

CSM continues to drive growth; domestic flat...

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 divided 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

Q3FY23 Results: Numbers were in line with I-direct estimates on revenue front while EBITDA and PAT came in above I-direct estimates due to favourable product mix, higher-than-expected other income and low tax rate.

- Reported revenue growth of 19% YoY to ₹ 1613.2 crore. CSM was up 23% YoY to ₹ 1328.6 crore while domestic formulation was up 2% YoY to ₹ 285 crore
- Gross margins grew 73 bps YoY to ~47.2% while EBITDA margin expanded 387 bps YoY to 25.7%. Absolute EBITDA was up 40% YoY to ₹ 415.1 crore
- PAT increased 58% YoY to ₹ 351.8 crore, driven by strong operational efficiency

What should investors do? The stock appreciated at 26.1% CAGR in the last three years.

- We upgrade our rating from HOLD to **BUY** on the back of better growth outlook of the CSM business and consistency in performance

Target Price and Valuation: We value PI Industries at 32x FY25E EPS to arrive at a revised target price of ₹ 3615/share (earlier ₹ 3930/share).

Key triggers for future price performance:

- Strong CSM order backlog of ~US\$1.8 billion bodes well for future growth
- Proposed foray into pharma CDMO could expand revenue visibility further and diversify its revenue stream, to a certain extent
- Launch of four to five new products every year in both segments and foray in horticulture in domestic segment to aid strong revenue growth

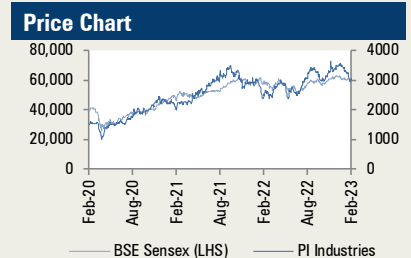
Alternate Stock Idea: Apart from PI Industries, in our chemical coverage, we also like SRF.

- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 2550



Particulars	
Particular	Amount
Market cap (₹ Crore)	47,366
FY22 Total Debt (₹ Crore)	268
FY22 Cash & Inv (₹ Crore)	2,265
EV (₹ Crore)	45,369
52 Week H/L	3698/2351
Equity Capital (₹ Crore)	15.2
Face Value (₹)	1

Shareholding pattern				
in %	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	46.7	46.7	46.1	46.1
DII	25.3	25.9	26.0	24.2
FII	16.4	16.0	16.7	18.6
Others	11.5	11.4	11.2	11.1



Recent event & key risks

- Seven new launches in domestic market; three new overseas
- 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	FY25E	3 year CAGR (FY22-25E)
Net Revenue	2,840.9	3,366.5	4,577.0	5,299.5	18.4%	6,613.2	7,917.5	9,490.7	21.4%
EBITDA	576.4	717.8	1,012.2	1,142.4	15.6%	1,481.3	1,797.3	2,201.8	24.4%
EBITDA Margins (%)	20.3%	21.3%	22.1%	21.6%		22.4%	22.7%	23.2%	
Adj. PAT	410.2	456.6	738.3	843.8	12.9%	1,169.4	1,394.9	1,716.7	26.7%
Adj. EPS (₹)	29.7	33.1	48.6	55.5		76.9	91.8	112.9	
EV/EBITDA	74.2x	60.2x	44.8x	39.7x		31.1x	25.3x	21.4x	
P/E	104.8x	94.1x	64.1x	56.1x		40.5x	33.9x	27.6x	
ROE (%)	17.9	17.4	13.8	13.8		16.2	16.3	16.9	
ROCE (%)	23.7	20.1	17.0	16.3		18.8	19.5	20.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlight

Q3FY23 Results: Strong growth from CSM leads performance

- **CSM drives topline growth:** Better growth from the CSM business led to revenue growth of 19% YoY. Revenue from CSM was up 23% YoY to ₹ 1328.6 crore, largely driven by better volume growth of ~9% and price, favourable product mix and currency by ~14%. On the other hand, revenue from domestic formulation increased to ₹ 284.6 crore, up 2% YoY. The growth was slow due to adverse weather conditions and higher channel inventory at the customer's end
- **Margins expand YoY:** Gross margins increased 73 bps YoY to 47.2% while they increased 194 bps QoQ. Margins expanded in the current quarter on the back of a favourable product mix. EBITDA margins grew 387 bps YoY while they increased 133 bps QoQ 25.7%

PI - ESG Disclosure Score*

Score	FY20	FY21	FY22
Environmental	43.7	65.5	57.9
Social	43.6	47.7	47.7
Governance	78.6	84.9	84.9
Overall ESG Score	55.3	66.1	63.5

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q3FY23 Earnings Conference Call highlights

- Trends for new products will continue to grow and be in good shape in future. The company expects no slowdown in exports market
- Margins came in better on the back of a favourable product mix and better operating leverage benefits. The management expects margins to sustain on a YoY basis
- In the last two to three years, new products contributed almost 17-18% of total revenue. PI expects four to five products to be launched in the coming quarters. For new products to scale up, it generally takes three to four years
- Robust order book of ~\$1.8 billion
- Significant portion of revenue is from order book
- Order book expansion is expected in the coming quarter. Order is expected to increase from the current level
- Management guidance for future growth –
 - Revenue to grow ~20% in coming year on a sustainable basis
 - EBITDA margins to sustain at 23-24% levels
- Every year four to five products are getting commercialised. Next year the company is commercialising four to five non-agrichem molecules. Thus, we see diversification with no risk the revenue is driven by a single molecule
- Out of 15 MPP – three to four are dedicated plants while contracts and volumes are very high
- On the exports side – in a few markets there was an inventory pile-up. The company is witnessing a mixed scenario

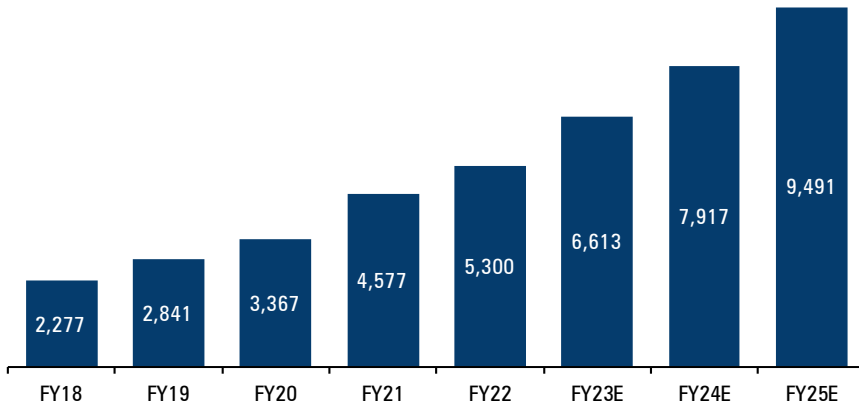
Tax Rate – For FY23 – less than 15%. For FY24 – it can be ~15%

Others

- New capex for FY23 - ~₹ 500 crore. (Some part of capex in FY23 has been rolled over and included in FY24)
 - New capex for FY24 - ~₹ 800 crore

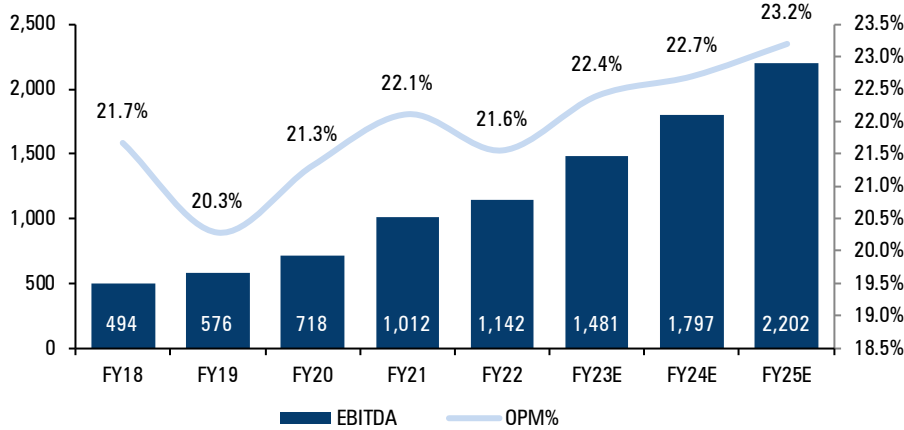
Financial story in charts....

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



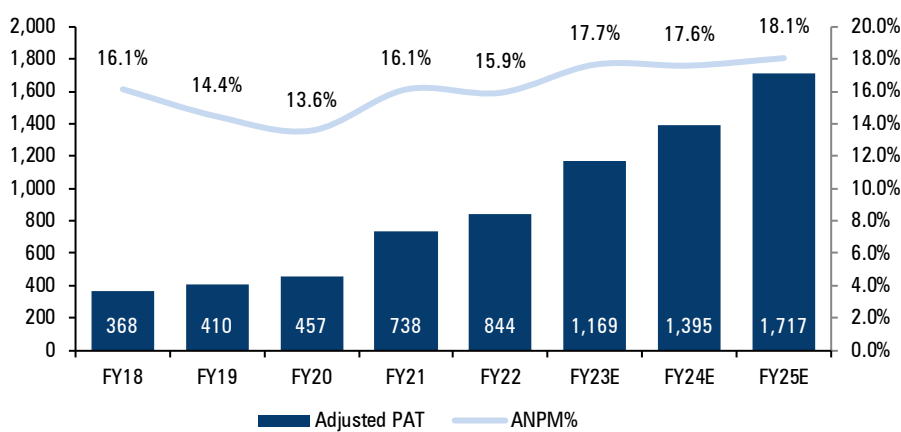
Source: Company, ICICI Direct Research

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	FY21	FY22	FY23E	FY24E	FY25E
Total Operating Income	4,577.0	5,299.5	6,613.2	7,917.5	9,490.7
Growth (%)	36.0	15.8	24.8	19.7	19.9
Raw Material Expenses	2,571.2	2,922.8	3,670.3	4,370.4	5,219.9
Employee Cost	416.9	480.4	568.7	680.9	816.2
Other Expenses	576.7	753.9	892.8	1,068.9	1,252.8
Total Operating Expenditure	3,564.8	4,157.1	5,131.8	6,120.2	7,288.8
EBITDA	1,012.2	1,142.4	1,481.3	1,797.3	2,201.8
Growth (%)	41.0	12.9	29.7	21.3	22.5
Other Income	124.9	101.4	149.5	170.0	190.0
Depreciation	174.8	201.8	245.9	303.3	348.2
Net Interest Exp.	28.2	12.8	9.1	3.4	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	934.1	1,029.2	1,375.8	1,660.6	2,043.7
Total Tax	200.2	189.0	206.4	265.7	327.0
PAT	733.9	840.2	1,169.4	1,394.9	1,716.7
Adjusted PAT	738.3	843.8	1,169.4	1,394.9	1,716.7
Growth (%)	61.7	14.3	38.6	19.3	23.1
Adjusted EPS (₹)	48.6	55.5	76.9	91.8	112.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
PBT & Extraordinary	938.5	1,032.8	1,375.8	1,660.6	2,043.7
Add: Depreciation	174.8	201.8	245.9	303.3	348.2
After other adjustments					
(Inc) / Dec in Working Capital	-130.3	-527.6	-1,236.5	-240.5	-443.0
Taxes	-164.7	-175.1	-206.4	-265.7	-327.0
Others	-93.4	-3.2	9.1	3.4	0.0
CF from operating activities	724.9	528.7	188.0	1,461.1	1,621.8
Purchase of Fixed Assets	-439.0	-337.1	-800.0	-900.0	-400.0
Others	-1,991.3	226.7	0.0	0.0	0.0
CF from investing activities	-2,430.3	-110.4	-800.0	-900.0	-400.0
Issue/(Buy back) of Equity	1,978.9	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-178.6	-72.0	-110.0	-157.8	0.0
Dividend paid & dividend tax	-60.7	-75.8	-76.0	-76.0	-76.0
Others	-49.2	-29.5	-9.1	-3.4	0.0
CF from financing activities	1,690.4	-177.3	-195.1	-237.2	-76.0
Net cash flow	-15.0	241.0	-807.2	323.9	1,145.8
Opening cash	134.2	1,475.7	1,410.2	603.0	926.9
Closing cash	1,475.7	1,410.2	603.0	926.9	2,072.8

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					
	₹ crore				
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	15.2	15.2	15.2	15.2	15.2
Reserves & Surplus	5,327.2	6,105.2	7,198.6	8,517.5	10,158.2
Total Shareholders Funds	5,342.4	6,120.4	7,213.8	8,532.7	10,173.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	257.4	169.9	89.9	0.0	0.0
Net Deferred Tax liability	79.6	87.5	87.5	87.5	87.5
Other long term liabilities	55.9	57.1	71.3	85.3	102.3
Long term provisions	9.6	8.0	10.0	12.0	14.3
Current Liabilities and Provisions					
Short term borrowings	70.5	97.9	67.9	0.0	0.0
Trade Payables	796.0	924.2	1,316.7	1,549.0	1,829.1
Other Current Liabilities	344.9	298.4	372.4	445.8	534.4
Short Term Provisions	45.6	27.7	34.6	41.4	49.6
Total Current Liabilities	1,257.0	1,348.2	1,791.5	2,036.2	2,413.1
Total Liabilities	7,001.9	7,791.1	9,264.0	10,753.6	12,790.6
Assets					
Net Block	2,055.4	2,369.7	2,887.6	3,484.2	3,536.1
Capital Work in Progress	249.5	63.8	100.0	100.0	100.0
Intangible assets under devl.	38.0	50.7	50.7	50.7	50.7
Goodwill on Consolidation	82.8	82.8	82.8	82.8	82.8
Non-current investments	20.7	44.8	44.8	44.8	44.8
Deferred tax assets	13.2	13.5	13.5	13.5	13.5
Long term loans and advances	34.6	189.4	236.3	283.0	339.2
Other Non Current Assets	14.6	12.5	15.6	18.7	22.4
Current Assets, Loans & Advances					
Current Investments	851.7	854.7	854.7	854.7	854.7
Inventories	1,052.8	1,423.4	2,187.8	2,436.7	2,846.2
Sundry Debtors	703.5	868.7	1,519.1	1,690.1	1,940.1
Cash and Bank	1,475.7	1,410.2	603.0	926.9	2,072.8
Loans and Advances	7.0	3.0	3.0	3.0	3.0
Other Current assets	402.4	403.9	665.0	764.4	884.3
Current Assets	4,493.1	4,963.9	5,832.6	6,675.9	8,601.1
Total Assets	7,001.9	7,791.1	9,264.0	10,753.6	12,790.6

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios					
Year end March	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adj. EPS	48.6	55.5	76.9	91.8	112.9
Adj. Cash EPS	60.1	68.8	93.1	111.7	135.8
BV	351.5	402.7	474.6	561.4	669.3
DPS	5.0	6.0	5.0	5.0	5.0
Operating Ratios (%)					
Gross Margin (%)	43.8	44.8	44.5	44.8	45.0
EBITDA Margin (%)	22.1	21.6	22.4	22.7	23.2
PAT Margin (%)	16.1	15.9	17.7	17.6	18.1
Debtor Days	56	60	60	58	58
Inventory Days	84	98	100	95	95
Creditor Days	63	64	65	65	65
Cash Conversion Cycle	77	94	95	88	88
Return Ratios (%)					
Return on Assets (%)	10.5	10.8	12.6	13.0	13.4
RoCE (%)	17.0	16.3	18.8	19.5	20.1
Core RoIC (%)	25.1	22.8	20.9	22.1	25.6
RoE (%)	13.8	13.8	16.2	16.3	16.9
Solvency					
Total Debt / Equity	0.1	0.0	0.0	-	-
Interest Coverage	34.1	81.4	151.4	NM	NM
Current Ratio	3.6	3.7	3.3	3.3	3.6
Quick Ratio	2.7	2.6	2.0	2.1	2.4
Valuation Ratios (x)					
EV/EBITDA	44.6	39.5	30.9	25.2	21.3
P/E	63.8	55.8	40.3	33.8	27.4
P/B	8.8	7.7	6.5	5.5	4.6
EV/Sales	9.9	8.5	6.9	5.7	5.0

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	2182	2,550	Buy	64,894	63.5	58.3	73.6	34.4	37.4	29.7	21.3	22.4	17.9	23.8	18.9	21.0	22.1	17.7	19.0
PI Industries	3114	3,615	Buy	47,250	55.5	76.9	91.8	56.1	40.5	33.9	39.7	31.1	25.3	16.3	18.8	19.5	13.8	16.2	16.3
Tata Chemical	965	1,170	Buy	24,642	93.0	97.3	110.6	10.4	9.9	8.7	6.6	5.5	5.4	11.8	11.3	11.7	11.6	11.0	11.2
Vinati Organics	1888	2,055	Hold	19,405	33.7	41.6	48.0	56.0	45.4	39.4	44.7	35.6	30.3	24.3	23.9	22.4	19.0	19.7	19.2
Sumitomo Chemical	438	525	Buy	21,860	8.5	10.8	12.4	51.6	40.5	35.2	35.7	28.4	24.2	30.2	30.1	28.1	22.0	22.4	20.9
Navin Fluorine	4162	4,285	Hold	20,668	52.3	65.7	86.0	79.6	63.4	48.4	57.9	42.3	31.2	17.8	18.3	19.1	14.0	15.5	17.4
Rallis India	224	223	Hold	4,353	8.4	8.7	11.8	26.5	25.7	18.9	15.2	15.5	11.4	12.7	11.4	14.7	9.7	9.4	11.6
Sudarshan chemical	360	370	Hold	2,458	18.8	4.4	18.1	19.2	81.8	19.9	11.9	16.9	9.7	10.9	4.7	12.3	15.6	3.6	13.2
Neogen Chemicals	1295	1,535	Buy	3,147	17.9	28.2	35.2	72.4	45.9	36.8	38.1	26.9	21.5	12.0	15.4	14.8	10.2	14.0	15.0
Astec Lifesciences	1387	1,307	Reduce	2,718	45.1	27.5	39.9	30.8	50.4	34.8	19.4	26.8	19.7	19.3	10.1	12.6	22.3	12.0	14.8

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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