

# Stock Update

Poised to ride multiyear upcycle

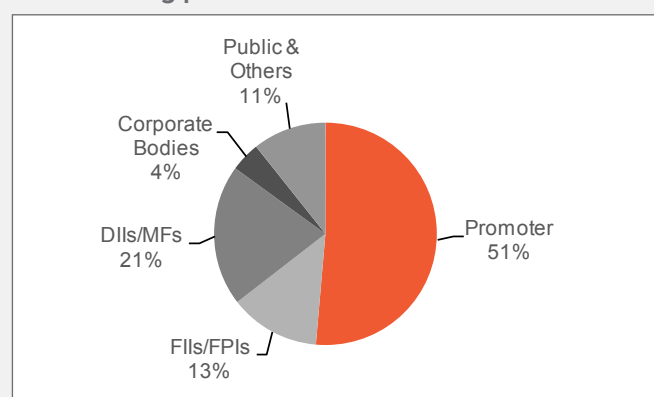
## PI Industries

Reco: Buy | CMP: Rs1,011

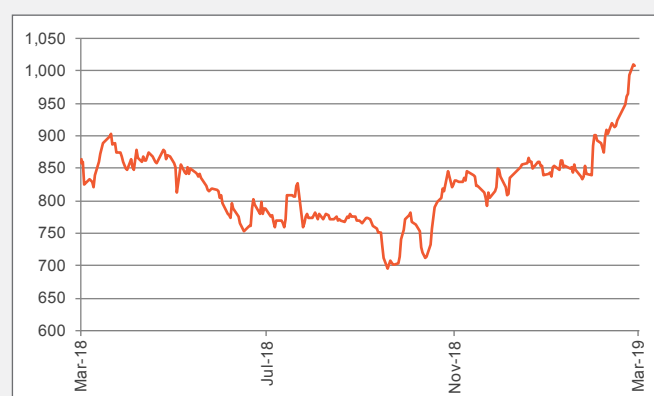
### Company details

Price target:	Rs1,200
Market cap:	Rs13,948 cr
52-week high/low:	Rs1037/692
NSE volume: (No of shares)	1.09 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	10.9	17.7	29.9	16.5
Relative to Sensex	6.8	12.1	30.1	3.9

### Key points

- ♦ **Business environment improves globally:**

The global business environment is witnessing recovery on account of i) lower channel inventory levels as compared to previous years, ii) demand off-take seems to be healthy in various geographies on account of favourable climatic conditions, and iii) innovators seem to have started focusing on developing and introducing new molecules and products after a gap of 2-3 years, as they were involved in large M&A activities and integration of the acquired companies, which seems to be largely over.

CSM business had seen a strong growth momentum of 40% y-o-y and 25% y-o-y during 3QFY2019 and 9MFY2019, respectively. The CSM order book stood at \$1.3 billion at the end of Q3FY2019. Management highlighted that the CSM business currently seems to be more sustainable with clear visibility for the next 4-6 quarters. Moreover, 80% of the revenue in CSM business from long-term contracts is expected to be from existing products. The domestic market is also expected to benefit from new launches in herbicides and insecticides. Skymet, in its preliminary monsoon forecast, stated that India is expected to have over 50% chances of having a normal monsoon and minimal chance of drought, which augurs well for the domestic business.

- ♦ **Enhancing capacity and securing raw-material supplies:**

The company added a multi-purpose facility in FY2019 and intends to add two more in FY2020. Management has guided for capex of Rs. 300 crore each for the next two years, largely committed to the CSM business, wherein two manufacturing facilities are expected to be commissioned during Q4FY2020. Management has guided for an asset turnover of 1.5x - 1.6x, resulting in additional revenue of Rs. 450 crore-500 crore likely to accrue in FY2021E. However, considering the rising scale of CSM business and to mitigate price volatility and secure raw-material supplies, the company also undertook a backward integration project. This project is expected to be commissioned during Q1FY2020.

- ♦ **Strong balance sheet, improved profitability to inch up return ratios:**

Management is hopeful to get capex completed by way of internal accruals as the company has a strong balance

sheet (cash surplus of Rs. 204 crore at the end of Q3FY2019) and cash flow generation is expected to remain healthy going forward. Return ratios are expected to improve by 201 BPS and 149 BPS to 27% and 22.2% at RoCE and RoE level, respectively, on account of a healthy revenue CAGR of 21.6% over FY2018-FY2021 and improved profitability CAGR of 20.2% and 23.4% at EBITDA and PAT level, respectively, during the same period.

- ♦ **Maintain Buy with a revised PT of Rs. 1,200:**  
The start of the multiyear upcycle in global the agrochem market, which has been good,

augurs well for the business visibility of the CSM business (expected to grow by 20%+ in the next 2-3 years). Management is confident and has reiterated its guidance of achieving revenue growth of 20%+ and EBITDA margin of ~21% over the next 2-3 years. We expect the company to deliver revenue and earnings CAGR of 21.6% and 23.4%, respectively, over FY2018-FY2021E. With industry-leading return ratios coupled with healthy balance sheet and strong earnings visibility, we expect further re-rating in the stock. We reiterate our Buy rating on the stock with an upward revised price target (PT) of Rs. 1,200/share.

#### Valuation

Particulars	FY17	FY18	FY19E	FY20E	FY21E
Net sales	2,277	2,277	2,744	3,335	4,094
Growth (%)	8.6	0.0	20.5	21.5	22.8
EBIDTA	590	554	651	795	1,011
EBIDTA Margin (%)	24.3	21.7	20.9	20.7	20.9
Adj PAT	460	367	440	539	690
PAT Margin (%)	20.2	16.1	16.0	16.2	16.9
EPS (Rs.)	33.4	26.7	32.0	39.2	50.1
Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
P/E (x)	30.3	37.8	31.6	25.8	20.2
EV/EBITDA (x)	24.9	27.7	23.8	19.6	15.5
RoCE (%)	33.2	25.0	25.1	25.7	27.0
RoE (%)	32.8	20.7	20.8	21.1	22.2

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