Insecticides India Ltd (IIL)

Management Meet Note | **Agro-chemicals**

Rebuilding with resilience

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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We interacted with Sandeep Kumar Agarwal, CFO of Insecticides India Ltd (IIL), to get a detailed overview of IIL's business model, highlighting its product portfolio, strategic partnerships, financial performance, growth strategies, and outlook for the future. We met with the CFO at this critical juncture to understand the company's recent turnaround, which is restoring EBITDA margins to 14% after 11 quarters of subdued performance.Here are key insights into the company and its future outlook.

Company Background and Business Model:

- Insecticide India business was formed in 1996 and operations began in 2001.
- The company is currently run by the second generation of the founding family & third generation has recently joined.
- They have **6 plants**: 3 in Rajasthan, 2 in Jammu and Kashmir, and 1 in Gujarat.
- The company's primary business is **B2C**, accounting for ~72-75% of total revenue. **B2B** sales account for ~25% of revenue and **exports** account for 3-4% of revenue.
- The company produces both technical-grade and formulated insecticides. Approximately 50% of the technical-grade insecticide produced is used for the company's own formulations and 50% is sold as B2B.
- The company classifies its products into **three categories**:
  - **Focus Maharatna & Maharatna :** Products with sales ≥ Rs.500 mn falls under Focused Maharatna whereas products with sales of Rs.50 mn to Rs.500 mn fall under Maharatna & a minimum gross margin of 35%. [This category accounts for 68% of B2C sales or ~50% of overall revenue]
  - **Gold :** Generic products with lower gross margins (~20%) and intense price competition.
  - **Silver :** Products with the lowest profit margins or those slated for discontinuation.

Financial Summary

Y/E (Rs.Mn)	FY19	FY20	FY21	FY22	FY23	FY24
Sales	**11,935**	**13,632**	**14,202**	**15,040**	**18,013**	**19,664**
Expenses	10,058	12,070	12,675	13,330	16,794	18,032
EBITDA	1,877	1,562	1,527	1,710	1,220	1,632
EBITDA Margin (%)	**16%**	**11%**	**11%**	**11%**	**7%**	**8%**
Other Income	2	22	-24	30	12	95
Depreciation	197	241	247	264	261	293
Interest	152	239	67	66	135	109
Profit before tax	1,530	1,105	1,190	1,410	836	1,326
Tax	306	244	256	339	206	300
Net profit	**1,224**	**860**	**934**	**1,070**	**630**	**1,026**
EPS	**39.5**	**27.8**	**30.1**	**36.2**	**21.3**	**34.7**
PE (x)	**18**	**26**	**23**	**20**	**33**	**20**

Source: Company, Dalal & Broacha Research

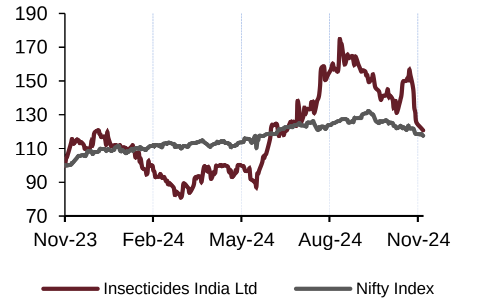
Rating

NOT RATED

Market data		
Current price	**Rs**	**700**
Market Cap (Rs.Bn)	(Rs Bn)	20
Market Cap (US$ Mn)	(US$ Mn)	241
Face Value	Rs	10
52 Weeks High/Low		Rs 1084.65 / 460.5
Average Daily Volume	('000)	22
BSE Code		532851
Bloomberg		INST.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Oct-24	Jun-24
Promoters	72.2	72.2
Public	27.8	27.8
Total	100	100

Source: Bloomberg

Key Risks:

- Product Ban
- Effect of low or erratic rainfall
- Change in government policies
- Breakdown of MNC Partnerships

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Partnerships & Licensing:

- The company has partnerships with several multinational corporations, including **Nissan, OAT Agrio, and Momentive.**
- Most of these agreements involve licensing and packaging of imported products.
- **Arrangement with Nissan :**
  - The company does manufacture a technical product for one combination product (Hachiman) sourced from Nissan.
  - The partnership with Nissan is particularly significant, generating ~Rs.5bn in revenue (~25% of annual topline). This includes products like **Shinwa, Hakama, Pulsar, and Hachiman**.
  - The arrangement with Nissan involves minimum quantity commitments for licensed products.
  - A new product, **Alter**, licensed from Nissan, is expected to launch soon. **[USP : IIL will have exclusivity for this product in India aiming at better realisations & gross margins]**
- **Arrangement with OAT Agrio :**
  - The company has an **R&D partnership** with OAT Agrio **for new molecule discovery.**
  - Under the R&D agreement with OAT:
    - Expenses are shared 80% by OAT and 20% by the company. The company has invested a substantial amount, ~₹700-800 mn, in this R&D partnership over the past 13 years. Considering OAT's 80% share of the expenses, the total R&D cost for the project is estimated to be around Rs.2.25 bn.
    - The company has exclusive rights to sell resulting products in India and neighboring countries.
    - **The R&D partnership with OAT has already yielded promising results, with two patents granted out of 11 applications. One product from this collaboration is currently in the data generation phase and is expected to be commercialized within the next 1.5 to 2 years.**
    - While the exact market size for the new product is uncertain, the company estimates a potential market opportunity of Rs.3-4bn in India. This projection is based on the product's potential to target multiple pests and crops. The company anticipates a high EBITDA margin for this product, due to its proprietary nature and the absence of competition.
    - The company also sources a bio-product, Saffron, from OAT, which it packages and sells, sharing the market with Nagarjuna.

Financial Performance and Outlook:

- The company aims for a blended gross margin of 23-24%.
- B2B sales have low gross margins (8-10%) due to sales to competitors.
- Despite the company's strong brand recognition, they face pricing pressure in the generic product segment.
- The company achieved a 12.5% EBITDA margin in the first half of the year but expects a steady-state margin of 14-15% over the next two years.
- The management is **targeting a minimum of 15% EBITDA margin in the long term.**
- **Factors contributing to the positive outlook include:**
    - The phasing out of older, generic molecules from the market.
    - Government regulations favoring newer products with shorter residual periods.
    - A strong product pipeline with 40 products in various stages of development, including bio-products and nanotechnology products.
    - Potential export opportunities for bio-products through Nissan.
- The company has a dividend policy of a minimum 30% payout.
- They are currently debt-free and in a surplus cash position.
- Planned capex for the next year is Rs.500-600 mn in addition to routine maintenance capex of Rs.150 mn.

Other Key Points:

- The company has a large distribution network with over 6,500 distributors and 60,000-70,000 retailers.
- They maintain a field force of 1,500 employees.

Key Products [Focus Maharatna & Maharatna]

Focus Maharatna

Premium Products with High Value

Maharatna

Premium Products with High Growth

New Product Launches – FY24

Partnership Products with MNCs

NISSAN CHEMICAL CORPORATION
JAPAN

MOMENTIVE
USA

OAT Agrio Co., Ltd.
JAPAN

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