

August 5, 2019

## Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	887		887	
Sales (Rs. m)	13,304	14,647	13,304	14,647
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,102	2,300	2,102	2,300
% Chng.	-	-	-	-
EPS (Rs.)	56.9	68.2	56.9	68.2
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	10,733	11,919	13,304	14,647
EBITDA (Rs. m)	1,478	1,856	2,102	2,300
Margin (%)	13.8	15.6	15.8	15.7
PAT (Rs. m)	840	1,224	1,176	1,410
EPS (Rs.)	40.6	59.2	56.9	68.2
Gr. (%)	41.3	45.8	(3.9)	19.8
DPS (Rs.)	2.0	2.0	2.9	3.4
Yield (%)	0.3	0.3	0.5	0.5
RoE (%)	16.6	20.3	17.2	19.0
RoCE (%)	19.5	20.6	20.0	22.8
EV/Sales (x)	1.3	1.3	1.1	0.9
EV/EBITDA (x)	9.2	8.5	7.0	5.9
PE (x)	15.3	10.5	10.9	9.1
P/BV (x)	2.3	1.9	1.8	1.6

### Key Data

ISIL.BO | INST IN

52-W High / Low	Rs.800 / Rs.361
Sensex / Nifty	36,700 / 10,863
Market Cap	Rs.13bn/ \$ 182m
Shares Outstanding	21m
3M Avg. Daily Value	Rs.21.8m

### Shareholding Pattern (%)

Promoter's	68.75
Foreign	3.75
Domestic Institution	15.21
Public & Others	12.29
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	5.4	(21.1)
Relative	2.4	5.2	(19.3)

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## On a launch spree

**INST's outperformance vis-à-vis domestic industry continued in Q1FY20. Revenue grew by 12.4% YoY driven by formulation business (particularly new launches). The performance is expected to sustain going forward as well, led by its strong product pipeline. INST is in the midst of transition from a me-too agrochemical manufacturer to a research-driven integrated player with focus on creating brands (+100 branded and +21 technical products) with differentiated products. It is working on multiple fronts (proprietary off-patent, inlicensing and new discovery) to enrich its product portfolio. Timely execution of this strategy can enable INST to sustain high growth rate over the medium term. INST's revenue from new launches (8 in FY19 and pipeline of 35 products) is expected to neutralize the expected revenue loss from FY22E due to ban of DDVP and Phorate. Backward integration for key inputs will aid in securing supplies for its Maharatna range of products apart from increasing the sale of technicals. We estimate 11% revenue CAGR and 7% PAT CAGR over FY19-21. Maintain Buy with target price of Rs 887 based on 13x FY21 earnings.**

**On a launch Spree:** The company has launched 4 new products in 1Q and plans to launch 3 products each in August & Rabi season. INST is on a launch spree to broaden its product portfolio and limit the impact of revenue loss that may happen post the ban on usage of DDVP and Phorate from 1<sup>st</sup> Jan 2021. The company had launched 8 products in FY19 and further plans to launch 8-10 new molecules in FY20 and FY21 each. Out of targeted 10 new launches in FY21, 4-5 are expected to be inlicensed from the Japanese players.

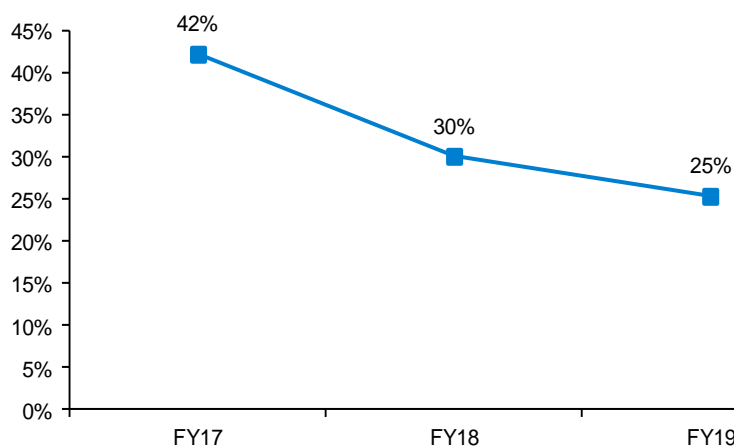
**Medium term outlook continues to be exciting:** The broad strategy on product portfolio side continues to be quite impressive and is driven by new launches and capacity expansion. These strategies, if executed well, can lead to sustained double digit growth rate for INST in the medium term.

- With investment of Rs 2 bn, INST plans to expand technical capacities at Chopanki & Dahej plant and a greenfield EOU at Dahej for exports.
- INST is working on ~10-12 proprietary off-patent products. Proprietary off-patent products, though difficult to develop, are the ones with good revenue and profitability prospects for a period of 3-4 years.
- The company is primarily focusing on high potential molecules which can be inducted into its Maharatna category.
- On the exports side as well, strategies are being implemented to significantly scale up export of technical (along with formulations). GLP data for 8-10 new technicals will be generated this fiscal. It is also looking to set up an EOU for exports with an investment of INR 250 mn.

**Exhibit 1: New launches driving growth for Insecticides India**

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	QoQ gr. (%)
<b>Net Sales</b>	<b>3,584</b>	<b>3,189</b>	<b>12.4</b>	<b>1,989</b>	<b>80.1</b>
<b>Expenditure</b>					
Raw Materials	2,508	2,203	13.8	1,441	13.8
<i>% of Net Sales</i>	<i>70.0</i>	<i>69.1</i>		<i>72.4</i>	
Employee Cost	172	149	15.4	200	15.4
<i>% of Net Sales</i>	<i>4.8</i>	<i>4.7</i>		<i>10.0</i>	
Other Expenses	273	282	(3.1)	60	(3.1)
<i>% of Net Sales</i>	<i>7.6</i>	<i>8.8</i>		<i>3.0</i>	
Total Expenditure	2,952	2,634	12.1	1,701	12.1
<b>EBITDA</b>	<b>631</b>	<b>556</b>	<b>13.6</b>	<b>289</b>	<b>13.6</b>
<i>Margin (%)</i>	<i>17.6</i>	<i>17.4</i>		<i>14.5</i>	
Depreciation	59	48	21.9	49	21.9
<b>EBIT</b>	<b>572</b>	<b>508</b>	<b>12.8</b>	<b>240</b>	<b>12.8</b>
Interest	69	29	138.2	63	138.2
Other Income	12	2	543.4	10	543.4
<b>PBT</b>	<b>515</b>	<b>480</b>	<b>7.2</b>	<b>186</b>	<b>7.2</b>
Tax	156	141	10.9	(99)	10.9
<i>Tax Rate (%)</i>	<i>30.2</i>	<i>29.3</i>		<i>-53.3</i>	
<b>RPAT</b>	<b>359</b>	<b>340</b>	<b>5.7</b>	<b>286</b>	<b>5.7</b>
<b>APAT</b>	<b>359</b>	<b>340</b>	<b>5.7</b>	<b>286</b>	<b>5.7</b>
<b>Adj EPS</b>	<b>17.4</b>	<b>16.4</b>	<b>5.7</b>	<b>13.8</b>	<b>5.7</b>

Source: Company, PL

**Exhibit 2: ITI is expected to inch up going forward with rich product pipeline**


Source: Company, PL

## Exhibit 3: Product Freshness Index

	FY13	FY14	FY15	FY16	FY17	FY18	FY19
New products	5	5	3	2	5	5	8
% of rev from Operations	7.1%	19.9%	22.9%	30.3%	37.9%	43.1%	44.9%
Total	440	1,720	2,210	2,990	4,200	4,780	5,360
YoY%		290.9%	28.5%	35.3%	40.5%	13.8%	12.1%
	440	1,030	1,310	1,660	1,720	1,550	1,920
YoY%		134.1%	27.2%	26.7%	3.6%	-9.9%	23.9%
	-	690	600	890	660	650	410
YoY%			-13.0%	48.3%	-25.8%	-1.5%	-36.9%
	-	-	300	330	380	340	450
YoY%				10.0%	15.2%	-10.5%	32.4%
	-	-	-	110	130	100	90
YoY%					18.2%	-23.1%	-10.0%
	-	-	-	-	1,310	1,480	900
YoY%						13.0%	-39.2%
	-	-	-	-	-	660	890
YoY%							34.8%
	-	-	-	-	-	-	700

Source: Company, PL

## Exhibit 4: Product launch timeline

FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Hakama	Xplode	Myocraja	Prime Gold	Green Label	Kayakalp	Encounter	Super Racer
Nuvan	Logo/ Gama	Blaster	Focus	Suzuka	Bhima	Aikido	Lethal Gold
Pulsor	Selector	Lethal Advance		Glusto	Hijack Super	Sofia	Chaperone
Wego Super	Trick			Victor Gold	Green Mix	Hercules	Kunoichi
Hawk	Profit Super			Agrospred Max	Root bead	Durion	Uno
						Durion Tech	Tozo
						Athelete	Rockstar
						Stroke	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>10,733</b>	<b>11,919</b>	<b>13,304</b>	<b>14,647</b>
YoY gr. (%)	8.0	11.1	11.6	10.1
Cost of Goods Sold	7,634	8,226	9,073	9,931
Gross Profit	3,098	3,693	4,231	4,716
Margin (%)	28.9	31.0	31.8	32.2
Employee Cost	506	652	998	1,099
Other Expenses	1,114	1,185	1,131	1,318
<b>EBITDA</b>	<b>1,478</b>	<b>1,856</b>	<b>2,102</b>	<b>2,300</b>
YoY gr. (%)	32.7	25.6	13.3	9.4
Margin (%)	13.8	15.6	15.8	15.7
Depreciation and Amortization	170	197	226	261
<b>EBIT</b>	<b>1,308</b>	<b>1,659</b>	<b>1,877</b>	<b>2,039</b>
Margin (%)	12.2	13.9	14.1	13.9
Net Interest	159	152	231	70
Other Income	32	23	35	45
<b>Profit Before Tax</b>	<b>1,181</b>	<b>1,530</b>	<b>1,681</b>	<b>2,014</b>
Margin (%)	11.0	12.8	12.6	13.7
Total Tax	341	306	504	604
Effective tax rate (%)	28.9	20.0	30.0	30.0
<b>Profit after tax</b>	<b>840</b>	<b>1,224</b>	<b>1,176</b>	<b>1,410</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>840</b>	<b>1,224</b>	<b>1,176</b>	<b>1,410</b>
YoY gr. (%)	41.3	45.8	(3.9)	19.8
Margin (%)	7.8	10.3	8.8	9.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>840</b>	<b>1,224</b>	<b>1,176</b>	<b>1,410</b>
YoY gr. (%)	41.3	45.8	(3.9)	19.8
Margin (%)	7.8	10.3	8.8	9.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	840	1,224	1,176	1,410
<b>Equity Shares O/s (m)</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>
<b>EPS (Rs)</b>	<b>40.6</b>	<b>59.2</b>	<b>56.9</b>	<b>68.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>2,643</b>	<b>2,926</b>	<b>3,426</b>	<b>3,926</b>
Tangibles	2,601	2,873	3,364	3,855
Intangibles	43	53	62	71
<b>Acc: Dep / Amortization</b>	<b>327</b>	<b>524</b>	<b>750</b>	<b>1,011</b>
Tangibles	316	508	727	980
Intangibles	11	16	22	30
<b>Net fixed assets</b>	<b>2,316</b>	<b>2,402</b>	<b>2,676</b>	<b>2,915</b>
Tangibles	2,284	2,365	2,637	2,875
Intangibles	32	37	39	40
Capital Work In Progress	168	190	157	165
Goodwill	-	-	-	-
Non-Current Investments	181	134	145	148
Net Deferred tax assets	(189)	(179)	(179)	(179)
Other Non-Current Assets	140	199	180	198
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	4,073	7,051	6,014	5,016
Trade receivables	2,348	2,442	2,734	3,010
Cash & Bank Balance	201	92	158	197
Other Current Assets	539	871	931	1,025
<b>Total Assets</b>	<b>10,001</b>	<b>13,549</b>	<b>13,182</b>	<b>12,879</b>
<b>Equity</b>				
Equity Share Capital	207	207	207	207
Other Equity	5,269	6,407	6,866	7,577
<b>Total Network</b>	<b>5,475</b>	<b>6,613</b>	<b>7,073</b>	<b>7,784</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	83	13	300	300
Provisions	6	7	6	6
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	968	2,952	1,800	600
Trade payables	2,434	2,799	2,734	2,809
Other current liabilities	847	986	1,091	1,201
<b>Total Equity &amp; Liabilities</b>	<b>10,001</b>	<b>13,549</b>	<b>13,182</b>	<b>12,879</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,181	1,530	1,681	2,014
Add. Depreciation	170	197	226	261
Add. Interest	(3)	(23)	(35)	(45)
Less Financial Other Income	32	23	35	45
Add. Other	148	152	(569)	(730)
Op. profit before WC changes	1,496	1,856	1,302	1,500
Net Changes-WC	579	(3,034)	717	799
Direct tax	(262)	(368)	(378)	(453)
<b>Net cash from Op. activities</b>	<b>1,812</b>	<b>(1,546)</b>	<b>1,641</b>	<b>1,845</b>
Capital expenditures	(280)	(283)	(500)	(500)
Interest / Dividend Income	3	23	35	45
Others	22	44	-	-
<b>Net Cash from Invst. activities</b>	<b>(255)</b>	<b>(215)</b>	<b>(465)</b>	<b>(455)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,220)	1,914	(865)	(1,200)
Dividend paid	(50)	(48)	(70)	(82)
Interest paid	(160)	(152)	(231)	(70)
Others	(18)	(5)	-	-
<b>Net cash from Fin. activities</b>	<b>(1,448)</b>	<b>1,709</b>	<b>(1,166)</b>	<b>(1,352)</b>
<b>Net change in cash</b>	<b>109</b>	<b>(53)</b>	<b>10</b>	<b>38</b>
Free Cash Flow	1,531	(1,829)	1,141	1,345

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	40.6	59.2	56.9	68.2
CEPS	48.9	68.7	67.8	80.8
BVPS	264.9	320.0	342.2	376.6
FCF	74.1	(88.5)	55.2	65.1
DPS	2.0	2.0	2.9	3.4
<b>Return Ratio(%)</b>				
RoCE	19.5	20.6	20.0	22.8
ROIC	14.3	16.7	14.3	16.3
RoE	16.6	20.3	17.2	19.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.2	0.4	0.3	0.1
Net Working Capital (Days)	136	205	165	130
<b>Valuation(x)</b>				
PER	15.3	10.5	10.9	9.1
P/B	2.3	1.9	1.8	1.6
P/CEPS	12.7	9.0	9.1	7.7
EV/EBITDA	9.2	8.5	7.0	5.9
EV/Sales	1.3	1.3	1.1	0.9
Dividend Yield (%)	0.3	0.3	0.5	0.5

Source: Company Data, PL Research

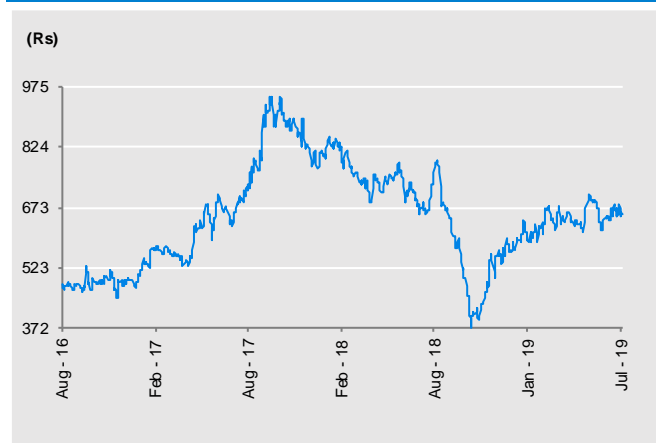
### Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
<b>Net Revenue</b>	<b>4,583</b>	<b>2,157</b>	<b>1,989</b>	<b>3,584</b>
YoY gr. (%)	10.0	22.6	17.8	12.4
Raw Material Expenses	3,211	1,371	1,441	2,508
Gross Profit	1,372	786	548	1,076
Margin (%)	29.9	36.4	27.6	30.0
<b>EBITDA</b>	<b>692</b>	<b>320</b>	<b>289</b>	<b>631</b>
YoY gr. (%)	24.3	39.1	54.7	13.6
Margin (%)	15.1	14.8	14.5	17.6
Depreciation / Depletion	49	50	49	59
<b>EBIT</b>	<b>643</b>	<b>269</b>	<b>240</b>	<b>572</b>
Margin (%)	14.0	12.5	12.0	16.0
Net Interest	24	36	63	69
Other Income	3	9	10	12
<b>Profit before Tax</b>	<b>621</b>	<b>242</b>	<b>186</b>	<b>515</b>
Margin (%)	13.6	11.2	9.4	14.4
Total Tax	192	74	(99)	156
Effective tax rate (%)	30.8	30.4	(53.3)	30.2
<b>Profit after Tax</b>	<b>430</b>	<b>168</b>	<b>286</b>	<b>359</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>430</b>	<b>168</b>	<b>286</b>	<b>359</b>
YoY gr. (%)	18.9	74.5	271.4	5.7
Margin (%)	9.4	7.8	14.4	10.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>430</b>	<b>168</b>	<b>286</b>	<b>359</b>
YoY gr. (%)	18.9	74.5	271.4	5.7
Margin (%)	9.4	7.8	14.4	10.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>430</b>	<b>168</b>	<b>286</b>	<b>359</b>
Avg. Shares O/s (m)	21	21	21	21
<b>EPS (Rs)</b>	<b>20.8</b>	<b>8.1</b>	<b>13.8</b>	<b>17.4</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Jul-19	BUY	887	673
2	8-Jul-19	BUY	887	640
3	4-Jul-19	BUY	887	650
4	31-May-19	BUY	887	706
5	5-Apr-19	BUY	896	640
6	5-Feb-19	BUY	896	588
7	7-Jan-19	BUY	896	572

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Hold	3,590	3,280
2	Dhanuka Agritech	BUY	578	394
3	Insecticides India	BUY	887	673
4	P.I. Industries	BUY	1,278	1,095
5	Rallis India	Accumulate	180	155
6	Sharda Cropchem	Accumulate	379	290
7	UPL	BUY	752	595

## PL's Recommendation Nomenclature (Absolute Performance)

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

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