

Pidilite Industries (PIDI IN)

Rating: HOLD | CMP: Rs1,378 | TP: Rs1,415

August 7, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	1,415		1,418	
Sales (Rs. m)	70,731	80,714	73,393	83,742
% Chng.	(3.6)	(3.6)		
EBITDA (Rs. m)	18,451	20,974	18,343	21,010
% Chng.	0.6	(0.2)		
EPS (Rs.)	28.0	32.0	27.9	32.2
% Chng.	0.2	(0.6)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	63,326	59,901	70,731	80,714
EBITDA (Rs. m)	14,836	15,183	18,451	20,974
Margin (%)	23.4	25.3	26.1	26.0
PAT (Rs. m)	11,609	11,475	14,222	16,247
EPS (Rs.)	22.9	22.6	28.0	32.0
Gr. (%)	18.5	(1.2)	23.9	14.2
DPS (Rs.)	13.5	7.0	9.0	10.0
Yield (%)	1.0	0.5	0.7	0.7
RoE (%)	26.8	22.8	23.4	22.8
RoCE (%)	31.4	27.2	27.5	26.6
EV/Sales (x)	10.9	11.4	9.5	8.3
EV/EBITDA (x)	46.3	44.8	36.6	31.9
PE (x)	60.3	61.0	49.2	43.1
P/BV (x)	15.7	12.5	10.7	9.1

Key Data

PIDI.BO | PIDI IN

52-W High / Low	Rs.1,710 / Rs.1,186
Sensex / Nifty	38,041 / 11,214
Market Cap	Rs.700bn/ \$ 9,346m
Shares Outstanding	508m
3M Avg. Daily Value	Rs.2531.77m

Shareholding Pattern (%)

Promoter's	70.19
Foreign	11.17
Domestic Institution	8.04
Public & Others	10.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.5)	(11.6)	6.9
Relative	(5.0)	(4.4)	3.1

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Strong Recovery, Input costs provide tailwinds

Quick Pointers:

- Strong demand recovery in June'20 with sustained momentum in July'20
- Emerging India (~30% of sales) reported double digit growth in June'20
- Construction chemical and DIY products lead with double digit growth

We are retaining Hold rating on PIDI post positive Mgt commentary suggesting sustained demand revival in July and expected margin expansion in 2H due to lower raw material prices. Despite near term uncertainty, Rural and Smaller towns (30% of Revenues) are leading revival across Construction Chemical and DIY portfolio and with ~90% of outlets now open, demand momentum is expected to continue. We remain positive on PIDI due to its strong business moat and sustained investment behind categories of future like 1) waterproofing 2) construction chemicals and aids 3) Wood coatings and 4) Floor coatings etc. we believe investment in Papperfry and Tenex India Stone Products will open further growth opportunities in its core categories. We would watch out for trends in Gross margins in FY22/23 as Pidilite had retained 500bps gross margin expansion during previous low raw material cycle. We estimate 1.2% decline in FY21 EPS and 19.1% PAT CAGR over FY21-23. We value the stock at Rs1415 based on SOTP (45x Sep-22 to standalone business). Retain HOLD. We recommend accumulating PIDI on weakness for long term gains.

Domestic volumes down 58.3%: Standalone Net sales decreased 56.6% to Rs 7.72bn (est Rs 6.23bn) on 58.3% decline in volumes. Gross margins at 54.5% increased 290bps YoY due to benign VAM and packaging prices however it decreased 140bps QoQ. EBITDA decreased 77.2% to Rs 954m (est Rs 374m). Margins contracted 11.1 percentage points YoY to 12.4% (est 6%) on account of increase in employee cost and other expenses by 11.1 and 3 percentage points. Adj. PAT declined 80.3% to Rs 567m (est Rs 422m).

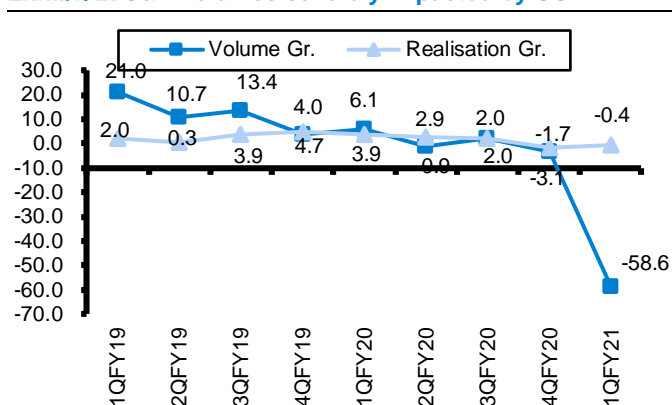
Consumer and Bazaar sales/EBIT decreased 59%/67.4% to Rs 6.1bn/Rs 1.5bn. Industrial Products sales/EBIT decreased 42.6%/86.4% to Rs 1.7bn/Rs 61.5m. **Subsidiaries:** Imputed sales decreased 55% to Rs1.06bn and EBITDA loss stood at Rs 290m against EBITDA of Rs 258m in Q1FY20

Concall Takeaways: 1) Demand recovered in June'20 and it accelerated in July'20 2) Emerging India - Rural and small towns (~30% of Revenues) witnessed double digit growth in June'20 3) Construction chemical and DIY products witnessed double digit growths however adhesives has grown at a slower pace 4) B2B segment remains impacted due to ailing construction sector 5) Despite competition from Paint companies in Construction chemicals and waterproofing, PIDI is well placed due to depth and Width of Portfolio 5) Current VAM prices are USD 650-700, which are unsustainable whereas 1Q used prices were USD825 6) Benefits of low prices of raw materials will be visible in 2HFY21 7) Capex will continue at 4-5% of Revenues. 8) Adhesives and sealants cover wide chemistry and dependence on Fevicol has been coming down steadily.

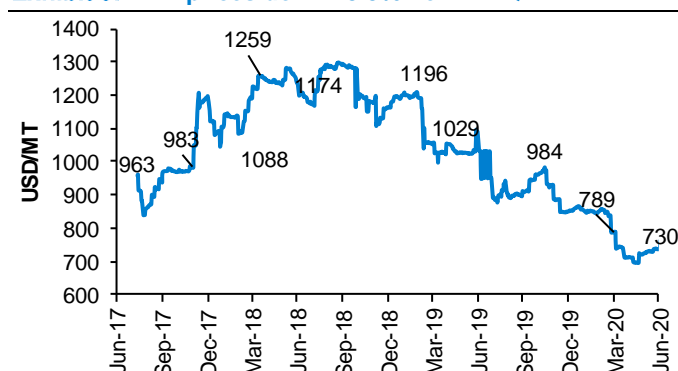
Exhibit 1: Standalone Revenue down 56.6%, EBITDA margins contract 11.1 percentage points due to higher costs

Standalone	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY20	FY19	YoY gr. (%)
Net Revenue	7,724	17,791	(56.6)	13,186	63,328	60,945	3.9
Gross Profit	4,210	9,174	(54.1)	7,373	33,964	30,301	12.1
Margin %	54.5	51.6		55.9	53.6	49.7	
Other Expenditure	3,256	4,995	(34.8)	4,521	19,128	17,382	10.0
EBITDA	954	4,180	(77.2)	2,852	14,836	12,919	14.8
Margin %	12.4	23.5		21.6	23.4	21.2	
Depreciation	348	281	24.0	357	1,258	998	26.0
Interest	34	27	23.6	37	134	71	87.7
Other Income	197	390	(49.6)	165	1,519	1,915	(20.7)
PBT	769	4,262	(81.9)	2,624	14,963	13,765	8.7
Tax	202	1,387	(85.4)	657	3,353	3,970	(15.5)
Tax rate %	26.3	32.5		25.0	22.4	28.8	
Adj PAT	567	2,876	(80.3)	1,967	11,609	9,794	18.5

Source: Company, PL

Exhibit 2: C&B volumes severely impacted by COVID


Source: Company, PL

Exhibit 3: VAM prices down 29.9% YoY in 1Q


Source: Company, PL

Exhibit 4: C&B and Industrial products degrew 59% and 42.6% due to low demand

Segmental	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Consumer and Bazaar									
Sales (Rs m)	13628	12751	13312	11042	14987	13001	13841	9939	6145
Growth (%)	23.9	11.0	17.4	9.9	10.0	2.0	4.0	-4.8	-59.0
EBIT (Rs m)	4219	3744	3607	2931	4493	3848	4523	2832	1464
EBIT Growth %	31.0	-4.8	-0.6	9.4	6.5	2.8	25.4	-0.4	-67.4
EBIT margin %	31.0	29.4	27.1	26.5	30.0	29.6	32.7	28.5	23.8
Industrial Products									
Sales (Rs m)	2576	2539	2592	2923	2935	2899	2865	3332	1683
Growth (%)	28.6	12.1	17.8	19.8	13.9	14.2	10.5	-3.7	-42.6
EBIT (Rs m)	379	420	309	432	453	525	473	746	62
EBIT Growth %	3.4	28.6	-25.8	-8.1	19.3	24.9	52.8	44.5	-86.4
EBIT margin %	14.7	16.6	11.9	14.8	15.4	18.1	16.5	22.4	3.7

Source: Company, PL

Nina Percept and CIPY face challenges

Performances of subsidiaries were heavily impacted on account of nation-wide lockdown during most of the quarter due to COVID – 19.

- NINA and Percept sales declined by 88.2% with EBITDA loss of Rs 153 mn. Slowdown in large construction will continue to impact NINA and Percept sales.
- Nina and Percept will continue to focus on large construction and will not enter retail waterproofing.
- ICA Pidilite sales de-grew 78.1%. EBITDA loss stood at Rs 57mn.
- CIPY revenue declined by 76.1% with EBITDA loss of Rs 61mn. Slowdown in Auto industry continues to impact CIPY.

New Acquisitions

- Acquired 70% stake in equity shares of Tenax India Stone Products Pvt. Ltd ("Tenax") from Tenax SPA Italy (Tenax Italy) thereby making Tenax a subsidiary of the Company.

Exhibit 5: Sales have declined, impacted by the National Lockdown

		3QFY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Sales - (Rs mn)	NINA Percept	824	721	634	557	787	700	75
	ICA-Pidilite	438	432	534	459	473	392	117
	CIPY	403	421	318	248	339	309	76
	Others	140	183	168	137	151	153	27
	Total	1805	1757	1654	1401	1750	1554	295
Sales Growth (YoY)	NINA & Percept	39.2%	-3.9%	-17.1%	-24.7%	-4.5%	-2.9%	-88.2%
	ICA-Pidilite	125.8%	81.3%	43.9%	3.6%	8.0%	-9.2%	-78.1%
	CIPY		57.8%	-15.0%	-30.3%	-15.9%	-26.7%	-76.1%
	Others	-8.5%	12.4%	5.0%	-12.2%	7.9%	-16.5%	-83.9%
	Total	92.2%	23.9%	-1.0%	-17.3%	-3.0%	-11.6%	-82.2%
EBITDA (Rs mn)	NINA & Percept	90	88	63	-16	80	-17	-153
	ICA-Pidilite	12	-12	54	71	78	40	-57
	CIPY	58	64	36	24	68	26	-61
	Others	10	25	23	12	7	20	-37
	Total	170	165	176	91	233	69	-308
EBITDA margin %	NINA & Percept	10.9%	12.2%	9.9%	-2.9%	10.2%	-2.4%	-204.0%
	ICA-Pidilite	2.7%	-2.8%	10.1%	15.5%	16.5%	10.2%	-48.7%
	CIPY	14.4%	15.2%	11.3%	9.7%	20.1%	8.4%	-80.3%
	Others	7.1%	13.6%	13.7%	8.8%	4.6%	13.1%	-137.0%
	Total	9.4%	9.4%	10.6%	6.5%	13.3%	4.4%	-104.4%
EBITDA growth (YoY)	NINA & Percept	16.9%	-23.5%	-37.6%	-140.0%	-11.1%	-119.3%	-342.9%
	ICA-Pidilite	-233.3%	-53.8%	184.2%	-2466.7%	550.0%	-433.3%	-205.6%
	CIPY		190.9%	-7.7%	-48.9%	17.2%	-59.4%	-269.4%
	Others	-47.4%	38.9%	53.3%	33.3%	-30.0%	-20.0%	-260.9%
	Total	95.4%	27.9%	1.1%	-2.2%	37.1%	-58.2%	-275.0%

Source: Company, PL

IBD – COVID impact across geographies

1Q21 International business (IBD) sales decreased by 35.9% to Rs 953mn in constant currency terms. Performance of International subsidiaries were impacted by the pandemic majorly in SAARC than the rest of the world. However, recovery has been witnessed in June-July'20y. EBITDA loss stood at Rs 1mn as EBITDA gains in Asia and Americas were offset by EBITDA loss in Middle East and Africa.

Americas sales decreased 25.2%. EBITDA was at Rs 15mn. **Asia:** Sales decreased 48.7% with EBITDA of Rs 15mn. **Middle East & Africa** sales decreased by 30.3% with EBITDA loss at Rs 31mn.

Exhibit 6: Sales decline across geographies, Asia Bears brunt

Subsidiaries	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Sales (Rs. m)	1,486	1,453	1,506	1,341	953
Americas	512	561	520	417	383
Asia	591	548	615	552	303
Middle East & Africa	383	344	371	372	267
Sales growth (YoY)	15.6	15.0	10.3	3.6	(35.9)
Americas	6.9	14.5	17.1	(14.4)	(25.2)
Asia	18.4	21.2	3.7	(4.0)	(48.7)
Middle East & Africa	24.4	7.2	13.1	12.0	(30.3)
EBITDA (Rs m)	93.0	70.9	94.2	(2.0)	(1.0)
Americas	39.0	33.0	18.0	(70.0)	15.0
Asia	67.0	57.0	77.0	72.0	15.0
Middle East & Africa	(13.0)	(19.1)	(0.8)	(4.0)	(31.0)
EBITDA (margin %)	6.3	4.9	6.3	(0.1)	(0.1)
Americas	7.6	5.9	3.5	(16.8)	3.9
Asia	11.3	10.4	12.5	13.0	5.0
Middle East & Africa	(3.4)	(5.6)	(0.2)	(1.1)	(11.6)

Source: Company, PL

Exhibit 7: Pidilite: SOTP Valuation Basis Sep-22

Business	EPS	BV/ Sales	Basis	Multiple (x)	Rs/share (Rs)
Standalone	30.0		P/E	45.0	1,350
International Business		6,564	EV/ Sales	1.5	19
India		6,808	EV/ Sales	3.5	46
Value per share					1,415

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	63,326	59,901	70,731	80,714
YoY gr. (%)	3.9	(5.4)	18.1	14.1
Cost of Goods Sold	29,364	26,858	32,425	37,408
Gross Profit	33,962	33,043	38,306	43,306
Margin (%)	53.6	55.2	54.2	53.7
Employee Cost	7,369	6,893	7,861	8,811
Other Expenses	5,380	4,936	5,187	5,831
EBITDA	14,836	15,183	18,451	20,974
YoY gr. (%)	14.8	2.3	21.5	13.7
Margin (%)	23.4	25.3	26.1	26.0
Depreciation and Amortization	1,258	1,495	1,759	2,024
EBIT	13,578	13,689	16,692	18,950
Margin (%)	21.4	22.9	23.6	23.5
Net Interest	134	97	115	131
Other Income	1,519	1,740	2,393	2,833
Profit Before Tax	14,962	15,332	18,970	21,652
Margin (%)	23.6	25.6	26.8	26.8
Total Tax	3,353	3,856	4,748	5,405
Effective tax rate (%)	22.4	25.2	25.0	25.0
Profit after tax	11,609	11,475	14,222	16,247
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,609	11,475	14,222	16,247
YoY gr. (%)	18.5	(1.2)	23.9	14.2
Margin (%)	18.3	19.2	20.1	20.1
Extra Ord. Income / (Exp)	(593)	-	-	-
Reported PAT	11,016	11,475	14,222	16,247
YoY gr. (%)	12.5	4.2	23.9	14.2
Margin (%)	17.4	19.2	20.1	20.1
Other Comprehensive Income	(112)	-	-	-
Total Comprehensive Income	10,904	11,475	14,222	16,247
Equity Shares O/s (m)	508	508	508	508
EPS (Rs)	22.9	22.6	28.0	32.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	21,102	25,602	30,102	34,602
Tangibles	18,403	22,403	26,403	30,403
Intangibles	2,699	3,199	3,699	4,199
Acc: Dep / Amortization	10,559	12,054	13,813	15,836
Tangibles	9,790	11,179	12,816	14,701
Intangibles	769	874	996	1,135
Net fixed assets	10,543	13,548	16,289	18,765
Tangibles	8,612	11,223	13,586	15,701
Intangibles	1,930	2,325	2,703	3,064
Capital Work In Progress	2,476	2,976	3,476	3,976
Goodwill	861	861	861	861
Non-Current Investments	11,255	10,965	11,193	11,427
Net Deferred tax assets	(760)	(1,108)	(1,309)	(1,493)
Other Non-Current Assets	2,795	2,901	3,228	3,529
Current Assets				
Investments	7,152	15,574	21,219	24,214
Inventories	7,305	6,549	7,995	9,224
Trade receivables	8,066	7,549	8,914	10,172
Cash & Bank Balance	5,688	4,491	3,461	7,129
Other Current Assets	1,713	1,318	1,556	1,776
Total Assets	58,191	67,008	78,517	91,445
Equity				
Equity Share Capital	508	508	508	508
Other Equity	44,140	55,471	65,122	76,289
Total Network	44,648	55,979	65,630	76,797
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	409	329	389	444
Other non current liabilities	513	513	513	513
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,948	3,753	4,442	5,124
Other current liabilities	6,840	5,252	6,162	7,000
Total Equity & Liabilities	58,190	67,008	78,517	91,445

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,369	15,332	18,970	21,652
Add. Depreciation	1,258	1,495	1,759	2,024
Add. Interest	134	97	115	131
Less Financial Other Income	1,519	1,740	2,393	2,833
Add. Other	(112)	-	-	-
Op. profit before WC changes	15,649	16,923	20,844	23,807
Net Changes-WC	5,608	(9,364)	(7,247)	(4,320)
Direct tax	(3,353)	(3,856)	(4,748)	(5,405)
Net cash from Op. activities	17,904	3,703	8,849	14,082
Capital expenditures	(4,432)	(5,000)	(5,000)	(5,000)
Interest / Dividend Income	-	-	-	-
Others	(698)	340	(193)	(202)
Net Cash from Inv. activities	(5,131)	(4,660)	(5,193)	(5,202)
Issue of share cap. / premium	144	(144)	-	-
Debt changes	-	-	-	-
Dividend paid	(8,267)	-	(4,572)	(5,080)
Interest paid	(134)	(97)	(115)	(131)
Others	-	-	-	-
Net cash from Fin. activities	(8,257)	(241)	(4,687)	(5,211)
Net change in cash	4,516	(1,198)	(1,030)	3,668
Free Cash Flow	13,472	(1,297)	3,849	9,082

Source: Company Data, PL Research

Quarterly Financials (Rs m)

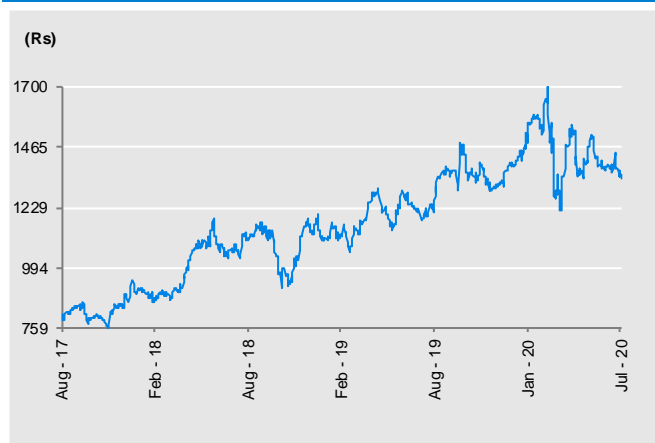
Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	15,717	16,634	13,186	7,724
YoY gr. (%)	3.5	4.6	(4.4)	(56.6)
Raw Material Expenses	7,277	7,658	5,813	3,514
Gross Profit	8,441	8,976	7,373	4,210
Margin (%)	53.7	54.0	55.9	54.5
EBITDA	3,510	4,294	2,852	954
YoY gr. (%)	1.3	31.8	8.9	(77.2)
Margin (%)	22.3	25.8	21.6	12.4
Depreciation / Depletion	303	318	357	348
EBIT	3,207	3,977	2,495	606
Margin (%)	20.4	23.9	18.9	7.8
Net Interest	36	34	37	34
Other Income	572	391	165	197
Profit before Tax	3,743	4,334	2,624	769
Margin (%)	23.8	26.1	19.9	10.0
Total Tax	280	1,030	657	202
Effective tax rate (%)	7.5	23.8	25.0	26.3
Profit after Tax	3,463	3,304	1,967	567
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,463	3,304	1,967	567
YoY gr. (%)	41.6	47.0	3.3	(80.3)
Margin (%)	22.0	19.9	14.9	7.3
Extra Ord. Income / (Exp)	(222)	-	(370)	-
Reported PAT	3,241	3,304	1,596	567
YoY gr. (%)	32.5	47.0	(34.4)	(80.3)
Margin (%)	20.6	19.9	12.1	7.3
Other Comprehensive Income	-	(9)	(38)	(28)
Total Comprehensive Income	3,241	3,295	1,559	539
Avg. Shares O/s (m)	508	508	508	508
EPS (Rs)	6.8	6.5	3.9	1.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	22.9	22.6	28.0	32.0
CEPS	25.3	25.5	31.5	36.0
BVPS	87.9	110.2	129.2	151.2
FCF	26.5	(2.6)	7.6	17.9
DPS	13.5	7.0	9.0	10.0
Return Ratio(%)				
RoCE	31.4	27.2	27.5	26.6
ROIC	29.9	29.2	31.0	31.5
RoE	26.8	22.8	23.4	22.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	60	63	64	65
Valuation(x)				
PER	60.3	61.0	49.2	43.1
P/B	15.7	12.5	10.7	9.1
P/CEPS	54.4	54.0	43.8	38.3
EV/EBITDA	46.3	44.8	36.6	31.9
EV/Sales	10.9	11.4	9.5	8.3
Dividend Yield (%)	1.0	0.5	0.7	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	1,418	1,399
2	18-Jun-20	Hold	1,317	1,391
3	13-Apr-20	Hold	1,327	1,349
4	30-Jan-20	Hold	1,447	1,522
5	03-Jan-20	Hold	1,311	1,398
6	14-Nov-19	Hold	1,365	1,344
7	03-Oct-19	Accumulate	1,429	1,393

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Hold	2,055	2,163
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	469	494
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	524	595
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	501	443
16	Marico	Hold	355	350
17	Nestle India	Reduce	14,089	17,095
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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