

**BUY**

TP: Rs 2,700 | ▲ 20%

**PI INDUSTRIES**

| Agrochemicals

| 03 February 2021

**Q3 above estimates on better execution; robust outlook intact**

PI Industries' (PI) revenue/EBITDA growth of 37%/48% YoY beat estimates by 13%/9%. Domestic sales/exports rose 24%/41% YoY. Isagro contributed 20% of domestic growth. EBITDA margin remained strong at 23.7% (-50bps QoQ) on prudent cost management and high gross margins (+276bps QoQ). Management sees a robust domestic business outlook (for Q4 & FY22) and sustained CSM momentum on commercialisation of 5-6 molecules, supporting 23% long-term margins. On valuation rollover, we have a Mar'22 TP of Rs 2,700 (vs. Rs 2,500).

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**Beat led by strong CSM execution:** PI reported another robust quarter driven by (1) proactive raw material planning and efficient capital utilisation in CSM, (2) continued traction in PI brands, and (3) healthy growth in Isagro – management expects 20% growth over five years. Demerger of Isagro's B2C business to Jivagro is scheduled for Q4. PI has launched four products so far and has six more planned in FY22. With utilisation at pre-Covid levels in addition to a strong demand outlook/healthy pipeline, growth momentum remains intact.

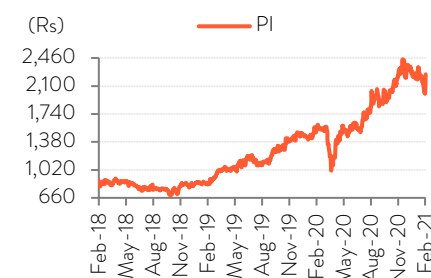
Ticker/Price	PI IN/Rs 2,250
Market cap	US\$ 4.7bn
Shares o/s	152mn
3M ADV	US\$ 18.0mn
52wk high/low	Rs 2,650/Rs 1,370
Promoter/FPI/DII	47%/12%/18%

Source: NSE

**Robust CSM outlook:** The 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 sees scope to grow at least 20% on current capacity in the next 4-6 quarters.

**Earnings call takeaways:** (1) M&A targets being evaluated. (2) Capex of Rs 3.2bn in 9MFY21. (3) 40-45 products in R&D pipeline. (4) One new plant at 70-80% utilisation, the other at <50%. (5) Confident of +20% sales growth in FY21.

**Retain BUY:** Given strong execution and CSM's estimated contribution of >85% of FY23 EBITDA (~78% now), we expect a stock rerating. ROCE-focused M&A for high-chemistry capability in specialty/pharma CSM should gain pace. We expect >20% EPS CAGR in the next two years and >30% ROIC.

**STOCK PERFORMANCE**

Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	28,409	33,075	42,081	51,879	60,473
EBITDA (Rs mn)	5,764	7,150	10,046	12,410	14,769
Adj. net profit (Rs mn)	4,102	4,537	7,533	9,375	10,784
Adj. EPS (Rs)	27.1	29.9	49.7	61.8	71.1
Adj. EPS growth (%)	11.6	10.6	66.0	24.5	15.0
Adj. ROAE (%)	19.7	18.6	19.1	16.5	16.5
Adj. P/E (x)	83.2	75.2	45.3	36.4	31.6
EV/EBITDA (x)	58.8	47.4	33.7	26.5	21.6

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20
<b>Net Sales</b>	<b>11,621</b>	<b>8,498</b>	<b>36.7</b>	<b>11,577</b>	<b>0.4</b>	<b>10,308</b>	<b>12.7</b>	<b>33,799</b>	<b>25,113</b>
<b>EBITDA</b>	<b>2,755</b>	<b>1,856</b>	<b>48.4</b>	<b>2,801</b>	<b>(1.6)</b>	<b>2,532</b>	<b>8.8</b>	<b>7,848</b>	<b>5,289</b>
Depreciation	440	318	-	433	-	446	-	1,300	927
<b>EBIT</b>	<b>2,315</b>	<b>1,538</b>	<b>50.5</b>	<b>2,368</b>	<b>(2.2)</b>	<b>2,086</b>	<b>-</b>	<b>6,548</b>	<b>4,362</b>
Interest	66	45	-	76	-	76	-	238	93
Other Income	389	197	-	336	-	336	-	807	426
<b>PBT</b>	<b>2,638</b>	<b>1,690</b>	<b>56.1</b>	<b>2,628</b>	<b>0.4</b>	<b>2,346</b>	<b>12.5</b>	<b>7,117</b>	<b>4,695</b>
Less: Taxation	682	486	-	451	-	586	-	1,577	1,255
Less: Minority Interest	(2)	0	-	(1)	-	0	-	(45)	0
<b>Recurring PAT</b>	<b>1,958</b>	<b>1,204</b>	<b>62.6</b>	<b>2,178</b>	<b>(10.1)</b>	<b>1,759</b>	<b>11.3</b>	<b>5,585</b>	<b>3,440</b>
Exceptional items	0	0	-	0	-	0	-	0	0
<b>Reported PAT</b>	<b>1,958</b>	<b>1,204</b>	<b>62.6</b>	<b>2,178</b>	<b>(10.1)</b>	<b>1,759</b>	<b>11.3</b>	<b>5,585</b>	<b>3,440</b>
<b>Key Ratios (%)</b>			<b>(bps)</b>		<b>(bps)</b>				
Gross Margin	46.9	47	30	44.1	276	47.5	-	44.4	44.6
EBITDA Margin	23.7	22	187	24.2	(49)	24.6	-	23.2	21.1
Tax / PBT	25.9	28.8	-	17.2	-	25.0	-	22.2	26.7
NPM	16.8	14.2	-	18.8	-	17.1	-	16.5	13.7
<b>EPS (Rs)</b>	<b>12.9</b>	<b>8.8</b>	<b>-</b>	<b>14.3</b>	<b>-</b>	<b>11.6</b>	<b>-</b>	<b>36.7</b>	<b>22.6</b>

Source: Company, BOBCAPS Research

**FIG 2 – REVENUE MIX**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Q3FY21E	Var. (%)	9MFY21	9MFY20
Domestic - Ag Chem*	2,600	2,100	23.8	3,578	(27.3)	2,310	12.6	10,638	7,324
CSM^	9,021	6,398	41.0	7,999	12.8	7,998	12.8	23,161	17,789
<b>Net Sales</b>	<b>11,621</b>	<b>8,498</b>	<b>36.7</b>	<b>11,577</b>	<b>0.4</b>	<b>10,308</b>	<b>12.7</b>	<b>33,799</b>	<b>25,113</b>
<b>Mix (%)</b>									
Domestic - Ag Chem	22	25	-	31	-	22	-	31	29
CSM	78	75	-	69	-	78	-	69	71

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

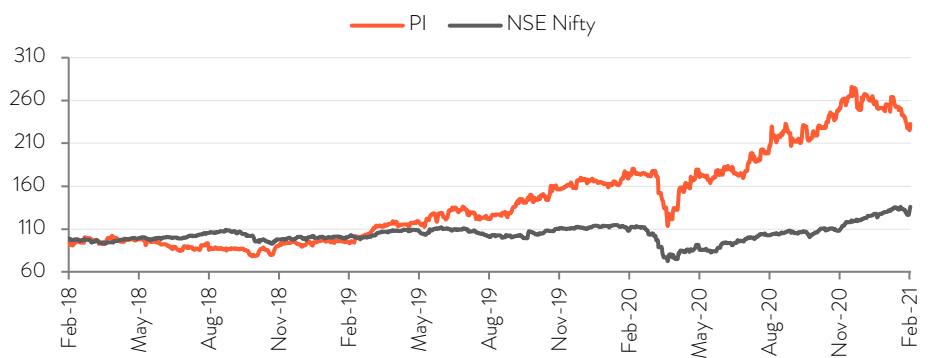
## Valuation methodology

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 >20% EPS growth and >30% ROIC over the next two years (FY21E-FY23E).

We retain BUY based on the comprehensive 9MFY21 beat and resilient demand outlook for the CSM business. This along with an estimated rise in CSM EBITDA share to >85% in FY23 (from the current 78%) could induce a stock rerating in coming quarters. Deployment of QIP proceeds (Rs 20bn) is underway and the same will be fully utilised over the next 5-6 quarters.

The stock is trading at 31x FY23E EPS vs. its five-year P/E band of 16-40x. We retain our EPS estimates and raise our Mar’22 SOTP-based target price to Rs 2,700 (from Rs 2,500) as we roll valuations forward. Our TP is based on an unchanged blended one-year forward EV/EBITDA multiple of 26x (implied P/E of 38x). We continue to value the domestic agrochemicals business at 15x EV/EBITDA and CMS business at 28x on a strong demand outlook.

**FIG 4 - RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

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

- demand slowdown 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	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>28,409</b>	<b>33,075</b>	<b>42,081</b>	<b>51,879</b>	<b>60,473</b>
EBITDA	5,764	7,150	10,046	12,410	14,769
Depreciation	930	1,363	1,715	2,244	2,700
EBIT	4,834	5,787	8,331	10,166	12,070
Net interest income/(expenses)	(50)	(177)	(408)	(422)	(352)
Other income/(expenses)	595	494	2,121	2,757	2,661
Exceptional items	0	0	0	0	0
EBT	5,379	6,104	10,044	12,500	14,379
Income taxes	1,277	1,567	2,511	3,125	3,595
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>4,102</b>	<b>4,537</b>	<b>7,533</b>	<b>9,375</b>	<b>10,784</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>4,102</b>	<b>4,537</b>	<b>7,533</b>	<b>9,375</b>	<b>10,784</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	5,130	5,909	7,609	9,381	10,935
Other current liabilities	2,859	3,545	5,050	6,225	7,257
Provisions	416	548	697	860	1,002
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	60,193	66,923	74,972
Shareholders' fund	23,002	32,094	60,344	67,075	75,124
<b>Total liabilities and equities</b>	<b>31,407</b>	<b>42,096</b>	<b>73,700</b>	<b>83,540</b>	<b>94,318</b>
Cash and cash eq.	892	1,342	21,205	20,469	23,921
Accounts receivables	6,618	6,465	9,800	12,081	14,083
Inventories	5,357	7,989	9,223	11,371	13,254
Other current assets	3,564	3,584	5,471	6,744	7,862
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
<b>Total assets</b>	<b>31,407</b>	<b>42,096</b>	<b>73,700</b>	<b>83,540</b>	<b>94,318</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	5,032	5,900	9,248	11,620	13,484
Interest expenses	50	177	408	422	352
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,296)	(902)	(3,101)	(2,593)	(2,275)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>3,786</b>	<b>5,175</b>	<b>6,554</b>	<b>9,449</b>	<b>11,561</b>
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
<b>Cash flow from investing</b>	<b>(2,385)</b>	<b>(4,636)</b>	<b>(7,000)</b>	<b>(7,118)</b>	<b>(5,022)</b>
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
<b>Cash flow from financing</b>	<b>(1,816)</b>	<b>(89)</b>	<b>20,309</b>	<b>(3,067)</b>	<b>(3,087)</b>
<b>Changes in cash and cash eq.</b>	<b>(415)</b>	<b>450</b>	<b>19,863</b>	<b>(737)</b>	<b>3,452</b>
<b>Closing cash and cash eq.</b>	<b>892</b>	<b>1,342</b>	<b>21,205</b>	<b>20,469</b>	<b>23,921</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	27.1	29.9	49.7	61.8	71.1
Adjusted EPS	27.1	29.9	49.7	61.8	71.1
Dividend per share	4.0	5.0	7.0	9.0	11.0
Book value per share	149.8	172.7	347.4	400.2	460.3

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	11.9	10.2	8.1	6.3	5.3
EV/EBITDA	58.8	47.4	33.7	26.5	21.6
Adjusted P/E	83.2	75.2	45.3	36.4	31.6
P/BV	15.0	13.0	6.5	5.6	4.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	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	120.6	123.0	119.1
EBIT margin (EBIT/Revenue)	17.0	17.5	19.8	19.6	20.0
Asset turnover (Revenue/Avg TA)	33.3	30.0	22.8	20.4	21.3
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.2	1.1	1.1
Adjusted ROAE	19.7	18.6	19.1	16.5	16.5

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	24.8	16.4	27.2	23.3	16.6
EBITDA	16.8	24.0	40.5	23.5	19.0
Adjusted EPS	11.6	10.6	66.0	24.5	15.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.3	21.6	23.9	23.9	24.4
EBIT margin	17.0	17.5	19.8	19.6	20.0
Adjusted profit margin	14.4	13.7	17.9	18.1	17.8
Adjusted ROAE	19.7	18.6	19.1	16.5	16.5
ROCE	25.5	22.8	22.6	20.3	20.7
<b>Working capital days (days)</b>					
Receivables	85	70	85	85	85
Inventory	69	87	80	80	80
Payables	66	64	66	66	66
<b>Ratios (x)</b>					
Gross asset turnover	1.9	1.7	1.6	1.5	1.6
Current ratio	2.0	1.9	3.4	3.1	3.1
Net interest coverage ratio	96.7	32.7	20.4	24.1	34.3
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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