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Q4FY21 result review and reco change

Mid-cap

Target price: Rs1,787

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.3	↑ 2.1
EBITDA	↓ 9.6	↓ 2.6
EPS	↓ 9.3	↓ 1.6

Target price revision

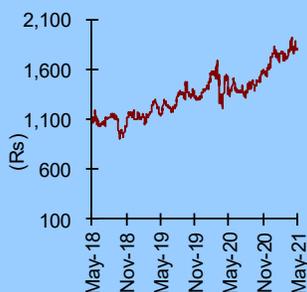
Rs1,787 from Rs1,815

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	70.2	70.2	70.2
Institutional investors	19.6	19.6	19.3
MFs and other	4.4	4.2	3.9
Insurance	3.9	3.8	3.3
FII	11.2	11.6	12.1
Others	10.2	10.2	10.5

Source: BSE, NSE

Price chart



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Pidilite Industries

HOLD

Downgrade from ADD

Input cost inflation impacts performance

Rs1,879

Pidilite Industries (PIDI) reported sharp fall in EBITDA margin to 20.6% (I-Sec: 21.8%), down 790bps QoQ led by steep decline in gross margins by 390bps QoQ on the back of substantial increase in VAM and other input costs. However, standalone Consumer & Bazaar volume growth remained robust at 45.3% YoY led by strong growth across major categories. Consolidated revenue too was up 45.3% YoY at Rs22.4bn (I-Sec: Rs22.9bn). B2B segment continued to recover sequentially. Araldite reported strong double-digit growth but margins were impacted due to higher input cost. We believe growth prospects remain robust on the back of market share gains, continuous innovation, increasing penetration in rural, DIY and E-commerce business. However, gross margins are likely to remain challenged in the near term despite the recent price increases which would largely cover up for 75% of the cost inflation. Downgrade to **HOLD**.

- Valuation and outlook:** Factoring in Q4FY21 performance, we cut our EBITDA margin assumption by 250bps/120bps for FY22E/FY23E, respectively leading to lower earnings by 9.2%/1.5% for FY22/FY23 respectively. We now expect PIDI to report revenue and adjusted PAT CAGRs of 18.5% and 26.5%, respectively, over FY21-FY23E. We, thus, downgrade the stock to **HOLD** from **Add** (earlier) with a revised target price of Rs1,787 (earlier: Rs1,815) based on 50x FY23E earnings. Key downside/Up-side risk: Sustained higher RM prices/sharp decline in VAM prices in near term.
- Consolidated sales grew 45.3% YoY.** PIDI's Q4FY21 standalone revenue grew 41.5% YoY, while consolidated sales grew 45.3% YoY to Rs22.4bn led by 45%/26% growth in its C&B/B2B segments respectively. International subsidiaries reported growth of 29.2% YoY led by strong growth traction in Americas. Domestic subs revenue (including revenue from PAPL acquisition to the tune of Rs1.1bn) grew 94.1% YoY; however, excluding PAPL, domestic subs revenue grew 23.5% YoY largely due to a muted 3% YoY growth in Nina Percept revenue.
- EBITDA margin surprises negatively led by higher input cost.** PIDI reported 460bps/390bps YoY/QoQ decline in its consolidated gross margin to 50.8% driven by higher input costs impacting its EBITDA margin to 20.6% down 790bps QoQ. VAM prices consumption average was at US\$1200/t in Q4FY21 vs US\$925/t YoY. Currently, VAM prices have, however, moved up sharply to US\$2000/t which PIDI expects to come down to US\$1200-1500/t in the next 4-6 months. Recent price (partial) hikes and superior mix in the near term would only be able to negate the cost inflation impact partially thereby keeping likely to impact its near-term gross margins. We, thus, estimate PIDI's consolidated EBITDA margin to get impacted in near term but regain its momentum in FY23E.
- Reported PBT at Rs4.1bn, up 62.2% YoY:** PIDI has reported a consolidated PBT of Rs4.1bn (I-Sec: Rs4.4bn), up 62.2% YoY, due to lower than expected operational performance. Consolidated adjusted PAT was at Rs3.1bn, up 62.6% YoY. We expect the company to report 26.5% PAT CAGR over FY21-FY23E.

Market Cap	Rs955bn/US\$13bn	Year to Mar (Cons)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	PIDI.BO / PIDI IN	Revenue (Rs mn)	72,945	72,927	89,375	1,02,448
Shares Outstanding (mn)	508.2	Rec. Net Income (Rs mn)	11,515	11,298	14,277	18,093
52-week Range (Rs)	1920/1315	Rec. EPS (Rs)	22.8	22.3	28.2	35.7
Free Float (%)	29.8	% Chg YoY	22.9	(2.0)	26.3	26.8
FII (%)	12.1	P/E (x)	82.5	84.2	66.7	52.6
Daily Volume (US\$/'000)	18559	CEPS (Rs)	25.3	26.2	32.6	40.5
Absolute Return 3m (%)	6.8	EV/E (x)	60.3	56.7	47.1	37.9
Absolute Return 12m (%)	38.6	Dividend Yield (%)	0.4	0.5	0.5	0.6
Sensex Return 3m (%)	(5.4)	RoCE (%)	32.7	27.4	27.9	31.0
Sensex Return 12m (%)	56.9	RoE (%)	25.7	21.6	22.9	25.2

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Table 1: Q4FY21 result review (consolidated)*(Rs mn, year ending March 31)*

Particulars	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Sales	22,355	22,934	15,447	44.7	22,990	(2.8)	72,927	72,945	(0.0)
Expenditure	17,747	17,940	12,438	42.7	16,582	7.0	56,121	57,185	(1.9)
Raw Materials	9,183	10,130	5,877	56.2	8,945	2.7	28,995	30,189	(4.0)
Cost of traded goods	1,813	1,420	1,018	78.2	1,457	24.4	4,772	3,836	24.4
Staff Cost	2,627	2,650	2,131	23.3	2,603	0.9	9,809	9,272	5.8
Other Expenditure	4,124	3,740	3,412	20.9	3,577	15.3	12,546	13,887	(9.7)
Operating Profit	4,608	4,994	3,009	53.1	6,408	(28.1)	16,806	15,760	6.6
OPM (%)	20.6	21.8	19.5	110bps	27.9	-730bps	23.0	21.6	140bps
Other Income	173	180	140	24.1	204	(15.0)	794	1,494	(46.9)
Interest	74	144	98	(24.0)	121	(38.4)	372	336	10.8
Depreciation	572	600	501	14.2	495	15.6	2,007	1,699	18.1
Exceptional items	-36	0	-330		0		-36	-552	
PBT	4,135	4,430	2,550	62.2	5,997	(31.0)	15,221	15,219	0.0
Tax	1,038	950	656	58.2	1,548	(33.0)	3,964	3,477	14.0
PAT	3,097	3,480	1,894	63.6	4,449	(30.4)	11,258	11,742	(4.1)
Minority Interest	-13	-50	10	(222.5)	-46	(72.8)	51	-56	(190.4)
Profit in associate company	13	18	1	1,220.0	16	(16.5)	40	30	31.4
Adjusted PAT	3,098	3,448	1,905	62.6	4,418	(29.9)	11,348	11,716	(3.1)
Reported PAT	3,062	3,448	1,575	94.4	4,418	(30.7)	11,312	11,164	1.3
Adjusted NPM (%)	13.7	15.0	10.2	350bps	19.2	-550bps	15.5	15.3	20bps

Source: Company data, I-Sec research

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

Estimates	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	89,135	1,00,298	89,375	1,02,448	0.3%	2.1%
EBITDA	22,430	25,763	20,274	25,100	-9.6%	-2.6%
EBITDA margins	25.2%	25.7%	22.7%	24.5%	-250bps	-120bps
Reported PAT	15,785	18,446	14,327	18,163	-9.2%	-1.5%
Reported EPS	31.1	36.3	28.2	35.7	-9.3%	-1.6%

Source: Company data, I-Sec research

Key takeaways from the conference call

- **Standalone growth:** PIDI has reported a standalone volume and mix growth of 40% in Q4FY21. This was driven by 45% YoY growth in sales volume and mix of C&B and 26% YoY growth in sales volume & mix of B2B.
- Robust growth was reported across major segments led by sustained momentum in both rural and urban geographies.
- Second covid wave would however poses a challenge to growth in the near term.
- **Waterproofing:** Waterproofing has shown strong growth in FY21 and thus maintains its leadership position despite the impact on Nina Percept (its institutional waterproofing segment).
- **The major impact of lockdown is on the products which are sold from retail stores while construction activities (which is still going on in major cities) is still driving demand for waterproofing products.**
- **Gross margin for the quarter has been impacted due to significant increase in RM cost. Management expects sustained pressure on gross margins for another quarter or two.**
- VAM procurement rate increased sharply in last few months from US\$930/t to USD2000/t
- **VAM consumption cost** in Q4FY21 was US\$1200/t vs US\$925/t YoY vs US\$875/t QoQ.
- **Company assumes softness in VAM prices from Jun'21 onwards and expects to settle down to US\$1200-1500/t in next 6 months.**
- **Company has taken price hike in Mar'21 and is likely to take further price hikes in May'21 to cover up for 75% of the cost inflation in VAM prices.**
- **Company has taken weighted average price increase in brand 'Fevicol' by 4-6% between Mar'21 and now.**
- The unprecedented increase in VAM prices is mainly led by supply side constraints rather than demand side rise. Hence company believes prices would soften in H2FY22.
- Company will continue to gain market share due to volatility in input cost and constraints in sourcing materials.
- Subsidiaries in B2B segments have shown early signs of recovery.
- Construction activities has got impacted in many cities (during the second wave) and the timing of recovery remains uncertain.
- **Araldite:** Newly acquired Pidilite Adhesives Pvt. Ltd. (Araldite) has shown sequential improvement in growth with well over double-digit growth while EBITDA was impacted due to higher input cost of Epoxy resins which has also doubled in last few months.
- **EBITDA margin** guidance remain in the range of 21-24%.

- **Rural India penetration in FY21:** Company added 700 new sub-stockists, 60,000 new outlets, covering 7,000 new villages
- **DIY and E-commerce** have grown significantly in FY21 although at a lower base.
- Company is in the process to set up 10 new greenfield plants and new warehouses to increase its reach.
- 80% of the dealers are on auto replenishment mode with digital application.

Financial summary (consolidated)

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Net Revenues	72,945	72,927	89,375	1,02,448
Operating Expenses	57,185	56,121	69,102	77,347
EBITDA	15,760	16,806	20,274	25,100
% margins	21.6%	23.0%	22.7%	24.5%
Depreciation & Amortisation	1,699	2,007	2,264	2,424
Gross Interest	336	372	285	275
Other Income	942	758	1,162	1,537
Recurring PBT	14,667	15,185	18,887	23,938
Less: Taxes	3,477	3,964	4,580	5,805
Less: Minority Interest	56	(51)	30	40
Net Income (Reported)	11,134	11,272	14,277	18,093
Extraordinaries (Net)	(381)	(26)	-	-
Recurring Net Income	11,515	11,298	14,277	18,093

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	32,705	35,861	35,098	42,477
of which cash & cash eqv.	7,033	4,515	3,482	6,761
Total Current Liabilities & Provisions	16,130	23,855	17,591	18,701
Net Current Assets	16,574	12,006	17,507	23,776
Investments	11,862	5,160	7,660	11,160
Net Fixed Assets	20,660	47,118	47,354	48,430
Capital Work-in-Progress	-	-	-	-
Goodwill	-	-	-	-
Total Assets	49,097	64,284	72,522	83,366
Liabilities				
Borrowings	1,691	2,139	2,239	2,339
Deferred Tax Liability	693	3,814	3,744	3,664
Minority Interest	2,157	2,400	2,430	2,470
Equity Share Capital	508	508	508	508
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	44,048	55,422	63,600	74,384
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	44,556	55,930	64,108	74,892
Total Liabilities	49,097	64,284	72,522	83,366

Source: Company data, I-Sec research

Table 5: Quarterly trends

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net revenues	8,778	18,803	22,990	22,355
% growth (YoY)	-56.5%	4.1%	19.3%	44.7%
EBITDA	664	5,126	6,408	4,608
Margin (%)	7.6	27.3	27.9	20.6
Other income	200	217	204	173
Extraordinaries (Net)	-	-	-	(36)
Reported Net profit	268	3,564	4,418	3,062

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	9,295	18,607	16,591	20,587
Working Capital Changes	1,914	2,015	(6,604)	(3,069)
Capital Commitments	(5,372)	(28,464)	(2,500)	(3,500)
Free Cashflow	5,837	(7,843)	7,486	14,018
Cashflow from Investing Activities	3,615	6,702	(2,500)	(3,500)
Issue of Share Capital	-	0	-	-
Inc (Dec) in Borrowings	581	448	100	100
Dividend paid	(4,526)	(4,983)	(6,119)	(7,339)
Change in Deferred Tax Liability	(379)	3,157	-	-
Chg. in Cash & Bank balance	5,128	(2,518)	(1,033)	3,279

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS	22.8	22.3	28.2	35.7
Cash EPS	25.3	26.2	32.6	40.5
Dividend per share (DPS)	7.5	8.5	10.0	12.0
Book Value per share (BV)	91.9	114.8	130.9	152.2
Growth Ratios (%)				
Net Sales	3.1	0.0	22.6	14.6
EBITDA	15.2	6.6	20.6	23.8
PAT	22.9	-2.0	26.3	26.8
Cash EPS	21.6	3.5	24.6	24.1
Valuation Ratios				
P/E	82.5	84.2	66.7	52.6
P/CEPS	74.3	71.7	57.6	46.4
P/BV	20.4	16.4	14.4	12.3
EV / EBITDA	60.3	56.7	47.1	37.9
EV / Sales	13.0	13.1	10.7	9.3
Operating Ratio				
Raw Material / Sales (%)	46.6	46.3	46.2	44.9
Employee cost / Sales (%)	12.7	13.4	11.8	11.8
SG&A / Sales (%)	11.5	10.7	11.8	11.3
Other Income / PBT (%)	0.1	0.1	0.1	0.1
Effective Tax Rate (%)	23.7	25.1	24.3	24.3
Working Capital (days)	79.0	79.0	74.0	72.0
Inventory Turnover (days)	52.0	52.0	52.0	52.0
Receivables (days)	58.0	58.0	53.0	51.0
Payables (days)	31.0	31.0	31.0	31.0
Net D/E Ratio (x)	-0.1	0.0	0.0	-0.1
Return/Profitability Ratio (%)				
Net Income Margins	15.9	15.6	16.0	17.7
RoACE	32.7	27.4	27.9	31.0
RoAE	25.7	21.6	22.9	25.2
Dividend Payout	41.3	46.2	42.9	40.6
Dividend Yield	0.4	0.5	0.5	0.6
EBITDA Margins	21.6	23.0	22.7	24.5

Source: Company data, I-Sec research

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