68.7

Balance sheet (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
Share capital	1,530	1,500	1,500	1,500	1,500
Net worth	216,750	268,580	282,521	312,924	353,428
Total debt (including Pref)	288,520	259,850	229,850	199,850	169,850
Minority interest	46,470	55,850	55,850	55,850	55,850
Deferred tax Liability/(Asset)	3,990	-1,990	-1,990	-1,990	-1,990
Capital employed	**555,730**	**582,290**	**566,231**	**566,634**	**577,138**
Net tangible assets	375,100	403,340	394,992	385,063	377,239
CWIP (tangible and intangible)	11,840	11,970	11,970	11,970	11,970
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	10,820	15,780	15,780	15,780	15,780
Current Assets (ex Cash) Incl LT	338,670	366,640	354,295	369,654	399,367
Cash	69,600	61,430	65,183	65,831	73,584
Current Liabilities	250,300	276,870	275,988	281,665	300,801
Working capital	88,370	89,770	78,307	87,989	98,566
Capital deployed	**555,730**	**582,290**	**566,231**	**566,634**	**577,138**
Contingent Liabilities					

Source: Company, Anand Rathi Research

ANANDRATHI

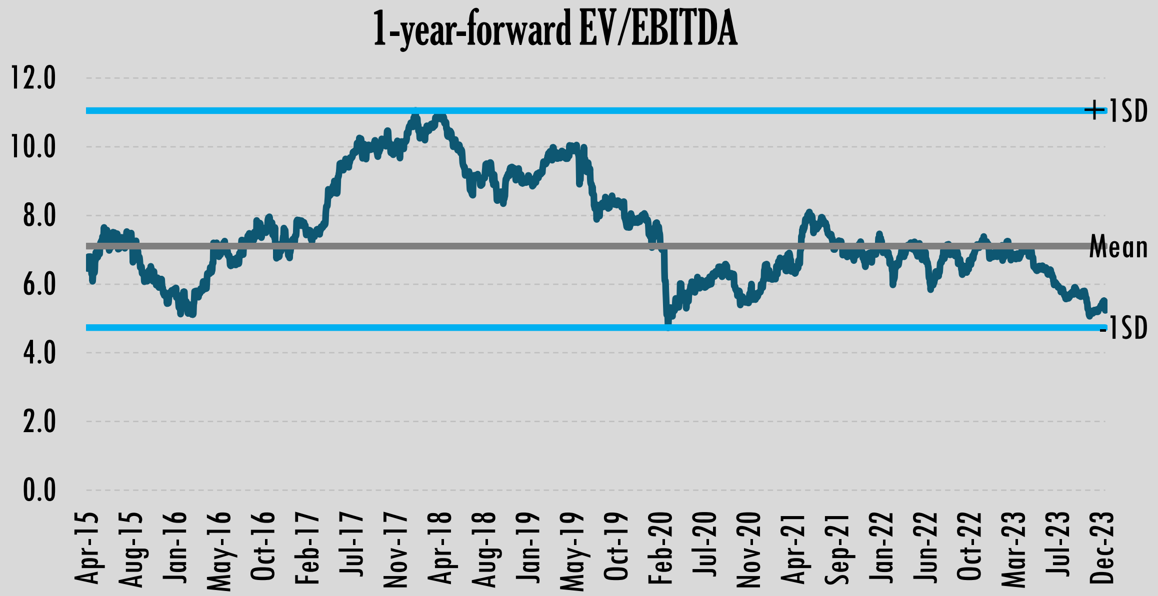
UPLL - Financials

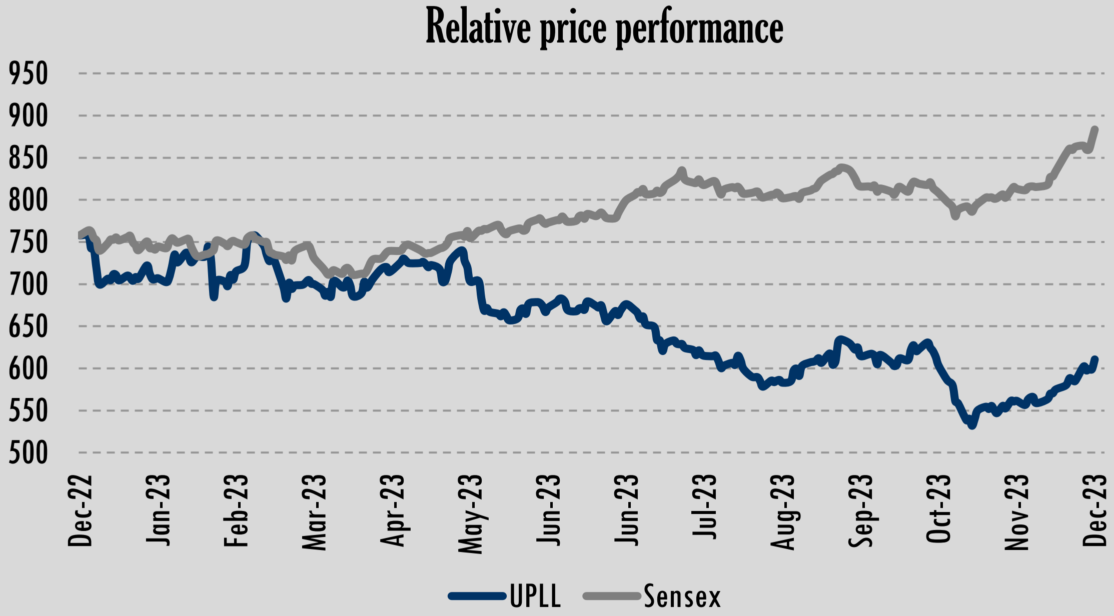
Cash Flow (Rs m)	FY22	FY23	FY24e	FY25e	FY26e
PBT	49,660	51,500	34,000	57,908	73,446
+ Non-cash items	46,540	55,310	63,548	62,428	62,424
Operating profit before WC changes	96,200	106,810	97,548	120,336	135,870
- Incr./(decr.) in WC	17,670	13,690	-11,463	9,682	10,577
Others incuding taxes	13,570	15,610	7,271	17,618	23,053
Operating cash-flow	64,960	77,510	101,741	93,036	102,240
- Capex (tangible + Intangible)	26,880	23,600	20,000	20,000	24,000
Free cash-flow	38,080	53,910	81,741	73,036	78,240
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	9,220	21,050	9,038	9,038	9,038
+ Equity raised	-	-	-	-	-
+ Debt raised	12,200	-48,510	-30,000	-30,000	-30,000
- Fin Investments	11,310	-8,700	3,750	850	850
- Misc. Items (CFI + CFF)	22,190	(7,290)	35,200	32,500	30,600
Net cash-flow	7,560	340	3,753	648	7,752

Ratio analysis	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	11.6	11.9	17.7	10.7	8.6
EV/EBITDA (x)	6.4	5.6	5.8	4.6	3.8
EV/sales (x)	1.4	1.2	1.2	1.0	0.9
P/B (x)	2.0	1.6	1.6	1.4	1.3
RoE (%)	19.7	15.3	9.1	13.9	15.5
RoCE (%) - After tax	11.6	11.8	10.7	13.0	14.2
RoIC (%) - After tax	19.7	15.3	9.1	13.9	15.5
DPS (Rs per share)	10.0	10.0	10.0	10.0	10.0
Dividend yield (%)	1.7	1.7	1.7	1.7	1.7
Dividend payout (%)	23.7	24.4	36.2	21.8	17.5
Net debt/equity (x)	0.8	0.6	0.4	0.3	0.2
Receivables (days)	112	114	128	121	120
Inventory (days)	186	181	191	184	179
Payables (days)	240	229	242	235	227
CFO:PAT%	167	209	407	225	198
FCF:PAT% - includ M&A payout	98	145	327	176	152

Source: Company, Anand Rathi Research

UPLL – Valuation Charts





Source: Bloomberg, Anand Rathi Research

Appendix

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