

## CSM growth tempo strong despite miss; outlook upbeat...

**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 500+ scientists
- The revenues of the company can be divided into custom synthesis manufacturing (CSM) and domestic agrochem formulation business with the former contributing ~79% to overall revenue in FY23 and the rest coming from the domestic formulations business

**Q4FY23 Results:** Numbers were below I-direct estimates across the board largely due to less-than-expected volume growth in Q4FY23.

- Reported revenue growth of 12% YoY to ₹ 1565.6 crore, CSM was up 15% YoY to ₹ 1281.4 crore while domestic formulation was up 1% YoY to ₹ 284.2 crore
- Gross margins grew 75 bps YoY to ~44.8% while EBITDA margin remained flat YoY to 21.9%. Absolute EBITDA was up 12% YoY to ₹ 342.8 crore
- PAT increased 37% YoY to ₹ 280.6 crore, driven by strong operational efficiency

**What should investors do?** The stock appreciated at 30% CAGR in last three years.

- We maintain **BUY** on the back of 1) Better growth outlook of CSM business 2) Upbeat management guidance on FY24 outlook, 3) Order book expansion for new molecules.

**Target Price and Valuation:** We value PI Industries at 34x FY25E EPS to arrive at a revised target price of ₹ 3880/share (earlier ₹ 3615/share).

### Key triggers for future price performance:

- Strong order backlog of ~\$US\$1.8 billion in CSM bodes well for future growth
- Foray into pharma CDMO to facilitate risk mitigation and fund channelisation
- Launch of four to five new products every year in both segments and foray in horticulture in the domestic segment

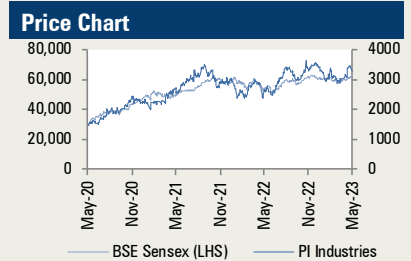
**Alternate Stock Idea:** Besides PI Industries, in our chemical coverage, we also like SRF.

- Trigger for SRF's future revenue growth would be increasing specialty chemical business
- BUY with a target price of ₹ 3000



| Particulars               |           |
|---------------------------|-----------|
| Particular                | Amount    |
| Market cap (₹ Crore)      | 49,514    |
| FY23 Total Debt (₹ Crore) | 0         |
| FY23 Cash & Inv (₹ Crore) | 2,243     |
| EV (₹ Crore)              | 47,271    |
| 52 Week H/L               | 3698/2351 |
| Equity Capital (₹ Crore)  | 15.2      |
| Face Value (₹)            | 1         |

| Shareholding pattern |        |        |        |        |
|----------------------|--------|--------|--------|--------|
| in %                 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
| Promoter             | 46.7   | 46.1   | 46.1   | 46.1   |
| DII                  | 25.9   | 26.0   | 24.2   | 24.1   |
| FII                  | 16.0   | 16.7   | 18.6   | 18.6   |
| Others               | 11.4   | 11.2   | 11.1   | 11.3   |



- ### Recent event & key risks
- Twin acquisition in pharma API, CDMO space
  - 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    | FY23    | 5 year CAGR (FY18-23) | FY24E   | FY25E   | 2 year CAGR (FY23-25E) |
|--------------------|---------|---------|---------|---------|---------|-----------------------|---------|---------|------------------------|
| Net Revenue        | 2,840.9 | 3,366.5 | 4,577.0 | 5,299.5 | 6,492.0 | 23.3%                 | 7,892.0 | 9,666.4 | 22.0%                  |
| EBITDA             | 576.4   | 717.8   | 1,012.2 | 1,142.4 | 1,542.1 | 25.6%                 | 1,823.1 | 2,242.6 | 20.6%                  |
| EBITDA Margins (%) | 20.3%   | 21.3%   | 22.1%   | 21.6%   | 23.8%   |                       | 23.1%   | 23.2%   |                        |
| Adj. PAT           | 410.2   | 456.6   | 738.3   | 843.8   | 1,229.5 | 27.3%                 | 1,432.1 | 1,734.8 | 18.8%                  |
| Adj. EPS (₹)       | 29.7    | 33.1    | 48.6    | 55.5    | 80.9    |                       | 94.2    | 114.1   |                        |
| EV/EBITDA          | 73.9x   | 59.9x   | 44.6x   | 39.5x   | 28.5x   |                       | 24.3x   | 21.0x   |                        |
| P/E                | 104.3x  | 93.7x   | 63.8x   | 55.8x   | 38.3x   |                       | 32.9x   | 27.2x   |                        |
| ROE (%)            | 17.9    | 17.4    | 13.8    | 13.8    | 17.1    |                       | 16.9    | 17.2    |                        |
| ROCE (%)           | 23.7    | 20.1    | 17.0    | 16.3    | 20.5    |                       | 20.1    | 20.5    |                        |

## Key takeaways of recent quarter & conference call highlight

### Q4FY23 Results: Decent growth from CSM led performance.

- CSM drives topline growth:** Decent growth from the CSM business led the revenue growth of 12% YoY. Revenue from CSM was up 15% YoY to ₹ 1281.4 crore, largely driven by price, currency and favourable product mix of ~17%, which was offset by volume de-growth of ~2%. On the other hand, revenue from domestic formulation increased to ₹ 284.2 crore, up 1% YoY. Growth was driven by volume increase of ~2%, which was offset by price decline of ~1%
- Margins expanded YoY:** Gross margins increased 75 bps YoY to 44.8%, while they fell 233 bps QoQ. Margins expanded in the current quarter on the back of a favourable product mix. EBITDA margins remained flat YoY while they declined 384 bps QoQ to 21.9%

### 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        |
| <b>Overall ESG Score</b> | <b>55.3</b> | <b>66.1</b> | <b>63.5</b> |

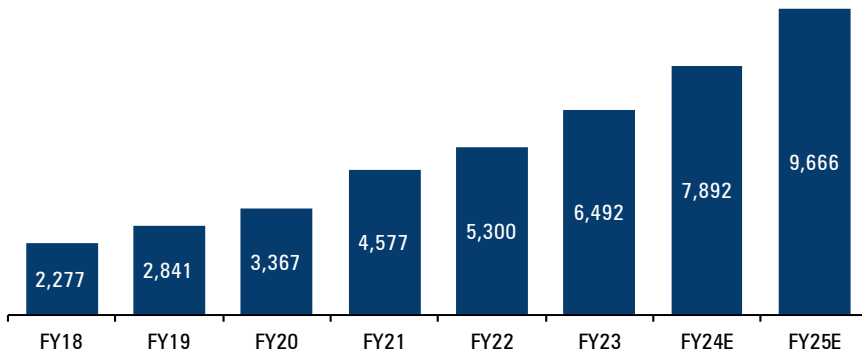
Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

### Q4FY23 Earnings Conference Call highlights

- The management is not witnessing any significant change in the demand scenario. Management guidance remains upbeat with 18-20% volume-driven growth in topline along with margin improvement. The management expects prices to remain stable at the current level. The above guidance is excluding twin acquisitions of pharma CDMO
- PI Health Sciences (PIHS), a wholly owned subsidiary of PI Industries (PI), has executed definitive documents with the following:
  - Therachem Research Medilab LLC (TRM) for acquiring its wholly owned subsidiaries in India (TRM India and Solis Pharma Chem) and assets in the US. The purchase consideration for the same is \$5 crore (~ ₹ 410 crore) and an additional payment up to \$2.5 crore (~ ₹ 205 crore) in performance linked payouts over the next six years
  - Plahoma Twelve GmbH for acquiring 100% stake in Archimica SpA (Archimica). The purchase consideration for the same is €3.42 crore (~ ₹ 310 crore). The purchase consideration will be paid in cash and funded from the completed qualified institutional placement (QIP) proceeds and internal accruals
- On capex – The company is expected to incur capex of ₹ 850-900 crore in FY24 in core business area including carried over capex of ₹ 300 crore from the previous year
- The management expects no abnormality in channel inventory and is optimistic on H1FY24
- Margins for the company vary based on product mix. The management has laid out plans for qualitative improvement in production and target for decent margins in FY24. The current dip in the quarter was largely on account of product mix
- The company has a strong pipeline of products, which are currently at different levels of development. In the CSM segment, 17-18% of sales are from newer products
- The company has incurred onetime expenses of ~₹ 25 crore in Q4FY23
- The management expects the tax rate to be ~15-16%

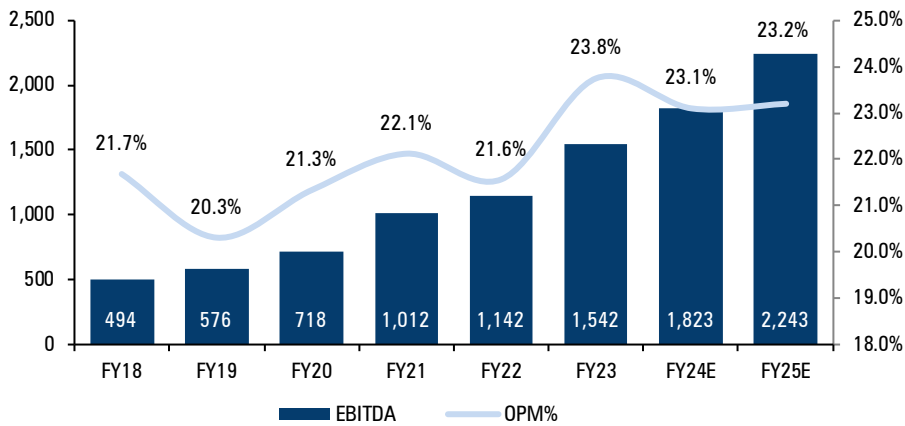
Financial story in charts....

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



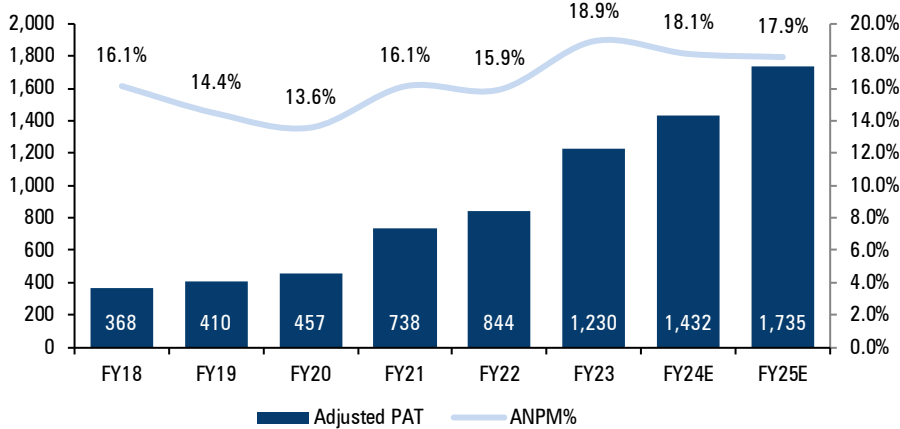
Source: Company, ICICI Direct Research

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



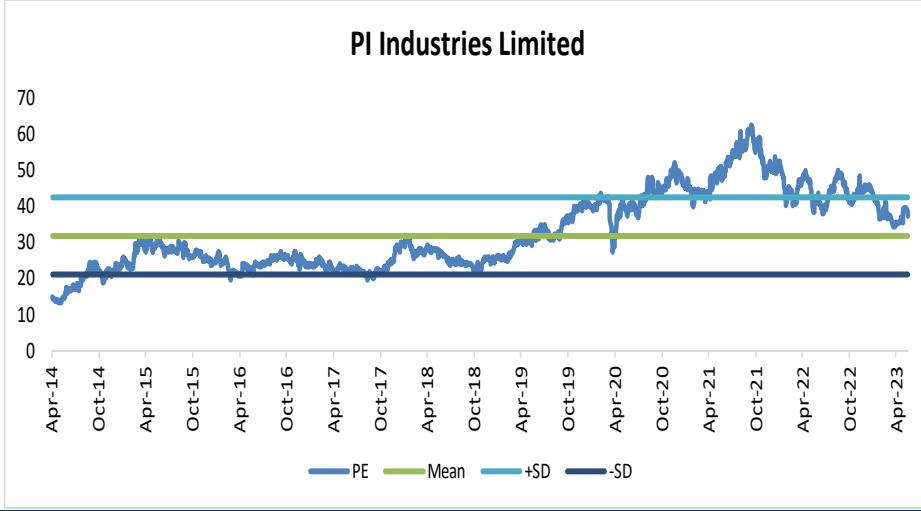
Source: Company, ICICI Direct Research

Exhibit 3: PAT growth trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 4: PE Band



Source: ICICI Direct Research

## Financial summary

| Exhibit 5: Profit and loss statement |                |                |                |                | ₹ crore |
|--------------------------------------|----------------|----------------|----------------|----------------|---------|
| Year end March                       | FY22           | FY23E          | FY24E          | FY25E          |         |
| <b>Total Operating Income</b>        | <b>5,299.5</b> | <b>6,492.0</b> | <b>7,892.0</b> | <b>9,666.4</b> |         |
| Growth (%)                           | 15.8           | 22.5           | 21.6           | 22.5           |         |
| Raw Material Expenses                | 2,922.8        | 3,552.7        | 4,332.7        | 5,316.5        |         |
| Employee Cost                        | 480.4          | 526.6          | 670.8          | 802.3          |         |
| Other Expenses                       | 753.9          | 870.6          | 1,065.4        | 1,305.0        |         |
| Total Operating Expenditure          | 4,157.1        | 4,949.9        | 6,069.0        | 7,423.8        |         |
| <b>EBITDA</b>                        | <b>1,142.4</b> | <b>1,542.1</b> | <b>1,823.1</b> | <b>2,242.6</b> |         |
| Growth (%)                           | 12.9           | 35.0           | 18.2           | 23.0           |         |
| Other Income                         | 101.4          | 159.0          | 150.0          | 150.0          |         |
| Depreciation                         | 201.8          | 226.5          | 268.2          | 327.4          |         |
| Net Interest Exp.                    | 12.8           | 37.1           | 0.0            | 0.0            |         |
| Other exceptional items              | 0.0            | 0.0            | 0.0            | 0.0            |         |
| PBT                                  | 1,029.2        | 1,437.5        | 1,704.9        | 2,065.2        |         |
| Total Tax                            | 189.0          | 214.8          | 272.8          | 330.4          |         |
| <b>PAT</b>                           | <b>840.2</b>   | <b>1,222.7</b> | <b>1,432.1</b> | <b>1,734.8</b> |         |
| Adjusted PAT                         | 843.8          | 1,229.5        | 1,432.1        | 1,734.8        |         |
| Growth (%)                           | 14.3           | 45.7           | 16.5           | 21.1           |         |
| Adjusted EPS (₹)                     | 55.5           | 80.9           | 94.2           | 114.1          |         |

Source: Company, ICICI Direct Research

| Exhibit 6: Cash flow statement      |                |                |                 |                | ₹ crore |
|-------------------------------------|----------------|----------------|-----------------|----------------|---------|
| Year end March                      | FY22           | FY23E          | FY24E           | FY25E          |         |
| PBT & Extraordinary                 | 1,032.8        | 1,444.3        | 1,704.9         | 2,065.2        |         |
| Add: Depreciation                   | 201.8          | 226.5          | 268.2           | 327.4          |         |
| After other adjustments             |                |                |                 |                |         |
| (Inc) / Dec in Working Capital      | -527.6         | 205.0          | -262.0          | -1,162.1       |         |
| Taxes                               | -175.1         | -255.8         | -272.8          | -330.4         |         |
| Others                              | -3.2           | -118.6         | 0.0             | 0.0            |         |
| <b>CF from operating activities</b> | <b>528.7</b>   | <b>1,501.4</b> | <b>1,438.2</b>  | <b>900.1</b>   |         |
| Purchase of Fixed Assets            | -337.1         | -326.3         | -1,700.0        | -750.0         |         |
| Others                              | 226.7          | -169.9         | 0.0             | 0.0            |         |
| <b>CF from investing activities</b> | <b>-110.4</b>  | <b>-496.2</b>  | <b>-1,700.0</b> | <b>-750.0</b>  |         |
| Issue/(Buy back) of Equity          | 0.0            | 0.0            | 0.0             | 0.0            |         |
| Inc/(dec) in loan funds             | -72.0          | -266.9         | 0.0             | 0.0            |         |
| Dividend paid & dividend tax        | -75.8          | -113.7         | -152.0          | -152.0         |         |
| Others                              | -29.5          | -102.5         | 0.0             | 0.0            |         |
| <b>CF from financing activities</b> | <b>-177.3</b>  | <b>-483.1</b>  | <b>-152.0</b>   | <b>-152.0</b>  |         |
| Net cash flow                       | 241.0          | 522.1          | -413.8          | -1.9           |         |
| Opening cash                        | 1,475.7        | 1,410.2        | 2,242.9         | 1,829.1        |         |
| <b>Closing cash</b>                 | <b>1,410.2</b> | <b>2,242.9</b> | <b>1,829.1</b>  | <b>1,827.2</b> |         |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance sheet                    |                |                |                 |                 | ₹ crore |
|---|----------------|----------------|-----------------|-----------------|---------|
| Year end March                              | FY22           | FY23E          | FY24E           | FY25E           |         |
| <b>Liabilities</b>                          |                |                |                 |                 |         |
| Equity Capital                              | 15.2           | 15.2           | 15.2            | 15.2            |         |
| Reserves & Surplus                          | 6,105.2        | 7,183.3        | 8,463.4         | 10,046.2        |         |
| <b>Total Shareholders Funds</b>             | <b>6,120.4</b> | <b>7,198.5</b> | <b>8,478.6</b>  | <b>10,061.4</b> |         |
| Minority Interest                           | 0.0            | 0.0            | 0.0             | 0.0             |         |
| Long Term Borrowings                        | 169.9          | 0.0            | 0.0             | 0.0             |         |
| Net Deferred Tax liability                  | 87.5           | 21.3           | 21.3            | 21.3            |         |
| Other long term liabilities                 | 57.1           | 67.8           | 82.4            | 101.0           |         |
| Long term provisions                        | 8.0            | 10.3           | 12.5            | 15.3            |         |
| <b>Current Liabilities and Provisions</b>   |                |                |                 |                 |         |
| Short term borrowings                       | 97.9           | 0.0            | 0.0             | 0.0             |         |
| Trade Payables                              | 924.2          | 838.0          | 1,018.7         | 1,386.8         |         |
| Other Current Liabilities                   | 298.4          | 316.0          | 384.1           | 470.5           |         |
| Short Term Provisions                       | 27.7           | 27.8           | 33.8            | 41.4            |         |
| Total Current Liabilities                   | 1,348.2        | 1,181.8        | 1,436.7         | 1,898.7         |         |
| <b>Total Liabilities</b>                    | <b>7,791.1</b> | <b>8,479.7</b> | <b>10,031.5</b> | <b>12,097.6</b> |         |
| <b>Assets</b>                               |                |                |                 |                 |         |
| Net Block                                   | 2,369.7        | 2,522.7        | 3,117.0         | 3,689.6         |         |
| Capital Work in Progress                    | 63.8           | 62.5           | 900.0           | 750.0           |         |
| Intangible assets under devl.               | 50.7           | 69.9           | 69.9            | 69.9            |         |
| Goodwill on Consolidation                   | 82.8           | 82.8           | 82.8            | 82.8            |         |
| Non-current investments                     | 44.8           | 31.3           | 31.3            | 31.3            |         |
| Deferred tax assets                         | 13.5           | 0.0            | 0.0             | 0.0             |         |
| Long term loans and advances                | 189.4          | 24.5           | 29.8            | 36.5            |         |
| Other Non Current Assets                    | 12.5           | 23.7           | 28.8            | 35.3            |         |
| <b>Current Assets, Loans &amp; Advances</b> |                |                |                 |                 |         |
| Current Investments                         | 854.7          | 984.3          | 984.3           | 984.3           |         |
| Inventories                                 | 1,423.4        | 1,397.6        | 1,699.0         | 2,457.0         |         |
| Sundry Debtors                              | 868.7          | 772.0          | 938.5           | 1,581.5         |         |
| Cash and Bank                               | 1,410.2        | 2,242.9        | 1,829.1         | 1,827.2         |         |
| Loans and Advances                          | 3.0            | 8.3            | 8.3             | 8.3             |         |
| Other Current assets                        | 403.9          | 257.2          | 312.7           | 544.0           |         |
| Current Assets                              | 4,963.9        | 5,662.3        | 5,771.9         | 7,402.2         |         |
| <b>Total Assets</b>                         | <b>7,791.1</b> | <b>8,479.7</b> | <b>10,031.5</b> | <b>12,097.6</b> |         |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|
| Year end March              | FY22  | FY23E | FY24E | FY25E |
| <b>Per share data (₹)</b>   |       |       |       |       |
| Adj. EPS                    | 55.5  | 80.9  | 94.2  | 114.1 |
| Adj. Cash EPS               | 68.8  | 95.8  | 111.9 | 135.7 |
| BV                          | 402.7 | 473.6 | 557.8 | 661.9 |
| DPS                         | 6.0   | 10.0  | 10.0  | 10.0  |
| <b>Operating Ratios (%)</b> |       |       |       |       |
| Gross Margin (%)            | 44.8  | 45.3  | 45.1  | 45.0  |
| EBITDA Margin (%)           | 21.6  | 23.8  | 23.1  | 23.2  |
| PAT Margin (%)              | 15.9  | 18.9  | 18.1  | 17.9  |
| Debtor Days                 | 60    | 43    | 43    | 43    |
| Inventory Days              | 98    | 79    | 79    | 79    |
| Creditor Days               | 64    | 47    | 47    | 47    |
| Cash Conversion Cycle       | 94    | 75    | 75    | 75    |
| <b>Return Ratios (%)</b>    |       |       |       |       |
| Return on Assets (%)        | 10.8  | 14.5  | 14.3  | 14.3  |
| RoCE (%)                    | 16.3  | 20.5  | 20.1  | 20.5  |
| Core RoC (%)                | 22.8  | 33.1  | 27.4  | 26.4  |
| RoE (%)                     | 13.8  | 17.1  | 16.9  | 17.2  |
| <b>Solvency</b>             |       |       |       |       |
| Total Debt / Equity         | 0.0   | -     | -     | -     |
| Interest Coverage           | 81.4  | 39.7  | NM    | NM    |
| Current Ratio               | 3.7   | 4.8   | 4.0   | 3.9   |
| Quick Ratio                 | 2.6   | 3.6   | 2.8   | 2.6   |
| <b>Valuation Ratios (x)</b> |       |       |       |       |
| EV/EBITDA                   | 39.5  | 28.5  | 24.3  | 21.0  |
| P/E                         | 55.8  | 38.3  | 32.9  | 27.2  |
| P/B                         | 7.7   | 6.5   | 5.6   | 4.7   |
| EV/Sales                    | 8.5   | 6.8   | 5.6   | 4.9   |

Source: Company, ICICI Direct Research

Exhibit 9: ICICI Direct coverage universe (Chemicals)

| Company            | CMP  |       |        | M Cap<br>(₹ 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                | 2570 | 3,000 | Buy    | 76,218          | 63.5    | 72.7  | 79.4  | 34.4    | 30.0  | 27.5  | 21.3          | 19.3  | 17.8  | 23.8     | 21.9  | 20.6  | 22.1    | 20.9  | 19.4  |
| PI Industries      | 3289 | 3,880 | Buy    | 49,894          | 55.5    | 80.9  | 94.2  | 59.2    | 40.7  | 34.9  | 42.0          | 30.3  | 25.9  | 16.3     | 20.5  | 20.1  | 13.8    | 17.1  | 16.9  |
| Aarti Industries   | 502  | 515   | Hold   | 18,373          | 32.7    | 15.0  | 18.0  | 25.1    | 54.4  | 45.4  | 28.9          | 29.7  | 24.6  | 11.8     | 9.7   | 10.4  | 14.6    | 11.1  | 11.9  |
| Tata Chemical      | 978  | 1,130 | Buy    | 24,807          | 47.5    | 89.5  | 109.3 | 20.6    | 10.9  | 8.9   | 12.7          | 7.7   | 5.2   | 6.6      | 10.4  | 10.8  | 6.6     | 11.6  | 12.5  |
| Vinati Organics    | 2027 | 2,055 | Hold   | 20,829          | 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  | 425  | 525   | Buy    | 21,236          | 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     | 4748 | 5,160 | Hold   | 23,539          | 52.3    | 75.7  | 91.1  | 90.8    | 62.7  | 52.1  | 66.0          | 44.2  | 35.4  | 17.8     | 17.2  | 17.5  | 14.0    | 17.2  | 17.7  |
| Rallis India       | 206  | 223   | Hold   | 4,000           | 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 | 417  | 370   | Hold   | 2,885           | 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   | 1480 | 1,424 | Hold   | 3,688           | 17.9    | 20.0  | 24.8  | 82.7    | 74.0  | 59.6  | 43.5          | 35.4  | 28.5  | 12.0     | 11.8  | 11.6  | 10.2    | 10.3  | 11.5  |
| Astec Lifesciences | 1483 | 1,350 | Reduce | 2,963           | 45.1    | 12.2  | 29.5  | 32.9    | 121.1 | 50.2  | 20.7          | 42.6  | 26.7  | 19.3     | 7.3   | 11.8  | 22.3    | 5.7   | 12.3  |

Source: Bloomberg, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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