

Agri Input & Chemicals

Refer to important disclosures at the end of this report

Q2FY20 Preview: modest growth despite good monsoons

- India has received above average rainfall in FY20 (10% above the Long Period Average). Kharif sowing increased after mid Aug as deficit rainfall turned into surplus. Despite good monsoons, we expect domestic agro-chem companies to report modest revenue growth.
- Late rainfall resulted in higher sowing of short-duration crops, yielding lower demand for agro-chemicals. Lower demand for agro-chemicals was also attributed to lower pest infestation due to rainfall towards the end of Sept.
- The recovery in fertilizer volumes in Sept has covered for the deficit in Jul and Aug. The increase in volumes should not culminate into margin gains as companies have offered discounts to clear the channel inventory amid falling raw material prices (phos acid).
- We continue to remain positive on PI due to its strong order book visibility and RALI on account of growth capex. In our sector EAP, we remain OW on CRIN and RALI due to reasonable valuations, while UW on UPLL and BYRCS.

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Agro-chemicals: margin expansion to remain elusive

We expect aggregate revenue growth of 11.8% yoy for our agro-chemical universe, driven by PI Industries (+16.6%) and Rallis India (+10%). We expect aggregate EBITDA margins to improve by 128bps yoy, driven by PI. Excluding PI, we believe aggregate EBITDA margins will contract by 156bps yoy due to higher technical prices and low volume growth. Our channel checks indicate a higher competitive intensity and discounting in the generics. RALI's new credit policy is received well by markets and dealers expect the market share loss share to be arrested. DAGRI, in our view, should deliver the modest revenue growth of 6% yoy as decline in its vintage products is offset by new products.

Fertilizers: recovery in Sept saves the quarter

Fertilizer volumes in Q2FY20 increased 6% yoy, driven by an uptick in DAP volumes (up 125% yoy). The recovery of monsoons in mid Aug should help CRIN deliver 5% yoy revenue growth (volume growth higher than revenue growth due to fall in prices). As on Oct 3, reservoir levels across India are up 17% yoy and 23% above the last 10-year average. We expect lower sales return as the channel expects good demand in rabi season on account of adequate reservoir levels.

Outlook

We continue to remain positive on PI due to strong order book visibility and RALI on account of growth capex and renewed push in the domestic market. In our sector EAP, we remain OW on CRIN and RALI due to reasonable valuations, while UW on UPLL and BYRCS.

Please see our sector EAP (page 8): [Agri Input & Chemicals](#)

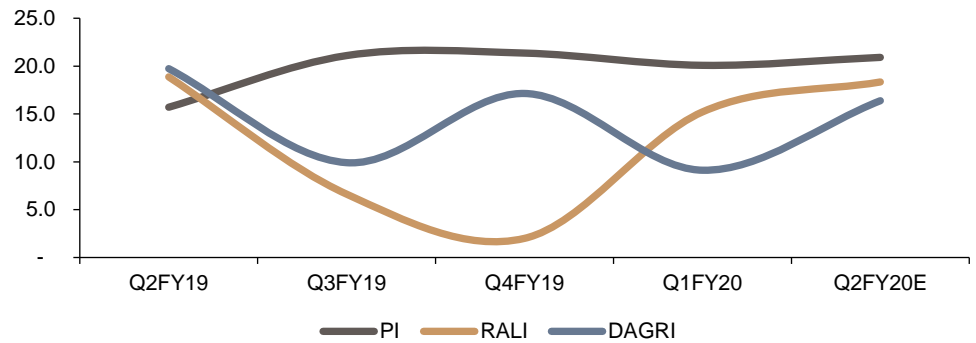
Financial Snapshot (Consolidated)

(Rs mn)	EPS		EV/EBITDA		P/E	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Coromandel International	21.4	27.8	11.5	9.1	18.9	14.6
Dhanuka Agritech	24.7	27.8	8.1	6.8	12.8	11.3
PI Industries	37.4	51.7	23.4	16.7	34.0	24.6
Rallis India	10.1	12.2	11.1	9.2	16.3	13.5

Source: Company, Emkay Research

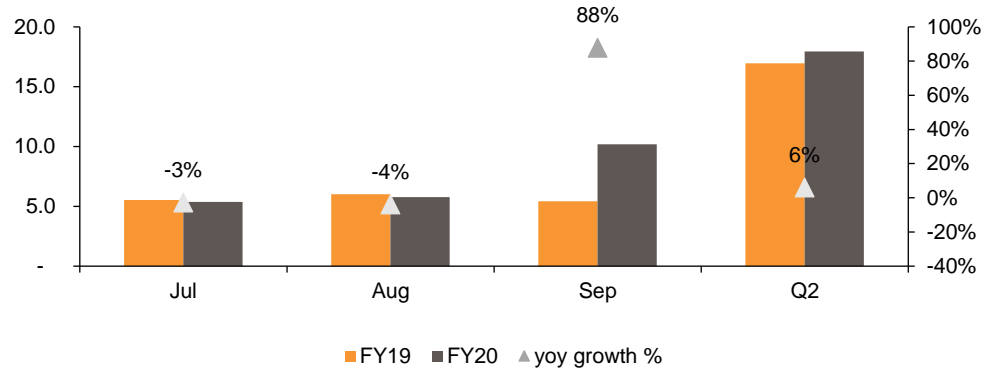
Story in charts

Exhibit 1: EBITDA margins to be lower yoy, except for PI (due to exports)



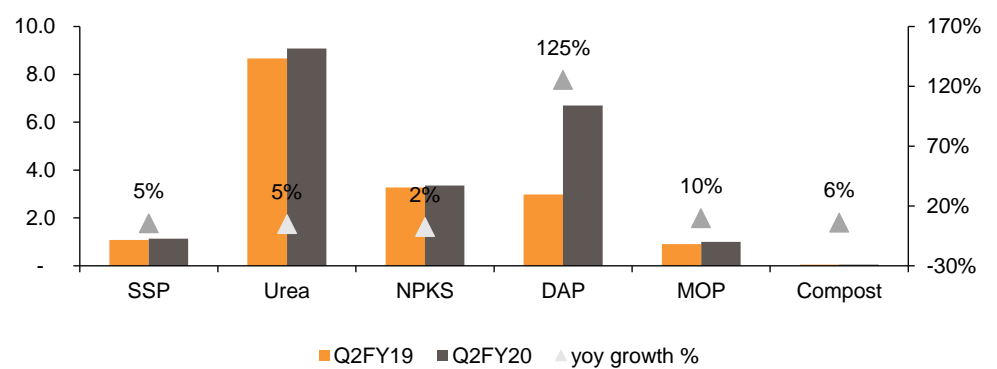
Source: Company, Emkay Research

Exhibit 2: Recovery in fertilizer volumes in Sep'19



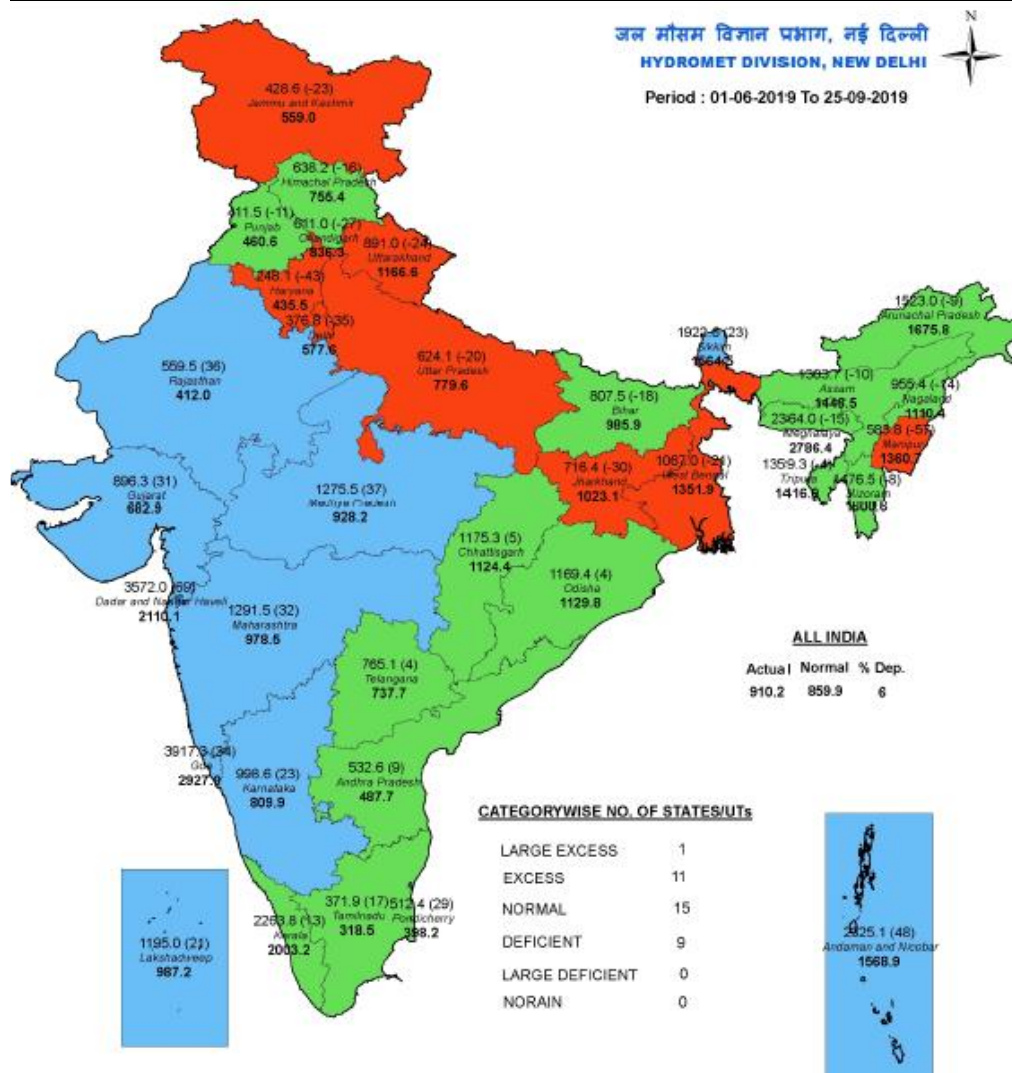
Source: Emkay Research, Department of fertilizers

Exhibit 3: DAP volume growth the highest, whereas NPKS is flat yoy



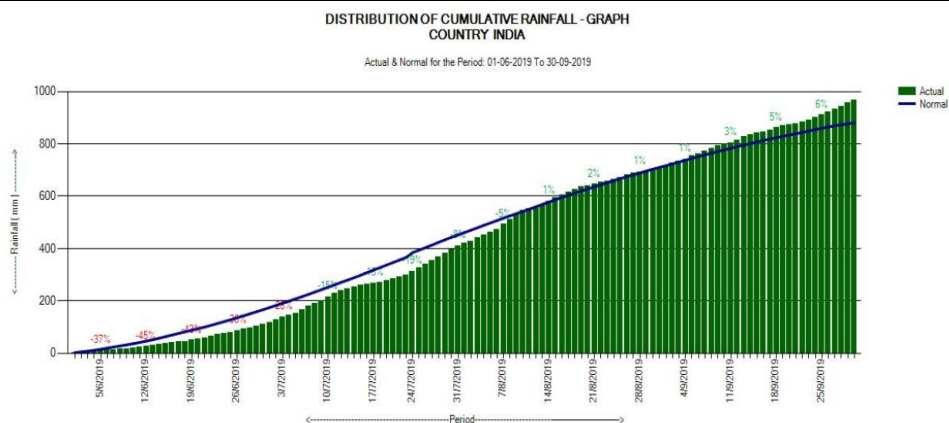
Source: Emkay Research, Department of fertilizers

Exhibit 4: State-wise rainfall distribution



Source: IMD, Emkay Research

Exhibit 5: Cumulative rainfall deficit chart



Source: IMD, Emkay Research

Exhibit 6: Company-wise estimates

Exhibit C: Company wise estimates								
Name			Sep'19E	Jun'19	Sep'18	% Chg YoY	% Chg QoQ	Comments
Coromandel International								
CMP(Rs)	409	Net Sales (Rs mn)	52,587	21,307	50,083	5.0%	146.8%	We expect CRIN's revenue to increase by 5% yoy due to volume recovery in September 2019. We expect spreads to remain stable qoq at Rs3250/ton. EBITDA margins should decline 160bps on account of the discounting of channel inventory in the wake of falling raw material prices (Phos Acid).
Mkt Cap (Rs bn)		EBITDA (Rs mn)	6,153	1,953	6,663	-7.7%	215.0%	
Reco	Buy	EBITDA Margin (%)	11.7	9.2	13.3	-160 bps	253 bps	
Target Price (Rs)	507	PAT (Rs mn)	3,744	627	3,862	-3.1%	496.8%	
% Upside	24%	EPS (Rs)	12.8	2.2	13.2	-3.1%	495.3%	
Dhanuka Agritech								
CMP(Rs)	309	Net Sales (Rs mn)	4,064	2,190	3,834	6.0%	85.6%	We expect DAGRI's revenues to rise by a modest 6% yoy on lower demand of generic products amid a higher sowing of short-duration crops and competitive intensity. EBITDA margins should decline 335bps yoy due to higher RM prices for its key products such as Calden and Cover. PAT is expected to decline by 8% yoy on lower EBITDA.
Mkt Cap (Rs bn)		EBITDA (Rs mn)	665	200	756	-12.0%	233.3%	
Reco	Buy	EBITDA Margin (%)	16.4	9.1	19.7	-335 bps	726 bps	
Target Price (Rs)	450	PAT (Rs mn)	506	148	550	-8.1%	242.1%	
% Upside	45%	EPS (Rs)	10.6	3.1	11.2	-5.1%	242.1%	
PI Industries								
CMP(Rs)	1,281	Net Sales (Rs mn)	8,430	7,541	7,230	16.6%	11.8%	PI's revenues are expected to rise by 16.6% yoy on 25% yoy growth in the CSM segment. PI's CSM segment is benefiting from a global uptick in agro-chemical cycle. We expect domestic revenues to grow by a modest 6% on account of lower agro-chemical consumption. EBITDA margins should improve 522bps yoy, driven by a moderation in technical prices and operating leverage. PAT should rise by 53% yoy, aided by higher EBITDA.
Mkt Cap (Rs bn)		EBITDA (Rs mn)	1,763	1,514	1,135	55.3%	16.4%	
Reco	Buy	EBITDA Margin (%)	20.9	20.1	15.7	522 bps	84 bps	
Target Price (Rs)	1,450	PAT (Rs mn)	1,124	1,008	733	53.4%	11.5%	
% Upside	14%	EPS (Rs)	8.2	7.3	5.3	53.2%	11.6%	

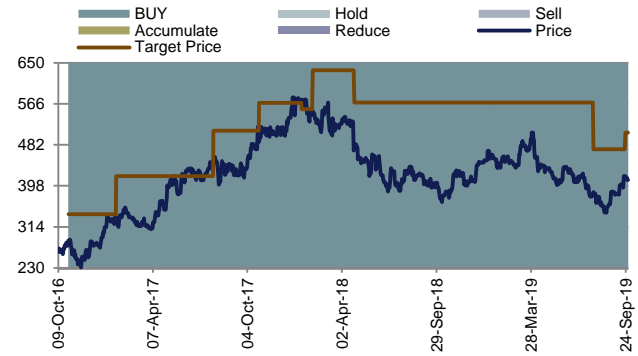
Exhibit 6: Company-wise estimates

Name			Sep'19E	Jun'19	Sep'18	% Chg YoY	% Chg QoQ	Comments
Rallis India								
CMP(Rs)	162	Net Sales (Rs mn)	7,192	6,232	6,538	10.0%	15.4%	We expect RALI's revenues to rise by 10% yoy, driven by an uptick in exports and domestic sales. EBITDA margins should decline 53bps yoy due to higher discounting on the back of higher competitive intensity in generics.
Mkt Cap (Rs bn)		EBITDA (Rs mn)	1,319	948	1,234	6.9%	39.2%	
Reco	Buy	EBITDA Margin (%)	18.3	15.2	18.9	-53 bps	313 bps	
Target Price (Rs)	220	PAT (Rs mn)	928	678	852	8.8%	36.9%	
% Upside	35%	EPS (Rs)	4.8	3.5	4.4	8.9%	37.1%	

Coromandel International
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Sep-19	414	507	12m	Buy	Varshit Shah
24-Jul-19	385	473	12m	Buy	Varshit Shah
25-Apr-19	434	569	12m	Buy	Amar Mourya
23-Jan-19	434	569	12m	Buy	Amar Mourya
29-Oct-18	396	569	12m	Buy	Amar Mourya
21-Sep-18	400	569	12m	Buy	Amar Mourya
01-Aug-18	428	569	12m	Buy	Pratik Tholiya
25-Apr-18	482	569	12m	Buy	Pratik Tholiya
02-Apr-18	535	635	12m	Buy	Pratik Tholiya
07-Mar-18	539	635	12m	Buy	Pratik Tholiya
05-Feb-18	552	635	12m	Buy	Pratik Tholiya
15-Jan-18	575	555	12m	Buy	Pratik Tholiya
26-Oct-17	488	568	12m	Buy	Pratik Tholiya
31-Jul-17	450	511	12m	Buy	Pratik Tholiya
02-May-17	360	418	12m	Buy	Pratik Tholiya
27-Jan-17	332	418	12m	Buy	Pratik Tholiya
09-Dec-16	284	340	12m	Buy	Rohan Gupta
28-Oct-16	286	340	12m	Buy	Rohan Gupta

Source: Company, Emkay Research

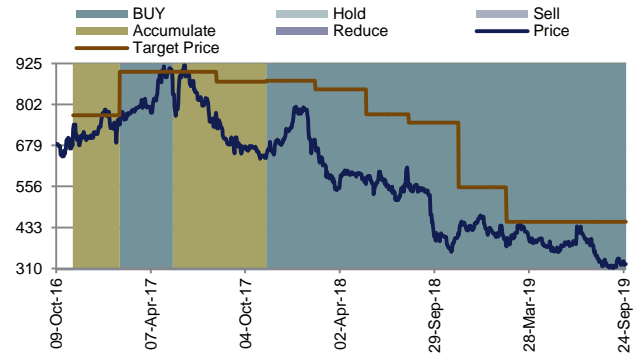
RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

Dhanuka Agritech
RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Sep-19	330	450	12m	Buy	Varshit Shah
19-Jul-19	388	450	12m	Buy	Varshit Shah
22-May-19	359	450	12m	Buy	Amar Mourya
03-Apr-19	400	450	12m	Buy	Amar Mourya
13-Feb-19	376	450	12m	Buy	Amar Mourya
11-Jan-19	431	554	12m	Buy	Amar Mourya
14-Nov-18	410	554	12m	Buy	Amar Mourya
11-Aug-18	555	748	12m	Buy	Pratik Tholiya
22-May-18	570	773	12m	Buy	Pratik Tholiya
14-Feb-18	675	847	12m	Buy	Pratik Tholiya
13-Nov-17	651	873	12m	Buy	Sumant Kumar
10-Aug-17	758	870	12m	Accumulate	Sumant Kumar
19-May-17	832	900	12m	Accumulate	Sumant Kumar
07-Feb-17	742	900	12m	Buy	Sumant Kumar
09-Dec-16	702	770	12m	Accumulate	Rohan Gupta
10-Nov-16	727	770	12m	Accumulate	Rohan Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

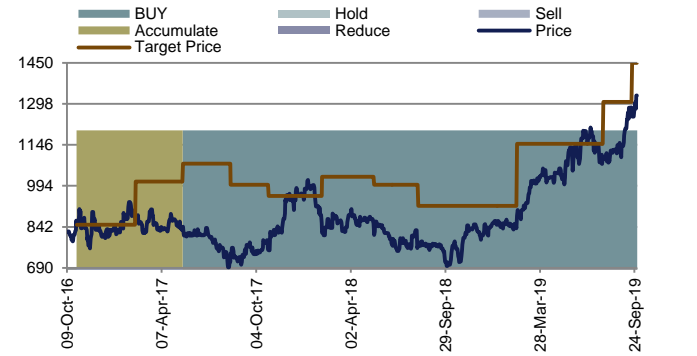
PI Industries

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Sep-19	1,276	1,450	12m	Buy	Varshit Shah
19-Sep-19	1,251	1,450	12m	Buy	Varshit Shah
26-Jul-19	1,094	1,305	12m	Buy	Varshit Shah
21-May-19	1,119	1,150	12m	Buy	Amar Mourya
12-Feb-19	884	1,150	12m	Buy	Amar Mourya
11-Jan-19	842	920	12m	Buy	Amar Mourya
29-Oct-18	732	920	12m	Buy	Amar Mourya
08-Aug-18	773	920	12m	Buy	Pratik Tholiya
16-May-18	812	998	12m	Buy	Pratik Tholiya
06-Feb-18	821	1,028	12m	Buy	Pratik Tholiya
27-Oct-17	755	956	12m	Buy	Sumant Kumar
16-Aug-17	743	998	12m	Buy	Sumant Kumar
17-May-17	843	1,076	12m	Buy	Sumant Kumar
16-Feb-17	863	1,010	12m	Accumulate	Sumant Kumar
09-Dec-16	826	850	12m	Accumulate	Rohan Gupta
27-Oct-16	845	850	12m	Accumulate	Rohan Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

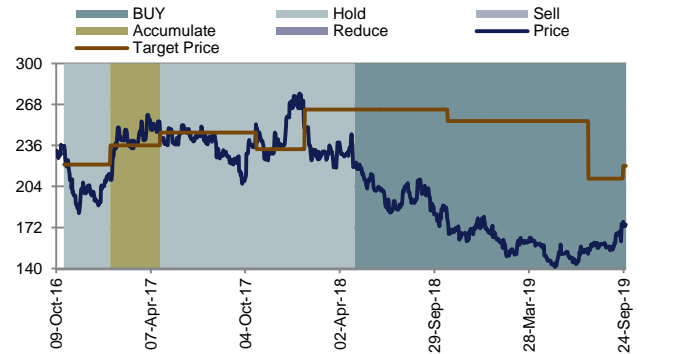
Rallis India

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Sep-19	176	220	12m	Buy	Varshit Shah
19-Jul-19	155	210	12m	Buy	Varshit Shah
26-Apr-19	150	255	12m	Buy	Amar Mourya
19-Jan-19	164	255	12m	Buy	Amar Mourya
11-Jan-19	168	255	12m	Buy	Amar Mourya
24-Oct-18	177	255	12m	Buy	Amar Mourya
18-Jul-18	187	264	12m	Buy	Pratik Tholiya
30-Apr-18	220	264	12m	Buy	Pratik Tholiya
25-Jan-18	250	264	12m	Hold	Pratik Tholiya
25-Oct-17	238	233	12m	Hold	Sumant Kumar
25-Apr-17	240	246	12m	Hold	Sumant Kumar
25-Apr-17	240	246	12m	Hold	Sumant Kumar
20-Jan-17	209	236	12m	Accumulate	Sumant Kumar
09-Dec-16	205	221	12m	Hold	Rohan Gupta
24-Oct-16	236	221	12m	Hold	Rohan Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Agri Input & Chemicals



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Sector

Agro-Chemicals and Fertilizers

Analyst bio

Varshit Shah is a Chartered Accountant and a commerce graduate from Narsee Monjee College of Commerce and Economics, Mumbai. He comes with total eight years of experience across sectors such as Chemicals, Education, Telecom, IT and Midcaps. His team currently covers 12 stocks in Agro Chemicals, Fertilizers and Midcaps.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Agri Input & Chemicals	0.81	0.81	0%	0	100.00
Bayer CropScience	0.06	0.02	-59%	-4	3.00
Chambal Fertilisers	0.00	0.00	NA	0	0.00
Coromandel International	0.08	0.09	18%	1	11.00
DCM Shriram	0.00	0.00	NA	0	0.00
Deepak Fertilisers*	0.00	0.00	NA	0	0.00
Dhanuka Agritech	0.00	0.00	NA	0	0.00
GSFC	0.00	0.00	NA	0	0.00
Insecticides India	0.00	0.00	NA	0	0.00
PI Industries	0.15	0.15	0%	0	18.00
Rallis India	0.00	0.03	NA	3	3.66
Sharda Cropchem	0.00	0.00	NA	0	0.00
Sterling Tools	0.00	0.00	NA	0	0.00
UPL	0.53	0.52	-2%	-1	64.34
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

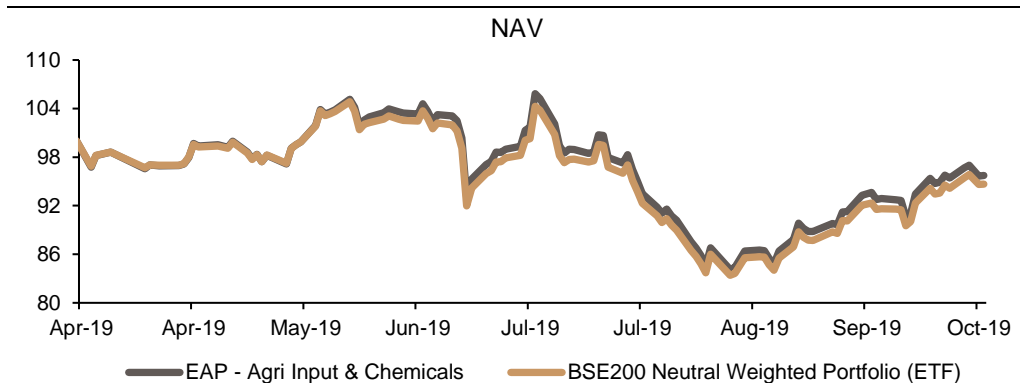
Sector portfolio NAV

	Base			Latest
	01-Apr-19	05-Jul-19	04-Sep-19	04-Oct-19
EAP - Agri Input & Chemicals	100.0	105.2	89.6	95.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.8	88.6	94.7

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our sector EAP: [SMID](#)

Please see our India EAP: [Nifty](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 07 Oct 2019 18:47:42 (SGT)

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A handwritten signature in black ink, reading 'Varshit', with a stylized flourish underneath.

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