

After PI Industries' tepid Q4, focus on pharma biz contribution

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PI Industries Ltd's financial performance for the three months ending March (Q4FY23) was a bit dull with the results missing estimates. Consolidated revenues increased by 12% year-on-year to ₹1,565 crore. Growth was driven by custom synthesis manufacturing (CSM) exports business, which contributes about 80% of the company's revenues. Exports grew by 15% led by price, currency, and favourable product mix. However, volumes fell by 2%. The domestic business contributes PI Industries' remaining revenue

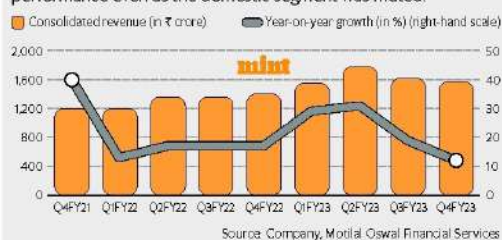
and put up a weak show in Q4 due to adverse weather.

Higher employee costs and other expenses weighed on operating performance. This meant earnings before interest, tax, depreciation, and amortisation (Ebitda) margin was 22%, flat year-on-year. This comes when gross margin expanded by 74 basis points. Sequentially, Ebitda margin and gross margin contracted, partly owing to changes in product mix.

Going ahead, PI Industries sees healthy demand and has guided for a revenue growth of 18-20% per annum. This would be primarily volume driven, as prices and currency are seen to

Not exciting enough

PI Industries' revenue growth in Q4FY23 was led by exports performance even as the domestic segment was muted.



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be range bound. The exports business has a healthy order book, which is expected to support growth. "To cater to the

unchanged order book of \$1.8 billion, PI Industries is likely to incur ₹800-900 crore capex in FY24 including spill-over from

FY23. This capex is likely to contribute to revenue in FY25," said analysts from JM Financial Institutional Securities in a report on 21 May. PI Industries is looking to commercialize 4-5 product molecules every year.

Note that the company's growth guidance excludes the recently acquired pharma business which is expected to be a key growth driver. As per Rohan Gupta, director, Nuvama Institutional Equities, "Pharma business can add about 20% of organic growth to the company."

To be sure, there are some near-term concerns, including the possibility of El Niño and excess channel inventories in

export and domestic markets. For now, analysts are broadly confident of the company's prospects. "El Niño isn't a big worry yet for domestic business," said Prathamesh Sawant, research analyst, Axis Securities. "Agro chemical companies in general are witnessing near-term headwinds with higher inventories in the generics segment, but with PI Industries, there is not much of a concern, as the company offers specialised products and lays base for a favourable outlook," he said.

Investors seem to be capturing the optimism adequately with the stock gaining almost 23% in the past one year.