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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 **35.34**
Updated Oct 08, 2022

High Risk

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

Source: Morningstar

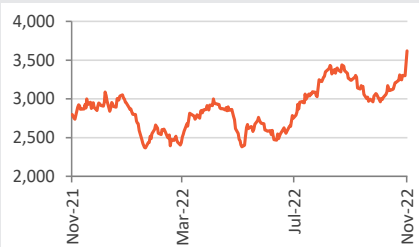
Company details

Market cap:	Rs. 54,922 cr
52-week high/low:	Rs. 3,699/2,334
NSE volume: (No of shares)	2.4 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	46
FII	17
DII	26
Others	11

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	21.3	10.6	46.1	29.3
Relative to Sensex	16.1	6.8	33.8	28.2

Sharekhan Research, Bloomberg

PI Industries Ltd

Q2 continues growth streak; growth guidance maintained

Agri Chem	Sharekhan code: PIIND
Reco/View: Buy	CMP: Rs. 3,620 Price Target: Rs. 4,200
Upgrade	Maintain Downgrade

Summary

- Revenue/OPM of Rs. 1,770 crore/24.4%, up 31%/284 bps y-o-y substantially beat our estimate by 10%/147 bps led by robust growth in CSM/domestic business. PAT of Rs. 335 crore (up 46% y-o-y) was 21% above our estimate of Rs. 277 crore.
- CSM segment's revenue grew by 29% y-o-y to Rs. 1,278 crores despite high base of last year supported by volume growth of 25% y-o-y and favourable pricing and currency impact of 4% y-o-y. Domestic revenue grew strongly by 36% y-o-y to Rs. 492 crores led by 31%/5% volume/price growth. New brands contributed significantly to domestic revenue growth.
- Management re-iterated its FY23 revenue growth guidance of over 20% but is conservative given global uncertainties. CSM order book rose sharply by 29% q-o-q to \$1.8 bn. The domestic business outlook is promising led by product portfolio expansion and strong demand for existing products. We have increased our FY23-25 earnings estimate to factor higher revenue growth and margin.
- We maintain a Buy on PI Industries with a revised PT of Rs. 4,200 (reflects upward revision in earnings estimate). A potential acquisition in the pharma space would improve long-term earnings growth outlook and makes us constructive on the stock. At CMP, stock trades at 37x its FY2024E EPS and 32.4x its FY2025E EPS.

PI Industries Limited (PI) reported stellar Q2FY23 results with 10%/17%/21% beat in revenue, operating profit and PAT at Rs. 1,770 crore/Rs. 432 crore/Rs. 335 crore, up 31%/48%/46% y-o-y led by robust growth in CSM/domestic revenue, beat in OPM and lower tax rate of 15.9% (versus assumption of 17%). The stronger-than-expected revenue growth was led by robust 29% y-o-y increase in revenues from CSM business to Rs. 1,278 crore led by volume growth of 25% and favourable pricing & currency impact of 4%. Domestic revenue growth was also robust at 36% y-o-y to Rs.492 crore led by 31%/5% volume/price growth and newly launched brands contributed significantly to domestic revenue growth. OPM improved by 284 bps y-o-y to 24.4% and was 147 bps higher than our estimate of 22.9%. Margin improvement reflects benefit of price hike to pass on rise in raw material cost, favourable product mix and operating leverage.

Key positives

- Strong revenue growth of 29%/36% y-o-y in CSM/domestic business led by volume growth and price hikes.
- Beat of 147 bps in OPM at 24.4%, up 284 bps y-o-y.

Key negatives

- Sharp rise of 14% y-o-y in depreciation cost.

Management Commentary

- Management maintained FY23 revenue growth of 20%+ and expects margin to improve by few hundred basis points over FY22 margin. The guidance is conservative considering current volatility and global uncertainties.
- CSM order book increased to \$1.8 billion (versus \$1.4 bn earlier) led by higher order from existing agri-chem products and commercialisation of products in the past 3-4 years.
- Capex guidance of Rs. 600 crore for FY23 versus capex spending of Rs. 120 crore in H1FY23.
- Inducted seasoned leadership team for the pharmaceutical foray and actively evaluating inorganic growth opportunities in pharma (both domestic and international).
- PI has launched five new products in H1FY23 in domestic business and has planned to launch 2 more new products in Q3FY23. Target to commercialise six new products (1 product already commercialised) in CSM business in H2FY23.
- Domestic business would see the benefit of expansion in product portfolio into horticulture/wheat and good growth in existing products.

Revision in estimates – We have increased our FY23-25 earnings estimate to higher CSM/domestic revenue growth, higher margin assumptions on benefit of operating leverage and a lower tax rate guidance.

Our Call

Valuation – Maintain Buy on PI Industries with a revised PT of Rs. 4,200: PI's strong balance sheet provides ample scope for organic and inorganic growth in the medium to long term and its earnings growth outlook (expect revenue/EBITDA/PAT CAGR of 21%/25%/27% over FY2022-FY2025E) remains robust supported by CSM order book of \$1.8 billion, ramp-up of 9 new products commercialised in last one year and launch of new products in FY23. Hence, we maintain a Buy on PI Industries with a revised PT of Rs. 4,200. At CMP, stock trades at 37x its FY2024E EPS and 32.4x its FY2025E EPS.

Key Risks

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

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	5,300	6,624	7,967	9,288
OPM (%)	21.6	24.3	24.2	23.9
Adjusted PAT	840	1,230	1,490	1,702
y-o-y growth (%)	13.5	46.4	21.1	14.2
Adjusted EPS (Rs.)	55.0	80.7	97.8	111.7
P/E (x)	65.8	44.9	37.0	32.4
EV/EBITDA (x)	46.4	32.8	27.0	23.1
P/BV (x)	9.0	7.5	6.3	5.3
RoCE (%)	17.0	21.4	21.8	21.3
RoE (%)	14.6	18.3	18.6	17.8

Source: Company; Sharekhan estimates

Stellar Q2 performance; beat on all fronts

Consolidated revenue of Rs. 1,770 crore (up 30.7% y-o-y) was 10% above our estimate of Rs. 1,612 crore. Stronger-than-expected growth was led robust 29% y-o-y increase in revenues from CSM business to Rs. 1,278 crore led by volume growth of 25% and a favourable pricing & currency impact of 4%. Domestic revenue growth was also at 36% y-o-y to Rs.492 crore, led by 31% volume growth and price increase of 5%. OPM improved by 284 bps y-o-y to 24.4% and was 147 bps higher than our estimate of 22.9%. Margin improvement reflects benefit of price hike to pass on the rise in raw material cost, favourable product mix and operating leverage. Consequently, operating profit grew by 47.9% y-o-y to Rs. 432 crore (17% above our estimate). PAT at Rs. 335 crore (up 45.8% y-o-y) was also 21% above our estimates of Rs. 277 crore led by revenues/margin beat, a lower tax rate of 15.9% (versus assumption of 17%) and higher other income (up 14% y-o-y) partially offset by a rise in interest cost (up 3.3x y-o-y).

Q2FY23 conference call highlights

- ◆ **Maintained revenue growth guidance** - The management is confident of delivering an over 20% revenue growth with continued improvement in margins and returns. Management guided for few hundred bps y-o-y improvement in EBITDA margins for FY23. The guidance is conservative cautious considering current volatility and global uncertainties.
- ◆ **Domestic market outlook** - Strong demand is expected for insecticides, fungicides, herbicides and bio-nutrients and the company has diversified product portfolio into horticulture/wheat. Strong demand for the Rabi season, portfolio expansion and good demand for existing products to drive growth in domestic business.
- ◆ **CSM export** - Continued scale-up in demand of the existing products and the company has a R&D-focused approach here to drive incremental business. Sharp increase in CSM order book to ~\$1.8 billion (~\$1.4 billion in Q1FY23) bodes well for sustained growth in export business. The rise in CSM order book was led by higher order from existing agrochemical products and commercialisation products in last 3-4 years.
- ◆ **Update on pharma acquisition** – PI continues to take strategic initiatives like evaluating inorganic growth opportunities in the pharma space, both in domestic and international markets and is parallelly working organically on scale-up of pharma intermediates at R&D and pilot scale. Company has inducted seasoned leadership for Pharma foray and is building an experienced team.
- ◆ **Product launches** – In Q2FY23, the company launched two new products in Domestic agri-chemical business and received 15 new enquiries in H1FY23 out of which more than 25% were for non-agrichem segment.
- ◆ **Guidance on product/ launches**- PI plans to launch two new products in the domestic segment in Q3FY23. It also plans to commercialize six new molecules in the CSM export segment in H2FY23.
- ◆ **Capex** – The company maintained its FY23 capex guidance to Rs. 600 crore for capacity expansion given strong demand traction from CSM export business. Total capex for H1FY23 is Rs. 120.4 crores versus Rs. 161.4 crores in H1FY22. The capex spend is in line with the plan the key focus is to drive higher capacity utilization by improving the throughput.
- ◆ **Other updates** – 1) Guided for tax rate of 16-17% (benefit of SEZ plant) for existing business in case of no inorganic acquisition, 2) Freshness Index at 16-17% of revenues, 3) Target to commercialise 3-4 molecule in agrochemical space and 1 molecule in non-agrochemical space and 4) Net debt of Rs. 2,321 crore as of September 2022.

Results (Consolidated)

Particulars	Rs cr				
	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Revenue	1,770	1,354	30.7	1,543	14.7
Total expenditure	1,338	1,062	26.0	1,191	12.4
Operating profit	432	292	47.9	352	22.6
Other Income	32	28	14.4	28	14.9
Depreciation	56	49	13.8	56	-
Interest	11	3	226.5	14	(19.6)
PBT	397	267	48.4	310	27.9
Tax	63	37	70.0	52	21.9
Reported PAT	335	230	45.8	262	27.6
EPS (Rs.)	22.0	15.1	45.8	17.3	27.6
Margin (%)			BPS		BPS
OPM	24.4	21.6	284	22.8	157
NPM	18.9	17.0	196	17.0	191
Tax rate	15.9	13.9	201	16.6	(78)

Source: Company, Sharekhan Research

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

Domestic: Focus on portfolio diversification with launch of novel offerings	<ul style="list-style-type: none"> • Strong demand for insecticides, fungicides, herbicides and bio-nutrients • “Dual growth engine” with JIVAGRÜ focusing on horticulture segment • Commodity prices to remain robust owing to rising global demand • 5 new products launched in YTM 6MFY23, 2 new products planned in Q3FY23
CSM Export: R&D focused approach to drive incremental business	<ul style="list-style-type: none"> • Continued scale up in demand of the existing products • 6 new products to be commercialized in H2 • Capacity expansion progressing as per plan • Momentum in new enquiries and conversion to continue
Efforts to drive strategic initiatives continues	<ul style="list-style-type: none"> • Inducted seasoned leadership for Pharma foray; building experienced team • Actively evaluating inorganic growth opportunities in pharma, both domestic and international in line with pharma strategy • In parallel, working organically on scale-up of pharma intermediates at R&D and pilot scale
<p>...Confident of delivering 20%+ revenue growth with continued improvement in margins and returns</p>	

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.

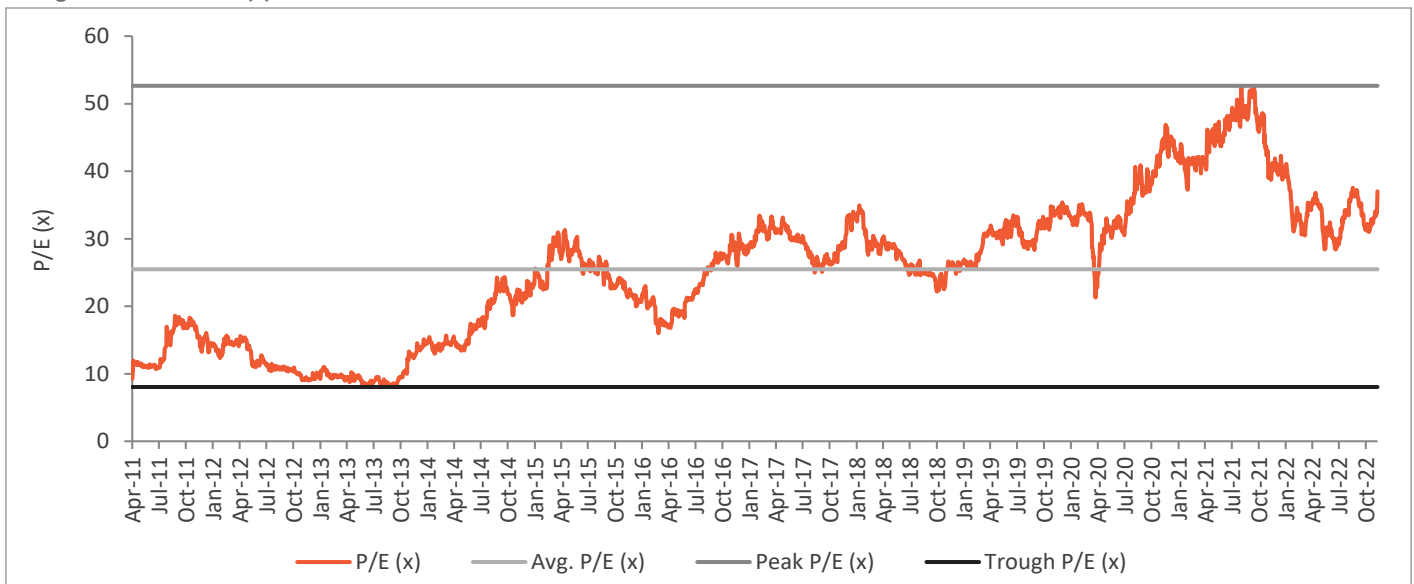
■ Company outlook - Strong growth outlook led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of \$1.8 billion) and the company guided for a 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. 4,200

PI's strong balance sheet provides ample scope for organic and inorganic growth in the medium to long term and its earnings growth outlook (expect revenue/EBITDA/PAT CAGR of 21%/25%/27% over FY2022-FY2025E) remains robust supported by CSM order book of \$1.8 billion, ramp-up of 9 new products commercialised in last one year and launch of new products in FY23. Hence, we maintain a Buy on PI Industries with a revised PT of Rs. 4,200. At CMP, stock trades at 37x its FY2024E EPS and 32.4x its FY2025E EPS.

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 fifteen multi-product plants under its four 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 500 scientists and researchers.

Investment theme

A strong CSM order book of ~\$1.8 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: Bloomberg

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 (Old data)

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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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