

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

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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%

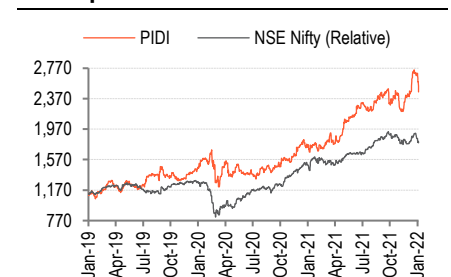
Source: NSE | Price as of 27 Jan 2022

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



Earnings call highlights

- Staggered pricing action and steady demand conditions aided robust double-digit revenue growth in Q3FY22. Management expects the demand environment to be challenging in the near term given pandemic-related disruptions and sustained input cost inflation.
- Growth in Q3 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\$ 1,000/mt in Q3FY21 to ~US\$ 2,000/mt in Q3FY22 (spot price ~US\$ 2,500/mt). Management expects VAM prices to soften post Mar'22.
- 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 1.5bn with an EBITDA margin of 32.1% during Q3FY22 vs. 43.7% in Q3FY21.
- In the international business, revenue from the Americas declined 25% YoY in Q3 on a higher previous-year base. Asia revenue grew 19% YoY. EBITDA margin for the region declined 160bps YoY to 18.7% on account of input cost inflation. The Middle East reported 23% YoY revenue growth.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Net revenues	28,507	22,990	24.0	26,264	8.5	74,139	50,572	46.6
Raw Material Cost	16,083	10,402	54.6	14,339	12.2	40,279	22,770	76.9
Employee cost	2,800	2,603	7.6	2,731	2.5	8,338	7,182	16.1
Other expenses	4,134	3,577	15.6	3,697	11.8	11,060	8,422	31.3
EBITDA	5,490	6,408	(14.3)	5,496	(0.1)	14,462	12,198	18.6
EBITDA margin (%)	19.3	27.9	(861bps)	20.9	(167bps)	19.5	24.1	(461bps)
Depreciation and amortization	605	495	22.2	603	0.2	1,774	1,435	23.7
EBIT	4,886	5,913	(17.4)	4,893	(0.1)	12,688	10,764	17.9
EBIT Margin (%)	17.1	25.7	(858bps)	18.6	(149bps)	17.1	21.3	(417bps)
Net Interest expenses	108	121	(10.9)	124	(13.0)	327	298	9.9
Foreign exchange gain (loss), net	0	0	n.m.	0	n.m.	0	0	n.m.
Other income	52	204	(74.6)	139	(62.8)	252	621	(59.4)
EBT and except. items	4,830	5,997	(19.5)	4,908	(1.6)	12,613	11,086	13.8
Exceptional items	0	0	n.m.	0	n.m.	0	0	n.m.
Earnings before tax	4,830	5,997	(19.5)	4,908	(1.6)	12,613	11,086	13.8
Income taxes	1,275	1,548	(17.6)	1,159	10.0	3,155	2,926	7.8
Income tax as % of PBT	26.4	25.8	58bps	23.6	278bps	25.0	26.4	(138bps)
Earnings after tax	3,555	4,449	(20.1)	3,749	(5.2)	9,458	8,160	15.9
Profit in associate company	37	16	136.1	7	473.8	67	27	150.4
Minority interest (expense) income	8	(46)	n.m.	(9)	n.m.	(8)	63	(112.6)
Net income (loss), reported	3,600	4,418	(18.5)	3,747	(3.9)	9,516	8,250	15.3

Source: Company, BOBCAPS Research

Fig 2 – Consolidated segmental performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue								
Consumer & Bazaar Products	22,645	18,489	22.5	21,304	6.3	58,812	40,786	44.2
Business to Business	6,186	4,751	30.2	5,324	16.2	16,330	10,404	57.0
Others	205	122	68.1	146	40.3	449	211	112.6
Total	29,036	23,361	24.3	26,774	8.5	75,592	51,401	47.1
Less: Inter Segment revenue	(529)	(371)	42.5	(510)	3.7	(1,453)	(830)	75.2
Net revenues	28,507	22,990	24.0	26,264	8.5	74,139	50,572	46.6
EBIT								
Consumer & Bazaar Products	5,629	6,451	(12.7)	5,827	(3.4)	15,160	13,059	16.1
Business to Business	400	558	(28.3)	263	52.2	1,083	657	64.8
Others	(12)	(5)	n.m.	(8)	48.7	(13)	(33)	(58.8)
Total	6,017	7,004	(14.1)	6,082	(1.1)	16,230	13,684	18.6
EBIT Margin (%)								
Consumer & Bazaar Products	24.9	34.9	(1,004bps)	27.4	(249bps)	25.8	32.0	(624bps)
Business to Business	6.5	11.7	(528bps)	4.9	153bps	6.6	6.3	31bps
Total	21.1	30.5	(936bps)	23.2	(205bps)	21.9	27.1	(517bps)

Source: Company, BOBCAPS Research

Fig 3 – Standalone quarterly performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Net revenues	24,163	19,567	23.5	22,134	9.2	62,558	43,593	43.5
Raw material exp	13,729	8,791	56.2	12,052	13.9	34,037	19,394	75.5
Employee exp	2,278	2,050	11.1	2,230	2.1	6,801	5,721	18.9
Other exp	3,376	3,000	12.5	3,062	10.3	9,153	7,079	29.3
EBITDA	4,781	5,727	(16.5)	4,790	(0.2)	12,566	11,400	10.2
EBITDA margin (%)	19.8	29.3	(948bps)	21.6	(185bps)	20.1	26.1	(606bps)
Depreciation and amortization	444	371	19.9	443	0.2	1,292	1,078	19.9
EBIT	4,337	5,356	(19.0)	4,347	(0.2)	11,274	10,322	9.2
EBIT Margin (%)	17.9	27.4	(943bps)	19.6	(169bps)	18.0	23.7	(566bps)
Net Interest expenses	67	62	6.7	87	(23.1)	216	126	71.0
Other income	65	195	(66.8)	164	(60.5)	1,249	616	102.7
PBT	4,335	5,489	(21.0)	4,424	(2.0)	12,307	10,812	13.8
Income taxes	1,110	1,394	(20.4)	1,721	(35.5)	2,803	2,758	1.6
Income tax as % of PBT	25.6	25.4	20bps	38.9	(1331bps)	22.8	25.5	(274bps)
Earnings after tax, adjusted	3,225	4,094	(21.2)	2,703	19.3	9,505	8,054	18.0
Extraordinary	0	0	n.m.	0		0	(5)	(100.0)
Net income (loss), reported	3,225	4,094	(21.2)	2,703	19.3	9,505	8,049	18.1

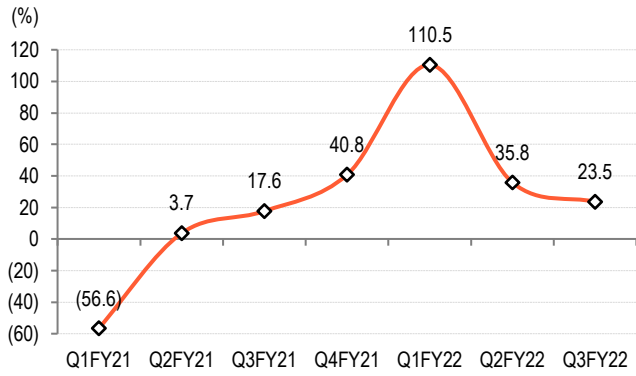
Source: Company, BOBCAPS Research

Fig 4 – Standalone segmental performance

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue								
Consumer & Bazaar Products	19,251	15,975	20.5	18,026	6.8	49,800	35,472	40.4
Business to Business	5,117	3,786	35.2	4,394	16.5	13,473	8,620	56.3
Others	205	122	68.1	146	40.3	449	211	112.6
Total	24,573	19,883	23.6	22,566	8.9	63,722	44,303	43.8
Less: Inter Segment revenue	(410)	(316)	29.6	(432)	(5.2)	(1,164)	(710)	64.0
Net revenues	24,163	19,567	23.5	22,134	9.2	62,558	43,593	43.5
EBIT								
Consumer & Bazaar Products	5,019	5,911	(15.1)	5,143	(2.4)	13,456	12,292	9.5
Business to Business	501	576	(13.0)	426	17.5	1,468	1,070	37.3
Others	(12)	(11)	n.m.	(8)	50.0	(14)	(33)	(58.5)
Total	5,508	6,476	(14.9)	5,561	(1.0)	14,911	13,329	11.9
EBIT Margin (%)								
Consumer & Bazaar Products	26.1	37.0	(1,093bps)	28.5	(246bps)	27.0	34.7	(763bps)
Business to Business	9.8	15.2	(542bps)	9.7	9bps	10.9	12.4	(151bps)
Others	(5.7)	(8.9)	316bps	(5.3)	(37bps)	(3.0)	(15.4)	1238bps
Total	22.8	33.1	(1,030bps)	25.1	(233bps)	23.8	30.6	(674bps)

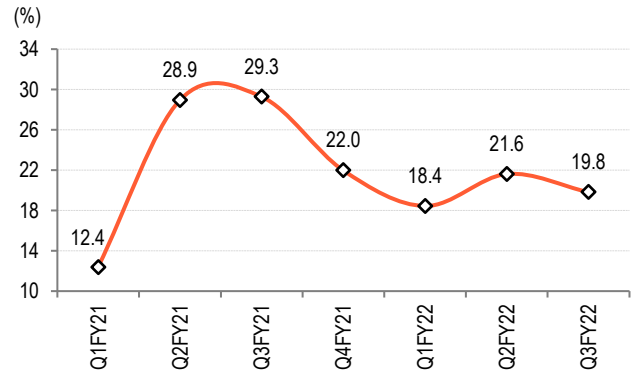
Source: Company, BOBCAPS Research

Fig 5 – Standalone revenue growth



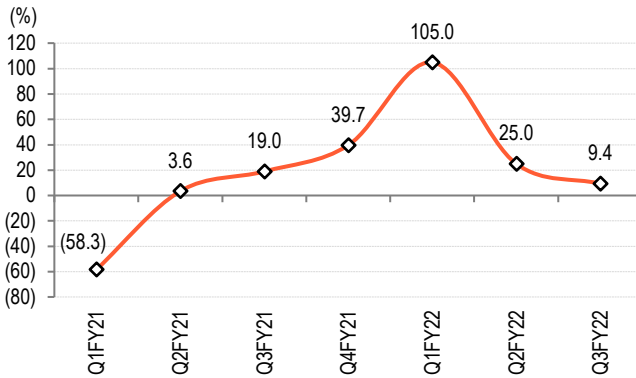
Source: Company, BOBCAPS Research

Fig 6 – Standalone EBITDA margin



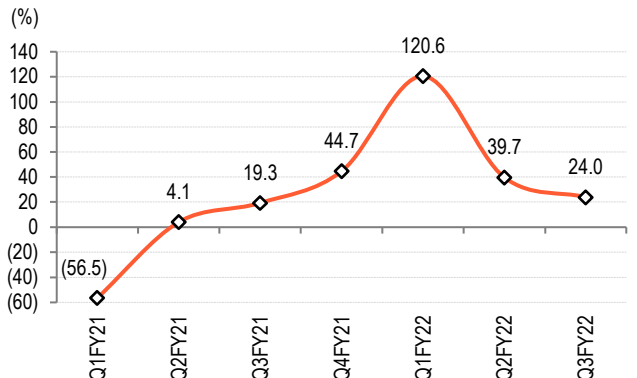
Source: Company, BOBCAPS Research

Fig 7 – Standalone volume growth



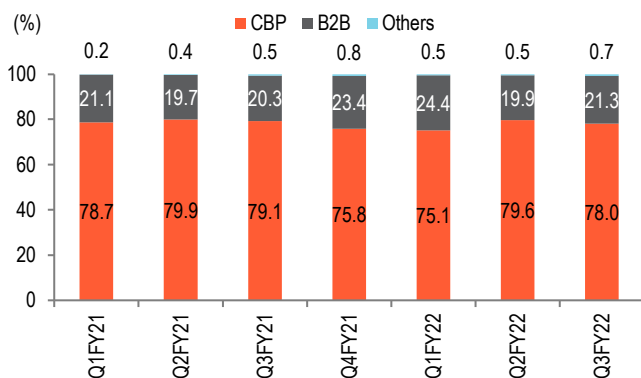
Source: Company, BOBCAPS Research

Fig 8 – Consolidated revenue growth



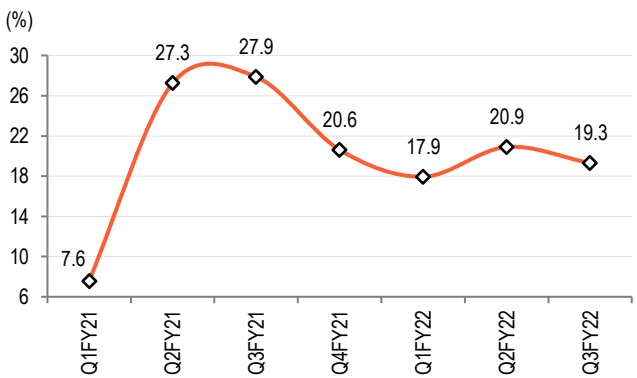
Source: Company, BOBCAPS Research

Fig 9 – Consolidated revenue break-up



Source: Company, BOBCAPS Research

Fig 10 – Consolidated EBITDA margin



Source: Company, BOBCAPS Research

Valuation methodology

PIDI remains a structural growth story given (1) market leadership in the low penetrated waterproofing industry, (2) emerging opportunities in high-margin epoxy adhesives, (3) market share gains from unorganised and regional players, (4) increased focus on digital initiatives, and (5) investment in supply chain and rural distribution.

We do 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.

The stock has corrected ~12% from its 52-week high (on 13 Jan 2022) and currently trades at 66x FY24E EPS, above its five-year median P/E of 63x. We continue to value PIDI 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. We remain positive on PIDI's long-term story and believe any further correction from hereon can be used as an opportunity to enter the stock.

Fig 11 – 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 12 – 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	BUY	1,460	21.5	22.8	29.6	18.9	23.3	40
Somany Ceramics	SOMC IN	BUY	1,140	19.0	20.5	32.8	12.5	17.3	25
Greenply Ind	MTLM IN	BUY	260	18.0	7.7	10.2	19.7	21.4	22
Century Plyboard	CPBI IN	HOLD	735	23.8	13.6	16.7	22.1	22.1	35
Greenpanel Ind	GREENP	BUY	595	34.0	16.0	21.7	23.7	25.1	23
Cera Sanitaryware	CRS IN	BUY	5,590	17.1	109.8	134.9	15.4	16.9	35
Pidilite	PIDI IN	HOLD	2,445	19.4	25.1	31.7	21.8	25.0	65
Astral	ASTRA IN	HOLD	2,465	22.3	22.5	29.5	22.5	26.0	65
Finolex Ind	FNXP IN	HOLD	200	7.7	10.2	9.4	19.0	15.9	20
Supreme Ind	SI IN	HOLD	2,535	15.7	74.7	80.7	28.0	26.7	30

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	17.1	17.1	13.9	12.0	10.4
EV/EBITDA	79.3	74.2	65.6	52.6	44.4
Adjusted P/E	107.9	110.3	97.9	77.6	65.4
P/BV	28.1	22.4	20.5	18.5	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%

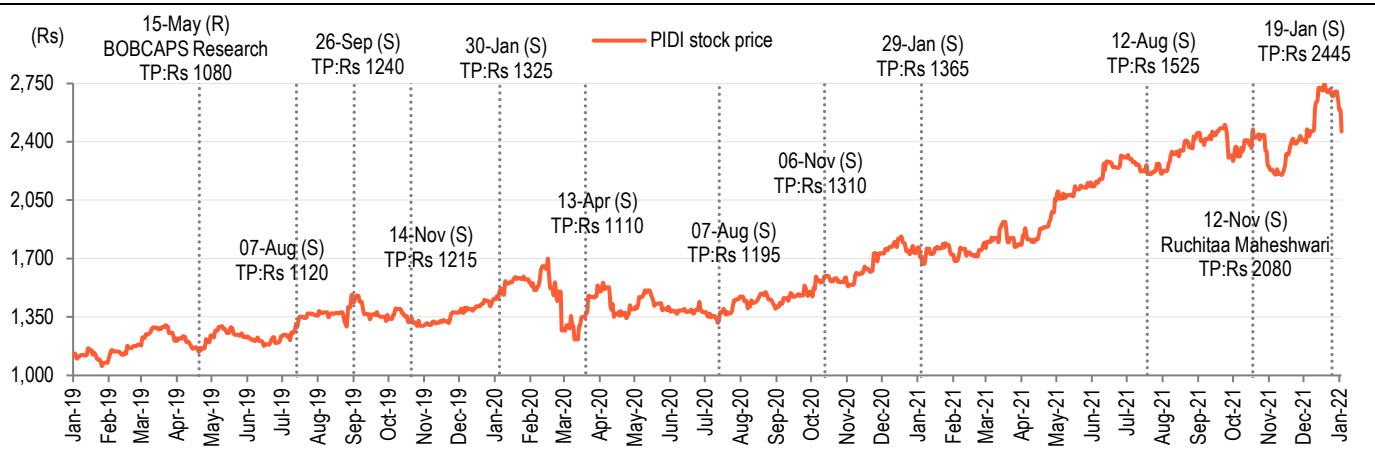
HOLD – Expected return from -6% to +15%

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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