

BUY

TP: Rs 2,500 | ▲ 16%

PI INDUSTRIES

Agrochemicals

29 October 2020

Q2 beat; management retains healthy CSM outlook

PI Industries (PI) reported a good Q2 beat. Revenue/EBITDA grew 28%/46% YoY, ahead of our estimates by 7%/13%. Domestic sales/exports rose 33%/25% YoY. Isagro led the strong domestic sales. EBITDA margin hit a historical high of 24% (+2ppt QoQ) led by gross margin expansion from a better CSM mix (69% vs. 58% of Q1 sales) and operating leverage. Management retained FY21 guidance of >20% sales growth and long-term margins of 23%. We raise FY22-FY23 EPS by 3% each and retain BUY with a new Sep'21 TP of Rs 2,500 (vs. Rs 2,450).

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Good beat across businesses: Q2 sales grew 28% YoY (18% ex-Isagro).

Domestic sales ex-Isagro were subdued YoY as heavy showers in the north and east impacted pre-emergent herbicide sales. PI launched two products in Q2: Londax Power (insecticide) and Shield (fungicide). Given a good rabi crop outlook, PI expects high growth from its wheat herbicide Akira. In CSM, better capacity planning and higher momentum in shipments led to 25% YoY growth.

CSM outlook stays strong: 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 >20% at least on current capacity in the next 4-6 quarters.

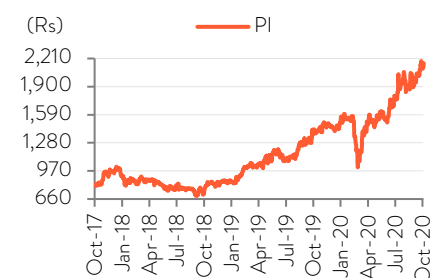
Retain BUY: Given strong execution and CSM's estimated contribution of >85% of FY23 EBITDA (~78% now), we expect a stock rerating. ROCE-focused M&A for high-chemistry capability in specialty/pharma CSM should gain pace. We expect >20% EPS CAGR in the next two years and >30% ROIC.

Earnings call takeaways: (1) Detailed evaluation of M&A targets underway; to deploy QIP money in 5-6 quarters. (2) FY21 domestic/export growth guidance at >20% each; capex Rs 6bn. (3) Isagro Q2 sales: Rs 900mn (Rs 1.9bn in H1).

Ticker/Price	PI IN/Rs 2,158
Market cap	US\$ 4.4bn
Shares o/s	152mn
3M ADV	US\$ 8.4mn
52wk high/low	Rs 2,225/Rs 1,370
Promoter/FPI/DII	47%/12%/18%

Source: NSE

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)	79.8	72.1	43.4	34.9	30.3
EV/EBITDA (x)	56.3	45.4	32.3	25.3	20.7

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var. (%)	H1FY21	H1FY20
Net Sales	11,577	9,074	27.6	10,601	9.2	10,805	7.1	22,178	16,615
EBITDA	2,801	1,919	46.0	2,292	22.2	2,472	13.3	5,093	3,433
Depreciation	433	315	-	427	-	440	-	860	609
EBIT	2,368	1,604	47.6	1,865	27.0	2,033	-	4,233	2,824
Interest	76	22	-	96	-	96	-	172	48
Other Income	336	106	-	82	-	82	-	418	229
PBT	2,628	1,688	55.7	1,851	42.0	2,019	30.2	4,479	3,005
Less: Taxation	451	460	-	444	-	505	-	895	769
Less: Minority Interest	(1)	0	-	48	-	0	-	(47)	0
Recurring PAT	2,178	1,228	77.4	1,359	60.3	1,514	43.9	3,631	2,236
Exceptional items	0	0	-	0	-	0	-	0	0
Reported PAT	2,178	1,228	77.4	1,359	60.3	1,514	43.9	3,631	2,236
Key Ratios (%)									
Gross Margin	44.1	42.4	-	42.0	-	43	-	43.1	43.5
EBITDA Margin	24.2	21.1	-	21.6	-	22.9	-	23.0	20.7
Tax / PBT	17.2	27.3	-	24.0	-	25.0	-	20.0	25.6
NPM	18.8	13.5	-	12.8	-	14.0	-	16.4	13.5
EPS (Rs)	14.3	8.9	-	9.9	-	11.0	-	23.9	14.7

Source: Company, BOBCAPS Research

FIG 2 – REVENUE MIX

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Q2FY21E	Var. (%)	H1FY21	H1FY20
Domestic - Ag Chem*	3,578	2,690	33.0	4,460	(19.8)	2,825	26.7	8,038	5,224
CSM^	7,999	6,384	25.3	6,141	30.3	7,980	0.2	14,140	11,391
Net Sales	11,577	9,074	27.6	10,601	9.2	10,805	7.1	22,178	16,615
Mix (%)									
Domestic - Ag Chem	30.9	29.6	-	42.1	-	26.1	-	36.2	31.4
CSM	69.1	70.4	-	57.9	-	73.9	-	63.8	68.6

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 H1FY21 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.

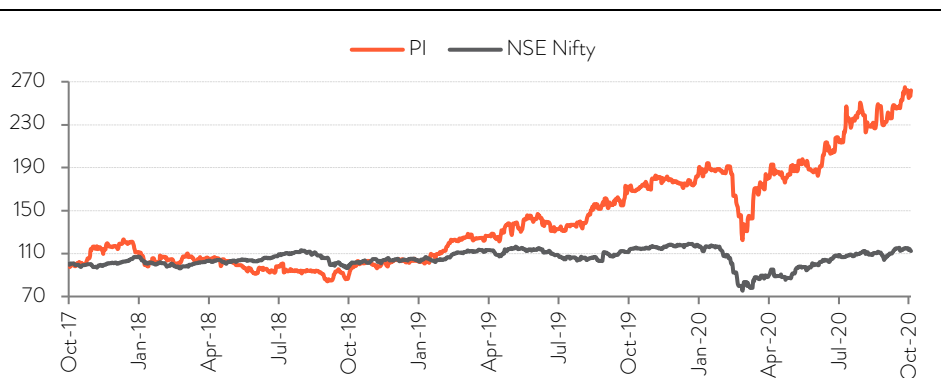
The stock is trading at 30x FY23E EPS vs. its five-year P/E band of 16-40x. We increase FY22/FY23 EPS estimates by 3% each and raise our Sep’21 SOTP-based target price to Rs 2,500 (from Rs 2,450), based on an unchanged blended one-year forward EV/EBITDA multiple of 26x (implied P/E of 38x). We continue to value the domestic agrochemicals business at 15x EV/EBITDA and CMS business at 28x on a strong demand outlook.

FIG 3 – REVISED ESTIMATES

(Rs bn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	42.1	51.9	60.5	41.3	50.9	59.4	1.8	1.8	1.9
EBITDA	10.0	12.4	14.8	9.6	12.1	14.4	4.4	2.6	2.5
EBITDA margin (%)	23.9	23.9	24.4	23.3	23.7	24.3	58bps	18bps	15bps
EPS (Rs)	50	62	71	47	60	69	4.8	3.0	3.2

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:

- 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
Total revenue	28,409	33,075	42,081	51,879	60,473
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
Reported net profit	4,102	4,537	7,533	9,375	10,784
Adjustments	0	0	0	0	0
Adjusted net profit	4,102	4,537	7,533	9,375	10,784

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
Total liabilities and equities	31,407	42,096	73,700	83,540	94,318
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
Total assets	31,407	42,096	73,700	83,540	94,318

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
Cash flow from operations	3,786	5,175	6,554	9,449	11,561
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	19,863	(737)	3,452
Closing cash and cash eq.	892	1,342	21,205	20,469	23,921

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	11.4	9.8	7.7	6.1	5.0
EV/EBITDA	56.3	45.4	32.3	25.3	20.7
Adjusted P/E	79.8	72.1	43.4	34.9	30.3
P/BV	14.4	12.5	6.2	5.4	4.7

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
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	1.6
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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