

## Paints | Q4FY24 Result Update

## Margins drop sequentially; Maintain Accumulate

- Pidilite's Q4FY24 revenue was in-line our estimates. Revenues grew by 7.9% representing a 4-Yr CAGR of 17.1%. Consumer & Bazaar segment posted 6.4% growth, while B2B segment grew by 11.7%. Domestic business reported 8.7% YoY growth with 15.2% UVG.
- As VAM prices moderated, GM improved 660bps YoY. We believe that with current VAM prices, margins would remain in the range of 20-24%.
- We have downward revised our FY25 EPS estimates by 4.8% at Rs 40.3 to factor in Q4 performance and near-term challenges, however maintained FY26E EPS at Rs 46.3. In the long run, the company's strong brand portfolio and wide distribution reach would help accelerate growth. With high growth potential and leadership, Pidilite deserves high valuations. TP upgraded at 3,006 (65x FY26E EPS). Accumulate. BUY on dips.

## Revenues in line; EBITDA and APAT miss

Net Sales grew 7.9% YoY to Rs 29.0bn led by strong UVG across categories – was in line. Sales grew 17.1% on 4-yr CAGR basis in Q4FY24. GM expanded by 660bps YoY to 53.4% in Q4FY24. A 660bps decline in RM cost was partially offset by 110/280bps increase in employee cost/ other expenses respectively, resulted in EBITDA margin expansion by 280bps to 19.9%. EBITDA grew by 25.6% YoY to Rs 5.8bn- came below our estimate. APAT grew by 31.5% YoY to Rs 3.8bn in Q4FY24 – below our estimate. VAM prices were at USD 900/ton in Q4FY24 vs USD 925/ton in Q3FY24 and USD 1,300/ton in Q4FY23.

## Healthy segmental performance

Consumer & Bazaar revenue (consol) stood at Rs 22.5bn, up 6.4% YoY, while EBIT increased by 19.5% YoY to Rs 5.4bn. Its margin expanded by 270bps to 24.2%. B2B revenue grew by 11.7% YoY to Rs 7.7bn, while EBIT stood at Rs 835mn, up 18.1%. B2B EBIT margin expanded by 60bps to 11.8%. C&B is expected to witness near term pressure due to elections this year, however, is likely to strengthen with increasing construction activities while B2B business is expected to deliver strong improvement. Stable VAM prices would help maintain high margins.

## Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	29,019	26,893	7.9	31,300	(7.3)
Total Expense	23,249	22,301	4.3	23,875	(2.6)
EBITDA	5,769	4,592	25.6	7,425	(22.3)
Depreciation	1,125	762	47.8	795	41.6
EBIT	4,644	3,830	21.3	6,630	(30.0)
Other Income	489	228	114.2	370	32.2
Interest	134	118	13.3	128	5.2
EBT	4,282	3,940	8.7	6,872	(37.7)
Tax	1,219	1,067	14.3	1,765	(30.9)
RPAT	3,044	2,860	6.4	5,110	(40.4)
APAT	3,761	2,860	31.5	5,110	(26.4)
			(bps)		(bps)
Gross Margin (%)	53.4	46.8	664	52.9	55
EBITDA Margin (%)	19.9	17.1	281	23.7	(384)
NPM (%)	10.5	10.6	(14)	16.3	(584)
Tax Rate (%)	28.5	27.1	140	25.7	279
EBIT Margin (%)	16.0	14.2	176	21.2	(518)

CMP	Rs 2,815		
Target / Upside	Rs 3,006 / 7%		
NIFTY	22,303		
<b>Scrip Details</b>			
Equity / FV	Rs 509mn / Rs 1		
Market Cap	Rs 1,431bn		
	USD 17.3bn		
52-week High/Low	Rs 3,118/ 2,293		
Avg. Volume (no)	4,17,576		
Bloom Code	PIDI IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	(8)	7	15
Rel to NIFTY (%)	(6)	5	(14)

## Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	69.9	69.8	69.8
MF/Banks/FIs	8.0	8.3	8.9
FIs	11.4	11.5	11.3
Public / Others	10.7	10.4	10.0

## Valuation (x)

	FY24P	FY25E	FY26E
P/E	79.4	69.9	60.8
EV/EBITDA	52.1	47.6	41.2
ROE (%)	22.1	22.1	21.2
RoACE (%)	21.3	20.4	19.8

## Estimates (Rs bn)

	FY24P	FY25E	FY26E
Revenue	123.8	137.1	152.5
EBITDA	27.1	29.5	33.7
PAT	18.0	20.5	23.5
EPS (Rs.)	35.4	40.3	46.3

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### Mixed IB performance – Exited from American market

During the quarter, IB reported revenue de-growth of 22.9% YoY (ex-Americas grew by 7.7%) due to uncertain global economic conditions, uncertain political conditions in certain countries and inflation. However, excluding Pidilite USA Inc. revenue posted decent growth. In addition, EBITDA grew by 133.6% YoY to Rs 271mn. Asia/MEA reported 4.5/11.4% revenue growth in Q4FY24. EBITDA of Asia business grew by 44.7% YoY, while MEA posted EBITDA of Rs 93mn vs Rs 35mn in the base quarter. During Mar'24, the company divested its business in Brazil and fully exited businesses in America (which contributed 30.7% to international business in FY23).

#### Exhibit 1: Actual V/s Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	29,019	28,587	1.5	
EBITDA	5,769	6,482	(11.0)	Lower than anticipated GM and higher other expenses resulted in lower EBITDA
EBITDA margin %	19.9	22.7	(280)	
APAT	3,779	4,443	(14.9)	Cascading effect of low EBITDA

Source: Company, DART

#### Exhibit 2: Change in estimates

Particulars (Rs mn)	FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	1,37,057	1,35,859	0.9	1,52,481	1,48,600	2.6
EBIDTA	29,479	30,417	(3.1)	33,662	32,969	2.1
EBIDTA margin (%)	21.5	22.4	(90bps)	22.1	22.2	(10bps)
PAT	20,472	21,495	(4.8)	23,526	23,512	0.1
EPS (Rs)	40.3	42.3	(4.8)	46.3	46.3	(0.0)

Source: Company DART

We have marginally altered our sales estimate to factor in management commentary on double digit volume growth post June'24. However, we have lowered our EBITDA margin estimates to factor increase in crude oil prices. In line with the revision in EBITDA, we have revised our APAT and EPS estimates.

#### Exhibit 3: Segmental Performance (Consolidated)

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Revenue</b>					
Consumer Bazaar	22,472	21,128	6.4	25,413	(11.6)
Business to Business	7,079	6,340	11.7	6,373	11.1
Others	118	207	(43.0)	97	21.2
<b>Total</b>	<b>29,669</b>	<b>27,674</b>	<b>7.2</b>	<b>31,883</b>	<b>(6.9)</b>
<b>EBIT</b>					
Consumer Bazaar	5,448	4,560	19.5	7,704	(29.3)
Business to Business	835	707	18.1	757	10.4
Others	3	7	(57.6)	10	(72.3)
<b>Total</b>	<b>6,286</b>	<b>5,273</b>	<b>19.2</b>	<b>8,471</b>	<b>(25.8)</b>
<b>EBIT Margin (%)</b>					
Consumer Bazaar	24.2	21.6	270.0	30.3	(610.0)
Business to Business	11.8	11.2	60.0	11.9	(10.0)
Others	2.4	3.2	(80.0)	10.4	(800.0)
<b>Total</b>	<b>21.2</b>	<b>19.1</b>	<b>210.0</b>	<b>26.6</b>	<b>(540.0)</b>

Source: DART, Company

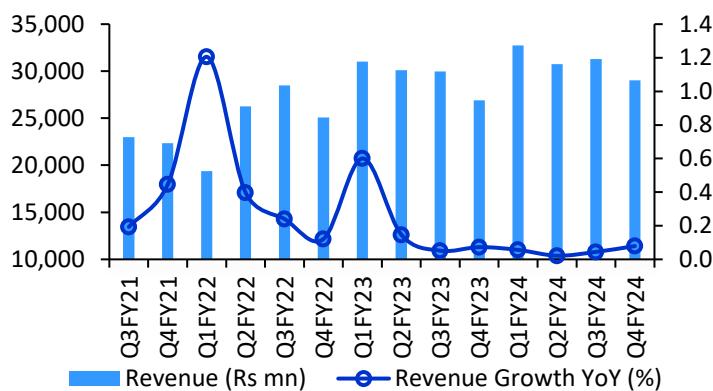
**Exhibit 4: Overseas Performance**

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Revenue</b>					
Asia	837	801	4.5	766	9.3
Middle East & Africa	750	673	11.4	765	(2.0)
Americas	0	585	NA	365	NA
<b>Total</b>	<b>1,587</b>	<b>2,059</b>	<b>(22.9)</b>	<b>1,896</b>	<b>(16.3)</b>
<b>EBITDA</b>					
Asia	178	123	44.7	164	8.5
Middle East & Africa	93	35	165.7	79	17.7
Americas	0	-42	NA	-36	NA
<b>Total</b>	<b>271</b>	<b>116</b>	<b>133.6</b>	<b>207</b>	<b>30.9</b>
<b>EBITDA Margin (%)</b>					
Asia	21.3	15.4	590	21.4	-10
Middle East & Africa	12.4	5.2	720	10.3	210
Americas	NA	(7.2)	NA	(9.9)	NA
<b>Total</b>	<b>17.1</b>	<b>5.6</b>	<b>1,140</b>	<b>10.9</b>	<b>620</b>

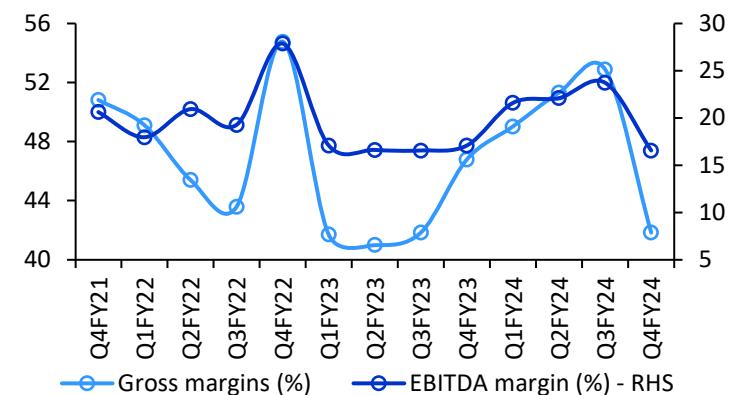
Source: Company, DART

**Earning call KTA**

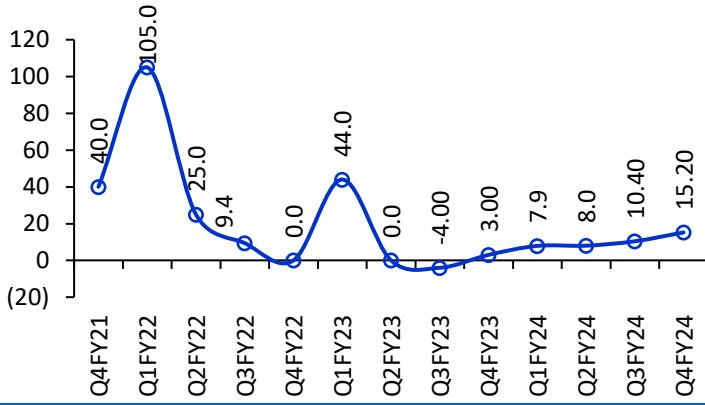
- During Q4FY24, revenue (cons) grew by 7.9% YoY, led by 12.7/25.2% UVG growth in C&B/B2B business respectively (Vol. growth 4-Yr CAGR 13%). Further, domestic C&B/B2B business revenue grew by 6.4/11.7% YoY. Going ahead, Pidilite is expected to post volume led growth aided by governments focus on capex. In FY25E, the company is expected to post double digit volume growth. However, the management stated that general elections may dampen sales performance in ensuing quarters.
- GM expanded by 660bps led by moderation in input prices. The benefits were invested in marketing initiatives (A&P increased by 3.8%). Consequently, EBITDA margin expanded by 280bps to 19.9%. Pidilite has maintained EBITDA margin guidance of ~20-24%, going forward.
- VAM procurement prices during the quarter were at USD 925/ton compared to USD 1,300/ton in Q4FY23. Going ahead, these prices are expected to remain stable despite current geo-political situation.
- 'Pidilite Ki Duniya' stores stood at 13,000 across 8 states. During the quarter, urban and rural markets continued to grow - with rural markets outpacing urban growth. The growth was led by continued focus on investment towards growing presence in these geographies and increase in distribution touchpoints. We believe, growth in rural markets would aid revenue growth.
- Pidilite has launched range of innovative products – Fevicol Ultra, a new variant of Fevicol under sealants, super premium variant of Fevicol called Fevicol Hi-per Star, economy exterior coatings under the Raincoat Neo brand and glue drop.
- During the quarter, the company incurred, exceptional item of Rs 720mn on account of divestment in the Brazilian business. Furthermore, the company has recognised one-time impairment charge of Rs 200mn on account write down of manufacturing facilities at Mahad.
- Pidilite has continued to expand capacity in existing plants, consolidated few manufacturing facilities and commissioned 10 new plants during FY24. Going ahead capex remains same at 3-5% of total revenue.

**Exhibit 5: Trend in Revenue and Revenue Growth (%)**


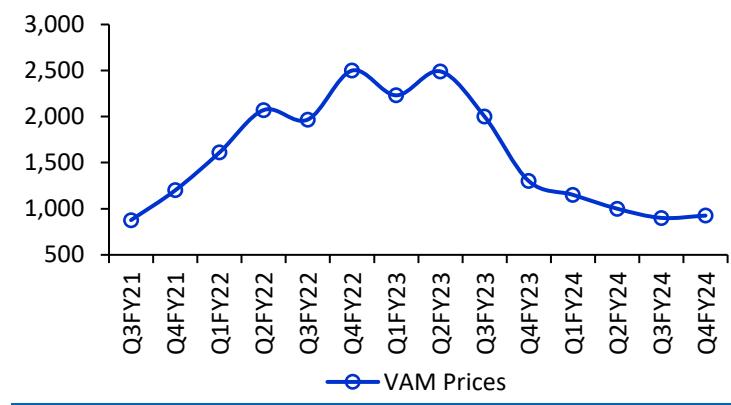
Source: Company, DART

**Exhibit 6: Trend in Operating Performance**


Source: Company, DART

**Exhibit 7: Domestic Volume Growth (%)**


Source: Company, DART

**Exhibit 8: VAM prices (USD/ton)**


Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
<b>Revenue</b>	<b>1,17,991</b>	<b>1,23,830</b>	<b>1,37,057</b>	<b>1,52,481</b>
<b>Total Expense</b>	<b>98,147</b>	<b>96,757</b>	<b>1,07,578</b>	<b>1,18,820</b>
COGS	67,594	59,940	68,318	75,691
Employees Cost	12,456	14,651	16,213	17,439
Other expenses	18,097	22,166	23,047	25,691
<b>EBIDTA</b>	<b>19,844</b>	<b>27,073</b>	<b>29,479</b>	<b>33,662</b>
Depreciation	2,697	3,407	3,183	3,294
<b>EBIT</b>	<b>17,146</b>	<b>23,666</b>	<b>26,296</b>	<b>30,368</b>
Interest	476	512	490	490
Other Income	496	1,397	1,513	1,529
Exc. / E.O. items	0	(717)	0	0
<b>EBT</b>	<b>17,166</b>	<b>23,834</b>	<b>27,318</b>	<b>31,407</b>
Tax	4,344	6,319	6,912	7,946
RPAT	12,733	17,294	20,472	23,526
Minority Interest	90	221	(65)	(65)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>12,733</b>	<b>18,011</b>	<b>20,472</b>	<b>23,526</b>

### Balance Sheet

(Rs Mn)	FY23A	FY24P	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	508	509	509	509
Minority Interest	2,336	2,099	2,099	2,099
Reserves & Surplus	71,615	83,563	1,00,474	1,20,440
<b>Net Worth</b>	<b>72,123</b>	<b>84,072</b>	<b>1,00,983</b>	<b>1,20,949</b>
Total Debt	3,906	3,825	3,825	3,825
Net Deferred Tax Liability	3,982	3,924	3,924	3,924
<b>Total Capital Employed</b>	<b>82,347</b>	<b>93,919</b>	<b>1,10,830</b>	<b>1,30,796</b>

### Applications of Funds

	FY23A	FY24P	FY25E	FY26E
Net Block	49,141	54,506	50,537	51,237
CWIP	4,059	1,481	1,481	1,481
Investments	3,497	3,649	4,087	4,577
<b>Current Assets, Loans &amp; Advances</b>	<b>48,409</b>	<b>61,359</b>	<b>82,195</b>	<b>1,03,733</b>
Inventories	18,171	14,149	23,395	26,031
Receivables	15,353	16,747	19,744	21,968
Cash and Bank Balances	3,266	5,333	11,382	25,217
Loans and Advances	1,142	604	604	604
Other Current Assets	5,165	5,825	6,124	6,454
<b>Less: Current Liabilities &amp; Provisions</b>	<b>22,759</b>	<b>27,077</b>	<b>27,470</b>	<b>30,232</b>
Payables	10,636	11,476	9,003	10,018
Other Current Liabilities	12,123	15,601	18,467	20,215
<i>sub total</i>				
Net Current Assets	25,650	34,283	54,725	73,501
<b>Total Assets</b>	<b>82,347</b>	<b>93,919</b>	<b>1,10,830</b>	<b>1,30,796</b>

E – Estimates

**Important Ratios**

Particulars	FY23A	FY24P	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	42.7	51.6	50.2	50.4
EBIDTA Margin	16.8	21.9	21.5	22.1
EBIT Margin	14.5	19.1	19.2	19.9
Tax rate	25.3	26.5	25.3	25.3
Net Profit Margin	10.8	14.0	14.9	15.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	57.3	48.4	49.8	49.6
Employee	10.6	11.8	11.8	11.4
Other	15.3	17.9	16.8	16.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	36.0	46.2	53.7	62.0
Inventory days	56	42	62	62
Debtors days	47	49	53	53
Average Cost of Debt	11.8	13.2	12.8	12.8
Payable days	33	34	24	24
Working Capital days	79	101	146	176
FA T/O	2.4	2.3	2.7	3.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	25.1	35.4	40.3	46.3
CEPS (Rs)	30.4	42.1	46.5	52.8
DPS (Rs)	10.0	11.0	7.0	7.0
Dividend Payout (%)	39.9	31.1	17.4	15.1
BVPS (Rs)	141.9	165.4	198.7	238.0
RoANW (%)	18.7	22.1	22.1	21.2
RoACE (%)	17.0	21.3	20.4	19.8
RoAIC (%)	22.9	28.2	28.0	29.6
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2815	2815	2815	2815
P/E	112.4	79.4	69.9	60.8
Mcap (Rs Mn)	14,30,608	14,30,608	14,30,608	14,30,608
MCap/ Sales	12.1	11.6	10.4	9.4
EV	14,25,936	14,10,399	14,02,106	13,85,757
EV/Sales	12.1	11.4	10.2	9.1
EV/EBITDA	71.9	52.1	47.6	41.2
P/BV	19.8	17.0	14.2	11.8
Dividend Yield (%)	0.4	0.4	0.2	0.2
<b>(F) Growth Rate (%)</b>				
Revenue	18.9	4.9	10.7	11.3
EBITDA	7.4	36.4	8.9	14.2
EBIT	6.7	38.0	11.1	15.5
PBT	7.2	38.8	14.6	15.0
APAT	5.4	41.5	13.7	14.9
EPS	5.4	41.5	13.7	14.9

E – Estimates

**Cash Flow**

Particulars	FY23A	FY24P	FY25E	FY26E
<b>Profit before tax</b>	<b>17,166</b>	<b>23,834</b>	<b>27,318</b>	<b>31,407</b>
Depreciation & w.o.	2,697	3,407	3,183	3,294
Net Interest Exp	476	512	490	490
Direct taxes paid	(4,116)	(6,481)	(6,912)	(7,946)
Change in Working Capital	(759)	5,745	(11,850)	(2,097)
Non Cash	587	1,289	(235)	(264)
<b>(A) CF from Operating Activities</b>	<b>16,052</b>	<b>28,305</b>	<b>11,995</b>	<b>24,883</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(4,977)	(5,630)	785	(3,993)
<b>Free Cash Flow</b>	<b>11,075</b>	<b>22,676</b>	<b>12,781</b>	<b>20,890</b>
(Inc.)/ Dec. in Investments	(4,034)	(12,869)	(2,682)	(3,004)
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(9,011)</b>	<b>(18,499)</b>	<b>(1,897)</b>	<b>(6,997)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	(1,136)	(1,631)	0	0
Interest exp net	(476)	(512)	(490)	(490)
Dividend Paid (Incl. Tax)	(5,083)	(5,597)	(3,560)	(3,560)
Other	(631)	0	0	0
<b>(C) CF from Financing</b>	<b>(7,327)</b>	<b>(7,740)</b>	<b>(4,050)</b>	<b>(4,050)</b>
Net Change in Cash	(285)	2,067	6,049	13,835
<b>Opening Cash balances</b>	<b>3,552</b>	<b>3,266</b>	<b>5,333</b>	<b>11,382</b>
<b>Closing Cash balances</b>	<b>3,266</b>	<b>5,333</b>	<b>11,382</b>	<b>25,217</b>

E – Estimates

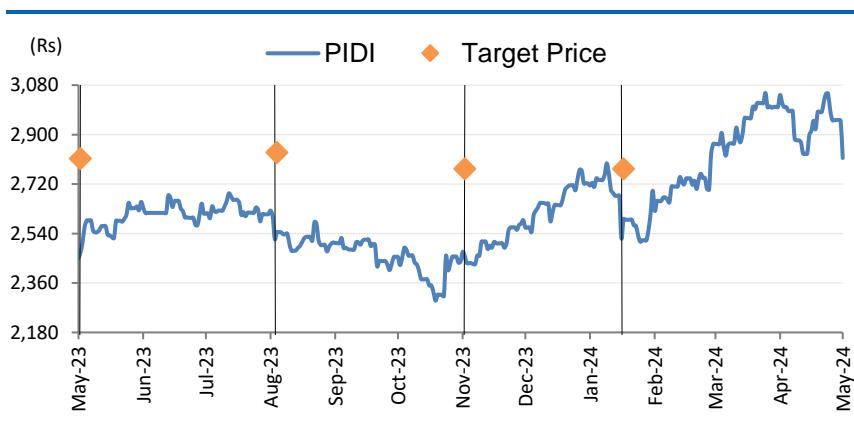
## Notes

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	> 20%
<b>Accumulate</b>	10 to 20%
<b>Reduce</b>	0 to 10%
<b>Sell</b>	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	Accumulate	2,812	2,472
Aug-23	Accumulate	2,834	2,545
Nov-23	Accumulate	2,775	2,458
Jan-24	Accumulate	2,775	2,592

\*Price as on recommendation date

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