

BUY

TP: Rs 2,450 | ▲ 20%

PI INDUSTRIES

| Agrochemicals

| 06 August 2020

Q1 beat; Growing CSM mix can drive rerating – raise to BUY

PI Industries (PI) reported a strong beat in Q1FY21 with sharp QoQ EBITDA recovery. Revenue/EBITDA grew 41%/51% YoY. Domestic sales/exports were up 76%/23%. Strong domestic sales were partly on account of deferred sales from Q4. EBITDA margin at 22% was stable on better cost control while gross margin was a miss on lower CSM and higher Isagro mix. Management retains its FY21 guidance of >20% sales growth and sustained margins. We raise FY21/FY22 EPS by 21-24% and roll to a Sep'21 TP of Rs 2,450 (vs. Rs 1,700). Upgrade to BUY.

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Solid growth across businesses; CSM outlook stays strong: Sales grew 41% YoY (27% ex-Isagro). Domestic sales were led by strong placement of Nominee Gold and traction in Osheen and Elite. PI expects two launches in Q2-Q3. It has launched digital platform 'PI Mitra' which should enhance virtual connect with farmers and channel partners, driving better reach. In exports, better capacity planning and higher momentum in shipments led to 23% YoY growth. CSM order book was steady at US\$ 1.5bn; PI expects good volume scale-up for products launched in the last 1-2 years and for the four planned in FY21.

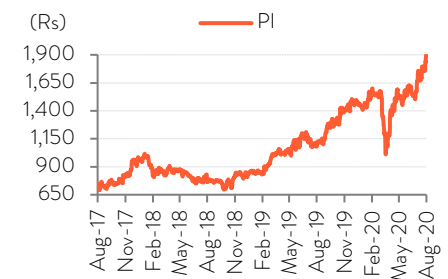
Upgrade to BUY; TP of Rs 2,450: PI delivered an all-round Q1 beat, fuelling our steep EPS upgrade. With CSM contributing >85% of FY23 EBITDA (from c. 78%) the stock looks poised for a rerating, in our view. M&A in high-chemistry capability in the specialty/pharma CSM space should gain momentum. We expect >35% EPS CAGR over the next two years and >30% ROIC. Our new TP is based on 38x implied P/E (earlier 35x) vs. a historical 16-40x band.

Earnings call takeaways: (1) QIP money to be deployed in 5-6 quarters across multiple avenues. (2) RM imports from China <10%. (3) FY21 domestic/export growth guidance at +20% each; capex Rs 6bn. (4) Isagro Q1 sales at Rs 990mn.

Ticker/Price	PI IN/Rs 2,036
Market cap	US\$ 4.1bn
Shares o/s	152mn
3M ADV	US\$ 5.3mn
52wk high/low	Rs 2,055/Rs 1,370
Promoter/FPI/DII	47%/12%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	28,409	33,075	40,887	50,471	58,866
EBITDA (Rs mn)	5,764	7,150	9,548	12,009	14,315
Adj. net profit (Rs mn)	4,102	4,537	7,138	9,046	10,383
Adj. EPS (Rs)	27.1	29.9	47.1	59.7	68.5
Adj. EPS growth (%)	11.6	10.6	57.3	26.7	14.8
Adj. ROAE (%)	19.7	18.6	18.2	16.1	16.1
Adj. P/E (x)	75.2	68.0	43.2	34.1	29.7
EV/EBITDA (x)	53.1	42.8	32.1	24.7	20.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var. (%)	FY20	FY19
Net Sales	10,601	7,541	40.6	8,552	24.0	8,919	18.9	33,665	28,409
EBITDA	2,292	1,514	51.4	1,863	23.0	1,999	14.7	7,152	5,732
Depreciation	427	294	-	436	-	440	-	1,363	926
EBIT	1,865	1,220	52.9	1,427	30.7	1,559	-	5,789	4,806
Interest	96	26	-	84	-	80	-	177	59
Other Income	82	123	-	68	-	100	-	494	600
PBT	1,851	1,317	40.5	1,411	31.2	1,579	17.2	6,106	5,347
Less: Taxation	444	309	-	312	-	395	-	1,567	1,269
Less: Minority Interest	48	0	-	0	-	0	-	0	0
Recurring PAT	1,359	1,008	34.8	1,099	23.7	1,184	14.8	4,539	4,078
Exceptional items	0	0	-	0	-	0	-	0	0
Reported PAT	1,359	1,008	34.8	1,099	23.7	1,184	14.8	4,539	4,078
Key Ratios (%)									
Gross Margin	42.0	44.8	-	46.8	-	46	-	45.1	45.4
EBITDA Margin	21.6	20.1	-	21.8	-	22.4	-	21.2	20.2
Tax / PBT	24.0	23.5	-	22.1	-	25.0	-	25.7	23.7
NPM	12.8	13.4	-	12.9	-	13.3	-	13.5	14.4
EPS (Rs)	9.9	7.3	-	8.0	-	8.6	-	30.0	27.1

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Q1FY21E	Var. (%)	FY20	FY19
Domestic - Ag Chem*	4,460	2,534	76.0	1,722	159.0	2,661	67.6	9,046	9,570
CSM^	6,141	5,007	22.7	6,830	(10.1)	6,259	(1.9)	24,619	18,839
Net Sales	10,601	7,541	40.6	8,552	24.0	8,919	18.9	33,665	28,409
Mix (%)									
Domestic - Ag Chem	42.1	33.6	-	20.1	-	29.8	-	26.9	33.7
CSM	57.9	66.4	-	79.9	-	70.2	-	73.1	66.3

Source: Company, BOBCAPS Research | *Agrochemicals, ^Custom Synthesis Manufacturing

Valuation methodology

PI's differentiated chemistry capability in the CSM export segment (order book of US\$ 1.5bn with ~90% of orders concentrated in patented products) and new launch pipeline in the domestic market are expected to drive superior >35% EPS growth (vs. 23% earlier) and >30% ROIC over the next two years.

We upgrade the stock from ADD to BUY based on the comprehensive Q1FY21 beat and resilient demand outlook for the CSM business, which have spurred our sharp earnings upgrade for FY21/FY22. This along with an estimated rise in CSM EBITDA share to >85% in FY23 (from current 78%) could induce a stock rerating. We increase FY21/FY22 EBITDA estimates by 8-10% and EPS by 21-24%. The earnings upgrade is sharper owing to higher interest income on the excess cash, partly boosted by QIP proceeds (Rs 20bn) which will be utilised over the next 5-6 quarters.

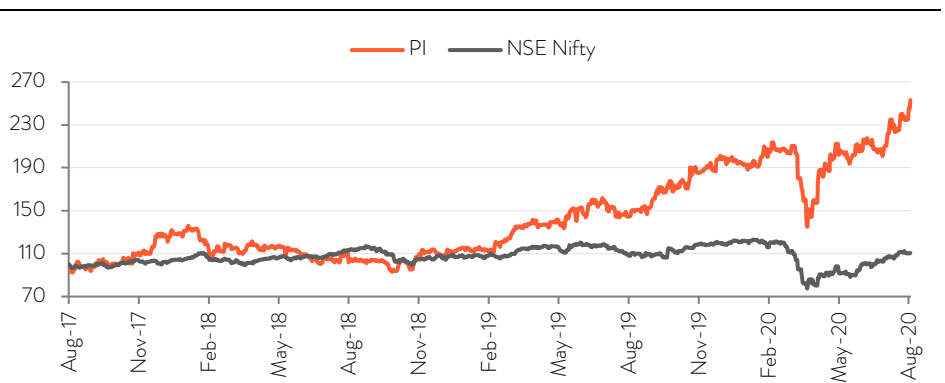
The stock is trading at 34x FY22E EPS vs. its five-year P/E band of 16-40x. We roll forward to a new Sep'21 SOTP-based target price of Rs 2,450 (earlier Rs 1,700), as we increase our blended one-year forward EV/EBITDA multiple to 26x from 22x (implied P/E of 38x from 35x). While we retain our target EV/EBITDA multiple of 15x for the domestic agrochemicals business, we raise our CSM multiple from 25x to 28x on a stronger demand outlook.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	40.9	50.5	39.5	49.0	3.6	3.0
EBITDA	9.5	12.0	8.7	11.1	9.8	8.0
EBITDA margin (%)	23.4	23.8	22.0	22.7	131bps	110bps
EPS (Rs)	47	60	38	49	23.5	21.1

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key risks that can potentially impact PI's product mix and growth prospects include:

- slowdown in demand in the global/domestic agrochemicals space due to adverse climate,
- excess unsold inventory,
- adverse commodity prices, and
- sharp technological, economic and political shifts.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	28,409	33,075	40,887	50,471	58,866
EBITDA	5,764	7,150	9,548	12,009	14,315
Depreciation	930	1,363	1,715	2,244	2,700
EBIT	4,834	5,787	7,834	9,764	11,615
Net interest income/(expenses)	(50)	(177)	(408)	(422)	(352)
Other income/(expenses)	595	494	2,092	2,719	2,581
Exceptional items	0	0	0	0	0
EBT	5,379	6,104	9,518	12,061	13,844
Income taxes	1,277	1,567	2,379	3,015	3,461
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	4,102	4,537	7,138	9,046	10,383
Adjustments	0	0	0	0	0
Adjusted net profit	4,102	4,537	7,138	9,046	10,383

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	5,130	5,909	7,527	9,295	10,845
Other current liabilities	2,859	3,545	4,995	6,168	7,197
Provisions	416	548	677	836	975
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	138	138	152	152	152
Reserves & surplus	22,864	31,956	59,798	66,199	73,847
Shareholders' fund	23,002	32,094	59,949	66,350	73,999
Total liabilities and equities	31,407	42,096	73,150	82,650	93,016
Cash and cash eq.	892	1,342	20,918	19,855	22,909
Accounts receivables	6,618	6,465	9,694	11,971	13,967
Inventories	5,357	7,989	9,124	11,267	13,145
Other current assets	3,564	3,584	5,412	6,682	7,797
Investments	1,189	1,325	1,325	1,325	1,325
Net fixed assets	11,893	17,447	22,732	27,606	29,929
CWIP	1,828	2,707	2,707	2,707	2,707
Intangible assets	66	1,237	1,237	1,237	1,237
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	31,407	42,096	73,150	82,650	93,016

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	5,032	5,900	8,853	11,290	13,083
Interest expenses	50	177	408	422	352
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,296)	(902)	(2,994)	(2,590)	(2,271)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,786	5,175	6,267	9,122	11,164
Capital expenditures	(2,796)	(4,500)	(7,000)	(7,118)	(5,022)
Change in investments	411	(136)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,385)	(4,636)	(7,000)	(7,118)	(5,022)
Equities issued/Others	0	0	14	0	0
Debt raised/repaid	(357)	5,620	1,773	(1,280)	(1,067)
Interest expenses	(50)	(177)	(408)	(422)	(352)
Dividends paid	(831)	(690)	(1,061)	(1,364)	(1,668)
Other financing cash flows	(578)	(4,842)	19,992	0	0
Cash flow from financing	(1,816)	(89)	20,309	(3,067)	(3,087)
Changes in cash and cash eq.	(415)	450	19,576	(1,063)	3,055
Closing cash and cash eq.	892	1,342	20,918	19,855	22,909

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	27.1	29.9	47.1	59.7	68.5
Adjusted EPS	27.1	29.9	47.1	59.7	68.5
Dividend per share	4.0	5.0	7.0	9.0	11.0
Book value per share	149.8	172.7	344.8	395.4	452.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	10.8	9.3	7.5	5.9	4.9
EV/EBITDA	53.1	42.8	32.1	24.7	20.0
Adjusted P/E	75.2	68.0	43.2	34.1	29.7
P/BV	13.6	11.8	5.9	5.1	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	76.3	74.3	75.0	75.0	75.0
Interest burden (PBT/EBIT)	111.3	105.5	121.5	123.5	119.2
EBIT margin (EBIT/Revenue)	17.0	17.5	19.2	19.3	19.7
Asset turnover (Revenue/Avg TA)	33.3	30.0	22.2	20.0	21.0
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.2	1.1	1.1
Adjusted ROAE	19.7	18.6	18.2	16.1	16.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	24.8	16.4	23.6	23.4	16.6
EBITDA	16.8	24.0	33.5	25.8	19.2
Adjusted EPS	11.6	10.6	57.3	26.7	14.8
Profitability & Return ratios (%)					
EBITDA margin	20.3	21.6	23.4	23.8	24.3
EBIT margin	17.0	17.5	19.2	19.3	19.7
Adjusted profit margin	14.4	13.7	17.5	17.9	17.6
Adjusted ROAE	19.7	18.6	18.2	16.1	16.1
ROCE	25.5	22.8	21.6	19.8	20.2
Working capital days (days)					
Receivables	85	70	85	85	85
Inventory	69	87	80	80	80
Payables	66	64	66	66	66
Ratios (x)					
Gross asset turnover	1.9	1.7	1.6	1.5	1.5
Current ratio	2.0	1.9	3.4	3.1	3.0
Net interest coverage ratio	96.7	32.7	19.2	23.1	33.0
Adjusted debt/equity	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): PI INDUSTRIES (PI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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