Sharekhan by BNP PARIBAS

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Stock Update

PI Industries Limited

Stellar Q3; focus on innovation to drive growth

Agri Chem	Sharekhan code: PIIND	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 2,251**	
Price Target: **Rs. 2,740**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 34,157 cr
52-week high/low:	Rs. 2,544/974
NSE volume: (No of shares)	4.5 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.1 cr

Shareholding (%)

Promoters	47
FII	20
DII	21
Others	12

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	(0.3)	(1.3)	22.9	45.5
Relative to Sensex	(4.6)	(25.0)	(10.4)	22.3

Sharekhan Research, Bloomberg

Summary

- Q3FY2021 results were strong with revenues/operating profit of Rs. 1,162 crore/Rs. 276 crore, up by 36.7%/47.7% y-o-y and 9%/14.8% above our estimate of Rs. 1,066 crore/Rs. 240 crore.
- Revenue beat was driven by a strong outperformance of the CSM business (40.1% y-o-y growth) and domestic business (26.2% y-o-y growth). Strong gross margins and efficient capacity utilisation drove up OPM by 176 bps y-o-y to 23.7%.
- The management expects strong growth momentum to sustain and guided for revenue growth of 20% each in FY2021 and FY2022. Outlook for CSM business is robust with the likely start of a new MPP in Q4FY21 and launch of 5-6 new molecules in FY22 while strong demand for branded products to drive growth for domestic business.
- Likely successful deployment of QIP money of Rs. 2,000 crore in high-margin, high-return pharma and specialty chemicals could act as a key re-rating catalyst. Hence, we maintain a Buy on PI Industries with an unchanged PT of Rs. 2,740.

PI Industries Limited's (PI Industries) reported better-than-expected revenue growth of 36.7% y-o-y to Rs. 1,162 crore in Q3FY2021 led by robust performance in the CSM business (40% y-o-y increase in revenues to Rs. 902 crore) and domestic busines (revenues grew strongly by 26.2% y-o-y to Rs. 260 crore). OPM at 23.7% (up 176 bps y-o-y) was 121 bps above our estimate of 22.5% led by strong gross margin at 46.9% (up 30 bps y-o-y) and efficient capacity utilisation (back to pre-COVID levels). Consequently, operating profit increased by 47.7% y-o-y to Rs. 276 crore, which was 14.8% above our estimate of Rs. 240 crore. PAT at Rs. 195 crore (up 61.4% y-o-y) was also significantly above ours and the street's estimates due to a beat in revenues and margin, higher-than-expected other income partially offset by higher-than-expected effective income tax rate. The management commentary was positive with respect to sustained high growth for both CSM and domestic business and guided for revenue growth of 20% each in FY2021 and FY2022. The CSM growth would be driven by capacity expansions (likely start of a new MPP in Q4FY2021), launch of 5-6 new molecules in FY2022 and focus on efficient capacity utilization (higher throughput on existing capacities) while rising demand for branded products & good agronomics to drive growth for domestic business. Successful acquisition of pharma and specialty chemical business (through deployment of QIP money) over next few quarters would further accelerate the growth prospects for PI Industries. Strong earnings growth outlook and a robust balance sheet keep us constructive on the company. Hence, we maintain our Buy rating on PI Industries with an unchanged PT of Rs. 2,740. At CMP, the stock is trading at 40.7x its FY2022E EPS and 31.9x its FY2023E EPS.

Key positives

- Higher-than-expected revenue growth in both domestic (26% y-o-y growth) and exports (40.1% y-o-y growth) business.
- Sharp beat in OPM by 121 bps at 23.7% (up 176 bps y-o-y).

Key negatives

- Sharp increase of 41.8% y-o-y in employee cost due to COVID-related expenses.

Our Call

Valuation - Retain Buy on PI Industries with an unchanged PT of Rs. 2,740: We have fine-tuned our FY2021-FY2023 earnings estimate. Robust growth prospects for the CSM segment (supported order book position of $1.5 billion) and dominant position in crop protection business given a pan India presence makes us constructive with regards to sustained growth (expect 24%/27% EBITDA/PAT CAGR over FY2021E-FY2023E) for PI Industries. Additionally, the company's balance sheet is strong to pursue inorganic growth opportunities (focus on high-margin pharma and specialty chemical businesses). Hence, we maintain a Buy on PI Industries with an unchanged PT of Rs. 2,740. At CMP, the stock is trading at 40.7x its FY2022E EPS and 31.9x its FY2023E EPS.

Key risk

- Delay in commissioning of 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) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	2,841	3,367	4,253	5,257	6,431
OPM (%)	20.3	21.3	21.7	22.0	22.5
Adjusted PAT	410	456	642	812	1,037
y-o-y growth (%)	11.5	11.2	40.8	26.5	27.8
Adjusted EPS (Rs.)	29.8	33.1	43.8	55.3	70.6
P/E (x)	75.5	68.1	51.4	40.7	31.9
EV/EBITDA (x)	53.4	43.5	35.3	28.0	22.0
P/BV (x)	13.6	11.8	6.6	5.8	5.0
RoCE (%)	24.9	22.6	19.4	18.0	20.6
RoE (%)	19.5	18.6	17.0	15.1	16.7

Source: Company; Sharekhan estimates

Sharp beat in PAT led by better-than-expected revenues and margin

Q3FY2021 results were robust with a strong 36.7% y-o-y increase in revenue to Rs. 1,162 crore (9% ahead of our expectation of Rs. 1,030 crore). The sharp beat in revenues was driven by strong outperformance in the exports CSM business (revenue grew 40.1% y-o-y to Rs. 902 crore) and domestic formulation business (revenue up 26.2% y-o-y to Rs. 260 crore). The growth in the domestic business was led by higher contribution from Isagro brand sales and good demand traction for PI brands. Export revenue growth was led by proactive raw material inventory management and continued strong demand for key commercialised molecules. The company reported 121 bps beat in OPM at 23.7% (up 176 bps y-o-y) led by an increase of 30 bps expansion in gross margins and efficient capacity utilisation. Hence, operating profit increased by 47.7% y-o-y to Rs. 276 crore, which was 14.8% above our estimate of Rs. 240 crore. PAT at Rs. 195 crore (up 61.4% y-o-y) was also significantly above our and street estimates due to beat in revenues and margin, higher-than-expected other income partially offset by higher-than-effective income tax rate.

Q3FY2021 conference call highlights

- **CSM business update -** Order book position stood at $1.5 billion and provides a high visibility of sustainable growth over next 3-5 years. The maintained its guidance of 20% revenue growth for CSM business for FY2021E but the indicated that opportunity size is quite big and thus focus is to improve efficiencies (higher throughput for existing capacities). The company commercialised four molecules in FY2021 so far and target to commercialise 5-6 new molecules in FY2022. Overall, the management has guided to commercialise 15-20 new molecules in the next 2 years. The management also looks to start a new multi-product plant (MPP) in Q4FY2021, which would enhance capacities and drive growth.

- **Domestic business update -** Isagro has contributed 10% to overall growth of domestic business and a 17% growth was seen in PI brand products in Q3FY2021. Growth outlook remains robust with strong growth to continue in Q4FY2021 and FY2022 for domestic brands supported by the launch of new products. Horticulture, rice and pulses crop expected to drive the growth going forward.

- **Evaluating various opportunities for use of fund raised through QIP:** PI Industries had recently raised Rs. 2,000 crore through a QIP. The company is currently evaluating various opportunities with focus on pharma and specialty chemicals sectors. The company has not given any specific timeline for acquisition of new assets in pharma and specialty chemical.

- **Capex guidance –** The company has spent Rs. 185 crore on capital expenditure in Q3FY2021 and a total of Rs. 301 crore in 9MFY2021. Although capex spending has improved in, but we still expect some portion of FY2021 capex guidance of Rs. 600 crore would spill over to FY2022 as plant constrution activities were impacted in Q1FY2021.

- **Growth outlook –** The management is confident of sustaining a high-growth momentum and is expected robust 20% revenue growth for FY2022 on high base of FY2021 supported by launch of new molecule in exports business and high growth for branded products in domestic business.

- **Pharma foray update –** The management has indicated that it is actively evaluating few pharmaceutical assets for acquisition and working with global consulting firm for implementing of strategic road map of diversification plan for pharmaceutical business.

- The company has commercialized 24-25 products currently and have R&D pipeline at 40-45 products at various stages of development.

- The company expects to complete the merger of remaining businesses of Isagro in Q1FY2022 upon receiving regulatory approvals from the NCLT.

Results | Rs cr

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Net Sales	**1,162**	**850**	**36.7**	**1,158**	**0.4**
Material Cost	617	454	36.0	647	(4.6)
Gross Profit	**545**	**396**	**37.6**	**511**	**6.7**
Employee Expenses	108	76	41.8	100	8.4
Other Expenses	161	133	21.1	131	23.0
Operating profit	**276**	**187**	**47.7**	**280**	**(1.6)**
Other Income	39	19	103.7	34	15.8
Depreciation	44	32	37.9	43	1.6
Interest	7	4	73.7	8	(13.2)
PBT	**264**	**170**	**55.3**	**263**	**0.4**
Tax	68	49	40.0	45	51.2
Reported PAT	**195**	**121**	**61.4**	**218**	**(10.2)**
EPS (Rs.)	12.9	8.0	61.4	14.3	(10.2)
Margin (%)			**YoY (BPS)**		**QoQ (BPS)**
Gross profit margin	46.9	46.6	30	44.1	276
OPM	23.7	21.9	176	24.2	(49)
Net profit margin	16.8	14.3	256	18.8	(198)

Source: Company; Sharekhan Research

Outlook and Valuation

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

The 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 a sustained basis over the next few years.

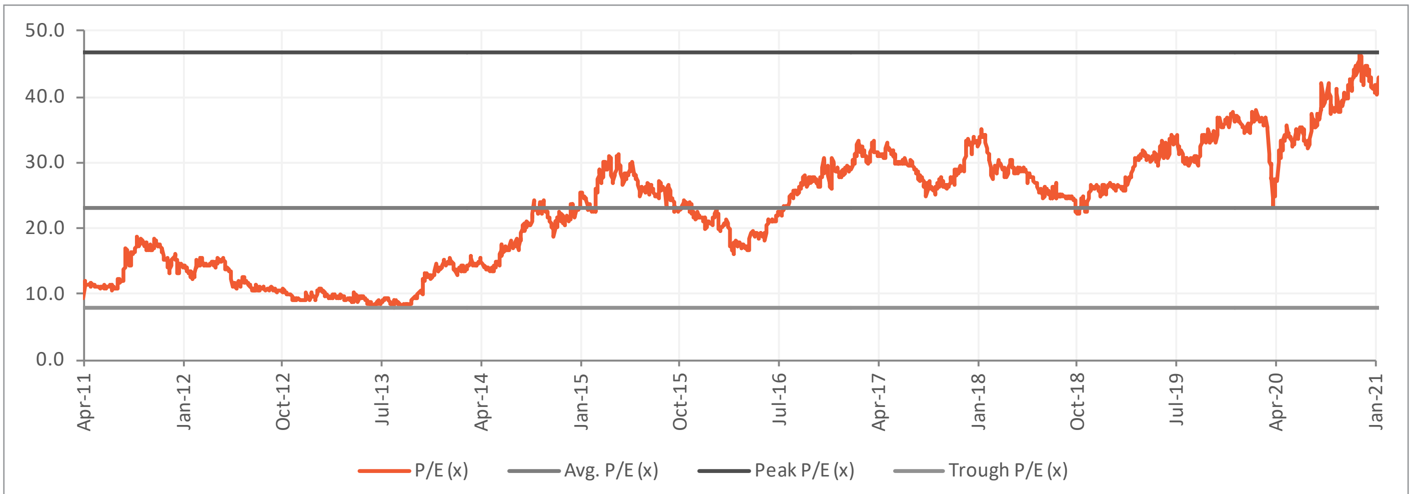
■ Company Outlook – Consistently delivering robust performance

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 segment. 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 an unchanged PT of Rs. 2,740

We have fine-tuned our FY2021-FY2023 earnings estimates. Robust growth prospects for the CSM segment (supported order book position of $1.5 billion) and dominant position in crop protection business given a pan-India presence makes us constructive with regards to sustained growth (expect 24%/27% EBITDA/PAT CAGR over FY2021E-FY2023E) for PI Industries. Additionally, the company's balance sheet is strong to pursue inorganic growth opportunities (focus on high-margin pharma and specialty chemical business). Hence, we maintain a Buy rating on PI Industries with an unchanged PT of Rs. 2,740. At CMP, the stock is trading at 40.7x its FY2022E EPS and 31.9x 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 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	3.5
2	Axis Asset Management Co Ltd/India	2.5
3	Capital Group Cos Inc/The	1.7
4	Vangaurd Group Cos Inc/The	1.5
5	HDFC Life Insurance Co Ltd	1.5
6	UTI Asset Management Co Ltd	1.5
7	BlackRock Inc	1.4
8	SBI Funds Management Pvt Ltd	1.3
9	Kotak Mahindra Asset Management Co	1.2
10	ICICI Prudential Life Insurance	0.7

Source: Bloomberg

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 detoriating 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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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