

Rating Rationale

September 28, 2023 | Mumbai

Pidilite Industries Limited

Ratings Reaffirmed

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Rating Action

Total Bank Loan Facilities Rated	Rs.367 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

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Rs.250 Crore Short Term Debt	CRISIL A1+ (Reaffirmed)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities and short term debt programme of Pidilite Industries Limited (Pidilite).

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The rating continues to reflect the market leader leadership position of the company in the core adhesives and sealants category, well-diversified product offerings with strong brand recall, healthy growth prospects in the underpenetrated waterproofing segment & tile jointers and focus on niche products such as floor coating & wood finishes. The ratings are further supported by strong operating efficiencies leading to healthy profitability, and superior financial risk profile and liquidity.

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The company's flagship segment i.e. Consumer & Bazaar continues to contribute to the growth momentum of the company. Revenue growth in fiscal 2024 is expected to be supported by expansion of volumes as softening of key raw material prices are likely to keep a check on realisations. Efficient cost control measures and strong operating efficiencies coupled with softening of key input prices will benefit in expansion of margins to 18-20% over the medium term. As a result, Pidilite is expected to generate healthy cash and cash equivalents of over Rs. 1000 crores annually.

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On standalone level and consolidated level, the company continues to remain long term debt free and negligibly used working capital limits. Credit metrics continued to remain strong; with gearing levels at 0.03 times as on fiscal 2023. Liquidity remains strong with healthy cash balances.

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The ratings continue to reflect diversified distribution network, and a healthy financial risk profile. These strengths are partially offset by erratic monsoon dampening the demand and vulnerability to volatility in input prices.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Pidilite and all its subsidiaries and associate to the extent of its shareholding in these entities since these have significant business and financial linkages and are under common management.

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CRISIL Ratings has amortised goodwill and trademarks arising from acquisitions of Pidilite Adhesives Private Limited (formerly known as Huntsman Advanced Materials Solutions Pvt Ltd), Cipy Polyurethanes Pvt Ltd and Tenax Pidilite India Pvt. Ltd. (formerly known as Tenax India Stone Products Pvt. Ltd.) over a period of 5 and 10 years respectively, given expectation of returns being spread over a longer tenure.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

Leading position in the consumer adhesive and sealant market

Pidilite is the largest player in the consumer adhesive and sealant industry. Fevicol is an iconic brand in the domestic adhesives segment, where it is synonymous with the product itself. Pidilite has leveraged Fevicol's favourable market presence to acquire and develop new products and variants and build its market position. Having a well-established brand and the ability to customise the product portfolio provide the company, a competitive edge over unorganised players.

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Furthermore, apart from steady growth in the adhesive and sealant categories, Pidilite is also likely to see good growth in newer categories such as waterproofing and tile jointers in the medium term. Additionally, increasing focus on some of the overseas markets (few countries in South & Southeast Asia, Central Africa and Middle East) will also support the growth in the medium term.

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Strong brand management, backed by extensive marketing and distribution network

Pidilite has seen healthy growth due to its strong product portfolio, focus on innovation and increase in distribution reach. The strong brand equity is backed by greater focus on quality, diversified distribution network, and strong advertising support. Over the years, the company has imparted brand equity to commoditised products, through its aggressive and innovative marketing style. It has also developed an extensive pan-India network, comprising over 5300 distributors. The company's presence across price points and categories acts as an effective barrier against competition.

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Strong financial risk profile

Financial risk profile is marked by a healthy networth of Rs 5920 crore (adjusted for goodwill and trademark amortisation) as on 31st March, 2023 and gearing of 0.03 times. Debt protection metrics remained strong with interest coverage of more than 42 times and net cash accruals to total debt of 6.42 times. Networth will improve further, led by healthy accretion to reserves over the medium term. Company is expected to generate healthy cash accruals in line with past trends over the medium term which would be sufficient to fund annual capital expenditure (capex) requirement of Rs 600-700 crore and incremental working capital. As a result, capital structure will continue to remain strong.

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Weakness:

Profitability vulnerable to volatility in raw material prices

Raw materials cost constituted 58% of total sales in FY23. Increase in raw material costs like VAM, resins, etc which are derivative products of crude have impacted the operating margins of the Company in fiscal 2023. Further, given some of the key raw materials like VAM being imported, profitability is also linked to foreign exchange fluctuations. However, the raw material prices have started softening from Q4FY23 onwards resulting in improved margins.

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Moderate profitability and volatility in the business-to-business segment

The industrial specialty chemicals segment, which is a bulk commodity business, includes industrial adhesives, synthetic resins, organic pigments, and surfactants, and accounted for 18% of total revenue for fiscal 2023. The B2B segment registered a single digit revenue decline in Q1FY24, largely due to lower exports and lower demand from export-oriented industries.

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Weak, though improving, performance of overseas subsidiaries

Performance of overseas subsidiaries, which account for 7% of overall revenue on constant currency basis, has reported sales growth of 15.8% in fiscal 2023 and earnings before interest, depreciation, tax, and amortisation (EBIDTA) increased by 12.3% in fiscal 2023 mainly due to improved margins from the middle east and Africa market. Further, performance of international subsidiaries remain vulnerable to the geo-political and economic uncertainties of their respective countries and also the volatility in the input costs.

Liquidity: Superior

Liquidity is expected to remain strong, aided by sufficient net cash accrual, the surplus cash and cash equivalent, and the bank limit being minimally utilised for the past six months. The company has is long term debt free. The cash accruals stemming from continued increase in profitability will suffice to cover the working capital and capex requirement in the medium term. Moreover, the company has a surplus cash and cash equivalent of over Rs. 861 crores as on March 31, 2023

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ESG Profile

CRISIL Ratings believes PIL's Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.

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The chemical sector has a significant impact on the environment owing to high water consumption, waste generation and Green House Gas (GHG) emission. The sector's social impact is characterized by health hazards leading to higher focus on employee safety and well-being and the impact on local community given the nature of its operation. PIL has continuously focused on mitigating its environmental and social risks.

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Key ESG highlights-

- PIL's intensity of Scope 1+2 GHG emissions has reduced from 4.52 tco2/revenue in 2022 to 3.66 tco2/revenue in 2023. Further, the company is targeting to reduce GHG emissions intensity (Scope1+Scope2) per unit of production by 30% compared to FY 2018-19 by 2030.
- The Company aims to become carbon neutral and targets to achieve 50% of its electricity consumption from renewable sources by 2030.
- Gender diversity at PIL though has decreased from 6.19% in 2022 to 6% in 2023, however, it is still higher than industry average.
- The company has stated to reduce overall safety ratios, such as fatality rate, severity rate and incident rate, by 30% from FY 2018-19 by 2030.
- Pidilite's governance profile is marked by 44% of its board comprising independent directors, split in chairman and CEO position and presence of robust internal control systems and processes. It also has extensive financial disclosures.

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There is growing importance of ESG among investors and lenders. The commitment of PIL to ESG principles will play a key role in enhancing stakeholder confidence and access to capital markets.

Outlook: Stable

CRISIL Ratings believes operating performance of Pidilite will remain strong, and the management will remain focused on growing the business in existing product lines where it has an established market position.

Rating Sensitivity Factors

Downward Factors

- Substantial capital expenditure, acquisition or unrelated diversification, leading to gearing of over 0.3 times and substantial erosion of liquidity.
- Significant weakening of operating performance or profitability
- Substantial reduction in the market share in adhesives and sealants segment

About the Company

Pidilite commenced operations in 1969, with two main divisions: pigment emulsions and adhesives. Over the years, the company diversified into branded consumer and bazaar products, and business to business segment, which accounted for 81% and 19%, respectively, of sales in fiscal 2023. Besides the mother brand, Fevicol, prominent brands include Steelgrip, Dr. Fixit, M-seal, Fevicryl, Fevikwik, Fevistik, Fevilite, Fevibond, and Acron. The company has 33 manufacturing plants, in Mumbai, Mahad, Panvel, Taloja, all in Maharashtra; Vapi, Gujarat; Daman, Union Territory of Daman and Diu; Baddi and Kala Amb, Himachal Pradesh; Guwahati, Assam and Vishakhapatnam, Andhra Pradesh. To diversify its revenue stream and facilitate global reach, the company has subsidiaries in the US, Thailand, Dubai, Brazil, Egypt, Bangladesh, Sri Lanka, Kenya, Indonesia, Singapore, Ethiopia and China.

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For the three months ended June 30, 2023, the company reported consolidated revenue of Rs. 3275 crore (Rs. 3101 crore for the corresponding period last fiscal ended June 30, 2022) and net profit of Rs. 474 crore (vs Rs. 358

crore).

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	11804	9926
Adjusted profit after tax (APAT)*	Rs crore	933	851
APAT margins*	%	7.91	8.58
Adjusted gearing*	Times	0.03	0.05
Interest coverage	Times	42.43	44.54

*Adjusted for goodwill and trademark amortisation in line with the analytical approach of CRISIL Ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity levels	Rating assigned with outlook
NA	Short Term Debt	NA	NA	7-365 days	250	Simple	CRISIL A1+
NA	Fund-Based Facilities#	NA	NA	NA	25	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities##	NA	NA	NA	105	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities*	NA	NA	NA	50	NA	CRISIL AAA/Stable
NA	Fund-Based Facilities	NA	NA	NA	100	NA	CRISIL AAA/Stable
NA	Non-Fund Based Limit@@	NA	NA	NA	37	NA	CRISIL A1+
NA	Non-Fund Based Limit@	NA	NA	NA	50	NA	CRISIL A1+

#Fully interchangeable with working capital demand loan/letter of credit/bank guarantee /stand-by line of credit facilities
##Rs 105 crore interchangeable with working capital demand loan/letter of credit/bank guarantee /stand-by line of credit facilities

*Interchangeable with working capital demand loan/letter of credit/bank guarantee /stand-by line of credit facilities
@@interchangeable with pre-shipment credit (PC), post-shipment credit (PSC), standby letter of credit (SBL), bill discounting, overdraft (OD), letter of credit, bank Guarantees (BG's) , buyers credit and Foreign exchange hedge limits
@Fully interchangeable with letter of credit/bank guarantee

Annexure - List of Entities Consolidated

S No	Name of Associate/Subsidiary	Relationship	Extend of consolidation
1	Fevicol Company Ltd	Subsidiary	Fully
2	Bhimad Commercial Company Pvt Ltd	Subsidiary	Fully
3	Pidilite Ventures Pvt Ltd (formerly known as Madhumala Ventures Pvt Ltd)	Subsidiary	Fully
4	Pagel Concrete Technologies Pvt Ltd	Subsidiary	Partial
5	Building Envelope Systems India Ltd	Subsidiary	Partial
6	Nina Percept Private Limited	Subsidiary	Partial
7	Hybrid Coatings	Subsidiary	Partial
8	Pidilite International Pte Ltd	Subsidiary	Fully
9	Pidilite Middle East Ltd	Subsidiary	Fully
10	Pulvitec do Brasil Industria e Comercio de Colas e Adesivos Ltda	Subsidiary	Fully
11	Pidilite USA Inc	Subsidiary	Fully
12	Pidilite MEA Chemicals LLC	Subsidiary	Partial
13	PT Pidilite Indonesia	Subsidiary	Fully
14	Pidilite Specialty Chemicals Bangladesh Pvt Ltd	Subsidiary	Fully
15	Pidilite Innovation Centre Pte Ltd	Subsidiary	Fully
16	Pidilite Industries Egypt SAE	Subsidiary	Fully
17	Pidilite Bamco Ltd	Subsidiary	Fully
18	Pidilite Chemical PLC	Subsidiary	Fully
19	PIL Trading (Egypt) LLC	Subsidiary	Fully
20	Pidilite Industries Trading (Shanghai) Co Ltd	Subsidiary	Fully
21	Bamco Supply and Services Ltd	Subsidiary	Partial
22	ICA Pidilite Pvt Ltd	Subsidiary	Partial
24	Pidilite Lanka (Pvt) Ltd	Subsidiary	Partial
25	Nebula East Africa Pvt Ltd	Subsidiary	Fully
26	Nina Lanka Construction Technologies (Pvt) Ltd	Subsidiary	Fully
27	Pidilite Ventures LLC	Subsidiary	Fully
28	Pidilite East Africa Limited	Subsidiary	Partial
29	Pidilite Litokol Pvt Ltd	Subsidiary	Partial

30	Pidilite Grupo Puma Manufacturing Ltd	Subsidiary	Partial
31	Nina Percept (Bangladesh) Pvt Ltd	Subsidiary	Fully
32	Pidilite C-Techos Walling Ltd	Subsidiary	Partial
33	Tenax Pidilite India Pvt Ltd	Subsidiary	Partial
35	Aapkapainter Solutions Pvt Ltd	Associate	Partial
36	Plus Call Technical Services LLC	Joint venture	Partial
37	Kaarwan Eduventures Private Limited	Associate	Partial
38	Vinyl Chemicals (India) Ltd	Associate	Partial
39	Climacrew Private Limited	Associate	Partial
40	Buildnext Construction Solutions Pvt Ltd	Associate	Partial
41	Finemake Technologies Private Limited	Associate	Partial
42	Pidilite Grupo Puma Pvt Ltd ^	Subsidiary	Partial
43	Pidilite C-Techos Pvt Ltd^	Subsidiary	Partial

^During the previous year, on completion of winding up procedures, Pidilite Grupo Puma Private Limited (w.e.f. 27th October 2021) and Pidilite C-Techos Private Limited (w.e.f. 1st February 2022) were struck off by Registrar of Companies. During previous year, the Company had filed two merger applications with National Company Law Tribunal (NCLT) with respect to merger of its wholly owned subsidiaries namely Pidilite Adhesives Pvt. Ltd (PAPL) and Cipy Polyurethanes Pvt Ltd (CIPY). Consequent to the filing of NCLT orders approving the mergers with Registrar of Companies, mergers have become effective from Appointed date being 1st April 2022. This is a common control transaction accordingly, the previous year including notes and disclosures have been restated for the accounting impact of merger, as if the merger had occurred from the beginning of previous year

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022A		2021A		2020A		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	280.0	CRISIL AAA/Stable	Â	--	21-10-22	CRISIL AAA/Stable	30-12-21	CRISIL AAA/Stable	02-11-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Â	Â	Â	--	Â	--	Â	--	21-10-21	CRISIL AAA/Stable	Â	--	--
Non-Fund Based Facilities	ST	87.0	CRISIL A1+	Â	--	21-10-22	CRISIL A1+	30-12-21	CRISIL A1+	02-11-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	Â	--	Â	--	21-10-21	CRISIL A1+	Â	--	--
Short Term Debt	ST	250.0	CRISIL A1+	Â	--	21-10-22	CRISIL A1+	30-12-21	CRISIL A1+	02-11-20	CRISIL A1+	CRISIL A1+
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All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities#	25	ICICI Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities	15	Citibank N. A.	CRISIL AAA/Stable
Fund-Based Facilities	25	Union Bank of India	CRISIL AAA/Stable
Fund-Based Facilities	25	HDFC Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities##	105	ICICI Bank Limited	CRISIL AAA/Stable
Fund-Based Facilities	35	Indian Overseas Bank	CRISIL AAA/Stable
Fund-Based Facilities*	50	Standard Chartered Bank Limited	CRISIL AAA/Stable
Non-Fund Based Limit@@	10	ICICI Bank Limited	CRISIL A1+
Non-Fund Based Limit@@	11.7	Union Bank of India	CRISIL A1+
Non-Fund Based Limit@	50	ICICI Bank Limited	CRISIL A1+
Non-Fund Based Limit@@	15.3	Indian Overseas Bank	CRISIL A1+

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##Rs 105 crore interchangeable with working capital demand loan/letter of credit/bank guarantee /stand-by line of credit facilities

*Interchangeable with working capital demand loan/letter of credit/bank guarantee /stand-by line of credit facilities

@@interchangeable with pre-shipment credit (PC), post-shipment credit (PSC), standby letter of credit (SBLC), bill discounting, overdraft (OD), letter of credit, bank Guarantees (BG's) , buyers credit and Foreign exchange hedge limits

@Fully interchangeable with letter of credit/bank guarantee

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Petrochemical Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Anuj Sethi Senior Director CRISIL Ratings Limited B: +91 44 6656 3100 anuj.sethi@crisil.com</p> <p>Poonam Upadhyay Director CRISIL Ratings Limited B: +91 22 3342 3000 poonam.upadhyay@crisil.com</p> <p>Kunal Mehta Rating Analyst CRISIL Ratings Limited B: +91 22 3342 3000 Kunal.Mehta@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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