

PI Industries

BSE SENSEX	S&P CNX
33,157	10,323
Bloomberg	PI IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	104.3 / 1.6
52-Week Range (INR)	950 / 674
1, 6, 12 Rel. Per (%)	-6/-24/-30
Avg Val, INRm	164
Free float (%)	48.5

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	23.8	25.0	28.3
EBITDA	5.5	5.7	6.6
PAT	4.6	4.1	4.9
EPS (INR)	33.4	29.9	35.6
Gr. (%)	46.4	-10.4	19.0
BV/Sh (INR)	118.3	141.5	169.1
RoE (%)	32.8	23.0	22.9
RoCE (%)	31.0	22.6	22.9
P/E (x)	22.6	25.2	21.2
P/BV (x)	6.4	5.3	4.5

Estimate change 

TP change 

Rating change 

CMP: INR754 TP: INR890(+18%)

Buy

Back-ended growth expected in FY18

2HFY18 to see recovery from subdued growth so far

- Revenue miss, but EBITDA and PAT exceed estimates:** PI's revenue declined 1.9% YoY to INR5,611m (est. of INR6,256m) in 2QFY18. EBITDA margin shrunk 60bp YoY to 21.8% (est. of 17.4%) in 2QFY18, led by a 390bp YoY contraction in the gross margin to 48.1% and a 160bp rise in employee expense to 10.8% of net sales. EBITDA declined 5% YoY to INR1,222m (est. of INR1,091m). Consequently, adj. PAT declined 21% to INR803m (est. INR759m) from INR1,014m in 2QFY17. The decline in revenue is partly attributable to the change in accounting standards; excise in 2QFY17 was reported as an expense item above EBITDA; however, it is net off from gross sales in 2QFY18. Excise stood at INR279m in 2QFY17 (our estimate in 2QFY18 was flat).
- Domestic business revives, CSM to follow suit:** The domestic agro-chemicals business grew 13% YoY, in spite of generic product pressure on Nominee Gold. The company launched three new products for BASF in 1HFY18, and two more launches are expected in FY18 for the domestic market in segments where the company has little presence, thereby broadening the scope. Global agchem industry has also witnessed falling inventory levels, providing improved visibility of a revival in offtake.
- Valuation and view:** With the industry witnessing signs of a global agchem revival, we believe PI is well braced to leverage its strong order book and aid growth, with continuous commercialization of new products (3-4 products expected per year). FY18 is expected to be a back-ended growth year, with improvement largely expected in the quarters to follow. We largely maintain our estimates and value the stock at 25x FY19E EPS, arriving at a PT of INR890, implying an 18% upside. Maintain **Buy**.

Standalone - Quarterly Earning Model

Y/E March	FY17				FY18				FY17	FY18E	FY18	Var (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		
Net Sales	6,834	5,719	5,003	6,273	5,848	5,611	6,004	7,527	23,829	24,990	6,256	-10
YoY Change (%)	15.4	20.0	-4.5	3.7	-14.4	-1.9	20.0	20.0	8.4	4.9	15.0	
Total Expenditure	5,178	4,440	3,970	4,736	4,544	4,389	4,682	5,675	18,324	19,289	5,165	
EBITDA	1,656	1,279	1,034	1,537	1,304	1,222	1,322	1,853	5,505	5,701	1,091	12
Margins (%)	24.2	22.4	20.7	24.5	22.3	21.8	22.0	24.6	23.1	22.8	17.4	
Depreciation	178	181	183	185	197	205	167	220	727	789	210	
Interest	16	13	12	31	14	12	3	5	72	34	9	
Other Income	113	134	133	-21	126	123	99	112	358	459	107	
PBT before EO expense	1,575	1,219	973	1,299	1,219	1,127	1,251	1,740	5,065	5,337	979	15
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	1,575	1,219	973	1,299	1,219	1,127	1,251	1,740	5,065	5,337	979	15
Tax	306	205	33	-53	218	324	282	391	491	1,214	220	
Rate (%)	19.4	16.8	3.4	-4.0	17.9	28.7	22.5	22.5	9.7	22.8	22.5	
Reported PAT	1,269	1,014	940	1,352	1,001	803	970	1,348	4,574	4,123	759	6
Adj PAT	1,269	1,014	940	1,352	1,001	803	970	1,348	4,574	4,123	759	6
YoY Change (%)	47.7	77.9	32.7	40.8	-21.1	-20.8	3.2	-0.2	47.7	-9.9	66.4	
Margins (%)	18.6	17.7	18.8	21.5	17.1	14.3	16.2	17.9	19.2	16.5	12.1	

E: MOSL Estimates

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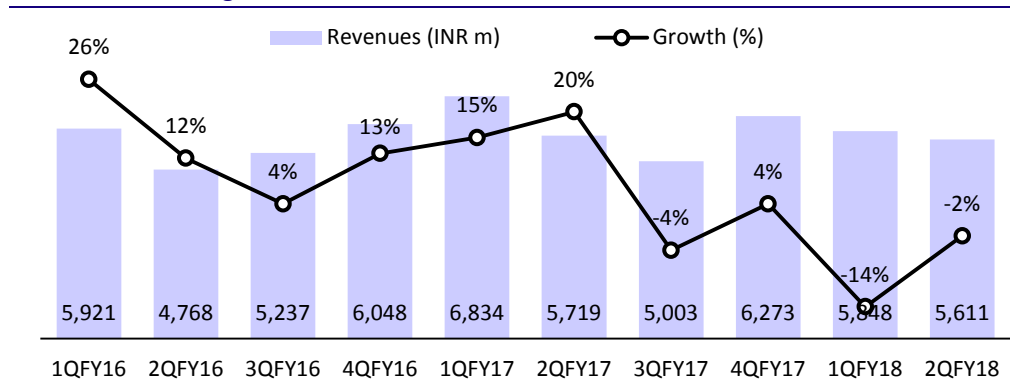
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Revenue below estimates, EBITDA & PAT beat estimates; revival in domestic demand post GST

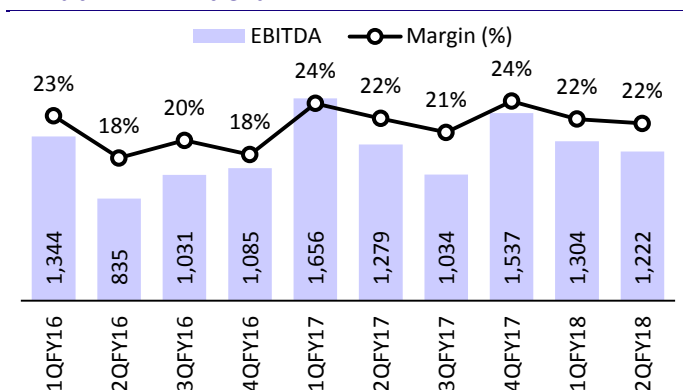
- PI's revenue declined 1.9% YoY to INR5,611m (est. INR6,256m) in 2QFY18. However, the decline in revenue is partly attributable to the change in accounting standards; excise in 2QFY17 was reported as an expense item above EBITDA; however, it is net off from gross sales in 2QFY18.
- The domestic market witnessed a revival in demand post GST, which was also aided by new product launches (three new launches in 1HFY18), leading to growth of 13% in domestic revenues.
- EBITDA margin shrunk 60bp YoY to 21.8% (est. of 17.4%) in 2QFY18, led by a 390bp YoY contraction in the gross margin to 48.1% and a 160bp rise in employee expense to 10.8% of net sales. The quarter witnessed pressure on margins on account of softness in export demand as well as product mix in the domestic market.
- EBITDA declined 5% YoY to INR1,222m (est. of INR1,091m). Consequently, adj. PAT declined 21% to INR803m (est. INR759m) from INR1,014m in 2QFY17. The bottom line was impacted by one-off tax adjustment, which led to a rise in the effective tax rate in 2QFY18 to 29% v/s 18% in 1QFY18.

Exhibit 1: Revenue growth trend



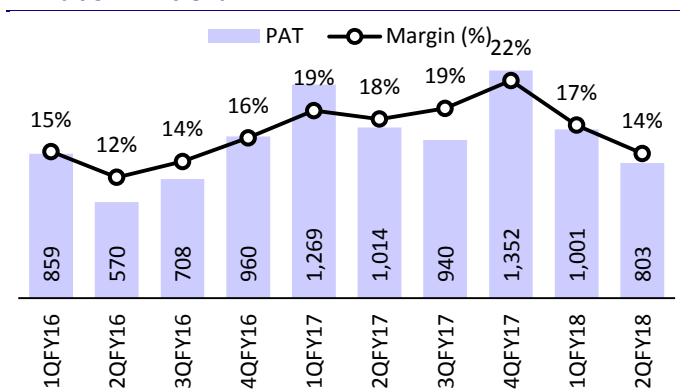
Source: Company, MOSL

Exhibit 2: EBITDA trend



Source: Company, MOSL

Exhibit 3: PAT trend



Source: Company, MOSL

Valuation view

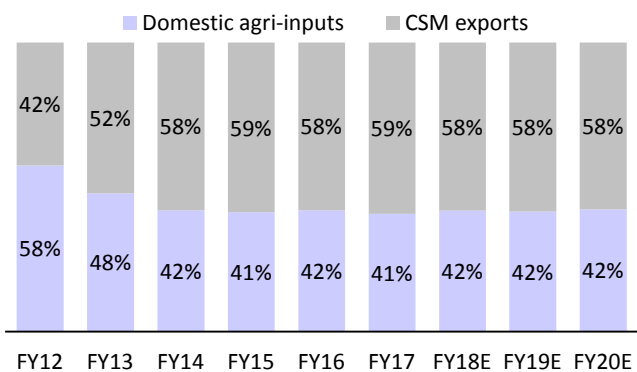
We value PI at 25x FY19E EPS, arriving at a TP of INR890 (18% upside), which we believe is justified, considering:

- Falling inventory levels globally across many products, allowing better visibility of offtake in 2HFY18.
- Recovery in domestic demand post GST, laying the base for further growth, which is expected to be aided by new product commercialization (3-4 products per year).
- Steady cash flow generation enabling smooth funding of R&D activities to build technology platforms to secure future growth.

FY18 is expected to be a back-ended growth year, with improvement largely expected in the quarters to follow. We largely maintain our estimates and value the stock at 25x FY19E EPS, arriving at a PT of INR890, implying 18% upside. Maintain **Buy**.

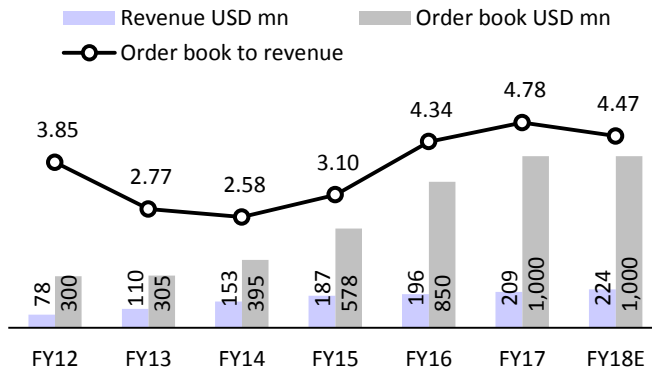
Story in charts

Exhibit 4: High CSM contribution



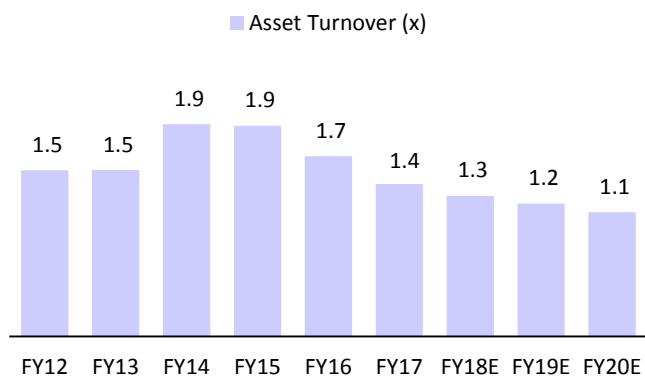
Source: Company, MOSL

Exhibit 5: Order book to revenue ratio in CSM



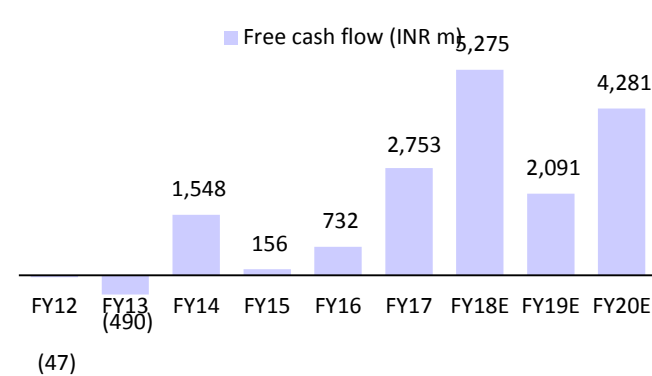
Source: Company, MOSL

Exhibit 6: Consistently strong asset turnover



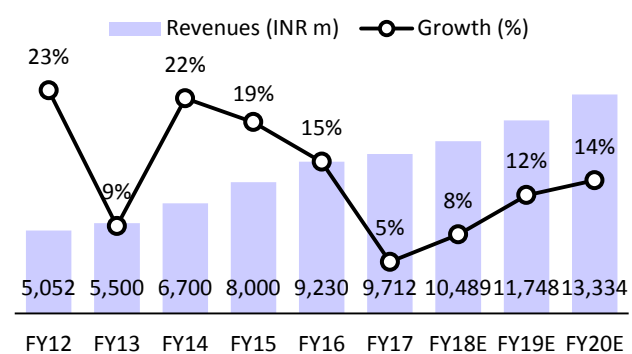
Source: Company, MOSL

Exhibit 7: High cash flow generation



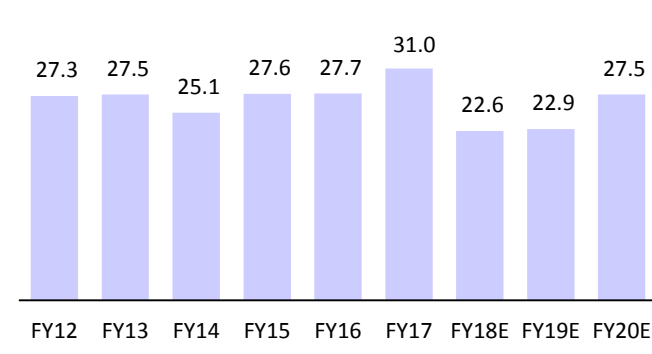
Source: Company, MOSL

Exhibit 8: Steady growth in domestic agro-chem business



Source: Company, MOSL

Exhibit 9: Strong RoCE profile



Source: Company, MOSL

Key assumptions

Exhibit 10: Assumption sheet

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR m)	15,955	19,390	21,974	23,833	25,039	28,294	31,535
Domestic agro-chemicals	6,700	8,000	9,230	9,712	10,489	11,748	13,334
CSM	9,250	11,390	12,744	14,121	14,550	16,547	18,201
Revenues growth (%)							
Domestic agro-chemicals	22%	19%	15%	5%	8%	12%	14%
CSM	54%	23%	12%	11%	7%	12%	10%
EBITDA (INR m)	2,889	3,723	4,493	5,780	6,047	6,938	7,724
Domestic agro-chemicals	1,039	1,280	1,689	2,137	2,308	2,620	2,973
CSM	1,785	2,392	2,804	3,643	3,739	4,319	4,751
EBITDA margins (%)	18.1%	19.2%	20.4%	24.3%	24.2%	24.5%	24.5%
Domestic agro-chemicals	15.5%	16.0%	18.3%	22.0%	22.0%	22.3%	22.3%
CSM	19.3%	21.0%	22.0%	25.8%	25.7%	26.1%	26.1%

Source: Company, MOSL

Financials and Valuations

Income Statement (Consolidated)

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	9,251	12,190	16,812	20,332	21,974	23,833	25,039	28,294	31,535
Change (%)	20.7	31.8	37.9	20.9	8.1	8.5	5.1	13.0	11.5
EBITDA	1,893	2,482	2,889	3,727	4,312	5,533	5,692	6,630	7,484
Margin (%)	20.5	20.4	17.2	18.3	19.6	23.2	22.7	23.4	23.7
Depreciation	173	220	316	498	543	730	805	912	1,019
EBIT	1,720	2,262	2,573	3,229	3,769	4,802	4,887	5,718	6,465
Int. and Finance Charges	199	218	118	97	96	72	30	0	0
Other Income	51	82	158	420	355	366	421	484	557
PBT bef. EO Exp.	1,573	2,126	2,613	3,552	4,028	5,096	5,278	6,202	7,022
EO Items	321	0	0	0	0	0	0	0	0
PBT after EO Exp.	1,894	2,126	2,613	3,552	4,028	5,096	5,278	6,202	7,022
Current Tax	395	323	779	1,147	909	1,035	1,161	1,303	1,475
Deferred Tax	3	154	-46	-54	4	-534	0	0	0
Tax Rate (%)	21.0	22.4	28.1	30.8	22.7	9.8	22.0	21.0	21.0
Less: Mionrity Interest	0	0	0	0	0	0.9	0.9	0.9	0.9
Reported PAT	1,495	1,649	1,880	2,459	3,115	4,594	4,116	4,899	5,547
Adjusted PAT	1,242	1,649	1,880	2,459	3,115	4,594	4,116	4,899	5,547
Change (%)	11.6	32.8	14.0	30.8	26.7	47.5	-10.4	19.0	13.2
Margin (%)	13.4	13.5	11.2	12.1	14.2	19.3	16.4	17.3	17.6

Balance Sheet (Consolidated)

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	125	136	136	137	137	138	138	138	138
Preference Capital	0	0	0	0	0	0	0	0	0
Total Reserves	3,129	5,182	6,809	8,828	11,572	16,134	19,328	23,137	27,594
Net Worth	3,254	5,317	6,945	8,965	11,709	16,272	19,466	23,275	27,732
Minority Interest	0	0	0	0	0	0	0	0	0
Deferred Liabilities	361	517	485	434	353	0	0	0	0
Total Loans	2,468	2,172	1,223	1,148	1,244	829	0	0	0
Capital Employed	6,084	8,007	8,653	10,546	13,306	17,101	19,466	23,275	27,732
Gross Block	4,160	6,178	6,829	7,050	11,008	12,447	13,947	15,947	17,447
Less: Accum. Deprn.	1,185	1,398	1,563	1,724	2,266	2,997	3,802	4,714	5,732
Net Fixed Assets	2,975	4,781	5,267	5,326	8,742	9,450	10,145	11,233	11,715
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	810	605	425	1,332	713	773	250	283	315
Total Investments	5	5	5	5	3	832	832	832	832
Curr. Assets, Loans&Adv.	4,226	5,956	7,482	9,668	10,028	11,760	15,528	17,820	22,575
Inventory	1,788	2,418	3,188	3,782	3,948	4,320	4,185	4,484	4,976
Account Receivables	1,722	2,625	2,568	3,826	3,978	4,237	4,459	5,039	5,616
Cash and Bank Balance	94	161	438	341	560	1,326	4,820	5,820	9,010
Loans and Advances	622	752	1,289	1,719	1,543	1,877	2,064	2,477	2,973
Curr. Liability & Prov.	1,965	3,375	4,574	5,851	6,180	5,913	7,488	7,092	7,904
Account Payables	1,781	3,151	4,251	5,437	5,984	5,685	6,093	6,725	7,465
Provisions	184	224	324	413	196	227	1,395	366	440
Net Current Assets	2,261	2,581	2,908	3,817	3,849	5,847	8,040	10,728	14,671
Deferred Tax assets	32	35	48	65	0	198	198	198	198
Misc Expenditure	0	0	0	0	0	0	0	0	0
Appl. of Funds	6,084	8,007	8,653	10,546	13,307	17,101	19,465	23,275	27,731

Financials and Valuations

Ratios

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)									
EPS	9.9	12.2	13.8	18.0	22.8	33.4	29.9	35.6	40.3
Cash EPS	11.3	13.8	16.1	21.6	26.8	38.7	35.8	42.2	47.7
BV/Share	26.0	39.2	51.0	65.6	85.7	118.3	141.5	169.1	201.5
DPS	0.9	1.0	2.0	2.5	3.1	4.0	5.5	6.5	6.5
Payout (%)	9.7	9.6	17.0	16.9	16.6	14.6	22.4	22.2	19.6
Valuation (x)									
P/E			54.6	41.9	33.1	22.6	25.2	21.2	18.7
Cash P/E			46.7	34.8	28.1	19.5	21.1	17.9	15.8
P/BV			14.8	11.5	8.8	6.4	5.3	4.5	3.7
EV/Sales			6.4	5.3	4.9	4.5	4.1	3.6	3.1
EV/EBITDA			37.2	28.9	24.9	19.2	17.9	15.2	13.1
Dividend Yield (%)	0.1	0.1	0.3	0.3	0.4	0.5	0.7	0.9	0.9
FCF per share	-0.4	-3.6	11.4	1.1	5.4	20.0	38.3	15.2	31.1
Return Ratios (%)									
RoE	46.1	38.5	30.7	30.9	30.1	32.8	23.0	22.9	21.7
RoCE	27.3	27.5	25.1	27.6	27.7	31.0	22.6	22.9	27.5
RoIC	28.2	28.3	24.7	26.8	27.9	33.1	27.5	30.2	
Working Capital Ratios									
Asset Turnover (x)	1.5	1.5	1.9	1.9	1.7	1.4	1.3	1.2	1.1
Inventory (Days)	133	131	126	124	124	136	125	120	120
Debtor (Days)	68	79	56	69	66	65	65	65	65
Creditor (Days)	132	171	169	178	189	178	182	180	180
Working Cap. Turnover (Days)	86	72	54	62	55	69	47	63	66
Leverage Ratio (x)									
Current Ratio	2.2	1.8	1.6	1.7	1.6	2.0	2.1	2.5	2.9
Interest Cover Ratio	9	10	22	33	39	67	164	-	-
Debt/Equity	0.8	0.4	0.2	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	1,434	1,450	2,613	3,552	4,028	5,096	5,278	6,202	7,022
Depreciation	173	220	316	498	543	730	805	912	1,019
Interest & Finance Charges	157	155	-20	-126	96	72	30	0	0
Direct Taxes Paid	-400	-380	-743	-1,195	-909	-1,035	-1,161	-1,303	-1,475
(Inc)/Dec in WC	-390	-425	-81	-971	187	-1,232	1,301	-1,688	-753
CF from Operations	975	1,020	2,084	1,759	3,945	3,632	6,253	4,124	5,813
Others	69	0	104	83	126	620	0	0	0
CF from Operating incl EO	1,044	1,020	2,188	1,841	4,071	4,252	6,253	4,124	5,813
(inc)/dec in FA	-1,091	-1,510	-640	-1,685	-3,339	-1,499	-977	-2,033	-1,532
Free Cash Flow	-47	-490	1,548	156	732	2,753	5,275	2,091	4,281
(Pur)/Sale of Investments	0	0	0	0	0	0	0	0	0
Others	51	105	179	274	2	-829	0	0	0
CF from Investments	-1,040	-1,405	-461	-1,412	-3,337	-2,328	-977	-2,033	-1,532
Issue of Shares	-28	1,187	40	38	0	1	0	0	0
Inc/(Dec) in Debt	359	-402	-1,097	-153	96	-415	-829	0	0
Interest Paid	-212	-251	-115	-111	-96	-72	-30	0	0
Dividend Paid	-100	-76	-272	-300	-516	-671	-922	-1,090	-1,090
Others	0	-6	-7	0	0	-1	-1	-1	-1
CF from Fin. Activity	20	452	-1,451	-526	-515	-1,158	-1,782	-1,091	-1,091
Inc/Dec of Cash	24	67	276	-96	219	766	3,493	1,001	3,190
Opening Balance	70	94	161	437	341	560	1,326	4,820	5,820
Closing Balance	94	161	437	341	560	1,326	4,820	5,820	9,010

Corporate profile

Company description

Mr. Piyush Singhal founded PI Industries in 1947 as Mewar Oil and General Mills Limited, which was predominantly into edible oils business. A decade later, the company started selling agro-chemicals. The name was changed to PI Industries in 1990s. PI has two business activities: (a) Domestic Agri Inputs offering plant protection products, and specialty plant nutrient products and solutions, (b) Custom Synthesis & Manufacturing (CSM) for contract research and production of agro-chemicals, intermediates and other niche fine chemicals for global innovators.

Exhibit 1: Sensex rebased

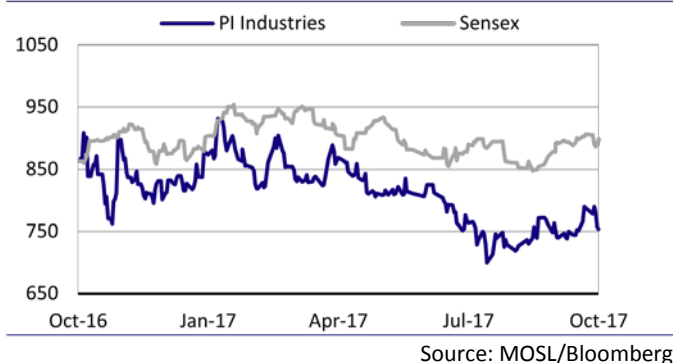


Exhibit 2: Shareholding pattern (%)

	Sep-17	Jun-17	Sep-16
Promoter	51.6	51.6	51.7
DII	16.5	15.8	13.2
FII	16.6	18.4	22.3
Others	15.3	14.3	12.8

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
ICICI PRUDENTIAL INDIA RECOVERY FUND - SERIES 1	6.2
CARTICA CAPITAL LTD	5.0
SBI MAGNUM GLOBAL FUND	3.7
AXIS MUTUAL FUND TRUSTEE LIMITED A/C	
AXIS MUTUAL FUND A/C AXIS LONG TERM EQUITY FUND	1.9
FRANKLIN TEMPLETON MUTUAL FUND A/C	
FRANKLIN INDIA PRIMA FUND	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Salil Singhal	Chairman Emeritus
Mayank Singhal	Managing Director & CEO
Naresh Kapoor	Company Secretary
Narayan K Seshadri	Chairman & Independent Director

Source: Capitaline

Exhibit 5: Directors

Name	Name
Pravin K Laheri	Ramani Narula
Ravi Narain	TS Balganes
Rajnish Sarna	Arvind Singhal

*Independent

Exhibit 6: Auditors

Name	Type
K G Goyal & Co	Cost Auditor
KPMG India LLP	Internal
Price Waterhouse LLP	Statutory
R S Bhatia	Secretarial Audit
S S Kothari Mehta & Co	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	30.4	32.7	-7.2
FY18	34.8	37.8	-7.9
FY19	43.6	40.9	6.5

Source: Bloomberg

NOTES

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