

# India Pesticides Ltd.

Agrochemical | India

IPO | 22 June 2021

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## Healthy Growth Prospects with Reasonable Valuations

### About the Company

India Pesticides Ltd. (IPL), incorporated in 1984, is one of the leading agro-chemical manufacturers in India. The company operates in two business verticals: (1) technicals; and (2) formulations. In the first vertical, it manufactures generic products, which are used to manufacture fungicides and herbicides as well as Active Pharmaceuticals Ingredients (APIs) with applications in dermatological products. In the second vertical, IPL manufactures and sells various formulations i.e. insecticides, fungicide and herbicides, growth regulators and acaricides, which are ready-to-use products. As of March 31, 2021, it manufactured >30 formulations including Takatvar, IPL-Ziram-27, IPL-Dollar, IPL-Soldier and IPL-Guru. Notably, technicals and formulations verticals accounted for 79% and 21% of revenue, respectively in FY21. IPL currently has 2 manufacturing facilities in Uttar Pradesh, which are spread across over 25 acres. As on FY21, IPL's aggregate installed capacity manufacturing facilities for agro-chemical technicals and formulations stood at 19,500MT and 6,500MT, respectively. While the technicals are majorly exported to >25 countries including Australia, Asia, Africa, and European countries, agrochemical formulations are primarily sold to domestic crop protection manufacturers i.e. Syngenta Asia and UPL etc.

### Financials in Brief

IPL's financial performance has been quite impressive on all counts. While its revenue and EBITDA recorded 37% and 48% CAGR, respectively through FY18-FY21, its net profit recorded a stellar 60% CAGR over the same period. Notably, its EBITDA margin has improved remarkably from 20.8% in FY19 to 29.2% in FY21. Further, its balance-sheet has been comfortable with least leveraging and it has become a net cash company in FY21. Additionally, consistent improvement in asset turnover over the years aided the company to record healthy profitability and strong return ratio. Further, OCF and FCF generation have been steady for the company with cumulative OCF and FCF of Rs1.7bn and Rs0.8bn, respectively over FY18-FY21.

### Our View: SUBSCRIBE

The IPO is valued at 25.3x of FY21 earnings, which looks to be attractive compared to industry's average multiple of 47x. Notably, despite reporting better return ratios compared to peers like PI Industries and Rallis India, IPL is valued at a significant discount to peers, which offers comfort. IPL's growth prospects look promising, considering the strong emerging opportunity for domestic agrochemical companies in global markets and its established presence in export markets. Further, its industry-leading return ratio (RoE at ~35% in FY21) and strong balance sheet augur well. **Hence, we recommend SUBSCRIBE to the IPO.**

#### IPO Details

Pice Band	Rs290-296
Face Value (Rs)	1
Issue Open/Closing Date	23rd / 25th Jun'21
Fresh Issues (mn)	3.4
OFS (mn)	23.6
<b>Total Issue (mn)</b>	<b>27.0</b>
Minimum Bid Qty. (Nos)	50
<b>Issue Size (Rs bn)</b>	<b>8.0</b>
QIB / HNI / Retail	50% / 15% / 35%
<b>Implied Market Cap (Rs bn)</b>	<b>34</b>

#### Object of the Issue

- ▶ To fund working capital requirement
- ▶ To fund expenditures towards general corporate purposes

#### Key Risks

- ▶ Any failure to obtain regulatory approvals and renewals of products
- ▶ Higher dependence on export revenue

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

#### Key Financials

(Rs bn)	FY18	FY19	FY20	FY21
Revenue	2.5	3.4	4.8	6.5
EBITDA	0.6	0.7	1.0	1.9
EBITDA Margin (%)	22.9	20.8	21.6	29.2
PAT	0.3	0.4	0.7	1.3
PAT Margin (%)	13.0	12.9	14.8	20.7
EPS (Rs)	2.9	3.9	6.4	12.1
P/E (x)	103.9	77.7	48.2	25.3
EV/EBITDA (x)	59.5	49.1	33.1	17.9
P/BV (x)	23.7	18.2	13.3	8.8
Net Worth	1.4	1.9	2.6	3.9
RoE (%)	22.8	23.5	27.5	34.6
OCF	0.2	0.0	0.8	0.8
OCF Yield (%)	0.5	-0.1	2.2	2.4
FCF	0.0	-0.1	0.4	0.4
Gross Debt	0.5	0.6	0.3	0.3
Net Debt/Equity (x)	0.30	0.31	0.08	-0.03
Net Debt/EBITDA (x)	0.73	0.82	0.19	-0.07
Gross Block	0.7	0.8	1.1	1.3
Asset Turnover Ratio (x)	3.5	4.4	4.5	4.8
WCC (Days)	155	171	122	118

Source: RHP

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