

ADD

TP: Rs 1,700 | ▲ 7%

PI INDUSTRIES

| Agrochemicals

| 08 June 2020

Stable outlook; stretched valuation limits stock upside

PI Industries' (PI) Q4FY20 results were disrupted by Covid-19 but we expect gradual recovery. Revenue/EBITDA grew 6%/8% YoY. Domestic sales fell 12% YoY (and the ~Rs 1bn pre-placement was deferred to Q1), while exports rose 12%. EBITDA margin at 22% was stable on a favourable mix and despite higher RM prices amid the initial Covid impact. Management has guided for >20% sales growth and sustained margins in FY21. We find valuations stretched at 33x FY22E EPS – assume coverage with ADD and a Mar'21 TP of Rs 1,700 (35x implied P/E).

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FY21 outlook upbeat: PI is confident of >20% sales growth and 22% EBITDA margins in FY21, backed by healthy demand across domestic and export markets. In India, the company has cut down on low-margin products and taken price increases on select portfolios. It expects minimal impact from generic risk in insecticide 'Osheen'. In exports, most of the custom synthesis (CSM) orders are intact despite Covid-19. Q4 saw first shipments for pharma intermediates; PI expects the CSM sales mix to rise to double digits in the next three years.

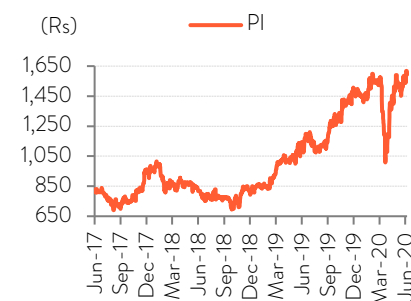
Clarity on Rs 20bn QIP raise likely in near term: Growth capex for FY21 will total Rs 6bn. Management expects more clarity on the QIP in 1-1.5 months.

ADD with TP of Rs 1,700: With a strong US\$ 1.5bn order book, management remains optimistic on the CSM business. PI is seeking inorganic opportunities in pharma and fine chemicals (via board-approved Rs 20bn QIP). We believe this can set up strong growth momentum in coming years given targeted acquisitions in high-chemistry capability and strong margins in the specialty and pharma CSM businesses. We expect >20% EPS growth and >30% ROIC over the next two years. Current valuations at 33x FY22E EPS price in most of these positives. ADD with an SOTP-based TP of Rs 1,700 (35x implied P/E).

Ticker/Price	PI IN/Rs 1,594
Market cap	US\$ 2.9bn
Shares o/s	138mn
3M ADV	US\$ 3.9mn
52wk high/low	Rs 1,650/Rs 1,370
Promoter/FPI/DII	51%/14%/17%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	22,771	28,409	33,075	39,465	48,979
EBITDA (Rs mn)	4,935	5,764	7,150	8,700	11,114
Adj. net profit (Rs mn)	3,675	4,102	4,537	5,263	6,800
Adj. EPS (Rs)	26.6	29.7	32.9	38.1	49.3
Adj. EPS growth (%)	(16.6)	11.6	10.6	16.0	29.2
Adj. ROAE (%)	21.2	19.7	18.6	18.6	20.4
Adj. P/E (x)	59.9	53.6	48.5	41.8	32.3
EV/EBITDA (x)	44.3	37.7	30.4	25.0	19.6

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20P	FY19
Net Sales	8,552	8,048	6.3	8,498	0.6	33,665	28,409
EBITDA	1,863	1,719	8.4	1,856	0.4	7,152	5,732
Depreciation	436	244	-	318	-	1,363	926
EBIT	1,427	1,475	(3.3)	1,538	(7.2)	5,789	4,806
Interest	84	13	-	45	-	177	59
Other Income	68	222	-	197	-	494	600
PBT	1,411	1,684	(16.2)	1,690	(16.5)	6,106	5,347
Less: Taxation	312	440	-	486	-	1,567	1,269
Less: Minority Interest	0	0	-	0	-	0	0
Recurring PAT	1,099	1,244	(11.7)	1,204	(8.7)	4,539	4,078
Exceptional items	0	0	-	0	-	0	0
Reported PAT	1,099	1,244	(11.7)	1,204	(8.7)	4,539	4,078
Key Ratios (%)							
Gross Margin	46.8	45.7	-	46.6	-	45.1	45.4
EBITDA Margin	21.8	21.4	-	21.8	-	21.2	20.2
Tax / PBT	22.1	26.1	-	28.8	-	25.7	23.7
NPM	12.9	15.5	-	14.2	-	13.5	14.4
EPS (Rs)	8.0	9.0	-	8.8	-	33.0	29.6

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20P	FY19
Domestic - Ag Chem*	1,722	1,950	(11.7)	2,100	(18.0)	9,046	9,570
CSM^	6,830	6,098	12.0	6,398	6.7	24,619	18,839
Net Sales	8,552	8,048	6.3	8,498	0.6	33,665	28,409
(Mix %)							
Domestic - Ag Chem	20.1	24.2	-	24.7	-	26.9	33.7
CSM	79.9	75.8	-	75.3	-	73.1	66.3

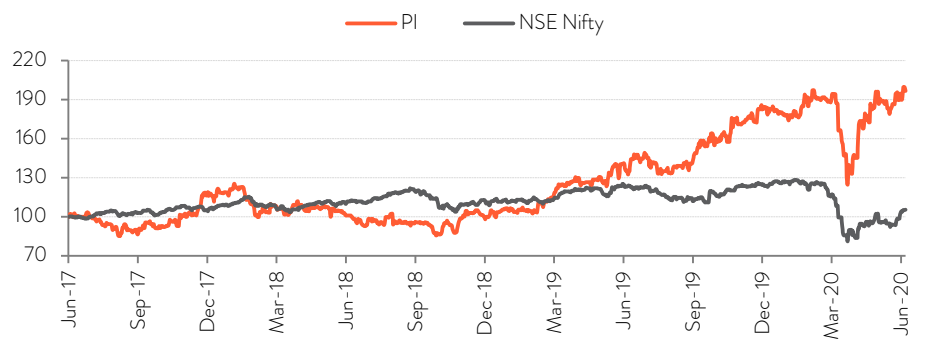
Source: Company, BOBCAPS Research | *Agrochemicals ^Custom Synthesis Manufacturing

Valuation methodology

PI’s differentiated chemistry capability in the CSM export segment (order book size of US\$ 1.5bn with ~90% of orders concentrated in patented products) and new launch pipeline in the domestic market could drive superior >20% EPS growth and >30% ROIC over the next two years. However, current valuations of 33x FY22E EPS price in most of the positives pertaining to an upbeat FY21 outlook and earnings recovery. Valuations are also at the higher end of the five-year P/E band of 16-36x, implying limited upside potential.

We assume coverage with an ADD rating and an SOTP-based target price of Rs 1,700, based on a blended 22x EV/EBITDA on FY22E (implied P/E of 35x). We apply a target EV/EBITDA multiple of 15x for the domestic agrochemicals business and 25x for the CSM business (in line with Divi Labs’ synthesis business).

FIG 3 – 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)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	22,771	28,409	33,075	39,465	48,979
EBITDA	4,935	5,764	7,150	8,700	11,114
Depreciation	830	930	1,363	1,677	2,016
EBIT	4,105	4,834	5,787	7,022	9,098
Net interest income/(expenses)	(53)	(50)	(177)	(408)	(422)
Other income/(expenses)	602	595	494	403	392
Exceptional items	0	0	0	0	0
EBT	4,654	5,379	6,104	7,017	9,067
Income taxes	979	1,277	1,567	1,754	2,267
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	3,675	4,102	4,537	5,263	6,800
Adjustments	0	0	0	0	0
Adjusted net profit	3,675	4,102	4,537	5,263	6,800

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	3,687	5,130	5,909	7,266	9,020
Other current liabilities	2,343	2,859	3,545	4,822	5,986
Provisions	340	416	548	654	811
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	138	138	138	138	138
Reserves & surplus	19,489	22,864	31,956	38,026	42,304
Shareholders' fund	19,627	23,002	32,094	38,164	42,442
Total liabilities and equities	25,997	31,407	42,096	50,905	58,259
Cash and cash eq.	1,307	892	1,342	1,306	2,670
Accounts receivables	5,268	6,618	6,465	9,357	11,617
Inventories	4,520	5,357	7,989	8,807	10,250
Other current assets	2,420	3,564	3,584	5,224	6,485
Investments	1,600	1,189	1,325	1,325	1,325
Net fixed assets	9,912	11,893	17,447	21,770	22,797
CWIP	899	1,828	2,707	2,707	2,707
Intangible assets	71	66	1,237	1,237	1,237
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	25,997	31,407	42,096	51,733	59,087

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	4,505	5,032	5,900	6,940	8,817
Interest expenses	53	50	177	408	422
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,479)	(1,296)	(902)	(2,611)	(1,888)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	3,079	3,786	5,175	4,737	7,352
Capital expenditures	(2,640)	(2,796)	(4,500)	(6,000)	(3,044)
Change in investments	(776)	411	(136)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(3,416)	(2,385)	(4,636)	(6,000)	(3,044)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(183)	(357)	5,620	1,773	(1,280)
Interest expenses	(53)	(50)	(177)	(408)	(422)
Dividends paid	(662)	(831)	(690)	(966)	(1,242)
Other financing cash flows	1,331	(578)	(4,842)	0	0
Cash flow from financing	433	(1,816)	(89)	399	(2,945)
Changes in cash and cash eq.	96	(415)	450	(864)	1,363
Closing cash and cash eq.	1,307	892	1,342	478	2,670

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	26.6	29.7	32.9	38.1	49.3
Adjusted EPS	26.6	29.7	32.9	38.1	49.3
Dividend per share	4.0	4.0	5.0	7.0	9.0
Book value per share	137.5	164.6	189.7	220.9	261.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	9.6	7.7	6.6	5.5	4.4
EV/EBITDA	44.3	37.7	30.4	25.0	19.6
Adjusted P/E	59.9	53.6	48.5	41.8	32.3
P/BV	11.6	9.7	8.4	7.2	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	79.0	76.3	74.3	75.0	75.0
Interest burden (PBT/EBIT)	113.4	111.3	105.5	99.9	99.7
EBIT margin (EBIT/Revenue)	18.0	17.0	17.5	17.8	18.6
Asset turnover (Revenue/Avg TA)	31.4	33.3	30.0	27.8	29.8
Leverage (Avg TA/Avg Equity)	1.0	1.0	1.1	1.3	1.2
Adjusted ROAE	21.2	19.7	18.6	18.6	20.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	0.0	24.8	16.4	19.3	24.1
EBITDA	(10.3)	16.8	24.0	21.7	27.8
Adjusted EPS	(16.6)	11.6	10.6	16.0	29.2
Profitability & Return ratios (%)					
EBITDA margin	21.7	20.3	21.6	22.0	22.7
EBIT margin	18.0	17.0	17.5	17.8	18.6
Adjusted profit margin	16.1	14.4	13.7	13.3	13.9
Adjusted ROAE	21.2	19.7	18.6	18.6	20.4
ROCE	26.0	25.5	22.8	21.1	23.5
Working capital days (days)					
Receivables	84	85	70	85	85
Inventory	72	69	87	80	75
Payables	59	66	64	66	66
Ratios (x)					
Gross asset turnover	1.9	1.9	1.7	1.6	1.7
Current ratio	2.1	2.0	1.9	1.9	2.0
Net interest coverage ratio	77.5	96.7	32.7	17.2	21.5
Adjusted debt/equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)

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)

HISTORICAL RATINGS AND TARGET PRICE: PI INDUSTRIES (PI IN)



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

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