

SELL

TP: Rs 1,365 | ▼ 27%

PIDILITE INDUSTRIES

Construction Materials

13 May 2021

Higher RM cost to crimp margins; maintain SELL

Pidilite Industries (PIDI) reported consolidated Q4FY21 revenue growth of 45% YoY on a tepid base, with a 45%/26% rise in standalone C&B/B2B volumes.

Operating margin expanded 115bps YoY to 20.6% due to lower employee and other expense-to-sales, aiding EBITDA/PBT growth of 53%/62% YoY.

Management expects margins to remain under pressure due to higher RM cost.

Retain **SELL** with an unchanged Mar'22 TP of Rs 1,365 given the downside risk to earnings from RM cost inflation plus rich valuations of 58x FY23E P/E.

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Healthy revenue growth: PIDI's consolidated Q4 revenue grew 45% YoY (38.2% ex-Hunstman) to Rs 22.4bn, with 29% constant currency growth in overseas subsidiaries. Standalone revenue increased 41% YoY to Rs 18.6bn aided by a tepid base of last year and volume growth of 40% YoY (+45% in the consumer & bazaar (C&B) segment and 26% in B2B). Management stated that the demand outlook was difficult to assess due to the resurgent pandemic.

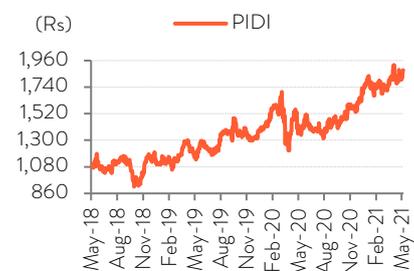
Gross margin declines: Despite a 455bps YoY (-110bps QoQ) contraction in gross margin, consolidated operating margin rose 115bps YoY to 20.6% due to lower employee cost (-205bps) and other expenses (-365bps) – this yielded EBITDA/PBT growth of 53%/62% YoY. Gross margin declined as RM prices for key material VAM increased to an average of US\$ 1,200/mt in Q4 vs. US\$ 925/mt in the year-ago quarter. Management expects sustained near-term margin pressure due to RM inflation (VAM prices now at US\$ 2,000/mt) and is targeting an EBITDA margin range of 20-24% over the medium term.

Valuations expensive; SELL: Though we like PIDI's business model, current valuations look rich at 58x FY23E EPS, especially in light of increased margin stress from higher input prices. Maintain **SELL** with an unchanged Mar'22 TP of Rs 1,365, set at a P/E multiple of 42x FY23E.

Ticker/Price	PIDI IN/Rs 1,880
Market cap	US\$ 13.0bn
Shares o/s	508mn
3M ADV	US\$ 14.1mn
52wk high/low	Rs 1,929/Rs 1,307
Promoter/FPI/DII	70%/12%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	70,787	72,945	72,927	89,678	1,03,628
EBITDA (Rs mn)	13,682	15,760	16,806	20,895	24,145
Adj. net profit (Rs mn)	8,901	11,590	11,339	14,162	16,501
Adj. EPS (Rs)	17.5	22.8	22.3	27.9	32.5
Adj. EPS growth (%)	(2.9)	30.2	(2.2)	24.9	16.5
Adj. ROAE (%)	23.1	26.9	22.6	24.1	25.4
Adj. P/E (x)	107.3	82.4	84.2	67.5	57.9
EV/EBITDA (x)	69.8	60.6	56.7	45.5	39.4

Source: Company, BOBCAPS Research | P – Provisional

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net revenues	22,355	15,447	44.7	22,990	(2.8)	72,927	72,945	0.0
Raw Material Cost	10,996	6,895	59.5	10,402	5.7	33,767	34,025	(0.8)
Employee cost	2,627	2,131	23.3	2,603.1	0.9	9,809	9,272	5.8
Other expenses	4,124	3,412	20.9	3,577	15.3	12,546	13,887	(9.7)
EBITDA	4,608	3,009	53.1	6,408	(28.1)	16,806	15,760	6.6
EBITDA margin (%)	20.6	19.5	113bps	27.9	(726bps)	23.0	21.6	144bps
Depreciation and amortization	572	501	14.2	495	15.6	2,007	1,699	18.1
EBIT	4,036	2,508	60.9	5,913	(31.7)	14,800	14,061	5.3
EBIT Margin (%)	18.1	16.2	182bps	25.7	(767bps)	20.3	19.3	102bps
Net Interest expenses	74	98	(24.0)	121	(38.4)	372	336	10.8
Other income	173	140	24.1	204	(15.0)	794	1,494	(46.9)
EBT and except. Items	4,135	2,550	62.2	5,997	(31.0)	15,221	15,219	0.0
Exceptional items	(36)	(330)	n.m.	0	n.m.	(36)	(552)	n.m.
Earnings before tax	4,099	2,220	84.6	5,997	(31.6)	15,185	14,667	3.5
Income taxes	1,038	656	58.2	1,548	(33.0)	3,964	3,477	14.0
Income tax as % of PBT	25.3	29.5	(423bps)	25.8	(50bps)	26.1	23.7	239bps
Earnings after tax	3,061	1,564	95.7	4,449	(31.2)	11,222	11,190	0.3
Profit in associate company	13	1	1220.0	16	(16.5)	40	30	31.4
Minority interest (expense) income	(13)	10	n.m.	(46)	n.m.	51	(56)	(190.2)
Net income (loss), reported	3,062	1,575	94.4	4,418	(30.7)	11,312	11,164	1.3

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue								
Consumer & Bazaar Products	17,303	11,194	54.6	18,489	(6.4)	58,089	55,739	4.2
Business to Business	5,350	4,411	21.3	4,751	12.6	15,754	17,968	(12.3)
Others	174	151	15.0	122	42.9	385	765	(49.6)
Total	22,827	15,756	44.9	23,361	(2.3)	74,228	74,471	(0.3)
Less: Inter Segment revenue	(472)	(309)	52.4	(371)	27.0	(1,301)	(1,526)	(14.8)
Net revenues	22,355	15,447	44.7	22,990	(2.8)	72,927	72,945	0.0
EBIT								
Consumer & Bazaar Products	4,692	2,791	68.1	6,451	(27.3)	17,736	15,496	14.5
Business to Business	524	727	(27.9)	558	(6.1)	1,181	2,685	(56.0)
Others	14	(11)	n.m.	(5)	(369.2)	(18)	(46)	(59.6)
Total	5,230	3,508	49.1	7,004	(25.3)	18,899	18,136	4.2
EBIT Margin (%)								
Consumer & Bazaar Products	27.1	24.9	218bps	34.9	(777bps)	30.5	27.8	273bps
Business to Business	9.8	16.5	(669bps)	11.7	(195bps)	7.5	14.9	(745bps)
Total	23.4	22.7	69bps	30.5	(707bps)	25.9	24.9	105bps

Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net revenues	18,570	13,186	40.8	19,567	(5.1)	62,163	63,326	(1.8)
Raw material exp	8,944	5,813	53.9	8,791	1.7	28,338	29,364	(3.5)
Employee exp	2,157	1,643	31.2	2,050	5.2	7,878	7,369	6.9
Other exp	3,393	2,878	17.9	3,000	13.1	10,472	11,758	(10.9)
EBITDA	4,077	2,852	43.0	5,727	(28.8)	15,477	14,836	4.3
EBITDA margin (%)	22.0	21.6	33bps	29.3	(731bps)	24.9	23.4	147bps
Depreciation and amortization	393	357	10.2	371	6.1	1,471	1,258	16.9
EBIT	3,684	2,495	47.7	5,356	(31.2)	14,006	13,578	3.2
EBIT Margin (%)	19.8	18.9	92bps	27.4	(754bps)	22.5	21.4	109bps
Net Interest expenses	44	37	18.6	62	(29.5)	170	134	26.8
Other income	119	165	(28.3)	195	(39.1)	735	1,519	(51.6)
PBT	3,759	2,623	43.3	5,489	(31.5)	14,571	14,962	(2.6)
Income taxes	994	657	51.2	1,394	(28.7)	3,752	3,353	11.9
Income tax as % of PBT	26.4	25.0	139bps	25.4	103bps	25.7	22.4	334bps
Earnings after tax, adjusted	2,765	1,966	40.6	4,094	(32.5)	10,819	11,609	(6.8)
Extraordinary	0	(370)	(100.0)	0	NA	(5)	(593)	(99.2)
Net income (loss), reported	2,765	1,596	73.3	4,094	(32.5)	10,815	11,016	(1.8)

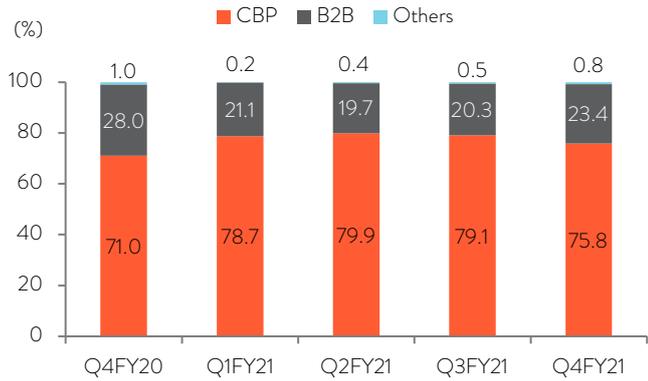
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenue								
Consumer & Bazaar Products	14,510	9,939	46.0	15,975	(9.2)	49,982	49,998	0.0
Business to Business	4,207	3,332	26.3	3,786	11.1	12,827	13,779	(6.9)
Others	174	151	15.1	122	43.0	385	765	(49.6)
Total	18,891	13,423	40.7	19,883	(5.0)	63,194	64,541	(2.1)
Less: Inter Segment revenue	(321)	(237)	35.2	(316)	1.5	(1,031)	(1,216)	(15.2)
Net revenues	18,570	13,186	40.8	19,567	(5.1)	62,163	63,326	(1.8)
EBIT								
Consumer & Bazaar Products	4,295	2,837	51.4	5,911	(27.3)	16,586	15,339	8.1
Business to Business	606	741	(18.2)	576	5.2	1,676	2,550	(34.3)
Others	14	(11)	n.m.	(5)	(371.2)	(18)	(46)	(59.6)
Total	4,915	3,567	37.8	6,482	(24.2)	18,244	17,843	2.2
EBIT Margin (%)								
Consumer & Bazaar Products	29.6	28.5	105bps	37.0	(740bps)	33.2	30.7	251bps
Business to Business	14.4	22.2	(782bps)	15.2	(81bps)	13.1	18.5	(544bps)
Others	8.1	(7.1%)	1525bps	(4.3%)	1238bps	(4.8%)	(6.0%)	118bps
Total	26.5	27.1	(59bps)	33.1	(666bps)	29.3	28.2	117bps

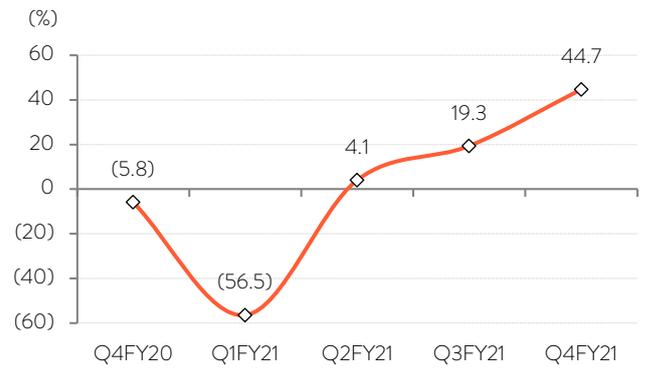
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUE BREAKUP



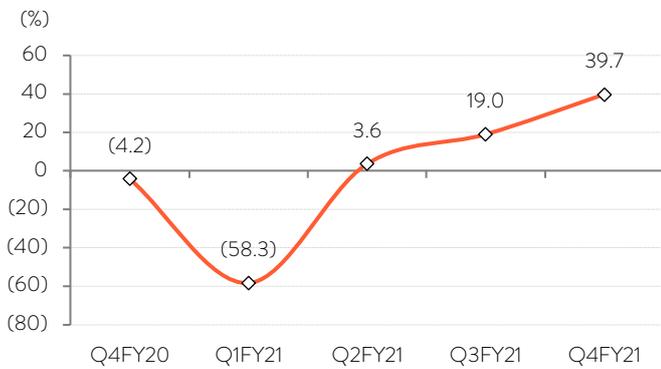
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED REVENUE GROWTH



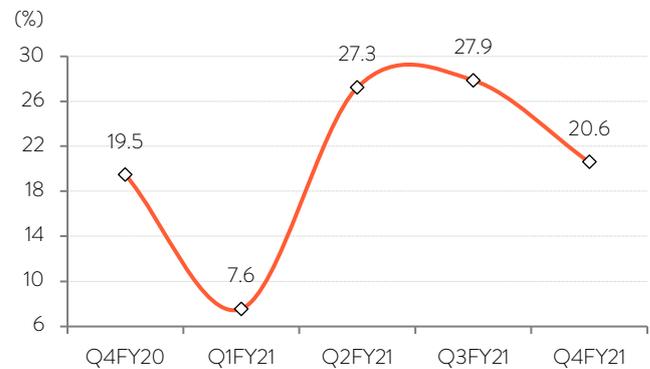
Source: Company, BOBCAPS Research

FIG 7 – TOTAL VOLUME GROWTH



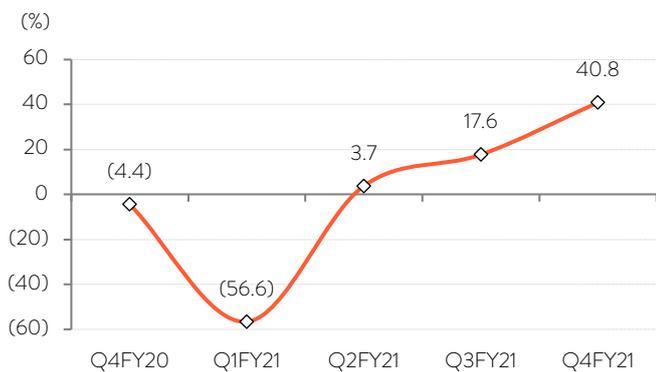
Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



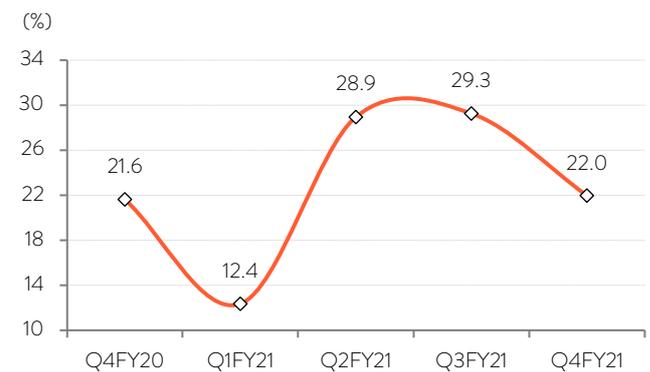
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 10 – STANDALONE EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

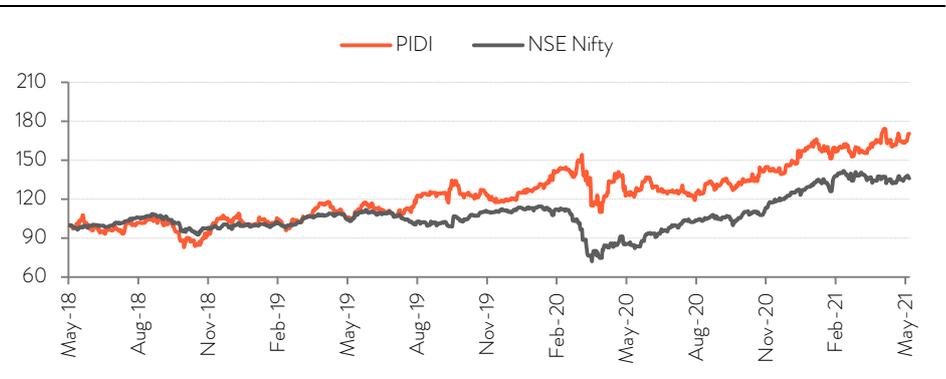
- PIDI saw demand across product categories in Q4FY21, with the DIY, construction chemical and adhesive segments recording healthy sales during the quarter.
- Hunstman, acquired in Nov'20, posted revenue of ~Rs 1.1 bn and EBITDA of Rs 343mn in Q4. Management believes operating margins in this business will always be higher than PIDI's overall margins.
- Organic revenue/EBITDA growth ex-Hunstman stood at 38%/41% YoY during the quarter.
- PIDI stated that it was difficult to forecast growth due to the pandemic. As per management, ~75% of shops across the country are closed, though industrial and export markets are not as badly affected as last time. The company believes its water-proofing business will do well even this year as this spend is less discretionary in nature.
- Management expects pressure on margins going ahead due to higher raw material cost. Prices of key input VAM have hardened to ~US\$ 2,000/t currently vs. US\$ 1,200 in Q4. Epoxy prices have also doubled from Rs 160-200/kg to Rs 400/kg currently.
- The company has taken a price increase at the end of March and plans to take another hike in May. However, this will cover only 75% of the input cost inflation. Management expects RM prices to soften from June and thus reduce pressure on margins.
- EBITDA margin is guided to be in the range of 20-24% over the medium term.
- The company continues to focus on rural/semiurban markets for deeper product penetration.
- Improvements in the supply chain should benefit PIDI over the long term.
- Management aims to take the revenue share of growth and pioneer products from one-third currently to 50% over the next five years.
- In the international business, the Americas grew 46% YoY in Q4, the Middle East and Africa grew 21%, and Asia 24%.
- PIDI has 600+ products and 4,800+ distributors across India as of FY21.

Valuation methodology

PIDI is the leader in India’s adhesive market with a strong brand, extensive distribution reach and large product portfolio. The company has a unique distribution framework, with products available in both building material as well as FMCG channels.

While we like PIDI’s business model, current valuations at 58x FY23E P/E appear rich against the backdrop of earnings risk from higher RM prices. We maintain our estimates and Mar’22 target price of Rs 1,365, based on an unchanged 42x FY23E P/E multiple. Retain SELL.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks to our estimates:

- **Sharp decline in raw material prices:** Any sudden, steep fall in RM prices, especially for crude-linked products, could drive above-expected margins.
- **Above-expected pickup in housing activity:** A stronger revival in the housing market than anticipated can take growth ahead of estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	70,787	72,945	72,927	89,678	1,03,628
EBITDA	13,682	15,760	16,806	20,895	24,145
Depreciation	(1,327)	(1,699)	(2,007)	(2,242)	(2,591)
EBIT	12,355	14,061	14,800	18,653	21,555
Net interest income/(expenses)	(261)	(336)	(372)	(180)	(135)
Other income/(expenses)	586	396	794	699	920
Exceptional items	0	0	0	0	0
EBT	13,560	15,219	15,221	19,172	22,340
Income taxes	(4,661)	(3,477)	(3,964)	(4,985)	(5,808)
Extraordinary items	349	(552)	(36)	0	0
Min. int./Inc. from associates	1	(26)	91	(25)	(30)
Reported net profit	9,249	11,164	11,312	14,162	16,501
Adjustments	(349)	426	27	0	0
Adjusted net profit	8,901	11,590	11,339	14,162	16,501

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	5,806	6,210	10,067	9,218	10,675
Other current liabilities	6,837	9,185	12,958	12,458	11,958
Provisions	637	735	829	959	1,109
Debt funds	1,111	1,691	2,139	3,000	850
Other liabilities	1,201	823	3,980	3,980	3,980
Equity capital	508	508	508	508	508
Reserves & surplus	40,973	44,048	55,421	61,202	67,938
Shareholders' fund	41,481	44,556	55,930	61,711	68,447
Total liabilities and equities	59,145	65,357	88,304	93,798	99,573
Cash and cash eq.	1,904	7,033	4,515	9,049	10,733
Accounts receivables	10,560	10,885	13,210	13,513	15,615
Inventories	9,345	9,295	12,342	11,523	12,009
Other current assets	8,818	10,157	9,190	10,171	11,102
Investments	11,514	7,197	1,765	1,810	1,863
Net fixed assets	9,133	12,890	14,428	39,450	39,968
CWIP	2,421	2,593	2,939	2,939	2,939
Intangible assets	5,343	5,178	29,751	5,178	5,178
Deferred tax assets, net	107	130	166	166	166
Total assets	59,145	65,357	88,304	93,798	99,573

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	14,888	16,919	17,228	21,414	24,930
Interest expenses	261	336	372	180	135
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(5,472)	120	935	(1,684)	(2,414)
Other operating cash flows	(4,671)	(3,900)	(3,669)	(4,939)	(5,756)
Cash flow from operations	5,006	13,474	14,866	14,970	16,896
Capital expenditures	(1,327)	(4,687)	(24,088)	(2,690)	(3,109)
Change in investments	945	4,317	5,433	(46)	(53)
Other investing cash flows	(247)	33	1,203	0	0
Cash flow from investing	(628)	(337)	(17,452)	(2,736)	(3,161)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(115)	581	448	861	(2,150)
Interest expenses	(261)	(336)	(372)	(180)	(135)
Dividends paid	(3,733)	(8,254)	(7)	(8,381)	(9,765)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(4,109)	(8,009)	69	(7,700)	(12,050)
Changes in cash and cash eq.	268	5,128	(2,517)	4,534	1,684
Closing cash and cash eq.	1,904	7,032	4,515	9,049	10,733

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	18.2	22.0	22.3	27.9	32.5
Adjusted EPS	17.5	22.8	22.3	27.9	32.5
Dividend per share	6.5	13.5	8.5	13.1	15.3
Book value per share	81.7	87.7	110.1	121.4	134.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	13.5	13.1	13.1	10.6	9.2
EV/EBITDA	69.8	60.6	56.7	45.5	39.4
Adjusted P/E	107.3	82.4	84.2	67.5	57.9
P/BV	23.0	21.4	17.1	15.5	14.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	65.6	76.2	74.5	73.9	73.9
Interest burden (PBT/EBIT)	109.8	108.2	102.8	102.8	103.6
EBIT margin (EBIT/Revenue)	17.5	19.3	20.3	20.8	20.8
Asset turnover (Revenue/Avg TA)	127.3	117.2	94.9	98.5	107.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.5
Adjusted ROAE	23.1	26.9	22.6	24.1	25.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	17.3	3.0	0.0	23.0	15.6
EBITDA	2.0	15.2	6.6	24.3	15.6
Adjusted EPS	(2.9)	30.2	(2.2)	24.9	16.5
Profitability & Return ratios (%)					
EBITDA margin	19.3	21.6	23.0	23.3	23.3
EBIT margin	17.5	19.3	20.3	20.8	20.8
Adjusted profit margin	12.6	15.9	15.5	15.8	15.9
Adjusted ROAE	23.1	26.9	22.6	24.1	25.4
ROCE	19.4	23.3	20.1	21.6	22.9
Working capital days (days)					
Receivables	51	54	60	54	51
Inventory	88	100	117	104	88
Payables	36	38	53	51	46
Ratios (x)					
Gross asset turnover	3.3	2.9	2.5	2.0	1.7
Current ratio	2.1	2.1	1.5	1.9	2.1
Net interest coverage ratio	47.4	41.8	39.8	103.7	160.0
Adjusted debt/equity	0.0	(0.1)	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

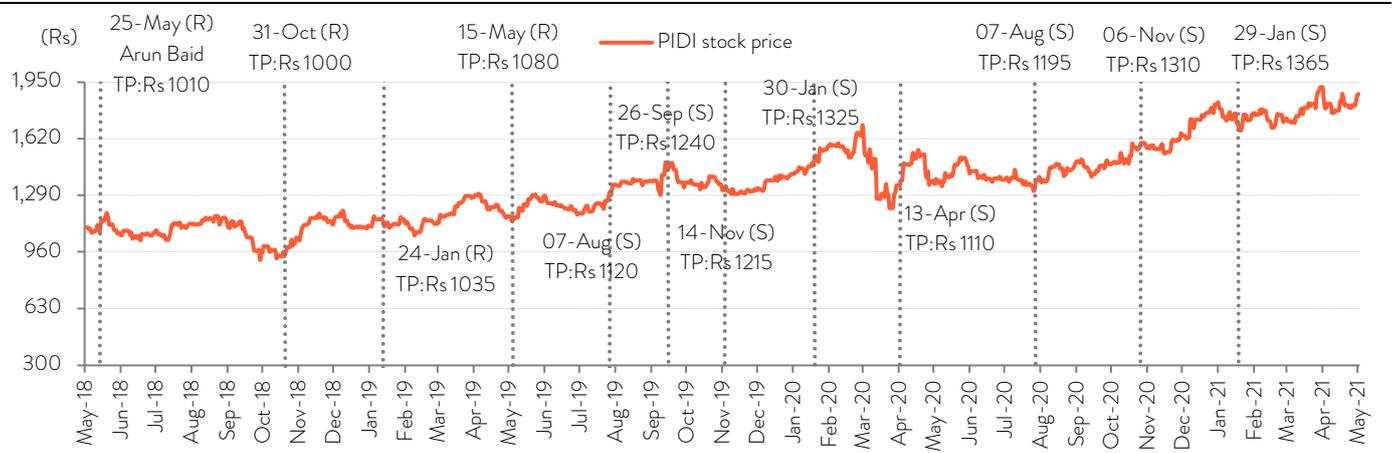
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

RATINGS AND TARGET PRICE (3-YEAR HISTORY): PIDILITE INDUSTRIES (PIDI IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 30 April 2021, out of 90 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 16 have ADD ratings, 5 are rated REDUCE and 26 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

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