

## Volume growth takes hit; margin pressure sustains...

**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 4800+ distributors, strong balance sheet (RoE, 19%, RoCE, 22%)

**Q2FY23 Results:** Pricing led revenue growth; margin pressure continues.

- Consolidated revenue up ~15% YoY to ₹ 3011 led by better product mix and price hikes. Standalone revenues were up ~15% YoY to ₹ 2715 crore led by price hikes
- Higher raw material costs dragged gross margin down 441 bps YoY. On similar lines, EBITDA margins declined 433 bps YoY to 16.6% due to higher input costs and lower gross margin
- PAT declined 10% YoY to ₹ 337.7 crore due to lower EBITDA margin

**What should investors do?** Pidilite's share price has grown by ~3.3x over the past five years (from ~₹ 814 in August 2017 to ~₹ 2649 levels in November 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value Pidilite at ₹ 2965, 72x 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 (APL) in our coverage universe. APL is India's largest decorative paint company. It derives ~98% revenue from the paints business. Robust b/s with RoCE, RoE of 30%, 25%, respectively

- BUY with a target price of ₹ 3685



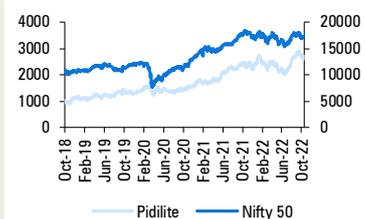
### Particulars

Particular	Amount
Market Cap (₹ Crore)	1,34,516.2
Total Debt (FY22) (₹ Crore)	287.3
Cash & Inv (FY22) (₹ Crore)	355.1
EV (₹ Crore)	1,34,274.9
52 week H/L	2919/ 1989
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	70.0	70.0	69.9	69.9	69.9
FII	11.8	11.7	11.6	11.1	11.3
DII	7.3	7.5	7.3	7.5	7.7
Others	10.9	10.9	11.2	11.5	11.0

### 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	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net sales	7078.0	7294.5	7292.7	9921.0	12.1	12054.6	13429.1	16.3
EBITDA	1368.2	1576.0	1680.6	1847.3	8.0	2181.7	3050.7	28.5
EBITDA Margin(%)	19.3	21.6	23.0	18.6		18.1	22.7	
Net Profit	928.4	1122.1	1126.1	1206.8	6.9	1454.4	2091.0	31.6
EPS (₹)	18.3	22.1	22.2	23.8		28.6	41.2	
P/E(x)	144.9	119.9	119.4	111.5		92.5	64.3	
Price /book (x)	32.4	30.2	24.1	21.0		19.1	16.4	
Mcap /sales (x)	19.0	18.4	18.4	13.6		11.2	10.0	
RoE (%)	22.6	26.1	20.2	18.8		20.6	25.4	
RoCE (%)	29.5	31.0	23.8	22.2		24.6	30.8	

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Price-led topline growth, high raw material costs dent margins...

- Consolidated revenue reported growth of ~15% YoY to ₹ 3011 crore in line with our estimates. Revenue growth was largely led by passing on price hikes
- Standalone sales (~90% of total revenue) increased ~15% YoY to ₹ 2715 crore, largely driven by price hikes. On the segment front, C&B segment revenue increased 14% YoY to ₹ 2196 crore led by price hikes. Volume growth was ~2% on a YoY basis due to subdued rural demand. B2B segment revenues were up 18% YoY to ₹ 552 crore
- Consolidated gross margin fell 441 bps YoY (down 71 bps QoQ) mainly due to higher raw material costs (average consumption cost of VAM increased ~12% YoY to US\$2491/t. EBITDA margin remained flat QoQ at 16.6%. However, on a YoY basis, EBITDA margin declined 433 bps due to lower gross margin and higher input costs
- PAT declined 10.1% to ₹ 337.7 crore as a result of lower EBITDA

### Q2FY23 Earnings Conference Call highlights:

- **Demand outlook:**
  - Demand in Q2FY23 was subdued on account of lower consumption due to inflation. However, the management expects demand to pick up especially in rural and semi-urban regions in the coming quarters on the back of good monsoons and increased construction activity
  - The management expects its core business to grow at 1-1.5x GDP growth, growth business at 2-5x of GDP growth and pioneer categories at ₹ 100 crore in three years
  - According to the management, two-third of its business comes from renovation and repair while one-third of its business comes from new construction
- **Margin outlook:**
  - Margins remained under pressure in Q2FY23 due to use of high-cost inventory
  - The company has taken all price revisions in Q2FY23 and is not planning to take any further pricing action
  - Average consumption cost of VAM continued to increase in Q2. The consumption cost in Q2FY23 was at US\$2491/ton vs. US\$2231/tonne in Q1FY22. However, VAM prices witnessed a sharp fall due to improved supply situation. Current order rate of VAM is in the range of ~US\$1200-1400
  - With softening of raw material prices, the management expects EBITDA margin to be above 20-24% in Q4FY23
- **Network expansion:**
  - Pidilite covers ~24,000 villages with population below 10,000 against ~14,000 previously
  - The company is reaching ~7000 stores across rural India in villages with population below 10,000
  - Pidilite covers 2x the number of outlets that the largest paint company covers on a direct basis
- **Capex and expansion plans:**
  - The company has more than 60 manufacturing locations across India. It has set up 11 new factories while 20 facilities have gone for brownfield expansion
  - Pidilite plans its capex on a three-year basis. The management expects capex to be ~3-5% of sales over the next three years

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints	2,92,975	21713	29101	34685	40371	22	17	17	19	3207	3085	3914	5194	30	27	32	39	25	23	27	32	91	95	75	56
Berger Paints	58,084	6818	8762	10375	11439	17	15	15	16	720	833	962	1195	25	23	28	31	21	21	25	28	81	70	60	49
Kansai Nero	24,144	4771	5949	7318	8163	18	11	12	14	531	374	545	696	17	12	17	20	13	9	13	15	46	64	44	35
Pidilite Ind	1,34,516	7293	9921	12055	13429	23	19	18	23	1126	1207	1454	2091	24	22	25	31	20	19	21	25	119	111	92	64
Sheela Foam	13,702	2435	2982	3275	3724	15	11	12	13	238	217	264	333	24	18	21	23	20	16	17	19	58	63	52	41

Source: Company, ICICI Direct Research

We believe Pidilite’s Q2FY23 performance was impacted by muted rural demand amid inflationary pressure dragging volumes while delay in price hikes and continuous pressure from high raw material costs weighed on EBITDA margin. The Q2FY23 EBITDA margin at 16.6% is much lower than its pre-Covid level EBITDA margin range of 21-22%. We believe the EBITDA margin will bottom out from Q3FY22 onwards supported by a sharp fall in VAM (key raw material) prices by ~44%. The management believes EBITDA margin will achieve its pre-Covid level range from H2FY23 onwards supported by easing of raw material prices and improved product sales mix. On the demand front, we believe easing inflationary pressure and pick up in construction activities will help drive volume growth for the company over FY22-24E. We model consolidated revenue CAGR of 16% over FY22-24E led by volume CAGR of 13%. We revise our earnings estimates upward by ~3% each for FY23E, FY24E respectively factoring in better margins going ahead. We believe at current price stock discounts all its near term positive. Hence, we maintain our HOLD rating on the stock with a revised target price of ₹ 2965, ascribing P/E multiple of 72x FY24E EPS.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	3011.1	3075.5	2626.4	14.6	3101.1	-2.9	Revenue growth led by pricing and better product mix
Other Income	11.0	12.3	13.9	-21.0	10.7	2.8	
Raw Material Exp	1776.9	1722.4	1433.9	23.9	1808.0	-1.7	Inflation in raw material prices led to decline in gross margin by 441 bps YoY
Employee Exp	303.2	326.4	273.1	11.0	315.7	-4.0	
Admin & Other exp	431.1	467.0	369.7	16.6	447.9	-3.8	
Total Expenditure	2511.3	2515.8	2076.8	20.9	2571.6	-2.3	
EBITDA	499.8	559.7	549.6	-9.1	529.5	-5.6	
EBITDA Margin (%)	16.6	18.2	20.9	-433 bps	17.1	-47 bps	Higher input costs and lower gross margin led to decline in EBITDA margin
Depreciation	63.6	63.8	60.3	5.5	61.3	3.8	
Interest	11.7	8.1	12.4	-5.5	9.0	29.3	
Exceptional items	0.0	0.0	0.0		0.0	NM	
PBT	435.5	500.1	490.8	-11.3	469.8	-7.3	
Total Tax	100.9	123.2	115.9	-13.0	115.7	-12.8	
PAT	337.7	377.6	375.5	-10.1	357.5	-5.5	PAT was dragged by lower EBITDA margin
<b>Key Metrics</b>							
Consumer & Bazaar	2,431.5	2,514.1	2,130.4	14.1	2,435.8	-0.2	Segment revenue growth largely driven by price hikes, The volume growth was ~2% on a YoY basis mainly due to tepid rural demand
B2B	623.7	611.8	532.4	17.2	722.0	-13.6	Segment growth largely supported by price hike
Others	22.4	18.8	14.6	53.6	25.8	-13.1	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	11,859.0	12,055	1.6	13,262.0	13,429.1	1.3	We revised our revenue estimate upward for FY23E-24E factoring in Q2FY23 performance. We build in revenue CAGR of 16% over FY22-24E
EBITDA	2,110.1	2181.7	3.4	2,948.2	3050.7	3.5	
EBITDA Margin (%)	17.8	18.1	30bps	22.2	22.7	52bps	We believe EBITDA margin to start improving from FY24E onwards supported by easing raw material prices
PAT	1412.7	1454.4	2.9	2,026.4	2091.0	3.2	
EPS (₹)	27.8	28.6	2.9	39.9	41.2	3.2	

Source: ICICI Direct Research

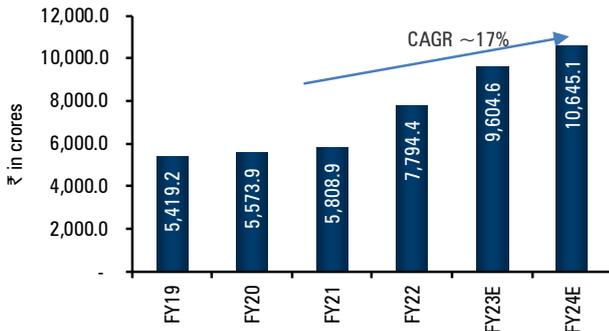
Exhibit 4: Assumptions

	Growth Assumption					Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Consumer & Bazaar (%)	2.9	4.2	34.2	23.2	10.8	19.2	12.4	We believe, demand revival in the art & craft materials, dealer additions in the rural regions and revival of real estate industry will help drive C&B segment revenues going forward. We build in segment revenue CAGR of ~16% in FY22-24E
Business to Business (%)	3.8	-12.3	44.6	18.2	10.1	13.6	12.3	We have revised our revenue estimate upward for B2B segment considering revival in the project business led by increased government capex. We model segment revenue CAGR of 13% in FY22-24E

Source: ICICI Direct Research

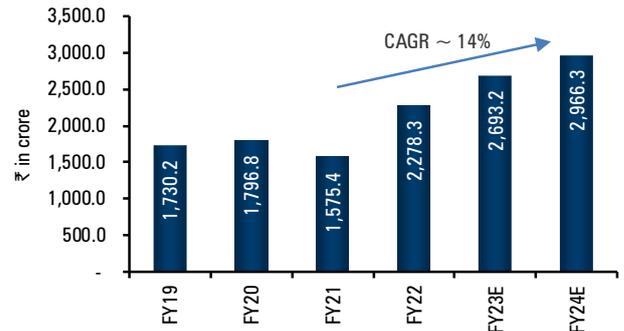
Financial story in charts

Exhibit 5: Growth trend in C&B business



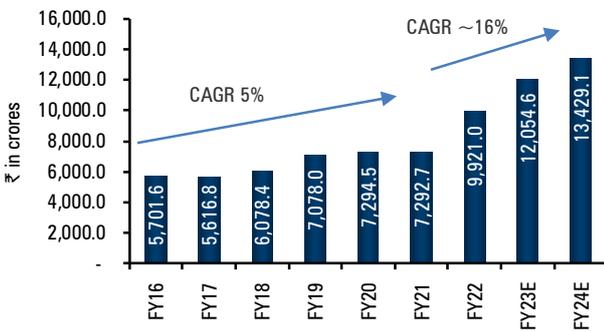
Source: Company, ICICI Direct Research

Exhibit 6: Growth trend in B2B segment



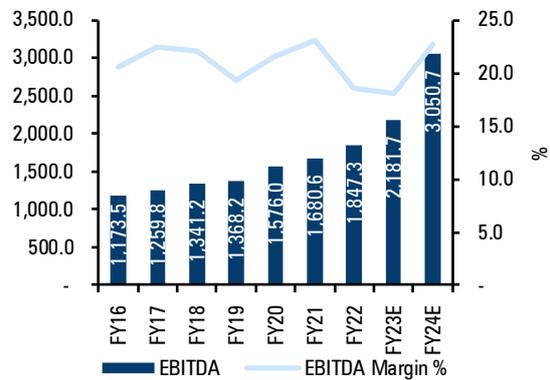
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated sales growth trend



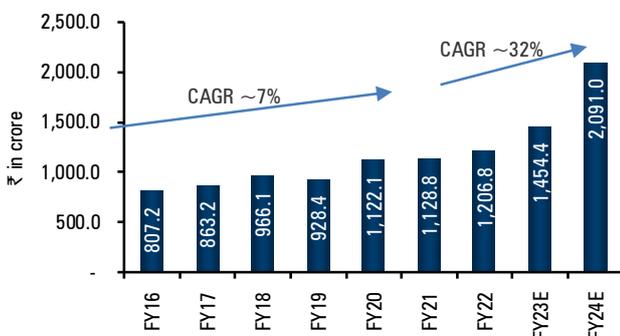
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend



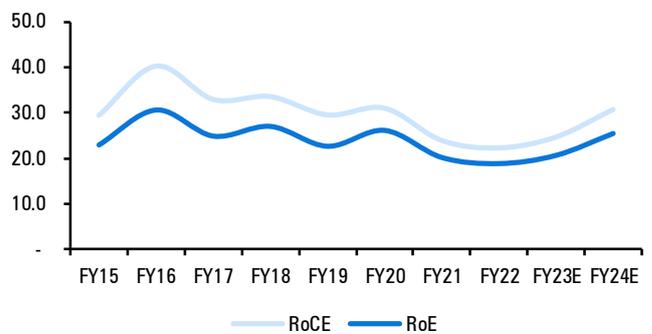
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E	
Total Operating Income	7292.7	9921.0	12054.6	13429.1	
Growth (%)		36.0	21.5	11.4	
Raw Material Expenses	3376.7	5444.2	6856.3	6928.2	
Employee Expenses	980.9	1112.4	1261.9	1404.3	
Other Expenses	1254.6	1517.1	1502.3	1763.4	
Total Operating Expenditure	5612.1	8073.7	9872.8	10378.3	
EBITDA	1,680.6	1,847.3	2,181.7	3,050.7	
Growth (%)		9.9	18.1	39.8	
Other Income	79.4	36.3	45.4	51.8	
Interest	37.2	42.1	43.0	40.5	
PBDT	1722.8	1841.5	2184.2	3062.1	
Depreciation	200.7	239.6	258.0	287.4	
Total Tax	396.4	407.0	485.4	699.2	
Profit from Associates	4.0	11.9	13.5	15.6	
PAT	1,126.1	1,206.8	1,454.4	2,091.0	

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	1126.1	1206.8	1454.4	2091.0	
Depreciation	200.7	239.6	258.0	287.4	
CF bef working cap chan	1364	1488	1755	2419	
Net Inc in Current Assets	-550.2	-599.7	-619.1	-468.8	
Net Inc in Current Liab.	768.5	-179.9	395.3	285.8	
Net CF from Op activities	1582.3	708.8	1531.5	2236.0	
(Purchase)/Sale of FA	-1746.5	-514.3	-400.0	-400.0	
Increase/decrease in other investmen	127.0	115.1	-50.0	-23.0	
Others	-233.3	-41.3	-153.0	-151.0	
Net CF from Inv Activities	-1852.8	-440.5	-603.0	-574.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	44.8	73.4	-50.0	-20.0	
Total Outflow of dividend	-431.6	-611.2	-916.8	-916.8	
Others	406	173	59	-40	
Net CF from Fin. Activities	18.7	-364.6	-907.4	-977.3	
Net Cash flow	-251.8	-96.3	21.1	684.7	
Cash and Cash Equi beg.	703.2	451.5	355.1	376.3	
Cash	451.5	355.1	376.3	1061.0	

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	50.8	50.8	50.8	50.8	
Reserve and Surplus	5542.1	6352.9	6992.8	8167.1	
Total Shareholders funds	5592.9	6403.7	7043.7	8217.9	
Total Debt	213.9	287.3	237.3	217.3	
Deferred Tax Liability	398.0	398.5	398.5	398.5	
Minority Interest	240.0	198.9	200.9	202.9	
Total Liabilities	6539.2	7404.4	7996.3	9152.6	
Assets					
Total Gross Block	4805.5	5388.3	5866.0	6266.0	
Less acc depreciation	1671.6	1911.2	2169.2	2456.6	
Net Block	3133.9	3477.1	3696.8	3809.5	
Total Fixed Assets	3427.8	3702.5	3844.5	3957.2	
Other Investments	339.5	224.4	274.4	297.4	
Goodwill on consolidation	1284.0	1286.83	1286.83	1286.83	
Inventory	1234.2	1695.1	1849.5	2060.3	
Debtors	1321.0	1430.5	1816.4	2023.6	
Loans and Advances	21.7	22.3	27.1	30.1	
Other Current Assets	315.4	344.1	418.1	465.7	
Cash	451.5	355.1	376.3	1061.0	
Total Current Assets	3343.7	3847.1	4487.3	5640.8	
Total Current Liabilities	2291.2	2111.2	2506.5	2792.3	
Net Current Assets	1052.6	1735.9	1980.8	2848.5	
Total Assets	6539.2	7404.4	7996.3	9152.6	

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per Share Data					
EPS	22.2	23.8	28.6	41.2	
Cash EPS	26.1	28.5	33.7	46.8	
BV	110.1	126.1	138.7	161.8	
DPS	8.5	12.0	18.1	18.1	
Operating Ratios					
EBITDA Margin	23.0	18.6	18.1	22.7	
PAT Margin	15.5	12.2	12.1	15.6	
Return Ratios					
RoE	20.2	18.8	20.6	25.4	
RoCE	23.8	22.2	24.6	30.8	
RoIC	28.1	26.7	28.6	38.5	
Valuation Ratios					
EV / EBITDA	79.8	72.7	61.5	43.7	
P/E	119.4	111.5	92.5	64.3	
EV / Net Sales	18.4	13.5	11.1	9.9	
Market Cap / Sales	18.4	13.6	11.2	10.0	
Price to Book Value	24.1	21.0	19.1	16.4	
Turnover Ratios					
Asset turnover	1.1	1.3	1.5	1.5	
Debtor Days	66.1	52.6	55.0	55.0	
Creditor Days	50.4	38.6	37.0	37.0	
Inventory Days	61.8	62.4	56.0	56.0	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.7	3.0	3.0	3.0	
Quick Ratio	1.5	1.5	1.7	1.7	

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct universe (Consumer Discretionary)

Sector / Company	Rating	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	2,92,975	33.4	32.2	40.8	54.2	91.4	95.0	74.8	56.4	59.4	60.4	49.8	38.3	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	58,084	7.4	8.6	9.9	12.3	80.7	69.7	60.4	48.6	48.7	43.8	38.4	31.7	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	24,144	9.8	6.9	10.1	12.9	45.5	64.5	44.3	34.7	28.6	37.2	26.9	21.4	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,34,516	22.2	23.8	28.6	41.2	119.4	111.5	92.5	64.3	79.8	72.7	61.5	43.7	23.8	22.2	24.6	30.8	20.2	18.8	20.6	25.4
Sheela Foam (SHEFOA)	BUY	13,702	48.7	44.5	54.1	68.2	57.6	63.1	51.9	41.2	37.9	44.2	35.9	28.5	24.3	18.0	20.5	23.5	20.1	15.6	17.1	19.2
Bajaj Electricals (BAJELE)	Hold	13,346	16.5	10.8	23.2	36.4	70.4	107.3	50.0	31.9	44.8	53.0	32.9	23.4	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,314	9.8	9.2	8.9	11.1	36.2	38.6	39.9	32.0	29.5	29.1	25.7	21.4	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	77,411	16.7	19.1	17.6	27.1	74.2	64.8	70.0	45.7	48.7	42.8	46.7	31.8	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	40,439	59.3	61.4	76.3	86.8	45.6	44.1	35.4	31.2	35.6	31.1	22.7	20.1	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,897	15.3	17.3	26.1	34.8	55.1	48.7	32.3	24.2	41.1	35.5	24.8	18.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	15,590	4.7	5.3	5.3	7.1	77.2	68.2	68.5	51.3	49.1	45.9	44.2	33.4	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,451	16.0	15.3	16.1	23.0	51.9	54.2	51.4	36.0	42.1	39.3	38.6	27.5	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,880	24.7	33.0	45.7	73.7	82.6	61.8	44.7	27.7	31.0	26.3	20.6	15.3	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,945	27.3	32.1	57.9	85.4	166.5	141.6	78.4	53.2	94.0	71.4	44.1	32.2	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	30,969	77.0	76.2	63.1	80.4	31.7	32.0	38.6	30.3	23.5	24.5	26.7	20.7	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	41,402	20.3	24.4	25.8	35.9	101.4	84.4	80.0	57.4	63.6	54.1	47.7	36.3	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1
Time Techno (TIMTEC)	BUY	2,397	4.8	8.5	10.1	13.1	22.2	12.5	10.5	8.1	7.7	6.2	5.3	4.5	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	2,963	17.2	20.4	26.7	34.4	51.9	43.8	33.4	25.9	32.3	24.9	19.9	15.7	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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