

April 28, 2023

Event Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	4,530		4,530	
Sales (Rs. m)	78,143	92,398	78,143	92,398
% Chng.	-	-	-	-
EBITDA (Rs. m)	18,698	22,318	18,698	22,318
% Chng.	-	-	-	-
EPS (Rs.)	94.8	113.1	94.8	113.1
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	52,995	66,028	78,143	92,398
EBITDA (Rs. m)	11,424	15,929	18,698	22,318
Margin (%)	21.6	24.1	23.9	24.2
PAT (Rs. m)	8,402	12,492	14,359	17,140
EPS (Rs.)	55.5	82.4	94.8	113.1
Gr. (%)	14.5	48.7	15.0	19.4
DPS (Rs.)	5.0	7.8	8.4	9.0
Yield (%)	0.1	0.2	0.2	0.3
RoE (%)	14.7	18.7	18.2	18.3
RoCE (%)	15.8	20.1	20.1	20.4
EV/Sales (x)	9.3	7.3	6.1	5.1
EV/EBITDA (x)	43.1	30.2	25.5	20.9
PE (x)	61.0	41.1	35.7	29.9
P/BV (x)	8.4	7.1	6.0	5.1

Key Data

PIIL.BO | PI IN

52-W High / Low	Rs.3,699 / Rs.2,365
Sensex / Nifty	61,112 / 18,065
Market Cap	Rs.513bn/ \$ 6,275m
Shares Outstanding	152m
3M Avg. Daily Value	Rs.1220.89m

Shareholding Pattern (%)

Promoter's	46.09
Foreign	18.60
Domestic Institution	24.24
Public & Others	10.90
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	16.6	5.3	16.8
Relative	9.9	3.3	9.9

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P.I. Industries (PI IN)

Rating: BUY | CMP: Rs3,385 | TP: Rs4,530

Twin acquisition in Pharma to remove overhang

PI Industries (PI) in a press release announced acquisition of two entities through its 100% owned subsidiary PI Health Science (PIHS) in pharma space for a combined consideration of ~Rs 7.1bn (excl. Rs2bn of performance linked payouts over next six years) to be funded through internal accruals and QIP proceeds (Rs 20bn raised in July'20). The transaction includes: 1) Therachem Research Medilab's (TRM US) two wholly-owned subsidiaries in India and certain assets in US and 2) Archimica SPA. Cash purchase consideration of a) USD 50mn for TRM US' subsidiaries with an additional performance-linked payout not exceeding USD 25mn over next six years and b) EUR 34.2 mn for Archimica. PI expects deal completion in 1QFY24 to be earnings accretive from immediate effect.

We believe this would largely remove long overhang on the stock in terms of deployment of QIP funds (raised in July'20) coupled with foray in pharma CSM to diversify risks. Valuations for combined transactions (at ~Rs7.1bn, excl. Rs2.0bn of performance linked payouts over next 6 years) look reasonable at 1.1x/4.2x price/sales and price/EBITDA as against PI's valuation of 7x/29x FY23E. As per our internal estimates, this deal looks EPS accretive to the tune of 5-8% for FY24/25E (to be largely led by superior margin profile of combined acquired entities at ~27%). However, we await further details from the management before incorporating in our estimates. We continue to maintain our positive stance on the stock also keep it as our preferred pick in the sector. Maintain 'BUY' with unchanged TP of Rs 4530 based on 40XFY25 EPS.

Twin acquisition in Pharma CDMO and API: PI Industries in a press release announced that the company along with its wholly owned subsidiary PI Health Sciences Ltd (PIHS) has executed definitive documents with a) Therachem Research Medilab LLC (TRM) - for acquiring its wholly owned subsidiaries in India and assets in the US and b) 100% stake in Archimica.

Key highlights of the transactions:

- Both acquisitions are being made through PIHS, a wholly owned subsidiary of PI, already established for its Pharma foray.
- Purchase consideration comprises of: TRM – USD 50mn, Additional up to USD 25mn in performance-linked pay-outs over next six years. Archimica – Euro34.2mn upon closing.
- Purchase consideration will be paid in cash and funded from completed QIP proceeds and internal accruals.
- Both acquisitions are expected to be earnings accretive with immediate effect.
- Consumption of transaction and integration into corporate structure of PI is expected to be completed during Q1FY24, subject to fulfilment of customary closing conditions and regulatory approvals.

- **About TRM:** TRM is an innovative, chemistry-driven solution provider in medicinal chemistry research and process R&D, specializing in rare diseases. It provides services and products to pharmaceutical and biopharmaceutical companies in preclinical and clinical stages. It has manufacturing facilities in India and R&D facilities in India and US. TRM's R&D team works closely with marquee publicly listed US biotech companies and big pharma companies based in Asia-Pacific in developing their product pipeline. **TRM reported consolidated revenue of ~USD 33 mn with normalized EBITDA of ~USD 14 mn (EBITDA margins of 42%) for the year ended 31st March 2022.**
- **About Archimica:** Archimica is an Italy-based, highly reputable small molecule API manufacturer and a CDMO servicing to over 60 marquee customers in more than 30 countries. Archimica owns 24 US DMFs, GMP manufacturing facility for APIs and Intermediates across wide therapeutic and substance classes such as Oncology, Anti-Ulcer, and Anti-Arthritis. Archimica's manufacturing facility near Milan (Italy) is certified by major regulators such as USFDA and AIFA among others. **Archimica reported revenue of ~USD 45 mn with EBITDA of ~USD 7 Mn (EBITDA margin of 16%) for the year ended 31st December 2022.**

Exhibit 1: Transaction details

Particulars	Nature of business	Net worth (Rs Mn)		Revenue (Rs Mn)		EBITDA FY22 (Rs Mn)		EBITDA margin(%)		Purchase consideration		Valuation	
		FY20	FY21	FY22	FY20	FY21	FY22			USD/ Euro	Rs Mn	Price/ Sales (x)	Price/ EBITDA (x)
TRM US (Only Assets)	Pharmaceutical R&D and manufacturing of key starting materials which are used in the manufacturing of API and other pharmaceutical products.	NA	NA	NA	NA	NA	NA	NA	NA	USD 5mn	409		
TRM India	R&D and manufacturing of chemical compounds which are ultimately used for manufacturing of API (active pharmaceutical ingredients) and other pharmaceutical products	297	514	1,326	312	685	2,061			USD 42mn	3,431		
Solis Pharma	R&D and manufacturing of chemical compounds which are ultimately used for manufacturing of API (active pharmaceutical ingredients) and other pharmaceutical products	-1	38	152	-	-	-			USD 3 mn	245		
TRM Consolidated		832	1,240	2,376	656	1,232	2,680	1,120	42%	USD 50mn	4,085	1.5	3.6
Archimica SPA	Manufacturing of API and other pharmaceutical products. Archimica is also engaged in the business of Contract Development and Manufacturing Organization (CDMO).	1,887	1,529	1,827	2,882	3,485	3,733	560	15%	Euro 34.2 mn	3,078	0.8	5.5
Total		2,719	2,769	4,203	3,538	4,717	6,413	1,680	26%		7,163	1.1	4.3

Source: Company, PL; Note: Note: Considered Euro/INR at Rs90; USD/INR at 81.7

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	52,995	66,028	78,143	92,398
YoY gr. (%)	15.8	24.6	18.3	18.2
Cost of Goods Sold	29,228	35,967	42,068	49,549
Gross Profit	23,767	30,062	36,075	42,850
Margin (%)	44.8	45.5	46.2	46.4
Employee Cost	4,804	5,370	6,859	8,010
Other Expenses	7,539	8,762	10,518	12,522
EBITDA	11,424	15,929	18,698	22,318
YoY gr. (%)	12.9	39.4	17.4	19.4
Margin (%)	21.6	24.1	23.9	24.2
Depreciation and Amortization	2,018	2,312	2,838	3,262
EBIT	9,406	13,617	15,860	19,056
Margin (%)	17.7	20.6	20.3	20.6
Net Interest	128	304	136	137
Other Income	1,014	1,384	1,589	1,746
Profit Before Tax	10,292	14,697	17,313	20,665
Margin (%)	19.4	22.3	22.2	22.4
Total Tax	1,890	2,205	2,954	3,525
Effective tax rate (%)	18.4	15.0	17.1	17.1
Profit after tax	8,402	12,492	14,359	17,140
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,402	12,492	14,359	17,140
YoY gr. (%)	14.5	48.7	15.0	19.4
Margin (%)	15.9	18.9	18.4	18.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,402	12,492	14,359	17,140
YoY gr. (%)	14.5	48.7	15.0	19.4
Margin (%)	15.9	18.9	18.4	18.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,402	12,492	14,359	17,140
Equity Shares O/s (m)	152	152	152	152
EPS (Rs)	55.5	82.4	94.8	113.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	32,531	37,931	45,981	50,032
Tangibles	31,336	36,386	44,436	48,487
Intangibles	1,195	1,545	1,545	1,545
Acc: Dep / Amortization	8,006	10,318	13,156	16,418
Tangibles	8,006	10,318	13,156	16,418
Intangibles	-	-	-	-
Net fixed assets	24,525	27,613	32,825	33,614
Tangibles	23,330	26,068	31,280	32,069
Intangibles	1,195	1,545	1,545	1,545
Capital Work In Progress	1,145	1,213	1,214	1,215
Goodwill	-	-	-	-
Non-Current Investments	258	458	658	858
Net Deferred tax assets	(875)	(875)	(875)	(875)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	8,547	8,547	8,547	8,547
Inventories	14,234	12,609	13,651	16,098
Trade receivables	8,687	10,896	12,902	15,260
Cash & Bank Balance	14,102	22,469	27,091	37,068
Other Current Assets	2,391	2,391	2,391	2,391
Total Assets	77,911	90,218	1,03,301	1,19,073
Equity				
Equity Share Capital	152	152	152	152
Other Equity	61,052	72,358	85,441	1,01,213
Total Networth	61,204	72,510	85,592	1,01,365
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,699	-	-	-
Trade payables	9,242	9,632	11,275	13,056
Other current liabilities	357	2,667	1,024	(757)
Total Equity & Liabilities	76,447	88,754	1,01,836	1,17,609

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	10,328	14,697	17,313	20,665
Add. Depreciation	2,018	2,312	2,838	3,262
Add. Interest	128	304	136	137
Less Financial Other Income	1,014	1,384	1,589	1,746
Add. Other	(160)	(1,384)	(1,589)	(1,746)
Op. profit before WC changes	12,314	15,929	18,698	22,318
Net Changes-WC	(5,276)	2,116	(3,048)	(4,805)
Direct tax	(1,751)	(2,205)	(2,954)	(3,525)
Net cash from Op. activities	5,287	15,841	12,696	13,988
Capital expenditures	(3,362)	(5,468)	(8,051)	(4,052)
Interest / Dividend Income	-	1,384	1,589	1,746
Others	2,258	(200)	(200)	(200)
Net Cash from Invt. activities	(1,104)	(4,284)	(6,662)	(2,506)
Issue of share cap. / premium	-	-	-	-
Debt changes	(720)	(1,699)	-	-
Dividend paid	(758)	(1,186)	(1,277)	(1,368)
Interest paid	(85)	(304)	(136)	(137)
Others	(210)	10,296	-	-
Net cash from Fin. activities	(1,773)	7,107	(1,412)	(1,505)
Net change in cash	2,410	18,663	4,621	9,978
Free Cash Flow	1,916	10,373	4,645	9,936

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	55.5	82.4	94.8	113.1
CEPS	68.8	97.7	113.5	134.7
BVPS	403.9	478.6	564.9	669.0
FCF	12.6	68.5	30.7	65.6
DPS	5.0	7.8	8.4	9.0
Return Ratio(%)				
RoCE	15.8	20.1	20.1	20.4
ROIC	20.9	31.5	30.3	33.0
RoE	14.7	18.7	18.2	18.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Net Working Capital (Days)	94	77	71	72
Valuation(x)				
PER	61.0	41.1	35.7	29.9
P/B	8.4	7.1	6.0	5.1
P/CEPS	49.2	34.6	29.8	25.1
EV/EBITDA	43.1	30.2	25.5	20.9
EV/Sales	9.3	7.3	6.1	5.1
Dividend Yield (%)	0.1	0.2	0.2	0.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23E
Net Revenue	15,432	17,700	16,132	16,764
YoY gr. (%)	29.3	30.7	18.9	20.2
Raw Material Expenses	8,666	9,697	8,525	9,079
Gross Profit	6,766	8,003	7,607	7,686
Margin (%)	43.8	45.2	47.2	45.8
EBITDA	3,456	4,319	4,151	4,003
YoY gr. (%)	38.9	47.9	40.0	31.3
Margin (%)	22.4	24.4	25.7	23.9
Depreciation / Depletion	560	560	567	625
EBIT	2,896	3,759	3,584	3,378
Margin (%)	18.8	21.2	22.2	20.2
Net Interest	36	111	89	68
Other Income	241	317	502	324
Profit before Tax	3,101	3,965	3,997	3,634
Margin (%)	20.1	22.4	24.8	21.7
Total Tax	516	629	484	576
Effective tax rate (%)	16.6	15.9	12.1	15.8
Profit after Tax	2,585	3,336	3,513	3,058
Minority interest	(39)	(12)	(5)	56
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,624	3,348	3,518	3,002
YoY gr. (%)	45.1	45.2	58.5	46.9
Margin (%)	17.0	18.9	21.8	17.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,624	3,348	3,518	3,002
YoY gr. (%)	45.1	45.2	58.5	46.9
Margin (%)	17.0	18.9	21.8	17.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,624	3,348	3,518	3,002
Avg. Shares O/s (m)	152	152	152	152
EPS (Rs)	17.3	22.1	23.2	19.8

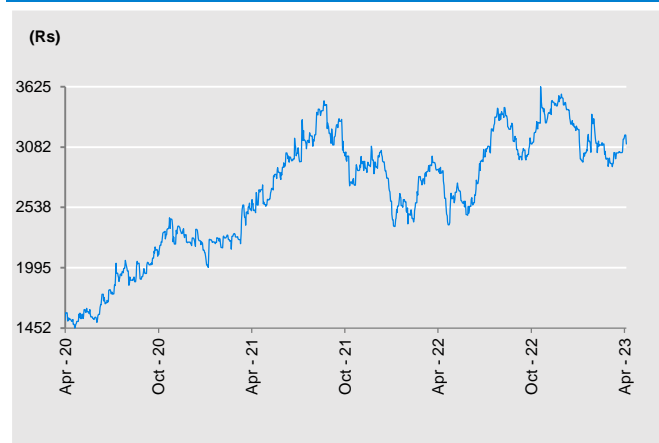
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Revenues				
CSM	39,259	51,429	61,715	74,058
Domestic	11,096	12,039	13,484	15,102

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	4,500	3,030
2	15-Feb-23	BUY	4,500	3,122
3	05-Jan-23	BUY	4,350	3,328
4	09-Nov-22	BUY	4,350	3,624
5	04-Oct-22	BUY	3,450	2,956
6	04-Aug-22	BUY	3,450	3,028
7	04-Jul-22	BUY	3,340	2,581
8	22-Jun-22	BUY	3,340	2,485
9	18-May-22	BUY	3,340	2,630

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bayer Cropscience	Accumulate	5,630	4,125
2	Chambal Fertilizers & Chemicals	BUY	360	279
3	Coromandel International	BUY	1,350	934
4	Dhanuka Agritech	BUY	940	639
5	Godrej Agrovet	Accumulate	570	430
6	Insecticides India	Accumulate	700	491
7	P.I. Industries	BUY	4,500	3,030
8	Rallis India	Hold	200	191
9	Sharda Cropchem	BUY	660	470
10	Sumitomo Chemical India	BUY	590	428
11	UPL	BUY	1,070	735

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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