



**3R MATRIX**

|                      |            |           |            |
|----------------------|------------|-----------|------------|
|                      | +          | =         | -          |
| Right Sector (RS)    | ✓          | ■         | ■          |
| Right Quality (RQ)   | ✓          | ■         | ■          |
| Right Valuation (RV) | ■          | ■         | ✓          |
|                      | + Positive | = Neutral | - Negative |

**What has changed in 3R MATRIX**

|    |     |   |     |
|----|-----|---|-----|
|    | Old | ↔ | New |
| RS | ■   | ↔ | ■   |
| RQ | ■   | ↔ | ■   |
| RV | ■   | ↔ | ■   |

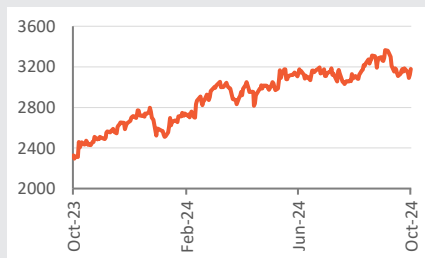
**Company details**

|                               |                   |
|-------------------------------|-------------------|
| Market cap:                   | Rs. 1,61,686 cr   |
| 52-week high/low:             | Rs. 3,414 / 2,299 |
| NSE volume:<br>(No of shares) | 4.0 lakh          |
| BSE code:                     | 500331            |
| NSE code:                     | PIDILITIND        |
| Free float:<br>(No of shares) | 15.5 cr           |

**Shareholding (%)**

|           |      |
|-----------|------|
| Promoters | 69.6 |
| FII       | 12.4 |
| DII       | 8.9  |
| Others    | 9.13 |

**Price chart**



**Price performance**

| (%)                | 1m   | 3m  | 6m  | 12m  |
|--------------------|------|-----|-----|------|
| Absolute           | -2.4 | 2.2 | 8.9 | 36.7 |
| Relative to Sensex | 3.4  | 1.9 | 0.9 | 11.3 |

Sharekhan Research, Bloomberg

**Pidilite Industries Ltd**  
**Good Q2; risk-reward unfavourable**

|                           |                                   |                       |                                |   |
|---------------------------|-----------------------------------|-----------------------|--------------------------------|---|
| <b>Building Materials</b> | <b>Sharekhan code: PIDILITIND</b> |                       |                                |   |
| <b>Reco/View: Hold</b>    | ↔                                 | <b>CMP: Rs. 3,202</b> | <b>Price Target: Rs. 3,397</b> | ↔ |
| ↑ Upgrade                 | ↔ Maintain                        | ↓ Downgrade           |                                |   |

**Summary**

- Pidilite Industries' (Pidilite's) Q2FY2025 performance was good with EBITDA margins coming in better than expectation at 23.8%, domestic revenue grew by 7% driven by 8% volume growth.
- Management maintained its guidance of achieving healthy double-digit volume growth, with growth and pioneer categories growing faster than core categories.
- EBITDA margins would remain at higher end of the expected band of 20-24% with input prices remaining stable.
- Stock trades at 78x/66x/59x FY25E/FY26E/FY27E EPS, respectively. With unfavourable risk-reward ratio, we maintain our Hold rating on the stock with an unchanged PT of Rs. 3,397.

**Pidilite's Q2FY2025 performance was good with the company delivering volume-led revenue growth and expansion in margins. Consolidated revenues grew by 5% y-o-y to Rs. 3,235 crore. Standalone revenues grew by 7% y-o-y driven by an 8% volume growth. Domestic consumer bazaar (C&B) business and B2B business registered y-o-y volume growth of 6% and 21%, respectively. Domestic B2B subsidiaries grew by 7% y-o-y, while C&B subsidiaries sales fell by 9% y-o-y. International subsidiaries (excluding Pidilite USA and Pulvitec Brazil) grew in double-digits despite uncertain global economic conditions and political instability in some countries. Benign vinyl acetate monomer (VAM) prices led to a 304 bps y-o-y expansion in gross margins to 54.4% and 167 bps y-o-y rise in EBITDA margins to 23.8% (better than our and average street expectation of 22.7% and 23.3%, respectively). EBITDA growth of 13.1% y-o-y to Rs. 769 crore, lower interest cost and higher other income led to 17.8% y-o-y growth in reported PAT to Rs. 540 crore. In H1FY2025, revenue grew by 4.4% y-o-y to Rs. 6,630 crore, EBITDA margin rose by 202 bps y-o-y to 23.9% and PAT grew by 19.2% y-o-y to Rs. 1,114 crore.**

**Key positives**

- B2B business registered y-o-y volume growth of 21%.
- Gross margins improved by 304 bps y-o-y to 54.4% aided by benign input prices.
- Middle East & Africa reported a 22% y-o-y revenue growth.

**Key negatives**

- Domestic C&B subsidiaries witnessed 9% y-o-y revenue decline due to demand headwinds.

**Management Commentary**

- Management indicated that Q1 was impacted by elections and Q2 by rains. Demand in October has been normal, with the company not seeing buoyant festive demand, but also not seeing it depressed.
- In Q2, rural markets continued to outpace urban markets. Pidilite refrained from giving any judgment on urban demand for another three to six months and said that it will depend on the outcome of monsoon and its impact on agricultural output and food inflation.
- B2B segment has delivered consistent double-digit growth for the past 3-4 quarters. Project segment has posted very strong growth and industrial products segment has also delivered good performance. It expects double-digit growth momentum to continue in B2B segment.
- Average VAM price for Q2FY2025 was \$980/tonne versus \$1,000/tonne in Q2FY2024. Management expects Q3 to be similar to Q2 in case of RM prices.
- Management has maintained its guidance of achieving double-digit UVG growth and expects margins to be at the higher end of the guidance of 20-24%.
- Pidilite is currently covering 6 lakh outlets, 5% (30k outlets) added in Q2. Management guided that focus would be on improving product range sold per outlet. It is aiming for 12-20% growth in distribution every year.
- The company aims to have two-thirds of its growth coming from growing the core business and one-third from innovation. It indicated that the core category is likely to grow at par with GDP growth and growth category to grow at 2-3x GDP growth as scope for penetration is very high.

**Revision in earnings estimates** – We have broadly maintained our estimates for FY2025 and FY2026 and will keenly monitor the performance in the coming quarters. We have introduced FY2027 estimates through this note.

**Our Call**

**View – Maintain Hold with an unchanged PT of Rs. 3,397:** Pidilite's Q2FY2025 performance was good with domestic business is witnessing good growth momentum. Pidilite is one of the strong play in the adhesives and construction chemicals industry in India. Strong brands, introduction of innovative products (one-third of growth will come from innovations) and a wider reach will aid market share gains in the construction chemicals segment (especially in the waterproofing space) from unorganised players. An overall increase in construction activities, high real estate demand, government spending and increasing prosperity will drive consistent demand in the coming years. Revenues and PAT are likely to grow at 11% and 15% over FY2024-27E. Stock trades at 78x/66x/59x FY25E/FY26E/FY27E EPS, respectively. With unfavourable risk-reward ratio, we maintain our Hold rating on the stock with an unchanged PT of Rs. 3,397.

**Key Risks**

Any inflation in raw-material prices (including VAM) and a slowdown in consumer demand will act as risks to our earnings estimates.

**Valuation (Consolidated)**

| Particulars        | Rs cr  |        |        |        |        |
|--------------------|--------|--------|--------|--------|--------|
|                    | FY23   | FY24   | FY25E  | FY26E  | FY27E  |
| Revenue            | 11,799 | 12,383 | 13,172 | 15,052 | 16,859 |
| OPM (%)            | 16.8   | 21.9   | 23.0   | 23.6   | 23.8   |
| Adjusted PAT       | 1,289  | 1,805  | 2,075  | 2,433  | 2,723  |
| Adjusted EPS (Rs.) | 25.4   | 35.5   | 40.8   | 47.9   | 53.6   |
| P/E (x)            | -      | 89.5   | 77.8   | 66.4   | 59.3   |
| P/B (x)            | 22.4   | 19.2   | 16.2   | 13.6   | 11.4   |
| EV/EBIDTA (x)      | 79.6   | 56.4   | 49.5   | 42.4   | 37.6   |
| RoNW (%)           | 18.9   | 23.1   | 22.6   | 22.2   | 20.9   |
| RoCE (%)           | 14.3   | 17.7   | 17.5   | 17.8   | 17.2   |

Source: Company; Sharekhan estimates