

Accumulate

- The company reported a consolidated sales growth of 27.6% YoY to Rs 11.5bn. A strong sales growth in the CSM business (up 25% YoY to Rs 7.98bn) coupled with improving contribution from ISAGRO (Rs 996mn from domestic business, Rs 109mn from exports) led to a beat on our sales estimate of Rs 10.5bn.
- EBITDA growth of 45.5% YoY to Rs 2.8bn came in from an improvement in gross margins of 170bps YoY with improved business mix and product mix coupled with easing input costs.
- EBITDA margins improved by 300 bps YoY to 24.2%.
- Depreciation inched up by 36.6% YoY to Rs 433mn with gross block addition, while other income came in at Rs 336mn up by 208.3% YoY due to gains from QIP proceeds.
- PAT growth was higher than EBITDA growth, PAT grew by 76.6% YoY to Rs 2.17bn owing to a lower tax rate of 17.2% against 27.2% in 2QFY20 due to change in SEZ vs Non-SEZ mix.

Outlook and valuation

We believe PI Industries is expected to continue its growth trajectory in CSM (for another 5-6 quarters) and increase contribution from ISAGRO on profitability as the company envisages aligning EBITDA margins in-line with PI Industries' margin profile. We would like to keep a close watch on how QIP proceeds crystallise and would review our outlook and estimates later. We understand that the company is proactively working on developing Pharmaceutical molecules in house (the company is said to be working on 10+ molecules which are in various stages of development in their labs). We roll forward FY23E estimates and revise our target price, we are valuing PI Industries at 40x FY23E EPS with a target price of Rs 2,406/share. We have an Accumulate rating on the stock.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	11,577	9,074	27.6	10,601	9.2
Total Expense	8,776	7,149	22.8	8,309	5.6
EBITDA	2,801	1,925	45.5	2,292	22.2
Depreciation	433	317	36.6	427	1.4
EBIT	2,368	1,608	47.3	1,865	27.0
Other Income	336	109	208.3	82	309.8
Interest	76	25	204.0	96	(20.8)
EBT	2,628	1,692	55.3	1,851	42.0
Tax	451	461	(2.2)	444	1.6
RPAT	2,176	1,232	76.6	1,455	49.6
APAT	2,176	1,232	76.6	1,455	49.6
			(bps)		(bps)
Gross Margin (%)	44.1	42.4	171	42.0	212
EBITDA Margin (%)	24.2	21.2	298	21.6	257
NPM (%)	18.8	13.6	522	13.7	507
Tax Rate (%)	17.2	27.2	(1008)	24.0	(683)
EBIT Margin (%)	20.5	17.7	273	17.6	286

CMP	Rs 2,158
Target / Upside	Rs 2,406 / 11%
NIFTY	11,671

Scrip Details

Equity / FV	Rs 152mn / Rs 1		
Market Cap	Rs 327bn		
	USD 4bn		
52-week High/Low	Rs 2,225/ 970		
Avg. Volume (no)	3,15,439		
Bloom Code	PI IN		
Price Performance	1M	3M	12M
Absolute (%)	9	23	54
Rel to NIFTY (%)	5	17	55

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	51.4	51.4	46.8
MF/Banks/FIs	21.6	19.1	24.2
FIIIs	12.1	11.7	14.7
Public / Others	14.9	17.7	14.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	49.4	42.7	35.9
EV/EBITDA	31.2	27.3	23.2
ROE (%)	17.0	13.9	14.6
RoACE (%)	15.6	13.3	14.2

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	45,081	54,185	63,066
EBITDA	10,053	11,921	13,875
PAT	6,626	7,671	9,122
EPS (Rs.)	43.7	50.6	60.2

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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. The company continues to launch new products from in-licensed molecules, the company launched an Insecticide Londax Powder and a fungicide Shield. 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 QIP proceeds are currently parked with SLR Philosophy and will be used 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.

Exhibit 1: Actual vs DART Estimates

Particulars	Actual	Estimated	Variance	Comments
Revenue	11,577	10,500	10.3%	Higher than expected revenues from both Domestic and CSM business
EBITDA	2,801	2,295	22.0%	
EBITDA Margin(%)	24.2	21.9	234	
PAT	2,176	1,440	51.1%	

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY21E			FY22E		
	New	Previous	Change(%)	New	Previous	Change(%)
Revenue	45,081	45,081	-	54,185	54,185	-
EBITDA	10,053	9,738	3.24	11,921	11,921	-
EBITDA Margin(%)	22.3	21.6	70	22.0	22.0	-
PAT	6,626	6,229	6.4	7,671	7,802	(1.7)
EPS(Rs)	43.7	41.1	6.4	50.6	51	(1.7)

Source: DART, Company

Con Call Highlights

Domestic Business

- Domestic revenues were up by 33% YoY in Q2FY21 to Rs 3.59bn with ISAGRO contribution coming in at Rs 996mn. ISAGRO delivered a high double digit growth with its portfolio which consists of Fruits, Veggies and plantations performing well.
- PI industries portfolio which consist of higher proportion of early post emergence herbicide suffered during the quarter due to early monsoon season getting prolonged in large part of the country.
- Companies flagship products Nominee Gold (Highest ever placement) and Osheen performed well during Q2FY21.

Exports

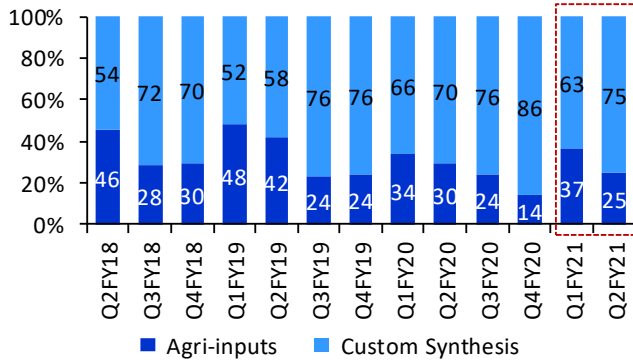
- CSM business grew by 25% YoY in Q2FY21 to Rs 7.98bn despite Covid related challenges with good uptick in key commercialised molecules.
- Share of revenue from ISAGRO exports stood at Rs 109 mn.

Other Operational Highlights

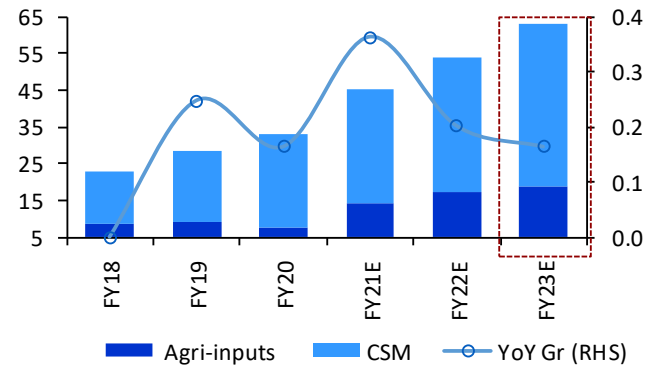
- All manufacturing facilities are operational and capacity utilisation levels are gradually moving back to the pre-covid levels with reduction on covid related disruptions.
- EBITDA grew by 45.5% YoY to Rs 2.80bn with EBITDA margin expanding by 298bps to 24.2% on the back of favourable product mix both in domestic as well as international business and portfolio rationalization.
- Gross margins also improved by 171bps YoY to 44.1% in Q2FY21.
- Capex accounted till 30th September 2020 was Rs 1.16bn.
- Order book stood at US\$ 1.5 bn as on 30th September 2020.
- Construction of 2 MPP plants has been delayed due to Covid pandemic out of which one is now expected to be commissioned in Q1FY22 while the other is expected to start by the end of FY22.
- Out of the total Capex of Rs 6.0bn guided for FY21, ~Rs1-1.5bn will be carried forward to next financial year due to delay in projects because of Covid related disruptions.
- The company launched 2 new products – Londax Power (Insecticide) and Shield (Fungicide) in Q2FY21.

Guidance

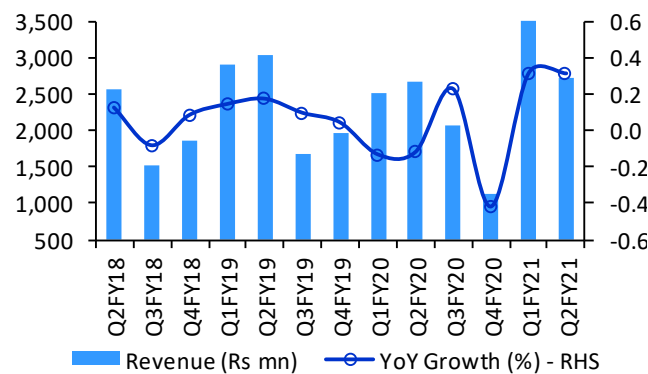
- Management has guided for a EBITDA Margin level of 22-23% going ahead.
- The management continues to maintain its growth guidance of 20%+ for FY21.

Exhibit 3: Business Mix (%)


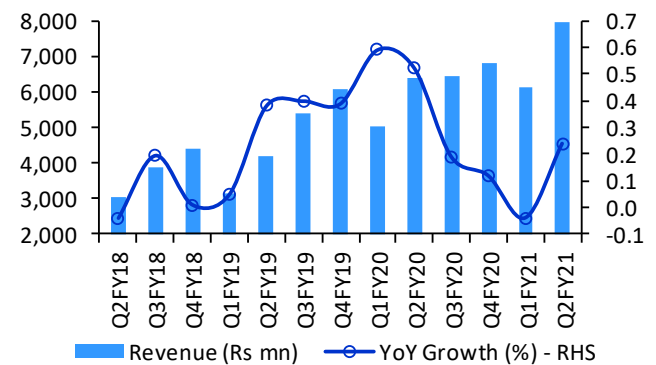
Source: DART, Company

Exhibit 4: Growth trajectory plus Business Split


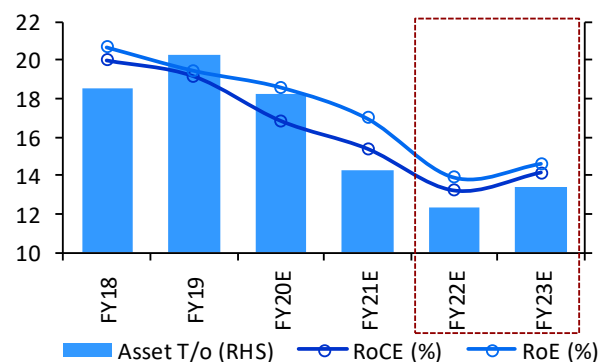
Source: DART, Company

Exhibit 5: Agri Revenue Contribution


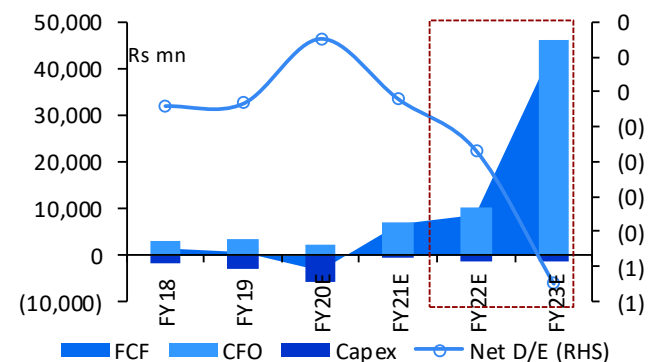
Source: Company, DART

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)	FY20A	FY21E	FY22E	FY23E
Revenue	33,665	45,081	54,185	63,066
Total Expense	28,084	35,028	42,264	49,192
COGS	20,071	24,750	29,747	34,623
Employees Cost	3,209	4,057	5,148	5,991
Other expenses	4,804	6,221	7,369	8,577
EBIDTA	5,581	10,053	11,921	13,875
Depreciation	1,367	1,667	2,067	2,242
EBIT	4,214	8,386	9,854	11,633
Interest	170	313	208	110
Other Income	489	636	572	629
Exc. / E.O. items	0	0	0	0
EBT	4,533	8,708	10,217	12,152
Tax	1,572	2,090	2,554	3,038
RPAT	2,969	6,626	7,671	9,122
Minority Interest	0	0	0	0
Profit/Loss share of associates	8	8	8	8
APAT	2,969	6,626	7,671	9,122

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	138	152	152	152
Minority Interest	0	0	0	0
Reserves & Surplus	26,053	51,631	58,207	66,051
Net Worth	26,191	51,782	58,358	66,202
Total Debt	6,130	4,833	3,033	2,033
Net Deferred Tax Liability	102	102	102	102
Total Capital Employed	32,423	56,717	61,493	68,337

Applications of Funds

Net Block	18,911	22,393	40,326	43,084
CWIP	2,371	3,000	1,000	1,000
Investments	179	179	179	179
Current Assets, Loans & Advances	20,787	42,453	32,769	38,292
Inventories	7,989	10,698	12,859	14,966
Receivables	6,465	9,275	11,148	12,975
Cash and Bank Balances	1,342	17,489	3,772	5,360
Loans and Advances	83	83	83	83
Other Current Assets	3,583	3,583	3,583	3,583
Less: Current Liabilities & Provisions	9,825	11,308	12,781	14,219
Payables	5,909	7,295	8,768	10,206
Other Current Liabilities	3,916	4,013	4,013	4,013
<i>sub total</i>				
Net Current Assets	10,962	31,145	19,988	24,074
Total Assets	32,423	56,717	61,493	68,337

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	40.4	45.1	45.1	45.1
EBIDTA Margin	16.6	22.3	22.0	22.0
EBIT Margin	12.5	18.6	18.2	18.4
Tax rate	34.7	24.0	25.0	25.0
Net Profit Margin	8.8	14.7	14.2	14.5
(B) As Percentage of Net Sales (%)				
COGS	59.6	54.9	54.9	54.9
Employee	9.5	9.0	9.5	9.5
Other	14.3	13.8	13.6	13.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.0
Interest Coverage	24.8	26.8	47.3	105.4
Inventory days	87	87	87	87
Debtors days	70	75	75	75
Average Cost of Debt	4.8	5.7	5.3	4.4
Payable days	64	59	59	59
Working Capital days	119	252	135	139
FA T/O	1.8	2.0	1.3	1.5
(D) Measures of Investment				
AEPS (Rs)	19.6	43.7	50.6	60.2
CEPS (Rs)	28.6	54.7	64.2	75.0
DPS (Rs)	3.6	5.0	6.0	7.0
Dividend Payout (%)	18.6	11.4	11.9	11.6
BVPS (Rs)	172.8	341.6	384.9	436.7
RoANW (%)	12.1	17.0	13.9	14.6
RoACE (%)	11.2	15.6	13.3	14.2
RoAIC (%)	15.6	23.9	20.3	19.3
(E) Valuation Ratios				
CMP (Rs)	2158	2158	2158	2158
P/E	110.2	49.4	42.7	35.9
Mcap (Rs Mn)	3,27,187	3,27,187	3,27,187	3,27,187
MCap/ Sales	9.7	7.3	6.0	5.2
EV	3,30,650	3,13,206	3,25,123	3,22,535
EV/Sales	9.8	6.9	6.0	5.1
EV/EBITDA	59.2	31.2	27.3	23.2
P/BV	12.5	6.3	5.6	4.9
Dividend Yield (%)	0.2	0.2	0.3	0.3
(F) Growth Rate (%)				
Revenue	18.5	33.9	20.2	16.4
EBITDA	(3.2)	80.1	18.6	16.4
EBIT	(12.8)	99.0	17.5	18.1
PBT	(15.7)	92.1	17.3	18.9
APAT	(27.6)	123.2	15.8	18.9
EPS	(27.6)	123.2	15.8	18.9

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	5,299	4,474	7,386	8,976
CFI	(8,864)	(5,778)	(18,000)	(5,000)
CFF	4,221	17,452	(3,104)	(2,388)
FCFF	(3,665)	(1,304)	(10,614)	3,976
Opening Cash	2,011	2,667	18,814	5,097
Closing Cash	2,667	18,814	5,097	6,685

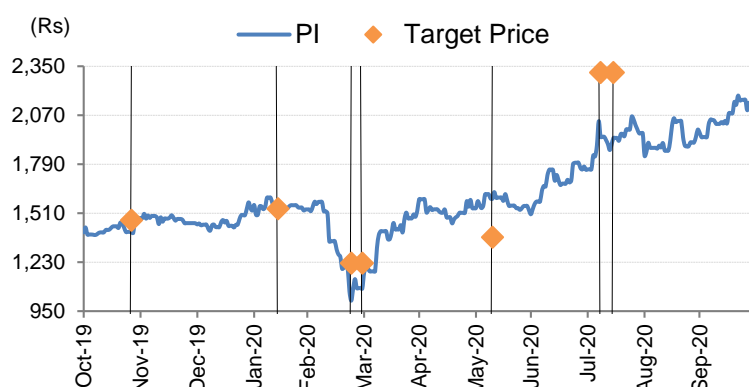
E – Estimates

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.)
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
Aug-20	Accumulate	2,315	1,946
Aug-20	Accumulate	2,315	1,940

*Price as on recommendation date

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