PI Industries

Accumulate

DART
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Result Update

PI Industries continues to report solid quarterly performance in both the CSM and Domestic businesses.

- Sales growth was ahead of our estimates, clocking 36.7% YoY growth to Rs 11.6bn (D.est: Rs 10.7bn).
- Gross margins expanded by 30 bps YoY to 46.9%. PI Industries' strong operating leverage led to an EBITDA margin expansion of 180 bps YoY to 23.7%, with EBITDA growing by 47.7% YoY to Rs 2.7bn (D.est: Rs 2.5bn). PAT grew by 61.4% YoY to Rs 1.95 bn.
- Exports grew by 40% YoY to Rs 9.0bn owing with efficient capacity utilisation and strong demand of commercial molecules. The company commissioned 4 new molecules in the newly acquired ISAGRO's facility. The company has built a robust pipeline of 5-6 new molecules which could likely be commercialised in FY22. The order book remained intact at USD 1.5bn. The CSM business is expected to grow at ~20% YoY.
- Domestic business grew by 26% YoY to Rs 2.6bn. PI Industries branded business grew by 17% YoY, while the remainder of ~Rs 189mn could be attributed to sales from ISAGRO's domestic business. The company successfully launched a Rice herbicide – Londax Power (Bensulfuron Methyl + Pretilachlor). PI Industries' AWKIRA (wheat herbicide) saw a strong ramp up with treatment of over 100k acres.

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..

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	11,621	8,498	36.7	11,577	0.4
Total Expense	8,866	6,633	33.7	8,776	1.0
EBITDA	2,755	1,865	47.7	2,801	(1.6)
Depreciation	440	319	37.9	433	1.6
EBIT	2,315	1,546	49.7	2,368	(2.2)
Other Income	389	191	103.7	336	15.8
Interest	66	38	73.7	76	(13.2)
EBT	2,638	1,699	55.3	2,628	0.4
Tax	682	487	40.0	451	51.2
RPAT	1,954	1,211	61.4	2,176	(10.2)
APAT	1,954	1,211	61.4	2,176	(10.2)
			(bps)		(bps)
Gross Margin (%)	46.9	46.6	30	44.1	276
EBITDA Margin (%)	23.7	21.9	176	24.2	(49)
NPM (%)	16.8	14.3	256	18.8	(198)
Tax Rate (%)	25.9	28.7	(281)	17.2	869
EBIT Margin (%)	19.9	18.2	173	20.5	(53)

CMP	Rs 2,250
Target / Upside	Rs 2,406 / 7%
NIFTY	14,790

Scrip Details

Equity / FV	Rs 152mn / Rs 1
Market Cap	Rs 341bn
	USD 5bn
52-week High/Low	Rs 2,650/ 970
Avg. Volume (no)	5,79,247
Bloom Code	PI IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	1	45
Rel to NIFTY (%)	(6)	(24)	19

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	51.4	46.8	46.8
MF/Banks/FIs	19.1	24.2	21.3
FIIs	11.7	14.7	19.5
Public / Others	17.7	14.3	12.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	51.5	44.5	37.4
EV/EBITDA	32.5	28.4	24.3
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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Exhibit 1: Actual vs DART Estimates – Q3FY21

Particulars	Actual	Estimated	Variance	Comments
Revenue	11,621	10,726	8.3%	Higher than expected revenues from CSM Business
EBITDA	2,755	2,477	11.2%	Same as above
EBITDA Margin(%)	23.7	21.9	185 bps	Higher revenues from High margin CSM business
PAT	1,954	1,725	13.2%	Higher EBITDA translating to higher PAT

Source: DART, Company

Exhibit 2: Change in Estimates

(Particulars (Rs Mn)	FY21E			FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	45,081	45,081	-	54,185	54,185	-	63,066	63,066	-
EBITDA	10,053	10,053	-	11,921	11,921	-	13,875	13,875	-
EBITDA Margin(%)	22.3	22.3	-	22.0	22.0	-	22.0	22.0	-
PAT	6,626	6,626	-	7,671	7,671	-	9,122	9,122	-
EPS(Rs)	43.7	43.7	-	50.6	51	-	60.2	60	-

Source: DART, Company

Con Call Highlights

Exports

- Exports in Q3FY21 grew by 40% YoY on the back of strong demand in commercial molecules.
- Company has CSM capacity utilization of less than 80% as of 9MFY21, optimal utilization levels stand at ~85-90%.
- Company deals in high value low volume products, therefore shortage of containers did not impact the exports of the company.

Other Operational Highlights

- Highest ever sales in Nominee herbicide and Osheen insecticide led by rice and cotton crop respectively.
- Successful scale up of wheat herbicide Awkira which has treated more than 100,000 acres.
- The company launched rice herbicide Londax Power in Q3FY21.
- Company has higher inventory levels due to higher demand visibility.
- Other expenses in Q3FY21 are high due to cost incurred for scouting of opportunities for acquisition and also higher expenses due to covid.
- At any given stage the company has 40-45 molecules in R&D pipeline at different stages and has 25 commercial molecules.
- Company has an order book USD 1.5bn as of 9MFY21.
- 2 MPP plants which were commercialized in FY20, currently as of 9MFY21 have capacity utilization of 80% and the other has below 50%.
- CFO as of 9MFY21 is at Rs 6.7bn
- FCF as of 9MFY21 is at Rs 3.1bn.

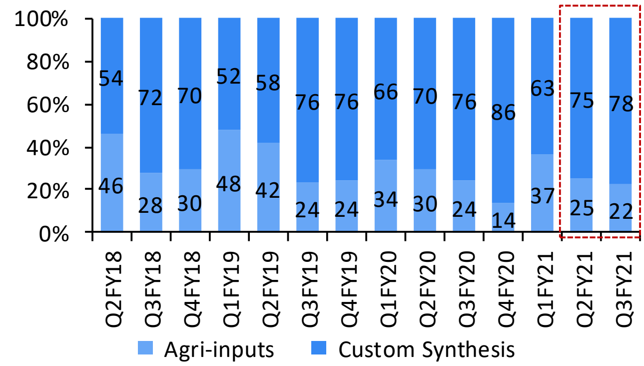
Capex

- Capex for 9MFY21 stood at Rs 3.2bn.
- Management guided that capex intensity for next couple of years will reduce and be down to Rs 2-3bn per year.

Guidance

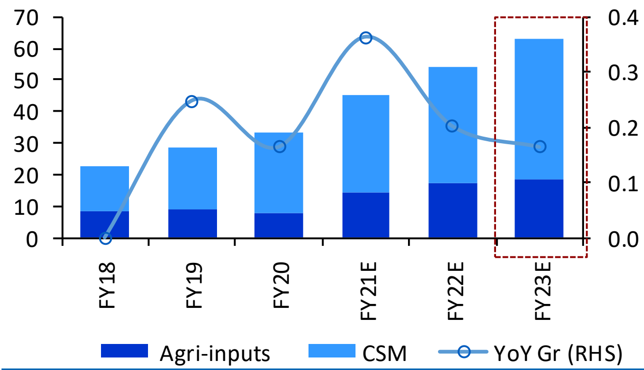
- The company in total will launch 4 new molecules in FY21 and 5 molecules in FY22.
- Company in Q4FY21 to commence production for new specialty chemical customer in Other Additives industry.
- New MPP10 plant to be operational in Q4FY21.
- Upgradation of facilities of Isagro will be completed in coming couple of months.
- Management maintained their 20-25% guidance for growth in FY21.
- Higher asset turnover of ~2.5-3x expected in next couple of years on the back of technological initiatives in its plants.

Exhibit 3: Business Mix (%)



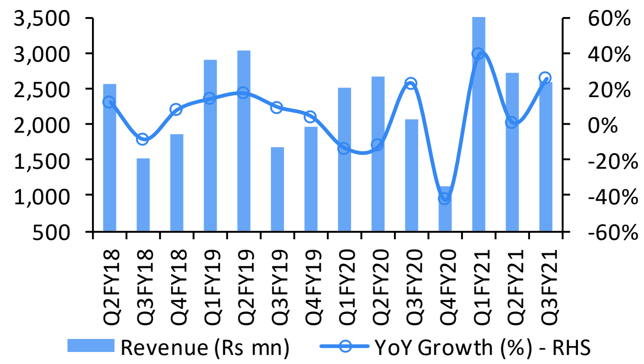
Source: DART, Company

Exhibit 4: Growth trajectory plus Business Split



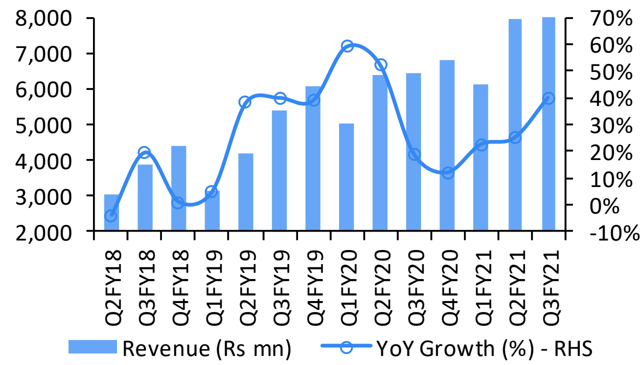
Source: DART, Company

Exhibit 5: Agri Revenue Contribution



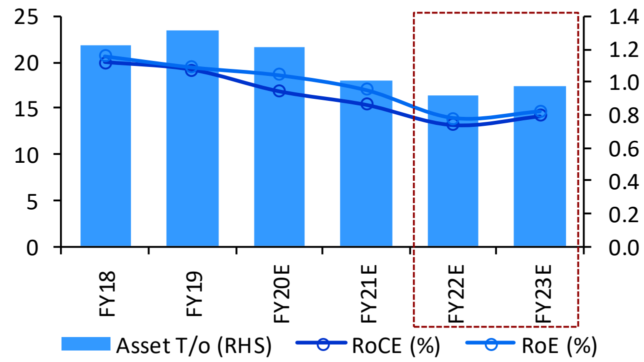
Source: Company, DART

Exhibit 6: CSM Revenue Contribution



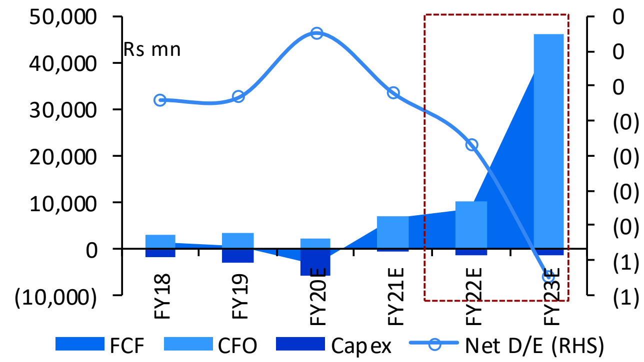
Source: Company, DART

Exhibit 7: Return Ratios Profile



Source: Company, DART

Exhibit 8: Cash Flows Profile (Rs mn)



Source: Company, DART

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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
sub total				
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)	2250	2250	2250	2250
P/E	114.9	51.5	44.5	37.4
Mcap (Rs Mn)	3,41,135	3,41,135	3,41,135	3,41,135
MCap/ Sales	10.1	7.6	6.3	5.4
EV	3,44,598	3,27,154	3,39,071	3,36,483
EV/Sales	10.2	7.3	6.3	5.3
EV/EBITDA	61.7	32.5	28.4	24.3
P/BV	13.0	6.6	5.8	5.2
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

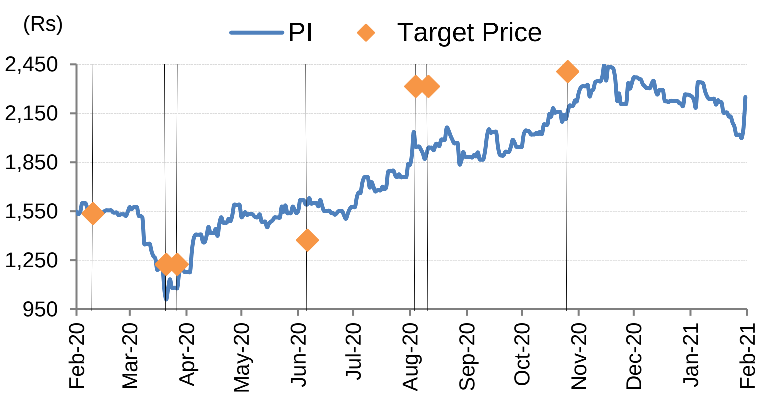
E – Estimates

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.)
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	Accumlate	2,315	1,946
Aug-20	Accumlate	2,315	1,940
Oct-20	Accumulate	2,406	2,158

**Price as on recommendation date*

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