CRISIL IER IndependentEquityResearch

Insecticides India Ltd

Detailed Report

Enhancing investment decisions

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

About CRISIL Research

CRISIL Research is India's largest independent and integrated research house. We provide insights, opinions, and analysis on the Indian economy, industries, capital markets and companies. We are India's most credible provider of economy and industry research. Our industry research covers 70 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our network of more than 4,500 primary sources, including industry experts, industry associations, and trade channels. We play a key role in India's fixed income markets. We are India's largest provider of valuations of fixed income securities, serving the mutual fund, insurance, and banking industries. We are the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today India's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. We deliver our research through an innovative web-based research platform. Our talent pool comprises economists, sector experts, company analysts, and information management specialists.

CRISIL Privacy

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfill your request and service your account and to provide you with additional information from CRISIL and other parts of The McGraw-Hill Companies, Inc. you may find of interest. For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view McGraw-Hill's Customer Privacy Policy at http://www.mcgrawhill.com/site/tools/privacy/privacy_english.
Last updated: 30 April, 2012

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

Disclaimer:

Insecticides India Ltd

Recalibrating growth expectations

Fundamental Grade	**3/5 (Good fundamentals)**
Valuation Grade	**3/5 (CMP is aligned)**
Industry	**Chemicals**

July 10, 2012

Fair Value	**Rs 395**
CMP	**Rs 399**

Insecticides India Ltd (IIL) manufactures branded pesticide formulations and technical, and holds ~5% share of the domestic market. Subdued demand for pesticides, due to adverse weather conditions and low pest occurrence, led to slower revenue growth for IIL in FY12. While monsoon has been deficient during Q1FY13 also, it is expected to pick up going forward. On account of IIL's diversified product portfolio, promising product pipeline and well-entrenched distribution network, we believe that IIL will be able to deliver higher-than-industry growth going forward. We maintain the fundamental grade of **3/5** for IIL, indicating that its fundamentals are **good** relative to other listed securities in India.

Expect better times for the industry in FY13; long-term prospects intact

With expectation of normal monsoon for the remainder of FY13, the pesticide industry is likely to post higher growth. Over a longer term, rise in population, coupled with declining rate of crop production growth, will make it imperative to improve yields and, therefore, increase pesticides usage. We expect the pesticide industry to grow by 12-15% p.a. going forward.

Focus on branding and product tie-ups are positive

IIL has continued to focus on launching new brands – Monocil (acquired in 2011) has received good response in FY12 and contributed 6% to IIL's revenues. IIL's product pipeline for FY13 also looks promising; it has tied up with two MNCs for new products. We are positive on IIL's strategy of focussing on brands and product tie-ups, and expect this to lead to margin expansion going forward.

Key risks: Weather conditions, pest occurrence and exchange rate volatility

Adverse weather conditions and inadequate pest occurrence have direct implications on demand for pesticides. Since IIL's import exposure is more than 30% of its raw material costs, volatility in the Rs/US$ exchange rate could impact margins. Other risks are lack of IIL's geographical revenue diversification (a pure domestic play), inability to pass through hikes in raw material costs to farmers and the government's ban on toxic products.

Recalibrating growth expectations – expect slower revenue growth over FY12-14

We have revised our revenue growth estimates for IIL downwards, reflecting 23% CAGR over FY12-14 compared to ~30% earlier. Deficient monsoon in Q1FY13 may impact pesticides demand during the kharif season. Further, increased working capital has led to significant rise in debt and interest cost, which may limit the headroom to aggressively push sales in FY13.

Valuations: Current market price is aligned

We have used the discounted cash flow (DCF) method to value IIL. We have rolled forward our valuation by one year and have revised the fair value to Rs 395 per share (Rs 385 earlier), implying a P/E multiple of 11.5x FY14E earnings. At the current market price of Rs 399, the assigned valuation grade is **3/5**.

KEY FORECAST

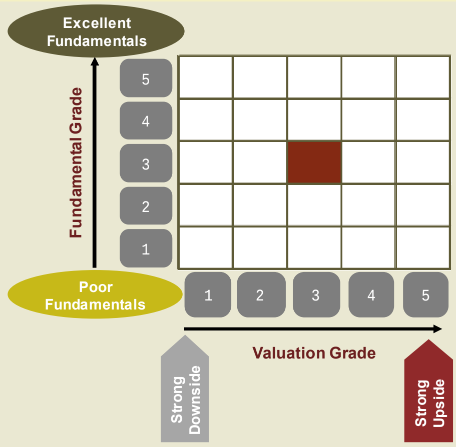
(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Operating income	3,775	4,501	5,218	6,912	7,902
EBITDA	340	438	564	753	877
Adj Net income	282	323	331	396	437
Adj EPS-Rs	22.3	25.5	26.1	31.2	34.5
EPS growth (%)	35.7	14.4	2.4	19.6	10.5
Dividend Yield (%)	0.5	0.6	0.6	0.7	0.7
RoCE (%)	25.7	25.3	20.7	18.7	18.2
RoE (%)	25.7	23.6	20.0	20.1	18.7
PE (x)	17.8	15.6	15.2	12.7	11.5
P/BV (x)	4.1	3.3	2.8	2.3	2.0
EV/EBITDA (x)	15.0	12.3	11.3	9.1	7.8

NM: Not meaningful; CMP: Current market price

Based on abridged financials

Source: Company, CRISIL Research estimates

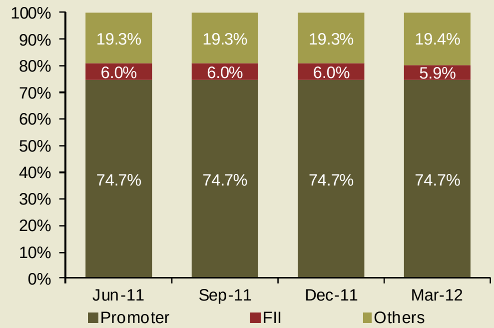
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	17392/ 5275
NSE/BSE ticker	INSECTICID/INSECTCID
Face value (Rs per share)	10
Shares outstanding (mn)	12.7
Market cap (Rs mn)/(US$ mn)	5,029 / 91
Enterprise value (Rs mn)/(US$ mn)	6,385 / 115
52-week range (Rs)/(H/L)	477 / 376
Beta	1.1
Free float (%)	25.3%
Avg daily volumes (30-days)	85,937
Avg daily value (30-days) (Rs mn)	34.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
INSECTICIDES	-2%	-3%	0%	21%
NIFTY	4%	1%	11%	-7%

ANALYTICAL CONTACT

Mohit Modi (Director) mohit.modi@crisil.com
Anant Damani anant.damani@crisil.com
Bhaskar Bukrediwala bhaskar.bukrediwala@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com

Table 1: Insecticides India – Business environment

Parameter	Pesticide formulations and technicals
Revenue CAGR (FY09-12)	25.6%
Revenue CAGR (FY12-14)	23.1%
Product application	■ Pesticides include three major categories – insecticides, fungicides and herbicides • Insecticides: Used for preventing, destroying, repelling or mitigating pests in order to protect crops • Herbicides: Used largely to kill weeds • Fungicides: Applied on crops to treat diseases, surface fungi on crops, etc. ■ Plant growth regulators influence formation of flowers, stems, leaves and the development and ripening of the fruit/grain ■ Technicals: Active ingredients for manufacturing pesticides
Geographic presence	India
Market position	■ ~5% share of the domestic market
Key competitors	Rallis India, Bayer CropScience, Dhanuka Agritech, PI Industries and United Phosphorus
Demand driver	■ Rising population and declining rate of crop production growth will make increased usage of pesticides essential ■ Despite a rise in pesticide prices due to increased raw material costs, consistent increase in MSP (minimum support price) of major crops and the government's support to the agriculture sector by way of subsidies have kept the cost of pesticides affordable for farmers ■ While pesticides may form only ~15% of the farmers' operating costs, not applying pesticides could cause crop losses which are much higher in comparison to the cost of pesticides. Therefore, a farmer's decision to spend on crop protection is mainly determined by the cost of crop production and farm produce prices
Key risks	■ Unpredictable weather and occurrence of pest/disease ■ Fluctuation in foreign exchange rates as one-third of IIL's raw materials are imported ■ Lack of exports makes IIL dependent on the demand in the domestic market ■ Delay in increase of MSP / decline in farm profitability ■ Risk of government ban on sale of toxic pesticides

Source: Company, CRISIL Research

Grading Rationale

Recalibrating growth expectations

The domestic agrochemical industry did not register any growth in FY12 – a deviation from the 12-15% growth of the past few years – on account of erratic monsoon during the kharif season and lower pest incidence and deficient rainfall during the rabi season. This reduced crop acreages in Andhra Pradesh, Karnataka and Maharashtra, consequently lowering the demand for pesticides and a deceleration in growth of all industry players including IIL. While the industry remains susceptible to monsoons, we continue to believe that a well-entrenched player such as IIL will grow faster than the industry due to its extensive distribution network, focus on branding, augmenting product portfolio and addition of new levers for future growth (increased institutional sales, exports, and contract research and manufacturing services [CRAMS]). However, a delayed monsoon in kharif 2012 may impact demand, especially in Q1FY13. Further, increased working capital requirement (due to higher inventory) has increased debt and interest cost significantly, which we believe will limit the headroom available to the management to aggressively push sales in FY13 (selling costs and debtors will need to be controlled). We have, therefore, lowered our revenue growth estimate from ~30% CAGR to 23% CAGR over FY12-14.

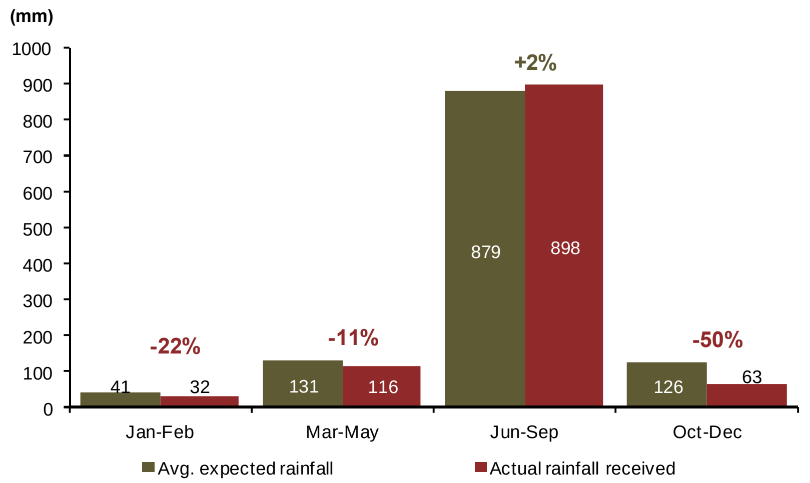
IIL expected to grow faster than the industry due to its extensive distribution network, focus on branding, product portfolio and addition of new levers for future growth

Adverse weather conditions in FY12 impacted pesticide demand; expect better times ahead

Erratic / deficient monsoons led to lower pesticide demand…

Pesticide consumption in FY12 was hit by erratic monsoons during the kharif season and deficient rabi rainfall in Andhra Pradesh, Maharashtra and Karnataka. Further, while costs of agricultural inputs were high, decline in prices of some crops such as cotton and paddy (key pesticide consuming crops) caused farm incomes to deteriorate, leading to lower demand.

Figure 1: Highly deficient rainfall in October-December quarter



Source: Industry, CRISIL Research

... Resulting in slower growth for all industry players

All major pesticide players registered significantly slower revenue growth in FY12 compared to earlier years. IIL's FY12 revenues grew at 16%, lower compared to 28% CAGR in revenue during FY07-11.

Table 2: Performance of pesticide players

Company	FY07-11 revenue CAGR	FY11-12 revenue growth
IIL	**28%**	**16%**
Rallis India	14%	7%
Dhanuka Agritech	25%	9%
United Phosphorus (domestic)	23%**	15%
Bayer Crop Science	27%**	1%

**CAGR over FY08-11

Source: Industry, CRISIL Research

Expect demand to rebound in FY13; slow pick-up in monsoon may impact demand in Q1

We expect the ~Rs 100 bn domestic pesticide industry's performance to improve compared to FY12; it is expected to grow by 12-15% per annum going forward. Based on recent forecasts by the Indian Meteorological Department, while the pre-monsoon rainfall has been deficient during June 2012, it is expected to pick up during Q2FY13.

We expect the domestic pesticide industry to grow by 12-15% per annum going forward

On the policy front, the government recently announced significant increase in MSP for various kharif crops including cotton and paddy. Further, our channel checks indicate that negative farmer sentiment in FY12 will not impact demand for agricultural inputs during FY13. We, therefore, remain positive on the growth prospects of the pesticide industry in India in FY13 and over the medium term.

Hikes in MSP announced – significant increase across crops

Recently, the government announced further increase in the MSP for kharif crop. While paddy MSP was raised by 16% in 2012, MSPs for cotton and soybean were raised by 28.5% and 33%, respectively, as prices for both these crops were lower and, therefore, less remunerative for the farmers in 2011.

Table 3: Significant increase in MSP for 2012

Crops	MSP FY12 (Rs/quintal)	MSP FY13 (Rs/quintal)	% increase
Paddy	1,080	1,250	15.7
Cotton	2,800	3,600	28.5
Urad	3,300	4,300	30.0
Soybean	1,650	2,200	33.0
Groundnut	2,700	3,700	37.0
Sunflower seed	2,800	3,700	32.1

Source: Industry, CRISIL Research

MSP is announced by the Government of India in order to ensure remunerative prices to the farmers for their produce. MSP typically also tends to form a base price even for open market trades. Increase in MSP will, therefore, increase the farmers' ability to invest in agricultural inputs such as pesticides and enable pesticide manufacturers to pass on the increase in raw material costs to the farmers.

Dealer / distributor interaction indicates positive outlook in FY13

We interacted with pesticide dealers/distributors from different parts of India (Andhra Pradesh, Maharashtra, Bihar, Madhya Pradesh, Uttarakhand and West Bengal) to understand the factors that will impact pesticide consumption going forward and whether subdued farmer sentiments in FY12 will have an adverse impact on demand for pesticides during FY13. As per our interaction with dealers/ distributors, pesticide demand in FY13 will be determined by weather conditions and pest occurrence; the likelihood of lower farm incomes in 2011 impacting demand in 2012 is less. Following are our key takeaways:

Table 4: Key takeaways from distributor / dealer interaction

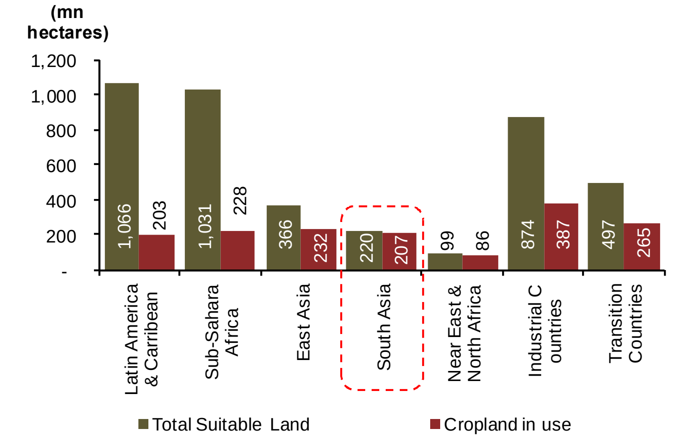
Question	Distributor / dealer opinion
How was the demand for pesticides in FY12?	■ "Sales volumes were lower compared to the previous year. Pest incidence was low ■ Crop holiday was declared for some crops in Andhra Pradesh ■ Volumes have declined for all companies
Did pesticide prices decline in FY12 owing to poor demand?	■ Prices did decline for some products. But have gone up overall as raw material costs have increased ■ Price cut is generally not an effective way of generating demand ■ It is generally possible for the pesticide companies to pass on the increase in raw material costs to the farmers
Are you holding any inventory from last year? Will your beginning of the season purchases be lower compared to FY12?	■ We always carry some inventory, but the levels have not increased significantly. We will not be lowering our purchases for kharif 2012 season on account of subdued demand last year
What is your expectation of pesticide demand in FY13, considering that FY12 was a bad season for farmers in some of the larger states?	■ Pesticide demand in FY13 will be driven by monsoons and pest occurrence ■ Do not expect last year's negative sentiment to impact this year's sales. Farmers will not keep the land unutilised and will undertake cultivation. This will drive demand for agriculture inputs ■ While cotton sowing is expected to be low compared to 2011, soybean sowing will be higher"

Farmers' investment in pesticides typically tends to occur after purchase of seeds, fertilisers and other inputs. In our opinion, while pesticides may form only ~15% of the operating costs, not applying pesticides may cause crop losses, which are much higher in comparison to the cost of pesticides. Therefore, a farmer's decision to spend on crop protection is mainly determined by the cost of crop production and farm produce prices. With higher cost of production (due to higher cost of other inputs such as seeds, fertilisers, etc.), a farmer is bound to spend on pesticides to ensure that the produce is protected.

Strong push for increasing productivity to boost demand for crop protection products

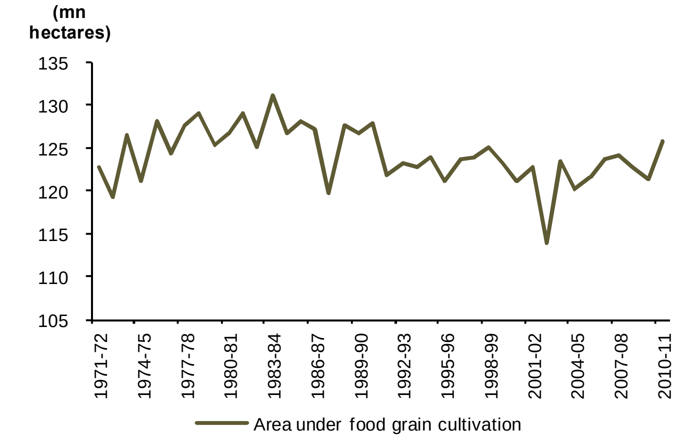
With limited scope to bring more land under agriculture and with the rise in other uses of land, the government is likely to focus more on increasing crop productivity/ yields. With India's crop losses – on account of inadequate and improper use of pesticides – exceeding US$ 20 bn per annum (source: ASSOCHAM), we believe that higher penetration of pesticide usage will be an important factor for increasing farm productivity.

Figure 2: Lack of alternatives for increasing area under cultivation



Source: Food and Agriculture Organization

Figure 3: India's area under food grain cultivation has not increased in the past 30 years

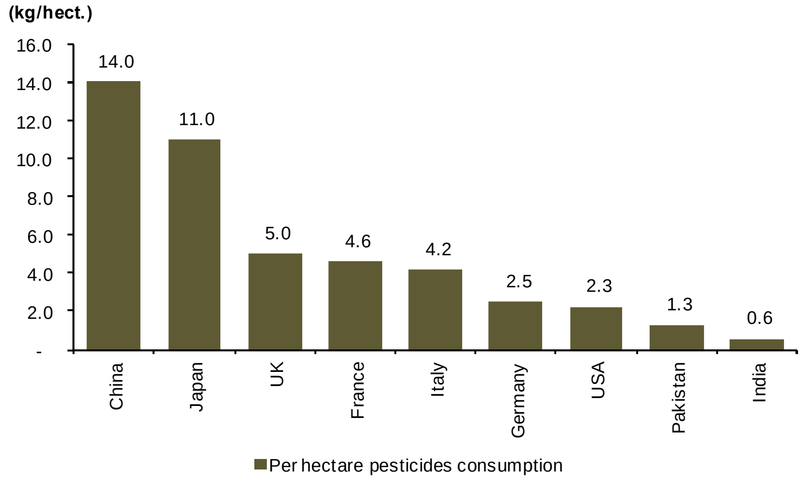


Source: Ministry of Agriculture

India continues to lag in pesticide consumption despite high crop losses; expect consumption to increase over time

Pesticide usage in developed agricultural markets such as the US, Europe, Japan, and China is significantly higher compared to India. This is partly due to lack of awareness among farmers on optimum pesticide usage and presence of spurious pesticides. Further, there is a lack of locally developed molecules on account of under-investment in research and development. Therefore, while there are only 225 pesticides registered in India, 750 are registered in the US, 550 in China and 600 in Europe. In India, pesticide consumption is heavily skewed towards larger states such as Andhra Pradesh, Maharashtra, Punjab, Haryana and Uttar Pradesh.

Figure 4: India's pesticide usage lower than other countries'



Source: Industry estimates, CRISIL Research

According to a study conducted by the Indian Agricultural Research Institute (IARI), avoidable crop losses due to pests range from 8% to 90% across different crops. The highest losses are in cotton, followed by pulses.

Table 5: Avoidable crop losses due to pests

Crops	Avoidable losses %
Cotton	49-90
Rice	21-51
Mustard	35-75
Maize	20-25
Sugarcane	8-23
Pulses	40-88
Fruits	30-60
Vegetables	20-35

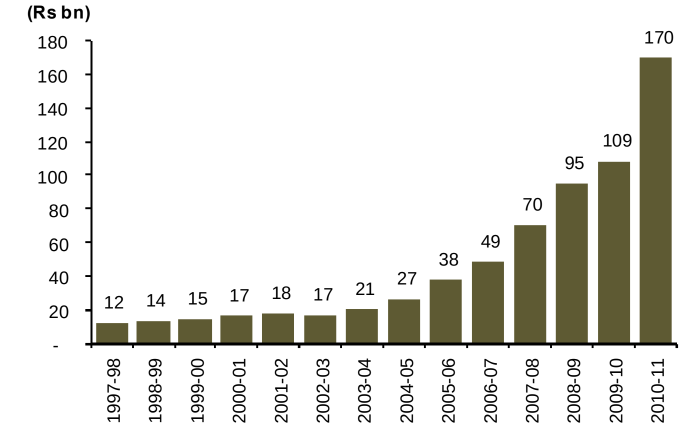
Source: IARI

CRISIL Research expects the level of pesticide consumption in India will gradually become comparable with other countries having a large agriculture sector. This is likely to be driven by higher farm incomes, availability of more speciality products, introduction of less toxic products and increased awareness among farmers on proper usage of pesticides.

Government support improves agri sector economics

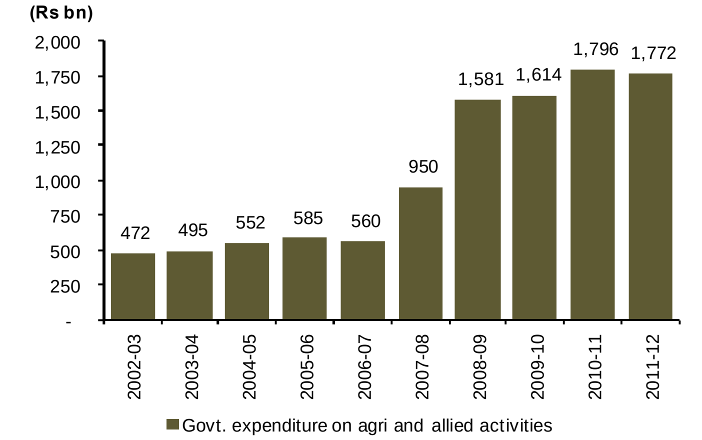
CRISIL Research expects the government to continue to provide policy support to the agricuture sector in order to match the supply of food products with population-led higher demand. Historically, the combined expenditure of central and state governments has grown at 16% CAGR over FY03-FY12 to Rs 1,772 bn. Higher spending on agriculture by the government has improved the overall farm sector economics, and provided an impetus to the farmers to undertake production of various crops. This, in turn, has boosted the demand for agricultural inputs such as pesticides.

Figure 5: Department of Agriculture's spending under various schemes has increased...



Source: Department of Agriculture, Government of India

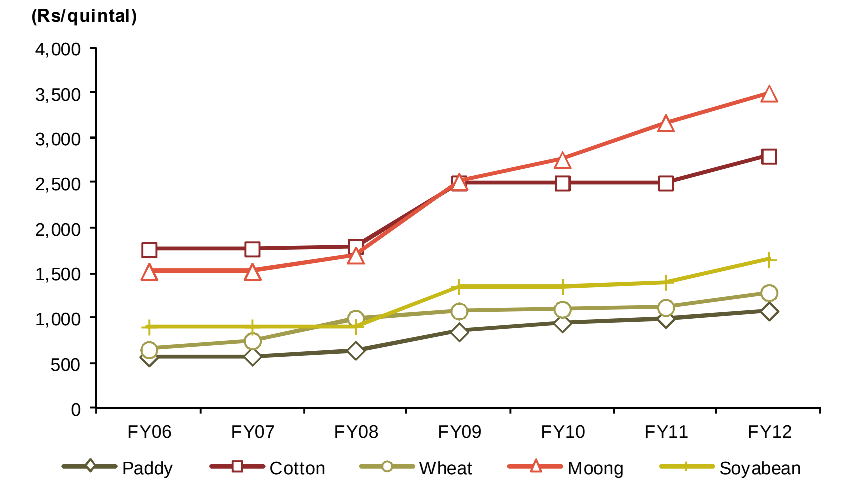
Figure 6: ... and so has the government's overall revenue expenditure on agriculture and allied activities



Source: CMIE. Includes central and state government expenditure

Further, the government has also consistently increased the MSP of key pesticide-consuming crops, making it more remunerative for farmers to undertake cultivation of these crops. This not only boosts the demand for pesticides, but also increases the ability of the pesticide manufacturers to pass on the increase in raw material costs to the farmers.

Figure 7: Historical hikes in MSP



Source: Ministry of Agriculture, Govt. of India

Historically, MSP for cotton and paddy has increased by 11% CAGR and 8% CAGR, respectively, over FY06-12, whereas for wheat it has increased at 12% CAGR over the same period.

Scarcity of economical farm labour indirectly ups demand for herbicides

In India, farmers traditionally employ labourers to remove weeds, but National Rural Employment Guarantee Scheme (NREGS) introduced in 2005 has not only created job opportunities for labourers outside agriculture but has also led to an increase in the wage levels. This has made deployment of manual labour for removal of weeds a costly affair.

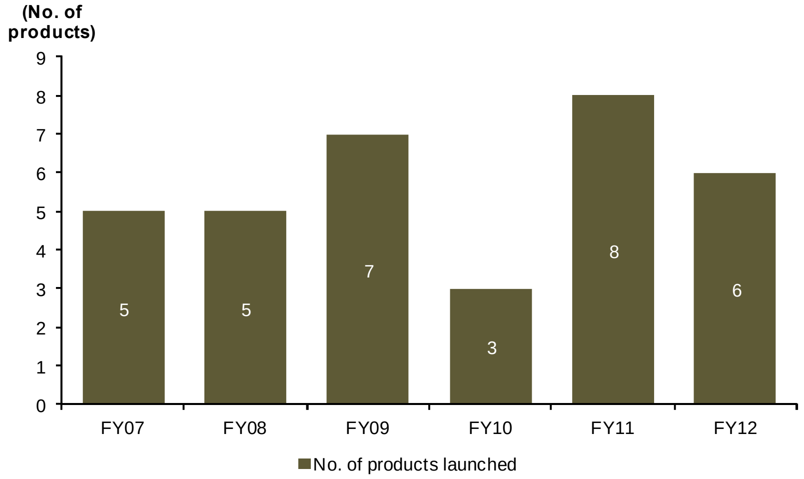
Therefore, farmers are increasingly opting for herbicide sprays to kill weeds. According to Pesticides Manufacturers and Formulators Association of India, sales of herbicides are likely to grow by ~25% per annum for the next few years, as labour shortage is perceived to be a long-term problem. Herbicides account for ~15% of IIL's revenues.

IIL continues to augment product portfolio; recent launches have been successful

IIL's product portfolio is diversified, with over 100 products

At present, IIL's manufactures over 100 products, including insecticides (~60% contribution to revenues), herbicides, fungicides and plant growth regulators. During FY12, IIL launched six new brands – three insecticides (Metro, Rambo and Super Star), two acaricides (Monocil and Josh) and one fungicide (Ultra). These brands together contributed ~8% to IIL's revenues in FY12. A wide basket of products with various applications not only ensures risk diversification but also provides a complete one-stop-shop solution to the farmers in contrast to MNC players who provide the retailer fewer crop-specific pesticides.

Figure 8: IIL has been proactively launching new products



Source: Company, CRISIL Research

Acquired brands continue to make meaningful contribution to top line

In the past, IIL has successfully demonstrated the ability to acquire off-shelf brands and turn them around through aggressive marketing. IIL acquired a popular generic brand Monocil from Mumbai-based Nocil Ltd in March 2011. Monocil is an insecticide which controls a broad spectrum of pests in a wide range of crops and is one of the largest selling molecules (monocrotophos). This brand too was off-shelf (five-six years prior to acquisition by IIL) as the product did not fit into Nocil's product strategy. However, Monocil continued to have a high brand recall, which is evident from the fact that IIL has sold 0.9 mn litres during FY12. Demand for monocrotophos is estimated to be 10 mn litres annually (industry estimate), thereby implying that Monocil has acquired a ~9% market share in a short span of time. Monocil contributed ~6% to IIL's revenues in FY12.

Another popular brand owned by IIL is Lethal, which was acquired from Montari Industries in 2003 and contributed ~7% to IIL's revenues in FY12. Montari Industries, a player in the agro-chemicals space, ceased operations in 2004 and was reported as a BIFR case. However, its brands had high recall value amongst the farmers in spite of being off-shelf for three-four years. Initially, IIL acquired three brands from Montari Industries on lease and tested the response to these products. Good response resulted in IIL acquiring all the brands of Montari Industries for ~Rs 5-6 mn. After acquisition, IIL spent heavily on advertising to revive the brands and leverage on their high brand power. Lethal has grown at a CAGR of 7% over FY08-12 to report revenues of Rs 374 mn in FY12 and is one of the largest brands in its segment (chlorpyrifos) currently. IIL has introduced 11 variants under this brand, as it is easier to market a new product under an established brand name.

Management focusses on more MNC tie-ups

IIL's management, over the past few years, has been focussing on increasing its tie-ups with global chemical companies to source specialty and generic molecules. Tie-ups with foreign partners enable IIL to offer a large number of products addressing crop protection needs across different kinds of crops, pests, various soil types and weather conditions.

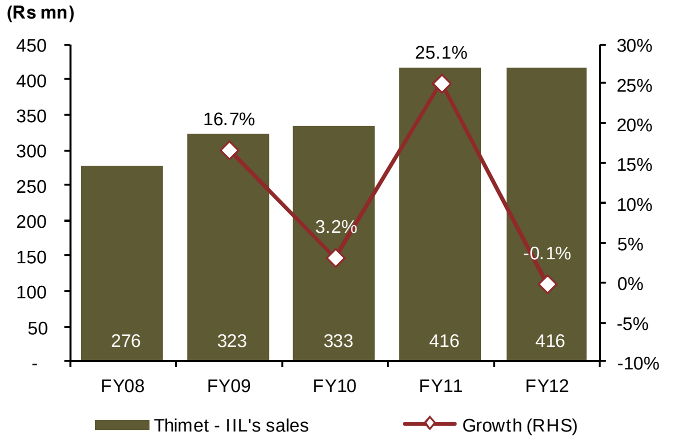
During FY12, IIL announced its tie-up with Nissan Chemicals for exclusively marketing its patented product Pulsar, which is a fungicide to prevent sheath blight in rice. This is a thifluzamide-based product and is both preventive and curative in nature. Sheath blight is responsible for up to 20-25% of total yield loss in paddy crops and, therefore, Pulsar finds a big market in India, one of the biggest rice producers. The product is already in use in Japan, Brazil, Mexico, China, Vietnam, Mexico and other markets. According to management estimates, Pulsar is estimated to have a Rs 2 bn market in India. While there are competing products and brands in the Indian market, we expect Pulsar to do well on account of its application as both a preventive and curative pesticide and IIL's extensive distribution network. IIL launched Pulsar in May 2012.

In May 2012, IIL also announced a tie-up with American Vanguard Corporation (AMVAC) to manufacture and market the latter's generic insecticide brand Nuvan (dichlorvos) in India. IIL already has a tie-up with AMVAC since 2003 for manufacturing and marketing Thimet (phorate) in India. For Thimet, IIL has to pay US$175,000 or 5% of Thimet's sales, whichever is lower, as royalty expenses to AMVAC. The agreement was valid till 2011 and has been renewed for another five years. Thimet contributed 7.5% to IIL's revenues in FY12 and is its largest selling brand.

Recently, IIL announced a tie-up with Nissan Chemicals to co-market Nissan's popular weedicide quizalofop-ethyl in India, under the brand name Hakama. In this arrangement, the product will be manufactured by another player but will be marketed by IIL under the brand name Hakama.

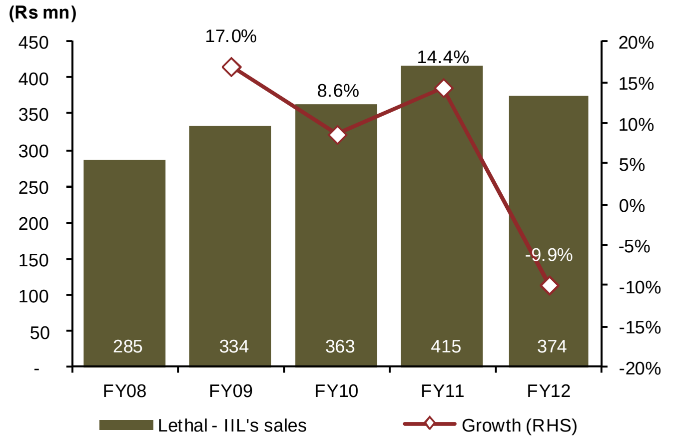
IIL has also been active in launching its own products and positioning them as quality value-for-money products. Some of its leading brands are Victor, Indan and Kaiser. Victor has registered a CAGR of 17% over FY08-12 to report Rs 316 mn sales in FY12. IIL specifically scouts for opportunities to launch products in segments where the MNC's product is expected to go off-patent, resulting in a supply gap in that market.

Figure 9: Thimet contributed 8% to IIL's revenues in FY12



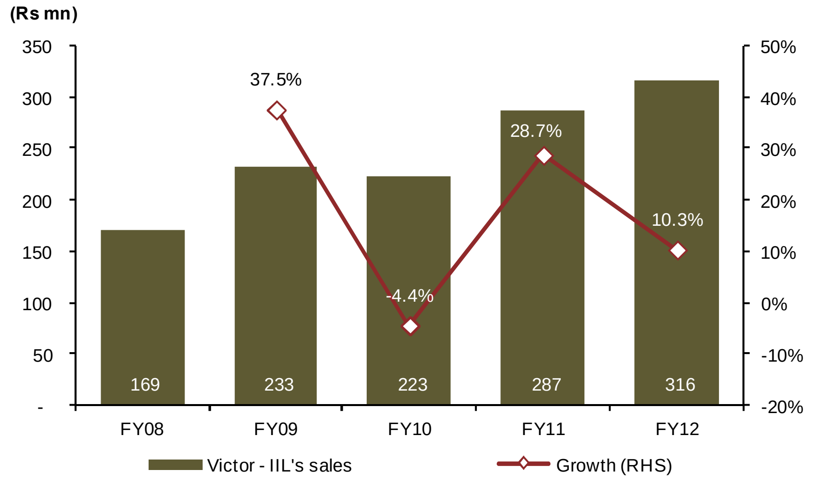
Source: Company, CRISIL Research

Figure 10: Consistent growth for Lethal, except in FY12



Source: Company, CRISIL Research

Figure 11: Victor's sales grew by 17% CAGR over FY08-12



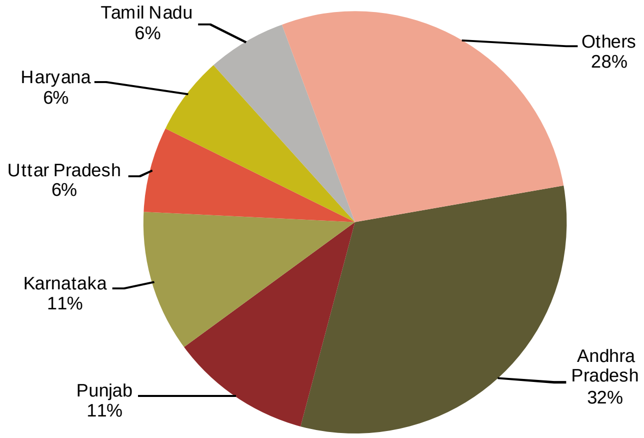
Source: Company, CRISIL Research

Victor, Lethal, Thimet and Monocil contributed 26% to IIL's revenues in FY12

Pan-India distribution network supports growth in operations

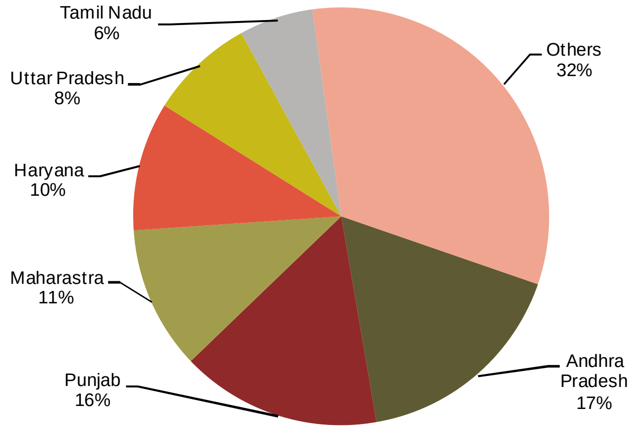
IIL has ~6,000 dealer/distributors and is present in all major pesticide consuming states in India such as Andhra Pradesh, Punjab, Maharashtra, Haryana and Uttar Pradesh. IIL's extensive distribution network is able to not only support its existing product basket but is also an important factor in attracting global chemical companies for marketing their products in association with IIL.

Figure 12: IIL's distribution network



Source: Company, CRISIL Research

Figure 13: State-wise brand revenues for IIL



Source: Company, CRISIL Research

The highly competitive nature of the Indian crop protection market makes it necessary to be in close contact with the end-users – farmers. Further, as most of the dealers/distributors stock products of other players also, differentiation and brand recall are important factors influencing sales. The products have to, therefore, necessarily be bundled along with services such as awareness campaigns regarding periodicity and quantity of usage, product demonstrations, counselling and after-sales support. IIL employs ~500 people (on a contract basis) who take part in farmer engagement activities such as demonstrations, training and know-how in different parts of the country.

Significant capacity addition in FY12; looking at other avenues for growth

IIL has expanded capacity substantially during FY12, setting up one formulation plant each in Dahej and Udhampur and a technicals plant in Dahej. Total capex over FY11-12 is ~Rs 1 bn. Capacity addition in FY12 is as follows:

Table 6: IIL's capacity expansion in FY12

Products	Existing capacity	Added in FY12	Total capacity
Emulsifiable concentrate (EC) (lakh litres)	115	70	185
Granules (MT)	13,600	14,000	27,600
Wettable dispersible powder (WDP) (MT)	6,600	3,100	9,700
Technicals (MT)	3,800	9,000	12,800

Source: Company, CRISIL Research

IIL's formulations plant in Dahej is a multipurpose plant which can manufacture up to four products simultaneously. Also, since major technical suppliers like Rallis and United Phosphorus have plants in Gujarat, it will help IIL reduce transportation costs for raw materials. Further, proximity to Dahej Port will not only enable IIL to import technicals from China but also aid in exports from its technicals plant.

The Udhampur formulations plant will enjoy 100% excise duty exemption and 100% income tax exemption for the first five years from the date of comissioning and 30% income tax exemption for the subsequent five years. We expect IIL to manufacture most of its high-margin molecules at this plant as the company's effective tax rate will be lower due to income tax benefits.

Increased technicals capacity to drive growth in domestic institutional business and exports

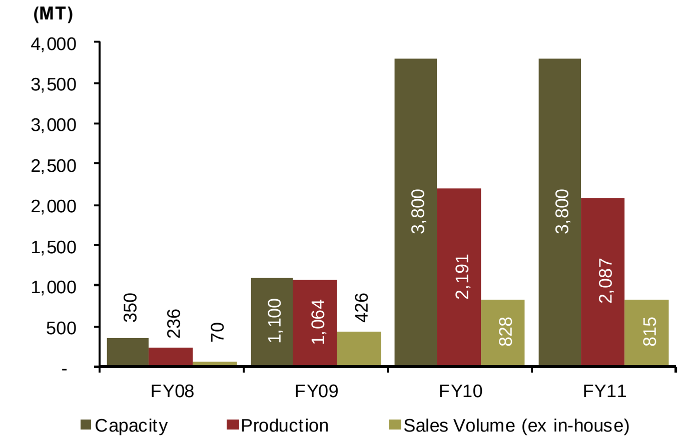
We expect IIL's institutional business as well as exports to increase sharply on the back of tripling of technicals manufacturing capacity with the commissioning of the Dahej plant in FY12 (commercial production commenced in FY13). IIL plans to manufacture five-six different products in Dahej, with initially 50% of the production consumed in-house. Institutional business involves sales of technical products to other agrochemical companies. IIL also intends to tap the export markets by supplying active ingredients to the Middle East, CIS, Africa, South Asia and the Far East. The company has applied for product registerations in Taiwan and Thailand. Currently, IIL exports small quantities to Nepal and Bangaladesh.

IIL generated ~Rs 545 mn in revenues through sales of technicals, excluding in-house consumption. We expect technicals revenues to grow to ~Rs 2 bn in FY14. We expect capacity utilisation to drop to 21% in FY12 on account of addition of Dahej technicals plant but will increase to 49% in FY14.

Capacity expansion justified by rapid revenue growth in the past

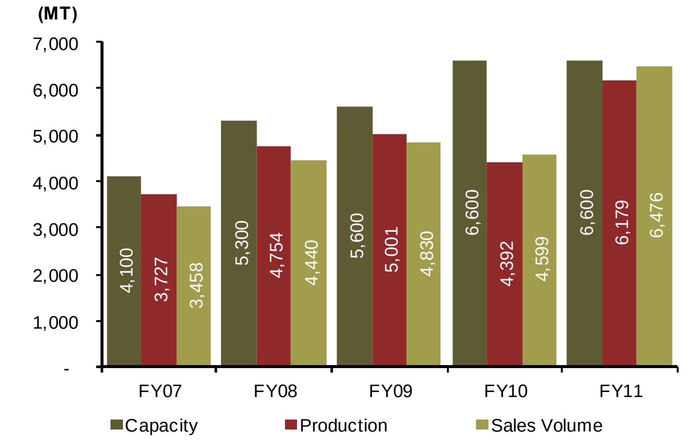
IIL's rapid revenue growth in the past four-five years can be attributed to consistent increase in capacities. Post capacity addition, the company has been able to increase its top line on account of addition of new products, expansion of distribution network and the management's focus on acquiring/creating popular brands. The management has, therefore, demonstrated ability to substantiate capital investment by growth in scale of operations.

Figure 14: Performance of IIL's technicals business



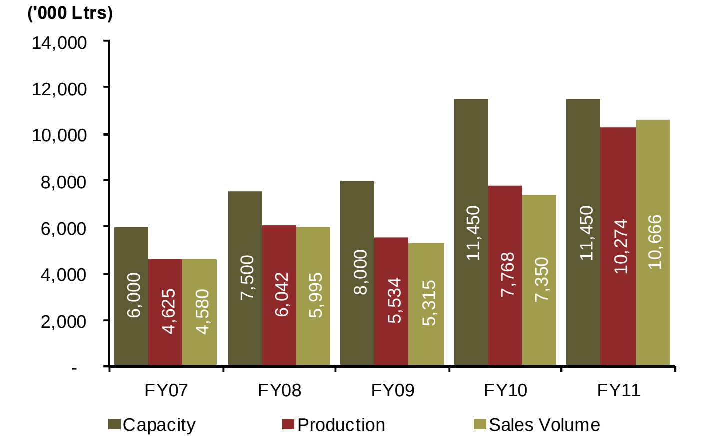
Source: Company, CRISIL Research

Figure 15: Strong growth in WDP product sales



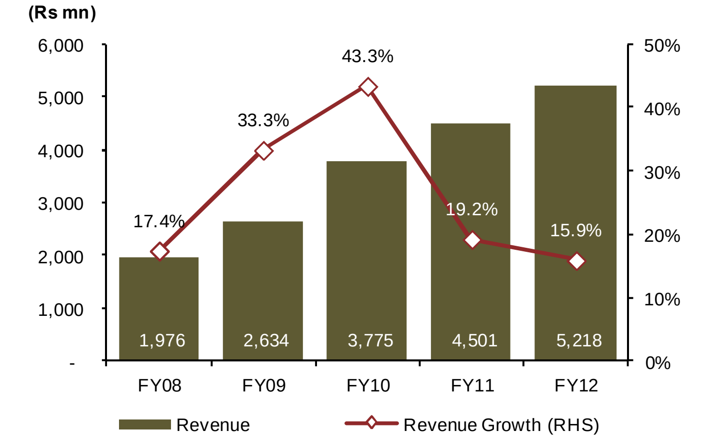
Source: Company, CRISIL Research

Figure 16: Steady growth in sales of liquid products



Source: Company, CRISIL Research

Figure 17: IIL's revenues grew by 27% CAGR over FY08-12



Source: Company, CRISIL Research

New forays on the anvil; we are cautiously optimistic

IIL has recently announced a capital expenditure outlay of ~Rs 1 bn over FY13-14 including foray into CRAMS. Key components of the expansion plan:

Table 7: IIL's capital outlay over FY13-14

Nature of capital expenditure	Outlay (Rs mn)	Expected commissioning	IIL's strategy	Our view
Expansion of formulation capacity in Chopanki, Rajasthan	150	FY13	IIL will use the incremental capacity to manufacture the new products announced recently. Further, the management expects to receive 20 new product registrations during FY13	At this stage, additional capacity addition looks aggressive especially since the company has added significant formulations capacity in FY12. However, since the outlay is small relative to IIL's current scale of operations, we do not see any major risk even if IIL is unable to utilise the incremental capacity
Expansion of formulation capacity in Samba, Jammu & Kashmir	70-80	FY13	The plant currently receives income tax and excise duty benefits. Additional capex will make the plant eligible for tax benefits for another 10 years	Do not expect any significant capacity addition from this investment, but income tax benefits will aid the company in keeping its tax rates lower
New research and development facility in Chopanki, Rajasthan	250	FY14	The facility will not only support IIL's in-house research but will also be utilised for contract research operations	IIL is already in discussion with a Japanese player for contract research. While we have assumed a capital expenditure for this facility, we have not factored in any revenue
Greenfield facility for manufacturing active ingredients in Dahej, Gujarat	500	FY14 / FY15	Dedicated facility for contract manufacturing operations. IIL is currently in discussion with an American chemical company for commercial production of two of its patented molecules. The management expects each molecule to potentially generate Rs 300 mn in revenues in the first year	Investment is not finalised at this stage. We have not factored this capex in our projections. We may revisit our estimates in case the company announces any collaboration in the future

In our opinion, capacity expansion in Chopanki and Samba as well as new research and development facility in Chopanki do not represent significant risks to IIL's business fundamentals. However, in the light of higher debt to equity and expanded working capital in FY12, we are cautious about the management's plans to undertake significant investments in Dahej for setting up a dedicated contract manufacturing facility. The management has announced its intention to dilute 8-10% of the promoter holding to a private equity player / strategic investor during FY13. While we have not factored in any dilution at this stage, this move will aid in reducing IIL's debt to equity.

CRAMS venture is a positive move

The CRAMS business consists of Contract Manufacturing Operation (CMO) and Contract Research Operation (CRO), of which CMO constitutes a major portion of the overall business. Over the past decade, India has become a popular destination for global chemical companies to outsource research and manufacturing activities on account of India's skilled labour pool, lower operating costs relative to developed countries, good quality and strong reverse engineering capabilities. We expect this business model to continue to grow in the future as innovator companies are likely to outsource more as they focus on their core competencies, i.e. research and development, and marketing. If IIL is able to establish itself as a preferred supplier to innovator companies, it will offer IIL a stable revenue stream as most of the contracts are for three-five years and on a take-or-pay basis. Margins will be dependent on the nature of the product (patent or off-patent), complexity of chemistry skills required and IIL's ability to control costs.

We expect this business model to continue to grow in the future as innovator companies are likely to outsource more as they focus on their core competencies

Figure 18: CRAMS: Operating environment for IIL

Key enablers	IIL's strengths	Key challenges
• Lower cost of operations in India • Well developed chemistry skills and expertise in reverse engineering among the Indian technical professionals • Global innovator companies expected to outsource more as they focus on core competencies – R&D and marketing	• Focus on developing long term relationships with global chemical companies will help in generating business/references • Capability and experience in production of active ingredients	• Expect manpower costs to increase as IIL will be required to scale up its technical team • Strict IPR compliance, when dealing with patented products • Rising competition among Indian players • Business flow linked to global economic cycles

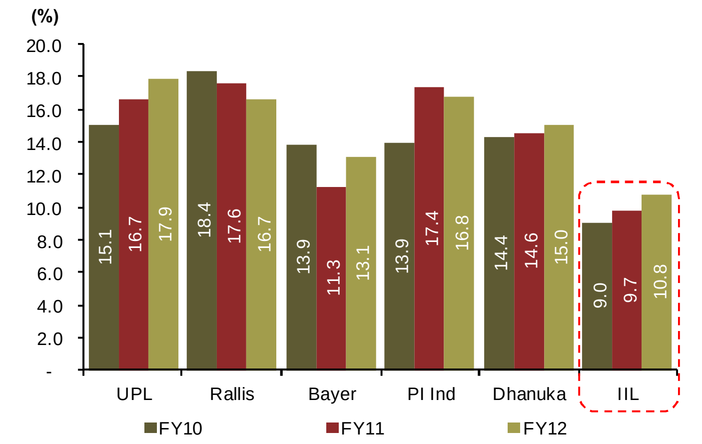
Source: Industry, CRISIL Research

Moderately placed among peers; working capital is a key monitorable

IIL is moderately placed vis-à-vis peers in the industry. It compares well in terms of size and geographic reach. However, its margins are relatively lower compared to peers primarily because its business model involves higher advertising and branding expenses to aggressively market its brands (own and acquired). For instance, the company has roped in actor Suneil Shetty to promote its brands. Also, IIL offers discounts to dealers in case they are unable to sell IIL's products, to incentivise timely payments. While this keeps IIL's receivables at lower levels, it puts pressure on its margins.

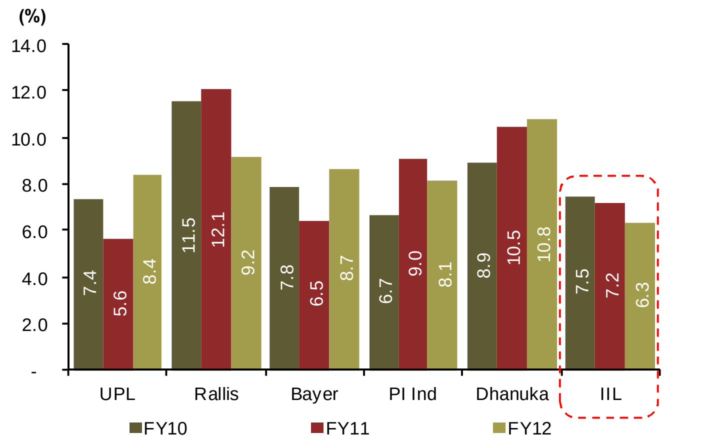
IIL's product mix is also skewed towards generic formulations and technicals, in which the margins are lower than in specialty molecules. These factors have resulted in lower operating margins compared to other players.

Figure 19: IIL's EBITDA margin lower compared to peers...



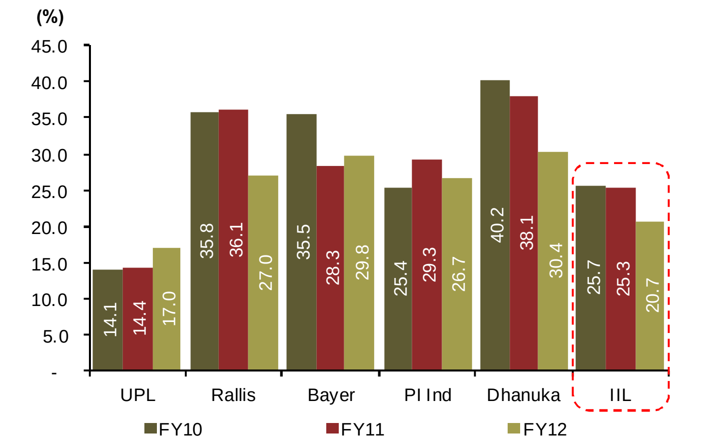
Source: Industry, CRISIL Research

Figure 20: ... and also PAT margin



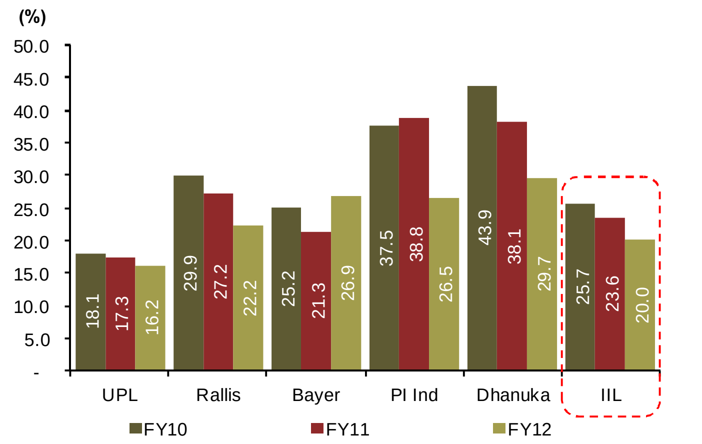
Source: Industry, CRISIL Research

Figure 21: IIL's RoCE compared to peers



Source: Industry, CRISIL Research

Figure 22: IIL's RoE compared to peers

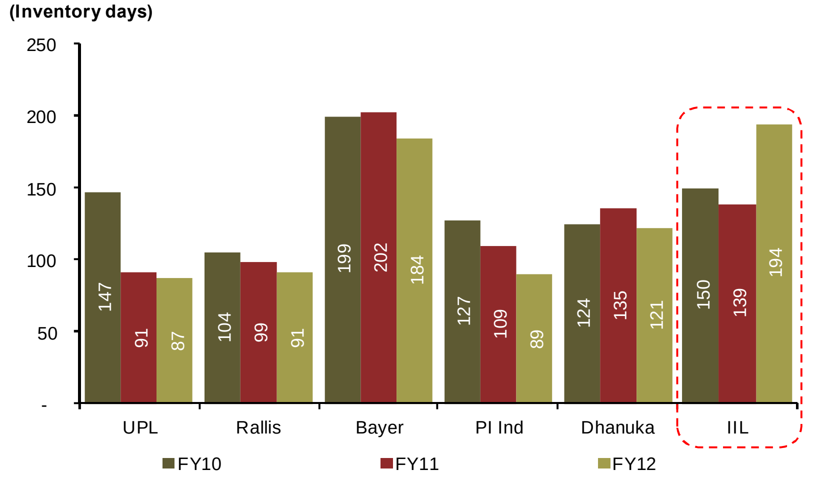


Source: Industry, CRISIL Research

Inventory days have risen sharply in FY12, leading to higher debt

IIL's inventory days rose sharply to 194 days from 140-150 days in the previous years primarily due to higher finished goods and raw material inventory. The company recently commissioned its technicals plant in Dahej and the incremental raw material inventory will be utilised for this plant. As per the management, the company has maintained higher finished goods inventory, as it expects robust sales growth in FY13, led by improved demand scenario. Further, unsold goods due to subdued demand in Q4FY12 have also added to high inventory levels. While we expect inventory days to be lower in the future as the Dahej technicals plant starts generating revenues, we consider this to be a key monitorable. Higher working capital requirement has raised debt sharply to Rs 1.5 bn in FY12 from Rs 0.4 bn in FY11.

Figure 23: IIL's inventory days have risen sharply in FY12



Source: Industry, CRISIL Research

Key risks

Unpredictable weather and pest/disease occurrence

The performance of the pesticide industry remains highly dependent on the weather, which affects the presence of disease and pest infestations in the short term on a regional basis. Normal monsoons are an important but not the only factor driving the demand for pesticides. Pest occurrence is also critical in driving volumes of pesticide companies. Therefore, adverse weather conditions and inadequate pest occurrence can negatively affect the performance of pesticide companies.

Foreign exchange rate fluctuation

IIL imports about one-third of its raw materials. This exposes the company to foreign exchange fluctuation risk. We expect IIL to import more raw materials in FY13 as its technical manufacturing plant in Dahej will commence commercial operations. According to the management, depreciation of the rupee beyond Rs 55 for a sustained period may increase IIL's raw material costs and adversely impact its operating margins.

Lack of export revenues

IIL's revenues are largely dependent on the domestic market with a small proportion of revenues from exports to Nepal and Bangladesh. Complete dependency on a single market may impact revenues in case of a slowdown in demand. However, the company is able to offset this risk to some extent through presence in all major agricultural regions of India.

Delay in increase of MSP / decline in farm profitability

Farmers' purchasing power with regard to agricultural inputs depends on the realisation of farm output. Therefore, consumption of fertilisers and pesticides is partly dependent on the MSP fixed by the government and other subsidies. In an environment of increasing raw material costs, inadequate/delayed increase in MSP may restrict the pesticide manufacturers' ability to pass on higher raw material costs to the farmers, consequently affecting their margins.

Regulatory risks

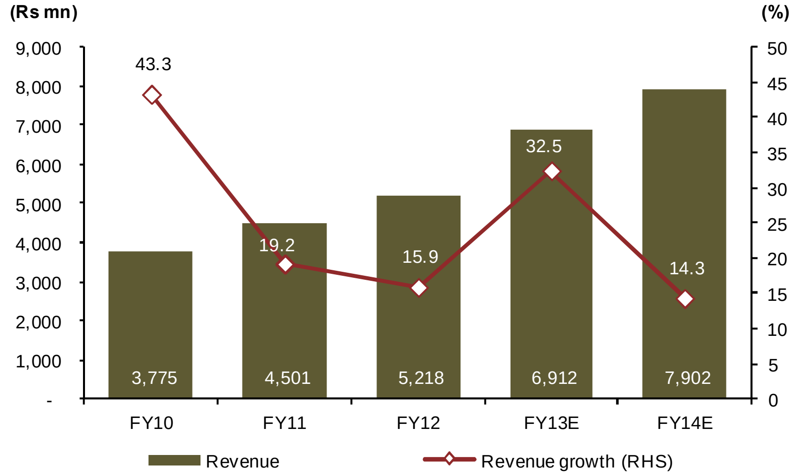
The pesticide industry is highly regulated. Every product launch, patented or off-patent, has to go through field trials and comply with several requirements to keep the environment safe and toxic levels under acceptable limits. These processes are expensive and time consuming, and come with the uncertainty of facing a ban anytime. About 10% of IIL's revenues are derived from highly toxic (red triangle category) products, which have a high probability of facing a government ban.

Financial Outlook

Expect revenue growth of 23.1% CAGR over FY12-14

We expect IIL's revenues to grow by 23.1% CAGR over FY12-14, led by growth in existing products, introduction of new products, higher contribution of technicals as well as general improvement in the demand environment. We have revised our FY13 growth expectations downwards on account of slow pick-up in monsoons (which may impact Q1FY13 performance), and higher working capital and debt on the balance sheet as of FY12, which gives less headroom to the management to aggressively push sales (selling costs and receivables will need to be controlled).

Figure 24: Revenues to grow to Rs 7.9 bn in FY14



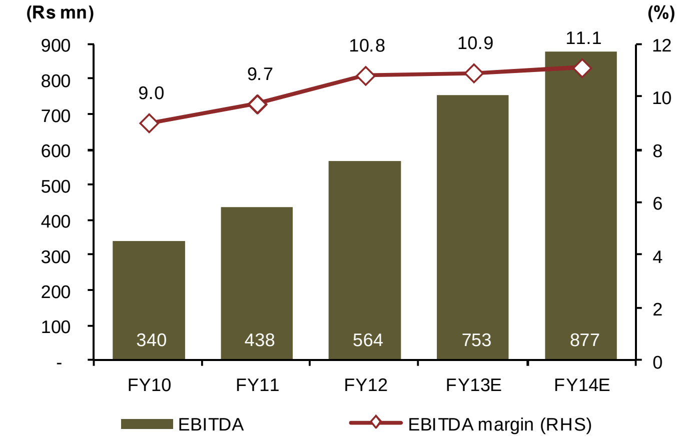
Source: Company, CRISIL Research

EBITDA margin to remain at current levels; PAT margin expected to be under pressure due to higher interest costs

We expect EBITDA margin to remain at current levels of ~11% in FY13. While high-margin products (Monocil, Thimet, Nuvan) are expected to have a larger share in IIL's sales mix, capacity addition is likely to increase fixed costs. We expect EBITDA margin to expand to ~12% gradually as the benefit of operating leverage kicks in and because of the management's focus on increasing high-margin branded products in the sales mix.

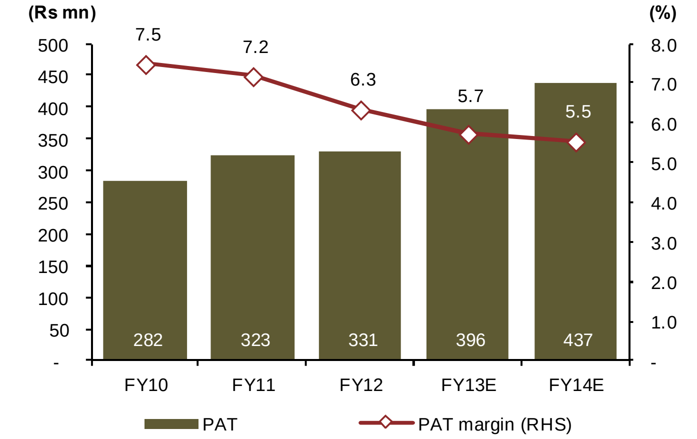
PAT margin will contract in FY13-14 on account of higher interest expense. We expect PAT margin to expand gradually once the company reduces leverage.

Figure 25: EBITDA margin to gradually increase



Source: Company, CRISIL Research

Figure 26: Higher interest costs = lower PAT margin

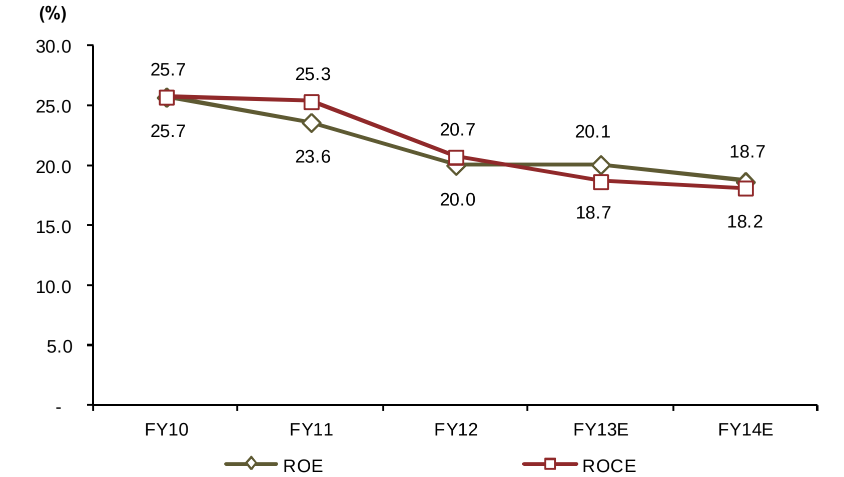


Source: Company, CRISIL Research

RoE likely to be lower in FY13-14 due lower net margin, asset utilisation

On account of lower PAT margin and asset utilisation (due to significant expansion of gross block in FY12), we expect return on equity to decline to ~18% in FY14. However, over the longer term, we expect RoE to be ~20%. This will be driven by increase in PAT margin (as interest cost declines gradually) and higher capacity utilisation leading to operating leverage.

Figure 27: RoE to decline in FY13-14 due to lower net margin

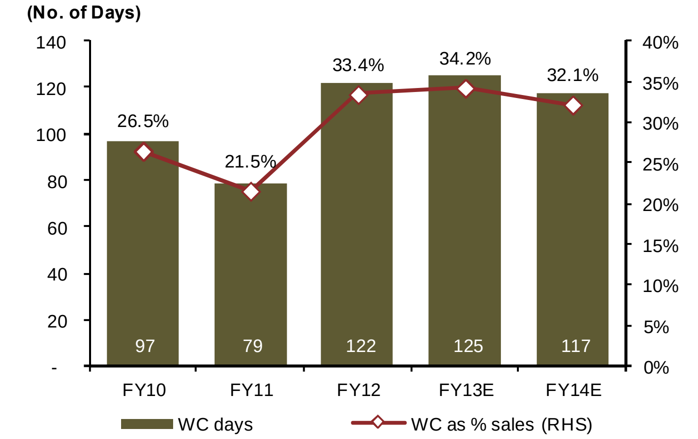


Source: Company, CRISIL Research

Working capital days expected to decline from current levels

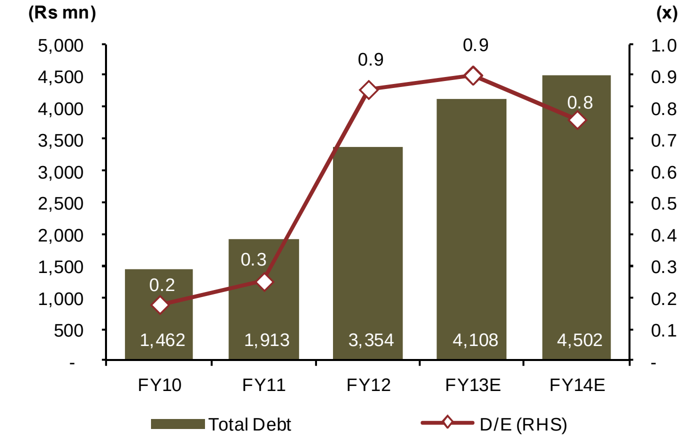
We believe that inventory days will decline on expectations of higher revenue growth going forward. Inventory days in FY12 are higher partially on account of higher raw material inventory related to IIL's newly established Dahej plant. Reduction in working capital days will also help reduce leverage.

Figure 28: Working capital requirement will decline gradually



Source: Company, CRISIL Research

Figure 29: Expect debt to decline significantly post FY14



Source: Company, CRISIL Research

Earnings Estimates Revised Downwards

		FY13E		
Particulars	Unit	Old	New	change
Revenues	(Rs mn)	8,021	6,912	-13.8%
EBITDA	(Rs mn)	877	753	-14.1%
EBITDA margin	%	10.9%	10.9%	-3 bps
PAT	(Rs mn)	581	513	-31.9%
PAT margin	%	7.2%	5.7%	-152 bps
EPS	Rs	45.8	31.2	-31.9%

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY13
Revenues	■ Expect utilisation of additional capacity to pick up slower than expected ■ Slow pick-up in monsoon may impact revenue growth in Q1FY13 ■ Higher debt and working capital levels will limit the management's flexibility to aggressively push sales as selling costs and receivables will need to be controlled
EBITDA margins	■ Higher fixed costs from new plants will put pressure on operating margins
PAT margins	■ Lower primarily due to higher interest costs as well as lowered operating margin estimate. Depreciation costs will also be higher due to capacity expansion in FY12-13

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

Experienced management

We expect IIL to strengthen its second line of management to drive growth in operations

IIL has an experienced management headed by Mr H. C. Aggarwal, chairman, and his son Mr Rajesh Aggarwal, managing director. Mr Rajesh Aggarwal promoted the company in 1996. His business acumen in the production and marketing of pesticides is reflected in the strong revenue growth in the recent years – revenues posted 27% CAGR over FY06-12. Aggressive capacity additions, expansion of distribution network and focus on brand building have been the cornerstones of IIL's growth strategy.

Mr H. C. Aggarwal has more than three decades of experience in the pesticide industry. He has been the president of Northern India Pesticides Manufacturing Association for over five terms and the director of Crop Care Federation of India (CCFI). He is currently on the board of CCFI. Mr Sanjeev Bansal (Mr H.C. Aggarwal's son-in-law) is a whole-time director and heads administration. Senior management also includes Mr Sandeep Agarwal, who is the CFO.

Proven ability to turn around brands

IIL has been quick in identifying and acquiring brands which have high recall amongst farmers but which have been off-shelf for a few years. It has then successfully leveraged on the products' brand strength through aggressive marketing strategies and various awareness campaigns on the use of pesticides amongst farmers. This has enabled the company to increase its market share in the fragmented formulations segment.

Competent second line; expect more additions in the future

The company has inducted various professionals from the industry at the senior and mid management levels to prepare for the next level of growth. Each operational department has a specialised head. Most of the second line has been associated with the company for nearly a decade. With expansion in the scale of operations and thrust towards research and development, we expect management to strengthen its second line of management going forward.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, IIL's corporate governance conforms to regulatory requirements supported by reasonably good board practices.

Board comprises five independent directors

IIL's board consists of eight members, of whom five are independent directors, which is in line with the requirements under Clause 49 of SEBI's listing guidelines. Given the background of the directors, we believe the board is experienced. The board includes three members from the promoter group – Mr H.C. Aggarwal (chairman), Mr Rajesh Aggarwal (managing director) and Mr Sanjeev Bansal (whole-time director). Independent directors include Mr Navneet Goel, Mr R.P. Gupta, Mr G.C. Agarwal, Mr Navin Shah and Mr A.K. Singh. Apart from Mr G.C. Agarwal and Mr A.K. Singh, none of the independent directors hold directorships in other companies.

Board processes

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the annual report, websites and other publicly available data. All the major decisions, including those regarding the acquisition of brands, are discussed at the board meetings. The independent directors receive the agenda papers 10-15 days in advance. The company has all the necessary committees – audit, remuneration, and investor grievance - in place to support corporate governance practices. The audit committee is chaired by an independent director, Mr Navneet Goel, who has been associated with the company for the past four years. We expect corporate governance practices at IIL to evolve gradually as the company expands operations.

Valuation Grade: 3/5

We have used the DCF method to value IIL and arrived at a fair value of Rs 395 per share (Rs 385 earlier), implying a P/E multiple of 11.5x of FY14E EPS. The stock is currently trading at Rs 399 per share. Consequently, we assign a valuation grade of **3/5**, indicating that the market price is **aligned**.

Our fair value for IIL is Rs 395 per share and the valuation grade is '3/5'

Key DCF assumptions

We have considered the discounted value of the firm's estimated free cash flow. We have rolled forward our valuation by one year and have made explicit forecasts until FY22. We have assumed a terminal growth rate of 4% beyond the explicit forecast period.

WACC computation

	FY14-22	Terminal value
Cost of equity	17.7%	17.7%
Cost of debt (post tax)	7.92%	7.92%
WACC	**13.19%**	**14.28%**
Terminal growth rate		4.00%

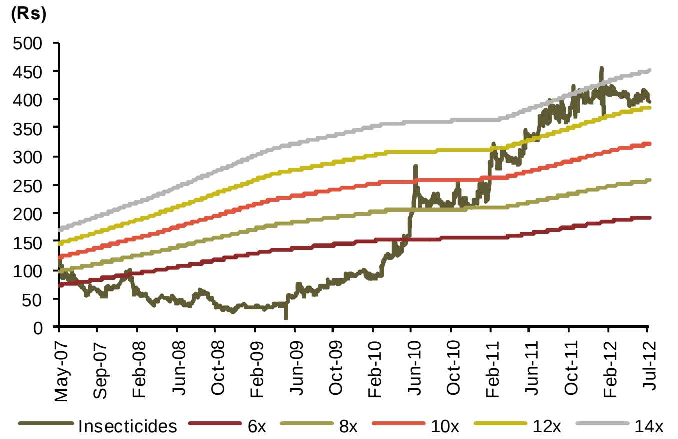
Sensitivity analysis to terminal WACC and terminal growth rate

Terminal WACC	Terminal growth rate: 2.0%	3.0%	4.0%	5.0%	6.0%
12.3%	432	466	507	560	630
13.3%	387	413	444	483	532
14.3%	351	371	**395**	424	460
15.3%	322	338	356	379	406
16.3%	298	310	325	343	364

Source: CRISIL Research

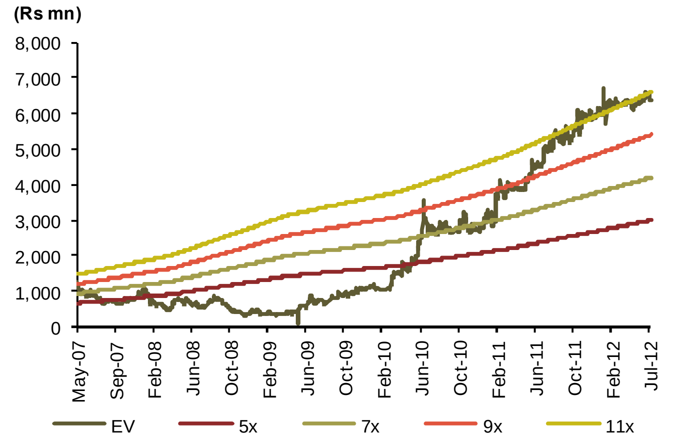
While the cost of equity has increased, we have also increased the leverage assumption to compute WACC – from 20% to 35%, which more closely reflects IIL's capital structure (46% leverage in FY12). As a result, WACC for terminal value is marginally lower at 14.28% compared to 15.05% earlier.

One-year forward P/E band



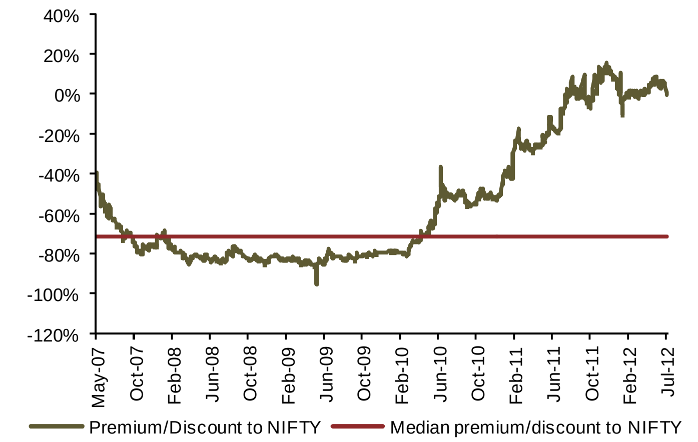
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



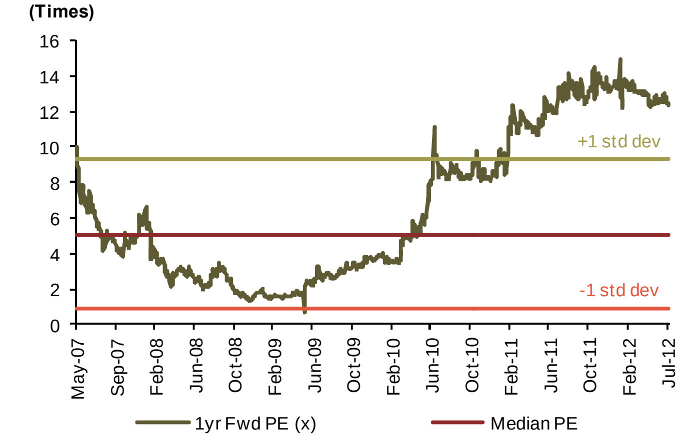
Source: NSE, CRISIL Research

P/E – premium / discount to NIFTY



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

Relative Valuation

	M.cap	P/E			P/BV			EV/EBITDA			ROE (%)		
Companies	Rs mn	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Insecticides India**	**5,029**	**15.2**	**12.7**	**11.5**	**2.8**	**2.3**	**2.0**	**11.3**	**9.1**	**7.8**	**20.0**	**20.1**	**18.7**
Rallis India	26,778	27.0	17.3	14.2	4.8	4.1	3.4	13.4	11.4	9.5	18.8	24.9	25.4
United Phosphorus	56,053	10.1	7.7	6.5	1.4	1.2	1.0	5.7	5.4	4.8	14.1	16.2	16.7
PI Industries	12,032	11.6	10.9	8.1	3.7	2.9	2.2	8.9	6.7	5.2	39.0	29.7	30.7
Bayer Cropscience	32,109	24.4	17.9	14.1	4.8	4.0	3.2	12.6	12.9	9.8	21.3	25.6	NA
Dhanuka Agritech**	4,804	8.4	7.4	6.9	2.2	1.8	1.5	6.6	5.3	4.5	29.7	27.2	23.8

** CRISIL Research estimates

Source: Industry, CRISIL Research

IIL is currently trading at 11.5x FY14E earnings, which indicates that the stock is trading at a premium to peer average as well as its closest comparable, Dhanuka Agritech. We believe that a higher multiple is justified as IIL's EPS is expected grow faster than peers. While EPS will grow at 15.0% CAGR over FY12-14, our earnings projections factor in EPS growth of 30% CAGR over FY14-16. This is on account of increase in operating margins and decline in interest costs during that period.

CRISIL IER reports released on Insecticides India Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
08-July-11	Initiating coverage	3/5	Rs 338	3/5	Rs 335
18-Aug-11	Q1FY12 result update	3/5	Rs 338	3/5	Rs 360
29-Nov-11	Q2FY12 result update	3/5	Rs 338	2/5	Rs 416
19-Dec-11	Management Meet Update	3/5	Rs 385	3/5	Rs 397
24-Feb-12	Q3FY12 result update	3/5	Rs 385	3/5	Rs 419
10-Jul-12	Detailed Report	3/5	Rs 395	3/5	Rs 399

Company Overview

IIL manufactures branded formulations and technicals and holds ~5% share of the domestic market. The company has three formulation units located in Chopanki, Udhampur and Samba. IIL's technicals (active ingredients) plants are located in Chopanki and Dahej. In formulation products, IIL's popular brands are Thimet (phorate), Monocil (monocrotophos), Victor (imidacloprid) and Lethal (Chlorpyrifos). The company was incorporated by Mr Rajesh Aggarwal in 1996. Commercial operations commenced in 2002 after the setting up of the Chopanki unit. In 2007, the company came out with an IPO to fund its expansion plans and raised Rs 369.2 mn (3.21 mn shares at an issue price of Rs 115 per share).

Milestones

1996	Incorporated as a private limited company
2001	Converted into a public limited company
2002	Commissioned formulation plant in Chopanki (Rajasthan)
2003	Acquired all the brands of Montari Industries Ltd
2004	Commissioned second formulation plant in Samba (Jammu)
2005	Set up R&D Laboratory in Chopanki and was granted ISO 9001-2000 certification
2006	Acquired the exclusive rights to sell the Thimet brand in India from American Vanguard Corporation, USA
2007	Raised Rs 369.2 mn in IPO
	R&D facility and technical plant commenced operations in Chopanki
	Expansion of formulations completed in Samba
2011	Acquired Monocil brand from Nocil Ltd
	Two new formulation plants - Dahej and Udhampur - commence operations
	Entered into an agreement with National Research Development Corporation, Government of India for providing technological support for R&D of a specific formulation

Annexure: Financials

Income statement

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Operating income	3,775	4,501	5,218	6,912	7,902
EBITDA	340	438	564	753	877
EBITDA margin	9.0%	9.7%	10.8%	10.9%	11.1%
Depreciation	12	15	24	62	101
EBIT	328	423	541	691	776
Interest	9	10	111	191	213
Operating PBT	320	413	429	500	563
Other income	9	(0)	1	12	5
Exceptional inc/(exp)	(0)	(1)	-	-	-
PBT	328	412	430	513	569
Tax provision	46	90	99	117	131
Minority interest	-	-	-	-	-
PAT (Reported)	282	322	331	396	437
Less: Exceptionals	(0)	(1)	-	-	-
Adjusted PAT	282	323	331	396	437

Ratios

	FY10	FY11	FY12#	FY13E	FY14E
Growth					
Operating income (%)	43.3	19.2	15.9	32.5	14.3
EBITDA (%)	21.1	28.7	28.8	33.5	16.4
Adj PAT (%)	35.7	14.4	2.4	19.6	10.5
Adj EPS (%)	35.7	14.4	2.4	19.6	10.5
Profitability					
EBITDA margin (%)	9.0	9.7	10.8	10.9	11.1
Adj PAT Margin (%)	7.5	7.2	6.3	5.7	5.5
RoE (%)	25.7	23.6	20.0	20.1	18.7
RoCE (%)	25.7	25.3	20.7	18.7	18.2
RoIC (%)	24.6	20.7	17.7	16.7	15.6
Valuations					
Price-earnings (x)	17.8	15.6	15.2	12.7	11.5
Price-book (x)	4.1	3.3	2.8	2.3	2.0
EV/EBITDA (x)	15.0	12.3	11.3	9.1	7.8
EV/Sales (x)	1.4	1.2	1.2	1.0	0.9
Dividend payout ratio (%)	9.0	9.8	9.6	9.0	8.5
Dividend yield (%)	0.5	0.6	0.6	0.7	0.7
B/S ratios					
Inventory days	150	139	194	185	180
Creditors days	112	119	121	115	116
Debtor days	61	65	59	61	61
Working capital days	97	79	122	125	117
Gross asset turnover (x)	13.5	13.8	11.0	6.1	4.3
Net asset turnover (x)	15.2	15.9	12.6	6.7	4.8
Sales/operating assets (x)	13.1	7.3	4.5	4.5	4.5
Current ratio (x)	2.1	1.7	2.1	2.2	2.2
Debt-equity (x)	0.2	0.3	0.9	0.9	0.8
Net debt/equity (x)	0.1	0.2	0.8	0.9	0.7
Interest coverage	38.6	42.8	4.9	3.6	3.6

Per share

	FY10	FY11	FY12#	FY13E	FY14E
Adj EPS (Rs)	22.3	25.5	26.1	31.2	34.5
CEPS	23.2	26.7	27.9	36.1	42.4
Book value	96.7	119.3	141.2	169.1	200.2
Dividend (Rs)	2.0	2.5	2.5	2.8	2.9
Actual o/s shares (mn)	12.7	12.7	12.7	12.7	12.7

Balance Sheet

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Liabilities					
Equity share capital	127	127	127	127	127
Reserves	1,099	1,386	1,664	2,018	2,412
Minorities	-	-	-	-	-
Net worth	1,226	1,513	1,791	2,145	2,539
Convertible debt	-	-	-	-	-
Other debt	219	380	1,534	1,934	1,934
Total debt	219	380	1,534	1,934	1,934
Deferred tax liability (net)	17	20	29	29	29
Total liabilities	1,462	1,913	3,354	4,108	4,502
Assets					
Net fixed assets	253	313	513	1,550	1,749
Capital WIP	71	592	920	120	120
Total fixed assets	324	905	1,432	1,670	1,869
Investments	-	-	-	-	-
Current assets					
Inventory	1,181	1,258	2,024	2,585	2,868
Sundry debtors	634	806	892	1,231	1,407
Loans and advances	265	263	646	553	553
Cash & bank balance	87	37	178	74	92
Marketable securities	50	1	-	-	-
Total current assets	2,216	2,364	3,740	4,444	4,921
Total current liabilities	1,081	1,357	1,818	2,005	2,288
Net current assets	1,136	1,007	1,922	2,438	2,633
Intangibles/Misc. expenditure	2	2	-	-	-
Total assets	1,462	1,913	3,354	4,108	4,502

Cash flow

(Rs mn)	FY10	FY11	FY12#	FY13E	FY14E
Pre-tax profit	328	413	430	513	569
Total tax paid	(43)	(86)	(91)	(117)	(131)
Depreciation	12	15	24	62	101
Working capital changes	(333)	29	(775)	(620)	(176)
Net cash from operations	(36)	371	(412)	(162)	362
Cash from investments					
Capital expenditure	(85)	(596)	(550)	(300)	(300)
Investments and others	122	49	1	-	-
Net cash from investments	37	(546)	(549)	(300)	(300)
Cash from financing					
Equity raised/(repaid)	(1)	-	-	-	-
Debt raised/(repaid)	81	161	1,154	400	-
Dividend (incl. tax)	(30)	(37)	(37)	(42)	(44)
Others (incl extraordinaries)	3	1	(15)	0	(0)
Net cash from financing	54	125	1,102	358	(44)
Change in cash position	54	(50)	141	(103)	18
Closing cash	87	37	178	74	92

Quarterly financials

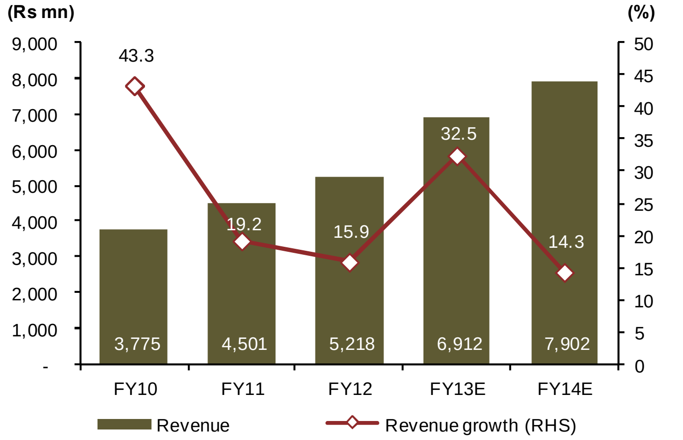
(Rs mn)	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Operating income	885	1,218	2,097	1,055	847
Change (y-o-y)	2%	75%	27%	7%	-4%
EBITDA	57	127	242	123	67
Change (y-o-y)	-15%	91%	31%	-33%	-35%
EBITDA margin	6.4%	10.4%	11.5%	11.7%	8.0%
PAT	61	91	164	48	28
Adj PAT	61	91	164	48	28
Change (y-o-y)	10%	41%	27%	-63%	-60%
Adj PAT margin	6.9%	7.4%	7.8%	4.6%	3.3%
Adj EPS	4.8	7.1	12.9	3.8	2.2

Note: FY12 financials are not strictly comparable with that of the previous years due to the new format of disclosure under Schedule VI of the Companies Act

Source: CRISIL Research

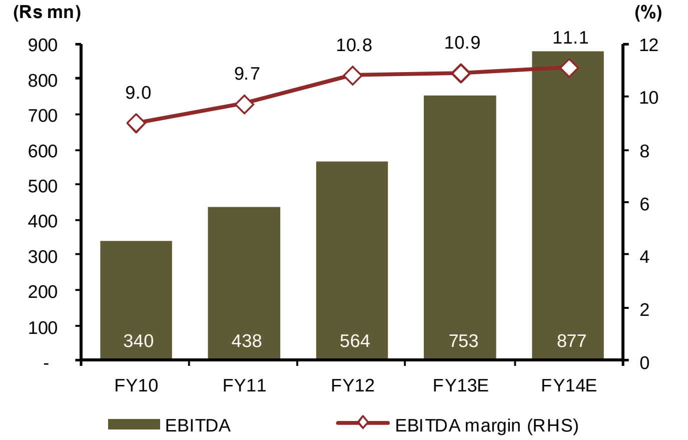
Focus Charts

Revenue and revenue growth



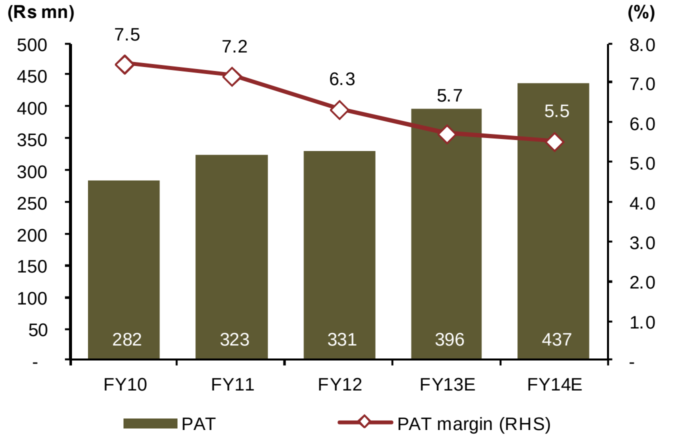
Source: Company, CRISIL Research

EBITDA and EBITDA margin



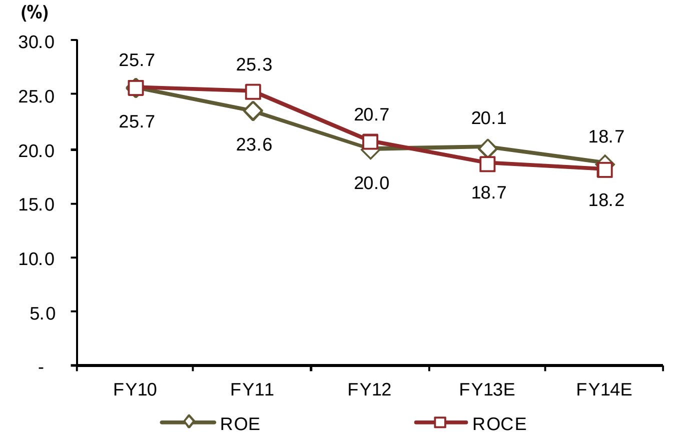
Source: Company, CRISIL Research

PAT and PAT margin



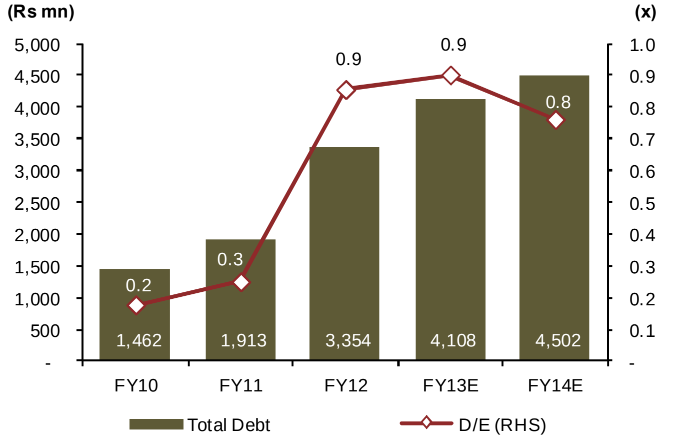
Source: Company, CRISIL Research

RoE and RoCE



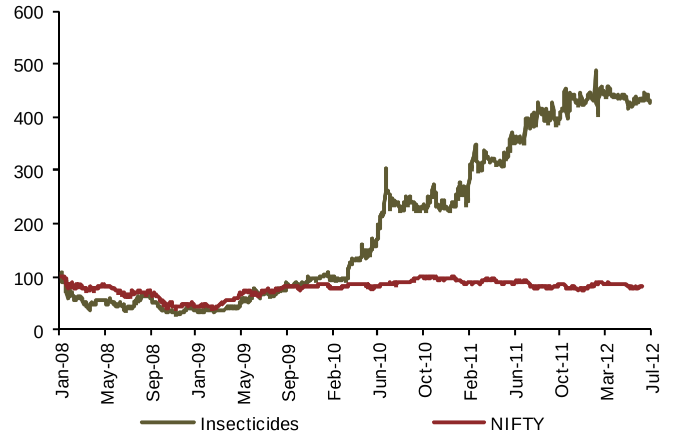
Source: Company, CRISIL Research

Total debt and D/E



Source: Company, CRISIL Research

Share price movement



-Indexed to 100

Source: Company, CRISIL Research

This page is intentionally left blank

This page is intentionally left blank

CRISIL Research Team

President

Mukesh Agarwal	CRISIL Research	+91 22 3342 3035	mukesh.agarwal@crisil.com

Analytical Contacts

Tarun Bhatia	Senior Director, Capital Markets	+91 22 3342 3226	tarun.bhatia@crisil.com
Prasad Koparkar	Senior Director, Industry & Customised Research	+91 22 3342 3137	prasad.koparkar@crisil.com
Binaifer Jehani	Director, Customised Research	+91 22 3342 4091	binaifer.jehani@crisil.com
Manoj Mohta	Director, Customised Research	+91 22 3342 3554	manoj.mohta@crisil.com
Sudhir Nair	Director, Customised Research	+91 22 3342 3526	sudhir.nair@crisil.com
Mohit Modi	Director, Equity Research	+91 22 4254 2860	mohit.modi@crisil.com
Jiju Vidyadharan	Director, Funds & Fixed Income Research	+91 22 3342 8091	jiju.vidyadharan@crisil.com
Ajay D'Souza	Director, Industry Research	+91 22 3342 3567	ajay.dsouza@crisil.com
Ajay Srinivasan	Director, Industry Research	+91 22 3342 3530	ajay.srinivasan@crisil.com
Rahul Prithiani	Director, Industry Research	+91 22 3342 3574	rahul.prithiani@crisil.com

Business Development

Siddharth Arora	Director, Customised Research	+91 22 3342 4133	siddharth.arora@crisil.com
Vinaya Dongre	Director, Industry & Customised Research	+91 22 3342 8025	vinaya.dongre@crisil.com
Sagar Sawarkar	Associate Director, Equity Research	+91 22 3342 8012	sagar.sawarkar@crisil.com
Deepak Mittal	Associate Director, Funds & Fixed Income Research	+91 22 3342 8031	deepak.mittal@crisil.com
Prosenjit Ghosh	Associate Director, Industry & Customised Research	+91 22 3342 8008	prosenjit.ghosh@crisil.com

Business Development – Equity Research

Ahmedabad / Mumbai
Vishal Shah – Regional Manager, Business Development
Email : vishal.shah@crisil.com I Phone : 9820598908

Bengaluru / Mumbai
Shweta Adukia – Regional Manager, Business Development
Email : Shweta.Adukia@crisil.com I Phone : 9987855771

Chennai / Hyderabad
Urmil Shah – Regional Manager, Business Development
Email : urmil.shah@crisil.com I Phone : 9819916595

Delhi
Arjun Gopalkrishnan – Regional Manager, Business Development
Email : arjun.gopalakrishnan@crisil.com I Phone : 9833364422

Kolkata
Priyanka Murarka – Regional Manager, Business Development
Email : priyanka.murarka@crisil.com I Phone : 9903060685

Our Capabilities
Making Markets Function Better

Economy and Industry Research

- Largest team of economy and industry research analysts in India
- Coverage on 70 industries and 139 sub-sectors; provide growth forecasts, profitability analysis, emerging trends, expected investments, industry structure and regulatory frameworks
- 90 per cent of India's commercial banks use our industry research for credit decisions
- Special coverage on key growth sectors including real estate, infrastructure, logistics, and financial services
- Inputs to India's leading corporates in market sizing, demand forecasting, and project feasibility
- Published the first India-focused report on Ultra High Net-worth Individuals
- All opinions and forecasts reviewed by a highly qualified panel with over 200 years of cumulative experience

Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 14,000 securities
- Largest provider of fixed income valuations in India
- Value more than Rs.33 trillion (USD 650 billion) of Indian debt securities, comprising 85 per cent of outstanding securities
- Sole provider of fixed income and hybrid indices to mutual funds and insurance companies; we maintain 12 standard indices and over 80 customised indices
- Ranking of Indian mutual fund schemes covering 71 per cent of average assets under management and Rs 4.7 trillion (USD 94 billion) by value
- Retained by India's Employees' Provident Fund Organisation, the world's largest retirement scheme covering over 50 million individuals, for selecting fund managers and monitoring their performance

Equity and Company Research

- Largest independent equity research house in India, focusing on small and mid-cap companies; coverage exceeds 100 companies
- Released company reports on all 1,401 companies listed and traded on the National Stock Exchange; a global first for any stock exchange
- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

Our Office

Ahmedabad
706, Venus Atlantis
Nr. Reliance Petrol Pump
Prahladnagar, Ahmedabad, India
Phone: +91 79 4024 4500
Fax: +91 79 2755 9863

Bengaluru
W-101, Sunrise Chambers,
22, Ulsoor Road,
Bengaluru - 560 042, India
Phone:+91 80 2558 0899
+91 80 2559 4802
Fax: +91 80 2559 4801

Chennai
Thapar House,
43/44, Montieth Road, Egmore,
Chennai - 600 008, India
Phone:+91 44 2854 6205/06
+91 44 2854 6093
Fax: +91 44 2854 7531

Gurgaon
Plot No. 46
Sector 44
Opp. PF Office
Gurgaon - 122 003, India
Phone: + 91 124 6722 000

Hyderabad
3rd Floor, Uma Chambers
Plot No. 9&10, Nagarjuna Hills,
(Near Punjagutta Cross Road)
Hyderabad - 500 482, India
Phone: +91 40 2335 8103/05
Fax: +91 40 2335 7507

Kolkata
Horizon, Block 'B', 4th Floor
57 Chowringhee Road
Kolkata - 700 071, India
Phone: +91 33 2289 1949/50
Fax: +91 33 2283 0597

Pune
1187/17, Ghole Road,
Shivaji Nagar,
Pune - 411 005, India
Phone: +91 20 2553 9064/67
Fax: +91 20 4018 1930

CRISIL Limited
CRISIL House, Central Avenue,
Hiranandani Business Park, Powai, Mumbai – 400076. India
Phone: +91 22 3342 3000 | Fax: +91 22 3342 8088
www.crisil.com

CRISIL Ltd is a Standard & Poor's company