Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Aug 08, 2023				34.41
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 51,962 cr
52-week high/low:	Rs. 4010/2870
NSE volume: (No of shares)	3.5 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	46
FII	20
DII	23
Others	11

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-6.2	0.3	-11.4	-2.7
Relative to Sensex	-13.5	-7.1	-23.4	-19.2

Sharekhan Research, Bloomberg

Stock Update

Company Update

PI Industries Ltd

Limited impact from Chinese capacity addition; long-term growth intact

Agri Chem	Sharekhan code: PIIND
Reco/View: Buy ↔	CMP: Rs. 3,425 / Price Target: Rs. 4,000 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Capex by Chinese generic players might have limited impact on PI Industries (PI), as the company's formulations are patent protected in key markets over the next few years.
- Slower growth guidance by key customers (Kumiai) is not going to impact PI's delivery schedule to the company, as it has been fixed for the next few years.
- Management has maintained its earlier guidance of 18-20% growth for FY2024, with optimistic long-term guidance as pharma and new molecules are expected to diversify revenue.
- We are lowering our target multiple to factor in near-term demand uncertainties and, thus, we lower our PT to Rs. 4,000 while maintaining our Buy rating on PI.

Recent capex announcement by Chinese generics in Pyroxasulfone is expected to have a limited impact on PI Industries (PI) as combination formulations are patent protected by 2030 in PI's key markets of the U.S. and Latin America. Even after a product is off-patent, volume growth is less likely to get impacted due to superior technology and supply chain of CSM players. As per media reports, management expects to diversify its revenue by commercialising 4-5 products every year in the CSM space. The company's key customer, Kumiai, is forecasting muted growth for the next financial year; however, this is unlikely to have any impact on PI's sales to the company as the schedule for delivery has already been fixed. The company anticipates sustained growth in the future due to its healthy molecules pipeline and growth in integrated CRO-CDMO-API platform for pharma production.

- **Limited impact of new capex in Pyroxasulfone in the short to medium term** – As per media reports, Shandong Weifang Rainbow Chemical has announced its entry into the Pyroxasulfone market with a 2,000 MTPA plant. As per the company's management, Pyroxasulfone faces limited threat in the U.S. from generic competitors as the company has product, process, and intermediate patent protection. Moreover, Pyroxasulfone combination formulations are patent protected by 2030 in PI's key markets of the U.S. and Latin America. The company exports more than 25 products and sells over 35 products in the domestic market. Though Pyroxasulfone's contribution to revenue is significant, management believes other products have the potential to become bigger and replace Pyroxasulfone as each product has its lifecycle. Moreover, Pyroxasulfone, which has a market size of $500-600 million, has the potential to generate multibillion-dollar sales over the next few years. For any product going off-patent, volume growth is less likely to get impacted, though it may witness slight price erosion.
- **Kumiai is guiding muted growth, which is unlikely to impact the company:** One of the key customers (Kumiai) of the company has guided for a meagre 2.7% y-o-y growth in its agricultural chemicals sales for FY2024. This is due to inventory destocking and pricing pressure on many agrochemical companies, which are adjusting their inventory, supply chain, and working capital. This may impact Kumiai sales in the short term. As per media reports, PI's management believes this slowdown will not impact PI's delivery schedule to the company for the next few years as it is fixed by both companies.
- **Management guidance remains intact:** As per media interview, management has maintained its earlier guidance of 18-20% growth for FY2024 despite new capex by competitors. As the company has patent protection for the next few years, we expect limited impact on PI's medium-term growth. The company's pipeline of molecules is diversified across multiple end-user industries. In H1FY2024, the company commercialised three new products in CSM with plans to commercialise 4-5 products every year in this segment. Due to the healthy molecules pipeline, the company expects sustained growth in the future. In pharma, the company is currently integrating CRO-CDMO-API platform. Post integration, management will be able to ramp up production and provide the company with another growth lever.

Our Call

Valuation – Maintain Buy on PI with a revised PT of Rs. 4,000: Recent capex by Chinese generic players might have a limited impact on the company's performance due to patent protection. PI's pharma foray would diversify its earnings stream and drive medium to long-term growth for the company. We expect PI's revenue/EBITDA/PAT to post a strong CAGR of 19%/21%/21% over FY2023-FY2026E, led by robust CSM order book, ramp-up of nine new products commercialised in the last one year, and the launch of new products in FY2024. Growth would further improve post integration of the pharma segment. We are lowering our target multiple to factor in near-term demand uncertainties and, thus, we lower our PT to Rs. 4,000 while maintaining our Buy rating on PI. At the CMP, the stock trades at 28.0x its FY2025E EPS and 24.2x its FY2026E EPS.

Key Risks

1) Delay in the commissioning of projects or execution of orders or delayed orders by clients in the export business can affect revenue growth and 2) higher-than-normal time lag in passing on the increase in raw-material prices could affect margins.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	6,492	7,818	9,281	10,966
Growth (%)	22.5	20.4	18.7	18.2
EBIDTA	1,701	2,047	2,473	2,947
OPM (%)	23.8	24.2	24.6	24.9
Adjusted PAT	1,223	1,574	1,869	2,162
y-o-y growth (%)	45.5	28.7	18.7	15.7
Adjusted EPS (Rs.)	80.0	103.1	122.5	141.8
P/E (x)	42.8	33.2	28.0	24.2
EV/EBITDA (x)	31.7	25.6	20.7	16.9
P/BV (x)	7.2	6.0	4.9	4.1
RoCE (%)	21.3	22.4	22.5	22.5
RoE (%)	18.3	19.7	19.3	18.6

Source: Company; Sharekhan estimates

Company has maintained its target of achieving 18-20% revenue growth in FY2024

Management has maintained its FY2024 revenue growth forecast of 18% to 20% despite new capex by competitors. As the company holds patent protection for the next few years, we expect a limited effect on PI's medium-term growth.

Domestic:
Focus on portfolio diversification with high quality revenue

- Monsoon deficit in south and low reservoir levels
- Elevated inventory levels in the industry for row crop agchem products and price pressure from generics
- Focused to support farmers with a crop solution approach and new brand launches
- Expecting recovery in niche crop segments

CSM Export:
Technology focused approach to drive incremental business

- Continued scale up in demand of the existing and newly commercialised products
- Solid R&D pipeline of diversified portfolio of agchem, electronic, imaging and other specialty chemicals - 4 to 5 products to be commercialized every year
- Capacity expansion in line with plan
- Momentum in new enquiries and conversion to continue

Health Science:
Building a differentiated play in Pharma CDMO space

- Build-up of Hyderabad research center and staffing at full swing
- Operating model, functional and IT integration of acquired companies (Archimica, Therachem Medilab) underway
- Working with global advisors for business transformation across Commercial, R&D, Manufacturing, Supply Chain
- Capex committed for upgrade of facilities and building cutting-edge capabilities

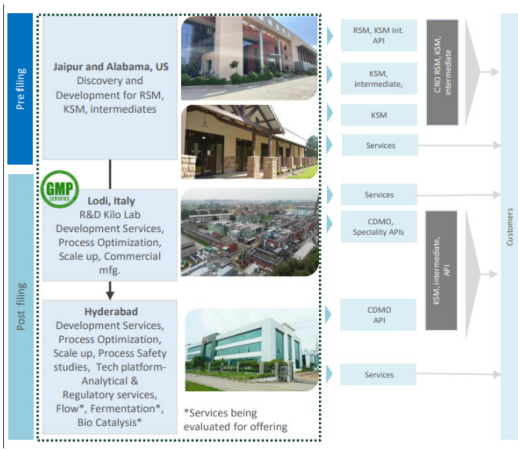
Progressing on strategic initiatives in line with plan

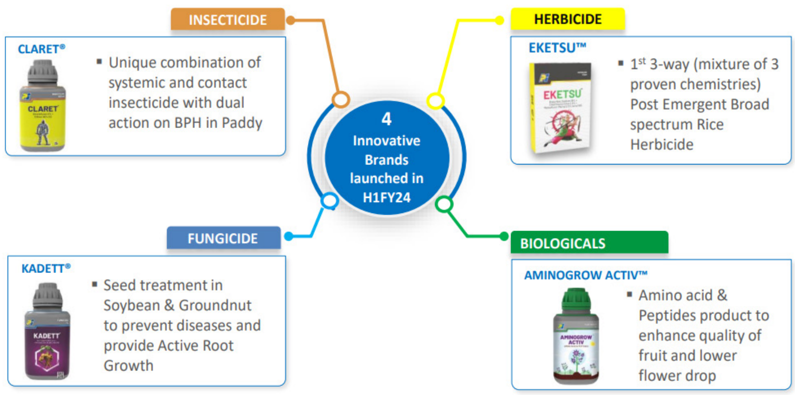
- Strong pipeline of Biologicals and Biostimulant products at different stages of development
- Working on new technologies and building blocks for future growth
- Discussions continues with global innovators for development partnership of promising R&D leads
- Evaluation of opportunities for inorganic growth continues in multiple strategic areas

Source: Company

Pharma and new molecules expected to diversify revenue in the long term

Due to the healthy molecules pipeline, the company expects sustained growth in the future. In pharma, the company is currently integrating CRO-CDMO-API platform. Once the integration is complete, management will be able to ramp up production and provide the company with another growth lever.





Source: Company

Kumiai's growth guidance

One of the key customers (Kumiai) of the company has guided for a meagre 2.7% y-o-y growth in its agricultural chemicals sales for FY2024. PI's management believes this slowdown will not impact PI's delivery schedule to the company for the next few years as it is fixed by both companies.

Kumiai full-year FY2023 results

Results for full-year FY10/23 (November 2022–October 2023)

- Sales: JPY161.0bn (+10.8% YoY)
- Operating profit: JPY14.1bn (+11.2% YoY)
- Recurring profit: JPY24.1bn (+2.3% YoY)
- Net income attributable to owners of the parent: JPY18.0bn (+10.4% YoY)

Agricultural Chemicals and Agriculture-Related Businesses

- Sales: JPY129.5bn (+15.2% YoY)
- Operating profit: JPY14.8bn (+13.3% YoY)

Kumiai forecast for FY2024

The company's full-year FY10/24 earnings forecast is as follows.

- Sales: JPY167.0bn (+3.7% YoY)
- Operating profit: JPY12.0bn (-14.8% YoY)
- Recurring profit: JPY15.0bn (-37.8% YoY)
- Net income: JPY11.0bn (-39.0% YoY)

Agricultural Chemicals and Agriculture-Related Businesses

- Full-year segment sales forecast: JPY133.0bn (+3% YoY).

Outlook and Valuation

■ Sector view - Rising food demand provides ample growth opportunities for agri-input players

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 the 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 strongly as the country is being looked at 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.

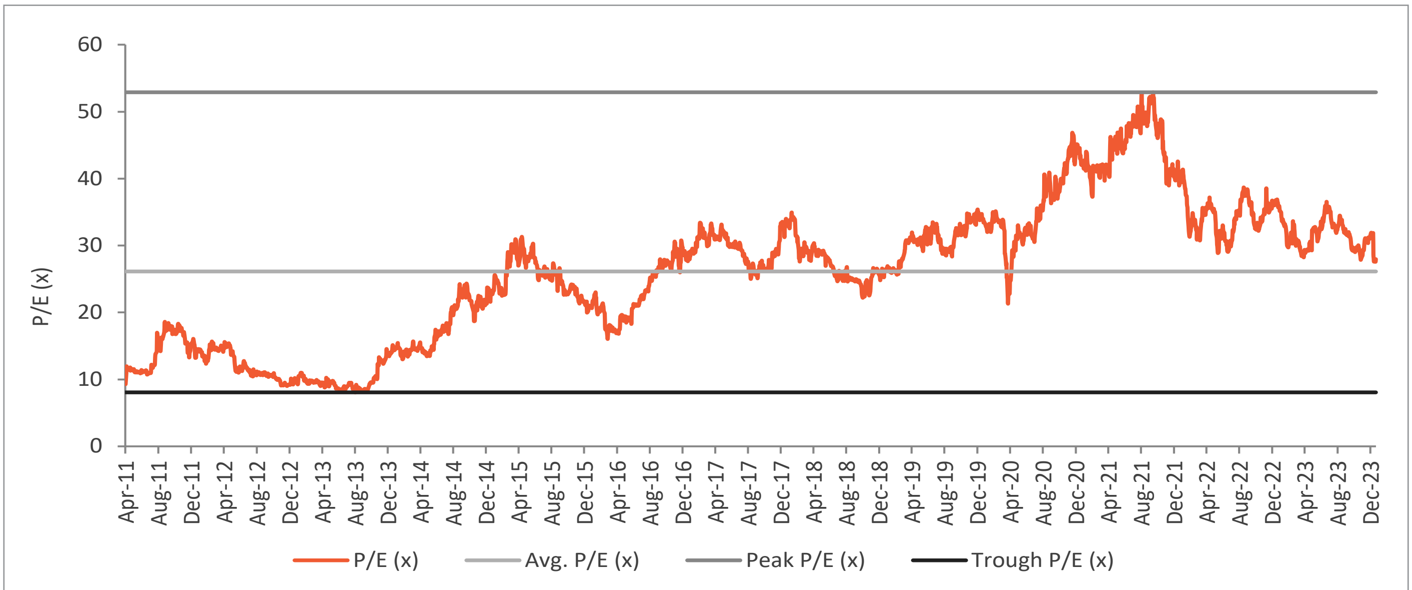
■ Company outlook - Strong growth outlook led by organic and inorganic opportunities

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 FY2023. Commissioning of additional capacity and contributions from the newly launched brands would fuel growth. Moreover, utilisation of some portion of QIP money for the recently announced pharma acquisition would drive inorganic growth over the medium to long term, apart from diversifying its business and enhancement of technological capabilities.

■ Valuation - Maintain Buy on PI with a revised PT of Rs. 4,000

Recent capex by Chinese generic players might have a limited impact on the company's performance due to patent protection. PI's pharma foray would diversify its earnings stream and drive medium to long-term growth for the company. We expect PI's revenue/EBITDA/PAT to post a strong CAGR of 19%/21%/21% over FY2023-FY2026E, led by robust CSM order book, ramp-up of nine new products commercialised in the last one year, and the launch of new products in FY2024. Growth would further improve post integration of the pharma segment. We are lowering our target multiple to factor in near-term demand uncertainties and, thus, we lower our PT to Rs. 4,000 while maintaining our Buy rating on PI. At the CMP, the stock trades at 28.0x its FY2025E EPS and 24.2x its FY2026E 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 15 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 the domestic formulation business provide 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. The recent pharma acquisition would 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	Axis Asset Management Co Ltd/India	5.5
2	BlackRock Inc	2.4
3	Vanguard Group Inc/The	2.1
4	Kotak Mahindra Asset Management Co	1.9
5	Life Insurance Corp of India	1.5
6	Canara Robeco Asset Management Co	1.4
7	UTI Asset Management Co Ltd	1.3
8	ICICI Prudential Asset Management	1.1
9	ICICI Prudential Life Insurance Co	1.1
10	Capital Group Cos Inc/The	0.92

Source: Bloomberg

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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