Stock Update

Export business driving growth momentum

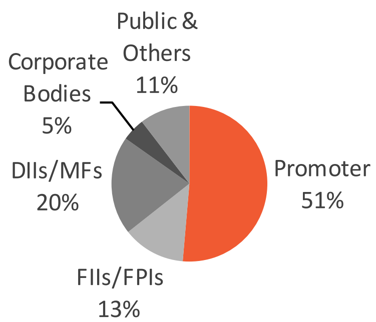
PI Industries

Reco: Buy | CMP: Rs1,105

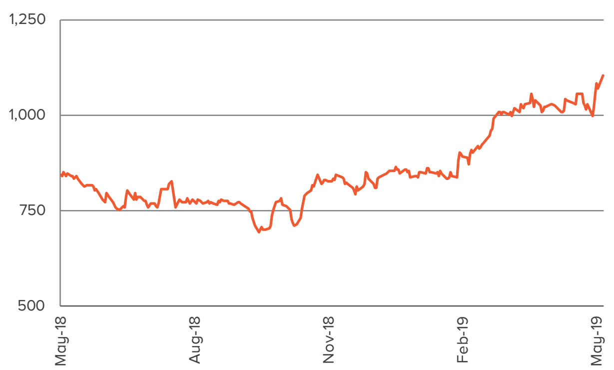
Company details

Price target:	Rs1,280
Market cap:	Rs15,259 cr
52-week high/low:	Rs1142/692
NSE volume: (No of shares)	1.17 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	4.3	19.5	28.2	30.7
Relative to Sensex	8.0	12.7	19.6	19.6

Key points

- **Export business drives growth, operating margin remains stable:** PI Industries reported healthy revenue growth of 28.7% y-o-y to Rs. 805 crore, led by strong 39% y-o-y growth in exports (due to new products commercialisation and ramp-up in demand of existing products) as domestic growth was sub-5% y-o-y (due to lower demand offtake post muted winter season). Higher input cost led to gross margin contraction of 264 BPS to 45.7% during Q4FY2019. EBITDA witnessed growth of 27.6% y-o-y to Rs. 172 crore on account of better product mix, improved realisation and operating leverage benefit. However, operating profit margin (OPM) witnessed marginal contraction of 19 BPS y-o-y to 21.4%. PAT grew at a slower pace of 18% to Rs. 124 crore despite higher other income (up 16.2% y-o-y) as higher depreciation (up 14.6% y-o-y) and higher tax incidence (26.1% as against 19.4% in Q4FY2018) restricted PAT growth.

- **Supportive global demand scenario to boost CSM business:** The global business environment is witnessing recovery on account of i) lower channel inventory levels as compared to previous years, ii) demand offtake 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 reported strong revenue growth of 29% y-o-y during FY2019, led by healthy order backlog and introduction of new molecules. The CSM order book stood at $1.35 billion at the end of FY2019. Management highlighted that the CSM business currently seems to be more sustainable with clear visibility for the next 4-6 quarters because of easing global inventories and firm requirements from innovator customers (as they have a healthy product launch pipeline). On the domestic front, the company intends to introduce 2-3 new products on the backdrop of expectation of near-normal monsoon, which is expected to drive performance in the domestic market.

- **Strong balance sheet, improved profitability to inch up return ratios:** Management is hopeful to get FY2020 capex of Rs. 400 crore-450 crore completed by way of internal accruals, as the company has a strong balance sheet (cash surplus of Rs. 195 crore at the end of FY2019); and cash flow generation is expected to remain healthy going forward. Management highlighted that most part of the capex will be incurred towards building capacities (two plants) in the CSM business and a portion of the capex will be incurred for building-related infrastructure. The two plants are expected to be commissioned in 3QFY2020E and 1QFY2021E. Return ratios are expected to improve by 434 BPS and 332 BPS to 29.3% and 22.8% at RoCE and RoE level, respectively, on account of a healthy revenue CAGR of 20.6% over FY2019-FY2021 and improved profitability CAGR of 28.8% and 31.1% at EBITDA and PAT level, respectively, during the same period.

- **Maintain Buy with a revised PT of Rs. 1,280:** The start of the multiyear upcycle in the global 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 believes the company will be able to generate an additional revenue of 1.5x-1.75x on capex, which is being incurred for building capacities on a full-year basis and 100% utilisation can be achieved in 6-9 months, as it has commitments from global innovators. Management has guided for revenue growth of 20-22% and margin improvement of 50-100 BPS for FY2020E. 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. 1,280/share.

Results Rs cr

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	**805**	**625**	**28.7**	**708**	**13.8**
EBITDA	**172**	**135**	**27.6**	**149**	**15.7**
Other Income	22	19	16.2	15	46.1
Depreciation	24	21	14.6	23	4.3
Interest	1	2	(27.8)	2	(13.3)
PBT	**168**	**131**	**28.8**	**139**	**21.2**
Tax	44	25	73.9	32	39.2
RPAT	**124**	**105**	**18.0**	**107**	**15.9**
EPS (Rs)	8.8	7.6	15.7	7.8	13.6
			YoY (BPS)		**QoQ (BPS)**
OPM (%)	21.4	21.5	(19)	21.0	36
NPM (%)	15.5	16.9	(140)	15.2	29

Source: Sharekhan Research

Valuation Rs cr

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net sales	2,277	2,277	2,841	3,445	4,134
Growth (%)	8.6	0.0	24.8	21.3	20.0
EBIDTA	590	554	636	812	1,039
EBIDTA Margin (%)	24.3	21.7	20.3	21.6	23.1
Adj PAT	460	368	410	537	705
PAT Margin (%)	20.2	16.2	14.4	15.6	17.1
EPS (Rs)	33.4	26.7	29.8	39.0	51.3
Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
P/E (x)	33.1	41.3	37.1	28.3	21.6
EV/EBITDA (x)	27.3	30.3	26.1	19.9	15.0
RoCE (%)	33.2	25.0	24.9	27.3	29.3
RoE (%)	32.8	20.7	19.5	21.2	22.8

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;