

### View: Volume growth expected to improve gradually

- Pidilite's Q1FY21 results was below our estimate as the impact of lock down was more than our anticipation. Nevertheless, the company witnessed sequential improvement from May to July is encouraging.
- Consumer Bazaar segment has witnessed strong improvement in July, however, B2B business still remains under pressure. In addition, rural areas have witnessed faster recovery compared to urban.
- Going ahead, we believe that the company's strong brand portfolio and wide distribution reach should help accelerate revenue growth. Further, input cost stabilization (VAM prices US\$650-700/ton vs US\$825/ton in Q1FY21) will help improve margins. We have revised our EPS estimates to Rs 17.7 (-19%) and Rs 23.7 (-13%) for FY21E and FY22E, respectively. We value the stock at 60x FY22E EPS to arrive at a TP of Rs1,419. Considering rich valuations, we maintain Reduce. Buy on Dips.

### Results below estimate

Net Sales declined 56.5% YoY to Rs 8.8bn. Domestic business reported 56.6% YoY de-growth with 58.3% volume & mix decline. Volume de-growth in B2B segment was down by 53.7%, while Consumer Bazaar reported 58.6% decline. Gross margins expanded by 210bps to 53.5%. EBITDA de-grew by 85.0% YoY to Rs 664mn. EBITDA margin contracted by 1440bps to 7.6% as decline in RM costs was completely offset 1250/400bps increase in employee costs/other expenses respectively. PAT decreased 90.9% YoY to Rs 268mn – came significantly below our estimates.

### B2B business to remain under pressure in the near term

Consumer Bazaar revenue (consol) stood at Rs 7.0bn, down 55.4% YoY while EBIT de-grew by 70.5% YoY to Rs 1.3bn. Consumer Bazaar margin contracted by 950bps to 18.6%. Though the segment has reported revamp during July, in the short run, we believe that the segment would remain partially impacted due to lower refurbishment activities and muted sales of white adhesives due to closure of schools. Nevertheless, long term growth outlook remains intact. B2B revenue decreased by 59.0% YoY to Rs 1.9bn while operating loss stood at Rs 220mn in Q1FY21 compared to profit of Rs 653mn in Q1FY20.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	8,778	20,166	(56.5)	15,447	(43.2)
Total Expense	8,115	15,729	(48.4)	12,438	(34.8)
EBITDA	664	4,437	(85.0)	3,009	(77.9)
Depreciation	461	377	22.2	501	(8.0)
EBIT	203	4,060	(95.0)	2,508	(91.9)
Other Income	200	399	(49.8)	140	43.3
Interest	91	73	23.6	98	(7.4)
EBT	312	4,385	(92.9)	2,220	(85.9)
Tax	159	1,444	(89.0)	656	(75.8)
RPAT	268	2,929	(90.9)	1,575	(83.0)
APAT	268	2,929	(90.9)	1,905	(85.9)
			(bps)		(bps)
Gross Margin (%)	53.5	51.4	209	55.4	(190)
EBITDA Margin (%)	7.6	22.0	(1444)	19.5	(1192)
NPM (%)	3.1	14.5	(1147)	10.2	(715)
Tax Rate (%)	50.8	32.9	1787	29.5	2126
EBIT Margin (%)	2.3	20.1	(1782)	16.2	(1393)

CMP	Rs 1,378
Target / Upside	Rs 1,419 / 3%
BSE Sensex	38,047
NSE Nifty	11,214

### Scrip Details

Equity / FV	Rs 508mn / Rs 1
Market Cap	Rs 700bn
	USD 9bn
52-week High/Low	Rs 1,710/Rs 1,186
Avg. Volume (no)	909,955
NSE Symbol	PIDILITIND
Bloomberg Code	PIDI IN

### Shareholding Pattern Jun'20(%)

Promoters	70.2
MF/Banks/FIs	9.7
FIIIs	11.2
Public / Others	8.9

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	59.5	77.7	58.2
EV/EBITDA	43.7	53.0	39.9
ROE (%)	26.1	19.1	22.4
RoACE (%)	25.1	17.7	20.8

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	72,945	65,265	81,291
EBITDA	15,760	12,939	17,064
PAT	11,772	9,003	12,020
EPS (Rs.)	23.2	17.7	23.7

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### Mixed IB performance

IB's net sales de-grew 36% YoY during the quarter as subsidiaries were impacted due to Covid led lockdown. Asia business reported 48.7% revenue de-growth and EBITDA decline of 78.2%. Middle East and Africa business posted 30.2% decline with Rs 31mn EBITDA loss (vs Rs 13mn loss in Q1FY20). Americas reported 25.2/60.3% drop in revenues/EBITDA. However, Pidilite witnessed recovery in June and July 2020.

### Domestic subsidiaries performance

Domestic subsidiaries were impacted by the lockdown and reported 82.2% de-growth in Q1FY21. Cipy Polyurethane, ICA Pidilite and Nina Percept reported 76%/78%/88% revenue decline during the quarter. All domestic subsidiaries posted EBITDA losses compared to profit last year.

#### Exhibit 1: Actual V/s Estimates Variance

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	8,778	15,679	(44.0)	Impact of lockdown was significantly higher than our estimates
EBITDA	664	2,667	(75.1)	
EBITDA margin %	7.6	17.0	(940)	Employee cost and other expenses exceeded our estimates
APAT	268	1,939	(86.2)	

Source: Company, DART

#### Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	65,265	76,912	(15.1)	81,291	89,654	(9.3)
EBITDA	12,939	15,799	(18.1)	17,064	19,466	(12.3)
EBITDA Margin (%)	19.8	20.5	(70bps)	21.0	21.7	(70bps)
PAT	9,003	11,119	(19.0)	12,020	13,797	(12.9)
EPS (Rs)	17.7	21.9	(19.0)	23.7	27.2	(12.9)

Source: DART, Company

We have downward revised FY21E and FY22E revenue estimates significantly to factor-in extended lock down and Q1 performance. Considering favorable RM prices, we believe that gross margin would remain high. However, with expected increase in fixed cost (as % of sales) due to lower revenues, we have downward revised our margin estimates. We have lowered our FY22E estimates to factor in gradual recovery post FY21E.

**Exhibit 3: Segmental Performance (Consolidated)**

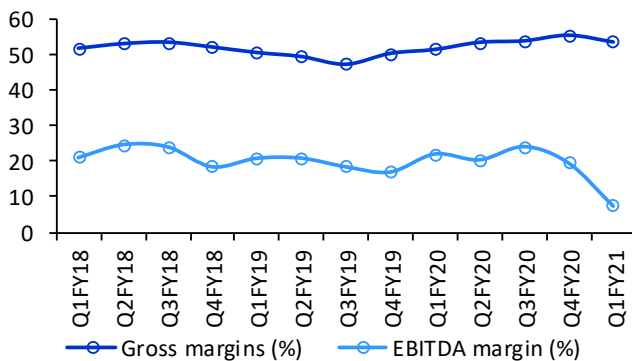
(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Revenue</b>					
Consumer Bazaar	7,020	15,743	(55.4)	11,244	(37.6)
Business to Business	1,882	4,592	(59.0)	4,411	(57.3)
Others	18	233	(92.2)	151	(88.0)
<b>Total</b>	<b>8,921</b>	<b>20,569</b>	<b>(56.6)</b>	<b>15,806</b>	<b>(43.6)</b>
<b>EBIT (Rs mn)</b>					
Consumer Bazaar	1,305	4,423	(70.5)	2,787	(53.2)
Business to Business	(220)	653	NM	732	NM
Others	(35)	(12)	NM	(11)	NM
<b>Total</b>	<b>1,050</b>	<b>5,064</b>	<b>(79.3)</b>	<b>3,509</b>	<b>(70.1)</b>
<b>EBIT Margin (%)</b>			bps	bps	
Consumer Bazaar	18.6	28.1	(950)	24.8	(620)
Business to Business	(11.7)	14.2	NM	16.6	NM
Others	(193.4)	(5.2)	NM	(7.1)	NM
<b>Total</b>	<b>11.8</b>	<b>24.6</b>	<b>(1,290)</b>	<b>22.2</b>	<b>(1,040)</b>

Source: DART, Company

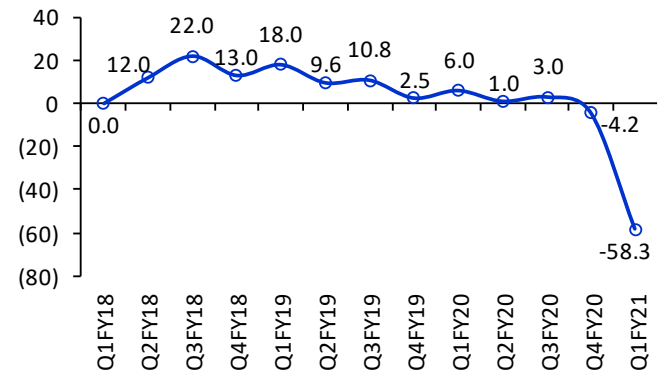
**Exhibit 4: Overseas Performance**

Particulars (Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Revenue</b>					
Asia	303	591	(48.7)	531	(42.9)
Middle East & Africa	267	383	(30.3)	372	(28.2)
Americas	383	512	(25.2)	417	(8.2)
<b>Total</b>	<b>953</b>	<b>1,486</b>	<b>(35.9)</b>	<b>1,320</b>	<b>(27.8)</b>
<b>EBITDA</b>					
Asia	15.0	67.0	(77.6)	72.0	(79.2)
Middle East & Africa	(31.0)	(13.0)	NM	(4.0)	675.0
Americas	15.0	39.0	(61.5)	(70.0)	NM
<b>Total</b>	<b>(1)</b>	<b>93</b>	<b>(101.1)</b>	<b>(2)</b>	<b>(50.0)</b>
<b>EBITDA Margin (%)</b>			bps	bps	
Asia	5.0	11.3	(640)	13.6	(860)
Middle East & Africa	(11.6)	(3.4)	NM	(1.1)	NM
Americas	3.9	7.6	(370)	(16.8)	NM
<b>Total</b>	<b>(0.1)</b>	<b>6.3</b>	<b>(640)</b>	<b>(0.2)</b>	<b>0</b>

Source: Company, DART

**Exhibit 5: Trend in Operating Performance**


Source: DART, Company

**Exhibit 6: Domestic Volume Growth (%)**


Source: DART, Company

## Concall Highlights

- Management remains cautiously optimistic primarily on account of external constraints such as probable lockdown extension and uncertainty about consumer confidence.
- Current spot price of VAM is ~US\$ 650-700 on account of low demand and stressed market conditions. Prices averaged US\$ 825 in Q1FY21. Commodity prices are likely to remain soft and the full benefit of the downward movement in prices to impact largely in H2FY21E.
- Western and Northern regions have been impacted more than the South and the East.
- ~80% of outlets were open in June. Recovery continued in July with ~90% outlets open.
- Metros were most impacted. Consumer and Bazaar businesses have seen a swifter demand recovery, especially in rural areas and semi urban towns. The company is witnessing strong recovery in construction chemicals and DIY products. Retail construction chemicals is growing in double-digit.
- B2B business in construction chemicals, continues to be impacted negatively due to the ailing real estate sector.
- Plants are operating at a capacity utilization of 75- 80%.
- Emerging India business which is covering rural and small towns is growing in double-digit over the last two months.
- Management stated that SKU rationalization is a continuous process which will improve efficiencies.
- Capex is generally ~4-5% of revenue. Management stated that it would be difficult to predict capex for this year.
- Nina Percept subsidiary is into large construction business, no plans to enter retail.

### Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>70,780</b>	<b>72,945</b>	<b>65,265</b>	<b>81,291</b>
<b>Total Expense</b>	<b>57,098</b>	<b>57,185</b>	<b>52,325</b>	<b>64,227</b>
COGS	35,866	34,025	30,092	38,132
Employees Cost	8,367	9,272	9,378	10,420
Other expenses	12,865	13,887	12,854	15,674
<b>EBIDTA</b>	<b>13,682</b>	<b>15,760</b>	<b>12,939</b>	<b>17,064</b>
Depreciation	1,327	1,699	1,794	1,964
<b>EBIT</b>	<b>12,355</b>	<b>14,061</b>	<b>11,145</b>	<b>15,100</b>
Interest	261	336	390	440
Other Income	1,466	1,494	1,342	1,514
Exc. / E.O. items	(180)	(552)	0	0
<b>EBT</b>	<b>13,380</b>	<b>14,667</b>	<b>12,097</b>	<b>16,174</b>
Tax	4,132	3,477	3,145	4,205
RPAT	9,284	11,221	9,003	12,020
Minority Interest	(36)	(30)	(51)	(51)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>9,464</b>	<b>11,772</b>	<b>9,003</b>	<b>12,020</b>

### Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	508	508	508	508
Minority Interest	2,072	2,156	2,156	2,156
Reserves & Surplus	40,973	44,048	49,188	57,344
<b>Net Worth</b>	<b>41,481</b>	<b>44,556</b>	<b>49,696</b>	<b>57,852</b>
Total Debt	1,127	2,804	2,804	2,804
Net Deferred Tax Liability	1,094	822	822	822
<b>Total Capital Employed</b>	<b>45,774</b>	<b>50,338</b>	<b>55,478</b>	<b>63,634</b>

### Applications of Funds

Net Block	13,927	18,066	18,772	19,307
CWIP	2,421	2,593	2,593	2,593
Investments	1,482	4,411	4,940	5,533
<b>Current Assets, Loans &amp; Advances</b>	<b>39,908</b>	<b>40,208</b>	<b>40,416</b>	<b>49,903</b>
Inventories	9,345	9,295	8,300	10,342
Receivables	10,560	10,885	9,720	12,111
Cash and Bank Balances	1,904	7,032	9,017	12,877
Loans and Advances	1,800	2,700	2,015	2,015
Other Current Assets	2,305	3,099	3,304	3,529
<b>Less: Current Liabilities &amp; Provisions</b>	<b>11,965</b>	<b>14,940</b>	<b>11,243</b>	<b>13,702</b>
Payables	5,806	6,209	4,283	5,337
Other Current Liabilities	6,158	8,731	6,960	8,365
sub total				
Net Current Assets	27,944	25,268	29,173	36,201
<b>Total Assets</b>	<b>45,774</b>	<b>50,338</b>	<b>55,478</b>	<b>63,634</b>

E – Estimates

### Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	49.3	53.4	53.9	53.1
EBIDTA Margin	19.3	21.6	19.8	21.0
EBIT Margin	17.5	19.3	17.1	18.6
Tax rate	30.9	23.7	26.0	26.0
Net Profit Margin	13.1	15.4	13.8	14.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	50.7	46.6	46.1	46.9
Employee	11.8	12.7	14.4	12.8
Other	18.2	19.0	19.7	19.3
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.1	0.1	0.0
Interest Coverage	47.4	41.8	28.6	34.3
Inventory days	48	47	46	46
Debtors days	54	54	54	54
Average Cost of Debt	22.0	17.1	13.9	15.7
Payable days	30	31	24	24
Working Capital days	144	126	163	163
FA T/O	5.1	4.0	3.5	4.2
<b>(D) Measures of Investment</b>				
AEPS (Rs)	18.6	23.2	17.7	23.7
CEPS (Rs)	21.3	26.5	21.3	27.5
DPS (Rs)	7.2	16.3	7.6	7.6
Dividend Payout (%)	38.4	70.1	42.9	32.1
BVPS (Rs)	81.7	87.7	97.9	113.9
RoANW (%)	24.0	26.1	19.1	22.4
RoACE (%)	22.6	25.1	17.7	20.8
RoAIC (%)	30.1	32.3	24.8	31.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1378	1378	1378	1378
P/E	74.0	59.5	77.7	58.2
Mcap (Rs Mn)	699,901	699,901	699,901	699,901
MCap/ Sales	9.9	9.6	10.7	8.6
EV	685,129	688,476	685,627	680,799
EV/Sales	9.7	9.4	10.5	8.4
EV/EBITDA	50.1	43.7	53.0	39.9
P/BV	16.9	15.7	14.1	12.1
Dividend Yield (%)	0.5	1.2	0.6	0.6
<b>(F) Growth Rate (%)</b>				
Revenue	16.4	3.1	(10.5)	24.6
EBITDA	2.0	15.2	(17.9)	31.9
EBIT	1.2	13.8	(20.7)	35.5
PBT	(1.2)	9.6	(17.5)	33.7
APAT	(2.0)	24.4	(23.5)	33.5
EPS	(2.0)	24.4	(23.5)	33.5

### Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	8,933	12,611	10,131	12,224
CFI	(4,854)	(570)	(3,893)	(4,060)
CFF	(3,810)	(6,913)	(4,253)	(4,303)
FCFF	6,395	8,172	7,631	9,724
Opening Cash	1,634	1,904	7,032	9,017
Closing Cash	1,904	7,032	9,017	12,877

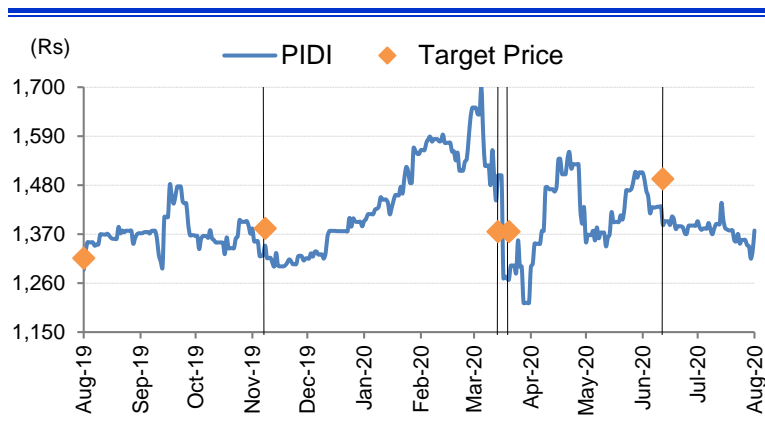
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Reduce	1,316	1,290
Nov-19	Reduce	1,383	1,344
Mar-20	Sell	1,376	1,502
Mar-20	Reduce	1,376	1,268
Jun-20	Reduce	1,494	1,391

\*Price as on recommendation date

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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