

25 May 2012

Pidilite Industries

4QFY12: Margin higher despite rising raw material prices; Buy

Rating: **Buy**

Target Price: ₹196

Share Price: ₹168

Pidilite reported strong results in 4QFY12. Its revenue and net profit grew 14% and 43%, respectively. EBITDA margin increased 70bps despite higher raw material prices. The company has not yet finalized plans for the elastomer project. With various launches planned, we expect steady growth in FY13 and retain a Buy, with a target of ₹196.

- **Healthy revenue growth.** Pidilite grew revenues 14% yoy. In the past four quarters, it has hiked prices 5-6%. 4QFY12 volume growth came in at 8%-9%. Revenue in consumer and bazaar products grew 18.1% and in industrial products 4%. Pidilite has indicated that it would further hike prices, by end-Jun'12.
- **EBITDA margin improves, tax rate drops.** The EBITDA margin improved 70bps yoy, due to lower 'other expenditure' and despite higher raw material prices. The impact of the rupee depreciation will be seen in 1HFY13. The effective tax rate was down 410bps and 'other income' was up ~52%. This helped the company report 43% yoy net profit growth.
- **Status maintained on the elastomer project.** The company mentioned that the status of the elastomer project has been unchanged and it has not yet finalized plans regarding this project. However, it indicated that there are no further investments in this project apart from some expenses to keep the plant in running condition.
- **Product launches continue.** There has been a steady flow of launches from the company. Recent ones, Fevicol Speedex (quick adhesive), Fevicol Marine, Dr. Fixit Raincoat, are all doing well. The company indicated that various launches are in the pipeline for FY13.
- **Valuation.** We value the stock at a price target of ₹196 according to the DCF-based valuation method. At our target, the stock would trade at a PE of 23x FY13e earnings. **Risks:** higher crude oil prices and delay in finalising the elastomer project.

Key data	PIDI IN / PIDI.BO
52-week high / low	₹188 / ₹135
Sensex / Nifty	16222 / 4921
3-m average volume	US\$0.5m
Market cap	₹85bn / US\$1.5bn
Shares outstanding	506m

Shareholding pattern (%)	Mar '12	Dec '11	Sep '11
Promoters	70.8	70.8	70.5
- of which, Pledged	-	-	-
Free float	29.2	29.2	29.5
- Foreign institutions	12.4	12.4	11.9
- Domestic institutions	5.8	6.3	6.8
- Public	11.0	10.5	10.5

Financials (YE: Mar)	FY13e	FY14e
Sales (₹m)	36,316	42,606
Net profit (₹m)	4,260	4,858
EPS (₹)	8.4	9.6
Growth (%)	20.5	14.0
PE (x)	20.0	17.5
PBV (x)	5.1	4.3
RoE (%)	28.2	26.8
RoCE (%)	30.9	32.5
Dividend yield (%)	1.3	1.8
Net gearing (%)	(22.1)	(28.9)

Source: Anand Rathi Research

Quarterly results (YE: Mar)	4QFY11	4QFY12	% yoy	FY11	FY12	% yoy
Sales (₹m)	6,280	7,153	13.9	23,538	27,996	18.9
EBITDA (₹m)	683	829	21.3	4,551	4,696	3.2
EBITDA margin (%)	10.9	11.6	70 bps	19.3	16.8	(256) bps
Interest (₹m)	60	48	(19.4)	302	245	(18.8)
Depreciation (₹m)	151	165	8.7	444	479	8.0
Other income(₹m)	129	195	51.8	419	596	42.4
PBT (₹m)	601	811	35.1	4,224	4,567	8.1
Tax (₹m)	166	191	15.2	935	1,096	17.2
Tax rate (%)	27.6	23.6	(410) bps	22.1	24.0	186 bps
PAT (₹m)	448	640	42.9	3,289	3,471	5.5

Source: Company

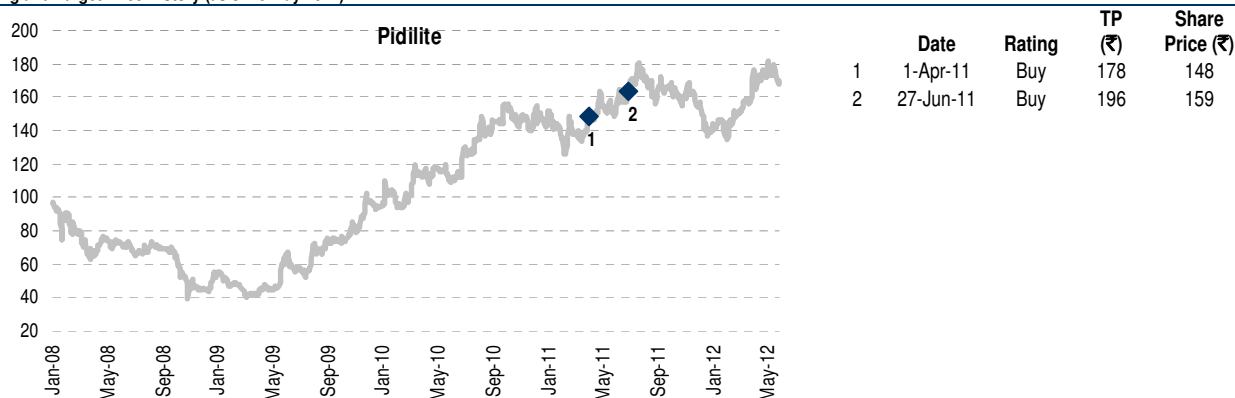
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Appendix 1

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