

21st May, 2024

Analyst - Sushil Kr Jaiswal

Recommendation	CMP (₹)	Target (₹)	Upside Potential (%)	Time Horizon
Buy	3550	4150	16.90%	9 – 12 months

PI Industries founded in 1946 is an Indian Agri-science company that manufactures and distributes agrochemicals, fine chemicals, specialty chemicals and engineering plastics. The company has a global presence in 6 continents with over 30+ countries and 4 Global offices. They also provide a range of specialized product brands which comprises of Biovita Granules, Biovita Liquid, Super Spreader and Humesol.

The key differentiators of PI industries are:

- Innovative Approach:** They promote innovation in cleaner, cheaper and smarter chemistry and are inspired by science and innovation.
- Complete offering:** They focus on all aspects from discovery to marketing to distribution with a robust business model that has the capabilities from synthesis of new-age chemistry to handling multi-step complex reactions.
- State of the are infrastructure:** They have R&D center with best-in-class quality systems and analytical infrastructure with a strong research team.
- Change Management:** Their plants make different products with fully automated and flexible system. They follow strict rules to manage changes on how they run their plants.

Stock Details	
Sector:	Agrochemicals
FV (₹):	1
Total Market Cap (₹):	54,483 cr.
52-Week High/Low (₹):	4040/3165
Sensex/Nifty (₹):	74572/22697
BSE Code/NSE Symbol:	523642/PIIND

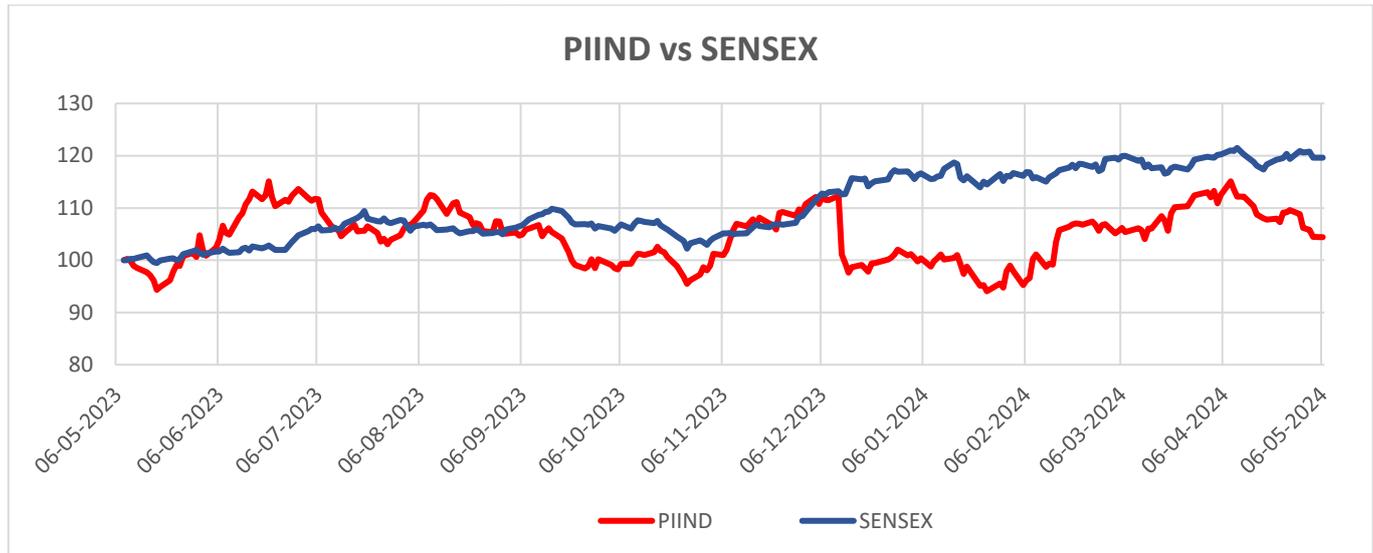
Shareholding Pattern				
	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	46.08%	46.09%	46.09%	46.09%
FIIIs	18.17%	20.01%	20.41%	20.26%
DIIIs	23.80%	23.11%	23.00%	24.18%
Public	10.95%	10.78%	10.51%	9.46%

Price Performance				
	1M	3M	6M	12M
PIIND	-0.58%	-0.13%	-2.35%	8.73%
SENSEX	1.13%	1.96%	12.94%	20.30%

Key Financials (Cons)	FY20	FY21	FY22	FY23	3Y CAGR %	9M (Apr-Dec'23)
Net Sales	3366	4577	5300	6492	24.48%	5924
EBITDA (Excl OI)	720	1018	1146	1544	28.96%	1572
EBITDA Margin (%)	21.39%	22.24%	21.62%	23.78%		26.54%
Profit After Tax	457	738	844	1230	39.10%	1303
PAT Margin (%)	13.58%	16.12%	15.92%	18.95%		22.00%
Earnings Per Share (Rs)	33.06	48.66	55.62	81.04		104.97
Book Value	189.79	351.47	402.66	473.59		
Div Per Share (Rs)	4	5	7.5	11.5		
Dividend Yield (%)						
ROE (%)	18.63%	18.52%	14.71%	18.45%	-0.32%	
ROCE (%)	23.13%	22.09%	17.40%	21.84%	-1.89%	

Valuation Ratio (Consolidated)	Latest (TTM)	10 Year Median
P/E	34.21	37.21
P/BV	6.46	7.28
EV/EBITDA	24.97	24.58
Market Cap/Sales	7.27	5.67

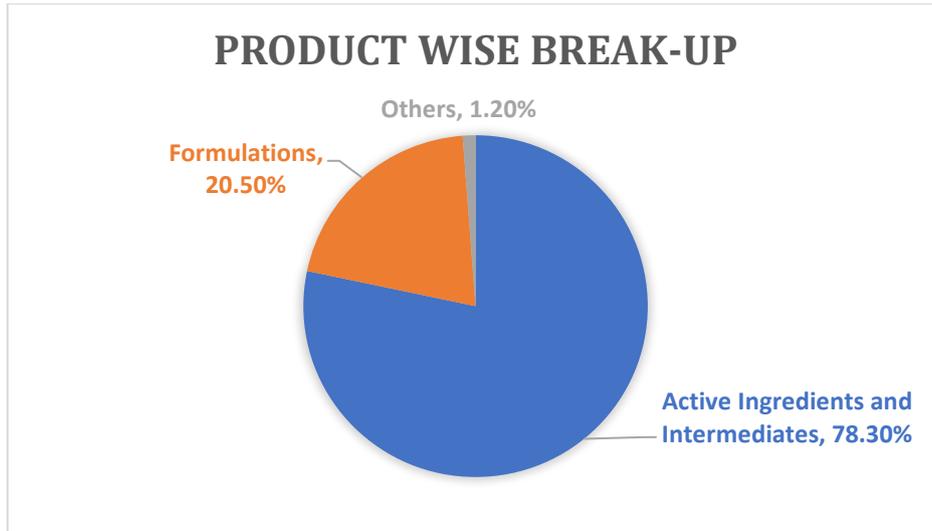
Price comparison between PI Industries vs Sensex



Business Model of PI Industries:

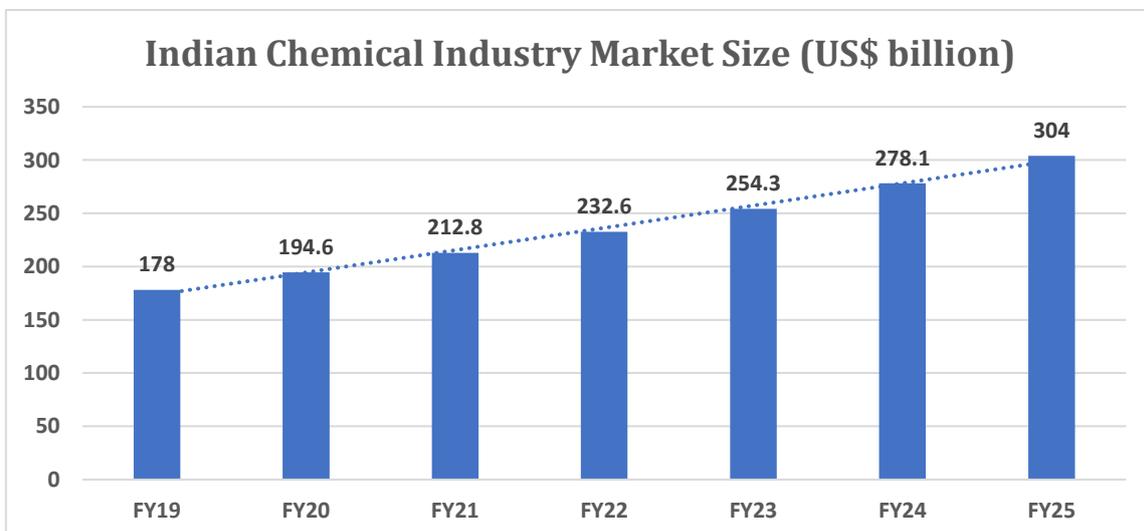
The business model of PI industries provides innovative solutions to their clients from R&D to Manufacturing to Distribution services:

1. **R&D:** The company has strong R&D led custom synthesis business and has a state-of-the-art R&D center in Udaipur which is spread over an area of 130,000 sq. ft.
2. **CSM:** The company has 4 manufacturing locations with fully automated latest technology plants where they develop and do GLP physical-chemical testing, process optimization and bulk manufacturing of chemicals.
3. **Distribution:** The company has a distribution network spread across the country with 10,000 active distributors and more than 1,00,00 retailers. With the help of this, they export their products which constitutes around 77% of the revenue and rest comes from the domestic sales.



Industry Overview:

- India is 6th largest chemical producer in the world and 3rd largest in Asia with a market size of around \$178 billion in 2021 and the sector is contributing 7% to India’s overall GDP.
- It is expected that the market size will reach between \$290-310 billion by 2027 with an anticipated CAGR of 11-12% between 2021-27 and 7-10% between 2027-40. The market size will triple itself in the global market by 2040.
- The Specialty Chemicals category will have the most amount growth and it is projected that it will solely reach approximately \$50 billion by 2025.
- One of the main reasons for this growth is the rise in domestic consumption which is expected to rise from \$170 billion in 2021 to \$1,000 billion by 2040. Another reason is the growing demand for biofriendly products globally.
- The Agrochemical market in India is currently standing at \$5.5 billion growing at a CAGR of 8.3%. It is expected that by 2040, it will cover around 40% of India’s overall chemical which will be exporting.
- In the interim budget 2024-25, the government allocated Rs.192.21 crore to the Department of Chemicals and Petrochemicals and it is also expected that an investment of Rs.8 lakh crore will be made in the Indian chemicals and petrochemicals sector by 2025.



Investment Rational:

- PI Industries is very well-established player in the chemical industry across the country leveraging its state-of-the-art technology and innovative approach in promoting its products and services which also differentiates the company from its competitors.
- Company has strong export order book of around Rs.10,000 crore for the next 3-4 years which tells that there is a consistent demand for their products which is a positive sign for future sales.
- The annual sales of the company are growing at an average annual rate of 22.59% which generates around 28.44% of operating profit and it is expected that it will continue to grow with even a higher annual rate in the upcoming financial years.
- The company has impressive financial performance over the years which can be seen by its P/E ratio, EV/EBITDA ratio and ROE. It is also forecasted that will continue to rise in the coming years which tells that the company has a solid financial foundation and potential for sustainable growth.
- The balance sheet of the company tells that 85% of funds are of shareholders and they have no major liabilities to be repaid. They also have healthy asset base with 38% of it consists of only cash which largely comes from QIP. Also, the overall working capital has also decreased to 71 in FY23 from 113 in FY22.
- Over the past years, the company has maintained an average P/E ratio of 41x which is due to company's strategic focus on product launches along with its strong partnerships in pharma business. Currently PI Industries is in a high-growth phase and is expected that the P/E multiple will reduce over a couple of years which will reflect the on-going opportunities and growth potential over the next few years.

Income Statement

(In Cr.)

Income Statement (In cr.)	FY 2020	FY2021	FY 2022	FY 2023
Revenue	3,366.50	4,577.00	5,299.50	6,492.00
Total Revenue	3,366.50	4,577.00	5,299.50	6,492.00
Cost Of Goods Sold	1,894.70	2,571.20	2,922.80	3,552.70
Gross Profit	1,471.80	2,005.80	2,376.70	2,939.30
Selling General & Admin Exp.	373.4	424.5	491.8	535.2
Depreciation & Amort.	136.7	174.8	201.8	226.5
Other Operating Expense/(Income)	380.6	565.2	739.4	861.5
Other Operating Exp., Total	890.7	1,164.50	1,433.00	1,623.20
Operating Income	581.1	841.3	943.7	1,316.10
Interest Expense	-16.8	-28.1	-12.8	-37.1
Interest and Invest. Income	17.5	54.1	66.5	84.8
Net Interest Exp.	0.7	26	53.7	47.7
Income/(Loss) from Affiliates	0.8	4.4	3.6	6.8
Currency Exchange Gains (Loss)	26.4	32.7	-3.1	20.4
Other Non-Operating Inc. (Exp.)	2.6	10.2	7.2	11.2
EBT Excl. Unusual Items	611.6	914.6	1,005.10	1,402.20
Gain (Loss) On Sale Of Invest.	1.3	23.8	27.7	42.2
Gain (Loss) On Sale Of Assets	0.9	0.1	-	-0.1
EBT Incl. Unusual Items	613.8	938.5	1,032.80	1,444.30
Income Tax Expense	157.2	200.2	189	214.8
Earnings from Cont. Ops.	456.6	738.3	843.8	1,229.50
Net Income	<u>456.6</u>	<u>738.3</u>	<u>843.8</u>	<u>1,229.50</u>

Balance Sheet

(In Cr.)

Balance Sheet (In cr.)	FY 2020	FY2021	FY 2022	FY 2023
ASSETS				
Cash And Equivalents	124.6	109.6	350.6	872.7
Short Term Investments	7.1	1,489.70	1,179.80	1,465.90
Trading Asset Securities	132.5	708	733.1	881.9
Total Cash & ST Investments	264.2	2,307.30	2,263.50	3,220.50
Accounts Receivable	757.3	855.2	1,001.90	838.2
Other Receivables	59.2	51.1	67.9	17.2
Notes Receivable	8.3	7	3	8.3
Total Receivables	824.8	913.3	1,072.80	863.7
Inventory	798.9	1,052.80	1,423.40	1,397.60
Prepaid Exp.	8.4	10.1	11.3	15.5
Restricted Cash	-	-	0.9	-
Other Current Assets	112.4	209.6	192	165
Total Current Assets	2,008.70	4,493.10	4,963.90	5,662.30
Gross Property, Plant & Equipment	2,394.90	2,858.30	3,167.70	3,523.10
Accumulated Depreciation	-424	-589.1	-770.9	-966.2
Net Property, Plant & Equipment	1,970.90	2,269.20	2,396.80	2,556.90
Long-term Investments	17.9	20.7	44.8	55.8
Goodwill	82.8	82.8	82.8	82.8
Other Intangibles	72.5	72.2	78.8	90.3
Loans Receivable Long-Term	6.1	-	-	-
Deferred Charges, LT	2	1.5	8.6	7.9
Other Long-Term Assets	63.9	62.4	215.4	23.7
Total Assets	4,224.80	7,001.90	7,791.10	8,479.70
LIABILITIES	0	0	0	0
Accounts Payable	590.9	796	924.2	838
Accrued Exp.	93.5	111.3	80.6	96.2
Short-term Borrowings	108.3	-	-	-
Curr. Port. of LT Debt	9.7	70.5	97.9	-
Curr. Port. of Leases	18.7	16.5	20.4	14.1
Curr. Income Taxes Payable	4.4	6.5	9.4	5.4
Unearned Revenue, Current	36.3	28.9	29.8	31.2
Other Current Liabilities	238.7	227.3	185.9	196.9
Total Current Liabilities	1,100.50	1,257.00	1,348.20	1,181.80
Long-Term Debt	399.4	257.4	169.9	-
Long-Term Leases	31.8	28.4	28.1	32.4
Pension & Other Post-Retire. Benefits	12.4	9.6	7.5	9.8
Def. Tax Liability, Non-Curr.	10.2	79.6	87.5	21.3
Other Non-Current Liabilities	51.4	27.5	29.5	35.9
Total Liabilities	1,605.70	1,659.50	1,670.70	1,281.20
Common Stock	13.8	15.2	15.2	15.2
Additional Paid In Capital	224.9	2,199.90	2,199.90	2,199.90
Retained Earnings	2,424.60	3,102.80	3,871.00	4,893.00
Treasury Stock	-8.7	-5.1	-3.3	-2.6
Comprehensive Inc. and Other	-35.5	29.6	37.6	93
Total Common Equity	2,619.10	5,342.40	6,120.40	7,198.50
Total Equity	2,619.10	5,342.40	6,120.40	7,198.50
Total Liabilities And Equity	4,224.80	7,001.90	7,791.10	8,479.70

Cash Flow Statement

(In Cr.)

Cash Flow (In cr.)	FY 2020	FY2021	FY 2022	FY 2023
Net Income	456.6	738.3	843.8	1,229.50
Depreciation & Amort.	133	165.3	190.8	214.5
Amort. of Goodwill and Intangibles	1.6	6.5	6.4	6.5
Depreciation & Amort., Total	134.6	171.8	197.2	221
Other Amortization	2.1	3	4.6	5.5
(Gain) Loss From Sale Of Assets	-0.9	-0.1	-	0.1
(Gain) Loss On Sale Of Invest.	-1.2	-23.8	-27.7	-42.2
(Income) Loss on Equity Invest.	-0.8	-4.4	-3.6	-6.8
Stock-Based Compensation	-0.4	-3.1	-	-
Provision & Write-off of Bad debts	12.2	-3.9	22.5	12.9
Other Operating Activities	70.4	-22.6	19.5	-123.6
Change in Acc. Receivable	76.5	-110.7	-215	176.9
Change In Inventories	-185	-253.9	-370.5	25.7
Change in Acc. Payable	31.9	219.7	-17.5	0.1
Change in Other Net Operating Assets	102.1	14.6	75.4	2.3
Cash from Ops.	698.1	724.9	528.7	1,501.40
Capital Expenditure	-674.1	-439	-337.1	-326.3
Sale of Property, Plant, and Equipment	4.8	1.5	0.9	3.8
Cash Acquisitions	-434.5	-	-	-
Invest. in Marketable & Equity Secur.	101.4	-2,015.80	159.3	-258.5
Other Investing Activities	17.5	23	66.5	84.8
Cash from Investing	-984.9	-2,430.30	-110.4	-496.2
Short Term Debt Issued	108.3	-	-	-
Long-Term Debt Issued	388.6	114.5	-	-
Total Debt Issued	496.9	114.5	-	-
Short Term Debt Repaid	-	-108.3	-	-
Long-Term Debt Repaid	-62.2	-209.6	-93	-335.2
Total Debt Repaid	-62.2	-317.9	-93	-335.2
Issuance of Common Stock	8	1,978.90	-	-
Common Dividends Paid	-62	-60.7	-75.8	-113.7
Total Dividends Paid	-62	-60.7	-75.8	-113.7
Other Financing Activities	-30.7	-24.4	-8.5	-34.2
Cash from Financing	350	1,690.40	-177.3	-483.1
Net Change in Cash	<u>63.2</u>	<u>-15</u>	<u>241</u>	<u>522.1</u>

View:

PI Industries is one of the fastest-growing companies in India, specializing in agricultural science solutions with a global reach and a focus on innovation. The company is still growing strongly and is expected to continue expanding for a long time. It has established a strong position in the CRAMS market in India, and since 2018, its growth has been mainly due to its successful CSM business. Currently, its stock is trading at a P/E multiple of 33x, which is lower than its TTM PE and 10-year median. This makes the stock an attractive investment opportunity at its current price point. Thus, we expect the stock price to reach a target level of 4150 in the next 9-12 months.

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