

Stellar numbers propelled by CSM...

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 agrochem formulation business with the former contributing ~74% to overall revenue in FY22 and the rest coming from the domestic formulations business

Q2FY23 Results: Numbers were above our estimates, led by strong volume growth from CSM and domestic.

- Reported revenue growth of 30.7% YoY to ₹ 1770 crore, CSM (up 29% YoY). The revenue from domestic formulation was up 36% YoY to ₹ 491.7 crore
- Gross margins stayed constant at ~45.2% while EBITDA margin expanded 284 bps YoY to 24.4%. Absolute EBITDA was up 48% YoY to ₹ 431.9 crore
- PAT rose 46% YoY to ₹ 334.8 crore, driven by strong operational efficiency

What should investors do? The stock appreciated at 37.3% CAGR in last three years.

- We downgrade the stock from BUY to **HOLD** as the current valuation more or less fully incorporates buoyant CSM outlook and domestic traction

Target Price and Valuation: We value PI Industries at 45x FY24E EPS to arrive at a revised target price of ₹ 3930/share (earlier ₹ 3710/share).

Key triggers for future price performance:

- Strong order backlog in CSM bodes well for future growth
- Proposed foray into pharma CDMO could expand revenue visibility further and diversify 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

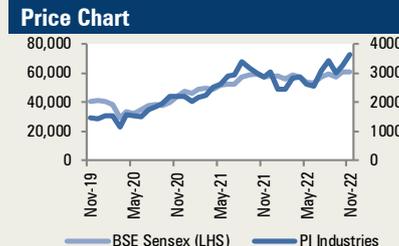
Alternate Stock Idea: Apart from PI Industries, in our chemical coverage, we also like Neogen Chemicals.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1645



Particulars	
Particular	Amount
Market cap (₹ Crore)	54,922
FY22 Total Debt (₹ Crore)	268
FY22 Cash & Inv (₹ Crore)	2,265
EV (₹ Crore)	52,925
52 Week H/L	3695/2334
Equity Capital (₹ Crore)	15.2
Face Value (₹)	1

Shareholding pattern				
in %	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.7	46.7	46.7	46.1
DII	23.0	25.3	25.9	26.0
FII	18.9	16.4	16.0	16.7
Others	11.4	11.5	11.4	11.2



Recent event & key risks

- Strong growth from CSM continues
- Key Risk:** (i) Adverse agri season in North America, Europe may impact CSM growth, (ii) Optimum cash allocation in pending pharma buyout on favourable conditions

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	2,840.9	3,366.5	4,577.0	5,299.5	18.4%	6,293.9	7,372.0	17.9%
EBITDA	576.4	717.8	1,012.2	1,142.4	15.6%	1,378.4	1,666.1	20.8%
EBITDA Margins (%)	20.3%	21.3%	22.1%	21.6%		21.9%	22.6%	
Adj. PAT	410.2	456.6	738.3	843.8	12.9%	1,022.0	1,253.0	21.9%
Adj. EPS (₹)	29.7	33.1	48.6	55.5		67.2	82.4	
EV/EBITDA	76.3x	61.9x	46.1x	40.8x		34.2x	27.8x	
P/E	107.7x	96.7x	65.9x	57.6x		47.6x	38.8x	
ROE (%)	17.9	17.4	13.8	13.8		14.5	15.2	
ROCE (%)	23.7	20.1	17.0	16.3		17.1	18.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q2FY23 Results: Strong growth from CSM led performance.

- **CSM drives topline growth:** Better growth from the CSM business led the revenue growth of 31% YoY. Revenue from CSM was up 29% YoY to ₹ 1278.3 crore, largely driven by better volume growth of ~25% and price and currency by ~4%. On the other hand, revenue from domestic formulation was increased to ₹ 491.7 crore (up 36% YoY), largely driven by better volume growth of ~31% YoY and price by ~5%

Margins expanded YoY: Gross margins remained flattish YoY at 45.2%, while it increased 157 bps YoY. Trend of rising input costs and pass through continued both in exports and domestic during Q2. EBITDA margins grew 157 bps QoQ while it increased 284 bps YoY at 24.4%

Q2FY23 Earnings Conference Call highlights

- **Manufacturing – Operational Improvements**
 - Capital efficiency optimised by:
 - Operational excellence;
 - Statistical data analysis;
 - Process improvement
 - New analytical tool implemented for process monitoring
- **MPP utilisation**
 - New MPP utilisation is ~55-60%
 - As volumes scale up, the company sees 85% utilisation levels in year and a half
- **Customer acquisition / book order**
 - Robust order book of ~\$1.8 billion
 - Significant portion of revenue is from order book
 - Order filling is also continuing on same pace
 - Order book expansion is expected in coming quarter. Order is expected to get increase from current level

Inflation related to raw material

- For some campaign there is sufficient inventory while for some campaign inventory is not available.
- Majority raw material inflation cost has been passed
- However, effects of inflation may be seen in next quarter

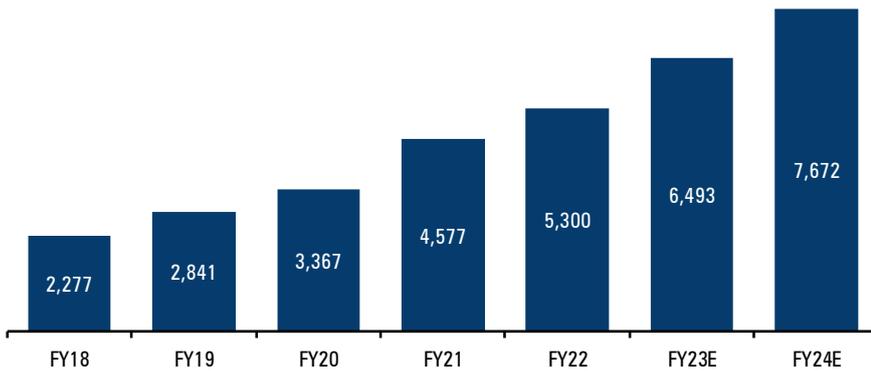
Tax rate - ~16.5%.

Others

- New capex for FY23 - ~₹ 650 crore. (earlier capex declared was ~ ₹ 500 crore)
 - New capex for FY24 - ~₹ 300-400 crore
- Also, 293 registrations received, three more in pipeline for coming year
- 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
 - “Dual growth engine” with focusing on horticulture segment
 - Commodity prices remain robust owing to rising global demand
- CSM Export: R&D focused approach to drive incremental business
 - Continued scale up in demand for some existing products
 - Commercialisation of seven new molecules planned in FY23
 - Momentum in new enquiries and conversion to continue
 - Higher capital efficiency in FY23 with focused programme to reduce trade working capital

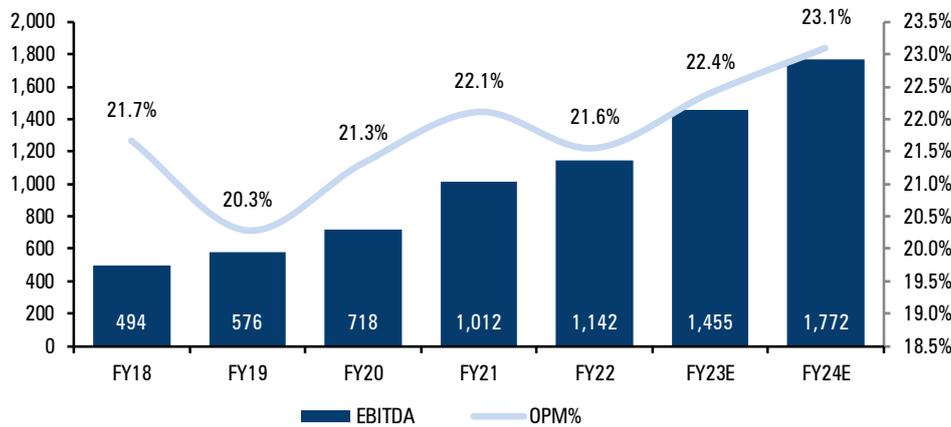
Financial story in charts....

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



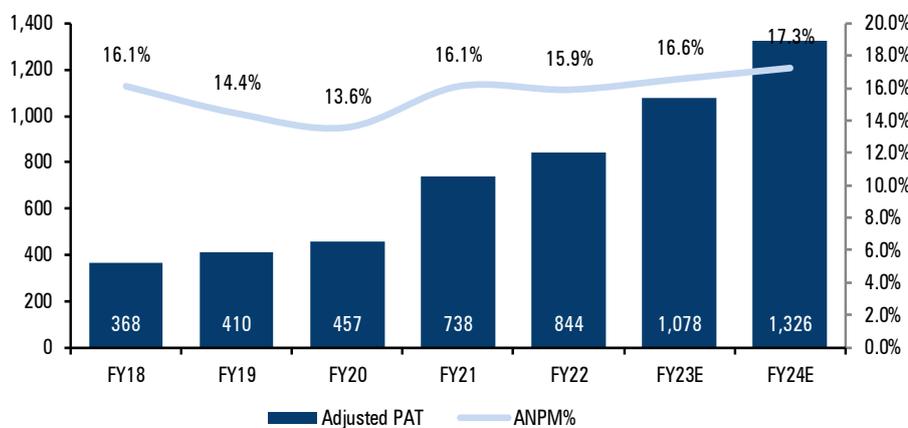
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E
Total Operating Income	4,577.0	5,299.5	6,493.4	7,671.7
Growth (%)	36.0	15.8	22.5	18.1
Raw Material Expenses	2,571.2	2,922.8	3,603.9	4,234.8
Employee Cost	416.9	480.4	558.4	652.1
Other Expenses	576.7	753.9	876.6	1,012.7
Total Operating Expenditure	3,564.8	4,157.1	5,038.9	5,899.5
EBITDA	1,012.2	1,142.4	1,454.5	1,772.2
Growth (%)	41.0	12.9	27.3	21.8
Other Income	124.9	101.4	91.4	105.3
Depreciation	174.8	201.8	245.9	286.1
Net Interest Exp.	28.2	12.8	9.1	3.4
Other exceptional items	0.0	0.0	0.0	0.0
PBT	934.1	1,029.2	1,290.9	1,588.0
Total Tax	200.2	189.0	213.0	262.0
PAT	733.9	840.2	1,077.9	1,326.0
Adjusted PAT	738.3	843.8	1,077.9	1,326.0
Growth (%)	61.7	14.3	27.7	23.0
Adjusted EPS (₹)	48.6	55.5	70.9	87.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
PBT & Extraordinary	938.5	1,032.8	1,290.9	1,588.0
Add: Depreciation	174.8	201.8	245.9	286.1
After other adjustments				
(Inc) / Dec in Working Capital	-130.3	-527.6	-1,200.5	-207.2
Taxes	-164.7	-175.1	-213.0	-262.0
Others	-93.4	-3.2	9.1	3.4
CF from operating activities	724.9	528.7	132.4	1,408.2
Purchase of Fixed Assets	-439.0	-337.1	-800.0	-400.0
Others	-1,991.3	226.7	0.0	0.0
CF from investing activities	-2,430.3	-110.4	-800.0	-400.0
Issue/(Buy back) of Equity	1,978.9	0.0	0.0	0.0
Inc/(dec) in loan funds	-178.6	-72.0	-110.0	-157.8
Dividend paid & dividend tax	-60.7	-75.8	-76.0	-76.0
Others	-49.2	-29.5	-9.1	-3.4
CF from financing activities	1,690.4	-177.3	-195.1	-237.2
Net cash flow	-15.0	241.0	-862.7	771.0
Opening cash	134.2	1,475.7	1,410.2	547.5
Closing cash	1,475.7	1,410.2	547.5	1,318.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
Year end March	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	15.2	15.2	15.2	15.2
Reserves & Surplus	5,327.2	6,105.2	7,107.1	8,357.1
Total Shareholders Funds	5,342.4	6,120.4	7,122.3	8,372.3
Minority Interest	0.0	0.0	0.0	0.0
Long Term Borrowings	257.4	169.9	89.9	0.0
Net Deferred Tax liability	79.6	87.5	87.5	87.5
Other long term liabilities	55.9	57.1	70.0	82.7
Long term provisions	9.6	8.0	9.8	11.6
Current Liabilities and Provisions				
Short term borrowings	70.5	97.9	67.9	0.0
Trade Payables	796.0	924.2	1,295.4	1,505.2
Other Current Liabilities	344.9	298.4	365.6	432.0
Short Term Provisions	45.6	27.7	33.9	40.1
Total Current Liabilities	1,257.0	1,348.2	1,762.8	1,977.3
Total Liabilities	7,001.9	7,791.1	9,142.3	10,531.3
Assets				
Net Block	2,055.4	2,369.7	2,887.6	3,001.5
Capital Work in Progress	249.5	63.8	100.0	100.0
Intangible assets under devl.	38.0	50.7	50.7	50.7
Goodwill on Consolidation	82.8	82.8	82.8	82.8
Non-current investments	20.7	44.8	44.8	44.8
Deferred tax assets	13.2	13.5	13.5	13.5
Long term loans and advances	34.6	189.4	232.1	274.2
Other Non Current Assets	14.6	12.5	15.3	18.1
Current Assets, Loans & Advances				
Current Investments	851.7	854.7	854.7	854.7
Inventories	1,052.8	1,423.4	2,155.0	2,372.7
Sundry Debtors	703.5	868.7	1,499.4	1,651.1
Cash and Bank	1,475.7	1,410.2	547.5	1,318.5
Loans and Advances	7.0	3.0	3.0	3.0
Other Current assets	402.4	403.9	655.9	745.7
Current Assets	4,493.1	4,963.9	5,715.5	6,945.7
Total Assets	7,001.9	7,791.1	9,142.3	10,531.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
Year end March	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Adj. EPS	48.6	55.5	70.9	87.2
Adj. Cash EPS	60.1	68.8	87.1	106.1
BV	351.5	402.7	468.6	550.8
DPS	5.0	6.0	5.0	5.0
Operating Ratios (%)				
Gross Margin (%)	43.8	44.8	44.5	44.8
EBITDA Margin (%)	22.1	21.6	22.4	23.1
PAT Margin (%)	16.1	15.9	16.6	17.3
Debtor Days	56	60	60	58
Inventory Days	84	98	100	95
Creditor Days	63	64	65	65
Cash Conversion Cycle	77	94	95	88
Return Ratios (%)				
Return on Assets (%)	10.5	10.8	11.8	12.6
RoCE (%)	17.0	16.3	17.9	19.0
RoE (%)	13.8	13.8	15.1	15.8
Solvency				
Total Debt / Equity	0.1	0.0	0.0	-
Interest Coverage	34.1	81.4	142.2	NM
Current Ratio	3.6	3.7	3.2	3.5
Quick Ratio	2.7	2.6	2.0	2.3
Valuation Ratios (x)				
EV/EBITDA	52.4	46.4	37.0	29.8
P/E	74.5	65.2	51.0	41.5
P/B	10.3	9.0	7.7	6.6
EV/Sales	11.6	10.0	8.3	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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2482	2,900	Buy	73,579	63.5	61.1	81.3	39.1	40.6	30.5	24.2	24.5	18.7	23.8	19.6	22.6	22.1	18.4	20.5
PI Industries	3620	3,930	Hold	54,922	55.5	70.9	87.2	65.2	51.0	41.5	46.4	37.0	29.8	16.3	17.9	19.0	13.8	15.1	15.8
Aarti Industries	768	885	Hold	27,822	36.1	25.1	31.6	22.7	32.7	25.9	24.0	19.6	16.0	12.0	13.0	13.9	13.3	13.5	14.8
Tata Chemical	1134	1,345	Buy	28,832	47.5	61.2	70.7	23.9	18.5	16.0	14.4	11.1	8.5	6.6	8.1	8.8	6.6	8.0	8.6
Vinati Organics	1981	2,320	Buy	20,366	33.7	40.1	51.5	56.0	47.1	36.7	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	493	570	Buy	24,735	8.5	11.2	12.9	58.1	44.1	38.3	40.3	31.0	26.6	30.2	30.9	28.7	22.0	23.0	21.4
Navin Fluorine	4400	4,570	Hold	21,738	52.3	64.4	91.4	84.2	68.3	48.1	61.2	45.5	31.3	17.8	18.0	20.1	14.0	15.2	18.4
Rallis India	227	250	Hold	4,420	8.4	8.9	12.4	26.9	25.6	18.3	15.5	15.6	11.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	416	515	Hold	2,882	18.8	19.3	28.5	24.0	23.3	15.8	14.2	12.8	9.6	10.9	11.3	15.4	15.6	14.3	18.3
Neogen Chemicals	1413	1,680	Buy	3,523	17.9	27.2	32.9	79.5	52.2	43.2	41.8	30.2	25.0	12.0	15.0	16.2	10.2	13.6	14.3
Astec Lifesciences	2134	2,186	Hold	4,184	45.1	53.0	66.3	47.3	40.2	32.2	28.9	24.9	19.8	19.3	17.2	18.8	22.3	20.8	20.6

Source: Bloomberg, ICICI Direct Research

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