

Strong topline growth; margin under pressure...

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 the B2B segment (industrial adhesive, resins and pigments) contributes ~20% to topline
- Has 4700+ distributors, strong balance sheet (RoE, 20%, RoCE, 24%)

Q3FY22 Results: Revenue came in better than our estimates but EBITDA margin pressure continues due to high raw material prices

- Revenues were up 24% YoY to ~₹ 2851 crore (up 9% QoQ)
- Gross margin fell 1117 bps YoY leading to fall in EBITDA margin by 19%
- PAT declined ~20% YoY to ₹ 359 crore

What should investors do? Pidilite's share price has grown by ~3.5x over the past five years (from ~₹ 675 in February 2017 to ~₹ 2461 levels in January 2022).

- 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 ₹ 3870



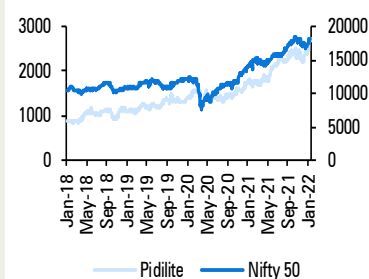
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,24,969.6
Total Debt (FY21) (₹ Crore)	213.9
Cash & Inv (FY21) (₹ Crore)	451.5
EV (₹ Crore)	1,24,555.6
52 week H/L	2765/ 1663
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	70.2	70.2	70.2	70.0	70.0
FII	11.4	11.9	12.1	11.8	11.7
DII	8.3	7.6	7.2	7.3	7.5
Others	10.1	10.3	10.5	10.9	10.9

Price Chart



Recent event & key risks

- Key Risk:** (i) Better than expected volume growth amid revival in real estate sector (ii) Delay in passing of higher raw material cost

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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%	9851.0	10545.1	11596.1	16.7
EBITDA	1368.2	1576.0	1680.6	7%	1858.7	2233.6	2617.7	15.9
EBITDA Margin(%)	19.3	21.6	23.0		18.9	21.2	22.6	
Net Profit	928.4	1122.1	1126.1	7%	1213.8	1514.6	1791.1	16.7
EPS (₹)	18.3	22.1	22.2		23.9	29.8	35.3	
P/E(x)	134.6	111.4	111.0		103.0	82.5	69.8	
Price /book (x)	30.1	28.0	22.3		19.2	18.4	17.7	
Mcap /sales (x)	17.7	17.1	17.1		12.7	11.9	10.8	
RoE (%)	22.6	26.1	20.2		18.6	22.3	25.3	
RoCE (%)	29.5	31.0	23.8		22.1	26.3	30.1	

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- Consolidated sales increased 24% YoY to ₹ 2851 crore even on a higher base of Q3FY21. Strong demand from urban regions and price hikes during the period can be attributed for overall revenue growth in Q3
- Standalone sales (~85% of total revenue) increased ~23% supported by volume & mix growth of ~9%. On the segment front, C&B segment revenue increased ~21% to ₹ 1925 crore led by 10% growth in volumes. Further, B2B segment also witnessed strong revenue growth of 35% YoY to ~₹ 512 crore supported by 13% volume growth
- Judicious price hikes of 12-13% across product portfolio covered 70-75% raw material inflation. Hence, gross margins fell 1117 bps YoY (180 bps QoQ). The management believes higher raw material prices will start subsiding from March 2022 onwards supported by improved supply condition
- Net profit declined ~20% to ₹ 359 crore

Q3FY22 Earnings Conference Call highlights:

- Demand outlook:**
 - Strong demand from urban regions helped drive strong volume growth for the company in Q3FY21. Revival in real estate will be a big positive for the company
 - Construction chemical, water proofing categories are highly under penetrated (~25%) in India. These categories are expected to drive long term growth for Pidilite
- Margin outlook:**
 - Spot price of VAM is hovering at US\$2000-2525/tonne from average consumption cost of US\$ 1968/tonne (vs. US\$2071 in Q2FY22, US\$1610 in Q1FY22, US\$876 in Q3FY21). The management expects VAM prices to cool off from March 2022
 - The management reiterated margin guidance of 22-24%

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	3,01,797	21713	28482	33381	38084	22	17	20	21	3207	3103	4458	5584	30	28	36	39	25	23	30	33	94	97	68	54
Berger Paints	70,606	6818	8419	10142	11871	17	14	15	16	720	745	980	1255	25	25	31	35	21	21	26	29	98	95	72	56
Kansai Nero	30,880	4710	5896	7064	7919	18	13	15	16	552	486	714	842	18	16	21	22	14	12	16	17	56	63	43	37
Pidilite Ind	1,24,970	7293	9851	10545	11596	23	19	21	23	1126	1214	1515	1791	24	22	26	30	20	19	22	25	111	103	83	70

Source: ICICI Direct Research

Pidilite is well placed to benefit from the revival in the domestic real estate industry, which drives demand in its C&B business (81% of revenue). The B2B business (18% of revenue) includes industrial adhesive/resins, construction chemical (project), pigment, etc. It will benefit from a revival in manufacturing activity in the near future. Further, the company's focus on increasing penetration of water proofing & construction chemical products into semi urban and rural markets will aid Pidilite's long term growth prospect. On the margin front, we believe smoothening of raw material supply and judicious price hike will lead to normalised gross margin from Q1FY23 onwards. 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

	Q3FY22	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	2850.7	2617.1	2299.0	24.0	2626.4	8.5	Strong revenue growth led by staggered price hikes & steady demand conditions
Other Income	5.2	13.1	20.4	-74.6	13.9	-62.8	
Raw Material Exp	1608.3	1405.9	1040.2	54.6	1433.9	12.2	Higher raw material prices (average consumption cost of VAM increased ~100% YoY to US\$2000/t) led decline in gross margins by ~1117 bps YoY
Employee Exp	280.0	275.5	260.3	7.6	273.1	2.5	
Admin & Other exp	413.4	385.2	357.7	15.6	369.7	11.8	Various cost optimisation measures help savings in the other expenditure
Total Expenditure	2301.7	2066.6	1658.2	38.8	2076.8	10.8	
EBITDA	549.0	550.5	640.8	-14.3	549.6	-0.1	
EBITDA Margin (%)	19.3	21.0	27.9	-861 bps	20.9	-167 bps	Lower gross margin was partially offset by savings in other cost, As a result, EBITDA margin fall was limited to 861 bps YoY
Depreciation	60.5	61.0	49.5	22.2	60.3	0.2	
Interest	10.8	8.0	12.1	-10.9	12.4	-13.0	
Exceptional items	0.0	0.0	0.0		0.0	NM	
PBT	483.0	494.6	599.7	-19.5	490.8	-1.6	
Total Tax	127.5	124.6	154.8	-17.6	115.9	10.0	
PAT	359.2	371.5	446.4	-19.5	375.5	-4.3	Bottomline decline was attributable to decline in EBITDA
Key Metrics							
Consumer & Bazaar	2,264.5	2,127.7	1,848.9	22.5	2,130.4	6.3	On standalone basis, C&B segment revenue increased by 21% YoY led by growth in volume & mix which by ~10% YoY
B2B	618.6	513.9	475.1	30.2	532.4	16.2	B2B segment also witnessed strong volume growth of 13% YoY
Others	20.5	10.9	12.2	68.1	14.6	40.3	

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	9,101.7	9,851.0	8.2	10,318.0	10,545	2.2	11,520.9	11,596.1	0.7	We revise our revenue estimate upward for FY22E considering strong Q3FY22 revenue growth
EBITDA	1,792.0	1858.7	3.7	2,177.4	2233.6	2.6	2,607.1	2617.7	0.4	
EBITDA Margin (%)	19.7	18.9	-83bps	21.1	21.2	8bps	22.6	22.6	-3bps	We revise our EBITDA margin estimate downward for FY22E considering steep rise in raw material prices
PAT	1184.0	1213.8	2.5	1478.5	1514.6	2.4	1,787.1	1791.1	0.2	
EPS (₹)	23.3	23.9	2.5	29.1	29.8	2.4	35.2	35.3	0.2	

Source: ICICI Direct Research

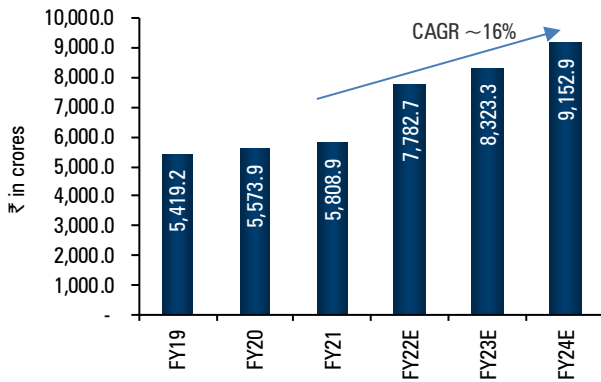
Exhibit 4: Assumptions

	Growth Assumption					Earlier			Comments
	FY20	FY21	FY22 E	FY23E	FY24E	FY22 E	FY23 E	FY24E	
Consumer & Bazaar (%)	2.9	4.2	34.0	6.9	10.0	23.1	14.0	11.6	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. We build in segment revenue CAGR of ~16% in FY21-24E
Business to Business (%)	3.8	-12.3	38.6	5.7	10.0	25.2	13.5	11.6	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

Source: ICICI Direct Research

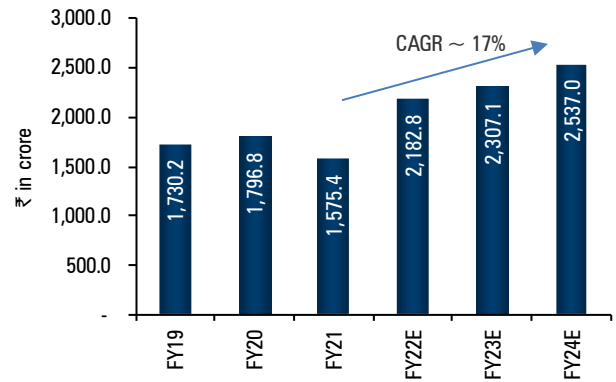
Financial story in charts

Exhibit 5: Growth trend in C&B business



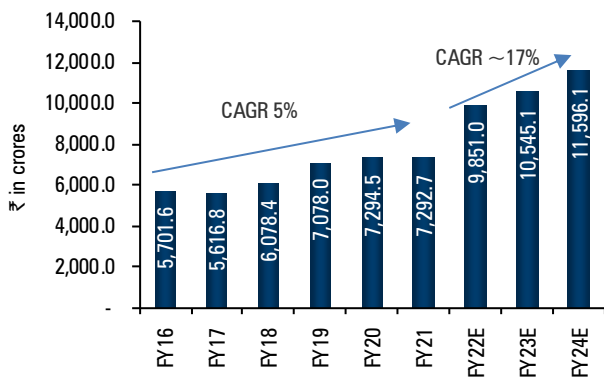
Source: Company, ICICI Direct Research

Exhibit 6: Growth trend in B2B business segment



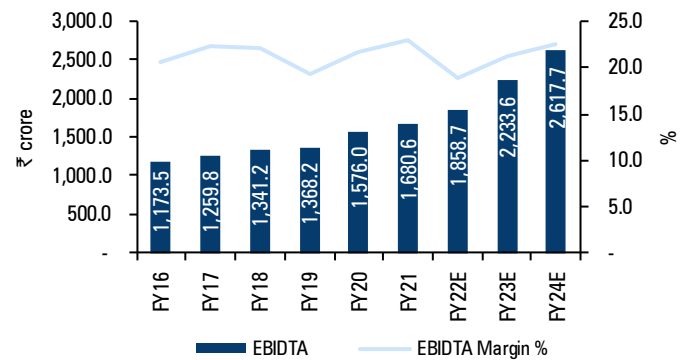
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated sales growth trend



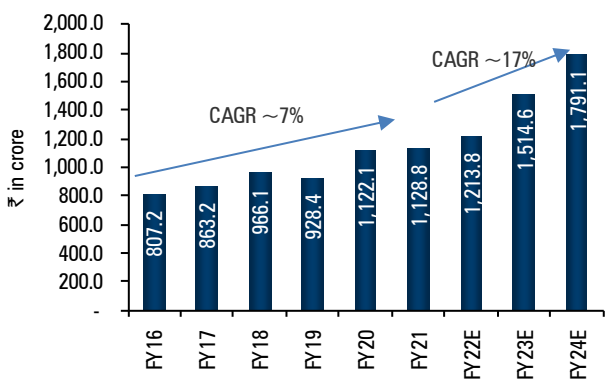
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend



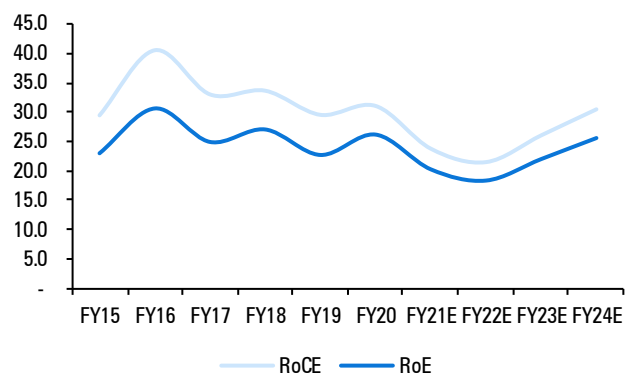
Source: Company, ICICI Direct Research

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	9851.0	10545.1	11596.1
Growth (%)		35.1	7.0	10.0
Raw Material Expenses	3376.7	5380.0	5423.7	5866.6
Employee Expenses	980.9	1112.7	1045.4	1149.6
Other Expenses	1254.6	1499.6	1468.5	1566.1
Total Operating Expenditure	5612.1	7992.3	8311.5	8978.4
EBITDA	1,680.6	1,858.7	2,233.6	2,617.7
Growth (%)		10.6	20.2	17.2
Other Income	79.4	29.6	81.2	89.1
Interest	37.2	40.8	22.7	18.5
PBDT	1722.8	1847.6	2292.1	2688.3
Depreciation	200.7	238.4	284.7	313.1
Total Tax	396.4	407.4	505.9	598.5
Profit from Associates	4.0	11.9	13.1	14.4
PAT	1,126.1	1,213.8	1,514.6	1,791.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1126.1	1213.8	1514.6	1791.1
Depreciation	200.7	238.4	284.7	313.1
CF bef working cap chan	1364	1493	1822	2123
Net Inc in Current Assets	-550.2	-855.8	198.2	-353.8
Net Inc in Current Liab.	768.5	355.0	-180.8	73.8
Net CF from Op activities	1582.3	992.2	1839.4	1842.6
(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	277	-23	-18
Net CF from Fin. Activities	18.7	-334.4	-1295.0	-1566.4
Net Cash flow	-251.8	199.7	-108.6	-247.8
Cash and Cash Equi beg.	703.2	451.5	651.2	542.5
Cash	451.5	651.2	542.5	294.7

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	6462.3	6754.5	7017.7
Total Shareholders funds	5592.9	6513.0	6805.3	7068.5
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	7461.3	7705.6	7950.7
Assets				
Total Gross Block	4805.5	5151.7	5601.7	5951.7
Less acc depreciation	1671.6	1910.0	2194.7	2507.8
Net Block	3133.9	3241.7	3407.0	3443.9
Total Fixed Assets	3427.8	3389.4	3554.7	3591.6
Other Investments	339.5	389.5	439.5	462.5
Goodwill on consolidation	1284.0	1283.95	1283.95	1283.95
Inventory	1234.2	1619.3	1329.0	1461.4
Debtors	1321.0	1673.3	1733.4	1906.2
Loans and Advances	21.7	29.3	31.4	34.5
Other Current Assets	315.4	426.0	456.0	501.5
Cash	451.5	651.2	542.5	294.7
Total Current Assets	3343.7	4399.2	4092.4	4198.4
Total Current Liabilities	2291.2	2646.2	2465.4	2539.1
Net Current Assets	1052.6	1753.1	1627.1	1659.3
Total Assets	6539.2	7461.3	7705.6	7950.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	22.2	23.9	29.8	35.3
Cash EPS	26.1	28.6	35.4	41.4
BV	110.1	128.3	134.0	139.2
DPS	8.5	12.0	24.1	30.1
Operating Ratios				
EBITDA Margin	23.0	18.9	21.2	22.6
PAT Margin	15.5	12.3	14.4	15.4
Return Ratios				
RoE	20.2	18.6	22.3	25.3
RoCE	23.8	22.1	26.3	30.1
RoIC	28.1	26.1	30.9	34.0
Valuation Ratios				
EV / EBITDA	74.1	66.8	55.6	47.5
P/E	111.0	103.0	82.5	69.8
EV / Net Sales	17.1	12.6	11.8	10.7
Market Cap / Sales	17.1	12.7	11.9	10.8
Price to Book Value	22.3	19.2	18.4	17.7
Turnover Ratios				
Asset turnover	1.1	1.3	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		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
				(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	
Asian Paints (ASIPAI)	3,147	3,870	Buy	3,01,797	33.4	32.4	46.5	58.2	94.1	97.3	67.7	54.0	61.2	63.1	45.4	36.4	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6	
Berger Paints (BERPAI)	727	845	Hold	70,606	7.4	7.7	10.1	12.9	98.1	94.8	72.1	56.3	59.2	58.1	45.9	36.5	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6	
Kansai Nerolac (KANNR)	573	630	Hold	30,880	10.2	9.0	13.3	15.6	55.9	63.5	43.2	36.7	36.1	40.5	28.6	24.2	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9	
Pidilite Industries (PIDIND)	2,461	2,640	Hold	1,24,970	22.2	23.9	29.8	35.3	111.0	103.0	82.5	69.8	74.1	66.8	55.6	47.5	23.8	22.1	26.3	30.1	20.2	18.6	22.3	25.3	
Bajaj Electricals (BAJELE)	1,157	1,280	Buy	13,253	16.5	20.7	32.9	38.3	70.1	55.8	35.1	30.2	44.5	37.1	25.3	22.4	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1	
Crompton Greaves(CROGR)	420	525	Buy	26,326	9.8	9.1	11.6	13.1	42.7	46.3	36.2	32.0	35.0	34.4	27.5	24.2	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3	
Havells India (HAVIND)	1,180	1,515	Buy	73,620	16.7	18.5	22.3	28.6	70.8	63.6	52.9	41.3	46.2	42.9	35.9	28.3	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4	
Polycab India (POLI)	2,475	3,000	Buy	36,907	59.4	55.0	69.2	84.9	41.7	45.0	35.8	29.1	32.4	32.3	23.9	19.6	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0	
Symphony (SYMLIM)	1,020	975	Hold	7,136	15.3	18.4	29.0	39.1	66.7	55.6	35.2	26.1	50.0	40.5	26.4	19.4	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1	
V-Guard Ind (VGUARD)	216	310	Buy	9,251	4.7	5.0	6.9	7.8	45.8	43.5	31.4	27.8	28.8	28.8	22.4	19.6	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8	
Voltas Ltd (VOLTAS)	1,188	1,375	Hold	39,291	16.0	19.8	25.2	33.3	74.3	59.9	47.1	35.7	60.6	52.6	41.7	34.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5	
Amber Enterprises (AMBER)	3,139	3,900	Buy	10,576	24.7	44.0	82.2	106.9	127.0	71.3	38.2	29.4	47.8	36.7	21.7	17.0	7.7	10.8	17.0	19.4	5.2	8.9	14.3	15.8	
Dixon Technologies (DIXTE)	4,552	5,990	Buy	26,652	27.3	45.8	84.8	116.4	166.9	99.4	53.7	39.1	93.0	58.3	34.9	26.0	23.5	31.2	40.1	39.1	21.7	31.0	39.5	37.2	
Supreme Indus (SUPIND)	2,056	2,625	Buy	26,117	77.0	72.3	82.3	93.4	26.7	28.5	25.0	22.0	19.7	20.9	18.0	15.7	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0	
Astral Ltd (ASTPOL)	2,112	2,375	Hold	42,426	20.3	23.3	30.6	38.3	103.9	90.7	69.0	55.1	65.2	57.8	44.9	36.5	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3	

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

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