

Agrochemicals industry: March 2021 update

March 11, 2021 | Industry Research

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 April-December 2020-21

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

	Change (y-o-y)			
	2019-20	2020-21	2019-20	2020-21
Production	145	163	-12.8%	11.9%
Exports	330	384	0.0%	16.1%
Imports	83	117	-9.4%	41.2%

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.

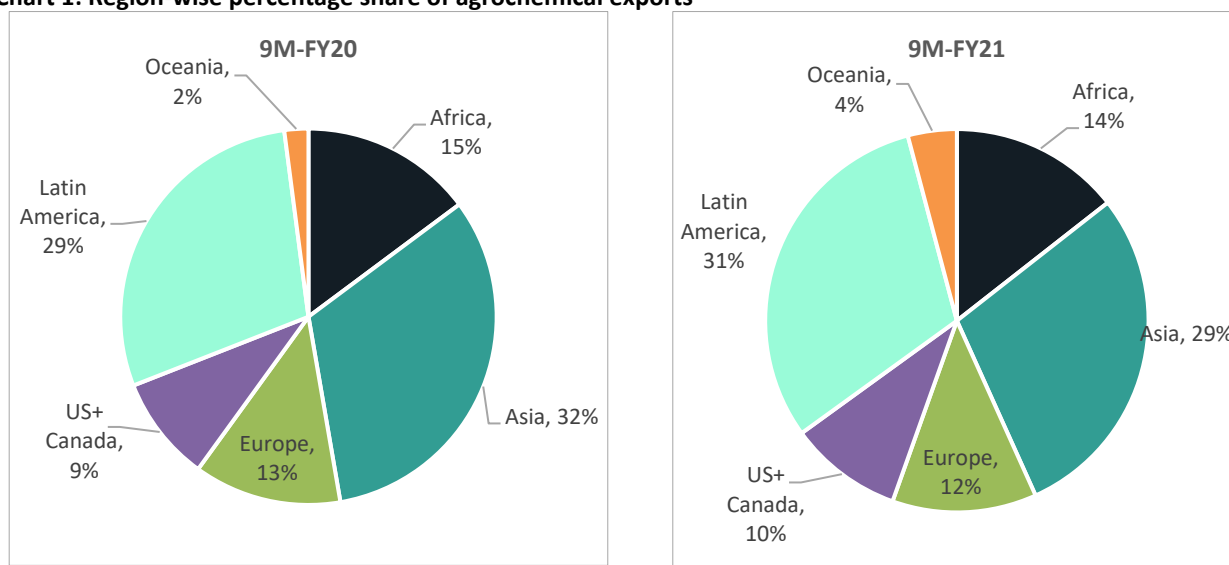
Production of agrochemicals (technical grade) has grown by 11.9% during 9M-FY21. Despite the impact of the coronavirus on the domestic market; two consecutive good monsoon seasons, vibrancy of the rural markets and a good sowing season has attributed to an increase in production. New product launches, pro-active raw material planning along with efficient capacity utilisation has also supported the increase in manufacturing. Increase in manufacturing of technical augurs well for the industry as it is getting more backward integrated.

Total agrochemical exports have increased sharply by 16.1% during 9M-FY21. India mainly has exported agrochemicals to Brazil (19%), US (9%), Bangladesh (6%), Vietnam (5%), Australia (4%), Costa Rica (3%) and France (3%).

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

		Change (y-o-y)	
		2019-20	2020-21
Exports			
Insecticides	100	103	72.2%
Fungicides	121	151	17.1%
Herbicides	78	93	6.5%
Imports			
Insecticides	11	13	-26.8%
Fungicides	7	9	-3.4%
Herbicides	26	39	-11.1%

Source: Ministry of Commerce

Chart 1: Region-wise percentage share of agrochemical exports

Source: CARE Ratings

Share of exports to Brazil and Costa Rica, which are key export destinations for India have increased by 20.2% and 32.9% during 9M-FY21 which has led to an increase in percentage share of exports towards the Latin American region from 29% during 9M-FY20 to 31% during 7M-FY21. Exports to US has increased by 23.2% whilst that of Australia has increased by 165.2% during 9M-FY21 which has led to an increase in percentage share of exports towards Northern America (US+ Canada) by 9% to 10% and towards Oceania by 2% to 4% .

Trends in International markets, which have affected the Agrochemicals exports as a whole during 9M-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 compared with the previous year. In the later months, despite a season delay due to drought in Brazil and Argentina, the increase in grain commodity prices and recent rains are supporting positive trends
- 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. In the later months favorable weather conditions combined with strong growth in differentiated and sustainable solutions have contributed to higher revenues and improved margins.
- **European** markets delivered growth despite the second wave of COVID-19. Increased sales of differentiated and sustainable solutions in Europe have led to an improved mix. Growth in Northern Europe can be 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 exports performing well.

- The **rest of the world** saw a decent growth in Africa, Middle East, Australia and New Zealand benefitting from a normalized season compared with last year. 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

	9M-FY20	9M-FY21
Sales Growth	15.6%	10.1%
Operating Profit Margin (%)	15.6	16.4
Net Profit Margin (%)	7.5	8.7
Interest Coverage Ratio (times)	10.7	13.3

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 9M-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) which, has led to a good financial performance. Sales too have increased because 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, COGS savings driven by a favourable product mix too has contributed in an increase in margins.

However, in Q3, industry growth was muted in October and November led by prolonged rainfall especially in Southern India and two cyclones in the month of November, which resulted in lower consumption of agrochemicals in South India. Further, the insecticides category got impacted severely due to lower pest infestation. However, herbicides and fungicides categories continued to do well.

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. With the government propagating the development of the agricultural sector and with the 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.

During the FY22 budget announcement, the government also increased the credit for farmers increased from Rs. 15 lakhs crores to Rs. 16.5 lakhs crores and decided to further add 1,000 mandies through the eNam platform which is to give benefit to the farmers to sell his crops at better prices which will ultimately improve the profitability of the farming community.

- Going forward, with acreage and crop prices both improving, the sector is structurally well-placed also considering the fact that that this year's 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.

Exports of agrochemicals are to remain steady as agronomic conditions in most markets in both the Northern and Southern hemispheres have improved compared with 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.

Contact:

Madan Sabnavis
Urvisha H Jagasheth
Mradul Mishra

Chief Economist
Research Analyst
(Media Contact)

madan.sabnavis@careratings.com
urvisha.jagasheth@careratings.com
mradul.mishra@careratings.com

+91-22-6837 4433
+91-22-6837 4410
+91-22-6754 3573

Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

