

BSE SENSEX

61,193

S&P CNX

18,090



Bloomberg	PI IN
Equity Shares (m)	152
M.Cap.(INRb)/(USD\$)	519.7 / 6.4
52-Week Range (INR)	3699 / 2367
1, 6, 12 Rel. Per (%)	11/5/14
12M Avg Val (INR M)	1021

Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	64.5	86.9	101.1
EBITDA	15.8	21.6	25.0
PAT	12.6	16.5	19.2
EBITDA (%)	24.4	24.8	24.8
EPS (INR)	82.8	108.6	126.4
EPS Gr. (%)	49.1	31.3	16.4
BV/Sh. (INR)	478	579	698

Ratios

Net D/E	(0.4)	(0.3)	(0.3)
RoE (%)	18.8	20.6	19.8
RoCE (%)	18.3	20.1	19.4
Payout (%)	9.1	6.9	5.9

Valuations

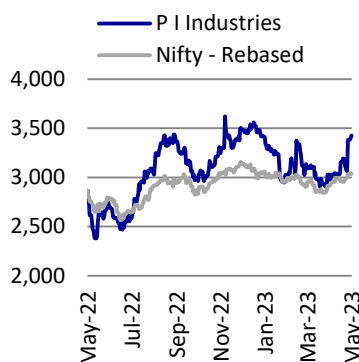
P/E (x)	41.4	31.5	27.1
EV/EBITDA (x)	31.8	23.5	19.8
Div Yield (%)	0.2	0.2	0.2
FCF Yield (%)	2.1	0.1	2.8

Shareholding pattern (%)

As on	Mar-23	Dec-22	Mar-22
Promoter	46.1	46.1	46.7
DII	24.2	24.4	25.3
FII	18.6	18.6	16.5
Others	11.1	10.9	11.5

Note: FII includes depository receipts

Stock performance (one-year)



CMP: INR3,426

TP: INR4,450 (+30%)

Buy

New journey begins with pharma acquisition

PI Industries (PI) has accelerated its journey into the pharma space through two major acquisitions: 1) Therachem Research Medilab LLC's (TRM) wholly owned Indian subsidiary and US based assets, and 2) Italy-based Archimica Spa. TRM and Archimica are engaged in CRDMO (contract research, development and manufacturing organization) of chemical compounds, which are ultimately used for the manufacturing of API (active pharmaceutical ingredients) and other pharmaceutical products.

- PI will benefit from the global presence, R&D capabilities and global clientele of acquired companies and could quickly leverage its knowledge in process chemistry and its operating efficiency to expand into the pharma space.
- The integration of this business is margin accretive and will be quickly scaled up (double in three to four years) with some capex and better capacity utilization.
- Factoring in the acquisition, we increase our earnings estimates for FY24/FY25 by 12% each. We expect a revenue/EBITDA/PAT CAGR of 25%/26%/24% over FY23-25.

What this deal holds for PI

- The acquisition of TRM and Archimica aligns with PI's long-term strategic objective of building a differentiated CDMO offering across the pharma value chain.
- PI can expect synergies in the form of quick implementation of a complex chemistry business process, operational excellence and understanding global customer management.
- TRM and Archimica both have global clientele and have plants in the US, Europe and India. PI will benefit from their strong global clientele and decades long experience.
- Moreover, PI will combine the R&D capabilities of the acquired firms with its upcoming integrated pharma research center in IKP Hyderabad to provide CRO (contract research organization) and CDMO products to a larger client base along the pharma value chain.
- For the long term, the main synergy will be in the form of value accreditation through backward integration in the non-GMP (good manufacturing practice) space.

Rapid scale-up with margin-accretive business

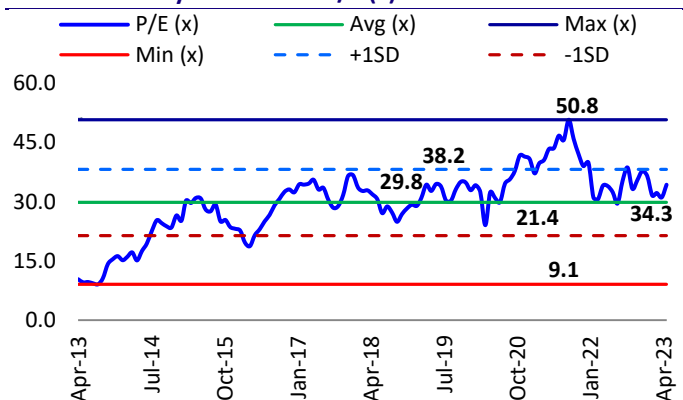
- TRM is in the business of CRDMO where it provides services and products to pharmaceutical and biopharmaceutical companies in the preclinical and clinical stages. This is a high-margin business due to high concentration of patented products.
- In FY22, consolidated TRM generated revenue of INR2.5b (USD33m) and EBITDA of INR1b (USD14m), translating into a healthy margin profile of 42%.
- Archimica is a small CDMO player dealing in generic API and intermediate products across wide therapeutic and substance classes such as Oncology, Anti Ulcer, and Anti Arthritis. Since it is into generic products, the margin profile of this business is lower (~16%) compared to TRM.

- In CY23, Archimica posted revenue of INR3.6b (USD45m) and EBITDA of INR574m (USD7m).
- The current capacity utilization of TRM/Archimica is ~40%/50%, which is expected to improve after the integration with PI.
- Additionally, PI plans a capex of about INR0.8-1.3b (USD10-15m) annually, mainly toward three areas: 1) capacity building for existing pipeline; 2) building business capabilities; and 3) improvement of asset quality.
- Accordingly, the company expects to double revenue from the pharma space over the next three to four years, i.e. CAGR of 20-25% over FY22-25.
- The pharma business is expected to contribute ~10.5%/12% to PI's FY25 revenue/EBITDA (refer Exhibit 6 and 7).

Valuation and view

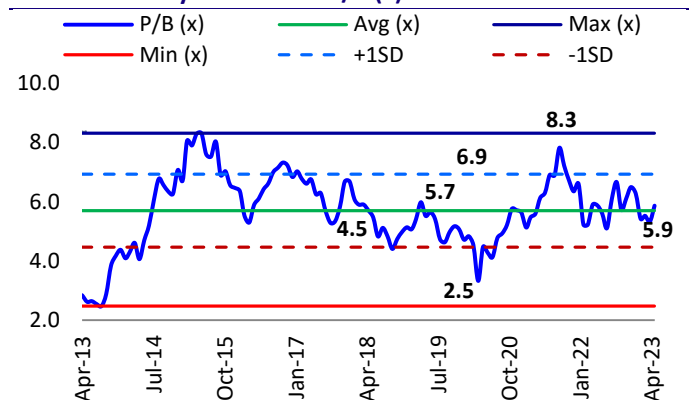
- It was a much-awaited acquisition by PI in the pharma API and CDMO space, which is expected to be one of the key growth pillars for the company in the future. PI is known for pursuing science-led opportunities and has been one of the leading players with a unique business model in the agri-science industry for over seven decades.
- PI has acquired the pharma businesses for INR9.3b (refer note) at a deal/EBITDA valuation of 5.4x, which is significantly lower compared to similar Indian companies (trading at 24-30x FY22 EBITDA) and European peers (trading at ~20x FY22 EV/EBITDA).
- With these acquisitions, the company will create a differentiated position in the pharma sector by leveraging its core competencies in complex chemistry, process development, operational excellence, technology platforms and global reach through partnerships with prominent innovators.
- Factoring in the acquisition, we increase our earnings estimates for FY24/FY25 by 12% each. We expect a revenue/EBITDA/PAT CAGR of 25%/26%/24% over FY23–25. We value the stock at 35x FY25E EPS to arrive at a TP of INR4,450. Maintain BUY.

Exhibit 1: One-year forward P/E (x)



Source: Company, MOFSL

Exhibit 2: One-year forward P/B (x)



Source: Company, MOFSL

Exhibit 3: Deal valuation

Total consideration paid	Notes	Amount
TRM		
Total consideration paid	USD m	75
Exchange rate assumed: USD/INR		82
Total consideration paid	INR m	6,150
Reported EBITDA	INR m	1,148
Valuation (Deal/EBIDTA)	x	5.4
Archimica		
Total consideration paid	EUR m	34
Exchange rate assumed: EU/INR		90
Total consideration paid	INR m	3,096
Reported EBITDA	INR m	574
Valuation (Deal/EBIDTA)	x	5.4
Total consideration	INR m	9,246
Total EBITDA	INR m	1,722
Valuation (Deal/EBIDTA)	x	5.4

Source: Company, MOFSL

Exhibit 4: Incremental PAT working

Particulars (INRm)	Existing Business		Acquired Business		Consolidated Business	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
EBITDA	18,973	21,988	2,598	3,049	21,571	25,037
Less: Depreciation	2,578	2,888	102	205	2,681	3,093
EBIT	16,395	19,100	2,495	2,844	18,890	21,944
Add: Other Income	1,634	1,712	(417)	(296)	1,216	1,416
PBT	18,029	20,812	2,078	2,548	20,107	23,360
Less: Tax (at 17%)	3,065	3,538	353	433	3,418	3,971
Adj. PAT	14,790	17,103	1,725	2,115	16,515	19,218
Incremental PAT					12%	12%

Source: Company, MOFSL

Exhibit 5: Goodwill calculation from the deal

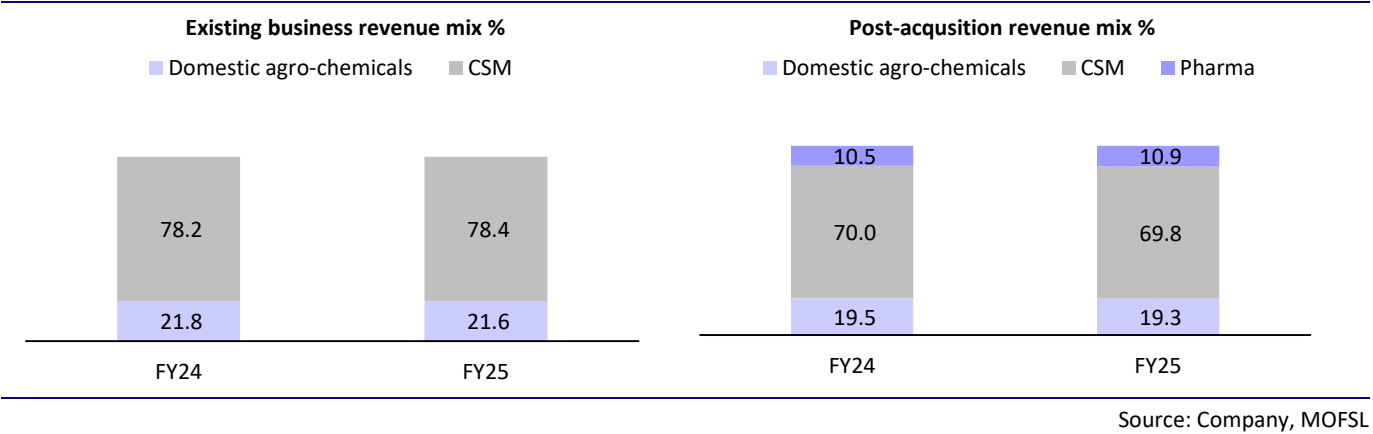
Goodwill Calculation	Units	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	Total
Total consideration to be paid#	INR m	7,196.0	341.7	341.7	341.7	341.7	341.7	341.7	9,246.0
Net Worth									
TRM*	INR m	1,478.0							
Archimica	INR m	1,826.7							
Total net worth	INR m	3,304.7							
Addition in Goodwill	INR m	3,891.3	341.7	341.7	341.7	341.7	341.7	341.7	5,941.3

#includes performance linked payout of USD25m over the next six years

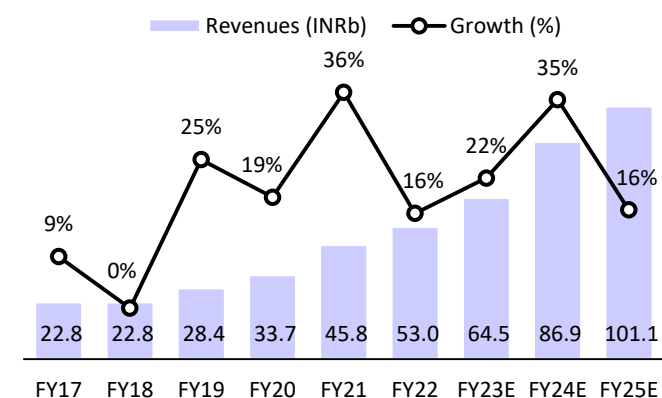
*includes Solis Pharmachem Private Limited which is Indian subsidiary of TRM US.

Source: Company, MOFSL

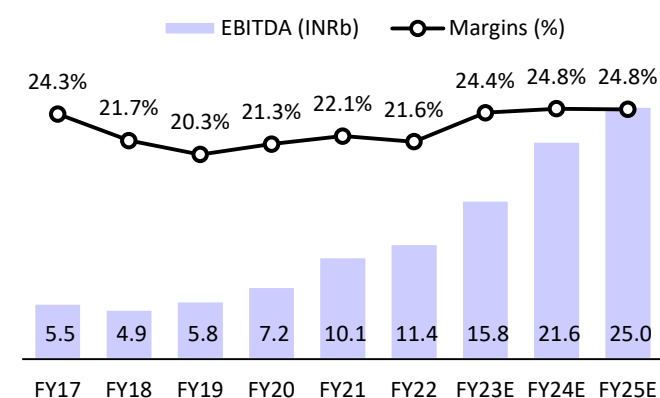
Exhibit 6: Consolidated revenue mix pre- and post-acquisition



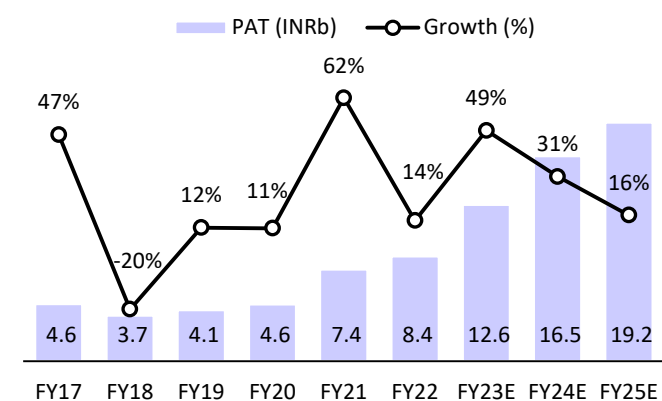
Story in Chart

Exhibit 8: Strong revenue trajectory


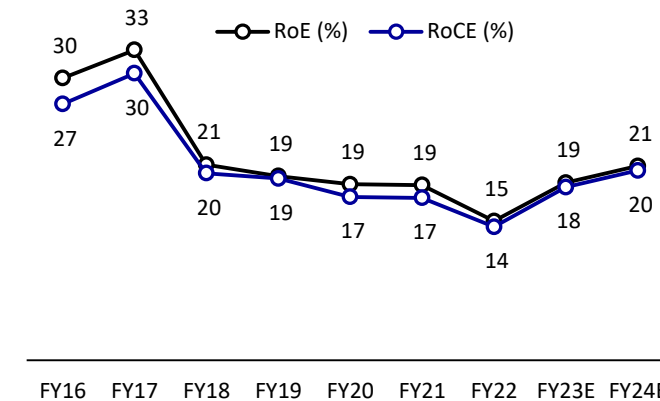
Source: Company, MOFSL

Exhibit 9: Elevated margin levels


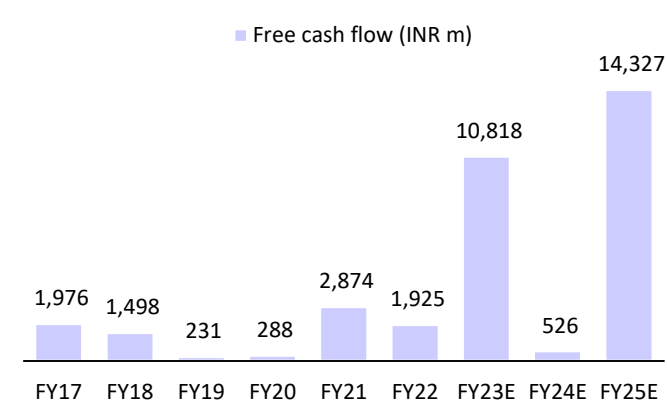
Source: Company, MOFSL

Exhibit 10: Robust earnings trajectory


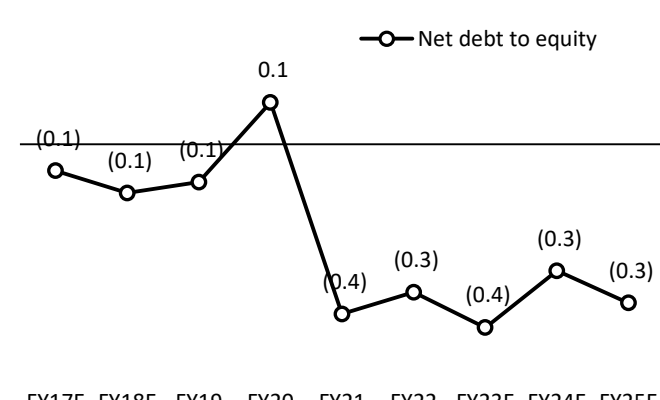
Source: Company, MOFSL

Exhibit 11: Improving return ratios


Source: Company, MOFSL

Exhibit 12: Robust cashflow generation


Source: Company, MOFSL

Exhibit 13: Comfortable leverage position


Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Gross Revenue	23,833	23,087	28,409	33,665	45,770	52,995	64,488	86,891	1,01,137
Excise Duty	1,065	316	0	0	0	0	0	0	0
Net Revenue	22,768	22,771	28,409	33,665	45,770	52,995	64,488	86,891	1,01,137
Change (%)	8.6	0.0	24.8	18.5	36.0	15.8	21.7	34.7	16.4
Cost of Materials Consumed	11,632	11,690	15,502	18,474	25,712	29,228	34,896	47,355	55,119
% of Sales	51.1	51.3	54.6	54.9	56.2	55.2	54.1	54.5	54.5
Personnel Expenses	2,226	2,432	2,647	3,209	4,169	4,804	5,271	6,430	7,484
% of Sales	9.8	10.7	9.3	9.5	9.1	9.1	8.2	7.4	7.4
Other Expenses	3,378	3,715	4,496	4,804	5,767	7,539	8,569	11,535	13,496
% of Sales	14.8	16.3	15.8	14.3	12.6	14.2	13.3	13.3	13.3
Total Expenditure	17,236	17,837	22,645	26,487	35,648	41,571	48,736	65,320	76,100
% of Sales	75.7	78.3	79.7	78.7	77.9	78.4	75.6	75.2	75.2
EBITDA	5,533	4,934	5,764	7,178	10,122	11,424	15,752	21,571	25,037
Margin (%)	24.3	21.7	20.3	21.3	22.1	21.6	24.4	24.8	24.8
Depreciation	730	830	930	1,367	1,748	2,018	2,277	2,681	3,093
EBIT	4,802	4,104	4,834	5,811	8,374	9,406	13,475	18,890	21,944
Int. and Finance Charges	72	53	50	170	282	128	286	289	289
Other Income	366	603	595	489	1,249	1,014	1,510	1,216	1,416
PBT bef. EO Exp.	5,096	4,653	5,379	6,130	9,341	10,292	14,699	19,818	23,071
PBT after EO Exp.	5,096	4,653	5,379	6,130	9,341	10,292	14,699	19,818	23,071
Current Tax	1,035	1,001	1,176	1,259	1,753	1,950	2,616	3,369	3,922
Deferred Tax	-534	-22	101	313	249	-60	-434	0	0
Tax Rate (%)	9.8	21.0	23.7	25.6	21.4	18.4	14.8	17.0	17.0
Less: MI/Profit & Loss of associates	1	-2	0	-8	-44	-36	-63	-66	-69
Reported PAT	4,594	3,676	4,102	4,566	7,383	8,438	12,580	16,515	19,218
Change (%)	47.5	-20.0	11.6	11.3	61.7	14.3	49.1	31.3	16.4
Margin (%)	20.2	16.1	14.4	13.6	16.1	15.9	19.5	19.0	19.0

Balance Sheet (Consolidated)									(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	138	138	138	138	152.0	152.0	152.0	152.0	152.0
Preference Capital	0	0	0	0	0	0	0	0	0
Total Reserves	16,134	19,111	22,716	26,053	53,272	61,052	72,492	87,867	1,05,945
Net Worth	16,272	19,248	22,854	26,191	53,424	61,204	72,644	88,019	1,06,097
Deferred Liabilities	0	0	0	102	796	875	467	467	467
Total Loans	1,198	834	99	5,077	3,279	2,678	2,750	2,750	2,750
Capital Employed	17,470	20,082	22,953	31,370	57,499	64,757	75,861	91,236	1,09,314
Gross Block	12,942	14,298	17,109	24,366	28,921	34,082	39,082	47,386	52,386
Less: Accum. Deprn.	3,492	4,322	5,252	6,619	8,367	10,385	12,662	15,342	18,435
Net Fixed Assets	9,450	9,977	11,857	17,747	20,554	23,697	26,420	32,044	33,951
Goodwill on Consolidation	0	0	0	0	0	0	0	3,891	4,233
Capital WIP	773	899	1,828	1,828	2,875	1,145	1,145	4,145	2,645
Current Investments	824	1,595	1,119	1,325	8,517	8,547	9,547	10,547	11,547
Total Investments	833	1,607	1,291	1,504	8,724	8,995	9,995	10,995	11,995
Curr. Assets, Loans&Adv.	11,760	13,515	16,431	21,169	37,866	44,074	53,273	59,919	79,429
Inventory	4,320	4,520	5,357	7,989	10,528	14,234	13,251	17,854	22,167
Account Receivables	4,237	5,268	6,618	6,465	7,035	8,687	9,717	15,474	18,011
Cash and Bank Balance	1,326	1,307	892	1,342	14,757	14,102	22,566	16,772	28,329
Loans and Advances	1,877	2,420	3,564	5,373	5,546	7,051	7,739	9,819	10,923
Curr. Liability & Prov.	5,544	6,182	8,595	10,878	12,520	13,154	14,972	19,759	22,940
Account Payables	2,878	3,687	5,130	5,909	7,960	9,242	10,230	13,493	15,705
Other Current Liabilities	2,350	2,155	3,049	4,421	4,008	3,555	4,385	5,909	6,877
Provisions	316	340	416	548	552	357	357	357	357
Net Current Assets	6,216	7,333	7,836	10,291	25,346	30,920	38,301	40,160	56,489
Deferred Tax assets	198	267	141	0	0	0	0	0	0
Appl. of Funds	17,470	20,082	22,953	31,370	57,499	64,757	75,861	91,236	1,09,314

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	30.2	24.2	27.0	30.0	48.6	55.5	82.8	108.6	126.4
Cash EPS	35.0	29.6	33.1	39.0	60.1	68.8	97.7	126.3	146.8
BV/Share	107.1	126.6	150.4	172.3	351.5	402.7	477.9	579.1	698.0
DPS	3.6	5.0	3.6	3.6	5.0	5.0	7.5	7.5	7.5
Payout (%)	14.6	25.1	16.4	14.7	10.3	9.0	9.1	6.9	5.9
Valuation (x)									
P/E	113.3	141.6	126.9	114.0	70.5	61.7	41.4	31.5	27.1
Cash P/E	97.8	115.6	103.5	87.8	57.0	49.8	35.0	27.1	23.3
P/BV	32.0	27.1	22.8	19.9	9.7	8.5	7.2	5.9	4.9
EV/Sales	22.9	22.8	18.3	15.6	11.1	9.6	7.8	5.8	4.9
EV/EBITDA	94.1	105.4	90.2	73.1	50.3	44.6	31.8	23.5	19.8
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
FCF per share	14.4	10.9	1.7	2.1	18.9	12.7	71.2	3.5	94.3
Return Ratios (%)									
EBITDA Margins (%)	24.3	21.7	20.3	21.3	22.1	21.6	24.4	24.8	24.8
Net Profit Margins (%)	20.2	16.1	14.4	13.6	16.1	15.9	19.5	19.0	19.0
RoE	32.8	20.7	19.5	18.6	18.5	14.7	18.8	20.6	19.8
RoCE	30.4	19.8	19.2	17.3	17.2	14.1	18.3	20.1	19.4
RoIC	32.3	21.0	20.9	18.9	22.8	21.4	27.8	30.9	29.0
Working Capital Ratios									
Fixed Asset Turnover (x)	1.8	1.6	1.7	1.4	1.6	1.6	1.7	1.8	2
Asset Turnover (x)	1.3	1.1	1.2	1.1	0.8	0.8	0.9	1.0	0.9
Inventory (Days)	69	72	69	87	84	98	75	75	80
Debtor (Days)	65	83	85	70	56	60	55	65	65
Creditor (Days)	90	115	121	117	113	115	107	104	104
Working Cap. Turnover (Days)	78	97	89	97	84	116	89	98	102
Leverage Ratio (x)									
Current Ratio	2.1	2.2	1.9	1.9	3.0	3.4	3.6	3.0	3.5
Interest Cover Ratio	67	77	97	34	30	73	47		
Debt/Equity	0.1	0.04	0.00	0.2	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement (Consolidated)

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	5,095	4,655	5,379	6,138	9,385	10,328	14,699	19,818	23,071
Depreciation	730	830	930	1,367	1,748	2,018	2,277	2,681	3,093
Interest & Finance Charges	72	53	50	170	282	128	286	289	289
Direct Taxes Paid	-1,212	-963	-1,183	-1,048	-1,647	-1,751	-2,590	-3,369	-3,922
(Inc)/Dec in WC	-1,234	-1,045	-1,503	255	-1,303	-5,276	1,083	-7,653	-4,773
CF from Operations	3,451	3,530	3,673	6,882	8,465	5,447	15,755	11,765	17,758
Others	-63	-336	235	99	-1,216	-160	63	66	69
CF from Operating incl EO	3,388	3,194	3,908	6,981	7,249	5,287	15,818	11,831	17,827
(inc)/dec in FA	-1,413	-1,696	-3,677	-6,693	-4,375	-3,362	-5,000	-11,305	-3,500
Free Cash Flow	1,976	1,498	231	288	2,874	1,925	10,818	526	14,327
(Pur)/Sale of Investments	-1,090	-375	427	1,014	-5,516	39	-1,000	-4,891	-1,342
Others	151	266	34	-4,170	-14,413	2,219	0	0	0
CF from Investments	-2,351	-1,805	-3,216	-9,849	-24,304	-1,104	-6,000	-16,196	-4,842
Issue of Shares	0	0	0	0	19,736	0	0	0	0
Inc/(Dec) in Debt	-248	-365	-399	4,562	-1,786	-720	72	0	0
Interest Paid	-72	-53	-50	-179	-244	-85	-286	-289	-289
Dividend Paid	-248	-662	-831	-748	-607	-758	-1,140	-1,140	-1,140
Others	297	-329	173	-317	13,371	-3,275	0	0	0
CF from Fin. Activity	-271	-1,409	-1,107	3,318	30,470	-4,838	-1,354	-1,429	-1,429
Inc/Dec of Cash	766	-20	-415	450	13,415	-655	8,464	-5,794	11,557
Opening Balance	560	1,326	1,307	892	1,342	14,757	14,102	22,566	16,772
Closing Balance	1,326	1,307	892	1,342	14,757	14,102	22,566	16,772	28,329

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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