

FIRST LIGHT

RESEARCH

Pidilite Industries | Target: Rs 2,445 | -1% | HOLD

Broad-based growth but sharp RM headwinds a drag

BOB Economics Research | Currency Outlook

INR to range between 75-76/\$

Coforge | Target: Rs 7,080 | +61% | BUY

Robust quarter – beat on margins

Finolex Industries | Target: Rs 200 | +11% | HOLD

Tepid earnings outlook; PVC prices volatile

Daily macro indicators

Indicator	26-Jan	25-Jan	Chg (%)
US 10Y yield (%)	1.86	1.77	9
India 10Y yield (%)	6.66	6.66	0
USD/INR	74.78	74.57	(0.3)
Brent Crude (US\$/bbl)	90	88.2	2.0
Dow	34,168	34,298	(0.4)
Hang Seng	24,290	24,244	0.2
Sensex	57,858	57,492	0.6
India FII (US\$ mn)	24-Jan	21-Jan	Chg (\$ mn)
FII-D	138.6	(7.0)	145.6
FII-E	(522.8)	(412.6)	(110.3)

Source: Bank of Baroda Economics Research

SUMMARY

Pidilite Industries

- Consolidated Q3 net revenue up 24% YoY to Rs 28.5bn as C&B/B2B segments grew 23%/30%
- Gross margin contracted 1,120bps YoY to 43.6% due to increase in VAM price to ~US\$ 2,000/mt from ~US\$ 1,000/mt in Q3FY21
- Upgrade from SELL to HOLD post recent stock correction; TP retained at Rs 2,445

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

India Economics: Currency Outlook

- INR has depreciated sharply today in the aftermath of Fed policy. This is mainly because of a strengthening dollar, as Fed signalled beginning of its rate-hike cycle from Mar'22. This along with rising US yields and inflation-growth dynamics is likely to push the dollar up. This implies further pain for INR, at least in the short-term. We expect INR to trade with a depreciating bias over the next two-weeks. However, over the medium-term, strong macro fundamentals will ensure INR in the range of 75-75.5/\$.

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

BOBCAPS Research

researchreport@bobcaps.in



Coforge

- Q3 revenue grew 4.2% QoQ USD, roughly in line with estimate. Growth was driven by the BFS vertical with a modest uptick in travel
- Despite supply pressure, EBIT margin climbed 120bps QoQ to 16%, above our 14.8% estimate
- We tweak FY22-FY24 EPS and revise our TP slightly to Rs 7,080 (vs. Rs 7,040); maintain BUY

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

Finolex Industries

- Q3 revenue declined 6% YoY as volumes fell 15% in PVC pipes & fittings and 36% in PVC resin
- Operating margin contracted 845bps YoY to 24.1% on higher employee cost (+110bps) and other expenses (+670bps)
- Target FY24E P/E pared from 22x to 20x given soft earnings outlook, yielding TP of Rs 200 (vs. Rs 220); retain HOLD on reasonable valuation

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

HOLD
 TP: Rs 2,445 | ▼ 1%

PIDILITE INDUSTRIES

Construction Materials

27 January 2022

Broad-based growth but sharp RM headwinds a drag

- Consolidated Q3 net revenue up 24% YoY to Rs 28.5bn as C&B/B2B segments grew 23%/30%
- Gross margin contracted 1,120bps YoY to 43.6% due to increase in VAM price to ~US\$ 2,000/mt from ~US\$ 1,000/mt in Q3FY21
- Upgrade from SELL to HOLD post recent stock correction; TP retained at Rs 2,445

Ruchitaa Maheshwari
 researchreport@bobcaps.in

Broad-based revenue growth: PIDI’s consolidated Q3FY22 net revenue grew 24% YoY to Rs 28.5bn. Consumer & Bazaar (C&B) segment revenue increased 23% YoY to Rs 22.6bn but segmental EBIT margin declined 1,000bps to 24.9%. The B2B segment grew 30% YoY to Rs 6.2bn with EBIT margin down 530bps to 6.5%.

Strong RM headwinds: Gross margin contracted 1,120bps YoY (-180bps QoQ) as prices of key raw material VAM increased to ~US\$ 2,000/mt vs. ~US\$ 1,000/mt in Q3FY21 (~US\$ 2,500/mt in Dec’21). A decline in employee cost (-150bps YoY) and other expenses (-110bps) as a percentage of sales limited EBITDA margin contraction at 860bps YoY to 19.3%. EBITDA declined 14% YoY to Rs 5.5bn.

Standalone performance: Sales volume and product mix grew 9.4% YoY in Q3, with a 9%/13% uptick in C&B/B2B. Net sales grew 24% YoY to Rs 24.2bn. C&B revenue rose 21% YoY to Rs 19.3bn while EBIT margin contracted 1,090bps to 26.1%. B2B revenue grew 35% YoY to Rs 5.1bn with a 540bps margin decline to 9.8%. Overall gross/EBITDA margin contracted by 1,190bps/950bps YoY to 43.2%/19.8% and EBITDA fell 17% YoY to Rs 4.8bn.

Near-term pain; long-term structural growth intact: We expect continued margin pressure in the near term due to the likelihood of unabated commodity inflation. However, this should be followed by gradual margin recovery in FY23-FY24 aided by healthy volume growth across segments, new innovative launches and pricing power. Overall, we remain positive on PIDI’s long-term growth story given its strong presence in waterproofing and construction chemicals (first-mover advantage) and robust connect with trade channels.

Raise to HOLD post correction: The stock has corrected ~12% from its 52-week high (on 13 Jan 2022) and achieved our Sell target. PIDI currently trades at 66x FY24E EPS, above its five-year median P/E of 63x. We value the stock at 65x FY24E EPS for an unchanged TP of Rs 2,445. Despite the recent correction, we find valuations full considering elevated VAM prices and hence raise our rating only a notch from SELL to HOLD. Any further correction from hereon can be used to enter the stock.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	PIDI IN/Rs 2,461
Market cap	US\$ 16.6bn
Free float	30%
3M ADV	US\$ 20.2mn
52wk high/low	Rs 2,765/Rs 1,664
Promoter/FPI/DII	70%/12%/18%

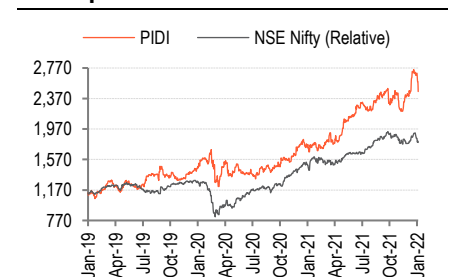
Source: NSE | Price as of 27 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	72,927	89,662	1,03,920
EBITDA (Rs mn)	16,806	19,008	23,694
Adj. net profit (Rs mn)	11,339	12,773	16,113
Adj. EPS (Rs)	22.3	25.1	31.7
Consensus EPS (Rs)	22.3	25.5	33.1
Adj. ROAE (%)	22.6	21.8	25.0
Adj. P/E (x)	110.3	97.9	77.6
EV/EBITDA (x)	74.2	65.6	52.6
Adj. EPS growth (%)	(2.2)	12.7	26.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



CURRENCY OUTLOOK

27 January 2022

INR to range between 75-76/\$

INR has depreciated sharply today in the aftermath of Fed policy. This is mainly because of a strengthening dollar, as Fed signalled beginning of its rate-hike cycle from Mar'22. This along with rising US yields and inflation-growth dynamics is likely to push the dollar up. This implies further pain for INR, at least in the short-term. We expect INR to trade with a depreciating bias over the next two-weeks. However, over the medium-term, strong macro fundamentals will ensure INR in the range of 75-75.5/\$.

Aditi Gupta

chief.economist@bankofbaroda.com

Currency movements in Jan'22: Most global currencies have depreciated against the dollar in CY22. After increasing by 6.4% in CY21, DXY has gained another 0.8% this year. However, EM currencies have fared better, led by Brazilian real (up by 2.4%) and Chinese yuan (up by 0.6%). On the other hand, developed market currencies have been the biggest loser this year led by EUR (down by 1.1%) and GBP (down by 0.5%).

DXY strength likely to continue: Fed's hawkish tilt, US growth and inflation dynamics as well as rising US yields have buoyed the demand for dollar. We expect the trend to continue in CY22. As such, we believe DXY to rise further this year.

Drivers of INR performance: GDP growth is expected to be strong in FY22. This should spur foreign inflows in the form of FPI, FDI and ECB inflows. However, high inflation is likely to weigh on INR. Further, with oil prices touching US\$ 90/bbl, INR is likely to come under renewed pressure. Higher oil prices imply a larger import bill which is negative for INR. We estimate that a 10% hike in oil prices leads to US\$ 15bn increase in CAD. On the positive side, India's foreign exchange reserves have remained at a comfortable level and hence lend stability to the rupee.

Outlook for INR: Overall, we expect INR to depreciate in the near-term pressure due to Fed tightening and higher oil prices. INR has depreciated sharply by 0.8% today (biggest single day fall since Jun'21) in the aftermath of the Fed policy. We expect INR to trade in the range of 75-76.0/\$ for the next two weeks.

However, over the medium-term, India's external position remains comfortable which should support foreign inflows. However, trade deficit is likely to expand further. We expect INR in the range of 75-75.5/\$ in Q4FY22. Higher oil prices remain a key risk in our view.



BUY
 TP: Rs 7,080 | ▲ 61%

COFORGE

| Technology & Internet

| 27 January 2022

Robust quarter – beat on margins

- Q3 revenue grew 4.2% QoQ USD, roughly in line with estimate. Growth was driven by the BFS vertical with a modest uptick in travel
- Despite supply pressure, EBIT margin climbed 120bps QoQ to 16%, above our 14.8% estimate
- We tweak FY22-FY24 EPS and revise our TP slightly to Rs 7,080 (vs. Rs 7,040); maintain BUY

Ruchi Burde | Seema Nayak
 researchreport@bobcaps.in

Growth in-line: Coforge reported revenue growth of 4.2% QoQ USD in Q3FY22, in line with our estimate of 4.3%. Growth was primarily led by the BFS vertical which was up 24.5% QoQ in rupee terms. SLK Global revenue stood at US\$ 22.4mn aided by strong cross-sales. The travel vertical grew by a modest 3.9% while insurance was flat QoQ. The top-5 and top-10 clients grew ~16% QoQ.

Margin expansion despite headwinds: Coforge reported its highest-ever EBITDA margin of 19.5% in Q3, up 85bps QoQ despite multiple headwinds such as furloughs, a sequential decline in the AdvantageGo business and increased hiring. Offshore business expanded steadily with an 8ppt YoY rise in revenue contribution, in line with the company’s strategy of shifting the revenue mix towards offshore.

Order intake robust: As of Q3, the executable order book for the next 12 months was at US\$ 701mn, with 90% coming from repeat business. Order intake for the quarter was US\$ 247mn, with US\$ 91mn from America, US\$ 110mn from Europe and US\$ 47mn from RoW. Coforge signed a large, multi-year deal worth US\$ 45mn in Europe.

Attrition remains low vs. peers: The company posted its highest-ever net addition of ~1,300 employees in Q3. Utilisation stood at 77.1%, down 140bps QoQ. Attrition at 16.3% increased marginally by 100bps QoQ – still one of the lowest in the sector.

Upbeat outlook: Coforge has raised its FY22 organic revenue growth guidance to 24% CC from 22% earlier and expects overall revenue to grow 37% YoY CC. This is its third upward guidance revision in FY22. EBITDA margin is guided at 18.9-19%. As per management, the demand environment remains positive and there has been no slackening.

Maintain BUY: Overall, the Q3 results were a mixed bag with revenue growth meeting estimates but a stellar margin performance with further expansion likely in Q4. We retain BUY and tweak FY22-FY24 EPS estimates, leading to a slightly higher TP of Rs 7,080 (vs. Rs 7,040) – our target Dec’23E P/E multiple remains at 35x, which is three standard deviations above the stock’s five-year mean.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	COFORGE IN/Rs 4,401
Market cap	US\$ 3.6bn
Free float	43%
3M ADV	US\$ 25.8mn
52wk high/low	Rs 6,135/Rs 2,300
Promoter/FPI/DII	70%/13%/17%

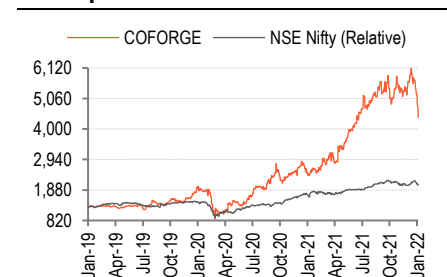
Source: NSE | Price as of 27 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	46,628	64,109	77,885
EBITDA (Rs mn)	8,035	12,038	15,108
Adj. net profit (Rs mn)	4,556	7,600	10,580
Adj. EPS (Rs)	75.0	125.1	174.2
Consensus EPS (Rs)	75.0	112.9	143.0
Adj. ROAE (%)	18.6	28.3	33.2
Adj. P/E (x)	58.7	35.2	25.3
EV/EBITDA (x)	33.3	22.1	17.4
Adj. EPS growth (%)	2.9	66.8	39.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



HOLD
 TP: Rs 200 | ▲ 11%

FINOLEX INDUSTRIES

Plastic Products

27 January 2022

Tepid earnings outlook; PVC prices volatile

- Q3 revenue declined 6% YoY as volumes fell 15% in PVC pipes & fittings and 36% in PVC resin
- Operating margin contracted 845bps YoY to 24.1% on higher employee cost (+110bps) and other expenses (+670bps)
- Target FY24E P/E pared from 22x to 20x given soft earnings outlook, yielding TP of Rs 200 (vs. Rs 220); retain HOLD on reasonable valuation

Ruchitaa Maheshwari
 researchreport@bobcaps.in

Realisations rise but volume decline hurts topline: FNXF reported a 6% YoY decline in Q3FY22 revenue to Rs 10.1bn due to a drop in volumes by 15% in PVC pipes & fittings and 36% in PVC resin. Volumes slipped on lower offtake in the agriculture segment owing to torrential rain in some parts of the country, channel destocking at the dealer level and supply chain disruptions. During the quarter, realisations increased 35% YoY in PVC pipes and 43% in PVC resin.

EBITDA margin contracts 845bps: An increase in employee cost by 110bps YoY and other expenses by 670bps resulted in a substantial fall in EBITDA margin by 845bps YoY to 24.1%. EBITDA declined 30% YoY to Rs 2.4bn. The average PVC-EDC delta was at US\$ 795/t (+4% YoY) in Q3.

PVC prices have begun to correct: PVC price stood at US\$ 1,753/t in Q3FY22 (US\$ 1,500/t currently) vs. US\$ 1,235/t in Q3FY21. EDC price was at US\$ 959/t (US\$ 920/t currently) vs. US \$470/t in Q3FY21. The average PVC-EDC delta for the quarter stood at US\$ 795/t vs. US\$ 765/t in Q3FY21 and is at US\$ 580/t currently. With the PVC/EDC spread correcting, we believe FNXF's profit growth will be muted in the near term.

Tepid earnings outlook: We like FNXF for its pipe business and robust balance sheet but expect earnings to be muted over FY21-FY24 due to a high base and correcting PVC/EDC spreads. We forecast a revenue CAGR of 7.7% through FY24 while PAT declines at a 5.5% CAGR. However, the gradual shift in sales mix from agri to non-agri pipes (management is targeting ~40% segmental revenue share in the midterm from the current 35%) could bring in better margins and valuation.

Valuations reasonable; retain HOLD: The stock is trading at 18x FY24E EPS compared to its five-year median of 20x, which we feel is reasonable on the back of its strong brand, increasing focus on high-margin non-agri business and a net debt-free balance sheet. We thus retain HOLD even as we bake in the weak earnings outlook by paring our target FY24E P/E multiple to 20x (from 22x), yielding a reduced TP of Rs 200 (from Rs 220).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	FNXP IN/Rs 180
Market cap	US\$ 1.5bn
Free float	48%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 245/Rs 114
Promoter/FPI/DII	52%/6%/42%

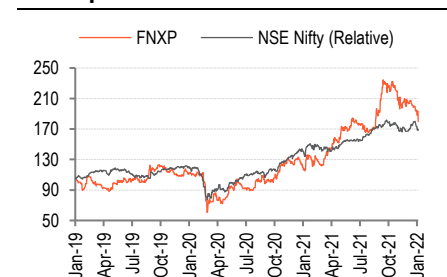
Source: NSE | Price as of 27 Jan 2022

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	34,628	37,522	40,133
EBITDA (Rs mn)	9,893	8,809	7,940
Adj. net profit (Rs mn)	7,378	6,305	5,806
Adj. EPS (Rs)	11.9	10.2	9.4
Consensus EPS (Rs)	11.9	11.3	9.8
Adj. ROAE (%)	28.8	19.0	15.9
Adj. P/E (x)	15.1	17.7	19.2
EV/EBITDA (x)	11.2	12.3	13.1
Adj. EPS growth (%)	1009.0	(14.5)	(7.9)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Disclaimer

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

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