Key Takeaways from Q3FY12 Concall of PI Industries Ltd. :

(1) Agri-Input segment grew by 30 % YoY in 9'Months'FY12 to stand at Rs. 397.2 cr.. For Q3FY12, Agri-Input segment grew by 16 % YoY to stand at Rs. 102.2 cr.

(2) CSM segment grew by 65 % YoY in 9'Months'FY12 to stand at Rs. 242 cr.. For Q3FY12, CSM segment grew by 5 % YoY to stand at Rs. 88 cr.

(3) Uneven rains in many parts of the country affected the revenues of Agri-Input segment in Q3FY12. Rabi season has started off on a very sluggish scale and sluggishness is likely to persist for Q4FY12 too.

(4) EBITDA for 9'Months'FY12 grew by 40 % YoY to stand at Rs. 110.6 cr.. For Q3FY12, EBITDA grew by 18.3 % YoY to stand at Rs. 30.71 cr.

(5) Company's flagship product, Nominee Gold, registered a growth of 45 % YoY on a 9'Monthly basis.

(6) Order-book of CSM segment at the end of 9'Months'FY12 stands at USD 340 mn.

(7) Company has taken additional debt in Q3FY12 in the form of ECB worth USD 20 mn for the upcoming CSM plant. The Debt position at the end of 9'Months'FY12 stands at Rs. 250 cr. up from Rs. 170 cr. at the end of H1'FY12. Company's inventory position at the end of 9'Months'FY12 stands at Rs. 230 cr..

(8) The new CSM plant which was expected to be commissioned in Q1FY13 has got further delayed and is likely to get commissioned only in Q2FY13.

(9) Management has scaled down its revenue guidance for FY12 to 30-35 % YoY growth in both the operational segments from earlier projected 40 % growth.

(10) In CSM segment, company is expecting to commercialise one new molecule in Q4FY12 and expects good ramp-up in quarterly scale from Q4FY12 onwards.

Conclusion :

First and foremost the subdued results for Q3FY12 necessitate the need to **revise our projection for FY12** which now stands at :

(a) **Agri-Input segment** revenues for FY12 likely to stand at ***Rs. 525 cr.*** v/s our earlier estimate of Rs. 575 cr.

(b) **CSM segment** revenues forecast for FY12 remains unchanged at ***Rs. 350-360 cr.***

(c) **Consolidated EBITDA** for FY12 is likely to stand at ***Rs. 155-160 cr.*** v/s our earlier estimate of Rs. 170-178 cr.

(d) **Consolidated PAT** w/o exceptional items for FY12 is likely to stand at ***Rs. 80-85*** w/o incorporating any significant forex loss v/s our earlier estimate of Rs. 91-96 cr.

(e) **EPS** for FY12 is likely to stand at ***Rs. 32 - 34*** v/s our earlier estimate of Rs. 36.3 - 38.3.

So, now, revision in numbers are done; -- next comes the <u>**key concerns**</u> for the company which have cropped up first time since 2009, the time from which company's CSM business started scale-up and its Agri-Input segment registered tremendous growth each year YoY on the back of exceptional performance of Nominee Gold :

(a) The ***scale-up in CSM segment order book has peaked off*** since last two quarters and if such sluggish pace of addition continues for another two quarters the margin of safety reduces for the company.

(b) The revenue growth in Agri-Input segment as also the margins is so far driven mainly by Nominee Gold and just a ***slight sluggish performance of this product*** in Q2FY12 as also Q3FY12 seems to ***have a severe effect on margins*** of the segment.

(c) Company is expected to launch a blockbuster product similar to Nominee in Q1FY13 which will again ***call for significant investments*** on marketing side thereby affecting margins.

(d) ***Delay in commissioning of CSM plant*** (first it was scheduled for Q3FY12 then postponed to Q1FY13 and now again postponed to Q2FY13) doesn't augur well for the company as timely delivery is ***crucial for sensitive CSM contracts*** and any further delay could severely ***impact credibility of the company***.

Having said all these **does PI Industries merit a 'Sell'** at current juncture. A clear <u>**NO**</u> mainly because of the business model company has as also the capable management team company posseses.

So, does it mean that **PI Industries merits a 'Buy'** at current juncture. Again a clear <u>**NO**</u> as this is the first time since 2009 (the real year from which company's journey towards growth started) that company is facing many headwinds and it is extremely crucial to monitor each of the company's developments very closely as ***it is only this stage from which many mid-cap companies falter to deliver***. Next two quarters will be really crucial.

To conclude, **PI Industries is at best a 'Hold'** at current juncture as its historical trading band has been 15 times trailing earnings and 12 times forward earnings which gives us an actual ***price-band of Rs. 480 – 600*** by taking FY12e numbers as trailing base and FY13e numbers as forward base. In absence of any significant corporate development, <u>**chances of any sort of rerating in historically commanded valuations are remote**</u> as company's operational segments are facing many headwinds at present.

In case the monsoons don't deliver in ensuing kharif season, it will severely impact PI Industries as ***major growth for Nominee Gold is dependent on kharif season***. Without Nominee, PI can't deliver on margins.

Similarly, ***the margin of safety in CSM segment has reduced considerably*** with its current order book being just <u>**4.3 times FY12e CSM segment revenues down from 5.6 times then FY11 revenues at the end of FY11**</u>. Order-book is crucial for CSM segment as its a asset-heavy business and at any point of time order-book should not go below 3.5 times CSM segment expected revenues for company to remain in a comfortable position. As the scale of CSM segment is expected to increase from current Q4FY12 onwards it will call for a greater pace to addition in order-book and therefore next two quarters are going to be crucial for PI.