

BSE SENSEX
 37,385

S&P CNX
 11,076

Stock Info

Bloomberg	PI IN
Equity Shares (m)	138
M.Cap.(INRb)/(USDb)	177.3 / 2.5
52-Week Range (INR)	1300 / 692
1, 6, 12 Rel. Per (%)	14/29/68
12M Avg Val (INR M)	148
Free float (%)	48.6

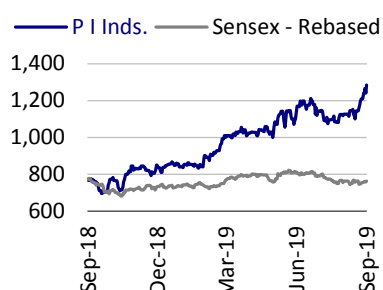
Financials Snapshot (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	28.4	34.4	45.7
EBITDA	5.8	7.3	10.0
PAT	4.1	5.1	6.9
EPS (INR)	29.7	37.2	50.3
Gr. (%)	11.6	24.9	35.4
BV/Sh (INR)	165.7	195.0	237.4
RoE (%)	19.5	20.6	23.3
RoCE (%)	19.2	20.4	22.4
P/E (x)	43.6	34.9	25.8
P/BV (x)	7.8	6.6	5.5

Shareholding pattern (%)

As On	Jun-19	Mar-19	Jun-18
Promoter	51.4	51.4	51.4
DII	17.8	19.0	18.4
FII	14.1	13.3	15.4
Others	16.7	16.3	14.9

FII Includes depository receipts

Stock Performance (1-year)

CMP: INR1,285 TP: INR1,459 (+14%)
Buy

Isagro Asia a good buy

Synergies in CSM and domestic formulations

PI Industries (PI) has acquired Isagro Asia for INR3.5b at a valuation of ~15x P/E FY19. PI should derive synergies from the acquisition in custom synthesis & manufacturing (CSM) and in the domestic formulation business. Key highlights of the deal:

Acquires Isagro Asia for INR3.5b

- PI Industries has announced the acquisition of Isagro Asia from Isagro S.p.A for INR3.5b. Isagro Asia operates in India and is engaged in contract manufacturing, local distribution and exports of agrochemicals.
- PI will acquire 100% shareholding held by Isagro S.p.A in Isagro Asia, either directly or through a subsidiary. The deal has taken place at a valuation of ~15x P/E FY19. PI will fund the acquisition partly through internal accruals and partly through debt.
- The proposed transaction is expected to be completed in 3QFY20, subject to finalization of definitive agreements, customary closing conditions and regulatory approvals. Company remains confident of integrating Isagro Asia's operations with itself in FY20.

Acquisition to offer synergies in both CSM and domestic formulation business

- Isagro Asia generated revenue of ~INR3b in FY19; of this, 65% was contributed by the domestic formulation business and balance came in from the contract manufacturing business.
- In the domestic formulation business, Isagro sells in-licensing products, generics products and proprietary patent products. Three key in-licensing products include (i) insecticide – mitigate, (ii) fungicide – domark, and (iii) biostimulants – siapton. PI intends to leverage its distribution network and firm up its position in the domestic market by leveraging the complementary product portfolio of Isagro Asia.
- In the contract manufacturing business (exports), Isagro Asia exports M Alcohol – a technical patented product to its parent company (Isagro S.p.A) and also operates a small CSM business. Post-acquisition, PI intends to continue supplying M Alcohol to Isagro S.p.A.
- Isagro Asia has two technical lines that are currently operating at 30-40% utilization level, which PI intends to scale up post acquisition.
- Moreover, PI will also derive synergies from the acquisition, such as having an adjacent manufacturing site and de-risking the supply chain of a few products.
- Management targets to inch up EBITDA margins of Isagro Asia from 11-12% in FY19 to ~20% level (similar to the EBITDA margin profile of PI) over the next 2-3 years.

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Valuation & View

- We believe that the acquisition bodes well for PI not only from the point of view of synergies but also from the perspective of valuations (at ~15x FY19 P/E). PI boasts of strong balance sheet with debt to equity of 0.04x as of FY19 (debt of ~INR99m). Thus, increasing debt is not a concern for PI.
- We have factored the acquisition into our FY21 numbers and have marginally increased our estimates for the CSM segment. Thus, we raise our revenue/EBITDA/PAT estimates for FY21 by 11.6%/9.9%/7.5%.
- We value the stock at 29x FY21E EPS and arrive at TP of INR1,459. Maintain **Buy**.

Exhibit 1: Financial details of Isagro Asia

Particulars	Isagro Asia				PI Industries	% contribution of Isagro to PI (FY19)
	FY18 (€m)	FY19 (€m)	FY18 (INR m)	FY19 (INR m)	FY19 (INR m)	
Revenue	37.4	37.8	2,939	2,970	28,409	10%
Growth %		1.1%		1.1%		
EBITDA	3.8	4.4	299	346	5,764	6%
Margin %	10.2%	11.6%	10.2%	11.6%	20.3%	
PAT	2.6	2.9	204	228	4,102	6%
Growth %		11.5%		11.5%		

Assuming currency conversion rate of INR78.6/ € | FY18 & FY19 numbers of Isagro are derived from the quarterly Source: Company, MOFSL

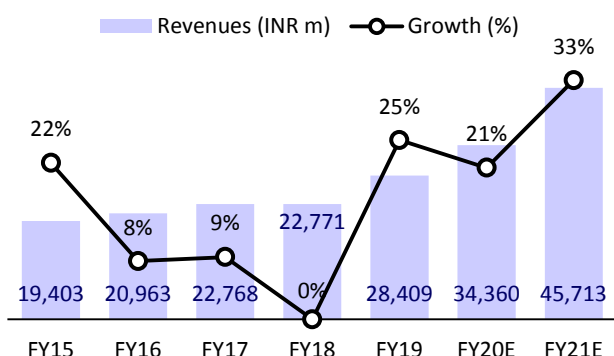
Exhibit 2: Key in-licensed domestic formulation products by Isagro Asia

Brand	Active Substance	Type	Biological activity	Principal crops treated
Mitigate	Pyrethroids	Insecticides	❖ Control of phytophagous insects	Grapevine, cotton, cereals, fruit and vegetables
Domark	Tetraconazole	Fungicides	❖ Control of oidium and leaf spot	Maize, soya bean, cotton, beet, cereals, fruit and vegetables.
Siapton		Biostimulants	❖ Increased production ❖ Inducing resistance to abiotic factors such as salinity, drought, low temperatures, transplant shock. ❖ Increased micronutrient intake by the plants and improved pollen germination	All crops

Source: Company, MOFSL

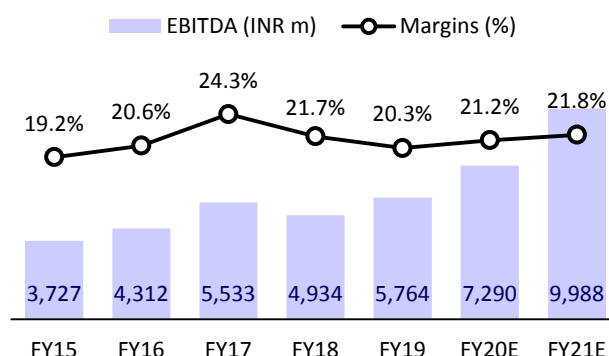
Story in charts

Exhibit 1: Revenue to post 27% CAGR over FY19-21E



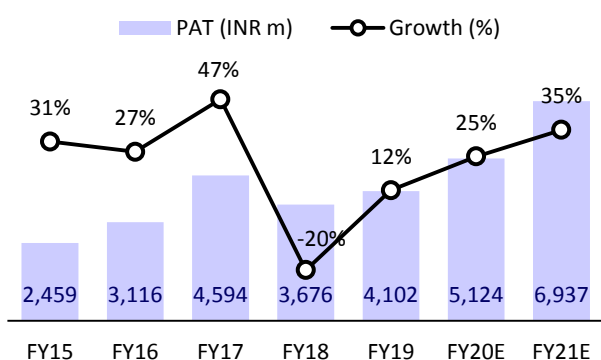
Source: MOFSL, Company

Exhibit 2: Margins to expand 160bp over FY19-21E



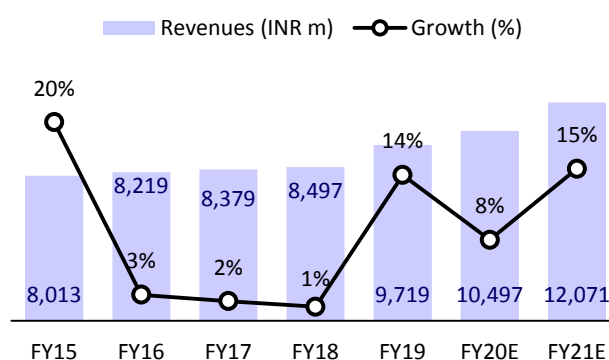
Source: MOFSL, Company

Exhibit 3: Adjusted PAT to post 30% CAGR over FY19-21E



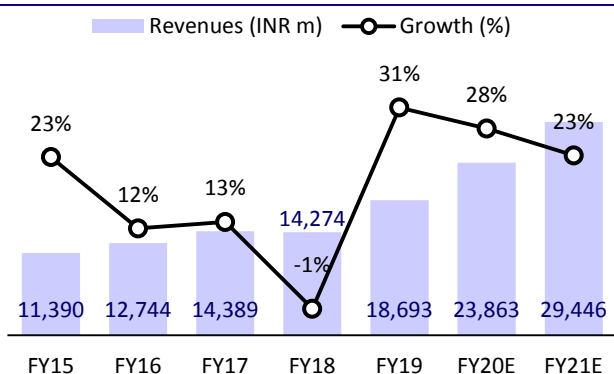
Source: MOFSL, Company

Exhibit 4: Agri-input rev. to post 11% CAGR over FY19-21E



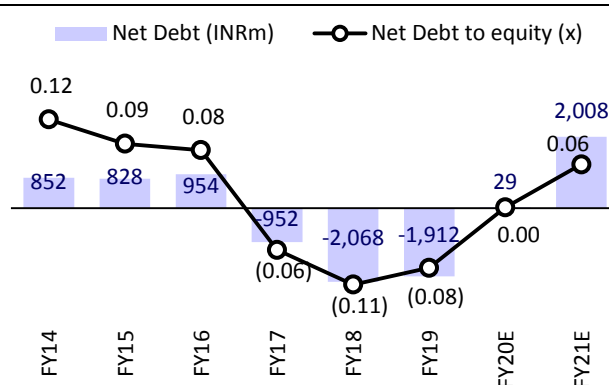
Source: MOFSL, Company

Exhibit 5: CSM revenue to post 26% CAGR over FY19-21E



Source: MOFSL, Company

Exhibit 6: Net debt to increase post acquisition



Source: MOFSL, Company

Financials and Valuations

Income Statement (Consolidated)							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Revenue	15,955	19,403	20,963	22,768	22,771	28,409	34,360	45,713
Change (%)	38.6	21.6	8.0	8.6	0.0	24.8	20.9	33.0
EBITDA	2,889	3,727	4,312	5,533	4,934	5,764	7,290	9,988
Margin (%)	18.1	19.2	20.6	24.3	21.7	20.3	21.2	21.8
Depreciation	316	498	543	730	830	930	1,175	1,388
EBIT	2,573	3,229	3,770	4,802	4,104	4,834	6,115	8,600
Int. and Finance Charges	118	97	96	72	53	50	101	280
Other Income	158	420	355	366	603	595	684	807
PBT bef. EO Exp.	2,613	3,552	4,028	5,096	4,653	5,379	6,699	9,128
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	2,613	3,552	4,028	5,096	4,653	5,379	6,699	9,128
Current Tax	779	1,147	909	1,035	1,001	1,176	1,574	2,191
Deferred Tax	-46	-54	4	-534	-22	101	0	0
Tax Rate (%)	28.1	30.8	22.7	9.8	21.0	23.7	23.5	24.0
Less: Mionrity Interest/Profit & Loss of associates	0	0	0	1	-2	0	0	0
Reported PAT	1,880	2,459	3,116	4,594	3,676	4,102	5,124	6,937
Adjusted PAT	1,880	2,459	3,116	4,594	3,676	4,102	5,124	6,937
Change (%)	93.2	30.8	26.7	47.5	-20.0	11.6	24.9	35.4
Margin (%)	11.8	12.7	14.9	20.2	16.1	14.4	14.9	15.2

Balance Sheet (Consolidated)							(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	136	137	137	138	138	138	138	138
Total Reserves	6,695	9,028	11,572	16,134	19,111	22,716	26,748	32,593
Net Worth	6,831	9,165	11,709	16,272	19,248	22,854	26,886	32,731
Deferred Liabilities	433	336	353	0	0	0	0	0
Total Loans	1,223	1,148	1,514	1,198	834	99	1,110	3,110
Capital Employed	8,486	10,648	13,576	17,470	20,082	22,953	27,996	35,841
Gross Block	6,957	7,539	11,503	12,942	14,298	17,109	22,719	30,669
Less: Accum. Deprn.	1,721	2,219	2,762	3,492	4,322	5,252	6,426	7,814
Net Fixed Assets	5,236	5,320	8,742	9,450	9,977	11,857	16,292	22,854
Capital WIP	425	1,332	713	773	899	1,828	1,828	1,828
Total Investments	20	4	3	833	1,607	1,291	1,291	291
Curr. Assets, Loans&Adv.	7,410	9,614	10,028	11,760	13,515	16,431	17,851	22,831
Inventory	3,188	3,782	3,948	4,320	4,520	5,357	5,931	7,890
Account Receivables	2,565	3,806	3,978	4,237	5,268	6,618	7,060	9,268
Cash and Bank Balance	371	320	560	1,326	1,307	892	1,081	1,102
Loans and Advances	1,287	1,707	1,543	1,877	2,420	3,564	3,780	4,571
Curr. Liability & Prov.	4,605	5,622	5,910	5,544	6,182	8,595	9,407	12,104
Account Payables	2,931	3,538	3,661	2,878	3,687	5,130	5,314	7,117
Provisions	341	136	196	316	340	416	416	416
Net Current Assets	2,805	3,992	4,118	6,216	7,333	7,836	8,444	10,727
Appl. of Funds	8,486	10,648	13,576	17,470	20,082	22,953	27,996	35,841

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	13.8	18.0	22.7	33.4	26.7	29.7	37.2	50.3
Cash EPS	16.1	21.6	26.7	38.7	32.7	36.5	45.7	60.4
BV/Share	50.2	67.1	85.4	118.3	139.6	165.7	195.0	237.4
DPS	2.0	2.5	3.1	4.0	5.5	4.0	6.5	0.0
Payout (%)	17.0	16.9	16.6	14.6	25.1	16.4	21.3	0.0
Valuation (x)								
P/E	93.8	72.0	57.0	38.8	48.6	43.6	34.9	25.8
Cash P/E	80.3	59.9	48.6	33.5	39.7	35.5	28.4	21.5
P/BV	25.8	19.3	15.2	11.0	9.3	7.8	6.6	5.5
EV/Sales	11.3	9.3	8.6	7.8	7.8	6.3	5.2	4.0
EV/EBITDA	62.2	48.2	41.7	32.3	36.1	30.9	24.5	18.1
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.4	0.3	0.5	0.0
FCF per share	12.2	2.0	3.8	14.8	13.9	3.8	2.7	-11.7
Return Ratios (%)								
RoE	30.9	30.7	29.9	32.8	20.7	19.5	20.6	23.3
RoCE	25.3	27.5	27.1	30.4	19.8	19.2	20.4	22.4
RoIC	24.9	26.8	27.4	32.3	21.0	20.9	21.9	23.2
Working Capital Ratios								
Asset Turnover (x)	1.9	1.8	1.5	1.3	1.1	1.2	1.2	1.3
Inventory (Days)	73	71	69	69	72	69	63	63
Debtor (Days)	56	68	66	65	83	85	75	74
Creditor (Days)	116	116	115	90	115	121	104	105
Working Cap. Turnover (Days)	56	69	62	78	97	89	78	77
Leverage Ratio (x)								
Current Ratio	1.6	1.7	1.7	2.1	2.2	1.9	1.9	1.9
Interest Cover Ratio	22	33	39	67	77	97		
Debt/Equity	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.1

Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	2,613	3,552	4,028	5,096	4,653	5,379	6,699	9,128
Depreciation	316	498	543	730	830	930	1,175	1,388
Interest & Finance Charges	118	97	96	72	53	50	101	280
Direct Taxes Paid	-779	-1,147	-909	-1,035	-1,001	-1,176	-1,574	-2,191
(Inc)/Dec in WC	-15	-1,238	114	-1,332	-1,136	-918	-420	-2,261
CF from Operations	2,253	1,762	3,872	3,533	3,399	4,265	5,981	6,343
Others	0	0	0	0	0	0	0	0
CF from Operating incl EO	2,253	1,762	3,872	3,533	3,399	4,265	5,981	6,343
(inc)/dec in FA	-591	-1,489	-3,345	-1,499	-1,482	-3,739	-5,610	-7,950
Free Cash Flow	1,662	273	527	2,034	1,918	525	371	-1,607
(Pur)/Sale of Investments	-14	16	1	-830	-774	316	0	1,000
Others	0	0	0	-198	-69	126	0	0
CF from Investments	-605	-1,473	-3,344	-2,527	-2,325	-3,298	-5,610	-6,950
Issue of Shares	1	0	1	0	0	0	0	0
Inc/(Dec) in Debt	-949	-75	366	-315	-365	-735	1,011	2,000
Interest Paid	-118	-97	-96	-72	-53	-50	-101	-280
Dividend Paid	-319	-416	-518	-671	-924	-672	-1,092	-1,092
Others	-52	248	-40	818	248	75	0	0
CF from Fin. Activity	-1,438	-340	-288	-240	-1,094	-1,382	-182	628
Inc/Dec of Cash	210	-51	240	766	-19	-415	189	21
Opening Balance	161	371	320	560	1,326	1,307	892	1,081
Closing Balance	371	320	560	1,326	1,307	892	1,081	1,102

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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