

View: Strong volume growth continues; margins expected to improve

Pidilite reported a 19.8% YoY revenue jump, with domestic volume rising 11%. This was driven mainly by a 13% increase in C&B volume, offset by a 2% volume de-growth in the industrial business. Given an unfavorable base (+22%), a double digit growth in volume was satisfactory. However, significant gross margin erosion of 620bps to 47.2% (lowest in 15 quarters) due to high input costs and Rupee depreciation was sharper than expected. Going ahead, we believe that volume growth is likely to remain robust, despite aggressive competition, as the company has a strong brand portfolio and better reach. Further, moderation in input costs (VAM prices sub USD1000/ton vs USD1300/ton earlier), easing of currency impact, and increase in realization (+5%) will improve margins. We thus believe operating margins would normalize in the ensuing quarters. We revise our EPS estimates downwards to ₹ 18.6 and ₹ 22.9 for FY19E and FY20E, and introduced FY21 EPS at ₹ 26.9. Valuing the stock at 48x FY21E EPS (in line with APL) to arrive at a TP of ₹ 1,290. Maintain ACCUMULATE.

Disappointing results amid input cost inflation

Pidilite's revenues was in line with our estimates, but operating performance was a miss. The company continued to post strong volume growth (22%/13%/18%/10% in 3Q/4Q/1Q/2Q), benefiting from a gradual improvement in the C&B business. In the domestic market, revenue/volume growth for the C&B segment was +17.3%/+13%. However, Industrial segment's revenue grew 5.8%, and volume declined 2%. Margins in C&B contracted by 500bps to 27.1%, while Industrial margin eroded by 510bps to 11.9%. The company has raised prices by 5% in Q2 across its products and is confident about maintaining margins at 21-22%.

Rural growth could be a trigger for volume growth

The company's volume rose by double digit for the sixth consecutive quarter, which indicates improved business conditions in the domestic market. As paint companies have reported increased volume, we believe that better monsoons this season will lead to higher painting and repair activities, which in turn would augment Pidilite's sales.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	18,483	15,429	19.8	17,574	5.2
Total Expense	15,116	11,727	28.9	13,926	8.5
EBITDA	3,368	3,703	(9.0)	3,648	(7.7)
Depreciation	321	292	9.7	316	1.6
EBIT	3,047	3,410	(10.7)	3,333	(8.6)
Other Income	307	195	57.7	276	11.0
Interest	62	41	51.1	60	3.2
EBT	3,291	3,564	(10.7)	3,549	(7.3)
Tax	1,110	1,193	(6.9)	1,230	(9.8)
RPAT	2,093	2,333	(10.3)	2,463	(15.0)
APAT	2,093	2,333	(10.3)	2,463	(15.0)
			(bps)		(bps)
Gross Margin (%)	47.2	53.4	(618)	49.4	(217)
EBITDA Margin (%)	18.2	24.0	(578)	20.8	(254)
NPM (%)	11.3	15.1	(380)	14.0	(269)
Tax Rate (%)	33.7	33.5	25	34.7	(94)
EBIT Margin (%)	16.5	22.1	(562)	19.0	(248)

CMP	₹ 1,109
Target / Upside	₹ 1,290 / 16%
BSE Sensex	36,195
NSE Nifty	10,850

Scrip Details

Equity / FV	₹ 508mn / ₹ 1
Market Cap	₹ 563bn
	US\$ 8bn
52-week High/Low	₹ 1,211/₹ 845
Avg. Volume (no)	603,146
NSE Symbol	PIDILITIND
Bloomberg Code	PIDI IN

Shareholding Pattern Dec'18(%)

Promoters	69.7
MF/Banks/FIs	7.7
FII's	11.4
Public / Others	11.2

Valuation (x)

	FY19E	FY20E	FY21E
P/E	59.5	48.4	41.3
EV/EBITDA	39.6	32.2	28.7
ROE (%)	24.5	25.5	25.1
RoACE (%)	22.7	24.2	24.0

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	71,491	80,301	88,487
EBITDA	13,947	17,033	18,884
PAT	9,468	11,627	13,653
EPS (₹)	18.6	22.9	26.9

VP Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

IB reported muted growth

Net Sales in IB grew by 1% during the quarter. Operations in Brazil (-4.9%) and USA (-18.5%) operations reported de-growth. Nevertheless, operations in Bangladesh (+9.4%), Sri Lanka (+14.9%) and Egypt (+7.0%) continue to report strong growth. Domestic subsidiaries - Nina Waterproofing and Percept Waterproofing reported robust growth of 33.5% and 49.0% during the quarter respectively whereas newly acquired CIPY reported revenues of ₹ 400mn with ₹ 59mn EBITDA.

Exhibit 1: Change in estimates

₹ Mn	FY19E			FY20E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	71,491	70,698	1.1	80,301	79,419	1.1
EBITDA	13,947	14,418	(3.3)	17,033	17,276	(1.4)
EBITDA Margin (%)	19.5	20.4		21.2	21.8	
PAT	9,468	9,789	(3.3)	11,627	11,792	(1.4)
EPS (₹)	18.6	19.3	(3.3)	22.9	23.2	(1.4)

Source: DART, Company

We have revised our margin estimates downward to capture the impact of increase in RM prices and rupee depreciation. However, the downgrade is not significant as compared to Q3 performance as the RM prices have eased out during Q4. We believe that the RM conditions have improved significantly since Q3 which should help the company to post better profitability. We have introduced FY21 earnings at ₹ 26.9 . we believe that the margins would remain in 21-22% band considering price hikes and favorable RM environment.

Exhibit 2: Segmental Performance (Consolidated)

Net Sales (₹ mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Consumer Bazaar	15,974	13,086	22.1	15,146	5.5
Industrial	2,618	2,470	6.0	2,539	3.1
Others	183	134	36.1	174	5.1
Total	18,774	15,691	19.7	17,859	5.1

EBIT (₹ mn)

Consumer Bazaar	3,584	3,684	(2.7)	3,810	(5.9)
Industrial	309	418	(26.0)	420	(26.4)
Others	(20)	4	NM	(18)	NM
Total	3,873	4,106	(5.7)	4,212	(8.0)

EBIT Margin (%)

			bps		bps
Consumer Bazaar	22.4	28.2	(570)	25.2	(270)
Industrial	11.8	16.9	(510)	16.6	(470)
Others	(11.1)	2.8	NM	(10.2)	NM
Total	20.6	26.2	(550)	23.6	(300)

Source: DART, Company

Exhibit 3: Segment Performance (Comparable Standalone)

Particulars (₹ mn)	Q3FY19	Q3FY18	YoY (%)
Revenue			
Consumer Bazaar	13,312	11,349	17.3
Industrial	2,592	2,450	5.8
Others	183	126	45.2
Total	16,087	13,925	15.5

EBIT

Consumer Bazaar	3,608	3,645	(1.0)
Industrial	309	418	(26.1)
Others	(20)	5	NM
Total	3,897	4,068	(4.2)

EBIT Margin (%)

			bps
Consumer Bazaar	27.1	32.1	(500)
Industrial	11.9	17.1	(510)
Others	(10.9)	4.0	NM
Total	24.2	29.2	(500)

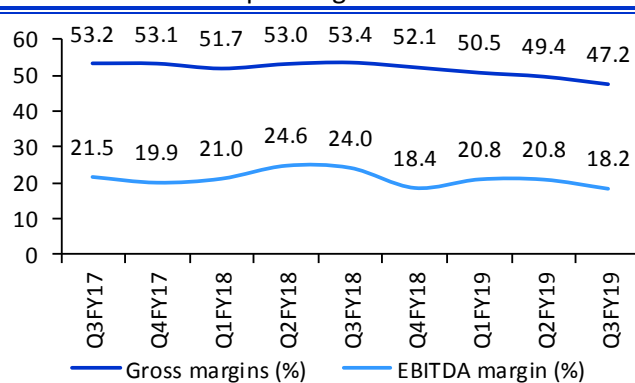
Source: DART, Company

Exhibit 4: Overseas Performance

Particulars (₹ mn)	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Remarks
North America						
Revenue	212	260	(18.5)	275	(22.9)	Sargent Art, a division of Pidilite USA, reported decline in sales and EBITDA in Q3 due to reduction in demand of products for adult colouring segment.
EBITDA	(16.0)	22.0	NM	16.0	(200.0)	
EBITDA Margin %	(7.5)	8.5		5.8		
South America						
Revenue	232	244	(4.9)	215	7.9	Pulvitec do Brasil sales declined due to competitive pressure in key products.
EBITDA	9.0	13.0	(30.8)	5.0	80.0	
EBITDA Margin %	3.9	5.3		2.3		
Middle East & Africa						
Revenue	328	311	5.5	321	2.2	Egypt reported sales growth for Q3. EBITDA declined mainly due to higher material cost. Pidilite MEA Chemicals posted decline in EBITDA losses due to higher sales and control on expenses.
EBITDA	(28.0)	(31.0)	NM	(14.0)	NM	
EBITDA Margin %	(8.5)	(10.0)		(4.4)		
SAARC						
Revenue	372	334	11.4	304	22.4	The subsidiaries in Bangladesh and Pidilite Lanka reported good sales growth. EBITDA of Pidilite Lanka declined due to higher input costs and forex losses.
EBITDA	47.0	47.0	0.0	25.0	88.0	
EBITDA Margin %	12.6	14.1		8.2		
Thailand						
Revenue	195	177	10.2	127	53.5	The subsidiaries in Thailand reported reasonable sales growth. EBITDA of subsidiaries in Thailand declined on account of higher material cost.
EBITDA	19.0	28.0	(32.1)	(1.0)	NM	
EBITDA Margin %	9.7	15.8		(0.8)		

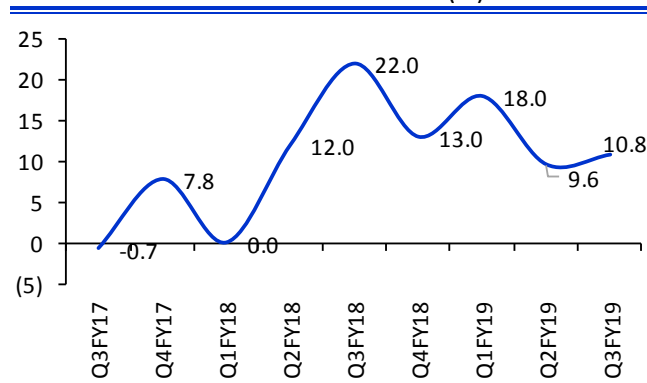
Source: DART, Company

Exhibit 5: Trend in Operating Performance



Source: DART, Company

Exhibit 6: Domestic Volume Growth (%)



Source: DART, Company

Concall Highlights

- VAM prices in Q3FY19 averaged USD 1,300 and are now below USD 1000 levels.
- During the quarter, Nina has made a provision of ₹ 44mn against fixed deposits aggregating to ₹ 88mn, placed with IL&FS group. This led to 56% de-growth at operating level. Excluding this provision, EBITDA growth of Nina for the quarter stands at 9.3%.
- No significant competitive pressure from Fevikwik observed
- Upstocking in Q3 due to price hike in December'18.
- Company has taken price hike of 1.5-2% in Q3 (~3.5% in Q2FY19) which are sufficient to maintain margins at near normal levels.
- The company has indicated market share from unorganized players and peers in some categories
- Industrial segment slowdown due to subdued demand from leather and textile industry
- Company expects to reasonably improve its margin figures led by price hikes, moderation in input costs and a stable rupee
- Pidilite is not considering major price hikes in Q4FY19.
- Expects steady volume growth, but is cautious on macro factors

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	60,784	71,491	80,301	88,487
Total Expense	47,372	57,545	63,267	69,603
COGS	28,877	35,710	39,239	43,000
Employees Cost	7,124	8,277	9,213	10,257
Other expenses	11,371	13,558	14,815	16,346
EBIDTA	13,412	13,947	17,033	18,884
Depreciation	1,199	1,258	1,278	268
EBIT	12,213	12,689	15,756	18,616
Interest	155	215	220	220
Other Income	1,484	1,380	1,488	1,607
Exc. / E.O. items	0	0	0	0
EBT	13,542	13,853	17,024	20,003
Tax	3,927	4,433	5,448	6,401
RPAT	9,661	9,468	11,627	13,653
Minority Interest	(46)	(48)	(51)	(51)
Profit/Loss share of associates	0	0	0	0
APAT	9,661	9,468	11,627	13,653

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	508	508	508	508
Minority Interest	1,750	400	400	400
Reserves & Surplus	35,233	41,136	48,901	58,693
Net Worth	35,740	41,644	49,409	59,200
Total Debt	1,225	1,754	1,754	1,754
Net Deferred Tax Liability	1,107	1,107	1,107	1,107
Total Capital Employed	39,822	44,905	52,670	62,461

Applications of Funds

Net Block	13,421	14,163	16,385	19,617
CWIP	2,277	4,500	4,500	4,500
Investments	1,060	1,187	1,330	1,489
Current Assets, Loans & Advances	33,990	37,253	44,006	51,661
Inventories	8,043	8,993	10,104	11,135
Receivables	9,381	10,753	12,080	13,314
Cash and Bank Balances	1,634	1,215	4,011	7,703
Loans and Advances	2,000	2,700	2,700	2,700
Other Current Assets	1,782	1,885	1,999	2,124
Less: Current Liabilities & Provisions	10,926	12,199	13,550	14,806
Payables	5,438	4,692	5,271	5,810
Other Current Liabilities	5,488	7,506	8,279	8,996
sub total				
Net Current Assets	23,064	25,055	30,455	36,855
Total Assets	39,822	44,905	52,670	62,461

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	52.5	50.1	51.1	51.4
EBIDTA Margin	22.1	19.5	21.2	21.3
EBIT Margin	20.1	17.7	19.6	21.0
Tax rate	29.0	32.0	32.0	32.0
Net Profit Margin	15.9	13.2	14.5	15.4
(B) As Percentage of Net Sales (%)				
COGS	47.5	49.9	48.9	48.6
Employee	11.7	11.6	11.5	11.6
Other	18.7	19.0	18.4	18.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	78.6	59.0	71.6	84.6
Inventory days	48	46	46	46
Debtors days	56	55	55	55
Average Cost of Debt	14.1	14.4	12.5	12.5
Payable days	33	24	24	24
Working Capital days	138	128	138	152
FA T/O	4.5	5.0	4.9	4.5
(D) Measures of Investment				
AEPS (₹)	19.0	18.6	22.9	26.9
CEPS (₹)	21.4	21.1	25.4	27.4
DPS (₹)	7.1	7.0	7.6	7.6
Dividend Payout (%)	37.2	37.6	33.2	28.3
BVPS (₹)	70.4	82.0	97.3	116.6
RoANW (%)	27.4	24.5	25.5	25.1
RoACE (%)	25.2	22.7	24.2	24.0
RoAIC (%)	32.6	31.0	34.1	36.0
(E) Valuation Ratios				
CMP (₹)	1109	1109	1109	1109
P/E	58.3	59.5	48.4	41.3
Mcap (₹ Mn)	563,328	563,328	563,328	563,328
MCap/ Sales	9.3	7.9	7.0	6.4
EV	551,769	552,160	547,959	542,694
EV/Sales	9.1	7.7	6.8	6.1
EV/EBITDA	41.1	39.6	32.2	28.7
P/BV	15.8	13.5	11.4	9.5
Dividend Yield (%)	0.6	0.6	0.7	0.7
(F) Growth Rate (%)				
Revenue	8.2	17.6	12.3	10.2
EBITDA	6.5	4.0	22.1	10.9
EBIT	6.7	3.9	24.2	18.2
PBT	8.9	2.3	22.9	17.5
APAT	11.9	(2.0)	22.8	17.4
EPS	11.9	(2.0)	22.8	17.4

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	4,586	7,739	11,925	13,007
CFI	(445)	(4,907)	(5,047)	(5,233)
CFF	(3,506)	(3,251)	(4,082)	(4,082)
FCFF	1,919	3,516	8,425	9,507
Opening Cash	999	1,634	1,215	4,011
Closing Cash	1,634	1,215	4,011	7,703

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Nov-17	Accumulate	863	821
Jan-18	Accumulate	956	877
May-18	Accumulate	1,219	1,140
Aug-18	Accumulate	1,251	1,123
Oct-18	Accumulate	1,114	959

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
