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Insecticides India

Revival in growth

Pick-up in demand from overseas markets and new launches work in favour of the company

BUY

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Investors can consider buying the stock of Insecticides India, a player in the crop protection space. The company is a manufacturer of insecticides, weedicides, fungicides and plant growth regulators (chemicals that help in the growth of plant cells and tissues). It is among the top 10 agro-chemical players in the country and holds about 7 per cent market share.

After over two years of muted growth in sales, agro-chemical players are poised to see a revival. For Insecticides India, new launches also hold promise. The impact of loss in revenue resulting from the ban of DDVP (Nuvan) and Phorate (Thimet), which kicks in from December 2020, will be overcome by growth in revenue from new launches in 2018-19 and those planned for 2019-20. The stock trades at ₹610, up 30 per cent in the last three months. However, long-term investors can still buy the stock. It trades at 11.5 times the expected earnings for 2019-20. Peers — Sharda CropChem, Rallis India and UPL — trade at 12-15 times.

Growing business

In 2017-18, Insecticides India reported a revenue of ₹1,106 crore, up 3 per cent, year-on-year. The compounded annual growth in sales between 2013-14 and 2017-18 is 6 per cent.

In the next five years, however, the company may see a stronger growth.

Insecticides India intends to leverage on its R&D capability to develop new molecules. It has so far developed over 59 new processes — five of them have received patents already; 22 are awaiting approval. Apart from its own R&D facility, the company has technical collaboration with four international partners and an R&D lab set up as a JV with OAT Agrio Co, Japan for developing new generation formulations and product discoveries.

In the current fiscal, seven new products have been launched by the company, which together contributed ₹70 crore to the revenue (7 per cent of the total for the nine months ending December 2018). In 2019-20, there will be another 8-10 new products that will be launched (some of them through the collaboration partners). The JV R&D centre is working towards proprietary discoveries and may have its first launch in two to three years.

The new product launches will offset the loss in revenue for the company from banned pesticides. Last August, the Centre banned 18 pesticides. Following this, Insecticides India discontinued manufacturing four of its products, including DDVP and Phorate — the two volume churners for the company that contribute about 18-20 per cent of revenue. DDVP and Phorate will be banned from December 2020. Currently, the company has stock of these chemicals and is selling them in the market. It is only from 2021-22 that these cannot be sold and their contribution to revenue will be nil. However, the company's management is confident that the new products would gain traction by the time the old ones go off-shelf.

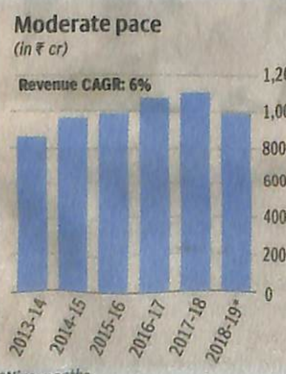
Insecticides India has been supplying to South-East Asia, West Asia and Africa. For the first nine months of 2018-19, exports were ₹49 crore, up 77 per cent over the same period last year. For full year 2018-19, the company targets achieving ₹70 crore of exports, which will make it about 4-5 per cent of total revenue.

The December 2018 quarter was a good one for the company. It reported revenue of ₹215.7 crore, up 22.6 per cent year-on-year, thanks to the increase in volumes, following the extended Kharif season and higher contribution from new products and exports.

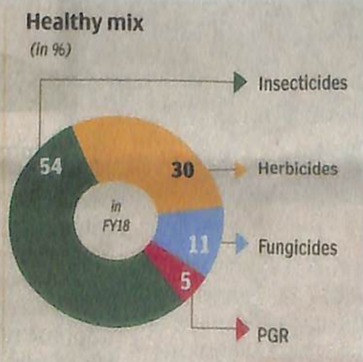
The operating profit margin stood at 14.8 per cent, up 170 basis points over last year (despite higher raw material costs), helped by improved product mix and reduced contribution from generic products. PAT for the quarter grew by 75.1 per cent year-on-year to ₹16.9 crore. Besides higher margins, the lower interest outgo too helped. For the nine months ended December 2018, revenue growth was 9.8 per cent and profit growth was 23 per cent.

Managing cost pressure

All agro-chemical companies have been facing cost pressures due to rising cost of inputs with supply shortage of key chemicals in the international market. But with a higher share of value-added formulations, Insecticides India has been able to improve margins. The company has also planned backward integration and started manufacturing some of the key active ingredients in-house. This may help margins further.



*Nine months



Why

- Boost to farm income from govt scheme
- Growth from launches, exports
- Product mix change to improve profit margin

Did you know?

The company has a large network of over 3,000 distributors and 6,000 retailers