

PI Industries

Revenues beat estimates

CMP Rs715	Target Price Rs684 (▲)
Rating HOLD (▼)	Upside (4.3) %

Result highlights

- Revenue for the quarter at Rs 5.4bn was up 48%yoy, higher than our estimates on the back of higher than estimated revenues for the CSM and agro chemical business
- EBITDA for the quarter at Rs 953mn was up 83%yoy, aided by faster than estimated revenue growth. EBITDA margin for the quarter at 17.7% expanded by ~340bps yoy aided by gross margin expansion and operating leverage. APAT for the quarter at Rs 603mn was up 33%yoy, higher than our estimates
- Momentum in the CSM business & agro chemical business to be driven by ramp up in volumes of existing products and 1-2 new product launches. Revenue growth guidance for FY16 tapered to 18-19% on the back of higher base and commissioning of new plants only towards the end of FY16. We have revised our target price upwards to Rs 684 while reducing our rating to Hold from Accumulate

Faster growth for both segments drives revenue beat

Revenue for the quarter at Rs 5.4bn was up 48%yoy, higher than our estimates driven by higher than estimated revenues for both the agro chemical and CSM business. Agro chemical revenue for the quarter at Rs 1.7bn was up 49%yoy while CSM business revenue at Rs 3.6bn was up 48%yoy.

Operating leverage drives margin improvement

EBITDA for the quarter at Rs 953mn was up 83%yoy, higher than our estimates on the back of higher than estimated revenue growth. EBITDA margin for the quarter at 17.7% expanded by ~340bps yoy and was marginally higher than our estimates of 17%. Change in depreciation policy in-line with the new Companies Act led to increase in depreciation during the quarter.

New product launches and ramp up in existing products to drive growth

Growth in FY16 to be driven by ramp up in volumes for existing products (including recently launched products) along with commercialization of 1-2 new products in the CSM business and 1-2 new product launches for the agro chemical business. The management has however tapered its revenue growth guidance to 18-19% for FY16 on the back of higher base and cautious macro environment.

Revise target price upwards, reduce rating to Hold from Accumulate

We have revised our FY16/17E earnings estimate higher by 4.2%/3.6% respectively while revising our target price upwards to Rs 684. We have however reduced our rating on the stock from Accumulate to Hold as we believe that the stock is adequately factoring in near term earnings visibility.

Financial Snapshot (Standalone)

(Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	11,476	15,856	19,364	22,813	27,456
EBITDA	1,793	2,856	3,700	4,448	5,628
EBITDA Margin (%)	15.6	17.9	19.1	19.5	20.5
APAT	963	1,837	2,249	2,884	3,725
EPS (Rs)	7.1	13.5	16.5	21.1	27.3
EPS (% chg)	26.9	89.8	22.0	28.2	29.2
ROE (%)	22.8	30.4	28.7	28.8	29.4
P/E (x)	100.5	52.9	43.4	33.8	26.2
EV/EBITDA (x)	55.0	34.2	26.5	21.9	17.0
P/BV (x)	18.5	14.2	11.1	8.7	6.9

Source: Company, Emkay Research

Change in Estimates

EPS Chg FY16E/FY17E (%)	4.2/3.6
Target Price change (%)	7.5
Previous Reco	ACCUMULATE

Emkay vs Consensus

EPS Estimates		
	FY16E	FY17E
Emkay	21.1	27.3
Consensus	22.1	27.4
Mean Consensus TP	Rs 654	

Stock Details

Bloomberg Code	PI IN
Face Value (Rs)	1
Shares outstanding (mn)	137
52 Week H/L	787 / 279
M Cap (Rs bn/USD bn)	98 / 1.54
Daily Avg Volume (nos.)	1,61,660
Daily Avg Turnover (US\$ mn)	1.8

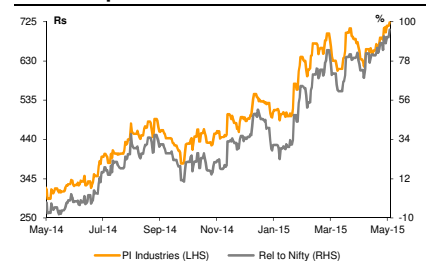
Shareholding Pattern Mar '15

Promoters	58.4%
FII's	18.6%
DII's	8.6%
Public and Others	14.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	12	58	153
Rel. to Nifty	2	17	60	121

Relative price chart



Source: Bloomberg

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Exhibit 1: Quarterly financial summary (standalone)

Rs mn	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	YoY (%)	QoQ (%)	FY15	FY14	YoY (%)
Revenue	3,627	4,712	4,266	5,049	5,370	48.0	6.3	19,397	15,949	21.6
Expenditure	3108	3633	3539	4108	4417	42.1	7.5	15697	13093	19.9
<i>as % of sales</i>	<i>85.7</i>	<i>77.1</i>	<i>83.0</i>	<i>81.4</i>	<i>82.3</i>			<i>80.9</i>	<i>82.1</i>	
Consumption of RM	1,976	2,681	2,443	2,930	3,095	56.6	5.6	11,149	9,191	21.3
<i>as % of sales</i>	<i>54.5</i>	<i>56.9</i>	<i>57.3</i>	<i>58.0</i>	<i>57.6</i>			<i>57.5</i>	<i>57.6</i>	
Employee Cost	318	317	319	335	442	38.9	32.0	1,413	1,089	29.7
<i>as % of sales</i>	<i>8.8</i>	<i>6.7</i>	<i>7.5</i>	<i>6.6</i>	<i>8.2</i>			<i>7.3</i>	<i>6.8</i>	
Other expenditure	813	635	777	843	880	8.3	4.4	3,135	2,813	11.5
<i>as % of sales</i>	<i>22.4</i>	<i>13.5</i>	<i>18.2</i>	<i>16.7</i>	<i>16.4</i>			<i>16.2</i>	<i>17.6</i>	
EBITDA	519	1,080	726	941	953	83.5	1.2	3,700	2,856	29.5
Depreciation	82	98	96	97	201	145.5	107.0	492	314	56.7
EBIT	438	982	630	844	752	71.9	(10.9)	3,208	2,542	26.2
Other Income	78	36	55	59	81	4.0	36.6	232	156	48.3
Interest	33	18	19	36	25	(23.9)	(29.1)	97	118	(17.7)
Forex (gain) / loss	8	-39	-51	-46	-48			-184	0	
PBT	474	1,039	717	914	856	80.6	(6.4)	3,526	2,579.98	36.7
Total Tax	22	322	228	292	253	1,060.1	(13.4)	1,094	743	47.2
PAT	452	717	490	622	603	33.5	(3.1)	2,433	1,837	32.4
EPS	3.3	5.3	3.6	4.6	4.4	32.9	(3.1)	17.8	13.8	29.1
Margins (%)						(bps)	(bps)			(bps)
Gross Margins	45.5	43.1	42.7	42.0	42.4	(314)	39	42.5	42.4	15
EBIDTA	14.3	22.9	17.0	18.6	17.7	342	(90)	19.1	17.9	117
EBIT	12.1	20.8	14.8	16.7	14.0	194	(272)	16.5	15.9	60
EBT	11.1	20.5	14.3	16.0	13.5	239	(248)	16.0	15.2	84
PAT	12.5	15.2	11.5	12.3	11.2	(123)	(109)	12.5	11.5	102
Effective Tax rate	4.6	31.0	31.7	31.9	29.5	2,491	(240)	31.0	28.8	222

Source: Company, Emkay Research

Conference call highlights

Faster revenue growth for the CSM and agro chemical business leads to revenue beat

Revenues for the quarter at Rs 5.4bn was up 48%yoy, higher than our estimates of Rs 4.6bn driven by higher than estimated revenues for both the CSM and agro chemical business. The CSM business revenues for the quarter at 3.6bn was up 48%yoy while the agro chemical segment revenue at Rs 1.7bn was up 49%yoy despite adverse weather conditions during the quarter. Revenue growth for the CSM business was largely driven by ramp up in volumes for existing/recently commercialized products while the agro chemical segment growth was driven by higher mix of in-licensed products.

Operating leverage leads to margin expansion

EBITDA for the quarter at Rs 953mn was up 83%yoy, higher than our estimates of Rs 783mn driven by higher than estimated revenues and marginally higher EBITDA margins. EBITDA margin for the quarter at 17.7% expanded by ~340bps yoy driven by operating leverage.

Revenue growth guidance tapered to 18-19% for FY16

Revenue growth guidance for FY16 has been tapered marginally to 18-19% on the back of higher base for the CSM business (due to large base of H2FY15) and cautious macro outlook for the global agro chemical business. Revenue growth in FY16 to be driven by ramp up in volumes for the existing products for both the CSM and agro chemical business along with 1-2 new product launches/commercialization for the two businesses. The CSM order book at the end of FY15 stood at \$578mn vs \$520mn at the end of Q3FY15.

EBITDA margins to remain flattish in FY16

EBITDA margins for FY15 stood at 19.1% registering an expansion of ~120bps yoy driven by a mix of gross margin expansion and operating leverage. Going forward, the management has guided for moderate margin expansion of 30-40bps as fixed costs for the new expanded capacities are likely to impact H2FY16 margins. Ramp up in revenues from the expanded capacities are expected to flow through in FY17 thereby leading to modest margin expansion over the medium term.

Jambusar expansion on schedule, provides visibility for medium term growth

The two new plant expansions at the Jambusar facility for the CSM business are moving on track and are expected to be commissioned in H2FY16. The management guided for a capex outlay of Rs 2.5bn for FY16 and FY17. The contribution from these new plants is expected to pick up steam in FY17 thereby providing medium term revenue visibility.

Revise revenue and earnings estimates higher, reduce rating to Hold from Accumulate

We have revised our FY16/17E revenue estimates higher by 4.9%/4.8% respectively as we factor in higher than estimated revenues for both the agro chemical and CSM business on account of higher base of FY15. Consequently, we have revised our EBITDA estimates higher by 2.3%/2.3% for FY16/17E leading to earnings revision of 4.2%/3.6% respectively. We have thus revised our target price upwards to Rs 684, as we continue to value the stock at 25x FY17E EPS of Rs 27.4. We have however reduced our rating on the stock from Accumulate to Hold as we believe that the current stock price is factoring in near term earnings momentum. We though continue to remain positive on the stock from a medium term perspective.

Exhibit 2: Revised earnings estimates (Rs mn)

Particulars	FY16E			FY17E		
	Old estimates	New estimates	Change %	Old estimates	New estimates	Change %
Net sales	21,751	22,813	4.9%	26,209	27,456	4.8%
EBITDA	4,350	4,448	2.3%	5,504	5,628	2.3%
EBITDA margin (%)	20.0%	19.5%	-50	21.0%	20.5%	-50
APAT	2,769	2,884	4.2%	3,597	3,725	3.6%
AEPS	20.3	21.2	4.2%	26.4	27.4	3.6%

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	11,476	15,856	19,364	22,813	27,456
Expenditure	9,712	13,093	15,697	18,364	21,827
EBITDA	1,793	2,856	3,700	4,448	5,628
Depreciation	218	314	492	514	611
EBIT	1,575	2,542	3,208	3,934	5,018
Other Income	84	156	232	200	200
Interest expenses	221	118	97	72	44
PBT	1,437	2,580	3,342	4,062	5,174
Tax	474	743	1,094	1,178	1,449
Extraordinary Items	0	0	184	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	963	1,837	2,433	2,884	3,725
Adjusted PAT	963	1,837	2,249	2,884	3,725

Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
Equity share capital	135	136	137	137	137
Reserves & surplus	5,110	6,695	8,689	11,072	14,008
Net worth	5,246	6,831	8,825	11,209	14,144
Minority Interest	0	0	0	0	0
Loan Funds	1,873	860	815	500	300
Net deferred tax liability	478	433	366	366	366
Total Liabilities	7,597	8,123	10,005	12,074	14,810
Net block	4,749	5,236	5,129	6,086	6,976
Investment	20	20	20	20	20
Current Assets	5,913	7,410	9,563	10,699	13,770
Cash & bank balance	120	371	240	557	1,970
Other Current Assets	57	95	89	89	89
Current liabilities & Provision	3,689	4,967	6,207	6,230	6,955
Net current assets	2,224	2,443	3,356	4,469	6,815
Misc. exp	0	0	0	0	0
Total Assets	7,597	8,123	10,005	12,074	14,810

Cash Flow

Y/E Mar (Rs mn)	FY13	FY14	FY15	FY16E	FY17E
NI (PAT+Dep+Int) Ex-Other income)	1,444	2,243	3,122	3,515	4,380
Other Non-Cash items	(62)	(32)	184	0	0
Chg in working cap	(418)	(77)	(825)	(795)	(933)
Operating Cashflow	1,026	2,166	2,297	2,720	3,447
Capital expenditure	(1,510)	(640)	(1,494)	(1,500)	(1,000)
Free Cash Flow	(484)	1,526	803	1,220	2,447
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	(436)	0	0
Investing Cashflow	(1,447)	(505)	(1,930)	(1,500)	(1,000)
Equity Capital Raised	1,181	34	0	0	0
Loans Taken / (Repaid)	(427)	(1,064)	(46)	(315)	(200)
Dividend paid (incl tax)	(76)	(272)	(423)	(516)	(790)
Other Financing Cash Flow	41	8	67	0	0
Financing Cashflow	464	(1,410)	(499)	(903)	(1,034)
Net chg in cash	43	251	(131)	317	1,413
Opening cash position	77	120	371	240	557
Closing cash position	120	371	240	557	1,970

Key Ratios

Profitability (%)	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin	15.6	17.9	19.1	19.5	20.5
EBIT Margin	13.7	15.9	16.5	17.2	18.3
Effective Tax Rate	33.0	28.8	32.7	29.0	28.0
Net Margin	8.4	11.5	11.6	12.6	13.6
ROCE	24.7	34.3	37.9	37.4	38.8
ROE	22.8	30.4	28.7	28.8	29.4
RoIC	26.7	35.9	41.3	43.1	46.0

Per Share Data (Rs)	FY13	FY14	FY15	FY16E	FY17E
EPS	7.1	13.5	16.5	21.1	27.3
CEPS	8.7	15.8	20.1	24.9	31.7
BVPS	38.7	50.2	64.6	82.1	103.5
DPS	(0.6)	(2.0)	(3.1)	(3.8)	(5.8)

Valuations (x)	FY13	FY14	FY15	FY16E	FY17E
PER	100.5	52.9	43.4	33.8	26.2
P/CEPS	81.9	45.2	35.6	28.7	22.5
P/BV	18.5	14.2	11.1	8.7	6.9
EV / Sales	8.6	6.2	5.1	4.3	3.5
EV / EBITDA	55.0	34.2	26.5	21.9	17.0
Dividend Yield (%)	(0.1)	(0.3)	(0.4)	(0.5)	(0.8)

Gearing Ratio (x)	FY13	FY14	FY15	FY16E	FY17E
Net Debt/ Equity	0.3	0.1	0.1	0.0	(0.1)
Net Debt/EBIDTA	1.0	0.2	0.2	0.0	(0.3)
Working Cap Cycle (days)	66.7	47.4	58.7	62.6	64.4

Growth (%)	FY13	FY14	FY15	FY16E	FY17E
Revenue	31.2	38.2	22.1	17.8	20.4
EBITDA	27.1	59.2	29.5	20.2	26.5
EBIT	27.1	61.4	26.2	22.6	27.5
PAT	(4.2)	90.7	32.4	18.6	29.2

Quarterly (Rs mn)	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15
Revenue	3,627	4,712	4,266	5,049	5,370
EBITDA	511	1,119	777	987	1,001
EBITDA Margin (%)	14.1	23.7	18.2	19.6	18.6
PAT	452	717	490	622	603
EPS (Rs)	3.3	5.3	3.6	4.6	4.4

Shareholding Pattern (%)	Jun-14	Sep-14	Dec-14	Mar-15	Mar-15
Promoters	58.6	58.4	58.4	58.4	58.4
FIIIs	19.9	19.1	17.9	18.5	18.6
DIIIs	6.4	7.4	8.5	8.6	8.6
Public and Others	15.1	15.1	15.2	14.5	14.5

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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