

Next growth phase to emanate from pharma...

About the stock: Incorporated in 1947, PI Industries focuses on complex chemistry solutions in agri and pharma sciences.

- The company maintains a strong research presence through its R&D facility in Udaipur, where it has a dedicated team of over 300 scientists
- The revenues of the company can be subdivided into custom synthesis manufacturing (CSM) and domestic formulation business with the former contributing ~73% to overall revenue in FY21 and the rest coming from the domestic formulations business

Q1FY22 Results: Numbers were below our estimates, impacted by subdued growth in the domestic formulation business.

- Reported revenue growth of 13% YoY to ₹ 1193.8 crore, led by CSM segment (up 31% YoY)
- Gross margins improved 180 bps YoY to ~43.8% while EBITDA margin contracted 80 bps YoY to 20.8%, due to higher employee (up 20% YoY) and other operating cost (up 32% YoY)
- EBITDA was up 9% YoY to ₹ 248.9 crore
- PAT increased 29% YoY to ₹ 187.2 crore owing to higher other income (up 238% YoY)

What should investors do? The stock appreciated at 57% CAGR in last three years.

- We retain **BUY** on the back of better growth outlook of CSM business

Target Price and Valuation: We value PI Industries at 50x P/E FY23E EPS to arrive at a revised target price of ₹ 3855/share (earlier ₹ 3010/share).

Key triggers for future price performance:

- Strong order backlog in CSM bodes well for future growth
- Foray into pharma CDMO expands revenue visibility further and diversifies its revenue stream, to a certain extent
- Improvement in the operational performance owing to higher share of value added business portfolio to aid return ratios further

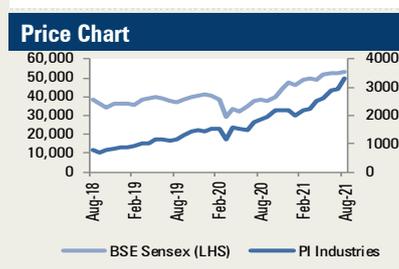
Alternate Stock Idea: Apart from PI Industries, in our chemical coverage, we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1085



Particulars	
Particular	Amount
Market cap (₹ Crore)	50,403
FY21 Total Debt (₹ Crore)	257
FY21 Cash & Inv (₹ Crore)	2,327
EV (₹ Crore)	48,333
52 Week H/L	3375/1770
Equity Capital (₹ Crore)	15.2
Face Value (₹)	1

Shareholding pattern				
in %	Sept-20	Dec-20	Mar-21	Jun-21
Promoter	46.8	46.8	46.7	46.7
DII	25.8	21.3	21.3	22.0
FI	14.7	19.5	19.4	19.6
Others	12.7	12.4	12.6	11.6



- Recent event & key risks**
- Acquired Ind-Swift Lab for a consideration of ₹ 1530 crore
 - Key Risk:** (i) Adverse agri season in North America, Europe to impact CSM growth, (ii) Poor monsoon in India can impact domestic formulation business

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Revenue	2,840.9	3,366.5	4,577.0	16.9%	5,323.1	7,043.6	24.1%
EBITDA	576.4	717.8	1,012.2	18.6%	1,219.0	1,620.0	26.5%
EBITDA Margins (%)	20.3%	21.3%	22.1%		22.9%	23.0%	
Adj. PAT	410.2	456.6	738.3	18.8%	899.6	1,172.6	26.0%
Adj. EPS (₹)	29.7	33.1	48.6		59.2	77.1	
EV/EBITDA	79.1x	64.1x	47.8x		39.2x	30.1x	
P/E	111.6x	100.2x	68.3x		56.0x	43.0x	
ROE (%)	17.9	17.4	13.8		14.6	16.1	
ROCE (%)	23.7	20.1	17.2		18.6	20.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q1FY22 Results: Strong growth from CSM continues.

- **CSM drives topline growth:** Better growth from the CSM business negated poor performance of the domestic formulation business. Revenue from CSM was up 31% YoY to ₹ 807 crore, largely driven by better volume growth. On the other hand, revenue from domestic formulation was down 13% YoY to ₹ 387 crore, impacted by a delayed monsoon and high base
- **Margins impacted:** Gross margins during the quarter fell 170 bps YoY owing to a change in the product mix of domestic business. Further, higher freight and employee cost dragged the operational performance for the quarter, which led to a contraction by 80 bps YoY to 20.8%

Q1FY22 Earnings Conference Call highlights

CSM:

- Total ~6 new molecules planned to be commercialised in FY22. Commissioning of three new molecules is under progress
- Another MPP is planned to be made ready by Q2FY22
- The order book continues to remain robust at US\$1.5 billion with high visibility of sustainable growth for the next three years
- Initiated relationships with new customers in agrochemicals, electronic chemicals & other specialty chemical domains

Domestic formulation:

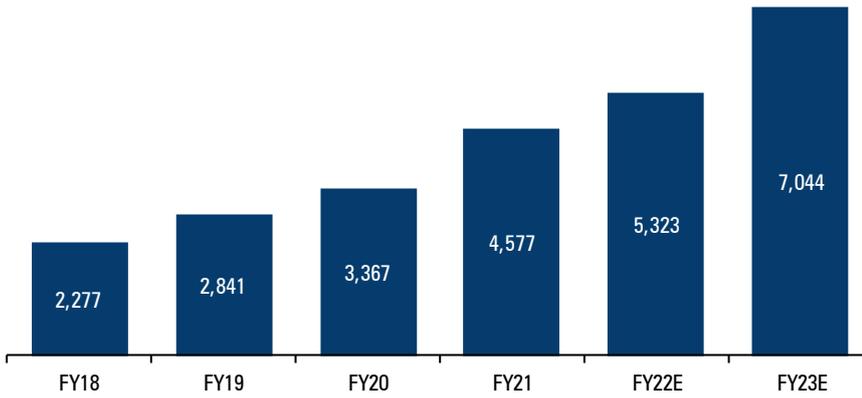
- The business outlook remains positive backed by normal monsoons for a third year in a row
- Three new products are expected to be launched in Q2, which would strengthen the position in rice, cotton and horticulture portfolio
- One new product launched (fungicide for Sheath Blight control)

Other updates:

- Agreed to acquire Ind-Swift Lab for a consideration of ₹ 1530 crore. The acquired business has revenue scale of ₹ 860 crore and EBIDTA margin of ~23%, access to a strong customer franchise in the regulated/RoW markets/product portfolio
- The transaction includes entire API undertaking covering two manufacturing plants at Dera Bassi, Punjab, Jammu & Kashmir, R&D set up in Mohali, Punjab with strong product pipeline, customer & vendor contracts and a sales, marketing & distribution network spanning more than 70 countries serving more than 200+ global customers
- The consummation of the transaction and integration into corporate structure of PI is expected to be completed during Q3FY22 subject to fulfilment of customary closing conditions and regulatory approvals
- Maintained original guidance of >15% revenue growth in FY22

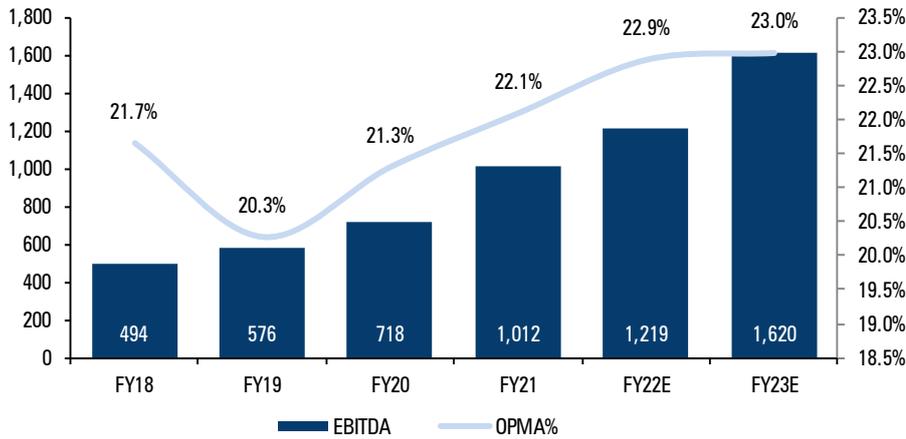
Financial story in charts....

Exhibit 1: Better growth visibility from ongoing capex to aid topline (₹ crore)



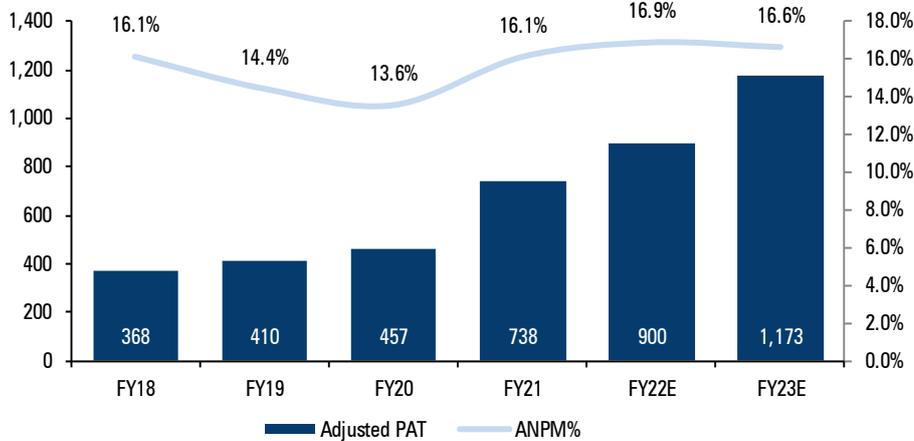
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	2,840.9	3,366.5	4,577.0	5,323.1	7,043.6
Growth (%)	24.8	18.5	36.0	16.3	32.3
Raw Material Expenses	1,550.2	1,847.4	2,571.2	2,986.3	3,874.0
Employee Cost	264.7	320.9	416.9	479.1	669.1
Other Expenses	449.6	480.4	576.7	638.8	880.4
Total Operating Expenditure	2,264.5	2,648.7	3,564.8	4,104.1	5,423.5
EBITDA	576.4	717.8	1,012.2	1,219.0	1,620.0
Growth (%)	16.8	24.5	41.0	20.4	32.9
Other Income	59.5	48.9	124.9	133.4	163.3
Depreciation	93.0	136.7	174.8	204.3	299.0
Net Interest Exp.	5.0	17.0	28.2	9.5	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	537.9	613.0	934.1	1,138.7	1,484.3
Total Tax	127.7	157.2	200.2	239.1	311.7
PAT	410.2	455.8	733.9	899.6	1,172.6
Adjusted PAT	410.2	456.6	738.3	899.6	1,172.6
Growth (%)	11.6	11.3	61.7	21.8	30.4
Adjusted EPS (₹)	29.7	33.1	48.6	59.2	77.1

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	537.9	613.8	938.5	1,138.7	1,484.3
Add: Depreciation	93.0	136.7	174.8	204.3	299.0
After other adjustments					
(Inc) / Dec in Working Capital	-150.3	25.5	-130.3	-125.5	-329.9
Taxes	-118.3	-104.8	-164.7	-239.1	-311.7
Others	28.5	26.9	-93.4	9.5	0.0
CF from operating activities	390.8	698.1	724.9	987.8	1,141.6
Purchase of Fixed Assets	-368.5	-674.3	-439.0	-400.0	-400.0
Others	46.9	-310.8	-1,991.3	0.0	-1,530.0
CF from investing activities	-321.6	-985.1	-2,430.3	-400.0	-1,930.0
Issue/(Buy back) of Equity	2.9	8.0	1,978.9	0.0	0.0
Inc/(dec) in loan funds	-39.9	456.2	-178.6	-257.4	0.0
Dividend paid & dividend tax	-83.1	-74.8	-60.7	-76.0	-76.0
Others	-5.0	-39.4	-49.2	-9.5	0.0
CF from financing activities	-125.1	350.0	1,690.4	-342.9	-76.0
Net cash flow	-55.9	63.0	-15.0	244.9	-864.4
Opening cash	130.7	89.2	134.2	1,619.5	1,864.4
Closing cash	89.2	134.2	1,619.5	1,864.4	1,000.0

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

Year end March	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	13.8	13.8	15.2	15.2	15.2
Reserves & Surplus	2,271.6	2,605.3	5,327.2	6,150.8	7,247.4
Total Shareholders Funds	2,285.4	2,619.1	5,342.4	6,166.0	7,262.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	9.9	399.4	257.4	0.0	0.0
Net Deferred Tax liability	0.0	10.2	79.6	79.6	79.6
Other long term liabilities	19.0	83.2	55.9	65.0	86.0
Long term provisions	29.0	12.4	9.6	11.2	14.8
Current Liabilities and Provisions					
Short term borrowings	0.0	108.3	0.0	0.0	0.0
Trade Payables	513.0	590.9	796.0	991.7	1,451.2
Other Current Liabilities	285.9	358.9	415.4	483.1	639.3
Short Term Provisions	12.6	42.4	45.6	53.0	70.2
Total Current Liabilities	811.5	1,100.5	1,257.0	1,527.8	2,160.7
Total Liabilities	3,154.8	4,224.8	7,001.9	7,849.6	9,603.6
Assets					
Net Block	1,185.7	1,774.7	2,055.4	2,300.6	3,101.7
Capital Work in Progress	154.4	237.1	249.5	200.0	200.0
Intangible assets under devl.	28.4	33.6	38.0	38.0	38.0
Goodwill on Consolidation	0.0	82.8	82.8	82.8	82.8
Non-current investments	17.2	17.9	20.7	20.7	20.7
Deferred tax assets	14.1	0.0	0.0	0.0	0.0
Long term loans and advances	19.0	14.3	34.6	40.2	53.2
Other Non Current Assets	45.1	41.1	14.6	17.0	22.5
Current Assets, Loans & Advances					
Current Investments	111.9	132.5	707.9	707.9	707.9
Inventories	535.7	798.9	1,052.8	1,166.7	1,919.8
Sundry Debtors	661.8	748.7	851.7	1,093.8	1,879.3
Cash and Bank	89.2	134.2	1,619.5	1,864.4	1,000.0
Loans and Advances	6.3	8.3	10.3	10.3	10.3
Other Current assets	286.0	200.7	264.1	307.2	567.4
Current Assets	1,690.9	2,023.3	4,506.3	5,150.2	6,084.7
Total Assets	3,154.8	4,224.8	7,001.9	7,849.6	9,603.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

Year end March	FY19	FY20	FY21	FY22E	FY23E
Per share data (₹)					
Adj. EPS	29.7	33.1	48.6	59.2	77.1
Adj. Cash EPS	36.5	43.0	60.1	72.6	96.8
BV	165.6	189.8	351.5	405.7	477.8
DPS	4.0	4.0	5.0	5.0	5.0
Operating Ratios (%)					
Gross Margin (%)	45.4	45.1	43.8	43.9	45.0
EBITDA Margin (%)	20.3	21.3	22.1	22.9	23.0
PAT Margin (%)	14.4	13.6	16.1	16.9	16.6
Debtor Days	85	81	68	75	75
Inventory Days	69	87	84	80	80
Creditor Days	66	64	63	68	68
Cash Conversion Cycle	88	104	88	87	87
Return Ratios (%)					
Return on Assets (%)	13.0	10.8	10.5	11.5	12.2
RoCE (%)	23.7	20.1	17.2	18.6	20.4
RoE (%)	17.9	17.4	13.8	14.6	16.1
Solvency					
Total Debt / Equity	0.0	0.2	0.0	-	-
Interest Coverage	108.6	37.1	34.1	121.0	NM
Current Ratio	2.1	1.8	3.6	3.4	2.8
Quick Ratio	1.4	1.1	2.7	2.6	1.9
Valuation Ratios (x)					
EV/EBITDA	79.1	64.1	47.8	39.2	30.1
P/E	111.6	100.2	68.3	56.0	43.0
P/B	20.0	17.5	9.4	8.2	6.9
EV/Sales	16.0	13.7	10.6	9.0	6.9

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
PI Industries	3316	3,855	Buy	50,403	48.6	59.2	77.1	68.3	56.0	43.0	47.8	39.2	30.1	17.2	18.6	20.4	13.8	14.6	16.1
Aarti Industries	853	960	Buy	30,927	30.2	72.8	60.0	55.2	22.9	27.8	32.2	23.5	18.0	10.7	12.7	15.3	15.0	16.3	18.7
Sumitomo Chemical	450	400	Buy	22,544	6.9	8.3	9.9	61.1	50.8	42.5	42.3	35.2	28.9	29.8	28.8	27.9	22.4	21.7	21.0
Vinati Organics	1954	2,300	Buy	20,086	26.2	40.2	44.3	74.6	48.6	44.1	56.4	36.2	32.3	21.7	29.4	27.1	17.4	22.1	20.4
Tata Chemical	765	750	Hold	19,487	10.1	23.1	30.8	76.0	33.1	24.9	14.8	11.4	9.4	4.1	6.2	7.2	1.8	4.0	5.2
Navin Fluorine	3720	3,712	Hold	18,413	45.0	53.0	73.1	82.6	70.2	50.9	57.5	49.7	33.9	21.0	19.0	22.6	13.6	14.2	17.0
Rallis India	320	400	Buy	6,215	11.4	12.7	16.0	28.1	25.1	20.0	18.4	16.8	13.0	18.0	17.7	20.0	13.9	13.9	15.3
Sudarshan chemical	752	775	Buy	5,204	20.4	24.4	29.9	36.9	30.8	25.1	19.9	16.5	14.2	15.2	16.3	17.9	19.0	19.5	20.2
Neogen Chemicals	930	1,085	Buy	2,162	13.4	18.6	28.6	65.8	47.6	30.9	35.1	25.7	18.7	15.1	16.7	20.4	17.1	19.6	23.6

Source: Bloomberg, ICICI Direct Research

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