

BSE Code: 500331
NSE Code: PIDILITIND
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PIDI.NS
Bloomberg Code:
PIDI:IN
Revival in volumes to led growth

Pidilite Industries Ltd. is a pioneer in consumer and speciality chemicals in India. The company has a diversified product portfolio including adhesives and sealants, construction chemicals, hobby colours and polymer emulsions among others.

Investment Rationale
Strong volume growth drives revenue:

Pidilite's Q3FY18 performance was largely in-line with estimates with consolidated revenue growth of ~16% YoY (17.3% YoY excluding the sales of Cycle division of Pidilite USA Inc). The growth was mainly driven by ~20% YoY growth in standalone business on account of 22% YoY growth in underlying volume & favourable mix. On a comparable basis, revenue from both Consumer & bazaar (C&B) and industrial product segment increased by ~20% YoY driven by volume & mix growth of 22.7% YoY and 17.9% YoY, respectively.

Weakness in US subsidiary weighed on international business:

Pidilite's overseas subsidiaries posted a subdued revenue growth of 3% YoY on constant currency basis in Q3FY18 dragged by 29% YoY decline in revenue from the US business which was impacted by decline in demand for products in adult colouring segment. However, EBITDA grew strongly by 19.8% YoY owing to declining losses in Egypt & MEA businesses and improving profitability at Thailand subsidiary. On the domestic subsidiaries front, solid 21.6%/23.9% YoY growth in Nina/Percept revenue was largely offset by 27% YoY decline in revenue from ICA Pidilite which was impacted by a classification dispute with concerned authorities. Resultantly, revenue from domestic subsidiaries grew by 4.7% YoY in Q3FY17. EBITDA however surged by 43.6% YoY on the back of sharp improvement in profitability at Nina business.

Rising raw material cost to weigh on margins going ahead:

In line with robust revenue growth coupled with benefit of better mix and cost optimisation, EBITDA margin expanded sharply by 209 bps YoY to 24% in Q3FY18. While better mix and price hike helped to offset the impact of increase in raw material costs, leading to flat gross margin, the savings in employee costs and other expenses which declined by 114 bps and 97 bps (as % of sales), respectively, resulted in strong EBITDA margin expansion. Net profit growth at 16% YoY lagged growth in operating profitability impacted by lower other income (~29% YoY) and higher interest and taxation charges. Vinyl acetate monomer (VAM) weighted average prices have strengthened to USD 975 per tonne in Q3FY18 as compared to USD 920 in Q1FY18 and is currently trading at USD 1,000. The company has undertaken price hike in certain products in Q3FY18 and is also evaluating various cost savings measures to contain the impact of commodity cost inflation. Hence, we model EBITDA margin of 22.5%/22%/22.1% in FY18E/19E/20E.

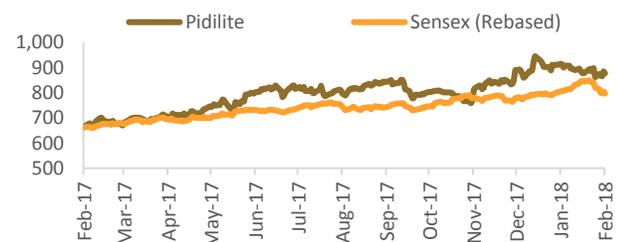
Valuation: We maintain our positive stance on the stock given its strong brand portfolio and potential market share gains due to implementation of GST. We expect the company to clock overall revenue CAGR of ~13% over FY17-20E. We roll over our valuation to FY20 and recommend "BUY" with a revised TP of Rs. 986, based on P/E multiple of 41x.

Market Data

Rating	BUY
CMP (Rs.)	889
Target (Rs.)	986
Potential Upside	11%
Duration	Long Term
Face Value (Rs.)	1
52 week H/L (Rs.)	972/664
Adj. all time High (Rs.)	972
Decline from 52WH (%)	8.5
Rise from 52WL (%)	33.9
Beta	0.4
Mkt. Cap (Rs.Cr)	45,588

Fiscal Year Ended

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	5,617	6,075	6,995	8,066
Adj. Net profit (Rs.Cr)	860	928	1,063	1,234
Adj. EPS (Rs.)	16.8	18.1	20.7	24.1
Adj. P/E (x)	53.0	49.1	42.9	37.0
P/BV (x)	13.1	11.2	9.6	8.3
ROE (%)	28.2	24.6	24.1	24.0

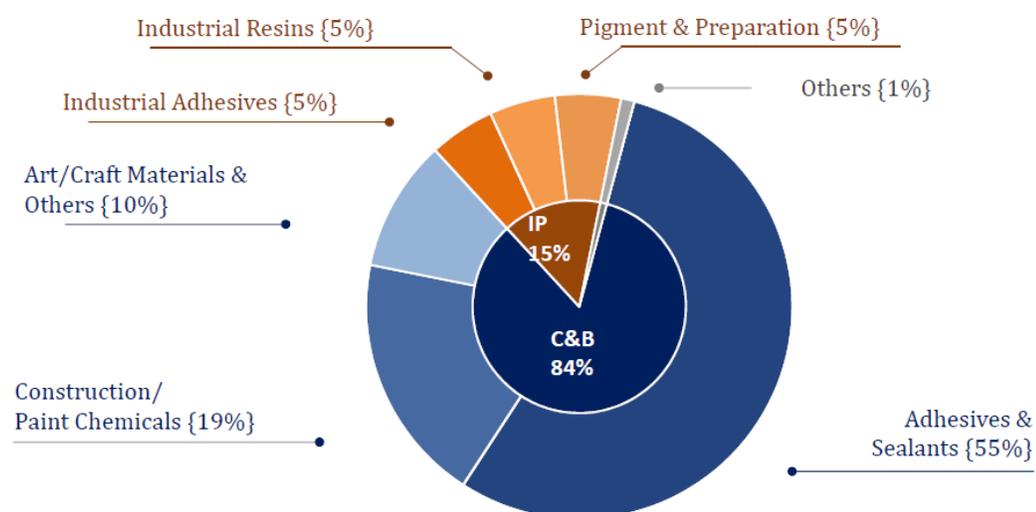
One year Price Chart

Shareholding Pattern

	Dec-17	Sep-17	Chg.
Promoters	69.6	69.6	0.0
FII's	11.0	10.9	0.1
MFs/Insti	8.5	8.4	0.1
Public	9.1	9.3	(0.2)
Others	1.9	1.8	0.1

Pidilite Industries Ltd: Business overview

Incorporated in 1959, Pidilite Industries Ltd. is a pioneer in consumer and speciality chemicals in India. The company has a diversified product portfolio including adhesives and sealants, construction chemicals, hobby colours and polymer emulsions among others. The company's iconic brand Fevicol is currently the largest selling adhesives brand in Asia. It operates broadly in two major segments viz; Branded Consumer & Bazaar Products and Industrial Products. Branded Consumer and Bazaar Products segment is engaged in manufacturing of adhesives, sealants, art materials, construction and paint chemicals. It alone contributes 84% to the company's overall revenue. Industrial products segment includes products such as industrial adhesives, synthetic resins, organic pigments and pigment preparations. It accounts for 15% of the company's total revenue.

Pidilite's business mix



Source: Company

Quarterly Financials (Consolidated)

(Rs cr)	Q3FY18		YoY Growth		QoQ Growth		YoY Growth	
	Q3FY18	Q3FY17	%	Q2FY18	%	9MFY18	9MFY17	%
Revenue	1,543	1,334	15.6	1,530	0.9	4,593	4,321	6.3
EBITDA	370	291	27.3	376	(1.5)	1,067	1,002	6.5
EBITDA Margin (%)	24.0	21.8	220bps	24.6	(58bps)	23.2	23.2	5bps
Depreciation	29	30	(0.9)	30	(1.2)	90	86	5.3
EBIT	341	261	30.5	346	(1.6)	977	916	6.6
Interest	4	3	38.4	4	6.2	12	9	28.4
Other Income	19	27	(28.6)	34	(42.2)	96	84	15.1
Exceptional Items	-	(4)	-	-	-	-	-	-
PBT	356	281	26.7	376	(5.3)	1,062	991	7.1
Tax	119	79	50.4	124	(4.1)	347	288	20.5
PAT	237	202	17.3	252	(5.9)	715	703	1.7
Minority Interest/ P&L from asso.	3	0.4	-	0.1	-	3	0	-
Reported PAT	240	202	18.5	252	(4.8)	718	703	2.2
Adjustment	-	4	-	-	-	-	-	-
Adj PAT	240	207	16.0	252	(4.8)	718	703	2.2
EPS (Rs)	4.7	4.0	16.0	4.9	(4.8)	14.0	13.7	2.1

Source: Company, In-house research

Revenue to grow at ~13% CAGR over FY17-20E

Pidilite's Q3FY18 performance was largely in-line with estimates with consolidated revenue growth of ~16% YoY (17.3% YoY excluding the sales of Cycle division of Pidilite USA Inc). The growth was mainly driven by ~20% YoY growth in standalone business on account of 22% YoY growth in underlying volume & favourable mix. On a comparable basis, revenue from both Consumer & bazaar (C&B) and industrial product segment increased by ~20% YoY driven by volume & mix growth of 22.7% YoY and 17.9% YoY, respectively. We model revenue CAGR of ~13% over FY17-20E led by revival in volumes, strong pricing power and potential market share gains due to implementation of GST.

Weakness in US subsidiary weighed on international business

The company' overseas subsidiaries posted a subdued revenue growth of 3% YoY on constant currency basis in Q3FY18 dragged by 29% YoY decline in revenue from the US business which was impacted by decline in demand for products in adult colouring segment. However, EBITDA grew strongly by 19.8% YoY owing to declining losses in Egypt & MEA businesses and improving profitability at Thailand subsidiary. On the domestic subsidiaries front, solid 21.6%/23.9% YoY growth in Nina/Percept revenue was largely offset by 27% YoY decline in revenue from ICA Pidilite which was impacted by a classification dispute with concerned authorities. Resultantly, revenue from domestic subsidiaries grew by 4.7% YoY in Q3FY17. EBITDA however increased significantly by 43.6% YoY on the back of sharp improvement in profitability at Nina business.

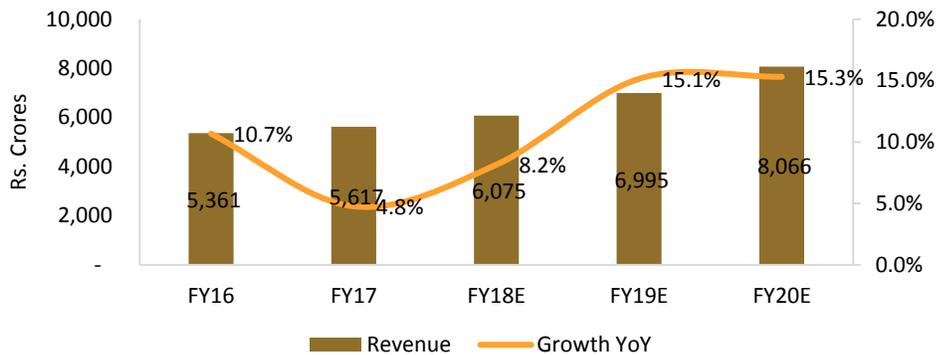
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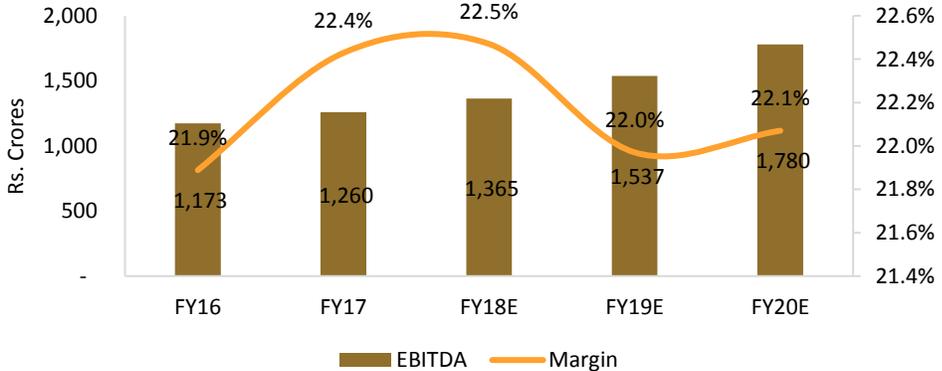
Other updates

Recently, the company has acquired 70% stake in CIPY Polyurethanes Pvt. Ltd which is engaged in manufacturing and selling of floor coatings. This acquisition will enable Pidilite to expand its presence in the resin flooring and floor coatings market. Besides, the board has approved buyback of 50,00,000 equity shares at a price of Rs. 1,000 per equity share for an aggregate amount not exceeding Rs 500 cr.

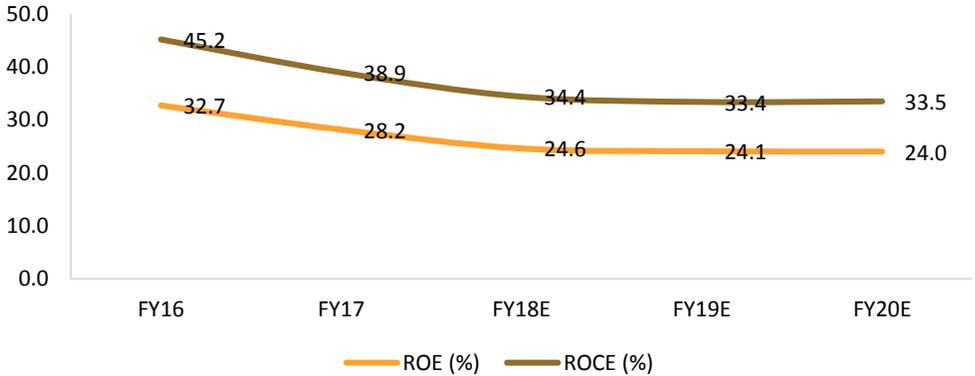
Revenue to grow at ~13% CAGR over FY17-20E



Ebitda to grow at 12% CAGR over FY17-20E



Return ratios trend



Source: Company, In-house research

Key risks:

- Adverse movement in VAM prices to impact margins.
- Steep depreciation in the rupee could hurt margins as input prices are dollar linked.

Profit & Loss Account (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Total operating Income	5,617	6,075	6,995	8,066
EBITDA	1,260	1,365	1,537	1,780
Depreciation	115	122	139	150
EBIT	1,145	1,244	1,398	1,630
Interest cost	14	15	15	15
Other Income	112	132	152	168
Profit before tax	1,243	1,360	1,534	1,782
Tax	385	435	476	553
Profit after tax	858	925	1,059	1,230
Minority Interests	3	2	3	3
P/L from Associates	5	6	6	7
Adjusted PAT	860	928	1,063	1,234
E/o income / (Expense)	-	-	-	-
Reported PAT	860	928	1,063	1,234

Balance Sheet (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	51	51	51	51
Reserves and Surplus	3,420	4,025	4,701	5,470
Net worth	3,471	4,077	4,752	5,522
Minority Interest	127	130	132	136
Total Debt	98	98	98	98
Other non-current liabilities	24	24	24	24
Total Liabilities	3,720	4,328	5,006	5,779
Net fixed assets	1,141	1,220	1,281	1,331
Capital WIP	148	148	148	148
Goodwill	134	134	134	134
Investments	1,443	1,743	2,143	2,643
Net Current Assets	832	1,062	1,279	1,501
Deferred tax assets (Net)	(88)	(88)	(88)	(88)
Other non-current assets	110	110	110	110
Total Assets	3,720	4,328	5,006	5,779

Cash Flow Statement (Consolidated)

Y/E (Rs.Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	1,248	1,366	1,541	1,790
Depreciation	115	122	139	150
Chg in Working Capital	(137)	(78)	(148)	(173)
Others	(59)	(116)	(136)	(152)
Tax paid	(373)	(435)	(476)	(553)
Cash flow from operating activities	794	858	920	1,062
Capital expenditure	(133)	(200)	(200)	(200)
Chg in investments	(661)	(300)	(400)	(500)
Other investing cashflow	(85)	132	152	168
Cash flow from investing activities	(879)	(369)	(449)	(533)
Equity raised/(repaid)	81	0	-	-
Debt raised/(repaid)	6	-	-	-
Dividend paid	(32)	(322)	(387)	(464)
Other financing activities	(14)	(15)	(15)	(15)
Cash flow from financing activities	41	(338)	(402)	(480)
Net chg in cash	(45)	151	69	50

Key Ratios (Consolidated)

Y/E	FY17	FY18E	FY19E	FY20E
Valuation(x)				
P/E	53.0	49.1	42.9	37.0
EV/EBITDA	36.3	33.4	29.6	25.5
EV/Net Sales	8.1	7.5	6.5	5.6
P/B	13.1	11.2	9.6	8.3
Per share data				
EPS	16.8	18.1	20.7	24.1
DPS	4.7	5.2	6.3	7.5
BVPS	67.7	79.5	92.7	107.7
Growth (%)				
Net Sales	4.8	8.2	15.1	15.3
EBITDA	7.4	8.4	12.6	15.8
Net profit	7.1	7.9	14.5	16.1
Operating Ratios				
EBITDA Margin (%)	22.4	22.5	22.0	22.1
EBIT Margin (%)	20.4	20.5	20.0	20.2
PAT Margin (%)	15.3	15.3	15.2	15.3
Return Ratios (%)				
RoE	28.2	24.6	24.1	24.0
RoCE	38.9	34.4	33.4	33.5
Turnover Ratios (x)				
Net Sales/GFA	2.9	2.8	3.0	3.2
Sales/Total Assets	1.3	1.2	1.2	1.2
Liquidity and Solvency Ratios (x)				
Interest Coverage	82.2	81.3	91.4	106.5
Debt/Equity	0.0	0.0	0.0	0.0

Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Pidilite is a large cap company

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