

INDUSTRY	AGROCHEMICAL		
<b>CMP (as on 14 Aug 2017)</b>	<b>Rs 712</b>		
<b>Target Price</b>	<b>Rs 950</b>		
Nifty	9,794		
Sensex	31,449		
<b>KEY STOCK DATA</b>			
Bloomberg	PI IN		
No. of Shares (mn)	138		
MCap (Rs bn) / (\$ mn)	98/1,529		
6m avg traded value (Rs mn)	160		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 964/674</b>		
	3M	6M	12M
Absolute (%)	(14.7)	(20.9)	(11.0)
Relative (%)	(18.9)	(31.9)	(22.7)
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	51.55		
FIs & Local MFs	14.98		
FPIs	18.31		
Public & Others	15.16		
Source : BSE			

## First among equals

PI Industries' (PI) 1QFY18 revenue declined by 13% YoY to Rs 5.5bn. Weakness in the global agrochemical market impacted exports (-12% YoY). Domestic business (-15% YoY) was affected by channel de-stocking, ahead of GST. EBITDA was at Rs 1.3bn (-21% YoY), owing to higher employee cost (+8%) and other expenditure (6%). PAT was Rs 1.0bn.

FY18 has started on a good note, with a normal monsoon, pick-up in sowing and moderate increases in MSPs. GST implementation caused some disruption in 1QFY18, owing to lower inventory build-up by dealers/retailers. We believe this is temporary. In the long term, better farm income, improved irrigation facilities and lower penetration will drive growth. PI is well placed in the domestic market, led by a robust domestic portfolio with a focus on in-licensing and specialty products.

PI's biggest hurdle will be maintaining its market share in Nominee Gold (rice herbicide), as Gharda Chemicals and Insecticides India have launched the same product. This product contributes ~25% to agri-inputs revenues (~10% of total). Typically, there is an

### Financial Summary (Consolidated)

(Rs mn)	1QFY18*	1QFY17*	YoY (%)	4QFY17*	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	5,532	6,389	(13.4)	6,056	(8.7)	20,963	22,768	25,214	28,686
EBITDA	1,304	1,656	(21.2)	1,537	(15.1)	4,312	5,533	5,975	6,786
APAT	1,001	1,269	(21.1)	1,352	(25.9)	3,116	4,594	4,505	5,196
Diluted EPS (Rs)	7.3	9.2	(21.1)	9.8	(25.9)	22.6	33.4	32.7	37.8
P/E (x)						31.4	21.3	21.7	18.9
EV / EBITDA (x)						22.9	17.5	15.9	13.6
RoE (%)						30.1	32.8	24.9	23.6

Source: Company, HDFC sec Inst Research, \* standalone

erosion of 30% in realisations over two to three years, post exclusivity.

PI's CSM business was muted in the last two years, led by weakness in the global Agrochemical market. We expect the scenario to improve in 2HFY18.

Strong return ratios and a healthy B/S help PI to stand out amongst peers. Commercialisation of two to three new molecules every year in the CSM segment, and a strong order book (4.7x FY17 segmental revenues) keeps long-term growth prospects positive. We remain positive on PI. Maintain BUY with a TP of Rs 950/sh (25x FY19E EPS).

### Highlights of the quarter

- **Custom synthesis:** Revenues were at Rs 3.0bn (-12%). The order book remains strong at USD 1.0bn
- **Domestic agri-inputs:** Revenues stood at Rs 2.5bn. Three 9(3) products launched during the 1QFY18
- **Near-term outlook:** Monsoon is key for the Indian agricultural sector. The stock will closely track the sentiments around this season

**Revenue growth impacted owing to decline in domestic (-15%) and export business (-12%)**

**EBITDA was at Rs 1.3bn (-21% YoY), owing to higher employee cost (+8%) and other expenditure (+6%).**

**Other expenditure increased owing to consultancy charges**

**Tax rate will be in the range of 19-21%**

**Higher gross margins negated by higher other expenditure and employee cost**

### Quarterly Financials Snapshot (Standalone)

(Rs mn)	1QFY18	1QFY17	YoY (%)	4QFY17	QoQ (%)
<b>Net Sales</b>	<b>5,532</b>	<b>6,389</b>	<b>(13.4)</b>	<b>6,056</b>	<b>(8.7)</b>
Material Expenses	2,475	3,152	(21.5)	2,976	(16.8)
Traded Goods	254	179	41.7	68	273.8
Employee Expenses	600	558	7.5	589	1.7
Other Expenses	899	845	6.4	886	1.5
<b>EBITDA</b>	<b>1,304</b>	<b>1,656</b>	<b>(21.2)</b>	<b>1,537</b>	<b>(15.1)</b>
Depreciation	197	178	10.8	185	6.4
<b>EBIT</b>	<b>1,107</b>	<b>1,478</b>	<b>(25.1)</b>	<b>1,351</b>	<b>(18.1)</b>
Other Income (Including EO Items)	126	113	11.4	(21)	(695.7)
Interest	14	16	(13.1)	31	(55.3)
<b>PBT</b>	<b>1,219</b>	<b>1,575</b>	<b>(22.6)</b>	<b>1,299</b>	<b>(6.2)</b>
Tax	218	306	(28.9)	(53)	(514.7)
<b>RPAT</b>	<b>1,001</b>	<b>1,269</b>	<b>(21.1)</b>	<b>1,352</b>	<b>(25.9)</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>1,001</b>	<b>1,269</b>	<b>(21.1)</b>	<b>1,352</b>	<b>(25.9)</b>
<b>AEPS (Rs/sh)</b>	<b>7.3</b>	<b>9.2</b>	<b>(21.1)</b>	<b>9.8</b>	<b>(25.9)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

(% of Net Sales)	1QFY18	1QFY17	YoY (bps)	4QFY17	QoQ (bps)
Material Expenses as % of Net Sales	44.7	49.3	(458)	49.1	(440)
Traded Goods as % of Net Sales	4.6	2.8	179	1.1	347
Employee Expenses as % of Net Sales	10.8	8.7	211	9.7	111
Other Expenses as % of Net Sales	16.3	13.2	303	14.6	162
<b>EBITDA Margin (%)</b>	<b>23.6</b>	<b>25.9</b>	<b>(233)</b>	<b>25.4</b>	<b>(179)</b>
Net Profit Margin (%)	18.1	19.9	(175)	22.3	(422)
Tax Rate (%)	17.9	19.4	(158)	(4.0)	2,190

Source: Company, HDFC sec Inst Research

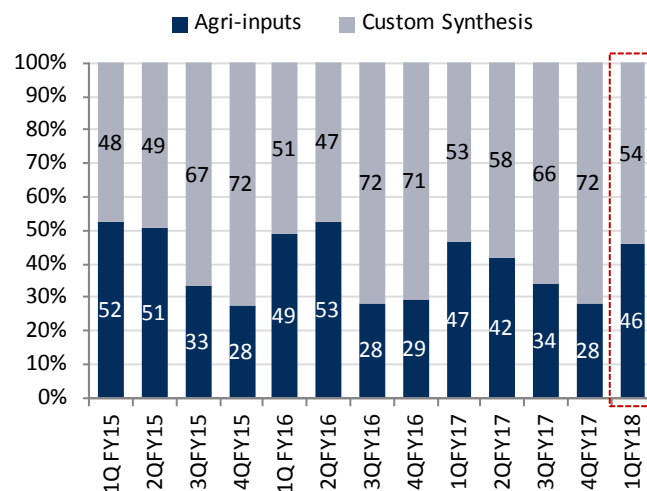
*Agri business (domestic) impacted owing to GST implementation*

*Order book in CSM remains healthy*

*Sowing progress is good. Kharif sowing was up~1% YoY to 94mn ha, led by Rice (+2% YoY), Cotton (+18%) and Sugarcane (+9%)*

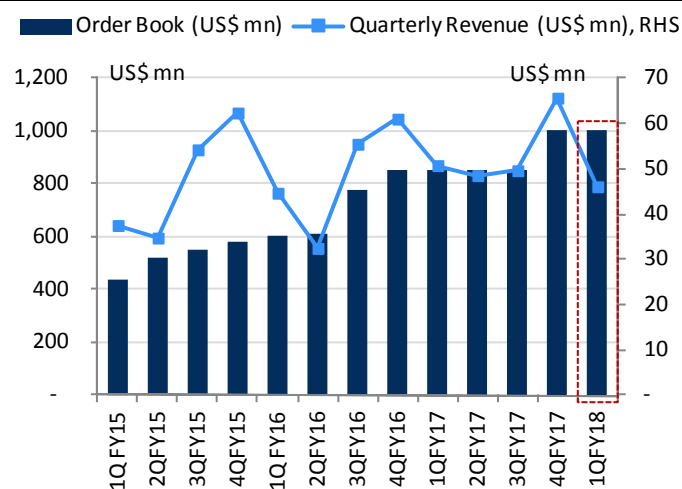
### Quarterly Performance

#### Revenue Share Between Agri-inputs And CSM



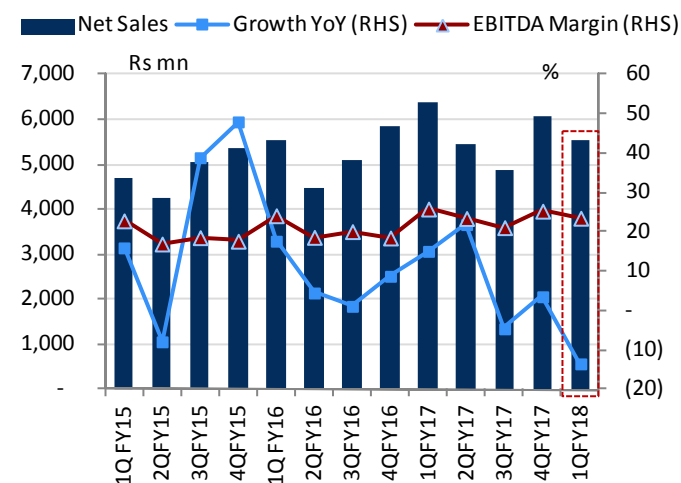
Source: Company, HDFC sec Inst Research

#### CSM: Order-book And Quarterly Revenues



Source: Company, HDFC sec Inst Research

#### Strengthening Margins



Source: Company, HDFC sec Inst Research

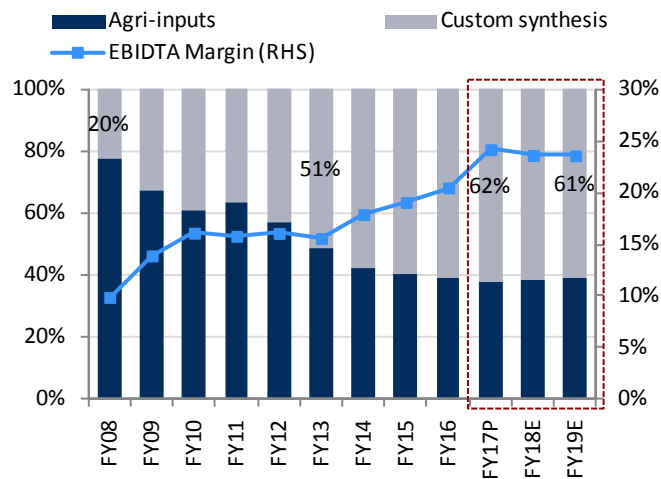
#### Kharif Crops Sowing As On 11-Aug-17 (Mn Hectare)

Crop	Kharif-17	Kharif-16	% change
Rice	32.0	31.4	2.0%
Pulses	12.7	13.0	-1.6%
Coarse Cereals	16.8	17.0	-1.5%
Oilseeds	15.4	17.1	-9.9%
Sugarcane	5.0	4.6	9.0%
Jute & Mesta	0.7	0.8	-6.7%
Cotton	11.7	9.9	18.3%
<b>Total</b>	<b>94.3</b>	<b>93.7</b>	<b>0.7%</b>

Source: Ministry of agriculture, HDFC sec Inst Research

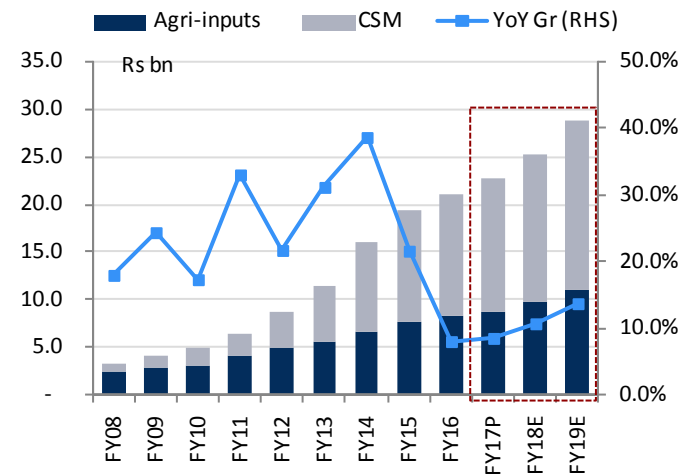
**Yearly Performance**

**Change In Revenue Mix Leading To Higher Margins**



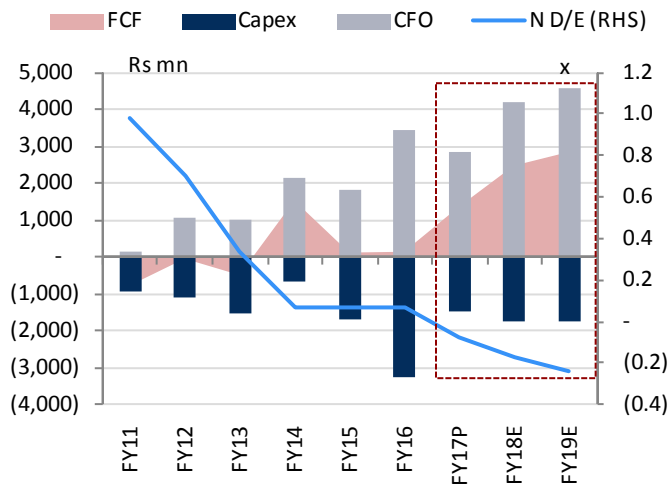
Source: Company, HDFC sec Inst Research

**Revenue Growth**



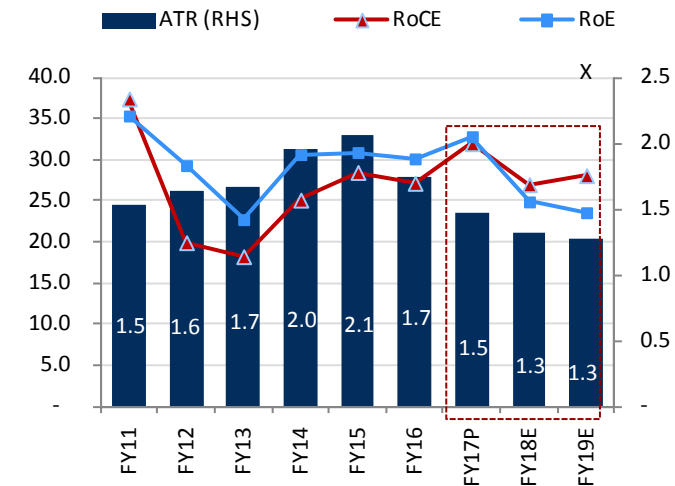
Source: Company, HDFC sec Inst Research

**Strong Free Cash Flows**



Source: Company, HDFC sec Inst Research

**Healthy Return Ratios**



Source: Company, HDFC sec Inst Research

*Higher share of custom synthesis is leading to better margins*

*The company will generate free cash flows despite capex of ~Rs 1.8bn p.a.*

*We expect healthy growth in both segments*

*Tax-rate will increase in FY18 owing to reduction in tax benefit from the Jambusar facility*

*No change in estimates*

### Assumptions

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Revenues (Rs mn)</b>							
Agri-input	5,595	6,712	7,782	8,232	8,636	9,673	11,124
Custom Synthesis	5,910	9,237	11,615	12,735	14,128	15,541	17,561
<b>Total</b>	<b>11,505</b>	<b>15,948</b>	<b>19,397</b>	<b>20,967</b>	<b>22,765</b>	<b>25,214</b>	<b>28,685</b>
<b>YoY Growth (%)</b>							
Agri-input	11.3	20.0	15.9	5.8	4.9	12.0	15.0
Custom Synthesis	58.4	56.3	25.7	9.6	10.9	10.0	13.0
<b>Total</b>	<b>31.2</b>	<b>38.6</b>	<b>21.6</b>	<b>8.1</b>	<b>8.6</b>	<b>10.8</b>	<b>13.8</b>
<b>EBIDTA Margin (%)</b>							
Agri-input	15.6	17.9	19.5	20.5	24.2	23.6	23.6
Custom Synthesis	13.0	16.0	17.2	19.0	19.0	19.0	19.0
Custom Synthesis	18.1	19.3	21.0	21.4	27.4	26.5	26.5
<b>Tax Rate (%)</b>	33.0	28.8	31.0	22.8	9.7	20.1	20.3
<b>Cash conversion cycle (days)</b>	83	65	77	74	91	91	91
Capex (Rs bn)	1.8	0.5	1.1	3.3	1.5	1.8	1.8

Source: Company, HDFC sec Inst Research

### Change In Estimates

(Rs mn)	FY18E Old	FY18E New	% Ch
Net Sales	25,214	25,214	-
EBIDTA	5,975	5,975	-
APAT	4,505	4,505	-
AEPS (Rs/sh)	32.7	32.7	-

Source: HDFC sec Inst Research

(Rs mn)	FY19E Old	FY19E New	% Ch
Net Sales	28,686	28,686	-
EBIDTA	6,786	6,786	-
APAT	5,196	5,196	-
AEPS	37.8	37.8	-

**Peer Valuation**

	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP* (Rs/sh)	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
<b>AGROCHEMICALS</b>																
UPL	433.5	858	NEU	780	35.8	40.1	49.0	24.0	21.4	17.5	5.9	4.9	4.0	27.2	24.8	24.9
<b>PI Industries</b>	<b>98.0</b>	<b>712</b>	<b>BUY</b>	<b>950</b>	<b>33.4</b>	<b>32.7</b>	<b>37.8</b>	<b>21.3</b>	<b>21.8</b>	<b>18.9</b>	<b>6.0</b>	<b>4.9</b>	<b>4.1</b>	<b>32.8</b>	<b>24.9</b>	<b>23.6</b>
Rallis India	44.8	230	BUY	280	8.8	11.0	14.0	26.2	20.8	16.4	4.0	3.6	3.2	17.1	18.2	20.4
Dhanuka Agritech	36.8	750	NEU	780	23.9	28.4	35.4	31.4	26.4	21.2	7.1	6.0	5.0	23.4	24.5	25.8
Insecticides India	16.4	795	BUY	800	28.1	37.7	47.2	28.3	21.1	16.8	3.5	3.0	2.6	13.3	15.5	16.7

Source: Company, HDFC sec Inst Research, \*As per last report published

**Income Statement (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
<b>Net Revenues</b>	<b>19,403</b>	<b>20,963</b>	<b>22,768</b>	<b>25,214</b>	<b>28,686</b>
<b>Growth (%)</b>	<b>21.6</b>	<b>8.0</b>	<b>8.6</b>	<b>10.7</b>	<b>13.8</b>
Material Expenses	11,154	11,585	11,632	12,982	14,778
Employee Expenses	1,430	1,931	2,226	2,513	2,856
Other Operating Expenses	3,092	3,135	3,378	3,745	4,266
<b>EBIDTA</b>	<b>3,727</b>	<b>4,312</b>	<b>5,533</b>	<b>5,975</b>	<b>6,786</b>
<b>EBIDTA Margin (%)</b>	<b>19.2</b>	<b>20.6</b>	<b>24.3</b>	<b>23.7</b>	<b>23.7</b>
<b>EBIDTA Growth (%)</b>	<b>29.0</b>	<b>15.7</b>	<b>28.3</b>	<b>8.0</b>	<b>13.6</b>
Depreciation	498	543	730	785	866
<b>EBIT</b>	<b>3,229</b>	<b>3,770</b>	<b>4,802</b>	<b>5,189</b>	<b>5,920</b>
Other Income (Including EO Items)	420	355	366	484	604
Interest	97	96	72	40	12
<b>PBT</b>	<b>3,552</b>	<b>4,028</b>	<b>5,096</b>	<b>5,634</b>	<b>6,512</b>
Tax	1,093	913	501	1,129	1,316
Share Of Profit/(loss) Of Associate	-	-	(1)	-	-
<b>RPAT</b>	<b>2,459</b>	<b>3,116</b>	<b>4,594</b>	<b>4,505</b>	<b>5,196</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>2,459</b>	<b>3,116</b>	<b>4,594</b>	<b>4,505</b>	<b>5,196</b>
<b>APAT Growth (%)</b>	<b>30.8</b>	<b>26.7</b>	<b>47.5</b>	<b>(2.0)</b>	<b>15.3</b>
<b>AEPS</b>	<b>17.9</b>	<b>22.6</b>	<b>33.4</b>	<b>32.7</b>	<b>37.8</b>
<b>AEPS Growth (%)</b>	<b>30.8</b>	<b>26.7</b>	<b>47.5</b>	<b>(2.0)</b>	<b>15.3</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital	137	137	138	138	138
Reserves	8,828	11,572	16,134	19,751	24,005
<b>Total Shareholders Funds</b>	<b>8,965</b>	<b>11,709</b>	<b>16,272</b>	<b>19,889</b>	<b>24,143</b>
Long-term Debt	167	1,224	830	330	30
Short-term Debt	981	291	271	271	271
<b>Total Debt</b>	<b>1,148</b>	<b>1,516</b>	<b>1,101</b>	<b>601</b>	<b>301</b>
LT Provisions & Others	238	286	399	399	399
Net Deferred Tax Liability	369	353	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>10,719</b>	<b>13,864</b>	<b>17,772</b>	<b>20,889</b>	<b>24,843</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>5,327</b>	<b>8,742</b>	<b>9,450</b>	<b>9,840</b>	<b>10,730</b>
CWIP	1,332	713	773	1,400	1,400
Investments	5	3	9	9	9
LT Loans & Advances	428	39	28	28	28
Other Non-current Assets	21	429	575	575	575
<b>Total Non-current Assets</b>	<b>7,113</b>	<b>9,926</b>	<b>10,835</b>	<b>11,852</b>	<b>12,741</b>
Inventories	3,782	3,948	4,320	4,784	5,443
Debtors	3,826	3,978	4,237	4,696	5,343
Cash & Equivalents	341	560	2,151	3,708	5,907
Other Current Assets	1,270	1,075	1,472	1,370	1,370
<b>Total Current Assets</b>	<b>9,219</b>	<b>9,560</b>	<b>12,179</b>	<b>14,559</b>	<b>18,062</b>
Creditors	3,538	3,661	2,878	3,176	3,615
Other Current Liabilities & Provns	2,075	1,961	2,364	2,346	2,346
<b>Total Current Liabilities</b>	<b>5,613</b>	<b>5,622</b>	<b>5,242</b>	<b>5,522</b>	<b>5,961</b>
<b>Net Current Assets</b>	<b>3,606</b>	<b>3,938</b>	<b>6,937</b>	<b>9,037</b>	<b>12,101</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>10,719</b>	<b>13,864</b>	<b>17,772</b>	<b>20,889</b>	<b>24,843</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	3,552	4,028	5,096	5,634	6,512
Non-operating & EO items	(140)	(355)	(366)	(484)	(604)
Interest expenses	97	96	72	40	12
Depreciation	498	543	730	785	866
Working Capital Change	(971)	(162)	(1,783)	(543)	(865)
Tax Paid	(1,195)	(913)	(501)	(1,129)	(1,316)
<b>OPERATING CASH FLOW ( a )</b>	<b>1,841</b>	<b>3,238</b>	<b>3,248</b>	<b>4,303</b>	<b>4,604</b>
Capex	(1,685)	(3,278)	(1,499)	(1,782)	(1,750)
Free cash flow (FCF)	156	(41)	1,749	2,521	2,854
Investments	0.00	1.98	(5.40)	-	-
Non-operating Income	420	355	366	484	604
Others	(197)	(2)	5	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,462)</b>	<b>(2,924)</b>	<b>(1,133)</b>	<b>(1,297)</b>	<b>(1,146)</b>
Debt Issuance/(Repaid)	(153)	430	(415)	(500)	(300)
Interest Expenses	(97)	(96)	(72)	(40)	(12)
FCFE	(95)	293	1,263	1,981	2,542
Share Capital Issuance	0	-	-	-	-
Dividend	(300)	(523)	(675)	(800)	(923)
Others	24	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(526)</b>	<b>(189)</b>	<b>(1,162)</b>	<b>(1,340)</b>	<b>(1,236)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(147)</b>	<b>125</b>	<b>954</b>	<b>1,665</b>	<b>2,223</b>
EO Items, Others	51	94	637	(108)	(25)
Closing Cash & Equivalents	341	560	2,151	3,708	5,907

Source: Company, HDFC sec Inst Research

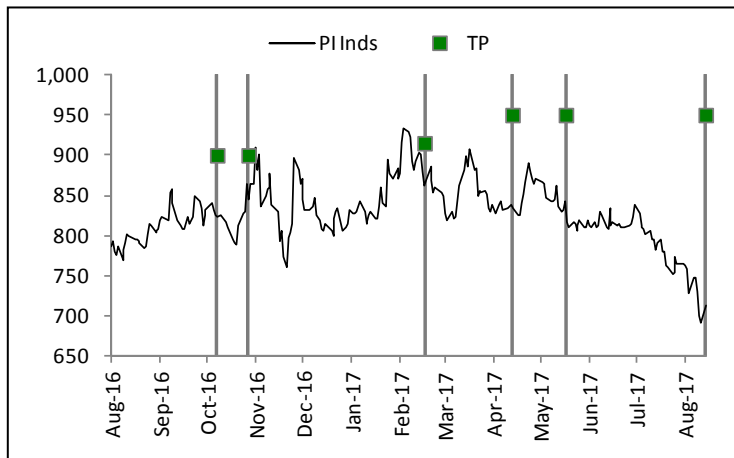
**Key Ratios**

	FY15	FY16	FY17P	FY18E	FY19E
<b>PROFITABILITY (%)</b>					
GPM	42.5	44.7	48.9	48.5	48.5
EBITDA Margin	19.2	20.6	24.3	23.7	23.7
EBIT Margin	16.6	18.0	21.1	20.6	20.6
APAT Margin	12.7	14.9	20.2	17.9	18.1
RoE	30.9	30.1	32.8	24.9	23.6
Core RoCE	28.5	27.2	32.0	27.0	28.1
RoCE	26.8	26.6	30.0	23.8	23.0
<b>EFFICIENCY</b>					
Tax Rate (%)	30.8	22.7	9.8	20.0	20.2
Asset Turnover (x)	2.1	1.7	1.5	1.3	1.3
Inventory (days)	71	69	69	69	69
Debtors (days)	72	69	68	68	68
Other Current Assets (days)	24	19	24	20	17
Payables (days)	67	64	46	46	46
Other Current Liab & Provns (days)	39	34	38	34	30
Cash Conversion Cycle (days)	61	59	77	77	79
Debt/EBITDA (x)	0.3	0.4	0.2	0.1	0.0
Net D/E	0.1	0.1	(0.1)	(0.2)	(0.2)
Interest Coverage	35.6	43.0	71.7	141.0	522.9
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	17.9	22.6	33.4	32.7	37.8
CEPS (Rs/sh)	21.5	26.6	38.7	38.4	44.1
BV (Rs/sh)	65.1	85.1	118.3	144.5	175.5
DPS (Rs/sh)	2.5	3.1	4.0	4.7	5.5
<b>VALUATION</b>					
P/E	39.8	31.4	21.3	21.7	18.9
P/BV	10.9	8.4	6.0	4.9	4.1
EV/EBITDA	26.5	22.9	17.5	15.9	13.6
OCF/EV (%)	1.9	3.3	3.4	4.5	5.0
FCF/EV (%)	0.2	(0.0)	1.8	2.7	3.1
FCFE/MarCap (%)	(0.1)	0.3	1.3	2.0	2.6
Dividend Yield (%)	0.4	0.4	0.6	0.7	0.8

Source: Company, HDFC sec Inst Research



**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
7-Oct-16	822	BUY	900
27-Oct-16	845	BUY	900
17-Feb-17	863	BUY	915
13-Apr-17	837	BUY	951
17-May-17	843	BUY	950
14-Aug-17	712	BUY	950

**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

## INSTITUTIONAL RESEARCH

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**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

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