

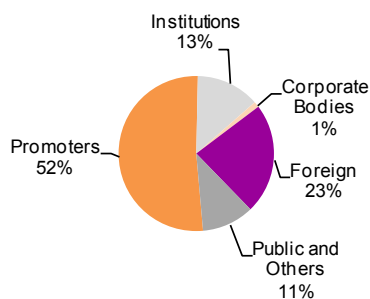
## PI Industries

**Reco: Buy**
**Impressive performance across parameters; Maintain Buy with revised price target of Rs955**
**CMP: Rs845**

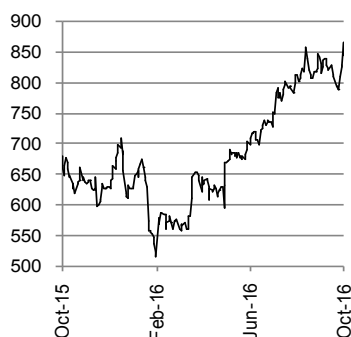
### Company details

Price target:	Rs955
Market cap:	Rs11,590 cr
52-week high/low:	Rs893/495
NSE volume: (No of shares)	1.0 lakh
BSE code:	523642
NSE code:	PIIND
Sharekhan code:	PIIND
Free float: (No of shares)	6.6 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	2.7	18.7	34.2	27.6
Relative to Sensex	4.3	19.0	24.1	23.6

### Key points

- Stellar show in Q2FY2017:** PI Industries (PII) recorded an exceptional performance for Q2FY2017, with a topline growth of 22% YoY at Rs544 crore, primarily driven by improved demand from exports business (advancements of global orders). In the domestic market, new product launches in the recent past resulted in better volume. Operating Profit Margin (OPM) expanded impressively by 480BPS YoY to 23.5% - springing a positive surprise. A favorable product mix resulted in higher-than-expected savings in raw material cost (RM / Sales down 500BPS YoY) while better operating leverage led to margin beat. Further, a higher depreciation charge (up 55% YoY), coupled with a lower tax rate (tax rate 16.8% vs 28.1% in Q2FY2016) resulted in the PAT improving strongly by 78% YoY to Rs101 crore, comfortably beating our estimate of Rs76 crore. Commissioning of the Jambusar plant and R&D expenses helped the company to keep tax rate lower during the quarter.
- Domestic growth to remain intact:** The global Agrochemicals market is confronting a challenging situation, with the channel inventories at peak levels and commodity prices under pressure. This is likely to have a impact on demand for the exports business (CSM business) in the near term. In contrast, the outlook for the domestic market remains strong, as the upcoming Rabi season is expected to drive demand for agrochemicals. The management has maintained its margin guidance of 150-200BPS YoY improvement in FY2017 on the back of a richer product mix and likely improvement in operational efficiencies. PII is gradually ramping up production at the recently commissioned Jambusar facility. This is likely to result in lower tax rate of 18% for FY2017, while the tax rate for FY2018 is expected to increase to 22% (still lower than prevailing corporate tax rates), as tax rebates will be lower at 50% versus earlier level of 100%.
- Key risks:** Increasing competitive pressures in few of its existing products, abnormal monsoon and deferment of export orders will act as a key risks to earnings estimates.
- Valuation; Maintain 'Buy' with a revised price target of Rs955:** A strong outlook for the domestic market owing to a favorable Rabi season is expected to aid topline growth. Also, the new products launched in the recent past have gained good acceptability in the market and would continue to contribute to the topline growth. The CSM business is expected to gather traction in the medium term, as concerns in near term could slow down the growth. Driven by better operating efficiencies and a richer product mix, OPM is expected to improve 100-150BPS YoY. We have introduced FY2019 earnings estimates in this note. We retain our 'Buy' rating on the stock with a revised price target (PT) of Rs955.

### Results

Particulars	Q2FY17E	Q2FY16	YoY (%)	Rs cr	
				Q1FY17	QoQ (%)
Net sales	544.1	446.1	22.0	638.9	-14.8
Total expenditure	416.1	362.6	14.8	473.4	-12.1
Operating profit	127.9	83.5	53.2	165.6	-22.7
Other income	13.4	8.9	49.8	11.3	18.4
EBIDTA	141.3	92.4	52.9	176.9	-20.1
Depreciation	18.1	11.7	55.3	17.8	1.9
Interest	1.3	1.5	-13.1	1.6	-16.9
PBT	121.9	79.2	53.8	155.3	-21.5
Tax	20.5	22.3	-8.0	30.6	-33.1
Reported PAT	101.4	57.0	78.0	124.7	-18.7
Adjusted PAT	101.4	57.0	78.0	126.9	-20.1
<b>Margins</b>					
OPM (%)	23.5	18.7	480	25.9	-240
NPM (%)	18.6	12.8	587	19.9	-122

Valuation		Rs cr				
Particulars	FY15	FY16	FY17E	FY18E	FY19E	
Net sales	1,939.7	2,096.8	2,495.2	2,984.2	3,521.3	
EBIDTA	369.9	432.7	562.1	684.1	809.6	
Adj PAT	224.8	300.0	399.9	475.8	557.1	
EBIDTA margin (%)	19.1	20.6	22.5	22.9	23.0	
PAT margin (%)	11.6	14.3	16.0	15.9	15.8	
EPS (Rs)	16.7	22.2	29.6	35.2	41.3	
P/E (x)	50.7	38.0	28.5	24.0	20.5	
RoCE (%)	34.7	32.6	34.7	34.1	32.5	
RoE (%)	28.3	29.2	30.0	27.6	25.4	

### Key takeaways of concall

- The Agri inputs segment has registered a decline in Q2FY2017, as delayed and uneven distribution of monsoon and lower pest infestation resulted in reduced demand for agrochemicals. PII had introduced a new herbicide called Legacee (Rice herbicide), which has been accepted well in the market. Other products too have gained a good acceptability.
- The CSM segment grew by 50% YoY, largely on account of revival in demand for the new molecules introduced during FY2016. However, going ahead, the growth in the near term could slow down, given the key concerns like lower commodity prices, peak inventory levels and currency headwinds in the global agrochemicals markets. Consequently, the PII management expects a muted performance in H2FY2017 and has cut its topline growth guidance to 15-18% for FY2017.
- The order book during Q2FY2017 contracted to \$800 million pointing at deferment in the orders.

- The company will do a capital expenditure (capex) of ~Rs200 crore in FY2017 and ~Rs150 - Rs 200 crore in FY2018, which will be funded by internal accruals.

**Revenue mix for the quarter:** Revenue for the quarter stood in favor of the CSM segment, which registered an impressive 50% YoY increase as against a decline registered by the Agri Inputs business. Going ahead, the outlook for the domestic market remains strong due to favorable prospects for the upcoming Rabi season.

Revenue break up		Rs cr			
Particulars	Q2 FY17	Q2 FY16	YoY (%)	Q1 FY17	QoQ (%)
Agri	219.0	234.5	-6.6	298.1	-26.5
CSM	316.0	211.0	49.8	340.8	-7.3
Total	535.0	445.5	20.1	638.9	-16.3

### Revenue mix (%)

Particulars	Q2 FY17	Q2 FY16	YoY (BPS)	Q1 FY17	QoQ (BPS)
Agri	40.9%	52.6%	(1170) BPS	46.7%	(570) BPS
CSM	59.1%	47.4%	1170 BPS	53.3%	570 BPS

**Order book:** The order book for the quarter declined to \$800 million, as new order inflows slowed due to concern over the global agrochemicals markets. The existing products in the global markets continue to perform better.

	Q2 FY17	Q2 FY16	YoY (%)	Q1 FY17	QoQ (%)
Order Book (\$ million)	800	610	31.1	850	-5.9

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai - 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE - INB/INF/INE011073351; NSE - INB/INF/INE231073330; MSEI: INB/INF-261073333, CD - INE261073330; DP-NSDL-IN-DP-NSDL-233-2003; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662; Mutual Fund-ARN 20669 ; Commodity trading through Sharekhan Commodities Pvt. Ltd.: MCX-10080 ; (MCX/TCM/CORP/0425) ; NCDEX-00132 ; (NCDEX/TCM/CORP/0142) ; NCDEX SPOT-NCDEXSPOT/116/CO/11/20626 ; For any complaints email at [igc@sharekhan.com](mailto:igc@sharekhan.com) ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and Do's & Don'ts by MCX & NCDEX and the T & C on [www.sharekhan.com](http://www.sharekhan.com) before investing.

### Disclaimer

This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. Kindly note that this document is based on technical analysis by studying charts of a stock's price movement 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 fundamentals. (Technical specific) This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-6115000; For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)