Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

PI Industries Ltd

Strong Q1; company confident of meeting guidance

Agri Chem		Sharekhan code: PIIND		
Reco/View: Buy	↔	CMP: Rs. 4,422	Price Target: Rs. 5,049	↑

↑ 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		↔	

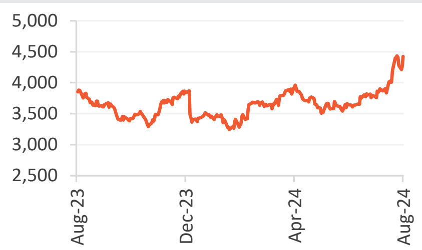
Company details

Market cap:	Rs. 67,093 cr
52-week high/low:	Rs. 4,549/3,060
NSE volume: (No of shares)	4.6 lakh
BSE code:	523642
NSE code:	PIIND
Free float: (No of shares)	8.2 cr

Shareholding (%)

Promoters	46
FII	19
DII	26
Others	9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	17.7	25.7	32.8	14.8
Relative to Sensex	-0.6	9.8	10.8	20.9

Sharekhan Research, Bloomberg

Summary

- PI Industries' (PI) revenue for the quarter reached Rs. 2,069 crore, reflecting an 8% y-o-y increase and a 19% q-o-q rise, 2% above expectations.
- EBITDA stood at Rs. 583 crore, marking a 25% y-o-y increase and a 32% q-o-q rise, 6% above expectations.
- Management is highly confident of achieving the FY2025 guidance of double-digit growth over the topline (including pharma) and considers 25-26% to be a sustainable long-term operating profit margin.
- We maintain BUY with a revised PT of Rs. 5,049. Growth is expected to accelerate with the expansion of the pharma segment. At the CMP, the stock is trading at 33x its FY2026E EPS and 27x its FY2027E EPS.

PI Industries Limited's (PI) revenue for the quarter reached Rs. 2,069 crore, an 8% y-o-y increase and a 19% q-o-q rise, surpassing our expectations by 2%. Growth was primarily driven by biological products, which saw a ~39% y-o-y increase in revenue. EBITDA for the quarter was Rs. 583 crore, reflecting a 25% y-o-y increase and a 32% q-o-q rise, exceeding our expectations by 6%. EBITDA margin stood at 28%, up 370 bps y-o-y and 281 bps q-o-q, due to a favourable product mix and improved operating leverage. PAT for the quarter stood at Rs. 449 crore, marking a 17% y-o-y increase and a 21% q-o-q rise, surpassing our expectations by 13%.

Key positives

- Biological products are fueling growth and driving revenue.
- 14% growth in agro-chem exports, primarily driven by increased volumes and the introduction of new products.
- EBITDA improved primarily due to a favourable product mix and enhanced operating leverage.

Key negatives

- Domestic revenue was weak.
- High inventory levels with innovators affected quarterly revenue.
- Pharma contributed Rs. 25 crore to export revenue, which declined due to delays in the supply of certain products.

Management Commentary

- High inventory levels in the industry and ongoing price pressure from generics are expected to persist over the next few quarters.
- The improvement in rainfall in July has led to a significant increase in kharif plantation.
- Plans for aggressive commercialisation of 8-10 new products in FY2025.
- A robust pipeline of biologicals and biostimulant products at various stages of development.

Revision in estimates: We have tweaked our estimates for FY2025E-FY2026E and added estimates from FY2027E.

Our Call

Valuation – Maintain BUY on PI with a revised PT of Rs. 5,049: PI's pharma foray would diversify its earnings stream and drive medium to long-term growth for the company. We anticipate strong growth in PI's revenue, EBITDA, and PAT from FY2025E to FY2027E, driven by a robust CSM order book, the ramp-up of nine products commercialised over the past year, and the introduction of new products in FY2025. Growth is expected to accelerate with the expansion of the pharma segment. We maintain our BUY rating on PI, with a revised target price (TP) of Rs. 5,049. At the current market price, the stock is trading at 33x its FY2026E EPS and 27x its FY2027E 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	FY24A	FY25E	FY26E	FY27E
Revenue	6,492	7,666	8,816	10,402	12,275
OPM (%)	24%	27%	26%	26%	27%
Adjusted PAT	1,223	1,688	1,730	2,013	2,462
y-o-y growth (%)	46%	38%	2%	16%	22%
Adjusted EPS (Rs.)	81.06	110.85	113.80	132.45	161.95
P/E (x)	55x	40x	39x	33x	27x
EV/EBITDA (x)	42x	32x	28x	22x	17x
P/BV (x)	9x	8x	7x	6x	5x
RoCE (%)	20%	21%	21%	22%	23%
RoE (%)	17%	19%	17%	17%	18%

Source: Company; Sharekhan estimates

Strong results

PI's consolidated revenue surged to Rs. 2,069 crore, marking an 8% y-o-y growth and a robust 19% q-o-q increase. This impressive performance was largely fueled by a remarkable ~39% jump in revenue from biological products. EBITDA reached Rs. 583 crore, representing a 25% y-o-y boost and a 32% q-o-q rise. EBITDA margin improved significantly to 28%, reflecting a 370-bps increase from the previous year and a 281-bps rise from the prior quarter, driven by a favourable product mix and enhanced operating leverage. PAT also saw notable gains, reaching Rs. 449 crore, which is a 17% y-o-y increase and a 21% rise from the previous quarter.

Q1FY2025 conference call highlights

- The company continues to uphold its guidance for FY2025, aiming for a gross margin of 50-51% and an EBITDA margin of 25-26%.
- The effective tax rate (ETR) for FY2025 is projected to be approximately 22-23%.
- Margin expansion is fuelled by CSM products, especially new offerings, as well as product mix in the domestic market, which is also supported by biologicals.
- A substantial inventory buildup with customers has led to a slowdown in their procurement activities.
- A long-term customer has stocked up significantly on a new drug and is now pausing additional purchases until their inventory levels return to a more manageable level.
- The company has outlined a capex plan of Rs. 800-900 crore for the year, as previously indicated. This investment will be allocated towards new projects, expanding capacities, and enhancing capacity utilisation and throughput through technological advancements.
- The acquisition of Plant Healthcare was highlighted, granting access to an advanced peptide technology platform that enables the introduction of new biological products on a global scale.
- The company introduced two innovative brands: Placero, a patented broad-spectrum insecticide, and Shinalpha, a high-quality stable formulation designed for controlling sucking pests.
- Cromper and Paramide are promising new products, signalling strong growth potential in the coming years.
- The Hyderabad Research Facility is now commissioned, poised to significantly enhance the company's offerings.

Results (Consolidated) Rs cr

Particulars	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ(%)
Net Sales	**2,069**	**1,910**	**8%**	**1,741**	**19%**
Total expenditure	1,486	1,442	3%	1,299	14%
Reported operating profit	**583**	**468**	**25%**	**442**	**32%**
Other Income	73	47	55%	58	26%
Depreciation	83	80	4%	68	23%
Interest	8	4	93%	11	-24%
PBT	564	431	31%	421	34%
Tax	118	63	88%	42	181%
PAT	**447**	**368**	**21%**	**380**	**18%**
EPS (Rs.)	29.59	25.24		24.36	
Margins (%)			**BPS**		**BPS**
Operating profit margin (OPM)	28%	25%	368bps	25%	279bps
NPM	22%	19%	230bps	22%	-22bps
Tax rate	6%	3%	241bps	2%	328bps

Source: Company, Sharekhan Research

Revenue break-up Rs cr

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Domestic	320	347	-8%	270.9	18%
Exports	1,749	1,563	12%	1,470	19%
Total revenues	**2,069**	**1,910**	**17.6**	**2,117**	**-2%**

Source: Company, Sharekhan Research

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.

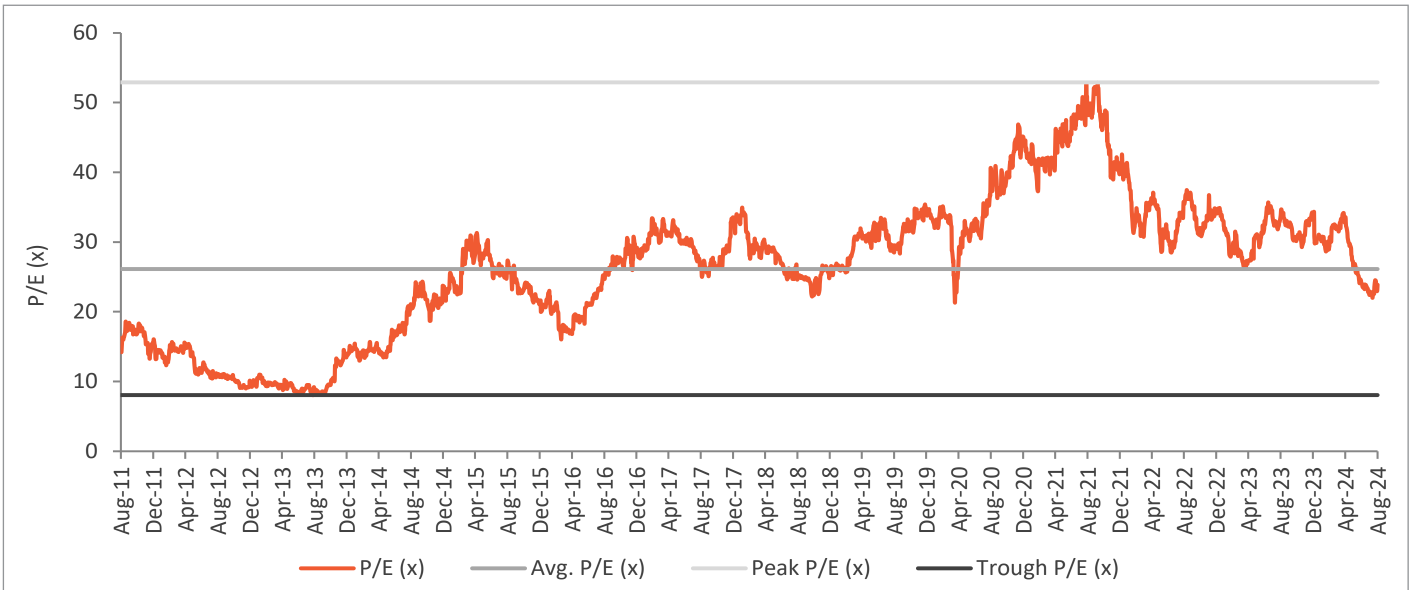
■ Company outlook - Strong growth outlook led by organic and inorganic opportunities

Demand remains encouraging in both domestic (strong Rabi season outlook) and export markets (order book of USD1.8 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 a revised PT of Rs. 5,049

PI's pharma foray would diversify its earnings stream and drive medium to long-term growth for the company. We anticipate strong growth in PI's revenue, EBITDA, and PAT from FY2025E to FY2027E, driven by a robust CSM order book, the ramp-up of nine products commercialised over the past year, and the introduction of new products in FY2025. Growth is expected to accelerate with the expansion of the pharma segment. We maintain our BUY rating on PI, with a revised TP of Rs. 5,049. At the current market price, the stock is trading at 33x its FY2026E EPS and 27x its FY2027E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Incorporated in 1947, PI 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 ~USD1.8 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 the company's earnings growth prospects.

Key Risks

- Delay in the 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 the utilisation of QIP money.

Additional Data

Key management personnel

Narayan K. Seshadri	Non-Executive and Independent Chairperson
Dr. Raman Ramachandran	Managing Director and 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 and Compliance officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.75
2	Axis Asset Management Co Ltd./India	3.62
3	BlackRock Inc.	2.55
4	ICICI Prudential Asset Management	2.46
5	Kotak Mahindra Asset Management Co	2.21
6	Tata Asset Management Pvt. Ltd.	2.04
7	The Vanguard Group Inc.	1.53
8	ICICI Prudential Life Insurance Co.	1.32
9	UTI Asset Management Co. Ltd.	1.06
10	Canara Robeco Asset Management Co.	1.03

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

Sharekhan

by BNP PARIBAS

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