

HP Adhesive

Adhesive | India

IPO | 14 December 2021

Adhesive Play at Stretched Valuation

About the Company

HP Adhesive (HPA) has grown from a single product company being a multi-product adhesives player, with a PAN India presence as well as international presence. The company's brands "HP" and "Strong Weld" in PVC adhesives product category have gained increasing acceptance led by high product quality and efficient pricing. HPA is a fast-growing multi-product, multi-category consumer adhesives and sealants company. It is among the leading adhesives manufacturing players in India in the consumer segment of the industry. HPA manufactures a wide range of consumer adhesives and sealants such as PVC, CPVC and UPVC solvent cement, synthetic rubber adhesives, PVA adhesives, silicone sealant, acrylic sealant and gasket shellac among others. It has a strong business model, which is backed by a consistent expansion in product portfolio, coupled with the introduction of new product categories and SKUs to cater to the multiple end-use applications. HPA has a pan-India reach and wide distribution network of 750 distributors that cater to more than 50,000 dealers. The company has a multi-product manufacturing facility located at Narangi, Raigad (Maharashtra), which is strategically located in close proximity to Jawaharlal Nehru Port Trust (JNPT) and thus aids exports. Notably, HPA sold its products in 21 countries during FY21. The company offers its products to several industries in India like construction, woodwork, footwear, automotive among others. HPA expects to bring epoxy adhesives and spray paints to its product basket from FY22 onwards. Meanwhile, it also sells its products under few other brand names like Strong Weld, Strong Seal and Strong Fix.

Financials in Brief

HPA reported strong growth in the past couple of years on a low base. During the last decade, its revenue and PAT clocked a CAGR of 38% and 56%, respectively. Over FY19-21, the company's revenue and PAT clocked 16% and 59% CAGR, respectively, while the average RoCE stood at ~16%. HPA made payments of Rs74mn in FY20 under the Sab Ka Vishwas legacy dispute resolution and Maha VAT amnesty schemes, whereby it reported a net loss of Rs47mn. However, the company's performance picked up during FY21 with 24% YoY revenue growth at Rs1.2bn, EBITDA margin of 10.1% and PAT of Rs101mn. For FY21, solvent cement business contributed 70% of HPA's revenue, followed by silicone & other sealants at ~9%, adhesives at ~5%, and ball valves & seal tape at ~9%. For 1H FY22, the company reported a revenue of Rs705mn, while EBITDA margin declined to 7.3% and PAT stood at Rs31mn. The impact on profitability in 1H FY22 was mainly due to higher RM prices, which could not be passed on to customers.

Our View:

On FY22 annualized financials, the IPO is valued at 51.7x EV/EBITDA, 3.8x EV/sales and 64x P/E, which is lower compared to the peer group average of 62.2x EV/EBITDA, 11.2x EV/sales and 94x P/E, respectively. However, HPA's margins and return ratios are much lower compared to peers, along with its smaller business size. Moreover, HPA's brand equity is much lower compared to key peers in the Indian market. The company is likely to report decent growth in the next couple of years with huge industry-wide opportunities, though competition is inching up. While there are ample opportunities in the silicone sealants sector, rubber adhesives and PVA adhesive businesses also present a decent potential due to the strong growth seen in sprayable applications in the foam and furnishing segment. High growth of construction activities and wood-working requirements would also act as potential demand drivers. Going ahead, HPA expects to tap new product segments by leveraging its product quality and long-standing track record in the distributors network. Though the company's long-term prospects look good with a strong business model, we believe the current valuation captures all positives and leaves hardly any meaningful upside for investors with stretched valuation.

IPO Details

Price Band (Rs)	262-274
Face Value (Rs)	10
Issue Open/Closing Date	15-Dec-21/17-Dec-21
Fresh Issues (mn)	4.1
OFS (mn)	0.5
Total Issue (mn)	4.6
Minimum Bid Qty. (Nos)	50
Issue Size (Rs bn)	1.26
QIB / HNI / Retail	7%/15%/10%
Implied Market Cap (Rs bn)	5.0

Object of the Issue

- ▶ Working capital requirements.
- ▶ Capex for the existing manufacturing facility in Maharashtra.
- ▶ General Corporate Purpose

Key Risk

- ▶ Expansion plans are subject to unanticipated delays in implementation and cost overruns.
- ▶ Impact of the COVID-19 pandemic on the business and operations is uncertain.
- ▶ Dependant on relationships with the distributors and the community of appliers.
- ▶ Under-utilization and inability to utilise expanded manufacturing capacities.
- ▶ Inability to comply with repayment and other covenants.

Key Financials












(Rs mn)	FY19	FY20	FY21
Revenue	874	955	1,182
EBITDA	81	45	120
EBITDA Margin (%)	9.3	4.7	10.1
Adj. PAT	40	28	101
PAT Margin (%)	4.6	2.9	8.5
EPS (Rs)	2.2	1.5	5.5
P/E (x)	126	182	50
EV/EBITDA (x)	64.5	119.5	44.6
EV/Sales (x)	6.0	5.6	4.5
Net Worth	147	25	127
RoE (%)	27.3	111.4	79.5
Gross Debt	236	341	314
Net Block	87	95	187
Net Asset Turnover (x)	10.0	10.0	6.3

Source: RHP

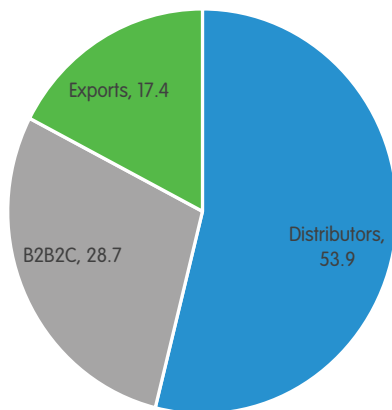
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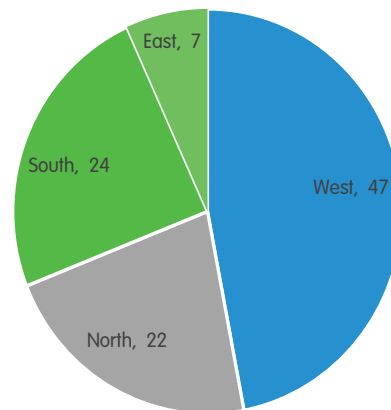
Exhibit 1: Wide Product Portfolio with Varied Applications

	Solvent Cement	Silicone and Other Sealants	Synthetic Rubber adhesives	PVA adhesives	Ball valves, Thread-seal tape
					
Brands	 				
FY21 Revenue %	■ 70.3%	■ 8.6%	■ 5.4%		■ 9.2%
End-user industries	<ul style="list-style-type: none"> ■ Plumbing and Sanitary ■ Drainage and water supply ■ Irrigation 	<ul style="list-style-type: none"> ■ Glass and glazing ■ External weather sealing ■ General interior sealing ■ Bathroom and sanitary ■ Automotive 	<ul style="list-style-type: none"> ■ Furniture and wood working ■ PVC flooring ■ Footwear ■ AC ducting ■ Upholstery ■ Foam-furnishing ■ Automotive 	<ul style="list-style-type: none"> ■ Furniture and wood working ■ General purpose 	<ul style="list-style-type: none"> ■ Plumbing and sanitary ■ Drainage and water supply ■ Irrigation
Started since	■ Inception	■ 2019	■ 2018	■ 2018	■ 2015

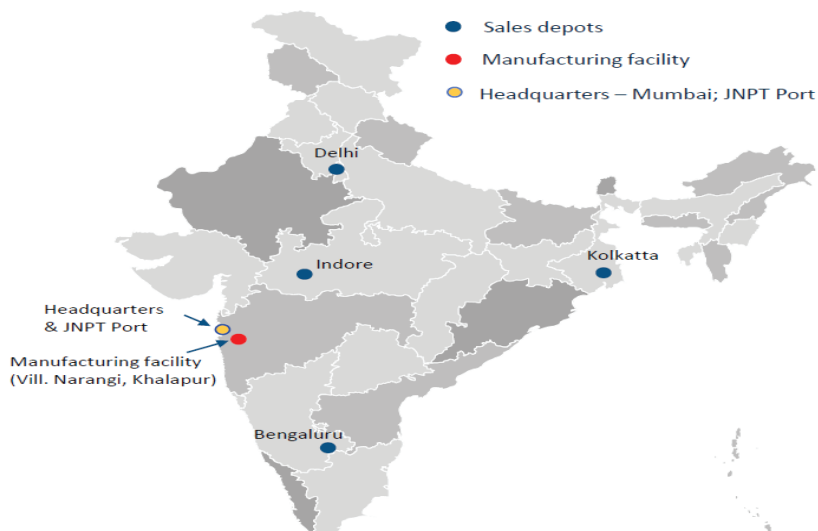
Source: RHP

Exhibit 2: Diversified Customer Base


Source: RHP

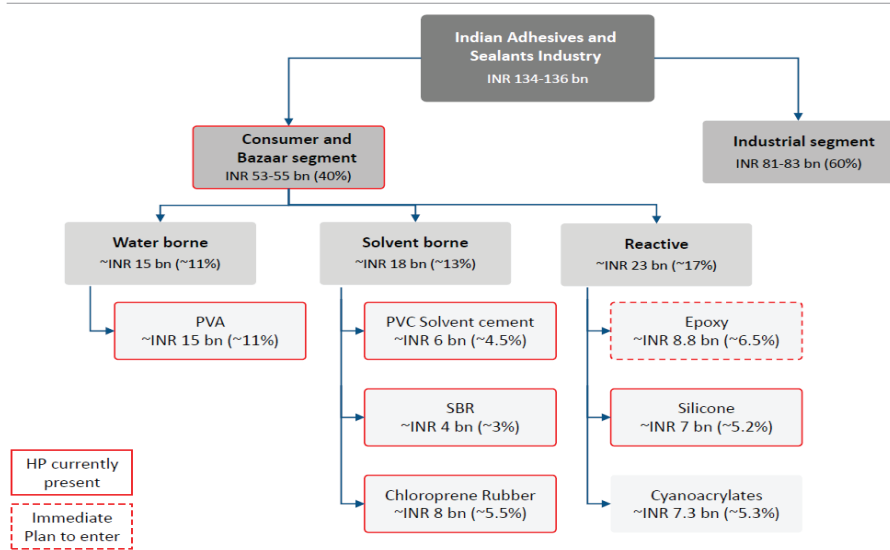
Exhibit 3: Geographical Mix (%)


Source: RHP

Exhibit 4: Strategically Located Infrastructure


Source: RHP

Exhibit 5: Indian Adhesives and Sealant Industry



Source: RHP

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