

Reduce

- PI Industries reported Q1FY22 performance below estimates owing to disruption in the domestic business caused by the pandemic and erratic monsoon. Sales grew by 12.6% YoY to Rs 11.9bn (D.est: Rs 14.4bn).
- EBITDA growth was even lower at 8.6% YoY to Rs 2.49bn (D.est: Rs 3.15bn) with EBITDA margins at 20.8%, down by 77bps YoY owing to higher other expenses and employee costs (up 31.8/20.1% YoY).
- PAT growth stood at 28.7% YoY to Rs 1.87bn owing to a lower tax rate of 18.0% (against 24.0% in Q1FY21).

CSM business continued showing resilience with a growth of 31.4% YoY to Rs 8.07bn, while domestic business remained subdued as it de-grew by 13.2% YoY to Rs 3.87bn. Launch of 3 new products in the domestic business and a normalising monsoon keeps levers for growth in the domestic business intact. The company is in advanced stages of launching 3 new products in the CSM business in the interim with 3 more new products to be launched (total 6 products) in FY22. The company is into the development phase of 2 new products (1 novel fungicide and 1 novel insecticide).

Outlook and valuation

We believe PI Industries is expected to continue its growth trajectory in CSM (for another 5-6 quarters) and increase contribution from ISAGRO on profitability as the company envisages aligning EBITDA margins in-line with PI Industries' margin profile. We expect a 22% CAGR in CSM business over FY21-23E and a 12% CAGR over the same period in domestic business. We revise our FY23E estimates upwards to factor in a higher than expected growth in CSM and the new acquisition, however we may revise our earnings post further clarity on the guidance/outlook of the newly acquired entity. We are valuing PI Industries at 40x FY23E EPS, Rs 3,030/share. Due to sharp run-up in the stock price we are compelled to change our rating to reduce, however we are optimistic about the companys growth plans and view this acquisition as a positive.

Q1FY22 Result (Rs Mn)

| Particulars | Q1FY22 | Q1FY21 | YoY (%) | Q4FY21 | QoQ (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 11,938 | 10,601 | 12.6 | 11,971 | (0.3) |
| Total Expense | 9,449 | 8,309 | 13.7 | 9,697 | (2.6) |
| EBITDA | 2,489 | 2,292 | 8.6 | 2,274 | 9.5 |
| Depreciation | 487 | 427 | 14.1 | 448 | 8.7 |
| EBIT | 2,002 | 1,865 | 7.3 | 1,826 | 9.6 |
| Other Income | 277 | 82 | 237.8 | 442 | (37.3) |
| Interest | 34 | 96 | (64.6) | 44 | (22.7) |
| EBT | 2,245 | 1,851 | 21.3 | 2,224 | 0.9 |
| Tax | 405 | 444 | (8.8) | 425 | (4.7) |
| RPAT | 1,872 | 1,455 | 28.7 | 1,798 | 4.1 |
| APAT | 1,872 | 1,455 | 28.7 | 1,798 | 4.1 |
| | | | (bps) | | (bps) |
| Gross Margin (%) | 43.8 | 42.0 | 174 | 42.1 | 165 |
| EBITDA Margin (%) | 20.8 | 21.6 | (77) | 19.0 | 185 |
| NPM (%) | 15.7 | 13.7 | 196 | 15.0 | 66 |
| Tax Rate (%) | 18.0 | 24.0 | (595) | 19.1 | (107) |
| EBIT Margin (%) | 16.8 | 17.6 | (82) | 15.3 | 152 |

| | | | |
|--------------------------|------------------|-----|----|
| CMP | Rs 3,134 | | |
| Target / Downside | Rs 3,030 / 3% | | |
| NIFTY | 16,258 | | |
| Scrip Details | | | |
| Equity / FV | Rs 152mn / Rs 1 | | |
| Market Cap | Rs 475bn | | |
| | USD 6.4bn | | |
| 52-week High/Low | Rs 3,379 / 1,806 | | |
| Avg. Volume (no) | 4,64,331 | | |
| Bloom Code | PI IN | | |
| Price Performance | | | |
| 1M | 3M | 12M | |
| Absolute (%) | 5 | 22 | 61 |
| Rel to NIFTY (%) | 1 | 12 | 18 |

Shareholding Pattern

| | Dec'20 | Mar'21 | Jun'21 |
|-----------------|--------|--------|--------|
| Promoters | 46.8 | 46.7 | 46.7 |
| MF/Banks/FIs | 21.3 | 21.3 | 22.0 |
| FII | 19.5 | 19.4 | 19.6 |
| Public / Others | 12.4 | 12.6 | 11.6 |

Valuation (x)

| | FY21A | FY22E | FY23E |
|-----------|-------|-------|-------|
| P/E | 64.4 | 55.3 | 41.3 |
| EV/EBITDA | 45.0 | 37.9 | 27.0 |
| ROE (%) | 18.5 | 15.0 | 17.4 |
| RoACE (%) | 17.0 | 14.3 | 16.9 |

Estimates (Rs mn)

| | FY21A | FY22E | FY23E |
|-----------|--------|--------|--------|
| Revenue | 45,770 | 55,581 | 77,338 |
| EBITDA | 10,122 | 12,339 | 17,092 |
| PAT | 7,383 | 8,602 | 11,502 |
| EPS (Rs.) | 48.7 | 56.7 | 75.8 |

Analyst: Archit Joshi
Tel: +91 22 40969726
E-mail: architj@dolatcapital.com

Associate: Tejas Sonawane
Tel: +91 22 40969792
E-mail: tejass@dolatcapital.com

Associate: Yash Shah
Tel: +91 22 40969754
E-mail: yashs@dolatcapital.com

ISAGRO's capacity utilisation improved to 80% during Q1FY22. PI Industries is expected to complete the merger of domestic agro-chem business of ISAGRO with its wholly owned subsidiary JIVAGRO and the CSM business of ISAGRO with PI Industries standalone CSM business by Q3FY22. JIVAGRO is expected to focus on the horticulture segments and is ready for a launch of 12 new co-branded products and 2 new products in the ensuing quarter. The management expects JIVAGROs business to grow at 20-25% revenue CAGR over the next 3-4 years.

About Ind-swift Laboratories

Ind-swift laboratories is based out in Chandigarh, India and is a manufacturer of API's, Intermediates and formulations. Ind-swift is present in the following therapeutic segments - Macrolide Antibiotic, Cardiovascular, Antihistamine, Antidiabetic, Antipsychotic, Antimigraine, Parkinson's Disease, Antineoplastic, ADHD Symptoms, Analgesics, Alcohol Abstinence, Bone Resorption Inhibitor. Ind-swift has 26 operational blocks approved by USFDA, KFDA, TGA, WHO GMP, PMDA and EDQM with a total reactor capacity of 643 KL and bulk drug manufacturing capacity of 695 MT. The company derived 52% revenues from regulated markets and 48% from soft regulated markets, exports contribution was at 74% in FY20. The company has planned for a launch of 9 commercial products in Japan, where the company enjoys strong relationships (note – PI Industries too has strong tie-ups in Japan with companies like Kumiai Chemicals). Ind-swift labs also have a small proportion of CRAMS in the mix, however they are largely a generic API manufacturer.

DART View on acquisition

PI Industries has acquired the API and intermediates business of Ind-swift laboratories for Rs 15.3bn. The acquisition has been done on a debt-free and cash-free basis and the agreed Enterprise value will be subject to adjustments done for working capital, dues and unfunded employee liabilities. Ind-swift laboratories had a total debt of Rs 10.04bn (Rs 8.84bn – Long term borrowings and Rs 1.2bn - short term borrowings) as on March 2021. The valuation in our view is lucrative given the nature of the Pharmaceutical industry and caveats related to approvals and audits and involvement of stringent compliances guided by FDA, USFDAs. The deal on a debt-free and cash-free basis was valued at a trailing 8.4x EV/EBITDA and 17.3x P/E. The management of PI Industries expects to ramp up the facilities (from the current 70% utilization levels) and to bring it upto PI Industries standards in efficiencies over the next 3-4 years, the management is expected to divulge its guidance and outlook of the said acquisition as we move closer to the consolidation and regulatory approvals. We thus currently factor in Rs 11.7bn from Ind-swift in FY23E (assuming 15% CAGR over FY21-FY23E) and await further clarity from the management.

Exhibit 1: Actual vs DART Estimates – Q1FY22

| Particulars | Actual | Estimated | Variance (%) | Comments |
|-------------------|--------|-----------|--------------|--|
| Revenue | 11,938 | 14,406 | (17.1) | Lower than expected sales from both Agri Inputs and CSM |
| EBITDA | 2,489 | 3,151 | (21.0) | |
| EBITDA Margin (%) | 20.8 | 21.9 | (102) | |
| PAT | 1,872 | 2,196 | (14.8) | Higher Depreciation and lower than expected other income |

Source: DART, Company

Exhibit 2: Change in Estimates

| Particulars (Rs Mn) | FY22E | | | FY23E | | |
|---------------------|--------|----------|---------|----------|----------|---------|
| | New | Previous | Chg (%) | New | Previous | Chg (%) |
| Revenue | 55,581 | 55,581 | - | 77,338.5 | 65,572.7 | 17.9 |
| EBITDA | 12,339 | 11,950 | 3.3 | 17,092 | 13,901 | 23.0 |
| EBITDA Margin(%) | 22.2 | 21.5 | 70bps | 22.1 | 21.2 | 90bps |
| PAT | 8,602 | 7,933 | 8.4 | 11,502 | 9,393 | 22.5 |
| EPS(Rs) | 56.7 | 52.3 | 8.4 | 75.8 | 62.0 | 22.5 |

Source: DART, Company

Con Call Highlights

Business Updates

- Revenues in Q1FY22 were up by 13% YoY to Rs 10.6bn primarily driven by ~31% growth in its CSM business which came in on the back of strong volume growth in key products.
- Gross Margins improved by 1.7% YoY on the back of favourable product mix.
- Cash position net of debt as on 30th June 2021 stands at Rs 21.93bn.

CSM Business

- The company plans to commercialize 6 new molecules in FY22.
- New MPP plant is expected to be ready by the end of Q2FY22.
- CSM revenues are expected to be grow on a YoY basis in Q2FY22 but may not necessarily see a sequential growth.

Domestic Business

- Domestic business was impacted due to delayed monsoon and Covid led disruptions especially in the rural areas which affected the farmer sentiments in weaker channels.
- Jivagro part of its domestic business grew by 5-6% YoY in Q1FY22 while the standalone domestic business of PI industries remained under pressure due to a higher base in Q1FY21.
- Forecast of normal monsoon for the remainder of Q2FY22 provides a positive outlook for next quarter and the management expects improvement in demand going forward.
- 3 new products are expected to be launched in Q2FY22 which would strengthen the company's position in rice, cotton and horticulture portfolio.
- Isagro integration with Jivagro will help the company to enhance its Horticulture presence in India.
- R&D efforts have led to creation of 2 new leads one novel fungicide and a novel broad spectrum insecticide, having sizable potential market opportunity.

Acquisition of API business division of Ind-Swift Laboratories Limited (ISLL)

- The company has entered into a business transfer agreement to acquire the API business division of ISLL by way of a slump sale at a total consideration of Rs 15.3bn to be paid entirely in cash.
- The consideration will be funded through the recently completed QIP proceeds and internal accruals.

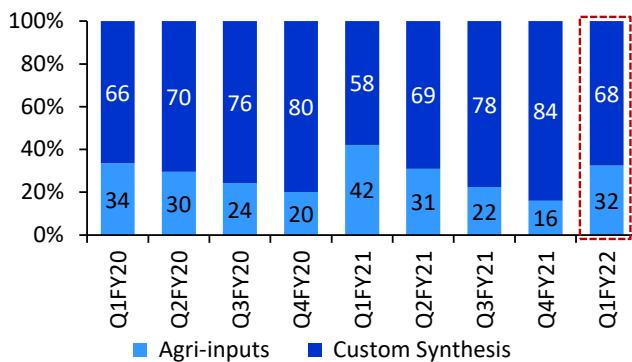
- ISLL is into generic products with a small Crams business unit which the company plans to grow into a sizeable business over long term.
- PI industries will use its R&D capabilities and strengths to develop and expand ISLL R&D capacities to with the ultimate aim to expedite ISLL's product pipeline.
- ISLL working capital days currently stand at ~300 days as it is reeling under financial stress which is expected to improve post acquisition.
- The company will look to tap into unexploited opportunity of ISLL's existing product line and work on strengthening their portfolio by combining it with PI's pipeline of product leveraging their efforts in the pharma space.
- The management mentioned that ISLL operates in different business line and vertical and the acquisition will provide only limited integration benefits.
- The company will look to beef up its human resources in the new ISLL unit and will undertake high amount of expenditure towards hiring new personnel.
- Capacity utilization of ISLL in FY21 was ~70-75%.

New Products

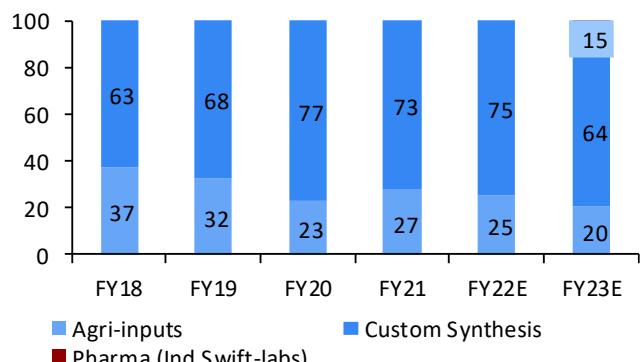
- The company currently has 2 novel innovator molecules in the development stage.
- The company will be looking for co-development of these molecules with global innovators and other partners across the world.
- The company will follow the partnership approach for development of these products which are expected to hit the market in the next 4-5 years.
- The company will start discussions with partners once these products reach the commercialization stage.
- The company has begun smaller batch production of electronic chemicals and will look to scale them over the next 3 to 4 years.

Guidance

- Company maintains its revenue growth guidance of 15%+ for FY22
- Capex guidance for FY22 – Rs 3.5bn

Exhibit 3: Quarterly Business Mix (%)


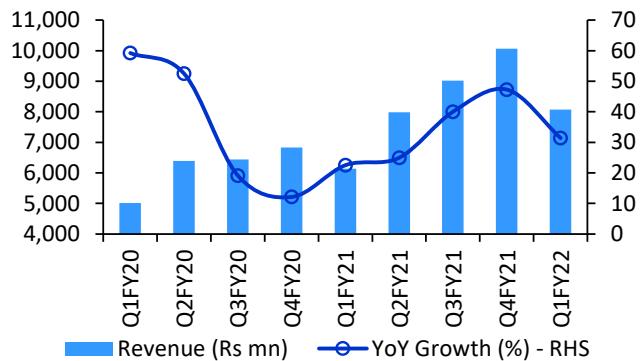
Source: DART, Company

Exhibit 4: Annual Business Mix (%)


Source: DART, Company

Exhibit 5: Agri Inputs Revenue and Growth


Source: DART, Company

Exhibit 6: CSM Revenue and Growth


Source: DART, Company

Profit and Loss Account

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|--|---------------|---------------|---------------|---------------|
| Revenue | 33,665 | 45,770 | 55,581 | 77,338 |
| Total Expense | 28,084 | 35,648 | 43,242 | 60,247 |
| COGS | 20,071 | 25,712 | 31,014 | 43,155 |
| Employees Cost | 3,209 | 4,169 | 5,113 | 7,115 |
| Other expenses | 4,804 | 5,767 | 7,114 | 9,977 |
| EBIDTA | 5,581 | 10,122 | 12,339 | 17,092 |
| Depreciation | 1,367 | 1,748 | 2,160 | 3,030 |
| EBIT | 4,214 | 8,374 | 10,179 | 14,061 |
| Interest | 170 | 282 | 145 | 58 |
| Other Income | 489 | 1,249 | 800 | 500 |
| Exc. / E.O. items | 0 | 0 | 0 | 0 |
| EBT | 4,533 | 9,341 | 10,833 | 14,504 |
| Tax | 1,572 | 2,002 | 2,275 | 3,046 |
| RPAT | 2,969 | 7,383 | 8,602 | 11,502 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Profit/Loss share of associates | 8 | 44 | 44 | 44 |
| APAT | 2,969 | 7,383 | 8,602 | 11,502 |

Balance Sheet

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|-------------------------------|---------------|---------------|---------------|---------------|
| Sources of Funds | | | | |
| Equity Capital | 138 | 152 | 152 | 152 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Reserves & Surplus | 26,053 | 53,272 | 60,779 | 71,003 |
| Net Worth | 26,191 | 53,424 | 60,931 | 71,155 |
| Total Debt | 6,130 | 3,229 | 2,229 | 729 |
| Net Deferred Tax Liability | 102 | 796 | 796 | 796 |
| Total Capital Employed | 32,423 | 57,449 | 63,956 | 72,680 |

Applications of Funds

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Net Block | 18,911 | 21,762 | 39,602 | 39,071 |
| CWIP | 2,371 | 2,495 | 1,000 | 1,000 |
| Investments | 179 | 339 | 339 | 339 |
| Current Assets, Loans & Advances | 20,787 | 45,423 | 36,430 | 49,071 |
| Inventories | 7,989 | 10,528 | 12,176 | 16,942 |
| Receivables | 6,465 | 7,035 | 9,304 | 12,947 |
| Cash and Bank Balances | 1,342 | 16,195 | 3,285 | 7,017 |
| Loans and Advances | 83 | 103 | 103 | 103 |
| Other Current Assets | 3,583 | 4,483 | 4,483 | 4,983 |
| Less: Current Liabilities & Provisions | 9,825 | 12,570 | 13,415 | 16,801 |
| Payables | 5,909 | 7,960 | 8,905 | 12,391 |
| Other Current Liabilities | 3,916 | 4,610 | 4,510 | 4,410 |
| <i>sub total</i> | | | | |
| Net Current Assets | 10,962 | 32,853 | 23,015 | 32,270 |
| Total Assets | 32,423 | 57,449 | 63,956 | 72,680 |

E – Estimates

Important Ratios

| Particulars | FY20A | FY21A | FY22E | FY23E |
|---|----------|----------|----------|----------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 40.4 | 43.8 | 44.2 | 44.2 |
| EBIDTA Margin | 16.6 | 22.1 | 22.2 | 22.1 |
| EBIT Margin | 12.5 | 18.3 | 18.3 | 18.2 |
| Tax rate | 34.7 | 21.4 | 21.0 | 21.0 |
| Net Profit Margin | 8.8 | 16.1 | 15.5 | 14.9 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 59.6 | 56.2 | 55.8 | 55.8 |
| Employee | 9.5 | 9.1 | 9.2 | 9.2 |
| Other | 14.3 | 12.6 | 12.8 | 12.9 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.2 | 0.1 | 0.0 | 0.0 |
| Interest Coverage | 24.8 | 29.7 | 70.1 | 243.8 |
| Inventory days | 87 | 84 | 80 | 80 |
| Debtors days | 70 | 56 | 61 | 61 |
| Average Cost of Debt | 4.8 | 6.0 | 5.3 | 3.9 |
| Payable days | 64 | 63 | 58 | 58 |
| Working Capital days | 119 | 262 | 151 | 152 |
| FA T/O | 1.8 | 2.1 | 1.4 | 2.0 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 19.6 | 48.7 | 56.7 | 75.8 |
| CEPS (Rs) | 28.6 | 60.2 | 70.9 | 95.8 |
| DPS (Rs) | 3.6 | 5.0 | 6.0 | 7.0 |
| Dividend Payout (%) | 18.6 | 10.3 | 10.6 | 9.2 |
| BVPS (Rs) | 172.6 | 352.1 | 401.6 | 469.0 |
| RoANW (%) | 12.1 | 18.5 | 15.0 | 17.4 |
| RoACE (%) | 11.2 | 17.0 | 14.3 | 16.9 |
| RoAIC (%) | 15.6 | 23.2 | 20.0 | 22.3 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 3134 | 3134 | 3134 | 3134 |
| P/E | 160.1 | 64.4 | 55.3 | 41.3 |
| Mcap (Rs Mn) | 4,75,416 | 4,75,416 | 4,75,416 | 4,75,416 |
| MCap/ Sales | 14.1 | 10.4 | 8.6 | 6.1 |
| EV | 4,78,879 | 4,55,371 | 4,67,281 | 4,62,049 |
| EV/Sales | 14.2 | 9.9 | 8.4 | 6.0 |
| EV/EBITDA | 85.8 | 45.0 | 37.9 | 27.0 |
| P/BV | 18.2 | 8.9 | 7.8 | 6.7 |
| Dividend Yield (%) | 0.1 | 0.2 | 0.2 | 0.2 |
| (F) Growth Rate (%) | | | | |
| Revenue | 18.5 | 36.0 | 21.4 | 39.1 |
| EBITDA | (3.2) | 81.4 | 21.9 | 38.5 |
| EBIT | (12.8) | 98.7 | 21.6 | 38.1 |
| PBT | (15.7) | 106.1 | 16.0 | 33.9 |
| APAT | (27.6) | 148.7 | 16.5 | 33.7 |
| EPS | (27.6) | 148.7 | 16.5 | 33.7 |

Cash Flow

| (Rs Mn) | FY20A | FY21A | FY22E | FY23E |
|--------------|---------|---------|----------|---------|
| CFO | 5,299 | 8,518 | 7,836 | 9,067 |
| CFI | (8,864) | (4,815) | (18,505) | (2,500) |
| CFF | 4,221 | 16,792 | (2,241) | (2,835) |
| FCFF | (3,665) | 3,795 | (10,669) | 6,567 |
| Opening Cash | 2,011 | 2,667 | 23,274 | 10,364 |
| Closing Cash | 2,667 | 23,274 | 10,364 | 14,096 |

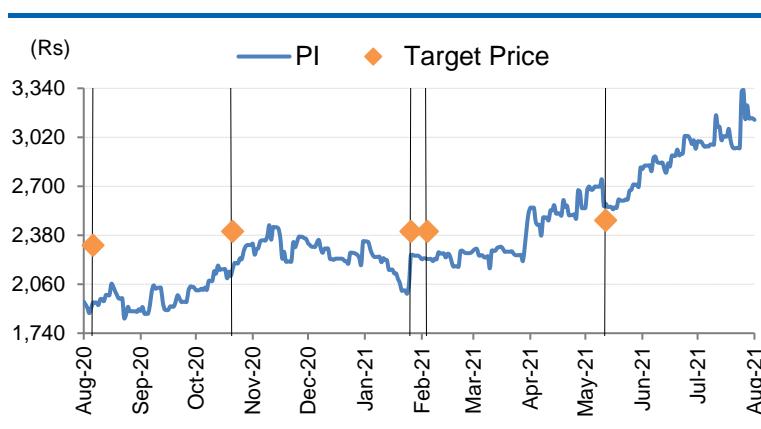
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|------------|-----------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



| Month | Rating | TP (Rs.) | Price (Rs.) |
|--------|------------|----------|-------------|
| Aug-20 | Accumulate | 2,315 | 1,940 |
| Oct-20 | Accumulate | 2,406 | 2,158 |
| Feb-21 | Accumulate | 2,406 | 2,250 |
| Feb-21 | Accumulate | 2,406 | 2,225 |
| May-21 | Reduce | 2,478 | 2,587 |

*Price as on recommendation date

DART Team

| | | | |
|-------------|-------------------|-------------------------|-----------------|
| Purvag Shah | Managing Director | purvag@dolatcapital.com | +9122 4096 9747 |
|-------------|-------------------|-------------------------|-----------------|

| | | | |
|-------------------|------------------|-----------------------|-----------------|
| Amit Khurana, CFA | Head of Equities | amit@dolatcapital.com | +9122 4096 9745 |
|-------------------|------------------|-----------------------|-----------------|

CONTACT DETAILS

| Equity Sales | Designation | E-mail | Direct Lines |
|------------------|--|-------------------------------|-----------------|
| Dinesh Bajaj | VP - Equity Sales | dineshb@dolatcapital.com | +9122 4096 9709 |
| Kapil Yadav | VP - Equity Sales | kapil@dolatcapital.com | +9122 4096 9735 |
| Jubbin Shah | VP - Equity Sales | jubbins@dolatcapital.com | +9122 4096 9779 |
| Yomika Agarwal | VP - Equity Sales | yomika@dolatcapital.com | +9122 4096 9772 |
| Anjana Jhaveri | VP - FII Sales | anjanaj@dolatcapital.com | +9122 4096 9758 |
| Lekha Nahar | AVP - Equity Sales | lekhana@dolatcapital.com | +9122 4096 9740 |
| Equity Trading | Designation | E-mail | |
| P. Sridhar | SVP and Head of Sales Trading | sridhar@dolatcapital.com | +9122 4096 9728 |
| Chandrakant Ware | VP - Sales Trading | chandrakant@dolatcapital.com | +9122 4096 9707 |
| Shirish Thakkar | VP - Head Domestic Derivatives Sales Trading | shirish@dolatcapital.com | +9122 4096 9702 |
| Kartik Mehta | Asia Head Derivatives | kartikm@dolatcapital.com | +9122 4096 9715 |
| Dinesh Mehta | Co- Head Asia Derivatives | dinesh.mehta@dolatcapital.com | +9122 4096 9765 |
| Bhavin Mehta | VP - Derivatives Strategist | bhavinm@dolatcapital.com | +9122 4096 9705 |

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Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com