

## HP ADHESIVES LIMITED

December 15, 2021



SMC Ranking

★ ★ ★ ★ (1/5)

### Issue Highlights

Industry	Adhesives
Total Issue (Shares) - Offer for sale	457,299
Total Issue (Shares) - Fresh Issue	4,140,146
<b>Net Offer to the Public</b>	<b>4,597,445</b>
Issue Size (Rs. Cr.)	120-126
Price Band (Rs.)	262-274
Offer Date	15-Dec-21
Close Date	17-Dec-21
Face Value	10
Lot Size	50

### About the company

HP Adhesives Limited is an adhesives and sealants company. The company manufactures a wide range of consumer adhesives and sealants such as PVC, cPVC, and uPVC solvent cement, synthetic rubber adhesive, PVA adhesives, silicone sealant, acrylic sealant, gasket shellac, other sealants, and PVC pipe lubricants. These adhesives and sealant products have applications in multiple industries such as plumbing and sanitary, drainage and water distribution, general-purpose building/ construction, and interior operations as well as for glazing operations, woodwork, footwear, automotive, foam-furnishing, and other varied industries. Apart from the above products, the company also sells ancillary products like ball valves, thread seals, and other tapes and FRP products for drainage and architectural solutions. As of September 30, 2021, the company has a distribution network of 4 depots situated in Delhi, Kolkata, Bengaluru, and Indore and more than 750 distributors who cater to more than 50,000 dealers in India. The company's manufacturing facility is located at Village Narangi, Raigad (Maharashtra) which is a multi-product manufacturing facility. During the FY 2020-21, the company sold its products in 21 countries.

Issue Composition	In shares
Total Issue for Sale	4,597,445
QIB	3,448,084
NIB	689,617
Retail	459,745

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	58.64%	53.08%
QIB	41.36%	44.70%
NIB	0.00%	1.33%
Retail	0.00%	0.89%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Strength

**Consistently growing company with established brand presence:** The company has grown from a single product to a multi- product adhesives company with sales across India (through pan-India distribution network) and also in international markets. Over the years, the Company's brands "HP" and "Strong Weld" in PVC adhesives product category have gained increasing acceptance on account of high product quality and efficient pricing. Despite Fiscal 2021 being impacted by COVID-19, its revenue from operations have grown by 23.75% between Fiscal 2020 to Fiscal 2021. Increasing acceptance in newer product categories due to high quality and efficient pricing has further established Company's brand reputation.

**Wide Product Portfolio and multiple SKUs:** Over last few years, it has expanded its product portfolio to multiple product categories including silicone sealants, synthetic rubber adhesives, PVA adhesives and other sealants. Having a wide portfolio of product categories enables it to cross-sell to a large customer base (which, in its case, are majorly distributors) who in-turn reach out to large number of retail counters for serving the applicators and eventual end-customer. Having a wide product portfolio also enables the Company to efficiently compete with larger adhesive players in the market who also have a wide product offering. Its constant efforts are focused towards continuously identifying market demands and introducing relevant products with high quality. Within each product category, it has multiple SKUs in terms of grades, pack sizes for various applications thereby enabling it to meet the needs of diverse customer base. In PVC, cPVC and uPVC solvent cement, it has 295 SKUs. Similarly in silicone sealants, it has 16 SKUs. In PVA adhesives, it has 75 SKUs. Its wide range of SKUs from 10 ml tubes to 200 litre drums help it cover both small jobs as well as project applications.

**Focusing on multiple end-user industries:** The company over the last few years introduced new product categories which have diverse end-use applications. Initially when it started with PVC adhesives, it was primarily dependent on the PVC and cPVC pipes industry (irrigation, plumbing and water transport) for its growth. Subsequently, it has now established a good presence in silicone sealants, which has helped it to diversify into more end-user industries such as automobiles, electronic devices and appliances, glass and glazing, external weather sealing, general interior sealing, bathroom and sanitary, uPVC door and window industry, ACP panel industry, wood working (in case of PVA adhesives) and furniture, footwear, handicrafts, automotive, PVC flooring, AC ducting, upholstery,

### Objects of the Issue

Funding the working capital requirements of the company  
Funding capital expenditure for expansion of production capacity at the existing manufacturing facility in Maharashtra and at the additional unit having a proposed construction area admeasuring about 4,532.57 sq. mtrs.

### Book Running Lead Manager

- UNISTONE CAPITAL PRIVATE LIMITED

### Name of the registrar

- BIGSHARE SERVICES PRIVATE LIMITED

foam- mattresses, non-woven and thermal insulation leather, (in case of synthetic rubber adhesives). This expansion has facilitated a diversified product portfolio and has helped it create demand for its adhesives and sealants across various enduser industries.

**Diversified customer-base:** The company has established its distribution network strategically over the last several years to meet its goals. Its distributors cater to retailers who, in turn, make the product available for end-users (typically plumbers, carpenters, masons, glazing contractors, etc) established its distribution network strategically over the last several years to meet its goals. Its distributors cater to retailers who, in turn, make the product available for end-users (typically plumbers, carpenters, masons, glazing contractors, etc). Its customers in international markets are primarily from Middle East and Indian sub-continent and it has increasing presence in USA, Africa, South-East Asia and Europe. Its exports business constitutes 17.20% and 11.51% of sales in the Fiscal 2021 and six months period ended September 30, 2021 respectively and has grown 17.30% CAGR over last 11 years. As of March 31, 2021 and September 30, 2021, it has sold its products in 21 and 17 countries respectively in spite of the impact due to the pandemic.

**Efficient manufacturing set-up with scope for expansion:** Its manufacturing facility is located at Village Narangi, Raigad, Maharashtra which is at a distance of about 80 kms from Mumbai, Maharashtra. The land where its manufacturing facility has been established is owned by its Promoters and the same has been licensed out to its Company. Over last few years, it has expanded its manufacturing capacities by making incremental additions to its equipment with growth in its business. It has also made consistent investments in automation of its manufacturing facility which has in turn helped it in increased productivity. The company is also in the process of expanding by setting up an additional unit having a proposed construction area admeasuring about 4,532.57 sq. mtrs. (built-up) area on the adjacent plot.

## Strategy

**Efficient manufacturing set-up with scope for expansion:** Its manufacturing facility is located at Village Narangi, Raigad, Maharashtra which is at a distance of about 80 kms from Mumbai, Maharashtra. The land where its manufacturing facility has been established is owned by its Promoters and the same has been licensed out to its Company. Over last few years, it has expanded its manufacturing capacities by making incremental additions to its equipment with growth in its business. It has also made consistent investments in automation of its manufacturing facility which has in turn helped it in increased productivity. The company is also in the process of expanding by setting up an additional unit having a proposed construction area admeasuring about 4,532.57 sq. mtrs. (built-up) area on the adjacent plot.

**Further expand its distribution network across India and globally:** Over the last several years, its Company has constantly expanded the distribution network across the country and this continues to be one of the core strategies of the Company to further expand the distribution network. Having a wider product portfolio and an established brand presence in existing products, provides confidence to new distributors to engage with its Company. While it believes in growing the distribution network, proper area marking and financial credibility check is done before appointing a distributor to ensure a good service and reputation in the market without hurting its existing channel. Profile of every distributor that is on-boarded is matched with its well-established criteria and the relationship with every new distributor is gradually built upon.

**Further strengthen brand image:** Over last several years, the Company has made consistent efforts to strengthen the brands "Strong Weld", "HP" and now in newer product categories like "Strong Seal" (for silicone sealant) and "Strong Fix" (for PVA and synthetic rubber adhesives) by undertaking several marketing and promotion initiatives. The Company organises dealer and distributor meets, plumber meets in order to promote the brand but no specific Brand promotion policy has been adopted. Going forward, the Company will strive to further bolster this brand image by undertaking marketing initiatives which will not only increase the visibility in the market but also create a strong brand recall. Though the bigger product category of PVC, cPVC and uPVC solvent cement has helped it to establish in the market, increasing marketing and sales promotion activities for newer product categories going forward will take its brand image to the next level.



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**Expansion of manufacturing facility:** The company is in the process of carrying out capacity expansion plans at its existing manufacturing facility at Village Narangi, Raigad, Maharashtra to aid its growth efforts and pan-India presence. It intends to use a part of the Net Proceeds towards expansion of its manufacturing facility.

**Increasing the size of the field staff will help secondary penetration:** Its key focus is to increase its penetration in the markets where it currently operates by replicating the same proposition that has helped it grow in the past. There is significant untapped opportunity in rural and semi-urban areas that can be capitalized by expanding its sales team. As of September 30, 2021, it had a strength of 198 sales team members and intends to keep growing the team.

**Enhancing demand by incentivizing the product end- user i.e., applicer:** Its sales are driven by the applicers that are typically plumbers, carpenters, masons and glazing contractors. It offers incentives to these applicers through additional gifts on a select range of products. It also incentivizes the distributors based on purchase volumes and payment practices. It intends to continue the marketing of its products through incentivization for the applicers which will help to ensure more loyalty.

**Plant automation to improve productivity:** It intends to automate the process of manufacturing and packaging. The plant & machinery at the facility under expansion is targeted to be more automated to reduce human intervention and thus decreasing the scope of human error. The entire activity will lead to higher efficiency and production output.

**Technology integration for all business functions:** The company believes that through investments in its technology infrastructure, it has been able to increase its operational efficiencies and achieve economies of scale. It also believes that such initiatives will drive cost efficiencies, improve customer service, reduce manual workload and integrating its business functions thereby improving its business processes.

**Continue to drive business based on people-centric policies and practices:** It believes members of its workforce are a key part of its business success and therefore it maintains people-centric policies and practices. While its management leads the company ably in achieving its growth and expansion goals, identification and retention of key talent is crucial to its business. The company will continue to strive to provide a positive, safe and collaborative working environment to its employees and invest in structured training and upskilling programs for them. All upskilling programs are conducted on need based by its Company through its VP – Sales and Marketing or Product Heads or Deputy General Managers for imparting training to its junior staff which includes both classroom training and on-field training. These trainings cover subjects like product knowledge, improving sale techniques, improving dealer loyalty techniques, market intelligence gathering techniques, etc. This will promote a culture of meritocracy and diversity and drive them give their best output.

### Risk factors

- Prices of principal raw materials are subject to changes in the prices of crude oil and other petrochemical intermediates which are linked to international prices .
- The company does not have long-term agreements with suppliers for raw materials.
- The company proposed capacity expansion plans relating to its manufacturing facility are subject to risk of unanticipated delays in implementation and cost overruns.
- The company has had negative cash flows in the past and it might experience cash flows in the future too.
- The business requires significant amount of working capital.

### Peer comparison

Company	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Pidilite Industries Limited*	9097.68	1342.74	26.48	87.76	20.37	114.09	1.00	2323.85	118088.50
HP Adhesives Limited **	118.16	10.06	1.94	141.43	9.42	29.08	10.00	274.00	1422.72

\*Fy21 Financials  
\*\*TTM Financials



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## Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.274, the stock is priced at pre issue P/E of 130.15x on FY21 EPS of Rs.2.11. Post issue, the stock is priced at a P/E of 141.43x on its EPS of Rs.1.94. Looking at the P/B ratio at Rs.274, pre issue, book value of Rs. 7.86 of P/Bvx 34.86x. Post issue, book value of Rs.29.08 of P/Bvx 9.42x.

Considering the P/E valuation, on the upper end of the price band of Rs.262, the stock is priced at pre issue P/E of 124.45x on FY21 EPS of Rs.2.11. Post issue, the stock is priced at a P/E of 135.24x on its EPS of Rs.1.94. Looking at the P/B ratio at Rs.262, pre issue, book value of Rs. 7.86 of P/Bvx 33.33x. Post issue, book value of Rs.29.08 of P/Bvx 9.01x.

## Industry overview

The Rs 134-136 billion (fiscal 2021) domestic adhesives and sealants market is broadly categorised into 1) industrial and 2) consumer and bazaar adhesives. The industrial segment caters to B2B industries such as packaging, footwear, paints, automotive, etc. The retail segment caters to industries such as furniture/woodwork, building construction, arts and craft, electrical fittings, etc. The Rs 134-136 billion (fiscal 2021) domestic adhesives and sealants market is broadly categorised into 1) industrial and 2) consumer and bazaar adhesives. The industrial segment caters to B2B industries such as packaging, footwear, paints, automotive, etc. The retail segment caters to industries such as furniture/woodwork, building construction, arts and craft, electrical fittings, etc. construction investment also contributed to its growth. The woodwork segment is the largest end-user for consumer adhesives, constituting ~55% of fiscal 2021 revenue. The market de-grew 1-2% in fiscal 2021, due to the pandemic-led reduced construction activity. However, the decline was restricted due to increased demand from the furniture segment due to work from home, which led to higher demand for home furniture. However, the economy recovered in the second half of fiscal 2021, leading to a rise in demand from end-user industries. The consumer adhesives market is expected to recover in fiscal 2022, following an expected GDP growth of 9.5% on-year and consequent recovery in infrastructure and construction activity.

## Outlook

The company is increasing solvent cement capacity by 36% while other adhesives and sealants capacity is being raised by 264%. Besides, Strong client list and rising market share augur well for future prospects. The company has generated strong revenue growth in the last 3.5 years. However, company margins are fluctuating. A long term investor may opt the issue.

## An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 15, 2021
Bid/Offer Closing Date	Dec 17, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 22, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 23, 2021
Credit of Equity Shares to depository accounts of Allotees	On or about Dec 24, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 27, 2021



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## Consolidated Financials

### Profit & Loss

Particulars	Period ended 30-Sep-21 (6 Months)	Period ended 31-Mar-21 (12 Months)	Period ended 31-Mar-20 (12 Months)
Revenue from operations	70.52	118.16	95.48
Total expenditure	65.39	106.19	90.99
<b>Operating Profit</b>	<b>5.13</b>	<b>11.97</b>	<b>4.49</b>
OPM%	7.27	10.13	4.70
Other Income	2.22	5.72	2.43
<b>PBDIT</b>	<b>7.34</b>	<b>17.69</b>	<b>6.92</b>
Depreciation	1.41	1.90	1.90
<b>PBIT</b>	<b>5.93</b>	<b>15.78</b>	<b>5.02</b>
Interest	1.72	2.55	2.95
<b>PBT</b>	<b>4.21</b>	<b>13.23</b>	<b>2.08</b>
Exceptional items	0.00	0.00	7.44
<b>PBT after Exceptional items</b>	<b>4.21</b>	<b>13.23</b>	<b>-5.36</b>
Tax	-1.11	-3.17	0.69
<b>Profit After Tax</b>	<b>3.10</b>	<b>10.06</b>	<b>-4.67</b>

Balance sheet is on next page



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## Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-21	As on 31-Mar-21	As on 31-Mar-20
<b>Non-current assets</b>			
Property, plant and equipment	16.96	18.66	9.50
Capital Work in Progress	10.86	6.52	1.20
Right of Use Assets	4.76	0.38	1.15
Other Financial Assets	0.19	0.17	0.15
<b>Financial assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Other financial assets	0.69	0.40	0.89
Deferred tax asset (net)	1.30	1.72	2.43
Other non-current assets	0.16	0.16	0.16
<b>Total Non- Current Assets</b>	<b>34.92</b>	<b>28.01</b>	<b>15.47</b>
<b>Current assets</b>			
Inventories	33.70	32.40	18.52
Trade Receivables	28.81	22.87	19.80
Cash and Bank balances	0.68	0.83	0.76
Loans	1.09	1.17	1.23
Current tax assets (net)	0.00	0.00	0.15
Other current assets	5.71	4.51	0.89
<b>Total current assets</b>	<b>69.99</b>	<b>61.77</b>	<b>41.34</b>
<b>Total Assets</b>	<b>104.91</b>	<b>89.78</b>	<b>56.81</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	8.06	8.55	0.78
Lease liability	3.37	0.15	0.74
Provisions	1.06	1.19	1.01
<b>Total non-current liabilities</b>	<b>12.49</b>	<b>9.88</b>	<b>2.53</b>
<b>Current liabilities</b>			
Financial liabilities			
Borrowings	19.25	22.84	33.28
Lease liability	1.41	0.24	0.39
Trade payables	0.00	0.00	0.00
-Total outstanding dues of micro enterprises and small enterprises	13.38	3.96	0.00
-Total outstanding dues of creditors other than micro enterprises and small enterprises	12.77	21.93	15.27
Other Financial Liabilities	4.47	14.22	2.78
Other Current liabilities (net)	1.43	1.27	0.08
Provisions	0.54	1.42	0.00
Current tax liabilities (net)	1.62	1.35	0.00
<b>Total current liabilities</b>	<b>54.86</b>	<b>67.24</b>	<b>51.80</b>
<b>Total liabilities</b>	<b>67.35</b>	<b>77.12</b>	<b>54.33</b>
	37.56	12.66	2.48
Net worth represented by:			
Equity share capital	14.23	13.00	13.00
Other equity	23.33	-0.34	-10.52
<b>Total Equity</b>	<b>37.56</b>	<b>12.66</b>	<b>2.48</b>



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## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★ ★
<b>FAIR</b>	★ ★ ★
<b>GOOD</b>	★ ★ ★ ★
<b>EXCELLENT</b>	★ ★ ★ ★ ★

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