

REDUCE

TP: Rs 1,080 | ▼ 7%

PIDILITE INDUSTRIES

Construction Materials

15 May 2019

Disappointing operating performance

Pidilite Industries (PIDI) reported below-expected consolidated revenue growth of 10.3% YoY, with consumer & bazaar (CBP) segment volumes up 3.6%. Operating margins contracted 143bps YoY to 17%, a 16-quarter low, resulting in low 1.8% YoY EBITDA growth. Management expects margin pressure to lift due to easing RM costs and has guided for double-digit volume growth in the medium term. We maintain **REDUCE** on rich valuations, while rolling forward to a revised Mar'20 TP of Rs 1,080 (from Rs 1,035).

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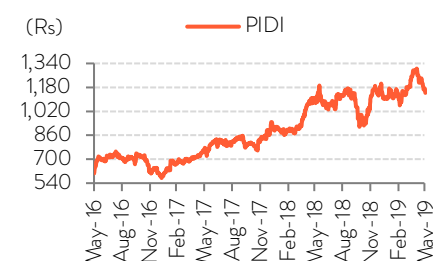
Modest revenue growth: PIDI's consolidated Q4 revenues grew 10.3% YoY to Rs 16.4bn, with 8.4% constant currency growth in overseas subsidiaries (excluding US-based Cyclo). Standalone revenues increased 8.2% YoY to Rs 13.8bn, led by volume growth of 2.5% (3.6% in the CBP segment while industrial volumes dipped 1.1%). Management has guided for sustainable double-digit volume growth in the medium term, but indicated near-term (Q1FY20) demand to be lower primarily due to the ongoing general elections.

Ticker/Price	PIDI IN/Rs 1,165
Market cap	US\$ 8.4bn
Shares o/s	508mn
3M ADV	US\$ 10.6mn
52wk high/low	Rs 1,313/Rs 895
Promoter/FPI/DII	70%/12%/19%

Source: NSE

Margins and PAT decline: PIDI's consolidated operating margin declined by 143bps YoY to 17%, largely due to lower gross margins (-180bps), resulting in EBITDA growth of just 1.8% YoY and a 2.2% decline in adj. PAT to Rs 1.9bn. Gross margins contracted due to higher raw material prices. Management expects margins to normalise as RM prices have come off their peaks and has guided for standalone operating margins in the range of 21-24% going ahead.

STOCK PERFORMANCE



Source: NSE

Maintain REDUCE: PIDI's Q4 results were weaker than expected due to soft operating margins, though easing RM prices should offer some respite. While we like the company for its strong franchise and broad portfolio, valuations at 43x FY21E P/E are rich given demand headwinds in the near term. Maintain **REDUCE** with a revised Mar'20 TP of Rs 1,080, set at 40x one-year fwd P/E.

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	8,600	9,159	8,899	11,666	13,657
Adj. EPS (Rs)	16.8	18.0	17.5	23.0	26.9
Adj. EPS growth (%)	13.8	7.5	(2.8)	31.1	17.1
Adj. ROAE (%)	27.5	26.0	23.0	26.1	26.4
Adj. P/E (x)	69.4	64.5	66.4	50.7	43.3
EV/EBITDA (x)	46.9	44.1	43.2	33.0	28.4

Source: Company, BOBCAPS Research

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

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net revenues	16,389	14,853	10.3	18,483	(11.3)
Raw material cost	8,148	7,119	14.5	9,752	(16.4)
Other expenses	5,453	4,995	9.2	5,364	1.7
EBITDA	2,788	2,739	1.8	3,368	(17.2)
EBITDA margin (%)	17.0	18.4	(143bps)	18.2	(121bps)
Depreciation and amortization	390	298	30.9	321	21.4
EBIT	2,398	2,442	(1.8)	3,047	(21.3)
EBIT margin (%)	14.6	16.4	(181bps)	16.5	(185bps)
Net interest expenses	66	38	71.5	62	5.8
Other income	562	521	8.0	307	83.3
EBT and Exceptional items	2,895	2,924	(1.0)	3,291	(12.1)
Exceptional items	419	465	n.m.	0	n.m.
Earnings before tax	3,314	3,389	(2.2)	3,291	0.7
Income taxes	960	922	4.1	1,110	(13.6)
Income tax as % of PBT	29.0	27.2	176bps	33.7	(477bps)
Earnings after tax	2,354	2,467	(4.6)	2,181	7.9
Profit in associate company	15	8	79.3	15	0.0
Minority interest (expense) income	(17)	(34)	n.m.	(1)	n.m.
Net income (loss), adjusted	1,932	1,976	(2.2)	2,195	(12.0)
Net income (loss), reported	2,351	2,441	(3.7)	2,195	7.1

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue					
Consumer & Bazaar Products	13,645	12,276	11.1	15,974	(14.6)
Industrial Products	2,923	2,727	7.2	2,618	11.7
Others	142	126	12.9	183	(22.2)
Total	16,709	15,128	10.5	18,774	(11.0)
Less: Inter-segment revenue	(320)	(275)	16.3	(291)	10.0
Net revenues	16,389	14,853	10.3	18,483	(11.3)
Profit before interest & tax					
Consumer & Bazaar Products	3,010	2,821	6.7	3,584	(16.0)
Industrial Products	432	469	(8.0)	309	39.7
Others	(19)	(14)	n.m.	(20)	(5.9)
Total	3,423	3,276	4.5	3,873	(11.6)
EBIT Margin (%)					
Consumer & Bazaar Products	22.1	23.0	(92bps)	22.4	(38bps)
Industrial Products	14.8	17.2	(244bps)	11.8	297bps
Total	20.9	22.1	(117bps)	21.0	(7bps)

Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net revenues	13,787	12,736	8.2	15,897	(13.3)
Raw material exp	6,720	5,997	12.1	8,312	(19.2)
Other expenses	4,448	4,187	6.2	4,326	2.8
EBITDA	2,619	2,552	2.6	3,259	(19.6)
EBITDA margin (%)	19.0	20.0	(104bps)	20.5	(150bps)
Depreciation and amortization	298	228	30.6	234	27.3
EBIT	2,321	2,324	(0.1)	3,025	(23.3)
EBIT margin (%)	16.8	18.2	(141bps)	19.0	(219bps)
Net interest expenses	19	16	13.5	16	14.2
Other income	525	471	11.6	309	69.9
PBT	2,828	2,778	1.8	3,318	(14.8)
Income taxes	924	861	7.4	1,071	(13.7)
Income tax as % of PBT	32.7	31.0	170bps	32.3	41bps
Earnings after tax, adjusted	1,903	1,917	(0.7)	2,247	(15.3)
Extraordinary income/(expense)	529	465	13.8	0	-
Net income (loss), reported	2,432	2,382	2.1	2,247	8.2

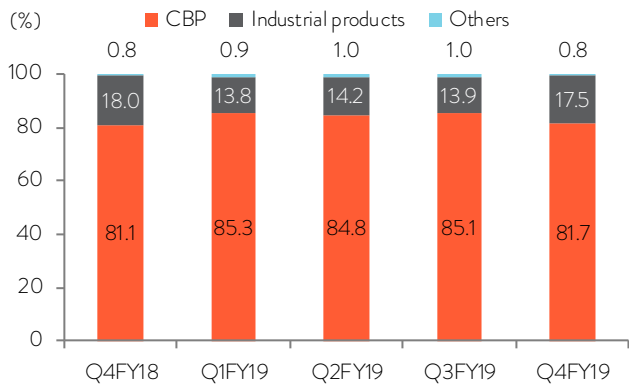
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE SEGMENTAL PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue					
Consumer & Bazaar Products	11,042	10,159	8.7	13,388	(17.5)
Industrial Products	2,923	2,727	7.2	2,618	11.7
Others	142	126	12.9	183	(22.2)
Total	14,107	13,012	8.4	16,188	(12.9)
Less: Inter-segment revenue	(320)	(275)	16.3	(291)	10.0
Net revenues	13,787	12,736	8.2	15,897	(13.3)
Profit before interest & tax					
Consumer & Bazaar Products	2,931	2,683	9.2	3,607	(18.8)
Industrial Products	432	469	(8.0)	309	39.7
Others	(19)	(14)	n.m.	(20)	(5.9)
Total	3,344	3,138	6.5	3,897	(14.2)
EBIT Margin (%)					
Consumer & Bazaar Products	26.5	26.4	13bps	26.9	(40bps)
Industrial Products	14.8	17.2	(244bps)	11.8	297bps
Others	(13.4)	(11.4)	(193bps)	(11.1)	(231bps)
Total	24.3	24.6	(39bps)	24.5	(26bps)

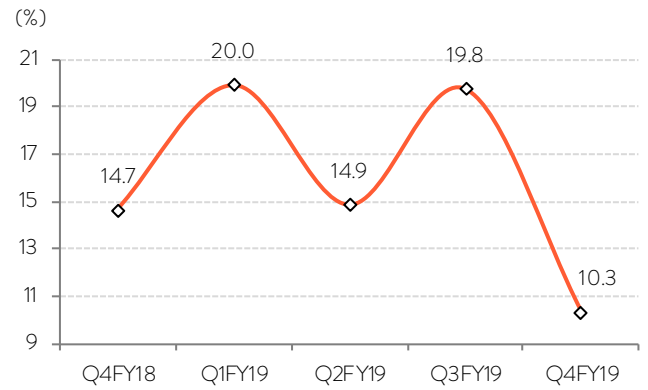
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUE BREAKUP



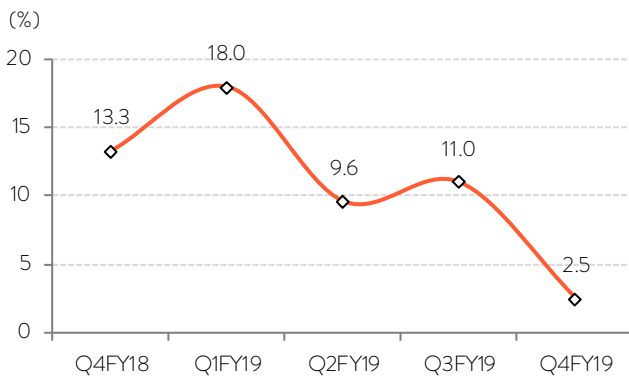
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED REVENUE GROWTH



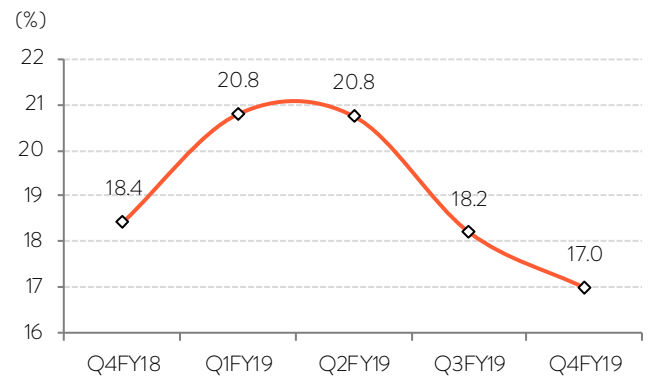
Source: Company, BOBCAPS Research

FIG 7 – TOTAL VOLUME GROWTH



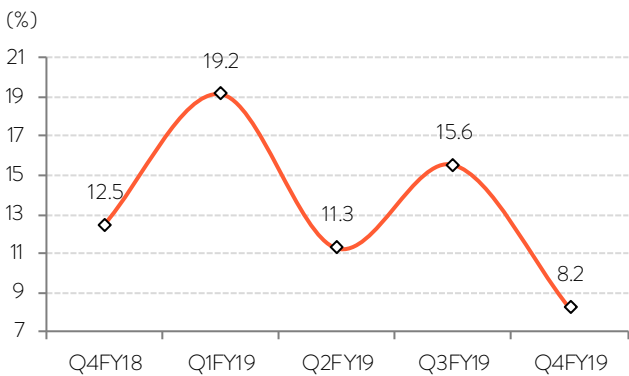
Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



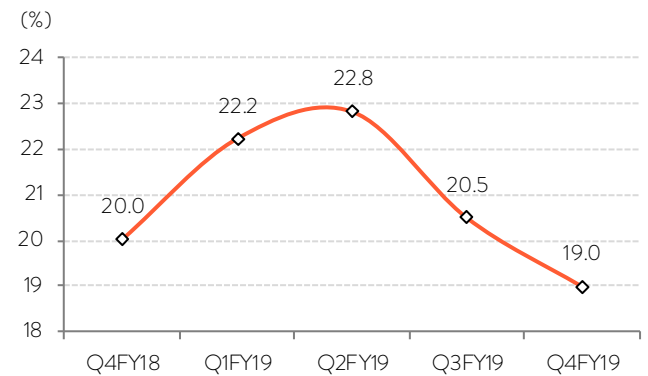
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 10 – STANDALONE EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

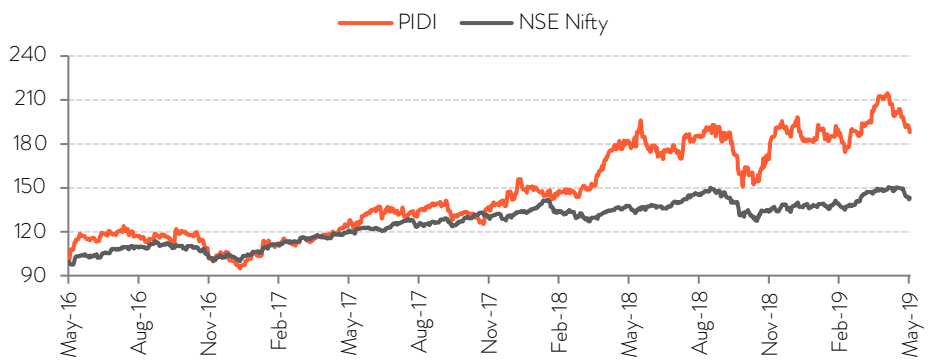
- A subdued demand environment in Q4FY19 coupled with price hikes taken by PIDI at the end of Q3 affected revenue growth in the fourth quarter. Management indicated some demand challenges in Q1FY20 as well due to the general elections.
- PIDI believes H2FY19 or full-year figures better depict the volume potential in the CBP segment. In H2/FY19, CBP volumes grew ~9%/12.2%.
- PIDI is a strong player in CBP but continues to focus on the industrial segment as well where recent key operational changes should aid growth in the medium term.
- Operating margins in Q4FY19 were adversely affected by higher RM cost. RM prices have started correcting, with key input VAM declining to ~US\$ 950/t currently from US\$ 1,100/t in Q4FY19 and US\$ 1,300/t in Q3. Most of the company's other raw materials are also showing a softening trend and thus management expects margins to improve.
- The company is aiming for standalone operating margins in the range of 21-24% going ahead.
- Subsidiary Nina Percept does water-proofing contracts for large players and the business is seeing some stress. The company is now taking on projects here cautiously.
- PIDI will continue to spend 2-3% of revenues on capex.
- The tax rate for FY20 is pegged at 32-33%.

Valuation methodology

PIDI is the leader in India’s adhesive market with a strong brand, extensive distribution reach and wide product portfolio. It 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, valuations at 43x FY21E P/E appear rich.

We largely maintain our estimates and roll over to a revised Mar’20 target price of Rs 1,080 (from Rs 1,035), based on an unchanged one-year forward P/E multiple of 40x. Maintain REDUCE.

FIG 11 – 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)	FY17A	FY18A	FY19P	FY20E	FY21E
Total revenue	55,879	60,324	70,787	81,963	94,683
EBITDA	12,598	13,412	13,682	17,868	20,736
EBIT	11,447	12,213	12,354	16,352	18,984
Net interest income/(expenses)	(139)	(155)	(261)	(289)	(124)
Other income/(expenses)	354	560	1,466	1,626	1,852
Exceptional items	0	0	0	0	0
EBT	12,430	13,542	13,560	17,689	20,712
Income taxes	(3,851)	(4,392)	(4,661)	(6,014)	(7,042)
Extraordinary items	0	465	349	0	0
Min. int./Inc. from associates	21	9	0	(8)	(12)
Reported net profit	8,600	9,623	9,247	11,666	13,657
Adjustments	0	(465)	(349)	0	0
Adjusted net profit	8,600	9,159	8,899	11,666	13,657

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19P	FY20E	FY21E
Accounts payables	3,903	5,438	5,806	5,965	6,891
Other current liabilities	4,897	5,353	6,837	6,337	5,837
Provisions	1,070	1,431	637	5,250	6,146
Debt funds	975	1,226	1,111	335	285
Other liabilities	915	1,107	1,201	1,201	1,201
Equity capital	513	508	508	508	508
Reserves & surplus	34,196	35,233	40,973	47,389	54,901
Shareholders' fund	34,709	35,740	41,481	47,897	55,409
Total liabilities and equities	47,742	52,045	59,145	69,105	77,944
Cash and cash eq.	999	1,636	1,904	2,208	724
Accounts receivables	7,685	9,381	10,560	11,452	13,230
Inventories	7,209	8,043	9,345	9,978	11,903
Other current assets	3,150	4,767	8,818	9,467	9,955
Investments	14,431	12,459	11,514	18,054	23,097
Net fixed assets	14,230	15,699	16,897	17,840	18,929
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	38	59	107	107	107
Other assets	0	0	0	0	0
Total assets	47,742	52,045	59,145	69,105	77,944

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19P	FY20E	FY21E
Net income + Depreciation	13,581	14,741	14,887	19,205	22,463
Interest expenses	139	155	261	289	124
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,529)	(1,795)	(5,472)	2,096	(2,868)
Other operating cash flows	(4,005)	(4,517)	(4,671)	(5,975)	(6,998)
Cash flow from operations	8,187	8,584	5,005	15,616	12,721
Capital expenditures	(1,209)	(2,111)	(1,327)	(2,459)	(2,840)
Change in investments	(7,941)	1,972	945	(6,540)	(5,044)
Other investing cash flows	966	24	(246)	(1,290)	(896)
Cash flow from investing	(8,184)	(116)	(627)	(10,288)	(8,780)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	132	250	(115)	(775)	(50)
Interest expenses	(139)	(155)	(261)	(289)	(124)
Dividends paid	(316)	(7,927)	(3,733)	(3,960)	(5,250)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(323)	(7,832)	(4,109)	(5,025)	(5,424)
Changes in cash and cash eq.	(320)	636	269	303	(1,483)
Closing cash and cash eq.	999	1,636	1,905	2,208	724

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18A	FY19P	FY20E	FY21E
Reported EPS	16.8	19.0	18.2	23.0	26.9
Adjusted EPS	16.8	18.0	17.5	23.0	26.9
Dividend per share	4.8	6.0	6.5	8.2	9.6
Book value per share	67.7	70.4	81.7	94.3	109.1

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18A	FY19P	FY20E	FY21E
EV/Sales	10.6	9.8	8.3	7.2	6.2
EV/EBITDA	46.9	44.1	43.2	33.0	28.4
Adjusted P/E	69.4	64.5	66.4	50.7	43.3
P/BV	17.2	16.5	14.3	12.3	10.7

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18A	FY19P	FY20E	FY21E
Tax burden (Net profit/PBT)	69.2	67.6	65.6	66.0	65.9
Interest burden (PBT/EBIT)	108.6	110.9	109.8	108.2	109.1
EBIT margin (EBIT/Revenue)	20.5	20.2	17.5	20.0	20.1
Asset turnover (Revenue/Avg TA)	128.7	120.9	127.3	127.8	128.8
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	27.5	26.0	23.0	26.1	26.4

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

Ratio Analysis

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
YoY growth (%)					
Revenue	4.6	8.0	17.3	15.8	15.5
EBITDA	6.9	6.5	2.0	30.6	16.0
Adjusted EPS	13.8	7.5	(2.8)	31.1	17.1
Profitability & Return ratios (%)					
EBITDA margin	22.5	22.2	19.3	21.8	21.9
EBIT margin	20.5	20.2	17.5	20.0	20.1
Adjusted profit margin	15.4	15.2	12.6	14.2	14.4
Adjusted ROAE	27.5	26.0	23.0	26.1	26.4
ROCE	23.9	21.8	19.4	22.7	23.2
Working capital days (days)					
Receivables	49	52	51	49	48
Inventory	93	96	88	89	87
Payables	32	36	36	34	32
Ratios (x)					
Gross asset turnover	2.2	2.3	2.4	2.6	2.8
Current ratio	1.8	1.8	2.1	1.9	1.9
Net interest coverage ratio	82.2	78.6	47.4	56.6	153.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

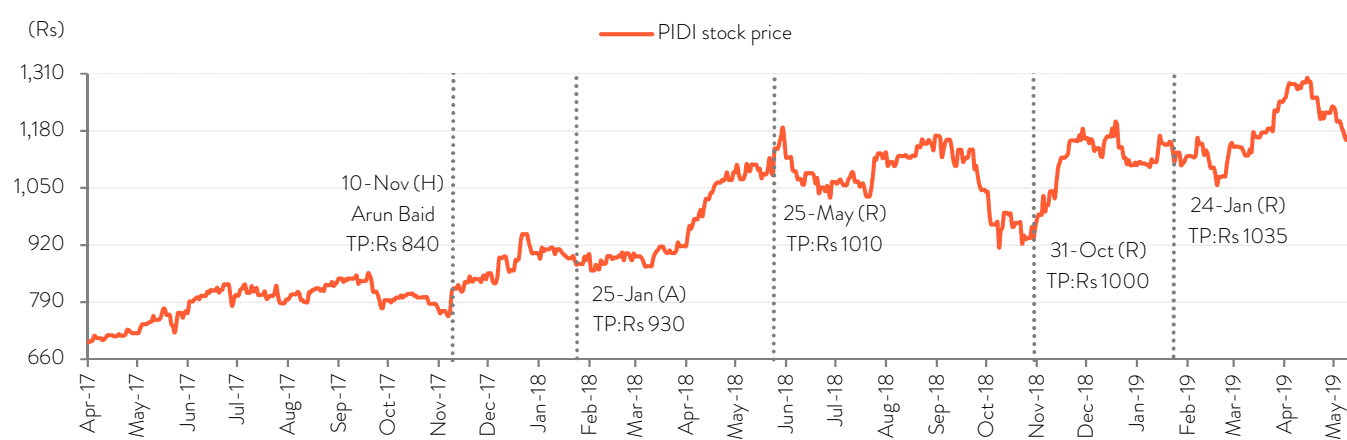
ADD – Expected return from >+5% to +15%

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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