

# Indian Agrichemical landscape

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# Disclaimer

This presentation is only for educational purposes.

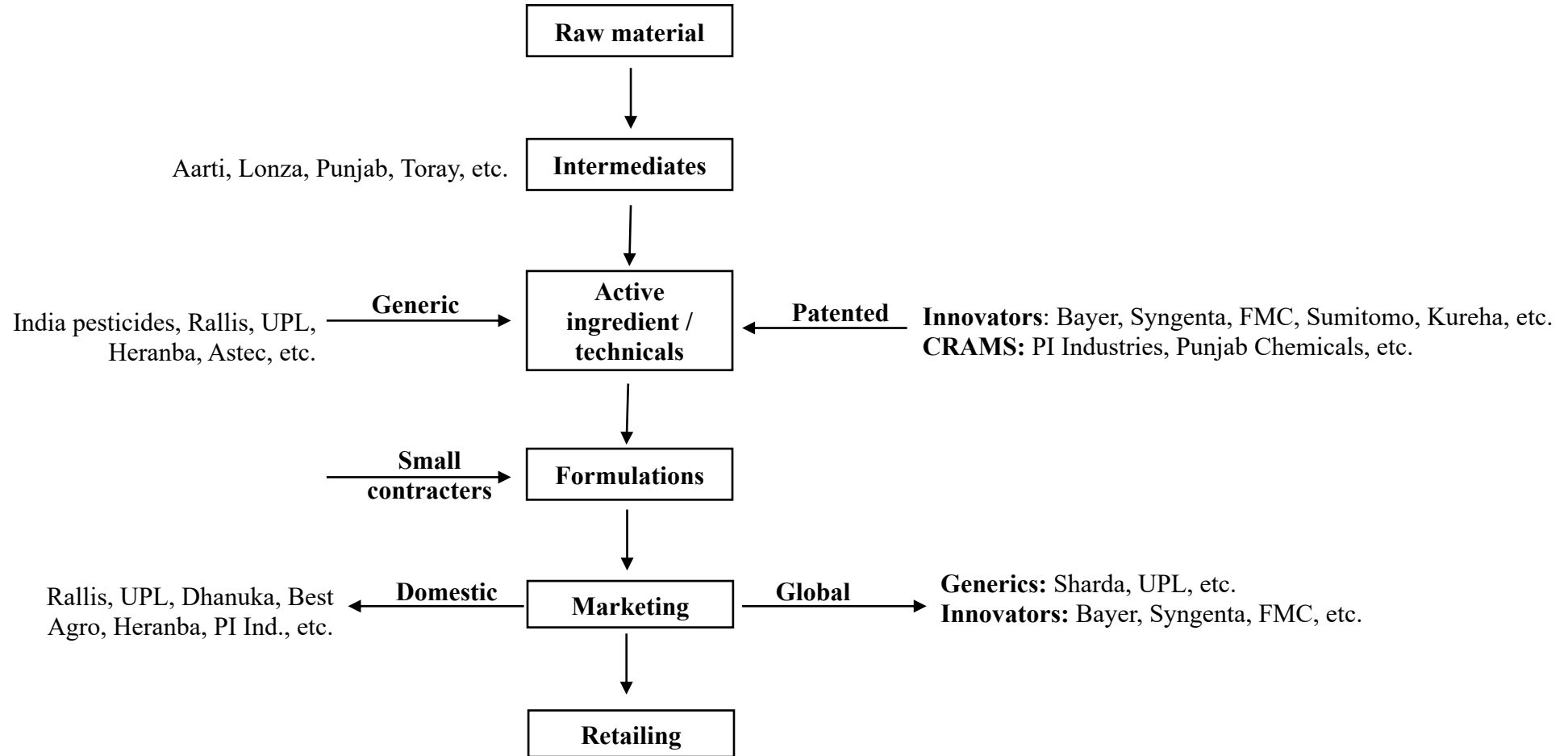
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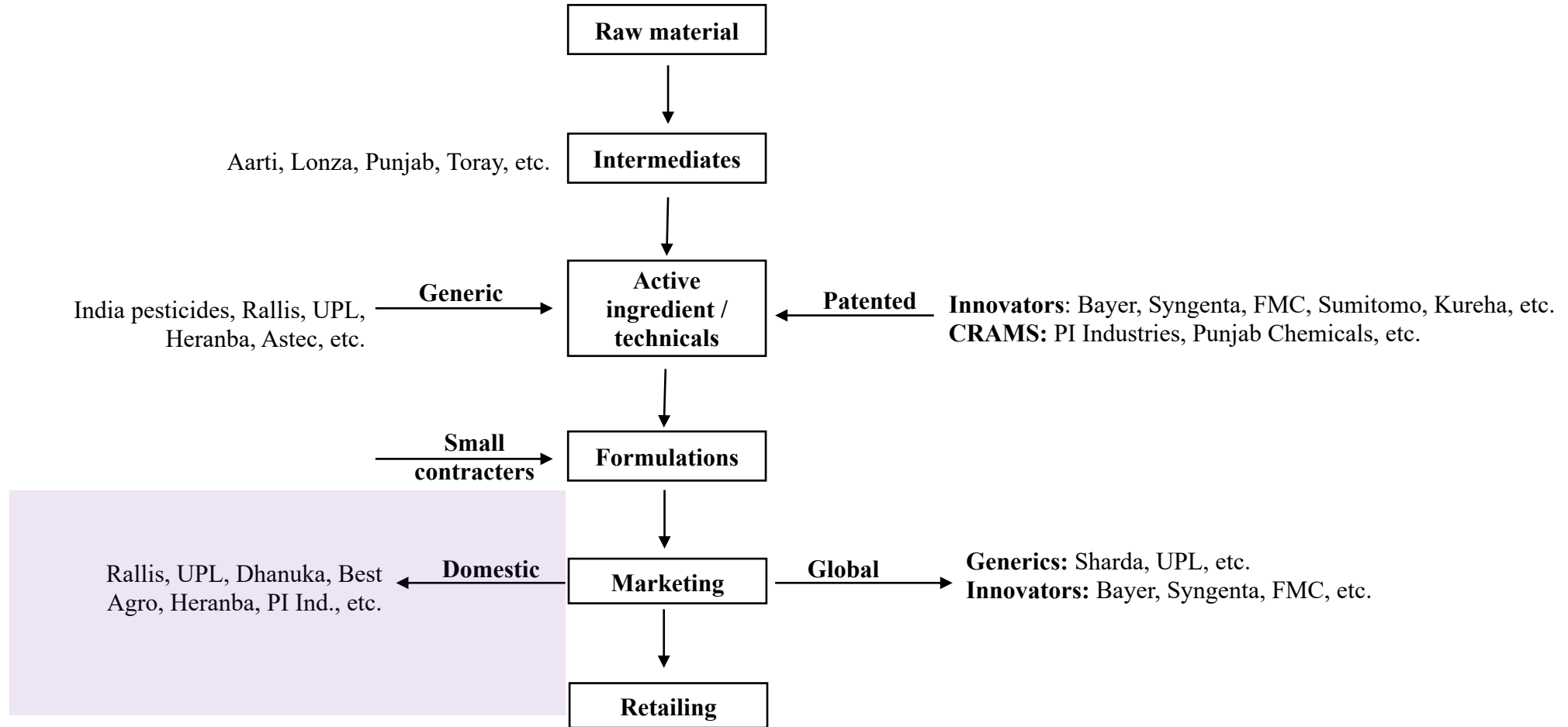
I may be biased in my views as I have held or am holding position in this business.

Neither does my opinion nor my presentation reflect on any organization I am associated with or working for.

# Value chain



# Value chain



# Domestic marketing

Agrochemical revenues	FY16	FY17	FY18	FY19	FY20	FY21	FY16-21 growth	FY18-21 growth
UPL	2'713.0	3'334.0	3'317.0	3'454.0	3'828.0	4'677.0	11.51%	12.13%
Bayer crop sciences (incl. Monsanto)	2'322.5	2'503.1	2'476.50	2'407.3	3'426.7	4'049.3	11.76%	17.81%
Sumitomo			1'546.0	1'700.0	1'923.0	2'181.0		12.15%
Dhanuka Agritech	830.0	880.0	960.0	1'010.0	1'120.0	1'390.0	10.86%	13.13%
Insecticides India	1'039.0	1'065.0	1'066.0	1'122.0	1'286.0	1'359.2	5.52%	8.44%
Rallis India	880.0	1'010.0	1'040.0	1'020.0	1'210.0	1'320.0	8.45%	8.27%
PI Industries	925.00	945.00	853.00	957.0	899.0	1'256.0	6.31%	13.77%
Heranba			167.07	145.9	120.6	253.6		14.93%

- ✓ Branded market (high ROCE + low capital requirement + low growth)
- ✓ New products are introduced through innovator in-licensing (9(3) route)
- ✓ Limited scalability beyond 1300-1500 cr. annual revenues (~\$2-2.5bn market size)
- ✓ **Sales growth:** 10-12% (in-line with nominal GDP)

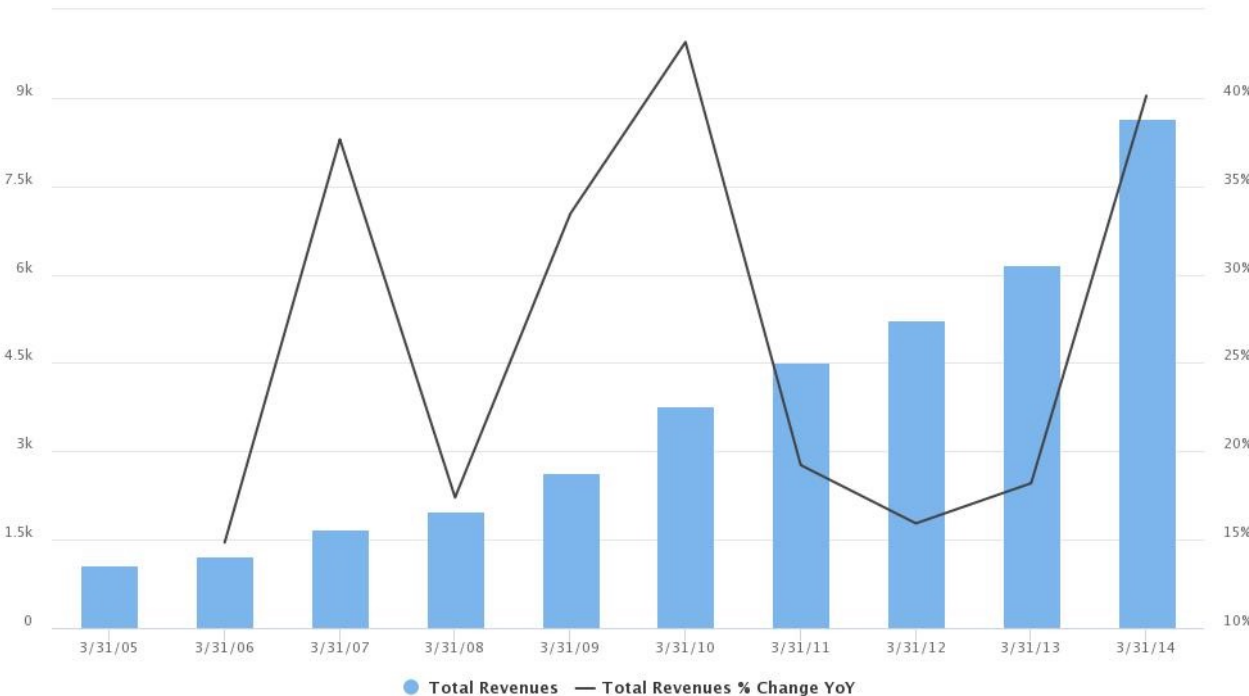
# Domestic marketing – how to make outsized returns?

## Catch growth early!

### Insecticides India

Sales growth ~ 26% (FY08-14)

Insecticides (India) Limited (532851)



TIKR.com

Share price growth ~ 28% (FY08-14)

Insecticides (India) Limited (532851)  
599.7% price return over 7.76 years - 28.5% CAGR



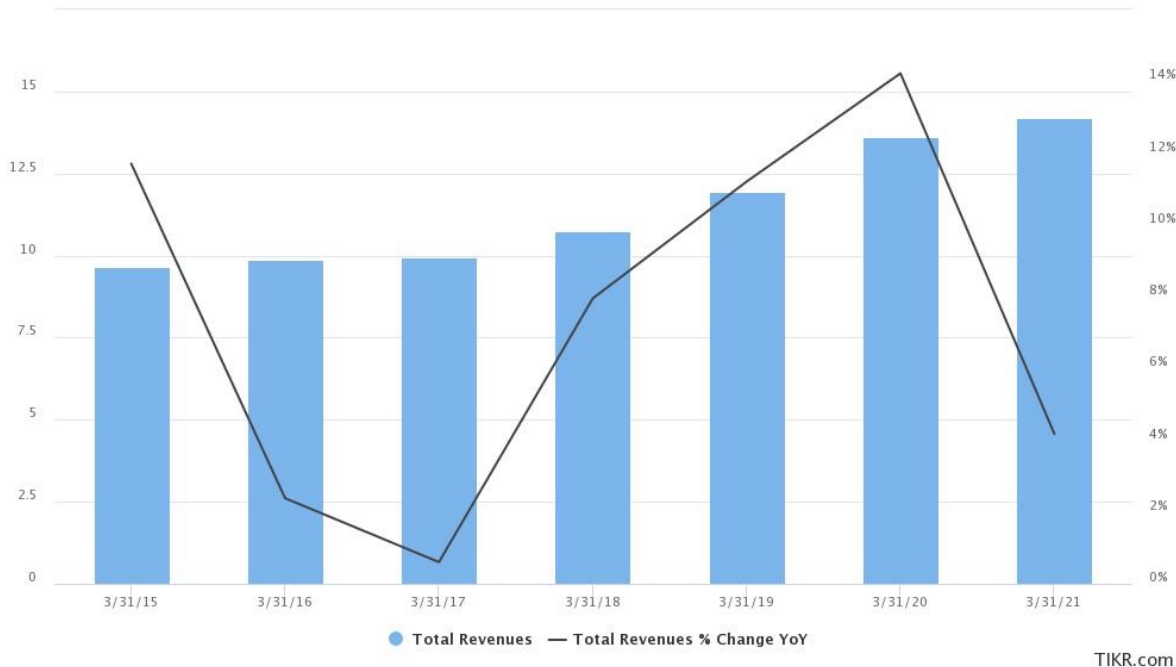
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# Scale issues beyond 1000 cr.

## Insecticides India

Sales growth ~ 8% (FY15-21)

Insecticides (India) Limited (532851)



Share price growth ~ 8% (FY15-21)

Insecticides (India) Limited (532851)  
8.5% price return over 7.34 years - 1.1% CAGR

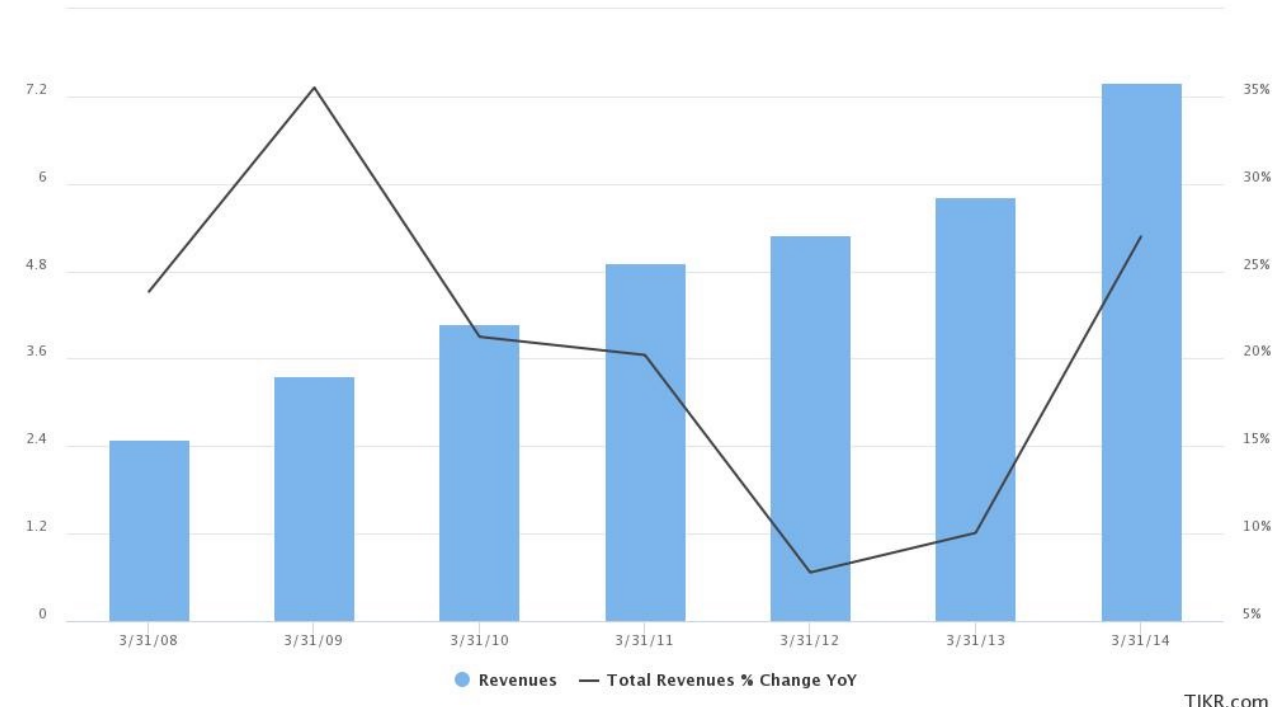


# Scale issues beyond 1000 cr.

## Dhanuka Agritech

### Sales growth ~ 20% (FY08-14)

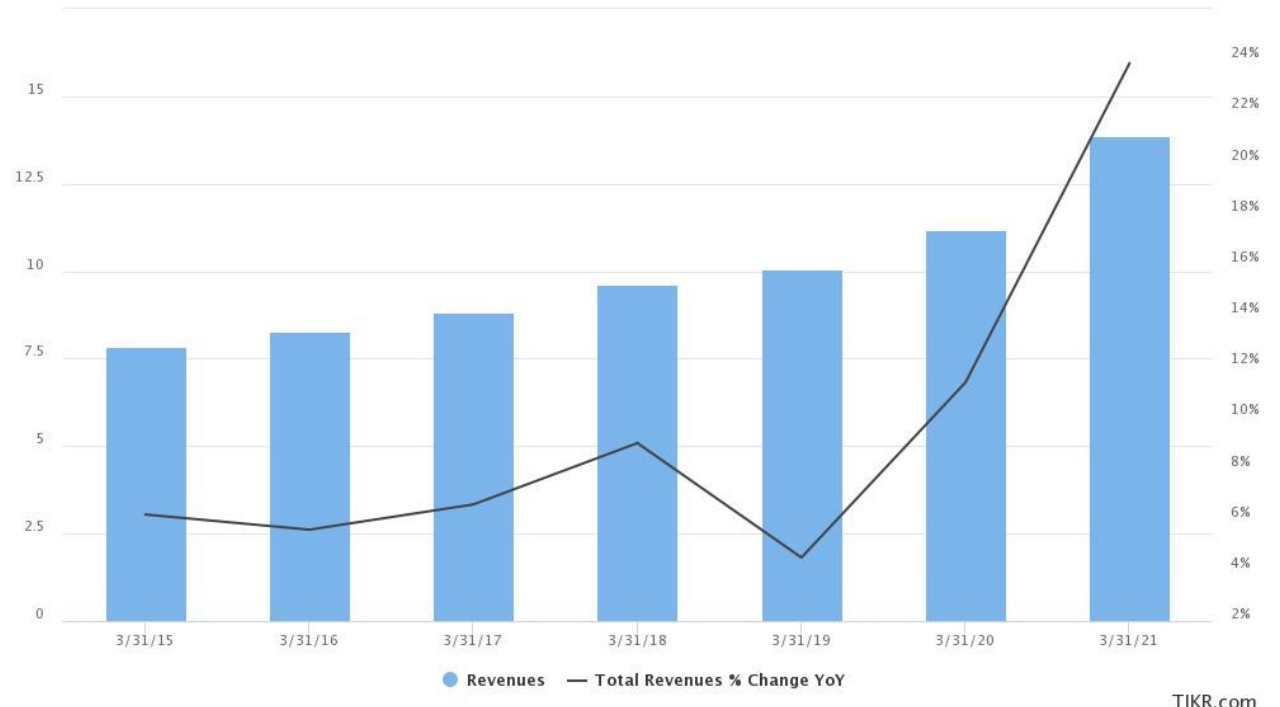
Dhanuka Agritech Limited (DHANUKA)



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### Sales growth ~ 10% (FY15-21)

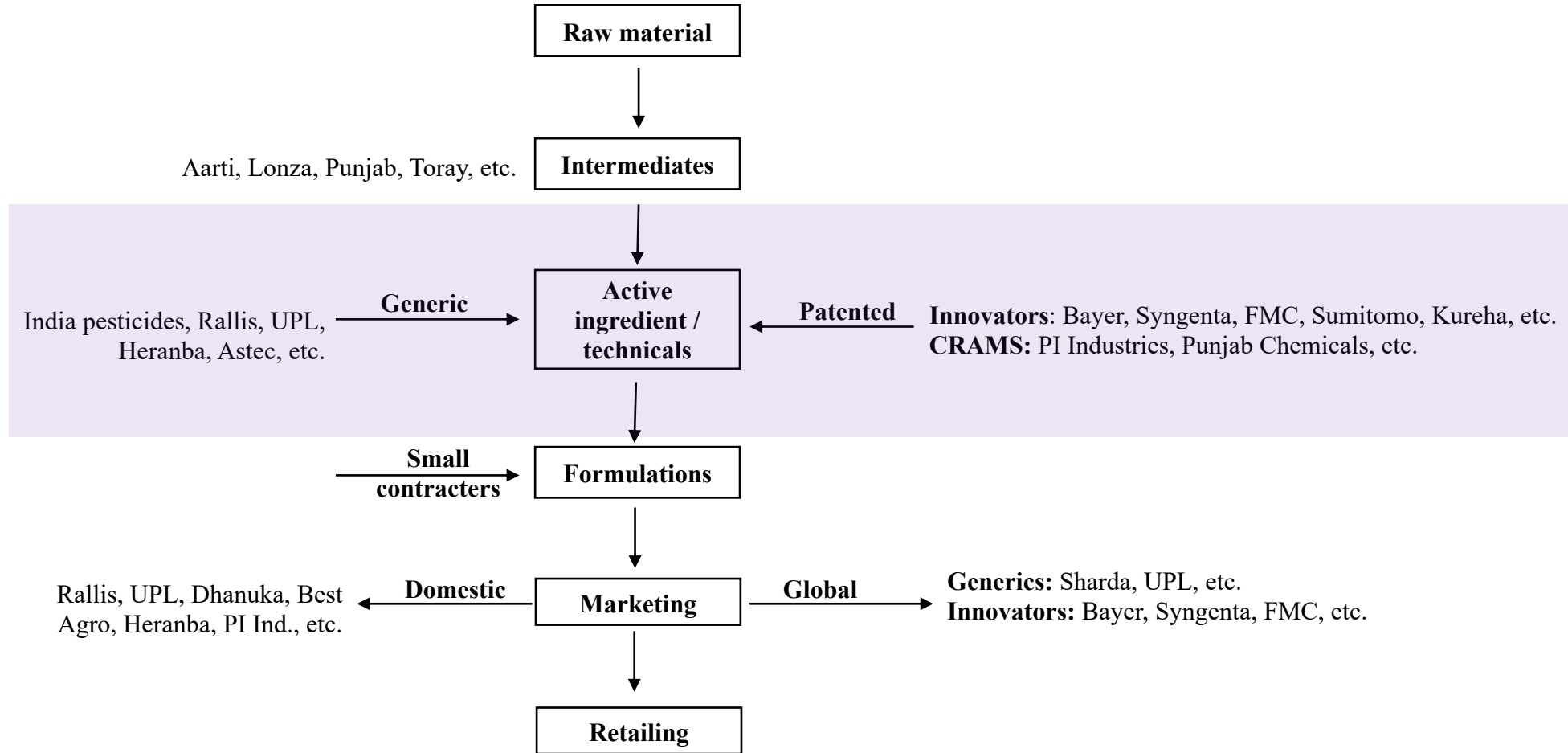
Dhanuka Agritech Limited (DHANUKA)



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# Value chain



# Active ingredient manufacturers

Technical exports	FY16	FY17	FY18	FY19	FY20	FY21	FY16-21 growth	FY18-21 growth
PI Industries	1'273.00	1'438.00	1'455.00	1'884.00	2'467.00	3'321.00	21.14%	31.66%
Rallis India	400.00	440.00	480.00	650.00	680.00	720.00	12.47%	14.47%
Heranba			367.52	491.77	469.16	580.80		16.48%
Punjab chemicals & crop		355.40	296.30	411.10	343.10	422.60		12.56%
Bharat Rasayan	126.00	153.00	165.00	225.00	530.00	406.00	26.37%	35.00%
India pesticides	133.89	105.02	89.34	174.00	304.56	373.44	22.77%	61.09%
Astec	118.00	130.00	196.00	243.00	296.00	270.00	18.00%	11.27%
Insecticides India	9.00	12.00	34.00	60.00	64.00	61.00	46.63%	21.51%

- ✓ China + 1 (**sunshine sector**)
- ✓ B2B business (medium ROCE + high capital requirement + high growth)
- ✓ **MNC collaboration**: PI Industries, Punjab Chemicals
- ✓ **Generic export**: Heranba, Bharat Rasayan, Rallis, India Pesticides, Astec, etc.
- ✓ **How much can they scale?** PI is currently doing 3600 cr. and still growing at 20%+; Annual exports from India ~\$2.5bn
- ✓ **Sales growth** : 15%+

# Active ingredient manufacturers

## PI Industries (FY16-21)

Sales ~ 17%, EPS ~ 16%

Share price ~ 27%

PI Industries Limited (PIIND)

351.3% price return over 6.29 years - 27.1% CAGR



## Bharat Rasayan (FY16-21)

Sales ~ 19%, EPS ~ 37%

Share price ~ 47%

Bharat Rasayan Limited (BHARATRAS)

1,016.2% price return over 6.29 years - 46.7% CAGR



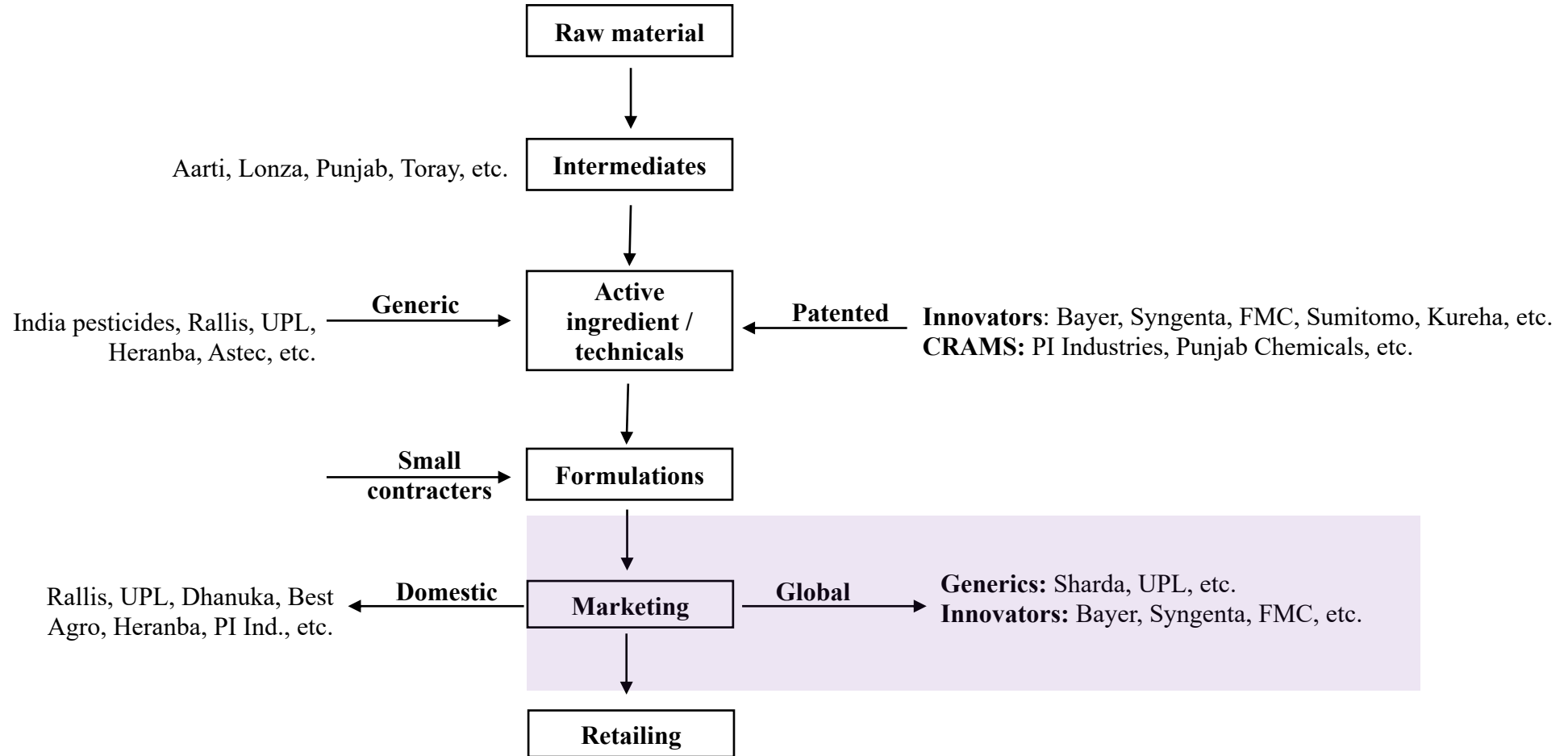
# Active ingredient manufacturers

- ✓ **Very highly valued** (>7x EV/sales): PI Ind.
- ✓ **Highly valued** (4-6x EV/sales): Shivalik Rasayan, Astec, Bharat Rasayan, India Pesticides
- ✓ **Fairly valued** (1.5-3x EV/sales): Bhagiradha, Best Agro, Rallis, Heranba, Punjab Chemicals
- ✓ **Cheap** (<1.5x EV/sales): Meghmani, NACL, Insecticides India, Aimco

## **Best opportunities (in my opinion)**

Meghmani, Punjab Chemicals, Heranba, NACL, Insecticides India

# Value chain



# Global marketing

Agrochemical exports	FY16	FY17	FY18	FY19	FY20	FY21	FY16-21 growth	FY18-21 growth
UPL	10'589.00	13'346.00	14'189.00	16'566.00	31'928.00	34'018.00	26.29%	33.84%
Sharda Cropchem	1'027.75	1'199.14	1'488.94	1'684.96	1'684.54	2'058.51	14.90%	11.40%

- ✓ Only 2 companies from India: UPL, Sharda Cropchem
- ✓ B2B2C business (medium ROCE + medium capital requirement + high growth)
- ✓ Valuation very favorable
  - ✓ **UPL** (1.8x EV/sales, 8.72x EV/EBITDA)
  - ✓ **Sharda** (1.7x EV/sales, 8.5x EV/EBITDA)

# Sharda Cropchem

- ✓ Unique business model (completely outsourced manufacturing)
- ✓ Time spent in getting registrations: 3-10 years (average ~ 6 years)
- ✓ Typical registration cost (Europe): €4-6 mn

## Long term financials

In cr.	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	10-yr growth
Revenues	441.80	613.50	777.70	791.15	1'065.84	1'220.61	1'399.23	1'713.39	2'001.14	2'003.02	2'395.61	18.42%
PAT	40.65	68.10	82.44	110.76	122.57	175.77	190.30	190.19	176.10	164.25	229.98	18.92%
CFO	48.50	39.33	83.78	156.04	46.13	181.26	181.49	16.96	556.31	146.30	246.37	17.65%

## Working capital under control

In cr.	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Working capital	276.04	365.93	396.09	502.90	772.61	537.40	682.56	881.37
As a percent of sales	34.89%	34.33%	32.45%	35.94%	45.09%	26.85%	34.08%	36.79%

# Sharda Cropchem

- ✓ Faced pressure on gross margins due to US-China trade war in 2019

## Margin trends

	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
Gross margin	35.00%	33.40%	35.20%	35.90%	33.20%	30.70%	30.70%	31.70%
EBITDA margin	19.60%	16.50%	21.90%	22.30%	20.20%	18.60%	17.60%	19.00%
PAT margin	14.00%	11.50%	14.40%	13.60%	11.10%	8.80%	8.20%	9.60%

**This lead to valuation derating!**



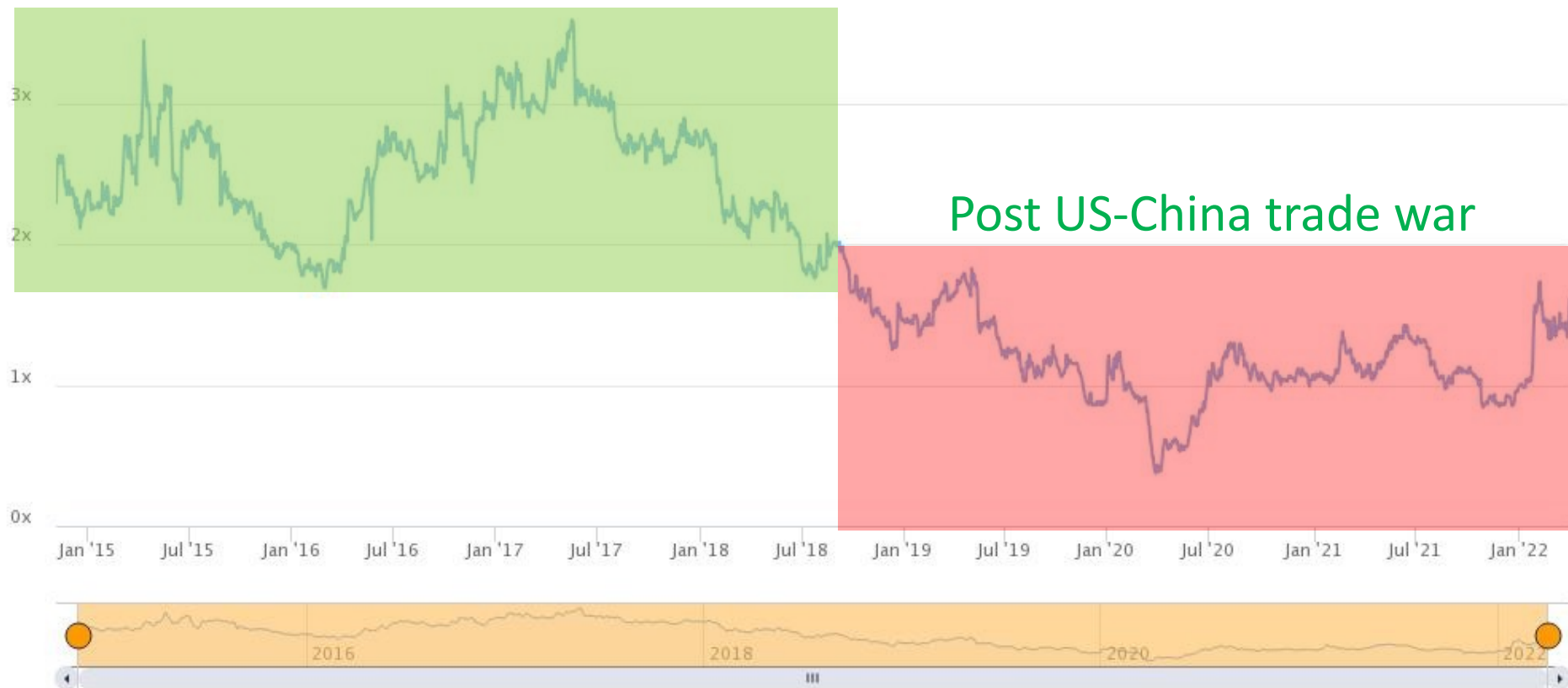
# Sharda Cropchem

Sharda Cropchem Limited (538666)

• 538666 LTM Total Enterprise Value / Revenues: Mean: 1.88x High: 3.59x Low: 0.38x Last: 1.62x

Zoom 3m 6m ytd 1yr 3yr 5y 10y all

Before US-China trade war



Post US-China trade war

— 538666 LTM Total Enterprise Value / Revenues

# Sharda Cropchem

✓ Things have improved significantly in FY22

## 9MFY22 sales growth of 64%

	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021
Sales -	763	421	324	382	876	389	425	494	1,088	623	643	880
YOY Sales Growth %	-0%	-8%	5%	-19%	15%	-8%	31%	29%	24%	60%	51%	78%

Trade barriers are getting lifted (huge positive for gross margins)

# US reinstates tariff exemptions on some Chinese products, including paraquat CN



--- Complete product list is attached

# Sharda Cropchem

## Rich pipeline

	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>
Total registrations	1'207.00	1'409.00	1'765.00	2'174.00	2'157.00	2'297.00	2'418.00	2'543.00
<i>Formulations</i>	1'040.00	1'215.00	1'545.00	1'901.00	1'929.00	2'044.00	2'169.00	2'270.00
<i>Als</i>	155.00	194.00	220.00	273.00	228.00	253.00	249.00	273.00
In pipeline		729.00	818.00	845.00	978.00	1'028.00	1'038.00	1'128.00
<b>Pipeline % of registrations</b>		<b>52%</b>	<b>46%</b>	<b>39%</b>	<b>45%</b>	<b>45%</b>	<b>43%</b>	<b>44%</b>

# Sharda Cropchem

Increased US customer base by 25-30%

 **theHarshFolio** @theHarshFolio · Mar 30 ...

US exempting crop imports from China from any tariff should be a huge positive for Sharda Cropchem as they procure 97%+ from China. Additionally, co. increased their US customer base by 25-30% in FY22



news.agropages.com  
US reinstates tariff exemptions on some Chinese products, including ...  
The Office of the United States Trade Representative issued a statement on the 23rd local time, anno

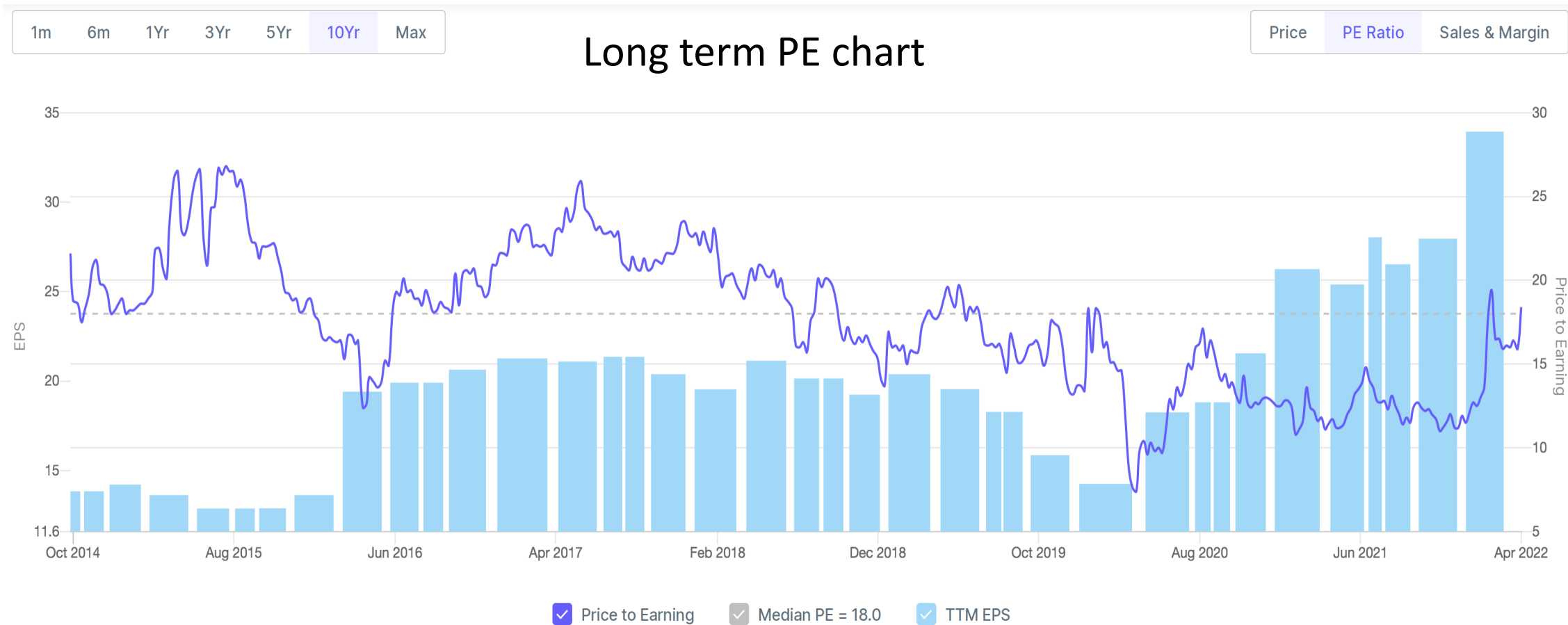
**Valuations:**

18.4 P/E (trailing), 16 P/E (FY22E)

8.5 EV/EBITDA (trailing)

**Definitely not expensive!**

# Sharda Cropchem



# Questions

## Risks

- How scalable is the technical / AI manufacturing?
- What if China+1 reverses?
- India imports ~40% of raw material used in technical, most of it is from China. What if China increase prices?

## Disclosure:

- Among stocks discussed, I am invested in Sharda Cropchem, Punjab Chemicals and PI Industries with no transactions in them in past 1-month
- Detailed portfolio @<https://forum.valuepickr.com/t/the-harsh-portfolio/28522/255>
- Not a registered analyst