

January 25, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	2,500		2,679	
Sales (Rs. m)	1,33,715	1,50,268	1,40,938	1,58,322
% Chng.	(5.1)	(5.1)		
EBITDA (Rs. m)	27,970	34,043	30,739	37,277
% Chng.	(9.0)	(8.7)		
EPS (Rs.)	37.9	47.6	42.0	52.5
% Chng.	(9.8)	(9.4)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	99,210	1,18,772	1,33,715	1,50,268
EBITDA (Rs. m)	18,473	20,335	27,970	34,043
Margin (%)	18.6	17.1	20.9	22.7
PAT (Rs. m)	12,068	13,340	19,265	24,181
EPS (Rs.)	23.7	26.2	37.9	47.6
Gr. (%)	6.8	10.5	44.4	25.5
DPS (Rs.)	8.5	10.0	11.0	14.0
Yield (%)	0.4	0.4	0.5	0.6
RoE (%)	20.1	19.6	24.3	25.6
RoCE (%)	25.7	24.8	30.4	31.4
EV/Sales (x)	11.8	9.8	8.6	7.6
EV/EBITDA (x)	63.6	57.4	41.3	33.5
PE (x)	97.5	88.2	61.1	48.7
P/BV (x)	18.4	16.3	13.7	11.4

Key Data

PIDI.BO | PIDI IN

52-W High / Low	Rs.2,919 / Rs.1,989
Sensex / Nifty	60,205 / 17,892
Market Cap	Rs.1,177bn/ \$ 14,425m
Shares Outstanding	508m
3M Avg. Daily Value	Rs.867.48m

Shareholding Pattern (%)

Promoter's	69.94
Foreign	11.08
Domestic Institution	8.13
Public & Others	10.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.0)	(0.8)	(10.6)
Relative	(7.6)	(8.1)	(14.1)

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Worst seems over, look for entry on declines

Quick Pointers:

- Current VAM prices at \$1200/Ton, 3Q usage at \$2000/ton (\$2500 in 2Q), 4Q exit Margins expected to improve 4Q23 to a band of 20-24%.
- Aiming for launch of 1-2 innovations/ quarter for next 12-18 months

We cut FY23/FY24/FY25 EPS estimates by 8.6/9.8/9.4% and DCF based target price to Rs2500 (Rs2679 earlier) tepid sales growth and margin recovery in 3Q23. However, worst seems over given 1) sustained growth in Tier1/2/3 cities and hopes of revival in Tier4/5 in 4Q23 and 2) 58% correction in VAM prices from peak and likelihood of 4Q exit margins entering guidance band of 20-24%. Long term trends remain favorable with 1) pick up in real estate, repair & renovation activity 2) plans to launch 1-2 innovations every quarter for next 12-18 months 3) targeted increase in ratio of Pioneer and Growth categories from current 33% to 50% over next 3 years and 4) gains from increased distribution reach in rural India and small towns. We estimate 26.8% EPS CAGR over FY22-25. PIDI trades at 48.7x FY25 EPS which leaves limited room for re-rating despite encouraging long term outlook. Retain Hold.

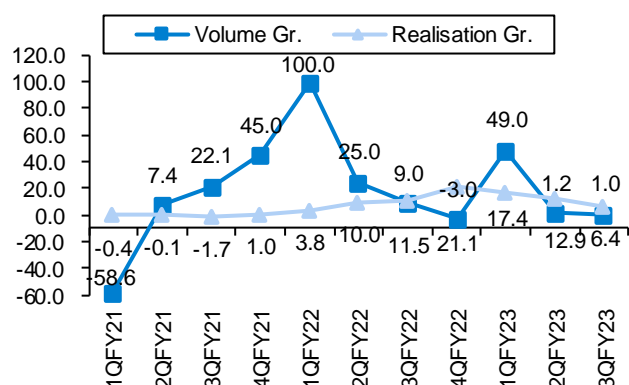
GM decline 180bps YoY, up 80bps QoQ; C&B volumes up 1% YoY: Consolidated Revenues grew by 5.2% YoY to Rs30bn. Gross margins contracted 175bps YoY to 41.8%. EBITDA declined 9.7% YoY to Rs5bn; Margins contracted 272bps YoY to 16.5%. PBT declined by 13.6% YoY to Rs 4.2bn. Adj PAT declined by 13.9% YoY to Rs3.1bn. Volumes in Consumer and Bazaar grew ~1% YoY. Imputed Subsidiary Sales grew 7.9% YoY to Rs2.9bn; EBITDA grew 57% YoY to 281mn. **Standalone** – Sales increased 4.9%, GM improved 80bps QoQ and declined 220bps YoY. EBITDA declined 11.9%. PBT declined 16.3% and Adj PAT by 17.4%. **Consumer and Bazaar** sales grew 6.9% YoY to Rs24.2bn; EBIT declined 5% YoY to Rs5372.2mn. B2B sales declined 3% YoY to Rs6bn; EBIT declined 2% YoY to 391.2mn. IBD reported 9% sales growth while EBITDA declined 26% due to softer margins in Americas and ME.

Concall Takeaways: **1) Decent demand** across tier 1,2, and 3 cities, Tier 4 and 5 (i.e. Rural and semi urban) are under pressure. **2) Rural and semi urban** are expected to turn around from Q4, Tier 2-3 are witnessing Increased construction and commercial activity which augurs well for demand **3) Currently 2/3rd** of demand comes from repair and renovation and 1/3rd from new construction **4) 5 years ago** the ratio of core over growth and pioneer was 75-25%, currently it is 67-33 and shall be 50-50 in next 3 years **5) Water proofing** is doing better as it is a growth category. B2B water proofing has come back strongly due to govt infra spend and commercial spends on offices **6) B2B** is suffering in exports led segments, for pigments January is no different from December **7) PIDI** is targeting 1/3rd of the growth to come from innovations **8) Added 7 brownfield factories** and 5 new Greenfield in last 2 years. 6 brownfields and 8 greenfield factories will be competed in next financial year **9) Expects higher competition** in next 3-6 months from smaller players given softer trend in raw material prices.

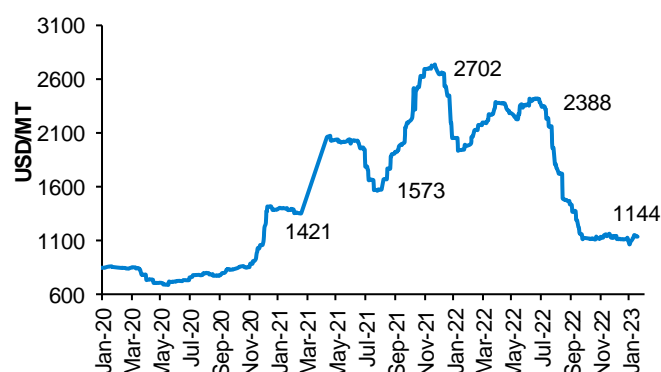
Exhibit 1: EBITDA margins decline 270bps YoY/6bps QoQ

Consolidated	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Revenue	29,976	28,507	5.2	30,112	91,099	74,139	22.9
Gross Profit	12,541	12,425	0.9	12,342	37,815	33,860	11.7
Margin %	41.8	43.6	(1.7)	41.0	41.5	45.7	(4.2)
Other Expenditure	7,583	6,934	9.3	7,344	22,563	19,397	16.3
EBITDA	4,959	5,490	(9.7)	4,999	15,252	14,462	5.5
Margin %	16.5	19.3	(2.7)	16.6	16.7	19.5	(2.8)
Depreciation	686	605	13.5	636	1,936	1,774	9.1
Interest	151	108	40.4	117	358	327	9.4
Other Income	51	52	(0.8)	110	268	252	6.4
PBT	4,173	4,830	(13.6)	4,355	13,226	12,613	4.9
Tax	1,111	1,275	(12.8)	1,009	3,277	3,155	3.9
Tax rate %	26.6	26.4		23.2	24.8	25.0	
Adj PAT	3,061	3,555	(13.9)	3,347	9,949	9,458	5.2

Source: Company, PL

Exhibit 2: C&B volumes grew 1% YoY


Source: Company, PL

Exhibit 3: VAM prices have corrected 57.6% from peak


Source: Company, PL

Exhibit 4: C&B Sales grew 6.9% while B2B sales decline 3%, C&B margins improve QoQ

Segmental	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Consumer and Bazaar									
Sales (Rs m)	18489	17303	14862	21304	22645	19132	24358	24315	24216
Growth (%)	25.1	54.6	111.7	39.5	22.5	10.6	63.9	14.1	6.9
EBIT (Rs m)	6451	4692	3704	5827	5629	4177	5352	5265	5372
EBIT Growth %	43.5	68.1	180.6	9.5	-12.7	-11.0	44.5	-9.6	-4.6
EBIT margin %	34.9	27.1	24.9	27.4	24.9	21.8	22.0	21.7	22.2
B2B									
Sales (Rs m)	4751	5350	4820	5324	6186	6453	7220	6237	5999
Growth (%)	2.7	21.3	156.1	41.2	30.2	20.6	49.8	17.2	-3.0
EBIT (Rs m)	558	524	420	263	400	444	748	495	391
EBIT Growth %	-18.1	-27.9	-285.4	-9.4	-28.3	-15.3	78.1	88.4	-2.2
EBIT margin %	11.7	9.8	8.7	4.9	6.5	6.9	10.4	7.9	6.5

Source: Company, PL

Domestic subsidiary margins at 10.4%, decline by 100bps QoQ

- Domestic subsidiaries in C&B registered 12% sales growth. Margins improved by 670bps YoY but were down 180bps QoQ. EBIT grew 80.6%
- B2B business (NINA Precept) with EBIT of Rs13mn with 290bps QoQ margin expansion, outlook remains positive given pickup in construction activity

Exhibit 5: Domestic subsidiary margins up 750bps YoY, down 100bps QoQ

Sales - (Rs mn)	Q3FY22	Q1FY23	Q2FY23	Q3FY23
Consumer & Bazar (C&B)	853	893	1,026	957
Business to Business (B2B)	659	832	649	786
Total	1512	1725	1675	1743
Sales Growth (YoY)				
Consumer & Bazar (C&B)		105	25	12
Business to Business (B2B)		36	12	19
Total		65	20	15
EBITDA (Rs mn)				
Consumer & Bazar (C&B)	93	162	199	168
Business to Business (B2B)	(49)	9	(8)	13
Total	44	171	191	181
EBITDA margin %				
Consumer & Bazar (C&B)	10.9%	18.1%	19.4%	17.6%
Business to Business (B2B)	-7.4%	1.1%	-1.2%	1.7%
Total	2.9%	9.9%	11.4%	10.4%
EBITDA growth (YoY)				
Consumer & Bazar (C&B)		276.7	40.1	80.6
Business to Business (B2B)		NA	NA	NA
Total		NA	282.0	311.4

Source: Company, PL

Note: C&B contains ICA Pidilite Pvt Ltd; B2B contains Nina Percept Pvt Ltd

IBD registers 26% EBIDTA decline on higher input costs

International business (IBD) reported 9.3% growth in sales, EBIDTA declined 26% as margins declined 230bps YoY, although it expanded 350bps QoQ due to higher input costs.

Americas sales increased 4.6%, EBIDTA loss is Rs22mn as margins declined 500bps YoY and 220bps QoQ. **Asia:** Sales grew 5.9% with EBITDA of Rs 100mn, down 19% YoY. **Middle East & Africa** sales grew by 18.8% with EBITDA of Rs18mn with a margin of 2.8%.

Exhibit 6: EBITDA Margins contract 230bps YoY/ but expand 350bps QoQ

Subsidiaries	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Sales (Rs. m)	1,828	1,915	2,161	2,053	1,998
Americas	584	536	709	646	611
Asia	706	825	838	773	748
Middle East & Africa	538	554	614	634	639
Sales growth (YoY)	0.5	10.1	28.8	15.1	9.3
Americas	(17.5)	(6.1)	28.2	(7.3)	4.6
Asia	3.7	21.1	32.2	38.0	5.9
Middle East & Africa	25.1	13.5	25.1	20.3	18.8
EBITDA (Rs m)	130.0	53.0	212.0	26.5	96.0
Americas	8.0	(24.0)	159.0	(9.0)	(22.0)
Asia	123.0	91.0	10.0	12.5	100.0
Middle East & Africa	(1.0)	(14.0)	43.0	23.0	18.0
EBITDA (margin %)	7.1	2.8	9.8	1.3	4.8
Americas	1.4	(4.5)	22.4	(1.4)	(3.6)
Asia	17.4	11.0	1.2	1.6	13.4
Middle East & Africa	(0.2)	(2.5)	7.0	3.6	2.8

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	99,210	1,18,772	1,33,715	1,50,268
YoY gr. (%)	36.0	19.7	12.6	12.4
Cost of Goods Sold	54,442	68,635	67,895	73,380
Gross Profit	44,768	50,137	65,820	76,888
Margin (%)	45.1	42.2	49.2	51.2
Employee Cost	11,124	13,240	15,662	17,823
Other Expenses	-	-	-	-
EBITDA	18,473	20,335	27,970	34,043
YoY gr. (%)	9.9	10.1	37.5	21.7
Margin (%)	18.6	17.1	20.9	22.7
Depreciation and Amortization	2,396	2,713	3,052	3,447
EBIT	16,077	17,622	24,918	30,596
Margin (%)	16.2	14.8	18.6	20.4
Net Interest	421	503	549	608
Other Income	363	603	1,279	2,227
Profit Before Tax	16,019	17,722	25,648	32,216
Margin (%)	16.1	14.9	19.2	21.4
Total Tax	4,070	4,519	6,540	8,215
Effective tax rate (%)	25.4	25.5	25.5	25.5
Profit after tax	11,949	13,203	19,108	24,001
Minority interest	-	-	-	-
Share Profit from Associate	119	137	157	181
Adjusted PAT	12,068	13,340	19,265	24,181
YoY gr. (%)	6.8	10.5	44.4	25.5
Margin (%)	12.2	11.2	14.4	16.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12,068	13,340	19,265	24,181
YoY gr. (%)	7.2	10.5	44.4	25.5
Margin (%)	12.2	11.2	14.4	16.1
Other Comprehensive Income	(221)	-	-	-
Total Comprehensive Income	11,847	13,340	19,265	24,181
Equity Shares O/s (m)	508	508	508	508
EPS (Rs)	23.7	26.2	37.9	47.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	48,408	51,123	54,501	58,090
Tangibles	31,822	34,423	37,690	41,171
Intangibles	16,586	16,700	16,811	16,919
Acc: Dep / Amortization	14,354	16,880	19,743	22,998
Tangibles	14,354	16,880	19,743	22,998
Intangibles	-	-	-	-
Net fixed assets	34,164	34,243	34,757	35,092
Tangibles	17,578	17,543	17,946	18,173
Intangibles	16,586	16,700	16,811	16,919
Capital Work In Progress	2,254	2,473	2,873	3,273
Goodwill	12,868	12,868	12,868	12,868
Non-Current Investments	3,546	3,635	3,725	3,819
Net Deferred tax assets	(3,772)	(3,700)	(3,802)	(4,307)
Other Non-Current Assets	1,955	3,088	3,477	3,907
Current Assets				
Investments	1,735	9,393	19,908	35,709
Inventories	16,951	22,189	21,391	23,120
Trade receivables	14,305	18,795	20,795	22,550
Cash & Bank Balance	3,552	2,846	3,455	3,894
Other Current Assets	2,581	2,762	3,106	3,488
Total Assets	95,156	1,13,555	1,27,655	1,49,053
Equity				
Equity Share Capital	508	508	508	508
Other Equity	63,529	71,776	85,458	1,02,532
Total Networkth	64,037	72,284	85,966	1,03,040
Non-Current Liabilities				
Long Term borrowings	17	14	11	9
Provisions	718	769	866	973
Other non current liabilities	960	2,119	2,585	3,181
Current Liabilities				
ST Debt / Current of LT Debt	2,856	2,856	2,856	2,856
Trade payables	10,493	15,983	13,951	15,078
Other current liabilities	9,901	13,446	15,253	17,262
Total Equity & Liabilities	95,156	1,13,555	1,27,655	1,49,053

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	16,019	17,722	25,648	32,216
Add. Depreciation	2,396	2,713	3,052	3,447
Add. Interest	421	503	549	608
Less Financial Other Income	363	603	1,279	2,227
Add. Other	(584)	(603)	(1,279)	(2,227)
Op. profit before WC changes	18,252	20,335	27,970	34,043
Net Changes-WC	(7,624)	(8,573)	(12,075)	(15,816)
Direct tax	(4,070)	(4,519)	(6,540)	(8,215)
Net cash from Op. activities	6,557	7,243	9,356	10,012
Capital expenditures	(4,565)	(3,010)	(3,967)	(4,181)
Interest / Dividend Income	363	603	1,279	2,227
Others	663	65	84	106
Net Cash from Inv. activities	(3,539)	(2,342)	(2,603)	(1,848)
Issue of share cap. / premium	572	(17)	-	1
Debt changes	647	(3)	(3)	(2)
Dividend paid	(4,319)	(5,083)	(5,591)	(7,116)
Interest paid	(421)	(503)	(549)	(608)
Others	(403)	0	-	-
Net cash from Fin. activities	(3,924)	(5,607)	(6,143)	(7,725)
Net change in cash	(906)	(705)	609	439
Free Cash Flow	1,992	4,233	5,389	5,831

Source: Company Data, PL Research

Key Financial Metrics

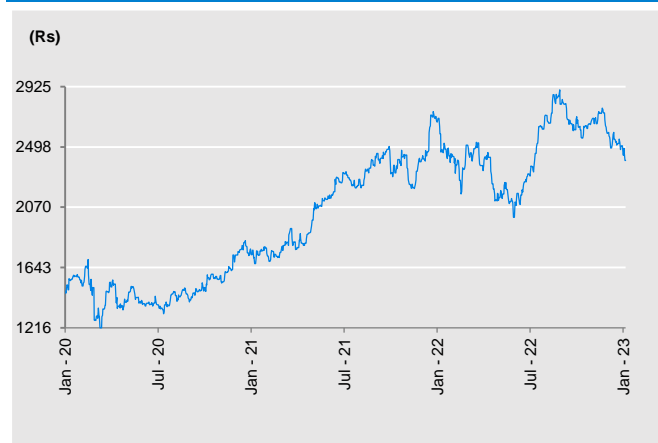
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	23.7	26.2	37.9	47.6
CEPS	28.5	31.6	43.9	54.4
BVPS	126.0	142.2	169.1	202.7
FCF	3.9	8.3	10.6	11.5
DPS	8.5	10.0	11.0	14.0
Return Ratio(%)				
RoCE	25.7	24.8	30.4	31.4
ROIC	17.9	17.4	23.9	28.0
RoE	20.1	19.6	24.3	25.6
Balance Sheet				
Net Debt : Equity (x)	0.0	(0.1)	(0.2)	(0.4)
Net Working Capital (Days)	76	77	77	74
Valuation(x)				
PER	97.5	88.2	61.1	48.7
P/B	18.4	16.3	13.7	11.4
P/CEPS	81.4	73.3	52.7	42.6
EV/EBITDA	63.6	57.4	41.3	33.5
EV/Sales	11.8	9.8	8.6	7.6
Dividend Yield (%)	0.4	0.4	0.5	0.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	25,071	31,011	30,112	29,976
YoY gr. (%)	12.1	60.1	14.7	5.2
Raw Material Expenses	14,163	18,080	17,769	17,435
Gross Profit	10,908	12,931	12,342	12,541
Margin (%)	43.5	41.7	41.0	41.8
EBITDA	4,011	5,295	4,999	4,959
YoY gr. (%)	(13.0)	52.3	(9.0)	(9.7)
Margin (%)	16.0	17.1	16.6	16.5
Depreciation / Depletion	622	613	636	686
EBIT	3,389	4,682	4,362	4,272
Margin (%)	13.5	15.1	14.5	14.3
Net Interest	94	90	117	151
Other Income	111	107	110	51
Profit before Tax	3,407	4,698	4,355	4,173
Margin (%)	13.6	15.1	14.5	13.9
Total Tax	915	1,157	1,009	1,111
Effective tax rate (%)	26.9	24.6	23.2	26.6
Profit after Tax	2,491	3,541	3,347	3,061
Minority interest	-	-	-	-
Share Profit from Associates	52	34	31	16
Adjusted PAT	2,544	3,575	3,378	3,077
YoY gr. (%)	(18.2)	64.3	(10.1)	(14.3)
Margin (%)	10.1	11.5	11.2	10.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,544	3,575	3,378	3,077
YoY gr. (%)	(19.2)	64.3	(10.3)	(14.3)
Margin (%)	10.1	11.5	11.2	10.3
Other Comprehensive Income	(187)	104	(4)	36
Total Comprehensive Income	2,357	3,679	3,373	3,114
Avg. Shares O/s (m)	508	508	508	508
EPS (Rs)	5.0	7.0	6.6	6.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Hold	2,679	2,522
2	10-Nov-22	Hold	2,737	2,656
3	04-Oct-22	Hold	2,691	2,656
4	11-Aug-22	Hold	2,673	2,641
5	07-Jul-22	Hold	2,389	2,237
6	19-May-22	Hold	2,389	2,118
7	08-Apr-22	Hold	2,417	2,525
8	27-Jan-22	Hold	2,491	2,461

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,866
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,297	4,359
4	Colgate Palmolive	Hold	1,578	1,459
5	Dabur India	Accumulate	609	553
6	Emami	Accumulate	521	420
7	Hindustan Unilever	Accumulate	2,800	2,650
8	ITC	Accumulate	365	335
9	Jubilant FoodWorks	BUY	610	504
10	Kansai Nerolac Paints	Accumulate	563	419
11	Marico	Hold	531	513
12	Mold-tek Packaging	Hold	940	983
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,679	2,522
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	Accumulate	2,875	2,538
17	Westlife Foodworld	BUY	854	769

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

ANALYST CERTIFICATION

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