Stock Update

Sharekhan
by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

PI Industries Limited

Eyeing a spot in the global CSM league

Agri Chem	Sharekhan code: PIIND	Company 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. 2,799**	
Price Target: **Rs. 3,300**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

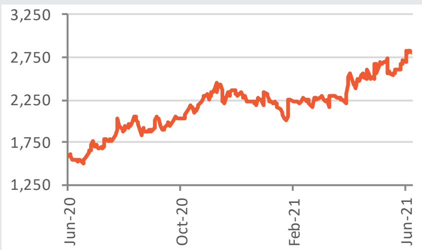
Company details

Market cap:	Rs. 42,471 cr
52-week high/low:	Rs. 2,889 / 1,500
NSE volume: (No of shares)	4.0 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.1 cr

Shareholding (%)

Promoters	47
FII	19
DII	21
Others	13

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4	25	19	77
Relative to Sensex	-2	21	6	19

Sharekhan Research, Bloomberg

Summary

- PI Industries focus to expand product offers in pharma/specialty chemicals would bring it into the league of global CSM players with products across the agrochemical, pharmaceutical and specialty chemical segments. This would drive sustained sustain high growth of 20-25% in the CSM business and improve margin profile.
- Domestic formulation business is well-placed to exceed industry growth rates given its pan-India reach and novel product launches (25 new products under pipeline). We expect a 15% CAGR over FY2021-FY2024E for the segment.
- Potential successful acquisition of a pharmaceutical assets (having signification exposure to exports market) with a target revenue share of 20-25% hints towards high growth prospects and efficient capital allocation.
- PI Industries' premium valuation is justified given our expectation of a 25% PAT CAGR over FY21-24E and diversification of product offerings in the high-growth CSM business. Hence, we maintain a Buy on PI Industries with a revised PT of Rs. 3,300.

PI Industries has established itself as India's largest CSM player in the agrochemical space with robust order book position of ~$1.5 billion and is focused on diversifying into the pharmaceutical segment and performance & fine chemical segments. This would de-risk it from agrochemical business in CSM and enhance its products across different segments. Ramp-up of production capacities (two new MPP) and launch of 5-6 new products would support growth in CSM business in the coming quarters. Thus, we are confident of the CSM business' growth outlook and expect the segment to post revenue CAGR of 21% over FY2021-FY2024E. PI's domestic formulation business is also well-placed given its pan-India reach and continuous novel product launches (25 new products under pipeline). Thus, we expect the same to clock a 15% CAGR over FY2021-FY2024E. Overall, margin profile is also expected to improve with diversification in to high-margin non-agrochemical products and likely improvement in plant utilisation rate and we thus model a 132 bps rise in margins over FY2021-FY2024E and likely to reach 23.4% by FY2024E. Potential successful acquisition of a pharma asset (having significant exposure to export market) with target revenue share of 20-25% hints at acceleration in growth prospects and efficient capital allocation of QIP money in high-margin/high-RoCE pharma business. Overall, we remain confident of sustained high revenue/EBITDA/PAT CAGR of 20%/22%/25% over FY2021-FY2024E and improvement in RoE/RoCE to 19%/24% by FY2024E. Hence, we maintain our Buy rating on PI Industries with a revised PT of Rs. 3,300.

Our Call

Valuation – Maintain Buy on PI Industries with revised PT of Rs. 3,300: We have increased our FY2022-FY2023 earnings estimates led by strong growth outlook for CSM/domestic business and have also introduced our FY2024 earnings estimates in this report. We believe that PI Industries premium valuation is justified and likely to sustain on the account of 1): expectation of strong 25% PAT CAGR over FY2021-FY2024E and 2) focus on entry in high-margin/high-return pharma and specialty chemical business would improve product offerings in the CSM business. Hence, we maintain a Buy rating on PI Industries with a revised PT of Rs. 3,300. At CMP, the stock is trading at 37.6x its FY2023E EPS and 29x its FY2024E EPS.

Key Risks

A 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) Rs cr

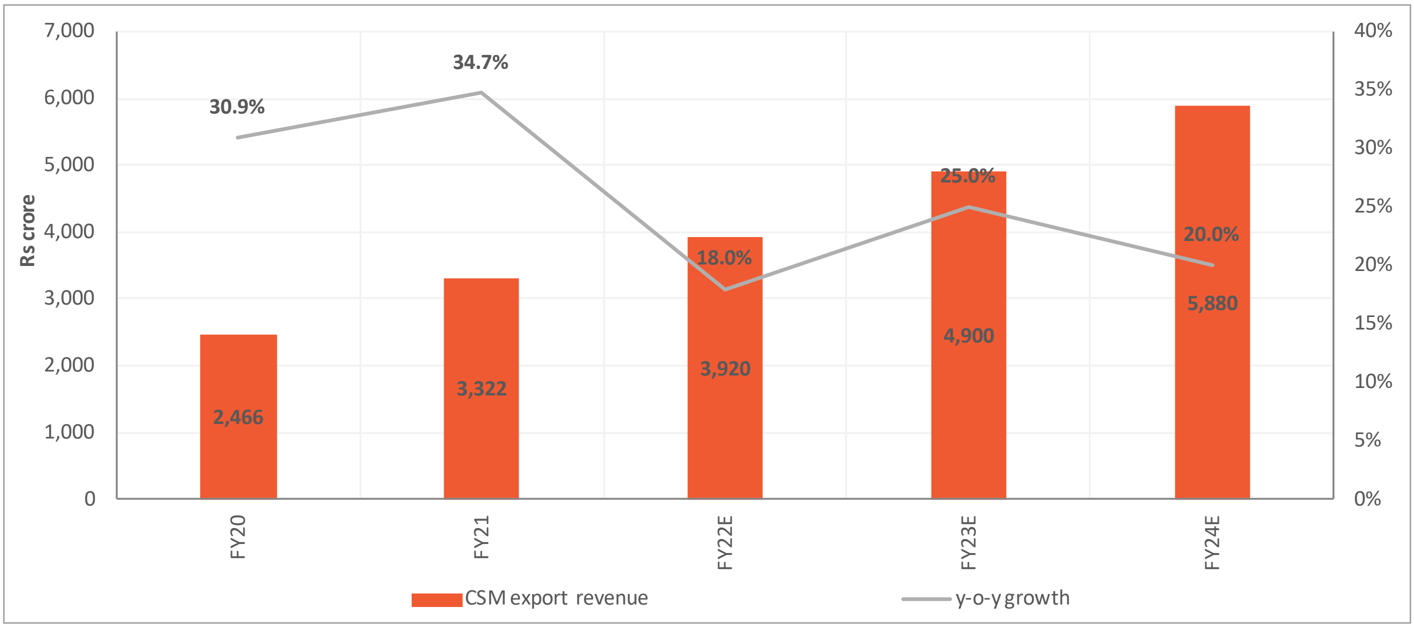
Particulars	FY20	FY21	FY22E	FY23E	FY24E
Revenues	3,367	4,577	5,326	6,587	7,820
OPM (%)	21.3	22.1	22.1	23.2	23.4
Adjusted PAT	456	740	847	1,102	1,439
y-o-y growth (%)	*11.2*	*62.4*	*14.4*	*30.2*	*30.6*
Adjusted EPS (Rs.)	33.1	48.0	57.3	74.5	96.7
P/E (x)	84.6	58.3	48.8	37.6	29.0
EV/EBITDA (x)	54.0	40.0	34.1	26.1	21.3
P/BV (x)	14.7	8.0	7.0	6.0	5.0
RoCE (%)	22.6	21.4	18.3	21.2	24.2
RoE (%)	18.6	18.3	15.2	17.1	18.9

Source: Company; Sharekhan estimates

Custom Synthesis & Manufacturing (CSM) – High double-digit growth to continue over FY22-24

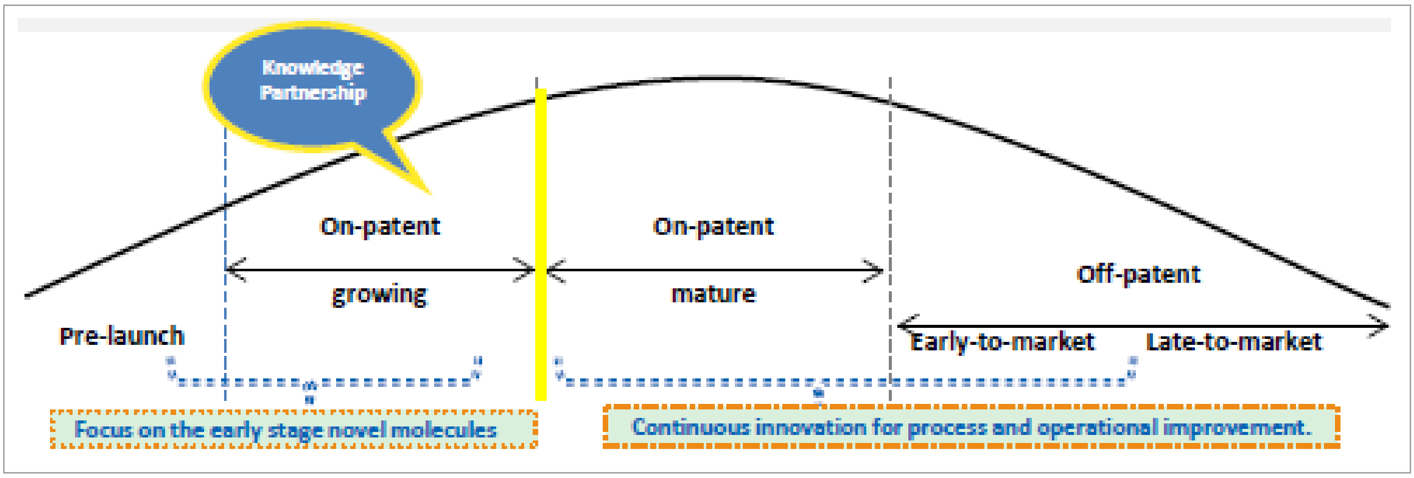
PI Industries has established itself as a CSM player and it has supply contracts with major global agrochemical companies. The company's CSM order book is robust at $1.5 billion and provides revenue visibility over the next 3-4 years. Despite a staggering 33% CAGR in CSM revenues over FY2019-FY2021, order book in the segment is stable and indicates repeated order inflows on regular basis. Moreover, the company plans to commercialise 5-6 new products in FY2022 (versus four molecules in FY2021) and another multi-product plant (MPP) would get ready by Q2FY2022. Additionally, the company is focused to increase share of pharmaceutical and non-agro orders in its CSM business. New product commercialisation (15-20 products over next two years), capacity additions and diversification to non-agricultural space gives us confidence of sustained high double digit growth in the CSM business over FY2022E-FY2024E.

CSM revenue to see strong 21% CAGR over FY21-FY24E despite high base of FY22



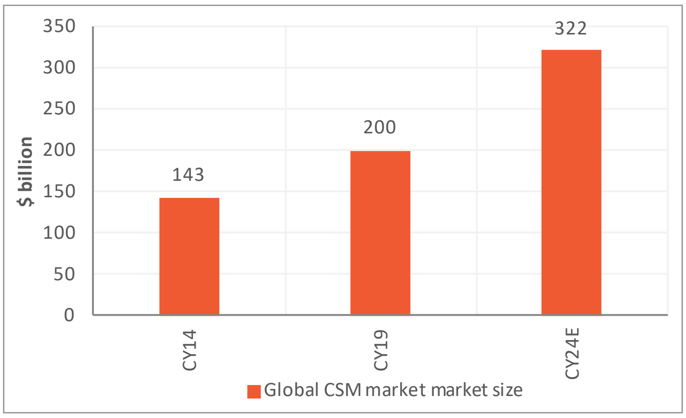
Source: Company; Sharekhan estimates

Partnership with global players with focus on early stage novel molecules



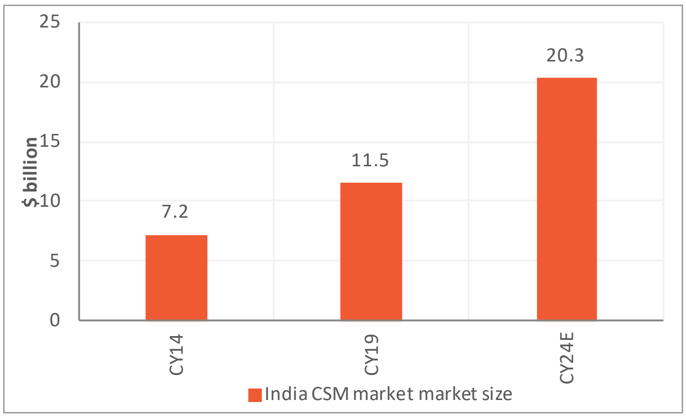
Source: Company

Global CSM market to grow at 10% CAGR over CY19-24E



Source: Industry reports; Sharekhan Research

India CSM market to grow at 12% CAGR over CY19-24E



Source: Industry reports; Sharekhan Research

Focus to diversify into high-margin/RoCE pharma business

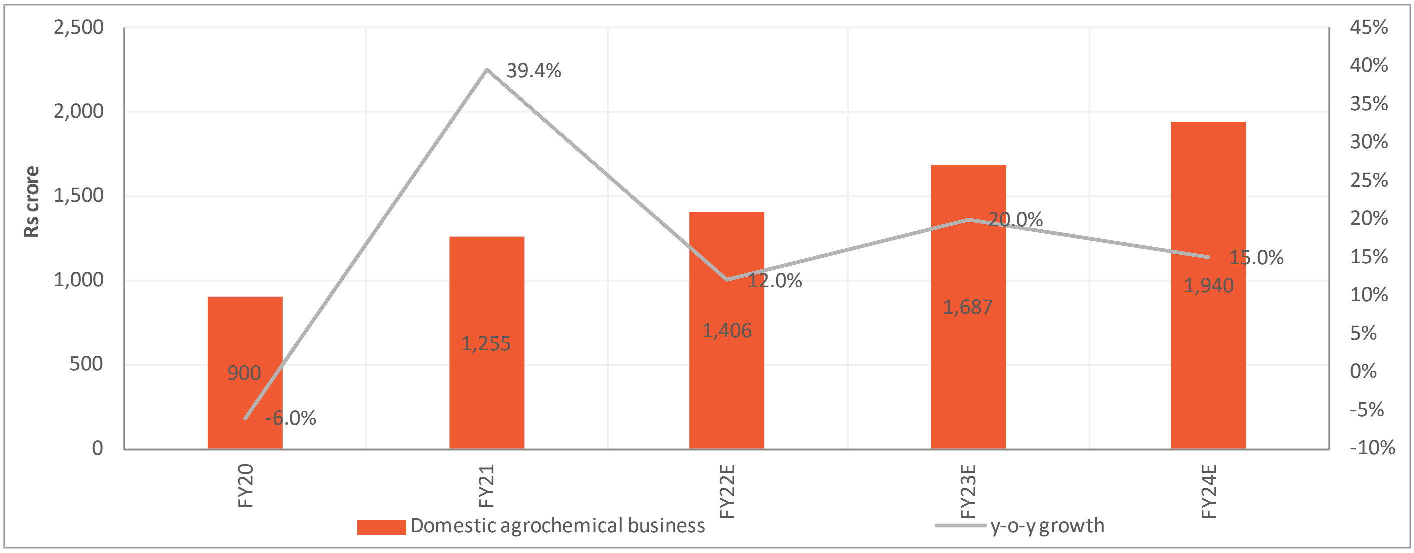
To reduce concentration risk with respect to product offering, the company is aiming to diversify into business like pharmaceutical. With respect to the same, the company is in an advanced stage of evaluating few pharma assets and expects some progress on the same over Q1FY2022-Q2FY2022. The target is acquiring a domestic pharma company with signification exposure to exports market and provides access to technology, customers, products and helps grow faster. The company aims to make pharmaceutical business sizeable with a revenue share target of 20-25% over the next couple of years.

Domestic agrochemical business' leadership position and innovative products to drive steady growth

PI Industries have a strong pan-India distribution network in domestic crop protection market with 10,000 distributors and over 100,000 retailers. A large part of its revenues in the domestic business comes through in-licensing of patented molecules from MNCs innovators. The company also focuses on marketing of branded generic agrochemicals and co-market early stage lifecycle agrochemicals using its pan-India distribution network.

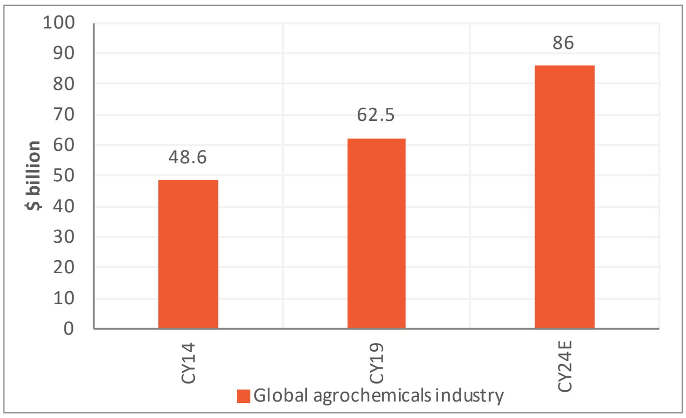
We expect PI's domestic agrochemical business to sustain its historical growth rates and expect it to grow at 15% CAGR over FY201-FY2024E, which is much higher than industry growth rate. The high growth would be driven by: 1) strong novel product offering with focus on in-licensing, 2) new product launched (25 plus products under pipeline), 3) dedicated verticals for horticulture crops through Jivagro (a 20% CAGR expected over next 4-5 years) and 4) likely scale-up of Londax power (herbicide for rice) and Awkira (herbicide for wheat) in the coming years.

Domestic agrochemical business likely to post 15% CAGR over FY21-FY24E



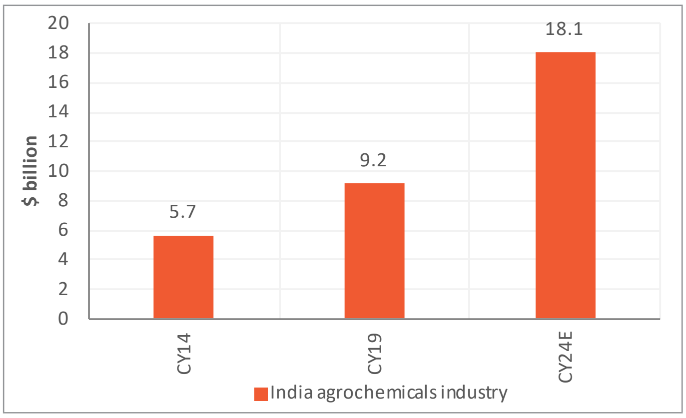
Source: Company; Sharekhan estimates

Global agrochem market to grow at 6.6% CAGR over CY19-24E



Source: Industry reports; Sharekhan Research

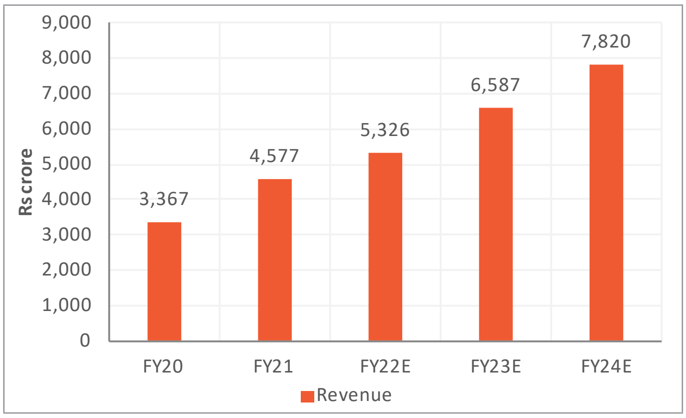
India agrochem market to grow at 12% CAGR over CY19-25E



Source: Industry reports; Sharekhan Research

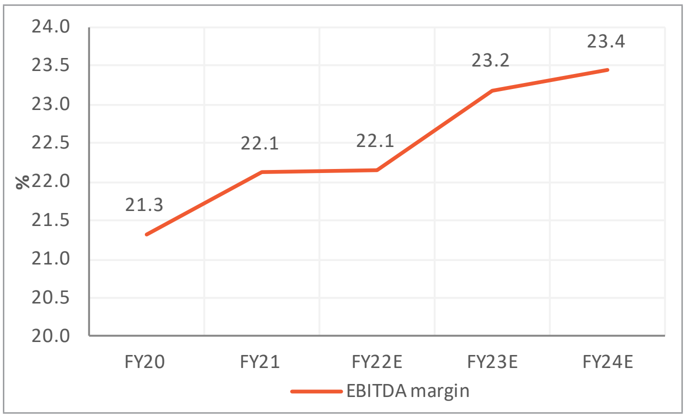
Financials in charts

Strong revenue growth outlook



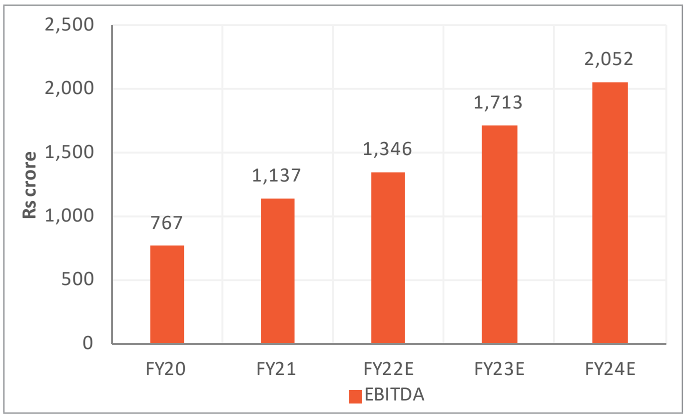
Source: Company, Sharekhan Research

Margin to improve steadily as share of non-agro production to rise



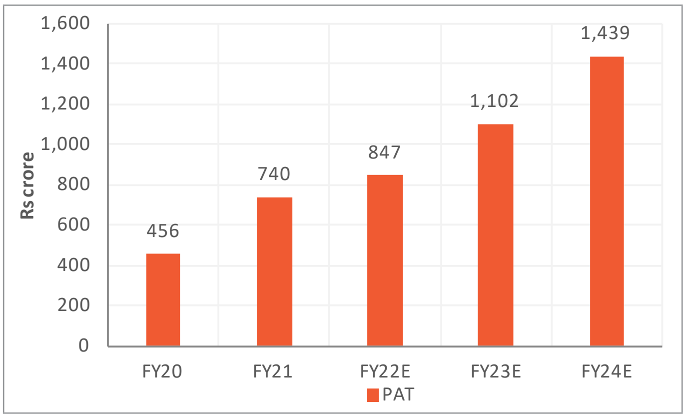
Source: Company, Sharekhan Research

EBITDA likely to post 22% CAGR FY21-FY24E



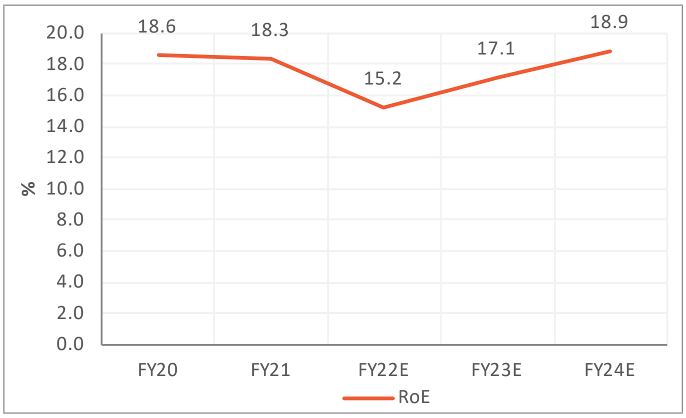
Source: Company, Sharekhan Research

PAT to grow at 25% CAGR over FY21-FY24E



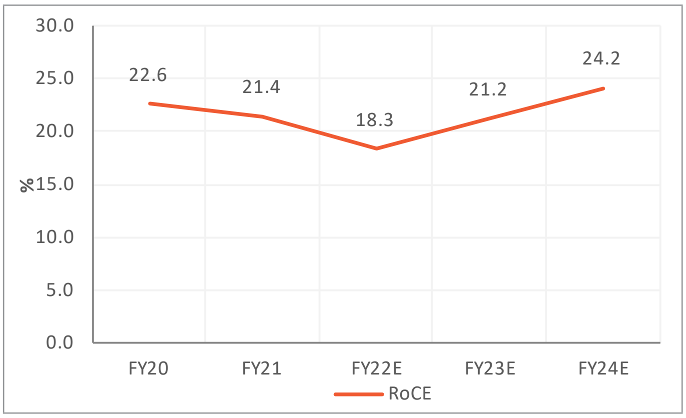
Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

RoCE trend



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 a 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 boost demand for agri-inputs 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 a supply disruption from China. Thus, we expect India's agrochemicals industry to grow by 7-8% annually on a sustained basis for 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 of a 15% growth in each segment for FY2022. Commissioning of additional capacity and contribution from newly-launched brands would fuel growth momentum. Moreover, the funds raised through the QIP to the tune of Rs. 2,000 crore is expected to be deployed in FY2022, 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 the company diversify its business.

■ Valuation - Maintain Buy on PI Industries with a revised PT of Rs. 3,300

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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 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	Axis Asset Management Co. Ltd	3.6
2	Capital Group Cos Inc	2.3
3	Life Insurance Corp of India	2.0
4	BlackRock Inc.	1.6
5	ICICI Prudential Life Insurance	1.6
6	HDFC Life Insurance Co. Ltd.	1.5
7	Vanguard Group Inc.	1.5
8	UTI Asset Management Co. Ltd	1.4
9	Kotak Mahindra Asset Management Co. Ltd	1.3
10	ICICI Prudential Asset Management Co. Ltd	1.1

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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