

PI INDUSTRIES

Back-ended growth; long-term potential intact

India Equity Research | Midcap Agri

PI Industries' (PI) Q2FY18 revenue at INR5.6bn rose 3% YoY (11% estimate) with the domestic segment clocking decent 13% YoY growth and CSM business declining 4% YoY. However, EBITDA margin contracted ~170bps with EBITDA slipping 5% YoY (14% below estimate). Despite a muted H1FY18, management remains confident of growth gaining momentum in ensuing quarters and achieving 10% revenue growth in both segments in FY18. Driven by improved domestic performance and strong visibility in CSM, we maintain our revenue estimate. However, we revise down EBITDA margin on weak H1FY18, leading to 6% and 2% cut in FY18E and FY19E EPS, respectively. We value PI at 25.0x FY19E P/E, leading to TP of INR944 (INR961 earlier). Maintain 'BUY'.

Domestic performance on expected lines; launches 3 products

Domestic revenue grew 13% (H1FY18: down 5% YoY) bolstered by post GST demand and launch of new products. According to management, *Nominee Gold's* performance was in line with expectation; despite heightened competition, which impacted pricing, the product's revenue grew YoY driven by higher volumes. During the quarter, PI launched 2 new products: Humesol and Visma and plans to launch 5 products in FY18. Post a subdued Q1FY18, growth picked up in Q2FY18 and management maintained 10% FY18 growth guidance in domestic segment.

CSM business weak yet again, but outlook robust

Revenue of CSM business declined 4% YoY (H1FY18: down 8%). Despite the weak performance, management is confident of growth picking up in H2FY18 and estimates 10% YoY growth in FY18, implying 20% plus growth for H2FY18. Also, over the long term, PI is confident of higher growth post FY18 driven by: a) lower global inventories; b) enquiries & R&D pipeline; and c) potential business post global consolidation.

Outlook and valuations: Bright; maintain 'BUY'

Despite the muted performance in H1FY18, PI maintained its growth guidance for CSM and domestic businesses at 10% each. Given the visibility on CSM and improved domestic performance (*Nominee Gold* also stable), we maintain our revenue estimates. However, we revise down EBITDA margin on weak performance in H1FY18, leading to 6% and 2% cut in FY18E and FY19E EPS, respectively. We maintain our FY19E target P/E at 25.0x, leading to target price of INR944. We maintain 'BUY'.

Financials (Standalone)						(INR mn)		
Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	FY17*	FY18E*	FY19E*
Net rev.	5,611	5,441	3.1	5,532	1.4	22,768	24,792	28,691
EBITDA	1,222	1,279	(4.5)	1,304	(6.3)	5,533	5,658	6,853
Adj. PAT	803	1,014	(20.8)	1,001	(19.8)	4,595	4,303	5,160
Adj. Dil. EPS (INR)	5.8	7.4	(20.8)	7.3	(19.8)	33.6	31.5	37.8
Diluted P/E (x)						22.4	23.9	20.0
ROAE (%)						32.8	23.8	23.3

*Annual numbers are on consolidated basis

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: PIIL.BO, B: PI IN)

CMP	: INR 754
Target Price	: INR 944
52-week range (INR)	: 964 / 674
Share in issue (mn)	: 137.6
M cap (INR bn/USD mn)	: 104 / 1,596
Avg. Daily Vol. BSE/NSE ('000)	: 200.6

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	51.5	51.5	51.5
MF's, FI's & BKs	16.5	15.8	13.6
FII's	16.5	18.3	21.7
Others	15.4	14.4	13.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	7.8	0.6	(7.3)
3 months	7.4	(1.3)	(8.7)
12 months	23.3	(10.8)	(34.1)

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Q2FY18 conference call: Key highlights

Industry:

- PI anticipates global agrochemical cycle to revive by CY18 end.

Q2FY18:

- Margins were lower due to change in product mix in the domestic segment and impact of operating deleverage in the CSM segment.
- **Q2FY18 revenue split**
 - CSM: INR3.0bn.
 - Domestic: INR2.6bn.
- **Tax:** Due to time related mismatch, the tax rate increased for Q2FY18.
- 25-30% of raw material sourced from China and increasing prices have impacted PI. The company was able to pass on prices to clients.

Domestic business:

- *Nominee Gold:*
 - *Nominee Gold's* performance was as per expectation.
 - Some price erosion has happened, but PI has been able to maintain market share.
 - Volume growth compensated for pricing erosion to a large extent.
 - Industry volumes grew 15% YoY.
 - The company's own manufactured *Nominee Gold* will be in the market in Kharif of 2018.
- PI has launched 2 new products:
 - *Header: Rice (Q1FY18).*
 - *Fender: Rice (Q1FY18).*
 - *Humesol: All crops (Q2FY18).*
 - *Visma: Fungicide, grapes & chilli (Q2FY18).*
- Growth in the domestic business is also expected to be ~10% in FY18
 - *Expecting a good rabi season and growth from new launches.*
 - *PI also has a good rabi portfolio.*
- Domestic market clocked single digit growth in H1FY18.

CSM business:

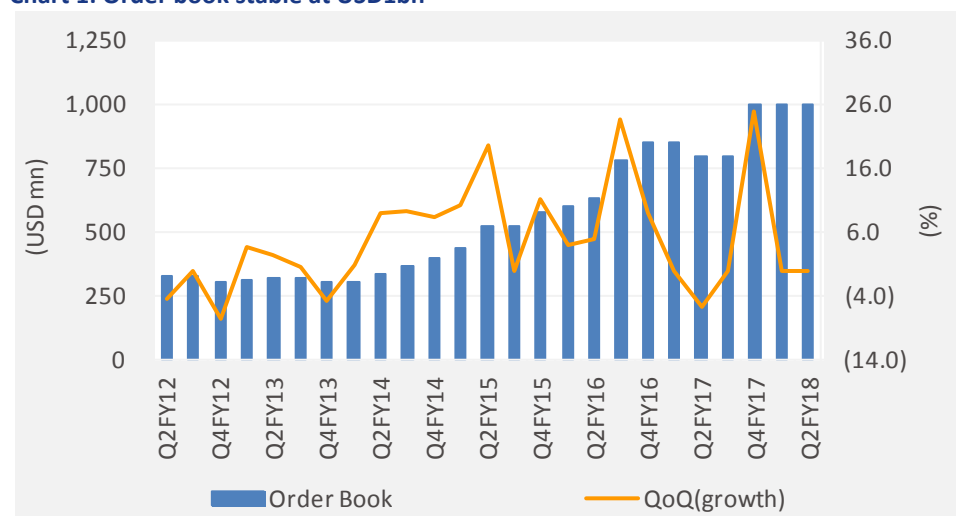
- Revenue:
 - *H1FY18: INR6.0bn; H1FY17: INR6.6bn.*
- Last year revenue growth in CSM in H1FY18 was close to 35%; there was significant share of up fronting.
- In FY18, PI expects revenue to be back ended.
- Still targeting 10% growth in FY18 and ~20% YoY growth in H2FY18.
- PI launched 3 new products in this segment.
- The company is commercializing 3 new projects in H2FY18 with major revenue likely to accrue in coming years.
- Total products in this business are ~20.

- Key factors driving confidence in business:
 - Global inventory levels in many products (including PI) are falling below certain threshold. Therefore, this gives clear visibility of off take to companies. Visibility much higher than 6 months ago.
 - Over past 2-3 quarters, PI has been able to bag interesting projects and enquiries. R&D pipeline compared to 6 months ago is much better. This offers much better visibility over the next 2-3 years.
 - Also, global consolidation is leading to higher enquiries.
 - All these factors give better visibility for FY19/FY20 being better than FY18. Growth could inch up to 15% in this segment.
- **New business segments:** Should be able to announce developments soon.
- Order book is close to USD1bn. Order book driven by addition of products, commercialization of products and growth in existing products.
- Enquiry to commercialization generally takes 1-3 years. PI only works with new products
- On an average, the CSM segment has been working at 70% utilization.
- PI is not going into generics. Around 90% remains patented.

Guidance:

- Looking at tax rate at 21-22%.
- Expects full year margin to be at same level as last year.
- Capex FY18: INR2bn. Invested close to INR600mn till now. FY19 estimate is between INR1.5bn and INR2.0bn.

Chart 1: Order book stable at USD1bn



Source: Company, Edelweiss research

Financial snapshot
(INR mn)

Year to March	Q2FY18	Q2FY17	% change	Q1FY18	% change	YTD18	FY18E	FY19E
Net revenues	5,611	5,441	3.1	5,532	1.4	11,143	24,792	28,691
Raw material	2,914	2,743	6.2	2,729	6.8	5,642	12,960	14,690
Staff costs	604	525	15.2	600	0.7	1,204	2,378	2,748
Other expenses	871	894	(2.5)	899	(3.1)	1,770	3,796	4,400
Total expenditure	4,389	4,161	5.5	4,227	3.8	8,616	19,133	21,838
EBITDA	1,222	1,279	(4.5)	1,304	(6.3)	2,526	5,658	6,853
Depreciation	205	181	13.2	197	4.1	402	801	921
EBIT	1,017	1,098	(7.4)	1,107	(8.2)	2,124	4,857	5,931
Other income	123	134	(8.2)	126	(2.5)	248	438	524
Interest	12	13	(6.8)	14	(10.8)	26	42	-
Add: Prior period items								
Add: Exceptional items								
Profit before tax	1,127	1,219	(7.5)	1,219	(7.6)	2,346	5,253	6,455
Provision for taxes	324	205	58.0	218	48.6	541	950	1,295
Minority interest								
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	803	1,014	(20.8)	1,001	(19.8)	1,805	4,303	5,160
Adjusted Profit	803	1,014	(20.8)	1,001	(19.8)	1,805	4,303	5,160
Equity capital(FV INR 5)	138	138		138		137	137	137
Diluted shares (mn)	138	138		138		137	137	137
Adjusted Diluted EPS	5.8	7.4	(20.8)	7.3	(19.8)	13.2	31.5	37.8
Diluted P/E (x)	-	-		-		34.1	23.9	20.0
EV/EBITDA (x)	-	-		-		24.1	17.5	14.1
ROAE (%)	-	-		-		29.2	23.8	23.3
As % of net revenues								
Raw material	51.9	50.4		49.3		50.6	52.3	51.2
Employee cost	10.8	9.6		10.8		10.8	9.6	9.6
Other expenses	15.5	16.4		16.3		15.9	15.3	15.3
EBITDA	21.8	23.5		23.6		22.7	22.8	23.9
Reported net profit	14.3	18.6		18.1		16.2	17.4	18.0

Company Description

Incorporated in 1947, PI Industries (erstwhile Pesticides India) focuses on agri-Input, custom synthesis and polymer compounding with strength of over 1,100 employees. PI currently operates three formulation and two manufacturing facilities as well as five multi-product plants across Gujarat and Jammu, and one R&D unit in Rajasthan at Udaipur.

PI is one of India's leading players in the agri-input industry, primarily dealing in agro-chemicals, specialty fertilisers, plant nutrients and seeds. The company has exclusive rights with several global corporations for distribution in India, and is constantly evaluating prospects to further expand its product portfolio.

The fine chemicals business unit of PI focuses on custom synthesis which entails dealing in custom synthesis and contract manufacturing of chemicals including commercial evaluation of chemical processes, process development, lab and pilot scale up as well as commercial production. The company has a strong product portfolio as a result of exclusive tie-ups with leading agro-chemical, pharmaceutical and fine chemical companies around the world.

Investment Theme

PI is expected to deliver strong revenue and profit CAGR of 11.5% and 20.3%, respectively along-with robust ROEs of 22.4% over FY16-19E. It is a preferred partner for global MNCs for custom synthesis on account of its competencies in process research and manufacturing, coupled with its non-compete and IP driven business model. PI has built up a strong order book of USD1bn to be executed within the next 3-4 years and Incurred capex of ~INR1.8bn in Jambusar plant. EBITDA margin of the company is likely to expand owing to improving product mix, higher operating leverage and sale of the low margin polymer business.

Key Risks

Any execution delay in setting up new capacities would impact the Any execution delay in setting up new capacities would impact the growth in the custom synthesis business.

Indian agriculture is largely dependent on monsoon hence poor monsoon could be a demand dampener for the agri-input division.

On account of very low liquidity in the stock, it might act very volatile.

USD/INR volatility may impact export revenues as well as margins.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Company				
Raw Material (% net rev)	55.3	51.1	52.3	51.2
Employee cost (% of rev)	9.2	9.8	9.6	9.6
Other exp (% net rev)	15.0	14.8	15.3	15.3
Agri prod rev gwth (%)	6.0	9.0	9.0	12.0
Custom synth rev gwth(%)	9.7	13.0	9.0	18.0
Net borrowings (INR mn)	684	(1,321)	(4,117)	(6,624)
Tax rate as % of PBT	22.7	9.8	18.1	20.1
Capex (INR mn)	3,188	1,418	2,000	2,000
Debtor days	68	66	64	61
Inventory days	122	130	121	113
Payable days	113	103	93	99
Cash conversion cycle	76	93	91	75
Interest Exp (% of Debt)	8.0	-	1.0	1.0
Dep. (% gross block)	6.1	6.3	6.0	6.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	20,963	22,768	24,792	28,691
Materials costs	11,585	11,632	12,960	14,690
Gross profit	9,378	11,137	11,832	14,001
Employee costs	1,931	2,226	2,378	2,748
Other Expenses	3,135	3,378	3,796	4,400
EBITDA	4,312	5,533	5,658	6,853
Depreciation	543	730	801	921
EBIT	3,770	4,802	4,857	5,931
Add: Other income	354.7	366.2	437.84	523.8
Less: Interest Expense	96	72	42	-
Profit Before Tax	4,028	5,096	5,253	6,455
Less: Provision for Tax	913	501	950	1,295
Reported Profit	3,116	4,595	4,303	5,160
Exceptional Items	92	-	-	-
Adjusted Profit	3,023	4,595	4,303	5,160
Shares o/s (mn)	137	137	137	137
Adjusted Basic EPS	22.1	33.6	31.5	37.8
Diluted shares o/s (mn)	137	137	137	137
Adjusted Diluted EPS	22.1	33.6	31.5	37.8
Adjusted Cash EPS	26.1	35.1	35.8	43.6
Dividend per share (DPS)	-	-	4.0	4.0
Dividend Payout Ratio(%)	3.9	0.9	15.3	12.8

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Cost of goods sold	44.7	48.9	47.7	48.8
EBITDA margins	20.6	24.3	22.8	23.9
EBIT margins	18.0	21.1	19.6	20.7
Net Profit margins	14.4	20.2	17.4	18.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	8.0	8.6	8.9	15.7
EBITDA	15.7	28.3	2.3	21.1
PBT	13.4	26.5	3.1	22.9
Adjusted Profit	29.6	52.0	(6.4)	19.9
EPS	29.6	52.0	(6.4)	19.9

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	137	137	137	137	
Reserves & Surplus	11,572	16,134	19,776	24,277	
Shareholders' funds	11,709	16,271	19,913	24,414	
Short term borrowings	20	-	-	-	
Long term borrowings	1,224	830	-	-	
Total Borrowings	1,244	830	-	-	
Def. Tax Liability (net)	353	(198)	(429)	(579)	
Sources of funds	13,306	16,902	19,484	23,834	
Gross Block	10,928	12,340	14,340	16,340	
Net Block	8,693	9,375	10,574	11,652	
Intangible Assets	174	264	264	264	
CWIP (incl. intangible)	587	584	584	584	
Total net fixed assets	9,455	10,222	11,421	12,500	
Non current investments	3	9	3	3	
Cash and Equivalents	560	2,151	4,117	6,624	
Inventories	3,948	4,320	4,261	4,830	
Sundry Debtors	3,978	4,237	4,415	5,109	
Loans & Advances	171	171	170	170	
Other Current Assets	1,372	1,706	1,853	1,853	
Current Assets (ex cash)	9,468	10,433	10,699	11,962	
Trade payable	3,661	2,878	3,728	4,226	
Other Current Liab	2,519	3,035	3,028	3,028	
Total Current Liab	6,180	5,913	6,756	7,254	
Net Curr Assets-ex cash	3,289	4,521	3,943	4,709	
Uses of funds	13,306	16,902	19,484	23,834	
BVPS (INR)	85.7	119.1	145.8	178.8	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	3,116	4,594	4,303	5,160	
Add: Depreciation	543	730	801	921	
Interest (Net of Tax)	67	48	28	-	
Others	(78)	(750)	(1,786)	(524)	
Less: Changes in WC	(20)	1,234	(725)	766	
Operating cash flow	3,668	3,388	4,072	4,792	
Less: Capex	3,188	1,418	2,000	2,000	
Free Cash Flow	480	1,970	2,072	2,792	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		3,668	3,388	4,072	4,792
Investing cash flow		(3,034)	(2,351)	139	(1,476)
Financing cash flow		(476)	(534)	(1,763)	(809)
Net cash Flow		159	503	2,448	2,506
Capex		(3,188)	(1,418)	(2,000)	(2,000)
Dividend paid		(123)	(42)	(659)	(659)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
ROAE (%)		29.2	32.8	23.8	23.3
ROACE (%)		35.8	34.4	28.6	29.1
Inventory Days		122	130	121	113
Debtors Days		68	66	64	61
Payable Days		113	103	93	99
Cash Conversion Cycle		76	93	91	75
Current Ratio		1.6	2.1	2.2	2.6
Debt/EBITDA (x)		0.3	0.1	-	-
Debt/Equity (x)		0.1	0.1	-	-
Adjusted Debt/Equity		0.1	0.1	-	-
Net Debt/Equity		0.1	(0.1)	(0.2)	(0.3)
Interest Coverage Ratio		39.3	66.6	116.8	59,312.8

Operating ratios		FY16	FY17	FY18E	FY19E
Year to March					
Total Asset Turnover		1.7	1.5	1.4	1.3
Fixed Asset Turnover		3.0	2.5	2.4	2.5
Equity Turnover		2.0	1.6	1.4	1.3

Valuation parameters		FY16	FY17	FY18E	FY19E
Year to March					
Adj. Diluted EPS (INR)		22.1	33.6	31.5	37.8
Y-o-Y growth (%)		29.6	52.0	(6.4)	19.9
Adjusted Cash EPS (INR)		26.1	35.1	35.8	43.6
Diluted P/E (x)		34.1	22.4	23.9	20.0
P/B (x)		8.8	6.3	5.2	4.2
EV / Sales (x)		4.9	4.5	4.0	3.4
EV / EBITDA (x)		24.1	18.4	17.5	14.1
Dividend Yield (%)		-	-	0.5	0.5

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
PI Industries	1,528	21.2	18.5	15.5	13.0	25.1	23.3
Bayer Cropscience	2,343	31.7	25.9	20.9	16.6	21.2	21.8
Dhanuka Agritech	588	26.7	23.0	18.3	14.9	24.6	24.2
Rallis India	697	20.7	17.8	13.1	11.1	18.4	18.9
UPL	6,799	19.1	15.1	12.2	10.0	27.3	27.2
Median	-	21.2	18.5	15.5	13.0	24.6	23.3
AVERAGE	-	23.9	20.1	16.0	13.1	23.3	23.1

Source: Edelweiss research

Additional Data

Directors Data

Salil Singhal	Chairman & Managing Director	Mayank Singhal	Managing Director & CEO
Ravi Narain	Independant Director	Narayan K. Seshadri	Director
Pravin K. Laheri	Director	Ramni Nirula	Director
Rajnish Sarna	Executive Director	Dr. Venkatrao S. Sohoni	Additional Director

Auditors - B.D. Gargeiya & Co, S.S. Kothari Mehta & Co.

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
Prudential ICICI Asset Mgmt	6.16	Axis Asset Management	1.85
Jackson National Asset Mgmt	5.13	Vanguard Group	1.60
Microsoft Corp Savings Plan 401K	3.96	Templeton Asset Mgmt	1.29
SBI funds Management	3.8	UTI Asset Mgmt	1.18
Cartika Capital	3.51	Stichting Dep Apg Emrg Eq	1.16

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
30 Nov 2016	JUNICHI NAKANO	Sell	15000.00
18 Nov 2016	MR. SALIL SINGHAL	Sell	13101879.00
18 Nov 2016	MRS MADHU SINGHAL JOINTLY WITH MS. POOJA SINGHAL	Buy	3634450.00
18 Nov 2016	Mr. Salil Singhal jointly with Mrs. Shefali Khushalani	Buy	8554857.00
18 Nov 2016	MS POOJA SINGHAL JOINTLY WITH MR SALIL SINGHAL	Buy	8440473.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Midcap Agri

Bayer Cropscience, Dhanuka Agritech, Jain Irrigation, PI Industries, Rallis India, Sharda Cropchem, UPL

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Oct-17	Rallis India	Strong growth pick up still awaited; <i>Result Update</i>	238	Hold
24-Aug-17	Agri Inputs	Domestic agrochemical companies at risk; <i>Sector Update</i>		
11-Aug-17	Dhanuka Agritech	GST impacts growth; guidance maintained; <i>Result Update</i>	758	Buy

1 Distribution of Ratings / Market Cap

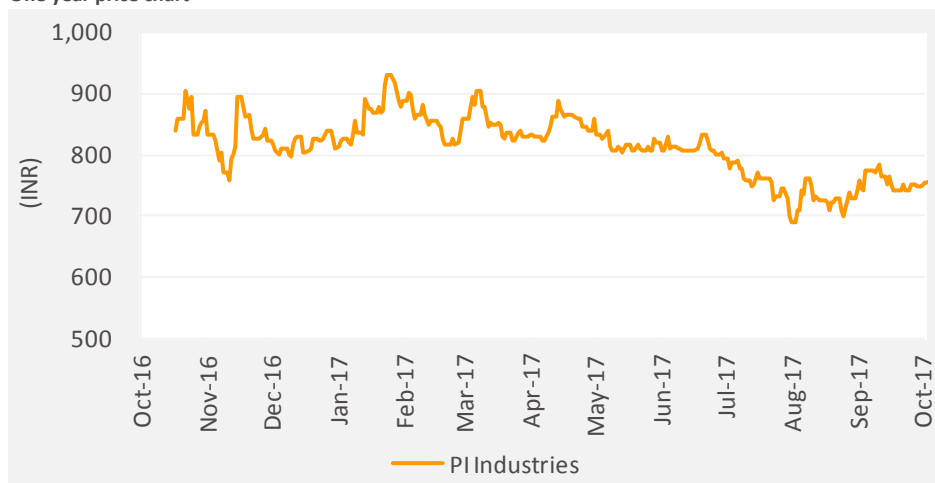
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	229
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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