

Strong quarter driven by higher CSM exports

Specialty Chemicals ▶ Result Update ▶ August 8, 2024

TARGET PRICE (Rs): 3,900

PI's Q1 EBITDA at Rs5.8bn (+25% YoY/32% QoQ) was in line with our estimates due to strong CSM exports (+23% QoQ). CSM revenue grew 14% YoY, driven by robust volumes and growth of new products, while the domestic and pharma businesses remained subdued. Management maintained its overall revenue growth guidance of 15% (vs. 18-20% for FY24) for FY25 and nudged up gross-margin guidance to 50-51%. FY25 capex guidance remains unchanged at Rs8-9bn, but that for tax-rate reduces a tad to 22-23% (vs. 24% earlier). Based on this guidance, we increase our FY26E EPS by 7%. PI is likely to register a high single digit EPS CAGR over FY24-27E. We maintain our REDUCE rating, and raise our TP to Rs3,900/sh (30x Jun-26E EPS), while awaiting visibility on scaling up of new patented molecules in the agchem portfolio.

PI Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	64,920	76,658	87,187	99,104	1,12,478
EBITDA	15,421	20,147	23,032	26,265	28,981
Adj. PAT	12,295	16,815	16,771	19,012	21,384
Adj. EPS (Rs)	81.0	110.8	110.6	125.3	141.0
EBITDA margin (%)	23.8	26.3	26.4	26.5	25.8
EBITDA growth (%)	35.0	30.6	14.3	14.0	10.3
Adj. EPS growth (%)	45.7	36.8	(0.3)	13.4	12.5
RoE (%)	18.5	21.1	17.7	17.1	16.5
RoIC (%)	28.4	36.3	30.6	30.5	30.6
P/E (x)	55.0	40.2	40.3	35.6	31.6
EV/EBITDA (x)	41.8	31.7	27.4	23.6	20.9
P/B (x)	9.4	7.7	6.6	5.6	4.8
FCFF yield (%)	1.7	1.0	1.1	1.7	2.1

Source: Company, Emkay Research

Company remains positive on revenue growth and strategic initiatives

The management maintained its FY25 revenue growth guidance of 15% for FY25 (lower, given macro contingencies), its gross margin range of 50-51%, and its EBITDA margin range of 25-26%; it also emphasized on and sustained profit improvement. The company revised its tax-rate guidance to 22-23% from 24%, and retained its capex guidance of Rs8-9bn (Rs9bn in FY24). PI is building a strong CRDMO platform in its pharma business, leveraging integrated service facilities and its global business development team. The management continues to actively evaluate inorganic growth opportunities for de-risking the existing agchem portfolio on growing cash balances.

CSM business registered strong growth in Q1

The Custom Synthesis and Manufacturing (CSM) business clocked revenue of Rs17.2bn (+13.5% YoY/+23.3% QoQ), primarily driven by export of new products which grew ~24% YoY. CSM growth is mainly on account of scale-up of products commercialized over the last 3 years. PI commercialized 2 new products for exports in Q1, and plans to launch 5-6 new products over the remaining year. There are initial signs of improvement in agchem demand, leading to momentum in new enquiries and possible conversions. Also, the company is focusing on capacity expansion in line with its strategy.

Domestic business steady; Pharma to cause margin drag in near term

The Domestic segment de-grew 8% YoY due to delayed monsoons which will result in spill over to Q2 with pick-up in rainfall and kharif plantation. Margin expansion was led by increased contribution from biologicals (~10% of domestic agchem business), which rose ~39% YoY. Pharma business saw reduced revenue to Rs250mn in Q1 due to high inventory at the customer-end (2 products with 2 customers). PI announced an offer to acquire Plant Health Care Plc (PHC) in Q1 which will give it access to biological/peptide technology platforms and global markets. This acquisition is expected to be completed in Q2FY25. The management is currently changing leadership teams in Pharma across segments and synchronizing other initiatives, leading to higher overheads.

Target Price – 12M	Jun-25
Change in TP (%)	11.4
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(12.5)
CMP (08-Aug-24) (Rs)	4,457.3

Stock Data	Ticker
52-week High (Rs)	4,550
52-week Low (Rs)	3,060
Shares outstanding (mn)	151.7
Market-cap (Rs bn)	676
Market-cap (USD mn)	8,054
Net-debt, FY25E (Rs mn)	-45,348
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,698.0
ADTV-3M (USD mn)	20.2
Free float (%)	-
Nifty-50	24,117
INR/USD	84.0
Shareholding, Jun-24	
Promoters (%)	46.1
FPIs/MFs (%)	18.8/26.0

Price Performance			
(%)	1M	3M	12M
Absolute	18.6	26.6	15.8
Rel. to Nifty	19.6	17.1	(6.1)

1-Year share price trend (Rs)



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Other highlights

- Total capex outlay for Q1FY25 was at Rs1.5bn (pharma capex outlay of Rs372mn).
- Trade working capital improved to 55 days, as PI benefited from inventory days falling to 50 from 68 QoQ.
- PI launched 2 innovative brands of insecticides in Q1FY24 for exports (7 in FY24) and 2 products in domestic agri brands.
- PI filed for 5 patents in Q1FY25, taking the total to >170. Around 5-6 innovative products are likely to be launched in FY25, with a robust pipeline of over 20 products under registration and development.

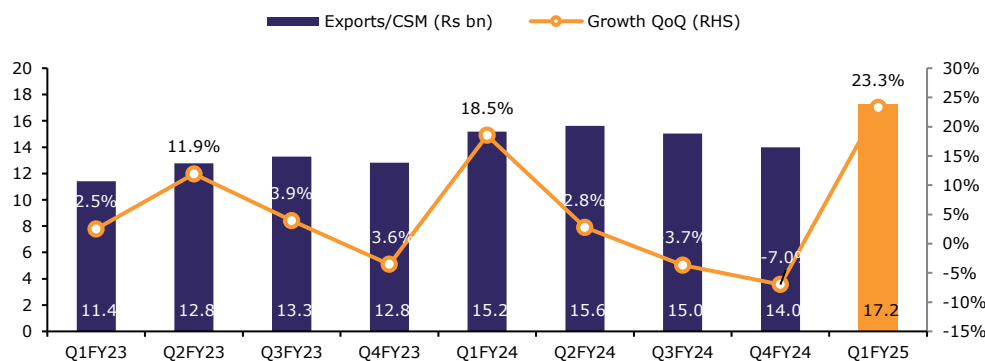
Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est.		Full-year		
	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	Q1FY25	vs. Est. (%)	FY24	FY23	YoY (%)
Net revenue	19,104	17,410	20,689	8	19	21,385	-3	59,248	49,264	20
Raw Material cost	(10,218)	(8,034)	(9,977)	-2	24	(10,621)	-6	(30,342)	(26,888)	13
Gross Profit	8,886	9,376	10,712	21	14	10,763	0	28,906	22,376	29
Gross margin (%)	46.5	53.9	51.8	526 bps	-208 bps	50.3	144 bps	48.8	45.4	336 bps
Employee cost	(1,735)	(1,784)	(2,001)	15	12	(1,925)	4	(5,229)	(3,921)	33
Other overheads	(2,473)	(3,174)	(2,879)	16	-9	(2,994)	-4	(7,949)	(6,529)	22
Total expenses	(14,426)	(12,992)	(14,857)	3	14	(15,540)	(4)	(43,520)	(37,338)	17
EBITDA	4,678	4,418	5,832	25	32	5,845	0	15,728	11,926	32
EBITDA margin (%)	24.5	25.4	28.2	370 bps	281 bps	27.3	85 bps	26.5	24.2	233 bps
Other income	469	579	727	55	26	520	40	1,499	1,060	41
Interest	(43)	(109)	(83)	93	-24	(79)	5	(191)	(236)	-19
Depreciation	(697)	(799)	(834)	20	4	(801)	4	(2,283)	(1,687)	35
Share of associates/JVs	47	24	21	-55	-13	25	-16	81	56	45
PBT	4,454	4,113	5,663	27	38	5,509	3	14,833	11,119	33
Tax	(625)	(418)	(1,175)	88	181	(1,322)	-11	(1,714)	(1,629)	5
Adj. PAT	3,829	3,695	4,488	17	21	4,187	7	13,119	9,490	38
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	3,829	3,695	4,488	17	21	4,187	7	13,119	9,490	38
EPS (Rs)	25.2	24.3	29.5	17	21	27.5	7	86.3	62.3	39
Costs as a % of sales										
Raw Material cost	53.5	46.1	48.2	-527 bps	207 bps	49.7	-145 bps	51.2	54.6	-337 bps
Employee cost	9.1	10.2	9.7	58 bps	-58 bps	9.0	67 bps	8.8	8.0	86 bps
Other overheads	12.9	18.2	13.9	97 bps	-432 bps	14.0	-9 bps	13.4	13.3	16 bps
Income tax rate	14.0	10.2	20.7	671 bps	1058 bps	24.0	-326 bps	11.6	14.7	-310 bps

Source: Company, Emkay Research

Exhibit 2: CSM growth higher at 13.5% YoY due to higher share of pyroxasulfone

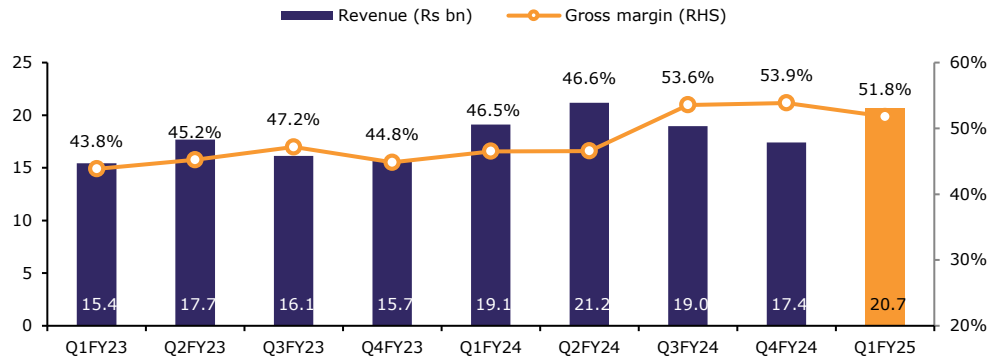
CSM revenue grew 23% QoQ, due to higher pyroxasulfone volume



Source: Company, Emkay Research

Exhibit 3: Gross margin improved by ~530bps YoY, on a favorable product mix

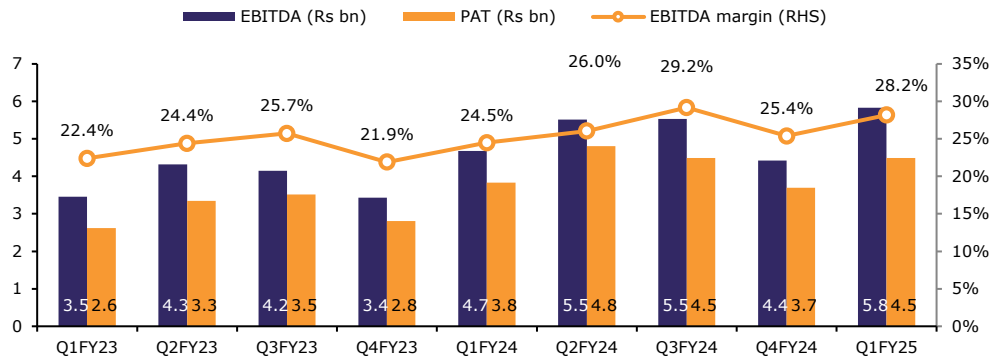
FY25 guidance of gross margin stays at 50-51%



Source: Company, Emkay Research

Exhibit 4: EBITDA margin higher, on operating leverage

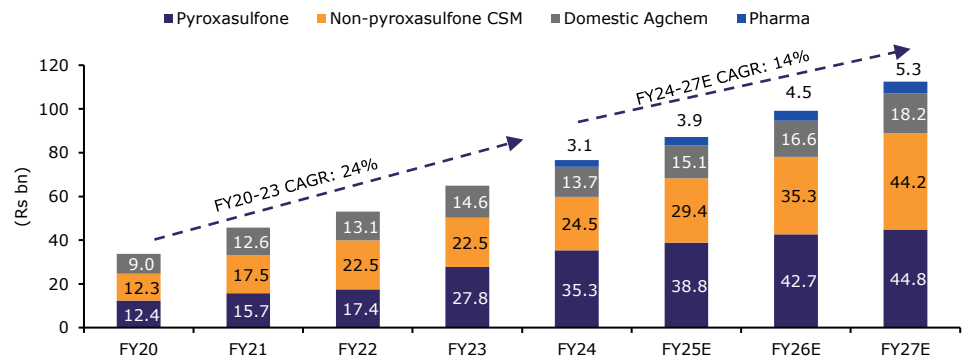
EBITDA margin higher by 280bps QoQ/370bps YoY



Source: Company, Emkay Research

Exhibit 5: CSM exports to continue driving overall revenue growth

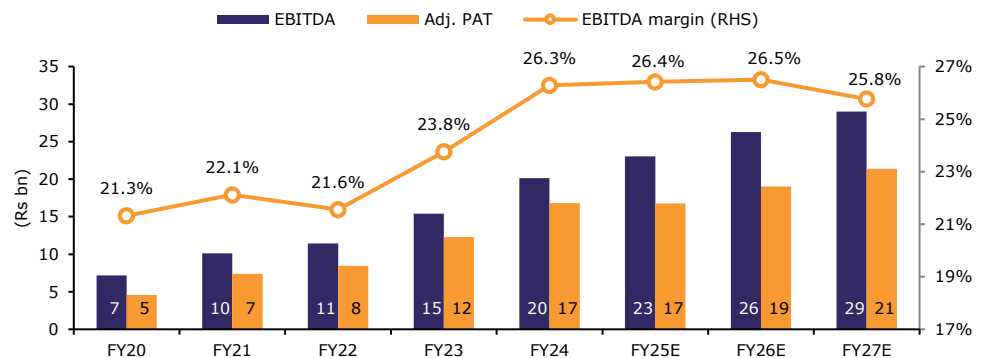
The management maintained its previous Quarter overall revenue growth guidance of 15% (vs. 18-20% two Qtrs prior)



Source: Company, Emkay Research

Exhibit 6: EBITDA/PAT to clock CAGR of 13%/8% over FY24-27E

PAT growth to be in a high-single-digit on revised tax rate guidance



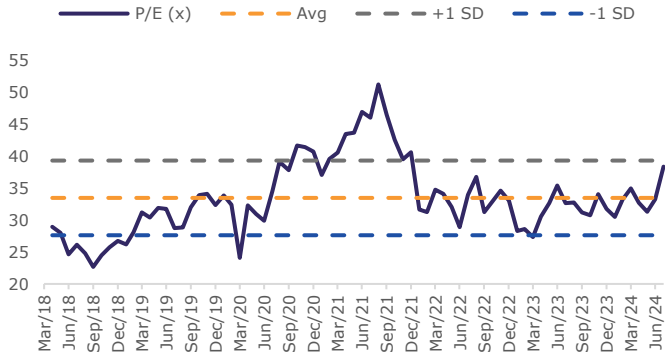
Source: Company, Emkay Research

Exhibit 7: We increase our FY26 EPS estimate on account of the higher gross margin and reduced tax rate guidance

Particulars (Rs mn)	FY25E			FY26E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	87,187	87,104	0.1	99,104	98,915	0.2
EBITDA	23,032	23,438	(1.7)	26,265	24,913	5.4
EBITDA margin (%)	26.4	26.9	-50 bps	26.5	25.2	131 bps
PAT	16,771	16,864	(0.5)	19,012	17,745	7.1
EPS (Rs)	110.6	111.2	(0.5)	125.3	117.0	7.1

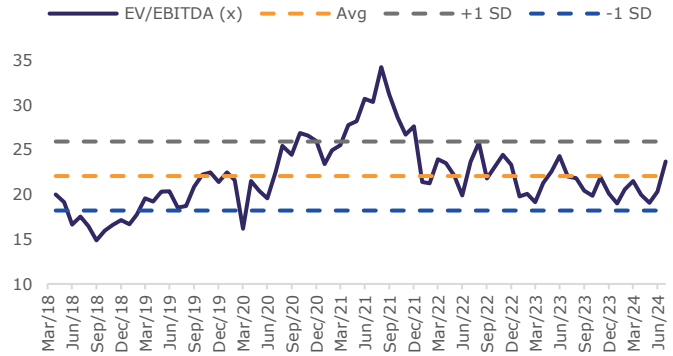
Source: Emkay Research

Exhibit 8: One-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 9: One-year forward EV/EBITDA



Source: Bloomberg, Emkay Research

PI Industries: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	64,920	76,658	87,187	99,104	1,12,478
Revenue growth (%)	22.5	18.1	13.7	13.7	13.5
EBITDA	15,421	20,147	23,032	26,265	28,981
EBITDA growth (%)	35.0	30.6	14.3	14.0	10.3
Depreciation & Amortization	2,265	3,082	3,472	4,072	4,360
EBIT	13,156	17,065	19,560	22,194	24,621
EBIT growth (%)	39.9	29.7	14.6	13.5	10.9
Other operating income	0	0	0	0	0
Other income	1,590	2,077	2,347	2,628	3,270
Financial expense	371	300	277	311	336
PBT	14,375	18,842	21,631	24,510	27,555
Extraordinary items	0	0	0	0	0
Taxes	2,148	2,132	4,975	5,637	6,338
Minority interest	0	0	0	0	0
Income from JV/Associates	68	105	116	139	166
Reported PAT	12,295	16,815	16,771	19,012	21,384
PAT growth (%)	45.7	36.8	(0.3)	13.4	12.5
Adjusted PAT	12,295	16,815	16,771	19,012	21,384
Diluted EPS (Rs)	81.0	110.8	110.6	125.3	141.0
Diluted EPS growth (%)	45.7	36.8	(0.3)	13.4	12.5
DPS (Rs)	7.5	11.5	10.6	10.6	10.6
Dividend payout (%)	9.2	10.4	9.6	8.5	7.5
EBITDA margin (%)	23.8	26.3	26.4	26.5	25.8
EBIT margin (%)	20.3	22.3	22.4	22.4	21.9
Effective tax rate (%)	14.9	11.3	23.0	23.0	23.0
NOPLAT (pre-IndAS)	11,190	15,134	15,062	17,089	18,958
Shares outstanding (mn)	151.7	151.7	151.7	151.7	151.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	14,375	18,842	21,631	24,510	27,555
Others (non-cash items)	1,079	1,596	1,401	1,755	1,426
Taxes paid	(2,558)	(3,750)	(4,916)	(5,571)	(6,263)
Change in NWC	3,094	1,898	(3,507)	(1,961)	(2,201)
Operating cash flow	15,014	20,359	14,665	18,805	20,609
Capital expenditure	(3,974)	(13,767)	(8,000)	(8,000)	(8,000)
Acquisition of business	135	(590)	0	0	0
Interest & dividend income	1,590	2,077	2,347	2,628	3,270
Investing cash flow	(4,962)	(18,005)	(5,653)	(5,372)	(4,730)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,678)	1,279	214	120	134
Payment of lease liabilities	0	0	0	0	0
Interest paid	(371)	(300)	(277)	(311)	(336)
Dividend paid (incl tax)	(1,137)	(1,744)	(1,607)	(1,607)	(1,607)
Others	(645)	(1,451)	0	0	0
Financing cash flow	(4,831)	(2,216)	(1,670)	(1,798)	(1,809)
Net chg in Cash	5,221	138	7,342	11,635	14,070
OCF	15,014	20,359	14,665	18,805	20,609
Adj. OCF (w/o NWC chg.)	18,108	22,257	11,158	16,843	18,408
FCFF	11,040	6,592	6,665	10,805	12,609
FCFE	12,259	8,369	8,735	13,122	15,543
OCF/EBITDA (%)	97.4	101.1	63.7	71.6	71.1
FCFE/PAT (%)	99.7	49.8	52.1	69.0	72.7
FCFF/NOPLAT (%)	98.7	43.6	44.3	63.2	66.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	152	152	152	152	152
Reserves & Surplus	71,833	87,158	1,02,322	1,19,727	1,39,504
Net worth	71,985	87,310	1,02,474	1,19,879	1,39,655
Minority interests	0	0	0	0	0
Deferred tax liability (net)	213	(267)	(267)	(267)	(267)
Total debt	0	1,279	1,493	1,613	1,748
Total liabilities & equity	72,198	88,322	1,03,700	1,21,225	1,41,136
Net tangible fixed assets	24,518	29,117	33,645	37,574	41,214
Net intangible assets	1,537	6,166	6,166	6,166	6,166
Net ROU assets	0	0	0	0	0
Capital WIP	1,324	2,781	2,781	2,781	2,781
Goodwill	828	3,611	3,611	3,611	3,611
Investments [JV/Associates]	313	903	903	903	903
Cash & equivalents	32,272	39,499	46,841	58,476	72,546
Current assets (ex-cash)	24,833	28,705	33,353	37,718	42,616
Current Liab. & Prov.	12,599	18,849	19,990	22,393	25,091
NWC (ex-cash)	12,234	9,856	13,363	15,324	17,525
Total assets	72,198	88,322	1,03,700	1,21,225	1,41,136
Net debt	(32,272)	(38,220)	(45,348)	(56,863)	(70,799)
Capital employed	72,198	88,322	1,03,700	1,21,225	1,41,136
Invested capital	38,289	45,139	53,175	59,064	64,905
BVPS (Rs)	474.5	575.5	675.5	790.2	920.6
Net Debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(2.1)	(1.9)	(2.0)	(2.2)	(2.4)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	21.5	23.8	22.8	22.1	21.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	55.0	40.2	40.3	35.6	31.6
P/CE(x)	46.4	34.0	33.4	29.3	26.3
P/B (x)	9.4	7.7	6.6	5.6	4.8
EV/Sales (x)	9.9	8.3	7.2	6.2	5.4
EV/EBITDA (x)	41.8	31.7	27.4	23.6	20.9
EV/EBIT(x)	48.9	37.4	32.2	27.9	24.6
EV/IC (x)	16.8	14.1	11.9	10.5	9.3
FCFF yield (%)	1.7	1.0	1.1	1.7	2.1
FCFE yield (%)	1.8	1.2	1.3	1.9	2.3
Dividend yield (%)	0.2	0.3	0.2	0.2	0.2
DuPont-RoE split					
Net profit margin (%)	18.9	21.9	19.2	19.2	19.0
Total asset turnover (x)	0.9	1.0	0.9	0.9	0.9
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	18.5	21.1	17.7	17.1	16.5
DuPont-RoIC					
NOPLAT margin (%)	17.2	19.7	17.3	17.2	16.9
IC turnover (x)	1.6	1.8	1.8	1.8	1.8
RoIC (%)	28.4	36.3	30.6	30.5	30.6
Operating metrics					
Core NWC days	68.8	46.9	55.9	56.4	56.9
Total NWC days	68.8	46.9	55.9	56.4	56.9
Fixed asset turnover	1.9	1.8	1.7	1.6	1.6
Opex-to-revenue (%)	21.5	23.7	22.6	22.5	22.2

Source: Company, Emkay Research

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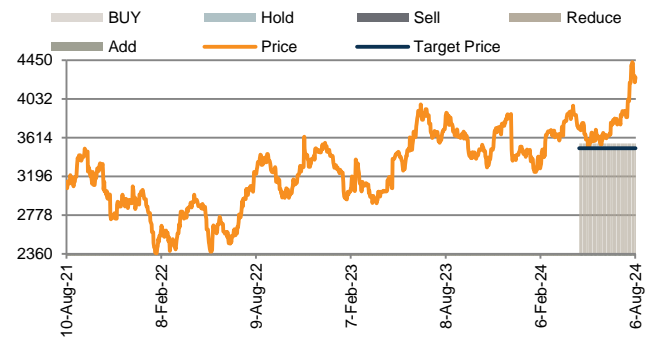
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
14-Jul-24	3,901	3,500	Reduce	Meet Vora
07-Jun-24	3,643	3,500	Reduce	Meet Vora
23-May-24	3,660	3,500	Reduce	Meet Vora
20-Apr-24	3,709	3,500	Reduce	Meet Vora

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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