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Q4FY20 result review
and earnings revision

Agriculture

Target price: Rs700

Earnings revision

(%)	FY21E	FY22E
EBITDA	0.0	↓ 1.3
PAT	↓ 11.8	↓ 8.4
EPS	↓ 11.6	↓ 9.5

Target price revision

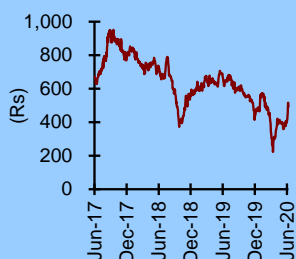
Rs700 from Rs832

Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	68.8	68.8	68.8
Institutional investors	19.9	19.6	19.8
MFs and other	10.0	10.0	10.1
FIs/Bank/Ins	4.8	4.5	4.0
FIIIs	5.1	5.1	5.7
Others	11.3	11.6	11.4

Source: BSE

Price chart



Insecticides India

BUY

Maintained

Rs500

Higher focus on cash generation

Takeaways from Q4FY20: (1) Disposal of generics inventory resulted in lower realizations and impacted gross margin (740bps YoY decline), (2) The company has focussed on reducing net working capital and debt which is good for long term health of the company and (3) Agrochemical markets is doing well with (i) additional demand for herbicides due to labour shortage and (ii) increase in insecticides consumption due to locust pest attack after 26 years. We remain positive on Insecticides due to (1) steady launches of high-margin products, (2) removal of generic products from the portfolio and (3) backward integration of technical. The stock is trading close to 1-year forward 'mean P/E - 1SD'. Return ratios are above cost of capital; hence, we believe the risk:reward is favourable. **Maintain BUY with a target price of Rs700 (10x FY22E, Earlier TP-Rs832).**

- **Higher revenues of generic products:** Revenue growth was 20%, YoY. Maharatna products (mega brands) reported revenue growth of 13% in Q4FY20, YoY. Other branded sales were up 50% YoY. The revenue share of new launches (Products launched FY13 onwards) stood at 41.9% in FY20 compared to 44.9% in FY19. The revenue share of Maharatna and Other products was 51:49 in FY20.
- **Deterioration in revenue mix hurt margins:** Gross margin declined 740bps due to (1) higher sales of generic products, (2) lower prices of key brands such as Nuvan and Thimet and (3) higher focus to reduce working capital investment. Inventory disposal in tough market conditions resulted in lower realizations and the company reported loss at EBITDA level.
- **Reduction in working capital and debt:** The net working capital days declined from 210 in FY19 to 147 in FY20. The company aims to further reduce the investment in working capital and be net cash by Q1FY21. It has reduced net debt to Rs1.1bn on 31st Mar'20 from Rs3bn at end of FY19.
- **Agrochemicals to grow at healthy rates in FY21:** The company expects healthy growth in Agrochemicals in FY21 due to (1) normal monsoon, (2) most of the supply chain issues are resolved, (3) locust attack after 26 years increased need of insecticides and (4) lower labour supply has resulted in higher demand of herbicides.
- **Maintain BUY:** We model Insecticides to report revenue and PAT CAGRs of 7.3% and 29.1%, respectively, over FY20-FY22E. Return ratios are expected to improve over the same timeframe. We reiterate **BUY** rating on the stock with a DCF-based target price of Rs700 (implied target P/E of 10x FY22E). The stock is trading close to its 1-year forward 'Mean P/E - 1SD'.

Market Cap	Rs10.4bn/US\$137mn
Reuters/Bloomberg	ISIL.BO / INST IN
Shares Outstanding (mn)	20.7
52-week Range (Rs)	681/222
Free Float (%)	31.2
FII (%)	5.7
Daily Volume (US\$'000)	302
Absolute Return 3m (%)	106.5
Absolute Return 12m (%)	(19.0)
Sensex Return 3m (%)	22.3
Sensex Return 12m (%)	(10.8)

Year to March	FY19	FY20P	FY21E	FY22E
Revenue (Rs mn)	11,919	13,632	14,753	15,700
Adj. Net Profit (Rs mn)	1,228	869	1,276	1,449
Dil. Rec. EPS (Rs)	59.4	42.1	61.7	70.1
% Chg YoY	45.7	(29.2)	46.8	13.6
P/E (x)	8.4	11.9	8.1	7.1
CEPS (Rs)	68.9	53.7	73.9	84.7
EV/EBITDA (x)	6.2	7.4	5.5	4.9
Dividend Yield (%)	0.4	0.8	1.0	1.0
RoCE (%)	20.0	13.7	18.8	19.2
RoE (%)	19.4	11.8	15.8	15.5

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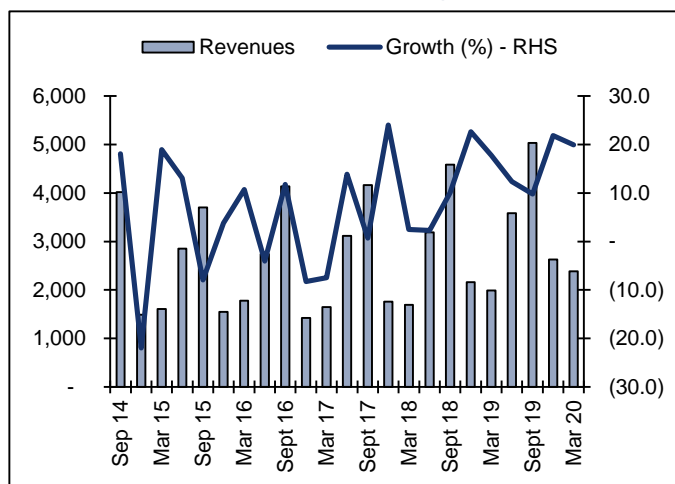
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Table 1: Q4FY20 financial performance*(Rs mn, year ending March 31)*

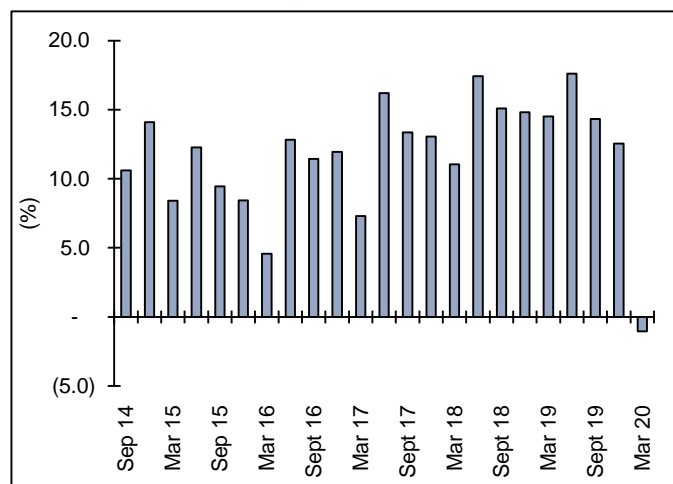
	Q4FY20	Q4FY19	% YoY gr.	Q3FY20	% QoQ gr.
Revenue	2,387	1,989	20.0	2,629	(9.2)
Expenditure					
Raw materials	1,906	1,441	32.3	1,845	3.3
% of revenue	79.9	72.4		70.2	
Employee cost	158	200	(20.8)	170	(7.1)
% of revenue	6.6	10.0		6.5	
Other expenditure	347	60	479.7	284	22.4
% of revenue	14.6	3.0		10.8	
Total expenditure	2,411	1,701	41.8	2,299	4.9
EBITDA	(25)	289	(108.6)	330	(107.5)
EBITDA margin	(1.0)	14.5		12.5	
Other income	(9)	10	(194.2)	8	(218.3)
PBDIT	(34)	298	(111.4)	337	(110.1)
Depreciation	61	49	24.7	61	0.8
PBIT	(95)	249	(138.2)	277	(134.4)
Interest	51	63	(18.5)	62	(16.6)
PBT	(147)	186	(178.7)	215	(168.2)
Prov for tax	(73)	51	(244.8)	54	(236.2)
% of PBT	50.1	27.2		25.1	
Adjusted PAT	(73)	136	(154.0)	161	(145.4)
Extra ordinary items	(21)	143	(114.4)	(73)	(71.6)
Reported PAT	(94)	279	(133.7)	88	(206.4)

Source: Company data, I-Sec research

Key performance highlights

Chart 1: Revenues and revenue growth

Source: Company data, I-Sec research

Chart 2: EBITDA margin trends

Source: Company data, I-Sec research

Valuation and risks

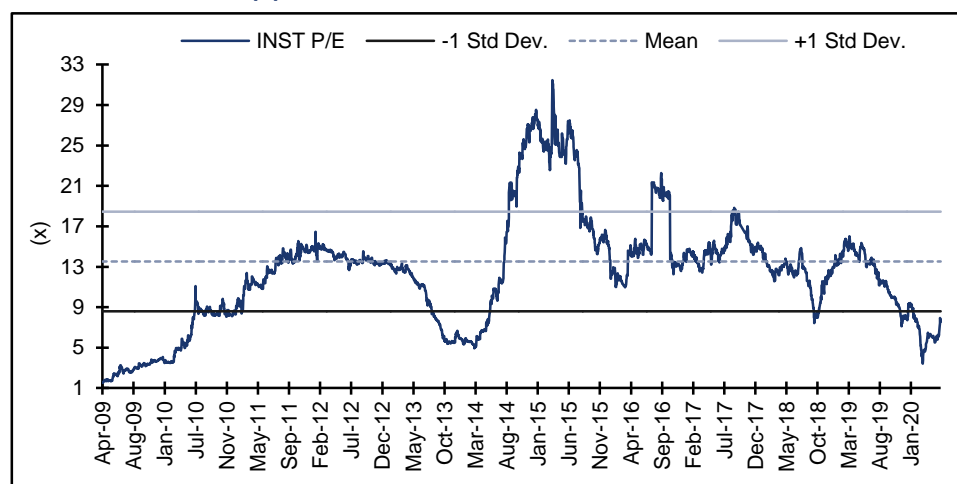
We expect Insecticides India to report revenue and PAT CAGRs of 7.3% and 29.1% over FY20-FY22E and RoE to move to 15.5% in FY20 to 15.5% in FY22E. We value the stock on DCF basis with a target price of Rs700. At the target price, the implied P/E works out to 10x on FY22E EPS. Maintain **BUY**.

Table 2: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity	12.5%
Terminal growth rate	3.0%
Discounted interim cash flows	8,584
Discounted terminal value	5,889
Total equity value	14,472
Value per share (Rs)	700

Source: Company data, I-Sec research

Chart 3: Mean P/E(x) and standard deviation



Source: Company data, I-Sec research

Risks

Sharp increase in input prices

Any major increase in commodity prices will result in downside to our estimates.

Steep increase in competitive pressures

Any major increase in competitive pressures will result in downside to our estimates.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Net Sales	11,919	13,632	14,753	15,700
Operating Expenses	10,063	12,074	12,672	13,368
EBITDA	1,856	1,559	2,080	2,331
% margins	15.6	11.4	14.1	14.9
Depreciation & Amortisation	197	241	252	302
Gross Interest	152	239	149	109
Other Income	23	26	45	37
Recurring PBT	1,530	1,105	1,724	1,958
Less: Taxes	306	244	448	509
Less: Minority Interest	(4)	(9)	-	-
Net Income (Reported)	1,228	869	1,276	1,449
Extraordinaries (Net)	(37)	(22)	-	-
Recurring Net Income	1,191	847	1,276	1,449

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Assets				
Total Current Assets	10,624	9,783	10,564	11,460
of which cash & cash eqv.	92	742	549	778
Total Current Liabilities & Provisions	3,687	3,558	3,865	4,113
Net Current Assets	6,937	6,225	6,699	7,347
Investments	339	380	380	380
Net Fixed Assets	2,402	2,391	3,029	3,277
Capital Work-in-Progress	190	390	-	-
Total Assets	9,869	9,386	10,109	11,004
Liabilities				
Borrowings	3,070	1,882	1,432	982
Deferred Tax Liability	179	187	187	187
Minority Interest	-	-	-	-
Equity Share Capital	207	207	207	207
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	6,413	7,111	8,283	9,629
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	6,620	7,317	8,490	9,835
Total Liabilities	9,869	9,386	10,109	11,004

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	June 19	Sept 19	Dec 19	Mar 20
Net sales	3,584	5,031	2,629	2,387
% growth (YoY)	12.4	9.8	21.8	20.0
EBITDA	631	720	330	(25)
Margin (%)	17.6	14.3	12.5	(1.0)
Other income	13	18	8	(9)
Extraordinaries (Net)	(6)	3	(73)	(21)
Adjusted Net profit	355	493	91	(92)

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20P	FY21E	FY22E
Operating Cashflow	1,450	1,087	1,528	1,751
Working Capital Changes	(2,920)	1,361	(667)	(418)
Capital Commitments	(374)	(429)	(500)	(550)
Free Cashflow	(1,844)	2,020	361	782
Cashflow from Investing Activities	(120)	(41)	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	1,909	(1,188)	(450)	(450)
Dividend paid	(50)	(83)	(103)	(103)
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	(106)	649	(192)	229

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20P	FY21E	FY22E
Per Share Data (Rs)				
EPS	59.4	42.1	61.7	70.1
Cash EPS	68.9	53.7	73.9	84.7
Dividend per share (DPS)	2.0	4.0	5.0	5.0
Book Value per share (BV)	329.0	363.1	419.8	484.9
Growth (%)				
Net Sales	11.1	14.4	8.2	6.4
EBITDA	25.6	(16.0)	33.5	12.1
PAT	45.7	(29.2)	46.8	13.6
EPS	40.6	(22.1)	37.6	14.6
Valuation Ratios (x)				
P/E	8.4	11.9	8.1	7.1
P/CEPS	7.3	9.3	6.8	5.9
P/BV	1.5	1.4	1.2	1.0
EV / EBITDA	6.2	7.4	5.5	4.9
EV / Sales	1.0	0.8	0.8	0.7
Operating Ratios				
Raw Material / Sales (%)	69.0	74.0	71.1	70.4
Employee cost / Sales (%)	5.5	5.5	5.5	5.5
SG&A / Sales (%)	4.2	2.8	3.0	3.0
Other Income / PBT (%)	1.5	2.3	2.6	1.9
Effective Tax Rate (%)	20.0	22.1	26.0	26.0
Working Capital (days)	57.4	40.2	41.7	41.8
Inventory Turnover (days)	215.9	139.0	146.0	146.0
Receivables (days)	74.8	85.6	84.0	84.0
Payables (days)	112.5	94.6	94.9	94.9
Net D/E (x)	0.4	0.2	0.1	0.0
Profitability Ratios (%)				
Net Income Margins	10.3	6.3	8.6	9.2
RoACE	20.0	13.7	18.8	19.2
RoAE	19.4	11.8	15.8	15.5
Dividend Payout	3.4	9.5	8.1	7.1
Dividend Yield	0.4	0.8	1.0	1.0
EBITDA Margins	15.6	11.4	14.1	14.9

Source: Company data, I-Sec research

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