

May 31, 2019

Q4FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	887		896	
Sales (Rs. m)	13,304	14,647	13,044	14,349
% Chng.	2.0	2.1		
EBITDA (Rs. m)	2,102	2,300	2,061	2,296
% Chng.	2.0	0.2		
EPS (Rs.)	56.9	68.2	59.2	68.9
% Chng.	(3.8)	(1.0)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	10,733	11,919	13,304	14,647
EBITDA (Rs. m)	1,478	1,856	2,102	2,300
Margin (%)	13.8	15.6	15.8	15.7
PAT (Rs. m)	840	1,224	1,176	1,410
EPS (Rs.)	40.6	59.2	56.9	68.2
Gr. (%)	41.3	45.8	(3.9)	19.8
DPS (Rs.)	2.0	2.0	2.9	3.4
Yield (%)	0.3	0.3	0.4	0.5
RoE (%)	16.6	20.3	17.2	19.0
RoCE (%)	19.5	20.6	20.0	22.8
EV/Sales (x)	1.4	1.5	1.2	1.0
EV/EBITDA (x)	10.4	9.4	7.9	6.7
PE (x)	17.4	11.9	12.4	10.4
P/BV (x)	2.7	2.2	2.1	1.9

Key Data

ISIL.BO | INST IN

52-W High / Low	Rs.801 / Rs.361
Sensex / Nifty	39,832 / 11,946
Market Cap	Rs.15bn / \$ 209m
Shares Outstanding	21m
3M Avg. Daily Value	Rs.22.92m

Shareholding Pattern (%)

Promoter's	68.75
Foreign	3.66
Domestic Institution	14.76
Public & Others	12.83
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.2	27.6	(6.1)
Relative	10.9	15.9	(17.8)

Prashant Biyani

prashantbiyani@plindia.com | 91-22-66322260

On a launch spree

INST's outperformance vis-à-vis domestic industry continued in Q4FY19 with topline/EBITDA/PBT growth of 18%/55%/62% YoY, driven by new launches. Led by its strong product pipeline, this performance is expected to sustain going forward as well. INST is in the midst of transition from a me-too agrochemical manufacturer to a research-driven integrated player with focus on creating brands (+100 branded and +21 technical products) with differentiated products. It is currently working on multiple fronts (proprietary off-patent, in-licensing and new discovery) to enrich its product portfolio. Timely execution of this strategy can enable INST to sustain high growth rate over the medium term. INST's revenue from new launches (8 products in FY19 and 35 in pipeline) is likely to neutralize the anticipated revenue loss in FY22E, due to ban of DDVP and Phorate. Backward integration for key inputs will aid in securing supplies for its Maharatna range of products apart from increasing the sale of technicals. We estimate 11% revenue CAGR and 7% PAT CAGR over FY19-21. Maintain Buy with revised target price of Rs887 (Previous – 896) based on 13x FY21 earnings.

On a launch Spree: INST is on a launch spree to broaden its product portfolio and limit the impact of revenue loss that may happen post the ban on usage of DDVP and Phorate from 1st Jan 2021. The company had launched 8 products in FY19 and further plans to launch 8-10 new molecules in FY20 and FY21 each. Out of targeted 10 new launches in FY21, 4-5 are expected to be in-licensed from the Japanese players.

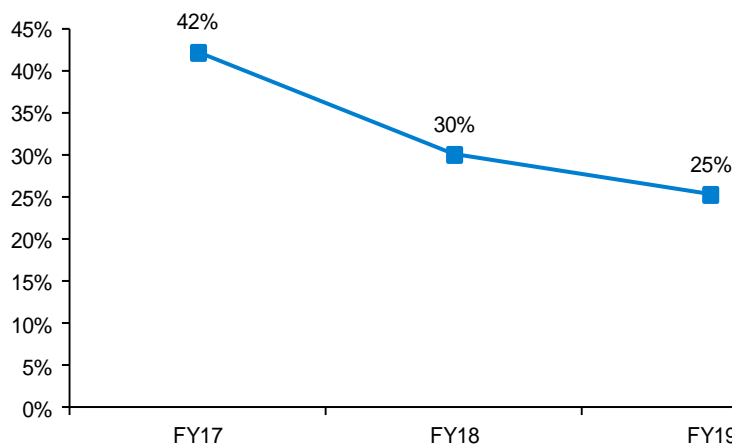
Medium term outlook continues to be exciting: On the concall, the management highlighted the broad strategy on product portfolio side, which was quite impressive. These strategies, if executed well, can lead to sustained double digit growth rate for INST in the medium term.

- INST is currently working on ~10-12 proprietary off-patent products. Proprietary off-patent products, though difficult to develop, have good revenue and profitability prospects for a period of 3-4 years.
- The company is primarily focusing on high potential molecules which can be inducted into its Maharatna category.
- On the JV side (with OAT Agrio), they have already filed 4 patents. The JV has also achieved partial success in innovating a new molecule for which they would be generating GLP data (Non- GLP data has been generated). Commercialising a new molecule is a very long drawn process involving various factors like massive data generation activities, toxicology studies, etc. before getting registration.
- On the exports side as well, strategies are being implemented to significantly scale up export of technicals (along with formulations). GLP data for 8-10 new technicals will be generated in this fiscal. It is also looking to set up an EOU for exports with an investment of Rs250mn.

Exhibit 1: New launches driving growth for Insecticides India

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Sales	1,989	1,689	17.8	2,157	11,919	10,733	11.1
Expenditure							
Raw Materials	1,441	1,166	23.6	1,371	8,226	7,634	7.8
<i>% of Net Sales</i>	<i>72.4</i>	<i>69.0</i>		<i>63.6</i>	<i>69.0</i>	<i>71.1</i>	
Employee Cost	200	116	71.6	149	652	506	28.8
<i>% of Net Sales</i>	<i>10.0</i>	<i>6.9</i>		<i>6.9</i>	<i>5.5</i>	<i>4.7</i>	
Other Expenses	60	221	(72.9)	318	1,185	1,114	6.4
<i>% of Net Sales</i>	<i>3.0</i>	<i>13.1</i>		<i>14.7</i>	<i>9.9</i>	<i>10.4</i>	
Total Expenditure	1,701	1,503	13.2	1,838	10,063	9,254	8.7
EBITDA	289	187	54.7	320	1,856	1,478	25.6
<i>Margin (%)</i>	<i>14.5</i>	<i>11.0</i>		<i>14.8</i>	<i>15.6</i>	<i>13.8</i>	
Depreciation	49	47	3.6	50	197	170	15.5
EBIT	240	139	72.1	269	1,659	1,308	26.9
Interest	63	28	125.7	36	152	159	(4.4)
Other Income	10	4	167.3	9	23	32	(28.8)
PBT	186	115	62.1	242	1,530	1,181	29.6
Tax	(99)	38	(361.1)	74	306	341	(10.3)
<i>Tax Rate (%)</i>	<i>-53.3</i>	<i>33.1</i>		<i>30.4</i>	<i>20.0</i>	<i>28.9</i>	
RPAT	286	77	271.4	168	1,224	840	45.8
APAT	286	77	271.4	168	1,224	840	45.8

Source: Company, PL

Exhibit 2: Innovation Turnover Index is expected to inch up going forward


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	10,733	11,919	13,304	14,647
YoY gr. (%)	8.0	11.1	11.6	10.1
Cost of Goods Sold	7,634	8,226	9,073	9,931
Gross Profit	3,098	3,693	4,231	4,716
Margin (%)	28.9	31.0	31.8	32.2
Employee Cost	506	652	998	1,099
Other Expenses	1,114	1,185	1,131	1,318
EBITDA	1,478	1,856	2,102	2,300
YoY gr. (%)	32.7	25.6	13.3	9.4
Margin (%)	13.8	15.6	15.8	15.7
Depreciation and Amortization	170	197	226	261
EBIT	1,308	1,659	1,877	2,039
Margin (%)	12.2	13.9	14.1	13.9
Net Interest	159	152	231	70
Other Income	32	23	35	45
Profit Before Tax	1,181	1,530	1,681	2,014
Margin (%)	11.0	12.8	12.6	13.7
Total Tax	341	306	504	604
Effective tax rate (%)	28.9	20.0	30.0	30.0
Profit after tax	840	1,224	1,176	1,410
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	840	1,224	1,176	1,410
YoY gr. (%)	41.3	45.8	(3.9)	19.8
Margin (%)	7.8	10.3	8.8	9.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	840	1,224	1,176	1,410
YoY gr. (%)	41.3	45.8	(3.9)	19.8
Margin (%)	7.8	10.3	8.8	9.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	840	1,224	1,176	1,410
Equity Shares O/s (m)	21	21	21	21
EPS (Rs)	40.6	59.2	56.9	68.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	2,643	2,926	3,426	3,926
Tangibles	2,601	2,873	3,364	3,855
Intangibles	43	53	62	71
Acc: Dep / Amortization	327	524	750	1,011
Tangibles	316	508	727	980
Intangibles	11	16	22	30
Net fixed assets	2,316	2,402	2,676	2,915
Tangibles	2,284	2,365	2,637	2,875
Intangibles	32	37	39	40
Capital Work In Progress	168	190	157	165
Goodwill	-	-	-	-
Non-Current Investments	181	134	145	148
Net Deferred tax assets	(189)	(179)	(179)	(179)
Other Non-Current Assets	140	199	180	198
Current Assets				
Investments	-	-	-	-
Inventories	4,073	7,051	6,014	5,016
Trade receivables	2,348	2,442	2,734	3,010
Cash & Bank Balance	201	92	158	197
Other Current Assets	539	871	931	1,025
Total Assets	10,001	13,549	13,182	12,879
Equity				
Equity Share Capital	207	207	207	207
Other Equity	5,269	6,407	6,866	7,577
Total Network	5,475	6,613	7,073	7,784
Non-Current Liabilities				
Long Term borrowings	83	13	300	300
Provisions	6	7	6	6
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	968	2,952	1,800	600
Trade payables	2,434	2,799	2,734	2,809
Other current liabilities	847	986	1,091	1,201
Total Equity & Liabilities	10,001	13,549	13,182	12,879

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	1,181	1,530	1,681	2,014
Add. Depreciation	170	197	226	261
Add. Interest	(3)	(23)	(35)	(45)
Less Financial Other Income	32	23	35	45
Add. Other	148	152	(569)	(730)
Op. profit before WC changes	1,496	1,856	1,302	1,500
Net Changes-WC	579	(3,034)	717	799
Direct tax	(262)	(368)	(378)	(453)
Net cash from Op. activities	1,812	(1,546)	1,641	1,845
Capital expenditures	(280)	(283)	(500)	(500)
Interest / Dividend Income	3	23	35	45
Others	22	44	-	-
Net Cash from Inv. activities	(255)	(215)	(465)	(455)
Issue of share cap. / premium	-	-	-	-
Debt changes	(1,220)	1,914	(865)	(1,200)
Dividend paid	(50)	(48)	(70)	(82)
Interest paid	(160)	(152)	(231)	(70)
Others	(18)	(5)	-	-
Net cash from Fin. activities	(1,448)	1,709	(1,166)	(1,352)
Net change in cash	109	(53)	10	38
Free Cash Flow	1,531	(1,829)	1,141	1,345

Source: Company Data, PL Research

Key Financial Metrics

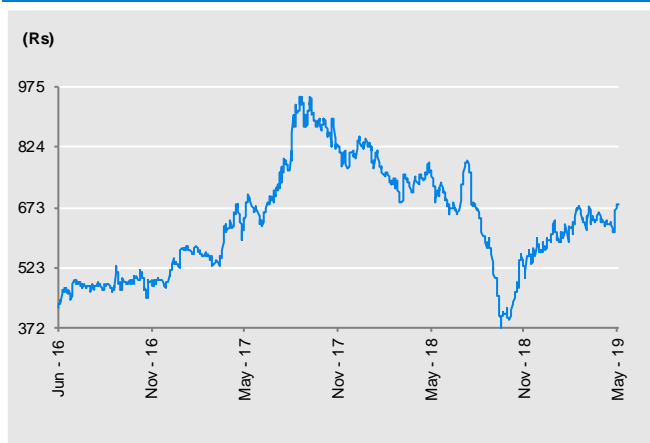
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	40.6	59.2	56.9	68.2
CEPS	48.9	68.7	67.8	80.8
BVPS	264.9	320.0	342.2	376.6
FCF	74.1	(88.5)	55.2	65.1
DPS	2.0	2.0	2.9	3.4
Return Ratio(%)				
RoCE	19.5	20.6	20.0	22.8
ROIC	14.3	16.7	14.3	16.3
RoE	16.6	20.3	17.2	19.0
Balance Sheet				
Net Debt : Equity (x)	0.2	0.4	0.3	0.1
Net Working Capital (Days)	136	205	165	130
Valuation(x)				
PER	17.4	11.9	12.4	10.4
P/B	2.7	2.2	2.1	1.9
P/CEPS	14.4	10.3	10.4	8.7
EV/EBITDA	10.4	9.4	7.9	6.7
EV/Sales	1.4	1.5	1.2	1.0
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	3,189	4,583	2,157	1,989
YoY gr. (%)	2.3	10.0	22.6	17.8
Raw Material Expenses	2,203	3,211	1,371	1,441
Gross Profit	986	1,372	786	548
Margin (%)	30.9	29.9	36.4	27.6
EBITDA	556	692	320	289
YoY gr. (%)	197.8	-	-	-
Margin (%)	17.4	15.1	14.8	14.5
Depreciation / Depletion	48	49	50	49
EBIT	508	643	269	240
Margin (%)	15.9	14.0	12.5	12.0
Net Interest	29	24	36	63
Other Income	2	3	9	10
Profit before Tax	480	621	242	186
Margin (%)	15.1	13.6	11.2	9.4
Total Tax	141	192	74	(99)
Effective tax rate (%)	29.3	30.8	30.4	(53.3)
Profit after Tax	340	430	168	286
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	340	430	168	286
YoY gr. (%)	11.4	18.9	74.5	271.4
Margin (%)	10.7	9.4	7.8	14.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	340	430	168	286
YoY gr. (%)	11.4	18.9	74.5	271.4
Margin (%)	10.7	9.4	7.8	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	340	430	168	286
Avg. Shares O/s (m)	21	21	21	21
EPS (Rs)	16.4	20.8	8.1	13.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-19	BUY	896	572
2	5-Feb-19	BUY	896	588
3	5-Apr-19	BUY	896	640

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,517	4,240
2	Dhanuka Agritech	BUY	578	366
3	Insecticides India	BUY	896	640
4	P.I. Industries	BUY	1,278	1,106
5	Rallis India	Accumulate	173	150
6	Sharda Cropchem	Accumulate	401	375
7	UPL	BUY	1,127	972

PL's Recommendation Nomenclature (Absolute Performance)

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



ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Prashant Biyani- CA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Prashant Biyani- CA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>