NARNOLIA
Advance Strategy Simple Solutions
SEBI Registered Portfolio Manager

PIDILITE

Neutral

Pidilite Industries Limited.

26 November 2015

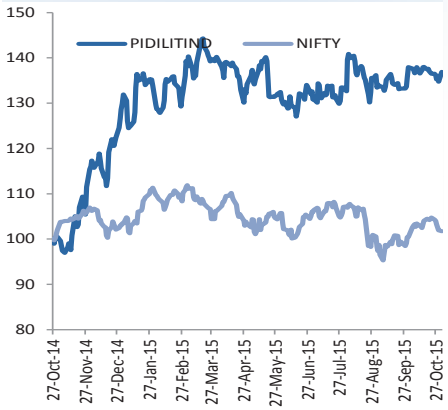
Result Update	
CMP	543
Target Price	-
Previous Target Price	-
Upside	-
Change from Previous	-

Market Data	
BSE Code	500331
NSE Symbol	PIDILITIND
52wk Range H/L	637/396
Mkt Capital (Rs Cr)	29408
Av. Volume	7897
Nifty	8050

Stock Performance	1Month	3 Month	1Year
Absolute	-0.8	38.6	39.3
Rel.to Nifty	0.0	40.0	38.8

Share Holding Pattern-%	2QFY16	1QFY16	4QFY15
Promoters	69.7	69.7	69.7
FII	14.5	5.8	15.4
DII	5.2	14.0	4.3
Others	10.6	10.5	10.5

Company Vs NIFTY



Margins expanded on lower commodity prices; Need higher sales to change fundamentals.

Pidilite Industries Ltd (PIDI) reported below expected YoY revenue growth of 5.2% to INR13.2 billion during Q2-FY16 over corresponding period previous year. 'Industrial Products' segment, which constitutes over16% of operating revenue, declined by 9.1% y/y due to subdued demand and slower than expected recovery of manufacturing segment; however, we believe that the segment is likely to perform better in coming years on expected economic revival. In addition, 'Consumer & Bazaar Products' segments, which constitutes over 83% of the revenue, reported single digit revenue performance of 8.1% y/y during the quarter.

At consolidated level, Operating Profit (EBIT) of the company reported significant YoY growth of 53.5% to INR2.68 billion during Q2-FY16 over Q2-FY15 on the back of control over "Raw Material Cost", which constitutes over 60% of the total expenses. VAM is the key raw material for PIDI and is directly correlated to Crude oil prices. Thus "Cost of Material" reported YoY decline of 9.4% due continued pressure over oil prices. As a result, EBITDA and EBIT margins reported considerable expansion of 640bps each during the quarter. However, rise in tax rate by 352bps y/y due to exemption of tax benefit ended for three manufacturing units impacted bottom-line up to certain extent and dented the profitability. Thus, Net profit grew at a YoY rate of 38% to INR1.92 billion, while net margin improved by 345bps during the quarter.

Outlook and Valuations

Industrial product division is dragging the performance, while Consumer & Bazaar products segment is struggling at single digit revenue growth. We believe that the Industrial product division could witness a strong turnaround with economic revival, while development of smart cities could push Consumer & Bazaar product segment. We believe that albeit a slow pace, consumer business would continue to record volume growth due to sustained demand from Tier II and Tier III cities

We cut our earnings estimates by 1-2% to bake in lower sales growth, better than expected margins and higher tax rate guidance. 2QFY16 performance highlights PIDI's inherent strong pricing power. However valuations at 45.4x FY16E and 39.5x FY17E EPS remain rich, in our view. Maintain NEUTRAL. Spike in input costs is a key downside risk.

Financials	***2012***	***2013***	***2014***	***2015***	***2016E***
Sales	*3127*	*3678*	*4283*	*4844*	*5246*
EBITDA	*484*	*593*	*671*	*777*	*1016*
Net Profit	*324*	*424*	*450*	*517*	*659*
EBIDTA%	*15.5%*	*16.1%*	*15.7%*	*16.0%*	*19.4%*
NPM%	*10.4%*	*11.5%*	*10.5%*	*10.7%*	*12.6%*

(Source: Company/Eastwind)