

Higher input price delays EBITDA margin recovery...

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%)

Q1FY22 Results: Strong revenue recovery led by both C&B and B2B segments.

- Revenues were up 121% YoY to ~₹ 1937 crore (down 13% QoQ)
- EBITDA margin came in at 18%, lower than our estimate of 19% due to higher-than-expected fall in gross margin
- PAT jumped 14x YoY to ₹ 218 crore

What should investors do? Pidilite's share price has grown by ~3x over the past five years (from ~₹ 700 in July 2016 to ~₹ 2220 levels in August 2021).

- We maintain our HOLD rating on the stock

Target Price and Valuation: We introduce FY24E and roll over our valuation on FY24 earnings. We valued Pidilite at ₹ 2390, 65x P/E of FY24E EPS

Key triggers for future price performance:

- The management is aiming at the 'core segment' (adhesive, sealants) and 'growth' segment to grow at 1-2x, 2-4x of GDP, respectively, in the long term
- Revival in the real estate business will be 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 ₹ 3665

Key Financial Summary

₹ Crore	FY19	FY20	FY21	(FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24E)
Net sales	7078.0	7294.5	7292.7	5%	9266.6	10535.1	11762.2	17.3
EBITDA	1368.2	1576.0	1680.6	7%	1916.5	2273.8	2698.0	17.1
EBITDA Margin(%)	19.3	21.6	23.0		20.7	21.6	22.9	
Net Profit	928.4	1122.1	1126.1	7%	1286.4	1560.5	1866.4	18.3
EPS (₹)	18.3	22.1	22.2		25.3	30.7	36.8	
P/E(x)	120.7	99.9	99.5		87.1	71.8	60.0	
Price /book (x)	27.0	25.2	20.0		17.0	16.2	15.4	
Mcap /sales (x)	15.8	15.4	15.4		12.1	10.6	9.5	
RoE (%)	22.6	26.1	20.2		19.5	22.5	25.7	
RoCE (%)	29.5	31.0	23.8		23.0	26.9	30.8	



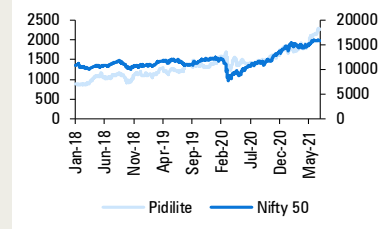
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,12,071.5
Total Debt (FY21) (₹ Crore)	213.9
Cash & Inv (FY21) (₹ Crore)	451.5
EV (₹ Crore)	1,11,657.4
52 week H/L	2335/ 1358
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0
MF Holding (%)	14.0
FII Holding (%)	5.8

Shareholding pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	69.9	70.2	70.2	70.2	70.2
FII	11.5	11.2	10.9	11.4	11.9
DII	7.9	8.1	8.7	8.3	7.6
Others	10.7	10.5	10.2	10.1	10.3

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

Q1FY22 Results:

- Consolidated sales growth of 121% includes PAPL's revenues. Excluding PAPL sales growth was at 113% YoY. Standalone sales growth of 111% was supported by volume & mix growth of 105%. C&B revenue growth at 104% was supported by volume & mix growth of 103%. B2B revenue growth of 137% YoY was led by volume & mix growth of 113%
- Judicious price hikes of 4-6% across the product portfolio covered ~70% raw material inflation. Hence, higher raw material prices kept gross margin under check. The management expects raw material prices to peak out in the coming period and gross margin to return to their normal levels
- Net profit jumped to ~14x to ₹ 218 crore

Q1FY22 Earnings Conference Call highlights:

- Demand outlook:**
 - Sales in southern markets remain impacted due to lockdown in Q1. However, there was an uptick in demand from June 2021 across the regions post ease in lockdown restrictions
 - Tier II, Tier III cities are doing well with sales growth in semi urban near pre Covid levels. Focus will be on driving volumes and increasing profitability
 - Revival in real estate will be a big positive for the company
 - The company's market share remains at 65-70% in the epoxy adhesive category followed by 20-25% of Astral
- Margin outlook:**
 - The price hike of ~4-6% covered ~70% of raw material inflation. Spot price of VAM is hovering at US\$1400-1500/tonne from average consumption cost of US\$1610 in Q1FY22 (vs. US\$1200 in Q4FY21, US\$890 in Q1FY21). The management expects VAM prices to peak out from H2FY22 and come down to their normal level of US\$800-900 /tonne
 - The management reiterated margin guidance of 22-24%. Pidilite will command a brand premium of 15-20% over other brands
- Capex outlook:**
 - The management has indicated 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

	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E	FY21E	FY22E	FY23E	FY24E
Asian Paints	2,84,823	21713	27378	32255	37647	22.4	20.5	21.8	21.8	3206.8	3786.4	4836.6	5672.2	29.6	32.6	36.8	38.2	25.0	27.6	27.6	30.7	88.8	75.2	58.9	50.2
Berger Paints	77,987	6817.6	8351.4	9727.8	11320.9	17.4	17.1	17.9	18.8	719.7	917.9	1154.9	1431.9	24.9	29.0	33.9	36.0	21.3	24.7	24.7	27.6	108.4	85.0	67.5	54.5
Kansai Nero	33,036	4690.0	6395.2	7456.0	8548.3	17.8	16.4	17.4	17.6	531.0	698.0	867.1	1009.9	17.2	21.5	23.4	24.2	13.2	16.6	16.6	18.0	62.2	47.3	38.1	32.7
Pidilite Ind	1,12,681	7292.7	9266.6	10535.1	11762.2	23.0	20.7	21.6	22.9	1128.8	1286.4	1560.5	1866.4	23.8	23.0	26.9	30.8	20.2	19.5	22.5	25.7	99.8	87.6	72.2	60.4

Source: ICICI Direct Research

We introduce our FY24E estimates and build in revenue, earning CAGR of 17%, 18%, respectively, in FY21-24E. We slightly tweak our FY22 margin estimate factoring in Q1FY22 performance and delay in margin recovery in the core business. Going forward, we build in EBITDA margin estimate of 23% (at level of FY21) with improved product mix and softening of input prices. We believe Pidilite is well placed to benefit from a revival in the domestic real estate industry, which will drive demand of its C&B business. Alongside, robust supply chain network and a strong balance sheet position (RoE, RoCE of 20%, 24%, respectively) justify 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

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	1936.8	1726.0	877.8	120.6	2235.5	-13.4	Favourable base and consolidation of new business help drive revenue growth (excluding PAPL: sales growth was at 113% YoY)
Other Income	6.1	17.3	20.0	-69.4	17.3	-64.7	
Raw Material Exp	985.7	862.1	408.5	141.3	1099.6	-10.4	Higher raw material prices (average consumption cost of VAM increased 81% YoY to US\$1610/t) led decline in gross margins by ~436 bps YoY
Employee Exp	280.6	233.9	215.7	30.1	262.7	6.8	
Admin & Other exp	254.8	245.0	138.6	83.8	232.4	9.6	Various cost optimisation measures help in savings in the other expenditure
Total Expenditure	1589.2	1393.9	811.5	95.8	1774.7	-10.5	
EBITDA	347.6	332.0	66.4	423.7	460.8	-24.6	
EBITDA Margin (%)	17.9	19.2	7.6	1039 bps	20.6	-267 bps	Savings in employee cost and other costs helped drive EBITDA margin on a YoY basis
Depreciation	56.6	61.6	46.1	22.8	57.2	-1.0	
Interest	9.6	8.0	9.1	6.1	7.4	29.3	
Exceptional items	0.0	0.0	0.0		3.6	NM	
PBT	287.5	279.7	31.2	821.3	409.9	-29.9	
Total Tax	72.1	70.5	15.9	354.9	103.8	-30.5	
PAT	217.6	209.7	15.8	1275.7	307.4	-29.2	Bottomline mainly tracking sale growth and EBITDA margin expansion
Key Metrics							
Consumer & Bazaar	1,486.2	1,286.4	702.0	111.7	1,848.9	-19.6	On standalone basis, C&B segment revenue increased 104% YoY led by volume & mix, which increased ~103% YoY on a lower base and strong demand in urban regions
B2B	482.0	442.7	188.2	156.1	475.1	1.5	B2B segment also witnessed recovery with volume growth of 103% YoY
Others	12.2	12.2	1.8	572.4	12.2	0.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ crore)	FY22E			FY23E			FY24E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	8,992.4	9,266.6	3.0	10,392.0	10,535	1.4	11,762.2	We revise our revenue estimates upward for FY22E factoring in Q1FY22 performance. We also introduce FY24E estimates with revenue growth of 11.7% YoY
EBITDA	1,977.4	1916.5	(3.1)	2,340.7	2273.8	(2.9)	2698.0	
EBITDA Margin (%)	22.0	20.7	-132bps	22.5	21.6	-92bps	22.9	We marginally reduce our EBITDA margin estimate for FY22E considering the steep rise in raw material prices
PAT	1336.1	1286.4	(3.7)	1614.9	1560.5	(3.4)	1866.4	
EPS (₹)	26.3	25.3	(3.7)	31.8	30.7	(3.4)	36.8	

Source: ICICI Direct Research

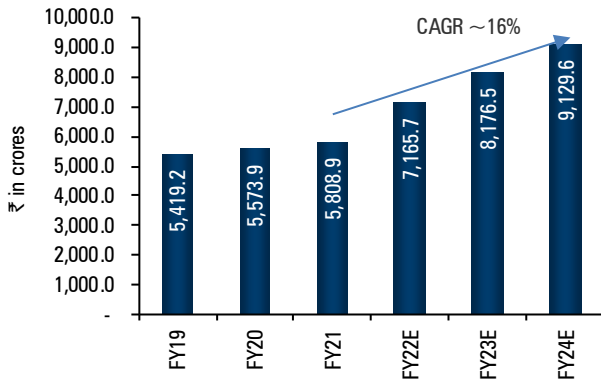
Exhibit 4: Assumptions

	Growth Assumption				FY24E	Earlier		Comments
	FY20	FY21E	FY22E	FY23E	New	FY22E	FY23E	
Consumer & Bazaar (%)	2.9	4.2	23.4	14.1	11.7	29.3	13.8	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
Business to Business (%)	3.8	-12.3	35.8	13.3	11.5	33.2	13.0	Revenue growth would largely be driven by recovery in the manufacturing and industrial sector
Others Growth (%)	-14.9	-49.6	161.4	-13.1	12.0	-15.8	27.3	

Source: ICICI Direct Research

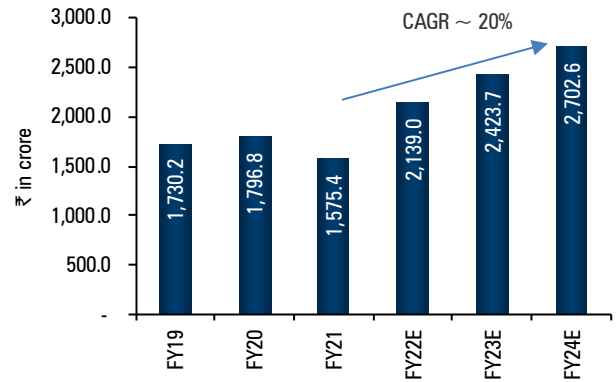
Financial story in charts

Exhibit 5: Growth trend in C&B business



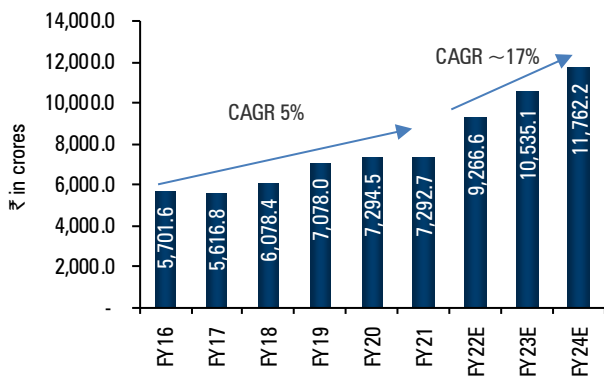
Source: Company, ICICI Direct Research

Exhibit 6: Growth trend in B2B business segment



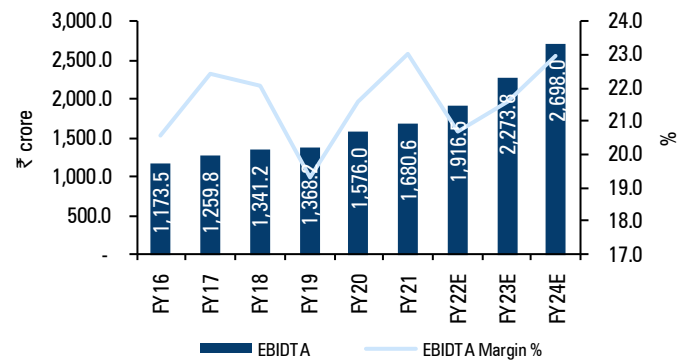
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated sales growth trend



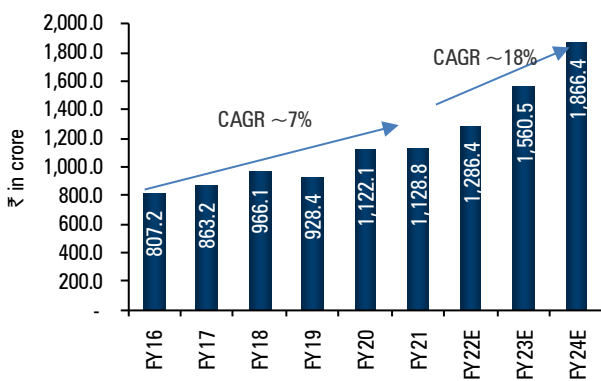
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend



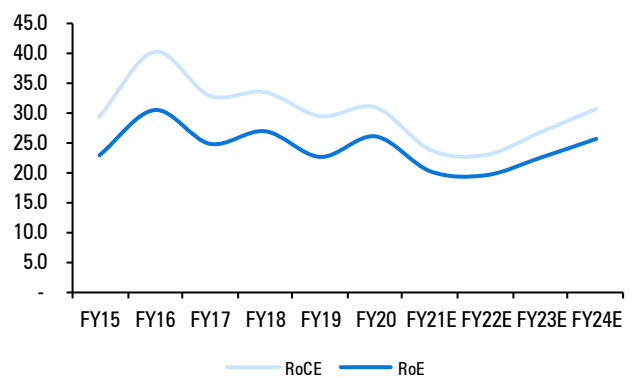
Source: Company, ICICI Direct Research

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	9266.6	10535.1	11762.2
Growth (%)		27.1	13.7	11.6
Raw Material Expenses	3376.7	4597.3	5066.0	5556.2
Employee Expenses	980.9	1023.4	1124.7	1228.6
Other Expenses	1254.6	1729.4	1693.8	1859.8
Total Operating Expenditure	5612.1	7350.1	8261.3	9064.2
EBITDA	1,680.6	1,916.5	2,273.8	2,698.0
Growth (%)		14.0	18.6	18.7
Other Income	79.4	66.3	113.1	126.2
Interest	37.2	32.1	22.7	18.5
PBDT	1722.8	1950.7	2364.2	2805.7
Depreciation	200.7	250.2	284.4	317.6
Total Tax	396.4	418.5	524.1	627.0
Profit from Associates	4.0	4.4	4.8	5.3
PAT	1,126.1	1,286.4	1,560.5	1,866.4
Growth (%)		14.2	21.3	19.6

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	6534.8	6873.0	7211.5
Total Shareholders funds	5592.9	6585.6	6923.8	7262.3
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	7533.9	7824.0	8144.5
Assets				
Total Gross Block	4805.5	5151.7	5601.7	5951.7
Less acc depreciation	1671.6	1921.8	2206.3	2523.8
Net Block	3133.9	3229.9	3395.4	3427.9
Total Fixed Assets	3427.8	3377.6	3543.2	3575.6
Other Investments	339.5	389.5	439.5	462.5
Goodwill on consolidation	1284.0	1283.95	1283.95	1283.95
Inventory	1234.2	1523.3	1327.7	1482.4
Debtors	1321.0	1574.0	1731.8	1933.5
Loans and Advances	21.7	27.6	31.4	35.0
Other Current Assets	315.4	400.8	455.6	508.7
Cash	451.5	800.9	673.5	485.0
Total Current Assets	3343.7	4326.6	4220.0	4444.6
Total Current Liabilities	2291.2	2489.2	2463.0	2575.5
Net Current Assets	1052.6	1837.4	1757.0	1869.1
Total Assets	6539.2	7533.9	7824.0	8144.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	1126.1	1286.4	1560.5	1866.4
Depreciation	200.7	250.2	284.4	317.6
CF bef working cap chan	1364	1569	1868	2202
Net Inc in Current Assets	-550.2	-633.4	-20.8	-413.1
Net Inc in Current Liab.	768.5	198.0	-26.2	112.5
Net CF from Op activities	1582.3	1133.2	1820.6	1901.9
(Purchase)/Sale of FA	-1746.5	-200.0	-450.0	-350.0
Increase/decrease in other investmen	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	285	-23	-18
Net CF from Fin. Activities	18.7	-325.8	-1295.0	-1566.4
Net Cash flow	-251.8	349.5	-127.4	-188.5
Cash and Cash Equi beg.	703.2	451.5	800.9	673.5
Cash	451.5	800.9	673.5	485.0

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	22.2	25.3	30.7	36.8
Cash EPS	26.1	30.3	36.3	43.0
BV	110.1	129.7	136.3	143.0
DPS	8.5	12.0	24.1	30.1
Operating Ratios				
EBITDA Margin	23.0	20.7	21.6	22.9
PAT Margin	15.5	13.9	14.8	15.9
Return Ratios				
RoE	20.2	19.5	22.5	25.7
RoCE	23.8	23.0	26.9	30.8
RoC	28.1	27.6	31.6	35.0
Valuation Ratios				
EV / EBITDA	66.4	58.0	48.9	41.3
P/E	99.5	87.1	71.8	60.0
EV / Net Sales	15.3	12.0	10.6	9.5
Market Cap / Sales	15.4	12.1	10.6	9.5
Price to Book Value	20.0	17.0	16.2	15.4
Turnover Ratios				
Asset turnover	1.1	1.2	1.3	1.4
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			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)	2,976	3,665	Buy	2,85,398	33.4	39.5	50.4	89.0	75.3	59.0	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8
Astral Polytechnik (ASTPOL)	1,992	2,160	Hold	30,012	20.3	21.9	29.0	101.9	94.5	71.4	63.9	60.0	46.1	27.5	26.9	31.1	21.5	20.8	23.7
Amber Enterprises (AMBEN)	2,929	3,365	Buy	9,211	24.7	43.3	87.7	116.9	66.8	32.9	41.0	30.3	17.5	7.7	11.1	18.3	5.2	8.8	15.2
Bajaj Electricals (BAJELE)	1,055	1,250	Buy	11,994	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	817	860	Hold	79,347	7.4	9.5	11.9	110.2	86.4	68.7	65.4	54.4	44.4	24.9	29.0	33.9	21.3	24.7	27.6
Crompton Greaves(CROGR)	461	540	Buy	28,905	9.8	9.2	11.9	46.9	50.4	38.8	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	4,183	5,050	Buy	24,491	27.3	52.3	97.4	153.4	80.0	42.9	89.8	54.6	31.1	23.5	34.6	47.4	21.7	33.9	41.7
EPL (ESSPRO)	238	275	Hold	7,509	7.7	9.2	11.4	30.7	25.8	20.9	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7
Havells India (HAVIND)	1,234	1,345	Buy	76,989	16.7	18.8	24.3	74.1	61.3	50.8	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7
Kansai Nerolac (KANNER)	621	750	Buy	33,467	9.9	13.0	16.1	63.9	48.6	39.2	40.8	32.5	26.2	17.2	21.5	23.4	13.2	16.6	18.0
Moldtek Packaging (MOLPLA)	500	675	Buy	1,386	17.3	22.5	30.6	29.5	22.8	16.7	16.1	12.6	9.7	21.4	24.8	29.1	20.7	21.9	24.1
Pidilite Industries (PIDIND)	2,207	2,390	Hold	1,12,071	22.2	25.3	30.7	99.5	87.1	71.8	66.4	58.0	48.9	23.8	23.0	26.9	20.2	19.5	22.5
Polycab India (POLI)	1,816	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5
Supreme Indus (SUPIND)	2,081	2,450	Buy	26,434	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5
Symphony (SYMLIM)	912	1,050	Hold	6,380	15.3	20.8	33.0	64.9	47.8	30.9	48.7	37.6	24.3	15.2	22.1	31.8	14.9	21.1	30.1
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3
V-Guard Ind (VGUARD)	240	310	Buy	10,279	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5
Voltas Ltd (VOLTAS)	998	1,170	Buy	33,007	16.0	22.0	28.8	63.2	45.9	35.1	51.4	40.9	30.4	15.0	20.2	22.8	10.6	14.9	17.0

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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