

## Agrochemicals industry review and outlook

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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

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

			Change (y-o-y)	
	2018-19	2019-20	2018-19	2019-20
Production *&	108	93	-1.4%	-14.4%
Exports	247	246	14.4%	-0.1%
Imports	77	71	2.4%	-8.7%

Source: CMIE, Ministry of Commerce

&- April- September \*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 which 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 0.1% in the current financial year. India mainly has exported agrochemicals to Brazil (18%),

US (7%), Vietnam (6%), Bangladesh (5%), Iran (4%), Argentina (3%), Costa Rica (3%), Ethiopia (3%), France (3%) and Indonesia (3%).

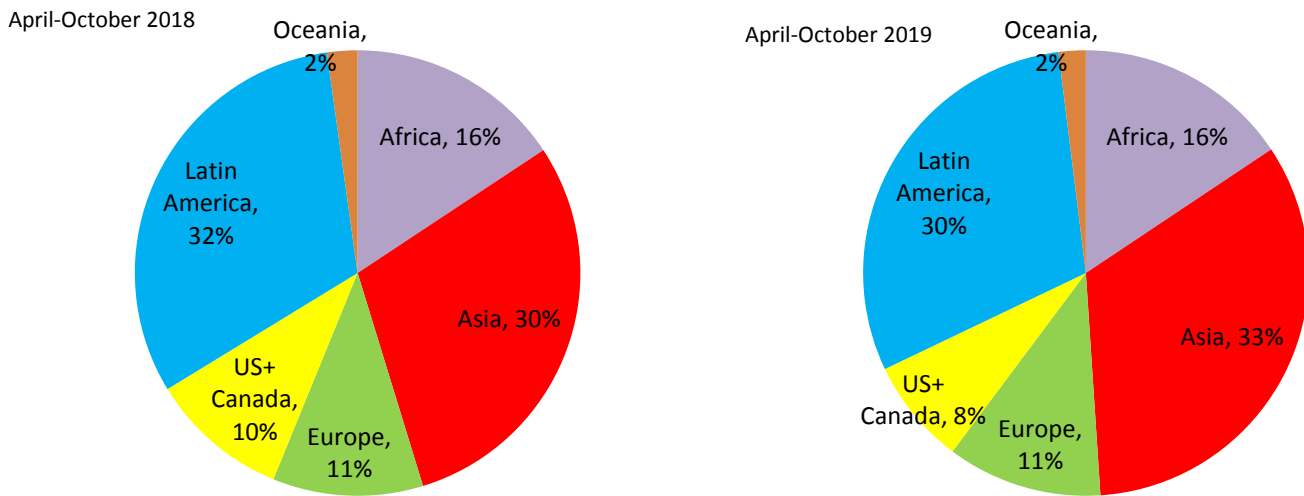
**Table 2: Export and Imports of key agrochemicals (Unit: 000 tonnes)**

			Change (y-o-y)	
	2018-19	2019-20	2018-19	2019-20
<b>Exports</b>				
Insecticides	41	76	6.5%	86.3%
Fungicides	104	89	22.9%	-14.6%
Herbicides	55	57	6.3%	2.4%
<b>Imports</b>				
Insecticides	12	10	5.1%	-11.9%
Fungicides	5	5	-16.1%	3.1%
Herbicides	25	22	19.0%	-14.2%

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 exports of India**



Source: CARE Ratings

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

- 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 caused 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 has 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.

## Financials

The demand for pesticides is dependent on crop yields, pest attack, farmers' capacity to buy pesticides depending on the availability of credit and awareness levels. 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 analyzing the financial performance of 22 agrochemical companies during H1-FY20.

**Table: Aggregate performance of 22 agrochemical companies**

	H1-FY19	H1-FY20
Sales Revenue Growth (%)	12.4	10.9
Operating Profit Margin (%)	17.3	16
Net Profit Margin (%)	9.1	7.8

Source: ACE Equity, CARE Ratings

Key financial metrics (sales revenue growth, OPM and NPM) during the first half of the year have contracted due to the delay in arrival of the monsoons in Q1. The delay in monsoons 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 a small window of opportunity available for pest and disease incidence to develop 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.

## Outlook for FY20

Agriculture is the backbone of the Indian economy, as it employs nearly half of India's workforce and contributes approximately 15% to the nation's GDP. Nevertheless, the industry has been impacted by declining farmer income and low pest pressure lately. Going forward, due to the prolong monsoons which improved the water levels in major reservoirs and the soil moisture content, the outlook for the rabi crop seems promising.

- The agrochemical industry in terms of active ingredient (technical grade) production is to be muted during FY20 given the government is stressing on the judicious use of chemical formulations on crops. In the past, production of technicals has been fallen by 0.4% and 0.2% during FY18 and FY19, respectively.
- Exports of agrochemicals are to grow by 4%-5% going forward during FY20.
  - Export growth will be led by the vibrancy in the Latin American markets and improving conditions in the northern hemisphere.
  - Recovery in the US and European markets could potentially uplift the exports to an extent.

- Ambient conditions facilitating a good rabi season could potentially lift and support sales of agrochemical companies facilitating a reversal from the current contraction for the remaining half of the year (H2-FY20).

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