Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

PI Industries Ltd

Strong Q3; growth guidance maintained

Agri Chem	Sharekhan code: PIIND
Reco/View: Buy ↔	CMP: **Rs. 3,402** / Price Target: **Rs. 4,000** ↔

↑ 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	Positive	↔	Positive
RQ	Positive	↔	Positive
RV	Neutral	↔	Neutral

Company details

Market cap:	Rs. 51,614 cr
52-week high/low:	Rs. 4,010/2,870
NSE volume: (No of shares)	3.6 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	-1.6	-7.3	-9.4	9.1
Relative to Sensex	1.5	-16.8	-18.1	-8.5

Sharekhan Research, Bloomberg

Summary

- Q3 adjusted PAT grew by 13% y-o-y to Rs. 379 crore (in-line) led by robust growth in the CSM business, beat in margin which offsets subdued domestic business performance.
- CSM business revenue growth of 13% y-o-y to Rs. 1,631 crore, was led by volume growth and newly commercialised products. Domestic revenues fell due by 6% y-o-y given deficit monsoon in the South, depleting reservoir level, elevated inventories and pricing pressures.
- The management has maintained a revenue growth guidance of 18-20% (including pharma) for FY24 and believes 25-26% to be long-term sustainable OPMs.
- We maintain our Buy rating on PI Industries with an unchanged PT of Rs. 4,000. Pharma foray to diversify earnings stream and drive meaningful medium to long-term earnings growth; surplus cash of Rs. 3,296 crore to help pursue organic/inorganic growth opportunities. Stock trades at 24x its FY2026E EPS.

PI Industries Limited (PI) reported consolidated revenue stood at Rs. 1,828 crore (up 13.3% y-o-y) excluding one-time impact of recovery of theft, was slightly below (miss of 5%) with our revenue estimate. The stronger-than-expected 23% y-o-y growth in exports, driven by volume growth and newly commercialised products. However, domestic revenue declined by 6% y-o-y to 267 crore due to delayed and the erratic spread of monsoons. OPM rose by 73 bps y-o-y to 26.5% and was 102 bps higher than our estimate of 25.4%mainly on account of favorable product mix, operating leverage, and the one-time impact of recovery of theft material. Consequently, operating profit grew by 16.5% y-o-y to Rs. 484 crore (in line with our estimate). PAT at Rs. 379 crore (up 8% y-o-y) was also in line with our estimates of Rs. 379 crore mainly due to beat in OPM and higher other income.

Key positives

- Strong revenue growth of 13% y-o-y in CSM business mainly led by volume growth.
- Beat of 102 bps in OPM at 26.5% due to beat in gross margins.

Key negatives

- Domestic volume declined by 6% y-o-y due to erratic monsoon.

Management Commentary

- Growth in exports was led by early-stage patented molecules, which are still growing in developed in many countries and obtaining registration in new markets. New molecules contributed more than 60% of revenue growth in Q3FY24 came. Company currently has visibility of 5 new molecules, with 50 more molecules in R&D pipeline.
- Company expects revenue diversification as around 30-35% of new inquiries are coming for exports, with new product commercialization coming from non-chemicals space. Additionally, pharma business will also add towards diversification.
- For FY25, management plans to incur capex of Rs. 800 crore and plans to spend the funds on capacity expansion, new technologies, capability building and R&D investments.
- As per company's market intelligence, 10-15% price erosion has happened in the market where Pyroxasulfone have gone off patent in initial year.

Revision in estimates – We have tweaked our estimates for FY2024-FY2026E.

Our Call

Valuation – Maintain Buy on PI with an unchanged PT of Rs. 4,000: 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%/20%/21% over FY2023-FY2026E, led by robust CSM order book, ramp-up of nine 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 maintain our Buy rating on PI with an unchanged PT of Rs. 4,000. At the CMP, the stock trades at 27.9x its FY2025E EPS and 24.0x 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	7,778	9,281	10,966
OPM (%)	23.8	24.3	24.6	24.9
Adjusted PAT	1,223	1,573	1,862	2,162
y-o-y growth (%)	45.5	28.7	18.3	16.1
Adjusted EPS (Rs.)	80.0	103.1	122.0	141.8
P/E (x)	42.5	33.0	27.9	24.0
EV/EBITDA (x)	31.4	25.4	20.7	16.8
P/BV (x)	7.2	5.9	4.9	4.1
RoCE (%)	21.3	22.4	22.4	22.5
RoE (%)	18.3	19.7	19.3	18.6

Source: Company; Sharekhan estimates

Strong Q3 led by robust CSM growth

Consolidated revenue stood at Rs. 1,828 crore (up 13.3% y-o-y) excluding one-time impact of recovery of theft, was slightly below (miss of 5%) with our revenue estimate. The stronger-than-expected 23% y-o-y growth in exports, driven by volume growth and newly commercialised products. However, domestic revenue declined by 6% y-o-y to 267 crore due to delayed and the erratic spread of monsoons. OPM rose by 73 bps y-o-y to 26.5% and was 102 bps higher than our estimate of 25.4%mainly on account of favorable product mix, operating leverage, and the one-time impact of recovery of theft material. Consequently, operating profit grew by 16.5% y-o-y to Rs. 484 crore (in line with our estimate). PAT at Rs. 379 crore (up 8% y-o-y) was also in line with our estimates of Rs. 379 crore mainly due to beat in OPM and higher other income.

Q3FY24 conference call highlights

- **Exports:** Revenue from exports on account of scale-up of existing products and introduction of four new products. During 9MFY24, company registered 22% export growth on account of ~21% increase in volume and ~1% increase in prices, currency, and favourable product mix. The growth is exports was led by early stage patented molecules, which are still growing in developed in many countries and obtaining registration in new markets.
- **Domestic business** clocked a subdued performance mainly due to deficit monsoon in the south, depleting reservoir level, elevated inventory level and pricing pressure. However, company made focused efforts to improve product mix by launching new brands and improving working capital efficiency.
- **New molecules:** More than 60% of revenue growth in Q3FY24 came from new molecules. Company currently has visibility of 5 new molecules, with 50 more molecules in R&D pipeline.
- **Working capital:** Working capital days have been reduced by 10 days to 80 days in Q3FY24 as compared with Q3FY23.
- **Pyroxasulfone:** As per market intelligence, a 10-15% price erosion has happened in the market where products have gone off patent in initial year.
- **Capex:** Capex for 9MFY24 stood at Rs. 900 crore, which includes asset acquired in pharma of Rs. 497 crores. For FY25, management plans to incur capex of Rs. 800 crore and plans to spend the funds on capacity expansion, new technologies, capability building and R&D investments.
- **Guidance:** Management has maintained revenue growth guidance of 18-20%(including pharma) and believes margin of 25-26% to be more sustainable margin level.
- **Diversification:** Company expects revenue diversification as around 30-35% of new inquiries are coming for exports, with new product commercialization coming from non-chem space. Additionally, pharma business will also add towards diversification.
- **Others -** 1) Company has surplus debt of Rs. 3296 crores. 2) Pharma contribution to exports was Rs. 243 crores (~7% of export revenue growth) 3) CSM export order book stood at $1.7 billion 4) Commercialised 4 new products in Exports and 5 in Domestic Agri Brands

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	**1,898**	**1,613**	**17.6**	**2,117**	**(10.4)**
Total expenditure	1,344	1,198	12.2	1,566	(14.2)
Operating profit	**554**	**415**	**33.4**	**551**	**0.4**
Other Income	56	50	11.8	47	19.6
Depreciation	78	57	38.1	80	(2.5)
Interest	7	9	(21.3)	8	(10.3)
PBT	**524**	**400**	**31.2**	**510**	**2.8**
Tax	77	48	59.5	32	143.5
RPAT	**449**	**353**	**27.4**	**483**	**(7.0)**
EPS (Rs.)	29.6	23.2	27.4	31.8	(7.0)
Margin (%)			**YoY (BPS)**		**QoQ (BPS)**
Gross profit margin	53.6	47.2	640	46.6	699
Operating profit margin	29.2	25.7	344	26.0	313
Net profit margin	23.7	21.9	182	22.8	85

Source: Company; Sharekhan Research

Revenue break-up Rs cr

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Domestic	267	285	-6.4	484	-44.9
Exports	1,631	1,329	22.8	1,633	-0.1
Total revenues	**1,898**	**1,613**	**17.6**	**2,117**	**-10.4**

Source: Company; Sharekhan Research

Targeting to achieve 18%-20% revenue growth in FY24

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 to continue
- Integrated crop solution approach with focus on quality of revenue and efficient NWC management

CSM Export:
Technology focused approach to drive incremental business

- Continued scale up in demand of the newly commercialised products: to drive growth in next quarters
- Solid R&D pipeline of diversified portfolio of Agchem, electronic, imaging and other specialty chemicals - 4 to 5 products to be commercialized every year - ~30% from non-Agchem
- Capacity expansion in line with plan - to commission 2 plants in next 1-year

Health Sciences:
Building a differentiated play in Pharma CRDMO space

- Operating model, functional and IT integration of acquired companies nearing completion
- New business development efforts intensified
- Build-up of Hyderabad research center and staffing at full swing; soon getting commissioned
- Capex committed for upgrade of facilities and building cutting-edge capabilities at Lodi and Jaipur facilities

Progressing on strategic initiatives in line with plan

- Strong pipeline of Biologicals and Biostimulant products at different stages of development
- Actively evaluating a few inorganic growth opportunities
- Promising R&D leads progressing towards development phase

Source: Sharekhan Research

Outlook and Valuation

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

Outlook for 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. 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.

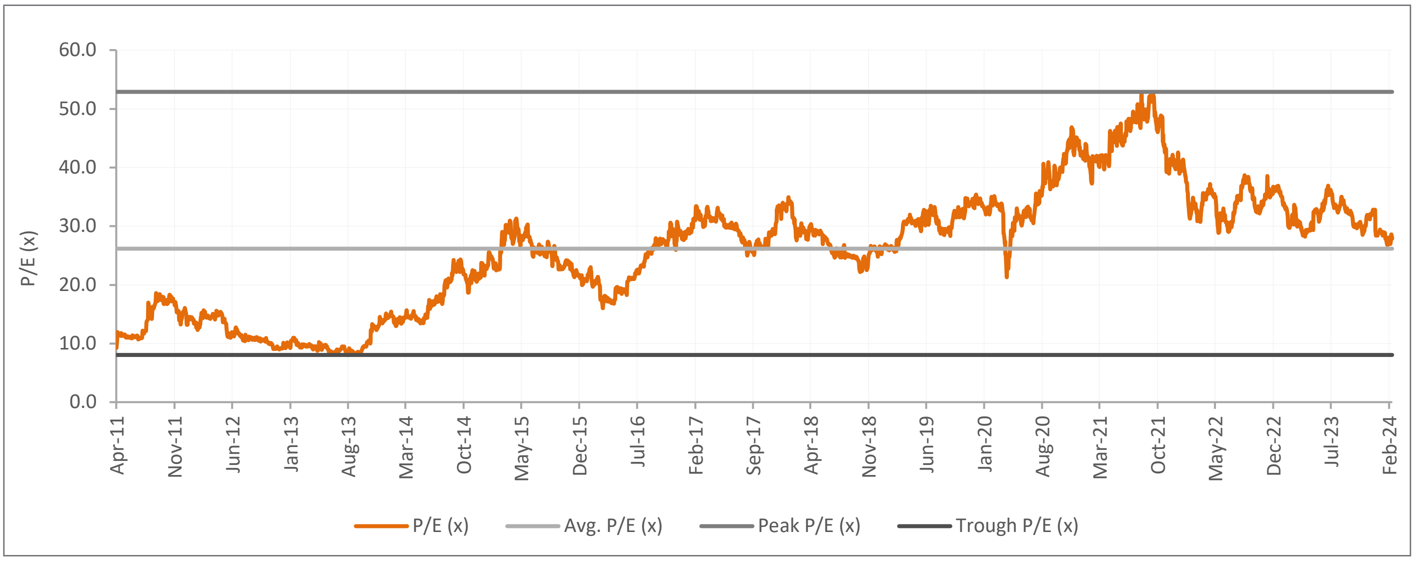
■ Company Outlook – Strong growth outlook led by organic and inorganic opportunities

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 contribution 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 an unchanged PT of Rs. 4,000

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%/20%/21% over FY2023-FY2026E, led by robust CSM order book, ramp-up of nine 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 maintain a Buy on PI with an unchanged PT of Rs. 4,000. At the CMP, the stock trades at 27.9x its FY2025E EPS and 24.0x 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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Axis Asset Management Co Ltd/India	4.93
2	Life Insurance Corp of India	2.49
3	BlackRock Inc	2.43
4	Vanguard Group Inc/The	2.14
5	Kotak Mahindra Asset Management Co	1.86
6	ICICI Prudential Asset Management	1.68
7	Tata Asset Management Pvt Ltd	1.42
8	Canara Robeco Asset Management Co	1.39
9	UTI Asset Management Co Ltd	1.19
10	Capital Group Cos Inc/The	0.92

Source: Bloomberg

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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 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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.