

BSE SENSEX

39,044

S&P CNX

11,522

CMP: INR1,498

TP: INR1,385 (-8%)

Neutral



Stock Info

Bloomberg	PIDI IN
Equity Shares (m)	513
M.Cap.(INRb)/(USD\$b)	761.1 / 10.2
52-Week Range (INR)	1710 / 1186
1, 6, 12 Rel. Per (%)	6/-16/4
12M Avg Val (INR M)	1223

Financials Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	72.9	62.7	83.2
Sales Gr. (%)	3.0	-14.0	32.6
EBITDA	15.8	12.7	18.3
Margins (%)	21.6	20.2	22.0
Adj. PAT	11.7	8.7	13.0
EPS (INR)	23.1	17.1	25.6
EPS Gr. (%)	24.5	-26.2	50.3
BV/Sh.(INR)	87.7	95.6	112.1

Ratios

RoE (%)	27.3	18.6	24.7
RoCE (%)	25.0	17.3	23.3
Payout (%)	30.2	44.0	29.3

Valuations

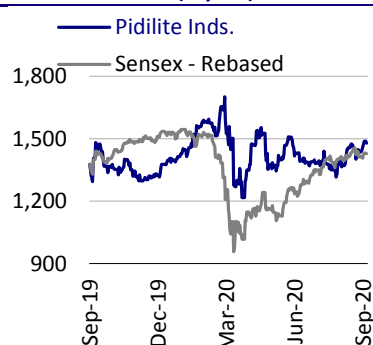
P/E (x)	64.9	87.9	58.5
P/BV (x)	17.1	15.7	13.4
EV/EBITDA (x)	47.3	58.4	40.2
Div. Yield (%)	0.5	0.5	0.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	70.2	69.9	69.8
DII	8.1	8.0	8.0
FII	11.2	11.5	11.5
Others	10.5	10.6	10.8

FII Includes depository receipts

Stock Performance (1-year)



Transformative changes underway

In a presentation ([link](#)) in our Annual Global Investor Conference recently, Mr Bharat Puri – MD of Pidilite (PIDI), highlighted two factors that could drive transformational change at the company level:

- Faster growth in the ‘Growth’ and ‘Pioneer’ categories would lead to contribution from these categories increasing from around one-third of sales combined to around half of sales over the next three to four years. This would provide significant impetus to the topline over the medium term, something that has been lacking in recent years.
- Technology implementation in distribution in recent years is boosting efficiency and elevating distributor ROI, enabling the company to retain channel loyalty in the current uncertain times.
- We maintain a Neutral rating on the stock from a one-year perspective on account of fair valuations (58.5x FY22 EPS) and uncertain near-term recovery, especially in the B2B part of the business (~15% of sales). However, initiatives to grow the Growth and Pioneer categories could go a long way in revitalizing medium-term sales and earnings growth, which have dropped significantly in the past four years. These metrics reported an 8–10% CAGR over the past four years v/s ~16% and ~20%, respectively, in the first six years of the decade.

Growth and Pioneer categories to grow faster

In the past few years, the company has undertaken a series of acquisitions and tie-ups (see Exhibit 2), many of which are likely to attain critical size in the upcoming years. The company has also increased its stake in some of these businesses in recent years. The share of the ‘Growth’ and ‘Pioneer’ categories has gradually increased from ~25% of sales to ~33%, but the needle is likely to move even more sharply for these segments in the next three to four years, resulting in a ~50% contribution to sales from these segments. Products in the Growth category, which we believe would drive a significant portion of this growth, include Dr. Fixit (waterproofing), WD-40 (maintenance spray), Nina Percept (waterproofing), ICA-Pidilite (wood coating), and the international business. On the other hand, Pioneer brands/tie-ups comprise Roff (tile adhesives), Jowat (industrial adhesives), Cipy (floor coating), Tenax (adhesives and coatings for marble, granite, and stone), Grupo Puma (mortar and plasters for flooring and walls), and Litokol (epoxy grout).

Distribution and penetration growth – key focus in Growth business

Rapid expansion in the Growth business is attributable to significant efforts on category creation in recent years. This is likely to continue going forward, along with increased distribution and penetration. Furthermore, for the international business, the focus would be more on markets similar to India and deploying an ‘India-like’ approach in terms of strategy. The expansion of brands such as Fevikwik to nearly 4m outlets (now among the best distributed consumer brands in the country) is testimony to the company’s out-of-the-box thinking on distribution expansion. On a broad basis, ‘Growth’ category brands and segments are likely to grow at 2–4x GDP growth.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Category creation, leveraging PIDI's distribution strength – key focus in Pioneer category

The company made most of its investments in Pioneer brands very recently. This involved significant category creation, especially as the categories are very nascent compared with those in other countries. PIDI has synergized the business with existing businesses in terms of distribution and end customers, i.e. contractors. The company targets ~INR1b revenue or higher for the Pioneer categories over the next three years.

Core business to grow at 1–2x GDP

The Core business (Fevicol and sub-brands Fevikwik, M-Seal, and Fevicryl) is likely to grow at 1–2x GDP. Growth at the higher end of this band would be possible if renovations and new construction activity picks up. Longer term opportunity still remains high in the Core business, particularly on account of: (a) consistent premiumization and (b) gains from the unorganized portion of the Adhesives market, which stands at 30–35%. Notably, and contrary to expectations, there has been no sharp increase in readymade furniture as customized furniture is still more cost-effective in India v/s readymade furniture. Nevertheless, as demonstrated from the slowing of overall revenue growth (~8% in the last four years v/s ~16% over FY10–16) (Exhibit 1), there was perhaps a need to boost revenue growth through additional drivers.

No material change in C&B to B2B mix

Importantly, many of the Growth and Pioneer categories are B2C. This means that there is unlikely to be any material change in the current 85:15 mix for Consumer and Bazaar (C&B) and B2B products over the next three to four years, by the end of which the Growth and Pioneer categories are likely to comprise around half of sales. A change in the C&B: B2B mix could have had implications on margins and ROCE.

Digital and analytics push leading to significant gains

The company has historically been well behind other consumer companies in terms of distribution technology and analytics. However, it has shown significant improvement in these aspects over the past two years, leading to greater efficiency and better decision making. Each distributor employee has a handheld device and auto-replenishment is fully in place. Channel inventory days have already been reduced by 7–10 days, thereby boosting distributor RoI. Further efficiency gains are still possible going forward. Notably, month-end and year-end dumping are a thing of the past.

Exhibit 1: Performance in last four years has slowed v/s strong performance over FY10–16

Y/E March (INR b)	FY10	FY16	FY20	FY10–16 CAGR	FY16–20 CAGR	FY10–20 AGR
Sales	22.2	53.6	72.9	15.8	8.0	12.6
Gross Profit	10.8	27.8	38.9	17.0	8.8	13.6
Gross Margin (%)	48.7	51.8	53.4	305 bps	157 bps	462 bps
EBITDA	4.1	11.7	15.8	19.4	7.7	14.6
EBITDA Margin (%)	18.2	21.9	21.6	366 bps	-28 bps	338 bps
PAT	2.7	8.0	11.7	19.6	9.9	15.6
PAT Margin (%)	12.4	15.0	16.1	264 bps	110 bps	374 bps
CFO	3.9	9.1	12.8	15.0	9.0	12.6
FCF	3.1	7.4	8.4	15.4	3.0	10.3

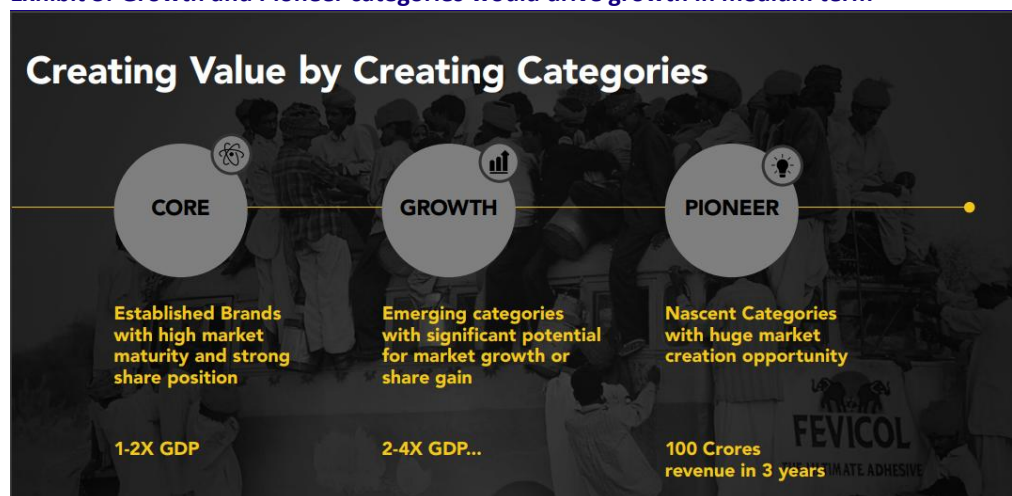
Source: Company, MOFSL

Exhibit 2: PIDI has invested considerably in acquisitions and JVs in recent years

FY	Company	Stake at acquisition (%)	Consideration (INR m)
FY20	JV - Pidilite C-Techos Walling Limited	60	NA
	Tenax India Stone Products	70	800
	Aapkapainter	25	50
	Pepperfry	2	700
	Home Lane	5	490
	JV with Chetana Exponential Technologies	NA	NA
	JV - Pidilite Grupo Puma Manufacturing Limited	50	NA
	JV - Pidilite Litokol Private Limited	60	NA
FY19	JV - Pidilite East Africa Limited	55	NA
FY18	CIPY Polyurethanes Pvt. Ltd.	70	964
FY17	ICA Pidilite Pvt. Ltd.	50	1,310
FY16	Nina Waterproofing Systems Pvt. Ltd.	70	820

Source: Company, MOFSL

While Core products are likely to grow at 1–2x GDP, the trend has been closer to 1x GDP in recent years. Particularly beyond the COVID-impacted FY21, the Growth and Pioneer categories are likely to drive overall sales growth. Growth category products are likely to grow at 2–4x GDP (more than twice that of Core products). The nascent Pioneer category products are targeted to attain INR1b sales in three years.

Exhibit 3: Growth and Pioneer categories would drive growth in medium term

Source: Company, MOFSL

The Growth and Pioneer categories are targeted to contribute around half of sales over the next 3–4 years, compared with one-third of sales currently. We believe the Growth category may be the bigger driver of this incremental spurt in the forthcoming few years, while the Pioneer category would be a huge driver of topline growth in the medium-to-long term.

Exhibit 4: Well-placed portfolio across categories

Portfolio for Creating value



Source: Company, MOFSL

The company has laid a strong base for rapid expansion in Growth category products over the next few years, particularly aided by category awareness efforts as well as increased marketing efforts.

Exhibit 5: Strategy would drive performance in Growth category...

Creating Categories



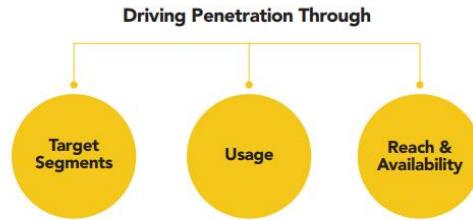
Source: Company, MOFSL

Distribution expansion is also playing a huge role in driving expansion in Growth category products. Fevikwik, in particular, has been a remarkable case study on distribution expansion. Overall product reach is at over 3.2m outlets now vis-à-vis the best FMCG company brands. The company’s clutter-breaking marketing is also facilitating faster growth.

Exhibit 6: ...led by growing penetration and distribution expansion

Wholistic Brand Management

- Exhaustive immersions to collect insights
- Identify usage patterns and accordingly select target segments
- Focussed media strategy to reach target segment and deliver growth



*Available in 3.2 mn outlets



Source: Company, MOFSL

Exhibit 7: Distribution expansion is a key pillar of strategy for Growth category

Driving Penetration The Emerging India Story

VILLAGES	No. OF TOWNS	PIL DIRECT REACH*
> 1 mn	45	45
0.2-1 mn	184	184
< 0.2 mn	0.6 mn	23,000



Source: Company, MOFSL

Compared with the erstwhile approach of focusing on a multitude of geographies, including the US and Brazil, in recent years, the company has decided to focus on certain emerging markets with high growth potential and where an 'India-like' approach could work very well.

Exhibit 8: International expansion in target markets with ‘India-like’ strategy to expand Growth category

International Expansion

Taking Pidilite’s Success Story to Emerging Markets across the World.

Target markets with high headroom for growth, with a high-touch, “India-like” approach

Drive market: Bangladesh

- Began operations 15+ years ago
- Play across all major categories of Pidilite (including C&B and IP)
- Setup local manufacturing, with 2nd plant opened recently
- Expanded distribution reach aggressively
- Focused on influencer and market development
- Built local talent and capability
- Investing in scaling up reach further through ATL and localized campaigns



- Market leading position across some segments

Source: Company, MOFSL

All the Pioneer category brands are in the nascent categories; thus, the company is trying to grow the categories using innovation and technology and by leveraging on its relationships and distribution strength.

Exhibit 9: Key enablers for Pioneer category

Growth Enablers



Source: Company, MOFSL

R&D is gaining increasing importance, with a nearly 2.5x increase seen in R&D spends over the past five years. There has also been significant augmentation of manufacturing capacity at both the standalone and subsidiary levels to drive planned future growth in the Core, Growth, and Pioneer categories.

Exhibit 10: Significant investment in R&D to drive innovation



Source: Company, MOFSL

Exhibit 11: Investments in manufacturing and technology for Pioneer category

Future-Fit Infrastructure

Network Expansion:

- There are a total of 8 plants added since 2015.
- Manufacturing capacity expansion in Bangladesh
- A new plant has been set up in Sri-Lanka and Kenya.
- 12 more plants being added by 2022 to create a seamless manufacturing & supply chain network across the country.

Capability Building:

- State of the Art facility developed at Vizag Plant
- Capacity Expansion & Automation to provide Best-In-Class Services
- To incorporate state of the art manufacturing and process control systems
- Material handling to be done through ASRS (Automated Storage & Retrieval Systems)



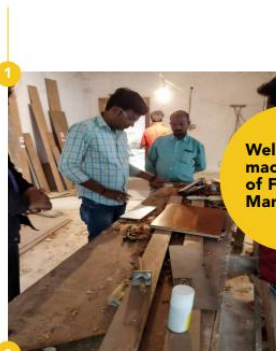
Source: Company, MOFSL

Exhibit 12: Engaging with influencers would drive adoption/sales in Pioneer category

Influencer & User Marketing

1 Gain deeper understanding of users, products and categories

2 Cater to needs of users beyond business (FCC)



Well oiled machinery of Field Marketing

3 Customer centricity

4 Source of inspiration



Source: Company, MOFSL

Exhibit 13: Technology and digital are playing a key role in terms of strategy for Pioneer category

Source: Company, MOFSL

Exhibit 14: Consolidated segmental performance

Segmental	FY15	FY16	FY17	FY18	FY19	FY20	FY15-20 CAGR
Consumer and Bazaar (C&B)							
Net Sales (INR m)	40,180	48,021	51,306	52,706	53,823	55,497	6.7
Net Sales Growth (%)		19.5	6.8	2.7	2.1	3.1	
Sales Contribution %	83.4	84.2	84.6	84.8	76.0	76.1	
EBIT (INR m)	7,673	11,823	12,569	13,718	13,867	15,473	15.1
EBIT Growth %		54.1	6.3	9.1	1.1	11.6	
EBIT Contribution %	89.9	88.5	88.6	89.8	87.0	85.3	
EBIT margin %	19.1	24.6	24.5	26.0	25.8	27.9	878 bps
Capital Employed (INR m)	8,227	13,159	16,427	19,244	18,622	21,082	20.7
Segment ROCE %	93.3	89.8	76.5	71.3	74.5	73.4	
Business to Business (B2B)							
Net Sales (INR m)	7,573	8,531	8,827	8,924	16,074	16,693	17.1
Net Sales Growth (%)		12.6	3.5	1.1	80.1	3.8	
Sales Contribution %	15.7	15.0	14.6	14.3	22.7	22.9	
EBIT (INR m)	967	1,554	1,662	1,583	2,160	2,710	22.9
EBIT Growth %		60.8	6.9	-4.8	36.5	25.5	
EBIT Contribution %	11.3	11.6	11.7	10.4	13.5	14.9	
EBIT margin %	12.8	18.2	18.8	17.7	13.4	16.2	347 bps
Capital Employed (INR m)	2,467	2,368	2,693	3,453	5,993	6,862	22.7
Segment ROCE %	39.2	65.6	61.7	45.8	36.0	39.5	

FY19 and FY20 numbers are based on restructured segments

Source: Company, MOFSL

Exhibit 15: Standalone segmental performance

Segmental	FY15	FY16	FY17	FY18	FY19	FY20	FY15-20 CAGR
Consumer and Bazaar (C&B)							
Sales (INR m)	35,723	41,636	43,669	45,428	48,116	49,928	6.9
Sales Growth (%)		16.6	4.9	4.0	5.9	3.8	
Sales Contribution %	81.7	82.2	82.4	82.7	79.0	78.8	
EBIT (INR m)	7,676	11,410	12,544	13,500	14,169	15,314	14.8
EBIT Growth %		48.6	9.9	7.6	5.0	8.1	
EBIT Contribution %	89.9	88.1	88.6	89.6	88.8	85.8	
EBIT margin %	21.5	27.4	28.7	29.7	29.4	30.7	919 bps
Capital Employed (INR m)	9,023	8,812	10,130	10,951	11,465	13,502	8.4
Segment ROCE %	85.1	129.5	123.8	123.3	123.6	113.4	
Business to Business (B2B)							
Sales (INR m)	7,573	8,531	8,827	8,924	11,941	12,643	10.8
Sales Growth (%)		12.6	3.5	1.1	33.8	5.9	
Sales Contribution %	17.3	16.8	16.7	16.3	19.6	20.0	
EBIT (INR m)	967	1,554	1,662	1,583	1,863	2,574	21.6
EBIT Growth %		60.8	6.9	-4.8	17.7	38.2	
EBIT Contribution %	11.3	12.0	11.7	10.5	11.7	14.4	
EBIT margin %	12.8	18.2	18.8	17.7	15.6	20.4	760 bps
Capital Employed (INR m)	2,467	2,368	2,693	3,453	4,308	4,971	15.0
Segment ROCE %	39.2	65.6	61.7	45.8	43.2	51.8	

FY19 and FY20 numbers are based on restructured segments

Source: Company, MOFSL:

Financials and valuations

Income Statement							(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Net Sales	53,612	56,168	60,784	70,787	72,945	62,746	83,230
Change (%)	9.9	4.8	8.2	16.5	3.0	-14.0	32.6
Raw Materials	25,847	26,396	28,877	35,866	34,025	27,819	37,406
Gross Profit	27,765	29,772	31,908	34,922	38,920	34,927	45,825
Margin (%)	51.8	53.0	52.5	49.3	53.4	55.7	55.1
Operating Expenses	16,030	17,174	18,495	21,240	23,160	22,235	27,525
EBITDA	11,735	12,598	13,412	13,682	15,760	12,692	18,300
Change (%)	45.8	7.4	6.5	2.0	15.2	-19.5	44.2
Margin (%)	21.9	22.4	22.1	19.3	21.6	20.2	22.0
Depreciation	1,005	1,151	1,199	1,327	1,699	1,911	1,941
Int. and Fin. Charges	133	139	155	261	336	337	317
Other Income	778	1,123	1,484	1,466	1,494	1,135	1,359
Profit before Taxes	11,376	12,430	13,542	13,560	15,219	11,579	17,402
Change (%)	66.6	9.3	8.9	0.1	12.2	-23.9	50.3
Margin (%)	21.2	22.1	22.3	19.2	20.9	18.5	20.9
Tax	3,335	3,851	3,927	4,132	3,477	2,915	4,380
Tax Rate (%)	29.3	31.0	29.0	30.5	22.8	25.2	25.2
Adj PAT	8,040	8,579	9,615	9,428	11,742	8,665	13,022
Change (%)	56.6	6.7	12.1	-1.9	24.5	-26.2	50.3
Margin (%)	15.0	15.3	15.8	13.3	16.1	13.8	15.6

Balance Sheet							(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	513	513	508	508	508	508	508
Reserves	25,867	34,196	35,233	40,973	44,048	48,064	56,437
Net Worth	26,380	34,709	35,740	41,481	44,556	48,572	56,945
Loans	800	975	1,226	1,111	2,806	1,403	1,173
Deferred Liability	753	877	1,048	1,094	693	693	693
Minority Interest	434	1,273	1,750	2,072	2,157	2,157	2,157
Capital Employed	28,367	37,835	39,764	45,757	50,211	52,825	60,967
Gross Block	17,942	20,329	21,624	23,518	28,818	29,618	31,618
Less: Accum. Deprn.	7,901	8,915	9,976	10,892	12,591	14,502	16,443
Net Fixed Assets	10,040	11,414	11,648	12,626	16,227	15,116	15,175
Capital WIP	1,581	1,477	2,277	2,421	2,593	2,593	2,593
Goodwill	1,334	1,338	1,774	1,850	1,840	1,840	1,840
Others	517	754	793	889	728	728	728
Investments	7,055	14,431	12,459	15,477	11,862	17,004	22,146
Curr. Assets, L&A	16,611	18,290	23,034	25,775	31,977	27,648	34,445
Inventory	6,274	7,209	8,043	9,345	9,295	7,995	10,605
Account Receivables	7,016	7,685	9,381	10,560	10,885	9,363	12,420
Cash and Bank Balance	1,318	999	1,636	1,904	7,033	5,408	5,947
Others	2,003	2,397	3,974	3,966	4,765	4,882	5,473
Curr. Liab. and Prov.	8,772	9,870	12,222	13,281	15,016	12,105	15,960
Current liabilities	8,223	9,231	11,573	12,534	14,194	11,279	15,051
Provisions	549	639	649	747	822	825	910
Net Current Assets	7,839	8,420	10,812	12,494	16,961	15,543	18,484
Application of Funds	28,367	37,835	39,764	45,757	50,211	52,825	60,967

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)							
EPS	15.7	16.7	18.9	18.6	23.1	17.1	25.6
Cash EPS	17.6	19.0	21.3	21.2	26.5	20.8	29.4
BV/Share	51.5	67.7	70.4	81.7	87.7	95.6	112.1
DPS	0.5	4.7	6.0	6.5	7.0	7.5	7.5
Payout %	3.2	28.2	31.5	34.9	30.2	44.0	29.3
Valuation (x)							
P/E	95.6	89.6	79.2	80.8	64.9	87.9	58.5
Cash P/E	85.0	79.0	70.4	70.8	56.7	72.0	50.9
EV/Sales	14.2	13.4	12.3	10.5	10.2	11.8	8.8
EV/EBITDA	64.9	59.9	55.8	54.5	47.3	58.4	40.2
P/BV	29.1	22.1	21.3	18.4	17.1	15.7	13.4
Dividend Yield (%)	0.0	0.3	0.4	0.4	0.5	0.5	0.5
Return Ratios (%)							
RoE	32.8	28.1	27.3	24.4	27.3	18.6	24.7
RoCE	31.1	26.2	25.1	22.5	25.0	17.3	23.3
RoIC	45.6	40.2	39.1	34.8	39.7	28.5	42.1
Working Capital Ratios							
Debtor (Days)	48	50	56	54	54	54	54
Creditor (Days)	72	77	89	80	91	82	85
Asset Turnover (x)	3.0	2.8	2.7	2.8	2.2	2.0	2.5
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.1	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
PBT before Extra Ord	11,408	12,483	13,588	13,416	14,698	11,579	17,402
Add: Depreciation	1,005	1,151	1,199	1,327	1,699	1,911	1,941
Interest Paid	82	80	81	55	211	337	317
Less: Taxes Paid	3,140	3,733	4,276	4,093	3,931	2,915	0
Non operating income	268	645	854	467	448	1,135	1,359
(Incr)/Decr in WC	-12	-1,399	-1,774	-1,791	565	-207	-2,402
CF from Operations	9,075	7,938	7,964	8,448	12,796	9,571	15,898
Incr in FA	-1,659	-1,224	-1,760	-2,538	-4,439	-800	-2,000
Free Cash Flow	7,416	6,713	6,204	5,910	8,356	8,771	13,898
Pur of Investments	-2,577	-6,613	2,896	-2,317	4,713	-5,142	-5,142
Others	-671	-825	-566	281	551	1,135	-3,021
CF from Invest.	-4,907	-8,662	570	-4,574	825	-4,807	-10,163
Change in share capital	0	0	0	0	28	0	0
Incr in Debt	116	55	-4	-92	328	-1,403	-230
Dividend Paid	-4,032	-316	-2,930	-3,635	-8,254	-4,649	-4,649
Interest Paid	-133	-139	-155	-167	-254	-337	-317
Others	339	807	-4,808	287	-340	0	0
CF from Fin. Activity	-3,711	407	-7,898	-3,606	-8,492	-6,389	-5,196
Incr/Decr of Cash	458	-318	636	269	5,128	-1,625	539
Add: Opening Balance	860	1,318	999	1,636	1,904	7,033	5,408
Closing Balance	1,318	999	1,636	1,904	7,032	5,408	5,947

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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