

**Modest CSM Growth; Navigating Near-Term Challenges with Transformation**
**Est. Vs. Actual for Q3FY25: Revenue: MISS; EBITDA: MISS; PAT: MISS**
**Change in Estimates post Q3FY25**
**FY25E/FY26E/FY27E: Revenue: -4%/-8%/-10%; EBITDA:-2%/-9%/-12%; PAT:-1%/-9%/-13%**
**Recommendation Rationale**

- **Headwinds in CSM Business to continue in Near-Term:** PI's CSM business showed a modest 2% YoY growth, with volumes increasing by 5% YoY and new products growing by 40% YoY in Q3. However, due to declining demand, the management anticipates a recovery in H2CY25, expecting high inventories in certain products to decrease by that time. Accordingly, the management has revised its revenue growth forecast for FY25, lowering it from high single-digit to low single-digit growth.
- **Biologicals gaining momentum:** PI's domestic segment saw a 5% YoY growth in the quarter, reaching Rs 280 Cr. This growth was primarily fueled by a 7% YoY increase in volume, a 20% YoY rise in revenue from biological products, and favourable agronomic conditions. The company launched six new brands in the domestic market and plans to introduce more products while expanding its biologicals business, accounting for approximately 15% of total revenue.
- **CRDMO and new products to drive growth:** The Pharma segment saw a significant 55% YoY growth, contributing around 4% to total export revenue. PI is focusing on transitioning to the new CRDMO business model and is restructuring its product mix. The company plans to introduce new products and customers as it develops its new technology platform. Management expects a revenue growth of 20-25% once the new business model stabilises. PI has identified three new projects to drive long-term revenue growth and has secured a key CDMO order for a new program.

**Sector Outlook: Cautiously Optimistic**

**Company Outlook:** The management anticipates muted demand in the near term and has revised its revenue growth guidance from high single-digit to low single-digit, as the global industry landscape continues to be challenging. However, the management remains hopeful of a recovery in the second half of CY25. PI also has a robust pipeline of over 20 products at different stages of development and registration, which are expected to be key drivers of growth in the medium term. The company plans to spend Rs 800-1000 Cr on Capex for FY25.

**Current Valuation: 28x FY27E (Earlier: 28x FY27E)**
**Current TP: Rs 4,265/share (Earlier TP: Rs 4,850/share)**
**Recommendation: We maintain our BUY rating on the stock.**

**Financial Performance:** The company's consolidated revenues stood at Rs 1,901 Cr, up 0.2% YoY and down 14% QoQ, missing our estimate of Rs 1,992 Cr. Gross margins declined to 52.7%, down from 53.9% in Q3FY24. The company reported an EBITDA of Rs 512 Cr, down 8% YoY and 18% QoQ, and missing estimates by 8%. EBITDA margin came in at 26.9%, compared to 29.2% in Q3FY24 and 28.3% in Q2FY25. PAT stood at Rs 373 Cr, down 17% YoY and 27% QoQ, missing the estimate of Rs 508 Cr.

**Key Financials (Consolidated)**

(Rs Cr)	Q3FY25	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	1,901	0%	-14%	1,992	-5%
EBITDA	512	-8%	-18%	558	-8%
EBITDA Margin	26.9%	-224bps	-135bps	28.0%	-106bps
Net Profit	373	-17%	-27%	419	-11%
EPS (Rs)	24.52	-17%	-27%	27.60	-11%

Source: Company, Axis Securities Research

(CMP as of 7<sup>th</sup> February 2025)

CMP (Rs)	3,536
Upside /Downside (%)	21%
High/Low (Rs)	4,804/3,324
Market cap (Cr)	53,799
Avg. daily vol. (1m) Shrs.	3,35,937
No. of shares (Cr)	15.2

**Shareholding (%)**

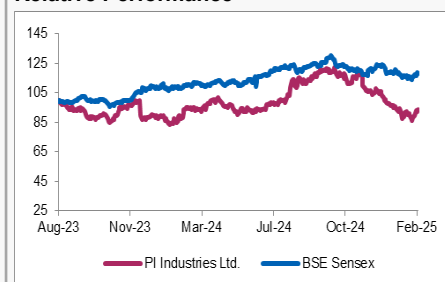
	Jun-24	Sep-24	Dec-24
Promoter	46.1	46.1	46.1
FIIs	18.8	19	18.5
DIIs	25.8	26.2	27.1
Retail	9.3	8.7	8.4

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7666	8064	9234
EBITDA	2015	2137	2595
Net Profit	1671	1546	1904
EPS (Rs)	110.8	101.9	125.5
PER (x)	31.9	34.7	28.2
P/BV (x)	6.1	5.3	4.5
EV/EBITDA (x)	24.7	23.0	18.4
ROE (%)	21.1%	16.3%	17.1%

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E	FY27E
Sales	-4%	-8%	-10%
EBITDA	-2%	-9%	-12%
PAT	-1%	-9%	-13%

**Relative Performance**


Source: Ace Equity, Axis Securities Research

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**Valuation & Recommendation:**

We believe PI's strong financial position and focus on exploring growth opportunities while improving profitability through a better product mix position it well for long-term growth. However, given the near-term industry headwinds and high inventory levels with innovators, we expect revenue growth to decelerate. **Consequently, we have trimmed our estimates and continue to value the stock at 28x FY27E. We maintain a BUY rating on the stock with a revised target price of Rs 4,265/share, implying an upside of 21% from the CMP.**

**Key Highlights****Revenue Performance:**

In Q3FY25, PI Industries reported flat YoY revenue. Agchem Exports saw a 2% YoY increase, driven primarily by 40% growth in new product sales and 5% growth in volumes. Domestic revenues increased by 5% YoY, led by 7% volume growth. Within the domestic segment, biological products revenue grew by approximately 20% YoY. Pharma revenue increased by 50% QoQ, which contributed 4% of total export revenue. Overhead expenses increased due to promotion expenses for the launch of the new products and adding resources to build the Pharma business and PHC integration. PI's CSM order book remains stable at USD 1.4 bn.

**New Product Launches:**

The company successfully commercialised 6 new products in Exports and six new domestic agri brands. For FY25, PI plans to launch more innovative products and targets to launch 7-8 products. The management mentioned that new products are helping the company mitigate global headwinds and are likely to contribute significantly going ahead as well. PI has a pipeline of 20-plus products at different stages of evaluation and registration.

**Working Capital and Cash Flow:**

PI's trade working capital reduced to 68 days by Dec'24, from 80 days, reflecting improved working capital management. The company's inventory level stood at Rs 1,051 Cr, decreasing to 46 days of sales from 59 days in the same period last year. Cash flow from operating activities was Rs 448 Cr, a decline from Rs 486 Cr in Q3FY24. The company maintained a strong cash position, with net surplus cash (after debt) amounting to Rs 4,209 Cr.

**Market Outlook:**

The global crop protection industry continues to face challenges, including fluctuating agricultural markets, commodity price volatility, destocking, and product pricing pressure. The management noted that global innovators still hold significant inventory, leading to a cautious "wait-and-watch" approach. Consequently, PI has revised its FY25 revenue growth guidance to a low single-digit (down from the previous high single-digit forecast). While the company refused to provide guidance for FY26 and beyond, it remains hopeful of recovery for H2CY25 and expects margins to improve with increasing contributions from CRO and CDMO (CRDMO).

**Focus on Portfolio Diversification:**

The company is targeting the multi-billion-dollar markets of pharma, CRDMO, electronics, chemicals, biologicals, and UNC through unique business models. It is focusing on niche segments driven by innovation while also building expertise and distinct asset capabilities supported by systematic regulatory guidance. PI Industries aims to transition into a life sciences company from an agricultural science company.

**Capex Plans:**

PI incurred a total capex of Rs 648.5 Cr during 9MFY25 (excluding the acquisition of Plant Health Care), compared to Rs 403 Cr in 9MFY24. The company continues to focus on improving capacity utilisation and has maintained its capex guidance of Rs 800-1000 Cr for FY25.

**PI Health Sciences Ltd. (PIHS):**

PIHS reported revenues of Rs 127 Cr in Q3FY25 but a PBT loss of Rs 18 Cr. The YoY de-growth in the pharma business was primarily due to the inventory issue with innovators. However, revenue increased by 50% sequentially. The company identified 3 new projects for near-long-term revenue. The company also recorded one-off costs of Rs 32 Cr, mainly for development and doubtful debt provisions. Capex for PIHS was Rs 22 Cr in Q3FY25 and Rs 95 Cr in 9MFY25.

**Dividend:** The Board has approved an interim dividend for FY24-25 of Rs 6.00 per share.

## Key Risks to Our Estimates and TP

- A global recessionary environment, especially a prolonged recession could affect demand for upstream players
- Adverse weather conditions may negatively impact the Indian agriculture sector and can affect the demand for PI products
- A delay in Capex and the commercialisation of new molecules could affect growth. Stress on ROCE in initial phases of acquisition.

## Change in Estimates

	Revised			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	8,064	9,234	10,850	8,394	10,031	12,087	-4%	-8%	-10%
EBITDA	2,137	2,595	3,092	2,182	2,849	3,517	-2%	-9%	-12%
PAT	1,546	1,904	2,312	1,561	2,097	2,645	-1%	-9%	-13%
EPS	101.9	125.5	152.4	103	138	174	-1%	-9%	-13%

Source: Company, Axis Securities Research

## Q3FY25 Results Review

Particular (Rs Cr)	Q3FY24	Q2FY25	Q3FY25 Axis Est.	Q3FY25	YoY (%)	QoQ %	Axis Sec Var
Net Sales	1,898	2,221	1,992	1,901	0%	-14%	-5%
Gross Profit	1,016	1,150	1,046	1,002	-1%	-13%	
<i>Gross Margins %</i>	<i>53.6%</i>	<i>51.8%</i>	<i>52.5%</i>	<i>52.7%</i>	<i>-85bps</i>	<i>94bps</i>	<i>20bps</i>
Staff Cost	186	196	175	191	3%	-2%	
Other Operating expenses	277	326	313	299	8%	-8%	
EBITDA	554	628	558	512	-8%	-18%	-8%
<i>EBITDA margins (%)</i>	<i>29%</i>	<i>28.3%</i>	<i>28.0%</i>	<i>26.9%</i>	<i>-224bps</i>	<i>-135bps</i>	<i>-106bps</i>
Depreciation	78	80	80	99	27%	24%	
Interest	7	9	10	8	19%	-2%	
Other Income	56	122	80	76	35%	-38%	
PBT before Exp. Items	526	663	548	481	-9%	-27%	
Exceptional items	-	-	-	-			
PBT	526	663	548	481	-9%	-27%	
Tax (incl deferred)	77	155	129	108	40%	-30%	
PAT	449	508	419	373	-17%	-27%	-11%
EPS	29.5	33.4	27.6	24.5	-17%	-27%	-11%

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>6,492</b>	<b>7,666</b>	<b>8,064</b>	<b>9,234</b>	<b>10,850</b>
Growth (%)	22.5	18.1	5.2	14.5	17.5
Operating Expenses	-4,950	-5,651	-5,927	-6,639	-7,758
<b>Operating Profit</b>	<b>1,542</b>	<b>2,015</b>	<b>2,137</b>	<b>2,595</b>	<b>3,092</b>
Other Operating Income					
<b>EBITDA</b>	<b>1,542</b>	<b>2,015</b>	<b>2,137</b>	<b>2,595</b>	<b>3,092</b>
Growth (%)	35.0	30.6	6.1	21.4	19.2
Depreciation	-227	-308	-372	-403	-423
Other Income	159	208	274	323	380
<b>EBIT</b>	<b>1,475</b>	<b>1,914</b>	<b>2,040</b>	<b>2,515</b>	<b>3,049</b>
Finance Cost	-37	-30	-38	-40	-45
Exceptional & Extraordinary					
<b>Profit Before Tax</b>	<b>1,438</b>	<b>1,884</b>	<b>2,002</b>	<b>2,475</b>	<b>3,004</b>
Tax (Current + Deferred)	-215	-213	-456	-571	-693
P / L from Discontinuing Operations					
<b>Profit / (Loss) For The Period</b>	<b>1,223</b>	<b>1,671</b>	<b>1,546</b>	<b>1,904</b>	<b>2,312</b>
P / L of Associates, Min Int, PrefDiv		11			
Reported Profit / (Loss)	1,223	1,682	1,546	1,904	2,312
Adjusted Net Profit	1,223	1,682	1,546	1,904	2,312

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	15	15	15	15	15
Reserves & Surplus	7,183	8,716	10,187	12,019	14,258
<b>Shareholder's Funds</b>	<b>7,199</b>	<b>8,731</b>	<b>10,202</b>	<b>12,034</b>	<b>14,273</b>
Minority Interest and Others					
<b>Non-Current Liabilities</b>	<b>99</b>	<b>322</b>	<b>322</b>	<b>322</b>	<b>322</b>
Long-Term Borrowings	10	36	36	36	36
Other Non-Current Liabilities	89	286	286	286	286
<b>Current Liabilities</b>	<b>1,182</b>	<b>1,711</b>	<b>1,466</b>	<b>1,584</b>	<b>1,762</b>
ST Borrowings, Current Maturity		66	66	66	66
Other Current Liabilities	1,182	1,644	1,399	1,517	1,696
<b>Total (Equity and Liabilities)</b>	<b>8,480</b>	<b>10,764</b>	<b>11,990</b>	<b>13,940</b>	<b>16,357</b>
<b>Non-Current Assets</b>	<b>2,686</b>	<b>3,536</b>	<b>4,621</b>	<b>4,827</b>	<b>4,914</b>
Fixed Assets (Net Block)	2,655	3,445	3,981	4,187	4,274
Non-Current Investments	31	90	90	90	90
Long-Term Loans and Advances					
Other Non-Current Assets	43	550	550	550	550
<b>Current Assets</b>	<b>5,662</b>	<b>6,679</b>	<b>7,369</b>	<b>9,112</b>	<b>11,444</b>
Cash & Current Investments	3,227	3,950	4,643	6,063	7,948
Other Current Assets	2,435	2,729	2,726	3,049	3,496
<b>Total (Assets)</b>	<b>8,392</b>	<b>10,764</b>	<b>11,990</b>	<b>13,940</b>	<b>16,357</b>
Total Debt	10	103	103	103	103
Capital Employed	7,298	9,120	10,591	12,422	14,661

Source: Company, Axis Securities Research

**Cash Flow**
**(Rs Cr)**

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Profit Before Tax</b>	<b>1,438</b>	<b>1,884</b>	<b>2,002</b>	<b>2,475</b>	<b>3,004</b>
Depreciation	227	308	372	403	423
Change in Working Capital	206	305	-243	-205	-268
Total Tax Paid	-281	-286	-456	-571	-693
Others	-122	-178	-236	-283	-335
<b>Operating Cash Flow (a)</b>	<b>1,467</b>	<b>2,034</b>	<b>1,439</b>	<b>1,819</b>	<b>2,132</b>
Capital Expenditure	-397	-1,098	-907	-609	-509
Change in Investments	-116	-321			
Others	318	139	274	323	380
<b>Investing Cash Flow (b)</b>	<b>-196</b>	<b>-1,281</b>	<b>-633</b>	<b>-286</b>	<b>-129</b>
<b>Free Cash Flow (a+b)</b>	<b>1,271</b>	<b>754</b>	<b>806</b>	<b>1,533</b>	<b>2,002</b>
Equity Raised / (Repaid)					
Debt Raised / (Repaid)	-96	92			
Dividend (incl. Tax)	80	80	80	80	80
Others	-431	-465	-193	-193	-198
<b>Financing Cash Flow (c)</b>	<b>-447</b>	<b>-293</b>	<b>-113</b>	<b>-113</b>	<b>-118</b>
<b>Net Chg in Cash (a+b+c)</b>	<b>824</b>	<b>461</b>	<b>693</b>	<b>1,420</b>	<b>1,885</b>

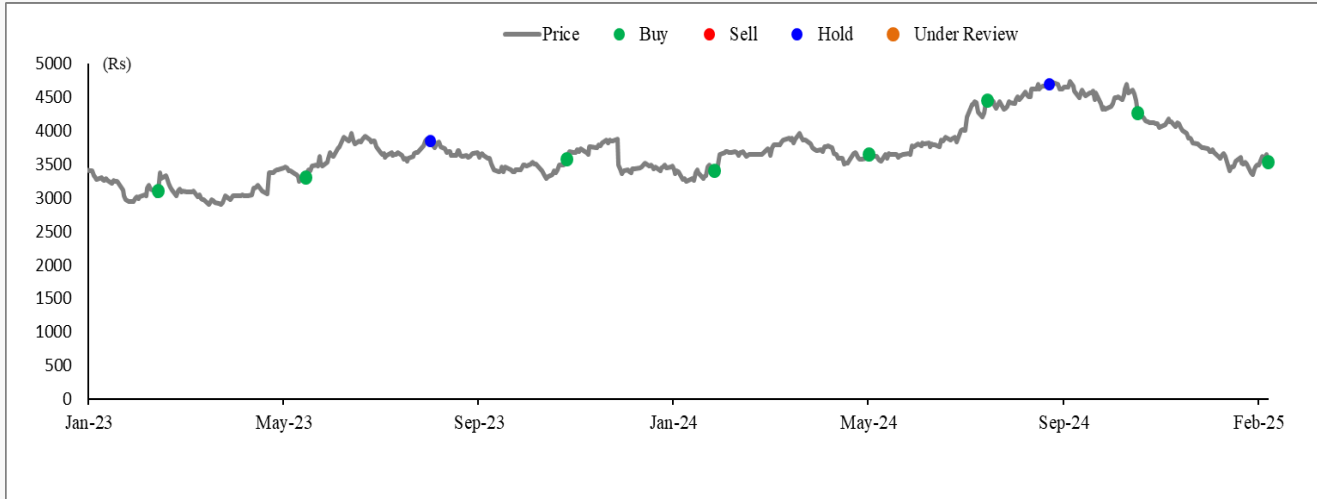
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Adjusted EPS (Rs)	80.6	110.8	101.9	125.5	152.4
<i>Growth</i>	45.8	37.5	(8.0)	23.2	21.4
CEPS (Rs)	95.5	131.1	126.4	152.1	180.2
Book Value / Share (Rs)	474.5	575.5	672.5	793.2	940.7
Dividend / Share (Rs)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)
Dividend Payout Ratio	(6.5)	(4.8)	(5.2)	(4.2)	(3.5)
EBITDA Margin	23.8	26.3	26.5	28.1	28.5
EBIT Margin	22.7	25.0	25.3	27.2	28.1
Tax Rate	14.9	11.3	22.8	23.1	23.1
RoCE	21.3	23.3	20.7	21.9	22.5
Total Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Debt / Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
<b>Du Pont Analysis - ROE</b>					
Net Profit Margin	18.8	21.9	19.2	20.6	21.3
Asset Turnover (x)	0.8	0.8	0.7	0.7	0.7
Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
Return on Equity	18.4	21.1	16.3	17.1	17.6

Source: Company, Axis Securities Research

## PI Industries Price Chart and Recommendation History



Date	Reco	TP	Research
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
11-Aug-23	HOLD	4,000	Result Update
09-Nov-23	BUY	4,000	Result Update
13-Feb-24	BUY	4,300	Result Update
24-May-24	BUY	4,220	Result Update
09-Aug-24	BUY	4,980	Result Update
18-Sep-24	HOLD	4,980	AAA
18-Nov-24	BUY	4,850	Result Update
10-Feb-25	BUY	4,265	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.