

Strong volume growth on favourable base...

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%)

Q1FY23 Results: Robust volume growth drives topline; margin pressure continues.

- Consolidated revenue up 60% YoY to ₹ 3101 crore on a favourable base and robust demand across product segments. Standalone revenues were up 62% YoY to ₹ 2790 crore led by volume growth of 44%
- Higher raw material costs dragged gross margin down 741 bps YoY. However, improved operating leverage helped restrict EBITDA margin fall at 87 bps YoY to 17%
- PAT up 64% YoY to ₹ 356 crore; tracking topline growth in Q1

What should investors do? Pidilite's share price has grown by ~3.2x over the past five years (from ~₹ 821 in August 2017 to ~₹ 2510 levels in August 2022).

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

Target Price and Valuation: We value Pidilite at ₹ 2510, 71x 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 ₹ 3700



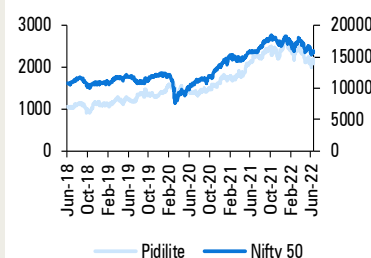
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,34,110.0
Total Debt (FY22) (₹ Crore)	287.3
Cash & Inv (FY22) (₹ Crore)	355.1
EV (₹ Crore)	1,33,868.7
52 week H/L	2765/ 1989
Equity capital (₹ Crore)	50.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	70.2	70.0	70.0	69.9	69.9
FII	12.1	11.8	11.7	11.6	11.1
DII	7.2	7.3	7.5	7.3	7.5
Others	10.5	10.9	10.9	11.2	11.5

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	11750.2	13139.2	15.1
EBITDA	1368.2	1576.0	1680.6	1847.3	8.0	2036.6	2649.5	19.8
EBITDA Margin(%)	19.3	21.6	23.0	18.6		17.3	20.2	
Net Profit	928.4	1122.1	1126.1	1206.8	6.9	1359.2	1804.6	22.3
EPS (₹)	18.3	22.1	22.2	23.8		26.8	35.5	
P/E(x)	144.5	119.5	119.1	111.1		98.7	74.3	
Price /book (x)	32.3	30.1	24.0	20.9		19.3	17.1	
Mcap /sales (x)	18.9	18.4	18.4	13.5		11.4	10.2	
RoE (%)	22.6	26.1	20.2	18.8		19.6	23.0	
RoCE (%)	29.5	31.0	23.8	22.2		23.2	27.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong topline growth on favourable base; Gross margin pressure continues...

- Pidilite's consolidated revenue growth at 60% YoY to ₹ 3101 crore; came in much better than our estimate of ₹ 2614 crore. A favourable base, strong demand from both retail and project segments drove volume growth for the company
- Standalone sales (~90% of total revenue) increased ~62% YoY to ₹ 2790 crore led by volume growth of 44%. On the segment front, C&B segment revenue increased 66% YoY to ₹ 2198 crore led by volume growth of 49%. B2B segment revenues were up by 51% YoY to ₹ 633 crore led by volume growth of ~29%
- Consolidated gross margins fell 741 bps YoY (down 181 bps QoQ) mainly due to higher raw material costs (average consumption cost of VAM increased 39% YoY to US\$2230/t. However, savings in other costs restricted the overall fall in EBITDA margin at 87 bps YoY at 17%. The management believes positive impact of easing raw material prices will start flowing from H2FY23 onwards
- PAT was up 64% YoY to ~₹ 358 crore, tracking higher sales growth in Q1

Q1FY23 Earnings Conference Call highlights:

- **Demand outlook:**
 - The management expects demand pick up from H2FY23 led by good monsoon, continued demand traction from housing and home improvement sector
 - The management expects its core business to grow at 1-2x GDP, growth business at 2-5x of GDP and higher revenue is expected in the pioneer business in the next two years
- **Margin outlook:**
 - The margins remained impacted adversely by unprecedented inflation in key raw materials as well as increased improved cost
 - Prices of key raw material, VAM remained at elevated level in Q1 due to supply issues. Average consumption cost of VAM in Q1FY23 was at US\$2230/t vs. US\$1608/t in Q1FY22. However, the spot price of VAM is hovering around US\$1600-1800/t due to easing of supply concerns and lower crude prices
 - The company has taken a price hike of 14-18% over the last one year largely to offset higher input costs
 - The management gave margin guidance of 21-22%
- **Others:**
 - The rural region contributes ~33% to company's overall sales. The company plans to increase its rural penetration, going forward
 - The company has increased its reached to ~17000 villages (with population in the range of 5000-8000) in the last six months

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	3,26,540	21713	29101	35169	38675	22	17	19	21	3207	3085	4521	5431	30	27	36	39	25	23	30	32	102	106	72	60
Berger Paints	65,757	6818	8762	10375	11439	17	15	15	16	720	833	962	1195	25	23	28	31	21	21	25	28	91	79	68	55
Kansai Nero	26,946	4771	5949	7448	8393	18	11	13	14	531	374	624	722	17	12	19	21	13	9	15	16	51	72	43	37
Pidilite Ind	1,34,110	7293	9921	11750	13139	23	19	17	20	1126	1207	1359	1805	24	22	23	28	20	19	20	23	119	111	99	74

Source: Company, ICICI Direct Research

Pidilite reported strong revenue growth in Q1FY23 supported by favourable base and robust demand of adhesives, construction chemicals & art & craft materials. However, if we compare historical performance, of Pidilite and Asian Paints (considering companies are serving to same sector and has the market leadership position in the respective product categories), Asian Paints has outperformed with higher revenue growth. On a three-year basis, Asian Paints has reported revenue CAGR of 20% vs. 15% of Pidilite. On the margin front, company’s gross margin has continuously remained under pressure. We believe rising competitive intensity and focus on gaining market share has restricted Pidilite to take the required price hike despite a steep rise in raw material prices. Pidilite’s consolidated EBITDA margin of 17% is much lower than management guided EBITDA margin range of 21-22%. Going forward, the management has reiterated Pidilite’s long term revenue growth guidance of ~2x of real GDP growth and improvement in EBITDA margin supported by easing raw material costs. We revise our revenue estimates upward by 8.1%, 8.4% for FY23E, FY24E respectively. We maintain our HOLD rating on the stock with a revised target price of ₹ 2510, ascribing P/E multiple of 71x FY24E EPS.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	3101.1	2613.7	1936.8	60.1	2507.1	23.7	Favourable base and strong demand from urban regions helped drive domestic volume growth of 44% YoY
Other Income	10.7	8.3	6.1	74.5	11.1	-3.9	
Raw Material Exp	1808.0	1429.8	985.7	83.4	1416.3	27.7	Higher raw material prices (Avg consumption cost of VAM increased by ~39% YoY to US\$2230/t) led decline in gross margins by ~741 bps YoY
Employee Exp	315.7	275.5	280.6	12.5	278.6	13.3	
Admin & Other exp	447.9	440.1	322.9	38.7	411.1	8.9	Various cost optimisation measures help savings in the other exp
Total Expenditure	2571.6	2145.3	1589.2	61.8	2106.0	22.1	
EBITDA	529.5	468.4	347.6	52.3	401.1	32.0	
EBITDA Margin (%)	17.1	17.9	17.9	-87 bps	16.0	108 bps	Lower gross margin was partially offset by savings in other costs, restricting EBITDA margin fall at 87 bps YoY
Depreciation	61.3	68.0	56.6	8.3	62.2	-1.4	
Interest	9.0	8.4	9.6	-6.1	9.4	-3.4	
Exceptional items	0.0	0.0	0.0		0.0	NM	
PBT	469.8	400.3	287.5	63.4	340.7	37.9	
Total Tax	115.7	100.9	72.1	60.5	91.5	26.4	
PAT	357.5	301.7	217.6	64.3	254.4	40.6	Strong bottomline growth is largely tracking revenue growth in Q1

Key Metrics							
Consumer & Bazaar	2,435.8	2,010.9	1,486.2	63.9	1,913.2	27.3	On standalone basis, C&B segment revenue increased by 66% YoY to ₹ 2198 crore; led by 49% volume growth
B2B	722.0	605.9	482.0	49.8	645.3	11.9	On standalone basis, B2B segment revenue increased by 51% YoY to ₹ 633 crore; led by 29% volume growth
Others	25.8	32.3	9.9	160.7	18.8	37.3	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	10,874.0	11,750	8.1	12,126.1	13,139.2	8.4	We revised our revenue estimate upward for FY23E-24E factoring in Q1FY23 performance. We build in revenue CAGR of 15% over FY22-24E
EBITDA	1,975.1	2036.6	3.1	2,426.4	2649.5	9.2	
EBITDA Margin (%)	18.2	17.3	-87bps	20.0	20.2	16bps	We believe EBITDA margin to start improving from FY24E onwards supported by easing raw material prices
PAT	1318.5	1359.2	3.1	1,634.4	1804.6	10.4	
EPS (₹)	26.0	26.8	3.1	32.2	35.5	10.4	

Source: ICICI Direct Research

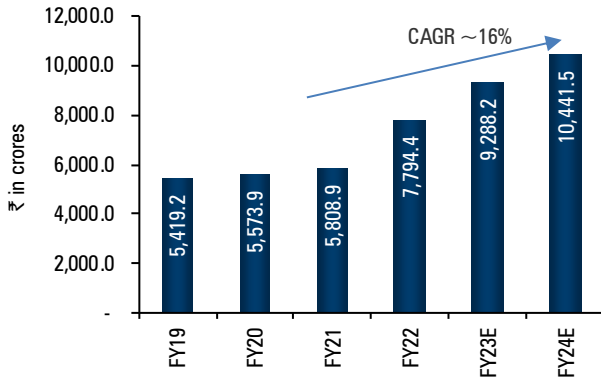
Exhibit 4: Assumptions

	Growth Assumption					Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY23E	FY24E	
Consumer & Bazaar (%)	2.9	4.2	34.2	19.2	12.4	10.0	11.5	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	13.6	12.3	5.2	11.4	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

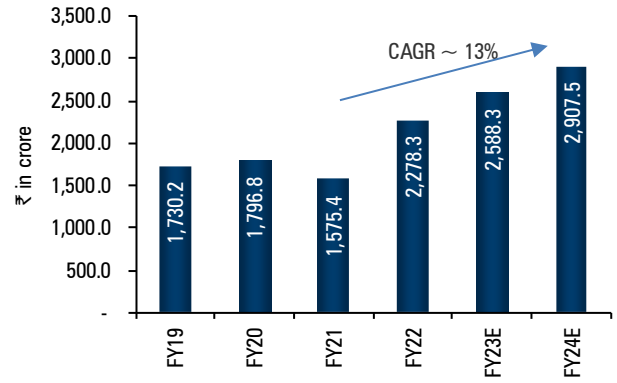
Financial story in charts

Exhibit 5: Growth trend in C&B business



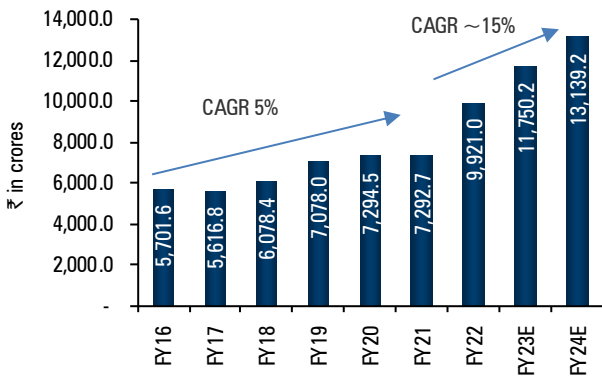
Source: Company, ICICI Direct Research

Exhibit 6: Growth trend in B2B segment



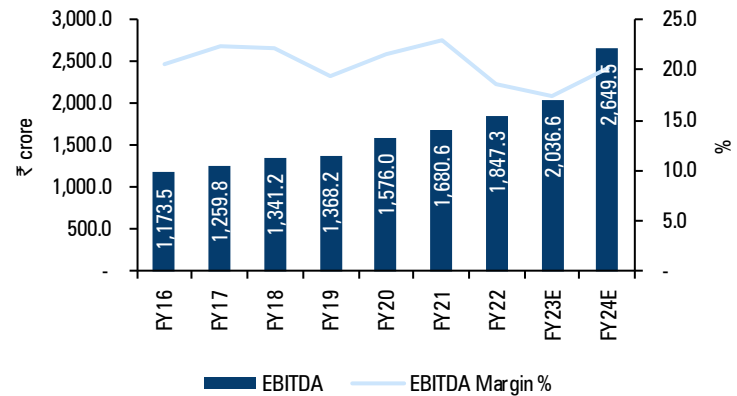
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated sales growth trend



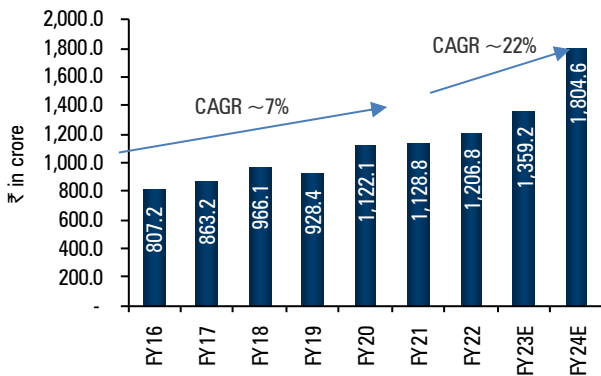
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend



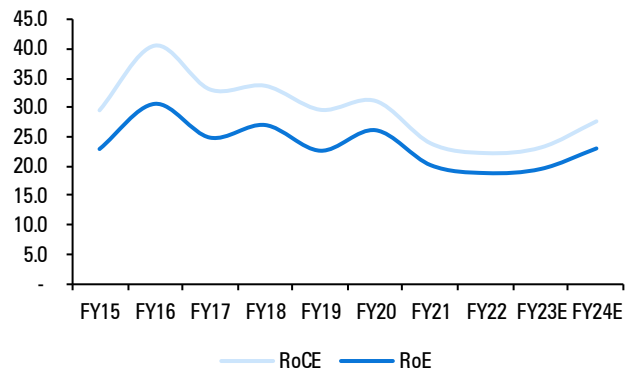
Source: Company, ICICI Direct Research

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	11750.2	13139.2
Growth (%)		36.0	18.4	11.8
Raw Material Expenses	3376.7	5444.2	6719.1	6927.7
Employee Expenses	980.9	1112.4	1292.4	1560.1
Other Expenses	1254.6	1517.1	1470.2	1740.3
Total Operating Expenditure	5612.1	8073.7	9713.6	10489.7
EBITDA	1,680.6	1,847.3	2,036.6	2,649.5
Growth (%)		9.9	10.2	30.1
Other Income	79.4	36.3	45.3	50.7
Interest	37.2	42.1	31.5	27.3
PBDT	1722.8	1841.5	2050.4	2672.9
Depreciation	200.7	239.6	251.5	281.2
Total Tax	396.4	407.0	453.3	602.7
Profit from Associates	4.0	11.9	13.5	15.6
PAT	1,126.1	1,206.8	1,359.2	1,804.6

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	1359.2	1804.6
Depreciation	200.7	239.6	251.5	281.2
CF bef working cap chan	1364	1488	1642	2113
Net Inc in Current Assets	-550.2	-599.7	-515.3	-473.7
Net Inc in Current Liab.	768.5	-179.9	332.0	288.8
Net CF from Op activities	1582.3	708.8	1458.8	1928.1
(Purchase)/Sale of FA	-1746.5	-514.3	-400.0	-400.0
Increase/decrease in other investn	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	71	-27
Net CF from Fin. Activities	18.7	-364.6	-895.9	-964.0
Net Cash flow	-251.8	-96.3	-40.1	390.1
Cash and Cash Equi beg.	703.2	451.5	355.1	315.1
Cash	451.5	355.1	315.1	705.2

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	6897.6	7785.4
Total Shareholders funds	5592.9	6403.7	6948.5	7836.2
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	7901.1	8770.9
Assets				
Total Gross Block	4805.5	5388.3	5866.0	6266.0
Less acc depreciation	1671.6	1911.2	2162.7	2443.9
Net Block	3133.9	3477.1	3703.3	3822.2
Total Fixed Assets	3427.8	3702.5	3851.1	3969.9
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	1802.8	2015.9
Debtors	1321.0	1430.5	1770.6	1979.9
Loans and Advances	21.7	22.3	26.4	29.5
Other Current Assets	315.4	344.1	407.5	455.7
Cash	451.5	355.1	315.1	705.2
Total Current Assets	3343.7	3847.1	4322.3	5186.1
Total Current Liabilities	2291.2	2111.2	2443.2	2732.0
Net Current Assets	1052.6	1735.9	1879.1	2454.0
Total Assets	6539.2	7404.4	7901.1	8770.9

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	22.2	23.8	26.8	35.5
Cash EPS	26.1	28.5	31.7	41.1
BV	110.1	126.1	136.8	154.3
DPS	8.5	12.0	18.1	18.1
Operating Ratios				
EBITDA Margin	23.0	18.6	17.3	20.2
PAT Margin	15.5	12.2	11.6	13.7
Return Ratios				
RoE	20.2	18.8	19.6	23.0
RoCE	23.8	22.2	23.2	27.6
RoIC	28.1	26.7	26.8	33.2
Valuation Ratios				
EV / EBITDA	79.6	72.5	65.7	50.3
P/E	119.1	111.1	98.7	74.3
EV / Net Sales	18.3	13.5	11.4	10.1
Market Cap / Sales	18.4	13.5	11.4	10.2
Price to Book Value	24.0	20.9	19.3	17.1
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	3,26,540	33.4	32.2	47.1	56.6	101.8	105.9	72.2	60.1	66.3	67.4	48.1	40.6	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	65,757	7.4	8.6	9.9	12.3	91.4	78.9	68.3	55.0	55.1	49.6	43.5	35.9	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	26,946	9.8	6.9	11.6	13.4	50.8	72.0	43.2	37.3	32.0	41.5	26.9	23.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6
Pidilite Industries (PIDIND)	Hold	1,34,110	22.2	23.8	26.8	35.5	119.1	111.1	98.7	74.3	79.6	72.5	65.7	50.3	23.8	22.2	23.2	27.6	20.2	18.8	19.6	23.0
Bajaj Electricals (BAJELE)	Hold	13,277	16.5	10.8	22.0	29.5	70.1	106.7	52.6	39.2	44.6	52.7	39.3	29.8	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	Hold	23,380	9.8	9.2	8.4	10.5	37.9	40.4	44.6	35.5	31.0	30.5	27.2	22.5	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	81,606	16.7	19.1	19.4	25.1	78.5	68.3	67.3	52.0	51.4	45.2	45.4	35.9	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	36,135	59.3	61.4	67.1	77.6	40.8	39.4	36.0	31.2	31.7	27.7	23.7	20.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,373	15.3	17.3	26.1	34.8	59.6	52.7	34.9	26.2	44.6	38.5	26.8	20.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	10,271	4.7	5.3	5.4	6.8	50.5	44.6	44.1	35.2	32.0	30.2	28.8	23.0	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3
Voltas Ltd (VOLTAS)	Hold	32,743	16.0	15.3	18.8	25.1	61.9	64.7	52.5	39.5	50.3	47.1	39.0	29.7	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9
Amber Enterprises (AMBEN)	Hold	7,652	24.7	33.0	50.2	80.0	91.9	68.7	45.2	28.4	34.5	29.1	21.1	15.6	7.7	6.8	10.6	13.9	5.2	6.4	9.5	13.1
Dixon Technologies (DIXTEC)	Buy	23,028	27.3	32.1	55.4	83.6	142.3	121.0	70.0	46.4	80.3	61.1	39.6	28.3	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1
Supreme Indus (SUPIND)	Buy	24,072	77.0	76.2	77.1	87.0	24.6	24.9	24.6	21.8	18.2	19.0	19.1	16.4	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	39,755	20.3	24.4	28.8	35.1	97.4	81.1	68.7	56.4	61.0	51.9	44.3	36.9	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3

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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