MOTILAL OSWAL

14 August 2017

1QFY18 Results Update | Sector: Fertilizers

PI Industries

BSE SENSEX	S&P CNX
31,449	9,794

Bloomberg	PI IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	94.8 / 1.5
52-Week Range (INR)	950 / 674
1, 6, 12 Rel. Per (%)	-8/-31/-23
Avg. Val, INRm	136
Free float (%)	48.5

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	23.8	25.3	28.6
EBITDA	5.5	5.7	6.7
PAT	4.6	4.2	4.9
EPS (INR)	33.4	30.4	35.8
Gr. (%)	46.4	-8.9	17.6
BV/Sh (INR)	118.3	142.0	169.8
RoE (%)	32.8	23.4	22.9
RoCE (%)	31.0	23.0	22.9
P/E (x)	21.4	23.4	19.9
P/BV (x)	6.0	5.0	4.2

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR713 TP: INR894(+25%) Buy

Growth to normalize post recovery in global agchem market

- **GST transition disrupts growth:** PI's overall revenue fell 14.4% YoY to INR5,848m (est. of INR7,517m) in 1QFY18. EBITDA margin shrunk 190bp YoY to 22.3% (est. of 25%), led by higher other expenses (+300bp YoY) and employee cost (+210bp). EBITDA declined 21% YoY to INR1,304m. Consequently, adj. PAT fell 21% YoY to INR1,001m (est. of INR1,283m).
- **Soft product uptake; demand to normalize in 2HFY18:** 1QFY18 witnessed deferment in product uptake, despite better monsoon and higher major crop acreages, on account of GST transition. Domestic revenue declined 17% YoY to INR2,848m, while exports fell 12% YoY to INR3,000m. PI, however, expects the global companies to pump up their inventory in 2HFY18 as the global agchem market recovers, normalizing exports. The company continues investing in R&D capabilities to drive new product introductions, keeping itself ready for any normalization in growth momentum.
- **Product pipeline stands strong:** PI is well on track with its new products, as witnessed by the launch of 'ELITE', a maize herbicide, in partnership with BASF. The company also introduced two rice fungicides – 'HEADER' and 'FENDER' – and is expected to launch two more products in FY18. PI is set to leverage its collaborations and JVs to further strengthen its product pipeline, allowing better execution of its order book (stands at USD1b) to garner more share in the market.
- **Valuation and view:** We believe PI is well placed to leverage the turnaround in the global agchem scenario on the back of continued investment in R&D and a strong product pipeline. However, with global demand picking up only in 2HFY18, we cut our earnings estimates by 9%/5% for FY18/FY19. We maintain our **Buy** rating with a TP of INR894, 25x FY19E EPS.

Standalone - Quarterly Earning Model (INR Million)

Y/E March	FY17				FY18				FY17	FY18E	FY18	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	6,834	5,440	5,003	6,273	5,848	6,256	5,824	7,233	23,550	25,161	7,517	-22
YoY Change (%)	15.4	14.1	-4.5	3.7	-14.4	15.0	16.4	15.3	7.2	6.8	10.0	
Total Expenditure	5,178	4,719	3,970	4,736	4,544	5,165	4,428	5,316	18,603	19,454	5,638	
EBITDA	1,656	722	1,034	1,537	1,304	1,091	1,395	1,916	4,948	5,707	1,879	-31
Margins (%)	24.2	13.3	20.7	24.5	22.3	17.4	24.0	26.5	21.0	22.7	25.0	
Depreciation	178	181	183	185	197	210	167	220	727	794	195	
Interest	16	13	12	31	14	9	3	5	72	31	12	
Other Income	113	134	133	-21	126	107	99	112	358	444	85	
PBT before EO expense	1,575	661	973	1,299	1,219	979	1,324	1,803	4,507	5,326	1,757	-31
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,575	661	973	1,299	1,219	979	1,324	1,803	4,507	5,326	1,757	-31
Tax	306	205	33	-53	218	220	298	406	491	1,142	474	
Rate (%)	19.4	31.0	3.4	-4.0	17.9	22.5	22.5	22.5	10.9	21.4	27.0	
Reported PAT	1,269	456	940	1,352	1,001	759	1,026	1,398	4,016	4,184	1,283	-22
Adj PAT	1,269	456	940	1,352	1,001	759	1,026	1,398	4,016	4,184	1,283	-22
YoY Change (%)	47.7	-20.0	32.7	40.8	-21.1	66.4	9.2	3.4	29.7	4.2	1.1	
Margins (%)	18.6	8.4	18.8	21.5	17.1	12.1	17.6	19.3	17.1	16.6	17.1	

E: MOSL Estimates

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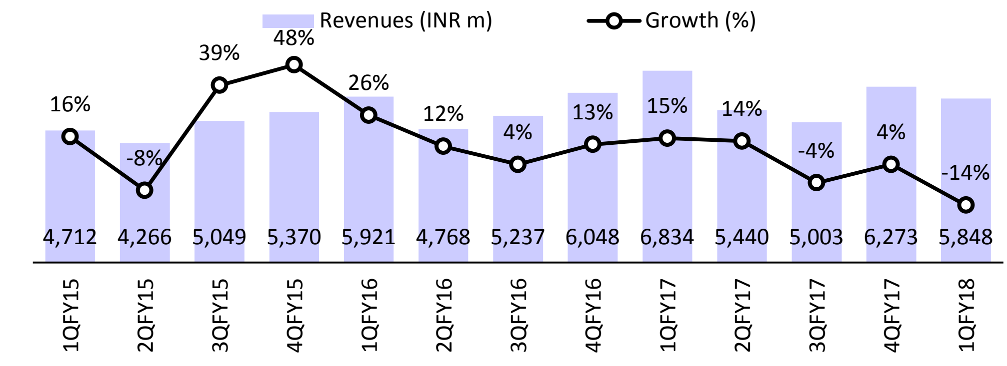
Result below estimates; GST transition disrupts growth

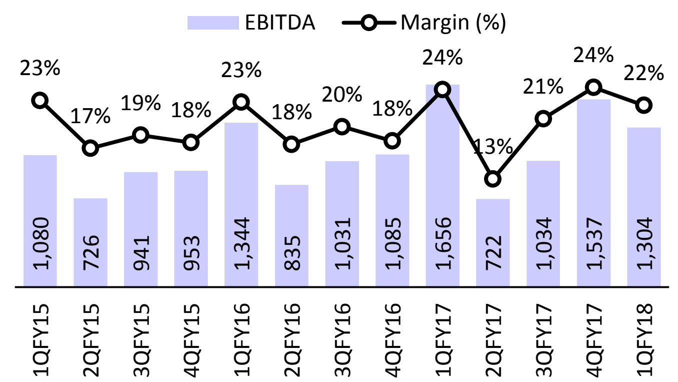
- PI's overall revenue declined 14.4% to INR5,848m (est. INR7,517m) in 1QFY18 on account of moderation in domestic demand due to destocking because of GST transition.
- Domestic revenue witnessed a decline of 17% YoY to INR2,848m, while exports declined 12% YoY to INR3,000m.
- However, the quarter witnessed gross margin expansion of 200bp to 53.3%. EBITDA margin contracted by 190bp to 22.3% (est. of 25%) in 1QFY18, led by a 300bp rise in other expenses and a 210bp rise in employee cost.
- EBITDA during the quarter stood at INR1,304m, down 21% YoY. Consequently, adj. PAT declined 21% YoY to INR1,001m (est. of INR1,283m).

Exhibit 1: Revenue growth trend



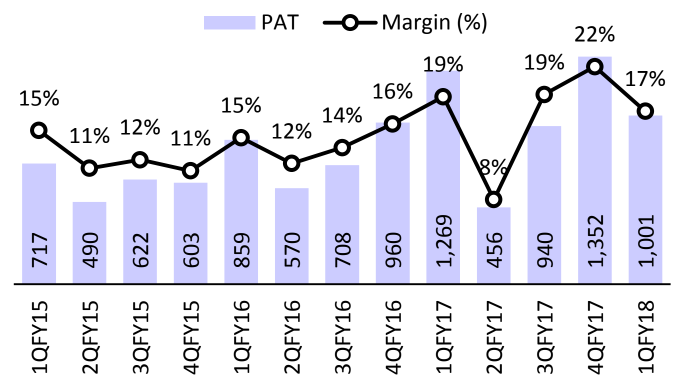
Source: Company, MOSL

Exhibit 2: EBITDA trend



Source: Company, MOSL

Exhibit 3: PAT trend



Source: Company, MOSL

Valuation and view

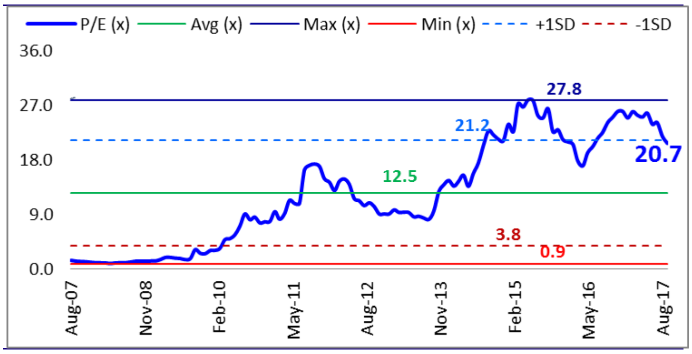
We value PI at 25x FY19E EPS, arriving at a TP of 894 (25% upside), which we believe is justified considering:

- Growth momentum in exports is expected to pick up in 2HFY18, with the recovery in global agchem market.
- The order book continues to remain strong at USD1b, which is expected to get executed at a faster pace as the industry recovers from destocking woes due to GST.
- PI plans to continue investing in R&D capabilities to drive new product introductions. As witnessed by the introduction of a maize herbicide, two rice

fungicides and the plan to launch two more products in FY18, the company is on track to expand its product portfolio with a view to capture more market share.

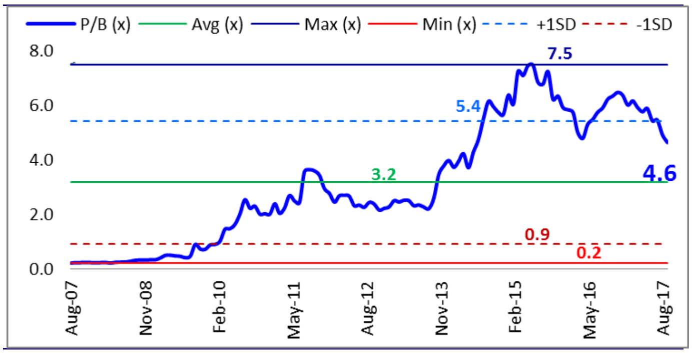
- However, with global demand picking up only in 2HFY18, we cut our earnings estimates by 9%/5% for FY18/FY19. We maintain Buy rating with a target price of INR894, 25x FY19E EPS

Exhibit 4: 15 Year P/E band



Source: Company, MOSL

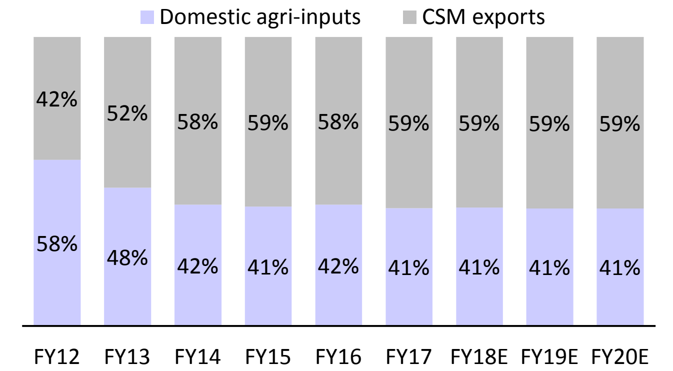
Exhibit 5: 15 Year P/B band



Source: Company, MOSL

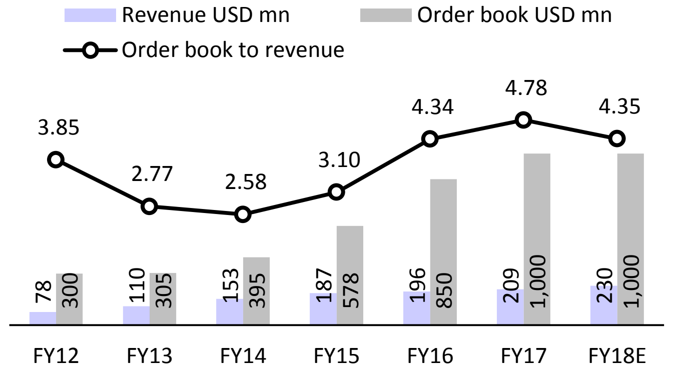
Story in charts

Exhibit 6: High CSM contribution



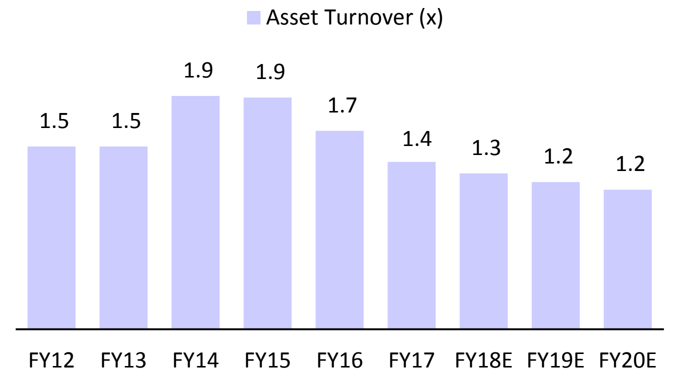
Source: Company, MOSL

Exhibit 7: Order book to revenue ratio in CSM



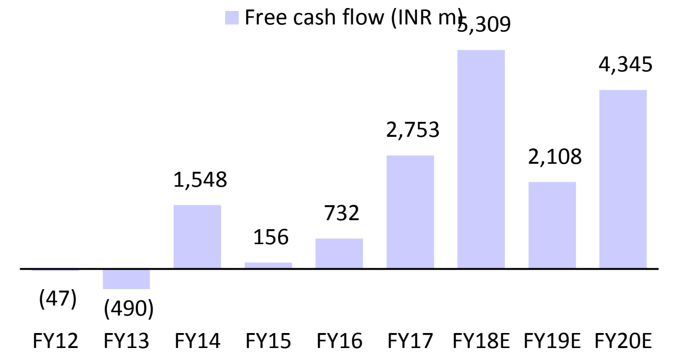
Source: Company, MOSL

Exhibit 8: Consistently strong asset turnover



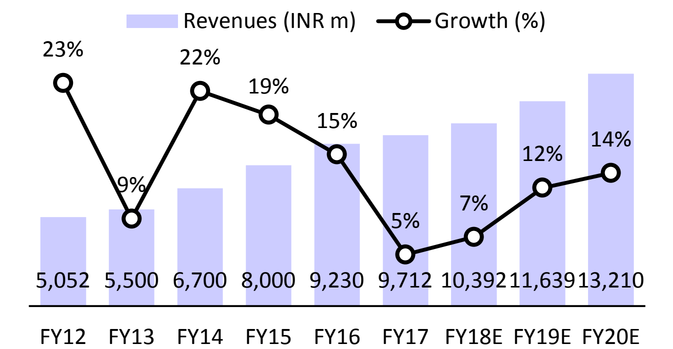
Source: Company, MOSL

Exhibit 9: High cash flow generation



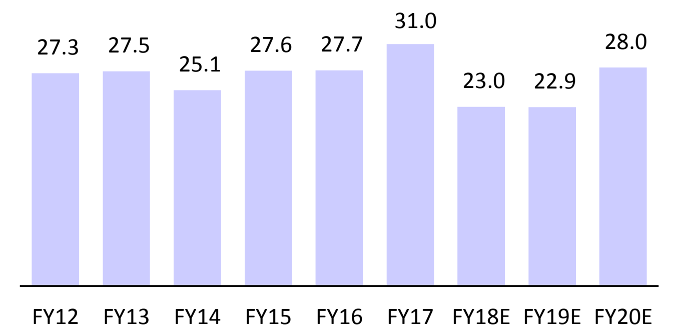
Source: Company, MOSL

Exhibit 10: Steady growth in domestic agro-chem business



Source: Company, MOSL

Exhibit 11: Strong RoCE profile



Source: Company, MOSL

Key assumptions

Exhibit 12: Assumption sheet

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR m)	**15,955**	**19,390**	**21,974**	**23,833**	**25,350**	**28,649**	**32,517**
Domestic agro-chemicals	6,700	8,000	9,230	9,712	10,392	11,639	13,210
CSM	9,250	11,390	12,744	14,121	14,958	17,010	19,307
Revenues growth (%)							
Domestic agro-chemicals	22%	19%	15%	5%	7%	12%	14%
CSM	54%	23%	12%	11%	10%	12%	14%
EBITDA (INR m)	**2,889**	**3,723**	**4,493**	**5,780**	**6,130**	**7,035**	**7,985**
Domestic agro-chemicals	1,039	1,280	1,689	2,137	2,286	2,595	2,946
CSM	1,785	2,392	2,804	3,643	3,844	4,440	5,039
EBITDA margins (%)	**18.1%**	**19.2%**	**20.4%**	**24.3%**	**24.2%**	**24.6%**	**24.6%**
Domestic agro-chemicals	15.5%	16.0%	18.3%	22.0%	22.0%	22.3%	22.3%
CSM	19.3%	21.0%	22.0%	25.8%	25.7%	26.1%	26.1%

Source: Company, MOSL

Financials and Valuations

Income Statement (Consolidated)							(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Total Income from Operations	**16,812**	**20,332**	**21,974**	**23,833**	**25,350**	**28,649**	**32,517**
Change (%)	37.9	20.9	8.1	8.5	6.4	13.0	13.5
EBITDA	**2,889**	**3,727**	**4,312**	**5,533**	**5,712**	**6,656**	**7,652**
Margin (%)	17.2	18.3	19.6	23.2	22.5	23.2	23.5
Depreciation	316	498	543	730	805	912	1,019
EBIT	**2,573**	**3,229**	**3,769**	**4,802**	**4,907**	**5,744**	**6,633**
Int. and Finance Charges	118	97	96	72	30	0	0
Other Income	158	420	355	366	421	484	557
PBT bef. EO Exp.	**2,613**	**3,552**	**4,028**	**5,096**	**5,298**	**6,228**	**7,190**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**2,613**	**3,552**	**4,028**	**5,096**	**5,298**	**6,228**	**7,190**
Current Tax	779	1,147	909	1,035	1,113	1,308	1,510
Deferred Tax	-46	-54	4	-534	0	0	0
Tax Rate (%)	28.1	30.8	22.7	9.8	21.0	21.0	21.0
Less: Mionrity Interest	0	0	0	0.9	0.9	0.9	0.9
Reported PAT	**1,880**	**2,459**	**3,115**	**4,594**	**4,185**	**4,920**	**5,680**
Adjusted PAT	**1,880**	**2,459**	**3,115**	**4,594**	**4,185**	**4,920**	**5,680**
Change (%)	14.0	30.8	26.7	47.5	-8.9	17.6	15.4
Margin (%)	11.2	12.1	14.2	19.3	16.5	17.2	17.5

Balance Sheet (Consolidated)							(INR Million)
Y/E March	**FY14**	**FY15**	**FY16**	**FY17**	**FY18E**	**FY19E**	**FY20E**
Equity Share Capital	136	137	137	138	138	138	138
Preference Capital	0	0	0	0	0	0	0
Total Reserves	6,809	8,828	11,572	16,134	19,397	23,226	27,816
Net Worth	**6,945**	**8,965**	**11,709**	**16,272**	**19,534**	**23,364**	**27,953**
Minority Interest	0	0	0	0	0	0	0
Deferred Liabilities	485	434	353	0	0	0	0
Total Loans	1,223	1,148	1,244	829	0	0	0
Capital Employed	**8,653**	**10,546**	**13,306**	**17,101**	**19,534**	**23,364**	**27,953**
Gross Block	6,829	7,050	11,008	12,447	13,947	15,947	17,447
Less: Accum. Deprn.	1,563	1,724	2,266	2,997	3,802	4,714	5,732
Net Fixed Assets	**5,267**	**5,326**	**8,742**	**9,450**	**10,145**	**11,233**	**11,715**
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	425	1,332	713	773	253	286	325
Total Investments	**5**	**5**	**3**	**832**	**832**	**832**	**832**
Curr. Assets, Loans&Adv.	**7,482**	**9,668**	**10,028**	**11,760**	**15,669**	**17,990**	**23,020**
Inventory	3,188	3,782	3,948	4,320	4,237	4,540	5,131
Account Receivables	2,568	3,826	3,978	4,237	4,514	5,102	5,791
Cash and Bank Balance	438	341	560	1,326	4,854	5,871	9,125
Loans and Advances	1,289	1,719	1,543	1,877	2,064	2,477	2,973
Curr. Liability & Prov.	**4,574**	**5,851**	**6,180**	**5,913**	**7,564**	**7,176**	**8,137**
Account Payables	4,251	5,437	5,984	5,685	6,168	6,810	7,697
Provisions	324	413	196	227	1,395	366	440
Net Current Assets	**2,908**	**3,817**	**3,849**	**5,847**	**8,105**	**10,814**	**14,883**
Deferred Tax assets	48	65	0	198	198	198	198
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	**8,653**	**10,546**	**13,307**	**17,101**	**19,534**	**23,364**	**27,953**

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)							
EPS	**13.8**	**18.0**	**22.8**	**33.4**	**30.4**	**35.8**	**41.3**
Cash EPS	16.1	21.6	26.8	38.7	36.3	42.4	48.7
BV/Share	51.0	65.6	85.7	118.3	142.0	169.8	203.1
DPS	2.0	2.5	3.1	4.0	5.5	6.5	6.5
Payout (%)	17.0	16.9	16.6	14.6	22.0	22.2	19.2
Valuation (x)							
P/E	51.6	39.6	31.3	21.4	23.4	19.9	17.3
Cash P/E	44.2	32.9	26.6	18.4	19.7	16.8	14.6
P/BV	14.0	10.9	8.3	6.0	5.0	4.2	3.5
EV/Sales	5.7	4.7	4.3	4.0	3.5	3.1	2.6
EV/EBITDA	33.1	25.6	22.1	17.0	15.7	13.4	11.2
Dividend Yield (%)	0.3	0.4	0.4	0.6	0.8	0.9	0.9
FCF per share	11.4	1.1	5.4	20.0	38.6	15.3	31.6
Return Ratios (%)							
RoE	30.7	30.9	30.1	32.8	23.4	22.9	22.1
RoCE	25.1	27.6	27.7	31.0	23.0	22.9	28.0
RoIC	24.7	26.8	27.9	33.1	27.9	30.3	
Working Capital Ratios							
Asset Turnover (x)	1.9	1.9	1.7	1.4	1.3	1.2	1.2
Inventory (Days)	126	124	124	136	125	120	120
Debtor (Days)	56	69	66	65	65	65	65
Creditor (Days)	169	178	189	178	182	180	180
Working Cap. Turnover (Days)	54	62	55	69	47	63	65
Leverage Ratio (x)							
Current Ratio	1.6	1.7	1.6	2.0	2.1	2.5	2.8
Interest Cover Ratio	22	33	39	67	164	-	947,638
Debt/Equity	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement **(INR Million)**

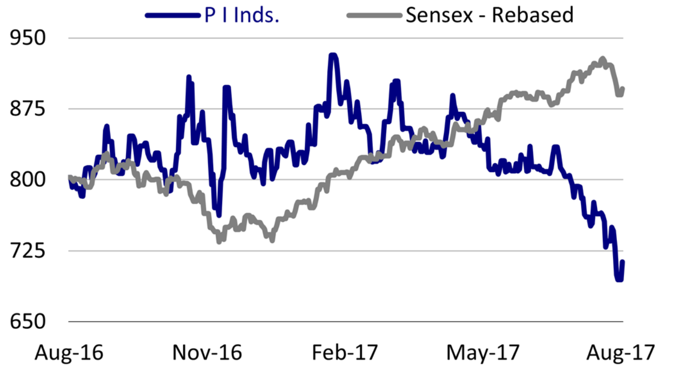
Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	2,613	3,552	4,028	5,096	5,298	6,228	7,190
Depreciation	316	498	543	730	805	912	1,019
Interest & Finance Charges	-20	-126	96	72	30	0	0
Direct Taxes Paid	-743	-1,195	-909	-1,035	-1,113	-1,308	-1,510
(Inc)/Dec in WC	-81	-971	187	-1,232	1,269	-1,691	-815
CF from Operations	**2,084**	**1,759**	**3,945**	**3,632**	**6,290**	**4,141**	**5,884**
Others	104	83	126	620	0	0	0
CF from Operating incl EO	**2,188**	**1,841**	**4,071**	**4,252**	**6,290**	**4,141**	**5,884**
(inc)/dec in FA	-640	-1,685	-3,339	-1,499	-980	-2,033	-1,539
Free Cash Flow	**1,548**	**156**	**732**	**2,753**	**5,309**	**2,108**	**4,345**
(Pur)/Sale of Investments	0	0	0	0	0	0	0
Others	179	274	2	-829	0	0	0
CF from Investments	**-461**	**-1,412**	**-3,337**	**-2,328**	**-980**	**-2,033**	**-1,539**
Issue of Shares	40	38	0	1	0	0	0
Inc/(Dec) in Debt	-1,097	-153	96	-415	-829	0	0
Interest Paid	-115	-111	-96	-72	-30	0	0
Dividend Paid	-272	-300	-516	-671	-922	-1,090	-1,090
Others	-7	0	0	-1	-1	-1	-1
CF from Fin. Activity	**-1,451**	**-526**	**-515**	**-1,158**	**-1,782**	**-1,091**	**-1,091**
Inc/Dec of Cash	**276**	**-96**	**219**	**766**	**3,527**	**1,017**	**3,254**
Opening Balance	161	437	341	560	1,326	4,853	5,871
Closing Balance	**437**	**341**	**560**	**1,326**	**4,853**	**5,871**	**9,125**

Corporate profile

Company description

Mr. Piyush Singhal founded PI Industries in 1947 as Mewar Oil and General Mills Limited, which was predominantly into edible oils business. A decade later, the company started selling agro-chemicals. The name was changed to PI Industries in 1990s. PI has two business activities: (a) Domestic Agri Inputs offering plant protection products, and specialty plant nutrient products and solutions, (b) Custom Synthesis & Manufacturing (CSM) for contract research and production of agro-chemicals, intermediates and other niche fine chemicals for global innovators.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	51.6	51.6	51.7
DII	15.8	13.6	13.0
FII	18.4	21.9	22.1
Others	14.3	13.0	13.2

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Cartica Capital Ltd.	5.0
ICICI Prudential Balanced Advatage Fund	4.7
SBI Magnum Global Fund	3.9
Axis Mutual Fund Trustee Ltd. A/c Axis Mutual Fund A/c Axis Long Term Equity Fund	3.6
Small Cap World Fund, Inc	1.9

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Narayan K Seshadri	Chairman (Non-Executive)
Salil Singhal	Chairman Emeritus
Mayank Singhal	Managing Director & CEO
Naresh Kapoor	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Pravin K Laheri	Ramani Narula
Rajnish Sarna	Arvind Singhal
Ravi Narain	

*Independent

Exhibit 6: Auditors

Name	Type
K G Goyal & Co	Cost Auditor
KPMG	Internal
R S Bhatia	Secretarial Audit
S S Kothari Mehta & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	30.4	34.2	-11.1
FY19	35.8	39.7	-9.8
FY20	41.3	44.4	-7.0

Source: Bloomberg

NOTES

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