

January 31, 2018

₹ 886

Pidilite Industries (PIDIND)

Strong volume growth on lower base...

- During Q3FY18, Pidilite recorded consolidated sales growth of ~16% YoY (~17% excluding sales of cyclo division). On the low base of Q3FY17, standalone revenue grew ~20% YoY led by volume & mix growth of ~22%. Consumer & bazaar (C&B) and industrial product segment recorded sales growth of ~20% each YoY supported by volume, mix growth of ~23%, ~18% YoY, respectively. Overseas business recorded muted topline growth of ~3% YoY (constant currency basis) revenue on the back of 29% decline in US revenues
- Gross margin remained flat at ~53% YoY owing to rising raw material prices. However, savings in employee cost and other expenses (as percentage of sales) translated into EBITDA margin expansion. Finally, despite a higher tax outgo, net profit increased ~18% YoY driven by higher EBITDA margin and sales growth
- We introduce FY20E estimates and model consolidated revenue, earnings CAGR of 16%, ~10%, respectively, for FY17-20E

Market leader in adhesive segment

Pidilite is a dominant play in India's adhesive market with a market share of ~70% in its leading brand categories (Fevicol) in the organised segment. The company's two major segments, consumer & bazaar (C&B) (product includes: Fevicol & M-seal) and speciality industrial chemical recorded sales CAGR of ~19%, ~9% (standalone), respectively, in FY11-17. The C&B segment growth came on the back of demand from the construction, repair & maintenance activities. We believe the segment is likely to record 16% CAGR in FY17-20E on the back of rising penetration in smaller towns (population below 50,000), pick-up in construction activity in India. Additionally, per capita consumption of adhesive and sealants in India has remained lower at 0.2 kg vs. 1.5 kg and 9.1 kg in China and US, respectively. We believe higher disposable income (due to Seventh Pay Commission) & implementation GST would help boost the volume of adhesives segments in terms of higher expenditure towards house décor and reduction of tax arbitrage for the unorganised segment.

Revival in industrial activity to drive industrial chemical demand

Though consolidated sales CAGR of ~16% in FY17-20E, would largely be led by C&B segment, we believe the industrial segment (contributes ~16% to topline) and its overseas subsidiaries performance will be boosted by rising government expenditure in various social & infrastructure schemes, going ahead. We model segment sales CAGR of ~10% in FY17-20E led by demand recovery in various industries (e.g. textiles, leather, footwear, ink, packaging, etc).

Current valuation captures all near term positives

Though we maintain our positive stance on the company's future growth prospects, we believe the stock discounts all near term positives at the CMP. We believe there will be some consolidation in EBITDA margin owing to rising raw material cost and rising intensity of competition in the adhesive business. However, strong balance sheet (zero debt, RoCE, RoE of 33%, 23%, respectively), average dividend payout of 36% and an efficient deployment of cash for inorganic growth would be an added advantage for Pidilite Industries. We model revenue, earnings CAGR of ~16%, ~10%, respectively, in FY17-20E led by revenue CAGR of 16% from the C&B segment. We roll over our valuation on FY20E and value the company at 20x FY20E earnings. We maintain our **HOLD** rating on the stock with a target price of ₹ 900/share.

Rating matrix		
Rating	:	Hold
Target	:	₹ 900
Target Period	:	12 months
Potential Upside	:	2%

What's changed?		
Target		Unchanged
EPS FY18E		Changed from ₹ 17.4 to ₹ 17.3
EPS FY19E		Changed from ₹ 21.0 to ₹ 19.3
EPS FY20E		Introduced at ₹ 22.6
Rating		Unchanged

Quarterly performance					
	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Revenue	1,542.9	1,334.4	15.6	1,529.9	0.9
EBITDA	370.3	286.6	29.2	376.1	-1.5
EBITDA (%)	24.0	21.5	252bps	24.6	-58bps
PAT	239.1	202.6	18.0	252.9	-5.4

Key financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	5,617	6,601	7,678	8,816
EBITDA	1,259.8	1,336.3	1,492.4	1,745.1
Net Profit	863.2	885.2	990.6	1,160.5
EPS (₹)	16.8	17.3	19.3	22.6

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	52.6	51.3	45.8	39.1
Target P/E	53.4	52.1	46.6	39.7
EV / EBITDA	35.0	32.9	29.3	24.8
P/BV	13.1	12.1	10.8	9.4
RoNW (%)	24.9	23.6	23.5	23.9
RoCE (%)	33.0	32.5	32.6	33.5

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	45,419.9
Total Debt (FY17) (₹ Crore)	97.5
Cash and Investments (FY17) (₹ Crore)	90.4
EV (₹ Crore)	44,037.2
52 week H/L	971 / 662
Equity capital (₹ Crore)	51.3
Face value (₹)	1.0

Price performance				
	1M	3M	6M	12M
Pidilite Industries	(1.5)	13.0	11.9	31.2
Asian Paints	(2.7)	(4.8)	(2.8)	16.0
Kansai Nerolac	(16.4)	(5.9)	5.1	37.5

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Variance analysis

	Q3FY18	Q3FY18E	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	Comments
Revenue	1542.9	1495.9	1334.4	15.6	1529.9	0.9	Adjusted with GST, consolidated sales increased ~16% YoY (~17% excluding sales of Cyclo division of US). However, overseas subsidiaries recorded muted revenue growth of ~3% YoY (on a constant currency basis) mainly due to ~29% YoY decline in revenue from US
Other Income	19.5	29.1	27.2	-28.6	33.7	-42.2	
Raw Material Exp	655.7	643.2	525.3	24.8	632.4	3.7	Raw material prices (largely VAM prices) recorded an upward trend, which resulted in flattish gross margin during the period
Employee Exp	174.3	187.0	165.3	5.5	183.7	-5.1	
Admin & Other exp	279.7	284.2	257.9	8.4	251.1	11.4	
Purchase of Traded goods	62.9	69.4	99.3	-36.6	86.5	-27.3	
Total Expenditure	1172.7	1183.8	1047.7	11.9	1153.8	1.6	
EBITDA	370.3	312.1	286.6	29.2	376.1	-1.5	
EBITDA Margin (%)	24.0	20.9	21.5	252 bps	24.6	-58 bps	Increase in EBITDA margin was largely led by higher operating leverage on account of sharp volume growth (of both C&B and industrial product category)
Depreciation	29.2	28.4	29.5	-0.9	29.6	-1.2	
Interest	4.1	4.9	3.0	38.4	3.9	6.2	
Exceptional items					0.0		
PBT	356.4	307.9	281.4	26.7	376.3	-5.3	
Total Tax	119.3	101.6	79.3	50.4	124.5	-4.1	
PAT	239.1	207.4	202.6	18.0	252.9	-5.4	Despite higher tax rate, better-than-expected sales growth coupled with EBITDA margin expansion translated into higher PAT
Key Metrics							
Consumer & Bazaar	1,308.6	1,395.8	1,222.6	7.0	1,314.7	-0.5	On a standalone basis, segment revenue increased ~20% YoY led by volume & mix growth of ~23%. However, the muted performance of subsidiaries weighed on the consolidated performance of the C&B segment
Industrial	247.0	230.6	219.9	12.3	226.6	9.0	On a standalone basis, industrial product sales increased 20% YoY led by volume & mix growth of 18% YoY
Others	13.4	11.3	13.0	2.8	13.8	-2.5	

Source: Company, ICICIdirect.com Research,

Change in estimates

(₹ Crore)	FY18E			FY19E			Introduced FY20E	Comments
	Old	New	% Chg	Old	New	% Chg		
Revenue	6,623.8	6600.5	(0.4)	7,725.3	7678.3	(0.6)	8,816.1	We marginally tweak our revenue estimates for FY18E and FY19E. We introduce FY20 estimates with topline growth of ~15% YoY. We model consolidated revenue CAGR of ~16% driven by C&B and industrial segment revenue CAGR of ~17% and ~10% for FY17-20E, respectively
EBITDA	1,294.1	1336.3	3.3	1,542.4	1492.4	(3.2)	1,745.1	
EBITDA Margin (%)	19.50	20.2	74bps	20.0	19.4	-56bps	19.8	We believe rising raw material prices would keep EBITDA margins under check, going forward
PAT	893.7	885.2	(0.9)	1074.6	990.6	(7.8)	1,160.5	We model PAT CAGR of ~10% for FY17-20E owing to sales growth. However, higher tax outgo (due to end of tax benefits in some of its plants) coupled with lower other income would restrict a sharp movement in profitability
EPS (₹)	17.4	17.3	(0.8)	21.0	19.3	(7.8)	22.6	

Source: Company, ICICIdirect.com Research

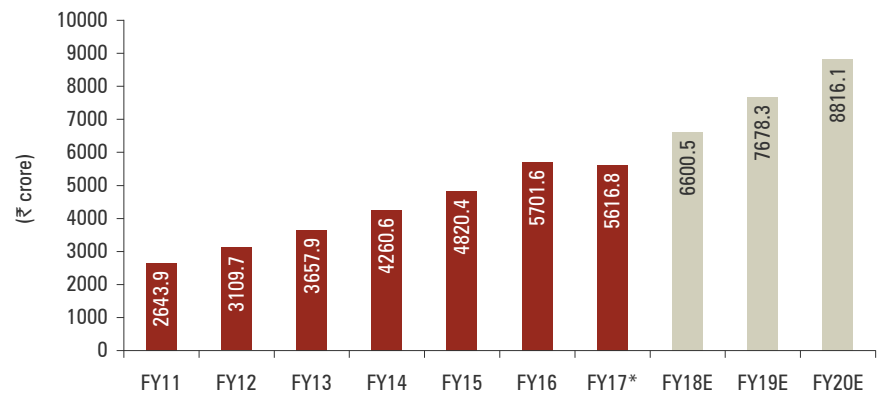
Assumptions

	Current		Introduced		Earlier		Comments
	FY17	FY18E	FY19E	FY20E	FY18E	FY19E	
Consumer & Bazaar (%)	6.8	10.6	17.2	15.6	11.0	17.5	We believe the consumer & bazaar segment and industrial segment will record ~17% and 10% sales CAGR in FY17-20E, respectively. Sales growth would largely be driven by volume growth.
Industrial Growth (%)	1.8	0.1	11.2	10.3	9.5	6.3	
Others Growth (%)	5.5	10.7	16.3	16.3	10.7	16.3	

Source: Company, ICICIdirect.com Research

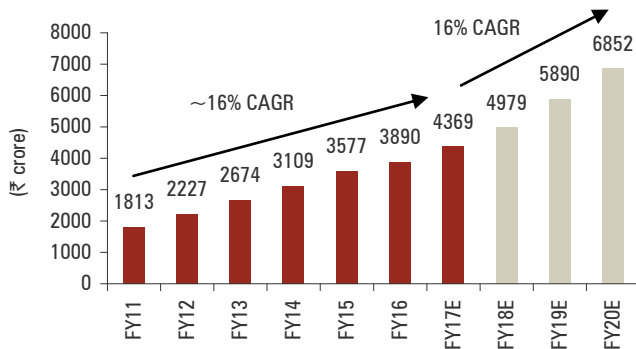
On a consolidated basis, we believe consolidated sales will record CAGR of ~16% YoY in FY17-20E supported by C&B revenue CAGR of 17%. The industrial division is expected to record sales CAGR of ~10% in FY17-20E. We expect the domestic business to continue recording volume growth mainly due to sustained demand from Tier II & Tier III cities and its foreign subsidiaries (due to inorganic growth)

Exhibit 1: Revenue growth led by C&B segment



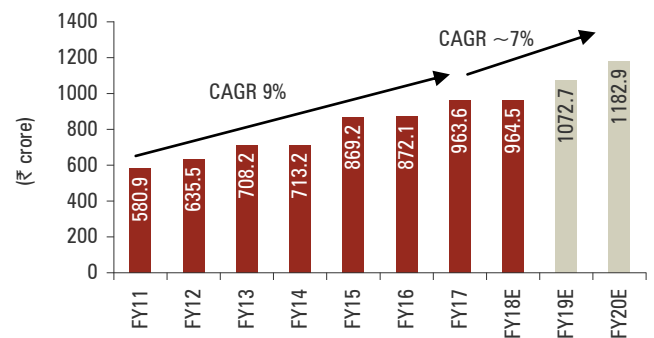
Source: Company, ICICIdirect.com Research, * due to change in reporting structure, sales of subsidiary

Exhibit 2: Standalone C&B segment may see 16% revenue CAGR in FY17-19E



Source: Company, ICICIdirect.com Research

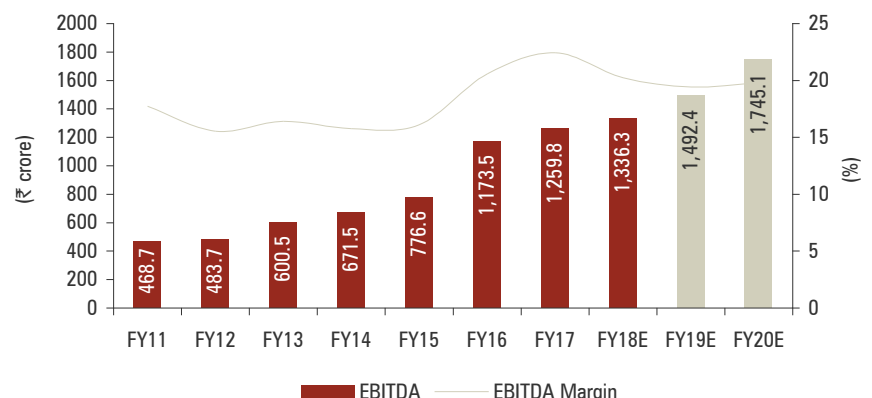
Exhibit 3: Lower-than-expected growth in export revenue to lead lower industrial product segment revenue



Source: Company, ICICIdirect.com Research

We believe the gross margin of the company would remain flat owing to rising raw material prices (largely VAM prices started moving upwards from US\$920/tonnes in Q4FY7 to ~US\$975/tonnes in Q3FY18). As a result, we believe EBITDA margins will remain under check, going forward

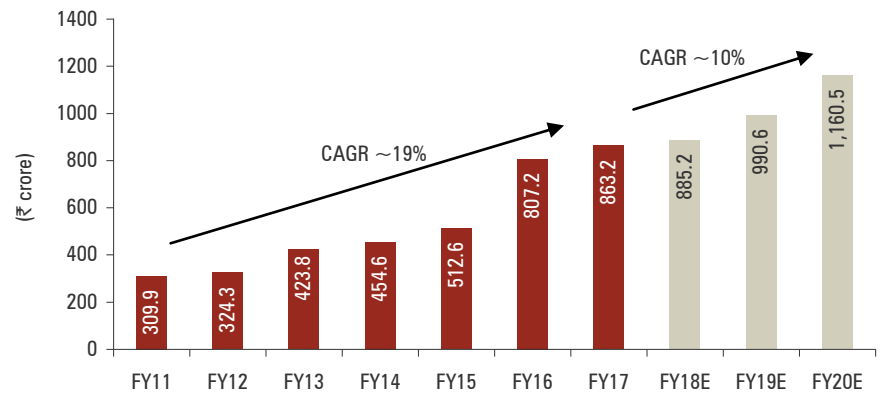
Exhibit 4: To pass on higher raw material prices by taking price hike



Source: Company, ICICIdirect.com Research

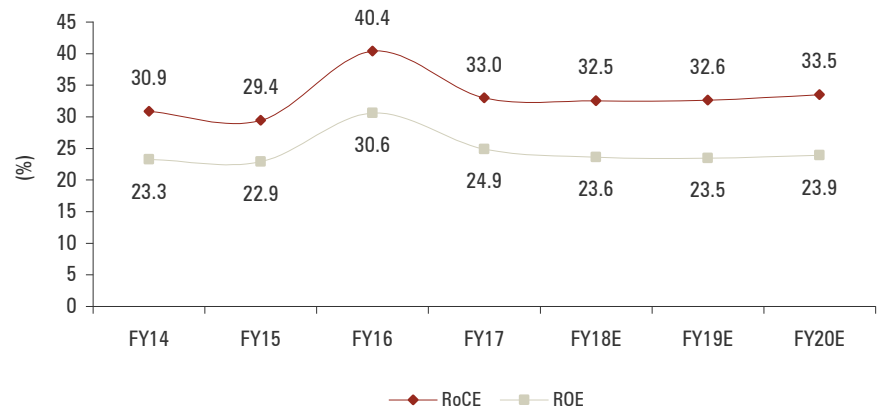
Despite the higher tax outgo (due to the end of tax holidays of some plants) we believe there will be a PAT CAGR of 10% led by sales CAGR of ~16% in FY17-20E

Exhibit 5: Net sales growth to drive PAT growth



Source: Company, ICICIdirect.com Research

Exhibit 6: Strong return ratio on the back of debt free status, strong cash flow from operations



Source: Company, ICICIdirect.com Research

Outlook and valuation

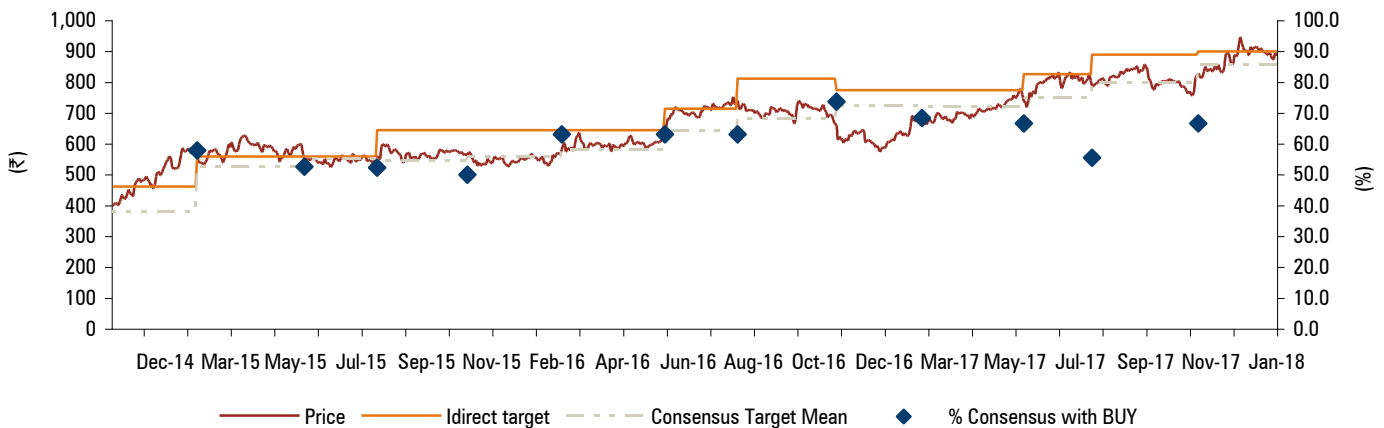
Though we maintain our positive stance on the company's future growth prospects, we believe the stock discounts all near term positive at CMP. We believe there was some consolidation in EBITDA margin owing to rising raw material cost and rising intensity of competition in the adhesive business. However, strong balance sheet (zero debt, RoCE, RoE of 33%, 23%, respectively), average dividend payout of 36% and an efficient deployment of cash for inorganic growth would be an added advantage for Pidilite. We model revenue, earning CAGR of ~16%, ~10%, respectively, in FY17-20E led by revenue CAGR of 16% from C&B segment. We roll over our valuation on FY20E and value the company at 20x FY20E earnings. We maintain our **HOLD** recommendation on the stock with a target price of ₹ 900/share.

Exhibit 7: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	5616.8		16.8		52.6	35.0	24.9	33.0
FY18E	6600.5	17.5	17.3	2.6	51.3	32.9	23.6	32.5
FY19E	7678.3	16.3	19.3	11.9	45.8	29.3	23.5	32.6
FY20E	8816.1	14.8	22.6	17.1	39.1	24.8	23.9	33.5

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Apr-09	Repurchase of FCCBs of US\$40 million issued in December, 2007
Jan-10	Announcement of bonus issue 1:1
Feb-11	Company records strong earnings growth of 25% YoY in Q3FY11
May-12	Strong Q4FY12 performance, standalone net profit increased 143% YoY led by saving in interest cost
Jul-12	Forms JV agreement with hybrid coatings for manufacture of construction chemicals and to establish a JV company in India for this purpose
Dec-12	Redeems outstanding FCCB of US\$28.57 million with the premium of 39.4%
Jan-13	Strong Q3FY13 performance wherein overseas subsidiaries saw a sharp 15% YoY growth in terms of constant currency and saving in interest cost
Aug-13	Acquisition of adhesive business of Suparshva Adhesives
Oct-13	Company records overall volume growth of ~17% YoY in Q2FY14 led by sharp volume rise in industrial segments by ~22% YoY
Dec-13	Redeems outstanding 600 NCDs aggregating to ₹ 60 crore on maturity date
Sep-14	Acquisition of adhesive business of Bluecoat Pvt Ltd
Mar-15	Acquires 70% stake Nina Water proofing System Pvt Ltd

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	n Change (m)
1	Parekh (Narendrakumar Kalyanji)	30-Sep-17	10.7	54.7	3.0
2	Parekh (Madhukar Balvantray)	30-Sep-17	10.4	53.3	0.0
3	Parekh (Ajay Balvantray)	30-Sep-17	9.4	47.9	0.0
4	Parekh (Sushil Kumar Kalyanji)	8-Dec-17	8.2	42.2	-0.1
5	Devkalyan Sales Pvt. Ltd.	30-Sep-17	5.1	26.2	0.0
6	Ishijas Chemical Pvt. Ltd.	30-Sep-17	4.8	24.7	0.0
7	Life Insurance Corporation of India	30-Sep-17	3.7	19.1	4.3
8	Harton Pvt. Ltd.	30-Sep-17	2.4	12.4	0.0
9	Vaccum Forming Company Pvt. Ltd.	30-Sep-17	2.2	11.5	0.0
10	Genesis Investment Management, LLP	30-Sep-17	2.2	11.3	-1.3

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Promoter	69.6	69.6	69.6	69.6	69.6
FII	12.8	12.1	11.8	10.9	11.0
DII	6.3	6.6	7.1	8.2	8.4
Others	11.3	11.7	11.5	11.3	11.1

Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Life Insurance Corporation of India	52.8	4.3	Thakker (Bajaj Viral)	-36.5	-3.0
Parekh (Narendrakumar Kalyanji)	36.5	3.0	Genesis Investment Management, LLP	-16.0	-1.3
Parekh (Rashmikant H)	33.0	2.3	Invesco Hong Kong Limited	-4.6	-0.4
Fidelity Management & Research Company	24.0	1.8	Capital World Investors	-5.1	-0.4
Matthews International Capital Management, L.L.C.	21.9	1.8	ICICI Prudential Asset Management Co. Ltd.	-3.0	-0.2

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Total Operating Income	5616.8	6600.5	7678.3	8816.1	
Growth (%)		17.5	16.3	14.8	
Raw Material Expenses	2639.6	3146.0	3381.2	3863.1	
Employee Expenses	645.3	779.1	830.4	944.4	
Marketing Expenses	201.7	273.6	282.7	319.0	
Other Expenses	870.5	1065.5	1127.1	1287.7	
Total Operating Expenditure	4357.0	5264.3	6185.9	7071.0	
EBITDA	1,259.8	1,336.3	1,492.4	1,745.1	
Growth (%)		6.1	11.7	16.9	
Other Income	112.3	121.4	142.0	163.6	
Interest	13.9	19.0	18.7	18.7	
PBDT	1358.1	1438.7	1615.7	1890.0	
Depreciation	115.1	125.4	145.8	167.4	
Total Tax	385.1	433.4	485.1	568.4	
Profit from Associates	5.3	5.3	5.8	6.4	
PAT	863.2	885.2	990.6	1160.5	
Growth (%)		2.6	11.9	17.1	
EPS (₹)	16.8	17.3	19.3	22.6	

Source: Company, ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Equity Capital	51.3	51.3	51.3	51.3	
Reserve and Surplus	3419.6	3701.2	4167.4	4803.5	
Total Shareholders funds	3470.9	3752.4	4218.6	4854.7	
Total Debt	97.5	97.5	97.5	97.5	
Deferred Tax Liability	91.5	91.5	91.5	91.5	
Minority Interest	127.3	129.3	131.3	133.3	
Total Liabilities	3811.6	4095.2	4563.4	5201.5	
Assets					
Total Gross Block	2189.8	2339.8	2539.8	2839.8	
Less acc depreciation	1048.4	1173.8	1319.6	1487.0	
Net Block	1141.4	1166.1	1220.2	1352.8	
Total Fixed Assets	1289.1	1313.8	1367.9	1500.5	
Other Investments	53.3	103.3	153.3	203.3	
Goodwill on consolidation	133.8	133.83	133.83	133.83	
Inventory	720.9	784.9	925.6	1062.8	
Debtors	768.5	849.9	988.7	1135.2	
Loans and Advances	13.0	14.2	16.5	18.9	
Other Current Assets	151.3	164.7	191.6	220.0	
Cash	90.4	124.8	151.2	272.9	
Total Current Assets	1744.1	1938.5	2273.6	2709.8	
Total Current Liabilities	962.5	1048.0	1219.1	1399.8	
Net Current Assets	781.6	890.5	1054.5	1310.1	
Total Assets	3811.6	4095.2	4563.4	5201.4	

Source: Company, ICICIdirect.com Research

* not adjusted with new accounting standard

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	863.2	885.2	990.6	1160.5	
Depreciation	115.1	125.4	145.8	167.4	
CF bef working cap chan	992	1030	1155	1347	
Net Inc in Current Assets	-194.3	-160.0	-308.7	-314.5	
Net Inc in Current Liab.	92.7	85.5	171.1	180.7	
Net CF from Op activities	890.7	955.1	1017.6	1212.8	
(Purchase)/Sale of FA	-242.2	-150.0	-200.0	-300.0	
Increase/decrease in other investmer	83.4	-50.0	-50.0	-50.0	
Others	-737.5	-98.0	-198.0	-198.0	
Net CF from Inv Activities	-896.4	-298.0	-448.0	-548.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	17.5	0.0	0.0	0.0	
Total Outflow of dividend	-293.1	-524.5	-524.5	-524.5	
Others	249	-98	-19	-19	
Net CF from Fin. Activities	-26.7	-622.7	-543.1	-543.1	
Net Cash flow	-32.4	34.4	26.4	121.7	
Cash and Cash Equi beg.	122.8	90.4	124.8	151.2	
Cash	90.4	124.8	151.2	272.9	

Source: Company, ICICIdirect.com Research

Key ratios		FY17			
(Year-end March)		FY17	FY18E	FY19E	FY20E
Per Share Data					
EPS		16.8	17.3	19.3	22.6
Cash EPS		19.1	19.7	22.2	25.9
BV		67.7	73.2	82.3	94.7
DPS		5.7	10.2	10.2	10.2
Operating Ratios					
EBITDA Margin		22.4	20.2	19.4	19.8
PAT Margin		15.4	13.4	12.9	13.2
Return Ratios					
RoE		24.9	23.6	23.5	23.9
RoCE		33.0	32.5	32.6	33.5
RoIC		47.5	46.4	45.8	47.0
Valuation Ratios					
EV / EBITDA		35.0	32.9	29.3	24.8
P/E		52.6	51.3	45.8	39.1
EV / Net Sales		7.8	6.7	5.7	4.9
Market Cap / Sales		8.1	6.9	5.9	5.2
Price to Book Value		13.1	12.1	10.8	9.4
Turnover Ratios					
Asset turnover		1.5	1.6	1.7	1.7
Debtor Days		49.9	47.0	47.0	47.0
Creditor Days		25.4	23.5	23.5	23.5
Solvency Ratios					
Debt / Equity		0.0	0.0	0.0	0.0
Current Ratio		3.8	3.8	3.8	3.8
Quick Ratio		2.1	2.2	2.2	2.2

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Consumer Discretionary)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Asian Paints (ASIPAI)	1,154	1,241	Hold	109,061	21.0	23.6	27.6	54.1	48.2	41.2	35.6	33.6	27.6	33.2	30.1	31.3	26.5	26.0	26.2
Astral Polytechnik (ASTPOL)	808	885	Buy	9,939	12.1	16.2	21.3	68.8	51.4	39.0	38.2	29.4	24.0	21.3	22.5	23.1	17.2	17.6	19.0
Bajaj Electricals (BAJELE)	506	575	Buy	4,994	10.6	10.3	13.0	46.4	47.7	37.9	22.3	23.6	21.1	16.7	16.2	17.2	12.4	11.6	13.2
Havells India (HAVIND)	575	645	Hold	36,810	8.6	11.6	15.3	68.3	50.9	38.6	42.6	34.2	25.2	23.0	26.8	29.5	17.4	20.1	22.2
Kansai Nerolac (KANNER)	477	590	Buy	28,401	9.4	10.7	11.7	56.1	49.2	44.9	38.8	33.3	29.4	26.2	27.8	27.3	18.0	19.4	18.8
Pidilite Industries (PIDIND)	887	900	Hold	45,420	16.8	17.3	19.3	52.6	51.3	45.8	35.0	32.9	29.3	33.0	32.5	32.6	24.9	23.6	23.5
Essel Propack (ESSPRO)	294	310	Hold	4,555	12.5	12.5	14.1	23.3	23.2	20.6	12.2	10.2	8.7	17.7	16.8	19.0	17.8	13.8	14.0
Supreme Indus (SUPIND)	1,305	1,250	Buy	15,281	33.7	31.9	41.7	35.7	37.7	28.8	20.3	20.5	15.9	30.0	29.2	35.9	25.3	23.9	27.6
Symphony (SYMLIM)	1,891	2,110	Buy	13,166	23.7	28.7	35.4	79.5	65.6	53.2	65.6	53.0	42.6	48.4	45.9	53.1	36.1	34.8	40.2
V-Guard Ind (VGUARD)	231	235	Hold	9,852	3.4	4.4	5.0	67.6	52.7	46.1	46.8	37.5	32.4	31.6	33.3	31.1	23.1	25.8	24.1
Voltas Ltd (VOLTAS)	610	650	Buy	21,465	15.7	19.5	24.4	41.3	33.2	26.6	36.4	29.2	22.5	21.4	25.9	27.2	15.7	19.7	20.7
Time Techno (TIMETEC)	200	215	Buy	5,205	6.5	7.9	10.6	33.1	27.4	20.3	13.4	12.0	9.7	14.2	15.0	17.1	11.1	12.3	14.3

Source: Company, ICICIdirect.com Research

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