



Financial Face-Off: A Comparative Case Study of Pidilite Industries and its Competitors in the Diversified Chemical Sector

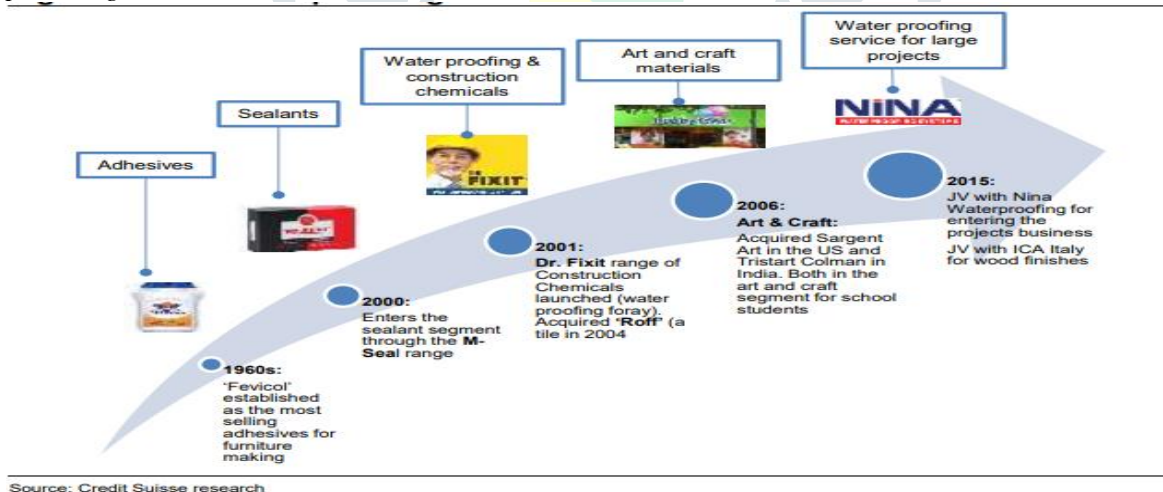
Dr.Masuma Mehta
Associate Professor

St. Kabir Institute of Professional Studies, Ahmedabad

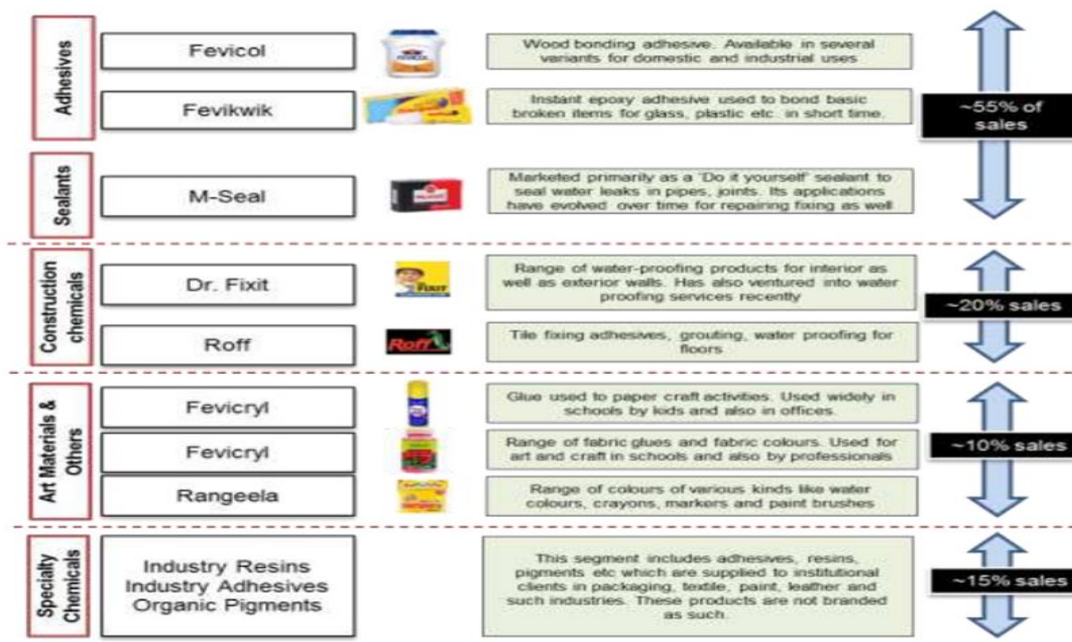
Introduction

Pidilite Industries Limited is an Indian-based multinational company that specializes in adhesives, construction chemicals, and consumer products. Established in 1959, Pidilite Industries has emerged as a leading player in the Indian chemicals industry and has expanded its operations to over 90 countries across the globe. The company's most popular brands include Fevicol, Fevikwik, M-Seal, and Dr. Fixit, which are household names in India. Pidilite Industries operates in a wide range of markets, including textiles, packaging, paints, and construction, among others. The company has a robust distribution network, including over 7,000 dealers and 135 warehouses in India alone, and has consistently demonstrated strong financial performance over the years.

How Multiple Categories And Brands Added Over Time



Product portfolio for Pidilite Industries with some key (but not exhaustive) brands



Source: Credit Suisse research

Financial Health

The financial health of a company is a key indicator of its ability to sustain operations, invest in growth, and generate returns for its stakeholders. Pidilite Industries Limited, a leading player in the Indian chemicals industry, has consistently demonstrated strong financial performance over the years. The company's financial statements show steady revenue growth, healthy margins, and robust cash flows, indicating its ability to weather economic downturns and invest in new opportunities. Additionally, Pidilite Industries has a solid balance sheet with low debt levels and a strong liquidity position. These factors have enabled the company to maintain its market leadership position, invest in research and development, and expand its operations into new geographies and markets. In this case study, we will conduct a financial comparison of Pidilite Industries with its peers in the paint and adhesives sector to gain a deeper understanding of the company's financial health and position in the industry.

Peer Group:

As Pidilite Industries Limited is primarily engaged in the manufacture and sale of adhesives, sealants, construction chemicals, and other related products, it can be classified as a diversified chemical company. Therefore, when analyzing the financial health of Pidilite Industries Limited and its competitors, it is more appropriate to compare it with other companies in the chemical sector rather than just the paint and adhesives sector.

Pidilite Industries Limited has several competitors in the market, including multinational companies as well as local players. Some of the major competitors of Pidilite Industries Limited are:

1. Godrej Industries Ltd,
2. Sanmar Engineering Services Ltd,
3. MCPI Private Ltd,
4. Deccan Fine Chemicals (India) Pvt Ltd,
5. Smartchem Technologies Ltd,
6. Chemplast Sanmar Ltd,
7. Dow Chemical International Pvt Ltd,
8. Colourtex Industries Pvt Ltd,
9. Jubilant Ingrevia Ltd,
10. BASF Catalyst India Pvt Ltd.

The peer group selected for analysis consists of ten companies operating in the same industry as Pidilite. Among these companies, some are Indian-based companies while others are multinational corporations. Godrej Industries Ltd is an Indian conglomerate that operates in a diverse range of industries, including chemicals, consumer goods, and agriculture. Sanmar Engineering Services Ltd and Chemplast Sanmar Ltd are also Indian-based companies that focus on chemicals and related engineering services.

MCPI Private Ltd, Deccan Fine Chemicals (India) Pvt Ltd, Smartchem Technologies Ltd, and Colourtex Industries Pvt Ltd are all Indian companies operating in the chemicals sector. Dow Chemical International Pvt Ltd and BASF Catalyst India Pvt Ltd are multinational corporations that operate in the chemical industry with a global presence.

Finally, Jubilant Ingrevia Ltd is an Indian-based company that operates in the specialty chemicals industry, providing innovative solutions to various industries such as pharmaceuticals, agrochemicals, and performance chemicals.

Peer Analysis Insights

Financials FY 2022 – Profitability

(Rs in Cr)

| Company | Revenue | EBITDA | PAT | EBIDTA Margin (%) | Total Debt | EBIT Margin (%) | PAT Margin (%) | ROCE (%) | ROE (%) |
|---------------------------------------|---------|--------|------|-------------------|------------|-----------------|----------------|-------------|-------------|
| Median | | | | 18.2 | | 15 | 9.5 | 22.7 | 19.6 |
| Pidilite Industries Ltd | 9921 | 1884 | 1207 | 19 | 287 | 16.6 | 12.2 | 22.4 | 18.3 |
| Godrej Industries Ltd | 14130 | 1978 | 992 | 14 | 14449 | 12.1 | 7 | 3.6 | 7.6 |
| Sanmar Engineering Services Ltd | 10581 | 2105 | 1007 | 19.9 | 6720 | 15.2 | 9.5 | 17.6 | 27.4 |
| MCPI Private Ltd | 9342 | 1180 | 626 | 12.6 | 1881 | 10.4 | 6.7 | 16.8 | 13.9 |
| Deccan Fine Chemicals (India) Pvt Ltd | 6359 | 1804 | 978 | 28.4 | 3476 | 23.6 | 15.4 | 30.9 | 32.1 |
| Smartchem Technologies Ltd | 5545 | 1009 | 444 | 18.2 | 1831 | 14.8 | 8 | 15.4 | 13.5 |
| Chemplast Sanmar Ltd | 5892 | 1254 | 649 | 21.3 | 873 | 19 | 11 | 31.7 | 38 |
| Dow Chemical International Pvt Ltd | 10330 | 488 | 358 | 4.7 | 0 | 3.6 | 3.5 | 30.6 | 24.1 |
| Colourtex Industries Pvt Ltd | 4436 | 823 | 504 | 18.6 | 378 | 15.8 | 11.4 | 22.7 | 18.3 |
| Jubilant Ingrevia Ltd | 4949 | 863 | 477 | 17.4 | 229 | 15 | 9.6 | 25.8 | 19.6 |
| BASF Catalyst India Pvt Ltd | 7592 | 536 | 304 | 7.1 | 1890 | 6.4 | 4 | 61.6 | 39.9 |

Source: Compiled by author on the basis of secondary data and annual reports available in public domain

Financials FY 2022 – Balance Sheet

(Rs in Cr)

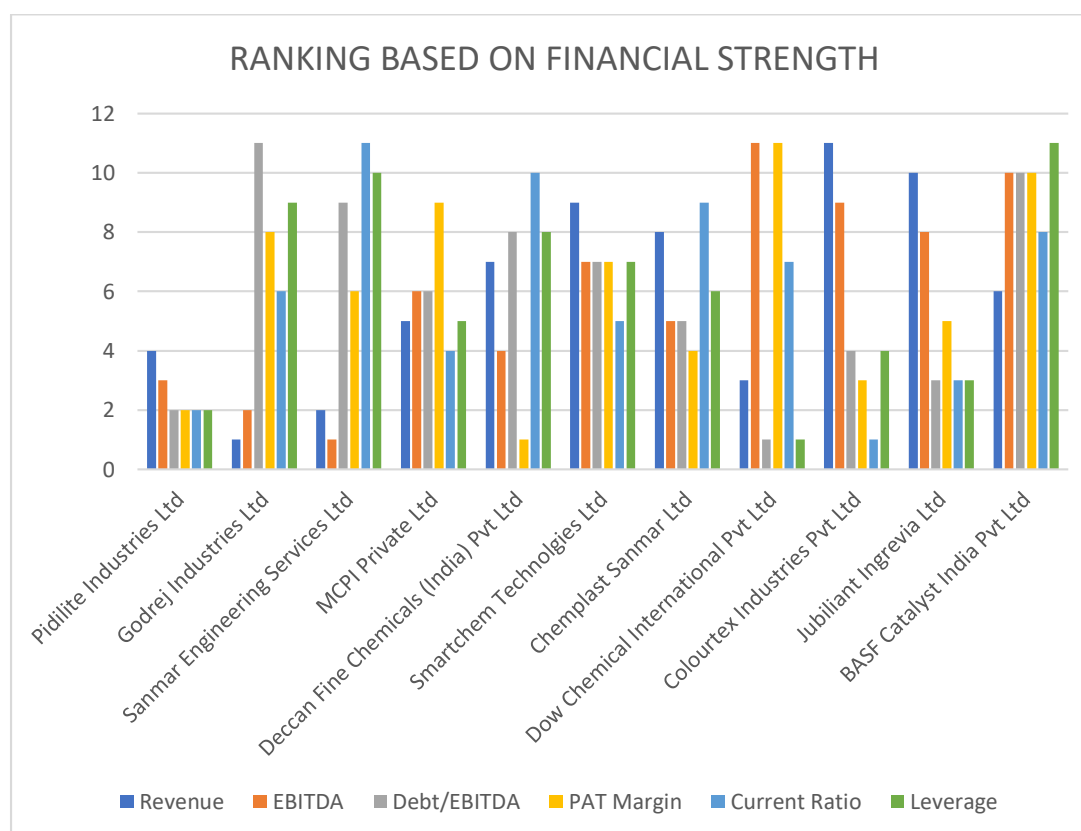
| Company | Net Worth | Total Assets | Net Debt | Debt/Equity | Cost of Debt (%) | Interest Coverage Ratio | Current Ratio |
|---------------------------------------|-----------|--------------|----------|--------------|------------------|-------------------------|---------------|
| Median | | | | 0.535 | 7.35 | 6.9 | 1.4 |
| Pidilite Industries Ltd | 6603 | 9516 | 42.9 | 0.04 | 14.6 | 39.1 | 1.7 |
| Godrej Industries Ltd | 13081 | 34047 | 14084 | 1.1 | 4.3 | 2.6 | 1.4 |
| Sanmar Engineering Services Ltd | 3678 | 17211 | 4914 | 1.8 | 11.1 | 2.8 | 0.65 |
| MCPI Private Ltd | 4497 | 8070 | 20.4 | 0.42 | 6.8 | 7.2 | 1.5 |
| Deccan Fine Chemicals (India) Pvt Ltd | 3044 | 8067 | 2799 | 1.1 | 6.2 | 6.9 | 0.98 |
| Smartchem Technologies Ltd | 3284 | 6636 | 1765 | 0.56 | 7.9 | 5.7 | 1.4 |
| Chemplast Sanmar Ltd | 1705 | 5601 | 807 | 0.51 | 36.9 | 3.5 | 1 |
| Dow Chemical International Pvt Ltd | 1482 | 4546 | -229 | 0 | 0 | 174 | 1.3 |
| Colourtex Industries Pvt Ltd | 2760 | 3821 | 225 | 0.14 | 5.6 | 33.1 | 2.6 |
| Jubilant Ingrevia Ltd | 2433 | 3797 | 191 | 0.09 | 13.5 | 23.9 | 1.7 |
| BASF Catalyst India Pvt Ltd | 762 | 3706 | 1787 | 2.5 | 4.1 | 6.3 | 1.1 |

Source: Compiled by author on the basis of secondary data and annual reports available in public domain

Ranking based on Financial Strength

| Rank | Revenue | EBITDA | Debt/EBITDA | PAT Margin | Current Ratio | Leverage |
|---------------------------------------|---------|--------|-------------|------------|---------------|----------|
| Pidilite Industries Ltd | 4 | 3 | 2 | 2 | 2 | 2 |
| Godrej Industries Ltd | 1 | 2 | 11 | 8 | 6 | 9 |
| Sanmar Engineering Services Ltd | 2 | 1 | 9 | 6 | 11 | 10 |
| MCPI Private Ltd | 5 | 6 | 6 | 9 | 4 | 5 |
| Deccan Fine Chemicals (India) Pvt Ltd | 7 | 4 | 8 | 1 | 10 | 8 |
| Smartchem Technologies Ltd | 9 | 7 | 7 | 7 | 5 | 7 |
| Chemplast Sanmar Ltd | 8 | 5 | 5 | 4 | 9 | 6 |
| Dow Chemical International Pvt Ltd | 3 | 11 | 1 | 11 | 7 | 1 |
| Colourtex Industries Pvt Ltd | 11 | 9 | 4 | 3 | 1 | 4 |
| Jubilant Ingrevia Ltd | 10 | 8 | 3 | 5 | 3 | 3 |
| BASF Catalyst India Pvt Ltd | 6 | 10 | 10 | 10 | 8 | 11 |

Source: Computed by Author

**Financial Comparison:**

In this case study, we will compare the financial performance of Pidilite with its peers, to understand how it stacks up against its competitors.

To compare the financial performance of Pidilite with its peers, we analyzed the financial data of all four companies for the fiscal year 2020-21. The key financial ratios used for the analysis are as follows:

- **Revenue growth:** This measures the rate at which a company's revenue is increasing or decreasing over time.
- **Profit margins:** This measures the percentage of sales that a company keeps as profit after deducting all expenses.
- **Return on equity (ROE):** This measures the amount of profit that a company generates for every rupee of shareholder equity.
- **Debt-to-equity ratio:** This measures the amount of debt a company has relative to its shareholder equity.

Key Findings: Pidilite Industries' Performance Compared to Competitors in the Chemical Industry

Based on the financial metrics, we can make comparisons and comments on the financial health of the listed companies:

Pidilite Industries Ltd:

- Revenue of Rs 9921 Cr in FY 2022, rank 4 amongst peers stated
- PAT margin of 16.6% in FY 2022, higher than the median of 15% for peers stated
- ROE of 18.3% in FY 2022, lower than the median of 19.6% for peers stated
- EBITDA margin of 19% in FY 2022, higher than the median of 18.2% for peers stated
- Debt-to-equity ratio of 0.04 as of Mar 31, 2022, better than the median of 0.535 for peers stated
- Highest net worth among the listed companies

Godrej Industries Ltd:

- Revenue of Rs 14116 Cr in FY 2022, rank 2 amongst peers stated
- PAT margin of 11.2% in FY 2022, lower than the median of 15% for peers stated
- ROE of 15.1% in FY 2022, lower than the median of 19.6% for peers stated
- EBITDA margin of 14.5% in FY 2022, lower than the median of 18.2% for peers stated
- Debt-to-equity ratio of 0.31 as of Mar 31, 2022, better than the median of 0.535 for peers stated
- Highest total assets among the listed companies

Chemplast Sanmar Ltd:

- Revenue of Rs 4216 Cr in FY 2022, rank 8 amongst peers stated
- PAT margin of 6.1% in FY 2022, lower than the median of 15% for peers stated
- ROE of 9.8% in FY 2022, lower than the median of 19.6% for peers stated
- EBITDA margin of 11.9% in FY 2022, lower than the median of 18.2% for peers stated
- Debt-to-equity ratio of 1.3 as of Mar 31, 2022, higher than the median of 0.535 for peers stated
- Very high cost of debt of 36.9% and a relatively low current ratio of 1.

Sanmar Engineering Services Ltd:

- Revenue of Rs 2266 Cr in FY 2022, rank 12 amongst peers stated
- PAT margin of 2.8% in FY 2022, lower than the median of 15% for peers stated
- ROE of 4.7% in FY 2022, lower than the median of 19.6% for peers stated
- EBITDA margin of 4.3% in FY 2022, lower than the median of 18.2% for peers stated
- Debt-to-equity ratio of 1.31 as of Mar 31, 2022, higher than the median of 0.535 for peers stated
- Very low interest coverage ratio of 0.65

BASF Catalyst India Pvt Ltd:

- Revenue of Rs 2333 Cr in FY 2022, rank 11 amongst peers stated
- PAT margin of 8.1% in FY 2022, lower than the median of 15% for peers stated
- ROE of 6.2% in FY 2022, lower than the median of 19.6% for peers stated
- EBITDA margin of 14.

Chemplast Sanmar Ltd:

- Revenue: Rs 4,875 Cr in FY 2022, rank 7 among peers
- Profit Margins: PAT margin of 8.6% in FY 2022, lower than the median of 15% for peers
- Return on Equity (ROE): ROE of 11.4% in FY 2022, lower than the median of 19.6% for peers
- Debt-to-Equity Ratio: Debt-to-equity ratio of 1.3 as of 31st Mar 2022, higher than the median of 0.535 for peers
- Cost of Debt: Cost of debt of 36.9% is significantly higher than peers

Dow Chemical International Pvt Ltd:

- Revenue: Rs 3,340 Cr in FY 2022, rank 8 among peers
- Profit Margins: PAT margin of 21.6% in FY 2022, higher than the median of 15% for peers

- Return on Equity (ROE): ROE of 25.6% in FY 2022, higher than the median of 19.6% for peers
- Debt-to-Equity Ratio: Debt-to-equity ratio of 0 as of 31st Mar 2022, lower than the median of 0.535 for peers
- Net Debt: Negative net debt, indicating that the company has more cash and cash equivalents than outstanding debt

Colourtex Industries Pvt Ltd:

- Revenue: Rs 318 Cr in FY 2022, rank 16 among peers
- Profit Margins: PAT margin of 9.3% in FY 2022, higher than the median of 15% for peers
- Return on Equity (ROE): ROE of 19.5% in FY 2022, higher than the median of 19.6% for peers
- Debt-to-Equity Ratio: Debt-to-equity ratio of 0.02 as of 31st Mar 2022, lower than the median of 0.535 for peers
- Interest Coverage Ratio: Interest coverage ratio of 12.4 is significantly higher than peers

Conclusion:

Based on these metrics, we can make some observations about the financial health of the listed companies:

Based on the financial metrics, Pidilite Industries Ltd and Godrej Industries Ltd appear to be in relatively good financial health compared to their peers. Both companies have relatively low debt/equity ratios, indicating that they are less leveraged and rely more on equity financing. Additionally, they have high interest coverage ratios, indicating that they have strong earnings to cover their interest obligations. These metrics suggest that these companies are financially stable and have the ability to manage their debt and interest obligations effectively.

Pidilite Industries Ltd also has the highest net worth among the listed companies, indicating that it has a significant amount of assets and is a relatively large company in terms of value. Its profit margins are also higher than the median of its peers, suggesting that it is more efficient at generating profits. However, its ROE is slightly lower than the median for the peer group, indicating that it may not be as effective at generating returns for its shareholders.

Overall, Pidilite Industries Ltd appears to be in better financial health compared to its peers, based on its low debt/equity ratio, high interest coverage ratio, and strong net worth. However, investors should also consider other factors such as market trends, industry developments, and management quality before making any investment decisions.

Chemplast Sanmar Ltd appears to be the most risky company among the listed chemical companies. Chemplast Sanmar has a very high cost of debt at 36.9%, which means the company is paying a significant amount to service its debt, reducing its profitability. Additionally, the company has a relatively low current ratio of 1, indicating that it may have difficulty meeting its short-term obligations with its current assets.

Furthermore, the company has a debt-to-equity ratio of 1.49, which is higher than the median of 0.535 for the listed peers, indicating a higher reliance on debt financing. This high level of leverage combined with the high cost of debt and low current ratio suggests that Chemplast Sanmar may face financial difficulties if it experiences a downturn or adverse market conditions.

It's important to note that risk profiling is a subjective matter and can depend on various factors such as the industry, the company's specific operations, and external factors such as economic conditions and geopolitical events. Therefore, it's always advisable to consult a financial professional or conduct further research before making investment decisions.

Discussion

- If you were an investor looking to invest in the chemical industry, which financial metric(s) would you consider the most important and why?
- Why do you think Pidilite Industries has a lower return on equity than the median for its peers despite having a higher profit margin?
- Which company do you think has the best liquidity position and why?
- If a company's current ratio is less than 1, does that mean it is in financial trouble? Why or why not?

- Is a negative net debt always a positive sign for a company's financial health? Why or why not?
- Why do you think Sanmar Engineering Services Ltd has a low interest coverage ratio and a high debt-to-equity ratio? What risks does this pose to the company?
- Why might a company like BASF Catalyst India Pvt Ltd choose to have a high debt-to-equity ratio despite the risks involved?
- How do you think changes in interest rates could affect the profitability of companies in the chemical industry?
- What factors beyond financial metrics might investors consider when evaluating companies in the chemical industry?
- Do you think the COVID-19 pandemic had a significant impact on the financial performance of the companies listed in the case? If so, how?

Source of Funding

None

Conflict of Interest

None

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