

PI Industries

BSE SENSEX	S&P CNX
34,196	10,498
Bloomberg	PI IN
Equity Shares (m)	136.6
M.Cap.(INRb)/(USDb)	116.8 / 1.8
52-Week Range (INR)	1035 / 674
1, 6, 12 Rel. Per (%)	-16/5/-32
12M Avg Val (INR M)	176.0
Free float (%)	48.6

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Sales	24.3	27.7	31.7
EBITDA	5.5	6.5	7.5
NP	4.0	4.9	5.7
EPS (INR)	29.3	35.4	41.2
EPS Gr. (%)	-12.2	20.6	16.4
BV/Sh. (INR)	140.9	168.3	201.6
RoE (%)	22.6	22.9	22.3
RoCE (%)	22.3	22.9	28.2
P/E (x)	32.7	27.1	23.3
P/BV (x)	6.8	5.7	4.8

Estimate change



TP change



Rating change


CMP: INR822 TP: INR988(+20%)
Buy

A miss on most fronts, but expect back-ended growth in FY18; 2HFY18 to see moderate growth

- **Results below expectations:** Revenue grew 10.2% YoY to INR5,377m (est. of INR6,004m) in 3QFY18. EBITDA margin shrunk 170bp YoY to 19.5% (est. of 22.0%), led by an increase of 212bp YoY in other expenses and 95bp in raw material cost. Agri revenue was impacted by unusual rains in states like Chhattisgarh, Telengana and Karnataka, and also by GST-related hiccups. CSM business was hurt by supply disruption from China and higher raw material prices. EBITDA rose 1.4% YoY to INR1,048m (est. of INR1,322m), primarily due to higher raw material cost and an adverse product mix in the agri segment. Consequently, adj. PAT fell 14.2% YoY to INR806m (est. of INR970m) from INR939m in 3QFY17.
- **FY19 recovery prospects appear bright with CSM as the key driver:** Noting that growth in 3QFY18 was hurt by raw material supply disruption from China, we expect some revenue spillover to 4QFY18. PI has reduced its dependence on Chinese supply from 30-35% previously to ~18% now – it aims to bring down this proportion further over the next 18 months, and will also look at backward integration. Order book in CSM remains strong at USD1.15b. Also, in the agro segment, PI plans to launch three new products (rice insecticides, vegetable insecticide and wheat herbicides) in FY19.
- **Valuation and view:** With visible signs of a global agchem revival and GST issues now behind, we believe PI is well placed to leverage its strong order book and aid growth, with continuous commercialization of new products (3-4 products expected per year). FY19 should start on a strong note, as revenues of the CSM business will spill over to H1FY19. We largely maintain our estimates and value the stock at 24x FY20E EPS, arriving at a PT of INR988, implying a 20% upside. Maintain **Buy**.

Standalone - Quarterly Earning Model

Y/E March	FY17								(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY17	FY18E	FY18 3QE	Var (%)
Net Sales	6,834	5,719	4,878	6,273	5,848	5,611	5,377	7,527	23,704	24,364	6,004	-10
YoY Change (%)	15.4	20.0	-6.9	3.7	-14.4	-1.9	10.2	20.0	7.9	2.8	20.0	
Total Expenditure	5,178	4,440	3,845	4,736	4,544	4,389	4,330	5,675	18,200	18,937	4,682	
EBITDA	1,656	1,279	1,033	1,537	1,304	1,222	1,048	1,853	5,505	5,427	1,322	-21
Margins (%)	24.2	22.4	21.2	24.5	22.3	21.8	19.5	24.6	23.2	22.3	22.0	
Depreciation	178	181	183	185	197	205	211	220	727	834	167	
Interest	16	13	12	31	14	12	14	5	72	45	3	
Other Income	113	134	133	-21	126	123	160	112	358	520	99	
PBT before EO expense	1,575	1,219	972	1,299	1,219	1,127	982	1,740	5,064	5,068	1,251	-21
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,575	1,219	972	1,299	1,219	1,127	982	1,740	5,064	5,068	1,251	-21
Tax	306	205	33	-53	218	324	177	391	491	1,109	282	
Rate (%)	19.4	16.8	3.4	-4.0	17.9	28.7	18.0	22.5	9.7	21.9	22.5	
Reported PAT	1,269	1,014	939	1,352	1,001	803	806	1,348	4,573	3,959	970	-17
Adj PAT	1,269	1,014	939	1,352	1,001	803	806	1,348	4,573	3,959	970	-17
YoY Change (%)	47.7	77.9	32.6	40.8	-21.1	-20.8	-14.2	-0.2	47.7	-13.4	3.2	
Margins (%)	18.6	17.7	19.3	21.5	17.1	14.3	15.0	17.9	19.3	16.2	16.2	

E: MOSL Estimates

Niket Shah – Research Analyst (Niket.Shah@MotilalOswal.com); +91 22 6129 1535

Aksh Vashishth – Research Analyst (Aksh.Vashishth@MotilalOswal.com); +91 22 6129 1553

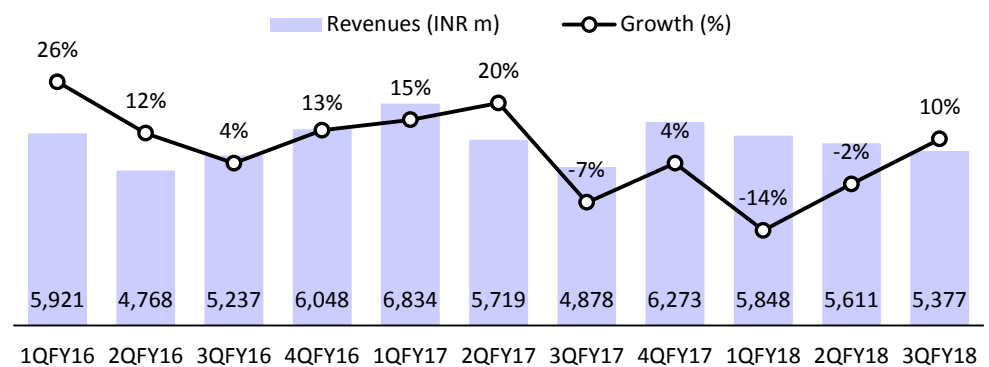
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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Revenue below estimates

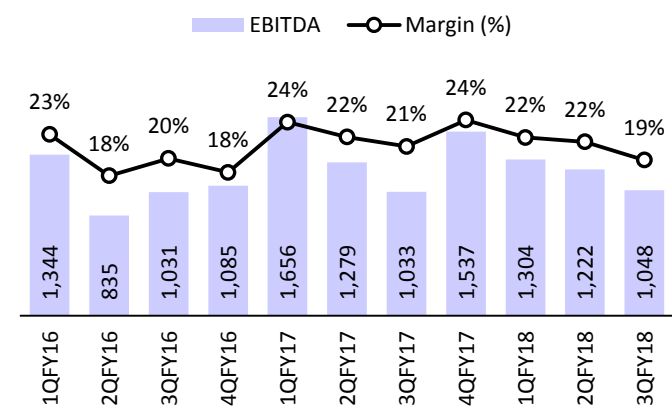
- PI's revenue grew 10.2% YoY to INR5,377m (est. of INR6,004m) in 3QFY18. EBITDA margin shrunk 170bp YoY to 19.5% (est. of 22.0%), led by an increase of 212bp YoY in other expenses and 95bp in raw material cost. Agri revenue was impacted by unusual rains in states like Chhattisgarh, Telangana and Karnataka, and also by GST-related hiccups.
- CSM business was hurt by supply disruption from China and higher raw material prices. EBITDA rose 1.4% YoY to INR1,048m (est. of INR1,322m), primarily due to higher raw material cost and an adverse product mix in the agri segment.
- Consequently, adj. PAT fell 14.2% YoY to INR806m (est. of INR970m) from INR939m in 3QFY17.

Exhibit 1: Revenue growth trend



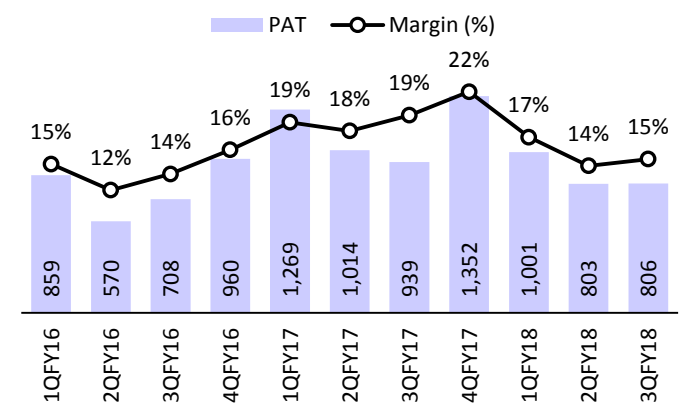
Source: Company, MOSL

Exhibit 2: EBITDA trend



Source: Company, MOSL

Exhibit 3: PAT trend



Source: Company, MOSL

Strong growth recovery in FY19 driven by CSM business:

- Noting that growth in 3QFY18 was hurt by raw material supply disruption from China, we expect some revenue spillover to 4QFY18.
- PI has reduced its dependence on Chinese supply from 30-35% previously to ~18% now – it aims to bring down this proportion further over the next 18 months, and will also look at backward integration.
- Order book in CSM remains strong at USD1.15b.
- Also, in the agro segment, PI plans to launch three new products (rice insecticides, vegetable insecticide and wheat herbicides) in FY19.

Valuation view

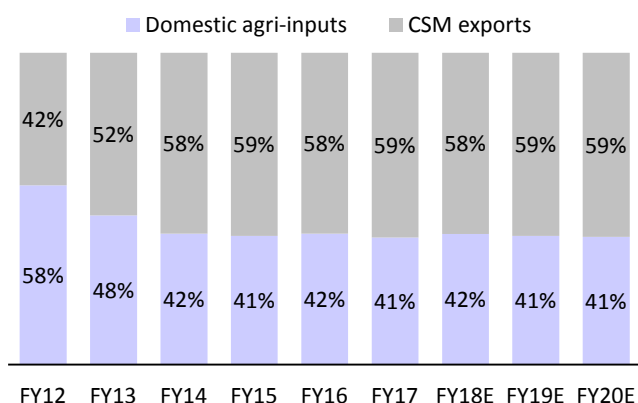
We value PI at 24x FY20E EPS, arriving at a TP of INR988 (20% upside), which we believe is justified, considering:

- Spillover of revenues in the CSM business to FY19 due to temporary raw material supply-side issues in China.
- Recovery in domestic demand post GST should lay the base for further growth. New product commercialization (3-4 products per year) should provide additional support.
- Steady cash flow generation enabling smooth funding of R&D activities to build technology platforms to secure future growth.

With visible signs of a global agchem revival and GST issues now behind, we believe PI is well placed to leverage its strong order book and aid growth, with continuous commercialization of new products (3-4 products expected per year). FY19 should start on a strong note, as revenues of the CSM business will spill over to H1FY19. We largely maintain our estimates and value the stock at 24x FY20E EPS, arriving at a PT of INR988, implying a 20% upside. Maintain **Buy**.

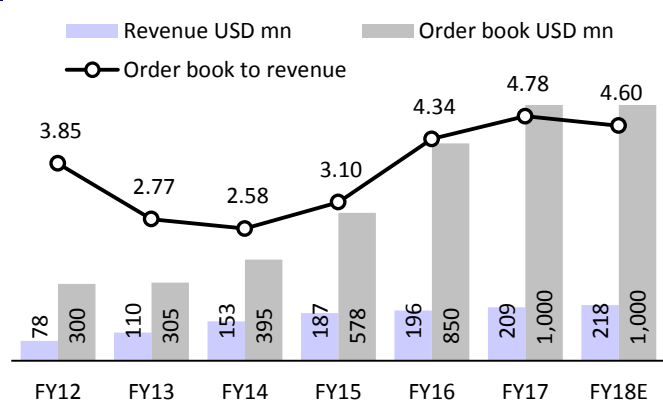
Story in charts

Exhibit 4: High CSM contribution



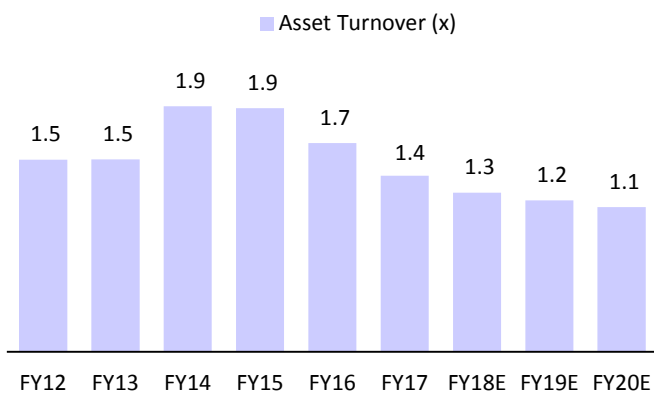
Source: Company, MOSL

Exhibit 5: Order book to revenue ratio in CSM



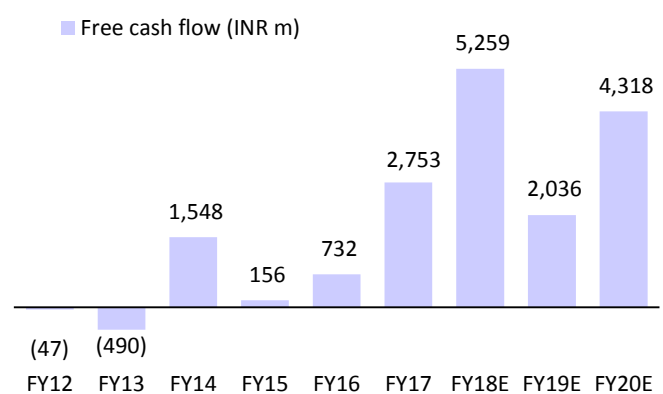
Source: Company, MOSL

Exhibit 6: Consistently strong asset turnover



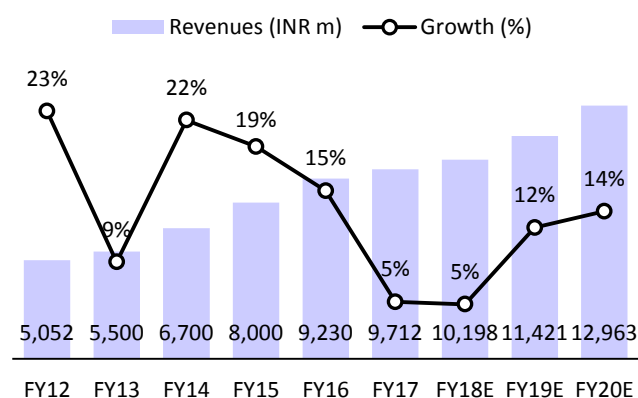
Source: Company, MOSL

Exhibit 7: High cash flow generation



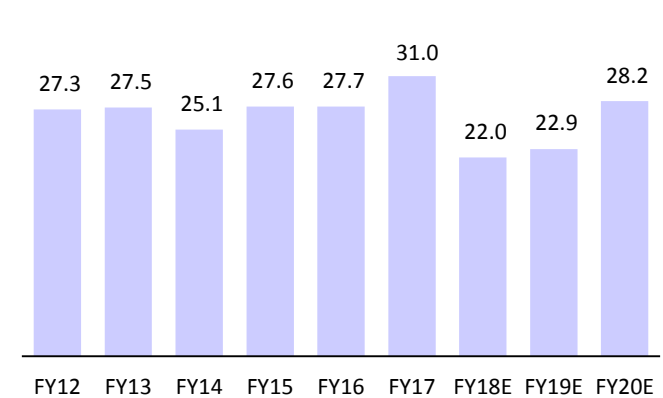
Source: Company, MOSL

Exhibit 8: Steady growth in domestic agro-chem business



Source: Company, MOSL

Exhibit 9: Strong RoCE profile



Source: Company, MOSL

Key assumptions

Exhibit 10: Assumption sheet

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR m)	15,955	19,390	21,974	23,833	24,340	27,685	31,666
Domestic agro-chemicals	6,700	8,000	9,230	9,712	10,198	11,421	12,963
CSM	9,250	11,390	12,744	14,121	14,142	16,263	18,703
Revenues growth (%)							
Domestic agro-chemicals	22%	19%	15%	5%	5%	12%	14%
CSM	54%	23%	12%	11%	4%	15%	15%
EBITDA (INR m)	2,889	3,723	4,493	5,780	5,878	6,792	7,772
Domestic agro-chemicals	1,039	1,280	1,689	2,137	2,243	2,547	2,891
CSM	1,785	2,392	2,804	3,643	3,634	4,245	4,881
EBITDA margins (%)	18.1%	19.2%	20.4%	24.3%	24.1%	24.5%	24.5%
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	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	9,251	12,190	16,812	20,332	21,974	23,833	24,340	27,685	31,666
Change (%)	20.7	31.8	37.9	20.9	8.1	8.5	2.1	13.7	14.4
EBITDA	1,893	2,482	2,889	3,727	4,312	5,533	5,460	6,487	7,515
Margin (%)	20.5	20.4	17.2	18.3	19.6	23.2	22.4	23.4	23.7
Depreciation	173	220	316	498	543	730	831	912	1,019
EBIT	1,720	2,262	2,573	3,229	3,769	4,802	4,628	5,575	6,497
Int. and Finance Charges	199	218	118	97	96	72	30	0	0
Other Income	51	82	158	420	355	366	510	587	674
PBT bef. EO Exp.	1,573	2,126	2,613	3,552	4,028	5,096	5,109	6,162	7,171
EO Items	321	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,894	2,126	2,613	3,552	4,028	5,096	5,109	6,162	7,171
Current Tax	395	323	779	1,147	909	1,035	1,073	1,294	1,506
Deferred Tax	3	154	-46	-54	4	-534	0	0	0
Tax Rate (%)	21.0	22.4	28.1	30.8	22.7	9.8	21.0	21.0	21.0
Less: Mionrity Interest	0	0	0	0	0	0.9	0.9	0.9	0.9
Reported PAT	1,495	1,649	1,880	2,459	3,115	4,594	4,035	4,867	5,664
Adjusted PAT	1,242	1,649	1,880	2,459	3,115	4,594	4,035	4,867	5,664
Change (%)	11.6	32.8	14.0	30.8	26.7	47.5	-12.2	20.6	16.4
Margin (%)	13.4	13.5	11.2	12.1	14.2	19.3	16.6	17.6	17.9

Balance Sheet (Consolidated)							(INR Million)		
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	125	136	136	137	137	138	138	138	138
Preference Capital	0	0	0	0	0	0	0	0	0
Total Reserves	3,129	5,182	6,809	8,828	11,572	16,134	19,247	23,024	27,598
Net Worth	3,254	5,317	6,945	8,965	11,709	16,272	19,384	23,161	27,736
Minority Interest	0	0	0	0	0	0	0	0	0
Deferred Liabilities	361	517	485	434	353	0	0	0	0
Total Loans	2,468	2,172	1,223	1,148	1,244	829	0	0	0
Capital Employed	6,084	8,007	8,653	10,546	13,306	17,101	19,385	23,162	27,736
Gross Block									
Less: Accum. Deprn.	4,160	6,178	6,829	7,050	11,008	12,447	13,947	15,947	17,447
Net Fixed Assets	1,185	1,398	1,563	1,724	2,266	2,997	3,828	4,740	5,759
Goodwill on Consolidation	2,975	4,781	5,267	5,326	8,742	9,450	10,119	11,207	11,688
Capital WIP	0	0	0	0	0	0	0	0	0
Total Investments	810	605	425	1,332	713	773	243	277	317
Curr. Assets, Loans&Adv.	5	5	5	5	3	832	832	832	832
Inventory									
Account Receivables	4,226	5,956	7,482	9,668	10,028	11,760	15,346	17,594	22,636
Cash and Bank Balance	1,788	2,418	3,188	3,782	3,948	4,320	4,093	4,387	4,997
Loans and Advances	1,722	2,625	2,568	3,826	3,978	4,237	4,334	4,930	5,639
Curr. Liability & Prov.	94	161	438	341	560	1,326	4,855	5,800	9,027
Account Payables	622	752	1,289	1,719	1,543	1,877	2,064	2,477	2,973
Provisions	1,965	3,375	4,574	5,851	6,180	5,913	7,354	6,947	7,935
Net Current Assets	1,781	3,151	4,251	5,437	5,984	5,685	5,959	6,581	7,496
Deferred Tax assets	184	224	324	413	196	227	1,395	366	440
Misc Expenditure	2,261	2,581	2,908	3,817	3,849	5,847	7,992	10,648	14,700
Appl. of Funds	32	35	48	65	0	198	198	198	198

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)									
EPS	9.9	12.2	13.8	18.0	22.8	33.4	29.3	35.4	41.2
Cash EPS	11.3	13.8	16.1	21.6	26.8	38.7	35.4	42.0	48.6
BV/Share	26.0	39.2	51.0	65.6	85.7	118.3	140.9	168.3	201.6
DPS	0.9	1.0	2.0	2.5	3.1	4.0	5.5	6.5	6.5
Payout (%)	9.7	9.6	17.0	16.9	16.6	14.6	22.9	22.4	19.2
Valuation (x)									
P/E			69.4	53.3	42.0	28.7	32.7	27.1	23.3
Cash P/E			59.4	44.3	35.8	24.8	27.1	22.8	19.7
P/BV			18.8	14.6	11.2	8.1	6.8	5.7	4.8
EV/Sales			7.0	5.8	5.3	4.9	4.6	4.0	3.4
EV/EBITDA			40.7	31.5	27.2	21.0	20.5	17.1	14.3
Dividend Yield (%)	0.1	0.1	0.2	0.3	0.3	0.4	0.6	0.7	0.7
FCF per share	-0.4	-3.6	11.4	1.1	5.4	20.0	38.6	14.8	31.4
Return Ratios (%)									
RoE	46.1	38.5	30.7	30.9	30.1	32.8	22.6	22.9	22.3
RoCE	27.3	27.5	25.1	27.6	27.7	31.0	22.3	22.9	28.2
RoIC	28.2	28.3	24.7	26.8	27.9	33.1	26.5	29.7	
Working Capital Ratios									
Asset Turnover (x)	1.5	1.5	1.9	1.9	1.7	1.4	1.3	1.2	1.1
Inventory (Days)	133	131	126	124	124	136	125	120	120
Debtor (Days)	68	79	56	69	66	65	65	65	65
Creditor (Days)	132	171	169	178	189	178	182	180	180
Working Cap. Turnover (Days)	86	72	54	62	55	69	47	64	65
Leverage Ratio (x)									
Current Ratio	2.2	1.8	1.6	1.7	1.6	2.0	2.1	2.5	2.9
Interest Cover Ratio	9	10	22	33	39	67	155	-	9,28,073
Debt/Equity	0.8	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement (Consol.)

(INR Million)

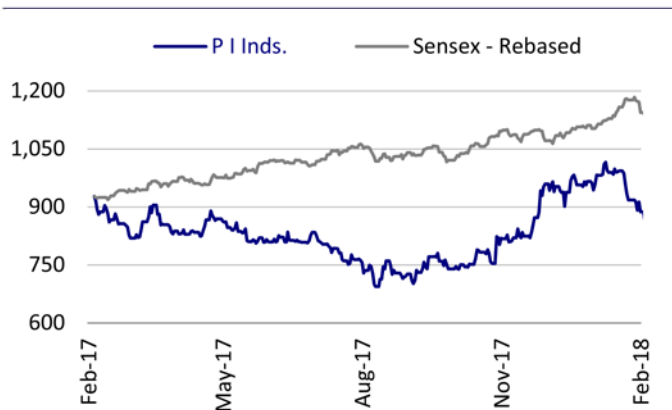
Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	1,434	1,450	2,613	3,552	4,028	5,096	5,109	6,162	7,171
Depreciation	173	220	316	498	543	730	831	912	1,019
Interest & Finance Charges	157	155	-20	-126	96	72	30	0	0
Direct Taxes Paid	-400	-380	-743	-1,195	-909	-1,035	-1,073	-1,294	-1,506
(Inc)/Dec in WC	-390	-425	-81	-971	187	-1,232	1,383	-1,710	-826
CF from Operations	975	1,020	2,084	1,759	3,945	3,632	6,281	4,069	5,857
Others	69	0	104	83	126	620	0	0	0
CF from Operating incl EO	1,044	1,020	2,188	1,841	4,071	4,252	6,281	4,069	5,857
(inc)/dec in FA	-1,091	-1,510	-640	-1,685	-3,339	-1,499	-970	-2,033	-1,540
Free Cash Flow	-47	-490	1,548	156	732	2,753	5,310	2,036	4,318
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0	0
Others	51	105	179	274	2	-829	0	0	0
CF from Investments	-1,040	-1,405	-461	-1,412	-3,337	-2,328	-970	-2,033	-1,540
Issue of Shares	-28	1,187	40	38	0	1	0	0	0
Inc/(Dec) in Debt	359	-402	-1,097	-153	96	-415	-829	0	0
Interest Paid	-212	-251	-115	-111	-96	-72	-30	0	0
Dividend Paid	-100	-76	-272	-300	-516	-671	-922	-1,090	-1,090
Others	0	-6	-7	0	0	-1	-1	-1	-1
CF from Fin. Activity	20	452	-1,451	-526	-515	-1,158	-1,782	-1,091	-1,091
Inc/Dec of Cash	24	67	276	-96	219	766	3,528	945	3,227
Opening Balance	70	94	161	437	341	560	1,326	4,855	5,800
Closing Balance	94	161	437	341	560	1,326	4,855	5,800	9,026

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 (%)

	Dec-17	Sep-17	Dec-16
Promoter	51.4	51.6	51.6
DII	19.0	16.5	13.1
FII	14.9	16.6	22.2
Others	14.8	15.3	13.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI Prudential India Recovery Fund-Series 1	5.6
Sbi Blue Chip Fund	3.7
Axis Mutual Fund Trustee Limited A/C Axis Mutual Fund A/C Axis Children's Gift Fund	2.5
Dsp Blackrock Small And Mid Cap Fund	2.0
UTI - Equity Fund	1.9

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Salil Singhal	Chairman Emeritus
Mayank Singhal	Managing Director & CEO
Naresh Kapoor	Company Secretary
Narayan K Seshadri	Chairman & Independent Director

Source: Capitaline

Exhibit 5: Directors

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

*Independent

Exhibit 6: Auditors

Name	Type
K G Goyal & Co	Cost Auditor
KPMG India LLP	Internal
Price Waterhouse LLP	Statutory
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	29.3	30.9	-5.2
FY19	35.4	36.0	-1.7
FY20	41.2	41.6	-0.9

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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