

P.I. Industries (PI IN)

Rating: HOLD | CMP: Rs1,545 | TP: Rs1,516

February 13, 2020

Q3FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		HOLD	
Target Price	1,516		1,355	
Sales (Rs. m)	44,424	53,058	43,657	51,628
% Chng.	1.8	2.8		
EBITDA (Rs. m)	9,408	11,403	9,033	11,160
% Chng.	4.2	2.2		
EPS (Rs.)	44.1	54.1	43.0	53.8
% Chng.	2.6	0.7		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	28,409	34,761	44,424	53,058
EBITDA (Rs. m)	5,731	7,476	9,408	11,403
Margin (%)	20.2	21.5	21.2	21.5
PAT (Rs. m)	4,077	4,911	6,080	7,467
EPS (Rs.)	29.6	35.6	44.1	54.1
Gr. (%)	11.2	20.5	23.8	22.8
DPS (Rs.)	5.0	5.0	6.2	7.6
Yield (%)	0.3	0.3	0.4	0.5
RoE (%)	19.5	20.8	23.4	24.4
RoCE (%)	22.2	24.2	26.8	28.6
EV/Sales (x)	7.4	6.2	4.9	4.0
EV/EBITDA (x)	36.9	28.7	22.9	18.7
PE (x)	52.3	43.4	35.0	28.5
P/BV (x)	9.4	8.7	7.7	6.3

Key Data

PIIL.BO | PI IN

52-W High / Low	Rs.1,629 / Rs.864
Sensex / Nifty	41,460 / 12,175
Market Cap	Rs.213bn/ \$ 2,990m
Shares Outstanding	138m
3M Avg. Daily Value	Rs.406.91m

Shareholding Pattern (%)

Promoter's	51.47
Foreign	13.77
Domestic Institution	20.45
Public & Others	14.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.9	38.4	70.9
Relative	6.9	23.3	48.5

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Embarking on a journey beyond Agchem

PI's results were marginally lower than our estimates due to higher than anticipated tax rate. Both domestic and CSM businesses continue to grow a rapid pace. It has also completed the acquisition of Isagro which will be incorporated in the financials 4Q onwards. PI plans to raise Rs 20 bn within the next 2 months to leapfrog its capabilities into newer adjacent verticals & niche technologies via organic/inorganic route. Our take from concall is that since capital requirement is immediate & sizeable (~52% of FY20E Balance Sheet size) there could be some kind of inorganic growth opportunity that the management may execute soon. The scale of PI's business may increase by +50% from the Balance sheet perspective (FY20E BS size ~Rs 38 bn) and has potential to take it to a different trajectory. Given the sizeable nature of potential business expansion, we would wait for further developments to frame a view on this. In the existing business EBITDA margins are likely to remain flat @ 21.0-21.5% over the next 2 years as Isagro's low margin business profile is likely to offset all the operating leverage benefits for PI. We have revised our topline/EBITDA/PAT estimates by 2%/4%/3% for FY21E and 3%/2%/0.7% for FY22E. We roll forward to FY22E earnings, maintain our HOLD rating and increase target price to Rs 1516 (Previous- 1355) based on 28x FY22 earnings.

Embarking on a journey beyond Agchem: PI Industries aims to leapfrog its capabilities into newer adjacent verticals & niche technologies and is evaluating both organic and inorganic growth opportunities for the same. It plans to raise upto Rs 20 bn via QIP within the next 2 months to embark on the journey of replicating the success of agchem into other adjacent verticals (Nutraceuticals, Imaging, Pharma, etc).

The management has been working on alternative technologies like electronic chemical, magnetic chemical and pharma early intermediates for a while now and lot of work was being done in the R&D at Kilo pilot level. The company seems to be at the right place and right time as it is ready with enhanced technological and R&D capabilities when the innovators are derisking their sourcing from China.

Our take from concall is that since the capital requirement is immediate & sizeable (52% of FY20E Balance Sheet size) there could be some kind of inorganic growth opportunity that the management may execute soon. In case of organic growth the required capital could have been lower initially. The scale of PI's business would increase by +50% from the Balance sheet perspective and has potential to take it to a different trajectory.

Growth has comeback in domestic business with launch of Awkira herbicide:

With the launch of wheat herbicide Awkira and +10% acreage expansion in Wheat, the domestic business grew 24%. Awkire (Pyroxasulfone) is 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.

ISAGRO's assets being realigned to meet PI's requirement: PI has completed the acquisition of Isagro for Rs 4.55 bn including Rs 1.11 bn for surplus cash. The domestic business of the company will be transferred to a subsidiary called Jivagro Ltd while remaining business will be merged with PI. The management is realigning the plants of ISAGRO to according to PI's own benchmarks/ requirements.

3 new plants to commence in the next 15 months: PI will commence 3 new plants, 1 each in 4QFY20, 1QFY21 and 2HFY21. Apart from the Rs 20 bn QIP, It plans to invest Rs 2.5-3.0 bn in FY21. FY20 capex is ~Rs 6 bn out of which PI has already invested Rs 5.5 bn till date. Post ISAGRO acquisition net debt currently stands at Rs 2.52 bn.

Corona virus unlikely to disrupt PI's operations: PI is well placed on the raw materials availability side till 4Q but the overall impact even if the Coronavirus related disruption gets elongated is likely to be minimal as revenue dependency on China is in single digits.

Exhibit 1: PI continues to clock robust performance

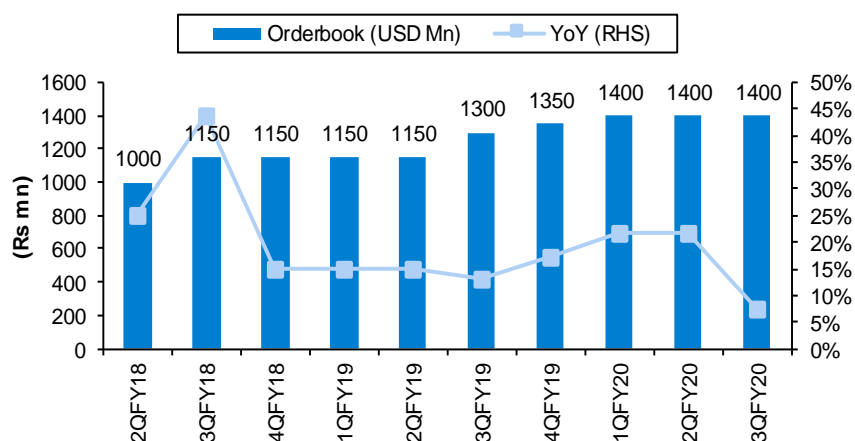
Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	QoQ gr. (%)	9MFY20	9MFY19	YoY gr. (%)
Net Sales	8,498	7,075	20.1	9,074	(6.3)	25,113	20,361	23.3
CSM	6440	5410	19.0	6390	0.8	17840	12743	40.0
Domestic	2060	1670	23.4	2690	(23.4)	7281	7623	(4.5)
Expenditure								
Raw Materials	4,537	3,775	20.2	5,223	(13.1)	13,924	11,135	25.0
% of Net Sales	53.4	53.4		57.6		55.4	54.7	
Employee Cost	758	637	19.0	724	4.7	2,248	1,980	13.5
% of Net Sales	8.9	9.0		8.0		9.0	9.7	
Other Expenses	1,347	1,177	14.4	1,208	11.5	3,652	3,233	13.0
% of Net Sales	15.9	16.6		13.3		14.5	15.9	
Total Expenditure	6,642	5,589	18.8	7,155	(7.2)	19,824	16,348	21.3
EBITDA	1,856	1,486	24.9	1,919	(3.3)	5,289	4,013	31.8
Margin (%)	21.8	21.0		21.1		21.1	19.7	
Depreciation	318	234	35.9	315	1.0	927	682	35.9
EBIT	1,538	1,252	22.8	1,604	(4.1)	4,362	3,331	31.0
Interest	45	15	200.0	22	104.5	93	46	102.2
Other Income	197	152	29.6	106	85.8	426	378	12.7
PBT	1,690	1,389	21.7	1,688	0.1	4,695	3,663	28.2
Tax	486	316	53.8	460	5.7	1,255	829	51.4
Tax Rate (%)	28.8	22.8		27.3		26.7	22.6	
RPAT	1,204	1,073	12.2	1,228	(2.0)	3,440	2,834	21.4
APAT	1,204	1,073	12.2	1,228	(2.0)	3,440	2,834	21.4
Adj EPS	8.7	7.8	12.2	8.9	(2.0)	24.9	20.6	21.4

Source: Company, PL

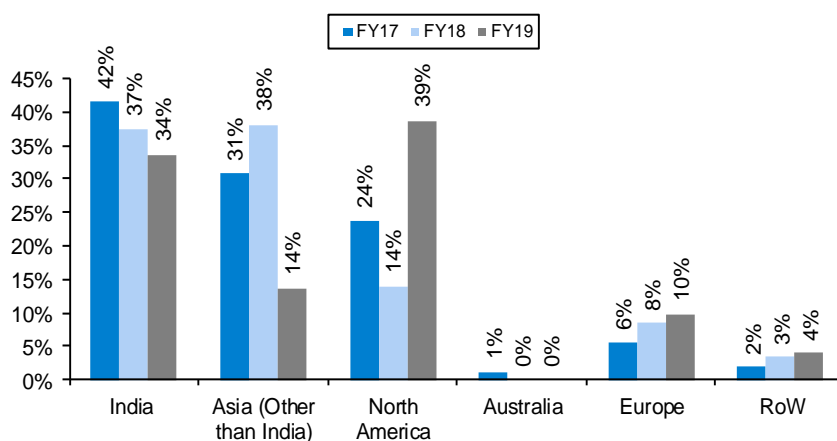
Exhibit 2: CSM business will continue to dominate the overall revenue pie

Rs Mn	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
CSM Segment	3,000	3,020	3,860	4,380	3,140	3,986	5,410	6,100	5,010	6,390	6,440
YoY%	-12.0%	-4.4%	19.5%	1.6%	4.7%	32.0%	40.2%	39.3%	59.6%	52.5%	19.0%
Sales Mix	51.2%	53.8%	71.7%	70.1%	51.9%	55.1%	76.4%	75.8%	66.4%	70.4%	75.8%
Domestic Segment	2,856	2,591	1,520	1,870	2,910	3,244	1,670	1,950	2,530	2,690	2,060
YoY%	-16.6%	1.2%	-14.1%	-4.7%	1.9%	25.2%	9.9%	4.3%	-13.1%	-11.5%	23.4%
Sales Mix	48.8%	46.2%	28.3%	29.9%	48.1%	44.9%	23.6%	24.2%	33.6%	29.6%	24.2%

Source: Company, PL

Exhibit 3: Flat orderbook in the last 3 quarters


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	34,761	44,424	53,058
YoY gr. (%)	24.8	22.4	27.8	19.4
Cost of Goods Sold	15,502	19,171	24,343	29,036
Gross Profit	12,907	15,590	20,081	24,022
Margin (%)	45.4	44.9	45.2	45.3
Employee Cost	2,625	3,022	3,985	4,725
Other Expenses	4,551	5,092	6,688	7,895
EBITDA	5,731	7,476	9,408	11,403
YoY gr. (%)	16.5	30.4	25.8	21.2
Margin (%)	20.2	21.5	21.2	21.5
Depreciation and Amortization	926	1,287	1,532	1,830
EBIT	4,805	6,189	7,875	9,573
Margin (%)	16.9	17.8	17.7	18.0
Net Interest	59	180	298	170
Other Income	600	648	550	580
Profit Before Tax	5,346	6,657	8,128	9,983
Margin (%)	18.8	19.2	18.3	18.8
Total Tax	1,269	1,746	2,048	2,516
Effective tax rate (%)	23.7	26.2	25.2	25.2
Profit after tax	4,077	4,911	6,080	7,467
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,077	4,911	6,080	7,467
YoY gr. (%)	11.2	20.5	23.8	22.8
Margin (%)	14.4	14.1	13.7	14.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,077	4,911	6,080	7,467
YoY gr. (%)	11.2	20.5	23.8	22.8
Margin (%)	14.4	14.1	13.7	14.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,077	4,911	6,080	7,467
Equity Shares O/s (m)	138	138	138	138
EPS (Rs)	29.6	35.6	44.1	54.1

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	24,226	27,226
Tangibles	14,699	18,562	24,014	26,987
Intangibles	130	164	212	239
Acc: Dep / Amortization	2,990	4,277	5,809	7,639
Tangibles	2,926	4,187	5,685	7,478
Intangibles	64	90	124	161
Net fixed assets	11,839	14,449	18,417	19,587
Tangibles	11,773	14,375	18,329	19,509
Intangibles	66	74	88	78
Capital Work In Progress	1,828	2,735	750	775
Goodwill	-	-	-	-
Non-Current Investments	325	216	226	248
Net Deferred tax assets	127	127	127	127
Other Non-Current Assets	454	556	555	637
Current Assets				
Investments	1,119	-	-	800
Inventories	5,357	6,476	8,276	10,176
Trade receivables	6,618	8,571	10,345	12,065
Cash & Bank Balance	831	1,886	766	1,543
Other Current Assets	2,621	3,023	3,252	3,783
Total Assets	31,447	38,456	43,114	50,218
Equity				
Equity Share Capital	138	138	138	138
Other Equity	22,609	24,230	27,356	33,696
Total Network	22,747	24,368	27,494	33,834
Non-Current Liabilities				
Long Term borrowings	99	3,500	3,500	2,000
Provisions	289	348	355	424
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	393	-	-	-
Trade payables	5,141	6,666	8,033	9,594
Other current liabilities	2,588	3,384	3,543	4,176
Total Equity & Liabilities	31,447	38,456	43,114	50,218

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	5,346	6,657	8,128	9,983
Add. Depreciation	926	1,287	1,532	1,830
Add. Interest	59	180	298	170
Less Financial Other Income	600	648	550	580
Add. Other	236	(648)	(550)	(580)
Op. profit before WC changes	6,567	7,476	9,408	11,403
Net Changes-WC	(1,542)	(1,512)	(2,209)	(1,963)
Direct tax	(1,177)	(1,746)	(2,007)	(2,465)
Net cash from Op. activities	3,848	4,218	5,192	6,974
Capital expenditures	(3,675)	(3,544)	(5,500)	(3,000)
Interest / Dividend Income	193	648	550	580
Others	284	(2,236)	-	(800)
Net Cash from Invst. activities	(3,198)	(5,132)	(4,950)	(3,220)
Issue of share cap. / premium	75	-	-	-
Debt changes	(399)	3,008	-	(1,500)
Dividend paid	(832)	(859)	(1,064)	(1,307)
Interest paid	(59)	(180)	(298)	(170)
Others	-	-	-	-
Net cash from Fin. activities	(1,215)	1,969	(1,361)	(2,977)
Net change in cash	(565)	1,054	(1,120)	777
Free Cash Flow	165	674	(308)	3,974

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	8,048	7,541	9,074	8,498
YoY gr. (%)	28.7	24.5	25.5	20.1
Raw Material Expenses	4,367	4,164	5,223	4,537
Gross Profit	3,681	3,377	3,851	3,961
Margin (%)	45.7	44.8	42.4	46.6
EBITDA	1,719	1,514	1,919	1,856
YoY gr. (%)	27.6	28.2	42.6	24.9
Margin (%)	21.4	20.1	21.1	21.8
Depreciation / Depletion	244	294	315	318
EBIT	1,475	1,220	1,604	1,538
Margin (%)	18.3	16.2	17.7	18.1
Net Interest	13	26	22	45
Other Income	222	123	106	197
Profit before Tax	1,684	1,317	1,688	1,690
Margin (%)	20.9	17.5	18.6	19.9
Total Tax	440	309	460	486
Effective tax rate (%)	26.1	23.5	27.3	28.8
Profit after Tax	1,244	1,008	1,228	1,204
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,244	1,008	1,228	1,204
YoY gr. (%)	18.0	23.4	30.1	12.2
Margin (%)	15.5	13.4	13.5	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,244	1,008	1,228	1,204
YoY gr. (%)	18.0	23.4	30.1	12.2
Margin (%)	15.5	13.4	13.5	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,244	1,008	1,228	1,204
Avg. Shares O/s (m)	138	138	138	138
EPS (Rs)	9.0	7.3	8.9	8.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	29.6	35.6	44.1	54.1
CEPS	36.3	44.9	55.2	67.4
BVPS	164.9	176.7	199.4	245.3
FCF	1.2	4.9	(2.2)	28.8
DPS	5.0	5.0	6.2	7.6
Return Ratio(%)				
RoCE	22.2	24.2	26.8	28.6
ROIC	18.7	19.3	20.6	23.0
RoE	19.5	20.8	23.4	24.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.1	0.1	0.0
Net Working Capital (Days)	88	88	87	87
Valuation(x)				
PER	52.3	43.4	35.0	28.5
P/B	9.4	8.7	7.7	6.3
P/CEPS	42.6	34.4	28.0	22.9
EV/EBITDA	36.9	28.7	22.9	18.7
EV/Sales	7.4	6.2	4.9	4.0
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Revenues				
CSM	18,840	24,549	29,704	35,941
Domestic	9,569	9,521	10,949	12,592

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Hold	1,355	1,444
2	29-Oct-19	Hold	1,355	1,401
3	3-Oct-19	BUY	1,278	1,300
4	30-Sep-19	BUY	1,278	1,329
5	26-Jul-19	BUY	1,278	1,095
6	16-Jul-19	BUY	1,278	1,147
7	8-Jul-19	BUY	1,278	1,125
8	4-Jul-19	BUY	1,278	1,200
9	20-May-19	BUY	1,278	1,106
10	5-Apr-19	BUY	1,023	1,052

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	BUY	5,288	4,255
2	Dhanuka Agritech	BUY	423	416
3	Godrej Agrovet	BUY	659	559
4	Insecticides India	BUY	896	488
5	P.I. Industries	Hold	1,355	1,444
6	Rallis India	Accumulate	248	220
7	Sharda Cropchem	Accumulate	313	268
8	Sumitomo Chemical India	BUY	206	-
9	UPL	BUY	740	543

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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