SMART SYNC SERVICES

PI Industries Q3FY20

Financial Results & Highlights

Introduction:

PI Industries is in the field of Agri Sciences having strong presence in both Domestic and Export market.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	800.8	827	-3.17%	869.5	-7.90%	3354.7	2900.9	15.64%
PBT	124.9	168.4	-25.83%	169	-26.09%	594.4	534.6	11.19%
PAT	98.3	124.4	-20.98%	120.4	-18.36%	442.3	407.7	8.49%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	862	826.9	4.24%	868.9	-0.79%	3415.4	2900.4	17.76%
PBT	141.9	170.1	-16.58%	169.8	-16.43%	613.8	537.9	14.11%
PAT	110.7	125.7	-11.93%	121.1	-8.59%	456.6	410.2	11.31%

Detailed Results:

1. The company witnessed a modest revenue growth of 4% YoY in consolidated terms in Q4.
2. The profits for the company were down for Q4 with a fall of 21% & 12% YoY respectively in standalone and consolidated terms.
3. FY20 was a good year for the company with an 18% YoY rise in consolidated revenues and an 11% YoY rise in consolidated profits.
4. The EBITDA for the company grew 7% YoY in Q4 and 25% YoY in FY20.
5. Q4 exports increased by 12% YoY.
6. Isagro Asia saw good growth of 10% YoY in Q4.
7. EBITDA margin maintained at 22% despite the rise in raw material prices.
8. The board has recommended a final dividend of Rs 1/share.
9. Exports saw a massive growth of 31% YoY in FY20 while domestic sales fell 6% YoY in the same period.
10. Debt to equity was at 0.15 times vs 0 a year ago. The increase was mainly due to the higher Capex of Rs 635 Cr in FY20.
11. In FY20, the company launched 5 new products, filed 22 patents, and currently has 60 new molecules in the R&D pipeline. It also reached >20% in non-agrichemical business.
12. The company initiated commercial-scale business with 3 new customers and has an order book of > $1.5 billion.
13. The company has frozen discretionary spending in FY21 and is looking for avenues for cost reduction.

Investor Conference Call Highlights:

1. The company has successfully developed an advanced intermediate for a potential COVID-19 drug.
2. The management maintains a robust outlook for FY21 due to new brands coming in domestic business and expanding operations in exports. Favourable outlook for agriculture along with the expectation of normal monsoons and govt support for agriculture are also expected to contribute to the industry.
3. The management remains confident of maintaining the company's growth momentum at >20% YoY revenue growth in FY21.
4. The management is not too concerned with the approval for the generic version for Osheen as the management is confident in the life cycle management of the company's brands. Even after Nominee went generic, the company was able to maintain brand image and expand upon sales thus vindicating their confidence.
5. The 11th multipurpose plant for the company started in March but had to be shut down due to the lockdown. The management is looking to start it now and the capacity will be going on full steam from Q2 onwards.
6. The company is currently looking to optimize and augment its capacities to be able to handle large scale production of intermediates once the company gets client approvals.
7. The management believes that there is a big opportunity for the company in the pharma intermediates industry especially due to the China substitution phenomenon that is gaining ground these days.
8. The objective of the pharma intermediate business is to contribute more than 10% of total sales in 3-4 years.
9. The improvement in margins in domestic business was due to the end of the life cycle of some lower-margin products which have been withdrawn now.
10. The management has stated that it takes anywhere between 2-5 years for a molecule to get commercialized.
11. The management sees most of the post COVID opportunities arising from India itself.
12. The company does not have reason to go forward into generic manufacturing and it is mostly looking for a supportive and non-compete business model with its customers.
13. The company is guiding for Rs 650 Cr of Capex again in FY21. Most of this is towards capacity expansion and some of it is to be used to repurpose existing facilities at Isagro. All of it is towards organic growth opportunities.
14. The company is also in the lookout for inorganic growth opportunities in adjacent sectors like pharma or specialty chemicals.
15. Out of the Rs 60 Cr revenue of Isagro, Rs 33 cr is from domestic sales and the rest is from exports.
16. The management maintains that the company is on the lookout for both organic and inorganic opportunities for growth in the new pharma business.
17. The management expects to gain clarity on the proposed QIP in the next 2 months.
18. The management reassures that there has not been any significant change or damage to its previous plans and they have just gotten delayed due to COVID disruptions and market uncertainties.
19. The management admits that chemical companies have been seeing opportunities from the China substitution phenomenon for the last 1-1.5 years and it is expected to go on. But custom synthesis manufacturing does take some time to consolidate and commercialize. The company will continue to address inquiries and keep enhancing the capacities to meet these inquiries.

20. The management admits that product sales in the crop protection segment can be lumpy and thus to mitigate the issue of dependence on specific products, they are constantly looking to introduce new products in the category to balance the load and replace the existing star brand. The management believes the brand Awkira, which was launched in FY20, to be a leading brand in 2-3 years and contribute to 30-35% of segment sales in the future.
21. The management admits that the company has taken price hikes for the Kharif season.
22. The management expects volatility and supply-demand gap to stabilize in the next 4-6 weeks.
23. The management has stated that the revenue growth target for FY21 is not taking into account any currency depreciation tailwinds and it should be seen on a constant currency basis only.
24. The management maintains that the company will be able to sustain current margins and may also see margin appreciation due to change towards favourable product mix in the future.
25. The company is not looking to expand in the building blocks area of chemicals like fluorine but is focussing more on value-added process technologies.

Analyst's View:

PI Industries have been one of the most consistent performers in the agrichemicals business. FY20 was very good for the company with robust growth in export businesses. The company is now expanding into adjacent segments and has already gotten into pharma intermediate space. The overall favourable outlook for agriculture and monsoons going forward bodes well for the company. The China substitution phenomenon should provide the company with opportunities in both its native agrichemicals and the new adjacent space that it is looking to expand into. Although the management plans for QIP to finance the capacity expansion for the company has been delayed due to COVID-19 disruptions and economic uncertainties, they remain confident of raising the capital required. It remains to be seen whether there are any other disruptions in store from COVID-19 or whether the company will be able to go forward with its QIP as easily as the management anticipates. Nonetheless, given the company's strong track record, strong tailwinds of the industry, expectations of a good agricultural season and opportunities arising from the China substitution phenomenon, PI Industries remains a pivotal agrichemical sector stock to watch out for, particularly given the share resilient performance since the market crash in March.