

Agrochemicals Industry: H1-FY21 Update

November 27th, 2020 | Industry Research

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NOTE: Pesticides have two main components, namely, the active ingredient(s) and the inert ingredient(s). The active ingredient is the one that gives a pesticide its pesticidal action and is called the technical grade of a pesticide. The active ingredient is the technical grade of the pure pesticide. A pesticide is rarely applied in its pure form. It is usually formulated by adding inert ingredients that improve storage, handling, application, effectiveness or safety. The inert ingredient does not have any pesticidal action.

Pesticides are first manufactured as technical grade product, which has 85% or more of the active chemical ingredients as it has a higher commercial purity. The active ingredients are then mixed with inert ingredients (solvents, adjuvant and fillers) to achieve the desired formulation. The active ingredient kills the pest, whereas the inert ingredient facilitates ease of handling, spraying and coating on plants.

Overview

The agrochemicals industry has been fairly buoyant led by normal monsoons and remunerative prices, all of which has resulted in an acceleration in agricultural activities.

Production, Export and Imports during H1-FY21

Table 1: Production, Export and Imports of agrochemicals (Unit: 000 tonnes)

			Change (y-o-y)	
	2019-20	2020-21	2019-20	2020-21
Production	93	103	-14.4%	11.5%
Exports*	210	238	0.4%	13.4%
Imports*	65	89	-7.7%	37.2%

Source: CMIE, Ministry of Commerce

Note: Companies are not required to mention segment-wise production capacity, i.e. production capacity of insecticides, fungicides, herbicides and rodenticides. Hence, the production numbers will not match the export and import numbers since production is that of technical grade (what APIs is in Drugs and Pharmaceuticals).

*Total exports and imports include insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant growth regulators and disinfectants.

Insecticides dominate the Indian crop protection market however Herbicides are emerging as the fastest growing segment.

Production of agrochemicals (technical grade) has grown at 11.5% during H1-FY21. Despite the impact of the coronavirus on the domestic market; two consecutive good monsoon seasons, vibrancy of the rural markets and a good sowing season has attributed to an increase in production. New product launches has also supported the increase in manufacturing.

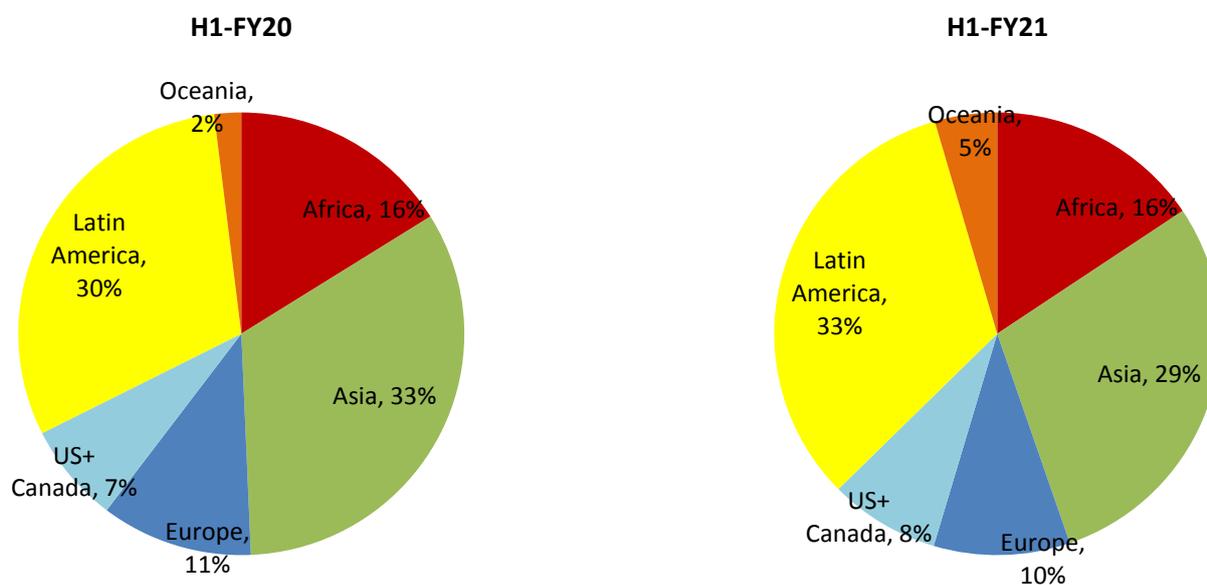
Total agrochemical exports have increased sharply by 13.4% during H1-FY21. India mainly has exported agrochemicals to Brazil (19%), US (8%), Vietnam (6%), Bangladesh (5%), Australia (4%), Costa Rica (3%), France (3%) and Indonesia (3%).

Table 2: Export and Imports of key agrochemicals (Unit: 000 tonnes)

			Change (y-o-y)	
	2019-20	2020-21	2019-20	2020-21
Exports				
Insecticides	65	63	93.1%	-3.2%
Fungicides	76	95	-13.0%	23.9%
Herbicides	47	58	-1.1%	22.7%
Imports				
Insecticides	9	10	-8.3%	14.0%
Fungicides	5	6	2.6%	22.1%
Herbicides	20	28	-14.9%	39.2%

Source: Ministry of Commerce

Chart 1: Region-wise percentage share of agrochemical exports



Source: CARE Ratings

Share of exports towards Brazil and Costa Rica, which are key export destinations for India have increased by 17% and 40% during H1-FY21 which has led to an increase in percentage share of exports towards the Latin American region from it being 30% during H1-FY20 to 33% during H1-FY21.

Exports towards Australia have increased by 217% which has led to an increase in percentage share of exports towards Oceania region from it being 2% during H1-FY20 to 5% during H1-FY21.

Trends in International markets which have affected the Agrochemicals exports as a whole during H1-FY21

The agrochemical industry has been amongst the handful of industries that has been able to recalibrate and restore normalcy across business operations even with COVID-19 led challenges still being in place such as supply chain disruptions, changes in demand patterns, currency volatility, and restrictions to move material in many geographies but the overall broad macros of the sector are fundamentally in place and despite the contagion still being prevalent in the international markets execution of agricultural activities seems to have taken place seamlessly.

- Good agronomic conditions across most of Latin America coupled with increase in soy and corn acreage has led to an increase in buying of agrochemicals. There has been strong growth in Chile, Argentina and Colombia as compared with the previous year. Despite devaluation of the Real there has been positive revenue growth in Brazil as well which can be ascribed to favorable weather patterns.
- Positive weather patterns, better prices for grain commodities and the easing of trade tensions with China has supported the growth in North America, while drought conditions has increased the demand for miticides in Western United States.
- European markets delivered growth despite the second wave of COVID-19. Growth in Northern Europe is attributed to good sales of herbicides, while Southern Europe experienced growth in Italy and Turkey driven by sustainable agronomical solutions. Russia and Central Europe have benefitted with robust crop prices due to lower yields but in retrospect Western Europe has had some dry weather that impacted some fungicide applications but it was offset by the herbicide business performing well.
- Vietnam and other countries in South East Asia are growing strongly due to new product launches and from increased herbicides sales whilst strong performance in South Africa, Australia and New Zealand was primarily driven by a normalization of weather patterns and good agricultural conditions.

Financials

The demand for pesticides is dependent on crop yields, pest attack, farmer's capacity to buy pesticides depending on the availability of credit and his awareness level. Revenues and profitability of agrochemical companies also depend on the agricultural conditions in North American, Latin American and EMEA regions, as most of these companies have expanded their operations abroad. India exports about 50% of its production, and hence, export is a key revenue component.

Here we will be analysing the financial performance of 21 major agrochemical companies during H1-FY21.

Table 3: Aggregate performance of 21 agrochemical companies

	H1-FY20	H1-FY21
Sales Growth	10.9%	12.5%
Operating Profit Margin (%)	16.0	16.8
Net Profit Margin (%)	7.8	10.1
Interest Coverage Ratio (times)	11.0	13.6

Source: ACE Equity, CARE Ratings

Key financial metrics (Sales revenue growth, Operating Profit Margin, Net Profit Margin and Interest Coverage Ratio) of 21 major agrochemical companies has increased during H1-FY21 amidst the economy reeling under the pandemic. Conducive agronomic conditions have led the industry to deliver a strong financial performance.

A favourable monsoon season in India which has also resulted in a record high kharif sowing season coupled with benign weather patterns in key exporting markets like in Brazil, US, Andean and parts of EU (e.g. Germany) has led to a good financial performance. Sales have also increased on account of supportive crop prices and an improved supply chains.

There has been an improvement in the operating and net profit margins due to cost and portfolio mix improvements. Reduction in fixed costs too has contributed in an increase in margins.

Outlook for FY21

The domestic demand for agrochemicals is expected to remain elevated with favourable agronomical conditions such as good moisture in the soil and adequate water levels in reservoirs which bodes well for the winter crop/Rabi season. With the government propagating the development of the agricultural sector and with the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the upliftment of the agrarian economy focused on boosting the agriculture and its allied sector (by strengthening its infrastructure and logistics), the demand for agrochemicals for the rest of FY21 seems sanguine.

Some of the ambitious steps taken by the Government of India to revive the role of agriculture in the growth of Indian economy such as increasing MSPs, eNAM portal, distribution of direct benefit transfer via PM Kisan Samman Nidhi has created a robust foundation to enhance farmers income and encourage wider adoption of high quality seeds.

- Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year's Kharif harvest is slated to be a bumper crop and the farming community will be having good liquidity to spend money to safeguard their crop from pests and diseases in the Rabi season.

Exports of agrochemicals are to remain steady during H2-FY21. Agronomic conditions in most markets in both the Northern and Southern hemispheres have improved compared to the same period last year.

- The pandemic has had limited impact on crop planting patterns and crops like wheat, rice and soya bean have shown strength.

The government is slated to bring a production-linked incentive (PLI) scheme for the promotion of domestic manufacturing of agrochemicals. The domestic agrochemicals sector has a good opportunity to gain considerable market share in the global markets as customers are looking to diversify their supplies away from China.

- The industry is also trying to engage into backward integration for the manufacturing of technical grade pesticides as its wants to shift its reliance from China and become self-sufficient in the coming years.

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