

## management discussion and analysis

### FINANCIAL REVIEW

#### Consolidated Financials

Consolidated Net Sales reported at growth (Excluding Pidilite Adhesives Pvt Ltd (PAPL) declined by 2.4%)

“EBITDA” (Earnings Before Interest, Taxes, Depreciation, Exceptional items and foreign exchange difference) before non-operating income, grew by

**6.5%**

(Excluding PAPL grew by 2.7%)

Profit Before Tax and Exceptional Items (PBT) grew at (Excluding PAPL declined by 3.8%)

Profit After Tax (PAT) grew at (Excluding PAPL declined by 3.6%)

On a constant currency basis, the overseas subsidiaries reported sales growth of

**8.2%**

EBITDA grew by

**196.4%**

due to higher sales and better gross margins

Domestic subsidiaries sales grew by

**7.6%**

(Excluding PAPL declined by 18.8%)

EBITDA grew by

**3.8%**

(Excluding PAPL declined by 101.5%) on account of lower sales and hence higher absorption of fixed cost.

#### Standalone Financials

Company's annual performance was impacted by continued lockdowns due to the pandemic in the month of April 2020 and partially in May 2020. Therefore, annual net sales show a decline compared to previous year.

For the year, sales volume and mix declined by 2.6% and EBITDA, excluding non-operating income improved by

**4.3%**

Profit Before Tax and exceptional items (PBT) declined by 2.6%

Profit After Tax (PAT) declined by 1.8%

### NEW ACQUISITION

**Araldite®**

During the year the Company acquired 100% shares of Huntsman Advanced Materials Solutions Private Limited. This company has since been renamed as Pidilite Adhesives Private Limited (PAPL).

PAPL is in the business of selling Adhesives, Sealants and other products under well-known brands such as Araldite, Araldite Karpenter and Araseal in India. PAPL has a nation-wide distribution network and a strong presence in retail trade. In the calendar year 2019, business revenue was approximately ₹ 400 crores. In addition to the Indian sub-continent business, the acquisition includes a Trademark licence for Middle East, Africa and Asian countries.

Araldite will add to the very strong portfolio of Pidilite's adhesive and sealant brands. This acquisition is likely to create a significant shareholder value through strong revenue and cost synergies.

PAPL reported sales of ₹ 168 crores and EBITDA of ₹ 60 crores from 4<sup>th</sup> November 2020 till 31<sup>st</sup> March 2021.

**PERFORMANCE BY INDUSTRY SEGMENT (STANDALONE)**

The Company operates under two major business segments i.e. Branded Consumer & Bazaar and Business to Business.

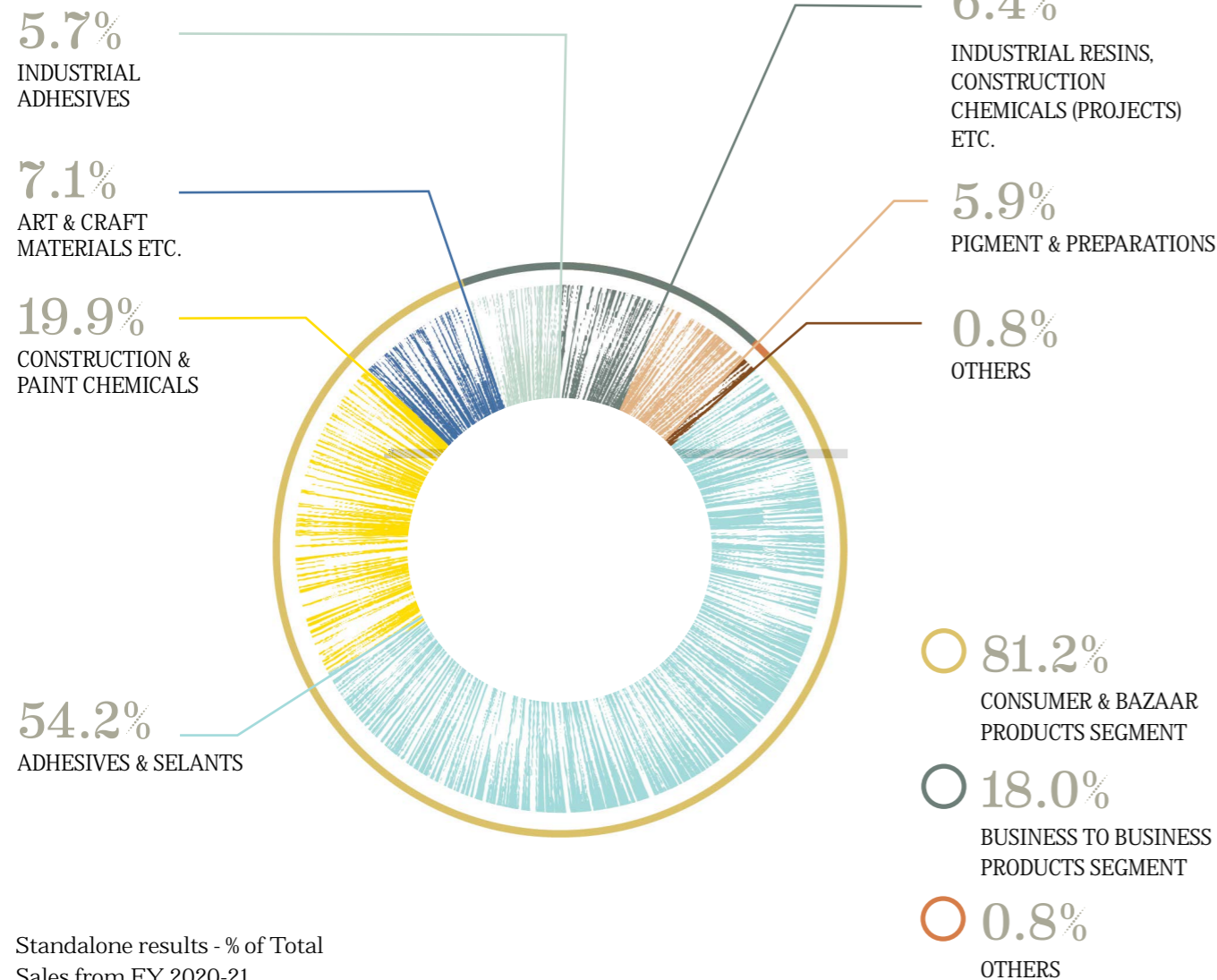
Products, such as Adhesives, Sealants, Art & Cra Materials and Others, Construction and Paint Chemicals are covered under Branded Consumer & Bazaar segment. These products are widely used by carpenters, painters, plumbers, mechanics, households, students, o ces etc.

Business to Business segment covers products, such as Industrial Adhesives, Industrial Resins,

Construction Chemicals (Projects), Organic Pigments, Pigment Preparations, etc. and caters to various industries like packaging, joineries, textiles, paints, printing inks, paper, leather, etc.

In both the above business segments, there are a few medium to large companies with national presence and a large number of small companies which are active regionally. Multinational companies are also present in many of the product categories in which the Company operates.

**BUSINESS SEGMENT/ PRODUCT CATEGORY %**



Standalone results - % of Total Sales from FY 2020-21

**CONSUMER & BAZAAR**

Branded Consumer & Bazaar segment contributed

**81.2%**  
of the sales of the Company and declined by 0.3% with volume and mix declining by 0.2%

Adhesives & Sealants category includes adhesives, sealants and tapes. This category contributed

**54.2%**  
of the sales of the Company and grew by

**1.2%**  
Construction and Paint Chemicals contributed

**19.9%**  
of the sales of the Company and grew by

**1.7%**  
Art & Cra Materials etc. contributed

**7.1%**  
of the sales of the Company and declined by 14.1%

**BUSINESS TO BUSINESS**

Business to Business segment contributed

**18.0%**  
of the sales of the Company and declined by 5.5% with volume and mix declining by 7.0%

Industrial Adhesives includes adhesives used in packaging, footwear, cigare e, automotive industry and joinery. This category contributed

**5.7%**  
of the sales of the Company and declined by 8.1%

Industrial Resins, Construction Chemicals (Projects) etc. contributed

**6.4%**  
of the sales of the Company and declined by 3.1%

Pigments and Preparations contributed

**5.9%**  
of the sales of the Company and declined by 5.5%

**OTHERS**

The 'Others' segment largely comprises of manufacture and sale of Speciality Acetates, raw materials etc.

# The year under review witnessed significant progress in people practices, policies and processes, enabling the Company on its journey of ‘Growing to Greatness’.

In the last year, as the world dealt with the onslaught of COVID-19, India too was impacted badly. Our efforts throughout the year have been to focus on Employee Health and well-being, as well as supporting the business. A Covid taskforce was set up comprising of managers from HR and other functions who have been monitoring the external situation on an ongoing basis and designing appropriate response to take care of safety and protection of our employees. Training our Workforce to adopt the right kind of behaviour that ensure personal safety and security was conducted, Safety kits were distributed, safety kit allowances for all field personal was provided and regular sanitization drives were conducted on our premises.

To uphold the spirit of our employees, Pidilite’s Happy and Healthy (HAH) movement went fully digital in light of most employees moving to work from home leveraging Workplace, our internal social networking

tool and having online events. The entire HAH effort was expanded by the launch of HAH Cares, an initiative that focused on providing our employees access to Doctor-on-Call 24x7, 1 to 1 Counselling service for mental and emotional wellbeing, various fitness classes for maintaining health in lockdown. We also continued to encourage employee participation in our events resulting in participation levels of over 65% of our employees.

The Company was rated by Great Place to Work Institute as one among the top 30 manufacturing sector companies in our very first year of participation. Our Sustainable Engagement Survey also witnessed an improvement in our eNPS score with us being close to the top quartile benchmark scores.

In our long term effort to deepen the understanding of our employees about Pilglobin (branding for our Culture program), we launched a series of initiatives

including the articulation of learnings from our formative years in a booklet and launch of a unique group learning program. We launched this campaign by a catchy internal communication campaign building up to our Founder’s Day, where we staged an online play titled “Humari Neev”, narrating a collection of our own stories from the past that embody the living of our values by our employees. On this occasion, employees who have consistently demonstrated living our values were awarded.

We bolstered our learning and development efforts by bringing in online Learning Management System and we are now covering all employees of the Company and its subsidiaries. Our signature programs ‘ASCENT’ for first time managers and ‘CAPSTONE’ for middle management were held, to continue with our commitment to learn as we work.

The total number of employees as on 31<sup>st</sup> March 2021 is 6,376.

## Current Year Outlook

India has been impacted substantially by the second wave of the Covid 19 pandemic. There remains an uncertainty around the duration of the pandemic and the resultant impact on consumer sentiment and demand.

Input Inflation may continue during the current year as well. The Company is taking necessary steps to mitigate the impact of inflation through appropriate pricing and cost control measures.

The uncertain demand scenario coupled with significant inflation in input costs will call for active management of the rapidly evolving situation while maintaining employee and business ecosystem safety and security. While the rollout of the vaccination

programme is encouraging, it is evident that this will take considerable time before business sentiment is positively impacted. The Company has put in place a number of measures that impact both the delivery as well as the development agenda so as to remain resilient during these times. Our strategy is continuously evolving to address these challenges as well as adapt to market conditions.

While major subsidiaries in India are taking initiatives to improve margins and achieve consistent sales growth in their respective businesses, the impact of the pandemic on economic growth does pose a short term risk to these plans.

The Company’s major international subsidiaries are in Bangladesh, Sri Lanka, USA, Brazil, Thailand, Egypt and Dubai. Various initiatives are being taken

to increase sales and market share in each of the significant geographies. The business environment in these countries remains subdued as they all face the ongoing impact of the pandemic and consequent impact on business.

## Outlook on Opportunities, Threats, Risks and Concerns

The Indian economy provides a large opportunity to the Company to market its differentiated products. The home improvement area offers significant opportunities for growth given the growth in affordable housing, new construction as well as renovation. Continued economic growth offers significant opportunities in both the home improvement as well as the industrial sector.

Thus, slower growth of the Indian economy and stress in sectors, such as construction, could impact the performance of the Company.

Overseas subsidiaries, by virtue of their relatively smaller size, remain vulnerable to the political and economic uncertainties of their respective countries.

Business disruptions as a result of the COVID-19 pandemic may impact the performance of the Company and its subsidiaries.

## MISCELLANEOUS

The Company's Net Worth (Equity capital + Reserves) has grown from

**₹ 3,399 crores**

as on 31<sup>st</sup> March 2017 to

**₹ 5,561 crores**

as on 31<sup>st</sup> March 2021, giving a Compounded Annual Growth Rate (CAGR) of 13.10%.

The market capitalisation of the Company on 31<sup>st</sup> March 2021 was

**₹ 91,973 crores**

and has grown at a CAGR of 30.48% since the IPO in 1993.

## OTHER MATTERS

The following matters are elaborated in the Directors' Report

- **Risks and concerns**
- **Internal control systems and their adequacy**

## CAUTIONARY STATEMENT

Statements in this Management Discussion and Analysis Report describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ.

## economic value added (EVA)

### COMPUTATION OF EVA

<b>EVA</b>	=	Net Operating Profit After Tax (NOPAT) - Weighted average cost of capital employed.
<b>NOPAT</b>	=	Net profit after tax + post tax interest cost at actual.
<b>Weighted average cost of capital employed</b>	=	(Cost of equity x average shareholder funds) + (cost of debt x average debt).
<b>Cost of equity</b>	=	Risk-free return equivalent to yield on long term Government of India (GOI) securities (taken @ 6.00%) + market risk premium (assumed @ 7.50%) x beta variant for the Company (taken at 0.76), where the beta is a relative measure of risk associated with the Company's shares as against the stock market as a whole.
<b>Cost of debt</b>	=	Effective interest applicable to Pidilite based on an appropriate mix of short, medium and long term debt, net of taxes.

Item	2016-17	2017-18	2018-19	2019-20	2020-21
1. Risk Free Return on Long Term GOI Securities	6.5%	7.2%	7.3%	7.5%	6.0%
2. Cost of Equity	9.2%	11.4%	13.1%	12.0%	11.7%
3. Cost of Debt (Post Tax)	0.0%	0.0%	0.0%	0.0%	3.4%
4. Effective Weighted Average Cost of Capital	9.2%	11.4%	13.1%	12.0%	11.6%
<b>Economic Value Added (₹ in crores)</b>					
5. Average Debt	1	0	0	0	55
6. Average Equity (Shareholder Funds)	3,025	3,482	3,875	4,326	5,013
7. Average Capital Employed (Debt + Equity)	3,026	3,482	3,875	4,326	5,068
8. Profit After Tax (as per P&L Statement)	868 #S	955 \$	979 \$	1,161#S	1,082#S
9. Interest (as per P&L Statement, net of Income Tax)	4	4	5	10	13
10. Net Operating Profit After Tax (NOPAT)	872	959	984	1,171	1,095
11. Weighted Average Cost of Capital (4x7)	278	397	509	521	588
12. Economic Value Added (10-11)	594	563	475	650	506
13. EVA as a % of Average Capital Employed (12 ÷ 7)	19.6%	16.2%	12.3%	15.0%	10.0%

# Profit After Tax excludes exceptional items.

\$ Profit is after tax but before Other Comprehensive Income.