

INSECTICIDES (INDIA) LTD.

BUY

7-Mar-18

INDUSTRY -

INST IN

BLOOMBERG-

Agrochemicals

BSE Code -

532851

NSE Code -

INSECTICID

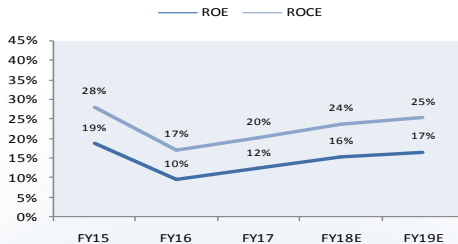
NIFTY -

10249

Company Data

CMP	749
Target Price	890
Previous Target Price	958
Upside	19%
52wk Range H/L	966/516
Mkt Capital (Rs Cr)	1,550
Av. Volume (,000)	20

Improving Return Ratios

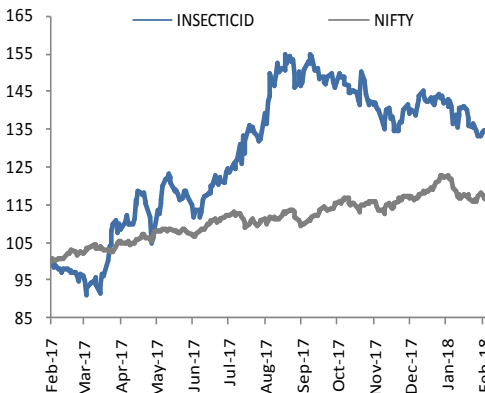


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	69	69	69
Public	31	31	31
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(4.5)	(6.9)	36.3
Rel.to Nifty	(0.6)	(7.1)	22.0



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Management Update:

Recently we had a meeting with the management and these are the key take-aways:

- ✓ **New product launches:** Management indicated that its plans to introduced 8-9 products in FY19. Out of which majority of inlicensed products will be of 9(3) registrations.
- ✓ **Joint Venture With OAT Agrio (Japan) to drive launch of new patented products:** The joint venture has got approval for 1 product patent and has so far filled 12-13 process patents. Approved Patent is for the preparation process and it will complete by December 2019.
- ✓ **Management is planning a Phased CAPEX Going Ahead:** Company is planning a capex of Rs 100 Cr in the next 1-2 years for setting up Unit 2 at Dahej to increase the production capacity. This year company is doing a small expansion of Rs 30Cr across plants particularly in the technical plant at Chopanki and Dahej.
- ✓ **Improvement in the Margin:** Management has changed its strategy since 2014-2015 and is trying to improve the bottom-line. Currently, of the total technical raw materials cost, 1/3rd is manufactured in-house while 2/3rd is procured from outside (China). Going forward company expects in-house technicals consumption to increase due to ramp up in the Dahej Facility. Thus the margin will go up.
- ✓ **Eyeing Export market to boost growth:** Currently, management expects exports to be somewhere between Rs.35 Crores to Rs.40 Crores in FY18. (FY17-RS10Cr). Management sees a huge opportunity in the Exports segment and aims to double it in next 1-2 years. The management is pursuing registrations in the Middle East and Southeast Asia, especially in countries such as Zambia, Uganda, Bangladesh, Vietnam, Oman, Muscat, Saudi Arabia and Pakistan.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	964	988	1,107	1,179	1,347
EBITDA	111	91	114	149	184
EBIT	97	75	98	133	168
PAT	55	39	58	85	108
EPS (Rs)	43	19	28	41	52
EPS growth (%)	37%	-56%	48%	46%	28%
ROE (%)	19%	10%	12%	16%	17%
ROCE (%)	28%	17%	20%	24%	25%
BV	230	198	226	265	314
P/B (X)	2	2	2	3	2
P/E (x)	11	16	19	18	14

Snapshot

The Insecticides Act, 1968 and Insecticides Rules, 1971 regulate the import, registration process, manufacture, sale, transport, distribution and use of insecticides (pesticides)

The pesticides' regulations in India are governed by two different bodies: the Central Insecticides Board and Registration Committee (CIBRC) and the Food Safety and Standards Authority of India (FSSAI).

Types Of Registration

The technical grade products registration can be obtained in two ways:

Regular Registration u/s 9(3)

For the new molecule introduced first time in India., Subject to the submission of complete data

"Me-Too" Registration u/s 9(4)

Once registration is granted under Section 9(3) ,subsequent applicants can get registration under Section 9(4) for same product on payment of nominal fee 'without having to submit any data'.

Activity	9(4) – “Me Too ” registration	9(3) and 9(3b)- Fresh Registration
Documentation and Form 1 and other documents verification by legal	0.5 month	1 month
CIB&RC analysis, covering: <ul style="list-style-type: none"> • Chemistry • Bioefficacy • Toxicology • Packaging 	1-3 months	6-12 months
Sample submission, collection & Analysis	2-6 months	2-6 months
MRL Fixation (Ministry of Health)	1-2++ months	3-12 months
Registration Certificate Issuance	2 months	2 months
OVERALL PROCESS	Minimum 6 months	Minimum 12-36 months

Conclusion:

As pesticides enter the food chain, Government Of India regulates their export, import, sale & usage. No pesticide is allowed for production or import without registration. For exports, access to the markets is restricted through registration procedures stipulated by different countries. Registering agrochemical generics in US / EU is a time-consuming process since it requires various types of studies to be carried out.

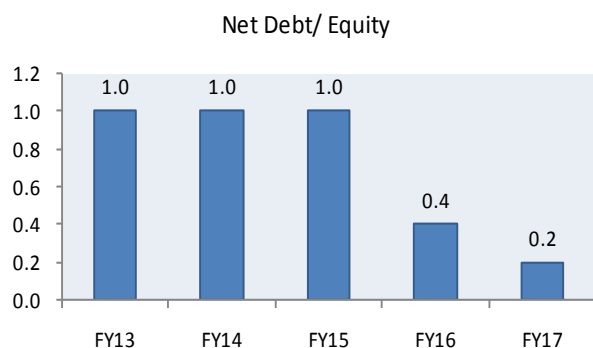
One product registration takes about 3-5 years and costs about USD 10 15 mn. Registration process in India takes roughly 12-36 months. The investments both in terms of time and money act as effective entry barriers.

INSECTICIDES (INDIA) LTD

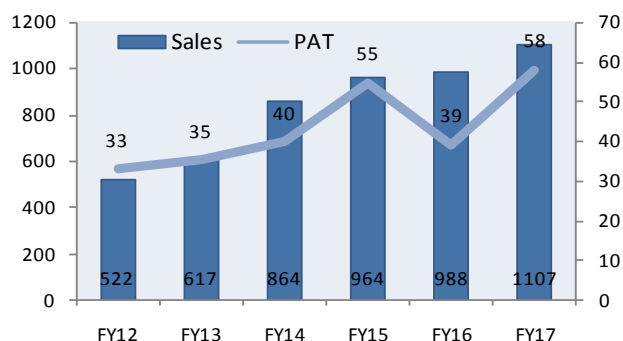
Investment Arguments:

- ✓ **Robust New Product pipeline for FY19 will boost revenue significantly:** Management indicated that it had plans to launch 8-10 new products in FY19, 70% will be a 9(3) product in its tie up with Nissan Chemicals, and the other will be internal formulations each year. Furthermore, it has launched Suzuka which is expected to contribute meaningfully in FY19. The company has signed agreements with Nihon (Japan) and MPM (USA) for marketing their products
- ✓ **Increase in the focus on export market which will further enhance revenue visibility:** Company is currently focused on select high growth emerging and developed markets for Branded Formulations/ Technical products. The company is searching for business opportunities in Japan, Europe and the US markets. As per the management export sales will be somewhere between 35Cr-40Cr this FY18 and aims it to double it in the next fiscal.
- ✓ **Strong Debt-To-Equity Ratio:** The company is on track to reduce the debt gradually in FY18 and expect to be debt free by end of FY19
- ✓ **New Unit at Dahej facility will ramp up capacity utilisation:** Company will incur a capex of Rs100 crore over FY2019-20 for setting up a new unit 2 in Dahej. At the Dahej facility, Insecticides is currently operating at 65%-70% capacity utilization from last 2-3 Years and is expected to improve to 100% capacity utilization in the next fiscal.

Improvement in the Debt Equity Ratio



Ramp up in the revenue



Key Risks:

Unfavourable and Unseasonal Monsoon : As company has a direct impact of rainfall so unseasonal rains could impact sowing of crops, changes in crop patterns, and result in lower pesticide demand. which would impact the company's sales. So Timely and normal rainfall play a crucial role in the agri-input business.

Delay in getting approvals for registration of new products: All insecticides/pesticides have to register with the Central Insecticides Board & Registration Committee (CIB & RC) before use or sale. Current Registration can take anywhere between 4-6 years to launch a new novel molecule which can push the likely benefits from that product further.

Outlook & Valuation

Recently, we had a meeting with the Company's Top management. Our interaction indicated that management is more focused on the margin through sales of new high margin product launches and opportunity in the export market.

Going forward, the company's continuous focus on sales of new high margin products (Formulation and technical) with the continued thrust on reducing the sale of Generic Product will ensure growth in both Sales and EBITDA Margin. Company has been gradually reducing its dependence on pure generics business to branded formulations business which currently accounts for 80% of its revenues. We believe the immense opportunity is set to be created due to the introduction of new products, higher realization from the technical segment and significant improvement in the return ratios. However, we see a limited upside in the near future owing to pressure in the revenue growth as the company had withdrawn few generic products so as to encourage new products launched by them.

On the margins front, company is facing raw material pricing pressure due to the change in the regulations which resulted in interrupted supply from un-organized players. This has compelled the company to purchase raw material at high cost. Following this company has planned to curtail its dependency on import from China by ramping up its Dahej facility which leaves long term impact on margins intact

Considering strong long -term visibility despite near- term challenges we remain optimistic but reduce valuation multiple to 17x FY19E EPS valuing the stock price at Rs.890 vs earlier 18x FY19E EPS. Hence we maintain our Buy rating on the stock.

INSECTICIDES (INDIA) LTD

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	988	1,107	1,179	1,347
Change (%)	2%	12%	6%	14%
EBITDA	91	114	149	184
Change (%)	-18%	25%	31%	24%
Margin (%)	9%	10%	13%	14%
Depr & Amor.	16	16	16	17
EBIT	75	98	133	168
Int. & other fin. Cost	26	19	17	17
Other Income	1	1	3	3
EBT	50	80	119	154
Exp Item	-	-	-	-
Tax	11	22	34	46
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	39	58	85	108
Adjusted PAT	39	58	85	108
Change (%)	-28%	48%	46%	28%
Margin(%)	4%	5%	7%	8%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	19%	10%	12%	16%
ROCE	28%	17%	20%	24%
Asset Turnover	1.1	1.1	1.1	1.1
Debtor Days	208	215	249	286
Inventory Days	351	426	453	494
Payable Days	78	65	68	68
Interest Coverage	2.91	5.29	7.74	10.03
P/E	11	16	19	18
Price / Book Value	2.0	1.6	2.3	2.8
Dividend Yield	1.44%	0.38%	0.25%	0.25%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	21	21	21	21
Reserves	388	446	526	629
Networth	409	467	547	650
Debt	180	222	196	197
Other Non Cur Liab	5	6	6	6
Total Capital Employed	589	689	743	847
Net Fixed Assets (incl CWIP)	245	242	273	313
Non Cur Investments	11	11	11	11
Other Non Cur Asst	6	5	5	5
Non Curr Assets	264	260	291	331
Inventory	351	426	453	491
Debtors	208	215	249	284
Cash & Bank	9	9	8	14
Other Curr Assets	99	93	99	121
Curr Assets	673	748	818	925
Creditors	211	197	220	251
Provisions	28	20	23	23
Other finial liabilities				
Other Curr Liab	84	77	97	109
Curr Liabilities	323	293	339	382
Net Curr Assets	349	455	479	543
Total Assets	936	1008	1109	1256

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	50	80	119	154
(inc)/Dec in Working Capital	12	(95)	(25)	(58)
Non Cash Op Exp	16	16	16	17
Int Paid (+)	21	16	17	17
Tax Paid	(14)	(17)	(34)	(46)
others	16	17	16	17
CF from Op. Activities	85	1	93	84
(inc)/Dec in FA & CWIP	(19)	(14)	(48)	(57)
Free Cashflow	65	(14)	46	27
(Pur)/Sale of Inv				
others	0	0	-	-
CF from Inv. Activities	(19)	(14)	(48)	(57)
inc/(dec) in NW	81	-	-	-
inc/(dec) in Debt	(112)	30	(26)	1
Int. Paid	(21)	(16)	(17)	(17)
Div Paid (inc tax)	(11)	-	(5)	(5)
others				
CF from Fin. Activities	(63)	14	(48)	(21)
Inc(Dec) in Cash	3	0	(2)	6
Add: Opening Balance	7	12	9	7
Closing Balance	9	12	7	13

Please refer to the Disclaimers at the end of this Report



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