JOINDRE CAPITAL SERVICES LTD.

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RESEARCH REPORT

4th Dec 2017

INSECTICIDES INDIA LIMITED

BSE : INSECTICID | **Sector: AGRO CHEMICALS** | **BSE: 532851**

View - BUY

CMP : Rs. 814

Target Price: Rs 1180

BUSINESS BACKGROUND

Insecticides India Limited (IIL) which commenced operations in 2001, has emerged as an integrated player in the Indian agrochemicals market by entering into global tie-ups. With state-of-the-art R&D facilities and manufacturing units, and a strong portfolio (99 products), IIL enjoys a 7% share in the domestic market. IIL has a product portfolio of over 120 formulations and enjoys a Pan India presence of over 5000 distributors, 60000 dealers and over 30 depots. IIL is a generic player in the Agri chemicals space with 348 registrations and a varied portfolio of 99 formulations and 18 Technicals. It has over the years developed generic products under the Tractor Brand name. 75% of its business comprises of branded sales while 25% is B2B/Institutional sales

IIL has 7 formulation manufacturing assets across India with one R&D centre and technical plant in Rajasthan and newly commissioned technical plant in Dahej, Recently, IIL joined hands with American Vanguard Corporation (AMVAC) USA and Japanese company Nissan Chemical Industries Ltd. Adding some of the leading international brands like Nuvan,Pulsor and Hakama. IIL also has established R&D and technical lcentre in JV with Otsuka AgriTechno Co.Ltd.,(OAT) to invent new agrochemical molecules in India.

INVESTMENT HIGHLIGHTS

Healthy EBIDTA and PAT growth in H1 of FY18 continues –

IIL reported healthy H1FY18 numbers with Topline placed at Rs 761.52 crs from Rs 742.80 crs on a consolidated basis – up by 3%, a EBIDTA of Rs 106.19 crs from Rs 82.40 crs in H1 last year on a consolidated basis – up by 29% YoY. The PAT on a consolidated basis for H1FY18 stood at Rs 66.64 crs as compared to Rs 46.17 crs in H1 last year – up by 44% YoY

A noteworthy fact in Q2FY18 was a change in the product mix led which led to a strong EBITDA margin of 13.36% (+264 bps), and lower interest cost and other income which boosted the PAT.in Q2FY18 by 32% YoY.

The IIL management pointed out that it has been reducing generic sales, especially that of Red Triangle products each year by Rs40-50 crs which is getting compensated via higher topline from new generation molecules. This has helped improve EBIDTA margins and IIL has indicated that it will further improve EBIDTA margins from current levels by 100bps in FY19.

For FY17, on a consolidated basis IIL reported a Topline of Rs 1107.38 crs from Rs 988.10 crs last year, a EBIDTA of Rs 114.73 crs from Rs 91.97 crs last year followed by a PAT of Rs 58.38 crs from Rs 39.58 crs. IIL has declared a dividend of 20% for FY17

KEY DATA

FACE VALUE Rs	10.00
DIVD YIELD %	0.12
52 WK HI/LOW	965/467
NSE CODE	INSECTICID
BSE CODE	532851
MARKET CAP	RS 1682 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	69%
BANKS, MFs & DIIs	-	11%
FIIs	-	5%
PUBLIC	-	15%

KEY FUNDAMENTALS

YE	FY18	FY19	FY20
Rev Gr%	16	14	16
EBIDTA Gr%	45	19	19
PAT Gr%	37	42	24
EPS Gr%	37	42	24
EPS (Rs)	38.72	55.23	68.30
ROE %	16	19	20
ROCE %	17	18	18
P/E (x)	21	15	12

Key Highlights of the Q2FY18 Concall –

The management was confident & indicated at a profitable growth going ahead which is visible in terms of improvement in EBIDTA margins in Q2FY18 by 264 bps

EBIDTA margin guidance improvement in FY18 is expected to be 150 bps and for FY19 by 100 bps

Capex in current year expected Rs 30 crs, going ahead would be Rs 80-100 crs at Dahej will be financed by internal accruals, debt and equity. However funding details are yet to be finalised by the management.

Product pipeline continues to remain strong. IIL is likely to launch 10 new products in FY19, mostly in the 9(3) category, which will drive further margin improvement.

Navratna and Super 11 branded products accounted for 72% of sales from 62% earlier. 70% of topline was branded business while the rest 30% came in from institutional segment.

IIL's top 20 Products contributed 62% of branded sales in FY17 –

Navratna (Top 9 products) & Super 11 (Next 11 products) accounted for 62% of branded formulation (B2C) business. IIL has a proven track record of acquiring & turning around off-shelf brands into market leaders like acquisition of MONOCIL brand from NOCIL and acquisition of 21 leading brands of Montari Industries Ltd.

IIL has grown its revenues at a steady pace in the past, with profit margins being in the 9-10% range due to the generic nature of business. Of late, it has started focusing on Specialty product tie-ups and is launching 3-4 9(3) and 9(4) new products every year. The key triggers for margin improvement going forward will be change in the product mix through the launch of innovate molecules and higher operating leverage in the Technical segment.

Recently IIL has entered in to the following global tie-ups –

(a) With Nissan Chemical (Japan) for marketing patented molecule products like Pulsor and Hakama.

(b) Technical collaboration with American Vanguard Corporation (AMVAC), USA, for manufacturing and marketing of products like Thimet and Nuvan.

(c) JV with OAT Agrio (Japan) for product invention through an exclusive R&D facility.

(d) Agreement with Nihon Nohyaku Co. to launch new products for paddy, pulses and vegetable crops and for marketing the insecticide Suzuka in India.

(e) Agreement with Momentive Performance Materials for selling its products, Agrosprec Max and Agrospred Max.

Brand licensing and marketing arrangements with AMVAC, USA and Nissan Chemicals, Japan has helped IIL scale up its specialty business. IIL management is confident of launching 10 new products in FY19 as per its Q2 FY18 concall commentary especially in the 9(3) category, which will be margin accretive.

Given its strong distribution network of 3000 distributors and 60,000 retail touch points and 500+ sales team, the IIL management remains confident of scaling up in-licensing arrangements with innovators and steadily improve its margins over the next 2-3 years.

Further, it has recently entered into exclusive distribution for SUZUKA (Flubendiamide) of Nihon Nohyaku which is an effective solution for control of pests in different crops like pulses, vegetables and paddy. IIL plans to introduce one more brand HAKKO, an insecticide for BPH in paddy crop in tie-up with Nihon.

IIL has focussed on a strategy to concentrate more on Navratna and Super 11 Products –

IIL has strategically focussed its efforts on 25 to 30 few products with stronger growth potential which it categorises under its main brands namely Navratna and Super 11. Navratna category comprises of IIL's top selling 9 products while Super 11 comprises of the next 11 products.

IIL has internally devised a market strategy to focus more marketing related investments and concentrate on such identified product brands where the margins and growth trajectory is significantly better than the blended portfolio which is skewed towards the generics. Going ahead the IIL management plans to further improve its target share here from the present level of over 70% plus in the next 2-3 years from the Navratna and Super 11 Products categories

Meanwhile a diversified product basket helps IIL to cater to various crops and act as a one stop shop –

IIL's agrochemical formulations have a strong brand presence in India. IIL's focus on quality, product range and pricing has enabled it to develop strong brand recognition and customer loyalty in these markets. IIL's umbrella brand for marketing and branding purposes, 'Tractor' enjoys a strong brand recall and enables it to introduce new products, through brand extensions.

IIL's Navratna' range of branded formulations, includes products like 'Lethal', 'Victor', 'Thimet', 'Hakama', 'Pulsor', 'Monocil', 'Hijack', 'Xplode' and 'Nuvan' which are all well-recognized in the agrochemical industry, particularly in the insecticides and herbicides segments.

Further, 'Pulsor', is the market leader and the only product available in its product category Revenue from Branded Formulation Sales accounted for over 70% for fiscal 2017with the 'Navratna' range of branded formulations accounted for around 53% of IIL's Branded formulation sales with the 'Super 11' range of branded formulations, which includes products for insecticide, herbicide and fungicide segments, accounting for around 15% of branded formulation sales.

Going ahead IIL plans to focus on high margin specialty products –

IIL continued thrust towards Technical collaborations with leading global agrochemical players have partially started bearing fruits. With American Vanguard Corporation (AMVAC), IIL has signed a technical collaboration agreement to manufacture and market its products- like Thimetand Nuvan in India. Both these products today are amongst the most successful products under the 'Tractor' brand of IIL.

Apart from this IIL also entered in to an agreement to market the products of Japan based Nissan Corporation– Hakama and Pulsor has brought more success. A large part of rollout in the specialty products kicked off very recently contributes roughly 35% of the sales as on date.

Also as per the management specialty molecules offer 2-3x higher margin potential. We expect specialty products sales to grow rapidly at around 35-40% CAGR over the next 2-3 years.

Two New Products launched in FY17 likely to show strong growth ahead also –

Green Label contribution in FY17 has aided margins and profitability -

IIL has launched GREEN LABEL, a herbicide based on Bispyribac Sodium. Insecticides India Limited manufactured Bispyribac Sodium technical in India for the first time to end the dependency on imports. The unique product has emerged as a specialist of weed control in paddy and has the same molecule as Nominee gold (Largest selling Rice Herbicide for PI Industries) has received a very good market response and likely to do very well in the current year and future also.

IIL has also recently launched another revolutionary product, KAYAKALP. Set to change the landscape of Indian agriculture forever, it is an innovative biological product able to bring back the natural fertility of land.

Developed by the RD Centre of IIL this Make in India product increases the organic carbon of soil and regulates the soil pH and ensures the availability of micro nutrients such as iron, zinc, magnesium, boron many more to correct the land degradation and infertility. IIL has also guided for the launch of 3 to 4 new 9(3) or 9(4) products every year.

R&D JV with OAT- A shot in the arm for IIL –

The IIL-OAT JV has set up a R&D centre at Chopanki in Rajasthan.The JV would mainly focus on research and invention of new agrochemicals.The IIL – OAT JV is a 20:80 investment by both IIL and OAT and aims to apply for 10 basic patents in the next 3 years & discover new molecules. The facility is one of its kind in India and this is the first time that OAT has set up this kind of facility outside Japan. Though commercializing a molecule takes time, IIL will immensely benefit from the partnership as new molecules will enhance its product portfolio quality. As per this JV, IIL gets the full rights on the patents developed via this JV and enjoys full protection for the patents in case the JV expires which will take care of IILs long term business interests going ahead. Also another opportunity for IIL which opens up in future via this JV would be the potential possibility of OAK outsourcing its production to IIL for catering markets which IIL does not service directly. This is quite logical and possible ahead as IIL can supply at extremely cost effective prices which is a key plus point for both IIL and OAK in servicing other large markets where OAK will be the front end player.

We believe that the possible opportunity from a newly developed patented molecule can be huge for IIL. Dupont's Rynaxypyr, launched in 2008, had clocked in global sales of Rs 47 bn in 2012. In India, Rynaxypyr (marketed as Coragen solution & Ferterra granular formulation) clocks annual revenue of Rs 8 bn. It is an insecticides used to control variety of pests. IIL is expected to have an annual revenue opportunity of Rs 3-5 bn from each of its newly developed patented molecules.

The patented molecules also earn substantially higher margin than generic products which will lead to overall margin improvement for IIL.

Much like the pharma industry, Indian agrochemical industry has thrived by manufacturing generic products. This strategy has let them keep the costs down and focus on marketing, pricing & other key areas. The advantage may continue for some more time going forward as more molecules are likely to lose their patent protection in the next few years. Off late we have seen a number of in-licensing products being introduced in the domestic market. The industry has shied from new drug discovery R&D because of associated risks as it requires deep pockets (varies between Rs 1 to Rs 10 bn), long gestation period (5-10 years) and even after that there is uncertainty of a successful discovery.

IIL is transforming into an Innovator-cum-Generic Player over the medium to long term –

IIL is currently in the transition phase from where it will transform into an innovator-cum-generic player with a blend of expertise in generics and focus on inventing new products in partnership with OAT. While on one hand it has done backward integration by manufacturing technical products which are captively consumed by its formulation division, on the other hand it is moving up in the value chain by also focusing on inventing new molecules through its JV.

IIL is likely to have much high level of profitability that will be driven by patent protection for invented products, integration benefits from captive manufacturing of technicals & benefits from large scale operations.

The recently commenced Dahej facility has also significantly enhanced company's manufacturing capabilities into high value technicals. The Dahej plant, built at a cost of Rs 2 bn, has manufacturing capacity of 10000 tonnes p.a.

IIL is also tapping export markets to supply active ingredients to Asia pacific countries. Ramp up at Dahej will also enhance overall margins as the company is likely to benefit from backward integration for its formulation business

IIL is planning a phased capex going ahead –

IIL has invested Rs 2 bn in enhancing capacity to set up its Dahej plant. The Dahej plant has a capacity of 10000 MTS of technicals, 40 lakhs ltrs of EC, 2500 MTS of WDP and 12000 MTS of Granules.

IIL is looking to take advantage of the government’s thrust on Make in India by enhancing its existing manufacturing facility at Dahej. In the first phase, IIL will spend Rs 30 crs for expanding the present plant for forward integration.

In the second phase, IIL has planned a capex of Rs 100 crs for setting up Unit 2 at Dahej to increase the production capacity, as it envisages higher demand once the government puts restriction on imports

IIL is also looking at the exports market as it sees huge potential in this segment. Currently, exports stand at Rs 36-40 crs and the the IIL management is confident of increasing exports to around Rs 100 crs by next year, as global innovators are looking at new partners outside China due to stringent environmental regulations and rising costs.

Large Off patent opportunity of $ 4.10 bn for IIL –

Agrochemicals worth $ 4.1 bn are expected to go off-patent by 2020. Globally, percentage share of generic products have increased from 33% in 2000 to 52% in 2013. The patented products share has reduced from 30% to 22% in the same period while the rest (26%) is constituted by proprietary off-patent products.This provides a 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 the domestic and export markets.

MNCs are also looking to forge alliances with Indian companies as India provides adequate IP protection, huge untapped market and low cost manufacturing. Hence a large off patent opportunity is a key trigger for IIL which proposes in developing new reverse engineering products every year.

The long term outlook for the domestic agro chemical business also remains strong due to the following factors –

a) Increased government focus towards rural India

India's Prime Minister has targeted to double farmer incomes by 2022 and sharply 24% increased (to Rs 1.8 trn) allocation to the rural, agriculture and allied sector in the FY18 budget. The Government of India has targeted increased spends on (a) Irrigation - capex spending up 25% in FY17 and 21% in FY18E and an increase in the fund for irrigation from Rs 200bn to Rs 400bn,

(b) Housing - PMAY targets to build over 5 million rural houses in FY18, almost 2x the run rate of 2-3 million annually and has increased the construction amount provided from Rs 70,000 to Rs 120,000 for the beneficiary household,

(c) Crop insurance – The government plans to expand crop coverage from 30% of gross cropped area in FY17 (25% in FY16) to 40% in FY18 and 50% in FY19. These will also help improve farm incomes.

Also increasing farmer awareness on use of pesticides should also benefit long term growth –

We note that farmers are increasingly becoming aware about the importance of using quality pesticides to improve yields. This is possibly due to increased farmer engagement programmes undertaken by organized players or through word of mouth.

A study conducted by the National Centre for Biotechnology Information says that the growth of weeds reduces yields by 35%-71%; as per FICCI, 25-50% of crop losses in India are due to insect attacks. Proper use of agrochemicals can help reduce losses due to weeds and pest attacks and help farmers improve yield. This would be particularly important in crops where margins are low (fruits/vegetables). Hence, this trend of increased farmer awareness would benefit Indian agrochemical companies.

Rising share of fungicides and herbicides in India to benefit IIL –

India has a tropical climate resulting in higher pest incidences. Therefore, insecticides form the largest segment of crop protection, market followed by fungicides and herbicides. However, the share of insecticides saw a marginal decline from 58%/55% in FY13/FY14 to 54% in FY17.

While insecticides are expected to continue to dominate the overall mix, the share of herbicides and fungicides could increase owing to rising labour costs, a shift in agriculture from cash crops to fruits and vegetables and government support for fruit and vegetable exports. This we believe would benefit IIL significantly going forward.

Long term growth drivers for IIL look very well positioned –

IIL currently is pre dominantly a domestic generics player with 90% revenues coming in from the domestic markets, however the IIL management is looking at improving exports in a big way via the following strategy which includes 1. It plans to focus on select high growth emerging markets for branded formulations and technicals 2. Dahej facility is close to the port and is well suited to cater to the export markets. 3. Surplus capacity has been set up and is available to cater to any export demand going ahead 4. Finally ILL plans to leverage its R & D capabilities and manufacturing base for tapping a large CRAMS opportunity in future.

The IIL-OAT JV which has set up a R&D centre at Chopanki in Rajasthan is one of its kind in India and this is the first time that OAT has set up this kind of facility outside Japan. Though commercializing a molecule takes time, IIL will immensely benefit from the partnership as new molecules will enhance its product portfolio quality. We hence believe that the possible opportunity from a newly developed patented molecule can be huge for IIL.

IIL has three strategic partnerships (1. AMVAC, US, 2. Nissan, Japan and 3. Nihon Nohyaku, Japan) and one R&D JV (OAT Agrio, Japan) with global agrochemical players for licensing, marketing, and distribution of their products in India. IIL is confident of launching 2 new products per annum. Given its strong distribution network of 3000 distributors and 60,000 retail touch points and 500+ sales team, IIL is confident of scaling up in-licensing arrangements with innovators and steadily improve its margins over the next 2 years.

As stated earlier IIL is currently in the transition phase from where it plans to transform into an innovator-cum-generic player with a blend of expertise in generics and focus on inventing new products in partnership with OAT. IIL has already done backward integration by manufacturing technical products which are captively consumed by its formulation division, but it is likely to have much high level of profitability that will be driven by patent protection for invented products, integration benefits from captive manufacturing of technicals & benefits from large scale operations.

IIL has been gradually reducing its dependence on pure generics business to branded formulations business which now accounts for 70% of its revenues.

IIL's Navratna' range of branded formulations, includes products like 'Lethal', 'Victor', 'Thimet', 'Hakama', 'Pulsor', 'Monocil', 'Hijack', 'Xplode' and 'Nuvan' which are all well-recognized in the agrochemical industry, particularly in the insecticides and herbicides segments. Further, 'Pulsor', is the market leader and the only product available in its product category

Going ahead IIL plans to focus on high margin specialty products and IIL's continued thrust towards Technical collaborations with leading global agrochemical players have partially started bearing fruits. With American Vanguard Corporation (AMVAC), IIL has signed a technical collaboration agreement to manufacture and market its products- like Thimetand Nuvan in India. Both these products today are amongst the most successful products under the 'Tractor' brand of IIL.

IIL has invested Rs 2 bn in enhancing capacity to set up its Dahej plant. The Dahej plant has a capacity of 10000 MTS of technicals, 40 lakhs ltrs of EC, 2500 MTS of WDP and 12000 MTS of Granules.

IIL is capitalizing on its strong association with global MNCs and is in talks with Nissan and Otsuka for launching five more in-licensing products. Tie-ups present a win-win-win situation for global companies, IIL and the farmers. Global players, many of whom do not have a proper distribution set up (differentiating factor to succeed) in India, benefit from tie-ups as they get readily available market whereas IIL and farmers will benefit from launch of new product and access to quality product respectively.

Hence in conclusion IIL aims to become a dominant branded agro formulations player operating in the higer value added space catering to both the domestic markets and select export markets over the next 2-3 years. We believe that IIL with its umbrella of offerings and wide spread marketing network, is ideally placed to garner a sizeable pie of this market opportunity

Solid financial performance - topline growth and margin expansion –

We estimate IIL's earnings to witness a CAGR of 27-28% plus over FY17-20E.

Over the years, the company has improved its operational performance significantly with its operating margins having remained in a range between 9 to 10% since last 2 years. Also it has been able to increase the return on equity to over 13% and a ROCE of 12% as on FY17. Also, considering that IIL is largely a domestic player, the net leverage at 0.47:1x as on FY17 seems reasonable.

In the first phase, IIL will spend Rs 30 crs for expanding the present plant for forward integration.

In the second phase, IIL has planned a capex of Rs 100 crs for setting up Unit 2 at Dahej to increase the production capacity, as it envisages higher demand once the government puts restriction on imports. Going ahead ramp up of the Dahej facility, expanding the speciality product portfolio, new registrations and backward integration is likely to support strong earnings growth ahead.

In fact we expect that by FY20E we expect the ROE to touch 20% from 12-13% currently while ROCE is also expected to increase to 18% from 12% in FY17.

The big money for generic agrochemical players like IIL will come from new molecules development over the next 2-3 years where we believe IIL has a strong edge here considering its future product pipeline and strong research skills via its JVs with MNC players and hence we believe that the future big picture over the next 2-3 years for IIL looks very strong.

Peer Comparison

Company	Market Cap	FY17A	FY18E	FY19E	FY20E
	Rs	P/E	P/E	P/E	P/E
IIL	1682 crs	28	21	15	12
Rallis India	4668 crs	25	25	21	18
PI Ind	13224 crs	28	38	28	25
Dhanuka Agritech	3449 crs	29	28	25	21
Bayer Crop	13691 crs	49	40	36	28
UPL	37092 crs	20	18	17	14
Sharda Cropchem	4333 crs	23	22	19	17
Average		29	25	22	19

Source – Annual Reports, our estimates

DU PONT Analysis –

DuPont Analysis	FY2016	FY2017	FY2018E	FY2019E	FY20E
Return on Equity %	9.68	13.34	15.86	19.46	20.42
Return on Assets %	10.99	12.98	16.93	18.16	18.87
Financial Leverage	0.44	0.47	0.42	0.35	0.30
Operating Return on Sales %	9.31	10.36	13.00	13.50	13.80
Asset Turnover	4.00	4.56	4.92	5.05	4.72

Source – Annual Reports, Our Estimates

During the last two years between FY16 to 2017, we see an increase in ROA. This is a key positive for IIL. The other two key drivers of ROA which are ROE and financial leverage have also fared well in this 2 year period, and between operating return on sales and ATO, which are the two drivers of ROA, we see that ROS is driving ROA. This implies the company is generating strong revenue growth due to profitability

Further, going ahead we expect economies of scale will kick in as new products & services are added and transaction volumes increase over the next 2 to 3 years.

Going ahead we expect IIL to benefit from high operating leverage and sustainable EBITDA margins of around 13 to 14% which will lead to higher ROCE in coming years. Hence on the ROA side we see with better asset utilisation, lower capex needs which will enable a ROA to cross 18% by FY20E which is another key positive and a strong financial indicator for IIL.

Strong Board Team

- Mr. Hari Chand Aggarwal, aged 66 years, is the Chairman and a wholetime Director of IIL. He has been a Director on our Board since 2001. He has over 40 years of work experience in the agrochemical industry
- Mr. Rajesh Aggarwal, aged 44 years, is the Managing Director of IIL. He holds a bachelor's degree in commerce from the University of Delhi. He has over 22 years of experience in the agrochemical industry
- Mrs. Nikunj Aggarwal, aged 42 years, is a wholetime Director of IIL. She holds a bachelor's degree in commerce from the University of Delhi. She has over two years of experience in the field of agrochemical industry.
- Mr. Virjesh Kumar Gupta, aged 68 years, is an independent Director of IIL. He holds a bachelor's degree in commerce (honours) from the University of Delhi. He has over 35 years of cumulative experience as a consultant in the field of food grains and retail sales of electrical goods.
- Mr. Navin Shah, aged 72 years, is an independent Director of IIL. He has over 40 years of experience in the field of manufacturing PVC compounds and plastics

Strong Management Team

Mr. Sandeep Agarwal, CFO - Chief financial officer, holds a bachelor's degree in Commerce from Punjab University, Chandigarh and is an associate member of the ICAI. He has over 22 years of experience in the field of agrochemicals. Prior to joining our Company in November, 2011, he has worked with Mangal Finance Limited and as a consultant with Hindustan Pullvering Mills Limited.

Mr. P C Pabbi, Vice President

Mr. P C Pabbi, Vice president is one of the key people which were instrumental since the inception of the company, and looks after the corporate affairs with the marketing of the western India. With his more than 30 years of the experience in the industry, and understanding the agro chemical business makes him one of the key member of the top management.

Mr. Sanjay Vats, General Manager (North)

Mr. Sanjay Vats is the General Manager at Insecticides (India) Limited (IIL), ambitious and determined, he joined IIL in 2003 and today he holds a key leadership position and is pivotal part of the top management of the company. His core area of operation has been marketing, new product development and regulatory affairs. He is responsible for new product identification & development and its registration as per the regulatory norms. Flair in Marketing, a handsome experience in selling and working in all parts of the country makes him perfect for the marketing role, he also takes care of the marketing in north India.

Sanjay Vats is a graduate of Agriculture Hons. from Punjab Agriculture University, Ludhiana.

Earlier work Experience:

- Worked as Area Officer in Coromandal Indac
- Worked as Regional Manager in Nocil Limited, where he was responsible for formulation, institutional sales and urban pest control in east and north India markets.

Mr. V K Garg, General Manager

With an experience of more than 25 years in the agro chemical industry, Mr V K Garg is a marketing veteran who has a rich and vibrant understanding of the field.

A legal expert, an academic and a marketing guru all rolled into one, Mr Garg is a man of multifarious skills and knowledge. As Insecticides (India) Limited's GM Marketing for southern India, he is in charge of designing the company's marketing strategies in the south where he is deeply linked with the industry and its trends.

He also works closely with the Association of Pesticide Manufacturers of Andhra Pradesh (APMA) and is currently holding the post of its Vice President. As an industry body, APMA works to promote safe and judicious use of pesticides among farmers in the state.

A Commerce Graduate from Maharishi Dayanand University, Mr Garg also holds an L.L.B Degree from Delhi University. He also gives lectures as a visiting Guest Lecturer for some educational institutions.

Mr. M K Singhal, General Manager

Mr. M. K. Singhal is the General Manager (Marketing) of Insecticides (India) Limited (IIL), a veteran in the agriculture and affiliated sectors; Mr. Singhal has contributed immensely during his 14 years stint in fine and heavy chemicals and over 22 years association with agro-chemical industry.

With a total experience spanning over three decades, M. K. Singhal has been associated with IIL since inception of the company in the year 2001. A post graduate in MBA in marketing, M. K. Singhal joined IIL as marketing manager.

His knowledge and experience in the agriculture domain helped him expand the sales and marketing of the company in India. Ambitious and determined, Mr. Singhal has been looking after the business in maximum states in IIL like Uttar Pradesh, Uttranchal, Bihar, Nepal, Jharkhand, West Bengal, Orrisa, Assam, Chattisgarh and north eastern states.

Mr. Sanjeev Aggarwal, General Manager – Operations

With more than 15 years of unwavering association with Insecticides (India) Limited (IIL) since its inception, Sanjeev Aggarwal, at IIL has established a name for himself in the Indian entrepreneurial arena.

A long association with IIL put together with hard work and passion for innovation and competitiveness, Sanjeev Aggarwal is heading the operations and the IT wing. As the IT Head has taken IIL to newer heights. With his futuristic approach, IIL today works on best ERP platforms i.e. SAP, for managing its resources of the enterprise. His vision resides in empowering the company for all future endeavors so that IIL always walks ahead in times with equipped technology and manpower.

As the operations head, he has made sure that operations become one of the core strength of the company with quality compliant production.

Mr. Shrikant Satwe - Head International Business

Mr. Shrikant Satwe has more than 25 years of Experience for Indian & International Market with expertise in Sales, Marketing, Business Development & Regulatory function for Agrochemicals, Veterinary and Public Health & Material Protection.

PROFESSIONAL EXPERIENCE

Working with Insecticides India Limited since December'2014 as Head – International Business

Worked at Hikal Limited, as Head Marketing 2006 to 2014

Worked at Indofil Chemicals Company as Strategic Business Unit

Employee Strength

1) R& D Team

Total No. of Scientists: 50

Senior scientists: 35
Junior Scientists (at least PhD): 15

2) Total Employees in the company: 1430

On Roll Employees: 1030
On Contract Employees: 400

What is IIL's key USP and competitive edge –

In summary IIL has some key competitive advantages which stand out.

Firstly IIL has gradually transformed itself by gradually reducing its dependence on pure generics business to branded formulations business which now accounts for over 70% of its revenues

Secondly IIL is rightly positioned to benefit significantly as it plans to focus on high margin specialty products and via its continued thrust towards technical collaborations with leading global agrochemical players have partially started bearing fruits. With American Vanguard Corporation (AMVAC), IIL has signed a technical collaboration agreement to manufacture and market its products- like Thimetand Nuvan in India. Both these products today are amongst the most successful products under the 'Tractor' brand of IIL.

The IIL-OAT JV which has set up a R&D centre at Chopanki in Rajasthan is one of its kind in India and this is the first time that OAT has set up this kind of facility outside Japan. Though commercialising a molecule takes time, IIL will immensely benefit from the partnership as new molecules will enhance its product portfolio quality. We hence believe that the possible opportunity from a newly developed patented molecule can be huge for IIL and is likely to be reflected in numbers in the next 2-3 years.

Given its strong distribution network of 3000 distributors and 60,000 retail touch points and 500+ sales team, IIL is confident of scaling up in-licensing arrangements with innovators.

In fact IIL has effectively created a business with strong entry barriers considering the fact that over 70% of the Indian population lives in villages, India cannot grow in long term, without rural development and IIL with a rich product basket, research domain expertise looks well positioned to capture a large market audience

Business Outlook & Stock Valuation –

On a rough cut basis, in FY18, Topline is expected to touch Rs 1280 crs.

On the bottomline level we expect the company to record a PAT of Rs 80 crs in FY18E. Thus on a conservative basis, IIL should record a EPS of Rs 38.72 for FY18E. For FY19E and FY20E our expectation is that earnings traction for IIL would continue to be robust wherein we expect a EPS of Rs 55 and Rs 68 respectively.

IIL's agrochemical formulations have a strong brand presence in India. IIL's focus on quality, product range and pricing has enabled us to develop strong brand recognition and customer loyalty in these markets. IIL's umbrella brand for marketing and branding purposes, 'Tractor' enjoys a strong brand recall and enables it to introduce new products, through brand extensions.

IIL's Navratna' range of branded formulations, includes products like 'Lethal', 'Victor', 'Thimet', 'Hakama', 'Pulsor', 'Monocil', 'Hijack', 'Xplode' and 'Nuvan' which are all well-recognized in the agrochemical industry, particularly in the insecticides and herbicides segments.

IIL is also looking at phased capex plan wherein in the first phase, IIL will spend Rs 30 crs for expanding the present plant for forward integration. In the second phase, IIL has planned a capex of Rs 100 crs for setting up Unit 2 at Dahej to increase the production capacity, as it envisages higher demand once the government puts restriction on imports

IIL is also looking at the exports market as it sees huge potential in this segment. Currently, exports stand at Rs 36-40 crs and the the IIL management is confident of increasing exports to around Rs 100 crs by next year, as global innovators are looking at new partners outside China due to stringent environmental regulations and rising costs.

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Hence we believe that by FY20E we expect the ROE to touch 20% from 12-13% currently while ROCE is also expected to increase to 18% from 13% in FY17.

Also the Government of India has targeted increased spends on (a) Irrigation - capex spending up 25% in FY17 and 21% in FY18E and an increase in the fund for irrigation from Rs 200bn to Rs 400bn. The government also plans to expand crop coverage from 30% of gross cropped area in FY17 (25% in FY16) to 40% in FY18 and 50% in FY19. These will also help improve farm incomes and eventually result in improved offtake of agri inputs over the medium to long term.

We hence believe that the IIL stock is strong proxy for India's rural growth story and considering IIL's strong distribution network of 3000 distributors and 60,000 retail touch points and 500+ sales team, we remain confident that IIL will significantly scale up in-licensing arrangements with innovators and steadily improve its margins over the next 2 years

We believe that valuations for IIL look attractive looking at IIL's strong business model, excellent revenue visibility and a huge untapped potential yet to be realised via its new marketing tie ups signed up recently backed by strong earnings growth momentum which is a big positive. The IIL stock trades at a discount of 35 - 40% to other comparable players like Dhanuka and PI Industries and the broad Agro chemical sector which we believe would narrow down going ahead

Hence we believe that the IIL stock should be purchased for a price target of around Rs 1180 from the current price levels.

FINANCIALS

For the Year Ended March RsCrs	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	988.1	1107.38	1280.2	1465.7	1700.21
EBIDTA	91.97	114.73	166.43	197.87	234.63
EBIDTA %	9.31	10.36	13.00	13.50	13.80
Interest	25.94	18.59	18.1	20.1	21.1
Depreciation	16.45	16.45	18.00	23.00	25.1
Non Operational Other Income	0.75	0.74	0.75	0.75	0.75
Profit Before Tax	50.34	80.43	131.08	155.52	189.18
Profit After Tax	39.58	58.38	80.00	114.1	141.1
Diluted EPS (Rs)	19.16	28.26	38.72	55.23	68.30
Equity Capital	20.66	20.66	20.66	20.66	20.66
Reserves	387.87	446.25	521.25	610.00	730.00
Borrowings	180.59	221.59	231.5	225.00	230.00
GrossBlock	247.00	243.00	260.00	290.00	360.00
Investments	3.13	3.13	3.13	3.13	3.13

Source Company our Estimates

KEY CONCERNS

Monsoon dependent agriculture

Indian farmer is mainly dependent up on the monsoon for total area under cultivation, choice of crop and therefore use of agrochemicals, hence increase the risk of crop protection industry.

Currency Risk

IIL currently imports 27% of total raw material consumed, with a hedging policy of 25% of exposure. Any further depreciation in the Ruppee can affect the profit margins adversely.

Investment Risk

IIL has invested Rs 40 crs in the R&D centre (under JV with OAT Agri, Japan) and the management expects to bring out five molecules in the next two-three years. Any delay in rolling out the new products may increase the investment risk for IIL

JOINDRE CAPITAL SERVICES LTD.

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