

09 August 2024

India | Equity Research | Q1FY25 results review

Pidilite Industries

Building Material

In-line quarter; outlook remains healthy

In Q1FY25, Pidilite Industries (PIDI) reported consolidated revenue growth of 3.7% YoY (5-year CAGR of 11%) driven by 3% / 7% YoY growth in consumer & bazaar (C&B) / B2B segment. Standalone entity witnessed healthy underlying volume growth (UVG) of 9.6% YoY with domestic C&B segment UVG of 8% YoY and B2B segment UVG of 18% YoY. Consolidated OPM expanded 235bps YoY (+406bps QoQ) due to RM cost declining 479bps YoY (-38bps QoQ), resulting in EBITDA / APAT growth of 15% / 21.1% YoY. Management stated demand was challenging in Q1 (impacted by general elections and adverse weather) but it is confident of medium-term double-digit UVG aided by healthy real estate market. It maintains margin guidance of 20-24% in the medium term. We tweak our PAT estimates; downgrade the stock to **HOLD** with a rolled-over Jun'25E TP of INR 3,097.

Revenue growth of 3.7% YoY

PIDI reported consolidated revenue growth of 3.7% YoY (+17% QoQ; 5-year CAGR of 11%) as C&B segment grew 3% YoY (+22% QoQ), while B2B segment grew 7% YoY (+2.5% QoQ). Overseas continuing subsidiaries reported revenue growth of 8.6% YoY (Asia: flat YoY, Middle East and Africa: +19.9% YoY), while domestic subsidiaries' revenue was largely flat YoY. Standalone revenue increased 6.2% YoY (5-year CAGR of 12.1%) with standalone underlying volume growth of 9.6% YoY (domestic C&B UVG of 8% YoY and B2B UVG of 18% YoY). Management stated that despite a challenging environment in Q1 (partly affected due to general elections and adverse weather), demand for its products was healthy. It remains optimistic of double digit UVG going ahead due to healthy demand scenario (driven by uptick in real estate and improved construction activity).

Operating margin improves on lower RM costs

Consolidated OPM expanded 235bps YoY to 23.9% (+406bps QoQ; due to operating leverage) aided by gross margin increase of 479bps YoY (+38bps QoQ) resulting in EBITDA / APAT growth of 15% / 21.1% YoY. Overseas subsidiaries' EBITDA margin improved 187bps YoY (-291bps QoQ), while domestic subsidiaries' margin declined 193bps YoY (-275bps QoQ). Management indicated RM cost remains benign and has maintained sustainable OPM guidance range of 20-24%. We have modelled OPM of 22.3-22.7% for FY25-27E (vs FY14-FY24 average margin of ~20%).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,23,830	1,36,625	1,52,322	1,68,021
EBITDA	27,190	30,434	34,226	38,063
EBITDA %	22.0	22.3	22.5	22.7
Net Profit	17,198	20,872	23,527	26,279
EPS (INR)	33.8	41.0	46.3	51.7
EPS % Chg YoY	33.9	21.4	12.7	11.7
P/E (x)	93.7	77.2	68.5	61.3
EV/EBITDA (x)	58.4	52.1	46.1	41.3
RoCE (%)	20.4	20.7	20.9	20.8
RoE (%)	22.0	23.4	23.4	23.3

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Market Data

Market Cap (INR)	1,611bn
Market Cap (USD)	19,193mn
Bloomberg Code	PIDI.IN
Reuters Code	PIDI.BO
52-week Range (INR)	3,279 / 2,293
Free Float (%)	30.0
ADTV-3M (mn) (USD)	15.4

Price Performance (%)	3m	6m	12m
Absolute	12.5	20.8	20.8
Relative to Sensex	5.2	10.4	0.9

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	0.9	0.6
EPS	2.4	1.3

Previous Reports

09-05-2024: [Q4FY24 results review](#)

25-01-2024: [Q3FY24 results review](#)

Valuations and view

PIDI's operational performance in Q1FY25 was broadly in line with estimates, and with RM prices remaining benign coupled with healthy demand prospects, we expect PIDI to have sustained strong growth going forward. We continue to like the company for its franchise, strong growth prospects, innovative product portfolio, brand recall, market leadership in many categories and robust balance sheet. However, post ~13% run-up in stock price over the past 3months, we downgrade the stock to **HOLD** from **Add** with a rolled-over Jun'25E target price of INR 3,097 (vs INR 2,971 earlier), set at an unchanged 65x PER Jun'25E.

Exhibit 1: Q1FY25 consolidated result review

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net revenues	33,954	32,751	3.7%	29,019	17.0%
Raw Material Cost	15,685	16,697	-6.1%	13,516	16.1%
% of sales	46%	51%	-479 bps	46.58%	-38 bps
Employee cost	4,172	3,555	17.4%	3,736	11.7%
% of sales	12%	11%	143 bps	13%	-59 bps
Other expenses	5,969	5,430	9.9%	5,998	-0.5%
% of sales	18%	17%	100 bps	21%	-309 bps
Total Expenditure	25,826	25,682	0.6%	23,249	11.1%
% of sales	76%	78%	-235 bps	80%	-406 bps
EBITDA	8,127	7,070	15.0%	5,769	40.9%
EBITDA margin (%)	23.9%	21.6%	235 bps	19.9%	406 bps
Depreciation and amortization	844	734	15.0%	1,125	-25.0%
EBIT	7,283	6,335	15.0%	4,644	56.8%
EBIT Margin (%)	21.5%	19.3%	211 bps	16.0%	545 bps
Net Interest expenses	118	119	-0.5%	134	-11.9%
Other income	539	234	130.2%	489	10.4%
Less: Exceptional items	0	0	n.m.	717	-100.0%
PBT	7,704	6,451	19.4%	4,282	79.9%
Income taxes	1,984	1,704	16.4%	1,219	62.7%
PAT	5,721	4,746	20.5%	3,063	86.8%
Profit in associate company	(8)	(10)	-14.7%	(20)	-59.3%
Less Minority interest	44	55	-21.3%	37	17.9%
Reported PAT	5,669	4,682	21.1%	3,006	88.6%
Adjusted PAT	5,669	4,682	21.1%	3,519	61.1%

Source: I-Sec research, Company data

Exhibit 2: Q1FY25 consolidated segmental result review

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue					
Consumer & Bazaar Products	27,408	26,609	3.0%	22,472	22.0%
Business to Business	7,256	6,780	7.0%	7,079	2.5%
Others	130	217	-40.2%	118	10.1%
Total	34,794	33,606	3.5%	29,669	17.3%
Less: Inter Segment revenue	(840)	(855)	-1.7%	(650)	29.2%
Net revenues	33,954	32,751	3.7%	29,019	17.0%
EBIT					
Consumer & Bazaar Products	8,039	7,078	13.6%	5,448	47.6%
Business to Business	1,103	917	20.3%	835	32.1%
Others	12	4	168.2%	3	321.4%
Total	9,154	7,999	14.4%	6,286	45.6%
EBIT Margin (%)					
Consumer & Bazaar Products	29.3%	26.6%	273 bps	24.2%	509 bps
Business to Business	15.2%	13.5%	168 bps	11.8%	340 bps
Total	27.0%	24.4%	254 bps	21.7%	530 bps

Source: I-Sec research, Company data

Exhibit 3: Q1FY25 standalone result review

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net revenues	31,458	29,635	6.2%	25,889	21.5%
Raw Material Cost	14,618	15,141	-3.5%	12,103	20.8%
% of sales	46%	51%	-462 bps	47%	-28 bps
Employee cost	3,692	3,011	22.6%	3,241	13.9%
% of sales	12%	10%	158 bps	13%	-78 bps
Other expenses	5,435	4,770	13.9%	5,269	3.2%
% of sales	17%	16%	118 bps	20%	-308 bps
Total Expenditure	23,746	22,922	3.6%	20,614	15.2%
% of sales	75%	77%	-186 bps	80%	-414 bps
EBITDA	7,713	6,713	14.9%	5,275	46.2%
EBITDA margin (%)	24.5%	22.7%	186 bps	20.4%	414 bps
Depreciation and amortization	724	615	17.7%	986	-26.6%
EBIT	6,989	6,098	14.6%	4,289	62.9%
EBIT Margin (%)	22.2%	20.6%	164 bps	16.6%	565 bps
Net Interest expenses	81	67	21.0%	78	5.0%
Other income	516	271	90.8%	420	23.0%
PBT	7,424	6,302	17.8%	4,631	60.3%
Income taxes	1,908	1,627	17.3%	1,160	64.5%
Extraordinary	0	0	n.m.	(72)	-100.0%
Reported PAT	5,516	4,675	18.0%	3,543	55.7%
Adjusted PAT	5,516	4,675	18.0%	3,490	58.1%

Source: I-Sec research, Company data

Exhibit 4: Q1FY25 standalone segmental result review

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY24
Revenue						
Consumer & Bazaar Products	25,627	24,309	5.4%	20,241	26.6%	90,626
Business to Business	6,342	5,807	9.2%	6,031	5.2%	22,565
Others	130	217	-40.2%	118	10.1%	611
Total	32,099	30,333	5.8%	26,389	21.6%	1,13,802
Less: Inter Segment revenue	(640)	(697)	-8.2%	(500)	27.9%	(2,132)
Net revenues	31,458	29,635	6.2%	25,889	21.5%	1,11,670
EBIT						
Consumer & Bazaar Products	7,786	6,870	13.3%	5,208	49.5%	26,318
Business to Business	1,066	892	19.5%	664	60.5%	3,013
Others	12	4	168.2%	3	321.4%	33
Total	8,864	7,766	14.1%	5,875	50.9%	29,364
EBIT Margin (%)						
Consumer & Bazaar Products	30.4%	28.3%	212 bps	25.7%	465 bps	29.0%
Business to Business	16.8%	15.4%	145 bps	11.0%	580 bps	13.4%
Total	28.2%	26.2%	197 bps	22.7%	548 bps	26.3%

Source: I-Sec research, Company data

Exhibit 5: Q1FY25 subsidiary result review

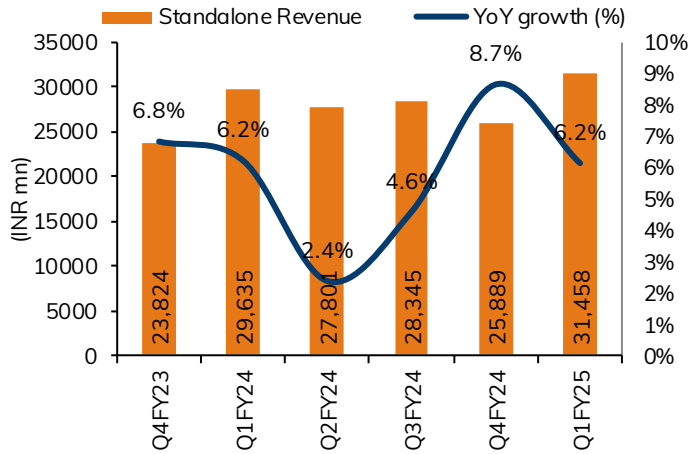
INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Overseas Subsidiaries (based on region)					
Revenue					
Asia	783	784	-0.1%	837	-6.5%
Middle East and Africa	728	607	19.9%	750	-2.9%
Total	1511	1391	8.6%	1587	-4.8%
EBITDA					
Asia	136	128	6.3%	178	-23.6%
Middle East and Africa	78	43	81.4%	93	-16.1%
Total	214	171	25.1%	271	-21.0%
EBITDA margin (%)					
Asia	17.4%	16.3%	104 bps	21.3%	-390 bps
Middle East and Africa	10.7%	7.1%	363 bps	12.4%	-169 bps
Total	14.2%	12.3%	187 bps	17.1%	-291 bps
Domestic Subsidiaries					
Revenue					
C&B	1146	1121	2.2%	1148	-0.2%
B2B	844	883	-4.4%	962	-12.3%
Total	1990	2004	-0.7%	2110	-5.7%
EBITDA					
C&B	154	191	-19.4%	94	63.8%
B2B	44	47	-6.4%	174	-74.7%
Total	198	238	-16.8%	268	-26.1%
EBITDA margin (%)					
C&B	13.4%	17.0%	-360 bps	8.2%	525 bps
B2B	5.2%	5.3%	-11 bps	18.1%	-1287 bps
Total	9.9%	11.9%	-193 bps	12.7%	-275 bps

Source: I-Sec research, Company data

Takeaways from Q1FY25 earnings conference call

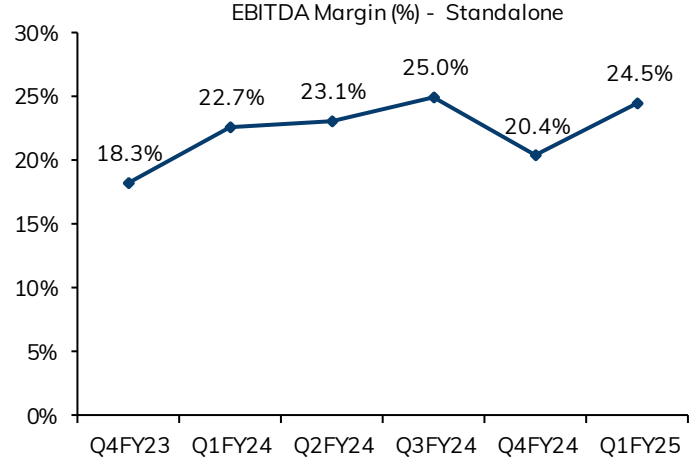
- **Demand:** Management indicated **demand was sluggish in Q1** due to general elections and adverse weather conditions.
- The company has grown from **revenue mix of 80:20 (in favour of core categories) to 55:45 over a period of 7-8 years**. The UVG for B2B segment of 18% YoY was primarily driven by **revival in demand for pigments division**.
- Management indicated good demand arises during 3rd and 4th year of a real estate upcycle and given the healthy real estate project launches 3-4 years ago, management **remains confident of healthy demand uptick** in medium term.
- **Subsidiary performance:** Domestic subsidiaries were impacted due to sluggish demand in Q1. Middle-East Asia and Africa regions continue to be good growth regions for company's foreign subsidiaries.
- **Pricing:** Company has **not taken any significant price rollbacks during Q1**. Management stated that it will take price cuts if RM prices decline significantly.
- With regards to the **NBFC venture**, management continues to monitor its pilot programme in one city where it has already disbursed its first loan. It will observe the segment for another 6 months and then take further steps accordingly.
- **Increasing rural penetration:** Management continues to focus on increasing penetration into rural regions. It currently has more than 14,000 "Pidilite ki duniya" outlets and presence in more than 28,000 villages. Management also believes that there is significant growth opportunity in rural regions as **there are still substantial SKUs that need to be introduced to rural India** from its current product range.
- **Guidance:** Management **maintains its guidance** for double digit volume growth and sustainable EBITDA margin of 20-24% in the medium term.
- **VAM pricing:** Average cost of consumption for VAM during Q1FY25 was USD 1,022/te (vs USD 1,136/te in Q1FY24). Currently, VAM price hovers around USD 800-1,000/te. Management believes VAM price is near bottom.

Exhibit 6: Standalone quarterly revenue



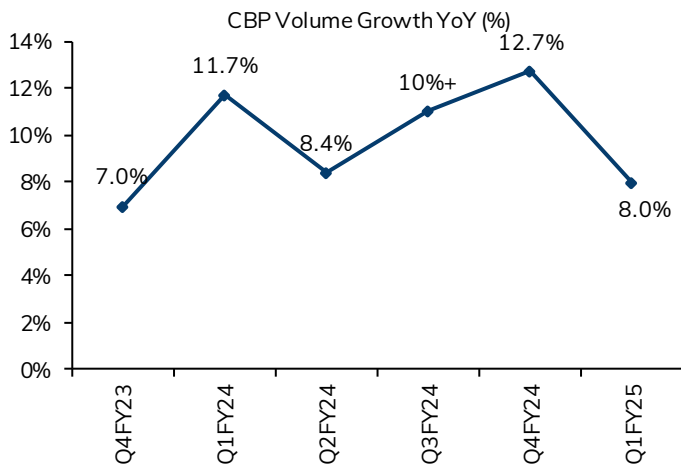
Source: I-Sec research, Company data

Exhibit 7: Standalone quarterly EBITDA margin (%)



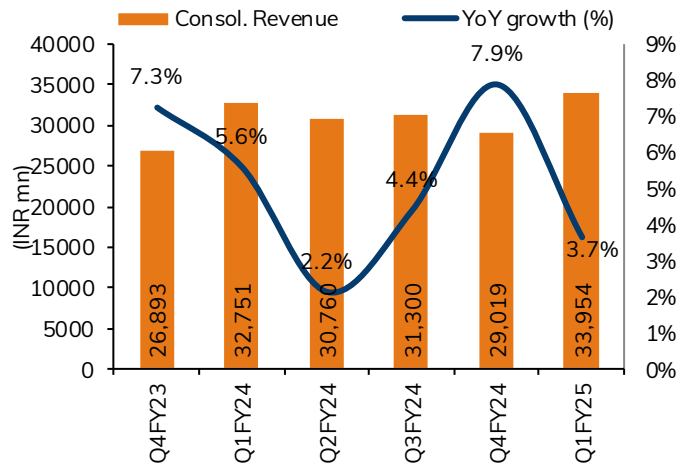
Source: I-Sec research, Company data

Exhibit 8: Standalone quarterly CBP volume growth



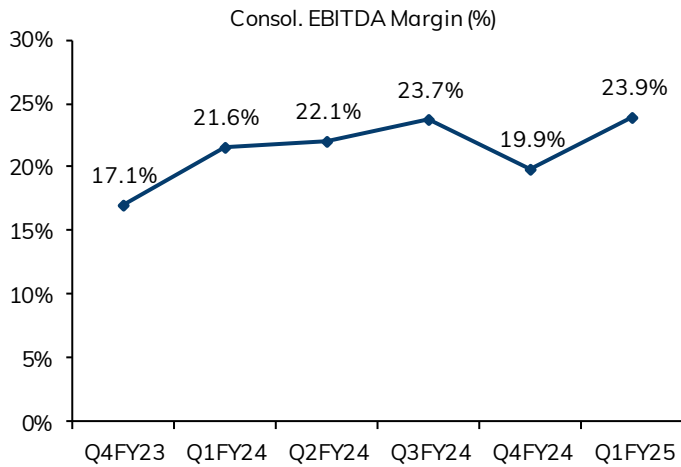
Source: I-Sec research, Company data

Exhibit 9: Consolidated quarterly revenue



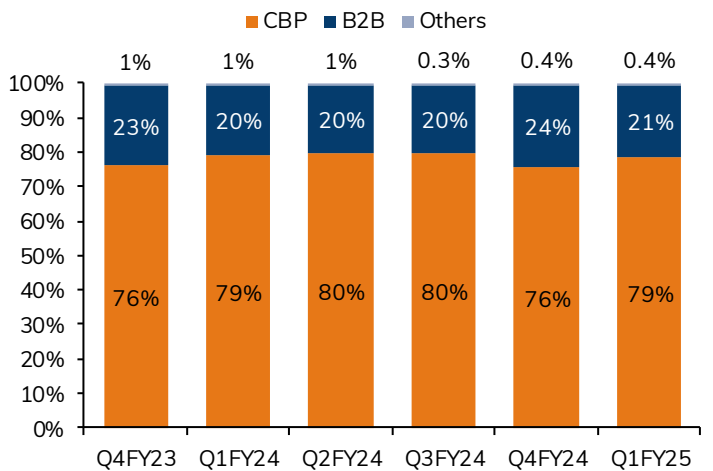
Source: I-Sec research, Company data

Exhibit 10: Consolidated quarterly EBITDA margin



Source: I-Sec research, Company data

Exhibit 11: Consolidated quarterly revenue breakup

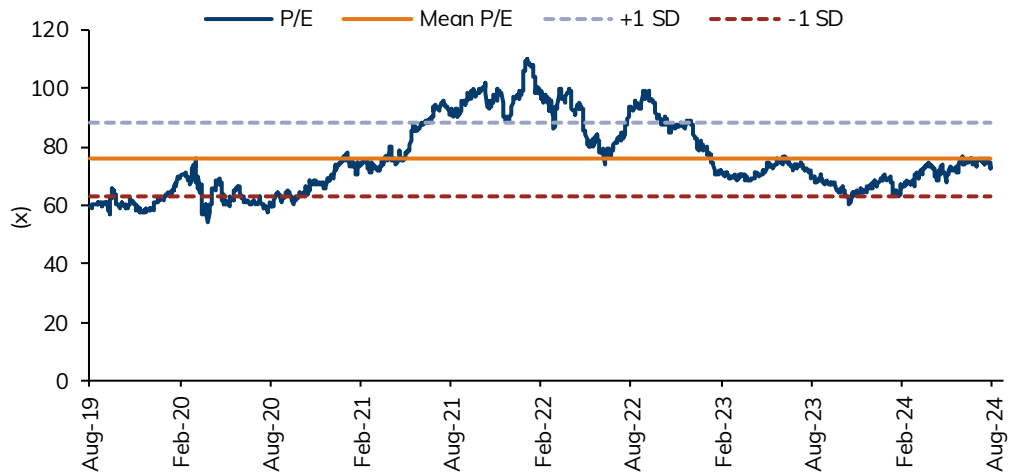


Source: I-Sec research, Company data

Valuation

PIDI is a play on the growing consumer market in India. It has a strong franchise with both consumer and intermediaries, high brand recall and extensive distribution reach. It is likely to witness EBIDTA/APAT CAGR of 11.9%/15.2% over FY24-27E driven by demand uptick and an innovative product portfolio with robust return ratios (23.4% in FY26E). Downgrade to **HOLD** with a rolled-over Jun'25E target price of INR 3,097 (earlier: INR 2,971), set at an unchanged 65x Jun'25E P/E.

Exhibit 12: 1-year forward P/E band



Source: I-Sec research, Company data

Key downside risks

- Slowdown in housing activity may result in lower-than-expected earnings.
- Any sharp rise in raw material prices could affect profitability/demand.
- Subdued performance in international subsidiaries.

Key upside risks

- Sharp decline in raw material prices, which could result in better-than-expected profitability.
- Better than expected pick up in demand.

Exhibit 13: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	69.8	69.8	69.8
Institutional investors	19.8	20.2	20.6
MFs and others	3.5	3.6	3.8
FIs/Banks	0.1	0.0	0.0
Insurance	4.6	5.1	5.1
FIIIs	11.6	11.5	11.7
Others	10.4	10.0	9.6

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,23,830	1,36,625	1,52,322	1,68,021
Operating Expenses	96,640	1,06,191	1,18,096	1,29,959
EBITDA	27,190	30,434	34,226	38,063
EBITDA Margin (%)	22.0	22.3	22.5	22.7
Depreciation & Amortization	3,407	3,613	4,092	4,561
EBIT	23,784	26,821	30,134	33,502
Interest expenditure	512	520	383	270
Other Non-operating Income	433	2,091	2,246	2,501
Recurring PBT	23,704	28,391	31,997	35,733
Less: Taxes	(6,319)	(7,268)	(8,191)	(9,148)
PAT	17,385	21,123	23,806	26,585
Profit / (Loss) from Associates	(41)	(41)	(41)	(41)
Less: Minority Interest	(180)	(211)	(238)	(266)
Extraordinary (Net)	130	-	-	-
Net Income (Reported)	17,294	20,872	23,527	26,279
Net Income (Adjusted)	17,198	20,872	23,527	26,279

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	14,149	16,470	17,945	19,794
Cash & cash eqv.	24,034	27,062	33,348	41,825
Sundry Debtors	16,747	17,967	20,031	22,096
Other Current Assets	-	-	-	-
Trade payables	11,476	12,727	13,772	15,191
Other Current Liabilities	15,645	13,704	14,279	15,778
Net Current Assets	33,965	41,806	50,786	61,032
Investments	3,649	3,608	3,568	3,527
Net Fixed Assets	39,724	42,259	45,021	48,021
Other Non Current Assets	16,297	16,297	16,297	16,297
Total Assets	93,635	1,03,970	1,15,672	1,28,878
Liabilities				
Borrowings	1,312	1,000	700	500
Other Non Current Liabilities	6,154	6,154	6,154	6,154
Total Liabilities	7,465	7,154	6,854	6,654
Equity Share Capital	508	508	508	508
Reserves & Surplus	83,563	93,999	1,05,762	1,18,902
Total Net Worth	84,071	94,507	1,06,271	1,19,410
Minority Interest	2,099	2,310	2,548	2,814
Total Liabilities & Net worth	93,635	1,03,970	1,15,672	1,28,878

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	30,760	31,300	29,019	33,954
% growth (YOY)	2.2	4.4	7.9	3.7
EBITDA	6,797	7,425	5,769	8,127
Margin %	22.1	23.7	19.9	23.9
Other Income	316	370	489	539
Extraordinary	0	0	717	0
Adjusted Net Profit	4,502	5,105	3,518	5,669

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	27,484	20,134	25,443	29,643
Working Capital Changes	6,940	(4,814)	(2,693)	(1,770)
Capital Commitments	(5,847)	(6,148)	(6,855)	(7,561)
Free Cashflow	21,637	13,986	18,588	22,082
Other investing cashflow	(152)	41	41	41
Cashflow from Investing Activities	(5,999)	(6,108)	(6,814)	(7,520)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	(321)	(312)	(300)	(200)
Dividend paid	(8,133)	(10,436)	(11,764)	(13,140)
Others	2,426	(252)	(279)	(306)
Cash flow from Financing Activities	(6,028)	(10,999)	(12,342)	(13,646)
Chg. in Cash & Bank balance	15,456	3,027	6,287	8,476
Closing cash & balance	24,034	27,062	33,348	41,825

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	34.0	41.0	46.3	51.7
Diluted EPS (Adjusted)	33.8	41.0	46.3	51.7
Cash EPS	40.5	48.1	54.3	60.6
Dividend per share (DPS)	16.0	20.5	23.1	25.8
Book Value per share (BV)	165.3	185.8	208.9	234.8
Dividend Payout (%)	47.3	50.0	50.0	50.0
Growth (%)				
Net Sales	4.9	10.3	11.5	10.3
EBITDA	34.6	11.9	12.5	11.2
EPS (INR)	33.9	21.4	12.7	11.7
Valuation Ratios (x)				
P/E	93.7	77.2	68.5	61.3
P/CEPS	78.2	65.8	58.3	52.3
P/BV	19.2	17.1	15.2	13.5
EV / EBITDA	58.4	52.1	46.1	41.3
EV / Sales	12.8	11.6	10.4	9.3
Dividend Yield (%)	0.5	0.6	0.7	0.8
Operating Ratios				
Gross Profit Margins (%)	51.6	52.1	52.1	52.0
EBITDA Margins (%)	22.0	22.3	22.5	22.7
Effective Tax Rate (%)	26.7	25.6	25.6	25.6
Net Profit Margins (%)	13.9	15.3	15.4	15.6
NWC / Total Assets (%)	8.2	11.3	12.1	12.0
Net Debt / Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(0.8)	(0.9)	(1.0)	(1.1)
Profitability Ratios				
RoCE (%)	20.4	20.7	20.9	20.8
RoE (%)	22.0	23.4	23.4	23.3
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	42	44	43	43
Receivables Days	49	48	48	48
Payables Days	34	34	33	33

Source Company data, I-Sec research

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