

SELL

TP: Rs 1,110 | ▼ 20%

PIDILITE INDUSTRIES

Construction Materials

18 June 2020

Lockdown weighs on growth

Pidilite Industries' (PIDI) consolidated Q4FY20 revenue declined 6% YoY as volumes slipped 3% in the domestic consumer & bazaar (CBP) segment.

Operating margins expanded 250bps YoY to 19.5% primarily due to lower raw material cost, resulting in EBITDA growth of 8% YoY. Management believes it is too early to forecast a return to business normalcy post lockdown. We broadly maintain estimates with an unchanged Mar'21 target price of Rs 1,110. Retain SELL.

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Revenue declines due to lockdown: PIDI's consolidated Q4 revenue fell 6% YoY to Rs 15.4bn, with 3.5% growth in overseas subsidiaries and a 12% decline in the domestic subsidiary. Standalone revenue dipped 4% YoY to Rs 13.2bn as volumes in the CBP segment fell ~3% while business-to-business (B2B) volumes declined 4.5%. The company estimates that it lost sales of Rs 1.5bn due to the lockdown. Management expects a challenging near-term demand environment arising from lower availability of manpower, both at the consumer and company level, but expects this issue to be resolved as demand revives.

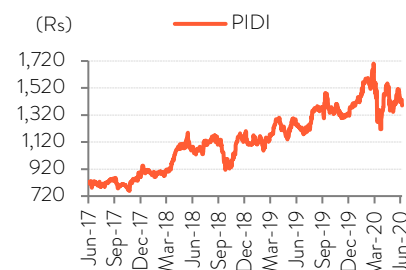
EBITDA boosted by lower RM cost: PIDI's consolidated operating margin swelled 250bps YoY to 19.5% due to lower raw material cost (-500bps YoY). This resulted in EBITDA growth of 8% YoY. However, PBT (before extraordinary) decreased 12% YoY due to lower other income (-75% YoY), stemming from reduced MTM gains/interest earned on investments.

Maintain SELL: PIDI faces near-term demand challenges arising out of the pandemic. While we like the company for its strong franchise and broad portfolio, we believe valuations at 50.3x FY22E P/E are rich. Maintain SELL with an unchanged Mar'21 TP of Rs 1,110.

Ticker/Price	PIDI IN/Rs 1,391
Market cap	US\$ 9.3bn
Shares o/s	508mn
3M ADV	US\$ 17.3mn
52wk high/low	Rs 1,710/Rs 1,168
Promoter/FPI/DII	70%/12%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	60,324	70,787	72,945	65,827	84,090
EBITDA (Rs mn)	13,412	13,682	15,760	13,758	19,257
Adj. net profit (Rs mn)	9,159	8,901	11,590	9,655	14,051
Adj. EPS (Rs)	18.0	17.5	22.8	19.0	27.7
Adj. EPS growth (%)	7.5	(2.9)	30.2	(16.7)	45.5
Adj. ROAE (%)	26.0	23.1	26.9	20.8	27.4
Adj. P/E (x)	77.1	79.4	61.0	73.2	50.3
EV/EBITDA (x)	52.7	51.6	44.8	51.2	36.5

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net revenues	15,447	16,393	(5.8)	19,266	(19.8)	72,945	70,780	3.1
Raw Material Cost	6,895	8,148	(15.4)	8,903	(22.6)	34,025	35,866	(5.1)
Employee cost	2,131	2,171	(1.9)	2,360.5	(9.7)	9,272	8,367	10.8
Other expenses	3,412	3,285	3.9	3,371	1.2	13,887	12,865	7.9
EBITDA	3,009	2,788	7.9	4,632	(35.0)	15,760	13,682	15.2
EBITDA margin (%)	19.5	17.0	247bps	24.0	(456bps)	21.6	19.3	228bps
Depreciation and amortization	501	390	28.6	419	19.7	1,699	1,327	28.0
EBIT	2,508	2,398	4.6	4,213	(40.5)	14,061	12,355	13.8
EBIT Margin (%)	16.2	14.6	161bps	21.9	(563bps)	19.3	17.5	182bps
Net Interest expenses	98	66	49.0	82	19.5	336	261	28.9
Foreign exchange gain (loss), net	0	0	n.m.	0	n.m.	0	0	n.m.
Other income	140	562	(75.2)	398	(65.0)	1,494	1,466	1.9
EBT and except. Items	2,550	2,895	(11.9)	4,530	(43.7)	15,219	13,560	12.2
Exceptional items	(330)	419	n.m.	0	n.m.	(552)	349	n.m.
Earnings before tax	2,220	3,314	(33.0)	4,530	(51.0)	14,667	13,909	5.5
Income taxes	656	960	(31.7)	1,084	(39.5)	3,477	4,661	(25.4)
Income tax as % of PBT	29.5	29.0	58bps	23.9	561bps	23.7	33.5	(980bps)
Earnings after tax	1,564	2,354	(33.6)	3,445	(54.6)	11,190	9,248	21.0
Profit in associate company	1	15	(93.2)	16	(93.7)	30	36	(15.8)
Minority interest (expense) income	10	(17)	n.m.	(43)	n.m.	(56)	(35)	61.8
Net income (loss) adjusted	1,905	1,932	(1.4)	3,418	(44.3)	11,716	8,901	31.6
Non-recurring items	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
Net income (loss), reported	1,575	2,351	(33.0)	3,418	(53.9)	11,164	9,249	20.7

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Consumer & Bazaar Products	11,244	11,975	(6.1)	14,783	(23.9)	55,739	54,192	2.9
Business to Business	4,411	4,549	(3.0)	4,626	(4.7)	17,968	17,302	3.8
Others	151	213	(28.9)	216	(29.9)	765	899	(14.9)
Total	15,806	16,737	(5.6)	19,625	(19.5)	74,471	72,393	2.9
Less: Inter Segment revenue	(359)	(344)	4.3	(359)	0.0	(1,526)	(1,613)	(5.4)
Net revenues	15,447	16,393	(5.8)	19,266	(19.8)	72,945	70,780	3.1
Profit before interest & tax								
Consumer & Bazaar Products	2,787	2,874	(3.0)	4,488	(37.9)	15,473	13,867	11.6
Business to Business	732	565	29.7	688	6.4	2,710	2,160	25.5
Others	(11)	(16)	n.m.	3	(532.0)	(46)	(80)	(43.1)
Total	3,509	3,423	2.5	5,179	(32.2)	18,137	15,947	13.7
Margin (%)								
Consumer & Bazaar Products	24.8	24.0	79bps	30.4	(557bps)	27.8	25.6	217bps
Business to Business	16.6	12.4	420bps	14.9	173bps	15.1	12.5	260bps
Total	22.7	20.9	183bps	26.9	(417bps)	24.9	22.5	233bps

Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Net revenues	13,186	13,790	(4.4)	16,634	(20.7)	63,326	60,939	3.9
Raw material exp	5,813	6,720	(13.5)	7,658	(24.1)	29,364	30,644	(4.2)
Employee exp	1,643	1,708	(3.8)	1,873	(12.3)	7,369	6,635	11.1
Other exp	2,878	2,743	4.9	2,809	2.5	11,758	10,740	9.5
EBITDA	2,852	2,619	8.9	4,294	(33.6)	14,836	12,919	14.8
EBITDA margin (%)	21.6	19.0	263bps	25.8	(419bps)	23.4	21.2	223bps
Depreciation and amortization	357	298	19.6	318	12.3	1,258	998	26.0
EBIT	2,495	2,321	7.5	3,977	(37.3)	13,578	11,921	13.9
EBIT Margin (%)	18.9	16.8	209bps	23.9	(498bps)	21.4	19.6	188bps
Net Interest expenses	37	19	100.0	34	9.5	134	71	87.7
Other income	165	525	(68.5)	391	(57.7)	1,519	1,915	(20.7)
PBT	2,623	2,828	(7.2)	4,334	(39.5)	14,962	13,765	8.7
Income taxes	657	924	(28.9)	1,030	(36.2)	3,353	4,499	(25.5)
Income tax as % of PBT	25.0	32.7	(765bps)	23.8	128bps	22.4	32.7	(1,027bps)
Earnings after tax, adjusted	1,966	1,903	3.3	3,304	(40.5)	11,609	9,266	25.3
Extraordinary	(370)	529	(170.1)	0	(593)	529	529	(212.1)
Net income (loss), reported	1,596	2,432	(34.4)	3,304	(51.7)	11,016	9,794	12.5

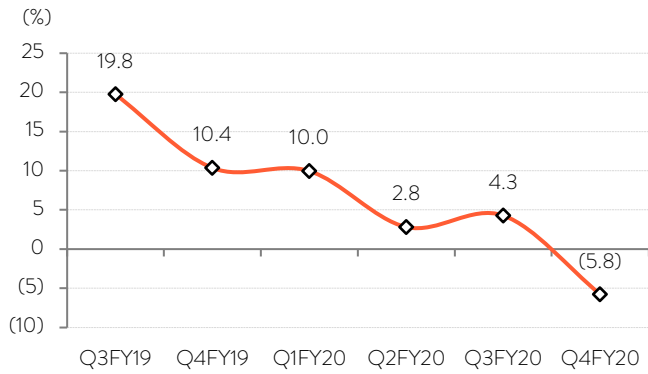
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Revenue								
Consumer & Bazaar Products	9,939	10,436	(4.8)	13,263	(25.1)	49,998	48,179	3.8
Business to Business	3,332	3,462	(3.7)	3,443	(3.2)	13,779	13,095	5.2
Others	151	213	(28.9)	216	(29.9)	765	899	(14.9)
Total	13,423	14,110	(4.9)	16,921	(20.7)	64,541	62,172	3.8
Less: Inter Segment revenue	(237)	(320)	(25.9)	(287)	(17.3)	(1,216)	(1,234)	(1.5)
Net revenues	13,186	13,790	(4.4)	16,634	(20.7)	63,326	60,939	3.9
Profit before interest & tax								
Consumer & Bazaar Products	2,832	2,843	(0.4)	4,419	(35.9)	15,314	14,169	8.1
Business to Business	746	516	44.5	577	29.4	2,574	1,863	38.2
Others	(11)	(16)	n.m.	3	(532.0)	(46)	(80)	(43.1)
Total	3,567	3,344	6.7	4,998	(28.6)	17,843	15,952	11.9
Margin (%)								
Consumer & Bazaar Products	28.5	27.2	125bps	33.3	(482bps)	30.6	29.4	122bps
Business to Business	22.4	14.9	748bps	16.7	564bps	18.7	14.2	446bps
Others	(7.1)	(7.3)	19bps	1.2	(830bps)	(6.0)	(8.9)	294bps
Total	27.1	24.2	281bps	30.0	(299bps)	28.2	26.2	200bps

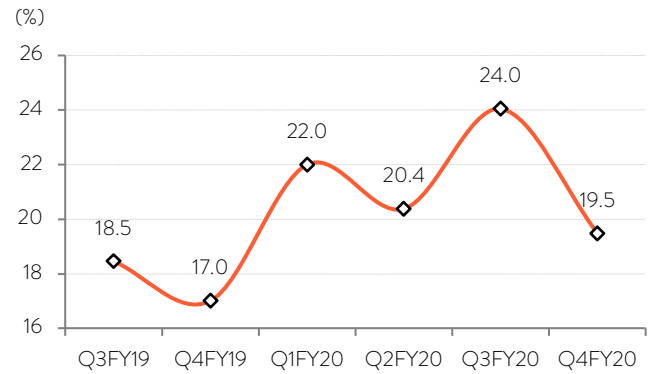
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUE GROWTH



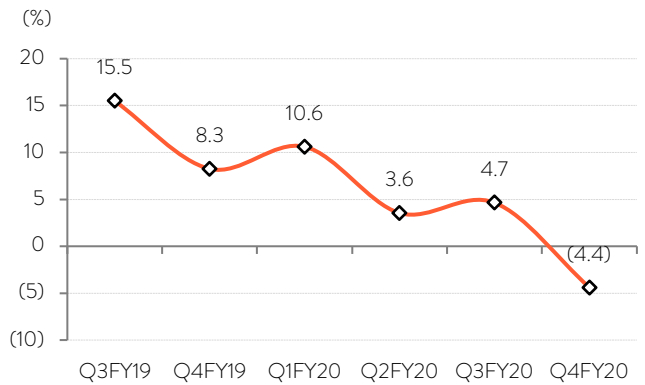
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN



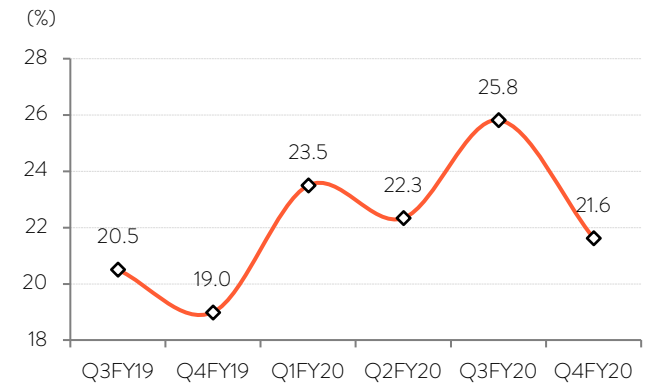
Source: Company, BOBCAPS Research

FIG 7 – STANDALONE REVENUE GROWTH



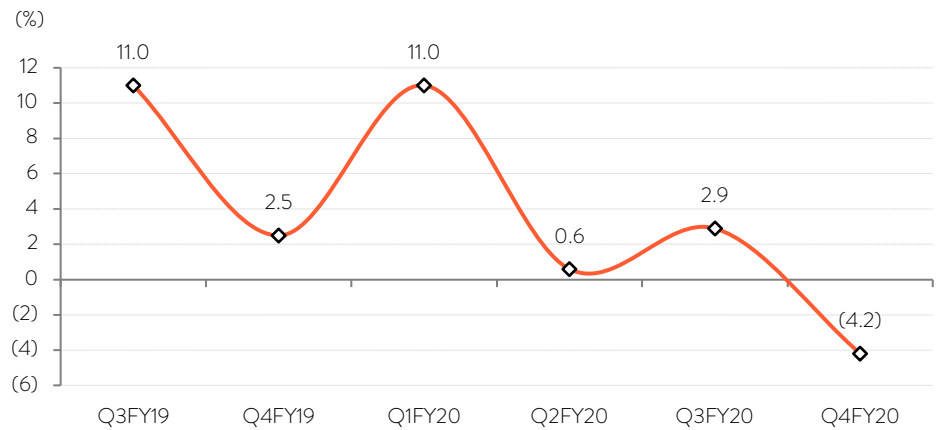
Source: Company, BOBCAPS Research

FIG 8 – STANDALONE EBITDA MARGIN



Source: Company, BOBCAPS Research

FIG 9 – TOTAL VOLUME GROWTH



Source: Company, BOBCAPS Research

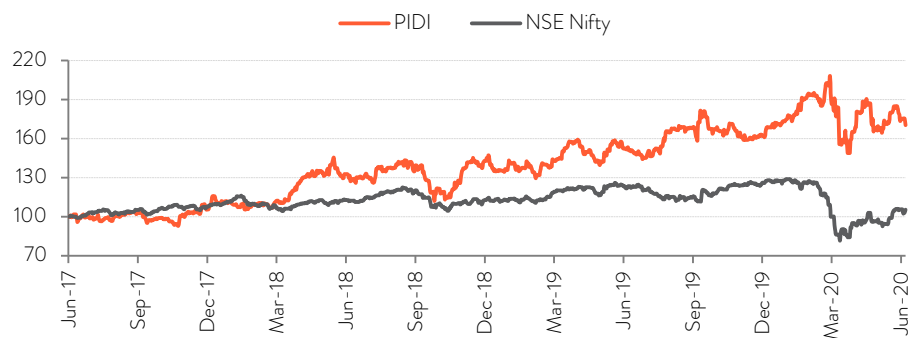
Earnings call highlights

- PIDI's Q4 standalone sales were growing at 9.6% YoY pre-lockdown (i.e. till 21 March). Management estimates revenue loss thereafter at ~Rs 1.5bn, pushing growth for the quarter into negative territory.
- Sales came to a complete halt in Apr'20 due to the countrywide shutdown, but have begun to improve following easing of restrictions in May and June.
- The company derives ~30% of sales from semi-urban and rural areas whereas the balance comes from urban areas.
- Rural markets have restarted faster than urban markets. Management observed that South and East India have gradually opened up while North and West India have been slower to lift lockdown restrictions.
- PIDI is facing labour challenges both at its factory/warehouses and at the user/consumer level due to the pandemic. It expects manpower availability to improve as demand revives.
- The company can now operate its plants at 75-80% utilisation should the demand arise.
- Management believes it will take a couple of months to gauge demand trends.
- Although new construction projects are facing challenges, the company expects to see offtake from individual homeowners in small towns.
- Sales of self-help products such as 'Fevikwik' are seeing faster recovery.
- Management does not see any risk to supply of material from China as it can source from other locations if required.
- Raw material cost remained benign during Q4. VAM prices averaged ~US\$ 850/t for the quarter (vs. US\$ 1,100/t YoY) and are currently at US\$ 650-700/t. These low prices are not sustainable, per the company, and will rise as demand improves.
- Other income was lower in Q4 due to a fall in interest rates and lower MTM gains YoY.
- The company has taken additional impairment losses of ~Rs 330mn in the quarter for the Dahej Elastomer Project and does not anticipate further provisioning going ahead.
- International subsidiaries in Bangladesh and Egypt performed well during the quarter.

Valuation methodology

PIDI is the leader in India’s adhesive market with a strong brand, extensive distribution reach and large product portfolio. The company has a unique distribution framework, with products available in both building material as well as FMCG channels. While we like PIDI for its strong franchise and broad portfolio, current valuations at 50.3x FY22E P/E appear rich, especially against the backdrop of weak demand. We broadly maintain our estimates and reiterate SELL with an unchanged Mar’21 target price of Rs 1,110, based on a one-year forward P/E multiple of 40x.

FIG 10 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Sharp decline in raw material prices:** Any sudden, steep fall in RM prices, especially for crude-linked products, could drive above-expected margins.
- **Above-expected pick-up in housing activity:** A stronger revival in the housing market than anticipated can take growth ahead of estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue	60,324	70,787	72,945	65,827	84,090
EBITDA	13,412	13,682	15,760	13,758	19,257
Depreciation	(1,199)	(1,327)	(1,699)	(1,843)	(2,102)
EBIT	12,213	12,355	14,061	11,915	17,154
Net interest income/(expenses)	(155)	(261)	(336)	(268)	(135)
Other income/(expenses)	560	586	1,494	1,076	1,510
Exceptional items	0	0	0	0	0
EBT	13,542	13,560	15,219	12,723	18,528
Income taxes	(4,392)	(4,661)	(3,477)	(3,054)	(4,447)
Extraordinary items	465	349	(552)	0	0
Min. int./Inc. from associates	9	1	(26)	(15)	(31)
Reported net profit	9,623	9,249	11,164	9,655	14,051
Adjustments	(465)	(349)	426	0	0
Adjusted net profit	9,159	8,901	11,590	9,655	14,051

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	5,438	5,806	6,210	5,255	6,865
Other current liabilities	5,353	6,837	9,185	8,685	8,185
Provisions	1,431	637	735	865	995
Debt funds	1,226	1,111	1,691	451	451
Other liabilities	1,107	1,201	823	823	823
Equity capital	508	508	508	508	508
Reserves & surplus	35,233	40,973	44,048	47,989	53,725
Shareholders' fund	35,740	41,481	44,556	48,497	54,233
Total liabilities and equities	52,045	59,145	65,357	66,780	73,823
Cash and cash eq.	1,636	1,904	7,033	2,177	653
Accounts receivables	9,381	10,560	10,885	9,676	12,210
Inventories	8,043	9,345	9,295	8,900	10,897
Other current assets	4,767	8,818	10,157	9,876	10,954
Investments	12,459	11,514	7,197	15,229	17,766
Net fixed assets	8,026	9,133	12,890	13,021	13,442
CWIP	2,277	2,421	2,593	2,593	2,593
Intangible assets	5,396	5,343	5,178	5,178	5,178
Deferred tax assets, net	59	107	130	130	130
Other assets	0	0	0	0	0
Total assets	52,045	59,145	65,357	66,780	73,823

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	14,741	14,888	16,919	14,566	20,631
Interest expenses	155	261	336	268	135
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,795)	(5,472)	120	560	(4,370)
Other operating cash flows	(4,517)	(4,671)	(3,900)	(3,022)	(4,410)
Cash flow from operations	8,584	5,006	13,474	12,373	11,986
Capital expenditures	(1,768)	(1,327)	(4,687)	(1,975)	(2,523)
Change in investments	1,972	945	4,317	(8,032)	(2,537)
Other investing cash flows	(319)	(247)	33	0	0
Cash flow from investing	(116)	(628)	(337)	(10,007)	(5,059)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	250	(115)	581	(1,240)	0
Interest expenses	(155)	(261)	(336)	(268)	(135)
Dividends paid	(7,927)	(3,733)	(8,254)	(5,714)	(8,315)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(7,832)	(4,109)	(8,009)	(7,222)	(8,450)
Changes in cash and cash eq.	636	268	5,128	(4,856)	(1,524)
Closing cash and cash eq.	1,636	1,904	7,032	2,177	653

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	19.0	18.2	22.0	19.0	27.7
Adjusted EPS	18.0	17.5	22.8	19.0	27.7
Dividend per share	6.0	6.5	13.5	9.0	13.0
Book value per share	70.4	81.7	87.7	95.5	106.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	11.7	10.0	9.7	10.7	8.4
EV/EBITDA	52.7	51.6	44.8	51.2	36.5
Adjusted P/E	77.1	79.4	61.0	73.2	50.3
P/BV	19.8	17.0	15.9	14.6	13.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	67.6	65.6	76.2	75.9	75.8
Interest burden (PBT/EBIT)	110.9	109.8	108.2	106.8	108.0
EBIT margin (EBIT/Revenue)	20.2	17.5	19.3	18.1	20.4
Asset turnover (Revenue/Avg TA)	120.9	127.3	117.2	99.6	119.6
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	26.0	23.1	26.9	20.8	27.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	8.0	17.3	3.0	(9.8)	27.7
EBITDA	6.5	2.0	15.2	(12.7)	40.0
Adjusted EPS	7.5	(2.9)	30.2	(16.7)	45.5
Profitability & Return ratios (%)					
EBITDA margin	22.2	19.3	21.6	20.9	22.9
EBIT margin	20.2	17.5	19.3	18.1	20.4
Adjusted profit margin	15.2	12.6	15.9	14.7	16.7
Adjusted ROAE	26.0	23.1	26.9	20.8	27.4
ROCE	21.8	19.4	23.3	18.2	24.1
Working capital days (days)					
Receivables	52	51	54	57	48
Inventory	96	88	100	107	91
Payables	36	36	38	40	34
Ratios (x)					
Gross asset turnover	2.7	3.3	2.9	2.3	2.7
Current ratio	1.8	2.1	2.1	2.0	2.1
Net interest coverage ratio	78.6	47.4	41.8	44.5	126.7
Adjusted debt/equity	0.0	0.0	(0.1)	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

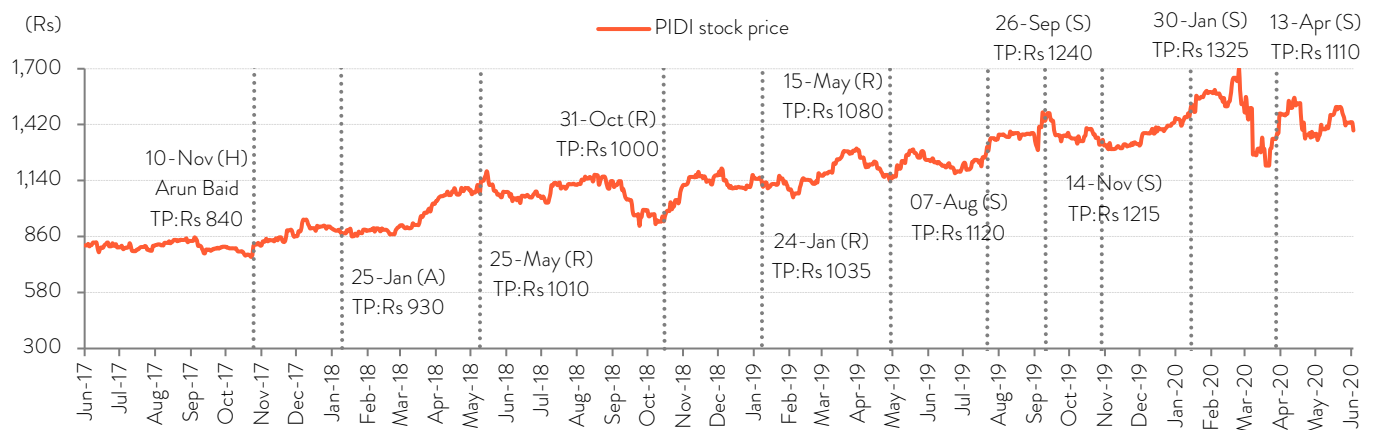
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: PIDILITE INDUSTRIES (PIDI IN)



B – Buy, A – Add, R – Reduce, S – Sell, H – Hold

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