

Non metro regions drive the recovery...

Pidilite's Q1FY21 performance was muted. However, this was perceived to be on account of nationwide lockdown. The positive takeaway from the conference call is: 1) month on month improvement in demand, 2) emerging India (semi urban, rural regions), recorded double digit revenue growth in May-June 2020, 3) plants are operating at capacity utilisation of 75-80%, 4) raw material prices remained benign (average consumption cost 15% lower vs. Q1FY20), 5) expectation of demand recovery in urban regions (contributes ~65-70% in total sales) post easing of lockdown restrictions. On the margin front, gross margin expansion of ~210 bps YoY was mainly due to benign raw material prices but higher fixed cost dragged EBITDA margin to 7.6% in Q1FY21. Finally, PAT fell ~95% YoY, tracking lower sales and operating profit in Q1FY21. We believe opening up of 90%+ retail outlets coupled with unlocking of metro regions would help in faster recovery in volume growth, going forward. We believe Pidilite with a strong brand patronage coupled with pan-India distribution network is likely to recover fast with a recovery in economic activities.

Sharp decline in Q1 revenue amid lockdown

Consolidated revenue fell ~56% YoY to ~₹ 878 crore in Q1FY21 due to sales loss for almost 40 days in domestic operations amid lockdown. The standalone revenue fell ~57% YoY led by ~58% decline in volume mix. Overseas subsidiaries recorded revenue de-growth of ~36% YoY led by revenue decline of ~49%, ~30% and ~25% YoY in Asia, Middle East and America regions, respectively. Further, domestic subsidiaries also recorded a sharp revenue fall of 82% YoY led by sharp fall in volume. Post relaxation of lockdown, suburban and rural India saw a faster recovery in demand but volume offtake is still lower in urban India (contributes about two-third of revenue) due to various government restrictions.

Benign raw material cost helps in gross margin expansion

Raw material prices remained benign during the quarter (average consumption cost of US\$825/t in Q1FY21 vs. US\$965/t in Q1FY20 & US\$ 859/t in Q4FY20). Spot price of VAM is hovering in the range of US\$650-700/t due to lower demand. We believe elevated gross margin coupled with sales recovery would drive EBITDA margins, going forward.

Valuation & Outlook

At the CMP, the stock is trading at 78x FY21E and 50x FY22E earnings. We believe a continuous demand recovery in July 2020 coupled with favourable input prices would intact Pidilite's earnings, going forward. Given its strong brand and balance sheet condition (with stringent working capital management), the recovery in volume growth justifies its premium valuations. We tweak our earnings estimate upward for FY22E by ~6% and revise our rating from HOLD to BUY with a target price of ₹ 1580/share.



Particulars

Particular	Amount
Market Cap (₹Crore)	69,873.3
Total Debt (FY 20) (₹Crore)	169.1
Cash & Inv (FY 20) (₹Crore)	714.6
EV (₹Crore)	68,608.1
52 week H/L	1710/ 1186
Equity capital (₹Crore)	50.8
Face value (₹)	1.0

Key Highlights

- Month on month demand recovery, post ease in restrictions
- Consumer, bazaar businesses have seen a swifter demand recovery, especially in rural areas and semi urban towns
- Gross margins improved 210 bps due to decline in VAM prices
- Revise rating from HOLD to BUY with target price of ₹ 1580/share

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Key Financial Summary

₹Crore	FY18	FY19	FY20	FY21E	FY22E	(CAGR19-22E)
Net sales	6078.4	7078.0	7294.5	6304.8	8577.2	6.6
EBITDA	1341.2	1368.2	1576.0	1291.1	1958.9	12.7
EBITDA Margin(%)	22.1	19.3	21.6	20.5	22.8	
Net Profit	966.1	928.4	1122.1	905.9	1420.2	15.2
EPS (₹)	19.0	18.3	22.1	17.8	28.0	
P/E(x)	72.3	75.3	62.3	77.1	49.2	
Price /book (x)	19.5	16.8	15.6	14.8	13.6	
Mcap /sales (x)	11.5	9.9	9.6	11.1	8.1	
RoE (%)	27.0	22.6	26.1	19.2	27.7	
RoCE (%)	33.6	29.5	31.0	23.4	34.0	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	877.8	1042.4	2016.6	-56.5	1544.7	-43.2	Revenue largely hit by lower volume offtake amid lockdown
Other Income	20.0	18.3	39.9	-49.8	14.0	43.3	Lower other income was largely on account of decline in treasury income
Raw Material Exp	408.5	460.2	980.5	-58.3	689.5	-40.8	Benign raw material prices (Avg consumption cost of VAM declined by 15% YoY) helped in expansion of gross margins by 209 bps YoY
Employee Exp	215.7	161.5	243.6	-11.5	213.1	1.2	
Admin & Other exp	160.3	248.0	285.2	-43.8	292.5	-45.2	
Total Expenditure	811.5	889.7	1572.9	-48.4	1243.8	-34.8	
EBITDA	66.4	152.7	443.7	-85.0	300.9	-77.9	
EBITDA Margin (%)	7.6	14.6	22.0	-1444 bps	19.5	-1192 bps	Lower operating leverage (in the absence of sales volume) negated the impact of raw material benefits
Depreciation	46.1	51.3	37.7	22.2	50.1	-8.0	
Interest	9.1	9.8	7.3	23.6	9.8	-7.4	
Exceptional items	0.0	0.0	0.0		33.0	NM	
PBT	31.2	109.9	438.5	-92.9	222.0	-85.9	
Total Tax	15.9	27.5	144.4	-89.0	65.6	-75.8	
PAT	15.8	82.7	294.4	-94.6	156.5	-89.9	Bottomline is mainly tracking lower sales and operating profit

Key Metrics

Consumer & Bazaar	702.0	869.6	1,574.3	-55.4	1,124.4	-37.6	On standalone basis, C&B segment volume & mix de-grew ~59% YoY mainly due to lockdown in the month of April'20
B2B	188.2	163.6	459.2	-59.0	441.1	-57.3	Volume & mix down by ~54% YoY due to lower demand from project business
Others	1.8	9.2	23.3	-92.2	15.1	-88.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	6,698.2	6,304.8	(5.9)	8,144.7	8,577.2	5.3	We revise our revenue estimate for FY 21E-22E by factoring current quarter performance and outlook provided by company
EBITDA	1,372.2	1291.1	(5.9)	1,909.5	1958.9	2.6	
EBITDA Margin (%)	20.5	20.5	-2bps	23.4	22.8	-56bps	We believe while gross margin likely to remain at elevated level due to benign raw material prices, the EBITDA margin would recover with improvement in sales
PAT	939.8	905.9	(3.6)	1343.6	1420.2	5.7	
EPS (₹)	18.5	17.8	(3.6)	26.5	28.0	5.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Growth Assumption			Earlier		Comments
	FY20	FY21E	FY22E	FY21E	FY22E	
Consumer & Bazaar (%)	2.9	-9.4	30.9	-6.5	19.0	We believe, the demand would start recover from 2HFY 21E with relaxation from lockdown and pick up in maintenance and construction works
Business to Business (%)	3.8	(32.9)	59.0	(21.1)	31.0	The revenue growth would largely be driven by recovery in the manufacturing and construction sector
Others Growth (%)	-14.9	-34.4	4.9	-11.4	25.3	

Source: Company, ICICI Direct Research

Conference call highlights

- Standalone net sales fell ~57% YoY in Q4FY20 due to a decline in volume & mix by ~58% YoY. Consumer & bazaar (C&B) and business to business (B2B) segment volume & mix declined ~59% and ~54% YoY, respectively
- While April 2020 was a complete washout month, the company witnessed a gradual pick-up in demand from May 2020 and June 2020 led by small towns and rural markets (that it defined as Emerging India)
- On the geographical front, the Emerging India segment (contributes ~30% of revenue) grew at double digit in the last two months of Q1FY21. However, demand remained impacted in the metro regions due to intermediary lockdowns
- The western and northern regions are more impacted than south and east
- There was continuous improvement in opening up of retail stores. In May 2020, ~50% of retail outlets were opened but in June and July ~80% and ~90% of retail stores started in different geographies, respectively
- On the products front, construction chemicals products and do it yourself (DIY) products witnessed a strong demand recovery
- A sharp decline of input prices aided gross margin expansion by 209 bps YoY. Spot price of VAM are hovering at US\$650-700/tonne from average consumption cost of US\$825 in Q1FY21 (vs. US\$850 in Q4FY20 and US\$965 in Q1FY20). However, VAM prices are likely to go up in the near future with an improvement in demand conditions
- Gross margin fell QoQ mainly due to adverse impact of currency, carryover of high cost of inventory and lower discounts in Q1 (the company gets discounts of its purchases during the last quarter of the financial year)

Subsidiary business

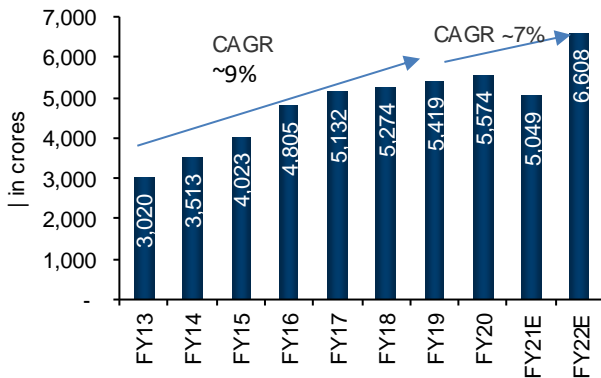
- Overseas subsidiaries revenue declined 36% YoY in Q1FY21. Region wise revenue from Asia, Middle East and America declined by ~49%, ~30% and ~25%, respectively, during Q1FY21
- Performance of domestic subsidiaries was impacted by nationwide lockdown. The revenue of domestic subsidiary declined ~82% in Q1FY21 to ₹ 29.5 crore

Others

- Factory plants are operating at utilisation level of 75-80% post opening up of the economy
- Looking at the challenging demand scenario, the company will be focusing on rationalising discretionary spent and advertisement & promotion cost (~4% of sales)
- The channel has inventory of about ~5-10 days while the company has inventory of about ~30-40 days
- While the recovery continued in July 2020, the company would largely focus on restoring volume and profitable growth in the coming period

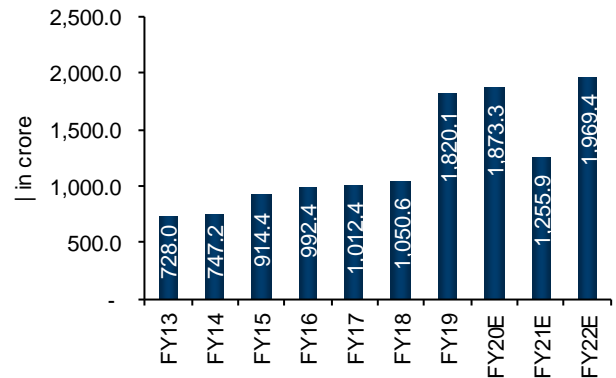
Financial story in charts

Exhibit 4: Growth trend in C&B business



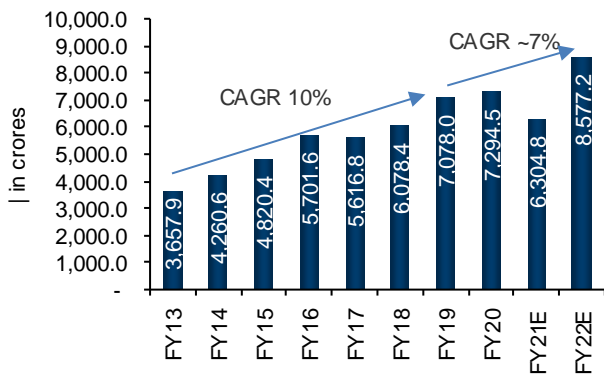
Source: Company, ICICI Direct Research, FY13-FY18 figures are not as per new classification

Exhibit 5: Growth trend in B2B business segment



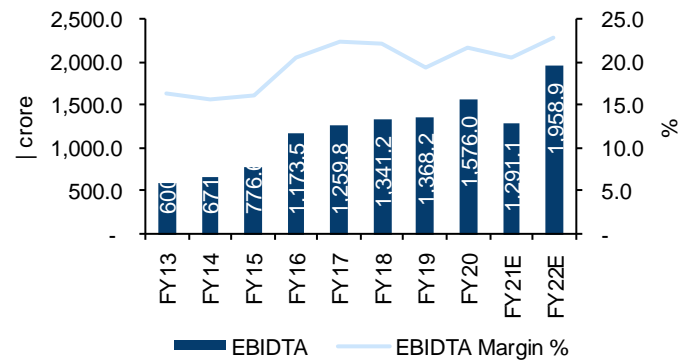
Source: Company, ICICI Direct Research * FY13-FY18 figures are not as per new classification

Exhibit 6: Consolidated sales growth trend



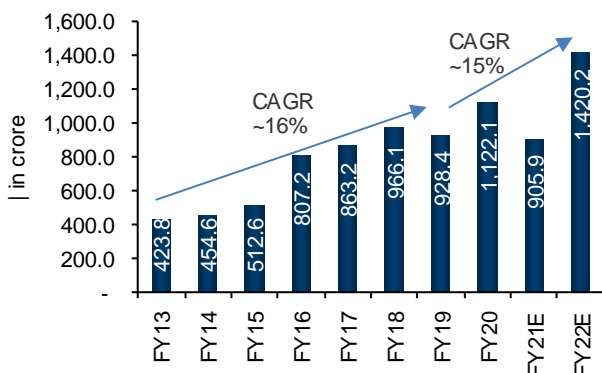
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend



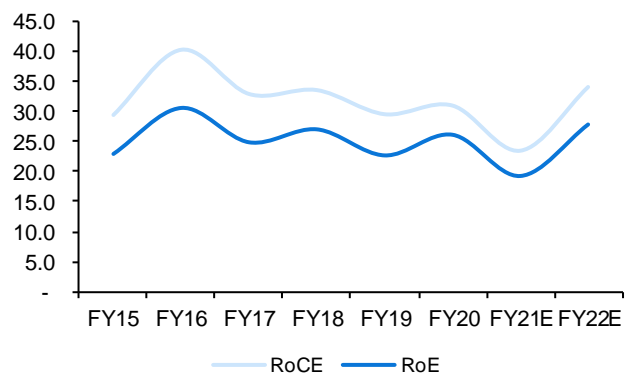
Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



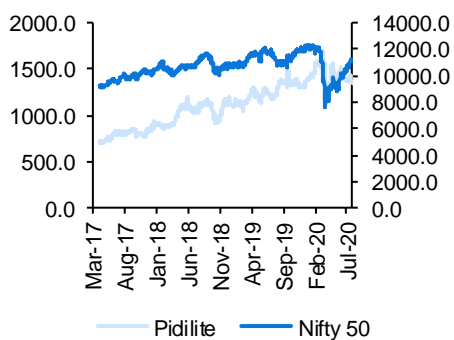
Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 10: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	69.8	69.7	70.0	69.9	70.2
FII	11.5	11.1	11.3	11.5	11.2
DII	7.7	8.4	8.3	8.0	8.1
Others	11.0	10.9	10.5	10.6	10.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement		₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E	
Total Operating Income	7078.0	7294.5	6304.8	8577.2	
Growth (%)		3.1	-13.6	36.0	
Raw Material Expenses	3586.6	3402.5	2879.3	3835.2	
Employee Expenses	836.7	927.2	840.9	1079.1	
Other Expenses	1286.5	1158.8	1173.3	1468.9	
Total Operating Expenditure	5709.8	5718.5	5013.8	6618.3	
EBITDA	1,368.2	1,576.0	1,291.1	1,958.9	
Growth (%)		15.2	-18.1	51.7	
Other Income	146.6	149.4	131.0	177.0	
Interest	26.1	33.6	37.5	36.3	
PBDT	1488.8	1691.9	1384.6	2099.6	
Depreciation	132.7	169.9	189.1	205.9	
Total Tax	413.2	347.7	292.9	477.2	
Profit from Associates	3.6	3.0	3.3	3.7	
PAT	928.4	1,122.1	905.9	1420.2	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement		₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E	
Profit after Tax	928.4	1122.1	905.9	1420.2	
Depreciation	132.7	169.9	189.1	205.9	
CF bef working cap chan	1087	1326	1133	1662	
Net Inc in Current Assets	-213.0	-98.8	81.7	-626.7	
Net Inc in Current Liab.	111.1	280.6	-241.0	461.9	
Net CF from Op activities	985.4	1507.3	973.2	1497.7	
(Purchase)/Sale of FA	-245.0	-547.2	-280.0	-280.0	
Increase/decrease in other inv	-265.3	-70.2	-50.0	-50.0	
Others	-56.4	412.9	-308.0	-308.0	
Net CF from Inv Activities	-566.6	-204.4	-638.0	-638.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	-11.5	58.1	-10.0	0.0	
Total Outflow of dividend	-397.3	-427.8	-550.1	-916.8	
Others	21	-416	-137	-136	
Net CF from Fin. Activities	-388.1	-786.0	-697.6	-1053.1	
Net Cash flow	30.6	516.9	-362.3	-193.5	
Cash and Cash Equi beg.	167.1	197.7	714.6	352.2	
Cash	197.7	714.6	352.2	158.8	

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet		₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E	
Equity Capital	50.8	50.8	50.8	50.8	
Reserve and Surplus	4104.6	4416.2	4672.0	5075.4	
Total Shareholders funds	4155.4	4466.9	4722.8	5126.2	
Total Debt	111.1	169.1	159.1	159.1	
Deferred Tax Liability	120.1	82.3	82.3	82.3	
Minority Interest	207.2	215.7	217.7	219.7	
Total Liabilities	4679.7	5024.3	5272.2	5677.6	
Assets					
Total Gross Block	2658.1	3093.6	3485.2	3765.2	
Less acc depreciation	1301.0	1470.9	1660.1	1865.9	
Net Block	1357.0	1622.7	1825.2	1899.3	
Total Fixed Assets	1504.8	1882.0	1972.9	2047.0	
Other Investments	396.3	466.5	516.5	566.5	
Goodwill on consolidation	185.0	184.03	184.03	184.03	
Inventory	934.5	929.5	950.0	1175.0	
Debtors	1056.0	1088.5	1036.4	1339.5	
Loans and Advances	15.2	21.5	12.3	16.7	
Other Current Assets	237.6	302.6	261.6	355.8	
Cash	197.7	714.6	352.2	158.8	
Total Current Assets	2440.9	3056.6	2612.6	3045.8	
Total Current Liabilities	1242.1	1522.7	1281.7	1743.6	
Net Current Assets	1198.8	1533.9	1330.9	1302.1	
Total Assets	4679.7	5024.3	5272.2	5677.6	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios		₹ crore			
(Year-end March)	FY 19	FY 20	FY 21E	FY 22E	
Per Share Data					
EPS	18.3	22.1	17.8	28.0	
Cash EPS	20.9	25.4	21.6	32.0	
BV	81.8	88.0	93.0	100.9	
DPS	7.8	8.4	10.8	18.1	
Operating Ratios					
EBITDA Margin	19.3	21.6	20.5	22.8	
PAT Margin	13.3	16.0	14.4	16.6	
Return Ratios					
RoE	22.6	26.1	19.2	27.7	
RoCE	29.5	31.0	23.4	34.0	
RoIC	36.9	37.6	27.3	38.3	
Valuation Ratios					
EV / EBITDA	50.2	43.5	53.3	35.1	
P/E	75.3	62.3	77.1	49.2	
EV / Net Sales	9.7	9.4	10.9	8.0	
Market Cap / Sales	9.9	9.6	11.1	8.1	
Price to Book Value	16.8	15.6	14.8	13.6	
Turnover Ratios					
Asset turnover	1.5	1.5	1.2	1.5	
Debtor Days	54.5	54.5	60.0	57.0	
Creditor Days	29.9	31.1	29.9	29.9	
Inventory Days	48.2	46.5	55.0	50.0	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	3.5	3.4	4.0	3.8	
Quick Ratio	2.0	2.0	2.3	2.2	

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPA)	1,727	1,900	Hold	1,65,619	29.0	21.8	32.6	59.6	79.3	52.9	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	1,062	1,120	Hold	16,000	16.6	15.0	23.3	64.1	71.0	45.6	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM)	1,693	1,565	Hold	5,324	52.2	15.1	54.9	32.4	112.0	30.8	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Bajaj Electricals (BAJEL)	434	495	Buy	4,934	0.0	4.1	14.8	NM	106.0	29.4	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAL)	528	570	Hold	51,279	6.8	6.0	10.0	78.2	88.1	52.7	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRC)	270	270	Buy	8,519	6.7	7.0	9.5	40.2	38.5	28.5	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	606	630	Hold	37,808	11.7	8.0	14.4	51.6	75.6	42.1	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	444	510	Buy	23,928	9.9	7.9	11.8	44.7	55.9	37.5	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,376	1,595	Buy	69,873	22.1	17.8	28.0	62.3	77.1	49.2	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	836	950	Buy	12,446	51.4	42.2	55.4	16.3	19.8	15.1	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,300	1,245	Hold	16,514	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1
Symphony (SYMLIM)	843	1,055	Buy	5,897	26.0	23.7	35.1	32.4	35.6	24.0	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
Time Techno (TIMTEC)	38	42	Hold	859	7.5	3.2	9.0	5.1	12.0	4.2	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	165	210	Buy	7,067	4.3	3.6	5.2	38.2	46.0	31.7	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	603	635	Buy	19,943	15.8	9.5	21.4	38.3	63.5	28.1	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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