

Next phase of growth to come from pharma venture...

PI Industries reported topline growth of 37% YoY to ₹ 1162 crore against our estimate of ₹ 1113 crore. Growth was led by both CSM (+40% YoY) and domestic formulation (+26% YoY). OPM expanded 176 bps YoY to 23.7% leading to EBITDA growth of 48% YoY to ₹ 275.5 crore against our estimate of ₹ 259.2 crore. The operational performance was largely led by control on opex along with some improvement in gross margins. PAT grew 61% YoY to ₹ 195.4 crore against our estimate of ₹ 175.7 crore. The bottomline growth was led by higher other income (+104% YoY) owing to increase in liquid investments/cash post QIP and lower taxes (26% vs. 29% in Q3FY20).

CSM business growth likely to continue ahead

CSM molecules portfolio consists of around 25 molecules currently. The company is in advanced stages for around five to six molecules, which are expected to get commercialised in the next fiscal. This should boost order book growth further in years to come. The order backlog remains at \$1.5 billion at present, which provides revenue visibility for the next three years at least. Going ahead, since the new MPP is expected to get commissioned by Q4FY21 along with two new MPPs that are planned to come on board by next fiscal, we expect better execution to lead to strong topline growth in years to come. Further, with CSM being a high margin segment, we expect it to aid operational performance, going ahead.

Domestic formulation growth to aid performance further

Revenue from the domestic formulation business remained at ₹ 1065 crore (+45% YoY) for 9MFY21. There has been successful scale up of Awkria (wheat herbicide) in more than 0.1 million acres of land. The opportunity size is large. Thus, we expect it contribute higher growth to the domestic branded formulation business ahead. The management expects domestic branded formulation revenue to grow 20% YoY in the next fiscal.

Valuation & Outlook

The company has already mobilised ₹ 2000 crore through QIP last year. We expect majority of those proceeds to be invested through inorganic opportunity, which should likely to happen in the next one or two quarters. The company is expected to make a foray into pharma API. In so doing, it plans to enter into the pharma CDMO business. This should provide a long term opportunity. We also expect this venture to aid operating margins for the business and thereby return ratios. FCF generation is also likely to be robust ahead. We value the company at 35x PER of FY23E (~1x PEG). We arrive at a target price of ₹ 2845 (earlier ₹ 2540). We maintain our **BUY** recommendation on the stock.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Revenue	2,277.1	2,840.9	3,366.5	4,493.5	5,494.8	6,665.2	25.6
EBITDA	493.5	576.4	717.8	1,042.5	1,346.2	1,719.6	33.8
EBITDA Margins (%)	21.7%	20.3%	21.3%	23.2%	24.5%	25.8%	
Adj. PAT	367.6	410.2	456.6	739.1	949.0	1,233.1	39.3
Adj. EPS (₹)	26.6	29.7	33.1	48.7	62.6	81.3	
EV/EBITDA	61.0x	52.3x	42.6x	30.2x	23.1x	17.7x	
P/E	82.6x	74.0x	66.5x	45.1x	35.1x	27.0x	
ROE (%)	19.1	17.9	17.4	14.1	15.7	17.4	
ROCE (%)	23.4	23.2	20.2	17.5	20.5	22.5	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market cap (₹ Crore)	33,353
FY20 Total Debt (₹ Crore)	517
FY20 Cash & Inv (₹ Crore)	267
EV (₹ Crore)	33,604
52 Week H/L	2544/974
Equity Capital (₹ Crore)	13.8
Face Value (₹)	1

Key Highlights

- CSM business growth likely to continue ahead
- Domestic formulation growth to aid performance further
- Maintain BUY rating on stock with target price of ₹ 2845

Key Risks

- Slowdown in crop protection chemical demand likely to impact execution of CSM business and thereby revenues
- Poor monsoon in India can impact India branded formulation business and thereby overall performance

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Exhibit 1: Segmental revenue break up (₹ Crore)

Segmental revenue break up	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
CSM (Exports)	386	438	313	403	541	610	497	639	644	683	614	799	902
% of total revenue	72%	70%	52%	57%	76%	76%	66%	70%	76%	80%	58%	69%	78%
% YoY	19%	2%	-1%	33%	40%	39%	59%	58%	19%	12%	24%	25%	40%
% QoQ	27%	14%	-29%	29%	34%	13%	-19%	29%	1%	6%	-10%	30%	13%
Domestic agri inputs	152	187	293	310	167	195	257	269	206	172	446	359	260
% of total revenue	28%	30%	48%	43%	24%	24%	34%	30%	24%	20%	42%	31%	22%
% YoY	-8%	7%	23%	20%	10%	4%	-12%	-13%	23%	-12%	74%	33%	26%
% QoQ	-41%	23%	57%	6%	-46%	17%	32%	5%	-23%	-17%	159%	-20%	-28%

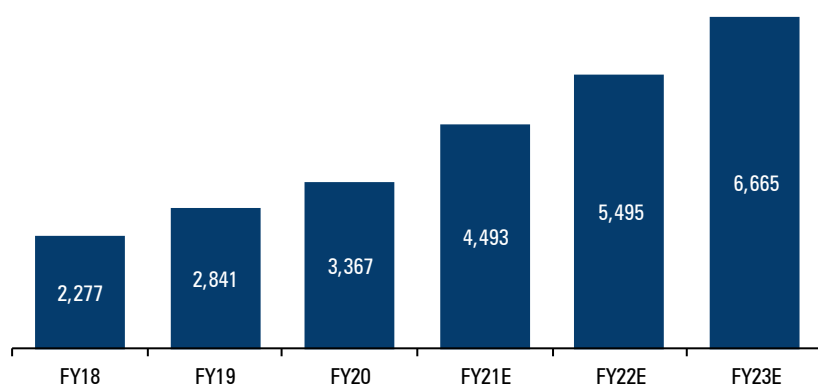
Source: Company, ICICI Direct Research

Conference Call Highlights

- Strong growth in domestic brand business led by herbicides, fungicides and plant nutrients. Highest ever sales in nominee herbicide and Osheen insecticide led by rice and cotton crop, respectively
- Successful scale up of Awkira (wheat herbicide), treated more than 100,000 acres
- Business outlook remained robust with strong growth expected to continue in Q4FY21 & FY22 in domestic brands with expected launch of products
- A pipeline of five to six molecules is at various stages of development to be commercialised in the next fiscal year
- Another MPP is planned to be made ready by Q4FY21, thus enhancing the overall capacities
- Order book continues to remain robust at US\$1.5 billion with high visibility of sustainable growth in the next three to four years
- The company is actively evaluating few pharma assets and working with global consulting firm for crystallisation and successfully implementing strategic road map of diversification

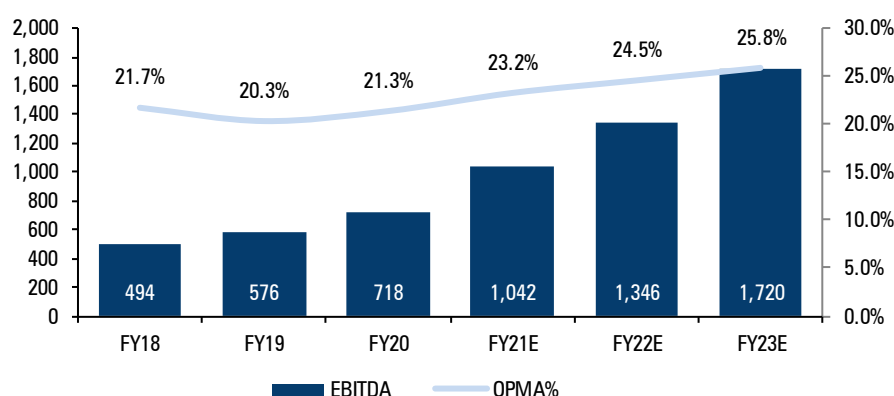
Financial story in charts

Exhibit 2: Revenue trend (₹ crore)



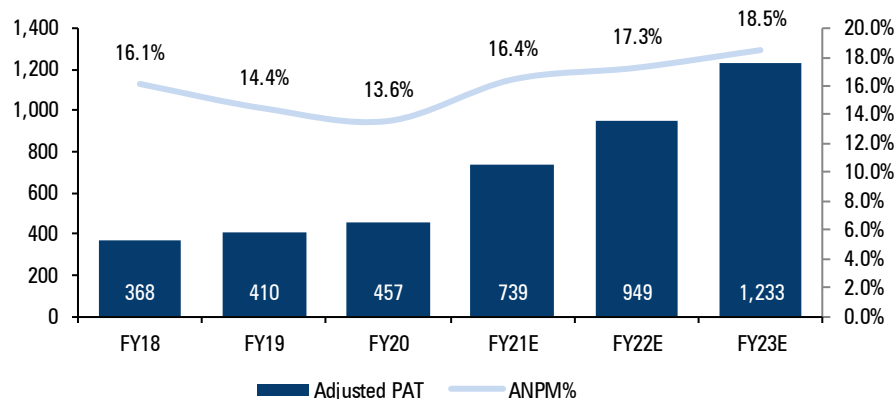
Source: Company, ICICI Direct Research

Exhibit 3: OPM likely to improve ahead



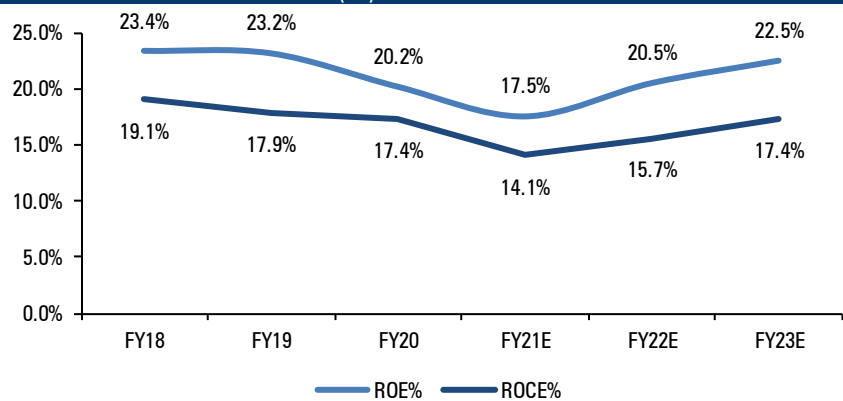
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend



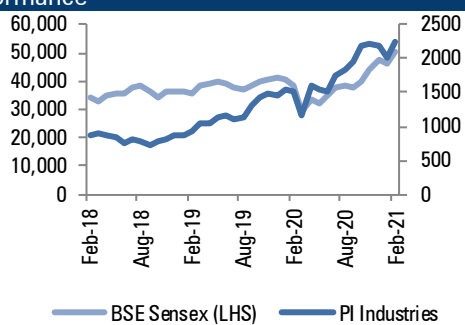
Source: Company, ICICI Direct Research

Exhibit 5: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement ₹ crore					
Year end March	FY19	FY20	FY21E	FY22E	FY23E
Total Operating Income	2,840.9	3,366.5	4,493.5	5,494.8	6,665.2
Growth (%)	24.8	18.5	33.5	22.3	21.3
Raw Material Expenses	1,550.2	1,847.4	2,484.9	3,022.1	3,665.9
Employee Cost	264.7	320.9	413.4	483.5	533.2
Other Expenses	449.6	480.4	552.7	642.9	746.5
Total Operating Expenditure	2,264.5	2,648.7	3,451.0	4,148.5	4,945.6
EBITDA	576.4	717.8	1,042.5	1,346.2	1,719.6
Growth (%)	16.8	24.5	45.2	29.1	27.7
Other Income	59.5	49.7	120.5	134.3	158.7
Depreciation	93.0	136.7	174.7	204.4	234.2
Net Interest Exp.	5.0	17.0	28.5	10.8	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	537.9	613.8	959.8	1,265.3	1,644.2
Total Tax	127.7	157.2	220.8	316.3	411.0
PAT	410.2	456.6	739.1	949.0	1,233.1
Adjusted PAT	410.2	456.6	739.1	949.0	1,233.1
Growth (%)	11.6	11.3	61.9	28.4	29.9
Adjusted EPS (₹)	29.7	33.1	48.7	62.6	81.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore					
Year end March	FY19	FY20	FY21E	FY22E	FY23E
PBT & Extraordinary	537.9	613.8	959.8	1,265.3	1,644.2
Add: Depreciation	93.0	136.7	174.7	204.4	234.2
After other adjustments					
(Inc) / Dec in Working Capital	-150.3	25.5	-329.2	-22.1	-227.3
Taxes	-118.3	-104.8	-220.8	-316.3	-411.0
Others	28.5	26.9	28.5	10.8	0.0
CF from operating activities	390.8	698.1	613.1	1,142.0	1,240.0
Purchase of Fixed Assets	-368.5	-674.3	-400.0	-500.0	-500.0
Others	46.9	-310.8	0.0	0.0	0.0
CF from investing activities	-321.6	-985.1	-400.0	-500.0	-500.0
Issue/(Buy back) of Equity	2.9	8.0	2,000.0	0.0	0.0
Inc/(dec) in loan funds	-39.9	456.2	-200.0	-307.7	0.0
Dividend paid & dividend tax	-83.1	-74.8	-110.9	-142.3	-185.0
Others	-5.0	-39.4	-28.5	-10.8	0.0
CF from financing activities	-125.1	350.0	1,660.6	-460.8	-185.0
Net cash flow	-55.9	63.0	1,873.7	181.2	555.0
Opening cash	130.7	89.2	134.2	2,007.9	2,189.1
Closing cash	89.2	134.2	2,007.9	2,189.1	2,744.1

*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore					
Year end March	FY19	FY20	FY21E	FY22E	FY23E
Liabilities					
Equity Capital	13.8	13.8	15.2	15.2	15.2
Reserves & Surplus	2,271.6	2,605.3	5,232.1	6,038.8	7,086.9
Total Shareholders Funds	2,285.4	2,619.1	5,247.3	6,053.9	7,102.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	9.9	399.4	249.4	0.0	0.0
Net Deferred Tax liability	0.0	10.2	10.2	10.2	10.2
Other long term liabilities	19.0	83.2	111.1	135.8	164.7
Long term provisions	29.0	12.4	16.6	20.2	24.6
Current Liabilities and Provisions					
Short term borrowings	0.0	108.3	58.3	0.0	0.0
Trade Payables	513.0	590.9	861.8	1,023.7	1,241.7
Other Current Liabilities	285.9	358.9	479.0	585.8	710.6
Short Term Provisions	12.6	42.4	56.6	69.2	83.9
Total Current Liabilities	811.5	1,100.5	1,455.7	1,678.7	2,036.3
Total Liabilities	3,154.8	4,224.8	7,090.2	7,898.8	9,337.8
Assets					
Net Block	1,185.7	1,857.5	2,319.9	2,615.5	2,881.3
Capital Work in Progress	154.4	237.1	0.0	0.0	0.0
Intangible assets under devl.	28.4	33.6	33.6	33.6	33.6
Goodwill on Consolidation	0.0	0.0	0.0	0.0	0.0
Non-current investments	17.2	17.9	17.9	17.9	17.9
Deferred tax assets	14.1	0.0	0.0	0.0	0.0
Long term loans and advances	19.0	14.3	19.1	23.3	28.3
Other Non Current Assets	45.1	41.1	54.9	67.1	81.4
Current Assets, Loans & Advances					
Current Investments	111.9	132.5	132.5	132.5	132.5
Inventories	535.7	798.9	1,108.0	1,204.3	1,460.9
Sundry Debtors	661.8	748.7	1,120.3	1,279.6	1,552.2
Cash and Bank	89.2	134.2	2,007.9	2,189.1	2,744.1
Loans and Advances	6.3	8.3	8.3	8.3	8.3
Other Current assets	286.0	200.7	267.9	327.6	397.4
Current Assets	1,690.9	2,023.3	4,644.8	5,141.4	6,295.3
Total Assets	3,154.8	4,224.8	7,090.2	7,898.8	9,337.8

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
Year end March	FY19	FY20	FY21E	FY22E	FY23E
Per share data (₹)					
Adj. EPS	29.7	33.1	48.7	62.6	81.3
Adj. Cash EPS	36.5	43.0	60.3	76.1	96.8
BV	165.6	189.8	346.1	399.3	468.5
DPS	4.0	4.0	7.3	9.4	12.2
Operating Ratios (%)					
Gross Margin (%)	45.4	45.1	44.7	45.0	45.0
EBITDA Margin (%)	20.3	21.3	23.2	24.5	25.8
PAT Margin (%)	14.4	13.6	16.4	17.3	18.5
Debtor Days	85	81	91	85	85
Inventory Days	69	87	90	80	80
Creditor Days	66	64	70	68	68
Cash Conversion Cycle	88	104	111	97	97
Return Ratios (%)					
Return on Assets (%)	13.0	10.8	10.4	12.0	13.2
RoCE (%)	23.2	20.2	17.5	20.5	22.5
RoE (%)	17.9	17.4	14.1	15.7	17.4
Solvency					
Total Debt / Equity	0.0	0.2	0.1	-	-
Interest Coverage	108.6	37.1	34.6	118.5	NM
Current Ratio	2.1	1.8	3.2	3.1	3.1
Quick Ratio	1.4	1.1	2.4	2.3	2.4
Valuation Ratios (x)					
EV/EBITDA	52.3	42.6	30.2	23.1	17.7
P/E	74.0	66.5	45.1	35.1	27.0
P/B	13.3	11.6	6.4	5.5	4.7
EV/Sales	10.6	9.1	7.0	5.6	4.6

Source: Company, ICICI Direct Research

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