

BUY**TP: Rs 3,800 | ▲ 22%****PI INDUSTRIES**

| Agrochemicals

| 15 February 2023

Strong quarter spurred by custom synthesis business

- Q3 robust with EBITDA/PAT growth of 40%/58% YoY on the back of margin improvement, low tax and higher other income
- Favourable product mix (82% CSM share) and operating leverage fuelled EBITDA margin expansion of 385bps YoY to 25.7%
- We raise FY23-FY24 EBITDA by 8-11% and roll over to a revised TP of Rs 3,800 (vs. Rs 3,020); maintain BUY

Saad Shaikh

research@bobcaps.in

Revenue growth spurred by CSM: PI reported 19% YoY growth in Q3FY23 revenue to Rs 16bn driven purely by the export business which grew 23%. Volumes/pricing grew 9%/14%, with the latter also supported by favourable currency movement. Management expects the scale up of existing products, 4-5 new commercialisations a year, and steady flow of enquiries to support future growth.

Sharp sequential decline in domestic business: Domestic business dropped 42% QoQ, albeit on a high base of Q2, due to a demand slowdown (on account of adverse weather conditions) and higher channel inventory. PI is confident of double-digit growth in India business during FY24 based on launches over the last 2-3 years.

Better product mix and operating leverage helped margins: Gross margin expanded 70bps YoY (+200bps QoQ) as the product mix shifted in favour of custom synthesis manufacturing (CSM: 82% of revenue). This along with operating leverage took EBITDA margin to 25.7%, up 385bps YoY (+130bps QoQ). Margin improvement coupled with a lower tax rate of 12.1% (vs. 17.3%/15.9% in Q3FY22/Q2FY23) and higher other income fuelled strong 58% YoY growth in net income to Rs 3.5bn.

Earnings call highlights: (1) PI's export order book stands at ~US\$ 1.8bn. (2) About 40 products are at different development stages (17+ in agrochemicals). (3) Operating cash flow stood at Rs 6.8bn in Q3 (Rs 10bn in 9MFY23). Cash on books was at Rs 29bn. (4) PI maintained its revenue guidance of 20%+ and indicated plans to intensify capacity expansion via capex of Rs 8bn-8.5bn in FY24.

Maintain BUY: Based on the 9MFY23 print, we raise FY23-FY24 EBITDA estimates 8-11%. This along with rollover of valuations to FY25E yields a new TP of Rs 3,800 (vs. Rs 3,020), which is set at 25x EV/EBITDA – in line with the stock's 5Y average. We expect PI's differentiated capabilities in the CSM export segment (US\$ 1.8bn order book) and launch pipeline in India to drive 25%+ EPS growth and 30%+ ROIC over FY22-FY25. The company has performed well in 9MFY23 on a high revenue base and shown resilience on the margin front by passing along costs and improving its product mix. Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PI IN/Rs 3,122
Market cap	US\$ 5.7bn
Free float	53%
3M ADV	US\$ 11.8mn
52wk high/low	Rs 3,698/Rs 2,351
Promoter/FPI/DII	46%/19%/24%

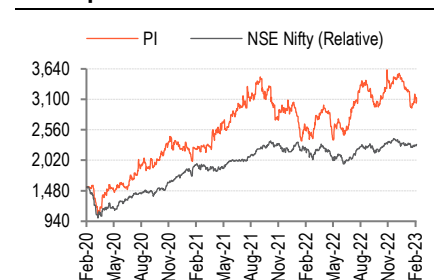
Source: NSE | Price as of 15 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	52,995	65,589	77,136
EBITDA (Rs mn)	11,424	15,376	18,298
Adj. net profit (Rs mn)	8,438	11,971	14,029
Adj. EPS (Rs)	55.7	79.0	92.5
Consensus EPS (Rs)	55.7	77.0	94.4
Adj. ROAE (%)	14.5	17.8	17.9
Adj. P/E (x)	56.1	39.5	33.7
EV/EBITDA (x)	40.3	29.3	24.5
Adj. EPS growth (%)	14.3	41.9	17.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

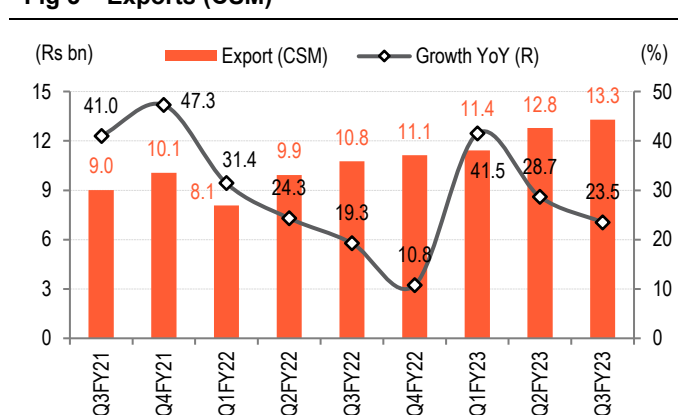
(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Net Sales	16,132	13,563	18.9	17,700	(8.9)	49,264	39,043	26.2
EBITDA	4,151	2,965	40.0	4,319	(3.9)	11,993	8,374	43.2
Depreciation	567	503	-	560	-	1,687	1,482	-
EBIT	3,584	2,462	45.6	3,759	(4.7)	10,306	6,892	49.5
Interest	89	33	-	111	-	338	101	-
Other Income	502	260	-	317	-	1,095	814	-
PBT	3,997	2,689	48.6	3,965	0.8	11,063	7,605	45.5
Less: Taxation	484	466	-	629	-	1,629	1,241	-
Less: Minority Interest	(5)	(3)	-	(12)	-	(56)	(30)	-
Recurring PAT	3,518	2,226	58.0	3,348	5.1	9,490	6,394	48.4
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	3,518	2,226	58.0	3,348	5.1	9,490	6,394	48.4
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	47.2	46.4	73	45.2	194	45.4	45.1	29
EBITDA Margin	25.7	22	387	24.4	133	24.3	21.4	290
Tax / PBT	12.1	17.3	-	15.9	-	14.7	16.3	-
NPM	21.8	16.4	-	18.9	-	19.3	16.4	-
EPS (Rs)	23.1	14.6	-	22.0	-	62.4	42.1	-

Fig 2 – Revenue mix

(Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Domestic – Agrochemicals	2,846	2,803	1.5	4,917	(42.1)	11,774	10,279	14.5
Export – CSM	13,286	10,760	23.5	12,783	3.9	37,490	28,764	30.3
Net Sales	16,132	13,563	18.9	17,700	(8.9)	49,264	39,043	26.2

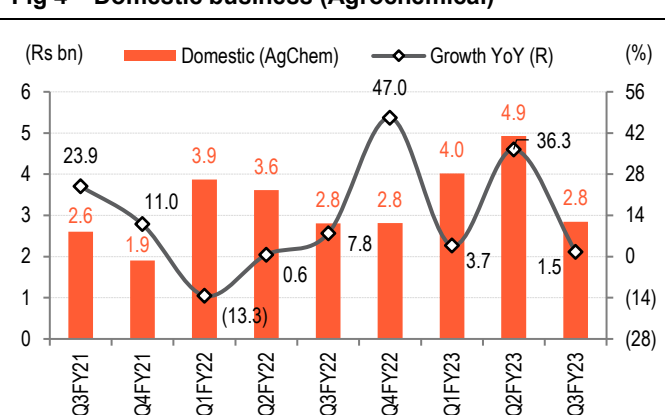
Source: Company, BOBCAPS Research

Fig 3 – Exports (CSM)

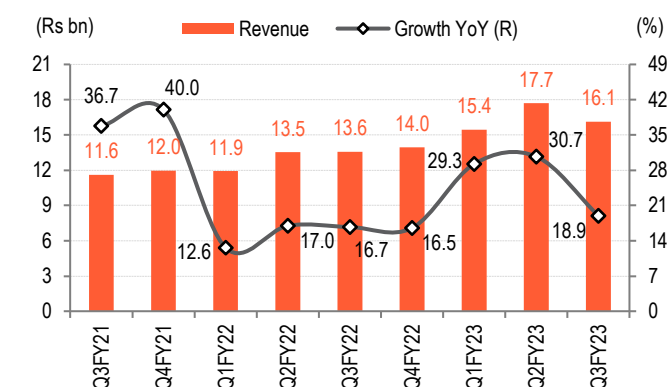


Source: Company, BOBCAPS Research

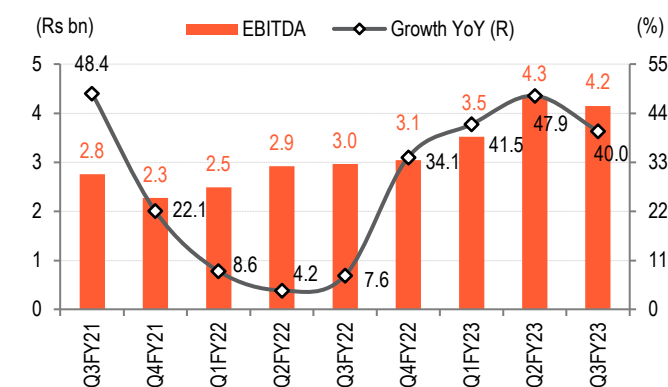
Fig 4 – Domestic business (Agrochemical)



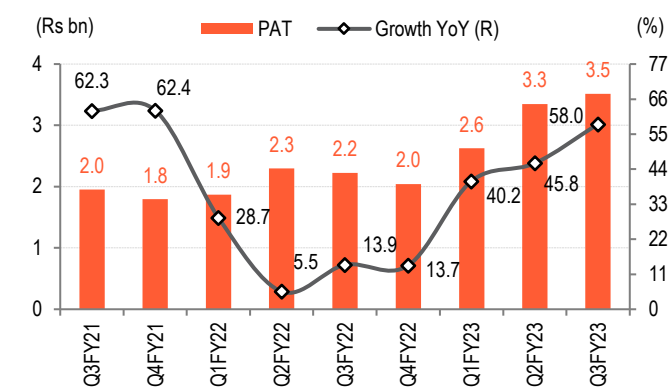
Source: Company, BOBCAPS Research

Fig 5 – Revenue


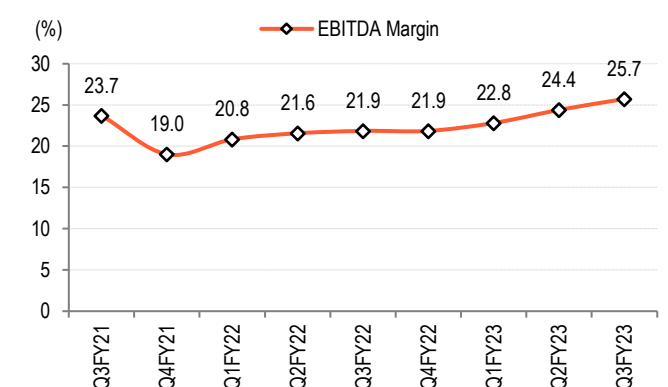
Source: Company, BOBCAPS Research

Fig 6 – EBITDA


Source: Company, BOBCAPS Research

Fig 7 – PAT


Source: Company, BOBCAPS Research

Fig 8 – EBITDA margin


Source: Company, BOBCAPS Research

Valuation methodology

We expect PI's differentiated capabilities in the CSM export segment (US\$ 1.8bn order book) and launch pipeline in India to drive 25%+ EPS growth and 30%+ ROIC over FY22-FY25. The company has performed well in 9MFY23 (revenue up 26%) on a higher base and shown resilience on the margin front despite several headwinds such as higher input costs and fuel prices, pandemic-led disruptions and one-off expenses incurred toward strategic initiatives. It was able to mitigate these headwinds by passing on the additional costs and improving its product mix.

Based on the strong 9MFY23 print, we raise our FY23-FY24 EBITDA estimates 8-11%. This along with rollover of valuations to FY25E yields a new TP of Rs 3,800 (vs. Rs 3,020), which is set at 25x EV/EBITDA – in line with the stock's five-year average. Maintain BUY.

Fig 9 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	65.6	77.1	90.3	61.0	71.4	NA	7.6	8.1	-
EBITDA	15.4	18.3	21.8	13.8	17.0	NA	11.2	7.8	-
EBITDA margin (%)	23.4	23.7	24.1	22.7	23.8	NA	75bps	(6bps)	-
EPS (Rs)	79	93	109	72	90	NA	10.3	3.3	-

Source: BOBCAPS Research

Fig 10 – Key assumptions

Revenue (Rs bn)	FY22	FY23E	FY24E	FY25E
Agrochemicals	13.1	15.7	17.3	18.5
CSM	39.9	49.9	59.9	71.8

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- demand slowdown in the global/domestic agrochemicals space due to adverse climate conditions,
- excess unsold inventory,
- adverse commodity prices, and
- sharp technological, economic and political shifts.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	45,770	52,995	65,589	77,136	90,316
EBITDA	10,122	11,424	15,376	18,298	21,789
Depreciation	1,748	2,018	2,250	2,670	3,125
EBIT	8,374	9,406	13,126	15,628	18,664
Net interest inc./(exp.)	(282)	(128)	(453)	(253)	(253)
Other inc./(exp.)	1,249	1,014	1,410	1,945	1,935
Exceptional items	0	0	0	0	0
EBT	9,341	10,292	14,084	17,320	20,346
Income taxes	2,002	1,890	2,113	3,291	3,866
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(44)	(36)	0	0	0
Reported net profit	7,383	8,438	11,971	14,029	16,480
Adjustments	0	0	0	0	0
Adjusted net profit	7,383	8,438	11,971	14,029	16,480

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	7,960	9,242	11,680	13,737	16,084
Other current liabilities	3,559	3,070	5,247	6,171	7,225
Provisions	552	357	442	520	608
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	152	152	152	152	152
Reserves & surplus	57,796	65,090	75,393	87,755	1,02,567
Shareholders' fund	57,948	65,242	75,545	87,906	1,02,719
Total liab. and equities	70,019	77,911	92,914	1,08,333	1,26,636
Cash and cash eq.	14,757	14,102	19,447	24,190	32,373
Accounts receivables	7,035	8,687	11,680	13,737	16,084
Inventories	10,528	14,234	16,173	19,020	22,270
Other current assets	5,098	6,223	8,199	9,642	11,290
Investments	8,724	8,995	8,995	8,995	8,995
Net fixed assets	20,197	23,330	26,080	30,410	33,285
CWIP	2,495	1,145	1,145	1,145	1,145
Intangible assets	1,185	1,195	1,195	1,195	1,195
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	70,019	77,911	92,914	1,08,333	1,26,636

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	6,859	4,699	12,467	13,663	16,104
Capital expenditures	(4,553)	(3,000)	(5,000)	(7,000)	(6,000)
Change in investments	(7,399)	(271)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(11,952)	(3,271)	(5,000)	(7,000)	(6,000)
Equities issued/Others	14	0	0	0	0
Debt raised/repaid	(2,181)	(565)	0	0	0
Interest expenses	(282)	(128)	(453)	(253)	(253)
Dividends paid	(758)	(1,364)	(1,668)	(1,668)	(1,668)
Other financing cash flows	21,715	(26)	0	0	0
Cash flow from financing	18,508	(2,083)	(2,121)	(1,921)	(1,921)
Chg in cash & cash eq.	13,415	(655)	5,346	4,742	8,183
Closing cash & cash eq.	14,757	14,102	19,447	24,190	32,373

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	48.7	55.7	79.0	92.5	108.7
Adjusted EPS	48.7	55.7	79.0	92.5	108.7
Dividend per share	5.0	9.0	11.0	11.0	11.0
Book value per share	357.6	409.5	477.4	559.0	656.7

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	10.3	8.7	6.9	5.8	4.9
EV/EBITDA	46.5	40.3	29.3	24.5	20.3
Adjusted P/E	64.1	56.1	39.5	33.7	28.7
P/BV	8.7	7.6	6.5	5.6	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	79.0	82.0	85.0	81.0	81.0
Interest burden (PBT/EBIT)	111.5	109.4	107.3	110.8	109.0
EBIT margin (EBIT/Revenue)	18.3	17.7	20.0	20.3	20.7
Asset turnover (Rev./Avg TA)	25.4	21.5	23.3	23.6	23.7
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.0	1.0	1.0
Adjusted ROAE	18.4	14.5	17.8	17.9	17.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	36.0	15.8	23.8	17.6	17.1
EBITDA	41.0	12.9	34.6	19.0	19.1
Adjusted EPS	61.7	14.3	41.9	17.2	17.5
Profitability & Return ratios (%)					
EBITDA margin	22.1	21.6	23.4	23.7	24.1
EBIT margin	18.3	17.7	20.0	20.3	20.7
Adjusted profit margin	16.1	15.9	18.3	18.2	18.2
Adjusted ROAE	18.4	14.5	17.8	17.9	17.9
ROCE	21.4	16.9	20.7	21.5	21.6
Working capital days (days)					
Receivables	56	60	65	65	65
Inventory	84	98	90	90	90
Payables	63	64	65	65	65
Ratios (x)					
Gross asset turnover	1.7	1.8	1.9	1.9	1.9
Current ratio	3.1	3.4	3.2	3.3	3.4
Net interest coverage ratio	29.7	73.5	29.0	61.8	73.8
Adjusted debt/equity	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

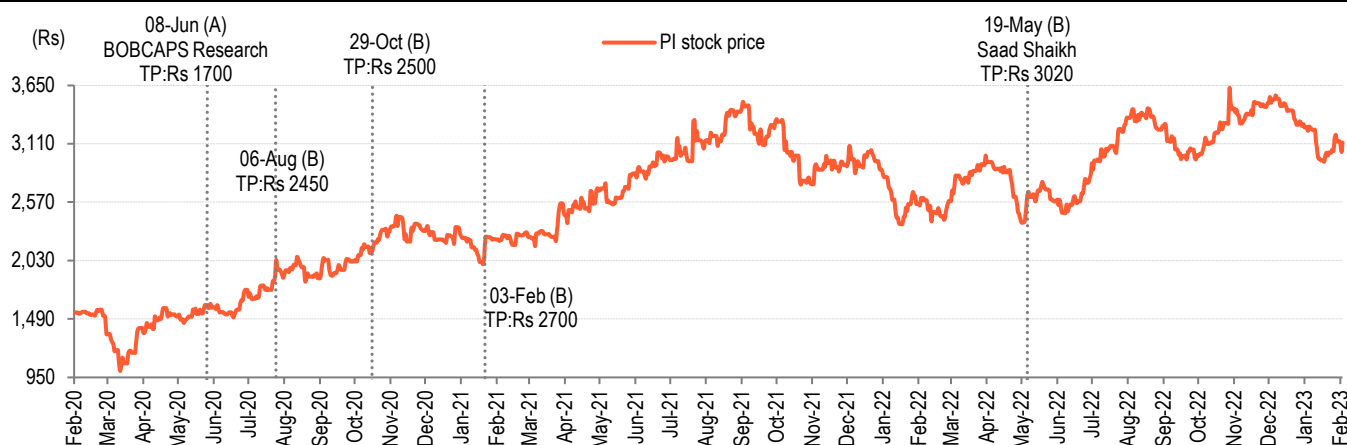
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): PI INDUSTRIES (PI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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