

February 12, 2019

Q3FY19 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		ACCUMULATE	
Target Price	1,023		924	
Sales (Rs. m)	33,933	40,354	32,810	37,984
% Chng.	3.4	6.2		
EBITDA (Rs. m)	7,312	8,979	6,660	8,072
% Chng.	9.8	11.2		
EPS (Rs.)	37.1	44.5	33.2	40.2
% Chng.	11.9	10.8		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	22,771	28,326	33,933	40,354
EBITDA (Rs. m)	4,920	5,807	7,312	8,979
Margin (%)	21.6	20.5	21.6	22.3
PAT (Rs. m)	3,665	4,174	5,120	6,133
EPS (Rs.)	26.6	30.3	37.1	44.5
Gr. (%)	(20.0)	13.9	22.7	19.8
DPS (Rs.)	4.0	4.2	5.2	6.2
Yield (%)	0.4	0.5	0.6	0.7
RoE (%)	20.8	20.1	20.8	21.0
RoCE (%)	22.0	22.8	25.1	25.5
EV/Sales (x)	5.3	4.2	3.5	2.9
EV/EBITDA (x)	24.6	20.6	16.2	12.9
PE (x)	33.6	29.5	24.0	20.1
P/BV (x)	6.4	5.5	4.6	3.9

Key Data

PIIL.BO | PI IN

52-W High / Low	Rs.940 / Rs.676
Sensex / Nifty	36,154 / 10,831
Market Cap	Rs.123bn/ \$ 1,741m
Shares Outstanding	138m
3M Avg. Daily Value	Rs.142.96m

Shareholding Pattern (%)

Promoter's	51.58
Foreign	13.12
Domestic Institution	19.30
Public & Others	16.00
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	15.5	6.1
Relative	5.5	21.0	0.7

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Walking the talk

PI Ind's robust 31.6% YoY topline growth was primarily driven by the CSM segment which grew 40.2% YoY led by significant improvement in demand, commendable scale up of operations and conversion of enquiries into actual business transaction. After commissioning a plant in Q3, the company is set to commence another plant in the next quarter and has started construction of 2 multipurpose plants (asset turns of ~1.6; Capex of Rs 3.0-3.5 bn/yr in FY20 and FY21). PI Industries is all set to make a comeback (revenue CAGR of 21.0% between FY18-21E) driven by both domestic (~39% of revenues) and CSM business (61% of revenues). Domestic business is expected to get a boost with the launch of 2 potential-blockbuster products i.e. PB Rope L and Pyroxasulfone. Commercialization of new molecules, production ramp up led by debottlenecking of capacity and commencement of production at its new plant is expected to aid PI in clocking +20% CAGR in CSM business in FY19-21E. We estimate PAT CAGR of 18.7% over FY18-21. Continuous investments in capacity creations for plants, R&D facilities and intellectual capital gives us confidence and superior growth visibility for the next 2-3 years. We have upgraded FY19/FY20/FY21 revenue (by 3.3%/3.4%/6.2%), EBITDA (by 8.8%/9.8%/1.2%) and APAT (by 10.6%/11.9%/10.8%). We upgrade PI to BUY (from Accumulate) with revised target price of Rs 1023 based on 23.0x FY21 earnings.

CSM segment to maintain its sharp growth in 4Q as well: Current run-rate of +30% growth in the CSM segment is expected to continue in 4Q as well on the back of healthy improvement in demand and ramp up of operations at its recently commenced facility (coupled with low base of last year and change in revenue recognition policy as per AS 115).

Capex of Rs 3.0-3.5 bn/yr over the next 2 years: After commencing a dedicated plant for exports in Q3FY19, PI is set to commence production of Mono methyl Hydrazene synthesis. Further the company plans to invest Rs 3.0-3.5 bn per year in FY20E-21E for construction of 2 multipurpose plants (asset turns of ~1.6x). PI is currently net-cash with surplus of Rs 2.04 bn.

Rs 600 mn positive impact of revenue due to IND AS 115: CSM segment revenue has been positively impacted by Rs 600 mn due to adoption of IND AS 115 "Revenue from Contracts with Customers".

Other Highlights: (a) Orderbook has increased from US \$ 1.1 bn in Q2 to US \$ 1.3 bn in Q3. (b) Raw material imports from China currently stands at ~20% vis-à-vis ~35% a few quarters back and the management plans to further bring it down in the coming quarters. (c) Forex gain stood at ~Rs 80-100 mn in Q3.

Exhibit 1: CSM business driving overall growth for PI

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	7,075	5,377	31.6	7,230	20,361	16,520	23.3
Expenditure							
Raw Materials	3,775	2,821	33.8	4,125	11,135	8,464	31.6
<i>% of Net Sales</i>	<i>53.4</i>	<i>52.5</i>		<i>57.1</i>	<i>54.7</i>	<i>51.2</i>	
Employee Cost	637	513	24.2	683	1,980	1,717	15.4
<i>% of Net Sales</i>	<i>9.0</i>	<i>9.5</i>		<i>9.4</i>	<i>9.7</i>	<i>10.4</i>	
Other Expenses	1,177	996	18.2	1,076	3,233	2,766	16.9
<i>% of Net Sales</i>	<i>16.6</i>	<i>18.5</i>		<i>14.9</i>	<i>15.9</i>	<i>16.7</i>	
Total Expenditure	5,589	4,330	29.1	5,884	16,348	12,946	26.3
EBITDA	1,486	1,048	41.8	1,346	4,013	3,574	12.3
<i>Margin (%)</i>	<i>21.0</i>	<i>19.5</i>		<i>18.6</i>	<i>19.7</i>	<i>21.6</i>	
Depreciation	234	211	10.7	228	682	614	11.2
EBIT	1,252	836	49.7	1,118	3,331	2,960	12.5
Interest	15	14	6.4	14	46	40	13.9
Other Income	152	161	(5.5)	124	378	409	(7.6)
PBT	1,389	983	41.3	1,228	3,663	3,329	10.0
Tax	316	177	78.9	284	829	718	15.5
<i>Tax Rate (%)</i>	<i>22.8</i>	<i>18.0</i>		<i>23.1</i>	<i>22.6</i>	<i>21.6</i>	
RPAT	1,073	807	33.0	944	2,834	2,611	8.5
APAT	1,073	807	33.0	944	2,834	2,611	8.5

Source: Company, PL

Exhibit 2: Share of revenue shifting in favour of CSM segment

Rs Mn	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
CSM Segment Revenue	4,310	3,000	3,020	3,860	4,323	2,932	3,986	5,410
YoY%	4.6%	-12.0%	-4.4%	19.5%	0.3%	-2.3%	32.0%	40.2%
Sales Mix	68.7%	51.2%	53.8%	71.7%	69.2%	48.4%	55.1%	76.4%
Domestic Segment Revenue	1,963	2,856	2,591	1,520	1,927	3,124	3,244	1,670
YoY%	2.0%	-16.6%	1.2%	-14.1%	-1.8%	9.4%	25.2%	9.9%
Sales Mix	31.3%	48.8%	46.2%	28.3%	30.8%	51.6%	44.9%	23.6%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	22,771	28,326	33,933	40,354
YoY gr. (%)	0.0	24.4	19.8	18.9
Cost of Goods Sold	11,690	15,268	18,069	21,186
Gross Profit	11,081	13,058	15,864	19,168
Margin (%)	48.7	46.1	46.8	47.5
Employee Cost	2,400	2,833	3,461	4,136
Other Expenses	3,760	4,419	5,090	6,053
EBITDA	4,920	5,807	7,312	8,979
YoY gr. (%)	(10.6)	18.0	25.9	22.8
Margin (%)	21.6	20.5	21.6	22.3
Depreciation and Amortization	826	926	1,046	1,407
EBIT	4,095	4,881	6,266	7,572
Margin (%)	18.0	17.2	18.5	18.8
Net Interest	59	65	70	75
Other Income	600	584	631	681
Profit Before Tax	4,636	5,400	6,827	8,178
Margin (%)	20.4	19.1	20.1	20.3
Total Tax	970	1,226	1,707	2,044
Effective tax rate (%)	20.9	22.7	25.0	25.0
Profit after tax	3,665	4,174	5,120	6,133
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,665	4,174	5,120	6,133
YoY gr. (%)	(19.9)	13.9	22.7	19.8
Margin (%)	16.1	14.7	15.1	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,665	4,174	5,120	6,133
YoY gr. (%)	(19.9)	13.9	22.7	19.8
Margin (%)	16.1	14.7	15.1	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,665	4,174	5,120	6,133
Equity Shares O/s (m)	138	138	138	138
EPS (Rs)	26.6	30.3	37.1	44.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	12,034	14,226	18,476	21,726
Tangibles	11,920	14,090	18,299	21,518
Intangibles	115	136	176	207
Acc: Dep / Amortization	2,077	3,003	4,049	5,456
Tangibles	2,033	2,940	3,964	5,341
Intangibles	44	63	85	115
Net fixed assets	9,957	11,223	14,427	16,270
Tangibles	9,886	11,150	14,335	16,177
Intangibles	71	73	91	93
Capital Work In Progress	899	1,725	735	750
Goodwill	-	-	-	-
Non-Current Investments	131	72	77	84
Net Deferred tax assets	252	-	-	-
Other Non-Current Assets	390	397	475	565
Current Assets				
Investments	1,595	2,200	2,500	3,000
Inventories	4,520	5,277	6,043	7,186
Trade receivables	5,268	6,208	6,972	7,739
Cash & Bank Balance	1,204	1,705	2,691	4,251
Other Current Assets	1,667	1,190	1,425	1,695
Total Assets	26,150	30,422	35,854	42,144
Equity				
Equity Share Capital	138	138	138	138
Other Equity	18,984	22,378	26,602	31,662
Total Network	19,122	22,516	26,740	31,800
Non-Current Liabilities				
Long Term borrowings	463	385	385	385
Provisions	233	227	271	323
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	371	-	-	-
Trade payables	3,703	4,268	4,927	5,528
Other current liabilities	2,075	2,799	3,303	3,881
Total Equity & Liabilities	26,151	30,422	35,854	42,144

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	4,636	5,400	6,827	8,178
Add. Depreciation	826	926	1,046	1,407
Add. Interest	59	65	70	75
Less Financial Other Income	600	584	631	681
Add. Other	(331)	(584)	(631)	(681)
Op. profit before WC changes	5,189	5,807	7,312	8,979
Net Changes-WC	(1,088)	(904)	(798)	(1,226)
Direct tax	(957)	(893)	(644)	(1,976)
Net cash from Op. activities	3,144	4,010	5,871	5,777
Capital expenditures	(1,695)	(2,191)	(4,250)	(3,250)
Interest / Dividend Income	262	584	631	681
Others	(390)	(605)	(300)	(500)
Net Cash from Invt. activities	(1,823)	(2,212)	(3,919)	(3,069)
Issue of share cap. / premium	88	-	-	-
Debt changes	(364)	(449)	-	-
Dividend paid	(662)	(730)	(896)	(1,073)
Interest paid	(59)	(65)	(70)	(75)
Others	-	-	-	-
Net cash from Fin. activities	(997)	(1,244)	(966)	(1,148)
Net change in cash	324	553	985	1,560
Free Cash Flow	1,449	1,818	1,621	2,527

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	6,251	6,056	7,230	7,075
YoY gr. (%)	3.2	9.5	28.9	31.6
Raw Material Expenses	3,227	3,235	4,125	3,775
Gross Profit	3,024	2,821	3,105	3,300
Margin (%)	48.4	46.6	42.9	46.6
EBITDA	1,347	1,181	1,346	1,486
YoY gr. (%)	28.6	(12.3)	-	-
Margin (%)	21.5	19.5	18.6	21.0
Depreciation / Depletion	212	220	228	234
EBIT	1,135	961	1,118	1,252
Margin (%)	18.2	15.9	15.5	17.7
Net Interest	18	17	14	15
Other Income	191	102	124	152
Profit before Tax	1,307	1,046	1,228	1,389
Margin (%)	20.9	17.3	17.0	19.6
Total Tax	253	229	284	316
Effective tax rate (%)	19.3	21.9	23.1	22.8
Profit after Tax	1,054	817	944	1,073
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,054	817	944	1,073
YoY gr. (%)	(22.0)	(18.4)	17.5	33.0
Margin (%)	16.9	13.5	13.1	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,054	817	944	1,073
YoY gr. (%)	(22.0)	(18.4)	17.5	33.0
Margin (%)	16.9	13.5	13.1	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,054	817	944	1,073
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	7.6	5.9	6.8	7.8

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	26.6	30.3	37.1	44.5
CEPS	32.6	37.0	44.7	54.7
BVPS	138.7	163.3	193.9	230.6
FCF	10.5	13.2	11.8	18.3
DPS	4.0	4.2	5.2	6.2
Return Ratio(%)				
RoCE	22.0	22.8	25.1	25.5
ROIC	20.5	21.5	23.7	25.3
RoE	20.8	20.1	20.8	21.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Working Capital (Days)	98	93	87	85
Valuation(x)				
PER	33.6	29.5	24.0	20.1
P/B	6.4	5.5	4.6	3.9
P/CEPS	27.4	24.1	19.9	16.3
EV/EBITDA	24.6	20.6	16.2	12.9
EV/Sales	5.3	4.2	3.5	2.9
Dividend Yield (%)	0.4	0.5	0.6	0.7

Source: Company Data, PL Research

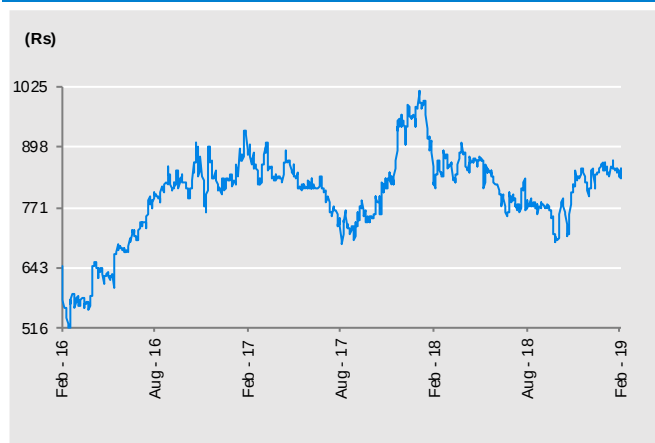
Key Operating Metrics (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Revenues				
CSM	14,203	18,109	22,183	26,842
Domestic	8,539	10,217	11,749	13,512

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Jan-19	Accumulate	924	864

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	4,517	4,258
2	Dhanuka Agritech	BUY	605	418
3	Insecticides India	BUY	896	588
4	P.I. Industries	Accumulate	924	864
5	Rallis India	BUY	242	164
6	Sharda Cropchem	BUY	444	305
7	UPL	BUY	975	770

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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