

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

## Research Analyst Details

Wealth Discovery Securities Pvt. Ltd.

SEBI Registration No.: INH100004571

Research Analyst: Rahul Agarwal, [rahul@wealthdiscovery.in](mailto:rahul@wealthdiscovery.in)

Research Associate: Dushmanta Panda, [dushmanta@wealthdiscovery.co.in](mailto:dushmanta@wealthdiscovery.co.in)

Research Associate: Divya Sood, [divya@wealthdiscovery.co.in](mailto:divya@wealthdiscovery.co.in)

The analyst(s) certify that all of the views expressed in this report accurately reflect his personal views about the subject company or companies and its or their securities. He also certifies that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Wealth Discovery Securities Pvt. Ltd.

As to each individual report referenced herein, the primary research analyst(s) named within the report individually certify, with respect to each security or issuer that the analyst covered in the report, that:

- (1) all of the views expressed in the report accurately reflect his or her personal views about any and all of the subject securities or issuers; and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in the report.

For individual analyst certifications, please refer to the disclosure section provided in the annexure 1 attached to this report.

### Research Disclosures and Disclaimer as required under SEBI (Research Analyst) Regulations, 2014

Wealth Discovery Securities Private Limited is also engaged in the business of Stock Broking and Depository Participants.

**Disclaimer:** This document has been prepared by Wealth Discovery Securities Private Limited (hereinafter referred to as WD) to provide information about the company (ies) and/sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company (ies). This report is for personal information of the selected recipient/s and does not construe to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and WD is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

WD generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, WD generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. WD and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of WD even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition WD has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc., and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt WD or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold WD or any of its affiliates or employees responsible for any such misuse and further agrees to hold WD or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent WD's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, WD and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent WD and/or its affiliates from doing so. WD or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. WD or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and no infringement. The recipients of this report should rely on their own investigations.

The Research Analyst has not verified the accuracy of the financial information as sourced from external sources and in no way provides any assurance as to the financial viability of such information. The subscriber is strongly advised to exercise his discretion and due diligence while making investment decisions in respect of such stocks/securities.

WD and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been a client of WD or its associates during twelve months preceding the date of distribution of the research report. WD and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, WD has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of WD research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

**List of Associates of Wealth Discovery Securities Private Limited:**

1. Wealth Discovery Commodities Private Limited.
2. Vasishtha Financial Consultants Private limited.

**Disciplinary History:** No disciplinary action has been initiated by SEBI against M/s Wealth Discovery Securities Private Limited or its associates.

**Statements on ownership and material conflicts of interest, compensation (Rule 19, Chapter-III, SEBI (Research Analyst) Regulations, 2014):**

In pursuance of provisions regarding disclosure requirements under Rule-19, Chapter-III of SEBI (Research Analyst) Regulations, 2014 it is hereby declared that:

1. Wealth Discovery Securities Pvt. Ltd. (hereinafter referred to as “the company”) or any of its associates does not have any financial interest in the subject company.
2. The company or any of its associates did not have actual/beneficial ownership of one percent or more of securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the publication of the research report or date of the public appearance.
3. The company or any of its associates do not have any other material conflict of interest at the time of publication of the research report or at the time of public appearance.
4. The company or its associates have not received any compensation from subject company in the past 12 months.
5. The company or any of its associates has not managed or co-managed public offering of securities for the subject company in the past 12 months.
6. The company or any of its associates have not received any compensation for brokerage services, investment banking or merchant banking from the subject company in the past 12 months.
7. The company or any of its associates have not received any compensation for products or services other than merchant banking, investment banking or brokerage services from the subject company in the past 12 months.
8. The company or any of its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report.
9. The company or any of its associates have not received any compensation from the subject company in the past 12 months.
10. The subject company is not and was not a client of the company during 12 months preceding the date of distribution of the research report and no services was provided to the subject company.
11. The company or its employees or associates has not served as an officer, director or employee of the subject company.
12. The company has not been engaged in market making activity for the subject company.

**Regional Disclosures (outside India)**

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject WD & its group companies to registration or licensing requirements within such jurisdictions.

# Wealth Discovery

Transforming Knowledge into Wealth.

COMPLETE WEALTH MANAGEMENT SOLUTIONS !



Understanding financial needs.  
Optimising returns...

## Head Office

**Wealth Discovery Securities Pvt. Ltd.**

1206, 12th Floor,  
Kailash Building K.G. Marg.  
Connaught Place  
New Delhi-110001

Telephone:

91 +11-43444-666

91 +11-43444-623

Email:

[info@wealthdiscovery.in](mailto:info@wealthdiscovery.in)

Website:

<http://www.wealthdiscovery.in>