

India

HOLD (no change)

Consensus ratings*: Buy 4 Hold 6 Sell 10

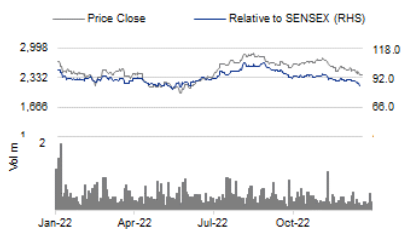
Current price:	Rs2,315
Target price:	Rs2,360
Previous target:	Rs2,510
Up/downside:	1.9%
InCred Research / Consensus:	-6.3%

Reuters:	
Bloomberg:	PIDI IN
Market cap:	US\$16,207m
	Rs1,176,897m
Average daily turnover:	US\$14.3m
	Rs1036.3m
Current shares o/s:	508.3m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

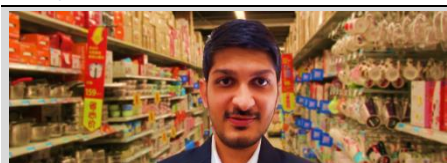
- Lower target price to Rs2,360 from Rs2,510 earlier.
- Introduce FY25F estimates.
- Reduce FY23F/24F EPS by 20%/9%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.0)	(11.6)	(10.6)
Relative (%)	(7.6)	(12.5)	(14.1)

Major shareholders	% held
Promoter and Promoter Group	75.0
LIC	3.2
Axis Mutual Fund	3.1

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Pidilite Industries Limited

Margins remain under pressure

- Consolidated sales grew 5.2% yoy (3-year CAGR of 15.9% vs. 16.8% of APNT) to Rs30bn in 3QFY23. We estimate domestic volume decline of 2%.
- Consumption of high-cost inventory led to gross margin contraction of 175bp yoy to 41.4%. EBITDA margin contracted 272bp yoy to 16.5%.
- Valuation at 63x/54x FY24F/25F P/E, respectively, limits the upside. We maintain our HOLD rating on the stock with a lower target price of Rs2,360.

Sales growth tapers off as pricing phases out

Domestic business sales grew 4.9% yoy (3% CAGR of 15% ex-Huntsman vs. 17.3% for Asian Paints or APNT) to Rs27.1bn in 3QFY23. Domestic volume declined by 2% (vs. flat for APNT). The consumer and bazaar (C&B)/B2B businesses grew/declined by +7.4%/-6.1%, respectively. Demand from rural and semi-rural markets (Tier 4-5) remained under stress while demand from Tier 1-3 towns remained steady and did not witness any slowdown post-festive season. Management expects this momentum to continue in 4Q.

Domestic subsidiaries deliver healthy growth

Domestic subsidiaries grew by 15.3% yoy. The growth was driven by B2B business, which grew 19.3% yoy led by a recovery in real estate and construction activities, while domestic C&B subsidiaries grew 12.2% yoy. International business grew by 9.3% yoy driven by 18.8% yoy growth in the Middle East while Asia/Americas grew 5.9%/4.6% yoy, respectively. International Subsidiaries' margins were down by 165bp/197bp on yoy/qqoq basis, respectively, to 4.8%.

Margin recovery to pre-Covid level remains elusive

Pidilite Industries' consumption cost of vinyl acetate monomer (VAM) in 3QFY23 was US\$2,000/t vs. US\$2,500/t in 3QFY22 and spot prices stood at c.US\$1,200/t. Consolidated gross margin contracted 175bp yoy to 41.8% in 3QFY23 owing to consumption of higher-priced inventory. Given that VAM prices have more than halved from their peak and pricing growth has phased out, we expect the company to reinvest margins to grow volume, and hence, gross margins may not recover to pre-Covid level, despite similar levels of input prices. Consolidated EBITDA declined 9.7% yoy to Rs5bn as EBITDA margin contracted by 272bps yoy to 16.5% (flat qqoq). Management maintains its medium-term EBITDA margin target of 20-24%.

Maintain HOLD rating with a lower target price of Rs2,360

We see limited upside as the stock already trades at 63x/54x FY24F/25F EPS, respectively. We await a better entry point and retain our HOLD rating on the stock with a lower target price of Rs2,360 (Rs2,510 earlier), based on 55x FY25F EPS (close to 5-year average P/E). Key upside risk is higher than-estimated 1) sales growth led by substantial improvement in near-term demand, 2) EBITDA growth led by benign raw material prices. Key downside risks are 1) lower-than-estimated sales/EBITDA margin, and 2) increased competitive intensity in the construction chemicals and waterproofing space.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	72,509	98,800	120,608	134,280	147,595
Operating EBITDA (Rsm)	16,806	18,473	21,309	27,542	31,954
Net Profit (Rsm)	11,312	12,044	14,235	18,803	21,846
Core EPS (Rs)	22.3	23.7	28.0	37.0	43.0
Core EPS Growth	(2.1%)	6.4%	17.9%	32.1%	16.2%
FD Core P/E (x)	104.01	97.71	82.68	62.59	53.87
DPS (Rs)	8.5	10.0	12.0	14.4	17.3
Dividend Yield	0.00%	0.37%	0.52%	0.62%	0.75%
EV/EBITDA (x)	69.97	63.75	55.17	42.45	36.31
P/FCFE (x)	(196.23)	340.96	142.42	84.69	66.87
Net Gearing	(5.2%)	(1.7%)	(4.4%)	(11.4%)	(18.7%)
P/BV (x)	21.04	18.38	16.31	14.07	12.17
ROE	22.6%	20.1%	20.9%	24.1%	24.2%
% Change In Core EPS Estimates			(19.87%)	(8.75%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Margins remain under pressure

Key takeaways from the earnings call

Demand and operating scenario

- Decent demand visible across T1-3 towns, led by construction activity. T4 & 5 towns are under pressure but are expected to turn around from Jan 2023F led by good rabi harvest and government spending.
- No drop in demand post festive season was witnessed in urban markets, but rural markets were impacted.
- Core categories' (Fevicol, M-seal) focus is on growth. In growth categories, the company is creating a new category (like waterproofing) where the job is to drive adoption.
- 67% of sales come from core categories and 33% of sales from growth and pioneer categories (this ratio being 75:25 5 years ago). The company is targeting a 50:50 ratio between core categories and growth+pioneer categories put together.
- Pidilite Ki Duniya rural store count has topped 7,000. In these villages, there are no other players in these segments. What was sold in three years is now being sold in a month in such markets.
- E-commerce business is reaching FMCG average in terms of sales contribution to the C&B division's sales.
- B2B division: Waterproofing business is witnessing good demand, but pigment exports to the western hemisphere have been impacted. Domestic businesses have returned to normalcy in Jan 2023 while exports continue to remain subdued.
- Distribution: Added 2,100 villages to the direct reach, taking the total to 32k towns/villages. Genie app (for influencers) now contributes 10% to sales.
- Capex: In the last two years, seven brownfield expansions took place and five greenfield expansions have been completed. Currently, five brownfield expansions are underway and also a few greenfield projects.
- For the next 12-18 months, management gave guidance that two-to-three new products will be launched every quarter.

Input cost and margins

- Input cost moderated. VAM (25% of raw material basket for the company) consumption cost in 3QFY23 was US\$2,000/t vs. US\$2,500/t in 2QFY23. Spot rate was near the US\$1,200\$/t range. Other raw material cost also stabilized.
- High-priced inventory will get liquidated in the next few months. Starting 4QFY23F, the benefits of lower VAM prices are expected to trickle in. The focus will be on driving volume growth as pricing is expected to remain stable for the next quarter.
- Management does not see the need for further price hikes.

Outlook

- Management is increasingly optimistic about the future led by softening of input cost and government spending on infrastructure development.
- Targeting to operate in the 20%-24% EBITDA margin band.
- Competitive intensity from regional players: Seeing signs of small/regional players making a comeback as input cost cooled off. Expects more competition from them in the next six months.

Subsidiary's performance

- ICA Pidilite operates in the premium end of wood finishes market. The Italian collaborator (ICA) has two plants (one each in Italy & India). Over the last four years, ICA Pidilite registered a good growth rate led by conversion from mass premium to premium wood finishes. Growth prospects are good, as per management.
- B2B waterproofing business (Nina Percept) recovered strongly led by resumption of construction activity.

Figure 1: Quarterly results summary - consolidated

Y/E, Mar (Rs. M)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	Gr (%)
Revenue	28,507	30,112	29,976	5.2	-0.5	74,139	91,099	22.9
Expenditure	23,017	25,113	25,017	8.7	-0.4	59,677	75,846	27.1
Consumption of RM	16,083	17,769	17,435	8.4	-1.9	40,279	53,284	32.3
as % of sales	56.4	59.0	58.2			54.3	58.5	
Employee cost	2,800	3,032	3,088	10.3	1.8	8,338	9,277	11.3
as % of sales	9.8	10.1	10.3			11.2	10.2	
Other expenditure	4,134	4,311	4,495	8.7	4.3	11,060	13,285	20.1
as % of sales	14.5	14.3	15.0			14.9	14.6	
EBITDA	5,490	4,999	4,959	-9.7	-0.8	14,462	15,252	5.5
Depreciation	605	636	686	13.5	7.8	1,774	1,936	9.1
EBIT	4,886	4,362	4,272	-12.6	-2.1	12,688	13,316	5.0
Other income	52	110	51	-0.8	-53.3	252	268	6.4
Interest	108	117	151	27	29.2	327	358	9.4
PBT	4,830	4,355	4,173	-13.6	-4.2	12,613	13,226	4.9
Total tax	1,275	1,009	1,111	-12.8	10.2	3,155	3,277	3.9
PAT	3,555	3,347	3,061	-13.9	-8.5	9,458	9,949	5.2
(Profit)/loss from JVs / minority interest	-30	22	20	-166.1	-11.7	-75	47	-162.9
Net profit (before extraordinary items)	3,585	3,324	3,042	-15.2	-8.5	9,532	9,902	3.9
Extraordinary items	0	0	0	NA	NA	0	0	NA
Reported net profit	3,585	3,324	3,042	-15.2	-8.5	9,532	9,902	3.9
Margins (%)				(bp)	(bp)			(bp)
Gross margin	43.6	41.0	41.8	-175	85	45.7	41.5	-416
EBITDA	19.3	16.6	16.5	-272	-6	19.5	16.7	-276
EBIT	17.1	14.5	14.3	-289	-23	17.1	14.6	-250
EBT	16.9	14.5	13.9	-302	-54	17.0	14.5	-249
PAT	12.6	11.0	10.1	-243	-89	12.9	10.9	-199
Effective tax rate	26.4	23.2	26.6	24	348	25.0	24.8	-24

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental performance - consolidated

Y/E, Mar (Rs. M)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	Gr (%)
Segment revenue								
Consumer & bazaar	22,645	24,315	24,216	6.9	-0.4	58,812	72,889	23.9
Business-to-business (B2B)	6,186	6,237	5,999	-3.0	-3.8	16,330	19,456	19.1
Others	205	224	334	63.0	48.9	449	815	81.5
Total	29,036	30,776	30,548	5.2	-0.7	75,592	93,160	23.2
Segment-wise results								
Consumer & bazaar	5,629	5,265	5,372	-4.6	2.0	15,160	15,989	5.5
Business-to-business (B2B)	400	495	391	-2.2	-21.0	1,083	1,635	51.0
Others	-12	-3	39	-438.8	-1290.9	-13	50	(474.6)
Total	6,017	5,757	5,803	-3.6	0.8	16,230	17,674	8.9
Segment-wise margins (%)				(bp)	(bp)			(bp)
Consumer & bazaar	24.9	21.7	22.2	-267	53	25.8	21.9	-384
Business.to-business (B2B)	6.5	7.9	6.5	6	-142	6.6	8.4	177
Others	-5.7	-1.5	11.8	1745	1326	-3.0	6.2	914
PBIT margin%	20.7	18.7	19.0	-173	29	21.5	19.0	-250

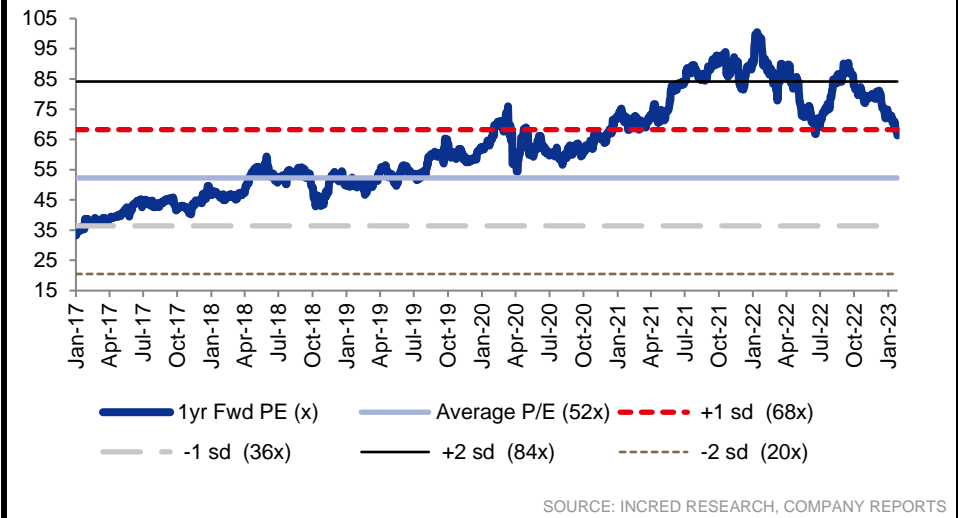
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our revised earnings estimates

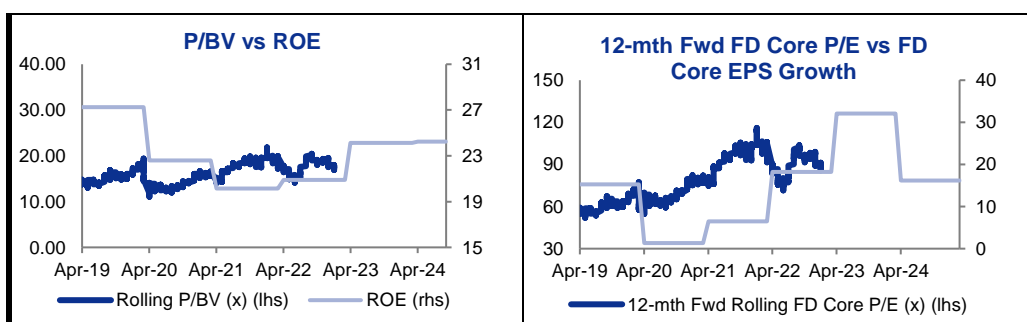
Y/E, Mar (Rs.m)	FY23F			FY24F			FY25F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Net sales	1,13,607	1,21,018	6.5	1,26,459	1,34,690	6.5	1,48,005
EBITDA	25,951	21,309	-17.9	30,115	27,542	-8.5	31,954
EBITDA margin (%)	22.8	17.6	-520 bp	23.8	20.4	-340 bp	21.6
Net income	17,760	14,235	-19.9	20,601	18,803	-8.7	21,846
EPS	34.9	28.0	-19.9	40.5	37.0	-8.7	43.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: One-year forward P/E trades below +1SD P/E



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	72,927	99,210	121,018	134,690	148,005
Gross Profit	39,160	44,768	51,640	62,399	71,329
Operating EBITDA	16,806	18,473	21,309	27,542	31,954
Depreciation And Amortisation	(2,007)	(2,396)	(2,556)	(3,270)	(3,710)
Operating EBIT	14,800	16,077	18,753	24,273	28,244
Financial Income/(Expense)	422	(58)	(85)	422	456
Pretax Income/(Loss) from Assoc.	40	119	76	84	92
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	15,261	16,138	18,744	24,778	28,791
Exceptional Items	(36)	(32)			
Pre-tax Profit	15,225	16,106	18,744	24,778	28,791
Taxation	(3,964)	(4,070)	(4,489)	(5,954)	(6,925)
Exceptional Income - post-tax					
Profit After Tax	11,261	12,036	14,255	18,823	21,866
Minority Interests	51	8	(20)	(20)	(20)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,312	12,044	14,235	18,803	21,846
Recurring Net Profit	11,339	12,068	14,235	18,803	21,846
Fully Diluted Recurring Net Profit	11,339	12,068	14,235	18,803	21,846

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	16,806	18,473	21,309	27,542	31,954
Cash Flow from Invt. & Assoc.	40	119	76	84	92
Change In Working Capital	2,081	(7,956)	(4,342)	(3,744)	(3,525)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(36)				
Other Operating Cashflow					
Net Interest (Paid)/Received	(372)	(421)	(472)	(325)	(325)
Tax Paid	(3,964)	(4,070)	(4,489)	(5,954)	(6,925)
Cashflow From Operations	14,555	6,144	12,081	17,602	21,271
Capex	(28,464)	(4,565)	(4,250)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	7,496	937	387	747	781
Cash Flow From Investing	(20,968)	(3,628)	(3,863)	(3,753)	(3,719)
Debt Raised/(repaid)	417	935	45	47	49
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7)	(4,319)	(6,100)	(7,320)	(8,783)
Preferred Dividends					
Other Financing Cashflow	3,485	(64)	(20)	(20)	(20)
Cash Flow From Financing	3,895	(3,447)	(6,075)	(7,293)	(8,754)
Total Cash Generated	(2,518)	(931)	2,143	6,556	8,797
Free Cashflow To Equity	(5,996)	3,451	8,263	13,895	17,600
Free Cashflow To Firm	(6,040)	2,937	8,690	14,174	17,876

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	6,279	5,287	7,430	13,986	22,783
Total Debtors	13,210	14,305	17,335	19,308	21,274
Inventories	12,342	16,951	17,825	19,849	21,842
Total Other Current Assets	5,746	6,212	6,212	6,921	7,643
Total Current Assets	37,577	42,755	48,802	60,064	73,542
Fixed Assets	34,278	36,419	38,112	39,343	40,133
Total Investments	3,395	2,851	2,851	2,851	2,851
Intangible Assets	12,840	12,868	12,868	12,868	12,868
Total Other Non-Current Assets	217	223	285	317	347
Total Non-current Assets	50,730	52,360	54,116	55,379	56,199
Short-term Debt	2,015	2,856	2,856	2,856	2,856
Current Portion of Long-Term Debt					
Total Creditors	21,942	19,842	19,805	20,724	21,821
Other Current Liabilities	11,874	9,349			
Total Current Liabilities	35,831	32,048	22,661	23,580	24,677
Total Long-term Debt	1,208	1,302	1,347	1,394	1,443
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,208	1,302	1,347	1,394	1,443
Total Provisions	4,644	4,917	4,750	4,824	4,914
Total Liabilities	41,683	38,267	28,757	29,798	31,034
Shareholders Equity	55,930	64,037	72,172	83,656	96,719
Minority Interests	2,400	1,989	1,989	1,989	1,989
Total Equity	58,330	66,026	74,161	85,645	98,708

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(4.5%)	3,625.8%	2,207.3%	1,133.6%	991.6%
Operating EBITDA Growth	663.7%	991.7%	1,535.1%	2,925.3%	1,601.7%
Operating EBITDA Margin	23.2%	18.7%	17.7%	20.5%	21.6%
Net Cash Per Share (Rs)	6.01	2.22	6.35	19.15	36.36
BVPS (Rs)	110.05	125.98	141.99	164.58	190.28
Gross Interest Cover	39.75	38.21	39.73	74.68	86.90
Effective Tax Rate	26.0%	25.3%	24.0%	24.0%	24.1%
Net Dividend Payout Ratio	0.1%	35.8%	42.9%	38.9%	40.2%
Accounts Receivables Days	60.30	50.62	47.72	49.65	50.04
Inventory Days	116.94	98.19	91.48	95.11	99.23
Accounts Payables Days	(152.15)	(140.07)	(104.29)	(102.32)	(101.26)
ROIC (%)	33.0%	27.8%	25.7%	31.2%	34.3%
ROCE (%)	25.9%	23.1%	24.1%	27.7%	28.3%
Return On Average Assets	14.2%	13.2%	14.5%	16.9%	17.5%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Consumer Bazaar revenue growth	(0.7%)	32.2%	24.0%	10.4%	8.3%
Industrial product revenue growth	(6.0%)	47.5%	19.5%	12.0%	12.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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