

## Sector Update

May 31, 2023

### Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Bayer Cropscience	Acc	4,240	4,720
Chambal Fertilizers & Chemicals	HOLD	280	300
Coromandel International	BUY	960	1,310
Dhanuka Agritech	BUY	720	950
Godrej Agrovet	HOLD	433	420
Insecticides India	Acc	445	650
P.I. Industries	BUY	3,617	4,560
Rallis India	HOLD	190	200
Sharda Cropchem	BUY	481	640
Sumitomo Chemical India	BUY	398	550
UPL	BUY	685	850

Source: PL      Acc=Accumulate

### Global agrochemicals - Weak quarter; bleak near term outlook

**Global agrochemical companies reported subdued results in 1QCY23 largely led by muted demand across key regions of LATAM and NAFTA. Weak demand environment coupled with high channel inventory in key markets further impacted product placements and exerted pressure on realizations. Reading through global companies commentaries and outlook for subsequent quarters (also CY23) 1HCY23 is expected to be muted impacted by a) inventory pile-up in key regions, b) low demand and c) pricing pressure. While, recovery in demand environment likely to come from 2HCY23. For domestic companies with exports exposure (barring PI Industries), near term commentary and outlook remained same citing high channel inventory and pricing pressure across key regions. Having said that, we continue to maintain our cautious stance on the sector citing slower demand and pricing pressure in both domestic and export markets. PI Industries remains our Top-pick in the sector.**

**2QCY23 to remain weak; recovery expected from 2HCY23:** Commentaries from global agrochemicals opined for weak sentiments in the near term exerting pressure on performance. Industry expects de-stocking at the end of 1HCY23 and hence volume recovery expected only in 2HCY23. Near term, slower demand coupled with RM price correction is likely to weigh on realizations and margins for the industry.

#### Global crop prices under pressure led by higher production in key regions:

In 1QCY23, commodity prices continued to decline (Wheat/Soybean/Corn/ Cotton down 46%/24%/35%/17% YoY as on May'23) owing to slowing down in global economy and better than expected production in key regions. Further, higher channel inventory coupled with deflationary RM cost scenario led by a) slower demand environment amid challenging weather conditions in key regions; b) opening up of China post Covid-19 restrictions resulting into huge demand-supply mismatch in global markets) causing customers to adopt wait and watch approach on their purchases.

**Common statement coming out from commentary of global companies:** After going through the results and commentaries of global agrochemical companies common statement coming out are a) Generic players have been more impacted than that of the specialty/ patented players; b) performance and prices of specialty molecules have been steady till 1Q'23; which in turn have supported the performance to some extent; c) Innovation turnover index (ITI index) have been decent for all companies; which in turn have partially mitigated margin contraction; d) higher channel inventory across key regions of LATAM, NAFTA; falling RM cost scenario; slower demand environment is becoming prominent at the global level (likely to impact more the generic players) likely to keep near term outlook bleak.



## Exhibit 2: Results and Commentaries of Global agrochemicals

Company	1QCY23 Performance	CY23 Outlook
<b>FMC</b>	<p><b>Revenue</b> remained flat YoY (Vol/Price/Fx -3%/+7%/-4%) from USD1.35bn to USD1.34bn.  <b>Region-wise growth</b>- NAFTA/LATAM/EMEA/APAC grew by +28%/-12%/-4%/-22% YoY.  <b>EBITDA</b> at USD362mn; up +2% YoY.</p> <p><b>Region-Wise Commentary:</b>  <b>NAFTA:</b> Record sales in Canada led by market share gains and price increases have resulted in strong performance. New products contributed to 29% of the branded sales in last 5 years.  <b>LATAM:</b> Drought conditions in southern Brazil and Argentina continue to impact company's performance. However, demand continues to be strong in regions like Mexico and Andean. Plant health portfolio continues to gain traction and grew by 10% YoY.  <b>EMEA:</b> Decline in herbicide volumes, forex pressure and headwinds from anticipated registration losses and exit from Russia have resulted in sales decline. Plant health grew by 30% YoY.  <b>Asia:</b> Dry conditions in Australia coupled with focus on channel inventory reduction in India resulted in poor performance. However, Fungicide portfolio grew by 20% YoY. New products contributed to 17% of the branded sales in the last 5 years. Forex continues to be a headwind.</p>	<p><b>Q2CY23 Guidance:</b>  <b>Revenue</b> is expected to be in the range of USD14.2bn-USD14.8bn, flat growth YoY.  <b>EBITDA</b> is expected to be in the range of USD350-370mn, flat growth YoY.</p> <p><b>CY23 Guidance</b>  <b>Revenue</b> is expected to be in the range of USD60.8bn-USD6.22bn, growth of 6% YoY.  <b>EBITDA</b> is expected to be in the range of USD1.50bn-USD1.56bn, registering a growth of 9% YoY.</p>
<b>Corteva</b>	<p><b>Revenue</b> up +6% YoY (organic growth of 10%) from USD4.6bn to USD4.88bn.  <b>Segment-wise growth -</b>  <b>Crop Protection</b> +5% YoY (Vol/Price/FX/Portfolio -1%/+11%/-5%/0%)  <b>Seeds</b> +7% YoY (Vol/Price/FX/Portfolio of -7%/+17%/-5%/+2%).  <b>Region-wise growth</b> NAFTA/EMEA/LATAM/APAC grew by +10%/+15%/-15%/-13% YoY.  <b>Crop -wise growth</b>- Herbicides/Insecticides/Fungicides/Others grew by +3%/-2%/+18%/+19% YoY.  <b>EBITDA</b> at USD1.23bn; up +18% YoY. <b>EBITDA margins</b> at 25.2%, +260bps YoY.</p> <p><b>Other Highlights</b></p> <ul style="list-style-type: none"> <li>• EMEA and NAFTA lead strong performance in 1Q</li> <li>• 1H/2H outlook reflects supply chain improvements, normalized trends</li> <li>• Strong execution coupled with continued demand for differentiated products have resulted in strong 1QCY23 performance; however was partially offset by adverse weather conditions in LATAM region.</li> <li>• Better realizations and strict control on the productive actions and Opex (down 140bps YoY) have resulted in EBITDA margin expansion of 260bps YoY.</li> <li>• During the quarter, company acquired Symborg and Stoller, leading biologicals companies and expecting Sales/EBITDA of USD450mn/90mn during CY23.</li> <li>• Management opined that margins would be under pressure in 1HCY23 due to decline in volumes, higher input costs and currency headwinds and expected to pick up in 2HCY23, led by favorable product mix &amp; pricing gains, normalization trends in LATAM region and supply chain improvement.</li> </ul>	<p><b>CY23 Guidance</b></p> <ul style="list-style-type: none"> <li>• <b>Revenue</b> is expected to be in the range of USD18.6bn-USD18.9bn,+7% YoY.</li> <li>• <b>EBITDA</b> is expected to be in the range of USD3.55bn-USD3.75bn +13% YoY.</li> <li>• <b>EBITDA margins</b> to be up +100bps YoY.</li> </ul>



Company	1QCY23 Performance	CY23 Outlook
<b>Bayer AG</b>	<p><b>Revenue:</b> -1% YoY (Vol/Price/Fx/Portfolio -8%/+7%/+2%/-2%) from Euro8.45bn to Euro8.35bn. Euro700mn decline in Glyphosate revenues (-50% YoY), compensated by Euro 600mn (+8% YoY) by remaining portfolio.</p> <p><b>Region-wise growth-</b> Europe/NAFTA/APAC/LATAM grew by +8%/-4%/+1%/-7%</p> <p><b>Segment-wise growth-</b> Herbicides/Fungicides/Insecticides/Corn Seeds/Soybean Seeds/Vegetable seed grew by -24%/-1%/+6%/+19%/+11%/+12% YoY.</p> <p><b>EBITDA</b> at Euro3.25bn; down 12% YoY, with EBITDA margins at 38.9% down 510bps YoY.</p> <p><b>1QCY23 Highlights</b></p> <ul style="list-style-type: none"> <li>• Strong pricing recorded in fungicides across all regions, offset by lower volumes.</li> <li>• Growth in Insecticides was driven by price &amp; volume increase in Europe and new product launches in LATAM. However, volumes declined in NAFTA region.</li> <li>• Higher price realization in NAFTA and European regions have resulted in superior performance in Corn seeds.</li> </ul>	<p><b>Revised Guidance for 2023 in CP business</b></p> <ul style="list-style-type: none"> <li>• <b>Revenue growth</b> +10% YoY (Excl. Glyphosate) (Vs +8% YoY guided earlier); expects double-digit sales growth in corn seeds, fungicides, insecticides, supported by higher prices from continued innovation and strong farm incomes. Overall Revenue growth of 1.5% in 2023 (Incl. Glyphosate) (V/s 3% guided earlier) as company hinted that price correction in glyphosate prices due to improved supply. Now expects glyphosate based herbicides sales to decline by 30-35% YoY to Euro1.7bn (Earlier guided to decline by 15-20% YoY to Euro900mn in Q4CY22.)</li> <li>• <b>EBITDA margins</b> guided at 25% (earlier in the range of 25-26%). Higher prices (Ex-glyphosate) and cost savings Euro500mn (Earlier Euro 300mn) to partially offset the incremental inflation (+4%) and decline in glyphosate based herbicide sales.</li> </ul>
<b>Adama</b>	<p><b>Revenues:-</b>19% (Vol/Price/Fx -8%/+1%/-4%) from USD1.42bn to USD1.26bn.</p> <p><b>Region-wise growth-</b> Europe/NAFTA/LATAM/APAC grew by 0%/-26%/0%-19%</p> <p><b>Segment-wise growth-</b> Crop Protection/Intermediates &amp; Ingredients grew by -10%/-25%.</p> <p><b>Product-wise growth-</b> Herbicides/Insecticides/Fungicides/Intermediates &amp; Ingredients grew by -13%/-5%/-9%/-25%.</p> <p><b>EBITDA</b> at USD165mn; down -18% YoY.</p>	<p><b>Commentary on Global crop protection market environment</b></p> <ul style="list-style-type: none"> <li>• In 1QCY23, commodity prices continue to decline due to slowing down of global economy and better than expected production in some regions.</li> <li>• Relatively high channel inventory in the market coupled with the deflationary environment of AI prices in China have led customers to adopt a wait-and-see approach regarding the purchases</li> </ul>
<b>Sumitomo Chemicals</b>	<p><b>Revenue</b> up +12% YoY from Yen143bn to Yen159bn.</p> <p><b>EBITDA</b> at Yen10.1bn; down 30% YoY. <b>EBITDA margins</b> at 6.3%, down 370bps YoY led by increased RM and fuel prices and higher business expenses due to launch of Indiflin fungicide.</p> <p><b>FY22</b></p> <p><b>Revenue</b> up +26%( Price/Volume/Fx of +7%/+4%/+15% YoY) from Yen474bn to Yen598bn.</p> <p><b>Region-Wise Growth-</b> NAFTA/LATAM/EMEA/Asia/Others grew by 22%/64%/19%/26%/4% YoY.</p> <p><b>EBITDA</b> at Yen57bn; up 36% YoY. EBITDA margins at 9.6%, up 60bps YoY.</p> <p><b>Other Highlights</b></p> <ul style="list-style-type: none"> <li>• Better price realization in LATAM for generics coupled with higher shipments of CP products in India and Fx gain have resulted in 26% growth in FY22.</li> <li>• Company guided that market demand continues to be robust but the prices are expected to settle down, particularly methionine.</li> <li>• Bio-Rationales/Flumioxazin Herbicide/Seed treatments to contribute around Yen60/70/20 bn of incremental revenues in FY24. <b>Also company remains very bullish on Indiflin fungicide and revenues are expected to triple from FY22 levels to Yen40bn+ by FY24.</b></li> </ul>	<p><b>FY23 Guidance</b></p> <p><b>Revenue</b> is expected to be at Yen610bn; up 2% YoY (Price/Vol/FX of -4%/+9%/-3%).</p> <p><b>EBITDA</b> at Yen62bn; up 8% YoY (Price/Vol/FX of -40%/-3%/+51%).</p> <p><b>EBITDA margins</b> to be at 10.2% up+60bps YoY.</p>

Source: Company, PL

## Exhibit 3: Growth in 1Q'23 was largely led by price growth across industry

1QCY23	Overall Growth (%)		Revenue Gr. Break-up (%)		
Companies	Revenue gr (%)	EBITDA gr (%)	Volume (%)	Price (%)	Fx(%)
Corteva	5%	23%	-1%	11%	-5%
Bayer AG	-1%	-11%	-8%	7%	0%
FMC	-1%	2%	-3%	7%	-4%
ADAMA	-11%	-18%	-8%	1%	-4%
BASF	15%	39%	0%	15%	0%
Sumi Chem**	12%	-30%	NA	NA	NA

Source: Company, PL \*\*4QFY22 financials

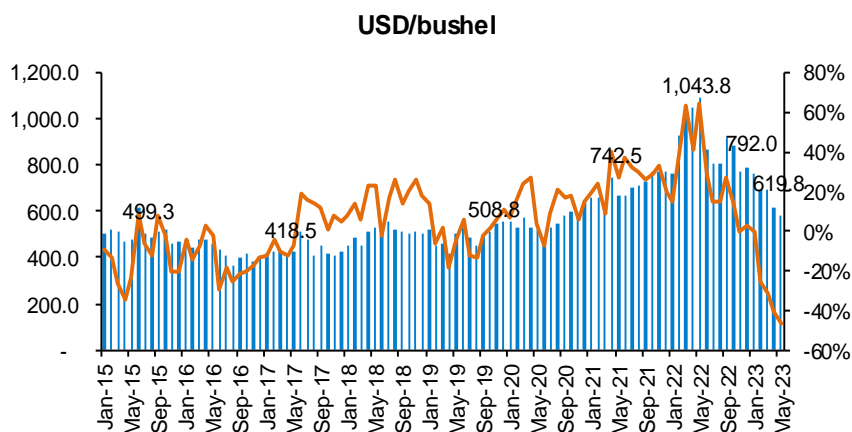
## Exhibit 4: Slower growth recorded in LATAM and APAC region

Geography-wise Revenue gr. (%)	Corteva	Bayer Ag	FMC	ADAMA	Sumi Chem**
NAFTA	7%	-4%	27%	-26%	17%
LATAM	-10%	-7%	-12%	-1%	35%
Europe	22%	8%	-4%	0%	15%
Asia	-21%	1%	-23%	-19%	6%
ROW	NA	NA	NA	NA	-6%

Source: Company, PL \*\*4QFY22 financials

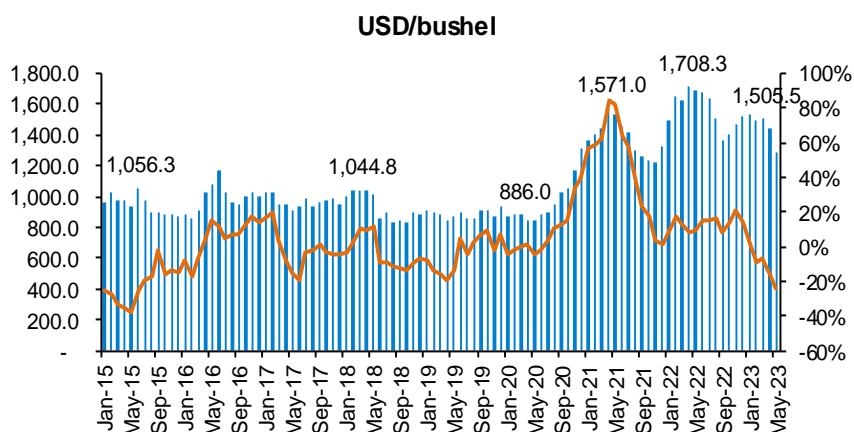
## Prices of key commodities continue to slide

### Exhibit 5: Wheat Prices down 46% YoY to USD584/bushel



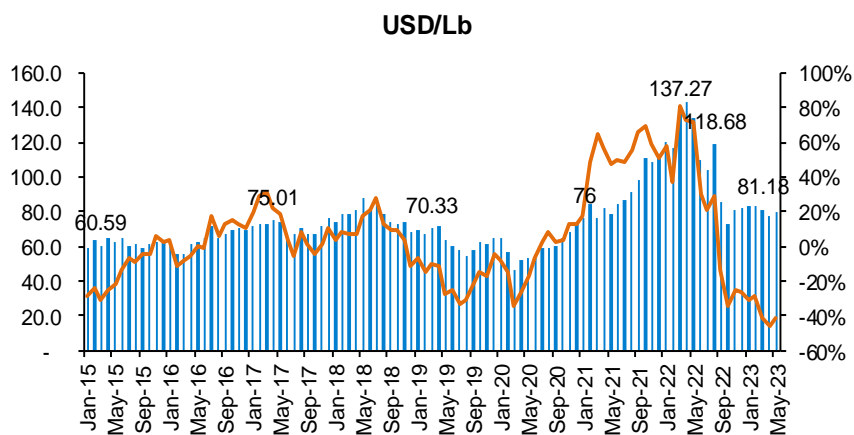
Source: Company, PL

**Exhibit 6: Soybean prices are down 24% YoY to USD1286/bushel**



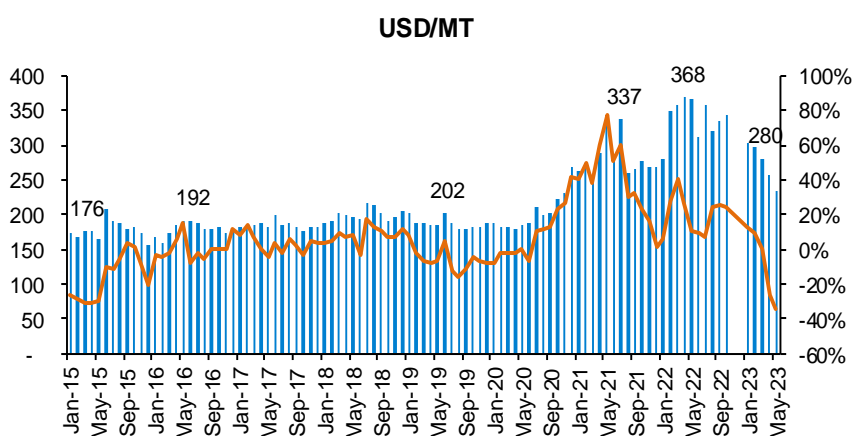
Source: Company, PL

**Exhibit 7: Cotton Prices are down 17% YoY to USD80/Lb**



Source: Company, PL

**Exhibit 8: Corn Prices down 35% YoY to USD234/mt**



Source: Company, PL



Exhibit 9: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCAp (Rs bn)	Sales (Rs mn)				EBITDA (Rs mn)				PAT (Rs mn)				EPS (Rs)				RoE (%)				PE (x)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Bayer Cropscience	S Acc	4,240	4,720	190.4	47.3	51.4	56.0	61.6	8.1	9.2	10.3	11.6	6.0	6.8	7.5	8.5	133.3	150.4	167.0	188.7	23.6	25.8	25.4	24.5	31.8	28.2	25.4	22.5
Chambal Fertilizers & Chemicals	C HOLD	280	300	116.6	160.7	277.7	206.8	204.3	22.6	18.2	21.9	22.9	15.7	10.3	13.0	14.0	37.6	24.8	31.1	33.6	26.9	15.3	17.3	16.9	7.4	11.3	9.0	8.3
Coromandel International	C BUY	960	1,310	282.2	191.1	296.3	188.1	204.5	21.5	29.3	28.9	29.7	15.3	20.1	20.4	20.9	52.1	68.5	69.3	71.0	26.6	28.2	23.4	20.3	18.4	14.0	13.9	13.5
Dhanuka Agritech	S BUY	720	950	32.8	14.8	17.0	19.2	21.6	2.6	2.8	3.3	3.8	2.1	2.3	2.6	2.9	44.8	51.2	57.5	63.5	23.8	23.1	22.3	20.4	16.1	14.1	12.5	11.3
Godrej Agrovet	C HOLD	433	420	83.2	83.1	93.7	100.4	109.2	6.7	5.2	5.9	7.2	4.2	2.3	3.0	4.1	21.9	12.0	15.9	21.1	19.4	10.0	12.7	15.8	19.8	36.0	27.3	20.5
Insecticides India	S Acc	445	650	13.2	15.0	18.2	20.0	22.0	1.7	1.4	2.0	2.4	1.1	0.9	1.2	1.5	36.2	28.7	42.1	50.1	12.7	9.4	12.5	13.2	12.3	15.5	10.6	8.9
P.I. Industries	C BUY	3,617	4,560	548.0	53.0	64.9	79.5	94.1	11.4	15.4	18.4	22.3	8.4	12.2	14.4	17.3	55.5	80.7	95.3	114.0	14.7	18.4	18.4	18.6	65.2	44.8	37.9	31.7
Rallis India	C HOLD	190	200	36.9	26.0	29.7	32.0	35.6	2.7	2.2	3.4	3.9	1.6	0.9	1.8	2.2	8.4	4.7	9.3	11.2	10.0	5.3	10.2	11.6	22.5	40.4	20.4	16.9
Sharda Cropchem	S BUY	481	640	43.4	35.8	40.5	45.7	50.3	7.0	7.0	8.1	9.3	3.5	3.4	3.8	4.1	38.7	37.9	42.0	45.7	19.8	16.5	15.8	15.1	12.4	12.7	11.5	10.5
Sumitomo Chemical India	C BUY	398	550	198.8	30.6	35.1	39.8	45.5	6.0	6.7	7.8	9.3	4.2	5.0	5.7	6.9	8.5	10.1	11.5	13.9	24.4	23.3	21.9	21.9	46.9	39.6	34.6	28.7
UPL	C BUY	685	850	513.8	462.4	535.8	579.7	624.5	101.7	111.6	121.7	136.1	38.9	37.1	43.6	53.0	50.9	49.5	58.1	70.7	19.7	15.3	15.3	16.5	13.5	13.9	11.8	9.7

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate



## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,720	4,118
2	Chambal Fertilizers & Chemicals	Hold	300	286
3	Coromandel International	BUY	1,310	962
4	Dhanuka Agritech	BUY	950	720
5	Godrej Agrovet	Hold	420	423
6	Insecticides India	Accumulate	700	491
7	P.I. Industries	BUY	4,560	3,274
8	Rallis India	Hold	200	191
9	Sharda Cropchem	BUY	640	497
10	Sumitomo Chemical India	BUY	550	386
11	UPL	BUY	850	715

## 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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