

PI Industries

Refer to important disclosures at the end of this report

Tide is turning for the domestic business

CMP: Rs 1,594

as of (June 8, 2020)

TP: Rs 1,765 (▲)

12 months

Rating: BUY (■)

Upside: 10.7 %



We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- PI's Q4 revenue increased 6% yoy on the back of Isagro acquisition. Comparable revenues stood flat yoy. Comparable domestic revenues decreased 25% yoy due to the deferment of Rs1bn in sales to Q1FY21 due to shutdown. Adjusted for same, domestic revenues increased 26% yoy, marking 2nd consecutive quarter of high growth.
- PI has rationalized its product portfolio in the domestic business by exiting tail products and improving focus on specialty products. As a result, Q4 gross margins improved 106bps yoy. EBITDA margins improved lower at 23bps yoy due to plant shutdown costs.
- Comparable exports increased 7% yoy despite the shutdown of one plant due to fire on 6th Jan and Covid-19 shutdown for last 8-10 days in March. Overall exports increased 12% yoy due to Isagro acquisition.
- PI's robust order book of USD1.5bn (3.6x FY21E revenues) and turnaround in the domestic business offer comfort and justifies industry-leading P/E valuations of 26.5x/22.4x for FY22/FY23E. We maintain Buy with a revised TP of Rs1,765 (28x Jun-21E EPS).

Improvement in product mix in domestic business leads to margin beat

PI's Q4FY20 EBITDA margins improved 23bps yoy to 21.8% despite shutdown-related costs and the consolidation of Isagro. This was driven by a 106bps improvement in gross margins. The improvement in gross margins was due to product rationalization (exiting tail molecules) and increasing share of specialty products. New products that were (launched in last 2-3 years) now contributes 30-35% of revenue which led to an improvement in margins.

Management to continue to pursue inorganic opportunities

Management guided that it will continue to pursue inorganic growth opportunities to diversify into adjacent businesses (pharma CSM, specialty CSM). These inorganic initiatives would be funded mostly by equity raised from the capital markets. PI has also commercialized one intermediate in the pharma segment for a potential Covid-19 drug. Revenue from this intermediates should flow if the drug gets approved.

Outlook: Robust revenue growth of 27%/30% in FY21/22E

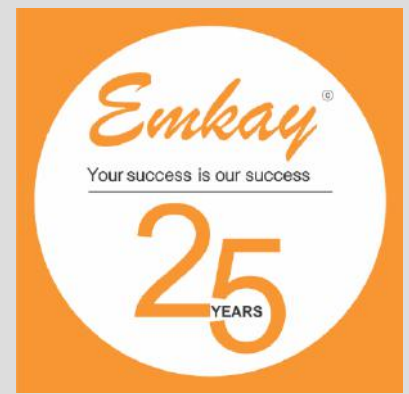
PI's track record in CSM should help it to benefit from customers looking to diversify away from China. Management has indicated increased number of inquiries from global customers. We expect PI's revenue and EBITDA to grow 27%/30% and 34%/34% in FY21/22E, driven by capacity expansion in exports and turnaround in the domestic business. Maintain Buy and EW stance in EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Agri Input & Chemicals \(Page 9\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	28,409	33,665	42,711	55,684	64,474
EBITDA	5,764	7,178	9,610	12,863	15,151
EBITDA Margin (%)	20.3	21.3	22.5	23.1	23.5
APAT	4,102	4,566	5,977	8,302	9,809
EPS (Rs)	29.7	33.1	43.3	60.2	71.1
EPS (% chg)	11.6	11.3	30.9	38.9	18.1
ROE (%)	19.2	18.5	21.1	24.2	22.9
P/E (x)	53.6	48.1	36.8	26.5	22.4
EV/EBITDA (x)	38.0	31.1	23.3	17.3	14.4
P/BV (x)	9.5	8.4	7.2	5.8	4.6

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/ 5.3
Target Price change (%)	10.3
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	43.3	60.2
Consensus	44.7	56.1
Mean Consensus TP (12M)	Rs 1,604	

Stock Details

Bloomberg Code	PI IN
Face Value (Rs)	1
Shares outstanding (mn)	138
52 Week H/L	1,650 / 970
M Cap (Rs bn/USD bn)	220 / 2.91
Daily Avg Volume (nos.)	208,317
Daily Avg Turnover (US\$ mn)	3.9

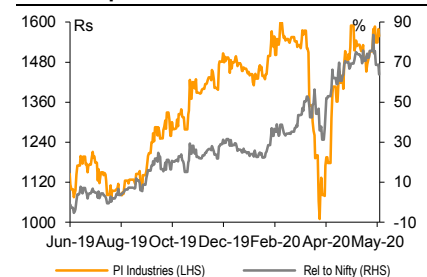
Shareholding Pattern Mar '20

Promoters	51.4%
FII's	12.1%
DII's	21.6%
Public and Others	14.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	1	7	45
Rel. to Nifty (5)		9	25	69

Relative price chart



Source: Bloomberg

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Varshit Shah

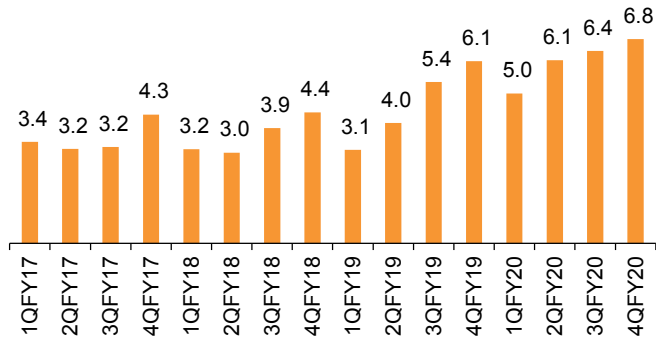
varshit.shah@emkayglobal.com
+91 22 6612 1358

Karan Shah

karan.shah@emkayglobal.com
+91 22 661 21257

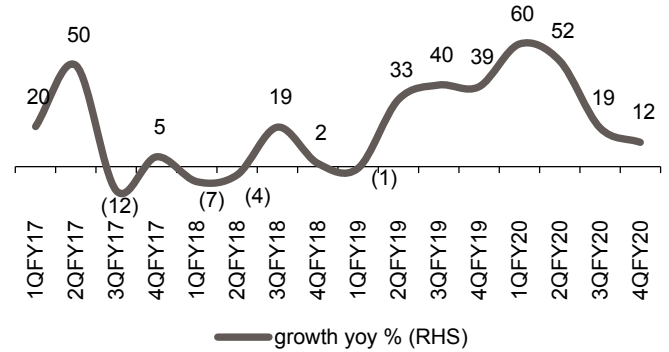
Story in Charts

Exhibit 1: Export revenue stood at Rs6.8bn



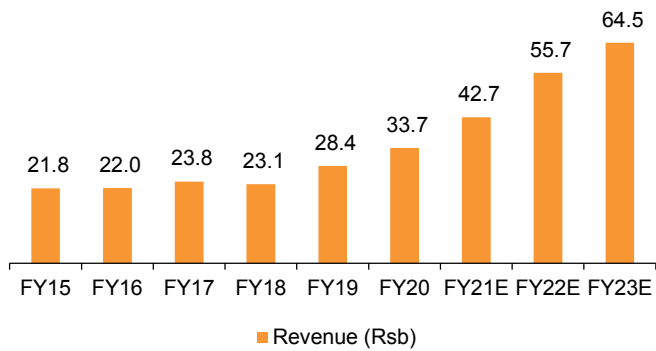
Source: Company, Emkay Research

Exhibit 2: 12% yoy growth in export revenue despite shutdown



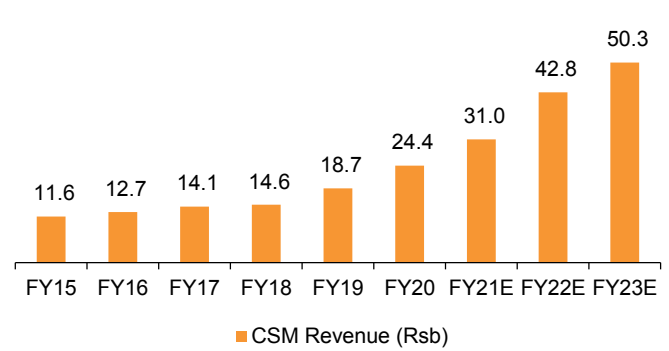
Source: Company, Emkay Research

Exhibit 3: Domestic revenue to grow at 24% CAGR over FY20-23E



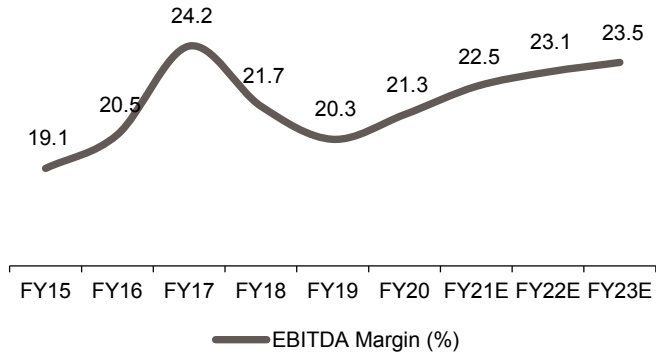
Source: Company, Emkay Research

Exhibit 4: CSM business to grow at 27% CAGR over FY20-23E



Source: Company, Emkay Research

Exhibit 5: EBITDA margin to improve 218bps over FY20-23E



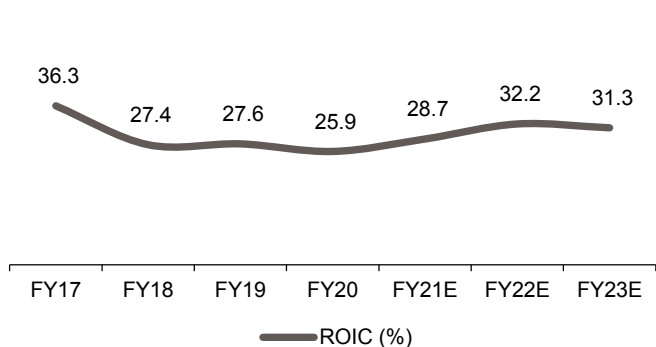
Source: Company, Emkay Research

Exhibit 6: PAT (Rs bn)



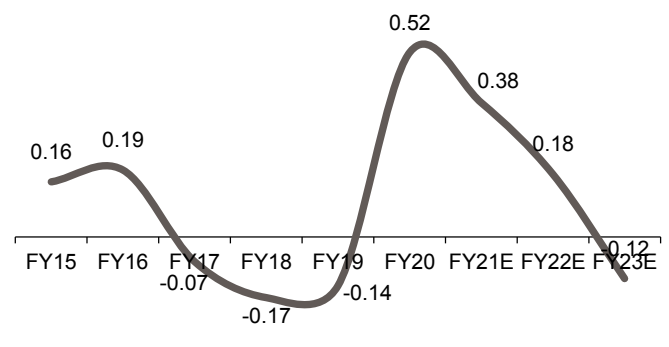
Source: Company, Emkay Research

Exhibit 7: Sharp 542bps expansion in ROIC over FY20-23E



Source: Company, Emkay Research

Exhibit 8: Net Debt/EBITDA



Source: Company, Emkay Research

Conference call highlights

Domestic Segment

- Product rationalization strategy has helped to improve the margins despite the decline in revenues (12% yoy).
- Revenue of Rs1bn was deferred to Q1FY21 from Q4FY20 as the placement of products was hampered due to the lockdown.
- Isagro contributed ~Rs270mn towards domestic revenues in Q4FY20.
- Price hikes were implemented in recent months across products.
- New products launched over the last few years have contributed 30-35% of revenues.
- Wheat herbicide (AWKIRA), which was launched in last quarter, has received good traction in the market, and management expects it to be a leading brand in coming 2-3 years.

Exports (CSM) segment

- Management highlighted that it has seen positive demand commentary from global customers.
- The company has witnessed increased inquiries from global players who plan to diversify supply sources away from China.
- PI commercialized five new products during the year.
- Isagro contributed ~Rs330m toward exports. Total Isagro revenue stood at Rs600m for Q4.

Pharma

- The company is working on pharma intermediates for some Indian and Japanese pharma companies whose drugs are under approval process.
- Management expects this category to contribute double-digit revenue growth in the coming 2-3 years on the back of organic and inorganic growth levers.
- Management expects to achieve volume growth post the commercialization and expansion of partner's products in new geographies.

Capex

- PI commissioned two multi-purpose plants (MPPs) during Q4FY20.
- Management guided for Rs6bn capex for FY21, mainly for organic expansion and small amount towards realignment of the Isagro plant.

Guidance

- Management maintained its 20% plus overall revenue growth guidance including revenue from the acquisition of Isagro.

Balance sheet

- Net debt as of Mar-20 stood at Rs2.4bn (Net debt/equity stood at 0.15x).

Fund raising

- PI has deferred its qualified institutional placement (QIP) of Rs20bn due to uncertain capital market conditions.
- Management maintained that it will continue to pursue inorganic opportunities and come back to raise capital to fund these inorganic opportunities.

Exhibit 9: Actual vs. Estimate (Q4FY20)

Rs mn	Actual	Estimate		% Variation		Comment
		Emkay Estimate	Consensus	Emkay	Consensus	
Net Sales	8,552	8,800	9,277	-2.8%	-7.8%	Below estimates due to lower growth in the domestic business
EBITDA	1,863	1,848	1,964	0.8%	-5.1%	In line with estimates
EBITDA %	21.8	21.0	21.2	80bps	60bps	Above estimates due to operating leverage
APAT	1,107	1,180	1,349	-6.2%	-17.9%	Below estimates due to lower other income

Source: Company, Emkay Research

Exhibit 10: Comparable growth

4QFY20	Reported growth	Comparable growth (excl. Isagro)	Comparable growth (excl. Isagro & Covid-19 impact)
Domestic	-12%	-25%	26%
Exports	12%	7%	NA

Source: Company, Emkay Research

Exhibit 11: Quarterly result summary

Rs mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Revenue	8,048	7,541	9,074	8,498	8,552	6.3	0.6	33,665	28,409	18.5
Expenditure	6,313	6,016	7,149	6,633	6,689	6.0	0.8	26,487	22,645	17.0
as % of sales	78.4	79.8	78.8	78.1	78.2			78.7	79.7	
Consumption of RM	4,367	4,164	5,223	4,537	4,550	4.2	0.3	18,474	15,501	19.2
as % of sales	54.3	55.2	57.6	53.4	53.2			54.9	54.6	
Employee Cost	649	769	728	764	948	46.1	24.1	3,209	2,647	21.2
as % of sales	8.1	10.2	8.0	9.0	11.1			9.5	9.3	
Other expenditure	1,297	1,083	1,198	1,332	1,191	(8.2)	(10.6)	4,804	4,497	6.8
as % of sales	16.1	14.4	13.2	15.7	13.9			14.3	15.8	
EBITDA	1,735	1,525	1,925	1,865	1,863	7.4	(0.1)	7,178	5,764	24.5
Depreciation	245	295	317	319	436	78.0	36.7	1,367	930	47.0
EBIT	1,490	1,230	1,608	1,546	1,427	(4.2)	(7.7)	5,811	4,834	20.2
Other Income	221	121	110	190	76	(65.6)	(60.0)	497	595	(16.5)
Interest	10	23	25	38	84	740.0	121.1	170	50	240.0
Forex (gain) / loss	0	0	0	0	0			0	0	
PBT	1,701	1,328	1,693	1,698	1,419	(16.6)	(16.4)	6,138	5,379	14.1
Total Tax	444	312	461	487	312	(29.7)	(35.9)	1,572	1,277	23.1
RPAT	1,257	1,016	1,232	1,211	1,107	(11.9)	(8.6)	4,566	4,102	11.3
APAT	1,257	1,016	1,232	1,211	1,107	(11.9)	(8.6)	4,566	4,102	11.3
EPS	9.1	7.4	8.9	8.8	8.0	(11.9)	(8.5)	33.1	29.7	11.3

Margins (%)						(bps)	(bps)				(bps)
Gross Margins	45.7	44.8	42.4	46.6	46.8	106	19	45.1	45.4	(31)	
EBIDTA	21.6	20.2	21.2	21.9	21.8	23	(16)	21.3	20.3	103	
EBIT	18.5	16.3	17.7	18.2	16.7	(183)	(151)	17.3	17.0	25	
EBT	18.4	16.0	17.4	17.7	15.7	(269)	(204)	16.8	16.8	(8)	
PAT	15.6	13.5	13.6	14.3	12.9	(267)	(131)	13.6	14.4	(88)	
Effective Tax rate	26.1	23.5	27.2	28.7	22.0	(411)	(669)	25.6	23.7	187	

Source: Company, Emkay Research

Exhibit 12: Changes in estimates

(Rs Mn)	FY21E			FY22E			FY23E
	Old estimates	New estimates	Change	Old estimates	New estimates	Change	New estimates
Net sales	41,488	42,711	2.9	51,612	55,684	7.9	64,474
EBITDA	9,140	9,610	5.1	11,948	12,863	7.7	15,151
EBITDA margin	22.0%	22.5%	47 bps	23.2%	23.1%	-5 bps	23.5%
APAT	5,963	5,977	0.2	7,863	8,302	5.6	9,809
AEPS	43.3	43.4	0.2	57.1	60.3	5.6	71.3

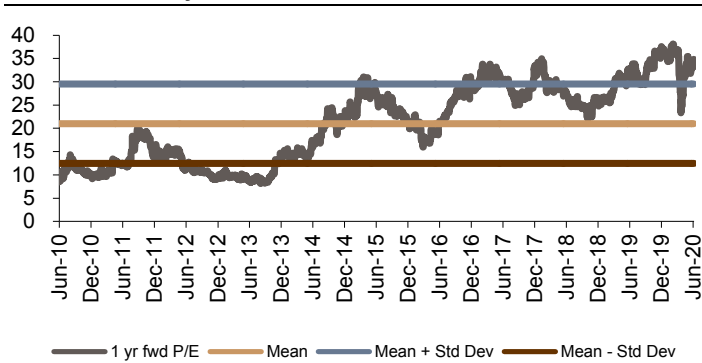
Source: Company, Emkay Research

Exhibit 13: Key Assumptions

Parameter	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Domestic Sales Growth %	-13%	-6%	-5%	19%	-5%	27%	10%	10%
Exports Sales Growth %	9%	11%	3%	28%	31%	27%	38%	18%
EBITDA Margins %	20%	24%	22%	20%	21%	23%	23%	24%
Tax Rate	23%	10%	21%	24%	26%	24%	24%	24%

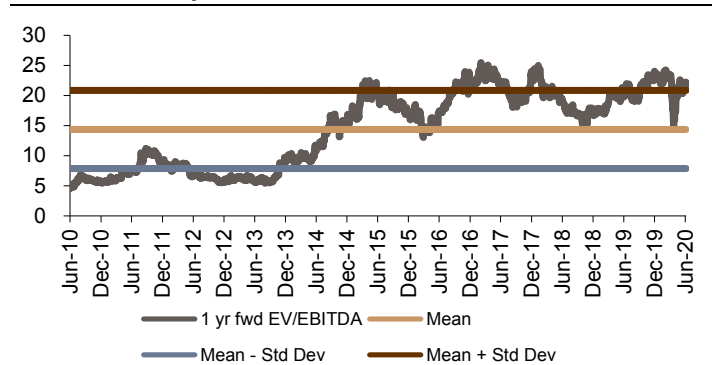
Source: Company, Emkay Research

Exhibit 14: PI's 1-yr fwd P/E



Source: Company, Emkay Research

Exhibit 15: PI's 1-yr fwd EV/EBITDA



Source: Company, Emkay Research

Exhibit 16: Peer Valuation

Company Name	Mkt Cap (Rs bn)	Reco	Target Price (Rs)	PE (x)			EV/EBITDA (x)			ROE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
UPL	336	Buy	500	11.4	10.9	9.2	7.8	6.5	5.6	19.2	17.8	18.2
PI Industries	220	Buy	1,765	48.1	38.8	26.5	31.1	23.3	17.3	18.5	21.1	24.2
Bayer CropScience*	243	NA	NA	54.5	38.5	33.1	37.8	28.8	24.8	21.7	20.9	20.3
Rallis India	46	Buy	260	26.5	21.5	18.2	17.8	13.9	11.5	12.9	14.3	15.1
Sharda Cropchem*	16.3	NA	NA	14.5	10.7	8.7	5.3	4.0		8.3	10.8	11.3
Dhanuka Agritech	28	Buy	580	21.8	20.4	18.3	15.6	14.2	12.2	19.1	19.2	18.6
Agro Chemicals Avg.				29.5	23.5	19.0	19.2	15.1	14.3	16.6	17.3	17.9

Source: Company, Emkay Research, *Bloomberg

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	28,409	33,665	42,711	55,684	64,474
Expenditure	22,645	26,487	33,101	42,821	49,323
EBITDA	5,764	7,178	9,610	12,863	15,151
Depreciation	930	1,367	1,680	1,963	2,369
EBIT	4,834	5,811	7,930	10,900	12,782
Other Income	595	489	300	330	330
Interest expenses	50	170	366	306	206
PBT	5,379	6,130	7,864	10,924	12,906
Tax	1,277	1,572	1,887	2,622	3,097
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	8	0	0	0
Reported Net Income	4,102	4,566	5,977	8,302	9,809
Adjusted PAT	4,102	4,566	5,977	8,302	9,809

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	138	138	138	138	138
Reserves & surplus	23,094	26,053	30,390	38,056	47,228
Net worth	23,232	26,191	30,528	38,194	47,366
Minority Interest	0	0	0	0	0
Loan Funds	99	5,077	4,077	3,577	1,577
Net deferred tax liability	(141)	0	0	0	0
Total Liabilities	23,190	31,268	34,605	41,771	48,943
Net block	12,235	18,575	20,396	25,933	28,563
Investment	1,291	1,504	1,504	1,504	1,504
Current Assets	16,431	19,462	20,588	26,146	31,483
Cash & bank balance	892	1,342	437	1,301	3,353
Other Current Assets	3,460	3,522	3,522	3,522	3,522
Current liabilities & Provision	8,595	10,980	11,082	12,512	13,307
Net current assets	7,836	8,482	9,506	13,635	18,176
Misc. exp	0	0	0	0	0
Total Assets	23,190	31,268	34,605	41,771	48,943

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	5,379	6,138	7,864	10,924	12,906
Other Non-Cash items	0	(81)	0	0	0
Chg in working cap	673	255	(1,929)	(3,265)	(2,489)
Operating Cashflow	5,703	6,801	6,094	7,307	9,895
Capital expenditure	(4,228)	(6,743)	(4,996)	(5,000)	(5,000)
Free Cash Flow	1,474	58	1,098	2,307	4,895
Investments	315	1,062	0	0	0
Other Investing Cash Flow	(28)	0	0	0	0
Investing Cashflow	(3,941)	(9,851)	(4,996)	(5,000)	(5,000)
Equity Capital Raised	0	80	0	0	0
Loans Taken / (Repaid)	(364)	4,562	(1,000)	(500)	(2,000)
Dividend paid (incl tax)	(557)	(748)	(636)	(636)	(636)
Other Financing Cash Flow	(1,205)	(215)	0	0	0
Financing Cashflow	(2,176)	3,500	(2,003)	(1,443)	(2,843)
Net chg in cash	(415)	450	(905)	864	2,052
Opening cash position	1,307	892	1,342	437	1,301
Closing cash position	892	1,342	437	1,301	3,353

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	20.3	21.3	22.5	23.1	23.5
EBIT Margin	17.0	17.3	18.6	19.6	19.8
Effective Tax Rate	23.7	25.6	24.0	24.0	24.0
Net Margin	14.4	13.5	14.0	14.9	15.2
ROCE	25.4	23.1	25.0	29.4	28.9
ROE	19.2	18.5	21.1	24.2	22.9
RoIC	27.6	25.9	28.7	32.2	31.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	29.7	33.1	43.3	60.2	71.1
CEPS	36.5	43.0	55.5	74.4	88.3
BVPS	168.5	189.9	221.4	277.0	343.5
DPS	4.0	5.4	4.6	4.6	4.6

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	53.6	48.1	36.8	26.5	22.4
P/CEPS	44.3	37.6	29.1	21.7	18.3
P/BV	9.5	8.4	7.2	5.8	4.6
EV / Sales	7.7	6.6	5.2	4.0	3.4
EV / EBITDA	38.0	31.1	23.3	17.3	14.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	0.0	0.1	0.1	0.1	0.0
Net Debt/EBIDTA	(0.1)	0.5	0.4	0.2	(0.1)
Working Cap Cycle (days)	89.2	77.4	77.5	80.8	83.9

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	24.8	18.5	26.9	30.4	15.8
EBITDA	16.8	24.5	33.9	33.8	17.8
EBIT	17.8	20.2	36.5	37.4	17.3
PAT	11.6	11.3	30.9	38.9	18.1

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	51.4	51.4	51.4	51.4	51.4
FIIIs	13.1	14.0	14.7	13.8	12.1
DIIIs	19.0	17.8	19.9	20.5	21.6
Public and Others	16.5	16.9	14.0	14.4	14.9

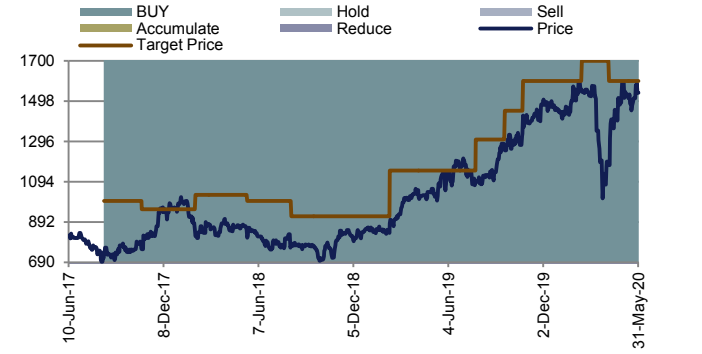
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
19-May-20	1,474	1,600	12m	Buy	Varshit Shah
17-May-20	1,486	1,600	12m	Buy	Varshit Shah
13-Apr-20	1,362	1,600	12m	Buy	Varshit Shah
5-Apr-20	1,178	1,600	12m	Buy	Varshit Shah
13-Feb-20	1,545	1,700	12m	Buy	Varshit Shah
6-Jan-20	1,420	1,600	12m	Buy	Varshit Shah
24-Oct-19	1,427	1,600	12m	Buy	Varshit Shah
23-Sep-19	1,276	1,450	12m	Buy	Varshit Shah
19-Sep-19	1,251	1,450	12m	Buy	Varshit Shah
26-Jul-19	1,094	1,305	12m	Buy	Varshit Shah
21-May-19	1,119	1,150	12m	Buy	Amar Mourya
12-Feb-19	884	1,150	12m	Buy	Amar Mourya
11-Jan-19	842	920	12m	Buy	Amar Mourya
29-Oct-18	732	920	12m	Buy	Amar Mourya
8-Aug-18	773	920	12m	Buy	Pratik Tholiya
16-May-18	812	998	12m	Buy	Pratik Tholiya
6-Feb-18	821	1,028	12m	Buy	Pratik Tholiya
27-Oct-17	755	956	12m	Buy	Sumant Kumar
16-Aug-17	743	998	12m	Buy	Sumant Kumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Agri Input & Chemicals



Analyst: Varshit Shah

Contact Details

varshit.shah@emkayglobal.com

+91 22 6612 1358

Sector

Agro-Chemicals and Fertilizers

Analyst bio

Varshit Shah is a Chartered Accountant and a commerce graduate from Narsee Monjee College of Commerce and Economics, Mumbai. He comes with total eight years of experience across sectors such as Chemicals, Education, Telecom, IT and Midcaps. His team currently covers 12 stocks in Agro Chemicals, Fertilizers and Midcaps.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Agri Input & Chemicals	0.91	0.91	0%	0	100.00
Bayer CropScience*	0.14	0.14	0%	0	15.14
Chambal Fertilisers*	0.00	0.00	NA	0	0.00
Coromandel International	0.14	0.11	-18%	-3	12.09
DCM Shriram*	0.00	0.00	NA	0	0.00
Deepak Fertilisers*	0.00	0.00	NA	0	0.00
Dhanuka Agritech	0.00	0.00	NA	0	0.00
GSFC*	0.00	0.00	NA	0	0.00
Insecticides India*	0.00	0.00	NA	0	0.00
PI Industries	0.20	0.20	0%	0	21.57
Rallis India	0.00	0.02	NA	2	1.89
Sharda Cropchem*	0.00	0.00	NA	0	0.00
UPL	0.44	0.45	2%	1	49.31
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

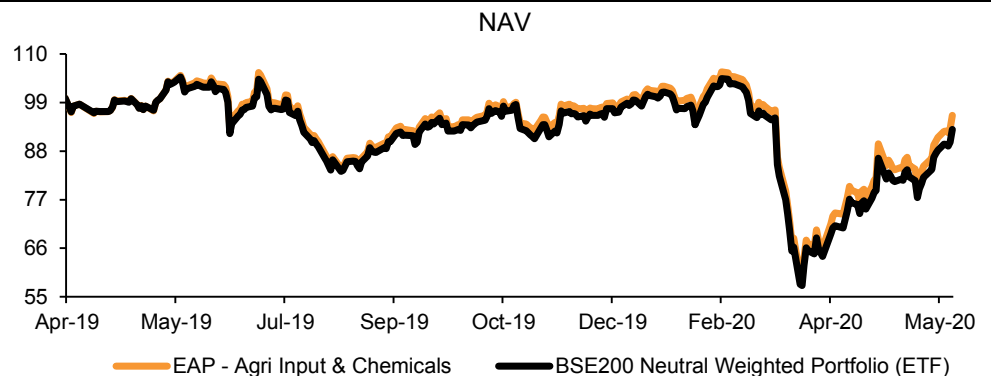
Sector portfolio NAV

	Base					Latest
	1-Apr-19	4-Sep-19	6-Dec-19	6-Mar-20	7-May-20	5-Jun-20
EAP - Agri Input & Chemicals	100.0	89.6	97.5	98.2	84.1	96.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	88.6	95.8	96.1	81.4	92.9

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com