SINCE 1986
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# PI Industries

| | | |
|---|---|---|
| BSE Code | : | **523642** |
| Time Duration | : | **18 months** |
| CMP | : | **₹919 (as on 28 February, 2019)** |
| Target Price | : | **₹1111** |

Large Rhino

Swiftest Performers
Among Heavy Weights

Our Large Rhino pick for the month of February is PI Industries. The company is one of the major players in the crop protection industry. It largely operates under two main segments, namely, agriculture inputs and custom synthesis and contract manufacturing. The company has a niche portfolio of 45 products, which includes 5 in-licensed products and 7 co-marketing products in tie-up with MNCs such as Bayer, BASF and Kumiai chemicals. It currently operates three manufacturing sites in Gujarat, having three formulation units and 8 multiproduct plants for manufacturing, active ingredients and intermediates. PI has a strong distribution network of 10,000 dealers/distributors; 40,000 retailers and 30 stock points. The company generates nearly 60-65 per cent of its domestic revenue from its top 5 products. Its key products which contribute nearly Rs.100 crore to PI's revenue are Nominee Gold and rice herbicide. In the domestic business, as per estimates, its market share is ~50-75% across the segments

The company has seen improvement in financial performance despite tough business environment in domestic markets. It has also used the multi-crop strategy to see growth, though it still derives majority of revenue from the Rabi crops, particularly paddy.

## Revival and strong outlook for contract manufacturing business (CSM)

During the recently concluded quarter, the growth in CSM business was impressive. Going forward, the management believes that the CSM division will witness robust growth led mainly by volume growth on account of improving sentiments in the global markets as the global innovators are having a healthy product launch pipeline. Besides, the company has guided for a capex of Rs. 300-350 crore each for the next two years. Out of this capex, most of the investment is targeted at the CSM business.

Till the end of FY20E, two manufacturing facilities are expected to be commissioned, out of which one is expected to be of agrochemical and the other will be of early intermediary of pharma. With a healthy balance sheet and sufficient cash reserve, the management is hopeful of getting the capex completed by way of internal accruals. Further, the company's management has guided an asset turnover of 1.5x-1.6x, which is likely to translate into additional revenue of Rs.450 crore-500 crore for FY21E. The order book of CSM division for the quarter ended on December 2018 stood at $1.3 billion to be executed over next 3-4 years, which gives a healthy revenue visibility going ahead. At present, CSM business looks to be more sustainable with clear visibility for the next 4-6 quarters.

## Backward integration to mitigate input cost pressure

The company has reduced its dependency for procurement from China from 30-45 per cent to present less than 20 per cent. However, considering the rising scale of CSM business and to counter price volatility and secure raw material supplies, the company undertook a backward integration project. This project is expected to be commissioned during Q1FY20. Thus, the procurement from Chinese suppliers is expected to go down further . The management believes that with cost efficiency and economies of scale, it can mitigate concern on margins due to input cost pressures arising from the rise in prices of crude derivatives and currency fluctuations. The management has guided EBITDA margin of around 21 per cent for the next 2-3 years.

## New product launches and export strength

The company has been investing in R&D too simultaneously and looking to launch 3-4 products in the coming quarters. It has seen good growth in the recently launched products, which lifted exports in Q3FY19. One new multi-product plant got commissioned in February 2019, which will help to lift margins as it is largely for exports. Investment for this was Rs.150 cr and expects asset-turnover ratio of 1.6x. It is also working on early pharma intermediaries, though these are in early stages. In Q3FY19, the new products contributed to 13-14% growth in exports due to scale-up in manufacturing, backed by good demand.

## Financial

Despite slowdown in the agro chemical industry in the past, the company has managed to record 22 per cent CAGR in EBITDA and 30 per cent CAGR of net profit in the last five years.

In the recently concluded quarter (Q3FY19), the company recorded stellar performance across the board. Its revenue in the quarter surged nearly 32 per cent to Rs.707.5 crore from the corresponding quarter of the previous year. This revenue growth was mainly driven by 40 per cent yoy growth in exports, which was led by higher demand on account of revival in the global sentiment. In terms of domestic business, the revenue increased nearly 9 per cent yoy despite soft demand in the current quarter on account of poor pattern of rainfall in Rabi and low agri product prices.

EBITDA during the period jumped around 42 per cent to Rs. 148.6 crore from the corresponding quarter of the previous year, with a corresponding margin expansion of 153 bps. EBITDA margin for the quarter was 21 per cent. Better product mix and improved realization and operating leverage aided margin improvement.

The net profit in the quarter too grew 33.1 per cent yoy to Rs. 107.3 crore. Net profit margin for the quarter was at 15.17 per cent as against 14.99 per cent.

## Valuations

The company is currently trading at 32.4x, which is slightly higher as compared to its peers due to its higher growth seen in the quarter and expected growth of 20% in the current year. The zero debt status and tie-up with global chemical companies, reduction in dependency on China and expected growth in the exports are positives for the company. It has been also growing in the domestic market in difficult market conditions, which makes it outstanding among its peers and establishes its better product acceptability. We see the company to provide returns of 22% to reach the target price of Rs.1111.

**Inc/Exp Statement(Standalone) (Rs in Crore)**

| Description | 201803 | 201703 | 201603 | 201503 | 201403 |
|---|---|---|---|---|---|
| Net Sales | 2277.08 | 2276.46 | 2096.27 | 2095.90 | 1760.94 |
| Total Income | 2337.07 | 2312.28 | 2131.12 | 2137.42 | 1776.56 |
| Total Expenditure | 1783.03 | 1724.37 | 1664.80 | 1723.54 | 1473.24 |
| PBIDT | 554.03 | 587.91 | 466.32 | 413.88 | 303.32 |
| PAT | 366.54 | 457.37 | 309.65 | 243.25 | 183.74 |
| Dividend % | 400.00 | 400.00 | 310.00 | 250.00 | 200.00 |
| Adj. EPS(Rs) | 26.58 | 33.24 | 22.58 | 17.81 | 13.50 |

**Quarter On Quarter (Standalone) (Rs in Crore)**

| Particulars | 201812 | 201809 | Q on Q Var% | 201712 | Y on Y Var% |
|---|---|---|---|---|---|
| Net Sales | 707.50 | 723.00 | -2.14 | 537.70 | 31.58 |
| Total Expenditure | 558.90 | 588.40 | -5.01 | 433.00 | 29.08 |
| PBIDT (Excl OI) | 148.60 | 134.60 | 10.40 | 104.70 | 41.93 |
| PAT | 107.30 | 94.40 | 13.67 | 80.60 | 33.13 |
| PBIDTM% (Excl OI) | 21.00 | 18.62 | 12.78 | 19.47 | 7.86 |
| PBIDTM% | 23.15 | 20.33 | 13.87 | 22.47 | 3.03 |
| PATM% | 15.17 | 13.06 | 16.16 | 14.99 | 1.20 |
| Adj. EPS(Rs) | 7.78 | 6.84 | 13.74 | 5.84 | 33.22 |

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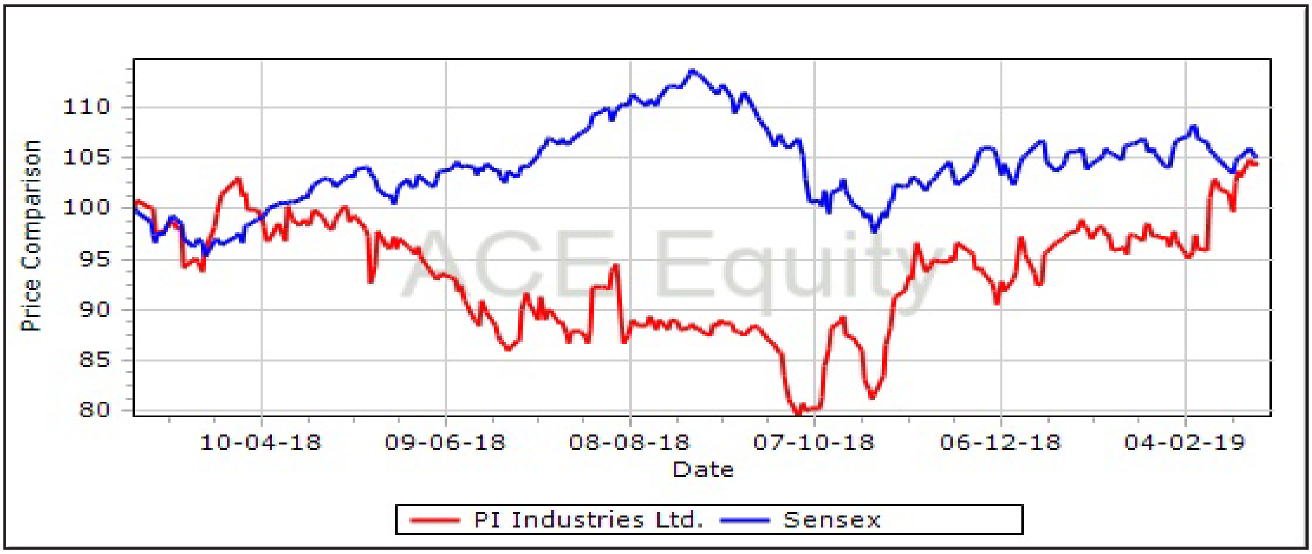


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