CRISIL
Ratings

Rating Rationale

January 30, 2024 | Mumbai

PI Industries Limited

Ratings reaffirmed at 'CRISIL AA+/Stable/CRISIL A1+'; rated amount enhanced for Bank Debt

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Rating Action

Total Bank Loan Facilities Rated	**Rs.840 Crore (Enhanced from Rs.700 Crore)**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its â€˜CRISIL AA+/Stable/CRISIL A1+â€™ ratings on the bank facilities of PI Industries Ltd (PI; a part of the PI group).
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PI groupsâ€™ consolidated revenue grew ~23% year on year to Rs 6,503 crore in fiscal 2023 from Rs 5,306 crore in fiscal 2022, driven by 26% growth in the custom synthesis manufacturing (CSM) segment (which is entirely exports) to Rs 5,030 crore (fiscal 2022: Rs 3,990 crore) and 12% growth in the domestic segment to Rs 1,461 crore (fiscal 2022: Rs 1,309 crore). Growth in the CSM segment was led by ~11% volume growth and ~15% increase in realisation. The volume growth was supported by scale up of existing molecules as well as commercialisation of four new molecules (that received good traction) during fiscal 2023. Domestic revenue growth of 12% was driven by volume growth of ~8% owing to robust demand for existing products as well as newly launched products such as Disruptor, Brofeya, Sectin, Provide, Dinoce, Taurus and Tomatough, which received good traction. Further, average realisations in the domestic segment went up by ~4%.
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During the first half of fiscal 2024, revenue growth momentum continued with revenue rising 22% year on year to Rs 4,027 crore, from Rs 3,313 crore in the first half of fiscal 2023, on back of 27% growth in the CSM segment while domestic segment de-grew by ~7%. Growth in CSM segment was led by volume growth of ~25% and improvement in realizations by 2%. The domestic segment de-grew due to the erratic monsoon and El Nino conditions, which led to long dry spells impacting insecticide and herbicide sales in certain geographies.
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Further, during the first half of fiscal 2024, the PI group ventured into the pharmaceutical (pharma) space by acquiring the wholly owned Indian subsidiary of Therachem Research Medilab LLC (TRM US) along with the US-based assets of TRM US and Italy-based Archimica SpA for a total consideration of ~Rs 775 crore.
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Revenue from the newly acquired pharma companies contributed ~Rs 116 crore of revenue during the first half of fiscal 2024. The PI group is expected to benefit from the global presence, research and development (R&D) capabilities and global clientele of acquired companies and could leverage its knowledge in process chemistry and its operating efficiency to expand into the pharma space. The acquisition of TRM US and Archimica SpA aligns with the long-term strategic objective of the PI group to build a differentiated contract development and manufacturing organisation (CDMO) with offerings across the pharma value chain. The acquired companies are in the business of contract research development and manufacturing of chemical compounds, which are used for manufacturing active pharmaceutical ingredients (APIs) and other pharma products.
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Revenue growth is projected at 18-20% over the near to medium term, considering the robust order book position of USD1.8 billion in CSM, improving contributions from recent new launches in the domestic market and gradual ramp up in the pharma segment.
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PI groupâ€™s operating margin improved to 25.3% during the first half of fiscal 2024Â (from 24.2% in fiscal 2023) owing toÂ higher operating leverage. The group has been able to maintain healthy profitability and revenue growth even when the agrochemical industry has been going through unprecedented challenges following sharp drop in realizations and excess channel inventory owing to a huge supply deluge from China. This is because of niche operating model of the group wherein it is involved in CSM of Intellectual Property-backed products (early-stage molecules) for major global innovators wherein the margin is generally stable and healthy.
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The financial risk profile of the PI group continues to be strong, as reflected in low debt of Rs 126 crore and healthy tangible net worth of Rs 7,590 crore as on September 30, 2023. Debt protection metrics continues to be strong, led by low debt and strong profitability. Adjusted interest coverage ratio remains healthy at 93 times for the first half of fiscal 2024 (42 times in fiscal 2023). Liquidity has been strong, driven by healthy cash balance of Rs 2,890 crore, which along with net cash accrual (NCA) of over Rs 1,500 crore per annum would be sufficient to meet minimal repayment obligations and capital expenditure (capex) requirements. Unutilised bank lines of Rs 400 crore provides additional comfort.
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The ratings continue to reflect the growing presence of the PI group in the CSM business, supported by strong tie-ups with global innovators and established position in the domestic agrochemicals market, led by in-licensing business. The ratings also factor in healthy financial and liquidity risk profile ofÂ the group. These strengths are partially offset by large working capital requirement and susceptibility to risks inherent in the agrochemicals sector.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of PI and its wholly owned subsidiaries, PILL Finance & Investments Ltd (PFIL), PI Life Science Research Ltd (PLSRL), PI Japan Co Ltd (PJCL), PI Fermachem Pvt Ltd, PI Bioferma Pvt Ltd, PI Health Sciences Ltd and Jivagro Ltd. That is because all these companies, collectively referred to as the PI group, have the same promoters and business and financial linkages. PFIL handles the investment activities of PI, while PLSRL handles its contract R&D activities. PJCL is the marketing arm of the group in Japan.

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Goodwill arising out of acquisition of entities in pharma space has been amortized over a period of five years.

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Please refer Annexure - List of Entities Consolidated, which captures the list ofÂ entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Growing presence in CSM exports:** The CSM export segment is marked by a significantly de-risked business model, which provides healthy revenue visibility and stable profitability. The PI group is one of the pioneers of CSM in the agrochemical space in India. The group, which has been in this business for over a decade, has built a strong reputation, based on its sound research capabilities.

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Its clientele includes some of the largest agrochemical innovator companies in the world. The group has invested significantly in enhancing manufacturing capacities over the past seven fiscals and has commercialized more than 50 molecules up to the first half of fiscal 2024. Revenue from the CSM business registered a healthy compound annual growth rate (CAGR) of around 28% from Rs 1,408 crore to Rs 5,036 crore between fiscals 2018 and 2023 on the back of regular launches of new products and incremental revenue from existing products. Revenue outlook for the CSM business should remain healthy over the medium term, backed by the current order book position of around USD 1.8 billion.

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- **Established position in the domestic agrochemical business with healthy in-licensing and co-marketing (ILCM) and branded generics product pipeline:** The PI group has presence of more than five decades in the domestic agricultural inputs business. A healthy product mix, leadership in several generic product segments and increasing number of launches through the ILCM route helped the group establish itself as one of the top 10 players in this space

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While erratic monsoons and sizeable imports from China have affected offtake for domestic agrochemical players in fiscal 2024, domestic demand for agrochemicals is likely to gradually rebound in fiscal 2025, driven byÂ ICLM and branded generics products. The ILCM segment (~40% of domestic revenue in fiscal 2023) increased at a CAGR of ~12% between fiscals 2018 and 2023 and stood at Rs 584 crore in fiscal 2023. The products in the ILCM segment are generally patented products and margin accretive. The branded generics segment reported at CAGR of ~3% over the past five fiscals and recorded revenue of Rs 875 crore in fiscal 2023.

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During fiscal 2023, the group commercialized seven new agricultural brands.Â In addition, it is planning to launch 7-8 new products in the domestic market in fiscal 2024 (six products commercialized during the first half of the fiscal). Moreover, its focused approach to horticulture through its brand -- JIVAGRO -- coupled with a healthy pipeline of new launches shall boost revenue growth going forward.

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- **Healthy financial and liquidity risk profile:** The financial risk profile should remain healthy, marked by strong tangible net worth of Rs 7,590 crore as on September 30, 2023 and low debt of Rs 126 crore, which along with healthy operating profitability ensures robust debt protection metrics. Liquidity has been strong, driven by healthy cash balance of Rs 2,890 crore, which along with NCA of over Rs 1,500 crore per annum over the medium termÂ will be sufficient to meet the yearly maturing debt and annual capex of Rs 550-650 crore. Unutilised bank lines of Rs 400 crore provide additional comfort.

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Weaknesses:

- **Working capital intensive operations:** The domestic agrochemical industry is characterized by working capital-intensive operations, due to large inventory requirement, seasonality in demand, extended credit to dealers and distributors and higher dependance on few customers. In line with the industry, the group maintains sizeable inventory of 100-120 days, to ensure that the requirement of dealers are met on time. Credit of 90-120 days from suppliers mitigates pressure on the working capital front.

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- **Susceptibility to risks inherent in the agrochemicals sector:** Although crop protection or the agrochemical sector remains susceptible to specific and separate registration processes in different countries, the group has strong early-stage association with global innovators and confirmed order book that mitigates the risk to a great extent. The domestic business, constituting ~21% of revenue (first half of fiscal 2024), is exposed to vagaries of the monsoon and level of farm income.

Liquidity: Strong

Liquidity remains robust, driven by healthy cash balance of Rs 2,890 crore as on September 30, 2023. Further, estimated NCA at over Rs 1,500 crore per annum would be sufficient to meet yearly repayment obligation and capex requirement of Rs 550-650 crore. Unutilised bank lines of Rs 400 crore provide additional comfort.

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ESG profile

The environment, social and governance (ESG) profile of the PI group supports its already strong credit risk profile.Â

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The agrochemical sector has a high environmental impact owing to high greenhouse gas (GHG) emissions, extensive water usage and significant hazardous waste generation through core operations. The sector has a social impact because of its large workforce and given the impact of its nature of operations on the health and wellbeing of its workers and on the local community

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The groupÂ hasÂ beenÂ focusing on mitigating itsÂ environmental and social risks.

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Key ESG highlights

- GHG emission intensity reduced by ~6% year-on-year in fiscal 2023. The group has articulated its goal of reducing specific carbon dioxide emissions by 25% (from current levels) by fiscal 2025.
- Share renewable energy increased from 1.62% in fiscal 2022 to 1.80% in fiscal 2023. The group has articulated its goal of increasing share of renewable energy to 20% by 2025.
- Gender diversity (% of women in total workforce) increased to 4.8% in fiscal 2023 from 2.82% in fiscal 2022. The group aims to increase participation of women in leadership positions by 25% (from current levels) by 2025.
- The lost time injury frequency rate remained low at 0.11 in fiscal 2023, much better compared to peers.
- TheÂ governance structureÂ ofÂ the PI group is characterised byÂ 50% of the board comprising independent directors, aÂ split betweenÂ the positions of Chairman andÂ Chief Executive Officer, extensive financial and non-financial disclosures and robust internal control systems.

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There is growing importance of ESG among investors and lenders.Â Commitment of the group to ESG and integrating sustainability principles throughout its organisation and value chain will play a key role in enhancing stakeholder confidence and access to capital markets.

Outlook: Stable

The business risk profile of the PI group is likely to remain robust, driven by its expanding product portfolio and healthy revenue visibility in both domestic agrochemicals and CSM segments, as well as steady profitability, leading to healthy cash generation. The financial andÂ risk profile will continue to beÂ supported by healthy cash generating ability andÂ prudent working capital management.

Rating Sensitivity factors

Upward factors

- Sustained healthy double digit revenue growth driven by continuously increasing order book, amid better product and customer diversification, and contribution from new product lines.
- Sustaining healthy profitability of over 22%, ensuring strong annual cash generation.
- Maintaining strong debt protection metrics and heathy liquidity, while pursuing organic and inorganic growth.

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Downward factors

- Significant moderation in revenue and operating profitability falling below 18% on a sustained basis, impacting cash generation.
- Large, debt-funded capex or acquisition or a further stretch in the working capital cycle
- Material decline in liquid surplus due to share buyback, large dividend payout or sizeable acquisitions.

About the Group

PI was set up in 1946 as an edible oil refinery by the late Mr P P Singhal. The company later entered the agrochemical formulations business. In the mid-1990s, PI diversified into CSM exports for global agrochemical innovator companies.

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It is a leading player in CSM exports and in the domestic agricultural inputs sector, which is primarily agrochemicals and plant nutrients. In the CSM exports segment, its business interests include dealing in custom synthesis and contract manufacturing of chemicals, which constitutes techno commercial evaluation of chemical processes, process development, lab and pilot scale-up, as well as commercial production. The PI group has three agrochemical formulation plants and five multipurpose plants in Panoli, Gujarat, three multipurpose plants in Jambusar, Gujarat, and an R&D unit in Udaipur, Rajasthan. In December 2019, PI acquired Isagro (Asia) Agrochemicals Pvt Ltd, whose manufacturing facility is located at Panoli and Ahmedabad in Gujarat.

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During the first half of fiscal 2024, PI ventured into the pharma segment by completing acquisitions of the wholly owned Indian subsidiary of TRM US along with the US-based assets of TRM US and Italy-based Archimica SpA for total consideration of ~Rs 775 crore.

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TRM

TRM is an innovative, chemistry-driven solution provider in medicinal chemistry research and process R&D, specialising in rare diseases. It provides services and products to pharma and biopharma companies in preclinical and clinical stages. It has manufacturing facilities in India and R&D facilities in India and US.

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Archimica SpA

Archimica SpA is a small CDMO player dealing in generic API and intermediate products across wide therapeutic and substance classes such as oncology, antiulcer and antiarthritics.

Key Financial Indicators (consolidated)

As on/for the period ended March 31,	Unit	2023	2022
Revenue	Rs crore	6,503	5,306
Profit after tax (PAT)	Rs crore	1,230	844
PAT margin	%	18.9	15.9
Adjusted debt/adjusted networth	Times	0.00	0.04
Interest coverage	Times	42.44	61.35

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash credit and working capital demand loan	NA	NA	NA	400.00	NA	CRISIL AA+/Stable
NA	Loan Equivalent RiskÂ Limits	NA	NA	NA	140.00	NA	CRISIL A1+
NA	Letter of credit andÂ bank guarantee	NA	NA	NA	300.00	NA	CRISIL A1+

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Annexure â€“ List of entities consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
PILL Finance & Investments Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
PI Life Science Research Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
PI Japan Co Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
Jivagro Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
PI Bioferma Pvt Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
PI Fermachem Pvt Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters
PI Health Science Ltd	Full	Common management, similar line of business, business and financial linkages and common promoters

Annexure - Rating History for last 3 Years

Â	Current			2024 (History)		2023Â		2022Â		2021Â		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	540.0	CRISIL AA+/Stable/ CRISIL A1+	Â	--	Â	--	02-11-22	CRISIL AA+/Stable	10-08-21	CRISIL AA+/Stable	CRISIL AA+/Stable
Non-Fund Based Facilities	ST	300.0	CRISIL A1+	Â	--	Â	--	02-11-22	CRISIL A1+	10-08-21	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit & Working Capital Demand Loan	**35**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA+/Stable**
Cash Credit & Working Capital Demand Loan	**125**	**Axis Bank Limited**	**CRISIL AA+/Stable**
Cash Credit & Working Capital Demand Loan	**10**	**ICICI Bank Limited**	**CRISIL AA+/Stable**
Cash Credit & Working Capital Demand Loan	**135**	**State Bank of India**	**CRISIL AA+/Stable**
Cash Credit & Working Capital Demand Loan	**95**	**Citibank N. A.**	**CRISIL AA+/Stable**
Letter of credit & Bank Guarantee	**20**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**5**	**ICICI Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**75**	**Citibank N. A.**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**100**	**Axis Bank Limited**	**CRISIL A1+**
Letter of credit & Bank Guarantee	**100**	**State Bank of India**	**CRISIL A1+**
Loan Equivalent Risk Limits	**40**	**State Bank of India**	**CRISIL A1+**
Loan Equivalent Risk Limits	**45**	**Axis Bank Limited**	**CRISIL A1+**
Loan Equivalent Risk Limits	**20**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL A1+**
Loan Equivalent Risk			

Limits	**25**	**Citibank N. A.**	**CRISIL A1+**
Loan Equivalent Risk Limits	**10**	**ICICI Bank Limited**	**CRISIL A1+**

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation

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