



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 Feb 08, 2023

34.61

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 47,355 cr
52-week high/low:	Rs. 3699/2353
NSE volume: (No of shares)	2.8 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	46
FII	19
DII	24
Others	11

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	-8.9	-6.8	19.9
Relative to Sensex	-6.0	-8.0	-9.8	14.5

Sharekhan Research, Bloomberg

PI Industries

Robust Q3; Strong growth momentum to sustain

Agri Chem

Sharekhan code: PIIND

Reco/View: Buy



Upgrade



CMP: Rs. 3,121

Price Target: Rs. 4,200



Downgrade

Summary

- Robust Q3FY23 performance with a 24% y-o-y growth in CSM revenues and a 143 bps beat in OPM at 25.7% (up 387 bps y-o-y). PAT of Rs. 352 crore (up 58% y-o-y) was 17% above our estimates, reflecting strong margins, higher other income and lower tax.
- CSM revenues grew by 24% y-o-y to Rs. 1,329 crore was led by a 9% volume growth and 14% from favourable product mix, price & currency impact. Domestic revenue growth muted at 1.6% y-o-y due to high channel inventory. Margins remained strong led by better product mix, benefit of operating leverage and strict control over fixed overheads.
- The management maintained CSM revenue growth guidance of over 20% for the coming years, which we believe is conservative. PI expects new product launches to drive double-digit growth for domestic business and guided that current margin is sustainable. It invested Rs. 68 crore in PI Health Sciences and CSM order book remains strong at \$1.8 billion.
- The recent 16% fall in stock price from 52-week high level is an investment opportunity given consistent earnings outperformance. We maintain a Buy rating on PI Industries with an unchanged PT of Rs. 4,200. A potential acquisition in the pharmaceutical space would improve long-term earnings growth outlook and makes us constructive on the stock. Stock trades at 27.7x its FY2025E EPS.

Q3FY23 results were strong with continued high growth in its CSM export business, sustained outperformance on margin front and thus operating/PAT was 4%/17% above our estimates. Consolidated revenues grew strongly by 18.9% y-o-y to Rs. 1,613 crore (marginal miss of 1% versus estimate) led by robust 23.5% y-o-y rise in CSM export revenue to Rs. 1,329 crore while domestic revenue growth muted at 1.6% y-o-y to Rs. 285 crore. Continued high growth in CSM export revenues was supported by volume growth of 9% and favourable product mix, price & currency impact of 14% while domestic revenues were impacted by adverse weather conditions and higher channel inventory. OPM surprised positively with sharp 143 bps beat at 25.7% (up 387 bps y-o-y) led by better product mix, benefit of operating leverage and strict control over fixed overheads. Consequently, operating profit grew strongly by 40% y-o-y to Rs. 415 crore (4.4% above our estimate) and PAT at Rs. 352 crore (up 58% y-o-y) was 17.4% above our estimates of Rs. 300 crore due to beat in margins, lower tax rate of 12.1% (versus assumption of 16%), higher-than-expected other income (up 93.1% y-o-y given benefit of forex gain) and lower-than-expected finance cost.

Key positives

- Strong revenue growth of 24% y-o-y in CSM business led by volume growth and higher prices.
- Beat of 143 bps in OPM at 25.7%, up 387 bps y-o-y.

Key negatives

- Subdued 1.6% y-o-y growth in domestic revenues.

Management Commentary

- The management maintained its CSM growth guidance of 20%+ in the coming years and new product launched would drive double digits for domestic business.
- Company expects that current margin is sustainable though there could be variations in quarterly margins.
- PI Industries has invested Rs. 67.5 crore in PI Health Sciences and is aimed for initial set-up for its pharma business. The company is in advance stage of negotiations for inorganics opportunities in pharma space.
- Capex guidance of Rs. 500-600 crore/Rs. 800-850 crore for FY23E/FY24E.
- Other updates – 1) Robust CSM order book of \$1.8 billion, 2) target to commercialise 4-5 new molecules annually, 3) not seeing slowdown for its products in CSM business, 4) Two MPPs under commissioning (one by H2FY24 and another in FY25).

Revision in estimates – We have fine-tuned our FY23-25 earnings estimate.

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 31.7x its FY2024E EPS and 27.7x 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	6,679	8,038	9,376
OPM (%)	21.6	24.1	24.1	23.9
Adjusted PAT	840	1,231	1,501	1,716
y-o-y growth (%)	13.5	46.5	21.9	14.3
Adjusted EPS (Rs.)	55.0	80.8	98.5	112.7
P/E (x)	56.7	38.6	31.7	27.7
EV/EBITDA (x)	39.8	28.1	23.0	19.5
P/BV (x)	7.8	6.5	5.4	4.6
RoCE (%)	17.0	21.4	22.0	21.4
RoE (%)	14.6	18.3	18.7	17.9

Source: Company; Sharekhan estimates

Q3 PAT beat led by robust margin & higher other income; CSM revenue growth of 24% y-o-y

Consolidated revenue of Rs. 1,613 crore (up 18.9% y-o-y) was 1.4% below our estimate of Rs. 1,637 crore. CSM export revenues grew by 23.5% y-o-y to Rs. 1,329 crore led by volume growth of 9% and favourable product mix, price & currency impact of 14%. However, domestic revenue growth was muted at 1.6% y-o-y to Rs. 285 crore due to adverse weather condition and higher channel inventory. OPM improved by 387 bps y-o-y to 25.7% and was 143 bps higher than our estimate of 24.3%. Margin improvement reflects benefit of operating leverage and favourable product mix. Consequently, operating profit grew by 40% y-o-y to Rs. 415 crore (4.4% above our estimate). PAT at Rs. 352 crore (up 58% y-o-y) was 17.4% above our estimates of Rs. 300 crore due to margin beat, a lower tax rate of 12.1% (versus assumption of 16%), higher-than-expected other income (up 93.1% y-o-y) and lower-than-expected finance cost.

Q3FY23 conference call highlights

- ♦ **Revenue growth and margin guidance** – The management maintained its CSM growth guidance of 20%+ in the coming year and new product launched would drive double digits for the domestic business. The company expects that current margin is sustainable though there could be variations in quarterly margin.
- ♦ **Investment in PI Health Sciences and in advance negotiations for in organic opportunities** – PI has invested Rs. 67.5 crore in PI Health Sciences and aims at initial set-up for its pharma business. The company is in advance stage of negotiations for inorganics opportunities in pharma space.
- ♦ **Capex guidance** – The company has guided for Rs. 500-600 crore/Rs. 800-850 crore for FY23E/FY24E. Management indicated that some part of FY23 capex could spill over to next year as there is redesigning of plants. The company has spent Rs. 259 crore in 9MFY23.
- ♦ **Margin improvement** – The management indicated that the Q3FY23 expansion in EBITDA margin was led by 1) Better product mix, 2) Benefit of operating leverage and 3) Strict control over fixed overheads.
- ♦ **Product launches** – In 9MFY23, the company has commercialized three new products in CSM export business and seven new products in domestic agri brands. The company targets to commercialise 4-5 new molecules annually. The company has seen surge in new enquiries with 25% new enquiries were for non-agrichem segment.
- ♦ **Other updates** – 1) Robust CSM order book of \$1.8 billion, 2) not seeing slowdown for its products in CSM business, 3) Two MPP under commissioning (one by H2FY24 and another in FY25, 4) improved efficiencies led to 8-10% increase in plant throughput in current fiscal and 15-20% in FY22, 5) new product revenue share of 17-18%, 6) target non-agrochemical to contribute 20% of revenue in next 4-5 years and 7) tax rate guidance of less than 15% for FY23.

Results (Consolidated)

	Rs cr				
Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	1,613	1,356	18.9	1,770	(8.9)
Total expenditure	1,198	1,060	13.0	1,338	(10.5)
Operating profit	415	297	40.0	432	(3.9)
Other Income	50	26	93.1	32	58.4
Depreciation	57	50	12.7	56	1.3
Interest	9	3	169.7	11	(19.8)
PBT	400	269	48.6	397	0.8
Tax	48	47	3.9	63	(23.1)
Reported PAT	352	223	58.0	335	5.1
EPS (Rs)	23.1	14.6	58.0	22.0	5.1
Margin (%)			YoY (BPS)		QoQ (BPS)
OPM	25.7	21.9	387	24.4	133
NPM	21.8	16.4	540	18.9	289
Tax rate	12.1	17.3	(522)	15.9	(375)

Source: Company, Sharekhan Research

Management maintains 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"> • Growth to be driven by portfolio of new product launches over the last 2 to 3 years • “Dual growth engine” with JIVAGRO focusing on horticulture segment with enhanced portfolio • Commodity prices to remain robust owing to rising global demand...also to neutralize seasonal vagaries • Strong pipeline of products at different stages of development
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 • Solid R&D pipeline – 4 to 5 products to be commercialized every year • Capacity expansion planned to be intensified • 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 • Progressing on new technology areas as per plan

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

Source: 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, 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' incomes (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.

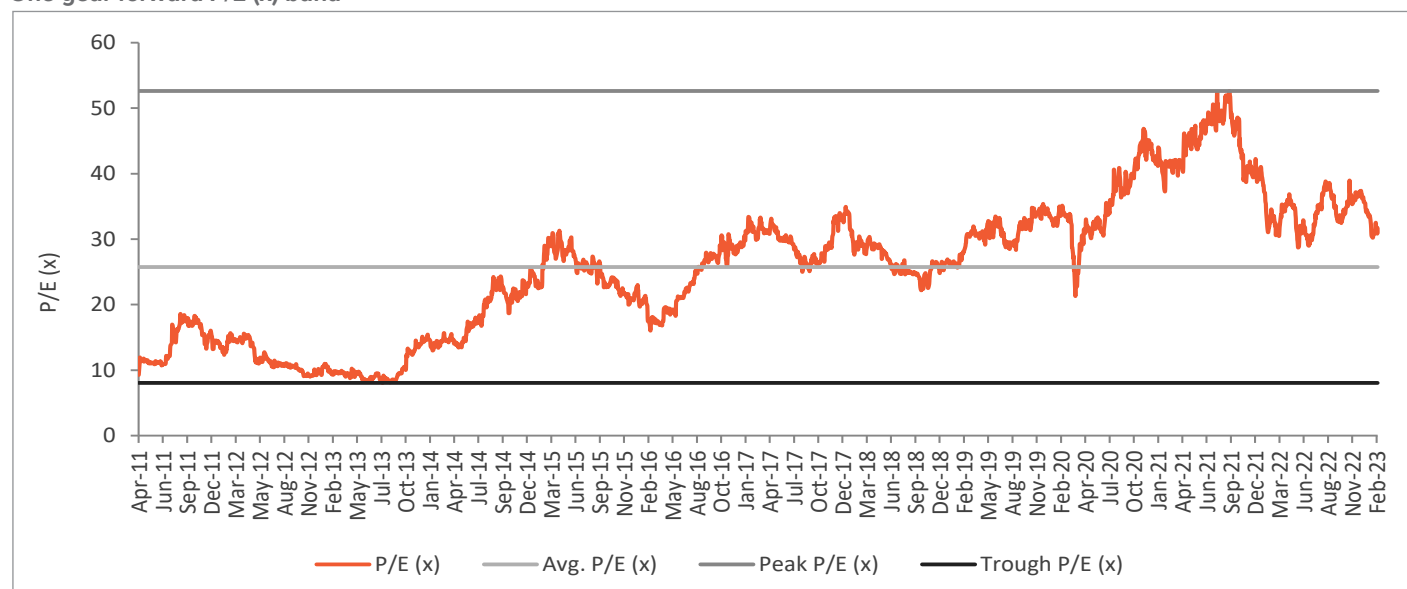
■ Company outlook - Strong growth outlook led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of \$1.8 billion) and the company has guided for 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 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 31.7x its FY2024E EPS and 27.7x 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 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: 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)

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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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

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