

BUY

TP: Rs 3,020 | ▲ 15%

PI INDUSTRIES

| Agrochemicals

| 19 May 2022

Healthy quarter

- Q4 revenue growth healthy at 17% YoY driven by a 47%/11% increase in the AgChem/CSM segments
- Despite new launches, EBITDA margin improved 290bps YoY to 22%, supported by cost passthrough. Gross margin rose 200bps to 44.1%
- We have a TP of Rs 3,020 set at 25x FY24E EV/EBITDA– 10% premium to stock’s 5-year average 1-year forward multiple. Maintain BUY

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New launches and price hikes buoyed growth in Q4: PI’s Q4FY22 revenue grew 17% YoY to Rs 13.9bn, 2% ahead of consensus on account of passthrough of input costs (+7% price hike) while volume growth contributed the remaining 10%. The company also benefited from new launches, with 13 horticultural products introduced in FY22 and 9 molecules commercialized in CSM. CSM (+11% YoY) contributed incremental revenue of 55% for the quarter and AgChem (+47% YoY) contributed 45%.

Prudent cost management: Despite operational challenges such as rising input costs, supply chain disruption and volatility from the Russia-Ukraine war, PI was able to prudently manage costs, aiding 200bps/290bps expansion in gross/EBITDA margin. The margin gains also occurred despite additional costs on account of inefficiencies arising from new launches.

FY23 revenue guided to grow 18-20%: Management indicated that demand remains robust and PI continues to see new inquiries. The company has a strong CSM order book of US\$ 1.4bn and continues to scale up existing products. On the AgChem front, management expects robust demand for insecticides, fungicides, herbicides and bio-nutrients on the back of normal monsoon forecasts. It aims to launch five new products in FY23 in the AgChem space. PI also has a rich pipeline of 40 products at different stages of development (>20% non-AgChem products).

Maintain BUY, TP Rs 3,020: PI has performed well in FY22 (revenue up 16%) on a higher base and has 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. We thus maintain BUY rating on the stock with a TP of Rs 3,020, set at 25x EV/EBITDA – 10% premium to stock’s 5-year average 1-year forward multiple.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PI IN/Rs 2,627
Market cap	US\$ 5.1bn
Free float	53%
3M ADV	US\$ 7.8mn
52wk high/low	Rs 3,535/Rs 2,334
Promoter/FPI/DII	47%/16%/25%

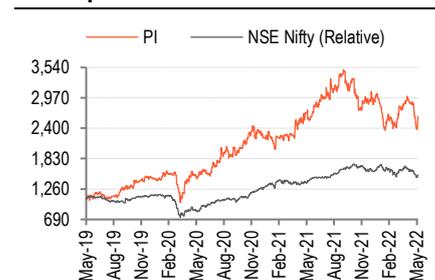
Source: NSE | Price as of 18 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	52,995	60,963	71,351
EBITDA (Rs mn)	11,424	13,832	16,972
Adj. net profit (Rs mn)	8,438	10,858	13,581
Adj. EPS (Rs)	55.7	71.6	89.6
Consensus EPS (Rs)	55.7	69.0	83.8
Adj. ROAE (%)	14.5	16.3	17.6
Adj. P/E (x)	47.2	36.7	29.3
EV/EBITDA (x)	33.7	27.1	22.0
Adj. EPS growth (%)	14.3	28.7	25.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	13,952	11,971	16.5	13,563	2.9	52,995	45,770	15.8
EBITDA	3,050	2,274	34.1	2,965	2.9	11,424	10,122	12.9
Depreciation	536	448	-	503	-	2,018	1,748	-
EBIT	2,514	1,826	37.7	2,462	2.1	9,406	8,374	12.3
Interest	27	44	-	33	-	128	282	-
Other Income	200	442	-	260	-	1,014	1,249	-
PBT	2,687	2,224	20.8	2,689	(0.1)	10,292	9,341	10.2
Less: Taxation	649	425	-	466	-	1,890	2,002	-
Less: Minority Interest	(6)	1	-	(3)	-	36	44	-
Recurring PAT	2,044	1,798	13.7	2,226	(8.2)	8,366	7,295	14.7
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	2,044	1,798	13.7	2,226	(8.2)	8,366	7,295	14.7
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	44.1	42	196	46.4	(236)	44.8	43.8	102
EBITDA Margin	21.9	19	286	21.9	0	21.6	22.1	(56)
Tax / PBT	24.2	19.1	-	17.3	-	18.4	21.4	-
NPM	14.7	15.0	-	16.4	-	15.8	15.9	-
EPS (Rs)	13.4	11.8	-	14.6	-	60.8	53.0	-

Source: Company, BOBCAPS Research

Fig 2 – Segmental mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Domestic - Ag Chem*	2,810	1,911	47.0	2,803	0.2	13,091	12,560	4.2
CSM^	11,142	10,060	10.8	10,760	3.6	39,904	33,210	20.2
Net Sales	13,952	11,971	16.5	13,563	2.9	52,995	45,770	15.8
Mix (%)								
Domestic - Ag Chem	20	16	-	21	-	25	27	-
CSM	80	84	-	79	-	75	73	-

Source: Company, BOBCAPS Research | *Agrochemicals, ^Custom Synthesis Manufacturing

Earnings call takeaways

- **Revenue:** PI's revenue grew 16% in FY22 driven by a ~3% price increase and volume growth. The company posted strong 20% growth in exports during the year, but only 4% growth in the domestic business due to a high base and unfavourable climatic conditions in the Kharif season.
- **Margins:** Rising input costs and lower export incentives in FY22 were offset by a favourable product mix and price hikes, aiding a higher gross margin.
- **Guidance:** Management expects 18-20% revenue growth in FY23 with continued margin improvement.
- **Launches:** During FY22, PI received three regulatory approvals, including for the first product to receive MRL (maximum residue level) exemption in India. It launched 13 new products in horticulture during FY22 and has 5 launches planned for FY23. The also company commercialised 9 new molecules in CSM during FY22 and aims to commercialise seven more in FY23.
- **Order book and customer acquisition:** The CSM order book stood at US\$ 1.4bn as of Q4. PI acquired eight new customers in FY22 and received 36 new enquiries, of which over 35% were from the non-AgChem space.
- **Capex:** The company incurred capex of Rs 3.2bn in FY22 and has guided for outlays of Rs 5bn in FY23 and Rs 3.5bn to 4.0bn in FY24.
- **Capacity buildup:** Two more multi-product plants (MPP) and a new chemistry building block (MMH) were commissioned in FY22.
- **Tax rate:** Expect 18-19% ETR in FY23.
- **Cash position:** Cash generated from operations before tax stood at ~Rs 7bn during FY22.

Valuation methodology

We expect PI's differentiated chemistry capability in the CSM export segment (order book of US\$ 1.4bn) and new launch pipeline in the domestic market to drive >25% EPS growth and >30% ROIC over the next two years (FY23-FY24). The company has performed well in FY22 (revenue up 16%) on a higher base and has 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.

We thus maintain BUY rating on the stock with a TP of Rs 3,020, set at 25x EV/EBITDA – 10% premium to stock's 5-year average 1-year forward multiple.

Fig 3 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
AgChem	13.1	13.9	14.9
CSM	39.9	47.1	56.5

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (x)		ROE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
PI Industries	PI IN	BUY	3,020	18.8	23.8	18.8	16.3	17.6	25x
Bayer Cropscience*	BYRCS	UR	NA	8.9	23.0	19.3	25.7	26.4	-
Dhanuka Agritech*	DAGRI	UR	NA	6.1	11.3	10.2	21.6	20.5	-
Rallis India*	RALI	UR	NA	8.8	11.2	9.2	11.7	13.2	-

Source: BOBCAPS Research | Bloomberg Consensus Estimates, UR - Unrated

Key risks

Key risks that can potentially impact PI's product mix and growth prospects include:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	33,665	45,770	52,995	60,963	71,351
EBITDA	7,178	10,122	11,424	13,832	16,972
Depreciation	1,367	1,748	2,018	2,250	2,547
EBIT	5,811	8,374	9,406	11,582	14,425
Net interest inc./(exp.)	(170)	(282)	(128)	(174)	(145)
Other inc./(exp.)	489	1,249	1,014	1,833	2,486
Exceptional items	0	0	0	0	0
EBT	6,130	9,341	10,292	13,242	16,766
Income taxes	1,572	2,002	1,890	2,383	3,186
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(8)	(44)	(36)	0	0
Reported net profit	4,566	7,383	8,438	10,858	13,581
Adjustments	0	0	0	0	0
Adjusted net profit	4,566	7,383	8,438	10,858	13,581

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	5,909	7,960	9,242	10,856	12,706
Other current liabilities	3,545	3,559	3,070	4,877	5,708
Provisions	548	552	357	411	481
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	138	152	152	152	152
Reserves & surplus	31,956	57,796	65,090	73,753	85,227
Shareholders' fund	32,094	57,948	65,242	73,905	85,378
Total liab. and equities	42,096	70,019	77,911	90,049	1,04,274
Cash and cash eq.	1,342	14,757	14,102	19,125	26,687
Accounts receivables	6,465	7,035	8,687	10,856	12,706
Inventories	7,989	10,528	14,234	15,032	17,593
Other current assets	3,584	5,098	6,223	7,620	8,919
Investments	1,325	8,724	8,995	8,995	8,995
Net fixed assets	17,447	20,197	23,330	26,080	27,033
CWIP	2,707	2,495	1,145	1,145	1,145
Intangible assets	1,237	1,185	1,195	1,195	1,195
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	42,096	70,019	77,911	90,049	1,04,274

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	5,201	6,859	4,699	12,392	13,314
Capital expenditures	(7,224)	(4,553)	(3,000)	(5,000)	(3,500)
Change in investments	(136)	(7,399)	(271)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(7,360)	(11,952)	(3,271)	(5,000)	(3,500)
Equities issued/Others	0	14	0	0	0
Debt raised/repaid	5,620	(2,181)	(565)	(527)	(439)
Interest expenses	(170)	(282)	(128)	(174)	(145)
Dividends paid	(690)	(758)	(1,364)	(1,668)	(1,668)
Other financing cash flows	(2,151)	21,715	(26)	0	0
Cash flow from financing	2,609	18,508	(2,083)	(2,369)	(2,252)
Chg in cash & cash eq.	450	13,415	(655)	5,023	7,562
Closing cash & cash eq.	1,342	14,757	14,102	19,125	26,687

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	30.1	48.7	55.7	71.6	89.6
Adjusted EPS	30.1	48.7	55.7	71.6	89.6
Dividend per share	5.0	5.0	9.0	11.0	11.0
Book value per share	172.7	357.6	409.5	470.1	548.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	11.8	8.7	7.3	6.2	5.2
EV/EBITDA	55.1	39.1	33.7	27.1	22.0
Adjusted P/E	87.2	53.9	47.2	36.7	29.3
P/BV	15.2	7.3	6.4	5.6	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	74.5	79.0	82.0	82.0	81.0
Interest burden (PBT/EBIT)	105.5	111.5	109.4	114.3	116.2
EBIT margin (EBIT/Revenue)	17.3	18.3	17.7	19.0	20.2
Asset turnover (Rev./Avg TA)	30.6	25.4	21.5	21.9	22.4
Leverage (Avg TA/Avg Equity)	1.1	1.1	1.1	1.0	1.0
Adjusted ROAE	18.7	18.4	14.5	16.3	17.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	18.5	36.0	15.8	15.0	17.0
EBITDA	24.5	41.0	12.9	21.1	22.7
Adjusted EPS	11.3	61.7	14.3	28.7	25.1
Profitability & Return ratios (%)					
EBITDA margin	21.3	22.1	21.6	22.7	23.8
EBIT margin	17.3	18.3	17.7	19.0	20.2
Adjusted profit margin	13.6	16.1	15.9	17.8	19.0
Adjusted ROAE	18.7	18.4	14.5	16.3	17.6
ROCE	22.9	21.4	16.9	19.3	21.2
Working capital days (days)					
Receivables	70	56	60	65	65
Inventory	87	84	98	90	90
Payables	64	63	64	65	65
Ratios (x)					
Gross asset turnover	1.5	1.7	1.8	1.8	1.9
Current ratio	1.9	3.1	3.4	3.3	3.5
Net interest coverage ratio	34.2	29.7	73.5	66.6	99.5
Adjusted debt/equity	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)

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

Disclaimer

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

BUY – Expected return >+15%

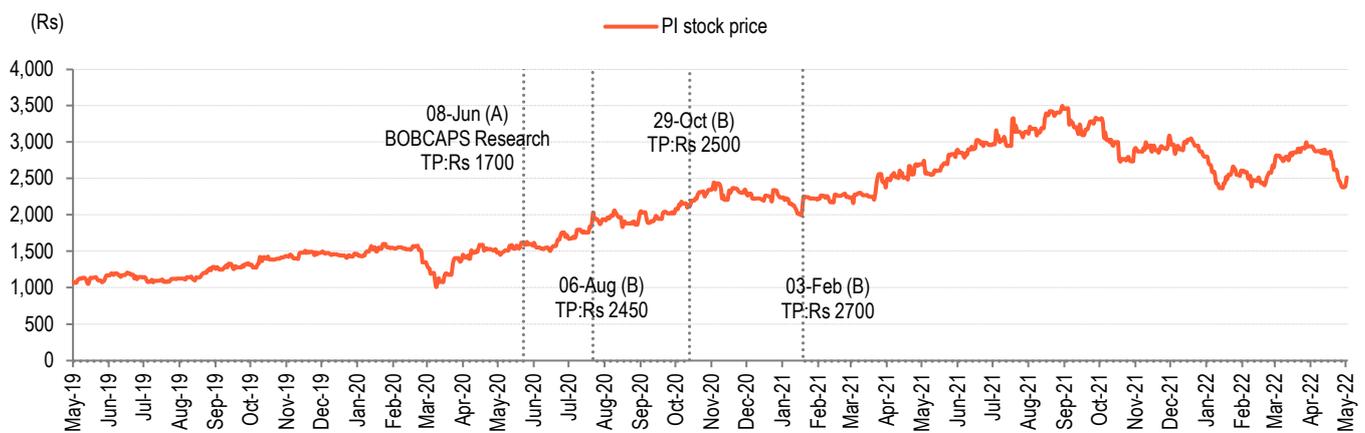
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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