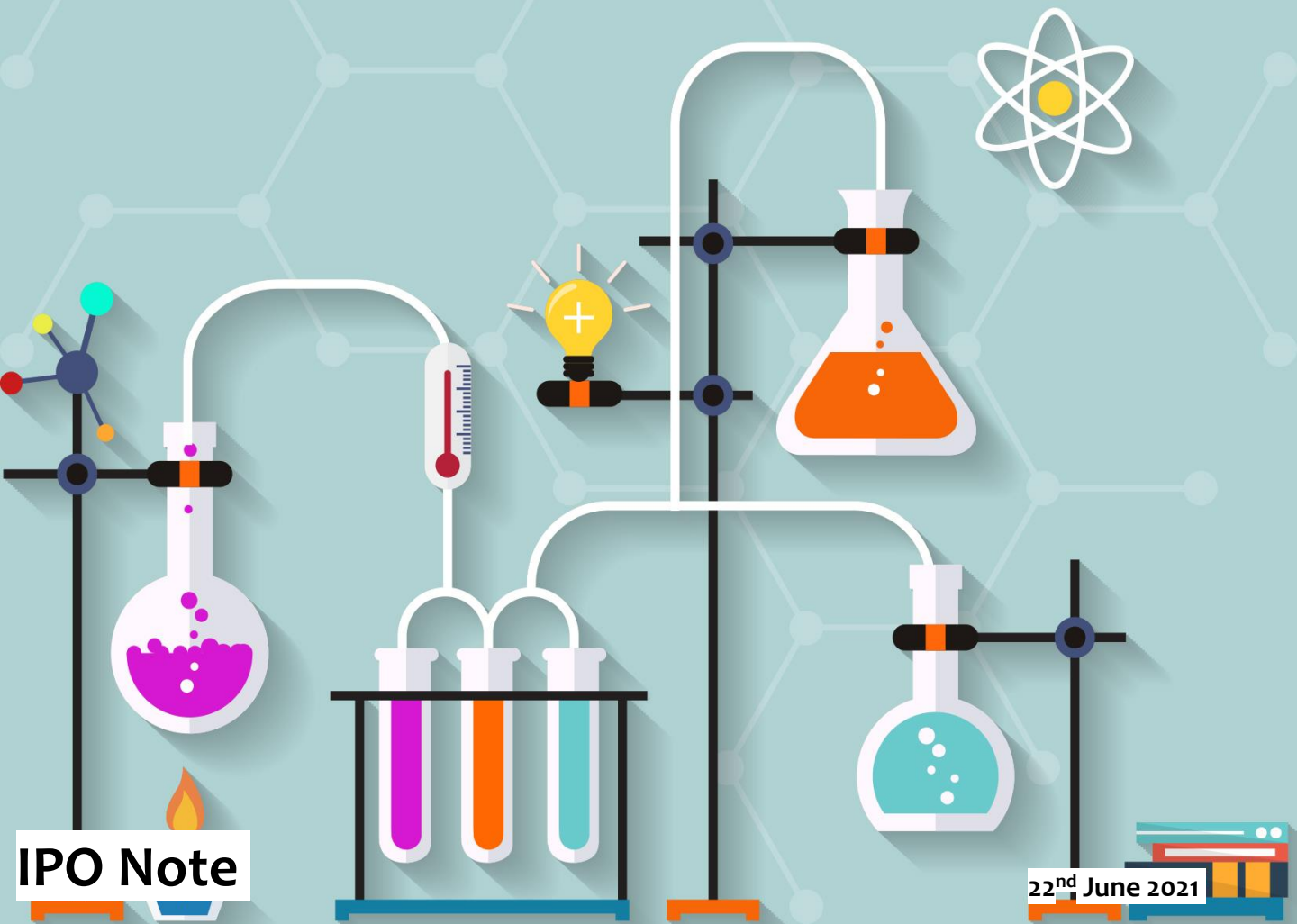


India Pesticides Limited



India Pesticides Limited

Issue Opens On
June 23, 2021

Issue Closes On
June 25, 2021

Price Band (INR)
290 – 296

Issue Size (INR Cr)
800

Rating
SUBSCRIBE

Incorporated in 1984, **India Pesticides Limited (IPL)** is one of the leading agrochemicals manufacturers in India. The company operates in two business verticals; 1. Technicals and 2. Formulations. It manufactures herbicide, fungicide Technicals, and Active Pharmaceutical Ingredients (APIs). It is the sole Indian manufacturer of several Technicals like Folpet, Thiocarbamate, and Herbicide. The company also manufactures 30+ formulations of insecticides, fungicides, and herbicides. IPL has recorded 37.2% YoY growth in Technicals manufacturing (by volume) between FY20 and FY21. The company's Technicals are exported to over 25 countries. In FY21, the revenue generated from exports contributed to 56.71% of the total revenue.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (#)	27,586,206-27,027,026
Net offer (# shares)	27,586,206-27,027,026
Price band (INR)	290 – 296
Post issue MCAP (INR Cr.)	3,342-3,409

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	June 25, 2021
Finalization of Basis of Allotment with Stock Exchange	On or about 30 th June 2021
Initiation of Refunds	On or about 1 st July 2021
Credit of Equity Shares to Demat accounts	On or about 2 nd July 2021
Commencement of Trading of Equity shares on NSE	On or about 5 th July 2021

Source: IPO Prospectus

Issue	# Shares	INR in Cr	%
QIB	13,513,512	400	50%
NIB	4,054,054	120	15%
Retail	9,459,460	280	35%
Net Offer	27,027,026	800	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
Funding working capital requirements of the company (INR 80 Cr)
General Corporate Purposes

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	82.68%	72.0%
Others	17.32%	28.0%
Total	100.0%	100.0%

Source: IPO Prospectus

Particulars (In INR Cr)*	FY19	FY20	FY21
Revenue	340.7	479.6	648.9
EBITDA	65.2	93.5	183.1
EBITDA Margin	19.1%	19.5%	28.2%
PAT	43.9	70.8	134.5
PAT Margin	12.9%	14.8%	20.7%
Net Worth	187.0	256.8	389.5
RONW	23.5%	27.6%	34.5%

Source: IPO Prospectus, * Restated Statement

India Pesticides Limited

Company Overview

Incorporated in 1984, India Pesticides Limited (IPL) is a R&D driven agro-chemical manufacturer of Technicals with a growing Formulations business. It is one of the fastest growing agro-chemicals company in terms of volume of Technicals manufactured. IPL is the sole Indian manufacturer of Technicals like Folpet, Thiocarbamate, and Herbicide and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. The company currently manufactures eight Technicals, two APIs and over 30 Formulations.

Business Model

The company operates in the following two business verticals;

- 1. Technicals:** IPL manufactures generic Technicals that are used in the manufacture of fungicides and herbicides as well as APIs with applications in dermatological products. Certain key fungicide Technicals IPL manufactures include: (i) Folpet, used to manufacture fungicides that control fungal growth at vineyards, cereals, crops and biocide in paints; and (ii) Cymoxanil, used to manufacture fungicides that control downy mildews of grapes, potatoes, vegetables and several other crops. Other than these IPL also manufactures herbicide Technicals, like Thiocarbamate herbicides that have application in field crops, such as, wheat and rice, and are used globally. The APIs that IPL manufactures have anti-scabies and anti-fungal applications. In FY19, FY20 and FY21, revenues from IPL's Technicals segment amounted to INR 257 Cr, INR 383 Cr and INR 507 Cr respectively, which constituted 75.4%, 80.2% and 78.9% respectively, of its total revenue.
- 2. Formulations:** IPL manufactures and sell various formulations of insecticides, fungicide and herbicides, growth regulators and Acaricides, which are ready-to-use products. As of March 31, 2021, the company manufactures over 30 Formulations that include Takatvar, IPL Ziram-27, IPL Dollar, IPL Soldier and IPL Guru. In FY19, FY20 and FY21, revenues from IPL's Formulations segment amounted to INR 84 Cr, INR 95 Cr and INR 136 Cr respectively, which constituted 24.6%, 19.8% and 21.1% respectively, of its total revenue.

IPL currently has two manufacturing facilities located at (i) UPSIDC Industrial Area at Dewa Road, Lucknow and (ii) Sandila, Hardoi in Uttar Pradesh, India that are spread across over 25 acres. As of March 31, 2021, the aggregate installed capacity of its manufacturing facilities for agro-chemical Technicals was 19,500 MT and Formulations was 6,500 MT. The company manufactured 15,003 MT of Technicals in FY21. IPL's manufacturing facilities are equipped with modern plant and machinery capable of producing quality Technicals and Formulations. Other than these two facilities, IPL has also commenced construction of two manufacturing units at its Sandila facility, which are proposed to be used for herbicide Technicals in the future.

Product Description

	Name of Product	Application
Technicals	Fungicide Technicals	Fungicides are pesticides used to kill or inhibit fungi or fungal spores. Fungi cause serious damage in agriculture, resulting in critical losses of yield, quality and profit. Fungicides are extensively used in industry, agriculture, and the home and garden for a number of purposes.
	Folpet	Used to manufacture fungicides that control fungal growth at vineyards, cereals, crops and biocide in paints.
	Cymoxanil	Used to manufacture fungicides that control 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.
	Herbicide Technicals	Herbicides, also commonly known as weed-killers, are pesticides designed specifically to kill weeds and applied to the foliage of unwanted plants or the soil beneath. Weeds reduce the quality and quantity of agricultural production and produce allergens or contact dermatitis that affects public health.
	Thiocarbamate	Thiocarbamate herbicides that have application in field crops, such as, wheat and rice, and are used globally.
API	Anti-scabies drug	Dermatology - Used in the treatment of scabies and peduclosis.
	Anti-fungal drug	Dermatology - Fungicidal drug that acts on fungal hyphae and inhibits squalene epoxidase.

Source: IPO Prospectus

India Pesticides Limited

INVESTMENT RATIONALE

Diversified portfolio of niche and specialized products:

Over the years IPL has developed a niche portfolio of agro-chemical products helped by its strong R&D focus. It has diversified its product portfolio and has grown into a multi-product manufacturer of Formulations, herbicide and fungicide Technicals as well as APIs. This diversification across products and sectors has allowed the company to de-risk its business operations. IPL's product portfolio comprises primarily of products that they manufacture in-house allowing them to cater to a wide range of customers in both domestic and international markets. IPL's products are exported to regulated markets including Australia and other countries located in Europe, Africa and Asia and have received product registrations either through their customers or by the company.

Strong R&D and product development capabilities:

IPL has substantial experience in undertaking R&D activities as part of its manufacturing operations. The company places significant emphasis on identification of appropriate complex Technicals that are suitable for commercialization, improving its production processes and the quality and purity of its present products and manufacturing new off-patent products. The R&D team comprises of PhDs, Masters Graduates in chemistry and a biotechnological engineer. The company has two well-equipped R&D laboratories, each of which is registered with the DSIR. Their laboratories are equipped with sophisticated equipment that include gas chromatography mass spectrometry and high-performance liquid chromatography machines, particle size analyzers, PH meters, Karl Fischer titrators, conductivity meters, melting point apparatus and water purification systems.

IPL's analytical capabilities include critical quality control measures, non GLP-5 batch analysis, stability studies, method validation and method development. IPL's R&D efforts also focus on determining the optimal production process for the Technicals and the reduction of energy consumption. The company continuously seek to innovate to develop alternate production processes for its existing Technicals and for Technicals that are expected to go off-patent in the near future. As part of these measures, IPL undertakes pilot studies of new technologies.

IPL's R&D focus enables it to identify higher margin products thereby contributing to profitability:

The strong R&D focus enables the company to identify products that are higher margin products and that require specialized manufacturing and handling capabilities. Their ability to manufacture such products is among the key factors that have contributed to their growth over the years. Since 2018, their R&D efforts have resulted in the development of processes for products that are not highly toxic and commercialization of three Technicals, the sales of which contributed to 42.1% of the revenue from operations in FY21. The company is currently in the process of developing processes for certain Technicals, including two fungicides, two herbicides, two insecticides and two intermediates. They have also commenced construction of two manufacturing units at their facility at Sandila that are proposed to be used for herbicide Technicals.

Strong sourcing capabilities and extensive distribution network:

The company sources its primary raw materials from sources within and outside India and has developed relationships with multiple vendors for its major raw materials to ensure timely delivery and adequate supply. IPL's ability to procure raw material domestically enables it to withstand volatility in raw material prices and ensures continuous supply for its operations. The company typically holds a minimum inventory of 20 days' supply of raw materials. IPL is focused on direct sales to its customers. For its Technicals and Formulations segment, the company has a pan-India sales and distribution presence with a dedicated sales force. As of March 31, 2021, they have a network of over 20 sales depots consisting of branches, carrying and forwarding agents, and warehouses spread across fifteen states in India and their distribution network comprised of a number of dealers and distribution partners across India.

Impressive financial performance over the years:

IPL has demonstrated consistent growth in terms of revenues and profitability over the last three fiscals. Their total revenue from operations increased by 90.5% from INR 341 crore in FY19 to INR 649 crore in FY21. The Net worth has increased from INR 187 crore in FY19 to INR 389 crore in FY21. As of March 31, 2019, 2020 and 2021, the debt position and the long term debt to equity ratio was 0.09, 0.06 and 0.02 respectively. The ROCE was 32.3%, 35.8% and 45.2%, respectively, while the ROE was 23.5%, 27.5% and 34.6%, respectively for FY19, FY20 and FY21.

Highly experienced promoters and senior management team:

IPL is led by an experienced promoter and the Chairman and Non-Executive Director, Anand Swarup Agarwal with significant experience in the agro-chemical industry. Anand Swarup Agarwal has been associated with IPL since inception and has an experience of over 35 years in the agro-chemical manufacturing business. Dheeraj Kumar Jain, Chief Executive Officer, Satya Prakash Gupta, Chief Financial Officer and Ajai Kumar Sinha, General Manager-Formulation Marketing, each has been associated with the company for over 20 years. They are assisted by experienced team of personnel including an organic chemist, an agronomist, a project advisor, and advisors on environmental and toxicological studies. Their industry experience has enabled them to anticipate and address market trends, manage and grow their operations including expanding globally, enhance their manufacturing capabilities, leverage customer relationships, innovate continuously and respond to changes in customer preferences.

India Pesticides Limited

Future Growth Strategies

Capitalize on industry opportunities:

The total agro-chemicals market is projected to grow from USD 62.5 billion in 2019 to USD 86 billion by the end of 2024. India has been ranked fourth globally in the production of agro-chemicals (crop protection chemicals/ pesticides) after USA, Japan and China. The Indian crop protection chemicals market is valued at USD 2.1 billion which is anticipated to grow at 4% in the next five years to USD 2.6 billion by 2024. The 'China plus one' strategy avoids overinvesting in one country, i.e. China, and promotes diversification of business in other countries. A number of multinationals are taking proactive steps to reduce dependence on China for their manufacturing operations and looking at India as an alternative option. IPL also intends to work with their existing customers to identify new products that will be mutually beneficial. With the proposed expansion of their manufacturing capacity, the R&D capabilities, their advanced manufacturing facilities, their experience in manufacturing products that adhere to stringent guidelines and their ability to register products in India and abroad, IPL is well-positioned to capitalize on these opportunities in the agro-chemicals sector.

Continue to focus on R&D and process innovation to expand the product portfolio and grow customer base:

IPL intends to continue to expand their product portfolio by manufacturing complex off-patented Technicals. Between 2019 and 2026, nineteen Technicals are expected to go off patent protection and as a result, the demand for these Technicals globally is expected to increase, particularly in regulated markets. With a number of products coming off patent, there will be significant opportunities to develop a number of off-patent/generic active intermediates. IPL intends to continue to focus on investing in automation, modern technology and equipment to continually improve the processes to manufacture their products and address changing customer preferences. Going forward, they intend to continue to leverage their sales and marketing network, diversified product portfolio and their industry standing to establish relationships with new multinational, regional and local customers and expand their customer base.

Focus on cost optimization:

IPL intends to undertake a number of strategic initiatives including expansion of its existing manufacturing capacity that will allow it to benefit from economies of scale and improve process efficiency in its manufacturing process. They intend to review their product portfolio to either include or eliminate products based on costs incurred, profits generated and processes involved in manufacturing such products. Another key area that they intend to focus on will be to further reduce their dependence on import of raw materials and source their raw materials indigenously. They will identify suppliers of their key raw materials and enter into long-term supply contracts to ensure availability of such raw materials at viable prices. They will also endeavour to improve their production process, skill up-gradation of workers, modernization of equipment to further optimize the utilization of resources. The company intends to analyse its existing material procurement policy and production processes to identify the areas of bottlenecks and take corrective measure wherever possible. They intend to further optimize order quantities for their raw materials. This will help them in improving efficiency and putting resources to optimal use.

Grow the portfolio of Formulations products:

For products that they intend to launch as part of their Formulations segment, they undertake brand building activities including conducting dealer training, field demonstrations and product promotion through advertisements and other publications and participation in various national and international exhibitions. In addition, the growth in their Technicals segment will lead to a growth of their Formulations products. For instance, they manufacture Cymoxanil, a fungicide Technical that is used in the manufacture of certain of their Formulations, including Takatvar, which is used to control downy mildews of grapes, potatoes, vegetables and several other crops.

Expand the business and geographical footprint through inorganic growth:

To cater to the growth in demand for the products they manufacture, IPL intends to scale up the manufacturing capacities for their existing products. They have obtained approval from the Ministry of Environment, Forest and Climate Change ("MoEF") to expand their manufacturing capacity at Sandila to 30,000 MT. In addition, they continually explore new markets for their existing products. Their expansion and diversification of their product portfolio would allow them to service new clients, meet existing demand and consequently, enhance their business prospects. The company intends to augment its organic growth by pursuing selective acquisitions and strategic alliances. IPL may consider other acquisition opportunities acquiring divisions of existing companies to selectively expand in its verticals, provided such opportunities offer the synergies.

India Pesticides Limited

Outlook and Valuation:

Over the last few years, IPL has exhibited strong financial performance. The company has registered a revenue CAGR of 37% over FY18-21, while its PAT has grown at a CAGR of 60% over the same period. EBITDA has registered a growth of 48% CAGR over FY18-21, while EBITDA margin has expanded by 840 bps from 20.8% in FY19 to 29.2% in FY21. IPL has negligible debt on its balance sheet and it is a net cash company as on FY21 end. The company has consistently generated healthy cash flows over the years, with cumulative OCF and FCF being INR 170 Cr and INR 80 Cr respectively over FY18-21. IPL also has improved its asset turnover over the years which has helped the company to report good profitability and robust return ratios (ROE 34.5% for FY21).

IPL's future growth prospects is bright, keeping in mind the emerging opportunity for domestic agro-chemical based companies in global markets and IPL's significant presence in the export markets. On the upper price band of INR 296 and EPS of INR 12.1 for FY21, the P/E ratio works out to be 24.5x, which is attractive compared to its peers Rallis India (29x) and Atul (40x). Only UPL (19.8x) is having a lower P/E than IPL. **We believe, IPL has a good potential for future and valuation wise also available at a reasonable valuation compared to its peers. As a result, we recommend a 'SUBSCRIBE' rating for the IPL IPO.**

Peer Comparison:

Company Name	CMP (INR)	Sales (INR Cr)	EBITDA (INR Cr)	EBITDA Margin (%)	PAT (INR Cr)	PAT Margin (%)	EPS (INR)	P/E (x)	ROE (%)
India Pesticides Ltd. (IPL)	296	649	183	28.2	134	20.7	12.1	24.5	34.5
Rallis India	340	2,429	323	13.3	229	9.4	11.7	29.0	15.2
Atul Ltd.	8,855	3,731	781	20.9	656	17.6	221.2	40.0	18.9
UPL	802	38,694	8,352	21.6	3,109	8.0	40.5	19.8	14.3

Source: Bloomberg, IPO Prospectus, KRChoksey Research

India Pesticides Limited

Financials:

Income Statement (INR Cr)	FY19	FY20	FY21
Total Revenue from Operations	340.7	479.6	648.9
EBITDA	65.2	93.5	183.1
EBITDA Margin (%)	19.1%	19.5%	28.2%
Other Income	5.3	10.1	6.4
Depreciation	3.9	5.1	6.1
EBIT	66.6	98.5	183.4
Interest expense	5.6	5.2	3.4
Exceptional Item	0	0	0
PBT	61.1	93.4	179.9
Tax	17.2	22.6	45.4
Share of Profit / MI	0	0	0
PAT	43.9	70.8	134.5
EPS (INR)	3.9	6.3	12.1

Source: IPO Prospectus, KRChoksey Research

Balance Sheet (INR Cr)	FY19	FY20	FY21
ASSETS			
Fixed Assets	69.8	99.2	124.3
Capital work-in-progress	4.7	1.1	11.9
Other intangible assets	0.4	0.2	0.1
Goodwill	-	-	-
Investments	3.1	3.0	9.9
Other Non-Current Assets	5.8	6.9	4.0
Inventories	35.5	38.6	70.1
Trade Receivables	178.3	183.2	214.2
Cash & Cash Equivalents	2.8	7.6	42.9
Other Financial Assets	16.7	25.4	39.5
Total Assets	317.2	365.7	517.1
LIABILITIES			
Equity Share Capital	3.2	3.2	11.2
Reserves	183.8	253.6	378.3
Net Worth	187.0	256.8	389.5
Non-controlling interest	0	0	0
Borrowings	11.3	10.4	7.4
Other Non-current liabilities	0.4	0.6	0.8
Deferred tax liabilities (net)	7.6	7.3	8.1
Total current liabilities	111.0	90.5	111.2
Total Equity and Liabilities	317.2	365.7	517.1

Source: IPO Prospectus, KRChoksey Research

India Pesticides Limited

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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