

VISIT UPDATE

MID CAP

Share Data

Reuters code	PIDL.BO
Bloomberg code	PIDI IN
Market cap. (US\$ mn)	1,570
6M avg. daily turnover (US\$ mn)	0.5
Issued shares (mn)	506
Target price (Rs)	165

Performance (%)	1M	3M	12M
Absolute	(2)	(5)	20
Relative	0	6	17

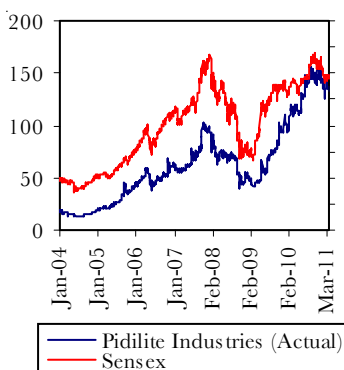
Valuation Ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	7.5	9.3
+/- (%)	13.3	24.7
PER (x)	18.7	15.0
PBV (x)	5.3	4.0
Dividend/Yield (%)	1.8	2.2
EV/Sales (x)	2.6	2.0
EV/EBITDA (x)	13.0	9.8

Major shareholders (%)

Promoters	71
FII's	9
MF's	8
BFSI's	1
Public & Others	11

Relative performance



Pidilite Industries

Maintain Outperformer

Price: Rs 140

BSE Index: 17,988

22 March 2011

Elastomer plant to provide trigger

We met the management of Pidilite Industries recently and following are the key takeaways:

- **Synthetic elastomer:** The synthetic elastomer plant will be commercially operational towards the end of FY12. Impact on the P&L would be visible from FY13. The installed capacity would be 20,000 TPA. The product will be exported, mainly to the North American markets. The company is targeting an initial realisation of US\$ 4.5 per kg. The utilisation initially is expected to be low, and will be ramped up gradually.
- **Core business:** The consumer division growth will be driven by the construction chemicals demand. The company's brand, Dr Fixit, has witnessed strong demand this fiscal. The adhesives and sealants segment will witness increased focus on smaller sized SKUs in a bid to push up volumes. New product launches like Pidilite Marine have been quite successful in the past couple of quarters.
- **Margins:** Margins appear to have peaked and might contract slightly in FY12 in view of the rising crude price scenario. Although the company plans to take a price increase across the board in April, it would not be passing on the entire input price inflation. The company has periodically contemplated re-starting its in-house VAM unit but the cost economics still work out in favour of imports. However, FY13 will see an improvement, as the margins of the synthetic elastomer are expected to be greater than the core margins of the company.

B&K's view

We feel FY13 will be a key year for the company, as the impact on the P&L from the synthetic elastomer plant will start showing. The total capex involved would be to the tune of Rs 4 bn, of which ~Rs 2.6 bn has already been used. The margins should also improve owing to the higher margins from the elastomer plant. The return ratios initially might not show significant growth but with improved capacity utilisation, could surpass the core business return ratios. We are introducing our FY13 estimates and expect the top line to record a growth of ~24% YoY on account of the incremental sales from the elastomer plant. We expect the FCCBs to be converted during the year at a price of Rs 140, which could lead to a dilution of ~2% of the existing equity base. Overall, the Indian consumption story still looks promising and the company is hopeful of clocking a 18% top line growth for FY12 in its core businesses. The stock currently trades at 18.7x FY12E and 15.0x FY13E. Considering the improved visibility on the elastomer plant, we are increasing our target multiple to 22x FY12, which would give us a revised target price of Rs 165. Maintain Outperformer.

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Net sales	19,297	22,869	27,070	33,432
Growth (%)	9.6	18.5	18.4	23.5
Operating expenses	(15,437)	(18,237)	(21,706)	(26,686)
Operating profit	3,860	4,632	5,363	6,746
EBITDA	3,860	4,632	5,363	6,746
Growth (%)	64.7	20.0	15.8	25.8
Depreciation	(464)	(465)	(528)	(602)
Other income	272	383	449	505
EBIT	3,668	4,550	5,284	6,649
Interest paid	(286)	(268)	(238)	(274)
Pre-tax profit	3,382	4,281	5,046	6,375
(before non-recurring items)				
Non-recurring items	(93)	(22)	0	0
Pre-tax profit	3,289	4,259	5,046	6,375
(after non-recurring items)				
Tax (current + deferred)	(398)	(942)	(1,262)	(1,658)
Net profit (before Minority Interest, Pref Dividend, etc.)	2,891	3,317	3,785	4,718
Reported PAT	2,935	3,317	3,785	4,718
Prior period adjustments	44	0	0	0
Adjusted net profit	2,984	3,339	3,785	4,718
Growth (%)	83.7	11.9	13.3	24.7

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash & marketable securities	2,955	3,619	4,576	6,837
Other current assets	5,908	7,650	8,871	10,589
Investments	2,483	2,483	2,483	2,483
Net fixed assets	6,949	6,705	6,987	7,205
Total assets	18,294	20,456	22,916	27,114
Current liabilities	4,279	5,089	5,712	7,085
Total debt	4,214	3,730	3,580	2,101
Other non-current liabilities	415	415	415	415
Total liabilities	8,908	9,234	9,707	9,601
Share capital	506	506	506	518
Reserves & surplus	8,880	10,716	12,703	16,995
Shareholders' funds	9,386	11,222	13,209	17,513
Total equity & liabilities	18,294	20,456	22,916	27,114
Capital employed	14,015	15,368	17,204	20,029

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11E	FY12E	FY13E
Pre-tax profit	3,289	4,259	5,046	6,375
Depreciation	456	450	518	582
Chg in working capital	950	(1,228)	(893)	(641)
Total tax paid	(423)	(942)	(1,262)	(1,658)
Cash flow from oper. (a)	4,316	2,540	3,409	4,659
Capital expenditure	(672)	(206)	(800)	(800)
Chg in investments	(2,700)	(175)	(135)	(100)
Other investing activities	1,598	800	800	800
Cash flow from inv. (b)	(1,773)	419	(135)	(100)
Free cash flow (a+b)	2,543	2,959	3,275	4,559
Equity raised/(repaid)	224	0	0	1,679
Debt raised/(repaid)	(1,366)	(485)	(150)	(1,479)
Dividend (incl. tax)	(518)	(885)	(1,180)	(1,475)
Other financing activities	(1,822)	(1,100)	(1,122)	(1,122)
Cash flow from fin. (c)	(3,482)	(2,470)	(2,453)	(2,398)
Net chg in cash (a+b+c)	(940)	489	822	2,161

Key Ratios

Yr end 31 Mar (%)	FY10	FY11E	FY12E	FY13E
EPS (Rs)	5.9	6.6	7.5	9.3
EPS growth	83.7	11.9	13.3	24.7
Book NAV/share (Rs)	18.5	22.2	26.1	34.6
Dividend/share (Rs)	1.5	2.0	2.5	3.0
Dividend payout ratio	29.7	35.3	39.0	37.5
Tax	12.1	22.1	25.0	26.0
EBITDA margin	20.0	20.3	19.8	20.2
EBIT margin	19.0	19.9	19.5	19.9
RoCE	26.8	31.0	32.4	35.7
Net debt/Equity	13.4	1.0	(7.5)	(27.0)

Valuations

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
PER	23.7	21.1	18.7	15.0
PCE	20.5	18.6	16.4	13.3
Price/Book	7.5	6.3	5.3	4.0
Yield (%)	1.1	1.4	1.8	2.2
EV/Net sales	3.7	3.1	2.6	2.0
EV/EBITDA	18.6	15.3	13.0	9.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11E	FY12E	FY13E
Net margin (%)	15.5	14.6	14.0	14.1
Asset turnover	1.1	1.2	1.2	1.3
Leverage factor	2.1	1.9	1.8	1.6
Return on equity (%)	35.7	32.4	31.0	30.7

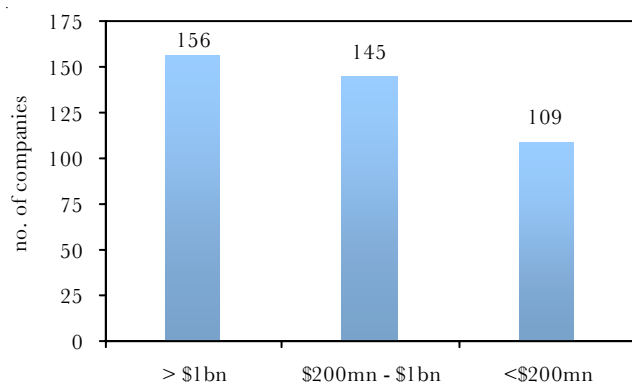
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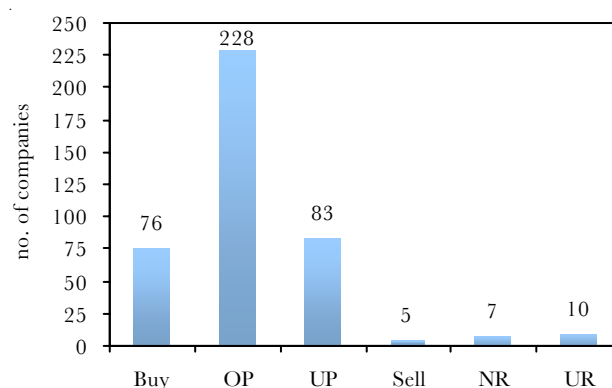
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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