PI Industries Limited (PIIND)

CMP : ₹1,702
Target: ₹2,062

ANANDRATHI

Rationale:

- Founded in 1946, PI Industries Ltd. is one of the leading agri-sciences companies in India. The company conducts business through two segments - custom synthesis and manufacturing services (CSM) and domestic market. In CSM, the services include contract research, process development, large-scale commercial production, primarily of patented molecules for multinational corporations. The company has presence in Japan, Germany and China for business development and raw material sourcing activities. As of Mar 31, 2020, the company established relationships with over 20 MNCs in the agrochemical sector and has a order book of over $1.5 billion, reflecting healthy revenue visibility. In the domestic market, PI Industries markets and distributes agrochemical products through the in-licensing of patented molecules from MNCs, or co-market their agrochemical products under brands of PI industries. Region wise, North America contributed 35.4% of FY20 revenues, followed by India (26.7%), Asia (25.6%), Europe (8.1%) and rest of the world (4.1%).
- The company continues to benefit from its robust R&D and well established manufacturing facilities. Currently, the company operates 13 multi-product plants and is in the process of setting up two multi-purpose plants at Jambusar, Gujarat that are expected to be commissioned by FY22. Further, the company has an extensive, pan-India distribution network for its domestic branded products business, including 10,000 distributors, 100,000 retailers and 28 stock points in 19 states at locations across India. Such strong distribution network helps the company to deliver adequate quantities of crop protection products to farmers with short lead-time, particularly given the seasonal nature of cropping.
- As part of growth initiatives, in Dec 2019, PI Industries acquired Isagro (Asia) Agrochemicals Private Ltd. which was engaged in the business of contract manufacturing, local distribution and exports of agrochemicals. Further, beginning FY21, expanding CSM business, the company entered into the pharmaceutical sector and have developed and scaled-up an advanced intermediate for a promising COVID-19 drug for mild and moderate COVID-19 patients for a few pharmaceutical companies in India and Japan. Additionally, the company recently raised about ₹20 billion through QIP for funding organic or inorganic growth opportunities in the area of its operations and adjacencies, other long-term capital requirements and pre-payment or repayment of outstanding borrowings among others.
- For FY21, the company expects capex of ₹6 billion mainly for organic growth. Also, management expects revenue growth over 20% in FY21. While Covid-19 affected performance in Q4FY20, management expects recovery of the same and sees strong business prospects for mid to long term. We believe PI industries remains well placed for growth, given its strong market position, solid product mix in CSM with healthy order book, synergies from Isagro acquisition, growth initiatives and favorable traits in domestic as well as global crop protection chemicals industry. We initiate our coverage on PI industries with BUY rating and a target price **₹2,062 per share.**

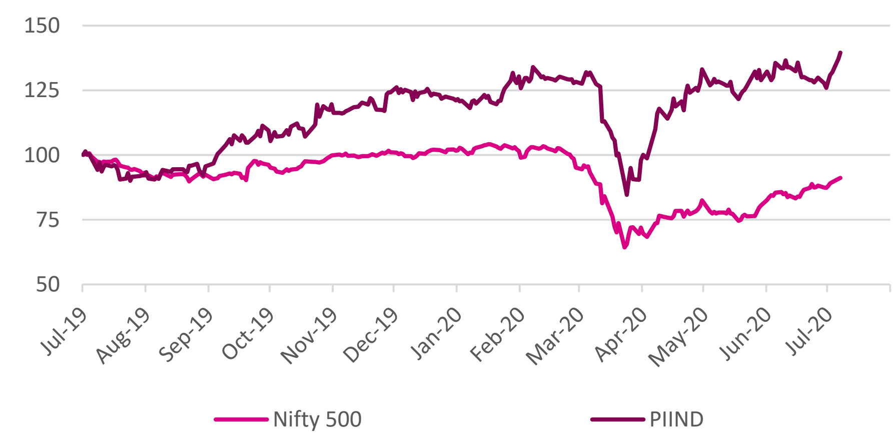
Research Team

52 Week Low / High	970 /1790
Avg. Daily Volume (3M) (‘000)	222
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	152/258,216
Shareholding (Promoters/Institutional/Others)	47%/38%/15%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	28,409	33,665	41,666	50,664
EBITDA	5,764	7,178	9,113	11,395
EBITDA Margin	20.3%	21.3%	21.9%	22.5%
PAT	4,102	4,566	5,793	7,399
PAT Margin	14.4%	13.6%	13.9%	14.6%
EPS (₹)	27.0	30.1	38.2	48.8
P/E (x)	62.9	56.6	44.6	34.9

Source: Company, Bloomberg Consensus Estimates. Note: Prices are as on 15-Jul-2020

Price Performance (Jul’19=100)



MISHRA DHATU NIGAM LTD. (MIDHANI)

CMP: 208
Target: 256

ANANDRATHI

Rationale:

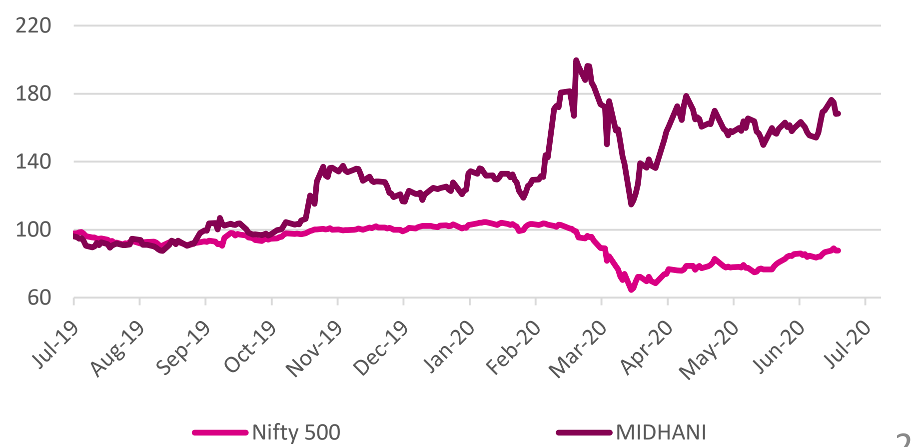
- Mishra Dhatu Nigam Limited (MIDHANI) was established in the year 1973 under Ministry of Defence as Government of India Enterprise. The production unit of MIDHANI, located at Kanchanbagh, Hyderabad, was commissioned in the year 1982.
- MIDHANI has been set up with a view to achieve self-reliance in production and supply of various super alloys, special steels, materials to Defence, other Strategic Sectors for Nuclear, aeronautical and Space applications. The guiding factors for setting up of MIDHANI were the demand for Defence oriented technologies, which come under the national priorities.
- The company has a strong order inflow for FY20 amounting to Rs.7.5bn. The order book of the company stood at Rs.16.87bn, 70% of which is in space segment, 20% in defence and the rest 10% is a mix of nuclear, oil and gas, etc.
- Phase-1 construction of the Rohtak plant (armoured vehicles) is over. All equipment's have been ordered. Over the next 2-3 months, the company will take deliveries of the same. Wide plate mill facility, material for railway coaches, augmenting vacuum induction melting, higher capacity for titanium casting, melting furnaces in the forge area, adding new facilities where the push towards product integration and component manufacture can be implemented – are some of the key projects Midhani is currently executing.
- The Company expects FY21 order inflow at Rs7.5bn. More than 70% of order inflow expected in FY21 would be from the defence sector as select programs on missile development and air platforms indicate prospective ordering for Midhani.
- Current gross block of Rs5bn can generate >Rs10bn at the topline. Management looks forward to the customer funded wide plate mill commissioning in FY22. As the (customer-funded) capex of Rs5bn on the same approaches completion, management would expect further revenue uptick from the same in FY22/FY23. Capex for FY21 has been guided at Rs2.1bn.
- We initiate our coverage on Mishra Dhatu Nigam Ltd (MIDHANI) with a BUY rating and a target price of **Rs.256 per share.**

52 Week Low / High	108 /279
Avg. Daily Volume (3M) (‘000)	1,600
No. of Shares O/S (Mn.) / Mkt. Cap (₹Mn.)	187/38,882
Shareholding (Promoters/Institutional/Others)	74%/19%/7%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	7,108	7,129	8,974	10,173
EBITDA	1,837	1,977	2,886	3,255
EBITDA Margin	25.8%	27.7%	32.2%	32.0%
PAT	1,306	1,597	2,074	2,354
PAT Margin	18.4%	22.4%	23.1%	23.1%
EPS (₹)	7	8	11	13
P/E (x)	29.8	24.6	18.8	16.5
ROE	16.1%	16.7%	17.8%	16.8%

Source: Company, Bloomberg Consensus Estimates. Note: Prices are as on 15-Jul-2020

Price Performance (Jul’19=100)



Research Team

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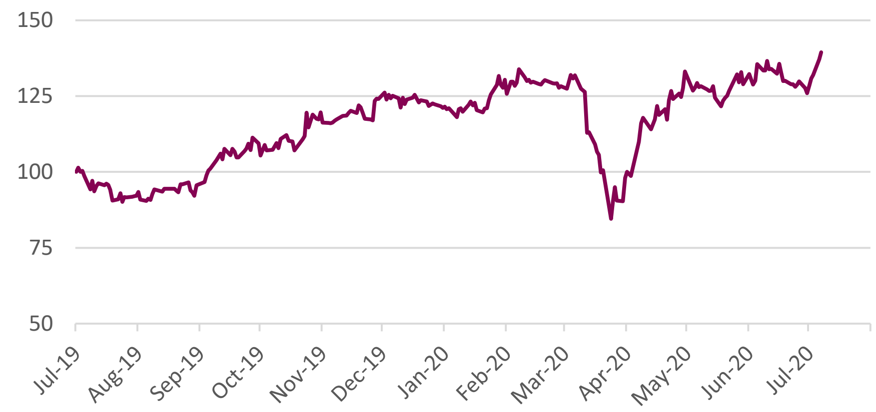
MIDHANI rating history & price chart

PIIND rating history & price chart



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Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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