Stock Update

Some greenshoots, but growth acceleration to be gradual

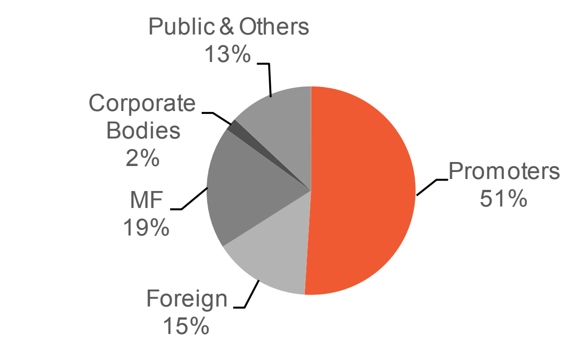
PI Industries

Reco: Hold | CMP: Rs876

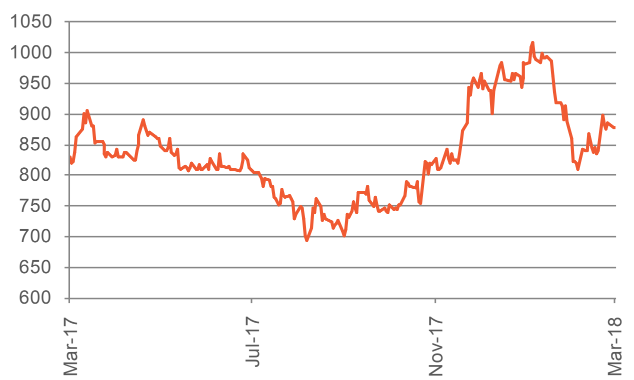
Company details

Price target:	Rs940
Market cap:	Rs12,081 cr
52-week high/low:	Rs1,035/674
NSE volume: (No of shares)	0.9 lakh
BSE code:	523642
NSE code:	PIIND
Sharekhan code:	PIIND
Free float: (No of shares)	6.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	-7.9	25.2	7.6
Relative to Sensex	5.4	-10.6	17.7	-9.2

Key points

- **Industry witnessing green-shoots:** We met the management of PI Industries to get a business update about the company and also discuss on the future outlook. The management has indicated that the global agri-commodity cycle has been picking up off-late; as clients have started placing orders for which shipment has begun. On the domestic side as well, increased budgetary allocation and support (higher MSP and different programs favoring farmers) is expected to boost spending.
- **CSM to witness gradual revival:** The global growth story is expected to be driven by a strong order book wherein execution has been delayed due to oversupply and a slowdown in the global agri-chem market resulting in a lower push from innovators for fresh spending. However with reducing inventory levels in the global market, the CSM business is expected to see an uptick going forward. The domestic growth story will be driven by diversification into newer crops as PI Industries has been traditionally depended on rice and has a higher contribution from southern India (rice belt). However, it is now focusing on increasing its product basket and expanding its geographical reach by eyeing other crops such as wheat and cotton. Product development for wheat and cotton is on, in tie-up with global innovators. The company has a strong product pipeline and is expected to launch 3-4 products in the domestic market in FY19 of which 1 product will be in 9(3) in herbicide category.
- **Raw material volatility, a short term issue:** Currently, the global agri-chem industry is facing supply-side issues from China which seems to be short to medium term, resulting in volatile raw material pricing. However, this is expected to open-up an enormous opportunity for Indian companies to be vendors to global companies (due to supply concerns certain Chinese players are also looking to forge partnership with PI industries due to its strong technical and execution capabilities). Further, going forward, raw material sourcing will be more from domestic market due to supply side issues cropping from China, resulting in uneven sourcing which hampers the production schedule. Hence, the company is also looking for backward integration in order to constraint the rise in raw material prices.

- **Expanding reach in export market:** The company is trying to expand its footprint in US, as it currently has a good presence in Asia, Europe and Australia. In the Global agri-chem industry, consolidation has been witnessed in the innovators space, however, the same is yet to be seen in the CSM space. The CSM order book has been on a rising trend for the company and contracts are usually spread over 3-5 years. The contracts include products which are under development stage as existing products contracts are received and executed but not reflected in the order book. The company deals with all the large 6 innovators and deals in multiple products across multiple geographies.
- **Moving up the value chain and diversification:** The Company currently partner's with innovators at the process design stage and wants to move up the value chain to a higher level i.e. R&D stage. The company has a pool of 150 research scientists (Chemistry and Biology) and will leverage their domain knowledge and experience to move up the value chain. With regards to the reduction of dependence on the agri-chem business and diversifying into APIs for pharma business, the management stated the existing due diligence on the targeted company is taking time due to regulatory uncertainties. Hence, the company has started looking to explore other companies as potential targets.
- **Valuation:** Maintain hold with revised target price of Rs 940. In order to accelerate growth momentum the management is focusing on branded products, launching new products and forging tie-ups and partnerships to increase its client base. The company also has healthy cash-flow generation which makes the balance sheet much stronger. As the management has not guided any deviation from its earlier guidance provided post the 3QFY18 results, we are not revisiting our numbers currently and continue to maintain our hold rating on the stock with a revised target price of Rs 940.

Valuations Rs cr

Particulars	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	2,096.3	2,276.8	2,351.3	2,695.4	3,103.3
EBIDTA	431.2	553.3	511.1	631.5	735.5
EBIDTA Margin (%)	20.6	24.3	21.7	23.4	23.7
Adj PAT	311.6	459.4	376.0	476.7	558.1
EPS (Rs)	22.6	33.4	27.3	34.6	40.6
P/E (x)	36.2	24.6	30.0	23.7	20.2
RoCE (%)	26.6	30.0	20.1	21.6	21.4
RoE (%)	30.1	32.8	21.2	22.5	22.0

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