



ALPHA

17 JAN 2023

PI Industries Limited – Superior Business Model

Market Data	
CMP	Rs. 3230
Date	16-Jan-23
Target Price	Rs. 3850
Upside Potential	19.00%
52 Week High/Low	3698/2334
Market Cap	Mid Cap
NSE Code	PIIND
Sector	Agro Chemicals
Rating	Buy

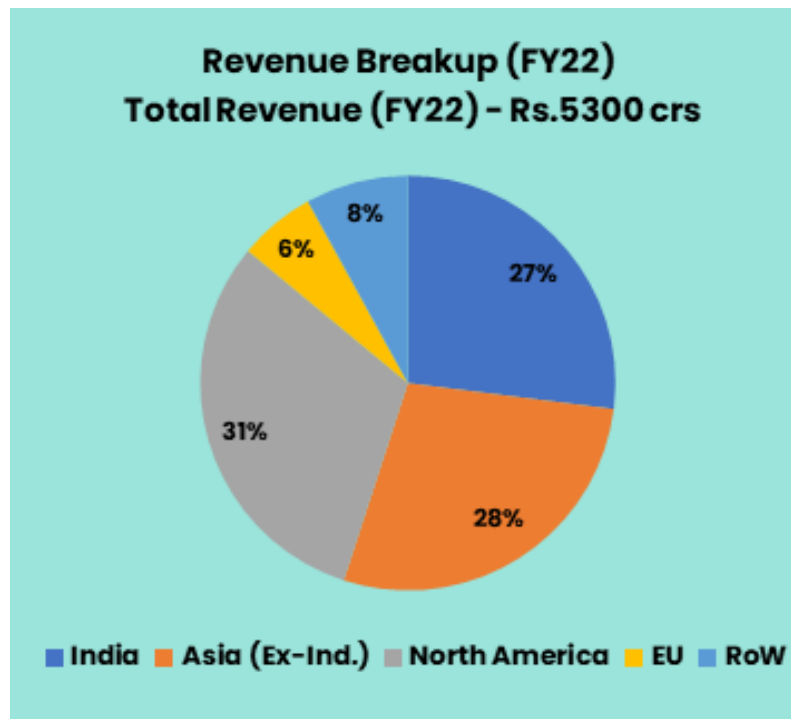
PI was set up in 1946 as an edible oil refinery by the late Mr. P P Singhal. The company later entered the agrochemical formulations business. In the mid-1990s, PI diversified into CSM exports for global agrochemical innovator companies. PI currently operates in the domestic agricultural inputs and CSM exports segments. It is a leading player in the domestic agricultural inputs sector, primarily dealing in agrochemicals and plant nutrients. In the CSM exports segment, its business interests include dealing in custom synthesis and contract manufacturing of chemicals, which constitutes techno-commercial evaluation of chemical processes, process development, lab and pilot scale-up, as well as commercial production. The PI group has four integrated manufacturing facilities spread across 100+ acre land.



Products & Services: The company has a wide range of chemical products in categories like Insecticides, Herbicides and Fungicides. It also has some products on speciality division. Apart from those, the company provides CSM (Custom Synthesis and Manufacturing Solutions) which involves from research to production.

SHP	Sep - 22 (%)	Jun - 22 (%)	Change
Promoters	46.09	46.74	-0.65
FPI	16.72	15.97	0.75
DII	26.16	25.85	0.31
Public & Others	11.03	11.43	-0.40
Pledged	0.00	0.00	0.00

Subsidiaries: As on March 31, 2022, the Company had 7 Wholly-owned Subsidiaries and 2 Joint Ventures.





Key Rationale

- **Growing presence in CSM exports** – The CSM export segment is marked by a significantly de-risked business model, which provides healthy revenue visibility and stable profitability. The PI group is one of the pioneers of CSM in the agrochemical space in India. The group, which has been engaged in this business for over a decade, has built a strong reputation, based on its sound research capabilities. Its clientele includes some of the largest agrochemical innovator companies in the world. The group has invested significantly in enhancing manufacturing capacities over the past five fiscals and has commercialised 44 molecules up to fiscal 2022. Going ahead, there are around 17+ products are at various stages of development, which is expected to be commercialised. This would expand CSM portfolio and thereby the order backlog.
- **Established position** – A presence of over five decades in the domestic agricultural inputs business, a healthy product mix, leadership in several generic product segments, and increasing number of launches through the ILCM (in-licensing and co-marketing) route have helped the group establish itself as one of the top 10 players in this space. Apart from fiscal 2020, where delayed monsoon and erratic rainfall during the year impacted sales, domestic business has witnessed steady growth over the last 5-6 fiscals led by introduction of new molecules and increased market penetration. With a solid product line up, supportive policy environment, and normal monsoon, the domestic business is expected to register healthy revenue growth over the medium term.
- **Q2FY23** – The company had a revenue growth of 31% YoY in Q2FY23 at Rs.1770 crs. Exports posted a YoY growth of 29% at Rs.1278 crs on a higher base led by volume growth of ~25%, favourable price and currency of ~4%. Domestic segment posted a 36% YoY growth mainly driven by Volume growth of ~31% and price increase of ~5%. Newly launched brands also contributing to significant revenue growth.
- **Financial Performance** – The company generated a Revenue and PAT CAGR of 20% and 26% over the period of 5 years (FY18-22). The company maintained an average EBITDA Margin of 20%+ for the past 8 years. The company's balance sheet is strong with a low Debt/Equity of 0.04x. Average 5-year ROE and ROCE is around 17% and 22% for FY18-22 period.

Margins - FY22

Gross	45%
EBITDA	22%
PAT	16%

**Ratios - FY22**

ROE	14%
ROCE	17%
Div. Yield	0.18%
PE Ratio	58.00
Face Value	1.00
EPS	Rs. 55.62

Industry Analysis

India is one of the major players in the agriculture sector worldwide and it is the primary source of livelihood for about 58% of India's population. India has the world's largest cattle herd (buffaloes), largest area planted to wheat, rice, and cotton, and is the largest producer of milk, pulses, and spices in the world. The sector, which is the largest employer of workforce within the country, accounted for a sizeable 18.8% (2021- 22) in GVA of the country registering a growth of 3.6% in 2020-21 and 3.9% in 2021-22. The agricultural exports have grown by 19.92% during 2021-22 to touch \$50.21 bn. India is the number one producer in the spices in the world and the second largest producer of horticultural products and global food production. According to Inc42, the Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025.

Growth Drivers

In October 2022, Prime Minister Mr.Narendra Modi inaugurated PM Kisan Samman Simelane 2022 and released PM-KISAN Funds worth Rs.16,000 crore (US\$ 1.93 billion)

The agriculture services sector has also recorded a sharp increase in investments with cumulative FDI inflow of US\$ 2,600.70 million between April 2000-June 2022.

As on 14th December 2022, a total of 2359 trips of Kisan Rail trains have been operated on 167 routes, wherein nearly 7.9 lakh tones of consignments have been transported.



Peer Analysis

Competitors: BASF India, Bayer CropScience, etc.

Though PI Industries P/E is higher than its peers, the level of business growth in terms of CAGR shows the potential of PI industries. BASF on the other hand generated loss in past and the Bottomline is highly volatile historically which results in an irregular growth.

Company	CMP	Mcap.	EBITDA Margin	10 Yr Sales CAGR	P/E	EPS
PI Industries	3230	49430	22.00%	20.00%	58	55.62
BASF India	2735	11839	7.00%	14.00%	20	137.42
Bayer Crop Science	4691	21082	17.00%	8.00%	33	143.58

Outlook

PI focuses on newer products and has 17 products in the pipeline in the next four to five years that are currently at various stages of approval. In domestic segment, 5 new products launched in H1FY23, 2 new products planned in Q3FY23. In CSM exports, company plans to commercialize 6 new products in the second half of FY23. CSM export order book increased by USD 400m to USD 1.8bn. The company continues to focus on improving its balance sheet in FY23. Capex of Rs.120 crs in H1FY23 is in line with company guidance. Management expects capex to reach Rs.700 crs in FY23 to meet its order book. PI's net worth rose to Rs.6618 crs. Management is confident in delivering 20%+ growth in FY23. The tax rate for the year would be 16.5% as the company will receive the SEZ benefit for 5 more years. Management also actively evaluating inorganic growth opportunities in pharma, both domestic and international in line with pharma strategy.



Valuation

We believe PIIND is well-placed for future growth given clear revenue visibility in the CSM segment and strong domestic formulation business. The company is also strategically developing its capabilities which are translating into improved asset turns and higher growth in the top line. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.3850, 55x FY24E EPS.

Risks

- **Demand related Risk** – Any slowdown in crop protection chemical demand likely to impact execution of CSM business and thereby revenues.
- **Monsoon Risk** – The failure of the monsoon (and/or adverse climatic conditions) coming on top of the COVID-19 related setback could put pressure on demand for farm inputs for the forthcoming Kharif season.
- **Working Capital Risk** – The agrochemical industry is characterised by working capital-intensive operations, due to large inventory requirement, seasonality in demand, and extended credit to dealers and distributors.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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