

August 7, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

| | Current | | Previous | |
|----------------|---------|--------|----------|--------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | BUY | | BUY | |
| Target Price | 6,421 | | 6,010 | |
| Sales (Rs. m) | 44,890 | 48,930 | 43,709 | 47,643 |
| % Chng. | 2.7 | 2.7 | | |
| EBITDA (Rs. m) | 9,696 | 10,569 | 9,441 | 10,291 |
| % Chng. | 2.7 | 2.7 | | |
| EPS (Rs.) | 170.7 | 196.3 | 171.7 | 195.7 |
| % Chng. | (0.6) | 0.3 | | |

Key Financials - Standalone

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------|--------|--------|--------|--------|
| Sales (Rs. m) | 36,094 | 41,183 | 44,890 | 48,930 |
| EBITDA (Rs. m) | 7,264 | 8,978 | 9,696 | 10,569 |
| Margin (%) | 20.1 | 21.8 | 21.6 | 21.6 |
| PAT (Rs. m) | 6,047 | 6,960 | 7,670 | 8,820 |
| EPS (Rs.) | 134.6 | 154.9 | 170.7 | 196.3 |
| Gr. (%) | 37.0 | 15.1 | 10.2 | 15.0 |
| DPS (Rs.) | 22.6 | 100.7 | 39.3 | 45.1 |
| Yield (%) | 0.4 | 1.8 | 0.7 | 0.8 |
| RoE (%) | 25.1 | 24.8 | 22.0 | 20.2 |
| RoCE (%) | 27.5 | 29.2 | 25.3 | 22.2 |
| EV/Sales (x) | 6.7 | 5.9 | 5.2 | 4.6 |
| EV/EBITDA (x) | 33.4 | 26.8 | 24.0 | 21.3 |
| PE (x) | 42.0 | 36.5 | 33.1 | 28.8 |
| P/BV (x) | 9.9 | 8.3 | 6.5 | 5.3 |

Key Data

BYAYE.BO | BYRCS IN

| | |
|---------------------|---------------------|
| 52-W High / Low | Rs.6,344 / Rs.2,925 |
| Sensex / Nifty | 38,025 / 11,200 |
| Market Cap | Rs.254bn/ \$ 3,388m |
| Shares Outstanding | 45m |
| 3M Avg. Daily Value | Rs.359.75m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 71.43 |
| Foreign | 2.34 |
| Domestic Institution | 13.56 |
| Public & Others | 12.67 |
| Promoter Pledge (Rs bn) | - |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|--------|------|------|
| Absolute | (6.6) | 25.5 | 88.1 |
| Relative | (10.4) | 36.4 | 83.0 |

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Good all-round performance

Quick Pointers:

- Both seeds and Agchem aided topline growth
- Gross margin contraction driven by product mix especially Glyphosate

Bayer reported better than expected results with robust growth in both crop protection and seeds segment. Topline/EBITDA/APAT grew by 29%/61%/57% YoY. Gross margin contraction of 240 bps would have been largely due to higher sales growth of Roundup (Glyphosate) which is a low margin product for the company. Liquidation growth continues to be better than placement growth implying limited build-up of stocks at the dealer level. With robust paddy plantings and decent growth in Corn acreages, seeds segment is expected to sustain high growth. Lower labour availability, remunerative crop prices and well distributed monsoon will drive crop protection segment growth while leveraging synergy benefits from Monsanto acquisition will aid profits. We roll forward to Sept'22 earnings while marginally increasing our topline and EBITDA estimates for FY21 & FY22, maintain BUY rating with revised target price of Rs 6421 based on 35x Sep'22 earnings. Bayer remains our preferred pick in agchem space considering turnaround compelled by new management and robust free cashflow generation.

Advancement of production schedule bore fruit: Bayer advanced its production schedule to enable early product availability amidst timely arrival of monsoon. Strong demand in Q1 was driven by seeds portfolio, Glyphosate, etc.

Integration well on track: Integration with Monsanto is well on track and has led to (a) savings in employee cost (b) benefitting overall product portfolio (c) Rationalisation in other expenses.

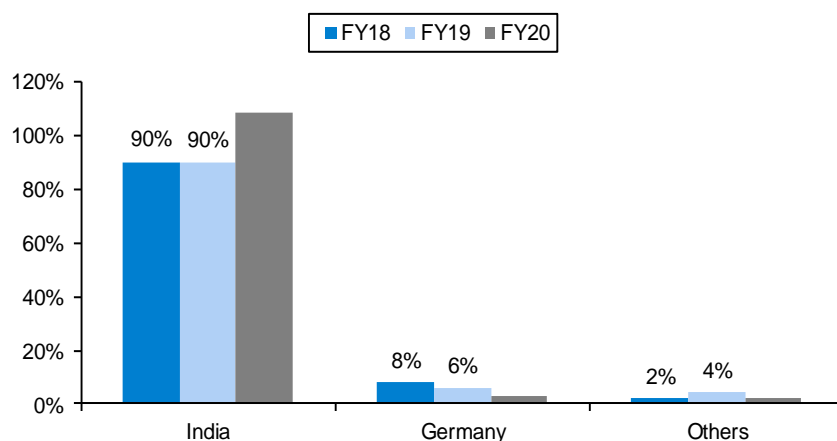
Focus shifts from placement to liquidation and timely collection of receivables: BYRCS has shifted its focus from channel placement driven growth to monitoring the liquidation at retail level before placing materials. The move will restrict unnecessary channel filling amidst tepid demand while keeping vigil on inventory and receivables.

Bayer to support scaling up of FPOs: Bayer views agri-reforms announced by the govt as transformational, making India more self-reliant. The company plans to support scaling up of FPOs via collaborations and digital farming solutions.

Exhibit 1: Sharp uptick in revenue driven by both agrochemical and seeds segment

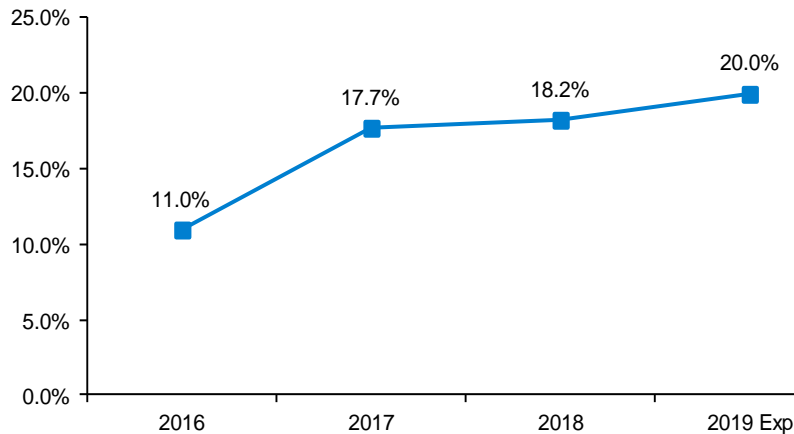
| Y/e March | Q1FY21 | Q1FY20 | YoY gr. (%) | Q4FY20 | QoQ gr. (%) | FY21E | FY20 | YoY gr. (%) |
|-----------------------|---------------|--------------|-------------|--------------|----------------|---------------|---------------|-------------|
| Net Sales | 12,278 | 9,504 | 29.2 | 4,587 | 167.7 | 41,183 | 36,094 | 14.1 |
| Expenditure | | | | | | | | |
| Raw Materials | 6,466 | 4,777 | 35.4 | 1,912 | 238.2 | 21,827 | 19,098 | 14.3 |
| <i>% of Net Sales</i> | <i>52.7</i> | <i>50.3</i> | | <i>41.7</i> | | | | |
| Employee Cost | 938 | 964 | (2.7) | 938 | - | 3,789 | 3,616 | 4.8 |
| <i>% of Net Sales</i> | <i>7.6</i> | <i>10.1</i> | | <i>20.4</i> | | | | |
| Other Expenses | 1,621 | 1,745 | (7.1) | 1,155 | 40.3 | 6,589 | 6,116 | 7.7 |
| <i>% of Net Sales</i> | <i>13.2</i> | <i>18.4</i> | | <i>25.2</i> | | | | |
| Total Expenditure | 9,025 | 7,486 | 20.6 | 4,005 | 125.3 | 32,205 | 28,830 | 11.7 |
| EBITDA | 3,253 | 2,018 | 61.2 | 582 | 458.9 | 8,978 | 7,264 | 23.6 |
| <i>Margin (%)</i> | <i>26.5</i> | <i>21.2</i> | | <i>12.7</i> | | | | |
| Depreciation | 237 | 140 | 69.3 | 191 | 24.1 | 784 | 653 | 20.0 |
| EBIT | 3,016 | 1,878 | 60.6 | 391 | 671.4 | 8,194 | 6,611 | 24.0 |
| Interest | 27 | 29 | (6.9) | 26 | 3.8 | 138 | 138 | - |
| Other Income | 149 | 186 | (19.9) | 178 | (16.3) | 866 | 660 | 31.3 |
| Exceptional | 0 | 0 | NA | -286 | (100.0) | 0 | -1,302 | NA |
| PBT | 3,138 | 2,035 | 54.2 | 257 | 1,121.0 | 8,923 | 5,831 | 53.0 |
| Tax | 609 | 424 | 43.6 | (58) | (1,150.0) | 1,963 | 1,086 | 80.8 |
| <i>Tax Rate (%)</i> | <i>19.4</i> | <i>20.8</i> | | <i>-22.6</i> | | | | |
| RPAT | 2,529 | 1,611 | 57.0 | 315 | 702.9 | 6,960 | 4,745 | 46.7 |
| APAT | 2,529 | 1,611 | 57.0 | 601 | 320.8 | 6,960 | 6,047 | 15.1 |
| O/S Shares | 44.9 | 34.3 | 30.9 | 44.9 | - | 44.9 | 44.9 | - |
| Adj. EPS | 56.3 | 46.9 | 19.9 | 13.4 | 320.8 | 154.9 | 134.6 | 15.1 |

Source: Company, PL

Exhibit 2: Geographical Break up of revenue (Excl Monsanto)


Source: Company, PL

Exhibit 3: Innovation Turnover Index is stable ~18-20% (Excl Monsanto)



Source: Company, PL

Exhibit 4: Launch timeline of Crop protection products

| FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|----------|---------|------------|-------------|-----------------|---------------|---------------|--------|
| Nativo | Lesenta | Raxil easy | Profiler | Luna Experience | Sivanto Price | Infinito | Momiji |
| Confidor | | Luna | Laudis | | Movento OD | Velum Prime | |
| Regent | Solomon | | | Movento Energy | Regent Ultra | Evergol Xtend | |
| Fame | | Sivanto | Belt expert | | Simbola | Ambition | |
| | | | | | Emesto Prime | Alion Plus | |
| | | | | | | Council Activ | |

Source: Company, PL

Exhibit 5: Launch timeline of products in seed segment

| FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|-----------------------------------|-------------------------------|-------------------------|---|--------------------------|----------------------|---------------------------|-----------------|
| Arize 6444 Gold (rice) | ProAgro 5222 (Hybrid mustard) | Arize Swift Gold (Rice) | Arize Diamond (Rice) | Arize AZ 8433 DT (Rice) | Arize AZ 6633 (Rice) | Arize AZ 6741 (Rice) | Arize AZ 6741 |
| ProAgro 5121 (Mustard) | | Arize 6201 Gold (rice) | Arize Bold (Rice) | ArizeAZ 6453 (Rice) | | Arize AZ 6565 (Rice) | ArizeAZ 6411 |
| ProAgro 7701 Gold (Millet) | | ProAgro 5111 (Mustard) | Arize Xpress (Rice) | Arize AZ 6508 (Rice) | | Proagro PA 5210 (Mustard) | Proagro PA 9180 |
| ProAgro 9450 (Millet) | | | Arize Nano (Rice) | Proagro PA 9072 (Millet) | | Proagro PA 9180 (Mustard) | Proagro PA 9285 |
| Arize 6129 gold (rice) | | | Arize Idea (Rice) | | | | |
| SurPass- First Class (cotton) | | | Arize Tej Gold (Rice) | | | | |
| ProAgro 9444 Gold (Hybrid millet) | | | Surpass Superb BGII (Sp 7517 BGII) (Cotton) | | | | |
| | | | Proagro Marutej (Millet) | | | | |
| | | | Proagro 9001 (Millet) | | | | |
| | | | Proagro Kesari Gold (Millet) | | | | |

Source: Company, PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Net Revenues | 36,094 | 41,183 | 44,890 | 48,930 |
| YoY gr. (%) | 14.0 | 14.1 | 9.0 | 9.0 |
| Cost of Goods Sold | 19,098 | 21,827 | 23,567 | 25,688 |
| Gross Profit | 16,996 | 19,356 | 21,323 | 23,242 |
| Margin (%) | 47.1 | 47.0 | 47.5 | 47.5 |
| Employee Cost | 3,616 | 3,789 | 4,265 | 4,648 |
| Other Expenses | 6,116 | 6,589 | 7,362 | 8,024 |
| EBITDA | 7,264 | 8,978 | 9,696 | 10,569 |
| YoY gr. (%) | 51.0 | 23.6 | 8.0 | 9.0 |
| Margin (%) | 20.1 | 21.8 | 21.6 | 21.6 |
| Depreciation and Amortization | 653 | 784 | 878 | 876 |
| EBIT | 6,611 | 8,194 | 8,819 | 9,693 |
| Margin (%) | 18.3 | 19.9 | 19.6 | 19.8 |
| Net Interest | 138 | 138 | 50 | - |
| Other Income | 660 | 866 | 1,065 | 1,615 |
| Profit Before Tax | 5,831 | 8,923 | 9,834 | 11,308 |
| Margin (%) | 16.2 | 21.7 | 21.9 | 23.1 |
| Total Tax | 1,086 | 1,963 | 2,163 | 2,488 |
| Effective tax rate (%) | 18.6 | 22.0 | 22.0 | 22.0 |
| Profit after tax | 4,745 | 6,960 | 7,670 | 8,820 |
| Minority interest | - | - | - | - |
| Share Profit from Associate | - | - | - | - |
| Adjusted PAT | 6,047 | 6,960 | 7,670 | 8,820 |
| YoY gr. (%) | 79.4 | 15.1 | 10.2 | 15.0 |
| Margin (%) | 16.8 | 16.9 | 17.1 | 18.0 |
| Extra Ord. Income / (Exp) | (1,302) | - | - | - |
| Reported PAT | 4,745 | 6,960 | 7,670 | 8,820 |
| YoY gr. (%) | 40.8 | 46.7 | 10.2 | 15.0 |
| Margin (%) | 13.1 | 16.9 | 17.1 | 18.0 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 4,745 | 6,960 | 7,670 | 8,820 |
| Equity Shares O/s (m) | 45 | 45 | 45 | 45 |
| EPS (Rs) | 134.6 | 154.9 | 170.7 | 196.3 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Non-Current Assets | | | | |
| Gross Block | 6,678 | 7,114 | 7,614 | 8,314 |
| Tangibles | 6,574 | 6,901 | 7,386 | 8,065 |
| Intangibles | 104 | 213 | 228 | 249 |
| Acc: Dep / Amortization | 1,993 | 2,777 | 3,654 | 4,530 |
| Tangibles | 1,906 | 2,655 | 3,495 | 4,333 |
| Intangibles | 87 | 121 | 160 | 198 |
| Net fixed assets | 4,685 | 4,337 | 3,960 | 3,784 |
| Tangibles | 4,668 | 4,245 | 3,891 | 3,732 |
| Intangibles | 17 | 92 | 69 | 52 |
| Capital Work In Progress | 559 | 623 | 623 | 623 |
| Goodwill | - | - | - | - |
| Non-Current Investments | 202 | 247 | 269 | 294 |
| Net Deferred tax assets | 270 | 270 | 270 | 270 |
| Other Non-Current Assets | 2,497 | 3,048 | 3,322 | 3,621 |
| Current Assets | | | | |
| Investments | 408 | 2,000 | 2,000 | 2,000 |
| Inventories | 9,635 | 11,362 | 12,268 | 13,372 |
| Trade receivables | 7,180 | 8,801 | 9,593 | 10,456 |
| Cash & Bank Balance | 10,710 | 10,846 | 18,991 | 26,874 |
| Other Current Assets | 2,120 | 3,130 | 3,412 | 3,719 |
| Total Assets | 38,087 | 44,806 | 54,886 | 65,231 |
| Equity | | | | |
| Equity Share Capital | 449 | 449 | 449 | 449 |
| Other Equity | 25,276 | 29,975 | 38,811 | 47,726 |
| Total Network | 25,725 | 30,424 | 39,260 | 48,175 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | - | - | - | - |
| Provisions | 1,100 | 1,318 | 1,436 | 1,566 |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | 15 | - | - | - |
| Trade payables | 4,749 | 5,980 | 6,457 | 7,038 |
| Other current liabilities | 6,630 | 7,207 | 7,856 | 8,563 |
| Total Equity & Liabilities | 38,087 | 44,806 | 54,886 | 65,231 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|----------------|----------------|--------------|----------------|
| PBT | 5,831 | 8,923 | 9,834 | 11,308 |
| Add. Depreciation | 653 | 784 | 878 | 876 |
| Add. Interest | 138 | 138 | 50 | - |
| Less Financial Other Income | 660 | 866 | 1,065 | 1,615 |
| Add. Other | 1,115 | (1,039) | (1,184) | (1,745) |
| Op. profit before WC changes | 7,737 | 8,805 | 9,578 | 10,440 |
| Net Changes-WC | 281 | (842) | (328) | (399) |
| Direct tax | (1,359) | (982) | (1,082) | (1,244) |
| Net cash from Op. activities | 6,659 | 6,982 | 8,168 | 8,796 |
| Capital expenditures | (279) | (500) | (500) | (700) |
| Interest / Dividend Income | 201 | 866 | 1,065 | 1,615 |
| Others | (211) | (1,797) | (59) | (65) |
| Net Cash from Inv. activities | (289) | (1,431) | 506 | 851 |
| Issue of share cap. / premium | - | - | - | - |
| Debt changes | 15 | - | - | - |
| Dividend paid | (1,231) | (5,277) | (479) | (1,764) |
| Interest paid | (24) | (138) | (50) | - |
| Others | (243) | - | - | - |
| Net cash from Fin. activities | (1,483) | (5,415) | (529) | (1,764) |
| Net change in cash | 4,887 | 136 | 8,145 | 7,883 |
| Free Cash Flow | 6,246 | 6,482 | 7,668 | 8,096 |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|-------|-------|-------|---------|
| Per Share(Rs) | | | | |
| EPS | 134.6 | 154.9 | 170.7 | 196.3 |
| CEPS | 149.1 | 172.3 | 190.2 | 215.8 |
| BVPS | 572.4 | 677.0 | 873.6 | 1,071.9 |
| FCF | 139.0 | 144.2 | 170.6 | 180.1 |
| DPS | 22.6 | 100.7 | 39.3 | 45.1 |
| Return Ratio(%) | | | | |
| RoCE | 27.5 | 29.2 | 25.3 | 22.2 |
| ROIC | 41.5 | 42.0 | 49.7 | 50.9 |
| RoE | 25.1 | 24.8 | 22.0 | 20.2 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | (0.4) | (0.4) | (0.5) | (0.6) |
| Net Working Capital (Days) | 122 | 126 | 125 | 125 |
| Valuation(x) | | | | |
| PER | 42.0 | 36.5 | 33.1 | 28.8 |
| P/B | 9.9 | 8.3 | 6.5 | 5.3 |
| P/CEPS | 37.9 | 32.8 | 29.7 | 26.2 |
| EV/EBITDA | 33.4 | 26.8 | 24.0 | 21.3 |
| EV/Sales | 6.7 | 5.9 | 5.2 | 4.6 |
| Dividend Yield (%) | 0.4 | 1.8 | 0.7 | 0.8 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

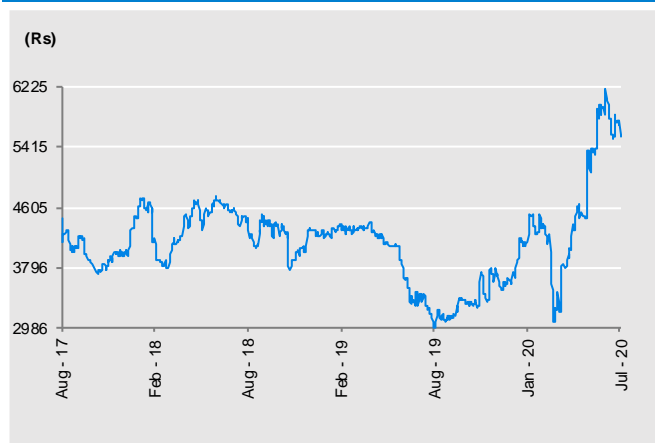
| Y/e Mar | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|-----------------------------------|---------------|--------------|--------------|---------------|
| Net Revenue | 13,463 | 8,540 | 4,587 | 12,278 |
| YoY gr. (%) | 9.1 | 10.2 | 81.9 | 29.2 |
| Raw Material Expenses | 7,800 | 4,609 | 1,912 | 6,466 |
| Gross Profit | 5,663 | 3,931 | 2,675 | 5,812 |
| Margin (%) | 42.1 | 46.0 | 58.3 | 47.3 |
| EBITDA | 3,061 | 1,603 | 582 | 3,253 |
| YoY gr. (%) | 27.0 | 93.6 | (162.9) | 61.2 |
| Margin (%) | 22.7 | 18.8 | 12.7 | 26.5 |
| Depreciation / Depletion | 173 | 149 | 191 | 237 |
| EBIT | 2,888 | 1,454 | 391 | 3,016 |
| Margin (%) | 21.5 | 17.0 | 8.5 | 24.6 |
| Net Interest | 47 | 36 | 26 | 27 |
| Other Income | 102 | 194 | 178 | 149 |
| Profit before Tax | 2,156 | 1,641 | 257 | 3,138 |
| Margin (%) | 16.0 | 19.2 | 5.6 | 25.6 |
| Total Tax | 458 | 262 | (58) | 609 |
| Effective tax rate (%) | 21.2 | 16.0 | (22.6) | 19.4 |
| Profit after Tax | 1,698 | 1,379 | 315 | 2,529 |
| Minority interest | - | - | - | - |
| Share Profit from Associates | - | - | - | - |
| Adjusted PAT | 2,485 | 1,350 | 601 | 2,529 |
| YoY gr. (%) | 49.0 | 113.9 | (205.3) | 57.0 |
| Margin (%) | 18.5 | 15.8 | 13.1 | 20.6 |
| Extra Ord. Income / (Exp) | - | - | - | - |
| Reported PAT | 2,485 | 1,350 | 601 | 2,529 |
| YoY gr. (%) | 49.0 | 113.9 | (205.3) | 57.0 |
| Margin (%) | 18.5 | 15.8 | 13.1 | 20.6 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | 2,485 | 1,350 | 601 | 2,529 |
| Avg. Shares O/s (m) | 34 | 45 | 45 | 45 |
| EPS (Rs) | 72.4 | 30.0 | 13.4 | 56.3 |

Source: Company Data, PL Research



Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 7-Jul-20 | BUY | 6,010 | 5,984 |
| 2 | 24-May-20 | BUY | 6,010 | 4,450 |
| 3 | 16-Apr-20 | BUY | 5,151 | 3,818 |
| 4 | 4-Feb-20 | BUY | 5,288 | 4,255 |
| 5 | 3-Jan-20 | Hold | 3,700 | 3,730 |
| 6 | 3-Oct-19 | Hold | 3,699 | 3,350 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|-------------------------|------------|---------|------------------|
| 1 | Bayer Cropscience | BUY | 6,010 | 5,984 |
| 2 | Dhanuka Agritech | Hold | 857 | 894 |
| 3 | Godrej Agrovet | Accumulate | 513 | 470 |
| 4 | Insecticides India | BUY | 612 | 417 |
| 5 | P.I. Industries | UR | - | 1,666 |
| 6 | Rallis India | Accumulate | 321 | 303 |
| 7 | Sharda Cropchem | Accumulate | 254 | 273 |
| 8 | Sumitomo Chemical India | Hold | 267 | 280 |
| 9 | UPL | BUY | 606 | 478 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |



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