

October 29, 2019

Q2FY20 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		BUY	
Target Price	1,355		1,278	
Sales (Rs. m)	33,836	43,657	34,554	41,151
% Chng.	(2.1)	6.1		
EBITDA (Rs. m)	7,354	9,033	7,239	9,259
% Chng.	1.6	(2.4)		
EPS (Rs.)	36.2	43.0	37.1	45.7
% Chng.	(2.4)	(5.9)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	28,409	33,836	43,657	51,628
EBITDA (Rs. m)	5,731	7,354	9,033	11,160
Margin (%)	20.2	21.7	20.7	21.6
PAT (Rs. m)	4,077	4,997	5,927	7,419
EPS (Rs.)	29.6	36.2	43.0	53.8
Gr. (%)	11.2	22.6	18.6	25.2
DPS (Rs.)	5.0	5.1	6.0	7.5
Yield (%)	0.4	0.4	0.4	0.5
RoE (%)	19.5	21.4	22.8	23.7
RoCE (%)	22.2	23.8	25.3	27.4
EV/Sales (x)	6.7	5.8	4.5	3.7
EV/EBITDA (x)	33.5	26.7	21.7	17.3
PE (x)	47.4	38.7	32.6	26.0
P/BV (x)	8.5	8.1	6.9	5.6

Key Data

PIIL.BO | PI IN

52-W High / Low	Rs.1,449 / Rs.712
Sensex / Nifty	39,832 / 11,787
Market Cap	Rs.193bn/ \$ 2,729m
Shares Outstanding	138m
3M Avg. Daily Value	Rs.436.59m

Shareholding Pattern (%)

Promoter's	51.50
Foreign	14.69
Domestic Institution	19.93
Public & Others	13.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.4	34.4	91.3
Relative	2.7	31.9	60.2

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Priced to perfection; margins to dilute in FY21

PI Industries reported better than expected results driven by outperformance from the CSM segment (up 52% YoY; PLe- 19%). Management commentary on future outlook indicates robust business momentum and clear growth visibility for 2-3 years, despite gloomy agchem environment globally. PI is all set to ride the multi-year growth in the CSM segment as its enhanced R&D capabilities, supply scarcity related issues in China and increased focus on outsourcing by the innovators are bearing fruit in the form of big product wins and significant surge in deal pipeline. With the robust growth visibility, PI may be in a continuous investment phase (capabilities and capacities) leading to robust business growth but limited headroom for margin expansion from current levels. Sizeable sustained capex guidance (Rs3.0-4.5bn p.a. for the next 2-3 years) for investment in 4 new plants (2 in FY20 & FY21 each), acquisition of ISAGRO's Asia business, increasing number of products moving from R&D stage to commercialisation and continued demand traction for existing products gives us superior earnings comfort. Acquisition of ISAGRO's Asia business even though gives them readymade capacity (with minimum fresh investment needs), it will be ~100 bps margin dilutive in FY21 for PI. While the medium term growth remains intact driven by robust business outlook & earnings visibility, the stock at 33.6x/26.8x FY21/FY22 earnings offers limited upside in the short term. We incorporate ISAGRO Asia financials, roll over to Sept'21 earnings and downgrade the stock to Hold (from Buy) with revised target price of Rs 1355 (Previous- 1278) based on 28x Sept'21 earnings of Rs 48.4.

Growth set to make a comeback in domestic business with the launch of Awkira herbicide: PI has launched Pyroxasulfone (branded as Awkira), wheat herbicide, in the domestic market for Phalaris Minor weed. Phalaris minor affects 50-70% of the wheat production acreage area in India and is rampant across North India. PI plans to extent it to Corn and Soyabean. With the launch of Awkira, the domestic business will regain the growth trajectory. Based on our assessment of the potential impact area and competitor's product pricing, we expect potential market size of pyroxasulfone to be ~Rs 43 bn.

Current CSM business upcycle is expected to last longer: Given the robust pipeline of orders, molecules under pipeline (48), discussion with clients and ramp up plan of the commercialised molecules, the current upcycle in the CSM business is expected to last longer. The 4 new plants which are currently in construction stage and are likely to be commenced before the end of FY21 are already booked with orders. Hence for molecules which are likely to be commercialised in FY20 and FY21, there could arise a need for more capacities when these molecules will be in ramp-up stage in ~FY23. Plants are generally booked for 5-7 years.

Building capabilities in other chemistries and Pharma segment: Over the last few years PI has gained strength in process capabilities. PI is now focussing on building chemistry strength which will expand PI's ambit of target market which it can tap in future. On the Pharma side the company is currently building back-end capabilities.

Exhibit 1: PI continues to clock robust performance

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	QoQ gr. (%)	H1FY20	H1FY19	YoY gr. (%)
Net Sales	9,074	7,230	25.5	7,541	20.3	16,615	13,286	25.1
CSM	6390	4190	52.5	5010	27.5	11,400	7,333	55.5
Domestic	2690	3040	(11.5)	2531	6.3	5,221	5,953	(12.3)
Expenditure								
Raw Materials	5,223	4,125	26.6	4,164	25.4	9,387	7,360	27.5
% of Net Sales	57.6	57.1		55.2		56.5	55.4	
Employee Cost	724	683	6.0	766	(5.5)	1,490	1,343	10.9
% of Net Sales	8.0	9.4		10.2		9.0	10.1	
Other Expenses	1,208	1,076	12.3	1,097	10.1	2,305	2,056	12.1
% of Net Sales	13.3	14.9		14.5		13.9	15.5	
Total Expenditure	7,155	5,884	21.6	6,027	18.7	13,182	10,759	22.5
EBITDA	1,919	1,346	42.6	1,514	26.8	3,433	2,527	35.9
Margin (%)	21.1	18.6		20.1		20.7	19.0	
Depreciation	315	228	38.2	294	7.1	609	448	35.9
EBIT	1,604	1,118	43.5	1,220	31.5	2,824	2,079	35.8
Interest	22	14	57.1	26	(15.4)	48	31	54.8
Other Income	106	124	(14.5)	123	(13.8)	229	226	1.3
PBT	1,688	1,228	37.5	1,317	28.2	3,005	2,274	32.1
Tax	460	284	62.0	309	48.9	769	513	49.9
Tax Rate (%)	27.3	23.1		23.5		25.6	22.6	
RPAT	1,228	944	30.1	1,008	21.8	2,236	1,761	27.0
APAT	1,228	944	30.1	1,008	21.8	2,236	1,761	27.0
Adj EPS	8.9	6.8	30.1	7.3	21.8	16.2	12.8	27.0

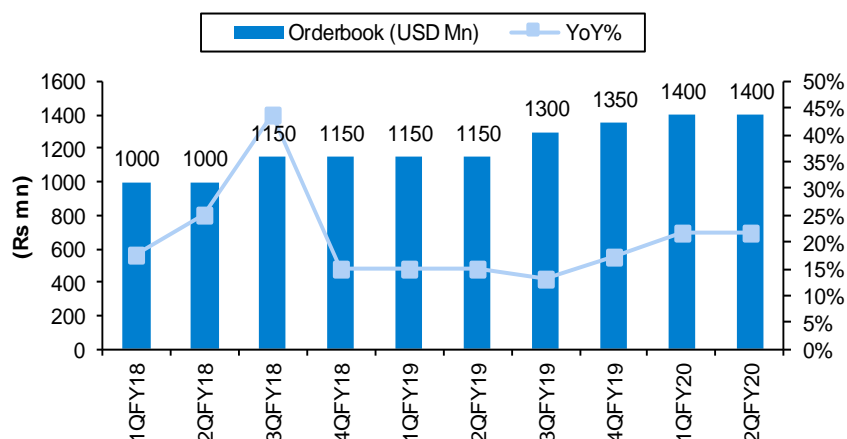
Source: Company, PL

Exhibit 2: CSM business will continue to dominate the overall revenue pie

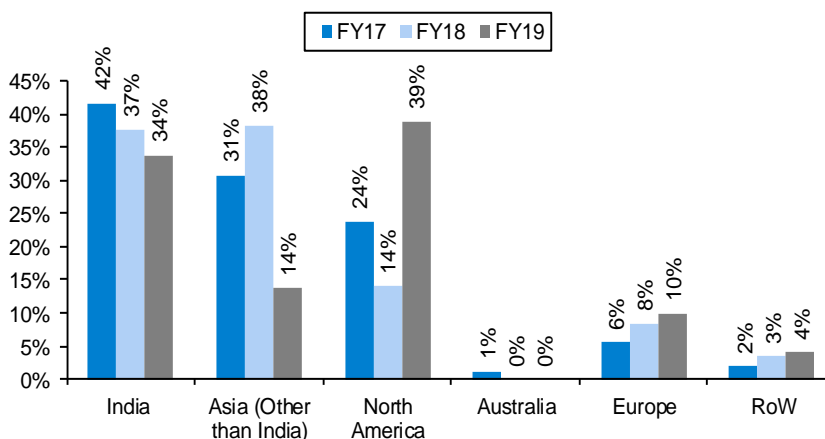
Rs Mn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
CSM Segment	3,000	3,020	3,860	4,380	3,140	3,986	5,410	6,100	5,010	6,390
YoY%	-12.0%	-4.4%	19.5%	1.6%	4.7%	32.0%	40.2%	39.3%	59.6%	52.5%
Sales Mix	51.2%	53.8%	71.7%	70.1%	51.9%	55.1%	76.4%	75.8%	66.4%	70.4%
Domestic Segment	2,856	2,591	1,520	1,870	2,910	3,244	1,670	1,950	2,530	2,690
YoY%	-16.6%	1.2%	-14.1%	-4.7%	1.9%	25.2%	9.9%	4.3%	-13.1%	-11.5%
Sales Mix	48.8%	46.2%	28.3%	29.9%	48.1%	44.9%	23.6%	24.2%	33.6%	29.6%

Source: Company, PL

Exhibit 3: Orderbook continues to grow in high double digits despite healthy execution



Source: Company, PL

Exhibit 4: Revenue share from North America has shot up in FY19


Source: Company, PL

Exhibit 5: Timeline of CSM molecule commercialisation count

FY14	FY15	FY16	FY17	FY18	FY19	FY20E
3	3	3	4	4	3	4

Source: Company, PL

Exhibit 6: Product launch timeline in domestic business

Year	Brand Name	Technical Name	Category
FY13	Osheen	Dinotefuran 20% SG	Rice Insecticide for BPH
	Fluton	Flubendiamide 20% WG	Broad spectrum insecticide
	Cuprina	Copper Oxychloride 50%WG	Fungicide for Grapes and Mango
FY14	Melsa	Pinoxaden 5.1% EC	Wheat herbicide
	PIMIX	Metsulfuron methyl 10% + Chlorimuron ethyl 10% WP	Rice herbicide
FY15	Keefun	Tolfenpyrad	Broad spectrum insecticide for horticulture
	BUNKER	Pendimethalin	Broad spectrum herbicide
FY16	Vibrant	Thiocyclam Hydrogen Oxalate	Rice Insecticide
	Perido	Propiconazole	Broad spectrum fungicide
	BIOVITAx	Ascophyllum nodosum	Growth promoter
FY17	Legacee	Fenoxaprop-p-ethyl	Rice Herbicide
FY18	Header	Pyraclostrobin	Rice blast Fungicide
	Fender	Fluxapyroxad 6.25% + Epoxiconazole 6.25% EC	Combination rice fungicide for blights
	Visma	Pyraclostrobin 12.8% + Boscalid 25.2% WG	Grapes mixture fungicide for Mildews
	Humesol	Humic Acid 18% Fulvic Acid 1.5%	Organic Fertiliser
	Elite	Topramezone	Post emergent herbicide for Corn
FY19	Cosko	Rynaxypyr	Paddy Insecticide for stem borer
	Fantom	Picoxystrobin & Tricyclazole	Combination fungicide for blast in rice

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	28,409	33,836	43,657	51,628
YoY gr. (%)	24.8	19.1	29.0	18.3
Cost of Goods Sold	15,502	18,610	24,077	28,118
Gross Profit	12,907	15,226	19,580	23,510
Margin (%)	45.4	45.0	44.8	45.5
Employee Cost	2,625	2,966	3,970	4,656
Other Expenses	4,551	4,906	6,578	7,695
EBITDA	5,731	7,354	9,033	11,160
YoY gr. (%)	16.5	28.3	22.8	23.5
Margin (%)	20.2	21.7	20.7	21.6
Depreciation and Amortization	926	1,258	1,486	1,766
EBIT	4,805	6,096	7,547	9,394
Margin (%)	16.9	18.0	17.3	18.2
Net Interest	59	160	298	213
Other Income	600	640	550	580
Profit Before Tax	5,346	6,576	7,799	9,761
Margin (%)	18.8	19.4	17.9	18.9
Total Tax	1,269	1,578	1,872	2,343
Effective tax rate (%)	23.7	24.0	24.0	24.0
Profit after tax	4,077	4,997	5,927	7,419
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,077	4,997	5,927	7,419
YoY gr. (%)	11.2	22.6	18.6	25.2
Margin (%)	14.4	14.8	13.6	14.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,077	4,997	5,927	7,419
YoY gr. (%)	11.2	22.6	18.6	25.2
Margin (%)	14.4	14.8	13.6	14.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,077	4,997	5,927	7,419
Equity Shares O/s (m)	138	138	138	138
EPS (Rs)	29.6	36.2	43.0	53.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	14,829	18,726	23,726	26,726
Tangibles	14,699	18,562	23,518	26,492
Intangibles	130	164	208	234
Acc: Dep / Amortization	2,990	4,248	5,734	7,500
Tangibles	2,926	4,159	5,611	7,342
Intangibles	64	89	123	158
Net fixed assets	11,839	14,478	17,992	19,226
Tangibles	11,773	14,403	17,907	19,149
Intangibles	66	75	85	77
Capital Work In Progress	1,828	2,235	750	775
Goodwill	-	-	-	-
Non-Current Investments	325	214	224	244
Net Deferred tax assets	127	127	127	127
Other Non-Current Assets	454	541	546	620
Current Assets				
Investments	1,119	-	-	800
Inventories	5,357	6,953	8,133	9,901
Trade receivables	6,618	8,343	9,688	11,316
Cash & Bank Balance	831	784	931	1,489
Other Current Assets	2,621	2,956	3,205	3,695
Total Assets	31,447	37,037	41,989	48,657
Equity				
Equity Share Capital	138	138	138	138
Other Equity	22,609	23,786	27,986	34,274
Total Network	22,747	23,924	28,124	34,412
Non-Current Liabilities				
Long Term borrowings	99	4,000	3,500	2,500
Provisions	289	338	349	413
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	393	-	-	-
Trade payables	5,141	5,284	6,339	7,072
Other current liabilities	2,588	3,301	3,486	4,070
Total Equity & Liabilities	31,447	37,037	41,989	48,657

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	5,346	6,576	7,799	9,761
Add. Depreciation	926	1,258	1,486	1,766
Add. Interest	59	160	298	213
Less Financial Other Income	600	640	550	580
Add. Other	236	(640)	(550)	(580)
Op. profit before WC changes	6,567	7,354	9,033	11,160
Net Changes-WC	(1,542)	(3,156)	(1,467)	(2,575)
Direct tax	(1,177)	(1,578)	(1,134)	(2,296)
Net cash from Op. activities	3,848	2,620	6,431	6,289
Capital expenditures	(3,675)	(3,544)	(5,000)	(3,000)
Interest / Dividend Income	193	640	550	580
Others	284	(2,236)	-	(800)
Net Cash from Invst. activities	(3,198)	(5,140)	(4,450)	(3,220)
Issue of share cap. / premium	75	-	-	-
Debt changes	(399)	3,508	(500)	(1,000)
Dividend paid	(832)	(875)	(1,037)	(1,298)
Interest paid	(59)	(160)	(298)	(213)
Others	-	-	-	-
Net cash from Fin. activities	(1,215)	2,473	(1,835)	(2,511)
Net change in cash	(565)	(47)	146	558
Free Cash Flow	165	(924)	1,431	3,289

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	7,075	8,048	7,541	9,074
YoY gr. (%)	31.6	28.7	24.5	25.5
Raw Material Expenses	3,775	4,367	4,164	5,223
Gross Profit	3,300	3,681	3,377	3,851
Margin (%)	46.6	45.7	44.8	42.4
EBITDA	1,486	1,719	1,514	1,919
YoY gr. (%)	41.8	27.6	28.2	42.6
Margin (%)	21.0	21.4	20.1	21.1
Depreciation / Depletion	234	244	294	315
EBIT	1,252	1,475	1,220	1,604
Margin (%)	17.7	18.3	16.2	17.7
Net Interest	15	13	26	22
Other Income	152	222	123	106
Profit before Tax	1,389	1,684	1,317	1,688
Margin (%)	19.6	20.9	17.5	18.6
Total Tax	316	440	309	460
Effective tax rate (%)	22.8	26.1	23.5	27.3
Profit after Tax	1,073	1,244	1,008	1,228
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,073	1,244	1,008	1,228
YoY gr. (%)	33.0	18.0	23.4	30.1
Margin (%)	15.2	15.5	13.4	13.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,073	1,244	1,008	1,228
YoY gr. (%)	33.0	18.0	23.4	30.1
Margin (%)	15.2	15.5	13.4	13.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,073	1,244	1,008	1,228
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	7.8	9.0	7.3	8.9

Source: Company Data, PL Research

Key Financial Metrics

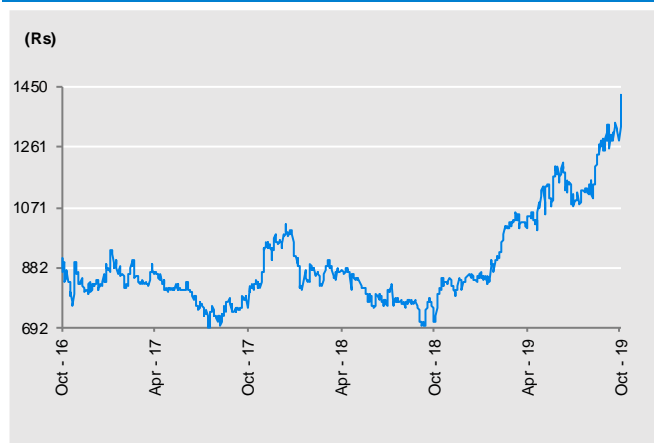
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	29.6	36.2	43.0	53.8
CEPS	36.3	45.4	53.8	66.6
BVPS	164.9	173.5	203.9	249.5
FCF	1.2	(6.7)	10.4	23.9
DPS	5.0	5.1	6.0	7.5
Return Ratio(%)				
RoCE	22.2	23.8	25.3	27.4
ROIC	18.7	18.7	19.9	22.3
RoE	19.5	21.4	22.8	23.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.1	0.1	0.0
Net Working Capital (Days)	88	108	96	100
Valuation(x)				
PER	47.4	38.7	32.6	26.0
P/B	8.5	8.1	6.9	5.6
P/CEPS	38.6	30.9	26.1	21.0
EV/EBITDA	33.5	26.7	21.7	17.3
EV/Sales	6.7	5.8	4.5	3.7
Dividend Yield (%)	0.4	0.4	0.4	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Revenues				
CSM	18,840	24,172	29,248	35,390
Domestic	9,569	9,665	11,114	12,448

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	BUY	1,278	1,300
2	30-Sep-19	BUY	1,278	1,329
3	26-Jul-19	BUY	1,278	1,095
4	16-Jul-19	BUY	1,278	1,147
5	8-Jul-19	BUY	1,278	1,125
6	4-Jul-19	BUY	1,278	1,200
7	20-May-19	BUY	1,278	1,106
8	5-Apr-19	BUY	1,023	1,052
9	12-Feb-19	BUY	1,023	892
10	7-Jan-19	Accumulate	924	864

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Hold	3,699	3,350
2	Dhanuka Agritech	BUY	466	311
3	Insecticides India	BUY	948	599
4	P.I. Industries	BUY	1,278	1,300
5	Rallis India	Accumulate	174	163
6	Sharda Cropchem	Accumulate	405	286
7	UPL	BUY	752	594

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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