

India

Underweight (no change)

Highlighted Companies

SRF Limited

REDUCE, TP Rs1540, Rs2361 close

Two major headwinds are emerging for SRF: 1) Global channel destocking in agrochemicals. 2) Regulatory norm changes for refrigerants in the US.

Jubilant Ingrevia Ltd

REDUCE, TP Rs374, Rs431 close

Jubilant Ingrevia has two major products – pyridines and ethyl acetate. As pyridines are used in agrochemicals whose demand is at risk, the company will keep facing earnings headwinds.

PI Industries Ltd

REDUCE, TP Rs2872, Rs3727 close

PI Industries has done well, courtesy pyrooxasulfone, but our analysis indicates that the medium-term growth of the company is at risk because of no big product in the pipeline and high channel inventory. The new diamide molecule appears to be Rynaxypyr where competition is very high from even Indian companies, leave aside global players.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	43.58	37.25	31.94
Jubilant Ingrevia Ltd	32.31	28.8	22.69
PI Industries Ltd	44.31	40.71	37.28

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
SRF Limited	5.96	5.21	4.53
Jubilant Ingrevia Ltd	2.1	1.87	1.65
PI Industries Ltd	6.72	5.8	5.8

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
SRF Limited	0.27%	0.27%	0.27%
Jubilant Ingrevia Ltd	0.36%	0.36%	0.36%
PI Industries Ltd	0.09%	0.09%	0.1%

Chemicals - Others

Agrochemicals - channel inventory too high

- Results presentations of FMC & UPL indicate that the global agrochemical channel inventory was overstocked by ~30% in CY22.
- FMC stated that inventory destocking will end in 2HCY24F, but our calculations indicate that destocking will last at least till the end of CY24F.
- Indian companies fare very poorly in bio pesticides (new growth area). Barring Coromandel, no other company has a significant bio pesticides portfolio.

Global agrochemical channel inventory appears to be higher by 30%

Global agrochemical sales in CY22 were up by ~20% (Source: FMC analyst day presentation). Going by UPL and other generic companies' results presentations for FY23, it appears that out of the 20%, half of the growth was driven by volume and the other half by higher prices. This means global channel inventory is overstocked by US\$6bn in volume terms (at CY21 price level). At the same time, as per the commentary by generic agrochem makers, the prices are reverting to CY21 levels. Going by the balance sheet of different companies, it appears that channel inventory remains at around four months, or around US\$20bn of agrichemicals remain in the channel. Now, as it's overstocked by US\$6bn, it means channel inventory is higher by 30%. A part of this overstocked inventory is already getting destocked but, in our view, it will take 12 more months for inventory normalization.

Bio pesticides present a long-term risk to Indian intermediate makers

Bio pesticides are increasing their presence by leaps and bounds. They are environmentally friendly, and it takes a fraction of time and money to develop them vis-à-vis chemical pesticides (the costs to develop new bio pesticides are 98% lower and the time 50-70% lesser compared to chemical pesticides). Globally, the bio pesticides market is likely to grow at a 22% CAGR over the next 10 years. North America will lead the global growth and LATAM is projected to grow at a slower pace, at a 10.5% CAGR. All leading global agrochemical companies are shifting to bio pesticides, which puts the growth of intermediate makers like SRF, Aarti Industries, Jubilant Ingrevia, etc. at risk.

Indian chemical/ agrochemical makers are at risk

Most of the so-called Indian specialty chemical companies are simply intermediate suppliers for global agrochemical makers. Buoyed by higher stock prices and the China+1 narrative (which was driven only by overstocking in the supply chain), they have announced capex as well. While higher channel agrochemical inventory is a medium-term risk for these companies (as sales and earnings will keep disappointing for a better part of FY25F), the long-term risk emerges from bio pesticides. None of the Indian companies (barring a few like Coromandel International) have a significant presence in this space. The valuations of companies like SRF, Anupam Rasayan, Jubilant Ingrevia, Navin Fluorine, Aarti Industries, UPL and PI Industries are sky high, and their earnings estimates are higher by 30-35% against the most likely EPS in FY25F. We remain underweight and will avoid the sector totally. If at all the weightage criterion is to be met, then Navin Fluorine is a better bet.

Research Analyst(s)

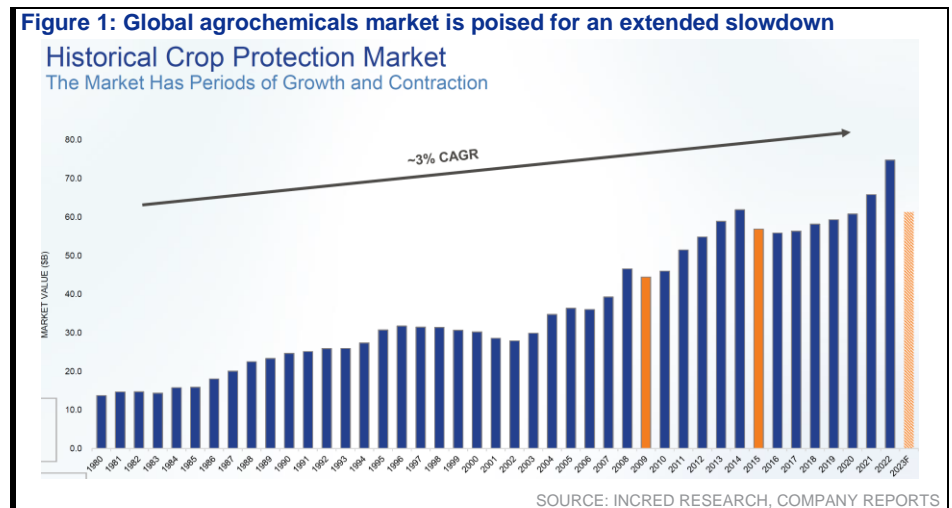


Satish KUMAR

T (91) 22 4161 1562
E satish.kumar@incredcapital.com

Abbas PUNJANI

T (91) 22 4161 1598
E abbas.punjani@incredcapital.com



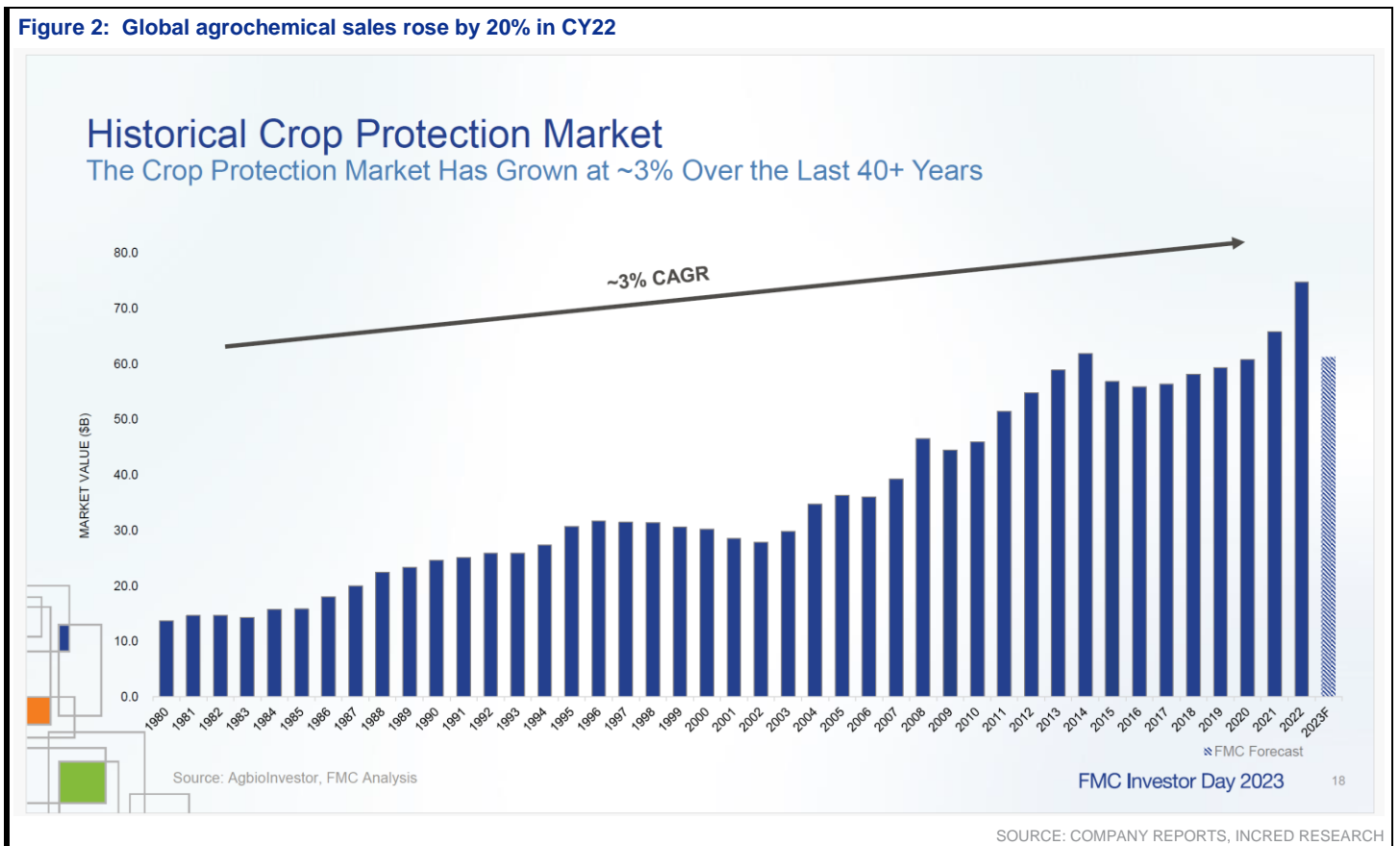
Agrochemicals - channel inventory too high

As per FMC, global agrochemical sales increased by 20% in 2022. However, the other metrics like area cultivated globally, or global yields, didn't change much. We haven't seen a big growth in global agrochemical prices as such, which means volume growth was a significant contributor to the rise in global agrochemical sales. The rise in volume doesn't appear to be driven by the increase in demand, but rather it appears to be more of an inventory-filling phenomenon.

2022-23 was a year when agrochemical sales were driven by inventory filling, which is being shed

FMC stated that the rise in agrochemical sales in 2022 was ~20% ➤

Figure 2: Global agrochemical sales rose by 20% in CY22



It appears that volume growth was only 10% and the rest was driven by price rise ➤

UPL's sales mix, which is a good indicator of the global generic agrochemicals market, indicates that volume grew by 10% and pricing by another 10%. Going ahead, global agrochemicals sales growth can fall to 1-1.5%, after the decline in CY23F.

Figure 3: UPL's presentation gives a rough idea of the global agrochemicals sales volume growth of ~10%

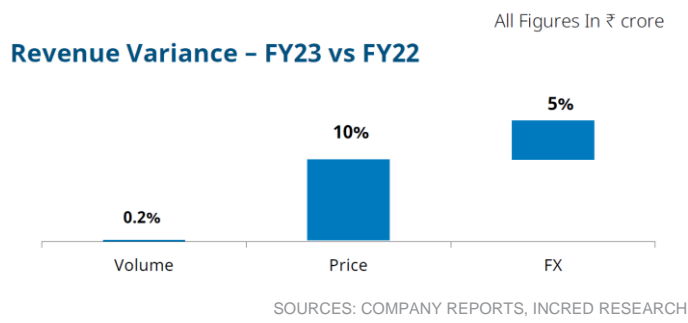
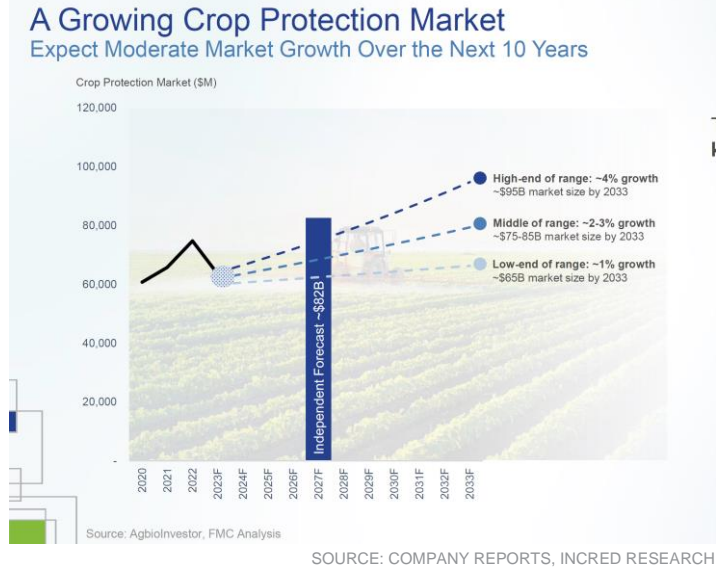


Figure 4: As per FMC, growth in the coming years is likely to be very tepid in US\$ terms, at best 1-1.5%



It appears that all the extra volume was sold in the supply chain as global acreage for agri products is the same as it was in CY21 ➔

Figure 5: We don't see any significant increase in global crop acreage in CY22-23...

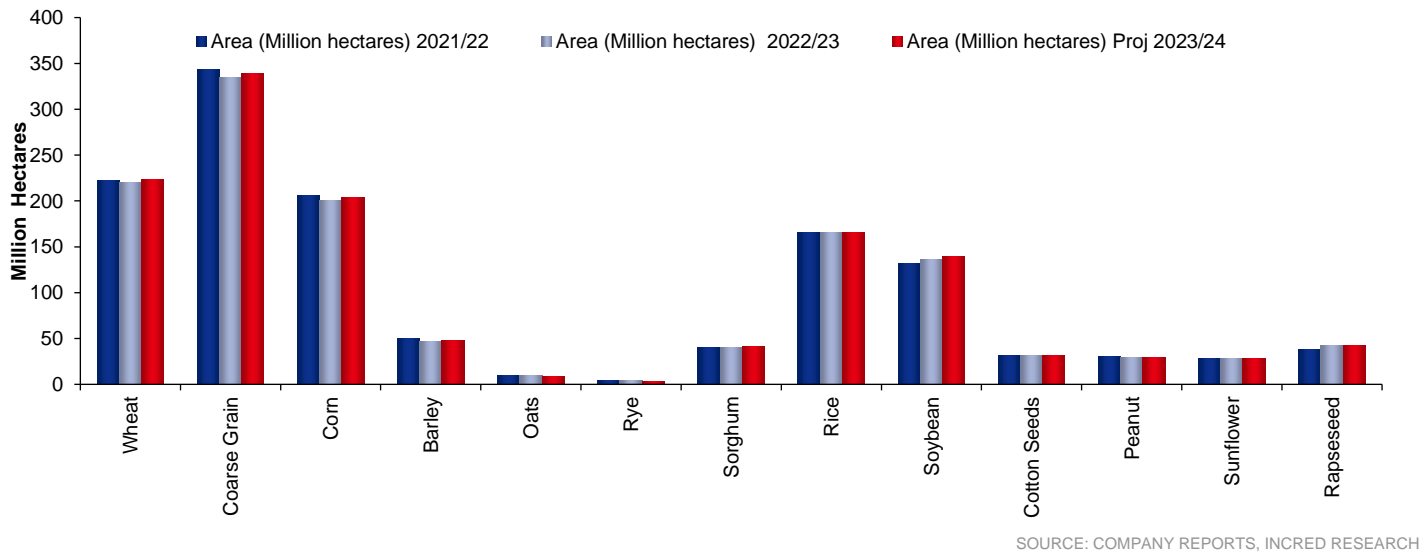
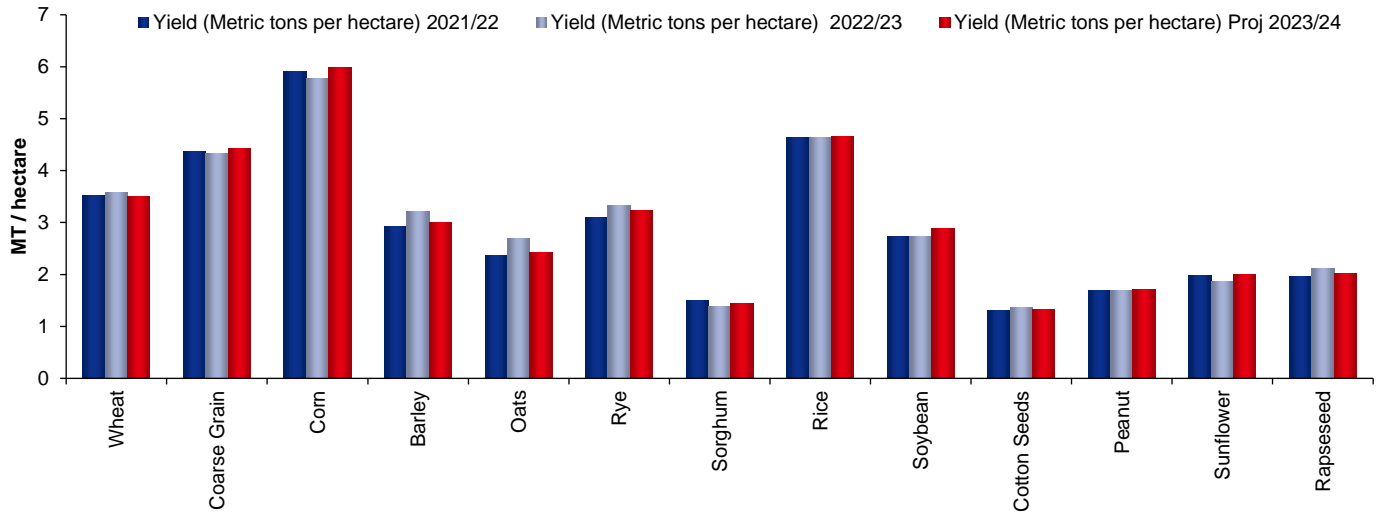


Figure 6: ...and neither there has been any increase in yields or any big incident of insect or fungus attack globally



SOURCE: INCRED RESEARCH, COMPANY REPORTS

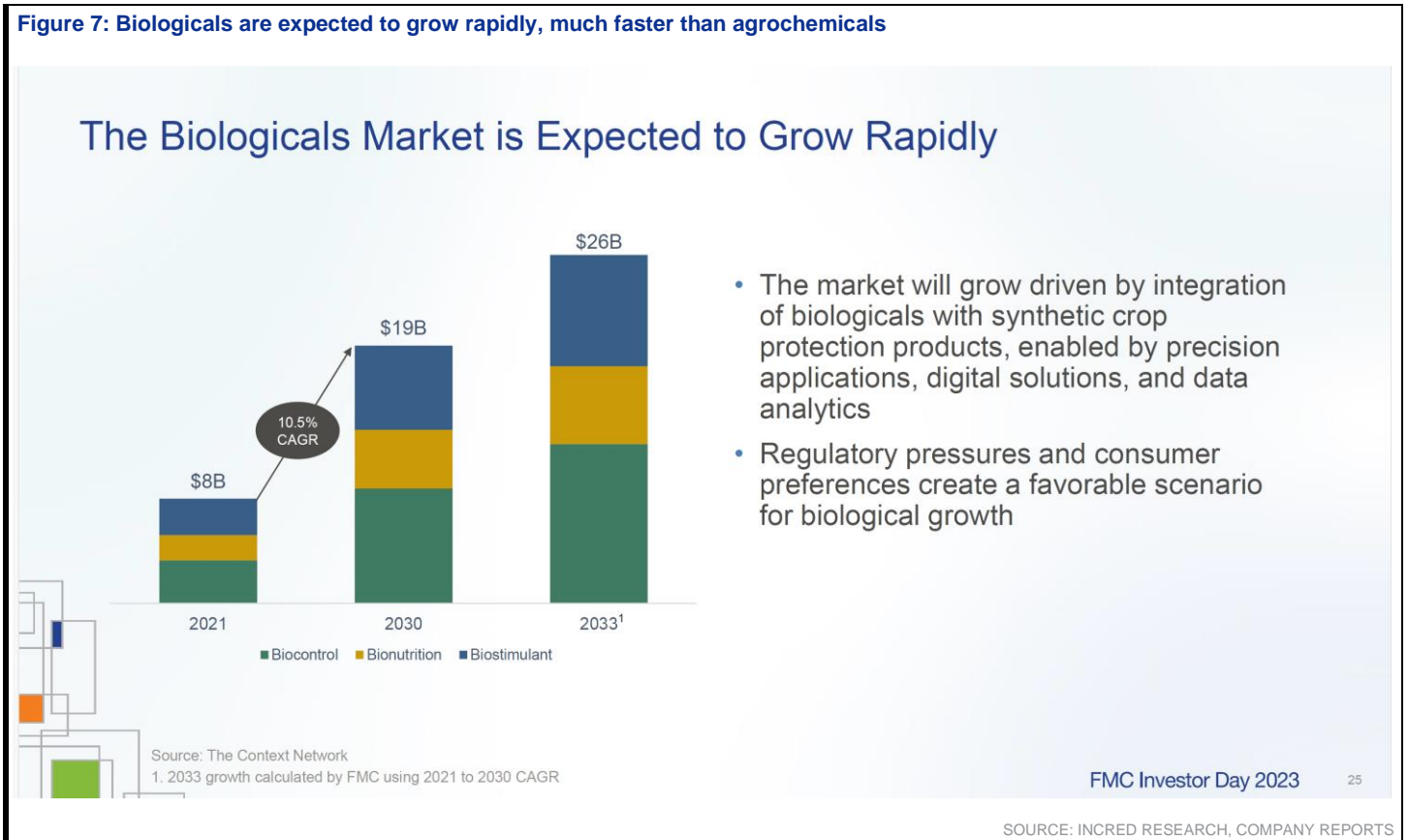
All the above data suggests that extra sales have gone into channel filling.

It appears the supply chain must shed 30% extra volume which, in turn, means two years of negative growth▶

The supply chain must shed 30% extra volume, which got accumulated in CY22. While channel destocking is a tedious process, as per our estimate, it can spill over to a better part of CY24F as well. Probably, for Indian companies, FY25F will also be a wash out.

Long-term risks to agrochemicals are present in the form of biologicals

Figure 7: Biologicals are expected to grow rapidly, much faster than agrochemicals



What are biologicals in crop protection? ➤

In crop protection, biologicals refer to products or substances derived from natural materials, organisms, or processes that are used to manage pests, diseases, or enhance plant growth in agriculture. These biologicals can include:

Bio pesticides: These are derived from natural materials, such as plants, bacteria, fungi, or minerals, and are used to control pests or diseases. Bio pesticides can include microbial pesticides (like bacteria or fungi that control pests), plant-incorporated protectants (produced by plants through genetic engineering), and biochemical pesticides (naturally occurring substances that control pests).

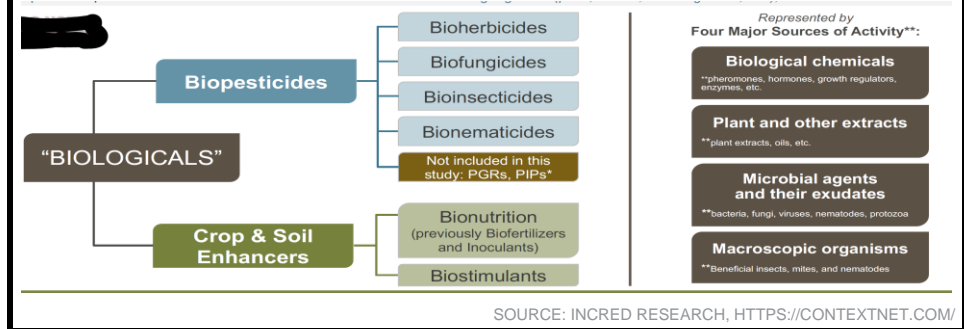
Bio fertilizers: These are substances containing living microorganisms that enhance nutrient availability and uptake by plants. They can include nitrogen-fixing bacteria, mycorrhizal fungi, or other beneficial microbes that improve soil fertility and plant growth.

Bio stimulants: These products contain substances or microorganisms that stimulate plant growth, improve nutrient uptake, and enhance tolerance to stress. They don't typically have direct pesticidal effects, but contribute to overall plant health.

Biological control agents: These are living organisms like predatory insects, parasitic wasps, nematodes, or certain fungi that are introduced to control pests by feeding on or parasitizing them. They are used as a natural alternative to chemical pesticides.

Biologicals are often favoured for their environmental-friendly nature, as they tend to have a lower environmental impact and pose fewer risks to non-target organisms compared to synthetic chemical pesticides. They are an important part of integrated pest management strategies aimed at sustainable crop production.

Figure 8: For our research, we are primarily interested in bio pesticides



Bio control agents (bio pesticide and biological control agents) are the fastest-growing category in biologicals ➤

Figure 9: Global bio control agents market stood at US\$1.6bn in 2021 and is likely to become US\$8.8bn by 2030F, growing @ 22% CAGR

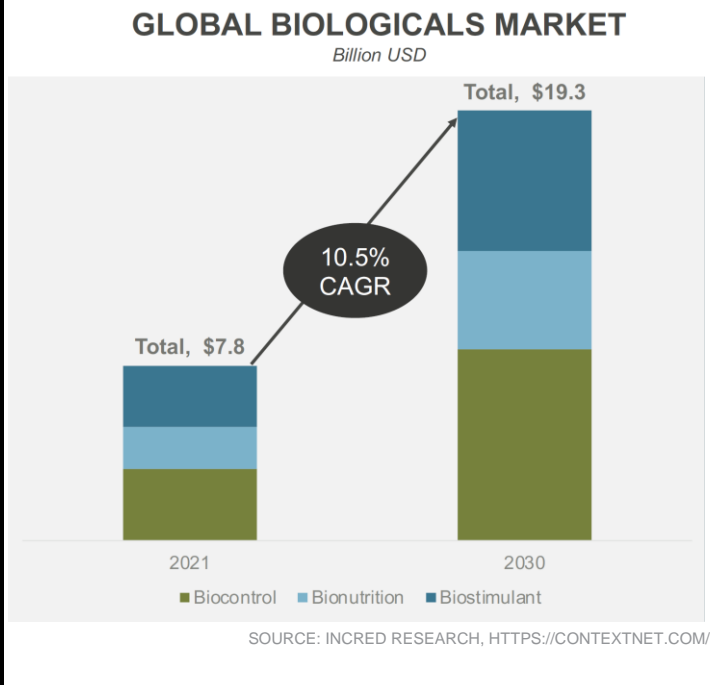


Figure 10: While growth in LATAM is likely to be slower, still it may become a US\$1.6bn market in 2030F

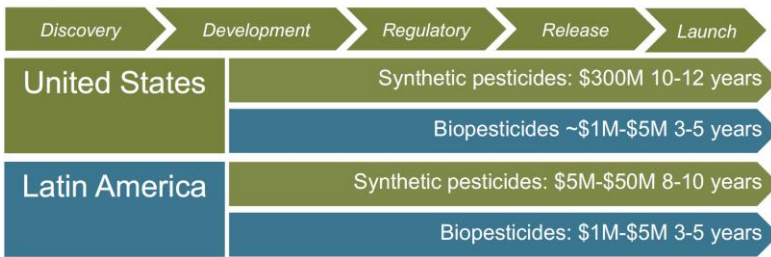


Regulators seems to favour bio pesticides/bio control agents ➤

Bio pesticides offer an expeditious path to the market in some countries/regions vs. synthetic pesticides; for example, in the US and Latin America, the timeline to market is several years shorter and the registration cost savings are significant.

Figure 11: Bio pesticides are much cheaper to develop and their testing phase is significantly lower in the US as well as in Latin America; these two regions are the biggest agrochemical markets in the world

TIMELINE & INVESTMENT EXAMPLES



EXEMPTIONS

Natural biostimulants with no pesticidal claims may be registered as fertilizers and bypass the regulatory processes in many countries.

In some countries regulatory approval can be as short as 6 months for pre-approved biopesticides.

TESTING REQUIREMENTS

U.S. EPA Biopesticide and Pollution Prevention (BPPD) has fewer regulatory testing requirements for non-toxics biopesticides with significantly lower registration fees.

ANVISA, MAPA and IBAMA require less toxicology studies for know bioproducts with lower toxicity and reduced biopesticide registration fees.

TIMELINE

Review timelines in the US vary between 13 and 24 months depending on use. In Latin America can be as short as 6 months for pre-approved or as long as 36 months for new strains of biopesticides

REGULATORY HURDLES

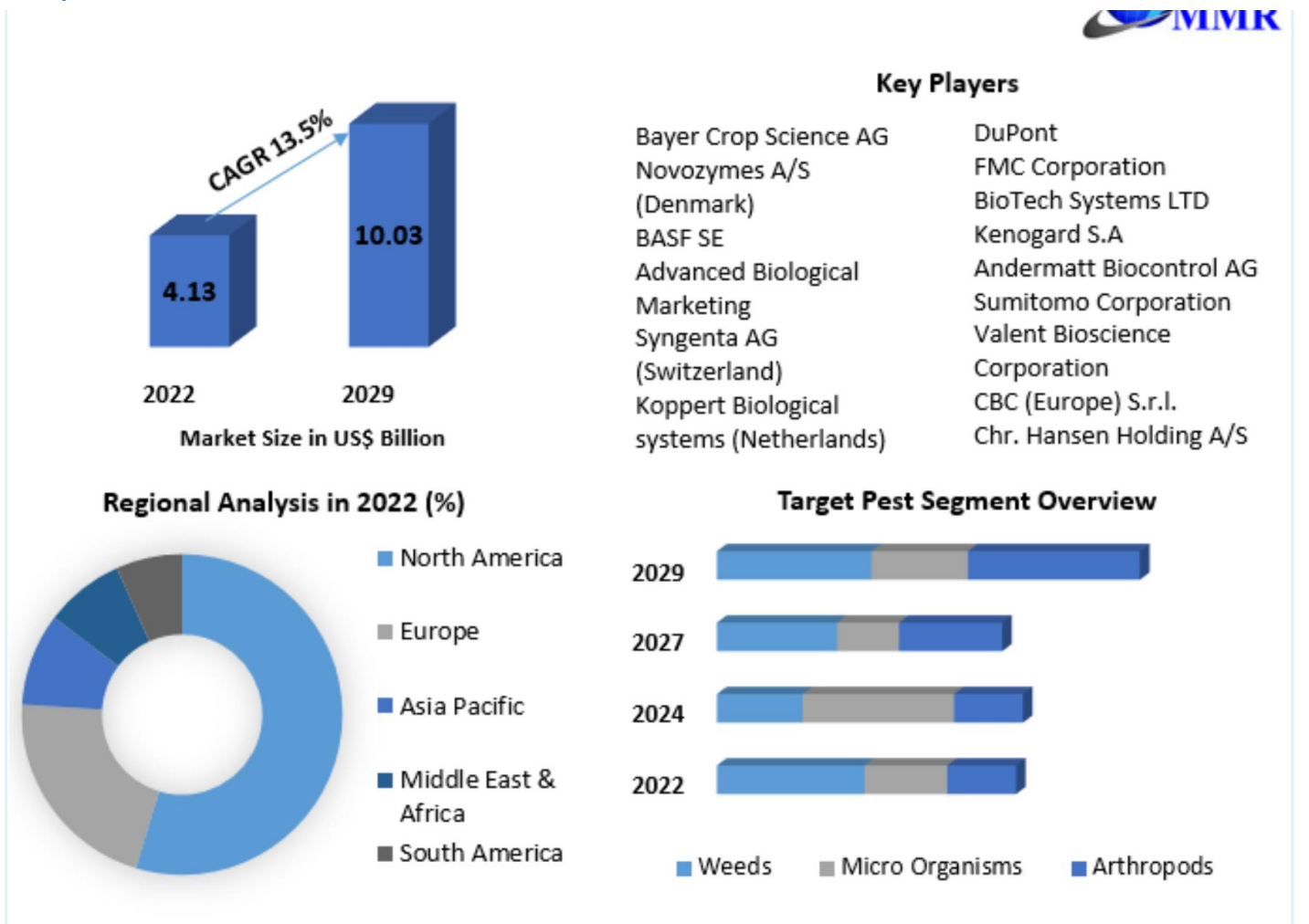
Biological candidates have fewer regulatory hurdles than new synthetic chemical candidates.

In June 2019 the EU passed legislation harmonizing registration of biostimulants and biofertilizers with general fertilizer registrations, However, they may also be registered at the country level using country registration procedure which also have fewer hurdles than pesticide registration.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

North America is leading in the bio control agent field

Figure 12: North America is the leader in the bio control agent market; unfortunately, none of the Indian companies are present in this space



SOURCE: [HTTPS://WWW.MAXIMIZEMARKETRESEARCH.COM/MARKET-REPORT/GLOBAL-BIOCONTROL-AGENTS-MARKET/27454/](https://www.maximizemarketresearch.com/market-report/global-biocontrol-agents-market/27454/), INCRED RESEARCH

Bio pesticides have multiple advantages over agrochemicals >

Bio pesticides are a safer and more environmental-friendly alternative to traditional agrochemicals. They are less toxic to humans and animals, and they break down more quickly in the environment. Bio pesticides also tend to be more specific in their target, which means they are less likely to harm beneficial insects. Here are some of the key advantages of bio pesticides over agrochemicals:

1. **Reduced risk to human health:** Bio pesticides are generally much less toxic to humans and animals than traditional agrochemicals. This means there is a lower risk of poisoning for farm workers, consumers, and wildlife.
2. **Reduced environmental impact:** Bio pesticides break down more quickly in the environment than traditional agrochemicals. This means they are less likely to contaminate water sources or harm beneficial organisms.
3. **Increased specificity:** Bio pesticides are often more specific in their target than traditional agrochemicals. This means they are less likely to harm beneficial insects, such as pollinators.
4. **Reduced risk of pesticide resistance:** Pests are less likely to develop resistance to bio pesticides than to traditional agrochemicals. This is because bio pesticides often work in different ways than conventional pesticides.
5. **Improved soil health:** Bio pesticides can help to improve soil health by increasing microbial activity and nutrient availability.
6. **Can be used in organic farming systems:** Bio pesticides are approved for use in organic farming systems, which are becoming increasingly popular.
7. **Can be used in conjunction with other pest control methods:** Bio pesticides can be used in conjunction with other pest control methods, such as cultural control and biological control.
8. **Can be used to control a wide range of pests:** Bio pesticides are available to control a wide range of pests, including insects, diseases, and weeds.

Multiple companies are investing in the development of bio pesticides >

BASF: It is one of the world's largest chemical companies, and has significant investments in bio pesticide research and development. The company has a portfolio of over 30 bio pesticide products, and it is developing new products all the time.

Bayer: It is another major chemical company that is investing in bio pesticides. The company has a portfolio of over 20 bio pesticide products, and it is committed to developing new and innovative bio pesticide solutions.

Dow AgroSciences: It is a leading provider of agricultural chemicals and has a portfolio of over 10 bio pesticide products. The company is investing in bio pesticide research and development to meet the growing demand for sustainable pest control solutions.

Syngenta: It is a Swiss agribusiness company which is a leader in the development of bio pesticides. The company has a portfolio of over 20 bio pesticide products, and it is investing in research and development to develop new and innovative bio pesticide solutions.

Certis Europe: It is a leading provider of bio pesticides in Europe. The company has a portfolio of over 50 bio pesticide products, and it is committed to developing new and innovative bio pesticide solutions.

Biobest: It is a Belgian company which is a leader in the development of bio pesticides for biological pest control. The company has a portfolio of over 10 bio pesticide products, and it is investing in research and development to develop new and innovative bio pesticide solutions.

Marrone Bio Innovations: It is an US-based company which is a leader in the development of bio pesticides for sustainable agriculture. The company has a portfolio of over 10 bio pesticide products, and it is committed to developing new and innovative bio pesticide solutions.

Novozymes: It is a Danish company which is a leader in the development of enzymes for industrial applications. The company is also developing enzymes for use in bio pesticides.

Valent Biosciences: It is an US-based company which is a leader in the development of bio pesticides for turf, ornamental, and specialty markets. The company has a portfolio of over 20 bio pesticide products, and it is committed to developing new and innovative bio pesticide solutions.

But Indian companies are lagging far behind, at least none of the so-called specialty names are present in this space ►

1. **Biostadt India:** It is a leading manufacturer of bio pesticides and bio fertilizers in India. The company has a portfolio of over 20 bio pesticide products.
2. **Coromandel International:** It is a leading agrochemical company in India, having a portfolio comprising over 10 bio pesticide products.
3. **Dr. Reddy's Laboratories:** It is a leading pharmaceutical company in India, having a portfolio comprising over five bio pesticide products. The company is investing in bio pesticide research and development to expand its product portfolio and enter new markets.
4. **EID Parry India:** It is a leading agrochemical company in India, having portfolio comprising over 15 bio pesticide products.
5. **Gharda Chemicals:** It is a leading agrochemical company in India, having a portfolio comprising over 10 bio pesticide products.
6. **Hindustan Insecticides:** It is a leading agrochemical company in India, having a portfolio comprising over 20 bio pesticide products.
7. **Tata Chemicals:** It is a leading chemical company in India, having a portfolio comprising over 15 bio pesticide products.

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