



“Pidilite Industries Q1 FY13 Earnings Conference Call”

July 25, 2012



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Moderator Ladies and gentlemen good day and welcome to the Q1 FY13 Earnings Conference Call of Pidilite Industries hosted by IIFL Capital Limited. As a reminder for the duration of the conference all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. J Radhakrishnan of IIFL. Thank you and over to you, sir.

J Radhakrishnan Thank you Laveena. Good evening ladies and gentlemen. On behalf of IIFL Institutional Equities I would like to welcome you all for the First Quarter FY13 Earnings Conference Call of Pidilite Industries. From the Management we have with us Mr. Sandeep Batra, Director Finance of Pidilite Industries. I would now like to hand over the floor to Mr. Batra for opening remarks. Over to you, sir.

Sandeep Batra Thank you Mr. Radhakrishnan and good afternoon to everybody. I will quickly take you through the results of the first quarter which was approved by the Board at its meeting yesterday. First I will touch upon the consolidated performance where the net sales were marginally below the 1,000 crores mark and recorded a growth of 18.1% over the same quarter last year. Earnings before interest, tax, depreciation and amortization grew by 26.9% to touch 2,049 million in the quarter. Earnings before interest and tax and pre-exceptional items recorded a growth of 29.2%. However, because of the completion of the fifth unit in Himachal which completed its first five year tax holiday period, the tax rate went up and consequently the profit after tax at 1,279 million was up by 22.5% over the same period last year.

A quick look at the performance of the standalone entity where sales at 9,077 million were up by 18.8% over same quarter last year. This growth was led by 21.6% growth in the consumer and the bazaar businesses where growth was strong in all the focused products under the adhesives, sealants and construction chemical category. And growth in the industrial product segment was 11.5% over the same period last year. We did see some amount of revival in growth both in domestic as well as in the export market for industrial products.

Material cost measured in terms of percentage to sale was lower by 30 basis points over the same period last year but has increased by 186 basis points over the immediately preceding quarter largely due to the impact of a weaker rupee versus the dollar. If you may recall the rupee has moved from somewhere around 52 a dollar in the quarter of January-March to somewhere around 54 in the current quarter.

Our employee cost was up by 18.5% over the same quarter last year largely because of the annual wage revision which got effected from 1st April as well as new hirers. Other expenditure was higher by 12.9% largely in the area of manufacturing and distribution cost.

Our advertising and sales promotion expenditure was lower than last year as some amount of expenditure has got phased to the second quarter of the year instead of the first quarter. This is essentially because there were certain properties like IPL or World Cup which we had advertised in the first quarter of last year but have not spent similar amount of money in the first quarter this year.

The non-operating income during the quarter has nearly doubled largely because of higher pool of investments in bank deposits and mutual fund. Consequential EBITDA at 2,046 million is 28.6% higher than same period last year. Our finance cost has again nearly doubled. Large amount of that is because of the restatement of the interest liability on FCCBs because of the rupee weakening against the US dollar.

As permitted by the Ministry of Company Affairs we have opted to amortize mark-to-market losses on foreign currency loans and an amount of 107.2 million is carried forward which will be amortized between 1st of July and the date of the repayment or conversion of the FCCBs which is 7th of December. The consequential profit after tax at 1,334 million is 23.8% increase over the same period last year.

Quick comment on the profitability of the individual segments. The profitability in the consumer and bazaar segment was at 27.1% which was higher than 212 basis points as compared to same period last year. Given the kind of shift that we have in turnover between the fourth quarter of every year and the first quarter of the next year this sequential quarter-on-quarter numbers are not really comparable and therefore I will not really try and explain why margins improved so much as compared to the immediately preceding quarter.

In the case of industrial products the profitability in terms of percentage to sale at 12.9% is lower than 14.1% in the same period last year though on a sequential basis there is a marginal improvement of 52 basis points.

Brief comment on the performance of our overseas subsidiaries. In aggregate these subsidiaries report a nominal growth of 11.7%. However here the translation effect of the exchange rate is favorable and therefore when looked at in constant currency terms sales would be flat as compared to same period last year.

The business in North America particularly the autocare product business grew fairly strongly with growth above 20%. However the student art material business sales were lower because of some cut down in school buying budgets. But the overall business in North America did show a growth of 27%. However the business in Brazil continues to under perform and in the current quarter sales declined by 14% and there was pressure on margins as input cost increases could not be passed on and that led to a significant increase in the losses of the subsidiary in Brazil where the EBITDA from a negative 5 million last year was negative 44

million this year. And this has more than negated the improvements done by the other subsidiaries where both Egypt and Dubai operations were able to significantly reduce losses due to cost restructuring as well as improved top-line. And the businesses in Thailand and in Bangladesh continue to gain traction both because of increased sales and improved margins. And the sales in Thailand and in Bangladesh collectively have grown by 50% in the quarter and profitability has more than doubled.

We also commissioned product line for the new range of adhesives in Bangladesh in the quarter which will again improve our performance in that territory. That is all I had as my overview of the performance of the company. I am happy to take any questions.

Moderator

Thank you very much. Participants we begin the question and answer session. Our first question is from the line of Neeraj Gaur from Franklin Templeton. Please go ahead.

Neeraj Gaur

I have a couple of questions in the consumer and bazaar product, I mean we have seen a steady demand even in this quarter at about 22% value growth. Looking at our paint company had reported and the volumes were pretty flat. Our initial understanding was at least in construction, chemicals our drivers may be the same as paint industry. So if you can possibly educate us and brief about what are the demand drivers and if possibly have different from the paint industry will be helpful. And I believe that you have worked in the same industry. So if you can give us some color please.

Sandeep Batra

Certainly I can throw some light on it. I can't show color because that's not specially our line of business in Pidilite. But on construction chemicals the driver in our case is not really very similar to what may happen in a paint company because our range of products is largely water-proofing and repair related products. Where there is a large stock of housing in India which given the inherent qualities of first time construction, most of these properties and houses have some problems related to water-proofing. And the current solution for this water-proofing is not something which is very well established or which is very prevalent. So having identified that as our focus area we are creating the market for our products so large amount of growth is coming from new markets that we are creating. Basically finding new customer for our products and that is what is to a large extent driving growth for our business.

Neeraj Gaur

If you can give us the pricing component in our consumer business? What has been the pricing component? And if you also could possibly give us what has been the growth profile for adhesives versus construction chemicals and art & stationery?

Sandeep Batra

Of the 22% top-line growth given the wide range of products that we sell in that consumer and bazaar category I would say price increase may be about 8% - 9% component and the remaining would be coming through volumes and in terms of the order of growth there is not much change from what we have been experiencing in the past which is construction,

chemicals is the fastest growing category followed by our consumer maintenance products which are Fewi Quick and M-seal. And then art & stationery business has also done well. There we have a product called fabric glue which has gained a very good acceptance in the market. That is getting reasonable amount of growth and then followed by the main stay adhesive product category. So that is the position of these products in the lead table.

Neeraj Gaur One last question if you permit. I am not looking over quarter-on-quarter but year-over-year your consumer margin has gone up from 25% to 27.1. If you can explain margin improvement, what will be the major drivers out here?

Sandeep Batra Part of the reason for margin improvement is that as I referred to in my opening remarks some amount of expenditure on advertising and sales promotion in this quarter has been lower than last year. Bulk of the advertising and sales promotion is in consumer and the bazaar products and part of it has got rephased into the second quarter. That will explain some amount of strengthening of margins compared to Q1 last year.

Neeraj Gaur And quarter-on-quarter decline which we have seen in the standalone gross margins which would reflect in the prepared speech that is more to do with our INR weakness or are there any other moving parts over there?

Sandeep Batra Quarter-on-quarter sequentially again that Q4 of last year is not really comparable in that terms with the first quarter of this year. The numbers are not really comparable.

Moderator Thank you sir. We will take the next question from the line of Mr. Ankur Agarwal from Nomura. Please go ahead.

Ankur Agarwal Firstly I wanted to understand the employee cost as a percentage of sales in this quarter. It was one of the lowest in the last 11 quarters. If I look at the consol level what are the reasons for this lower employee cost in this quarter?

Sandeep Batra One of course is that the employee costs are period cost whether our sales in this quarter is not nearly 25% of the full year sales. So as a percentage to sales, yes, it would appear to be the lowest because sales-wise this quarter is the highest. So lot of it is denominator effect here but in terms of a sequential basis our costs are in line with what we have.

Ankur Agarwal Because when I talked it is the lowest in the last 11 quarters. In first quarter last year would have been fairly similar. So is it reflecting the restructuring that you have actually done? The impact of that if I look at the consolidated level so restructuring that you have done in Dubai, Egypt, etc.

Sandeep Batra That bore cost in Dubai, Egypt at an overall level

- Ankur Agarwal** Should not impact that, right.
- Sandeep Batra** If you look at absolute basis our quarters in manpower cost in the first quarter will be about 18% plus as compared to the same period last year. So that increase is made up of some amount of wage inflations and some amount of new hirers that we would have had.
- Ankur Agarwal** Another question is in the consumer and bazaar segment. You highlighted the repair and maintenance element and then impact of new product launches. Can you quantify the impact of new product launches in terms of this solid growth that you have registered in this quarter?
- Sandeep Batra** No I will not be able to give obsolete of how much growth has come from new products and from the various sources.
- Ankur Agarwal** Sir, can you talk a bit about the elastomer project. Where are we now with that project and any further update on that?
- Sandeep Batra** I think in elastomer project the status remains the same. As I mentioned earlier the project is in that sense under hold. We are not making any fresh commitments on that project and it awaits a final go ahead by the Board.
- Ankur Agarwal** Final question on the consumer and bazaar segment, clearly you have taken 4% to 5% price increase in this quarter progressively. The impact of which would be evident completely in the second quarter. Now given where VAM prices are right now they have come up significantly. Are you looking at gross margin expansion from these levels or do you think that the advertising expense that you would incur in the second quarter would mean that margins for consumer and bazaar would probably be in the same band in the second quarter?
- Sandeep Batra** We don't really comment on anything in the future. I would not like to comment on what the margins in the second quarter will be excepting that as I mentioned earlier there was some amount of advertising expenditure in this quarter which if you compare it with what we would have spent last year at the same percentage. That probably there will be a catch up happening in the second or the third quarter for advertising and sales promotion. As far as VAM prices are concerned you are right. Have fallen by about 5% or 6% compared to what they were about three months back. But the biggest variable for us remains currency. And that volatility and that impact can more than offset gains in the reduction in these commodity prices.
- Moderator** Thank you. Our next question is from the line of Hemang Gandhi from Edelweiss Securities. Please go ahead.
- Avneesh** Sir, could you tell us the strength in demand essentially around 12% - 13%. So that is looking a bit surprising. Seen how one paint company results are. So are you seeing any down trading

or any cut back in the rural or even in the urban and going ahead because the monsoons, how do you expect the demand based on your experience in the earlier cycles in Pidilite?

Sandeep Batra

Certainly you are right that the times ahead are challenging both on the overall economy and particularly because of whatever outlook is there on the monsoon and I think that will impact on agriculture. So certainly it will have some impact on the overall demand scenario and as I have always maintained we are not isolated. We operate in the same economy in India. And we also have seen our growth rates lower than what we have experienced in the past. So there is certain amount of head win which is there because of these economic factors and because in some of the categories like construction chemicals lot of the growth is being driven by our own initiatives and momentum. May be the impact of the economy will have a longer lag. But in matured categories particularly adhesives that impact is far more immediate. So we are experiencing a situation similar to that.

Avneesh

Sir, in adhesives, how much is the discretionary element if any and how much will be the industrial usage in that? Why would the impact be so immediate in that?

Sandeep Batra

Most of the expenditure be it construction, chemicals or be it the adhesive for wood working, all of it is discretionary because it is all linked to repair and renovation. So to that extent I would say all of it is discretionary.

Avneesh

Brazil, you pointed out has seen a 14% dip in sales. So what would be the long-term strategy in these kinds of geographies wherein we might be a bit marginal player and there are issues in terms of growth. So if you could give us a color in terms of long-term strategy in some of the problem geographies.

Sandeep Batra

First of all the immediate strategy in all these subsidiaries would be to cut down on losses. So be it Egypt, Dubai or be it Brazil the immediate action plan is to cut down on losses and then take a call. Once the business is on an even footing then you take an assessment if that business can become an integral and a significant part of the business then one would invest behind that business. Otherwise you may harvest that business. I don't think for a call like that we are ready as far as our operations in Brazil are concerned. The immediate focus there has to be to get the business on an even footing.

Avneesh

And are you seeing recovery in Egypt and Dubai based on some of the other interactions you have had. Some recovery is happening in these two markets. So are you also seeing some recovery there?

Sandeep Batra

We are seeing recovery in Egypt but we are not seeing recovery in Brazil. In Dubai we are not seeing recovery. But yes if it is Egypt, yes we are seeing some amount of growth.

Avneesh And ad spend you said should come back in Q2 and Q3, is it because the event like cricket being there in Q2 or is it because the innovations being in Q2, Q3. How do we track really your ad spent?

Sandeep Batra It's a billion dollars question. The reason for it being lower than last year is actually that last year there was an event in the first quarter. There was a property in the first quarter which we realized behind and similar property was not there in the first quarter this year. So we have decided that we will invest it in some other property in the subsequent part of the year.

Avneesh Finally in US, art has seen issues. I think art we are seeing issues again and again in many quarters. Is it a fundamental long-term issue?

Sandeep Batra Actually last few quarters the art & stationery business has not done well because we found a few of our products suddenly gaining lot of traction with the consumers. So our art & stationery in the last three quarters has done very well.

Avneesh And in India to what extent good performance in art? Your market share gain or the entire market has recovered.

Sandeep Batra No it is a new product. I will not call the new product but a product which has suddenly gained acceptance. It is a product which is used for fabric. It is fabric glue which is used to stick some kind of adornments and some embellishments on fabric. That product has gained lot of traction.

Avneesh Rural sales in India as a percentage of India sales will be broadly what percentage?

Sandeep Batra We really don't track rural in that sense because most of our sales are happening through distributors but the channel that we have which directly addresses what we call urban so neither rural nor urban that would be about close to may be about 8% - 9% of the consumer and bazaar sales.

Avneesh Because when we speak to paint companies they have a bit higher numbers 8% - 9%.

Sandeep Batra 8% - 9% is what we directly sell. There would be an equivalent or may be similar numbers which is sold by our distributors. Part of the sales to our distributors goes there.

Moderator Thank you. Our next question is from the line of Mr. Paresh Jain from Max Life. Please go ahead.

Paresh Jain Just wanted to understand what is the normal inventory holding period for VAM?

Sandeep Batra About a month.

- Paresh Jain** Is there any kind of FOREX loss also which you have taken on that account?
- Sandeep Batra** That don't come on our books because VAM into India is imported by our associate company, Vinyl Chemicals and they sell to us on rupee terms. So FOREX in any case gets rolled into the price. There is no mark-to-market kind of loss for VAM.
- Paresh Jain** On none of these, rupee depreciation we haven't seen any kind of FOREX loss coming into it except for the FCCBs?
- Sandeep Batra** Actually there is no loss which has come because sometimes in the fourth quarter of last year which is in March or February we were actually letting money, all our export proceeds we were accumulating in EEFC accounts. We were keeping them in dollars denominated accounts because we wanted to use that as a natural hedge for meeting our FCCB obligations in December. But sometime in the month of May, RBI gave a directive that all such balances should be converted into rupee mandatorily. So whatever collections we had got which were at that time whenever we had received the collection rupee was around 50 or whereabouts to a dollar. That got converted into as a bullet conversions as much higher value. That to an extent offset the impact on imports. Normally we do have an impact of these foreign exchange fluctuations but this quarter we had a benefit because of the accumulated export proceeds that we had.
- Paresh Jain** So what was the net benefit that accrued to us?
- Sandeep Batra** We have about \$7 or \$8 million which got converted at about Rs. 5 so 40 million would have been the benefit.
- Paresh Jain** And this is accounted in which line item?
- Sandeep Batra** Under exchange gain/loss.
- Paresh Jain** So that is the gain out there in that exchange gain/loss.
- Sandeep Batra** That has offset some of the hit on other dollar exposures that we would have had.
- Paresh Jain** And secondly you said that you are not making any fresh capital investment in elastomer and it is for the board to take a call. Whatever I am trying to understand is that the board is going to take a call on is what I am trying to understand. On continuing with the project or discontinuing or is it finally decided that we will not continue our project so hence no capital investment into the project.
- Sandeep Batra** I don't think any decision like that has been taken. That decision is something that the Board will take as to what is to be done with the PCR project.



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- Paresh Jain** But it's being quite sometime so I mean if you can just throw some light as to what is being debated actually whether to continue?
- Sandeep Batra** I have no liberty to share with the details of the discussion.
- Paresh Jain** And you said VAM is being imported by the Associate Company. Why is that sort of a structure?
- Sandeep Batra** Earlier that company was manufacturing VAM in India and then in 2007 we demerged the manufacturing asset of that company into Pidilite and that company continued to import and trade in VAM. So that's how the structure is.
- Paresh Jain** So what is our holding in that company?
- Sandeep Batra** We hold some 46%-47%.
- Paresh Jain** And the balance is held by?
- Sandeep Batra** Public, it's a listed company.
- Moderator** Thank you. Our next question is from the line of Mr. Kunal Rakshit from Voyager. Please go ahead.
- Kunal Rakshit** Sandeep, I had just couple of follow up questions. If I look at the standalone numbers the other expenses has gone down by 80 basis points and you are mentioning advertising as a reason for this. Can you just give us what is the advertising spend in this quarter versus the quarter last year?
- Sandeep Batra** It would be about 120 base lower so may be it would have been closer to say 4% last year and this year it would be under 3%.
- Kunal Rakshit** So the entire benefit is coming from advertising in this quarter in terms of the reduction in other expenses.
- Sandeep Batra** Yes significantly.
- Kunal Rakshit** And secondly if I understand from you what is the VAM price in dollars right now? And where was it in May?
- Sandeep Batra** It is currently 980 or something and it was about 1,050 couple of months back.
- Kunal Rakshit** It is under 1,000 now and what is the outlook here? Are you expecting it to go down further?

- Sandeep Batra** Not much. We are not really looking at it coming down any more significantly.
- Kunal Rakshit** On the price increases, what is the kind of price increases you have taken in Q1 and have they been taken largely in June or have been taken through the quarter?
- Sandeep Batra** They will be taken through the quarter. They would be averaging between 4% and 5%.
- Kunal Rakshit** And last question on gross margins. Given where VAM is today and other raw materials and Rupee – Dollar at 56.3, you know from the current quarter to the next quarter do we see an improvement or a decline in gross margins, say all the variables stay the same where they are today?
- Sandeep Batra** I won't be able to add an answer on that question.
- Kunal Rakshit** On interest cost, this has doubled sequentially. What is the reason that's happening?
- Sandeep Batra** They have doubled because the interest on our FCCBs that has got restated.
- Kunal Rakshit** So that has got restated to.
- Sandeep Batra** At the current dollar rate which was some 55 in June compared to nearly 50 in March.
- Kunal Rakshit** So sequentially if it stays at the same rate we will see the interest cost come down again next quarter?
- Sandeep Batra** If dollar remains at this then restatement impact will not come. The interest cost will come down.
- Moderator** Our next question is from the line of Kaustav Kakati from PUG Securities. Please go ahead.
- Kaustav Kakati** My first question is basically can you give us the specific reason as to the improvement in the industrial division. Was it because the exports have started picking up or?
- Sandeep Batra** It is very difficult to. First of all see whether the improvement is a part of the long-term trend or it's like we saw in one quarter sales are actually declining. Similarly there has been some kind of a bounce back. So it is difficult to give a long-term perspective. Yes on a quarter-to-quarter basis it is difficult to draw an inference. But yes exports have certainly improved. Export goes for industrial products were about 15% in the quarter.
- Kaustav Kakati** And how much would exports form of the total industrial products, currently?
- Sandeep Batra** It would form about 25%.

- Kaustav Kakati** And my other question is basically looking at the FOREX volatility, would you also be considering restarting your VAM manufacturing operations? Is there any thought process in that?
- Sandeep Batra** That is not something that we are looking at now because given the scale of the plant of the capacity here and what global manufacturers have unlikely we will find it cost effective to make VAM in India.
- Kaustav Kakati** Basically it will still be more cost effective if we keep importing.
- Sandeep Batra** Yes.
- Moderator** Our next question is from the line of Hiral Desai from I Alpha Enterprises. Please go ahead.
- Hiral Desai** I was looking at the annual report. If I look at the adhesives and sales CAGR for last two years it is about 23% while construction, paint, chemicals is about 27%. So just wanted to understand how would you split that between value and volume?
- Sandeep Batra** Last two years I would say average price increases will be about if you take two years about may be 7% to 8% and the rest would be all volumes.
- Hiral Desai** Sir if you could compare the current scenario with what we saw probably in second half of FY09 or start of FY10 where we sort of had an impact in terms of volume. How would you compare that scenario with what is playing out today in the Consumer Bazaar product segment?
- Sandeep Batra** No I don't think it is that kind of despondency or doom in the market. There is no doubt about that. Times are certainly not as good as we saw last couple of years. So we have to look at our actions and reactions given the changes happened.
- Hiral Desai** The other premium was suddenly we had discussed this last time. Just wanted to understand our sense on the subsidiary portfolio. If I look at the 2012 annual report we put in about 276 cores in subsidiaries in terms of investment whereas accumulated losses if I look at last 5 years subtracting the core part between the consol and standalone operations would be about 100 odd crores. So do we have a 3-year plan in place because we are just dragging along in terms of the subsidiary performance on a similar question on elastomer so when do we see these things sort of getting closed?
- Sandeep Batra** The Board is certainly cognizant of the fact that these investments are not really earning any returns and they will look at whatever is the best way of improving shareholder value in that sense. I think that is something that I will not be able to comment.

- Hiral Desai** But I think at least on the subsidiary portfolio any plan that we have for next 2 – 3 years. When do we plan to break even on the business? In case Brazil doesn't work out when do we sort of work out?
- Sandeep Batra** Plans will have to be separate for each subsidiary. Make one plan for all overseas subsidiaries in aggregate. As I mentioned in the case of all our businesses with the exception of Brazil, has done well over the last 2 to 3 years. It's only Brazil's performance which is being pulling down all the improvements achieved by the other subsidiaries. So the main focus for us therefore is to put all our efforts in getting Brazil back on track which is what we are doing and you are right that particular exercise cannot be enabling.
- Hiral Desai** Because it need bending. Overseas at least we have been looking at the companies in the last 1.5 years we had that lingering problem there so just wanted to check and one bookkeeping question. The back set for the quarter is about 28.1% so would it sort of stabilize at the current level for the full year?
- Sandeep Batra** It should.
- Moderator** Our next question is from the line of Kanchan Diwan, UBS Securities. Please go ahead.
- Kanchan Diwan** Can you share the aggregate EBITDA from your international business for this quarter versus last year?
- Sandeep Batra** Aggregate EBITDA for our overseas subsidiaries, pre-exceptional item would be about 35 million last year and 7 million this year.
- Kanchan Diwan** And you did a joint venture with Hybrid Coating this quarter. Can you please share some light on that? What are your plans there? And the dynamics?
- Sandeep Batra** That's a joint venture for a very specific type of construction chemicals. Our joint venture partner has some expertise in particular type of high-end speciality construction chemicals and this joint venture will make those speciality construction chemicals and they will be sold and distributed by Pidilite.
- Kanchan Diwan** Sir the manufacturing will be done in India for this?
- Sandeep Batra** Yes it will be done in India.
- Kanchan Diwan** What is the kind of revenues and margins we look at for this?



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- Sandeep Batra** Something which has to start of the overall contribution of Pidilite initially will be about 3 crores. So it is a fairly small venture in that sense and by the time it gains criticality in terms of size it will take a while.
- Kanchan Diwan** Can you please share your volume growth number for industrial segments?
- Sandeep Batra** No we don't share specifics at that level.
- Kanchan Diwan** If you can just give us a sense of how were the volumes growth momentum?
- Sandeep Batra** It will be close to flat because the overall top-line is about 10% -11%. So it will be very nominal volume growth.
- Kanchan Diwan** And what is the amount of debt that you are carrying on your books as of now?
- Sandeep Batra** Gross debt is about 290 crores and we would have more than that in terms of cash and bank balances.
- Kanchan Diwan** Sir, any kind of outlook which you would want to give for your Consumer Bazaar product business? This 20% growth you see as sustainable going forward?
- Sandeep Batra** No outlook. I would not like to comment anything things for the future.
- Moderator** Our next question is from Ranjith from BNK Securities. Please go ahead.
- Ranjith** Sir on the Consumer Bazaar segment growth just wanted to get a sense whether the growth has been as per the expectation of the management or it was ahead of the expectations?
- Sandeep Batra** It would be a mixed bag. In some cases certainly some areas I would say it was in line with our expectations and in some cases it would have been marginally below.
- Ranjith** In which cases, can you specify?
- Sandeep Batra** I think in the area of adhesives which is this wood working category. It could be update below our expectations but other categories would have been in line with our expectations.
- Ranjith** Second question is on this Hybrid Coating. Is it an Indian company or it is?
- Sandeep Batra** Indian company.
- Moderator** Next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.

- Amit Purohit** Sir just on the JV. If you could just tell us is it some technology which currently we are largely focusing on the water proofing segment? Would it be in the similar line or it would be something else?
- Sandeep Batra** It's of a different generation in that sense. It uses different inputs. It is relatively more advanced.
- Amit Purohit** But the end use is water proofing?
- Sandeep Batra** Water proofing, yes.
- Moderator** Next question from Ankur Agarwal, Nomura. Please go ahead.
- Ankur Agarwal** Sir one follow-up question. Are you looking at further price increases in Q2?
- Sandeep Batra** It would vary depending on whichever product category is seeing some amount of margin pressures we would look at, yes price increases. But specific I can't really comment.
- Ankur Agarwal** Alright. Sir the other question is on the JV. Sir it is a B2B business that we are catering to, right in terms of the kind of construction chemicals?
- Sandeep Batra** No. Not B2B. This will be B2C.
- Ankur Agarwal** But consumer would be an industrial company, right? Because the kind of paint that we are going to manufacture, the coating is actually anti-toxic coating for industries.
- Sandeep Batra** It is going to be B2C also.
- Ankur Agarwal** When I look at the market cap of the company that we have entered into the JV it is fairly small which is a \$1.5 million company so do we see the potential of the product that is significant in terms of what is the kind of potential we are trying to target in the South Asian markets with this JV?
- Sandeep Batra** I won't be having the number on the potential. But it's as you would see with most of our products in construction chemicals it is a certain technology that Pidilite will take and then develop a market around that technology so which is what we have done for several construction chemical products. And we hope to do the same process line of products also.
- Ankur Agarwal** Alright. Sir in terms of price increases do you think distributors may have already stocked some amount of material they were probably planning to buy in Q2 if we are still looking at price increases in certain categories?

- Sandeep Batra** It is very difficult to specifically say how much the distributor is buying because of normal purchase and how much he is buying because of what he is talking up in anticipation of price. It is difficult to give that data.
- Moderator** Our next question is from the line of Sachin Kachera from Lucky Securities. Please go ahead.
- Sachin Kachera** Congratulations for good set of numbers. I have a couple of basic questions. One if you could just help us in terms of what would be the two or three demand drivers that we could track to get a wall sense of how should the business do? Are there any two or three key indicators that we could look at?
- Sandeep Batra** No there is no specific indicator in that sense other than of course those which is there in say overall growth in GDP or some industries which may in some sense reflect the underline market demand. So may be the growth in paint or a cement industry. We will have some correlation with our growth but we certainly don't have any internal bench marks which we use.
- Sachin Kachera** And secondly are the demand drivers for the three segments that we have in Consumer Bazaar almost similar or they too tend to behave differently in terms of?
- Sandeep Batra** They all are very different. There is no comparison.
- Sachin Kachera** Okay so it is quite possible that in a year therefore thread may be quite different.
- Sandeep Batra** Yes very much.
- Sachin Kachera** Okay. Could you give some sense on the construction chemical, what is the phase of marketing in India right now? And what is the growth rate there?
- Sandeep Batra** In our case there is no real market and there is no real growth rate. It is all about the kind of market that we are able to create for our products. So to a large extent it is our ability or inability to convert the market.
- Sachin Kachera** Okay would you have any data in terms of any comparable say economics which you have studied which India as a market is still developing which could give us some difference say in terms of per capita or a potential size it could be there?
- Sandeep Batra** Markets may be there. I don't really have data to share but yes we have developed markets like US and all would be a good benchmark.
- Moderator** Thank you. We will take the next question from the line of Shirish Pardeshi from Anand Rathi. Please go ahead.

- Shirish Pardeshi** Just two questions. You mentioned that industrial product business is not met up to the expectations. What exactly happened? Has the demand come down or is the pricing was high or there is a high inventory which was there in trade? I am just trying to understand the nature of the problem?
- Sandeep Batra** I think it is largely to do with demand. I don't think it is any inventory related or price related issue. It is largely the softness in demand. Industrial products, fair amount of it gets exported outside India and the economy through which we export there is certainly not in the best of their health so that pressure remains. A lot of industries that we sell to in India is also export oriented. There again demand is a bit of challenge. So it is largely to do with demand not to do with price or anything.
- Shirish Pardeshi** Any quick outlook, I mean you have spoken about it but on overall basis, can you give us some indicators that if the crude is at this level what is the impact, I mean it is definitely a percent to impact but to what a certain expectation we can develop for the gross margin expansion?
- Sandeep Batra** First of all I really cannot comment on the outlook for the future. Certainly if all things remain the same as they are then the biggest challenge will be for us growth. Because the overall economic situation in India and the world is challenging and the biggest variant for us are crude and dollar so if they remain steady then margins certainly will not be volatile.
- Shirish Pardeshi** And the last question though we have spoken at many conference call about the elastomer plant. Is there any time lines the Management has decided, I mean, is there any benchmark we can expect that this will get resolved in next two quarters or three quarters or four quarters?
- Sandeep Batra** Certainly I think there will be some better understanding by the end of this year. So that is another two quarters away.
- Shirish Pardeshi** But are you positive on that something will be done on that front?
- Sandeep Batra** I cannot say positive. It is a prerogative of the Board to take a decision. All I can say is that certainly some developments may happen over the next couple of quarters.
- Moderator** Our next question is from the line of Sachin Kachera, Lucky Securities. Please go ahead.
- Sachin Kachera** Just two small follow up questions. One is the annual report has given the sales breakup between different segments. Is that on consol basis or is that on a standalone basis?
- Sandeep Batra** Standalone basis.



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- Sachin Kachera** Secondly you did mention that which segments for the highest growth within consumers. Can you just give some idea in terms on the marginal front how do these 3 – 4 segments stand in terms of 1,2,3,4 ranking?
- Sandeep Batra** We have said it in the past. The most profitable ones are the bigger and the old more matured segments which is our adhesive and sealants and then the others would be in the similar band. Industrial of course we know is much lower than consumers. Adhesive will be the stronger one then sealants then art & stationery and then construction chemical.
- Sachin Kachera** And is the difference between the most profitable and the least profitable significant or they are not that significant?
- Sandeep Batra** It is material. I will not say significant or not significant. There is a gap between the two. Between the more profitable, most profitable and not profitable.
- Moderator** Our next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah** Sandeep, I just missed out a number. Did we take any price hike in first quarter?
- Sandeep Batra** Yes we took about 4% - 5% price increases.
- Tejas Shah** And I believe this would have happened only in the last month of this quarter because still I believe you spoke in May in your concall till that time we were contemplating price hike.
- Sandeep Batra** We would have taken some in May and some may have been taken in June. It is phased. It is not really a specific time that we take our price increase.
- Tejas Shah** So 4% to 5% for the quarter.
- Moderator** As there are no further questions I would now like to hand the conference over to Mr. J Radhakrishnan of IIFL for closing comments.
- J Radhakrishnan** Thank you Mr.Batra. Thank you for the opportunity. And thanks all the participants. Have a good day.
- Sandeep Batra** Thank you very much for your interest in Pidilite. Thank you.
- Moderator** Thank you sir. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.