


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	✗	↔	✗

ESG Disclosure Score
NEW
ESG RISK RATING

Updated Apr 08, 2022

33.34
High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

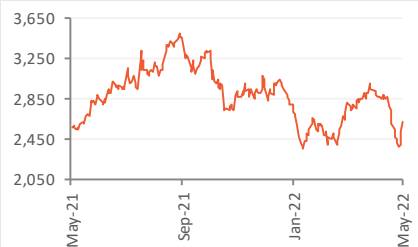
Source: Morningstar

Company details

Market cap:	Rs. 39,870 cr
52-week high/low:	Rs. 3,533/2,334
NSE volume: (No of shares)	6.6 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.1 cr

Shareholding (%)

Promoters	47
FII	16
DII	25
Others	11

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-8.95	1.66	-8.33	2.26
Relative to Sensex	-4.96	7.93	0.78	-6.37

Sharekhan Research, Bloomberg

PI Industries Ltd
In-line Q4; growth guidance upbeat
Agri Chem
Sharekhan code: PIIND
Reco/View: Buy


Upgrade



Maintain

CMP: Rs. 2,628
Price Target: Rs. 3,300


Downgrade

Summary

- Revenue/OPM of Rs. 1,395 crore/22%, up 16.5%/287 bps y-o-y met expectations but PAT of Rs. 204 crore (up 14% y-o-y) missed estimates on lower other income and a higher tax rate.
- CSM/domestic revenues grew by 11%/47% y-o-y to Rs. 1,114 crore/Rs. 281 crore, led by strong volume growth (9.5% y-o-y) and partial price hikes (of 7% y-o-y). Margin benefited from price hike, operating leverage and better product mix.
- Management guided for an 18-20% y-o-y revenue growth for FY23 and sees scope for margin improvement with ramp-up of new products recently commercialised, operating leverage and price hike for certain products. PI is actively evaluating options in pharma space for acquisition in CDMO/API side.
- We maintain a Buy on PI Industries with a revised PT of Rs. 3,300. A potential acquisition in the pharma space would improve long-term earnings growth outlook and makes us constructive on the stock. At CMP, the stock trades at 36.9x/29.6x FY23E/FY24E EPS.

PI Industries Limited (PI) reported in-line Q4FY22 results with consolidated revenue/operating profit of Rs. 1,395 crore/Rs. 305 crore, up 16.5%/34.1% y-o-y. The strong growth was led by 47.1%/10.8% y-o-y increase in revenues from domestic/CSM business to Rs. 281 crore/Rs. 1,114 crore reflecting benefit of partial price hikes (average of 7% y-o-y) in both CSM/domestic and higher volumes (especially for domestic business with aggregate volume growth of 9.5%). The robust growth in domestic growth was led by introduction of new products, higher sales of wheat herbicides and good growth for horticulture. OPM improved by 287 bps y-o-y to 21.9% (in line with our estimate of 22%) led by an increase of 196 bps y-o-y in gross margin to 44% given benefit of partial price hike, operating leverage and better product mix. PAT at Rs. 204 crore (up 13.7% y-o-y) missed our estimates of Rs. 223 crore due to lower other income and a higher tax rate.

Key positives

- Strong revenue growth of 47%/11% y-o-y in domestic/CSM business led by volume growth and price hikes.
- OPM improved by 287 bps y-o-y to 21.9%.

Key negatives

- Continued delay in utilization of cash for inorganic pharma acquisition.

Management Commentary

- Management gave revenue growth guidance for 18-20% y-o-y for FY23 led by double digit growth in both CSM and domestic business.
- Gross/EBITDA margin have room for improvement led by price hike for certain products, better product mix and operating leverage.
- Focus to improve asset turnover (at 2.1x in FY22) led by process improvement and ramp-up of new products.
- Company commercialised 9 new molecules in the CSM business and with targets for 6-7 new molecules in FY23. PI has commercialised 3-4 products in non-agrochemical space in last year.
- Actively evaluating options in pharma space for acquisition in CDMO/API side with focus on both India and overseas market.
- Management gave capex guidance of Rs. 500 crore/Rs. 350-400 crore for FY23E/FY24E versus capex of Rs. 320 crore in FY22.

Revision in estimates – We have fine-tuned our FY23-24 earnings estimate to factor FY22 P&L and balance sheet numbers.

Our Call

Valuation – Maintain Buy on PI Industries with a revised PT of Rs. 3,300: PI's strong balance sheet provides ample scope for organic and inorganic growth over the medium to long term and its earnings growth outlook (expect revenue/EBITDA/PAT CAGR of 19%/26%/27% over FY2022-FY2024E) remains robust supported by CSM order book of \$1.4 billion and ramp-up of 9 new products commercialised in last one year. Hence, we maintain a Buy rating on PI Industries with a revised PT of Rs. 3,300. At CMP, stock trades at 36.9x its FY2023E EPS and 29.6x its FY2024E EPS.

Key Risks

- 1) Delay in commissioning of projects or execution of orders or delayed orders by clients in the export business can affect revenue growth, 2) A higher-than-normal time lag in passing on the increase in raw-material prices could affect margins and 3) Delay in utilisation of QIP funds.

Valuation (Consolidated)

Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4,577	5,300	6,359	7,553
OPM (%)	22.1	21.6	23.2	24.2
Adjusted PAT	740	840	1,087	1,352
y-o-y growth (%)	62.4	13.5	29.4	24.4
Adjusted EPS (Rs.)	48.0	55.0	71.3	88.7
P/E (x)	54.8	47.7	36.9	29.6
EV/EBITDA (x)	37.4	33.2	25.6	20.3
P/BV (x)	7.5	6.5	5.6	4.7
RoCE (%)	21.4	17.0	19.7	21.1
RoE (%)	18.3	14.6	16.3	17.3

Source: Company; Sharekhan estimates

Good Q4 amid challenging times; revenues/margins meet hopes

Consolidated revenue of Rs. 1,395 crore (up 16.5% y-o-y) was in line with our estimate of Rs. 1386 crore Strong growth was led robust 47%/11% y-o-y rise in revenues from domestic/CSM business to Rs. 281 crore/Rs. 1,114 crore supported by price hike and volume growth (especially for domestic market). OPM improved by 286 bps y-o-y to 21.9% and was almost in line with our estimate of 22%. Margin improvement reflects benefit of price hike to pass on rise in raw material cost. Consequently, operating profit grew by 34.1% y-o-y to Rs. 305 crore (in-line). PAT at Rs. 204 crore (up 13.7% y-o-y) missed our estimates of Rs. 223 crore due to lower other income and higher tax rate.

Q4FY22 conference call highlights

- ♦ **Revenue growth guidance** - The management guided for an 18-20% y-o-y revenue growth for FY23 led by double digit growth for both CSM (largely volume growth) and domestic formulations (good Kharif crop given expectation of normal monsoons + low base of H1FY22). The management expects to further improve net assets turnover from FY22 level of 2.1x with ramp-up of new products and improved processes.
- ♦ **Margin outlook** – The hinted that there is room for improvement in gross/EBITDA margin given still room for RM cost pass for certain products, ramp-up new products commercialized in H2FY22 and benefit of operating leverage.
- ♦ **New product/technology focus** - PI has commercialised 9 new molecules in the CSM business and targets to commercialise 6-7 new molecules in FY23. PI has commercialized 3-4 products on non-agrochemical space in last year and expected to scale up the same.
- ♦ **Inorganic pharmaceuticals aspirations** – PI is actively evaluating options in the pharmaceutical space for acquisition in CDMO/API side with focus on both India and outside opportunities. Potential acquisition would aid to current growth guidance of 18-20%.
- ♦ **Capex guidance** of Rs. 500 crore/Rs. 350-400 crore for FY23E/FY24E versus capex of Rs. 320 crore in FY22. Management indicated to create 1-1.5 MPP in FY23 and considering some brownfield capacity expansion at the existing sites.
- ♦ **Other updates** – 1) Tax rate guidance of 18-19%, 2) CSM order book stood at \$1.4 billion and customers are not looking at long term contracts currently, 3) received one 9(3) registration in FY22 and has 3 more in pipeline and 4) Continuous flow chemistry developed for 1 intermediate at pilot plant.

Results (consolidated)

Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Revenue	1,395	1,197	16.5	1,356	2.9
Total expenditure	1,090	970	12.4	1,060	2.9
Operating profit	305	227	34.1	297	2.9
Other Income	20	44	(54.8)	26	(23.1)
Depreciation	54	45	19.6	50	6.6
Interest	3	4	(38.6)	3	(18.2)
PBT	269	222	20.8	269	(0.1)
Tax	65	43	52.7	47	39.3
Reported PAT	204	180	13.7	222.60	(8.2)
EPS (Rs.)	13.4	11.8	13.7	14.6	(8.2)
Margin (%)			bps		bps
OPM	21.9	19.0	286	21.9	(0)
NPM	14.7	15.0	(37)	16.4	(176)
Tax rate	24.2	19.1	504	17.3	682

Source: Company; Sharekhan Research

Management guided for robust 18-20% y-o-y revenue growth in FY23

Domestic: Focus on portfolio diversification with launch of novel offerings	- Strong demand is expected for insecticides, fungicides, herbicides and bio-nutrients on the back of normal monsoon predictions - Commodity prices remain robust owing to global demand 5 new products scheduled to be launched in FY23
CSM Export: R&D focused approach to drive incremental business	- Continued scale up in demand of some of the existing products - Commercialization of 7 new molecules planned in FY23 - Momentum in new enquiries and conversion to continue - Drive higher capital efficiency in FY23 with focused program to reduce Trade Working Capital
Efforts to drive strategic initiatives continues	2 new process innovations to be commercialized in FY23 - Evaluation of inorganic growth opportunities in pharma continues, both domestic and international options being evaluated
PI's product & research efforts yielding promising results	Discussions continues with global innovators for development partnership of 2 promising leads; one novel fungicide and a novel broad spectrum insecticide having sizable potential market opportunity

...Confident of delivering 18%-20% revenue growth with continued improvement in margins and returns

Source: Company

CSM business – scale-up of new products and rising enquiries bodes well for growth

Global Agchem Exports (CSM)			
	Development		Manufacturing
	Process Development	New Technology	Capacity Build up
Science & Technology Driven	9 new molecules commercialized in FY22 >40 products at different development stages - Pipeline has more than 20% non agchem products	- Continuous flow chemistry developed for 1 intermediate at pilot plant - Implemented technology to improve solvent quality & recovery (PSD)	2 more Multi Product Plant (MPP) fully commissioned in the FY - New chemistry building block (MMH) commissioned
Customer Centric	Customer Acquisition/ Order Book 36 new enquiries received: More than 35% from non agchem space 8 new customers were acquired during current fiscal - Robust order book of ~\$1.4 Bn		Operational Improvements - Capital efficiency optimized by: ✓ Operational excellence; ✓ Statistical data analysis; ✓ Process improvement - New analytical tool implemented for process monitoring in >10 products - Contracted for 500KW solar power at Jambusar

Source: Company

Domestic formulation business – Robust portfolio of new and specialized products to drive growth

Domestic Agri Brands		
	Evaluation & Trials	Regulatory services & Registrations
	Product Innovation	Product development and Regulatory approvals
Science & Technology Driven	One new insecticide for rice and three specialty fungicide focused on horticulture and rice launched	15+ products at different stages of development and registration - During FY22, received 3 regulatory approval including the 1st product to receive MRL exemption in India 5 innovative products to be launched in FY23
Customer Centric	Channel Expansion - PI Mitra Loyalty Program rolled out for deeper engagement with channel partners - Implemented digital Sales Ordering module for channel partners	Farm Application Services - Doubled the area treated using high-tech spray machines - Piloted drone applications and evaluating scale-up
		Marketing & Distribution
		Market Penetration
		- Nominee Gold® maintained dominant share among rice herbicides - Positive momentum for Awkira® (pre-emergent wheat herbicide) with treated acres increase 3x - Successful launch of Armatura® on grapes, a specialty fungicide with biological origin - Successful launch of Distrupor® for control of rice Brown Plant Hopper (BPH) - Aggressive growth agenda in horticulture

Source: Company

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 the 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 inputs in India. We also expect exports from India to grow as the country is being looked as the preferred supplier for agri inputs given 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.

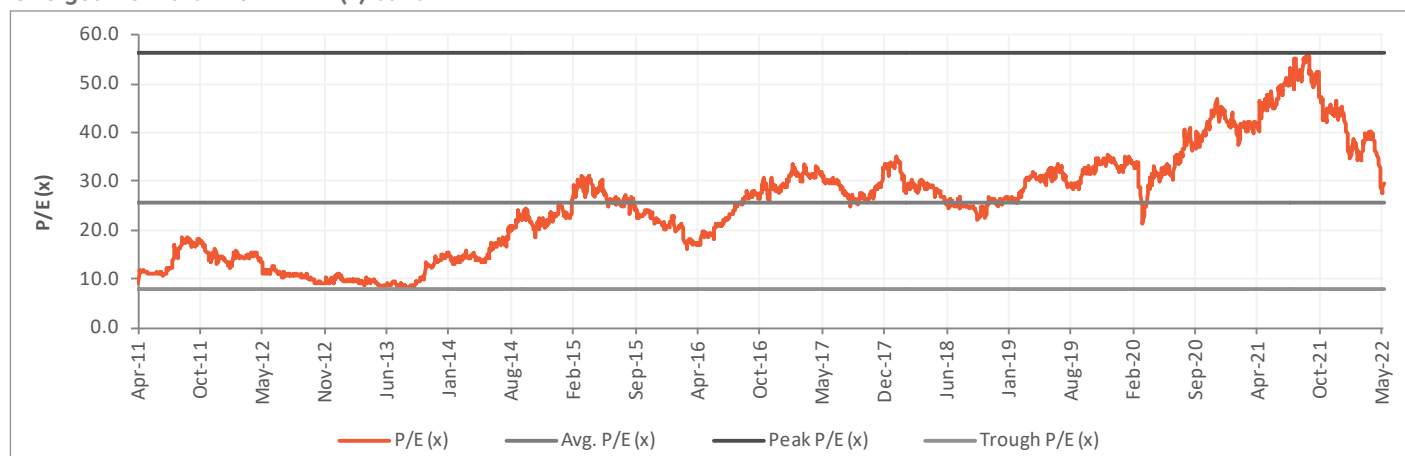
■ Company Outlook – Strong growth outlook led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of \$1.4 billion) and the company has guided for 18-20% revenue growth and margin improvement for FY23. Commissioning of additional capacity and contribution from newly-launched brands would fuel growth. Moreover, funds of Rs. 2,000 crore raised via the QIP are expected to be deployed for acquisition of pharma assets and drive inorganic growth over medium to long term, apart from diversifying its business and enhancement of technological capabilities.

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

PI's strong balance sheet provides ample scope for organic and inorganic growth over the medium to long term and its earnings growth outlook (expect revenue/EBITDA/PAT CAGR of 19%/26%/27% over FY2022-FY2024E) remains robust supported by CSM order book of \$1.4 billion and ramp-up of 9 new products commercialised in last one year. Hence, we maintain a Buy rating on PI Industries with a revised PT of Rs. 3,300. At CMP, stock trades at 36.9x its FY2023E EPS and 29.6x its FY2024E EPS.

One-year forward EV/EBITDA (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 >\$1.4 billion and decent growth in domestic formulation business provides strong long term revenue growth visibility. The company has 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. A successful pharma acquisition could accelerate earnings growth prospects for the company.

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.
- ♦ Delay in utilisation of QIP money.

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
Manikantan Viswanathan	Chief Financial Officer
Naresh Kapoor	Company Secretary & Compliance officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.52
2	Axis Asset Management Co Ltd	5.27
3	ICICI Prudential Life Insurance Co Ltd	1.88
4	Blackrock Inc	1.79
5	Kotak Asset Management Co Ltd	1.70
6	UTI Asset Management Co Ltd	1.60
7	Vanguard Group Inc	1.58
8	Canara Robeco Asset Management Co Ltd	1.08
9	Capital Group Cos Inc	1.02
10	HDFC Life Insurance	1.01

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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