

INDUSTRY	AGROCHEMICAL
CMP (as on 27 Oct 2017)	Rs 755
Target Price	Rs 830
Nifty	10,323
Sensex	33,157
KEY STOCK DATA	
Bloomberg	PI IN
No. of Shares (mn)	138
MCap (Rs bn) / (\$ mn)	104/1,597
6m avg traded value (Rs mn)	173
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 964/674
	3M 6M 12M
Absolute (%)	(1.3) (12.7) (10.8)
Relative (%)	(3.7) (23.1) (29.5)
SHAREHOLDING PATTERN (%)	
Promoters	51.55
FIs & Local MFs	15.49
FPIs	16.51
Public & Others	16.45
Source : BSE	

Next leg needs CSM recovery

PI Industries' (PI) reported disappointing numbers in 2QFY18. Revenue grew marginally by 3.1% YoY to Rs 5.6bn. Weakness in global Custom Synthesis and Manufacturing (CSM) impacted exports (-4.0% YoY, 54% of revenue). Domestic business grew (+13.0% YoY, 46% of revenue), and was supported by post-GST demand and launch of new products. EBITDA de-grew 4.5% YoY at Rs 1.2bn, largely driven by an increase in raw material and employee costs. The EBITDA margin stood at 21.8% (-174bps YoY). Higher tax rates led to 20.8% YoY de-growth in APAT at Rs 803mn.

FY18 started on a good note, with normal monsoon in the Kharif season, but the impact of GST change, which weighed on the domestic business. We believe these hiccups are temporary. PI is likely to increase product prices in 3QFY18 to offset the recent rise in raw material costs. This would help PI maintain margins. However, we expect good north-east monsoon in the latter half of the season is a positive sign, this would support domestic sales in 2HFY18.

PI's biggest hurdle would be maintaining its market share in Nominee Gold (rice herbicide), as Gharda Chemicals and Insecticides India have launched the same product. In 2QFY18, PI's volumes grew 15%, but

Financial Summary (Consolidated)

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	5,611	5,441	3.1	5,532	1.4	20,963	22,768	23,362	24,997	27,246
EBITDA	1,222	1,279	(4.5)	1,304	(6.3)	4,312	5,533	5,476	5,936	6,535
APAT	803	1,014	(20.8)	1,001	(19.8)	3,116	4,594	3,940	4,328	4,804
Diluted EPS (Rs)	5.8	7.4	(20.8)	7.3	(19.8)	22.6	33.4	28.6	31.5	34.9
P/E (x)						33.3	22.6	26.3	24.0	21.6
EV / EBITDA (x)						24.3	18.6	18.5	16.7	14.8
RoE (%)						30.1	32.8	22.1	20.4	19.3

Source: Company, HDFC sec Inst Research, * standalone

witnessed a drop in prices. This could be a concern for PI in the long run. PI's CSM business was muted in 1HFY18, led by weakness in the global agrochem market. We expect the scenario to improve in 2HFY18. PI has guided for a capex of ~Rs 1.4bn in 2HFY18, and Rs 1.5-2.0bn in FY19 for CSM and R&D. This helps provide integrated, innovative and long-term solutions to existing and future global customers across the agrochem value chain.

Commercialisation of two to three new molecules every year in the CSM segment, and a strong order book (4.7x FY17 segmental revenues), will keep long-term growth prospects robust. We remain positive on PI. Maintain BUY with a TP of Rs 830/sh (25x FY19E EPS).

Highlights of the quarter

- **Custom synthesis:** Revenues came in at Rs 3.0bn (-4.0%). The order book remains strong at USD 1.0bn.
- **Domestic agri-inputs:** Revenues stood at Rs 2.5bn. Three products were launched during 2QFY18.
- **Near-term outlook:** A normal north-east monsoon and improving reservoirs of water augur well for the ongoing Rabi season.

Basanth Patil

basanth.patil@hdfcsec.com

+91-22-6171-7319

Revenue growth was impacted, owing to decline in exports (-4.0%)

EBITDA was at Rs 1.2bn (-4.5% YoY), owing to lower gross margin (-151bps) and higher employee costs (+15.2%)

Lower gross margin and higher employee costs were marginally offset by a drop in other expenditures

Quarterly Financials Snapshot (Standalone)

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Sales	5,611	5,441	3.1	5,532	1.4
Material Expenses	2,666	2,497	6.8	2,475	7.7
Traded Goods	248	247	0.6	254	(2.2)
Employee Expenses	604	525	15.2	600	0.7
Other Expenses	871	894	(2.5)	899	(3.1)
EBITDA	1,222	1,279	(4.5)	1,304	(6.3)
Depreciation	205	181	13.2	197	4.1
EBIT	1,017	1,098	(7.4)	1,107	(8.2)
Other Income (Including EO Items)	123	134	(8.2)	126	(2.5)
Interest	12	13	(6.8)	14	(10.8)
PBT	1,127	1,219	(7.5)	1,219	(7.6)
Tax	324	205	58.0	218	48.6
RPAT	803	1,014	(20.8)	1,001	(19.8)
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	803	1,014	(20.8)	1,001	(19.8)
AEPS (Rs/sh)	5.8	7.4	(20.8)	7.3	(19.8)

Source: Company, HDFC sec Inst Research

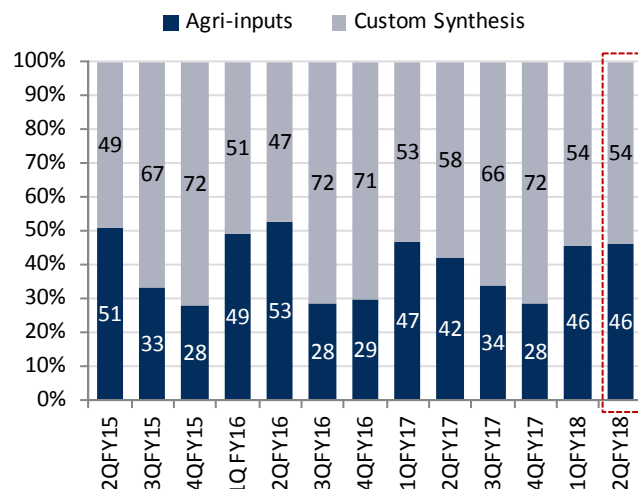
Margin Analysis

(% of Net Sales)	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
Material Expenses as % of Net Sales	47.5	45.9	162	44.7	277
Traded Goods as % of Net Sales	4.4	4.5	(11)	4.6	(17)
Employee Expenses as % of Net Sales	10.8	9.6	113	10.8	(7)
Other Expenses as % of Net Sales	15.5	16.4	(89)	16.3	(72)
EBITDA Margin (%)	21.8	23.5	(174)	23.6	(180)
Net Profit Margin (%)	14.3	18.6	(431)	18.1	(378)
Tax Rate (%)	28.7	16.8	1,191	17.9	1,085

Source: Company, HDFC sec Inst Research

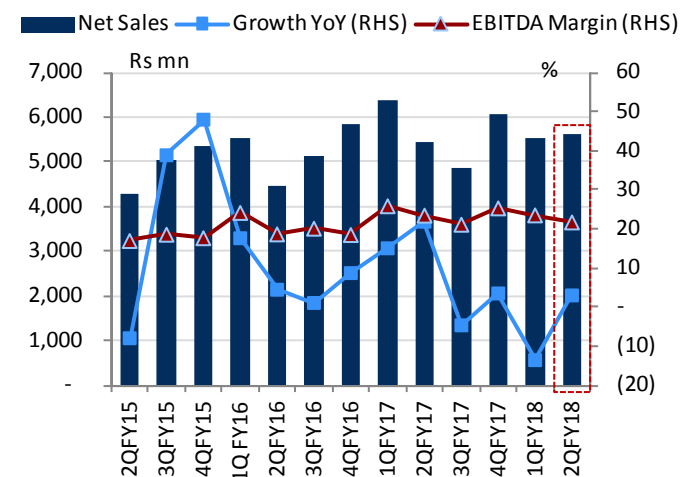
Quarterly Performance

Revenue Share Between Agri Inputs And CSM



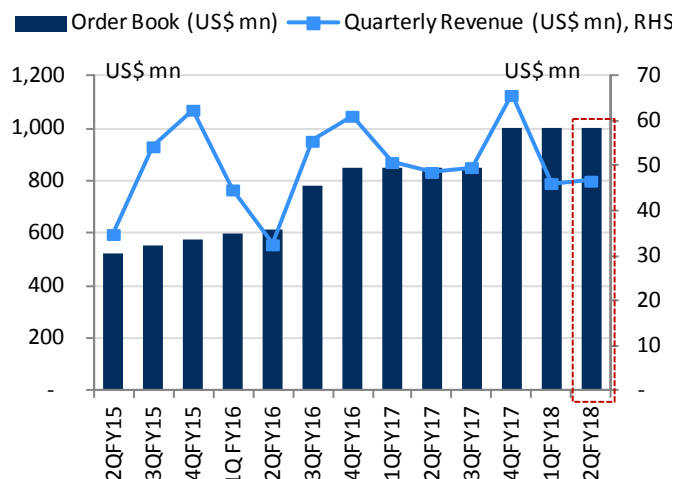
Source: Company, HDFC sec Inst Research

Strengthening Margins



Source: Company, HDFC sec Inst Research

CSM: Order Book And Quarterly Revenues



Source: Company, HDFC sec Inst Research

Kharif Crops Sowing As On 11-Aug-17 (Mn Hectare)

Crop	Kharif-17	Kharif-16	% change
Rice	32.0	31.4	2.0%
Pulses	12.7	13.0	-1.6%
Coarse Cereals	16.8	17.0	-1.5%
Oilseeds	15.4	17.1	-9.9%
Sugarcane	5.0	4.6	9.0%
Jute & Mesta	0.7	0.8	-6.7%
Cotton	11.7	9.9	18.3%
Total	94.3	93.7	0.7%

Source: Ministry of agriculture, HDFC sec Inst Research

Domestic business grew (+13.0% YoY, 46% of revenue) and was supported by post-GST demand and launch of new products

Order book in CSM remains healthy

Uneven spread of rainfall led to a marginal drop in Kharif sowing at 104.1mn hectares, with exceptions of Cotton (+18.9%) and Sugarcane (+9.3%) YoY

We expect healthy growth in both segments

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

No change in estimates

Assumptions

Year End Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues					
Agri-input	8,232	8,636	8,809	9,426	10,274
Custom-synthesis	12,735	14,128	14,552	15,571	16,972
Total	20,967	22,765	23,361	24,996	27,246
YoY Growth (%)					
Agri-input	5.8	4.9	2.0	7.0	9.0
Custom-synthesis	9.6	10.9	3.0	7.0	9.0
Total	8.1	8.6	2.6	7.0	9.0
EBIDTA Margin (%)					
Agri-input	20.5	24.2	23.4	23.7	24.0
Custom-synthesis	19.0	19.0	19.0	19.0	19.0
	21.4	27.4	26.0	26.5	27.0
Tax Rate (%)	22.8	9.7	22.0	22.0	22.0
Cash conversion cycle (days)					
Inventory (days)	74	91	100	100	100
Debtors (days)	69	69	70	70	70
Creditors (days)	69	68	80	80	80
	64	46	50	50	50
Capex (Rs bn)	3.3	1.5	1.8	1.8	1.8

Source: Company, HDFC sec Inst Research

Change In Estimates

(Rs mn)	FY18E Old	FY18E New	% Ch
Net Sales	25,214	23,362	(7.3)
EBIDTA	5,975	5,476	(8.4)
APAT	4,505	3,940	(12.5)
AEPS (Rs/sh)	32.7	28.6	(12.5)

Source: HDFC sec Inst Research

(Rs mn)	FY19E Old	FY19E New	% Ch
Net Sales	28,686	24,997	(12.9)
EBIDTA	6,786	5,936	(12.5)
APAT	5,196	4,328	(16.7)
AEPS	37.8	31.5	(16.7)

Peer Valuation

	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP* (Rs/sh)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
AGROCHEMICALS																
UPL	410.6	813	NEU	780	40.1	49.0	58.1	20.3	16.6	14.0	4.6	3.8	3.1	24.8	24.9	24.3
PI Industries	104.1	755	BUY	830	32.7	37.8	43.6	23.1	20.0	17.3	5.2	4.3	3.6	24.9	23.6	22.6
Rallis India	48.6	250	BUY	280	11.0	14.0	14.4	22.6	17.8	17.4	3.9	3.4	3.0	18.2	20.4	18.5
Dhanuka Agritech	32.5	662	NEU	780	28.4	35.4	40.2	23.4	18.7	16.5	5.3	4.4	3.7	24.5	25.8	24.7
Insecticides India	17.9	865	BUY	800	37.7	47.2	56.0	22.9	18.3	15.4	3.3	2.8	2.4	15.5	16.7	16.9

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

Income Statement (Consolidated)

(Rs mn)	FY16	FY17P	FY18E	FY19E	FY20E
Net Revenues	20,963	22,768	23,362	24,997	27,246
Growth (%)	8.0	8.6	2.6	7.0	9.0
Material Expenses	11,585	11,632	12,089	12,858	13,927
Employee Expenses	1,931	2,226	2,329	2,491	2,697
Other Operating Expenses	3,135	3,378	3,467	3,713	4,087
EBIDTA	4,312	5,533	5,476	5,936	6,535
EBIDTA Margin (%)	20.6	24.3	23.4	23.7	24.0
EBIDTA Growth (%)	15.7	28.3	(1.0)	8.4	10.1
Depreciation	543	730	818	866	925
EBIT	3,770	4,802	4,658	5,070	5,609
Other Income (Including EO Items)	355	366	439	514	583
Interest	96	72	51	40	33
PBT	4,028	5,096	5,047	5,544	6,159
Tax	913	501	1,106	1,216	1,355
Share Of Profit/(loss) Of Associate	-	(1)	-	-	-
RPAT	3,116	4,594	3,940	4,328	4,804
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	3,116	4,594	3,940	4,328	4,804
APAT Growth (%)	26.7	47.5	(14.2)	9.8	11.0
AEPS	22.6	33.4	28.6	31.5	34.9
AEPS Growth (%)	26.7	47.5	(14.2)	9.8	11.0

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY16	FY17P	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	137	138	138	138	138
Reserves	11,572	16,134	19,287	22,828	26,661
Total Shareholders Funds	11,709	16,272	19,425	22,966	26,799
Long-term Debt	1,224	830	630	530	430
Short-term Debt	291	271	271	271	271
Total Debt	1,516	1,101	901	801	701
LT Provisions & Others	286	399	399	399	399
Net Deferred Tax Liability	353	-	-	-	-
TOTAL SOURCES OF FUNDS	13,864	17,772	20,725	24,166	27,899
APPLICATION OF FUNDS					
Net Block	8,742	9,450	9,808	10,697	11,453
CWIP	713	773	1,400	1,400	1,400
Investments	3	9	9	9	9
LT Loans & Advances	39	28	28	28	28
Other Non-current Assets	429	575	575	575	575
Total Non-current Assets	9,926	10,835	11,819	12,709	13,465
Inventories	3,948	4,320	4,480	4,794	5,225
Debtors	3,978	4,237	5,124	5,482	5,972
Cash & Equivalents	560	2,151	3,364	5,466	7,861
Other Current Assets	1,075	1,472	1,469	1,469	1,469
Total Current Assets	9,560	12,179	14,437	17,212	20,527
Creditors	3,661	2,878	3,185	3,409	3,732
Other Current Liabilities & Provns	1,961	2,364	2,346	2,346	2,361
Total Current Liabilities	5,622	5,242	5,531	5,755	6,094
Net Current Assets	3,938	6,937	8,906	11,456	14,434
TOTAL APPLICATION OF FUNDS	13,864	17,772	20,725	24,165	27,899

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY16	FY17P	FY18E	FY19E	FY20E
Reported PBT	4,028	5,096	5,047	5,544	6,159
Non-operating & EO items	(355)	(366)	(439)	(514)	(583)
Interest expenses	96	72	51	40	33
Depreciation	543	730	818	866	925
Working Capital Change	(162)	(1,783)	(756)	(448)	(582)
Tax Paid	(913)	(501)	(1,106)	(1,216)	(1,355)
OPERATING CASH FLOW (a)	3,238	3,248	3,613	4,272	4,597
Capex	(3,278)	(1,499)	(1,782)	(1,750)	(1,672)
Free cash flow (FCF)	(41)	1,749	1,832	2,522	2,925
Investments	2	(5)	-	-	-
Non-operating Income	355	366	439	514	583
Others	(2)	5	-	-	-
INVESTING CASH FLOW (b)	(2,924)	(1,133)	(1,342)	(1,236)	(1,089)
Debt Issuance/(Repaid)	430	(415)	(200)	(100)	(100)
Interest Expenses	(96)	(72)	(51)	(40)	(33)
FCFE	293	1,263	1,581	2,382	2,791
Share Capital Issuance	-	-	-	-	-
Dividend	(523)	(675)	(699)	(769)	(857)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(189)	(1,162)	(950)	(909)	(990)
NET CASH FLOW (a+b+c)	125	954	1,321	2,127	2,518
EO Items, Others	94	637	(108)	(25)	(123)
Closing Cash & Equivalents	560	2,151	3,364	5,466	7,861

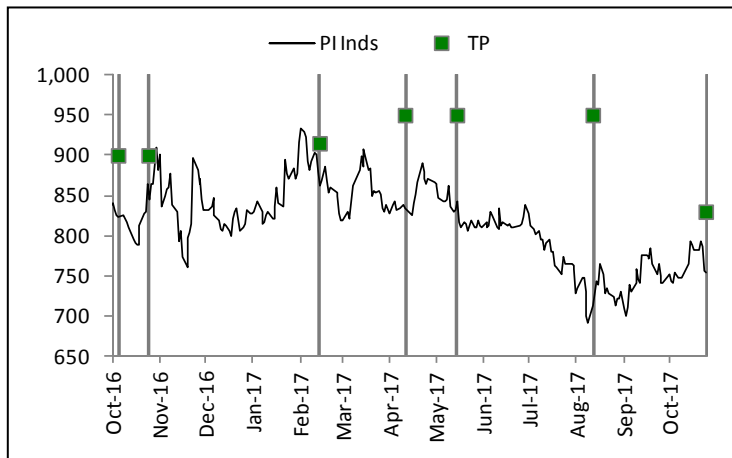
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17P	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	44.7	48.9	48.3	48.6	48.9
EBITDA Margin	20.6	24.3	23.4	23.7	24.0
EBIT Margin	18.0	21.1	19.9	20.3	20.6
APAT Margin	14.9	20.2	16.9	17.3	17.6
RoE	30.1	32.8	22.1	20.4	19.3
Core RoCE	27.2	32.0	23.5	23.6	24.0
RoCE	26.6	30.0	21.0	19.7	18.8
EFFICIENCY					
Tax Rate (%)	22.7	9.8	21.9	21.9	22.0
Asset Turnover (x)	1.7	1.5	1.2	1.1	1.1
Inventory (days)	69	69	70	70	70
Debtors (days)	69	68	80	80	80
Other Current Assets (days)	19	24	23	21	20
Payables (days)	64	46	50	50	50
Other Current Liab & Provi (days)	34	38	37	34	32
Cash Conversion Cycle (days)	59	77	87	87	88
Debt/EBITDA (x)	0.4	0.2	0.2	0.1	0.1
Net D/E	0.1	(0.1)	(0.1)	(0.2)	(0.3)
Interest Coverage	43.0	71.7	100.6	138.7	185.9
PER SHARE DATA					
EPS (Rs/sh)	22.6	33.4	28.6	31.5	34.9
CEPS (Rs/sh)	26.6	38.7	34.6	37.7	41.6
BV (Rs/sh)	85.1	118.3	141.2	166.9	194.8
DPS (Rs/sh)	3.1	4.0	4.1	4.5	5.1
VALUATION					
P/E	33.3	22.6	26.3	24.0	21.6
P/BV	8.9	6.4	5.3	4.5	3.9
EV/EBITDA	24.3	18.6	18.5	16.7	14.8
OCF/EV (%)	3.1	3.2	3.6	4.3	4.8
FCF/EV (%)	(0.0)	1.7	1.8	2.5	3.0
FCFE/Mar Cap (%)	0.3	1.2	1.5	2.3	2.7
Dividend Yield (%)	0.4	0.5	0.5	0.6	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
14-Aug-17	712	BUY	950
28-Oct-17	755	BUY	830

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

Disclosure:

I, **Basanth Patil, MBA**, author and the name 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. HSL has no material adverse disciplinary history as on the date of publication of this report. 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.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), 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 company(ies) mentioned herein 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 company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

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

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

