Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

PI Industries Ltd

Acquisition in the fast-growing biologics space

Agri Chem		Sharekhan code: PIIND		
Reco/View: Buy	↔	CMP: **Rs. 3,820**	Price Target: **Rs. 4,400**	↑

↑ 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		↔	
RQ		↔	
RV		↔	

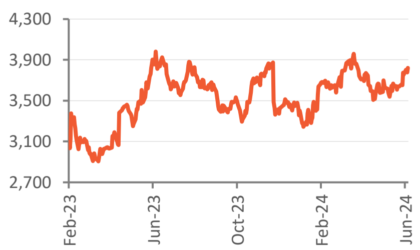
Company details

Market cap:	Rs. 57,949 cr
52-week high/low:	Rs. 4,032/3,060
NSE volume: (No of shares)	3.9 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	-1	10	-0
Relative to Sensex	1	-10	0	-25

Sharekhan Research, Bloomberg

Summary

- PI Industries has offered to acquire UK based listed company Plant Health Care Plc (PHC) for a sum of £32.8 million which is in the agriculture biological space. It has experience in protein/peptide technology.
- PHC has a presence in key markets like USA, Brazil, Europe and Mexico. It had a revenue of $11 million in CY23 and a 60% gross margin. It is reporting losses currently. Revenue of the company is expected to grow fast as the biologics industry is expected to grow at 13% CAGR till FY28. Company's revenue YTDCY24 is up 72% y-o-y.
- The offered purchase consideration of ~£ 32.8 Mn is proposed to be paid in cash and funded from the earlier Qualified Institutional Placement (QIP) proceeds. The acquisition is expected to close by Q2FY25.
- The acquisition is small as compared to PI Industries scale (1.3% of revenue) but it will be a good addition to its fast growing biologics business. We are not incorporating the acquisition's numbers at this point of time as it remains to be seen how it gets integrated. We maintain our Buy rating on PI Industries with a PT of Rs. 4,400. Growth in the company will be led by new products in CSM business and improving prospects in the domestic and pharma business.

Plant Health Care Plc (PHC) has cutting-edge biological/peptide technology platforms in the "Plant Immunity Inducers" space. Company's operations are mainly divided into two segments – 1) Commercial products of Harpin protein which is environmentally friendly 2) PREtec Technology platfrom which are vaccines for plants. It stimulates crop growth and improves disease control, plant health and yield.

Company reported revenues of $ 8.4/11.7/11.2 million in CY21/22/23 respectively. There was a de-growth in CY23 due to inventory de-stocking globally. YTDCY24, the company's revenue has grown by 72% y-o-y which shows the strong growth prospects. The company is reporting losses currently. But the strong revenue growth and good gross margins of 60% provide good comfort for better financials in the future.

Acquisition a good addition to PI Industries' biologics business: PI Industries' internal biologics business is doing well and revenue increased 29% y-o-y in FY24. It has a portfolio of 8 products and many more in the development & registration pipeline. With the acquisition, company will gain access to the protein/peptide technology platforms. PHC has a presence in US and Latam and those geographies account for 52% of the global market.

Our Call

Valuation – Maintain Buy on PI with a PT of Rs. 4,400: The acquisition is small as compared to PI Industries scale (1.3% of revenue) but it will be a good addition to its fast growing biologics business. We are not incorporating the acquisition's numbers at this point of time as it remains to be seen how it gets integrated. Growth in the company will be led by new products in CSM business and improving prospects in the domestic and pharma business. Management has guided for a 15% revenue growth in FY25 and >15% post that. New products contributed to 70% of revenue growth in FY25. The pharma business EBITDA margins should increase to >20% in the next 3 years with scale and stabilization of business. The stock is currently trading at 36x/30x its FY25/26 EPS. We give it a multiple of 35x on FY26 EPS and arrive at our PT of Rs. 4,400.

Key Risks

- Delay in execution of orders or deferral of orders by clients in the CSM business can affect revenue growth.
- Slower ramp up of the pharma business.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	6,492	7,666	8,811	10,399
OPM (%)	23.8	26.3	26.3	26.1
Adjusted PAT	1,223	1,671	1,643	1,957
y-o-y growth (%)	45.5	36.7	(1.7)	19.1
Adjusted EPS (Rs.)	80.0	109.2	107.4	128.1
P/E (x)	47.8	35.0	35.6	29.8
EV/EBITDA (x)	35.6	26.9	23.1	19.4
P/BV (x)	8.1	6.7	5.7	4.8
RoCE (%)	21.3	23.3	22.3	22.8
RoE (%)	18.3	20.8	17.2	17.6

Source: Company; Sharekhan estimates

PHC's business segments

Proprietary Biological Products Increasing Plant Health and Yield

COMMERCIAL

HARPIN

- Protein technology – environmentally friendly
- Makes plant healthier
- Resist disease and stress
- Better quality crops, higher yields
- Outstanding grower ROI - >14x in sugar cane
- >5% yield increase in US corn
- 2020-2023- CAGR of 19%

NEW TECHNOLOGY

PREtec TECHNOLOGY PLATFORM

(VACCINES FOR PLANTS™)

- Derived from natural proteins, PRE*tec* is an environmentally friendly technology that stimulates crop growth and the ability to withstand a variety of abiotic stresses as well as to improve disease control, plant health and yield.
- PRE*tec* is compatible with mainstream agricultural practices.

Source: Company Data

CY23 – P&L statement summary

FY 2023

P&L Financial Summary

	2023 ($'000)	2022 ($'000)	Increase/ (decrease)
Revenue	$11,206	$11,767	(5%)
Gross margin	$6,765	$7,171	(6%)
Margin percentage	*60.4%*	*60.9%*	*(0.5%)*
Cash operating expenses *	$10,012	$10,857	(8%)
Capitalized PREtec expenses	($426)	-	n/a
Adjusted LBITDA **	$2,821	$3,686	(24%)
Commercial business EBITDA	**$765**	**$1,136**	**(31%)**
PRE*tec* revenue	$1,961	$775	153%
Harpin revenue	$6,691	$8,152	*(18%)*
Third-party revenue	$2,554	$2,840	*(6%)*

Revenue decreased **5% to $11.2m**

PRE*tec* revenue increased **153% to $1.9m**

Gross Margin **60%** (2022: 61%)

Operating expenses decreased due to reduced spend in Administration and Research costs.

Reduction of LBITDA of **$0.8m**

CHALLENGING YEAR IN THE GLOBAL AGRIBUSINESS

Source: Company Data

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); expectation of a 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

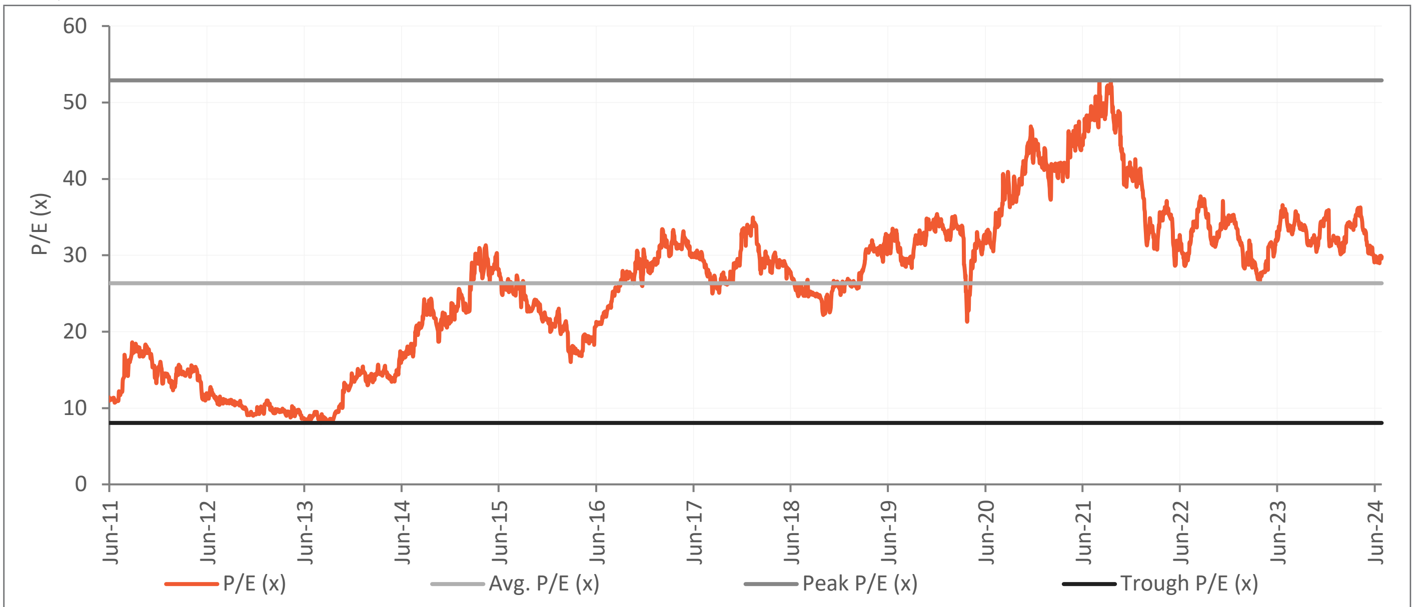
■ Company Outlook – Strong growth outlook led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of $1.75 billion) and the company has guided for 15% revenue growth in FY25 and >15% after that. Commissioning of additional capacity and contribution from the newly launched brands would fuel growth. The pharma business would drive growth over the medium to long term, apart from diversifying its business and enhancement of technological capabilities.

■ Valuation – Maintain Buy on PI with a PT of Rs. 4,400

The acquisition is small as compared to PI Industries scale (1.3% of revenue) but it will be a good addition to its fast growing biologics business. We are not incorporating the acquisition's numbers at this point of time as it remains to be seen how it gets integrated. Growth in the company will be led by new products in CSM business and improving prospects in the domestic and pharma business. Management has guided for a 15% revenue growth in FY25 and >15% post that. New products contributed to 70% of revenue growth in FY25. The pharma business EBITDA margins should increase to >20% in the next 3 years with scale and stabilization of business. The stock is currently trading at 36x/30x its FY25/26 EPS. We give it a multiple of 35x on FY26 EPS and arrive at our PT of Rs. 4,400.

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 five 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 700 scientists and researchers.

Investment theme

A strong CSM order book of ~$1.75 billion and decent growth in the domestic formulation business in the coming year provide good revenue growth visibility. New products and non-agri business will lead the growth of the company. In FY24, more than 70% growth has come from new products and 50% of new enquiries are coming from non-agri products. 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 execution of orders or deferral of orders by clients in the CSM business can affect revenue growth.
- Slower ramp up of the pharma business.

Additional Data

Key management personnel

Narayan K. Seshadri	Non-Executive & Independent Chairperson
Mayank Singhal	Vice Chairman and Managing Director
Rajnish Sarna	Joint Managing Director
Arvind Singhal	Non-Executive - Non Independent Director
Manikantan Viswanathan	Chief Financial Officer
Sonal Tewari	Company Secretary & Compliance officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5
2	Axis Asset Management Co Ltd/India	3.62
3	BlackRock Inc	2.58
4	ICICI Prudential Asset Management	2.51
5	Vanguard Group Inc/The	2.16
6	Kotak Mahindra Asset Management Co	2.06
7	Tata Asset Management Pvt Ltd	2.03
8	ICICI Prudential Life Insurance Co	1.67
9	SBI Life Insurance Co Ltd	1.10
10	UTI Asset Management Co Ltd	1.06

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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