

Agrochemicals industry July update

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Overview

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. It's 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.

Production, Export and Imports during 2019-20

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

			Change (y-o-y)	
	2018-19	2019-20	2018-19	2019-20
Production*	217	185	1.9%	-14.4%
Exports	461	452	12.5%	-2.0%
Imports	117	106	4.9%	-8.7%

Source: CMIE, Ministry of Commerce

*technical grade only

Note: 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 and form almost 53% of the domestic agrochemicals market. Herbicides are, however, emerging as the fastest growing segment.

Delay in the start of the monsoons in 2019 made producers postpone their product launches has been instrumental in the fall of the production of technicals. Volatility in the raw material costs and low pest pressure has also affected production.

Total agrochemical exports have contracted by 2% during FY20. India mainly has exported agrochemicals to Brazil (15%), US (10%), Vietnam (6%), Bangladesh (6%), Iran (3%), France (3%) and Indonesia (3%). The trade tensions between the U.S. and China, depressed demand for crop

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protection products in the U.S. but bolstered its demand in Brazil. Further exports during the month of March fell by 27.1%. International shipments had come to a halt due to absence of transportation facilities in the last week of March 2020 with respect to the announcement of a nationwide lockdown pan India to contain the outbreak of COVID-19.

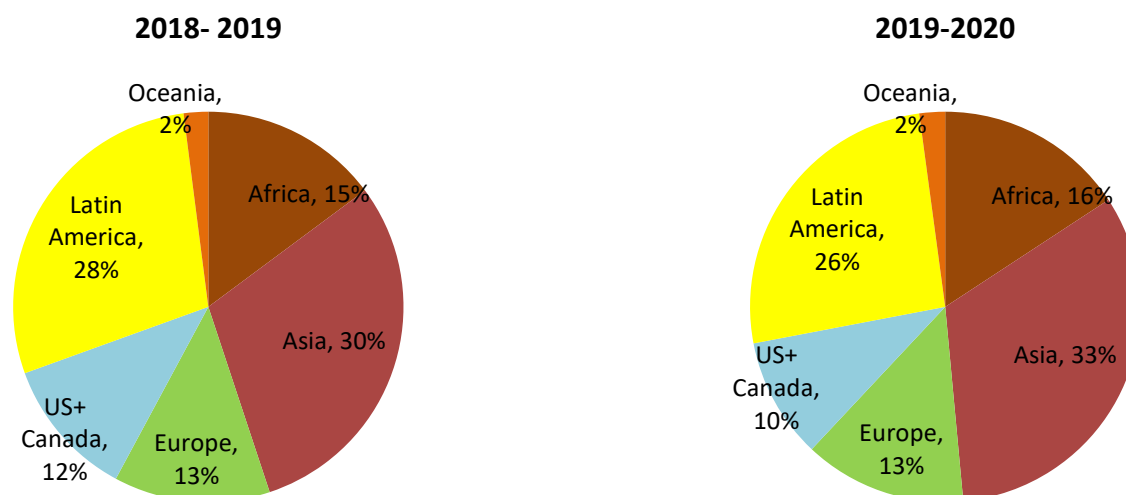
Table 2: Export and Imports of key agrochemicals (Unit: 000 tonnes)

	2018-19	2019-20	Change (y-o-y)	
			2018-19	2019-20
Exports				
Insecticides	87	130	24.7%	49.5%
Fungicides	193	170	16.1%	-12.0%
Herbicides	106	109	6.0%	3.2%
Imports				
Insecticides	19	14	8.0%	-27.2%
Fungicides	8	8	-1.4%	1.5%
Herbicides	36	32	21.6%	-10.4%

Source: 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.

Chart 1: Region-wise share of agrochemical exports



Source: CARE Ratings

Trends in International markets which have affected the Agrochemicals exports as a whole during FY20

- Overall exports were affected by drought conditions in South Africa, Southeast Asia and Eastern Australia.
- Dry weather condition prevailed in most of the Northern Europe region which resulted in reducing the herbicide and fungicide applications which led to the fall of fungicide exports.
- Drought and incidence of a significant heatwave and severe deluge in the US affected the corn and soybean acreages in the US markets. Onset of an early snowfall in the Dakotas too has impacted the acreages.

- Brazil markets displayed a healthy demand for agrochemicals, given that there has been an increase in demand for its soybean. Trade tensions between China and the U.S. had instrumented China to impose steep tariffs on U.S. soybeans and on other agricultural products in retaliation for U.S. duties on Chinese goods. This in-turn had benefitted Brazil from the increased soybean demand out of China.
- Dry conditions in Andean countries and political uncertainty in Chile and Argentina resulted in muted market demand in these countries.
- Wildfires in Australia which were caused by a combination of extreme heat, prolonged drought and strong winds affected the demand from Oceania.

Production during 2020-21 (April 2020)

Table 3: Production of agrochemicals (Unit: 000 tonnes)

	2020-21	Change (y-o-y)
Production	5.3	-59.8%

Source: CMIE

*technical grade only

Agrochemicals production has been impacted majorly due to shortage of imported raw materials. The industry is facing headwinds due to the outbreak of the COVID-19 pandemic.

Manufacturers in India are mainly dependant on China for the imports of raw materials needed to manufacture pesticides and with restrictions imposed on imports across ports in the country, companies are staring at a supply-side shortage.

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 12 major agrochemical companies during FY20.

Table 4: Aggregate performance of 12 agrochemical companies

	2018-19	2019-20
Sales Growth (%)	15.3%	14.8%
Operating Profit Margin (%)	13.97	14.07
Net Profit Margin (%)	6.6	6.1
Interest Coverage Ratio (times)	8.9	8.6

Source: ACE Equity, CARE Ratings

Key financial metrics (Sales revenue growth, Net Profit Margin and Interest Coverage Ratio) of 12 major agrochemical companies have been lower during FY20.

Delay in arrival of the monsoons during Q1-FY20 prompted many farmers to resort to shorter duration crops or opt for shorter duration variety in that particular crop (for example, in case of paddy, farmers may have migrated to a shorter duration variety of paddy or cultivators would have migrated from maize to bajra). This translated to development of pest

and disease which led to a decline in sales revenue. Sharp recovery in the monsoons post Q1 which spilled over to September also resulted in reduced pest pressure on crops, thus adding onto the contraction.

The Operating Profit Margin has increased marginally on account of cost benefits achieved due to fall in cost of raw materials by 4.5%.

Outlook for FY21

The domestic demand for agrochemicals is expected to rise with a need to increase farm output to meet food requirements of the growing population, decrease in arable land and loss of yield due to pest attacks.

Going forward due to the timely onset of monsoons which has improved the water levels in the major reservoirs (this bodes well for the Kharif season) & the soil moisture levels, plaguing locust attack on the Indian subcontinent and the recent proposals under the 'Aatmanirbhar Bharat' package pertinent towards the agrarian economy which are focused on boosting the agriculture and allied sector (by strengthening its infrastructure and logistics), demand for agrochemicals for the rest of FY21 seems sanguine for the industry.

- Since the application of the agrochemicals begins by end-May and continues till September, the product off-take is not expected to be impacted considering pesticides are getting placed under the essential commodities category, the functioning of the industry has been close to business as usual.
- On the flipside, companies are likely to face input constraints as Indian manufacturers depend heavily on imports of raw materials and intermediaries from China and given the anti-China sentiments prevalent in the country, it might be a while till manufacturers will be able to diversify their supply chain needs.
 - o Companies might also face challenges in terms of availability of labour, availability of manpower and staggered timing of plant operations in order to follow the protocol of social distancing.

The export demand for pesticides is likely to take a hit in the ongoing financial year. This is because of the spread of the pandemic across the globe. Financial constraints of the global farm sector and restriction imposed by countries across the globe on imports and exports will adversely hit pesticide trade volumes during FY21.

- Headwinds owing to challenges related to port handling and international logistics is also to weigh down on exports.

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