

Sector: Agri Chem
Result Update

	Change
Reco: Buy	↔
CMP: Rs. 1,095	
Price Target: Rs. 1,280	↔

↑ Upgrade ↔ No change ↓ Downgrade

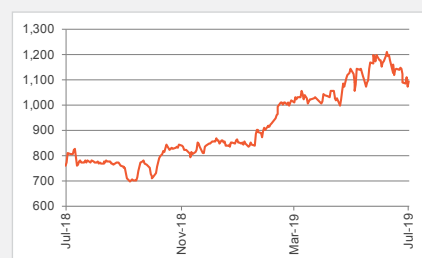
Company details

Market cap:	Rs. 15,113 cr
52-week high/low:	Rs. 1229/692
NSE volume: (No of shares)	1.4 lakh
BSE code:	523642
NSE code:	PIIND
Sharekhan code:	PIIND
Free float: (No of shares)	6.7 cr

Shareholding (%)

Promoters	51
FII	14
DII	19
Others	16

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.9	5.0	28.7	44.8
Relative to Sensex	-3.2	6.7	21.5	39.3

Sharekhan Research, Bloomberg

Strong results, ahead of estimates: PI Industries continued to deliver strong results with revenue, EBITDA and PAT registering robust growth of 24.5%, 28.4% and 23.6% y-o-y, respectively, in Q1FY2020. The improved performance was led by a 59% y-o-y growth in the exports business as domestic business declined by 13% y-o-y. The management guided that the growth in exports is quite steep and hence might not sustain. However, it stated that a growth of 20-25% is achievable on a sustainable basis for the next 3-5 years. The management reiterated its guidance for revenue growth of more than 20% and a 50-100 bps expansion in operating margins. The company foresees higher opportunities from the export market due to increased enquires and higher conversion, hence has set a capex plan of Rs. 400-450 crore, each for the next two years.

Key positives

- Export revenue grew by 59% y-o-y, led by a rise in enquires and higher conversions.
- Exports order book of \$1.4 billion similar to levels of previous quarter-end (\$1.35 billion) that implies healthy order intake as execution remained strong on export business.

Key negatives

- Lower demand in domestic market due to delayed monsoon and higher inventory dragged down revenue by 13% y-o-y.
- Gross margin contracted by 180 bps y-o-y, due to new product launches and a change in product mix

Our Call

Valuation: Maintain Buy with unchanged PT of Rs. 1,280: We expect the company to post revenue and earnings CAGR of 20.6% and 29.2% during FY2019-FY2021E, respectively. At the CMP, the stock is trading at 28.4x/22.0x FY2020E/ FY2021E earnings. With industry-leading return ratios and a healthy balance sheet and strong earnings visibility, we expect the stock to deliver healthy returns. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 1,280 per share.

Key Risks

- Delay in commissioning of projects or execution of orders or deferral of orders by clients in the CSM business can affect revenue growth,
- Higher-than-normal time lag in passing on increase in raw material prices could affect margins.

Valuation (Consolidated)

Particulars	FY17	FY18	FY19	FY20E	FY21E	Rs cr
Revenues	2,277	2,277	2,841	3,445	4,134	
OPM (%)	24.3	21.7	20.3	21.6	23.1	
Adjusted PAT	460	368	410	530	684	
% YoY growth	26.9	47.3	(20.0)	11.5	29.1	
Adjusted EPS (Rs.)	33.4	26.7	29.8	38.5	49.7	
P/E (x)	32.8	41.0	36.7	28.4	22.0	
P/B (x)	9.3	7.8	6.6	5.5	4.4	
EV/EBITDA (x)	27.0	30.0	25.8	20.1	15.4	
RoNW (%)	32.8	25.7	19.5	21.0	22.3	
RoCE (%)	33.2	25.0	24.9	26.9	28.6	

Source: Company Data; Sharekhan estimates

Strong results beat estimates: Revenue grew at a healthy pace of 24.5% y-o-y to Rs 754.1 crore (7.1% ahead of our expectation of Rs 704 crores). Strong revenue growth was supported by a robust 59% y-o-y increase in export revenue, on commercialisation of new molecules and client additions, as domestic market revenue declined by 13% y-o-y as higher trade inventory and erratic /delayed arrival of the south-western monsoons affected demand. The company witnessed input cost pressures on account of product launches and a change in the product mix during the quarter, which shrunk margins by 180 bps to 44.8%. Despite this, EBITDA margin improved 61 bps y-o-y to 20.2% (marginally ahead of our expectation of 20%) and EBITDA grew by 28.4% y-o-y to Rs. 152.5 crore. This was led by economies of scale due to strong revenue growth momentum and lower employee expense and a fall in other expenses by 78 bps and 162 bps to 10.2% and 14.4% of revenue, respectively. A 33.5% y-o-y rise in depreciation and an increase in tax incidence 23.5% as against 21.9% in Q1FY2019 restricted the growth in PAT to 23.6% y-o-y at Rs. 101.6 crore.

Exports drive growth, as domestic business slowed: Exports revenue grew by 59% y-o-y (revenue in the base quarter was flat, pickup in export business started from Q2FY2019), led by healthy order backlog and introduction of 3-4 new molecules in FY2019. The exports business order book stood at \$1.4 billion at the end of Q1FY2020 almost similar what it was at the end of FY2019 (\$1.35 billion) implying that the order intake has been strong. The management stated that the global agrichem industry seems to be in good shape as compared to the previous couple of years and based on their interactions with client the demand offtake looks to be promising in the export markets in the upcoming years. The management guided that the growth witnessed in export business in Q1 is quite sharp and hence might not sustain, however stated that a growth of 20-25% is achievable on a sustainable basis for the next 3-5 years.

The domestic business remained soft on the back of delayed arrival of monsoon leading to sowing season being deferred. The management stated that the situation seems to have improved on the backdrop of arrival of monsoon and expects Q2 and Q3 to be better based the strong domestic brand portfolio and expectation of extended sowing season. The management also stated that the domestic growth rate for the industry during FY2020 is expected to be in low single digit; however the company is expected to grow in high single digit for full year despite lower revenues by 13% y-o-y during Q1FY2020.

The company commercialised one new product (insecticides) during the quarter and expects two more products to be commercialised in the remainder of FY2020 (herbicide expected to be launched in Rabi season as approvals have been received). The management highlighted that existing products contribute 75% of the growth and the balance growth is led by new product launches. The company to see Bispyribac sodium production in coming quarter.

Strong balance sheet & healthy cash-flow to support capex: The company has a strong balance sheet as a result of continued strong performance in the last few years, which have lead to the healthy cash-flow generation. This has helped the company to turn into a net debt-free (cash surplus of Rs 165 crores as at the end of June 2019) and also fund its capex program without borrowing. To further tap business opportunities in the export market (orders in hand increasing) the management has guided for a capex of Rs. 400-450 crore each for the next two years, largely committed to the CSM business, wherein two manufacturing facilities each would be set up in the remaining part of FY2019 and FY2020 respectively. The company has already spent Rs. 160 crore on capex so far as at the end of June 2019. The commissioning of the two plants in FY2020 are slated to be one in Q2FY2020 and the other in Q4FY2020, whereas the commissioning of the two plants in FY2021 is slated to be in H2FY2021 (largely for backward integration and new technology block). The management stated that the asset turnover ratio should be at 1.25 to 1.75 for the new capacities; however the peak asset turnover should be reached in 3-4 years at a utilisation level of 80-85%.

Exploring diversification, taking longer than anticipated: The company has been predominantly in the business of agro chemicals and over the last few years the management has been making efforts and planning to diversify its business portfolio by exploring opportunities in speciality chemical space. The company is looking at opportunities in electronic chemicals, imaging chemicals and pharma intermediates. In the R&D pipeline, ~10% of the products belong to such categories. The company is also looking at inorganic opportunities, however has not been able to succeed. The management also stated that it is now adopting a technological approach rather than a product approach for future growth.

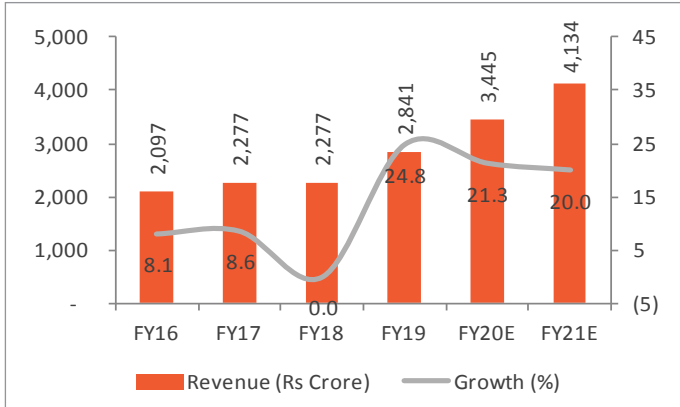
No material impact on account of Ind-AS116: The management stated that there has been no material impact of implementation of IND AS 116 on the overall financial statements. However, on the EBITDA front there was a positive impact of 0.5% and the impact on PAT is neutral due to the equivalent rise being split between depreciation and interest expenses.

Results					Rs cr	
Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	
Net Sales	754	606	24.5	805	(6.3)	
Material Cost	416	324	28.7	437	(4.6)	
Gross Profit	338	282	19.7	368	(8.3)	
Employee Expenses	77	67	15.6	65	18.5	
Other Expenses	108	97	11.9	130	(16.5)	
EBITDA	153	119	28.4	174	(12.1)	
Other Income	12	10	17.5	22	(45.2)	
Depreciation	30	22	33.5	25	20.4	
Interest	2	2	35.3	1	130.0	
PBT	133	105	26.1	170	(21.9)	
Tax	31	23	35.1	44	(29.7)	
RPAT	102	82	23.6	126	(19.2)	
EPS (Rs)	7.4	6.0	23.6	9.1	(19.2)	
%			YoY (BPS)		QoQ (BPS)	
Gross profit margin	44.8	46.6	(180)	45.7	(96)	
EBITDA margin	20.2	19.6	61	21.6	(134)	
Net margin	13.5	13.6	(10)	15.6	(215)	

Source: Company; Sharekhan Research

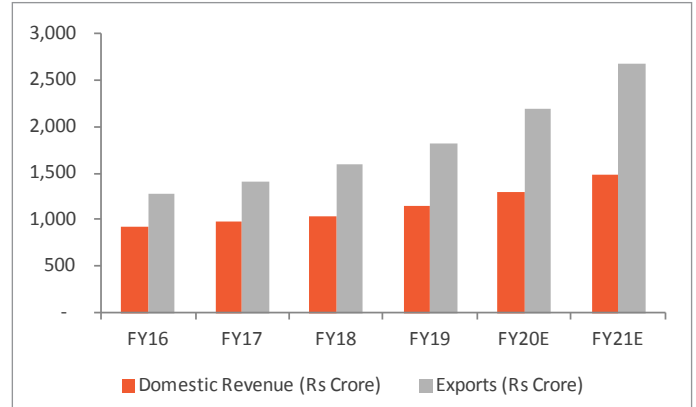
Financials in charts

Export business to drive revenue growth



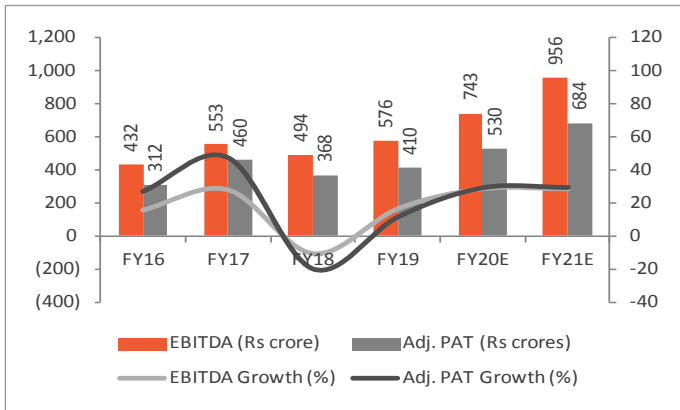
Source: Company; Sharekhan Research

Share of export business increases in overall revenues



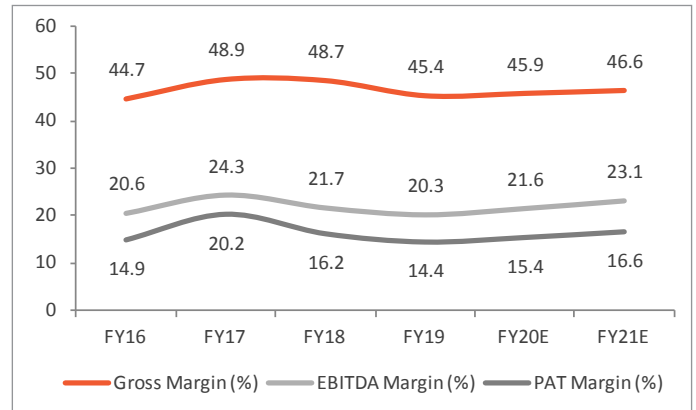
Source: Company; Sharekhan Research

Profit increasing at a healthy pace



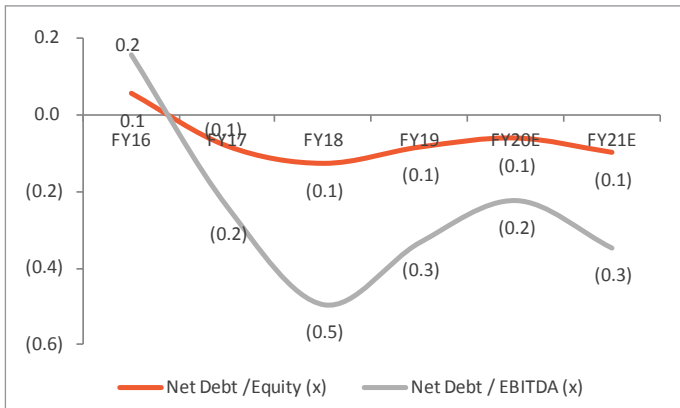
Source: Company Data; Sharekhan Research

Operates at healthy margin profile



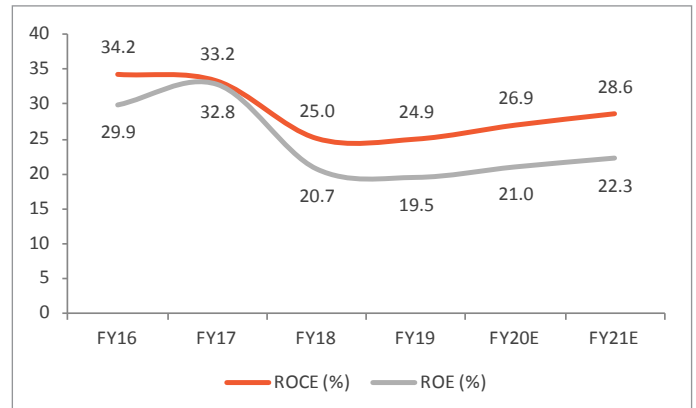
Source: Company; Sharekhan Research

Strong balance sheet, Net debt free status



Source: Company; Sharekhan Research

Increased profitability to enhance return ratios



Source: Company; Sharekhan Research

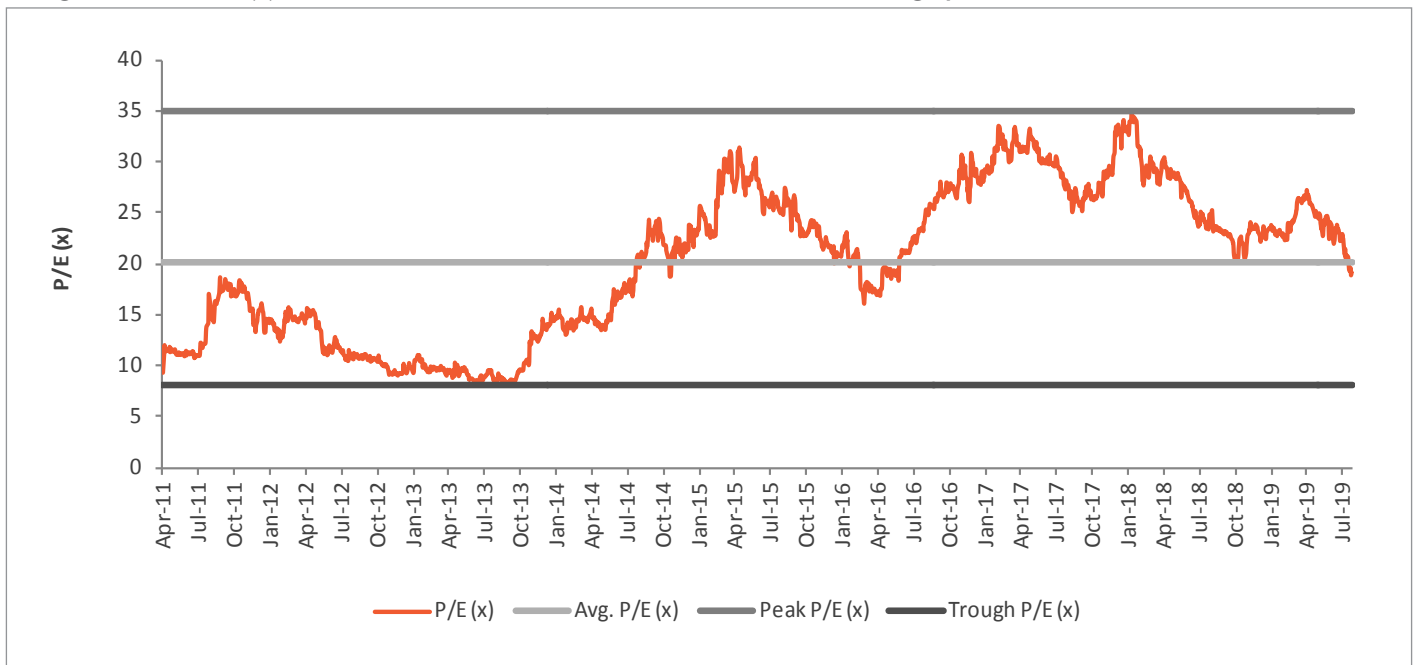
Outlook – Export business to drive performance:

The management has a healthy outlook for FY2020 on the back of augmentation of an attractive portfolio of brands in the domestic market through new launches in the remaining part of the year. Commissioning of additional capacities to enhance the delivery run rate in a scenario of robust demand environment in the export market is also positive. The management reiterated its revenue growth guidance in excess of 20% on revenue front and 50-100 bps margin expansion at the operating level. The management guided that the growth witnessed in export business during Q1 is quite sharp and hence might not sustain. However, stated that a growth of 20-25% is achievable on a sustainable basis for the next 3-5 years.

Valuation – Maintain Buy with an unchanged PT of Rs. 1,280

We expect the company to post revenue and earnings CAGR of 20.6% and 29.2% during FY2019-FY2021E, respectively. At the CMP, the stock is trading at 28.4x/22.0x FY2020E/ FY2021E earnings. With industry-leading return ratios and a healthy balance sheet and strong earnings visibility, we expect the stock to deliver healthy returns. We reiterate our Buy rating on the stock with an unchanged price target (PT) of Rs. 1,280 per share.

One-year forward P/E (x) band – Trades at reasonable valuations and offers healthy upside



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)		EV/EBIDTA (x)		P/BV (x)		RoE (%)	
				FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
PI Industries	1095	13.80	15,113	28.4	22.0	20.1	15.4	5.5	4.4	21.0	22.3
Insecticides (India)	682	2.07	1,409	11.1	9.7	6.6	5.4	1.8	1.5	17.6	17.0
UPL	600	76.40	45,841	13.0	11.2	9.8	8.2	2.7	2.3	22.5	22.5

Source: Company, Sharekhan Research

About company

Incorporated in 1947, PI Industries Limited (PI) focuses on developing complex chemistry solutions in agri-sciences with an integrated approach. The company currently operates a strong infrastructure set-up consisting of three formulation facilities and nine multi-product plants under its three manufacturing facilities. These state-of-art facilities have integrated process development teams with in-house engineering capabilities. The company also maintains a strong research presence through its R&D facility at Udaipur and has dedicated team of over 250 scientists and chemists.

Investment theme

A strong CSM order book at \$1.4 billion at the end of Q1FY2020 provides healthy revenue visibility. Management foresees encouraging outlook for CSM business as business sentiments improve globally for the products wherein the company operates. To tap business opportunities in export market management guided for a capex of Rs. 400-450 crore each for the next two years, largely committed to the CSM business, wherein two manufacturing facilities each would be set up in the remaining part of FY2019 and FY2020, respectively.

Key Risks

- ◆ Delay in commissioning of projects or execution of orders or deferral of orders by clients in the CSM business can affect revenue growth,
- ◆ Higher-than-normal time lag in passing on increase in raw material prices could affect margins.

Additional Data

Key management personnel

Narayan K. Seshadri	Non-Executive & Independent Chairperson
Dr. Raman Ramachandran	Managing Director & Chief Executive Officer
Mr. Mayank Singhal	Executive Director
Mr. Rajnish Sarna	Executive Director
Arvind Singhal	Non-Executive - Non Independent Director
Subhash Anand	Chief Financial Officer
Naresh Kapoor	Company Secretary & Compliance officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Singhal Mayank	23.20
2	Singhal Madhu	15.62
3	Singhal Pooja	6.28
4	Singhal Salil	6.20
5	Jackson National Asset Management	5.11
6	ICICI Prudential Asset Management	4.43
7	SBI Funds Management Pvt Ltd	4.01
8	Cartica Capital Ltd	3.50
9	Franklin Resources Inc	3.36
10	UTI Asset Management Co Ltd	2.07

Source: Bloomberg

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