

# Agriculture

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## *4QFY18E Results Preview*

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# Agrochemicals: Stable results expected

- For Agrochemical companies, 4Q contributes lower to the aggregate revenues and profits vs. other quarters. We expect our coverage universe to post Revenue/APAT growth of 14/16% YoY. Strong top-line growth is expected from Insecticides India (+25.8% YoY) and UPL (+14.8% YoY). While higher raw material prices are a concern, we expect our coverage universe to post an EBITDA margin of 20.5% (-12bps YoY) for the quarter.
- The government has announced a slew of reforms, one of which is an increase in MSPs for most agricultural produce so as to ensure farmers a minimum return of 50% over production cost. In order to achieve its target of doubling farm income by 2022, the government is enhancing farm credit, increasing crop insurance, and ensuring faster subsidy disbursement on certain farm equipments. These measures in aggregate should boost demand for agrochemicals.
- MSP:** The government has approved increase in MSPs by 5-11% for the Rabi crop 2017-18. However, crops such as Safflower, Gram, Masur, Wheat, and Barley saw the highest increase (6-11%).
- Eye on monsoons:** Skymet's prediction of a normal monsoon for 2018 is a key positive indicator for agriculture in FY19. Further predictions will be closely watched.
- Promising outlook:** We believe the agrochemical sector has multiple structural drivers. In the long term, better farm income, improved irrigation facilities, new product launches, lower penetration of agricultural inputs and greater outsourcing will drive growth. Exports/CSMs are likely to pick up with an improvement in global agri-commodity prices. **Our top picks are Rallis India (44% upside), Dhanuka Agritech (27% upside), and Insecticides India (25% upside).**

## Crop Sowing Area (In Mn Hectare As of February 09, 2018)

Crop	Rabi-18	Rabi-17	% change
Rice	3.2	2.7	16.7
Pulses	16.9	16.1	5.3
Coarse Cereals	5.7	5.8	(1.4)
Oilseeds	8.1	8.5	(4.7)
Wheat	30.4	31.8	(4.3)
<b>Total</b>	<b>64.3</b>	<b>64.8</b>	<b>(0.8)</b>

Source: Ministry of Agriculture, HDFC sec Inst Research

## Minimum Support Price (MSP) for Rabi crop 2017-18

Particulars	MSP-18	MSP-17	% change
Wheat	1735	1625	6.8
Paddy	1550	1470	5.4
Barley	1410	1325	6.4
Gram	4400	4000	10.0
Masur	4250	3950	7.6
Safflower	4100	3700	10.8

Source: Ministry of Agriculture, HDFC sec Inst Research

\* MSP Rs per Quintal

# 4QFY18E: Financial Summary

COMPANY	NET REVENUES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs/sh)		
	4Q FY 18E	QoQ (%)	YoY (%)	4Q FY 18E	QoQ (%)	YoY (%)	4Q FY 18E	QoQ (bps)	YoY (bps)	4Q FY 18E	QoQ (%)	YoY (%)	4Q FY 18E	3Q FY 18	4Q FY 17
UPL	61.34	46.3	14.8	12.75	78.1	13.3	20.8	371.1	(28.3)	8.89	54.9	20.2	17.5	11.3	14.6
PI Industries	6.68	24.2	10.3	1.63	55.5	6.0	24.4	490.2	(98.6)	1.21	49.6	-10.7	8.8	5.9	9.8
Rallis India	3.85	(1.3)	10.7	0.57	53.3	38.1	14.9	531.4	296.5	0.36	42.9	15.2	1.8	1.3	1.6
Dhanuka Agritech	1.66	(25.0)	4.7	0.32	-8.4	-5.4	19.5	353.6	(207.2)	0.28	-0.7	17.2	5.8	5.8	4.9
Insecticides India	2.21	25.8	25.8	0.26	15.2	98.0	12.0	(110.7)	435.8	0.12	27.6	106.8	6.0	4.7	2.9
<b>Aggregate</b>	<b>75.75</b>	<b>37.2</b>	<b>14.3</b>	<b>15.54</b>	<b>69.6</b>	<b>13.6</b>	<b>20.5</b>	<b>391.0</b>	<b>(11.9)</b>	<b>10.86</b>	<b>51.3</b>	<b>16.0</b>			
Swaraj Engines	1.83	(0.4)	13.6	0.30	18.4	25.9	16.6	263.6	163.5	0.19	13.1	27.6	16.1	14.2	12.6

Source : HDFC sec Inst Research

# Insecticides India to deliver strong growth

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
UPL	GOOD	<ul style="list-style-type: none"> <li>Expect revenue growth of ~15% YoY, mainly led by Latin America, North America, and Europe</li> <li>EBITDA margin expected to be lower by 28bps YoY to 20.8% (due to higher raw material cost), APAT to grow strongly 20.2% YoY at Rs 8.9bn</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on global agri environment</li> <li>Commentary on cross-currency impact</li> <li>Outlook on new product launches</li> </ul>
PI Industries	AVERAGE	<ul style="list-style-type: none"> <li>Expect revenue growth of 15.4/8.3% YoY in domestic/CSM segment for the quarter</li> <li>EBITDA margin to decline by 99bps YoY to 24.4% (due to higher raw material cost), APAT to de-grow by 10.7% YoY to Rs 1.2bn</li> </ul>	<ul style="list-style-type: none"> <li>Guidance for the custom synthesis business</li> <li>Outlook on new product launches</li> <li>Likely impact on Nominee Gold revenues in FY18</li> </ul>
Rallis India	AVERAGE	<ul style="list-style-type: none"> <li>Expect revenue growth of 10.7% YoY owing to strong growth in seed business (Metahelix +85.2% YoY)</li> <li>EBITDA margin to improve by 296bps on YoY to 14.9% (due to improved gross margin), APAT expected to grow by 15.2% YoY to Rs 0.4bn</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on new product launches</li> <li>Outlook on export revenue</li> <li>Progress on the CSM business</li> </ul>
Dhanuka Agritech	AVERAGE	<ul style="list-style-type: none"> <li>Expect revenue growth of 4.7% YoY owing to better product mix</li> <li>EBITDA margin likely to decline by 207bps YoY to 19.5% (owing to higher employee and other expenses), APAT to grow by 17.2% YoY to Rs 0.3bn</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on new product launches</li> <li>Progress related to discovery of new technical's</li> </ul>
Insecticides India	GOOD	<ul style="list-style-type: none"> <li>Expect revenue growth of 25.8% YoY, owing to higher contribution from Green label</li> <li>EBITDA margin expected to improve by 436bps YoY to 12.0% (due to improved gross margin) and APAT expected to grow strongly by 106.8% YoY to Rs 0.1bn</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on new product launches</li> <li>Progress related to discovery of new technical's</li> <li>Progress on export business</li> </ul>

# Agri Equipment: Riding on higher HP engines

- **Low penetration of farm equipment:** In India, only about 40-45% of agriculture is mechanised. In 2012-13, it was estimated that the penetration of tractors was about 10.5 per 1,000 hectares. The penetration is lower with the small and marginal farmers who own land less than 5 hectares. This segment forms over 80 percent of the land holdings in the country. Thus, there is a lot of potential for increasing the tractor penetration and therefore growing the market size.
- On basis of our channel checks, for FY18 tractor industry has grown by healthy 21% to ~709k units. The strong growth had been led by government's subsidy support and decent monsoons. For FY19, we estimate the industry to grow by 7-8% in line with historic/long term average. Nevertheless, government support owing to elections and good monsoons may act as catalyst. **Swaraj Engines, a pure play tractor engine supplier is our top pick (~22% upside).**

COMPANY	4QFY18E OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Swaraj Engines	GOOD	<ul style="list-style-type: none"> <li>▪ Expect revenue growth of ~14% YoY, driven by 11.7/0.9% YoY volume/realization growth</li> <li>▪ Expect strong EBITDA growth of 25.9% YoY led by improvement in EBITDAM by 163bps to 16.6% (with lower employee costs and other expenses)</li> <li>▪ APAT is expected to grow strongly by 27.6% YoY to Rs 0.2bn</li> </ul>	<ul style="list-style-type: none"> <li>▪ The monsoons for CY18 and Government spending on infra projects, and focus on agriculture to enhance farm productivity</li> <li>▪ Capacity expansion plan</li> </ul>

# Peer Valuation

COMPANY	Mcap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)			P/E (x)			P/BV (x)			RoE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Agrochemicals																
UPL	380.2	748	BUY	843	42.8	46.5	52.7	17.5	16.1	14.2	4.4	3.6	3.0	27.1	24.5	22.9
PI Industries	117.0	850	NEU	870	27.9	31.2	34.8	30.4	27.2	24.4	6.0	5.1	4.4	21.6	20.4	19.3
Rallis India	44.5	229	BUY	329	9.4	11.6	14.3	24.2	19.7	16.0	3.6	3.2	2.9	15.7	17.3	19.0
Dhanuka Agritech	29.6	604	BUY	764	25.7	28.6	34.7	23.5	21.1	17.4	4.9	4.2	3.6	22.4	21.5	22.5
Insecticides India	15.3	740	BUY	927	42.9	46.7	54.5	17.3	15.9	13.6	2.8	2.4	2.0	17.4	16.2	16.2
Agri Equipment																
Swaraj Engines	24.5	2,018	BUY	2,468	67.4	78.2	91.4	30.1	26.0	22.2	10.6	9.2	7.7	31.7	38.0	37.7

Source : HDFC sec Inst Research

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<b>NEUTRAL</b>	: Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
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