

26 July 2024

PI Industries Ltd – BUY

CMP : Rs. 4,160
Target Price : Rs. 4,900
Upside : 18%
Stop Loss : Rs. 3,663 (Closing basis)

Investment Thesis

- PI Industries Ltd. (PI) is one of the pioneers of the CSM (Custom Synthesis and Manufacturing) in the agrochemical space in India. It has a strong clientele base and some of the prominent players in the agrochemical industry. The CSM export is known to be a significantly de-risked business model, providing healthy revenue visibility and stable profitability, thus ensuring promising prospects for PI.
- During the first half of FY24, PI ventured into the pharma segment by completing acquisitions of the wholly owned Indian subsidiary of TRM US along with the US-based assets of TRM US and Italy-based Archimica SpA for total consideration of ~Rs. 775 Cr.
- PI comprises a healthy product mix with leadership in several generic product segments and a growing number of new product launches through the ILCM (in-licensing and co-marketing) route, resulting in strong positioning among the top players in the space. Overall favorable product mix and operating leverage reflected in an improvement in EBITDA margin to 26%.
- PI is focusing on scale-up of new products to diversify the exports portfolio. In FY24, the Agchem exports grew by 19% YoY over a high base mainly on account of scale-up in existing products and introduction of 6 new products.
- Post a monsoon-affected FY24, the industry demand is expected to bounce back in the upcoming fiscal strongly driven by ILCM and branded generics products. The ILCM contributes ~40% to the domestic revenues and has witnessed a healthy growth trend with ~12% CAGR in last 5 years. The segment comprises of patented products which are generally margin accretive.
- During FY23, the group commercialized 7 new agricultural brands. In addition, it had planned to launch 7-8 new products in the domestic market in FY24 (six products commercialized during H1FY24). Moreover, its focused approach to horticulture through its brand -- JIVAGRO -- coupled with a healthy pipeline of new launches shall boost revenue growth in the future.
- PI has a strong order book position at USD ~1.75bn which is expected to be executed in the next 2-3 years.

Financials

- PI registered a healthy FY24 performance led by strong growth in Revenue by 18% YoY to Rs. 7,666 Cr driven by stellar volume growth in the Agchem exports (19% growth).

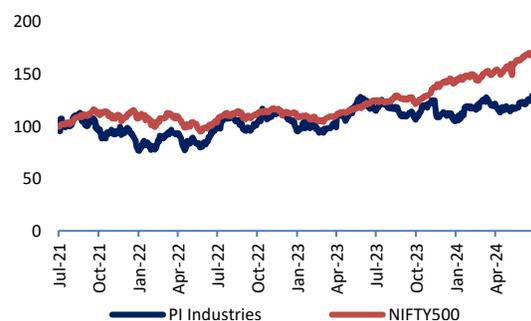
Particulars	FY21	FY22	FY23	FY24	FY25E
Revenue (Rs in Crs)	4,577	5,300	6,492	7,666	8,893
EBITDA (Rs in Crs)	1,147	1,251	1,710	2,233	2,312
Adj. PAT (Rs in Crs)	738	844	1,230	1,682	1,690
Adj. EPS (Rs.)	48.66	55.62	81.04	110.83	122.43
PE Multiple (x)	79.7	69.8	47.9	35.0	31.7
RoE	14%	14%	17%	19%	17%

Stock Data	
Market Cap (Rs. Crs)	63,277
Market Cap (\$ Mn)	7,558
Shares O/S (in Mn)	152
Avg. Volume (3 month)	4,23,420
52-Week Range (Rs.)	4,190 / 3,060

Shareholding Pattern	
Promoters	46.09%
FII's	18.76%
Institutions	25.84%
Public	9.14%
Government	0.01%

Key Ratios	
Div Yield	0.37%
TTM PE	35x
ROE	21.1%
TTM EPS (Rs.)	111

Stock Performance			
Performance (%)	1M	6M	1Yr
ABSOLUTE	5.4%	22.1%	10.4%
NIFTY500	2.8%	17.8%	35.9%



- The recently acquired pharmaceutical firms (~16%) and the expansion of exports (~14%) are responsible for the increase in overhead.
- The overall advantageous product mix and operating leverage contributed to the 26% increase in EBITDA margin. A 37% YoY increase in net profit was attributed to reduced ETR (effective tax rate) and growing EBITDA.
- The remaining Rs. 314.9 Cr in export revenue, or about 6% of the growth in overall export revenue, came from the recently acquired Pharma1. Revenue from biological goods grew by about 29% year over year.
- With Pharma1's purchased assets valued at Rs 497.2 Cr, the total capital expenditure for FY24 is Rs 1,082.3 Cr. With this increment subtracted, the capex comes to Rs. 585.1 Cr (FY23: Rs. 338.5 Cr).

Key Business Highlights

- PI was set up in 1946 as an edible oil refinery by the late Mr P P Singhal. PI later entered the agrochemical formulations business. In the mid-1990s, PI diversified into CSM exports for global agrochemical innovator companies.
- PI is a leading player in the CSM space having presence in both domestic and exports of agricultural inputs primarily including agrochemicals and plant nutrients.
- PI also engages in contract manufacturing of chemicals, which includes process research, lab and pilot scale-up, commercial production, and techno-commercial evaluation of chemical processes. It offers a large variety of chemicals. Its goods, which are extensively utilized in farms all over the world, include insecticides, fungicides, herbicides, and specialty chemicals. It is India's largest manufacturer of generic compounds, including phorate, ethion, and profenofos.
- PI operates in more than 30 countries and has 4 global offices. It has physical locations in India, Japan, China, and Germany, while its export markets include the USA, Brazil, Saudi Arabia, Myanmar, Indonesia, UK, France, Italy, and other countries. Currently, the company generates around 77% of its revenue from exports and the remaining 23% from domestic sales.
- PI owns and operates 5 formulation facilities and 13 multi-product plants across 4 manufacturing locations. In FY20, PI commissioned 2 new multi-product plants. The company operates an extensive distribution network with 9 zonal offices, 28 depots, 1500 experienced field force, 10,000 active dealer/distributors, and more than 100,000 retailers spread across the country. It has a reach to more than a million farmers in India.

Valuation

PI Industries has a growing presence in the CSM business supported by strong tie-ups with global innovators and an established position in the domestic agrochemicals market, led by the licensing business.

PI is currently trading at a PE/EVEBITDA of 37x/27x v/s industry PE of 38x indicating healthy scope for better valuations, supported by strong ROE / ROCE of 21.1% / 23.8%. We are ascribing a **BUY** rating for PI Industries with a **Target Price of Rs. 4,900** translating into an **upside of 18%**.

Risk & Concern

- The domestic business, constituting ~21% of revenue (first half of fiscal 2024), is exposed to the vagaries of the monsoon and level of farm income.
- Large working capital requirement.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Cr)

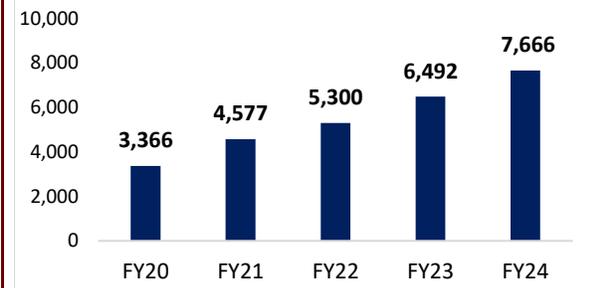


Figure 2: EBITDA & EBITDA Margin Trend

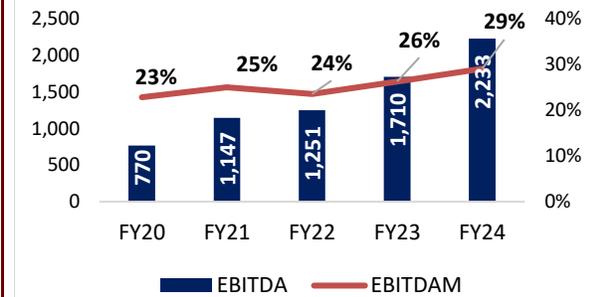


Figure 3: ROE & ROCE Trend

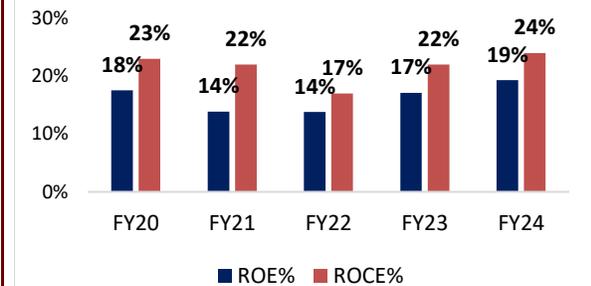
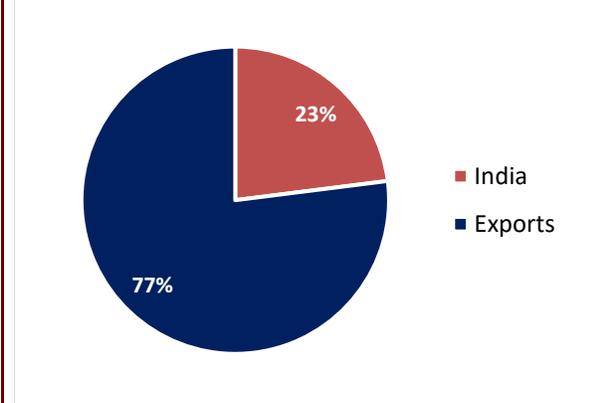


Figure 4: Revenue Split Geography Wise



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