

Sector update

UPL (BUY)

Target Price: Rs555

Sumitomo Chemical (BUY)

Target Price: Rs325

Godrej Agrovet (HOLD)

Target Price: Rs473

Insecticides (BUY)

Target Price: Rs560

Avanti Feeds (ADD)

Target Price: Rs590

Kaveri Seeds (BUY)

Target Price: Rs710

Agriculture

Better price discovery of Agri produce & more investment in rural India likely to drive incomes of farmers upwards

We hosted Mr. Balram Yadav, Managing Director - Godrej Agrovet to discuss about the Agri sector, new farm bills and the tectonic shift in Indian Agri sector. Five takeaways: (1) Agri GDP will not be impacted in FY21 considering normal monsoon, better sowing and possibility of higher Kharif production. Up-fronting of NREGA payments is also helping the Agri economy, (2) While poultry and milk demand /prices were impacted post covid, there is increase in demand now. Further opening up of economy will also lead to better demand, (3) New farm bills will help to create free pricing and the farmers can benefit. There will be higher focus on quality of Agri produce, (4) The investments in rural India (warehousing, cold chain etc) will go up. Aggregator models will also emerge and (5) New opportunities such as Agri exports, higher investments in Agri production, improvement in quality of fruits/vegetables will emerge.

We have BUY rating on UPL, Sumitomo, Insecticides and Kaveri Seeds. We rate Avanti as ADD and Godrej Agrovet as HOLD.

- ▶ **Current Agri situation:** With normal monsoon and better sowing, there is possibility of bumper kharif crop in CY20. The Rabi crop was also good in FY20. Two good Agri seasons indicate healthy income levels for farmers. There is possibility of good production of rice. However, there were some issues in cultivation of crops such as soybean, onion.
- ▶ **Expect Agri GDP growth to remain healthy:** Considering the investments in Agri sector and good Agri seasons, the Agri GDP growth is expected to be healthy in FY21. Some labour has migrated back to cities and remaining laborers are expected to be back in cities post Diwali. Free distribution of food to almost 800mn Indians has also helped to reduce any material impact on the economy. Up-fronting of NREGA payments has also helped the Agri sector.
- ▶ **Impact on poultry segment:** Consumption of chicken and eggs was severely impacted post lockdown. Also closure of HoReCa added to woes of Poultry segment. However, there is increase in chicken/ egg prices and the consumption is on recovery path. Gradual opening up of the economy will lead to further improvement.
- ▶ **Impact on milk segment:** Almost 30% of milk is consumed by institutions and it was impacted post covid. However, there is gradual recovery now. Lower investments in cattle feed and cow rearing activities impacted milk production and now there is negligible mismatch in milk production and consumption.
- ▶ **The new farm bills:** New farm bills will create a free market. The farmers will be able to sell their Agri produce anywhere in India. There will be free pricing and the 'culture of managing prices' of Agri produce will reduce. This will help multiple parties in value chain such as farmers and consumers.

Valuation summary

Company	Reco	CMP (Rs)	TP (Rs)	EPS (Rs)			P/E (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
UPL	BUY	506	555	32.7	39.5	46.8	15.5	12.8	10.8	8.7	13.9	14.7
Sumitomo	BUY	291	325	4.7	5.4	7.1	61.7	53.9	41.2	17.5	20.1	21.8
GAVL	HOLD	509	473	16.5	14.3	18.3	30.9	35.6	27.9	16.5	14.6	16.9
Insecticides	BUY	484	560	42.1	56.5	62.9	11.5	8.6	7.7	11.8	14.5	14.2
Avanti	ADD	499	590	25.7	27.7	32.9	19.4	18.0	15.2	26.5	24.3	23.9
Kaveri	BUY	548	710	42.9	47.3	55.6	12.8	11.6	9.8	25.2	25.8	24.2

Source: Company data, I-Sec research

Research Analyst:

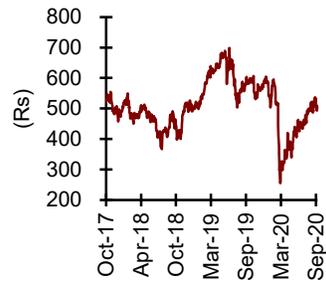
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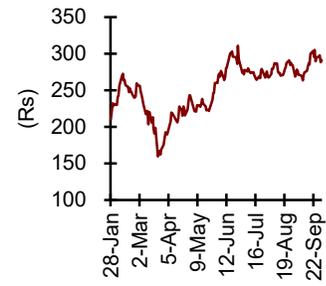
- **Increase in investments in rural India:** New business models will emerge in rural India such as warehousing, cold chain, better transportation facilities. Free market will also ensure improvement in quality of Agri produce. There will be investments in products/services which enhance and/or retain the quality of Agri produce. There will be new employment opportunities in rural India.
- **Major benefits of farm bills:**
 - Indian farm produce prices are higher than other countries. With free pricing as well as better quantity/quality of Agri produce, export opportunities will emerge.
 - The MSP support is largely available to non-perishable commodities such as rice and wheat. Free pricing will benefit other commodities too.
 - With rising income levels, the demand for protein food will increase in India. The improvement in farming practice can take care of additional need of protein food.
 - The transportation of fruits and vegetables is tough considering very high perishability. With increase in cold storage facilities, there will be better pricing and quality of Agri produce.
 - If the farmers get more money, they are likely to invest in better farming techniques.
 - Some crops like sugarcane, wheat and rice consume a large of part of subsidy. As these farmers will shift to other crops, there will be reduction in subsidy.
- **Emerging model of aggregators:** New farm-produce aggregator models are emerging in India. They are expected to reduce the number of middle men between farmers and consumers. There will be investments in transportation as well as better packaging of Agri produce.
- **Learning from Bihar market:** The problems with Bihar's Agri market are not related to APMCs. The maize prices were affected as poultry market was affected. Lower demand for poultry feed resulted in lower demand for maize and hence, the prices declined. Also large population and limited Agri land impacts the income levels in Bihar. The lower level of industrialization in Bihar vs states like Maharashtra also makes an impact on earnings.
- **Stock calls:** We believe companies which have strong Balance Sheet and have created strong moats (brands, distribution network etc) are likely to emerge winners. We have BUY rating on UPL, Sumitomo, Insecticides and Kaveri seeds. We rate Avanti Feeds as ADD and Godrej Agrovet as HOLD.

Price charts

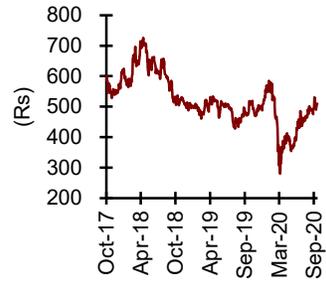
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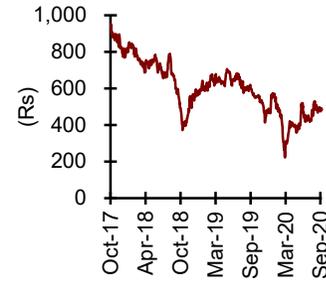
Sumitomo Chemical



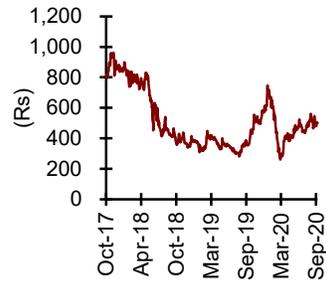
Godrej Agrovet



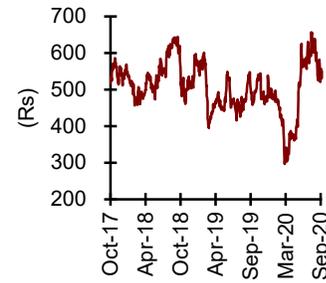
Insecticides



Avanti Feeds



Kaveri Seeds



Source: Bloomberg

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