

# Insecticides (India) Ltd

Raising long-term growth estimates

Fundamental Grade 3/5 (Good fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Chemicals

We recently met the management of Insecticides (India) Ltd (Insecticides). The company has commissioned new manufacturing facilities in Udhampur (Jammu & Kashmir) and Dahej (Gujarat) in Q1FY12. While the Udhampur plant will be used entirely for formulations, the Dahej plant will be used to manufacture technicals and formulations. The management expects capacity utilisation in both plants to ramp up and full benefits of the expanded capacity will be available from FY13. Going forward, the company has also indicated that it will pursue technical as well as contract manufacturing tie-ups with multinational chemical companies. Therefore, coupled with a strong dealer/distributor network, comprising over 5,500 distributors and over 50,000 dealers spread across the country, we expect growth momentum to continue over the longer term. Consequently, we have raised our top line and earnings growth estimates beyond FY13. We maintain the fundamental grade of **3/5**.

## Insecticides has grown faster than the industry

While the domestic pesticides industry has grown at a 15.4% CAGR over FY07-10, Insecticides posted revenue CAGR of 31% in the same period. The company has launched new products on a sustained basis, acquired off-shelf brands and turned them around through aggressive marketing strategies. These strategies have aided the growth of the company in the past.

## Pressure to increase farm output is positive for pesticides players

Rising population, coupled with declining growth in crop production, is expected to provide a continued thrust on arresting crop losses and, therefore, on increasing use of pesticides. Increase in prices of farm produce has kept agri inputs affordable for farmers. We believe that the domestic pesticide industry will grow by at least 12-15% per annum until 2015.

## Revising long-term earnings estimates upwards

We have revised our long-term revenues and earnings estimates upwards. We have now assumed 13% revenue CAGR over FY14-21 compared to 5% earlier. We have lowered our EPS estimates for FY12 and FY13 to Rs 34.0 and Rs 47.7, respectively, primarily due to assumption of slightly higher effective tax rate in FY12 and FY13 and higher interest and depreciation costs in FY13.

## Valuations: Current market price is aligned

We continue to use the discounted cash flow method to value Insecticides. Based on our revised financial projections, the revised fair value is Rs 385 per share (Rs 338 earlier). Consequently, the valuation grade is **3/5**.

## KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,634	3,775	4,501	5,839	8,246
EBITDA	281	340	438	620	901
Adj PAT	208	282	323	432	605
Adj EPS-Rs	16.4	22.3	25.5	34.0	47.7
EPS growth (%)	45.3	35.7	14.4	33.7	40.1
Dividend yield (%)	0.5	0.5	0.6	0.7	1.0
RoCE (%)	26.3	25.7	25.3	27.4	29.2
RoE (%)	23.6	25.7	23.6	25.4	28.1
PE (x)	24.2	17.8	15.6	11.7	8.3
P/BV (x)	5.2	4.1	3.3	2.7	2.1
EV/EBITDA (x)	17.7	15.0	12.3	9.1	6.5

NM: Not meaningful; CMP: Current market price

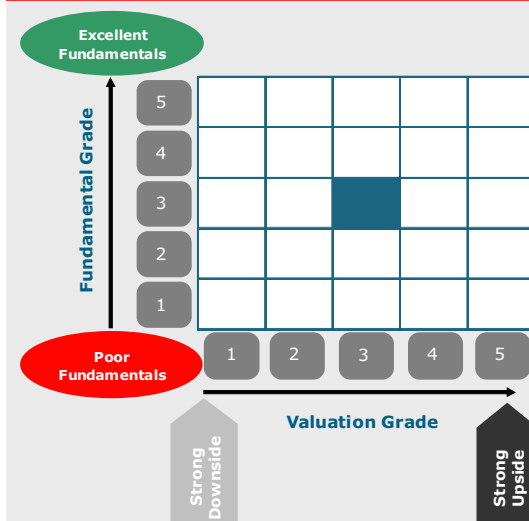
Source: Company, CRISIL Research estimate

December 19, 2011

Fair Value Rs 385

CMP Rs 397

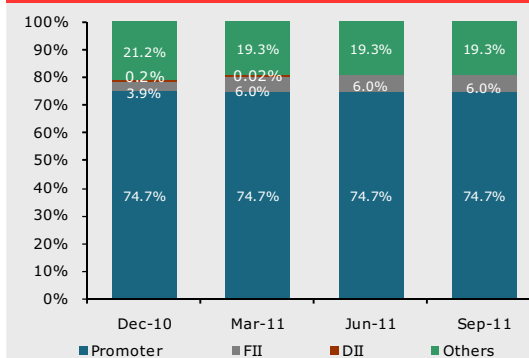
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY / SENSEX	4652/15491
NSE / BSE ticker	INSECTICID
Face value (Rs per share)	10
Shares outstanding (mn)	12.7
Market cap (Rs mn)/(US\$ mn)	5,031/99
Enterprise value (Rs mn)/(US\$ mn)	5,619/110
52-week range (Rs) (H/L)	432/209
Beta	1.1
Free float (%)	25.3
Avg daily volumes (30-days)	118,815
Avg daily value (30-days) (Rs mn)	47.4

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INSECTICIDES	-3%	8%	17%	86%
NIFTY	-8%	-9%	-14%	-22%

## ANALYTICAL CONTACT

Chetan Majithia (Head) [chetanmajithia@crsil.com](mailto:chetanmajithia@crsil.com)

Anant Damani [adamani@crsil.com](mailto:adamani@crsil.com)

Suresh Guruprasad [sguruprasad@crsil.com](mailto:sguruprasad@crsil.com)

## Client servicing desk

+91 22 3342 3561

[clientservicing@crsil.com](mailto:clientservicing@crsil.com)