



Strong Growth Outlook in CSM, Inorganic Opportunities on Radar

Est. Vs. Actual for Q4FY23: Revenue – MISS; EBITDA – MISS; PAT – MISS

Change in Estimates post Q4FY23

FY24E/FY25E: Revenue: -2%/0%; EBITDA: -6%/-4%; PAT: -3%/-3%

Recommendation Rationale

- **CSM Outlook & Demand** –The CSM segment witnessed strong growth of 26% in FY23. The Freshness Index (contribution from new products) stands at 17-18%. Traction in new enquires (25%) for non-agro chemical space of electronics, Pharma, and other areas continued. The company expects to launch 5 new products in FY24 in traditional crops (paddy & wheat) as well as biologicals.
- **Domestic segment saw inventory build-up pressure in Q4FY23** but PI's value-added product portfolio is expected to keep it insulated from high channel inventory in the Agchem space.
- **On Capex & Inorganic Growth Guidance** – The company has projected a Capex of 900 Cr in FY24 which includes a spillover Capex of 300 Cr from FY23. With its cash balance of >3,200 Cr, PI is looking for inorganic expansion to strengthen its Pharma business. The company is also considering onshore manufacturing expansion closer to clients or markets (US or Europe) and reduce its dependence on India.

Sector Outlook: Positive

Company Outlook & Guidance: We maintain our **Positive** outlook on the stock. The company has exhibited strong execution and its ability to generate free cash flow. This along with its focus on the CSM Business and strategic acquisitions will support future growth.

Current Valuation: 32x FY25E

Current TP: Rs 3800

Recommendation With a 15% upside from the CMP, we maintain our BUY rating.

Financial Performance: PI Industries (PIIND) Q4FY23 numbers missed our estimates on all fronts as the Domestic segment slowed in Q4FY23 as the industry witnesses high inventory problems. Consolidated Revenue missed our estimate by 10.8% (up 12%/-3% YoY/QoQ). EBITDA was up 12.4% YoY missing our estimates by 21% as the company witnessed more than 200bps contraction in gross margins. This led to a lower EBITDA Margin of 21.9% (from 22%/26% in Q4FY22/Q3FY23). The company's PAT stood at Rs 281 Cr, up 37%/-20% YoY/QoQ, led by an overall slowdown and negative operating leverage.

Outlook: PIIND benefits from being a trusted brand in the CSM business where the management has a very positive outlook. With the margins expected to improve in the traditional domestic portfolio with the introduction of new value-added branded products, acquisition in the Pharma space will add to inorganic growth in the medium to long term.

Valuation & Recommendation: We maintain & revise our estimates for changing capital structure and factor in the management guidance with our outlook. With this, we have rolled forward our estimates and value the company 32x FY25E to come with a **TP of Rs 3,800. The TP implies an upside of 15% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY23	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	1,566	12.2%	-3.0%	1,756	-10.8%
EBITDA	343	12.4%	-17.4%	435	-21.2%
EBITDA Margin	21.9%	4bps	-384bps	24.8%	-288bps
Net Profit	281	37.3%	-20.2%	325	-13.6%
EPS (Rs)	18.46	37.0%	-20.4%	21.36	-13.6%

Source: Company, Axis Research

(CMP as of 22nd May 2023)

CMP (Rs)	3300
Upside /Downside (%)	15%
High/Low (Rs)	3699/2444
Market cap (Cr)	49,915
Avg. daily vol. (6m) Shrs.	1,47,611
No. of shares (Cr)	15

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	46.1	46.1	46.1
FII's	16.7	18.6	18.6
MFs / UTI	16.4	16.4	16.4
Banks / FIs	0.0	0.0	0.0
Others	20.8	18.9	18.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	6492	7725	9271
EBITDA	1542	1815	2290
Net Profit	1223	1409	1799
EPS (Rs)	80.4	92.7	118.4
PER (x)	41.3	35.8	28.0
P/BV (x)	7.0	5.9	4.9
EV/EBITDA (x)	30.6	26.1	20.3
ROE (%)	18.4%	17.9%	19.2%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-2%	0%
EBITDA	-6%	-4%
PAT	-3%	-3%

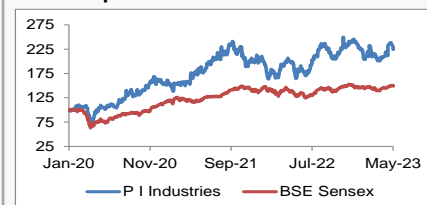
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Recommendation Rationale & Key Highlights

- **Pharma Acquisitions** –PI Industries has done the twin acquisition through PI Health Sciences Ltd. (PIHS), a 100% subsidiary of PI., the company plans to integrate its R&D capabilities with the acquired companies at the new pharma research centre being developed in IKP Hyderabad for CRO and CDMO offerings. The management expects these companies to contribute 550-600 Cr to the topline with 15-18% of EBITDA margins. The margin expectation is lower for the initial years in the integration phase, the company expects the pharma business to take 2.5 - 3 years to reach PI's ROCE level.
- **Reduction in Working Capital** - Working capital improved to 75 days in FY23 vs. 94 days YoY on lower inventory (79 days in FY23 vs. 98 days YoY), while 16 days YoY dip in receivables was negated by a 17-day decline in payables in FY23.
- **New molecule launches** – PI IND commercialized 4 molecules in FY23 & plans to launch 5 new molecules in FY24, with 40+ products in development stages company expects to maintain its new product launch momentum.

Key Risks to our Estimates and TP

- Global recessionary environment, especially a long recession could affect demand for upstream players
- The impact of El Nino on Indian agriculture can affect the demand for PIs products
- Delay in Capex & Commercialization of new molecules could affect growth. Stress on ROCE in initial phases of acquisition.

Change in Estimates

	Revised		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	7,725	9,271	7,887	9,289	-2%	0%
EBITDA	1,815	2,290	1,932	2,397	-6%	-4%
PAT	1,409	1,799	1,457	1,863	-3%	-3%
EPS	92.7	118.4	96.1	121.7	-4%	-3%

Source: Company, Axis Securities

Results Review

Particular (Rs Cr)	Q4FY22	Q3FY23	Q4FY23 Axis Est	Q4FY23	YoY (%)	QoQ %	Axis Sec Var
Net Sales	1,395	1,613	1,756	1,566	12.2%	-3.0%	-10.8%
Gross Profit	615	761	821	702	14.1%	-7.8%	-14.5%
<i>Gross Margins %</i>	<i>44.1%</i>	<i>47.2%</i>	<i>46.8%</i>	<i>44.8%</i>	<i>75bps</i>	<i>-233bps</i>	<i>-193bps</i>
Staff Cost	114	133	143	135	18.0%	0.9%	-5.9%
Other Operating expenses	196	212	243	224	14.6%	5.7%	-7.7%
EBITDA	305	415	435	343	12.4%	-17.4%	-21.2%
<i>EBITDA margins (%)</i>	<i>22%</i>	<i>25.7%</i>	<i>24.8%</i>	<i>21.9%</i>	<i>4bps</i>	<i>-384bps</i>	<i>-288bps</i>
Depreciation	54	57	60	58	7.6%	1.8%	-3.8%
Interest	3	9	14	3	22.2%	-62.9%	-76.4%
Other Income	20	50	35	50	147.5%	-1.4%	41.4%
PBT before Exp. Items	269	400	396	333	23.5%	-16.9%	-16.0%
Exceptional items	-	-	-	-			
PBT	269	400	396	333	23.5%	-16.9%	-16.0%
Tax (incl deferred)	56	70	71	61	8.7%	-12.9%	-14.0%
PAT	204	352	325	281	37.3%	-20.2%	-13.6%
EPS	13.5	23.2	21.4	18.5	37.0%	-20.4%	-13.6%

Source: Company, Axis Research

Financials (Consolidated)
Profit & Loss

(RsCr)

Y/E March	FY22	FY23	FY24E	FY25E
Net Sales	5,300	6,492	7,725	9,271
<i>Growth (%)</i>	15.8	22.5	19.0	20.0
Operating Expenses	-4,157	-4,950	-5,910	-6,981
Operating Profit	1,142	1,542	1,815	2,290
Other Operating Income				
EBITDA	1,142	1,542	1,815	2,290
<i>Growth (%)</i>	12.9	35.0	17.7	26.1
Depreciation	-202	-227	-236	-262
Other Income	101	159	139	167
EBIT	1,042	1,475	1,719	2,195
Finance Cost	-13	-37		
Exceptional & Extraordinary				
Profit Before Tax	1,029	1,438	1,719	2,195
Tax (Current + Deferred)	-189	-215	-310	-396
P / L from Discontinuing Operations				
Profit / (Loss) For The Period	840	1,223	1,409	1,799
P / L of Associates, Min Int, PrefDiv				
Reported Profit / (Loss)	840	1,223	1,409	1,799
Adjusted Net Profit	840	1,223	1,409	1,799
<i>Growth (%)</i>	14	46	15	28

Source: Company, Axis Securities

Balance Sheet
(RsCr)

Y/E March	FY22	FY23	FY24E	FY25E
Share Capital	15	15	15	15
Reserves & Surplus	6,105	7,183	8,517	10,241
Shareholders' Funds	6,120	7,199	8,532	10,257
Minority Interest and Others				
Non-Current Liabilities	323	99	530	530
Long-Term Borrowings	8	10	50	50
Other Non-Current Liabilities	315	89	480	480
Current Liabilities	1,348	1,182	1,892	2,394
ST Borrowings, Current Maturity	98		140	140
Other Current Liabilities	1,250	1,182	1,752	2,254
Total (Equity and Liabilities)	7,791	8,480	10,955	13,181
Non-Current Assets	2,529	2,686	3,939	4,695
Fixed Assets (Net Block)	2,484	2,655	3,926	4,554
Non-Current Investments	45	31	7	7
Long-Term Loans and Advances			6	6
Other Non-Current Assets	202	43	128	128
Current Assets	4,964	5,662	6,887	8,486
Cash & Current Investments	2,265	3,227	3,212	4,055
Other Current Assets	2,699	2,435	3,675	4,430
Total (Assets)	7,695	8,392	10,955	13,181
Total Debt	106	10	0	0
Capital Employed	6,541	7,298	9,202	10,927

Source: Company, Axis Securities

Cash Flow
(RsCr)

Y/E March	FY22	FY23	FY24E	FY25E
Profit Before Tax	1,029	1,438	1,719	2,195
Depreciation	202	227	236	262
Change in Working Capital	-532	206	-674	-253
Total Tax Paid	-188	-281	-272	-396
Others	-89	-122	-139	-167
Operating Cash Flow (a)	423	1,467	870	1,641
Capital Expenditure	-343	-397	-1,507	-889
Change in Investments	-171	-116	789	
Others	-58	318	54	167
Investing Cash Flow (b)	-572	-196	-664	-722
Free Cash Flow (a+b)	-150	1,271	206	918
Equity Raised / (Repaid)				
Debt Raised / (Repaid)	96	-96	180	
Dividend (incl. Tax)	79	80	80	80
Others	-241	-431	195	-155
Financing Cash Flow (c)	-66	-447	455	-75
Net Chg in Cash (a+b+c)	-216	824	661	844

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22	FY23	FY24E	FY25E
Adjusted EPS (Rs)	55.3	80.4	92.7	118.4
<i>Growth</i>	14.5	45.5	15.2	27.7
CEPS (Rs)	68.6	95.3	108.2	135.6
Book Value / Share (Rs)	402.7	473.6	561.3	674.8
Dividend / Share (Rs)	(4.2)	(4.2)	(4.2)	(4.2)
Dividend Payout Ratio	(9.4)	(6.5)	(5.7)	(4.4)
EBITDA Margin	21.6	23.8	23.5	24.7
EBIT Margin	19.7	22.7	22.3	23.7
Tax Rate	18.4	14.9	18.1	18.0
RoCE	17.0	21.3	20.8	21.8
Total Debt / Equity (x)	0.0	0.0	0.0	0.0
Net Debt / Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Du Pont Analysis - ROE				
Net Profit Margin	15.9	18.8	18.2	19.4
Asset Turnover (x)	0.7	0.8	0.8	0.8
Leverage Factor (x)	1.3	1.2	1.2	1.3
Return on Equity	14.7	18.4	17.9	19.2

Source: Company, Axis Securities

PI Industries Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
05-Oct-20	BUY	2,155	Initiating Coverage
02-Nov-20	HOLD	2,155	Result Update
04-Feb-21	BUY	2,460	Result Update
01-Jun-21	BUY	2,875	Top Picks
20-May-21	BUY	2,850	Result Update
03-Aug-21	HOLD	3,530	Result Update
23-May-22	BUY	3,161	Result Update
05-Aug-22	HOLD	3,370	Result Update
11-Nov-22	BUY	3,830	Result Update
16-Feb-23	BUY	3,800	Result Update
22-May-23	BUY	3,800	Result Update

Source: Axis Securities

About the analyst

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Sector: Chemicals & Midcap Opportunities

Analyst Bio: Prathamesh is a CFA with 7 years of experience in Equity Research & Valuation.

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