

May 15, 2019

Q4FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,184		1,163	
Sales (Rs. m)	69,653	79,691	70,995	81,635
% Chng.	(1.9)	(2.4)		
EBITDA (Rs. m)	15,916	18,326	16,221	18,771
% Chng.	(1.9)	(2.4)		
EPS (Rs.)	22.1	25.9	22.8	26.5
% Chng.	(3.0)	(2.3)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	53,544	62,506	69,653	79,691
EBITDA (Rs. m)	12,923	13,575	15,916	18,326
Margin (%)	24.1	21.7	22.9	23.0
PAT (Rs. m)	9,552	9,593	11,235	13,146
EPS (Rs.)	18.8	18.9	22.1	25.9
Gr. (%)	11.1	0.4	17.1	17.0
DPS (Rs.)	4.8	6.0	6.5	8.0
Yield (%)	0.4	0.5	0.6	0.7
RoE (%)	27.4	24.8	24.7	24.7
RoCE (%)	34.5	32.5	32.6	32.2
EV/Sales (x)	10.7	9.2	8.1	7.0
EV/EBITDA (x)	44.5	42.2	35.5	30.5
PE (x)	61.4	61.1	52.2	44.6
P/BV (x)	16.4	14.0	11.9	10.2

Key Data

PIDI.BO | PIDI IN

52-W High / Low	Rs.1,313 / Rs.895
Sensex / Nifty	37,091 / 11,148
Market Cap	Rs.586bn / \$ 8,315m
Shares Outstanding	508m
3M Avg. Daily Value	Rs.1429.34m

Shareholding Pattern (%)

Promoter's	69.80
Foreign	11.74
Domestic Institution	7.68
Public & Others	10.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.5)	8.6	4.7
Relative	(6.5)	2.9	0.3

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Nishita Doshi

nishitadoshi@plindia.com | 91-22-66322381

Long term outlook remains intact, Accumulate

We cut FY20 and FY21 EPS by 3.0% and 2.3% following cautiously optimistic outlook on demand following just 4% volume growth (average 16.0% in last 6 quarters) in C&B products due to pressure in construction chemicals, although low VAM prices (USD950/ton v/s USD1100/ton in 4Q) and stable USD/INR will aid margins. PIDI is well placed to capitalize on the growth opportunity in adhesives, sealants and waterproofing given strong brand like Fevicol and Dr. Fixit under its belt. International subsidiaries in SAARC, SE Asia and ME are doing well with 17% sales and 40% EBIDTA growth in FY19, although USA and Brazil remain a drag. Long term outlook remains positive as emerging businesses like Nina, Percept (waterproofing services), ICA (wood coatings) and CIPY JV's (floor coatings) have reported 15.5% increase in sales to Rs4.9bn and 39.2% increase in EBIDTA to Rs549mn.

We estimate 19.1% PAT CAGR over FY19-21 on 14.4% increase in sales and 180bps margin expansion given benign input cost environment. We value the stock at 43x FY21 EPS and arrive at SOTP based target price of Rs1184 (Rs1163 earlier). Retain Accumulate.

Concall Takeaways: 1) PIDI has written off all its Rs88mn of deposits of ILFS under Nina Waterproofing. 2) Management has guided for cautiously optimistic demand growth. Adhesive and sealants had good growth across markets, Construction chemicals business has seen some slow down. 3) Input cost pressures have eased out as the current VAM prices are less than USD950 versus 3Q usage of USD1100/ton and INR/USD has stabilized. 4) No price change has been done in 4Q, however, certain discount schemes are offered to pass on benefits of lower input costs. PIDI may look at price cuts if there is significant decline in input costs 5) PIDI is incurring losses in MEA and Egypt, however, they will continue investing in these countries. 6) PIDI has written off one investment (~Rs50mn) in waterproofing business in MENA that was not performing well 7) PIDI has guided for ad-spends to remain in the range of 3.5-3.8% of revenues (3.6% in FY19) and Capex at ~2-3% of revenues 8) Tax rate to remain ~32-33%.

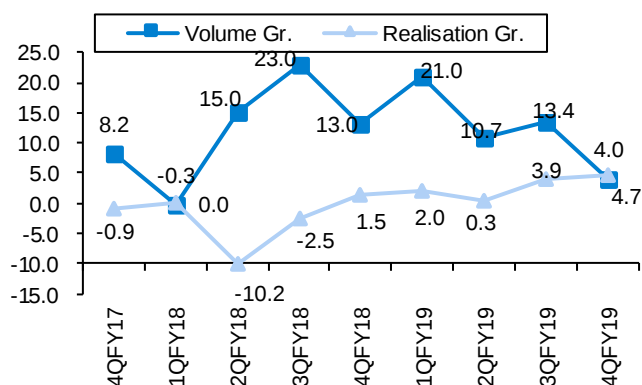
Standalone volumes up only 2.5%: Net sales increased 8.2% to Rs 13.79bn, volumes were at 2.5% on a high base (13% in 4QFY18). Gross margins at 51.3% declined 165bps YoY and increased 355bps QoQ as benefits of peaked out input costs and price increase of past couple of quarters have started getting reflected in numbers. EBIDTA increased 2.6% to Rs2.62bn. Margins declined 104bps due to gross margin pressure and increase in staff costs by 142bps despite 200bps decline in other expenditure. Adj. PAT declined 0.71% to Rs1.9bn due to 30.6% higher depreciation despite 11.6% increase in other income. PIDI has taken tax write back of Rs529mn in 4Q19 in exceptional items (Rs465mn in 4Q19)

Consumer and Bazaar EBIT increased 9.2% to Rs2.93bn with increase in sales by 8.7% on 4% growth in sales volume and mix. **Industrial Products** sales up 7.2%, volumes declined 1% and EBIT declined 8%. Imputed subsidiary sales increased by 23% to Rs2.6bn, EBIDTA declined 10% to Rs 169mn as margins declined 237bps.

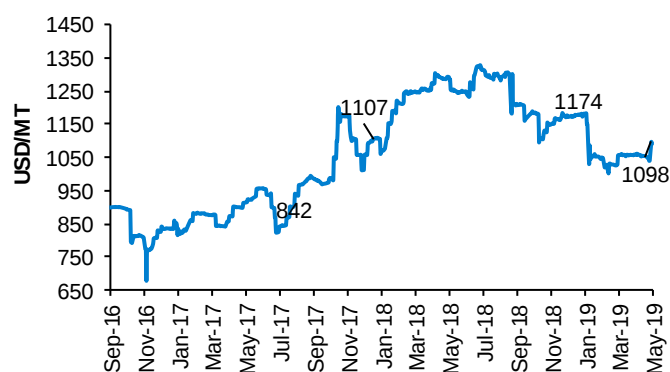
Exhibit 1: Adj. PAT remained flattish on 2.5% volume growth; EBITDA Margins declined 100bps QoQ

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net Revenue	13,787	12,736	8.2	15,897	60,947	53,544	13.8
Gross Profit	7,067	6,739	4.9	7,585	30,302	28,165	7.6
Margin (%)	51.3	52.9		47.7	49.7	52.6	
Other Expenditure	4,448	4,187	6.2	4,326	17,383	15,241	14.1
EBITDA	2,619	2,552	2.6	3,259	12,919	12,923	(0.0)
Margin (%)	19.0	20.0		20.5	21.2	24.1	
Depreciation	298	228	30.6	234	998	915	9.1
Interest	19	16	13.5	16	71	61	17.8
Other Income	525	471	11.6	309	1,915	1,365	40.3
PBT	2,828	2,778	1.8	3,318	13,765	13,313	3.4
Tax	924	861	7.4	1,071	4,499	4,226	6.5
Tax rate (%)	32.7	31.0		32.3	32.7	31.7	
Adj. PAT	1,903	1,917	(0.7)	2,247	9,266	9,087	2.0
Extraordinary Items	-17	-25		26	29	-1	
Reported PAT	1,921	1,942	(1.1)	2,221	9,237	9,089	1.6

Source: Company, PL

Exhibit 2: C&B volumes and mix up 4%, 7 quarter low


Source: Company, PL

Exhibit 3: VAM prices down 18.4 YoY and flattish QoQ


Source: Company, PL

Exhibit 4: C&B EBIT up 9.4% despite 20bps margins decline; Industrial products EBIT down 8.1%, margins declined 450bps

Segmental	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Consumer and Bazaar									
Sales (Rs m)	8780	10997	11486	11337	10050	13531	12751	13312	11042
Growth (%)	-5.1	-12.2	5.2	10.7	14.5	23.0	11.0	17.4	9.9
EBIT (Rs m)	2610	3221	3934	3630	2680	3885	3744	3607	2931
EBIT Growth %	11.8	-17.6	31.2	24.0	2.7	20.6	-4.8	-0.6	9.4
EBIT margin %	29.7	29.3	34.2	32.0	26.7	28.7	29.4	27.1	26.5
Industrial Products									
Sales (Rs m)	2110	2003	2266	2200	2440	2233	2539	2592	2923
Growth (%)	-15.9	-19.2	-5.1	0.9	15.6	11.5	12.1	17.8	19.8
EBIT (Rs m)	410	367	327	417	470	379	420	309	432
EBIT Growth %	-12.7	-18.8	-28.1	26.2	14.6	3.3	28.6	-25.8	-8.1
EBIT margin %	19.4	18.3	14.4	18.9	19.3	17.0	16.6	11.9	14.8

Source: Company, PL

Domestic Subs: Huge growth potential in new categories

NINA Waterproofing and Percept was merged in FY19 and reported a decline in sales by 1.9% with EBITDA declining by 15.4% on a high base and market challenges. Full provision of 88mn IL&FS fixed deposit has been made in FY19.

ICA Pidilite has acquired brands and technical knowhow of certain wood finish products from the parent company. It reported LTL sales growth of 17%. EBITDA was impacted by higher input cost and foreign exchange losses. Margin expansion is likely in ICA Pidilite as the Gujarat plant gets revamped.

CIPY Polyurethanes (70% stake) reported sales of Rs421mn and EBITDA of Rs66mn, it operates in manufacture and sale of floor coatings.

Exhibit 5: NINA and Percept has been merged; CIPY posted a strong growth

		Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	3QFY19	Q4FY19
Sales - (Rs mn)	NINA & Percept	467	592	750	765	740	809	736
	ICA-Pidilite	334	194	238	371	443	438	432
	CIPY			267	374	356	403	421
	Others	100	153	163	116	156	139	183
	Total	901	939	1418	1626	1695	1789	1772
Sales Growth (YoY)	NINA & Percept	6.4%	23.3%	29.3%	31.0%	58.5%	36.7%	-1.9%
	ICA-Pidilite	-1.2%	-26.8%	-11.2%	41.6%	32.6%	125.8%	81.5%
	CIPY							57.7%
	Others				39.8%	56.0%	-9.2%	12.3%
	Total	16.0%	26.0%	52.0%	75.0%	88.1%	90.5%	25.0%
EBITDA (Rs mn)	NINA & Percept	45	77	115	100	40	41	97
	ICA-Pidilite	37	-9	-26	17	-3	11	-17
	CIPY			22	39	47	59	66
	Others	8	19	18	8	9	12	23
	Total	90	87	129	164	93	123	169
EBITDA margin %	NINA & Percept	9.6%	13.0%	15.3%	13.1%	5.4%	5.1%	13.2%
	ICA-Pidilite	11.1%	-4.6%	-10.9%	4.6%	-0.7%	2.5%	-3.9%
	CIPY			8.2%	10.4%	13.2%	14.6%	15.7%
	Others			11.0%	6.9%	5.8%	8.6%	12.6%
	Total	10.0%	9.3%	9.1%	10.1%	5.5%	6.9%	9.5%
EBITDA growth (YoY)	NINA & Percept	181.3%	87.8%	144.7%	65.8%	-11.1%	-46.8%	-15.7%
	ICA-Pidilite	-36.2%	-250.0%	-244.4%	466.7%	-108.1%	-222.2%	-34.6%
	CIPY							200.0%
	Others				-11.1%	12.5%	-36.8%	27.8%
	Total	21.6%	85.1%	92.5%	126.8%	3.3%	41.4%	31.0%

Source: Company, PL

IBD 4Q19- Sales grew 10.2%, EBITDA margins at 2.6%

4Q19 International business (IBD) sales increased by 10.2% in constant currency terms. EBITDA at Rs33mn.

- **North America** sales increased 4.4% however, there was EBITDA loss of Rs2mn on adverse product mix.
- **South America:** Sales declined 0.5% with EBITDA loss of Rs9mn.
- **Middle East** sales increased by 14.9% with EBITDA loss reduced to Rs 6mn on higher sales and cost control.
- **SAARC** sales increased by 17.4% to Rs 331mn. EBITDA margins increased 175bps despite currency fluctuations and higher input costs
- **South East Asia:** sales increased by 25.4% and 490bps margin expansion.

Exhibit 6: SAARC leads the IBD sales growth and margin expansion

Subsidiaries	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Sales (Rs. m)	1,171	1,257	1,263	1,365	1,290
North America	250	270	275	212	261
South America	212	207	215	232	211
Middle East & Africa	282	295	321	328	324
SAARC	282	337	304	372	331
South East Asia	114	126	127	195	143
Sales growth (YoY)	16.4	5.8	4.9	1.1	10.2
North America	46.2	(18.4)	4.2	(18.5)	4.4
South America	(8.2)	12.5	(7.7)	(4.9)	(0.5)
Middle East & Africa	17.0	14.3	9.9	5.5	14.9
SAARC	21.6	21.2	14.7	11.4	17.4
South & South East Asia	5.6	7.7	(2.3)	10.2	25.4
EBITDA (Rs m)	25.0	36.0	24.0	31.0	33.0
North America	13.0	15.0	16.0	(16.0)	(2.0)
South America	1.0	(5.0)	5.0	9.0	(9.0)
Middle East & Africa	(22.0)	(25.0)	(14.0)	(28.0)	(6.0)
SAARC	30.0	46.0	25.0	47.0	41.0
South East Asia	4.0	8.0	(1.0)	19.0	12.0
EBITDA (margin %)	2.1	2.9	1.9	2.3	2.6
North America	5.2	5.6	5.8	(7.5)	(0.8)
South America	0.5	(2.4)	2.3	3.9	(4.3)
Middle East & Africa	(7.8)	(8.5)	(4.4)	(8.5)	(1.9)
SAARC	10.6	13.6	8.2	12.6	12.4
South & South East Asia	3.5	6.3	(0.8)	9.7	8.4

Source: Company, PL

Exhibit 7: SOTP Valuation Basis FY21

Business	EPS	BV/ Sales	Basis	Multiple (x)	Rs/share (Rs)
Standalone	25.9		P/E	43.0	1,113
International Business		6,652	EV/ Sales	1.5	19
India		5,248	EV/ Sales	5.0	51
Elastomer Project		7.1	P/BV	1.0	-
Value per share					1,184

Source: PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	53,544	62,506	69,653	79,691
YoY gr. (%)	10.1	16.7	11.4	14.4
Cost of Goods Sold	25,379	31,592	34,031	38,612
Gross Profit	28,165	30,914	35,623	41,080
Margin (%)	52.6	49.5	51.1	51.5
Employee Cost	5,709	6,635	7,345	8,483
Other Expenses	4,272	4,803	5,489	6,358
EBITDA	12,923	13,575	15,916	18,326
YoY gr. (%)	5.5	5.0	17.2	15.1
Margin (%)	24.1	21.7	22.9	23.0
Depreciation and Amortization	915	998	1,085	1,205
EBIT	12,009	12,577	14,831	17,121
Margin (%)	22.4	20.1	21.3	21.5
Net Interest	61	71	87	99
Other Income	1,365	1,586	1,949	2,512
Profit Before Tax	13,313	14,092	16,694	19,533
Margin (%)	24.9	22.5	24.0	24.5
Total Tax	3,761	4,499	5,459	6,387
Effective tax rate (%)	28.3	31.9	32.7	32.7
Profit after tax	9,552	9,593	11,235	13,146
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	9,552	9,593	11,235	13,146
YoY gr. (%)	10.0	0.4	17.1	17.0
Margin (%)	17.8	15.3	16.1	16.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	9,552	9,593	11,235	13,146
YoY gr. (%)	23.4	0.4	17.1	17.0
Margin (%)	17.8	15.3	16.1	16.5
Other Comprehensive Income	1	(29)	-	-
Total Comprehensive Income	9,553	9,564	11,235	13,146
Equity Shares O/s (m)	508	508	508	508
EPS (Rs)	18.8	18.9	22.1	25.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	17,247	18,317	20,542	22,767
Tangibles	14,713	15,713	17,713	19,713
Intangibles	2,534	2,604	2,829	3,054
Acc: Dep / Amortization	8,707	9,673	10,758	11,964
Tangibles	8,147	9,042	10,052	11,175
Intangibles	561	631	707	788
Net fixed assets	8,540	8,644	9,783	10,803
Tangibles	6,566	6,671	7,661	8,537
Intangibles	1,973	1,973	2,123	2,266
Capital Work In Progress	1,641	2,291	2,491	2,691
Goodwill	861	861	861	861
Non-Current Investments	7,287	10,599	8,044	8,082
Net Deferred tax assets	(1,029)	(1,130)	(1,393)	(1,594)
Other Non-Current Assets	1,552	1,810	2,090	2,391
Current Assets				
Investments	10,720	11,514	19,714	25,614
Inventories	6,309	7,343	8,018	8,992
Trade receivables	6,896	7,750	8,587	9,825
Cash & Bank Balance	778	1,173	1,254	1,416
Other Current Assets	1,478	1,269	1,463	1,674
Total Assets	46,280	53,500	62,626	72,714
Equity				
Equity Share Capital	508	508	508	508
Other Equity	35,132	41,359	48,615	56,863
Total Network	35,639	41,867	49,123	57,371
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	296	346	418	478
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,282	4,492	5,128	5,818
Other current liabilities	4,604	5,206	6,164	7,053
Total Equity & Liabilities	46,280	53,500	62,626	72,714

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	13,313	13,765	16,694	19,533
Add. Depreciation	915	998	1,085	1,205
Add. Interest	61	71	87	99
Less Financial Other Income	1,365	1,586	1,949	2,512
Add. Other	1	(29)	-	-
Op. profit before WC changes	14,290	14,805	17,866	20,838
Net Changes-WC	1,742	(1,830)	(8,420)	(6,867)
Direct tax	(3,761)	(4,499)	(5,459)	(6,387)
Net cash from Op. activities	12,271	8,476	3,987	7,583
Capital expenditures	(1,295)	(1,752)	(2,425)	(2,425)
Interest / Dividend Income	-	-	-	-
Others	(2,735)	(3,248)	2,585	-
Net Cash from Invst. activities	(4,030)	(5,000)	160	(2,425)
Issue of share cap. / premium	(4,976)	664	-	-
Debt changes	-	-	-	-
Dividend paid	(2,931)	(3,667)	(3,973)	(4,890)
Interest paid	(61)	(71)	(87)	(99)
Others	-	(6)	(6)	(8)
Net cash from Fin. activities	(7,968)	(3,080)	(4,065)	(4,997)
Net change in cash	273	396	81	162
Free Cash Flow	10,975	6,724	1,562	5,158

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	18.8	18.9	22.1	25.9
CEPS	20.6	20.9	24.3	28.3
BVPS	70.2	82.4	96.7	113.0
FCF	21.6	13.2	3.1	10.2
DPS	4.8	6.0	6.5	8.0
Return Ratio(%)				
RoCE	34.5	32.5	32.6	32.2
ROIC	34.5	30.8	35.6	37.5
RoE	27.4	24.8	24.7	24.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	61	62	60	60
Valuation(x)				
PER	61.4	61.1	52.2	44.6
P/B	16.4	14.0	11.9	10.2
P/CEPS	56.0	55.4	47.6	40.8
EV/EBITDA	44.5	42.2	35.5	30.5
EV/Sales	10.7	9.2	8.1	7.0
Dividend Yield (%)	0.4	0.5	0.6	0.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	16,083	15,180	15,897	13,787
YoY gr. (%)	19.2	11.3	15.6	8.2
Raw Material Expenses	7,968	7,644	8,312	6,720
Gross Profit	8,115	7,536	7,585	7,067
Margin (%)	50.5	49.6	47.7	51.3
EBITDA	3,576	3,465	3,259	2,619
YoY gr. (%)	40.1	(3.1)	(6.0)	(19.6)
Margin (%)	22.2	22.8	20.5	19.0
Depreciation / Depletion	229	237	234	298
EBIT	3,347	3,229	3,025	2,321
Margin (%)	20.8	21.3	19.0	16.8
Net Interest	20	17	16	19
Other Income	645	435	309	525
Profit before Tax	3,972	3,648	3,318	2,828
Margin (%)	24.7	24.0	20.9	20.5
Total Tax	1,302	1,201	1,071	924
Effective tax rate (%)	32.8	32.9	32.3	32.7
Profit after Tax	2,669	2,446	2,247	1,903
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,669	2,446	2,247	1,903
YoY gr. (%)	23.0	(6.3)	(6.0)	(0.7)
Margin (%)	16.6	16.1	14.1	13.8
Extra Ord. Income / (Exp)	221	-	-	529
Reported PAT	2,890	2,446	2,247	2,432
YoY gr. (%)	33.1	(6.3)	(6.0)	2.1
Margin (%)	18.0	16.1	14.1	17.6
Other Comprehensive Income	-	(21)	(26)	17
Total Comprehensive Income	2,891	2,425	2,221	2,449
Avg. Shares O/s (m)	508	508	508	508
EPS (Rs)	5.3	4.8	4.4	3.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	26-May-18	Accumulate	1,175	1,139
2	10-Jul-18	Accumulate	1,175	1,064
3	2-Aug-18	Accumulate	1,175	1,101
4	29-Aug-18	Accumulate	1,175	1,154
5	5-Oct-18	Accumulate	1,175	968
6	31-Oct-18	Accumulate	1,121	959
7	7-Jan-19	Accumulate	1,121	1,103
8	24-Jan-19	Accumulate	1,163	1,109
9	5-Apr-19	Accumulate	1,163	1,287

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,386
2	Avenue Supermarts	HOLD	1,228	1,251
3	Britannia Industries	Accumulate	3,145	2,783
4	Colgate Palmolive	Hold	1,258	1,227
5	Crompton Greaves Consumer Electricals	BUY	272	232
6	Dabur India	Hold	430	382
7	Emami	Accumulate	484	412
8	Future Retail	BUY	554	446
9	GlaxoSmithKline Consumer Healthcare	Hold	8,139	6,996
10	Hindustan Unilever	Hold	1,764	1,694
11	ITC	BUY	369	289
12	Jubilant FoodWorks	Accumulate	1,458	1,418
13	Kansai Nerolac Paints	Accumulate	464	419
14	Marico	Hold	351	340
15	Nestle India	Accumulate	10,742	10,300
16	Pidilite Industries	Accumulate	1,163	1,287
17	Titan Company	BUY	1,264	1,132
18	Voltas	HOLD	584	580

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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