Sharekhan
by BNP PARIBAS

PI Industries

Strong quarter, rich valuation limits upside – Maintain Hold

Sector: Agri Chem
Result Update

	Change
Reco: **Hold**	↔
CMP: **Rs. 1,426**	
Price Target: **Rs. 1,500**	↑

↑ Upgrade ↔ No change ↓ Downgrade

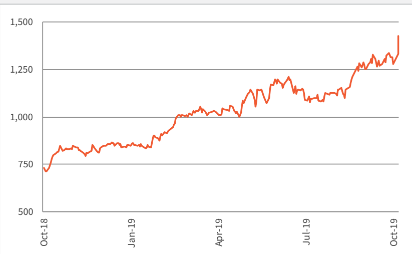
Company details

Market cap:	Rs. 19,682 cr
52-week high/low:	Rs. 1449/700
NSE volume: (No of shares)	1.5 lakh
BSE code:	523642
NSE code:	PIIND
Sharekhan code:	PIIND
Free float: (No of shares)	6.7 cr

Shareholding (%)

Promoters	51
FII	15
DII	20
Others	14

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.6	20.4	33.0	82.8
Relative to Sensex	4.6	16.7	30.1	56.3

Sharekhan Research, Bloomberg

PI Industries continued to deliver strong performance with revenue, EBITDA and PAT growing by 26%, 43% and 30% y-o-y, respectively, in Q2FY2020 (ahead of our estimates by 8%, 15% and 12% respectively). PI Industries reported revenue of Rs. 907 crore (ahead of our expectation of Rs. 839 crore), led by a 52% y-o-y increase in exports (CSM) business as domestic business was lower by 12% y-o-y. Despite input cost pressures (up by 51 bps to 57.6% of sales), EBITDA margin expanded by 257 bps at 21.2% (ahead of our expectation of 20%) led by economies of scale and cost efficiencies. Growth in PAT was restricted to 30.1% y-o-y at Rs. 123 crore (ahead of our expectation of Rs. 110 crore) largely due to higher depreciation (up 39.0% y-o-y and a higher tax incidence of 27.2% as against 23.1% in Q2FY2019. The management reiterated FY2020 guidance of over 20% for revenue growth and a 50-100 bps expansion in OPM. The company foresees opportunities from the export market due to ongoing issues in China being reflected in increased enquires and higher conversion. The company's capex plan is on track and it hopes to commission one plant in Q3FY2020 and another in Q4FY2020. The management guided for a capex of Rs. 350 crore for FY2021E.

Key Positives

- Export revenue grew 52% y-o-y, led by an increased enquires and higher conversions (order book stagnant at $1.4 billion).
- OPM expanded by 257 bps to 21.2%, led by economies of scale and cost efficiencies.

Key Negatives

- Domestic revenue growth was lower by 12% y-o-y owing to erratic monsoon and uneven distribution of rainfall.
- Input cost pressures led to gross margin contraction of 51 bps y-o-y to 42.4%.

Our Call

Valuation: Maintain Hold, as rich valuation limits upside: We introduce FY2022E estimates and expect revenue and earnings CAGR of 27.6% and 29.8%, respectively, during FY2019-FY2022E (Isagro numbers factored in from Q4FY2020). At current market price, the stock is trading at 37.1x/26.6x/21.9x FY2020E/FY2021E/ FY2022E earnings. With industry-leading return ratios and a healthy balance sheet and strong earnings visibility, we expect the stock to continue to fetch premium valuations. However, currently, as the stock seems to trade at stretched valuation resulting in unfavorable risk-reward, an upside looks limited. Hence, we maintain our Hold rating with a revised PT of Rs. 1,500.

Key Risks:

- Delay in closure of the Isagro (Asia) acquisition deal, might affect performance accordingly.
- Delay in commissioning of projects or execution of orders or delayed 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) Rs cr

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Revenues	2,277	2,841	3,528	4,844	5,902
OPM (%)	21.7	20.3	21.2	21.5	21.7
Adjusted PAT	368	410	529	737	896
% YoY growth	(20.0)	11.5	29.1	39.4	21.5
Adjusted EPS (Rs.)	26.7	29.8	38.5	53.6	65.1
P/E (x)	53.3	47.8	37.1	26.6	21.9
P/B (x)	10.2	8.6	7.1	5.7	4.6
EV/EBITDA (x)	39.2	33.7	26.1	18.6	14.9
RoNW (%)	20.7	19.5	21.0	23.8	23.2
RoCE (%)	25.0	24.9	27.1	30.7	29.9

Source: Company; Sharekhan estimates

Robust growth in exports (CSM business) boost Q2FY20 performance: Revenue grew at a healthy pace of 25.5% y-o-y to Rs 907 crores owing to robust growth of 52% y-o-y in exports (led by comercialisation of new molecules and increased enquires from innovators) despite domestic revenue being lower by 12% y-o-y as a result of soft demand offtake owing to erratic/delayed arrival of monsoon and higher trade inventory. Despite input cost pressures (up by 51 bps to 57.6% of sales), EBITDA margin witnessed an expansion of 257 bps at 21.2%. This has been led by economies of scale resulting in contraction of 152 bps and 156 bps in employee cost (8% of sales) and other operating expense (13.2% of sales) respectively. Hence EBITDA reported a strong growth of 42.8% y-o-y at Rs 193 crores. This was despite unabsorbed fixed overhead as a result of ramp-up cost in new manufacturing facilities. Despite strong operating performance, PAT growth was restricted to 30.1% y-o-y at Rs 123 crores largely due to higher depreciation (up by 39.0% y-o-y) and higher tax incidence (27.2% as against 23.1% in Q2FY2019).

Capex on track, to commission two plants in H2FY2020: The management highlighted that owing to strong demand from export markets (export order book remained stagnant at $1.4 billion despite strong revenue growth implying a healthy order intake) the company is ramping up its capex program. The multi-purpose plant in Jambusar facility (largely for backward integration and a new technology block) is slated to be commission in H2FY2020 (one in Q3FY2020 and another in Q4FY2020). The company had outlined a capex of Rs. 450 crore for FY2020 (Rs 347 crores incurred till date) and Rs. 350 crores for FY2021E. The management stated that the asset-turnover ratio should be at 1.25x-1.75x for the new capacities; however the peak asset turnover should be reached in 3-4 years at an utilisation level of 80-85%. The company is expected to fund the capex through internal accruals as operating cashflow generation is expected to remain robust; hence the reliance on external funding seems negligible. The company is a net debt free company having a cash and cash equivalent of Rs. 171 crore at the end of Q2FY2020.

Positive outlook for domestic market in H2FY2020: Erratic/delayed arrival of monsoons affected domestic revenue growth during H1FY2020. However, the management believes that the performance in H2FY20 i.e. Rabi season should be better owing to healthy water levels in reservoirs and improved soil condition led by increased moisture levels. Moreover, the company has introduced weed-resistant new generation herbicide “Awkira” in the domestic market (northern region) which has been showing encouraging results.

Isagro acquisition expected to conclude by end of Q3FY2020: The management expects the Isagro acquisition to be completed as envisaged earlier, by the end of Q3FY2020. Post this, the company will be able to leverage on additional manufacturing facility to meet growing demand of global customers and also strengthen its position in the domestic market through the complementary product portfolio and distribution channel of Isagro.

Results Rs cr

Particulars	Q2FY20	Q2FY19	YoY %	Q1FY20	QoQ %
Net	**907**	**723**	**25.5**	**754**	**20.3**
Material Cost	522	413	26.6	416	25.4
Gross Profit	**385**	**311**	**24.0**	**338**	**14.0**
Employee	73	69	5.5	77	(5.3)
Other Expenses	120	107	12.3	108	10.6
EBITDA	**193**	**135**	**42.8**	**153**	**26.2**
Other Income	11	12	(12.1)	12	(9.9)
Depreciation	32	23	39.0	30	7.5
Interest	3	1	78.6	2	8.7
PBT	**169**	**123**	**37.6**	**133**	**27.4**
Tax	46	28	62.3	31	47.8
RPAT	**123**	**95**	**30.1**	**102**	**21.2**
EPS (Rs)	8.9	6.9	30.1	7.4	21.2
%			**YoY (BPS)**		**QoQ (BPS)**
Gross profit margin	42.4	42.9	(51)	44.8	(234)
EBITDA margin	21.2	18.6	257	20.2	99
Net margin	13.6	13.1	48	13.5	9

Source: Company; Sharekhan Research

Q2FY2020 results concall highlights

- **Retained market share:** The management has indicated that it maintained its domestic market share despite slower growth among top players in the industry.
- **Utilisation levels remains healthy:** The management indicated that the utilisation rate is satisfactory. It is more variable owing to recently expanded capacity with the commencement of a plant in Q4FY2019 and multi-product plant.
- **Launch of new products might change mix:** Earlier around 5-6 molecules contributed 50% of total revenue. With new launches of products, the revenue mix from the conventional products is changing. Further, the lifecycle of molecule is a minimum of 12-14 years.
- **Increase in inquiries to boost export order book:** The management stated that it has been witnessing increase in number of inquiries owing to China issues resulting in a healthy traction in exports.
- **Capex program and commissioning:** Management maintained its capex guidance of Rs. 450 crore for FY2020E, of which the company had spent around Rs. 347 crore in 1HFY2020. The company plans to make capex of Rs. 350 crore in FY2021E. Also production is in full swing in one of the plants which was commissioned in Q4FY2019 and management is hopeful to commission one plant in Q3FY2020 and another plant in Q4FY2020E.
- **Growth outlook:** The management expects overall revenue growth of 20% for FY2020. Also considering the product pipeline and lined-up commercial phase of molecules, management expects 20% CAGR in the next three years.

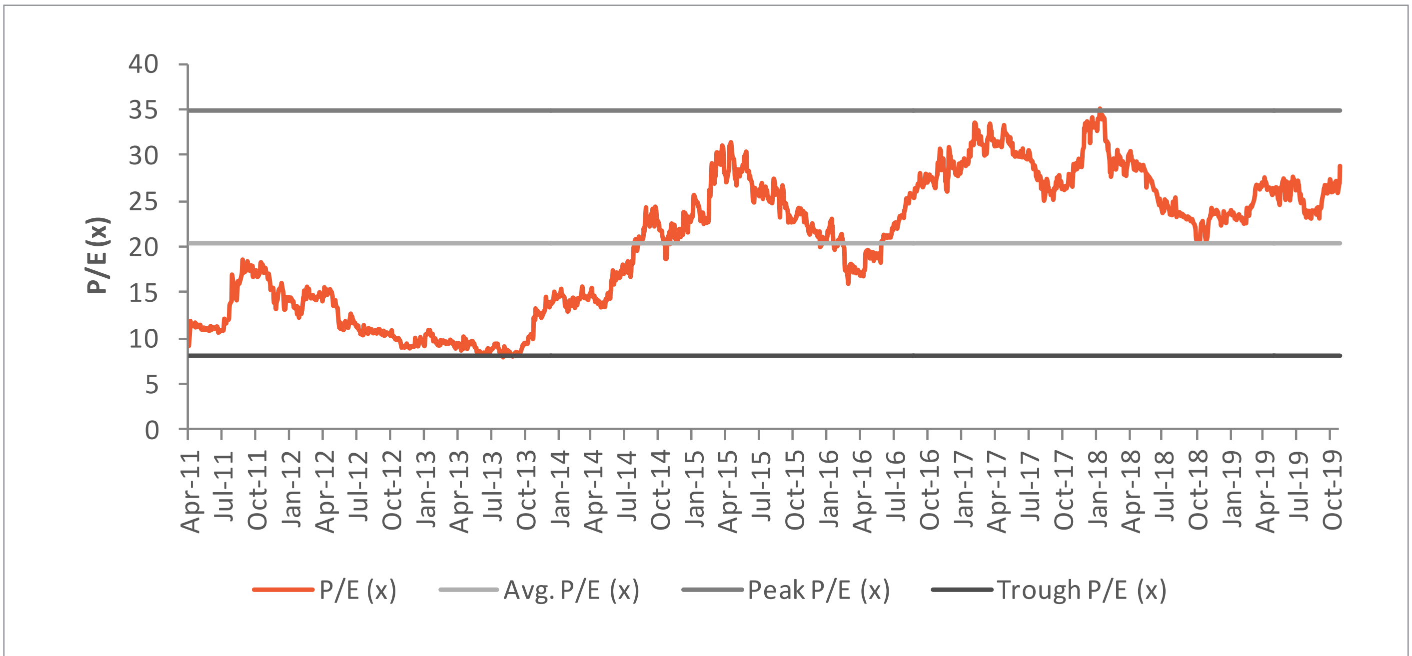
Outlook

Retains guidance of 20% revenue growth in FY2020: The management provided a positive outlook for the domestic market during H2FY2020 led by healthy water levels in reservoirs and improved soil conditions, led by higher moisture levels and launch of a weed-resistant new generation herbicide "Awkira". The company reiterated the FY2020 growth guidance of over 20% on the revenue front and a 50-100 bps operating margin expansion. The company foresees opportunities from the export market due to ongoing issues in China being reflected in increased enquires and higher conversion. The company's capex plan is on track and it expects to commission one plant in Q3FY2020 and another in Q4FY2020. The management guided for a capex of Rs. 350 crore for FY2021E.

Valuation

Maintain Hold with PT of Rs. 1,500/share, as rich valuation limits upside: We introduce FY2022E estimates and expect revenue and earnings CAGR of 27.6% and 29.8%, respectively, during FY2019-FY2022E (Isagro numbers factored in from Q4FY2020). At CMP, the stock is trading at 37.1x/26.6x/21.9x FY2020E/FY2021E/ FY2022E earnings. With industry-leading return ratios and a healthy balance sheet and strong earnings visibility, we expect the stock to continue to fetch premium valuation. However, at the current juncture as the stock seems to trade at stretched valuation resulting in unfavorable risk-reward, thus upside looks limited, hence maintain our hold rating on the stock with a revised PT of Rs. 1,500/share.

One-year forward P/E (x) band – Trades at rich valuation, upside looks limited



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	1,426	13.8	19,682	37.1	26.6	26.1	18.6	7.1	5.7	21.0	23.8
Insecticides (India)	557	2.1	1,150	9.1	7.9	5.8	4.7	1.6	1.3	17.6	17.0
UPL	598	76.4	45,692	13.8	12.0	8.3	7.5	2.8	2.4	21.2	21.3

Source: Company, Sharekhan estimates

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 setup, 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 a dedicated team of over 250 scientists and chemists.

Investment theme

A strong CSM order book of $1.4 billion at the end of Q2FY2020 provides healthy revenue visibility. The management foresees encouraging outlook for CSM business as business sentiments improve globally for products wherein the company operates. To tap export business opportunities, the management guided for a capex of of Rs. 450 crore for FY2020E and Rs. 350 crore for FY2021E, largely committed to the CSM business.

Key Risks

- Delay in closure of the Isagro (Asia) acquisition deal, might affect performance accordingly
- 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: Company Website

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	4.46
7	SBI Funds Management Pvt Ltd	4.09
8	SBI LARGE MIDCAP FUND	4.03
9	Cartica Capital Ltd	3.50
10	UTI Asset Management Co Ltd	1.88

Source: Bloomberg

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