

PI Industries

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR1,591
TP: INR1,835 (+15%)
Buy

Entry into pharma value chain – a key positive

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	PI IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	219.7 / 3
52-Week Range (INR)	1649 / 974
1, 6, 12 Rel. Per (%)	-5/22/58
12M Avg Val (INR M)	238

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	33.7	44.8	53.7
EBITDA	7.2	9.8	12.5
PAT	4.6	6.4	8.4
EBITDA (%)	21.3	21.9	23.3
EPS (INR)	33.1	46.1	61.2
EPS Gr. (%)	11.3	39.1	32.8
BV/Sh. (INR)	190	228	281

Ratios

Net D/E	0.1	0.1	0.1
RoE (%)	18.6	22.0	24.0
RoCE (%)	17.3	19.5	21.8
Payout (%)	14.7	17.2	13.0

Valuations

P/E (x)	48.1	34.5	26.0
EV/EBITDA (x)	31.1	22.7	17.7
Div Yield (%)	0.3	0.4	0.4
FCF Yield (%)	(0.1)	0.4	1.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.4	51.4	51.4
DII	21.6	20.5	19.0
FII	12.2	13.9	13.3
Others	14.8	14.3	16.3

FII Includes depository receipts

Earnings below estimates; COVID-19 disrupts operations

- Operating performance of PI Industries (PI) was subdued due to the COVID-19 pandemic, resulting in deferment of revenue. This in turn, led to decline in domestic agrochemicals' segment with some growth moderation in Custom Synthesis and Manufacturing (CSM) business.
- PI has successfully marked its entry into the pharma value chain, which it has worked on since the last 4-5 years. The company has tied up with a few large pharma companies in Japan and India (supplies should start from 1QFY21), which we believe is a commendable feat.
- We maintain our estimates for FY21/FY22E and value the stock at 30x FY22E EPS to arrive at a TP of INR1,835, implying 15% upside.

CSM saves the day

- 4QFY20 revenue of INR8.6b (v/s est. INR9.6b) was up 6% YoY (incl. Isagro's performance, which was absent in the base quarter). EBITDA stood at INR1.86b (v/s est. INR2.08b), up 7% YoY; EBITDA margins expanded 20bp YoY to 21.8% (v/s est. 21.6%). However, adj. PAT declined 12% YoY to INR1,107m (v/s est. INR1,478m). This was on account of lower other income and increase in depreciation and interest cost, which was offset by lower tax rate.
- FY20, revenue/ EBITDA/PAT grew 19%/25%/11% YoY.
- 4QFY20 exports/CSM revenue increased ~12% YoY (to INR6.8b) on proactive raw material inventory management and capacity planning. This, despite the unavailability of one multi-product and disrupted global supply chain. The COVID-19 pandemic disrupted operations and movement of goods, resulting in partial deferment of revenue to 1QFY21.
- Domestic agrochemicals' revenue declined 12% YoY (to INR1.7b) due to product positioning plans getting impacted by COVID-19.
- There was no major impact on financials due to COVID-19, barring the shortfall in 4QFY20 revenue by INR1b (mainly domestic agrochemicals) and EBITDA impact of INR220m; the shortfall should recover in 1QFY21. Excluding the above impact, revenue/EBITDA would have grown 19%/20% in 4QFY20.
- For FY20, CFO grew 79% YoY to INR7b on the back of better operating performance and release of working capital. Decrease in debtor days and increase in payable days was partly offset by increase in inventory days.

Highlights from management commentary

- FY21 capex stands at INR6b, majority of which is toward organic growth. PI is evaluating inorganic acquisition opportunities – likely in pharma.

- PI has tied up with few large pharma companies in Japan and India, and supplies should start from 1QFY21. PI has successfully developed and scaled up advance intermediate for a COVID-19 drug. This marks PI's entry into the pharma value chain. Revenue contribution from pharma is expected at 11-15% over the next few years.
- The company has guided for 20%+ revenue growth in FY21 (including the Isagro acquisition).
- Order book stood at ~USD1.5b (v/s USD1.4b as at 3QFY20), which provides high visibility of sustainable growth over the next 3-5 years.

Valuation and view

- PI closed FY20 on a strong note with revenue/EBITDA growth of 19%/25% YoY, mainly driven by 31% revenue growth in the CSM business. For FY21, management remains confident of achieving 20%+ revenue growth.
- We believe the company has levers in place for sustaining growth momentum in the near term due to (a) its recently commenced two multi-purpose plants ramping up operations, (b) revenue from the Isagro acquisition, (c) sustaining growth momentum in the CSM business on the back of strong USD1.5b order book, and (d) product launches in the domestic market (2-3 every year), thereby providing earnings visibility.
- Additionally, PI has successfully marked its entry into the pharma value chain by tying up with a few large pharma companies in Japan and India, thus garnering an additional growth lever.
- We maintain our estimates for FY21/FY22E and value the stock at 30x FY22E EPS to arrive at a TP of INR1,835, implying 15% upside.

Quarterly Earning Model

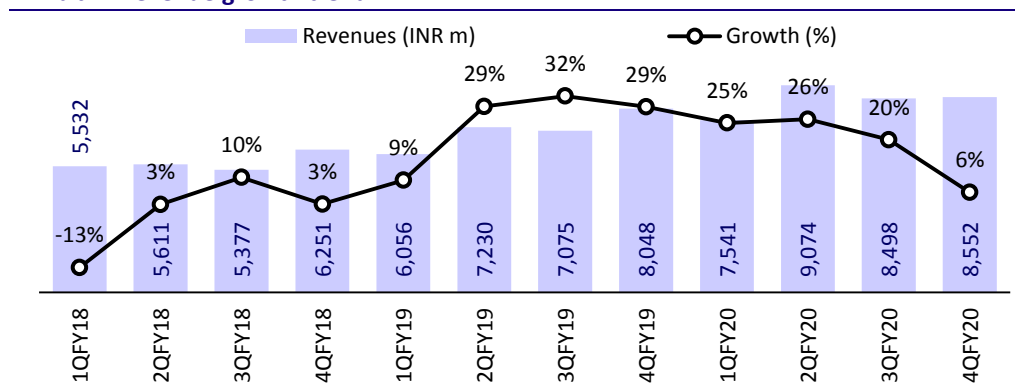
Y/E March	FY19				FY20				FY19	FY20	FY20	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	6,056	7,230	7,075	8,048	7,541	9,074	8,498	8,552	28,409	33,665	9,645	-11
YoY Change (%)	9.5	28.9	31.6	28.7	24.5	25.5	20.1	6.3	24.8	18.5	19.8	
Total Expenditure	4,875	5,881	5,583	6,313	6,027	7,149	6,633	6,689	22,644	26,487	7,561	
EBITDA	1,181	1,349	1,492	1,735	1,514	1,925	1,865	1,863	5,765	7,178	2,083	-11
Margins (%)	19.5	18.7	21.1	21.6	20.1	21.2	21.9	21.8	20.3	21.3	21.6	
Depreciation	220	229	235	245	294	317	319	436	930	1,367	320	
Interest	17	14	9	10	26	25	38	84	50	170	45	
Other Income	102	124	147	221	123	109	191	68	594	489	200	
PBT before EO expense	1,046	1,230	1,395	1,701	1,317	1,692	1,699	1,411	5,379	6,130	1,918	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,046	1,230	1,395	1,701	1,317	1,692	1,699	1,411	5,379	6,130	1,918	
Tax	229	284	318	444	309	461	487	312	1,277	1,572	440	
Rate (%)	21.9	23.1	22.8	26.1	23.5	27.2	28.7	22.1	23.7	25.6	22.9	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	-1	1	-8	0	-8	0	
Reported PAT	817	946	1,077	1,257	1,008	1,232	1,211	1,107	4,102	4,566	1,478	
Adj PAT	817	946	1,077	1,257	1,008	1,232	1,211	1,107	4,102	4,566	1,478	-25
YoY Change (%)	-18.4	17.9	33.6	19.2	23.4	30.2	12.4	-11.9	12.0	11.3	18.8	
Margins (%)	13.5	13.1	15.2	15.6	13.4	13.6	14.3	12.9	14.4	13.6	15.3	

Key Performance Indicators

Y/E March	FY19				FY20				FY19	FY20
Particulars	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
CSM Revenue (INRm)	3,152	4,190	5,410	6,103	5,011	6,386	6,438	6,830	18,840	24,660
% Change	5.1	38.1	40.2	39.3	59.0	52.4	19.0	11.9		30.9
Domestic Formulation (INRm)	2,908	3,040	1,661	1,945	2,530	2,688	2,060	1,720	9,569	9,000
% Change	23.0	24.0	9.5	4.0	-13.0	-11.6	24.0	-11.6		-5.9
Cost Break-up										
RM Cost (% of sales)	53.4	57.0	53.4	54.3	55.2	57.6	53.4	53.2	54.6	54.9
Staff Cost (% of sales)	10.9	9.5	9.1	8.1	10.2	8.0	9.0	11.1	9.3	9.5
Other Cost (% of sales)	16.2	14.8	16.5	16.1	14.5	13.2	15.7	13.9	15.8	14.3
Gross Margins (%)	46.6	43.0	46.6	45.7	44.8	42.4	46.6	46.8	45.4	45.1
EBITDA Margins (%)	19.5	18.7	21.1	21.6	20.1	21.2	21.9	21.8	20.3	21.3
EBIT Margins (%)	15.9	15.5	17.8	18.5	16.2	17.7	18.2	16.7	17.0	17.3

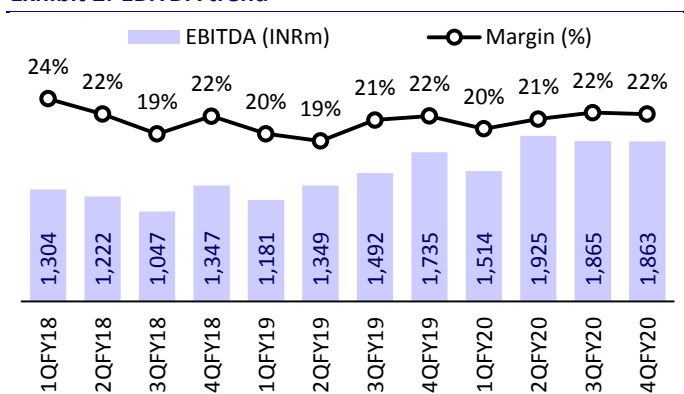
Key Exhibits

Exhibit 1: Revenue growth trend



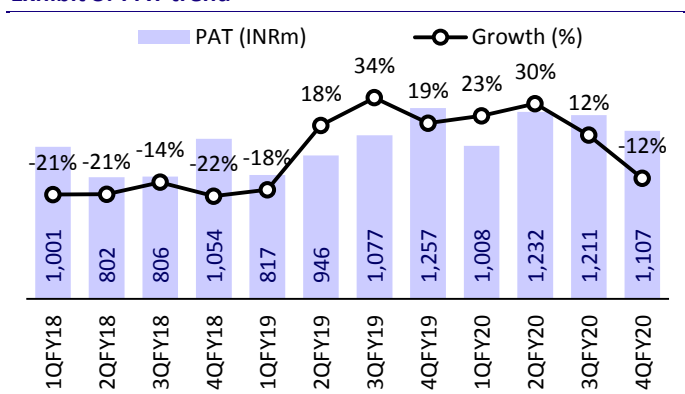
Source: Company, MOFSL

Exhibit 2: EBITDA trend



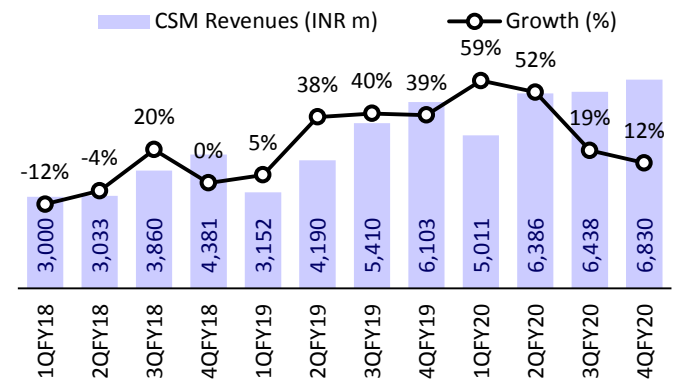
Source: Company, MOFSL

Exhibit 3: PAT trend



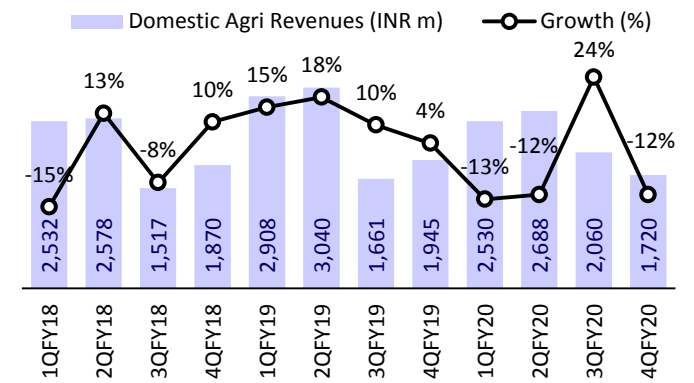
Source: Company, MOFSL

Exhibit 4: CSM revenue trend



Source: Company, MOFSL

Exhibit 5: Agri-input revenue trend



Source: Company, MOFSL

Exhibit 6: Key operational highlights– FY20

	Capacity Build-up	<ul style="list-style-type: none"> Commissioned 2 new MPPs Stabilized 1st full year OPS of MPP-8 Commenced construction of 2 new MPPs to get completed in FY22 and FY23 		New Product Launch	<ul style="list-style-type: none"> Launched 3 new products including one wheat herbicide "AWKIRA" and got very good market response
	New Enquiry/Scale-up	<ul style="list-style-type: none"> 5 new products >70 new enquiries; ~20% in non-agchem area ~60 molecules in ~R&D pipeline 		Label expansion /product penetration	<ul style="list-style-type: none"> Submission of reg Dossier for New miticide Aggr. Positioning of OSHEEN into cotton COSKO in rice to fill gap of Phorate 10G
	Customer Acquisition & Order book	<ul style="list-style-type: none"> Initiated commercial scale business with 3 new customers Order book position >\$1.5 billion 		Portfolio Optimisation Strategy	<ul style="list-style-type: none"> Withdrawal of 5 EOLC products from portfolio Signed agreement to in-license 2 new products for farm and PPM segment
	Technology Scaleup	<ul style="list-style-type: none"> Flow Chem, Pressure filtration, Continuous fluidized drying, etc Advanced analytics based tools to improve plant efficiency 		Farm Application Services - Successful piloting of new business model	<ul style="list-style-type: none"> 150 Spray Machines on ground sourced from Japan Encouraging response from farmers
	M&A Transaction	<ul style="list-style-type: none"> Acquired Isagro Asia Evaluating few other strategic option 		Digitalisation and process improvement	<ul style="list-style-type: none"> Launched M Power for field force mgmt and CRM Launched Track and trace App by installing QR codes in key products
				IPR Creation	<ul style="list-style-type: none"> Filed 22 patents during the year

Source: Company, MOFSL

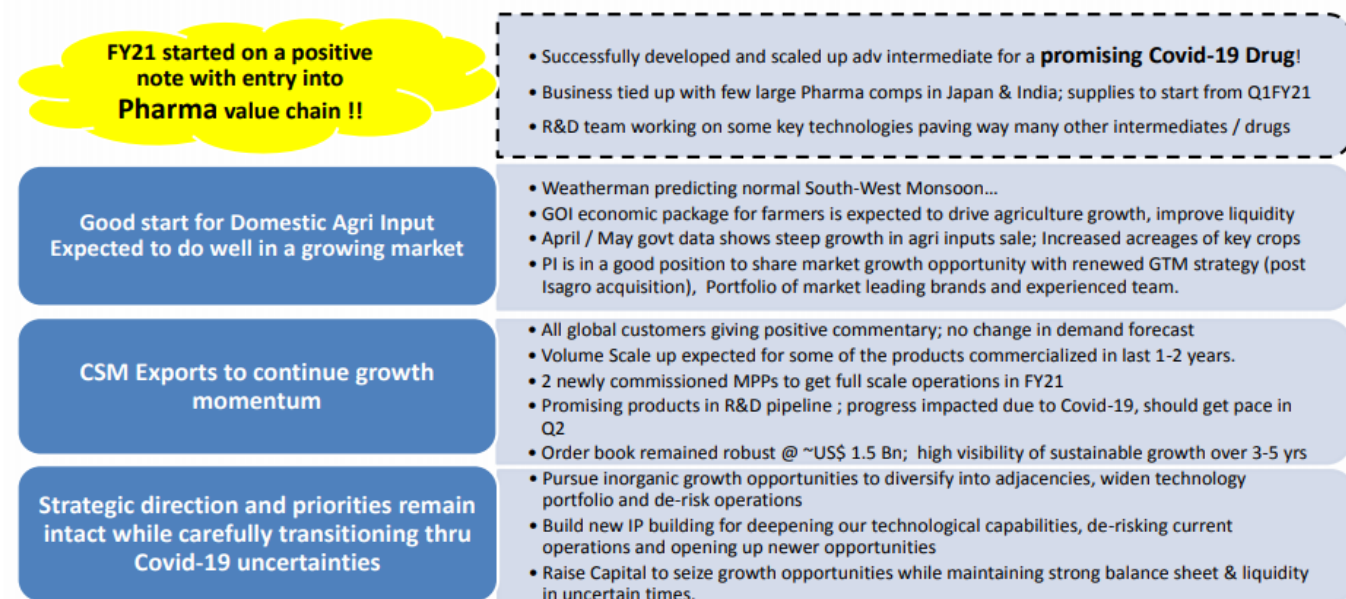
Exhibit 7: Isagro acquisition plan

The Plan	Our Aim	Major Levers
<p>Isagro Asia</p> <ul style="list-style-type: none"> Domestic Marketing Piece → Merge with GIVAGRO (100% Sub of PI) Manufacturing / CM Piece → Merge with PI <p>Merger activities are expected to get completed in Q4FY21. Repurposing of mfg site expected to get completed by end of year.</p>	<p>JIVAGRO</p> <ul style="list-style-type: none"> To be one of the leading players in the horticulture segment in India >20% CAGR growth over next 4-5 years <p>MFG SITE</p> <ul style="list-style-type: none"> Repurpose current mfg set up to align with PI's CSM exports Enhance capacity utilization from current 20-25% to >90% to more than triple the revenue generation in next couple of years. 	<ul style="list-style-type: none"> Portfolio of existing and pipeline products providing end to end crop solutions, anchored in specialty and biologicals. Specialized marketing channel, field force and customer connect in this segment Cross leveraging PI's specialized product portfolio for horticulture Differentiated GTM by crop, expertise based digitally enabled front-end Pipeline products of PI's CSM exports requiring scale up and commercialisation In-sourcing of some of the outsourced intermediates to build a sustainable supply chain of existing products. Synergies with PI's neighbouring operations in Mfg, sourcing, EHS, Quality, IT and other functions.

Source: Company, MOFSL

Exhibit 8: Growth levers for PI

inspired by nature



Source: Company, MOFSL



Management call highlights

Custom Synthesis and Manufacturing (CSM) business:

- Inquiry flows have increased due to the China issue.
- Generally, it takes 2-3 years to commercialize a new molecule by working alongside customers.
- Order book stood at ~USD1.5b, which provides high visibility for sustainable growth over 3-5 years.
- PI commenced two multi-purpose plants in FY20.
- Exports registered solid ~30% growth YoY by volume scale-up of few existing products and commercializing five new products.

Domestic agrochemicals:

- Domestic revenue declined 12% YoY (to INR1.7b) due to product positioning plans getting impacted by COVID-19.
- Price increase has been taken in selective products for the upcoming Kharif season in the domestic market.
- Products launched in the last 2-3 years contributed 30-35% of sales.
- Oshen product going generic could be challenged by the company (could be taken up with government authorities).

Pharma

- PI has tied up with few large pharma companies in Japan and India, and supplies should start from 1QFY21. PI has successfully developed and scaled up advance intermediate for a COVID-19 drug. This marks PI's entry into the pharma value chain.

- Revenue contribution from pharma is expected at 11-15% over the next few years.
- The company's plant has not gone through any regulatory approvals as they manufacture intermediates.

Others

- Isagro's revenue for the quarter stood at INR600m – INR330m from domestic and the balance from exports.
- Guidance for FY21 – revenue growth of 20%+.
- FY21 capex stands at INR6b, majority of which is toward organic growth. The company is evaluating inorganic acquisition opportunities – likely in pharma. First quarter performance of Isagro Asia (post acquisition) was consolidated with PI; business registered ~10% YoY growth.

Valuation

- PI closed FY20 on a strong note with revenue/EBITDA growth of 19%/25% YoY, mainly driven by 31% revenue growth in the CSM business. For FY21, management remains confident of achieving 20%+ revenue growth.
- We believe the company has levers in place for sustaining growth momentum in the near term due to (a) its recently commenced two multi-purpose plants ramping up operations, (b) revenue from the Isagro acquisition, (c) sustaining growth momentum in the CSM business on the back of strong USD1.5b order book, and (d) product launches in the domestic market (2-3 every year), thereby providing earnings visibility.
- Additionally, PI has successfully marked its entry into the pharma value chain by tying up with a few large pharma companies in Japan and India, thus garnering an additional growth lever.
- We maintain our estimates for FY21/FY22E and value the stock at 30x FY22E EPS to arrive at a TP of INR1,835, implying 15% upside.

Exhibit 9: Change in estimates

Earnings Change (INR m)	Old		New		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	44,315	52,146	44,796	53,684	1%	3%
EBITDA	9,658	12,052	9,817	12,505	2%	4%
Adj. PAT	6,614	8,273	6,353	8,437	-4%	2%

Source: MOFSL

Financials and valuations

Income Statement (Consolidated)						(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Revenue	20,963	22,768	22,771	28,409	33,665	44,796	53,684
Change (%)	8.0	8.6	0.0	24.8	18.5	33.1	19.8
EBITDA	4,312	5,533	4,934	5,764	7,178	9,817	12,505
Margin (%)	20.6	24.3	21.7	20.3	21.3	21.9	23.3
Depreciation	543	730	830	930	1,367	1,714	1,883
EBIT	3,770	4,802	4,104	4,834	5,811	8,103	10,623
Int. and Finance Charges	96	72	53	50	170	355	285
Other Income	355	366	603	595	489	611	764
PBT bef. EO Exp.	4,028	5,096	4,653	5,379	6,130	8,359	11,101
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	4,028	5,096	4,653	5,379	6,130	8,359	11,101
Current Tax	909	1,035	1,001	1,176	1,259	2,006	2,664
Deferred Tax	4	-534	-22	101	313	0	0
Tax Rate (%)	22.7	9.8	21.0	23.7	25.6	24.0	24.0
Less: MI/Profit & Loss of associates	0	1	-2	0	-8	0	0
Reported PAT	3,116	4,594	3,676	4,102	4,566	6,353	8,437
Adjusted PAT	3,116	4,594	3,676	4,102	4,566	6,353	8,437
Change (%)	26.7	47.5	-20.0	11.6	11.3	39.1	32.8
Margin (%)	14.9	20.2	16.1	14.4	13.6	14.2	15.7

Balance Sheet (Consolidated)						(INR M)	
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	137	138	138	138	138	138	138
Total Reserves	11,572	16,134	19,111	22,716	26,053	31,313	38,657
Net Worth	11,709	16,272	19,248	22,854	26,191	31,451	38,795
Total Loans	1,514	1,198	834	99	5,077	5,077	4,077
Capital Employed	13,576	17,470	20,082	22,953	31,370	36,630	42,974
Gross Block	11,503	12,942	14,298	17,109	24,366	28,366	32,366
Less: Accum. Deprn.	2,762	3,492	4,322	5,252	6,619	8,332	10,215
Net Fixed Assets	8,742	9,450	9,977	11,857	17,747	20,033	22,151
Capital WIP	713	773	899	1,828	1,828	3,828	4,328
Current Investments	0	824	1,595	1,119	1,325	0	0
Total Investments	3	833	1,607	1,291	1,504	1,004	2,004
Curr. Assets, Loans&Adv.	10,028	11,760	13,515	16,431	21,169	24,800	29,839
Inventory	3,948	4,320	4,520	5,357	7,989	8,591	10,295
Account Receivables	3,978	4,237	5,268	6,618	6,465	9,205	11,031
Cash and Bank Balance	560	1,326	1,307	892	1,342	1,181	1,534
Loans and Advances	1,543	1,877	2,420	3,564	5,373	5,823	6,979
Curr. Liability & Prov.	5,910	5,544	6,182	8,595	10,878	13,035	15,348
Account Payables	3,661	2,878	3,687	5,130	5,909	7,112	8,358
Provisions	196	316	340	416	548	548	548
Net Current Assets	4,118	6,216	7,333	7,836	10,291	11,765	14,491
Appl. of Funds	13,576	17,470	20,082	22,953	31,370	36,630	42,974

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	22.7	33.4	26.7	29.7	33.1	46.1	61.2
Cash EPS	26.7	38.7	32.7	36.5	43.0	58.5	74.8
BV/Share	85.4	118.3	139.6	165.7	189.9	228.1	281.3
DPS	3.1	4.0	5.5	4.0	4.0	6.5	6.5
Payout (%)	16.6	14.6	25.1	16.4	14.7	17.2	13.0
Valuation (x)							
P/E	70.0	47.6	59.7	53.5	48.1	34.5	26.0
Cash P/E	59.6	41.1	48.7	43.6	37.0	27.2	21.3
P/BV	18.6	13.5	11.4	9.6	8.4	7.0	5.7
EV/Sales	10.5	9.6	9.6	7.7	6.6	5.0	4.1
EV/EBITDA	51.1	39.6	44.4	37.9	31.1	22.7	17.7
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.3	0.4	0.4
FCF per share	3.8	14.8	13.9	3.8	-2.0	5.7	27.1
Return Ratios (%)							
RoE	29.9	32.8	20.7	19.5	18.6	22.0	24.0
RoCE	27.1	30.4	19.8	19.2	17.3	19.5	21.8
RoIC	27.4	32.3	21.0	20.9	18.9	21.5	24.6
Working Capital Ratios							
Asset Turnover (x)	1.5	1.3	1.1	1.2	1.1	1.2	1.2
Inventory (Days)	69	69	72	69	87	70	70
Debtor (Days)	66	65	83	85	70	75	75
Creditor (Days)	115	90	115	121	117	105	105
Working Cap. Turnover (Days)	62	78	97	89	97	86	88
Leverage Ratio (x)							
Current Ratio	1.7	2.1	2.2	1.9	1.9	1.9	1.9
Interest Cover Ratio	39	67	77	97			
Debt/Equity	0.1	0.1	0.04	0.00	0.2	0.2	0.1

Cash Flow Statement (Consolidated)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
(INR M)							
OP/(Loss) before Tax	4,028	5,096	4,653	5,379	6,130	8,359	11,101
Depreciation	543	730	830	930	1,367	1,714	1,883
Interest & Finance Charges	96	72	53	50	170	355	285
Direct Taxes Paid	-909	-1,035	-1,001	-1,176	-1,259	-2,006	-2,664
(Inc)/Dec in WC	114	-1,332	-1,136	-918	573	-1,635	-2,374
CF from Operations	3,872	3,533	3,399	4,265	6,981	6,787	8,231
Others	0	0	0	0	0	0	0
CF from Operating incl EO	3,872	3,533	3,399	4,265	6,981	6,787	8,231
(inc)/dec in FA	-3,345	-1,499	-1,482	-3,739	-7,257	-6,000	-4,500
Free Cash Flow	527	2,034	1,918	525	-276	787	3,731
(Pur)/Sale of Investments	1	-830	-774	316	-213	500	-1,000
Others	0	-198	-69	126	4,600	0	0
CF from Investments	-3,344	-2,527	-2,325	-3,298	-2,870	-5,500	-5,500
Issue of Shares	1	0	0	0	0	0	0
Inc/(Dec) in Debt	366	-315	-365	-735	4,978	0	-1,000
Interest Paid	-96	-72	-53	-50	-170	-355	-285
Dividend Paid	-518	-671	-924	-672	-673	-1,093	-1,093
Others	-40	818	248	75	-7,797	0	0
CF from Fin. Activity	-288	-240	-1,094	-1,382	-3,661	-1,448	-2,378
Inc/Dec of Cash	240	766	-19	-415	450	-161	353
Opening Balance	320	560	1,326	1,307	892	1,342	1,181
Closing Balance	560	1,326	1,307	892	1,342	1,181	1,534

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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