

Company overview: Leading player in the adhesives and specialty chemicals space in India. Owns brands like Fevicol, M-Seal and Dr. Fixit. Also launched innovative products like Roff and hi-tech versions - Fevicol Marine and Fevicol Speedx.

Sector: Specialty Chemicals

| | |
|------------------------|------------|
| Sensex: | 17,146 |
| CMP (Rs): | 153 |
| Target price (Rs): | 179 |
| Upside (%): | 16.6 |
| 52 Week h/l (Rs): | 183 / 131 |
| Market cap (Rscr) : | 7,787 |
| 6m Avg vol ('000Nos): | 154 |
| No of o/s shares (mn): | 508 |
| FV (Re): | 1 |
| Bloomberg code: | PIDI IB |
| Reuters code: | PIDI.BO |
| BSE code: | 500331 |
| NSE code: | PIDILITIND |

Prices as on 07 Mar, 2012

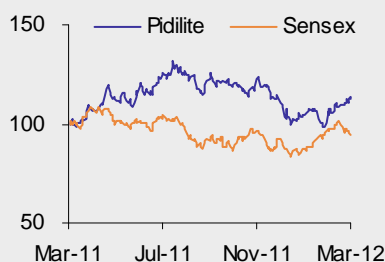
Shareholding pattern

| December '11 | (%) |
|------------------------|------|
| Promoters | 70.8 |
| Institutions | 18.6 |
| Non promoter corp hold | 1.2 |
| Public & others | 9.4 |

Performance rel. to sensex

| (%) | 1m | 3m | 1yr |
|----------------|-----|-----|------|
| Pidilite | 9.9 | 0.1 | 18.1 |
| Asian Paints | 7.1 | 6.4 | 29.3 |
| Kansai Nerolac | 3.5 | 1.1 | 26.1 |

Share price trend



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Pidilite, the owner of brands like Fevicol, M-Seal and Dr. Fixit, is a great play on consumerism and housing construction in India. An estimated earnings growth of 29% in next 2 years driven by growth in Consumer products segment and margin expansion with falling input prices makes us bullish on this stock.

Consumer products segment to drive growth

Pidilite runs two divisions - Consumer & Bazaar Products (77% of revenues) and Specialty Industrial Chemicals (23%). We expect the company to witness 20.6% revenue CAGR over FY12-14. Within the C&B segment, while the core adhesives business (49% of revenues) has become a mature staple (expect ~10-12% steady growth), construction chemicals will be the growth driver (19% of revenues, growing at 25%+ CAGR in past five years). Industrial Chemicals segment will witness CAGR of 17.4% during the same period.

Softening raw material prices to fuel operating margins

Vinyl Acetate Monomer (VAM) is the key raw material for Pidilite. Although VAM accounts for only ~15% of total raw material cost, prices of most other inputs largely move in line with VAM prices. VAM prices which had shot up to US\$1,400 in Q1 FY12 have now corrected to US\$1,000 in Q3 FY12; however, benefit of this decline was not visible in Q3 FY12 due to rupee depreciation. Pidilite has implemented ~8% aggregate price hikes and with declining input prices, requirement of price hikes would be low-single digit. With softening VAM prices and appreciating rupee, we expect margins to expand by ~180bps by FY13.

Review of Dahej project in next 2-3 months

Pidilite's synthetic elastomer project in Dahej is under review due to huge volatility in price of Butadiene, the key raw material. Pidilite has spent Rs3.5bn on this project so far and has referred the project to an international consultant for review. A final call will be taken post the review, which is expected in a couple of months.

Valuations reasonable; recommend BUY

We believe Pidilite is a strong play on the rising consumerism and housing construction in India. The company's collaborative efforts with carpenters, consumers and craftsmen will help maintain its leadership position. The management's confidence of registering ~20% revenue CAGR over the next 3-5 years reaffirms our view. We expect Pidilite to witness earnings CAGR of 29% over FY12-14. The stock is trading at 18x FY13E EPS. We recommend BUY.

Valuation summary

| Y/e 31 Mar (Rs m) | FY11 | FY12E | FY13E | FY14E |
|---------------------|--------|--------|--------|--------|
| Revenues | 26,439 | 31,785 | 38,441 | 46,211 |
| yoy growth (%) | 20.5 | 20.2 | 20.9 | 20.2 |
| Operating profit | 4,508 | 4,847 | 6,535 | 8,156 |
| OPM (%) | 17.0 | 15.3 | 17.0 | 17.7 |
| Pre-exceptional PAT | 3,084 | 3,299 | 4,312 | 5,493 |
| Reported PAT | 3,101 | 3,299 | 4,312 | 5,493 |
| yoy growth (%) | 11.9 | 6.4 | 30.7 | 27.4 |
| EPS (Rs) | 6.1 | 6.5 | 8.5 | 10.9 |
| P/E (x) | 25.2 | 23.5 | 18.0 | 14.1 |
| Price/Book (x) | 7.2 | 6.0 | 4.9 | 4.0 |
| EV/EBITDA (x) | 17.7 | 16.3 | 11.9 | 9.3 |
| Debt/Equity (x) | 0.3 | 0.3 | 0.2 | 0.2 |
| RoE (%) | 31.5 | 27.6 | 29.8 | 31.1 |
| RoCE (%) | 30.5 | 30.1 | 34.3 | 36.8 |

Source: Company, India Infoline Research

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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