



“Pidilite Industries Ltd 1QFY16 Results Conference Call
Hosted by Ambit Capital”

July 29, 2015



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INDUSTRIES LIMITED**

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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries Limited 1QFY16 Results Conference Call hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rakshit Ranjan from Ambit Capital. Thank you and over to you, Mr. Ranjan.

Rakshit Ranjan: Good afternoon everyone and welcome to the results call of Pidilite. We have with us the senior management team led by Mr. Sandeep Batra – Director, Finance. I will now hand the conference over to Mr. Batra to give an overview of the performance for the quarter and then we will open the call for Q&A. Over to you, sir.

Sandeep Batra: Thanks Rakshit and good afternoon to all the participants in the call and Rakshit was very complimentary saying that there is a team of Pidilite. Actually, it is only me. I will only take you through the performance highlights of the results for the first quarter which were approved by the Board at its meeting yesterday and after that open for any Q&As that may be there.

I will first start with the consolidated performance and to clarify that the consolidated performance now also includes the results of Nina Waterproofing Systems Private Limited, a company which became a subsidiary late last financial year but in the middle of April this company acquired the Waterproofing business of Nina Concrete Systems effective 17th April. So the consolidated results include the overall performance of Nina Waterproofing Systems Limited. A look at how the consolidated performance was: Net sales at Rs. 14,622 million were higher by 9.3% over the same period last year. However, material cost measured as a percentage to sale was lower than last year first quarter by 513 basis points; a combination of lower prices of key raw materials and price increases taken in a phased manner over last year.

Our total expenses during the quarter excluding material cost were higher by 9.2% and consequent to the decline in material cost, EBITDA before non-operating income and before exceptional items was higher by 43%. Profit before tax was higher by 41.1% but profit after tax was higher only by 34.8% largely because of the 10-year tax holiday being completed in three units in Himachal. Till last year income tax exemption on 30% of the profit was available. Going forward from this year, for these three units, no income tax exemption is available.

A quick look at the standalone performance. Net sales grew by 7.5% over the first quarter last year driven by a 7.4% growth in Consumer and Bazaar product sales, with industrial products growing only by 0.7%. Material cost was lower than the same period last year by 542 basis points. The reason is the same as I explained when we talked about the consolidated performance.



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EBITDA for Pidilite Industries standalone, excluding non-operating income and exceptional items, was higher than last year by 40.7%. Non-operating income is lower than same period last year by 45.9% largely because of the mix of investments that we have wherein the gains would accrue only at the time when we sell these investments.

You may also note that in the first quarter of last year, there was an exceptional item of 49.1 million on account of a voluntary retirement scheme that the company had at one or two manufacturing locations. There has been no such similar expense this year. Consequently profit before tax is higher by 38.9% and profit after tax is higher by 33.6%.

As I mentioned earlier the Consumer and Bazaar products revenue is higher by 7.4% but segmental profit before tax and interest is higher by 35.5% largely because of the drop in material cost. In industrial products while sales is only grown by 0.7%, the segmental PBIT has more than doubled and has in fact grown by 108.4%.

If I look at the overseas performance so the performance of the overseas subsidiaries the constant-currency sales of the overseas subsidiaries was higher by 7%; however, due to an unfavourable translation impact the reported number reflects a growth of only 4%. In the North American market, the analysts would recall, that in the first quarter of last year, sales growth was very high due to initial orders from a new large customer. Given the very high base, in this current quarter sales have declined by 7%. However, EBITDA at 75.5 million is higher by 4% due to a better customer product mix and control on SG&A expenses.

In South America the first quarter of the calendar year which is January, March sales have been reasonable. However, the economy in Brazil continues to remain challenging and that had an impact on the April-June performance where sales were lower than last year. However, losses at the EBITDA level are lower by 16% due to lower SG&A expenses.

Middle East and Africa sales are higher by 121% largely in Dubai because of the transition from third-party distribution to own distribution for products that are exported from India. However, adjusting for this revenue which in any case gets eliminated during consolidation, the sales are lower by 68%. In Dubai and in Egypt sales are higher by 5%.

South and Southeast Asia had a very good quarter wherein Bangladesh sales were higher by 66% but in Thailand sales were marginally lower than last year by 9.1%. EBITDA for the combined operations is higher by 56.6%.

So that is all I had by way of introduction to the results. Happy to take questions.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.



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- Abneesh Roy:** My first question is if you could tell us what was the volume growth in domestic Consumer Bazaar ex of Nina effect?
- Sandeep Batra:** The total revenue grew by 7.5%, I think the price effect would be about 2.5%. So balance would be all made up of volume.
- Abneesh Roy:** But in this Nina is also be there, right?
- Sandeep Batra:** No, in the standalone there is no Nina. Nina is in the consolidated results not in the standalone results.
- Abneesh Roy:** So if you could take me through the 9.4% consolidated growth there, how much is core volume like-to-like without Nina and how much is the price?
- Sandeep Batra:** I will not be able to give you the separate data for the operating subsidiaries as that is not something that we would like to share at the moment. But if you look at the standalone performance, the difference between standalone and consolidated would be the overseas subsidiaries which I explained and largely Nina Waterproofing. We have few other domestic subsidiaries but those numbers, because Nina was not there last year, may not be strictly comparable.
- Abneesh Roy:** Sir, that is the issue we are facing that we do not have comparable data but just to give some data-points, last quarter consolidated growth was 7.7% and this quarter consolidated growth is 9.4%. Will it be fair to say 200bps kind of impact because Nina was not there last quarter and Nina is there this quarter?
- Sandeep Batra:** Not 200 but a significant amount of the improvement would be because of Nina.
- Abneesh Roy:** And Nina my understanding is because it is a new business for you, margins will be much lower than your current margins, right overall?
- Sandeep Batra:** At the EBITDA levels if you compare the kind of margins that we have got in this quarter yes, everybody would be lower than that. But it is a profitable business; it is at a PAT level not significantly different from the kind of profitability that we would have seen in Pidilite.
- Abneesh Roy:** Sir, in your Consumer Bazaar domestic business any competitor has cut price regional competition? Has it increased because of such high gross margins? And you normally take a longer-term view so how you are seeing pricing growth this year or will it be a decline this year?
- Sandeep Batra:** Generally our approach to pricing is not been tactical and I have maintained that in my interaction that our approach to pricing is to take a longer-term view as to how the input cost and other inflation parameters are behaving. So currently yes, because of all the pricing action



that we had taken last year and the subsequent softening in input costs, margins have expanded. Obviously there would be some players who may use this extra margin to do some tactical discounting at the local levels. I think that kind of tactical actions get taken generally all through the year. So we would also look at similar actions to be taken if it means protecting our market position. At the moment we are not looking at any price reduction or any price cut in view of the margin expansion.

Abneesh Roy:

Sir, my next question is in Brazil there was a media report that you are looking at a banker and this quarter also sales has declined. Could you comment that are you looking at a banker and because I do not see a recovery happening there because it is linked to the GDP and GDP I have no clue but still it has remained challenging for the last many quarters. So could you comment on that?

Sandeep Batra:

So I will not be able to comment on the market on the media report that came other than the communication we sent out the stock exchange. These are all market views and speculation and we do not comment on such market rumors. As far as our endeavors in Brazil are concerned, we recognize that the economy there is challenged, there is no underlying growth been driven by the economy growing. So one obvious action area for companies is to cut down on cost so that you are able to minimize your losses, which is something that we are focused on. With the economy not growing and currency being as weak as we have seen challenges for the operating management there.

Abneesh Roy:

So that is helpful. Last question, tax rate you had given a guidance of 150bps increase in this year. This quarter it has increased much higher than that almost double of that. So what is the guidance now and if you see paint companies, they are setting up new factories in areas where they are getting a lot of exemptions. So are we also planning something on that and if not, why we are not planning that?

Sandeep Batra:

Now there are location based no exemptions that are available at least as far as income tax is concerned. Exemptions may be available from sales tax or VAT. Because there are no more income tax exemptions that question does not arise. As far as the tax rate is concerned, the tax rate would be higher by 150-200 basis points. Over the full tax rate for last year not Q4.

Abneesh Roy:

No, last time guidance given was 27-28% this quarter it is 29%?

Sandeep Batra:

No, this quarter would be more representative of the tax rate for the year.

Moderator:

Thank you. The next question is from the line of Ruchi Vora from CLSA. Please go ahead.

Ruchi Vora:

My first question is on the raw material cost. Just for the benefit of everybody could you run us through, has the Q1 results fully reflected the correction in crude and VAM prices or are we



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carrying any high cost inventory and we should see further improvement in margins in the next few quarters? That is my first question.

Sandeep Batra: I think the margin largely and fully reflects all the reduction that has happened in input cost. Most of it is factored in there.

Ruchi Vora: Another follow on question just wanted to check in terms of pricing especially in the Consumer and Bazaar and industrial products. Firstly, what is the kind of would we go slow on price hikes in the next couple of quarters given the fact that we obviously have a great gross margin now? So would we go slow on pricing and also historically have we taken any price cuts just to make sure that we retain our market share in these segments?

Sandeep Batra: Obviously, there is no immediate trigger for any price increase because there is no inflationary pressure. So there are certainly no price hikes that are being contemplated at the moment. We have historically never dropped prices except may be in 2009 when the fall in raw material cost was so very drastic that we had to adjust prices of a few products downward. So I really cannot comment on what the future decisions will be. All I can say is that in the past there have been very few, instances when there would have been a drop in prices. Call on this would be taken given the trade-off that is there between demand and margin.

Ruchi Vora: And have you say in competition taking price cuts historically in Consumer and Bazaar various sub-segments and I am assuming the price sensitiveness in the industrial products would be a lot more?

Sandeep Batra: In industrial products the price calibration is much more dynamic and the customer would also demand adjustment in prices of input costs falls. So that is something that gets done on a much more frequent basis. But in consumer and other products, competition, in that particularly small competition, need not necessarily only drop prices, they can temporarily increase rebates. And through that process pass on the higher margin if they want to and that is something that is a continuous process that goes on.

Ruchi Vora: And the last question on the demand front. How are things, I understand, it is just been one month into this quarter but how are things looking in terms of demand? Have you seen any improvement? That is number one. And also if you could give us some colour on how has been the growth in various sub-segments like adhesives, sealant, and construction chemicals and art and materials if you could break-up the growth for the quarter?

Sandeep Batra: Overall we are not really seeing any major difference in the environment, our growth rates have largely been in line with what we saw in the fourth quarter. So Q4 was single digit, Q1 is also single digit. At the moment we are not seeing any major change in the growth pattern and as far as the individual sub-segments are concerned, we do not share on a quarterly basis the growth rates of each of the sub-segments but all of them would have performed well below the



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historical growth rates of that category. But beyond that I will not be able to share specific segment wise growth numbers.

Moderator: Thank you. The next question is from the line of Jay Radhakrishnan from IIFL. Please go ahead.

Jay Radhakrishnan: Sir, I believe in last year first half some two, three times you have taken some kind of price increase. So this year-on-year price increase of 2.5 that includes the industry segment some price benefit you would have passed on or this will be only for the consumer may be the consumer the year-on-year growth could be higher?

Sandeep Batra: No, I think the overall increase is blended for the company it is not specifically only for Consumer Bazaar.

Jay Radhakrishnan: So it looks like in September quarter we have increased some prices last year 3-4% kind of and even for June quarter and even in May we have done kind of some price increases. Whether we have reversed some of that or increased any margins?

Sandeep Batra: No, we have not reversed any of the price increases.

Jay Radhakrishnan: Sir, and broadly about the industry even though I do not want any specific numbers qualitatively how adhesive segments and construction chemicals are moving for the industry and are we continuing to gain market share?

Sandeep Batra: I think in both the categories there would not be any material shift in market share that would have happened between Q4 and Q1. It largely remains the same. In construction chemicals the opportunity is not so much market share game as it is a market creation game. And that is what we are focused on. Our focus is not so much to compete in what market already exists but instead creates newer markets and that remains the focus of the company. It is a different matter that because of soft underlying situations, the results of all the activities that you do may not be as you may expect and therefore the growth rates are slower than what the historical trends have been. But just to answer your question we would not have lost any market share.

Jay Radhakrishnan: Sir, construction chemicals used to grow at somewhere around 20-25%, one or two years back if I can recollect rightly, if wrong please correct me. And whether these construction chemicals are largely towards first-time construction or it is towards repairs, how our product bouquet looks like?

Sandeep Batra: Historically the bulk of our focus was on repair waterproofing. Now having invested in two waterproofing application services companies, we are also trying to build the first-time waterproofing portfolio largely around large institutional customers. But our focus largely has



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been around the repair part of the waterproofing segment. But given the weak economic situation, demand has been muted in the last few quarters.

Jay Radhakrishnan: Yes, because I believe at least repairs would not be falling under the discretionary segment so that will continue to grow the way it has been because the market potential is very huge?

Sandeep Batra: No, I think both the segments, repair as well as the first time would be subject to weak economic outlook.

Jay Radhakrishnan: Sir, is there any segment which is not really getting that much impacted because of the sluggishness or there are all the segments which are getting impacted?

Sandeep Batra: No, I think as we speak now all our segments have got impacted. There is no segment which has remained insulated.

Moderator: Thank you. The next question is from the line of Anshuman Atri from Espirito Santo. Please go ahead.

Anshuman Atri: My question is with respect to the industrial segment given that we have got good margins. So are there any plans to boost growth by sacrificing margins?

Sandeep Batra: Pricing is not the driver to grow the industrial segment, it is about product quality customer services. Product range ability to service the customer, are the critical success factors in the category. And that is where we are working on. I do not think the game is to reduce prices and then improve our volumes or business.

Anshuman Atri: And the second question is regarding are we seeing any kind of increasing imports in this adhesives or construction chemicals from especially say countries like China?

Sandeep Batra: No, we are not seeing any activity of that type.

Anshuman Atri: And in general how would be Pidilite's products be priced as compared to these imports?

Sandeep Batra: There are no comparable imports.

Anshuman Atri: Since I saw some silicon products from Pidilite versus a couple of imported products which were offered by few of the shops,so just wanted to know whether there is a broad base?

Sandeep Batra: I think even the silicon that we sell is also imported. I do not think there is any major in domestic manufacture of silicon sealant.

Anshuman Atri: And lastly, on the demand front are we expecting see industrial pick up before the consumer or are you saying you expect both of these topick up in the same time?



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Sandeep Batra: I think it depends on what leads the economic recovery in India. Keep also in mind that the large amount of industrial products is also exported out of India. So if the economic situation in some of the more developed markets picks up that may lead to an early revival in the industrial segment whereas the pickup in the Consumer and Bazaar segment is slightly more secular and therefore depends up on how the overall economy picks up.

Moderator: Thank you. The next question is from the line of Parag Thakkar from HDFC Securities. Please go ahead.

Parag Thakkar: I just wanted to ask that basically after this Iran nuclear thing, crude prices have again fallen. So when you say that entire fall in price of crude oil and then is reflected in this quarter but I suppose that if there is a further more correction is through, I am not sure of them. So and you are saying that there is no great pressure to reduce or no great urgency to reduce price in consumer product segment as of now. So can we say that this kind of margin can sustain or at least whether it is crude remains lower or say VAM I do not know. So can you give me some VAM prices also?

Sandeep Batra: While VAM is a crude derivative, it has not followed one-to-one correlation. Therefore there could be a lag between how crude prices behave and how VAM prices behave. At the moment we are not seeing any major softness in prices of VAM. They are between the 1,000 and 1,050 kind of level. Crude being soft is certainly having an effect on other input costs, oil and some other solvents. But as I said the flow through of this lower crude prices has not yet happened.

We have not seen any further reduction in other oil derivative products. If and when it happens it will flow through. There is no further upside which is there in the inventory as most of it has got factored in the first quarter results.

Parag Thakkar: Sir, can you just give us the number that at what price of crude your current prices will be benchmarked to? So for example the crude derivatives if you are using may be that will be equal to say crude oil of 62 or 60 we can get that kind of a number?

Sandeep Batra: No, I wish we could we do not have a number like that because given the diversified portfolio of raw materials that we use and all of them have a very different linkage to all. So to try and convert it to a simple index or a simple value of crude will be hazarding a very, very wild guess.

Parag Thakkar: And in the industrial, as somebody else also asked. We assume that it is a B2B business and so our margin improvement led by raw material price fall in that segment and that too of this extent looks like, we assume that we will have to reduce the prices simply because it is B2B business, but as you said that you know, can you clarify more on this?



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Sandeep Batra: Margins in industrial product had fallen to all-time lows in the first and second quarter of last year, so now is the recovery from a much lower base. But absolutely right that margins that we have at a company level in industrial as well as Consumer and Bazaar are unsustainable. They are all-time high and it will be very simplistic to assume that these kind of margins will continue in the future. So some of the benefit that we may get eaten away in the natural course.

Parag Thakkar: Sir we have seen some 50 bps reduction in other expenses also what is that?

Sandeep Batra: That is largely the phasing that we have of the advertising and sales promotion expenditure. If you recall in the fourth quarter of last year there was a significant step up in advertising and sales promotion largely because there were a few properties that we wanted to advertise behind. There have been no such similar worthwhile properties in the first quarter and therefore our advertising and sales promotion out flow has been lower than last year. It has been about 30% lower than what we have spent in the first quarter of the last year, not because we wanted to spend less but because there were no adequate good, properties to advertise behind. So at an annual level, we will probably get back to the full year kind of spend that we had last year.

Moderator: Thank you, the next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.

Arjun Khanna: My first question is in terms of Nina; have we disclosed how much we have paid for the same?

Sandeep Batra: Yes, that we have.

Arjun Khanna: What is that amount Sir?

Sandeep Batra: For a 70% stake, I think Pidilite paid, if I remember correct, Rs. 61 crore. It is something which has been disclosed to the stock exchange. If you want to be doubly sure, you can check upon the disclosure but I think it is around Rs. 61 crore.

Arjun Khanna: And secondly Sir, in terms of CAPEX last year you had mentioned that it would be roughly in that Rs. 175-200 crores range apart from inorganic acquisitions. Are we scouting a lot of opportunities and would they largely be in India or abroad?

Sandeep Batra: If you look at Pidilite's history, we have had several small but very niche acquisitions that we have done over the years and that remains the approach that we are always on the lookout for a small niche player where you can leverage on the strength of that company. There may not too many options available in India and a larger number of such opportunities may be outside India.

Arjun Khanna: Sure, fair enough. Is there any other sense in capital allocation; how do we go about that going forward because the business is generating incrementally large amounts of capital?



- Sandeep Batra:** Capital allocation – let us look at anything which has got to do with adding capacity or a new line of product that we would like to get in to, we have internal hurdle rate which make sure that the payback period is not unnecessary long. So the fact that we are generating cash does not make us more indiscreet when it comes to deploying it in the business. Our benchmarks are the same.
- Arjun Khanna:** Sir in terms of dividends, you have seen they have not really not been stepped up, so is there anything that the board is actually looking at that it wants to conserve the cash?
- Sandeep Batra:** The board decides on how much it can pay off by way of dividend. So keeping in mind the kind of acquisitions that we have done, the kind that are probable, and the CAPEX that the company is to incur the Board has not found the need to increase the dividend payout. But that call now for next year is nearly 10 months away. So, this issue will get revisited in May of next year.
- Arjun Khanna:** Sure. Sir any updates on the Elastomer project?
- Sandeep Batra:** No update on that. Status quo prevails.
- Arjun Khanna:** Sure just curious Sir, would the machines be in a usable phase right now or because they have purchased a long time ago, probably technologies have moved on and any reason we have not up bed the assets completely?
- Sandeep Batra:** The proportion of plant and machinery in capital work-in-progress is not very large. Keep in mind that the entire amount that we would have paid to the foreign company for buying the plant and machinery and the intangible assets was about Rs. 100 crore, rest of the expenditure has been on the site, on the dismantling, and on the relocation and so on and so forth. And there have been period costs of interest as well as people. So the tangible assets at risk in that sense are not very significant. The plant and machinery which we had brought in from the company had been dismantled and remains in that dismantled state. Whatever needs to be done to keep it in a usable form, that care and precaution has been taken.
- Arjun Khanna:** Fair enough, so we test this for impairment yearly?
- Sandeep Batra:** Yes.
- Moderator:** Thank you the next question is from the line of Hiral Desai from iAlpha Enterprises. Please go ahead.
- Hiral Desai:** I think, on construction chemical, I had a similar thought to what Radhakrishnan had earlier so, even I thought that given a large part of the portfolio is; water proofing driven which is more remedial/maintenance related. I thought that would not really get impacted by the slowdown in the economy.



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- Sandeep Batra:** We have not witnessed the fact that remedial water proofing is insulated from what happens in the economy. Our experience has been that if the economy is challenged, the outlook is a bit uncertain than all kinds of discretionary spends will get impacted.
- Hiral Desai:** Broadly, on the Consumer Bazaar portfolio that we have, what percentage would be discretionary in nature because I thought things like water proofing or m-seal or Fevikwik; those kind of products would not really get impacted so much by the macro environment. Would you have a ballpark number on the discretionary within 'Consumer Bazaar'?
- Sandeep Batra:** I would not have a ballpark number because we do not categorise our products like that. But a significant amount would be discretionary but difficult to put a number to it. But to look at the situation differently, in all our segments we have seen growth much lower than what we have seen historically.
- Hiral Desai:** Historically, we take a lot of pride in terms of the internal demand generation exercises that we do at Pidilite. So given the challenging environment any specific activities that we have sort of kick started over the recent couple of quarters, anything you would like to share?
- Sandeep Batra:** Nothing at this stage that I would be in a position to share which would be very different or distinct.
- Hiral Desai:** The other is, the price increases that we have effected over last 3-4 quarters; we have largely taken it on the VAM affected portfolio. So any other areas where we have increased prices in Consumer Bazaar product?
- Sandeep Batra:** Bulk of the price increases would have been in the adhesive segment which is where VAM has a key role to play. Other segments nothing very significant would have been done.
- Hiral Desai:** So the margin improvement is largely based on the low RM plus the price increases that we would have taken on the VAM affected portfolio and that would be what about 25-30% of the overall portfolio?
- Sandeep Batra:** VAM would be about that much, yes. The products which would have VAM will be about 25%, 30% of the portfolio.
- Hiral Desai:** And the other was on Brazil, just wanted to understand, have we reached the kind of tipping point because we have given it 6-7 years. The underlined business is somehow nowhere close to where the other Pidilite franchise is. So any thoughts on that? Obviously, do not want you to comment on media article but otherwise just the management thought on Brazil. Because see you can keep cutting cost only till an extent, right? If the underlined business is so challenging, does it make sense to sort of be there?



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- Sandeep Batra:** I think we will have to look at the business not in isolation but relative to who the other industry players are and the industry in which you play. So the industry which is largely servicing the construction sector has been challenged because construction growth in Brazil is negative. We are not the market leader in Brazil, therefore the flexibility that you have in terms of pricing is much less than what the market leader would have. The currency in Brazil has been significantly challenged.
- Hiral Desai:** And lastly, on the subsidiary portfolio – if I look at the staff cost, broadly they have been in that 20% kind of range. So that is basically because of poor sales or it is just high cost structure in probably US and Brazil?
- Sandeep Batra:** Some of the cost probably would support a higher level of turnover and in some cases there may be additional investments that we would have done in anticipation of growth.
- Moderator:** Thank you, the next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Just wanted to check on this – Arts and others which over the last two years have done well and in FY14 it was close to around 14% of your sales which used to be five years back around 8%. So, what has changed there and Hobby Ideas is the only thing which we look at or this is giving distributed to regular retail stores also some of the products? Sir, if you could throw some light on it?
- Sandeep Batra:** Hobby Ideas stores are standalone stores in very few markets, largely limited to western part of India. They sell our products and have several products that we buy from third party. So, it is not that they only sell our products. We also have lot of art materials under the brand name 'Hobby Ideas', which we sell pan-India. And as far as growth rate of art material is concerned, as I mentioned earlier we do not disclose segment-wise.
- Amit Purohit:** No, I am not asking about this quarter or that but what I am trying to say is that I am talking about FY13-14 number not even FY15 number that has grown at 34-35% CAGR and today in FY14 I am saying it goes to around to 14% of total sales which has gone up significantly compared to say 8% in 2007. So I am just trying to understand what is the changes that management has undertaken whether in terms of distribution, thought or consumer? What is change, which has resulted in this strong growth?
- Sandeep Batra:** Some of the products in that segment have gained acceptance and that has led to much faster growth in that category. So there are some products in Art and Stationary, where the acceptance by the trade has been much better and therefore the overall segment has grown.
- Amit Purohit:** And would the margins in this would be similar to the overall Consumer Bazaar markets or so?



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- Sandeep Batra:** Yes.
- Moderator:** Thank you, the next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.
- Utkarsh Maheshwari:** You have mentioned that there is something like Rs. 540-odd crores of money which has been kept in the Mutual Funds and term deposits as per this thing. How much of this will be something like in the proportionate FMPs?
- Sandeep Batra:** Investments in FMP and interval fund will be around Rs. 200 crores. I do not remember the exact number but it will be of that order.
- Utkarsh Maheshwari:** And balance will be your liquid funds.
- Sandeep Batra:** Yes.
- Utkarsh Maheshwari:** Just want to get a feed in from you. Probably Q2 becomes more of you school opening time and that is the time when we see that consumer business actually shows a bigger volume growth. So how has been the pickup in the Q2 for you and do you expect this 5% volume growth can be bettered off in the coming couple of quarters?
- Sandeep Batra:** Very difficult to comment on Q2. We have not even closed the first month of the second quarter. So I would not be able to comment on Q2.
- Utkarsh Maheshwari:** No, but you must have seen some initial colors of ordering by the stockiest, it has been the start of...
- Sandeep Batra:** No, I do not look at sales on a daily basis.
- Utkarsh Maheshwari:** Okay, but what is your internal target if you can just put as a number. What should be your target for volume growth for the full year if you can just guide us out?
- Sandeep Batra:** We do not give any guidance or any targets. I will not be able to share internal targets or any internal number.
- Utkarsh Maheshwari:** Okay, you have mentioned earlier, that VAM price is in the range of US\$1,000-1,050 per tonne, right?
- Sandeep Batra:** Yes.
- Utkarsh Maheshwari:** If you can just tell me what has been the change on a Y-o-Y basis and Q-o-Q, if you can just share the detail? What was it in Q4 and what was in Q1 last year?



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- Sandeep Batra:** I do not have the number maybe precisely, but last year Q1 I would say average would have been about US\$1,300-1,350. Q4 was more around US\$1,100 and maybe there is a US\$50 drop from Q4 to Q1 but large drop would be there from Q1 of last year Y-o-Y.
- Moderator:** Thank you, the next question is from the line of Amnish Agarwal from Prabhudas Liladher. Please go ahead.
- Amnish Agarwal:** I have a couple of questions. My first question is regarding the competitive intensity because I understand that Henkel which is another global majors is setting up a large adhesive facility in India. So, can you please throw some light that in which segments Henkel is directly competing with us now? And is Henkel looking at entering again the Consumer and Bazaar segments or they are going to focus more on the B2B or Industrial sites?
- Sandeep Batra:** They are largely competing in the B2B Segment, which is where their global portfolio is aligned. I have no information about Henkel wanting to enter the retail part of the business.
- Amnish Agarwal:** So it means the new facility and all, they will be mainly focusing on the Industrial part?
- Sandeep Batra:** I believe so.
- Amnish Agarwal:** Sir any other global players who intends to enter the retail segments which you are aware of?
- Sandeep Batra:** No, none I am aware of.
- Amnish Agarwal:** And Sir, secondly, there are several of our raw materials, for example – VAM is one, then your packaging is also linked to crude and then there are numerous other kinds of materials. But if we look in totality, how much of our raw material will be directly or indirectly linked to crudes.
- Sandeep Batra:** Predominantly, it will be linked to crude because the other sources of raw materials would be either they are minerals or they are agricultural inputs. And I think bulk of our inputs would be oil-led.
- Amnish Agarwal:** And Sir, can you give us the number that how much was the ad spend as a percentage of sales in this quarter?
- Sandeep Batra:** It was about 2.5%.
- Amnish Agarwal:** And in 4Q, sir?
- Sandeep Batra:** 4Q, I think 6.5%.
- Amnish Agarwal:** Your 1Q last year, I think it was around 3.5%.



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- Sandeep Batra:** There about 3.7%, 3.8%, yes.
- Amnish Agarwal:** So, given the kind of scenario we are currently in that the demand is relatively soft. So do you see a possibility that you will be spending aggressively on advertising or you will maintain a lower profile till you see some improvement in demand happening at a ground level?
- Sandeep Batra:** Our decision on advertising is not of the nature that you describe and in any case, our products are not such that advertising will immediately stimulate demand. The fact that we spend less in the first quarter is not because we wanted to spend less but because there were not adequate properties that we would have liked to advertise behind. And similarly, when we spend the kind of money that we have spent in the 4th quarter; it was because there were good properties available and we believe that on a going forward basis, that was the right thing to do. So, the under-spend on advertising is something which is very momentary. It will probably get evened out when you look at our full 12 month picture.
- Amnish Agarwal:** Sir, my final question is just a maintenance question, what is the likely tax rate for the full year?
- Sandeep Batra:** I think it will be very close to what we had in this quarter.
- Amnish Agarwal:** That is around 28-29% approximately.
- Sandeep Batra:** Yes, about 28%, 28.5%.
- Amnish Agarwal:** And Sir, how much CAPEX we intend to do in the current year?
- Sandeep Batra:** Unless there is any acquisition, there will not be significant CAPEX for adding capacity. So CAPEX without acquisition should be similar or less than what we spend last year.
- Amnish Agarwal:** So excluding any acquisition could we say around Rs. 100 crores, Rs. 150 crores from that range?
- Sandeep Batra:** About Rs. 150 crores, yes.
- Moderator:** Thank you, the next question is a follow up from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, International business; Thailand and Bangladesh have seen very good growth; any one-off there or base effect.
- Sandeep Batra:** Not Thailand, only Bangladesh.
- Abneesh Roy:** Thailand, what is the growth?



- Sandeep Batra:** (-9%).
- Abneesh Roy:** So Bangladesh, what happened?
- Sandeep Batra:** In Bangladesh, there have been a few products that earlier we were exporting directly which have now gone through the subsidiary. Moreover, the market acceptance to our products has been good.
- Abneesh Roy:** Sir, in the past two quarters, domestic volume growth has slowed down. So, what is the gap now between urban and rural and is the difference between the two similar? If you see, some of the consumer companies are saying urban growth has recovered, so in your case, are you seeing some recovery in urban and if urban recovery happens in a few quarters, how much is your sales coming from urban broadly. So, will you get a big delta from there?
- Sandeep Batra:** First of all we do not track sales at that level of fineness of urban-rural because some amount of sales that we do to our customer or distributor in urban maybe getting wholesaled into the rural market.
- Abneesh Roy:** Sir, that is be some only right, but broader numbers?
- Sandeep Batra:** Bulk of our sales that way would be in the urban market. Sales in towns less than 50,000 will not be a very large proportion. But we have seen the same ratio of growth rate. So, while growth rates in rural have slowed down and in urban areas they have slowed down, but ratio, by and large remains same.
- Abneesh Roy:** But sir just to summarise, it will be fair to say; if urban recovery happens, you will get a much higher delta because your exposure to urban is quite high?
- Sandeep Batra:** Yes.
- Abneesh Roy:** Sir the new MD has taken over, he is the first professional MD, so could you share initial, what change has happened because he comes with his own set of experience versus a promoter run company so any thoughts you can share on that?
- Sandeep Batra:** No, nothing at this stage on that I would like to share.
- Abneesh Roy:** And lastly new products – last 2-3 years and you have acquired small companies in domestic business so any update on that if you can share?
- Sandeep Batra:** Nothing very material, Abneesh on new products. Nothing which is of a size or any development which is so material that it would be relevant to share in this. My focus has largely been on trying to explain the Q1 results. Nothing exceptional in Q1 associated with new products that I can share.



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- Abneesh Roy:** And sir one follow-up was there the largest paint company this time decided to focus on the lower end also, 'Putty' and all that, has that impacted you in anyway. Do you compete in those segments with the paint companies?
- Sandeep Batra:** No, we do not compete in the putty segment.
- Moderator:** Thank you. We will take our last question from the line of Ruchi Vora from CLSA please go ahead.
- Ruchi Vora:** My first question, just wanted to understand structurally that how is the competitive intensity in our Consumer and Bazaar segment and if I am assuming we obviously have a strong brand, why is it that we cannot sustain the current high gross margins? I am just trying to understand the management thought process. If we continue to take 2-3% price hike every year and sustain the current margins would that be viable? What stops us from sustaining these margins?
- Sandeep Batra:** Well it certainly will not be viable because it has not something that will work in the market. There are various competitors in the market and we cannot do as we please.
- Ruchi Vora:** I was just saying which are the sub-segments in Consumer and Bazaar which are most prone to competition? Let us say doing some kind of pricing action which are the most segments which are prone to that?
- Sandeep Batra:** I think all segments are prone to that. If you look at white glue which is where Fevicol competes in, there are few national players and there are several local regional players. If you look at construction chemicals it is a very competitive industry. If you look at Art and Stationary it is a very competitive segment. So, all segments are competitive, I think it may be a misconception that we have undisputed market leadership and therefore undisputed pricing power.
- Ruchi Vora:** My last question is on your key products, just wanted to understand which are the top-5 power brands for you, which are above Rs. 500 crore sales, would you be able to share some colour with us?
- Sandeep Batra:** We do not share brand-wise sales, we do not share brand-wise turnover value.
- Ruchi Vora:** Sure but if you can qualitatively tell us maybe not identify specific brands but I understand Fevicol is obviously a huge brand for Pidilite?
- Sandeep Batra:** Some of the brands which are important for us would be Fevicol, Dr. Fixit, Fevikwik, M-seal, Steelgrip, These would be the brands which get more visibility be it media or otherwise.



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- Ruchi Vora:** Correct and out of the Rs. 4300 crore topline let us say the top 5-6 products that you have mentioned, what percentage of your total topline would be these products? I am just trying to understand the dispersion of your sales, just broadly some qualitative.
- Sandeep Batra:** No, I will not be able to share that. It is not something that we are comfortable sharing.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Rakshit Ranjan for closing comments.
- Rakshit Ranjan:** On behalf of Ambit I thank all the participants and Mr. Batra for being on the call. Sir any closing remarks you want to make?
- Sandeep Batra:** Yes. Thank you very much to everybody for their interest in Pidilite and to be patiently on the call and wish them a good day and thank you very much Rakshit for arranging the same. Thank you very much.
- Moderator:** Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.