13TH AUG 2021

5 MINUTE STOCK IDEA

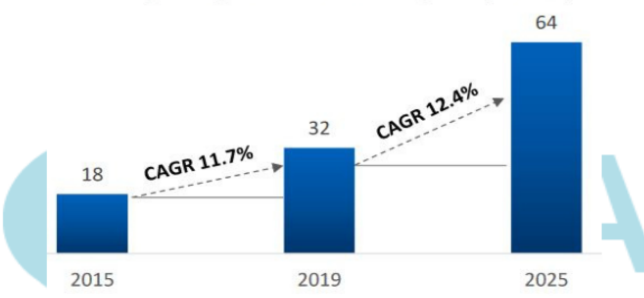
BY SMART SYNC INVESTMENT ADVISORY SERVICES

PI INDUSTRIES

WHAT WE LIKE

GOOD TAILWINDS FOR THE INDIAN CHEMICAL SECTOR

- India is **emerging as an export hub** for global innovators based on its low-cost advantage.
- **Rise in outsourcing** activities to India.
- **Leadership position** in select niches and chemistries similar to the pharma industry.
- Benefits from **supply chain diversification**
- **Green chemistry** to help improve processes



STRONG EXPORT GROWTH

PI has managed to grow its exports at a very high rate over the last five years. In Q1FY21, **exports form 68% of the total revenue and grew 31% YoY.** Thereby, it has been able to **de-risk itself from the uncertainties of domestic agri-market.**

OPPORTUNITIES FROM PAST ACQUISITIONS

PI has made **2 acquisitions in the recent past: Isagro and Ind Swift Labs Ltd or ISLL.** Both these purchases have helped the company expand its market reach to adjacent sectors with **Isagro helping PI go into horticultural crop protection and ISLL helping it expand into pharma APIs & intermediates space.**

We at SSS believe that these acquisitions can provide good chances for market expansion beyond traditional operating segments for PI.

VERY STRONG GROWTH AND FUNDAMENTALS

Negligible Debt on books- PI has a debt to equity of **0.05 times** which is mainly used for Capex.

In the last 10 years:- **Avg ROE- 23%, Sales Growth- 20% CAGR, PAT growth- 20% CAGR**

The company also boasts of an **order book that has consistently stayed** >**$1.5 billion** for more than 7 quarters now.

It had Rs 2193 Cr of surplus cash net of debt in Q1 of which Rs 1530 Cr was used to fund an all-cash acquisition of ISLL.

WHAT WE DON'T LIKE

DOMESTIC BUSINESS CONTINUES TO SUFFER

The Indian agricultural sector has been struggling for many years now. And the reasons are the same and known to all:

- shortage of labour supply
- escalated labour costs
- marginalized cultivable areas
- lack of irrigation facilities

Given this scenario, the domestic business continues to find it difficult to gain ground

DEPENDENCY ON MONSOONS

Even after so many advancements in technology worldwide, a large country like India still depends upon the monsoon season for its agricultural productivity. **An uneven rainfall seasons make it difficult to forecast demand.**

CURRENCY RISK

Since exports dominate the revenue profile of the company, any drastic movement in the foreign exchange rate is a risk for the company.

VALUATION

Currently trading at **more than 60 times TTM earnings, the stock of the company is factoring in almost all the positives.** If for any reason, there is any earnings downgrade, the P/E multiple may crash steeply.

LONG DEVELOPMENT CYCLES

Similar to the pharma industry, specialty chemicals especially agrochemicals have **long product development and commercialization cycles.** This means that it takes a lot of time for a product to become fully commercialized and earn back the capital invested into it.

PI has even stated that it takes **at least 2 to 2.5 years** for a newly released product **to be fully commercialized** highlighting the fact that **it may take even longer than this for the company to earn back the capital invested into the product.**

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