

June 22, 2021

Incorporated in 1984, India Pesticides is one of the fastest growing agro-chemicals companies in India with key focus on manufacturing agrochemical technicals and formulations. Over the years, it has diversified into manufacturing herbicide and fungicide technicals and active pharmaceutical ingredients. The company has two manufacturing facilities in UPSIDC Industrial Area at Dewa Road, Lucknow and Sandila, Hardoi in Uttar Pradesh, spread across over 25 acres. As of March 31, 2021, the aggregate installed capacity of manufacturing facilities for agro-chemical technicals was 19,500 MT and formulations was 6,500 MT.

Increase in technical capacity bodes well for future growth

Over the next five years, ~\$4.2 billion worth of technicals are expected to go off patent. Since India Pesticides caters to the generic market, this augurs well for future growth. The company has overall eight technicals under its portfolio currently, which is expected to increase to 16 over the next three years. It has been expanding technicals capacity by 10,000 MT with a total capex outlay of ₹ 140 crore planned in the next two years. This would aid revenues for the coming years given that asset turn is estimated to be ~3x for the forthcoming expansion.

Healthy financial performance likely to sustain ahead

The company recorded revenue growth of 38% CAGR in FY19-21 supported by higher volume growth from the technical segment owing to better utilisation of expanded capacity. Since technicals are a high margin segment, higher share of technicals resulted in better gross margins and thereby OPM, leading to EBITDA growth at 67.5% CAGR and PAT CAGR of 75%. Going ahead, with more technicals coming on stream, the former share is expected to inch up thereby supporting overall business growth. Further, with strong FCF generation owing to better control over WC and higher OPM, the upcoming expansion is expected to be funded from internal accruals thereby aiding better return ratios in the years to come.

Key risk & concerns

- Adverse decision on banning 27 molecules to affect performance
- Loss of customer would impede financial performance

Priced at FY21 P/E of 25.3x on upper band

At ₹ 296, the stock is available at 25.3x FY21. Since the company caters to a few large formulators globally, the upcoming capacity expansion is likely to improve the economies of scale. Further, technicals being a higher margin segment compared to formulations, increase in revenue share bodes well for return ratios and thereby valuations. We assign a **SUBSCRIBE** rating to the issue.



Particulars

Issue Details	Amount
Issue Opens	June 23, 2021
Issue Closes	June 25, 2021
Issue Size (₹ Crore)	800
Price Band (₹)	290-296
No of Shares on Offer (Crore)	2.70
Minimum lot size	50
Face Value (₹)	1

Shareholding Pattern (%)

	Pre-issue	Post-issue
Promoter	82.7%	59.7%
Public	17.3%	40.3%
Total	100.0%	100.0%

Objective of issue

Objects of the issue	₹ Crore
Working capital requirement	80
General Corporate Purpose	20
Total Fresh issue Proceeds	100

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Key Financial Summary

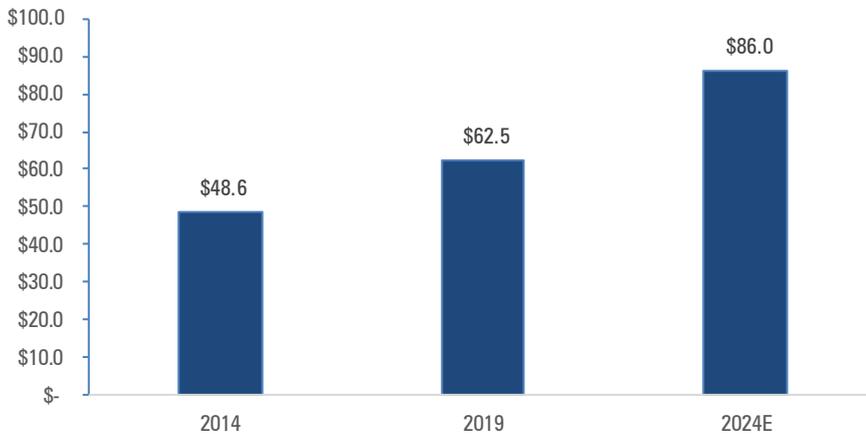
(₹ Crore)	FY19	FY20	FY21	CAGR FY19-21
Net Revenue	340.7	479.6	649.0	38.0%
EBITDA	65.3	93.6	183.1	67.5%
EBITDA Margins (%)	19.2%	19.5%	28.2%	
Adj. PAT	43.9	70.8	134.5	75.0%
Adj. EPS (₹)	3.8	6.1	11.7	
EV/EBITDA	50.6x	35.3x	18.0x	
P/E	77.6x	48.1x	25.3x	
ROE (%)	23.5	27.6	34.5	
ROCE (%)	32.3	35.7	45.1	

Source: RHP, ICICI Direct Research. Note: Valuation ratios are calculated based on post issue money.

Industry Overview

Crop protection chemicals are primarily classified into insecticides, herbicides and fungicides followed by nematicides and rodenticides. This classification is based on the fact that a crop needs protection from insects, herbs, fungus, nematodes or rodents. The global agrochemicals market was valued at US\$62.5 billion in 2019 and is forecast to reach US\$86 billion by 2024 growing at a CAGR of 6.6%. The rising population across the world, accompanied by rising affluence, is seeing a shift in consumption patterns. There is a need to not just increase production to meet demand but also ensure that nutritional needs of an increasingly affluent population are met.

Exhibit 1: Global agrochemical market size (US\$ billion)

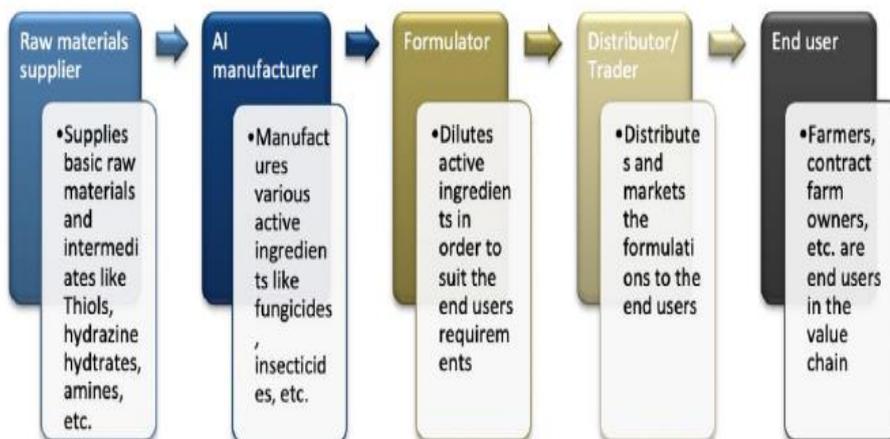


Source: RHP, ICICI Direct Research

Agrochemical market value chain

The global agrochemical value chain comprises raw material suppliers (both petrochemical derivatives as well as natural feedstock), pesticide active ingredient/technical grade manufacturers, formulators producing the end products, distributors and end use customers.

Exhibit 2: Agrochemical market value chain



Source: RHP, ICICI Direct Research

Active ingredient manufacturers

Active ingredients are also known as technical material for crop protection formulations. These are derived from intermediates, such as thiols, hydrazine hydrate and derivatives and amines. Each class of pesticide does have a particular basic content, which is responsible for controlling the intended pest group.

Exhibit 3: Major crop protection chemical active ingredients by applications

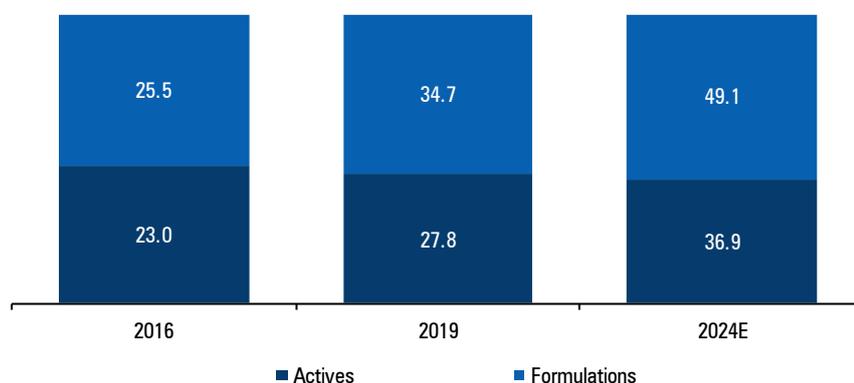
Class of pesticide	Major active ingredients	Applications	Notes
Insecticides	Monocrotophos, Permethrin, Imidachloprid, Alphamethrin, Chlorpyrifos, Cypermethrin, etc.	Cotton, rice, etc.	Applied on the leaves of the crops in pre/post emergent phase
Fungicides	Mancozeb, Ziram, Hexaconazole, Carbendazim, Thiram, Captan Folpet, Cymoxanil, Thiocarbamate, etc.	Fruits, vegetables, etc.	Applied on leaves before rains & prior/after development of fungus
Herbicides	Glyphosate, Isoproturan, Pretilachlor, Chlodinofof Propargyl, Benthocarb, Prosulfocarb, Thiocarbamate, etc.	Rice, wheat, etc.	Applied on the ground depending on the germination status of the crop
Bio-pesticides	Spinosyns, neem derivatives, etc.	Rice, maize, etc.	
Others	Zinc phosphide, Aluminum phosphides, etc.	Grains, pulses, etc.	

Source: RHP, ICICI Direct Research

Formulators

A formulator accepts the active ingredient, measures the proper amount, mixes it with the carrier if it is to be a liquid pesticide or with inert powders. An emulsified formulation is usually concentrated to render transport easier (the active ingredient typically makes up 50% of the emulsified concentrate) but granulated and dry pesticides are ready to use.

Exhibit 4: Global agrochemicals market by business segments (US\$ billion)



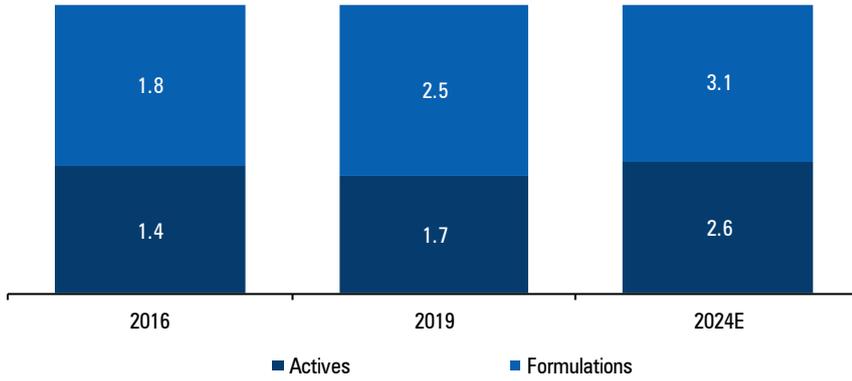
Source: RHP, ICICI Direct Research

Indian agrochemical market

Indian crop protection chemicals exports have grown at ~9% CAGR between 2015 and 2019. The actual export contribution of crop protection chemicals was 50% of total domestic production (by value) in 2019. Exports are projected to grow to ~55% in 2024, in terms of value. In 2024, exports are expected to grow to US\$3.1 billion contributing 55% of total domestic production, which is expected to be valued at US\$5.7 billion.

India was the world’s third largest pesticide exporter by volume in 2018. China leads the exports of pesticides with 27% of market share in the world exports, followed by Germany (8.3%), India (8%), the United States, Belgium and France.

Exhibit 5: Indian crop protection chemicals market by segments (US\$ billion)



Source: RHP, ICICI Direct Research

Company background

Incorporated in 1984, India Pesticides is one of the fastest growing agro-chemicals companies in terms of volume of technicals manufactured. It is the sole Indian manufacturer of five technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate herbicide. Over the years, it has diversified into manufacturing herbicide and fungicide technicals and active pharmaceutical ingredients. It has a strategic focus on R&D on the back of its two well-equipped in-house laboratories registered with the DSIR. The R&D efforts have led to development of processes to manufacture three generic off-patent technicals since FY18. It is currently in the process of developing processes for certain technicals, including two fungicides, two herbicides, two insecticides and two intermediates. As of the date of this RHP, it has obtained registrations from the CIBRC for 22 agro-chemical technicals & 125 formulations for sale in India and 27 agro-chemical technicals & 35 formulations for export. As on the date of RHP, it manufactures eight technicals, two APIs and over 30 formulations.

The company's technicals are primarily exported and revenue generated from exports contributed to 56.71% of overall revenue from operations in FY21. As of March 31, 2021, technicals are exported to over 25 countries including Australia and other countries in North and South America, Europe, Asia and Africa. The formulations products are primarily sold domestically through an extensive network of dealers and distributors. It has a diverse customer base that includes crop protection product manufacturing companies, such as, Syngenta Asia Pacific Pte. Ltd, UPL Ltd, Ascenza Agro, SA, Conquest Crop Protection Pty Ltd, Sharda Cropchem Ltd and Stotras Pty Ltd. It has established relationships with customers many of whom have been associated with the company for over 10 years.

Technicals: The company manufactures generic technicals that are used in the manufacture of fungicides and herbicides as well as APIs with applications in dermatological products. Certain key fungicide technicals it manufactures include: (i) Folpet, used to manufacture fungicides that control fungal growth at vineyards, cereals, crops and biocide in paints; and (ii) Cymoxanil, used to manufacture fungicides that control downy mildews of grapes, potatoes, vegetables and several other crops. Major herbicide technicals it manufactures include Thiocarbamate herbicides that have application in field crops, such as, wheat and rice, and are used globally. The APIs it manufactures have anti-scabies and anti-fungal applications. In FY19, FY20 and FY21, revenues from technicals segment amounted to ₹ 256.66 crore, ₹ 383.28 crore and ₹ 506.84 crore, which constituted 75.43%, 80.19% and 78.87%, respectively, of overall revenue from sale of products.

Formulations: India Pesticide manufactures and sells various formulations of insecticides, fungicide and herbicides, growth regulators and acaricides, which are ready-to-use products. As of March 31, 2021, it manufactures over 30 formulations that include Takatvar, IPL Ziram-27, IPL Dollar, IPL Soldier and IPL Guru. In FY19, FY20 and FY21, revenues from its formulations segment amounted to ₹ 83.60 crore, ₹ 94.68 crore and ₹ 135.80 crore, respectively, which constituted 24.57%, 19.81% and 21.13%, respectively, of revenue.

Manufacturing capacity: It has two manufacturing facilities in UPSIDC Industrial Area at Dewa Road, Lucknow and Sandila, Hardoi in Uttar Pradesh spread across more than 25 acres. As of March 31, 2021, the aggregate installed capacity of manufacturing facilities for agro-chemical technicals was 19,500 MT and formulations was 6,500 MT.

Investment Rationale

Expand business, geographical footprint through inorganic growth

Approximately 19 technicals are expected to go off-patent between 2019 and 2026 generating an opportunity size of over US\$4.2 billion due to this by 2026 (source: F&S Reports). To be able to cater to the growth in demand for the products it manufactures, it intends to scale up the manufacturing capacities for existing products. The company has obtained approval from the Ministry of Environment and Forest (MoEF) to expand manufacturing capacity at Sandila to 30,000 MT from 19,500 MT. In addition, it is continually exploring new markets for existing products. Expansion plans are expected to strengthen and diversify the customer base. We believe that expansion and diversification of product portfolio would allow it to service new clients, meet existing demand and, consequently, enhance business prospects.

Long-term relationship with key customers

The company has developed strong and long-term relationships with various multinational corporations that has helped it to expand product offerings and geographic reach for technicals business. The customer relationships are led primarily by the ability to manufacture complex technicals that go off-patent in a cost effective, safe and environmentally conscious manner as well as ability to meet stringent quality specifications. Several of its customers have been associated with the company for over 10 years while certain key customers include crop protection majors such as, Syngenta Asia Pacific Pte. Ltd. and UPL Ltd. Revenues generated from sales to top 10 customers constitute a significant proportion of overall revenues and represented 56.83% of revenue from operations in FY21.

Focus on cost optimisation

The company intends to undertake a number of strategic initiatives including expansion of existing manufacturing capacity that will allow it to benefit from economies of scale and improve process efficiency in manufacturing process. It intends to review product portfolio to either include or eliminate products based on costs incurred, profits generated and processes involved in manufacturing such products. Another key area on which it intends to focus will be further reduction of dependence on import of raw materials by sourcing raw materials indigenously. The company will identify suppliers of key raw materials and enter into long-term supply contracts to ensure availability of such raw materials at viable prices. It also intends to analyse existing material procurement policy and production processes to identify the areas of bottlenecks and take corrective measure wherever possible. It intends to further optimise order quantities for raw materials. This will help in improving efficiency and put resources to optimal use.

Grow portfolio of formulations products

The company intends to grow its portfolio of formulations products. For products that it intends to launch as part of formulations segment, it intends to undertake brand building activities including conducting dealer training, field demonstrations & product promotion through advertisements and other publications and participation in various national and international exhibitions. In addition, it believes that growth in technicals segment will lead to growth of formulations products. For instance, it manufactures Cymoxanil, a fungicide technical that is used in manufacturing certain formulations, including Takatvar, which is used to control downy mildews of grapes, potatoes, vegetables and several other crops.

Key risks & concerns

- **Any adverse decision on banning 27 molecules to affect performance:** Out of the eight technicals it manufactures currently, Captan and Ziram are included in the 27 molecule ban list. These molecules constitute ₹ 115 crore of overall revenue. Although export of these products is not going to be banned, any adverse situation of controlling domestic use can impact the performance in the short term. However, we expect the same to be negated by exports
- **Adverse weather situation to impact growth** – Since the nature of the business is correlated with weather, any adverse situation can impact the crop outlook and thereby crop protection chemicals
- **Loss of customer to impede performance** – Top 10 customers contribute 58% to overall revenue while top client constitutes ~25% of the topline. Loss of customer or lower business growth from large customers owing to intense competition can impede the growth of the business

Financial summary

Exhibit 6: Profit and loss statement		₹ crore		
Year end March	FY19	FY20	FY21	
Total Operating Income	340.7	479.6	649.0	
Growth (%)	-	40.8	35.3	
Raw Material Expenses	187.1	253.1	310.4	
Gross Profit	153.6	226.5	338.5	
Employee Cost	13.4	16.4	22.7	
Other Operating Expenses	74.9	116.6	132.7	
EBITDA	65.3	93.6	183.1	
Growth (%)	-	43.3	95.7	
Other Income	5.4	10.1	6.4	
EBITDA, including OI	70.6	103.7	189.5	
Depreciation	4.0	5.1	6.1	
Net Interest Exp.	5.6	5.2	3.4	
Other exceptional items	0.0	0.0	0.0	
PBT	61.1	93.4	179.9	
Total Tax	17.2	22.6	45.4	
Tax Rate	28.1%	24.2%	25.2%	
PAT	43.9	70.8	134.5	
Adj.PAT after Minority interest	43.9	70.8	134.5	
Adj. EPS (₹)	3.8	6.1	11.7	
Shares Outstanding	11.5	11.5	11.5	

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement		₹ crore		
Year end March	FY19	FY20	FY21	
PBT & Extraordinary	61.1	93.4	179.9	
Depreciation	3.9	5.1	6.1	
After other adjustments				
(Inc) / Dec in Working Capital	-54.4	-3.4	-61.6	
Taxes	-17.3	-22.3	-44.9	
Others	-31.4	-42.2	-86.1	
CF from operating activities	-3.4	75.2	83.3	
Purchase of Fixed Assets	-7.2	-30.8	-41.9	
Others	0.6	-0.2	-42.1	
CF from investing activities	-6.6	-31.1	-84.0	
Proceeds from issue of shares	0.0	0.0	0.0	
Borrowings (Net)	15.1	-33.0	2.8	
Others	-5.8	-6.0	-6.9	
CF from financing activities	9.3	-39.0	-4.1	
Net cash flow	-0.7	5.1	-4.8	
Effects of foreign currency translation				
Opening Cash & Bank	2.4	2.8	8.0	
Closing Cash & Bank	2.8	8.0	43.0	

Exhibit 8: Balance sheet		₹ crore		
Year end March	FY19	FY20	FY21	
Liabilities				
Share Capital	3.2	3.2	11.2	
Reserves	183.8	253.7	378.3	
Total Shareholders Funds	187.0	256.8	389.5	
Minority Interest	0.0	0.0	0.0	
Long Term Borrowings	11.3	10.4	7.4	
Net Deferred Tax liability	7.9	8.1	8.7	
Other long term liabilities	0.0	0.1	0.1	
Long-term provisions	0.4	0.5	0.7	
Current Liabilities and Provisions				
Short term borrowings	43.8	13.5	22.5	
Trade Payables	54.9	61.5	74.0	
Other Current Liabilities	12.0	14.5	10.9	
Short Term Provisions	0.0	0.1	3.2	
Total Current Liabilities	110.7	89.6	110.7	
Total Liabilities	317.2	365.7	517.1	
Assets				
Net Block	70.0	95.2	120.1	
Capital Work in Progress	4.7	1.2	11.9	
Non-current investments	3.1	3.0	9.9	
Other Non Current Assets	5.8	11.2	8.4	
Current Assets, Loans & Advances				
Current Investments	0.0	0.0	0.0	
Inventories	35.5	38.6	70.1	
Sundry Debtors	178.3	183.2	214.2	
Cash and Bank	2.8	8.0	43.0	
Loans and Advances	0.0	0.0	0.0	
Other Current assets	16.8	25.4	39.6	
Current Assets	233.4	255.1	366.8	
Total Assets	317.0	365.7	517.1	

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
Year end March	FY19	FY20	FY21	
Per share data (₹)				
Adj. EPS	3.8	6.1	11.7	
Adj. Cash EPS	4.2	6.6	12.2	
BV	24.9	31.0	42.5	
DPS	0.7	0.7	3.1	
Operating Ratios (%)				
Gross Margin (%)	45.1	47.2	52.2	
EBITDA Margin (%)	19.2	19.5	28.2	
PAT Margin (%)	12.9	14.8	20.7	
Debtor Days	191	139	120	
Inventory Days	38	29	39	
Creditor Days	59	47	42	
Cash Conversion Cycle	170	122	118	
Return Ratios (%)				
Return on Assets (%)	13.8	19.4	26.0	
RoCE (%)	32.3	35.7	45.1	
Core RoIC (%)	25.6	32.4	47.0	
RoE (%)	23.5	27.6	34.5	
Solvency Ratios				
Total Debt / Equity	0.3	0.1	0.1	
Interest Coverage	12.0	18.9	53.4	
Current Ratio	2.1	2.8	3.3	
Quick Ratio	1.8	2.4	2.7	
Valuation Ratios (x)				
EV/EBITDA	50.6	35.3	18.0	
P/E	77.6	48.1	25.3	
P/B	11.9	9.6	7.0	
EV/Sales	9.7	6.9	5.1	

Source: Company, ICICI Direct Research

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