

Stellar numbers propelled by CSM...

About the stock: Incorporated in 1947, PI Industries focuses on complex chemistry solutions in agri and pharma sciences.

- The company maintains a strong research presence through its R&D facility in Udaipur, where it has a dedicated team of over 300 scientists
- The revenues of the company can be subdivided into custom synthesis manufacturing (CSM) and domestic agrochem formulation business with the former contributing ~74% to overall revenue in FY22 and the rest coming from the domestic formulations business

Q1FY23 Results: Numbers were above our estimates, led by strong growth from CSM.

- Reported revenue growth of 29% YoY to ₹ 1543.2 crore, CSM (up 42% YoY). The revenue from domestic formulation was up 4% YoY to ₹ 401.1 crore
- Gross margins remained constant at ~43.8% while EBITDA margin expanded 150 bps YoY to 22.4%
- EBITDA was up 39% YoY to ₹ 345.6 crore
- PAT increased 40% YoY to ₹ 262.4 crore, driven by strong operational efficiency

What should investors do? The stock appreciated at 24% CAGR in last three years.

- We retain **BUY** on the back of better growth outlook of CSM business

Target Price and Valuation: We value PI Industries at 45x FY24E EPS to arrive at a revised target price of ₹ 3710/share (earlier ₹ 3155/share).

Key triggers for future price performance:

- Strong order backlog in CSM bodes well for future growth
- Proposed foray into pharma CDMO could expand revenue visibility further and diversify its revenue stream, to a certain extent
- Improvement in the operational performance owing to higher share of value added business portfolio to aid return ratios further

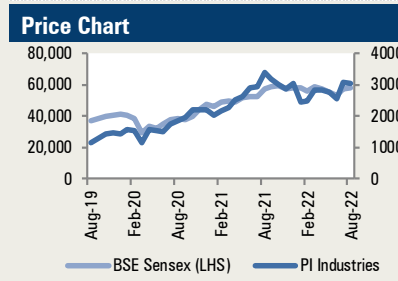
Alternate Stock Idea: Apart from PI Industries, in our chemical coverage, we also like Neogen Chemical.

- Trigger for Neogen Chemical's future revenue growth would be increasing CRAMS opportunity
- BUY with a target price of ₹ 1870



Particulars	
Particular	Amount
Market cap (₹ Crore)	48,550
FY22 Total Debt (₹ Crore)	268
FY22 Cash & Inv (₹ Crore)	2,265
EV (₹ Crore)	46,553
52 Week H/L	3535/2334
Equity Capital (₹ Crore)	15.2
Face Value (₹)	1

Shareholding pattern				
in %	Sept-21	Dec-21	Mar-22	Jun-22
Promoter	46.7	46.7	46.7	46.7
DII	21.7	23.0	25.3	25.9
FII	19.7	18.9	16.4	16.0
Others	11.9	11.4	11.5	11.4



- Recent event & key risks**
- Strong growth from CSM continues
 - Key Risk:** (i) Adverse agri season in North America, Europe can impact CSM growth, (ii) Poor monsoon in India can impact domestic formulation business

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Revenue	2,840.9	3,366.5	4,577.0	5,299.5	18.4%	6,293.9	7,372.0	17.9%
EBITDA	576.4	717.8	1,012.2	1,142.4	15.6%	1,378.4	1,666.1	20.8%
EBITDA Margins (%)	20.3%	21.3%	22.1%	21.6%		21.9%	22.6%	
Adj. PAT	410.2	456.6	738.3	843.8	12.9%	1,022.0	1,253.0	21.9%
Adj. EPS (₹)	29.7	33.1	48.6	55.5		67.2	82.4	
EV/EBITDA	76.3x	61.9x	46.1x	40.8x		34.2x	27.8x	
P/E	107.7x	96.7x	65.9x	57.6x		47.6x	38.8x	
ROE (%)	17.9	17.4	13.8	13.8		14.5	15.2	
ROCE (%)	23.7	20.1	17.0	16.3		17.1	18.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q1FY23 Results: Strong growth from CSM led performance.

- **CSM drives topline growth:** Better growth from the CSM business led the revenue growth of 29.3% YoY. Revenue from CSM was up 42% YoY to ₹ 1142.1 crore, largely driven by better volume growth of ~30% and price and currency by ~12%. On the other hand, revenue from domestic formulation was muted to ₹ 401.1 crore (up 4% YoY)

Margins remained stable on QoQ: While gross margins dipped QoQ, largely on the back of changes in the product mix and higher RMAT cost, OPM increased 150 bps. Gross margins fell 20 bps QoQ to 43.8% while OPM was at 22.4%

Q1FY23 Earnings Conference Call highlights

Global Agchem Exports (CSM)

- **Development**
 - **Process Development**
 - Five new molecules to be commercialised in FY23
 - More than 40 products at different development stages of which >35% is non-agchem
 - Total 13 new enquiries in Q1FY23 of which >15% is non-agchem
- **Manufacturing – Operational Improvements**
 - Capital efficiency optimised by:
 - Operational excellence;
 - Statistical data analysis;
 - Process improvement
 - New analytical tool implemented for process monitoring
- **MPP Utilisation**
 - New MPP utilisation is ~55-60%
 - As volumes scale up, the company sees 85% utilisation levels in year and a half
- **Customer Acquisition / Book Order**
 - Robust order book of ~\$1.4 billion
 - Significant portion of revenue is from order book
 - Order filling is also continuing on same pace
 - Order book expansion is expected in coming quarter. Order is expected to get increase from current level

Fixed Assets Ratio

Current fixed assets turnover is 2.2x. Continuous efforts are being put on assets in order to improve time-cycle, through-put assets turnover, capital efficiency. The company has exceeded benchmark of 1.75-2x.

Inflation related to raw material

- For some campaign there is sufficient inventory while for some campaign inventory is not available.
- Majority raw material inflation cost has been passed
- However, effects of inflation may be seen in next quarter

Tax Rate - ~16.5%.

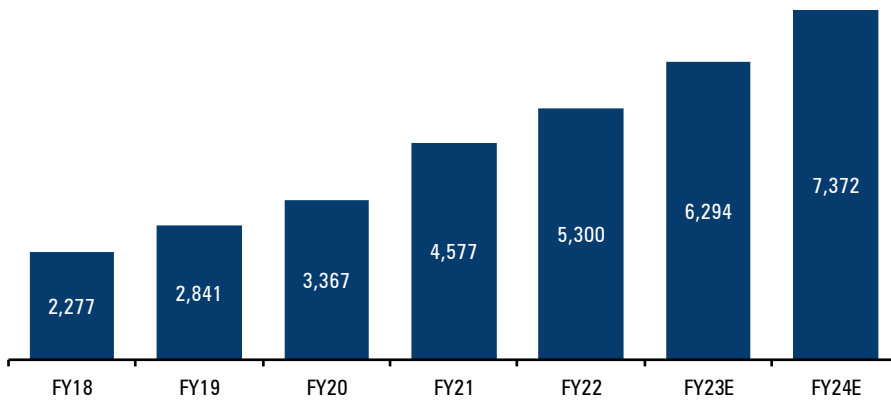
Others

- New capex for FY23 - ~₹ 650 crore. (earlier capex declared was ~ ₹ 500 crore)
 - New capex for FY24 - ~₹ 300-400 crore
- Also, 293 registrations received, three more in pipeline for coming year
- Domestic – Focus on portfolio diversification with launch of novel offerings

- Strong demand is expected for insecticides, fungicides, herbicides and bio-nutrients on the back of normal monsoon predictions
- “Dual growth engine” with focusing on horticulture segment
- Commodity prices remain robust owing to rising global demand
- CSM Export: R&D focused approach to drive incremental business
 - Continued scale up in demand of some of the existing products
 - Commercialisation of seven new molecules planned in FY23
 - Momentum in new enquiries and conversion to continue
 - Higher capital efficiency in FY23 with focused programme to reduce trade working capital
- 1. Efforts to drive strategic initiatives continues
 - a. Two new process innovations to be commercialised in FY23
 - b. Identifying new chemistries and building blocks for future growth
 - c. Precision farming services through farm mechanisation (boom-sprays, drones)
 - d. Evaluation of inorganic growth opportunities in pharma continues, both domestic and international options being evaluated

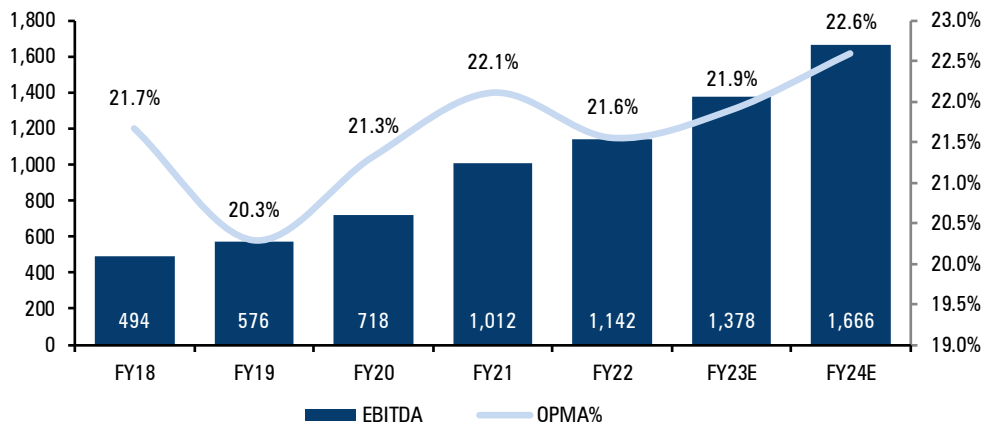
Financial story in charts....

Exhibit 1: Better growth visibility from CSM to aid topline (₹ crore)



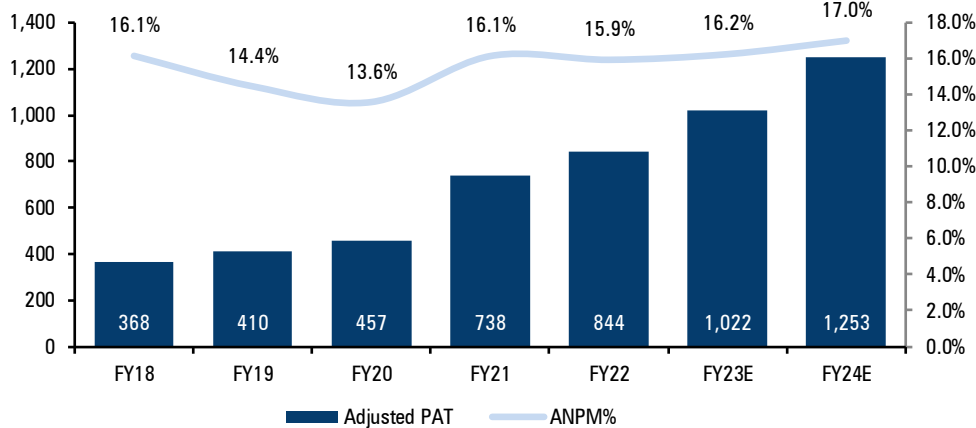
Source: Company, ICICI Direct Research

Exhibit 2: EBITDA (₹ crore) and OPM (%) trend



Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement						₹ crore
Year end March	FY20	FY21	FY22	FY23E	FY24E	
Total Operating Income	3,366.5	4,577.0	5,299.5	6,293.9	7,372.0	
Growth (%)	18.5	36.0	15.8	18.8	17.1	
Raw Material Expenses	1,847.4	2,571.2	2,922.8	3,493.1	4,069.4	
Employee Cost	320.9	416.9	480.4	541.3	626.6	
Other Expenses	480.4	576.7	753.9	881.2	1,010.0	
Total Operating Expenditure	2,648.7	3,564.8	4,157.1	4,915.6	5,706.0	
EBITDA	717.8	1,012.2	1,142.4	1,378.4	1,666.1	
Growth (%)	24.5	41.0	12.9	20.7	20.9	
Other Income	48.9	124.9	101.4	90.4	103.3	
Depreciation	136.7	174.8	201.8	235.6	265.4	
Net Interest Exp.	17.0	28.2	12.8	9.1	3.4	
Other exceptional items	0.0	0.0	0.0	0.0	0.0	
PBT	613.0	934.1	1,029.2	1,224.0	1,500.6	
Total Tax	157.2	200.2	189.0	202.0	247.6	
PAT	455.8	733.9	840.2	1,022.0	1,253.0	
Adjusted PAT	456.6	738.3	843.8	1,022.0	1,253.0	
Growth (%)	11.3	61.7	14.3	21.1	22.6	
Adjusted EPS (₹)	33.1	48.6	55.5	67.2	82.4	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement						₹ crore
Year end March	FY20	FY21	FY22	FY23E	FY24E	
PBT & Extraordinary	613.8	938.5	1,032.8	1,224.0	1,500.6	
Add: Depreciation	136.7	174.8	201.8	235.6	265.4	
After other adjustments						
(Inc) / Dec in Working Capital	25.5	-130.3	-527.6	-1,140.5	-182.9	
Taxes	-104.8	-164.7	-175.1	-202.0	-247.6	
Others	26.9	-93.4	-3.2	9.1	3.4	
CF from operating activities	698.1	724.9	528.7	126.3	1,338.9	
Purchase of Fixed Assets	-674.3	-439.0	-337.1	-500.0	-400.0	
Others	-310.8	-1,991.3	226.7	0.0	0.0	
CF from investing activities	-985.1	-2,430.3	-110.4	-500.0	-400.0	
Issue/(Buy back) of Equity	8.0	1,978.9	0.0	0.0	0.0	
Inc/(dec) in loan funds	456.2	-178.6	-72.0	-110.0	-157.8	
Dividend paid & dividend tax	-74.8	-60.7	-75.8	-76.0	-76.0	
Others	-39.4	-49.2	-29.5	-9.1	-3.4	
CF from financing activities	350.0	1,690.4	-177.3	-195.1	-237.2	
Net cash flow	63.0	-15.0	241.0	-568.9	701.7	
Opening cash	89.2	134.2	1,475.7	1,410.2	841.3	
Closing cash	134.2	1,475.7	1,410.2	841.3	1,543.0	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet						₹ crore
Year end March	FY20	FY21	FY22	FY23E	FY24E	
Liabilities						
Equity Capital	13.8	15.2	15.2	15.2	15.2	
Reserves & Surplus	2,605.3	5,327.2	6,105.2	7,051.2	8,228.2	
Total Shareholders Funds	2,619.1	5,342.4	6,120.4	7,066.4	8,243.4	
Minority Interest	0.0	0.0	0.0	0.0	0.0	
Long Term Borrowings	399.4	257.4	169.9	89.9	0.0	
Net Deferred Tax liability	10.2	79.6	87.5	87.5	87.5	
Other long term liabilities	83.2	55.9	57.1	67.8	79.4	
Long term provisions	12.4	9.6	8.0	9.5	11.1	
Current Liabilities and Provisions						
Short term borrowings	108.3	70.5	97.9	67.9	0.0	
Trade Payables	590.9	796.0	924.2	1,259.8	1,451.8	
Other Current Liabilities	358.9	344.9	298.4	354.4	415.1	
Short Term Provisions	42.4	45.6	27.7	32.9	38.5	
Total Current Liabilities	1,100.5	1,257.0	1,348.2	1,715.0	1,905.5	
Total Liabilities	4,224.8	7,001.9	7,791.1	9,036.2	10,326.9	
Assets						
Net Block	1,774.7	2,055.4	2,369.7	2,597.9	2,732.5	
Capital Work in Progress	237.1	249.5	63.8	100.0	100.0	
Intangible assets under devl.	33.6	38.0	50.7	50.7	50.7	
Goodwill on Consolidation	82.8	82.8	82.8	82.8	82.8	
Non-current investments	17.9	20.7	44.8	44.8	44.8	
Deferred tax assets	0.0	13.2	13.5	13.5	13.5	
Long term loans and advances	14.3	34.6	189.4	224.9	263.5	
Other Non Current Assets	41.1	14.6	12.5	14.8	17.4	
Current Assets, Loans & Advances						
Current Investments	132.5	851.7	854.7	854.7	854.7	
Inventories	798.9	1,052.8	1,423.4	2,100.4	2,294.7	
Sundry Debtors	748.7	703.5	868.7	1,466.6	1,603.4	
Cash and Bank	134.2	1,475.7	1,410.2	841.3	1,543.0	
Loans and Advances	8.3	7.0	3.0	3.0	3.0	
Other Current assets	200.7	402.4	403.9	640.7	722.9	
Current Assets	2,023.3	4,493.1	4,963.9	5,906.7	7,021.8	
Total Assets	4,224.8	7,001.9	7,791.1	9,036.2	10,326.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adj. EPS	33.1	48.6	55.5	67.2	82.4
Adj. Cash EPS	43.0	60.1	68.8	82.7	99.9
BV	189.8	351.5	402.7	464.9	542.3
DPS	4.0	5.0	6.0	5.0	5.0
Operating Ratios (%)					
Gross Margin (%)	45.1	43.8	44.8	44.5	44.8
EBITDA Margin (%)	21.3	22.1	21.6	21.9	22.6
PAT Margin (%)	13.6	16.1	15.9	16.2	17.0
Debtor Days	81	56	60	60	58
Inventory Days	87	84	98	100	95
Creditor Days	64	63	64	65	65
Cash Conversion Cycle	104	77	94	95	88
Return Ratios (%)					
Return on Assets (%)	10.8	10.5	10.8	11.3	12.1
RoCE (%)	20.1	17.0	16.3	17.1	18.2
RoE (%)	17.4	13.8	13.8	14.5	15.2
Solvency					
Total Debt / Equity	0.2	0.1	0.0	0.0	-
Interest Coverage	37.1	34.1	81.4	134.8	NM
Current Ratio	1.8	3.6	3.7	3.4	3.7
Quick Ratio	1.1	2.7	2.6	2.2	2.5
Valuation Ratios (x)					
EV/EBITDA	61.9	46.1	40.8	34.2	27.8
P/E	96.7	65.9	57.6	47.6	38.8
P/B	16.9	9.1	7.9	6.9	5.9
EV/Sales	13.2	10.2	8.8	7.5	6.3

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct coverage universe (Chemicals)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
SRF	2340	2,735	Buy	69,466	63.5	68.9	82.7	36.1	33.2	27.7	22.4	20.6	17.0	23.8	21.6	22.5	22.1	20.3	20.4
PI Industries	3200	3,710	Buy	48,550	55.5	67.2	82.4	57.6	47.6	38.8	40.8	34.2	27.8	16.3	17.1	18.2	13.8	14.5	15.2
Aarti Industries	712	860	Hold	25,812	21.7	24.4	30.7	32.8	29.2	23.2	22.6	18.9	15.4	12.0	12.6	13.6	13.3	13.2	14.4
Tata Chemical	825	1,155	Buy	21,009	47.5	63.6	73.0	17.4	13.0	11.3	12.4	9.1	6.8	6.6	8.4	9.0	6.6	8.3	8.8
Vinati Organics	2018	2,320	Buy	20,745	33.7	40.1	51.5	59.8	50.3	39.2	44.7	37.0	28.3	24.3	23.2	23.9	19.0	19.1	20.5
Sumitomo Chemical	474	520	Buy	23,679	8.5	10.2	11.5	55.9	46.7	41.1	35.9	30.1	26.0	30.2	28.6	26.7	22.0	21.3	19.9
Navin Fluorine	4200	4,450	Hold	20,812	52.3	67.4	89.0	80.3	62.3	47.2	58.4	41.8	30.6	17.8	18.7	19.6	14.0	15.8	17.9
Rallis India	208	200	Hold	3,987	8.4	8.9	12.4	24.3	23.1	16.6	13.9	14.1	10.1	12.7	11.6	15.3	9.7	9.5	12.1
Sudarshan chemical	425	565	Buy	2,939	18.8	23.7	31.5	22.6	18.0	13.5	14.2	11.5	8.9	10.9	13.3	16.6	15.6	17.2	19.5
Neogen Chemicals	1348	1,870	Buy	3,362	17.9	30.1	37.4	75.3	44.8	36.0	43.5	30.0	24.3	12.0	15.7	17.1	10.2	14.8	15.7
Astec Lifesciences	1791	2,215	Buy	3,509	45.1	54.8	69.3	39.7	32.7	25.9	24.6	20.7	16.5	19.3	17.7	19.4	22.3	21.3	21.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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