

Pidilite Industries

BSE Sensex 19,991	S&P CNX 6,050
Bloomberg	PIDI IN
Equity Shares (m)	506.1
M.Cap. (INR b)/(USD b)	109.3/2.0
52-Week Range (INR)	239/134
1,6,12 Rel. Perf. (%)	-2/13/41

CMP: INR216
TP: INR275
Buy

Financials & Valuation (INR b)

Y/E March	2013E	2014E	2015E
Sales	33.8	40.4	48.3
EBITDA	6.3	7.6	9.1
Adj. PAT	4.4	5.4	6.3
Adj. EPS (INR)	8.5	10.2	12.0
EPS Gr. (%)	20.8	20.7	17.8
BV/Sh.(INR)	34.2	40.9	48.7
RoE (%)	24.7	25.0	24.7
RoCE (%)	31.5	32.9	32.9
Payout (%)	34.6	34.4	35.0

Valuations			
P/E (x)	25.5	21.2	18.0
P/BV (x)	6.3	5.3	4.4
EV/EBITDA (x)	16.9	13.7	11.2
Div. Yield (%)	1.2	1.4	1.7

- Pidilite Industries' 3QFY13 standalone sales grew 21.6% to INR8.3b (est INR8.4b); EBITDA margins expanded 80bp to 18.1% (est 18.8%), adjusted PAT grew 20% YoY to INR1.04b (est INR1.1b) supported by higher-than-expected other income of INR164m (est INR100m). Reported PAT grew 67.2% as it included a) forex gains of INR89.3m, against a forex loss in base and b) reversals of INR109.9m in interest expense due to FCCB conversion.
- Consumer Bazaar segment registered 16% volume growth in 3QFY13.
- PIDI reported healthy gross margin expansion of 200bp on account of sustained easing of VAM prices. Despite healthy gross margin expansion and savings in staff cost by 60bp, the steep increase in other expenses (up 180bp) curtailed EBITDA margin expansion to 80bp to 18.1%.
- During the quarter it benefited from FCCB conversion as 104 bonds with a face value of USD0.1m per bond were converted into equity shares. Hence, PIDI reported a forex income of INR89mn v/s forex expense of INR25m in 3QFY13.
- Consumer & Bazaar sales were up 23.9% led by double digit volume growth (16%). EBIT margins expanded 30bp YoY to 23.4%.
- Industrial Products reported 15% growth in sales; EBIT declined marginally by 12bp to 11%.
- The stock trades at 21.2x FY14E and 18x FY15E EPS, we roll forward to FY15 and maintain **Buy** with a revised target price of INR275 (23x FY15E EPS). We value PIDI at 20% discount to Asian Paints.

Quarterly Performance

(INR Million)

Y/E March	FY12				FY13				FY12	FY13E	Estimates	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	7,680	7,075	6,890	6,519	9,125	8,209	8,376	8,111	28,163	33,820	8,400	-0.3%
Change (%)	21.5	20.0	16.1	15.6	18.8	16.0	21.6	24.4	18.3	20.1	21.9	
Gross Profit	3,439	3,064	2,961	3,045	4,087	3,680	3,770	3,793	12,509	15,330	3,780	-0.3%
Gross Margin %	44.8	43.3	43.0	46.7	44.8	44.8	45.0	46.8	44.4	45.3	45.0	
Operating Expenses	1,918	1,783	1,773	2,087	2,180	2,212	2,257	2,362	7,560	9,011	2,201	2.5%
% of sales	25.0	25.2	25.7	32.0	23.9	26.9	26.9	29.1	26.8	26.6	26.2	
EBITDA	1,521	1,281	1,189	958	1,907	1,468	1,514	1,431	4,949	6,319	1,579	-4.2%
EBITDA Margin %	19.8	18.1	17.3	14.7	20.9	17.9	18.1	17.6	17.6	18.7	18.8	-73 bps
Change (%)	-2.2	3.2	0.3	17.8	25.4	14.5	27.3	49.4	2.5	27.7	32.9	
Depreciation	116	118	121	124	124	128	141	155	479	548	144	-1.9%
Interest	48	68	83	47	91	18	86	9	245	205	50	72.2%
Other Income	70	57	148	152	139	121	164	45	428	469	100	63.5%
PBT	1,428	1,153	1,133	939	1,831	1,443	1,450	1,312	4,652	6,036	1,485	-2.4%
Tax	350	289	268	190	498	325	413	363	1,096	1,599	386	
Effective Tax Rate (%)	24.5	25.0	23.7	20.2	27.2	22.5	28.5	27.7	23.6	26.5	26.0	
Adj PAT	1,078	864	865	749	1,333	1,117	1,037	949	3,556	4,436	1,099	-5.7%
Change (%)	0.1	2.2	2.4	41.6	23.6	29.3	19.9	26.8	6.8	24.7	17.0	

E: MOSL Estimates

Gautam Duggad (Gautam.Duggad@MotilalOswal.com); +9122 3982 5404

Sreekanth P.V.S. (Sreekanth.P@MotilalOswal.com); +9122 3029 5120

Investors are advised to refer through disclosures made at the end of the Research Report.

Concall highlights

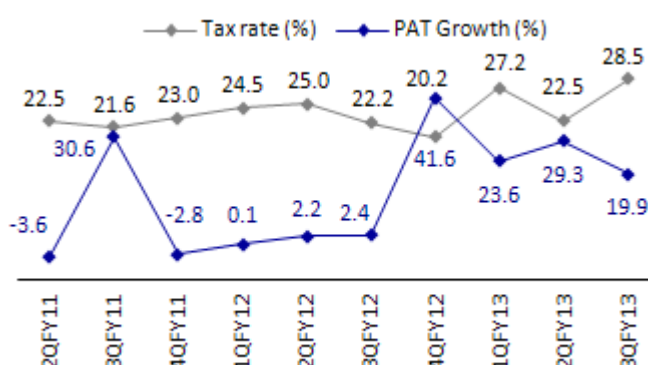
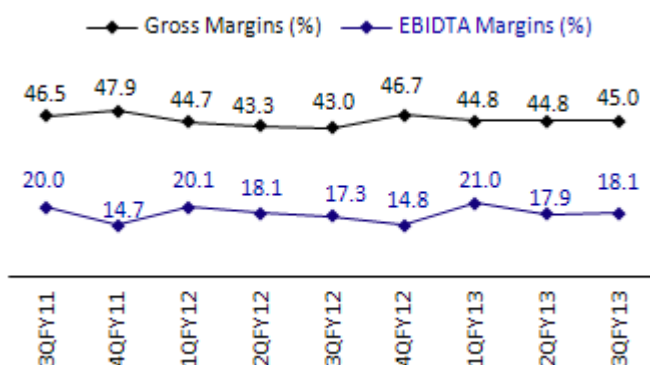
- Volume growth in Consumer bazaar segment - 16% , price and mix - 8%. 9M volume growth for total business at 12% and Consumer bazaar segment at 13%
- Higher volume growth in 3Q due to shift in demand for some of the paint products (woods finish, tinting products) from 2Q to 3Q - shift in festive season.
- Capex - INR 1.25-1.5bn for next year
- Elastomer project - investments in the project are still on hold - some decision will emerge before FY13 end - have spent total INR3.6bn so far.
- Other expenditure up due to higher ad-spend
- Stand-alone gross debt - INR 1bn as on 31st Dec. Cash and equivalent - INR 4Bn. Net cash - INR 3Bn (post payment of FCCB redemption amount). Close to USD30m was repaid as FCCB redemption.
- VAM prices - 1000 USD - all VAM requirement is imported
- 3Q International sales - INR 990 Mn, EBIT - INR1 mn
- Industrial chemicals growth - 15% reported sales growth - out of that exports (25% of business) grew 49% - domestic business low single digit growth.
- Paints company getting into construction chemicals - entry of these players is good for industry as it will help expand the market.

Standalone sales up 21.6%; 200bp gross margin expansion, EBITDA margins expand 80bp

- Pidilite's 3QFY13 standalone sales grew 21.6% to INR8.3b (est INR8.4b); EBITDA margins expanded 80bp to 18.1% (est 18.8%), adjusted PAT grew 20% YoY to INR1.04b (est INR1.1b) supported by higher- than-expected other income of INR164mn (est INR100m).
- Reported PAT grew 67.2% as it included a) forex gains of INR89.3m, against a forex loss in base and b) reversals of INR109.9m in interest expense due to FCCB conversion.
- During the quarter it benefited from FCCB conversion as 104 bonds with a face value of USD0.1m per bond were converted into equity shares, while the remaining 204 bonds were redeemed on December 7, 2012. Hence, PIDI reported a forex income of INR89mn, including reversal of INR60.3m pertaining to FCCB conversion.
- Gross margins expanded 200bp led by correction in VAM prices. However, steep increase in other expenses (up 180bp) curtailed EBITDA margin expansion to 80bp to 18.1%.
- Other income increased 10%, while tax rate was higher by 480bp YoY.

Gross margins up 200bp, EBITDA margins up 80bp

Adjusted PAT up 20% YoY



Source: Company/MOSL

Consumer and Bazaar and Industrial Products report healthy sales growth

Segmental	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Consumer and Bazaar							
Sales (INR m)	6,135	5,583	5,483	5,009	7,437	6,645	6,794
Sales Growth (%)	23.0	22.8	21.8	22.3	21.2	19.0	23.9
EBIT (INR m)	1,535	1,274	1,269	988	1,999	1,495	1,588
% Contribution	88.7	87.1	89.9	84.9	90.9	91.1	90.9
EBIT Growth %	2.0	9.1	12.5	32.9	30.3	17.3	25.2
EBIT margin %	25.0	22.8	23.1	19.7	26.9	22.5	23.4
Industrial Products							
Sales (INR m)	1,654	1,646	1,441	1,655	1,849	1,705	1,657
Sales Growth (%)	17.8	17.6	0.8	5.0	11.8	3.6	15.0
EBIT (INR m)	233	213	161	205	226	166	183
% Contribution	13.4	14.6	11.4	17.6	10.3	10.1	10.5
EBIT Growth %	-5.2	-5.0	-38.5	-18.7	-3.0	-21.9	13.8
EBIT margin %	14.1	12.9	11.1	12.4	12.2	9.8	11.0

Source: Company/MOSL

Valuation and view: Consumer and Bazaar remains healthy; Industrial Products continue to be a concern; Buy

- Sustained healthy performance in the Consumer & Bazaar segment, with double digit volume growth indicates favorable demand environment.
- We note the continued traction in *Fevicol* (16% volume growth in Consumer & Bazaar segment) indicates the strong underlying brand equity of PIDI in its core segment.
- Industrial division's performance continues to remain muted and will not show an immediate recovery, in our view, given the prevailing weak macro-economic environment. The stock trades at 21.2x FY14E and 18x FY15E EPS, we roll forward to FY15 and maintain **Buy** with a revised target price of INR275 (23x FY15E EPS). We value PIDI at 20% discount to Asian Paints.
- Key risks - slowdown in Consumer Bazaar Segment and spike in input costs which cannot be passed on.

Pidilite Industries: an investment profile

Company description

Pidilite Industries is the largest branded adhesives player in India, with an iconic brand like Fevicol.

Apart from a strong presence in adhesives, company has expanded into emerging segments like mechanized joinery, modular furniture, flooring, automotive care and water proofing through Dr Fixit and Roff.

Key investment arguments

- We expect strong consumer driven demand to continue and drive 15%+ volume growth for the company in the future.
- Strong brand leadership and pricing power will assist margin expansion in the future.
- Successful completion of the synthetic elastomer project (est. cost Rs5.5m; INR3.4b already spent) can provide earnings upside post FY12.

Key investment risks

- Continued increase in VAM prices which could impact margins in the near term as price increases will be with a lag.
- Delay in commissioning elastomer project and longer than expected payback period which could strain cash flows

Recent developments

- Stand-alone gross debt - INR 1bn as on 31st Dec. Cash and equivalent - INR 4Bn. Net cash - INR 3Bn (post payment of FCCB redemption amount). Close to USD30m was repaid as FCCB redemption.

Valuation and view

- We estimate 19% revenue CAGR over FY13-15E and 19% PAT CAGR over the same period.
- The stock trades at 21.2x FY14E and 18x FY15E EPS, we roll forward to FY15 and maintain **Buy** with a revised target price of INR275 (23x FY15E EPS). We value PIDI at 20% discount to Asian Paints.

Sector view

- We have a cautious view on the sector given the slower income growth in the economy which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects appear bright, given rising incomes and low penetration.

Comparative valuations

		Pidilite Inds.	Asian Paints
P/E (x)	FY13E	25.5	28.6
	FY14E	21.2	24.2
EV/EBITDA (x)	FY13E	16.9	17.9
	FY14E	13.7	14.7
EV/Sales (x)	FY13E	3.2	2.9
	FY14E	2.6	2.5
P/BV (x)	FY13E	6.3	9.9
	FY14E	5.3	8.2

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	70.1	70.6	70.8
Domestic Inst	5.3	5.0	6.3
Foreign	13.2	13.1	12.4
Others	11.4	11.3	10.6

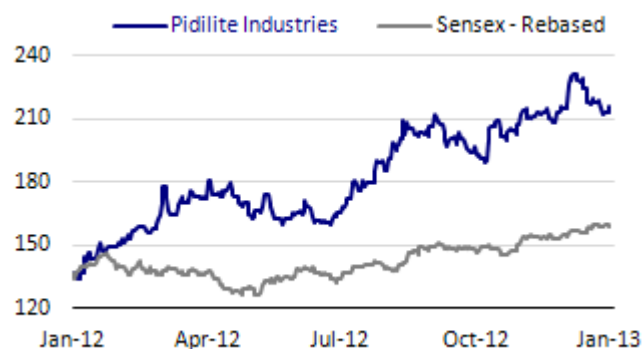
EPS: MOST forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	8.5	7.7	10.2
FY14	10.2	9.6	6.7

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
216	275	27.3	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement					Ratios				
(INR Million)									
Y/E March	FY12	FY13E	FY14E	FY15E	Y/E March	FY12	FY13E	FY14E	FY15E
Net Sales	28,163	33,820	40,398	48,271	Basic (INR)				
Change (%)	18.3	20.1	19.4	19.5	EPS	7.0	8.5	10.2	12.0
Raw Materials	15654	18490	22073	26454	Cash EPS	10.7	13.1	15.7	18.6
Gross Profit	12509	15330	18325	21818	BV/Share	26.6	34.2	40.9	48.7
Margin (%)	44.4	45.3	45.4	45.2	DPS	2.0	2.5	3.0	3.6
Operating Expenses	7560	9011	10704	12739	Payout %	36.0	34.6	34.4	35.0
EBITDA	4,949	6,319	7,621	9,079	Valuation (x)				
Change (%)	2.5	27.7	20.6	19.1	P/E	30.8	25.5	21.2	18.0
Margin (%)	17.6	18.7	18.9	18.8	Cash P/E	20.2	16.5	13.7	11.6
Depreciation	479	548	634	678	EV/Sales	3.8	3.2	2.6	2.1
Int. and Fin. Charges	245	205	160	81	EV/EBITDA	21.5	16.9	13.7	11.2
Other Income	428	469	506	439	P/BV	8.1	6.3	5.3	4.4
Profit before Taxes	4,652	6,036	7,333	8,760	Dividend Yield (%)	0.9	1.2	1.4	1.7
Change (%)	9.1	29.7	21.5	19.5	Return Ratios (%)				
Margin (%)	16.5	17.8	18.2	18.1	RoE	26.3	24.7	25.0	24.7
Tax	1,096	1,599	1,980	2,453	RoCE	29.0	31.5	32.9	32.9
Tax Rate (%)	23.6	26.5	27.0	28.0	Working Capital Ratios				
Adj PAT	3556	4436	5353	6307	Debtor (Days)	45	45	45	45
Change (%)	6.8	24.7	20.7	17.8	Creditor (Days)	82	79	78	77
Margin (%)	12.6	13.1	13.3	13.1	Asset Turnover (x)	3.8	3.8	4.0	4.2
Exceptional/Prior Perio	151	0	0	0	Leverage Ratio				
Reported PAT	3,405	4,436	5,353	6,307	Debt/Equity (x)	0.2	0.1	0.0	0.0
Balance Sheet					Cash Flow Statement				
(INR Million)					(INR Million)				
Y/E March	FY12	FY13E	FY14E	FY15E	Y/E March	FY12	FY13E	FY14E	FY15E
Share Capital	508	524	524	524	PBT before Extra Ord	4,652	6,036	7,333	8,760
Reserves	13,000	17,415	20,928	25,027	Add: Depreciation	479	548	634	678
Net Worth	13,507	17,940	21,453	25,552	Interest Paid	245	205	160	81
Loans	2,918	1,405	806	807	Less: Taxes Paid	1,096	1,599	1,980	2,453
Deferred Liability	435	461	486	512	(Incr)/Decr in WC	-392	-686	-653	-726
Capital Employed	16,860	19,805	22,745	26,871	CF from Operations	3,889	4,504	5,494	6,340
Gross Block	9,420	10,520	11,720	12,920	Extra ordinary items	-151	0	0	0
Less: Accum. Deprn.	4,800	5,348	5,982	6,660	CFO after extraordinary	3,738	4,504	5,494	6,340
Net Fixed Assets	4,620	5,172	5,738	6,260	Incr in FA	-959	-1,200	-1,350	-1,350
Capital WIP	3,600	3,700	3,850	4,000	Pur of Investments	-1,185	-1,443	-1,469	-2,614
Investments	5,841	7,283	8,752	11,366	CF from Invest.	-2,143	-2,643	-2,819	-3,964
Curr. Assets, L&A	9,367	11,373	13,503	16,043	Change in Networth	-2,452	-1,507	-3,649	-4,384
Inventory	4,472	5,506	6,579	7,864	Incr in Debt	50	-1,512	-599	1
Account Receivables	3,469	4,130	4,934	5,898	Dividend Paid	1,184	1,529	1,834	2,201
Cash and Bank Balance	405	571	673	786	Interest Paid	-245	-205	-160	-81
Others	1,020	1,166	1,317	1,496	CF from Fin. Activity	-1,463	-1,696	-2,573	-2,262
Curr. Liab. and Prov.	6,568	7,723	9,098	10,798	Incr/Decr of Cash	132	166	102	113
Account Payables	5,199	5,979	7,005	8,296	Add: Opening Balance	273	405	571	673
Provisions	1,369	1,744	2,093	2,502	Closing Balance	405	571	673	786
Net Current Assets	2,799	3,650	4,405	5,245					
Application of Funds	16,860	19,805	22,745	26,871					
E: MOSL Estimates									

Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	Pidilite Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts"), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Nihar Oza

Email: niharozasg@motilaloswal.com

Contact: (+65) 68189232

Kadambari Balachandran

Email: kadambari.balachandran@motilaloswal.com

Contact: (+65) 68189233 / 65249115

Office address: 21 (Suite 31), 16 Collyer Quay, Singapore 049318



Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com