

Resilient Performance Amidst Global Uncertainties
Est. Vs. Actual for Q2FY25: Revenue: **INLINE**; EBITDA: **BEAT**; PAT: **BEAT**
Change in Estimates post Q2FY25
FY25E/FY26E: Revenue: -5%/-6%; EBITDA: -5%/-8%; PAT: -6%/-8%

Recommendation Rationale

- Recovery expected in the domestic segment, exports may soften:** During the quarter, PI witnessed a 6% YoY reduction in the domestic segment. However, given the positives on reservoirs and traction in new products, it expects double-digit growth in domestic revenue during H2. On the other hand, while the company reported a 12% growth in agchem exports, it anticipates some softness in the agchem export segment due to continued global industry challenges and resulting uncertainties. Accordingly, the management has lowered its expectations for export growth to single-digit or near double-digit growth for H2.
- Lowering guidance to high single-digit revenue growth for FY25:** The company delivered a 5% YoY revenue growth during the quarter, despite adverse market conditions. However, the management mentioned that global players are watching inventory levels and are not willing to commit to spending at this moment. Additionally, a major customer of the company has filed for bankruptcy, prompting the company to hold on to the inventory meant for them. Accordingly, the management has lowered its overall revenue growth guidance from 15% to high single-digit or early double-digit growth for FY25.
- Long-term levers intact:** High inventory with innovators negatively impacted revenues in the Pharma segment during the quarter. However, the management mentioned that the integration of CRO, CDMO, and API platforms is on track and progressing well, with expected constant order visibility and volume pickup in H2. The company is also confident of growth coming from the commercialization of new molecules and significant traction in newly launched products.

Sector Outlook: Cautiously Positive

Company Outlook: The management has guided for high single-digit revenue growth, compared to the earlier guidance of 15%, as the global industry landscape continues to be challenging. However, it has maintained the guidance of 25-26% EBITDA margins for FY25, driven by an improving product mix and disciplined working capital management. PI has a robust pipeline of over 20 products at different stages of development and registration. It plans to spend (Capex) Rs 800-900 Cr for FY25.

Current Valuation: 28x FY27E (Earlier: 30x FY26E)

Current TP: Rs 4,880/share (Earlier TP: Rs 4,980/share)

Recommendation: We upgrade our rating on the stock from HOLD to BUY considering attractive valuations post the recent correction in stock price while long-term growth prospects remain intact.

Financial Performance: The Company's consolidated revenues stood at Rs 2,221 Cr, reflecting a 5% YoY and 7% QoQ growth, in line with estimates. Gross margins improved to 51.8%, up from 46.6% in Q2FY24. The company reported EBITDA of Rs 628 Cr, a 14% YoY and 8% QoQ increase, surpassing estimates by 5%. EBITDA margin came in at 28.3%, compared to 26.0% in Q2FY24 and 28.2% in Q1FY25. The improvement in gross margins and EBITDA was primarily due to a favourable product mix and operating leverage. PAT stood at Rs 508 Cr, up 6% YoY and 13% QoQ, exceeding the estimate of Rs 471 Cr.

Valuation & Recommendation: PI remains focused on exploring growth opportunities while improving profitability through a better product mix and disciplined working capital management. Despite current industry-related challenges and high inventory levels with innovators, we expect revenue growth to accelerate as newer products and the Pharma business contribute more significantly in the coming years. **Consequently, we roll forward our estimates to FY27E and value the stock at 28x FY27E. We upgrade our rating on the stock to BUY with a revised target price of Rs 4,880 per share, implying an upside of 15% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Var (%)
Net Sales	2,221	5%	7%	2,224	0%
EBITDA	628	14%	8%	596	5%
EBITDA Margin	28.3%	224bps	10bps	26.8%	148bps
Net Profit	508	6%	13%	471	8%
EPS (Rs)	33.43	6%	13%	30.99	8%

Source: Company, Axis Securities Research

 (CMP as of 14th November 2024)

CMP (Rs)	4,244
Upside /Downside (%)	15%
High/Low (Rs)	4,804/3060
Market cap (Cr)	64,350
Avg. daily vol. (1m) Shrs.	2,49,104
No. of shares (Cr)	15.2

Shareholding (%)

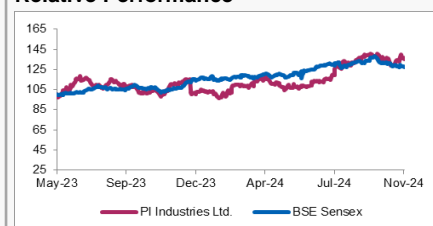
	Mar-24	Jun-24	Sep-24
Promoter	46.1	46.1	46.1
FII	20.3	18.8	19
DII	24.2	25.8	26.2
Retail	9.6	9.3	8.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7666	8394	10031
EBITDA	2015	2182	2849
Net Profit	1671	1561	2097
EPS (Rs)	110.8	102.9	138.2
PER (x)	30.7	41.3	30.7
P/BV (x)	5.9	6.3	5.3
EV/EBITDA (x)	23.7	27.4	20.5
ROE (%)	21.1%	16.5%	18.7%

Change in Estimates (%)

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

Relative Performance


Source: Ace Equity, Axis Securities Research

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Key Highlights

- **Revenue Performance:** In Q2FY25, PI Industries reported a 5% YoY revenue growth. Agchem Exports saw a strong 10% YoY increase, driven primarily by higher volumes and a 42% growth in new product sales. However, domestic revenues were subdued, largely due to reduced supply to institutional customers. Branded product sales rose by 7%, with a 12% volume increase, although prices were reduced by 5%. Within the domestic segment, biological products' revenue grew by approximately 18% YoY. Pharma revenue, on the other hand, declined by 43% YoY, primarily due to high inventory levels with innovators.
- **Margins and Profitability:** Both gross margin and EBITDA improved, driven by a favourable product mix and operating leverage, despite an increase in overheads. The latter was due to higher promotional and export-related expenses (~14%) as well as additional expenses in the Pharma business (~6%). Other income also contributed to profitability, mainly due to interest earned on a higher cash balance and one-off gains from favourable tax litigation orders.
- **New Product Launches:** The company successfully commercialized 4 new products in Exports and 4 new domestic Agri Brands during the quarter. Going forward, PI plans to launch more innovative products and currently has a pipeline of 7-8 products in development.
- **Working Capital and Cash Flow:** PI's trade working capital reduced to 70 days by Sep'24, from 84 days YoY, reflecting improved working capital management. The company's inventory level stood at Rs 1,165 Cr, decreasing to 50 days of sales from 63 days in the same period last year. Cash flow from operating activities was Rs 186 Cr, a decline from Rs 367 Cr in Q2FY24. The company maintained a strong cash position, with net surplus cash (after debt) amounting to Rs 3,922.7 Cr.
- **Market Outlook:** The global crop protection industry continues to face challenges, including fluctuating agricultural markets, commodity price volatility, de-stocking, and product pricing pressure. The management noted that global innovators are still holding significant inventory, which has led to a cautious "wait-and-watch" approach. While the company anticipates a recovery in H2FY25, normalization is expected to take three more quarters. Consequently, PI has revised its FY25 revenue growth guidance to high single-digit or low double-digit growth (down from the previous 15% forecast).
- **Capex Plans:** PI incurred a total capex of Rs 443 Cr during H1FY25, compared to Rs 266 Cr in H1FY24, continuing its focus on improving capacity utilization. The company has maintained its capex guidance of Rs 800-900 Cr for FY25.
- **PI Health Sciences Ltd. (PIHS):** PIHS reported revenues of Rs 41 Cr in Q2FY25 but with a PBT loss of Rs 55 Cr. The YoY de-growth in the pharma business was primarily due to the inventory issue with innovators. However, the management expects revenue recovery in H2FY25 based on order visibility. The company also recorded one-off costs of Rs 32 Cr, mainly for development and doubtful debt provisions. Capex for PIHS was Rs 36 Cr in Q2FY25 and Rs 73 Cr in H1FY25. For FY25, PI plans to spend Rs 100-125 Cr, with a further Rs 50 Cr earmarked for FY26.
- **Plant Health Care Plc Acquisition:** During the quarter, PI Industries successfully completed the acquisition of Plant Health Care Plc. This acquisition is expected to strengthen its position in the biologics sector by leveraging its innovative chemical product pipeline and complementary technologies. The company projects this acquisition to generate \$100 Mn in revenue by FY28-29, supporting its medium-term growth outlook.

Key Risks to Our Estimates and TP

- A global recessionary environment, especially a long 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	FY25E	FY26E	FY25E	FY26E
Revenue	8,394	10,031	8,816	10,623	-5%	-6%
EBITDA	2,182	2,849	2,292	3,081	-5%	-8%
PAT	1,561	2,097	1,654	2,289	-6%	-8%
EPS	102.9	138.2	109	151	-6%	-8%

Source: Company, Axis Securities Research

Q2FY25 Results Review

Particular (Rs Cr)	Q2FY24	Q1FY25	Q2FY25 Axis Est.	Q2FY25	YoY (%)	QoQ %	Axis Sec Var
Net Sales	2,117	2,069	2,224	2,221	5%	7%	0%
Gross Profit	986	1,071	1,172	1,150	17%	7%	
<i>Gross Margins %</i>	46.6%	51.8%	52.7%	51.8%	519bps	-2bps	-94bps
Staff Cost	164	200	209	196	19%	-2%	
Other Operating expenses	271	288	367	326	20%	13%	
EBITDA	551	583	596	628	14%	8%	5%
<i>EBITDA margins (%)</i>	26%	28.2%	26.8%	28.3%	224bps	10bps	148bps
Depreciation	80	83	80	80	-1%	-4%	
Interest	8	8	10	9	9%	2%	
Other Income	47	73	65	122	161%	68%	
PBT before Exp. Items	512	566	571	663	29%	17%	
Exceptional items	-	-	-	-			
PBT	512	566	571	663	29%	17%	
Tax (incl deferred)	32	118	100	155	388%	32%	
PAT	481	449	471	508	6%	13%	8%
EPS	31.6	29.5	31.0	33.4	6%	13%	8%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	6,492	7,666	8,394	10,031	12,087
Growth (%)	22.5	18.1	9.5	19.5	20.5
Operating Expenses	-4,950	-5,651	-6,212	-7,182	-8,570
Operating Profit	1,542	2,015	2,182	2,849	3,517
Other Operating Income					
EBITDA	1,542	2,015	2,182	2,849	3,517
Growth (%)	35.0	30.6	8.3	30.5	23.5
Depreciation	-227	-308	-347	-403	-423
Other Income	159	208	252	351	423
EBIT	1,475	1,914	2,088	2,797	3,518
Finance Cost	-37	-30	-30	-33	-33
Exceptional & Extraordinary					
Profit Before Tax	1,438	1,884	2,058	2,764	3,485
Tax (Current + Deferred)	-215	-213	-497	-667	-840
P / L from Discontinuing Operations					
Profit / (Loss) For The Period	1,223	1,671	1,561	2,097	2,645
P / L of Associates, Min Int, PrefDiv		11			
Reported Profit / (Loss)	1,223	1,682	1,561	2,097	2,645
Adjusted Net Profit	1,223	1,682	1,561	2,097	2,645

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	10,210	12,242	14,822
Shareholder's Funds	7,199	8,731	10,225	12,257	14,837
Minority Interest and Others					
Non-Current Liabilities	99	322	322	322	322
Long-Term Borrowings	10	36	36	36	36
Other Non-Current Liabilities	89	286	286	286	286
Current Liabilities	1,182	1,711	1,520	1,672	1,899
ST Borrowings, Current Maturity		66	66	66	66
Other Current Liabilities	1,182	1,644	1,454	1,606	1,833
Total (Equity and Liabilities)	8,480	10,764	12,067	14,251	17,059
Non-Current Assets	2,686	3,536	4,646	4,852	4,939
Fixed Assets (Net Block)	2,655	3,445	4,006	4,212	4,299
Non-Current Investments	31	90	90	90	90
Long-Term Loans and Advances					
Other Non-Current Assets	43	550	550	550	550
Current Assets	5,662	6,679	7,421	9,399	12,120
Cash & Current Investments	3,227	3,950	4,604	6,129	8,282
Other Current Assets	2,435	2,729	2,817	3,270	3,838
Total (Assets)	8,392	10,764	12,067	14,251	17,059
Total Debt	10	103	103	103	103
Capital Employed	7,298	9,120	10,613	12,646	15,226

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Profit Before Tax	1,438	1,884	2,058	2,764	3,485
Depreciation	227	308	347	403	423
Change in Working Capital	206	305	-279	-301	-341
Total Tax Paid	-281	-286	-497	-667	-933
Others	-122	-178	-222	-318	-390
Operating Cash Flow (a)	1,467	2,034	1,406	1,881	2,337
Capital Expenditure	-397	-1,098	-907	-609	-509
Change in Investments	-116	-321			
Others	318	139	252	351	423
Investing Cash Flow (b)	-196	-1,281	-655	-258	-86
Free Cash Flow (a+b)	1,271	754	751	1,623	2,251
Equity Raised / (Repaid)					
Debt Raised / (Repaid)	-96	92			
Dividend (incl. Tax)	80	80	80	80	80
Others	-431	-465	-177	-178	-178
Financing Cash Flow (c)	-447	-293	-97	-98	-98
Net Chg in Cash (a+b+c)	824	461	654	1,525	2,153

Source: Company, Axis Securities Research

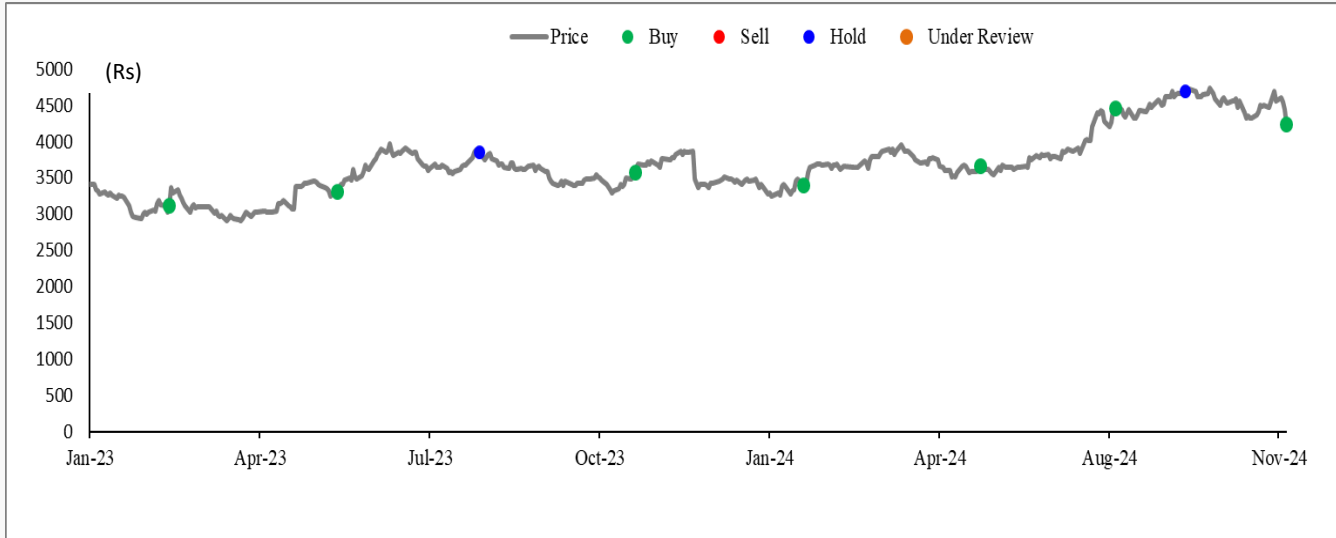
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Adjusted EPS (Rs)	80.6	110.8	102.9	138.2	174.3
<i>Growth</i>	45.8	37.5	(7.2)	34.4	26.1
CEPS (Rs)	95.5	131.1	125.7	164.8	202.2
Book Value / Share (Rs)	474.5	575.5	673.9	807.9	978.0
Dividend / Share (Rs)	(4.2)	(4.2)	(4.2)	(4.2)	(4.2)
Dividend Payout Ratio	(6.5)	(4.8)	(5.1)	(3.8)	(3.0)
EBITDA Margin	23.8	26.3	26.0	28.4	29.1
EBIT Margin	22.7	25.0	24.9	27.9	29.1
Tax Rate	14.9	11.3	24.2	24.1	24.1
RoCE	21.3	23.3	21.2	24.1	25.2
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)	(0.6)
Du Pont Analysis - ROE					
Net Profit Margin	18.8	21.9	18.6	20.9	21.9
Asset Turnover (x)	0.8	0.8	0.7	0.8	0.8
Leverage Factor (x)	1.2	1.2	1.2	1.2	1.2
Return on Equity	18.4	21.1	16.5	18.7	19.5

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	4,880	Result Update

Source: Axis Securities Research

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