PI Industries

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

Cautiously optimistic!

PI reported strong set of numbers driven by better than expected operating performance. It was the twin effect of increase in sales of high margin products coupled with improvement in operating efficiency. However, the company has toned down the guidance for FY18 to 10% in the both domestic agchem and in the CSM segment. The silver lining is the uptick in the CSM order book by 18-25% QoQ to USD 1bn. Also, the company expects to sustain the margins at 23% level.

Considering the cautious stance, we have revised our revenue estimates downwards by 4% with a marginal increase in the earnings factoring lower tax rate. We maintain our Accumulate rating with a downward revision in target price to ₹ 980 from ₹ 1,001 earlier. (23x FY19 EPS)

Management cautious on the CSM, revised down guidance

Company has revised the guidance to 10% in the domestic agri-inputs and CSM exports. In the CSM exports the company expects the channel inventory to easy up at the company and the distributor level in CY18, hence there will be subdued performance in the segment however it is expected to pick up in the H2FY18. In the domestic agri-inputs side as well management sounded cautious with a 10% guidance despite the expectation of a normal monsoon.

Partnership with BASF to help in launching novel molecules

PI entered into a co-marketing arrangement with BASF to launch new molecules in the domestic market. PI to launch four products under this arrangement – 3 fungicides and 1 herbicides. Which will be catering to paddy, fruits & vegetables and maize. The partnership to help the company in gaining access to novel molecules and to leverage its strong distribution strength. PI is in the process to undergo couple of more such tie ups.

Q4FY17 Result (₹ Mn)

Particulars	Q4FY17	Q3FY17	Q4FY16	QoQ(%)	YoY(%)
Net Sales	6,273	5,003	6,048	25.4	3.7
Expenditure	3,044	2,513	3,180	21.1	(4.3)
Other Expenditure	1,693	1,457	1,783	16.2	(5.1)
Operation Profit	1,537	1,034	1,084	48.6	41.7
Other Income	(21)	133	94	(115.9)	(122.6)
Interest	31	12	26	168.1	19.2
Depreciation	185	183	170	1.4	9.3
PBT	1,299	973	982	33.6	32.2
Tax	(53)	33	22	(260.1)	(335.4)
Net Profit	1,352	940	960	43.8	40.8
Adj Profit	1,352	940	960	43.8	40.8
Gross Margin (%)	51	50	47		
Staff Cost (%)	9	11	9		
Other Expenditure (%)	27	29	29		
OPM (%)	24	21	18		
Tax Rate (%)	(4)	3	2		
NPM (%)	22	19	16		

CMP	₹ 843
Target / Upside	₹ 980/16%
BSE Sensex	30,659
NSE Nifty	9,526
Scrip Details	
Equity / FV	₹ 137mn/₹ 1/-
Market Cap	₹ 115bn
	USD 1.8bn
52 week High/Low	₹ 950/592
Avg. Volume (no)	118,610
NSE Symbol	PIIND
Bloomberg Code	PI IN
Shareholding Pattern Mar'17(%)	
Promoters	51.6
MF/Banks/FIs	13.6
FIIs	22.6
Public / Others	12.2

Valuation (x)

	FY17	FY18E	FY19E
P/E	25.1	24.1	19.8
EV/EBITDA	20.7	17.5	14.2
ROE	32.8	26.7	26.4
ROCE	33.6	31.8	31.2

Estimates (₹ mn)

	FY17	FY18E	FY19E
Net Sales	23,833	26,642	31,213
EBITDA	5,532	6,328	7,618
PAT	4,595	4,783	5,822
EPS	33.6	35.0	42.6

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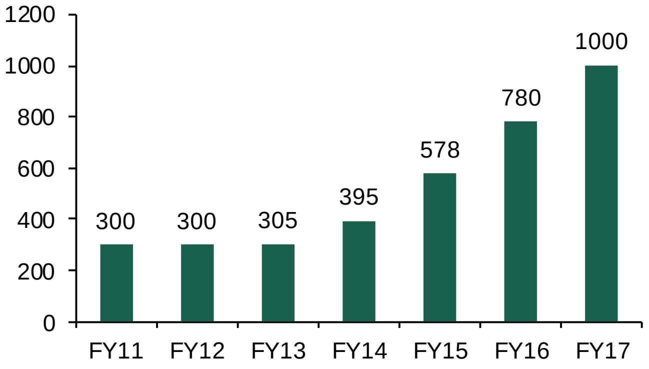
DOLAT CAPITAL

May 17, 2017

Key takeaways from the earnings call

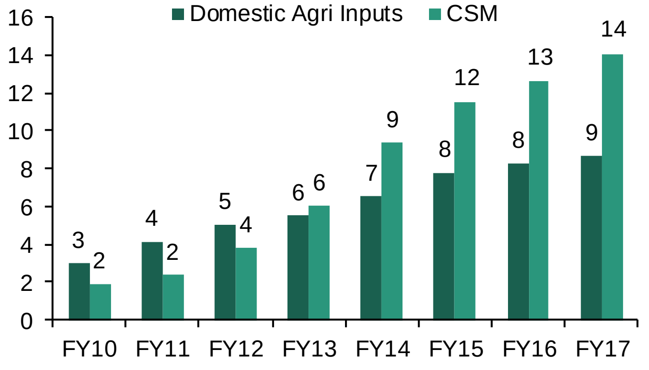
- The domestic agri-inputs business grew by 2% to ₹ 1.96bn while the CSM exports de-grew by 5% to ₹ 4.31bn. For the full year domestic agri-inputs business grew by 5% to ₹ 973mn while the CSM business grew by 11% to ₹ 14bn.
- Reported highest ever margins in FY17 at 23.2% and should be able to sustain at this level considering higher share of high margin products.
- CSM order book strong at USD 1bn which is an incremental growth of 28% YoY led by commercialization of novel molecules in H2FY17
- Expecting commodity prices to bottom out in the next couple of quarters coupled with easing of the channel inventory indicate revival in the global agchem market in CY18
- Capacity utilsaition at Jambusar at 65-70%
- The company has guided for 20% tax rate for FY18 an uptick from the FY17 tax rate of 10% as the Jambusar facility will be going under the 50% tax benefit from the 100% tax benefit earlier.
- Guided capex of ₹ 2 bn for FY18 which includes setting up of 4th line in Jambusar for CSM exports which is expected to commercialise by FY18 end.

Exhibit 1: Order Book (USD mn)



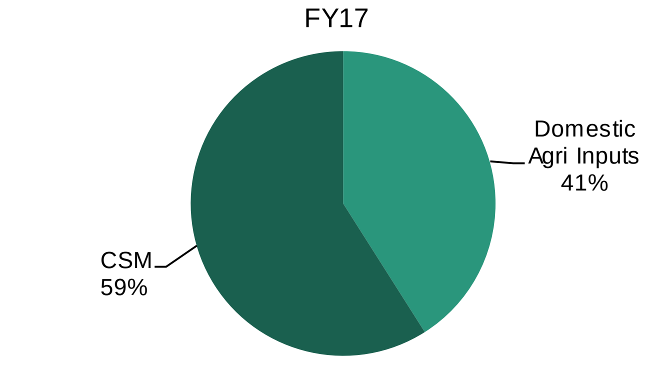
Source: Company, DART

Exhibit 2: Revenue Mix (₹ bn)



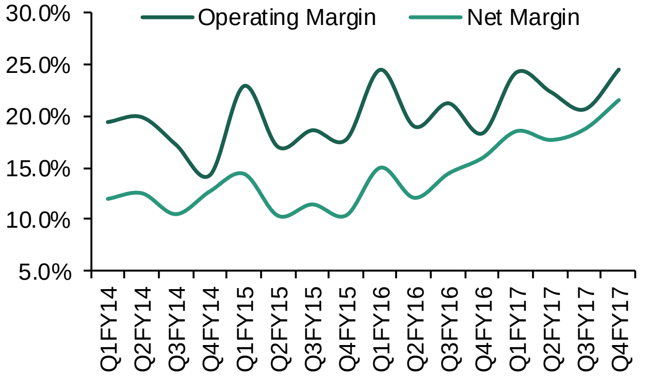
Source: Company, DART

Exhibit 3: Revenue Share



Source: Company, DART

Exhibit 4: Margin performance



Source: Company, DART

Income Statement (₹ mn)

Particulars	Mar16	Mar17	Mar18E	Mar19E
Income from Operations	**21,974**	**23,833**	**26,462**	**31,213**
Other income	355	366	575	679
Total Income	**22,329**	**24,199**	**27,038**	**31,892**
Total Expenditure	**17,662**	**18,301**	**20,134**	**23,595**
Raw Material Consumption	11,585	11,632	14,068	16,501
Raw Material	11,111	11,298	14,068	16,501
Stock Adjustmnt	(199)	743	0	0
Purc. of Finished Goods	673	(409)	0	0
Employee Expenses	1,931	2,226	2,380	2,776
Other Expenses	3,135	3,378	3,687	4,318
EBIDTA (Excl. OI)	**4,312**	**5,532**	**6,328**	**7,618**
EBIDTA (Incl. OI)	**4,667**	**5,898**	**6,903**	**8,297**
Interest	96	72	90	94
PBDT	**4,571**	**5,826**	**6,813**	**8,203**
Depreciation	543	730	835	925
PBT & EO Items	**4,028**	**5,096**	**5,979**	**7,278**
Profit Before Tax	**4,028**	**5,096**	**5,979**	**7,278**
Tax	913	501	1,196	1,456
Net Profit	**3,115**	**4,595**	**4,783**	**5,822**

Balance Sheet (₹ mn)

Particulars	Mar16	Mar17	Mar18E	Mar19E
Sources of Funds				
Equity Capital	137	137	137	137
Net Worth	**11,718**	**16,272**	**19,568**	**24,596**
Loan Funds	**1,255**	**830**	**1,123**	**1,173**
Deferred Tax Liability	**353**	0	0	0
Other Liabilities	170	172	239	530
Total Capital Employed	**13,496**	**17,273**	**20,951**	**26,319**
Applications of Funds				
Gross Block	10,976	12,415	13,915	15,415
Less: Accumulated Depreciation	2,234	2,964	2,964	2,964
Net Block	**8,742**	**9,450**	**10,950**	**12,450**
Capital Work in Progress	713	773	0	0
Investments	3	829	5	5
Current Assets, Loans & Advances				
Inventories	3,948	4,320	5,015	5,915
Sundry Debtors	3,978	4,237	4,657	5,493
Cash and Bank Balance	561	1,326	5,589	8,389
Loans and Advances	171	143	150	160
Other Current Assets	1,324	1,932	2,100	2,200
sub total	9,982	11,958	17,511	22,156
Less: Current Liabilities & Provisions				
Current Liabilities	5,814	5,513	6,699	7,492
Provisions	196	227	816	800
sub total	6,010	5,741	7,515	8,292
Net Current Assets	3,972	6,217	9,995	13,864
Total Assets	**13,496**	**17,269**	**20,951**	**26,319**

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar16	Mar17	Mar18E	Mar19E
Profit before tax	4,028	5,096	5,979	7,278
Depreciation & w.o.	543	730	835	925
Net Interest Exp	96	72	90	94
Direct taxes paid	(913)	(501)	(1,196)	(1,456)
Chg. in Working Capital	(164)	(1,480)	485	(1,069)
Other	94	807	(240)	(633)
(A) CF from Opt. Activities	**3,683**	**4,725**	**5,952**	**5,139**
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(2,983)	(2,000)	(2,000)	(1,500)
FCFF	**700**	**2,725**	**3,952**	**3,639**
(B) CF from Investing Activities	**(2,981)**	**(2,826)**	**(1,176)**	**(1,500)**
Inc./(Dec.) in Debt	107	(425)	293	50
Interest exp net	(96)	(72)	(90)	(94)
Dividend Paid (Incl. Tax)	(493)	(637)	(716)	(796)
(C) CF from Financing	**(483)**	**(1,134)**	**(513)**	**(840)**
Net Change in Cash	219	765	4,263	2,799
Opening Cash balances	341	561	1,326	5,589
Closing Cash balances	561	1,326	5,589	8,389

Important Ratios

Particulars	Mar16	Mar17	Mar18E	Mar19E
(A) Measures of Performance (%)				
Gross Profit Margin	47.3%	51.2%	46.8%	47.1%
EBIDTA Margin (excl. O.I.)	19.6	23.2	23.9	24.4
Interest / Sales	0.4	0.3	0.3	0.3
Tax/PBT	22.7	9.8	20.0	20.0
Net Profit Margin	14.2	19.3	18.1	18.7
(B) As Percentage of Net Sales				
Raw Material	52.7	48.8	53.2	52.9
Employee Expenses	8.8	9.3	9.0	8.9
Other Expenses	14.3	14.2	13.9	13.8
(C) Measures of Financial Status				
Debt / Equity (x)	0.11	0.05	0.06	0.05
Interest Coverage (x)	49	82	77	88
Debtors Period (days)	66	65	65	65
Inventory Turnover Ratio (x)	5.6	5.5	5.2	5.2
Fixed Assets Turnover (x)	2.0	1.9	1.9	2.0
WC Turnover (x)	5.5	3.8	2.6	2.2
Non Cash WC (₹ Mn)	3,411	4,891	4,406	5,475
Debt / Equity (x)	0.11	0.05	0.06	0.05
(D) Measures of Investment				
EPS (₹.) (excl EO)	22.8	33.6	35.0	42.6
EPS (₹.)	22.8	33.6	35.0	42.6
CEPS (₹.)	26.8	39.0	41.1	49.4
DPS (₹.)	3.1	4.0	4.5	5.0
Dividend Payout (%)	13.6	11.9	12.9	11.7
Profit Ploughback (%)	86.4	88.1	87.1	88.3
Book Value (₹.)	85.8	119.1	143.3	180.1
RoANW (%)	30.1	32.8	26.7	26.4
RoACE (%)	34.2	33.6	31.8	31.2
RoAIC (%) (Excl Cash & Invest.)	35.5	35.8	38.8	44.3
(E) Valuation Ratios				
CMP (₹.)	843	843	843	843
P/E (x)	37.0	25.1	24.1	19.8
Market Cap. (₹. Mn.)	115,154	115,154	115,154	115,154
MCap/ Sales (x)	5.2	4.8	4.4	3.7
EV (₹. Mn.)	115,848	114,657	110,688	107,938
EV/Sales (x)	5.3	4.8	4.2	3.5
EV/EBDITA (x)	26.9	20.7	17.5	14.2
P/BV (x)	9.8	7.1	5.9	4.7
FCFF Yield (%)	0.6	2.4	3.6	3.4
Dividend Yield (%)	0.4	0.5	0.5	0.6

E – Estimates

OLD RATING MATRIX

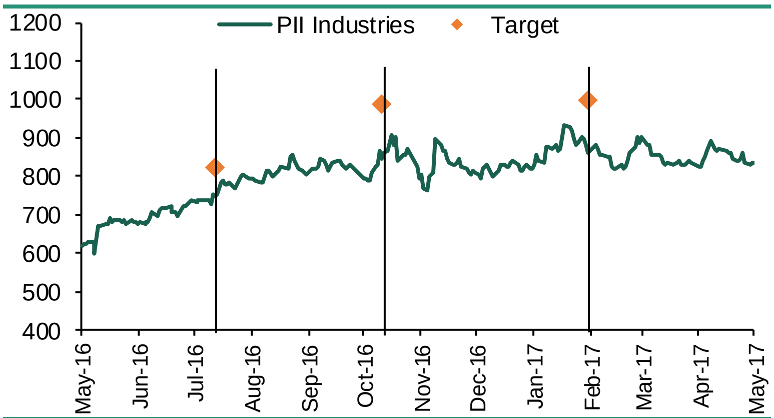
Buy	**> 15%**
Accumulate	**5 to 15%**
Reduce	**(-5) to 5%**
Sell	**< -5%**

NEW RATING MATRIX *

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

*Our rating matrix in based on total return (Stock Price + Dividend Yield) over 12 months, unless otherwise stated.

Rating and Target Price History



	Rating	TP (₹)	CMP (₹)
Q1FY17	Accumulate	824	758
Q2FY17	Accumulate	990	845
Q3FY17	Accumulate	1,001	872

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