

19 December 2017

Initiating Coverage (BUY)

**PI INDUSTRIES LTD**

CMP

INR 966

Target Price

INR 1144

**Stock Details**

Industry	AGROCHEMICAL
Bloomberg Code	PI:IN
BSE Code	523642
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	133,177.4
52wk. Low/High (Adjusted) ( (Rs.)	675.00/987.45

**Shareholding Pattern sept '17**

Promoter (%)	51.55
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	48.35
No. of Share Outstanding (mn)	137.58

**Valuation Summary**

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	24.74	28.93	29.00	28.50
EV/EBITDA (x)	16.84	22.57	22.16	21.40
P/BV (x)	6.67	8.18	7.25	6.38

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

**Key Financial**

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	20,968	22,768	24,590	26,557
EBITDA	4,696	5,899	6,570	7,092
Net Profit	3,153	4,644	5,114	5,522
EPS (Rs.)*	23.1	33.5	37.2	40.1

\*Un adjusted

**Key Ratios**

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	22.0	25.5	26.3	26.2
EBIT Margin (%)	19.5	22.3	23.4	23.5
Net Pro. Margin (%)	14.8	20.1	20.5	20.4
Debt/Equity (x)	0.11	0.05	0.04	0.03
RoNW (%)	30.5	33.2	27.9	24.2
RoCE (%)	26.8	29.7	26.1	23.0

One Year Price / Volume



We recommend 'BUY' on PI INDUSTRIES for a target of INR 1144 - valuing the company at P/E 28.50x of FY19E Earning.

**INVESTMENT RATIONALE:**

- **Pipeline building through strategic tie-ups** – 8 innovative products were added for distribution in India.
- **Intensified Business Development** - Initiatives into new Geographies to acquire new customers/ verticals.
- **Strategic alliance with global innovators** – A Joint Venture got formed with Mitsui Chemicals Agro. Inc., Japan to provide registration services for MCAG's products in India.
- **Building unique chemistry based technological platforms**
- **Deepening R&D capabilities to offer wider range of services** – strengthened capabilities across biological testing, process research & engineering during the year.
- **Customized digital solutions across critical business processes** – Electronic Lab Notes, Library Information Management Systems, Customized Project Management Tools, Farmer Integration App, Success Factor for HR.
- **Building a future ready organisation** – through reengineering of organisation structure, new talent acquisition and leadership development program.

**VALUATIONS AND VIEW:**

PI Industries has brought value-added offerings to millions of farmers in the country and across the globe, thereby creating a favourable impression in the minds of the local and global customers. **We value the business at 28.5x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 1144 per share.**

## RISK & CONCERNS:

- **Credit Risk:** The concentration of credit risk is limited in domestic market due to the fact that the customer base is large and unrelated. The Company's exports are mainly carried out in countries which have stable economic conditions, where the concentration is relatively higher, however the credit risk is low as the customers have good credit ratings.
- **Liquidity Risk:** It is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Due to the dynamic nature of underlying businesses, the Company maintains flexibility in funding by maintaining availability under committed credit lines.
- **Foreign Currency Risk:** The company is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the US\$. The Company uses forward exchange contracts to hedge its currency risk and are used exclusively for hedging purposes and not for trading and speculative purposes.

## COMPANY BACKGROUND:

Incorporated in 1947, PI Industries, focuses on complex chemistry solutions in the field of Agri-Sciences. Channelising the collective strength of over 2,000 employees, it currently operate 3 formulation facilities and 8 multiproduct plants, strategically located at our 3 manufacturing locations. These state-of-the art facilities have integrated process development teams with in-house engineering capabilities. Maintain a strong research presence through R&D facility at Udaipur, which deploys a dedicated team of scientists and chemists.

Trust, Integrity and IP protection forms the solid foundation of business. Having formed partnerships with leading companies globally, PI Industries provide solutions across the fields of research & development, regulatory services, manufacturing services, application development, marketing, distribution and customer connect initiatives. PI Industries has brought value-added offerings to millions of farmers in the country and across the globe, thereby creating a favourable impression in the minds of the local and global customers. Strong technical capabilities in the areas of research and development, manufacturing services, brand building, strong distribution presence in India and customer-connect initiatives help chart a differentiated course for stakeholder's value creation.

### Products-

- Insecticides
- Fungicides
- Herbicides
- Specialty Products

## INDUSTRY OVERVIEW:

The global population is expected to grow by over a third, adding another 2.3 billion people between 2016 and 2050. In addition to this, is the rising per capita consumption of farm products—food as well as fibre. The global agriculture industry would need to enhance its productivity in order to meet the global demand, reducing arable land and rural work force and nature's vagaries not with standing. The need for improved crop and farm productivity stands further intensified, thereby fuelling sustained demand growth for agrochemicals.

India is the fourth largest global producer of agrochemicals after the US, Japan and China. Generating a value of US\$4.4 billion in FY15, Indian agrochemical industry is expected to grow at 7.5% per annum to reach US\$ 6.3 billion by FY20. Nearly half of the demand comes from domestic market while the other half goes towards exports. While the domestic demand is expected to grow at 6.5% per annum, exports are estimated to grow at 9% per annum during the same period.

## PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
UPL	710	18.5	36,095.9	0.98	238.0	54.62	3,770.0	6.47	4.50
Bayer Crop Sci.	166	20.3	659.0	0.43	190.6	19.80	1,232.0	11.61	5.24
Atul	2,561	33.5	7,595.2	0.39	70.1	(14.88)	787.3	12.68	3.75
Sharda Cropchem	450	22.3	4,062.6	0.89	14.3	(33.75)	221.6	23.73	4.33
Rallis India	238	30.9	4,619.6	1.58	82.0	12.04	548.5	11.20	3.82
Monsanto India	2,457	30.4	4,240.8	0.61	(6.4)	(257.78)	96.0	(6.08)	7.34
<b>P I Inds.</b>	<b>968</b>	<b>29.0</b>	<b>148,313.3</b>	<b>0.41</b>	<b>80.3</b>	<b>(20.75)</b>	<b>561.1</b>	<b>3.13</b>	<b>8.18</b>

\*TTM

## FINANCIAL OVERVIEW

Q3 FY17 Performance Highlight							
(in Million)	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	YoY (%)	QoQ (%)
Revenue	5,719.40	5,003.20	6,272.90	5,848.00	5,610.80	-1.90%	-4.06%
Other Income	133.6	133	-21.2	125.7	122.6		
Total Income	5,853.00	5,136.20	6,251.70	5,973.70	5,733.40	-2.04%	-4.02%
Expenditure	-4,440.00	-3,969.50	-4,767.50	-4,557.60	-4,401.40		
As a % of Sales	77.63%	79.34%	76.00%	77.93%	78.45%		
Interest	-13.3	-11.6	-31.1	-13.9	-12.4	-6.77%	-10.79%
PBDT	1399.7	1155.1	1484.2	1416.1	1332		
As a % of Sales	24.47%	23.09%	23.66%	24.22%	23.74%		
Depreciation	-181.2	-182.6	-185.2	-197	-205.1		
PBT	1218.5	972.5	1299	1219.1	1126.9	-7.52%	-7.56%
As a % of Sales	21.30%	19.44%	20.71%	20.85%	20.08%		
Tax	-204.7	-32.8	52.5	-217.7	-323.5	58.04%	48.60%
Net Profit	1013.8	939.7	1351.5	1001.4	803.4	-20.75%	-19.77%
As a % of Sales	17.73%	18.78%	21.55%	17.12%	14.32%		
Equity	137.1	137.6	137.6	137.6	137.6	0.36%	0.00%
EPS (Rs)	7.39	6.83	9.85	7.28	5.84	-20.97%	-19.78%
CEPS (Rs)	8.72	8.16	11.17	8.71	7.33		
OPM %	24.71	23.32	23.66	24.22	23.74		
NPM %	17.73	18.78	21.55	17.12	14.32		

## Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
<b>Net Sales</b>	15,955	19,403	20,968	22,768	24,590	26,557	29,213
Other Operating Income	158	420	350	366	412	484	501
<b>Expenditure</b>	13,066	15,675	16,621	17,236	18,432	19,949	22,039
<b>EBITDA</b>	3,047	4,147	4,696	5,899	6,570	7,092	7,674
Depreciation	316	498	543	730	727	739	753
<b>EBIT</b>	2,731	3,650	4,153	5,168	5,843	6,353	6,921
Interest Expenses	118	97	95	72	95	93	108
<b>PBT</b>	2,613	3,552	4,058	5,096	5,748	6,260	6,814
Tax	733	1,093	904	501	633	737	850
Other Income	-	-	-	(1)	(0)	(0)	(0)
Extraordinary Items	-	-	-	-	-	-	-
<b>Net Income Before Adjustment</b>	1,880	2,459	3,153	4,594	5,114	5,522	5,964
Monority Int./Income from Assoc.	-	-	-	(49)	-	-	-
<b>Adjusted PAT</b>	1,880	2,459	3,153	4,644	5,114	5,522	5,964

## Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	136	137	137	138	138	138	138
Reserves & surplus	6,809	8,828	11,581	16,134	20,309	24,967	29,997
Share Warrants	-	-	-	-	-	-	-
<b>Net worth</b>	6,945	8,965	11,718	16,272	20,446	25,104	30,135
Minority Interest	-	-	-	-	-	-	-
<b>Loan Funds</b>	501	167	1,230	830	832	830	828
Net deferred tax liability	437	369	563	-	-	-	-
Other Long-term Liabilities	138	158	174	172	186	201	221
Long-term Provisions	60	80	116	227	245	265	292
<b>Total Liabilities</b>	8,081	9,739	13,803	17,503	21,710	26,402	31,477
<b>Net block</b>	5,692	6,659	9,463	10,223	10,493	10,630	10,141
Investment, Loan & Adv.	138	454	548	612	377	243	317
<b>Total Current Assets</b>	7,349	9,219	9,779	12,179	15,260	18,254	23,842
<b>Current Liabilities &amp; Provisions</b>	5,098	6,594	5,988	5,513	4,421	2,727	2,825
<b>Net Current Assets</b>	2,251	2,625	3,791	6,666	10,840	15,527	21,017
<b>Total Assets</b>	8,081	9,739	13,803	17,503	21,710	26,402	31,477

## Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
<b>Operating Cash Flow</b>	3,388	3,075	7,328	5,545
<b>Cash Flow from Investments</b>	(2,351)	470	(747)	(342)
<b>Cash Flow from Financing</b>	(534)	(800)	(949)	(1,031)
<b>Net Changes in Cash</b>	503	2,746	5,632	4,172
Opening Cash	342	844	3,590	9,222
<b>Closing Cash Balance</b>	844	3,590	9,222	13,395

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