

India

REDUCE *(Initiating coverage)*

Consensus ratings*: Buy 0 Hold 0 Sell 0

Current price:	Rs335
Target price:	Rs287
Previous target:	NA
Up/downside:	-14.3%
InCred Research / Consensus:	-18.0%
Reuters:	
Bloomberg:	IPL IN
Market cap:	US\$518m Rs38,620m
Average daily turnover:	US\$0.0m Rs0.0m
Current shares o/s:	111.8m
Free float:	33.8%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.0	0.0	0.0
Relative (%)	0.0	0.0	0.0

Major shareholders	% held
Promoter & Promoter Group	66.2
SBI Magnum Comma Fund	2.1
Nippon Life India Trustee Ltd	1.2

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India Pesticides Ltd

Growth challenges ahead

- Despite robust FY21 domestic market and prosulfocarb exports growth, we expect Indian Pesticides' revenue to grow at 9.5% CAGR over FY21-24F.
- We project gross margin to fall by 200bp in FY22F and PAT CAGR to remain at 10.7% over FY21-24F.
- We value India Pesticides Ltd at 20x Jun FY23F EPS, a 15% discount to its peers, to arrive at a TP of Rs287. We initiate coverage with a Reduce rating.

Generic agrochemicals manufacturer with growth headwind ahead

India Pesticides Limited (IPL) is one of India's top agrochemical manufacturers. It is the sole Indian manufacturer, and among the top five globally, manufacturing chemicals such as, folpet, prosulfocarb, captan, etc. However, global sales of all of its products have either stagnated or are declining. Of all the technicals manufactured by India Pesticides, only thiobencarb and hexaconazole grew at 2% CAGR over CY12-19 (Source: IHS Markit). The company is increasing production of thiocarbamate herbicide, whose overall global sales declined by 1.9% CAGR over CY12-19 (Source: IHS Markit). The high market share in key export molecule prosulfocarb, ~56% of US\$62m sales in FY21 (Source: IHS Markit), limits growth. At best, the company could grow in the Indian market by launching various formulations, but growth would fall to single digits, in our view.

Gross margin to fall from FY21 peak

FY21 was a great year for all companies that sell pyrethroids as prices of chemicals like cypermethrin, deltamethrin and alpha cypermethrin rose fast due to Chinese demand. Our channel checks indicate that India Pesticides has done well in formulations of azoxystrobin and paraquat. The sudden success of Gajab (base agrochemical paraquat) was driven by the new weed Emex Australis Steinh that has been spreading across wheat crops in North India (Source: The Week). We believe this weed is now widespread, making the use of Gajab widespread and limiting its growth potential. Import prices of raw materials for Gajab are rising, raising margin pressures. Super Partap's raw material is cartap, whose import cost is rising (44% in FY20 and 4.7% in FY21F, while its usage appears to be stagnating. India Pesticides uses two formulations of azoxystrobin IPL – Vallet and IPL Magic – used on rice fungus, which has impacted most of South & East India's rice growing regions. Usage has peaked and competition is entering the market, which could put prices under pressure.

Initiate coverage with Reduce and target price of Rs287

We value India Pesticides at 20x Jun FY23F EPS, in line with its peers, to arrive at our TP of Rs287. We initiate coverage on India Pesticides with a Reduce rating because of slowing growth and high valuation. Risks: 1) India Pesticides makes multiple formulations and it is possible that some actions could see sudden success, which could raise EPS, hence, stock price; 2) pyrethroids prices rose fast in FY21 due to supply chain issues, and any repeat of such issues in other generic chemicals will be positive for IPL, in our view.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	4,796	6,490	7,101	7,757	8,512
Operating EBITDA (Rsm)	936	1,831	1,907	2,155	2,449
Net Profit (Rsm)	708	1,345	1,420	1,598	1,811
Core EPS (Rs)	22.2	18.7	19.8	50.2	56.9
Core EPS Growth	61.2%	(15.8%)	5.6%	153.9%	13.3%
FD Core P/E (x)	15.08	17.90	16.96	6.68	5.89
DPS (Rs)	0.2	0.0	5.6	6.3	7.1
Dividend Yield	0.07%	0.00%	2.00%	2.25%	2.54%
EV/EBITDA (x)	40.25	20.40	19.12	16.47	14.04
P/FCFE (x)	96.65	852.76	76.02	8.48	7.07
Net Gearing	6.2%	(3.5%)	(17.6%)	(27.5%)	(35.3%)
P/BV (x)	4.16	9.63	1.81	1.47	1.21
ROE	31.9%	41.6%	29.0%	24.3%	22.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.00	0.00	0.00

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, PRICED AS AT 07 JUL 2021

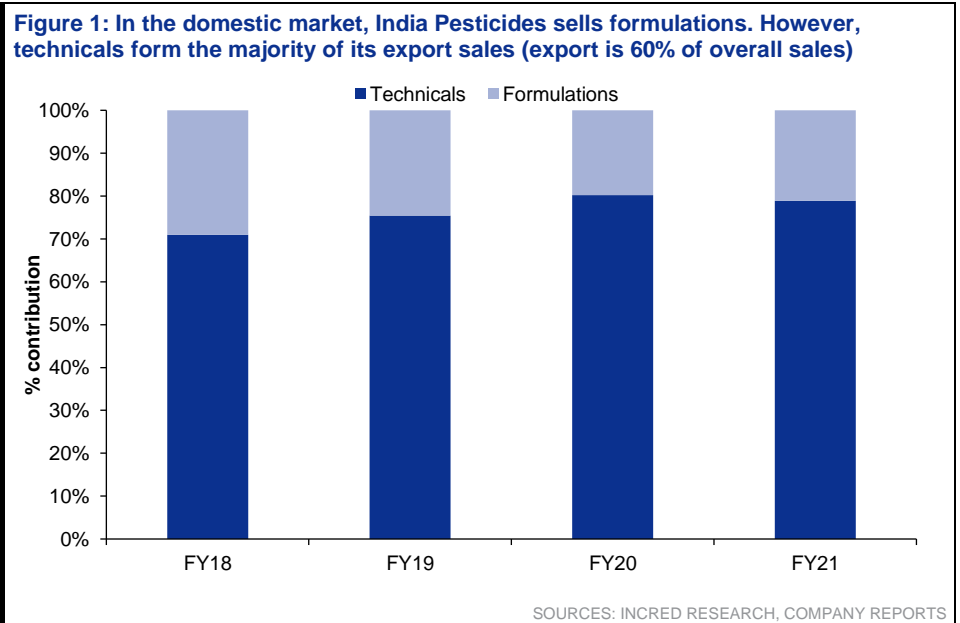
Growth challenges ahead

Business analysis

India Pesticides Limited is one of the top agrochemicals manufacturers in India. It is the sole Indian manufacturer, and among the top five globally, for several technicals, such as folpet, thiocarbamate herbicide, etc. Technicals (pure agrochemicals) accounted for 78% of India Pesticides' sales, and formulations 22% in FY21. Exports formed about two-thirds of its overall sales in 1HFY21 (Source: India Pesticides' draft red herring prospectus). The company is a supplier to big agrochemical companies like UPL (UPL IN, HOLD, TP: Rs578, CP: Rs900), Syngenta (Not Rated), etc. Formulations dominate the company's India sales.

India Pesticides is primarily into sales of technicals (basic agrochemicals, i.e. not mixtures of different chemicals) ►

The company sells technicals to 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.

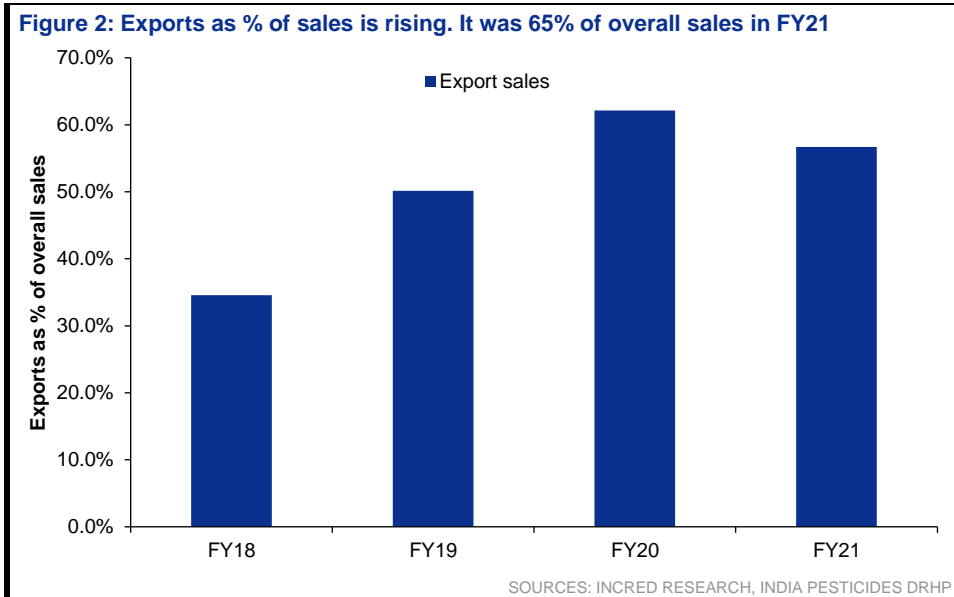


Business Segment – Exports

India Pesticides is mainly an exports-driven company which derived almost 60% of its revenue from exports in FY20. Going forward as well we expect its heavy reliance on exports to continue. Unfortunately for India Pesticides, four molecules (prosulphocarb, captan, folpet and carboxin) generate 98% of its export revenue. Also, global sales of prosulfocarb (67% of exports) is stagnating, hence the future of prosulfocarb exports is bleak, in our view.

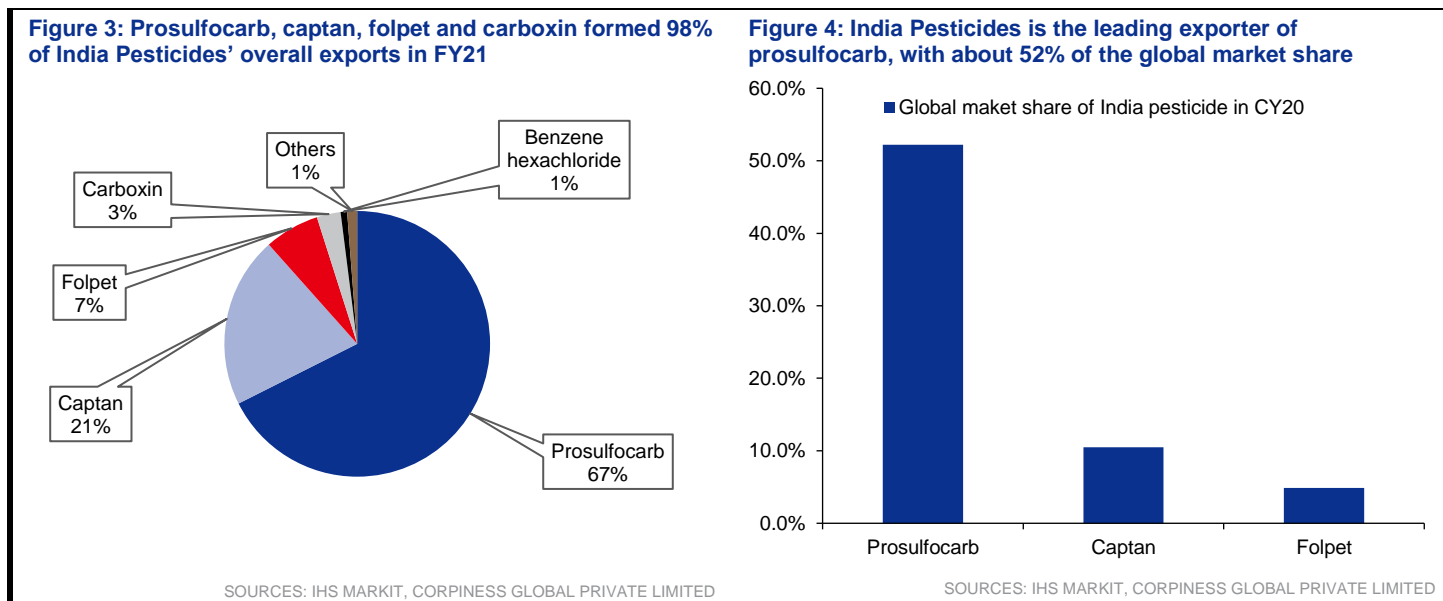
India Pesticides is mainly an exports-driven company ►

Over the years India Pesticides' exports have increased, forming roughly two-thirds of its sales in 1HFY21. In fiscal 2018, 2019 and 2020 and the six months ended 30 Sep 2020, the company derived 1.24%, 10.19%, 30.48% and 23.55% of revenues from the sale of products from business in Australia, 21.20%, 22.88%, 21.24% and 12.41% of revenues from sale of products from business in Europe, and 72.38%, 60.33%, 43.54% and 59.88% of revenues from sale of products in Asia (including India), respectively (Source: India Pesticides DRHP).



Four molecules drive India Pesticides’ exports, forming 98% of its overall exports ➤

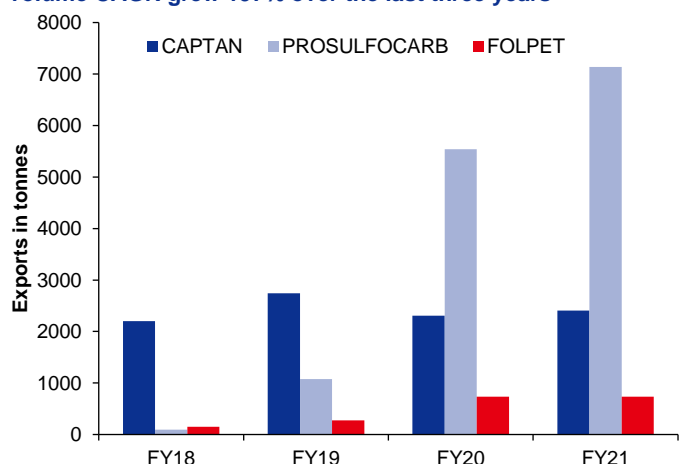
Prosulfocarb, captan, folpet and carboxin formed about 98% of India Pesticides’ overall sales in FY21.



Prosulfocarb exports growing fast, but captan’s stagnant ➤

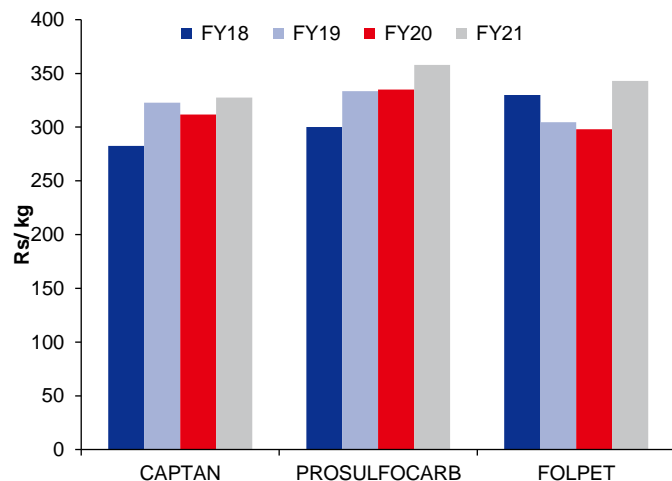
Captan’s export volume growth is already plateauing. Prosulfocarb exports is growing at a fast pace. In the last three years, prosulfocarb’s exports grew at 197% CAGR (in tonnes).

Figure 5: Captan exports stagnated, but prosulfocarb's exports volume CAGR grew 197% over the last three years



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Prosulfocarb realisation has been stable

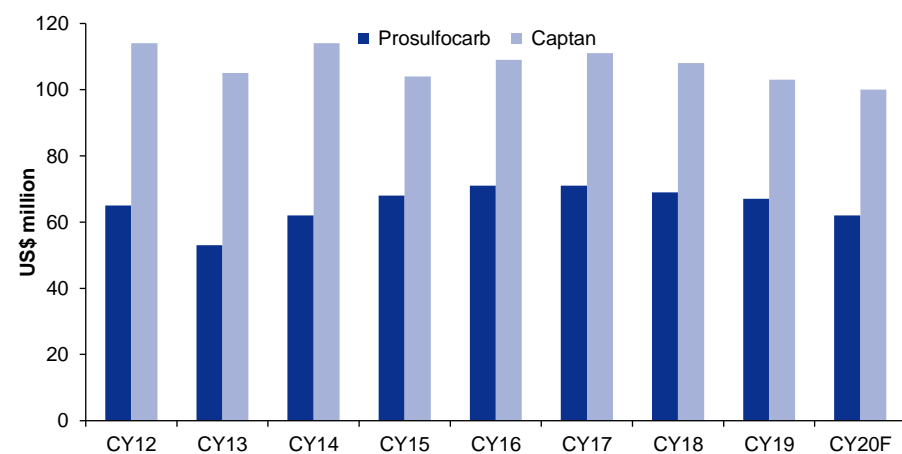


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Future export potential of prosulfocarb and captan does not appear exciting ➤

Prosulfocarb's global market sales stagnated over the last seven years, while captan's declined by 1.5% CAGR over CY12-20.

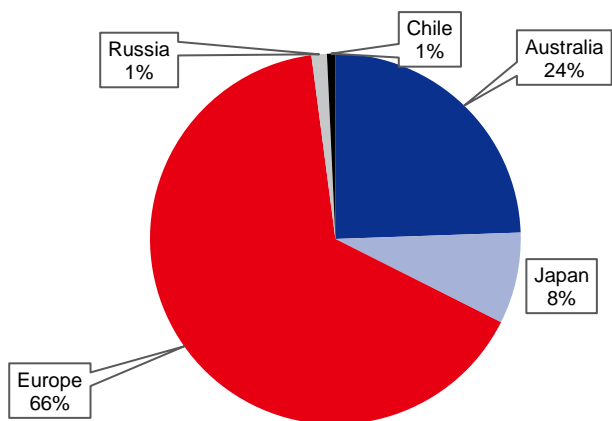
Figure 7: Prosulfocarb and captan sales stagnated over CY12-20



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

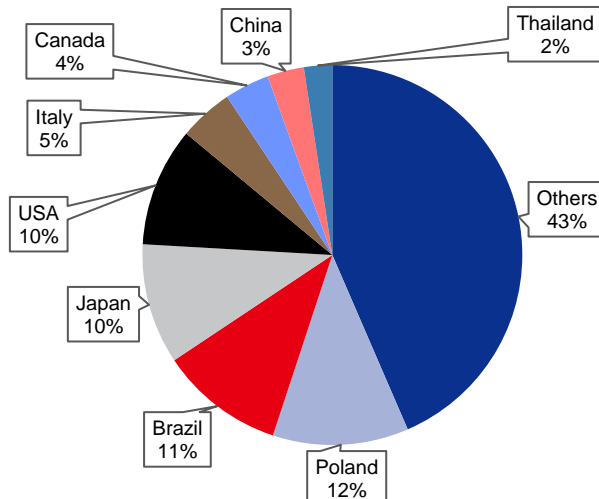
Prosulfocarb herbicide is predominantly used on fruits and vegetables in the US and on oilseed rapeseed in Europe. India Pesticides exports this product mainly to Europe and Australia. As it is a technicals supplier, it will not capture more than 60-65% of the end market value, in our view. It appears that India Pesticides' sales of prosulfocarb has peaked.

Figure 8: India Pesticides exports extensively to Australia and Europe, both being key markets for prosulfocarb (FY21)



SOURCES: INCRED RESEARCH, IHS MARKIT

Figure 9: Captan is a fragmented market with many players in different geographies, hence competition is high (as at FY21)



SOURCES: INCRED RESEARCH, IHS MARKIT

India Pesticides has nearly exhausted the export potential of prosulfocarb – already has ~80% market share ➤

Global sales of prosulfocarb in FY21 was US\$62m or Rs4.6bn, of which India Pesticides had a Rs2.6bn market share. India Pesticides sells this molecule to distributors/ innovator companies. These distributors add the following costs over FOB:

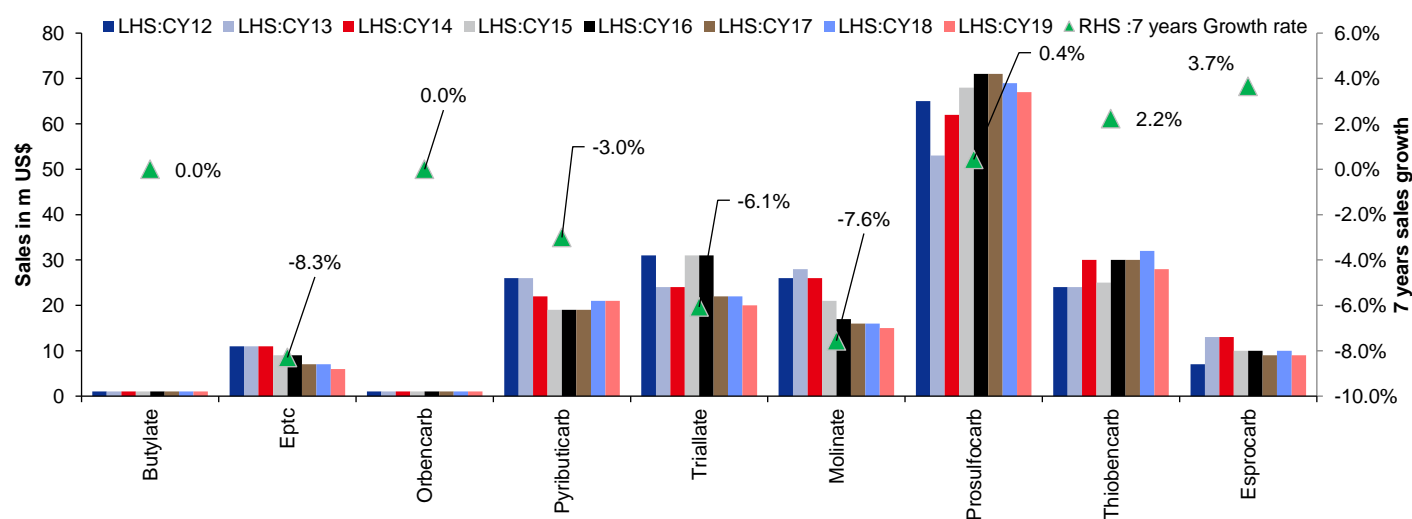
- Inward freight cost which is normally 3-4% of the FOB (free on board i.e., export realisations of India Pesticides) price;
- Distribution cost which can be ~4-5% of the overall landed cost;
- Margins of the distributor/ innovator which can be ~10-12% of the sales price.

Therefore, India Pesticides' current 56% market share translates to roughly 80% market share at the customer level. Therefore, future growth potential of this molecule is limited, and at best India Pesticides could grow sales at 5% CAGR over FY21-24F.

India Pesticides targets the thiocarbamate group of herbicides, which is a stagnant segment ➤

Overall sales of the thiocarbamate group of herbicides declined by 2% CAGR over the last seven years. The best of the lot is thiobencarb and esprocarb whose combined sales in CY19 was only US\$37m or 22% of overall sales in CY19 (Source: IHS Markit).

Figure 10: Thiocarbamate group of herbicides declined by 2% CAGR over the last 7 years



SOURCES: IHS MARKIT, INCRED RESEARCH, COMPANY REPORTS

The analysis of India Pesticides' samples does not inspire confidence in its future export growth potential ➤

Sending samples are an essential part of doing business. Once customers test samples, they place commercial orders. Hence, analysis of these samples becomes critical in assessing the future export growth potential of the company.

Figure 11: Company has sent only two new chemical samples – triallate and etridiazole – in the last 24 months

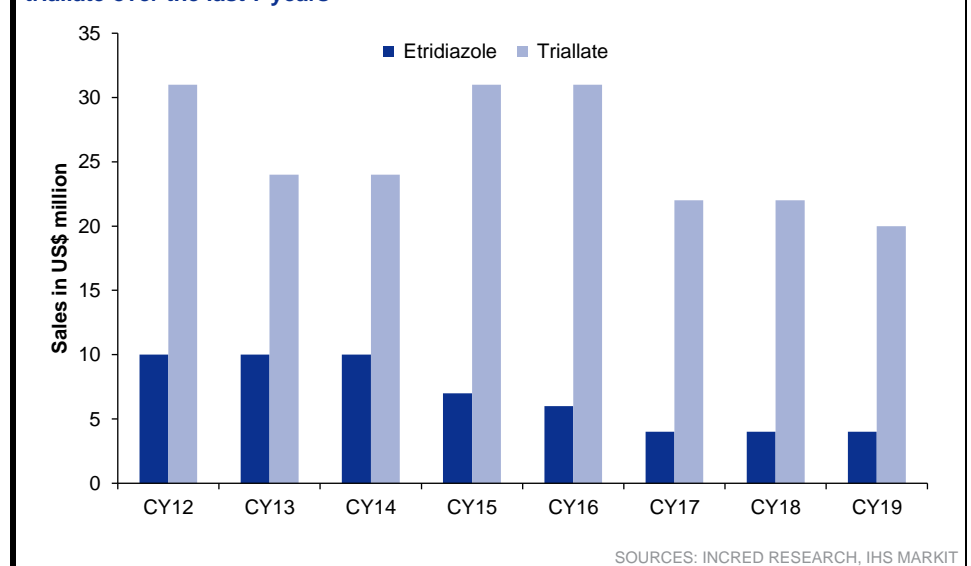
Chemical	Name of customer	Month of Sample sent
Triallate	M/S. Gowan Company	Mar-21
Folpet	M/S. Safapac	Mar-21
Etridiazole	M/S. Arysta Lifescience Canada Inc.	May-19
Captan	Ms. Joanna Cartee / Mr. Chris Larson	May-19
Folpet	Ms. Bonnie J Thwing	Aug-19
Folpet	Samplugs SPRL	Oct-19
Folpet	Ms. Bonnie J. Thwing	Nov-19
Prosulfocarb	FR. Frederique Guyon	Dec-19
Prosulfocarb	FR. Frederique Guyon	Dec-19
Prosulfocarb	FR. Frederique Guyon	Dec-19
Folpet	Damien Dumont	Jan-20
Folpet	Syngenta Corp Protection AG	Jan-20

SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Triallate and etridiazole are not growing their sales, moreover they are very small molecules (in sales value terms) ➤

Triallate and etridiazole sales declined over the last seven years at 6.1% and 12.3% CAGR, respectively (Source: IHS Markit). The overall global sales of these two molecules is only around Rs1.8bn.

Figure 12: Sales (value terms) declined 12.6% CAGR for etridiazole and 6.1% for triallate over the last 7 years



SOURCES: INCRED RESEARCH, IHS MARKIT

Future growth rates of key molecule exports to fall, in our view ➤

We expect prosulfocarb growth to decline in coming years as the company now holds 52% of the market share. Note that India Pesticides supplies technicals to other companies. Once India Pesticides supplies the technicals, buyers will add SG&A costs over the acquisition price and margin over it. This limits maximum sales achieved by a supplier like India Pesticides to 60% of B2C sales value. As the company is already at 52% of the market share, growth will taper in coming years, in our view.

Figure 13: Our sales growth projections for various chemicals are given below. Prosulfocarb sales growth to taper in the coming years

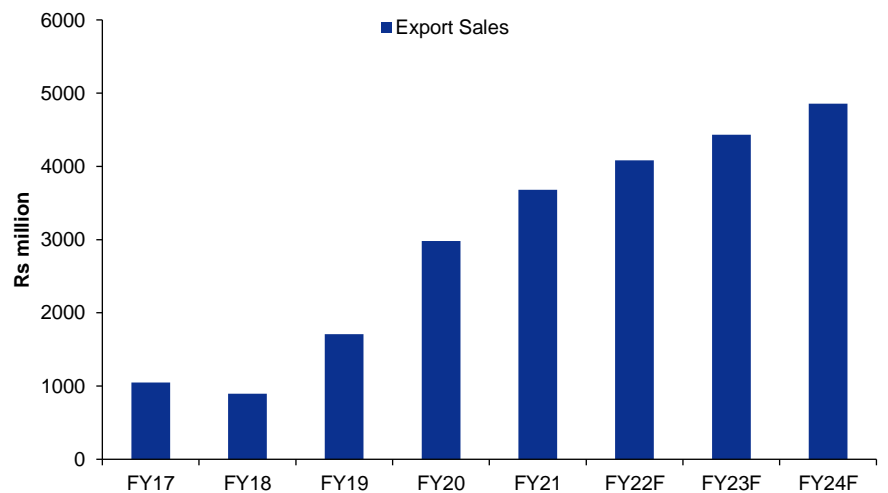
	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	FY24F
Captan	-62%	87%	42%	-19%	9%	10%	10%	10%
Prosulfocarb			1200%	417%	38%	5%	5%	5%
Folpet	-75%	48%	67%	163%	16%	10%	10%	10%
Thiram	597713%	4324%	-38%	-95%	144%	3%	3%	3%
Benzene Hexachloride	-35%	-71%	82%	-14%	208%	3%	3%	3%
Ziran	123%	-50%	184%	-100%		3%	3%	3%
Thiobencarb				872%	-89%	3%	3%	3%
Others	-82%	800%	-31%	851%	22%	50%	50%	50%
Total	-62%	92%	82%	115%	27%	8%	9%	10%

SOURCES: INCRED RESEARCH ESTIMATES, CORPINNESS GLOBAL PRIVATE LIMITED, COMPANY REPORTS

Export growth is to be 9.7% CAGR over FY21-24F ➤

Export growth is likely to be 9.7% CAGR over FY21-24F. This growth is way below the export sales growth CAGR of 37% in the last four years.

Figure 14: Export growth (value terms) is likely to be at 9.7% CAGR over FY21-24F

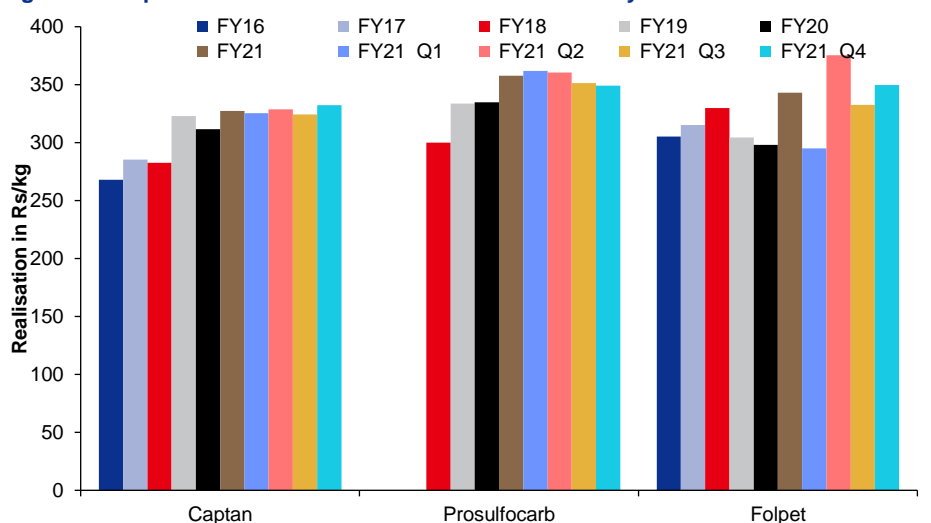


SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

India Pesticides' export prices of chemicals have been stable ➤

Our analysis of export realisations of the key export molecules captan, prosulfocarb and folpet over the last six years indicate that realisations have been very stable.

Figure 15: Export realisations of these chemicals were very stable



SOURCES: INCRED RESEARCH, CORPINNESS GLOBAL PRIVATE LIMITED

Business Segment – Domestic Sales

Domestic sales formed almost 40% of its overall sales in FY20. In the domestic market India Pesticides sells various formulations. Formulations are essentially mixtures of different technicals.

Domestic market sales driven by multiple formulations ►

India Pesticides' domestic market sales is driven by multiple formulations. The basic ingredients are generics.

Figure 16: India Pesticides sells different formulations in the domestic market. It mixes basic chemicals (below) in different proportions to make formulations

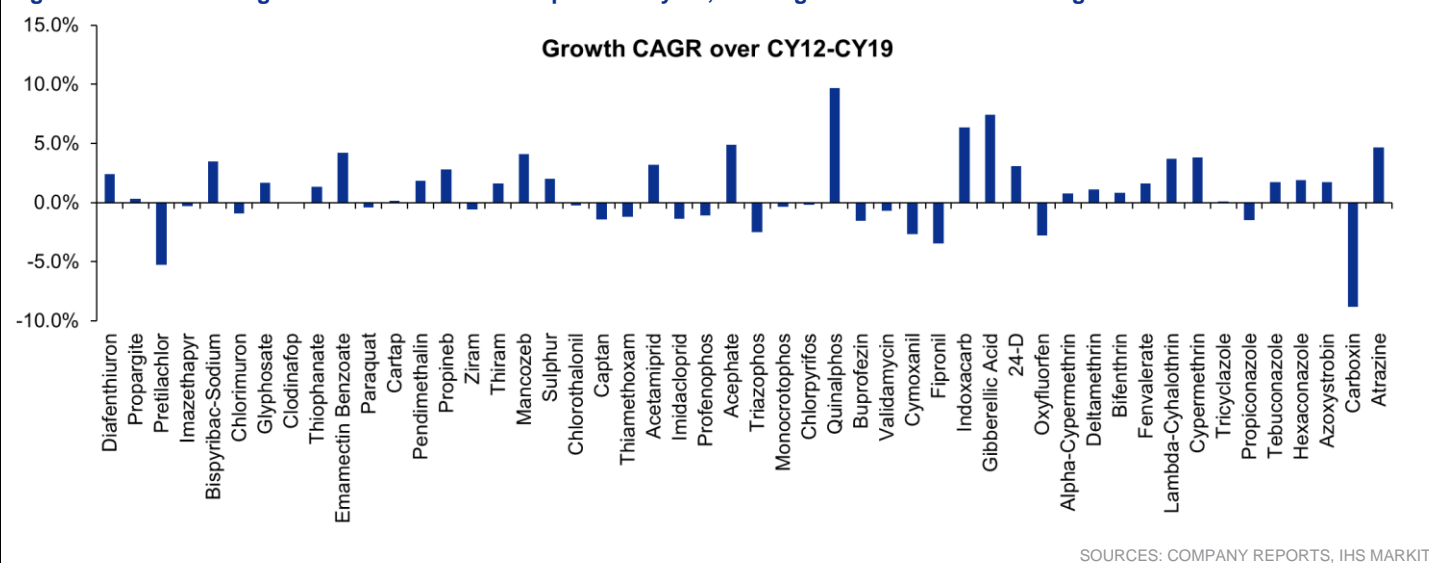
Name	Chemical Class	Sector
Diafenthiuron	Acaricide	Insecticides
Propargite	Acaricide	Insecticides
Pretilachlor	Acetamide	Herbicides
Imazethapyr	ALS-Imidazoline	Herbicides
Bispyribac-Sodium	ALS-Other ALS	Herbicides
Chlorimuron	ALS-Sulfonylurea	Herbicides
Glyphosate	Amino acid	Herbicides
Clodinafop	Aryloxyphenoxypropionate	Herbicides
Thiophanate	Benzimidazole	Fungicides
Emamectin Benzoate	Biological - Fermentation Product	Insecticides
Paraquat	Bipyridyl	Herbicides
Cartap	Carbamate	Insecticides
Pendimethalin	Dinitroaniline	Herbicides
Propineb	Multisite - Di thiocarbamate	Fungicides
Ziram	Multisite - Di thiocarbamate	Fungicides
Thiram	Multisite - Di thiocarbamate	Fungicides
Mancozeb	Multisite - Di thiocarbamate	Fungicides
Sulphur	Multisite – Inorganic	Fungicides
Chlorothalonil	Multisite – Phthalimide	Fungicides
Captan	Multisite – Phthalimide	Fungicides
Thiamethoxam	Neonicotinoid	Insecticides
Acetamidprid	Neonicotinoid	Insecticides
Imidacloprid	Neonicotinoid	Insecticides
Profenophos	Organophosphate	Insecticides
Acephate	Organophosphate	Insecticides
Triazophos	Organophosphate	Insecticides
Monocrotophos	Organophosphate	Insecticides
Chlorpyrifos	Organophosphate	Insecticides
Quinalphos	Organophosphate	Insecticides
Buprofezin	Other IGR	Insecticides
Validamycin	Other Fungicides	Fungicides
Cymoxanil	Other Fungicides	Fungicides
Fipronil	Other Insecticides	Insecticides
Indoxacarb	Other Insecticides	Insecticides
Gibberellic Acid	PGR	Others
24-D	Phenoxy	Herbicides
Oxyfluorfen	PPO-Diphenyl Ether	Herbicides
Alpha-Cypermethrin	Pyrethroid	Insecticides
Deltamethrin	Pyrethroid	Insecticides
Bifenthrin	Pyrethroid	Insecticides
Fen valerate	Pyrethroid	Insecticides
Lambda-Cyhalothrin	Pyrethroid	Insecticides
Cypermethrin	Pyrethroid	Insecticides
Tricyclazole	SBI - Other azoles	Fungicides
Propiconazole	SBI – Triazole	Fungicides
Tebuconazole	SBI – Triazole	Fungicides
Hexaconazole	SBI – Triazole	Fungicides
Azoxystrobin	Strobilurin	Fungicides
Carboxin	Succinate dehydrogenase inhibitor	Fungicides
Atrazine	Triazine	Herbicides

SOURCES: INCRED RESEARCH, IHS MARKIT

All chemicals sold under various formulations have not shown any significant growth in global markets for the last 7 years ►

The analysis of all 50 chemicals sold under various formulations in the Indian market shows that their sales have not grown in the last seven years in any significant way.

Figure 17: While some generics could do well in a particular year, the long-term trend indicates stagnant sales



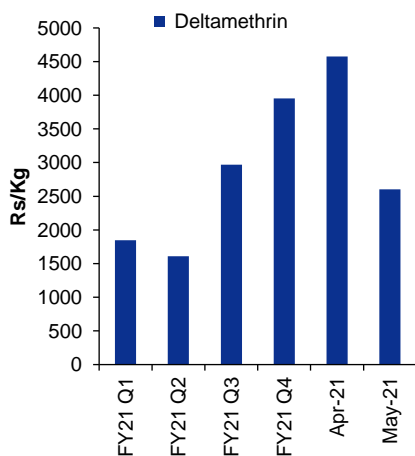
These chemicals could grow in any year, but the long-term trend indicates stagnancy ➤

Just like mancozeb's success in Brazil during CY17-18, some chemicals mentioned in Figure 18 could experience occasional success, but would inevitably slide into a slow growth path, in our view. We believe the success of azoxystrobin, paraquat and cartap was accidental in FY21 as a particular kind of weed and fungus became prevalent and could be treated with formulations from India Pesticides and Dhanuka Agritech. It is unlikely that the same pattern will repeat in consecutive years, hence we do not believe India Pesticides' generic portfolio can sustain high growth of more than 10-12%.

Visible pricing pressure on SBI triazoles and pyrethroids which are key parts of formulations sold by India Pesticides ➤

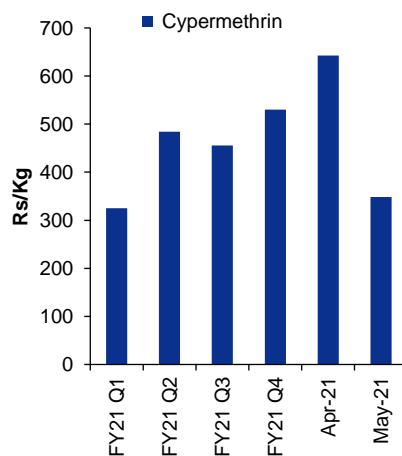
We estimate that the bulk of gross margin expansion (~470bp in FY21) was driven by price rises in pyrethroids (deltamethrin, cypermethrin, alpha cypermethrin) and SBI triazoles (tebuconazole, propiconazole, etc). However, the trend has changed, and prices of these commodity chemicals are on the downswing.

Figure 18: Deltamethrin price fell ~40% in May 2021



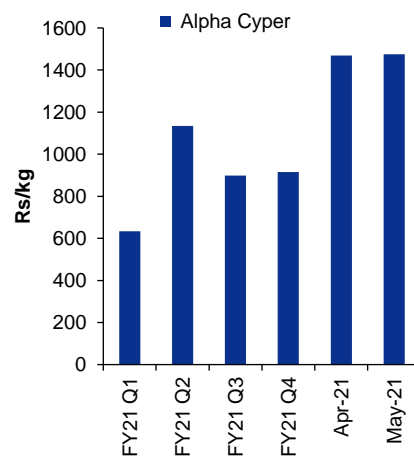
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Figure 19: Cypermethrin price also fell by 40%



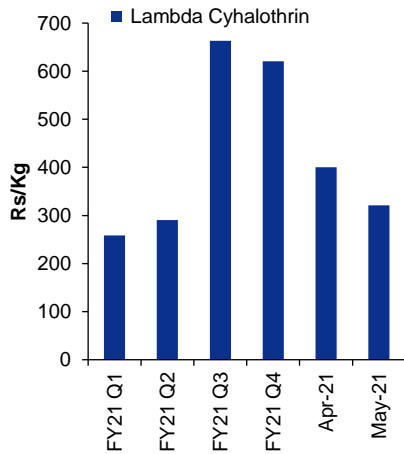
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Figure 20: Alpha cypermethrin is relatively stable



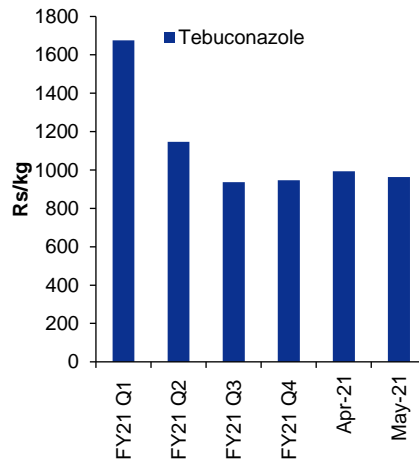
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Figure 21: Like other pyrethroids lambda cyhalothrin price has also fallen



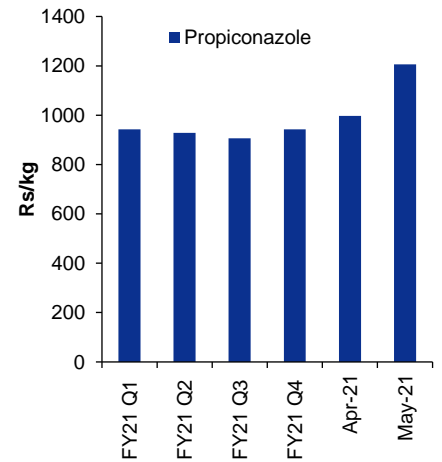
SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Figure 22: Among triazoles, tebuconazole's price fell by ~35%



SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Figure 23: Propiconazole bucked the trend in May

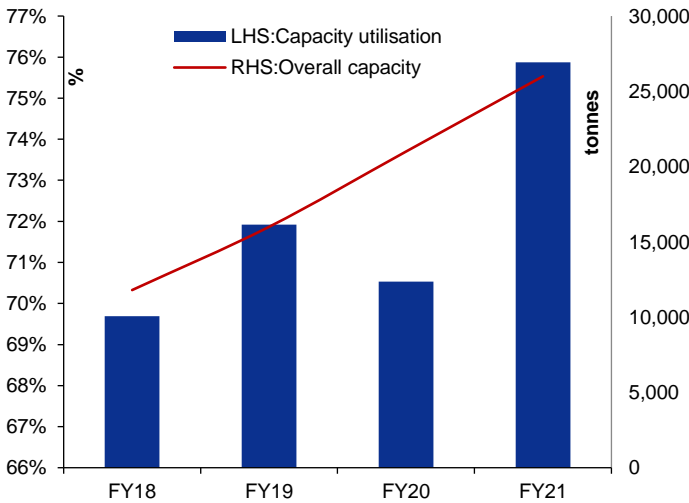


SOURCES: INCRED RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Capacity utilisations of technical plants are high, room for growth is limited ➤

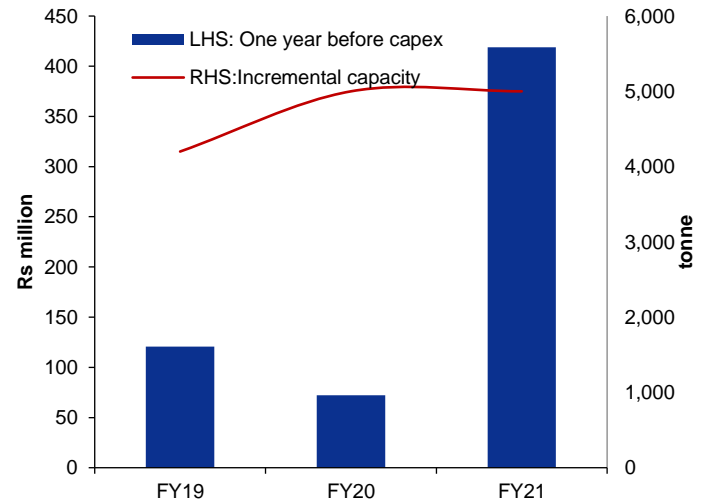
Capacity utilisation of India Pesticides plants are high, hence room for volume growth is limited. Incremental average cost per tonne for new capacity addition is half of the old capacity (which is logical given the company has the basic infrastructure in place).

Figure 24: Capacity utilisation of plants is quite high, room for volume growth is limited



SOURCES: INCRED RESEARCH, INDIA PESTICIDES DRHP

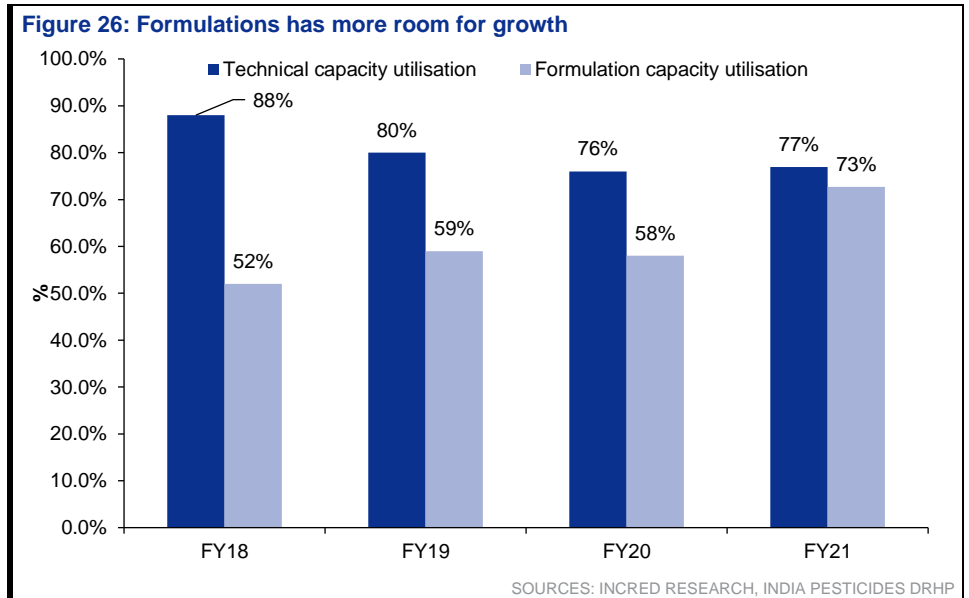
Figure 25: Management appears to be quite efficient in incremental capacity addition (cost terms in Rs/t)



SOURCES: INCRED RESEARCH, INDIA PESTICIDES DRHP

More capacity is available in the formulations space ➤

As of FY21, capacity utilisation in the technicals space is already at 77%, however more capacity is available in the formulations space.



FY21 has been a very good year for domestic business due to the success of azoxystrobin and paraquat formulations ➤

Our channel checks indicate that India Pesticides has done well in formulations of azoxystrobin and paraquat. The sudden success of Gajab (base agrochemical paraquat) was driven by the new weed Emex Australis Steinh that has been spreading across wheat crops in North India (Source: The Week). We believe this weed is now widespread, making the use of Gajab widespread too and, thus, limiting its growth potential. Import prices of raw materials for Gajab are rising, thus raising margin pressures. Super Partap SP's raw material is cartap, whose import cost is rising (44% in FY20 and 4.7% in FY21F) and usage appears to be stagnating. India Pesticides uses two formulations of azoxystrobin IPL – Vallet and IPL Magic – on rice fungus, which has impacted most of South and East India's rice growing regions.

FY21 growth unlikely to be repeated in coming years ➤

Other companies like Dhanuka Agritech (DAGRI IN, Reduce, TP Rs689, CP: Rs963) have experienced similar success with azoxystrobin, cartap and paraquat. Currently these agrochemicals have wide applications. We think India Pesticides will find it hard to replicate its FY21 revenue growth in coming years unless a new weed or fungus attacks crops and India Pesticides has a formulation to tackle it.

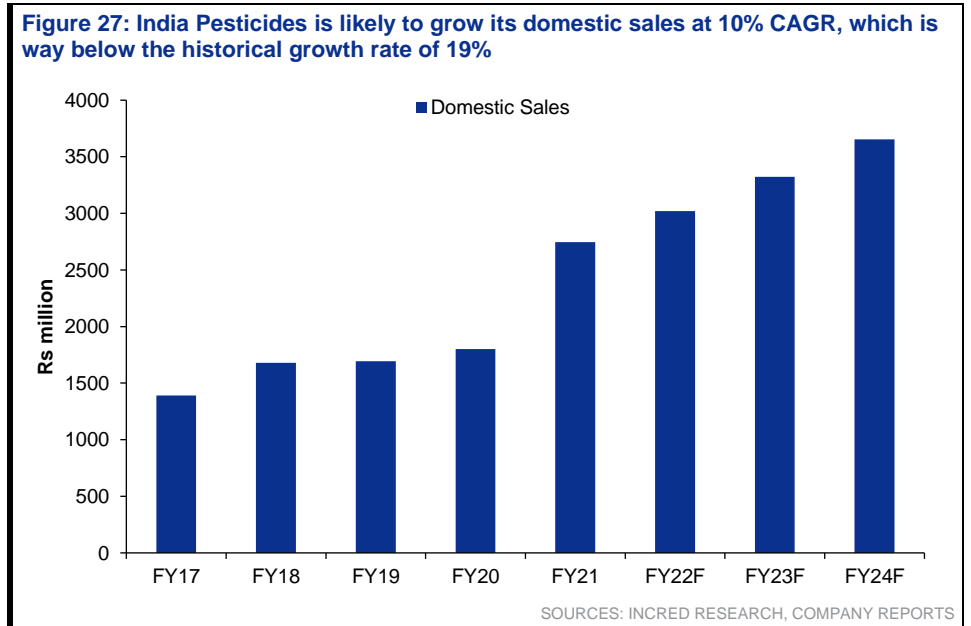
At the same time accelerated usage of these chemicals has raised prices which will impact margins negatively ➤

As we said in our Dhanuka Agritech initiation report, prices of cartap, paraquat and azoxystrobin are rising, hence margins could come under pressure in the coming quarters. Like Dhanuka Agritech, India Pesticides buys these chemicals from domestic producers and makes formulations. As formulations are made from generic agrochemicals, passing on higher prices to customers will not be easy, in our view.

We expect domestic formulation sales to grow at 10% CAGR ➤

In our view the Indian agrochemicals market is likely to grow at 10% CAGR, and India Pesticides will grow its portfolio in line with the overall growth of the industry.

Figure 27: India Pesticides is likely to grow its domestic sales at 10% CAGR, which is way below the historical growth rate of 19%

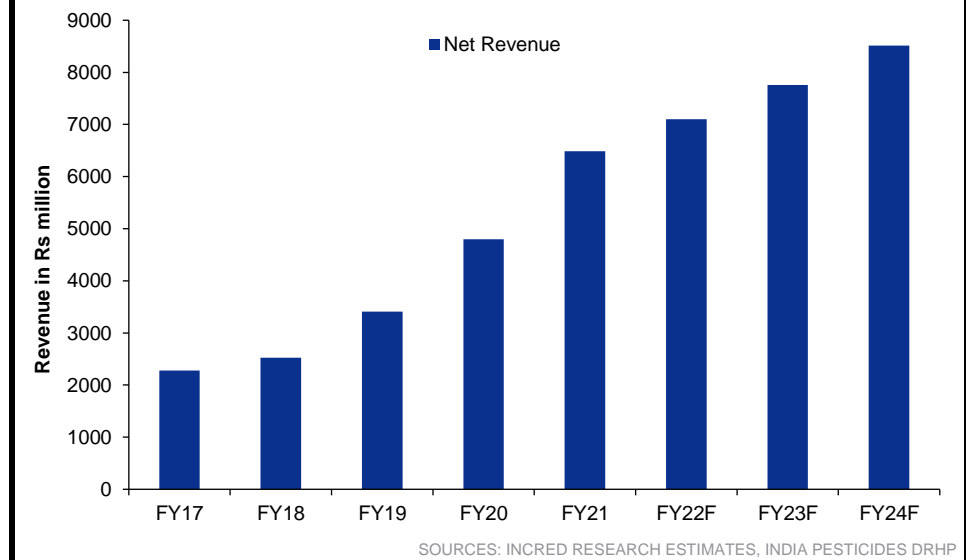


Earnings and valuation

Revenue to grow at 9.5% CAGR over FY21-24F ➤

We expect new products to grow at 40% CAGR over FY21-24F, driving overall revenue growth of 9.5% CAGR. At the end of FY24F, prosulfocarb exports would stand at Rs2.95bn or US\$41m – i.e., 60% of the prosulfocarb’s global sales.

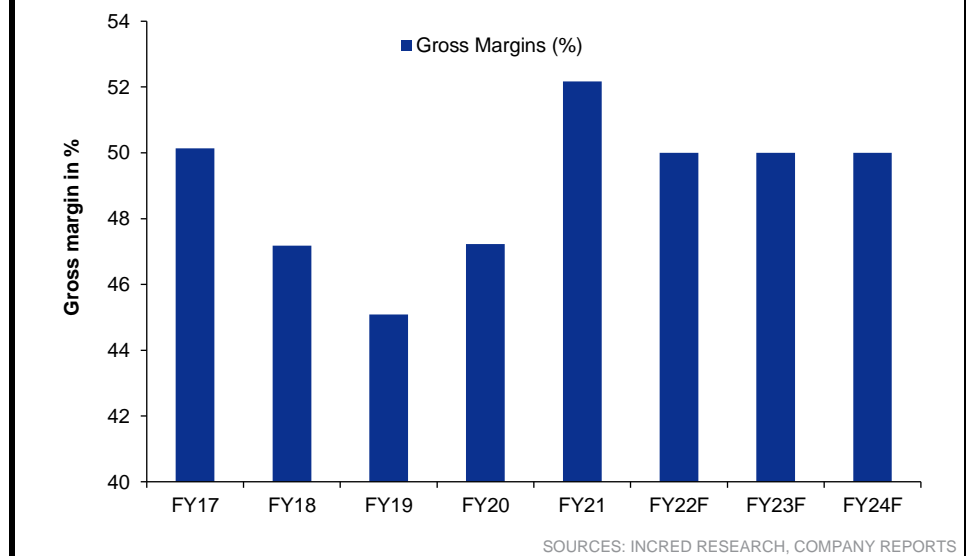
Figure 28: India Pesticides’ net revenue to grow at 9.5% CAGR over FY21-24F



Gross margin could fall by ~200bp in FY22F, in our view ➤

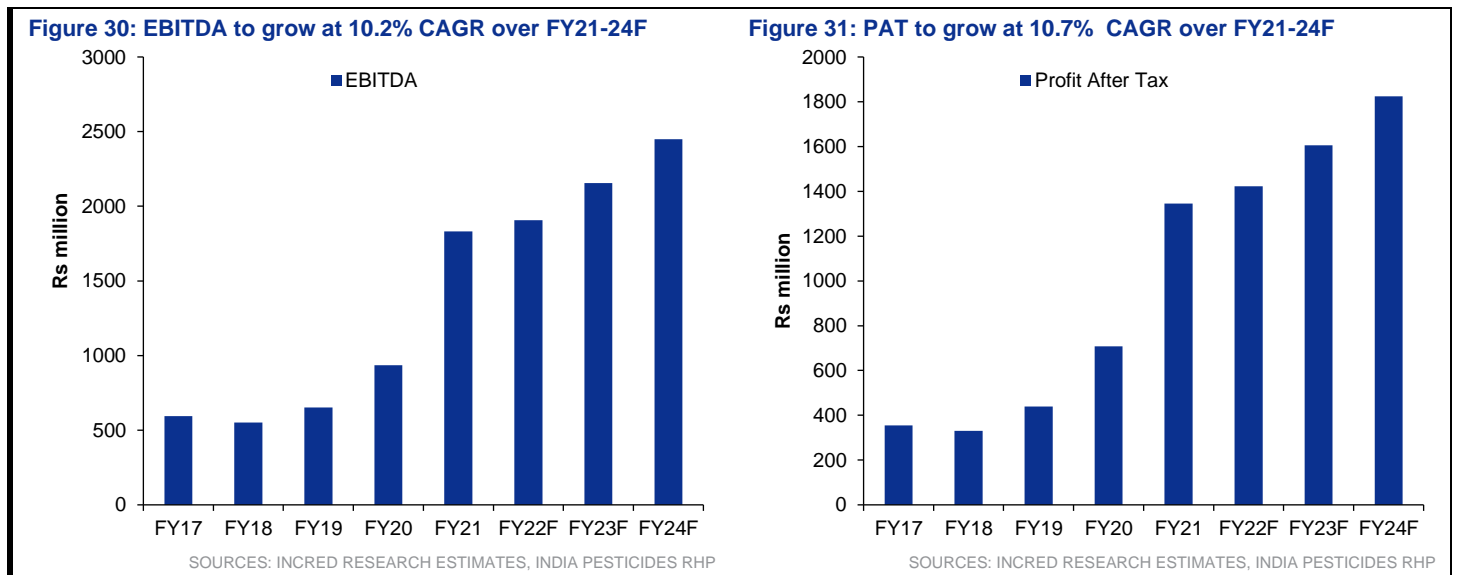
We estimate India Pesticides’ gross margin could fall by ~200bp in FY22F. Note that India Pesticides reported its highest-ever gross margin of 52% in FY21.

Figure 29: India Pesticides reported its highest-ever gross margin in FY21. We expect its gross margin to fall by 200bp in FY22F



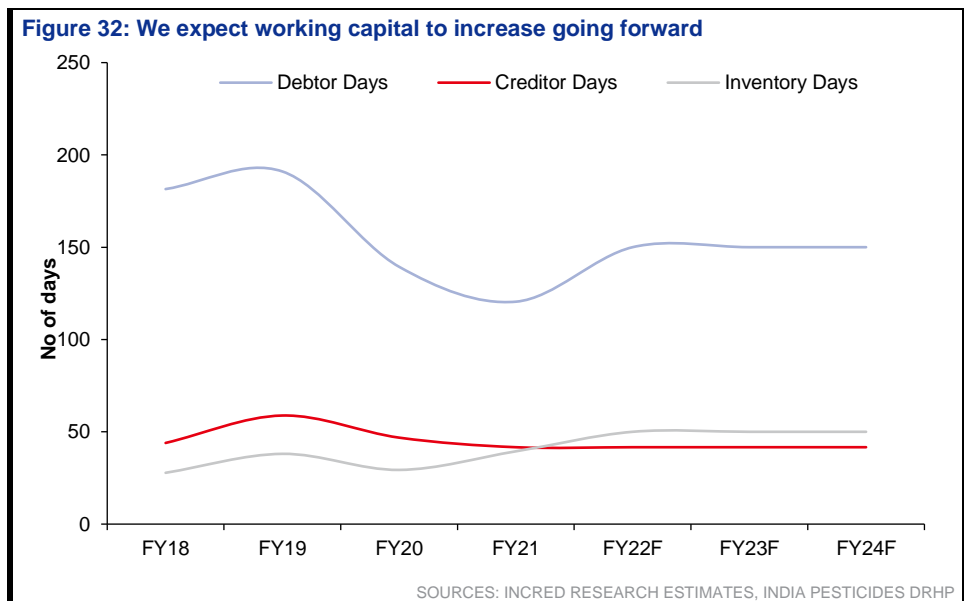
Overall EBITDA and PAT likely to grow at a healthy pace ►

Driven primarily by revenue growth of 9.5% CAGR over FY21-24F, we expect India Pesticides' EBITDA to grow at 10.2% CAGR over FY21-24F.



We expect increases in debtor and inventory days ►

We expect an increase in working capital as Indian Pesticides focuses more on formulations growth. Formulations require storage of technicals and giving more credit to distributors.



Valuation & recommendation

We value India Pesticides with a P/E methodology ►

We value India Pesticides on a P/E basis as we consider it a more appropriate valuation method for chemical companies than the DCF or EV/EBITDA. In our view, DCF is not a suitable valuation method because the earnings of chemical companies are highly cyclical as forecasting long-term earnings reliably is difficult. We think a balance sheet-based valuation is inappropriate as short-term debt may rise because of inventory cycles or delay in subsidy payments which could distort the balance sheet for a short period (in many cases, for only one quarter).

We value India Pesticides at 20x Jun-23F EPS; initiate with Reduce rating ➤

We value the stock at 20x Jun FY23F EPS, at a 15% discount to its peers (as shown in Figure 34, peers are trading at an average of 24.5x one-year forward P/E, to arrive at our TP of Rs 287. We use a 15% discount to peers as peer EPS growth is 13.5% CAGR (FY21-24F) compared to IPL's EPS growth of 10.8% CAGR. So, while EPS CAGR is 21% lower than its peers, RoE is 30% higher, resulting in our 15% discount to the peer average P/E. We initiate coverage with reduce rating because of slowing growth and overdependence on single molecule "Prosulfocarb" which is ~45% of sales (whose global sales is declining at 3.3% CAGR over last 4 years).

Figure 33: India Pesticides' valuation

FY23F EPS	Rs/share	13.9
FY24F EPS	Rs/share	15.7
Jun FY23F EPS	Rs/share	14.3
P/E (1-year forward on FY23F EPS)	x	20
Target Price	Rs/share	286.7

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Peer comparison

Figure 34: Sector peer comparison

Company	Bloomberg Ticker	Closing Price (LC)	Target Price (LC)	% Upside	Rating	Market cap (US\$ m)	EV/EBITDA (x)		P/BV (x)		RoE (%)		P/E (x)	
							CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
UPL Ltd	UPLL IN	802	578	-28%	HOLD	8,220	9.3	8.4	2.0	1.7	14.4	13.9	18.3	15.1
Rallis India Ltd	RALI IN	323	355	10%	ADD	844	13.2	12.0	3.3	3.0	16.6	16.0	21.2	19.6
SRF Limited	SRF IN	7,527	6,227	-17%	ADD	5,981	18.9	16.3	4.9	4.2	18.8	17.6	29.8	25.8
PI Industries Limited	PI IN	2,969	2,505	-16%	ADD	6,042	30.6	23.2	6.2	5.7	17.9	15.6	45.2	38.0
Vinati Organics Ltd	VO IN	1,999	1,603	-20%	ADD	2,757	40.9	29.7	10.0	8.4	20.1	23.3	53.2	39.0
Dhanuka Agritech	DAGRI IN	1,003	689	-31%	REDUCE	627	13.0	11.9	4.2	3.5	26.3	22.7	17.1	16.8
Heranba Industries Ltd	HERANBA IN	725	457	-37%	REDUCE	389	17.5	17.8	6.0	4.9	34.5	24.9	24.2	25.4
Anupam Rasayan India Ltd	ANURAS IN	763	379	-50%	REDUCE	1,023	44.1	40.8	3.8	3.4	3.7	6.7	136.8	53.4
Laxmi Organics Ltd	LXCHEM IN	248	110	-56%	REDUCE	878	15.9	16.5	3.6	3.2	12.3	10.5	38.6	32.3
Aarti Industries	ARTO IN	849	1,087	28%	REDUCE	4,130	23.2	21.7	6.2	5.0	16.1	13.1	34.6	22.0
Navin Fluorine International Ltd	NFIL IN	3,787	2,599	-31%	HOLD	2,515	41.7	33.5	7.9	7.1	12.8	15.4	54.0	48.6
Insecticide India Ltd	INST IN	734	461	-37%	HOLD	194	7.3	6.8	1.2	1.1	10.7	9.9	12.2	12.0
Coromandel International Ltd	CRIN IN	912	1,000	10%	ADD	3,587	11.8	11.4	4.2	3.6	25.9	22.6	17.8	17.2
Atul Ltd	ATLP IN	9,293	6,640	-29%	REDUCE	3,688	24.8	22.1	5.7	5.5	16.7	16.2	38.4	34.4
Camlin Fine Science	CFIN IN	194	221	14%	ADD	332	14.0	12.1	3.4	3.0	12.5	14.7	32.4	21.5
India Pesticides Ltd	IPL IN	335	287	-14%	REDUCE	518	20.0	19.1	9.6	1.8	41.6	29.0	17.9	17.0
Solvay SA	SOLB BB	109	NR	NR	NR	13,606	7.4	6.9	1.3	1.3	3.2	3.2	15.4	13.2
Bayer	BAYN GR	51	NR	NR	NR	59,597	7.7	7.1	1.2	1.1	7.7	7.7	9.1	8.3
BASF	BAS GR	67	NR	NR	NR	73,116	8.6	8.4	1.5	1.5	2.8	2.8	16.5	15.5
Corteva	CTVA US	45	NR	NR	NR	32,855	13.0	11.5	1.4	1.3	3.4	3.4	25.0	21.0
Average							18.9	16.7	4.4	3.5	16.0	14.6	32.6	24.7
Median							14.8	13.7	4.2	3.4	16.1	15.4	25.0	21.5

NR DATA ARE BLOOMBERG CONSENSUS ESTIMATES
 SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 06 JUL 2021

Risks

1. We expect gross margin to fall by 200bp, however supply chain shocks like that of FY21 could maintain gross margin at an elevated level. Supply chain shocks could occur because of another wave of COVID.
2. India Pesticides makes multiple formulations, and it is possible that some formulations could see sudden success, which could raise EPS and, in turn, the stock's price.
3. Prosulfocarb (70% of exports) is reaching peak sales, but if demand revives we could see further upside in its exports.
4. Most of the India Pesticides' raw material is derived from crude oil. A fall in crude oil prices will lead to fall in raw materials and expansion of gross margin. Expansion in gross margins will lead to higher EPS, hence, stock price.

SWOT Analysis

Figure 35: SWOT Analysis

Strength	Weaknesses
Leader in pro-sulfocarb manufacturing.	Non-integrated on raw materials front, hence exposed to raw material price volatility. Raw materials are derived from crude, hence, price volatility is high.
Opportunities	Threat
Company can venture into contract research and manufacture of agrochemicals. Agrochemicals, whose global sales is US\$4bn, is going off patent in the next five years, providing India Pesticides an opportunity.	Almost half of its sales comes from a single molecule, hence revenue as well as profit have high product concentration risk.

SOURCES: INCRED RESEARCH

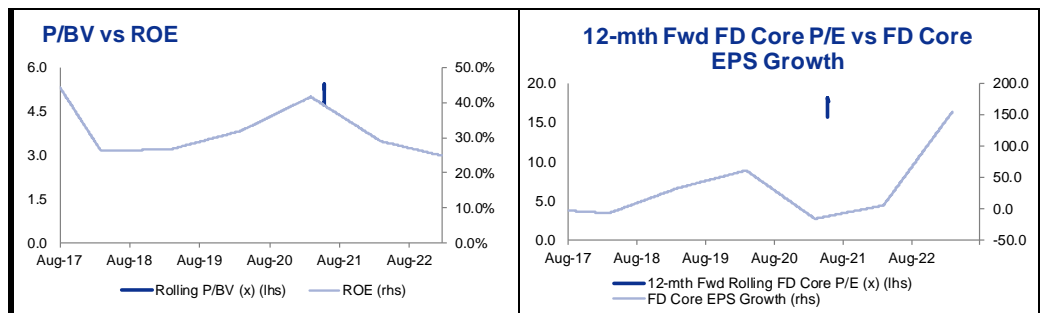
Annexure

Figure 36: Key management profiles at India Pesticides

Anand Swarup Agarwal, Chairman and Non-Executive Director	Mr Agarwal has over 35 years of experience in agrochemicals manufacturing. He is one of the promoters and a founder of the company. He was previously a part-time non-official director on the board of directors of Punjab National Bank. He was also a director on the board of PNB Gilts Ltd.
Dheeraj Kumar Jain, Chief Executive Officer	Mr Jain has more than 25 years of experience with the company and has been responsible for product development, international business development and project engineering.
Satya Prakash Gupta, Chief Financial Officer	Mr Gupta has over 27 years of experience in finance, and has been with the company for over 25 years.

SOURCE: COMPANY WEBSITE

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	4,796	6,490	7,101	7,757	8,512
Gross Profit	2,265	3,385	3,551	3,878	4,256
Operating EBITDA	936	1,831	1,907	2,155	2,449
Depreciation And Amortisation	(51)	(61)	(75)	(85)	(95)
Operating EBIT	885	1,769	1,832	2,070	2,355
Financial Income/(Expense)	(52)	(34)	(34)	(34)	(34)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	101	64	101	101	101
Profit Before Tax (pre-EI)	934	1,799	1,899	2,137	2,421
Exceptional Items					
Pre-tax Profit	934	1,799	1,899	2,137	2,421
Taxation	(226)	(454)	(479)	(538)	(610)
Exceptional Income - post-tax					
Profit After Tax	708	1,345	1,420	1,598	1,811
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	708	1,345	1,420	1,598	1,811
Recurring Net Profit	708	1,345	1,420	1,598	1,811
Fully Diluted Recurring Net Profit	708	1,345	1,420	1,598	1,811

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	936	1,831	1,907	2,155	2,449
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(34)	(616)	(978)	(284)	(328)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(28)	9			
Other Operating Cashflow	153	93	101	101	101
Net Interest (Paid)/Received	(52)	(34)	(34)	(34)	(34)
Tax Paid	(223)	(449)	(479)	(479)	(479)
Cashflow From Operations	752	833	517	1,459	1,710
Capex	(308)	(419)	(200)	(200)	(200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2)	(413)			
Cash Flow From Investing	(311)	(832)	(200)	(200)	(200)
Debt Raised/(repaid)	(330)	28			
Proceeds From Issue Of Shares			800		
Shares Repurchased					
Dividends Paid	(8)	(35)	(213)	(240)	(272)
Preferred Dividends					
Other Financing Cashflow	(52)	(34)			
Cash Flow From Financing	(390)	(41)	587	(240)	(272)
Total Cash Generated	51	(40)	904	1,019	1,238
Free Cashflow To Equity	110	28	317	1,259	1,510
Free Cashflow To Firm	493	35	351	1,293	1,544

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	80	437	1,341	2,300	3,407
Total Debtors	1,832	2,142	2,918	3,188	3,498
Inventories	386	701	973	1,063	1,166
Total Other Current Assets	254	396	396	396	396
Total Current Assets	2,551	3,676	5,627	6,946	8,467
Fixed Assets	1,006	1,364	1,489	1,604	1,709
Total Investments	30	91	91	91	91
Intangible Assets					
Total Other Non-Current Assets	69	40	40	40	40
Total Non-current Assets	1,106	1,495	1,620	1,735	1,840
Short-term Debt	135	225	225	225	225
Current Portion of Long-Term Debt					
Total Creditors	615	741	810	885	971
Other Current Liabilities	155	147	147	147	147
Total Current Liabilities	906	1,112	1,182	1,257	1,343
Total Long-term Debt	104	74	74	74	74
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities		1	1	1	1
Total Non-current Liabilities	104	76	76	76	76
Total Provisions	78	88	88	88	88
Total Liabilities	1,089	1,276	1,346	1,420	1,507
Shareholders Equity	2,568	3,895	5,902	7,261	8,800
Minority Interests					
Total Equity	2,568	3,895	5,902	7,261	8,800

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	40.8%	35.3%	9.4%	9.2%	9.7%
Operating EBITDA Growth	43.3%	95.7%	4.2%	13.0%	13.7%
Operating EBITDA Margin	19.5%	28.2%	26.9%	27.8%	28.8%
Net Cash Per Share (Rs)	(5.01)	1.23	32.70	62.84	97.62
BVPS (Rs)	80.68	34.84	185.41	228.09	276.45
Gross Interest Cover	16.96	51.54	53.37	60.30	68.59
Effective Tax Rate	24.2%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	1.1%		15.0%	15.0%	15.0%
Accounts Receivables Days	137.55	111.76	130.05	143.67	143.35
Inventory Days	53.43	63.88	86.02	95.78	95.56
Accounts Payables Days	83.96	79.72	79.71	79.78	79.61
ROIC (%)	27.5%	47.6%	36.5%	31.9%	33.5%
ROCE (%)	32.9%	49.4%	34.7%	29.7%	28.0%
Return On Average Assets	21.9%	31.1%	23.3%	20.4%	19.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.