

Beats on all fronts...

Pidilite's healthy Q3FY21 performance was led by both domestic and overseas business and was much ahead of our expectations. Standalone revenue (86% of consolidated revenue) growth at 18% YoY was driven by ~19% volume growth. The consumer & bazaar (C&B) and B2B businesses witnessed strong demand in Q3FY21. The C&B segment witnessed strong growth at 20% led by 22% of volume growth led by pent up demand in the metro and urban centres. The B2B segment also witnessed volume, value growth of 12% and 10%, respectively. On the subsidiaries front, while overseas subsidiaries continued to perform well (with revenue growth of 21% YoY), the domestic subsidiary witnessed a gradual recovery of 98% of its pre-Covid sales during Q3. Finally consolidated revenue grew 19% (including Huntsman's revenue) but on a like to like basis revenue growth was at 16% YoY. According to the management, pick up in renovation and construction activities works due to opening up of metro, tier 1 towns along with synergies through acquisition of market leader Huntsman Advanced Materials Solutions Pvt Ltd (name changed to Pidilite Adhesive Pvt Ltd (PAPL)) in the epoxy adhesive segment would further help drive revenue growth, going forward. We tweak our revenue estimates upward by 6% each for FY22E, F23E.

Focus on rural penetration, alternate trade channels

Rural markets contribute ~30% to the company's overall sales. Over the last few years, the company has been actively increasing its reach on small towns/villages with population less than 50,000. The company has also witnessed strong demand traction from alternate trade channels (though on a low base) such as e-commerce, modern trade and Pidilite ki Duniya, wherein sales growth in the quarter were 3x, 1.2x and 1.3x YoY, respectively. We believe a revival in construction activities (through government led Housing for all schemes), addition of new products (ie. Epoxy adhesive) and increasing rural reach would help drive Pidilite's revenue at CAGR of ~13% in FY20-23E.

Margin to normalise with recovery in input cost going forward

Raw material prices remained benign during the quarter (average consumption cost of US\$800/t vs. US\$940/t in Q3FY20). However, recovery in input prices (spot price of VAM US\$1300/t) and restoration of advertisement costs, going forward, will result in normalised EBITDA margins (~22-23%), going forward.

Valuation & Outlook

We model revenue, PAT CAGR of ~13%, ~14% respectively FY20-23E. We believe higher input prices would be pass on by calibrated manner, thereby marinating margin at ~23% level. We reiterate **BUY** rating on the stock with a revised target price of ₹ 1920/share (vs. earlier TP of ₹ 1850).

Key Financial Summary

₹ Crore	FY19	FY20	FY21E	FY22E	FY23E	(CAGR20-23E)
Net sales	7078.0	7294.5	7042.0	9147.9	10404.1	12.6
EBITDA	1368.2	1576.0	1672.1	2090.4	2395.4	15.0
EBITDA Margin(%)	19.3	21.6	23.7	22.9	23.0	
Net Profit	928.4	1122.1	1124.4	1431.3	1670.1	14.2
EPS (₹)	18.3	22.1	22.1	28.2	32.9	
P/E(x)	91.3	75.5	75.4	59.2	50.7	
Price /book (x)	20.4	19.0	17.2	15.0	13.1	
Mcap /sales (x)	12.0	11.6	12.0	9.3	8.1	
RoE (%)	22.6	26.1	22.8	25.3	25.9	
RoCE (%)	29.5	31.0	28.4	31.5	32.4	

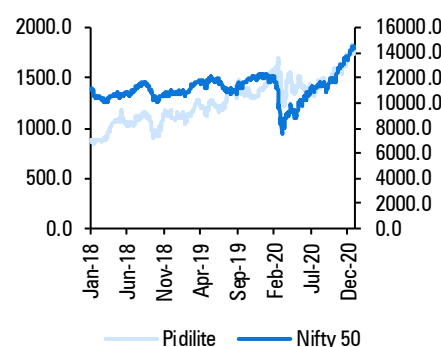
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Cap (₹ Crore)	84,751.8
Total Debt (FY20) (₹ Crore)	169.1
Cash & Inv (FY20) (₹ Crore)	714.6
EV (₹ Crore)	83,486.7
52 week H/L	1850/ 1186
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

Price Chart



Key risk to our call

- Lower than expected growth in the C&B and B2B category going forward. We estimate C&B and B2B sales CAGR of 13% and ~15% respectively
- Delay in price hike or sharp upward movement in input prices may lead to lower than estimated EBITDA margin going forward

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	2299.0	2104.9	1926.6	19.3	1880.3	22.3	Pent up demand led by urban regions and consolidation of new business help drive revenue growth
Other Income	20.4	43.2	39.8	-48.8	21.7	-6.0	
Raw Material Exp	1040.2	982.2	890.3	16.8	828.4	25.6	Benign raw material prices (Avg consumption cost of VAM declined by 15% YoY to US\$800/t) helped in expansion of gross margins by ~100 bps YoY
Employee Exp	260.3	237.9	236.1	10.3	242.1	7.5	
Admin & Other exp	309.0	297.4	276.3	11.8	248.5	24.4	Various cost optimisation measures help saving in the other exp
Total Expenditure	1658.2	1582.2	1463.4	13.3	1367.7	21.2	
EBITDA	640.8	522.8	463.2	38.4	512.6	25.0	
EBITDA Margin (%)	27.9	24.8	24.0	383 bps	27.3	61 bps	Strong margin expansion supported by benign input cost and saving in other costs
Depreciation	49.5	44.9	41.9	18.2	47.9	3.3	
Interest	12.1	8.6	8.2	47.4	8.7	39.5	
Exceptional items	0.0	0.0	0.0		0.0	NM	
PBT	599.7	512.4	453.0	32.4	477.8	25.5	
Total Tax	154.8	128.1	108.4	42.8	122.0	26.9	
PAT	446.4	385.9	346.1	29.0	356.4	25.2	Bottomline is mainly tracking sale growth and EBITDA margin expansion

Key Metrics

Consumer & Bazaar	1,848.9	1,616.9	1,478.3	25.1	1,527.7	21.0	On standalone basis, C&B segment volume & mix increased by ~22% YoY led by pent up demand in the urban regions. On a consolidated basis, like to like sales (Excl. Huntsman) increased by 16% YoY
B2B	475.1	499.2	462.6	2.7	377.1	26.0	B2B segment also witnessed recovery with volume growth of 12% YoY
Others	12.2	19.0	21.6	-43.6	7.2	70.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	8,601.4	9,147.9	6.4	9,803.3	10,404	6.1	We revise our revenue estimates upward for FY22E-23E by factoring current quarter performance and outlook provided by company.
EBITDA	1,945.9	2090.4	7.4	2,217.0	2395.4	8.0	
EBITDA Margin (%)	22.6	22.9	25bps	22.6	23.0	42bps	We believe, EBITDA margin is likely to normalise going forward with stabilisation in the input prices and restoration of some key cost elements
PAT	1411.8	1431.3	1.4	1619.6	1670.1	3.1	
EPS (₹)	27.8	28.2	1.4	31.9	32.9	3.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Growth Assumption				Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Consumer & Bazaar (%)	2.9	-1.8	29.3	13.8	28.6	14.5	We believe, revival in real estate business along with dealer expansion in rural India would help drive revenue growth for this segment
Business to Business (%)	3.8	-11.9	33.7	13.0	21.0	12.5	The revenue growth would largely be driven by recovery in the manufacturing sector
Others Growth (%)	-14.9	4.9	-15.8	27.3	6.8	4.9	

Source: Company, ICICI Direct Research

Conference call highlights

- Strong recovery in consumer & bazaar segment led by pent up demand in the urban regions and consolidation of Huntsman Advanced Materials Solutions Pvt Ltd (HAMSPL) in November 2020. HAMSPL was renamed Pidilite Adhesives Pvt Ltd (PAPL)
- The company has 4700+ distributors in India. However, alternate trade channels like e-commerce, modern trade and Pidilite ki Duniya (PKD) have augmented Q3 growth. E-commerce sales recorded 3x growth. Modern trade sales grew 1.2x, PKD sales grew 1.3x during Q3FY21
- PAPL sells adhesives, sealants and other products under the brand name of Araldite and is market leader in the epoxy adhesive (2019 revenue: ₹ 400 crore)
- PAPL saw sequential monthly improvement in sales during December 2020
- During Q3FY21, revenue contribution from PAPL was ₹ 59 crore and EBITDA was at ₹ ~26 crore
- On the products front, construction chemicals products continued witness a strong demand
- Spot price of VAM is hovering at US\$1300/tonne from average consumption cost of US\$800 in Q3FY21 (vs. US\$765 in Q2FY21, US\$825 in Q1FY21 and US\$940 in Q3FY20). However, VAM prices are likely to go up in the near future with an improvement in demand conditions
- Strong retail demand, continue dealer expansion and revival in industrial & manufacturing activities and real estate will drive future growth for the company

Subsidiary business

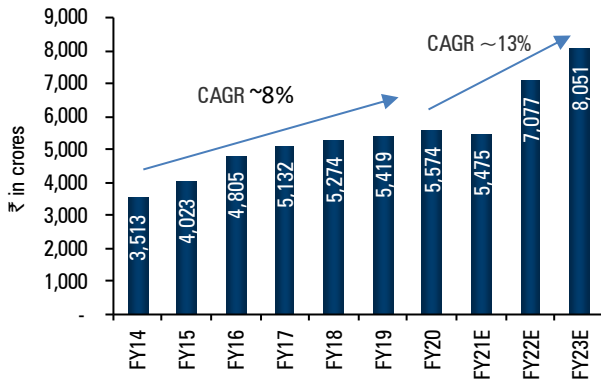
- Overseas subsidiaries revenue increased 21% YoY in Q3FY21. Region wise revenue from Asia, Middle East and America increased by ~11%, ~7% and ~48%, respectively, during Q3FY21
- Domestic subsidiaries witnessed recovery with sales were down by ~2% YoY. Company expects demand revival in the coming future.

Others

- Factory plants are operating at utilisation level of 85-90%
- With improving demand scenario and recovery in the raw material prices the EBITDA margin is likely in the range of 21-24%
- 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
- Capex would be in the range of 4%-5% of revenue
- The advertisement expenses would be normalised from Q4FY21 onwards in the range of 3%-4% of revenue.

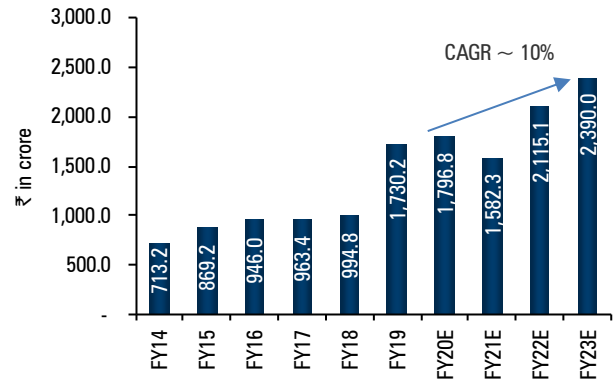
Financial story in charts

Exhibit 4: Growth trend in C&B business



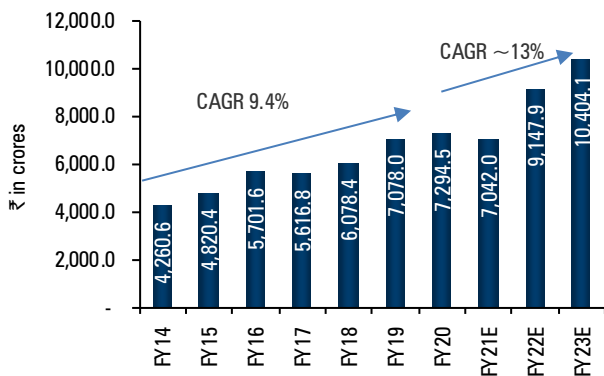
Source: Company, ICICI Direct Research, FY13-FY18 figures are not as per new classification

Exhibit 5: Growth trend in B2B business segment



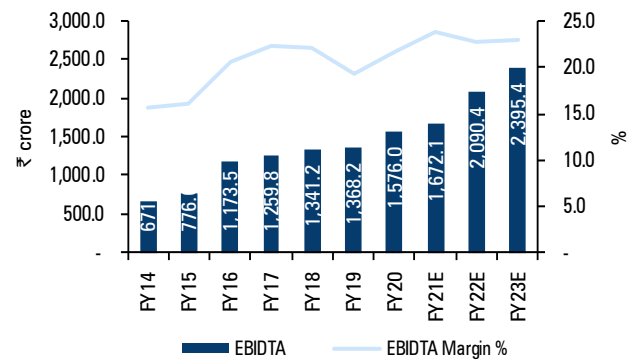
Source: Company, ICICI Direct Research * FY13-FY18 figures are not as per new classification

Exhibit 6: Consolidated sales growth trend



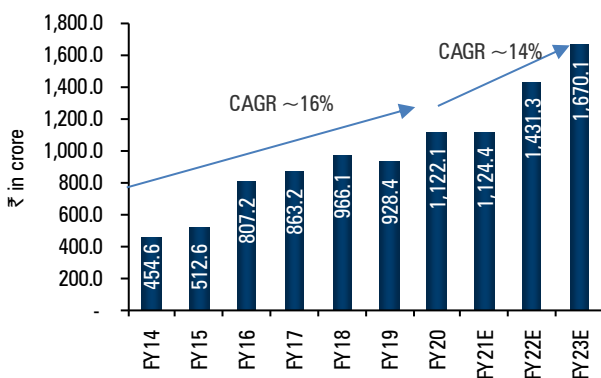
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend



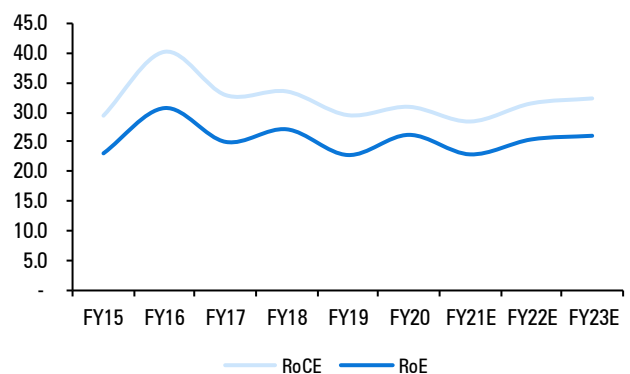
Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Total Operating Income	7294.5	7042.0	9147.9	10404.1	
Growth (%)		-3.5	29.9	13.7	
Raw Material Expenses	3402.5	3204.7	4302.4	4732.7	
Employee Expenses	927.2	992.5	1005.2	1148.4	
Other Expenses	1388.7	961.1	1475.8	1755.6	
Total Operating Expenditure	5718.5	5369.9	7057.5	8008.7	
EBITDA	1,576.0	1,672.1	2,090.4	2,395.4	
Growth (%)		6.1	25.0	14.6	
Other Income	149.4	79.7	79.5	112.1	
Interest	33.6	41.8	40.9	40.9	
PBDT	1691.9	1709.9	2129.0	2466.6	
Depreciation	169.9	190.1	210.4	239.3	
Total Tax	347.7	398.8	491.0	561.3	
Profit from Associates	3.0	3.3	3.7	4.0	
PAT	1,122.1	1,124.4	1,431.3	1670.1	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	1122.1	1124.4	1431.3	1670.1	
Depreciation	169.9	190.1	210.4	239.3	
CF bef working cap chan	1326	1356	1683	1950	
Net Inc in Current Assets	-98.8	-182.5	-554.5	-451.3	
Net Inc in Current Liab.	280.6	-91.2	177.9	221.0	
Net CF from Op activities	1507.3	1082.6	1306.0	1719.9	
(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	-142	-141	908	
Net CF from Fin. Activities	-786.0	-701.9	-752.0	-925.4	
Net Cash flow	516.9	-257.2	-54.1	116.5	
Cash and Cash Equi beg.	197.7	714.6	457.3	403.3	
Cash	714.6	457.3	403.3	519.8	

Source: Company, ICICI Direct Research

Exhibit 12: 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	4890.5	5610.6	6396.1	
Total Shareholders funds	4466.9	4941.3	5661.3	6446.9	
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	5490.7	6212.7	7000.3	
Assets					
Total Gross Block	3093.6	3485.2	3735.2	4055.2	
Less acc depreciation	1470.9	1661.1	1871.5	2110.8	
Net Block	1622.7	1824.2	1863.8	1944.5	
Total Fixed Assets	1882.0	1971.9	2011.5	2092.2	
Other Investments	466.5	516.5	566.5	616.5	
Goodwill on consolidation	184.0	184.03	184.03	184.03	
Inventory	929.5	1061.1	1253.1	1425.2	
Debtors	1088.5	1157.6	1428.6	1653.3	
Loans and Advances	21.5	13.7	17.8	20.3	
Other Current Assets	302.6	292.1	379.5	431.6	
Cash	714.6	457.3	403.3	519.8	
Total Current Assets	3056.6	2981.9	3482.3	4050.2	
Total Current Liabilities	1522.7	1431.5	1609.5	1830.5	
Net Current Assets	1533.9	1550.4	1872.9	2219.7	
Total Assets	5024.3	5490.7	6212.7	7000.3	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per Share Data					
EPS	22.1	22.1	28.2	32.9	
Cash EPS	25.4	25.9	32.3	37.6	
BV	88.0	97.3	111.5	127.0	
DPS	8.4	10.8	12.0	36.1	
Operating Ratios					
EBITDA Margin	21.6	23.7	22.9	23.0	
PAT Margin	16.0	16.0	15.6	16.1	
Return Ratios					
RoE	26.1	22.8	25.3	25.9	
RoCE	31.0	28.4	31.5	32.4	
RoIC	37.6	35.0	39.9	41.6	
Valuation Ratios					
EV / EBITDA	53.0	50.0	39.9	34.7	
P/E	75.5	75.4	59.2	50.7	
EV / Net Sales	11.4	11.9	9.1	8.0	
Market Cap / Sales	11.6	12.0	9.3	8.1	
Price to Book Value	19.0	17.2	15.0	13.1	
Turnover Ratios					
Asset turnover	1.5	1.3	1.5	1.5	
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 14: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,407	3,010	Hold	2,30,831	32.8	39.9	46.3	73.3	60.3	52.0	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,717	1,260	Hold	25,869	20.7	25.5	27.8	82.8	67.3	61.8	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,580	2,830	Buy	8,113	23.7	75.1	90.0	108.8	34.4	28.7	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7
Bajaj Electricals (BAJELE)	725	585	Buy	8,243	11.8	17.1	23.0	NM	42.5	31.5	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	707	675	Hold	68,664	7.8	9.7	11.7	90.9	73.2	60.2	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	428	480	Buy	26,836	7.9	9.5	12.0	53.8	44.9	35.6	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	245	280	Hold	7,730	8.0	8.9	11.2	30.4	27.4	21.9	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4
Havells India (HAVIND)	1,045	1,255	Hold	65,198	16.1	17.8	22.9	65.0	58.7	45.6	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	549	605	Buy	29,587	10.3	12.0	14.0	53.5	45.6	39.2	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7
Pidilite Industries (PIDIND)	1,669	1,920	Buy	84,752	22.1	28.2	32.9	75.4	59.2	50.7	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,223	1,385	Buy	18,208	57.9	67.2	79.7	21.1	18.2	15.4	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,808	2,010	Buy	22,966	62.2	50.0	58.0	29.1	36.2	31.2	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,004	1,090	Hold	7,024	13.1	29.8	40.0	76.4	33.7	25.1	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	52	43	Hold	1,176	7.5	4.0	9.1	7.0	13.0	5.7	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	231	210	Buy	9,893	3.7	5.3	6.2	62.7	43.4	37.2	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	908	845	Hold	30,031	12.3	22.6	29.8	73.8	40.2	30.5	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

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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