

PI's Q2 EBITDA at Rs6.3bn (+14% YoY/+8% QoQ) was in line with our estimates due to stable CSM exports QoQ. CSM revenue grew 10% YoY, driven by robust volumes and growth of new products, while the domestic and pharma businesses remained subdued. Management has lowered its FY25 revenue growth guidance of 15% to 7-9% (vs 18-20% for FY24), amid continued global industry challenges, and expects to maintain 26-27% EBITDA margin. FY25 capex guidance remains unchanged at Rs8-9bn. We now believe that this guidance is more realistic in nature and tweak our FY25/26/27 estimates by +8%/-2%/-3% to factor in higher other income in FY25 and lower growth in FY26/27E. We maintain our REDUCE rating with TP of Rs3,900 (30x Sep-26E EPS), while awaiting visibility on scaling up of new patented molecules.

PI Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	64,920	76,658	83,609	93,564	105,782
EBITDA	15,421	20,147	23,491	25,219	27,716
Adj. PAT	12,295	16,815	18,125	18,611	20,758
Adj. EPS (Rs)	81.0	110.8	119.5	122.7	136.8
EBITDA margin (%)	23.8	26.3	28.1	27.0	26.2
EBITDA growth (%)	35.0	30.6	16.6	7.4	9.9
Adj. EPS growth (%)	45.7	36.8	7.8	2.7	11.5
RoE (%)	18.5	21.1	19.0	16.6	15.9
RoIC (%)	28.4	36.3	31.6	29.0	29.2
P/E (x)	52.6	38.5	35.7	34.8	31.2
EV/EBITDA (x)	39.9	30.2	25.6	23.4	20.8
P/B (x)	9.0	7.4	6.2	5.4	4.6
FCFF yield (%)	1.7	1.0	1.1	1.7	1.9

Source: Company, Emkay Research

Company lowers its revenue expectations for FY25

The management cut its revenue growth forecast to high single-digit for FY25 (earlier guidance of 15%); we have reiterated earlier that growing with historical run rate on a higher base with single molecule concentration looks difficult. We stay cautious on pyroxasulfone concentration risk, low visibility on scale up of large patented molecules to offset risk of concentration, and higher cash balance which are a drag on RoCEs. The gross margins of 51.8% remained steady on superior product mix (guidance of 50-51%). The company has guided for sustainable EBITDA margins in the range of 26-27% for exports and the domestic business. We believe that going forward, the decline in margins due to lower operating leverage will be offset by lower pharma R&D spends.

CSM business stable QoQ with higher share of pyroxasulfone

The Custom Synthesis and Manufacturing (CSM) business clocked revenue of Rs17.2bn (+10.2% YoY/Flat QoQ), primarily driven by volume growth, and growth of new products by 42% YoY. Increase in CSM is mainly on account of scale-up of products commercialized over the last 3 years. PI commercialized 4 new products for exports in Q2, and plans to launch 7-8 new products by the end of the year. Customers are sitting at elevated inventory levels leading to slower product offtake. We understand that the oversupply situation of off-patented molecules has led to a price crash, reducing demand for high-cost patented products. We await for guidance from Kumiai on AXEEV for the upcoming year. The company is focusing on capacity expansion in line with its strategy.

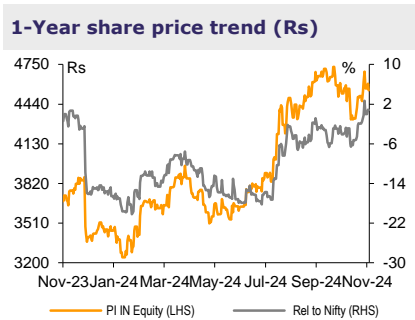
Domestic business to improve in H2; pharma pulling down margins

The domestic segment de-grew 5% YoY in Q2 due to lower institutional sales, while delayed monsoons did not help the company. We believe that higher reservoir levels will help the company in gaining market share in Q2, negating the pricing pressure from generics. Pharma business recorded revenue of Rs411mn in Q2, lower QoQ due to high inventory at the customer's end (2 products with 2 customers). Pharma business incurred loss of Rs551mn largely due to one-off R&D spends and bad debts provision of Rs320mn. PI has onboarded a 3 CXO-level leadership team, including a new Global CEO in Q2.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(8.6)
CMP (14-Nov-24) (Rs)	4,265.3

Stock Data	Ticker
52-week High (Rs)	4,804
52-week Low (Rs)	3,060
Shares outstanding (mn)	151.7
Market-cap (Rs bn)	647
Market-cap (USD mn)	7,667
Net-debt, FY25E (Rs mn)	-46,644
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,030.8
ADTV-3M (USD mn)	12.2
Free float (%)	-
Nifty-50	23,533
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	46.1
FPIs/MFs (%)	19.0/26.4

Price Performance			
(%)	1M	3M	12M
Absolute	(6.6)	(1.6)	16.2
Rel. to Nifty	(0.2)	1.0	(4.0)



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Other highlights

- Total capex outlay for Q2FY25/YTD was at Rs2.34bn/Rs3.84bn (pharma capex outlay for Q2FY25/YTD of Rs358mn/Rs730mn).
- Trade working capital reduced from 84 to 70 days.
- PI launched 2 innovative brands in Q2FY25 for exports (4 in H1FY25; 7 in FY24), and 2 products in domestic agri brands (4 in H1FY25).
- PI filed for 8 patents in Q2FY25 (13 in H1FY25), taking the total to more than 180. Around 5-6 innovative products are likely to be launched in FY25, with a robust pipeline of over 20 products under registration and development.

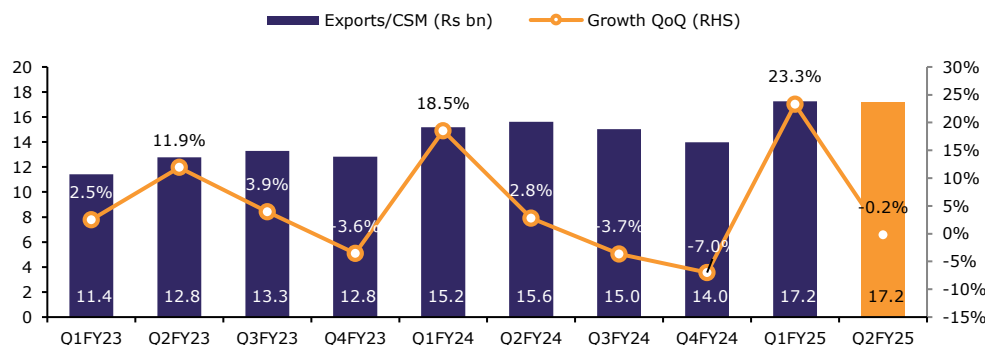
Exhibit 1: Result update

P&L (Rs mn)	Reported					Emkay Est		Half year ended		
	Q2FY24	Q1FY25	Q2FY25	YoY (%)	QoQ (%)	Q2FY25	vs Est. (%)	H1FY25	H1FY23	YoY (%)
Net revenue	21,169	20,689	22,210	5	7	22,672	-2	42,899	40,273	7
Raw Material cost	(11,311)	(9,977)	(10,714)	-5	7	(11,473)	-7	(20,691)	(21,529)	-4
Gross Profit	9,858	10,712	11,496	17	7	11,199	3	22,208	18,744	18
Gross margin (%)	46.6	51.8	51.8	519 bps	-2 bps	49.4	236 bps	51.8	46.5	522 bps
Employee cost	(1,638)	(2,001)	(1,956)	19	-2	(2,109)	-7	(3,957)	(3,373)	17
Other overheads	(2,706)	(2,879)	(3,258)	20	13	(3,083)	6	(6,137)	(5,179)	18
Total expenses	(15,655)	(14,857)	(15,928)	2	7	(16,665)	(4)	(30,785)	(30,081)	2
EBITDA	5,514	5,832	6,282	14	8	6,007	5	12,114	10,192	19
EBITDA margin (%)	26.0	28.2	28.3	223 bps	9 bps	26.5	178 bps	28.2	25.3	293 bps
Other income	469	727	1,222	161	68	742	65	1,949	938	108
Interest	(78)	(83)	(85)	9	2	(85)	0	(168)	(121)	39
Depreciation	(803)	(834)	(798)	-1	-4	(851)	-6	(1,632)	(1,500)	9
Share of associates/JVs	20	21	7	-65	-67	20	-65	28	67	-58
PBT	5,122	5,663	6,628	29	17	5,833	14	12,290	9,576	28
Tax	(317)	(1,175)	(1,546)	388	32	(1,225)	26	(2,721)	(942)	189
Adj. PAT	4,805	4,488	5,082	6	13	4,608	10	9,569	8,634	11
EO Items	-	-	-	-	-	-	-	-	-	-
Reported PAT	4,805	4,488	5,082	6	13	4,608	10	9,569	8,634	11
EPS (Rs)	31.6	29.5	33.4	6	13	30.3	10	63.0	56.8	11
Costs as a % of sales										
Raw Material cost	53.4	48.2	48.2	-520 bps	1 bps	50.6	-237 bps	48.2	53.5	-523 bps
Employee cost	7.7	9.7	8.8	106 bps	-87 bps	9.3	-50 bps	9.2	8.4	84 bps
Other overheads	12.8	13.9	14.7	188 bps	75 bps	13.6	106 bps	14.3	12.9	144 bps
Income tax rate	6.2	20.7	23.3	1,713 bps	257 bps	21.0	232 bps	22.1	9.8	1,230 bps

Source: Company, Emkay Research

Exhibit 2: CSM growth higher at 10.2% YoY due to higher share of pyroxasulfone

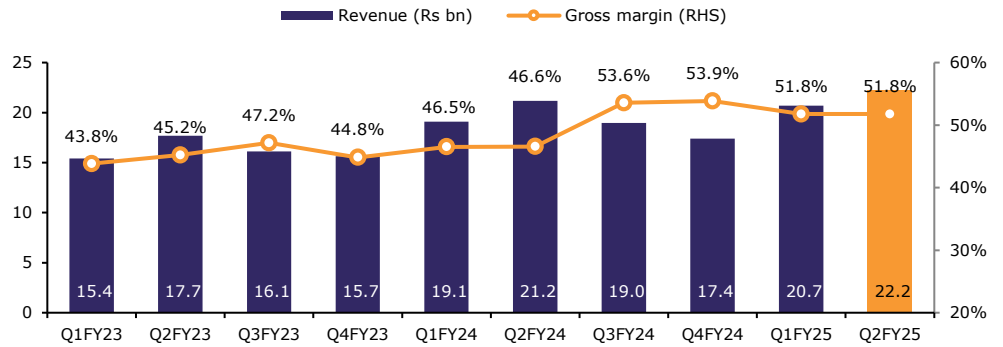
CSM revenue down 2% QoQ on stable export volume for pyroxasulfone



Source: Company, Emkay Research

Exhibit 3: Gross margin remained flat at 51.8% vs 46.6% YoY, on a favorable product mix

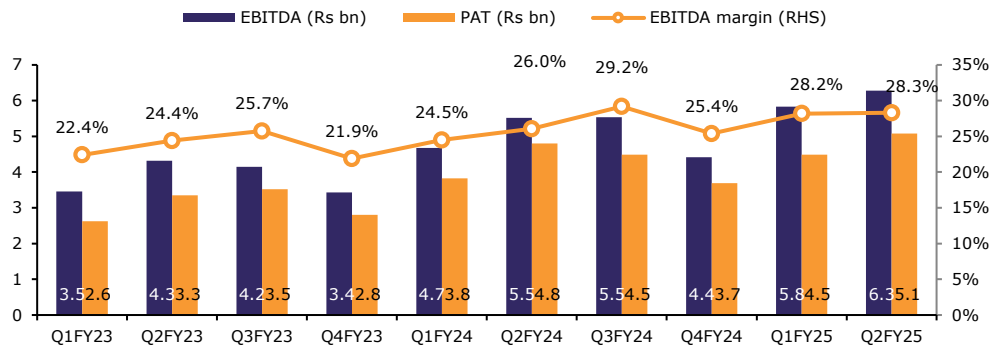
FY25 guidance of gross margin is better on account of product mix



Source: Company, Emkay Research

Exhibit 4: EBITDA margin higher (flat QoQ) on operating leverage

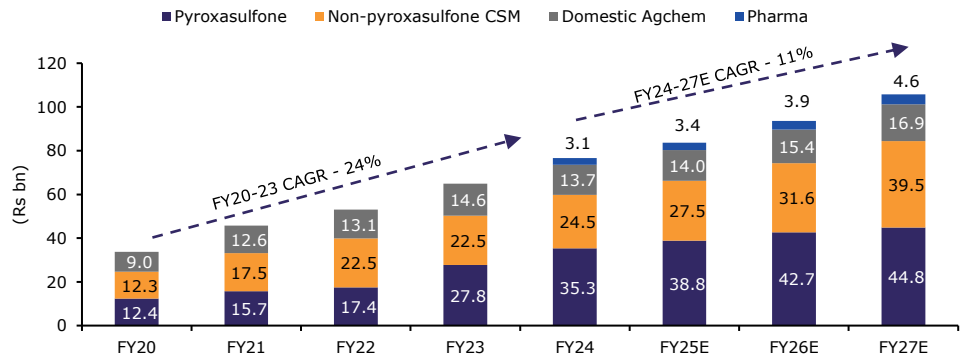
EBITDA margin guidance stays at 26-27%



Source: Company, Emkay Research

Exhibit 5: CSM exports to continue driving overall revenue growth

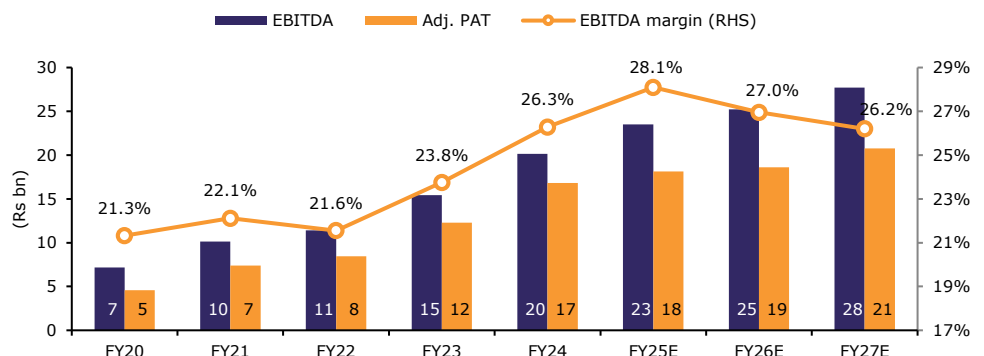
Management has cut its FY25 revenue growth guidance to high single-digit (vs 15% earlier)



Source: Company, Emkay Research

Exhibit 6: EBITDA/PAT to clock CAGR of 11%/7% over FY24-27E

PAT growth to be in high single-digit



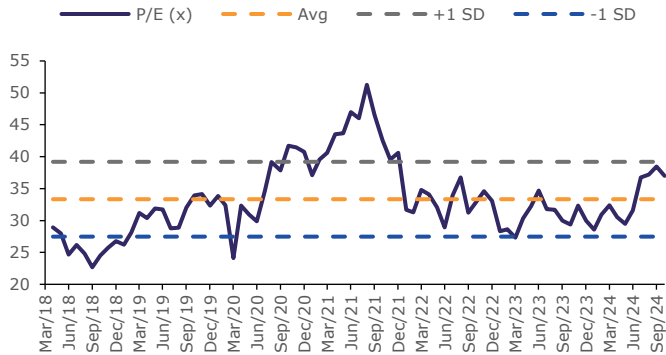
Source: Company, Emkay Research

Exhibit 7: We tweak our FY25/26/27 estimates by +8%/-2%/-3% to factor in higher other income in FY25 and lower growth in FY26/27E

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Revenue	83,609	87,187	(4.1)	93,564	99,104	(5.6)	105,782	112,478	(6.0)
EBITDA	23,491	23,032	2.0	25,219	26,265	(4.0)	27,716	28,981	(4.4)
EBITDA margin (%)	28.1	26.4	167 bps	27.0	26.5	45 bps	26.2	25.8	43 bps
PAT	18,125	16,771	8.1	18,611	19,012	(2.1)	20,758	21,384	(2.9)
EPS (Rs)	119.5	110.6	8.1	122.7	125.3	(2.1)	136.8	141.0	(2.9)

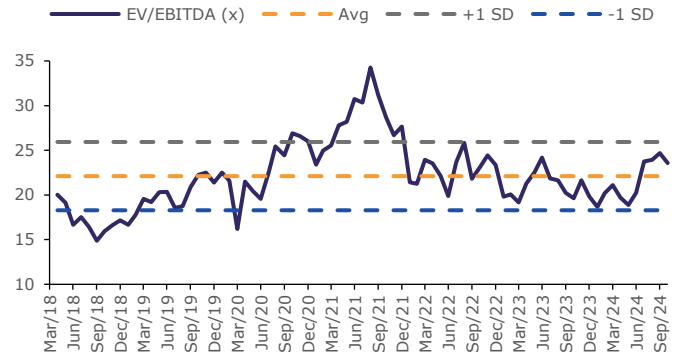
Source: Emkay Research

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	83,609	93,564	105,782
Revenue growth (%)	22.5	18.1	9.1	11.9	13.1
EBITDA	15,421	20,147	23,491	25,219	27,716
EBITDA growth (%)	35.0	30.6	16.6	7.4	9.9
Depreciation & Amortization	2,265	3,082	3,324	4,109	4,395
EBIT	13,156	17,065	20,167	21,110	23,321
EBIT growth (%)	39.9	29.7	18.2	4.7	10.5
Other operating income	0	0	0	0	0
Other income	1,590	2,077	3,564	3,257	3,826
Financial expense	371	300	342	377	405
PBT	14,375	18,842	23,389	23,990	26,742
Extraordinary items	0	0	0	0	0
Taxes	2,148	2,132	5,380	5,518	6,151
Minority interest	0	0	0	0	0
Income from JV/Associates	68	105	116	139	166
Reported PAT	12,295	16,815	18,125	18,611	20,758
PAT growth (%)	45.7	36.8	7.8	2.7	11.5
Adjusted PAT	12,295	16,815	18,125	18,611	20,758
Diluted EPS (Rs)	81.0	110.8	119.5	122.7	136.8
Diluted EPS growth (%)	45.7	36.8	7.8	2.7	11.5
DPS (Rs)	7.5	11.5	10.6	10.6	10.6
Dividend payout (%)	9.2	10.4	8.9	8.6	7.7
EBITDA margin (%)	23.8	26.3	28.1	27.0	26.2
EBIT margin (%)	20.3	22.3	24.1	22.6	22.0
Effective tax rate (%)	14.9	11.3	23.0	23.0	23.0
NOPLAT (pre-IndAS)	11,190	15,134	15,529	16,255	17,957
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	23,389	23,990	26,742
Others (non-cash items)	1,079	1,596	102	1,229	974
Taxes paid	(2,558)	(3,750)	(5,341)	(5,462)	(6,082)
Change in NWC	3,094	1,898	(2,918)	(1,638)	(2,011)
Operating cash flow	15,014	20,359	15,309	18,202	19,720
Capital expenditure	(3,974)	(13,767)	(8,500)	(8,000)	(8,000)
Acquisition of business	135	(590)	0	0	0
Interest & dividend income	1,590	2,077	3,564	3,257	3,826
Investing cash flow	(4,962)	(18,005)	(4,936)	(4,743)	(4,174)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(2,678)	1,279	178	100	123
Payment of lease liabilities	0	0	0	0	0
Interest paid	(371)	(300)	(342)	(377)	(405)
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)	(1,771)	(1,884)	(1,889)
Net chg in Cash	5,221	138	8,602	11,575	13,658
OCF	15,014	20,359	15,309	18,202	19,720
Adj. OCF (w/o NWC chg.)	18,108	22,257	12,390	16,564	17,710
FCFF	11,040	6,592	6,809	10,202	11,720
FCFE	12,259	8,369	10,031	13,082	15,142
OCF/EBITDA (%)	97.4	101.1	65.2	72.2	71.2
FCFE/PAT (%)	99.7	49.8	55.3	70.3	72.9
FCFF/NOPLAT (%)	98.7	43.6	43.8	62.8	65.3

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	103,676	120,680	139,831
Net worth	71,985	87,310	103,828	120,832	139,983
Minority interests	0	0	0	0	0
Deferred tax liability (net)	213	(267)	(267)	(267)	(267)
Total debt	0	1,279	1,457	1,557	1,680
Total liabilities & equity	72,198	88,322	105,018	122,122	141,396
Net tangible fixed assets	24,518	29,117	34,293	38,184	41,789
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	48,101	59,676	73,334
Current assets (ex-cash)	24,833	28,705	32,042	35,689	40,164
Current Liab. & Prov.	12,599	18,849	19,268	21,276	23,740
NWC (ex-cash)	12,234	9,856	12,774	14,413	16,424
Total assets	72,198	88,322	105,018	122,122	141,396
Net debt	(32,272)	(38,220)	(46,644)	(58,118)	(71,653)
Capital employed	72,198	88,322	105,018	122,122	141,396
Invested capital	38,289	45,139	53,233	58,763	64,378
BVPS (Rs)	474.5	575.5	684.4	796.5	922.8
Net Debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt/EBITDA (x)	(2.1)	(1.9)	(2.0)	(2.3)	(2.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	21.5	23.8	24.5	21.5	20.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	52.6	38.5	35.7	34.8	31.2
P/CE(x)	46.3	33.9	31.4	29.7	26.8
P/B (x)	9.0	7.4	6.2	5.4	4.6
EV/Sales (x)	9.5	7.9	7.2	6.3	5.4
EV/EBITDA (x)	39.9	30.2	25.6	23.4	20.8
EV/EBIT(x)	48.8	37.3	31.1	29.2	25.8
EV/IC (x)	16.8	14.1	11.8	10.5	9.4
FCFF yield (%)	1.7	1.0	1.1	1.7	1.9
FCFE yield (%)	1.8	1.2	1.5	1.9	2.2
Dividend yield (%)	0.2	0.3	0.2	0.2	0.2
DuPont-RoE split					
Net profit margin (%)	18.9	21.9	21.7	19.9	19.6
Total asset turnover (x)	0.9	1.0	0.9	0.8	0.8
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	18.5	21.1	19.0	16.6	15.9
DuPont-RoIC					
NOPLAT margin (%)	17.2	19.7	18.6	17.4	17.0
IC turnover (x)	1.6	1.8	1.7	1.7	1.7
RoIC (%)	28.4	36.3	31.6	29.0	29.2
Operating metrics					
Core NWC days	68.8	46.9	55.8	56.2	56.7
Total NWC days	68.8	46.9	55.8	56.2	56.7
Fixed asset turnover	1.9	1.8	1.6	1.5	1.5
Opex-to-revenue (%)	21.5	23.7	23.4	23.0	22.8

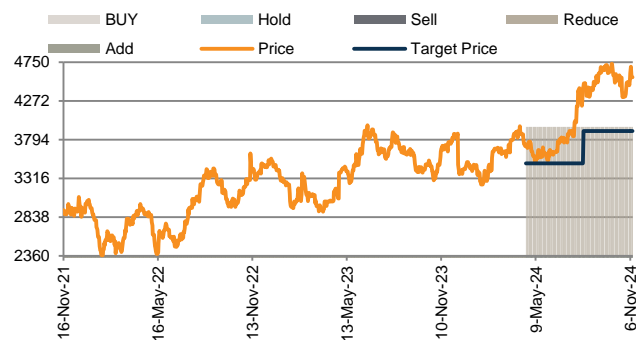
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Aug-24	4,459	3,900	Reduce	Meet Vora
08-Aug-24	4,457	3,900	Reduce	Meet Vora
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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