Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Insecticides (India) Ltd

Mixed bag Q1; new product ramp-up a growth booster

Agri Chem	Sharekhan code: INSECTICID
Reco/View: Buy ↔	CMP: Rs. 1,008
	Price Target: Rs. 1,170 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

Company details

Market cap:	Rs. 1,997 cr
52-week high/low:	Rs. 1,095/583
NSE volume: (No of shares)	0.5 lakh
BSE code:	532851
NSE code:	INSECTICID
Free float: (No of shares)	0.55 cr

Shareholding (%)

Promoters	72
FII	7
DII	11
Others	10

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	34.6	50.5	32.8
Relative to Sensex	-2.4	23.4	46.3	24.5

Sharekhan Research, Bloomberg

Summary

- In-line operating profit of Rs. 58 crore (up 10% q-o-q) as stronger-than-expected revenue growth of 20% y-o-y was offset by a miss in margins. PAT of Rs. 38 crore (up 9.6% y-o-y) was 2% above our estimate due to lower-than-expected tax rate.
- Strong revenue growth was led by 21%/31% y-o-y revenue growth from B2C/B2B business. OPM miss of 87 bps was due to lower-than-expected gross margin and FX loss of Rs. 6.5 crore. Adjusted OPM of 11.6% was slightly better than our estimate of 11.3%.
- Management maintained its double-digit (18-20% y-o-y) revenue growth and margin guidance of a 100 bps rise for FY23. It expects a similar growth momentum in FY24. However, the company lowered export revenue guidance by 25% to Rs. 150 crore.
- We maintain a Buy on Insecticides (India) Limited with a revised PT of Rs. 1,170 as we expect a strong 34% PAT CAGR over FY22-FY24E. Valuation of 13.7x/10.4x its FY2023E/FY2024E EPS is attractive.

Insecticides (India) Limited (IIL) reported a mixed bag Q1FY2023 performance as higher-than-expected revenue growth of 19.7% y-o-y to Rs. 561 crore (9% above our estimate) was largely offset by miss of 87 bps in OPM at 10.4% (down 91 bps y-o-y). The strong revenue growth was supported by 12-13% y-o-y volume growth and a 7-8% benefit of price hike. Revenue from B2C/B2B businesses grew strongly by 21%/31% y-o-y to Rs. 370 crore/Rs. 163 crore on account of appointment of co-partners for new products , ramp-up of new products (that accounted for 12.2% of revenues) such as Hachiman & Shinwa launched in FY22 and demand traction for Maharatna products. Herbicides business has done extremely well with a 44% y-o-y revenue growth in Q1FY23. However, OPM miss was on the account of rise in raw material cost (gross margin of 23.9%, up 77 bps y-o-y but was 86 bps below our estimate of 24.8%), higher energy costs and M2M forex impact of Rs. 6.5 crore. Consequently, operating profit/PAT grew by 10.1%/9.6% y-o-y to Rs. 58 crore/Rs. 38 crore and was in line/2% above estimates as revenue growth gets offset by margin miss while PAT beat was led by lower-than-expected tax rate of 24.8% (versus assumption of 25.2%).

Key positives

- Robust 21%/31% y-o-y growth in revenues of B2C/B2B businesses.
- Board of Directors will meet on August 20, 2022 to consider issue of bonus shares.

Key negatives

- Miss of 87 bps in OPM at 10.4% (down 91 bps y-o-y) due to lower-than-expected gross margin on higher RM cost.
- Export revenues declined by 27% y-o-y with revenue share of 5% (versus 8.2% in Q1FY22).

Management Commentary

- The management maintained its double-digit (18-20% y-o-y) revenue growth guidance for FY23 and expects similar growth to be maintained in FY24. Export revenue guidance slashed down to Rs150 crore (versus Rs200 crore) due to challenges in Africa, Middle East and South America.
- Re-iterated guidance of 100 bps y-o-y improvement in margins in FY23 led by a better product mix, cost optimization measures and backward integration for certain raw material.
- Expansion at Dahej/Rajasthan expected to get completed by Sep'22/Aug'22.
- Capex guidance of Rs. 30-40 crore for FY23 primarily related to completed of expansion plans.
- Company looks to launch 8-9 new products in FY23, of which, three have been already launched in Q1FY23.

Revision in estimates – We have maintained our FY23 earnings estimate and increased our FY24 earnings estimate to factor ramp-up of new products and benefit of backward integration.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 1,170: We expect the company to benefit from ramp-up of new products post capacity expansion and a potential rise in share of branded products (Maharatna brands). Thus, we expect strong revenue, EBITDA, and PAT CAGR of 20%/31%/34% over FY2022-FY2024E on the low base of FY2022 along with decent RoE of 17%. Hence, we maintain our Buy rating on IIL with a revised price target (PT) of Rs. 1,170 (valued at 12x FY24E EPS). At the CMP, the stock is trading at an attractive valuation of 13.7x its FY2023E EPS and 10.4x its FY2024E EPS.

Key Risks

Poor demand or delayed product launches is likely to affect revenue visibility, while volatility in input costs may impact margins. 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	FY21	FY22	FY23E	FY24E
Revenue	1,420	1,504	1,805	2,166
OPM (%)	10.7	11.3	12.5	13.4
Adjusted PAT	104	107	145	192
y-o-y growth (%)	19.2	3.7	35.4	32.3
Adjusted EPS (Rs.)	52.5	54.4	73.7	97.5
P/E (x)	19.2	18.6	13.7	10.4
P/B (x)	2.4	2.3	2.0	1.7
EV/EBITDA (x)	13.2	11.8	8.5	6.5
RoCE (%)	14.5	15.8	19.7	22.4
RoE (%)	13.4	12.7	15.5	17.4

Source: Company; Sharekhan estimates

Mixed Q1 performance; strong revenue growth gets offset by margin miss

IIL reported a mixed bag Q1FY2023 performance as higher-than-expected revenue growth of 19.7% y-o-y to Rs. 561 crore (9% above our estimate) was largely offset by miss of 87 bps in OPM at 10.4% (down 91 bps y-o-y). The strong revenue growth was supported by 12-13% y-o-y volume growth and a 7-8% benefit of price hike. Revenue from B2C/B2B businesses grew strongly by 21%/31% y-o-y growth to Rs. 370 crore/Rs. 163 crore on account of appointment of co-partners for new products in these segments, ramp-up of new products (that accounted for 12.2% of revenues) such as Hachiman & Shinwa launched in FY22 and demand traction for Maharatna products. Herbicides business has done extremely well with a 44% y-o-y revenue growth in Q1FY23. However, OPM miss was on the account of rise in raw material cost (gross margin of 23.9%, up 77 bps y-o-y but was 86 bps below our estimate of 24.8%), energy costs and M2M forex impact of Rs. 6.5 crore. Consequently, operating profit/PAT grew by 10.1%/9.6% y-o-y to Rs. 58 crore/Rs. 38 crore and was in line/2% above estimates as revenue growth gets offset by margin miss while PAT growth was led by lower-than-expected income tax rate of 24.8% (versus assumption of 25.2%).

Q1FY23 conference call highlights

- **Revenue guidance –** Management guided for double-digit (18-20% y-o-y) revenue growth for FY23 mainly driven by expansion of facilities, addition of new-generation products and adding significant number of product registrations in the current fiscal. The management expects similar growth momentum to be maintained in FY23.

- **Lowered export revenue guidance –** The company has lowered export revenue guidance by 25% to Rs150 crore due to challenges in Africa, Middle East and South America related to collection issues, hikes in product prices and significant depreciation of local currencies.

- **Margin guidance –** IIL expects the EBITDA margins to improve by 100 bps in FY23 from 11.3% in FY22 attributable to better product mix, cost optimization measures and backward integration for certain raw materials.

- **Q2FY23 guidance –** The management expects Q2FY23 revenue growth guidance to be better than Q1FY23 revenue growth of 20% and guided for 100 bps margin improve in the current quarter.

- **Product launches –** The company launched three products in Q1FY23 namely, Torry (Herbicide used for control of weeds in Maize Crops, Sargent Xpress (an insecticide which is used for the control of Stem Borer and Leaf folder insects and Himax (non-selective weedicide). Plan to launch 8-9 products in FY23.

- **Expansion project update and capex guidance –** IIL is nearing the completion of expansion plans undertaken in technical manufacturing, Formulations and Backward Integration. Chopanki (Rajasthan) plant will be commercialised in August 2022 and Dahej (Gujarat) plant will be commissioned by September 2022. Capex will amount to ~Rs. 30-40 crore in FY23.

- **New patents –** The company has received new patents for one fungicide (Novel Fungicidal Carbamate Compounds) and for three pesticides (Novel Miticidal Benzylamides, Novel Dithiolane Compound and Novel Granules & its Pesticidal Compositions). All the patents for 20 years period and commercialization may take 3-4 years post receipt of the patent.

- **Other updates –** 1) received the GLP Certificate for one of our labs at Chopanki, Rajasthan from the Department of Science & Technology, GOI, 2) formed new wholly owned subsidiary IIL Biologicals Limited would focus on organic and biological farming fertilizers, bio-pesticides, bio-control agents or any other allied products.

Results (Consolidated) Rs cr

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ(%)
Revenue	**561**	**468**	**19.7**	**278**	**101.7**
Total expenditure	502	415	21.0	244	105.7
Operating profit	**58**	**53**	**10.1**	**34**	**72.7**
Other Income	0	2	(88.1)	2	(90.7)
Depreciation	7	6	4.5	7	(2.3)
Finance Cost	1	2	(34.7)	1	32.8
PBT	51	46	9.6	28	81.6
Tax	13	12	9.7	6	121.3
Reported PAT	**38**	**35**	**9.6**	**22**	**71.5**
EPS (Rs)	19.4	17.7	9.6	11.3	71.5
Margin (%)			**BPS**		**BPS**
OPM	10.4	11.3	(91)	12.2	(175)
NPM	6.8	7.5	(63)	8.0	(120)
Tax rate	24.8	24.8	2	20.3	444

Source: Company, Sharekhan Research

Revenue mix Rs cr

Revenues by segment	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
B2C	370	305	21.3%	168	119.7%
BCB	163	124	30.7%	72	125.0%
Exports	28	39	-27.4%	37	-24.8%
Total revenues	561	468	19.7%	278	101.7%
Revenue mix (%)			**bps**		**bps**
B2C	66.0	65.2	82	60.6	541
BCB	29.0	26.6	243	26.0	300
Exports	5.0	8.2	-324	13.4	-841

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 & 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-input in India. We also expect exports from India to grow strongly as India is being looked as the preferred supplier for agri-input products, given supply disruptions from China. Thus, we expect India's agrochemical industry to grow by 7-8% annually on a sustained basis over the next few years.

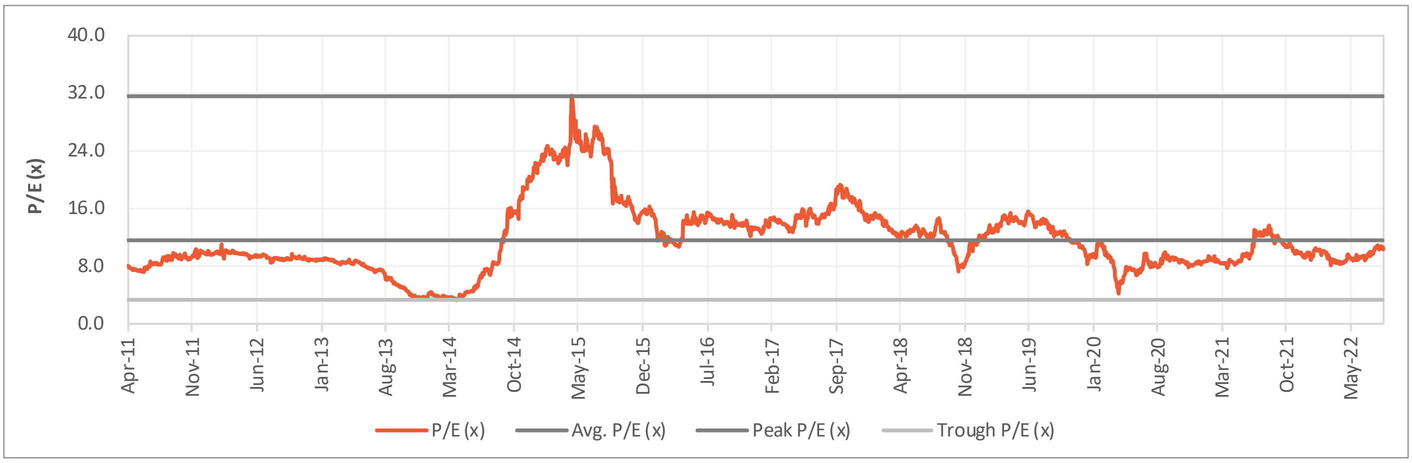
■ Company Outlook – Product launches to drive earnings growth

Management expects healthy growth overall, backed by greater business from branded products, institutional sales, and higher exports. The same is expected to be achieved through focus on launching innovative products, a better product mix to deliver sustainable growth, and enhanced profitability going forward. The management has guided for high double-digit revenue growth for FY2023E and 100 bps margin expansion. We expect a 34% PAT CAGR over FY2022-FY2024E.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,170

We expect the company to benefit from ramp-up of new products post capacity expansion and a potential rise in share of branded products (Maharatna brands). Thus, we expect strong revenue, EBITDA, and PAT CAGR of 20%/31%/34% over FY2022-FY2024E on the low base of FY2022 along with decent RoE of 17%. Hence, we maintain our Buy rating on IIL with a revised price target (PT) of Rs. 1,170 (valued at 12x FY24E EPS). At the CMP, the stock is trading at an attractive valuation of 13.7x its FY2023E EPS and 10.4x its FY2024E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

IIL 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 IIL's deep connection with farmers.

The company has five state-of-the-art formulation facilities in Chopanki (Rajasthan), Samba, 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: IIL'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: IIL'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	8.8
2	FMR LLC	1.8
3	Dimensional Fund Advisors	0.04
4	American Century Co Inc	0.01

Source: Bloomberg (old data)

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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