

# Insecticides (India) Ltd

## Q2FY12 first cut – Revenues below expectations

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 key agricultural states in India received good monsoon overall during Q2FY12, the erratic nature of rainfall (deficient in July, above normal in September) impacted the sowing of crops such as cotton and pulses. Also, excess rainfall in September and delayed departure of monsoon led to reduced fungal disease occurrence and pest attack in key crops such as paddy as well as lower incidence of weeds, further impacting pesticides volumes. Consequently, Insecticides saw good demand in the beginning of the quarter, but could not sustain the momentum. We may revise our earnings estimates downwards post detailed interaction with the management. We maintain our fundamental grade of **3/5**.

### Q2FY12 result analysis

- Insecticides' Q2FY12 revenues grew by 27% y-o-y to Rs 2,097 mn. Revenues from the formulations business grew by 33% while the technical segment's revenues declined by 22% (excluding inter-segment sales) over Q2FY11 as the company used higher proportion technical grade pesticides in-house. Revenue from the technicals business has grown by 82% y-o-y.
- EBITDA margin was 11.5%, similar to the Q2FY11 number. During the quarter, raw material costs as a percentage of sales increased marginally by 145 bps. This 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.
- Insecticides posted H1FY12 revenue of Rs 3,315 mn (26% y-o-y growth) against our full-year FY12 estimate of Rs 6,768 bn. PAT margin increased marginally by 42 bps to 7.7% over H1FY11.

### Valuation: 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	6,768	8,441
EBITDA	281	340	438	685	906
Adj PAT	208	282	323	501	664
Adj EPS-Rs	16.4	22.3	25.5	39.5	52.4
EPS growth (%)	45.3	35.7	14.4	55.1	32.6
Dividend yield (%)	6.9	1.9	1.0	0.8	1.1
RoCE (%)	26.3	25.7	25.3	28.8	29.6
RoE (%)	23.6	25.7	23.6	29.0	29.6
PE (x)	2.1	5.5	11.8	10.7	8.1
P/BV (x)	0.4	1.3	2.5	2.8	2.1
EV/EBITDA (x)	1.3	4.8	9.5	9.0	6.6

NM: Not meaningful; CMP: Current market price

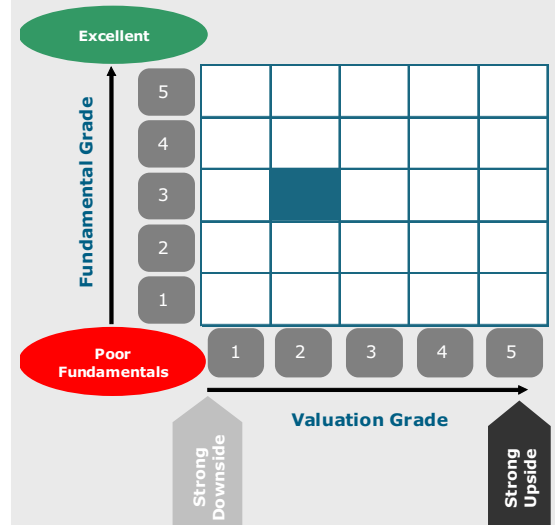
Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value **Rs 338**

CMP **Rs 424**

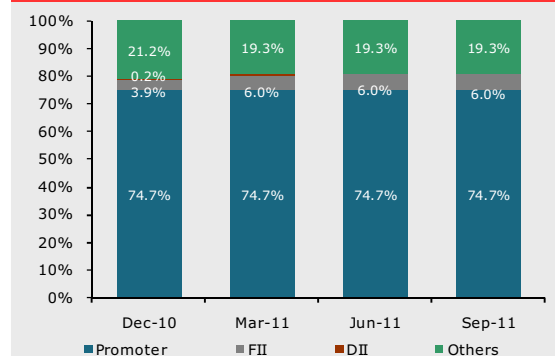
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5148/17119
NSE / BSE ticker	INSECTICID
Face value (Rs per share)	10
Shares outstanding (mn)	12.7
Market cap (Rs mn)/(US\$ mn)	5,378/110
Enterprise value (Rs mn)/(US\$ mn)	6,130/125
52-week range (Rs) (H/L)	431/207
Beta	1.1
Free float (%)	25.3%
Avg daily volumes (30-days)	90,109
Avg daily value (30-days) (Rs mn)	35.4

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INSECTICIDES	15%	18%	44%	80%
NIFTY	0%	1%	-7%	-15%

### ANALYTICAL CONTACT

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