Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

# PI Industries Ltd

## Strong order book, likely pharma foray present long growth runway

| Agri Chem | Sharekhan code: PIIND | | |
|---|---|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 3,540 | Price Target: Rs. 4,200 ↔ | |

↑ Upgrade ↔ Maintain ↓ Downgrade

| 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. 53,707 cr |
| 52-week high/low: | Rs. 3,699/2,334 |
| NSE volume: (No of shares) | 2.7 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 | 3.3 | 8.0 | 36.4 | 14.7 |
| Relative to Sensex | 2.0 | 3.4 | 17.1 | 6.2 |

*Sharekhan Research, Bloomberg*


**Summary**

- PI's CSM order book has witnessed robust 29% growth to $1.8 bn and new molecule commercialisation remain strong with a target of seven new molecules for FY23 post record 9 new commercialised in FY22. We expect a robust 22% revenue CAGR in the CSM segment over FY22-25E with the possibility of growth acceleration with likely launch of non-agrochemical products.
- The potential successful acquisition of a pharmaceutical company to provide access to technology, customers, regulator-approved products/assets. The company's target of pharma revenue share of 20-25% hints towards sustained high growth prospects in the CSM business apart from revenue/earnings diversification.
- FY23 revenue growth guidance of over 20% seems conservative to us and have upside potential as H2 is relatively strong for CSM business and strong the Rabi season demand would drive high growth for domestic formulation business. We highlight here that H1FY23 CSM/Domestic revenue growth was very strong at 34%/19% y-o-y supported by high volume growth/price hikes.
- We maintain a Buy rating on PI Industries with an unchanged PT of Rs. 4,200. 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 36.2x its FY2024E EPS and 31.7x its FY2025E EPS.


**PI Industries has established itself as India's largest CSM player in the agrochemical space with a robust order book position of ~$1.8 billion and is focused on diversifying into the pharmaceutical segment (actively looking for pharma M&A opportunity). Robust order book and potential pharma acquisition provides long runway for growth in CSM business apart from de-risking PI Industries from concentration in agrochemical business. Domestic formulation business is also well placed given its Pan-India presence, improved product offerings (expanded into horticulture/wheat) and high growth for exiting products. Overall, we remain confident of sustained high revenue/EBITDA/PAT CAGR of 21%/25%/27% over FY2022-FY2025E and improvement in RoE/RoCE to 19%/22% in FY2024. We maintain our Buy rating on PI Industries with an unchanged PT of Rs. 4,200.**

- **Strong traction in CSM order book – to sustain high growth in CSM business over next 3-5 years:** PI Industries CSM order book increased sharply by 29% to $1.8 billion versus average of $1.4 billion in the past 4-5 quarters. A robust order book position, impressive target to commercialise 7 new molecule in FY23 and ramp-up of recently commercialised molecules (commercialised 9 molecules in FY22) would sustain high revenue growth momentum in the CSM export business for the next 3-5 years. Additionally, PI industries is working on new manufacturing process to widen product offerings for agrochemical and introduce products for non-agrochemical (35% of new product pipeline of 40+ product) and electronic chemicals. Overall, we expect 22% CAGR in CSM revenues over FY22-25E and growth could further accelerate with likely launch of non-agrochemical products.
- **Potential pharma acquisition – Benefit of earnings diversification and provide longevity to CSM growth:** PI Industries is focused to close an acquisition of a pharma company and with respect to that the company has already inducted seasoned leadership team for a foray into the pharmaceutical sector. The target is to acquire a domestic or international pharma company, which provides access to technology, customers, regulator-approved products/assets as it would help grow faster as compared to organic growth. PI Industries targets pharma revenue share of 20-25% over next couple of years and the same hints at accelerated growth prospects for CSM business and efficient capital allocation of QIP money in high-margin/high-RoCE pharma business.
- **Revenue growth guidance of over 20% could surprise positively, margin expansion to continue:** In our view, PI Industries is well-placed to beat its FY23 revenue growth guidance of 20%+ given 1) H1FY23 CSM/Domestic business growth was remarkably higher at 34%/19% y-o-y and overall revenue growth stood at 30% y-o-y, 2) H2 is relatively stronger for CSM business and would get support from ramp-up of nine new molecules commercialised in FY22 (highest ever in any fiscal) and 3) Domestic growth also expected to sustain robust growth on strong Rabi season demand, product portfolio expansion into horticulture/wheat and good growth in existing products. The company's margin is also expected to improve considerably in FY23 led by price hike and operating leverage benefit (Q1/Q2FY23 CSM volume growth of 30%/25% y-o-y and domestic volume growth of nil/31% y-o-y).

**Our Call**

**Valuation – Maintain Buy on PI Industries with an unchanged PT of Rs. 4,200:** 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 21%/25%%/27% over FY2022-FY2025E) remains robust supported by CSM order book of $1.8 billion, ramp-up of nine new products commercialised in last one year and launch of new products in FY23. Hence, we maintain a Buy rating on PI Industries with an unchanged PT of Rs. 4,200. At CMP, stock trades at 36.2x its FY2024E EPS and 31.7x 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 | 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) | 64.3 | 43.9 | 36.2 | 31.7 |
| EV/EBITDA (x) | 45.4 | 32.0 | 26.4 | 22.5 |
| P/BV (x) | 8.8 | 7.4 | 6.2 | 5.2 |
| RoCE (%) | 17.0 | 21.4 | 21.8 | 21.3 |
| RoE (%) | 14.6 | 18.3 | 18.6 | 17.8 |

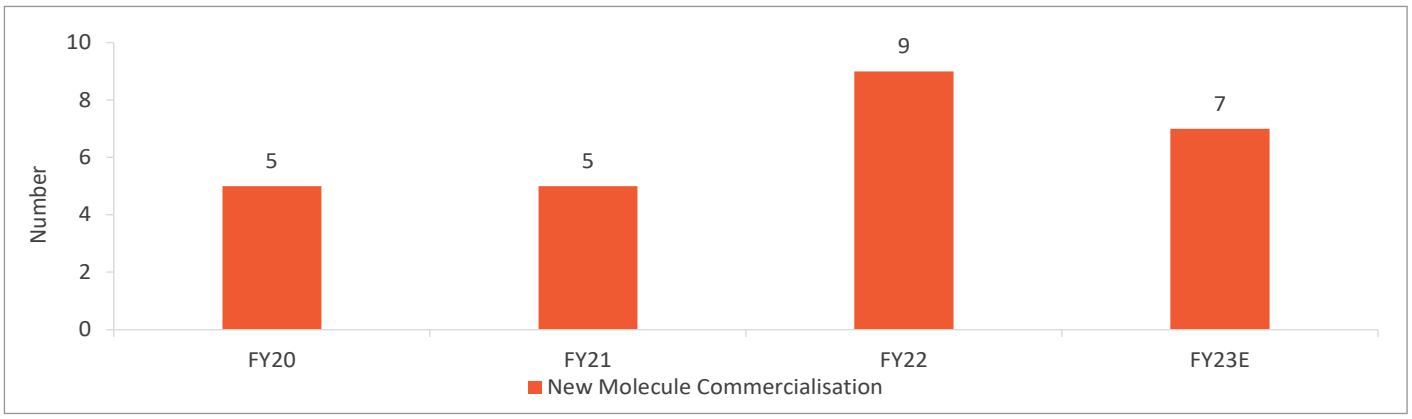
*Source: Company; Sharekhan estimates*

**Commercialisation of new molecules in CSM business to remain strong; robust order book to drive sustained high double-digit growth in CSM revenues**

PI industries' new molecule commercialisation is expected to remain robust as the company targets to commercialise 7 new molecules (1 molecule already commercialised in H1FY23) in CSM in FY23 post commercialisation of record 9 new molecules (which would witness ramp-up in coming years) in FY22. Additionally, the company have more than 40 new products at different development stages of which > 35% is in non-agrochemicals.

The company also saw a sharp increase of $400 million in its CSM order book to ~$1.8 billion (~$1.4 billion in Q1FY23) and the same 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. Continued scale-up in demand of the existing products and a robust R&D focused approach here to drive incremental business. Overall, we expect 22% CAGR in CSM revenues over FY22-25E and growth could further accelerate with likely launch of non-agrochemical products.

**New molecule commercialisation trend is encouraging**

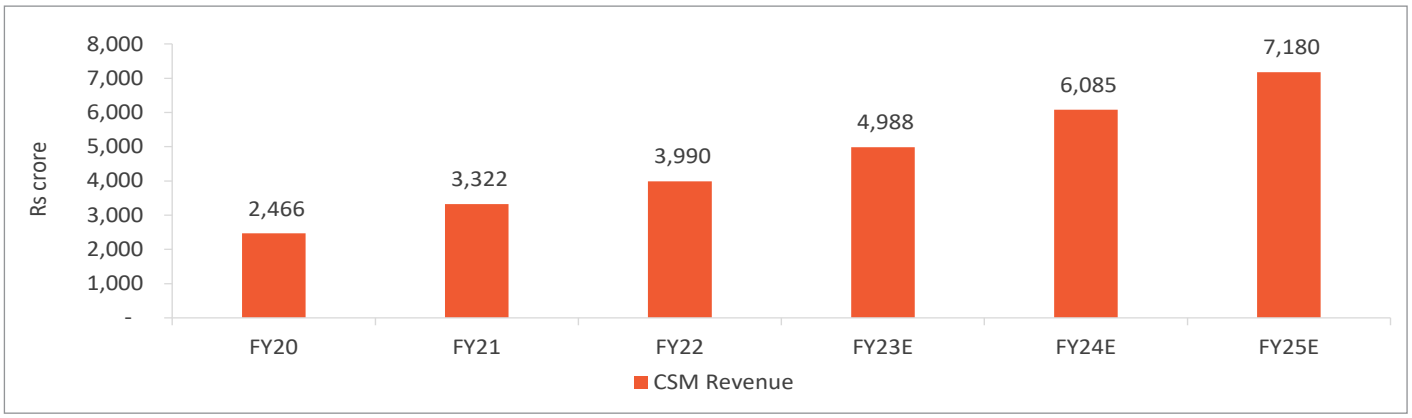



*Source: Company; Sharekhan Research*

**CSM order book up 29% to $1.8bn in Q2FY23**


*Source: Company; Sharekhan Research*

**CSM revenue to clock 22% CAGR over FY22-25E**




*Source: Company; Sharekhan Research*

**A potential pharma M&A – to provide longevity to CSM growth; diversify revenue stream toward high margin pharma products**

To reduce concentration risk with respect to product offering, the company is aiming to diversify into business like pharmaceutical. With respect to the same, the company is evaluating few pharma assets and has inducted seasoned leadership team for Pharma foray. The company's target is to acquire a domestic or international pharma company, which provides access to technology, customers, products and helps grow faster. The company aims to make pharmaceutical business sizeable with a revenue share target of 20-25% over the next couple of years.

**Domestic biz sees strong product launches – expect 17% revenue CAGR over FY22-25E**

The company has launched 5 new products in the domestic market in H1FY23 and targets to launch 2 more products in Q3FY23. Moreover, the Additionally, PI has 17 new products at various stages of development and registration in the domestic market. Ramp-up of new products, higher growth for existing products and solid demand for Rabi season are key drive for PI's domestic agrochemical business. We expect domestic formulation to business to register industry leading revenue growth of 17% over FY22-25E.

**Recent product launches and new product plans for Q3FY23 are as follows:**

1) **Provide** – A herbicide with pre-emergence to post-emergence application on cotton crop.

2) **Dinoace** - A dual action insecticide for cotton crop.

3) **Sectin** - A combination fungicide with excellent curative control against downy mildew and late blight.

4) **Brofreya** – A revolutionary Insecticide bringing technological advancements for Indian farmers

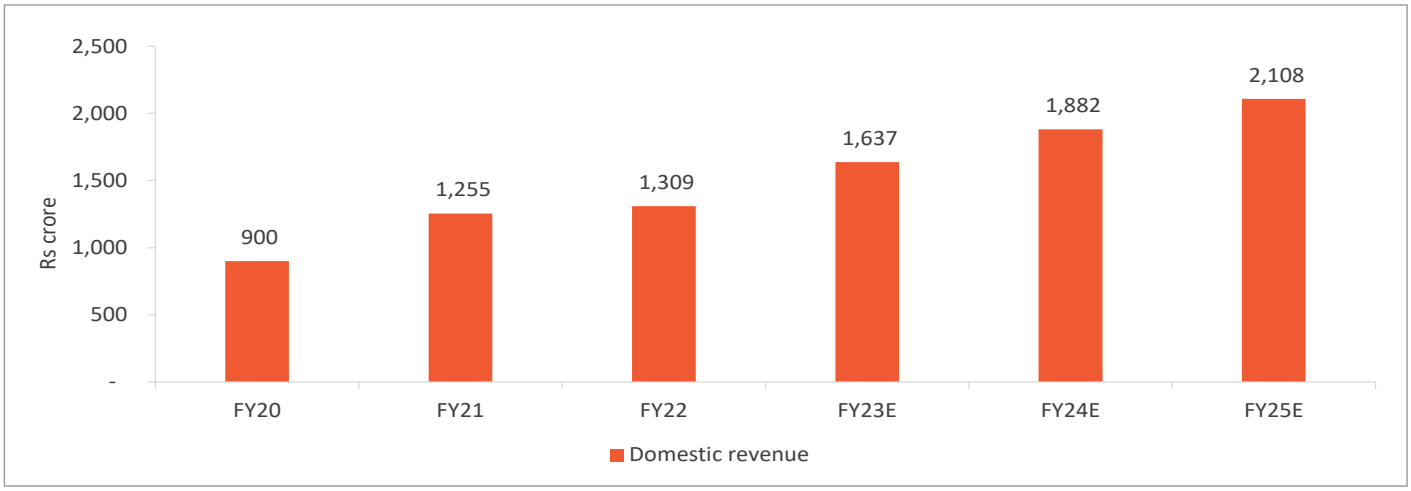
5) **Ultimare** - from Jivagro.

6) New launches planned in Q3FY23 – a) **Taurus**, which is a nematicide for nematode control in vegetable crops and b) **Tomatough** – a biological product which enhances plant health and induces tolerance to viruses.

**Five products launched in domestic business; two more expected in Q3FY23**


*Source: Company*

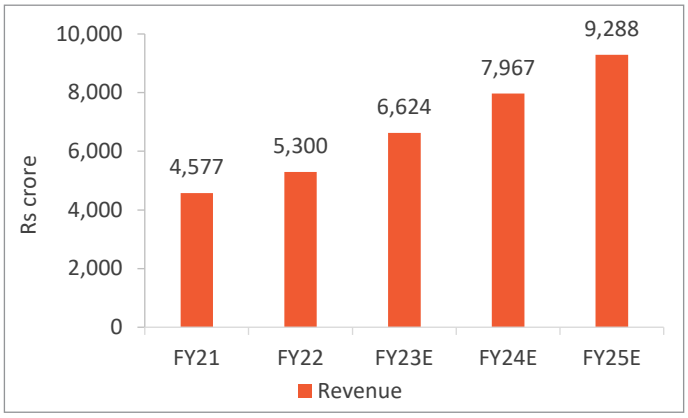
**Domestic business to clock 17% revenue CAGR over FY22-25E**




*Source: Company; Sharekhan Research*

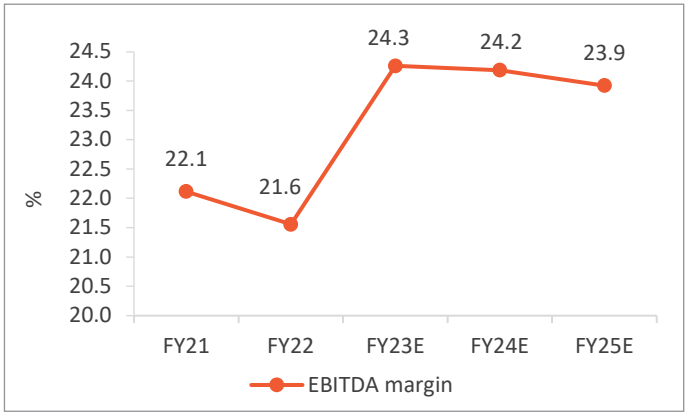
## Financials in charts

**Strong revenue growth outlook**



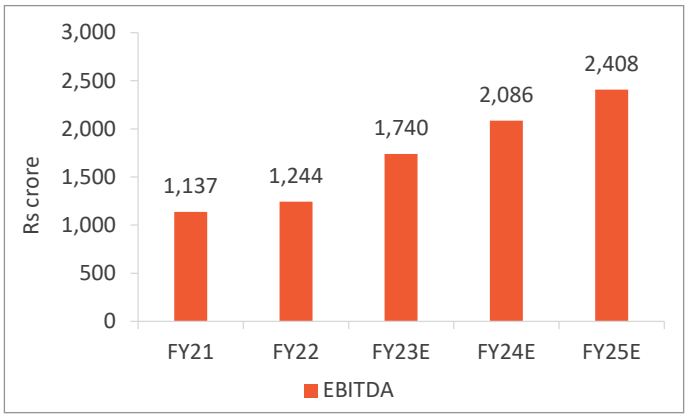

*Source: Company, Sharekhan Research*

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



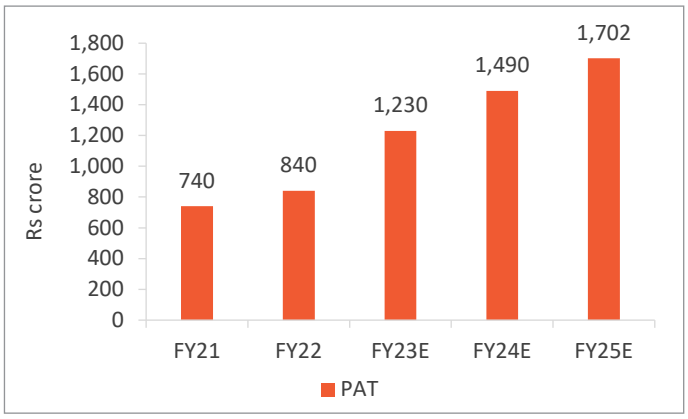

*Source: Company, Sharekhan Research*

**EBITDA likely to post 25% CAGR FY22-FY25E**



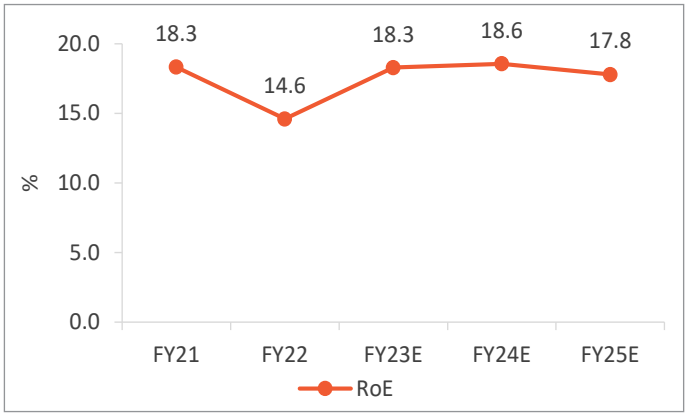

*Source: Company, Sharekhan Research*

**PAT to grow at 27% over FY22-FY25E**



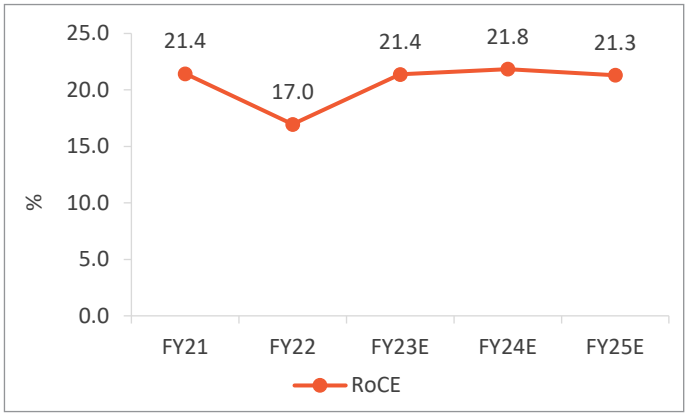

*Source: Company, Sharekhan Research*

**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 at 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.

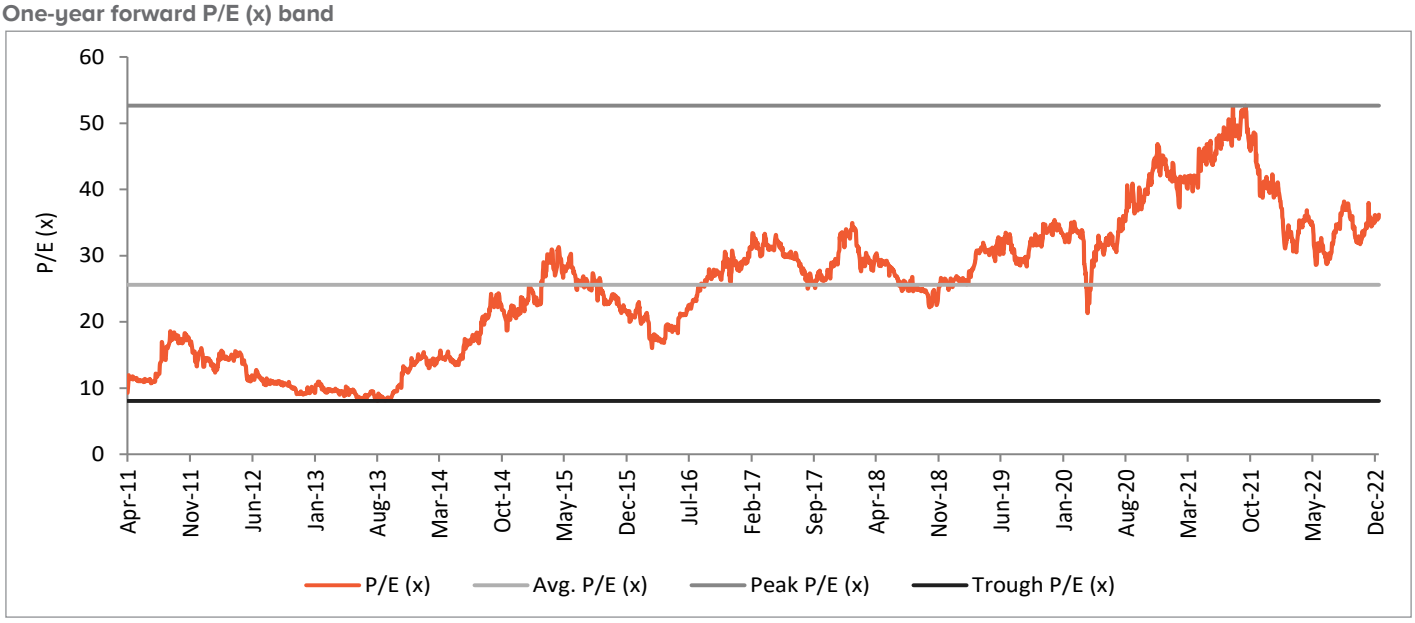
### ■ Company outlook - Growth prospects strong led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of $1.8 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 is expected to be deployed for acquisition of pharmaceutical 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 an unchanged PT of Rs. 4,200

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 21%/25%%/27% over FY2022-FY2025E) remains robust supported by CSM order book of $1.8 billion, ramp-up of n new products commercialised in last one year and launch of new products in FY23. Hence, we maintain a Buy rating on PI Industries with an unchanged PT of Rs. 4,200. At CMP, stock trades at 36.2x its FY2024E EPS and 31.7x 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 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 >$1.8 billion and industry leading 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*

**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)*

## 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 detoriating 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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