



## Pidilite Industries Ltd.

*Building Bonds*

**CMP Rs. 135**

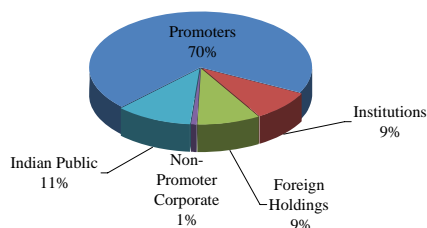
**Price Target Rs 195**

**Initiating Coverage-BUY**

### Key Share Data

Face Value (Re.)	1.00
Equity Capital (Rs. mn)	253.06
Market Capitalization (Rs. mn.)	34163
52-wk High / Low (Rs. )	220/125
Average Daily Volume	42128
BSE code	500331
NSE code	PIDILITEIND
Reuters code	PIDI.BO
Bloomberg code	PIDI IN

### Shareholding Pattern - 30th June, 2008



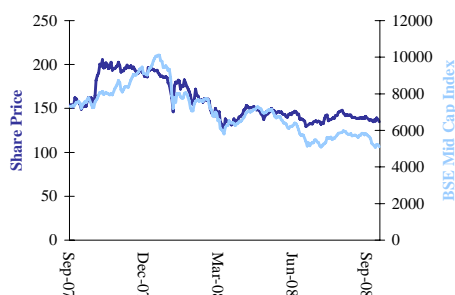
### Financials (Rs mn)

	FY08	FY09E	FY10E	FY11E
Net Sales	15353.10	19003.45	23886.20	30256.56
Sales Gr	33.00%	24.00%	26.00%	27.00%
EBIDTA	2535.07	3040.55	3702.36	4689.77
PAT	1879.54	2206.48	2842.59	3369.62
PAT Gr	57.00%	17.00%	29.00%	19.00%
B. EPS (Rs.)	7.45	8.72	11.23	13.22
Cash EPS (Rs)	8.95	10.68	12.99	17.07

### Key Financial Ratios

	FY08	FY09E	FY10E	FY11E
Debt-Equity	0.78	0.87	0.78	0.52
P/E	18.18	15.48	12.02	10.14
P/BV	5.32	4.21	3.27	2.57
P/Cash EPS	15.09	12.64	10.39	7.91
MCap/Sales	0.16	0.11	0.07	0.05
EV/EBIDTA	14.87	12.93	10.99	8.20
RoNW	29.25%	27.20%	27.23%	25.36%
RoCE	18.78%	16.81%	17.57%	18.57%
OPM (%)	14.00%	13.39%	13.63%	12.36%
NPM (%)	12.24%	11.61%	11.90%	11.14%

### Price comparison b/w BSE Mid Cap & Pidilite



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### Company Profile:

Established in 1959, Pidilite Industries Ltd is engaged in the manufacturing of various types of adhesives, sealants and speciality chemicals which find usage in construction, plastics, textiles, paper, leather, paints, engineering, nurtured over four decades. The company's brand, Fevicol, is a market leader in the synthetic adhesives market.

### Investment Rationale:

#### Setting manufacturing facility of synthetic elastomer at Dahej:

Pidilite is in the process of dismantling and shipping the synthetic elastomer plant acquired in June 2007. The estimated capex for the same is around Rs 5.3 bn. The plant is expected to commence commercial production in April, 2010 and will have an initial capacity of 25,000 MTPA.

#### Propelling growth through acquisitions:

Pidilite do Brasil, wholly owned subsidiary of the company has acquired the entire share capital of Pulvitic do Brasil, the manufacturers of adhesives, sealants and construction chemicals. This acquisition will help Pidilite enter high potential Latin American market of adhesives and sealants.

Pidilite has also acquired assets and businesses of Hardcastle and Waud Manufacturing Co. Ltd., which manufactures brands like Holdtite and Rustolene. These brands have healthy market share in their respective segments.

**Buoyant end-user industry:** Major users of adhesives are the plywood, laminates & veneers, packaging, automotive and construction industries. With the increased globalisation and income levels, we see immense growth opportunities in the above segments in the long term.

**Extensive Distribution Network:** Pidilite is the largest player in adhesives and sealant segment with a mammoth market share of around 60%. The company moves its products in the market through 60,000 dealers and distributors and 5,00,000 retail outlets spread all over the country.

### Outlook & Recommendation:

At the current level of Rs. 135, Pidilite is trading at the P/E of 15.48x, 12.02x and 10.14x of FY09E, FY10E and FY11E earnings of Rs. 9, Rs. 11 and Rs. 13 respectively. **Considering the strong brand value and steady growth we initiate coverage on Pidilite with 18 months price target of Rs 195 (44% upside) which discounts FY11E earnings by 15x.**

## 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.

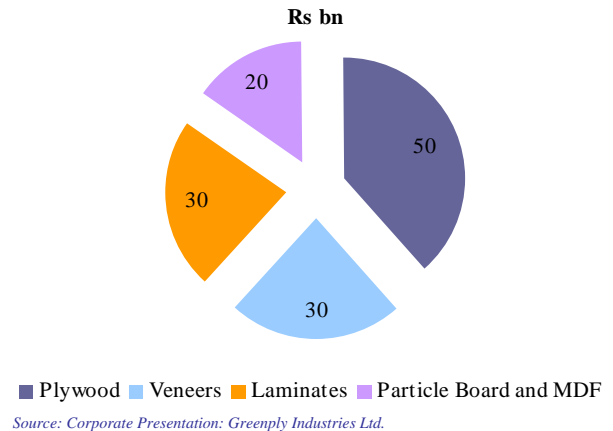
**The size of the adhesives market in the country is around 5,000 tonnes per month.** In India and throughout the world, the industry is fragmented. There are many participants, many types of products and many markets to be served. In the past few years, there has been a worldwide trend toward concentration 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:

### 1. 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.

### 2. 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%.

3. **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 showing housing demand estimation:

<b>Housing Demand Estimation (mn units)</b>	<b>2007</b>	<b>2011E</b>
Estimated Housing Stock	255	286
Estimated housing Shortage	25	30

*Source: Sanitaryware Manufacturers and Association*

*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.*

4. **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.*

5. **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 mouldings.

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.

**6. 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.

## The Company: A snap shot

Pidilite Industries Limited has been a pioneer and market leader in the field of consumer and specialty chemicals in India, since its inception in 1959. The company has a wide range of products, which find application in construction, plastics, textiles, paper, leather, paints, engineering, nurtured over four decades. ***The company's brand, Fevicol, is a market leader in the synthetic adhesives market.***

Pidilite has a diverse product range, a number of established brands and a large distribution network of dealers, retail outlets, offices and sales representatives spread throughout the country. Its brand Fevicol, Steelgrip, Acron, Dr. Fixit, Fevitite and M-seal are the most trusted brands in India.

Over the years, the company has acquired many brands in India including Ranipal (1999), M-Seal, Dr. Fixit (2000) and Steelgrip (2002). During July 2004, the company has acquired Roff brands, know-how and certain assets pertaining to construction chemicals business from Nitin L Jobanputra and companies. ***With this acquisition the company has become the market leader in the retail segment of the construction chemicals business.***

The company has also been active in international acquisitions and incorporated subsidiaries in Singapore, USA, Thailand, UAE and Brazil.

The company's manufacturing facilities in India are located in the states of Gujarat, Maharashtra, Himachal Pradesh and the Union Territory of Daman. In addition, the group also has manufacturing plants overseas in the US, Brazil, Thailand, Singapore, and Dubai.

## Business Mix

Pidilite operates under two major business segments viz branded consumer and bazaar/ craftsmen projects and speciality chemical business.

**I. Branded consumer and bazaar/craftsmen products:** This segment contributes substantially towards the sales and brand recognition of the company. In the last three fiscal years this segment contributed around 72-76% to the total sales of the company. Following is the brief of the different business portfolios in the segment:

- 1. Art Materials:** Pidilite has an extensive range of art materials catering to education, hobby and fine art segments. The products under this segment are complemented with books, videos and training material to make the products popular among the targeted end user segment.

The company's position in this segment was strengthened with the acquisition of Traistar Colman brand in India and The Sargent Art brand by its subsidiary in the US.

Various products manufactured under this product portfolio are Tempera colours, crayons, chalks, markers, poster paints, water colours, clay, fabric colours, glass colours, ceramic colours, moulding putty, brushes, hobby kits, hobby books etc. ***This segment of Pidilite contributes around 5-6% to the total revenues of the company.***

- 2. Construction paint and chemicals:** Pidilite offers wide range of construction chemicals under the brand 'Dr. Fixit'. The products under the 'Roff' brand are pioneers in the construction chemicals segment in India and are known for modern tile fixing solutions.

The products under this category includes waterproofing compounds and coatings, crack fillers, rust remover, epoxy bonding, tile fixing solutions, floor hardener, sealants, wood preservatives etc. ***This portfolio contributes 15-16% to the revenues of the company.***

**3. Adhesives and Sealants:** *Pidilite is the market leader in the adhesives and sealants segment in India. The brand ‘Fevicol’ has become synonymous with adhesives in India.* The company offers an extensive range of consumer, craftsmen, engineering and industrial adhesives under this brand such as:

- white glue, glue stick, instant adhesives, epoxy putty, maintenance spray etc. for home school and office
- polyvinyl acetate with glue for joining wood, plywood, particle board etc,
- contact adhesives for laminates and veneer pasting, masking tapes etc,
- polyurethane based adhesives and rubber based adhesives for foot wear;
- silicon sealants, epoxy putty, epoxy adhesive, PVC insulation tape, maintenance spray etc for automotive after market, plumbing, electrical and electronics.

*This segment contributes around 51-55% to total revenues of the company.*

**II. Speciality Industrial Segment:** Pidilite is operating in this segment since its incorporation and the first product manufactured under this segment was pigment emulsions. Contribution of this segment to the revenues of the company for the last three years fluctuates between 21-25%.

The company supplies specialty industrial chemicals to a number of industries including textiles, paints, inks, footwear, leather, packaging & converting and paper. The brief description of the product portfolio is given below:

**1. Industrial Adhesives:** The product portfolio of this segment includes-

- water based adhesives, hotmelt adhesives, solvent based and solvent free adhesives etc. for packaging and converting, cigarette, book binding, stock labels and stickers
- epoxy adhesives, sprayable rubber based adhesives, brushable rubber based adhesives, cyanoacrylates, maintenance products, PVC insulation tapes etc. for engineering and maintenance.
- polyurethane based adhesives, rubber based adhesives, primers, hardeners etc. for footwear industry.

**2. Organic Pigments and Preparations:** A pigment is a material that changes the color of light it reflects as the result of selective color absorption. Pigments are used for coloring paint, ink, plastic, fabric, cosmetics, food and other materials.

Pidilite manufactures organic pigments like Azo, Carbazole, Quinacridones and Bezimidazolone with the end use in paint, plastic, ink and textiles. The company is a market leader in pigment dispersions within the Indian textiles segment.

**3. Industrial Resins:** Resins are solid or semisolid viscous substance obtained from plants used principally in lacquers, varnishes, inks, adhesives, synthetic plastics, and pharmaceuticals. Resins are also produced synthetically.

Synthetic resins are materials with similar properties to natural resins—viscous liquids capable of hardening. They are typically manufactured by esterification or soaping of organic compounds. The classic variety is epoxy resin, used as a thermoset polymer for adhesives and composites. Another category is unsaturated polyester resins which constitute 75% of resins used.

Pidilite manufactures specialty polymers and co-polymers for various industries such as paints, non woven and flocked fabrics, construction chemicals and leathers.



## Capacities

In terms of manufacturing process, each of the product segments can be classified under two categories, viz dye stuff and chemicals. The dye stuff category includes art materials, organic pigments and paint chemicals.

The chemical categories include adhesives and sealants, construction chemicals, industrial chemicals and resins. Following is the brief description of capacities of both the categories in FY 08:

Segments	Unit	Installed Capacity
Dye Stuff	MT	2,520
	KL	--
Chemicals	MT	2,08,860
	KL	21,654

Source: Company

## Raw Materials

Vinyl Acetate Monomer (VAM) is the most important raw material used by Pidilite. VAM is a cost-effective raw material for a wide range of adhesive products. Polyvinyl acetate emulsions have excellent adhesion to a host of substrates, including metal, porcelain, wood and paper, and have advantages over butadiene-styrene latexes in being more color stable and odor-free.

VAM-based polymers are commonly used in the production of:

- plastics
- films
- laminating adhesives
- elastomers
- inks
- water-based emulsion paints
- adhesives
- acrylic fibers
- glue
- cosmetics and personal care products
- safety glass
- building construction
- finishing and impregnation materials
- coatings

**VAM accounts for about 20% of the material costs and is the dominant raw material.** All other raw materials individually account for less than 10% of the total material cost. **Pidilite is the only company in India which manufactures VAM.**

Pidilite sources its raw materials from domestic as well as international markets. Pidilite also employs extensive logistics and supply chain management systems to maintain maximum flexibility, which enables it to meet its needs in an efficient manner without relying on any one vendor, factory or country.

## Investment Arguments

1. **Setting manufacturing facility of synthetic elastomer at Dahej:** Pidilite acquired plant and machinery, patents, trademark and technology of a synthetic elastomer (polychloroprene rubber) plant in June 2007, located at Champaigner, France and was owned by Polymeri Europa Elastomers, France. The cost of acquisition was Rs 1.05 bn.

Pidilite is in the process of dismantling and shipping the plant. The plant will be set up in a Special Economic Zone (SEZ) in Dahej, Gujarat. *The plant is expected to commence commercial production in April, 2010 and will have an initial capacity of 25,000 MTPA.* The total capital expenditure in the plant is estimated at Rs 5.3 bn.

Polychloroprene rubber is a specialty synthetic rubber featuring superior mechanical strength, load bearing capacity, adhesion to metal, and resistant to weather, oil and chemicals as compared to other synthetic rubbers. Thus, polychloroprene rubber is the preferred synthetic rubber for any applications in automotive, industrial components, building products and adhesives.

The company is also considering putting up a caustic chlorine plant at an additional investment of Rs 0.9 bn at the same location. Both caustic and chlorine are important inputs for the manufacturing of polychloroprene.

2. **Propelling growth through acquisitions:** Following the market trends, Pidilite is also looking for growth opportunities through acquisitions, foreign and domestic both. The overall expenditure during FY08 was 2.48 bn, out of which Rs 1.05 bn was mainly incurred on the *acquisition of Synthetic Elastomer plant owned by Polymeri Europa Elastomers, France.*

Rs 118 mn was spent on *acquisition of brands, know-how, technology etc. from Hardcastle & Waud Manufacturing Company Ltd.* The assets acquired include brands like Holdtite, Rustolene, and Leakguard, which have healthy market share in their respective segments. Holdtite is an answer to all jointing problems. It prevents leakage of fluids and gas through pipe joints. Rustolene, as the name suggests, is trusted for fighting rust, lubricating, decarbonising, and cleaning.

The capital expenditure also includes fixed assets of Rs 389.9 mn acquired on demerger of VAM manufacturing unit into the company.

Pidilite do Brasil, wholly owned subsidiary of the company in Brazil, *acquired the entire share capital of Pulvitec do Brasil Industria e Comerciode Calos e Adesivos Limitada*, engaged in the business of adhesives & sealants and construction chemicals. The businesses have the annual sales of Rs 750 mn. This acquisition will help Pidilite enter high potential Latin American market of adhesives and sealants.

Pidilite has also *acquired entire issued and paid-up capital of Bhimad Commercial Company Pvt. Ltd. and Madhumala traders Pvt. Ltd.* by investing Rs 0.17 mn each. Both these companies, which are now wholly owned subsidiaries of the Pidilite Industries, have joined as partners in the existing firm Nitin Enterprises. Nitin Enterprises is engaged in the business of manufacturing of branded sealants and adhesives in the State of Jammu & Kashmir.

3. **Buoyant end-user industry:** As mentioned earlier Major users of adhesives are the plywood, laminates & veneers, packaging, automotive and construction industries. Indian plywood, laminates and veneers are one of the fastest growing markets in the country with the total size of around Rs 130 bn, growing at a rapid pace of 10-20% per annum.

With the increased globalization and income levels, Indian packaging industry is growing at the rate of 15% plus annually, housing stock is expected to grow to 286 mn units by FY11 from 286



mn estimated in 2007, an average increase of 7.75 mn units annually, growing commercial complexes, organized retail and other sectors will contribute to the growth of adhesives & sealant and construction chemicals industry (*for further details please see Industry overview*).

**Pidilite is the market leader in adhesives with a market share of around 60%** and we expect that the company will be able to maintain its market share on the back of the strong demand of the adhesives and construction chemicals in the years to come.

4. **Extensive Distribution Network:** As mentioned earlier, Pidilite have a diversified product range targeted at various end-users. The Company has an extensive distribution network covering all parts of India which is serviced by sales offices in eight major metropolitan areas and resident representatives in over 100 towns and cities. These representatives serve both the consumer and industrial segments.

The field force of the Company of over 1,000 representatives caters to the requirements of over 8,000 industrial customers, 60,000 dealers and distributors and 500,000 retail outlets spread all over the country.

## Key Concerns

**Use of readymade furniture:** Over the last few years people are buying readymade furniture. A part of this readymade furniture is made in workshops/factories located in India and part of this is imported from abroad. Increasing use of readymade furniture is likely to adversely impact, over the period of time, for the premium wood working and furniture making adhesives.

Though, the company is taking steps to maintain/improve the growth rates for these adhesives by putting additional focus on small population centres in India. Pidilite is also expanding sales of premium adhesives and sealants for special purpose applications in interiors and construction work.

## Peers

Pidilite have an extensive product mix and, accordingly, the Company faces product-specific competition from various Indian and international brands/companies. These companies cover either one or the other product lines which is covered by Pidilite.

The domestic listed companies which give competition to Pidilite are Nikhil Adhesives Ltd (*paint emulsions, textile emulsions construction chemicals, adhesives etc.*), Jyoti Resins and Adhesives Ltd (*resins & adhesives*), Refnol Resins and Chemicals Ltd, etc.

There is a growing presence of multinationals in many of the businesses in which Pidilite operates. Huntsman Corporation, USA; Hexion Speciality Chemicals, USA; The Dow Chemical Company, USA; Henkel KGaA, Germany; Holdtite Adhesives Ltd, UK; etc are some of the international players, renowned for their quality products, giving competition to the company in the international markets.

The competition is likely to become more active in the near future.

Players (Figures FY08)	Net Sales (Rs mn)	EBIT Margin (%)	PAT Margin (%)	ROCE (%)	RONW (%)	EV/EBIDTA (x)	P/E (x)
Nikhil Adhesives Ltd.	961.1	5.00%	1.70%	NA	18.39%	NA	9.45
Henkel KGaA, Germany	5,711*	10.87%	7.20%	16.90%	16.49%	10.83	11.52
The Dow Chemical Company, USA	53,513**	7.24%	5.39%	NA	15.84%	7.04	10.00
Huntsman Corporation, USA	9,651**	5.99%	-1.72%	NA	-11.52%	6.75	--
<b>Pidilite Industries Ltd.</b>	<b>15353</b>	<b>14.00%</b>	<b>12.24%</b>	<b>24.64%</b>	<b>21.50%</b>	<b>14.87</b>	<b>18.66</b>

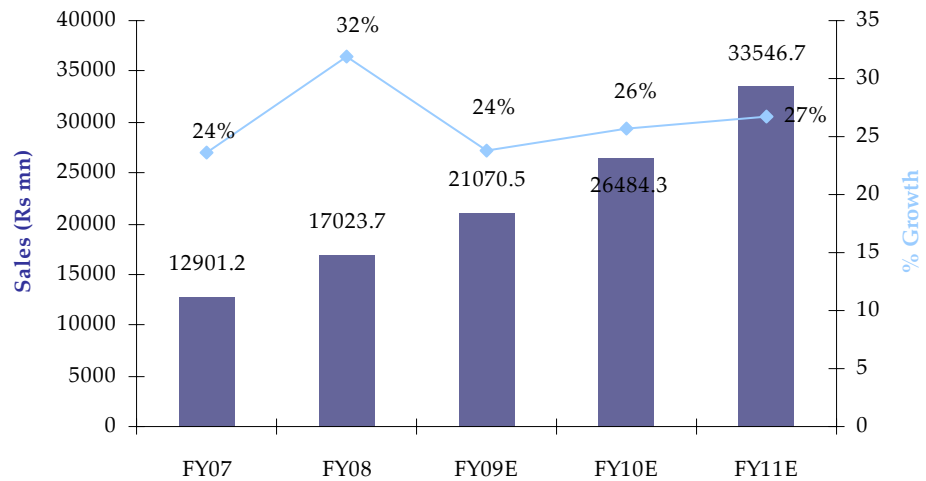
\* figures in mn Euros; figures of Adhesives Section only; year ending December; FY07 figures \*\*figures in mn USD; year ending December; FY07 figures

Source: Capitaline; Bloomberg

## Financial Outlook

### Top-line to grow at a CAGR of 25%

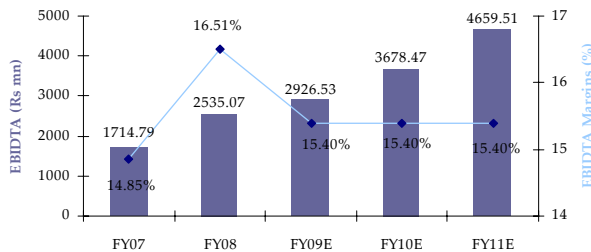
For the FY08, gross sales have gone up to Rs 17,023.7 mn by registering a growth of 32% y-o-y basis mainly on account of buoyancy in economy, end user segment such as construction and plywood, higher sales volume and better realizations. With expanded capacities and healthy realizations, **we expect the gross sales to grow at a CAGR of 25% over FY08-11.**



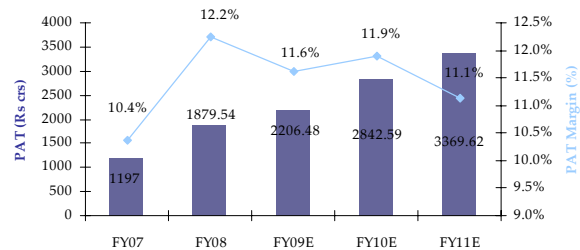
Source: Company & SKP Research

### EBITDA margin to be maintained around 15.5%

Pidilite has witnessed an EBITDA margin of 16.51% in FY08 due to effective cost control system and raw material management. We expect the company to maintain the **EBITDA margins of 15.50% in the next three years.**



Source: Company & SKP Research



### PAT margin to move up

PAT margin for FY08 has shown a rise to 12.2% in FY08. However, **we expect PAT margin to stabilize around 11.1% by FY11.** EPS of the company is expected to grow from Rs 7.43 in FY08 to Rs 13.32 in FY11.

## Financials (All figures on standalone basis)

### Balance Sheet (In Rs mn)

	FY07	FY08	FY09E	FY10E	FY11E
<b>SOURCES OF FUND</b>					
Share Capital	252.40	281.82	281.82	281.82	281.82
Reserves & Surplus	4627.40	6142.99	7831.33	10155.78	13007.26
Share Warrants	0.00	0.00	0.00	0.00	0.00
<b>Shareholders' Fund</b>	<b>4879.80</b>	<b>6424.81</b>	<b>8113.15</b>	<b>10437.60</b>	<b>13289.08</b>
Secured Loans	749.40	1904.27	3899.25	4972.54	3731.38
Unsecured Loans	633.61	3121.71	3121.71	3121.71	3121.71
<b>Loan Funds</b>	<b>1383.01</b>	<b>5025.98</b>	<b>7020.96</b>	<b>8094.25</b>	<b>6853.09</b>
Deferred Tax Liability (Net)	338.76	422.90	422.90	422.90	422.90
<b>Total Sources</b>	<b>6601.57</b>	<b>11873.69</b>	<b>15557.01</b>	<b>18954.76</b>	<b>20565.07</b>

<b>APPLICATION OF FUNDS</b>					
Gross Fixed Assets	5207.06	6814.83	8394.76	8334.32	14274.31
Less Depreciation	2182.15	2973.48	3470.07	3915.63	4864.49
<b>Net Block</b>	<b>3024.91</b>	<b>3841.91</b>	<b>4924.69</b>	<b>4418.69</b>	<b>9409.82</b>
Add: Capital WIP	346.59	1629.32	3000.00	6000.00	0.00
<b>Investments</b>	<b>891.99</b>	<b>1623.69</b>	<b>1623.69</b>	<b>1623.69</b>	<b>1623.69</b>
Deferred Tax Assets	0.00	0.00	0.00	0.00	0.00
Inventories	1976.18	2655.44	3286.80	4131.31	5233.11
S. Debtors	1318.13	2057.48	2470.45	3105.21	3933.35
Cash & Bank Balances	231.70	1485.50	1869.44	1556.15	2537.56
Other Current Assets	21.74	32.41	36.11	45.38	57.49
Loans & Advances	576.61	860.48	1065.07	1338.73	1695.76
<b>Current Assets Loans and Advances</b>	<b>4124.36</b>	<b>7091.31</b>	<b>8727.86</b>	<b>10176.77</b>	<b>13457.27</b>
S. Creditors & Other current Liabilities	1295.36	1714.17	2121.73	2666.89	3328.22
Provisions	493.33	597.81	597.50	597.50	597.50
<b>Current Liabilities and Provision</b>	<b>1788.69</b>	<b>2311.98</b>	<b>2719.23</b>	<b>3264.39</b>	<b>3925.72</b>
<b>Net Current Assets</b>	<b>2335.67</b>	<b>4779.33</b>	<b>6008.63</b>	<b>6912.38</b>	<b>9531.55</b>
Miscellaneous Expenditure	2.43	0.00	0.00	0.00	0.00
<b>Total Applications</b>	<b>6601.59</b>	<b>11873.69</b>	<b>15557.01</b>	<b>18954.76</b>	<b>20565.07</b>

### Income Statement (In Rs mn)

	FY07	FY08	FY09E	FY10E	FY11E
<b>Income</b>					
Income from Operations	12901.24	17023.70	21070.47	26484.31	33547.57
Less Excise Duty	1357.46	1670.60	2067.01	2598.11	3291.02
<b>Net Income from Operations</b>	<b>11543.78</b>	<b>15353.10</b>	<b>19003.45</b>	<b>23886.20</b>	<b>30256.56</b>
<b>Expenditure</b>	<b>9828.99</b>	<b>12818.03</b>	<b>15962.90</b>	<b>20183.84</b>	<b>25566.79</b>
<b>EBIDTA</b>	<b>1714.79</b>	<b>2535.07</b>	<b>3040.55</b>	<b>3702.36</b>	<b>4689.77</b>
% Growth	22.54	47.84	19.94	21.77	26.67
Depreciation	302.66	385.05	496.59	445.57	948.85
<b>EBIT</b>	<b>1412.13</b>	<b>2150.02</b>	<b>2543.96</b>	<b>3256.79</b>	<b>3740.91</b>
Interest	62.71	160.70	224.49	258.80	219.12
Other Income	190.33	253.46	313.56	394.12	499.23
<b>EBT</b>	<b>1539.75</b>	<b>2242.78</b>	<b>2633.03</b>	<b>3392.11</b>	<b>4021.02</b>
Tax	342.75	363.24	426.55	549.52	651.41
<b>PAT</b>	<b>1197.00</b>	<b>1879.54</b>	<b>2206.48</b>	<b>2842.59</b>	<b>3369.62</b>

**Cash Flow (Rs in mn)**

	FY07	FY08	FY09E	FY10E	FY11E
<b>Cash Flow from Operating Activities</b>					
PBT	1539.75	2242.78	2633.03	3392.11	4021.02
<b>Adjustments</b>					
Depreciation	302.66	385.05	496.59	445.57	948.85
Interest	62.71	160.70	224.49	258.80	219.12
Others	-57.27	-24.96	0.00	0.00	0.00
<b>Operating Profit Before WC Changes</b>	<b>1847.85</b>	<b>2763.57</b>	<b>3354.11</b>	<b>4096.48</b>	<b>5189.00</b>
<b>Adjustments</b>					
Inventories	-442.17	-550.62	-631.36	-844.51	-1101.80
Trade Receivables	-226.27	-668.38	-412.97	-634.76	-828.15
Trade Payables	315.63	336.33	407.56	545.16	661.33
Other Current Assets	0.00	0.00	-3.70	-9.28	-12.10
Loans & Advances	-223.22	-164.59	-204.59	-273.66	-357.03
Taxation	-330.73	-295.72	-426.55	-549.52	-651.41
<b>Net Cash from Operating Activities</b>	<b>941.09</b>	<b>1420.59</b>	<b>2082.51</b>	<b>2329.92</b>	<b>2899.84</b>
<b>Cash Flow from Investing Activities</b>					
Purchase of Fixed Assets	-822.28	-2110.12	-2950.93	-2939.56	60.01
Others	-456.94	-799.50	0.00	0.00	0.00
<b>Total</b>	<b>-1254.26</b>	<b>-2909.62</b>	<b>-2950.93</b>	<b>-2939.56</b>	<b>60.01</b>
<b>Cash Flow from Financing Activities</b>					
Issue of Equity	0.00	0.00	0.00	0.00	0.00
Issue of FCCBs	0.00	0.00	1594.40	0.00	0.00
Proceeds from Borrowings	192.28	634.10	1994.98	1073.30	-1241.17
Equity Share Dividend	-359.49	-442.46	-518.14	-518.14	-518.14
Interest	-62.71	-160.70	-224.49	-258.80	-219.12
Others	537.77	1113.04	0.00	0.00	0.00
<b>Net Cash from Financing Activities</b>	<b>423.29</b>	<b>2738.38</b>	<b>1252.35</b>	<b>296.35</b>	<b>-1978.43</b>
<b>Net Increase/(Decrease) in cash and Cash Equivalents</b>	<b>110.12</b>	<b>1249.35</b>	<b>383.93</b>	<b>-313.29</b>	<b>981.42</b>
Cash And Cash Equivalent as at 1st April	121.59	231.70	1485.51	1869.44	1556.15
Cash and Cash Equivalent Acquired under the scheme	0.00	4.46	0.00	0.00	0.00
<b>Cash And Cash Equivalent as at 31st March</b>	<b>231.70</b>	<b>1485.51</b>	<b>1869.44</b>	<b>1556.15</b>	<b>2537.56</b>

**Ratios**
**Per Share Ratios**

	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	4.74	7.45	8.72	11.23	13.32
Diluted EPS (Rs.)	4.74	7.43	8.72	11.23	13.32
Cash EPS (Rs)	5.94	8.95	10.68	12.99	17.07
Div per share	1.50	1.75	1.75	1.75	1.75
Book value per share	19.33	25.39	32.06	41.25	52.51

**Profitability Ratios**

	FY07	FY08	FY09E	FY10E	FY11E
EBIDTA Margin (%)	14.85	16.51	16.00	15.50	15.50
OPM (%)	12.23	14.00	13.39	13.63	12.36
NPM (%)	10.37	12.24	11.61	11.90	11.14
ROCE (%)	22.55	18.78	16.81	17.57	18.57
RONW (%)	24.53	29.55	27.20	27.23	25.36

**Valuation Ratios**

	FY07	FY08	FY09E	FY10E	FY11E
P/E	28.47	18.18	15.48	12.02	10.14
P/BV	6.98	5.32	4.21	3.27	2.57
EV (Rs mn)	35224	37704	39315	40701	38479
EV/sales	3.05	2.46	2.07	1.70	1.27
EV/ EBIT	24.94	17.54	15.45	12.50	10.29
EV/EBIDTA	20.54	14.87	12.93	10.99	8.20
EBIDTA/MVA	--	--	--	--	--
Price/Cash EPS	22.72	15.09	12.64	10.39	7.91
M.Cap/Sales	0.33	0.16	0.11	0.07	0.05

**Liquidity Ratios**

	FY07	FY08	FY09E	FY10E	FY11E
Current ratio	2.31	3.07	3.21	3.12	3.43
Debtors days	38	40	43	43	42
Inventory days	65	66	68	67	67
Creditors days	84	83	83	88	87

**Leverage Ratios**

	FY07	FY08	FY09E	FY10E	FY11E
Debt / Total equity	0.28	0.78	0.87	0.78	0.52
Fixed Assets Turnover	2.37	2.55	2.50	2.86	2.68

## Notes

### SKP – Recent coverage

ABG Shipyard Ltd.	Hydrabad Industries Ltd.	Philips Carbon Black Ltd.
Action Construction Equip. Ltd.	Hotel Leela Ventures Ltd.	Polyplex Corporation Ltd.
Ahmednagar Forgings Ltd.	HBL Power Systems Ltd.	Ramco Industries Ltd.
ANG Auto Ltd.	IMP Powers Ltd.	RSWM Ltd.
Apar Industries Ltd.	IFGL Refractories Ltd.	Ramsarup Industries Ltd.
Astra Microwave Products Ltd.	ICSA India Ltd.	Sanghvi Movers Ltd.
Balrampur Chini Mills Ltd.	Jindal Poly Films Ltd.	Savita Chemicals Ltd.
Bartronics India Ltd.	Jyoti Structures Ltd.	Shree Cements Ltd.
Bharati Shipyard Ltd.	Kernex Microsystems India Ltd.	Subros Ltd.
Binani Cement Ltd.	KEI Industries Ltd.	Simplex Projects Ltd.
Cera Sanitaryware Ltd.	Kesoram Industries Ltd.	Sona Koyo Steering Systems Ltd.
Cinemax Ltd.	KRBL Ltd.	Somany Ceramics Ltd.
Gateway Distriparks Ltd.	Kalindee Rail Nirmaan (Engineers) Ltd.	Tantia Constructions Ltd.
Gayatri Projects Ltd.	Lloyd Electric & Engg. Ltd.	Tractors India Ltd.
GEI Hamon Ind. Ltd.	Macnally Bharat Engg. Ltd.	Uttam Galva Steels Ltd.
Genus Power Infra Ltd.	Manugraph India Ltd.	Voltamp Transformers Ltd.
Global Vectra Helicorp Ltd.	Mangalam Cements Ltd.	Vakrangee Softwares Ltd.
Graphite India Ltd.	Nava Bharat Ventures Ltd.	
Gujarat Ambuja Exports Ltd.	Navneet Publications Ltd.	
Hanung Toys and Textiles Ltd.	Nitco Tiles Ltd.	
	Omax Autos Ltd.	
HEG Ltd.	Orient Paper & Ind. Ltd.	
Hindustan Sanitaryware & Ind. Ltd.		

The above analysis and data are based on last available prices and not official closing rates.

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