

Press Release

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Pesticides ban unlikely to dent agrochem revenues much

Phased implementation of ban, expanding product suite and export allowance to cushion blow

The government's proposal to ban 27 pesticides (*list in annexure*), accounting for 15-20% of the Rs.45,000 crore organised agrochemical sector revenue, is unlikely to impact manufacturers materially due to a troika of reasons.

First, the ban is unlikely to be implemented in the current fiscal due to the Covid pandemic and as seen in the past, such bans are implemented in a phased manner. Second, manufacturers are getting ready with substitutes, given that ban on some of these products was anticipated, And third, exports of these products (~40% of revenues) are being permitted on a case to case basis.

An analysis of 31 CRISIL-rated agrochemicals firms, accounting for ~87% of the organised agrochemicals sector revenue in fiscal 2020, shows as many as 25 of them generate less than 15% of their revenue from the pesticides proposed to be banned. The balance six have 15-50% exposure, and of these, many also have a high share of exports.

The government issued a draft ban order in May 2020, citing high toxicity level of these 27 pesticides, and their impact on soil health. These products were initially identified based on the recommendations of the Verma committee made in 2015. The government has sought responses from stakeholders by mid-August 2020.

Given the pandemic-induced challenges faced by both, farmers and agricultural input suppliers, the government is likely to implement the final ban only from the next fiscal, that too in a phased manner. Besides, over 50% of annual sales of these products will be completed in the ongoing kharif season of fiscal 2021.

Says Sameer Charania, Director, CRISIL Ratings, "Anticipating the ban, most firms had already begun to diversify their product basket and geographical reach in recent years. That, along with the expected phased implementation of the final order, will allow firms to realign their product portfolio through generic substitutes and co-marketing opportunities, and soften the blow on revenues."

Additionally, the government is permitting exports, which account for ~40% of revenue for these products, on a case-to-case basis. Notably, 20 of these 27 pesticides are exported to regions such as Latin America, United States, Asia Pacific and European Union, where there is no ban on their usage. In the past, too, the government allowed exports of banned products where firms had contractual obligations.

Net-net therefore, there will be only modest impact on revenues.

Says Rajeswari Karthigeyan, Associate Director, CRISIL Ratings "Considering the ban will be implemented in phases in the domestic market, we expect revenue growth for the CRISIL sample set to moderate by 200-400 basis points (bps) over the medium term, compared with healthy 10-12% growth anticipated for fiscal 2021. Also, operating profitability, which stood at 16-17% in fiscal 2020, could moderate 100-150 bps, given that the banned products enjoy healthy margins."

The ban is unlikely to impact the credit profiles of agrochemical firms, which have strengthened over time due to steady demand and profitability as well as prudent capital spending and working capital management. The estimated median gearing and interest cover of the sample set stood at an estimated 0.47 time and ~6 times, respectively, at the end of fiscal 2020, providing for sufficient loss absorption capacity.

That said, ~10% of the sample set with high share of these 27 products (25-50% of revenue) and limited alternative products will be vulnerable to the ban. CRISIL will continue to monitor the aspects of the final order, especially the time provided to phase out products and how firms manage the transition.

Annexure**Prohibited pesticides in the draft order**

	Name	Type of pesticide
1	Carbofuran	Insecticide
2	Methomyl	Insecticide
3	Monocrotophos	Insecticide
4	Benfuracarb	Insecticide
5	Chlorpyrifos	Insecticide
6	Deltamethrin	Insecticide
7	Dimethoate	Insecticide
8	Quinalphos	Insecticide
9	Thiodicarb	Insecticide
10	2,4-D	Herbicide
11	Acephate	Insecticide
12	Dicofol	Insecticide
13	Malathion	Insecticide
14	Carbendazim	Fungicide
15	Dinocap	Fungicide
16	Thiram	Fungicide
17	Ziram	Fungicide
18	Atrazine	Herbicide
19	Butachlor	Herbicide
20	Diuron	Herbicide
21	Pendimethalin	Herbicide
22	Captan	Fungicide
23	Mancozeb	Fungicide
24	Thiophanate methyl	Fungicide
25	Zineb	Fungicide
26	Oxyfluorfen	Herbicide
27	Sulfosulfuron	Herbicide

Colour code: Red denotes highly toxic; green, least toxic

Source: Ministry of Agriculture and Farmers' Welfare

For further information contact

Media relations	Analytical contacts	Customer service helpdesk
Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 M: +91 95 940 60612 B: +91 22 3342 3000 saman.khan@crisil.com	Anuj Sethi Senior Director - CRISIL Ratings CRISIL Limited B: +91 44 6656 3100 anuj.sethi@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com
Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 M: +91 90 040 84769 B: +91 22 3342 3000 naireen.ahmed@crisil.com	Sameer Charania Director - CRISIL Ratings CRISIL Limited D: +91 22 3342 8025 sameer.charania@crisil.com	

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