

Institutional Equity Research

Pidilite Industries

FMCG | India

1QFY18 Result Update | July 27, 2017

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN
Market Cap. (Rs bn)	413
Free Float (%)	30
Shares O/S (mn)	513

BUY 

Target Price: Rs909

One-off Quarter; Recovery Expected in Ensuing Quarters

Pidilite Industries has reported a subdued performance in 1QFY18 on the backdrop of GST roll-out. Its consolidated sales fell by 2.6% YoY to Rs15.3bn owing to flat volumes. While EBITDA fell by 18.5% YoY to Rs3.2bn, net profit declined by 16.8% YoY to Rs2.3bn in 1QFY18. Although the headline performance was muted, we consider it transient in nature as revenues suffered due to inventory de-stocking in June before the roll-out of GST w.e.f July, 01, 2017.

Strong brands, superior management bandwidth, market leadership, pricing power and huge underserved market continue to be the key strengths of Pidilite. **We expect the Company to post consolidated revenue and earnings CAGR of 13.9% and 16.4%, respectively through FY17-19E and maintain our BUY recommendation on the stock with a rolled over Target Price of Rs909.**

Flattish Volume Performance

Volumes for the quarter remained flat. The management stated that although April and May witnessed volume growth in high single-digit, revenues dropped in June as the trade resorted to destocking to clear inventory before the roll-out of GST. This depressed the overall performance for the quarter. While revenue from Consumer & Bazaar business declined by 1.6% YoY to Rs14.3bn, revenue from industrial business remained flat at Rs2.5bn. Revenues from international business fell by 19% YoY to Rs1.3bn, primarily due to selling off of the US-based Cyclo division. However, EBITDA from overseas business increased by 34% YoY to Rs124mn due to profit from sale of Cyclo business.

Fixed Overheads Impact EBITDA Margins

Pidilite's gross margins fell by 60bps YoY to 51.7% owing to rise in VAM prices (up 30% yoy) during the quarter. We expect the Company to undertake price hikes in case of any further up-tick in input cost, although the management hinted that gross margins may not sustain at such high levels. Fall in revenues had an adverse impact on other fixed cost, as employee cost (up 150bps) and other expenses (up 200bps), which pulled down Pidilite's EBITDA margins by 410bps YoY to 21%. Other income rose by 80% YoY to Rs432mn due to Mark-to-Market valuation of investments and profit from sale of Cyclo division.

Outlook & Valuation

We believe that volume growth would recover in ensuing quarters as trade starts up-stocking, which would also be aided by other macro factors. Marginally revising our earnings estimates downwards by 1% for FY19E, we expect Pidilite to post consolidated revenue of Rs63.6bn and Rs72.8bn and net profit of Rs9.9bn and Rs11.7bn in FY18E and FY19E, respectively. At CMP, the stock trades at 35.3x FY19E EPS of Rs22.8. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs909, based on 38x June'19 earnings.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	53,695	56,168	63,611	72,817
EBITDA	11,739	12,598	14,349	16,787
Net profit	7,555	8,632	9,949	11,704
EPS (Rs)	14.7	16.8	19.4	22.8
DPS (Rs)	4.2	4.8	6.0	7.0
P/E (x)	54.7	47.9	41.5	35.3
P/B (x)	14.8	12.3	10.4	8.8
EV/EBITDA (x)	25.8	32.6	28.5	24.2
ROE (%)	29.9	28.2	27.2	27.0
Dividend yield (%)	0.5	0.6	0.7	0.9

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(3.0)	10.9	11.0
Relative to Nifty	(7.7)	3.7	(5.7)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	69.6	69.6
Public	30.4	30.4

1 Year Stock Price Performance



Note: * CMP as on July 26, 2017

Research Analyst : Sameer Deshmukh

Contact : (022) 33201327

Email : sameer.deshmukh@relianceada.com

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Key Risks

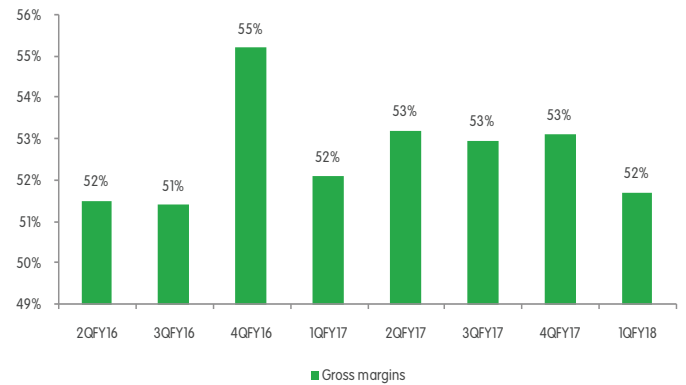
- ▶ Sharp up-tick in input cost.
- ▶ Lower-than-expected recovery in demand.

Exhibit 1: Trend in volume growth



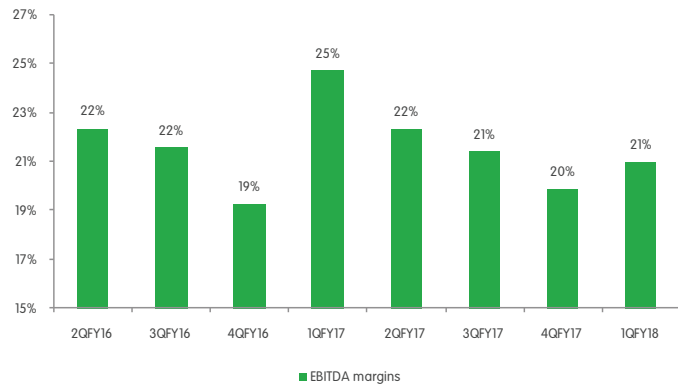
Source: Company, RSec Research

Exhibit 2: Quarterly gross margins



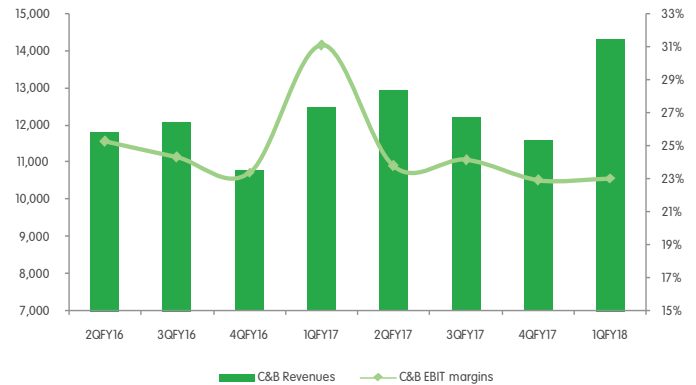
Source: Company, RSec Research

Exhibit 3: Trend in Consolidated EBITDA margins



Source: Company, RSec Research

Exhibit 4: C&B revenue and margin trend



Source: Company, RSec Research

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Exhibit 5: Quarterly Performance

Y/E March (Rs mn)	1QFY18	1QFY17	% yoy	4QFY17	% yoy	FY17	FY16	% chg
Net Sales	15,289	15,694	(2.6)	12,954	18.0	56,168	53,612	4.8
Consumption of RM	7,381	7,479	(1.3)	6,073	21.5	26,396	25,847	2.1
(% of Sales)	100.0	100.0		100.0		100.0	100.0	
Staff Costs	1,809	1,625	11.3	1,613	12.2	6,453	5,722	12.8
(% of Sales)	24.5	21.7		26.6		24.4	22.1	
Other Expenses	2,889	2,650	9.0	2,690	7.4	10,722	10,309	4.0
(% of Sales)	39.1	35.4		44.3		40.6	39.9	
Total Expenditure	12,079	11,754	2.8	10,375	16.4	43,570	41,877	4.0
Operating Profit	3,210	3,939	(18.5)	2,579	24.5	12,598	11,735	7.4
OPM	43.5	52.7		42.5		47.7	45.4	
Depreciation	313	258	21.4	296	5.6	1,151	1,005	14.6
EBIT	2,897	3,682	(21.3)	2,283	26.9	11,447	10,730	6.7
Interest	37	35	5.7	48	(22.5)	139	133	5.0
Other Income	432	241	79.6	286	51.3	1,123	778	44.2
PBT	3,292	3,887	(15.3)	2,520	30.6	12,430	11,376	9.3
(% of Sales)	44.6	52.0		41.5		47.1	44.0	
Provision for Taxation	1,033	1,174	(12.1)	971	6.3	3,851	3,335	15.4
(% of PBT)	31.4	30.2		38.5		31.0	29.3	
PAT (recurring)	2,260	2,713	(16.7)	1,549	45.9	8,579	8,040	6.7
Extr. Income/(Expense)	-	-		-		-	-	
Reported PAT	2,260	2,713	(16.7)	1,549	45.9	8,579	8,040	6.7
PATM	30.6	36.3		25.5		32.5	31.1	
Minority interest	(6)	(9)		(24)		(53)	(32)	
Net profit	2,265	2,722	(16.8)	1,572	44.1	8,632	8,072	6.9
Equity shares (mn)	513	513		513		513	513	
EPS (Rs)	4.4	5.3	(16.8)	3.1	44.1	16.8	15.7	6.9

Source: Company, RSec Research

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	53,695	56,168	63,611	72,817
Total operating income	53,695	56,168	63,611	72,817
% chg	10.8	4.6	13.3	14.5
Total Expenditure	41,956	43,570	49,262	56,031
Cost of Materials	26,353	26,396	30,056	34,406
Advertising Exp (Incl Promotion)	2,084	2,180	2,469	2,826
Personnel	5,743	6,453	7,227	8,094
Others	7,776	8,542	9,510	10,704
EBITDA	11,739	12,598	14,349	16,787
% chg	52.3	7.3	13.9	17.0
(% of Net Sales)	21.9	22.4	22.6	23.1
Depreciation & Amortisation	1,331	1,151	1,272	1,434
EBIT	10,408	11,446	13,077	15,352
% chg	59.4	10.0	14.2	17.4
(% of Net Sales)	19.4	20.4	20.6	21.1
Interest & other Charges	133	139	119	107
Other Income	510	1,123	1,379	1,594
(% of PBT)	4.7	9.0	9.6	9.5
Recurring PBT	10,785	12,430	14,337	16,839
% chg	57.9	15.3	15.3	17.5
PBT (reported)	10,785	12,430	14,337	16,839
Tax	3,221	3,851	4,444	5,220
(% of PBT)	29.9	31.0	31.0	31.0
PAT (recurring)	7,564	8,579	9,892	11,619
% chg	47.3	13.4	15.3	17.5
(% of Net Sales)	14.1	15.3	15.6	16.0
Minority interest	(8)	53	57	85
Net profit	7,555	8,632	9,949	11,704
Basic EPS (Rs)	14.7	16.8	19.4	22.8
Fully Diluted EPS (Rs)	14.7	16.8	19.4	22.8
% chg	47.4	14.3	15.3	17.6

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Share capital	513	513	513	513
Reserves	27,316	32,965	39,155	46,454
Net worth	27,829	33,477	39,667	46,967
Total borrowings	843	918	993	1,068
Minority Interest	427	480	537	622
Deferred tax	670	670	670	670
Total liabilities	29,769	35,545	41,867	49,327
Gross block	20,886	23,136	25,136	27,136
Less: Acc. depreciation	9,573	10,725	11,997	13,431
Net block	11,313	12,411	13,139	13,704
CWIP	4,002	4,252	4,502	4,752
Investments	6,490	8,490	11,490	14,490
Current assets	17,246	20,037	23,643	28,794
Inventories	6,290	6,405	7,143	8,012
Debtors	7,294	7,864	8,906	10,194
Cash	1,319	3,318	4,819	7,410
Other CA	673	704	797	913
Loans and advances	1,670	1,747	1,978	2,264
Current liabilities	8,423	8,747	9,890	11,249
Provisions	858	897	1,016	1,163
Net current assets	7,965	10,393	12,737	16,382
Total Assets	29,769	35,545	41,867	49,327

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Net profit	7,555	8,632	9,949	11,704
Depn and w/o	1,331	1,151	1,272	1,434
Deferred tax	120	0	0	0
Change in working cap	(1,601)	(429)	(843)	(1,054)
Operating cash flow	7,406	9,355	10,378	12,085
Capital expenditure	(2,186)	(2,500)	(2,250)	(2,250)
Investments	(2,791)	(2,000)	(3,000)	(3,000)
Investing cash flow	(4,977)	(4,500)	(5,250)	(5,250)
Free cash flow	5,219	6,855	8,128	9,835
Dividend	(2,561)	(2,931)	(3,702)	(4,319)
Fresh equity	339	0	0	0
Debt/Preference shares	259	75	75	75
Financing cash flow	(1,963)	(2,856)	(3,627)	(4,244)
Others	94	0	0	0
Net change in cash	559	1,999	1,501	2,590
Opening cash	760	1,319	3,318	4,819
Closing cash	1,319	3,318	4,819	7,410

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN

BUY 

Target Price: Rs909

Key Ratios

Y/E March	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	54.7	47.9	41.5	35.3
P/CEPS	46.5	42.2	36.8	31.5
P/BV	14.8	12.3	10.4	8.8
Dividend yield (%)	0.5	0.6	0.7	0.9
EV/Sales	5.6	7.3	6.4	5.6
EV/EBITDA	25.8	32.6	28.5	24.2
Per Share Data (Rs)				
EPS (Basic)	14.7	16.8	19.4	22.8
Core EPS	14.7	16.8	19.4	22.8
Cash EPS	17.3	19.1	21.9	25.6
DPS	4.2	4.8	6.0	7.0
Book Value	54.3	65.3	77.4	91.6
Returns (%)				
RoCE	42.0	39.9	38.5	38.2
RoE	29.9	28.2	27.2	27.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.0	1.7	1.6	1.6
Inventory / Sales (days)	57	55	54	53
Receivables (days)	44	50	51	51
Payables (days)	30	33	33	33
Working capital cycle (ex-cash) (days)	72	71	72	71

Institutional Equity Research

Pidilite Industries

FMCG | India

CMP* (Rs)	806
Upside/ (Downside) (%)	13
Bloomberg Ticker	PIDI.IN



Target Price: Rs909

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India’s leading retail broking houses. Reliance Capital is amongst India’s leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called ‘Report’) is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL’s Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)? No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies)? No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL’s activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/ strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.