

EQUITY RESEARCH

Diversified Sector

CMP: Rs. 192.00
(As on December 11, 2009)

December 11, 2009

INDIA

Market Cap
Rs. 48595.20 mn

BUY

Target Price: Rs.220.00
(Medium to Long term)

Pidilite Industries Ltd

- Pidilite Industries is the market leader in adhesives and sealants, construction chemicals, hobby colors and polymer emulsions in India.
- The Company has dominant position in the domestic sealants and adhesive market in India with its brand Fevicol.
- Consumer & Bazar product sales, which contribute nearly 70% of the sales, reported an increase in sales by more than 13%.
- The company has close to Rs 160 Cr cash on its books that translate to Rs 6 per share.
- The company Bangladesh facility is expected to begin commercial production in November, while the one in Egypt would be commissioned by December.
- During the quarter company had bought back USD 2.8 Mn worth of FCCB discount.
- During the quarter company dividend pay out was at nearly 40%.
- The topline of the company is expected to grow at a CAGR of 12% over FY08 to FY11E.



Pidilite Industries **BSE SENSEX**

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Key					Key Data	
Financials	FY08	FY09E	FY10E	FY11E		
Net Sales					Face Value	Rs.1.00
(Rs.mn)	15353.00	17835.50	19619.05	21777.15	Shares	
EBIDTA					Outstanding	253.10mn
(Rs.mn)	2788.00	2422.00	4186.84	4864.50	Exchange	BSE
Margin %	18%	14%	21%	22%	52 wk. High/	210.00/
PAT					Low(Rs.)	79.50
(Rs.mn)	1879.00	1463.80	2867.01	3390.77	2 wk avg. volume	19267
Margin %	12%	8%	15%	16%	BSE Code	500331



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Peer Group Comparison

Name of the Company	52 wk. High/Low(Rs.)	CMP(Rs.)	EPS(Rs.)	P/E(x)
Pidilite Industries Ltd	210.00/79.50	192.00	5.78	33.20
Nikhil Adhesive	35.80/11.03	35.80	4.68	7.65
Henkel India	55.40/11.33	44.35	0.85	52.18
Tata Chemicals	325.25/99.70	314.95	18.61	16.92

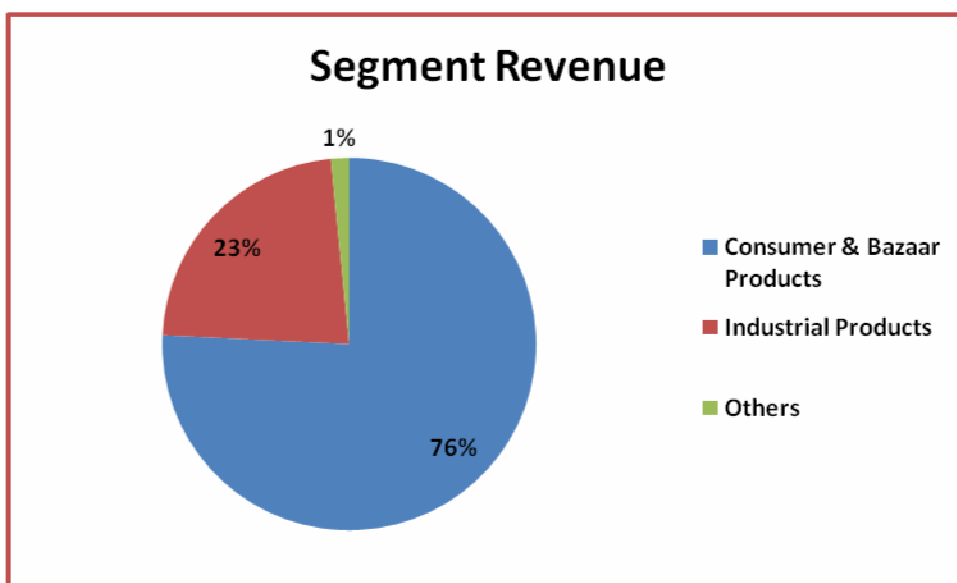
Company- Updates

- Result Updates (Q2 FY10)**

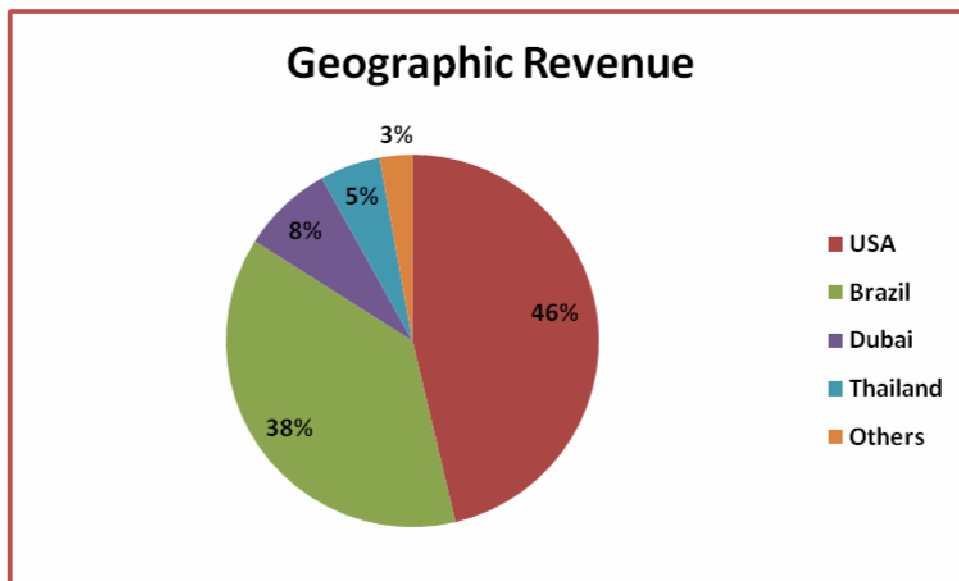
Pidilite Industries reported a considerable rise in standalone net profit for the quarter ended Sep 2009. During the quarter, the profit of the company rose 157.96% to Rs 855.40 million from Rs 4849.80 million in the same quarter previous year. Net sales for the quarter rose marginally 5.34% to Rs 5,108.80 million, while total income for the quarter rose marginally 5.51% to Rs 5,120.70 million, when compared with the prior year period. Company reported earnings of Rs 3.38 a share during the quarter, registering 158.02% growth over prior year period. The company reported a good operating profit margin of 23.73% compared to 15.31% of corresponding previous quarter.

Quarterly Results - Standalone (Rs in mn)			
As at	Sep - 09	Sep - 08	%Change
Net Sales	5108.80	4849.80	5.34
Net Profit	855.40	331.60	157.96
Basic EPS	3.38	1.31	158.02

- Segment Revenue**



- **Geographic Revenue**



- **Repurchases bonds**

Pidilite Industries has repurchased and extinguished foreign currency convertible bonds (FCCBs) of USD 40 million issued in December 2007, listed on Singapore Exchange Securities Trading, aggregating to the face value of USD 1.70 million.

Company Profile

Pidilite Industries is the market leader in adhesives and sealants, construction chemicals, hobby colors and polymer emulsions in India. Company brand name Fevicol has become synonymous with adhesives to millions in India and is ranked amongst the most trusted brands in India. Pidilite is also growing its International presence through acquisitions and setting up manufacturing facilities and sales offices in important regions around the world. Fevicol is now the largest selling adhesives brand in Asia. Company have reached where they are today mainly due to the close team-work of their employees and due to its shared value system which emphasizes commitment to excellence, closeness to customers, and the spirit of innovation.

Company product range includes Adhesives and Sealants, Construction and Paint Chemicals, Automotive Chemicals, Art Materials, Industrial Adhesives, Industrial and Textile Resins and Organic Pigments and Preparations. Most of the products have been developed through strong in-house R&D.

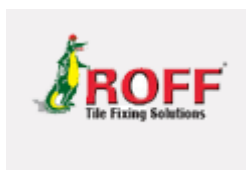
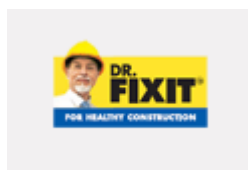
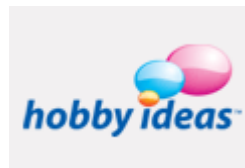
Subsidiaries

- Fevicol Company Ltd.
- Bhimad Commercial Co Pvt Ltd
- Madhumala Traders Pvt Ltd
- Pagel Concrete Technologies Ltd
- Pidilite International Pte Ltd
- Pidilite Middle East Ltd



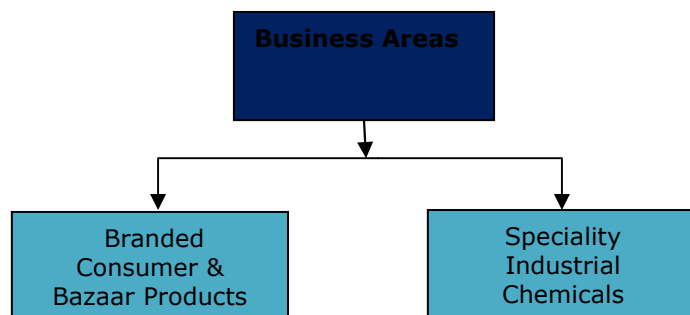
- Pidilite USA Inc USA
- Jupiter Chemicals (LLC) Middle East
- Nebula Trading FZE Middle East
- PT Pidilite Indonesia Indonesia
- Pidilite Speciality Chemicals Bangladesh Pvt Ltd
- Pidilite Innovation Centre Pte Ltd. Singapore
- Pidilite Industries Egypt
- Chemson Asia Pte Ltd. Singapore
- Pidilite Bamco Ltd. Thailand
- Pidilite South East Asia Ltd. Thailand
- Bamco Supply Services Ltd

Major Brands



Business Segments

The Company operates under two main business segments globally. They are:



SWOT Analysis

STRENGTHS

- The Company is a dominant player in the adhesive and sealant market in India.
- Pidilite's main strength is their strong marketing/ advertising skills.
- The Company has dominant position in the domestic sealants and adhesive market in India with its brand Fevicol.
- The company has been ranked amongst top 25 brands recognized in India. Its other brand i.e. Dr Fixit has also been well received in the sealant and Adhesive Industry.
- The Company continued to take several initiatives to improve awareness of its products and brands, increase consumption of its products and strengthen relationship with customers, influencers and end-users.

WEAKNESSES

- The management seems to be a bit overconfident about their advertising skills.
- Pidilite seems to have strong R&D capabilities when it comes to adhesives and home construction/care. But for the rest, they seem to depend on acquisitions.
- Companies 50% of revenues are from adhesives/sealants and the raw material for this is petrochemicals which in turn is dependant on crude oil prices.

OPPORTUNITIES

- One can see signs of 3M of India in Pidilite and 3M is a \$60 billion company. Pidilite can become a big company if things go well.
- Growth in the retail sector in India is a positive for Pidilite, especially the future growth of home specific stores like Home Town and Home Stop.

THREATS

- The company has exposure to forex and currency fluctuation would result in fluctuation in bottom-line.
- The company's chief raw material is Poly Vinyl Acetate which is derived from Ethylene. Any Increase in price in Ethylene would erode Pidilite's Bottom-line.
- The company has been expanding abroad and opening manufacturing facilities. The company had to close one of its plants in UAE as it was found un-viable. More Such closure can result in lower ROCE for the company.
- The subsidiaries faced adverse market conditions due to economic slowdown and steep increase in input cost in FY2009.



Financials Results Update

12 months ended Profit and Loss A/C (Standalone)

Value(Rs.in million)	FY08A	FY09A	FY10E	FY11E
	12m	12m	12m	12m
Description				
Net Sales	15,353.00	17,835.50	19619.05	21777.15
Other Income	253.00	14.60	66.84	73.52
Total Income	15,606.00	17,850.10	19685.89	21850.67
Expenditure	-12,818.00	-15,428.10	-15499.05	-16986.17
Operating Profit	2,788.00	2,422.00	4186.84	4864.50
Interest	-161.00	-317.80	-333.69	-350.37
Gross Profit	2,627.00	2,104.20	3853.15	4514.12
Depreciation	-385.00	-472.20	-519.42	-571.36
Profit before Tax	2,242.00	1,632.00	3333.73	3942.76
Tax	-363.00	-168.20	-466.72	-551.99
Profit after Tax	1,879.00	1,463.80	2867.01	3390.77
Equity Capital	253.00	253.10	253.10	253.10
Reserves	6,143.00	7,083.10	9,950.11	13,340.88
Face Value	1.00	1.00	1.00	1.00
Total No. of Shares	253.10	253.10	253.10	253.10
EPS	7.42	5.78	11.33	13.40

*A=Actual, E=Estimated

Quarterly ended Profit and Loss A/C (Standalone):

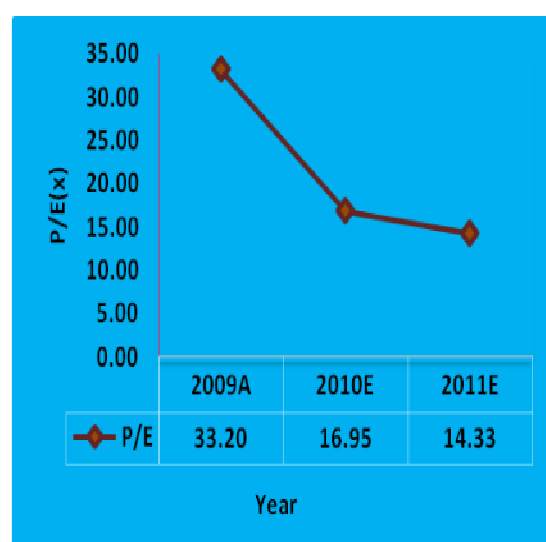
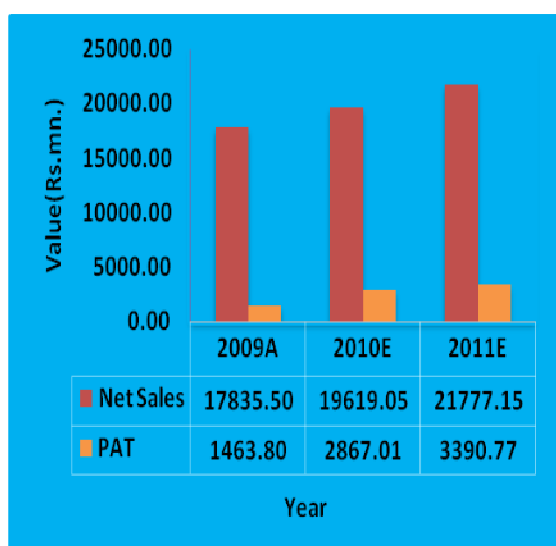
Value(Rs.in million)	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09E
	3m	3m	3m	3m
Description				
Net Sales	3873.80	5197.00	5108.80	5236.52
Other Income	6.30	28.80	11.90	13.09
Total Income	3,880.10	5225.80	5120.70	5249.61
Expenditure	-2,915.30	-4047.90	-3912.90	-4032.12
Operating Profit	964.80	1177.90	1207.80	1217.49
Interest	-96.20	-75.90	-77.80	-81.69
Gross Profit	868.60	1102.00	1130.00	1135.80
Depreciation	-126.10	-114.20	-126.20	-131.25
Profit before Tax	742.50	987.80	1003.80	1004.55
Tax	-66.80	-139.70	-148.40	-140.64
Profit after Tax	675.70	848.10	855.40	863.91
Equity Capital	253.10	253.10	253.10	253.10
Face Value	1.00	1.00	1.00	1.00
Total No. of Shares	253.10	253.10	253.10	253.10
EPS	2.67	3.35	3.38	3.41

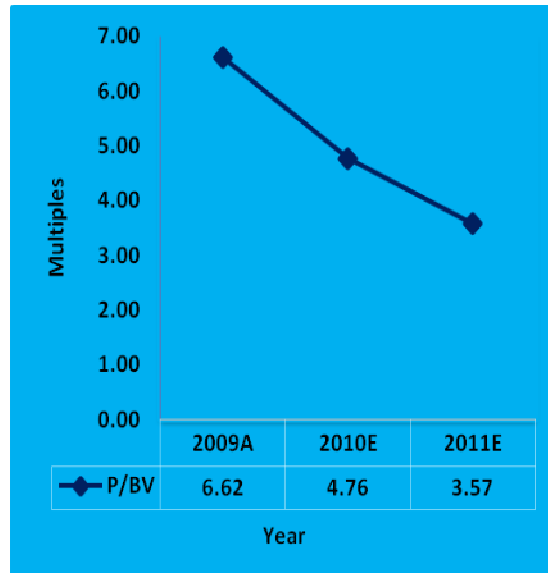
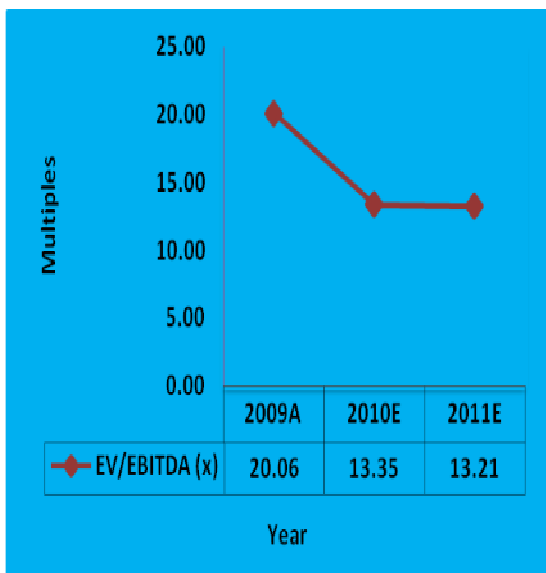


Key Ratios:

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	253.10	253.10	253.10	253.10
Market Price	192.00	192.00	192.00	192.00
EPS (Rs.)	7.42	5.78	11.33	13.40
EBITDA Margin (%)	18%	14%	21%	22%
PAT Margin (%)	12%	8%	15%	16%
P/E Ratio (x)	25.86	33.20	16.95	14.33
ROE (%)	29%	20%	28%	25%
ROCE (%)	28%	22%	29%	28%
EV/EBITDA (x)	17.43	20.06	13.35	13.21
Debt-Equity Ratio	0.79	0.76	0.57	0.45
Book Value (Rs.)	25.27	28.99	40.31	53.71
P/BV	7.60	6.62	4.76	3.57

Charts





Valuation

- At the current market price of Rs.192.00 the stock is trading at a P/Ex of 16.95x for FY10E and 14.33x for FY11E.
- The EPS of the stock is expected to be at Rs.11.33 and Rs.13.40 for FY10E and FY11E respectively.
- On the basis of price to book value, the stock trades at 4.76x and 3.57x for FY10E and FY11E respectively.
- The Company has started expanding its range of adhesives and sealants used for building construction and interior decoration.
- Consumer & Bazaar product sales, which contribute nearly 70% of the sales, reported an increase in sales by more than 13%. The company also plans to launch more products in this segment in the coming months.
- The company is setting up an Elastomer plant in Dahej (Sez) the total capex cost for the project is pegged at Rs 530 Cr.
- In FY09, one new facility for manufacture of Construction Chemicals was set up at Kala-amb, Himachal Pradesh. The company plans to further expand its Kala-Amb facility by 10000 tonnes.
- The company is about to start off its manufacturing operations at Bangladesh and African plants by later this year.
- The company has close to Rs 160 Cr cash on its books that translate to Rs 6 per share.
- The company cleared all the high cost inventory of raw materials, the low-cost inventory of raw materials together with price increases boosted OPM 510 bps to 23.3% in Q2 of FY 2010.
- The company has the largest market share in domestic adhesive and sealant Industry. It has been increasing its presence abroad.
- We recommend a "BUY" on the stock with a target price of Rs.220.00 for medium to long term.



Industry Overview

Adhesives (glues) are substances capable of forming and maintaining a bond between two surfaces, and sealants (caulks) are substances used to fill gaps or joints between two materials to prevent the passage of liquids, solids or gases.

Adhesives and sealants are formulated by compounding (mixing) the base material with fillers, pigments, stabilizers, plasticizers and other additives to yield a product with the desired end-use characteristics. Adhesives can be segregated into low to medium performance and high performance products. Low to medium performance products are based on natural substances such as starch, dextrin, natural rubber or protein; or synthetic polymers such as polyvinyl acetate, polyvinyl alcohol, polyesters, acrylics, neoprene, butyl rubber, phenolics or thermoplastic elastomers.

High-performance products have enhanced properties including bond strength, elongation capacity, durability or environmental resistance. These products are based on polymers such as epoxy, polysulfide, polyurethane, cyanoacrylate and silicone.

The size of the adhesives market in the country is around 5,000 tonnes per month. In India and throughout the world, the industry is fragmented. There are many participants, many types of products and many markets to be served. In the past few years, there has been a worldwide trend toward concentration of this industry through mergers and acquisition. Acquisition provides access to new technology and products allow rationalization of production facilities and provide immediate access to new markets.

Demand Drivers: Major users of adhesives are the packaging, automotive, construction (housing, commercial buildings and organized retail) and furniture (plywood, veneers, laminates, MDF) industries. Following are the brief of the sectors mentioned above:

Plywood veneers and laminates: A big chunk of adhesives produced is consumed by plywood, veneers and laminates sector. Indian plywood and veneers industry is as big as Rs 80 bn and the laminate industry is almost Rs 30 bn. The industry is growing at a rapid pace of 10-20% per annum. Approximately 600 units are currently functioning all over the country. Share of unorganized sector in plywood is 80% and in laminates around 50%. Most Indians prefer furniture custom-made by local carpenters but as India is getting richer, particularly in urban areas, demand for mass produced fancy furniture is on the rise, on the back up rising income levels. Households with annual earnings greater than Rs 10 lakhs are expected to grow from 0.8 mn in 2002 to 3.8 mn in 2010. India's disposable income is poised to grow at 50% from USD 203 bn to USD 322 bn in the next three years. This provides tremendous growth potential in the plywood, veneers and laminates industry as the players are yet to penetrate majority of the market, which in turn provides huge opportunities for adhesives industry.

Packaging: (Global Scenario) - Packaging is another industry which gives rise to the demand of adhesives. The packaging industry consumes adhesives in containers and flexible packaging. While this industry uses many types of adhesives, hot-melt products are expected to grow most quickly, because they are particularly suitable to modern, high-speed processes. Global packaging industry is valued at around US 424 bn. Western Europe and North America is the largest packaging markets, accounting cumulatively for 58% of the global industry.

Indian Scenario: The size of the Indian packaging industry is estimated around USD 14bn, growing at more than 15% annually. India's per capita packaging consumption was less than USD 15 against the global average of USD 100, which is nearly a seventh of the global average. With the Indian economy is projected to achieve at 7.5% GDP growth, the packaging industry is expected to double its growth to around 25%.

Housing: New applications in construction represent huge potential markets. Floor systems can be adhesively bonded to support joints, adding increased strength and rigidity. Interior wallboard and paneling can be adhered to studs, providing wall surfaces free from blemishes caused by nail or screw heads. Structural sealants can be used to hold curtain wall panels and insulating glass units in place, sometimes without accompanying support from mechanical fasteners. Research indicates an increased demand for



permanent, non-slum houses across India driven primarily by the growth in population, urbanization and income. India is the world's fourth largest economy in terms of purchasing power parity.

According to estimates, the Indian middle class will spend an additional USD 420 bn during the next four years. With growing aspirations, the demand for houses is expected to remain robust. Following is the table

An increasing demand for housing has led to a growing market for construction paints and chemicals such as waterproofing material; repair materials viz crack filling, rust remover etc; tile fixing solutions; floor hardener etc.

Commercial Buildings and Organized Retail: About 80% of the demand for office space is driven by IT/ITes sector. India has over 3,000 IT service providers. The IT industry has grown by 21-24% in 2007-08 and it is further expected that the industry (IT/ITes) is likely to grow with the same pace to touch USD 50 bn by 2008-09. The total demand for commercial buildings is expected to increase to 500 mn sq. ft. over the next decade. Organised retail segment is also growing at a rapid pace, increasing its share from 4% of total retail sales 2006 to approximately 5% in 2007. This has increased the demand for retail space. Mall space, for instance, has increased from meager 1 mn sq. ft. in 2002 to 40 mn sq. ft by 2007 and expected to touch 200 mn sq. ft by 2010. Estimates suggest that organized retail segment will account for 12-15% of total retail sales by 2011.

Growing office spaces and organized retail will lead to an increased demand for adhesives & sealants and construction paint and chemicals.

Automotive Industry: The automotive market also offers significant potential for new opportunities. Adhesives are already used for interior applications such as bonding decorative trim and carpeting, and sealing doors and windows and for exterior applications including vinyl roofs and side moldings. Increased use of polymer composites will lead to increased adhesive consumption. Even in conventional metal construction, adhesive usage is expected to increase to overcome the problems of corrosion and vibration noise associated with mechanical fasteners and spot welding. The aerospace industry is also using increasing amounts of adhesives and sealants for essentially the same reasons as the automotive industry. Additional opportunities exist for products suitable for use in high-temperature applications near engines, and for products able to withstand the increased stresses resulting from higher traveling speeds.

Growth in other sectors: Growth in the sectors like

- Hospitals (the size of Indian Private health care sector is expected to get doubled from current Rs 690 bn to Rs 1,560 bn by 2012, with a healthy CAGR of 31%),
- Hotels (over 1,50,000 new hotel rooms to be added in next five years),
- Footwear (domestic market growth estimated to increase from 1.5 billion pairs in 2000 to an estimated 2.3 billion pairs in 2009),
- Tiles (industry size in 2007 was Rs 75 bn which is expected to become Rs 114 bn by 2010 with a strong CAGR of 15% on the back of strong growth in residential, commercial and retail real estate)
- Engineering, textiles, paints etc. also give rise to the demand of adhesives and chemicals boosting the sector.

Outlook: India's per capita income grew nearly 12% from Rs 29642 in 2006-07 to Rs 33,131 in 2007-08. By 2010, the top 50 Indian cities will enjoy a gross income exceeding USD 20 bn, comparable some of the largest cities in US today. With this enhanced incomes, more Indians are opting for lavishly furnished houses which are creating the demand for new houses, malls and fancy furnitures giving boost to plywood & veneers, housing segments. Thus, requirement for adhesives and sealants are rapidly growing to cater the increasing requirements of the above segments. Growth in the organized retail, hotels, hospitals, engineering, textiles etc also will contribute for further growth of industry in the years to come.



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