

Strong Outlook, Improved Product Mix to Boost Growth & Margins Going Ahead!
Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA – **MISS**; PAT – **INLINE**
Change in Estimates post Q4FY24
FY25E: Revenue: -8%/-11%; EBITDA: 6%/2%; PAT: -5%/-11%

Recommendation Rationale

- **New Products to drive growth:** During the year over 70% of the exports growth came from the new products. The management has highlighted that 1/3rd of the new products would be from the Non-Agchem basket with end-user segments such as electronic chemicals, semiconductors, performance chemicals and advance polymers etc. Revenue share from new products was ~25% in FY24 and the management expects it to grow to ~30%-35% over the next three years, which will be margin accretive. The management expects CSM to remain strong with new commercialisation. This along with reviving global scenario will further add to growth of Pyrosulphane which will not have much negative impact from new competition in China.
- **Pharma Business Integration:** The management plans to integrate CRO, CDMO & API platforms business in a single CRDMO entity. The company has commissioned the R&D facility in Hyderabad with 65+ scientists. The company plans to grow the Pharma business further, both inorganically and organically with focus on business development to scale the business. PI has spent Rs 46 Cr in FY24 towards business development & will continue to invest in it for the next 2 years in scaling the Pharma business, post which it expects 20+% margins from the Pharma segment.
- **Gradual Revival in Domestic Segment lead by Biologicals:** Domestic revenues were sluggish and declined by 5% YoY primarily due to volume reduction of 6% YoY driven by erratic and uncertain monsoon. However better product mix and improved working capital management helped in containing the financial impact. Revenues from biologicals products increased by 35% YoY. PI launched 7 new products during the year in the domestic market. For FY25, the management would focus on portfolio diversification to drive high quality revenue from its newly introduced products as well as technology-based approaches to steer performance in the CSM business.

Sector Outlook: Cautiously Positive

Company Outlook: The management has maintained its revenue growth guidance of 15% for FY25 with growth steered by the new molecule pipeline and growing CSM book. The company expects 24-25% EBITDA margin to sustain on account of improved product mix and increased share of exports in revenues & similar working capital requirements. However, the company has increased its tax rate guidance to 25% for the next 5 years.

Current Valuation: 30x FY26E (Earlier: 30x Sep'26E)

Current TP: Rs 4,220/share (Unchanged)

Recommendation: We maintain our BUY rating on the stock.

Financial Performance: Consolidated Revenues stood at Rs.1,741 Cr (+11/-8% YoY/QoQ), missing our estimates by 9%. Gross margins improved to 54% vs. 45% in Q4FY23. The company reported EBITDA of Rs 442 Cr, up by 29% YoY and down by 20% QoQ. EBITDA missed our estimates by 9%. EBITDA margin came in at 25% vs. 22% in Q4FY23 and 29% in Q3FY24. The improvement in gross margins and EBITDA was mainly due to favourable product mix and operating leverage. The company's PAT stood at Rs 370 Cr, in-line with our estimate, up 32%/-18% YoY/QoQ.

Valuation & Recommendation: We continue to value the stock at 30x FY'26E as we roll forward our estimates. PI with its improved product mix, strong margins, favourable climate forecast on rains is expected to have strong growth outlook. **We maintain a BUY rating on the stock & maintain our target price of Rs 4,220/share, implying an upside potential of 15% from CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	1,741	11.2%	-8.2%	1,921	-9.4%
EBITDA	442	28.9%	-20.2%	488	-9.5%
EBITDA Margin	25.4%	348bps	-380bps	25.4%	-2bps
Net Profit	370	31.7%	-17.6%	381	-3.0%
EPS (Rs)	24.31	31.7%	-17.6%	25.05	-3.0%

Source: Company, Axis Research

(CMP as of 23rd May, 2024)

CMP (Rs)	3,660
Upside /Downside (%)	15%
High/Low (Rs)	4040/3220
Market cap (Cr)	55,550
Avg. daily vol. (1m)Shrs.	3,86,385
No. of shares (Cr)	15.2

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	46.1	46.1	46.1
FII's	20.0	20.4	20.3
DII's	23.1	23.0	24.2
Retail	10.6	10.5	9.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7666	8793	10375
EBITDA	2015	2480	3050
Net Profit	1671	1759	2135
EPS (Rs)	110.8	115.9	140.7
PER (x)	30.7	29.3	24.2
P/BV (x)	5.9	5.0	4.1
EV/EBITDA (x)	23.7	19.3	15.2
ROE (%)	21.1%	18.4%	18.6%

Change in Estimates (%)

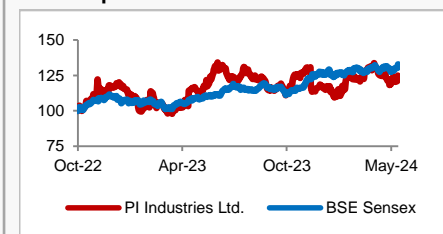
Y/E Mar	FY25E	FY26E
Sales	-8%	-11%
EBITDA	6%	2%
PAT	-5%	-11%

ESG disclosure Score**

Environmental Disclosure	57.9
Social Disclosure Score	47.7
Governance Disclosure Score	84.6
Total ESG Disclosure Score	63.5
Sector Average	44.7

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Outlook On Pyrosulphane (Pyro):** The management does not anticipate any impact from this product going off-patent in US. In most developed countries, the product sold in the market ultimately is a formulation and combination product, and most of these formulation products have a significantly longer patent life. Thus, as the patented products expire in a few years, there are combination and formulation products that will continue in major markets. Additionally, for any new player to sell Pyro, it will take atleast 12-18 months for registration and other legalities.
- **PI Health Sciences Ltd. (PIHS):** PI believes the pharma business is moving on the path to building future growth. The Pharma business reported revenues of Rs 72 Cr, which stood at 5% of total export revenue growth, with an EBITDA loss of Rs. 39 Cr in Q4FY24 which would have been positive adjusted for the 40 Cr business development expense. The de-growth in the pharma business was mainly due to deferment of some of the products. Inventory of Rs. 86 Cr marginally reduced from Rs. 87 Cr as on Dec'23. The company spent Rs. 132 Cr on Capex during FY24. The initial upgrade to the research facility, infrastructure upgrades, manufacturing facility, and human capital build-up process is progressing well. In the coming years, the company expects 20-25% of revenues to come from the Non-agchem space, which includes pharma and non-agchem CSM export.
- **Reduction in Working Capital** – Trade working capital reduced in terms of days of sales to 59 days from 79 days YoY. PI's surplus cash net of debt stood at Rs. 3,883 Cr.
- CSM Exports Order Book stood at approximately \$1.75 Bn in Q4FY24.
- **Final Dividend:** Board recommended a final dividend at the rate of Rs. 9/- per share for the FY24, subject to the approval.

Key Risks to our Estimates and TP

- Global recessionary environment, especially a long recession could affect demand for upstream players
- The impact of El Nino on Indian agriculture can affect the demand for PIs 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	FY25E	FY26E	FY25E	FY26E
Revenue	8,793	10,375	9,583	11,596	-8%	-11%
EBITDA	2,480	3,050	2,348	2,980	6%	2%
PAT	1,759	2,135	1,855	2,397	-5%	-11%
EPS	115.9	140.7	122.3	158	-5%	-11%

Source: Company, Axis Securities

Q4FY24 Results Review

Particular (Rs Cr)	FY23 Q4	FY24 Q3	Q4FY24 Axis Est.	FY24 Q4	YoY (%)	QoQ %	Axis Sec Var
Net Sales	1,566	1,898	1,921	1,741	11.2%	-8.2%	-9.4%
Gross Profit	702	1,016	941	938	33.6%	-7.7%	
Gross Margins %	44.8%	53.6%	49.0%	53.9%	903bps	30bps	485bps
Staff Cost	135	186	190	178	32.6%	-3.9%	
Other Operating expenses	224	277	263	317	41.4%	14.6%	
EBITDA	343	554	488	442	28.9%	-20.2%	-9.5%
EBITDA margins (%)	22%	29.2%	25.4%	25.4%	348bps	-380bps	-2bps
Depreciation	58	78	80	80	38.5%	2.0%	
Interest	3	7	11	11	230.3%	55.7%	
Other Income	50	56	51	58	17.0%	3.2%	
PBT before Exp. Items	333	526	448	411	23.7%	-21.8%	
Exceptional items	-	-	-	-			
PBT	333	526	448	411	23.7%	-21.8%	
Tax (incl deferred)	52	77	67	42	-19.5%	-45.9%	
PAT	281	449	381	370	31.7%	-17.6%	-3.0%
EPS	18.5	29.5	25.0	24.3	31.7%	-17.6%	-3.0%

Source: Company, Axis Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net Sales	6,492	7,666	8,793	10,375
Growth (%)	22.5	18.1	14.7	18.0
Operating Expenses	-4,950	-5,651	-6,313	-7,325
Operating Profit	1,542	2,015	2,480	3,050
Other Operating Income				
EBITDA	1,542	2,015	2,480	3,050
Growth (%)	35.0	30.6	23.1	23.0
Depreciation	-227	-308	-352	-413
Other Income	159	208	220	208
EBIT	1,475	1,914	2,348	2,845
Finance Cost	-37	-30	-30	-33
Exceptional & Extraordinary				
Profit Before Tax	1,438	1,884	2,318	2,812
Tax (Current + Deferred)	-215	-213	-559	-677
P / L from Discontinuing Operations				
Profit / (Loss) For The Period	1,223	1,671	1,759	2,135
P / L of Associates, Min Int, PrefDiv		11		
Reported Profit / (Loss)	1,223	1,682	1,759	2,135
Adjusted Net Profit	1,223	1,682	1,759	2,135

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Share Capital	15	15	15	15
Reserves & Surplus	7,183	8,716	10,405	12,470
Shareholder's Funds	7,199	8,731	10,420	12,485
Minority Interest and Others				
Non-Current Liabilities	99	322	261	261
Long-Term Borrowings	10	36	30	30
Other Non-Current Liabilities	89	286	231	231
Current Liabilities	1,182	1,711	1,582	1,689
ST Borrowings, Current Maturity		66		
Other Current Liabilities	1,182	1,644	1,582	1,689
Total (Equity and Liabilities)	8,480	10,764	12,263	14,436
Non-Current Assets	2,686	3,536	4,511	4,708
Fixed Assets (Net Block)	2,655	3,445	4,015	4,212
Non-Current Investments	31	90	87	87
Long-Term Loans and Advances			6	6
Other Non-Current Assets	43	550	403	403
Current Assets	5,662	6,679	7,752	9,728
Cash & Current Investments	3,227	3,950	3,855	5,218
Other Current Assets	2,435	2,729	3,897	4,510
Total (Assets)	8,392	10,764	12,263	14,436
Total Debt	10	103	30	30
Capital Employed	7,298	9,120	10,681	12,746

Source: Company, Axis Securities

Cash Flow

(RsCr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit Before Tax	1,438	1,884	2,318	2,812
Depreciation	227	308	352	413
Change in Working Capital	206	305	-1,226	-505
Total Tax Paid	-281	-286	-487	-677
Others	-122	-178	-190	-175
Operating Cash Flow (a)	1,467	2,034	766	1,868
Capital Expenditure	-397	-1,098	-922	-609
Change in Investments	-116	-321	1,135	
Others	318	139	289	208
Investing Cash Flow (b)	-196	-1,281	503	-401
Free Cash Flow (a+b)	1,271	754	1,269	1,466
Equity Raised / (Repaid)				
Debt Raised / (Repaid)	-96	92	-73	
Dividend (incl. Tax)	80	80	80	80
Others	-431	-465	-240	-183
Financing Cash Flow (c)	-447	-293	-233	-103
Net Chg in Cash (a+b+c)	824	461	1,036	1,363

Source: Company, Axis Securities

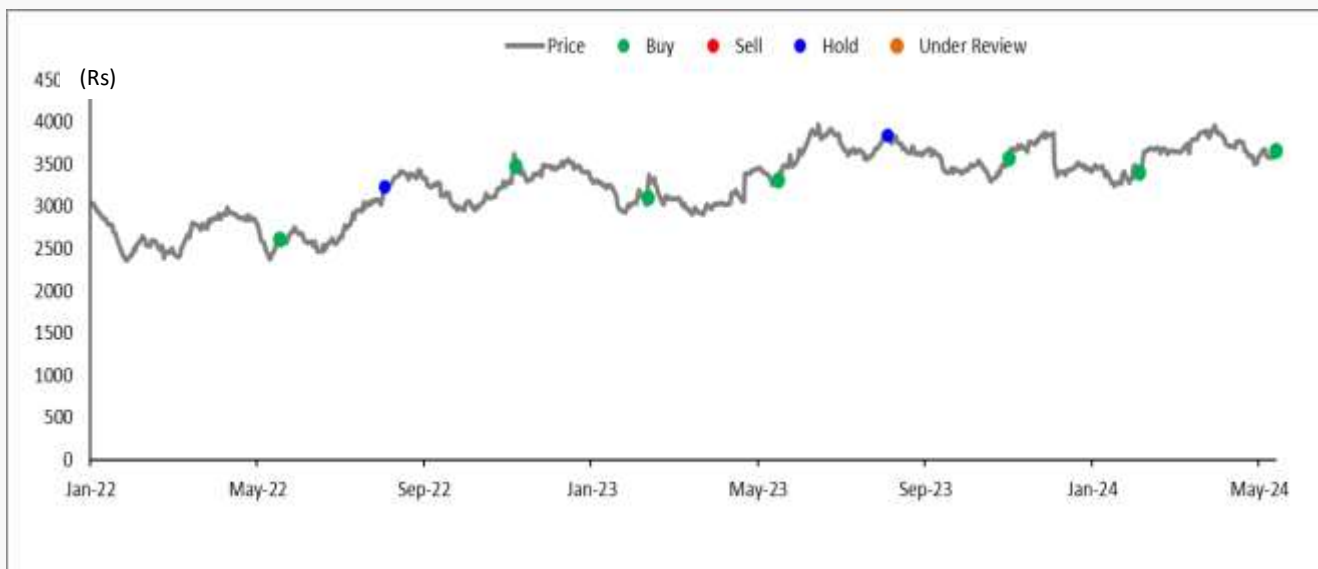
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Adjusted EPS (Rs)	80.6	110.8	115.9	140.7
<i>Growth</i>	<i>45.8</i>	<i>37.5</i>	<i>4.6</i>	<i>21.4</i>
CEPS (Rs)	95.5	131.1	139.1	167.9
Book Value / Share (Rs)	474.5	575.5	686.8	822.9
Dividend / Share (Rs)	(4.2)	(4.2)	(4.2)	(4.2)
Dividend Payout Ratio	(6.5)	(4.8)	(4.5)	(3.7)
EBITDA Margin	23.8	26.3	28.2	29.4
EBIT Margin	22.7	25.0	26.7	27.4
Tax Rate	14.9	11.3	24.1	24.1
RoCE	21.3	23.3	23.7	24.3
Total Debt / Equity (x)	0.0	0.0	0.0	0.0
Net Debt / Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Du Pont Analysis - ROE				
Net Profit Margin	18.8	21.9	20.0	20.6
Asset Turnover (x)	0.8	0.8	0.8	0.8
Leverage Factor (x)	1.2	1.2	1.2	1.2
Return on Equity	18.4	21.1	18.4	18.6

Source: Company, Axis Securities

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

Source: Axis Securities

About the analyst



Analyst: Prathamesh Sawant, CFA

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Sector: Chemicals & Midcap Opportunities

Analyst Bio: Prathamesh is a CFA with 7 years of experience in Equity Research & Valuation.

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