

Pidilite Industries Limited

CMP Rs. 100.0
BUY

Q2 FY2009
Result Update

Impressive Topline and subdued Bottomline growth:

The company has posted a subdued performance for the current quarter. Though the Y-Y topline growth was impressive at ~32%, the bottomline declined by 23%. On a Q-Q basis, the sales declined marginally by 2.54% but the PAT nose-dived by 40%. The EPS is Rs. 1.3 for the current quarter.

The bottomline growth was under pressure during the current quarter on account of the currency transaction difference in respect of the FCCB's. The depreciating rupee vis-a-vis the dollar has denatured the foreign exchange income of Rs. 14.1 mn in the same quarter last year into a Rs. 186.2 mn loss in the current quarter.

Pressure on Margins:

- The margins have been under pressure on both quarterly and yearly basis:
- OPM at 15.15% lower by 240 bps Q-Q
- EBITDA margins at 11.38% lower by 471.51 bps Q-Q.
- NPM at 6.84% v/s 15% in Q2FY08.
- RM costs increase by ~42% (Y-Y).
- Staff Costs increase by 25% (Y-Y).

Higher raw material prices resulted in lower than expected EBITDA growth. VAM, the major raw material, is a derivative of crude oil. The falling crude oil prices have not been able to make a positive impact on the raw material sourcing on account of weakening rupee. Also the Q1FY09 stock of raw material was consumed in Q2FY09, leading to a Q-Q increase in raw material prices. We however expect the raw material prices to subside and improvement in margins to begin in the preceeding two quarters on account of correcting crude oil prices and stated price increases in the product lines all across by the company, subject to stability in the forex market.

Segment Revenue	Sept 08	Jun 08	Q-Q(%)	Sept 07	Y-Y(%)
a) Consumer & Bazaar Prdts	3770.3	4003.5	-5.82%	3188.1	18.26%
b) Industrial Products	1275.3	1216.7	4.82%	1012	26.02%
c) Others	444.7	500.2	-11.10%	0	-
Total	5490.3	5720.4	-4.02%	4200.1	30.72%

Segmental Performance:

Segment Profit	Sept 08	Jun 08	Q-Q(%)	Sept 07	Y-Y(%)
Profit before Interest and Tax	426	694.6	-38.67%	706	-39.66%
a) Consumer & Bazaar Prdts	657.3	906.2	-27.47%	726.5	-9.53%
b) Industrial Products	189.5	140.5	34.88%	146.6	29.26%
c) Others	18.5	40.1	-53.87%	0	-
Less: i) Interest	75	51.1	46.77%	32	134.38%
ii) Other unallocable expd	439.3	392.2	12.01%	167.1	162.90%
Total Profit Before Tax	351	643.5	-45.45%	674	-47.92%

Outlook and Valuation:

Pidilite is a leader in the field of consumer adhesives and sealants. The company has achieved consistent sales and earnings growth for the last 10 years, with ROCE in excess of 20%. In the last 4 years total income has grown at a CAGR of 30.29%, operating profit has grown at a CAGR of 25% and bottomline has grown at a CAGR of 32%. This clearly shows a trend of gradually increasing margins and should continue in the foreseeable future as well. This has been possible due to their strong understanding of the Indian market, management wisdom and more importantly the customers.

We maintain confidence in the company and feel would give a great value for shareholders money for years to come. The current decline in the profitability and the hit to the margins is on account of provisions made for foreign exchange losses. However the forex losses are MTM. At the cmp of Rs.100, the scrip is trading at 16.4x of FY08 and 14.4x of FY09E. We maintain our BUY call on the scrip.

Pidilite Industries : Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H109	H108	Y-Y(%)
Net Revenues	4,849.8	4,976.1	-2.54%	3,752.8	29.23%	9,825.9	7,478.9	31.38%
Cost of Materials	2,776.7	2,797.6	-0.75%	1,958.7	41.76%	5,574.3	3,954.6	40.96%
Gross Profit	2,073.1	2,178.5	-4.84%	1,794.1	15.55%	4,251.6	3,524.3	20.64%
Staff Costs	394.9	398.5	-0.90%	313.7	25.88%	793.4	635.0	24.94%
Other Expenses	943.6	906.5	4.09%	713.0	32.34%	1,850.1	1,372.1	34.84%
Total Expenditure	1,338.5	1,305.0	2.57%	1,026.7	30.37%	2,643.5	2,007.1	31.71%
Operating Profit	734.6	873.5	-15.90%	767.4	-4.27%	1,608.1	1,517.2	5.99%
OPM (%)	15.15%	17.55%	-13.71%	20.45%	-25.93%	16.37%	20.29%	-19.33%
Forex Gain/(Loss)	(186.2)	(112.6)	65.36%	14.1	-1420.57%	(298.8)	36.2	
Other Income	3.4	39.9	-91.48%	4.6	-26.09%	43.3	40.1	7.98%
EBITDA	551.8	800.8	-31.09%	786.1	-29.81%	1,352.6	1,593.5	-15.12%
Depreciation	125.8	106.2	18.46%	80.1	57.05%	232.0	164.2	41.29%
EBIT	426.0	694.6	-38.67%	706.0	-39.66%	1,120.6	1,429.3	-21.60%
Interest	75.0	51.1	46.77%	32.0	134.38%	126.1	49.3	155.78%
PBT	351.0	643.5	-45.45%	674.0	-47.92%	994.5	1,380.0	-27.93%
Tax	19.4	94.3	-79.43%	111.2	-82.55%	113.7	237.3	-52.09%
PAT	331.6	549.2	-39.62%	562.8	-41.08%	880.8	1,142.7	-22.92%
Extra-ordinary Income	0.0	0.0		0.0		0.0	0.0	
Reported PAT	331.6	549.2	-39.62%	562.8	-41.08%	880.8	1,142.7	-22.92%
Equity Capital	253.1	253.1	0.00%	252.4	0.28%	253.1	252.4	0.28%
EPS	1.3	2.2	-39.62%	2.2	-41.24%	3.5	4.5	-23.13%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H109	H108	Y-Y(bps)
OPM (%)	15.15%	17.55%	-240.69	20.45%	-530.17	16.37%	20.29%	-392.05
EBITDA (%)	11.38%	16.09%	-471.51	20.95%	-956.92	13.77%	21.31%	-754.09
EBIT (%)	8.78%	13.96%	-517.49	18.81%	-1002.88	11.40%	19.11%	-770.65
PAT (%)	6.84%	11.04%	-419.94	15.00%	-815.94	8.96%	15.28%	-631.49

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