India Pesticides Ltd

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Price Band: INR 290-296

ISSUE SUMMARY	
Issue Opens	23-June-21
Issue Closes	25-June-21
Offer Price (INR per share)	290-296
Bid Lot	50 shares
Face Value (INR)	1.0
Pre Issue Shares o/s (mn)	111.8
^Offer for Sale (No of sh. mn)	23.6
^Fresh Issue (No of sh. mn)	3.4
^Post Issue shares o/s (mn)	115.2
^*Issue Size (INR bn)	8.0
QIB	=>50%
Non-institutional	<15%
Retail	<35%

^ Issue Size (@INR296)

POST ISSUE DETAILS	
M.Cap @INR296/sh. (INR bn)	34.1
Shareholding pattern	
Promoters	72.0%
Non-Promoters	28.0%

India Pesticides Ltd (IPL) is one of the leading agro-chemical manufacturer of Technicals (79% of FY21 sales) with a growing Formulations business.

Leading manufacturer of Technicals with diversified portfolio: IPL is the sole Indian manufacturer of five Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity. Both Technicals and Formulations portfolio are well diversified among fungicides/herbicides/insecticides along with APIs (10% of revenue); thus de-risking its business model. IPL derives 57% (FY21) of its revenue from exports while top 10 customers also contribute 57% of sales.

Strong growth aspects: Global agro-chemicals market is expected to grow at 7% CAGR to USD86bn by 2024. Of this Technicals/Formulations are expected to grow at 6%/7% CAGR. Technicals in India which is strongly driven by export led demand and contract manufacturing, is expected to grow at 8% CAGR. With China+1 strategy, it opens huge opportunity for Indian players. IPL plans to tap this opportunity by manufacturing complex off patented technicals, wherein 19 Technicals are expected to go off-patent between CY19-26 (opportunity of >USD4.2bn). Simultaneously it plans to grow its formulation segment as well.

Robust Financials: Over FY19-21, SBPFL's Revenue/EBITDA/PAT grew at a robust CAGR of 38%/68%/75% while EBITDA margins expanded 905bps to 28.2%, driven by improvement in yield. Strong R&D and mostly localized raw material sourcing (~60%) helped in cost optimization. Segment-wise, Technicals/Formulations revenue grew at a CAGR of 41%/ 28% (FY19-21). It's almost a debt free with superior return ratios - RoE/RoCE of 36%/34% (FY21).

Issue Size: The INR8bn IPO consists of OFS of INR7bn and fresh issue of INR1bn which would result in promoter's stake reducing to 72.0% post-IPO. The funds will be utilized to fund working capital requirement of INR800mn, with the balance reserved for general corporate purpose.

Valuation & View: We like IPL given its presence in fast growing agrochemical space, diversified product portfolio and robust financials. Strong R&D, long term relations with MNCs, cost competitiveness and extensive distribution network are some of the other key positives. Expanding product portfolio, growing customer base and increasing wallet share of existing customers can help IPL maintain its growth momentum. The issue is reasonably valued at 25.3x FY21 P/E on post issue basis, vis-à-vis peers (avg. peer P/E of 36.4x), while it enjoys higher RoE of 36% (avg. peer RoE of 21%). Hence, we recommend **Subscribe**.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY19	FY20	FY21
Revenue	3,407	4,796	6,490
Growth (%)	-	*40.8*	*35.3*
Adj PAT	439	708	1,345
Growth (%)	-	61.2	90.0
EPS (INR)	3.8	6.1	11.7
RoE (%)	23.5	31.9	36.0
P/E (x)	77.6	48.2	25.3

Source: RHP, MOFSL

Calculated on post issue basis, at the upper price band of INR296

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IPO Note

About the Company

India Pesticides Ltd (IPL), incorporated in 1984, is an R&D driven agro-chemical manufacturer of Technicals with a growing Formulations business. It is one of the fastest growing agro-chemicals company in terms of volume of Technicals manufactured, recording 37% YoY growth in FY21. IPL has two distinct operating verticals, namely, (i) Technicals and (ii) Formulations. It has diversified into manufacturing of herbicide and fungicide Technicals and active pharmaceutical ingredients (APIs) over the years. It also manufacture herbicide, insecticide and fungicide Formulations.

Exhibit 2: Diversified portfolio of Niche & Quality Specialized Products

Technicals 78.9% of FY21 Sales	Formulations 21.1% of FY21 Sales
• Fungicides • Herbicides • API for Dermatological Products	• Insecticides • Fungicides • Herbicides • Growth Regulators • Acaricides

Technicals			Formulations	
22	27	2	125	35
Agrochemical Technicals for sale in India	Agrochemical Technicals for Exports	APIs	For Sale in India	For Exports

Source: RHP, MOFSL

In FY21, 78.9% of revenues came from Technicals, while the balance 21% constituted formulation business. It manufactures generic Technicals that are used in the manufacture of fungicides and herbicides as well as APIs with applications in dermatological products. Till date it has manufactured 8 technicals and 2 APIs. Technicals are primarily exported to over 25 countries including Australia and other countries in North and South America, Europe, Asia and Africa. Exports contributed about 56.7% to FY21 revenue.

On the other hand, Formulations products are primarily sold domestically through extensive network of dealers and distributors. IPL 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 manufactured over 30 Formulations that include Takatvar, IPL Ziram-27, IPL Dollar, IPL Soldier and IPL Guru.

With focus on quality and sustainability, none of its key Technicals are classified as 'red triangle' or highly toxic products. IPL has obtained registrations from the CIBRC for 22 agro-chemical Technicals and 125 Formulations for sale in India and 27 agro-chemical Technicals and 35 Formulations for export while t has a license to manufacture from the Department of Agriculture, Uttar Pradesh for 49 agro-chemical Technicals and 158 Formulations. For the APIs, IPL has obtained a license for manufacturing two drugs for sale from the Drug Licensing and Controlling Authority.

IPL is the sole Indian manufacturer of five Technicals and among the leading manufacturers globally for Captan, Folpet and Thiocarbamate Herbicide, in terms of production capacity (F&S Reports). It has strategic focus on R&D and include 2 well-equipped in-house laboratories registered with the DSIR. The R&D efforts have led to the development of processes to manufacture 3 generic off-patent Technicals since FY18 and is currently in the process of developing processes for certain Technicals, including 2 fungicides, 2 herbicides, 2 insecticides and 2 intermediates.

IPL has a diverse customer base that includes crop protection product manufacturing companies, such as, Syngenta Asia Pacific Pte. Ltd, UPL Limited, ASCENZA AGRO, S.A., Conquest Crop Protection Pty Ltd, Sharda Cropchem Limited and Stotras Pty Ltd. Many of these customers have been associated with IPL for over 10 years. It's top 10 customers contribute ~56.8% of total revenue.

IPL has two manufacturing facilities located at Lucknow and Sandila in Uttar Pradesh, spread over 25 acres. The aggregate installed capacity for Technicals was 19,500 MT and for Formulations was 6,500 MT.

Exhibit 3: Advanced Manufacturing Capabilities

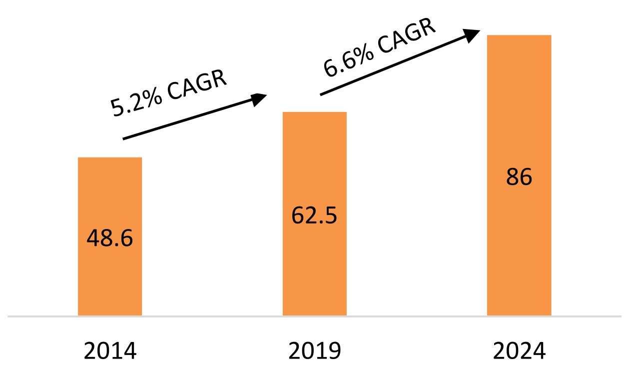
Manufacturing Units						
Facility	Installed Capacity (MT)			Capacity Utilization		
	FY19	FY20	FY21	FY19	FY20	FY21
Agro-Chemicals Technicals						
Dewa Road	2,100	2,100	2,100	91%	86%	95%
Sandila	7,900	12,400	17,400	77%	74%	75%
Formulations						
Dewa Road	3,000	3,000	3,000	64%	71%	89%
Sandila	3,000	3,500	3,500	54%	47%	58%

Source: RHP, MOFSL

Industry Landscape

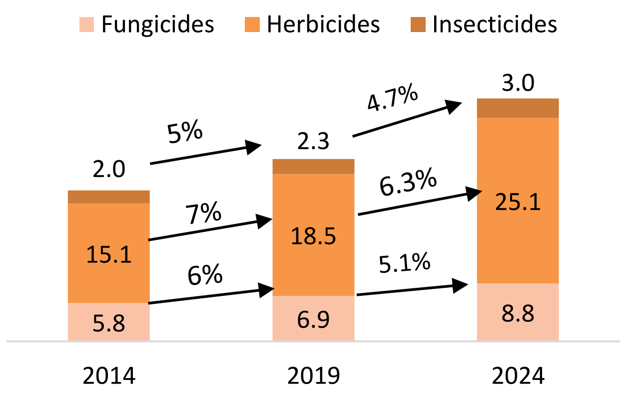
The global agrochemicals market is forecasted to reach USD86bn by 2024 growing at CAGR of 6.6%. The primary demand driver for the crop protection chemicals market is increasing demand for food security in order to meet needs of growing population. Other key drivers are limited growth of farm acreage, farmers looking to maximize profits and increasing purchasing power of farmers. Global agrochemicals market can further be segmented into synthetic pesticides and bio-pesticides. Bio-pesticides are expected to be growing with 16% growth rate over the next half decade, compared to 5% growth rate recorded by synthetic pesticides globally. IPL is currently not present in this bio-pesticides.

Exhibit 3: Global Agrochemical Market (USD Bn)



Source: RHP, MOFSL

Exhibit 4: Global Agrochemical Active Ingredients Market (USD Bn)



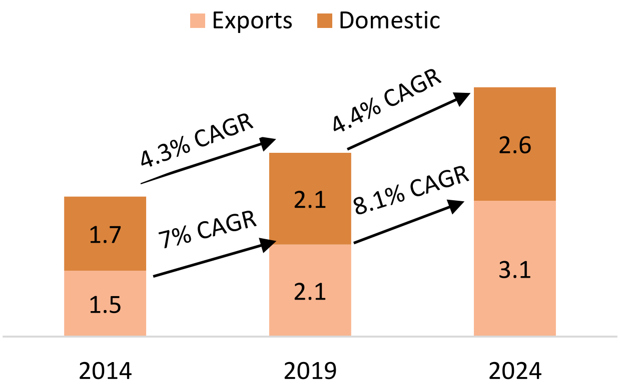
Source: RHP, MOFSL

The crop protection active ingredients market or Technicals within agrochemical industry, is expected to grow to ~4mt (USD36.9bn) by 2024. Herbicides occupy the highest share due to farm labour shortage predominantly internationally. Fungicides and Herbicides are more prominent globally compared to the Asia Pacific region. Global trend suggests that herbicides & fungicides are going to record higher growth internationally due to factors such as farm labor shortage, thus benefitting IPL.

By 2026, an opportunity size of over USD4.2bn is expected due to 19 key active ingredients going off-patent. It is expected to provide a huge opportunity for generic Technical manufacturers in India. Some products with immediate opportunity which have gone off-patent in 2018 and also immediately in next two years include: Pinoxaden, Aminopyralid, Tembotrione. These herbicides have global sales of approximately USD950mn. Insecticides, such as, Flubendiamide and Spirotetramat have combined global sales of almost USD595mn.

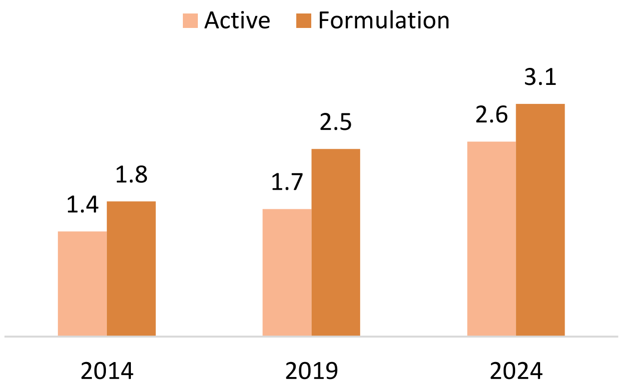
India has been ranked 4th globally in the production of agrochemicals (crop protection chemicals/ pesticides) after the US, Japan and China. India has one of the lowest per capita consumption of crop protection chemicals per hectare, which suggests, there is a significant scope of growth for the crop protection chemicals in India. Its exports are expected to grow at 8% CAGR to USD3.1bn by 2024 while domestic market is expected to grow at 4.4% CAGR to USD2.6bn. Technicals in India is strongly driven by export led demand and contract manufacturing in India.

Exhibit 5: India Crop Chemical market (USD bn)



Source: RHP, MOFSL

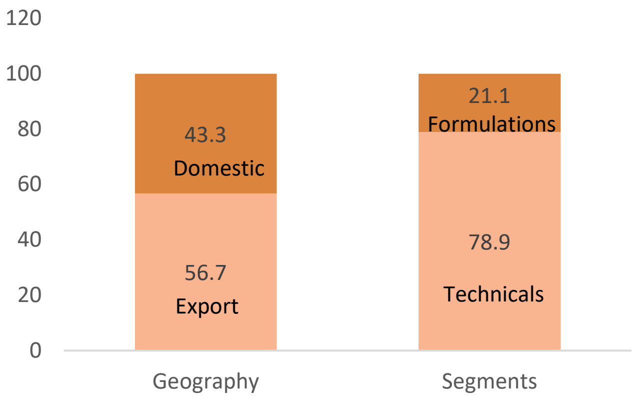
Exhibit 6: India Agrochemical market split by business segments (USD bn)



Source: RHP, MOFSL

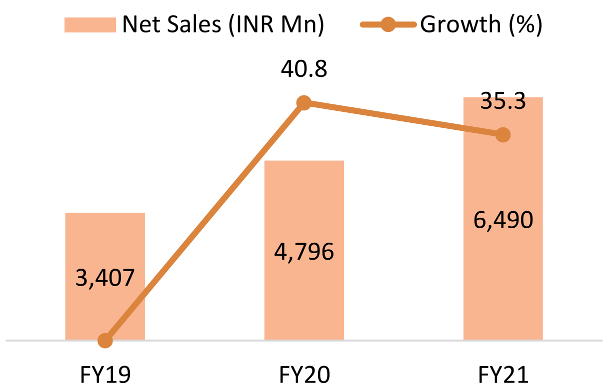
Story in Charts

Exhibit 7: Revenue grew at 38% CAGR (FY19-21)



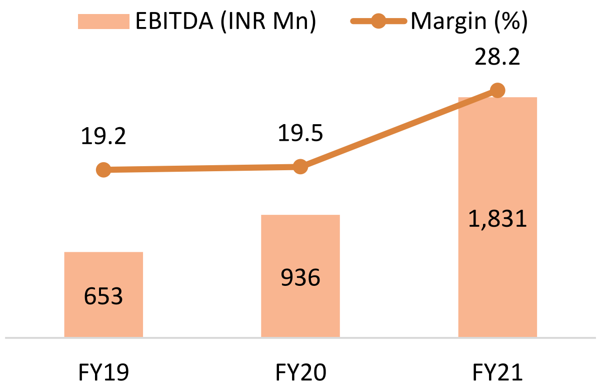
Source: RHP, MOFSL

Exhibit 8: Revenue grew at 38% CAGR (FY19-21)



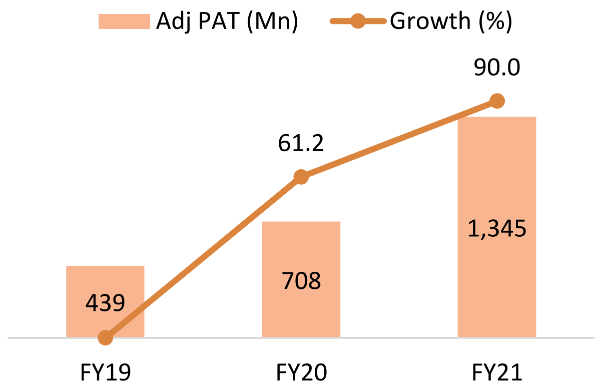
Source: RHP, MOFSL

Exhibit 9: EBITDA grew at a CAGR of 67.5% (FY19-21)



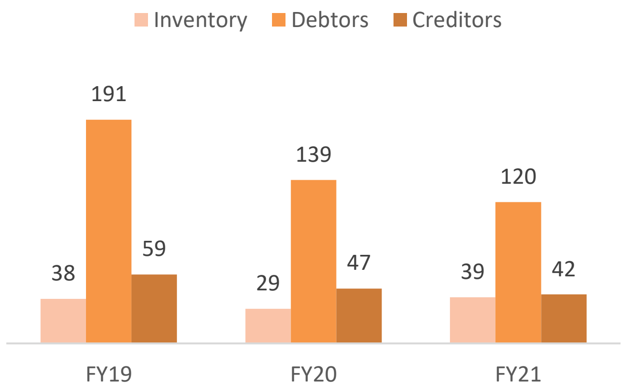
Source: RHP, MOFSL

Exhibit 10: PAT grew at a 75% CAGR over FY19-21



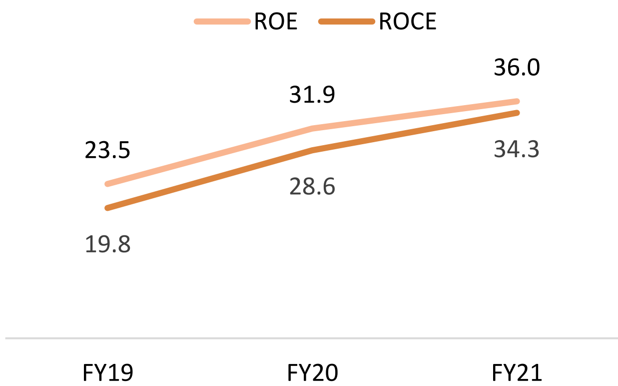
Source: RHP, MOFSL

Exhibit 11: Working Capital Cycle



Source: RHP, MOFSL

Exhibit 12: Return Ratio (%)



Source: RHP, MOFSL

Peer Comparison

Company	M.Cap. INR Bn	Revenue CAGR FY19-21 (%)	PAT CAGR FY19-21 (%)	EBITDA Margin FY21 (%)	EPS FY21
UPL	611.2	33.1	37.7	22.3	45.0
PI Industries	426.7	26.9	32.5	22.1	48.6
Sumitomo Chem	196.3	9.0	44.2	18.4	6.9
Rallis	65.7	10.6	11.3	13.35	11.8
Dhanuka Agrtech	44.1	17.5	36.6	19.4	45.2
India Pesticides	34.1	38.0	67.5	28.2	11.7

Company	ROE FY21 (%)	WC Cycle (No of days)	P/E FY21 (x)	P/BV FY21 (x)	EV/EBITDA FY21 (x)
UPL	20.1	60	17.8	3.4	9.6
PI Industries	18.5	79	57.9	8.0	40.1
Sumitomo Chem	25.0	117	56.8	12.7	40.0
Rallis	15.2	65	28.8	4.1	20.3
Dhanuka Agritech	28.0	112	21.0	5.5	16.4
India Pesticides	36.0	118	25.3	7.0	18.0

Source: Company RHP, Bloomberg, MOFSL
**Price Data as on 22nd June, 2021*
^Calculated on fully diluted basis at upper price band of INR296

Risk and concerns

- Largest customer contribute 19% of revenue while top 10 customers contribute 57% of revenue, which reflects high client concentration.
- Business is highly working capital intensive which affects its operating cash flow.
- High exposure to foreign currency risk as exports form 57% of revenue and the company has not entered into any hedging arrangements.
- IPL is not present in bio-pesticides which is the fastest growing segment under global agro-chemicals market.

Financials

Income Statement

(INR mn)

Y/E March	FY19	FY20	FY21
Net Sales	**3,407**	**4,796**	**6,490**
Change (%)	-	40.8	35.3
Total Expenditure	**2,754**	**3,861**	**4,659**
% of Sales	80.8	80.5	71.8
EBITDA	**653**	**936**	**1,831**
Margin (%)	19.2	19.5	28.2
Depreciation	40	51	61
EBIT	**613**	**885**	**1,769**
Int. and Finance Charges	56	52	34
Other Income	54	101	64
PBT	**611**	**934**	**1,799**
Tax	172	226	454
Tax Rate (%)	28.1	24.2	25.2
Reported PAT	**439**	**708**	**1345**
Adjusted PAT	**439**	**708**	**1,345**
Change (%)	-	61.2	90.0
Margin (%)	12.9	14.8	20.7

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY19	FY20	FY21
Share Capital	32	32	112
Reserves	1,838	2,537	3,783
Net Worth	**1,870**	**2,568**	**3,895**
Debt	550	240	300
Deferred Tax (Net)	76	73	81
Total Capital Employed	**2,496**	**2,881**	**4,275**
Net Fixed Assets	**702**	**994**	**1,245**
Capital WIP	47	12	119
Investments	31	30	91
Current Assets	**2,392**	**2,621**	**3,716**
Inventory	355	386	701
Debtors	1,783	1,832	2,142
Cash and Bank Balance	28	80	437
Loans and Advances & OCA	225	323	436
Curr. Liability & Provisions	**676**	**776**	**895**
Account Payables	549	615	741
Current Liabilities	123	153	115
Other Long Term Liab. & Provs.	4	7	40
Net Current Assets	**1,716**	**1,845**	**2,821**
Misc Expenditure	-	-	-
Appl. of Funds	**2,496**	**2,881**	**4,275**

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY19	FY20	FY21
Basic (INR)			
EPS	**3.8**	**6.1**	**11.7**
Cash EPS	4.2	6.6	12.2
BV/Share	16.2	22.3	42.5
DPS	0.1	0.1	0.3
Valuation (x)			
P/E	77.6	48.2	25.3
Cash P/E	71.2	44.9	24.2
P/BV	18.2	13.3	7.0
EV/Sales	10.2	7.1	5.1
EV/EBITDA	53.0	36.6	18.0
Dividend Yield (%)	0.0	0.0	0.1
Return Ratios (%)			
RoE	23.5	31.9	36.0
RoCE	19.8	28.6	34.3
Working Capital Ratios			
Asset Turnover (x)	1.4	1.7	1.2
Inventory (Days)	38	29	39
Debtor (Days)	191	139	120
Creditor (Days)	59	47	42
Leverage Ratio (x)			
Net Debt/Equity	0.3	0.1	-0.3

Source: Company RHP, MOFSL

**All ratios calculated on fully diluted basis at the upper price band of INR296*

Cash Flow Statement (INR mn)

Y/E March	FY19	FY20	FY21
OP/(Loss) before Tax	611	934	1,799
Depreciation	40	51	61
Finance Cost	56	52	34
Income Taxes paid	-173	-223	449
(Inc)/Dec in WC	-544	-28	617
CF from Operations	**-10**	**785**	**2,960**
Others	-24	-34	-2,128
CF from Operating (Net)	**-34**	**752**	**833**
(Pur)/Sale of FA	-72	-308	-419
(Pur)/Sale of Investments	2	-5	-38
Other bank balance and cash not available for immediate use	3	3	-375
CF from Investments	**-66**	**-311**	**-832**
Proceeds from borrowings	151	-330	28
Issue of equity shares	-	-	0
Interest Paid	-51	-52	-34
Dividend Paid	-8	-8	-35
CF from Fin. Activity	**93**	**-390**	**-41**
Net Inc/Dec of Cash	**-7**	**51**	**-40**

Source: Company RHP, MOFSL

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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Analyst ownership of the stock No

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