



PI Industries Ltd.

Research report as on 19-10-2022

CMP: 3,128.60 INR

Market Capitalisation : 47,532 Cr

PEE AAR SECURITIES LTD.

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Introduction

- PI Industries Ltd is a leading player in the agro-chemicals space having strong presence in both Domestic and Export markets.
- India today is the 5th largest exporter of pesticides. India crop protection chemicals exports are projected to grow to almost 55% in the year 2024 (by value)
- In FY21, the company entered into the pharma industry and successfully developed and scaled up a COVID-19 drug intermediate.
- The order book in the CSM business remained ~USD1.4b, exhibiting good visibility for the future. PI has received 13 inquiries with over 15% of them being from the non-Agrochemical space.
- PI has levers in place to sustain the near-term growth momentum, led by: a) sustained growth momentum in the CSM business, due to a strong (USD1.4b) order book, the rising pace of commercialization of new molecules, and a sales ramp-up in existing molecules; and b) product launches in the domestic market (four launches in FY22 and five planned in FY23), thus providing earnings visibility.
- The company is in a research intensive business. It has been investing 3-4% of its revenues in R&D activities. The company's R&D centre in Udaipur is spread over an area of 130,000 sq. ft. and provides excellent infrastructure and lab facilities for research scientists to carry out activities and specialize in the discovery space, including library synthesis, molecule design, lead optimization, route synthesis, biological testing and greenhouse testing.

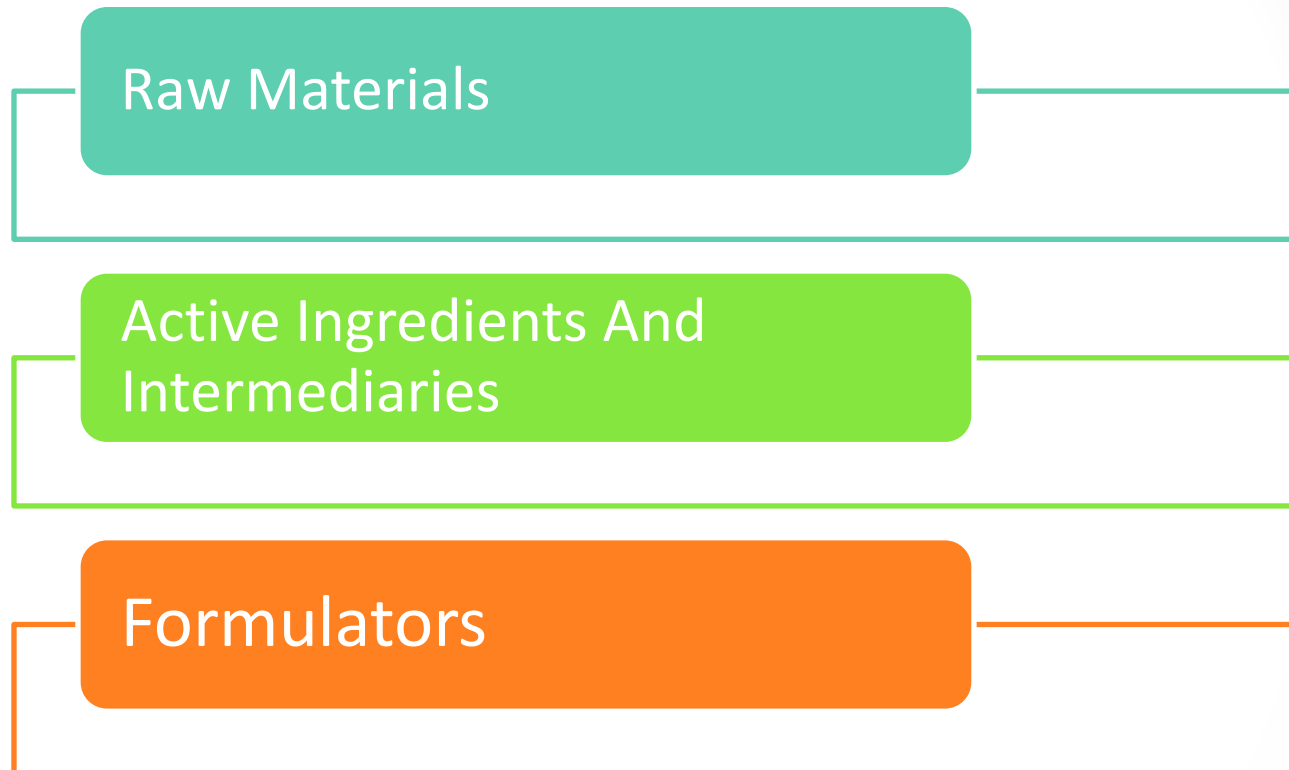
Company History

- PI industries was established in 1946 by Mr. P P Singhal as an edible oil refiner, which was shut down later.
- Sensing an opportunity in the growing agrochemical industry, Pi industries entered agrochemical formulation and manufacturing in 1967 and changed its name from Mewar oil to Pesticides India in 1989 and to Pi industries in 1992.
- In the 1970s and in the 1990s the company entered technical formulations, custom synthesis (90s), and polymer compounding business.
- In 1996, Started Custom Synthesis & Manufacturing
- In 2009, Mayank Singhal an Engineering and Management graduate from the UK, the grandson of PP Singhal, took over as the Managing director of the company. He redirected the company to focus more on the **export side of the business** and since then the revenue and profits from the export business have grown at a Robust pace.

Indian Agrochemical Industry

- A large portion of the Indian population still depends on agriculture for their livelihood. More than 54% of the population is dependent upon the agrarian economy which contributes close to 17% to the GDP. India is the second-largest food grain producer in the world and food grain production has grown at a CAGR of 2.8% from FY2015-FY2019. The primary objective of the agriculture sector is to produce a reliable supply of food for the ever-increasing world population.
- Agrochemicals which mainly include pesticides are used for efficient and economical production of agricultural produce which in turn increases the yield generated from the agricultural land. How do they do it? Agrochemicals are used for crop protection, crops are damaged by different types of pests, locusts, fungus, weeds, etc. Remember the recent Locus attack, that is an example of a pest destroying crops. To protect our crops against such infestations, the need for pesticides arises.

Value Chain of Pesticides Industry



Product Portfolio

- **Products** : The company has a wide portfolio of chemicals. Its products include insecticides, fungicides, herbicides and speciality product which are widely used in farms across the globe. It is the biggest producer of generic molecules like Profenofos, Ethion and phorate in India.
- **CSM Services** : PI's portfolio of "custom synthesis and manufacturing solutions" covers the entire gamut of service offerings such as Process Research and Development, Analytical Method Development, Synthesis of Reference Standards, Structure Elucidation and Synthesis of Impurities, Physio-Chemical Studies and 5-Batch Analysis under GLP Conditions
- **Distribution Services** : PI helps bring the above mentioned agri input products to the Indian market to provide better and cost efficient solutions to Indian farmers, through strategic tie-ups with large MNCs by partnering with their product development activities in India, getting their product registered and marketing them on an exclusive basis
- Other services provided by the company includes **R&D Services**

Revenue Breakup

- A. Information about product revenues:** Its revenues are divided under 2 main categories. It earns ~75% of its revenues from active ingredients and intermediaries and ~25% of revenues from sale of formulations.

	March 31, 2022	March 31, 2021
Active Ingredients and Intermediates	39,718	33,768
Formulations	12,077	11,091
Others	1,200	911
TOTAL	52,995	45,770

B. Geographical Areas

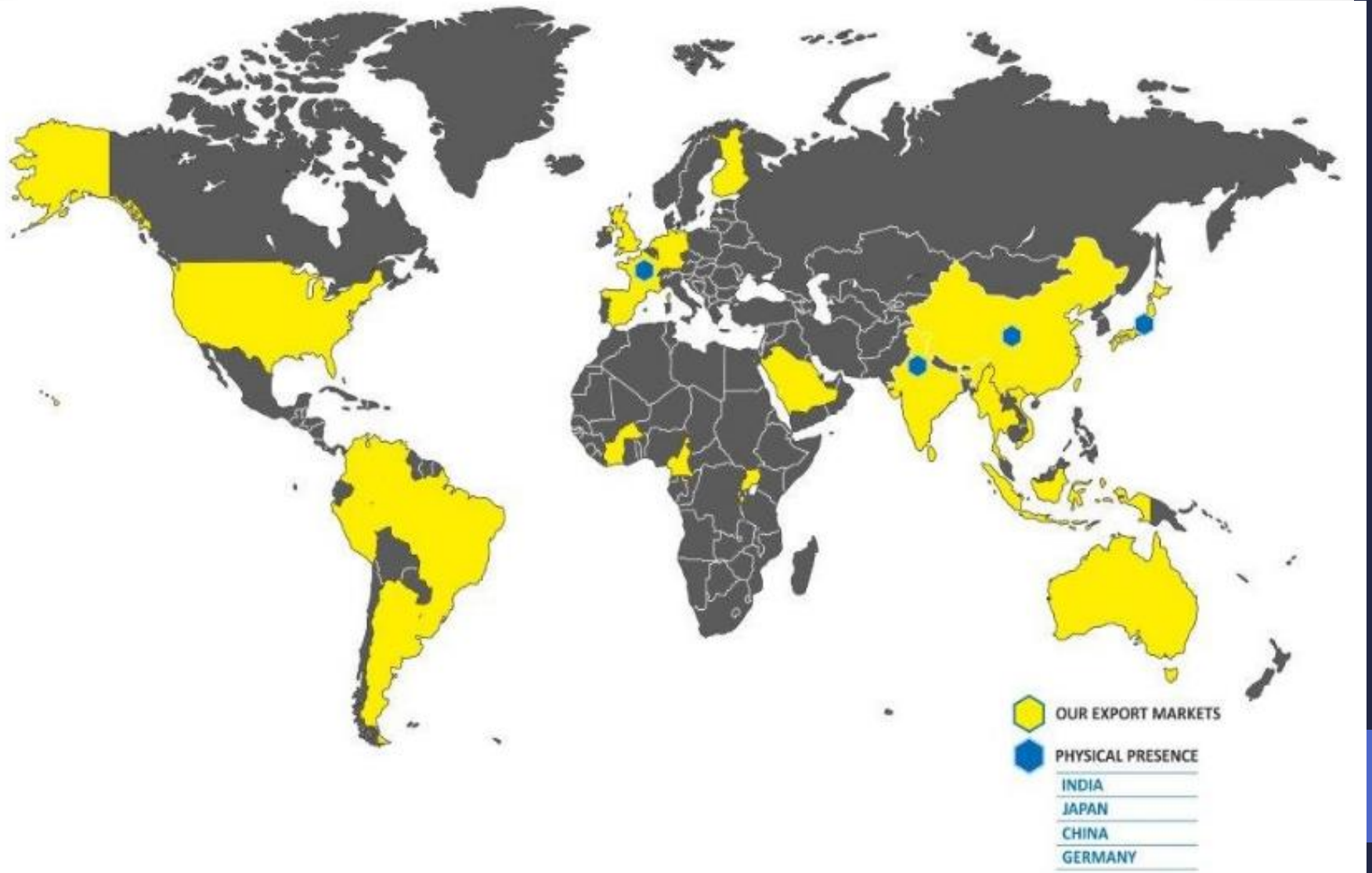
	March 31, 2022	March 31, 2021
India	14,195	12,550
Asia (other than India)	14,628	9,463
North America	16,334	15,917
Europe	3,576	3,369
Rest of the World	4,262	4,471
TOTAL	52,995	45,770

Custom Synthesis Manufacturing for global innovators

PI industries started the custom synthesis manufacturing business (exclusive synthesis of compounds on behalf of the customer) in 1996 and work with global innovators like BASF, Kumai, Du Pont, etc. Out of the top 20 global innovators, 18 of them are Pi industries' customers. PI industries got their first contract for CSM business way back in 1997-1998. Initially, the global innovators were very apprehensive about giving contracts to PI industries. However, the size and scale of the CSM business changed due to 2 important changes:

- In December 2004 the Indian Congress-led UPA government issued a presidential ordinance to bring the country into mandatory compliance with TRIPS by January 1, 2005. This gave the global innovators a lot of comfort in terms of sharing their molecule which they have developed after years of research and development.
- Mayank Singhal, the son of PP Singhal was elevated to the post of the Managing Director. The focus of the entire organization shifted towards the export business. And PI sold off its Polymer compounding business to Rhodia, as a part of its business strategy of focusing on exports. From thereon, Pi has grown rapidly in the last decade.

Global Presence



Competitive Advantage

- **Entry barrier for competitors:** PI operates as a contract manufacturer for patented molecules of Innovators. These molecules are made after years of Research and Development by Innovators and they get it patented if it proves to be successful. These Global MNCs like BASF, Kumiai outsource the manufacturing of these molecules to players like PI industries in order to reduce costs.
- **Patented molecules :** 95% of the business that PI industries does comes from the manufacturing of Patented molecules which is a high margin area, and barriers to entry are huge.
- **Exit Barriers :** PI industries has created switching costs as PI is involved from the beginning in a molecule's commercialization journey. Innovators don't want to deal with many suppliers and don't want to disrupt the supply chain either. That is why PI offers take or pay contracts, and 70% of the business comes via long term contracts.
- **Pricing Power :** PI also works on a price pass through basis, basically, any fluctuations in the prices of Raw materials can be passed on, this ensures the stability of the margins. PI Ind has pricing power to pass on the raw material volatility in the CSM business.

Risks

- Agriculture is a cyclical industry as it depends on number of factors like farmgate prices, food inflation, monsoons, etc. Indian agriculture is majorly dependent on monsoons as only 45% of the arable land has access to irrigation.
- The industry is very fragmented in nature with over 800 formulators and 125 technical grade manufacturers.
- There are significant product concentration risks in both the CSM and Domestic business. As in CSM businesses, top 5-6 molecules contribute 70% to the sales. And in the domestic business like other players in the industry top 5-6 products are 50-60% of the sales.
- In the past PI has faced issues sourcing Raw material from China for producing Active ingredient and intermediates. Earlier the dependence was close to 30-35%, To mitigate the risk PI has backwards integrated and started sourcing these raw materials from the local sources. As a result, the dependence on chinese sources for Raw Material has gone down

Financials

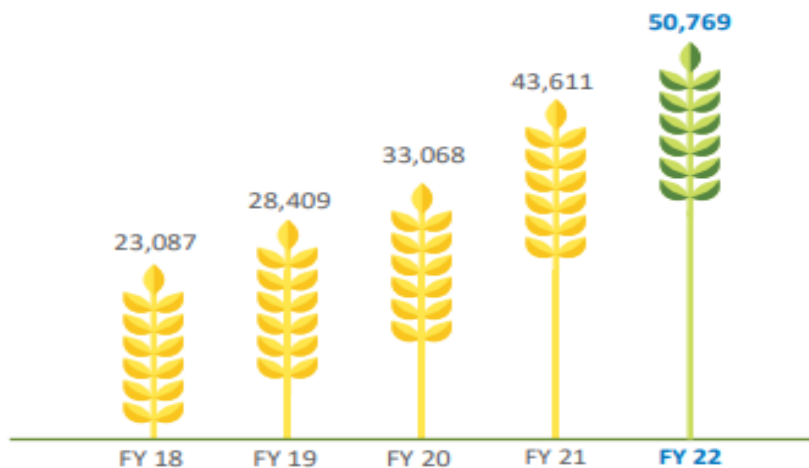
Key Figures

(₹ Million)

Year Ended March 31	FY 2021-22	FY 2020-21	FY 2019-20	FY 2018-19	FY 2017-18
Revenue from operations*	50,769	43,611	33,068	28,409	23,087
EBITDA	11,113	9,848	6,977	5,731	4,920
Profit Before Tax	10,005	9,017	5,944	5,346	4,636
PAT	8,197	7,105	4,423	4,077	3,665
Net Fixed Assets	25,371	24,053	19,373	13,667	10,856
Cash Profit	10,181	8,825	5,755	5,003	4,491
EBITDA Margins (%)	21.8	22.6	21.1	20.2	21.3
PAT Margins (%)	16.1	16.3	13.4	14.4	15.9
ROE (%)	14.5	18.0	17.1	17.9	19.2
ROCE (%)	20.8#	23.0#	19.8	23.3	23.5
D/E Ratio (In times)	0.04	0.06	0.20	0.02	0.04
EPS (Face Value @ ₹1)(In ₹)	54.03	47.98	32.0	29.6	26.6
DPS (Face Value @₹1)(In ₹)	6.0	5.0	4.0	4.0	4.0

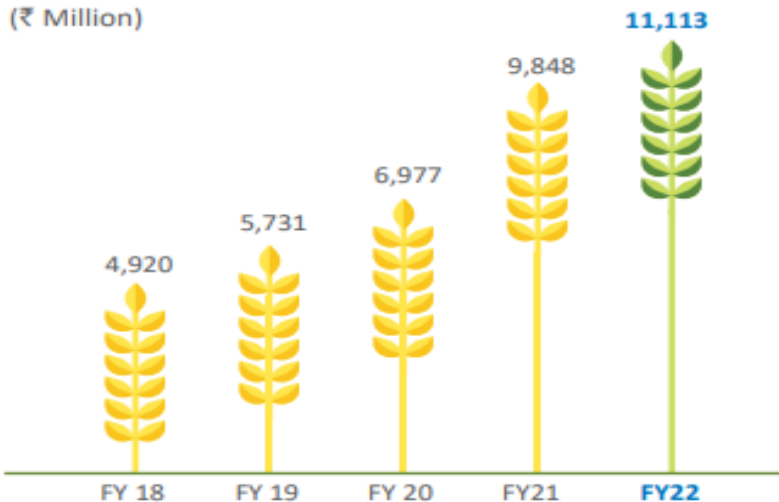
Revenue from operations*

(₹ Million)



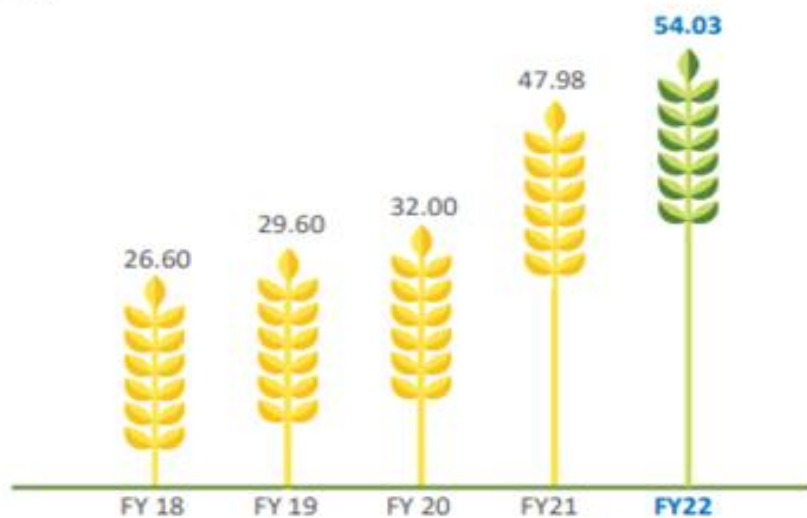
EBITDA

(₹ Million)



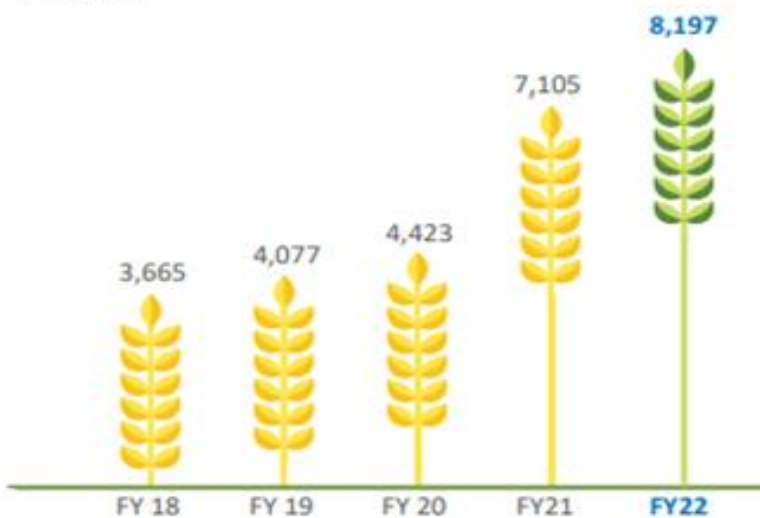
EPS

(₹)



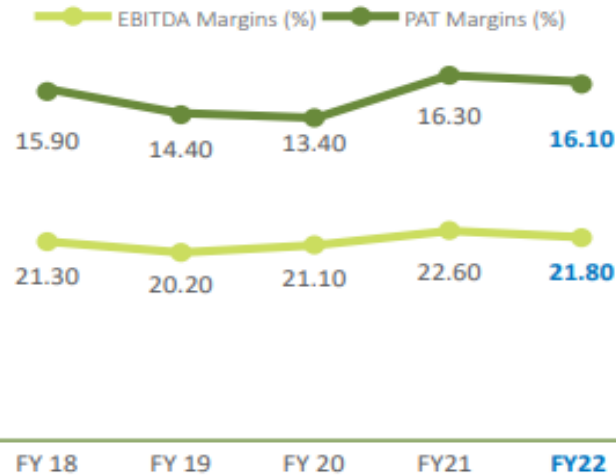
PAT

(₹ Million)



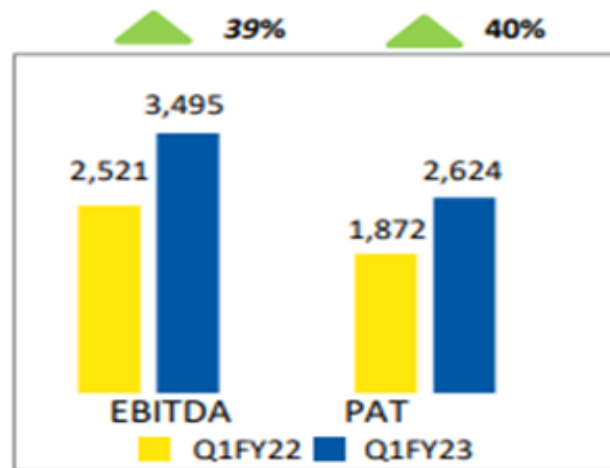
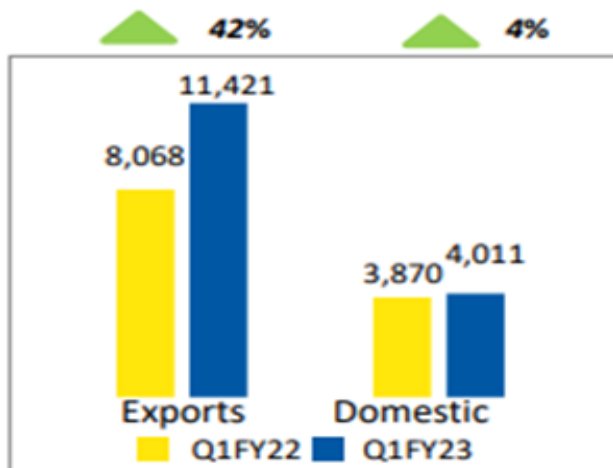
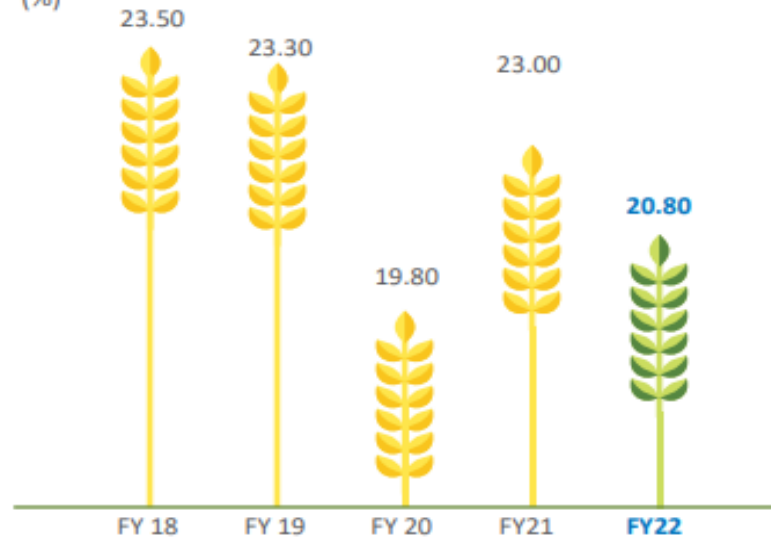
EBITDA & PAT Margins

(%)



ROCE

(%)



Key Ratios

Particulars	FY 2021-22	FY 2020-21
Earnings per Share (EPS)	55.65	49.92
Current Ratio	3.68	3.57
Debt Equity Ratio	0.04	0.06
Operating Profit Margin (%)	21.6%	22.1%
Net Profit Margin (%)	15.9%	16.1%
Inventory Turnover	2.36	2.78
Debtors turnover	5.71	5.72
Interest Coverage Ratio	89.19	36.05
Return on Net worth	14.7%	18.5%

Key Ratios Analysis

- During FY2021-22, PI's revenue grew by 16% to 5,299 crore as compared to 4,577 crore in the previous year. The Company saw strong growth in export of 20% in FY 2021-22
- PI's Net Profit for the year saw a healthy 14% growth to 844 crores from 738 crores in FY 2021-22.
- Total capex for Q1FY23 is Rs. 506 million
- EBITDA margin dropped slightly on account of operating expenses increase of 24% mainly attributable to sharp increase in power and fuel, freight cost and sales promotion expenses on account of launch of new products
- As on March 31st, 2022, the Surplus Cash net of Debt stood at 2164 crore
- Debt equity ratio was at 0.04 as compared to 0.06 in the previous year.
- Working capital: Trade working capital in terms of Days of Sales is 102 days vs. 103 days as on 31st Mar'22, primarily on account of inventory levels surging 11% YoY higher in order to avert supply chain disruptions and meet customer supply schedules, leading to stress on the WC cycle in the quarter.

Conclusion

BUY

- PI industries has been a compounding machine. We give buy rating on the back of better growth outlook of CSM business. The stock appreciated at 34% CAGR in last three years.
- The company is fundamentally strong with good financials.
- PI is a unique business model which is based on years of trust and win-win partnership PI has made with the global innovators.
- In next 3-5 years it seems that the growth of 20-25% will continue in the CSM.
- Management has indicated that business from pharma/speciality chemicals will go in double digits of sales in next 2-3 years.

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