Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 764**	
Price Target: **Rs. 900**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

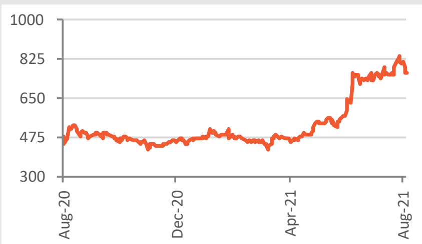
Company details

Market cap:	Rs. 1,514 cr
52-week high/low:	Rs. 846 / 399
NSE volume: (No of shares)	1.0 lakh
BSE code:	532851
NSE code:	INSECTICID
Free float: (No of shares)	0.58 cr

Shareholding (%)

Promoters	72
FII	5
DII	10
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2	43	59	59
Relative to Sensex	-2	31	54	16

Sharekhan Research, Bloomberg

Insecticides (India) Ltd

In-line Q1; Strong demand for new launches

Agri Chem	Sharekhan code: INSECTICID	Result Update

Stock Update

Summary

- In-line Q1FY22 operating profit at Rs. 53 crore (up 7.9% y-o-y) as higher-than-expected revenue growth of 14.3% gets offset by 116 bps miss in OPM at 11.3%. PAT at Rs. 35 crore (up 1.7% y-o-y) missed our estimate due to lower other income.
- Strong revenue growth was driven by 28.7%/179.4% y-o-y rise in institutional/export sales while branded sales growth were muted at 2% y-o-y. Rise in share of low-margin institutional sales and higher costs led to a contraction in margin.
- The management reiterated revenue growth guidance of 10-12% y-o-y for FY2022 and expects gradual pick up in margins to 15% led by a rise in share of high margin-new generation products and backward integration.
- We maintain Buy on the stock with an unchanged PT of Rs. 900, as we expect a strong 29% PAT CAGR over FY21-FY24E, RoE of 18% and balance sheet is also strong. Valuation of 8.6x/6.7 its FY23E/FY24E EPS is attractive.

Insecticides (India) Limited's Q1FY2022 revenue increased by 14.3% y-o-y to Rs. 468 crore (volume growth of 8% y-o-y and price hike to the tune of 6% y-o-y) and was 7.9% above our estimate of Rs. 434 crore. Revenue growth was driven by 28.7%/179.7% y-o-y rise in institutional sales/exports to Rs. 124 crore/Rs. 39 crore. Total branded sales remained muted with 2% y-o-y growth to Rs. 305 crore. Sales of Maharatna products grew 6.4% y-o-y and the lethal set of products continued to post healthy growth in Q1FY2022. However, margins missed our estimate by 116 bps to 11.3% (down 68 bps y-o-y) due to higher revenue share of low margin institutional sales to 26.6% (versus 23.6% in Q1FY2021) and higher operating cost (employee cost/other expenses up 20.8%/22.3% y-o-y). Gross margins at 23.2% remained stable y-o-y as the company was able to able to pass on higher raw material prices to final customers. Operating profit of Rs. 53.1 crore (up 7.9% y-o-y) was in-line as stronger-than-expected revenue growth was offset by miss in margin. Adjusted PAT stood at Rs. 35 crore (up 43.5% y-o-y) was below our estimate on account of lower-than-anticipated other income. Management is confident of 10-12% revenue growth for FY2022 supported by ramp-up of recently launched new generation products (*Lethal Granules/Tadaaki/Hachiman*) and plans to introduce 5-6 new products in FY2022. It also targets to gradually improve margins to 15% as share of high margin new generation products to improve going forward, benefit through backward integration and efforts to maintain sufficient raw material inventory at low prices. Thus, we expect a strong 29% PAT CAGR over FY2021-FY2024E along with decent RoE of 17-18%. Hence, we maintain Buy on Insecticides (India) Limited with an unchanged PT of Rs. 900.

Key positives

- Better-than-expected revenue growth of 14.3% y-o-y in Q1FY2022, led by higher institutional and export sales (up 28.7%/179.4% y-o-y).
- Stable q-o-q gross margin at 23.2% on back of price hikes.

Key negatives

- Miss of 116 bps in OPM at 11.3% (down 68 bps y-o-y) given higher share of low margin institutional sales.

Our Call

Valuation – Maintain Buy on Insecticides (India) with an unchanged PT of Rs. 900: We maintain our FY2022-FY2023 earnings estimate and introduce our FY2024 earnings estimate in this report. We expect the company to benefit from ramp-up of new products and potential rise in share of branded products (*Maharatna Brands*). Thus, we expect strong revenue, EBITDA, and PAT CAGR of 13%/27%/29% over FY2021-FY2024E along with a decent RoE of 17-18%. Hence, we maintain a Buy rating on Insecticides (India) Limited with an unchanged PT of Rs. 900. At the CMP, the stock is trading at an attractive valuation of 8.6x its FY2023E EPS and 6.7x its FY2024E EPS.

Key Risks

Poor demand or delay in the launch of new products is likely to affect revenue visibility, while volatility in input costs may impact margin. The government's intention to ban 27 pesticides could impact the company's performance; but the final decision is yet to come.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Revenues	1,363	1,420	1,562	1,797	2,066
OPM (%)	11.4	10.7	13.3	14.5	15.0
Adjusted PAT	87	104	137	175	225
y-o-y growth (%)	*(29.2)*	*19.2*	*32.4*	*27.8*	*28.2*
Adjusted EPS (Rs.)	44.0	52.5	69.5	88.8	113.8
P/E (x)	17.4	14.6	11.0	8.6	6.7
P/B	2.1	1.8	1.6	1.3	1.1
EV/EBITDA (x)	10.4	10.0	6.9	5.1	4.0
RoCE (%)	14.0	14.5	19.2	21.4	23.2
RoE (%)	12.5	13.4	15.5	16.9	18.2

Source: Company; Sharekhan estimates

In-line quarter; Strong-than-expected revenue growth gets offset by miss in OPM

Q1FY2022 revenue increased by 14.3% y-o-y to Rs. 468 crore, 7.9% above our estimate of Rs. 434 crore, driven by a 2.1% y-o-y rise in total branded sales to Rs. 305 crore, 28.7% y-o-y rise in institutional sales. Exports grew strongly by 179.4% y-o-y during the quarter and contributed 8.2% to the total sales. Growth in Branded sales was led by 6.4% y-o-y growth in Maharatna products and healthy performance by the company's lethal category of products. However, profitability was impacted as OPM of 11.3% (missed our estimate of 12.5% by 116 bps) due to higher institutional sales which has a lower margin. Margin was partially supported by stable gross margin at 23.2% (up 4% y-o-y) due to passing on higher raw material prices to final customers. Operating profit came in at Rs. 53.1 crore (up 7.9%), in-line with our estimates. Adjusted PAT stood at Rs. 35 crore (up 43.5% y-o-y) below our estimate of Rs. 38.8 crore on account of lower-than-expected other income.

Q1FY2022 conference call highlights

- **Q1FY2022 performance:** Healthy revenue growth of 14.3% y-o-y was supported by 5-6% value growth and rest was volume growth. Exports grew 180% y-o-y. Institutional sales stood at Rs. 124 crore, up 29% y-o-y and contributed of 27% in total sales while Branded sales stood at Rs. 305crores, up 2% y-o-y and contributed 65% in total sales. The company could maintain gross margins as higher raw material cost was passed on to customers. However, the OPM was down due to higher institutional sales, which have a lower margins.
- **Revenue growth guidance for FY2022:** Management has guided for 10-12% revenue growth for FY2022 The management also guided for Rs. 60-70 crore revenue from products launched last year.
- **Margins outlook:** Management expects margins to improve led by better product mix, new launches of 5-6 products in FY22, completion of expansion/ backward integration projects, and higher contribution from Maharatna and new-generation products. The management guided for a 15% margin in FY2022. Moreover, management is confident to pass on raw material price increases to the end customers as the whole industry is facing the challenges, which also bodes well for margin improvement.
- **Capex guidance:** The company guided for a total capex of Rs. 60 crore in FY2022. Out of which Rs. 10-15 crore would be for maintenance capex and the rest would to expand the raw material capacity in order to reduce the dependency from China. The company has a total expansion plan of Rs. 100-120 crore over 2-3 years, out of which Rs. 50 crore is already invested in FY21, Rs. 10 crore was spent in Q1FY2022 and Rs. 10 crore of capital advances has been made.
- **Focus on new products:** During the quarter, the company has received three 9(3) category registrations and with that the total number of products under this category would be 20. The company expects 6-7 more registration in this ongoing quarter whose impact on the topline would be reflected next year. Due to the pandemic, there is a delay in receiving approvals from regulatory bodies. The Company plans to launch 5-6 value-added products in FY2022 in the Maharatna category, which includes the launch of Hachiman (launched in July and has received good response from the market).
- **Net working capital days:** The total working capital days during the quarter has increased due to higher raw material inventory moreover the debtor days also increased due to low collection amid second wave of Covid-19.
- **Other Updates:**
  - Scattered rainfall led to delay in sowing in the second half of June
  - Net Cash position is on a positive side

Results (Consolidated) | Rs cr

Particulars	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
Revenue	**468**	**410**	**14.3**	**256**	**83.2**
Total expenses	415	360	45.0	227	(23.5)
Operating profit	**53**	**49**	**7.9**	**29**	**85.0**
Other Income	2	1	45.0	2	(23.5)
Depreciation	6	6	3.9	6	2.4
Finance Cost	2	2	(4.1)	1	89.0
PBT	46	32	44.0	24	96.7
Tax	12	8	45.5	2	525.5
Reported PAT	**35**	**24**	**43.5**	**22**	**60.5**
Adjusted PAT	**35**	**34**	**1.7**	**21**	**62.7**
REPS (Rs.)	17.7	12.3	43.5	11.0	60.5
AEPS (Rs.)	17.7	17.4	1.7	10.9	62.7
Margin (%)			**BPS**		**BPS**
OPM	11.3	12.0	(68)	11.2	11
Adjusted NPM	7.5	8.4	(92)	8.4	(94)
Tax rate	24.8	24.5	26	7.8	1,697

Source: Company; Sharekhan Research

Segment wise revenue mix | Rs cr

Particulars	Q1FY22	Q1FY21	Y-o-Y %	Q4FY21	Q-o-Q %
B2C	305	299	2.0%	145	111.1%
BCB	124	97	28.6%	92	34.9%
Exports	39	14	179.7%	19	105.3%
Total revenues	**468**	**410**	**14.3%**	**256**	**83.2%**
Revenue mix (%)			**BPS**		**BPS**
B2C	65.2	73.0	-784	56.6	861
BCB	26.6	23.6	296	36.1	-950
Exports	8.2	3.4	488	7.4	89

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Rising food demand provides ample growth opportunities for agri-input players

The outlook for the Indian agrochemical industry is encouraging, primarily driven by rising foodgrain production and domestic demand, favourable regulatory reforms for farmers (government passed key agri-sector reforms namely Farmers Produce Trade and Commerce Bill 2020 and Farmers (Empowerment and Protection) Agreement of Price Assurance and Farm Services Bill). Moreover, there is a vast opportunity from products going off-patent. The government's focus is to double farmers' income (higher MSPs for crops); near-normal monsoons and higher reservoir levels would augment demand for agri-inputs in India. We also expect exports from India to grow at a strong pace as India is being looked as the preferred supplier for agri-inputs given supply disruption from China. Thus, we expect India's agrochemical industry to witness 7-8% growth annually on sustained basis over the next few years.

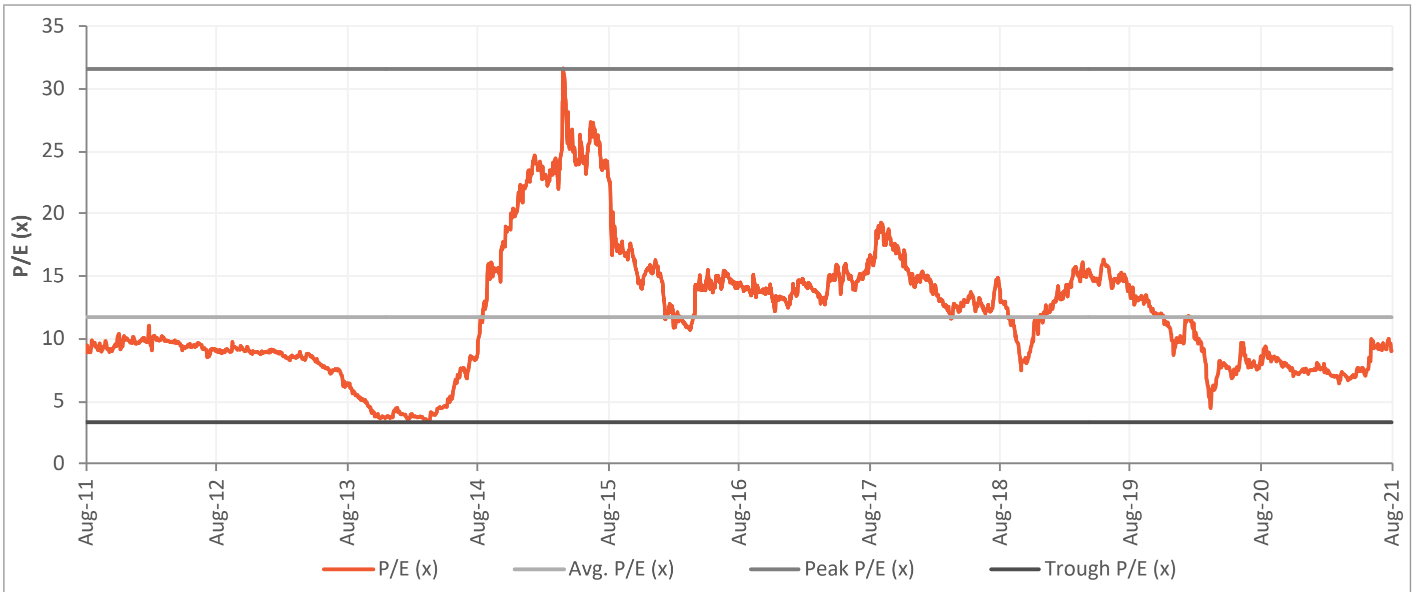
■ Company outlook - New product launches to drive earnings growth

Management expects healthy growth overall, backed by increased business from branded products, institutional sales, and higher exports. The same is expected to be achieved through a focus on launching innovative products, a better product mix to deliver sustainable growth, and enhanced profitability going forward. Management has guided for 10-12% revenue growth for FY2022E and gradual margin expansion to 15% in the coming years. We expect a 29% PAT CAGR over FY2021-FY2024E.

■ Valuation - Maintain Buy on Insecticides (India) with an unchanged PT of Rs. 900

We maintain our FY2022-FY2023 earnings estimate and introduce our FY2024 earnings estimate in this report. We expect the company to benefit from ramp-up of new products and potential rise in share of branded products (Maharatna Brands). Thus, we expect strong revenue, EBITDA, and PAT CAGR of 13%/27%/29% over FY2021-FY2024E along with a decent RoE of 17-18%. Hence, we maintain a Buy rating on Insecticides (India) Limited with an unchanged PT of Rs. 900. At the CMP, the stock is trading at an attractive valuation of 8.6x its FY2023E EPS and 6.7x its FY2024E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Insecticides (India) Limited is India's leading and one of the fast-growing agrochemical companies. The company has emerged as a frontline performer in India's crop care market and is all set to grow impressively. The company has more than 100+ formulation products and 22 technical products and manufactures all types of insecticides, weedicides, fungicides, and PGRs. for all types of crops and households. The company owns the prestigious Tractor brand, which is highly popular among farmers. This umbrella brand of its agro products, such as Lethal, Victor, Monocil, Xplode, Hijack, Pulsor, and Hakama, signifies **Insecticides (India) Limited's** deep connection with farmers.

The company has five state-of-the-art formulation facilities in Chopanki (Rajasthan), Samba and Udhampur (Jammu & Kashmir), and Dahej (Gujarat). The company also has two technical synthesis plants at Chopanki and Dahej to manufacture technical-grade chemicals, providing a competitive edge by backward integration. The company also has a bio manufacturing unit and four dedicated research facilities. The company markets its products through more than 60,000 retail outlets with the help of 3,000 distributors and 31 depots/branches having sales team of over 500 personnel.

Investment theme

Strategic transition yielding results: Insecticides (India) Limited's management took strategic steps towards realigning the product mix by introducing NewGen products through higher R&D thrust and weeding out the old generic products for more sustainable growth visibility with improved margin trajectory. The transition has started yielding results, with strong new launches and improved margins.

Four growth pillars driving performance: Insecticides (India) Limited's management has chalked out a four-prolonged strategy for long-term sustainable growth acceleration with new product launches – (1) reverse engineering; (2) combination products; (3) biological products; and (4) product discovery.

Key Risks

- Poor demand offtake or delay in the launch of new products is likely to affect revenue visibility, while volatility in input cost may impact margin profile.
- The government's intention to ban 27 pesticides could have an adverse impact on the company's performance; however, the final decision is yet to come.

Additional Data

Key management personnel

Hari Chand Aggarwal	Chairman
Rajesh Aggarwal	Managing Director
Nikunj Aggarwal	Whole Time Director
Sandeep Aggarwal	Chief Financial Officer
Sandeep Kumar	Company Secretary and Compliance office

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co. Ltd	8.81
2	HDFC Small Cap Fund	8.79
3	FMR LLC	1.8
4	BNP Paribas Asset Management India Pvt. Ltd	0.83
5	American Century Cos Inc.	0.01
6	IEPF	0.01

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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