PI Industries

Robust performance, QIP to meet inorganic growth aspirations

Sector: Agri Chem
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 2,036**	
Price Target: **Rs. 2,250**	↑

↑ Upgrade ↔ No change ↓ Downgrade

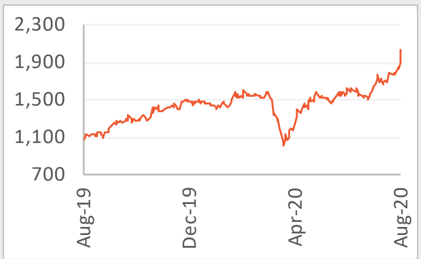
Company details

Market cap:	Rs. 30,887 cr
52-week high/low:	Rs. 2,053/974
NSE volume: (No of shares)	2.2 lakh
BSE code:	523642
NSE code:	PIIND
Sharekhan code:	PIIND
Free float: (No of shares)	7.4 cr

Shareholding (%)

Promoters	51
FII	12
DII	20
Others	17

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	22	33	32	88
Relative to Sensex	19	12	40	85

Sharekhan Research, Bloomberg

PI Industries Limited (PI Industries') revenue grew at a robust 40.6% y-o-y to Rs. 1,060 crore (16% ahead of our expectation of Rs. 914 crore). Strong revenue growth momentum was led by a 23% y-o-y rise in exports and a 76% jump y-o-y in domestic sales. A change in business mix (domestic (including Isagro),exports) and product mix led to gross margin contraction of 276 bps y-o-y to 42%, however gross profit increased by 31.9% y-o-y to Rs. 446 crore. EBITDA margin rose by 140 bps y-o-y to 21.6% (28 bps lower than our expectation of 21.9%) largely owing to operating leverage as employee costs and other expenses fell by 85 bps and 331 bps y-o-y to 9.3% and 11.1% of sales, respectively. Hence EBITDA rose by 50% y-o-y. Better operating profit resulted in PAT being up by 43.2% y-o-y to Rs. 146 crore, however was restricted due to higher depreciation (up 44.7% y-o-y) and interest expense (up 5x) which increased due to capacity expansions. The company raised Rs. 2,000 crore through a QIP and expects the same to be deployed in next 5-6 quarters as it eyes inorganic growth opportunities to enhance technological capability, de-risk manufacturing concentration in India and foray into pharma and speciality chemicals.

Key positives

- Robust revenue growth momentum in both domestic and export business.
- Company raised Rs. 2,000 crore through QIP to meet inorganic growth aspirations and fuel growth momentum.

Key negatives

- Gross margin shrunk as a result of a change in revenue mix and product mix.

Our Call

Valuation: Retain Buy with revised PT of Rs.2,250: We revise our numbers for FY2021E and FY2022E to factor in strong Q1 numbers and funds raised through QIP and also introduce FY2023E numbers. We expect revenue and earnings CAGR of 23.6% and 31.0%, respectively, during FY2020-FY2023E. At CMP, the stock trades at 46.8x/37.2x/30.1xits FY2021E/FY2022E/FY2023E earnings. With industry-leading return ratios, a healthy balance sheet and strong earnings visibility, we expect the stock to continue to fetch premium valuations. We reiterate our Buy rating on the stock with a revised PT of Rs. 2,250 per share.

Key Risks

- Delay in commissioning projects or execution of orders or delayed orders by clients in the export business can affect revenue growth.
- Higher-than-normal time lag in passing on the increase in raw-material prices could affect margins.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,841	3,367	4,253	5,257	6,361
OPM (%)	20.3	21.3	21.5	21.7	21.9
Adjusted PAT	410	455	657	827	1,024
% y-o-y growth	11.4	11.0	44.4	25.8	23.8
Adjusted EPS (Rs.)	29.8	33.1	43.5	54.7	67.7
P/E (x)	68.3	61.6	46.8	37.2	30.1
P/B (x)	12.3	10.7	5.9	5.2	4.5
EV/EBITDA (x)	48.3	39.4	32.0	25.4	20.6
RoNW (%)	19.5	18.6	16.9	14.9	16.1
RoCE (%)	24.9	22.6	19.3	17.8	19.9

Source: Company; Sharekhan Research

Robust performance: Revenue grew at a robust 40.6% y-o-y to Rs. 1,060 crore (16% ahead of our expectation of Rs. 914 crore). Exports grew by 23% y-o-y as a result of strong demand off-take for key commercialised molecules, while domestic revenues grew by 76% y-o-y owing encouraging monsoon leading to early sowing and increased contribution from Isagro brand sales. A change in business mix (Domestic: Exports: Isagro) shrunk gross margins by 276 bps y-o-y to 42%, but gross profit increased by 31.9% y-o-y to Rs 446 crore. EBITDA margin witnessed an improvement of 140 bps y-o-y to 21.6% (28 bps lower than our expectation of 21.9%) largely owing to operating leverage as employee costs and other expenses were lower by 85 bps and 331 bps, y-o-y to 9.3% and 11.1% of sales, respectively. Better operating profit resulted in PAT rising by 43.2% y-o-y to Rs. 146 crore, but was restricted due to higher depreciation (44.7% y-o-y) and interest expense (up 5x) which increased due to capacity expansion.

Cashflow generation remains strong, Outlook remains encouraging: The company has been generating healthy free cashflows (of Rs 298 crore in Q1FY2021) led by effective working capital management led by digital initiatives. Hence the company again turned net debt-free with a cash surplus of Rs. 98 crore. Capacity utilisation across all manufacturing facilities has reached pre COVID-19 levels owing to healthy demand offtake in both the domestic and export markets. The company has also filed seven new patent applications during Q1FY2021 including an intermediary of COVID-19. Demand outlook remains robust in both domestic (normal monsoon) and export (order book of $1.5 billion) market, also the company to launch 2 new products in Q2/Q3 FY2021E. Management expect to achieve an over 20% growth in FY2021E. Also the company has forayed in the pharma value chain by successfully developing and scaling up advanced intermediates for a promising COVID-19 drug. The company has also formed two wholly owned subsidiaries in pharma to route its diversification strategy as and when the inorganic growth opportunity materialises.

QIP to meet inorganic growth aspirations and help in diversification as well: During the quarter the company raised Rs. 2,000 crore through a QIP allotting 13.61 million shares at Rs. 1,470/share. The fund raised will be used to explore strategic growth initiatives both organic and inorganic. Fund raised through QIP is expected to be deployed in the next 5-6 quarters, as the company eyes inorganic growth opportunities in areas such as enhancement of technological capability, de-risking manufacturing concentration in India, and foraying into pharma and speciality chemicals which is also expected to help in diversification.

Results Rs cr

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Sales	**1,060**	**754**	**40.6**	**855**	**24.0**
Material Cost	615	416	47.6	455	35.1
Gross Profit	**446**	**338**	**31.9**	**400**	**11.3**
Employee Expenses	99	77	28.9	95	4.5
Other Expenses	117	108	8.2	119	(1.7)
EBITDA	**229**	**153**	**50.3**	**186**	**23.1**
Other Income	8	12	(32.2)	7	20.6
Depreciation	43	30	44.7	44	(2.1)
Interest	10	2	317.4	8	14.3
PBT	**185**	**133**	**39.4**	**141**	**31.3**
Tax	44	31	42.3	31	42.3
RPAT	**146**	**102**	**43.2**	**110**	**32.5**
EPS (Rs)	10.5	7.4	43.1	8.0	31.0
Margins (%)			**YoY (BPS)**		**QoQ (BPS)**
Gross profit margin	42.0	44.8	(276)	46.8	(477)
EBITDA margin	21.6	20.2	140	21.8	(15)
Net margin	13.7	13.5	25	12.8	89

Source: Company; Sharekhan Research

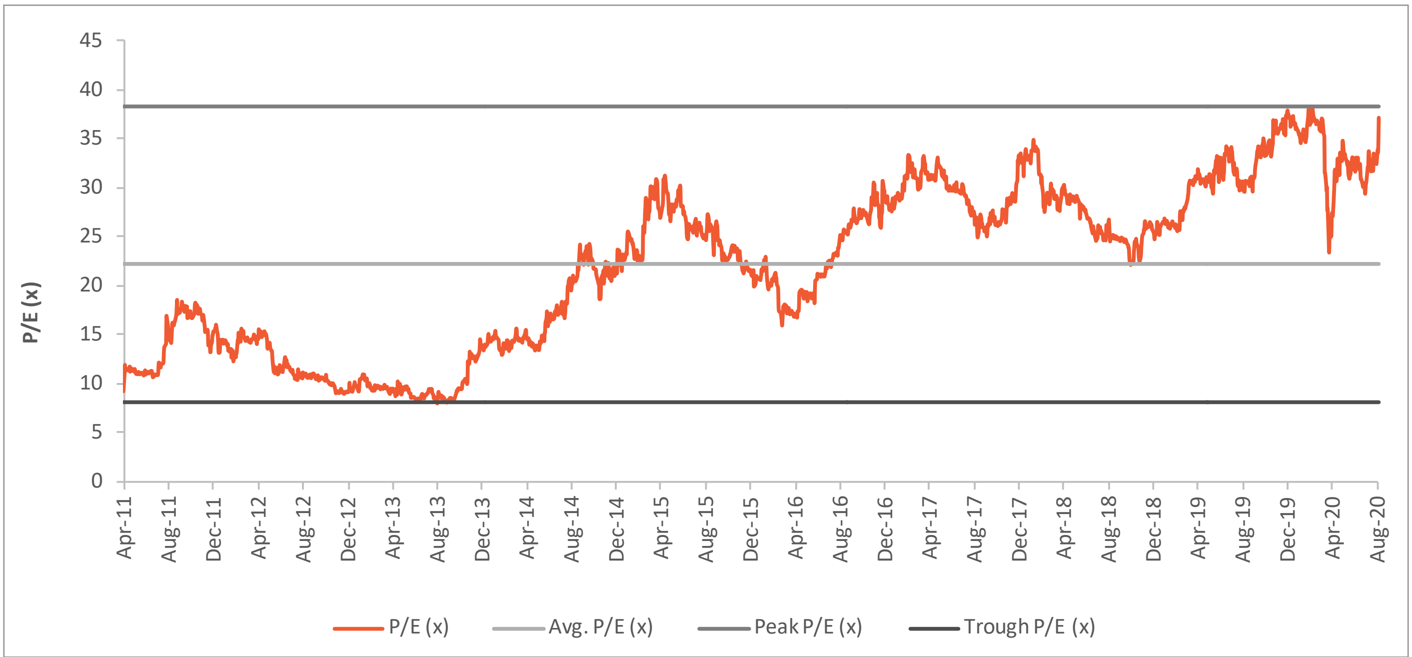
Outlook

Consistently delivering robust performance: Demand environment remains encouraging in both domestic (normal monsoons) and export markets (order book of $1.5 billion), guidance for an over 20%growth in each. Commissioning of additional capacity and contribution from newly launched brands to fuel growth momentum. The management maintains a capex guidance of Rs. 550-600 crore for FY2021E. Moreover, the fund raised through the QIP to the tune of Rs. 2,000 crore is expected to be deployed in the next 5-6 quarters, as the company is eyeing inorganic growth opportunities in areas such as enhancement of technological capability, de-risking manufacturing concentration in India, and foray into pharma and speciality chemicals. This is also expected to help company diversify its business.

Valuation

Retain Buy with revised PT of Rs. 2,250: We revise our numbers for FY2021E and FY2022E to factor in strong Q1 numbers and funds raised through QIP and also introduce FY2023E numbers. We expect revenue and earnings CAGR of 23.6% and 31.0%, respectively, during FY2020-FY2023E. At CMP, the stock trades at 46.8x/37.2x/30.1x its FY2021E/FY2022E/FY2023E earnings. With industry-leading return ratios, a healthy balance sheet and strong earnings visibility, we expect the stock to continue to fetch premium valuations. We reiterate our Buy rating on the stock with a revised PT of Rs. 2,250 per share.

One-year forward P/E (x) band – Aggressive growth plans justify premium valuation



Source: Sharekhan Research

About company

Incorporated in 1947, PI Industries 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-the-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 >$1.5 billion at the end of Q1FY2021 provides healthy revenue visibility. Management foresees encouraging outlook for the CSM business, as business sentiments improve globally for products, wherein the company operates. Management adopts aggressive expansion strategy (organic = inorganic) to tap the healthy and encouraging demand environment both in domestic and export markets. The company had outlined capex of Rs. 600 crore for FY2021E and has raised Rs 2000 crore through QIP to meet its organic and inorganic growth aspirations in areas such as enhancement of technological capability, de-risking manufacturing concentration in India, and foray into pharma and speciality chemicals.

Key Risks

- 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 increased 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
Mayank Singhal	Executive Director
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	Jackson National Asset Management	4.65
2	ICICI Prudential Asset Management	4.09
3	SBI LARGE MIDCAP FUND	3.67
4	Cartica Capital Ltd	3.18
5	SBI Funds Management Pvt Ltd	2.97
6	UTI Asset Management Co Ltd	1.71
7	Franklin Templeton Mutual	1.65
8	AXIS Asset Management Co Ltd	1.30
9	Stichting Depository Apg Emerging Market	1.28
10	Vanguard Group Inc	1.28

Source: Bloomberg

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