Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Insecticides (India) Ltd

Strong Q3; new product ramp-up to boost growth

Agri Chem	Sharekhan code: INSECTICID

Reco/View: Buy	↔	CMP: Rs. 572	Price Target: Rs. 690	↓

↑ 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. 1,693 cr
52-week high/low:	Rs. 789/389
NSE volume: (No of shares)	0.3 lakh
BSE code:	532851
NSE code:	INSECTICID
Free float: (No of shares)	0.82 cr

Shareholding (%)

Promoters	72
FII	6
DII	11
Others	11

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	-23.5	-15.7	28.1
Relative to Sensex	-8.0	-22.4	-16.9	22.6

Sharekhan Research, Bloomberg

Summary

- Strong revenue growth was led by a 53%/44% y-o-y revenue growth from B2C/herbicide business and increased sales of Maharatna products. OPM at 6.5% (up 60 bps y-oy) was 107 bps above our estimate of 5.5% owing to market acceptance of IIL's newly launched products which have better margin profile.
- Consequently, operating profit of Rs. 23 crore was 23.5% above our estimate. PAT of Rs 9 crore and was 11.6% above our estimate of Rs. 8 crore as beat in margins got partially offset by higher-than-expected finance costs.
- Management eyes a revenue CAGR of 25% from FY22-25 led by addition in high-margin new products/ patents and expects EBITDA to grow faster than revenue growth. Export pressures dragged down FY23 export guidance to Rs. 100 crore from 150 crore but management is confident of Rs. 200 crore of exports in FY24 on the back of product registrations in the export market.
- We maintain a Buy on Insecticides (India) Limited with a revised PT of Rs. 690 as we expect a strong 23% PAT CAGR over FY22-FY25E. Valuation of 10.9x/8.5x its FY2024E/FY2025E EPS is attractive.

Insecticides (India) Limited (IIL) reported strong Q3FY2023 numbers. Consolidated revenues of Rs. 357 crore (up 13.6% y-o-y) was 3.3% above our estimate of Rs. 345 crore, led by an increase in sales of Focused Maharatna Products due to resilient demand and effective implementation of the sales strategy. Revenues from B2C segment and herbicide products grew by 52.8%/43.7% y-o-y to Rs. 278 crores/153 crores. EBITDA margin at 6.5% (up 60 bps y-oy) was 107 bps above our estimate of 5.5% owing to market acceptance of IIL's newly launched products with better margin profile. Consequently, operating profit of Rs. 23 crore (up 25.2% y-o-y) was 23.5% above our estimate. PAT increased by 13.5% y-o-y to Rs 9 crore and was 11.6% above our estimate of Rs 8 crore as beat in margins got partially offset by higher-than-expected finance cost.

Key positives

- Robust 53%/44% y-o-y growth in revenues of B2C/herbicide businesses.
- Improved OPM of 6.5% led by success of new products.

Key negatives

- B2B/ Export revenues declined by 24%/70% y-o-y
- High finance cost at Rs. 4.84 crore was up 76.5% q-o-q.

Management Commentary

- Expects revenue CAGR of 25% from FY22-25E, led by addition in high-margin new products/ patents. Company expects EBITDA to outpace revenue growth.
- Management lowered FY23 export revenue guidance from Rs. 150 crore to Rs. 100 crore, due to depreciation in the local currencies and non-availability of dollars. Company is however confident of Rs. 200 crore of exports in FY24 on the back of product registrations in export markets.
- The company launched four products in 9MFY23 and plans to launch 5-6 new-generation products in FY23. 'Stellar' was launched in Q3 and company expects incremental revenue contribution from this product in the coming quarters.
- CAPEX for Technical Synthesis plant at Dahej (Gujarat) has been completed and the company plans to manufacture new intermediates that will be used for captive consumption. The operations will commence by Q4FY23 and be fully operational in FY24.

Revision in estimates – We have revised our FY23-24 earnings estimate to factor in 9MFY23 performance and have introduced our FY25 earnings estimates.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 690: 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 19%/22%/23% over FY2022-FY2025E along with decent RoE of 16%. Hence, we maintain our Buy rating on IIL with a revised price target (PT) of Rs. 690. At the CMP, the stock is trading at an attractive valuation of 10.9x its FY2024E EPS and 8.5x its FY2025E EPS.

Key Risks

Poor demand or delayed product launches is likely to affect revenue visibility, while volatility in input costs may impact margins. Any government decision to ban key products will impact the company's growth outlook.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	1,504	1,805	2,130	2,513
OPM (%)	11.3	10.6	11.7	12.2
Adjusted PAT	107	112	156	199
y-o-y growth (%)	3.7	4.7	38.6	27.7
Adjusted EPS (Rs.)	36.3	38.0	52.7	67.2
P/E (x)	15.8	15.1	10.9	8.5
P/B (x)	1.9	1.7	1.5	1.3
EV/EBITDA (x)	10.1	8.6	6.6	5.2
RoCE (%)	15.8	16.6	19.7	21.3
RoE (%)	12.7	12.2	14.8	16.2

Source: Company; Sharekhan Research; Note: FY22-25E EPS is adjusted for bonus issue in the ratio 1:2

Strong Q3; Increased sales of Maharatna Products and high margins of new products

Insecticides (India) Limited (IIL) reported strong Q3FY2023 numbers. Consolidated revenues of Rs. 357 crore (up 13.6% y-o-y) was 3.3% above our estimate of Rs. 345 crore, led by an increase in sales of Focused Maharatna Products due to resilient demand and effective implementation of the sales strategy. Revenues from B2C segment and herbicide products grew by 52.8%/43.7% y-o-y to Rs. 278 crores/153 crores. EBITDA margin at 6.5% (up 60 bps y-oy) was 107 bps above our estimate of 5.5% owing to market acceptance of IIL's newly launched products with better margin profile. Consequently, operating profit of Rs. 23 crore (up 25.2% y-o-y) was 23.5% above our estimate. PAT increased by 13.5% y-o-y to Rs 9 crore and was 11.6% above our estimate of Rs 8 crore as beat in margins got partially offset by higher-than-expected finance cost.

Q3FY23 conference call highlights

- **Revenue and EBITDA guidance** – The company has already grown more than 20% in 9MFY23 and expects to grow at a CAGR of 25% in FY23, FY24 and FY25. This is mainly driven by expansion of facilities and addition of new generation products and significant number of product registrations. New-generation products will not only help in top line growth but also help in margin accretion. Company expects EBITDA to grow faster than revenue growth rate.
- **Export guidance** – The company has lowered FY23 export revenue guidance from Rs. 150 crore to Rs. 100 crore due to depreciation in the local currencies and non-availability of dollars, which impacted many customers in Africa, Middle East and LatAm countries. Company is however confident of Rs. 200 crore of exports in FY24 on the back of product registrations in these markets.
- **Product launches** – The company launched 4 products in 9MFY23 and plans to launch 5-6 new generation products in FY23. In Q3 company launched "Stunner" a fungicide for the protection of Grape, Tomato, and Potato and expects incremental revenue contribution from this product in the coming quarters. Company will also launch new product 'Mission' an insecticide for the protection of paddy and sugarcane.
- **New patents** – In Q3, company has obtained 9(3) registrations for Thiamethoxam 0.4% + Bifenthrin 0.8% GR and Glyphosate Potassium Salt 54% w/v SL taking the total patented products to 18. Company expects several product registrations in developed international markets in the next two years.
- **Expansion project update** – The capex for Technical Synthesis plant at Dahej (Gujarat) has been completed. The operations will commence by Q4FY23 and be fully operational in FY24. With this capacity expansion, the company plans to manufacture new intermediates that will be used for captive consumption. IIL incurred a capex of Rs 49 crore in 9MFY23 due to rising inflation, additional expenditure incurred on account of construction of warehouse and installation of solar panels.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ(%)
Revenue	**357**	**314**	**13.6**	**582**	**(38.8)**
Total expenditure	333	295	12.9	514	(35.1)
Operating profit	**23**	**19**	**25.2**	**68**	**(66.0)**
Other Income	0	1	(56.9)	0	31.8
Depreciation	6	7	(5.3)	6	0.5
Finance Cost	5	2	181.2	3	76.5
PBT	**12**	**11**	**12.8**	**60**	**(79.2)**
Tax	3	3	10.8	15	(79.4)
Reported PAT	**9**	**8**	**13.5**	**45**	**(79.1)**
EPS (Rs)	3.2	2.8	13.5	15.1	(79.1)
Margin			**BPS**		**BPS**
OPM	6.5	5.9	60	11.8	(523)
NPM	2.6	2.6	(0)	7.7	(507)
Tax rate	24.8	25.2	(44)	25.0	(22)

Source: Company, Sharekhan Research

Revenue mix segments Rs cr

Revenues by segment	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ(%)
B2C	278	182	52.8%	425	-34.6%
BCB	64	85	-24.2%	146	-55.9%
Exports	14	47	-69.7%	12	22.5%
Total revenues	357	314	13.6%	582	-38.8%
Revenue mix (%)					
B2C	78.0	58.0	2000	73.0	500
BCB	18.0	27.0	-900	25.0	-700
Exports	4.0	15.0	-1100	2.0	200

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.

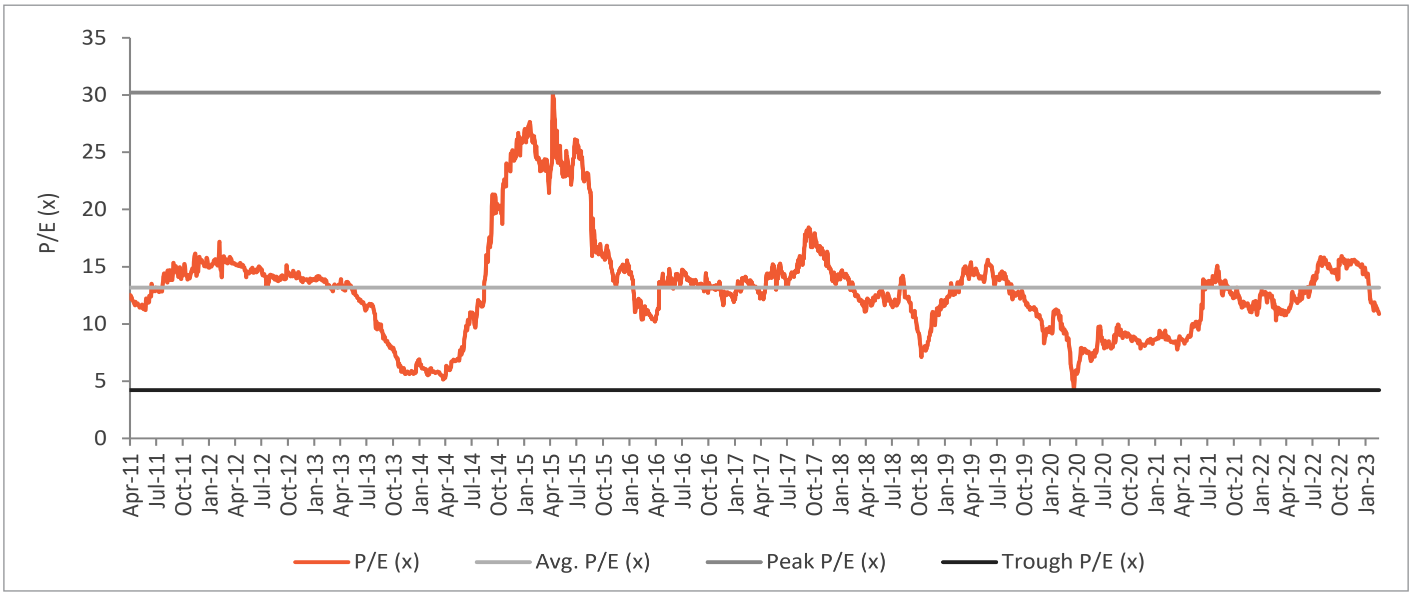
■ Company outlook - Product launches to drive earnings growth

The 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. We expect a 23% PAT CAGR over FY2022-FY2024E.

■ Valuation - Maintain Buy with a revised PT of Rs. 690

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 19%/22%/23% over FY2022-FY2025E along with decent RoE of 16%. Hence, we maintain our Buy rating on IIL with a revised price target (PT) of Rs. 690. At the CMP, the stock is trading at an attractive valuation of 10.9x its FY2024E EPS and 8.5x its FY2025E 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.
- Any government decision to ban key products will impact the company's growth outlook.

Additional Data

Key management personnel

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

Source: Company

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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