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### Q3FY21 result review and earnings revision

## Mid-cap

Target price: Rs1,815

### Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 5.9	↑ 3.7	↑ 3.5
EBITDA	↑ 10.5	↑ 3.7	↑ 3.4
EPS	↑ 12.5	↑ 5.3	↑ 3.6

### Target price revision

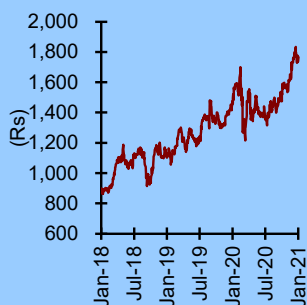
Rs1,815 from Rs1,620

### Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	70.2	70.2	70.2
Institutional investors	19.2	19.6	19.6
MFs and other	3.9	4.4	4.2
Insurance	3.8	3.9	3.8
FII	11.5	11.2	11.6
Others	10.6	10.2	10.2

Source: BSE, NSE

### Price chart



### Research Analysts:

**Nehal Shah**

nehal.shah@icicisecurities.com  
+91 22 6637 7235

**Jigar Shah**

jigar.shah@icicisecurities.com  
+91 22 6637 7416

# Pidilite Industries

**ADD**

Upgrade from Hold

## Demand visibility improves across segments **Rs1,670**

Pidilite Industries (PIDI) has reported a strong beat in Q3FY21 with consolidated revenue up 19.3% YoY at Rs23bn (I-Sec: Rs22bn). This was driven by 22%/12% YoY standalone volume and mix growth in consumer & bazaar (C&B) / B2B segment, respectively. EBITDA margin too rose sharply to 27.9% (I-Sec: 25.1%), up 390bps/60bps YoY/QoQ, led by lower input costs and savings in A&P spends. Robust growth was registered across all verticals driven by sustained growth momentum in rural areas and strong recovery in metros. Management remained optimistic on growth prospects across all product segments. Despite the recent increase in its input cost and higher A&P spends, we expect its EBITDA margin to remain firm in 24-26% range driven by its likely product mix improvement, cost optimisation and its ability to take partial price increases going forward. Upgrade to ADD.

- **Valuation and outlook:** Factoring in Q3FY21 performance, we increase our earnings estimates by 12.5%/5.3%/3.6% for FY21E/FY22E/FY23E, respectively. We now expect PIDI to report revenue and adjusted PAT CAGRs of 11.2% and 16.8%, respectively, over FY20-FY23E. We, thus, upgrade the stock to ADD from Hold (earlier) with a revised target price of Rs1,815 (earlier: Rs1,620) based on 50x FY23E earnings. Key downside risks: Further increase in VAM prices and higher competitive intensity in construction chemicals segment.
- **Consolidated sales grew 19.3% YoY.** PIDI's Q3FY21 standalone revenue grew 17.9% YoY, while consolidated sales grew 19.5% YoY to Rs23bn led by double-digit growth in both its C&B and B2B segments. International subsidiaries, too, reported an impressive 21.3% YoY growth led by strong growth traction in Americas, Bangladesh and Sri Lanka. Domestic subs revenue (including revenue from PAPL acquisition to the tune of Rs591mn) grew 32.1% YoY; however, excluding PAPL, domestic subs revenue declined 1.6% YoY due to 22% YoY decline in Nina Percept revenue. With Covid-19 impact receding at a faster pace in India, we expect PIDI's consolidated revenue to grow at 11.2% CAGR over FY20-FY23E.
- **EBITDA margin surprises positively led by softer input cost and lower A&P spends.** PIDI has reported 390bps YoY expansion in its consolidated EBITDA margin to 27.9% (I-Sec: 25.1%) driven by softer input costs and lower A&P spends. VAM prices consumption average was at US\$875/t in Q3FY21 vs US\$940/t YoY. Currently, VAM prices have, however, moved up sharply to US\$1300/t which along with the gradually rising A&P spends would impact EBITDA margin in the near term. However, likely price (partial) hikes and superior mix in the near term may restrict the fall in EBITDA margin going forward. We, thus, estimate PIDI's consolidated EBITDA margin to remain firm at 25.2%/25.7% in FY22E/FY23E, respectively.
- **Reported PBT at Rs6bn, up 32.4% YoY:** PIDI has reported a consolidated PBT of Rs6bn (I-Sec: Rs4.9bn), up 32.4% YoY, due to strong beat in its operational performance. Consolidated adjusted PAT was at Rs4.4bn, up 29.3% YoY. We expect the company to report 16.8% PAT CAGR over FY20-FY23E.

Market Cap	Rs848bn/US\$11.6bn	Year to Mar (Cons)	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	PIDI.BO / PIDI IN	Revenue (Rs mn)	72,945	72,889	89,135	100,298
Shares Outstanding (mn)	508.1	Rec. Net Income (Rs mn)	11,515	12,026	15,735	18,381
52-week Range (Rs)	1833/1216	Rec. EPS (Rs)	22.8	23.8	31.1	36.3
Free Float (%)	29.8	% Chg YoY	22.9	4.2	30.8	16.9
FII (%)	11.6	P/E (x)	73.2	70.3	53.8	46.0
Daily Volume (US\$/'000)	21,934	CEPS (Rs)	25.3	27.8	35.7	41.3
Absolute Return 3m (%)	6.3	EV/E (x)	53.5	48.0	37.7	32.7
Absolute Return 12m (%)	10.9	Dividend Yield (%)	0.4	0.4	0.6	0.7
Sensex Return 3m (%)	16.9	RoCE (%)	32.7	30.5	33.5	33.6
Sensex Return 12m (%)	15.0	RoE (%)	25.7	23.8	26.5	26.3

Please refer to important disclosures at the end of this report

**Table 1: Q3FY21 result review (consolidated)***(Rs mn, year ending March 31)*

Particulars	Q3FY21A	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Net Sales</b>	<b>22,990</b>	<b>21,992</b>	<b>19,266</b>	<b>19.3</b>	<b>18,803</b>	<b>22.3</b>	<b>50,572</b>	<b>57,498</b>	<b>(12.0)</b>
<b>Expenditure</b>	<b>16,582</b>	<b>16,478</b>	<b>14,634</b>	<b>13.3</b>	<b>13,677</b>	<b>21.2</b>	<b>38,374</b>	<b>44,747</b>	<b>(14.2)</b>
Raw Materials	8,945	9,078	8,195	9.2	7,205	24.1	19,812	24,312	(18.5)
Cost of traded goods	1,457	1,200	709	105.7	1,079	35.1	2,959	2,818	5.0
Staff Cost	2,603	2,500	2,361	10.3	2,421	7.5	7,182	7,142	0.6
Other Expenditure	3,577	3,700	3,371	6.1	2,972	20.4	8,422	10,475	(19.6)
<b>Operating Profit</b>	<b>6,408</b>	<b>5,514</b>	<b>4,632</b>	<b>38.4</b>	<b>5,126</b>	<b>25.0</b>	<b>12,198</b>	<b>12,751</b>	<b>(4.3)</b>
OPM (%)	27.9	25.1	24.0	390bps	27.3	60bps	24.1	22.2	190bps
Other Income	204	120	398	(48.8)	217	(6.0)	621	1,355	(54.2)
Interest	121	142	82	47.4	87	39.5	298	238	25.1
Depreciation	495	550	419	18.2	479	3.3	1,435	1,198	19.7
Exceptional items	0	0	0		0		0	-222	
<b>PBT</b>	<b>5,997</b>	<b>4,942</b>	<b>4,530</b>	<b>32.4</b>	<b>4,778</b>	<b>25.5</b>	<b>11,086</b>	<b>12,670</b>	<b>(12.5)</b>
Tax	1,548	1,260	1,084	42.8	1,220	26.9	2,926	2,821	3.7
<b>PAT</b>	<b>4,449</b>	<b>3,682</b>	<b>3,445</b>	<b>29.1</b>	<b>3,558</b>	<b>25.0</b>	<b>8,160</b>	<b>9,849</b>	<b>(17.1)</b>
Minority Interest	-46	-40	-43	6.2	-0	22,900.0	63	-67	(195.3)
Profit in associate company	16	6	16	0.0	6	159.0	27	29	(9.2)
<b>Adjusted PAT</b>	<b>4,418</b>	<b>3,648</b>	<b>3,418</b>	<b>29.3</b>	<b>3,564</b>	<b>24.0</b>	<b>8,250</b>	<b>9,811</b>	<b>(15.9)</b>
<b>Reported PAT</b>	<b>4,418</b>	<b>3,648</b>	<b>3,418</b>	<b>29.3</b>	<b>3,564</b>	<b>24.0</b>	<b>8,250</b>	<b>9,589</b>	<b>(14.0)</b>
Adjusted NPM (%)	19.2	16.6	17.7	150bps	19.0	20bps	16.3	16.7	-40bps

Source: Company data, I-Sec research

**Table 2: Change in estimates***(Rs mn, year ending March 31)*

	Old			New			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	68,801	85,960	96,886	72,889	89,135	1,00,298	5.9%	3.7%	3.5%
EBITDA	16,029	21,639	24,911	17,715	22,430	25,763	10.5%	3.7%	3.4%
EBIDTA margins	23.3%	25.2%	25.7%	24.3%	25.2%	25.7%	100bps	0bps	0bps
Reported PAT	10,728	14,989	17,811	12,071	15,785	18,446	12.5%	5.3%	3.6%
Reported EPS	21.1	29.5	35.1	23.8	31.1	36.3	12.5%	5.3%	3.6%

Source: Company data, I-Sec research

## Key takeaways from the conference call

- **Standalone growth:** PIDI has reported a standalone volume and mix growth of 19% in Q3FY21. This was driven by 22% YoY growth in sales volume and mix of C&B and 12% YoY growth in sales volume & mix of B2B.
- Robust growth was registered across all verticals driven by sustained growth momentum in rural areas and strong recovery in urban India including metros.
- Due to resurgence in industrial activity, healthy volume growth has been registered in business to business (B2B) segment, too.
- In case of domestic subsidiaries, B2B-led subs reported growth only in the later part of Q3FY21.
- **EBITDA margin** guidance remained in the range of 21-24% for the next 2 years. Despite achieving 27%+ EBITDA margin in last 2 successive quarters, margins are likely to cool off in near term due to the recent sharp increase in input costs and likely higher A&P spends going forward.
- **VAM consumption cost** in Q3FY21 was US\$875/t vs US\$940/t YoY, while spot prices stand much higher at US\$1300/t.
- **A&P spends** at the end of Q3FY21 (in month of Dec'20) reached pre-Covid levels of 3.5-4% of sales. Hence, overall A&P spends in Q3FY21 was lower than usual. The company targets its A&P spends in the range of 3.5-4% going forward.
- **Capacity utilisation** across its products verticals was at 85-90% for the quarter. The company has thus guided for capex at 4.5-5% of sales over the next two years.
- **Overseas subsidiaries** have reported healthy growth due to strong growth in Americas and SAARC regions. Bangladesh and Sri Lanka subs also continued to do well.
- **Waterproofing/construction chemicals segment:** The company has been maintaining its market share in the segment and is present across categories with its wide range of offerings vis-a-vis limited offerings in case of paint companies.
- **Ready-made furniture opportunity:** To capture the ready-made furniture opportunity, PIDI has already created a strong product portfolio catering to the joinery segment.
- **Distribution:** The company is already present in towns with upto 50,000 population. Now it plans to expand in rural areas with population lower than that.
- Pidilite Adhesives Pvt (PAPL) has reported sequential improvement in its revenue and EBITDA margin. The margin accretion was largely driven by lower input costs QoQ.
- Transition in PAPL is going on at a smooth pace. The focus will be to improve volumes and plug distribution gaps going forward.
- The acquisition of PAPL was done from its internal accruals.

## Financial summary (consolidated)

**Table 3: Profit & loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>72,945</b>	<b>72,889</b>	<b>89,135</b>	<b>1,00,298</b>
<b>Operating Expenses</b>	<b>57,185</b>	<b>55,174</b>	<b>66,705</b>	<b>74,535</b>
<b>EBITDA</b>	<b>15,760</b>	<b>17,715</b>	<b>22,430</b>	<b>25,763</b>
<i>% margins</i>	21.6%	24.3%	25.2%	25.7%
Depreciation & Amortisation	1,699	2,035	2,332	2,547
Gross Interest	336	442	419	363
Other Income	942	801	1,159	1,504
<b>Recurring PBT</b>	<b>14,667</b>	<b>16,039</b>	<b>20,838</b>	<b>24,357</b>
Less: Taxes	3,477	4,026	5,053	5,907
Less: Minority Interest	56	(13)	50	70
<b>Net Income (Reported)</b>	<b>11,134</b>	<b>12,026</b>	<b>15,735</b>	<b>18,381</b>
Extraordinaries (Net)	(381)	-	-	-
<b>Recurring Net Income</b>	<b>11,515</b>	<b>12,026</b>	<b>15,735</b>	<b>18,381</b>

Source: Company data, I-Sec research

**Table 4: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	32,705	27,911	35,909	43,142
of which cash & cash eqv.	7,033	1,161	4,774	8,157
Total Current Liabilities & Provisions	16,130	14,691	16,070	17,018
<b>Net Current Assets</b>	<b>16,574</b>	<b>13,220</b>	<b>19,839</b>	<b>26,124</b>
<b>Investments</b>				
of which				
Strategic/Group	11,862	5,362	7,862	11,362
Others	20,660	25,126	25,294	26,247
<b>Net Fixed Assets</b>	<b>-</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>
Goodwill	49,097	58,708	67,995	78,733
<b>Total Assets</b>				
<b>Liabilities</b>	1,691	3,191	2,791	2,391
<b>Borrowings</b>	693	743	743	743
<b>Deferred Tax Liability</b>	2,157	2,143	2,193	2,263
Minority Interest	508	508	508	508
Equity Share Capital	1	1	1	1
Face Value per share (Rs)	44,048	52,123	61,759	72,827
Reserves & Surplus				
<b>Net Worth</b>	<b>44,556</b>	<b>52,631</b>	<b>62,267</b>	<b>73,336</b>
<b>Total Liabilities</b>	<b>49,097</b>	<b>58,708</b>	<b>67,995</b>	<b>78,733</b>

Source: Company data, I-Sec research

**Table 5: Quarterly trends**
*(Rs mn, year ending March 31)*

	Mar-20	Jun-20	Sep-20	Dec-20
Total Income	15,447	8,778	18,803	22,990
% growth (YoY)	-5.8%	-56.5%	4.1%	19.3%
EBITDA	3,009	664	5,126	6,408
Margin (%)	19.5	7.6	27.3	27.9
Other income	140	200	217	204
Add: Extraordinaries	(330)	-	-	-
Net profit	1,575	268	3,564	4,418

Source: Company data, I-Sec research

**Table 6: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>9,295</b>	<b>14,106</b>	<b>18,117</b>	<b>20,993</b>
Working Capital Changes	1,914	(17,548)	(3,055)	(2,952)
Capital Commitments	(5,372)	(6,500)	(2,500)	(3,500)
<b>Free Cashflow</b>	<b>5,837</b>	<b>(9,942)</b>	<b>12,561</b>	<b>14,541</b>
<b>Cashflow from Investing Activities</b>	<b>3,615</b>	<b>6,500</b>	<b>(2,500)</b>	<b>(3,500)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	581	1,500	(400)	(400)
Dividend paid	(4,526)	(4,010)	(6,098)	(7,308)
<b>Change in Deferred Tax Liability</b>	<b>(379)</b>	<b>80</b>	<b>50</b>	<b>50</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>5,128</b>	<b>(5,872)</b>	<b>3,613</b>	<b>3,383</b>

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	22.8	23.8	31.1	36.3
Diluted Recurring EPS	25.3	27.8	35.7	41.3
Recurring Cash EPS	7.5	6.5	10.0	12.0
Dividend per share (DPS)	91.9	107.8	126.9	148.8
Book Value per share (BV)				
<b>Growth Ratios (%)</b>	3.1	-0.1	22.3	12.5
Operating Income	15.2	12.4	26.6	14.9
EBITDA	22.9	4.2	30.8	16.9
Recurring Net Income	21.6	9.7	28.4	15.9
Diluted Recurring EPS				
Diluted Recurring CEPS	73.2	70.3	53.8	46.0
<b>Valuation Ratios</b>	66.0	60.2	46.8	40.4
P/E	18.2	15.5	13.2	11.2
P/CEPS	53.5	48.0	37.7	32.7
P/BV	11.6	11.7	9.5	8.4
EV / EBITDA				
EV / Operating Income	46.6	42.9	43.7	43.7
EV / Op. FCF (pre -Capex)	12.7	13.0	11.8	11.8
<b>Operating Ratios</b>	11.0	12.0	11.8	11.3
COGS/Sales (%)	0.1	0.0	0.1	0.1
Employee/Sales (%)	23.7	25.1	24.3	24.3
SG&A/Sales (%)	79.0	74.0	72.0	72.0
Other Income / PBT (%)	52.0	52.0	52.0	52.0
Effective Tax Rate (%)	58.0	53.0	51.0	51.0
Receivables (days)	31.0	31.0	31.0	31.0
Payables (days)	-0.1	0.0	0.0	-0.1
<b>Profitability Ratios (%)</b>				
Recurring Net Income				
Margins	15.9	16.6	17.7	18.4
RoCE	32.7	30.5	33.5	33.6
RoNW	25.7	23.8	26.5	26.3
Dividend Payout Ratio	41.3	33.1	38.9	40.0
Dividend Yield	0.4	0.4	0.6	0.7
EBITDA Margins	21.6	24.3	25.2	25.7

Source: Company data, I-Sec research

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