

Strong Q2 performance led by consumer segment...

Pidilite's healthy Q2FY21 performance was led by a strong recovery in the domestic business and sharp expansion in EBITDA margin. Standalone revenue increased ~4% YoY to ₹ 1630 crore led by same amount of volume growth. Growth was largely driven by a strong recovery in its consumer & bazaar (C&B) segment wherein volume & mix were up ~7.4% YoY (in line with value growth) in Q2FY21. Besides, B2B segment recovery was slightly delayed with revenue touching 91% of its pre-Covid level in Q2FY20. A sharp expansion in EBITDA margin by ~688 bps YoY to 27.3% was a function of benign raw material prices and saving through various cost optimisation measures, leading to PBT growth of 35% YoY to ₹ 478 crore. The slower PAT growth at 10% was due to benefit of tax reversals in the base period. According to the management, pick up in renovation works due to opening up of metro, tier 1 towns along with synergies through acquisition of market leader Huntsman Advanced Materials Solutions Pvt Ltd (HAMSPL) in the epoxy adhesive segment would further help drive revenue growth, going forward. We revise our revenue, earning estimates upwards for FY21E to 8% and 27%, respectively, and introduce FY23E estimates with revenue, earning CAGR of ~10%, ~13%, respectively FY20-23E.

Acquisition of Araldite to strengthen product portfolio

Pidilite acquired HAMSPL for a cash consideration of ~₹ 2100 crore. The acquisition valued at ~5x sales (~50% discount to Pidilite's TTM MCap/sales) is fairly valued. HAMSPL manufactures and sells adhesives, sealants and other products under well-known brands such as Araldite, Araldite Karpenter and Araseal in India with a market share of ~30% (market leader in the epoxy adhesive category). We believe strong margin profile of HAMSPL (in line with Pidilite) and product profile would help expand Pidilite's product portfolios (in the epoxy adhesive segment) and enhances its geographic presence. The epoxy adhesive industry is growing at double digit with HAMSPL, Pidilite and Astral Poly being three large brands in this category along with many regional/unorganised players.

Benign raw material cost helps in gross margin expansion

Raw material prices remained benign during the quarter (average consumption cost of US\$765/t vs. US\$825/t in Q1FY21 & US\$965/t in Q2FY20). Spot price of VAM recovered at US\$900/t due supply related issues. We believe restoration of operational costs, going forward, will result in normalised EBITDA margins (~22-23%), going forward.

Valuation & Outlook

We roll over our valuation on FY23 and maintain **BUY** rating on the stock with a revised target price of ₹ 1850/share, factoring in strong business recovery (revenue, earning CAGR of 10%, 13%, respectively, in FY20-23) and strong balance sheet.



Particulars

Particular	Amount
Market Cap (₹ Crore)	80,994.1
Total Debt (FY20) (₹ Crore)	169.1
Cash & Inv (FY20) (₹ Crore)	714.6
EV (₹ Crore)	79,728.9
52 week H/L	1710/ 1186
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

Key Highlights

- Strong recovery led by C&B segment. Segment volume & mix were up ~7% YoY
- Gross margins improve 256 bps due to decline in VAM prices
- Post-acquisition of Araldite, Pidilite became market leader in the epoxy adhesive segment
- Maintain BUY rating with revised target price of ₹ 1850/share

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Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	(CAGR20-23E)
Net sales	7078.0	7294.5	6783.5	8601.4	9803.3	10.4
EBITDA	1368.2	1576.0	1604.3	1945.9	2217.4	12.1
EBITDA Margin(%)	19.3	21.6	23.7	22.6	22.6	
Net Profit	928.4	1122.1	1150.6	1411.8	1619.6	13.0
EPS (₹)	18.3	22.1	22.7	27.8	31.9	
P/E(x)	87.2	72.2	70.4	57.4	50.0	
Price /book (x)	19.5	18.1	16.3	14.3	12.6	
Mcap /sales (x)	11.4	11.1	11.9	9.4	8.3	
RoE (%)	22.6	26.1	23.2	24.9	25.3	
RoCE (%)	29.5	31.0	28.2	30.9	31.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	1880.3	1924.3	1806.6	4.1	877.8	114.2	Revenue growth led by C&B segments
Other Income	21.7	40.3	55.8	-61.1	20.0	8.5	Lower other income largely on account of decline in treasury income
Raw Material Exp	828.4	867.0	842.2	-1.6	408.5	102.8	Benign raw material prices (average consumption cost of VAM fell 15% YoY) helped in expansion of gross margins by 256 bps YoY
Employee Exp	242.1	259.5	234.5	3.3	215.7	12.3	
Admin & Other exp	274.1	322.1	304.8	-10.1	176.5	55.3	Various cost optimisation measures help in saving in other expenditure
Total Expenditure	1367.7	1502.3	1438.4	-4.9	811.5	68.5	
EBITDA	512.6	422.1	368.2	39.2	66.4	672.4	
EBITDA Margin (%)	27.3	21.9	20.4	688 bps	7.6	1970 bps	Strong margin expansion supported by better mix along with saving in fixed costs
Depreciation	47.9	47.7	40.2	19.0	46.1	3.9	
Interest	8.7	9.8	8.3	4.5	9.1	-4.6	
Exceptional items	0.0	0.0	22.2		0.0	NM	
PBT	477.8	404.9	353.3	35.3	31.2	1431.4	
Total Tax	122.0	101.2	29.3	316.4	15.9	669.5	Reversal of tax benefits in base period
PAT	356.4	304.7	325.0	9.7	15.8	2153.1	Bottomline mainly tracking sale growth and EBITDA margin expansion

Key Metrics

Consumer & Bazaar	1,527.7	1,671.1	1,396.9	9.4	702.0	117.6	On standalone basis, C&B segment volume, mix increase ~7% YoY mainly due to strong demand in rural and semi urban regions
B2B	377.1	250.7	433.3	-13.0	188.2	100.3	B2B segment volume & mix recover 93% of its pre-Covid level
Others	7.2	2.6	16.4	-56.5	1.8	295.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	6,304.8	6,783.5	7.6	8,577.2	8,601.4	0.3	9,803.3	We revise our revenue estimate for FY21E-22E by factoring current quarter performance and outlook provided by company. We introduce FY23E estimates with revenue CAGR of 11% in FY20-23E
EBITDA	1,291.1	1604.3	24.3	1,958.9	1945.9	(0.7)	2217.4	
EBITDA Margin (%)	20.5	23.7	315bps	22.8	22.6	-18bps	22.6	We believe, EBITDA margin will normalise, going forward, with stabilisation in input prices and restoration of some key cost elements
PAT	905.9	1150.6	27.0	1420.2	1411.8	(0.6)	1619.6	
EPS (₹)	17.8	22.7	27.0	28.0	27.8	(0.6)	31.9	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Growth Assumption			FY23E	Earlier		Comments
	FY20	FY21E	FY22E	Introduced	FY21E	FY22E	
Consumer & Bazaar (%)	2.9	-5.0	28.6	14.5	-9.4	30.9	We believe, the demand would start recover from 2HFY21E with relaxation from lockdown and pick up in maintenance and construction
Business to Business (%)	3.8	-19.9	21.0	12.5	-32.9	59.0	The revenue growth would largely be driven by recovery in the manufacturing and construction sector
Others Growth (%)	-14.9	-37.5	6.8	-13.5	-34.4	4.9	

Source: Company, ICICI Direct Research

Conference call highlights

- Consumer & bazaar (C&B) segment volume & mix growth of ~7% was led semi-urban and rural regions
- B2B segment volume & mix recovered ~93% of pre-Covid mainly due to slow recovery in the construction activities in metros
- On the geographical front, the Emerging India segment (contributes ~30% of revenue) grew in double digits in Q2FY21
- 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 250 bps YoY. Spot price of VAM is hovering at US\$901/tonne from average consumption cost of US\$765 in Q2FY21 (vs. US\$825 in Q1FY21 and US\$965 in Q2FY20). However, VAM prices are likely to go up in the near future with an improvement in demand conditions

Subsidiary business

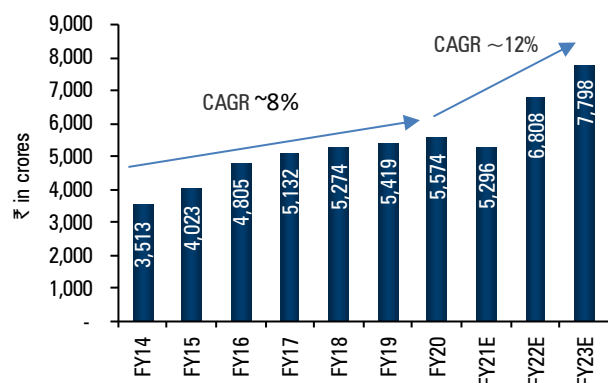
- Overseas subsidiaries revenue increased 19% YoY in Q2FY21. Region wise revenue from Asia, Middle East and America increased by ~0.7%, ~1.4% and ~52%, respectively, during Q2FY21
- Performance of domestic subsidiaries was impacted by slow pick-up of construction activities in metro and tier 1 cities. The revenue of domestic subsidiaries declined ~12% in Q2FY21 to ₹ 123 crore

Others

- Factory plants are operating at utilisation level of 90% post opening up of the economy
- With improving demand scenario and recovery in the raw material prices the EBITDA margin is likely in the range of 21-24%
- The channel has inventory is completely normalised
- The acquisition of HAMSPL would be funded through internal accrual
- Pidilite will leverage its existing dealer network to promote Araldite and targets a strong revenue from this segment going forward

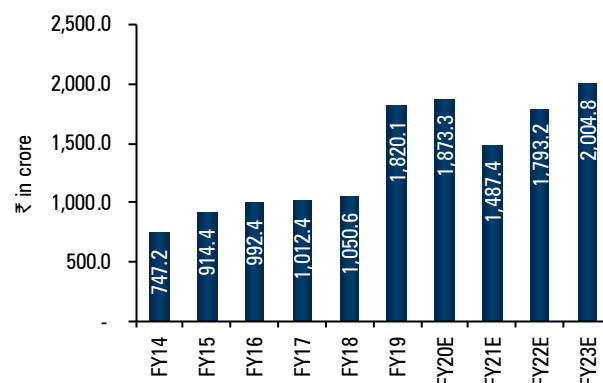
Financial story in charts

Exhibit 4: Growth trend in C&B business



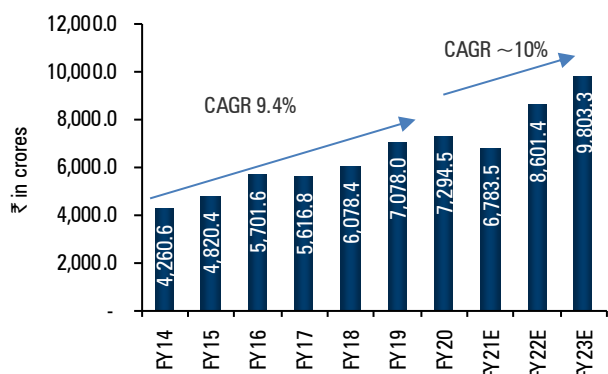
Source: Company, ICICI Direct Research, FY13-FY18 figures are not as per new classification

Exhibit 5: Growth trend in B2B business segment



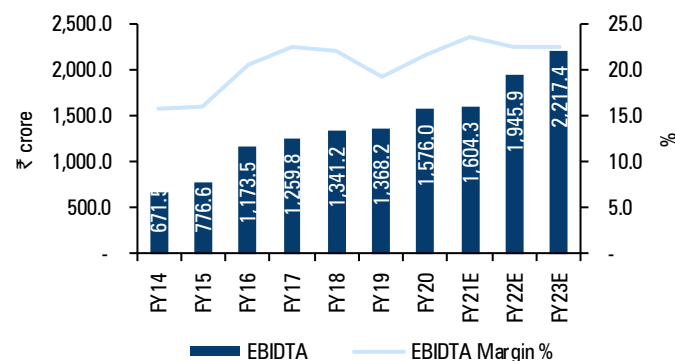
Source: Company, ICICI Direct Research * FY13-FY18 figures are not as per new classification

Exhibit 6: Consolidated sales growth trend



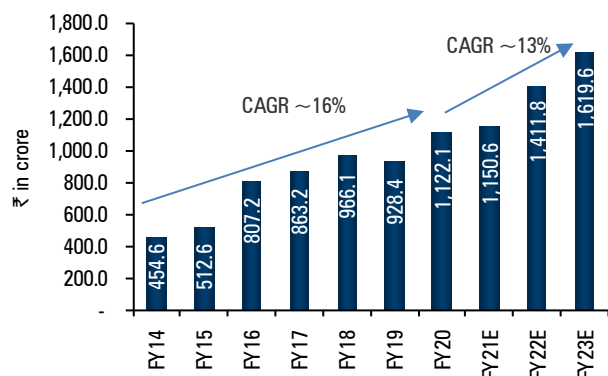
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend



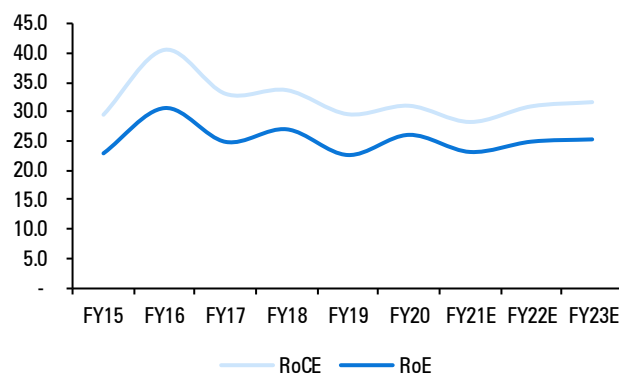
Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend

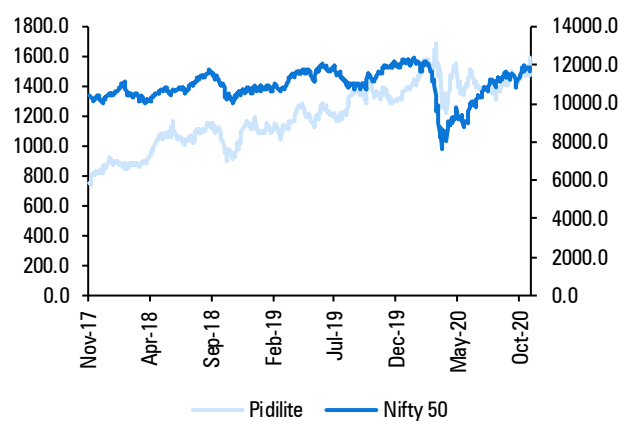


Source: Company, ICICI Direct Research

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

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	7294.5	6783.5	8601.4	9803.3
Growth (%)		-7.0	26.8	14.0
Raw Material Expenses	3402.5	3092.3	3840.1	4336.1
Employee Expenses	927.2	823.8	1081.7	1207.4
Other Expenses	1388.7	1121.6	1496.7	1775.1
Total Operating Expenditure	5718.5	5179.2	6655.6	7585.8
EBITDA	1,576.0	1,604.3	1,945.9	2,217.4
Growth (%)		1.8	21.3	14.0
Other Income	149.4	142.7	179.4	204.2
Interest	33.6	37.5	36.3	36.3
PBDT	1691.9	1709.5	2088.9	2385.3
Depreciation	169.9	189.9	206.4	225.5
Total Tax	347.7	372.3	474.4	544.3
Profit from Associates	3.0	3.3	3.7	4.0
PAT	1,122.1	1,150.6	1,411.8	1619.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1122.1	1150.6	1411.8	1619.6
Depreciation	169.9	189.9	206.4	225.5
CF bef working cap chan	1326	1378	1655	1881
Net Inc in Current Assets	-98.8	-89.8	-463.2	-431.4
Net Inc in Current Liab.	280.6	-143.7	134.3	211.4
Net CF from Op activities	1507.3	1144.5	1325.7	1661.5
(Purchase)/Sale of FA	-547.2	-280.0	-250.0	-320.0
Increase/decrease in other investn	-70.2	-50.0	-50.0	-50.0
Others	412.9	-308.0	-308.0	-308.0
Net CF from Inv Activities	-204.4	-638.0	-608.0	-678.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	58.1	-10.0	0.0	0.0
Total Outflow of dividend	-427.8	-550.1	-611.2	-1833.5
Others	-416	-137	-136	913
Net CF from Fin. Activities	-786.0	-697.6	-747.5	-920.9
Net Cash flow	516.9	-191.1	-29.9	62.6
Cash and Cash Equi beg.	197.7	714.6	523.5	493.6
Cash	714.6	523.5	493.6	556.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	50.8	50.8	50.8	50.8
Reserve and Surplus	4416.2	4916.7	5617.3	6352.3
Total Shareholders funds	4466.9	4967.5	5668.1	6403.1
Total Debt	169.1	159.1	159.1	159.1
Deferred Tax Liability	82.3	82.3	82.3	82.3
Minority Interest	215.7	217.7	219.7	221.7
Total Liabilities	5024.3	5516.9	6219.5	6956.5
Assets				
Total Gross Block	3093.6	3485.2	3735.2	4055.2
Less acc depreciation	1470.9	1660.9	1867.3	2092.8
Net Block	1622.7	1824.4	1867.9	1962.5
Total Fixed Assets	1882.0	1972.1	2015.6	2110.2
Other Investments	466.5	516.5	566.5	616.5
Goodwill on consolidation	184.0	184.03	184.03	184.03
Inventory	929.5	1022.2	1178.3	1342.9
Debtors	1088.5	1115.1	1343.2	1557.8
Loans and Advances	21.5	13.2	16.8	19.1
Other Current Assets	302.6	281.4	356.8	406.7
Cash	714.6	523.5	493.6	556.2
Total Current Assets	3056.6	2955.4	3388.8	3882.7
Total Current Liabilities	1522.7	1379.0	1513.3	1724.8
Net Current Assets	1533.9	1576.4	1875.4	2157.9
Total Assets	5024.3	5516.9	6219.6	6956.6

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	22.1	22.7	27.8	31.9
Cash EPS	25.4	26.4	31.9	36.3
BV	88.0	97.8	111.6	126.1
DPS	8.4	10.8	12.0	36.1
Operating Ratios				
EBITDA Margin	21.6	23.7	22.6	22.6
PAT Margin	16.0	17.0	16.4	16.5
Return Ratios				
RoE	26.1	23.2	24.9	25.3
RoCE	31.0	28.2	30.9	31.6
RoIC	37.6	34.0	38.0	39.4
Valuation Ratios				
EV / EBITDA	50.6	49.7	40.9	35.8
P/E	72.2	70.4	57.4	50.0
EV / Net Sales	10.9	11.8	9.2	8.1
Market Cap / Sales	11.1	11.9	9.4	8.3
Price to Book Value	18.1	16.3	14.3	12.6
Turnover Ratios				
Asset turnover	1.5	1.2	1.4	1.4
Debtor Days	54.5	60.0	57.0	58.0
Creditor Days	31.1	29.9	29.0	29.0
Inventory Days	46.5	55.0	50.0	50.0
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.4	4.0	3.9	3.9
Quick Ratio	2.0	2.3	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	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 (ASIPAI)	2,208	2,440	Buy	2,11,747	29.0	28.9	35.9	76.2	76.5	61.5	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,164	1,120	Hold	17,537	16.6	15.0	23.3	70.3	77.8	50.0	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,317	2,600	Buy	7,286	52.2	19.0	70.6	44.4	121.9	32.8	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJELE)	499	585	Buy	5,673	-0.9	11.8	17.1	NM	42.1	29.2	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	649	580	Hold	63,031	6.8	6.1	9.7	96.1	105.9	66.7	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL (ESSPRO)	254	270	Buy	8,014	6.7	7.0	9.5	37.8	36.2	26.8	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	818	835	Buy	51,035	11.7	14.1	16.4	69.6	58.0	49.9	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	512	605	Buy	27,593	9.9	10.3	12.0	51.5	49.9	42.5	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,596	1,850	Buy	81,045	22.1	22.7	27.8	72.2	70.4	57.4	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,445	1,695	Buy	18,355	36.8	44.9	47.8	39.3	32.2	30.2	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	846	960	Buy	5,918	26.0	20.5	32.0	32.5	41.2	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	169	210	Buy	7,238	4.3	3.7	5.3	39.1	45.7	31.9	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	753	725	Buy	24,904	15.8	10.7	22.7	47.8	70.4	33.1	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

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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