

Investors' Chronicle



FUNDS

Shares I love: PI Industries

Ocean Dial's David Cornell tells Leonora Walters about his agrochemical pick

By Leonora Walters

- PI Industries has partnered with overseas companies, and registered or in-licenced agrochemical products
- It has become the research and development partner of choice for many global companies
- PI Industries' healthy pipeline is expected to support future growth

David Cornell, chief investment officer of [Ocean Dial Asset Management](#), which runs [India Capital Growth Fund \(IGC\)](#), explains why he invests in agrochemical company [PI Industries \(IN:523642\)](#).

"While India is known best for information technology service exports, its reputation as a global supplier of pharmaceuticals and chemicals is growing. The genesis lies in India's historic patent laws which until 2005 provided legal protection to the manufacturing process rather than the product.

"Before 2005, Indian companies copied global innovators' products successfully and at a lower cost by innovating new chemical processes. As the industry evolved, India's education system developed quality chemical engineers so that after 2005, India had a well established, quality, low cost manufacturing base and a highly skilled workforce.

"Since its inception, PI Industries has bucked this cloning trend. In its domestic business, PI Industries instead partnered with global innovators such as pharmaceutical and crop science company [Bayer \(DE:BAYN\)](#), and registered or in-licenced agrochemical products for sale, using PI's brand and distribution capabilities. Ninety per cent of PI Industries' portfolio is patented by global innovators, enabling the company to command premium pricing.

"A second driver of growth is PI Industries' international operation which is a custom synthesis business. This has evolved as a relationship of mutual trust between the global innovators and PI Industries in respect of intellectual property, and because of PI Industries' technical capabilities in complex chemistry. As a result, PI Industries has become the research and development partner of choice for many global innovators in new product development. And if a new product is commercialised the subsequent manufacturing and distribution becomes PI Industries' by default.

"Last year PI Industries added eight new customers and commercialised nine molecules. Its healthy pipeline is expected to support future growth. PI Industries' addressable market is expanding as the company enters new segments of pharmaceutical and chemical engineering. Competitors find it tough to break into its market given the strength of the relationships it has built with its customers and the quality of its products.

"Both PI Industries' domestic and international operations are expected to benefit from clients wishing to reduce dependency on China-based supply chains. The company's revenues and profits have compounded at 19 per cent and 33 per cent, respectively, over the past 10 years in local currency. And its margins have expanded to 21 per cent. The company's return on capital has remained constant at 17 per cent – despite investment in new facilities and cash building on its balance sheet – but is expected to retrace previous highs of 25 per cent over time.

"India Capital Growth Fund first invested in PI Industries in 2013 since when the business opportunity has strengthened. The investment has multiplied ninefold, generating a compound annual growth rate of 29 per cent in sterling, driven by a combination of compounding earnings growth and multiple re-rating. Going ahead, we expect PI Industries' share price to mirror its profit growth, compounding annually at around 20 per cent."