

INDIA REWIND

India Rewind is a monthly update from DSP's Investment desk. It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

"Cultivating Growth, Protecting Harvests: Agrochemicals for Sustainable Agriculture"

India's economy has experienced a remarkable transition, from being an agrarian-based system to one dominated by services and now moving towards manufacturing. While the shift has been significant, the agricultural sector continues to play a crucial role in the country's overall economic landscape. Agriculture contributes about ~20% of the total Gross Value Added (GVA) in 2022-23 and continues to support a vast majority of the population by providing employment opportunities to about 54% of the workforce and is a major contributor to the rural economy. The Indian Population currently stands at ~1.5bn and is estimated to rise to ~1.7bn by 2050, necessitating a focus on increasing agricultural production and productivity. Agrochemicals, such as crop protection chemicals, play a crucial role in preventing crop losses. Their efficient and responsible usage within a regulatory framework is essential for sustainable agriculture and food security for the future.

The Agri industry in India is still in its nascent stage given that ~48% of the area under cultivation is still not irrigated and the average yield of key crops is ~30-50 lower than the global average. Agrochemicals are crucial inputs for crop protection and higher yields, especially in the pre-harvest stage. Their responsible use promotes sustainable farming and addresses the challenge of feeding a growing population. Agrochemical consumption in India is relatively low compared to global norms, signaling untapped growth potential. To foster sustainable agricultural development in India, it is important to raise awareness among farmers about the benefits of agrochemicals. In India, pests and diseases on average eat away around ~20-25% of the total food produced. As per the Ministry of Agriculture, India is losing agricultural production annually due to damage from pests, weeds, and plant diseases. Hence, Agrochemical acts as key input for crop protection and better yield. Indian agrochemical manufacturers possess the capacity and innovative product portfolios to support farmers. Insecticides dominate the domestic demand, followed by fungicides and herbicides. The agrochemical industry has seen substantial investment, mergers, and acquisitions, resulting in reduced research and development costs, shorter development times, and improved efficiency in the R&D process. We maintain a positive outlook on the growth potential of the agrochemical sector and anticipate its continued success in the future.

Sustainable agricultural practices worldwide are reshaping agrochemical consumption patterns, offering Indian companies substantial export opportunities. The use of biologicals and judicious agrochemical application through effective farming techniques drives the development of innovative chemistries, prioritizing productivity, and ecological balance. Adapting to these market dynamics is essential for agrochemical companies to thrive. The world is moving towards "**Zero Hunger**", a sustainable development goal to fight hunger and achieve food security, improve nutrition, and promote sustainable agriculture, indicating as strong demand environment globally for the agrochemical companies.

Flows, Valuations and Earnings: NIFTY (India's frontline index) surged ~3% last week, marking a new all-time high and passing the 19,300 mark, leading most global markets. The rally had been driven by upbeat US economic data, receding inflationary pressures, subdued crude oil prices and decent progress in the monsoon. In YTD23, MSCI India Index returned ~4.5% vs MSCI EM ~3.5% and MSCI DM ~14%. As highlighted earlier, the FII inflows remain robust even in the last month. FIIs have bought \$15bn since March and US\$10bn YTD. DIIs have net bought US\$11bn YTD. Consumer Disc, Financials & Staples have seen the most inflow from Foreigners and conversely, the biggest outflow has been in Energy and Infotech. MSCI India (~19x, 2YF) is now trading at ~1SD above MSCI EM and DM while in line with its long-term average. GST collections soared ~12% YoY last month, making it the seventh time monthly collections exceeded ~USD 18bn, a testament to the strong domestic economy and thriving markets.

Chart of the Month: India growing sustainably for a greener tomorrow

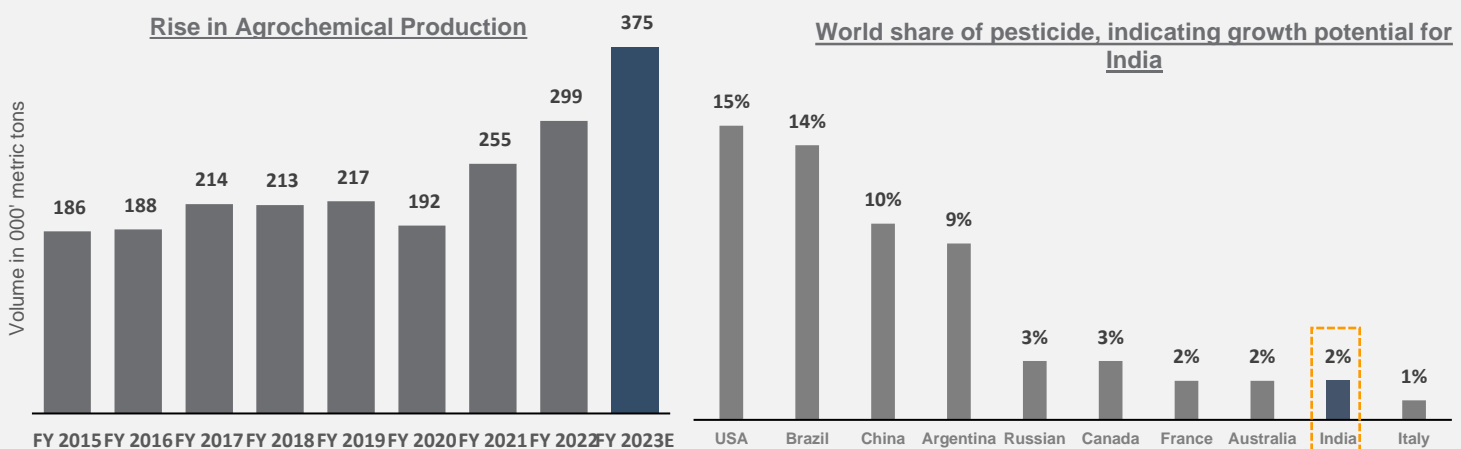


Chart Source: Nuvama Research, Info Sources: Internal, Bloomberg, UBS Research, Goldman Sachs, FII - Foreign Institutional Investor, DII- Domestic Institutional Investor, FY - Financial Year, CY - Calendar Year; YoY is Year over Year, YTD- Year to date, EM- Emerging Markets, DM- Developed Markets, 2YF- Two Year Forward.



Souvik Saha
Manager,
Investment Strategist



Jay Kothari
Senior Vice President,
Lead Investment Strategist

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India at a Glance

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Economic Activity and Employment								
GDP, USD bn	2295	2651	2701	2871	2668	3176	3390	3713
GDP per capita, USD	1767	2018	2036	2141	1969	2321	2451	2658
Real GDP growth, %	8.3	6.8	6.5	4.0	-6.6	8.7	7.2	5.3
Prices, interest rates and money								
CPI inflation, % y/y (average)	4.5	3.6	3.4	4.8	6.2	5.5	6.7	5.4
Repo rate, % (year-end)	6.25	6.0	6.25	4.4	4.0	4.0	6.50	6.0
10 year bond yield, % (year-end)	6.7	7.4	7.4	6.1	6.2	6.8	7.3	7.0
USDINR (year-end)	64.8	65.0	69.2	75.4	73.5	75.8	82.3	79.0
Fiscal accounts								
General government budget balance, % GDP	-7.0	-5.9	-5.9	-7.8	-13.9	-9.5	-9.4	-9.0
Balance of payments								
Trade balance, USD bn	-112	-160	-180	-158	-102	-189	-266	-250
Exports, USD bn	280	309	337	320	296	429	454	420
Imports, USD bn	393	469	518	478	398	619	720	668
Current account balance, USD bn	-14	-49	-57	-25	24	-39	-69	-55
Foreign direct investment (net), USD bn	35.6	30.3	30.7	43.0	44.0	38.6	35	38
Total FX reserves, USD bn	370	425	413	478	577	607	578	608
Total external debt, % GDP	20.5	20.0	20.1	19.5	21.4	19.1	18	15
Credit ratings								
Moody's	Baa3	Baa2	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March, E - Estimates

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