

INSECTICIDES (INDIA) LTD.

NEUTRAL

22-Nov-17

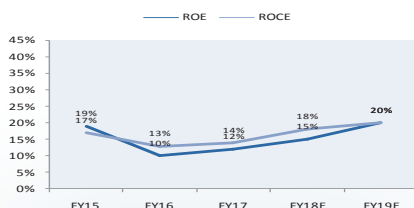
INDUSTRY - INST IN
BLOOMBERG- Agrochemicals
BSE Code - 532851
NSE Code - INSECTICID
NIFTY - 10326

Company Data

CMP 844
Target Price 875

Upside 4%
52wk Range H/L 966/437
Mkt Capital (Rs Cr) 1,747
Av. Volume (,000) 18

Return Ratios

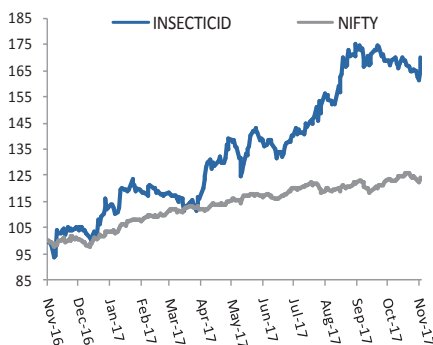


Shareholding patterns %

	2QFY18	1QFY18	4QFY17
Promoters	69	69	69
Public	31	31	31
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(0.3)	(4.1)	102.5
Rel.to Nifty	(1.3)	(5.5)	72.8



Ritika Jalan

Key Highlights of the Report:

- ✓ Insecticide India Ltd has posted a sales of Rs 417 Cr. The growth in the revenue was hampered as company has not sold the generic product despite of the demand so as to encourage new products launched by them
- ✓ PAT growth of 8.7% YoY in Q2FY18 at Rs36 Cr led by lower interest cost and strong growth at operating level.
- ✓ According to the Management coming Rabi season will be very good on the back of rainfall in October this year.
- ✓ Keeping in mind near term visibility we changed our rating from BUY to neutral. Our target has been revised from 1038 to 875.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	964	988	1,107	1,169	1,467
EBITDA	111	91	114	143	168
EBIT	97	75	98	127	150
PAT	55	39	58	82	94
EPS (Rs)	43	19	28	40	46
EPS growth (%)	37%	-56%	49%	42%	11%
ROE (%)	19%	10%	12%	15%	20%
ROCE (%)	17%	13%	14%	18%	20%
BV	230	198	226	258	307
P/B (X)	2.1	1.6	2.3	3.6	3.0
P/E (x)	11.0	16.8	18.8	22.0	23.0

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 off-patent 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 8-9 products each year through a mix of tie-ups with partners and in-house R&D.
- ✓ It will incur a Capex of Rs100 Crore in FY19 for setting up a new unit in Dahej.

INSECTICIDES (INDIA) LTD

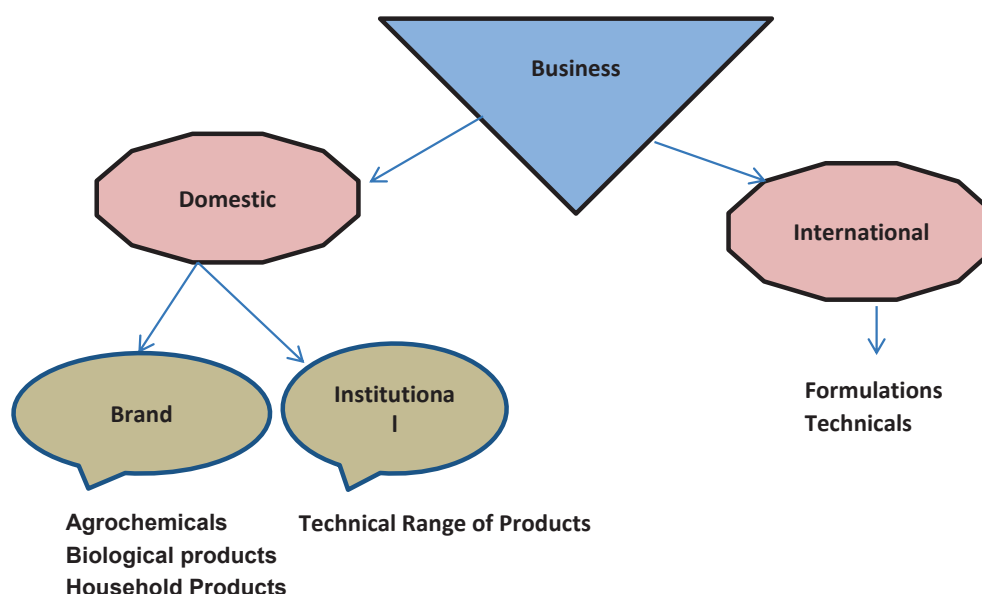
Insecticide India Ltd-Description, Business model & Financial Matrix

About the company

Insecticides are engaged in the business of manufacturing of off-patent formulation and technical. Company currently operates four manufacturing plants situated at Chopanki (Rajasthan), Samba (J&k), Udaipur (J&k) and Dahej(Gujarat). Technical Synthesis plants are at Chopanki (Rajasthan) and Dahej(Gujarat). 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). Company largest selling brands are Lethal, Victor, Thimet, Indan 4g and Kaiser.

Insecticide India Ltd has successfully established brands over the years which have created a strong presence among its customers owing to its branding and marketing strategies. This enabled the company develop its umbrella brand range called 'Tractor' which includes products like 'Lethal', 'Victor', 'Thimet', 'Hakama', 'Pulsor', 'Monocil', 'Hijack', 'Xplode' and 'Nuvan'. Company have entered into strategic partnerships and joint ventures with global agrochemicals players for licensing, marketing and distributor agreements

Insecticides India Ltd-An overview of different Segment and its Key Strength



INSECTICIDES (INDIA) LTD

Insecticide India Ltd-Strong Manufacturing Capabilities



STRATEGIC MANUFACTURING LOCATION & INFRASTRUCTURE...SURPLUS LAND, ENVIRONMENTAL CLEARANCE AND TAX BENEFIT AVAILABLE

LOCATION	UNIT	STARTED IN	PLOT AREA Sq. Mt.	BUILT UP AREA Sq. Mt.	CAPACITY (MTPA)	FY 15 UTILIZATION (MTPA)	CAPACITY UTILISATION (%)
Chopanki, Rajasthan	Formulations	FY02	8000	3314	38000	11142.7	26%
	Technicals	FY08	3958	1657	3800	1199	32%
Samba, Jammu and Kashmir	Formulations	FY05	9358	6210	13430	6157.4	46%
Udhampur, Jammu and Kashmir	Formulations	FY12	6070	5434	5600	2921	52%
Dahej, Gujarat	Formulations	FY12	167631	11830	18500	14924.3	81%
	Technicals	FY13			10000	6564.2	66%
TOTAL			202111	32522			

INSECTICIDES (INDIA) LTD

Insecticide India Ltd-Management Team

Mr Hari Chand Aggarwal	Chairman	He was the president of North Indian Pesticides Manufacturing Association for five terms and was also the director of Crop Care Federation of India.
Mr. Rajesh Aggarwal	Managing director	Moving away from family's three-generation old business, Rajesh Aggarwal along with his father Hari Chand Aggarwal established Insecticide India Ltd, which started its operation in 2002
Mr. Sandeep Aggarwal	Chief Financial Officer	Mr. Sandeep Kumar Aggarwal has been Chief Financial Officer of Insecticides India Ltd. since August 01, 2011. He serves as a Director of Jag Par Securities Pvt. Ltd.

Insecticides India Ltd-Journey from a generics player to a backward integrated manufacturer

2001	Commenced operations
2002	Chopanki (Rajasthan) formulation plant started
2003	Acquired 21 brands of Montari Industries Limited
2004	Samba (J&K) plant commissioned
2005	Plant at Chopanki got ISO 9001: 2008 certification .Set up of R&D Lab
2006	Technical collaboration with AMVAC, USA to manufacture & market THIMET
2007	Listed on NSE & BSE.Chopanki Technical plant commenced.Samba plant expansion
2008	Received OHSAS 18001 certification
2011	Acquired MONOCIL from NOCIL Ltd.2 new plants at Dahej & Udhampur
2012	Launched NUVAN with AMVAC, USA.Launched HAKAMA & PULSOR with NISSAN, JAPAN
2014	Started product invention R&D center in JV with OAT Agiro Co., Ltd., JAPAN.Started new formulation unit at Chopanki
2015	Launched Bio product, MYCORAJA.Bonus shares Issued.Follow-on QIPs
2016	Tie-up with MOMENTIVE, USA for AGRO SPRED* MAX.Tie-up with NIHON NOHYAKU, Japan for SUZUKA and HAKKO.
2017	Company have successfully launched new generation products that will help the farmers to grow with latest technologies.

INSECTICIDES (INDIA) LTD

Insecticide India Ltd-Key high margin Product basket supports strong revenue growth

Key brands in each product category

CATEGORY	BRANDS
Insecticides	Thimet, Nuvan, Victor, Monocoli, Xplode, Lethal, Nayak, Sharp, Indan 4g, Super Fighter, Aflatoon, Bravo, Titan, Metallic
Herbicides	Hakama, Hijack, Selector, Strike, Flite 71
Fungicides	Pulsor, Fprce 11, Care, Himil, Prism
Plant growth nutrients	Milstim, Mycoraja, Prime Gold, Olympic

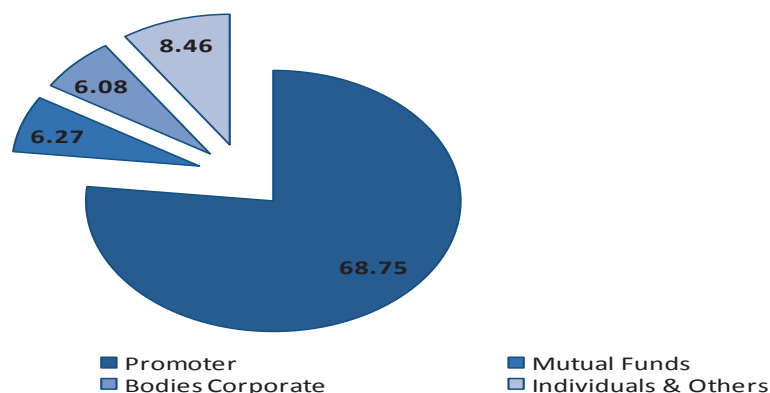
For FY17 Navratnas (the top 9 brands) & Super 11 brands (the next top 11 brands) contribute 57% and 21%, respectively, to revenues of the total branded formulation sales.

Navratna Portfolio (Contribute 57% to revenues)		
PRODUCT NAME	CATEGORY	Launch Year
THIMET	Insecticide	FY07
NUVAN	Insecticide	FY13
LETHAL	Insecticide	FY06
MONOCIL	Insecticide	FY12
VICTOR	Insecticide	FY06
HUJACK	Herbicide	FY10
HAKAMA	Herbicide	FY13
PULSOR	Fungicide	FY12
PLUTO/ XPLOAD	Insecticide	FY05
FLITE	Herbicide	

Super 11 products (Contribute 21% to branded sales)	
PRODUCT NAME	CATEGORY
Streptomil	Fungicide
Lgo, Gama	Insecticide
Indan	Insecticide
Sharp	Insecticide
Arrow	Insecticide
Super Star	Insecticide
Selector / Select	Herbicide
Sargent	Insecticide
Avon Plus / Avone	Fungicide
Phantom	Insecticide
Metro	Insecticide

INSECTICIDES (INDIA) LTD

Insecticide India Ltd-Shareholding Pattern



Insecticides India Ltd-Promoter & Promoter Group

# Promoter and Promoter Group	Shares	% Stake
1 Hari Chand Aggarwal	923400	4.47
2 Hari Chand Aggarwal HUF	1494000	7.23
3 Kritika Aggarwal	112500	0.54
4 Nikunj Aggarwal	1125000	5.44
5 Pushpa Aggarwal	2151900	10.41
6 Rajesh Aggarwal	5292900	25.61
7 Rajesh Aggarwal HUF	1953000	9.45
8 Sanskar Aggarwal	901800	4.36
9 ISEC Organics Ltd	254550	1.23
Total	14209050	68.75

Insecticides India Ltd-Institutional Investors

Institutional Investors	Shares	% Stake
1 LIC	972482	4.71
2 Fidelity Northstar Fund	650000	3.14
3 HDFC Small & Midcap Fund	836768	4.05
Total	2459250	11.9

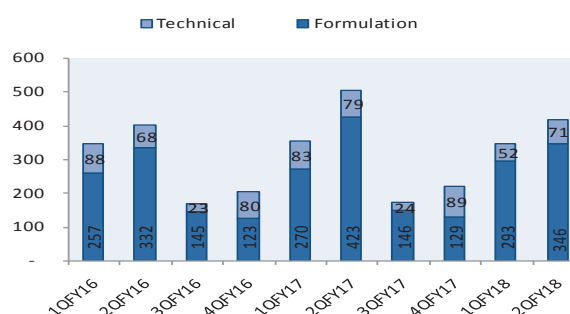
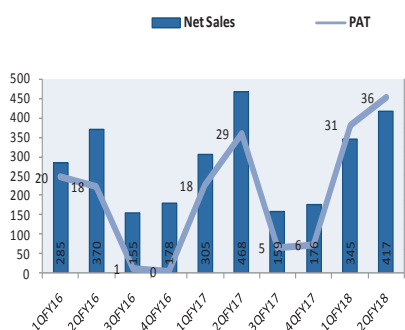
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Quarterly Performance

Financials	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	468	159	176	345	417	-11%	21%	988	1107	12%
Other Income	0	0	0	1	2	241%	294%	1	1	-1%
COGS	321	96	120	220	311	-3%	41%	675	742	10%
Employee Cost	12	11	10	11	14	13%	27%	40	43	8%
Other Expenses	87	36	32	30	37	-57%	23%	182	208	14%
EBITDA	48	16	13	51	56	17%	11%	91	114	25%
Depreciation	4	4	4	4	4	-1%	-7%	16	16	0%
Interest	4	5	3	5	4	9%	-15%	26	19	-28%
PBT	40	8	7	42	50	25%	19%	50	80	60%
Tax	11	2	1	12	14	22%	20%	11	22	106%
PAT	29	5	6	31	36	26%	18%	39	58	48%

Q2FY18 Result Update:

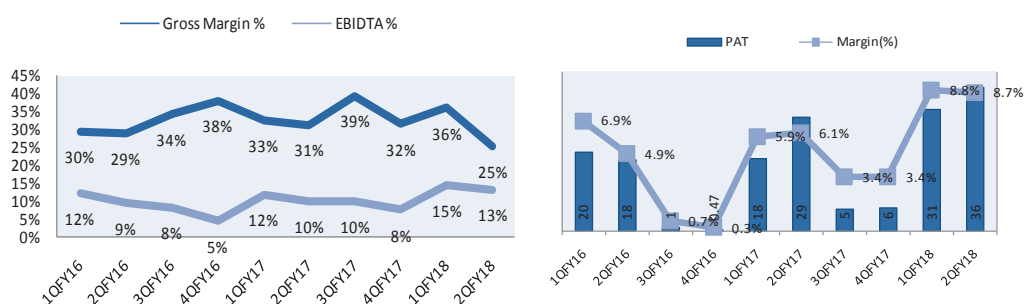
- ✓ Insecticide India Ltd has reported a sales de-growth of 10.9% YoY (on Sequential basis 21% growth) to Rs 417 Cr. The growth in the revenue was hampered as company has not sold the generic product despite of the demand so as to encourage new products launched by them.
- ✓ EBITDA margin improved by ~310 bps YoY driven by change in product mix and increased contribution from high margin Navratna products including Green Label. Margins also improved on account of lower other expenses as compared to last year Q2FY17.
- ✓ For 2QFY18 company derive 53% of its revenues from insecticides, 33% from herbicides, 10% from fungicides and 4% from plant growth nutrients.
- ✓ Top 5 product contributed 80%-85% of the revenue.
- ✓ PAT margin improved by ~250 bps YoY and PAT remained Rs 36 Cr for this quarter led by lower interest cost and strong growth at operating level.
- ✓ As company has a direct impact of rainfall so delay in the rainfall in South & Central Region impacted growth in pesticides demand in the quarter



INSECTICIDES (INDIA) LTD.

Margin %	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	31%	39%	32%	36%	26%	-6%	-11%	32%	33%	1%
EBITDA Margin	10%	10%	8%	15%	13%	3%	-1%	9%	10%	1%
PAT Margin	6%	3%	3%	9%	9%	3%	0%	4%	5%	1%

- ✓ Gross margin declined by ~600 bps YoY to 26% aided by increase in the raw material cost.
- ✓ EBITDA margin improved by ~310 bps YoY driven by change in product mix and increased contribution from high margin Navratna products including Green Label. Margins also improved on account of lower other expenses as compared to last year Q2FY17.
- ✓ PAT margin improved by ~250 bps YoY and PAT remained Rs 36 Cr for this quarter led by lower interest cost and strong growth at operating level.



Concall Highlights(Q2FY18):

- ✓ Management has clarified that the government is unlikely to cap the prices of 9(3) molecules as these are patented products.
- ✓ The management expects to launch 9 new products in 2019. Out of which 5 products will be of 9(3) registration and 4 products will be of 9(4) registration.
- ✓ Expectation of expansion in Margin by 150bps in FY18 and 100bps in FY19.
- ✓ Tax rate to remain in the range of 28-30% in FY18 & FY19.
- ✓ CAPEX Guidance of Rs30 Cr for revamp of the plant as per the manufacturing guidelines and Rs 100Cr in FY19 for setting up a new unit in Dahej.
- ✓ Company targets to launch one more re-engineered offpatent product in FY18.
- ✓ As per the management there is regular payment of Debt and company expects to be debt free by end of FY19.
- ✓ According to the Management coming Rabi season will be very good on the back of rainfall in October this year.

INSECTICIDES (INDIA) LTD

Insecticide India Ltd-Turnaround in branded formulation business through acquisition,in-licensing,Reverse Engineering and R &D.

Optimistic to develop new products through reverse engineering off -patents products-As per the concall 2QFY18 management is positive to developed strong product portfolio of branded formulations through reverse engineering off -patents products

Tie up through partnership with global innovators-The company has entered into an in-licensing agreement with the Japan Based Nissan Group in 2012 for 'Hakama' (used for soybean, paddy) and 'Pulsar' (used for Potato) brands which has improve its footprints in the foreign market.

Insecticides India Ltd-An overview of tie-ups with different global partners.

Global Partner	Purpose for tie-ups
AMVAC, Netherlands	A technical collaboration agreement to manufacture and market its products - Thimet and Nuvan - in India.
Nissan Corporation, Japan	To manufacture and market two of its specialised molecules in the Indian markets.Molecules are branded as Hakama and Pulsor
OAT Agri Co., Japan	A joint venture (JV) to set up a R&D facility focusing on discovery of new innovative agrochemical molecules.

Research and Development JV with OAT Agrio, Japan:In 2013, the company entered into a Joint venture (JV) with a Japanese company OAT Agrico (Formerly, Otsuka AgriTechno Co. Ltd) to set up a new R&D company and centre at Chopanki in Rajasthan.OAT would provide the technology and knowhow of the research and invention methods.

Exclusive marketing tie up with Nissan for two specialty products Patented Fungicide Pulsor and Selective Herbicide Hakama



Technical collaboration with AMVAC for manufacturing and marketing of Thimet (Since 2006) & Nuvan (Since 2012)

Formed JV with OAT Agrio to set up a dedicated R&D Centre in India to invent new agrochemical molecules



INSECTICIDES (INDIA) LTD

Insecticide India Ltd-A niche opportunity under new Agriculture Policy Under in make In India Initiatives

Introduction

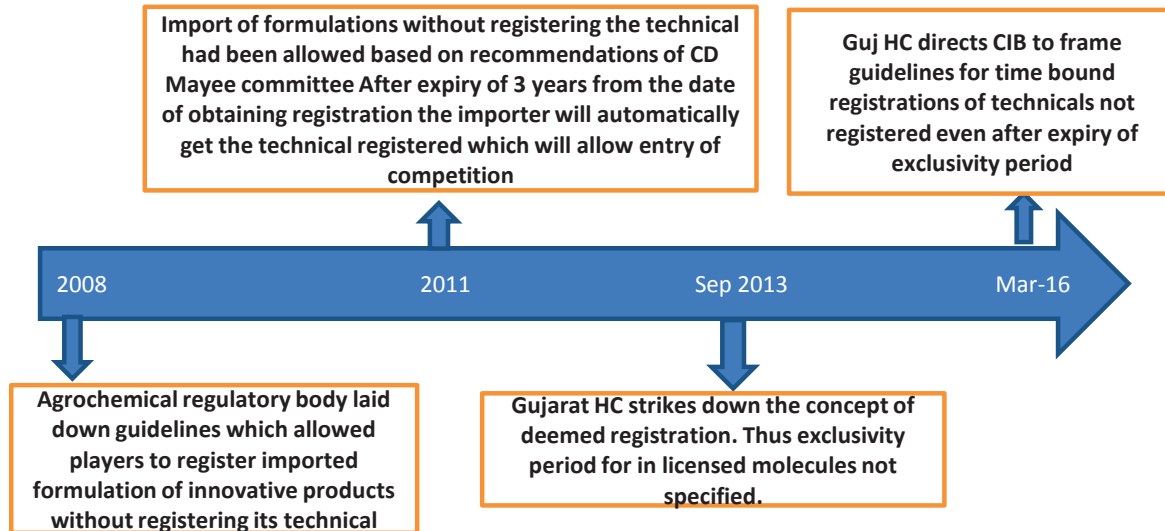
India's agricultural sector is of crucial importance to the domestic economy, supplying resources for the food, textile and energy industries. The government's thrust on domestic manufacturing in agrochemicals under its 'Make in India' initiative has led to various policy-related announcements resulting in disturbance in agrochemical industry. Though the move favours domestic manufacturers in the long run, industry may face near term challenges owing to ambiguity.

Salient features of the new policy initiated by the government

Time Bound Registration: In order to encourage domestic manufacturing of technicals, government is discouraging any new registration for imports of technical (TI) if the technical is already being manufactured in India.

Imposition of restriction on imports of products: The government of India has notified the guidelines on August 17, 2017 that import of agrochemicals shall be restricted to 75% of the average of three years of import from the date of application filed by the registrant. If the certificate of registration is less than three years old, import of agrochemicals shall be restricted to 75% on the basis of data provided by the registrant for such period. In case of new registration of any product, import shall be allowed on quarterly basis.

The Story So Far



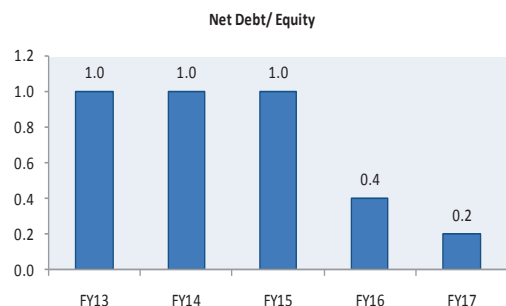
Conclusions: We believe the new regulation could bring down the exclusivity period currently enjoyed by innovative products. We can expect these guidelines are likely to have significant impact on companies which have higher dependency on imports like Dhanuka Agritech and Domestic manufacturers like UPL, Rallis India, Insecticide India, etc., are likely to gain over long term.

INSECTICIDES (INDIA) LTD

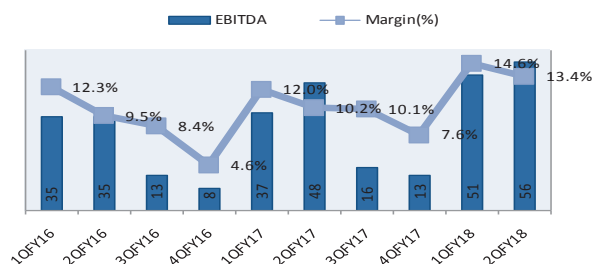
Investment Arguments:

- ✓ **New Product Launched in FY19 will boost revenue significantly:** Management indicated that it had plans to launch five new products in FY19, 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 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.
- ✓ **Strong Debt-To-Equity Ratio:** The company will reduce debt gradually in FY18 and expect to be debt free by end of FY19
- ✓ **New Unit at Dahej facility to aid growth:** 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.
- ✓ **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.

Improvement in the Debt Equity Ratio



Improvement in the EBITDA Margin YoY



Key Risks:

Dependency on rainfall: As company has a direct impact of rainfall so unseasonal rains could impact sowing of crops which would impact the company's sales. So Timely and normal rainfall is essential for agrochemical companies to post good performance

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.

INSECTICIDES (INDIA) LTD

Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Revenue from Operation	964	988	1,107	1,169
Change (%)	12%	2%	12%	6%
EBITDA	111	91	114	143
Change (%)	36%	-18%	25%	25%
Margin (%)	12%	9%	10%	12%
Dep & Amortization	14	16	16	16
EBIT	97	75	98	127
Interest & other finance cost	33	26	19	17
Other Income	-	1	1	2
EBT	64	50	80	112
Exceptional Item	-	-	-	-
Tax	9	11	22	32
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	55	39	58	82
Adjusted PAT	55	39	58	82
Change (%)	37%	-28%	48%	48%
Margin(%)	6%	4%	5%	7%

Key Ratios				
Y/E March	FY15	FY16	FY17	FY18E
ROE	19%	10%	12%	15%
ROCE	17%	13%	14%	18%
Asset Turnover	1.0	1.1	1.1	1.0
Debtor Days	63	77	71	74
Inventory Days	148	130	140	146
Payable Days	80	78	65	68
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	3.6
EV/EBITDA	20	21	16	17
FCF per Share	183	97	111	135
Dividend Yield	0.40	0.30	0.70	1.50

Balance Sheet				
	Rs in Crores			
Y/E March	FY15	FY16	FY17	FY18E
Share Capital	13	21	21	21
Reserves	279	388	446	532
Networth	292	409	467	553
Debt	295	180	222	220
Other Non Current Liab	20	24	27	27
Total Capital Employed	587	589	689	773
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	469
Debtors	167	208	215	236
Cash & Bank	7	9	9	14
Other Current Assets	83	99	93	107
Current Assets	659	673	748	853
Creditors	210	211	197	217
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	1,114

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

INSECTICIDES (INDIA) LTD

Outlook & Valuation

Insecticides India has reported sales of Rs 417 Cr, in line with our estimates. Sales was hampered as company has not sold the generic product despite of the demand so as to encourage new products launched by them. EBITDA margin improvement was driven by the change in product mix and increased contribution from high margin Navratna products including Green Label.

Going forward, the company's continuous focus on sales of new high margin products will ensure EBITDA Margin improvement. Secondly, improvement in the utilization levels at the Dahej facility (Currently 65%-70%) is expected to push up margins further. Considering this we maintain our positive view on the stock in the long term but in near terms management's commentary on deferment of its plans to launch five new products, one being a 9(3) product, and the other four will be of internal formulations makes us cautious about near term revenue visibility of the company. Keeping in mind near term revenue visibility we changed our rating from BUY to neutral .Our target has been revised from 1038 to 875.