

PI Industries | PI IN

Order book growth continues; company explores pharma vertical

PI Industries reported topline growth of 9% for 4Q16 with domestic business growing 17% YoY on expectation of a good monsoon. CSM grew 6% YoY on weak global markets and order deferrals by customer. Meanwhile, Order book increased to US\$850mn from US\$578mn a year ago. Lower tax rate (22% for FY16) lead the beat driven by SEZ operations, expansion of Jambusar facility and extension of R&D operations. Lower tax rate guidance leads to 3-4% increase in our FY17/18 estimates. Uptick in CSM revenue and ramp-up in pharma vertical will be key monitorables as company is expected to face higher competition in domestic market going forward. Maintain HOLD with a TP of ₹700.

- **Beat in PAT growth (+58%YoY) on lower tax expense:** PI Industries reported sales of ₹5.8bn (+9% YoY) for 4QFY16, in line with JMFe. EBITDA stood at ₹1.07bn (+13%YoY), 10% below JMFe of ₹1.19bn. EBITDA margins improved by 60bps and stood at 18.3%, 226bps below JMFe of 20.6%. PAT stood at ₹953mn (+58%YoY), 20% above JMFe of ₹796mn. The beat in PAT was driven by fall in tax rate to 1.4% as company benefitted from SEZ operations, expansion of Jambusar facility and extension of R&D operations.
- **Domestic business picks up (+17% YoY); order book surges to US\$850mn:** Domestic agri inputs witnessed a sharp pickup on anticipation of better monsoon (+17% YoY for 4Q). Custom synthesis grew by 6% YoY and 12% for full year. However company continued to improve its order book (US\$850mn from US\$780mn in 3Q16). Gestation period for order book however increased to 4-5 years (from 3-4 years) as company entered into longer term contracts. FY16 Custom Synthesis growth was reported at 10%. Agri Inputs grew 6% for FY16 after being impacted by weak macros for major part of the year.
- **FY17 guidance at 18-20% sales growth; Maintain HOLD:** Company's management has guided for 18-20% revenue growth in FY17 with similar growth in both verticals. We factor in CSM FY16 growth at 20% in FY17/18 as order book gives us comfort on CSM sustainability. We are awaiting further developments in pharma vertical to incorporate earnings from the division. We maintain hold and TP of ₹700. Key risks to our estimates are higher than expected competition in domestic market and revenues from pharma crams.

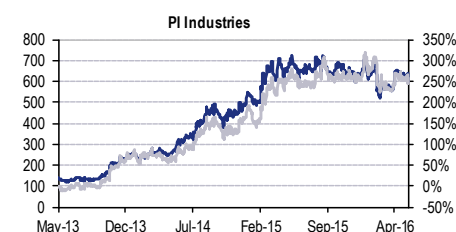
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Key Data

Market cap (bn)	₹ 87.2 / US\$ 1.3
Shares in issue (mn)	136.6
Diluted share (mn)	137.9
3-mon avg daily val (mn)	₹ 105.5/US\$ 1.6
52-week range	₹ 758.9/495.4
Sensex/Nifty	25,881/7,935
₹/US\$	67.4

Daily Performance



%	1M	3M	12M
Absolute	2.1	20.9	-12.0
Relative	1.3	8.2	-5.6

* To the BSE Sensex

Shareholding Pattern (%)

	Mar-16	Mar-15
Promoters	51.7	58.4
FII	22.3	18.5
DII	12.1	8.6
Public / Others	14.0	14.5

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Financial Summary

(₹ mn)

Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E
Net sales	15,856	19,357	20,759	24,243	28,515
Sales growth (%)	38.2	22.1	7.2	16.8	17.6
EBITDA	2,856	3,700	4,327	5,338	6,266
EBITDA (%)	17.9	19.1	20.6	22.0	21.9
Adjusted net profit	1,837	2,306	3,030	3,630	4,324
EPS (₹)	13.4	16.7	22.1	26.5	31.6
EPS growth (%)	78.6	24.6	31.9	20.0	19.1
ROIC (%)	25.7	27.2	28.1	26.6	26.3
ROE (%)	30.4	29.5	29.7	27.8	26.4
PE (x)	47.4	38.0	28.8	24.0	20.1
Price/Book value (x)	12.7	9.8	7.5	6.0	4.8
EV/EBITDA (x)	30.6	23.7	20.3	16.6	13.8

Source: Company data, JM Financial. Note: Valuations as of 25/05/2016

Nominee Gold Competition Update:

PI's key herbicide Nominee Gold is expected to face competition from players such as **Insecticides India** and **Gharda Chemicals** as these companies have succeeded in obtaining registrations for technical and formulation of Bispyribac sodium (AI of Nominee). Gujarat high court which had earlier put a hold on these approvals (order dated 26th Apr) has gone ahead and put a stay on the hold (Order dated 6th May), thereby validating these approvals. These players can be expected to launch their products soon, thereby increasing competition for PI in the domestic market.

Based on our channel checks, we believe that Nominee being a market leader, enjoying high brand recall, it is unlikely that that competition will affect PI in the near term. However, the management stated that based on historical trends, ~20-30% price erosion can be expected over 2-3 years. Insecticides India, for instance, is expected to launch its product Green Label (Bispyribac Sodium 10% w/v SC) soon.

PI's Nominee Gold (Market size of Bispyribac Sodium ~₹8bn) was earlier protected by deemed registration status and lack of an appropriate registration category for competitors as a result of which the product has faced very limited competition until now. Approval of new guidelines by CIBRC on 2nd November 2015 has allowed for registration of formulations/technical for which companies have import registration.

Conference call takeaways:

- **Full year guidance maintained at 18-20%** driven by better pickup in the domestic market and increased order book execution in CSM segment. The management stated that growth will be similar in both segments.
- **CRAMS** order book stood at \$850mn as of FY16 (\$780mn as on 3Q16). Growth in order book was driven by longer term agreements for products and commercialization of 3 new molecules in FY16. The management maintains its guidance of introducing 2-3 new products every year. The order book gestation period increased to 4-5 years from 3-4 years. The slowdown in the current year was primarily on account of weak global market and deferment of orders by some customers, coupled with slowdown on account of the construction of the new facility at Jambusar.
- **Domestic business** in 4Q16 was driven by expectation of better monsoons this year, certain new initiatives undertaken by the Company and growth in the horticulture segment.
- **Pharma:** The Company has identified a small unit which is a newly built asset for Pharma early intermediaries and is currently conducting a due diligence on it. It has plans of creating an independent set up for Pharma CRAMS which is expected to take 1 more month to initiate. The Company plans to invest ~₹200mn for this purpose.
- **'Legacee' to be launched** in Kharif 2016. The product is a rice herbicide for which the company has entered into a co-marketing agreement.
- **JV with Mitsui** – The Company has created a JV with Mitsui Chemicals of Japan for providing **Regulatory registration services** for registering Mitsui's products in India. The Company expects to earn a fee for provision of these services. PI has an in-licensed product from Mitsui (Osheen).

- **Tax guidance lowered to 24-25%** from earlier levels on 28-29%. The Company expects 100% tax benefit in the SEZ for the first 5 years and 50% benefit in the next 5 years.
- **Margin guidance** – The Company expects to see ~100-150bps improvement in margins from CY driven by operating leverage.
- **Price erosion on Nominee Gold** – The management stated that based on historical trends, it expects ~20-30% price erosion in the coming 3 years on account of new competition.
- **CAPEX for FY17 of ~₹2bn** is expected to be incurred towards addition of another plant in Jambusar, addition of capacity in formulations, R&D,

Exhibit 2. Quarter performance

	(₹ mn)								
(₹ mn)	Q4FY15	Q3FY16	Q4FY16	%YoY	Q4FY16E	% A/E	FY15	FY16	%YoY
Total Income from operations	5,370	5,110	5,848	9%	5,786	1%	19,396	20,967	8%
Expenses									
COGS	3,095	2,799	3,180	3%	3,185	0%	11,149	11,583	4%
Employee Benefit expenses	442	469	559	26%	543	3%	1,413	1,858	31%
Other Expenses	880	793	1,036	18%	865	20%	3,134	3,199	2%
Total Expenses	4,417	4,062	4,775	8%	4,593	4%	15,696	16,640	6%
EBIDTA	953	1,048	1,073	13%	1,192	-10%	3,700	4,327	17%
As a % of sales	17.7%	20.5%	18.3%	60bps	20.6%	-226bps	19.1%	20.6%	156bps
Other Income	81	51	70	-14%	70	-1%	232	210	-9%
Depreciation	201	137	170	-16%	134	27%	492	538	9%
EBIT	833	962	973	17%	1,129	-14%	3,440	3,999	16%
Finance Costs	25	27	26	1%	65	-60%	97	95	-2%
Exchange fluctuation (gain)/loss	-48	-29	-20	-59%	0	NA	-184	-134	-27%
PBT	856	964	967	13%	1,064	-9%	3,526	4,038	15%
Tax expense	253	239	14	-95%	268	-95%	1,094	904	-17%
Tax rate %	29.5%	24.7%	1.4%	-2,810bps	25.2%	-2,377bps	31.0%	22.4%	-862bps
PAT	603	725	953	58%	796	20%	2,432	3,134	29%
Basic EPS	4.42	5.29	6.95	57%	5.81	20%	18	23	29%

Source: Company, JM Financial

Exhibit 3. Segment breakup

	(₹ mn)						
	Q4FY15	Q3FY16	Q4FY16	%YoY	FY15	FY16	%YoY
Agri	1,713	1,448	1,996	17%	8,010	8,499	6%
CSM	3,647	3,662	3,852	6%	11,387	12,475	10%
Total	5,370	5,110	5,848	9%	19,396	20,967	8%
Order Book(USD millions)	578	780	850	47%			

Source: Company, JM Financial

- We raise our FY17/18 estimates by 4/3% respectively to incorporate lower tax rate guidance. We are not incorporating any revenues attributable to pharma division as we have limited visibility of execution of the same. We are factoring in margin expansion of 140bps in FY17, inline with management guidance.

Exhibit 4. Estimate Change**(₹ mn)**

		New Estimates		Old estimates		% change	
	FY16	FY17	FY18	FY17	FY18	FY17	FY18
Agri inputs	8,041	8,981	10,201	8,840	10,037	2%	2%
% YoY	4%	12%	14%	13%	14%		
Custome Synthesis	12,718	15,262	18,314	15,610	18,732	-2%	-2%
% YoY	10%	20%	20%	20%	20%		
Sales	20,759	24,243	28,515	24,450	28,769		
% YoY	7%	17%	18%	17%	18%		
Total operating income	20,967	24,285	28,557	24,492	28,812	-0.8%	-0.9%
% YoY	8%	16%	18%	17%	18%		
EBITDA	4,327	5,338	6,266	5,364	6,298	-0.5%	-0.5%
% margin	20.6%	22.0%	21.9%	21.9%	21.9%	8bps	8bps
PAT	3,134	3,630	4,324	3,474	4,180	4.5%	3.4%
% YoY	29%	16%	19%	17%	20%		

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement (₹ mn)					
Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E
Net sales (Net of excise)	15,856	19,357	20,759	24,243	28,515
Growth (%)	38.2	22.1	7.2	16.8	17.6
Other operational income	93	39	208	42	42
Raw material (or COGS)	9,191	11,149	11,583	13,509	15,905
Personnel cost	1,089	1,413	1,858	2,057	2,421
Other expenses (or SG&A)	2,813	3,134	3,199	3,381	3,964
EBITDA	2,856	3,700	4,327	5,338	6,266
EBITDA (%)	17.9	19.1	20.6	22.0	21.9
Growth (%)	59.2	29.6	16.9	23.4	17.4
Other non-op. income	156	415	343	238	273
Depreciation and amort.	314	492	538	651	727
EBIT	2,698	3,623	4,133	4,925	5,812
Add: Net interest income	-118	-97	-95	-149	-123
Pre tax profit	2,580	3,526	4,038	4,776	5,689
Taxes	743	1,094	904	1,146	1,365
Add: Extraordinary items	0	0	0	0	0
Less: Minority interest	0	0	0	0	0
Reported net profit	1,837	2,432	3,134	3,630	4,324
Adjusted net profit	1,837	2,306	3,030	3,630	4,324
Margin (%)	11.5	11.9	14.5	14.9	15.1
Diluted share cap. (mn)	137	138	137	137	137
Diluted EPS (₹)	13.4	16.7	22.1	26.5	31.6
Growth (%)	78.6	24.6	31.9	20.0	19.1
Total Dividend + Tax	0	0	0	0	0

Source: Company, JM Financial

Balance Sheet (₹ mn)					
Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E
Share capital	136	137	137	137	137
Other capital	0	0	0	0	0
Reserves and surplus	6,695	8,689	11,421	14,415	18,044
Networth	6,831	8,825	11,558	14,553	18,181
Total loans	1,223	1,147	1,250	2,047	647
Minority interest	0	0	0	0	0
Sources of funds	8,054	9,973	12,808	16,600	18,828
Intangible assets	108	142	142	142	142
Fixed assets	6,719	6,942	10,098	12,267	13,864
Less: Depn. and amort.	1,520	1,677	2,025	2,400	2,793
Net block	5,306	5,407	8,215	10,008	11,212
Capital WIP	356	1,222	1,222	1,222	1,222
Investments	20	20	20	20	20
Def tax assets/- liability	-433	-365	-560	-560	-560
Current assets	7,391	9,543	10,126	12,340	14,438
Inventories	3,188	3,782	3,948	4,574	5,379
Sundry debtors	2,565	3,826	3,978	5,123	5,946
Cash & bank balances	371	239	440	810	1,053
Other current assets	76	68	110	77	77
Loans & advances	1,192	1,628	1,651	1,757	1,984
Current liabilities & prov.	4,407	5,636	5,971	6,202	7,276
Current liabilities	4,126	5,279	5,872	6,103	7,177
Provisions and others	281	357	99	99	99
Net current assets	2,984	3,907	4,155	6,138	7,162
Others (net)	-178	-217	-243	-227	-227
Application of funds	8,054	9,973	12,808	16,600	18,828

Source: Company, JM Financial

Cash flow statement (₹ mn)					
Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E
Reported net profit	1,837	2,432	3,134	3,630	4,324
Depreciation and amort.	157	157	348	375	393
-Inc/dec in working cap.	-190	-1,247	-194	-1,177	-879
Others	0	0	0	0	0
Cash from operations (a)	1,804	1,342	3,288	2,829	3,838
-Inc/dec in investments	0	0	0	0	0
Capex	-464	-1,124	-3,156	-2,168	-1,597
Others	132	192	146	-436	98
Cash flow from inv. (b)	-333	-932	-3,010	-2,604	-1,499
Inc/-dec in capital	-252	-438	-401	-636	-696
Dividend+Tax thereon	0	0	0	0	0
Inc/-dec in loans	-949	-76	103	797	-1,400
Others	-19	-28	221	-16	0
Financial cash flow (c)	-1,221	-542	-77	146	-2,096
Inc/-dec in cash (a+b+c)	251	-132	200	370	243
Opening cash balance	120	371	239	440	810
Closing cash balance	371	239	439	809	1,053

Source: Company, JM Financial

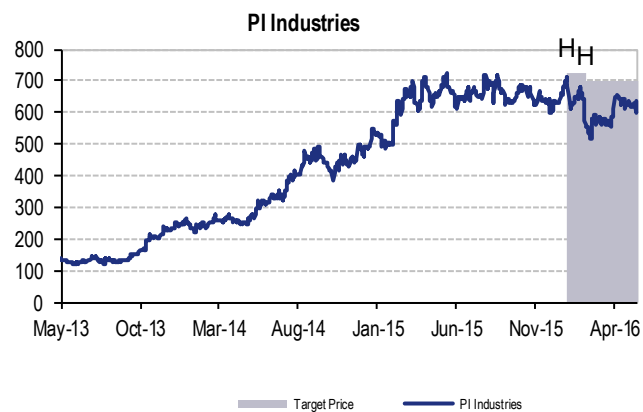
Key Ratios					
Y/E March	FY14A	FY15A	FY16A	FY17E	FY18E
BV/Share (₹)	50.2	64.6	84.3	105.9	132.7
ROIC (%)	25.7	27.2	28.1	26.6	26.3
ROE (%)	30.4	29.5	29.7	27.8	26.4
Net Debt/equity ratio (x)	0.1	0.1	0.1	0.1	0.0
Valuation ratios (x)					
PER	47.4	38.0	28.8	24.0	20.1
PBV	12.7	9.8	7.5	6.0	4.8
EV/EBITDA	30.6	23.7	20.3	16.6	13.8
EV/Sales	5.5	4.5	4.2	3.7	3.0
Turnover ratios (no.)					
Debtor days	59	72	70	77	76
Inventory days	73	71	69	69	69
Creditor days	116	116	115	115	115

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY16E EPS (₹)	% Chg.	FY17E EPS (₹)	% Chg.	Target Price	% Chg.
11-Jan-16	20.6		25.4		725	
16-Feb-16	21.0	1.9	25.3	-0.4	700	-3.4

Recommendation history



APPENDIX I

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(Formerly known as JM Financial Institutional Securities Private Limited)

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

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