

Next growth phase to emanate from pharma venture

PI Industries reported topline growth of 40% YoY to ₹ 1197 crore against our estimate of ₹ 1185 crore. Growth was led by the CSM business, up 47% YoY to ₹ 1006 crore. Revenue from domestic agri input was up 11% YoY to ₹ 191 crore, largely driven by Isagro (up 52% YoY). Revenue from domestic branded formulation fell 11% YoY to ₹ 100 crore. Change in the product mix and removal of MEIS benefits affected gross margins, which was down 469 bps YoY to 42.1%, translating into a below expected operational performance for the quarter. OPM contracted 279 bps YoY to 19% leading to EBITDA growth of 22% YoY to ₹ 227 crore vs. our estimate of ₹ 290 crore. Higher other income (₹ 44 crore vs. ₹ 7.6 crore in Q4FY20), owing to increase in liquid investments/cash post QIP, negated the impact of poor operational performance, to a certain extent. PAT grew 63% YoY to ₹ 179.9 crore against our estimate of ₹ 212.3 crore.

CSM business likely to drive overall growth ahead

The company launched four molecules last year, while it had around 25 molecules under the CSM portfolio earlier. The order backlog remains at around \$ 1.5 billion, of which around 65-70% constitutes long term contracts while the rest are from a short-term contract. Going ahead, there are around 5-6 molecules at various stages of development, which is expected to be commercialised, going ahead. This would expand CSM portfolio and thereby the order backlog. Going ahead, since the new MPP is expected to get commissioned by Q2FY22, we expect better execution to lead to strong topline growth in years to come.

Return ratios likely to improve ahead

The company mobilised around ₹ 2000 crore through QIP last year, which will be largely deployed for inorganic and organic expansion. Since PI is almost at advance stages to finalise pharma acquisition, we expect successful integration along with ramp up of activities to translate into better group performance. Since pharma venture is expected to generate better return ratios against the base business, we expect the same to translate to improvement in group ratios in years to come.

Valuation & Outlook

The company is expecting to increase its share in the API CDMO space post its maiden entry in the Pharma space. Since the market opportunity is large and PI has already delivered strong growth in the agri CSM segment, we expect it to also garner potential scale in the pharma space. We value the company at 40x PER of FY23E (~1.6x PEG). We arrive at a target price of ₹ 3010 (earlier ₹ 2845) and maintain our **BUY** rating on the stock.



Particulars

Particular	Amount
Market cap (₹ Crore)	39,064
FY21 Total Debt (₹ Crore)	257
FY21 Cash & Inv (₹ Crore)	2,327
EV (₹ Crore)	36,994
52 Week H/L	2795/1446
Equity Capital (₹ Crore)	15.2
Face Value (₹)	1

Key Highlights

- CSM business to drive overall growth ahead
- Return ratios likely to improve ahead
- Maintain BUY rating on stock with target price of ₹ 3010

Key Risks

- Slowdown in crop protection chemical demand likely to impact execution of CSM business and thereby revenues
- Poor monsoon in India can impact India branded formulation business and thereby overall performance

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Revenue	2,277.1	2,840.9	3,366.5	4,577.0	5,368.3	6,126.3	15.7
EBITDA	493.5	576.4	717.8	1,012.2	1,304.5	1,531.6	23.0
EBITDA Margins (%)	21.7%	20.3%	21.3%	22.1%	24.3%	25.0%	
Adj. PAT	367.6	410.2	456.6	738.3	961.9	1,143.9	24.5
Adj. EPS (₹)	26.6	29.7	33.1	48.6	63.3	75.3	
EV/EBITDA	71.4x	61.2x	49.7x	36.5x	27.9x	23.3x	
P/E	96.5x	86.5x	77.7x	52.9x	40.6x	34.2x	
ROE (%)	19.1	17.9	17.4	13.8	15.4	15.7	
ROCE (%)	23.4	23.2	20.2	16.8	19.7	19.9	

Exhibit 1: Segmental revenue break up (₹ crore)

Segmental revenue break up	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
CSM (Exports)	438	313	403	541	610	497	639	644	683	614	799	902	1,006
% of total revenue	70%	52%	57%	76%	76%	66%	70%	76%	80%	58%	69%	78%	84%
% YoY	2%	-1%	33%	40%	39%	59%	58%	19%	12%	24%	25%	40%	47%
% QoQ	14%	-29%	29%	34%	13%	-19%	29%	1%	6%	-10%	30%	13%	12%
Domestic agri inputs	187	293	310	167	195	257	269	206	172	446	359	260	191
% of total revenue	30%	48%	43%	24%	24%	34%	30%	24%	20%	42%	31%	22%	16%
% YoY	7%	23%	20%	10%	4%	-12%	-13%	23%	-12%	74%	33%	26%	11%
% QoQ	23%	57%	6%	-46%	17%	32%	5%	-23%	-17%	159%	-20%	-28%	-27%

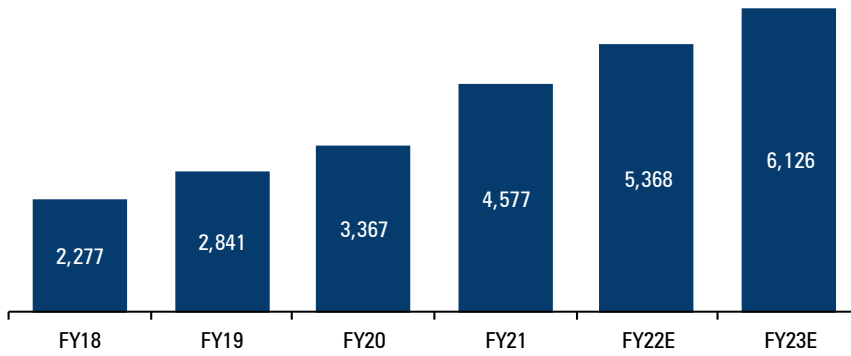
Source: Company, ICICI Direct Research

Conference Call Highlights

- Business outlook remained robust with strong growth expected to continue in FY22 in domestic brands with expected launch of products of around five. It will strengthen rice, cotton and horticulture portfolio
- Four new products have been commercialised for the export business while more than 40 active enquires are at different stages
- A pipeline of five to six molecules is in various stages of development to be commercialised in the fiscal year
- The company launched Shield (fungicide) in Q2 and also launched Londax Power, which is rice herbicide
- New MPP is planned to be made ready by Q2FY22, thus enhancing the overall capacity
- Order book continues to remain robust at US\$1.5 billion with high visibility of sustainable growth in the next three to four years
- The company is actively evaluating few pharma assets and working with global consulting firm for crystallisation and successfully implementing strategic road map of diversification
- Amid challenges owing to Covid-19 and related uncertainties, the company is confident of achieving >15% growth in FY22

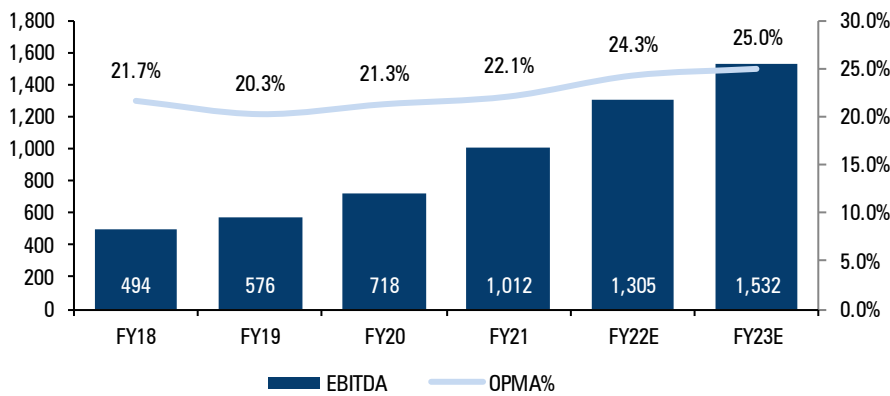
Financial story in charts

Exhibit 2: Revenue trend (₹ crore)



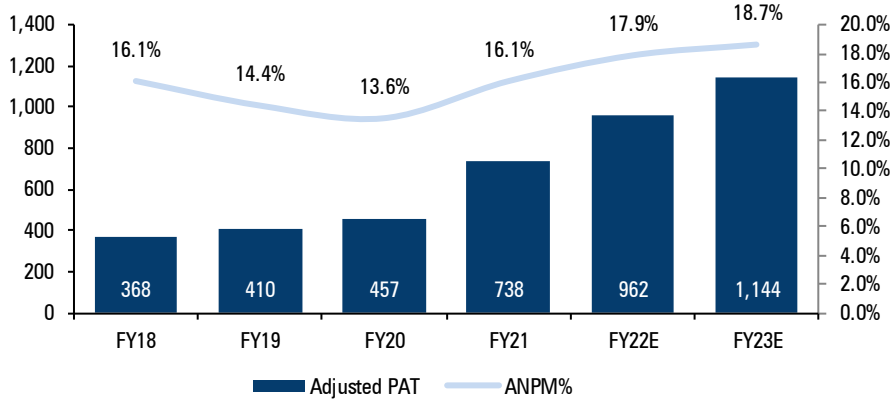
Source: Company, ICICI Direct Research

Exhibit 3: OPM likely to improve ahead



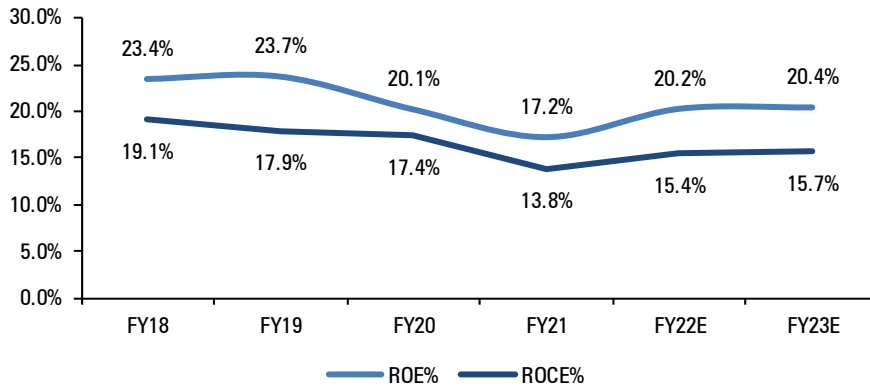
Source: Company, ICICI Direct Research

Exhibit 4: PAT trend



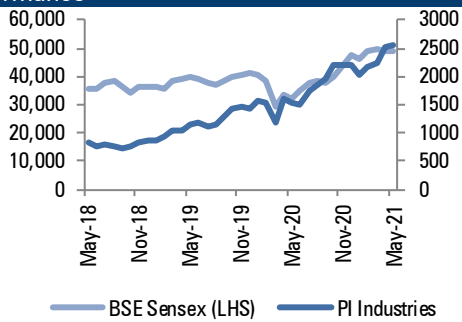
Source: Company, ICICI Direct Research

Exhibit 5: RoNW & RoCE trend (%)



Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	2,840.9	3,366.5	4,577.0	5,368.3	6,126.3
Growth (%)	24.8	18.5	36.0	17.3	14.1
Raw Material Expenses	1,550.2	1,847.4	2,571.2	2,952.6	3,369.5
Employee Cost	264.7	320.9	416.9	467.0	508.5
Other Expenses	449.6	480.4	576.7	644.2	716.8
Total Operating Expenditure	2,264.5	2,648.7	3,564.8	4,063.8	4,594.7
EBITDA	576.4	717.8	1,012.2	1,304.5	1,531.6
Growth (%)	16.8	24.5	41.0	28.9	17.4
Other Income	59.5	48.9	124.9	158.5	184.4
Depreciation	93.0	136.7	174.8	204.3	230.5
Net Interest Exp.	5.0	17.0	28.2	9.5	0.0
Other exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	537.9	613.0	934.1	1,249.3	1,485.5
Total Tax	127.7	157.2	200.2	287.3	341.7
PAT	410.2	455.8	733.9	961.9	1,143.9
Adjusted PAT	410.2	456.6	738.3	961.9	1,143.9
Growth (%)	11.6	11.3	61.7	30.3	18.9
Adjusted EPS (₹)	29.7	33.1	48.6	63.3	75.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
PBT & Extraordinary	537.9	613.8	938.5	1,249.3	1,485.5
Add: Depreciation	93.0	136.7	174.8	204.3	230.5
After other adjustments					
(Inc) / Dec in Working Capital	-150.3	25.5	-130.3	-134.2	-145.4
Taxes	-118.3	-104.8	-164.7	-287.3	-341.7
Others	28.5	26.9	-93.4	9.5	0.0
CF from operating activities	390.8	698.1	724.9	1,041.5	1,229.0
Purchase of Fixed Assets	-368.5	-674.3	-439.0	-400.0	-400.0
Others	46.9	-310.8	-1,991.3	0.0	0.0
CF from investing activities	-321.6	-985.1	-2,430.3	-400.0	-400.0
Issue/(Buy back) of Equity	2.9	8.0	1,978.9	0.0	0.0
Inc/(dec) in loan funds	-39.9	456.2	-178.6	-257.4	0.0
Dividend paid & dividend tax	-83.1	-74.8	-60.7	-76.0	-76.0
Others	-5.0	-39.4	-49.2	-9.5	0.0
CF from financing activities	-125.1	350.0	1,690.4	-342.9	-76.0
Net cash flow	-55.9	63.0	-15.0	298.6	753.0
Opening cash	130.7	89.2	134.2	1,619.5	1,918.1
Closing cash	89.2	134.2	1,619.5	1,918.1	2,671.1

*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet					
	₹ crore				
Year end March	FY19	FY20	FY21	FY22E	FY23E
Liabilities					
Equity Capital	13.8	13.8	15.2	15.2	15.2
Reserves & Surplus	2,271.6	2,605.3	5,327.2	6,213.1	7,281.0
Total Shareholders Funds	2,285.4	2,619.1	5,342.4	6,228.3	7,296.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Long Term Borrowings	9.9	399.4	257.4	0.0	0.0
Net Deferred Tax liability	0.0	10.2	79.6	79.6	79.6
Other long term liabilities	19.0	83.2	55.9	65.6	74.8
Long term provisions	29.0	12.4	9.6	11.3	12.8
Current Liabilities and Provisions					
Short term borrowings	0.0	108.3	0.0	0.0	0.0
Trade Payables	513.0	590.9	796.0	1,000.1	1,141.3
Other Current Liabilities	285.9	358.9	415.4	487.2	556.0
Short Term Provisions	12.6	42.4	45.6	53.5	61.0
Total Current Liabilities	811.5	1,100.5	1,257.0	1,540.8	1,758.4
Total Liabilities	3,154.8	4,224.8	7,001.9	7,925.6	9,221.9
Assets					
Net Block	1,185.7	1,774.7	2,055.4	2,300.6	2,470.2
Capital Work in Progress	154.4	237.1	249.5	200.0	200.0
Intangible assets under devl.	28.4	33.6	38.0	38.0	38.0
Goodwill on Consolidation	0.0	82.8	82.8	82.8	82.8
Non-current investments	17.2	17.9	20.7	20.7	20.7
Deferred tax assets	14.1	0.0	0.0	0.0	0.0
Long term loans and advances	19.0	14.3	34.6	40.6	46.3
Other Non Current Assets	45.1	41.1	14.6	17.1	19.5
Current Assets, Loans & Advances					
Current Investments	111.9	132.5	707.9	707.9	707.9
Inventories	535.7	798.9	1,052.8	1,176.6	1,342.7
Sundry Debtors	661.8	748.7	851.7	1,103.1	1,258.8
Cash and Bank	89.2	134.2	1,619.5	1,918.1	2,671.1
Loans and Advances	6.3	8.3	10.3	10.3	10.3
Other Current assets	286.0	200.7	264.1	309.8	353.5
Current Assets	1,690.9	2,023.3	4,506.3	5,225.7	6,344.3
Total Assets	3,154.8	4,224.8	7,001.9	7,925.6	9,221.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
Year end March	FY19	FY20	FY21	FY22E	FY23E
Per share data (₹)					
Adj. EPS	29.7	33.1	48.6	63.3	75.3
Adj. Cash EPS	36.5	43.0	60.1	76.7	90.4
BV	165.6	189.8	351.5	409.8	480.0
DPS	4.0	4.0	5.0	5.0	5.0
Operating Ratios (%)					
Gross Margin (%)	45.4	45.1	43.8	45.0	45.0
EBITDA Margin (%)	20.3	21.3	22.1	24.3	25.0
PAT Margin (%)	14.4	13.6	16.1	17.9	18.7
Debtor Days	85	81	68	75	75
Inventory Days	69	87	84	80	80
Creditor Days	66	64	63	68	68
Cash Conversion Cycle	88	104	88	87	87
Return Ratios (%)					
Return on Assets (%)	13.0	10.8	10.5	12.1	12.4
RoCE (%)	23.7	20.1	17.2	20.2	20.4
RoE (%)	17.9	17.4	13.8	15.4	15.7
Solvency					
Total Debt / Equity	0.0	0.2	0.0	-	-
Interest Coverage	108.6	37.1	34.1	132.7	NM
Current Ratio	2.1	1.8	3.6	3.4	3.6
Quick Ratio	1.4	1.1	2.7	2.6	2.8
Valuation Ratios (x)					
EV/EBITDA	61.2	49.7	36.5	27.9	23.3
P/E	86.5	77.7	52.9	40.6	34.2
P/B	15.5	13.5	7.3	6.3	5.4
EV/Sales	12.4	10.6	8.1	6.8	5.8

Source: Company, ICICI Direct Research

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