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Agrochemicals Intermediates (Technicals) Industry Trends

Changing Gears!

April 2024

Revenue Trends

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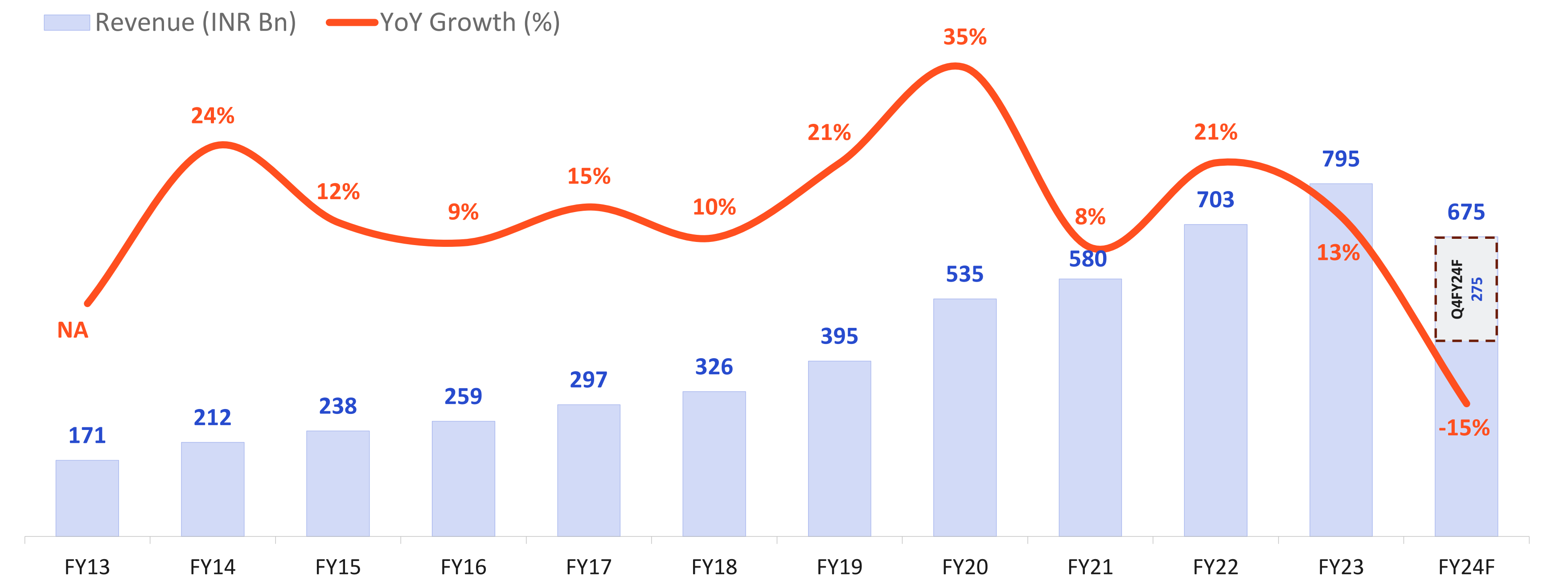
The sector has grown at an impressive ~20% CAGR over the last 5 years (FY18 – FY23)

Revenue (INR Bn) & YoY Growth %



Sales CAGRs

10 Year	5 Year	3 Year
17%	**19%**	**14%**
FY 2013-23	FY 2018-23	FY 2020-23

YoY Growth Rates

8%	**21%**	**13%**
YoY FY 2021	YoY FY 2022	YoY FY 2023

- The sector has consistently grown over the last 10 years at 17% CAGR and this is the first time that revenue is expected to de-grow in FY24 driven by:
  - **Domestic:** uneven monsoon, lower reservoir levels, sharp drop in realizations to the extent of ~50%
  - **Exports:** destocking by global manufacturers, correction of channel stocks, sharp drop in realizations on account of supply deluge from China
- Dumping by Chinese players in FY24 was an aberration & sector is expected to continue its growth momentum going forward
- Long term growth driver: Agrochemicals worth ~USD 6 Bn are going off-patent by 2030. Technicals players in India would be indirect beneficiaries

Source – Annual Reports & CP Analysis

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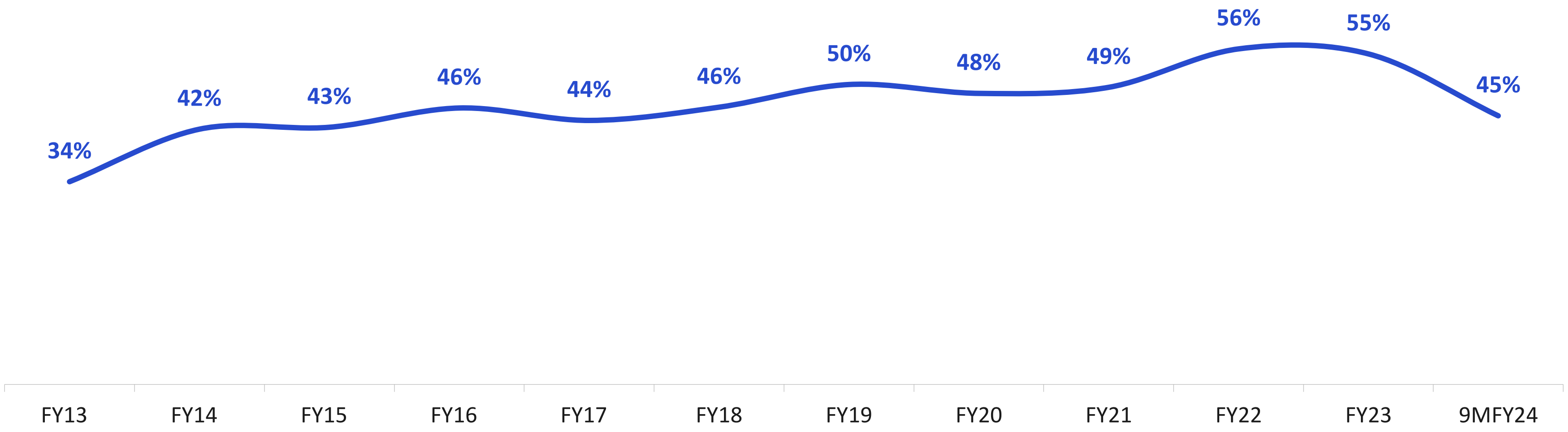
Export Trends

Exports sales growth have outpaced domestic sales over the last 10 years

Exports as a Percentage of Total Sales



Export Sales CAGRs

10 Year
19%
FY 2013-23

5 Year
17%
FY 2018-23

3 Year
19%
FY 2020-23

YoY Growth Rates

9%
YoY FY 2021

42%
YoY FY 2022

8%
YoY FY 2023

- Exports have grown faster than domestic sales in the last 10 years
- Exports contribution has been significantly impacted in 9M-FY24
- Situation is expected to improve starting 4Q-FY24. Some industry players are more conservative & expect recovery only in H2FY25

Export analysis based on 12 companies (Excludes UPL, Coromandel and Heranba Industries) | Source – Annual Reports & CP Analysis

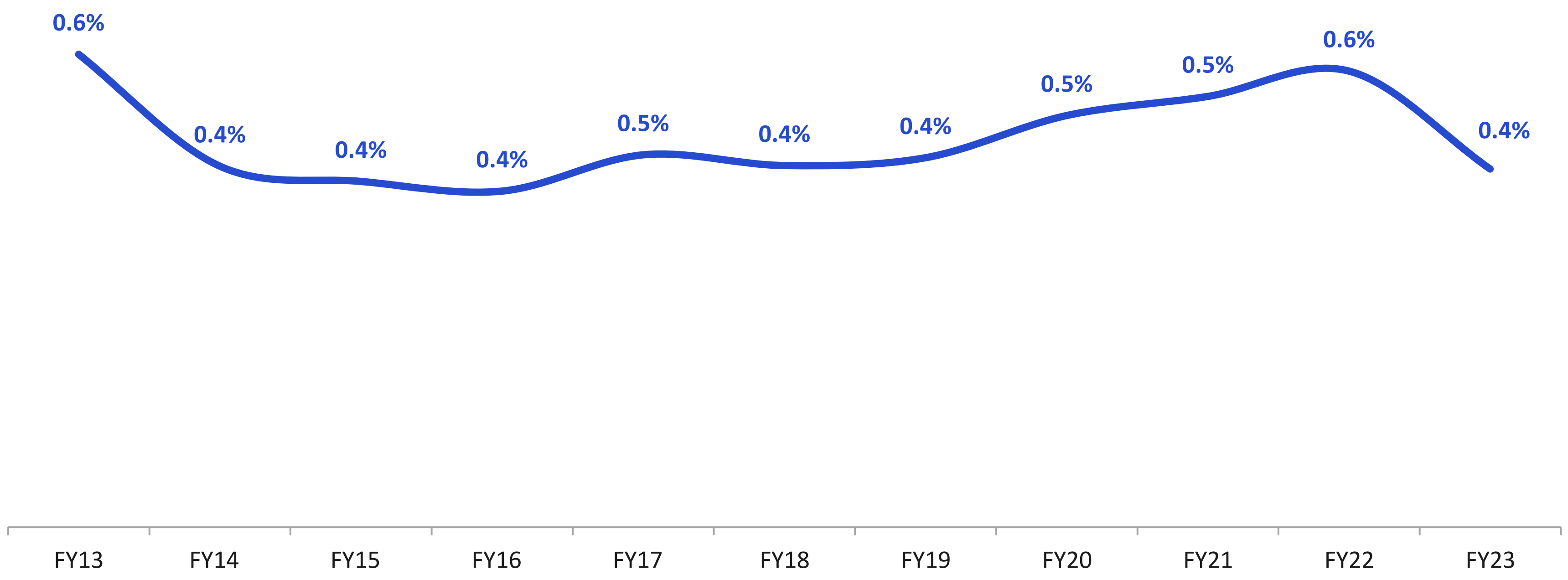
R&D

Key Observations

- ↘ Insignificant allocation to R&D Expenses; <1% of Sales
- ↘ FY23 median annual spend per company was ~₹ 72 Mn & average spend per company was ~₹ 200 Mn
- ↘ Top 5 companies by R&D spent on an average ~0.5% of Sales.

  This trend is very similar to the overall chemical industry universe (CP Chemical sector universe spends approx. 0.7-0.9% of sales on R&D)

R&D as a Percentage of Sales



R&D analysis based on 10 companies (Excludes UPL, Sharda, Heranba, Dharmaj and Gharda) | Source – Annual Reports & CP Analysis

Profitability Trends

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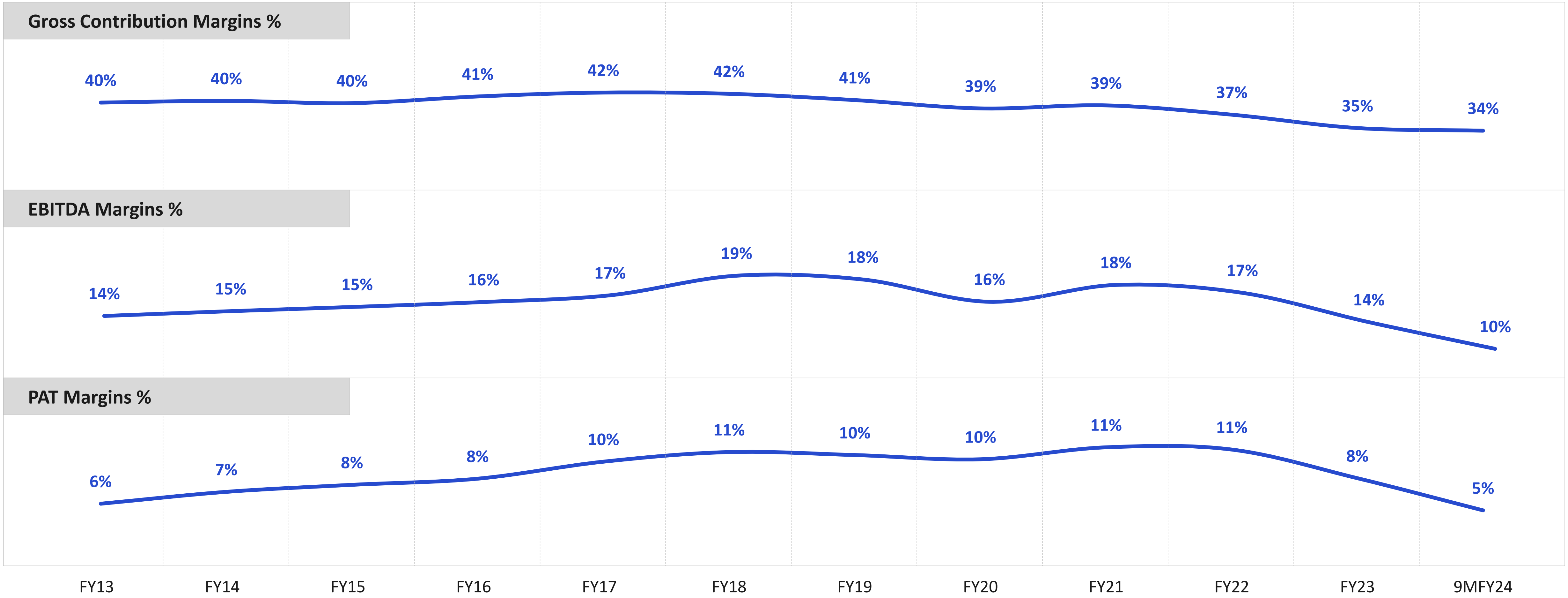

The Indian Agrochemical (Technical) universe had the highest margins in the phase between FY17 to FY22 with peak EBITDA margins of 19% in FY18. There has been substantial decline in profitability in FY23 & FY24. With prices having bottomed out, margins are expected to improve sequentially in FY25

Above analysis excludes UPL Ltd | Source – Annual Reports & CP Analysis

Amount invested in Product Registrations

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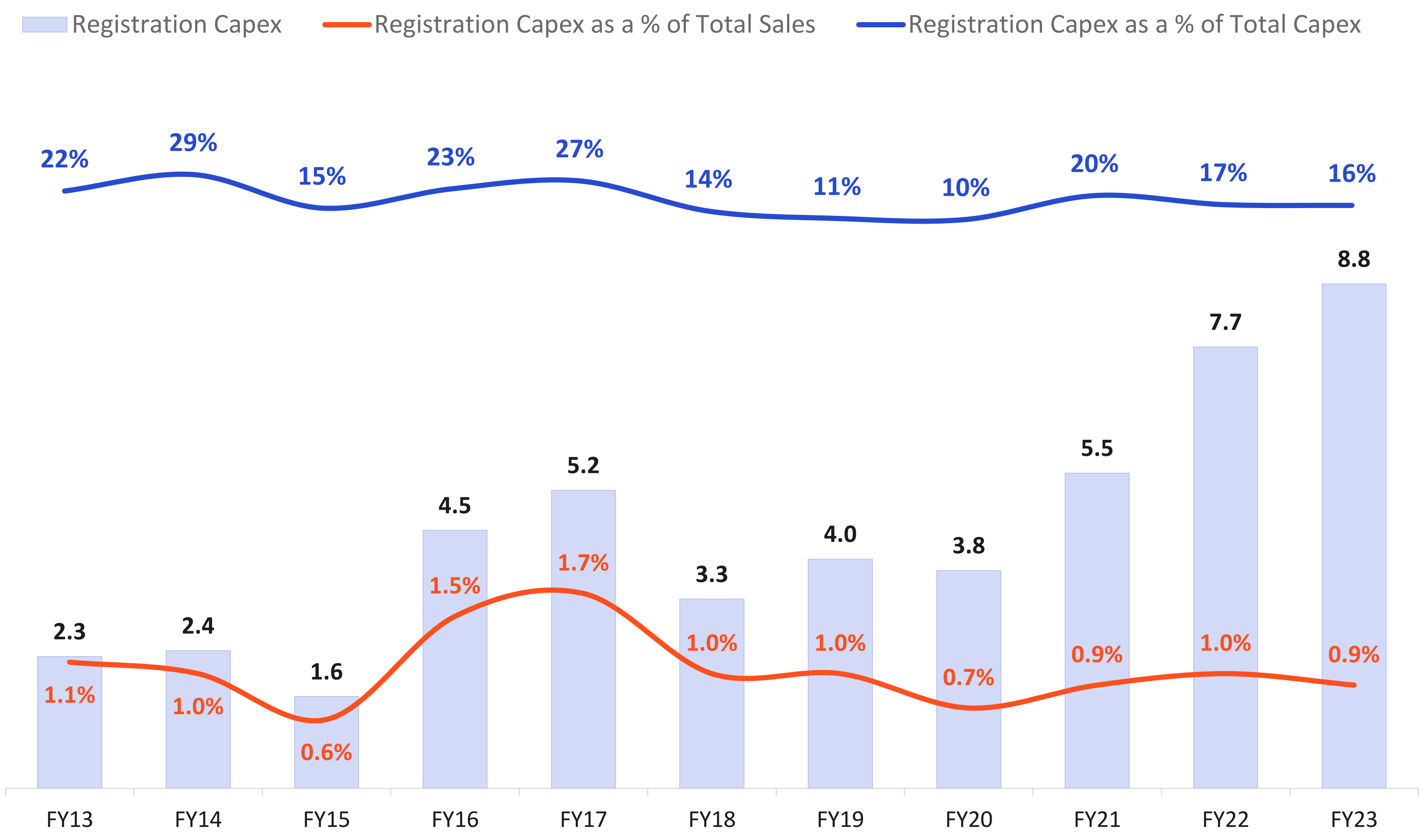
Registrations CapEx (INR Bn) & Registrations CapEx as a Percentage of Total Sales and Total CapEx



- Amount invested in Registrations have increased considerably in the last 3 years growing at 30%+ CAGR
- The 10 Year average Registrations CapEx as a % of Total Sales has been ~1%
- UPL & Sharda Cropchem continue to invest heavily in registrations and account for ~99% of registration capex
- This is based on the publicly available information of 5 companies including: UPL Ltd, Coromandel International Ltd, Sharda Cropchem Ltd, Rallis India Ltd and Meghmani Organics Ltd

Above analysis only includes Companies which have invested in Product Registrations | Source – Annual Reports & CP Analysis

Capex Investment and RoCEs

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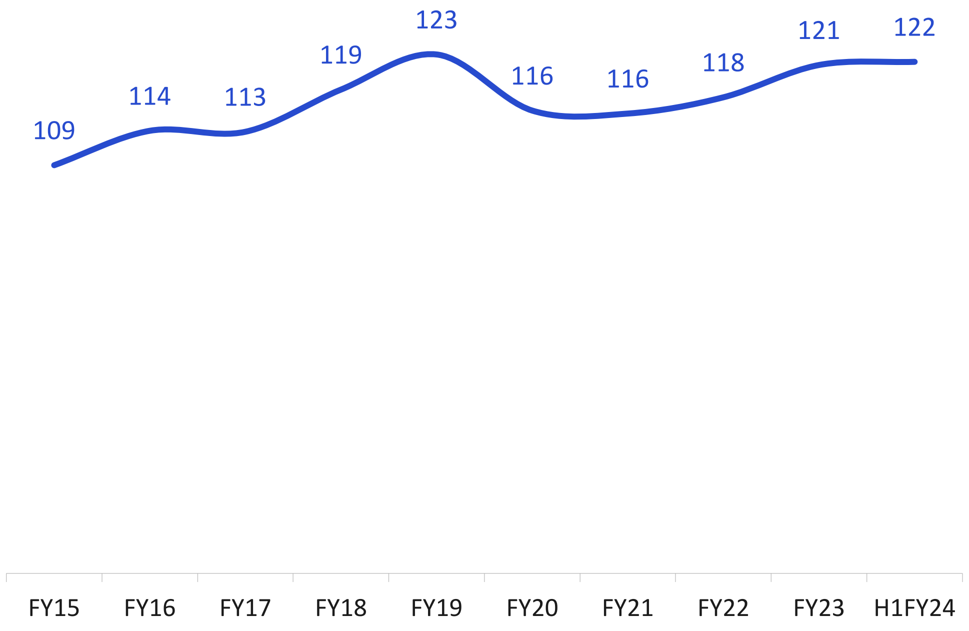
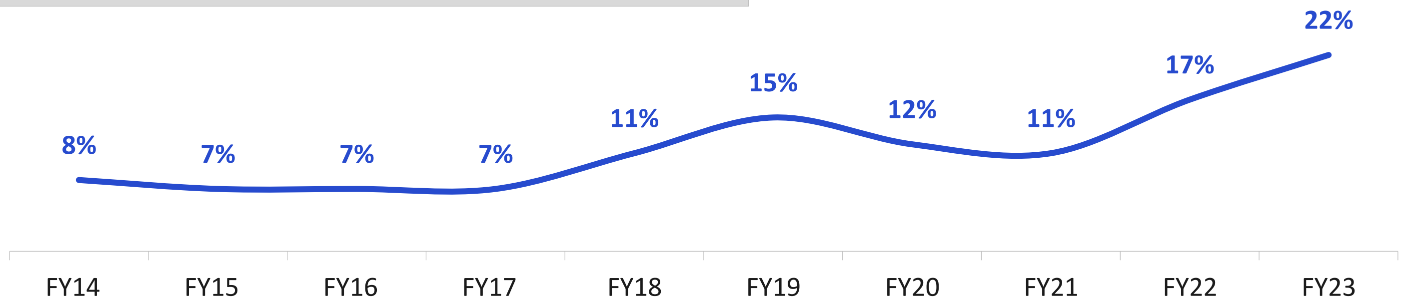
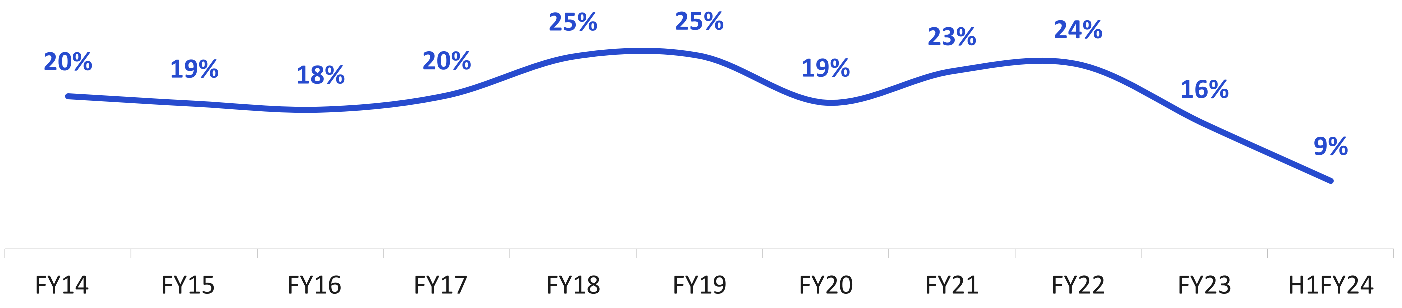
Working Capital Days



Capex Investment as Percentage of Gross Block



Return on Capital Employed %



- Working capital cycle has been around 115 – 120 days

- Agrochemical (Technicals) sector has largely operated at a 20% - 25% ROCE with peak ROCE of 25% in FY19
- There has been a drop in ROCE in FY23 & is expected to fall in FY24 driven by lower profitability & higher capex; pickup expected FY25 onwards as we see a distinct sign of revival

Above analysis excludes UPL Ltd | ROCE computation excludes cash | Source – Annual Reports & CP Analysis

Leverage Ratios

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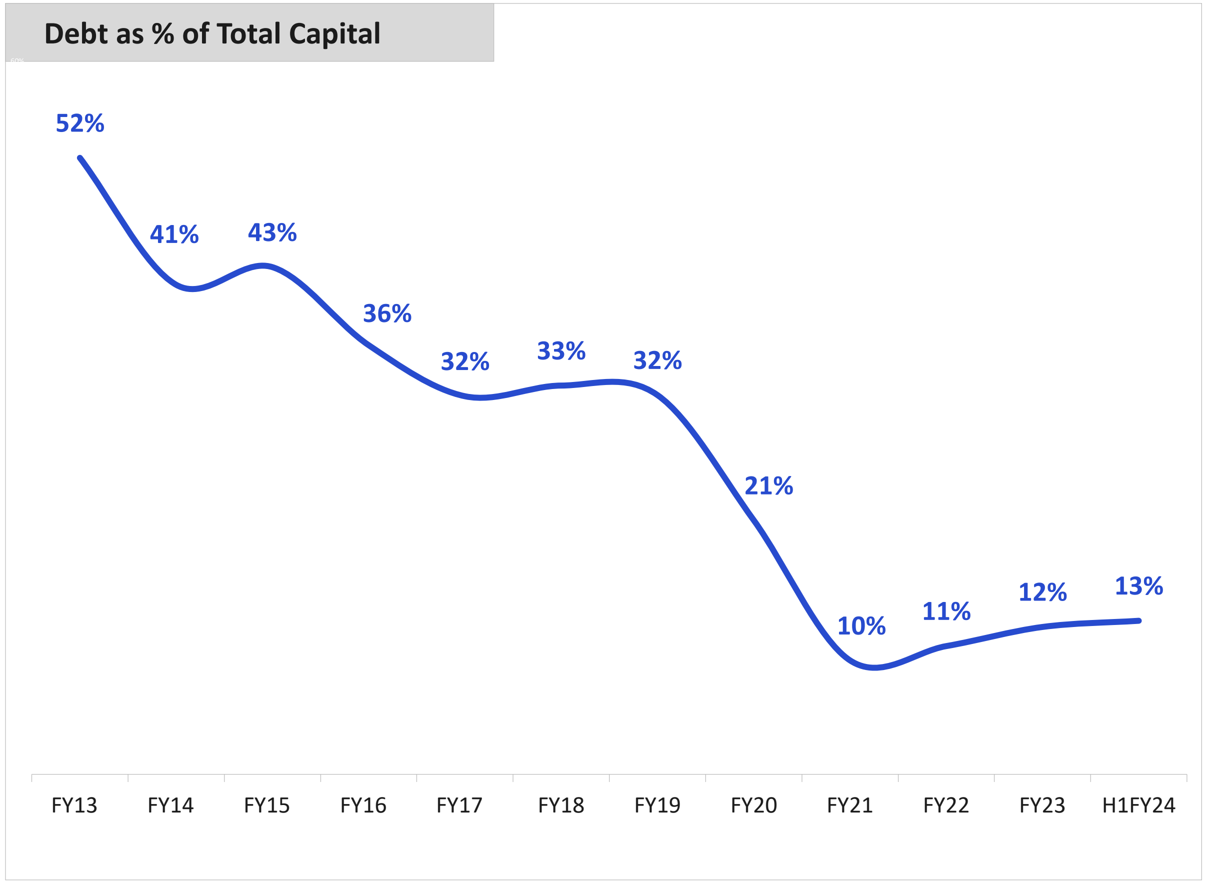

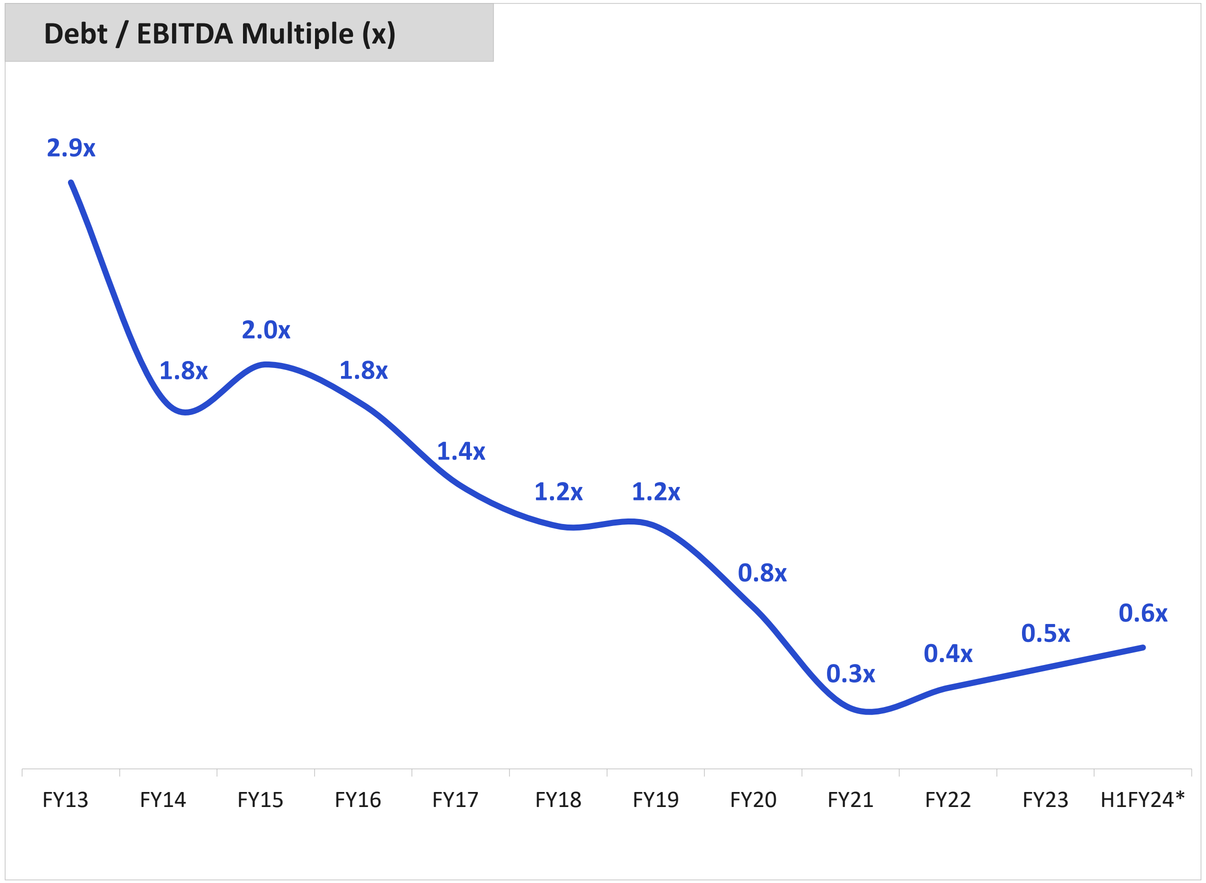

Leverage for Indian Technicals has marginally increased in last couple of years; in line with similar trends seen in the last slide of investments in capex; however, these ratios are still far lower than the earlier phase of FY13-FY19 when the Indian Agrochemical (Technicals) sector was operating on a higher leverage

*Annualised based on H1FY24 Financials | Above analysis excludes UPL Ltd | Source – Annual Reports & CP Analysis

Valuation Trends of Domestic Agrochem Companies

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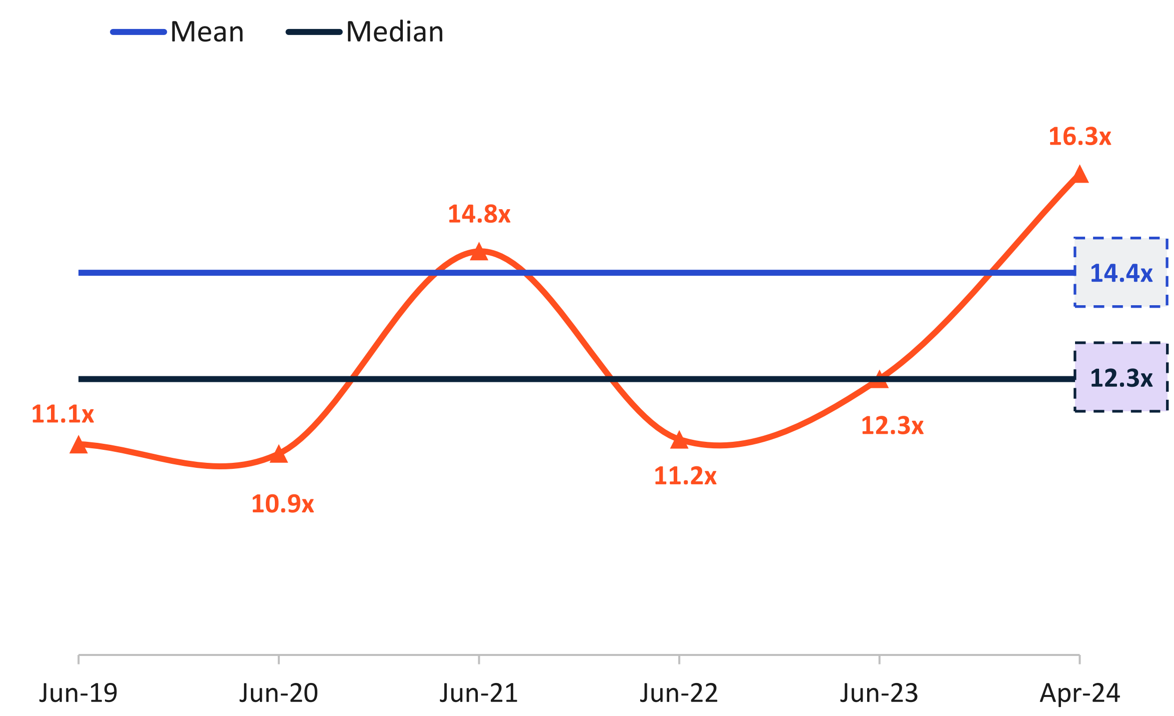
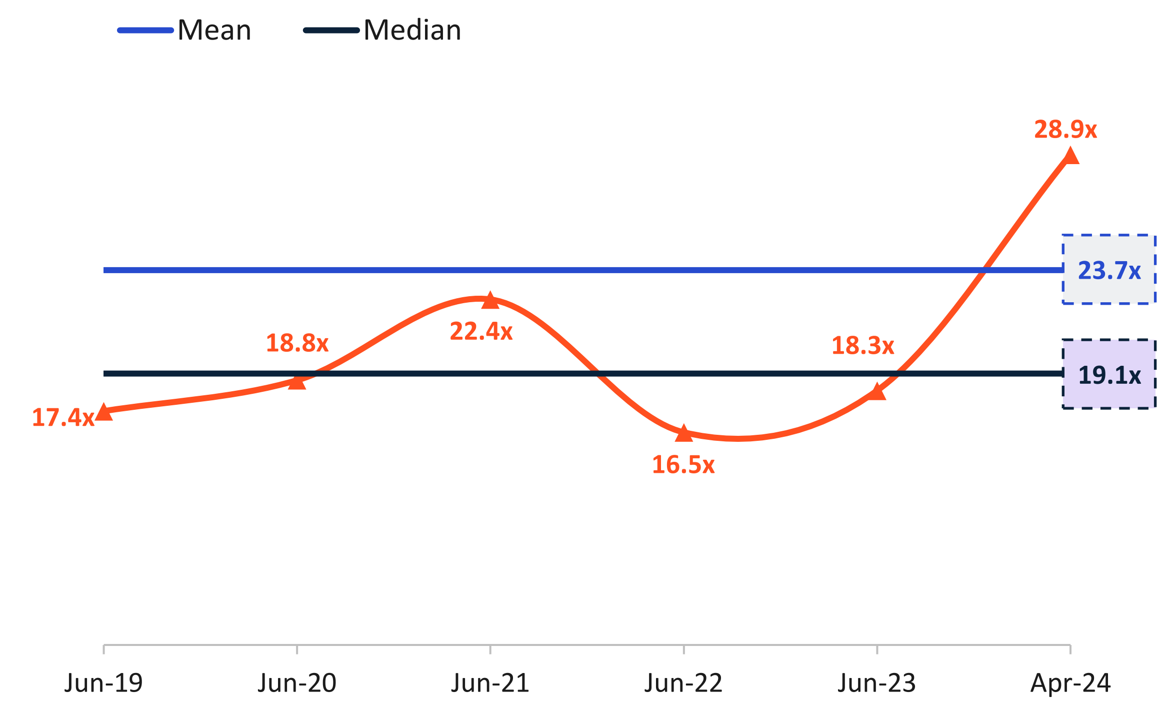
TTM EV/EBITDA (sector median)



TTM P/E (sector median)



Valuation multiples are at its peak currently as Companies have been badly impacted in TTM-Dec'23 and investors are expecting a better prospect in future. Sector multiples seem to have improved in the last two years similar to wider specialty chemical universe

Source – Annual Reports & CP Analysis

Valuation Trends of Global Agrochem Companies

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USD Mn	Market Capitalization	TTM Multiples 31st December 2023		
Company Name	11th April 2024	EV/Sales	EV/EBITDA	P/E
BASF SE	51,189	1.0x	9.1x	NM
Corteva, Inc	39,950	2.3x	15.6x	43.0x
FMC Corporation	7,770	2.6x	16.0x	5.5x
UPL Ltd	4,566	1.5x	12.7x	NA
Sumitomo Chemical Company, Limited	3,718	0.8x	NM	NM
Hubei Xingfa Chemicals Group Co., Ltd	3,158	1.2x	8.6x	16.4x
Jiangsu Yangnong Chemical Co., Ltd	3,114	1.8x	7.9x	14.2x
Shandong Weifang Rainbow Chemical Co., Ltd	2,212	1.2x	12.2x	20.4x
ADAMA Ltd	1,938	0.8x	14.5x	NM
Nufarm Limited*	1,274	0.8x	6.6x	19.6x
Lier Chemical Co.,LTD	1,054	1.1x	5.6x	12.5x
Nanjing Red Sun Co.,Ltd*	734	2.5x	NM	NM
Sino-Agri Leading Biosciences Co.,Ltd*	666	0.4x	13.6x	21.3x
	Median	**1.2x**	**12.2x**	**18.0x**
	Mean	**1.4x**	**11.1x**	**19.1x**

*Multiples based on TTM Sep-23 financials | Source – Yahoo Finance, BSE & CP Analysis

Comparative benchmarking of Pharma APIs Vs Agrochemical Technical

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Financial Parameter #	Pharma APIs	Agrochemical Technicals	Chemical Industry
Sales Growth			
Historical	14% (10 year)	17% (10 year)	10% (10 year)
Near Term	16% (3 year)	14% (3 year)	17% (3 year)
Export Trends (as % of total sales)	~67% - 72%	~45% - 55%	~40% - 45%
EBITDA Margin Profile	~19% - 20%	~16% - 18%	~12% - 15%
R&D Investments	~2% - 3% of sales	~0.4% - 0.6% of sales	~0.6% - 0.7% of sales
Working Capital Intensity (Trade working capital)	~125 - 130 days	~115 - 120 days	~110 - 115 days recently
Capex Trends	~18% of Gross Block	~11% - 12% of Gross Block (~18% last 3 years)	~12% - 13% of Gross Block (~13% last 3 years)
ROCEs	~11% - 12% (in select years 15 - 16%)	~20% - 25%	~12% - 14%
Leverage (Debt as % of total capital)	~28% - 30%	10% - 13%	~28% - 30%

in above analysis we have removed both UPL & Divis in order to show a more representative sectoral trend

- Growth rates have been similar – both sectors have grown at 14 - 16% historically & have shown global competitiveness
- While APIs have a higher margin profile, Agri-technical have
  - Higher ROCE profile
  - Lower working capital cycle
  - Lower capex intensity
- R&D investments have been lower in Technicals compared to APIs
- Leverage has been higher in APIs consistently compared to Technicals

In Summary (1/2)

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We evaluated a 10-year history of the Agrochemicals Technical Manufacturing Companies catering to the Crop Protection industry.

The Key findings:

Impressive sales growth with FY24 being an aberration

Over the last 10 years (FY13-FY23) the sector has reported revenue CAGR of 17% and it is the first time in last 10 years, that the sector may potentially de-grow or report a flat trajectory

Exports sales growth have outpaced Domestic sales until FY22

Exports sales have grown at an impressive 19% CAGR over the last 10 years. Starting FY23, we have seen faster growth in domestic sales and this trend is expected to continue in FY24 & FY25

Average EBITDA margins for the sector have been between 16% - 18% with the exception of FY23 (14%) & FY24E (11%). We expect sizeable recovery in FY 2025

Low R&D spends by the industry overall

Insignificant allocation to R&D (~0.5% of sales). The trend is similar to most traditional chemical companies in India

Increase in amount spent on registrations only by specific Industry leaders

Limited Companies (select few) are focussed on getting their products registered across the globe. These Companies have been spending aggressively (mainly UPL, Sharda) over the last few years

In Summary (2/2)

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Substantial pickup in capex spends over last 3 years –
The sector in the earlier years has spent 8 - 14% of Gross Block in New Capex. In recent years this number has been ~18 - 20%

Working capital cycle has been range bound between 115 – 120 days

Agrochemical (Technicals) sector has largely operated at a 20% - 25% ROCE with peak ROCE of 25% in FY18 & FY19. ROCEs have fallen in FY23 (16%) & H1FY24 (9%) on account of higher capex spends and reduction in margins

Agrochemical (Technicals) sector is operating on a low leverage:
Debt as % of total capital has increased from 10% in FY21 to 13% in H1FY24 but is much below the earlier levels 30%+ prior to FY19.

APIs Vs Agri-Technicals

APIs in Pharma is the closest parallel sector to benchmark as unit economics tend to be similar (both being chemical suppliers to formulation sectors) – we did some benchmarking based on similar data of last 10 years analysed by us at Candle Partners for the API Industry

While APIs have a higher margin profile, Agri-technical have

- ↘ Higher ROCE profile
- ↘ Lower working capital cycle
- ↘ Lower capex intensity

Road ahead....

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For India to emerge as a competitive agrochemicals market, role of Technicals will be super-critical; it is imperative that India creates larger capacities as well as emerges cost competitive vis a vis China. We expect the following trends to emerge in the longer term:

1

Standalone Technicals players will emerge stronger

Agro-formulations and Technicals are very distinct business models & while integration is key it is imperative that India sees emergence of larger pure-play technical manufacturers (i.e several Rs 1,000 crore players).

In the parallel world of pharma, we have seen several standalone focussed business models in APIs which have done well

2

R&D investments will increase

For India to become more competitive vis a vis China, Indian players will need to increase their R&D spends & be open to spending larger sums (i.e 2 - 3% of revenues) on R&D. Like in traditional chemicals, players can draw upon the capabilities sitting in chemical universities and work alongside academia to make the effort easier

3

Backward integration will increase

Like in APIs, we will witness more backward integration going forward. This will also make us as an industry less reliant of imports.

4

Need to create larger capacities – Private Equity / Capital Markets will play a key role

Due to cyclicality nature of the industry, it is imperative that players are capitalised well for them to take higher levels of risk. Expansion by debt alone wont help if players need to take longer term bets on their business model. The industry has potential to become a global leader – its important that players raise relevant amount of capital in order to take more aggressive bets

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Annexure

Scope of Study

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The main objective of the study was to analyse the trends of past 10 years for 15 companies representing more than USD 8 Bn (INR 700 Bn) of sales. We believe the scale of the universe of companies chosen and the breadth of their operations fairly represented the "Agrochemicals: Crop Protection (Technicals) Industry". We have selectively not included the agrochemical CDMO models (like PI Industries) as several financial dynamics are not strictly comparable

List of companies considered for the study

- UPL Ltd
- Coromandel International Ltd
- Sharda Cropchem Ltd
- Rallis India Ltd
- Hikal Ltd
- Insecticides (India) Ltd
- Dhanuka Agritech Ltd
- Heranba Industries Ltd
- Bharat Rasayan Ltd
- Punjab Chemicals Ltd
- India Pesticides Ltd
- Dharmaj Crop Guard Ltd
- Gharda Chemicals Ltd (Pvt. Ltd. Co.)
- Meghmani Organics Ltd
- NACL Industries Ltd

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Thank You