

**NOT
RATED**
BEST AGROLIFE

| Agrochemicals

| 10 September 2020

Up-and-coming agrochem player

Best Agrolife (BAL, Not Rated) is a mid-sized crop-protection chemical company (FY20 sales Rs 6.1bn), with diversified products across insecticides, fungicides and herbicides, a strong pack-to-pack (P2P) presence and fast-growing brand business. A focus on specialty molecules and market reach has led to above-industry growth (17%/49% sales/EBITDA CAGR, FY16-FY20). BAL claims to have maximum registrations in India (300+ formulations). It expects to triple FY20 profits in three years with mid-teen ROCE. The stock trades at 36x Q1 annualised EBITDA.

Vivek Kumar

research@bobcaps.in

Growing agrochem player: BAL has 2.3% market share in the US\$ 3.5bn domestic agrochem market and aims to become a significant player in the next three years. Established in 1992 and listed in Apr'18 (under a merger scheme), the company has two key segments: P2P (85% of FY20 agrochem sales) and branded. It also has a technical unit under a separate private entity (Best Crop Science LLP), which is being made a subsidiary of BAL via amalgamation.

Broad portfolio: In FY20, insecticide, herbicide, fungicide, and plant growth products formed 65%, 25%, 8%, 2% of sales respectively. The brand business was started in FY16 and contributed 15% (47% CAGR, FY16-FY20). BAL has a 700+ distributor network with a good presence in the north, west and south.

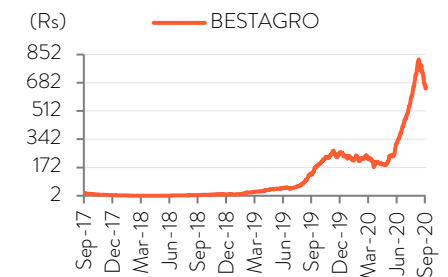
Potential >40% topline growth in next three years: BAL expects new generation molecules and specialty business to aid >40% growth in the next three years. In B2C, it launched two impactful brands (Pydon, Diron) in the last 12 months and has planned two more launches for early-FY22 – per the company, these can add potential revenue of Rs 3bn by FY23 vs. FY20 sales of Rs 0.9bn. Calibrated expansion in distributor reach and targeted penetration in the southern market would offer support. BAL is aiming for FY23 sales of Rs 17bn (vs. Rs 7bn in FY20). Export markets (semi-regulated, developed) could contribute from FY23.

Mix shift to support margin expansion: BAL has logged a 17% revenue CAGR in the last five years (13% in last two years). EBITDA margins have risen from 1.1% in FY18 to 2.2% in FY20. Revenue/EBITDA surged 82%/179% YoY in Q1FY21 with margins of 2.7%. Growing B2C sales and technical unit integration can significantly elevate the margin profile (+500bps by FY23, per management) and return ratios. The stock trades at 36x Q1FY21 annualised EBITDA and 65x annualised EPS.

Ticker/Price	BESTAGRO IN/ Rs 655
Market cap	US\$ 196mn
Shares o/s	22mn
3M ADV	US\$ 0.15mn
52wk high/low	Rs 837/Rs 124
Promoter/FPI/DII	38%/7%/0%

Source: Bloomberg

STOCK PERFORMANCE



Source: Bloomberg



FIG 1 – BEST AGROLIFE: FINANCIAL SUMMARY

(Rs mn)	FY16	FY17	FY18	FY19	FY20	Q1FY21
Total revenues	3,241	3,407	4,758	6,630	6,907	3,629
Growth (%)	70.3	5.1	39.6	39.3	4.2	82.2
Ag-chem	3,241	3,407	4,758	5,352	6,071	3,615
Growth (%)	70.3	5.1	39.6	12.5	13.4	104
Plastic trading [^]	-	-	-	1,278	835	14
EBITDA	38	38	54	111	149	98
EBITDA margin (%)	1.2	1.1	1.1	1.7	2.2	2.7
PBT	14	18	34	73	117	90
PAT	8	12	22	47	84	55
EPS	0.4	0.5	1.0	2.1	3.8	2.5
Net debt/Equity	4.07	3.19	0.34	0.08	0.02	NA
ROE (%)	13.3	11.8	2.5	2.7	4.6	NA
ROCE (%)	10.7	7.0	3.7	5.5	8.4	NA
CFO	24	37	37	74	112	NA

Source: Company, BOBCAPS Research | [^]Non-core business – to exit from Q2FY21

Company profile

Growing agrochem player

BAL is amongst the top 20 agrochemical companies in India in terms of Ag-chem revenue (FY20: Rs 6.1bn). The company claims to have highest number of product registrations among peers (50+ technicals and 300+ formulations). It has been the fastest growing company in the sector over FY16–FY20 (revenue: 17% CAGR, EBITDA: 49%), backed by a wide portfolio and growing brand business.

BAL has a strong P2P presence (85% of FY20 sales) and is considered the preferred supplier to most leading agrochemical manufacturers in India. Key clients include UPL, Bharat Rasayan, Jubilant, Adama, Bharat Insecticides, Coromandel, Indo Gulf Fertilizers and Mahindra Summit Agriscience. The company has 2.3% market share in the US\$ 3.5bn domestic agrochemicals market which could reach ~4% in FY21, per management.

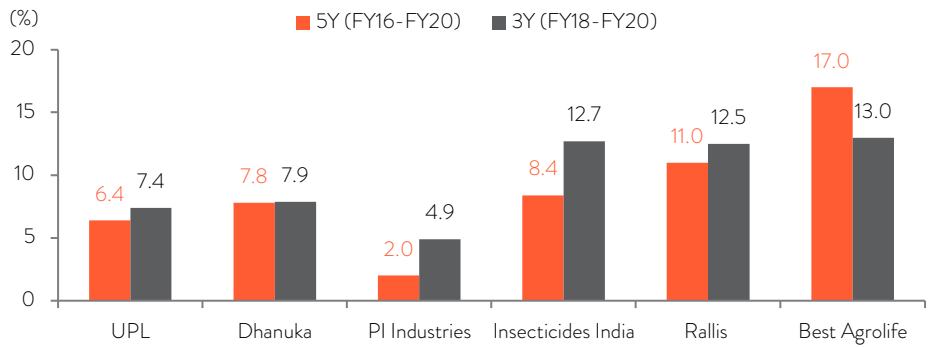
Business integration to streamline operations

Established in 1992, BAL was amalgamated under a merger scheme with then commodity trading company Sahyog Multibase (w.e.f. Apr'18). Founder promoter and MD Vimal Kumar has over 20 years of experience in the field of agrochemicals, basic chemicals, industrial chemicals, manufacturing and global marketing. He has holdings in several related companies which are currently private, including Pavas Chemicals (37.47%) and Best Crop Science LLP (88%). He also has shareholding in a non-related business, Coolife Restaurant (30%), but this is managed by other non-family professionals.

To foster good corporate governance, the promoter has decided to integrate all related businesses under one entity. BAL is in the process of amalgamating Best Crop Science LLP (technical manufacturing unit, FY20: revenue Rs 2.8bn), but the process has been delayed due to the sudden Covid-19 outbreak. The same is expected to take place in the next 3-6 months.

Fastest growing company amongst peers

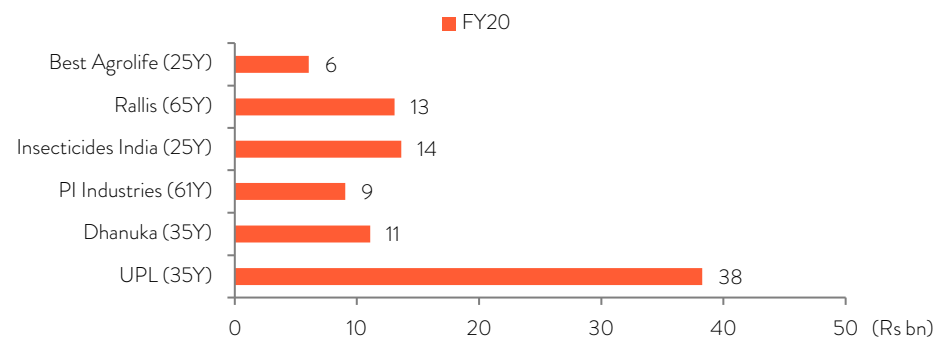
FIG 2 – BAL AG-CHEM SALES CAGR VS. PEERS



Source: Company, BOBCAPS Research

BAL expects to be sizeable player in next three years

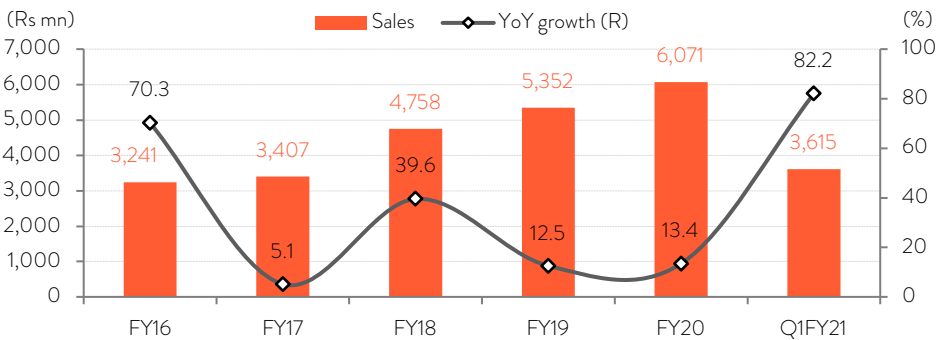
FIG 3 – DOMESTIC REVENUE SIZE VS. LONGSTANDING PEERS



Source: Company, BOBCAPS Research

Targeting FY23 sales of Rs 17bn (vs. Rs 6bn in FY20)

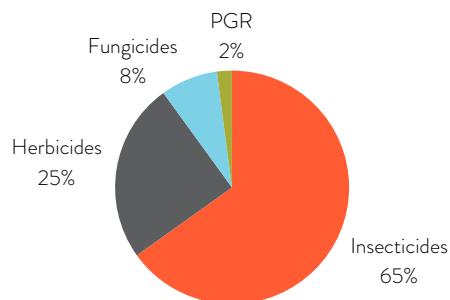
FIG 4 – SALES GROWTH TREND (AG-CHEM)



Source: Company, BOBCAPS Research

Broad portfolio

FIG 5 – SALES MIX BY PRODUCT CATEGORIES, FY20



Source: Company, BOBCAPS Research

Specialty molecules, enhanced distribution aiding brand growth

Broad portfolio; meaningful player by FY24

BAL entered the branded business in FY16 and aims to become a meaningful player by FY24. The company has a broad portfolio across the insecticide (65% of FY20 revenue), herbicide (25%), fungicide (8%) and plant growth regulator (PGR: 2%) segments. Branded sales grew 47% over FY16-FY20 (35% in last two years), with product launches in the last two years contributing 7% of sales in FY19 and 26% in FY20. The top 10 brands accounted for 46% of FY20 sales (Fig 7). Key flagship brands include Pydon (I), Nufop (H), Diron (I) – launched in Q1FY21 and Zodio (F). EBITDA margin in the branded business is 10-12%.

Focus on specialty business

BAL is mainly focusing on innovative formulations, mixtures and combinations backed by its strong technical capability. It has a product portfolio spanning 20 brands across categories (including two products developed by in-house R&D), with a full range of over 300 registered formulations (currently serviced in P2P). The company is looking to leverage its deep product pipeline by selectively converting some of the new generation molecules into brands – this can offer significant growth potential with high margins.

Key product catalysts and sales potential

The company launched two brands in late FY20, i.e. Pydon (Pyriproxyfen+ Diafenthiuron) and Q-FOP (Quizalofop-Ethyl) vs. four in FY19. Diron (Dinotefuran) which is a 9(3)-registered insecticide was launched in early FY21 and is a third-generation Neonicotinoid competing with ‘Osheen’ from PI Industries. BAL has developed this product using in-house R&D and is the first in India to be granted registration for manufacturing in Jun’20.

The company has planned another two launches in combination mixtures, including one in the insecticide segment in early FY22 (branded sales >US\$ 1bn globally). Management estimates sales potential of Rs 1.5bn-2bn from each of these products (vs. FY20 sales of Rs 0.9bn from 20 products).

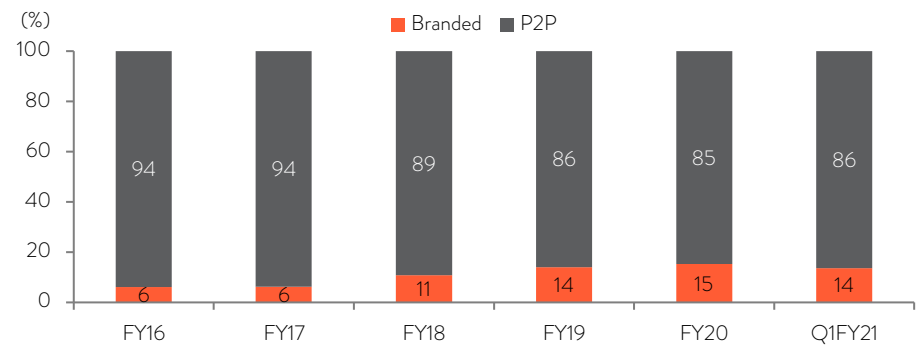
Distribution network – selective approach

BAL has over 700 distributors, 2,000 retailers and 12 major depots, with plans to add 400 distributors in FY21. The company has a strong reach in the north and west of India, and is expanding its presence in the south in a big way (Telangana, Hyderabad, Karnataka, Tamil Naidu). It has a good reach in the states of Punjab, Haryana, Madhya Pradesh, Gujarat, Uttar Pradesh, Maharashtra and Rajasthan. For better brand visibility, company organises lots of field assistance and farmer meets, besides participating in Kisan mela and issuing local advertisements.

Strong P2P presence

Brands formed 15% of FY20 sales (47% CAGR FY16-FY20)

FIG 6 – SALES MIX – BRANDED SALES & INSTITUTIONAL SALES



Source: Company, BOBCAPS Research

Top 10 brands accounted for 46% of FY20 sales

Flagship brands include Pydon (I), Nufop (H), Diron (I) launched in Q1FY21, and Zodio (F)

FIG 7 – TOP 10 BRANDS IN IN B2C SALES

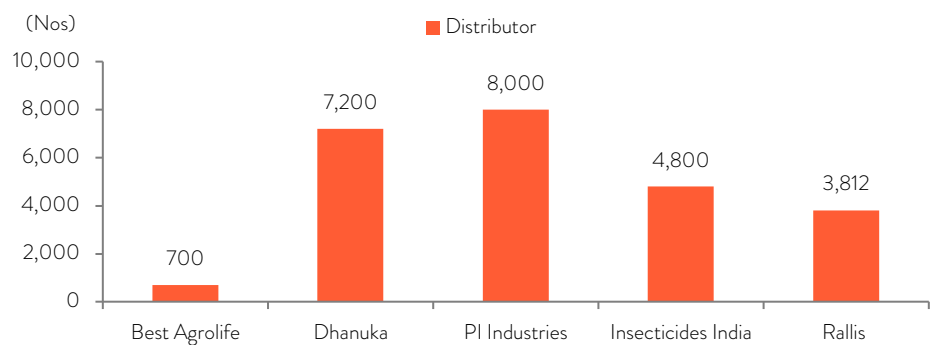
Brands	Technical name	Segment	% of Sales	Crops
Pydon	Pyriproxyfen 5% + Diafenthiuron 25% SE	Insecticides	10	Cotton, Vegetables
Nufop	Clodinafop - Propargyl 15% WP	Herbicide	8	Wheat
Zodio	Azoxystrobin 18.2% w/w + Difenconazole 11.4% w/w SC	Fungicide	7	Apple, Wheat, Guar, Mango, Cumin, Pea, Cowpea
Mahabali	Thiamethoxam 30% FS	Insecticides	5	Cotton, Paddy, Wheat, Vegetables, Fruits
Irma	Emamectin Benzoate 5% SG	Insecticides	5	Cotton, Okra, Cabbage, Chillies, Brinjal, Red Gram, Tomato, Pulses, Chickpea, Grapes
SulfoGold	Sulfo-Sulfuron 75%	Herbicide	3	Wheat
Rich Grow	Bio-enhancer	PGR	3	All Crops
Q-FOP	Quizalofop Ethyl 5% EC	Herbicide	2	Soybean, Cotton, Onion Groundnut, Black Gram
Majour	Chlorimuron Ethyl 25% WP	Herbicide	2	Soya Bean, Rice
Mycoriser Gold	Microrisa	Bio-Fertilizer	2	All Crops
Top 10 as % of Branded sales			46	

Source: Company, BOBCAPS Research

Good reach in north and west; now expanding in the south in a big way

Target to reach 1,100+ distributors by FY21

FIG 8 – DISTRIBUTION NETWORK



Source: Company, BOBCAPS Research

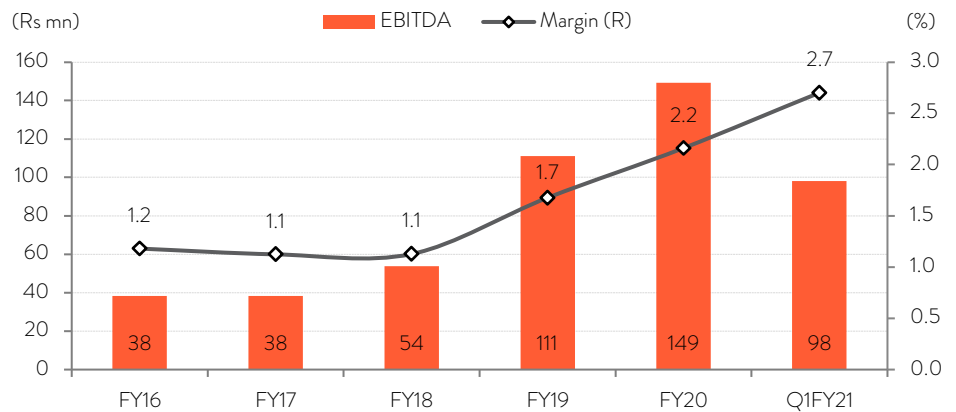
Mix shift to support margin expansion; FCF remains in focus

BAL has logged a 17% revenue CAGR over the last five years (13% in the last two years), and EBITDA margins have risen from 1.1% in FY18 to 2.2% in FY20. The branded and P2P businesses earn margins of 8-10% and 2-3% respectively. With the growing brand sales led by specialty molecules and integration of the technical manufacturing unit (Best Crop Science LLP), management expects EBITDA margins to expand significantly by 500bps in the next 3-4 years. BAL thus expects to triple its FY20 profits and post mid-teens ROCE (8% in FY20) by FY23.

Revenue/EBITDA surged 82%/179% YoY and margins were at 2.7% in Q1FY21. The company has launched Diron in Q1 which it believes could be a Rs 1bn molecule in FY21 with high margins. Over FY19-FY20, cumulative free cash totalled over Rs 500mn, led by better collections and improved operational performance – this will remain a key focus area in coming years.

BAL expects EBITDA margins to expand by >500bps in next 3-4 years

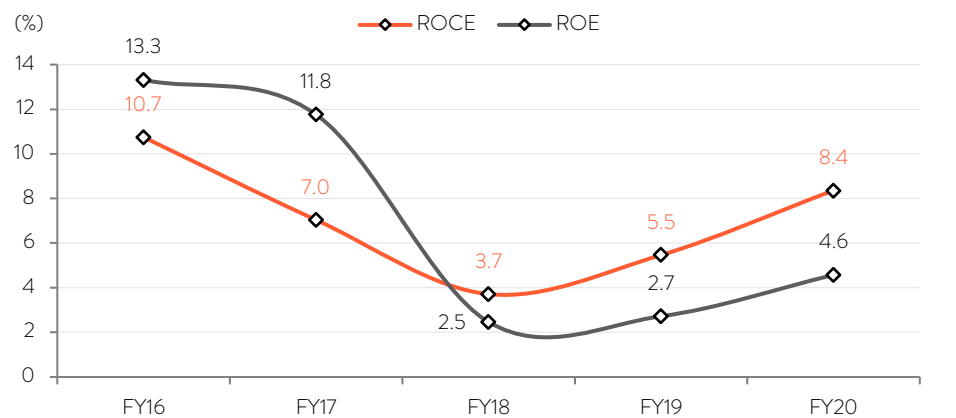
FIG 9 – EBITDA MARGINS



Source: Company, BOBCAPS Research

ROCE guided to rise to mid-teens by FY23 vs. 8% in FY20

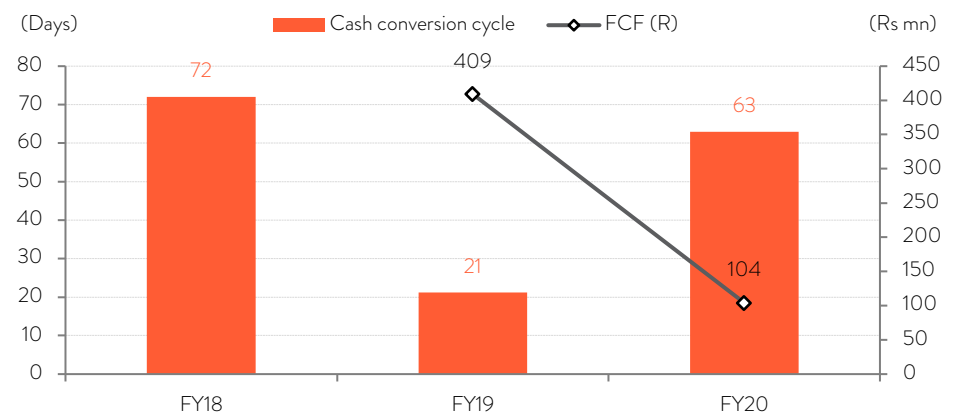
FIG 10 – ROCE AND ROE TREND



Source: Company, BOBCAPS Research

FCF led by stronger collection, better operational performance
 – to remain a focus area

FIG 11 – FREE CASH AND CASH CONVERSION CYCLE TREND



Source: Company, BOBCAPS Research

Other business highlights

- Export market sales to start from FY23:** BAL has already begun registering products for semi-regulated and regulated markets. The company does not intend to enter open markets. Within the semi-regulated segment, key focus geographies are Vietnam, Thailand and the Middle East. Among regulated markets, Europe and LATAM are focus areas.
- Inorganic expansion plans:** The company is looking to double its existing 25,000mtpa capacity to 50,000mtpa in FY21 via inorganic acquisition of a formulations unit. It already has product registrations in place and hence aims to shorten the time-to-market. Management has earmarked capex of Rs 150mn-500mn for this purpose and is currently evaluating two takeover proposals, including one with an MNC company (target plant size Rs 500mn; i.e. fixed assets). Maintenance capex is minimal.
- Integrated R&D centre to improve product basket:** An integrated R&D centre was set up in UP (Gajraula) in 2016 mainly to develop a portfolio of new specialty molecules and innovative mixtures, besides process development for import substitution. The centre has synthesis and analytical capabilities and ~10 inhouse scientists.

This has aided development and registration of two proprietary technical or 9(3) products– Dinotefuron 20% SG, and Pyraclostrobin 100g/l CS. For both, BAL was the first to be granted manufacturing registration in India. The company is working on multiple innovative mixtures within herbicides and fungicides that can substantially improve the product basket.

- No exposure to banned molecules:** BAL does not manufacture or sell products under the 27 molecules banned as per the May'20 draft notification issued by the Ministry of Agriculture.

- **Backward integration underway:** Ongoing backward integration measures are expected to reduce the raw material dependency on China to 30% (from 50% currently) in the next two years.
- **Bulk sales of technicals are low:** In P2P, BAL is mainly involved in contract manufacturing of formulations.

Valuation

The stock is trading at 36x Q1FY21 annualised EBITDA and 65x annualised EPS. We do not have a rating on BAL.

FIG 12 – PEER VALUATION

Companies	Price (Rs)	Mcap (US\$ mn)	Rating	P/E (x)		EV/EBITDA (x)		ROCE (%)
				FY21E	FY22E	FY21E	FY22E	FY20
Dhanuka Agritech	712	461	NOT RATED	19.4	17.0	14.5	12.9	22.8
Insecticides India	468	132	NOT RATED	8.9	7.3	6.0	5.1	12.4
PI Industries	1,886	3,897	BUY	40.1	31.6	23.3	18.4	22.8
Rallis India	290	768	NOT RATED	24.0	20.6	15.9	13.4	15.3
UPL	495	5,145	BUY	14.5	11.2	8.0	6.6	9.5
Average				21.4	17.6	13.6	11.3	16.6
Best Agrolife	655	196	NOT RATED	65.5	-	36.3	-	8.3

Source: BOBCAPS Research, Bloomberg

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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