



GNAM Investment Competition

Indian Institute of Management Bangalore

PI INDUSTRIES LTD.

30-October-2016

Avira Thomas

Belliappa A C

Sanjay Kurpad

Shoubhik Chakraborty

Suhas Narasimhan

Vishal Vora



PI Industries – Executive Summary

Current Price ₹ 1063
 Target Price ₹ 1006
 Recommendation BUY
 Upside 17%

PI boasts of a unique business model—a strong R&D -led custom synthesis business (59% of revenues), and an equally compelling domestic agro -chemicals business (41% of revenues), largely built by in –licensing arrangements with major global agro-chemicals innovators.

- CSM Exports Robust Growth with entry into Pharma in FY17
- Domestic Agri input improving on account of good monsoons
- Strong Product Line with 4 new launches
- Potential Growth in generic products

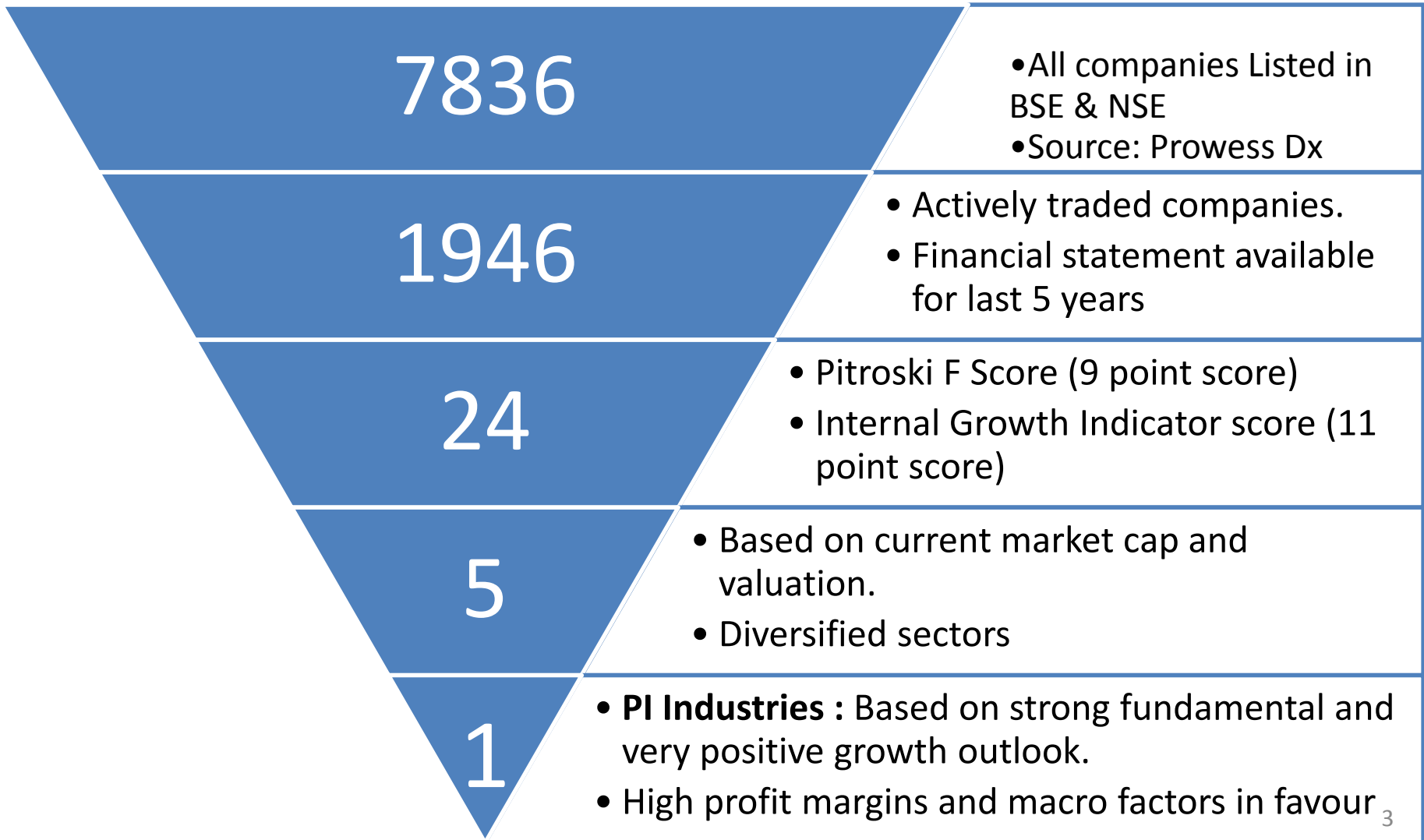
Annual Ratios (%)

	1-Year	3-Years	5-Years
Growth			
Revenue	9.01	22.40	23.62
Net Profit	28.24	47.96	37.10
EPS	27.72	47.36	31.63
Book Value	30.18	29.77	36.21
Average			
Operating Margin	20.64	19.32	17.79
Net Margin	13.59	11.89	10.84
RONW	30.54	30.78	30.91
ROI	35.75	37.07	33.83





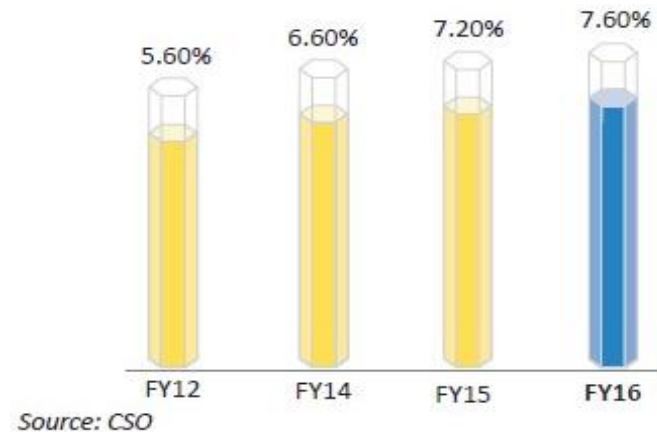
Shortlisting Methodology (Funnel)





The India Story

- Indian economy is on the verge of paradigm shift with GDP growth at >7%*
- *The forecast of good monsoon on the back of the increased rural thrust of the union budget 2016 shall help strengthen the rural activities and consumption cycle.*
- *Government Schemes favouring farmers*
 - *Soil Health Card Scheme*
 - *Crop Insurance Scheme*
 - *Direct Benefit Transfer of Fertilizer Subsidies*

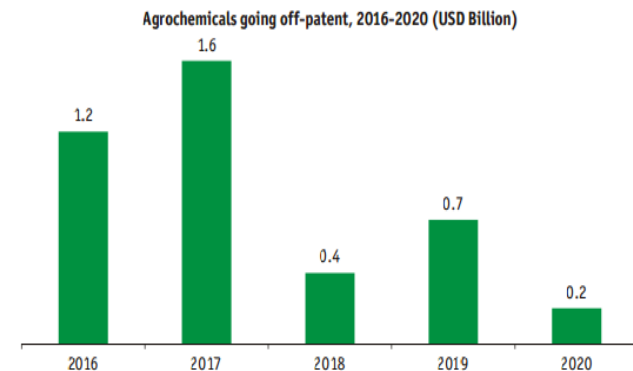


*IMF Economic Outlook



Agro Chemical Industry

- Global market for agrochemicals stood at \$207bn in calendar year 2014 and will grow at a CAGR of 3.2% to reach \$250.5bn by 2020.
- **Industry Growth Drivers:**
 - Increased demand for food grains
 - Future export growth prospects: Agrochemicals worth USD 4.1 billion are expected to go off-patent by 2020.
 - Low consumption level
 - (India has the lowest pesticide consumption)
 - Wastage of Agri output & Low farm productivity
 - Sustained government support
- **Challenges for industry:**
 - Heavy dependence on Monsoon
 - High R&D costs
 - Low awareness of agrochemicals and using them judiciously
 - Threat from Genetically Modified seeds, as they possess self-immunity - impact the business of agrochemicals.



Source: Industry reports, Analysis by TATA Strategic

Figure 3: Growth opportunities in Generic Products

PI Industries Ltd.

- Incorporated in 1947, PI Industries Limited is an Agri Input & Custom Synthesis & Manufacturing company in India. Employee strength of 18000.
- Multi-locational manufacturing facilities, including Jambusar SEZ
- Equipped with R&D facilities, accredited for GLP and 'Norms on OECD Principles' by (NGCMA), in Udaipur
- Pan-India presence through a vast distribution network with over 10,000 distributors
- 3 subsidiaries, including PI Japan that carries out marketing activities and PI Life Science which is focused on only custom synthesis services without manufacturing
- Strong Financial Growth with a Revenue CAGR of ~23.5% from FY12 to FY16

Integrated entity with a non-compete approach driven by respect for intellectual property

AGRI INPUT

- Agri input products offered include agro chemicals, specialty fertilizers and plant nutrients under our own brands under the following models:
- In-licensing of newly launched / patented molecules by innovators
- Manufacture and marketing of branded generic agri input products
- Selectively partnering with multinationals for co-marketing

CUSTOM SYNTHESIS

- Offer custom synthesis and contract manufacturing services for global innovators.
- Focus on molecules which are patented; in early stages of their life cycles; of high/medium value and low volume; involve complex chemistries & have scope for growth on successful commercialization by innovators
- Entered into Research collaboration with Sony Corporation & Hokkaido University of Japan for joint research

centre

Key Strengths

1. Differentiated business model
2. Long-term Relationship & reputation of trust and reliability with global innovators
3. Brand building capabilities and brand recognition
4. Wide distribution network and clear distribution policies
5. End-to-end capabilities in custom synthesis
6. Entry / exit barriers in our business
7. Experienced management team



PI Industries Ltd.

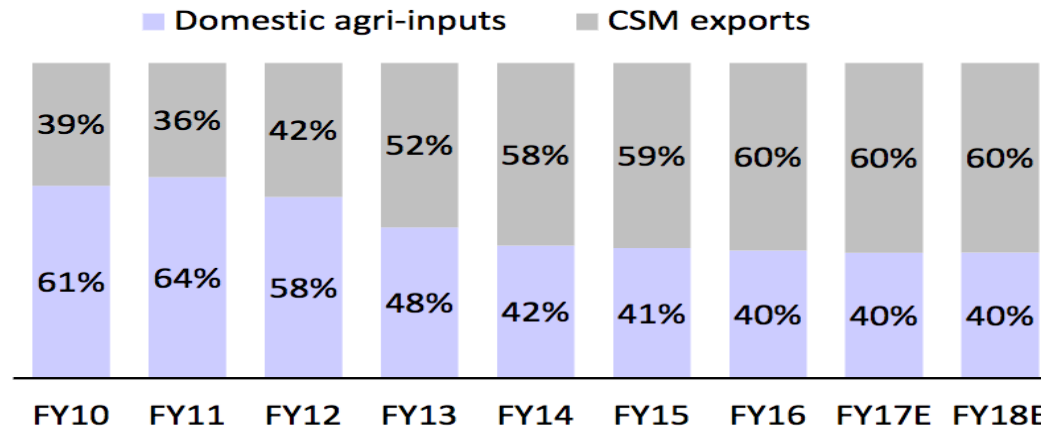
- **Domestic Agri Inputs** - offering plant protection products, and specialty plant nutrient products and solutions. PI has a strong rural reach and brand equity, with millions of Indian farmers duly backed by a robust pipeline of products for sustained growth in the sector.

- PI's top eight products include Nominee Gold, Keefun, Biovita X, Foratox, Osheen, Melsa, Vibrant and Carina

Select Key Brands



- **Custom Synthesis & Manufacturing (CSM)** - for contract research and production of agro-chemicals, intermediates and other niche fine chemicals for global innovators. The business, backed with a strong R&D support, works to develop and commercialize products based on newly discovered chemistries with reputed MNC innovators.



Valuation

Assumptions

- PI Industries growth has been about 23.5% CAGR over the last 5 years. In our analysis we have considered a conservative figure of 18% growth for the next 10 years.
- Beta value is 0.63 considering 1 year of market volatility (as per Economic Times).
- CapEx in FY16 was high due to commissioning of new plants in Jambusar SEZ. This is further expected to decline over the next years.
- **Terminal Growth rate of 6%:** India being predominantly agrarian economy with agriculture being the major contributor to the national GDP, we expect the growth to remain

Particulars	Amount (INR mn.)
WACC	12.37%
COE	13.47%
Beta	0.63
D/E Ratio	0.13
Cost of Debt	10%
Total DCF for 10 years	44,064
Discounted Terminal value*	93,834
Total Value	1,37,898
Number of shares (in millions)	137
Value per share (INR)	1,006

Peer Comparison

- PI Industries has the highest ROCE 34.96 .Higher ROCE indicates company is effectively utilising the Capital Employed to generate better returns in comparison to its peers.
- PI Industries has low Dividend Yield 0.36 because PI industries is heavily investing their profits in Capex. (New Plants set up in in Jambasur and R&D facility expansion in Udaipur)
- PI Industries P/E & P/B ratio clearly reflects investor confidence in the Company's expansion and diversification (Intermediaries pharma) strategy

Particulars	PI Industries	Bayer CropScien	Rallis India	Monsanto India
Enterprise value (EV)	1,19,214.08	1,42,726.53	39,847.04	38,775.37
Enterprise value to EBIDTA (EV/EBIDTA)	25.52	28.84	18.82	32.54
Price to Earnings (PE)	37.79	50.10	33.90	39.92
Price to Book (PB)	10.25	8.59	4.94	9.78
Dividend Yield	0.36	0.40	1.13	-1.28
ROCE	34.96	24.01	20.44	26.72



Conclusion

- DCF valuation indicates that stock has an upside 17 %.
- PEER comparison also reveals there is a momentum for PI industries.



Inspired by Science

**WE STRONGLY
RECOMMEND A BUY!**