

## Reduce

### View: Faster than expected recovery

- Pidilite's Q2FY21 results were ahead of our estimate as the improvement in business conditions was better than our anticipation.
- Consumer Bazaar segment has witnessed strong recovery with +9% growth (55% decline in Q1FY21). Though B2B reported 13% YoY decline, witnessed significant sequential improvement (59% decline in Q1FY21).
- Going ahead, we believe that the company's strong brand portfolio and wide distribution reach should help accelerate revenue growth. Further, acquisition of HAMSPL would help Pidilite grow faster in the domestic market. We have revised our EPS estimates to Rs 20.2 (+13.7%) and Rs 27.2 (+15.0%) for FY21E and FY22E, respectively and introduced FY23E at Rs 30.4. We value the stock at 55x FY23E EPS to arrive at a TP of Rs 1,672. Considering rich valuations, we maintain Reduce. Buy on Dips.

### Benign RM and cost optimization initiatives aid margins

Net Sales grew 4.1% YoY to Rs 18.8bn, was above our estimate, with improvement in demand conditions. Domestic business reported 3.7% YoY growth with 3.6% volume & mix decline. Volume growth in Consumer Bazaar/B2B segment was +7.4%/-7.2%. GM expanded by 260bps to 55.9%. EBITDA increased by 39.2% YoY to Rs 5,126mn with strong cost optimization measures. EBITDA margin expanded by 690bps to 27.3% (highest ever reported) due to 260/420bps decline in RM/other expenses respectively. APAT grew 2.8% YoY to Rs 3,558mn – exceeded our estimates.

### Speedy recovery expected in B2B

Consumer Bazaar revenue (consol) stood at Rs 15.3bn, up 9.4% YoY while EBIT grew by 40.7% YoY to Rs 5.3bn. Consumer Bazaar margin expanded by 780bps to 34.8%. In line with the recovery in paint company's sales, we believe that the segment would continue to recover fast. B2B revenue decreased by 13.0% YoY to Rs 3.8bn while operating profit declined 53.9% YoY to Rs 290mn. B2B margin contracted 680bps to 7.7%. On sequential basis, the segment has exhibited remarkable improvement. As the domestic market is recovering fast, we believe that the segment would normalize in H2FY21E.

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	18,803	18,066	4.1	8,778	114.2
Total Expense	13,677	14,383	(4.9)	8,115	68.5
EBITDA	5,126	3,682	39.2	664	672.4
Depreciation	479	402	19.0	461	3.9
EBIT	4,648	3,280	41.7	203	2192.8
Other Income	217	558	(61.1)	200	8.5
Interest	87	83	4.5	91	(4.6)
EBT	4,778	3,533	35.2	312	1431.4
Tax	1,220	293	316.4	159	669.5
RPAT	3,564	3,242	9.9	268	1230.9
APAT	3,564	3,464	2.9	268	1230.9
			(bps)		(bps)
Gross Margin (%)	55.9	53.4	256	53.5	248
EBITDA Margin (%)	27.3	20.4	688	7.6	1970
NPM (%)	19.0	17.9	101	3.1	1590
Tax Rate (%)	25.5	8.3	1723	50.8	(2528)
EBIT Margin (%)	24.7	18.2	656	2.3	2241

CMP	Rs 1,597
Target / Upside	Rs 1,672 / 5%
NIFTY	12,264

### Scrip Details

Equity / FV	Rs 508mn / Rs 1
Market Cap	Rs 811bn
	USD 11bn
52-week High/Low	Rs 1,710/ 1,186
Avg. Volume (no)	1,007,150
Bloom Code	PIDI IN

Price Performance	1M	3M	12M
Absolute (%)	9	20	16
Rel to NIFTY (%)	3	10	13

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	69.9	70.2	70.2
MF/Banks/FIs	9.5	9.8	10.2
FIIIs	11.5	11.2	10.9
Public / Others	9.0	8.9	8.8

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	79.2	58.6	52.5
EV/EBITDA	53.8	40.0	36.0
ROE (%)	21.4	24.7	22.5
RoACE (%)	19.8	23.0	21.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	67,810	86,649	96,029
EBITDA	14,796	19,720	21,619
PAT	10,233	13,827	15,443
EPS (Rs.)	20.2	27.2	30.4

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### Strong IB performance

Pidilite's IB business posted strong 19.4% growth driven by +50% increase in Americas. EBITDA of Americas subsidiary increased from Rs 33mn in Q2FY20 to Rs 292mn in Q2FY21. Asia business reported 0.7% revenue growth and EBITDA increased 42% to Rs 88mn. Middle East and Africa business posted 1.4% increase with Rs 14mn EBITDA loss (vs Rs 23mn loss in Q2FY20).

### Sequential improvement in domestic subsidiaries performance

Domestic subsidiaries continued to remain negatively impacted, but performance improved sequentially. Overall domestic subsidiaries posted 12% de-growth compared to 82% de-growth reported in Q1FY21. Cipy Polyurethane/Nina Percept reported 24%/36% revenue decline during the quarter. ICA Pidilite reported 1.2% increase in sales to Rs 464mn with 59% EBITDA increase to Rs 112mn.

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

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	18,803	12,646	48.7	Demand revival in Consumer bazar and B2B was stronger than our anticipation
EBITDA	5,126	2,363	117.0	
EBITDA margin %	27.3	18.7	860	RM cost and other expenses were lower our estimates
APAT	3,558	1,825	95.0	Cascading effect of higher EBITDA

Source: Company, DART

#### Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	67,810	65,265	3.9	86,649	81,291	6.6
EBITDA	14,796	12,939	14.3	19,720	17,064	15.6
EBITDA Margin (%)	21.8	19.8	200bps	22.8	21.0	180bps
PAT	10,233	9,003	13.7	13,827	12,020	15.0
EPS (Rs)	20.1	17.7	13.7	27.2	23.7	15.0

Source: DART, Company

We have upward revised FY21E and FY22E revenue estimates to factor in Q2 performance, improvement in domestic demand scenario and acquisition of HAMSPL. Though RM prices are increasing from Q2, we have upward revised our margin estimates to factor in significant margin expansion in Q2. In line with the increase in EBITDA we have revised our APAT estimates.

**Exhibit 3: Half yearly performance**

Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Net Sales</b>	<b>18,803</b>	<b>18,066</b>	<b>4.1</b>	<b>8,778</b>	<b>114.2</b>	<b>27,582</b>	<b>38,232</b>	<b>(27.9)</b>
<b>Expenditure</b>	<b>13,677</b>	<b>14,383</b>	<b>(4.9)</b>	<b>8,115</b>	<b>68.5</b>	<b>21,792</b>	<b>30,112</b>	<b>(27.6)</b>
Raw Material	8,284	8,422	(1.6)	4,085	102.8	12,369	18,227	(32.1)
Employee Cost	2,421	2,345	3.3	2,157	12.3	4,578	4,781	(4.2)
Other Expenditure	2,972	3,617	(17.8)	1,873	58.7	4,845	7,105	(31.8)
<b>Operating Profit</b>	<b>5,126</b>	<b>3,682</b>	<b>39.2</b>	<b>664</b>	<b>672.4</b>	<b>5,790</b>	<b>8,120</b>	<b>(28.7)</b>
Other Income	217	558	(61.1)	200	8.5	417	956	(56.4)
Interest	87	83	4.5	91	(4.6)	177	156	13.4
<b>Depreciation</b>	<b>479</b>	<b>402</b>	<b>19.0</b>	<b>461</b>	<b>3.9</b>	<b>940</b>	<b>780</b>	<b>20.6</b>
PBT	4,778	3,755	27.2	312	1,431.4	5,090	8,140	(37.5)
Tax	1,220	293	316.4	159	669.5	1,378	1,737	(20.7)
<b>APAT</b>	<b>3,558</b>	<b>3,462</b>	<b>2.8</b>	<b>154</b>	<b>2,218.1</b>	<b>3,712</b>	<b>6,403</b>	<b>(42.0)</b>
Minority/Share of Asso	6	2	210.5	114	(94.8)	120	(10)	NM
EO items	0	(222)	NM	0	NM	-	(222.4)	NM
RPAT	3,564	3,242	9.9	268	1,230.9	3,832	6,171	(37.9)
<b>EPS (Adjusted)</b>	<b>7.0</b>	<b>6.8</b>	<b>2.8</b>	<b>0.3</b>	<b>2,218.1</b>	<b>7.3</b>	<b>12.6</b>	<b>(42.0)</b>
			<b>bps</b>		<b>bps</b>			<b>bps</b>
GPM (%)	55.9	53.4	260	53.5	250	55.2	52.3	283
Employee Cost %	12.9	13.0	(10)	24.6	(1,170)	16.6	12.5	409
Other exp %	15.8	20.0	(420)	21.3	(550)	17.6	18.6	-102
OPM (%)	27.3	20.4	690	7.6	1,970	21.0	21.2	-25
NPM (%)	18.9	19.2	(20)	1.7	1,720	13.5	16.7	-329

Source: Company, DART

**Exhibit 4: Segment Analysis (Consol)**

Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Revenue</b>					
Consumer Bazaar	15,277	13,969	9.4	7,020	117.6
Business to Business	3,771	4,333	(13.0)	1,882	100.3
Others	72	164	(56.5)	18	295.0
<b>Total</b>	<b>19,119</b>	<b>18,467</b>	<b>3.5</b>	<b>8,921</b>	<b>114.3</b>
<b>EBIT</b>					
Consumer Bazaar	5,324	3,782	40.7	1,320	303.2
Business to Business	290	629	(53.9)	(227)	NM
Others	8	(25)	NM	(35)	NM
<b>Total</b>	<b>5,621</b>	<b>4,386</b>	<b>28.2</b>	<b>1,059</b>	<b>431.0</b>
<b>EBIT Margin (%)</b>					
			<b>bps</b>		<b>bps</b>
Consumer Bazaar	34.8	27.1	780	18.8	1,600
Business to Business	7.7	14.5	(680)	(12.0)	NM
Others	10.8	(15.3)	NM	(193.4)	NM
<b>Total</b>	<b>29.4</b>	<b>23.8</b>	<b>560</b>	<b>11.9</b>	<b>1,750</b>

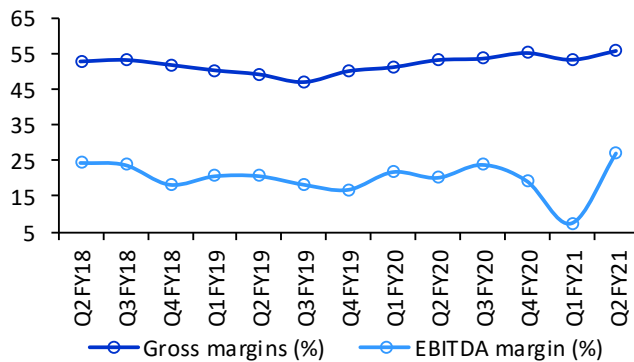
Source: Company, DART

### Exhibit 5: Overseas performance

Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Revenue</b>					
Asia	568	564	0.7	303	87.5
Middle East & Africa	385	380	1.3	267	44.2
Americas	812	535	51.8	383	112.0
<b>Total</b>	<b>1,765</b>	<b>1,479</b>	<b>19.3</b>	<b>953</b>	<b>85.2</b>
<b>EBITDA</b>					
Asia	88.0	62.0	41.9	15.0	486.7
Middle East & Africa	(14.0)	(23.0)	NM	(31.0)	(54.8)
Americas	292.0	33.0	784.8	15.0	NM
<b>Total</b>	<b>366</b>	<b>72</b>	<b>408.3</b>	<b>(1)</b>	<b>(36,700.0)</b>
<b>EBITDA Margin (%)</b>					
			<b>bps</b>		<b>bps</b>
Asia	15.5	11.0	450	5.0	1,050
Middle East & Africa	(3.6)	(6.1)	NM	(11.6)	NM
Americas	36.0	6.2	2,980	3.9	NM
<b>Total</b>	<b>20.7</b>	<b>4.9</b>	<b>1,590</b>	<b>(0.1)</b>	<b>2,080</b>

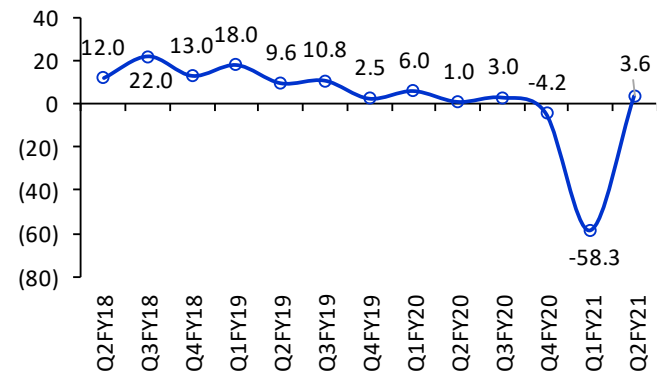
Source: Company, DART

### Exhibit 6: Trend in Operating Performance



Source: DART, Company

### Exhibit 7: Domestic Volume Growth (%)



Source: DART, Company

## Concall Highlights

- Rural and semi-urban areas recorded double digit growth. Performance in metros improved sequentially but it is still to reach pre-covid levels.
- Consumer and Bazaar segment returned to growth reaching pre- Covid levels in most geographies.
- Construction Chemicals and DIY products exhibited healthy growth.
- Benign input costs and strong cost optimisation measures supported margin expansion during Q2. However, as RM prices are inching upwards and with anticipated marketing and brand building investments, company expects EBITDA margins in the 21-24% range going ahead.
- E-com sales have more than doubled YoY.
- Capex is generally ~4-5% of revenue. Pidilite has nine plants in India which are work in progress. The company expects capex to be in the same range this year.
- During Q2FY21, VAM prices averaged US\$ 765/ton from US\$ 901/ton in Q2FY20 and US\$ 823/ton in Q1FY21. Currently it is inching upwards to US\$ 900/ton.
- International subsidiaries have reported healthy double-digit constant currency growth led by Americas
- On 3rd November 2020, Pidilite has completed the acquisition of 100% stake in Huntsman Advanced Materials Solutions Private Limited (HAMSPL) for a cash consideration of ~Rs. 21 bn, excluding customary working capital and other adjustments. Revenue stood at Rs 4bn in CY19.
- Top three players in epoxy adhesive segment are Araldite, Astral and Pidilite. Araldite has a fairly large market share.
- Araldite business is very profitable, and its EBITDA margin is comparable to Pidilite's EBITDA margins. The distribution reach of Pidilite is much higher than HAMSPL. Sales of Araldite is higher than Pidilite's brands in epoxy adhesive segment. Pidilite's objective is to grow Araldite minimum at 1x to 1.5x GDP.
- Pidilite targets ~30% of its growth to come from new products or products under launch.
- Nina Percept business model is to provide waterproofing services largely for new buildings, infrastructure. The real estate segment is currently stressed, which impacted the subsidiary. As economic conditions improve and construction activities pickup, this business should also start performing better.

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>72,945</b>	<b>67,810</b>	<b>86,649</b>	<b>96,029</b>
<b>Total Expense</b>	<b>57,185</b>	<b>53,014</b>	<b>66,930</b>	<b>74,411</b>
COGS	34,025	30,888	39,850	44,220
Employees Cost	9,272	9,378	10,420	11,616
Other expenses	13,887	12,748	16,660	18,575
<b>EBIDTA</b>	<b>15,760</b>	<b>14,796</b>	<b>19,720</b>	<b>21,619</b>
Depreciation	1,699	1,794	1,964	480
<b>EBIT</b>	<b>14,061</b>	<b>13,002</b>	<b>17,755</b>	<b>21,139</b>
Interest	336	390	440	440
Other Income	1,494	1,148	1,301	101
Exc. / E.O. items	(552)	0	0	0
<b>EBT</b>	<b>14,667</b>	<b>13,760</b>	<b>18,616</b>	<b>20,800</b>
Tax	3,477	3,578	4,840	5,408
RPAT	11,221	10,233	13,827	15,443
Minority Interest	(30)	(51)	(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>11,772</b>	<b>10,233</b>	<b>13,827</b>	<b>15,443</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	508	508	508	508
Minority Interest	2,156	2,156	2,156	2,156
Reserves & Surplus	44,048	50,418	60,382	75,825
<b>Net Worth</b>	<b>44,556</b>	<b>50,926</b>	<b>60,890</b>	<b>76,333</b>
Total Debt	2,804	2,804	2,804	2,804
Net Deferred Tax Liability	822	822	822	822
<b>Total Capital Employed</b>	<b>50,338</b>	<b>56,708</b>	<b>66,672</b>	<b>82,115</b>

**Applications of Funds**

Net Block	<b>18,066</b>	<b>18,772</b>	<b>19,307</b>	<b>21,327</b>
CWIP	2,593	2,593	2,593	2,593
Investments	4,411	4,940	5,533	6,197
<b>Current Assets, Loans &amp; Advances</b>	<b>40,208</b>	<b>42,037</b>	<b>53,763</b>	<b>67,961</b>
Inventories	9,295	8,624	11,025	12,220
Receivables	10,885	10,099	12,911	14,310
Cash and Bank Balances	7,032	9,934	15,255	25,527
Loans and Advances	2,700	2,015	2,015	2,015
Other Current Assets	3,099	3,304	3,529	3,777
<b>Less: Current Liabilities &amp; Provisions</b>	<b>14,940</b>	<b>11,634</b>	<b>14,524</b>	<b>15,963</b>
Payables	6,209	4,450	5,689	6,306
Other Current Liabilities	8,731	7,184	8,835	9,658
	<i>sub total</i>			
Net Current Assets	25,268	30,403	39,238	51,997
<b>Total Assets</b>	<b>50,338</b>	<b>56,708</b>	<b>66,672</b>	<b>82,115</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	53.4	54.4	54.0	54.0
EBIDTA Margin	21.6	21.8	22.8	22.5
EBIT Margin	19.3	19.2	20.5	22.0
Tax rate	23.7	26.0	26.0	26.0
Net Profit Margin	15.4	15.1	16.0	16.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	46.6	45.6	46.0	46.0
Employee	12.7	13.8	12.0	12.1
Other	19.0	18.8	19.2	19.3
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	41.8	33.3	40.4	48.0
Inventory days	47	46	46	46
Debtors days	54	54	54	54
Average Cost of Debt	17.1	13.9	15.7	15.7
Payable days	31	24	24	24
Working Capital days	126	164	165	198
FA T/O	4.0	3.6	4.5	4.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	23.2	20.2	27.2	30.4
CEPS (Rs)	26.5	23.7	31.1	31.4
DPS (Rs)	16.3	7.6	7.6	0.0
Dividend Payout (%)	70.1	37.8	27.9	0.0
BVPS (Rs)	87.7	100.3	119.9	150.3
RoANW (%)	26.1	21.4	24.7	22.5
RoACE (%)	25.1	19.8	23.0	21.3
RoAIC (%)	32.3	28.9	36.2	39.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1597	1597	1597	1597
P/E	68.9	79.2	58.6	52.5
Mcap (Rs Mn)	810,804	810,804	810,804	810,804
MCap/ Sales	11.1	12.0	9.4	8.4
EV	799,379	795,614	789,325	777,970
EV/Sales	11.0	11.7	9.1	8.1
EV/EBITDA	50.7	53.8	40.0	36.0
P/BV	18.2	15.9	13.3	10.6
Dividend Yield (%)	1.0	0.5	0.5	0.0
<b>(F) Growth Rate (%)</b>				
Revenue	3.1	(7.0)	27.8	10.8
EBITDA	15.2	(6.1)	33.3	9.6
EBIT	13.8	(7.5)	36.6	19.1
PBT	9.6	(6.2)	35.3	11.7
APAT	24.4	(13.1)	35.1	11.7
EPS	24.4	(13.1)	35.1	11.7

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	12,611	11,048	13,685	14,959
CFI	(570)	(3,893)	(4,060)	(4,247)
CFF	(6,913)	(4,253)	(4,303)	(440)
FCFF	8,172	8,548	11,185	12,459
Opening Cash	1,904	7,032	9,934	15,255
Closing Cash	7,032	9,934	15,255	25,527

E – Estimates

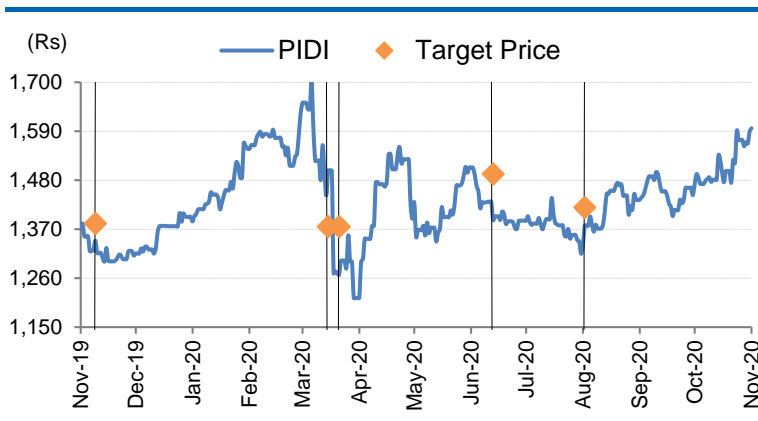


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Aug-20	Reduce	1,419	1,378

\*Price as on recommendation date

### DART Team

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