



Sector : Agro Chemicals

CMP : Rs. 519

Recommendation : Unrated

MARKET DATA	(Rs.)
CMP	519.05
EPS (TTM)	13.37
P/E (TTM)	38.53
52 Week High	543.95
52 Week Low	297.00
Equity (Rs. mn)	206.70
Mkt. Cap (Rs. mn)	10647.00

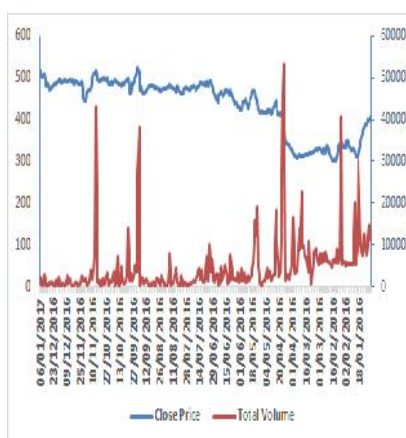
CODES	
BSE	INSECTICID
NSE	INSECTICID
Bloomberg	INST@IN

Shareholding Pattern (%)

	Sep-16	Jun-16	Mar-16
Promoter	68.75	68.75	68.75
FII	4.73	4.72	5.09
DII	12.96	12.65	12.53
Others	13.56	13.88	13.63

Source: BSE

Price Volume Graph



Source: BSE

Insecticides India Limited engages in the formulation, manufacture and sale of pesticides in India. It offers formulated pesticides consisting of pesticides, herbicides, fungicides and plant growth regulators and technical pesticides to protect paddy, cotton, wheat, sugarcane, vegetables, mustard, and groundnut crops. It also offers urban pest products, under the LETHAL brand name for wood care, mosquito coils, vaporizer products & products for cockroaches, ants etc. It has more than 120 formulation products & 15 technical products. It is amongst the top 10 Indian agrochemical companies and commands ~7% market share. It has emerged as a strong player in the branded formulations market with a portfolio of 99 brands. Strong growth is expected, given its measures to ramp up revenues on existing branded products, launch of new molecules, potential scaling up of technicals business, and strong room to improve capacity utilization from ~65% currently.

Branded formulations account for 77% of revenues

It caters to the insecticide, herbicide, fungicide & PGRs segments; it has a varied portfolio of 99 formulations, 18 technicals and 350+ SKUs. It derives 63% of its revenues from insecticides, 25% from herbicides, 10% from fungicides and 2% from plant growth nutrients. Branded formulations form 77% of revenues, technicals 13% and bulk formulations form the balance 10%. Domestic market accounts for 95% of the sales. B2C sales account for 77% of the total sales and B2B sales 23%. The company has a successful brand portfolio, with a track record of turning around acquired off-shelf brands into market leaders.

Focus on 'Navratna' and 'Super 11' brands to drive growth and margins

The Company has built a strong portfolio of 99 brands in its branded formulations business (77% of total revenues) through a) acquisitions, b) in-licensing arrangements and c) reverse engineering. To drive better scale and improve margins, the management's focus has been on portfolio consolidation over the last three years, (focusing on Top 20 Brands, which are amongst the Top 3 brands in their respective categories and command 500bp higher margins than the rest of the brand portfolio). Going forward, it expects reduction in number of brands to 75, taking the revenue contribution from the top 20 brands to ~80%. Within the top 20 brands, growth is expected to be led by recently launched in-licensed brands—'Hakama' and 'Pulsar', which have completed the free sampling and promotion stages and are ready for scale-up.

Valuation –Insecticides India is likely to post strong growth on higher B2B sales of technical products and an increasing contribution of in-licensing sales, after a good Monsoon. It trades at a TTM multiple of 22x based on TTM EPS of Rs.23.

Key Financials

Year end (Rs. Mn.)	FY14	FY15	FY16	H1FY16	H1FY17
Net Sales	8640.80	9641.90	9881.50	6553.90	7723.60
EBIDTA	813.20	1106.20	911.30	698.70	844.20
Margin%	9.41	11.47	9.22	10.66	10.93
Net Profit	399.40	548.50	392.90	377.90	468.10
Margin%	4.62	5.69	3.98	5.77	6.06
EPS	31.49	43.26	19.01	18.28	22.65
Equity (FV 10)	126.80	126.80	206.70	206.70	206.70
PE			27.25		

Source: Company/ Wallfort Research



Other Key Highlights

Capacity utilization ramp-up to drive FCF generation and return ratios

It had commissioned Rs.2.5b over FY11-15. Initially, the technical facility at Dahej faced teething problems after commissioning, which impacted margins in FY14. However, it overcame those problems and ensured higher utilization (51% in FY15) at the facility. With the current product mix and price levels, it can potentially generate higher revenues from the current capacities requiring minimal capex going forward.

Q2FY17 results

Higher sales in formulations drive operating performance

Insecticides India posted revenue growth of ~26.4% YoY to Rs.4675mn in Q2FY17, primarily driven by higher volume growth in the formulations segment. Formulations (~91% of sales in Q2) surged by ~27% YoY to Rs.4232mn while technical sales grew by ~18% YoY to Rs.443mn. Formulations was led by new product launches. The company recently launched Green Label (a generic of Nominee Gold of PI Industries). Sales (ex-Green Label) grew by 15.5% to Rs.4275mn in Q2. The company is selling the product at a discounted price to Nominee Gold. Sales of Green Label (used in paddy cultivation) were Rs.400mn in Q2. Management has guided sales growth of 17-18% in FY17 (earlier: 18-20%). It has also guided for an EBITDA margin expansion of 70-100bp in FY17.

EBITDA margin expands on better product mix

Better product mix post the launch of Green Label helped expand its gross margin by 226bp YoY to 31.4% in Q2. Higher other expenses offset EBITDA margin expansion by 76bp YoY to 10.2%. The tax rate increased from 20.5% to 28.5% in Q2 due to end of the exemption benefit from the Jammu Plant. The tax benefit from Jammu plant has come down to 30% from 100% exemption in Q1FY16. Management maintains a tax rate of 28-29% for FY17 and 30% for FY18.

Wallfort Research is also available on Bloomberg <Code WFSR>

Disclaimer: Wallfort Financial Services Limited (hereinafter referred to as "WFSL") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX stock Exchange Limited. We have been granted certificate of Registration as a Research Analyst with SEBI. Registration no. is INH000001824 for the period 30.09.2015 to 29.09.2020 .WFSL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst (in case any financial interest of more than 1% is held kindly disclose) WFSL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. WFSL/analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market making activity of the company covered by Analyst. The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment.

Disclosure: WFSL / its affiliates entities / employees may hold a position in the stock(s) recommended above. However, the purchase would have been made at least 30 days prior to release of the report, which is in compliance with the SEBI research regulations, 2014.