Batlivala & Karani

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INITIATING COVERAGE

SMALL CAP

Share Data

Market Cap.	RS 9.2bn (US$ 144 mn)
Price	Rs 484
Target Price	Rs 700
BSE Sensex	26,425
Reuters	ISIL.BO
Bloomberg	INST IN
6M avg. daily turnover (US$ mn)	0.4
52-week High/Low (Rs)	594/396
Issued Shares	19 mn

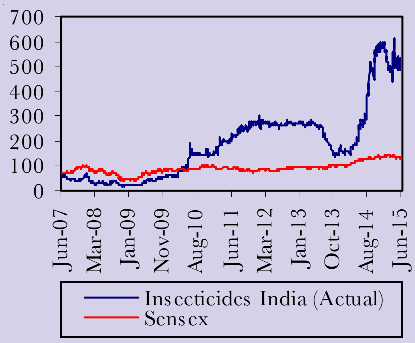
Valuation Ratios

Yr to 31 Mar	FY15	FY16E	FY17E
EPS (Rs)	28.8	37.2	52.7
+/- (%)	37.2	29.2	41.4
PER (x)	15.9	13.0	9.2
PBV (x)	3.0	2.6	2.0
Dividend/Yield (%)	0.5	0.6	0.7
EV/Sales (x)	1.2	1.0	0.9
EV/EBITDA (x)	10.4	8.7	6.7

Shareholding Pattern (%)

Promoters	75
FIIs	4
MFs	1
BFSI's	5
Public & Others	15

Relative Performance



Insecticides India (BUY)

15 June 2015

Capex phase over; earnings growth to follow

Incorporated in 1996, Insecticides India Ltd. (IIL) is in the business of manufacturing of off-patent formulation and technicals. It has developed an integrated business model with captive consumption of technicals providing backward integration to formulation. IIL has an extensive portfolio of >120 products and boasts of a pan-India presence through its network of over 5,000 distributors, 60,000 dealers and 29 depots. Formulations contributed 83% to revenues while technicals sold outside contributed 17% to revenues in FY15.

Year to March	FY14	FY15	FY16E	FY17E	CAGR (%)
P&L data (Rs mn)					**FY15-17E**
Revenue	8,641	9,642	11,544	13,680	19.1
EBITDA	818	1,111	1,397	1,748	25.4
Adjusted net profit	399	549	709	1,002	35.1
Margin (%)					
EBITDA	9.5	11.5	12.1	12.8	NA
Adjusted net profit	4.6	5.7	6.1	7.3	NA
Balance sheet (Rs mn)					
Total assets	7,914	9,208	10,177	11,195	NA
Shareholders' funds	2,466	2,926	3,568	4,497	NA
Per share data (Rs)					
EPS	21.0	28.8	37.2	52.7	35.1
CEPS	24.5	36.3	45.5	61.6	30.2
Returns (%)					
RoCE	16.2	17.5	19.4	22.4	13.3
RoE	17.4	20.3	21.8	24.8	10.5

- Over the last three years, IIL has incurred capex of ~Rs 2 bn to expand its capacities at Dahej. Dahej is likely to boost IIL's manufacturing capabilities towards high value technicals and help IIL vertically integrate its existing brand formulations on some technicals. IIL has also secured 4 new registrations approval over FY14 and FY15 – imazethapyr, diafenthiuron, bifenthrin and buprofezin – which provide significant scale-up opportunities.
- On formulations side, introduction of off patented products through reverse engineering, label extensions, ramp-up in specialty molecules portfolio and focus on developing Navratna and Super-11 category are likely to result in sustained growth over FY15-17.
- We initiate coverage on IIL with a Buy rating and a target price of Rs 700 based on 13xFY17E earnings. We have modelled for topline/bottomline CAGR of 19%/35% CAGR over FY15-17E. With capex phase now over, we expect RoE/RoCEs to improve by 450/500 bps, respectively, to 24.8%/22.4% in FY17E. IIL is currently trading at ~40% discount to domestic peers. We expect valuation gap to narrow down going forward.

Balwindar Singh
balwindar.singh@bksec.com
+91-22-4031 7180

Sukhwinder Singh
sukhwinder.singh@bksec.com
+91-22-4031 7154

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Investment arguments

IIL is well poised to capitalise on the growth opportunities through expansion in domestic market (branded formulations, Dahej ramp-up, and expansion of specialty portfolio) and entry into exports market.

Branded formulations growth strategy revolves around the following:

- **Introduction of off-patented products through new registrations:** IIL has embarked on a strategy of continuously launching new products through reverse engineering of molecules. Over the last five years, IIL has cumulatively launched 16 molecules (incl. specialty molecules) which have helped to sustain growth momentum. Going forward, it plans to continuously launch few molecules every year.

Launch of products by IIL (FY08-15)

Year of launch	No. of products	Product name
FY08	5	NA
FY09	5	NA
FY10	7	NA
FY11	3	NA
FY12	8	Pulsor
FY13	3	Hakama, Nuvan
FY14	2	Xplode, Logo
FY15	0	NA

- **Expand current brands through label extensions:** Apart from new launches, IIL has also identified its own existing molecules which have strong brand recall. Through this strategy, IIL leverages on the brand recall of its molecules and creates new opportunities across different crops. IIL owns umbrella brand 'Tractor Brand', which is well recognised in farming community. IIL has extended its major brands – Lethal and Victor in this manner. Lethal and Victor both feature in IIL's top molecules portfolio "Navratna".

Key brands and its extensions are as:

Lethal: Lethal super, Lethal Super 550, Lethal advance, Lethal TC, Lethal 50TC, Lethal RTU and Lethal DP.

Victor: Victor super, Victor plus.

- **Launch of molecules through international collaboration:** Initially, IIL was present primarily into generics and was doing reasonably well through its strategy of acquiring established brands and re-launching it. However, management realised that though this strategy was working in generating topline growth, however margins remained a laggard due to portfolio being a generic one. Hence, in order to boost its margin profile, IIL entered into in-licencing of innovative molecules with the launch of Thimet in collaboration with AMVAC in FY07. Relationship with AMVAC also led to launch of Nuvan in FY13. Meanwhile, IIL also got two new products – Hakama and Pulsor from Nissan Chemicals, Japan in FY13. IIL has also entered into a joint venture with Otsuka Agritech to develop new molecules and established a new R&D centre in Chopanki, Rajasthan. IIL holds ~30% voting right in the venture and expects to invent 4-5 new molecules in the next five years.

Tie-up with AMVAC: IIL has a technology tie-up with US-based company AMVAC – American Vanguard Corporation. AMVAC is a diversified specialty and agricultural product company which focuses on crop protection, turf and ornamental markets and public health applications.

Tie-up with Nissan Chemicals: IIL has an exclusive marketing tie-up with Japan-based Nissan Chemicals. Nissan is a chemical manufacturing company engaged in business segments of industrial chemicals, agri chemicals, fertilisers and medicinal drug business.

Molecules sourced through international collaborations

Brands	Category	Technical name	Partner	Since	Nature of agreement	Crops	FY15 sales (Rs mn)	% of domestic formulation sales
Thimet	Insecticide	Phorate 10% CG	AMVAC, USA	2006	IIL is responsible for manufacturing, marketing and distribution of Thimet in India, Largest product for IIL	–	774	10.7
Nuvan	Insecticide	Dichlorvos 76% EC	AMVAC, USA	2011	IIL is responsible for manufacturing, marketing and distribution of Nuvan in India	Various crops	602	8.3
Hakama	Herbicide	Quizalofop-ethyl 5% EC	Nissan chemicals	2012	Marketing of their popular weedicide product under the brand name HAKAMA in India	Soyabean, cotton, groundnut, blackgram, onion, jute	281	3.9
Pulsor	Fungicide	Thifluzamide 24% SC	Nissan chemicals	2012	IIL has rights for marketing of Nissan's product – Pulsor in India	Rice	276	3.8

Thimet – Thimet is an insecticide launched in 2006 under a technical collaboration with AMVAC, USA. Technical for Thimet is now manufactured in-house by IIL. Product is manufactured and marketed exclusively by IIL in India.

Nuvan – Nuvan was launched in FY13 again under technical collaboration with AMVAC, USA. Technical for Nuvan is also now manufactured in-house by IIL.

Thimet and Nuvan in India are amongst the most successful products under the 'Tractor' brand of the company. Collectively, both contributed Rs 1.3 bn in FY15.

Hakama – Hakama has been sourced from Nissan and competes with Targa Super of Dhanuka Agritech.

Pulsor – Pulsor is a patented fungicide.

Hakama and Pulsor have also performed well. Collectively, both contributed to the tune of Rs 557 mn in FY15 and expected to grow at >20% YoY going forward.

Ramp-up in molecules sourced through international collaboration

(Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	898	1,585	1,933	2,320	2,784
% contribution to branded formulation revenues	17.4	23.0	26.7	27.7	29.3

- **Leverage strong distribution network**: IIL's integrated business model is well-complemented through a wide reach of over 60,000 dealers, 5,000+ distributors and 29 depots. Wide distribution network is extremely critical to achieve success in the domestic agrochemicals market and IIL's aggressive marketing strategies positions it amongst the top 6-8 domestic players by way of distribution reach.

  IIL also engages in significant on-the-ground farmer engagement activities. Last year, IIL started an initiative namely – Hamari Fasal Hamari Santaan – to recognise and assert the role of the farmers and the responsibility on their shoulders. This campaign will focus on training and development of the farmers in all parts of the country, updating them about the latest technologies, benefits of crop rotation like growing three crops in a year, income-benefits of cash crops, right use of agro chemicals, and latest in the industry.

  Insecticides is also actively involved with farmers through its activities like "Jagrukta Abhiyan" and "Doctor Dada" campaign, in disseminating knowledge on effective and efficient use of products which helps in having product acceptance of its products.

Distribution network

Source: Company, B&K Research

Evolving strategy – focus on Navratna/Super 11 products

IIL has changed its strategy from focussing on its whole portfolio to ~20-25 products. It has categorised its main brands under – 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 strategy to render disproportionate marketing investment/focus on these identified brands as the margins and growth trajectory is significantly better than the blended portfolio which is skewed towards generics. IIL's internal target is to achieve 50% and 25% of the total branded sales from Navratna and Super 11 portfolio of brands, respectively. In FY15, Navratna and Super 11 contributed 53% and 15% of the total branded sales.

Navratna portfolio

Brand name	Technical	Category	Crops	% contribution to formulation revenues in FY15
Monocil	Monocrotophos 36% SL	Insecticide	Wide range of crops	6.6
Victor	Imidacloprid 17.8% SL	Insecticide	Cotton, paddy, vegetables and sugarcane.	5.2
Lethal	Chlorpyriphos 20% EC	Insecticide	Wide range of food crops, oil seeds, pulses, fibre crops, plantation and fruit and vegetables.	7.1
Thimet	Phorate 10% CG	Insecticide	Wide range of crops	10.7
Nuvan	Dichlorvos 76% EC	Insecticide	Wide range of crops	8.3
Hakama	Quizalofop-ethyl 5% EC	Herbicide	Soyabean, groundnut, cotton and jute	3.9
Pulsor	Thifluzamide 24% SC	Fungicide	Rice	3.8
Hijack	Glyphosate 41% SL	Herbicide	Wide range of plants	4.4
Flite	Ammonium salt of glyphosate 71% SG	Herbicide	–	1.1
Pluto/Xplode	Emamectin benzoate 5% SG	Insecticide	Wide range of crops	2.1
Total contribution				**53.3**

Super 11 category

Brand name	Technical	Category	% contribution to formulation revenues in FY15
Logo/Gama	Diafenthiuron 50% WP	Insecticide	3.2
Selector/Select	Imazethapyr 10% SL	Herbicide	1.3
Metro	Lambda-cyhalothrin 4.9% CS	Insecticid	0.5
Indan	Cartap Hydrochloride 50% SP	Insecticide	2.8
Phentom	Buprofezin 25% SC	Insecticide	0.8
Super star	Bifenthrin 10% EC	Insecticide	1.3
Arrow	Thiamethoxam 25% WG	Insecticide	1.4
Sharp	Acetamiprid 20% SP	Insecticide	1.8
Streptomil	Streptomycin sulphate + Tetracycline hydrochloride 9:1 SP	Fungicide	0.4
Sargent	Fipronil 5% SC	Insecticide	1.2
Avon plus/Avone	Hexaconazole 5% SC	Fungicide	0.8
Total contribution			**15.3**

Details of key brands

Lethal

It is an insecticide and is used for the control of chewing and sucking insects on a wide range of food crops, oil seeds, pulses, fibre crops, plantation and fruit and vegetables.

Victor

It is an insecticide and is used to control sucking pest, hoppers and termites in cotton, paddy, vegetables and sugarcane.

Monocil

It is a systemic insecticide cum acaricide with contact and stomach action which controls broad spectrum of pests in a wide range of crops.

Hijack

It is a herbicide with a technical – glyphosate 41% SL. It is used to control weeds in utility rights – of-way, on roadsides, along railways, around sidewalks and gardens.

Flite

It is a herbicide based on technical – ammonium salt of glyphosate 71% SG.

Pluto

It is a broad spectrum insecticide to act on various pests in various crops. It is based on technical emamectin benzoate.

Xplode

It is a broad spectrum insecticide launched in FY14. It controls bollworms in gram, cotton, vegetables, pulses and help in increasing yields. It is based on technical emamectin benzoate 5% SG.

Diversified product basket helps to cater various crops and act as one-stop-shop

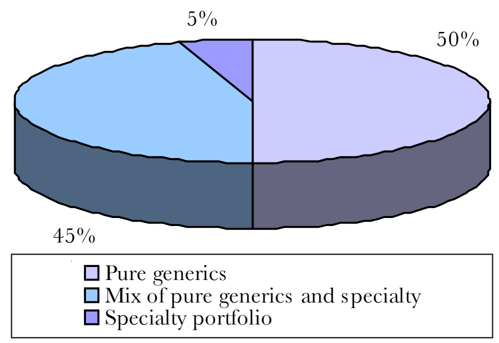
IIL boasts of a diversified product portfolio comprising >120 products spread across insecticides, herbicides, fungicides and plant growth regulators (PGR). Though insecticides contribute the largest chunk with 64% of revenues, the company has been trying to strengthen its herbicides portfolio whose current contribution is 23%. Fungicides account for 10% of revenues while the remaining 2% is contributed by PGRs.

IIL generates ~50% of revenues from pure generics, 45% of revenues from mix of pure generics and specialty products and 5% of revenues from specialty portfolio.

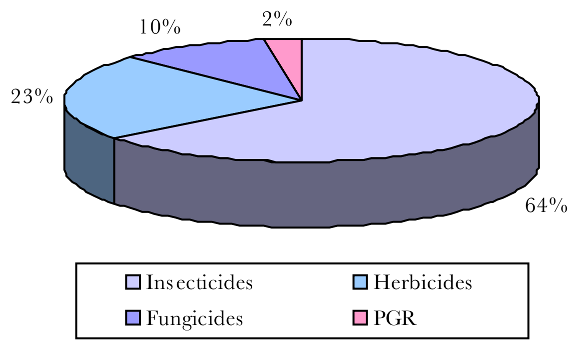
Margin profile of these categories are –

- **Pure generics** – commands EBITDA margin of 5-7% with >20 competitors.
- **Mix of pure generics and specialty –** commands EBITDA margin of 15-18%. Example of this category is Super 11 products.
- **Specialty products –** commands EBITDA margin of 30-35% after two years of launch.

Revenue mix by product type

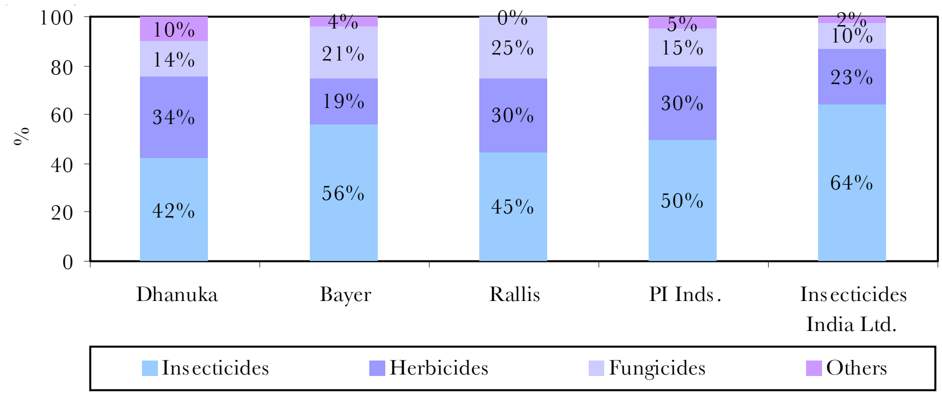


Revenue by category (FY15)



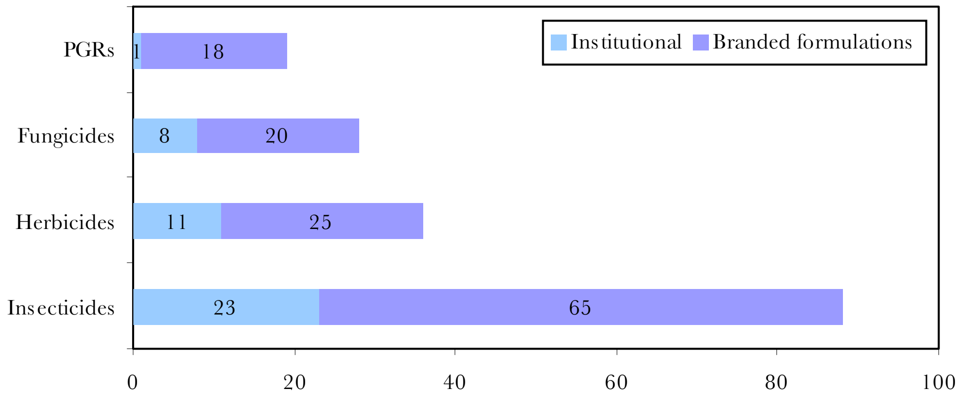
Source: Company, B&K Research

Comparison of IIL's revenue stream with peers



Source: Company, B&K Research

Large portfolio across multiple crops



Source: Company, B&K Research

Total registrations held by IIL: 348 (as at 31st December 2014)

Branded & bulk formulations	Technicals	
Manufacturing: 198	Manufacturing: 41	Additionally, 4 registrations for export, 12 registrations for formulations and 3 registrations for active ingredients are pending with the CIB.
Import : NA	Import :18	
Export : 49	Export : 42	

New product introductions help to sustain growth momentum

Since FY08, IIL has launched 33 products. Of the products launched recently, Pulsor, Hakama and Nuvan have received encouraging response from the market.

New product launches over the last few years

Year	Brand	Technical	Category	Generic/ Specialty	Tech. Partner
FY12	Pulsor	Thifluzamide 24% SC	Fungicide	Specialty	Nissan Chemicals
FY13	Hakama	Quizalofop-ethyl 5% EC	Herbicide	Specialty	Nissan Chemicals
FY13	Nuvan	Dichlorvos 76% EC	Insecticide	Specialty	AMVAC
FY14	Xplode	Emamectin benzoate 5% SG	Insecticide	Generic	–
	Logo	Diafenthiuron 50% WP	Insecticide	Generic	–

Below we highlight key product characteristics of new launches –

Pulsar

It is a patented fungicide launched in FY12 under a marketing arrangement with Nissan Chemicals. Pulsar contains thifluzamide and it checks the Rhizoctonia fungus, which causes fungal disease sheath blight in rice.

Hakama

It is a herbicide launched in FY13 under a marketing arrangement with Nissan Chemicals. It is used in major crops like soyabean, groundnut, cotton and jute to control narrow weeds. It is similar to Targa Super, Dhanuka's top grosser and competes with it.

Nuvan

It is an insecticide launched in FY13 under a technical arrangement with AMVAC. Product is manufactured and marketed by IIL. It is used in all major crops and is effective against aphids, spider mites, caterpillars, thrips, waterflies and mushroom flies.

Xplode

It is a broad spectrum insecticide launched in FY14. It controls bollworms in gram, cotton, vegetables, pulses and help in increasing yields.

Logo

It is a broad spectrum insecticide launched in FY14.

Mycoraja

It is a mycorrhiza-based nutrient mobilising bio-fertiliser launched in FY14. It functions through mycorrhiza – a fungus that stays put onto the plant roots and forms a symbolic relationship with them. It aids the plant towards better nutrient absorption and promotes resistance towards various diseases and infections thereby increase yields. It caters to major crops – wheat, cotton, pulses, oilseed, mustard and rapeseeds.

R&D joint venture with Otsuka to drive new molecule introductions over medium-long-term

IIL set up R&D centre at Chopanki (Rajasthan) in collaboration with Japanese company Otsuka AgriTechno (OAT) with an investment of Rs 400 mn (US$ 6.5 mn) in 2012. OAT provides the technology and research know-how and the joint venture mainly focuses on new agrochemicals. IIL will have the exclusive right to develop, productise and commercialise the new products in specified territories. Over the longer term, this will help in substituting low value products with high value products and thus leading to expansion in margins.

The joint venture has got approval for 1 product patent and has so far filed 8 process patents. Approved patent is for the preparation process of acetamiprid, an insecticide to control pests. In terms of pipeline, it has successfully identified more than 10 processes.

Backward integrated player; increasing expertise in chemistry to drive growth in technicals

IIL started manufacturing of technicals in 2007 and today boasts of two plants- Chopanki set up in FY08 and Dahej set up in FY13. Around 18 off patent technicals are being manufactured by IIL.

Insecticides – Lambdacyhalothrin, Fipronil, Imidacloprid, Thiamethoxam, Dichlorvos, Chlorpyriphos, Bifenthrin.

Herbicides – Glyphosate, Sulfosulfuron, Methsulfuron Methyl.

Fungicides – Thiophanate Methyl.

IIL's technicals segment is likely to witness strong growth momentum going forward driven by increase in number of registrations. IIL currently has ~41 approved technicals registration, 5-6 pending technicals registrations and 16 process patents (incl. 1 approved). Recently, IIL has also got registration approval for 4 technicals over the last two years – imazethapyr (herbicide), diafenthiuron (insecticide), bifenthrin (insecticide) and buprofezin (insecticide) – which would significantly enhance the scale up of technicals segment. Launch of these new technicals would also help IIL to move up the value chain as these are high-priced technicals.

IIL manufactures ~6-7 technicals at Chopanki while Dahej manufactures ~11-12 technicals.

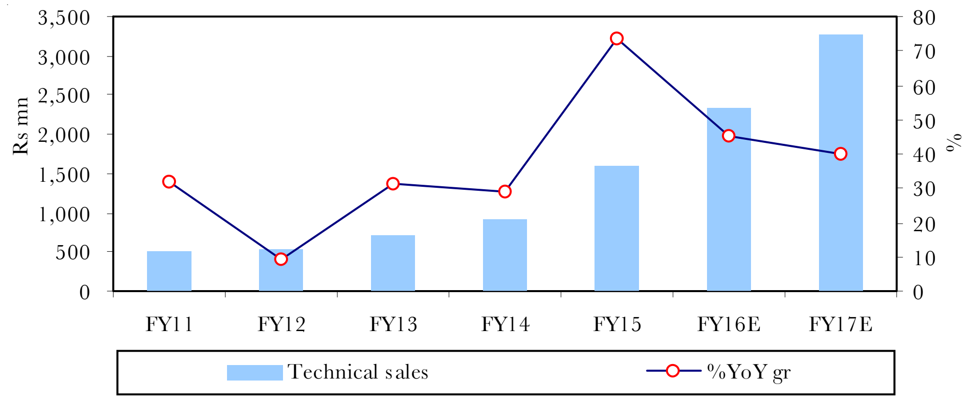
Dahej – key catalyst for next leg of earnings growth

IIL commercialised the formulation block in Dahej during 4QFY12 while the technical synthesis plant was operationalised in early FY14. Dahej facility is spread over >30 acres with total manufacturing capacity of 10,000 mtpa and has been set up at an investment cost of Rs 1.7 bn.

Dahej is likely to –

- Boost IIL's manufacturing capabilities towards high value technicals and help the company vertically integrate its existing brand formulations on some of the technicals. Dahej will incrementally add Diafenthuron and Monocrotophos to IIL's technicals portfolio.
- Capacity utilisation at Dahej is likely to improve going forward. FY15 capacity utilisation improved to 65% compared to 35% in FY14. In FY13/FY14, Dahej incurred EBITDA losses due to its under-utilisation, however, in FY15 Dahej reported improved performance. FY15 Dahej production stood at Rs 4.6 bn including Rs 1.7 bn of captive consumption. Dahej margins are currently in single digits but are expected to improve in FY16 and FY17.
- Dahej will help IIL to reduce outside dependence of technicals. Currently, of the total technicals raw materials cost, 1/3rd is manufactured in-house while 2/3rd is procured from outside. Going forward, with ramp-up in Dahej facility, IIL expects its in house technicals consumption to increase which will lead to improvement in margins.
- Apart from Dahej, IIL has an existing technicals plant at Chopanki in Rajasthan which was established in FY08. IIL's technicals revenues (sold outside) stood at Rs 1.6 bn in FY15. With ramp-up in Dahej, we expect IIL's technicals revenues (sold outside) to increase at a CAGR of 43% to Rs 3.3 bn by FY17E. Revenue contribution from technicals is likely to increase to 23.7% by FY17E compared to 16.6% in FY15.

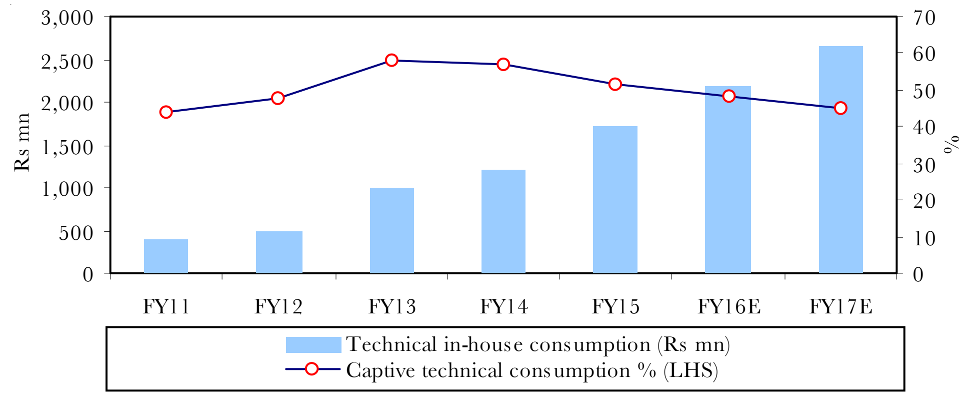
Technical revenues and growth % YoY from FY11-17E



Source: Company, B&K Research

- Of the total technicals being made by IIL currently, ~55% is consumed in-house. With ramp-up in Dahej facility, we expect in-house consumption as a % of total technicals to reduce while proportion of technicals sold outside to increase.

Captive consumption of Technicals



Source: Company, B&K Research

- Margins are also likely to improve going forward as IIL uses more of in-house technicals and reduces its dependence on outside raw materials. Further, augmentation of IIL's technicals capacities towards high-value items are likely to result in margin improvement.

Infrastructure in place; business has the potential to take-off over medium term

IIL currently is predominantly a domestic generics player with ~90% of the revenues coming in from domestic market. However, management is working on improving exports through the following strategies –

- It plans to focus on select high growth emerging markets for branded formulations/ technicals.
- Dahej facility is close to port and well-suited to cater to exports market.
- Surplus capacity has been set-up and is available to cater to any exports demand going forward.
- Leverage R&D capabilities and manufacturing base for CRAMS opportunity.

Investment concerns

- **Dependence on monsoons in domestic business:** Indian agriculture is still heavily dependent on monsoons. Consequently, agri-inputs consumption tends to get influenced due to weather patterns which impacts sowing. Poor/delayed/erratic rainfall can impact sowing patterns which in turn will put pressure on agri-inputs consumption and delay receivables cycle in the domestic market. IIL is predominantly a domestic agrochemicals player currently hence high exposure to domestic monsoons is a key risk.
- **Regulatory risks in domestic market:** Any rejection or delay in approval in registration process would impact launch of new products and thus revenue growth trajectory going forward.
- **Currency movement:** IIL imports ~30% of raw material hence remaining vulnerable to currency movements in short term. The company has a policy to hedge 25% at the time of buying the material.
- **Lower margins and higher working capital requirements**: Due to inherent characteristic of generics being more of push products rather than pull, IIL continues to have higher inventory and receivable days which puts pressure on working capital. Generic players don't enjoy any pricing power and thus lower gross/EBITDA margins.

Net working capital cycle

(Days)	FY11	FY12	FY13	FY14	FY15
Dhanuka Agritech	169	163	166	167	150
Bayer CropScience	76	82	87	77	88
Rallis India	23	31	45	40	71
PI Industries	107	106	84	65	77
UPL	113	134	105	101	103
Insecticides India	87	121	125	100	132

Business background

Insecticides India Ltd. (IIL) is in the business of manufacturing formulation and technical grade products. It was originally incorporated as Insecticides (India) Private Limited on 18th December 1996. Subsequently, it was converted into public limited company. It acquired brands from Montari Industries Ltd., a Ranbaxy group company in 2003.

Insecticides has four formulation plants in Chopanki (Rajasthan), Udhampur (J&K), Samba (J&K) and Dahej (Gujarat) and has two technical synthesis plants at Chopanki (Rajasthan) and Dahej (Gujarat). The R&D centre of the company is based out of Chopanki in Rajasthan. Currently, IIL has a capacity to produce 59,250 mts of formulations and 11,800 mts of technicals.

It has an extensive portfolio of >120 products constituting of insecticides, herbicides, fungicides and plant growth regulators (PGRs) among others and 15 technical products. It has a pan-India presence through its network of over 4,800 distributors, more than 60,000 dealers and 25 depots across the country.

Of the total revenue, 87% was contributed by formulations and 13% by technicals in FY15.

Details of facilities

Unit	Commenced operation	Investment (Rs mn)
Chopanki, Rajasthan (Unit I – Formulations)	FY02	286
Chopanki, Rajasthan (Unit II – Technicals)	FY08	125
Chopanki, Rajasthan (Unit III – Formulations)	FY15	NA
Samba, J&K (Formulations)	FY05	134
Udhampur, J&K (Formulation)	FY12	105
Dahej, Gujarat (Formulation)	FY12	555
Dahej, Gujarat (Technical synthesis)	FY13	1,200
R&D unit (OAT JV)	FY14	400

Management profile

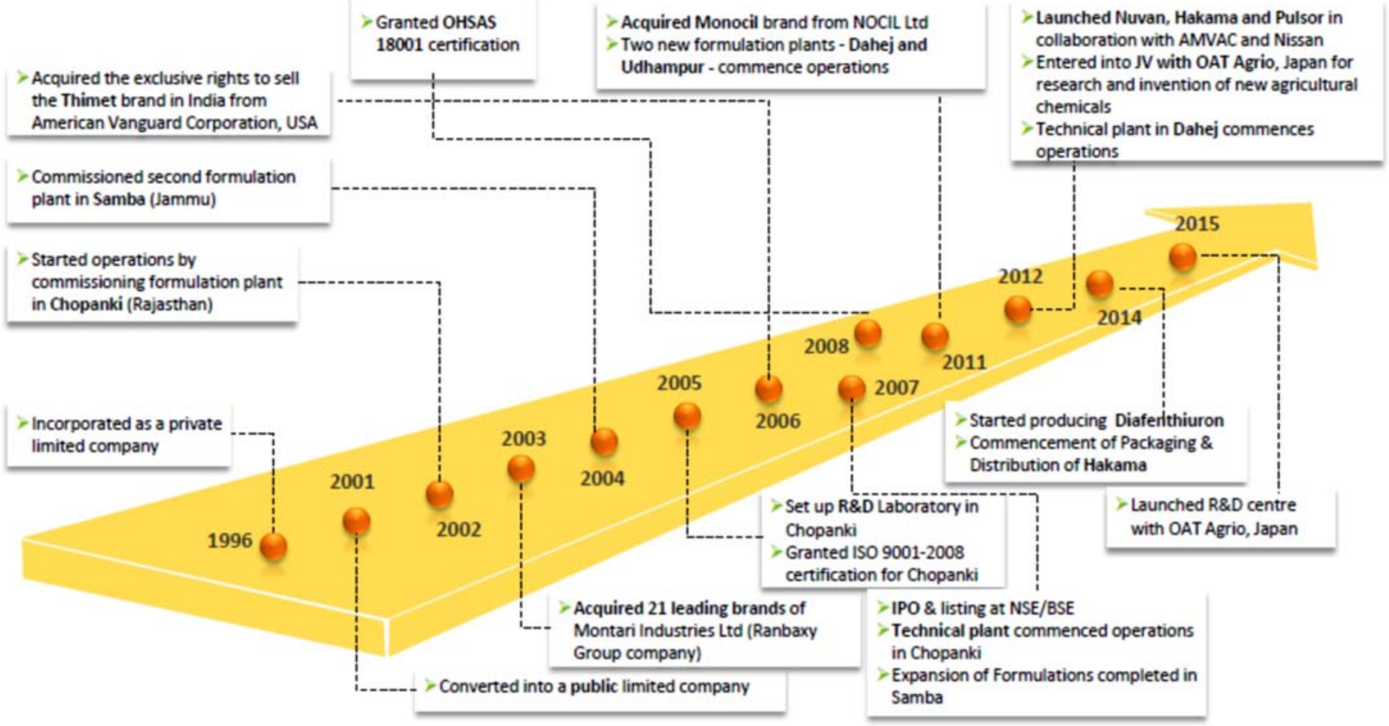
Mr Hari Chand Aggarwal, Chairman

He has more than 30 years of experience in the pesticide industry and has been instrumental in guiding the board in formulation of strategy and planning. Mr Hari Chand Aggarwal belongs to a business family of Delhi. In 1972, he had set up a partnership firm in the name of Hindustan Pulverizing Mills to carry on the business of manufacturing, marketing and trading of pesticides products. During his tenure with HIM pulverizing, he was involved in all the major activities, including procurement, marketing and finance. He was awarded Udyog Bharti award on 16th February 2004 by Indian Achievers Forum, New Delhi. He has been the president of Northern India Pesticides Manufacturing Association (NIPMA) for more than 5 terms. He was also a director of Crop Care Federation of India (CCFI).

Mr Rajesh Aggarwal, MD

He has more than 10 years experience in the pesticide industry and handles day-to-day operations of company. He is a commerce graduate and has good knowledge of production and marketing of pesticides. He joined M/s HIM pulverizing mills ltd in 1993 and continued till 2001 where he looked after production and marketing. During his tenure, revenues increased from Rs 120 mn in 1993 to Rs 800 mn in 2000. He promoted IIL in 1996 and was appointed MD of the company in November 2006.

IIL's journey from a generics player to a backward integrated manufacturer



Source: Company

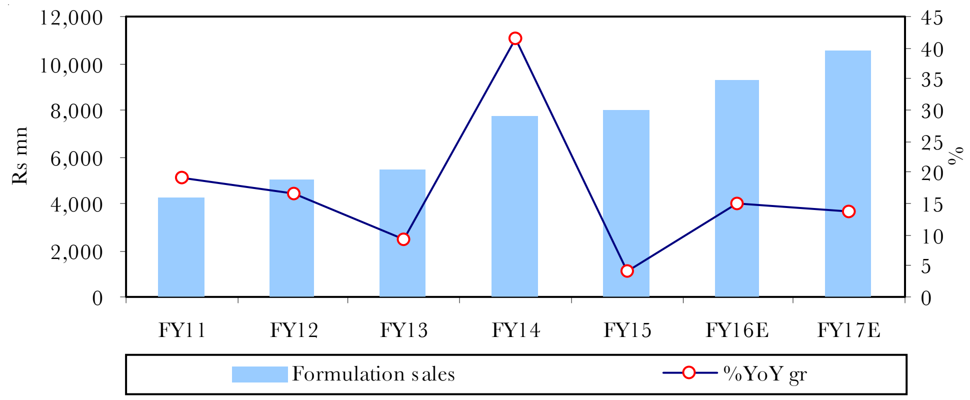
Financial statement analysis

Expect revenues to post a CAGR of 19% over FY15-17E

We expect revenues to grow driven by new products launches in formulation business, ramp-up in newly launched products, improving utilisation at Dahej and new technical registrations secured.

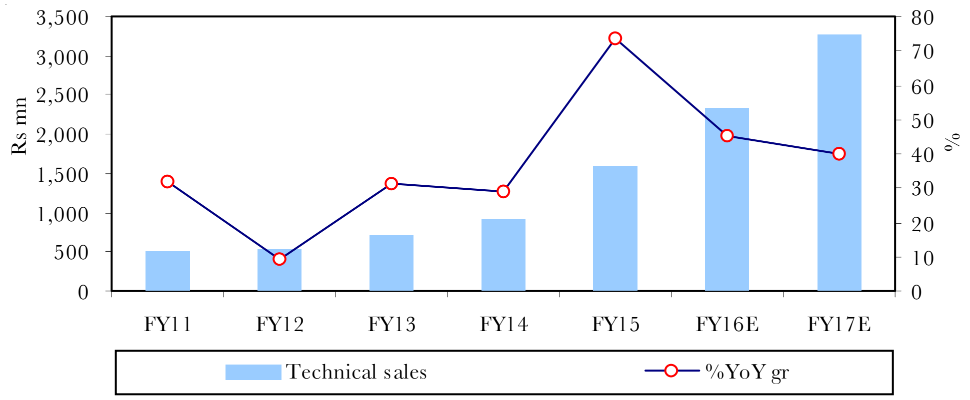
- From FY15-17E, we model formulations topline CAGR of 14%. Formulations growth strategy centres around – introduction of off patented products through new registrations, expand current brands through label extensions, ramp-up of specialty molecules and focus on Navratna/Super 11 products.
- On the technicals side, we expect technical revenues to post a CAGR of 43%. Technicals growth is likely to be driven by ramp-up in capacity utilisation of Dahej and contribution from newly approved technicals.

Formulation revenues and growth % YoY



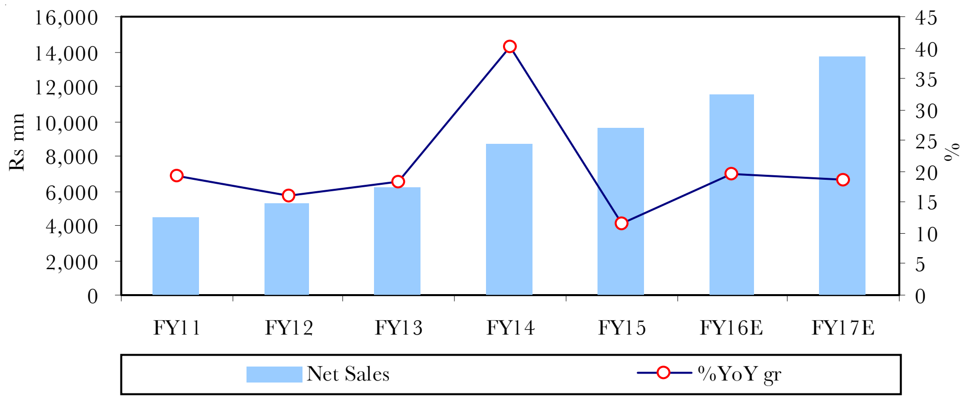
Source: Company, B&K Research

Technical revenues and growth % YoY



Source: Company, B&K Research

Net sales and growth % YoY



Source: Company, B&K Research

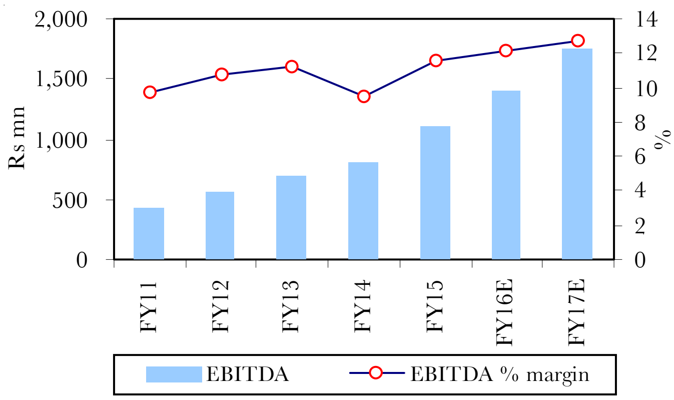
EBITDA margins likely to improve by 130 bps to 12.8% by FY17E; PAT CAGR of 35% over FY15-17E

We expect IIL's EBITDA to increase at a CAGR of 25% over FY15-17E. EBITDA margins are likely to improve driven by –

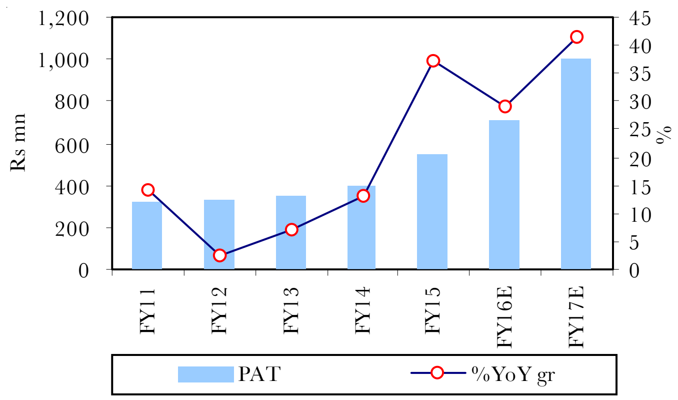
- Focus on Navratna and Super 11 portfolio which carry higher margins.
- Increasing the contribution of specialty molecules portfolio.
- Reducing the contribution of generics which carry comparatively lower margins.
- Ramp-up in Dahej.
- Launch of new technicals.

PAT is likely to increase at a CAGR of 35%. Our EPS stands at Rs 37.2/52.7 for FY16E/17E, respectively.

EBITDA and EBITDA margin



PAT and PAT growth



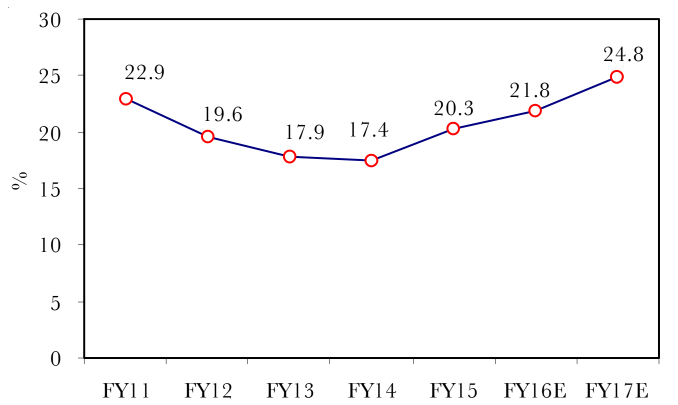
Source: Company, B&K Research

FCFF generation to improve; RoE/RoCE likely to improve by 450/500 bps

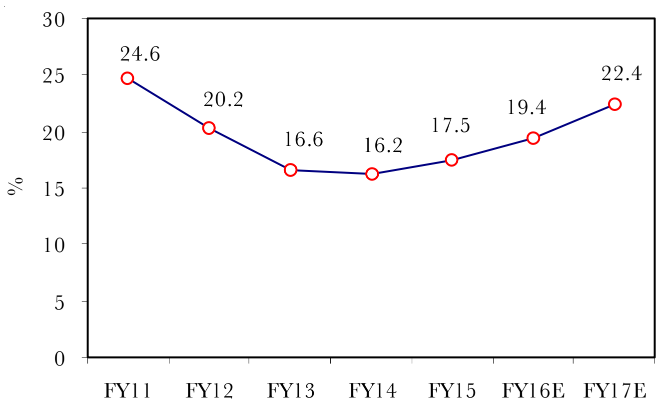
IIL has already incurred Rs 2 bn of capex in the last few years led by the set-up of Dahej facility which was primarily funded through debt. Dahej is currently in the ramp-up stage and management's entire focus is to scale-up Dahej and leverage the capex that has been done of this facility. Going forward, IIL does not foresee any major capex over the next couple of years. With limited capex envisaged over the next few years, IIL's FCFF generation is set to improve. Most of the capex will be limited to maintenance capex which is expected to be in the range of Rs 200-250 mn p.a. We expect net debt/equity to reduce from to by FY17E.

RoCE declined during FY11-14 period due to investments undertaken in Dahej. However, going forward we expect RoCE to improve from 17.5% in FY15 to 22.4% in FY17E and RoE is likely to improve from 20.3% in FY15 to 24.8% in FY17E.

RoE

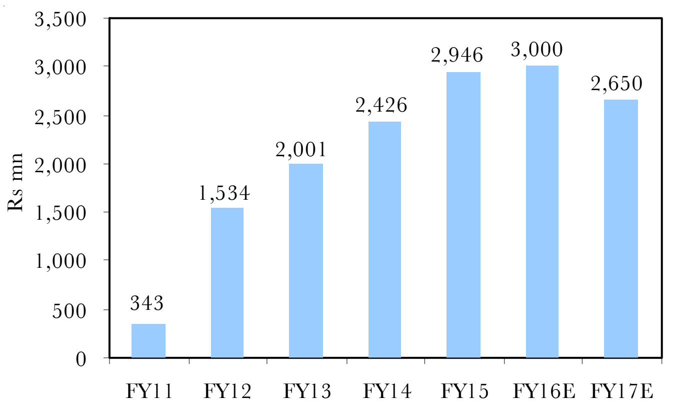


RoCE

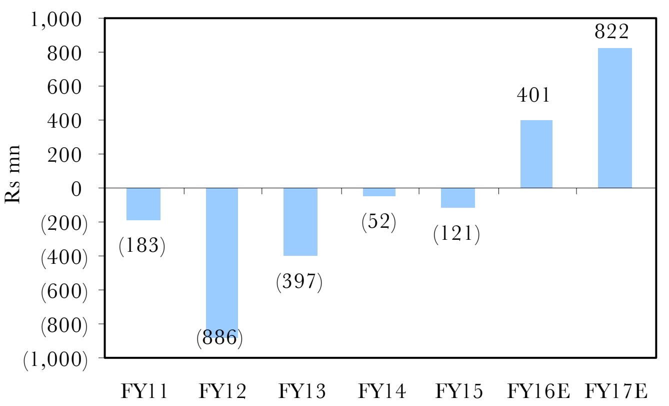


Source: Company, B&K Research

Debt



FCFF generation



Source: Company, B&K Research

Outlook and valuation

After a period of capex, IIL is now well-positioned to leverage on its expanded capacities, strong chemistry expertise, wide distribution network and strengthening relationship with MNC partners. Ramp-up in Dahej, expanding specialty portfolio, new registrations and backward integration are likely to support earnings growth. With capex behind, RoE/RoCEs are set to improve over FY15-17E. We remain positive on IIL's earnings growth trajectory and improving financial metrics. IIL is currently trading at ~30-40% discount to one-year forward average P/E of agrochemicals industry. We expect part of this valuation gap to narrow down gradually going forward. We recommend Buy with a target price of Rs 700 based on 13x FY17E earnings.

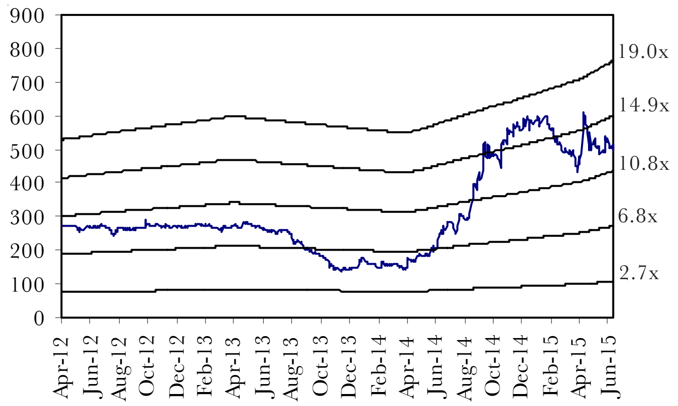
Valuation comparison

	Mkt cap.	Net sales (Rs mn)				EBITDA margin (%)				P/B (x)			
Comparison	(Rs mn)	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Rallis	43,386	17,466	18,218	20,725	23,935	15.6	15.5	16.5	17.0	4.7	5.4	4.6	3.8
UPL	224,608	105,805	119,111	132,597	147,743	18.4	19.8	20.3	20.7	1.5	3.2	3.2	2.7
Dhanuka Agri	29,281	7,384	7,851	9,181	10,675	16.3	16.8	17.5	18.2	3.8	10.1	6.7	5.3
PI Industries	83,870	15,955	19,403	22,879	27,304	18.1	19.2	19.7	20.4	5.5	9.2	7.4	5.8
Bayer Crop	137,321	31,462	36,145	42,665	49,918	12.9	13.8	14.4	14.8	3.4	6.0	5.7	4.8
Insecticides India Ltd. (IIL)	**9,208**	**8,641**	**9,642**	**11,544**	**13,680**	**9.5**	**11.5**	**12.1**	**12.8**	**0.8**	**3.0**	**2.6**	**2.0**

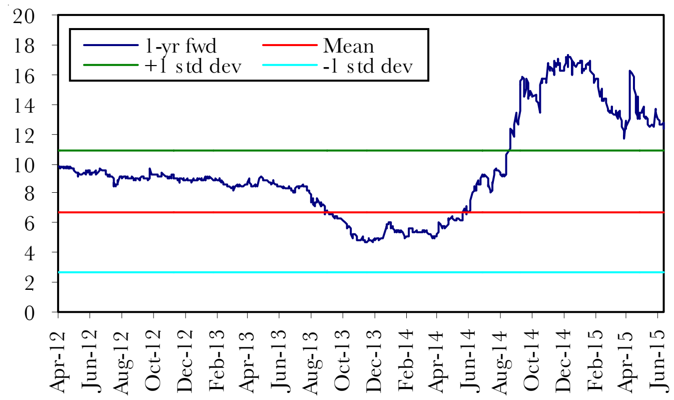
	P/E (x)				EV/EBITDA (x)			
Comparison	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Rallis	21.3	26.9	21.8	17.6	12.6	16.0	12.9	10.7
UPL	8.0	15.4	15.4	13.1	5.4	9.0	9.1	7.8
Dhanuka Agri	13.5	32.1	22.9	19.4	10.8	25.6	17.9	14.4
PI Industries	20.2	36.3	29.0	22.8	13.3	22.3	18.5	14.8
Bayer Crop	22.5	31.8	30.2	25.6	13.0	21.4	20.3	16.7
Insecticides India Ltd. (IIL)	**4.7**	**15.9**	**13.0**	**9.2**	**5.1**	**10.4**	**8.7**	**6.7**

	PAT (Rs mn)				EBITDA (Rs mn)				EPS			
Comparison	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Rallis	1,585	1,644	1,992	2,472	2,722	2,828	3,425	4,080	8.1	8.5	10.2	12.7
UPL	9,934	12,272	14,567	17,162	19,494	23,626	26,914	30,582	23.2	28.6	34.0	40.0
Dhanuka Agri	931	1,061	1,278	1,511	1,206	1,318	1,607	1,943	18.6	21.2	25.5	30.2
PI Industries	1,880	2,275	2,893	3,681	2,889	3,727	4,509	5,559	13.8	16.7	21.3	27.0
Bayer Crop	2,646	3,822	4,543	5,356	4,193	5,147	6,163	7,376	67.0	104.4	124.1	146.3
Insecticides India Ltd. (IIL)	**399**	**549**	**709**	**1,002**	**818**	**1,111**	**1,397**	**1,748**	**21.0**	**28.8**	**37.2**	**52.7**

PER Band



One-year forward PER



Source: B&K Research

Detailed financials

Income Statement

Yr end 31 Mar (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**5,218**	**6,167**	**8,641**	**9,642**	**11,544**	**13,680**
Growth (%)	*15.9*	*18.2*	*40.1*	*11.6*	*19.7*	*18.5*
Operating expenses	(4,654)	(5,474)	(7,823)	(8,531)	(10,147)	(11,932)
Operating profit	**564**	**693**	**818**	**1,111**	**1,397**	**1,748**
EBITDA	**564**	**693**	**818**	**1,111**	**1,397**	**1,748**
Growth (%)	*29.2*	*23.0*	*18.0*	*35.8*	*25.8*	*25.1*
Depreciation	(24)	(58)	(67)	(142)	(155)	(169)
Other income	1	2	5	4	5	5
EBIT	**541**	**638**	**756**	**973**	**1,248**	**1,584**
Finance cost	(111)	(174)	(269)	(332)	(339)	(299)
Profit before tax	**429**	**464**	**487**	**642**	**909**	**1,284**
Tax (current + deferred)	(99)	(111)	(87)	(93)	(200)	(283)
P/(L) for the period	**330**	**353**	**399**	**549**	**709**	**1,002**
Reported Profit/(Loss)	330	353	399	549	709	1,002
Adjusted net profit	330	353	399	549	709	1,002
Growth (%)	*2.5*	*7.0*	*13.1*	*37.3*	*29.2*	*41.4*

Balance Sheet

Yr end 31 Mar (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16E	Mar 17E
Share capital	127	127	127	127	190	190
Reserves & surplus	1,695	1,995	2,339	2,799	3,378	4,306
Shareholders' funds	**1,822**	**2,122**	**2,466**	**2,926**	**3,568**	**4,497**
Non-current liabilities	**441**	**457**	**481**	**738**	**701**	**651**
Long-term borrowings	383	301	302	537	500	450
Other non-current liabilities	58	156	179	201	201	201
Current liabilities	**2,941**	**3,743**	**4,967**	**5,544**	**5,909**	**6,048**
ST borrowings, Curr maturity	1,152	1,700	2,124	2,409	2,500	2,200
Other current liabilities	1,789	2,043	2,843	3,135	3,409	3,848
Total (Equity and Liabilities)	**5,203**	**6,321**	**7,914**	**9,208**	**10,178**	**11,195**
Non-current assets	**1,718**	**1,956**	**2,464**	**2,616**	**2,711**	**2,792**
Fixed assets (Net block)	1,432	1,852	2,243	2,424	2,519	2,600
Non-current Investments	–	–	111	111	111	111
Long-term loans and advances	255	56	47	59	59	59
Other non-current assets	31	47	63	22	22	22
Current assets	**3,485**	**4,366**	**5,450**	**6,592**	**7,467**	**8,403**
Cash & current investment	178	47	90	66	115	214
Other current assets	3,308	4,319	5,360	6,527	7,352	8,189
Total (Assets)	**5,203**	**6,321**	**7,914**	**9,208**	**10,177**	**11,195**
Total debt	1,534	2,001	2,426	2,946	3,000	2,650
Capital employed	3,414	4,279	5,071	6,073	6,769	7,348

Cash Flow

Period end (Rs mn)	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16E	Mar 17E
Profit before tax	**429**	**464**	**487**	**642**	**909**	**1,284**
Depreciation	24	58	67	142	155	169
Change in working capital	(814)	(560)	(234)	(884)	(552)	(398)
Total tax paid	(91)	(38)	(56)	(70)	(200)	(283)
Others	111	171	265	327	334	294
Cash flow from oper. (a)	**(342)**	**95**	**527**	**157**	**646**	**1,067**
Capital expenditure	(550)	(478)	(457)	(322)	(250)	(250)
Change in investments	–	–	(111)	(0)	–	–
Others	5	(15)	(11)	45	5	5
Cash flow from inv. (b)	**(544)**	**(492)**	**(579)**	**(277)**	**(245)**	**(245)**
Free cash flow (a+b)	**(886)**	**(397)**	**(52)**	**(121)**	**401**	**822**
Debt raised/(repaid)	1,191	467	426	520	54	(350)
Dividend (incl. tax)	(37)	(45)	(45)	(55)	(66)	(73)
Others	(129)	(156)	(286)	(368)	(339)	(299)
Cash flow from fin. (c)	**1,026**	**266**	**95**	**96**	**(351)**	**(722)**
Net chg in cash (a+b+c)	**140**	**(131)**	**43**	**(25)**	**49**	**99**

Income Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**8,641**	**9,642**	**11,544**	**13,680**
Growth (%)	*40.1*	*11.6*	*19.7*	*18.5*
Operating expenses	(7,823)	(8,531)	(10,147)	(11,932)
Operating profit	**818**	**1,111**	**1,397**	**1,748**
EBITDA	**818**	**1,111**	**1,397**	**1,748**
Growth (%)	*18.0*	*35.8*	*25.8*	*25.1*
Depreciation	(67)	(142)	(155)	(169)
Other income	5	4	5	5
EBIT	**756**	**973**	**1,248**	**1,584**
Finance cost	(269)	(332)	(339)	(299)
Profit before tax	**487**	**642**	**909**	**1,284**
Tax (current + deferred)	(87)	(93)	(200)	(283)
P/(L) for the period	**399**	**549**	**709**	**1,002**
Reported Profit/(Loss)	399	549	709	1,002
Adjusted net profit	399	549	709	1,002
Growth (%)	*13.1*	*37.3*	*29.2*	*41.4*

Balance Sheet

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Share capital	127	127	190	190
Reserves & surplus	2,339	2,799	3,378	4,306
Shareholders' funds	**2,466**	**2,926**	**3,568**	**4,497**
Non-current liabilities	**481**	**738**	**701**	**651**
Long-term borrowings	302	537	500	450
Other non-current liabilities	179	201	201	201
Current liabilities	**4,967**	**5,544**	**5,909**	**6,048**
ST borrowings, Curr maturity	2,124	2,409	2,500	2,200
Other current liabilities	2,843	3,135	3,409	3,848
Total (Equity and Liab.)	**7,914**	**9,208**	**10,178**	**11,195**
Non-current assets	**2,464**	**2,616**	**2,711**	**2,792**
Fixed assets (Net block)	2,243	2,424	2,519	2,600
Non-current Investments	111	111	111	111
Long-term loans and advances	47	59	59	59
Other non-current assets	63	22	22	22
Current assets	**5,450**	**6,592**	**7,467**	**8,403**
Cash & current investment	90	66	115	214
Other current assets	5,360	6,527	7,352	8,189
Total (Assets)	**7,914**	**9,208**	**10,177**	**11,195**
Total debt	2,426	2,946	3,000	2,650
Capital employed	5,071	6,073	6,769	7,348

Cash Flow Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Profit before tax	487	642	909	1,284
Depreciation	67	142	155	169
Change in working capital	(234)	(884)	(552)	(398)
Total tax paid	(56)	(70)	(200)	(283)
Others	265	327	334	294
Cash flow from oper. (a)	**527**	**157**	**646**	**1,067**
Capital expenditure	(457)	(322)	(250)	(250)
Change in investments	(111)	(0)	0	0
Others	(11)	45	5	5
Cash flow from inv. (b)	**(579)**	**(277)**	**(245)**	**(245)**
Free cash flow (a+b)	**(52)**	**(121)**	**401**	**822**
Debt raised/(repaid)	426	520	54	(350)
Dividend (incl. tax)	(45)	(55)	(66)	(73)
Others	(286)	(368)	(339)	(299)
Cash flow from fin. (c)	**95**	**96**	**(351)**	**(722)**
Net chg in cash (a+b+c)	**43**	**(25)**	**49**	**99**

Key Ratios

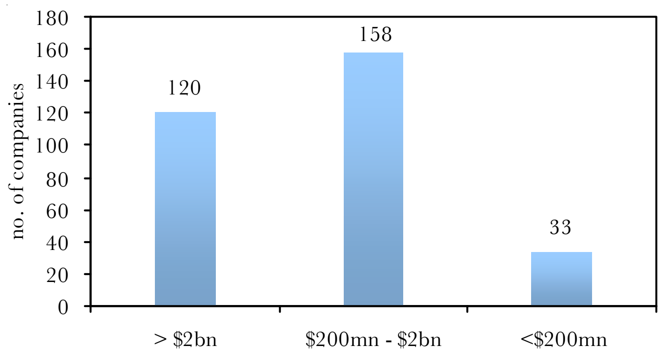
Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	21.0	28.8	37.2	52.7
Growth	13.1	37.2	29.2	41.4
CEPS (Rs)	24.5	36.3	45.5	61.6
Book NAV/share (Rs)	194.4	153.8	187.5	236.4
Dividend/share (Rs)	3.0	2.5	3.0	3.3
Dividend payout ratio	11.1	10.1	9.4	7.3
EBITDA margin	9.5	11.5	12.1	12.8
EBIT margin	8.7	10.1	10.8	11.6
Tax rate	17.9	14.5	22.0	22.0
RoCE	16.2	17.5	19.4	22.4
Total debt/Equity (x)	1.0	1.0	0.8	0.6
Net debt/Equity (x)	0.9	1.0	0.8	0.5
Du Pont Analysis - ROE				
Net margin	4.6	5.7	6.1	7.3
Asset turnover (x)	1.2	1.1	1.2	1.3
Leverage factor (x)	3.1	3.2	3.0	2.7
Return on equity	17.4	20.3	21.8	24.8

Valuations

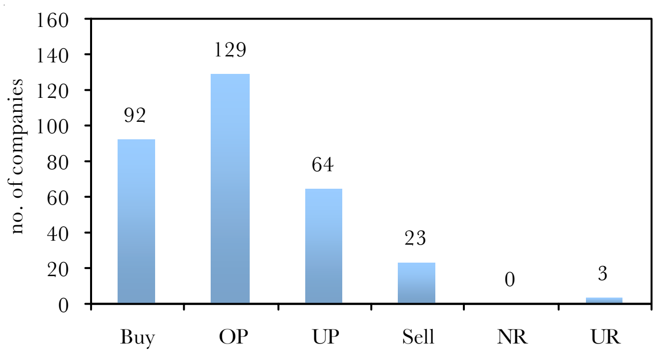
Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	4.7	15.9	13.0	9.2
PCE	4.0	12.6	10.7	7.9
Price/Book	0.8	3.0	2.6	2.0
Yield (%)	2.0	0.5	0.6	0.7
EV/EBITDA	5.1	10.4	8.7	6.7

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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B&K Investment Ratings.

	LARGE CAP (Market Cap > USD 2 bn)	MID CAP (Market Cap of USD 200 mn to USD 2 bn)	SMALL CAP (Market Cap <USD 200 mn)
BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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Ownership interest in the issuer of the securities mentioned	**< 1%**
Other financial interest in the issuer	**None**
Other material conflict of interest	**None**
Compensation/benefits received from issuer/3rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	**None**
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer's turnover)	**< 0.1%**
Compensation for other services (as percentage of issuer's turnover)	**< 0.1%**
Analyst service as officer, director or employee of the issuer	**None**
Involvement in market-making in the issuer's securities	**None**

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