

SELL
 TP: Rs 2,080 | ▼ 16%

PIDILITE INDUSTRIES

Construction Materials

12 November 2021

Broad-based growth but sharp RM headwinds a drag

- Consolidated Q2 net revenue up 40% YoY to Rs 26.3bn. Like-to-like growth at 33% (ex-PAPL)
- Gross margin contracted 1,050bps YoY to 45.4% on account of sharp increase in VAM price to US\$ 2,071/mt vs. US\$ 765/mt
- Target multiple raised given growth traction but RM headwinds prompt earnings cut. Retain SELL; new Sep'22 TP at Rs 2,080 (vs. Rs 1,525)

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Broad-based revenue growth: PIDI's consolidated Q2FY22 net revenue grew 40% YoY to Rs 26.3bn (33% on like-to-like basis which excludes PAPL). Consumer & Bazaar (C&B) segment revenue increased 40% YoY to Rs 21.3bn but segmental EBIT margin declined 750bps to 27.4%. The B2B segment grew 41% YoY to Rs 5.3bn with EBIT margin down 275bps YoY to 5%.

Strong RM headwinds: Gross margin contracted 1,050bps YoY (-370bps QoQ) as prices of key material VAM increased to US\$ 2,071/mt vs. US\$ 765/mt in Q2FY21 (US\$ 1,610/mt in Q1). A decline in employee cost/other expenses as a percentage of sales (-250bps/-170bps YoY) limited EBITDA margin contraction at 630bps YoY to 20.9%. EBITDA grew 7% YoY to Rs 5.5bn.

Standalone performance: Sales volume and mix growth stood at 25% YoY, with 25%/20% growth in C&B/B2B. Net sales grew 36% YoY to Rs 22.1bn. C&B revenue rose 35% YoY to Rs 18bn while EBIT margin contracted 825bps to 28.5%. B2B revenue grew 40% YoY to Rs 4.4bn with a 420bps margin decline to 9.7%. Gross/EBITDA margin contracted by 1,100bps/730bps YoY to 45.5%/21.6%.

Estimates trimmed: While PIDI has delivered strong, broad-based sales and earnings growth, we prune FY22/FY23 EPS estimates by 10%/3% given rising VAM prices (up from US\$ 2,071/mt in Q2 to spot levels of US\$ 2,300-2,400/mt). We expect spiraling input costs to sustain/peak in the near term leading to stressed margins. While PIDI has initiated calibrated price hikes during the quarter, these cover only ~75% of inflation. Management is consciously looking to absorb the partial impact given high volatility in input prices and near-term demand uncertainty.

Valuations stretched; maintain SELL: We remain positive on PIDI's long-term story given its strong presence in waterproofing and construction chemicals (first-mover advantage) and robust connect with trade channels. However, the stock looks overvalued at current levels of 78x FY23E EPS. We roll forward to a revised Sep'22 TP of Rs 2,080 (Rs 1,525 earlier), based on a 60x one-year forward P/E multiple (45x earlier), in line with the five-year median. SELL.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PIDI IN/Rs 2,474
Market cap	US\$ 16.9bn
Free float	30%
3M ADV	US\$ 14.6mn
52wk high/low	Rs 2,532/Rs 1,501
Promoter/FPI/DII	70%/12%/18%

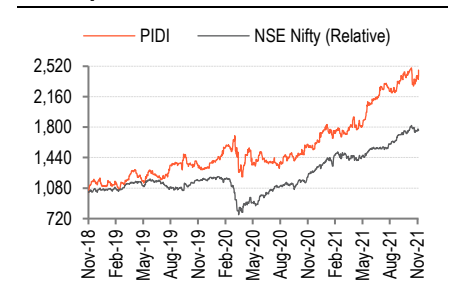
Source: NSE | Price as of 11 Nov 2021

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	26.5	33.1
Adj. ROAE (%)	22.6	21.8	25.0
Adj. P/E (x)	110.9	98.4	78.0
EV/EBITDA (x)	74.6	65.9	52.9
Adj. EPS growth (%)	(2.2)	12.7	26.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- Growth in Q2FY22 was broad-based across the C&B and B2B segments as well as in urban and rural geographies. C&B reported growth across all categories such as adhesives, construction chemicals and the DIY portfolio. B2B growth was led by continued momentum in industrial activities.
- The company continues to focus on rural/semi-urban markets for deeper product penetration.
- Prices of key input VAM have hardened from US\$ 765/mt in Q2FY21 to US\$ 2,071/mt in Q2FY22. The spot prices is US\$ 2,300-2,400/mt. Management expects prices to start cooling off in six months' time.
- PIDI has taken a calibrated price hike which will cover ~75% of the input cost inflation bearing in mind near-term demand uncertainty.
- The steep rise in raw material prices and supply chain disruptions have taken a significant toll on unorganised players. This has benefited organised players such as PIDI in terms of market share gains due to its strong supply chain network.
- Management is focused on profitable volume growth and has maintained its annual EBITDA margin guidance of 22-24%.
- Domestic subsidiaries in the C&B business returned to double-digit growth led by higher sales of premium products. Subsidiaries in the B2B business have improved sequentially on account of recovery in real estate and construction-related activities, though margin recovery will take longer due to the unabated commodity inflation.
- Subsidiary PAPL posted revenue of Rs 1.4bn with an EBITDA margin of ~35% during Q2. As per management, the raw material inputs are limited and hence the margin remained largely stable.
- In the international business, the Americas declined 20% YoY in Q2 on a higher previous-year base on account of pent-up demand and benefits passed by the Govt during Covid-19. The company saw modest revenue growth of 14% YoY in Asia due to lockdown restrictions in many countries. EBITDA margin for the region was impacted by 160bps YoY to 13.7% on account of input cost inflation. The Middle East reported 34% YoY revenue growth.
- The water-proofing business is growing at 40-50%. Management is working to educate consumers about the product benefits, create brand awareness and provide service.
- PIDI typically halts A&P spends one month before Diwali as the space is crowded with media advertisement and construction activity also slows down. Post Diwali, with resumption of construction activity, A&P will be higher.
- The company will incur capex at 4-6% of sales in subsequent years.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Net revenues	26,264	18,803	39.7	19,368	35.6	45,631	27,582	65.4
Raw Material Cost	14,339	8,284	73.1	9,857	45.5	24,197	12,369	95.6
Employee cost	2,731	2,421	12.8	2,806	(2.7)	5,537	4,578	20.9
Other expenses	3,697	2,972	24.4	3,229	14.5	6,926	4,845	43.0
EBITDA	5,496	5,126	7.2	3,476	58.1	8,972	5,790	55.0
EBITDA margin (%)	20.9	27.3	(634bps)	17.9	298bps	19.7	21.0	(133bps)
Depreciation and amortization	603	479	26.0	566	6.5	1,170	940	24.4
EBIT	4,893	4,648	5.3	2,910	68.2	7,802	4,850	60.9
EBIT Margin (%)	18.6	24.7	(609bps)	15.0	361bps	17.1	17.6	(49bps)
Net Interest expenses	124	87	42.9	96	28.5	220	177	24.0
Foreign exchange gain (loss), net	0	0	n.m.	0	n.m.	0	0	n.m.
Other income	139	217	(35.9)	61	127.1	200	417	(52.0)
EBT and except. items	4,908	4,778	2.7	2,875	70.7	7,783	5,090	52.9
Exceptional items	0	0	n.m.	0	n.m.	0	0	n.m.
Earnings before tax	4,908	4,778	2.7	2,875	70.7	7,783	5,090	52.9
Income taxes	1,159	1,220	(5.0)	721	60.8	1,880	1,378	36.4
Income tax as % of PBT	23.6	25.5	(191bps)	25.1	(146bps)	24.2	27.1	(292bps)
Earnings after tax	3,749	3,558	5.4	2,154	74.1	5,902	3,712	59.0
Profit in associate company	7	6	6.6	23	(71.5)	29	11	171.3
Minority interest (expense) income	(9)	(0)	n.m.	24	n.m.	16	109	(85.8)
Net income (loss) adjusted	3,747	3,564	5.1	2,201	70.2	5,947	3,832	55.2
Non-recurring items	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
Net income (loss), reported	3,747	3,564	5.1	2,201	70.2	5,947	3,832	55.2

Source: Company, BOBCAPS Research

Fig 2 – Consolidated segmental performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue								
Consumer & Bazaar Products	21,304	15,277	39.5	14,862	43.3	36,167	22,297	62.2
Business to Business	5,324	3,771	41.2	4,820	10.4	10,144	5,653	79.4
Others	146	72	103.9	99	47.4	245	90	173.1
Total	26,774	19,119	40.0	19,782	35.3	46,555	28,040	66.0
Less: Inter Segment revenue	(510)	(316)	61.4	(414)	23.4	(924)	(458)	101.6
Net revenues	26,264	18,803	39.7	19,368	35.6	45,631	27,582	65.4
EBIT								
Consumer & Bazaar Products	5,827	5,324	9.5	3,704	57.3	9,531	6,644	43.5
Business to Business	263	290	(9.4)	420	(37.4)	683	63	977.1
Others	(8)	8	n.m.	6	(230.0)	(2)	(27)	(93.4)
Total	6,082	5,621	8.2	4,131	47.2	10,212	6,680	52.9
EBIT Margin (%)								
Consumer & Bazaar Products	27.4	34.8	(750bps)	27.1	23bps	26.4	29.8	(344bps)
Business to Business	4.9	7.7	(275bps)	9.8	(486bps)	6.7	1.1	561bps
Total	23.2	29.9	(674bps)	23.4	(24bps)	22.4	24.2	(184bps)

Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Net revenues	22,134	16,302	35.8	16,261	36.1	38,395	24,026	59.8
Raw material exp	12,052	7,090	70.0	8,256	46.0	20,309	10,603	91.5
Employee exp	2,230	1,954	14.2	2,293	(2.8)	4,524	3,671	23.2
Other exp	3,062	2,541	20.5	2,716	12.7	5,778	4,080	41.6
EBITDA	4,790	4,719	1.5	2,995	59.9	7,785	5,673	37.2
EBITDA margin (%)	21.6	28.9	(730bps)	18.4	322bps	20.3	23.6	(333bps)
Depreciation and amortization	443	359	23.4	405	9.6	848	707	19.9
EBIT	4,347	4,359	(0.3)	2,590	67.8	6,937	4,966	39.7
EBIT Margin (%)	19.6	26.7	(710bps)	15.9	371bps	18.1	20.7	(260bps)
Net Interest expenses	443	30	1368.2	63	609.4	506	64	694.2
Other income	164	225	(27.1)	1,020	(83.9)	1,184	422	180.9
PBT	4,067	4,554	(10.7)	3,548	14.6	7,615	5,324	43.1
Income taxes	1,721	1,162	48.1	663	159.6	2,384	1,364	74.8
Income tax as % of PBT	42.3	25.5	1681bps	18.7	2364bps	31.3	25.6	569bps
Earnings after tax, adjusted	2,346	3,392	(30.8)	2,885	(18.7)	5,231	3,960	32.1
Extraordinary	0	(5)	(100.0)	0	-	0	(5)	(100.0)
Net income (loss), reported	2,346	3,388	(30.8)	2,885	(18.7)	5,231	3,955	32.3

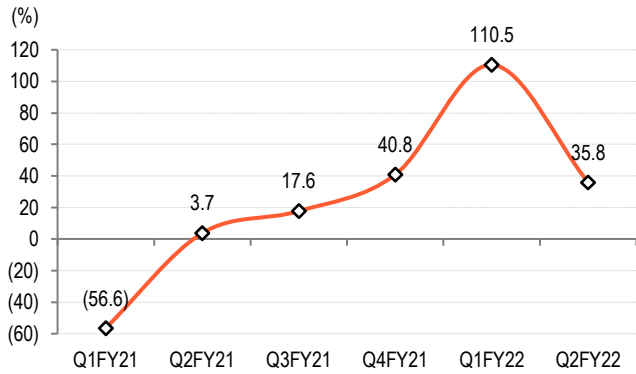
Source: Company, BOBCAPS Research

Fig 4 – Standalone segmental performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Revenue								
Consumer & Bazaar Products	18,026	13,352	35.0	12,522	44.0	30,549	19,497	56.7
Business to Business	4,394	3,150	39.5	3,961	10.9	8,356	4,834	72.9
Others	146	72	103.9	99	47.4	245	90	173.1
Total	22,566	16,574	36.2	16,583	36.1	39,149	24,420	60.3
Less: Inter Segment revenue	(432)	(272)	59.1	(322)	34.3	(754)	394	(291.6)
Net revenues	22,134	16,302	35.8	16,261	36.1	38,395	24,814	54.7
EBIT								
Consumer & Bazaar Products	5,143	4,911	4.7	3,295	56.1	8,437	6,381	32.2
Business to Business	426	438	(2.7)	541	(21.2)	967	494	96.0
Others	(8)	(11)	n.m.	6	(230.0)	(2)	(27)	-93.4
Total	5,561	5,338	4.2	3,842	44.8	9,403	6,847	37.3
EBIT Margin (%)								
Consumer & Bazaar Products	28.5	36.8	(825bps)	29.6	(107bps)	27.6	32.7	(511bps)
Business to Business	9.7	13.9	(421bps)	14.4	(470bps)	11.6	10.2	137bps
Others	(5.3)	(15.1)	976bps	8.1	(1345bps)	(0.7)	(30.5)	2973bps
Total	25.1	32.7	(762bps)	26.5	(134bps)	24.5	27.6	(311bps)

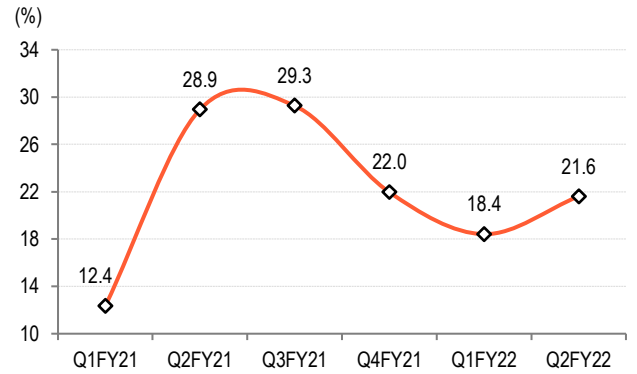
Source: Company, BOBCAPS Research

Fig 5 – Standalone revenue growth



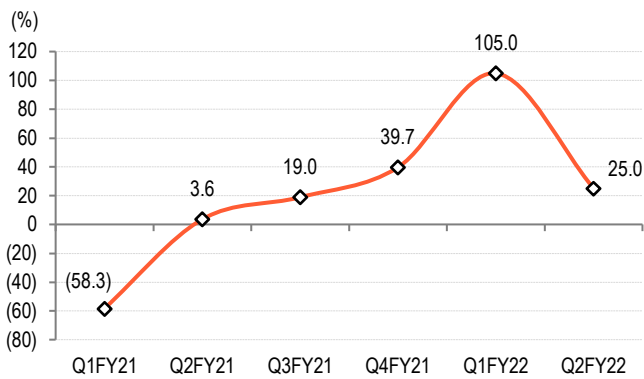
Source: Company, BOBCAPS Research

Fig 6 – Standalone EBITDA margin



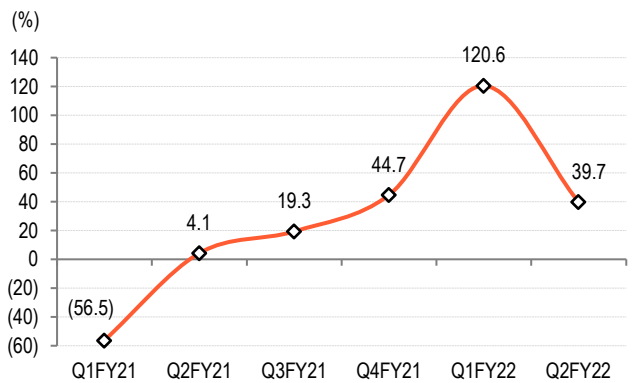
Source: Company, BOBCAPS Research

Fig 7 – Standalone volume growth



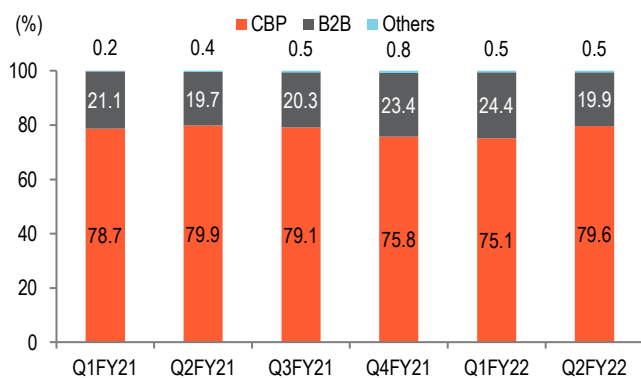
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue growth



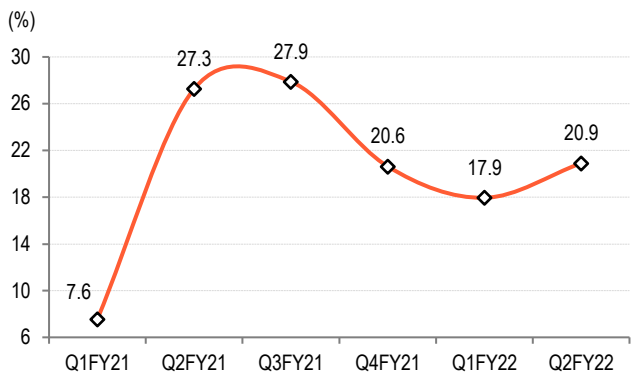
Source: Company, BOBCAPS Research

Fig 9 – Consolidated revenue break-up



Source: Company, BOBCAPS Research

Fig 10 – Consolidated EBITDA margin



Source: Company, BOBCAPS Research

Valuation methodology

While PIDI has delivered strong, broad-based sales and earnings growth, we prune FY22/FY23 EPS estimates by 10%/3% given rising VAM prices (up from US\$ 2,071/mt in Q2 to spot levels of US\$ 2,300-2,400/mt). We expect spiraling input costs to sustain/peak in the near term leading to stressed margins. While PIDI has initiated calibrated price hikes during the quarter, these cover only ~75% of inflation. Management is consciously looking to absorb the partial impact given high volatility in input prices and near-term demand uncertainty.

We remain positive on PIDI's long-term story given its strong presence in waterproofing and construction chemicals (first-mover advantage) and robust connect with trade channels. However, the stock looks overvalued at current levels of 78x FY23E EPS. We roll forward to a revised Sep'22 TP of Rs 2,080 (Rs 1,525 earlier), based on a 60x one-year forward P/E multiple (45x earlier), in line with the five-year median. Retain SELL.

Fig 11 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	89,662	1,03,920	1,19,726	89,662	1,03,920	1,19,726	-	-	-
EBITDA	19,008	23,694	28,016	20,891	24,213	28,016	(9)	(2.1)	-
EBITDA %	21.2	22.8	23.4	23.3	23.3	23.4	(210bps)	(50bps)	-
PAT	12,773	16,113	19,117	14,160	16,547	19,169	(9.8)	(2.6)	(0.3)
EPS	25.1	31.7	37.6	27.9	32.6	37.7	(9.9)	(2.7)	(0.2)

Source: BOBCAPS Research

Fig 12 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Consumer & Bazaar Products (Rs mn)	58,089	69,707	80,163	91,386
Growth (%)	4.2	20.0	15.0	14.0
Business to Business (Rs mn)	15,754	19,377	23,093	27,576
Growth (%)	(12.3)	23.0	19.2	19.4

Source: Company, BOBCAPS Research

Fig 13 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	1,393	21.5	22.8	29.6	18.9	23.3	47
Greenpanel Industries	GREENP IN	HOLD	395	27.6	14.1	18.3	21.1	22.1	20
Century Plyboard	CPBI IN	HOLD	630	19.5	12.1	15.1	19.9	20.5	37
Cera Sanitaryware	CRS IN	HOLD	5,893	17.1	109.8	134.9	15.4	16.9	40
Astral	ASTRA IN	SELL	1,210	16.3	20.2	25.2	20.3	22.6	48
Finolex Ind	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Ind	SI IN	BUY	2,735	22.7	76.2	91.2	28.5	29.9	30
Pidilite industries	PIDI IN	SELL	2,080	19.4	25.1	31.7	21.8	25.0	60
Asian Paints*	APNT IN	NR	NA	12.9	38.5	47.3	27.1	29.4	NA

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **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)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	72,945	72,927	89,662	1,03,920	1,19,726
EBITDA	15,760	16,806	19,008	23,694	28,016
Depreciation	(1,699)	(2,007)	(2,242)	(2,598)	(2,993)
EBIT	14,061	14,800	16,767	21,096	25,023
Net interest inc./(exp.)	(336)	(372)	(180)	(135)	(60)
Other inc./(exp.)	396	794	699	852	918
Exceptional items	0	0	0	0	0
EBT	15,219	15,221	17,286	21,813	25,881
Income taxes	(3,477)	(3,964)	(4,494)	(5,671)	(6,729)
Extraordinary items	(552)	(36)	0	0	0
Min. int./Inc. from assoc.	(26)	91	(18)	(28)	(35)
Reported net profit	11,164	11,312	12,773	16,113	19,117
Adjustments	426	27	0	0	0
Adjusted net profit	11,590	11,339	12,773	16,113	19,117

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	6,210	10,067	9,629	10,819	12,333
Other current liabilities	9,185	12,958	12,458	11,958	11,458
Provisions	735	829	959	1,109	1,259
Debt funds	1,691	2,139	3,000	850	850
Other liabilities	823	3,980	3,980	3,980	3,980
Equity capital	508	508	508	508	508
Reserves & surplus	44,048	55,421	60,636	67,213	75,017
Shareholders' fund	44,556	55,930	61,144	67,721	75,525
Total liab. and equities	65,357	88,304	93,635	98,983	1,08,047
Cash and cash eq.	7,033	4,515	8,376	9,923	13,212
Accounts receivables	10,885	13,210	13,511	15,659	18,041
Inventories	9,295	12,342	12,037	12,171	13,875
Other current assets	10,157	9,190	10,170	11,115	12,146
Investments	7,197	1,765	1,810	1,863	1,924
Net fixed assets	12,890	14,428	39,450	39,969	40,568
CWIP	2,593	2,939	2,939	2,939	2,939
Intangible assets	5,178	29,751	5,178	5,178	5,178
Deferred tax assets, net	130	166	166	166	166
Other assets	0	0	0	0	0
Total assets	65,357	88,304	93,635	98,983	1,08,047

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	13,474	14,866	13,475	16,538	18,314
Capital expenditures	(4,687)	(24,088)	(2,690)	(3,118)	(3,592)
Change in investments	4,317	5,433	(46)	(53)	(61)
Other investing cash flows	33	1,203	0	0	0
Cash flow from investing	(337)	(17,452)	(2,736)	(3,170)	(3,652)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	581	448	861	(2,150)	0
Interest expenses	(336)	(372)	(180)	(135)	(60)
Dividends paid	(8,254)	(7)	(7,559)	(9,536)	(11,313)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(8,009)	69	(6,878)	(11,821)	(11,373)
Chg in cash & cash eq.	5,128	(2,517)	3,861	1,547	3,289
Closing cash & cash eq.	7,032	4,515	8,376	9,923	13,212

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	22.0	22.3	25.1	31.7	37.6
Adjusted EPS	22.8	22.3	25.1	31.7	37.6
Dividend per share	13.5	8.5	11.8	14.9	17.7
Book value per share	87.7	110.1	120.3	133.3	148.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	17.2	17.2	14.0	12.1	10.4
EV/EBITDA	79.7	74.6	65.9	52.9	44.6
Adjusted P/E	108.5	110.9	98.4	78.0	65.8
P/BV	28.2	22.5	20.6	18.6	16.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	76.2	74.5	73.9	73.9	73.9
Interest burden (PBT/EBIT)	108.2	102.8	103.1	103.4	103.4
EBIT margin (EBIT/Revenue)	19.3	20.3	18.7	20.3	20.9
Asset turnover (Rev./Avg TA)	117.2	94.9	98.6	107.9	115.7
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.5	1.4
Adjusted ROAE	26.9	22.6	21.8	25.0	26.7

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	3.0	0.0	22.9	15.9	15.2
EBITDA	15.2	6.6	13.1	24.6	18.2
Adjusted EPS	30.2	(2.2)	12.7	26.1	18.6
Profitability & Return ratios (%)					
EBITDA margin	21.6	23.0	21.2	22.8	23.4
EBIT margin	19.3	20.3	18.7	20.3	20.9
Adjusted profit margin	15.9	15.5	14.2	15.5	16.0
Adjusted ROAE	26.9	22.6	21.8	25.0	26.7
ROCE	23.3	20.1	19.5	22.7	24.7
Working capital days (days)					
Receivables	54	60	54	51	51
Inventory	100	117	101	90	84
Payables	38	53	51	47	46
Ratios (x)					
Gross asset turnover	2.9	2.5	2.0	1.7	1.9
Current ratio	2.1	1.5	1.9	2.0	2.3
Net interest coverage ratio	41.8	39.8	93.2	156.6	420.6
Adjusted debt/equity	(0.1)	0.0	(0.1)	(0.1)	(0.2)

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

Disclaimer

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

BUY – Expected return >+15%

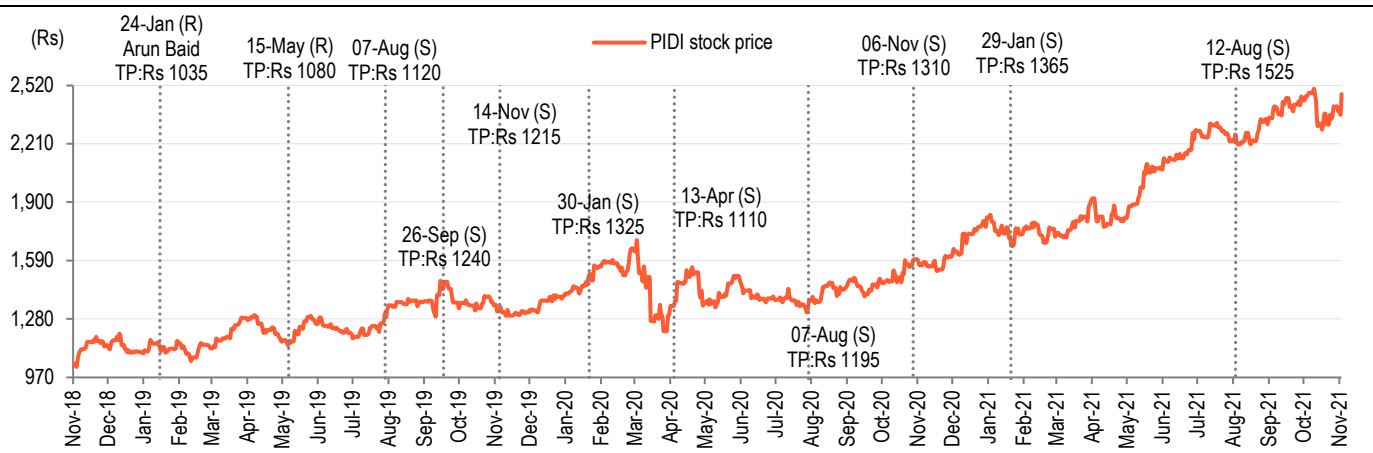
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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, H – Hold, S – Sell, A – Add, R – Reduce

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