Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Insecticides (India) Ltd

Strong Q1; growth guidance intact

Agri Chem	Sharekhan code: INSECTICID
Reco/View: Buy ↔	CMP: **Rs. 467** / Price Target: **Rs. 540** ↔

↑ 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		↔	

Summary

- Strong revenue growth was led by a 22%/14% y-o-y revenue growth from the B2B/B2C business, while the export segment was muted (down 32% y-o-y). Revenue from high-margin Focused Maharatna products like Hachiman, Shinwa, and Torry increased during the quarter. EBITDA margin at 7.1% was 210 bps above our estimate of 5.0% but was down 329 bps y-o-y mainly due to liquidation of high-cost inventory from the previous year.
- Management maintained its guided revenue growth of 10-12% and EBITDA margin of 9-10% as high-cost inventory liquation would continue in Q2FY2024. Management is confident of Rs. 150 crore of exports in FY2024 on the back of product registrations in the export market.
- The company has also acquired a new site (over 15 acres) at Sotalana (Rajasthan) for building the formulation plant, which bodes well for the company's long-term growth. Management has guided a 20% revenue CAGR over the next few years.
- We maintain our Buy rating on Insecticides (India) Limited with an unchanged PT of Rs. 540. Valuation of 13x/9x its FY2024E/FY2025E EPS is attractive.

Insecticides (India) Limited (IIL) reported strong Q1FY2024 numbers. Consolidated revenue of Rs. 640 crore (up 14.1% y-o-y) was 4.7% above our estimate of Rs. 611 crore, on account of increased sales of Focused Maharatna products due to the effective implementation of the sales strategy. Revenue from the B2B and B2C segments grew by 22% and 14% y-o-y to Rs. 198 crores and 422 crores, respectively, while the export segment was muted (down 32% y-o-y). EBITDA margin at 7.1% was 210 bps above our estimate of 5% but was down 329 bps y-o-y mainly due to the liquidation of high-cost inventory from the previous year. Consequently, operating profit of Rs. 46 crore (down 21.9% y-o-y) was 48.4% above our estimate. PAT declined by 23.9% y-o-y to Rs. 29 crore and was significantly above our estimate of Rs. 15 crore mainly due beat in margin and lower finance cost.

Key positives

- B2B/B2C revenue grew by 22%/14% y-o-y.

Key negatives

- A sharp rise of 19% y-o-y/38% q-o-q in employee cost.

Management Commentary

- Management expects revenue to grow by 10-12% in FY2024 with EBITDA margin expected to remain at 9%-10%.
- The company's Q1 EBITDA margin was under pressure due to high-cost inventory purchased before price corrections. Though the company has significantly liquidated high-cost inventory from the balance sheet in Q1FY2024, its effect will spill over into Q2FY2024. The company liquidated high-cost inventory of Rs. 150 crore during Q1FY2024 with plans to liquidate additional Rs. 100 crore of high-cost inventory in Q2FY2024.
- The company is planning to launch a total of products in Q2FY24, one in insecticide segment, and three in the herbicide segment.
- The company has also acquired a new site (over 15 acres) at Sotalana (Rajasthan) for the consideration of Rs. 25 crore. The company plans to spend around Rs. 100 crore in building the formulation plant on this site over the next two years.
- The company is working on registration in new countries with over 100 export agreements and is planning to increase exports with a target to generate revenue of Rs. 150 crore in exports revenue in FY2024.

Revision in estimates: We maintain our FY2024-FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 540: High channel inventory concerns are expected to persist for the agrochemical industry in the near term, but IIL's valuation of 10x its FY2025E EPS is attractive as we expect strong earnings recovery over FY2024-FY2025 on a low base of FY2023, supported by ramp-up of new capacities and rise in the share of high-margin branded products (Maharatna brands). Overall, we expect a robust EBITDA/PAT CAGR of 40%/52% over FY2023-FY2025E along with healthy RoE of 18% in FY2025. Hence, we maintain our Buy rating on IIL but with an unchanged price target (PT) of Rs. 540.

Key Risks

Poor demand or delayed product launches are 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.

Company details

Market cap:	Rs. 1,382 cr
52-week high/low:	Rs. 789/410
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	11.2	-0.6	-19.7	-54.1
Relative to Sensex	11.3	-6.0	-27.8	-63.9

Sharekhan Research, Bloomberg

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,504	1,801	1,981	2,279
OPM (%)	11.3	6.8	9.0	10.5
Adjusted PAT	107	63	100	146
y-o-y growth (%)	3.7	(41.2)	58.2	45.6
Adjusted EPS (Rs.)	36.3	21.4	33.8	49.2
P/E (x)	12.9	21.9	13.9	9.5
P/B (x)	1.6	1.5	1.4	1.2
EV/EBITDA (x)	8.2	12.5	8.0	5.9
RoCE (%)	15.8	9.6	13.6	18.0
RoE (%)	12.7	7.1	10.4	13.5

Source: Company; Sharekhan estimates

Decent Q1 amid liquidation of high-cost inventory

Consolidated revenue of Rs. 640 crore (up 14.1% y-o-y) was 4.7% above our estimate of Rs. 611 crore, on account of increased sales of Focused Maharatna products due to the effective implementation of the sales strategy. Revenue from the B2B and B2C segments grew by 22% and 14% y-o-y to Rs. 198 crore and Rs. 422 crore, while the export segment's revenue was muted (down 32% y-o-y). EBITDA margin at 7.1% was 210 bps above our estimate of 5% but was down 329 bps y-o-y mainly due to the liquidation of high-cost inventory from the previous year. Consequently, operating profit of Rs. 46 crore (down 21.9% y-o-y) was 48.4% above our estimate. PAT declined by 23.9% y-o-y to Rs 29 crore and was significantly above our estimate of Rs 15 crore mainly due beat in margin and lower finance cost.

Q1FY2024 conference call highlights

- **Revenue and EBITDA guidance:** Management expects the top line to grow by 10-12% in FY24, mainly driven by commencement of new facilities, addition of new-generation products, and adding a significant number of product registrations in the export market. New-generation products will not only help in top-line growth but also in margin accretion. Over the long term, the company aspires to report a 20% revenue CAGR. EBITDA margin is expected to stay at 9-10%.
- **Q1 margin pressure:** The company's Q1 EBITDA margins were under pressure due to the high-cost inventory purchased before price corrections. Though the company has significantly liquidated high-cost inventory from the balance sheet in Q1FY2024, its effect will spill over into Q2FY2024. The company liquidated high-cost inventory of Rs. 150 crore during Q1FY2024 with plans to liquidate additional Rs. 100 crore of high-cost inventory in Q2FY2024.
- **Recently launched products:** The company recently launched products in the form of Mission Granule and Mission Liquid, have received a positive response from the market. Products launched in the last few years like Torry, Hachiman, Shinwa, Green Label, Izuki, Dominant, and Kunoichi have started yielding positive results, gaining massive tractions as a result of the company's concentrated marketing efforts.
- **New product launches:** The company is planning to launch a total of four products in Q2FY2024, one in the insecticide segment, and three in the herbicide segment. The company also plans to launch 7-8 products in FY2025.
- **Expansion project update:** The company has also acquired a new site (over 15 acres) at Sotalana (Rajasthan) for the consideration of Rs. 25 crore. The company plans to spend around Rs. 100 crore in building the formulation plant on this site over the next two years. Capex will be divided into multiple phases with the first phase being formulation plant and later phases will cover biologicals and technicals. This plant will be used mainly to produce products for exports. Additionally, the company plans to spend Rs. 25 crore each on SEZ site and Dahej plant. Dahej facility expansion has been delayed and it is expected to be operational by November 2023.
- **Export focus:** The company is working on registration in new countries with over 100 export agreements and is planning to increase exports with a target to generate revenue of Rs. 150 crore in revenue in FY2024.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	640	561	14.1	302	112.0
Total expenses	594	502	18.3	330	80.0
Operating profit	46	58	(21.9)	(28)	(261.5)
Other Income	4	0	1,904.1	0	841.3
Depreciation	7	7	3.9	7	3.6
Finance Cost	3	1	124.5	4	(29.1)
PBT	40	51	(22.2)	(39)	(200.8)
Tax	10	13	(17.1)	(10)	(204.4)
Reported PAT	29	38	(23.9)	(29)	(199.6)
REPS (Rs.)	9.9	19.4	(49.3)	(9.9)	(199.6)
Margin			**YoY (BPS)**		**QoQ (BPS)**
OPM	7.1	10.4	(329)	(9.4)	1,650
Adjusted NPM	4.6	6.8	(228)	(9.7)	1,426
Tax rate	26.4	24.8	162	25.5	91

Source: Company, Sharekhan Research

Revenue mix by segments Rs cr

Revenue by the segment	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
B2C	422	370	14.1%	154	174.3%
BCB	198	163	22.0%	106	87.8%
Exports	19	28	-31.5%	42	-54.6%
Total revenue	**640**	**561**	**14.1%**	**302**	**112.0%**
Revenue mix (%)					
B2C	66.0	66.0	0	51.0	1500
BCB	31.0	29.0	200	35.0	-400
Exports	3.0	5.0	-200	14.0	-1100

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 (the 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 for 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 at 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.

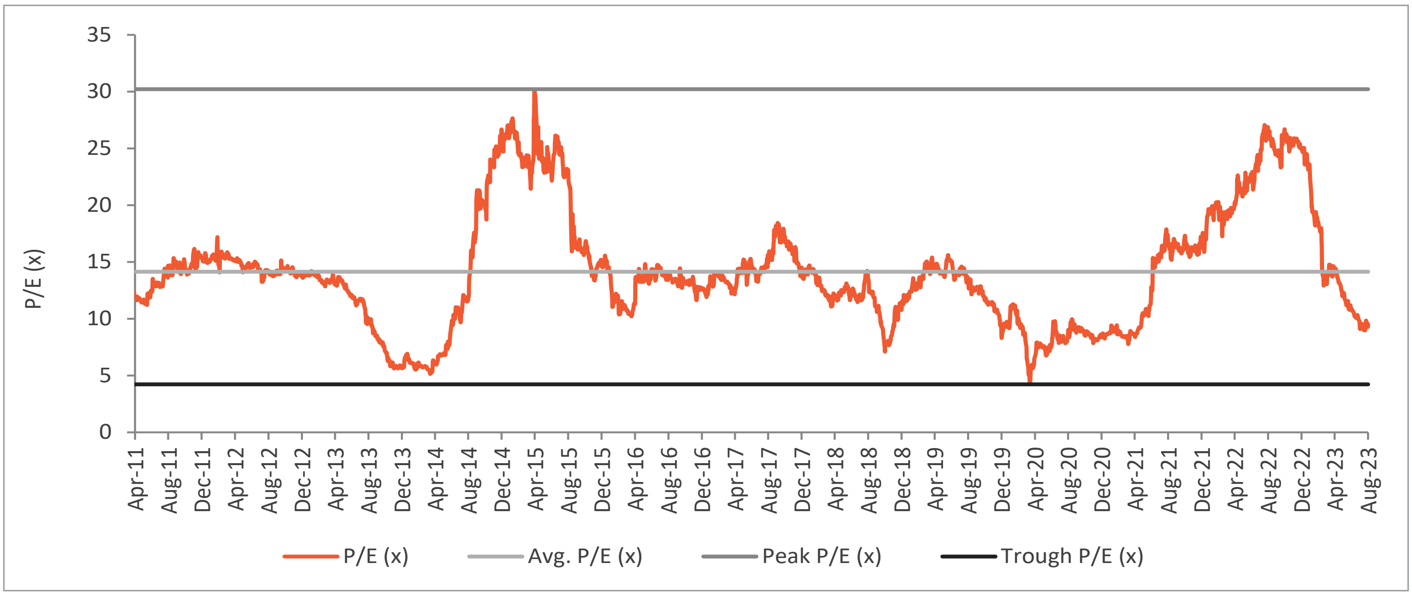
■ **Company outlook - Near-term demand/margin concerns; recovery hinges on the ramp-up of new capacity and timely liquidation of high-cost inventory**

IIL's management guided revenue growth of 10-12% and subdued EBITDA margin of 9-10% (lower than the historical range of 11-12%) as high-cost inventory liquation would continue in Q1FY2024. We believe ramp-up of the recently commissioned capacity expansion at Chopanki, new production, and recovery in export revenue given higher registration could drive earnings recovery over Q2FY2024-FY2025. We expect a 52% PAT CAGR over FY2023-2025E on a low base of FY2023.

■ **Valuation - Maintain Buy with an unchanged PT of Rs. 540**

High channel inventory concerns are expected to persist for the agrochemical industry in the near term, but IIL's valuation of 10x its FY2025E EPS is attractive as we expect strong earnings recovery over FY2024-FY2025 on a low base of FY2023, supported by ramp-up of new capacities and rise in the share of high-margin branded products (Maharatna brands). Overall, we expect a robust EBITDA/PAT CAGR of 40%/52% over FY2023-FY2025E along with healthy RoE of 18% in FY2025. Hence, we maintain our Buy rating on IIL but with an unchanged PT of Rs. 540.

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 a 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
Mrs. Nikunj Aggarwal	Whole Time Director
Sandeep Aggarwal	Chief Financial Officer
Sandeep Kumar	Company Secretary and Compliance office

Source: Company

Top 4 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	8.79
2	Nippon Life India Asset Management	1.68
3	FMR LLC	1.3
4	Dimensional Fund Advisors LP	0.41

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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