

FIRST LIGHT

12 August 2022

RESEARCH

Pidilite Industries | Target: Rs 1,870 | -29% | SELL

Sound business but valuations lofty; reiterate SELL

SUMMARY

Pidilite Industries

- Consolidated Q1 net revenue increased 60% YoY to Rs 31bn as the C&B/B2B segments grew 64%/50%
- Gross margin contracted 740bps YoY to ~42% due to a spike in VAM prices to US\$ 2,200-2400/mt from US\$ 1,608/mt in Q1FY22
- Maintain SELL as valuations do not adequately price in the risks to growth and margins; TP unchanged at Rs 1,870

[Click here](#) for the full report.

Daily macro indicators

Indicator	09-Aug	10-Aug	Chg (%)
US 10Y yield (%)	2.78	2.78	0bps
India 10Y yield (%)	7.35	7.31	(4bps)
USD/INR	79.65	79.52	0.2
Brent Crude (US\$/bbl)	96.3	97.4	1.1
Dow	32,774	33,310	1.6
Hang Seng	20,003	19,611	(2.0)
Sensex	58,853	58,817	(0.1)
India FII (US\$ mn)	05-Aug	08-Aug	Chg (\$ mn)
FII-D	95.8	(13.8)	(109.6)
FII-E	252.8	197.7	(55.1)

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 1,870 | ▼ 29%

PIDILITE INDUSTRIES

Construction Materials

11 August 2022

Sound business but valuations lofty; reiterate SELL

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Sound revenue growth: PIDI's consolidated Q1FY23 net revenue grew 60% YoY to Rs 31bn led by a combination of higher volumes and measured price hikes. Consumer & Bazaar (C&B) segment revenue increased 64% YoY to Rs 24.4bn, but segmental EBIT margin contracted 295bps to 22%. The B2B segment grew 50% YoY to Rs 7.2bn with EBIT margin expanding 165bps to 10.4%.

RM cost eases sequentially: Gross margin contracted 740bps YoY (+180bps QoQ) to ~42% as prices of key raw material VAM soared to US\$ 2,200-2,400/mt vs. US\$ 1,608/mt in Q1FY22 (US\$ 2,600-2,700/mt in Q4FY22). Management expects VAM prices to be at US 2,300-2,500/mt in Q2. A decline in employee expenses (-430bps YoY to 10.2%) and other expenses (-220bps YoY to 14.4%) as a percentage of sales restricted EBITDA margin contraction to 90bps YoY at 17.1%.

Solid standalone performance: PIDI's standalone sales grew 62% YoY to Rs 27.9bn backed by underlying sales volume and mix growth of 44%. C&B/B2B revenue rose 66%/51% YoY to Rs 22bn/Rs 6.3bn. C&B/B2B volume and mix growth stood at 49%/29%. Gross/EBITDA margins contracted 800bps/140bps YoY to 40.8%/17.5%.

Near-term challenges to growth and margins: Despite a softening of commodity prices, PIDI witnessed record raw material costs in Q1. A major portion of these inputs will be consumed in Q2, implying sustained pressure on margins. This apart, demand weakness in rural areas and small towns poses a near-term challenge for the company.

Valuations lofty; reiterate SELL: PIDI has posted a 3Y revenue CAGR of 15% during Q1 vs. 19% for closest peer Asian Paints (APNT). In addition, consensus estimates peg APNT's revenue CAGR over FY22-FY24 at 17% vs. our 10% forecast for PIDI, implying that the latter's valuation premium (~10% historically) to APNT will shrink going forward. At current valuations of 104x/88x FY23E/FY24E EPS, the stock is well above its 5Y median P/E of 67x. In our view, valuations do not adequately price in the risks to growth and margins. We maintain SELL with an unchanged TP of Rs 1,870, valuing the stock at 62x FY24E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

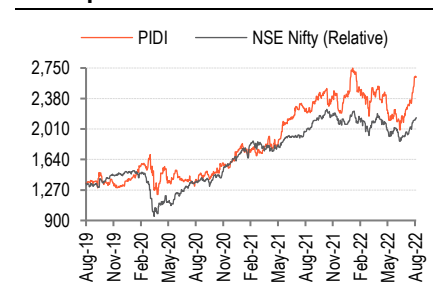
Ticker/Price	PIDI IN/Rs 2,641
Market cap	US\$ 16.9bn
Free float	30%
3M ADV	US\$ 12.1mn
52wk high/low	Rs 2,765/Rs 1,989
Promoter/FPI/DII	70%/11%/19%

Source: NSE | Price as of 11 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	99,210	1,03,920	1,19,726
EBITDA (Rs mn)	18,473	19,745	23,347
Adj. net profit (Rs mn)	11,965	12,932	15,307
Adj. EPS (Rs)	23.5	25.4	30.1
Consensus EPS (Rs)	23.5	33.1	38.9
Adj. ROAE (%)	19.9	19.4	21.1
Adj. P/E (x)	112.1	103.8	87.7
EV/EBITDA (x)	72.4	67.9	57.4
Adj. EPS growth (%)	5.5	8.1	18.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



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

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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.

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