

Higher input cost weighs on margin...

About the stock: Pidilite is a market leader in the adhesive and sealants business.

- The company's consumer & bazaar (C&B) segment (adhesives & sealants, construction & paint chemical, art & craft materials) contributes 80% to topline while B2B segment (industrial adhesive, resins and pigments) contributes ~20% to topline
- Has 4700+ distributors, strong balance sheet (RoE, 20%, RoCE, 24%)

Q2FY22 Results: Revenue growth was ahead of our estimates while EBITDA margin was hit by higher input costs.

- Revenues were higher by 40% YoY to ~₹ 2626 crore (up 36% QoQ)
- Sharp fall in gross margin led to EBITDA margin decline of 634 bps YoY to 21%
- PAT increased ~5% YoY to ₹ 376 crore

What should investors do? Pidilite's share price has grown by ~4x over the past five years (from ~₹ 615 in November 2016 to ~₹ 2474 levels in November 2021).

- We maintain our HOLD rating on the stock

Target Price and Valuation: We value Pidilite at ₹ 2640, 75x P/E of FY24E EPS

Key triggers for future price performance:

- The management is targeting the 'core segment' (i.e. adhesive, sealants) and 'the growth' segment to grow at 1-2x and 2-4x of GDP, respectively, in the long term
- Revival in the real estate business will be a key demand driver for C&B segment, going forward
- Addition of premium products in the portfolio such as Araldite, cost optimisation measures will help drive EBITDA margin of the company

Alternate Stock Idea: We like Asian Paints in our coverage.

- Asian Paints is the market leader in the decorative paint and expanding its product portfolios along with dealer expansion in tier II and tier III cities
- BUY with a target price of ₹ 3425

Key Financial Summary

₹ Crore	FY19	FY20	FY21	5Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net sales	7078.0	7294.5	7292.7	5%	9101.7	10317.6	11520.9	16.5
EBITDA	1368.2	1576.0	1680.6	7%	1792.0	2177.4	2607.1	15.8
EBITDA Margin(%)	19.3	21.6	23.0		19.7	21.1	22.6	
Net Profit	928.4	1122.1	1126.1	7%	1184.0	1478.5	1787.1	16.6
EPS (₹)	18.3	22.1	22.2		23.3	29.1	35.2	
P/E(x)	135.3	112.0	111.6		106.1	85.0	70.3	
Price /book (x)	30.2	28.2	22.5		19.4	18.6	18.0	
Mcap /sales (x)	17.7	17.2	17.2		13.8	12.2	10.9	
RoE (%)	22.6	26.1	20.2		18.3	21.9	25.5	
RoCE (%)	29.5	31.0	23.8		21.6	26.1	30.5	

Source: Company, ICICI Direct Research



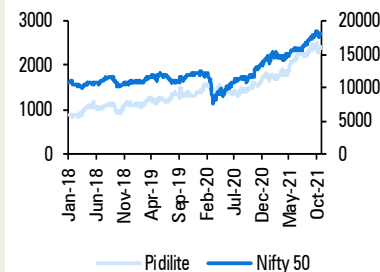
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,25,629.7
Total Debt (FY21) (₹ Crore)	213.9
Cash & Inv (FY21) (₹ Crore)	451.5
EV (₹ Crore)	1,25,215.7
52 week H/L	2531/ 1501
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	70.2	70.2	70.2	70.2	70.0
FII	10.9	11.4	11.9	12.1	11.8
DII	8.7	8.3	7.6	7.2	7.3
Others	10.2	10.1	10.3	10.5	10.9

Price Chart



Recent event & key risks

- Key Risk:** (i) Slow volume offtake in the key segment (ii) Delay in passing of higher raw material cost

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Key takeaways of recent quarter & conference call highlights

Q2FY22 Results:

- Consolidated sales growth of 40% to ₹ 2626 crore, includes PAPL's revenues. Excluding PAPL sales growth was at 33% YoY
- Standalone sales growth of 36% was supported by volume & mix growth of 25%. On the segment front, consumer and bazaar segment (C&B) segment revenue increased ~35% to ₹ 1803 crore led by 25% growth in volumes. Further, B2B segment also witnessed recovery with revenue growth of 39% YoY to ~₹ 439 crore led by 20% volume growth
- Judicious price hikes of ~10% across the product portfolio covered ~70% raw material inflation. Hence, higher raw material prices kept gross margin under check. The management believes raw material prices will remain firm for the next six months due to various supply disruptions
- Net profit increased 5% to ₹ 376 crore

Q2FY22 Earnings Conference Call highlights:

- Demand outlook:**
 - Revival in real estate will be a big positive for the company
 - Focus is to increase penetration in the small town and rural India (contributes ~30% in revenue)
 - New business categories in the construction chemicals, waterproofing business to drive long term growth
- Margin outlook:**
 - Spot price of VAM is hovering at US\$2300/tonne from average consumption cost of US\$2071 in Q2FY22 (vs. US\$1610 in Q1FY22, US\$840 in Q2FY21). The management expects VAM prices to remain firm for the next six months
 - The management reiterated margin guidance of 22-24%
 - Advertisement spend was in the range of 3-4% of revenue
- Capex outlook:**
 - Management has indicated at capex of ~4-6% of total revenue
 - Capex will be focused towards improving supply chain and building a robust distribution network

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints	2,93,742	21713	26700	30959	36482	22	16	19	20	3207	2716	3894	5017	30	25	33	39	25	21	28	32	92	108	75	59
Berger Paints	75,656	6818	8351	9728	11321	17	17	18	19	720	918	1155	1432	25	29	34	36	21	25	28	29	105	82	66	53
Kansai Nero	31,257	4710	5896	7064	7919	18	13	15	16	552	486	714	842	18	16	21	22	14	12	16	17	57	64	44	37
Pidilite Ind	1,25,630	7293	9102	10318	11521	23	20	21	23	1126	1184	1478	1787	24	22	26	30	20	18	22	26	112	106	85	70

Source: ICICI Direct Research

We believe Pidilite is well placed to benefit from the revival in the domestic real estate industry, which drives the demand of its C&B business (81% of revenue). The B2B business (18% of revenue) includes industrial adhesive/resins, construction chemical (project), pigment etc will be key beneficiaries of revival in private/government capex in the near future. We build in revenue & PAT CAGR of ~17% each for FY21-24E with EBITDA margin in the range of 20-23%. Along with that, a robust supply chain network and a strong balance sheet position (RoE, RoCE of 20%, 24%, respectively) justifies its premium valuation. However, we believe the current price captures all its near term positives. Hence, we maintain our HOLD rating on the stock.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	2626.4	2206.6	1880.3	39.7	1936.8	35.6	Favourable base and consolidation of new business help drive revenue growth (excluding PAPL: sales growth was 33% YoY)
Other Income	13.9	25.5	21.7	-35.9	6.1	127.1	
Raw Material Exp	1433.9	1096.1	828.4	73.1	985.7	45.5	Higher raw material prices (average consumption cost of VAM increased 146% YoY to US\$2071/t) led to decline in gross margins by ~1054 bps YoY
Employee Exp	273.1	231.2	242.1	12.8	280.6	-2.7	
Admin & Other exp	369.7	336.9	297.2	24.4	322.9	14.5	Various cost optimisation measures help in savings in other expenditure
Total Expenditure	2076.8	1739.3	1367.7	51.8	1589.2	30.7	
EBITDA	549.6	467.4	512.6	7.2	347.6	58.1	
EBITDA Margin (%)	20.9	21.2	27.3	-634 bps	17.9	298 bps	Lower gross margin partially offset by savings in other cost. As a result, EBITDA margin fall was limited to 634 bps YoY
Depreciation	60.3	59.6	47.9	26.0	56.6	6.5	
Interest	12.4	8.0	8.7	42.9	9.6	28.5	
Exceptional items	0.0	0.0	0.0		0.0	NM	
PBT	490.8	425.2	477.8	2.7	287.5	70.7	
Total Tax	115.9	107.2	122.0	-5.0	72.1	60.8	
PAT	375.5	318.7	356.4	5.4	217.6	72.5	Bottomline is mainly tracking sale growth
Key Metrics							
Consumer & Bazaar	2,130.4	1,772.8	1,527.7	39.5	1,486.2	43.3	On standalone basis, C&B segment revenue increased by 35% YoY led by volume & mix which increased by ~25% YoY on a lower base and strong demand in urban regions
B2B	532.4	459.2	377.1	41.2	482.0	10.4	B2B segment also witnessed recovery with volume growth of 20% YoY
Others	14.6	7.3	7.2	103.9	9.9	47.4	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	9,266.6	9,101.7	(1.8)	10,535.1	10,318	(2.1)	11,762.2	11,520.9	(2.1)	We build in revenue CAGR of 17% in FY21-24E
EBITDA	1,916.5	1792.0	(6.5)	2,273.8	2177.4	(4.2)	2,698.0	2607.1	(3.4)	
EBITDA Margin (%)	20.7	19.7	-99bps	21.6	21.1	-48bps	22.9	22.6	-31bps	We marginally reduce our EBITDA margin estimate for FY22E considering steep rise in raw material prices
PAT	1286.4	1184.0	(8.0)	1560.5	1478.5	(5.3)	1,866.4	1787.1	(4.2)	
EPS (₹)	25.3	23.3	(8.0)	30.7	29.1	(5.3)	36.8	35.2	(4.2)	

Source: ICICI Direct Research

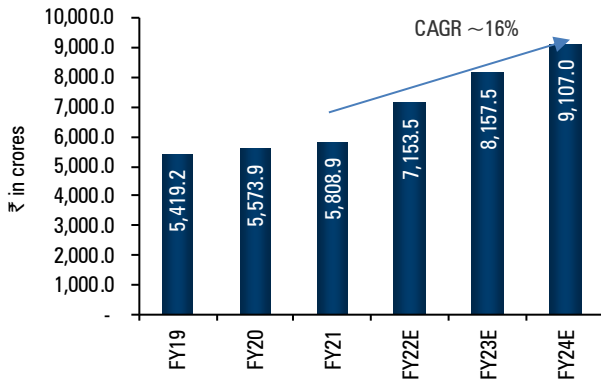
Exhibit 4: Assumptions

	Growth Assumption			Earlier				Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Consumer & Bazaar (%)	2.9	4.2	23.1	14.0	11.6	14.1	11.7	We believe demand revival in the real estate segment and opening up of economy would help drive C&B segment (adhesive and construction chemical) revenues, going forward. This, along with consolidation of new business (of PAPL) would help drive sale for the company, going forward. We build in segment revenue CAGR of ~16% in FY21-24E
Business to Business (%)	3.8	-12.3	25.2	13.5	11.6	13.3	11.5	The revenue growth would largely be driven by recovery in the manufacturing and industrial sector. We model segment revenue CAGR of 17% in FY21-24E
Others Growth (%)	-14.9	-49.6	270.5	-39.8	12.0	-13.1	12.0	

Source: ICICI Direct Research

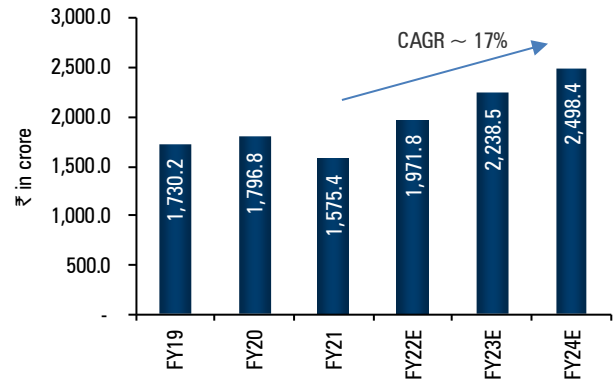
Financial story in charts

Exhibit 5: Growth trend in C&B business



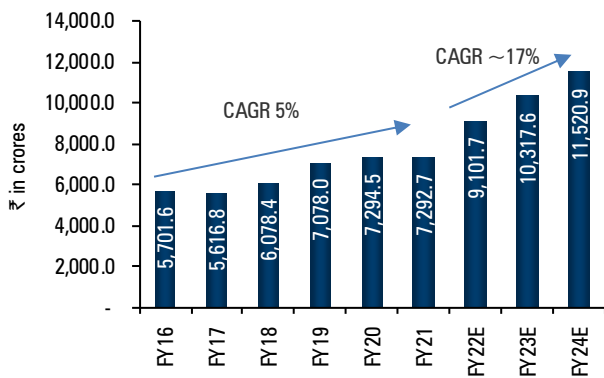
Source: Company, ICICI Direct Research

Exhibit 6: Growth trend in B2B business segment



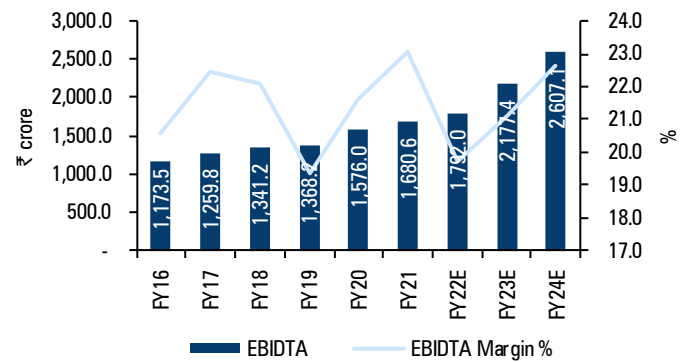
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated sales growth trend



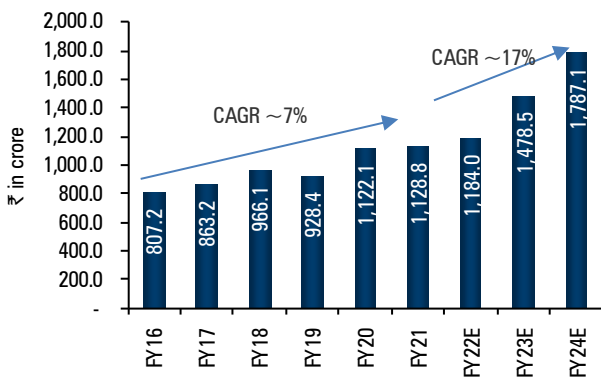
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend



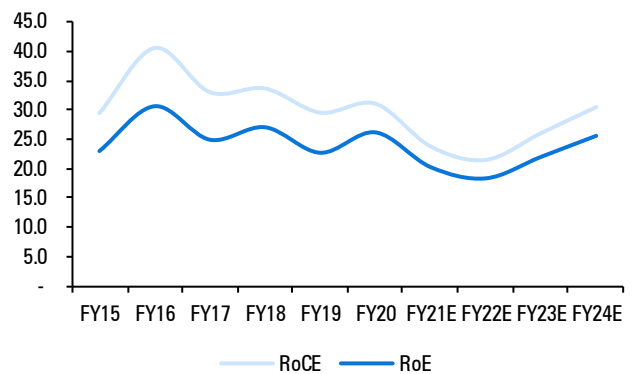
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	7292.7	9101.7	10317.6	11520.9
Growth (%)		24.8	13.4	11.7
Raw Material Expenses	3376.7	4757.2	5223.5	5735.3
Employee Expenses	980.9	1031.1	1103.2	1205.2
Other Expenses	1254.6	1521.4	1444.5	1562.3
Total Operating Expenditure	5612.1	7309.7	8140.2	8913.8
EBITDA	1,680.6	1,792.0	2,177.4	2,607.1
Growth (%)		6.6	21.5	19.7
Other Income	79.4	48.8	93.9	104.6
Interest	37.2	38.0	22.7	18.5
PBDT	1722.8	1802.8	2248.7	2693.2
Depreciation	200.7	236.6	278.6	311.1
Total Tax	396.4	386.6	496.5	600.3
Profit from Associates	4.0	4.4	4.8	5.3
PAT	1,126.1	1,184.0	1,478.5	1,787.1
Growth (%)		5.1	24.9	20.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1126.1	1184.0	1478.5	1787.1
Depreciation	200.7	236.6	278.6	311.1
CF bef working cap chan	1364	1459	1780	2117
Net Inc in Current Assets	-550.2	-570.7	-10.4	-405.1
Net Inc in Current Liab.	768.5	153.7	-32.7	110.5
Net CF from Op activities	1582.3	1041.7	1736.6	1822.1
(Purchase)/Sale of FA	-1746.5	-200.0	-450.0	-350.0
Increase/decrease in other investn	127.0	-50.0	-50.0	-23.0
Others	-233.3	-208.0	-153.0	-151.0
Net CF from Inv Activities	-1852.8	-458.0	-653.0	-524.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	44.8	0.0	-50.0	-20.0
Total Outflow of dividend	-431.6	-611.2	-1222.4	-1527.9
Others	406	279	-23	-18
Net CF from Fin. Activities	18.7	-331.7	-1295.0	-1566.4
Net Cash flow	-251.8	252.0	-211.4	-268.3
Cash and Cash Equi beg.	703.2	451.5	703.4	492.0
Cash	451.5	703.4	492.0	223.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	50.8	50.8	50.8	50.8
Reserve and Surplus	5542.1	6432.4	6688.5	6947.7
Total Shareholders funds	5592.9	6483.2	6739.3	6998.5
Total Debt	213.9	213.9	163.9	143.9
Deferred Tax Liability	398.0	398.0	398.0	398.0
Minority Interest	240.0	242.0	244.0	246.0
Total Liabilities	6539.2	7431.5	7639.6	7880.8
Assets				
Total Gross Block	4805.5	5151.7	5601.7	5951.7
Less acc depreciation	1671.6	1908.3	2186.8	2497.9
Net Block	3133.9	3243.4	3414.9	3453.8
Total Fixed Assets	3427.8	3391.2	3562.6	3601.5
Other Investments	339.5	389.5	439.5	462.5
Goodwill on consolidation	1284.0	1283.95	1283.95	1283.95
Inventory	1234.2	1496.2	1300.3	1451.9
Debtors	1321.0	1546.0	1696.0	1893.8
Loans and Advances	21.7	27.1	30.7	34.3
Other Current Assets	315.4	393.6	446.2	498.2
Cash	451.5	703.4	492.0	223.7
Total Current Assets	3343.7	4166.4	3965.3	4102.1
Total Current Liabilities	2291.2	2444.9	2412.2	2522.6
Net Current Assets	1052.6	1721.5	1553.2	1579.4
Total Assets	6539.2	7431.5	7639.6	7880.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	22.2	23.3	29.1	35.2
Cash EPS	26.1	28.0	34.6	41.3
BV	110.1	127.7	132.7	137.8
DPS	8.5	12.0	24.1	30.1
Operating Ratios				
EBITDA Margin	23.0	19.7	21.1	22.6
PAT Margin	15.5	13.0	14.3	15.5
Return Ratios				
RoE	20.2	18.3	21.9	25.5
RoCE	23.8	21.6	26.1	30.5
RoIC	28.1	25.9	30.3	33.9
Valuation Ratios				
EV / EBITDA	74.5	69.7	57.4	48.0
P/E	111.6	106.1	85.0	70.3
EV / Net Sales	17.2	13.7	12.1	10.9
Market Cap / Sales	17.2	13.8	12.2	10.9
Price to Book Value	22.5	19.4	18.6	18.0
Turnover Ratios				
Asset turnover	1.1	1.2	1.4	1.5
Debtor Days	66.1	62.0	60.0	60.0
Creditor Days	50.4	40.0	35.0	30.0
Inventory Days	61.8	60.0	46.0	46.0
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	3.2	3.2	3.8
Quick Ratio	1.5	1.8	2.0	2.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct universe (Consumer Discretionary)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,063	3,425	Buy	2,93,742	33.4	28.3	40.6	52.3	91.6	108.1	75.4	58.6	59.6	69.9	50.4	39.4	29.6	25.0	33.0	38.5	25.0	21.1	27.9	32.1
Berger Paints (BERPAI)	779	860	Hold	75,656	7.4	9.5	11.9	14.7	105.1	82.4	65.5	52.8	63.5	52.7	43.1	35.1	24.9	29.0	33.9	36.0	21.3	24.7	27.6	29.2
Kansai Nerolac (KANNER)	580	630	Buy	31,257	10.2	9.0	13.3	15.6	56.6	64.3	43.8	37.1	36.6	41.0	28.9	24.5	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,474	2,640	Hold	1,25,630	22.2	23.3	29.1	35.2	111.6	106.1	85.0	70.3	74.5	69.7	57.4	48.0	23.8	21.6	26.1	30.5	20.2	18.3	21.9	25.5
Bajaj Electricals (BAJELE)	1,092	1,250	Buy	12,509	16.5	23.0	34.0	39.2	66.2	47.5	32.2	27.9	42.0	30.4	21.7	19.3	15.1	19.3	25.2	24.2	10.7	16.3	19.9	19.1
Crompton Greaves(CROGR)	461	525	Buy	28,895	9.8	9.1	11.6	13.1	46.9	50.8	39.8	35.2	38.6	37.9	30.3	26.7	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3
Havells India (HAVIND)	1,326	1,545	Buy	82,729	16.7	20.6	24.7	28.9	79.6	64.5	53.7	45.8	52.1	43.5	36.3	30.9	24.9	27.5	30.9	32.9	20.1	22.9	25.5	26.8
Polycab India (POLI)	2,473	2,710	Buy	36,877	59.4	52.6	76.4	90.5	41.6	47.1	32.4	27.3	30.8	31.0	21.9	18.3	21.9	19.1	24.2	24.4	18.5	14.9	18.6	18.7
Symphony (SYMLIM)	1,046	1,160	Hold	7,318	15.3	20.3	33.1	40.0	68.4	51.4	31.6	26.2	51.3	38.3	24.7	20.2	15.2	21.5	29.5	31.0	14.9	19.5	27.7	28.3
V-Guard Ind (VGUARD)	260	310	Buy	11,135	4.7	5.0	6.9	7.8	55.2	52.3	37.8	33.4	34.8	34.8	27.1	23.7	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8
Voltas Ltd (VOLTAS)	1,252	1,375	Hold	41,408	16.0	19.8	25.2	33.3	78.3	63.1	49.7	37.6	63.9	55.4	44.0	35.9	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBE)	3,473	3,900	Buy	11,702	24.7	44.0	82.2	106.9	140.5	78.9	42.2	32.5	52.9	40.5	24.0	18.8	7.7	10.8	17.0	19.4	5.2	8.9	14.3	15.8
Dixon Technologies (DIXTE)	5,595	5,990	Buy	32,758	27.3	45.8	84.8	116.4	205.2	122.1	66.0	48.1	114.3	71.6	42.8	31.9	23.5	31.2	40.1	39.1	21.7	31.0	39.5	37.2
Supreme Indus (SUPIND)	2,452	2,740	Buy	31,147	77.0	67.6	80.7	91.1	31.8	36.3	30.4	26.9	23.7	26.4	21.8	19.2	33.1	25.7	27.3	27.6	30.9	24.4	25.1	25.0
Astral Polytechnik (ASTPOL)	2,299	2,160	Hold	46,183	20.3	24.6	31.8	40.6	113.1	93.3	72.3	56.7	71.0	60.2	47.0	37.1	27.5	29.2	32.5	34.0	21.5	22.8	24.9	26.0
EPL (ESSPRO)	218	245	Hold	6,874	7.7	8.1	10.2	11.9	28.1	26.9	21.4	18.4	11.6	10.9	9.4	8.2	16.2	16.5	19.2	21.0	14.8	14.6	17.4	18.8
Time Techno (TIMTEC)	72	100	Buy	1,628	4.8	8.3	10.7	11.5	15.1	8.6	6.7	6.3	5.7	4.6	3.8	3.5	8.7	12.2	13.9	13.9	5.7	9.5	11.3	11.1
Moldtek Packaging (MOLP)	719	850	Buy	2,036	17.2	25.6	31.5	40.5	41.8	28.1	22.8	17.8	22.6	16.0	13.4	10.9	20.1	27.7	29.3	31.0	18.7	24.3	24.0	24.4

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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