

INDUSTRY AGROCHEMICAL
CMP (as on 25 May 2015) Rs 723
Target Price Rs 800

Nifty 8,370

Sensex 27,644

KEY STOCK DATA

Bloomberg/Reuters PI IN/PIIL.BO

No. of Shares (mn) 137

MCap (Rs bn) / (\$ mn) 99/1,553

6m avg traded value (Rs mn) 99

STOCK PERFORMANCE (%)
52 Week high / low Rs 787/279

	3M	6M	12M
Absolute (%)	14.7	58.6	141.5
Relative (%)	19.4	61.1	129.6

SHAREHOLDING PATTERN (%)

Promoters 58.37

FIs & Local MFs 8.56

FIIs 18.54

Public & Others 14.53

Source : BSE

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Value creation continues

PI Industries reported another strong result led by robust growth across the segments. Revenues stood at Rs 5.4bn (+48% YoY). Lower other expenses led to an EBITDA margin of 17.7% (+342 bps) and EBITDA grew to Rs 953mn (+83%). Higher tax rate (year-end adjustments) and higher depreciation (change in policy) abated APAT growth to Rs 569mn (+24%).

Commercialisation of new molecules is clearly visible in CSM as the segment's revenues jumped to ~Rs 3.5bn/qtr in 2HFY15 vs ~Rs 2.3bn in previous 7 qtrs. Strong order book (3.2x FY15 revenues), first mover advantage & successful execution history kept PI ahead of its peers in CSM biz. With regular capex, we see PI as a multi-year compounding story. Mgt has guided for commercialization of 1-2 new molecule every year. Agri-inputs segment with a focus on in-licensing model (68% share) and 1-2 new product launches per year should also grow at 15-20%.

Strong financials further strengthens PI story : (1) Zero leverage (2) Positive FCF despite an aggressive capex of Rs 1.5bn/yr to sustain growth (3) Strong RoE/RoCE of 26-28%.

FINANCIAL SUMMARY (CONSOLIDATED)

(Rs mn)	4QFY15*	4Q FY14*	YoY (%)	3QFY15*	QoQ (%)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	5,370	3,627	48.0	5,049	6.3	11,514	15,955	19,403	22,928	27,549
EBITDA	953	519	83.5	941	1.2	1,812	2,890	3,727	4,466	5,453
APAT	569	460	23.8	591	(3.6)	1,072	1,880	2,330	2,910	3,644
Diluted EPS (Rs)	4.2	3.4	23.8	4.3	(3.6)	7.8	13.8	17.1	21.3	26.7
P/E (x)						92.2	52.5	42.4	33.9	27.1
EV / EBITDA (x)						55.4	34.3	26.6	22.1	17.9
RoE (%)						25.0	30.7	29.3	28.7	28.3

Source: Company, HDFC sec Inst Research, * standalone

Robust growth and tax benefits should lead to a PAT CAGR of ~25% over FY15-FY17E. Stock price rose by ~45% post 3Q results. There might be near term pressure owing to monsoon uncertainty and muted agri commodity prices. However, we maintain BUY led by strong fundamentals and robust growth trajectory. TP revised to Rs 800/sh (30x FY17E EPS).

4QFY15 highlights

Custom synthesis: Revenues of Rs 3.7bn (+56% YoY) due to commercialization of new molecules.

Domestic Agri-inputs: Revenues of Rs 1.7bn (+35%) led by in-licensed products.

The road ahead: PI revenues grew at a CAGR of ~30% over the last five years and margins expanded by ~300pbs owing to better product mix and new product launches. Going forward, we expect growth to moderate at ~20% and minor increase in margins. However, scalability and sustainability of earnings command re-rating.

Risks: (1) Execution delay in custom synthesis (2) Bad weather conditions (3) Weaker agri commodity prices.

Strong growth was led by both the segments. Custom synthesis grew by 56% and agri-inputs grew by 35%

Exceptional income was on account of forex gain

EBITDA margins expanded led by lower other expenses

QUARTERLY FINANCIALS SNAPSHOT (STANDALONE)

(Rs mn)	4QFY15	4QFY14	YoY (%)	3Q FY15	QoQ (%)
Net Sales	5,370	3,627	48.0	5,049	6.3
Material Expenses	3,043	1,919	58.6	2,772	9.8
Traded Goods	52	58	(10.6)	158	(67.2)
Employee Expenses	442	318	38.9	335	32.0
Other Expenses	880	813	8.3	843	4.4
EBITDA	953	519	83.5	941	1.2
Other Income	81	78	4.0	59	36.6
Depreciation	201	82	145.5	97	107.0
PBIT	833	516	61.6	904	(7.8)
Interest	25	33	(23.9)	36	(29.1)
E/o items	48	(8)	(668.4)	46	4.3
PBT	856	474	80.6	914	(6.4)
Tax	253	22	1,060.1	292	(13.4)
RPAT	603	452	33.5	622	(3.1)
Adjustment	34	(8)	(520.0)	31	8.0
APAT	569	460	23.8	591	(3.6)
AEPS (Rs/sh)	4.2	3.4	23.8	4.3	(3.6)

Source: Company, HDFC sec Inst Research

MARGIN ANALYSIS

Margin Analysis (% of Net Sales)	4QFY15	4QFY14	YoY (bps)	3Q FY15	QoQ (bps)
Material Expenses as % of Net Sales	54.9	53.0	190	53.9	99
Employee Expenses as % of Net Sales	6.6	7.2	(52)	7.5	(84)
Traded Goods as % of Net Sales	3.1	2.6	51	3.4	(24)
Other Expenses as % of Net Sales	16.7	20.0	(328)	18.2	(152)
EBITDA Margin (%)	18.6	17.3	139	17.0	161
Net Profit Margin (%)	11.7	10.1	156	10.7	103
Tax Rate (%)	31.9	35.2	(326)	31.7	19

Source: Company, HDFC sec Inst Research

ASSUMPTIONS

	FY12	FY13	FY14	FY15	FY16E	FY17E
Revenues (Rs mn)						
Agri-input	5,026	5,595	6,712	8,022	9,386	11,028
Custom-synthesis	3,732	5,910	9,237	11,375	13,536	16,514
Total	8,758	11,505	15,948	19,397	22,922	27,542
YoY Growth (%)						
Agri-input	22.0	11.3	20.0	19.5	17.0	17.5
Custom-synthesis	59.5	58.4	56.3	23.1	19.0	22.0
Total	21.7	31.2	38.6	21.6	18.2	20.2
EBIDTA margin (%)	16.1	15.6	17.9	19.4	19.4	19.7
Agri-input	15.5	13.0	16.0	17.2	17.0	17.0
Custom-synthesis	18.1	18.1	19.3	21.0	21.0	21.5
Tax Rate (%)	27.9	33.0	28.8	31.0	29.5	29.0
Cash conversion cycle (days)	106	83	65	77	76	76
Capex (Rs bn)	1.0	1.8	0.6	1.5	1.8	1.5

Source : Company, HDFC sec Inst Research

CHANGE IN ESTIMATES

	FY16E Old	FY16E New	% Ch
Net Sales	22,511	22,928	1.9
EBIDTA	4,317	4,466	3.4
APAT	2,930	2,910	(0.7)
AEPS	21.5	21.3	(0.7)
	FY17E Old	FY17E New	% Ch
Net Sales	26,824	27,549	2.7
EBIDTA	5,142	5,453	6.0
APAT	3,548	3,644	2.7
AEPS	26.0	26.7	2.7

High capex to continue to support growth, FY14 is low due to impairment of asset

PEER VALUATIONS

	CMP (Rs/sh)	Mcap (Rs bn)	Rating	EPS (Rs/sh)				P/E				P/BV				ROE (%)			
				FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E	FY13	FY14	FY15E	FY16E
Chambal Fert	63	26.3	BUY	5.9	7.1	8.7	9.2	10.8	8.9	7.3	6.9	1.3	1.2	1.0	0.9	12.5	13.7	15.1	14.3
Coromandel Int	229	64.9	BUY	12.6	14.2	17.4	22.9	18.2	16.1	13.1	10.0	2.8	3.0	2.6	2.3	15.9	17.9	20.8	23.6
PI Industries	723	98.7	BUY	13.8	17.1	21.3	26.7	52.5	42.4	33.9	27.1	14.2	11.0	8.7	6.9	30.7	29.3	28.7	28.3
Rallis India	222	43.2	BUY	7.8	8.1	10.0	13.3	28.5	27.5	22.2	16.8	6.0	5.3	4.6	3.9	22.7	20.5	22.2	25.2
UPL	552	236.4	BUY	24.1	26.8	30.5	35.2	22.9	20.5	18.1	15.7	4.5	4.0	3.4	2.9	20.9	20.7	20.5	20.2

Source : Company, HDFC sec Inst Research

INCOME STATEMENT (CONSOLIDATED)

(Rs mn)	FY12	FY13	FY14	FY15	FY16E	FY17E
Net Sales	8,791	11,514	15,955	19,403	22,928	27,549
Growth (%)	22.1	31.0	38.6	21.6	18.2	20.2
Material Expenses	4,923	6,745	9,198	11,154	12,784	15,158
Employee Expenses	719	886	1,108	1,430	1,687	2,023
Other Operating Expenses	1,715	2,071	2,760	3,092	3,991	4,915
EBIDTA	1,434	1,812	2,890	3,727	4,466	5,453
EBIDTA Margin (%)	16.3	15.7	18.1	19.2	19.5	19.8
EBIDTA Growth (%)	24.5	26.4	59.5	29.0	19.8	22.1
Other Income	51	82	158	237	260	345
Depreciation	173	220	316	498	544	638
EBIT	1,312	1,674	2,732	3,466	4,182	5,160
Int. & Financial charges	199	218	118	97	65	38
PBT	1,113	1,456	2,614	3,369	4,117	5,121
Tax	398	477	733	1,094	1,207	1,477
EO profit/(loss)	321	307	(1)	184	-	-
RPAT	1,036	1,286	1,880	2,459	2,910	3,644
APAT	790	1,072	1,880	2,330	2,910	3,644
APAT Growth (%)	21.4	35.6	75.5	23.9	24.9	25.2
APAT (continuing ops)	790	1,072	1,880	2,330	2,910	3,644
AEPS	5.8	7.8	13.8	17.1	21.3	26.7
EPS Growth (%)	21.4	35.6	75.5	23.9	24.9	25.2

Source: Company, HDFC sec Inst Research

BALANCE SHEET (CONSOLIDATED)

(Rs mn)	FY12	FY13	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS						
Share Capital	125	135	136	137	137	137
Reserves	3,129	5,182	6,809	8,828	11,207	14,265
Total Shareholders Funds	3,254	5,317	6,945	8,965	11,344	14,402
Long Term Debt	1,191	851	501	167	17	17
Short Term Debt	1,106	1,022	359	648	398	298
Total Debt	2,296	1,873	860	815	415	315
Other long-term liabilities	106	125	138	158	158	158
Long-term provisions	18	22	60	80	79	79
Net deferred tax liability	329	483	437	369	369	369
TOTAL SOURCES OF FUNDS	6,004	7,820	8,440	10,386	12,365	15,323
APPLICATION OF FUNDS						
Net Block	2,975	4,986	5,022	5,644	6,774	7,642
CWIP	810	400	670	1,020	1,120	1,120
Investments	5	5	5	5	5	5
LT Loans & Advances	192	92	114	428	428	428
Other non current assets	16	18	19	21	21	21
Inventories	1,788	2,417	3,188	3,782	4,522	5,433
Trade Receivables	1,722	2,625	2,568	3,826	4,399	5,286
Cash & Equivalents	94	161	438	341	393	1,521
ST Loans & Advances	394	603	1,080	1,202	1,174	1,174
Other Current Assets	19	39	75	68	73	73
Current Assets	4,017	5,846	7,349	9,219	10,561	13,486
Trade Payables	958	2,396	2,916	3,538	4,130	4,965
Other Current Liabilities	888	929	1,559	2,075	2,075	2,075
Provisions	166	203	264	339	339	339
Current Liabilities	2,012	3,527	4,739	5,952	6,544	7,379
Net current Assets	2,005	2,319	2,609	3,267	4,017	6,107
TOTAL APPLICATION OF FUNDS	6,004	7,820	8,440	10,386	12,365	15,323

Source: Company, HDFC sec Inst Research

CASH FLOW (CONSOLIDATED)

(Rs mn)	FY12	FY13	FY14	FY15	FY16E	FY17E
Reported PAT	1,034	1,286	1,880	2,459	2,910	3,644
Non-operating inc & EO items	48	55	106	158	174	231
PAT from Operations	986	1,231	1,774	2,300	2,736	3,413
Interest	199	218	118	97	65	38
Depreciation	173	220	316	498	544	638
Working Capital Change	(282)	(34)	25	(1,098)	(698)	(962)
OPERATING CASH FLOW (a)	1,076	1,636	2,233	1,797	2,646	3,127
Capex	(1,085)	(1,839)	(618)	(1,446)	(1,785)	(1,500)
Free cash flow (FCF)	(8)	(203)	1,615	352	861	1,627
Investments	0	-	0	-	-	-
Non-operating income	34	55	106	158	174	231
INVESTING CASH FLOW (b)	(1,051)	(1,784)	(512)	(1,287)	(1,611)	(1,269)
Share capital Issuance	217	1,173	-	-	-	-
Debt Issuance	64	(423)	(1,013)	(46)	(400)	(100)
Dividend	(100)	(150)	(313)	(400)	(479)	(559)
Interest	(196)	(218)	(118)	(97)	(65)	(38)
FINANCING CASH FLOW (c)	(15)	382	(1,445)	(542)	(944)	(698)
NET CASH FLOW (a+b+c)	10	234	276	(32)	91	1,161
EO items	14	-	-	-	-	-
Closing Cash & Equivalents	94	161	438	341	393	1,521

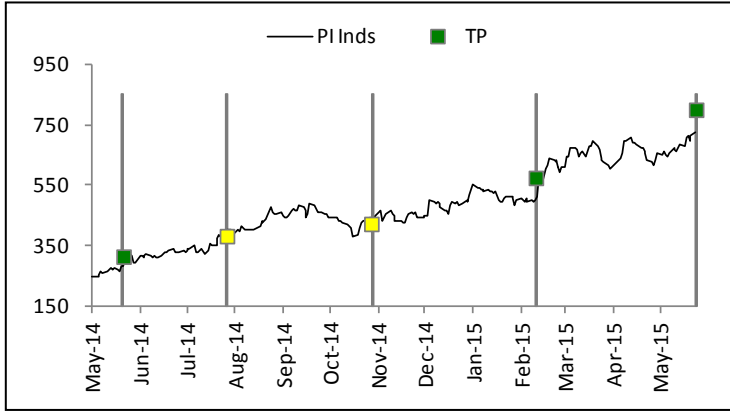
Source: Company, HDFC sec Inst Research

KEY RATIOS

	FY12	FY13	FY14	FY15	FY16E	FY17E
PROFITABILITY (%)						
GPM	44.0	41.4	42.4	42.5	44.2	45.0
EBITDA Margin	16.3	15.7	18.1	19.2	19.5	19.8
EBIT Margin	14.9	14.5	17.1	17.9	18.2	18.7
APAT Margin	9.0	9.3	11.8	12.0	12.7	13.2
RoE	29.3	25.0	30.7	29.3	28.7	28.3
Core RoCE	17.8	17.8	23.5	24.3	24.7	25.9
RoCE	17.4	17.8	24.2	25.5	26.0	26.5
EFFICIENCY						
Tax Rate (%)	27.8	27.0	28.1	30.8	29.3	28.8
Asset Turnover (x)	1.6	1.7	2.0	2.1	2.0	2.0
Inventory (days)	74	77	73	71	72	72
Debtors (days)	72	83	59	72	70	70
Payables (days)	40	76	67	67	66	66
Cash Conversion Cycle (days)	106	84	65	77	76	76
Debt/EBITDA (x)	1.6	1.0	0.3	0.2	0.1	0.1
Net D/E	0.7	0.3	0.1	0.1	0.0	(0.1)
Interest Coverage	6.6	7.7	23.1	35.6	64.8	134.8
PER SHARE DATA						
EPS (Rs/sh)	5.8	7.8	13.8	17.1	21.3	26.7
CEPS (Rs/sh)	7.1	9.5	16.1	20.7	25.3	31.3
BV (Rs/sh)	23.8	38.9	50.8	65.6	83.0	105.4
DPS (Rs/sh)	1.0	1.0	2.0	2.5	3.0	3.5
VALUATION						
P/E	124.9	92.2	52.5	42.4	33.9	27.1
P/BV	30.3	18.6	14.2	11.0	8.7	6.9
EV/EBITDA	70.4	55.4	34.3	26.6	22.1	17.9
OCF/EV (%)	1.1	1.6	2.3	1.8	2.7	3.2
FCF/EV (%)	(0.0)	(0.2)	1.6	0.4	0.9	1.7
FCFE/MCap (%)	(0.2)	(0.4)	1.5	0.3	0.8	1.6
Dividend Yield (%)	0.1	0.1	0.3	0.3	0.4	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
22-May-14	282	BUY	315
28-Jul-14	405	NEU	380
29-Oct-14	415	NEU	422
12-Feb-15	498	BUY	575
25-May-15	723	BUY	800

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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