

INDIAN CHEMICALS SECTOR: AGROCHEMICALS

**Demand pressures and inventory
destocking to weigh on
agrochemical industry performance**

JUNE 2023



Inventory destocking, softening crop prices, development of El-Nino phenomenon expected to impact demand for agrochemicals in H1 FY2024 in the export markets. Domestic demand expected to remain stable.

Return of Chinese exports to the agrochemical markets has resulted in pricing pressure and softening of margins. ICRA expects the operating margin for the segment to moderate in H1 FY2024 with modest improvement in the second half driven by demand recovery.



A normal monsoon prediction by IMD bodes well for the agrochemical industry. However, spatial and temporal distribution of monsoon remains key to agrochemical performance.



Development of El-Nino phenomenon poses downside risk to global agri-economy and, in turn, agrochemical demand. While the phenomenon is yet to impact India, the past data indicates, irrespective of its intensity, a negative impact on monsoon and kharif output as well.



Inventory destocking, softening crop prices and subdued agrochemical demand from key agrarian economies have led to pricing pressures. Chinese exports returning to the market post abolition of the zero-Covid policy at the start of CY2023 has added to pricing pressure, resulting in overall decline in prices.



At the global level, APAC continues to be the largest market, while LATAM emerged as the fastest growing market in CY2023. China continues to be the dominant player in the global agrochemical market despite supply disruptions.



ICRA expects the operating margins of agrochemical players (excluding players with large custom synthesis manufacturing exposure) to remain subdued in FY2024 amid pricing pressure and subdued demand. However, the credit profile of the industry is expected to remain stable, given the generally low debt levels.



The GoI had proposed to ban 27 pesticides in May 2020, comprising nearly 40% of the total pesticide sales in the country. As per a gazette notification release in February 2023, three of these pesticides were banned for use. ICRA does not expect any material impact of the ban on the industry.



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