Insecticides (India) Ltd.

EQUITY REPORT

Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

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Established in 2001, Insecticides (India) Ltd (IIL) is a public limited company engaged in the manufacturing of pesticide formulations for crop protection as well as technical up-gradation of products. IIL has an extensive portfolio of 15 technical and 120 products constituting of insecticides, herbicides, fungicides and Plant Growth Regulators (PGRs) among others. The company deploys five state-of-the-arts ultra-modern production facilities with world class automated machineries for the formulation and technical synthesis of agro chemicals. Its formulation plants are situated at Chopanki (Rajasthan), Udhampur (J&K), Samba (J&K) and Dahej (Gujarat), while the technical synthesis plants are situated at Chopanki (Rajasthan) and Dahej (Gujarat). It has its presence throughout the country with North and South being the primary markets.

Investor's Rationale

Robust performance supported by encouraging response from its new products - IIL is the country's leading agro chemicals manufacturing company, registered a 22.7% increase in net profit for quarter ended June 30, 2014 to ₹174.0 million from ₹141.7 million over the same quarter last year on rise in net sales. The company's net sales rose to ₹2,523.9 million in the quarter from ₹1,976.3 million in the corresponding quarter last year, registering a 27.7% growth supported by strong product mix and favorable market conditions. Moreover, this growth was partially led by encouraging response to a series of new products launched by the company. We believe that the company's focus on high margin products and expectation of improving capacity utilization at Dahej facility from current 35% to 75% in next two years will further boost the company's financial performance in FY16E.

Existing & new product launches to drive revenue growth for the company - IIL has been successful in tripling its market share in the pesticide industry from 2.4% in FY10 to 6.7% in FY14 amidst intensifying competition. The company's products Hakama, Pulsor and Nuvan, which were launched during FY13, have received a good response and are expected to gain traction in the coming years as well. Further, in order to enhance its product portfolio, the company recently launched two new products Xplode and Logo, during current fiscal. We expect the company's existing products and new launches in the pipeline to drive revenue growth going ahead.

Revenue to grow at a CAGR of ~32.5% over FY14-16E - Going forward, we expect IIL's revenues to grow at a CAGR of 32.5% over FY14-16E period on account of traction from new product launches and expected improvement in utilisation. IIL has a strong order book of ₹39 billion, equivalent to nearly four years of revenues. The company expects further improvement in order bookings in FY15, which would drive revenue growth in FY16.

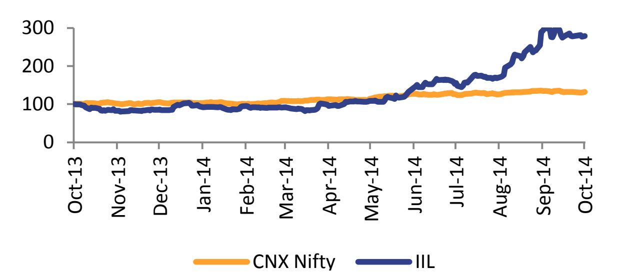
Market Data

Rating	**BUY**
CMP (₹)	791.6
Target (₹)	**940**
Potential Upside	~18.7%
Duration	Long Term
Face Value (₹)	10.0
52 week H/L (₹)	832.0/200.0
Adj. all time High (₹)	832.0
Decline from 52WH (%)	4.9
Rise from 52WL (%)	295.8
Beta	1.7
Mkt. Cap (₹bn)	10.0
Enterprise Value (₹bn)	12,376.0

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	6.2	8.6	11.7	15.2
EBITDA (₹bn)	0.7	0.8	1.2	1.7
Net Profit (₹bn)	0.4	0.4	0.7	1.1
EPS (₹)	27.8	31.5	55.3	86.5
P/E (x)	28.4	25.1	14.3	9.1
P/BV (x)	4.7	4.1	3.2	2.7
EV/EBITDA (x)	17.3	15.1	10.3	7.4
ROCE (%)	24.7	25.6	31.8	39.1
ROE (%)	16.6	16.2	22.3	29.1

One year Price Chart



Shareholding Pattern	Jun'14	Mar'14	Diff.
Promoters	74.69	74.69	-
FII	3.15	1.20	1.95
DII	5.32	5.33	(0.01)
Others	16.84	18.78	(1.94)

IIL, India's leading agrochemical manufacturer

IIL is engaged in the manufacturing of pesticide formulations for crop protection as well as technical up-gradation of products

Established in 2001, Insecticides (India) Ltd (IIL) is a public limited company engaged in the manufacturing of pesticide formulations for crop protection as well as technical up-gradation of products. IIL has an extensive portfolio of 15 technical products and 120 products including insecticides, herbicides, fungicides and Plant Growth Regulators (PGRs) among others. The company has four formulation plants in Chopanki (Rajasthan), Udhampur (J&K), Samba (J&K) and Dahej (Gujarat). It has two technical synthesis plants at Chopanki (Rajasthan) and Dahej (Gujarat). It has its presence throughout the country with North and South regions being the primary markets.

The company has a pan-India presence through its extensive network of over 4,800 distributors and more than 60,000 dealers across the country.

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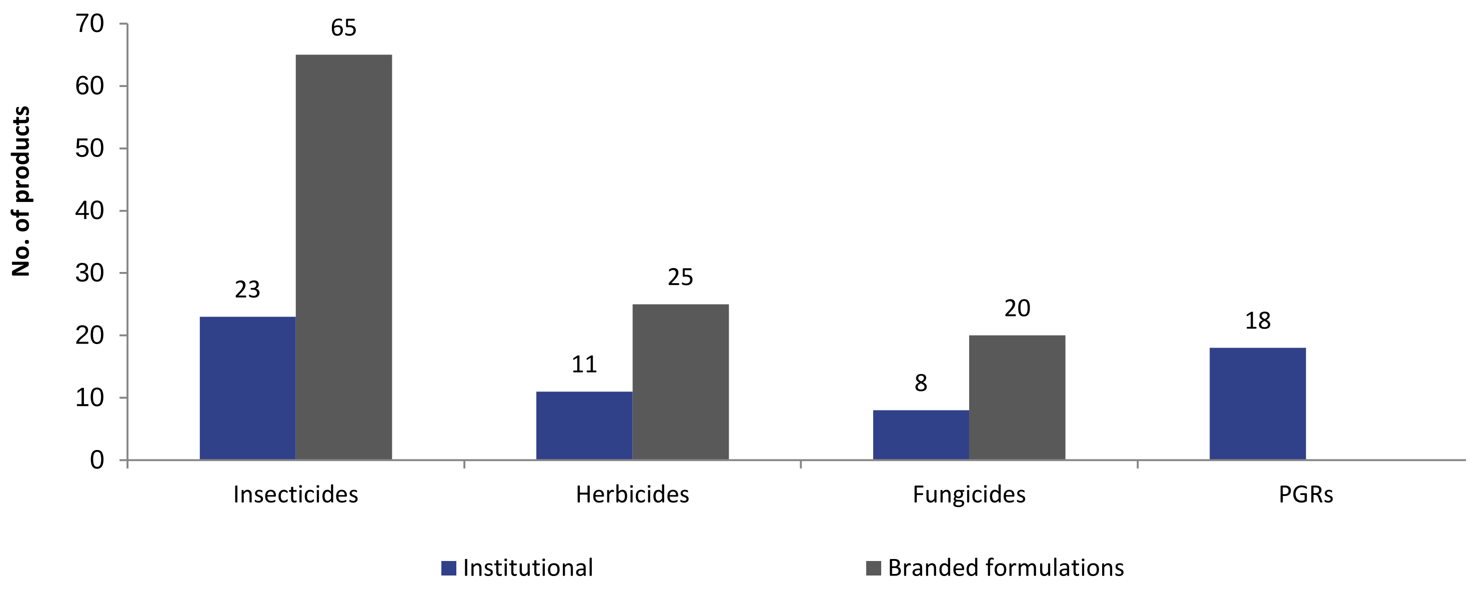
The company follows a two-fold strategy of bringing the best of products to its customers:-

Through backward integration: IIL manufactures off-patented technical products, providing economies of backward integration to its formulated products, which is in tandem to provide opportunity created by patent expiry. This also ensures that the company becomes self-reliant and progresses towards the production of more such advanced products.

Through brand strategy: The company also follows the strategy of bringing in the brands and products through acquisition, collaboration, and tie-ups.

Large portfolio across multiple segments



Improved Q1FY15 and FY14 performance

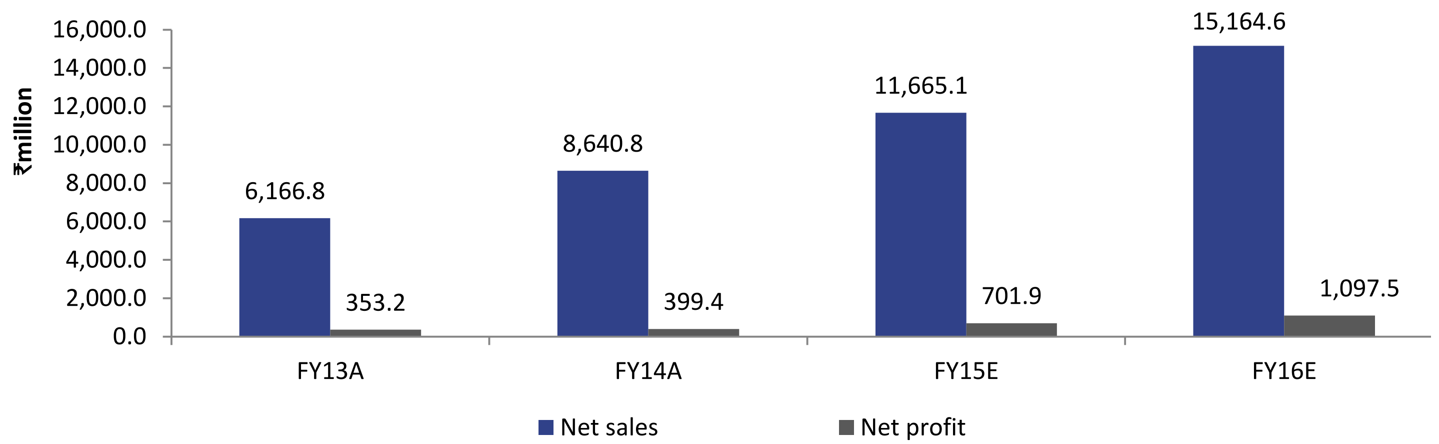
The company registered a growth of 40.1% YoY in its revenues, primarily on account of 66% and 23% revenue contribution from its insecticides and herbicides products, respectively

During FY14, IIL recorded 40.1% YoY revenue growth to ₹8,640.8 million mainly on account of 66% and 23% revenue contribution from its insecticides and herbicides products, respectively. With an increased focus on field/market development, selling costs of the company increased by 36% over last year. As a % of net sales, the company's operating expenses rose to 90.5% in FY14 from 88.8% in FY13.

During FY14, the company maintained its employee benefit expenses almost at the same level at 3% of sales compared to 4% of sales last year. On account of additional working capital requirements, the company's finance cost surged 55% YoY to ₹269 million in FY14. On the back of strong product portfolio, the company has earned a net profit of ₹399.4 million as compared to ₹353.2 million in FY13, which is a clear indication of the progress the company has been embarked upon.

In Q1FY15, IIL performance also remains robust with the net sales growing sharply by 28%YoY to ₹1,352.4 million. In line with this, EBITDA also grew significantly by 27% YoY in Q1FY15. As a result, the net profit grew by 23% YoY to ₹174.0 million in Q1FY15, driven by better operational performance. ***We believe that the company's focus on high margin products and expectation of improving capacity utilization at Dahej facility from the current 35% to 75% in next two years will further boost the company's financial performance in FY16E.***

Revenue and net profit to grow at a CAGR of 20.6% and 40% over FY14-16E, respectively



Focus on export market to further enhance revenue visibility

The company is scouting for export markets in Japan, Europe and the US.

IIL is focusing on select high growth emerging and developed markets for Branded Formulations/ Technical products. The company is scouting for export markets in Japan, Europe and the US. The latest manufacturing facility i.e. Dahej is close to the port. Therefore, it is best suited to cater to the export market demand. Thus, we believe that entry in to export market is expected to increase its geographical presence, which in turn result in to higher revenue visibility.

IIL's collaborations & tie up to bring more advanced products

Over the years, the company has evolved itself through backward and forward integration to manufacture the products at its own threshold with the right expertise, knowledge and infrastructure. With a continuous focus on developing premium international products, IIL readied itself to enter the prospective third party manufacturing business. To this effect, there has been a concerted focus on technological advancements with continuous investments in

The company has been one of the pioneers in bringing in the international technology to the Indian soil through its international tie-ups and agreements.

R&D. The company continued to focus on the strategy of bringing cost-effective technologically advanced products to Indian threshold. The opportunity remains attractive due to the presence of MNCs in India who have the technical know-how and capability to develop new molecules. The Indian players being cost-effective and technically skilled are better equipped to work on contract manufacturing than to add resources on discovering a new molecule. Under this strategy, IIL entered into international collaborations and marketing tie-ups with MNC to bring in latest products at the service of its customers.

The company has been one of the pioneers in bringing in the international technology to the Indian soil through its international tie-ups and agreements. The company made a technical collaboration with American Vanguard Corporation (AMVAC), USA for manufacturing and marketing the leading international brands Thimet and Nuvan in India. The company further tied-up with the Japanese major, Nissan Industries to market the patented product Pulsor & Hakama. In 2013, the company entered into a Joint venture (JV) with a Japanese company OAT Agrico (Formarly Otsuka AgriTechno Co. Ltd) to set up a new R&D company and centre at Chopanki in Rajasthan. OAT would provide the technology and know-how of the research and invention methods.

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

NISSAN CHEMICAL INDUSTRIES, LTD.

AMVAC

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

OAT Agrio Co., Ltd.

The JV would mainly focus on research and invention of new agricultural chemicals besides managing intellectual property for the products invented in the Research Centre.

Enhanced R&D focus and recently expanded manufacturing capacity to fuel its future growth

With four state-of-the-art formulation facilities, IIL is spearheading to become one of the largest formulation capacities in the industry. IIL is equipped with capacity for CRAMs and Contract Manufacturing and is looking for more such suitable opportunities to grow and enhance its market viability. At present, the company has the capacity to produce 59250 MTs of formulation products and 11800 MTs of technical products. The company started operating its Dahej facility, with improved capacity utilisations of 35%. IIL expects that the capacity utilisation from the Dahej unit will reach at ~75% in the next two years.

IIL is planning to launch four new products — two herbicides and two insecticides by the end of FY15. The company's ₹500 million-worth research and development (R&D) centre in

Rajasthan, set up as a joint venture (JV) with Otsuka AgriTechno Company Limited of Japan, has also begun to develop 5-10 products and will start filing for patents from 2014. It might, however, take another 3-4 years for commercialisation of these products.

The patent expiry of several agro chemical products in the next 4-5 years is likely to provide an opportunity of ~ USD 3 billion market for generic players worldwide by 2019 as per a FICCI report. With an eye to tap the opportunity, IIL was continuously investing in R&D. In the next five years, the company is planning to invest an additional ₹500 million in the JV with the Japanese company. The company has filed for eight process patents for its own products, out of which the company has received confirmation for one recently.

Strong Product Portfolio

The wide basket of products with various applications not only ensures risk diversification but also provides a complete one-stop-shop solution to the farmers.

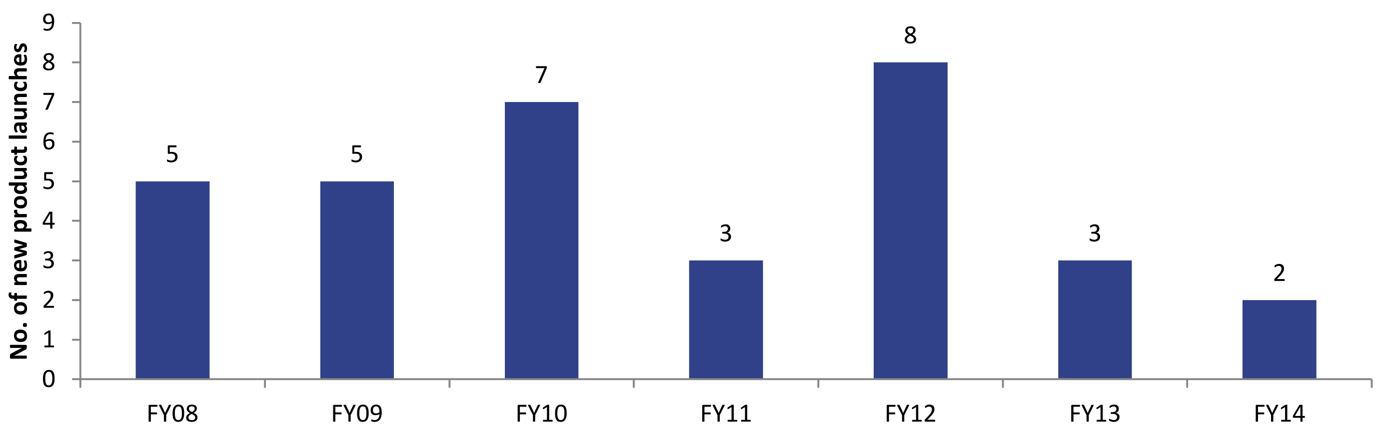
IIL's product portfolio comprises of over 120 branded products, 10 technical and 750 SKUs. Over time, IIL has strongly built its product portfolio to include products including insecticides (which accounted for ~66% of revenues in FY14), fungicides, herbicides and household pesticides. The rice crop insecticides contributed ~40% of revenues; cotton, wheat and other vegetable crops account for the rest. The wide basket of products with various applications not only ensures risk diversification but also provides a complete one-stop-shop solution to the farmers. This enables IIL to easily push its products in the small retail farm outlets, in contrast to an MNC player who will be able to provide the retailer only few crop-specific usage pesticides.

Strengthening focus on high margin products and strong brand equity to aid profitability

IIL specifically scouts for opportunities to launch products in markets where MNC's product is expected to go off-patent, resulting in a supply gap in that market.

IIL has been active in launching its own products and positioning them as quality value-for-money brands. Some of its leading power brands are Lethal, Victor, Thimet, Hakama, Pulsor, Monocil, Hijack, Xplode and Nuvan. IIL specifically scouts for opportunities to launch products in markets where MNC's product is expected to go off-patent, resulting in a supply gap in that market. During FY14, the company added another feather to its cap by introducing two new products Xplode and Logo.

New product launch trend



We believe that the company's ability to launch new products on a sustained basis, acquire off-shelf brands and turn them around through aggressive marketing strategies have been the key for IIL in establishing its position in the pesticide industry.

Notwithstanding the slowdown, the company continued on its growth path through more and more technological advancements and continued focus on R&D. The company's JV, signed last year with OAT Agrio Co. Ltd., Japan, is now ready with the R&D Centre and is in the process of developing a product on a full-fledged basis. The company's international products Hakama, Pulsor and Nuvan, have received positive response from the farmer community. Currently, IIL is equipped with 2 technical synthesis plants with multi-purpose streams where 15 different types of technical products can be produced, this is one of the largest in the country. We believe that the company's ability to launch new products on a sustained basis, acquire off-shelf brands and turn them around through aggressive marketing strategies have been the key for IIL in establishing its position in the pesticide industry.

Indian Agro chemical industry to provide huge opportunity

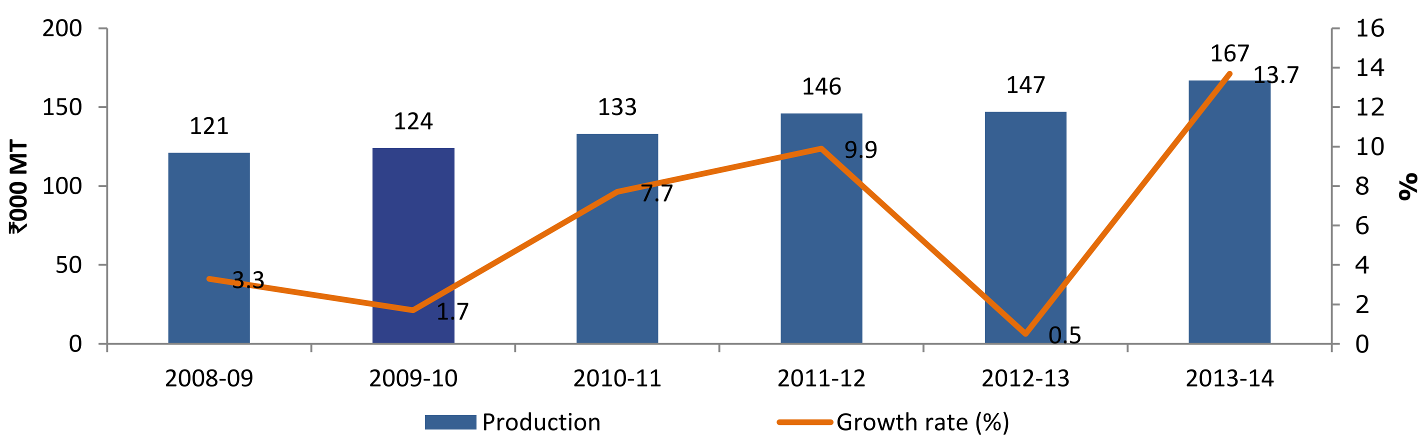
Indian Agro-chemical industry is one of the major facilitator of the agricultural sector. It was estimated at USD 4.25 billion in FY14 of which 50% were exports. The crop protection industry has experienced strong growth in the past and is expected to grow further at 12-13% per annum to reach USD 7.5 billion by FY18-19. The industry is dominated by insecticides which contribute to 60% of the overall demand, followed by fungicides and herbicides products which account for 18% and 16% of the demand respectively.

The growth of agrochemical industry is directly proportional to the growth of the agriculture sector. The farmers, in order to protect their crop, required agro-chemicals to enhance productivity.

The pesticide industry has played a pivotal role in increasing the agricultural production by improving the productivity of Indian farmers. The use of Agro-chemicals not only reduces crop loss but also provides an indirect insurance cover to the farmer by protecting his investment in seeds, fertilizers, irrigation, and labour from ravages of insects, pests, and weeds.

The growth of agrochemical industry is directly proportional to the growth of the agriculture sector. In order to protect the crop, the farmer requires agro-chemicals to enhance productivity. With the agricultural growth of 4.6% in FY14 as compared to 1.9% growth in FY13, the Indian agriculture sector is on the growth path with a comparatively better-off state compared to the overall economy. During the budget 2014-15, the government set the target of ₹8,000 billion for agriculture credit, with an expectation to achieve a sustainable agriculture growth of ~4% in 2014-15. Thus, we believe that the higher growth in agriculture sector would encourage farmers to boost their agricultural production, which in turn would provide huge opportunity for the agro chemicals producers to capitalize on.

Production growth trend of Indian Agro-chemical industry



Balance Sheet (Standalone)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	126.8	126.8	126.8	126.8
Reserve and surplus	1,995.4	2,338.7	3,025.6	3,649.3
Net Worth	**2,122.2**	**2,465.6**	**3,152.4**	**3,776.1**
Loans	300.8	302.1	305.1	308.1
Other long term liability	48.4	42.9	44.1	47.5
Long-term provisions	5.7	3.3	3.3	3.3
Deferred tax Liability	101.8	132.7	132.7	132.7
Current Liability	3,742.5	4,967.3	5,366.9	5,780.8
Total Liabilities	**6,321.4**	**7,913.7**	**9,004.5**	**10,048.5**
Fixed assets	1,852.2	2,242.7	2,428.3	2,476.9
Investments	-	110.9	121.9	134.1
Loans & adv	56.0	47.4	52.2	57.4
other asset	47.4	62.7	62.7	62.7
Current Assets	4,365.9	5,450.0	6,339.3	7,317.3
Total Assets	**6,321.4**	**7,913.7**	**9,004.5**	**10,048.5**

Profit & Loss Account (Standalone)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Revenue	**6,166.8**	**8,640.8**	**11,665.1**	**15,164.6**
Expenses	5,473.7	7,823.2	10,440.3	13,420.7
EBITDA	**693.1**	**817.7**	**1,224.8**	**1,743.9**
Other Income	2.1	4.5	4.8	4.9
Depreciation	57.6	66.6	73.2	80.5
EBIT	**637.5**	**755.6**	**1,156.4**	**1,668.3**
Interest	173.5	269.1	301.4	331.6
Profit Before Tax	**464.0**	**486.5**	**855.0**	**1,336.8**
Tax	110.8	87.1	153.0	239.3
Net Profit	**353.2**	**399.4**	**701.9**	**1,097.5**

Key Ratios (Standalone)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	11.2	9.5	10.5	11.5
EBIT Margin (%)	10.3	8.7	9.9	11.0
NPM (%)	5.7	4.6	6.0	7.2
ROCE (%)	24.7	25.6	31.8	39.1
ROE (%)	16.6	16.2	22.3	29.1
EPS (₹)	27.8	31.5	55.3	86.5
P/E (x)	28.4	25.1	14.3	9.1
BVPS (₹)	167.3	194.4	248.6	297.7
P/BVPS (x)	4.7	4.1	3.2	2.7
EV/Net sales (x)	1.9	1.4	1.1	0.8
EV/EBITDA (x)	17.3	15.1	10.3	7.4

Valuation and view

IIL continued to deliver strong performance in Q1FY15 on account of an increased contribution from high- margin products and improvement in utilisation at the company's Dahej facility. As per the management, the facility will break even in Q2FY15. The improvement in the utilisation levels at the facility is expected to push up margins.

The company is focusing on bringing cost-effective technologically advanced products to India by introducing patented new products through tie-ups & new discoveries through newly formed JV. Thus, we believe that on the back of utilisation scale-up from Dahej facility, broadening of sales in speciality segment, new product launches and RoCE expansion, the stock should provide attractive valuation.

Considering the above aspects, we rate the stock as 'BUY' at a CMP of ₹791.6, attractively placed at P/E of ~14.3x and ~9.1x, for FY15E and FY16E, respectively to arrive at a target price of ₹940, with a potential upside of ~18.7% for the coming 12 months.

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