

Comprehensive beat in Q4; strong outlook for FY22

Q4FY21 revenues grew 36% YoY to ₹ 471.3 crore (I-direct estimate: ₹ 377.6 crore) amid 73% growth in international business (52% of revenues in Q4) to ₹ 245 crore led by volume growth. The domestic business grew 11% YoY to ₹ 226 crore. Crop protection business increased 38% to 445 crore and seeds business grew 8% to ₹ 26 crore. EBITDA margins were at 3.8% (I-direct estimate: 2.4%) vs. -2.8% in Q4FY20 mainly due to operational leverage. EBITDA profit was at ₹ 17.7 crore (I-direct estimate: ₹ 9 crore) against EBITDA loss of ₹ 9.8 crore. PAT was at ₹ 8.1 crore (I-direct estimate: loss of ₹ 0.4 crore) against ₹ 0.7 crore mainly due to a strong operational performance.

Upcoming capex likely to aid revenue ahead

Out of the earmarked capex of ₹ 800 crore over the next five to six years, the company has been initially incurring crop formulation capex to the tune of ₹ 98 crore and MPP plant at Dahej with total cost of ₹ 105 crore. Both of these plants are expected to get commissioned by H2FY22. Since it has historically managed asset turn of 2.25-2.5x, we expect the same to sustain, going ahead. Thus, this bodes well for future growth outlook. Apart from this, it has also been working on backward integration, which should boost gross margins further down the years.

International business growth likely to improve ahead

The company has debottlenecked Acephate, Pendimethalin, Hexaconazole capacities recently. We believe this would support volume growth for the international B2B business. Further, recent price increase for key molecules along with visibility of price sustainability/improvement in the metribuzin is likely to aid overall realisations further and thereby the business performance in coming quarters. A revival in aviation is also likely to drive PEKK volumes to pre-Covid level in the coming quarters. Apart from this, the company is also looking to foray into innovative CRAMs business, which would drive growth and margins over the long term.

Valuation & Outlook

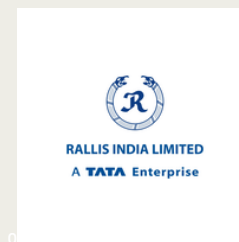
While Q4FY21 revenues were driven by robust growth in export, continuous improvement in domestic growth and lower base, margins improved due to better operational leverage. Normal monsoon prediction and continuous strong demand is likely to drive FY22 growth. Also, we believe since outlined organic expansion is already underway with clear focus on maintaining/improving IRR profile of the business, it is evident that group operational performance should improve in the medium to long run. Besides this, control on working capital and better allocation of incremental cash should aid return ratios further. We arrive at a target price of ₹ 350 (22x PER of FY23E, unchanged TP). We maintain **BUY**.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY21-23E
Net Revenue	1,790.9	1,984.0	2,251.8	2,429.4	2,722.6	3,108.9	13.1
EBITDA	264.5	240.9	259.4	322.9	378.1	445.9	17.5
EBITDA Margins (%)	14.8%	12.1%	11.5%	13.3%	13.9%	14.3%	
Adj.PAT	167.6	155.4	176.0	221.5	261.3	308.1	18.0
Adj. EPS (₹)	8.6	8.0	9.0	11.4	13.4	15.8	
EV/EBITDA	19.9x	21.9x	19.7x	15.6x	13.3x	11.1x	

Source: Company, ICICI Direct Research

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market cap (₹ Crore)	5,358
FY21 Total Debt (₹ Crore)	72
FY21 Cash & Inv (₹ Crore)	384
EV (₹ Crore)	5,047
52 Week H/L	340/195
Equity Capital (₹ Crore)	19.5
Face Value (₹)	1

Key Highlights

- Comprehensive beat in Q4 amid robust export and operational leverage
- Normal monsoon prediction and continuous strong demand likely to drive FY22
- Upcoming capex likely to aid revenue ahead
- Maintain BUY

Key Risks

- Oversupply situation of any molecule in the industry post commercialisation of upcoming capex can drag realisation and impact the group performance
- Slowdown in the domestic crop protection market is likely to impact overall growth as India constitutes ~63% of overall revenue

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Exhibit 1: Change in estimates

₹ Crore	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,626	2,723	3.7	3,119	3,109	-0.3	
EBITDA	369	378	2.5	460	446	-3.1	
EBITDA Margin (%)	14.1	13.9	-17	14.7	14.3	-40	
PAT	246	261	6.2	310	308	-0.6	Changed mainly in sync with operational performance and higher other income
EPS (₹)	10.7	11.4	6.2	13.5	13.4	-0.6	

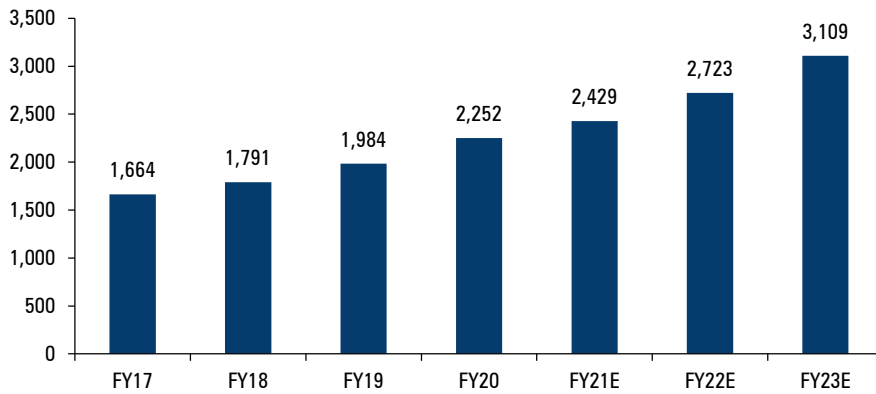
Source: Company, ICICI Direct Research

Conference Call Highlights

- The management expects normal monsoon prediction and strong demand to drive volume growth in FY22
- Expects near term softness in CRAMs business
- Plan for FY22: Crop protection target of total 4000 distributors and 65000+ retailers, seeds distributors 2700 & retailers 35000+
- Plans to launch couple of new products annually in crop production and seed segments
- Working towards adding one new product during FY22 to complement the existing five key AIs
- Expects domestic to export ratio of crop protection segment to be 60:40 in FY25 against 63:37 in FY21
- The company reported ₹ 150-160 crore of cash flows in FY21 and expects ₹ 250 crore in FY22
- Metribuzin average price declined ~40% YoY in FY21. The trend, however, is improving from Q3FY21 while the management expects a gradual improvement in FY22
- Other expenditure increased sequentially amid increase in ground level activity
- Gross margins in domestic and international BTB businesses are almost same but EBITDA would be higher in international BTB business
- Formulations, MPP plants are likely to be commissioned in FY22. MPP plant was delayed mainly due to labour shortage amid pandemic

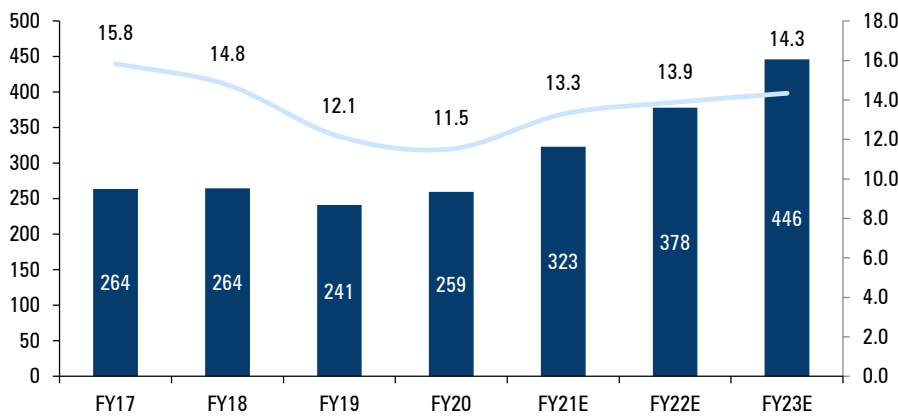
Financial story in charts

Exhibit 2: Revenue trend (₹ crore)



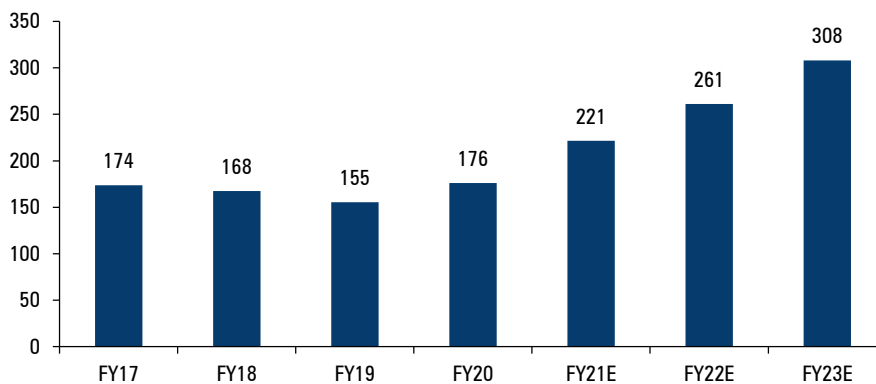
Source: Company, ICICI Direct Research

Exhibit 3: OPM likely to improve due to better gross margins, operating leverage



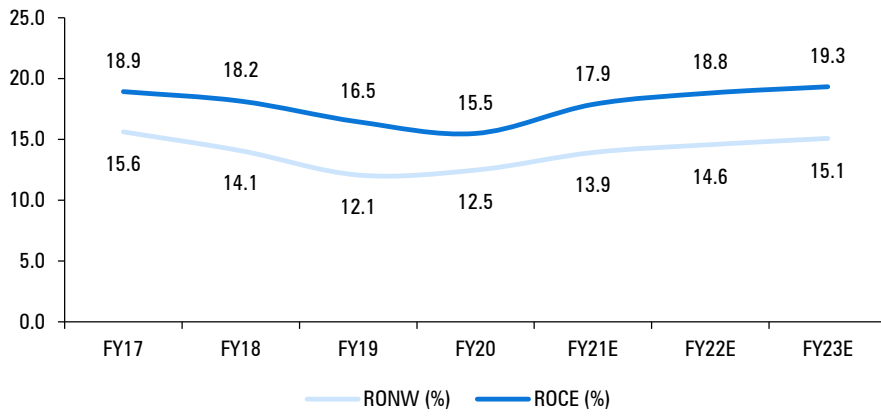
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend (₹ crore)



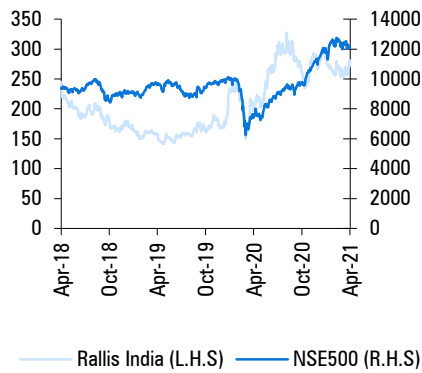
Source: Company, ICICI Direct Research

Exhibit 5: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement					₹ crore
Year end March	FY20	FY21E	FY22E	FY23E	
Total Operating Income	2,251.8	2,429.4	2,722.6	3,108.9	
Growth (%)	13.5	7.9	12.1	14.2	
Raw Material Expenses	1,390.0	1,475.2	1,619.9	1,834.3	
Gross Profit	861.8	954.2	1,102.7	1,274.7	
Employee Cost	200.1	216.0	245.0	279.8	
Other Operating Expenses	402.4	415.3	479.5	548.9	
EBITDA	259.4	322.9	378.1	445.9	
Growth (%)	7.6	24.5	17.1	18.0	
Other Income	34.3	40.5	46.1	52.3	
EBITDA, including OI	293.7	363.3	424.2	498.2	
Depreciation	61.5	64.1	72.3	87.3	
Net Interest Exp.	6.1	5.2	3.6	2.8	
Other exceptional items	11.4	9.5	0.0	0.0	
PBT	237.5	303.5	348.3	408.1	
Total Tax	53.8	74.9	87.1	100.0	
Tax Rate	22.7%	24.7%	25.0%	24.5%	
PAT	183.7	228.6	261.3	308.1	
Adj.PAT after MI	176.0	221.5	261.3	308.1	
Adj. EPS (₹)	9.0	11.4	13.4	15.8	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
Year end March	FY20	FY21E	FY22E	FY23E	
PBT & Extraordinary	237.5	303.5	348.3	408.1	
Depreciation	61.5	64.1	72.3	87.3	
After other adjustments					
(Inc) / Dec in Working Capital	96.8	-28.5	-88.1	-88.8	
Taxes	-56.4	-74.9	-87.1	-100.0	
Others	-2.6	5.2	3.6	2.8	
CF from operating activities	336.9	269.4	249.0	309.4	
Purchase of Fixed Assets	-78.6	-147.3	-180.0	-150.0	
Others	-167.3	18.4	-50.0	-50.0	
CF from investing activities	-245.9	-128.9	-230.0	-200.0	
Proceeds from issue of share	0.0	0.0	0.0	0.0	
Borrowings (Net)	4.5	-18.5	-25.0	-10.0	
Others	-78.9	-54.5	-61.9	-61.2	
CF from financing activities	-74.4	-73.0	-86.9	-71.2	
Net cash flow	16.5	67.5	-67.9	38.3	
currency impact	0.0	0.0	0.0	0.0	
Opening Cash	45.8	48.7	103.4	34.8	
Closing Cash	48.7	103.4	34.8	73.1	

*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					₹ crore
Year end March	FY20	FY21E	FY22E	FY23E	
Liabilities					
Share Capital	19.5	19.4	19.4	19.4	
Reserves	1,390.0	1,570.0	1,772.9	2,022.7	
Total Shareholders Fund	1,409.5	1,589.4	1,792.3	2,042.1	
Minority Interest	0.7	0.7	0.0	0.0	
Long Term Borrowings	26.8	29.3	14.3	14.3	
Net Deferred Tax liability	28.5	26.4	26.4	26.4	
Other long term liabilities	6.6	0.1	9.1	10.4	
Long term provisions	25.7	26.9	27.5	31.5	
Current Liabilities and Provisions					
Short term borrowings	63.5	42.5	32.5	22.5	
Trade Payables	637.3	596.1	745.9	851.8	
Other Current Liabilities	233.0	261.6	281.7	321.6	
Short Term Provisions	17.1	14.3	20.6	23.5	
Total Current Liabilities	950.9	914.5	1,080.7	1,219.4	
Total Liabilities	2,448.5	2,587.2	2,950.4	3,344.1	
Assets					
Net Block	397.0	403.3	511.0	573.7	
Capital Work in Progress	28.8	105.7	105.7	105.7	
Intangible assets under d	47.0	58.8	58.8	58.8	
Goodwill on Consolidation	195.8	195.8	195.8	195.8	
Non-current investments	3.8	3.2	3.2	3.2	
Deferred tax assets	0.0	0.0	0.0	0.0	
Long term loans and adv	9.8	10.1	11.3	12.9	
Other Non Current Assets	152.1	106.7	177.9	203.2	
Current Assets, Loans & Advances					
Current Investments	298.7	280.3	330.3	380.3	
Inventories	699.2	763.2	857.8	979.5	
Sundry Debtors	450.6	406.3	522.1	596.2	
Cash and Bank	48.7	103.4	34.8	73.1	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current assets	117.1	150.5	141.6	161.7	
Current Assets	1,614.2	1,703.7	1,886.7	2,190.8	
Total Assets	2,448.5	2,587.2	2,950.4	3,344.1	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
Year end March	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adj. EPS	9.0	11.8	13.4	15.8
Adj. Cash EPS	12.2	15.0	17.2	20.3
BV	72.5	81.7	92.2	105.0
DPS	2.5	2.5	3.0	3.0
Operating Ratios (%)				
Gross Margin (%)	38.3	39.3	40.5	41.0
EBITDA Margin (%)	11.5	13.3	13.9	14.3
PAT Margin (%)	7.8	9.1	9.6	9.9
Debtor Days	73	61	70	70
Inventory Days	113	115	115	115
Creditor Days	103	90	100	100
Cash Conversion Cycle	83	86	85	85
Return Ratios (%)				
Return on Assets (%)	7.2	8.6	8.9	9.2
RoCE (%)	15.5	17.9	18.8	19.3
Core RoIC (%)	17.2	20.3	20.7	22.1
RoE (%)	12.5	13.9	14.6	15.1
Solvency Ratios				
Total Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	38.0	57.4	-	-
Current Ratio	1.7	1.9	1.7	1.8
Quick Ratio	1.0	1.0	1.0	1.0
Valuation Ratios (x)				
EV/EBITDA	19.7	15.6	13.3	11.1
P/E	30.4	23.4	20.5	17.4
P/B	3.8	3.4	3.0	2.6
EV/Sales	2.3	2.1	1.9	1.6

Source: Company, ICICI Direct Research

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