

PI INDUSTRIES

CHEMICALS & FERTILISERS

Lower tax rate to boost PAT

In Q1 analyst call, management maintained revenue growth guidance at 18-20% and EBITDA margin improvement of 100 bps in FY17. As expected, tax rate guidance was lowered to 22-23% (vs. 24-25% earlier) given higher revenue contribution from Jambusar SEZ (tax benefit), which should lead to upgrades in street's earnings estimates. PI is doing due diligence to acquire pharma intermediate manufacturing facility to extend its CSM reach beyond agrichem space.

We like PI due to its in-licensing model in domestic agrichem (sticky revenue, higher margins) and strong entry barriers in CSM business. Strong positioning in rice pesticides and efforts to extend CSM franchise beyond agrichem is positive. Financials are strong with FY16-18E EPS CAGR of 25% and RoCE/ RoE at 35%/30%. **Maintain BUY.**

CMP : Rs 750
Potential Upside : 15%

MARKET DATA

No. of Shares : 137mn
Free Float : 48%
Market Cap : Rs 103 bn
52-week High / Low : Rs 787 / Rs 495
Avg. Daily vol. (6mth) : 175,847 shares
Bloomberg Code : PI IB Equity
Promoters Holding : 52%
FII / DII : 23% / 12%

Analyst call highlights

- Revenue growth in FY17 is expected at 18-20%, with EBITDA margin expansion of ~100 bps. Introduction of 2 molecules in FY17 (1 already launched) and start-up of 4th plant at Jambusar (start-up in FY18) to aid growth
- New products (*Vibrant, Osheen and Keefun*) are showing good traction in domestic agrichem market
- Share of in-licensed molecules stood at ~70% of revenue. PI added 1 new molecule in its CSM segment, taking the total commercialized molecule count to ~18-20
- PI guided for FY17 and FY18 capex at Rs 1.5-2 bn to expand its manufacturing capacity and auxiliary services

Increase estimates by 3-8% to reflect lower tax rate, higher other income

We increase our FY17/ FY18 EPS estimate by 3/8% to factor in (a) lower tax rate of 23% vs. 25% earlier, given revenue contribution from Jambusar SEZ facility (tax benefits) and (b) higher other income, as higher CSM revenue will boost exports incentives. Hence, our TP has increased to Rs 860/sh (24x FY18 EPS) vs. Rs 795 earlier. **Maintain BUY.**

Financial summary (Consolidated)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	19,403	20,968	24,588	29,636
Adj PAT (Rs mn)	2,459	3,153	3,880	4,902
Con. EPS* (Rs)	-	-	26.6	32.1
EPS (Rs)	18.0	23.1	28.4	35.9
Change YOY (%)	30.8	28.2	23.1	26.3
P/E (x)	41.7	32.5	26.4	20.9
RoE (%)	30.9	30.5	29.0	29.1
RoCE (%)	37.7	34.1	33.8	35.8
EV/E (x)	27.7	23.8	18.9	15.1
DPS (Rs)	2.5	3.1	4.3	9.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY15	FY16	FY17E	FY18E
Revenue growth	21.6%	8.1%	17.3%	20.5%
Gross margin	41.5%	44.7%	44.7%	44.7%
EBITDA margin	19.2%	20.7%	21.9%	22.2%

Price performance



Exhibit 1: Results update

	Q1FY13	Q1FY14	Q1FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	YoY
Total Income	2,392	4,061	4,712	5,548	4,461	5,110	5,848	6,389	15%
Raw materials	1,292	2,400	2,681	3,130	2,474	2,799	3,180	3,331	6%
Gross profit	1,099	1,661	2,031	2,418	1,987	2,311	2,668	3,059	27%
Gross profit margin (%)	46.0%	40.9%	43.1%	43.6%	44.6%	45.2%	45.6%	47.9%	429 bps
Employee Expenses	180	274	317	416	428	469	569	558	34%
Other Expenses	426	598	635	658	712	780	1,036	845	28%
Operating expenses	606	872	952	1,075	1,140	1,250	1,605	1,403	31%
EBITDA	493	789	1,080	1,343	848	1,061	1,063	1,656	23%
EBITDA margin (%)	20.6%	19.4%	22.9%	24.2%	19.0%	20.8%	18.2%	25.9%	170 bps
Depreciation	49	73	98	115	117	137	170	178	55%
Other Income	17	7	75	86	89	80	89	113	31%
EBIT	461	723	1,057	1,315	820	1,004	982	1,591	21%
Interest	122	(29)	18	27	15	27	26	16	-41%
PBT (recurring)	339	751	1,039	1,288	805	977	956	1,575	22%
Tax	104	266	322	429	223	239	14	306	-29%
Tax rate (%)	31%	35%	31%	33%	28%	24%	1%	19%	-
Reported PAT	235	485	717	859	582	738	943	1,269	48%

Source: Company, Axis Capital

Financial summary (Consolidated)
Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	19,403	20,968	24,588	29,636
Other operating income	-	-	-	-
Total operating income	19,403	20,968	24,588	29,636
Cost of goods sold	(11,357)	(11,585)	(13,586)	(16,375)
Gross profit	8,046	9,383	11,003	13,262
<i>Gross margin (%)</i>	<i>41.5</i>	<i>44.7</i>	<i>44.7</i>	<i>44.7</i>
Total operating expenses	(4,319)	(5,036)	(5,622)	(6,676)
EBITDA	3,727	4,346	5,380	6,586
<i>EBITDA margin (%)</i>	<i>19.2</i>	<i>20.7</i>	<i>21.9</i>	<i>22.2</i>
Depreciation	(498)	(543)	(743)	(861)
EBIT	3,229	3,803	4,638	5,725
Net interest	(97)	(95)	(38)	(11)
Other income	420	350	440	652
Profit before tax	3,552	4,058	5,039	6,366
Total taxation	(1,093)	(904)	(1,159)	(1,464)
<i>Tax rate (%)</i>	<i>30.8</i>	<i>22.3</i>	<i>23.0</i>	<i>23.0</i>
Profit after tax	2,459	3,153	3,880	4,902
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,459	3,153	3,880	4,902
<i>Adj. PAT margin (%)</i>	<i>12.7</i>	<i>15.0</i>	<i>15.8</i>	<i>16.5</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,459	3,153	3,880	4,902

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	137	137	137	137
Reserves & surplus	8,828	11,581	14,879	18,556
Net worth	8,965	11,718	15,017	18,693
Borrowing	1,306	1,425	750	-
Other non-current liabilities	369	563	563	563
Total liabilities	16,332	19,790	23,004	27,201
Gross fixed assets	7,149	10,145	12,145	13,645
Less: Depreciation	(1,691)	(2,234)	(2,977)	(3,838)
Net fixed assets	5,458	7,911	9,168	9,807
Add: Capital WIP	1,609	1,600	1,600	1,600
Total fixed assets	7,067	9,511	10,768	11,407
Total Investment	5	5	5	5
Inventory	3,782	3,948	4,332	5,156
Debtors	3,826	3,978	4,489	5,343
Cash & bank	341	561	1,408	2,927
Loans & advances	1,243	1,677	1,893	2,253
Current liabilities	5,693	6,084	6,675	7,945
Net current assets	3,568	4,190	5,556	7,843
Other non-current assets	-	-	-	-
Total assets	16,332	19,790	23,004	27,201

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	3,552	4,058	5,039	6,366
Depreciation & Amortisation	(498)	(543)	(743)	(861)
<i>Chg in working capital</i>	<i>(705)</i>	<i>(403)</i>	<i>(519)</i>	<i>(768)</i>
Cash flow from operations	2,154	3,198	4,066	4,983
<i>Capital expenditure</i>	<i>(1,450)</i>	<i>(2,987)</i>	<i>(2,000)</i>	<i>(1,500)</i>
Cash flow from investing	(1,450)	(2,987)	(2,000)	(1,500)
<i>Equity raised/ (repaid)</i>	<i>43</i>	<i>1</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(54)</i>	<i>119</i>	<i>(675)</i>	<i>(750)</i>
<i>Dividend paid</i>	<i>(416)</i>	<i>(497)</i>	<i>(681)</i>	<i>(1,434)</i>
Cash flow from financing	(428)	(378)	(1,356)	(2,184)
Net chg in cash	277	(167)	710	1,299

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	18.0	23.1	28.4	35.9
CEPS (Rs)	21.6	27.1	33.8	42.2
DPS (Rs)	2.5	3.1	4.3	9.0
Dividend payout ratio (%)	13.9	13.5	15.0	25.0
GROWTH				
Net sales (%)	21.6	8.1	17.3	20.5
EBITDA (%)	29.0	16.6	23.8	22.4
Adj net profit (%)	30.8	28.2	23.1	26.3
FDEPS (%)	30.8	28.2	23.1	26.3
PERFORMANCE				
RoE (%)	30.9	30.5	29.0	29.1
RoCE (%)	37.7	34.1	33.8	35.8
EFFICIENCY				
Asset turnover (x)	2.2	1.9	1.8	2.0
Sales/ total assets (x)	1.3	1.2	1.1	1.2
Working capital/ sales (x)	0.1	0.2	0.2	0.2
Receivable days	72.0	69.2	66.6	65.8
Inventory days	88.1	86.7	82.3	81.6
Payable days	82.4	80.4	76.3	75.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.2	0.1	0.1	-
Net debt/ equity (x)	0.1	0.1	-	(0.2)
Current ratio (x)	1.6	1.7	1.8	2.0
Interest cover (x)	33.2	39.9	121.3	508.9
VALUATION				
PE (x)	41.7	32.5	26.4	20.9
EV/ EBITDA (x)	27.7	23.8	18.9	15.1
EV/ Net sales (x)	5.3	4.9	4.1	3.4
PB (x)	11.4	8.7	6.8	5.5
Dividend yield (%)	0.3	0.4	0.6	1.2
Free cash flow yield (%)	0.7	0.2	2.0	3.4

Source: Company, Axis Capital

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