PI Industries

BUY

INDUSTRY	AGROCHEMICAL
CMP *(as on 17 May 2017)*	Rs 843
Target Price	Rs 950
Nifty	9,526
Sensex	30,659

KEY STOCK DATA

Bloomberg	PI IN
No. of Shares (mn)	138
MCap (Rs bn) / ($ mn)	116/1,808
6m avg traded value (Rs mn)	154

STOCK PERFORMANCE (%)

52 Week high / low	Rs 964/592		
	3M	6M	12M
Absolute (%)	(3.1)	4.7	36.1
Relative (%)	(10.7)	(12.2)	17.1

SHAREHOLDING PATTERN (%)

Promoters	51.55
FIs & Local MFs	12.84
FIIs	21.73
Public & Others	13.88

Source : BSE

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Despite the odds, standing tall

PI Industries' (PI) 4Q revenue growth was muted at Rs 6.1bn (4% YoY), owing to flat domestic sales. A better product mix (CSM share is 71% in Q4 vs. 62% in FY17) and operating leverage led to EBITDA margin of 25.4% (+682 bps). EBITDA was Rs 1.5bn (+42%). PAT was at Rs 1.4bn (+41%), owing to tax benefits.

A normal SW monsoon and favourable govt. polices led to record sowing in Kharif and Rabi seasons in 2016. The situation became challenging (demonetisation, lower pest attacks, poor NE rains) for agrochem players in 2HFY17. However, these headwinds are temporary. In the long term, better farm income, improved irrigation facilities and lower penetration will drive growth. PI is well placed in the domestic market, led by a robust domestic portfolio with a focus on in-licensing and specialty products.

PI's biggest hurdle will be maintaining its market share in Nominee Gold (rice herbicide), as Gharda Chemicals and Insecticides India have launched the same product last year. This product contributes ~25% of agri-inputs revenues (~10% of total). Typically, there is an erosion of 30% in realizations over two to three years, post exclusivity.

PI's CSM business was muted in the last two years, led by weakness in the global agrochemical market. We expect the scenario to improve in FY18/19. Commercialisation of two to three new molecules every year in the CSM segment, and a strong order book (4.7x FY17 segmental revenues) keep long-term growth prospects positive.

Strong return ratios, healthy B/S and robust growth command premium for PI. We remain positive on PI. Maintain BUY with a TP of Rs 950/sh (25x FY19E EPS).

Highlights of the quarter

- **Custom synthesis:** Revenues were at Rs 4.3bn (+5%). The order book remains strong at USD 1.0bn. PI has commercialised three new molecules in FY17 (Total commercialised molecules are ~25)
- **Domestic agri-inputs:** Revenues stood at Rs 1.7bn (Flat YoY).
- **Near-term outlook:** The monsoon is key for the Indian agricultural sector. The stock will closely track the sentiments around this season.

Financial Summary (Consolidated)

(Rs mn)	4QFY17*	4QFY16*	*YoY (%)*	3QFY17*	*QoQ (%)*	FY16	FY17P	FY18E	FY19E
Net Sales	6,056	5,844	*3.6*	4,879	*24.1*	20,963	22,768	25,214	28,686
EBITDA	1,537	1,084	*41.7*	1,034	*48.6*	4,312	5,533	5,975	6,786
APAT	1,352	960	*40.8*	940	*43.8*	3,116	4,594	4,505	5,196
Diluted EPS (Rs)	9.8	7.0	*40.8*	6.8	*43.8*	22.6	33.4	32.7	37.8
P/E (x)						37.2	25.2	25.7	22.3
EV / EBITDA (x)						27.1	20.8	18.9	16.3
RoE (%)						30.1	32.8	24.9	23.6

Source: Company, HDFC sec Inst Research, * standalone

Revenue growth was muted, owing to flat domestic sales

EBITDA growth was strong, owing to favourable product mix and better operating leverage

Tax rate was lower due to SEZ benefit and tax incentive on R&D spending

Healthy margins owing to change in product mix

Quarterly Financials Snapshot (Standalone)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Sales	**6,056**	**5,844**	***3.6***	**4,879**	***24.1***
Material Expenses	2,976	3,097	*(3.9)*	2,263	*31.5*
Traded Goods	68	83	*(18.6)*	250	*(72.8)*
Employee Expenses	589	572	*3.1*	532	*10.8*
Other Expenses	886	1,008	*(12.1)*	800	*10.7*
EBITDA	**1,537**	**1,084**	***41.7***	**1,034**	***48.6***
Depreciation	185	170	*9.2*	183	*1.4*
EBIT	**1,351**	**915**	***47.7***	**851**	***58.8***
Other Income (Including EO Items)	(21)	94	*NA*	133	*NA*
Interest	31	26	*19.2*	12	*168.1*
PBT	**1,299**	**982**	***32.3***	**973**	***33.6***
Tax	(53)	22	*NA*	33	*NA*
RPAT	**1,352**	**960**	***40.8***	**940**	***43.8***
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	**1,352**	**960**	***40.8***	**940**	***43.8***
AEPS (Rs/sh)	**9.8**	**7.0**	***40.8***	**6.8**	***43.8***

Source: Company, HDFC sec Inst Research

Margin Analysis

(% of Net Sales)	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	49.1	53.0	*(385)*	46.4	*275*
Traded Goods as % of Net Sales	1.1	1.4	*(31)*	5.1	*(400)*
Employee Expenses as % of Net Sales	9.7	9.8	*(5)*	10.9	*(117)*
Other Expenses as % of Net Sales	14.6	17.2	*(261)*	16.4	*(177)*
EBITDA Margin (%)	25.4	18.6	*682*	21.2	*418*
Net Profit Margin (%)	22.3	16.4	*589*	19.3	*306*
Tax Rate (%)	(4.0)	2.3	*NA*	3.4	*NA*

Source: Company, HDFC sec Inst Research

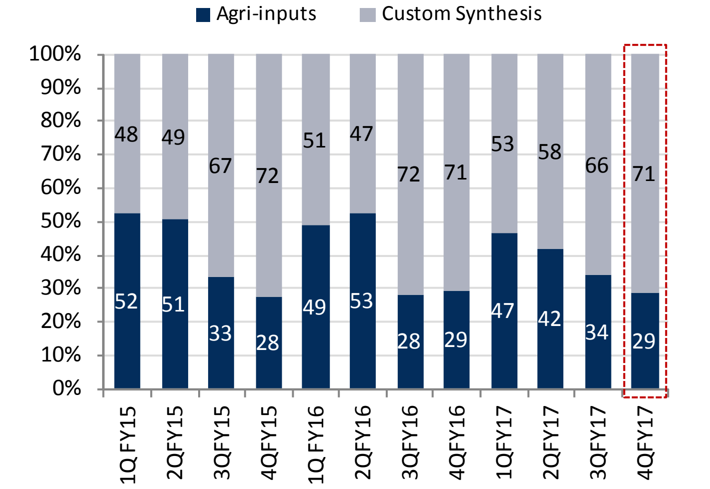
Change in product mix is leading to healthy margins

Order book in CSM remains healthy

Sowing was at a record high of 65 mn hectares (+6% YoY), led by Pulses (+11%), Wheat (+7%) and Oilseeds (+6%)

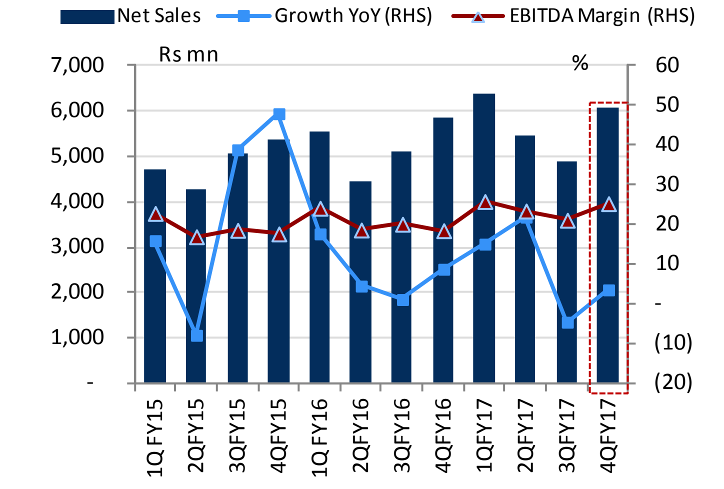
Quarterly Performance

Revenues Share Between Agri-inputs And CSM



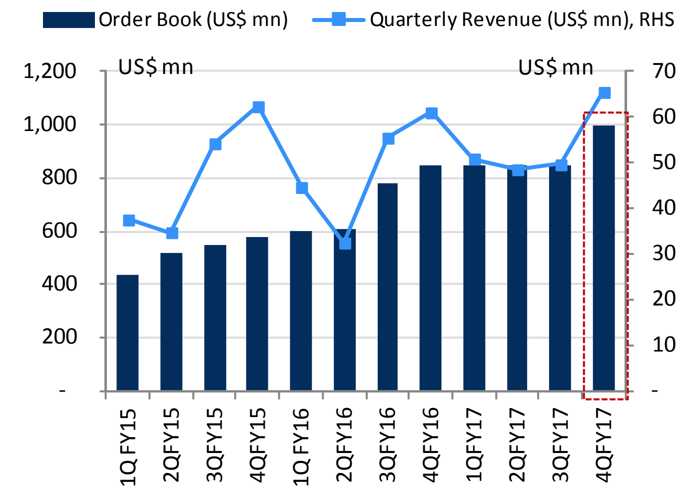
Source: Company, HDFC sec Inst Research

Strengthening Margins



Source: Company, HDFC sec Inst Research

CSM: Order-book And Quarterly Revenues



Source: Company, HDFC sec Inst Research

Sowing As On 3-Feb-17 (mn hactare)

Crop	Rabi-17	Rabi-16	*% change*
Wheat	31.8	29.7	*6.9%*
Rice	2.6	2.9	*-11.8%*
Pulses	16.0	14.4	*11.1%*
Coarse Cereals	5.8	6.1	*-5.7%*
Oilseeds	8.4	7.9	*6.1%*
Total	**64.5**	**61.0**	***5.7%***

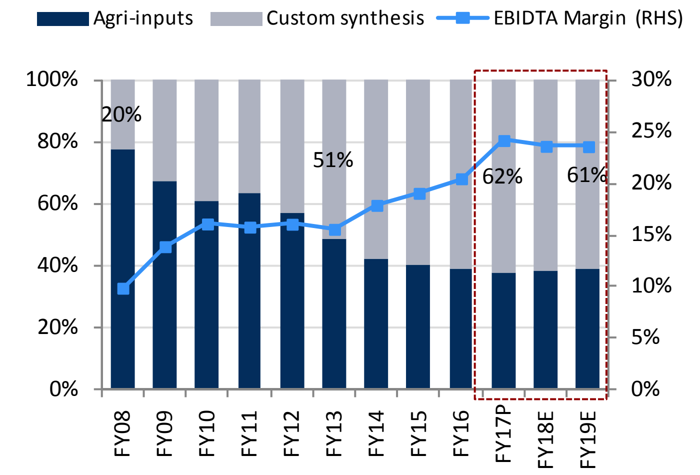
Source: Ministry of agriculture, HDFC sec Inst Research

Higher share of custom synthesis is leading to better margins

The company will generate free cash flows despite capex of ~Rs 1.8bn p.a.

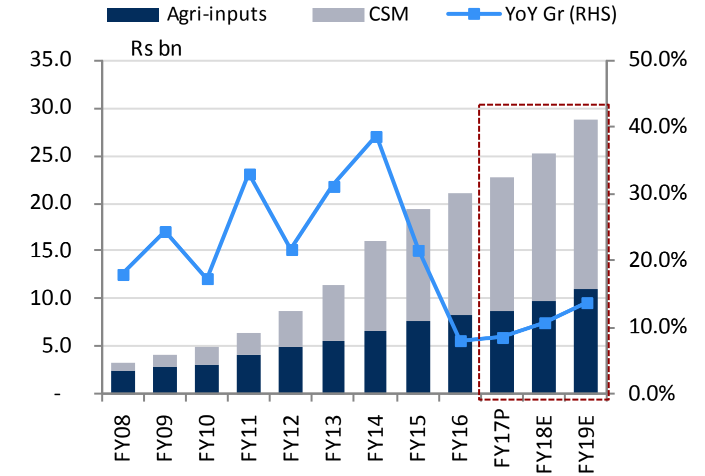
Yearly Performance

Change In Revenue Mix Leading To Higher Margins



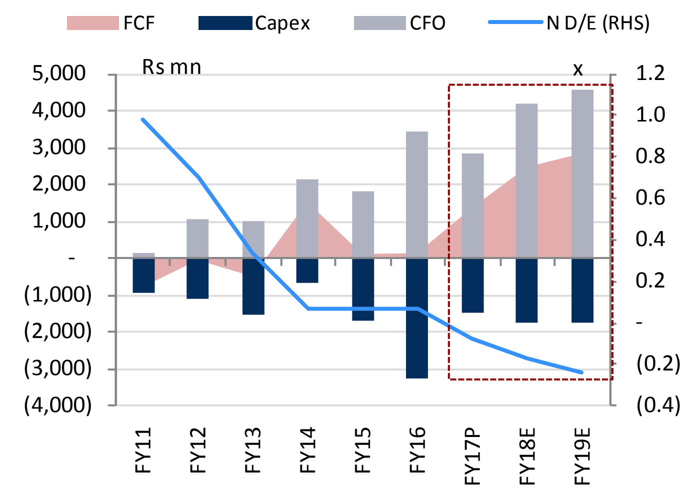
Source: Company, HDFC sec Inst Research

Revenue Growth



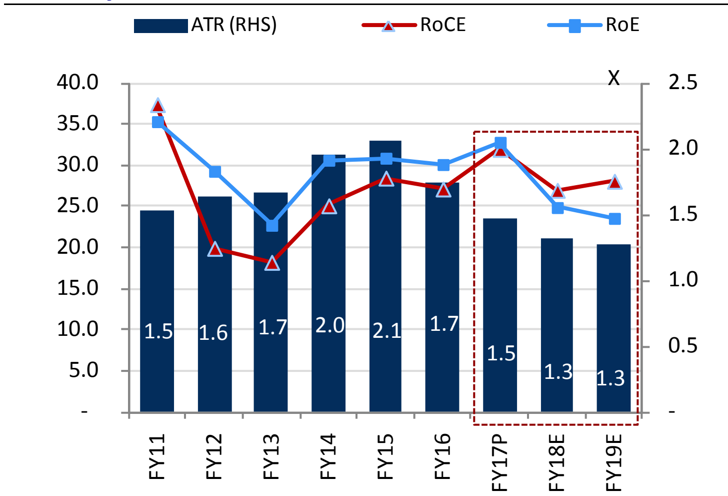
Source: Company, HDFC sec Inst Research

Strong Free Cash Flows



Source: Company, HDFC sec Inst Research

Healthy Return Ratios



Source: Company, HDFC sec Inst Research

We expect healthy growth in both segments

Tax-rate will increase in FY18 owing to reduction in tax benefit from the Jambusar facility

Change in estimates, owing to better product mix and operating leverage

Assumptions

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
Revenues (Rs mn)							
Agri-input	*5,595*	*6,712*	*7,782*	*8,232*	*8,636*	*9,673*	*11,124*
Custom Synthesis	*5,910*	*9,237*	*11,615*	*12,735*	*14,128*	*15,541*	*17,561*
Total	**11,505**	**15,948**	**19,397**	**20,967**	**22,765**	**25,214**	**28,685**
YoY Growth (%)							
Agri-input	*11.3*	*20.0*	*15.9*	*5.8*	*4.9*	*12.0*	*15.0*
Custom Synthesis	*58.4*	*56.3*	*25.7*	*9.6*	*10.9*	*10.0*	*13.0*
Total	**31.2**	**38.6**	**21.6**	**8.1**	**8.6**	**10.8**	**13.8**
EBIDTA Margin (%)	15.6	17.9	19.5	20.5	24.2	23.6	23.6
Agri-input	*13.0*	*16.0*	*17.2*	*19.0*	*19.0*	*19.0*	*19.0*
Custom Synthesis	*18.1*	*19.3*	*21.0*	*21.4*	*27.4*	*26.5*	*26.5*
Tax Rate (%)	33.0	28.8	31.0	22.8	9.7	20.1	20.3
Cash conversion cycle (days)	83	65	77	74	91	91	91
Capex (Rs bn)	1.8	0.5	1.1	3.3	1.5	1.8	1.8

Source: Company, HDFC sec Inst Research

Change In Estimates

(Rs mn)	FY18E Old	FY18E New	*% Ch*
Net Sales	26,200	25,214	*(3.8)*
EBIDTA	5,802	5,975	*3.0*
APAT	4,404	4,505	*2.3*
AEPS (Rs/sh)	32.0	32.7	*2.3*

(Rs mn)	FY19E Old	FY19E New	*% Ch*
Net Sales	30,334	28,686	*(5.4)*
EBIDTA	6,797	6,786	*(0.2)*
APAT	5,192	5,196	*0.1*
AEPS	38.0	37.8	*0.1*

Source: HDFC sec Inst Research

Peer Valuation

	Mcap (Rs bn)	CMP (Rs/sh)	Rating*	TP* (Rs/sh)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
AGROCHEMICALS																
UPL	421.0	830	NEU	780	35.6	40.0	48.8	23.3	20.8	17.0	5.7	4.7	3.9	27.2	24.8	24.9
PI Industries	**115.9**	**843**	**BUY**	**950**	**33.4**	**32.7**	**37.8**	**25.2**	**25.7**	**22.3**	**7.1**	**5.8**	**4.8**	**32.8**	**24.9**	**23.6**
Rallis India	47.8	246	BUY	280	9.6	11.0	14.0	25.6	22.3	17.6	4.3	3.8	3.3	18.7	18.2	20.3
Dhanuka Agritech	44.5	907	BUY	881	25.3	31.9	40.1	35.8	28.4	22.6	9.2	7.5	6.1	25.7	29.0	29.8
Insecticides India	14.0	677	BUY	670	26.5	33.2	41.9	25.5	20.4	16.2	3.1	2.7	2.3	12.6	14.0	15.4
FERTILISERS																
Coromandel Int	121.9	418	BUY	385	16.4	20.6	25.7	25.5	20.3	16.3	4.2	3.7	3.3	17.3	19.5	21.4
Chambal Fertilisers	50.7	122	BUY	100	9.7	9.8	10.0	12.6	12.4	12.2	1.9	1.7	1.5	15.9	14.4	13.2
CHEMICALS																
SRF Ltd	105.3	1,833	NEU	1,663	85.0	93.8	110.9	21.6	19.5	16.5	3.4	3.0	2.6	17.1	16.5	17.1
Vinati Organics	51.6	864	BUY	960	27.0	33.6	38.4	32.0	25.7	22.5	6.6	5.4	4.5	22.9	23.1	21.7
Navin Fluorine	29.2	2,987	NEU	3,300	113.4	137.8	165.0	26.3	21.7	18.1	3.8	3.4	3.0	15.8	16.6	17.5

Source: Company, HDFC sec Inst Research, *As per previous published report

Income Statement (Consolidated)

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	**19,403**	**20,963**	**22,768**	**25,214**	**28,686**
Growth (%)	***21.6***	***8.0***	***8.6***	***10.7***	***13.8***
Material Expenses	11,154	11,585	11,632	12,982	14,778
Employee Expenses	1,430	1,931	2,226	2,513	2,856
Other Operating Expenses	3,092	3,135	3,378	3,745	4,266
EBIDTA	**3,727**	**4,312**	**5,533**	**5,975**	**6,786**
EBIDTA Margin (%)	***19.2***	***20.6***	***24.3***	***23.7***	***23.7***
EBIDTA Growth (%)	***29.0***	***15.7***	***28.3***	***8.0***	***13.6***
Depreciation	498	543	730	785	866
EBIT	**3,229**	**3,770**	**4,802**	**5,189**	**5,920**
Other Income (Including EO Items)	420	355	366	484	604
Interest	97	96	72	40	12
PBT	**3,552**	**4,028**	**5,096**	**5,634**	**6,512**
Tax	1,093	913	501	1,129	1,316
Share Of Profit/(loss) Of Associate	-	-	(1)	-	-
RPAT	**2,459**	**3,116**	**4,594**	**4,505**	**5,196**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	**2,459**	**3,116**	**4,594**	**4,505**	**5,196**
APAT Growth (%)	***30.8***	***26.7***	***47.5***	***(2.0)***	***15.3***
AEPS	**17.9**	**22.6**	**33.4**	**32.7**	**37.8**
AEPS Growth (%)	***30.8***	***26.7***	***47.5***	***(2.0)***	***15.3***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	137	137	138	138	138
Reserves	8,828	11,572	16,134	19,751	24,005
Total Shareholders Funds	**8,965**	**11,709**	**16,272**	**19,889**	**24,143**
Long-term Debt	167	1,224	830	330	30
Short-term Debt	981	291	271	271	271
Total Debt	**1,148**	**1,516**	**1,101**	**601**	**301**
LT Provisions & Others	238	286	399	399	399
Net Deferred Tax Liability	369	353	-	-	-
TOTAL SOURCES OF FUNDS	**10,719**	**13,864**	**17,772**	**20,889**	**24,843**
APPLICATION OF FUNDS					
Net Block	**5,327**	**8,742**	**9,450**	**9,840**	**10,730**
CWIP	1,332	713	773	1,400	1,400
Investments	5	3	9	9	9
LT Loans & Advances	428	39	28	28	28
Other Non-current Assets	21	429	575	575	575
Total Non-current Assets	**7,113**	**9,926**	**10,835**	**11,852**	**12,741**
Inventories	3,782	3,948	4,320	4,784	5,443
Debtors	3,826	3,978	4,237	4,696	5,343
Cash & Equivalents	341	560	2,151	3,708	5,907
Other Current Assets	1,270	1,075	1,472	1,370	1,370
Total Current Assets	**9,219**	**9,560**	**12,179**	**14,559**	**18,062**
Creditors	3,538	3,661	2,878	3,176	3,615
Other Current Liabilities & Provns	2,075	1,961	2,364	2,346	2,346
Total Current Liabilities	**5,613**	**5,622**	**5,242**	**5,522**	**5,961**
Net Current Assets	**3,606**	**3,938**	**6,937**	**9,037**	**12,101**
TOTAL APPLICATION OF FUNDS	**10,719**	**13,864**	**17,772**	**20,889**	**24,843**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	3,552	4,028	5,096	5,634	6,512
Non-operating & EO items	(140)	(355)	(366)	(484)	(604)
Interest expenses	97	96	72	40	12
Depreciation	498	543	730	785	866
Working Capital Change	(971)	(162)	(1,783)	(543)	(865)
Tax Paid	(1,195)	(913)	(501)	(1,129)	(1,316)
OPERATING CASH FLOW (a)	**1,841**	**3,238**	**3,248**	**4,303**	**4,604**
Capex	(1,685)	(3,278)	(1,499)	(1,782)	(1,750)
Free cash flow (FCF)	*156*	*(41)*	*1,749*	*2,521*	*2,854*
Investments	0.00	1.98	(5.40)	-	-
Non-operating Income	420	355	366	484	604
Others	(197)	(2)	5	-	-
INVESTING CASH FLOW (b)	**(1,462)**	**(2,924)**	**(1,133)**	**(1,297)**	**(1,146)**
Debt Issuance/(Repaid)	(153)	430	(415)	(500)	(300)
Interest Expenses	(97)	(96)	(72)	(40)	(12)
FCFE	*(95)*	*293*	*1,263*	*1,981*	*2,542*
Share Capital Issuance	0	-	-	-	-
Dividend	(300)	(523)	(675)	(800)	(923)
Others	24	-	-	-	-
FINANCING CASH FLOW (c)	**(526)**	**(189)**	**(1,162)**	**(1,340)**	**(1,236)**
NET CASH FLOW (a+b+c)	**(147)**	**125**	**954**	**1,665**	**2,223**
EO Items, Others	51	94	637	(108)	(25)
Closing Cash & Equivalents	341	560	2,151	3,708	5,907

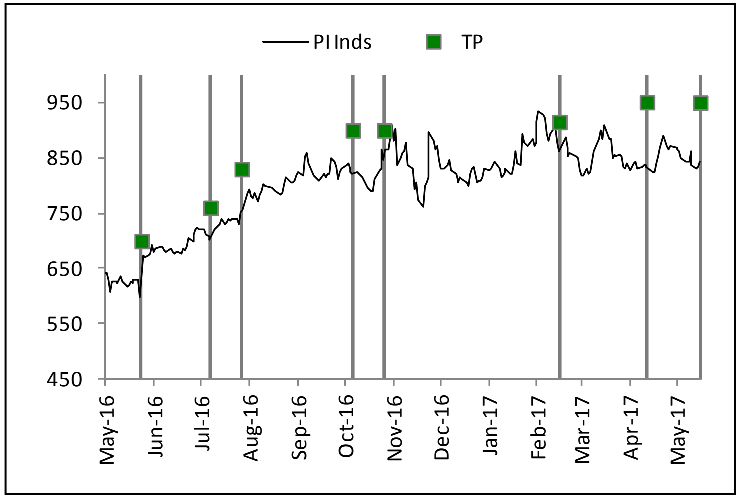
Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17P	FY18E	FY19E
PROFITABILITY (%)					
GPM	42.5	44.7	48.9	48.5	48.5
EBITDA Margin	19.2	20.6	24.3	23.7	23.7
EBIT Margin	16.6	18.0	21.1	20.6	20.6
APAT Margin	12.7	14.9	20.2	17.9	18.1
RoE	30.9	30.1	32.8	24.9	23.6
Core RoCE	28.5	27.2	32.0	27.0	28.1
RoCE	26.8	26.6	30.0	23.8	23.0
EFFICIENCY					
Tax Rate (%)	30.8	22.7	9.8	20.0	20.2
Asset Turnover (x)	2.1	1.7	1.5	1.3	1.3
Inventory (days)	71	69	69	69	69
Debtors (days)	72	69	68	68	68
Other Current Assets (days)	24	19	24	20	17
Payables (days)	67	64	46	46	46
Other Current Liab & Provns (days)	39	34	38	34	30
Cash Conversion Cycle (days)	61	59	77	77	79
Debt/EBITDA (x)	0.3	0.4	0.2	0.1	0.0
Net D/E	0.1	0.1	(0.1)	(0.2)	(0.2)
Interest Coverage	35.6	43.0	71.7	141.0	522.9
PER SHARE DATA					
EPS (Rs/sh)	17.9	22.6	33.4	32.7	37.8
CEPS (Rs/sh)	21.5	26.6	38.7	38.4	44.1
BV (Rs/sh)	65.1	85.1	118.3	144.5	175.5
DPS (Rs/sh)	2.5	3.1	4.0	4.7	5.5
VALUATION					
P/E	47.2	37.2	25.2	25.7	22.3
P/BV	12.9	9.9	7.1	5.8	4.8
EV/EBITDA	31.3	27.1	20.8	18.9	16.3
OCF/EV (%)	1.6	2.8	2.8	3.8	4.2
FCF/EV (%)	0.1	(0.0)	1.5	2.2	2.6
FCFE/MarCap (%)	(0.1)	0.3	1.1	1.7	2.2
Dividend Yield (%)	0.3	0.4	0.5	0.6	0.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
26-May-16	636	BUY	700
8-Jul-16	700	BUY	760
28-Jul-16	753	BUY	830
7-Oct-16	822	BUY	900
27-Oct-16	845	BUY	900
17-Feb-17	863	BUY	915
13-Apr-17	837	BUY	951
17-May-17	843	BUY	950

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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