

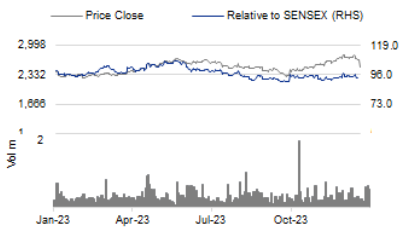
India

HOLD (no change)

Consensus ratings*:	Buy 6	Hold 6	Sell 7
Current price:	Rs2,592		
Target price:	Rs2,665 ▲		
Previous target:	Rs2,545		
Up/downside:	2.8%		
InCred Research / Consensus:	1.1%		
Reuters:	PIDI.NS		
Bloomberg:	PIDI IN		
Market cap:	US\$15,858m	Rs1,318,341m	
Average daily turnover:	US\$12.1m	Rs1005.7m	
Current shares o/s:	508.3m		
Free float:	30.2%		
*Source: Bloomberg			

Key changes in this note

- Raise the target price to Rs2,665 from Rs2,545 earlier.
- Raise FY24F/25F EPS by 1.2%/1.3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.9)	10.3	8.8
Relative (%)	(1.9)	(0.6)	(7.8)

Major shareholders	% held
Promoter and Promoter Group	69.8
LIC	3.9
Axis Mutual Fund	2.4

Research Analyst(s)



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Pidilite Industries Limited

Gradual growth uptick expected

- 3Q standalone volume/sales grew by 10.4%/4.6% yoy, respectively. C&B/B2B segments grew by 5.4%/4.7% yoy, respectively. Consol. sales rose 4.4% yoy.
- Consol. gross/EBITDA margins stood at 52.9%/23.7%, up 1,104bp/718bp yoy, respectively. EBITDA/PAT grew by 49.7%/67.8% yoy, respectively.
- Retain HOLD rating with a new target price of Rs2,665 (from Rs2,545 earlier).

Both C&B and B2B divisions post double-digit volume growth

Pidilite Industries' standalone sales growth of 4.6% in 3QFY24 was led by an 10.4% volume growth, with a secular growth across categories, implying price cuts to the tune of 5.2%. The consumer & bazaar (C&B) segment posted 10% volume growth and sales growth of 5.4% yoy to Rs23.3bn. The C&B segment's PBIT margin rose 890bp yoy (+296bp qoq) to 32.4%, largely aided by moderation of input costs. The B2B segment growth turned positive, growing 4.7% yoy to Rs5.3bn, after four quarters of mid-to-high single-digit yoy declines. Pidilite has been stepping up its rural expansion over the last few years, with its 'Pidilite Ki Duniya' stores topping the 12,000-outlet mark and now these markets are being served with an improved assortment (like Araldite, Roff, etc), which is driving faster growth in rural markets. Growth and pioneer categories are now 45% of sales. Its foray into the lending business (announced in 2QFY24) in a pilot market in South India is expected to commence disbursements shortly.

Domestic subsidiaries continue to drive growth

The international business posted a 5.1% yoy decline in 3QFY24 led by a 40.3% decline in America (which is being wound up) and a 2.4% growth in Asia. The Middle East business grew by 19.7%. EBITDA of the international business doubled yoy, which led to EBITDA margin expansion of 611bp yoy (up 483bp qoq) to 10.9%. Domestic subsidiaries grew by 15.1% yoy, led by a 14.3% growth in the C&B segment and a 16% yoy growth in the B2B segment. Domestic subsidiaries posted a 530bp yoy EBITDA margin decline to 5.1%, led by a 1,079bp/142bp yoy decline/expansion in C&B/B2B EBITDA margins, respectively.

Margin expansion continues to be led by moderation of input costs

Pidilite Industries' consumption cost of vinyl acetate monomer (VAM) in 3QFY24 stood at US\$900/t vs. US\$2,000/t in 3QFY23, lower than US\$950/t in 2QFY24. The company rationalized its prices by 5.2% in 3Q (5% cut in 2QFY24) to maintain competitive growth. Consolidated gross/EBITDA margins stood at 52.9%/23.7%, up 1,104bp/718bp yoy, respectively. Management expects raw material prices to remain stable in the near term.

Maintain HOLD rating with a higher target price of Rs2,665

We see a limited upside as Pidilite Industries trades at 67x/61x FY24F/FY25F EPS, respectively. We retain our HOLD rating on the stock with a higher target price of Rs2,665 (55x Dec 2025F EPS) from Rs2,545 earlier, as we roll forward. Upside risk: Faster-than-expected sales growth. Downside risk: Slower-than-expected EBITDA growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	99,210	117,991	127,639	141,371	155,571
Operating EBITDA (Rsm)	18,473	19,844	28,654	31,633	35,732
Net Profit (Rsm)	12,044	12,733	19,693	21,735	24,617
Core EPS (Rs)	23.7	25.0	38.7	42.8	48.4
Core EPS Growth	6.4%	5.5%	54.7%	10.4%	13.3%
FD Core P/E (x)	109.38	103.48	66.90	60.62	53.52
DPS (Rs)	10.0	12.0	13.2	15.8	19.0
Dividend Yield	0.33%	0.39%	0.51%	0.61%	0.73%
EV/EBITDA (x)	71.36	66.28	45.62	41.04	36.03
P/FCFE (x)	381.71	316.54	88.16	76.00	64.73
Net Gearing	(1.7%)	(6.3%)	(14.4%)	(21.5%)	(27.9%)
P/BV (x)	20.57	18.27	15.48	13.34	11.58
ROE	20.1%	18.7%	25.1%	23.6%	23.2%
% Change In Core EPS Estimates			1.21%	1.29%	1.71%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Gradual growth uptick expected

Key takeaways from the earnings call

Highlights

- Standalone revenue growth was aided by a 10.4% volume growth, which was broad-based across C&B and B2B segments, with both growing in double digits in volume terms, led by growth categories.
- Both urban and rural markets grew well, with rural markets (c.30% of standalone sales) continuing to grow faster than the urban markets. Rural slowdown is not visible as Pidilite Industries was earlier under-indexed in rural markets. A division called 'Emerging India' was set up a few years ago to increase its offerings in rural markets, which led to an increase in the assortment and distribution reach there. 'Pidilite Ki Duniya' stores have crossed the 12,000+ store mark. Araldite and Roff brands have also been extended to rural markets, which will continue to support the growth in the medium term.
- **Competitive intensity from local/regional players:** Pidilite Industries is not seeing a major impact from resurgence of smaller/regional players.
- **Waterproofing:** Retail demand has been soft however institutional demand is healthy in the waterproofing business.
- Export demand remained strong, with double-digit volume growth.
- A new plant was commissioned in 3QFY24.
- Innovation continued to contribute a healthy mix to sales.
- **Paint business:** The initiative was only rolled out in small towns and has been extended to Odisha. Management reiterated that the company doesn't have big ambitions in the paint business.

Subsidiaries

- Domestic subsidiaries recorded robust sales growth, with both C&B and B2B subsidiaries registering double-digit growth.
- Domestic subsidiaries (ICA, Nina Percept, etc.) are on a healthy trajectory. The joint venture or JV with Gruppo Puma will record a loss in the first c.12-18 months as operations have recently commenced. Things are running according to plan, as per management. The JV with Gruppo Puma recorded a Rs40m loss for the quarter.
- **International business:** Ex-USA business, the division posted a modest sales growth. EBITDA doubled yoy.

Lending business

- A pilot project is being set up in one city in South India. It will start lending in c.15-20 days, with the back-end work almost completed. The outlay is Rs1bn over the next two years, which will be increased on the basis of learnings and the outlook on profitability.

Input costs and margins

- Vinyl acetate monomer (VAM) input cost stood at US\$900/t in 3QFY24 vs. US\$2,000/t in 3QFY23, lower than US\$950/t in 2QFY24. Management believes that raw material prices are largely stable currently. As the VAM requirement of the company does not come via the Red Sea, there has been no impact yet.
- Media spending and promotion expenses were up in 3QFY24.

Outlook

- The focus remains on improving the supply chain and driving a profitable double-digit, volume-led growth. Sales growth may moderate around the upcoming general elections.
- Management expects the growth to remain healthy and margins can see an improvement as the sales mix changes towards a higher contribution from growth categories (55%/45% in core/pioneer categories currently). Newer products like Araldite, tile adhesives, etc. have been driving healthy growth.

Figure 1: Quarterly results summary - consolidated

Y/E Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Revenue	29,976	30,760	31,300	4.4	1.8	91,099	94,811	4.1
Expenditure	25,017	23,963	23,875	-4.6	-0.4	75,846	73,520	-3.1
Consumption of RM	17,435	14,978	14,749	-15.4	-1.5	53,284	46,425	-12.9
as % of sales	58.2	48.7	47.1			58.5	49.0	
Employee costs	3,088	3,632	3,729	20.8	2.7	9,277	10,915	17.7
as % of sales	10.3	11.8	11.9			10.2	11.5	
Other expenditure	4,495	5,354	5,397	20.1	0.8	13,285	16,181	21.8
as % of sales	15.0	17.4	17.2			14.6	17.1	
EBITDA	4,959	6,797	7,425	49.7	9.2	15,252	21,291	39.6
Depreciation	686	752	795	15.8	5.7	1,936	2,281	17.8
EBIT	4,272	6,045	6,630	55.2	9.7	13,316	19,010	42.8
Other income	51	316	370	620.9	17.1	268	920	243.4
Interest	151	131	128	27	-2.8	358	378	5.5
PBT	4,173	6,230	6,872	64.7	10.3	13,226	19,552	47.8
Total tax	1,111	1,631	1,765	58.8	8.2	3,277	5,100	55.6
PAT	3,061	4,599	5,107	66.8	11.0	9,949	14,452	45.3
(Profit)/loss from JVs / minority interest	20	97	2	-89.8	-97.9	47	164	249.9
Net profit (before extraordinary items)	3,042	4,502	5,105	67.8	13.4	9,902	14,288	44.3
Extraordinary items	0	0	0	NA	NA	0	0	NA
Reported Net profit	3,042	4,502	5,105	67.8	13.4	9,902	14,288	44.3
Adjusted EPS	6.0	8.9	10.0	67.8	13.4	19.5	28.1	44.3
Margins (%)				(bp)	(bp)			(bp)
Gross margin	41.8	51.3	52.9	1,104	157	41.5	51.0	953
EBITDA	16.5	22.1	23.7	718	162	16.7	22.5	571
EBIT	14.3	19.7	21.2	693	153	14.6	20.1	543
EBT	13.9	20.3	22.0	803	170	14.5	20.6	610
PAT	10.1	14.6	16.3	616	168	10.9	15.1	420
Effective tax rate	26.6	26.2	25.7	-95	-49	24.8	26.1	131

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Segmental break-up

Y/E Mar (Rs. m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Segment Revenue								
Consumer & Bazaar	24,216	25,083	25,413	4.9	1.3	72,889	77,104	5.8
Business-to-Business (B2B)	5,999	6,153	6,373	6.2	3.6	19,456	19,307	(0.8)
Others	334	179	97	-70.9	-45.8	815	493	(39.6)
Total	30,548	31,415	31,883	4.4	1.5	93,160	96,903	4.0
Segment Results								
Consumer & Bazaar	5,372	6,935	7,704	43.4	11.1	15,989	21,718	35.8
Business-to-Business (B2B)	391	685	757	93.4	10.5	1,635	2,358	44.2
Others	39	16	10	-74.3	-36.1	50	30	(39.6)
Total	5,803	7,635	8,471	46.0	10.9	17,674	24,105	36.4
Segment Margins (%)				(bp)	(bp)			(bp)
Consumer & Bazaar	22.2	27.6	30.3	813	267	21.9	28.2	623
Business-to-Business (B2B)	6.5	11.1	11.9	535	75	8.4	12.2	381
Others	11.8	8.8	10.4	-138	158	6.2	6.1	-1
PBIT Margin (%)	19.0	24.3	26.6	757	226	19.0	24.9	590

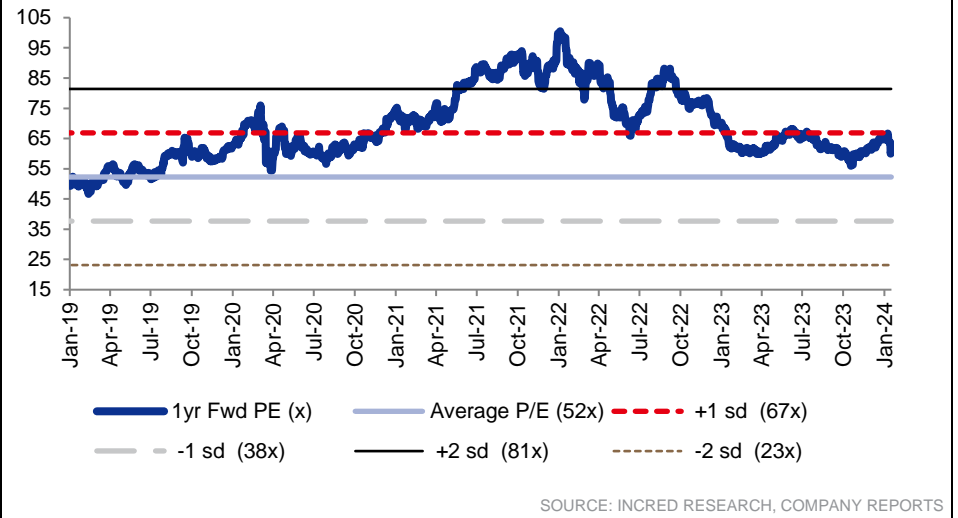
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our revised earnings estimates

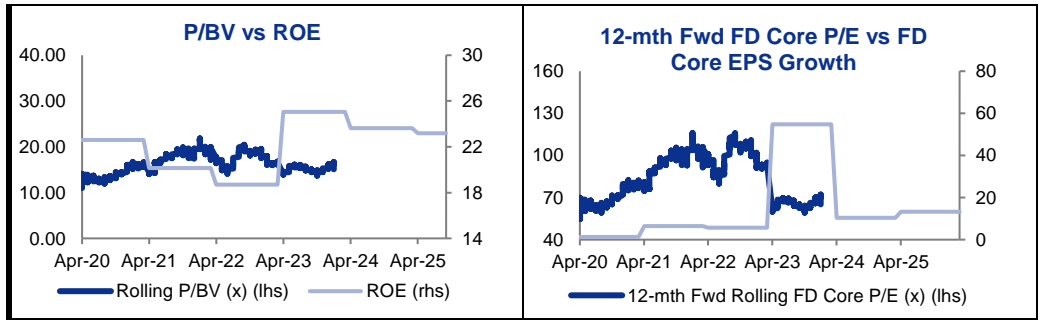
Y/E Mar (Rs. m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Net sales	1,29,552	1,27,639	-1.5	1,43,481	1,41,371	-1.5	1,57,889	1,55,571	-1.5
EBITDA	28,450	28,654	0.7	31,375	31,633	0.8	35,295	35,732	1.2
EBITDA margin (%)	22.0	22.4	50 bp	21.9	22.4	50 bp	22.4	23.0	60 bp
Net income	19,457	19,693	1.2	21,458	21,735	1.3	24,204	24,617	1.7
EPS	38.3	38.7	1.2	42.2	42.8	1.3	47.6	48.4	1.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Pidilite Industries' one-year forward P/E trades between its five-year average and +1SD



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	99,210	117,991	127,639	141,371	155,571
Gross Profit	44,768	50,397	62,155	67,778	75,657
Operating EBITDA	18,473	19,844	28,654	31,633	35,732
Depreciation And Amortisation	(2,396)	(2,697)	(3,255)	(3,574)	(3,905)
Operating EBIT	16,077	17,146	25,399	28,059	31,827
Financial Income/(Expense)	(58)	20	650	692	739
Pretax Income/(Loss) from Assoc.	119	66	80	88	96
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	16,138	17,232	26,129	28,838	32,662
Exceptional Items	(32)				
Pre-tax Profit	16,106	17,232	26,129	28,838	32,662
Taxation	(4,070)	(4,344)	(6,416)	(7,083)	(8,025)
Exceptional Income - post-tax					
Profit After Tax	12,036	12,889	19,713	21,755	24,637
Minority Interests	8	(156)	(20)	(20)	(20)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	12,044	12,733	19,693	21,735	24,617
Recurring Net Profit	12,068	12,733	19,693	21,735	24,617
Fully Diluted Recurring Net Profit	12,068	12,733	19,693	21,735	24,617

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	18,473	19,844	28,654	31,633	35,732
Cash Flow from Invt. & Assoc.	119	66	80	88	96
Change In Working Capital	(7,956)	(338)	(3,486)	(3,261)	(3,460)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(421)	(476)	(225)	(225)	(225)
Tax Paid	(4,070)	(4,344)	(6,416)	(7,083)	(8,025)
Cashflow From Operations	6,144	14,752	18,607	21,151	24,119
Capex	(4,565)	(6,611)	(4,500)	(4,500)	(4,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	937	(3,726)	545	587	634
Cash Flow From Investing	(3,628)	(10,337)	(3,955)	(3,913)	(3,866)
Debt Raised/(repaid)	935	(252)	293	98	103
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4,319)	(5,083)	(6,710)	(8,051)	(9,662)
Preferred Dividends					
Other Financing Cashflow	(64)	636	(20)	(20)	(20)
Cash Flow From Financing	(3,447)	(4,700)	(6,436)	(7,973)	(9,579)
Total Cash Generated	(931)	(285)	8,216	9,264	10,673
Free Cashflow To Equity	3,451	4,162	14,945	17,335	20,355
Free Cashflow To Firm	2,937	4,891	14,877	17,463	20,477

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	5,287	8,579	16,794	26,058	36,732
Total Debtors	14,305	15,353	17,767	19,692	21,666
Inventories	16,951	18,171	18,303	20,278	22,313
Total Other Current Assets	6,212	6,188	6,385	7,081	7,790
Total Current Assets	42,755	48,290	59,249	73,110	88,500
Fixed Assets	36,419	40,303	41,548	42,474	43,069
Total Investments	2,851	3,497	3,827	4,157	4,487
Intangible Assets	12,868	12,898	12,898	12,898	12,898
Total Other Non-Current Assets	223	335	284	314	345
Total Non-current Assets	52,360	57,032	58,555	59,842	60,799
Short-term Debt	2,856	1,633	1,833	1,833	1,833
Current Portion of Long-Term Debt					
Total Creditors	19,842	21,751	21,445	22,709	23,902
Other Current Liabilities	9,349	11,115			
Total Current Liabilities	32,048	34,499	23,277	24,542	25,735
Total Long-term Debt	1,302	2,274	2,367	2,465	2,568
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	1,302	2,274	2,367	2,465	2,568
Total Provisions	4,917	4,932	4,717	4,819	4,915
Total Liabilities	38,267	41,705	30,362	31,826	33,217
Shareholders Equity	64,037	72,123	85,106	98,790	113,745
Minority Interests	1,989	2,336	2,336	2,336	2,336
Total Equity	66,026	74,459	87,443	101,126	116,082

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	36.0%	18.9%	8.2%	10.8%	10.0%
Operating EBITDA Growth	9.9%	7.4%	44.4%	10.4%	13.0%
Operating EBITDA Margin	18.6%	16.8%	22.4%	22.4%	23.0%
Net Cash Per Share (Rs)	2.22	9.19	24.78	42.81	63.61
BVPS (Rs)	125.98	141.89	167.43	194.35	223.78
Gross Interest Cover	38.21	35.99	112.88	124.71	141.45
Effective Tax Rate	25.3%	25.2%	24.6%	24.6%	24.6%
Net Dividend Payout Ratio	35.8%	39.9%	34.1%	37.0%	39.2%
Accounts Receivables Days	50.62	45.87	47.35	48.36	48.52
Inventory Days	98.19	94.83	101.65	95.67	97.26
Accounts Payables Days	(140.07)	(112.30)	(120.38)	(109.50)	(106.45)
ROIC (%)	27.8%	28.4%	33.5%	35.1%	37.8%
ROCE (%)	23.1%	22.1%	28.7%	27.5%	27.4%
Return On Average Assets	13.2%	12.8%	17.1%	16.8%	16.9%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Consumer Bazaar revenue growth	40.3%	21.4%	10.0%	9.8%	9.6%
Industrial product revenue growth	56.6%	8.8%	3.0%	15.0%	12.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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