PI Industries

Robust revenue growth across segments

CMP: Rs 2,115 as of (October 28, 2020)	TP: Rs 2,250 (■) 12 months	Rating: BUY (■)	Upside: 6.4 %

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Key highlights

- PI's CSM order book stood at USD1.5bn, implying new order wins at around ~USD108mn (considering ~USD108mn execution in Q2), which is at its lifetime high.
- Isagro acquisition, highest placement of Nominee Gold and improved volumes for Osheen (driven by Cotton/Rice) led to 33% yoy growth in domestic revenue.
- Q2 saw minimal Covid-19-related disruption with manufacturing facilities operating at pre-Covid levels. MPP-5, which was shut due to a fire incident in Jan'20, resumed operations.
- Management has maintained its 20%+ revenue growth in FY21.

Q2 Earnings Highlights

Revenue

- Q2 consolidated revenue increased by 28% yoy to Rs11.6bn, beating Emkay/consensus estimates by 12%/5%, on the back strong growth in domestic/Export segments and Isagro acquisition. Standalone (excluding Isagro) revenue increased 18% yoy to Rs10.7bn, while Isagro contributed ~10% to revenue growth.
- Q2 consolidated exports increased 25% yoy to Rs8bn (11% above our estimates), driven by volume ramp-up of molecules commercialized in the last two years.
- Domestic revenue increased by 34% yoy to Rs3.6bn (14% above our estimates) on the back of increased sales from Isagro brands and growth in Nominee Gold and Osheen brands.

Margins

- Consolidated gross margins improved 171bps yoy to 44.1% due to a change in the business mix in favor of the domestic business.
- Consolidated EBITDA increased by 46% yoy to Rs2.8bn (27%/18% above our/consensus estimates). Standalone EBITDA increased 39% yoy to Rs2.6bn. Consolidated EBITDA margins expanded 298bps yoy to 24.2% and standalone margins expanded 379bps yoy to 24.9%.
- Consolidated PAT increased 77% yoy to Rs2.2bn. Standalone PAT increased 70% yoy to Rs2.1bn due to higher other income (+205% yoy) and lower tax rate at 17.2% (vs. 27.2% in Q2FY20).

Balance Sheet

- Cash conversion cycle improved by 10 days to 68 days (78days in H1FY20) due to decrease in receivable days by 17 to 62 days.
- H1FY21 cash flow from operations increased by 45% yoy to Rs5.4bn.
- Capex for H1FY21 was down 52% yoy at Rs1.8bn vs. Rs3.5bn.

Our view

- PI's domestic segment beat estimates with 33% growth (incl. Isagro acquisition). PI's organic growth in the domestic business (excl. acquisition) came as a positive surprise, driven by Osheen's momentum in the rice segment and growth in Nominee Gold despite higher placements in Q1FY21. We believe that Gross margin expansion was largely due to a change in the product mix in favor of the domestic business on a yoy basis. H1FY21 gross margins are flat (down 37bps yoy), indicating normalized H1 margin performance. We believe that PI's 188bps improvement in SG&A expenses should reverse partly after Covid-19 as costs related to physical marketing and travel would come back.
- **Key catalyst are:** 1) Progress on utilization of QIP proceeds, 2) Capex guidance for new MPP at Jambusar/Panoli.
- Earnings call is scheduled on October 29, 2020, at 3pm. Dial in +91 22 6280 1141

Please see our sector model portfolio (Emkay Alpha Portfolio): Agri Input & Chemicals

Exhibit 1: Actual vs Estimates (Q2FY21)

Rs mn	Actual	Estimates		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Net Sales	11,577	10,322	11,009	12.2%	5.2%	Beat estimates due to strong beat in domestic and export segments
EBITDA	2,801	2,199	2,364	27.4%	18.5%	Beat estimates due to revenue beat and gross margin beat
EBITDA %	24.2	21.3	21.5	290bps	270bps	Beat our estimates due to higher operating leverage
APAT	2,176	1,361	1,559	59.9%	39.6%	Beat estimates due to higher other income and lower tax rate

Source: Company, Bloomberg, Emkay Research

Exhibit 2: Q2FY21 result summary

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Revenue	**9,074**	**8,498**	**8,552**	**10,601**	**11,577**	**27.6**	**9.2**	**22,178**	**16,615**	**33.5**
Expenditure	**7,149**	**6,633**	**6,689**	**8,309**	**8,776**	**22.8**	**5.6**	**17,085**	**13,165**	**29.8**
as % of sales	*78.8*	*78.1*	*78.2*	*78.4*	*75.8*			*77.0*	*79.2*	
Consumption of RM	5,223	4,537	4,550	6,146	6,466	23.8	5.2	12,612	9,387	34.4
as % of sales	*57.6*	*53.4*	*53.2*	*58.0*	*55.9*			*56.9*	*56.5*	
Employee Cost	728	764	948	991	999	37.2	0.8	1,990	1,497	32.9
as % of sales	*8.0*	*9.0*	*11.1*	*9.3*	*8.6*			*9.0*	*9.0*	
Other expenditure	1,198	1,332	1,191	1,172	1,311	9.4	11.9	2,483	2,281	8.9
as % of sales	*13.2*	*15.7*	*13.9*	*11.1*	*11.3*			*11.2*	*13.7*	
EBITDA	**1,925**	**1,865**	**1,863**	**2,292**	**2,801**	**45.5**	**22.2**	**5,093**	**3,450**	**47.6**
Depreciation	317	319	436	427	433	36.6	1.4	860	612	40.5
EBIT	**1,608**	**1,546**	**1,427**	**1,865**	**2,368**	**47.3**	**27.0**	**4,233**	**2,838**	**49.2**
Other Income	110	190	76	130	335	204.5	157.7	465	231	101.3
Interest	25	38	84	96	76	204.0	(20.8)	172	48	258.3
Forex (gain) / loss	0	0	0	0	0			0	0	
PBT	**1,693**	**1,698**	**1,419**	**1,899**	**2,627**	**55.2**	**38.3**	**4,526**	**3,021**	**49.8**
Total Tax	461	487	312	444	451	(2.2)	1.6	895	773	15.8
RPAT	1,232	1,211	1,107	1,455	2,176	76.6	49.6	3,631	2,248	61.5
APAT	**1,232**	**1,211**	**1,107**	**1,455**	**2,176**	**76.6**	**49.6**	**3,631**	**2,248**	**61.5**
EPS (Rs)	**8.9**	**8.8**	**8.0**	**10.5**	**14.3**	**60.4**	**35.8**	**24.9**	**16.3**	**52.6**

Margins (%)						(bps)	(bps)			(bps)
Gross Margins	42.4	46.6	46.8	42.0	44.1	171	212	43.1	43.5	(37)
EBIDTA	21.2	21.9	21.8	21.6	24.2	298	257	23.0	20.8	220
EBIT	17.7	18.2	16.7	17.6	20.5	273	286	19.1	17.1	201
EBT	17.4	17.7	15.7	16.7	19.8	235	311	18.3	16.8	152
PAT	13.6	14.3	12.9	13.7	18.8	522	507	16.4	13.5	284
Effective Tax rate	27.2	28.7	22.0	23.4	17.2	(1,006)	(621)	19.8	25.6	(581)

Segmental Revenue Break-up

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Domestic	2,680	2,060	1,720	4,460	3,590	33.0	(19.5)	8,050	5,211	54.5
Export	6,390	6,438	6,830	6,140	7,990	25.0	30.1	14,130	11,400	23.9
Total	**9,070**	**8,498**	**8,550**	**10,600**	**11,580**	**27.7**	**9.2**	**22,180**	**16,611**	**33.5**
% Contribution										
Domestic	30%	24%	20%	42%	31%	-	-	36%	31%	-
Export	70%	76%	80%	58%	69%	-	-	64%	69%	-

Source: Company

Emkay Rating Distribution

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