

India Pesticides

Rating: **SUBSCRIBE** | Price Band: **Rs290-296**

June 22, 2021

IPO Note

IPO Fact Sheet

Opening Date:	June 23, 2021
Closing Date:	June 25, 2021
BRLMs:	Axis Capital, JM Financial
Issue Size:	Rs800Cr
Numbers of Shares:	27.0
Face value:	Rs1
Bid lot:	50Shares

Indicative Timetable

Activity	Date
Finalisation of Basis of Allotment:	June 30, 2021
Refunds/Unblocking ASBA Fund	July 1, 2021
Credit of equity shares to DP A/c	July 2, 2021
Trading commences	July 5, 2021

Issue Structure

QIB	50%
NIB	15%
Retail	35%

Issue Details

Pre-issue equity shares (mn)	111.8
Post-issue equity shares* (mn)	115.16
Post-issue Market Cap (Rs mn)*	33,397
Post-issue Market Cap (Rs mn)#	34,088

* Upper Band / # Lower Band

Objects of the Issue

Fresh Issue- To fund Working Cap requirements	Rs1bn
OFS (By Promoters- Rs 2.8 bn)	Rs7bn

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	82.7%	72.0%
Public	17.3%	28.0%

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Niche company at reasonable valuations

We recommend subscribe to India Pesticides Limited (IPL), a niche play in manufacturing of pesticides technical (79% of rev) and formulation (21%). Our positive stance emanates from 1) it is the sole manufacturer of 5 technical in India and leading manufacturer of certain molecules like Captan, Folpet and Thiocarbamate herbicide and 2) none of its technical molecules are classified under "Red triangle". IPL reported a topline/EBITDA/PAT CAGR of 38%/67%/75% over FY19-21. We expect growth momentum to sustain led by 1) 6-8 molecules to be commercialized at its new 10000 MTPA capacity expansion (commencement of production in FY22E; 38% of existing capacity) and 2) Greenfield expansion at a new site for which IPL is currently in discussion with UP government to acquire land.

At upper end price band of Rs 290-296, the issue comes at an indicative rough estimate P/E multiple of 17.1x FY23E EPS of Rs 17.3. On TTM basis, the issue is priced at 24.7x FY21 earnings which is at median valuation compared to its listed peers i.e. Rallis (@30x FY21 earnings), Heramba Inds (@ 18.5x FY21 earnings) and Astec Lifescience (@ 40.9x FY21 earnings). Hence, we recommend investors to 'SUBSCRIBE' to the issue.

Key investment points:

- **Strong R&D and product development capabilities:** IPL's strong R&D and product development capabilities have led to (a) process development for products that are not highly toxic and (b) commercialization of 3 technicals that contributed 42% revenue in FY21. IPL is currently in the midst of developing processes for 6 molecules and 2 intermediates.
- **Capacity expansion by 10000 MT (38% of existing capacity):** IPL plans to expand capacity by 10000 MTPA for commercializing new molecules. We believe, commencement of new unit in FY22 and ramp-up in FY23 will drive growth for the next 2 years and aid in garnering market share.
- **Diversified portfolio of niche and quality products:** IPL has developed a niche product portfolio as a result of its extensive R&D efforts. It has diversified over the years and currently manufactures multiple products within formulations, herbicide technicals, fungicide technicals as well as APIs.
- **Long-term relationship with key customers:** IPL has developed long term relationship with MNCs who helped in expanding product offerings & geographical reach. Several customers are associated with IPL for +10 years incl. Syngenta, UPL, etc. Top 10 customers contribute 57% to revenue.
- **Focus on cost optimisation:** IPL plans to optimise cost by reducing import dependence and improving manufacturing efficiency. It will expand Sandila unit capacity from 19.5k MT to 30k MT and aims to benefit from economies of scale.

Key Risks:

- Delay in granting of product approvals by CIB
- Client concentration risk (Largest client contribute 19% to revenue)
- Lack of market acceptance of new products

About the company

Promoted by Mr. Anand Swarup Agarwal, India Pesticides Limited (IPL) is engaged in manufacturing technical (79% of rev) and formulation (21%) pesticides. Incorporated in 1984, the company has 8 technicals, 2 APIs and 30 formulations in its portfolio.

- IPL is the sole manufacturer of 5 technicals in India and is among the leading manufacturers for Captan, Folpet and Thiocarbonate herbicide. The company obtained registrations for 22 agrochemical technicals & 125 formulations for sale in India and 27 technicals & 35 formulations for export.
- **Clientele:** Syngenta, UPL, Ascenza, Conquest, Sharda cropchem, etc. are among its key clients. IPL derives 57% of revenue from exports. It exports to more than 25 countries including Australia, Americas, Europe, Asia and Africa.
- **R&D and product toxicity profile:** The company has strategically focus on R&D and its 2 well-equipped in-house laboratories are led by very abled R&D team. None of IPL's products are in the "Red triangle" or highly toxic category. 6 are under the "Blue category" and 2 in "Green category".

Exhibit 1: Technical:Formulation revenue mix @ 80:20

Revenue break up (Rs mn)	FY18	FY19	FY20	FY21
TECHNICALS	1,795	2,567	3,833	5,068
YoY (%)		43.0%	49.3%	32.2%
Sales Mix	70.9%	75.4%	80.2%	78.9%
FORMULATIONS	735	836	947	1,358
YoY (%)		13.7%	13.2%	43.4%
Sales Mix	29.1%	24.6%	19.8%	21.1%
Total Revenue	2,530	3,403	4,780	6,426
YoY (%)		34.5%	40.5%	34.5%

Source: Company, PL

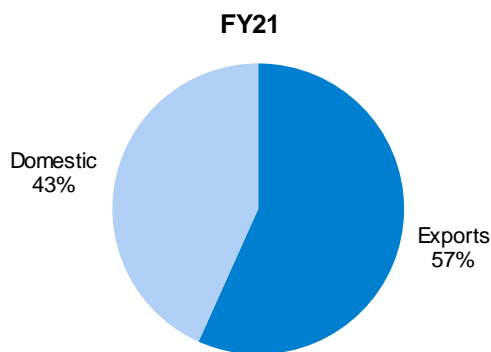
Exhibit 2: Major RM

Chlorine
Tetrahydro phthalic anhydride
Carbon di sulphide
Technical grade urea
Di-n propylamine
Benzyl chloride

Source: Company, PL

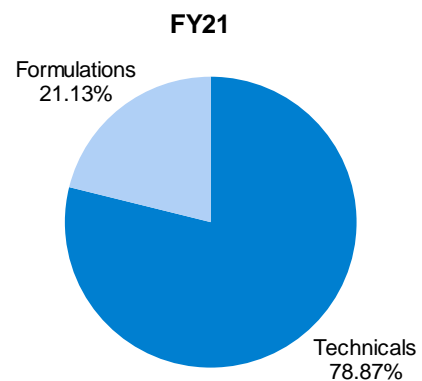
Story in Charts

Exhibit 3: Exports contribute 57% of revenue



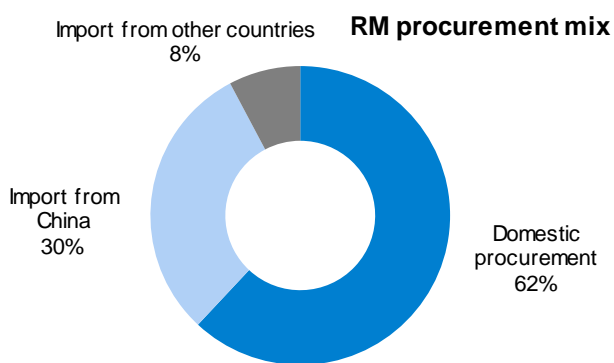
Source: Company, PL

Exhibit 4: Co derives 79% of revenue from technical segment



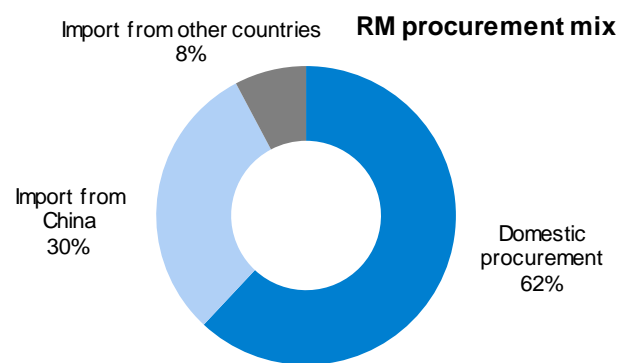
Source: Company, PL

Exhibit 5: RM procurement mix



Source: Company, PL

Exhibit 6: Geography wise share in total revenue



Source: Company, PL

Exhibit 7: Installed Capacity – Bulged towards technical manufacturing

Plant	Technicals	Formulations
Dewa Road	2100	3000
Sandila	17400	3500
Total	19500	6500

Source: Company, PL

Exhibit 8: Registration procured from CIB

Registration procured	For sale in India	Exports
Technicals	22	27
Formulations	125	35

Source: Company, PL

Exhibit 9: Key Products

Technicals		
Molecule	Segment	Use
Folpet	Fungicide	Control fungal growth at vineyards, cereals, crops and biocide in paints
Cymoxanil	Fungicide	control downy mildews of grapes, potatoes, vegetables and several other crops
Thiocarbamate	Herbicides	Application in field crops, such as, wheat and rice
Ziram (part of 27 molecules list)	Fungicide	Addresses scab on apples, pears, peaches, almonds, apricots and cherries
Captan (part of 27 molecules list)	Fungicide	Controls fungal growth on fruits, vegetables and cereals
API		
Molecule	Segment	Use
Anti-scabies drug	Dermatology	Used in the treatment of scabies and peduclosis
Anti-fungal drug	Dermatology	Fungicidal drug that acts on fungal hyphae and inhibits squalene epoxidase
Key formulations		
Molecule	Segment	Use
Crotax -36	Insecticides	Against pests such as brown plant hoppers, green leaf hopper, leaf roller/folder, yellow stemborer shoot fly, etc
Chlorax – 20	Insecticides	Against pests such as hispa, leaf roller, gall midge, stem borer, whorl maggot, aphid, bollworm, white fly, shoot and fruit borer
Tridev	Insecticides	Used on cotton for controlling bollworm
IPL 505	Insecticides	Against pests such as aphid, whitefly, jassid, thrips, whitefly, American bollworm, spotted bollworm and leaf hopper
IPL Soldier	Insecticides	Against pests such as thrips, pod borer, bollworms, diamond black moth, pod borer, fruit and shoot borer and mites
IPL Tara	Insecticides	Against pests such as hopper, aphid, jassid, whitefly, mosquito bug, stem borer, gall midge, leaf folder, brown plant hopper
Immidiator	Insecticides	Against pests such as aphid, whitefly, jassid, thrips, brown plant hopper
Agni	Herbicides	Against weeds such as Echinochloa Crusgalli, Echinochloa Colonom, Cyperus Difformis, etc
Takatvar	Fungicides	Against pests such as fruit rot (anthracnose), early blight and late blight
Ziram (part of 27 molecules list)	Fungicides	Against pests such as downy mildew anthracnose, scab, anthracnose, early blight
Captan (part of 27 molecules list)	Fungicides	Against pests such as scab, brown rot, downy mildew, early blight, late blight, damping off and leaf spot

Source: Company, PL

Exhibit 10: Total capacity of 26k MT, to increase by ~38% in FY22

	FY18			FY19			FY20			FY21		
	Installed Cap	Production	Cap Utilisation	Installed Cap	Production	Cap Utilisation	Installed Cap	Production	Cap Utilisation	Installed Cap	Production	Cap Utilisation
Technicals												
Dewa Road	2100	1995	95%	2100	1910	91%	2100	1806	86%	2100	2000	95%
Sandila	3700	3091	84%	7900	6064	77%	12400	9222	74%	17400	13003	75%
Total	5800	5086	88%	10000	7974	80%	14500	11028	76%	19500	15003	77%
Formulations												
Dewa Road	3000	2039	68%	3000	1918	64%	3000	2128	71%	3000	2677	89%
Sandila	3000	1098	37%	3000	1615	54%	3500	1656	47%	3500	2047	58%
Total	6000	3137	52%	6000	3533	59%	6500	3784	58%	6500	4724	73%

Source: Company, PL

Investment Arguments

Strong R&D and product development capabilities

- IPL's R&D significantly emphasized on identifying appropriate complex technicals that are suitable for commercialization, improving production processes, quality & purity of their present products and manufacturing new off-patent products.
- Since 2018, its R&D efforts have resulted in (a) development of processes for products that are not highly toxic and **(b) commercialization of 3 technicals which contributed 42% to revenue in FY21. It is currently in the midst of developing processes for 6 molecules and 2 intermediates which are expected to commercialise soon.**
- IPL has 2 DSIR registered R&D labs equipped with sophisticated equipment like gas chromatography-mass spectrometry, high-performance liquid chromatography machines, particle size analyzers, PH meters, Karl Fischer titrators, conductivity meters, melting point apparatus and water purification systems. Its analytical capabilities include critical quality control measures, non GLP-5 batch analysis, stability studies, method validation and method development.
- IPL's competitive and abled R&D efforts enable it to manufacture molecules which require specialised manufacturing & handling capabilities thereby aiding in garnering higher margins.

To expand capacity by 10000 MT (38% of existing capacity)

- IPL is expanding capacity of Sandila unit by ~10000 MTPA. While the amount invested is yet to be disclosed by the management, it will increase the capacity to ~30000 MTPA. IPL also plans to commercialise 6-8 molecules from its new capacity. Out of 8, 2 are likely to get commercialized in Q2 and remaining by the end of FY22E.
- The company plans to expand its product portfolio by manufacturing complex off-patented technicals. With significant number of molecules going off-patent till 2026, there are major opportunities to develop number of off-patent/ generic AIs.
- The company aims to garner market share with launch of new products. It plans to manufacture high value molecules which will address problems of resistive, unwanted pests and diseases.
- IPL will leverage its R&D capabilities, manufacturing expertise and focus investment on process innovation. In particular, investment will be channeled towards automation, modern technology and equipment to improve manufacturing process and address changing customer preferences.

Diversified portfolio of niche and specialized products

- IPL has developed a niche portfolio of agrochemical products as a result of its extensive R&D efforts. **The biggest testimony of IPL being a niche and specialized product company is the fact that it is sole manufacturer of 5 technicals in India and leading manufacturer of certain molecules like Captan, Folpet and Thiocarbamate herbicide.**
- IPL’s products are characterized by their quality and low levels of toxicity. **One of the core strength of IPL is that none of its technical products are classified under “red triangle”.**
- The company has diversified product portfolio over years and currently manufactures multiple products within formulations, herbicide technicals, fungicide technicals as well as APIs. It has procured registrations for 22 agrochemical Technicals and 125 Formulations for sale in India and 27 agrochemical Technicals and 35 Formulations for export.

Long-term relationship with key customers

- IPL has developed long term relationship with various MNCs who helped in expanding product offerings and geographical reach of its technical business. MNCs collaborate with IPL to take advantage of its cost effective manufacturing, inexpensive labour and stronger R&D capabilities.
- IPL’s ability to manufacture newly expired off-patent molecules within stringent quality specifications in cost effective, safe and environmentally conscious manner is its primary source of strong relationship with customers.
- **Several customers are associated with IPL for +10 years including Syngenta, UPL, etc. Top 10 customers contributed 57% to revenue in FY21.**
- IPL’s long term relationship with MNCs has allowed it to plan capex, enhance its ability to benefit from economies of scale with stronger purchasing power for raw materials and a low cost base, thereby ensuring a competitive cost structure.

Exhibit 11: Syngenta and UPL are among the key clients

Key Clients
Syngenta Asia Pacific Pte
UPL
Ascenza Agro
Conquest crop protection
Sharda Cropchem
Stotras

Source: Company, PL

Exhibit 12: Top 10 customers contribute ~55-60% of revenue

Share of revenue	FY18	FY19	FY20	FY21
Top 10 customers	44%	54%	59%	57%
Largest customer	23%	30%	17%	19%

Source: Company, PL

Focus on cost optimisation

- IPL plans to optimise cost by reducing import dependency and improving process efficiency in manufacturing process. It also plans to expand manufacturing capacity of Sandila unit from 19500 MT to 30000 MT and benefit from economies of scale.
- Currently imports (primarily from China and Taiwan) account for 38% of total raw material purchases. IPL plans to increase sourcing of raw materials indigenously by identifying suppliers of key raw materials and entering into long term supply contracts to ensure availability of such raw materials at competitive prices.

Exhibit 13: Peer Comparison

Company	CMP	Mcap (Rs Mn)	Revenue	EBITDA	PAT	RoE	P/E	EV/EBITDA
India Pesticides Ltd.	296	34,088	6,490	1,831	1,341	34.4%	24.7	18.5
Rallis India	341	66,295	24,294	3,229	2,191	14.6%	30.3	19.6
Heranba Industries	714	28,570	12,186	2,213	1,542	29.2%	18.5	13.8
Astec Lifescience	1,348	26,443	5,549	1,115	647	21.0%	40.9	25.4

Source: Company, PL

Financials

Exhibit 14: Income Statement (Rs mn)

Y/e March	FY18	FY19	FY20	FY21
Net Revenues	2,532	3,407	4,797	6,490
<i>YoY gr. (%)</i>		34.6	40.8	35.3
Cost of Goods Sold	1,245	1,871	2,531	3,104
Gross Profit	1,287	1,536	2,266	3,385
<i>Margin (%)</i>	50.8	45.1	47.2	52.2
Employee Cost	121	134	164	227
Other Expenses	612	749	1,166	1,327
EBITDA	554	653	936	1,831
<i>YoY gr. (%)</i>		13.0	28.1	21.0
<i>Margin (%)</i>	21.9	19.2	19.5	28.2
Depreciation and Amortization	35	40	51	61
EBIT	519	613	886	1,770
<i>Margin (%)</i>	20.5	18.0	18.5	27.3
Net Interest	44	56	52	34
Other Income	27	54	101	64
Profit Before Tax	502	611	934	1,799
<i>Margin (%)</i>	19.8	17.9	19.5	27.7
Total Tax	174	172	226	458
<i>Effective tax rate (%)</i>	34.6	28.1	24.2	25.5
Profit after tax	328	439	709	1,341
Minority interest	NA	NA	NA	NA
Share Profit from Associate	NA	NA	NA	NA
Adjusted PAT	328	439	709	1,341
<i>YoY gr. (%)</i>	-	33.9	61.3	89.2
<i>Margin (%)</i>	13.0	12.9	14.8	20.7
Extra Ord. Income / (Exp)	0	0	0	0
Reported PAT	328	439	709	1,341
<i>YoY gr. (%)</i>	-	33.9	61.3	89.2
<i>Margin (%)</i>	13.0	12.9	14.8	20.7
Other Comprehensive Income	-0.52	-0.5	-2.14	3.78
Equity Shares O/s (m)	0.3	0.3	0.3	111.8
EPS (Rs)	1,030.7	1,380.2	2,226.6	12.0

Source: Company, PL

Exhibit 15: Balance Sheet (Rs mn)

Y/e March	FY18	FY19	FY20	FY21
Non-Current Assets				
Gross Block	1,001	739	1,041	1,352
Tangibles	999	736	1,038	1,349
Intangibles	2	2	3	3
Acc: Dep / Amortization	311	39	89	150
Tangibles	311	39	88	149
Intangibles	-	0	1	1
Net fixed assets	690	700	952	1,201
Tangibles	688	698	950	1,200
Intangibles	2	2	2	1
Capital Work In Progress	25	47	12	119
Goodwill				
Non-Current Investments	33	31	30	99
Net Deferred tax assets				
Other Non-Current Assets	50	60	112	84
Current Assets				
Investments				
Inventories	192	355	386	701
Trade receivables	1,248	1,783	1,832	2,142
Cash & Bank Balance	35	28	80	430
Other Current Assets	131	168	254	396
Total Assets	2,404	3,172	3,657	5,171
Equity				
Equity Share Capital	32	32	32	112
Other Equity	1,407	1,838	2,537	3,783
Total Networth	1,439	1,870	2,568	3,895
Non-Current Liabilities				
Long Term borrowings	68	113	104	74
Provisions	2	4	5	7
Other non current liabilities	74	76	74	82
Current Liabilities				
ST Debt / Current of LT Debt	326	438	135	225
Trade payables	367	549	615	740
Other current liabilities	127	123	154	147
Total Equity & Liabilities	2,404	3,172	3,657	5,171

Source: Company, PL

Exhibit 16: Cash Flow (Rs mn)

Y/e March	FY18	FY19	FY20	FY21
PBT	502	611	934	1,799
Add. Depreciation	35	39	51	61
Add. Interest	39	56	52	28
Less Financial Other Income	(26)	(27)	(41)	(34)
Add. Other	16	3	13	42
Op. profit before WC changes	564	683	1,009	1,898
Net Changes-WC	(248)	(544)	(34)	(616)
Direct tax	(156)	(173)	(223)	(449)
Net cash from Op. activities	160	(34)	752	833
Capital expenditures	(119)	(72)	(308)	(419)
Interest / Dividend Income	3	4	4	22
Others	(12)	2	(6)	(444)
Net Cash from Inv. activities	(128)	(66)	(311)	(840)
Issue of share cap. / premium				
Debt changes	24	151	(330)	28
Dividend paid	(8)	(8)	(8)	(35)
Interest paid	(39)	(51)	(52)	(34)
Others				
Net cash from Fin. activities	-22	93	-390	-41
Net change in cash	11	-7	51	-48
Free Cash Flow	42	-106	443	414

Source: Company, PL

Exhibit 17: Key Ratios

Y/e March	FY18	FY19	FY20	FY21
Per Share(Rs)				
EPS	1,030.7	1,380.2	2,226.6	12.0
CEPS	1140.748	1,504.6	2,385.8	12.5
BVPS	4,521	5,876	8,069	35
FCF	130.5	-333.4	1,392.2	3.7
DPS	20.0	20.0	20.0	0.3
Return Ratio(%)				
RoCE	28.3	25.3	31.5	42.2
RoE	22.8	23.5	27.6	34.4
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.1	-0.0
Net Working Capital (Days)	100	122	80	73
Valuation(x)				
PER	NA	NA	NA	24.7
P/B	NA	NA	NA	8.5
P/CEPS	NA	NA	NA	23.6
EV/EBITDA	NA	NA	NA	18.5
EV/Sales	NA	NA	NA	5.2
Dividend Yield (%)	NA	NA	NA	0.1

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	6,022	5,197
2	Coromandel International	UR	-	831
3	Dhanuka Agritech	BUY	953	748
4	Godrej Agrovet	BUY	639	529
5	Insecticides India	Accumulate	817	756
6	P.I. Industries	Hold	2,119	2,418
7	Rallis India	BUY	321	275
8	Sharda Cropchem	BUY	383	311
9	Sumitomo Chemical India	BUY	369	319
10	UPL	Hold	740	692

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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