

Accumulate

Recovery faster than anticipation. Upgrade to Accumulate.

- Pidilite's Q3FY21 results were ahead of our estimate as the improvement in business conditions was beyond our anticipation.
- Consumer Bazaar segment has witnessed strong improvement with +25.1% growth (+9.4% increase in Q2FY21). Though B2B reported mere 2.7% YoY increase, witnessed significant sequential improvement from 13% decline in Q2FY21.
- 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 grow faster in the domestic market. We have revised our EPS estimates for FY21/22/23E to Rs 22.4/27.9/31.1 implying 11.3/2.5/2.4% upward revision, respectively. We continue to believe that the category has high growth potential and Pidilite being leader, deserves high valuations. Value the stock at 60x FY23E EPS to arrive at a TP of Rs 1,868. Upgrade to Accumulate.

Results came ahead of our estimate

Net Sales grew 19.3% YoY to Rs 23.0bn, was above our estimate, owing to continued demand momentum in rural and recovery in urban. Excluding Pidilite Adhesives Pvt Ltd (PAPL) acquisition in November'20, net sales grew 16% YoY. Domestic business increased 17.6% YoY with 19% volume growth. This was driven by 22% /12% volume growth in Consumer Bazaar/B2B segment respectively. GM expanded by 100bps to 54.8% in Q3. EBITDA increased by 38.4% YoY to Rs 6.4bn (*Excluding PAPL +33%). EBITDA margin expanded by 380bps to 27.9% (highest ever reported) due to 100/90/190bps decline in RM/employee/other expenses respectively. APAT grew 29.1% YoY to Rs 4,449mn – exceeded our estimates.

Speedy recovery across segments

Consumer Bazaar revenue (consol) stood at Rs 18.5bn, up 25.1% YoY while EBIT grew by 43.5% YoY to Rs 6.5bn. Consumer Bazaar margin expanded by 450bps to 34.9%. B2B revenue increased by 2.7% YoY to Rs 4.8bn while operating profit declined 18.1% YoY to Rs 558mn. B2B margin contracted 300bps to 11.7%. As Consumer bazaar/B2B segments posted +9/-13% growth in Q2FY21, performance in Q3FY21 implies speedy recovery.

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	22,990	19,266	19.3	18,803	22.3
Total Expense	16,582	14,634	13.3	13,677	21.2
EBITDA	6,408	4,632	38.4	5,126	25.0
Depreciation	495	419	18.2	479	3.3
EBIT	5,913	4,213	40.4	4,648	27.2
Other Income	204	398	(48.8)	217	(6.0)
Interest	121	82	47.4	87	39.5
EBT	5,997	4,530	32.4	4,778	25.5
Tax	1,548	1,084	42.8	1,220	26.9
RPAT	4,418	3,418	29.3	3,564	24.0
APAT	4,418	3,418	29.3	3,564	24.0
			(bps)		(bps)
Gross Margin (%)	54.8	53.8	97	55.9	(119)
EBITDA Margin (%)	27.9	24.0	383	27.3	61
NPM (%)	19.2	17.7	148	19.0	26
Tax Rate (%)	25.8	23.9	188	25.5	29
EBIT Margin (%)	25.7	21.9	385	24.7	101

CMP	Rs 1,670
Target / Upside	Rs 1,868 / 12%
NIFTY	13,635

Scrip Details

Equity / FV	Rs 508mn / Rs 1
Market Cap	Rs 848bn
	USD 12bn
52-week High/Low	Rs 1,842/ 1,186
Avg. Volume (no)	9,58,852
Bloom Code	PIDI IN
Price Performance	1M 3M 12M
Absolute (%)	(5) 5 12
Rel to NIFTY (%)	(2) (11) (1)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	70.2	70.2	70.2
MF/Banks/FIs	9.8	10.2	8.3
FIIIs	11.2	10.9	11.4
Public / Others	8.9	8.8	10.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	74.5	59.8	53.6
EV/EBITDA	50.9	40.9	36.8
ROE (%)	23.6	24.8	22.5
RoACE (%)	21.7	23.1	21.3

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	69,552	87,942	97,412
EBITDA	16,359	20,191	22,123
PAT	11,390	14,176	15,816
EPS (Rs.)	22.4	27.9	31.1

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Strong IB performance

Pidilite's IB posted strong 21.3% growth driven by +48% increase in Americas. Asia business reported 10.7% revenue growth and EBITDA increased 72% to Rs 141mn. Middle East and Africa business posted 6.7% sales increase with Rs 2mn EBITDA loss (vs Rs 12mn loss in Q3FY20). EBITDA in Americas business increased from Rs 15mn in Q3FY20 to Rs 103mn in Q3FY21.

Sequential improvement in domestic subsidiaries performance

Domestic subsidiaries continued to remain impacted, but performance improved sequentially. Overall domestic subsidiaries posted 1.6% revenue de-growth compared to 12% decline reported in Q2FY21. Cipy Polyurethane/Nina Percept reported 10.7%/22.2% revenue decline during the quarter. ICA Pidilite reported 23.9% increase in sales to Rs 586mn with 86% EBITDA increase to Rs 145mn.

Exhibit 1: Actual V/s Estimates Variance

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	22,990	20,807	10.5	Recovery was stronger than our anticipation
EBITDA	6,408	5,294	21.1	
EBITDA margin %	27.9	25.4	240	Employee cost and other expenses were lower than our estimates.
APAT	4,449	3,767	18.1	

Source: Company, DART

Exhibit 2: Change in estimates

Rs Mn	FY21E			FY22E			FY23E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	69,552	67,810	2.6	87,942	86,649	1.5	97,412	96,029	1.4
EBITDA	16,359	14,796	10.6	20,191	19,720	2.4	22,123	21,619	2.3
EBITDA Margin (%)	23.5	21.8	170bps	23.0	22.8	20bps	22.7	22.5	20bps
PAT	11,390	10,233	11.3	14,176	13,827	2.5	15,816	15,443	2.4
EPS (Rs)	22.4	20.1	11.3	27.9	27.2	2.5	31.1	30.4	2.4

Source: DART, Company

We have upward revised FY21/22/23E revenue estimates to factor in Q3 performance, improvement in domestic demand scenario and acquisition of HAMSPL. Though RM prices are increasing from Q3, we have upward revised our margin estimates to factor in significant margin expansion in Q3. Going ahead, in FY22/23E we believe that the operational efficiencies would partially mitigate increase in RM costs. In line with the increase in EBITDA, we have revised our APAT estimates.

Exhibit 3: 9M performance

Particulars (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Sales	22,990	19,266	19.3	18,803	22.3	50,572	57,498	(12.0)
Expenditure	16,582	14,634	13.3	13,677	21.2	38,374	44,747	(14.2)
Raw Material	10,402	8,903	16.8	8,284	25.6	22,770	27,130	(16.1)
Employee Cost	2,603	2,361	10.3	2,421	7.5	7,182	7,142	0.6
Other Expenditure	3,577	3,371	6.1	2,972	20.4	8,422	10,475	(19.6)
Operating Profit	6,408	4,632	38.4	5,126	25.0	12,198	12,751	(4.3)
Other Income	204	398	(48.8)	217	(6.0)	621	1,355	(54.2)
Interest	121	82	47.4	87	39.5	298	238	25.1
Depreciation	495	419	18.2	479	3.3	1,435	1,198	19.7
PBT	5,997	4,530	32.4	4,778	25.5	11,086	12,670	(12.5)
Tax	1,548	1,084	42.8	1,220	26.9	2,926	2,821	3.7
APAT	4,449	3,445	29.1	3,558	25.0	8,160	9,849	(17.1)
Minority & Share of Ass	(30)	(27)	10.2	6	(611.9)	90	(38)	(339.4)
RPAT	4,418	3,418	29.3	3,564	24.0	8,250	9,589	(14.0)
EPS (Adjusted)	8.8	6.8	29.1	7.0	25.0	16.1	19.4	(17.1)
			bps		bps			bps
GPM (%)	54.8	53.8	100	55.9	(120)	55.0	52.8	216
Employee Cost %	11.3	12.3	(90)	12.9	(160)	14.2	12.4	178
Other exp %	15.6	17.5	(190)	15.8	(20)	16.7	18.2	(156)
OPM (%)	27.9	24.0	380	27.3	60	24.1	22.2	194
NPM (%)	19.3	17.9	150	18.9	40	16.1	17.1	(99)

Source: Company, DART

Exhibit 4: Segmental Performance (Consolidated)

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue					
Consumer Bazaar	18,489	14,783	25.1	15,277	21.0
Business to Business	4,751	4,626	2.7	3,771	26.0
Others	122	216	(43.6)	72	70.2
Total	23,361	19,625	19.0	19,119	22.2
EBIT (Rs mn)					
Consumer Bazaar	6,451	4,495	43.5	5,324	21.2
Business to Business	558	681	(18.1)	290	92.4
Others	(5)	3	NM	8	NM
Total	7,004	5,179	35.3	5,621	24.6
EBIT Margin (%)					
			bps		bps
Consumer Bazaar	34.9	30.4	450	34.8	0
Business to Business	11.7	14.7	(300)	7.7	410
Others	(4.3)	1.2	NM	10.8	NM
Total	30.0	26.4	360	29.4	60

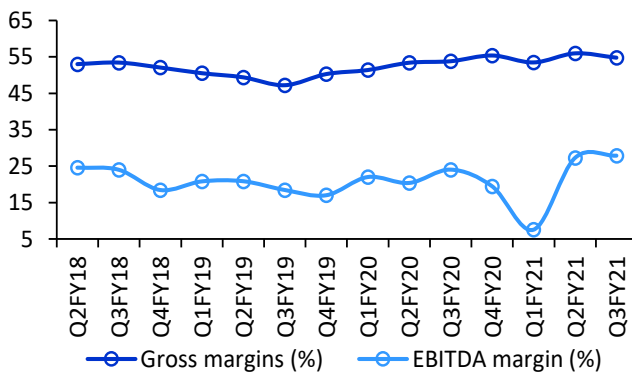
Source: DART, Company

Exhibit 5: Overseas Performance

Particulars (Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue					
Asia	702	634	10.7	568	23.6
Middle East & Africa	431	404	6.7	385	11.9
Americas	711	481	47.8	812	(12.4)
Total	1,844	1,519	21.4	1,765	4.5
EBITDA					
Asia	141.0	82.0	72.0	88.0	60.2
Middle East & Africa	(2.0)	(12.0)	NM	(14.0)	(85.7)
Americas	103.0	15.0	586.7	292.0	NM
Total	242	85	184.7	366	(33.9)
EBITDA Margin (%)			bps		bps
Asia	20.1	12.9	720	15.5	460
Middle East & Africa	(0.5)	(3.0)	NM	(3.6)	NM
Americas	14.5	3.1	1,140	36.0	NM
Total	13.1	5.6	750	20.7	(760)

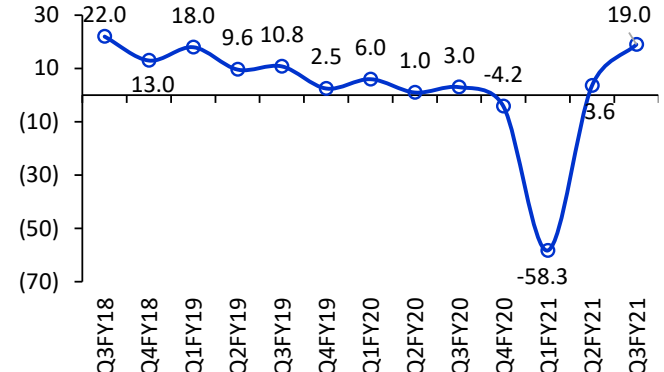
Source: Company, DART

Exhibit 6: Trend in Operating Performance



Source: Company, DART

Exhibit 7: Domestic Volume Growth (%)



Source: Company, DART

Concall Highlights

- During Q3FY21, VAM prices averaged US\$ 875/ton from US\$ 940/ton in Q3FY20 and US\$ 765/ton in Q2FY21. Currently it is hovering ~ US\$ 1300/ton. Management expects 5-6 months for prices to come back to some normalcy.
- Pidilite witnessed continued demand momentum in rural areas and strong recovery in urban including metros.
- Broadbased recovery in Q3 was due to lesser impact of pandemic, some pent-up demand and industrial activities picking up in B2B segment.
- The company acquired 100% stake in Pidilite Adhesives Pvt Ltd (PAPL) - Formerly known as Huntsman Advanced Materials Solutions Private Limited on 3rd November 2020. PAPL exhibited sequential monthly improvement in sales during Q3FY21.
- It has been only two months since the Huntsman acquisition. It resulted in better product mix which was visible in margins, apart from lower input costs. Pidilite will take around six months to identify distribution gaps, geographical gaps, brand positioning, pricing etc.
- Capex is generally ~4-5% of revenue. Currently, capacity utilization stands at ~85-90%. Company will continue to invest in building capacity.
- Pidilite typically incurs A&SP spends between 3.5% to 4%, and it has achieved the same at the end of the quarter.
- Company has not taken price hikes yet. Owing to significant RM inflation, going ahead, it will partially pass on prices to consumer. Management reiterated its guidance of 21-24% EBITDA margin going ahead. We believe that margins would remain under pressure going ahead as the company will absorb RM prices partially and also invest behind brands. Focus on strict cost control would restrict margin contraction.
- Both ready-made furniture and on-site furnitures are growing at a good pace. In India, there is still a lot of room for interior décor and on-site furnitures. Pidilite, with its right products, technology and distribution is well equipped to serve both the segments.
- International business (+21.4% YoY) was led by America's which grew 47.8% YoY. This was mainly due to corona voucher by the government which resulted in a significant growth in the construction market. Also in the US, the art, hobby and crafts category witnessed significant growth during the lockdown. Such strong growth is not likely to sustain going ahead. Bangladesh and Sri Lanka business also witnessed good growth.
- Pidilite has an excellent end user connect with all the people involved in waterproofing trade/ civil contractors as well as waterproofing end users. Despite paint companies entering into waterproofing business, Pidilite has continued to maintain market share in the business

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	72,945	69,552	87,942	97,412
Total Expense	57,185	53,194	67,751	75,289
COGS	34,025	31,421	40,433	44,844
Employees Cost	9,272	9,378	10,420	11,616
Other expenses	13,887	12,394	16,898	18,829
EBIDTA	15,760	16,359	20,191	22,123
Depreciation	1,699	1,794	1,964	480
EBIT	14,061	14,564	18,227	21,643
Interest	336	390	440	440
Other Income	1,494	1,148	1,301	101
Exc. / E.O. items	(552)	0	0	0
EBT	14,667	15,323	19,088	21,305
Tax	3,477	3,984	4,963	5,539
RPAT	11,221	11,390	14,176	15,816
Minority Interest	(30)	(51)	(51)	(51)
Profit/Loss share of associates	0	0	0	0
APAT	11,772	11,390	14,176	15,816

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	508	508	508	508
Minority Interest	2,156	2,156	2,156	2,156
Reserves & Surplus	44,048	51,574	61,887	77,704
Net Worth	44,556	52,082	62,395	78,212
Total Debt	2,804	2,804	2,804	2,804
Net Deferred Tax Liability	822	822	822	822
Total Capital Employed	50,338	57,864	68,177	83,994

Applications of Funds

Net Block	18,066	18,772	19,307	21,327
CWIP	2,593	2,593	2,593	2,593
Investments	4,411	4,940	5,533	6,197
Current Assets, Loans & Advances	40,208	43,460	55,466	70,052
Inventories	9,295	8,846	11,189	12,396
Receivables	10,885	10,359	13,103	14,517
Cash and Bank Balances	7,032	10,875	16,601	27,235
Loans and Advances	2,700	2,015	2,015	2,015
Other Current Assets	3,099	3,304	3,529	3,777
Less: Current Liabilities & Provisions	14,940	11,901	14,722	16,175
Payables	6,209	4,565	5,774	6,397
Other Current Liabilities	8,731	7,336	8,949	9,779
<i>sub total</i>				
Net Current Assets	25,268	31,559	40,744	53,876
Total Assets	50,338	57,864	68,177	83,994

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	53.4	54.8	54.0	54.0
EBIDTA Margin	21.6	23.5	23.0	22.7
EBIT Margin	19.3	20.9	20.7	22.2
Tax rate	23.7	26.0	26.0	26.0
Net Profit Margin	15.4	16.4	16.1	16.2
(B) As Percentage of Net Sales (%)				
COGS	46.6	45.2	46.0	46.0
Employee	12.7	13.5	11.8	11.9
Other	19.0	17.8	19.2	19.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	41.8	37.3	41.4	49.2
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	166	169	202
FA T/O	4.0	3.7	4.6	4.6
(D) Measures of Investment				
AEPS (Rs)	23.2	22.4	27.9	31.1
CEPS (Rs)	26.5	26.0	31.8	32.1
DPS (Rs)	16.3	7.6	7.6	0.0
Dividend Payout (%)	70.1	33.9	27.3	0.0
BVPS (Rs)	87.7	102.6	122.9	154.0
RoANW (%)	26.1	23.6	24.8	22.5
RoACE (%)	25.1	21.7	23.1	21.3
RoAIC (%)	32.3	32.3	37.0	40.0
(E) Valuation Ratios				
CMP (Rs)	1670	1670	1670	1670
P/E	72.0	74.5	59.8	53.6
Mcap (Rs Mn)	8,48,153	8,48,153	8,48,153	8,48,153
MCap/ Sales	11.6	12.2	9.6	8.7
EV	8,36,728	8,32,021	8,25,328	8,13,610
EV/Sales	11.5	12.0	9.4	8.4
EV/EBITDA	53.1	50.9	40.9	36.8
P/BV	19.0	16.3	13.6	10.8
Dividend Yield (%)	1.0	0.5	0.5	0.0
(F) Growth Rate (%)				
Revenue	3.1	(4.7)	26.4	10.8
EBITDA	15.2	3.8	23.4	9.6
EBIT	13.8	3.6	25.1	18.7
PBT	9.6	4.5	24.6	11.6
APAT	24.4	(3.3)	24.5	11.6
EPS	24.4	(3.3)	24.5	11.6
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	12,611	11,990	14,089	15,322
CFI	(570)	(3,893)	(4,060)	(4,247)
CFF	(6,913)	(4,253)	(4,303)	(440)
FCFF	8,172	9,490	11,589	12,822
Opening Cash	1,904	7,032	10,875	16,601
Closing Cash	7,032	10,875	16,601	27,235

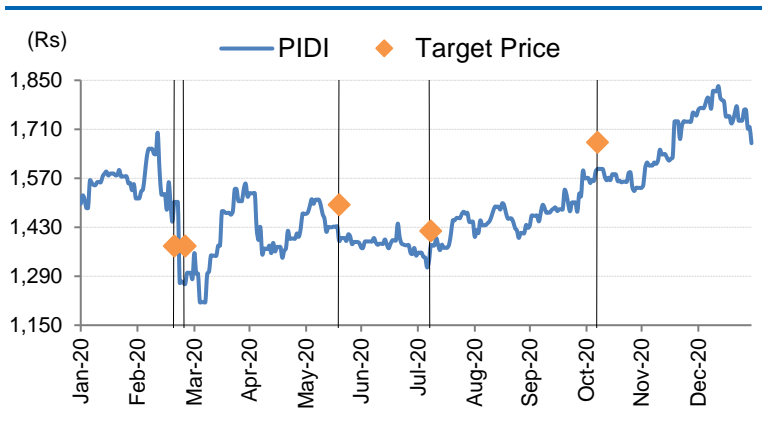
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Nov-20	Reduce	1,672	1,597

*Price as on recommendation date

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