

August 17, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		HOLD	
Target Price	920		680	
Sales (Rs. m)	16,995	18,694	16,243	17,705
% Chng.	4.6	5.6		
EBITDA (Rs. m)	1,920	2,206	1,917	2,160
% Chng.	0.2	2.1		
EPS (Rs.)	60.7	70.4	59.1	68.0
% Chng.	2.6	3.5		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	14,202	15,040	16,995	18,694
EBITDA (Rs. m)	1,523	1,697	1,920	2,206
Margin (%)	10.7	11.3	11.3	11.8
PAT (Rs. m)	934	1,070	1,197	1,390
EPS (Rs.)	45.2	54.2	60.7	70.4
Gr. (%)	8.6	20.0	11.9	16.1
DPS (Rs.)	2.0	3.0	3.5	4.0
Yield (%)	0.2	0.3	0.3	0.4
RoE (%)	12.1	12.7	13.0	13.3
RoCE (%)	14.0	15.7	16.7	17.4
EV/Sales (x)	1.5	1.3	1.2	1.0
EV/EBITDA (x)	13.7	11.8	10.4	8.9
PE (x)	22.3	18.6	16.6	14.3
P/BV (x)	2.5	2.3	2.0	1.8

Key Data

ISIL.BO | INST IN

52-W High / Low	Rs.1,095 / Rs.583
Sensex / Nifty	60,260 / 17,944
Market Cap	Rs.20bn/ \$ 250m
Shares Outstanding	20m
3M Avg. Daily Value	Rs.61.6m

Shareholding Pattern (%)

Promoter's	72.16
Foreign	6.66
Domestic Institution	10.98
Public & Others	10.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.1	51.0	32.7
Relative	(3.5)	45.0	22.8

Himanshu Binani

himanshubinani@plindia.com | 91-22-66322232

Insecticides India (INST IN)

Rating: HOLD | CMP: Rs1,008 | TP: Rs920

Decent revenue growth offset by lower margins.

Quick Pointers:

- Capex of Rs1.1bn largely done; likely to reap benefits from FY23 onwards
- Product pipeline remains rich; likely to launch +6 new products in FY23E

Insecticides India (INST) reported revenue/EBITDA/PAT growth of 20%/10%/10% YoY. Revenues were better than our estimates however EBITDA/ PAT were in line with our estimates largely led by lower margins. Key highlights are: (a) B2C/B2B/exports contributed to 66%/29%/5% in 1QFY23; (b) better product mix coupled with price hikes in the recent past led to gross margins improvement of 70bps YoY to 23.9%; (c) higher opex coupled with MTM provisions of Rs65mn due to forex has led to EBITDA margin contraction of 90bps YoY to 10.4%; (d) Institutional (B2B) category grew +30% YoY in 1Q; (e) launched 3 new products in 1Q; to launch +6 products in FY23E; (f) capex of Rs1.1bn largely behind; technical synthesis plant to commence in end of 1HFY23.

Going forward we expect INST's business to pick up driven by new launches, better margin profile of in-licensing molecules, commencement of new capacities and backward integration projects. The management expects double digit revenue growth with at least 100 bps improvement in margins to be led by better contribution from new product launches and superior product mix in FY23E. We broadly retain our estimates for FY23/24E. However, we assign 5-year average PE multiple of 13x (10x earlier) citing improved business traction post capex. Maintain 'HOLD' with revised TP of Rs920 (Rs680 earlier) based on 13x FY24E EPS (5 year high/low/average of 19x/5x/13x).

Higher forex plays a spoilsport: INST reported revenue/EBITDA/PAT growth of 20%/10%/10% YoY in line with our estimates. B2C/ B2B/ exports contributed to 66%/29%/5% in 1QFY23. Demand fluctuations and supply chain debottlenecks resulted into exports revenue decline of 27% YoY during 1QFY23. While, better product mix coupled with price hikes taken in the recent past has led to gross margins expansion of 70bps YoY to 23.9%. Better gross margins offset by higher other expenses up 230bps YoY (higher power and fuel cost and freight cost) coupled with MTM provisions of Rs65mn due to forex has resulted into EBITDA margin contraction of 90bps YoY to 10.4%.

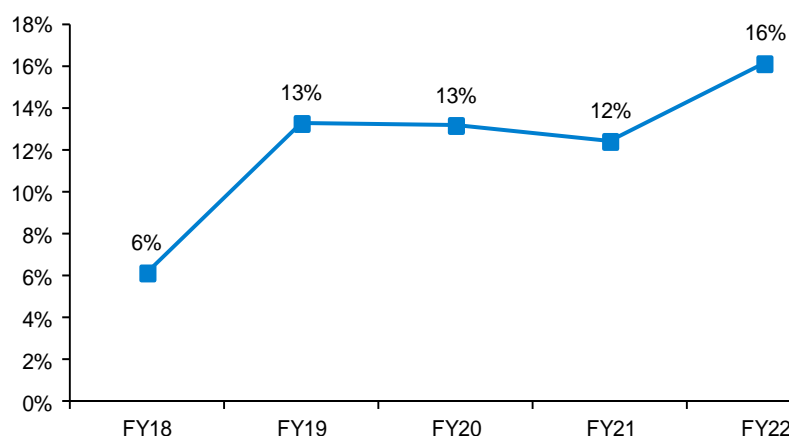
New Launches gaining traction: ITI (innovation turnover index) index stood at 12.2% in 1QFY23. INST has recently received several patents (4 patents received) for fungicide and pesticides, with few more patents to be granted in the subsequent quarters. INST launched 3 new products in 1QFY23- Torry (Maize herbicide) Sargent Xpress (insecticide) and Himax (non-selective weedicide). While the revenues from the recently launched products in FY22- Hachiman, Oxim and Shinwa grew 3x in 1QFY23. Going forward, the company intends to launch 6+ products in FY23. New product introduction and improving product mix will support company's next phase of growth.

Capex largely done; likely to reap benefits going forward: INST commenced a major capacity expansion program aimed at increasing the capabilities at both technical and formulation units in Chopanki (Rajasthan) and Dahej- SEZ (Gujarat) in FY21 with a budget of Rs1.1bn. There has been a marginal increase in capex budget on account of inflationary costs and non-budgeted incidental expenditures of Rs190mn in 1QFY23 and Rs150mn in 2QFY23. The technical synthesis plant at Dahej is expected to commence operations by end of 1HFY23.

Exhibit 1: Q1FY23 Result Overview (Rs mn)

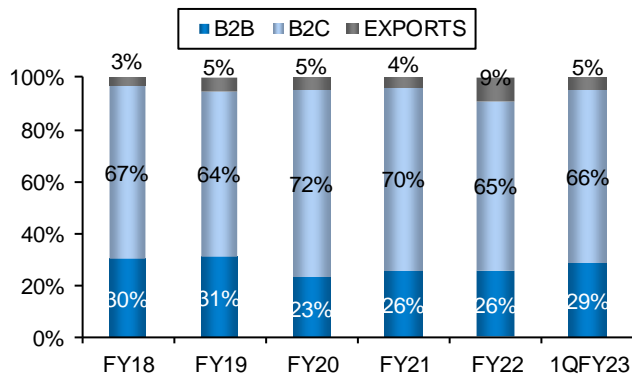
Y/e March	1QFY23	1QFY22	YoY gr. (%)	4QFY22	QoQ gr. (%)	FY23E	FY22	YoY gr. (%)
Revenues	5,607	4,683	19.7	2,780	101.7	16,844	15,040	12.0
Raw material	4,265	3,598	18.5	1,902	124.3	12,414	11,075	12.1
Staff costs	250	236	6.0	202	23.8	960	866	10.8
Others	507	318	59.5	338	50.2	1,567	1,401	11.8
Total expenditure	5,022	4,152	21.0	2,441	105.7	14,941	13,343	12.0
EBITDA	585	531	10.1	338	72.7	1,903	1,697	12.2
Depreciation	66	63	4.5	68	(2.3)	299	263	13.6
EBIT	518	467	10.9	271	91.5	1,604	1,433	11.9
Less: Interest Expense	14	22	(34.7)	11	32.8	68	66	2.0
Add: Other income	2	16	(88.1)	21	(90.7)	47	43	10.0
Profit Before Tax	506	462	9.5	281	80.2	1,583	1,410	12.3
Less: Provision for Tax	126	115	9.7	57	121.3	396	339	16.6
Less: Minority Interest	0	0		0		-	-	NA
Adjusted Profit	380	347	9.5	224	69.7	1,188	1,070	11.0
Add: Exceptional items	-	-	NA	-	NA	-	-	NA
Reported profit	380	347	9.5	224	69.7	1,188	1,070	11.0
Minority interest	0	0	NA	0	NA			NA
No. of Diluted shares outstanding (mn)	197	207		197		197	197	
Adjusted Diluted EPS	19.3	16.8	14.6	11.3	69.7	60.2	54.2	11.0
As % of net revenues								
Raw material	76.1	76.8		68.4		73.7	73.6	
Staff expenses	4.5	5.0		7.3		5.7	5.8	
Other expenses	9.1	6.8		12.2		9.3	9.3	
EBITDA	10.4	11.3		12.2		11.3	11.3	
Net profit	6.8	7.4		8.1		7.1	7.1	

Source: Company, PL

Exhibit 2: New Product launches gaining traction


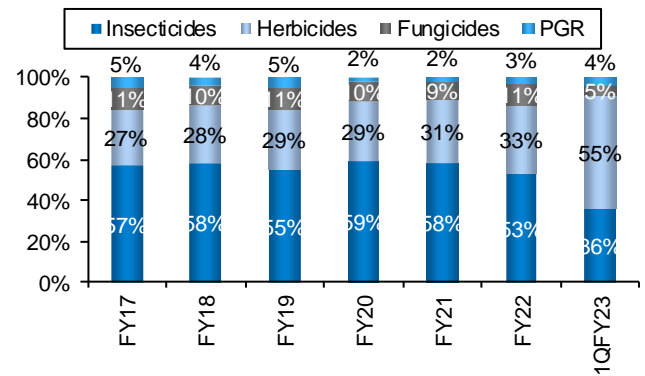
Source: Company, PL

Exhibit 3: Demand fluctuations impacting exports



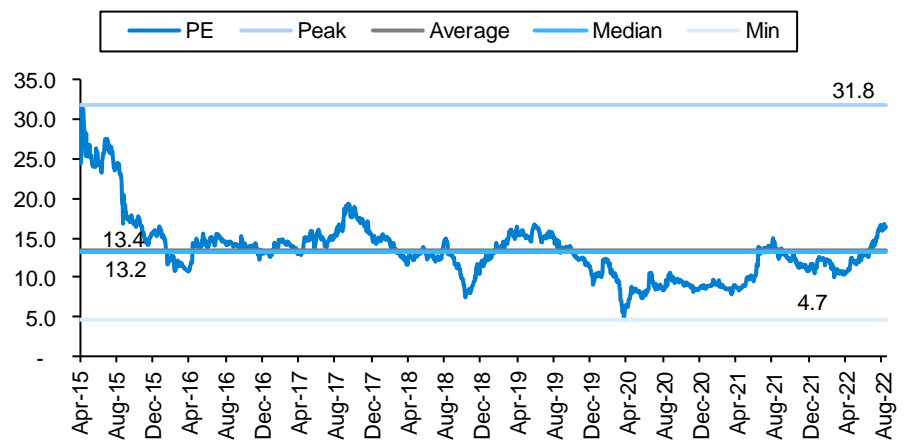
Source: Company, PL

Exhibit 4: Insecticides & Herbicides contribute >90%



Source: Company, PL

Exhibit 5: 1Yr forward PE band chart



Source: Company, PL, Bloomberg

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	14,202	15,040	16,995	18,694
YoY gr. (%)	4.2	5.9	13.0	10.0
Cost of Goods Sold	10,679	11,075	12,525	13,684
Gross Profit	3,524	3,965	4,470	5,010
Margin (%)	24.8	26.4	26.3	26.8
Employee Cost	765	866	969	1,066
Other Expenses	-	-	-	-
EBITDA	1,523	1,697	1,920	2,206
YoY gr. (%)	(2.3)	11.4	13.2	14.9
Margin (%)	10.7	11.3	11.3	11.8
Depreciation and Amortization	247	263	303	336
EBIT	1,277	1,433	1,617	1,870
Margin (%)	9.0	9.5	9.5	10.0
Net Interest	67	66	68	69
Other Income	77	43	47	52
Profit Before Tax	1,287	1,410	1,596	1,853
Margin (%)	9.1	9.4	9.4	9.9
Total Tax	256	339	399	463
Effective tax rate (%)	19.9	24.1	25.0	25.0
Profit after tax	1,031	1,070	1,197	1,390
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	934	1,070	1,197	1,390
YoY gr. (%)	8.6	14.5	11.9	16.1
Margin (%)	6.6	7.1	7.0	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	934	1,070	1,197	1,390
YoY gr. (%)	8.6	14.5	11.9	16.1
Margin (%)	6.6	7.1	7.0	7.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	934	1,070	1,197	1,390
Equity Shares O/s (m)	21	20	20	20
EPS (Rs)	45.2	54.2	60.7	70.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	3,141	3,545	3,945	4,245
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,012	1,275	1,578	1,914
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	2,130	2,270	2,367	2,331
Tangibles	2,130	2,270	2,367	2,331
Intangibles	-	-	-	-
Capital Work In Progress	845	1,169	1,169	1,169
Goodwill	-	-	-	-
Non-Current Investments	116	133	133	133
Net Deferred tax assets	(134)	(128)	(128)	(128)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	28	26	26	26
Inventories	6,609	6,302	7,378	8,061
Trade receivables	2,546	2,889	3,352	3,688
Cash & Bank Balance	833	361	299	401
Other Current Assets	1,133	787	787	1,263
Total Assets	14,240	13,938	15,511	17,072
Equity				
Equity Share Capital	207	197	197	197
Other Equity	7,977	8,475	9,603	10,914
Total Network	8,184	8,672	9,800	11,111
Non-Current Liabilities				
Long Term borrowings	24	19	19	19
Provisions	-	-	-	-
Other non current liabilities	28	16	16	16
Current Liabilities				
ST Debt / Current of LT Debt	916	475	375	125
Trade payables	3,620	3,238	3,603	3,937
Other current liabilities	1,334	1,390	1,570	1,737
Total Equity & Liabilities	14,240	13,938	15,511	17,072

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	1,190	1,410	1,596	1,853
Add. Depreciation	247	263	303	336
Add. Interest	67	66	68	69
Less Financial Other Income	77	43	47	52
Add. Other	(14)	35	(47)	(52)
Op. profit before WC changes	1,489	1,774	1,920	2,206
Net Changes-WC	337	(20)	(1,511)	(642)
Direct tax	(273)	(406)	(399)	(463)
Net cash from Op. activities	1,554	1,348	11	1,101
Capital expenditures	(422)	(663)	(400)	(300)
Interest / Dividend Income	-	-	-	-
Others	(704)	756	47	52
Net Cash from Invst. activities	(1,126)	93	(353)	(248)
Issue of share cap. / premium	-	(592)	(68)	(69)
Debt changes	(912)	(469)	(100)	(250)
Dividend paid	(41)	-	(69)	(79)
Interest paid	-	-	-	-
Others	(87)	(86)	11	12
Net cash from Fin. activities	(1,040)	(1,146)	(226)	(386)
Net change in cash	(613)	295	(568)	466
Free Cash Flow	1,077	679	(389)	801

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	45.2	54.2	60.7	70.4
CEPS	57.1	67.6	76.1	87.4
BVPS	396.0	439.5	496.7	563.1
FCF	52.1	34.4	(19.7)	40.6
DPS	2.0	3.0	3.5	4.0
Return Ratio(%)				
RoCE	14.0	15.7	16.7	17.4
ROIC	12.4	12.4	13.0	13.6
RoE	12.1	12.7	13.0	13.3
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	0.0
Net Working Capital (Days)	142	144	153	153
Valuation(x)				
PER	22.3	18.6	16.6	14.3
P/B	2.5	2.3	2.0	1.8
P/CEPS	17.6	14.9	13.3	11.5
EV/EBITDA	13.7	11.8	10.4	8.9
EV/Sales	1.5	1.3	1.2	1.0
Dividend Yield (%)	0.2	0.3	0.3	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	4,439	3,138	2,780	5,607
YoY gr. (%)	(2.6)	4.9	8.8	26.3
Raw Material Expenses	3,203	2,373	1,902	4,265
Gross Profit	1,236	765	878	1,342
Margin (%)	27.8	24.4	31.6	23.9
EBITDA	642	186	338	585
YoY gr. (%)	11.1	23.3	17.9	(8.9)
Margin (%)	14.5	5.9	12.2	10.4
Depreciation / Depletion	64	68	68	66
EBIT	577	118	271	518
Margin (%)	13.0	3.8	9.7	9.2
Net Interest	17	17	11	14
Other Income	(3)	9	21	2
Profit before Tax	557	109	281	506
Margin (%)	12.6	3.5	10.1	9.0
Total Tax	140	28	57	126
Effective tax rate (%)	25.0	25.4	20.3	24.9
Profit after Tax	418	82	224	380
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	418	82	224	380
YoY gr. (%)	0.8	36.0	1.9	(9.0)
Margin (%)	9.4	2.6	8.1	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	418	82	224	380
YoY gr. (%)	0.8	36.0	1.9	(9.0)
Margin (%)	9.4	2.6	8.1	6.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	418	82	224	380
Avg. Shares O/s (m)	207	197	197	197
EPS (Rs)	20.2	4.1	11.3	19.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Hold	680	881
2	31-May-22	Hold	680	774
3	08-Apr-22	Hold	680	638
4	13-Feb-22	Hold	680	682
5	12-Jan-22	Hold	680	717
6	27-Dec-21	Hold	680	657

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,650	5,275
2	Coromandel International	BUY	960	745
3	Dhanuka Agritech	BUY	850	695
4	Godrej Agrovet	Accumulate	570	505
5	Insecticides India	Hold	680	881
6	P.I. Industries	BUY	3,450	3,028
7	Rallis India	BUY	230	205
8	Sharda Cropchem	BUY	740	564
9	Sumitomo Chemical India	BUY	510	475
10	UPL	BUY	1,020	767

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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