

INSECTICIDES (INDIA) LTD.

BUY

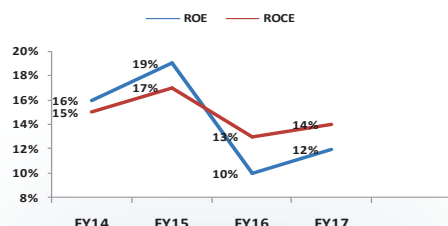
05-Oct-17

Bloomberg Code: INST IN
INDUSTRY - Agrochemicals
BSE Code - 532851
NSE Code - INSECTICID
NIFTY - 9914.9

Company Data

CMP	927.45
Target Price	1038
Previous Target Price	NA
Upside	12%
52wk Range H/L	965.60/437.45
Mkt Capital (Rs Cr)	1,917
Av. Volume (,000)	20

Return Ratios

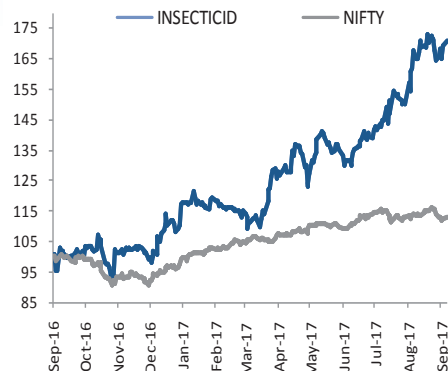


Shareholding Patterns %

	1QFY18	4QFY17	3QFY17
Promoters	68.8	68.8	68.8
Public	31.3	31.3	31.3
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	5.8	44.9	73.5
Rel.to Nifty	6.7	2.5	56.1


Ritika Jalan
ritika.jalan@narnolia.com

Key Highlights of the Report:

- ✓ The company has guided to launch five new products in FY18, one being a 9(3) product in its tieup with Nissan Chemicals, and the other four will be internal formulations.
- ✓ With the launched of Green label and Suzuka in FY17 management is targeting for over 15% revenue growth with improved margins in FY18E as these products are expected to contribute meaningfully in FY18E.
- ✓ **Effect Of GST**-The implementation of GST has affected business in Q1FY18 ,hence we expect better revenue growth in Q2FY18 led by restocking of dealers/distributors.
- ✓ We recommend Buy on Insecticides India with target price of Rs1038 as we roll forward our valuation multiple to FY19, by valuing the stock at 23x FY19E EPS.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	964	988	1,107	1,279	1,467
EBITDA	111	91	114	153	168
EBIT	97	75	98	135	150
PAT	55	39	58	85	94
EPS (Rs)	43	19	28	41	46
EPS growth (%)	37%	-56%	49%	45%	11%
ROE	19%	10%	12%	16%	17%
ROCE	17%	13%	14%	18%	20%
BV	230	198	226	265	307
P/B (X)	2.1	1.6	2.3	3.5	3.0
P/E (x)	11.0	16.8	18.8	22.0	20.0

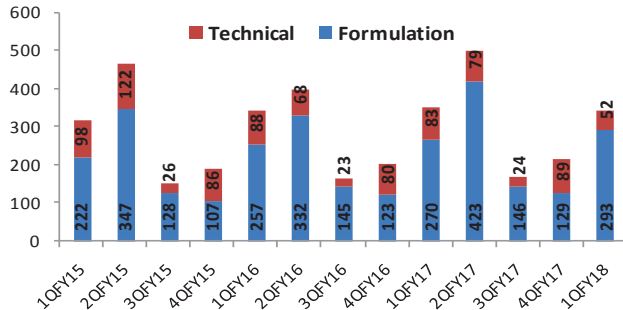
Recent Development

- ✓ Company has entered into a 50-50 JV with OAT Agrio (Japan) to capitalise on molecules going off-patent next year. It targets to launch one more re-engineered offpatent product in coming year.
- ✓ INSECTICIDE has signed agreements with Nihon (Japan) and MPM (USA) for marketing their products.
- ✓ Recently launched biological product Kayakalp which is its own product and would help in improving soil health and reduce use of chemical fertilizer and will generate revenue of Rs100Cr over three years.
- ✓ The Company had plans to launch 6-7 products each year through a mix of tie-ups with partners and in-house R&D.
- ✓ It will incur a Capex of Rs50 Crore over six months for capacity expansion at Dahej from September beginning. The impact of the expansion on revenue will be visible from next fiscal.

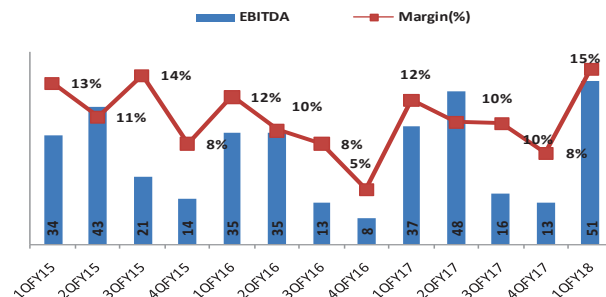
Investment Arguments:

- ✓ **New Product Launched in FY18 will boost revenue significantly:** Management indicated that it had plans to launch five new products in FY18, one being a 9(3) product in its tie up with Nissan Chemicals, and the other four will be internal formulations each year. Furthermore, it has launched Suzuka which is expected to contribute meaningfully in FY18. The company has signed agreements with Nihon (Japan) and MPM (USA) for marketing their products
- ✓ **Neutral Impact Of GST:** The implementation of GST has affected business in Q1FY18 hence we expect better revenue growth in Q2FY18. Also as the company has issued excise invoice to dealers/distributors ahead of GST implementation, thus avoiding destocking and growth in formulation and technical sales.
- ✓ **Strong Debt-To-Equity Ratio:** The company will reduce debt gradually in FY18 and expect to be debt free by end of FY19
- ✓ **Positive Free Cash Flow:** The company has indicated no major capex plans in the next 2 years and only maintenance capex of ~Rs 20 Cr each year would be required. Lower Capex will lead to an improvement in the cashflow.
- ✓ **Off patent opportunity of USD 4.1 billion (over Rs 26,000 Crore) :** This provides significant opportunity to Indian companies as manufacturing is likely to move to emerging markets like India and Indian companies can roll out off patent products both in India and overseas.

Revenue Contribution(Rs Cr)



Improvement in the EBITDA Margin going ahead.



View & Valuation:-

Insecticides is engaged in the business of manufacturing of off-patent formulation and technical. Its business is segmented into four business activities: insecticide (contribute 60% of the sales), herbicide (23% of Revenue), fungicide (11% of Revenue) & Plant Growth Regulators (PGRs)/other segments (6% of revenue). We believe company with its several triggers (higher technical sales, potential opportunity from new licensing molecules, molecules going off patent & invention of new molecules and low capex requirements) in place, is set to drive growth in the long term. We recommend Buy on Insecticides India with target price of Rs1038 as we roll forward our valuation multiple to FY19, by valuing the stock at 23x FY19E EPS.

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	964	988	1,107	1,279
Change (%)	12%	2%	12%	15%
EBITDA	111	91	114	153
Change (%)	36%	-18%	25%	34%
Margin (%)	12%	9%	10%	12%
Dep & Amortization	14	16	16	17
EBIT	97	75	98	135
Interest & other finance cost	33	26	19	17
Other Income	-	1	1	2
EBT	64	50	80	120
Exceptional Item	-	-	-	-
Tax	9	11	22	35
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	55	39	58	85
Adjusted PAT	55	39	58	85
Change (%)	37%	-28%	48%	46%
Margin(%)	6%	4%	5%	7%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	19%	10%	12%	16%
ROCE	17%	13%	14%	18%
Asset Turnover	1.0	1.1	1.1	1.1
Debtor Days	63	77	71	69
Inventory Days	148	130	140	138
Payable Days	80	78	65	66
Interest Coverage	0.34	0.35	0.19	0.13
P/E	11	17	19	22
Price / Book Value	2.1	1.6	2.3	3.5
EV/EBITDA	20	21	16	12
FCF per Share	183	97	111	130
Dividend Yield	0.40	0.30	0.70	1.00

Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Share Capital	13	21	21	21
Reserves	279	388	446	526
Networth	292	409	467	547
Debt	295	180	222	214
Other Non Current Liab	20	24	27	27
Total Capital Employed	587	589	689	761
Net Fixed Assets (incl CWIP)	242	245	242	272
Non Current Investments	11	11	11	11
Other Non Current Assets	8	8	7	7
Non Current Assets	262	264	260	290
Inventory	391	351	426	483
Debtors	167	208	215	242
Cash & Bank	7	9	9	14
Other Current Assets	83	99	93	107
Current Assets	659	673	748	853
Creditors	210	211	197	231
Provisions	27	28	20	23
Other Current Liabilities	78	84	77	101
Curr Liabilities	315	323	293	355
Net Current Assets	344	350	455	498
Total Assets	921	936	1,008	1,143

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
PBT	64	50	80	120
(inc)/Dec in Working Capital	102	86	113	137
Non Cash Op Exp	14	16	17	17
Interest Paid (+)	24	21	16	17
Tax Paid	(8)	(14)	(17)	(35)
others	-	-	-	-
CF from Op. Activities	(6)	85	1	81
(inc)/Dec in FA & CWIP	(33)	(20)	(15)	(47)
Free Cashflow	(39)	65	(14)	34
(Pur)/Sale of Investment	-	-	-	-
others	1	1	-	-
CF from Inv. Activities	(33)	(19)	(14)	(47)
inc/(dec) in NW	0	81	-	-
inc/(dec) in Debt	65	(112)	30	(8)
Interest Paid	(24)	(21)	(16)	(17)
Dividend Paid (inc tax)	(5)	(11)	(6)	(6)
others				
CF from Fin. Activities	36	(63)	14	(30)
Inc(Dec) in Cash	(2)	3	-	4
Add: Opening Balance	9	7	12	9
Closing Balance	7	10	12	13