

SELL

TP: Rs 1,325 | ▼ 13%

PIDILITE INDUSTRIES

Construction Materials

30 January 2020

Margins surprise positively, CBP volumes disappoint

Pidilite Industries (PIDI) reported below-expected Q3FY20 consolidated revenue growth of 4% YoY – CBP volumes grew just 2% while industrial volumes rose 13% YoY. Consolidated operating margins swelled 560bps YoY to 24% mainly due to lower RM prices, aiding in-line EBITDA/PBT growth of 36%/38% YoY. Management expects margins to remain steady in light of benign near-term RM prices, but continues to find demand conditions challenging. We roll forward to a Mar'21 TP of Rs 1,325 (from Rs 1,215) and maintain SELL.

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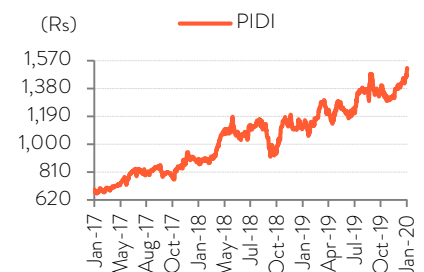
CBP volume growth below estimates: PIDI's consolidated Q3 revenue grew 4.3% YoY to Rs 19.3bn, with 10% YoY CC growth in overseas subsidiaries. Standalone revenue increased 4.7% YoY to Rs 16.6bn with subdued 2.9% volume growth (2.3% in the consumer & bazaar (CBP) segment and 12.6% in the industrial segment). The industrial segment did better on the back of higher exports. Management pointed to tough demand conditions in CBP but is hopeful of recovery in FY21.

Ticker/Price	PIDI IN/Rs 1,521
Market cap	US\$ 10.8bn
Shares o/s	508mn
3M ADV	US\$ 11.1mn
52wk high/low	Rs 1,545/Rs 1,046
Promoter/FPI/DII	70%/11%/19%

Source: NSE

Operating margins expand 560bps: Consolidated gross margins expanded 660bps YoY due to lower raw material cost, resulting in consolidated operating margins increasing 560bps YoY to 24% despite higher employee expenses (+96bps). Consequently, EBITDA/PBT grew 36%/38% YoY for the quarter. Management expects gross margins to hold at current levels in Q4 as raw material prices remain benign.

STOCK PERFORMANCE



Source: NSE

Maintain SELL on expensive valuations: PIDI's margins beat estimates though CBP volume growth was disappointing. We increase our FY20-FY22 PAT estimates by 2-4% and roll forward to a revised Mar'21 TP of Rs 1,325. Maintain SELL given that valuations at 46x FY22E P/E are rich, especially amid the weak demand climate.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	60,324	70,787	75,826	87,040	99,434
EBITDA (Rs mn)	13,412	13,682	16,757	19,497	22,373
Adj. net profit (Rs mn)	9,159	8,901	12,630	14,466	16,778
Adj. EPS (Rs)	18.0	17.5	24.9	28.5	33.0
Adj. EPS growth (%)	7.5	(2.9)	41.9	14.5	16.0
Adj. ROAE (%)	26.0	23.1	28.1	27.6	27.5
Adj. P/E (x)	84.3	86.8	61.2	53.4	46.0
EV/EBITDA (x)	57.6	56.4	46.1	39.5	34.3

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

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net revenues	19,266	18,478	4.3	18,066	6.6	57,498	54,387	5.7
Raw Material Cost	8,903	9,752	(8.7)	8,422	5.7	27,130	27,717	(2.1)
Employee cost	2,361	2,087	13.1	2,344.8	0.7	7,142	6,195	15.3
Other expenses	3,371	3,227	4.4	3,617	(6.8)	10,475	9,580	9.3
EBITDA	4,632	3,412	35.8	3,682	25.8	12,751	10,894	17.1
EBITDA margin (%)	24.0	18.5	558bps	20.4	366bps	22.2	20.0	215bps
Depreciation and amortization	419	321	30.4	402	4.1	1,198	938	27.8
EBIT	4,213	3,091	36.3	3,280	28.4	11,553	9,956	16.0
EBIT Margin (%)	21.9	16.7	514bps	18.2	371bps	20.1	18.3	179bps
Net Interest expenses	82	62	31.9	83	(1.1)	238	195	22.1
Foreign exchange gain (loss), net	0	0	NM	0	NM	0	0	NM
Other income	398	307	29.9	558	(28.6)	1,355	904	49.8
EBT and except. Items	4,530	3,335	35.8	3,755	20.6	12,670	10,665	18.8
Exceptional items	0	(44)	NM	(222)	NM	(222)	(61)	NM
Earnings before tax	4,530	3,291	37.6	3,533	28.2	12,447	10,604	17.4
Income taxes	1,084	1,110	(2.4)	293	270.2	2,821	3,701	(23.8)
Income tax as % of PBT	23.9	33.7	(980bps)	8.3	1,565bps	22.7	34.9	(1,224bps)
Earnings after tax	3,445	2,181	58.0	3,240	6.3	9,626	6,903	39.5
Profit in associate company	16	15	7.5	11	49.1	29	12	136.3
Minority interest (expense) income	(43)	(1)	NM	(8)	NM	(67)	(18)	280.0
Net income (loss) adjusted	3,418	2,239	52.7	3,465	(1.4)	9,811	6,959	41.0
Non-recurring items	0.0	0.0	NM	0.0	NM	0.0	0.0	NM
Net income (loss), reported	3,418	2,195	55.7	3,242	5.4	9,589	6,898	39.0

Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue								
Consumer & Bazaar Products	16,472	15,906	3.6	15,350	7.3	49,166	46,893	4.8
Industrial Products	2,865	2,613	9.7	2,899	(1.2)	8,697	7,722	12.6
Others	216	250	(13.7)	152	41.9	613	686	(10.6)
Total	19,553	18,769	4.2	18,401	6.3	58,476	55,300	5.7
Less: Inter Segment revenue	(287)	(291)	(1.4)	(335)	(14.4)	(978)	(913)	7.1
Net revenues	19,266	18,478	4.3	18,066	6.6	57,498	54,387	5.7
Profit before interest & tax								
Consumer & Bazaar Products	4,703	3,625	29.8	3,889	21.0	13,213	11,478	15.1
Industrial Products	473	309	52.8	525	(10.0)	1,451	1,109	30.8
Others	3	(17)	NM	(27)	(109.2)	(35)	(64)	(46.0)
Total	5,179	3,917	32.2	4,386	18.1	14,629	12,523	16.8
Margin (%)								
Consumer & Bazaar Products	28.6	22.8	576bps	25.3	322bps	26.9	24.5	240bps
Industrial Products	16.5	11.8	466bps	18.1	(162bps)	16.7	14.4	232bps
Total	26.9	21.2	568bps	24.3	260bps	25.4	23.0	242bps

Source: Company, BOBCAPS Research

FIG 3 – STANDALONE QUARTERLY PERFORMANCE

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net revenues	16,634	15,892	4.7	15,717	5.8	50,140	47,149	6.3
Raw material exp	7,658	8,312	(7.9)	7,277	5.2	23,551	23,924	(1.6)
Employee exp	1,873	1,646	13.8	1,866	0.4	5,726	4,927	16.2
Other exp	2,809	2,674	5.0	3,065	(8.4)	8,880	7,997	11.0
EBITDA	4,294	3,259	31.8	3,510	22.3	11,984	10,300	16.3
EBITDA margin (%)	25.8	20.5	531bps	22.3	348bps	23.9	21.8	205bps
Depreciation and amortization	318	234	35.6	303	4.8	901	700	28.7
EBIT	3,977	3,025	31.5	3,207	24.0	11,083	9,600	15.4
EBIT Margin (%)	23.9	19.0	487bps	20.4	350bps	22.1	20.4	174bps
Net Interest expenses	34	16	108.6	36	(6.4)	97	53	83.4
Other income	391	309	26.4	572	(31.6)	1,353	1,390	(2.6)
PBT	4,334	3,318	30.6	3,743	15.8	12,339	10,937	12.8
Income taxes	1,030	1,071	(3.8)	280	268.0	2,696	3,574	(24.6)
Income tax as % of PBT	23.8	32.3	(851bps)	7.5	1,629bps	21.9	32.7	(1,083bps)
Earnings after tax, adjusted	3,304	2,247	47.0	3,463	(4.6)	9,643	7,362	31.0
Extraordinary	0	0	NM	(222)	-	(222)	0	NM
Net income (loss), reported	3,304	2,247	47.0	3,241	1.9	9,420	7,362	28.0

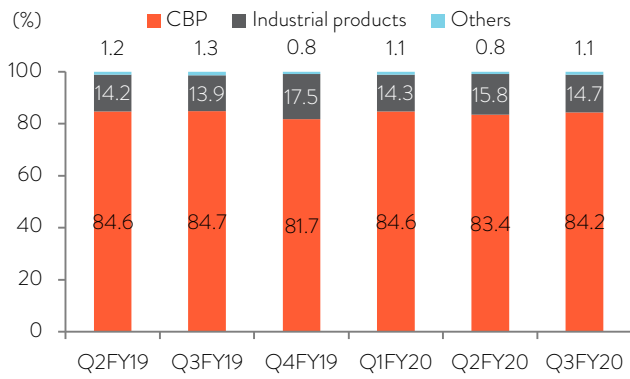
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE SEGMENTAL PERFORMANCE

Particulars (Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Revenue								
Consumer & Bazaar Products	13,841	13,321	3.9	13,001	6.5	41,808	39,654	5.4
Industrial Products	2,865	2,613	9.7	2,899	(1.2)	8,697	7,722	12.6
Others	216	250	(13.7)	152	41.9	613	686	(10.6)
Total	16,921	16,183	4.6	16,052	5.4	51,119	48,062	6.4
Less: Inter Segment revenue	(287)	(291)	(1.4)	(335)	(14.4)	(978)	(913)	7.1
Net revenues	16,634	15,892	4.7	15,717	5.8	50,140	47,149	6.3
Profit before interest & tax								
Consumer & Bazaar Products	4,523	3,604	25.5	3,848	17.5	12,860	11,564	11.2
Industrial Products	473	309	52.8	525	(10.0)	1,451	1,109	30.8
Others	3	(17)	NM	(27)	(109.2)	(35)	(64)	(46.0)
Total	4,998	3,897	28.3	4,346	15.0	14,275	12,608	13.2
Margin (%)								
Consumer & Bazaar Products	32.7	27.1	562bps	29.6	308bps	30.8	29.2	160bps
Industrial Products	16.5	11.8	466bps	18.1	(162bps)	16.7	14.4	232bps
Others	1.2	(6.7)	788bps	(18.0)	1,912bps	(5.7)	(9.4)	372bps
Total	30.0	24.5	553bps	27.6	240bps	28.5	26.7	173bps

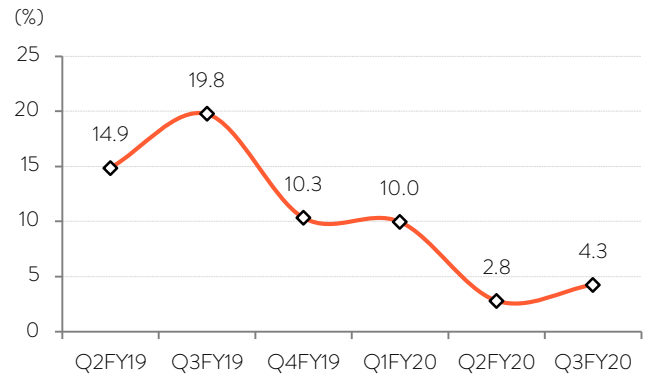
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUE BREAKUP



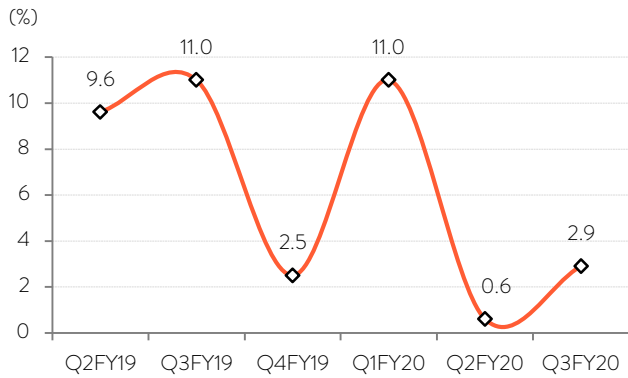
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED REVENUE GROWTH



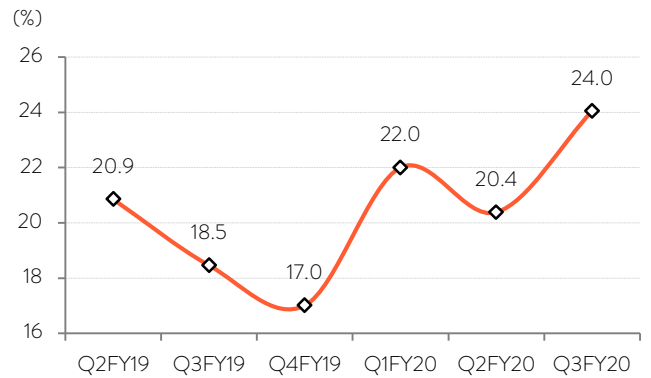
Source: Company, BOBCAPS Research

FIG 7 – TOTAL VOLUME GROWTH



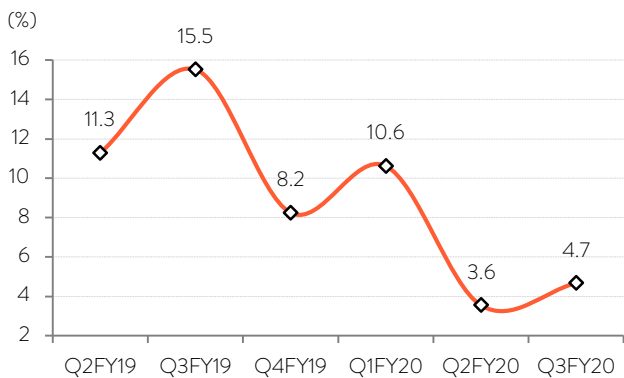
Source: Company, BOBCAPS Research

FIG 8 – CONSOLIDATED EBITDA MARGIN



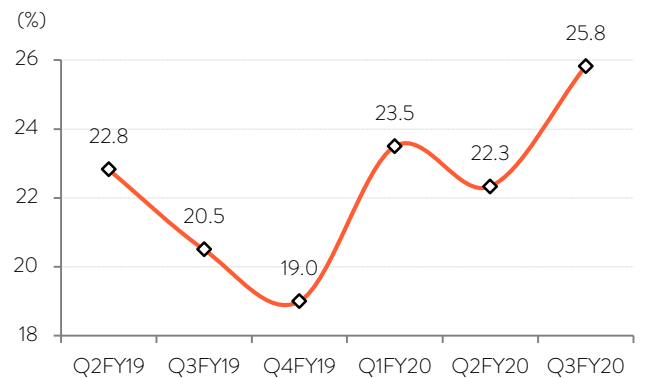
Source: Company, BOBCAPS Research

FIG 9 – STANDALONE REVENUE GROWTH



Source: Company, BOBCAPS Research

FIG 10 – STANDALONE EBITDA MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Challenging demand conditions resulted in tepid volume growth in the CBP segment during Q3.
- The industrial segment performed well owing to higher exports. Closure of several plants in China has led to an uptick in growth from export markets.
- Raw material cost remained benign during Q3. VAM prices averaged ~US\$ 875/t for the quarter (vs. US\$ 1,300/t YoY) and are currently at US\$ 850-900/t. PIDI does not foresee any substantial changes to raw material price in Q4.
- The company has not taken price cuts despite softer raw material cost, though some product prices were reduced based on market dynamics. Management believes that lower pricing is unlikely to generate higher volumes in current market conditions, but is open to price shifts should the demand climate change.
- The company continues to target medium-term revenue growth of 15% but believes this run-rate would be difficult to achieve in the near term.
- A&P spend for FY20 is guided at ~3.5-4% of sales.
- Subsidiary Nina-Percept's revenues declined 4.5% YoY whereas Cipy Polyurethanes clocked a 16% YoY drop. Both subsidiaries saw tepid demand as user markets such as real estate, auto and engineering remained under pressure.
- Subsidiary ICA Pidilite grew 8% YoY as it switched to domestic manufacturing from imports.
- International subsidiaries performed well in Bangladesh, Sri Lanka, USA, Egypt and Brazil. But the Thai subsidiary saw a growth decline as the base quarter had a one-off project.
- Management plans to focus on emerging markets such as Africa, the Middle East and the Indian-subcontinent going ahead.
- The tax rate in Q4FY20 should be ~23%, similar to 9MFY20.

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 46x FY22E P/E appear rich, especially against the backdrop of weak demand.

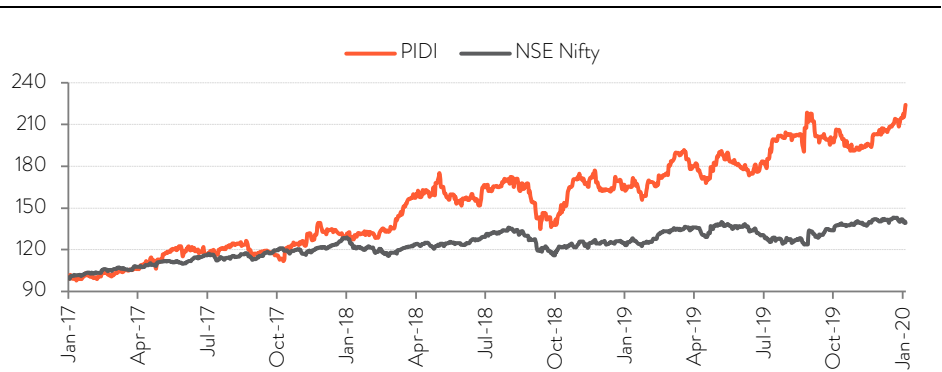
We increase our PAT estimates for FY20-FY22 by 2-4% to build in the Q3FY20 results, lower tax guidance and roll over to a Mar’21 target price of Rs 1,325 (earlier Rs 1,215), based on an unchanged one-year forward P/E multiple of 40x. Maintain SELL on rich valuations.

FIG 11 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	75,826	76,847	(1.3)	87,040	88,275	(1.4)	99,434	1,00,879	(1.4)
EBITDA	16,757	16,753	0.0	19,497	19,332	0.9	22,373	22,193	0.8
PAT	12,630	12,097	4.4	14,466	14,266	1.4	16,778	16,523	1.5

Source: Company, BOBCAPS Research

FIG 12 – 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	FY20E	FY21E	FY22E
Total revenue	60,324	70,787	75,826	87,040	99,434
EBITDA	13,412	13,682	16,757	19,497	22,373
Depreciation	(1,199)	(1,327)	(1,706)	(1,958)	(2,237)
EBIT	12,213	12,355	15,051	17,539	20,135
Net interest income/(expenses)	(155)	(261)	(325)	(140)	(128)
Other income/(expenses)	560	586	1,774	2,058	2,562
Exceptional items	0	0	0	0	0
EBT	13,542	13,560	16,500	19,457	22,569
Income taxes	(4,392)	(4,661)	(3,795)	(4,903)	(5,687)
Extraordinary items	465	349	0	0	0
Min. int./Inc. from associates	9	1	(75)	(87)	(104)
Reported net profit	9,623	9,249	12,630	14,466	16,778
Adjustments	(465)	(349)	0	0	0
Adjusted net profit	9,159	8,901	12,630	14,466	16,778

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	5,438	5,806	5,404	6,217	7,117
Other current liabilities	5,353	6,837	6,337	5,837	5,337
Provisions	1,431	637	5,684	6,510	7,550
Debt funds	1,226	1,111	335	285	285
Other liabilities	1,107	1,201	1,201	1,201	1,201
Equity capital	508	508	508	508	508
Reserves & surplus	35,233	40,973	47,919	55,876	65,103
Shareholders' fund	35,740	41,481	48,427	56,384	65,612
Total liabilities and equities	52,045	59,145	69,575	78,751	89,571
Cash and cash eq.	1,636	1,904	5,082	4,866	6,130
Accounts receivables	9,381	10,560	10,595	12,162	13,894
Inventories	8,043	9,345	9,040	10,738	12,293
Other current assets	4,767	8,818	9,231	9,662	10,137
Investments	12,459	11,514	18,054	23,097	28,145
Net fixed assets	15,699	16,897	17,466	18,119	18,865
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	59	107	107	107	107
Other assets	0	0	0	0	0
Total assets	52,045	59,145	69,575	78,751	89,571

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	14,741	14,888	18,206	21,415	24,807
Interest expenses	155	261	325	140	128
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,795)	(5,472)	4,001	(2,557)	(2,322)
Other operating cash flows	(4,517)	(4,671)	(3,755)	(4,860)	(5,640)
Cash flow from operations	8,584	5,006	18,777	14,138	16,973
Capital expenditures	(1,768)	(1,327)	(2,275)	(2,611)	(2,983)
Change in investments	1,972	945	(6,540)	(5,044)	(5,048)
Other investing cash flows	(319)	(247)	(1,722)	(826)	(1,040)
Cash flow from investing	(116)	(628)	(10,536)	(8,481)	(9,071)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	250	(115)	(775)	(50)	0
Interest expenses	(155)	(261)	(325)	(140)	(128)
Dividends paid	(7,927)	(3,733)	(3,962)	(5,684)	(6,510)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(7,832)	(4,109)	(5,063)	(5,873)	(6,638)
Changes in cash and cash eq.	636	268	3,178	(216)	1,264
Closing cash and cash eq.	1,636	1,904	5,082	4,866	6,130

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	19.0	18.2	24.9	28.5	33.0
Adjusted EPS	18.0	17.5	24.9	28.5	33.0
Dividend per share	6.0	6.5	8.9	10.2	11.8
Book value per share	70.4	81.7	95.3	111.0	129.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	12.8	10.9	10.2	8.8	7.7
EV/EBITDA	57.6	56.4	46.1	39.5	34.3
Adjusted P/E	84.3	86.8	61.2	53.4	46.0
P/BV	21.6	18.6	16.0	13.7	11.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	67.6	65.6	76.5	74.4	74.3
Interest burden (PBT/EBIT)	110.9	109.8	109.6	110.9	112.1
EBIT margin (EBIT/Revenue)	20.2	17.5	19.9	20.2	20.3
Asset turnover (Revenue/Avg TA)	120.9	127.3	117.8	117.4	118.1
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	26.0	23.1	28.1	27.6	27.5

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	8.0	17.3	7.1	14.8	14.2
EBITDA	6.5	2.0	22.5	16.3	14.7
Adjusted EPS	7.5	(2.9)	41.9	14.5	16.0
Profitability & Return ratios (%)					
EBITDA margin	22.2	19.3	22.1	22.4	22.5
EBIT margin	20.2	17.5	19.9	20.2	20.3
Adjusted profit margin	15.2	12.6	16.7	16.6	16.9
Adjusted ROAE	26.0	23.1	28.1	27.6	27.5
ROCE	21.8	19.4	24.2	23.9	23.7
Working capital days (days)					
Receivables	52	51	51	48	48
Inventory	96	88	94	87	89
Payables	36	36	35	31	32
Ratios (x)					
Gross asset turnover	2.3	2.4	2.4	2.6	2.7
Current ratio	1.8	2.1	1.9	2.0	2.1
Net interest coverage ratio	78.6	47.4	46.3	125.7	156.9
Adjusted debt/equity	0.0	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

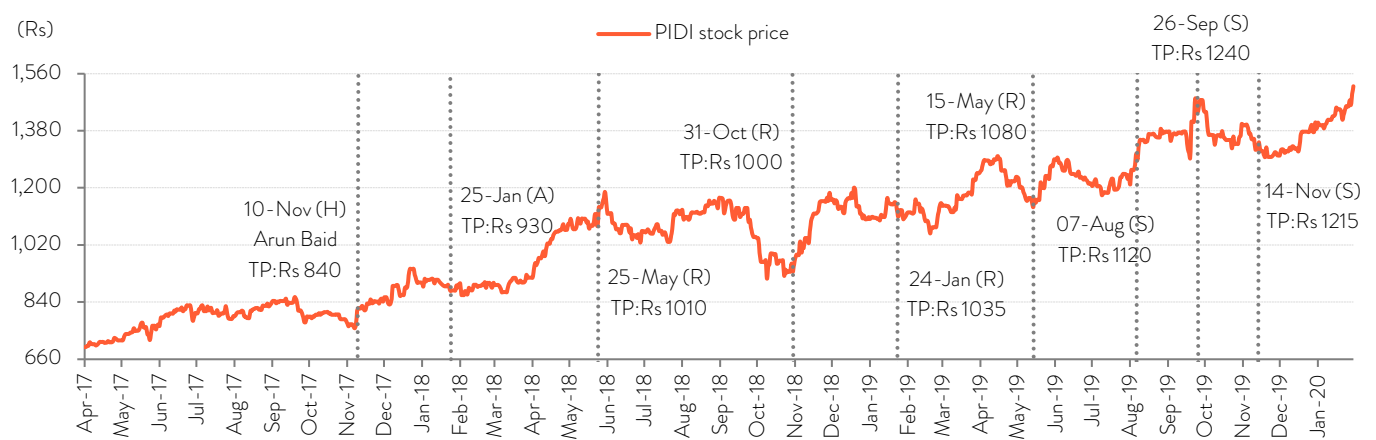
ADD – Expected return from >+5% to +15%

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

Rating distribution

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