Pidilite Industries - Buy

Investment overview

- Pidilite Industries is a pioneer in consumer and specialities chemicals in India.
- The company is having extensive product range spread across sectors like construction, healthcare and hospitality.
- The company increasing its shift towards premium products that is likely to enhance its operating margins.
- Improving global economic conditions are likely to help the company due to its wide international presence.

Business Overview

Pidilite Industries Limited has been a pioneer in consumer and specialities chemicals in India. Over two-third of the company's sales come from products and segments it has pioneered in India. Pidilite Industries is the market leader in adhesives and sealants, construction chemicals, hobby colours and polymer emulsions in India.

Pidilite Industries Limited manufactures and sells consumer and specialty chemicals in India and abroad. The company's business can be divided into two main segments viz; Consumer and bazaar products and Specialty industrial chemicals. Company's first modern manufacturing plant for pigments and emulsions was set up in Kondivita village, Mumbai; the premises of which serve as the corporate head-office of Pidilite.

In 2000 the company acquired M-seal, leading brand of epoxy compounds and in the very next year in 2001 Pidilite launches the Dr. Fixit range of Construction Chemicals, thus diversifying its product range. The extensive product range is used for waterproofing and repair for both new & old constructions. The company added another segment in its product portfolio by acquiring 'Steelgrip', a leading brand of PVC insulation tape.

The Company has 14 Overseas subsidiaries (4 direct and 10 step-down) including those having significant manufacturing and selling operations in USA, Brazil, Thailand, Dubai, Egypt and Bangladesh.

Financial Health

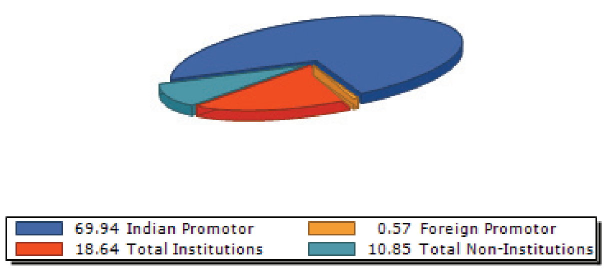
The company's consolidated net sales grew by 18.6% to Rs 781.35 crore over Rs 659.04 crore the same quarter last year. While the net profit declined marginally by 2.36% to Rs 77.43 crore against Rs 79.30 crore of the corresponding previous quarter.

For the quarter ended September 30,2011 the stand alone net sales of the company increased by 20.6% to Rs702.80 crore over the same quarter last year. Profit after Tax of the company increased by 1.59% to Rs 81.53 crore in the current quarter as compared to Rs 82.85 crore during the same period last year mainly impacted by the forex losses of Rs 4.89 crore for the quarter as compared to Rs 1.82 crore in the same quarter last year.

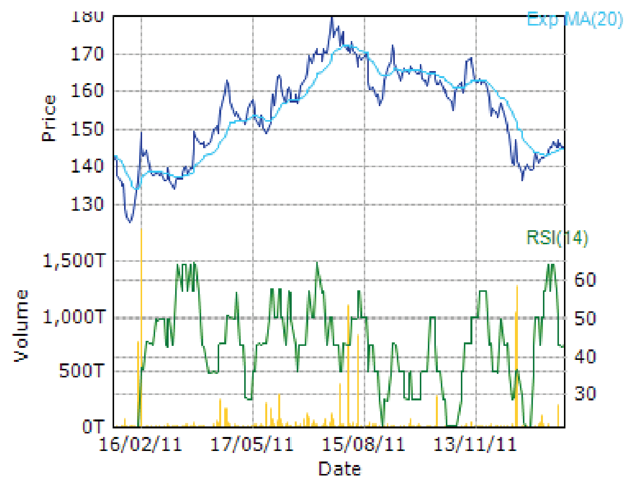
Other operating costs of the company too increased due to

Stock Data	13/02/2012
Current Mkt Price (Rs)	143.90
52 Week High	183.10
52 Week Low	123.05
Mkt Cap (Rs. in Cr.)	7353.00
Return in last one Month (%)	-1.50

Share Holding



Performance in last one year



Y-o-Y Performance

(Rs. in Million)

Particulars	Mar 2011	Mar 2010	Change(%)
Net Sales	2353.75	1932.25	21.81
Other Income	41.85	27.18	53.98
Total Expenditure	1923.54	1551.59	23.97
Operating Profit	472.06	407.84	15.75
Interest	30.16	32.58	-7.44
Profits After Tax	303.89	289.12	5.11
Reserve & Surplus	0.00	0.00	22.63
Reported EPS(Rs)	6.00	5.71	5.11
Core EBITDA Margin (%)	17.29	18.81	-8.07

higher volumes, increase in key inputs cost like power, fuel and labour rate. However, Interest cost at Rs 5.93 crore was lower than last year cost of Rs 8.67 crore due to repurchase of non-convertible debentures (Rs 90.00 crore) last year and repayment of ECB loans.

Industry Scenario

Indian chemical industry is one of the largest and most diversified industries in the country and it consists of several small industries that cover hundreds of segments. Chemicals are generally used to make a wide variety of consumer goods and are also used in agriculture, manufacturing, construction, and service industries. Indian chemical industry itself consumes 26% of its own output. Major industrial customers include rubber and plastic products, textiles, apparel, petroleum refining, pulp and paper, and primary metals. With the chemical industry contributing indirectly to almost every sector of the economy, it plays a vital role in a country's economic growth.

A vast majority of individual sector groups are clustered together under the Fine, Specialty and Consumer Chemicals (FSCC) industry sector. This diverse grouping serves the purpose of bringing together a range of product groups in a way that enables their management in a cost effective manner.

Chemicals can roughly be divided into three main categories - basic chemicals, knowledge chemicals, and specialty chemicals. Basic chemicals contribute 35 percent of the total industry size and are a broad category, including polymers, bulk petrochemicals, Fertilizers, inorganic chemicals and intermediates. Polymers include all categories of plastics and man-made fibers. Knowledge chemicals contribute 30 percent of industry size and include differentiated chemical and biological substances, pharmaceuticals, diagnostics, animal health products, vitamins, and crop protection chemicals. Specialty chemicals are characterized by high level of fragmentation.

Chemical industry's contribution to the GDP has stagnated during the past two years due to India's inability to build competitiveness required to meet global challenges and to develop a larger domestic market through low cost production. India has the potential to emerge as a major manufacturing hub for the global market. This can happen only with improved competitiveness of its industry apart from innovation and productivity. In order to be highly competitive and to improve supply chain efficiencies, the chemical industry must look for total cost management solutions and automation.

Latest developments:

Pidilite Industries Ltd., has launched 'Terminator', a powerful anti-termite solution. 'Terminator' wood preservative does not have any toxic formulation making it eco-friendly. Made of cashew nut shell oil extract, 'Terminator' kills termites without causing any harm to the environment.

Investment Rationale

- Pidilite Industries is a well known household name and a pioneer in developing innovative products. It holds a strong

Q-o-Q Performance

(Rs. in Million)

Particulars	Sep 2011	Sep 2010	Change(%)
Net Sales	710.28	589.56	20.48
Expenditure	585.01	467.19	25.22
Other Income	2.91	4.74	-38.61
EBITDA	128.18	127.11	0.84
Interest	5.93	8.67	-31.60
Net Profit	81.53	82.85	-1.59
EBITDA Margin (%)	0.18	0.22	-16.30
NPM (%)	0.11	0.14	-18.32
EPS	1.61	1.64	-1.83

Profit & Loss

(Rs. in Million)

Particulars	Mar 2011	Mar 2010	Change(%)
Net Sales	2353.75	1932.25	21.81
Total Income	2395.60	1959.42	22.26
Total Expenditure	1923.54	1551.59	23.97
Operating Profit	472.06	407.84	15.75
Profits After Tax	303.89	289.12	5.11

Balance Sheet

(Rs. in Million)

Particulars	Mar 2011	Mar 2010	Change(%)
Share Capital	50.61	50.61	0.00
Reserve & Surplus	1088.91	887.97	22.63
Total Liabilities	1426.26	1360.01	4.87
Investments	399.74	510.49	-21.70
Current Liabilities	413.67	330.19	25.28
Net Current Assets	293.43	196.18	49.57
Total Assests	1426.26	1360.01	4.87

Key Ratios

Particulars	Mar 2011	Mar 2010
Reported EPS (Rs)	6.00	5.71
Core EBITDA Margin (%)	17.29	18.81
EBIT Margin (%)	17.19	17.86
ROA (%)	21.81	21.81
ROE (%)	29.25	34.58
ROCE (%)	30.70	27.26
Price/Book (x)	6.63	6.17
Net Sales Growth (%)	21.81	9.72
EBIT Growth (%)	18.32	79.04
PAT Growth (%)	5.11	97.52
Total Debt/Mcap (%)	0.04	0.07

Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Pidilite Inds.	201103	2353.75	430.21	303.89	12.91	6.00	25.05
Guj. Fluoro	201103	1024.71	351.01	263.63	25.73	24.00	7.76
BASF India	201103	3059.91	171.68	117.83	3.85	27.22	21.05
Solar Inds.	201103	531.21	66.04	50.29	9.47	29.03	27.73

portfolio of brands like Fevicol, M-Seal, Fevi Kwik, Dr. Fixit, Roff, Fevicryl Hobby Ideas, Ranipal, Motomax etc. Apart from its broad based domestic presence the company is having presence in 14 overseas subsidiaries in countries like USA, Brazil, Singapore, Thailand, China, Egypt, Dubai and Bangladesh. Further, in order to cater to exports, the company is also setting up a new Elastomer plant with annual capacity of 20,000 tonnes which is expected to be ready by end of fiscal 2012, resulting in additional sales in the coming years. The management has expressed its confidence of sustaining volume growth momentum in the future and is likely to report a better result in the coming quarters.

- The company's Consumer and Bazar Products segment that contribute nearly 77% to the total sales showed a good revenue growth. Escalation in Adhesives, Sealants and Construction chemicals in the domestic market contributed to this growth (adhesives and sealants contributed nearly 48% to consolidated revenue). Price increase implemented in the last quarter also helped to improve the sales growth. Export sales showed good recovery after a flat growth in first quarter led by sales growth in Adhesives products. Revenue of Industrial Products increased by 17.6% in Q2 and 18% for H1 over same period last year. The growth was mainly driven by growth in industrial Resin business and Exports of Pigments with good volumes coming in from existing customers and increase in customer base. Significant increase in input costs coupled with competitive pressure affected margins during the quarter.

- The company's International business sales grew 5% in second quarter. Margins were under pressure in North America, the Middle East and Brazil and sales declined by 17.5% in the US. The sales of subsidiaries in U.S. was lower largely because of market contraction in its student art material business, owing to the economic situation in North America, purchases from the school was much lower than anticipated. In addition, because of the overall economic uncertainty in several parts of the world off-take by some of its distributors of the automotive aftermarket products was lower than expected. The business in Brazil, while up by about 8% in terms of topline witnessed some amount of margin compression because of input cost inflation as well as currency depreciation in that country, and material cost to sales in Brazil was 8 percentage points higher than the same period last year, and as a result, the EBITDA in the business in Brazil for the quarter was minus 11 million as compared to 15 million last year. However, the other subsidiaries mainly in Middle East, Africa and in South and Southeast Asia reported encouraging result with the EBITDA improving from minus 11 million last year to plus 7 million this year.

- Though, the margin pressure remains a concern for the company, due to the steep increase in commodity prices, input costs have gone up sharply. Though the Company does pass on these increases by way of price increases, but even this impacts the margins as there is a lag between the cost increase and the price increase. Although the company increased prices of its flagship brand, Fevicol, by around 5%, towards the end of first quarter, it was insufficient to cover input cost inflation.

- At the CMP of Rs 143.90, Pidilite Industries is trading at a P/E multiple of 25.05x and estimated 21.27xP/E FY12, we recommend 'BUY' in the scrip with a price target of Rs 168. The company has built strong brands when other competitors were building capacity. It has come up with various construction, healthcare and hospitality segments products in the recent past and continues to focus on introducing variants of its existing brands. It is well set to deliver steady growth driven by higher consumption growth in the domestic market and its focus on expanding its product range. The biggest advantage with the company is that it faces very little competition as there are very few large national players and most of the smaller players are active regionally, giving a high pricing power to the company. The company has a strong balance sheet with strong cash flows and low debt to equity ratio. The company has wide geographical presence and improvement in economic conditions globally would also support the sales growth of the company.