

RETAIL EQUITY RESEARCH INDIA PESTICIDES LIMITED

Agrochemicals

Sensex: 52,589

Nifty:15,773

SUBSCRIBE

Price Range Rs. 290 - Rs. 296

An Export-oriented, R&D driven agrochemical company...

India Pesticides Ltd (IPL), incorporated on December 13, 1984 at Bareilly, Uttar Pradesh, is an R&D driven agrochemical manufacturer of Technicals (contributes ~79% to total FY21 revenue) with a growing Formulations business. IPL is the sole Indian manufacturer and one among the leading manufacturers globally of five Technicals like Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. (Source: F&S Reports). As of FY21, 56.7% of total revenue is generated from exports to over 25 countries. IPL has two manufacturing facilities located at Lucknow & Hardoi in Uttar Pradesh, India with a combined installed capacity of 26,000 MT for Technicals and Formulations with a utilisation rate of 77% and 73% respectively in FY21.

- The global agrochemicals market is valued at US \$ 62.5 bn (2019) & forecasted to reach US \$ 86 bn by 2024 growing at a CAGR of 6.6% aided by increasing demand for food security accompanied by rising population.
- IPL is one of the fastest growing agrochemical companies in terms of volume of Technicals manufactured reaching more than 75% plant utilisation rate in FY21. (Source: F&S Reports).
- Enjoys strong customer base including major crop protection players like Syngenta Asia Pacific Pte.Ltd, UPL ltd. etc. As of FY21, ~57% of revenue is contributed from its top 10 customers.
- Has strong product portfolio with registrations & licenses for 22 agrochemical technicals, 125 formulations for sale in India, 27 agrochemical technicals & 35 formulations for exports.
- Revenue & PAT grew at a CAGR of ~38% and ~75% over FY19-FY21 led by increase in exports, higher demand for agrochemical technical products & better operating performance.
- IPL enjoys superior EBITDA margins (28%) & PAT Margins (27%) in FY21 led by economies of scale, competitive pricing and higher yield from strong R&D.
- The company has a healthy balance sheet with D/E ratio of 0.02x as of FY21. Moreover, the return ratios RoE and RoCE remain healthy at ~28% & ~17% (3-year Avg.).
- IPL is well positioned to capitalize on opportunities in agrochemical sector backed by proposed capacity expansions, R&D capabilities and adoption of China plus one strategy by global companies.
- At the upper price band of Rs.296, IPL is available at a P/E of 25.4x (diluted) which appears to be reasonably priced. We assign a "Subscribe" rating for the issue on a short to long-term basis considering strong R&D, positive agrochemical sector outlook, negligible debt, healthy margins and return ratios of the company.

Purpose of IPO

The offer comprises of the Fresh Issue and the Offer for Sale. The proceeds from the offer for sale will go to the selling shareholders, while the amount received from the sale of fresh issue will be utilized for funding working capital requirements and general corporate purposes.

Key Risks

- Increasing awareness towards organic farming by the usage of bio-pesticides than chemical based.
- As of FY21, Top 10 customers contribute ~57% of total revenue. However, IPL intends to grow its customer base by expansion plans & product diversification going ahead.

Peer Valuation

Company	MCap (Rs cr)	Revenue (Rs cr)	EBITDA margin (%)	EPS	RoE	P/E
India Pesticides Ltd	3,409	649	28.2	12	34.4	25.4
Dhanuka Agritech	4,414	276	27.3	10	6.5	91.4
UPI Ltd.	61,315	38,694	22.1	37	14.3	20.6
PI Industries	42,319	4,577	22.0	49	18.5	57.6
Atul Ltd	26,200	3,731	17.7	217	18.9	40.6

Source: Geojit Research, Bloomberg; Valuations IPL are based on upper end of the price band, Financials as per FY21.

Issue Details	
Date of Opening	23 rd June, 2021
Date of Closing	25 th June, 2021
Total no. of Shares offered(cr)	2.7
Post Issue No. of shares (cr)	11.52
Price Band	Rs. 290- 296
Face Value	Rs. 1
Bid Lot	50 shares
Minimum application for retail (upper price band for 1 lot)	Rs. 14,800
Maximum application for retail (upper price band for 13 lot)	Rs. 1,92,400
Listing	BSE & NSE
Lead Manager	Axis Capital Ltd, JM Financial Consultant.
Registrars	KFintech Pvt Ltd.

Issue size (upper price)	Rs. Cr	
Fresh Issue	100.0	
OFS	700.0	
Total Issue	800.0	
Shareholding (%)	Pre-Issue	Post Issue
Promoters	82.7	72.0
Public	17.3	28.0
Total	100	100

Issue structure	Allocation %	Size Rs.cr
Retail	35	280.0
Non-Institutional	15	120.0
QIB	50	400.0
Total	100	800.0

Y.E March (Rs cr)	FY19	FY20	FY21
Sales	340.7	479.6	649.0
Growth (%)	-	40.8	35.3
EBITDA	65.3	93.6	183.1
Margin%	19.2	19.5	28.2
PAT Adj	43.9	70.8	134.1
Growth (%)	-	61.2	89.4
EPS	4	6	12
P/E (x)	77.6	48.2	25.4
EV/EBITDA	53.2	36.8	18.8
RoE (%)	23.5	27.6	34.4



Company Description

India Pesticides Ltd (IPL), incorporated on December 13, 1984 at Bareilly, Uttar Pradesh, is an R&D driven agro chemical manufacturer of Technicals with a growing Formulations business. IPL is the sole Indian manufacturer of five Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. (Source: F&S Reports). IPL is one of the fastest agrochemicals company in terms of volume of Technicals manufactured (37.2% YoY growth) reaching more than 75% plant operating rate in FY21. IPL currently has registrations and licenses for 22 agrochemical technicals and 125 formulations for sale in India, and 27 agrochemical technicals and 35 formulations for export purposes. The company manufactured 15,003 MT of Technicals in FY 21. Exports to over 25 countries including Australia and other countries located in Europe, Africa and Asia. ~56.7% of total revenue are generated from exports in FY21. IPL currently has two manufacturing facilities located at Lucknow and HarDOI in Uttar Pradesh, India with a combined installed capacity of 26,000 MT for Technicals and Formulations with utilisation rate of 77% and 73% respectively in FY21. As of March 31, 2021, IPL has a network of over 20 sales depots consisting of branches, carrying and forwarding agents, and warehouses spread across 15 states in India.

Business operation

The two distinct operating verticals, are namely, Technicals and Formulations.

❖ Technicals

The company manufactures agro-chemical Technicals that include fungicides and herbicides. Certain of its Technicals are as below:

Product	Applications
FUNGICIDES	
Folpet	Controls fungal growth at vineyards, cereals, crops, biocide in paints.
Cymoxanil	Controls downy mildews of grapes, potatoes, vegetables and several other crops.
Ziram	Addresses scab on apples, pears, peaches, almonds, apricots and cherries. Ziram is also used as an additive ingredient in industrial adhesives and paint.
Captan	Controls fungal growth on fruits, vegetables and cereals.
HERBICIDES	
Thiocarbamate Herbicides	Wheat and rice
APIs	
Anti-scabies drug	Dermatology - Used in the treatment of scabies and pediculosis.
Anti-fungal drug	Dermatology - Fungicidal drug that acts on fungal hyphae and inhibits squalene epoxidase.

Source: RHP, Geojit Research

❖ Formulations

IPL manufactures a broad range of fungicide, herbicide and insecticide Formulations products. Few key Formulations and their applications are set out below:

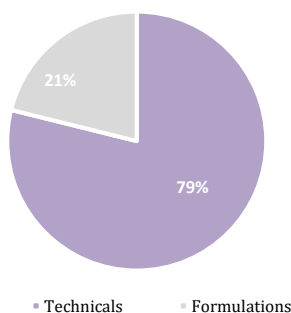
Product	Applications
Crotax - 36	Used on paddy, Bengal gram, black gram, green gram, tea, red gram, sugarcane and cotton
Tridev	Used on cotton for controlling bollworm.
Ziram - 27#	Used on grapes, apples, beans, potatoes and tomato against pests such as downy mildew, anthracnose, scab, anthracnose and early blight.

Source: RHP, Geojit Research

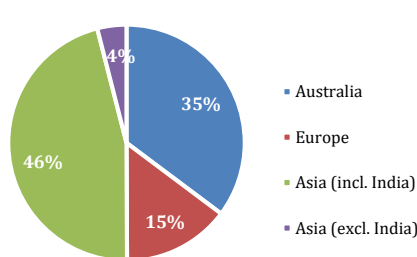
Revenue Split:

Product wise, Geography wise and customer wise.

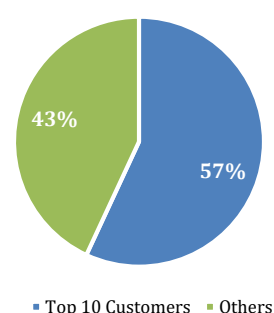
% of Total Revenue from Sale of Products (FY21)



Geographical revenue Split FY21



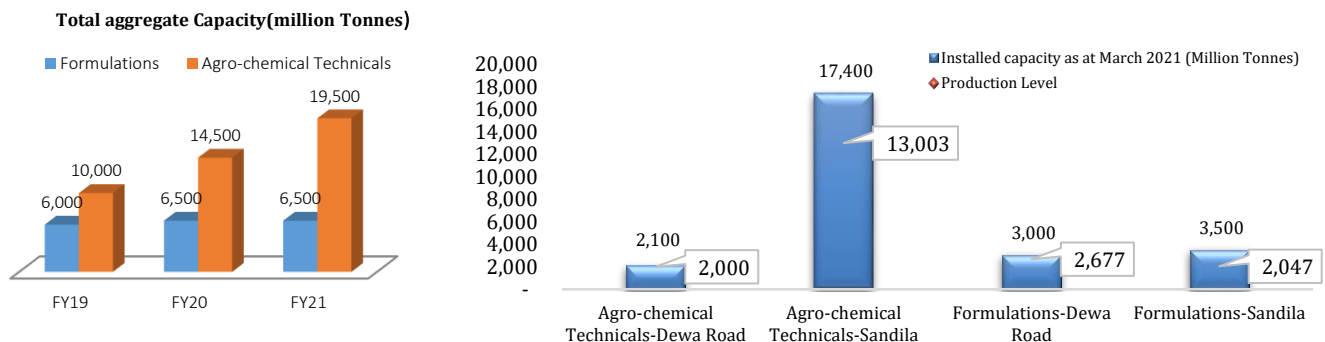
Customer wise revenue split FY21



Source: RHP, Geojit Research

Advanced & Well-equipped manufacturing facilities:

IPL has two manufacturing facilities located at UPSIDC Industrial Area at Dewa Road, Lucknow and Sandila, Hardoi in Uttar Pradesh, India that are spread across over 25 acres. As of FY21, combined installed capacity of 26,000 MT (Metric Tonnes) for Technicals and Formulations with utilisation rate of 77% and 73% respectively. IPL manufactured 15,003 MT of Technicals in FY21.



Source: RHP, Geojit Research

Further, IPL is currently in the process of constructing two more manufacturing units at their facility at Sandila that are proposed to be used for herbicide Technicals. Once operational, the proposed facilities are expected to expand Technicals manufacturing capacity.

Focus on R&D:

Capabilities include two well-equipped in-house laboratories registered with the DSIR. Focus on 1) identification on appropriate complex technicals that are suitable for commercialisation. 2) Improving production process, the quality and purity of present products.

Strong customer base:

Enjoys strong and diverse customer base including major crop protection players like Syngenta Asia Pacific Pte. Ltd, UPL Limited, etc. As of FY21, ~57% of revenue is contributed from its top 10 customers.

Exports: a key revenue contributor

Exports to over 25 countries including Australia, and other countries located in Europe, Africa and Asia. ~57% of total revenue is generated from exports.

Strong raw material sourcing & extensive distribution network:

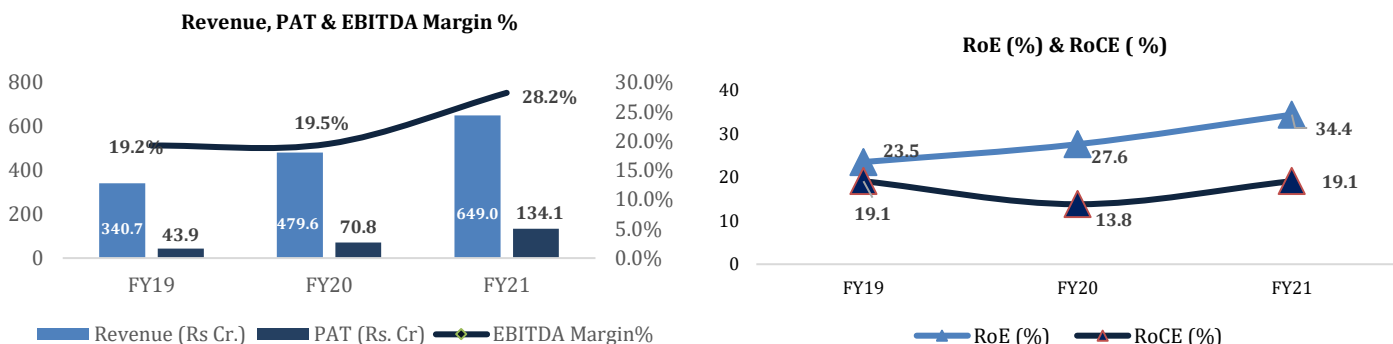
Primary raw materials are sourced within and outside India. ~62% of raw materials were sourced locally. As of FY21, IPL has a network of over 20 sales depots consisting of branches, carrying and forwarding agents, and warehouses spread across 15 states in India.

Key Strategies:

- Continue to focus on R&D and product innovation.
- Focus on cost optimization.
- Capitalise on industry opportunities.
- Grow Formulation products portfolio.
- Geographical expansion through inorganic growth.

Consistent Financial Performance...

IPL has delivered a consistent growth over the last three financial years both in terms of financial and operational metrics. Revenue & PAT grew at a CAGR of ~38% and ~75% over FY19-FY21 led by increase in exports, higher demand for agro chemical technical products and better operating performance. IPL enjoys superior EBITDA margins (28%) and PAT Margins (27%) in FY21 led by economies of scale, competitive pricing and higher yield from strong R&D. The company has a healthy balance sheet with D/E ratio of 0.02x as of FY21. Moreover, the return ratios RoE and RoCE remain healthy at ~28% & ~17% (3-year Avg.). IPL is well positioned to capitalize on opportunities in agro chemical sector backed by proposed capacity expansions, R&D capabilities and adoption of China plus one strategy by global companies.



Source: RHP, Geojit Research

Industry Outlook

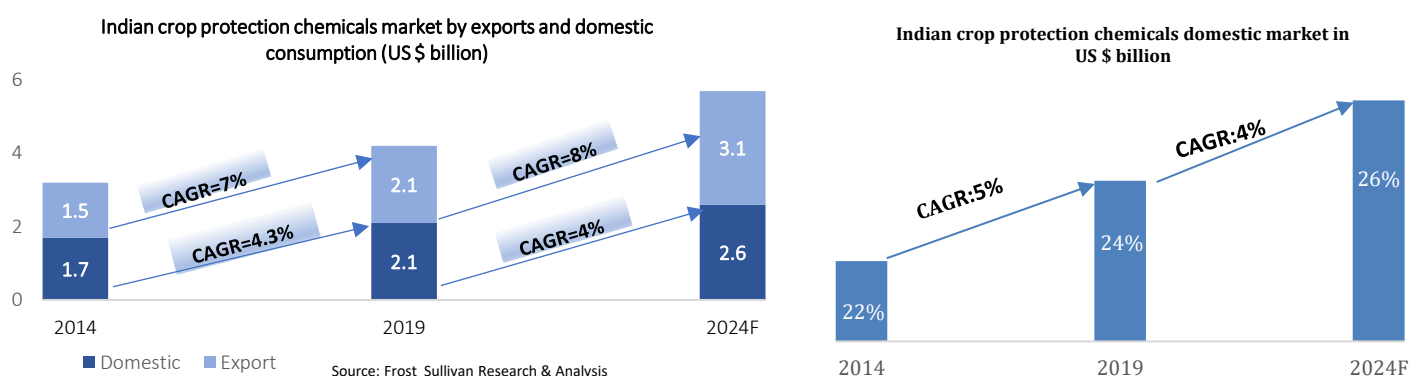
INDIAN AGROCHEMICAL INDUSTRY

India crop protection industry overview

India crop protection chemicals exports grew at a CAGR of 9% during 2015 to 2019. The actual export contribution of crop protection chemicals was 50% of total domestic production (by value) in 2019 and exports are projected to grow to ~55% in 2024 in terms of value. In 2024, exports are expected to grow to US \$ 3.1 billion contributing 55% of total domestic production which is expected to be valued at US \$ 5.7 billion.

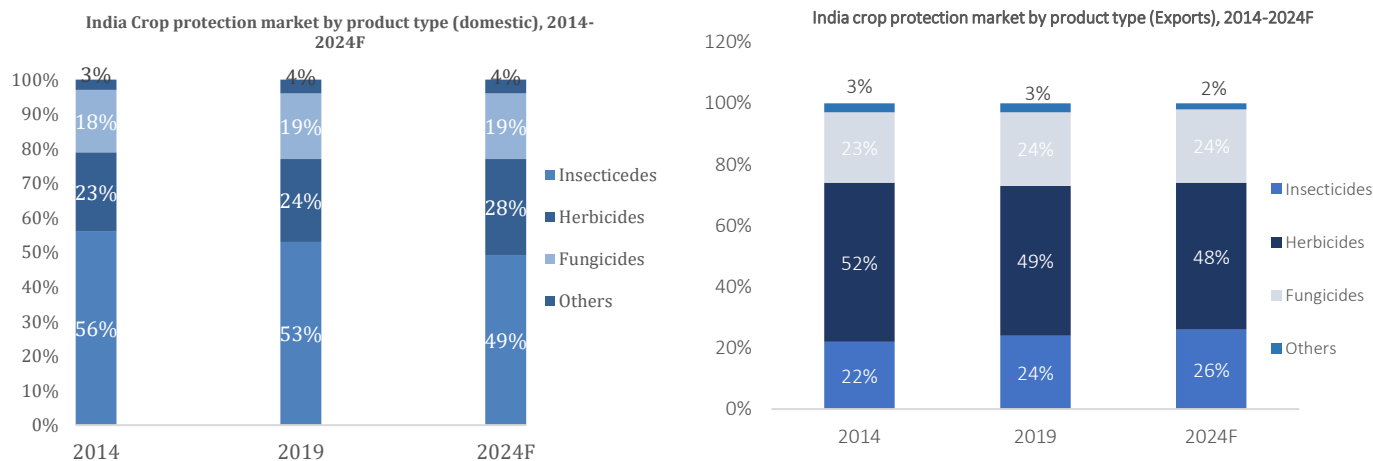
India was the world's third largest pesticide exporter by volume in 2018. China leads the exports of pesticides with 27% of market share in the world exports, followed by Germany (8.3%), India (8%), United States, Belgium, and France. India has been ranked fourth globally in the production of agrochemicals (crop protection chemicals/ pesticides) after the United States, Japan and China, as per India Brand Equity Foundation Report 2019. The domestic Indian crop protection chemicals market is valued at US\$ 2.1 billion which is expected to grow at 4% in the next five years to US\$ 2.6 billion by 2024.

India has one of the lowest per capita consumptions of crop protection chemicals per hectare, which suggests, there is a significant scope of growth for the crop protection chemicals in India, increasing agricultural productivity and compensating the shortage of farm labour by extensive use of herbicides.



Source: RHP, Geojit Research

Indian crop protection chemicals market segmentation - by product type



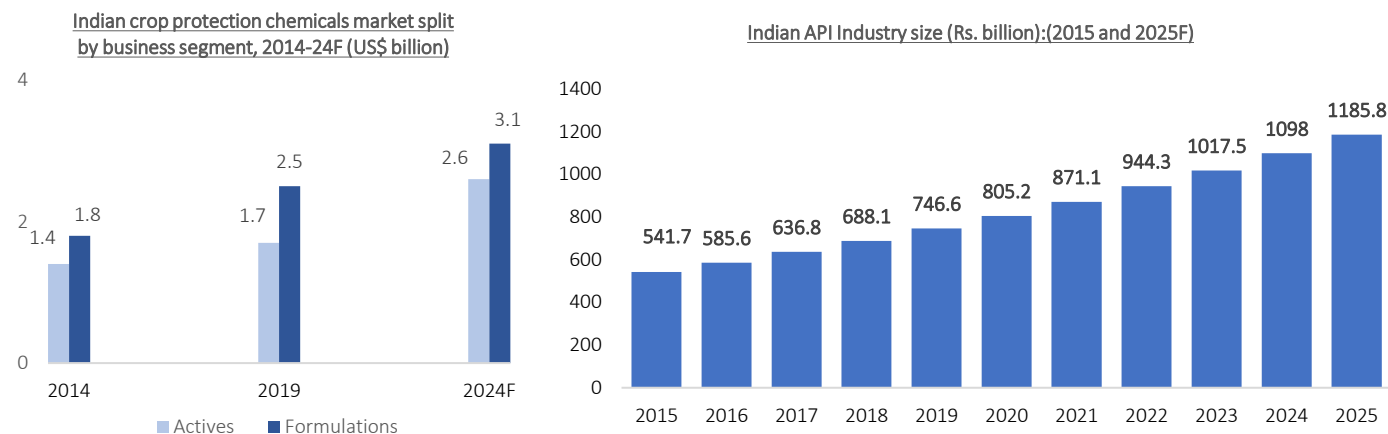
Source: RHP, Geojit Research

Agrochemical technical manufacturing in India is strongly driven by export led demand and contract manufacturing in India. Some of the demand drivers for the technical market India are Supply chain interruptions with China on account of the COVID-19 crisis, Incentive program by the Government of India for manufacturing of actives, increase in export led demand and need for increase in crop yield and crop mix. Etc. Demand drivers of crop protection chemicals market are Government initiative to double farmer's income, increase in horticulture and floriculture production, increasing shortage of labour, increasing food demand due to increasing population etc. India is a net exporter of crop protection chemicals, with approximately 50% of all its production being exported to other countries.

INDIA API INDUSTRY OVERVIEW

The Indian API market has shown steady growth of 8% since Fiscal 2016 and is expected to further expand due to an increased focus on new geographies in the global pharmaceutical industry, the change to the specialty segment and strong domestic demand. More than 30% of the APIs manufactured in India are exported to countries such as US, UK and Japan. The market for pharmaceutical intermediates in India

for 2019 was estimated to be approximately US\$ 4.5 billion, growing at a CAGR of 8% during 2014 to 2019. At a CAGR of approximately 10% from Fiscal 2016 to Fiscal 2024, the Indian API domestic consumption market is expected to grow substantially. In addition, the Government of India is taking various initiatives to increase the industry, such as, allocating land in different states to develop API mega parks and increasing investment in research and development. The Government of India's proposition to support local manufacturing of many possible raw materials and intermediates especially in the pharmaceutical space will enhance the growth in domestic market and reduce imports, especially from China.



Source: RHP, Geojit Research

Promoter and promoter group

Mr. Anand Swarup Agarwal and the ASA Family Trust are the Promoters of the Company. The Promoters hold an aggregate of 52,506,967 Equity Shares, aggregating to 46.97% of the pre-Offer issued, subscribed and paidup Equity Share capital of the Company.

Brief Biographies of Directors

IPL's board comprises of six Directors including three Independent Directors, two non-executive Directors and one whole time executive Director. The Board includes one-woman director.

- **Anand Swarup Agarwal**, is the Chairman and non-executive Director of the company. He has over 35 years of experience in agrochemical manufacturing. He has also been a director on the board of directors of PNB Gilts Limited.
- **Rajendra Singh Sharma**, is a whole-time Director of the company. He has been associated with the company since last 22 years and was initially appointed as a director of the company on June 10, 1998. He has experience in agro-chemical manufacturing.
- **Rahul Arun Bagaria**, the Non-Executive Director of the Company. He has been with TPG Capital India Private Limited since 2011 and is a partner at TPG Growth & Rise Fund in Mumbai. He has more than five years of professional experience and expertise in corporate law and taxation.
- **Adesh Kumar Gupta**, is an Independent Director of the company. He is a registered insolvency professional with the Insolvency and Bankruptcy Board of India. He previously held the position of whole-time director and chief financial officer at Grasim Industries Limited and has also been a director at Ultra Tech Cement Limited.
- **Mohan Vasant Tanksale**, is an Independent Director of the company. He was previously the chairman and managing director of Central Bank of India and was an executive director on the board of Punjab National Bank till June 2011.
- **Madhu Dikshit**, is an Independent Director of the Company. She has also been appointed as the national chair of the Transitional Health Science and Technological Institute, Faridabad.

Financials

Profit & Loss Account

Y.E March (Rscr)	FY19	FY20	FY21
Sales	340.7	479.6	649.0
% change	-	40.8	35.3
EBITDA	65.3	93.6	183.1
% change	-	43	96
Depreciation	4.0	5.1	6.1
EBIT	61.3	88.5	177.0
Interest	5.6	5.2	3.4
Other Income	5.4	10.1	6.4
Exceptional Items	-	-	-
PBT	61.1	93.4	179.9
% change	-	53	92.7
Tax	17.2	22.6	45.8
Tax Rate (%)	28	24	25
Reported PAT	43.9	70.8	134.1
Adj	-	-	-
Adj PAT	43.9	70.8	134.1
% change	-	61.2	89.4
No. of shares (cr)	11.52	11.52	11.52
Adj EPS (Rs)	4	6	12

Cash Flow

Y.E March (Rscr)	FY19	FY20	FY21
PBT	61	93	179.9
Non-cash adj.	7.2	7.5	9.8
Changes in W.C	-71.7	-25.7	-106.5
C.F.O	-3.4	75.2	83.3
Capital exp.	-7	-30.8	-42
Change in inv.	-0	0.10	-40
Sale of investment	0.19	-0.5	-3.8
Other invest.CF	0.41	0.39	2.5
C.F - investing	-6.6	-30.9	-83.1
Issue of equity	-	-	-
Issue/repay debt	15	-33	2.8
Dividends paid	-1	-1	-4
Other finance.CF	-5	-5.2	-3.4
C.F - Financing	9.29	-39.0	-4.1
Chg. in cash	-0.7	5.3	-4
Closing cash	1.6	6.9	2.8

Balance Sheet

Y.E March (Rscr)	FY19	FY20	FY21
Cash	2.8	8.0	43.7
Accounts Receivable	178.3	183.2	214.2
Inventories	35.5	38.6	70.1
Other Cur. Assets	15.8	24.0	39.4
Investments	4.0	3.5	9.2
Def. Tax Assets	-	-	-
Net Fixed Assets	69.8	99.3	124.3
CWIP	4.7	1.2	11.9
Intangible Assets	0.2	0.2	0.1
Other Assets	5.8	6.9	4.0
Total Assets	317	365	517
Current Liabilities	57.6	67.8	79.4
Provisions	0.4	0.7	4.0
Debt Funds	64.3	32.2	35.5
Minority Interests	-	-	-
Def. Tax Liabilities	7.6	7.3	8.1
Equity Capital	3.2	3.2	11.2
Reserves & Surplus	183.8	253.7	378.3
Shareholder's Fund	187	256.8	389.5
Total Liabilities	317	365	517
BVPS (Rs)	16	22	34

Ratios

Y.E March	FY19	FY20	FY21
Profitab. & Return			
EBITDA margin (%)	19.2	19.5	28.2
EBIT margin (%)	18.0	18.4	27.3
Net profit mgn.(%)	12.9	14.8	20.7
ROE (%)	23.5	27.6	34.4
ROCE (%)	19.1	13.8	19.1
W.C & Liquidity			
Receivables (days)	191	138	108
Inventory (days)	69	53	57
Payables (days)	59	47	42
Current ratio (x)	4.1	3.8	4.5
Quick ratio (x)	3.1	2.8	3.2
Turnover & Lev.			
Net asset T.O (x)	4.9	5.7	6.6
Total asset T.O (x)	1.1	1.4	1.6
Int. covge. ratio (x)	11.0	17.0	51.5
Adj. debt/equity (x)	0.3	0.1	0.1
Valuation ratios			
EV/Sales (x)	10.2	7.2	5.3
EV/EBITDA (x)	53.2	36.8	18.8
P/E (x)	77.6	48.2	25.4
P/BV (x)	18.2	13.3	8.8

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen.G, author(s) of this Report, hereby certify that all the views expressed in this research report reflect my personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

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- (i) It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.
- (ii) It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.



Further, the Analyst confirms that:

- (i) he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.
- (ii) he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

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- (c) Have not * received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

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4. Disclosure regarding the Research Analyst's connection with the subject company:

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Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.