10 October 2023

MORNING INDIA

Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	65,512	-0.7	7.7
Nifty-50	19,512	-0.7	7.8
Nifty-M 100	39,745	-1.3	26.1
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,336	0.6	12.9
Nasdaq	13,484	0.4	28.8
FTSE 100	7,492	0.0	0.5
DAX	15,128	-0.7	8.7
Hang Seng	5,998	0.4	-10.5
Nikkei 225	30,995	0.0	18.8
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	91	3.7	12.3
Gold ($/OZ)	1,861	1.5	2.0
Cu (US$/MT)	8,039	0.9	-3.9
Almn (US$/MT)	2,209	0.2	-6.0
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.3	0.0	0.6
USD/EUR	1.1	-0.2	-1.3
USD/JPY	148.5	-0.5	13.3
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.4	0.04	0.1
10 Yrs AAA Corp	7.8	0.04	0.1
Flows (USD b)	**9-Oct**	**MTD**	**CYTD**
FIIs	-0.1	-0.70	14.2
DIIs	0.32	1.17	16.5
Volumes (INRb)	**9-Oct**	**MTD***	**YTD***
Cash	617	710	666
F&O	2,29,711	2,95,094	2,61,018

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

PI Industries: CSM segment moving from strength to strength

- PI Industries (PI) has built a strong business model by strengthening its presence in the CSM segment in the agrochemical industry. Going ahead, it aims to diversify into the pharmaceutical segment and other niche chemistry.
- The company continues to build a strong domestic agrochemical franchise with the launch of better products in the crops and pesticide segments over the years.
- PI has near-term growth levers in place, led by: 1) consistent growth in the CSM business, due to a strong (USD1.8b) order book, faster commercialization of new molecules (plans 4-5 launches every year), and sales ramp-up in existing molecules; 2) product launches in the domestic market (7 launches in FY23 and plans 5 launches in FY24); and 3) recent acquisitions in the pharma API and CDMO space.
- We value the stock at 36x FY25E EPS (in line with its 3/5-year avg one-year forward P/E) to arrive at a TP of INR4,560. Maintain BUY.

Research covered

Cos/Sector	Key Highlights
PI Industries	CSM segment moving from strength to strength
Insurance Monthly	Individual WRP for private players grew 12.3% YoY in Sep'23
Metals Weekly	Metal prices improve for ninth consecutive week

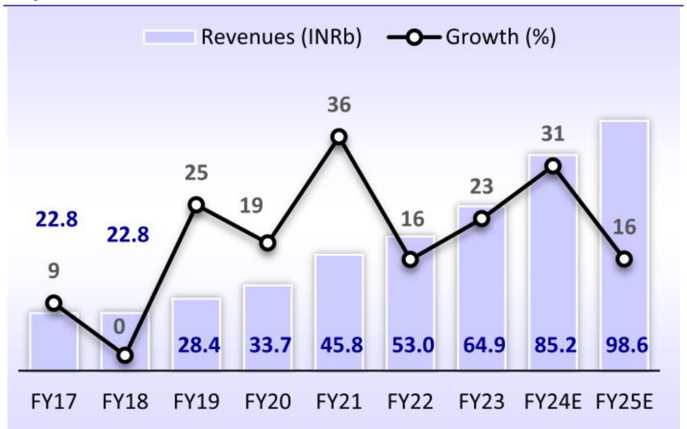
Piping hot news

Hinduja Group in talks with private debt funds for about $800 million

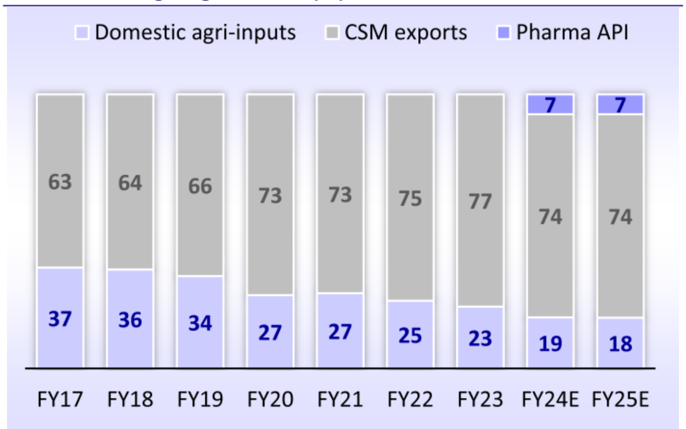
Indian conglomerate Hinduja Group is in talks with private credit funds to raise about $800 million to back the acquisition of Reliance Capital, according to people familiar with the matter, who asked not to be identified because the matter is private.

Chart of the Day: PI Industries (CSM segment moving from strength to strength)

Expect 23% revenue CAGR over FY23-25



Revenue mix going forward (%)



Source: Company, MOFSL

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In the news today

Kindly click on textbox for the detailed news link

1

Hinduja Group in talks with private debt funds for about $800 million

Indian conglomerate Hinduja Group is in talks with private credit funds to raise about $800 million to back the acquisition of Reliance Capital, according to people familiar with the matter, who asked not to be identified because the matter is private.

2

Total capex till 2030-31 could be around Rs 1.25 lakh crore: Maruti

Maruti Suzuki India (MSI) is planning capital expenditures (capex) until 2030-31 amounting to approximately Rs 1.25 lakh crore, the company said in a stock exchange filing on Monday. The company's strategy involves expanding its current product lineup from 17 models to 28 while increasing its production capacity

3

Road awards totalling ₹3 trillion for 10K km soon

The government plans to award ₹3 trillion worth of road projects over the next six months in the run-up to next year's general elections, aiming to build 10,000 km of roads.

4

India's urban unemployment fell to 6.6% in April-June, but females see rise in low-quality jobs

At 6.6 percent, the rate of unemployment in Indian cities is the lowest ever recorded by the government's Periodic Labour Force Survey (PLFS) since it was started in 2018-19.

5

E-Scooter makers asked to return $60 million aid for using China parts

Just 1.3% of the 3.8 million passenger vehicles sold last year in India were electric, according to BloombergNEF. In some cities in world-leader China, one in three new cars sold are now electric.

6

Federal Bank to stop funding for thermal power projects by 2030: Official

Federal Bank, the largest private sector lender in Kerala, has announced that it will completely stop funding for thermal power projects by 2030.

7

Mumbai Metropolitan Region real estate set for boost as 4 key infra projects near completion: Colliers

Mumbai Metro, Mumbai Trans Harbour Link, and the first phases of the Coastal Road Project and the Navi Mumbai International Airport are expected to boost the office leasing, data centre and residential segments in Mumbai.

MOTILAL OSWAL | MORNING INDIA

9 October 2023

Update | Sector: Chemicals

PI Industries

BSE SENSEX	S&P CNX
65,512	19,512

Stock Info

Bloomberg	PI IN
Equity Shares (m)	152
M.Cap.(INRb)/(USDb)	518.1 / 6.2
52-Week Range (INR)	4011 / 2869
1, 6, 12 Rel. Per (%)	-5/2/-1
12M Avg Val (INR M)	1190
Free float (%)	53.9

Financials Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	64.9	85.2	98.7
EBITDA	15.4	20.8	24.4
Adj. PAT	12.3	16.1	19.3
EBITDA Margin (%)	23.8	24.4	24.7
Cons. Adj. EPS (INR)	80.9	105.6	126.8
EPS Gr. (%)	45.7	30.6	20.0
BV/Sh. (INR)	474	569	685
Ratios			
Net D:E	(0.4)	(0.3)	(0.4)
RoE (%)	18.5	20.3	20.2
RoCE (%)	18.5	20.3	20.2
Payout (%)	12.4	9.5	9.1
Valuations			
P/E (x)	42.3	32.4	27.0
EV/EBITDA (x)	32.3	24.3	20.2
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	2.3	(0.3)	3.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter (%)	46.1	46.1	46.7
DII (%)	24.0	24.2	25.9
FII (%)	19.2	18.6	16.0
Others (%)	10.8	11.1	11.4

FII Includes depository receipts

CMP: INR3,415 TP: INR4,560(+34%) Buy

CSM segment moving from strength to strength

- **PI industries (PI) has built a strong business model by strengthening its presence in the CSM segment in the agrochemical industry. Going ahead, it aims to diversify into the pharmaceutical segment and other niche chemistry. The company continues to build a strong domestic agrochemical franchise with the launch of better products in the crops and pesticide segments over the years.**
- **We believe that any correction in the stock is an opportunity to buy a quality business at a better valuation. The stock has traded at an average P/E of 37x/35x over the last three/five years on a one-year forward basis. We ascribe 36x FY25E EPS after considering the strong growth outlook for existing businesses and its acquisition in the pharma segment – which adds up to PI's total addressable market (TAM) (from USD31.5b to USD136.5b in 2022), providing a long runway for growth.**
- **We value the stock at 36x FY25E EPS (in line with its 3/5-year avg one-year forward P/E) to arrive at a TP of INR4,560. Maintain BUY.**

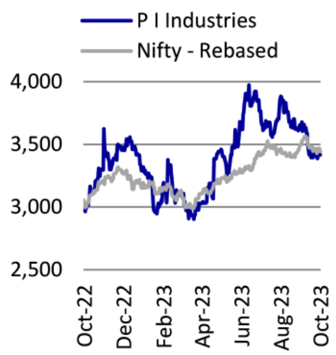
CSM business helps to sustain growth amid difficult global scenario

- The company's focus on export CSM has been the key differentiator compared to other agchem/chemical players in India. PI has a strong track record of an industry-beating revenue CAGR (18% in FY16-23) and a sustainable margin profile (over 20% in FY16-23; ~24% in FY23).
- PI's moat lies in its strong export-focused CSM business, as no other Indian player offers the width and consistency that PI does. The company is banking on this factor by consistently launching new molecules.
- The company works with 20 global innovators, manufacturing over 25 products on a commercial scale and evaluating over 60 molecules in their R&D center.
- Where global generic agrochemical companies are facing headwinds in the form of subdued prices and volumes due to overcapacity in China, PI is faring well on the back of its CSM business focused on patented molecules (volume growth of 29% YoY in 1QFY23).

Commercialization of new molecules in CSM maintains momentum

- PI's CSM business specializes in agrochemicals, primarily patented molecules, which account for 90% of revenue. The company collaborates with global agrochemical innovators to optimize the manufacturing process, reduce costs, and enhance product quality. PI has strong partnerships with over 20 global customers, including Kumiai Chemicals, Nissan Chemicals, Mitsui Chemicals, Bayer, BASF and Corteva.
- PI's CSM business has demonstrated impressive growth, with a 28% CAGR in FY18-23 and an estimated 21% CAGR from FY23-25E.
- The company has a robust pipeline of molecules at various stages, including R&D and recent commercialization. PI commercialized one molecule in 1QFY24 and plans to launch four to five more molecules annually from FY24 onward, as per its guidance.

Stock performance (one-year)



- The launch momentum is driven by the rise in outsourcing by global innovators, lower competitive intensity in the CSM market (due to global consolidation), cost advantages, a steadfast commitment to protecting intellectual property rights, and the wealth of expertise accumulated over the years.
- PI has improved its R&D capabilities by adding more scientists and researchers (473 in FY23 vs. 228 in FY21), which reflects in the increase in its cumulative patent filings to 147 in FY23 from 102 in FY21 (Refer Exhibit: 19)
- As per WTO, India is a growing hub for chemicals, ranking as the world's second-largest agro-chem exporter in 2022, surpassing USA. The Indian agro-chem market is set to grow 10-12% in FY24, with exports accounting for a 50% share, driven by the 'China plus one' strategy, declining EU competition, and Indian government support.
- PI ranks among the top five global players in the agrochemical CSM sector, with a focus on early-stage molecules. The company maintains competitive margins, with EBIDTA margin of ~24% in FY23 compared to its global peer CABB Chemicals, which has EBITDA margin of 22-23% in CY22. (Refer Exhibit: 22).

Eying big opportunity in pharma segment

- PI intends to diversify its CSM business by focusing on high-potential segments such as pharmaceuticals, polymer additives, imaging chemicals, electronic-chemicals and specialty chemicals, as well as new application areas such as bio-chemistry, nutraceuticals and additive chemicals.
- On that front, the company has been actively pursuing the pharma CDMO business since 2020.
- The size of the global CRO/CDMO industry was USD29b/USD76b in 2022, which is expected to see a 14%/17% CAGR over 2022-26, with India being a key market.
- To accelerate its journey in the pharma space, PI completed two major acquisitions of Therachem Research Medilab LLC (TRM) and Italy-based Archimica Spa. These companies are engaged in the business of CRDMO of chemical compounds, which are ultimately used for the manufacturing of API and other pharmaceutical products.
- The company will create a differentiated position in the pharma sector by leveraging its core competencies in complex chemistry, process development, operational excellence, technology platforms and global reach through partnerships with prominent innovators.
- PI plans to spend about INR0.8-1.3b annually on capacity enhancement for the existing pipeline, business capabilities and asset quality improvement, among others.
- The management expects to double the pharma segment’s revenue in the next three to four years at a CAGR of 20-25% over FY22-25. The pharma business is expected to contribute ~7.3%/6.2% to overall revenue/EBITDA of PI by FY25.

Domestic agrochemical- New product a key to drive growth

- PI's domestic agrochemical business posted a 9% CAGR during FY16-23 and its share in the revenue mix declined to 22.5% in FY23 from 39% in FY16. Key factors behind this performance include patent expiry for Nominee Gold, increased generic competition and changes in the product portfolio (discontinuing Phorate).
- However, going ahead, the company is expected to outpace industry growth with a 12% CAGR during FY23-25, driven by new product launches (five in FY24) and a shift to a **crop solution approach** from a product approach for deeper market penetration.
- The company launched one product (EKETSU – rice herbicide mixture) in 1QFY24 and plans to launch five products in FY24.
- PI's strong brand reputation and established relationships with global innovators, like Kumiai, Ihara, Mitsui, Bayer, and BASF, have facilitated its rapid expansion into new products and markets.
- To support its rapid product expansion, PI has a robust and extensive distribution network across India. The company utilizes over 25 stock points, 26 depots, a skilled field force of 1,500 individuals, 10,000 active dealers/distributors, and over 80,000 retailers nationwide. PI connects with over a million farmers.

Valuation and view

- PI has levers in place to sustain near-term growth momentum, led by: 1) consistent growth in the CSM business, driven by a strong (USD1.8b) order book, faster commercialization of new molecules (plans 4-5 launches every year), and sales ramp-up in existing molecules; 2) product launches in the domestic market (7 launches in FY23 and plans 5 launches in FY24); and 3) recent acquisitions in the pharma API and CDMO space.
- We expect revenue/EBITDA/PAT CAGR of 23%/26%/25% over FY22-25E.
- The stock has traded at an average of 37x/35x over the last three/five years on a one-year forward basis. We ascribe 36x P/E after considering the strong growth outlook for existing businesses and its acquisition in the pharma segment – which adds up to PI's total addressable market, providing a long runway for growth.
- **We value the stock at 36x EPS (in line with its 3/5-year avg one-year forward P/E) to arrive at a TP of INR4,560. Maintain BUY.**

Insurance Tracker

Individual WRP for private players grew 12.3% YoY in Sep'23

LIC's WRP grew 4.7% YoY; industry growth stands at 9.7% YoY

- **In Sep'23, the Individual weighted received premium (WRP) for private players grew 12.3% YoY (a three-year CAGR of 17.3%, vs. an increase of 20.7% YoY in Aug'23). The same for the industry grew 9.7% YoY in Sep'23 (a three-year CAGR of 14%, vs. an increase of 14.4% YoY in Aug'23). Over Apr-Sep'23, private insurance players grew 12.6% YoY.**
- **Among listed players, HDFCLIFE (including Exide merger) reported a YoY growth of 13.3% in Sep'23 (a three-year CAGR of 12.1%). MAXLIFE reported a strong YoY growth of 28.9%, whereas as SBILIFE reported a growth of 15.8% YoY. IPRU reported a decline of 5.3% YoY.**
- **Among mid-sized players, Tata AIA /Bajaj Allianz reported a growth of 14.8%/29.5% YoY, whereas Birla Sun Life/Kotak Life reported a YoY decline of 0.6%/1%.**
- **LIC reported a growth of 4.7% YoY in Individual WRP (3.0% in Aug'23). Over Apr-Sep'23, Individual WRP for LIC was flat YoY.**
- **After reporting a strong growth in Mar'23, the industry witnessed a slowdown over Apr-Sep'23. The dip in performance can be attributed to a large number of customers purchasing insurance policies in Mar'23, right before the implementation of budgetary changes. While FY23 saw a healthy growth, the growth momentum over FY24 would be a key monitorable. We retain SBILIFE as our preferred idea in the space.**

On an Individual WRP basis, the market share for private players improved to ~68.4%

In terms of Individual WRP, the market share of private players improved 460bp MoM to 68.4% in Sep'23. LIC's market share declined to 31.6%. SBILIFE (16.2%) remained the largest private insurer in terms of Individual WRP in Apr-Sep'23, followed by HDFCLIFE (10.3%) and Tata AIA (6.6%). On an Un-weighted basis too, SBILIFE was the largest private insurer, with a market share of 10.3%, followed by HDFCLIFE (8.3%) and IPRU (4.7%).

Performance of key private players

On an Individual WRP basis, the combined market share of the listed players – SBILIFE, HDFCLIFE, IPRU, and MAXLIFE – accounted for 58.2% of the private insurance industry in Apr-Sep'23. Among the prominent private insurers, Tata AIA secured the third position in terms of Individual WRP, with Max Life & IPRULIFE following closely as the fourth & the fifth largest. Bajaj held the sixth position. Among key listed players on the basis of Individual WRP –

- **HDFCLIFE*** (including Exide merger) reported a growth of 13.3% YoY (up 9.7% in Apr-Sep'23). Total Un-weighted premium grew 7.8% YoY (up 14.5% in Apr-Sep'23).
- **SBILIFE** reported a growth of 15.8% YoY (up 16.5% in Apr-Sep'23). Total Un-weighted premium grew 15.7% YoY (up 23.5% in Apr-Sep'23).
- **IPRU** reported a decline of 5.3% YoY (0.8% in Apr-Sep'23). Total Un-weighted premium declined 2.4% YoY (0.7% in Apr-Sep'23).
- **MAXLIFE** reported a growth of 28.9% YoY (19.8% in Apr-Sep'23). Total Un-weighted premium grew 24.1% YoY (up 25.8% in Apr-Sep'23).

Indian companies valuation

	Price	EV/ EBITDA (x)		P/B (x)	
	(INR)	FY23	FY24E	FY23	FY24E
Steel					
Tata	123	6.8	9.7	1.5	1.5
JSW	756	13.0	8.1	2.8	2.5
JSP	676	7.5	6.6	1.8	1.6
SAIL	86	8.2	6.6	0.6	0.6
Non-ferrous					
Vedanta	219	4.5	6.2	2.1	2.6
Hindalco	469	6.2	5.9	1.5	1.3
Nalco	93	6.1	5.9	1.3	1.2
Mining					
Coal	287	3.3	4.3	3.1	2.6
HZL	312	7.6	8.9	10.2	7.8
NMDC	143	5.8	5.1	1.8	1.6

Global companies valuation

Company	M.Cap	EV/EBITDA (x)		P/B (x)
	USD b	CY22/ FY23	CY23/ FY24	CY22/ FY23
Steel				
AM	20	3.4	3.5	0.4
SSAB	6	2.3	3.3	0.9
Nucor	39	5.6	7.7	1.8
POSCO	32	6.5	5.7	0.8
JFE	9	6.9	5.9	0.6
Aluminum				
Norsk Hydro	11	5.1	4.8	1.1
Alcoa	5	11.8	4.7	1.1
Zinc				
Teck	21	5.4	4.6	1.1
Korea Zinc	8	9.9	8.5	1.1
Iron ore				
Vale	58	4.1	4.0	1.3
FMG	40	4.3	5.0	2.1
Diversified				
BHP	142	5.6	5.6	3.2
Rio	102	4.6	4.4	1.8

Metal prices improve for ninth consecutive week

But vendor/trader markets subdued due to public holidays

- Though Tier-I mills have increased their list prices by INR750 to INR2,000/t for Oct'23 deliveries, trade-level domestic flat steel prices have increased slightly to ~INR59,000/t and primary long steel prices remained stable at ~INR58,100/t.
- The market has remained muted as vendors/traders are on 'wait-and-watch' mode ahead of Navratri holidays.
- The price hike by Tier-I mills is driven by higher demand anticipation from the automobile and consumer durable sectors ahead of Navratri and Diwali holidays, higher flat and VAP steel demand from construction/infrastructure sectors, low mill inventory of long steel, higher demand from Amrit Bharat Station Scheme, and an increase in input raw material prices.

Domestic steel production continues to rise at healthy pace

- Crude steel production in India was up 23% YoY and 4% MoM at 12.4mt and finished steel production was up 22% YoY and 1% MoM at 11.6mt.
- Domestic consumption rose 30% YoY and 8% MoM to one of the highest levels at ~12mt.
- India continues to be a net importer for the third straight month at 0.2mt.
- Share of SAIL and RINL in total production stood at over 16% for Sep'23.
- A healthy pace of property registration and higher demand from CVs/PVs have kept steel demand elevated.

Slower-than-expected economic rebound during Chinese holidays keeps metal prices subdued

- Due to an eight-day long holiday season in China, which concluded on 6th Oct'23, demand pickup was slower than originally anticipated and was slightly better than the pre-Covid years.
- Lukewarm property sales, lower consumer demand during holidays, high input costs, negligible offers from export markets and lower consumer confidence have kept metal prices subdued.
- Utilization at Chinese mills dipped to 92.3%, and higher input costs might even push some mills to temporarily suspend production to curb their losses.

Key input materials show mixed trends

- Imported iron ore inventory in China declined to 86.6mt (lowest in last three weeks), as mills usually refrain from any procurement during the Chinese holidays.
- Similarly, falling pellet prices in India, lower demand due to heavy rains in the steel manufacturing belt and limited export offers might weigh on iron ore prices in the near term.
- Premium HCC prices have remained stable since Sep'23 end.

Commodities and forex tracker

	UoM	Spot	WoW (%)	MoM (%)
India HRC (ex-Mum)	INR/t	59,000	0	2
India TMT Prime (ex-Mum)	INR/t	58,100	0	3
India TMT Secondary (ex-Mum)	INR/t	51,700	-1	-1
Korea HRC - FoB	USD/t	600	0	0
China HRC Dom.	USD/t	533	0	-1
China HRC - FoB	USD/t	550	0	0
India Prem HCC CNF	USD/t	349	0	21
India 64 Mid Vols CNF	USD/t	276	0	10
India Low Vols PCI CNF	USD/t	217	0	21
Iron Ore Fines (Odisha Index) Fe 62%	INR/t	5,100	-4	13
Iron Ore Fines (China - CNF) Fe 62%	USD/t	119	1	1
Europe Scrap HMS 1&2(80:20)	USD/t	398	-3	-5
C-DRI (ex-Raipur)	INR/t	31,300	2	-2
RB1 (6000 NAR) SA FoB	USD/t	135	-7	6
RB2 (5500 NAR), SA FoB	USD/t	123	0	9
Indonesia (4200 GAR) Futures	USD/t	62	-4	6
Copper	USD/t	7,887	-3	-4
Aluminum	USD/t	2,208	-3	4
Zinc	USD/t	2,473	-5	3
Lead	USD/t	2,207	0	-3
Nickel	USD/t	18,310	-1	-8
Alumina	USD/t	337	1	-1
Ali UBC Scrap	USD/t	1,543	-3	3
Ali UBC Scrap Spread	USD/t	665	-5	5
INR:USD	x	83.2	0	0
USD:EUR	"	1.06	1	-1
USD:GBP	"	1.22	1	-2
CNY:USD	"	7.30	0	-1
JPY:USD	"	149	-1	1

Indian Hotels: The sector is well poised to gain in the short, medium & long term; Puneet Chhatwal, CEO

- The sector is well poised to gain in short, medium & long term
- Hotel sector is performing well due to demand outpacing supply
- Confident of 33% margin by 2025
- Have over 3,000 members in Chamber's club, expect it to keep growing

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Prestige Group: Will be difficult to replicate Q2 performance in Q3 and Q4; Irfan Razack, MD

- Bangalore contributed most to the quarter gone by
- Will be difficult to replicate Q2 performance in Q3 and Q4
- We will be able to exceed our FY24 sales guidance
- We will be able to do pre sales of close to Rs. 20,000 Cr in FY24
- Prices will stabilise, don't expect it to go higher hereon

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Ujjivan SFB: Seeing the biggest growth this quarter; Ittira Davis, MD

- We are seeing the biggest growth this quarter percentage wise, as in affordable housing business
- We have reorganized the business and go0ne back to the drawing board
- Micro banking is also doing well
- The housing business is growing, we are doing better than the industry and it is our focus to grow our secured businesses

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Inox GFL: Signed enabling term sheet to divest 100% stake in Nani Virani, asset value is ₹290-300 cr; Devansh Jain, ED

- Our target in this financial year is to make Inox net debt free and we are on track
- The asset value is around Rs. 290-300 odd crores adjusted for the no. which will come depending when the transaction takes place
- Inox Green we have net debt as on 31st March'23 of Rs. 350 odd crores.
- The deal should take about 3-4 months

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Som Distilleries: GST Cannot Impose Tax On Alcohol ; GST On Corporate Guarantee Has Been A Contentious Issue JK Arora, Chairman

- From the constitution, manufacturing of liquor, storage, transport and export is in state domain
- GST cannot impose tax on the alcohol, but can impose taxes on the industrial use
- UP, AP there were disputes will get resolved post the announcement

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NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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