

- The company reported a consolidated sales growth of 40.6% YoY to Rs 10.6bn. A seasonally strong quarter for the domestic business coupled with a 23% YoY growth in exports augured well PI Industries.
- Hiccups on gross-margin came in largely due to business mix coming into play as IS-AGRO Asia's numbers are a part of the consolidated entity – which typically has lower gross margins than PI's existing product base.
- Contraction of 280 bps YoY to 42.0%, was offset by cost optimisation measures.
- Other expenses grew only by 8.2% YoY to Rs 1.17bn, which helped in deriving operating leverage. EBITDA thus grew by 50.3% YoY to Rs 2.29bn.
- Depreciation inched up by 44.7% YoY to Rs 427mn, while interest costs too went north by 317.4% YoY to Rs 96mn. However, had little impact on profitability with PAT growth of 43.2% YoY to Rs 1.45bn.

PI Industries' growth momentum gets going even when the going gets tougher. The company's earnings print exhibits resilience on all-fronts reporting a strong volume led growth whilst maintain astute cost control. The agro-chemical franchise exudes our confidence in their contract manufacturing capabilities, with a strong order book of USD 1.5bn. This coupled with the "CHINA + 1" rhetoric is expected to help indigenous manufacturers having their skin in the game with a strong technical know-how and chemistries, ability to pass-through RM fluctuations and competence in garnering export market share. With a well-received QIP of Rs 20.0bn, PI Industries boasts of new projects on the anvil which could pave way for the company in multiple verticals like Fine & Specialty chemicals and Pharmaceuticals. The company is well placed to incur such capital expenditures (FY21/FY22 expected capex of Rs 6.0/14.0bn) as the company envisages utilizing proceeds of the QIP in the next 4-5 quarters. The recent acquisition of ISAGRO is likely to help PI industries make in-roads in the fruits and vegetables market with a newly devised go-to-market strategy and improve its EBITDA contribution.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	10,601	7,541	40.6	8,552	24.0
Total Expense	8,309	6,016	38.1	6,689	24.2
EBITDA	2,292	1,525	50.3	1,863	23.0
Depreciation	427	295	44.7	436	(2.1)
EBIT	1,865	1,230	51.6	1,427	30.7
Other Income	82	121	(32.2)	68	20.6
Interest	96	23	317.4	84	14.3
EBT	1,851	1,328	39.4	1,411	31.2
Tax	444	312	42.3	312	42.3
RPAT	1,455	1,016	43.2	1,107	31.4
APAT	1,455	1,016	43.2	1,107	31.4
			(bps)		(bps)
Gross Margin (%)	42.0	44.8	(276)	46.8	(477)
EBITDA Margin (%)	21.6	20.2	140	21.8	(16)
NPM (%)	13.7	13.5	25	12.9	78
Tax Rate (%)	24.0	23.5	49	22.1	188
EBIT Margin (%)	17.6	16.3	128	16.7	91

CMP	Rs 2,036
Target / Upside	Rs 2,315 / 14%
BSE Sensex	38,047
NSE Nifty	11,214

Scrip Details

Equity / FV	Rs 138mn / Rs 1
Market Cap	Rs 309bn
	US\$ 4bn
52-week High/Low	Rs 2,055/Rs 970
Avg. Volume (no)	2,41,777
NSE Symbol	PIIND
Bloomberg Code	PI IN

Shareholding Pattern Jun'20(%)

Promoters	51.4
MF/Banks/FIs	19.1
FII's	11.7
Public / Others	17.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	104.0	49.5	39.6
EV/EBITDA	55.9	30.4	25.3
ROE (%)	12.1	16.1	14.3
RoACE (%)	11.3	14.7	13.6

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	33,665	45,081	54,185
EBITDA	5,581	9,738	11,921
PAT	2,969	6,229	7,802
EPS (Rs.)	19.6	41.1	51.5

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Outlook and valuation

Taking stock of a strong quarter and robust outlook, we have upgraded our PAT by 13.7% and 19.4% for FY21E and FY22E. With proceeds of QIP coming in, ROE is expected to contract in FY21/22E to 16.1% and 14.3% and is likely to return to pre-COVID levels beyond FY22. PI Industries brawny fundamentals and unwavering intent of making in-roads into new verticals (organic and inorganic both) provides visibility for growth beyond FY22. We like PI Industries moat in agro-chemicals and contract manufacturing and value PI Industries at 45.0x FY22E EPS of Rs 51.5, and revise our target price and rating to Rs 2,315/share, Accumulate.

Con Call Highlights

Domestic:

- Domestic business grew by 76% YoY to Rs 4.5Bn in 1QFY21.
- Domestic business's growth was driven due to an encouraging monsoon, higher sowing, carryforward sales from 4QFY20 and higher use of herbicides due to migration of labor.
- Company's brands like Elite, Osheen, Nominee Gold and Cosco along with Isagro Asia products contributed majorly to the company's domestic growth in 1QFY21. Isagro Asia contributed Rs 690Mn to the domestic revenue in 1QFY21.
- Pricing scenario in the domestic market was higher YoY in 1QFY21.

Export:

- Exports revenue in 1QFY21 grew by 23% YoY to Rs 6.1Bn on the back of higher demand for key commercialized molecules, raw material inventory management and pick up in logistics.
- Share of revenue from Isagro exports stood at Rs 300Mn in 1QFY21.

Other Operation Highlights:

- The management commercialized 4 new products in FY20, it usually takes 1-2 years to scale up the new products.
- The company received proceedings from QIP of Rs 20Bn in 1QFY21.
- The company's capacity utilization had increased back to pre-covid levels after lower utilization in first half of 1QFY21.
- The company incurred a total capex of Rs 640Mn in 1QFY21.
- Gross margin was lower by 280 Bps at ~42% from ~45% in 1QFY20.
- Gross margins in 1QFY21 were impacted due to Isagro Asia which has lower margins and contributed Rs 990Mn (~10%).
- Rs 700-750Mn sales were carry forwarded from 4QFY20 to 1QFY21.
- The company has managed to de-risk their import dependency from China by finding alternatives in the domestic market.
- The company used to import 30-40% from China which has now reduced to 10% in last 3 years.
- MPP 5 and MPP 10 plants got delayed due to the lockdown and migration of labor.

- The management anticipates the MPP 5 plant which was earlier scheduled to be operational in 1QFY21 will now be operational in 2QFY21 and the MPP 10 plant will be operational by 1QFY22.
- Rs 500mn was the estimated impact by the management from shutdown of MPP 5 plant in 1QFY21.

Guidance:

- The management expects the company's Domestic/Export business to grow by 20-22%/20-25% YoY respectively in FY21.
- The management has guided to incur Capex of Rs 5.5-6.0 Bn in the coming 12-18 months.
- The management is expecting to improve margins in Isagro Asia by focusing more on particular segments like Vegetables and Fruits along with its current end of lifecycle products.
- QIP proceeds is expected to be used in 5-6 quarters after identifying attractive opportunities. Opportunities mentioned by the management are as follows:
 - Exploring few opportunities in Pharma industry where the management has already created 2 subsidiaries to diversify product mix like in Advance intermediaries.
 - Grow inorganically where they can gain synergies from economies of scales and market share.
 - De-risking the concentration from domestic business and expanding global footprint.
 - Broaden the portfolio which will complement the current product mix.
- The management anticipates the ROE of the company to increase back to the pre-QIP levels in 2-2.5 years.

Exhibit 1: Q1FY21 Actual V/s DART estimates (Standalone)

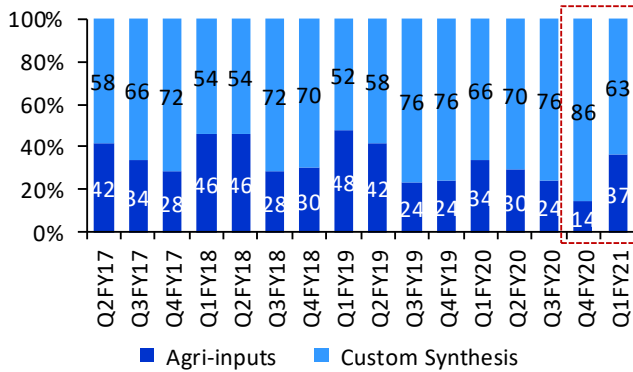
Particulars (Rs mn)	Actual	Estimated	Variance (%)	Comments
Revenue	9,684	8,672	11.7%	Higher than expected growth in domestic and CSM business
EBITDA	2,175	1,846	17.8%	
EBITDA Margin (%)	22.5	21.3	118 bps	
PAT	1,317	1,037	27.0%	

Source: Company, DART

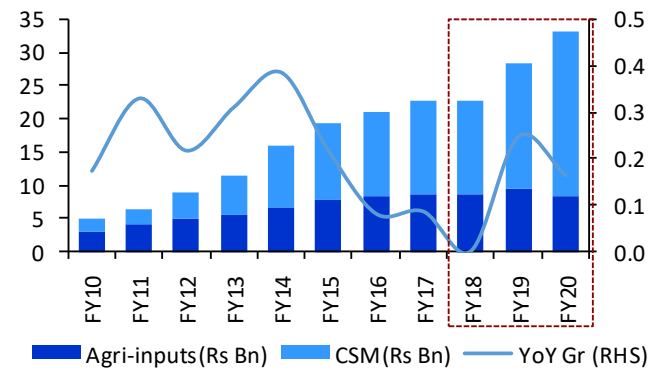
Exhibit 2: Change in estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	45,081	40,578	11.1	54,185	47,105	15.0
EBITDA	9,738	8,724	11.6	11,921	10,237	16.4
EBITDA Margin (%)	21.6	21.5	10 bps	22.0	21.7	27 bps
PAT	6,229	5,481	13.7	7,802	6,537	19.4
EPS(Rs)	41.1	39.7	3.5	51.5	47.4	8.6

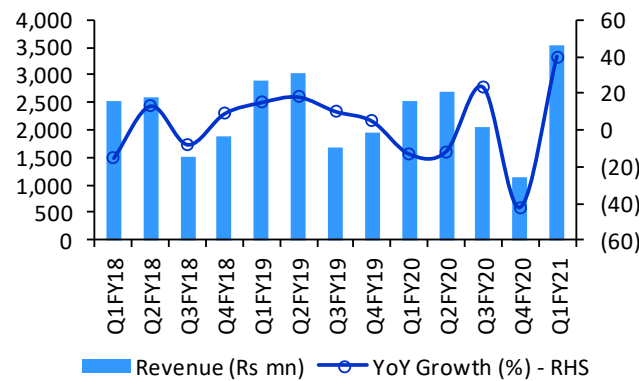
Source: Company, DART

Exhibit 3: Business Mix (%)


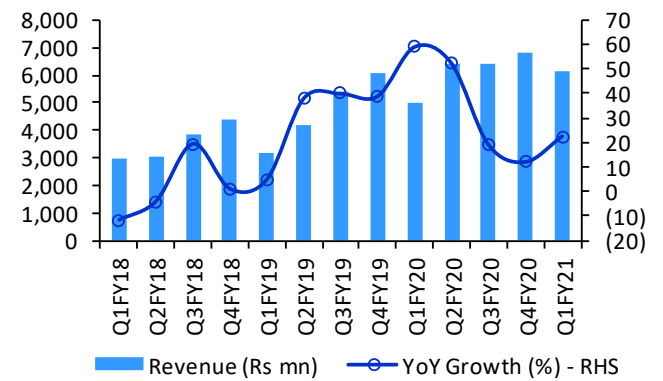
Source: Company, DART

Exhibit 4: Growth trajectory plus Business Split


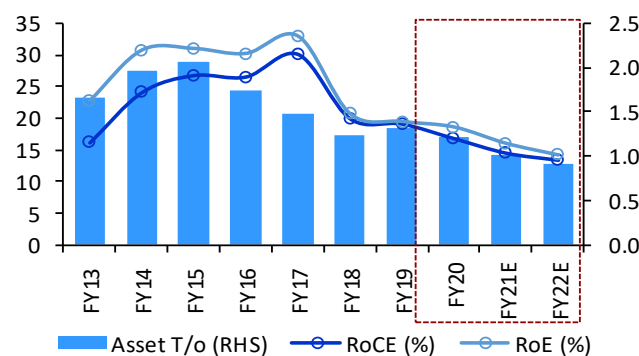
Source: Company, DART

Exhibit 5: Agri Revenue Contribution


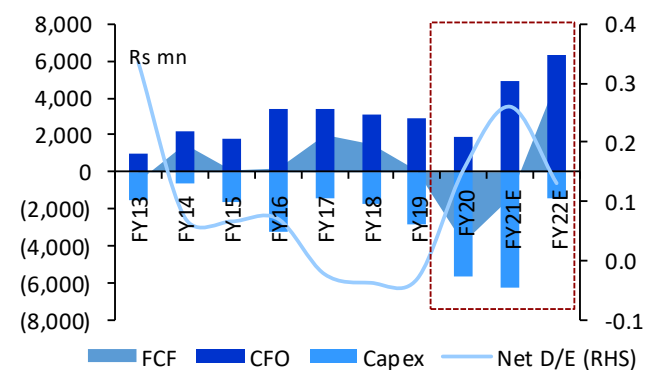
Source: Company, DART

Exhibit 6: CSM Revenue Contribution


Source: Company, DART

Exhibit 7: Return ratios profile


Source: Company, DART

Exhibit 8: Cash flows profile (Rs mn)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	28,409	33,665	45,081	54,185
Total Expense	22,645	28,084	35,344	42,264
COGS	15,502	20,071	24,885	29,747
Employees Cost	2,647	3,209	4,057	5,148
Other expenses	4,496	4,804	6,402	7,369
EBIDTA	5,764	5,581	9,738	11,921
Depreciation	930	1,367	1,667	1,877
EBIT	4,834	4,214	8,071	10,044
Interest	50	170	313	243
Other Income	595	489	538	592
Exc. / E.O. items	0	0	0	0
EBT	5,379	4,533	8,295	10,392
Tax	1,277	1,572	2,074	2,598
RPAT	4,102	2,969	6,229	7,802
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	8	8	8
APAT	4,102	2,969	6,229	7,802

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	138	138	152	152
Minority Interest	0	0	0	0
Reserves & Surplus	22,716	26,053	51,234	57,940
Net Worth	22,854	26,191	51,385	58,092
Total Debt	579	6,033	4,833	4,033
Net Deferred Tax Liability	(141)	102	102	102
Total Capital Employed	23,292	32,326	56,320	62,227

Applications of Funds

Net Block	12,141	18,911	23,244	35,367
CWIP	1,544	2,371	3,000	1,000
Investments	172	179	179	179
Current Assets, Loans & Advances	17,550	20,787	41,206	38,463
Inventories	5,357	7,989	10,698	12,859
Receivables	6,618	6,465	9,275	11,148
Cash and Bank Balances	892	1,342	16,241	9,465
Loans and Advances	63	83	83	83
Other Current Assets	3,501	3,583	3,583	3,583
Less: Current Liabilities & Provisions	8,115	9,922	11,308	12,781
Payables	5,130	5,909	7,295	8,768
Other Current Liabilities	2,985	4,013	4,013	4,013
Net Current Assets	9,435	10,865	29,897	25,681
Total Assets	23,292	32,326	56,320	62,227

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	45.4	40.4	44.8	45.1
EBIDTA Margin	20.3	16.6	21.6	22.0
EBIT Margin	17.0	12.5	17.9	18.5
Tax rate	23.7	34.7	25.0	25.0
Net Profit Margin	14.4	8.8	13.8	14.4
(B) As Percentage of Net Sales (%)				
COGS	54.6	59.6	55.2	54.9
Employee	9.3	9.5	9.0	9.5
Other	15.8	14.3	14.2	13.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.2	0.1	0.1
Interest Coverage	96.7	24.8	25.8	41.3
Inventory days	69	87	87	87
Debtors days	85	70	75	75
Average Cost of Debt	5.5	5.1	5.8	5.5
Payable days	66	64	59	59
Working Capital days	121	118	242	173
FA T/O	2.3	1.8	1.9	1.5
(D) Measures of Investment				
AEPS (Rs)	27.1	19.6	41.1	51.5
CEPS (Rs)	33.2	28.6	52.1	63.8
DPS (Rs)	3.6	3.6	5.0	6.0
Dividend Payout (%)	13.5	18.6	12.2	11.7
BVPS (Rs)	150.7	172.8	338.9	383.2
RoANW (%)	19.5	12.1	16.1	14.3
RoACE (%)	19.1	11.3	14.7	13.6
RoAIC (%)	23.4	15.8	22.7	21.6
(E) Valuation Ratios				
CMP (Rs)	2036	2036	2036	2036
P/E	75.2	104.0	49.5	39.6
Mcap (Rs Mn)	3,08,631	3,08,631	3,08,631	3,08,631
MCap/ Sales	10.9	9.2	6.8	5.7
EV	3,07,199	3,11,997	2,95,897	3,01,874
EV/Sales	10.8	9.3	6.6	5.6
EV/EBITDA	53.3	55.9	30.4	25.3
P/BV	13.5	11.8	6.0	5.3
Dividend Yield (%)	0.2	0.2	0.2	0.3
(F) Growth Rate (%)				
Revenue	24.8	18.5	33.9	20.2
EBITDA	16.8	(3.2)	74.5	22.4
EBIT	17.8	(12.8)	91.5	24.4
PBT	15.6	(15.7)	83.0	25.3
APAT	11.6	(27.6)	109.8	25.2
EPS	11.6	(27.6)	109.8	25.2

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	4,060	5,299	4,077	7,362
CFI	(4,047)	(8,864)	(6,629)	(12,000)
CFF	(904)	4,221	17,452	(2,139)
FCFF	321	(3,665)	(2,552)	(4,638)
Opening Cash	2,902	2,011	2,667	17,566
Closing Cash	2,011	2,667	17,566	10,790

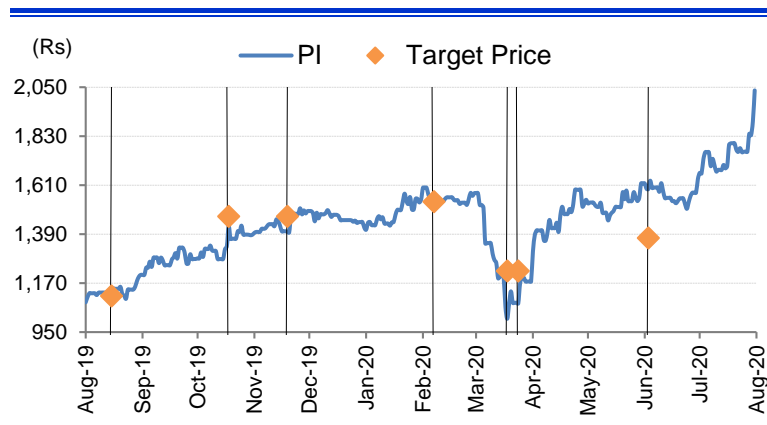
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Reduce	1,113	1,114
Oct-19	Reduce	1,470	1,427
Nov-19	Reduce	1,470	1,401
Feb-20	Reduce	1,536	1,545
Mar-20	Accumulate	1,225	1,010
Mar-20	Accumulate	1,225	1,079
Jun-20	Reduce	1,373	1,593

*Price as on recommendation date

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