MORNING FARSIGHT

Thursday, August 30, 2018

INSECTICIDES INDIA CMP:RS 651 TRGT:RS 750 TIME HORIZON: 1 YEAR

Insecticides India, manufacturing Formulations and Technicals of plant protection chemicals and household pesticides, at its 7 mfg facilities in Chopanki in Rajasthan, Samba and Udhampur in Jammu & Kashmir, and Dahej in Gujarat, is looking a good buy with robust Q4FY18 / Q1FY19 earnings and positive guidance from management for the corning quarteRs In Q4FY18, company's EBIDTA improved by 11 % YoY to Rs 19cr from Rs 17.2 cr, while FY18 EBIDTA rose by 28% at Rs 151cr with EBIDTA margin of 14.08%, due to robust performance driven by healthy volumes and better realization/cost of material consumed, decreased due to change of product mix along with sale of new generation molecules. It had ended FY18 with PAT of Rs 84 cr against Rs 59 cr for FY17, a growth of 41%, yielding an EPS of Rs 40.63 for FY18. Q1FY19 has remained quite good for the company as well, with PAT of Rs 34 cr against Rs 31 cr YoY, leading to an EPS of Rs 16.45 for Q1FY19. Further, company manufactures 4 pesticides, out of recent ban on list of pesticides, which still can be manufactured till December 2018 and can be sold till December 2020. Management has stated that this will not impact turnover as impact will be spread over 2 years and products will be replaced with new launches and innovation. Going ahead, outlook is quite positive with near normal monsoon and consistent launch of new products. Company is having presence of more than three decades in the agro chemical industry and enjoys a vast portfolio of products comprising pesticides, insecticides, and herbicide formulations and technical, coupled with nationwide geographical presence. Management has indicated, it will focus more on the technical products and specialty molecules, for which it will continue to tap export markets. Currently, export revenues are less than 1% of total revenues (--Rs 35 cr in FY18); they target to grow at least by 2x in FY19E. Company has announced to launch Encounter, Sofia, Aikido and Hercules brands. With launch of new products, owing to change in product mix, management is confident of improving PAT margins by —100bps every year. Company has additional triggers like recently entered 50-50 JV with OAT Agrio (Japan) to capitalise on molecules going off-patent, (2) Capex of —Rs 100 cr over next two years at its Dahej facility for the backward integration of its facilities to manufacture technical products (3) —10new products in pipeline under 9(3) category, which would be expected to launch in FY19. Further, the government's target to double farm income by 2022, should elevate demand for agro chemicals. On an estimated EPS of Rs 48 for current year, stock is trading at PE of just 13.5x ,whIchis at discount to peers like Dhanuka Agritech (PE 21x) and PI Industries (PE 30x). Promoters are holding —69% stake, while —14% is held by the institutional houses. Share ruling at Rs 651 can move to Rs 750 in 1 year period.