



## 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 Jul 08, 2022

32.87

## High Risk

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

Source: Morningstar

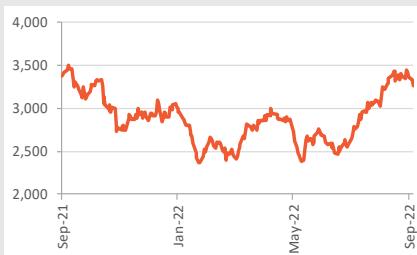
## Company details

Market cap:	Rs. 49,534 cr
52-week high/low:	Rs. 3,533 / 2,334
NSE volume: (No of shares)	2.4 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.1 cr

## Shareholding (%)

Promoters	47
FII	16
DII	26
Others	11

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	1	26	36	-3
Relative to Sensex	-1	18	24	-5

Sharekhan Research, Bloomberg

## PI Industries Ltd

## R&amp;D focus, new molecule powering CSM biz

## Agri Chem

## Sharekhan code: PIIND

## Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 3,265

Price Target: Rs. 3,750



Downgrade

## Summary

- New molecule commercialisation (record 9 in FY22 and target of 7 in FY23), robust order book of \$1.4 bn and focus to broaden new product offerings in non-agrochemical (electronic chemical and pharma) would mean sustained high growth in CSM business.
- Company has strong R&D (team of 400+) focus; it has achieved break-through for developing continuous flow chemistry for one intermediate, commissioning of new chemistry building block (MMH) and pharmaceutical lab at Udaipur (Rajasthan). New technology development key to product launch and sustained high growth.
- Domestic formulation business would outpace industry growth led by yet another year of above-normal monsoon, ramp-up of new launches and focus on horticulture segment through JIVARGO brand.
- We maintain a Buy on PI with a revised PT of Rs. 3,750 (rollover of PE multiple to September-24 EPS). Potential pharma acquisition would improve long-term earnings growth outlook and we are constructive on stock. At CMP, the stock trades at 35x/31x FY24E/FY25E EPS.

PI Industries is well positioned to sustain strong earnings growth momentum (we expect 30% PAT CAGR over FY22-24E) driven by sustained high growth in its CSM export business (robust order book of \$1.4 billion and commercialisation of new molecules) and industry leading growth in domestic formulation business. Focus to expand product portfolio in non-agrochemical space i.e. pharma (target to take revenue share to 20-25%) and electronic chemicals would be supported by strong R&D focus. Potential acquisition in pharma space would improve long-term earnings growth outlook and makes us constructive on the stock. We maintain Buy rating on PI Industries with a revised PT of Rs. 3,750.

- CSM export business – New molecule & robust order book provides strong growth visibility:** PI Industries is India's largest CSM player in the agrochemical space with a robust order book position of ~\$1.4 billion and CSM revenues has grown at an impressive CAGR of 27% over FY20-22. We expect the strong growth momentum to continue supported by 1) commercialisation target of seven new molecules and two new process innovations in FY23, 2) ramp-up of 9 new molecules commercialised (highest ever) in FY22 and 3) A solid order book of \$1.4 billion. Moreover, PI has 40 new products at various stages of development and importantly 35% of pipeline comprises of non-agrochemical products. The company is focused to broaden its product offerings in electronic chemicals and pharmaceutical space (evaluating acquisition options in pharma space in India as well as overseas with target to take pharma revenue share to 20-25%).
- Focus on R&D for development of new products:** With objective to ramp-up R&D capabilities, PI has successfully developed continuous flow chemistry for one intermediate at pilot plant and also implemented a new technology to improve solvent quality and recovery (PSD). The company has also commissioned two multi-purpose plants (MPP) and a new chemistry building block (MMH) in FY22. PI commissioned pharma lab at Udaipur (Rajasthan) and is also working on technology scale up of novel catalysts, enzyme technology and green chemistry (ecoscale). These new technologies would help development of new products and will sustain growth in CSM business.
- Domestic business – Set to outpace industry growth:** Another year of above-normal monsoons bodes well demand for agrochemical products in India, ramp-up of recently launched products, plan to launch 5 new products in FY23 and focused approach towards horticulture segment through JIVARGO makes PI well-placed to exceed industry growth rates in the domestic market.

## Our Call

**Valuation – Maintain Buy on PI Industries with a revised PT of Rs. 3,750:** We maintain our FY23-24 earnings estimate and introduce our FY25 earnings estimate in this report. PI's strong balance sheet provides ample scope for organic and inorganic growth over the medium to long term and its earnings growth outlook (we expect a revenue/EBITDA/PAT CAGR of 21%/27%/30% over FY2022-FY2024E) remains robust supported by CSM order book of \$1.4 billion and ramp-up of nine new products commercialised in last one year. Hence, we maintain a Buy rating on PI Industries with a revised PT of Rs. 3,750 (rollover of P/E multiple to September 2024 EPS). At CMP, stock trades at 35x its FY2024E EPS and 31x its FY2025E 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

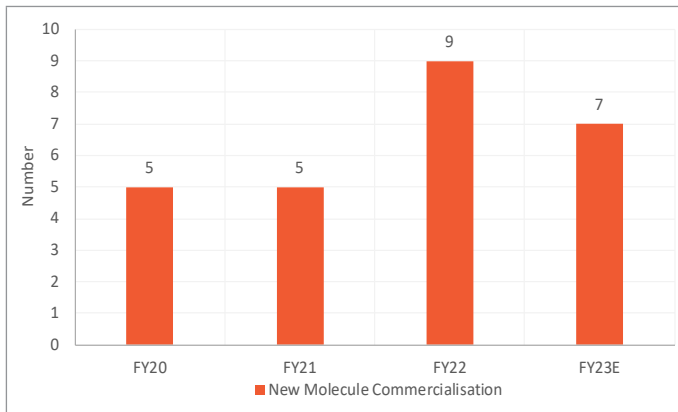
Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	4,577	5,300	6,439	7,746	9,032
OPM (%)	22.1	21.6	22.9	23.8	23.6
Adjusted PAT	740	840	1,135	1,421	1,621
y-o-y growth (%)	62.4	13.5	35.1	25.1	14.1
Adjusted EPS (Rs.)	48.0	55.0	74.5	93.2	106.4
P/E (x)	68.0	59.3	43.8	35.0	30.7
EV/EBITDA (x)	47.0	41.7	32.1	25.3	21.6
P/BV (x)	9.3	8.1	6.9	5.8	4.9
RoCE (%)	21.4	17.0	19.6	21.2	20.7
RoE (%)	18.3	14.6	17.0	18.0	17.3

Source: Company; Sharekhan estimates

## CSM - New products, robust order book and expansion in non-agrochem to sustain high growth

PI Industries has established itself as India's largest CSM player with robust order book at \$1.4 billion, which provides revenue growth visibility over the next couple of years. Despite a staggering 26% CAGR in CSM revenues over FY2018-FY2022, order book in the segment is stable and indicates repeated order inflows on regular basis. Moreover, the company plans to commercialise 7 new products in FY2023 (post commercialisation of record 9 new molecule in FY22), focused to expand product offering in non-agrochem space (electronic chemical and pharma) and have commissioned two multi-product plant (MPP). PI have more than 40 products at different development stages of which > 35% is in non-agrochem side.

### New molecule commercialisation stays robust



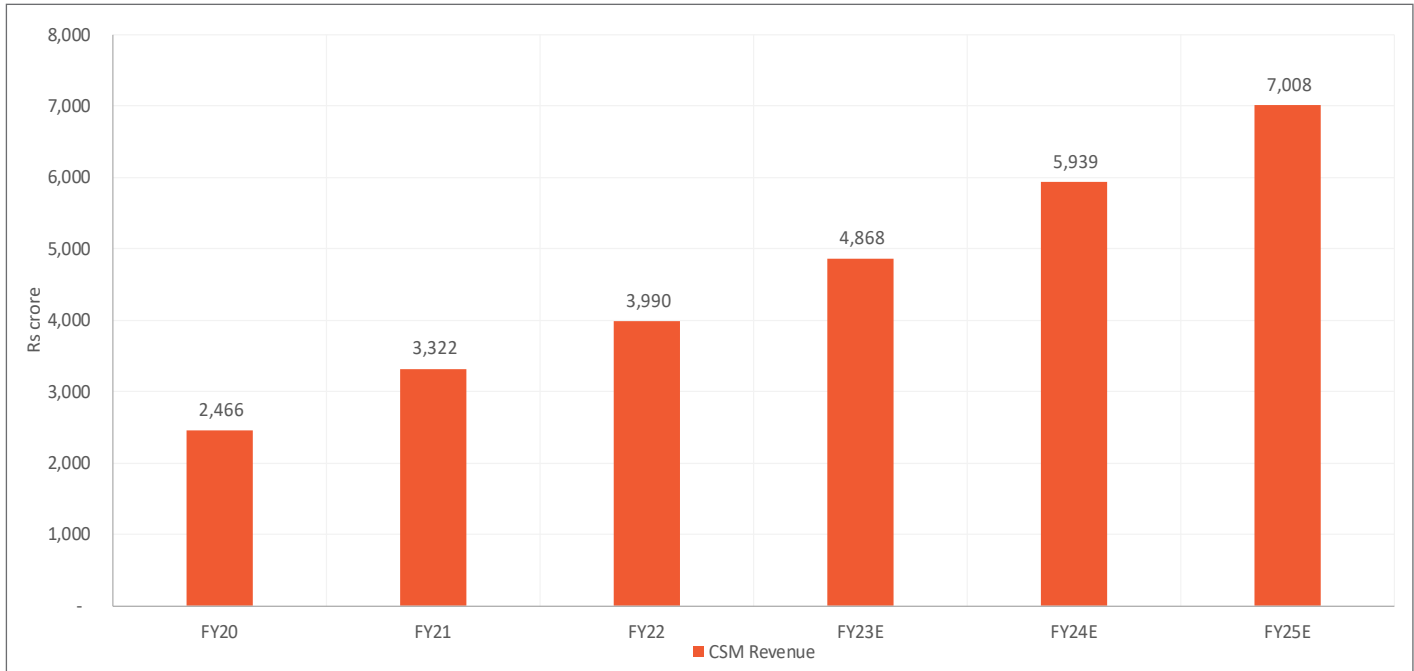
Source: Company, Sharekhan Research

### Strong CSM order book



Source: Company, Sharekhan Research

### CSM revenues to clock 22% CAGR over FY22-FY24E despite high base

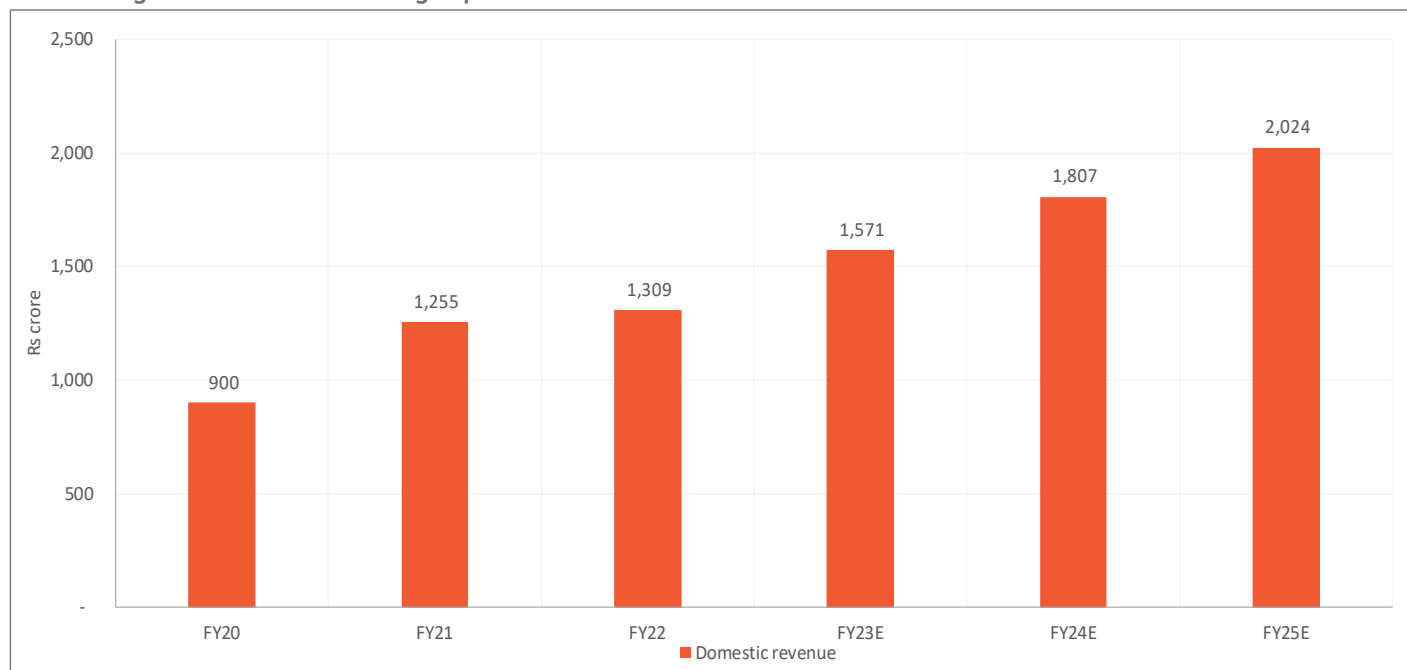


Source: Company, Sharekhan estimates

## Domestic agrichemical business – expect sustained strong growth led by good monsoon and new product launches

PI's domestic agrochemical business is likely to sustain historical growth rates and expect it to grow at 17% CAGR over FY2022-FY2024E, outpacing the industry's growth rate. The high growth would be driven by: 1) Above-normal monsoon would drive strong demand across insecticides, fungicides, herbicides and bio-nutrients, 2) Focus on horticulture through its JIVARGO brand, 3) New product launches (target of 5 new products in FY23) and 4) ramp-up of recently launched new products.

### Domestic agrichemical business likely to post 17% CAGR over FY22-FY24E



Source: Company, Sharekhan estimates

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

<b>Domestic:</b> Focus on portfolio diversification with launch of novel offerings	<ul style="list-style-type: none"> <li>Strong demand is expected for insecticides, fungicides, herbicides and bio-nutrients on the back of normal monsoon predictions</li> <li>"Dual growth engine" with <b>JIVARGRO</b> focusing on horticulture segment</li> <li>Commodity prices remain robust owing to rising global demand</li> <li>5 new products scheduled to be launched in FY23</li> </ul>
<b>CSM Export:</b> R&D focused approach to drive incremental business	<ul style="list-style-type: none"> <li>Continued scale up in demand of some of the existing products</li> <li>Commercialization of 7 new molecules planned in FY23</li> <li>Momentum in new enquiries and conversion to continue</li> <li>Higher capital efficiency in FY23 with focused program to reduce Trade Working Capital</li> </ul>
<b>Efforts to drive strategic initiatives continues</b>	<ul style="list-style-type: none"> <li>2 new process innovations to be commercialized in FY23</li> <li>Identifying new chemistries and building blocks for future growth</li> <li>Precision farming services through farm mechanization (Boom-sprays, Drones)</li> <li>Evaluation of inorganic growth opportunities in pharma continues, both domestic and international options being evaluated</li> </ul>

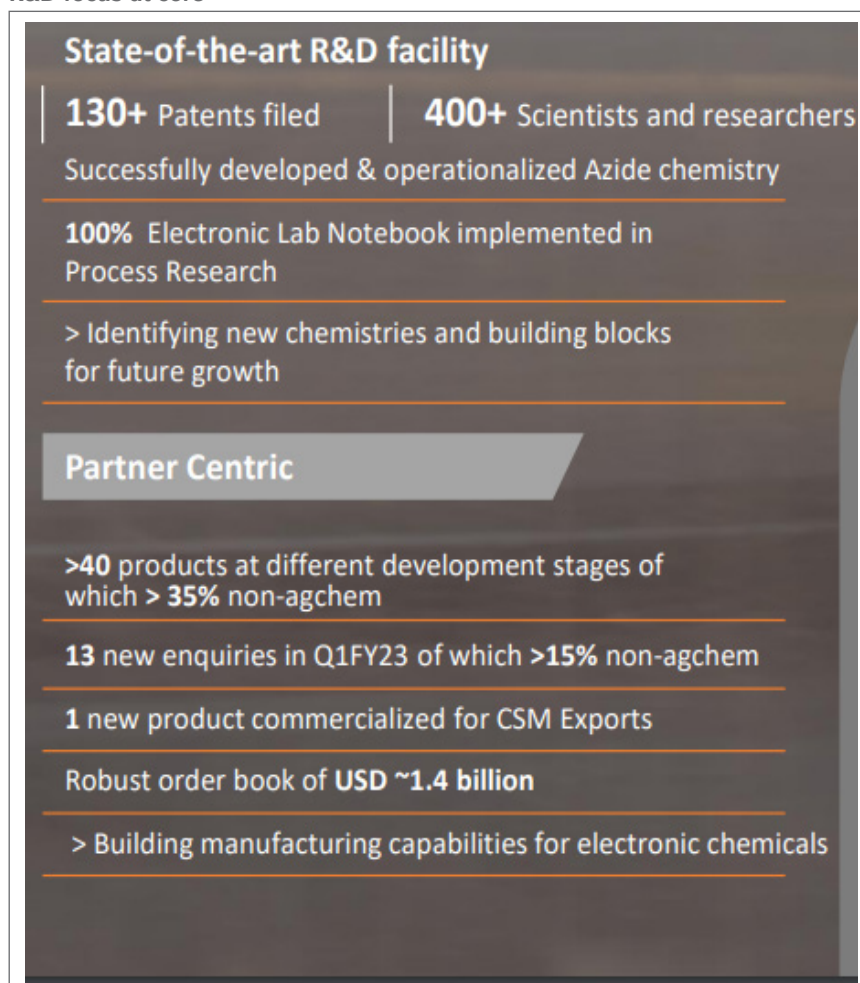
**...Confident of delivering 20%+ revenue growth with continued improvement in margins and returns**

Source: Company

## Focus on R&D for development of new products

Aiming to ramp-up R&D capabilities, PI has successfully developed continuous flow chemistry for one intermediate at pilot plant and also implemented a new technology to improve solvent quality and recovery (PSD). The company also commissioned two Multi-Purpose Plants (MPP) and a new chemistry building block (MMH) in FY22. PI commissioned pharma lab at Udaipur (Rajasthan) and is also working on technology scale up of novel catalysts, enzyme technology and green chemistry (ecoscale). These new technologies would help development of new products and will sustained growth in CSM business.

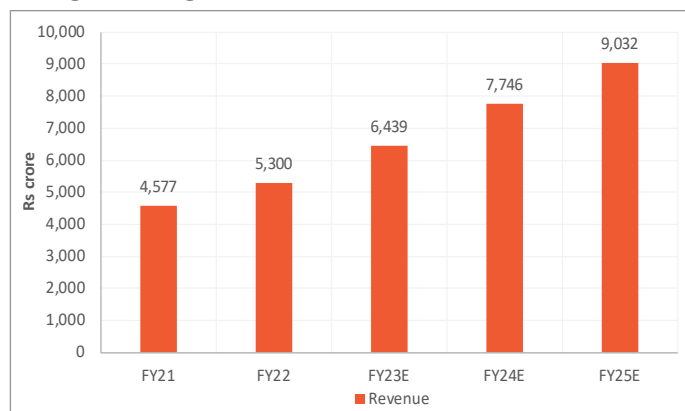
### R&D focus at core



Source: Company

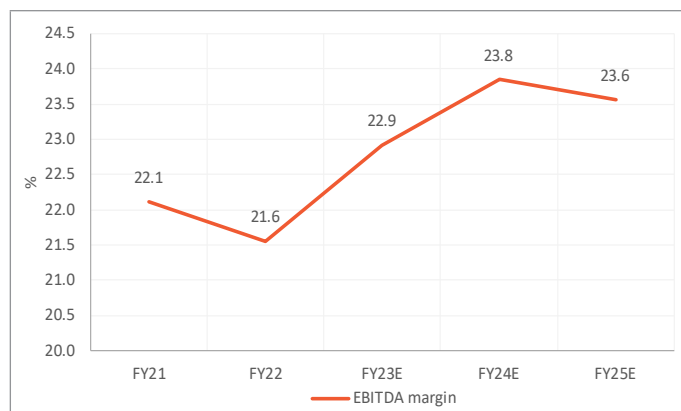
## Financials in charts

### Strong revenue growth outlook



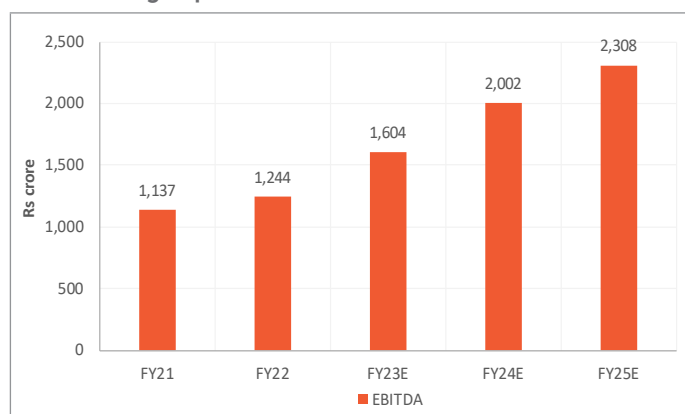
Source: Company, Sharekhan Research

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



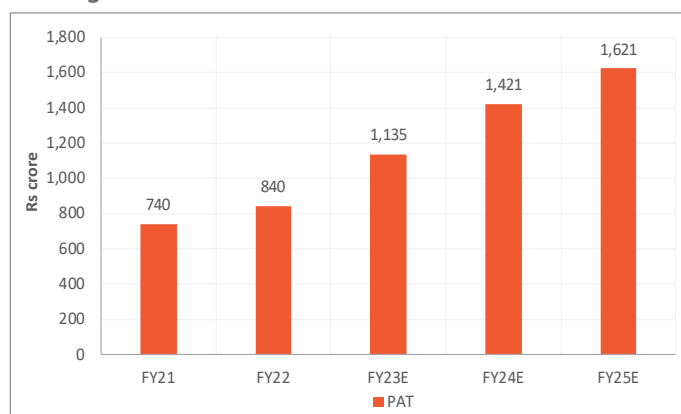
Source: Company, Sharekhan Research

### EBITDA likely to post 27% CAGR FY22-FY24E



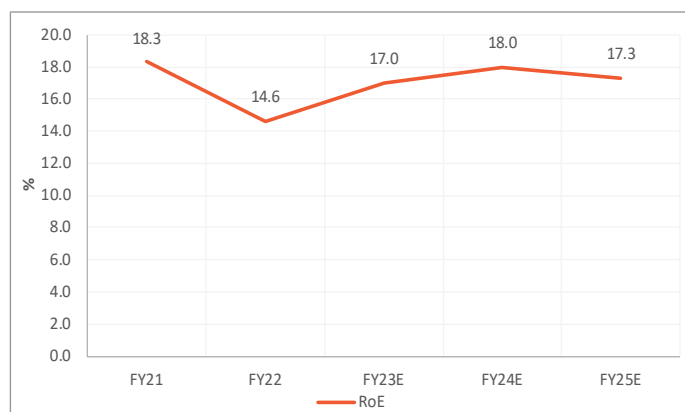
Source: Company, Sharekhan Research

### PAT to grow at 30% over FY22-FY24E



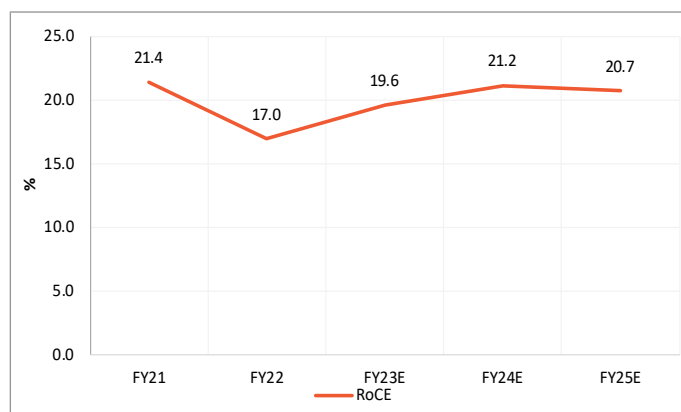
Source: Company, Sharekhan Research

### 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 and favourable regulatory reforms for farmers. The government's focus is to double farmers' incomes (higher MSPs for crops); above-normal monsoons and higher reservoir levels would augment demand for agri inputs in India. We also expect exports from India to grow strongly as the country is being looked as the preferred supplier for agri inputs given supply disruption from China. Thus, we expect India's agrichemicals industry to grow by 7-8% annually on a sustained basis for the next few years.

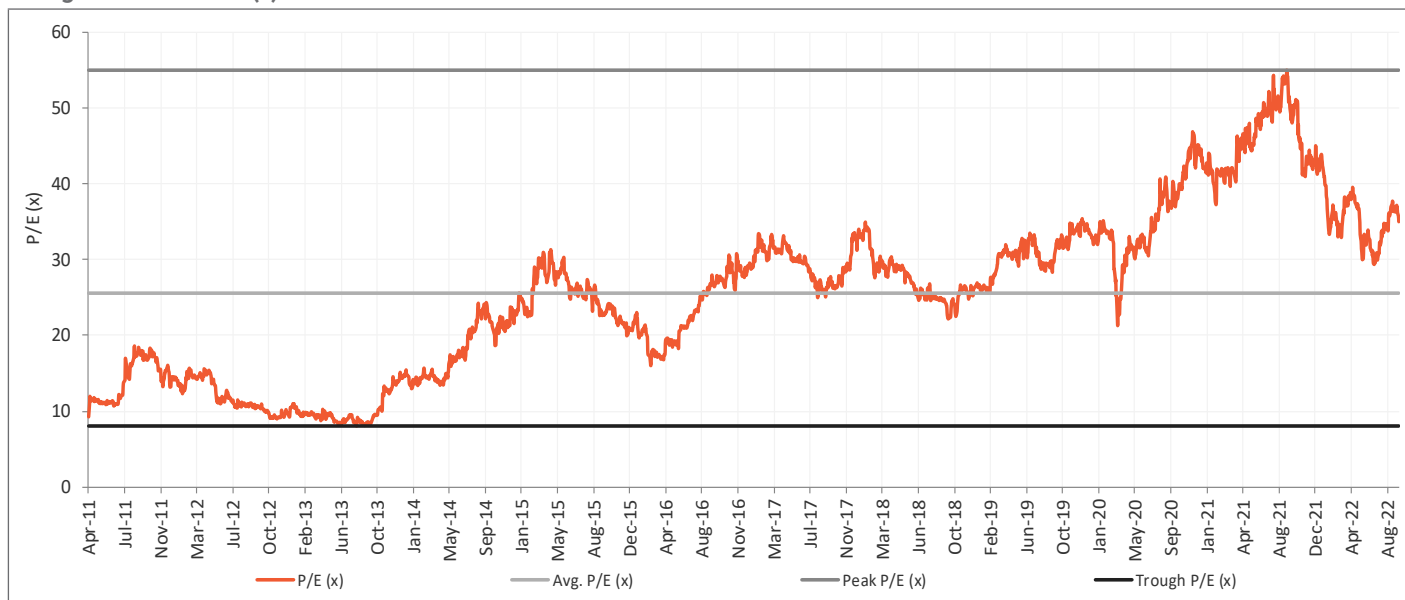
### ■ Company Outlook – Growth prospects strong led by organic and inorganic opportunities

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 20%+ revenue growth and higher margins for FY23. Commissioning of additional capacity and contribution from newly-launched brands would fuel growth. Moreover, the 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. 3,750

We maintain our FY23-24 earnings estimate and introduce our FY25 earnings estimate in this report. PI's strong balance sheet provides ample scope for organic and inorganic growth over the medium to long term and its earnings growth outlook (we expect a revenue/EBITDA/PAT CAGR of 21%/27%/30% over FY2022-FY2024E) remains robust supported by CSM order book of \$1.4 billion and ramp-up of nine new products commercialised in last one year. Hence, we maintain a Buy rating on PI Industries with a revised PT of Rs. 3,750 (rollover of P/E multiple to September 2024 earnings). At CMP, stock trades at 35x its FY2024E EPS and 31x its FY2025E EPS.

#### One-year forward P/E (x) band



Source: Company, 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	5.40
3	Kotak Mahindra Asset Management Co Ltd	2.00
4	Vanguard Group Inc	1.84
5	UTI Asset Management Co Ltd	1.69
6	Blackrock Inc	1.58
7	ICICI Prudential Life Insurance Co Ltd	1.54
8	Canara Robeco Asset Management Co Ltd	1.17
9	Capital Group Cos Inc	0.90
10	SBI Funds Management Ltd	0.76

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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by BNP PARIBAS

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