

Agriculture Inputs

Enjoying the benefits of a strong kharif season

INDIA | AGRICULTURE INPUTS | Q2FY21 Results Preview

5 October 2020

Top Q2FY21 results picks: **UPL, Chambal Fertiliser**

Agrochemicals: Strong kharif demand led by higher planting areas

- The expansion of Kharif planting areas largely supported consumption of agrochemicals in H1FY21. By Sep 25, planting areas were at 112mn hectares, up 5% vs. last year.
- Domestic demand is expected to remain strong in Q2FY21 with continuous rise in sales volumes (5-10% yoy in Q2) despite substantial growth (20-25%) in Q1. The growth will be led by better weather conditions, larger planting areas and government support.
- Domestic companies such as UPL/PI continue to gain market share from unorganized players due to better sourcing of RMs, a wide supply chain network, and strong branding of products.
- Market leaders such as UPL/PI continue to see strong demand for herbicides and insecticides product portfolios. Companies will continue to benefit from lower costs of sales/marketing/field activities due to the pandemic situation (wider usage of social media).

Fertilisers: Steady demand and limited inventories supported volume growth in Q2

- Fertiliser sales continue to remain robust in Q2FY21 with growth of 9% yoy to 19mn tonnes for all major fertilisers despite 23% yoy growth in Q1FY21. The continued rise in sales volumes was led by: (1) better weather conditions, (2) higher planting areas for non-traditional crops, and (3) government's income support to farmers.
- Fertiliser inventories continue to remain lower at 2.6mn tonnes at the end of Sept; a decline of c.43% vs. last year, strongly supporting consumption in H1FY21 and H2FY21.
- In Q2, robust demand helped market leaders such as CHMB to gain market share and sales volumes (+27% yoy). CRIN is expected to see sales volumes declining by 2% yoy on lower contribution from complex grades sales (-10% yoy).

Q2FY21 results outlook for PC's agro inputs universe

- Sales to grow 5% yoy led by CHMB, UPL, and PI. Revenue growth will be supported by stronger domestic demand and a recovery in export demand (North/Latin America) during Q2FY21.
- EBITDA margins will expand by 153bps yoy largely led by lower raw material costs (UPL/CHMB) and better product mix (PI/CHMB/UPL).
- We estimate 19% yoy PAT growth supported by operating performance and lower financial/tax costs.

Companies to watch – Q2FY20 expectations

- ✓ **UPL:** Expect 54% yoy jump in earnings with benefits of operating leverage and financial de-leveraging after the successful integration of Arysta. Recovery in North/Latin American demand supported by robust domestic demand will improve revenue growth by 8% yoy. Strong margin expansion of 281bps yoy will be led by multiple cost benefits with Arysta's integration, better pricing scenario, and benign RM prices etc.
- ✓ **Chambal Fertilisers:** Expect 31% yoy rise in earnings because of a substantial jump in non-urea sales volumes, strong operating performance, and financial de-leveraging. Revenue is expected to grow only by 13% yoy led by non-urea sales. Lower gas prices will continue to support EBITDA margins (33bps yoy).
- ⇔ **PI Industries:** Revenue to grow by 13% yoy driven by CSM business at 17% yoy and domestic business at 6% yoy. Operating margins will remain firm at 21.3% due to lower raw material costs. Higher capital cost (expansion) is expected to keep earnings growth only at 5% yoy.
- ✗ **Coromandel International:** Revenue to see a decline of 7% yoy due to fall in complex grades sales volumes by 10% yoy or 0.9 mn tonnes. EBITDA margins to marginally improve by 12bps yoy with support of lower raw material cost (phosphoric acid/ammonia). Expect earnings to decline by 12% yoy with rising depreciation and tax rates.

Companies

Coromandel Int. (CRIN IN)	BUY
CMP, Rs	792
Target Price, Rs	900
Chambal Fertiliser (CHMB IN)	BUY
CMP, Rs	161
Target Price, Rs	200
PI Industries (PI IN)	SELL
CMP, Rs	1949
Target Price, Rs	1560
UPL (UPL IN)	BUY
CMP, Rs	506
Target Price, Rs	725

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Q2FY21 vs. Q2FY20:Fertiliser industry sales volumes

(in mn t)	Urea	YoY (%)	DAP	YoY (%)	MOP	YoY (%)	NP/NPK/ NPS	YoY (%)	SSP	YoY (%)	Total	YoY (%)
Production	6.4	1.8%	1.0	-1.6%	-	Na	2.8	6.8%	1.3	20.5%	11.4	4.6%
Imports	2.7	12.2%	2.6	68.3%	1.3	71.4%	0.6	240.1%	-	Na	7.1	47.1%
Sales	9.2	1.0%	3.8	29.4%	1.2	18.1%	3.7	10.7%	1.3	12.7%	19.1	9.3%
Cl. Stocks*	0.3	-49.6%	0.8	-57.6%	0.4	-31.3%	0.6	-60.2%	0.6	273.7%	2.6	-42.9%

Source: PhillipCapital India Research, DoF,*Industry

Agriculture inputs outlook

(Rsbn)	Sep-20E	Jun-20	QoQ(%)	Sep-19	YoY(%)	Highlights
Revenue	180.0	153.3	17.5%	171.5	5.0%	• Revenue to see 5% yoy growth with better domestic demand and a recovery in exports demand.
EBITDA	34.3	30.1	13.8%	30.0	14.2%	• Improvement in margins by 150bps led by low raw-material prices and better product mix.
EBITDA Margin (%)	19.0	19.6		17.5		• Earnings growth of 19% yoy mainly supported by operating performance.
PAT	15.9	13.7	15.7	13.3	19.3%	

Source: Company, PhillipCapital India Research

Company earnings estimates

(Rsmn)	Sep-20E	Jun-20	QoQ(%)	Sep-19	YoY(%)	Key expectations
Coromandel International						
Revenues	45,177	32,132	40.6%	48,580	-7.0%	• A sharp decline in complex grades sales volumes by 10% yoy to reduce revenue growth by 7% yoy.
EBITDA	6,686	4,125	62.1%	7,130	-6.2%	• Lower RM costs to marginally improve operating margins by 12bps yoy.
EBITDA margin (%)	14.8%	12.8%		14.7%		• PAT to fall 12% yoy led by higher depreciation and taxes.
PBT	5,937	3,376	75.8%	6,145	-3.4%	
PAT	4,448	2,552	74.3%	5,039	-11.7%	
EPS (Rs)	15.2	8.7	74.3%	17.2	-11.9%	
Chambal Fertilisers						
Revenues	40,261	32,187	25.1%	35,661	12.9%	• Robust non-urea volumes to drive revenue growth by 13% yoy.
EBITDA	6,426	5,902	8.9%	5,576	15.2%	• Lower RM costs because of lower gas prices will improve operating margins by 33bps yoy.
EBITDA margin (%)	16.0%	18.3%		15.6%		• PAT to grow 31% yoy driven by operating performance and financial de-leveraging.
PBT	5,017	4,491	11.7%	3,761	33.4%	
PAT	3,913	3,474	12.6%	2,979	31.3%	
EPS (Rs)	9.4	8.3	12.6%	7.2	31.3%	
PI Industries						
Revenues	10,305	10,601	-2.8%	9,074	13.6%	• While CSM growth (+16% yoy) trend will remain intact, domestic sales will see sequential moderation due to channel filling.
EBITDA	2,195	2,292	-4.2%	1,925	14.0%	• Operating margin to be firm at 21.3% supported by lower input prices.
EBITDA margin (%)	21.3%	21.6%		21.2%		• PAT will be subdued – +5% –because of higher capital cost due to expansion.
PBT	1,817	1,851	-1.8%	1,692	7.4%	
PAT	1,360	1,433	-5.1%	1,295	5.0%	
EPS (Rs)	9.9	10.4	-5.1%	9.4	5.0%	
UPL						
Revenues	84,277	78,330	7.6%	78,170	7.8%	• Recovery in Latin/North America from Q1 and continued strong domestic demand is set to drive 8% yoy revenue growth.
EBITDA	18,962	17,790	6.6%	15,390	23.2%	• Margin to expand 280bps led by Arysta integration, better pricing scenario, and benign RM prices, resulting in +23% yoy EBITDA.
EBITDA margin (%)	22.5%	22.7%		19.7%		• PAT to grow 54% supported by strong operating performance and financial leverage.
PBT	9,232	8,010	15.3%	1,770	421.6%	
PAT	6,228	6,322	-1.5%	4,057	53.5%	
EPS (Rs)	8.1	8.3	-1.5%	5.3	53.5%	

Source: Company, PhillipCapital India Research

Valuation summary

	CMP	EPS (Rs)		PE (X)		EV/EBITDA (X)		ROE (%)		ROCE (%)		CAGR (20-22)	Reco.	TP
	(Rs)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e	EPS (%)		(RS)
Coromandel Int	792	43.2	47.9	18.3	16.6	12.1	10.7	23.2	20.8	27.7	26.0	14.6	BUY	900
Chambal Fertilisers	161	25.9	26.6	6.2	6.1	7.2	6.6	24.9	20.8	14.7	14.4	7.2	BUY	200
PI Industries	1949	39.1	47.8	49.9	40.8	33.3	27.0	11.5	12.5	14.8	16.1	20.2	SELL	1,560
UPL	506	39.7	46.7	12.7	10.8	7.9	6.7	14.0	14.5	11.2	12.4	21.9	BUY	725

Source: Company, PhillipCapital India Research Estimates

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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