

Insecticides (India) Ltd

Volume-driven growth

Fundamental Grade **3/5 (Good fundamentals)**
Valuation Grade **2/5 (CMP has downside)**

Industry **Chemicals**

Insecticides (India) Ltd's (Insecticides') Q2FY12 revenues were below CRISIL Research's expectations. While revenues grew by 27% y-o-y led by good volume offtake in the beginning of Q2, the company could not sustain the momentum during the latter half of the kharif season. We believe that capacity utilisation, especially in the newly commissioned plants (Udhampur and Dahej), will improve substantially in FY13. Hence, we largely maintain FY13 estimates but lower FY12 estimates. We maintain our fundamental grade of **3/5**.

Q2FY12 result analysis

- Revenue grew by 27% y-o-y (72% q-o-q) to Rs 2,097 mn. Revenue from the formulations business grew by 33% while the technical segment's revenues declined by 22% (ex inter-segment sales) over Q2FY11 as the company used a higher proportion of technical grade pesticides in-house. Technicals business' revenue (including inter segment) grew by 82% y-o-y.
- EBITDA margin was 11.5%, similar to Q2FY11. In Q2, raw material costs as a percentage of sales increased by 145 bps, marginally impacted by increased raw material costs due to rupee depreciation. The company imports 20-30% of its raw material requirement. Increase in raw material costs was partially offset by lower other expenses as a percentage of sales.
- The company reported PAT of Rs 164 mn against Rs 129 mn in Q2FY11, up by 26.8% y-o-y. PAT margin remained flat at 7.8% compared to Q2FY11. Interest costs nearly doubled compared to Q2FY11 on account of higher working capital as well as debt taken for capacity expansion.
- Insecticides posted H1FY12 revenue of Rs 3,315 mn (26% y-o-y growth) against our FY12 estimate of Rs 6,768 bn. PAT margin increased marginally by 42 bps to 7.7% over H1FY11.

Key development

- In October 2011, the government announced a 15-38% hike in MSP for rabi crops, including wheat and pulses. We expect this to have a positive impact on the agri input sector as it will increase the ability of pesticide producers to pass on the hike in raw material costs.

Valuations: Current market price has downside

We continue to use the discounted cash flow method to value Insecticides and maintain the fair value of Rs 338 per share. Based on the current market price, we assign a valuation grade of **2/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	2,634	3,775	4,501	5,840	8,242
EBITDA	281	340	438	618	890
Adj PAT	208	282	323	452	651
Adj EPS-Rs	16.4	22.3	25.5	35.6	51.3
EPS growth (%)	45.3	35.7	14.4	39.8	44.1
Dividend yield (%)	0.6	0.6	0.7	0.7	1.1
RoCE (%)	26.3	25.7	25.3	26.6	29.9
RoE (%)	23.6	25.7	23.6	26.5	29.7
PE (x)	25.4	18.7	16.3	11.7	8.1
P/BV (x)	5.4	4.3	3.5	2.8	2.1
EV/EBITDA (x)	18.5	15.7	12.8	9.6	6.6

Source: Company, CRISIL Research estimate

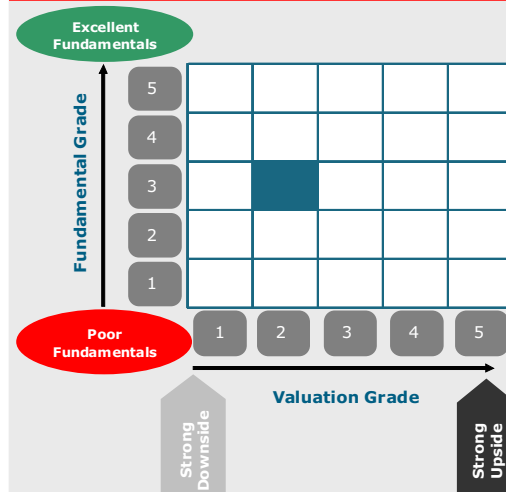


November 29, 2011

Fair Value **Rs 338**

CMP **Rs 416**

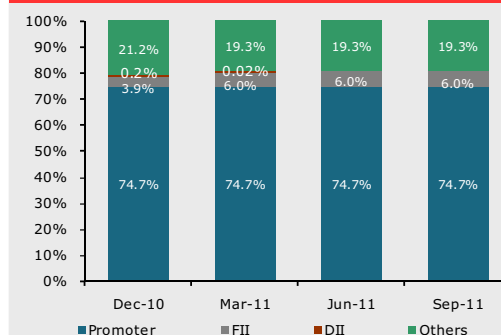
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	4851/16167
NSE / BSE ticker	INSECTICID
Face value (Rs per share)	10
Shares outstanding (mn)	12.7
Market cap (Rs mn)/(US\$ mn)	5,277/106
Enterprise value (Rs mn)/(US\$ mn)	5,924/118
52-week range (Rs) (H/L)	432/207
Beta	1.1
Free float (%)	25.3
Avg daily volumes (30-days)	102,609
Avg daily value (30-days) (Rs mn)	40.2

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INSECTICIDES	12%	16%	34%	100%
NIFTY	-10%	2%	-11%	-16%

ANALYTICAL CONTACT

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