

Pidilite Industries (PIDI IN)

Rating: HOLD | CMP: Rs1,595 | TP: Rs1,518

November 6, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	1,518		1,415	
Sales (Rs. m)	70,386	80,342	70,731	80,714
% Chng.	(0.5)	(0.5)		
EBITDA (Rs. m)	17,095	19,630	18,451	20,974
% Chng.	(7.4)	(6.4)		
EPS (Rs.)	23.8	27.7	28.0	32.0
% Chng.	(14.9)	(13.5)		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	63,326	58,076	70,386	80,342
EBITDA (Rs. m)	14,836	14,154	17,095	19,630
Margin (%)	23.4	24.4	24.3	24.4
PAT (Rs. m)	11,609	10,158	12,105	14,053
EPS (Rs.)	22.9	20.0	23.8	27.7
Gr. (%)	18.5	(12.5)	19.2	16.1
DPS (Rs.)	13.5	7.0	8.0	9.0
Yield (%)	0.8	0.4	0.5	0.6
RoE (%)	26.8	20.4	20.6	20.8
RoCE (%)	31.4	25.5	26.1	26.0
EV/Sales (x)	12.6	13.9	11.5	10.0
EV/EBITDA (x)	53.7	57.2	47.3	40.9
PE (x)	69.8	79.8	66.9	57.7
P/BV (x)	18.1	14.8	12.9	11.2

Key Data

PIDI.BO | PIDI IN

52-W High / Low	Rs.1,710 / Rs.1,186
Sensex / Nifty	41,893 / 12,264
Market Cap	Rs.810bn/ \$ 10,922m
Shares Outstanding	508m
3M Avg. Daily Value	Rs.3115.69m

Shareholding Pattern (%)

Promoter's	71.19
Foreign	12.17
Domestic Institution	7.04
Public & Others	9.60
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	8.4	11.5	16.3
Relative	2.4	(15.7)	12.4

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Long term positive, Accumulate on declines

Quick Pointers:

- Huntsman acquisition provides leadership position in Epoxy Adhesives.
- Construction chemical and DIY products witness healthy growth.

PIDI has returned to growth trajectory with strong double digit growth from Rural and Semi Urban areas leading revival across Construction Chemical and DIY portfolio. B2B segment continued to face headwinds, however signs of recovery were visible in the fag end of the quarter. We remain positive on PIDI due to its strong business moat and sustained investment behind categories of future like 1) waterproofing 2) construction chemicals and aids 3) Wood coatings and 4) Floor coatings etc. We believe investment in Huntsman will not only provide PIDI with leadership position but will also allow it to leverage its strong distribution network to further strengthen Araldite's position in India. We believe both Gross and EBITDA margins have peaked out as VAM prices are back to pre covid levels of USD 900/ton and gradual increase in Ad/marketing spends. We estimate 17.6% and 22.8% PAT CAGR in standalone and Consol EPS over FY21-23 as benefits of demand recovery and huntsman acquisition get factored in. We value the stock at 46.5x FY23 Consol EPS of Rs32.8 and arrive at a target price of Rs1518 (earlier SOTP based on 45x FY22 standalone business). Retain HOLD.

Domestic volumes grow 3.6%: Net sales increased 3.7% to Rs 16.3bn (est Rs 16.66bn), sales volume and mix growth of 3.6% driven by 7.4% growth in C&B and 7.2% decline in B2B. Gross margins at 56.5% (est 55%) increased 280bps YoY and 200bps QoQ aided by benign input costs. EBITDA increased 34.4% to Rs 4.72bn (est Rs 3.91bn). Margins expanded 660bps YoY to 28.9% (est 23.5%) on account of higher GRM's and lower other expenses (A&SP spends). Adj. PAT declined 2.1% to Rs 3.39bn (est Rs 2.97bn) on account of higher tax rate at 25.5% as against 7.5% in 1QFY21.

Consumer and Bazaar sales/EBIT increased 7.3%/33% to Rs 13.35bn/Rs 4.91bn. Industrial Products sales/EBIT decreased 8.5%/35.4% to Rs 3.15bn/Rs 438.3m. B2B Continued to face headwinds, recovery witnessed at the end of the quarter. **Subsidiaries:** Subsidiaries: Imputed sales increased 6.5% to Rs2.5bn and EBITDA stood at Rs 408m against Rs 172m in Q2FY20.

PIDI gains leadership in Epoxy adhesives with Huntsman acquisition: PIDI completed acquisition of Huntsman on 3rd Nov for Rs 21bn (90% paid and 10% will on achieving CY19 sales of Rs 4bn). The acquisition is funded by internal accruals and will also provide trademark license for Middle east, Africa and ASEAN countries. Araldite will provide PIDI a leadership position in epoxy adhesives and will be margin accretive for the company. PIDI will operate Huntsman as a separate entity and will leverage its distribution and understanding to grow Araldite brand

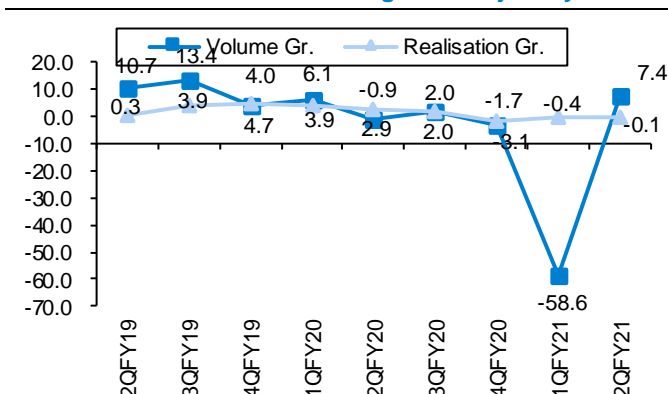
Concall Takeaways: 1) Rural and Semi Urban areas witnessed double digit growth 2) Construction chemical and DIY products witnessed healthy growths 3) B2B segment remains impacted due to ailing construction/ real estate sector 4) Waterproofing witnessed spillover from Q1 as it was a complete washout. 4) Tile adhesives and Joinery segment has performed well, focused on developing right

products going forward. 5) VAM prices back to pre-covid levels of USD 900/ton 6) Margins expected to return to normal band of 21-24% as Ad spends will pick up gradually 7) Capex will continue at 4-5% of revenues. 8) Ramped up online sales for consumer facing business, expect significant contribution over next 12 months.

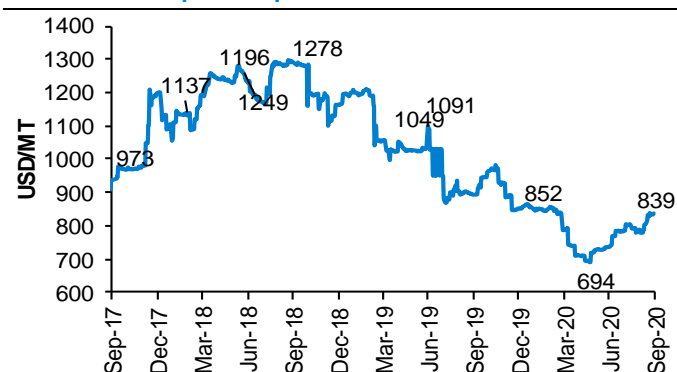
Exhibit 1: Standalone Revenue up 3.7%, EBITDA margins expand 660bps due to lower other expenses

Standalone	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Revenue	16,302	15,717	3.7	7,724	24,026	33,508	(28.3)
Gross Profit	9,213	8,441	9.1	4,210	13,423	17,615	(23.8)
Margin %	56.5	53.7	2.8	54.5	55.9	52.6	3.3
Other Expenditure	4,494	4,930	(8.8)	3,256	7,750	9,925	(21.9)
EBITDA	4,719	3,510	34.4	954	5,673	7,690	(26.2)
Margin %	28.9	22.3	6.6	12.4	23.6	22.9	0.7
Depreciation	359	303	18.5	348	707	584	21.2
Interest	30	36	(16.3)	34	64	63	0.8
Other Income	225	572	(60.7)	197	422	962	(56.2)
PBT	4,554	3,743	21.7	769	5,324	8,005	(33.5)
Tax	1,162	280	315.1	202	1,364	1,666	(18.1)
Tax rate %	25.5	7.5		26.3	25.6	20.8	
Adj PAT	3,392	3,463	(2.1)	567	3,960	6,339	(37.5)

Source: Company, PL

Exhibit 2: C&B volumes back on growth trajectory


Source: Company, PL

Exhibit 3: VAM prices up 9.5% QoQ but down 13.9% YoY


Source: Company, PL

Exhibit 4: C&B grew 7.3% aided by strong growth in rural and semi urban areas

Segmental	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Consumer and Bazaar									
Sales (Rs m)	12751	13312	11042	14987	12447	13841	9939	6145	13352
Growth (%)	11.0	17.4	9.9	10.0	-2.4	4.0	-4.8	-59.0	7.3
EBIT (Rs m)	3744	3607	2931	4493	3692	4523	2832	1470	4911
EBIT Growth %	-4.8	-0.6	9.4	6.5	-1.4	25.4	-0.4	-67.3	33.0
EBIT margin %	29.4	27.1	26.5	30.0	29.7	32.7	28.5	23.9	36.8
Industrial Products									
Sales (Rs m)	2539	2592	2923	2935	3441	2865	3332	1683	3150
Growth (%)	12.1	17.8	19.8	13.9	35.5	10.5	-3.7	-42.6	-8.5
EBIT (Rs m)	420	309	432	453	679	473	746	55	438
EBIT Growth %	28.6	-25.8	-8.1	19.3	61.5	52.8	44.5	-87.8	-35.4
EBIT margin %	16.6	11.9	14.8	15.4	19.7	16.5	22.4	3.3	13.9

Source: Company, PL

Nina Percept and CIPY face challenges

- Domestic subsidiaries continued to witness challenging business conditions. However, performance has improved sequentially.
- NINA and Percept sales declined by 35.5% with EBITDA loss of Rs 65 mn. Slowdown in large construction will continue to impact NINA and Percept sales.
- Nina and Percept will continue to focus on large construction and has undertaken several large projects like new KIA and Samsung factories.
- ICA Pidilite sales grew 1.1%. EBITDA stood at Rs 112mn.
- CIPY revenue declined by 24.2% with EBITDA loss of Rs 8mn. Floor coating being connected to new construction continues to remain impacted.

Exhibit 5: Domestic subsidiaries continue to witness challenging conditions

		Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Sales - (Rs mn)	NINA Percept	721	634	557	787	700	75	359
	ICA-Pidilite	432	534	459	473	392	117	464
	CIPY	421	318	248	339	309	76	188
	Others	183	168	137	151	153	27	219
	Total	1757	1654	1401	1750	1554	295	1230
Sales Growth (YoY)	NINA & Percept	-3.9%	-17.1%	-24.7%	-4.5%	-2.9%	-88.2%	-35.5%
	ICA-Pidilite	81.3%	43.9%	3.6%	8.0%	-9.2%	-78.1%	1.1%
	CIPY	57.8%	-15.0%	-30.3%	-15.9%	-26.7%	-76.1%	-24.2%
	Others	12.4%	5.0%	-12.2%	7.9%	-16.5%	-83.9%	59.9%
	Total	23.9%	-1.0%	-17.3%	-3.0%	-11.6%	-82.2%	-12.2%
EBITDA (Rs mn)	NINA & Percept	88	63	-16	80	-17	-153	-65
	ICA-Pidilite	-12	54	71	78	40	-57	112
	CIPY	64	36	24	68	26	-61	-8
	Others	25	23	12	7	20	-37	30
	Total	165	176	91	233	69	-308	69
EBITDA margin %	NINA & Percept	12.2%	9.9%	-2.9%	10.2%	-2.4%	-204.0%	-18.1%
	ICA-Pidilite	-2.8%	10.1%	15.5%	16.5%	10.2%	-48.7%	24.1%
	CIPY	15.2%	11.3%	9.7%	20.1%	8.4%	-80.3%	-4.3%
	Others	13.6%	13.7%	8.8%	4.6%	13.1%	-137.0%	13.7%
	Total	9.4%	10.6%	6.5%	13.3%	4.4%	-104.4%	5.6%
EBITDA growth (YoY)	NINA & Percept	-23.5%	-37.6%	-140.0%	-11.1%	-119.3%	-342.9%	306.3%
	ICA-Pidilite	-53.8%	184.2%	-2466.7%	550.0%	-433.3%	-205.6%	57.7%
	CIPY	190.9%	-7.7%	-48.9%	17.2%	-59.4%	-269.4%	-133.3%
	Others	38.9%	53.3%	33.3%	-30.0%	-20.0%	-260.9%	150.0%
	Total	27.9%	1.1%	-2.2%	37.1%	-58.2%	-275.0%	-24.2%

Source: Company, PL

IBD – Americas leads IBD growth

2Q21 International business (IBD) sales reported healthy double-digit constant currency growth led by Americas. EBITDA stood at Rs 366mn on the back of gains in Asia and Americas. Americas EBITDA includes tax gain of Rs 95 mn pertaining to earlier years.

Americas sales grew 51.8%. EBITDA was at Rs 292mn. **Asia:** Sales grew 0.7% with EBITDA of Rs 88mn. **Middle East & Africa** sales grew by 1.4% with EBITDA loss at Rs 14mn.

Exhibit 6: International subsidiaries report healthy growth led by Americas

Subsidiaries	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Sales (Rs. m)	1,453	1,506	1,341	953	1,765
Americas	561	520	417	383	812
Asia	548	615	552	303	568
Middle East & Africa	344	371	372	267	385
Sales growth (YoY)	15.0	10.3	3.6	(35.9)	19.3
Americas	14.5	17.1	(14.4)	(25.2)	51.8
Asia	21.2	3.7	(4.0)	(48.7)	0.7
Middle East & Africa	7.2	13.1	12.0	(30.3)	1.3
EBITDA (Rs m)	70.9	94.2	(2.0)	(1.0)	366.0
Americas	33.0	18.0	(70.0)	15.0	292.0
Asia	57.0	77.0	72.0	15.0	88.0
Middle East & Africa	(19.1)	(0.8)	(4.0)	(31.0)	(14.0)
EBITDA (margin %)	4.9	6.3	(0.1)	(0.1)	20.7
Americas	5.9	3.5	(16.8)	3.9	36.0
Asia	10.4	12.5	13.0	5.0	15.5
Middle East & Africa	(5.6)	(0.2)	(1.1)	(11.6)	(3.6)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	63,326	58,076	70,386	80,342
YoY gr. (%)	3.9	(8.3)	21.2	14.1
Cost of Goods Sold	29,364	26,311	32,946	38,011
Gross Profit	33,962	31,765	37,440	42,332
Margin (%)	53.6	54.7	53.2	52.7
Employee Cost	7,369	6,722	7,694	8,624
Other Expenses	5,049	4,750	5,475	6,088
EBITDA	14,836	14,154	17,095	19,630
YoY gr. (%)	14.8	(4.6)	20.8	14.8
Margin (%)	23.4	24.4	24.3	24.4
Depreciation and Amortization	1,258	1,453	1,737	2,031
EBIT	13,578	12,701	15,357	17,599
Margin (%)	21.4	21.9	21.8	21.9
Net Interest	134	177	218	259
Other Income	1,519	1,038	1,022	1,421
Profit Before Tax	14,962	13,562	16,162	18,762
Margin (%)	23.6	23.4	23.0	23.4
Total Tax	3,353	3,404	4,057	4,709
Effective tax rate (%)	22.4	25.1	25.1	25.1
Profit after tax	11,609	10,158	12,105	14,053
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	11,609	10,158	12,105	14,053
YoY gr. (%)	18.5	(12.5)	19.2	16.1
Margin (%)	18.3	17.5	17.2	17.5
Extra Ord. Income / (Exp)	(593)	-	-	-
Reported PAT	11,016	10,158	12,105	14,053
YoY gr. (%)	12.5	(7.8)	19.2	16.1
Margin (%)	17.4	17.5	17.2	17.5
Other Comprehensive Income	(112)	-	-	-
Total Comprehensive Income	10,904	10,158	12,105	14,053
Equity Shares O/s (m)	508	508	508	508
EPS (Rs)	22.9	20.0	23.8	27.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	20,712	25,212	29,712	34,212
Tangibles	18,069	22,069	26,069	30,069
Intangibles	2,643	3,143	3,643	4,143
Acc: Dep / Amortization	10,170	11,357	12,777	14,429
Tangibles	9,456	10,540	11,839	13,355
Intangibles	714	817	937	1,074
Net fixed assets	10,542	13,855	16,935	19,783
Tangibles	8,612	11,529	14,229	16,713
Intangibles	1,930	2,326	2,706	3,069
Capital Work In Progress	2,476	2,976	3,476	3,976
Goodwill	861	861	861	861
Non-Current Investments	11,255	30,333	32,611	32,790
Net Deferred tax assets	(760)	(1,074)	(1,302)	(1,486)
Other Non-Current Assets	2,795	2,814	3,147	3,419
Current Assets				
Investments	7,152	265	2,227	7,923
Inventories	7,305	6,343	7,853	8,956
Trade receivables	8,066	7,160	8,581	9,685
Cash & Bank Balance	5,688	7	(735)	(1,183)
Other Current Assets	1,713	1,394	1,478	1,687
Total Assets	58,191	66,276	76,759	88,267
Equity				
Equity Share Capital	508	508	508	508
Other Equity	44,140	54,298	62,339	71,820
Total Network	44,648	54,806	62,847	72,328
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	409	319	387	442
Other non current liabilities	513	560	702	877
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,948	4,325	5,235	5,936
Other current liabilities	6,840	5,118	6,213	7,125
Total Equity & Liabilities	58,190	66,276	76,759	88,267

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	14,369	13,562	16,162	18,762
Add. Depreciation	1,258	1,453	1,737	2,031
Add. Interest	134	177	218	259
Less Financial Other Income	1,519	1,038	1,022	1,421
Add. Other	(112)	-	-	-
Op. profit before WC changes	15,649	15,192	18,117	21,052
Net Changes-WC	5,608	6,958	(3,007)	(6,467)
Direct tax	(3,353)	(3,404)	(4,057)	(4,709)
Net cash from Op. activities	17,904	18,746	11,053	9,876
Capital expenditures	(4,432)	(5,217)	(5,275)	(5,347)
Interest / Dividend Income	-	-	-	-
Others	(698)	(19,033)	(2,240)	(146)
Net Cash from Invst. activities	(5,130)	(24,250)	(7,514)	(5,493)
Issue of share cap. / premium	144	-	-	-
Debt changes	-	-	-	-
Dividend paid	(8,268)	-	(4,064)	(4,572)
Interest paid	(134)	(177)	(218)	(259)
Others	-	-	-	-
Net cash from Fin. activities	(8,258)	(177)	(4,282)	(4,831)
Net change in cash	4,516	(5,681)	(742)	(448)
Free Cash Flow	13,472	13,529	5,779	4,529

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	22.9	20.0	23.8	27.7
CEPS	25.3	22.9	27.2	31.7
BVPS	87.9	107.9	123.7	142.4
FCF	26.5	26.6	11.4	8.9
DPS	13.5	7.0	8.0	9.0
Return Ratio(%)				
RoCE	31.4	25.5	26.1	26.0
ROIC	29.9	19.2	20.4	21.6
RoE	26.8	20.4	20.6	20.8
Balance Sheet				
Net Debt : Equity (x)	(0.3)	-	0.0	(0.1)
Net Working Capital (Days)	60	58	58	58
Valuation(x)				
PER	69.8	79.8	66.9	57.7
P/B	18.1	14.8	12.9	11.2
P/CEPS	63.0	69.8	58.5	50.4
EV/EBITDA	53.7	57.2	47.3	40.9
EV/Sales	12.6	13.9	11.5	10.0
Dividend Yield (%)	0.8	0.4	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	16,634	13,186	7,724	16,302
YoY gr. (%)	4.6	(4.4)	(56.6)	3.7
Raw Material Expenses	7,658	5,813	3,514	7,090
Gross Profit	8,976	7,373	4,210	9,213
Margin (%)	54.0	55.9	54.5	56.5
EBITDA	4,294	2,852	954	4,719
YoY gr. (%)	31.8	8.9	(77.2)	34.4
Margin (%)	25.8	21.6	12.4	28.9
Depreciation / Depletion	318	357	348	359
EBIT	3,977	2,495	606	4,359
Margin (%)	23.9	18.9	7.8	26.7
Net Interest	34	37	34	30
Other Income	391	165	197	225
Profit before Tax	4,334	2,624	769	4,554
Margin (%)	26.1	19.9	10.0	27.9
Total Tax	1,030	657	202	1,162
Effective tax rate (%)	23.8	25.0	26.3	25.5
Profit after Tax	3,304	1,967	567	3,392
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,304	1,967	567	3,392
YoY gr. (%)	47.0	3.3	(80.3)	(2.1)
Margin (%)	19.9	14.9	7.3	20.8
Extra Ord. Income / (Exp)	-	(370)	-	(5)
Reported PAT	3,304	1,596	567	3,388
YoY gr. (%)	47.0	(34.4)	(80.3)	4.5
Margin (%)	19.9	12.1	7.3	20.8
Other Comprehensive Income	(9)	(38)	(28)	-
Total Comprehensive Income	3,295	1,559	539	3,388
Avg. Shares O/s (m)	508	508	508	508
EPS (Rs)	6.5	3.9	1.1	6.7

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Hold	1,415	1,487
2	07-Aug-20	Hold	1,415	1,378
3	08-Jul-20	Hold	1,418	1,399
4	18-Jun-20	Hold	1,317	1,391
5	13-Apr-20	Hold	1,327	1,349
6	30-Jan-20	Hold	1,447	1,522
7	03-Jan-20	Hold	1,311	1,398
8	14-Nov-19	Hold	1,365	1,344

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	2,000	2,100
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	605	505
4	Britannia Industries	BUY	4,301	3,553
5	Colgate Palmolive	Hold	1,445	1,427
6	Crompton Greaves Consumer Electricals	BUY	346	305
7	Dabur India	Accumulate	539	515
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Hold	700	725
11	Hindustan Unilever	BUY	2,502	2,173
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	551	513
15	Marico	Hold	378	363
16	Nestle India	Hold	17,640	17,221
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,217
19	Voltas	Accumulate	702	672

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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