

PIDILITE INDUSTRIES

Volumes on recovery road; GST to propel growth

India Equity Research | Consumer Goods

Pidilite Industries' (PIDI) Q4FY17 consolidated revenue (up 4.9% YoY) and PAT (down 8.2% YoY) came in line, while EBITDA (up 8.3% YoY) marginally surpassed estimates. Domestic volume and mix grew 7.8% YoY, reflecting pick up post demonetisation. Consolidated gross margin plummeted 209bps YoY on raw material cost pressure. PIDI has raised prices in Q1FY18, which will cushion gross margin. Our optimism in PIDI's prospects are anchored by: (1) anticipated demand recovery; (2) 18% GST rate for adhesives compared to 22-24% current rate (~50% of revenue); and (3) pick up in international business. Competitive intensity and slowdown in real estate demand will be key monitorable. Maintain 'BUY'.

Volumes recover; Price hike to cushion margin

Key highlights: (i) commendable 7.8% YoY domestic volume growth on high base of ~14.0%. The spurt was led by 8.2% growth in Consumer & Bazaar business and 5.2% growth in Industrial Products. With anticipated recovery, we expect volumes to improve further; (ii) international business declined 12.2% YoY primarily due to fall in North and South America sales; (iii) standalone gross margin slipped 80bps YoY, but EBITDA margin expanded 154bps YoY primarily led by cost rationalisation (other expenditure contracted 277bps YoY). With PIDI raising prices in Q1FY18, we expect margin expansion to sustain, albeit at a slower pace.

Q4FY17 conference call: Key takeaways

PIDI is targeting double digit volume growth with 15% value growth in FY18 which should be achievable. The company continues to face some stress in rural areas. It did not effect significant price hikes in Q4FY17; however, in Q1FY18 prices of most products have been raised. All adhesives, irrespective of LUP, will be taxed at 18% in GST regime, which should bring benefit for PIDI since currently adhesives are taxed at ~22-24%. Unorganised segment in adhesives could be in the 20-30% range.

Outlook and valuations: Strong bond; maintain 'BUY'

Good performance of acquisitions (Bluecoat, Nina, ICA, etc) and entry in new markets & adjacent categories will boost growth. PIDI will benefit due to lower tax rate on adhesives in GST and shift of business from unorganised to organised players. At CMP, the stock is trading at P/E of 32.9x FY18E. We maintain 'BUY/SO' with TP of INR854.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net sales	12,954	12,351	4.9	13,344	(2.9)	56,168	63,166	72,473
EBITDA	2,579	2,382	8.3	2,866	(10.0)	12,598	14,319	16,878
Adjusted Profit	1,554	1,692	(8.2)	2,026	(23.3)	8,632	9,792	11,531
Adj Dil. EPS (INR)	3.0	3.3	(8.2)	4.0	(23.3)	16.8	19.1	22.5
Dil. P/E (x)						43.9	38.7	32.9
EV/EBITDA (x)						29.5	25.6	21.3
ROAE (%)						27.7	26.5	26.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: PIDI.BO, B: PIDI IN)

CMP	: INR 740
Target Price	: INR 854
52-week range (INR)	: 783 / 568
Share in issue (mn)	: 512.7
M cap (INR bn/USD mn)	: 379 / 5,874
Avg. Daily Vol.BSE/NSE('000)	: 569.0

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	69.6	69.6	69.6
MF's, FI's & BK's	7.1	6.7	6.0
FII's	12.1	12.5	13.6
Others	11.2	11.1	10.9
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	8.7	3.6	2.3
3 months	13.4	6.9	7.0
12 months	27.3	19.8	20.5

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Table 1: Trends at a glance

	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Domestic C&B volume growth (% YoY)	3.1	5.0	3.0	11.0	~14.0	9.0	7.8	(0.7)	7.8
Consolidated									
Sales growth (% YoY)	5.3	9.4	5.2	11.4	18.9	6.8	7.5	(0.3)	4.9
Gross margin (%)	46.8	49.1	51.8	51.6	55.3	52.3	53.5	53.2	53.1
EBITDA margin (%)	12.8	23.4	22.8	22.0	19.2	25.1	22.8	21.8	19.9
CBP sales growth (% YoY)	7.7	9.4	8.1	13.6	20.7	9.4	9.4	0.8	7.6
Industrial Products sales growth (% YoY)	(1.6)	0.7	(9.1)	3.1	7.5	4.2	5.2	(3.6)	1.2
CBP EBIT margin (%)	15.1	26.8	25.2	25.2	25.2	27.1	23.8	24.1	31.0
Industrial Products EBIT margin (%)	13.4	15.3	14.9	17.5	20.0	18.3	19.0	15.1	16.1
Standalone									
Sales growth (% YoY)	6.7	7.6	2.6	8.8	12.2	5.0	4.8	(2.8)	4.3
Gross margin (%)	47.4	49.3	51.4	52.3	54.6	53.5	53.6	53.2	53.8
EBITDA margin (%)	14.4	25.1	24.1	24.4	20.7	28.2	25.2	24.4	22.4
CBP sales growth (% YoY)	9.7	7.4	5.2	10.8	12.4	7.6	6.4	(2.0)	7.3
Industrial Products sales growth (% YoY)	(1.6)	0.7	(9.1)	3.1	7.5	4.2	5.2	(3.6)	1.2
CBP EBIT margin (%)	17.9	29.9	27.6	29.0	25.8	31.1	27.5	28.6	26.1
Industrial Products EBIT margin (%)	13.4	15.3	14.9	17.5	20.0	18.3	19.0	15.1	16.1

Source: Company, Edelweiss research

Q4FY17 result concall | Key takeaways

Macro outlook, demand and growth

- In a challenging quarter, (PIDI) posted volume driven growth. Overall underlying volume grew 7.8% YoY. This was driven by 8.2% YoY spurt in sales volume and mix of Consumer & Bazaar products and 5.2% YoY growth in sales volume & mix of Industrial Products. Growth in all brands was better than in Q3FY17.
- Endeavour is to reach historical value growth rate of 15% with double digit volume spurt.
- PIDI is hopeful of a better FY18 than FY17. Q4FY17 showed good improvement and that decent sales volume traction is continuing in Q1FY18 too. However, complete wholesale channel stress is not completely over.
- The company continues to face some stress in rural areas, where demand has not picked up as per the company's expectations. Consumer & Bazaar is the focus area.
- PIDI raises prices only once it is convinced that the hike is judicious. In Q4FY17, there were no significant price hikes. However, some price hikes (mostly on all products) have been effected in Q1FY18.
- Extra 7 credit days offered during demonetisation have been reversed now.

Overall pricing and raw material prices

- VAM prices has increased. Prices have moved from USD750 in Dec-Jan to ~USD900 now. VAM price in Q4FY16 was ~USD900.
- Raw material prices increased on account of rise in oil prices and some supply disruptions.
- Excluding VAM, prices rose 15% YoY, but those RM prices have now started to correct.

Acquisition

- WD-40's start has been better than expectation. Distribution has been expanded pan-India. This product has multiple usages in segments like craftsmen, households and industrial. Focus is on educating customers about the product.

Domestic subsidiaries

- Overall sales of domestic subsidiaries jumped 93% YoY. Excluding ICA-Pidilite, sales grew 37% YoY.
- MENA and Percept reported good sales and profit growth.
- Italy's ICA Pidilite posted EBITDA of INR100mn.

International business

- Net Q4FY17 sales fell 12% YoY primarily due to decline in sales in North and South America.
- North America sales dipped due to slowdown in sales of products for Adult Colouring segment. This segment had clocked high demand and consumption last year, but has slowed down in the current year.
- South America sales declined due to continued economic slowdown and focus on better margin products / segments. South America subsidiary reported profit despite decline in sales.
- Bangladesh, Sri Lanka and Egypt sales grew during the quarter.
- Egypt reported EBITDA loss despite good growth in sales due to significant depreciation in currency.
- EBITDA losses in UAE were due to increase in SG&A expenses, which did not result in commensurate increase in sales. Steps have been taken to cut expenses.

GST

- All adhesives, irrespective of size, fall under the 18% tax rate.
- Sealants, coating, art materials in 28% category. Industrial products will be in the 18% bracket.
- Currently, most of the products (adhesives & sealants) pay 12.5% excise and 14.5% VAT. On a few products VAT rate was marginally lower; however, excise was still 12.5%.
- PIDI expects to increase market share riding GST. Unorganised segment in adhesives could be in the 20-30% range.
- Benefit arising on GST tax rate differential will be passed on.

Tax rate and capex

- PAT declined due to higher tax provision in Q4FY17 compared to Q4FY16. This was due to expiry of certain tax benefits and adjustment in tax provision based on actual results of full year.
- The company has initiated manufacturing of adhesives / synthetic elastomer at Dahej (Dahej PCR project). PIDI is trying to find strategic partner for its PCR project. The company has fair valued fixed assets (currently included in CWIP) of Dahej PCR. Total CWIP is INR1,010mn.

- Normal capex is INR1,500-2,000mn p.a.
- Estimated tax rate at 30-31%.

Other income & opex

- Bulk of the increase in other income was on account of higher treasury income.
- A&P and promotions expenses were ~INR1,750mn (3.5% on sales). PIDI will maintain A&P spend on % basis.

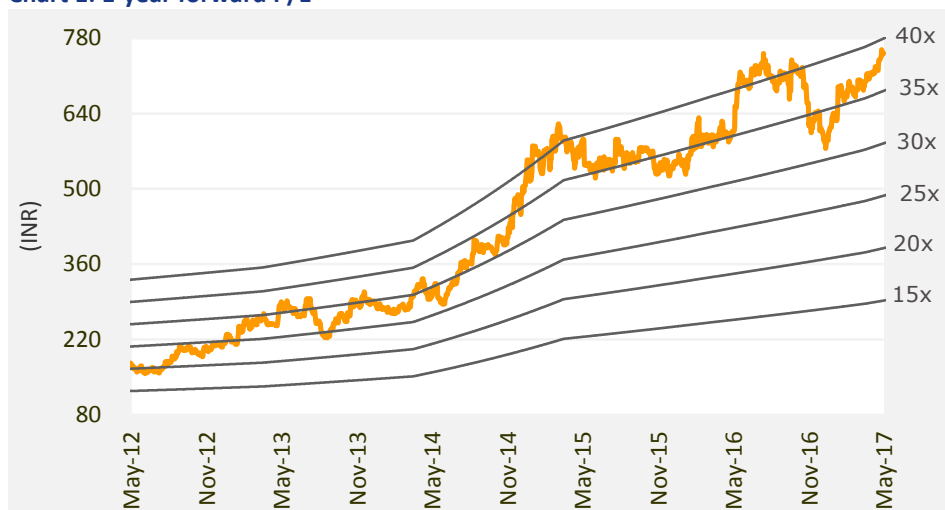
Outlook and valuations: Bright prospects; maintain 'BUY'

We like PIDI as it is a high quality niche consumption play imbued with strong brand equity in under-penetrated and high-growth categories. The company's dominant position, vast reach (~3mn outlets) and strong connects with middlemen & consumers act as strong entry barriers. Domestic demand is currently subdued, but PIDI is confident of growing its top line going ahead on increasing penetration and product innovation. Despite subdued environment, the company reported volume growth of 7.8% YoY even on a high base of ~14%, which is commendable. Margins are likely to marginally expand due to pricing power.

Though overall demand environment remains sluggish, PIDI will benefit from urban recovery (high exposure) and pick up in discretionary spending with GDP growth revival. This will be further helped by the Seventh Pay Commission payout. **Good performance of acquisitions (Bluecoat, Nina, ICA, etc) and sustainability of healthy growth in core business outweigh risks from Asian Paints in the water proofing and adhesives space.** Also, adhesives already have many MNC and regional players, thus entry of Asian Paints may not materially alter the competitive scenario for PIDI. The company will also be one of the key beneficiaries of GST – rate for adhesives (~50% of sales) is likely to be 18% against current effective indirect tax rate of 23-24%. Also, conversion from unorganised segment will rise with implementation of GST, which will also aid volumes. However, we will closely monitor likely slow down in real estate.

We assign target of 38x FY19E EPS to arrive at target price of INR854. We recommend 'BUY' and rate the stock 'SO' on relative returns basis.

Chart 1: 1-year forward P/E



Source: Edelweiss research

Chart 2: CBP EBIT margin expanded by 513bps YoY

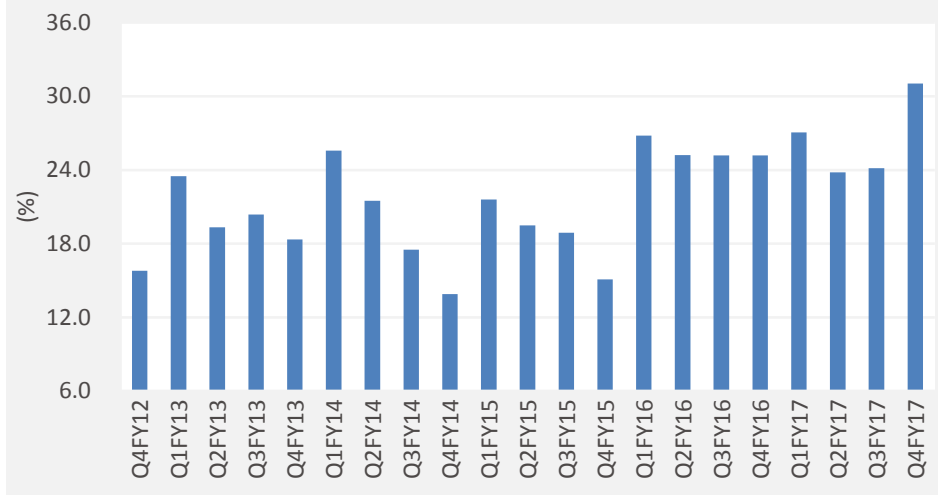


Chart 3: Industrial products margin contracted by 259bps YoY

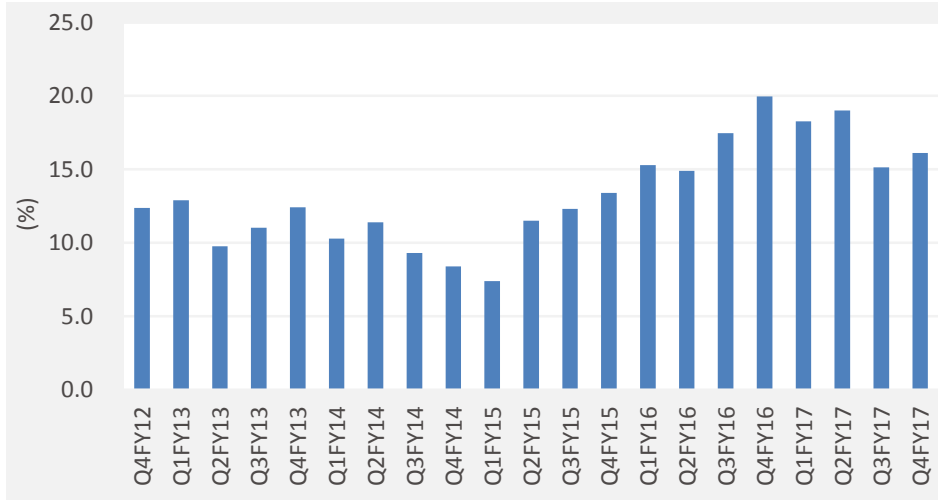
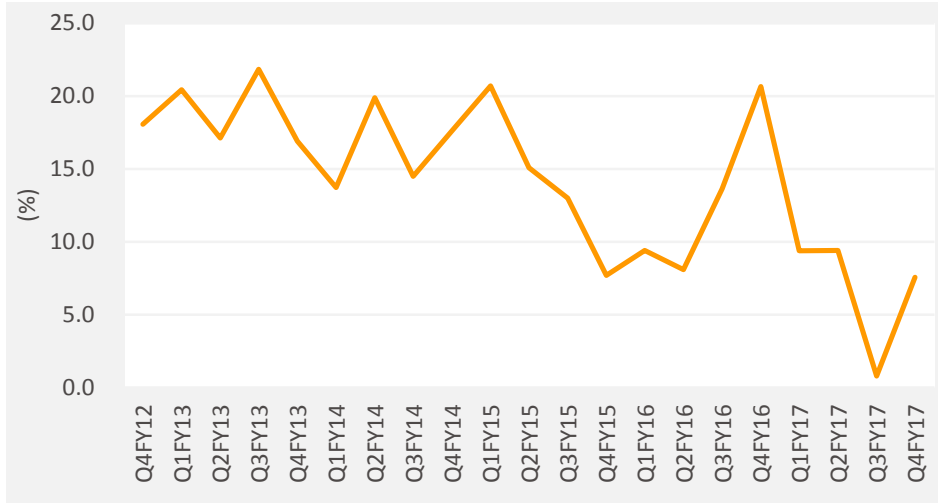
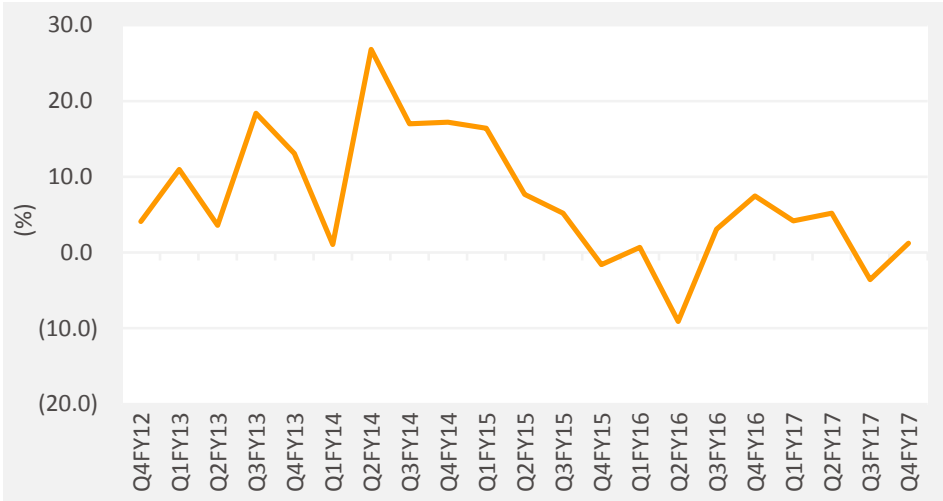


Chart 4: CBP sales growth 7.8% YoY



Source: Company, Edelweiss research

Chart 5: Industrial products sales clocked 1.2% YoY



Source: Company, Edelweiss research

Table 2: Consolidated segmental revenues

(INR mn)

Year to March - Revenues	Q4FY17	Q4FY16	YoY growth	Q3FY17	QoQ growth
Consumer & Bazaar Products	11,579	10,764	7.6	12,226	(5.3)
Industrial Products	2,541	2,510	1.2	2,199	15.5
Others	136	92	48.9	131	4.5
Segment results (Profit/(Loss) before tax and interest)					
Consumer & Bazaar Products	3,595	2,789	28.9	2,396	50.0
Industrial Products	409	470	(12.8)	333	22.9
Others	(18)	(25)	NM	(6)	NM
Segment margins					
Margin (%)					
Consumer & Bazaar Products	31.0	25.9	513	19.6	1,145
Industrial Products	16.1	18.7	(259)	15.1	97
Others	(12.8)	(26.7)	NM	(4.6)	NM

Source: Company, Edelweiss research

Table 3: Standalone segmental revenues (INR mn)

Year to March - Revenues	Q4FY17	Q4FY16	YoY growth	Q3FY17	QoQ growth
Consumer & Bazaar Products	9,924	9,248	7.3	10,277	(3.4)
Industrial Products	2,541	2,510	1.2	2,199	15.5
Others	136	92	48.9	131	4.5
Segment results (Profit/(Loss) before tax and interest)					
Consumer & Bazaar Products	2,592	2,334	11.1	2,949	(12.1)
Industrial Products	409	470	(12.8)	333	22.9
Others	(18)	(25)	NM	(6)	NM
Segment margins					
Margin (%)					
Consumer & Bazaar Products	26.1	25.2	88	28.7	(258)
Industrial Products	16.1	18.7	(260)	15.1	97
Others	(12.8)	(26.7)	NM	(4.6)	NM

Source: Company, Edelweiss research

Table 4: Standalone performance

Standalone (INR mn)	Q4FY17	Q4FY16	% Change YoY	Q3FY17	% Change QoQ
Total sales	11,325	10,860	4.3	11,427	(0.9)
Expenses					
Cost of goods sold	5,236	4,934	6.1	5,352	(2.2)
Employee cost	1,246	1,149	8.5	1,299	(4.0)
Other Expenditure	2,301	2,507	(8.2)	1,994	15.4
Total	8,783	8,590	2.3	8,645	1.6
EBITDA	2,541	2,270	12.0	2,782	(8.7)
Depreciation	227	230	(1.4)	227	(0.0)
EBIT	2,315	2,040	13.5	2,555	(9.4)
Other inc	283	212	33.5	259	9.3
Finance cost	14	15	(5.9)	14	5.1
PBT before extraordinary item	2,583	2,237	15.5	2,801	(7.8)
Exceptional item	943	270	249.4	-	NM
PBT before extraordinary item	1,640	1,967	(16.6)	2,801	(41.4)
Tax	930	676	37.5	758	22.6
PAT	710	1,291	(45.0)	2,042	(65.2)
Equity Shares (FV- INR1)	513	513		513	
EPS	1.4	2.5	(45.0)	4.0	(65.2)
As % of net sales					
COGS	46.2	45.4	80	46.8	(60)
Employee	11.0	10.6	42	11.4	(36)
Other expenditure	20.3	23.1	(277)	17.4	287
EBITDA	22.4	20.9	154	24.3	(191)
PAT	6.3	11.9	(561)	17.9	(1,160)
Tax Rate	56.7	34.4	2,232	27.1	2,963

Source: Company, Edelweiss research

Table 5: International business performance

(INR mn)

Year to March (INR mn)	Q4FY17	Q4FY16	YoY growth
Revenues			
North America	390	600	(35.0)
South America	227	264	(14.0)
Middle East & Africa	291	247	17.8
South & South East Asia	354	328	7.9
SAARC	22	23	(4.3)
Total	1,284	1,462	(12.2)
EBITDA			
North America	(28)	32	(187.5)
South America	8	6	33.3
Middle East & Africa	(52)	(43)	NM
South & South East Asia	27	50	(46.0)
SAARC	37	40	(7.5)
Total	(8)	85	(109.4)
Margin (%)			
North America	(7.2)	5.3	(1,251)
South America	3.5	2.3	125
Middle East & Africa	(17.9)	(17.4)	NM
South & South East Asia	7.6	15.2	(762)
SAARC	168.2	173.9	(573)
Total	(0.6)	5.8	NM

Source: Company, Edelweiss research

Financial snapshot
(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	12,954	12,351	4.9	13,344	(2.9)	56,168	63,166	72,473
Staff costs	1,613	1,467	9.9	1,653	(2.4)	6,453	7,138	8,045
Cost of goods sold	6,073	5,531	9.8	6,246	(2.8)	26,396	29,581	33,781
Gross profit	6,881	6,819	0.9	7,098	(3.1)	29,772	33,585	38,692
Other expenses	2,690	2,970	(9.4)	2,579	4.3	10,722	12,128	13,770
EBITDA	2,579	2,382	8.3	2,866	(10.0)	12,598	14,319	16,878
Depreciation	296	267	10.9	295	0.3	1,151	1,278	1,434
EBIT	2,283	2,115	7.9	2,571	(11.2)	11,447	13,041	15,444
Other income	286	257	11.3	272	4.9	1,123	1,125	1,226
Interest	48	32	51.7	30	62.0	139	164	180
Add: Prior period items	-	-	-	-	-	-	1	1
Add: Exceptional items								
Profit before tax	2,520	2,340	7.7	2,814	(10.4)	12,430	14,002	16,490
Provision for taxes	971	665	46.0	793	22.5	3,851	4,201	4,947
Minority interest	9	(1)	(1,980.0)	-		(18)	49	57
Associate profit share	14	17	(15.6)	6	147.4	35	38	45
Reported net profit	1,554	1,692	(8.2)	2,026	(23.3)	8,632	9,792	11,531
Adjusted Profit	1,554	1,692	(8.2)	2,026	(23.3)	8,632	9,792	11,531
Diluted shares (mn)	513	513		513		513	513	513
Adjusted Diluted EPS	3.0	3.3	(8.2)	4.0	(23.3)	16.8	19.1	22.5
Diluted P/E (x)						43.9	38.7	32.9
EV/EBITDA (x)						29.5	25.6	21.3
ROAE (%)						27.7	26.5	26.3
As % of net revenues								
COGS	46.9	44.8		46.8		47.0	46.8	46.6
Employee cost	12.4	11.9		12.4		11.5	11.3	11.1
Other expenditure	20.8	24.0		19.3		19.1	19.2	19.0
EBITDA	19.9	19.3		21.5		22.4	22.7	23.3
EBIT	17.6	17.1		19.3		20.4	20.6	21.3
PBT	19.5	18.9		21.1		22.1	22.2	22.8
Reported net profit	12.1	13.7		15.2		15.3	15.6	16.0
Tax rate	38.5	28.4		28.2		31.0	30.0	30.0

Company Description

PIDI is the pioneer in consumer and specialties chemicals in India, with diverse product range that includes adhesives and sealants, construction and paint chemicals, automotive chemicals, art materials, industrial adhesives, industrial and textile resins and organic pigments and preparations. Most of its products have been developed through strong in-house R&D. The company is the market leader in adhesives and sealants, construction chemicals, hobby colours and polymer emulsions in India. Brand Fevicol has become synonymous with adhesives to Indian consumers and is ranked amongst the most trusted brands in the country. Pidilite is also growing its international presence through acquisitions and setting up manufacturing facilities and sales offices in important regions around the world. Consumer & bazaar products account for ~81% of the company's revenue. It includes various segments like adhesives and sealants, construction chemicals, art materials and stationery and others like fabric care, automotive and decorative segments. Industrial specialty accounts for ~19% of the company's revenue. This segment has lower margins vis-à-vis consumer and bazaar segment.

Investment Theme

PIDI's presence in niche, under-penetrated and high growth categories with limited competition makes it a good play on Indian consumer goods spends. The niche presence yields high gross margins, high barriers to entry, strong brand equity, mass acceptance and superior growth opportunities. The company has near monopoly in adhesives and sealants with Fevicol and M-seal enjoying ~70% market share each in the adhesive and sealants product categories, respectively. PIDI commands a premium over competitors riding strong brand resulting a higher entry barrier. The company operates in categories where presence of large multi nationals is limited, which enables it to outpace small regional players (who lack financial strength, economies of scale and have poor distribution network and weak brand image) with aggressive ads and product extensions.

Key Risks

Economic slowdown and competition getting stiffer in some segments.

Rupee depreciation has a bearing on margins as input prices are dollar linked.

Synthetic Elastomer project a drag.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	69.0	69.0
Company				
Sales growth assumptions				
Consumer & Bazaar	8.7	5.3	12.5	15.0
Adhesive & Sealant	14.4	5.3	12.5	15.0
Construction Chemicals	3.5	5.3	12.5	15.0
Art Materials and Others	(6.0)	5.3	12.5	15.0
Industrial Chemical	0.3	1.8	10.0	12.0
Industrial Adhesive	4.9	1.8	10.0	12.0
Industrial Resin	(11.3)	1.8	10.0	12.0
Organic pigments	7.2	1.8	10.0	12.0
International business	60.9	6.7	19.0	19.0
Cost assumptions				
COGS as % of sales	48.2	47.0	46.8	46.6
Staff costs (% of rev)	10.7	11.5	11.3	11.1
A&P as % of sales	2.9	2.7	3.0	3.0
Financial assumptions				
Tax rate (%)	29.9	31.0	30.0	30.0
Capex (INR mn)	2,803	3,499	1,700	1,700
Debtor days	44	49	48	45
Inventory days	90	100	95	90
Payable days	50	54	52	52
Cash conversion cycle	84	95	91	83
Int rate on debt (%)	18.5	15.5	16.0	16.0
Dep. (% gross block)	6.8	5.3	5.5	5.8
Dividend payout	28.2	28.2	30.0	30.0
Yield on cash	7.7	17.0	14.5	10.8

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	53,612	56,168	63,166	72,473
Materials costs	25,847	26,396	29,581	33,781
Gross profit	27,765	29,772	33,585	38,692
Employee costs	5,722	6,453	7,138	8,045
Other Expenses	8,777	9,205	10,233	11,596
Ad. & sales costs	1,532	1,517	1,895	2,174
EBITDA	11,735	12,598	14,319	16,878
Depreciation	1,005	1,151	1,278	1,434
EBIT	10,730	11,447	13,041	15,444
Add: Other income	778	1123	1125	1226
Less: Interest Expense	133	139	164	180
Profit Before Tax	11,376	12,430	14,002	16,490
Less: Provision for Tax	3,335	3,851	4,201	4,947
Less: Minority Interest	1	(18)	49	57
Associate profit share	33	35	38	45
Reported Profit	8,072	8,632	9,791	11,530
Adjusted Profit	8,072	8,632	9,791	11,530
Shares o/s (mn)	513	513	513	513
Adjusted Basic EPS	15.7	16.8	19.1	22.5
Diluted shares o/s (mn)	513	513	513	513
Adjusted Diluted EPS	15.7	16.8	19.1	22.5
Adjusted Cash EPS	17.7	19.1	21.6	25.3
Dividend per share (DPS)	4.2	4.7	5.7	6.7
Dividend Payout Ratio(%)	33.9	33.8	36.0	36.0
Tax rate (%)	29.3	31.0	30.0	30.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	48.2	47.0	46.8	46.6
Staff costs	10.7	11.5	11.3	11.1
Ad. & sales costs	2.9	2.7	3.0	3.0
Other expenses	16.4	16.4	16.2	16.0
Depreciation	1.9	2.0	2.0	2.0
EBITDA margins	21.9	22.4	22.7	23.3
EBIT margins	20.0	20.4	20.6	21.3
Net Profit margins	15.1	15.3	15.6	16.0

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	10.8	4.8	12.5	14.7
EBITDA	52.3	7.4	13.7	17.9
PBT	57.9	9.3	12.6	17.8
Adjusted Profit	47.4	6.9	13.4	17.8
EPS	47.3	6.9	13.4	17.8

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	513	513	513	513
Reserves & Surplus	27,316	33,027	39,293	46,673
Shareholders' funds	27,829	33,540	39,806	47,186
Minority Interest	427	410	458	516
Short term borrowings	754	616	681	746
Long term borrowings	94	332	367	402
Total Borrowings	848	948	1,048	1,148
Long Term Liabilities	293	293	293	293
Def. Tax Liability (net)	670	670	670	670
Sources of funds	30,067	35,860	42,275	49,812
Gross Block	20,886	22,386	24,086	25,786
Net Block	7,793	8,142	8,564	8,830
Capital work in progress	4,001	6,000	6,000	6,000
Intangible Assets	3,519	3,519	3,519	3,519
Total Fixed Assets	15,314	17,661	18,083	18,349
Non current investments	1,178	1,178	1,178	1,178
Cash and Equivalents	6,631	8,881	13,923	20,530
Inventories	6,290	7,203	7,699	8,330
Sundry Debtors	7,294	7,691	8,455	9,086
Loans & Advances	1,777	1,777	1,777	1,777
Other Current Assets	566	566	566	566
Current Assets (ex cash)	15,927	17,236	18,497	19,758
Trade payable	3,792	3,905	4,214	4,813
Other Current Liab	5,191	5,191	5,191	5,191
Total Current Liab	8,983	9,096	9,406	10,004
Net Curr Assets-ex cash	6,944	8,140	9,091	9,754
Uses of funds	30,067	35,860	42,275	49,812
BVPS (INR)	54.3	65.4	77.6	92.0

Free cash flow (INR mn)				
Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	8,072	8,632	9,791	11,530
Add : Non cash charge	1,413	1,238	1,452	1,626
Add: Depreciation	1,005	1,151	1,278	1,434
Interest (Net of Tax)	93	96	115	126
Others	315	(10)	60	67
Less: Changes in WC	(840)	(1,196)	(951)	(663)
Operating cash flow	8,645	8,674	10,292	12,493
Less: Capex	2,803	3,499	1,700	1,700
Free Cash Flow	5,842	5,175	8,592	10,793

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Pidilite Industries	5,874	38.7	32.9	25.6	21.3	26.5	26.3
Asian Paints	16,534	45.7	36.8	28.7	22.9	33.0	34.5
Colgate	4,229	40.0	34.6	25.2	21.5	52.6	52.0
Dabur	7,558	33.7	28.8	28.8	24.3	27.5	27.7
Godrej Consumer	9,396	38.9	31.9	28.0	23.2	24.7	26.0

Source: Edelweiss research

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	8,645	8,674	10,292	12,493
Investing cash flow	(4,530)	(3,499)	(1,700)	(1,700)
Financing cash flow	(3,563)	(2,925)	(3,550)	(4,186)
Net cash Flow	552	2,250	5,042	6,607
Capex	(2,803)	(3,499)	(1,700)	(1,700)
Dividend paid	(2,561)	(2,921)	(3,525)	(4,151)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	31.6	27.7	26.5	26.3
ROACE (%)	43.9	39.3	37.2	37.0
Inventory Days	90	100	95	90
Debtors Days	44	49	48	45
Payable Days	50	54	52	52
Cash Conversion Cycle	84	95	91	83
Current Ratio	2.5	2.9	3.4	4.0
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	80.9	82.2	79.7	86.0

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	2.0	1.7	1.6	1.6
Fixed Asset Turnover	5.1	4.9	5.3	5.9
Equity Turnover	2.1	1.8	1.7	1.6

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	15.7	16.8	19.1	22.5
Y-o-Y growth (%)	55.9	6.9	13.4	17.8
Adjusted Cash EPS (INR)	17.7	19.1	21.6	25.3
Diluted P/E (x)	47.0	43.9	38.7	32.9
P/B (x)	13.6	11.3	9.5	8.0
EV / Sales (x)	7.0	6.6	5.8	5.0
EV / EBITDA (x)	31.9	29.5	25.6	21.3
Dividend Yield (%)	0.6	0.6	0.8	0.9

Additional Data

Directors Data

Shri M B Parekh	Executive Chairman	Shri N K Parekh	Vice Chairman
Shri A B Parekh	Promoter/ Whole Time Director/ Executive Director	Shri A N Parekh	Promoter/ Whole Time Director/ Executive Director
Vinod Kumar Dasari	Additional Director	Bharat Puri	Managing Director
Sabyaschi Patnaik	Whole Time Director	Bansi S Mehta	Director
Ranjan Kapur	Director	Sanjeev Aga	Director
Uday Khanna	Director	Meera Shankar	Director

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Top 10 holdings

	Perc. Holding		Perc. Holding
Genesis Indian Inv Co	5.0	Life Insurance Corp Of India	2.6
Axis Asset Management Co	1.6	Capital Group Companies Inc	1.2
Government Pension Fund - Global	1.1	Norges Bank	1.1
Vanguard Group	0.8	UTI Asset Management Co	0.4
Wasatch Advisors Inc	0.3	FIL	0.3

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Apr 2017	I M Family Trust	Buy	2900000.00
03 Apr 2017	Madhukar B. Parekh	Sell	2900000.00
24 Mar 2017	Bharat Puri through Tilarda Trading LLP	Buy	100000.00
23 Mar 2017	Bharat Puri through Amba Trading LLP	Buy	50000.00
23 Mar 2017	Bharat Puri through Tilarda Trading LLP	Buy	50000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
17-May-17	Hindustan Unilever	Good recovery; healthy mix of volumes and pricing; <i>Result Update</i>	1,009	Hold
15-May-17	Colgate Palmolive	Sequential recovery in volumes; success in Naturals key; <i>Result Update</i>	994	Hold
15-May-17	Nestle India	Growth recipe: Innovations and new launches ; <i>Result Update</i>	6,610	Hold

Distribution of Ratings / Market Cap

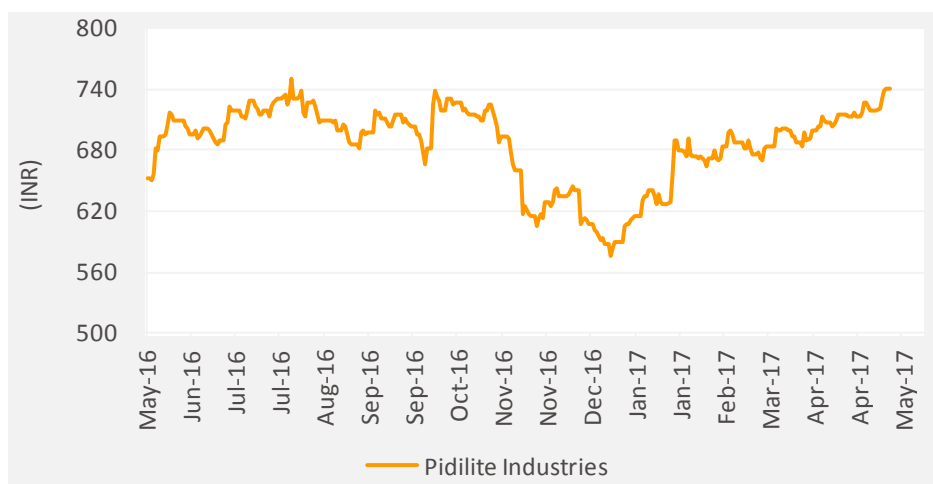
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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