



“IIFL-Pidilite Industries Q3-FY11 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Q3 FY11 Results Conference Call of Pidilite Industries, hosted by IIFL Capital. As a reminder for the duration of this conference, all participant lines will be the in listen only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Santanu Chakarbarty from IIFL Capital. Thank you and over to you sir.

Santanu Chakarbarty: Thanks Marina. Hello to everyone and many thanks to Mr. Batra of doing this. Without much ado, let me move on to Mr. Batra and whatever he has to say.

Sandeep Batra: Thanks Santanu and good morning to everybody who is there on the call. I take great pleasure in explaining and trying to clarify any questions that you may have on the Q3 earnings. But before we go to questions, let me just give you headlines and a quick executive summary of, how the performance has been. Pidilite standalone net sales grew by 27.7% over the same period last year. This growth was much stronger than what we had in the second quarter. If you all recall, the growth in the second quarter was subdued and we had explained that it could be because of two reasons, one, lot of sales has got advance to the first quarter because of pricing action being taken and secondly some of the sales of products which are linked to the festive season would have got postponed to the October to December quarter because of a delayed Diwali. And I think the results bear out this fact the growth in our paints and wood-finish category has been very robust largely because of the shift in the Diwali buying to the third quarter. That apart another positive feature of the top line has been, the bounce back of exports, largely of our industrial products which has been subdued last year because of weak global cues. So exports of industrial products has been very strong in this quarter and they have grown by around 70%. Exports of our consumer and bazaar products have not grown as fast largely because of us having started local operations in Bangladesh and Egypt which were earlier been catered to, from India.

Our gross margins have fallen by about 240 basis point largely because of increase in material cost and excise duties compared to last year. While we have taken pricing actions to pass on some of these cost increases in some of our product categories, largely industrial products, margins have declined over the same period last year. However because of control on OPEX operating expenses at a net level the margin compression over the same period last year is nominal. We have been able to hold our EBITDA margins to above 20%, because of depreciation being at the same level as last year and reduction in interest cost, our profit before tax has grown upwards of 40%. Tax on QoQ, compared to same period last year has doubled largely because three of our units in Himachal Pradesh which were enjoying full tax exemption have completed their first five years tax holiday period and therefore in the current

year enjoy only partial exemptions. That sums up the performance as far as our standalone company is concerned.

As far as our overseas business is concerned, while nominal growth was 17.5 %, growth in constant currency term was a bit lower at 14.5%. Not America and South America both showed good growth in the quarter. However margins as far as our South American business are concerned, were compressed because we had some disruptions as far as supplies of critical packaging and raw material was concerned which ended up in, us having to resort to expensive alternates and therefore margins in our South American business were compressed in the quarter. The South Asia business continues to do well. At Bangladesh subsidiary which started operations just about 12 months back has been gaining market position in the country. However conditions in Dubai and Egypt remains subdued, the market position in Dubai and the neighboring countries remains soft and sales in those markets declined with consequential impact on EBITDA. Our Egypt operations because of the ongoing crisis there did get disrupted for 4 - 5 days but now are back on track. So that is all I had to say as far as the results for the third quarter are concerned. I am happy to take questions now.

- Moderator:** Thank you very much sir. The first question is from Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** My first question is in both your key segments, consumer bazaar and industrial, if you could give us a breakdown of volume growth and price growth. You have said that, the details in the Q2, now what is the status YoY?
- Sandeep Batra:** In the case of consumer end bazaar, the price increase impact will be about 3 to 4% compared to same period last year, rest would all volume driven, and in the case of industrial products the price increase impact would be about 6 to 8%, rest will be all volume.
- Abneesh Roy:** Why is the price increase almost doubled in the case of industrial, is that because raw material pressure out there is far higher?
- Sandeep Batra:** No, not because raw material pressure is higher. Because the raw material cost as a percentage of sales is higher there and some of the commodities which go into the industrial products, the inflation has been much higher than in the case of the consumer end bazaar input. Also in some of our consumer end bazaar input we have price point products, for example the Rs 5 and the Rs 10 pack, so there pricing flexibility is limited.
- Abneesh Roy:** And sir, have we decreased gram age in that Rs 5, Rs 10?
- Sandeep Batra:** No.

- Abneesh Roy:** Okay and how much would be those Rs 5, Rs 10 low price units as a overall percentage of consumer bazaar to get a sense in terms of how much is the exposure out?
- Sandeep Batra:** I do not have the numbers
- Abneesh Roy:** Will it be very big or will it be....
- Sandeep Batra:** It will be significant. It will not be very big but it will be. I need to recheck the numbers I can read it separately to you.
- Abneesh Roy:** Sir, our exports have done well growth of 70%. In that my question was, in the South American business you margins were slightly soft because there was some curtailment of supply. So wanted to understand, is that solved or is it permanent problem you are facing in the supply?
- Sandeep Batra:** No, no. it is got sorted out. There were some disruptions in, there were some particular raw materials we were buying locally, suddenly the manufacturers ran out of capacity, so it is, I think, more than internal planning issue than a larger macro economic issue.
- Abneesh Roy:** And sir, on the Egypt what is the status you have restarted but is it all the three shifts or it's a new plant? Bangladesh is doing well but in Egypt, is now what we are seeing pre- crisis and post crisis what is the situation, how much of the shift we have restarted?
- Sandeep Batra:** Egypt is badly out, at the outset our total turnover in Egypt will be a 10 crores a year, about a crore a month, it is not a material operation as it, because there was curfew in the country the plant by force was shut, once curfew has been lifted, we have started production but, the situation from what I understand is not fully normal in that country, I think things are slowly getting back to normalcy.
- Abneesh Roy:** Sir, how much is the overall exposure to Middle East and North Africa, because they are also joining in?
- Sandeep Batra:** No we have no exposure, again if you look at both of our operations in Africa, which is Egypt, our total sales in this quarter was about some 4 crores, so it is not a very large operation.
- Abneesh Roy:** Lastly my question is on the margin in front going forward, Brent crude has touched 100, so wanted to understand, where do you see margin profile in Q4 and going forward, I'm not asking for your guidance but, is it looking very bad, is it in control ?
- Sandeep Batra:** No, margin in the fourth quarter we are seeing headwind in case of raw material inflation is concerned, so the cost indeed have firmed up, part of them will get passed on to whatever pricing increasing we will do, but because the lag which we have between the cost and price

increase, we may not see the full benefit of pricing action in the fourth quarter. Some of it may go to the first quarter the next year.

Abneesh Roy: So we have just taken some price hike in Q4?

Sandeep Batra: No we have been contemplating, pricing for us we have so many products categories, so many SKUs, so these kind of price rationalization is a constant feature, so it is not that we have a predefined date on which we take all the pricing corrections.

Abneesh Roy: Sir, one last question on the cost front, you have really cut down on the other expenditure, is it because of the Ad expense cut down, is it sustainable, and why has the staff cost gone up, QoQ by 3-4 crores, is it because of the elastomer project?

Sandeep Batra: No, costs have not gone up significantly in staff cost, it would be because, we are strengthening the organization, so that transformation in the organization of getting talent from outside, that process is, I would say in the last leg in a manner of sittings, the last influx of people would have happened in the third quarter. As far as other expenditure is concerned, we have not taken a conscious decision, in that sense to cut down cost, but yes some of our advertising we will be re-phased into the fourth quarter, because there are mega-events happening in this quarter, so some amount we would have rephrased.

Abneesh Roy: Okay sir, I'll come back if I have more, all the best. And a great set of numbers.

Sandeep Batra: Thanks Abneesh.

Moderator: Thank you. The next question is from Aniruddha Joshi from Anand Rathi. Please go ahead.

Aniruddha Joshi: Sir, congrats for the excellent set of results. Just wanted to get an update on synthetic Elastomer project, it is now further one quarter gone, so any positive news on that side?

Sandeep Batra: Yeah, on the synthetic elastomer project as we have mentioned last time, we said that we were very close to green lighting the next phase of the project, so we have started work on the civil construction in the plant, and long lead time items have been ordered, and we are looking to get the plant up and running in the next year, in FY12, we would have the plant up and running.

Aniruddha Joshi: But we were also looking at some test running of the plant, I guess, test marketing of the products as well.

Sandeep Batra: We had last time, we had built a pilot plant, we had tested (a) the technology of the product, not the pilot plant was a real miniature and a scaled-down version of the main plant, as we are going to be building, so with that we have been able to manufacture several grades of the elastomer, not all, but several grades we would have manufactured, and some of them would

have got tested either internally, or with other potential customers, that exercise is now behind us, and now we're looking at, we have already as I've said, commenced work on the civil part of the work, and long lead time items have been ordered.

- Aniruddha Joshi:** So overall CAPEX on that project would be somewhere around for the 200 crores?
- Sandeep Batra:** Total CAPEX will be about 140-150 crores, plus we'll need some working capital, so totally CAPEX would be close to 200 crores. Total expenditure, cash out.
- Aniruddha Joshi:** And if you are looking at spending in FY12 itself.
- Sandeep Batra:** All profit will get spent here
- Aniruddha Joshi:** Okay, lastly Pidilite has been has been having a lot of major ad spend around cricketing activities, so with two new, either World Cup and IPL both coming in, do you see steep jumping into Ad spend?
- Sandeep Batra:** No no, steep jump in that sense, what we would have done is, we do not have a huge exposure around cricket in this quarter, what we would have done is, we would have taken some money out from the third quarter, relocated expenditure. All of it or whatever huge spend behind cricket will not be incremental ad spend
- Aniruddha Joshi:** Okay, very lastly on the raw materials can you just indicate what was the hike in the, average hike in the raw material prices in Q3 versus last year in Q3?
- Sandeep Batra:** Cost would've gone up on an aggregate basis by 5-6% would be the increase in cost.
- Aniruddha Joshi:** Okay, thanks a lot.
- Moderator:** Thank you. The next question is from Amnish Agarwal from Motilai Oswal. Please go ahead.
- Amnish Agarwal:** Hi Sandeep, congrats on the good set of numbers, I have a couple of questions, my first question is regarding the feed stock which we are using in our, for VAM that this Ethylene, because I suppose Ethylene prices must be going up with the crude, so are we still now importing Ethylene or is there some plan to start our own unit, which we are not utilizing since the past couple of years, and where do you see what sort of sensitivity do you see in our margins and feedstock costs going forward?
- Sandeep Batra:** About two years back we took a call, that given the way the pricing of Ethylene in India is, and Price of VAM, if you were to import it, it was more economical to import VAM, so we continue to import VAM, therefore to that extent we are not affected by movement in Ethylene prices, certainly it would have had at consequential impact on prices of VAM globally, which

have been going up, which have been on the upswing and that is reflected in the cost inflation pressures that we have, so that is all included in the margins.

Amnish Agarwal: But don't you think at any stage there could be a plan to again the restart our unit?

Sandeep Batra: In the immediate term it appears unlikely that it would be economical to make VAM in-house.

Amnish Agarwal: But looking at the way now crude prices are going up and the way VAM prices, and you share with us that what has been the inflation in the VAM prices, say in the past 2-3 months, and that does the company require any further price increase particularly in the consumer and bazaar our products in the new future, to maintain gross margin at the level, at which we have operated in the current quarter?

Sandeep Batra: It is not just VAM alone which will have an impact on input costs.

Amnish Agarwal: Yeah I understand that even packaging I think is.....

Sandeep Batra: So, overall as I think I must have shared earlier, we took a very close watch on our product margins, and we continuously assess what the comity the inflation regime looks like, we feel that the raw material cost are going to remain at these levels, over the next 3 to 4 months, then we will implement pricing actions. So it is not that, we will take once, as we have any finite time when we take pricing action? Whenever we feel that the margins have fallen below our expectations, and that the margins will remain at the kind of levels, then we'll implement pricing action. They would be very alive to the changes in the raw material inflation.

Amnish Agarwal: Okay, how much time does it take once you decide for the product to reach in the market, approximately how much is the time lag for the price increase to take its course?

Sandeep Batra: Total from the time we will take a call, it will take us depending on the product category, about 2 to 3 months to implement it.

Amnish Agarwal: Sir my last question is regarding the operating leverage, because this year we have seen quite a bit of decline in our employees cost, as well as other expenditures, so do you think we have realized much of the gains as far as operating leverage is concerned, because 230 odd bps are decline in other expenditure, so can you share with us that the major contributor to this operating leverage and where we are heading in the coming quarters?

Sandeep Batra: One obvious leverage which is happened in manpower cost, where you know the costs have increased at about half the top line, that is because most of the organizational strengthening which had to be done to happened in 2009-2010, some of it happened in last year, but other than that it has largely been inflation adjustments that would've happened in entire cost. So some of the leverage is visible as far as manpower cost is concerned. Some declined that you see in operating expenses is because, some, but a very large amount, but some amount

advertising, that is no spend conserve for the fourth quarter, so these kind of factors would've resulted in...

Amnish Agarwal: Other than advertising any other big had in other expenditure which have seen actually the cost coming down?

Sandeep Batra: No, nothing.

Amnish Agarwal: But what could be if you could share with us that trend in advertising, for example in this quarter of nearly 27% increase in sales, how much would have advertising gone up?

Sandeep Batra: Total advertising to sales promotion, would have remained same level as last year, if not a slight decline, so that would be the extent that we would have conserve for this quarter.

Amnish Agarwal: Okay sir, thanks a lot.

Moderator: Thank you. The next question is from Dharmender Gandhi from Nomura. Please go ahead.

Dharmender Gandhi: Congrats on a great set of numbers. I just want to know what has been the growth within the consumer and bazaar, what has been the growth in the construction chemicals and adhesives and art materials, for this quarter?

Sandeep Batra: Very difficult to share precise numbers, but the pattern of growth has been in line what we have seen historically, which is that construction and paint chemicals leads the growth pack, followed by adhesives and sealants, and followed by art, stationery and fabric care. So the lead tables remains the same and as I am mentioned in adhesive and in construction and paint chemicals, growth was strong because also of Diwali being slightly delayed in this quarter, but the standings have remained the same. So it is construction and paint chemicals are the fastest growing, then adhesives and then sealants and then art and stationery.

Dharmender Gandhi: Okay, sir, what is the contribution of exports in industrial products?

Sandeep Batra: Last year it was about 20%.

Dharmender Gandhi: And do you think, this kind of export growth in industrial products is likely to continue for next year?

Sandeep Batra: Some of it is base correction, because last year at around this time the developed markets like US and Europe were not buying as much as they bought now. So, some of it is a correction of the base. But if you look at our compounded annual growth rate in exports, it has been faster than the growth rate in the domestic market. So it is a conscious strategy on our side to grow exports. What you see in this quarter is some amount of the past correction getting unbounded.

- Dharmender Gandhi:** Okay. In terms of margin pressure, within these two segments consumer and bazaar, and industrial products, where do you see more margin pressure in next quarter?
- Sandeep Batra:** Do you mean next quarter? The margin pressure, even if you see, 3 and 9 months, margins in consumer and bazaar has largely been maintained. So the pressure will remain in industrial products, where our pricing leverage is less than in the case of consumer products.
- Dharmender Gandhi:** Okay. In the elastomer project any chances of any delay happening, we have assumed that will come on steam in FY13?
- Sandeep Batra:** We are looking to the complete the project FY12, maybe it happened towards the end of it. So yes, you will get revenue from it largely in FY13.
- Dharmender Gandhi:** Thanks a lot.
- Moderator:** Thank you. The next question is from Kaustubh Kakati from B&K Securities. Please go ahead.
- Kaustubh Kakati:** What is the cost of VAM would have been for this quarter?
- Sandeep Batra:** Sorry?
- Kaustubh Kakati:** The cost of VAM.
- Sandeep Batra:** The cost of VAM? Meaning the unit...
- Kaustubh Kakati:** Means, how many rupees per Kg per ton?
- Sandeep Batra:** I do not have that information readily to give you. It would have gone up while maybe I would say 3 to 4 percentage point, compared to about 5-6 point higher than September.
- Kaustubh Kakati:** All the sequential basis, right?
- Sandeep Batra:** Yes, on a sequential basis and last year maybe about 20% higher.
- Kaustubh Kakati:** YoY, okay.
- Sandeep Batra:** And your Ad spends would be roughly be around at 4% mark as a percentage of sales?
- Kaustubh Kakati:** This quarter may be it will be closer to 3.
- Sandeep Batra:** 3, okay sir. And one question on your synthetic elastomer project, your target market is still North America?

- Kaustubh Kakati:** It is all exports, outside India largely, not specifically one market, it will be Europe, it will be China, it will be North America, South America, but no specific geography as such.
- Sandeep Batra:** All right sir and you will be starting off initially with 19,000 tons, I guess.
- Kaustubh Kakati:** 20,000 tons, Yeah.
- Sandeep Batra:** Okay, thanks a lot for information.
- Moderator:** Thank you. The next question is from Nikhil Kumar from Motilal Oswal. Please go ahead.
- Nikhil Kumar:** Good morning Mr. Batra. Congrats on excellent set of numbers. Couple of questions, one on the elastomer project which you mentioned that, the unit is likely to be ramped up in FY12. Could you run us through the brief internal target estimate that you have, in terms of revenues?
- Sandeep Batra:** No, we do not have any internal targets as such at this stage because we are looking at...it needs to be completing the construction of the plant. The total initial capacity that we are building is 20,000 tons per annum, and we are targeting complete construction next fiscal year.
- Nikhil Kumar:** Okay and just one more question, on the industrial business margins front just wanted to understand the thought process of the management on this particular front. When you look at the pricing scenario in industrial business, do have a set margin in target or is it that you work back wards in terms of a competitive pressure which is there?
- Sandeep Batra:** It would depend on segment-to-segment. In the segment where there is competitive pressure, obviously we cannot work in isolation so we have to keep in mind, what competition is doing. But our segments that we prefer to compete in are those where we have competitive advantage. In that off course we will work with a margin target in mind, but you have to keep in mind that in industrial businesses it is not unilateral to pass on cost pressures. So there is a process of dialogue and discussion with the customer before you can actually implement pricing.
- Nikhil Kumar:** I understand, so just to follow up, could you also run us through the major verticals within the industry where you feel; you have a competitive advantage in terms of product differentiation and all?
- Sandeep Batra:** Those will be several but I would not have them readily in the call.
- Nikhil Kumar:** Never mind, I will take it off-line. Thank you.
- Moderator:** Thank you. The next question is from Rahul Baijal from Voyager. Please go ahead.

- Rahul Baijal:** Congrats Sandeep, on a good set of numbers. Just one or two bookkeeping questions. In terms of the losses in the international business, what's been the run rate like for the year so far?
- Sandeep Batra:** At the level that you see in the quarter our EBITDA has remained positive, even in this quarter at an EBITDA level, we are still positive. But yes, at a bottom-line level we continue to be negative, though slightly lower than what it was last year. So for example, this quarter our loss would be about 4.5 crores at a bottom-line level. It would be similar to what we had in the first two quarters.
- Rahul Baijal:** Okay. Last year how much, if you could tell me again?
- Sandeep Batra:** Last year same period loss was 42 millions, this quarter it is being slightly higher than that. YTD last year was 105 million, and this year is 113 million. Similar levels as last year.
- Rahul Baijal:** Okay are very hopeful, that next year things we can improve and probably go for a breakeven or given the environment of inflation, it is looking tough for now?
- Sandeep Batra:** Certainly our target remains to within that rack next year. We had some unexpected events this year, for example, the last quarter in Brazil while top-line was good, bottom-line got impacted. And if you're able to get our operations in Egypt and Dubai back in the black, then I think we would have achieved the target.
- Rahul Baijal:** Okay and then secondly, clearly the interest cost has been reducing because we are using the free cash flows to reduce the debt, which is great. Can you just tell me the debt levels as of this quarter and versus to the previous quarter?
- Sandeep Batra:** At a gross debt level it would be about 300 crores, similarly to what it was in September, but our net debt could have come down, because we have generated some more cash in this period. Maybe our net debt is close to 40 crores now; it could have been 80 - 90 crores in the previous quarter.
- Rahul Baijal:** Okay, so around 50 crores of extra free cash. Sir I guess, this run rate should continue going forward, but although the only change is the CAPEX front...?
- Sandeep Batra:** We should give your number at QoQ level, it will be more at an annual level number to take, because our working capital build up cash may not represent the profit in that quarter but for the full year certainly it will.
- Rahul Baijal:** And there seems to be some change in the CAPEX plan for next year, in terms of the elastomer CAPEX now, we are planning to do slightly earlier than expected?
- Sandeep Batra:** No, all around we have been saying that we will complete it in a FY12 that was our intent. So we have started work towards realizing that intent.

- Rahul Bajjal:** So this 20,000 tons, how CAPEX we would entail?
- Sandeep Batra:** CAPEX of about 150 crores and then some working capital will be required.
- Rahul Bajjal:** Okay, fine. Lastly, depreciation has been coming down throughout the year YoY, so why has that been happening?
- Sandeep Batra:** We would have completed major CAPEX 4-5 years back. Now our CAPEX is just about keeping pace with what is getting depreciated. The time will come when depreciation itself will start increasing as we start building capacity and debottlenecking.
- Rahul Bajjal:** What kind of utilization levels are we running at in the plants?
- Sandeep Batra:** In some cases, we would be pretty close to capacity, so there would be CAPEX being spent or being planned to build capacity.
- Rahul Bajjal:** Lastly, for what CAPEX figure should I take for next year, 150 crores for elastomer and how much for the....?
- Sandeep Batra:** Our CAPEX is generally being about between 1.5 to 2x of depreciation, take any time, anything between 70 to 100 crores.
- Rahul Bajjal:** Okay, all right Sandeep, thank you very much.
- Moderator:** Thank you. The next question is from Rohit Gajare from UTI PMS. Please go ahead.
- Rohit Gajare:** Good afternoon sir. Sir, one quick question, just want to re-clarify, will you not repurchase any more debt this quarter, right?
- Sandeep Batra:** No, we will not.
- Rohit Gajare:** Okay, sir. This interest per se purely interest payments, so there is no buyback of any bond debenture? 3
- Sandeep Batra:** No.
- Rohit Gajare:** Okay sir. Another question is sir, if you can go back in time, in the March 2010 quarter, the operating margins had come down to 13.8%. So something was there something one-off in the Q4 of FY10 or this is the seasonal impact which we have to face in the business?
- Sandeep Batra:** Historically our fourth quarter has the least amount of sales, it is smallest quarter, fourth quarter in terms of how the sales across the year get split, so because of that margin get depressed. And last year also we have stepped up our spend on advertising and sales

promotion. As the economy was coming back to normalcy, we had stepped up our spend on advertising and sales promotions. So, two main reasons for margin being lower, being compressed last year.

- Rohit Gajare:** Sir, one last question. Sir, for FY12 do you have some effective tax rate in mind?
- Sandeep Batra:** For next year?
- Rohit Gajare:** Yes, for next year.
- Sandeep Batra:** We do not have anything in mind. The tax rate in our case is pretty simple. One more unit will complete its five-year tax holiday this year, so that will also go into a higher tax bracket next year. So, maybe couple of percentage points it could have an impact but we need to rework that number.
- Rohit Gajare:** Maybe 25%, is that the fair estimate at this point?
- Sandeep Batra:** Yeah, you could take that number.
- Rohit Gajare:** Okay sir thank you.
- Moderator:** Thank you. The next question is from Urvazi Wadia from Barclays Wealth. Please go ahead.
- Urvazi Wadia:** Good morning sir. I wanted to ask about the elastomer project, who are your international competitors at the moment?
- Sandeep Batra:** There are about 3-4 companies that make this product globally, we have DuPont in the US; you have Lances in Europe, Germany. And you have couple of companies in Japan who make it.
- Urvazi Wadia:** Okay. And in what industry would this product elastomer be used like, in the auto industry but which parts exactly?
- Sandeep Batra:** The synthetic elastomer is used in varied types of industry, but yes the auto segment would be one main driver. So it is used to make components like hoses, bushes, some components in the bumpers and all it is used, that is used to make the conveyor belt, conveyor belting systems, so varied applications.
- Urvazi Wadia:** And you all are setting up 20,000 tons of elastomer, what would be the utilization like in the first year FY12, and in FY13, do you all expect...
- Sandeep Batra:** FY12 we will only complete the construction so there will be....

- Urvazi Wadia:** Sorry, FY13?
- Sandeep Batra:** FY13, we do not have any number to share with you at this stage, it all depends on the market at that point of time, but it will be a gradual buildup, obviously we will not reach 100% capacity in the first year. So we will have to take some number and do it, we really cannot share any numbers at this stage.
- Urvazi Wadia:** Okay. It would be completely exported right?
- Sandeep Batra:** Largely exported, you could estimate it as about 80%-85% will be exported.
- Urvazi Wadia:** Okay. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from Jayesh Gandhi from Morgan Stanley. Please go ahead.
- Sandeep Batra:** Yes, how are you, Jayesh.
- Jayesh Gandhi:** Very well. How are you doing, good set of numbers I thought.
- Sandeep Batra:** Thank you.
- Jayesh Gandhi:** Most of the questions have got answered, couple of smaller points though. Where I heard you say that, there is a bit of lag in your inability to pass on the cost increases, but if you were to take the next 12-15 months view, would it be fair to assume that you should be able to pass on most of the cost increases assuming that the commodity prices remain in this range currently or fluctuation of 5-7% from here?
- Sandeep Batra:** Absolutely.
- Jayesh Gandhi:** We have been confident but there maybe lags in quarters but we should be able to pass that on.
- Sandeep Batra:** Historically if you look at, the margin band in which we would have come in on a year-on-year basis, it would be within 1-2% points of each other, which largely could be because of timing issues. We should be able to get that.
- Jayesh Gandhi:** Fair enough. Second question is, regarding the operating cash flows and the CAPEX you plan to do, so if I understood the numbers correctly, 150 crores for the elastomer project, and 70 odd crores for your, so 225-250 crores CAPEX, but our operating cash flows are pretty strong closer to around 250-300 crores, so a net debt situation should not be changing the next year as well, we should be able to meet our CAPEX from operating cash flows, is that my understanding correct, for next 12 months?

- Sandeep Batra:** Yes largely, there will not be major capital requirement, for this kind of level of operation. We already, in the debt that we have about 300 crores, about half of it will be convertible bonds, which are due in December 2012, so that is a call that will play out closer to the date of the maturity of the bond, as to whether they convert or whether we need to repay them, but other than that we are very comfortable on cash.
- Jayesh Gandhi:** No I guess, what I was trying to ask is that, other than the convertible bonds you will really not required to borrow substantially and increase your debt levels substantially, to fund these CAPEX, this is what I was trying to understand.
- Sandeep Batra:** That is correct.
- Jayesh Gandhi:** Right. Wonderful. Thank you all the best.
- Moderator:** Thank you. The next question is a follow-up question from Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Some follow-up questions, could you talk about the new product initiative which you have done in the last three quarters, how they have done had they met the expectations and what is the pipeline in terms of new product going forward?
- Sandeep Batra:** There are a few new products that we would have launched and which we would have spent money behind, we launches this waterproof adhesive called Fevicol Marine, which has done exceedingly well. We patch it up with a high-pitched media campaign. Then we launched the product in construction chemicals, New Coat, which was for waterproofing solutions on roofs and terraces that is also done exceedingly well. Couple of these products in the sealant category, M-Seal Super, we launched which was also backed up with a strong commercial, that is also done well so, I would say all these projects have done fairly well, because they are largely in the consumer space, and we will continue to have these kinds of innovative products, in the market. Very difficult to share any specific details about the future, but I think that this track record will continue.
- Abneesh Roy:** Sir, coming back to the low-priced units, any impact on the high food inflation on Rs 5-10 price point?
- Sandeep Batra:** No impact of food inflation on that.
- Abneesh Roy:** It continues to grow as earlier rate?
- Sandeep Batra:** Yes.

- Abneesh Roy:** Sir, coming back to Bangladesh and Egypt. You said that Bangladesh is doing quite well, so one is, wanted to get a sense how much it has done and any other plans for localization apart from, what you've already done, Bangladesh, Egypt, any other market you want to do?
- Sandeep Batra:** No specific plans on any other market at this stage, but yes we're looking at Bangladesh to see if there are other products which we can manufacture there. Now that we have got a fairly well-established manufacturing facility, better understanding of the local market, is there any other product that we can manufacture there. So that is something which we are looking at.
- Abneesh Roy:** Till now what you are manufacturing there?
- Sandeep Batra:** Largely Fevicol, the premium White glue, we're looking at other extensions of Fevicol that we can make. Some rubber based adhesives, etc.
- Abneesh Roy:** And Fevicol would be having the same dominant market share there also. My last question again is to, for the elastomer project, all these you're doing in terms of creating the infrastructure, but in terms of the marketing plan, have you started meeting the customers to get some sense or is it too early?
- Sandeep Batra:** We have not in an active manner; we have kept in touch with some of the earlier customers. We will step up efforts in that in the next few years not right now.
- Abneesh Roy:** You haven't shown them there first pilot...
- Sandeep Batra:** That we are shown some of the products, yes.
- Abneesh Roy:** Okay Sir. Thank you.
- Sandeep Batra:** Okay.
- Moderator:** Thank you. The next question is from T Venkatesh from Corporate Database. Please go ahead.
- T Venkatesh:** Good morning sir.
- Sandeep Batra:** Good morning.
- T Venkatesh:** I just wanted to understand what would be the cumulative CAPEX at the end of FY12, in the elastomer project?
- Sandeep Batra:** As of now we would have spent 290 cross, and we look to spend another 150 cross.
- T Venkatesh:** Okay. I just wanted to understand, what would be your investments in subsidiaries till December 2010?



*Pidilite Industries
February 9, 2011*

- Sandeep Batra:** This year we would have not made major investments.
- T Venkatesh:** Not any major investment in this current year.
- Sandeep Batra:** No.
- T Venkatesh:** Okay, thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the conference back to Mr. Santanu Chakrabarti for closing comments.
- Santanu Chakrabarti:** Thank you to the participants and the management for an intimate and discussion on the company, it has been a pleasure and have a good day.
- Moderator:** Thank you. On behalf of IIFL Capital that concludes this conference call. Thank you for joining us and now you may disconnect your lines. Thank you.