

PI Industries Limited

1st February 2024

Strong combo of growth along with diversification

PI Industries Ltd. (PIIL) is an R&D-led, leading agrochemical and life science Company with a unique business model, operating in two segments: a) Custom Synthesis and Manufacturing (CSM) and b) Distribution of branded agri-inputs in the domestic market. The Company enjoys symbiotic relations with 20+ global innovators and boasts a large domestic distribution network with 80,000+ retailers. After attaining significant success in the agrochemical CSM business, the Company plans to spread its wings into the Contract Research Organization (CRO), Contract Development and Manufacturing Operation (CDMO) and Active Pharmaceuticals Ingredients (API) space. We believe PIIL will continue to witness 15-20% growth in its existing business, along with 24-25% EBITDA margins, on the back of a strong customer trust and inquiry pipeline, along with attaining steady diversification into pharma.

Moat built around trust and deep relations should continue to pay off

Trust and deep relationships form the cornerstone of the CSM business, as the innovator can only appoint 1-2 contract manufacturers and must disclose their names in the dossier. In case of dissatisfaction, the time and cost associated with changing the contract manufacturer are humungous, making the CSM business very sticky in nature. PIIL has not only maintained existing relations but has also forged new relations, which is the reason why the Company is now working with 20+ global innovators and has an outstanding CSM order book of USD 1.8 Bn. In addition, PIIL also enjoys a reputation for delivering quality products and aims to commercialize 4-5 early-stage innovative molecules every year. Currently, the Company is enjoying a robust pipeline of molecules (25% non-agrochemical), which are expected to drive future growth.

Foray into an industry with a larger addressable market - Pharma

The long-term strategic vision of PIIL is to build a differentiated, niche business around R&D, starting materials, and APIs. The aggregate opportunity size of the business, which is being targeted by PIIL, is > USD 100 Bn. In line with the same, the Company has acquired Therachem Research Medilab and Archimica. In addition to these acquisitions, PIIL is also setting up a world-class R&D centre in IKP, Hyderabad. This will help it build an integrated CRO-CDMO-API platform under which it plans to provide multiple pre-filing and post-filing services.

View & Valuation

PIIL has built a robust moat around its agrochemical business by gaining the trust of its customers and leveraging its world-class R&D capabilities. Apart from this, the Company is gearing up to replicate its agrochemical success in scaling up non-agrochemical molecules as well. In line with the same, PIIL commercialized 2 electronic chemicals in FY23 and has significant inquiries from non-agrochemical customers. The Company has also acquired two companies to diversify into the pharma segment, aiming to create a differentiated CRO-CDMO-API platform. We believe that a robust outlook in the existing business, coupled with strong diversification efforts, will result in significant value creation going forward. Therefore, we initiate coverage of PIIL with a BUY rating and a target price of Rs. 4,103 (40x FY25E EPS), resulting in a 20% upside from current levels.

BUY

CMP Rs. 3,410

TARGET Rs. 4,103 (+20%)

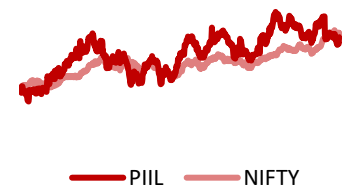
Company Data

Bloomberg Code	PI IN
MCAP (Rs. Mn)	5,18,305
O/S Shares (Mn)	152
52w High/Low	4,010 / 2,870
Face Value (in Rs.)	1
Liquidity (3M) (Rs. Mn)	1,590

Shareholding Pattern %

	Dec-23	Sep-23	Jun-23
Promoters	46.09	46.09	46.08
FIIIs	20.41	20.01	19.17
DIIIs	23.15	23.26	23.95
Non-Institutional	10.36	10.63	10.81

PIIL vs Nifty



Jan, 21 Jan, 22 Jan, 23 Jan, 24

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	64.92	74.74	85.49
EBITDA	15.44	17.19	19.66
Net Profit	12.22	13.46	15.56
Total Assets	99.31	115.63	131.5
ROCE (%)	18%	18%	17%
ROE (%)	18%	17%	17%

Source: Company, Keynote Capitals Ltd.

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Global CSM Industry

Combining Chemical Compounds

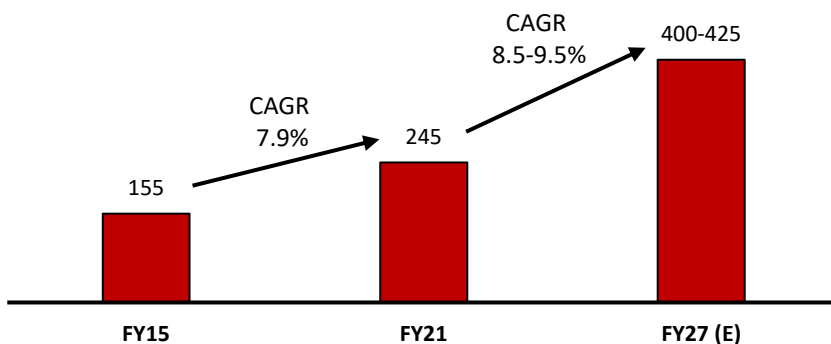
CSM services mean the exclusive synthesis of chemical compounds on behalf of the customer. Product categories include technical grades, active ingredients, intermediates, and speciality chemicals that finds application in agrochemical, personal care, textiles, paints and coatings industries. Companies opt for these services when they require the exclusive production of a particular molecule at scale, in line with their purity standards and other specifications.

CSM services are beneficial for companies seeking cost reduction and competitive operation in a business environment characterized by increasing regulations, dwindling product approval processes, and rapidly advancing technology. CSM services assist companies in enhancing their manufacturing capacity and flexibility without necessitating substantial capital investments.

Global Specialty Chemicals CSM service industry is expected to witness decent growth

The size of the global CSM service industry for specialty chemicals is estimated to be ~USD 245 Bn as of 2021. It experienced a CAGR growth of 7.9% between FY15-21 and is expected grow at 8.5-9.5% till FY27 to reach USD 400-425 Bn. This growth will be driven by the growing global specialty chemicals industry, rise in commodity prices, increase in demand for outsourcing of manufacturing to emerging markets, and more focus on R&D versus manufacturing by innovators.

Global Specialty Chemicals CSM Market (USD Bn)

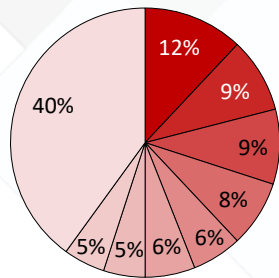


Source: Anupam Rasayan India Ltd. Pre-Placement Document, Keynote Capitals Ltd.

Agrochemicals dominate the speciality chemical segment

Specialty chemical is a key segment within the global chemical industry. In FY19, the estimated size of the industry was ~USD 705-725 Bn. Agrochemicals dominate the specialty chemicals sector, accounting for ~12% of revenue in FY19. The use of agrochemicals in fertilizers, herbicides, insecticides, and pesticides is on the rise due to the increasing demand for agricultural products, driven by population growth and a rising propensity to purchase resulting from rapid industrialization globally. The growth in the global specialty chemicals market is expected to fuel the demand for CSM services.

Global Specialty Chemicals Application Mix FY19 (%)



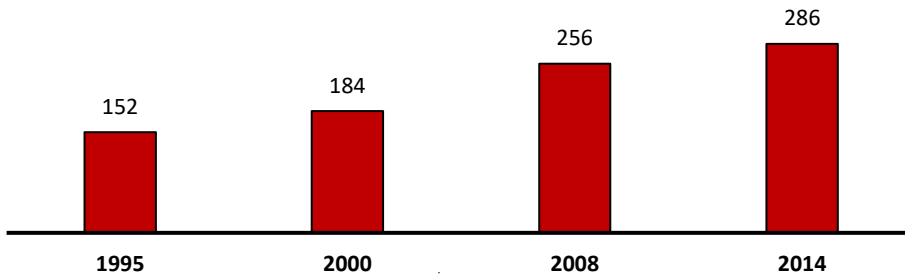
- Agrochemicals
- Food Additives
- Construction chemicals
- Electronic chemicals
- Water chemicals
- Polymer Additives
- Dyes & Pigments
- Surfactants
- Others

Source: Anupam Rasayan India Ltd. Pre-Placement Document, Keynote Capitals Ltd.

The cost of innovation is constantly rising

Another factor contributing to the growth of the global agrochemical CSM industry is the increasing R&D costs associated with developing new crop protection chemical molecules. Around the year 2000, the cost of discovering and developing new molecules stood at ~USD 184 Mn, which increased to USD 286 Mn in 2014. This substantial increase in R&D costs can be attributed to the growing emphasis on environmental chemistry, toxicology, and sustainability, coupled with the introduction of new technologies.

Discovery and Development Costs of New Crop Protection Chemical Molecules (USD Mn)



Source: : Phillips McDougall, 2016

Preference for emerging countries

Emerging countries like India are becoming favourable for CSM services not only due to the cost benefits but also because of the various advantages like:

- Availability of skilled manpower at a fraction of the cost compared to developed markets.
- Innovators benefit from proximity to emerging markets, enjoying easier access to sell innovative products in these regions.
- Rising research, development and regulatory costs in developed countries, making emerging markets a lucrative destination for outsourcing.

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The current ongoing growth struggle

The Indian agrochemical CSM companies have been struggling to register growth in the recent past. The following reasons are being cited by companies like SRF Ltd., PI Industries Ltd. and Anupam Rasayan Ltd. in their latest conference calls for the lacklustre performance.

Innovators are rationalizing inventory

“Within the Chemicals business, our Specialty Chemicals business witnessed subdued demand owing to the ongoing destocking and inventory rationalization by customers for certain key products, and we believe that we have seen a large impact of the same in Q2 FY24. While we continue to encounter rescheduling of some orders, we have not witnessed any cancellations.” – SRF, Q2 FY24 Con Call

“One of the larger issues there is also the fact that interest rate cycles globally have gone up very, very significantly over the last, let us say, a year or so. When we look at it, the cost of holding inventory has become dearer.” – SRF, Q2 FY24 Con Call

“Channel inventory stayed at elevated levels and the distributors in the US and Brazil are prioritizing destocking and filling up their requirements with lower-priced stocks. However, the consumption of crop protection products in the key markets of North America, LatAm is robust, thereby indicative of good health of the industry in the medium to long term.” - PILL, Q2 FY24 Con Call

China is dumping due to weak domestic demand

“The continuously falling prices of raw materials coming in from China, moreover, is putting pressure on selling prices across generic portfolios.” – PI Industries, Q2 FY24 Con Call

The agrochemical sector, in particular, for the last couple of quarters, has seen the oversupply from China coupled with excess channel inventory that has led to pricing pressure on agrochemical companies, specifically in the generic chemical segment, which is a cause of concern to the chemical players across the globe.” Anupam Rasayan, Q2 FY24 Con Call

Major agrochemical players globally



Source: Company, Keynote Capitals Ltd.

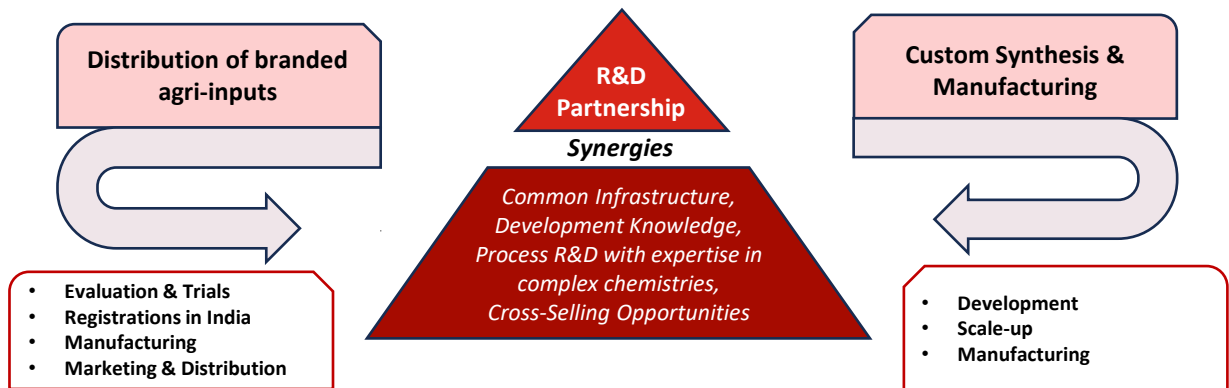
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About PI Industries Limited

Founded in 1946 as Mewar Oil & General Mills Ltd, PI Industries Ltd. (PIIL) is a leading agrochemical and life science company with a unique business model. The Company serves customers globally, operating across the entire agro-chem value chain. PIIL primarily operates in two segments: a) Custom Synthesis and Manufacturing (CSM) and b) Distribution of branded agri-inputs in the domestic market. Both verticals complement each other, enabling the Company to leverage its existing R&D capabilities and extensive nationwide distribution network.

PIIL's range of service offerings includes research, development, manufacturing, marketing, registration and distribution. Owing to its expertise in complex chemistry, coupled with state-of-the-art manufacturing, strong research infrastructure and a commitment to respecting IP rights, the Company has emerged as the preferred partner for several global innovators to manufacture and scale up patented early-stage molecules for large-scale commercialization.

Non-conflicting, IP-backed Model



Source: Company, Keynote Capitals Ltd.

Over its operating history of more than seven decades, PIIL has constantly focused on building strong manufacturing and R&D capabilities, which form the core of the Company's success in the CSM business. As of FY23, the Company operates 5 formulation facilities and 15 Multi-Purpose Plants (MPP) across 4 manufacturing locations in India. PIIL also has a robust R&D setup, including a team of 473 scientists and researchers (120 with doctorates) operating from a state-of-the-art research facility at Udaipur. The Company's unwavering focus on R&D has resulted in symbiotic relationships with 20+ global innovators.

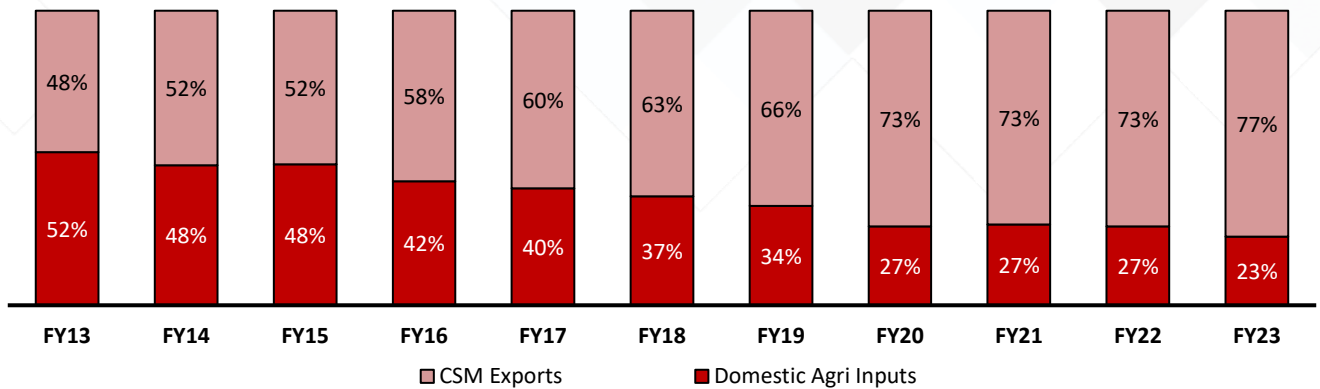
In addition to this, the Company has also established a solid pan-India distribution network, including 10,000+ channel partners and 80,000+ retailers. This network serves as a bedrock to the branded agri-inputs distribution business of PIIL.

The Company has been putting efforts into diversification for a long time. PIIL is looking to diversify its existing product basket by increasing its focus on Biologics and becoming a horticulture specialist. Alongside the existing business, the Company is diversifying into adjacent opportunities like pharma and other speciality chemicals where it can leverage its R&D capabilities. In alignment with this objective, PIIL acquired two companies in the pharma space and established an integrated pharmaceutical research center in Hyderabad, India.

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Further, the Company continues to actively seek more M&A opportunities to build capabilities in the non-agrochem space whereby it can build on its existing capacities and develop a robust business. The Company possesses the necessary financial resources to exercise a large acquisition. As of H1 FY24, PIIL has ~Rs. 29.5 Bn at its disposal.

Revenue Mix (FY13-FY23)



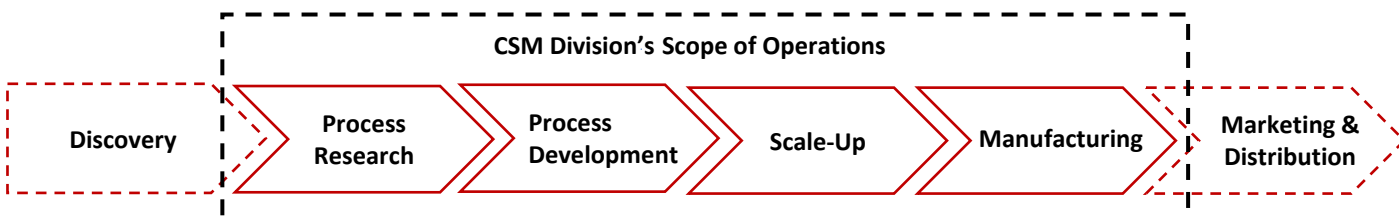
Source: Company, Keynote Capitals Ltd.

Since 2013, the contribution of the domestic agri-inputs business decreased from 52% in FY13 to 23% in FY23, as the Company shifted its focus towards the CSM business due to its promising growth prospects.

PIIL has built its business model in such a way that the Company collaborates with global innovators instead of competing with them. The Company enters into an in-licensing agreement with its CSM customers to sell their products in India which have the potential to be successful in the domestic market. This no-conflict business approach served as the foundation for all the business success that PIIL has garnered over the years. Thereby maximizing the benefits that can be derived from early-stage molecules.

CSM Exports (77% Revenue in FY23)

Started in 1996, the CSM division of PIIL is engaged in manufacturing active ingredients, intermediates, and other niche fine chemicals for global innovators in the agrochemical industry. In addition to this, the Company also manufactures electronic and pharma chemicals for its customers, which can be considered insignificant due to their minuscule contribution to the top line. Services offered by PIIL's CSM division include process development, scale-up in Kilo/Pilot labs, and large-scale manufacturing of innovative molecules. PIIL primarily focuses on patented molecules in the early stage of their life cycle, involving the use of complex chemistry and process technology.



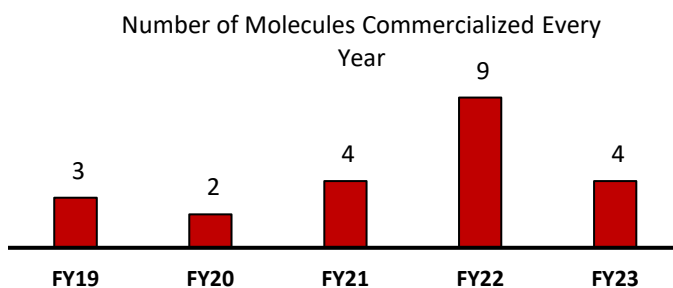
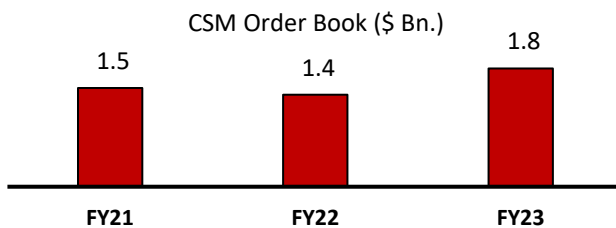
Source: Company, Keynote Capitals Ltd.

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In summary, PIIL helps global innovators with process research and manufacturing to scale their molecules from the lab stage to the commercial level. This business is built on significant trust and reliability, which the Company has earned with decades of cohesively working with global agrochemical innovators. The innovator looking to outsource scale-up and manufacturing needs to share the formula (developed after spending millions of dollars and significant time) with PIIL and must specify its name as a supplier in the dossier filed for product registration.

In addition to sharing the formula, innovators can only list up to two contract manufacturers in the dossier, which is very difficult (in terms of cost and compliance) to change once mentioned. Therefore, innovators only partner with CSM companies that have a proven track record of efficiently managing intellectual property and have provided the right quality supplies on time. A strong emphasis on respecting intellectual property (IP) rights, coupled with best-in-class R&D and manufacturing capabilities, positions PIIL as an ideal supplier.

The Company earns most of its revenue from patented molecules, and its trust and reliability are evident by the increasing number of molecules commercialized and the patents filed by the Company. In addition to this, the inquiry pipeline witnessed by PIIL continues to remain robust, with an outstanding order book of USD 1.8 Bn as of FY23.

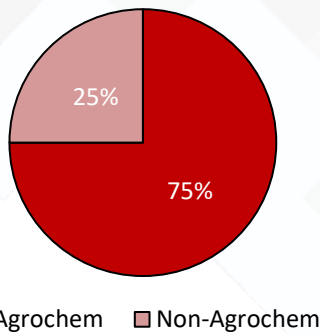


Source: Company, Keynote Capitals Ltd.

Commercialization follows a disciplined timetable, typically taking 1-2 years, with deliveries aligned to global demand. Further, PIIL operates on a take-or-pay policy, ensuring payment even if the customer declines the delivery of the order.

Though agro-chem molecules continue to dominate the inquiry mix, 25% of the new inquiries received by PIIL in FY23 happen to be from the non-agro-chem space. Looking at the current capabilities, it should not be difficult for PIIL to commercialize 4-5 molecules per year on a steady-state basis.

New Inquiry Mix in FY23



Source: Company, Keynote Capitals Ltd.

Domestic Agri Inputs (23% Revenue in FY23)

In 1961, PIIL entered the agrochemical industry by commencing the domestic agri-inputs manufacturing and distribution business. This business includes the manufacturing and distribution of formulations (finished products like agrochemicals, specialty fertilizers, and plant nutrients) in the market under proprietary brands.

This business is strongly linked to the CSM business as most of the formulations distributed by PIIL in the domestic market are products discovered by the global innovators that it works within its CSM division. The way this works is that PIIL continuously keeps on scouting innovator molecules with a potential domestic opportunity. On finding such products, the Company enters into an exclusive in-licensing agreement with the innovator to distribute the same in India by leveraging its vast pan-India distribution network.

In-Licensing:

The aim of this model is to secure exclusive marketing rights for innovator molecules with strong domestic opportunity. This involves entering an exclusive in-licensing agreement with the innovator company, where the domestic registration of the patented molecules occurs under PIIL's name, granting it rights to market and distribute the product in the country. The Company also undertakes other important activities like efficacy and toxicity studies, trials, etc.

Depending on the contractual terms, PIIL may import technical/bulk formulations from the innovator or choose to manufacture the product at its own facilities in India. These agreements are typically associated with early-stage patented molecules, enabling PIIL to reap benefits across a significant portion of the molecule's life cycle.

allowing PIIL to realize the full benefits throughout most of the life cycle of the molecule.

Co-marketing:

In certain situations, PIIL also enters co-marketing arrangements with domestic peers. Under this arrangement, molecules are reverse-shared with PIIL by its peers, whereby the Company shares key products with peers to establish a significant presence and preference for the product in the market. Peers purchase the product from PIIL, which retains the registration under its own name.

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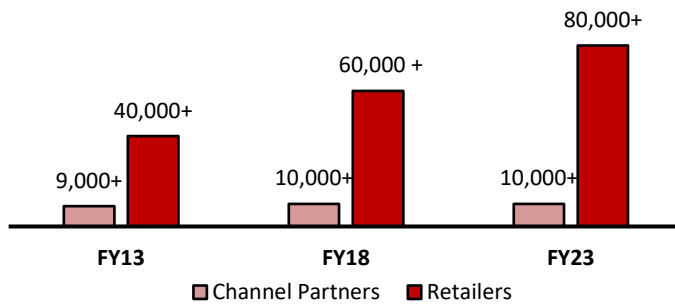
The Company operates a vast distribution network of more than 10,000 channel partners and 25 stock points engaging with 80,000+ retailers over India. PILL boasts a historical run-rate of launching 3-4 products in this division each year.

New Product Launches in the Segment



Source: Company, Keynote Capitals Ltd.

Domestic Distribution Network



Source: Company, Keynote Capitals Ltd.

Company Structure

As of FY23, the Company has 7 Wholly Owned Subsidiaries (WOS) and 2 joint ventures with leading Japanese companies. The key highlights of these subsidiaries and joint venture companies are as follows.

Sr. No.	Name of the Entity	WOS/JV
1.	PI Life Science Research Ltd. (PILSRL)	WOS
2.	PILL Finance and Investments Ltd. (PIF&IL)	WOS
3.	PI Health Science Ltd. (PIHSL)	WOS
4.	Jivagro Ltd.	WOS
5.	PI Bioferma Pvt. Ltd. (PIBFPL)	WOS
6.	PI Fermachem Pvt. Ltd. (PIFCPL)	WOS
7.	PI Japan Co. Ltd. (PI Japan)	WOS
8.	Solinnos Agro Sciences Pvt. Ltd. (Solinnos)	JV
9.	PI Kumiai Pvt. Ltd. (PI Kumiai)	JV

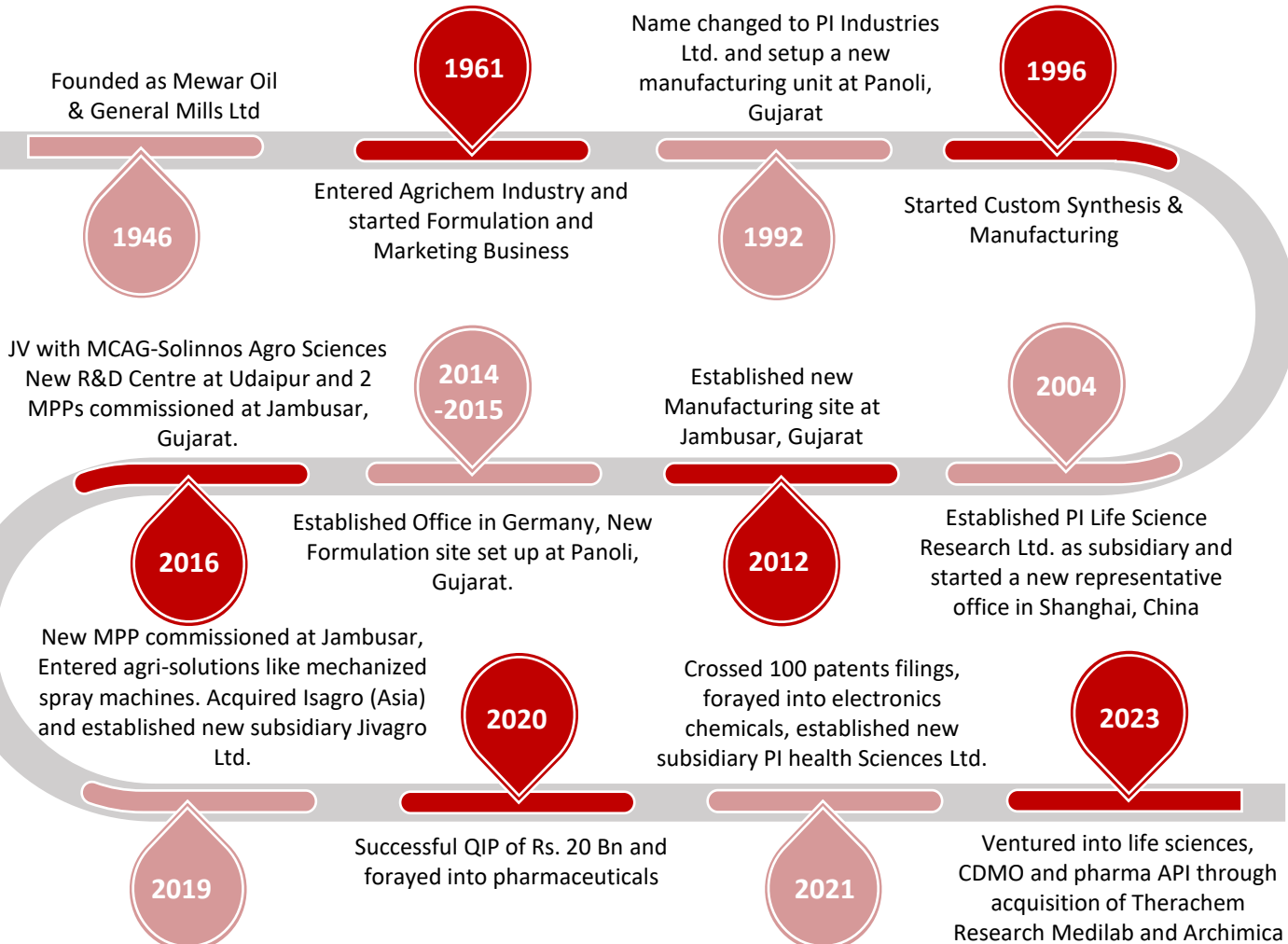
Source: Company, Keynote Capitals Ltd.

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Particulars	Name of the Subsidiary							Name of JV	
	FY23	PILSR	PIF&IL	PIHSL	Jivagro	PIBFPL	PIFCPL	PI Japan	Solinnos
Business Description	PILSR carries out the business of R&D for developing new products.	PIF&IL is a finance company engaged in the business of finance mediation for PIIL.	PIHSL was incorporated and a part of PIIL's expansion plan into pharma and, therefore, is engaged in the pharma business. PIHSL houses the newly acquired pharma companies.	Jivagro is engaged in the agrochemical business with specialization in horticulture.	The Company is yet to start the business operations.	The Company is yet to start the business operations.	PI Japan carries out the business development activities of the Company in Japan.	Solinnos is engaged in providing product evaluation and registration services for Mitsui's proprietary agrochemicals in India.	PI Kumiai is engaged in the manufacturing and trading of agrochemicals in collaboration with Kumiai Chemicals Industry Co. Ltd., Japan.
Reporting Currency (Rs. Mn)	₹	₹	₹	₹	₹	₹	₹=0.616 ¥	₹	₹
Networth	382	49	348	2,157	0.3	0.3	41	45	473
Total Assets	385	50	931	2,816	0.4	0.4	47	0	0
Revenue	59	2	*	2,863	*	*	93	0	0
PAT	40	0.5	-102	174	-0.1	-0.1	3	31	106
Shareholding (%)	100%	100%	100%	100%	100%	100%	100%	49%	50%

* Yet to commence business

Key Milestones



Source: Company, Keynote Capitals Ltd.

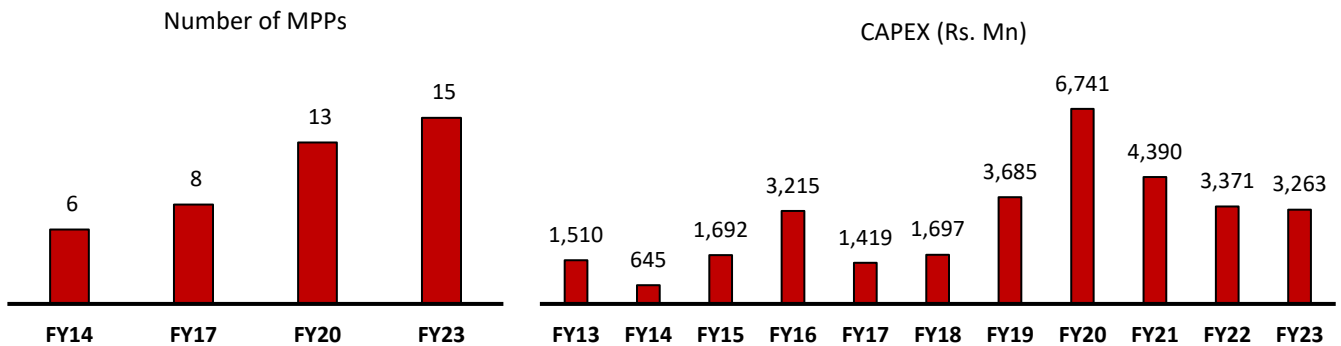
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Manufacturing

PIIL owns and operates 5 formulation facilities and 15 automated MPPs across four manufacturing locations in India. Spanning over 100 acres, these facilities feature specialized high-pressure reaction facilities, ensuring future automation. The 2 formulation units in Panoli serve both domestic and international clients. Facilities are also equipped with integrated process development teams and engineering capabilities.

MPPs provide the Company flexibility for the rapid production of new products and scalability to meet client demands, in contrast to having a dedicated manufacturing facility.

PIIL keeps relentlessly working towards optimizing product quality and output. An example of such efforts can be gauged from the fact that the Company was able to achieve a 20% increase in annual production along with 16% more input recovery compared to FY22. These efforts in making manufacturing more efficient have resulted in PIIL servicing more clients globally by providing them with on-time product delivery with ZERO product recalls in FY23.



Source: Company, Keynote Capitals Ltd.

Acquisition of ISAGRO

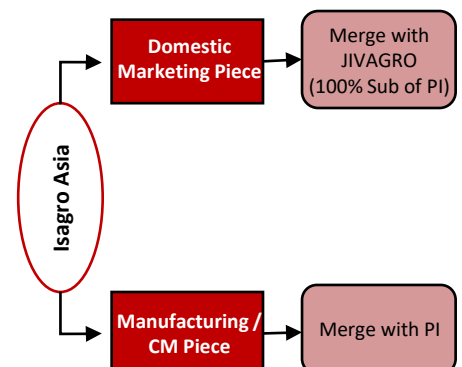
In September 2019, PIIL executed an offer with Isagro S.p.A (Italy) to acquire Isagro (Asia) Agrochemicals Pvt. Ltd., which was engaged in the business of Contract Manufacturing, Local Distribution and Exports of agrochemicals.

This acquisition provided the following benefits to PIIL.

1. Access to additional manufacturing capacities, situated adjacent to PIIL's existing manufacturing site in Panoli, Gujarat, to meet the growing demand of global customers.
2. De-risk the supply chain of a few products and help PIIL strengthen its position in the Indian market by leveraging the complementary portfolio and distribution channel of Isagro Asia.

The Company acquired Isagro Asia for a consideration of ~Rs. 3.5 Bn. The turnover clocked by Isagro in FY19 was ~Rs. 3.1 Bn, which indicates that PIIL was able to scout a good deal and allocate capital optimally.

Soon after completing the acquisition of Isagro Asia in December 2019, the Company, in February 2020, decided to merge the domestic marketing business of Isagro with Jivagro (a subsidiary of PIIL specialised in the horticulture segment) and the contract manufacturing business of Isagro with PIIL.



At the time of acquisition, the capacity utilization of Isagro (Asia) stood at 20-25%

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The objective behind this restructuring was to strengthen Jivagro and position it to be a leading player in the horticulture segment and reconfigure Isagro Asia's manufacturing facility to align with that of PIIL.

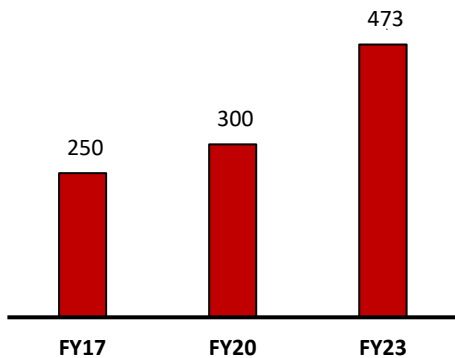
Research & Development

PIIL possesses deep-rooted R&D capabilities honed over decades. The Company has a world-class R&D facility in Udaipur recognized by the Department of Science and Technology-Government of India. The R&D facility provides continuous support, enabling PIIL to add several new molecules to the product portfolio each year. This R&D center accommodates a team of 473 scientists and researchers (including 130 doctorates) supported by advanced equipment and other facilities like kilo and pilot plants, which are NABL certified.

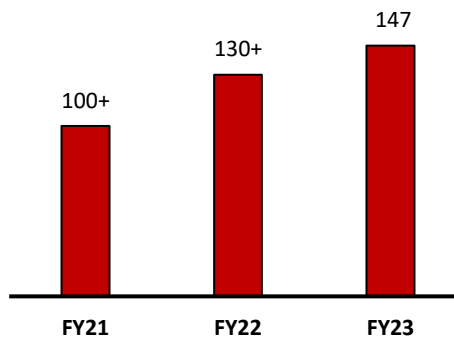
PIIL's R&D capabilities have resulted in breakthrough solutions, timely supplies and cost-efficient delivery that the Company carried out over its history of operations and has forged strong partnerships with 20+ global innovators. PIIL is a pioneer in the introduction of granular formulations in India and is the largest seller in this segment. It is the biggest producer of generic molecules like Profenofos, Ethion, and Phorate.

R&D Services Provided by PIIL	Target Discovery	Molecule Design	Library Synthesis	Lead Optimization	Biological Evaluation	Route Synthesis
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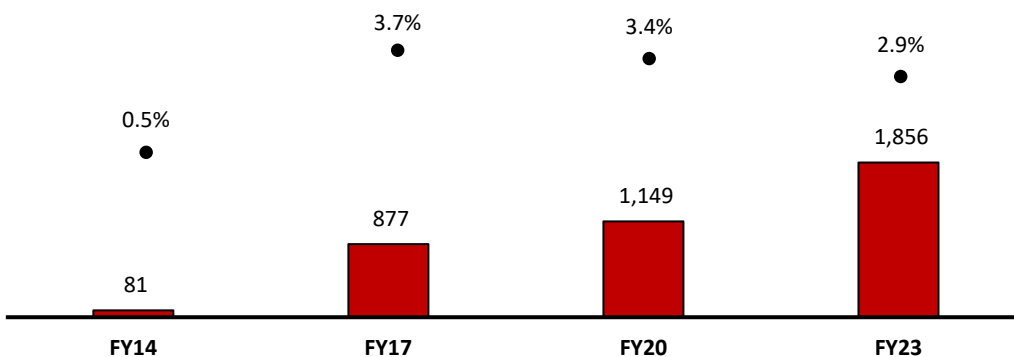
No. of R&D Employees



Cumulative Number of Patents



R&D Expense (Rs. Mn) (CAPEX + OPEX) and R&D % of Revenue



Source: Company, Keynote Capitals Ltd.

Increased focus on Horticulture and Biologicals

In its domestic agri-inputs business, PIIL is putting significant emphasis on the **horticulture segment** and **increasing the share of Biologicals** in its product basket.

The Company incorporated a wholly-owned subsidiary named **“Jivagro Ltd”** in December 2019, with an aim to be one of the leading players in the horticulture segment in India. The idea behind establishing a separate horticulture arm was to leverage PIIL’s existing horticulture portfolio of specialized products along with the specialized products in the pipeline. Going forward, the focus is to anchor the product portfolio to speciality and biological products and place the business on its growth path to achieve 20-25% growth.

Apart from this, the Company aims to have a differentiated GTM, specialized marketing channel, field force, and customer connection for Jivagro.

Increasing the share of Biologicals is another objective that PIIL wants to achieve as the business progresses. This is in line with the Company’s objective of propagating sustainable agriculture and agri-practices.

As of FY23, the contribution of Biologicals to the domestic agri- brands revenue was 9.2%. All the products manufactured by PIIL remain free from toxic substances, showing the Company’s commitment towards protecting the human health as well as the environment.

Foray into Pharma– a very crucial pivot

Although PIIL started testing the waters in the pharma segment much earlier, the stance towards foraying into pharma was clarified when the PIIL came up with a plan to raise Rs. 20 Bn via QIP for the purpose of acquiring a business in the pharma space.

Later, the Company showcased its R&D and manufacturing capabilities in pharma by successfully scaling and supplying an intermediate of COVID-19 drug. PIIL also filed a patent application for the same.

Couldn’t complete the Ind-Swift’s acquisition

Right after completing the QIP, the Company, in July 2021, announced an acquisition of Ind-Swift Laboratories Ltd. (ISLL), which was engaged in the business of manufacturing APIs and intermediates, for a consideration of Rs. 15.3 Bn. Later, in November 2021, PIIL published a press release that since ISLL was not able to complete several of the pre-agreed conditions before the long-stop date of 31st October 2021 and there were some disagreements between both parties regarding some pre-agreed conditions, the deal stands cancelled, and the Company has decided not to pursue the transaction further.

Incorporation of PI Health Science Ltd.

Soon after the announcement of acquiring ISLL, PIIL incorporated a wholly owned subsidiary, PI Health Science Ltd. (PIHSL), with the following objectives.

1. To manufacture, formulate, develop, contract manufacture and/or trade varied kinds of pharma products.
2. To maintain R&D laboratories to conduct and provide technical research, experiments, process development, and other research activities.

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Vision to be a differentiated API and CDMO player

The long-term strategic vision laid out by PIIL is to build a differentiated, niche and integrated business that will operate as a one-stop shop for R&D, starting materials, and APIs. PIIL's goal is to position itself in the high-potential space of API and CDMO. To achieve this objective, the Company is building a best-in-class integrated pharma research center in IKP Hyderabad for the CRO and CDMO offerings. PIIL believes this will help it target customers across the pharma value chain by leveraging the R&D expertise of the acquired entities.

Announced twin acquisitions in the pharma space

After rigorous scouting, PIIL, in April 2023, found two targets in line with the above objective to give the much-needed push to its pharma foray. The Company entered into the following transactions:

1. Acquisition of two Indian subsidiaries of Therachem Research Medilab LLC (TRM US), namely, Therachem Research Medilab (India) Pvt. Ltd. (TRM India) and Solis Pharmachem Pvt. Ltd. (Solis) by PIHSL.
2. Acquisition of Archimica S.p.A, a private limited company incorporated under German law by PI Health Science Netherlands BV (a subsidiary of PIHSL).
3. An asset purchase agreement with TRM US and other parties for the acquisition of certain identified assets of TRM US by PI Health Science USA, LLC (a subsidiary of PIHS BV and a step-down subsidiary of PIHSL).

Therachem Research Medilab LLC

TRM is a chemistry-driven solution provider in medicinal chemistry research, process research and development specializing in the rare diseases area. It caters to pharmaceutical and biopharmaceutical companies in the pre-clinical and clinical stages. TRM has manufacturing facilities in India and R&D facilities in India and the US.

Therachem Research Medilab (India) Pvt. Ltd., Solis Pharmachem Pvt. Ltd. and certain identified assets of TRM US

Both TRM India and Solis Pharmachem are Contract Research and Manufacturing Service (CRAMS) organizations engaged in the business of research, development and manufacturing of chemical compounds that are used to manufacture APIs and other pharmaceutical products.

In addition to TRM India and Solis, the Company has also executed an asset purchase agreement to purchase certain identified assets of TRM US.

The above entities and identified assets were purchased by PIIL for a consideration of USD 50 Mn with additional performance-linked payouts up to USD 25 Mn over the next six years.

Archimica S.p.A

Archimica is an Italy-based, small-scale API manufacturer and CDMO, servicing over 60 marquee clients in more than 30 countries. It owns 24 US Drug Master Filings (DMFs), and GMP-compliant manufacturing facility, certified by regulators like the USFDA and the local regulator, AIFA, for manufacturing niche APIs and intermediates across a wide therapeutic areas that are currently growing more than the average industry growth rate. The purchase consideration paid to acquire Archimica was EUR 34.2 Mn.

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Peer Comparison

Brief about peers



ANUPAM RASAYAN INDIA LTD.



Founded in 1946, PIIL is a leading agrochemical and life science company which operates globally across the entire agro-chem value chain. It primarily operates in two segments: CSM of agrochemicals and Distribution of branded agri-inputs in the domestic market.

The Company operates 5 formulation facilities and 15 MPPs across 4 manufacturing locations in India along with a R&D facility in Udaipur.

Established in 1984, Anupam Rasayan India Ltd. (ANURAS) is a CSM player operating in two key segments, namely, Life Science Speciality Chemicals (including agrochemicals, personal care and pharmaceuticals) and Other Speciality Chemicals (including pigment and dyes and polymer additives).

The Company operates 6 manufacturing sites in Gujarat with a dedicated R&D facility in Sachin.

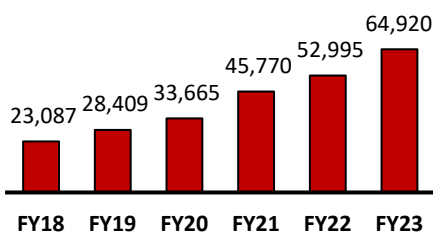
Founded in 2006, Deccan Fine Chemicals (Deccan) is a privately owned company focusing on CSM of active ingredients and advanced intermediates for agrochemicals, fine and specialty chemicals. It offers fully integrated contract development and manufacturing services from product development to commercial scale exclusively for specific customers.

The Company operates 3 manufacturing facilities across India integrated with R&D facilities.

Revenue Trend (Rs. Mn)

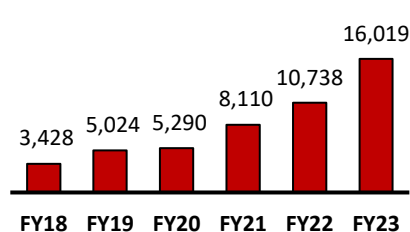
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5Y CAGR – 22.9%



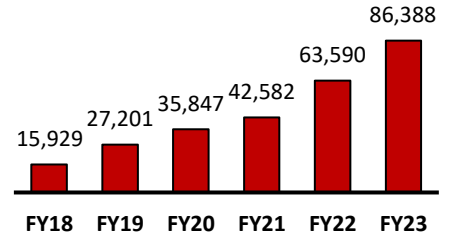
Anupam Rasayan Ltd.

5Y CAGR – 36.1%



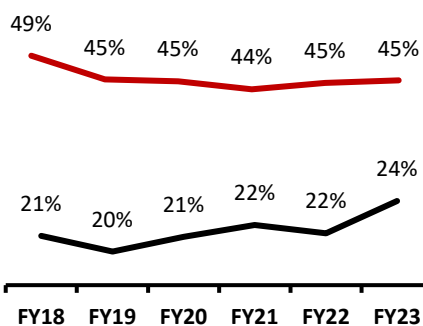
Deccan Fine Chemicals Pvt Ltd.

5Y CAGR – 40.2%

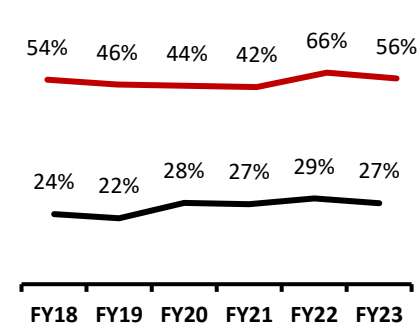


Gross and EBITDA Margin (%)

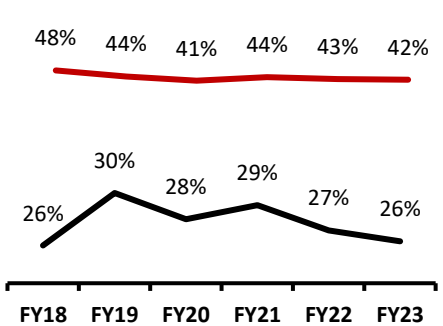
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Anupam Rasayan Ltd.

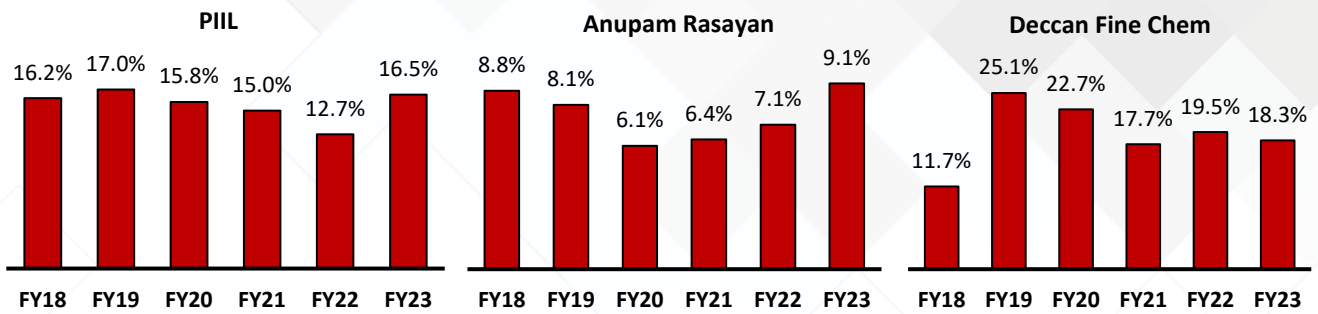


Deccan Fine Chemicals Pvt Ltd.

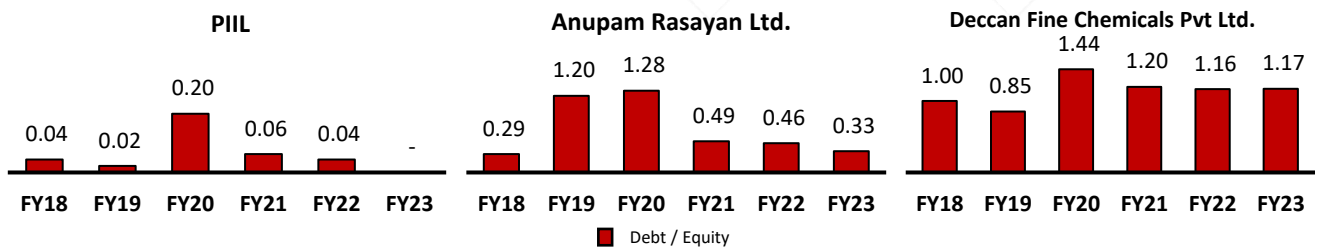


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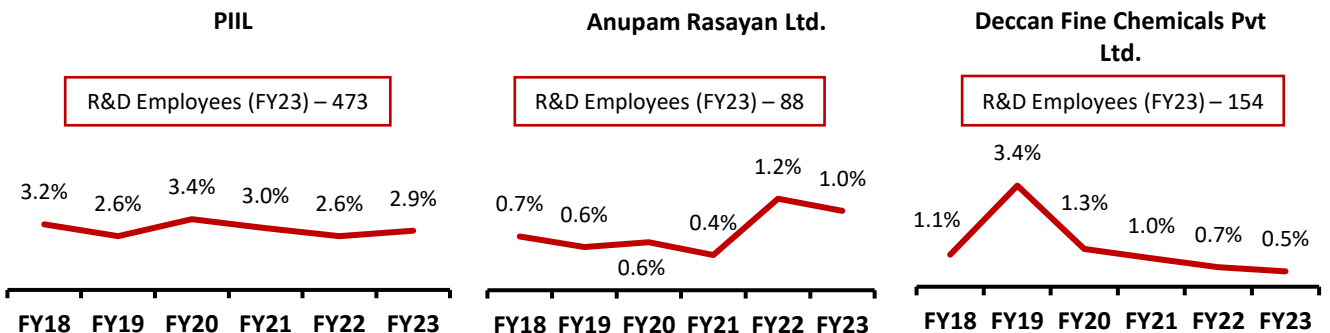
ROCE (%)



Leverage (Debt/Equity)



R&D Expense as a % of Revenue



Source: Company, Anupam Rasayan India Ltd., Deccan Fine Chemicals, Keynote Capitals Ltd.

Observations

All three companies have registered strong 5-year revenue growth with CAGR ranging from 20-40%. ANURAS stands out in terms of gross margins, whereas Deccan and PIIL have reported range-bound gross margins. Adjusted for R&D expenses, the EBITDA margin for PIIL aligns with ANURAS and surpasses that of Deccan.

Over the last six years, PIIL has generated consistent and satisfactory ROCE in comparison with its peers. Additionally, the Company also recorded the strongest balance sheet performance.

R&D serves as the foundation for CSM companies. PIIL stands out notably in both R&D expenditures and the size of the workforce dedicated to R&D activities. ANURAS's R&D trajectory also shows promising developments.

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Management Analysis

The Management team of PIIL mostly consists of seasoned professionals with rich domain experience. Mr. Mayank Singhal is the only family member.

Name	Designation	Promoter / Professional	Experience with PIIL (Yrs.)
Mr. Salil Singhal	Chairperson Emeritus	Promoter	44+
Mr. Mayank Singhal	Vice Chairperson & MD	Promoter	27+
Mr. Rajnish Sarna	Joint MD	Professional	25+
Mr. Atul Kumar Gupta	CEO, CSM Exports	Professional	24+
Mr. Prashant Hegde	CEO, AgChem Brand	Professional	4+
Dr. Alexander Klausener	CSO	Professional	-
Mr. Manikantan Vishwanathan	CFO	Professional	3+
Mr. Pradeep Kumar Jain	Head Operations	Professional	3+
Mr. Sameer Dhaga	CTO Transformation	Professional	8+
Mr. Atanu Roy	CIO	Professional	< 1

Source: Company, Keynote Capitals Ltd.

Promoter Holding and Management Compensation

The promoter holding has fallen from FY19 levels but continues to be significant. The compensation received by the top management of PIIL has always been in the comfortable range and in line with the ideal corporate practices.

Particulars	FY19	FY20	FY21	FY22	FY23
% Promoter Holding (~)	51.4%	51.4%	46.7%	46.7%	46.1%
Promoter Salary (Rs. Mn)	161	183	216	232	273
As a % of PAT (~)	3.9%	4.0%	2.9%	2.8%	2.2%

Source: Company, Keynote Capitals Ltd.

Top Shareholders with more than 1% stake (%)

Particulars	FY19	FY20	FY21	FY22	FY23
LIC of India	-	2.9	-	2.0	5.5
Axis Mutual Fund	-	5.7	1.4	2.8	5.2
ICICI Pru Mutual Fund	-	1.2	-	1.8	1.9
Kotak Mutual Fund	1.3	2.2	1.7	1.3	1.7
UTI Mutual Fund	1.9	1.6	2.0	1.4	1.6
HDFC Life Insurance Company	1.2	-	1.3	1.5	1.0

Source: Company, Keynote Capitals Ltd.

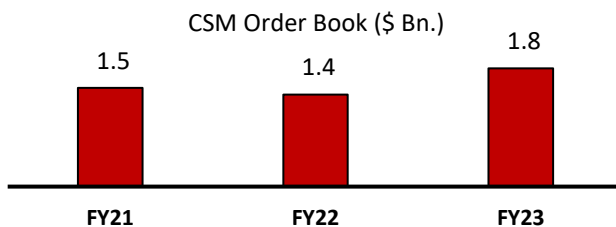
Opportunities

Moat built around trust and deep relations should continue to pay off

Trust and deep relationships form the bedrock of the CSM business. This is because the business requires the contract manufacturer to win the trust of innovators in terms of delivering the right quality product within the required time. The business prospers only if innovators feel comfortable sharing their valuable IP with the contract manufacturer.

PIIL started its agri-CSM business back in 1996 with an investment that was multiple times higher than the initial order value it received from its customers. It was that leap of faith that PIIL took initially in its CSM journey, which later turned out to be an inflection point for the Company.

Since its inception, PIIL, in its CSM business, has not only maintained symbiotic relations with global agri-innovators but has also continuously forged new ones on the back of its product quality and respect for IP. The same is visible in the growing association of the Company with global innovators. PIIL now works with 20+ global innovators versus 18 in FY17. As of FY23, The Company has an outstanding order book of USD 1.8 Bn.



Source: Company, Keynote Capitals Ltd.

PIIL is known for its product quality and enjoys a reputation for not compromising quality in the lure to earn some extra margin. This is what has resulted in innovators keeping immense faith in the Company despite it not being the lowest-cost provider.

Going forward, PIIL plans to replicate its success in agri-CSM in non-agri segments also and aims to commercialise 4-5 early-stage innovative molecules every year. As of FY23, non-agro-chem inquiries contributed ~25% to the total inquiries received by the Company.

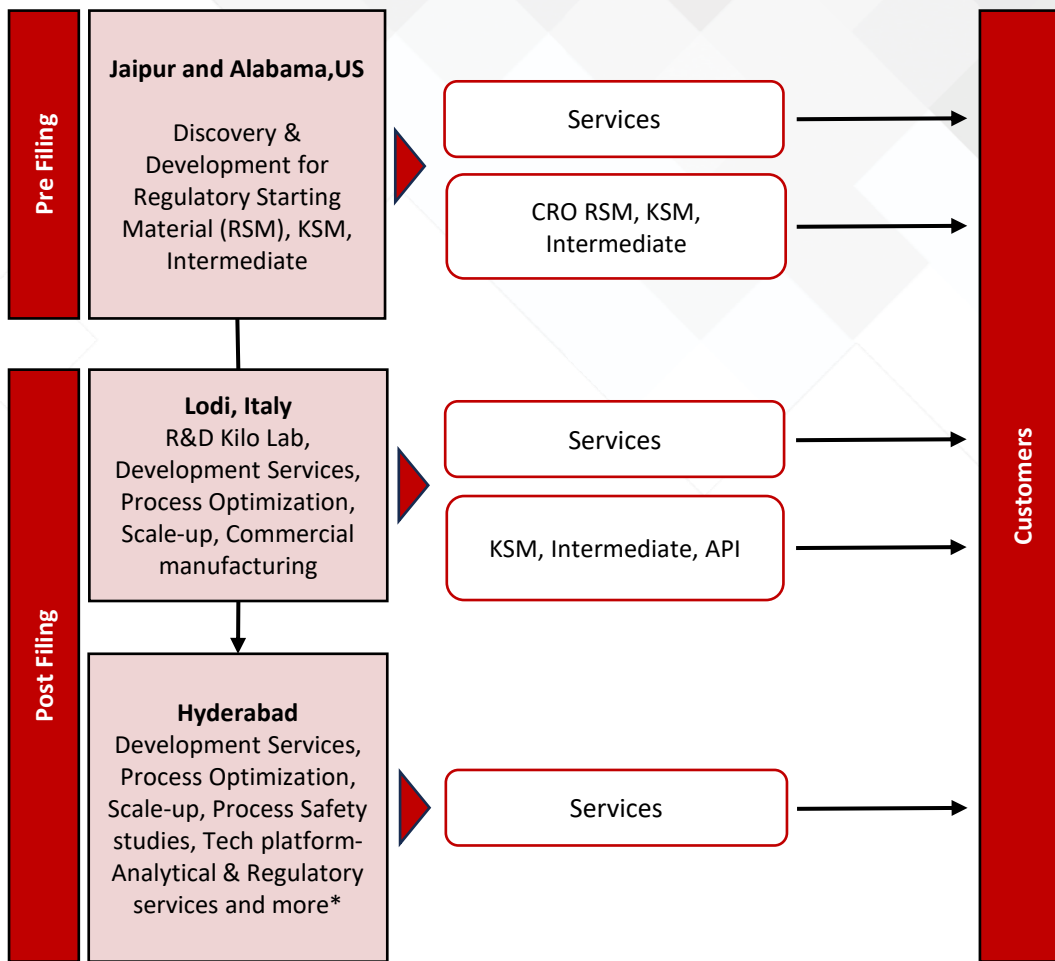
Foray into an industry with a large TAM - Pharma

The long-term strategic vision laid out by PIIL to build a differentiated, niche business around R&D, starting materials, and APIs exposes the Company to an industry with a large opportunity size of > USD 100 Bn.

The Company wants to build a differentiated pharma play by integrating the CRO, CDMO and API platforms of TRM and Archimica, which are situated in India, the USA and Italy, along with the R&D center that PIIL is building in IKP Hyderabad.

Under this segment, the Company plans to provide various pre-filing and post-filing services to its customers globally.

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(*) Services like Flow, Fermentation and Bio Catalysis are being evaluated for offering as of Q2FY24
 Source: Company, Keynote Capitals Ltd.

Financial muscle to exercise further growth CAPEX/acquisitions

PIIL has significant financial muscle in the form of cash and liquid investments despite spending USD 50 Mn and EUR 34.2 Mn behind the acquisitions of TRM and Archimica. As of H1 FY24, the Company had ~Rs. 30 Bn worth of total cash and liquid investments on its books.

Breaking down cash & investments as of H1 FY24

Particulars	Rs. Bn
Investments	11.5
Cash & Cash Equivalents	7.0
Bank Balances Other than Cash	11.1

Source: Company, Keynote Capitals Ltd.

These funds are an amalgamation of leftover funds from the Rs. 20 Bn QIP and funds generated by the Company from internal accruals. This gives PIIL significant comfort to go for a large CAPEX or make acquisitions. Also, the Company has shown openness for acquiring if it gives PIIL access to one or more of the following.

PIIL will acquire if it gets access to	Value Added Technology	Good Products or Assets	Niche vertical (Pharma/ Spec-Chem)	High Growth Applications	Disruptive Technologies in Chemistry and Process Engineering
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Source: Company, Keynote Capitals Ltd.

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Challenges

Concentration of Japanese customers

PIIL started its CSM business by catering to the Indian businesses of Japanese innovators. Since then, the Company has enjoyed a symbiotic relationship with Japanese innovators.

In fact, the global agrochemical industry evolution has taken place in such a way that Japan has been at the forefront of innovation. Therefore, it made sense for PIIL to conduct business with the Japanese innovators. In addition to this, western innovators like BASF, Bayer, etc., were already present in India and, therefore, had a front-end presence, unlike Japanese innovators, who leveraged PIIL's extensive domestic network to distribute their products in India by entering into an exclusive in-licensing agreement with the Company.

The Company's reliance on Japanese innovators can be observed from the fact that it established PI Japan Co Ltd. in 2007, a subsidiary that acts as a representative for PIIL in Japan, helping PIIL increase its customer base in Japan. In addition to building a presence in Japan, PIIL has JVs and research partnerships with Japanese innovators only.

Name of the entity	Nature, Target Industry	Partner
Solinnos Agro Sciences Pvt. Ltd. (Solinnos)	JV, agro-chem	Mitsui
PI Kumiai Pvt. Ltd. (PI Kumiai)	JV, agro-chem	Kumiai
PI-Sony	Research Partnership, electronic chemicals	Sony

Source: Company, Keynote Capitals Ltd.

Another variable that indicates PIIL's heavy reliance on Japanese customers is two of PIIL's blockbuster molecules to date, Bispyribac Sodium 10% SC (Brand - Nominee Gold) and Pyroxasulfone (Brand - Awkira), have come from a single Japanese innovator, Kumiai Chemical. Though the Company conducts business with innovators outside of Japan also, the business mix seems to be heavily skewed towards Japanese customers, posing a threat to the Company in case innovation slows down in Japan or western innovators take away a larger share of upcoming innovation given significant business consolidation has taken place outside of Japan.

Large M&A deals which took place in the agrochemical globally

Year	2015	2016
Deals	<ol style="list-style-type: none"> 1. Dow-DuPont announced merger 2. Monsanto tried to acquire Syngenta (Fails) 	<ol style="list-style-type: none"> 1. ChemChina agreed to acquire Syngenta 2. Bayer announced acquisition of Monsanto

Source: Company, Keynote Capitals Ltd.

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Potential risks around Pyroxasulfone

About Pyroxasulfone

It is a novel herbicide co-developed by two Japanese companies, Kumiai Chemical Industry Co. Ltd. and Ihara Chemical Industry Co. Ltd. The product is known for its safety profile and low-volume application. Pyroxasulfone, since its launch in 2011, has witnessed a significant surge in sales, reaching to an opportunity size of USD 600-700 Mn in 2023. The molecule is further estimated to scale up to multi-billion dollars in size in the coming years.

Pyroxasulfone is very important to PIIL

Pyroxasulfone contributes materially to Kumiai's as well as PIIL's CSM revenue. Indicative numbers suggest that this product contributes ~35% and ~55% to PIIL's overall and CSM segment's revenue, respectively.

The following news and recent developments indicate pressure on its demand going forward.

Expansion of Pyroxasulfone capacity announced by Chinese players

In China, the patent for the API of Pyroxasulfone expired in Feb'22, and as of Sep'23, only one Chinese player, Shanghai Qunli Chemical Co. Ltd., held registration for the same in China. Later, in Oct'23, Shandong Yonghao announced to set up a 1,000 MT/annum capacity, which was followed by Rainbow Agro announcing a 2,000 MT/annum capacity in Dec'23. In short, three Chinese players have marked their presence in manufacturing the API for Pyroxasulfone, which has resulted in an increase in competition.

Weak FY2024 guidance by Kumiai Chemical Industry Co. Ltd. (Kumiai)

Kumiai, on 14th Dec'23, announced its financial results for the year ending Oct'23. In its result summary for FY23 (Nov'22-Oct'23), Kumiai reported a YoY growth of ~11% in its topline and operating profit respectively. It cited "Increase in sale volume of Pyroxasulfone (AXEEV)" as a primary reason for this growth.

In addition to disclosing the drivers for FY23 performance. Kumiai also shared its guidance for FY24, along with the growth drivers. It is expecting to witness a growth of ~4% in its topline and a de-growth of ~15% in its operating income. Kumiai believes that it will witness an increase in sales volume for AXEEV but will also see inventory and price adjustments in AXEEV as a countermeasure against generic products. If this kind of lacklustre performance from one of the key customers of PIIL fructifies, it can impact the growth outlook for the Company.

Management's take on Pyroxasulfone

The management of PIIL believes that fears around the product are immaterial as the product still has a significant growth potential and is currently patent-protected in 90% of the markets and is expected to remain so in multiple markets till 2030. As per the management, there is no threat to the innovator as well as the contract manufacturer.

In addition to this, PIIL has a well-diversified product portfolio where it exports ~25 products and commercialises ~4-5 products every year. The Company will continue to diversify and doesn't foresee any impact.

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Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	52,990	64,920	74,749	85,499	97,117
Growth %		23%	15%	14%	14%
Raw Material Expenses	29,225	35,527	41,112	47,025	53,415
Employee Expenses	4,804	5,266	6,727	7,695	8,741
Other Expenses	7,505	8,684	9,717	11,115	12,431
EBITDA	11,456	15,443	17,192	19,665	22,531
Margin%	22%	24%	23%	23%	23%
Depreciation	2,018	2,265	2,688	2,985	3,265
EBIT	9,438	13,178	14,505	16,680	19,266
Interest Paid	161	393	280	280	280
Other Income & exceptional	1,014	1,590	1,997	2,349	2,970
PBT	10,291	14,375	16,222	18,749	21,956
Tax	1,890	2,148	2,758	3,187	3,733
PAT	8,401	12,227	13,464	15,561	18,224
Growth %		46%	10%	16%	17%
Shares (Mn)	151.7	151.7	151.7	151.7	151.7
EPS	55.51	80.59	88.74	102.57	120.11

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY25E
Cash, Cash equivalents & Bank	14,102	22,429	31,391	42,327	55,756
Current Investments	8,547	9,843	9,843	9,843	9,843
Debtors	8,687	7,720	11,212	12,825	14,568
Inventory	14,234	13,976	16,034	18,340	20,832
Short Term Loans & Advances	9,352	9,432	9,432	9,432	9,432
Other Current Assets	1,276	482	482	482	482
Total Current Assets	56,198	63,882	78,394	93,248	1,10,913
Net Block & CWIP	25,163	26,680	28,492	29,507	30,242
Long Term Investments	448	313	313	313	313
Other Non-current Assets	8,164	8,435	8,435	8,435	8,435
Total Assets	89,973	99,310	1,15,634	1,31,504	1,49,903
Creditors	9,242	8,380	12,519	14,306	16,213
Provision	6,930	7,591	7,591	7,591	7,591
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	3,869	3,106	3,106	3,106	3,106
Total Current Liabilities	20,041	19,077	23,216	25,003	26,910
Long Term Debt	1,699	0	0	0	0
Deferred Tax Liabilities	875	213	213	213	213
Other Long Term Liabilities	6,154	8,035	8,035	8,035	8,035
Total Non Current Liabilities	8,728	8,248	8,248	8,248	8,248
Paid-up Capital	152	152	152	152	152
Reserves & Surplus	61,052	71,833	84,018	98,101	1,14,593
Shareholders' Equity	61,204	71,985	84,170	98,253	1,14,745
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	89,973	99,310	1,15,634	1,31,504	1,49,903

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	10,291	14,375	16,222	18,749	21,956
Adjustments	1,986	1,079	971	916	575
Change in Working Capital	-5,276	2,050	-1,411	-2,132	-2,328
Total Tax Paid	-1,751	-2,558	-2,758	-3,187	-3,733
Cash flow from operating Activities	5,250	14,946	13,024	14,346	16,471
Net Capital Expenditure	-3,362	-3,225	-4,500	-4,000	-4,000
Change in investments	1,593	-2,585	0	0	0
Other investing activities	665	848	1,997	2,349	2,970
Cash flow from investing activities	-1,104	-4,962	-2,503	-1,651	-1,030
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-720	-2,669	0	0	0
Dividend (incl. tax)	-758	-1,137	-1,279	-1,478	-1,731
Other financing activities	-295	-1,025	-280	-280	-280
Cash flow from financing activities	-1,773	-4,831	-1,559	-1,758	-2,011
Net Change in cash	2,373	5,153	8,962	10,936	13,430

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY25E
Per Share Data					
EPS	56	81	89	103	120
Growth %		45%	10%	16%	17%
Book Value Per Share	403	474	555	648	756
Return Ratios					
Return on Assets (%)	10%	13%	13%	13%	13%
Return on Equity (%)	15%	18%	17%	17%	17%
Return on Capital Employed (%)	14%	18%	18%	17%	17%
Turnover Ratios					
Asset Turnover (x)	0.6	0.7	0.7	0.7	0.7
Sales / Gross Block (x)	1.8	1.9	1.9	2.0	2.1
Working Capital / Sales (x)	65%	62%	67%	72%	78%
Receivable Days	54	46	46	51	51
Inventory Days	155	145	133	133	134
Payable Days	95	91	88	99	100
Working Capital Days	113	100	91	85	86
Liquidity Ratios					
Current Ratio (x)	2.8	3.3	3.4	3.7	4.1
Interest Coverage Ratio (x)	64.9	37.6	58.9	68.0	79.4
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.3	-0.4	-0.4	-0.5
Valuation					
PE (x)	50.8	35.0	39.3	34.0	29.0
Earnings Yield (%)	2%	3%	3%	3%	3%
Price to Sales (x)	8.1	6.6	7.1	6.2	5.4
Price to Book (x)	7.0	6.4	6.3	5.4	4.6
EV/EBITDA (x)	36.3	28.3	30.1	26.3	23.0
EV/Sales (x)	7.9	6.7	6.9	6.1	5.3

Source: Company, Keynote Capitals Ltd. estimates

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Valuations

Particulars	FY25E
Revenue - CSM Exports	68,257
Revenue – Domestic Agri Inputs	17,242
Revenue (in Rs. Mn)	85,499
PAT (in Rs. Mn)	15,561
PAT Margin %	18.2%
EPS (Rs.)	102.6
P/E (x)	40
Target Price (Rs.)	4,103
CMP (Rs.)	3,410
% Upside/(Downside)	20.4%

Source: Company, Keynote Capitals Ltd. estimates

Over the years, PIIL has built a robust moat around its agrochemical business by gaining the trust of its customers. Today, the Company is working with 20+ global innovators in its CSM business with an outstanding order book of USD 1.8 Bn. All this is a result of PIIL's constant efforts to build world-class R&D facilities and capabilities. This can be observed from the fact that the Company conducted R&D for 50 molecules in FY23 in comparison to 25 in FY17.

In addition to this, the Company is putting significant efforts into replicating its agrochemical success in scaling up non-agrochemical molecules as well. In line with this objective, PIIL forayed into the electronic chemical segment in FY21. As of FY23, 25% of PIIL's new incoming inquiries are from customers belonging to the non-agrochemical segment. Also, the Company commercialized 2 electronic chemicals in FY23.

Additionally, the Company has also acquired two companies to diversify with an objective to diversify into the pharma sector having R&D and operational presence in USA, India and Italy. Leveraging these acquisitions, PIIL aims to create a differentiated CRO-CDMO-API platform and serve customers globally.

We believe that a robust visibility and outlook in the existing business, coupled with strong diversification efforts, will result in significant value creation going forward. Therefore, we initiate coverage of PIIL with a BUY rating and a target price of Rs. 4,103 (40x FY25E EPS), resulting in 20% upside from current levels.

Our Recent Reports

I G Petrochemicals Ltd.

Cigniti Technologies Ltd.

PSP Projects Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

Disclosures and Disclaimers

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