

November 8, 2022

Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	700		920	
Sales (Rs. m)	19,852	21,837	18,694	20,564
% Chng.	6.2	6.2		
EBITDA (Rs. m)	2,223	2,511	2,206	2,427
% Chng.	0.8	3.5		
EPS (Rs.)	47.2	53.9	70.4	78.1
% Chng.	(33.0)	(31.0)		

Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	15,040	18,047	19,852	21,837
EBITDA (Rs. m)	1,697	1,877	2,223	2,511
Margin (%)	11.3	10.4	11.2	11.5
PAT (Rs. m)	1,070	1,172	1,396	1,595
EPS (Rs.)	36.2	39.6	47.2	53.9
Gr. (%)	(20.0)	9.5	19.1	14.2
DPS (Rs.)	3.0	3.5	4.0	4.5
Yield (%)	0.4	0.5	0.5	0.6
RoE (%)	12.7	12.7	13.5	13.6
RoCE (%)	15.7	16.5	17.7	18.3
EV/Sales (x)	1.5	1.2	1.1	1.0
EV/EBITDA (x)	13.0	11.7	9.8	8.3
PE (x)	20.4	18.7	15.7	13.7
P/BV (x)	2.5	2.2	2.0	1.8

Key Data

ISIL.BO | INST IN

52-W High / Low	Rs.770 / Rs.388
Sensex / Nifty	61,185 / 18,203
Market Cap	Rs.22bn/ \$ 267m
Shares Outstanding	30m
3M Avg. Daily Value	Rs.36.04m

Shareholding Pattern (%)

Promoter's	72.16
Foreign	6.32
Domestic Institution	10.94
Public & Others	10.58
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	53.0	66.1
Relative	(2.4)	37.1	63.1

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Insecticides India (INST IN)

Rating: HOLD | CMP: Rs739 | TP: Rs700

Healthy revenue growth offset by lower margins

Quick Pointers:

- Capex of Rs1.1bn largely done; likely to reap full benefits from FY24 onwards
- Healthy product pipeline; launched 4 new products in 1H FY23

Insecticides India (INST) reported revenue/EBITDA/PAT growth of 31%/7%/7% YoY. Key highlights are: (a) B2C/B2B/exports contributed to 73%/25%/2% in 2QFY23; (b) Despite taking price hikes aided by superior product mix, gross margins declined 110bps YoY to 26.7% led by provisions of high cost inventory; (c) inferior gross margins coupled with MTM provisions of Rs110mn due to forex has led to EBITDA margin contraction of 270bps YoY to 11.8%; (d) Institutional (B2B) category grew +31% YoY in 2Q; (e) launched 1 new product (Izuki- under 9(3) category) in 2Q, (4 new products in 1HFY23); to launch +6 products in FY23E; (f) capex of Rs1.1bn largely behind; technical synthesis plant to commence in 3QFY23.

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 absolute margins improvement as compared to last year's level led by better contribution from new product launches and superior product mix in FY23E. We broadly retain our estimates for FY23/24E. We introduce and roll forward our valuations to FY25E. Maintain 'HOLD' with revised TP of Rs700 (Rs920 earlier-bonus share adjustment) based on 13x FY25E EPS (5 year high/low/average of 19x/5x/13x).

Provisions of high cost inventory coupled with adverse forex plays a spoilsport: INST reported revenue/EBITDA/PAT growth of 31%/7%/7% YoY and were ahead of our estimates. B2C/ B2B/ exports contributed to 73%/25%/2% in 2QFY23. On the exports front, despite witnessing good demand the company continues to work on a calibrated manner maintain caution on currency movement and likely distress of foreign debtors. Further, the management expects the exports business to pick-up in 2HFY23, thereby enabling them to meet their exports target of Rs1.5bn for FY23. While, better product mix coupled with price hikes taken in the recent past has restricted gross margins contraction by 110bps YoY to 26.7%. Inferior gross margins coupled with MTM provisions of Rs110mn due to forex has in turn resulted into EBITDA margin contraction of 270bps YoY to 11.8%.

New Launches gaining traction: The contribution of new product launches has been on the increasing trend to the overall revenues. Products launched in FY22 recorded a revenue of Rs930 mn in 1HFY23, contributing to ~8% of the revenue from operations as compared to Rs246 mn in FY22 signifying their market acceptance. While, the company launched a new product- Izuki- combination fungicide in technical collaboration with Nissan Chemical Corporation, Japan in 2QFY23 (taking it to total of 4 new product launched in 1HFY23; as against guidance of +6 products in FY23E). Izuki is used as prophylactic and curative against the diseases like Sheath Blight and Blast in various crops like Paddy. New product introduction and improving product mix will support company's next phase of growth.

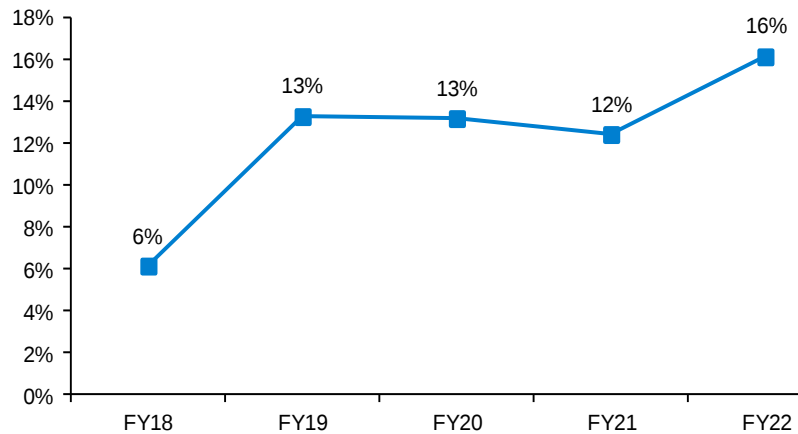
Capex largely done; likely to reap benefits going forward: INST commenced a major capacity expansion program aimed at increasing the capabilities at both technical and formulation units in Chopanki (Rajasthan) and Dahej- SEZ (Gujarat) in FY21 with a budget of Rs1.10bn (revised amount of Rs1.13bn). There 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 3QFY23 and the management expects to incur further capex of Rs150-200mn in 3QFY23.

Exhibit 1: Q2FY23 Result Overview (Rs mn)

Y/e March	2QFY23	2QFY22	YoY gr. (%)	1QFY23	QoQ gr. (%)	1HFY23	1HFY22	YoY gr. (%)
Revenues	5,822	4,439	31.1	5,607	3.8	11,429	9,122	25.3
Raw material	4,265	3,203	33.2	4,265	0.0	8,530	6,801	25.4
Staff costs	288	228	26.2	250	15.1	538	464	16.0
Others	584	367	59.4	507	15.1	1,092	685	59.4
Total expenditure	5,138	3,798	35.3	5,022	2.3	10,160	7,949	27.8
EBITDA	685	642	6.7	585	17.1	1,269	1,173	8.2
Depreciation	64	64	(0.6)	66	(3.4)	130	128	1.9
EBIT	621	577	7.5	518	19.7	1,139	1,045	9.0
Less: Interest Expense	27	17	61.2	14	94.7	41	39	7.6
Add: Other income	3	(3)	(190.5)	2	46.6	5	13	(63.7)
Profit Before Tax	596	557	7.0	506	17.8	1,102	1,019	8.1
Less: Provision for Tax	149	140	7.0	126	18.4	276	255	8.2
Less: Minority Interest	0	0		0		0	0	NA
Adjusted Profit	447	418	7.0	380	17.6	827	765	8.1
Add: Exceptional items	-	-	NA	-	NA	-	-	NA
Reported profit	447	418	7.0	380	17.6	827	765	8.1
Minority interest	0	0	NA	0	NA	0	0	NA
No. of Diluted shares outstanding (mn)	296	207		296		296	207	
Adjusted Diluted EPS	15.1	20.2	(25.3)	12.8	17.6	27.9	37.0	
As % of net revenues								
Raw material	73.3	72.2		76.1		74.6	74.6	
Staff expenses	4.9	5.1		4.5		4.7	5.1	
Other expenses	10.0	8.3		9.1		9.6	7.5	
EBITDA	11.8	14.5		10.4		11.1	12.9	
Net profit	7.7	9.4		6.8		7.2	8.4	

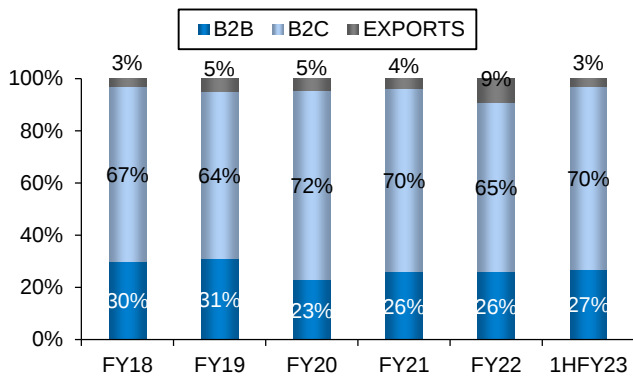
Source: Company, PL

Exhibit 2: New Product launches gaining traction



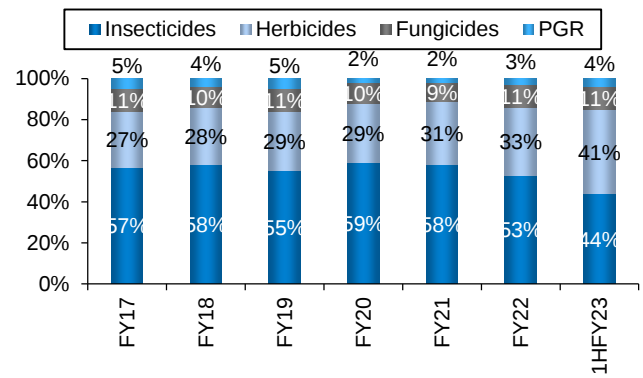
Source: Company, PL

Exhibit 3: Demand fluctuations impacting exports



Source: Company, PL

Exhibit 4: Insecticides & Herbicides contribute >80%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	15,040	18,047	19,852	21,837
YoY gr. (%)	5.9	20.0	10.0	10.0
Cost of Goods Sold	11,075	13,355	14,572	15,985
Gross Profit	3,965	4,692	5,281	5,852
Margin (%)	26.4	26.0	26.6	26.8
Employee Cost	866	975	1,132	1,223
Other Expenses	-	-	-	-
EBITDA	1,697	1,877	2,223	2,511
YoY gr. (%)	11.4	10.6	18.5	12.9
Margin (%)	11.3	10.4	11.2	11.5
Depreciation and Amortization	263	285	336	360
EBIT	1,433	1,592	1,888	2,152
Margin (%)	9.5	8.8	9.5	9.9
Net Interest	66	71	72	74
Other Income	43	42	46	48
Profit Before Tax	1,410	1,563	1,861	2,126
Margin (%)	9.4	8.7	9.4	9.7
Total Tax	339	391	465	532
Effective tax rate (%)	24.1	25.0	25.0	25.0
Profit after tax	1,070	1,172	1,396	1,595
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,070	1,172	1,396	1,595
YoY gr. (%)	14.5	9.5	19.1	14.2
Margin (%)	7.1	6.5	7.0	7.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,070	1,172	1,396	1,595
YoY gr. (%)	14.5	9.5	19.1	14.2
Margin (%)	7.1	6.5	7.0	7.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,070	1,172	1,396	1,595
Equity Shares O/s (m)	30	30	30	30
EPS (Rs)	36.2	39.6	47.2	53.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	3,545	4,045	4,345	4,645
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,275	1,560	1,895	2,255
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	2,270	2,486	2,450	2,390
Tangibles	2,270	2,486	2,450	2,390
Intangibles	-	-	-	-
Capital Work In Progress	1,169	1,169	1,169	1,169
Goodwill	-	-	-	-
Non-Current Investments	133	133	133	134
Net Deferred tax assets	(128)	(128)	(128)	(128)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	26	26	26	26
Inventories	6,302	7,684	8,583	9,416
Trade receivables	2,889	3,461	3,916	4,308
Cash & Bank Balance	361	264	305	941
Other Current Assets	787	787	787	787
Total Assets	13,938	16,010	17,370	19,171
Equity				
Equity Share Capital	296	296	296	296
Other Equity	8,376	9,445	10,723	12,184
Total Network	8,672	9,741	11,019	12,480
Non-Current Liabilities				
Long Term borrowings	19	19	19	19
Provisions	-	-	-	-
Other non current liabilities	16	16	16	16
Current Liabilities				
ST Debt / Current of LT Debt	475	375	125	(125)
Trade payables	3,238	4,025	4,192	4,598
Other current liabilities	1,390	1,706	1,871	2,054
Total Equity & Liabilities	13,938	16,010	17,370	19,171

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	1,410	1,563	1,861	2,126
Add. Depreciation	263	285	336	360
Add. Interest	66	71	72	74
Less Financial Other Income	43	42	46	48
Add. Other	35	(42)	(46)	(48)
Op. profit before WC changes	1,774	1,877	2,223	2,511
Net Changes-WC	(20)	(851)	(1,022)	(635)
Direct tax	(406)	(391)	(465)	(532)
Net cash from Op. activities	1,348	635	736	1,345
Capital expenditures	(663)	(500)	(300)	(300)
Interest / Dividend Income	-	-	-	-
Others	756	42	46	48
Net Cash from Invt. activities	93	(458)	(254)	(252)
Issue of share cap. / premium	(592)	(71)	(72)	(74)
Debt changes	(469)	(100)	(250)	(250)
Dividend paid	-	(104)	(118)	(133)
Interest paid	-	-	-	-
Others	(86)	-	-	-
Net cash from Fin. activities	(1,146)	(275)	(441)	(457)
Net change in cash	295	(98)	41	636
Free Cash Flow	679	135	436	1,045

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	36.2	39.6	47.2	53.9
CEPS	45.1	49.2	58.5	66.0
BVPS	293.0	329.1	372.3	421.7
FCF	23.0	4.6	14.7	35.3
DPS	3.0	3.5	4.0	4.5
Return Ratio(%)				
RoCE	15.7	16.5	17.7	18.3
ROIC	12.4	12.8	13.7	14.9
RoE	12.7	12.7	13.5	13.6
Balance Sheet				
Net Debt : Equity (x)	0.0	0.0	0.0	(0.1)
Net Working Capital (Days)	144	144	153	153
Valuation(x)				
PER	20.4	18.7	15.7	13.7
P/B	2.5	2.2	2.0	1.8
P/CEPS	16.4	15.0	12.6	11.2
EV/EBITDA	13.0	11.7	9.8	8.3
EV/Sales	1.5	1.2	1.1	1.0
Dividend Yield (%)	0.4	0.5	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	3,138	2,780	5,607	5,822
YoY gr. (%)	4.9	8.8	26.3	85.5
Raw Material Expenses	2,373	1,902	4,265	4,265
Gross Profit	765	878	1,342	1,557
Margin (%)	24.4	31.6	23.9	26.7
EBITDA	186	338	585	685
YoY gr. (%)	23.3	17.9	(8.9)	268.4
Margin (%)	5.9	12.2	10.4	11.8
Depreciation / Depletion	68	68	66	64
EBIT	118	271	518	621
Margin (%)	3.8	9.7	9.2	10.7
Net Interest	17	11	14	27
Other Income	9	21	2	3
Profit before Tax	109	281	506	596
Margin (%)	3.5	10.1	9.0	10.2
Total Tax	28	57	126	149
Effective tax rate (%)	25.4	20.3	24.9	25.1
Profit after Tax	82	224	380	447
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	82	224	380	447
YoY gr. (%)	36.0	1.9	(9.0)	447.8
Margin (%)	2.6	8.1	6.8	7.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	82	224	380	447
YoY gr. (%)	36.0	1.9	(9.0)	447.8
Margin (%)	2.6	8.1	6.8	7.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	82	224	380	447
Avg. Shares O/s (m)	197	197	296	296
EPS (Rs)	4.1	11.3	12.8	15.1

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Hold	920	701
2	17-Aug-22	Hold	920	1,008
3	04-Jul-22	Hold	680	881
4	31-May-22	Hold	680	774
5	08-Apr-22	Hold	680	638
6	13-Feb-22	Hold	680	682
7	12-Jan-22	Hold	680	717
8	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	4,803
2	Chambal Fertilizers & Chemicals	BUY	410	308
3	Coromandel International	BUY	1,200	953
4	Dhanuka Agritech	BUY	940	728
5	Godrej Agrovet	Accumulate	570	520
6	Insecticides India	Hold	920	701
7	P.I. Industries	BUY	3,450	2,956
8	Rallis India	BUY	250	226
9	Sharda Cropchem	BUY	660	446
10	Sumitomo Chemical India	BUY	610	493
11	UPL	BUY	1,070	717

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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