16 May 2018

4QFY18 Results Update | Sector: Agrochemicals

PI Industries

BSE SENSEX	S&P CNX
35,388	10,741

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 (%)	-8/-10/-18
12M Avg Val (INR M)	178.0
Free float (%)	48.6

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Sales	22.8	26.5	30.2
EBITDA	4.9	6.1	7.3
NP	3.7	4.6	5.5
EPS (INR)	26.7	33.7	39.9
EPS Gr. (%)	-20.2	26.3	18.5
BV/Sh. (INR)	139.6	165.3	197.3
RoE (%)	20.7	22.1	22.0
RoCE (%)	20.0	21.9	22.0
P/E (x)	30.5	24.1	20.3
P/BV (x)	5.8	4.9	4.1

Estimate change

TP change

Rating change

CMP: INR812 TP: INR958 (+18%) Buy

Subdued performance over the year

Back-ended growth expected in FY19 driven by new product launches

- **Revenue in-line; EBITDA, PAT miss estimates:** Revenue grew 3.2% YoY to INR6,251m (est. of INR6,392m) in 4QFY18. EBITDA declined 12% YoY to INR1,347m (est. of INR1,553m), with the margin contracting 390bp YoY to 21.5% (est. of 24.3%). Adj. PAT fell 22% YoY to INR1,054m (est. of INR1,156m) due to a higher tax rate (19.3% v/s -4% in 4QFY17). For FY18, revenue remained flattish at INR22,771m, EBITDA margin contracted 260bp to 21.7% and adj. PAT declined 20% to INR3,676m.
- **Strong guidance for FY19 backed by CSM:** FY18 witnessed deferment of business due to weak global demand. However, moving into FY19, the company has started witnessing a significant improvement in enquiry. Given the expected revival in demand, it has launched four new products for exports in FY18. PI expects to commercialize 4-5 products both in the domestic and exports markets. Additionally, PI is targeting to commission two new multi-product plants by 3QFY19 and 3QFY20, which would boost growth. PI has, thus, guided for blended growth of 18-20% in FY19.
- **Valuation view:** We believe that headwinds restraining growth in FY18 are behind, and PI would deliver robust volume growth, backed by new product ramp-up and expanded capacity. We estimate 16% sales growth in FY19 – 12% growth in domestic business and 19% growth in CSM, assuming 16% constant currency growth, 2.5% currency depreciation and deferment of orders to the tune of INR700m from FY18 to FY19. However, on missed guidance for FY18 and recovery expected to be largely back-ended, we cut our earnings estimates of FY19/20 by 11%/10%. The company's RoE is expected to hover around 22%, and with likely healthy free cash flow (~INR6.7b over FY19/20E), we value the stock at 24x FY20E EPS, arriving at a PT of INR958 (18% upside). Maintain **Buy**.

Standalone - Quarterly Earning Model (INR Million)

Y/E March	FY17				FY18				FY17	FY18	FY18	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	6,389	5,441	4,878	6,056	5,532	5,611	5,377	6,251	22,768	22,771	6,392	-2
YoY Change (%)	7.9	14.1	-4.5	3.6	-13.4	3.1	10.2	3.2	8.6	0.0	5.6	
Total Expenditure	4,734	4,161	3,845	4,519	4,227	4,389	4,330	4,904	17,236	17,837	4,839	
EBITDA	1,656	1,279	1,033	1,537	1,304	1,222	1,048	1,347	5,533	4,934	1,553	-13
Margins (%)	25.9	23.5	21.2	25.4	23.6	21.8	19.5	21.5	24.3	21.7	24.3	
Depreciation	178	181	183	185	197	205	211	212	730	830	220	
Interest	16	13	12	31	14	12	14	18	72	53	12	
Other Income	113	134	133	-21	126	123	161	191	366	603	124	
PBT before EO expense	1,575	1,219	972	1,299	1,219	1,127	983	1,307	5,096	4,653	1,445	-10
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	983	1,307	5,096	4,653	1,445	-10
Tax	306	205	33	-53	218	324	177	253	501	979	289	
Rate (%)	19.4	16.8	3.4	-4.0	17.9	28.7	18.0	19.3	9.8	21.0	20.0	
Reported PAT	1,269	1,014	939	1,352	1,001	803	806	1,054	4,594	3,676	1,156	-9
Adj PAT	1,269	1,014	939	1,352	1,001	803	806	1,054	4,594	3,676	1,156	-9
YoY Change (%)	47.7	77.9	32.6	40.8	-21.1	-20.8	-14.1	-22.0	47.5	-20.0	-14.5	
Margins (%)	19.9	18.6	19.3	22.3	18.1	14.3	15.0	16.9	20.2	16.1	18.1	

E: MOSL Estimates

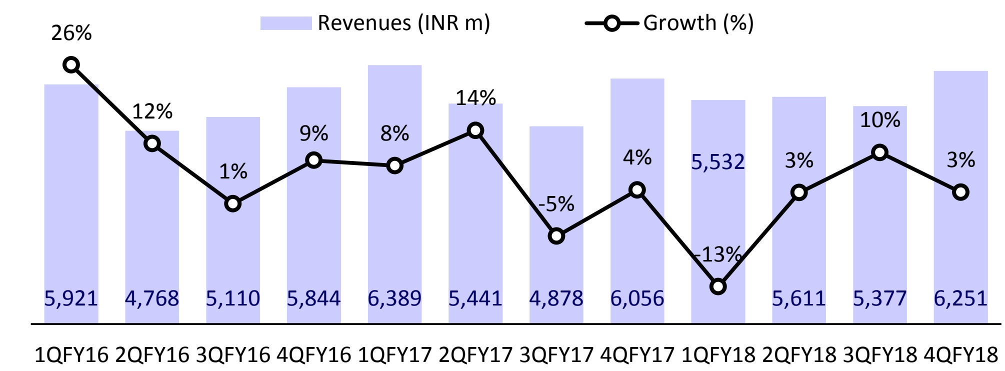
Sumant Kumar – Research Analyst (Sumant.Kumar@MotilalOswal.com); +91 22 6129 1569

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

Revenue below estimates

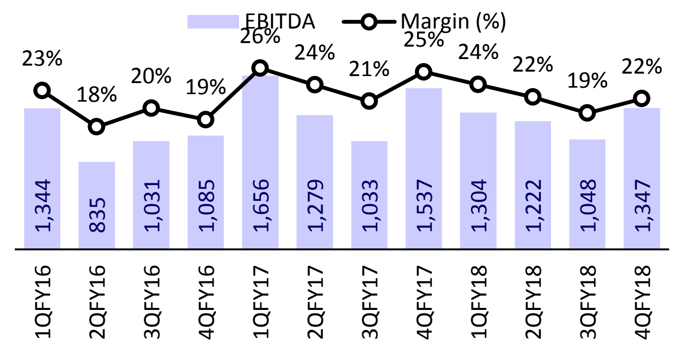
- Revenue grew 3.2% YoY to INR6,251m (est. of INR6,392m) in 4QFY18, backed by growth of 10.4% to INR1,870m in the domestic agri-input business and muted growth of 0.4% to INR4,381m in CSM business.
- EBITDA margin contracted 390bp YoY to 21.5% (est. of 24.3%) due to a 130bp rise in raw material cost to 51.6% of net sales (est. of 51.5%) and a 130bp increase in other expenses to 15.9% of net sales (est. of 14.4%). Employee cost, too, increased 120bp YoY to 10.9% of net sales (est. of 9.8%).
- EBITDA declined 12% YoY to INR1,347m (est. of INR1,553m).
- Adj. PAT fell 22% YoY to INR1,054m (est. of INR1,156m) in 4QFY18 due to a higher tax rate (19.3% v/s -4% in 4QFY17).
- For FY18, revenue remained flattish at INR22,771m, EBITDA margin contracted 260bp to 21.7% and adj. PAT declined 20% to INR3,676m.

Exhibit 1: Revenue growth trend



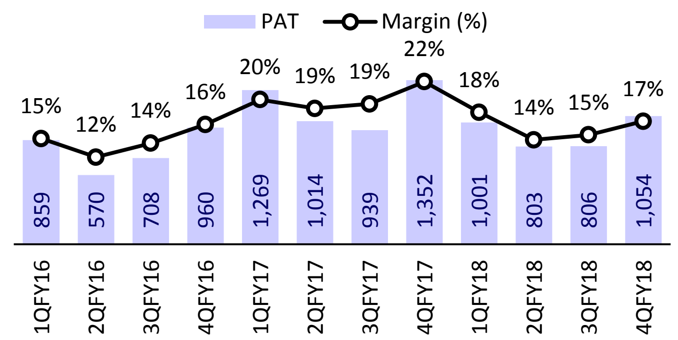
Source: Company, MOSL

Exhibit 2: EBITDA trend



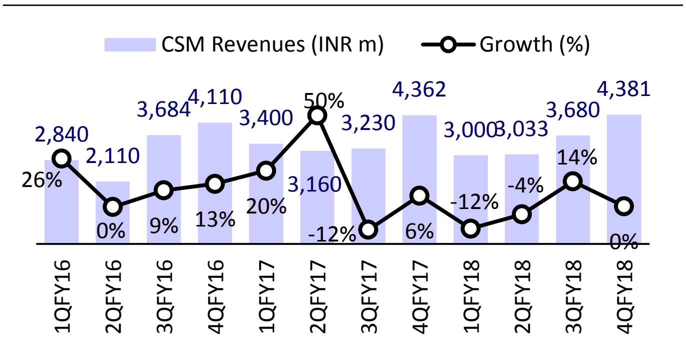
Source: Company, MOSL

Exhibit 3: PAT trend



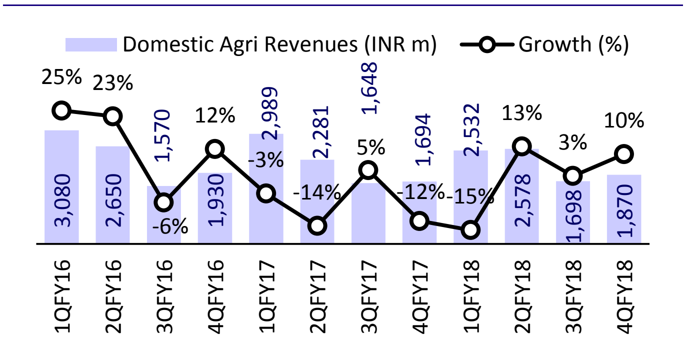
Source: Company, MOSL

Exhibit 4: CSM revenue trend



Source: Company, MOSL

Exhibit 5: Agri-input revenue trend



Source: Company, MOSL

Volume scale-up to boost CSM growth

- After a subdued demand and deferred off-take, CSM business has begun to witness significant improvement in enquiry flows.
- The company also faced logistics issues which aggravated the deferred shipments leading to an inventory build-up to the tune of INR700m, which is expected to clear off in FY19, hence aiding volume growth.
- The company plans to commercialize 4-5 products every year and focus on scaling up newly launched products. The focus would also be on scaling up products in pharma business over the long term.
- The scaling up of new products would be escalated by the commissioning of 2 new multi-specialty products plants, which the company expects to commission by 3QFY19 and 3QFY20.
- We believe the segment would be able to post 16% constant currency growth in FY19 aided by 2.5% currency depreciation, cumulating to a CAGR of 17% over FY18-20E.

New product launches to aid domestic agri-input business

- The domestic agri-input business declined 2% YoY during FY18 led by uneven distribution of rainfall and transitional impact of GST implementation.
- However, a hint of the revival was witnessed in 4QFY18, with the segment posting a growth of 10.4% YoY.
- Going forward, the company would continue to invest towards a vibrant product portfolio covering a broader crop profile.
- The domestic market for the company is expected to witness 4-5 product launches every year with a mix of both 9(3) and co-marketing products.
- We expect, with the increased focus towards new product launches, the segment would deliver a CAGR of 11% over FY18-20E.

Conference Call Takeaways

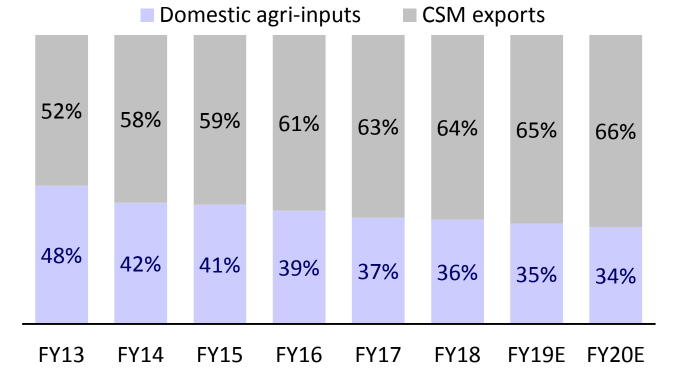
- The company witnessed subdued performance on account of executional challenges (such as logistic issues resulting in delayed deliveries) as well as raw material supply challenges from China.
- The company is expected to incur capex of INR2,250-2,500m per annum for FY19 and FY20, primarily in the exports business.
- The company is targeting to commence two multi-specialty products plants (one at the existing site of Jambusar plant and the other adjacent to it) by 3QFY19.
- The company commercialized four new products during the year and expects to launch 4-5 new products for both domestic and exports market every year, which can be witnessed by the R&D pipeline of ~70 products v/s the usual average pipeline of 35. The company plans to scale up its products in pharma over the long term.
- Moreover, the company's increased focus toward R&D is witnessed by the increased investment in R&D, which stood at ~INR600m in FY18 v/s INR300m in FY17.
- The company is also actively looking at M&A prospects to grow business and deploy healthy cash being accumulated in the balance sheet.
- Further, to reduce its dependency on Chinese raw material suppliers, the company has developed 6-7 alternate vendors in India for some raw materials earlier imported from China.

Valuation view

We believe that headwinds restraining growth in FY18 are behind, and PI would deliver robust volume growth, backed by new product ramp-up and expanded capacity. We estimate 16% sales growth in FY19 – 12% growth in domestic business and 19% growth in CSM, assuming 16% constant currency growth, 2.5% currency depreciation and deferment of orders to the tune of INR700m from FY18 to FY19. However, on missed guidance for FY18 and recovery expected to be largely back-ended, we cut our earnings estimates of FY19/20 by 11%/10%. The company's RoE is expected to hover around 22%, and with likely healthy free cash flow (~INR6.7b over FY19/20E), we value the stock at 24x FY20E EPS, arriving at a PT of INR958 (18% upside). Maintain **Buy**.

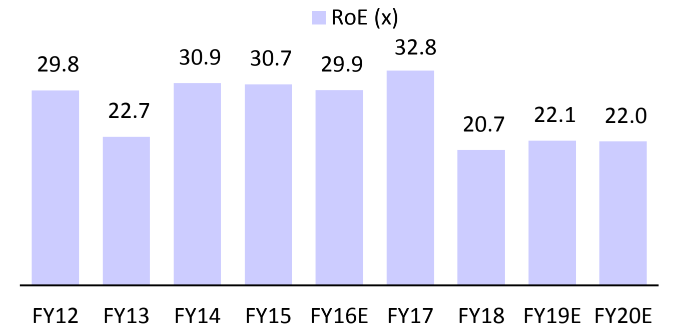
Story in charts

Exhibit 6: Rising CSM contribution



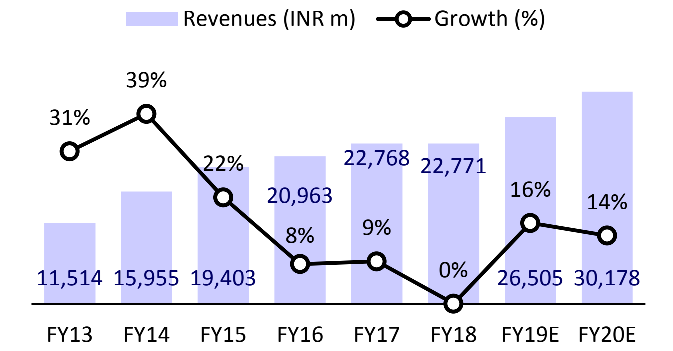
Source: Company, MOSL

Exhibit 7: RoE to remain steady



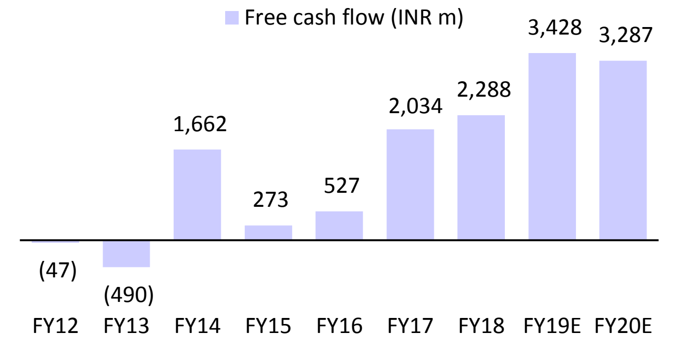
Source: Company, MOSL

Exhibit 8: Revenue to post 15% CAGR over FY18-20E



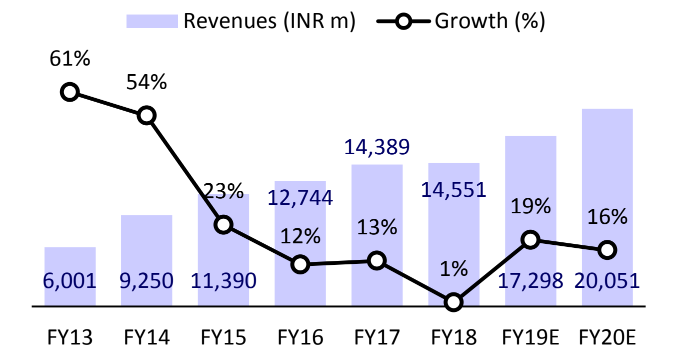
Source: Company, MOSL

Exhibit 9: High cash flow generation



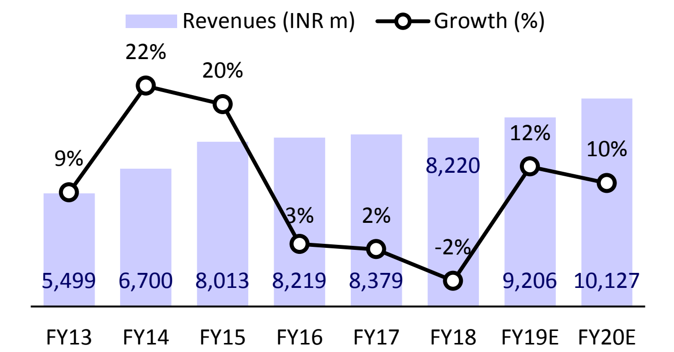
Source: Company, MOSL

Exhibit 10: CSM to post 17% CAGR over FY18-20E



Source: Company, MOSL

Exhibit 11: Agri-input to post 11% CAGR over FY18-20E



Source: Company, MOSL

Financials and Valuations

Income Statement (Consolidated) (INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Revenue	**11,514**	**15,955**	**19,403**	**20,963**	**22,768**	**22,771**	**26,505**	**30,178**
Change (%)	31.0	38.6	21.6	8.0	8.6	0.0	16.4	13.9
Cost of Materials Consumed	6,745	9,198	11,154	11,585	11,632	11,690	13,517	15,391
% of Sales	58.6	57.6	57.5	55.3	51.1	51.3	51.0	51.0
Personnel Expenses	886	1,108	1,430	1,931	2,226	2,432	2,756	2,957
% of Sales	7.7	6.9	7.4	9.2	9.8	10.7	10.4	9.8
Other Expenses	2,077	2,760	3,092	3,135	3,378	3,715	4,082	4,527
% of Sales	18.0	17.3	15.9	15.0	14.8	16.3	15.4	15.0
Total Expenditure	**9,708**	**13,066**	**15,675**	**16,651**	**17,236**	**17,837**	**20,356**	**22,875**
% of Sales	84.3	81.9	80.8	79.4	75.7	78.3	76.8	75.8
EBITDA	**1,806**	**2,889**	**3,727**	**4,312**	**5,533**	**4,934**	**6,149**	**7,303**
Margin (%)	15.7	18.1	19.2	20.6	24.3	21.7	23.2	24.2
Depreciation	220	316	498	543	730	830	917	1,065
EBIT	**1,586**	**2,573**	**3,229**	**3,770**	**4,802**	**4,104**	**5,232**	**6,238**
Int. and Finance Charges	218	118	97	96	72	53	15	0
Other Income	82	158	420	355	366	603	663	729
PBT bef. EO Exp.	**1,450**	**2,613**	**3,552**	**4,028**	**5,096**	**4,653**	**5,879**	**6,967**
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	**1,450**	**2,613**	**3,552**	**4,028**	**5,096**	**4,653**	**5,879**	**6,967**
Current Tax	323	779	1,147	909	1,035	1,001	1,235	1,463
Deferred Tax	154	-46	-54	4	-534	-22	0	0
Tax Rate (%)	32.9	28.1	30.8	22.7	9.8	21.0	21.0	21.0
Less: Mionrity Interest/Profit & Loss of associates	0	0	0	0	1	-2	0	0
Reported PAT	**973**	**1,880**	**2,459**	**3,116**	**4,594**	**3,676**	**4,645**	**5,504**
Adjusted PAT	**973**	**1,880**	**2,459**	**3,116**	**4,594**	**3,676**	**4,645**	**5,504**
Change (%)	21.0	93.2	30.8	26.7	47.5	-20.0	26.3	18.5
Margin (%)	8.5	11.8	12.7	14.9	20.2	16.1	17.5	18.2

Balance Sheet (Consolidated) (INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	135	136	137	137	138	138	138	138
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	5,182	6,695	9,028	11,572	16,134	19,111	22,663	27,075
Net Worth	**5,317**	**6,831**	**9,165**	**11,709**	**16,272**	**19,248**	**22,801**	**27,213**
Minority Interest	0	0	0	0	0	0	0	0
Deferred Liabilities	483	433	336	353	0	0	0	0
Total Loans	2,172	1,223	1,148	1,514	1,198	463	0	0
Capital Employed	**7,972**	**8,486**	**10,648**	**13,576**	**17,470**	**19,712**	**22,801**	**27,213**
Gross Block	6,186	6,957	7,539	11,503	12,942	14,298	16,798	19,298
Less: Accum. Deprn.	1,405	1,721	2,219	2,762	3,492	4,322	5,239	6,304
Net Fixed Assets	**4,781**	**5,236**	**5,320**	**8,742**	**9,450**	**9,977**	**11,559**	**12,995**
Capital WIP	605	425	1,332	713	773	899	899	899
Current Investments	0	0	0	0	824	1,595	0	0
Total Investments	**5**	**20**	**4**	**3**	**833**	**1,607**	**1,607**	**1,607**
Curr. Assets, Loans&Adv.	**5,956**	**7,410**	**9,614**	**10,028**	**11,760**	**13,515**	**15,492**	**19,394**
Inventory	2,417	3,188	3,782	3,948	4,320	4,520	4,938	5,622
Account Receivables	2,625	2,565	3,806	3,978	4,237	5,268	5,083	5,788
Cash and Bank Balance	161	371	320	560	1,326	1,307	3,165	5,359
Loans and Advances	752	1,287	1,707	1,543	1,877	2,420	2,306	2,625
Curr. Liability & Prov.	**3,375**	**4,605**	**5,622**	**5,910**	**5,544**	**6,553**	**7,023**	**7,948**
Account Payables	2,396	2,931	3,538	3,661	2,878	3,687	3,926	4,470
Provisions	224	341	136	196	316	340	340	340
Net Current Assets	**2,581**	**2,805**	**3,992**	**4,118**	**6,216**	**6,962**	**8,469**	**11,446**
Deferred Tax assets	0	0	0	0	198	267	267	267
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	**7,972**	**8,486**	**10,648**	**13,576**	**17,470**	**19,712**	**22,801**	**27,213**

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	**7.2**	**13.8**	**18.0**	**22.7**	**33.4**	**26.7**	**33.7**	**39.9**
Cash EPS	8.8	16.1	21.6	26.7	38.7	32.7	40.3	47.6
BV/Share	39.3	50.2	67.1	85.4	118.3	139.6	165.3	197.3
DPS	1.0	2.0	2.5	3.1	4.0	5.5	6.5	6.5
Payout (%)	16.2	17.0	16.9	16.6	14.6	25.1	23.5	19.8
Valuation (x)								
P/E		58.8	45.1	35.7	24.3	30.5	24.1	20.3
Cash P/E		50.3	37.5	30.4	21.0	24.9	20.1	17.0
P/BV		16.2	12.1	9.5	6.9	5.8	4.9	4.1
EV/Sales		7.4	6.1	5.6	5.1	5.1	4.3	3.7
EV/EBITDA		40.7	31.6	27.3	21.1	23.5	18.5	15.3
Dividend Yield (%)	0.1	0.2	0.3	0.4	0.5	0.7	0.8	0.8
FCF per share	-3.6	12.2	2.0	3.8	14.8	16.6	24.9	23.8
Return Ratios (%)								
RoE	22.7	30.9	30.7	29.9	32.8	20.7	22.1	22.0
RoCE	16.9	25.3	27.5	27.1	30.4	20.0	21.9	22.0
RoIC	17.2	24.9	26.8	27.4	32.3	21.3	25.0	27.0
Working Capital Ratios								
Asset Turnover (x)	1.4	1.9	1.8	1.5	1.3	1.2	1.2	1.1
Inventory (Days)	77	73	71	69	69	72	68	68
Debtor (Days)	79	56	68	66	65	83	70	70
Creditor (Days)	130	116	116	115	90	115	106	106
Working Cap. Turnover (Days)	77	56	69	62	78	91	73	74
Leverage Ratio (x)								
Current Ratio	1.8	1.6	1.7	1.7	2.1	2.1	2.2	2.4
Interest Cover Ratio	7	22	33	39	67	77		
Debt/Equity	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement (Consolidated) (INR Million)

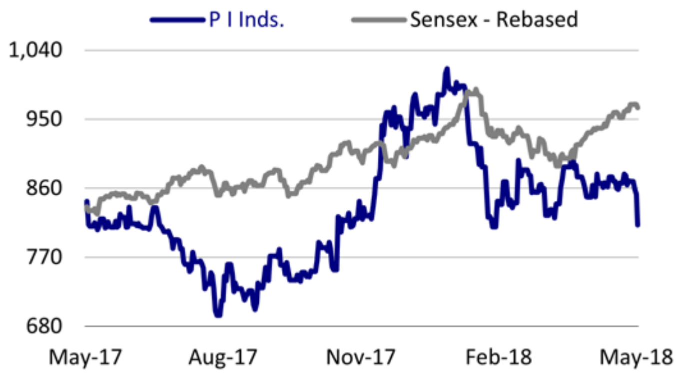
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	1,450	2,613	3,552	4,028	5,096	4,653	5,879	6,967
Depreciation	220	316	498	543	730	830	917	1,065
Interest & Finance Charges	155	118	97	96	72	53	15	0
Direct Taxes Paid	-380	-779	-1,147	-909	-1,035	-1,001	-1,235	-1,463
(Inc)/Dec in WC	-425	-15	-1,238	114	-1,332	-766	351	-782
CF from Operations	**1,020**	**2,253**	**1,762**	**3,872**	**3,533**	**3,770**	**5,928**	**5,787**
Others	0	0	0	0	0	0	0	0
CF from Operating incl EO	**1,020**	**2,253**	**1,762**	**3,872**	**3,533**	**3,770**	**5,928**	**5,787**
(inc)/dec in FA	-1,510	-591	-1,489	-3,345	-1,499	-1,482	-2,500	-2,500
Free Cash Flow	**-490**	**1,662**	**273**	**527**	**2,034**	**2,288**	**3,428**	**3,287**
(Pur)/Sale of Investments	0	-14	16	1	-830	-774	0	0
Others	105	0	0	0	-198	-69	0	0
CF from Investments	**-1,405**	**-605**	**-1,473**	**-3,344**	**-2,527**	**-2,325**	**-2,500**	**-2,500**
Issue of Shares	1,187	1	0	1	0	0	0	0
Inc/(Dec) in Debt	-402	-949	-75	366	-315	-735	-463	0
Interest Paid	-251	-118	-97	-96	-72	-53	-15	0
Dividend Paid	-76	-319	-416	-518	-671	-924	-1,092	-1,092
Others	-6	-52	248	-40	818	248	0	0
CF from Fin. Activity	**452**	**-1,438**	**-340**	**-288**	**-240**	**-1,464**	**-1,570**	**-1,092**
Inc/Dec of Cash	**67**	**210**	**-51**	**240**	**766**	**-19**	**1,858**	**2,194**
Opening Balance	94	161	371	320	560	1,326	1,307	3,165
Closing Balance	**161**	**371**	**320**	**560**	**1,326**	**1,307**	**3,165**	**5,359**

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 (%)

	Mar-18	Dec-17	Mar-17
Promoter	51.4	51.4	51.6
DII	18.8	19.0	13.6
FII	15.2	14.9	21.9
Others	14.6	14.8	13.0

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI PRUDENTIAL VALUE DISCOVERY FUND	5.3
SBI BLUE CHIP FUND	3.4
AXIS MUTUAL FUND TRUSTEE LIMITED A/C AXIS MUTUAL F	3.1
DSP BLACKROCK MIDCAP 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 Balganesh
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 (%)
FY19	33.7	33.8	-0.4
FY20	39.9	39.9	0.0

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

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