



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

## Reco/View

Change

Reco: Buy



CMP: Rs. 2,164

Price Target: Rs. 2,450



Upgrade
 Maintain
 Downgrade

## Company details

Market cap:	Rs. 32,832 cr
52-week high/low:	Rs. 2,224/974
NSE volume: (No of shares)	2.7 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.1 cr

## Shareholding (%)

Promoters	47
FII	15
DII	26
Others	13

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	10	23	36	55
Relative to Sensex	6	18	18	56

Sharekhan Research, Bloomberg

## Summary

- Q2FY21 results were strong as revenues and EBITDA margin beat estimates by 12.4% and 269 bps, respectively, rising to Rs1,158 crore (up 27.6% y-o-y) and 24.2% (up 298bps y-o-y).
- Revenue beat was driven by strong out-performance in domestic business (33% y-o-y growth) and exports (25% y-o-y increase). Gross margin expansion and higher operating leverage led by sharp improvement in EBITDA margin.
- Robust order book position of \$1.5 billion in CSM business and decent growth in domestic market bodes well for sustained strong revenue growth for PI Industries. Management maintained its FY2021E growth guidance of 20%.
- Focus on acquisition in high RoCE business of Pharma and specialty chemicals would boost yield on QIP funds and improve margin and return profile of PI Industries in the coming years. Hence, we maintain our Buy on PI Industries with revised PT of Rs. 2,450.

PI Industries Limited's (PI Industries) revenues grew strongly by 27.6% y-o-y to Rs. 1,158 crore (12.4% ahead of our expectation of Rs. 1030 crore). The sharp beat in revenues was driven by strong out-performance in the domestic business (33% y-o-y growth in revenues to Rs. 359 crore) and exports (25% y-o-y increase in revenues to Rs799 crore). EBITDA margin at 24.2% (up 298 bps y-o-y) was 269 bps above our estimate of 21.5% led by expansion of 171bps in gross margin (favourable product and business mix) and higher operating leverage (capacity utilisation back to pre-COVID-19 level). Hence, EBITDA increased by 45.5% y-o-y to Rs280 crore, above our estimate of Rs. 221 crore. PAT at Rs. 218 crore (up 76.8% y-o-y; up 49.6% q-o-q) was also significantly above our and street's estimates due to a beat in revenues and margins, higher-than-expected other income and lower effective income tax rate. The management expects that current growth momentum is likely be maintained over next 6-8 quarters and has enough capacities to support growth. The company has maintained its 20% growth guidance for FY2021E and expects sustainable EBITDA margin at 22-23% level. The management is targeting to deploy Rs. 2,000 crore raised through QIP for acquisition in pharma and specialty chemicals space in the next 5-6 quarters and have guided that earnings yield from QIP funds is likely to much higher with a focus to acquire businesses which have high RoCE. We maintain our Buy rating on PI Industries with revised PT of Rs. 2,450. At CMP, the stock is trading at 39.3x its FY2022E EPS and 30.8x its FY2023E EPS.

## Key positives

- Higher-than-expected revenue growth in both domestic (33% y-o-y growth) and exports (25% y-o-y growth) business.
- EBITDA margin exceeded expectations at 24.2% (up 298 bps y-o-y) led by an improvement in gross margin and benefit of operating leverage.

## Key negatives

- Sharp increase in depreciation (up 36.6% y-o-y) and interest cost (up 3x y-o-y).

## Our Call

**Valuation - Retain Buy on PI Industries with revised PT of Rs. 2,450:** We have fine-tuned our FY2021-FY2023 earnings estimate. Robust order book position of \$1.5 billion in the CSM business and decent growth in domestic markets bodes well for sustained strong revenue growth for PI Industries. Focus to acquire high-RoCE pharma/specialty chemical assets would result in higher yield on QIP money and improve margin and return profile of PI Industries in the coming years. We expect PI Industries to clock revenue/EBITDA/PAT CAGR of 23%/24%/27% over FY2021E-FY2023E. Strong earnings growth outlook, and robust balance sheet keeps us constructive on the company. Hence, we maintain our Buy rating on PI Industries with revised PT of Rs. 2,450. At CMP, the stock is trading at 39.3x its FY2022E EPS and 30.8x its FY2023E EPS.

## Key risk

- Delay in commissioning projects or execution of orders or delayed orders by clients in the export business can affect revenue growth.
- Higher-than-normal time lag in passing on the increase in raw-material prices could affect margins.

## Valuation (Consolidated)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,841	3,367	4,253	5,257	6,431
OPM (%)	20.3	21.3	21.5	21.8	22.4
Adjusted PAT	410	456	637	807	1,032
y-o-y growth (%)	11.5	11.2	39.8	26.6	28.0
Adjusted EPS (Rs.)	29.8	33.1	43.5	55.0	70.3
P/E (x)	72.6	65.4	49.8	39.3	30.8
EV/EBITDA (x)	51.3	41.8	34.1	27.0	21.2
P/BV (x)	13.0	11.4	6.3	5.5	4.8
RoCE (%)	24.9	22.6	19.3	17.9	20.6
RoE (%)	19.5	18.6	16.9	15.0	16.7

Source: Company; Sharekhan estimates

## Strong Q2 results with higher-than-expected revenue growth and beat in EBITDA margin

PI Industries reported strong set of numbers, with a 27.6% y-o-y growth in revenues to Rs. 1,158 crore, which was 12.4% above our estimate of Rs. 1,030 crore. Impressive revenue growth was led by strong 33% y-o-y growth in the domestic business to Rs. 359 crore and 25% y-o-y increase in export (CSM business) to Rs. 799 crore. The growth in the domestic business was led by higher contribution from Isagro brand sales and growth in the domestic business driven by a robust *Kharif* season. Export revenue growth was led by proactive raw material inventory management and strong demand for key commercialised molecules. EBITDA margin increased sharply by 298 bps y-o-y to 24.2% in Q2FY2021 on account of: 1) favorable product and business mix led to expansion of 171 bps expansion in gross margins and 2) higher operating leverage (capacity utilisation back to pre-COVID-19 levels). PAT at Rs218 crore (up 76.8% y-o-y; up 49.6% q-o-q) was also significantly above ours as well as street estimates due to beat in revenues and margin, higher-than-expected other income and lower effective income tax rate.

## Q2FY2021 conference call highlights

- ♦ **CSM business update** – Order book position stood at \$1.5 billion and provides high visibility of sustainable growth over next 3-5 years. Order book position has remained flat in the last few quarters but management does not aim to expand the same as it would require capex for capacity additions. The company aims to improve efficiency of existing assets given there is growth visibility. The management maintained its revenue growth guidance of 20% for CSM business for FY2021E.
- ♦ **Domestic business update** – Isagro has contributed 11% to overall growth of domestic business in H1FY21. Excluding Isagro, the performance of the domestic business was very good with an 18% growth led by strong *Kharif* season. The management has guided that growth for domestic business to remain good led by higher demand for branded products, expectation of good *Rabi* season and growth from the company's wheat herbicide portfolio.
- ♦ **Fund raise through QIP to be utilised to acquire high – RoCE assets:** PI Industries had recently raised Rs. 2,000 crore through a QIP allotting 13.61 million shares at Rs. 1,470/share. The management has indicated the money would be used for acquisitions (with a focus on pharma and specialty chemicals sectors) and the focus is that the investment generates higher RoCE versus PI Industries RoCE of 22.6% in FY2020. Fund raised through QIP is expected to be deployed in the next 5-6 quarters.
- ♦ **Capex guidance** – The management has guided for capex of Rs. 600 crore for FY2021E but expect some portion (Rs.150 crore) of the capex to spill over to FY2022E as commissioning of some plants may get delayed to next year due to COVID-19. The company has spent Rs116 crore on capex during H1FY2021.
- ♦ **Growth and margin outlook** – The management expects that the current growth rate could be maintained over next 6-8 quarters and has enough capacities to support growth. The management guided for sustainable EBITDA margin of 22-23% but highlighted that quarterly margins could vary given nature of the business.
- ♦ **Pharma foray update** – The company is supplying pharma intermediates on commercial scale with over 10 pharma products at various stages of development in R&D. The management has indicated that it is actively evaluating few pharma assets for acquisition and working with global consulting firm for implementing of strategic road map of diversification plan for foray into pharma business.
- ♦ The company has launched two new products namely *Londax Power* (for insecticides) and *Shield* (for fungicide).

Results

					Rs cr
Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Net Sales</b>	<b>1,158</b>	<b>907</b>	<b>27.6</b>	<b>1,060</b>	<b>9.2</b>
Material Cost	647	522	23.8	615	5.2
<b>Gross Profit</b>	<b>511</b>	<b>385</b>	<b>32.7</b>	<b>446</b>	<b>14.7</b>
Employee Expenses	100	73	37.2	99	0.8
Other Expenses	131	120	9.4	117	11.9
<b>EBITDA</b>	<b>280</b>	<b>193</b>	<b>45.5</b>	<b>229</b>	<b>22.2</b>
Other Income	34	11	208.3	8	309.8
Depreciation	43	32	36.6	43	1.4
Interest	8	3	204.0	10	(20.8)
<b>PBT</b>	<b>263</b>	<b>169</b>	<b>55.3</b>	<b>185</b>	<b>42.0</b>
Tax	45	46	(2.2)	44	1.6
<b>RPAT</b>	<b>218</b>	<b>123</b>	<b>76.8</b>	<b>146</b>	<b>49.6</b>
EPS (Rs)	14.3	8.1	76.8	9.6	49.6
<b>Margin (%)</b>			<b>YoY (BPS)</b>		<b>QoQ (BPS)</b>
Gross profit margin	44.1	42.4	171	42.0	212
EBITDA margin	24.2	21.2	298	21.6	257
Net profit margin	18.8	13.6	523	13.7	507

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Rising food demand provides ample growth opportunities for agri-input players

Outlook for the Indian agrochemical industry is encouraging, primarily driven by rising foodgrain production and domestic demand, favourable regulatory reforms for farmers (government passed key agri sector reforms namely Farmers Produce Trade and Commerce Bill 2020 and Farmers (Empowerment & Protection) Agreement of Price Assurance & Farm Services Bill) and vast opportunity from products going off-patent. The government's focus is to double farmers' income (higher MSPs for crops); near-normal monsoon and higher reservoir levels would augment demand for agri-input in India. We also expect exports from India to grow at a strong pace as India is being looked as the preferred supplier for agri-input products given supply disruption from China. Thus, we expect India's agrochemical industry to witness 7-8% growth annually on sustained basis over the next few years.

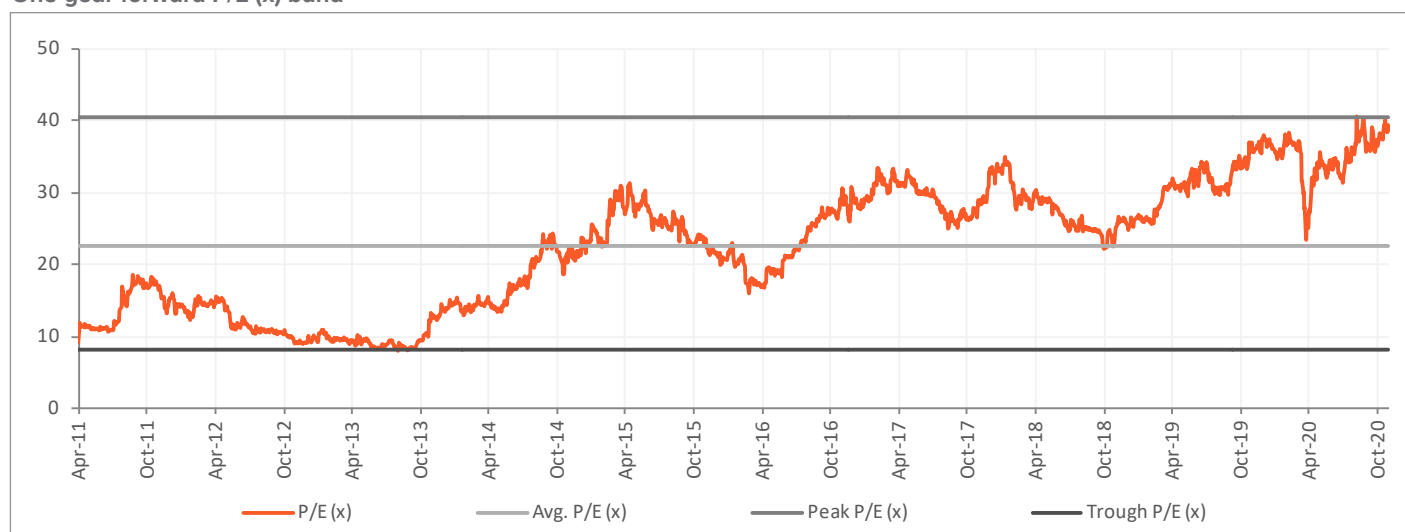
### ■ Company Outlook – Consistently delivering robust performance

Demand remains encouraging in both domestic (normal monsoons) and export markets (order book of \$1.5 billion), with the company offering a guidance for over 20% growth in each. Commissioning of additional capacity and contribution from newly-launched brands would fuel growth momentum. Moreover, the fund raised through the QIP to the tune of Rs. 2,000 crore is expected to be deployed in the next 5-6 quarters, as the company is eyeing inorganic growth opportunities in areas such as enhancement of technological capability, de-risking manufacturing concentration in India, and foray into pharma and speciality chemicals. This is also expected to help company diversify its business.

### ■ Valuation – Retain Buy on PI Industries with revised PT of Rs. 2,450

We have fine-tuned our FY2021-FY2023 earnings estimate. Robust order book position of \$1.5 billion in the CSM business and decent growth in domestic markets bodes well for sustained strong revenue growth for PI Industries. Focus to acquire high-RoCE pharma/specialty chemical assets would result in higher yield on QIP money and improve margin and return profile of PI Industries in the coming years. We expect PI Industries to clock revenue/EBITDA/PAT CAGR of 23%/24%/27% over FY2021E-FY2023E. Strong earnings growth outlook, and robust balance sheet keeps us constructive on the company. Hence, we maintain our Buy rating on PI Industries with revised PT of Rs. 2,450. At CMP, the stock is trading at 39.3x its FY2022E EPS and 30.8x its FY2023E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Incorporated in 1947, PI Industries focuses on developing complex chemistry solutions in agri-sciences with an integrated approach. The company currently operates a strong infrastructure setup, consisting of three formulation facilities and nine multi-product plants under its three manufacturing facilities. These state-of-the-art facilities have integrated process development teams with in-house engineering capabilities. The company also maintains a strong research presence through its R&D facility at Udaipur and has a dedicated team of over 250 scientists and chemists.

## Investment theme

A strong CSM order book of >\$1.5 billion at the end of Q2FY2021 provides healthy revenue visibility. Management foresees encouraging outlook for the CSM business, as business sentiments improve globally for products, wherein the company operates. Management adopts aggressive expansion strategy (organic and inorganic) to tap the healthy and encouraging demand environment both in domestic and export markets. The company had outlined capex of Rs. 600 crore for FY2021E and has raised Rs 2000 crore through QIP to meet its organic and inorganic growth aspirations in areas such as enhancement of technological capability, de-risking manufacturing concentration in India, and foray into pharma and speciality chemicals.

## Key Risks

- ♦ Delay in commissioning of projects or execution of orders or deferral of orders by clients in the CSM business can affect revenue growth.
- ♦ Higher-than-normal time lag in passing on increased raw-material prices could affect margins.

## Additional Data

### Key management personnel

Narayan K. Seshadri	Non-Executive & Independent Chairperson
Dr. Raman Ramachandran	Managing Director & Chief Executive Officer
Mayank Singhal	Vice Chairman and Managing Director
Rajnish Sarna	Executive Director
Arvind Singhal	Non-Executive - Non Independent Director
Rajib Batra	Chief Financial Officer
Naresh Kapoor	Company Secretary & Compliance officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	4.3
2	SBI Funds Management Pvt Ltd	3.3
3	Axis Asset Management Co Ltd/India	2.3
4	UTI Asset Management Co Ltd	1.7
5	Capital Group Cos Inc/The	1.7
6	FRANKLIN TEMPLETON MUTUAL	1.7
7	HDFC Life Insurance Co Ltd	1.6
8	Kotak Mahindra Asset Management Co	1.4
9	Tata Asset Management Ltd	1.3
10	Stichting Depositary Apg Emerging	1.3

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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