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CHOLA SECURITIES

PI Industries Ltd

BUY

Sector: Agrichemical /Small-Cap | Management meeting - Note

5 October 2018

Background: PI Industries' (PI) is one of the leading players in the Crop protection industry. Company largely operates under two main segments a) agriculture inputs, b) custom synthesis and contract manufacturing. The company has a niche portfolio of 34 products, which includes 5 in-licensed products and 7 co-marketing products in tie up with MNCs such as Bayer, BASF & Kumiai chemicals. PI currently operates three manufacturing sites in Gujarat, having three formulation units and six multiproduct plants for manufacturing, active ingredients and intermediates. The company has a strong distribution network of 8,000 dealers / distributors; 35,000 retailers and 27 stock points. PI derives 60-65% of its domestic revenue from its top 5 products. Its key products are Nominee Gold, a rice herbicide which contributes ~INR1bn to its revenue.

Sensex	35,169
Nifty	10,599
Price	INR 698
Target Price	INR 941
Recommendation	BUY

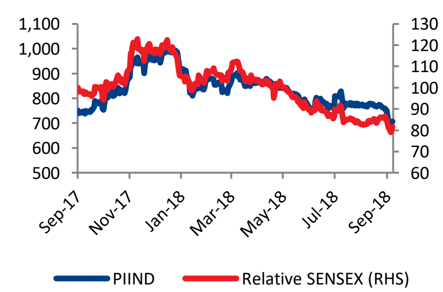
52 Week High/Low	INR 1035/691.8
Bloomberg / Reuters	PI IN /PIIL.BO
Equity (shares in mn)	137.91
Mkt. Cap in bn	INR 96.3/$ 1.32
Avg. Daily Vol. ('000)	173.1
Avg. Daily Vol. (mn)	INR 120.8/$ 1.65

Shareholding	Jun 17	Mar 18	Jun 18
Promoters (%)	51.55	51.43	51.43
FII (%)	18.34	15.22	15.46
DII (%)	15.75	18.61	18.07
Others (%)	14.36	14.74	15.04
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	22.8	26.1	30.8
EBITDA	4.9	5.5	6.5
Adj PAT	3.7	4.2	5.0
Adj EPS	26.6	30.2	36.2
% growth	-20.0	13.5	19.9
PE	26.2	23.1	19.3
P/ BV	5.0	4.3	3.6
EV/EBITDA	17.1	16.5	13.7
EV/Sales	4.2	3.5	3.0
Div Yield (%)	0.3	0.7	0.8
ROE (%)	20.8	19.8	20.6

Performance %	1M	3M	12M
PI Industries	-7.7	-7.1	-5.2
Sensex	-6.1	1.7	14.2



We recently meet the PI Industries Management and the following are the key takeaways:

- During the last season, Bispyribac Sodium's market size has grown by around 43% YoY to ~1,000KL and over the next two years, it is expected to grow at a CAGR of ~40%+ to reach ~2,000KL, largely led by deeper penetration. However, due to generic competition the price of Bispyribac Sodium has corrected by ~15-20% from its peak and management expects the pricing delta between company and generic player will remain stable going forward. PI currently has 65-70% market share in the Bispyribac sodium market, through its brand Nominee Gold and it is available in 60,000+ counters in all major rice belts.
- Osheen, a broad spectrum insecticide (launched in FY13) continues to be a blockbuster product for PI Industries and it has been growing at a CAGR of 80%+ over the last two years as the company expands its offering to multiple crops. Management expects Osheen growth to continue in the range of 35-40% till FY20 and expect to return to stable growth of 15-20% from FY21 onwards.
- Company has a strong domestic product pipeline lined up till FY22 and it has planned to launch 4-5 new products every year. In FY18, company has launched five co-marketed products (Fender, Header, Visma, Elite and Humesol) and management has highlighted some of the products have grown more than 100% in the current season. Currently, products launched over the last five years accounts for around 18% of the domestic sales.
- PI has planned to launch 4 new co-marketed products in FY19, of which two products were already launched in the 2QFY19, which includes Rynaxypyr, which is a blockbuster insecticide for FMC with a billion dollar global sales of which, India sales accounts for around INR 6-6.5bn. Company is also planning to launch one 9(3) wheat herbicide in the FY20, which management expects to be a blockbuster product. In the CSM space, company is planning to commercialize 2-3 molecules in FY19, of which one has already been commercialized in 2QFY19. The volumes of these new molecules is expected to ramp up in FY20.
- In 2QFY19, we expect Domestic business to do well, barring few markets in East such as Chattisgarh and UP due to erratic monsoon. We expect the domestic revenue to grow ~12% and CSM is expected to grow 14.3% due to bottlenecking of existing capacity which will increase the capacity by 10-15% in 2QFY19.
- Management has guided for a capex of INR 2.25-2.5bn each for FY19E & FY20E. Fresh capacity in Jambusar (IV & V) is expected to come on stream from December 2018 and Jan 2019. Out of these two plants one is for agro chemical and another for new chemistry (early intermediary in Pharmaceutical sector).
- Management has guided for an operating margin of 20-21% for FY19 as the company has increased the R&D spends from 1.5% to 3%.
- Order book of CSM business stood at US$ 1.15bn in 1QFY19; these orders are executable over the period of 3-4 years and top 5 molecules contribute 60-70% of the order book.

Valuation: We are positive on the long term fundamentals of the company, given its strong link with global innovators, strong product pipeline, comfortable order book position and capacity addition in the CSM business. At CMP of INR 698, PI Industries is trading at 23.1XFY19E and 19.3XFY20E earnings. We are valuing the stock at 26XFY20E EPS to arrive at a target price of INR 941 and maintain **BUY** rating.

Risks: Increasing competition in the herbicide product segment, which accounts 30% of domestic business. Pesticide demand is linked to monsoons and in years of poor monsoons demand goes down drastically. GM crops are made with inbuilt resistance towards pest that reduces the demand for agrichemicals.

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