

PI INDUSTRIES

CHEMICALS & FERTILISERS

BUY

Target Price: Rs 980

New initiatives on track

Key takeaways from our meeting with PI Industries' management:

- ◆ **CSM#(Pharma)foray:** PI is in final stage of due diligence to acquire a Pharma CSM asset in intermediates segment. The asset is not regulated by USFDA and has higher margin than CSM-Agchem
- ◆ **BASF deal:** PI and BASF to co-market BASF's 4-5 novel fungicides/herbicides products. In FY18, PI-BASF intends to launch 2 molecules
- ◆ **Nominee Gold:** volumes rose in FY17 without any significant price erosion. Management does not see generics as a big risk given low penetration of rice herbicide and strong brand image of Nominee

Strong CSM franchise; maintain BUY: PI's CSM business to benefit from (a) order book at USD 1 bn, ~4.5x FY17 CSM revenue, (b) recovery in global agrichem market from H2FY18, and (c) success in CSM-pharma.

CMP : Rs 810
Potential Upside : 21%

MARKET DATA

No. of Shares : 138 mn
Free Float : 48%
Market Cap : Rs 111 bn
52-week High / Low : Rs 950 / Rs 655
Avg. Daily vol. (6mth) : 194,702 shares
Bloomberg Code : PI IB Equity
Promoters Holding : 52%
FII / DII : 22% / 13%

Other highlights

- ◆ **FY18 guidance:** Revenue growth expected at ~10% in both the businesses, with stable EBITDA margin. Capex intensity to continue at ~Rs 1.5 bn, of which ~50% will generate incremental revenue
- ◆ **Order book:** PI's orderbook of USD 1 bn includes medium/ long term contracts only, which is ~65% of PI's CSM revenue. Short-term orders (3 months) contribute the balance ~35% revenue, which is not included in the orderbook
- ◆ **New products:** PI believes that Vibrant, Osheen and Keefun have potential to become blockbuster products
- ◆ **Distribution:** PI has ~4,000 dealers, 40,000 retailers and farmer database of 0.1 mn farmers. PI maintains tight control on its working capital and reviews its dealer network on continuous basis to optimize operations
- ◆ **Escalation in technical prices not a concern:** Prices of select technicals have short-up by 20-50% due to plant closures in China. However, PI has nil exposure to these technicals and hence raw material prices seen stable

At CMP, the stock trades at 21x FY19E EPS of Rs 39/sh.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	20,963	22,765	25,286	29,036
Adj PAT (Rs mn)	3,097	4,574	4,531	5,367
Con. EPS* (Rs)	-	-	34.0	40.0
EPS (Rs)	22.7	33.5	33.2	39.3
Change YOY (%)	25.9	47.7	(0.9)	18.5
P/E (x)	35.7	24.2	24.4	20.6
RoE (%)	30.2	33.1	25.2	24.2
RoCE (%)	34.2	34.0	31.1	30.4
EV/E (x)	26.2	20.2	17.5	14.6
DPS (Rs)	3.1	4.0	5.0	5.9

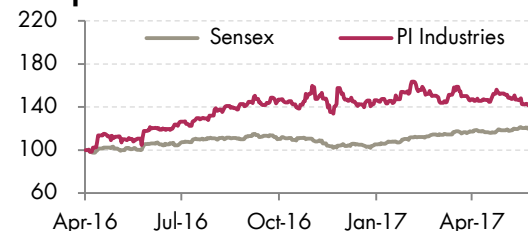
Source: *Consensus broker estimates, Company, Axis Capital

#CSM: Custom Synthesis & Manufacturing

Key drivers

(%)	FY17	FY18E	FY19E
Revenue growth	8.6%	11.1%	14.8%
Gross margin	48.9%	48.9%	48.9%
EBITDA margin	24.2%	24.2%	24.2%

Price performance



Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	20,963	22,765	25,286	29,036
Other operating income	-	-	-	-
Total operating income	20,963	22,765	25,286	29,036
Cost of goods sold	(11,583)	(11,631)	(12,927)	(14,845)
Gross profit	9,380	11,134	12,360	14,191
<i>Gross margin (%)</i>	<i>44.7</i>	<i>48.9</i>	<i>48.9</i>	<i>48.9</i>
Total operating expenses	(5,086)	(5,629)	(6,252)	(7,179)
EBITDA	4,294	5,505	6,108	7,012
<i>EBITDA margin (%)</i>	<i>20.5</i>	<i>24.2</i>	<i>24.2</i>	<i>24.2</i>
Depreciation	(537)	(727)	(814)	(868)
EBIT	3,756	4,779	5,293	6,144
Net interest	(96)	(72)	(31)	-
Other income	349	358	401	565
Profit before tax	4,009	5,065	5,664	6,709
Total taxation	(912)	(491)	(1,133)	(1,342)
<i>Tax rate (%)</i>	<i>22.8</i>	<i>9.7</i>	<i>20.0</i>	<i>20.0</i>
Profit after tax	3,097	4,574	4,531	5,367
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	3,097	4,574	4,531	5,367
<i>Adj. PAT margin (%)</i>	<i>14.8</i>	<i>20.1</i>	<i>17.9</i>	<i>18.5</i>
Net non-recurring items	-	-	-	-
Reported net profit	3,097	4,574	4,531	5,367

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	137	138	138	138
Reserves & surplus	11,410	15,951	19,803	24,365
Net worth	11,547	16,089	19,940	24,502
Borrowing	1,414	1,002	-	-
Other non-current liabilities	375	(179)	(179)	(179)
Total liabilities	13,336	16,911	19,761	24,323
Gross fixed assets	11,389	12,830	14,330	14,613
Less: Depreciation	(2,165)	(2,892)	(3,706)	(4,574)
Net fixed assets	9,224	9,939	10,624	10,039
Add: Capital WIP	587	584	-	-
Total fixed assets	9,811	10,522	10,624	10,039
Total Investment	15	839	15	15
Inventory	3,949	4,320	4,570	5,168
Debtors	3,978	4,237	4,656	5,264
Cash & bank	439	1,212	4,428	9,137
Loans & advances	217	194	213	241
Current liabilities	6,014	5,740	6,073	6,867
Net current assets	3,510	5,550	9,122	14,270
Other non-current assets	-	-	-	-
Total assets	13,336	16,911	19,761	24,323

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	4,009	5,065	5,664	6,709
Depreciation & Amortisation	537	727	814	868
<i>Chg in working capital</i>	<i>155</i>	<i>(1,267)</i>	<i>(356)</i>	<i>(439)</i>
Cash flow from operations	3,693	3,962	4,958	5,797
<i>Capital expenditure</i>	<i>(3,218)</i>	<i>(1,438)</i>	<i>(917)</i>	<i>(283)</i>
Cash flow from investing	(3,228)	(2,262)	(92)	(283)
<i>Equity raised/ (repaid)</i>	<i>70</i>	<i>1</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>108</i>	<i>(413)</i>	<i>(1,002)</i>	<i>-</i>
<i>Dividend paid</i>	<i>(511)</i>	<i>(657)</i>	<i>(795)</i>	<i>(942)</i>
Cash flow from financing	(334)	(1,070)	(1,797)	(942)
Net chg in cash	131	630	3,069	4,572

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	22.7	33.5	33.2	39.3
CEPS (Rs)	26.6	38.8	39.1	45.6
DPS (Rs)	3.1	4.0	5.0	5.9
Dividend payout ratio (%)	13.7	11.9	15.0	15.0
GROWTH				
Net sales (%)	8.0	8.6	11.1	14.8
EBITDA (%)	15.2	28.2	10.9	14.8
Adj net profit (%)	25.9	47.7	(0.9)	18.5
FDEPS (%)	25.9	47.7	(0.9)	18.5
PERFORMANCE				
RoE (%)	30.2	33.1	25.2	24.2
RoCE (%)	34.2	34.0	31.1	30.4
EFFICIENCY				
Asset turnover (x)	1.9	1.6	1.6	1.9
Sales/ total assets (x)	1.2	1.1	1.0	1.0
Working capital/ sales (x)	0.2	0.2	0.2	0.2
Receivable days	69.3	67.9	67.2	66.2
Inventory days	86.5	91.3	87.0	85.6
Payable days	80.2	60.9	58.0	57.1
FINANCIAL STABILITY				
Total debt/ equity (x)	0.1	0.1	-	-
Net debt/ equity (x)	0.1	-	(0.2)	(0.4)
Current ratio (x)	1.6	2.0	2.5	3.1
Interest cover (x)	39.1	66.4	170.4	-
VALUATION				
PE (x)	35.7	24.2	24.4	20.6
EV/ EBITDA (x)	26.2	20.2	17.5	14.6
EV/ Net sales (x)	5.4	4.9	4.2	3.5
PB (x)	9.6	6.9	5.6	4.5
Dividend yield (%)	0.4	0.5	0.6	0.7
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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