PI Industries

BUY

INDUSTRY	**AGROCHEMICAL**
CMP *(as on 29 Oct 2018)*	**Rs 731**
Target Price	**Rs 956**
Nifty	10,251
Sensex	34,067
KEY STOCK DATA	
Bloomberg	PI IN
No. of Shares (mn)	138
MCap (Rs bn) / ($ mn)	101/1,375
6m avg traded value (Rs mn)	123

STOCK PERFORMANCE (%)

52 Week high / low **Rs 1,035/676**

	3M	6M	12M
Absolute (%)	(9.6)	(16.4)	(3.0)
Relative (%)	(0.8)	(13.8)	(5.7)

SHAREHOLDING PATTERN (%)	
Promoters	51.43
FIs & Local MFs	19.08
FPIs	13.13
Public & Others	16.36

Source : BSE

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Strong traction in CSM

PI Industries' (PI) 2QFY19 Sales/EBITDA was ahead of our estimates by 14.0/5.7%, due to higher than expected growth in both segments (domestic+CSM). PAT came in line due to a higher tax rate of 23.1%.

- Gross margins continue to be under pressure (contracted by 513 bps YoY to 42.9%) due to higher input costs which have off-set the higher volume growth both in domestic and exports (CSM) businesses. The growth in the domestic (24% YoY) and CSM (32% YoY) businesses was majorly led by a higher volume growth. The management maintained its guidance of 18-20% for FY19 and expects to be on the higher side of the range, given a strong visibility for 2HFY19. The CSM order book hasn't changed much (~US$ 1.1bn) since the last quarter. The company plans to launch 2-3 products every year in both businesses.
- **We believe that a growth of 32% YoY in the CSM segment is a key positive considering muted growth in this segment in the last 6 quarters.** With the management's strong commentary on CSM visibility in the 2HFY19, **we believe CSM is expected to grow at a 3-year CAGR of 18.6% over FY18-21E.**
- **PI Industries is now available at 23.8/20.4x FY19/FY20E EPS and is expected to exhibit strong RoCEs (19.8%/19.8%) over the same period. PI also has a strong capex plan of ~Rs 2.5 bn (asset turns of 1.5x) and is expected to add 2 multipurpose plants by end of FY19. We remain positive on PI and maintain BUY with a TP of Rs 956/sh (25x Sept'20EPS).**

Highlights of the quarter

- **Custom synthesis:** The order book remains unchanged at US$ 1.1 bn with an execution time frame of 3-5 years.
- **Domestic agri-inputs:** Revenues registered a 24.0% growth YoY. The company has already commercialized one molecule in the domestic agri-inputs segment and is likely to launch 3-4 more molecules in FY19.
- **Balance-sheet related:** In Q2FY19, the receivable days have increased from 78 days to 87 days on a YoY basis.

Financial Summary (Standalone)

(Rs mn)	2QFY19	2QFY18	*YoY (%)*	1QFY19	*QoQ (%)*	FY18	FY19E	FY20E	FY21E
Net Sales	7,230	5,611	*28.9*	6,056	*19.4*	22,771	27,623	31,395	35,692
EBITDA	1,346	1,222	*10.2*	1,181	*14.0*	4,934	5,576	6,602	7,523
APAT	944	803	*17.5*	817	*15.5*	3,676	4,231	4,941	5,615
Diluted EPS (Rs)	6.8	5.8	*17.5*	5.9	*15.5*	26.7	30.7	35.8	40.7
P/E (x)						27.4	23.8	20.4	18.0
EV / EBITDA (x)						20.4	17.8	14.7	12.3
RoE (%)						20.7	20.2	20.1	19.5

Source: Company, HDFC sec Inst Research

Gross Margin contraction of 513 bps YoY was led by higher input costs in both domestic and CSM segment

The management has maintained its sales growth guidance of 18-20% in FY19

We believe EBITDA margins maybe under pressure for FY19 and expect 150 bps contraction YoY

Tax rate is expected to be at 21% for FY19

Quarterly Financials Snapshot (Standalone)

(Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)
Net Sales	**7,230**	**5,611**	***28.9***	**6,056**	***19.4***
Material Expenses	4,125	2,914	*41.6*	3,235	*27.5*
Employee Expenses	683	604	*13.1*	660	*3.5*
Other Expenses	1,076	871	*23.5*	980	*9.8*
EBITDA	**1,346**	**1,222**	***10.2***	**1,181**	***14.0***
Depreciation	228	205	*11.2*	220	*3.6*
EBIT	**1,118**	**1,017**	***10.0***	**961**	***16.3***
Other Income (Including EO Items)	124	123	*1.1*	102	*21.6*
Interest	14	12	*12.9*	17	*(17.6)*
PBT	**1,228**	**1,127**	***9.0***	**1,046**	***17.4***
Tax	284	324	*(12.2)*	229	*24.0*
APAT	**944**	**803**	***17.5***	**817**	***15.5***
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	**944**	**803**	***17.5***	**817**	***15.5***
AEPS (Rs/sh)	**6.8**	**5.8**	***17.5***	**5.9**	***15.5***

Source: Company, HDFC sec Inst Research, 1QFY19 numbers are not comparable on YoY/QoQ basis due to change in accounting method.

Margin Analysis

(% of Net Sales)	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)
Material Expenses as % of Net Sales	57.1	51.9	*513*	53.4	*364*
Employee Expenses as % of Net Sales	9.4	10.8	*(132)*	10.9	*(145)*
Other Expenses as % of Net Sales	14.9	15.5	*(65)*	16.2	*(130)*
EBITDA Margin (%)	18.6	21.8	*(316)*	19.5	*(88)*
Net Profit Margin (%)	13.1	14.3	*(126)*	13.5	*(43)*
Tax Rate (%)	23.1	28.7	*(558)*	21.9	*123*

Source: Company, HDFC sec Inst Research, 1QFY19 numbers are not comparable on YoY/QoQ basis due to change in accounting method.

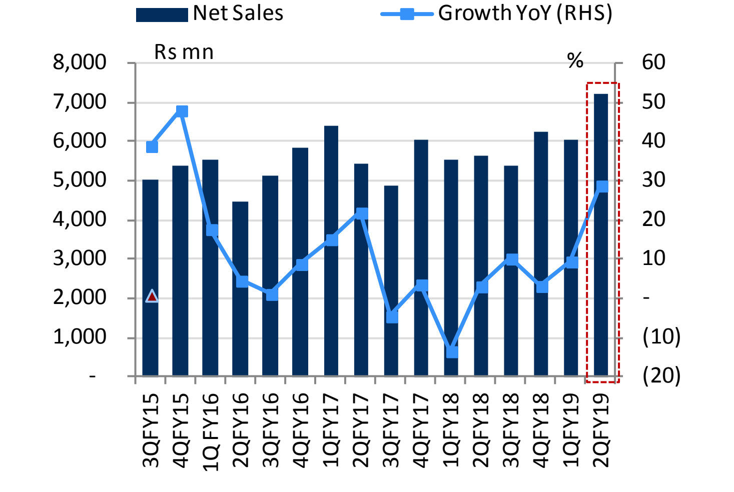
Sales growth in 2HFY19 is expected to be better than 1HFY19.

Order book in CSM has remained at the same level, at US$ 1.1 bn.

Execution time frame for the current order book is between 3-5 years.

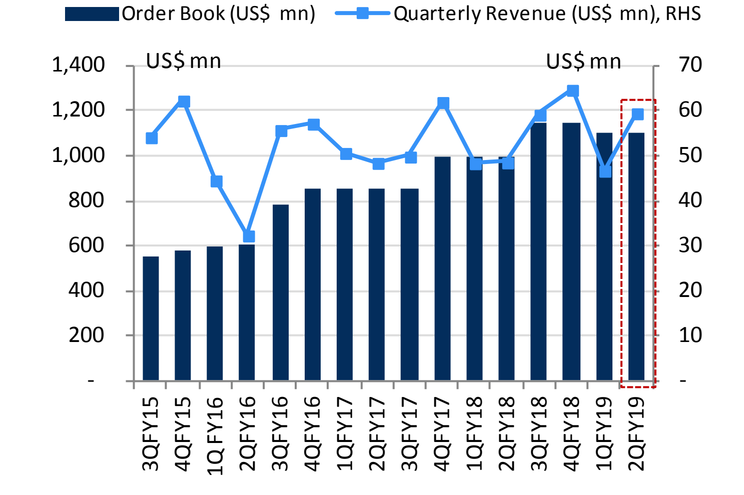
Quarterly Performance

Net Sales And Growth



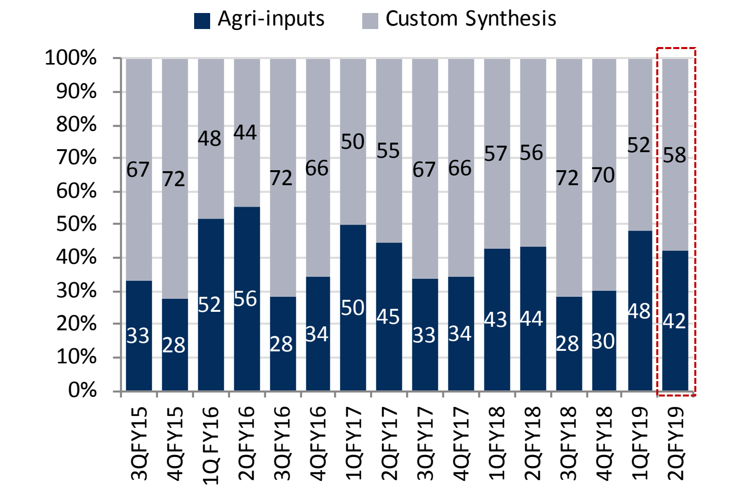
Source: Company, HDFC sec Inst Research

Order Book And Quarterly Revenue



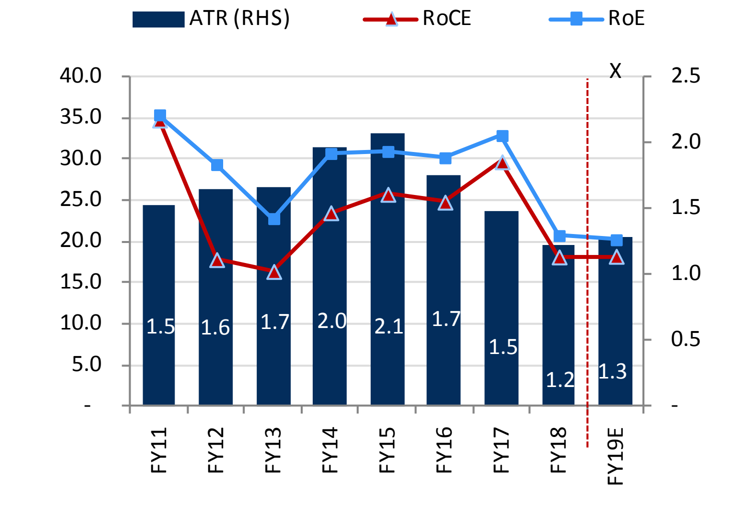
Source: Company, HDFC sec Inst Research

Annual CSM and Domestic business



Source: Company, HDFC sec Inst Research

Return Ratios



Source: Company, HDFC sec Inst Research

We are expecting a growth of 26/15/15% in FY19/FY20/FY21E on the back of a strong 2QFY19 performance and strong visibility of orders

Domestic business is expected to grow at 13% in FY19 irrespective of generic pricing pressure in Nominee gold. The management is working on multiple launches in the domestic segment

Assumptions

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenues (Rs mn)							
Agri-input	*7,782*	*9,192*	*9,775*	*8,218*	*9,286*	*10,308*	*11,442*
Custom Synthesis	*11,615*	*12,503*	*13,911*	*14,553*	*18,337*	*21,087*	*24,250*
Total	**19,397**	**21,695**	**23,686**	**22,771**	**27,623**	**31,395**	**35,692**
YoY Growth (%)							
Agri-input	*15.9*	*18.1*	*6.3*	*(15.9)*	*13.0*	*11.0*	*11.0*
Custom Synthesis	*25.7*	*7.6*	*11.3*	*4.6*	*26.0*	*15.0*	*15.0*
Total	**21.6**	**11.8**	**9.2**	**(3.9)**	**21.3**	**13.7**	**13.7**
EBIDTA Margin (%)	**19.5**	**20.4**	**23.6**	**21.6**	**20.2**	**21.0**	**21.1**
Agri-input	*17.2*	*19.0*	*18.7*	*16.6*	*17.0*	*17.0*	*17.0*
Custom Synthesis	*21.0*	*21.4*	*27.0*	*24.4*	*21.8*	*23.0*	*23.0*

Source: Company, HDFC sec Inst Research

Change In Estimates

(Rs mn)	FY19E Old	FY19E New	*% Ch*
Net Sales	25,175	27,623	*9.7*
EBIDTA	5,584	5,576	*(0.1)*
APAT	4,183	4,231	*1.1*
AEPS (Rs/sh)	30.3	30.7	*1.1*

(Rs mn)	FY20E Old	FY20E New	*% Ch*
Net Sales	28,256	31,395	*11.1*
EBIDTA	6,572	6,602	*0.5*
APAT	4,858	4,941	*1.7*
AEPS	35.2	35.8	*1.7*

Source: HDFC sec Inst Research

(Rs mn)	FY21E Old	FY21E New	*% Ch*
Net Sales	31,590	35,692	*13.0*
EBIDTA	7,366	7,523	*2.1*
APAT	5,432	5,615	*3.4*
AEPS (Rs/sh)	39.4	40.7	*3.4*

Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP* (Rs/sh)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
AGROCHEMICALS																
Dhanuka Agritech	18.7	374	BUY	723	25.7	28.0	30.7	14.5	13.3	12.2	2.9	2.5	2.1	21.8	20.1	18.9
Insecticides India	8.4	405	BUY	961	40.6	45.1	53.8	10.0	9.0	7.5	1.5	1.3	1.1	16.6	15.8	16.1
PI Industries	**99.5**	**731**	**BUY**	**956**	**26.7**	**30.7**	**35.8**	**27.4**	**23.8**	**20.4**	**5.2**	**4.5**	**3.8**	**20.7**	**20.2**	**20.1**
Rallis	32.7	168	BUY	220	8.6	9.7	11.0	19.6	17.2	15.2	2.7	2.5	2.3	14.5	15.1	15.6
UPL	322.3	632	BUY	719	39.6	44.8	52.4	16.4	14.5	12.4	3.6	3.0	2.5	24.4	22.7	22.2

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

Income Statement (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Net Revenues	**22,768**	**22,771**	**27,623**	**31,395**	**35,692**
Growth (%)	***8.6***	***0.0***	***21.3***	***13.7***	***13.7***
Material Expenses	11,632	11,690	15,003	16,787	18,979
Employee Expenses	2,226	2,432	2,762	3,140	3,569
Other Operating Expenses	3,378	3,715	4,282	4,866	5,622
EBIDTA	**5,533**	**4,934**	**5,576**	**6,602**	**7,523**
EBIDTA Margin (%)	***24.3***	***21.7***	***20.2***	***21.0***	***21.1***
EBIDTA Growth (%)	***28.3***	***(10.8)***	***13.0***	***18.4***	***13.9***
Depreciation	730	830	855	911	1,009
EBIT	**4,802**	**4,104**	**4,721**	**5,691**	**6,514**
Other Income (Including EO Items)	366	602	672	595	627
Interest	72	53	37	33	33
PBT	**5,096**	**4,653**	**5,356**	**6,254**	**7,108**
Tax	501	979	1,125	1,313	1,493
Share Of Profit/(loss) Of Associate	(1)	1	-	-	-
RPAT	**4,594**	**3,676**	**4,231**	**4,941**	**5,615**
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	**4,594**	**3,676**	**4,231**	**4,941**	**5,615**
APAT Growth (%)	***47.5***	***(20.0)***	***15.1***	***16.8***	***13.6***
AEPS	**33.2**	**26.7**	**30.7**	**35.8**	**40.7**
AEPS Growth (%)	***47.5***	***(19.7)***	***15.0***	***16.8***	***13.6***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	138	138	138	138	138
Reserves	16,134	19,110	22,512	26,457	30,911
Total Shareholders Funds	**16,272**	**19,248**	**22,650**	**26,595**	**31,049**
Long-term Debt	830	463	363	363	363
Short-term Debt	369	371	-	-	-
Total Debt	**1,198**	**834**	**363**	**363**	**363**
LT Provisions & Others	399	416	416	416	416
Net Deferred Tax Liability	(198)	(267)	(267)	(267)	(267)
TOTAL SOURCES OF FUNDS	**17,671**	**20,231**	**23,162**	**27,107**	**31,561**
APPLICATION OF FUNDS					
Net Block	**9,640**	**10,184**	**10,021**	**11,610**	**13,101**
CWIP	583	691	2,500	2,500	1,000
Investments	9	12	12	12	12
LT Loans & Advances	28	39	39	39	39
Other Non-current Assets	377	453	453	453	453
Total Non-current Assets	**10,637**	**11,379**	**13,024**	**14,613**	**14,604**
Inventories	4,319	4,520	5,483	6,232	7,085
Debtors	4,237	5,268	6,617	7,521	8,550
Cash & Equivalents	1,326	1,307	2,166	4,395	8,683
Other Current Assets	2,296	3,523	1,932	1,932	1,932
Total Current Assets	**12,179**	**14,618**	**16,199**	**20,080**	**26,250**
Creditors	2,878	3,687	4,493	5,106	5,805
Other Current Liabilities & Provns	2,267	2,079	1,569	2,480	3,489
Total Current Liabilities	**5,145**	**5,766**	**6,061**	**7,586**	**9,294**
Net Current Assets	**7,034**	**8,852**	**10,137**	**12,494**	**16,957**
TOTAL APPLICATION OF FUNDS	**17,671**	**20,231**	**23,162**	**27,107**	**31,561**

Source: Company, HDFC sec Inst Research

Cash Flow (Consolidated)

(Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
Reported PBT	5,095	4,655	5,356	6,254	7,108
Non-operating & EO items	(62)	(337)	(672)	(595)	(627)
Interest expenses	72	53	37	33	33
Depreciation	730	830	855	911	1,009
Working Capital Change	(1,235)	(1,043)	(797)	(128)	(174)
Tax Paid	(1,212)	(963)	(1,125)	(1,313)	(1,493)
OPERATING CASH FLOW (a)	**3,388**	**3,194**	**3,654**	**5,161**	**5,856**
Capex	(1,413)	(1,696)	(2,500)	(2,500)	(1,000)
Free cash flow (FCF)	*1,976*	*1,498*	*1,154*	*2,661*	*4,856*
Investments	(5)	(3)	-	-	-
Non-operating Income	366	602	672	595	627
Others	(1,299)	(708)	-	-	-
INVESTING CASH FLOW (b)	**(2,351)**	**(1,805)**	**(1,828)**	**(1,905)**	**(373)**
Debt Issuance/(Repaid)	(272)	(364)	(100)	-	-
Interest Expenses	(72)	(53)	(37)	(33)	(33)
FCFE	*1,631*	*1,080*	*1,017*	*2,629*	*4,823*
Share Capital Issuance	0	0	-	-	-
Dividend	(248)	(662)	(830)	(995)	(1,161)
Others	58	19	-	0	0
FINANCING CASH FLOW (c)	**(534)**	**(1,060)**	**(967)**	**(1,028)**	**(1,194)**
NET CASH FLOW (a+b+c)	**503**	**329**	**859**	**2,229**	**4,288**
EO Items, Others			134	-	-
Closing Cash & Equivalents	**844**	**1,173**	**2,166**	**4,395**	**8,683**

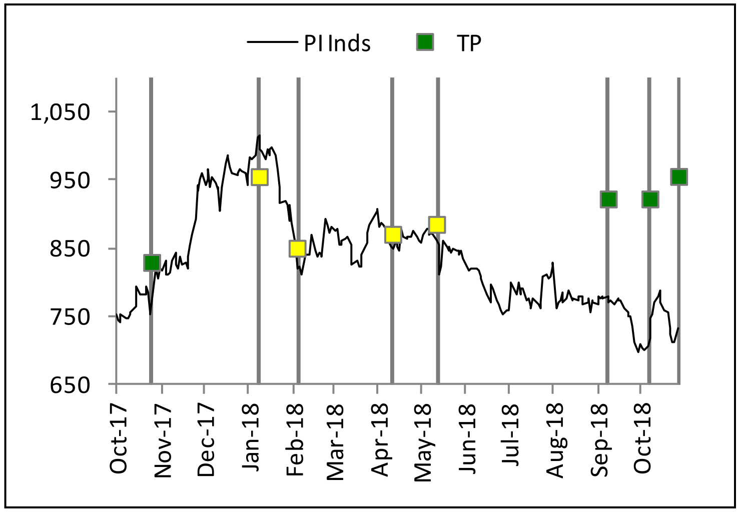
Source: Company, HDFC sec Inst Research

Key Ratios

	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	48.9	48.7	45.7	46.5	46.8
EBITDA Margin	24.3	21.7	20.2	21.0	21.1
EBIT Margin	21.1	18.0	17.1	18.1	18.2
APAT Margin	20.2	16.1	15.3	15.7	15.7
RoE	32.8	20.7	20.2	20.1	19.5
Core RoCE	29.7	18.1	18.2	20.0	22.0
RoCE	30.2	20.0	19.8	19.8	19.2
EFFICIENCY					
Tax Rate (%)	9.8	21.0	21.0	21.0	21.0
Asset Turnover (x)	1.5	1.2	1.3	1.2	1.2
Inventory (days)	69	72	72	72	72
Debtors (days)	68	84	87	87	87
Other Current Assets (days)	24	31	4	4	3
Payables (days)	46	59	59	59	59
Other Current Liab & Provns (days)	36	33	21	29	36
Cash Conversion Cycle (days)	91	98	101	101	101
Debt/EBITDA (x)	0.2	0.2	0.1	0.1	0.0
Net D/E	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
Interest Coverage	71.7	88.5	145.0	192.3	218.4
PER SHARE DATA					
EPS (Rs/sh)	33.2	26.7	30.7	35.8	40.7
CEPS (Rs/sh)	38.5	32.7	36.9	42.4	48.0
BV (Rs/sh)	117.7	139.7	164.2	192.8	225.1
DPS (Rs/sh)	3.4	4.0	5.0	6.0	7.0
VALUATION					
P/E	22.0	27.4	23.8	20.4	18.0
P/BV	6.2	5.2	4.5	3.8	3.2
EV/EBITDA	18.2	20.4	17.8	14.7	12.3
OCF/EV (%)	3.4	3.2	3.7	5.3	6.3
FCF/EV (%)	2.0	1.5	1.2	2.7	5.2
FCFE/MarCap (%)	1.6	1.1	1.0	2.6	4.8
Dividend Yield (%)	0.5	0.5	0.7	0.8	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
28-Oct-17	755	BUY	830
10-Jan-18	985	NEU	953
6-Feb-18	822	NEU	848
13-Apr-18	850	NEU	870
16-May-18	812	NEU	885
10-Sep-18	776	BUY	923
9-Oct-18	704	BUY	923
29-Oct-18	731	BUY	956

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:

We, **Archit Joshi, MBA, Nilesh Ghughe, MMS, Divya Singhal, CA**, authors and the names 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.

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