

31<sup>st</sup> May, 2017

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Dalal Street, Fort  
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**Stock Code – 500331**

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National Stock Exchange of India Ltd.  
Exchange Plaza, Plot no. C/1, G Block,  
Bandra-Kurla Complex,  
Bandra (E),  
Mumbai - 400 051  
**Stock Code - PIDILITIND**

Dear Sir,

**Sub: Transcript of the Earnings Call**

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We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on 22<sup>nd</sup> May, 2017.

Kindly take the same on your records.

Thanking You,

Yours faithfully,  
**For Pidilite Industries Limited**



**A N Parekh**  
**Whole Time Director**

AS

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**Pidilite Industries Limited**  
Q4FY17 Earnings Conference Call  
May 22, 2017

**MANAGEMENT: MR. APURVA PAREKH - EXECUTIVE DIRECTOR - PIDILITE INDUSTRIES LIMITED**

**ANALYST: MR. RANJIT R CIRUMALLA - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Pidilite Industries Q4 FY17 Earnings Conference Call, hosted by Batlivala & Karani Securities India Private Limited. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ranjit R. Cirmalla from Batlivala & Karani Securities. Thank you and over to you Sir!

**Ranjit R. Cirmalla:** Thank you Janice. Hi all on behalf of B&K Securities, we welcome all the participants on this call and thank the management of Pidilite for giving us opportunity towards this call. We have with us today Mr. Apurva Parekh, Executive Director, Pidilite Industries. We request Mr. Apurva Parekh to take us through the 4QFY17 performance post, which we will open, the floor for a Q&A session.

**Management:** Before we begin, we would like to mention that some of the statements made in today’s discussion may be forward-looking in nature. These forward-looking statements are based on certain expectations, assumptions, anticipated developments and other factors, which should be read in conjunction with the risks and uncertainties that the company faces. The Company, therefore, cannot guarantee that the forward-looking statements made herein shall be realized.

**Apurva Parekh:** Thank you. Good afternoon everybody and thank you for joining this earnings call. I will first take you through our financial performance. First, I will start with consolidated performance. Gross sales grew by 6.8% for the quarter and 6.3% for the year. EBITDA before non-operating income and exceptional items grew by 7.7% for the quarter and 7.6% for the year. Profit after tax declined by 7% for the quarter and grew by 6.9% for the year. Profit after tax declined in Q4 due to higher tax provision in Q4 of this year as compared to last year. This is due to expiry of certain tax benefits and adjustment of tax provision based on actual results of the full year.

Now I will comment on the standalone performance. Gross sales grew by 6.6% for the quarter with underlying volume and mixed growth at around 7.8%. This was driven mainly by 8.2% growth in volume and mix of Consumer and Bazaar products and 5.2% growth in volume and mix of industrial products. Gross sales for the financial year grew by 4.7%. EBITDA before non-operating income and exceptional items grew by 12.3% for the quarter and 9.6% for the financial year. Standalone results for the quarter and year is after providing for exceptional items aggregating to Rs.94 Crores related to impairment of company’s investment in subsidiaries. Net profit before exceptional item grew by 6% for the quarter and 12% for the year. Net profit after exceptional items declined by 45% for the quarter and grew by 3.6% for the year.



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Dahej PCR project, the company has initiated manufacturing of adhesives and other products for export market at the Dahej site. The company has made and is continuing to make attempts to find a strategic partner for PCR project. In line with this strategy for PCR project, the company has fair valued items, plant and machinery along with integrated patents, designs and drawings currently included in capital work in process and adjusted the difference between the carrying value and fair value against the opening reserves of the company as on April 1, 2015 as permitted under Ind-AS. Capital work in process of Dahej PCR project as on March 31, 2017 is now Rs.101 Crores.

Now I will briefly talk about domestic and international subsidiaries. Domestic subsidiaries reported sales of Rs.81 Crores for the quarter and Rs.259 Crores for the full year. Numbers are not comparable with previous year as ICA Pidilite started operation from April 1, 2016. Nina and Percept the two waterproofing service companies reported good growth in sales and profit for the quarter. ICA Pidilite achieved sales of Rs.101 Crores for the year, with an EBITDA of around Rs 10 Crores.

International subsidiaries sales declined by 12% for the quarter and grew by 4% for the year. EBITDA for the quarter was loss of about Rs.80 lakhs and EBITDA for the year declined by 74%. EBITDA for the quarter and year includes provisions and expense related to product recall done by Pidilite USA in second quarter. Excluding the impact of provisions and expenses for product recall EBITDA decline was much lower. UAE subsidiaries incurred EBITDA loss of Rs.18.2 Crores for the year due to investment in higher expenses not resulting in commensurate increase in sales. Actions have been initiated to reduce these expenses.

In conclusion, this quarter saw profitable volume driven growth. In a challenging year, we continued to deliver steady sales growth with focus on core categories and improvement in operational efficiencies.

The Board of Directors have recommended a dividend of Rs. 4.75 per share of Rs.1 each for the financial year ended March 31, 2017. This compares to Rs. 4.15 per share last year. Thank you. We can now open up for questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with question and answer session. We take the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Thanks for the opportunity. Sir, my first question is we have seen volume growth revive in the domestic Consumer and Bazaar business. You have been advertising a lot on Dr. Fixit, so have



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both the key businesses, Dr. Fixit and Fevicol grown at similar numbers or because of much higher spends on Dr. Fixit versus earlier, Dr. Fixit has seen higher growth?

**Apurva Parekh:** I would not like to give comments on our individual brands or give a comparison between our brands, but as you saw, in the last quarter we had volume growth and you know both of these brands have seen volume growth that is better than the third quarter.

**Abneesh Roy:** 18% GST for adhesives, there are two questions here, do you see a double-digit volume growth in FY18 and second, they put a cap of 1 litre, so will you now have a higher drive towards LUP. Already is a big chunk of your percentage at or below 1 litre?

**Apurva Parekh:** Abneesh, as you know we don't give any volume projections. We generally do not give a guideline for growth of next year, so I would not like to comment on whether we would achieve double-digit growth next year but as you know, our endeavor is to go back to our historical growth rate of about 15%. On the second question, all adhesives are covered under 18%. It is not only 1 litre and less but all adhesives are covered under GST of 18%.

**Abneesh Roy:** So, there is no size limitation at all?

**Apurva Parekh:** There is no size limitation as far as the GST rate goes.

**Abneesh Roy:** Sir, lastly your credit base had increased by 8 to 10 days in the demonetisation, so is it back to the earlier levels?

**Apurva Parekh:** Should not look at year-end numbers specifically because point-to-point, it can make a difference but we had given certain extra credit in the third quarter because of demonetization. We had given approximately seven days extra credit to the trade that we have now reversed. We are going back to our historical, normal credit rate.

**Abneesh Roy:** Sir one small one, WD-40 if you could give us what is the update?

**Apurva Parekh:** On WD-40, as you know, it has now been about six months since we took over the distribution and the start has been good. It is as per our expectation or a bit better than that. We have achieved distribution across India. We have started lot of market development activity and we are focused on really driving increase in consumption of this product. This product has multiple usages in segments like industries, automotive, household, craftsman, so across all our key product categories it has lot of usages and potential, so we are focused on educating customers about it



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and focusing on increasing demand or consumption of these products and it is going as per our plans.

- Abneesh Roy:** Sir FY17 has ended, do we get detail of what the size of this business?
- Apurva Parekh:** Again, it is an individual brand, so we would not like to share brand-wise sales details
- Abneesh Roy:** That is all from me.
- Moderator:** Thank you. We take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Thanks for taking my question. Firstly, just on the growth revivals, there has clearly been better volume growth in this quarter, now could you give some sense to us if you have seen any improvement on the ground in terms of construction activity and whether we should look at F2018 to be a better year than F2017 because I think F2017 was still 6% revenue growth, which has been fairly low looking at your history. So do we see that at the exit of F2017 that we are feeling more confident of the volume growth and revenue growth in F2018?
- Apurva Parekh:** Clearly, as far as F2017 goes, there were impacts like demonetisation, so we certainly do hope that FY18 would be better than the previous year, but it is very early in the year and very difficult to predict. The GST roll out is going to happen. There are a number of factors that are involved. We would not really like to say that the next year would be better or not, but Q4 shows good improvement over Q3, so we have to wait and watch how the year progresses. As far as activities on the ground, real estate still has a fair amount of stress, but also there are opportunities across various sectors and towns, so we have focused on that and we have focused on increasing consumption, creating new users to drive growth.
- Gunjan Prithyani:** I am just looking at your first half. I think first half the volume growth was about 9% and of course we took a big hit in Q3 because of demonetisation and we are back again in about 8% volume growth, is this a broad range that we are still okay with unless given the construction activities still fairly muted, so this broad range should at least sustain right leaving apart the demonetisation hit?
- Apurva Parekh:** Gunjan, we would really like to stay away from saying whether it would sustain, not sustain, but we are not happy till we get back the growth to double-digit levels. The volume growth and value growth closer to 15% is what we want to aim for, that is what we are working towards. A lot of other things are not in our control but we are focused on trying to achieve double-digit volume



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growth and a topline growth of around 15%. It would be difficult to say anything other than to give a guideline, which I would not like to do.

**Gunjan Prithyani:** No, I was just trying to understand if anything is giving you more confidence that yes there has regularly been improvement in the activity on the ground?

**Apurva Parekh:** Confidence in the sense, no, it is difficult. There are too many macroeconomic factors, but lot of thing in economy are going right as well, so we are hopeful that things would continue to improve and India would continue to grow at a good pace, but it is very difficult to say in the short term or in the next one or two quarters what exactly will happen.

**Gunjan Prithyani:** Just moving to your margins now, can you give us some sense on how are the VAM prices are trending and how should we look at margins now in the context of the GST where the rates are lower than what we obtained currently and also on GST as adhesives it is 18%, any sense on what is on the rest of the segments, is there any saving out there as well?

**Apurva Parekh:** As far as VAM prices goes, they have been on an increase, so compared to prices, which had dropped to about \$750 or so by December end, now they are around \$900 plus kind of level. This was the same rate, which was there in June 2016 as well. So now we are back to around June 2016 level, so in Q2 and Q3 the rates had fallen, now they are coming back to around 900 level. As far as GST goes, on other products like Sealants it is 28%, on Coatings it is 28%, on most of our industrial products it is 18%. Things like art material again is 28%. So across our products, some are in 18%, some are in 28%.

**Gunjan Prithyani:** Alright. Got it. Thank you so much.

**Moderator:** Thank you. We take the next question from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta:** Hi Sir! Thanks for sharing that GST rate. Could you also highlight what was the indirect tax rate earlier so that we can get a sense on how each of the products are likely to give benefit or not in the pricing and things like that?

**Apurva Parekh:** Most of our products were in sales tax band of 12.5% to 14.5% depending on the state. There were some products, which were at concessional rate, which was about 5%, but I would say that a bulk of our Consumer and Bazaar product portfolio was in the range of 12.5% and 14.5%. Some of our industrial products were at a lower rate, concessional rate and some selective products were at a lower rate.



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- Avi Mehta:** So if I want to look at it from a product wise basis, adhesives obviously would be 12.5 excise plus 14.5 sales tax, would you be able to give that kind of breakup for Sealants and Coating, Sealants and industrial as well Sir?
- Apurva Parekh:** Adhesives and Sealants were both more or less the same rate in most of the states.
- Avi Mehta:** It is 12.5% plus 14.5%?
- Apurva Parekh:** Industrial products in some states were at a lower rate because they were chemicals, in some states they were at a lower rate.
- Avi Mehta:** So there the excise was still 12.5 right Sir?
- Apurva Parekh:** Excise duty was same on all the products.
- Avi Mehta:** Secondly, I am just trying to understand the segmental performance a little bit in more detail. How does the other income get classified because there is a very sharp increase in other income, but the margin expansion that I see in the individual segments is not that sharp in the Consumer and Bazaar in particular, I am trying to kind of garner it is only 130 bps and the other income is actually up 44%, I am just trying to understand is flow through largely in the industrial segment or how does the other income get classified Sir?
- Apurva Parekh:** The other income is mainly the treasury income, but Consumer and Bazaar products, which I do not understand your comments, but if you look at the last quarter...
- Avi Mehta:** I am talking about the segmental results on a yearly basis. You give the PBT Sir. The segmental results in that it includes there is an unallocable expenses, which is more or less not materially kind of increased and the others are into the each of the individual bucket, so I was just trying to understand if you could just, or should I take offline?
- Apurva Parekh:** We can take it offline, but bulk of the unallocable income is the treasury income.
- Avi Mehta:** Because the increase is not that high in the unallocable expenses net of income, it is kind of flattish, but the income increases actually larger, so that is where my question was?
- Apurva Parekh:** I think we can give you some more details offline.
- Avi Mehta:** No issues. Last thing Sir, on the debtor side would you have seen a marginal increase or not, year-to-year basis, would there be some amount while you said that some amount we did reverse





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the seven days extra credit, if there is an extra credit that is build in or is this a more timing thing should I assume?

**Apurva Parekh:** It is a little bit of timing thing as well as some time there is a mixed impact as well on what exactly, which segment particularly, grows. For example, our consumer business has the lowest credit, our bazaar has a little bit higher than that and industrial it is a little bit even higher than that, so there is a mix of product portfolio and how each one performance is there in a particular quarter or in a particular month, also has some influence, but the extra additional credit that we had given in the third quarter has now been withdrawn.

**Avi Mehta:** Sir, you just indicated the VAM prices, I am just trying to understand there has been up and down that has been going on, Q2, Q3 has fallen and now you are indicating it has moved back up, could you highlight how is the outlook on that segment and what is driving this variation, is it more a supply side thing or what exactly is happening on this front Sir?

**Apurva Parekh:** It is dependent on a number of things including, first and foremost, the oil price. After that how does it go to products like ethylene and acetic acid, which are the key raw materials, so ethylene and acetic acid prices also have demand and supply issue including if there is some major shutdown or anything can have a short-term impact, but on a longer term the impact could be clearly based on the oil prices, eventually demand and supply gap gets closed and those gaps last only for a short period.

**Avi Mehta:** Sir this increase would it be more one time and I am trying to understand just kind of get your understanding on what is the reason for this increase, is this more a supply side one off issue Sir?

**Apurva Parekh:** A little bit of that, but also the oil prices have strengthened a bit and there is a lack in lead period, which actually happens, so overnight in the oil price did you see this will not happen, but if you saw some of the oil price increases in Q3 and Q4, the impact of that is now coming in VAM.

**Avi Mehta:** The GST thing, do you expect that to result in higher margin especially the input is largely imported and purchase from large vendors, do you see the situation that market share gains are likely to accrue in these segments? That is all from my side. Thank you.

**Apurva Parekh:** You are asking whether our market share will grow because of GST?

**Avi Mehta:** Yes Sir and especially because you have all the inputs, the inputs are largely imported kind of a check mechanism that kind of flows through, so do you see higher compliance kind of driving that gain?



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- Apurva Parekh:** We are hoping that both GST would help increase consumption of many of the product categories and should help organize companies or companies who are tax compliant, so yes we are also expecting that with GST we should benefit from it. Broadly speaking with this tax regime, it should help all the companies that are tax compliant.
- Avi Mehta:** Fair enough. Thank you very much Sir! I will come back in the queue.
- Moderator:** Thank you. We take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sorry I logged in a bit late. I just wanted to know if you can share region-wise overseas geographies numbers, revenue and EBITDA?
- Apurva Parekh:** It is there is in our investor letter, which is on our website, so if you take a look you will be able to see our international subsidiaries performance.
- Tejas Shah:** Second, you mentioned that VAM prices are going up and somewhere I think GST might be slightly in place in general and we are also interestingly at a very high in your words very comfortable level of margins also, slightly higher than comfortable also. With this kind of things packing up, would you take pricing intervention to revive demand at this point and have we taken any price cut in the recent quarter?
- Apurva Parekh:** As we have shared in the past investor calls, we take judicious decisions on pricing, so if we believe that there is a need for a price reduction and if it would help us sort of increase the demand, we will do that, but we need to be convinced on that and as and when there has been necessary we have done that, so in last year when the VAM prices really came down in several of our products we did some price corrections, but we are very judicious and we are very careful about it when it goes up and when it comes down also, we are very careful and we look at the entire situation and then make pricing corrections as and when necessary. In last quarter I do not see there has been any significant price corrections.
- Tejas Shah:** In rupee terms, VAM prices would not have moved much, is this correct?
- Apurva Parekh:** If you count from 750 to 900 that would be more than the dollar depreciation.
- Tejas Shah:** Couple of bookkeeping questions, capex plan for this year and tax rate if you can help us what should we assume for FY2018 and FY2019?



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- Apurva Parekh:** Our normal capex is around Rs.150 Crores or so, so it could be in that range plus minus Rs.25 Crores to Rs.50 Crores. You can say a range of about Rs.150 Crores to Rs.200 Crores would be our capex next year and estimated tax rate I think it should be about 30%, 31%.
- Tejas Shah:** Thanks a lot and wish you all the best.
- Moderator:** Thank you. We take the next question from the line of Amit Purohit from Emkay Global. Please go ahead.
- Amit Purohit:** Thank you for the opportunity. Just want to check on this GST and its impact. If you could highlight some at the industry level, what would be the unorganized market in the adhesive and do you believe that with the compliance and the unorganized players you would have many companies available to for the takeover like you some time back?
- Apurva Parekh:** There is no proper or accurate estimate in our sector of the market share of the unorganized segment, but it could be in the region of 20%-30%. However, this is just an estimate.
- Amit Purohit:** 20%, 30% unorganized?
- Apurva Parekh:** Approximately, yes and it could be a bit higher also, it could be a bit lower also- this is just a broad estimate. As I said earlier, on GST like you and like us everybody expect that the companies who are tax compliant should do better, so we are also expecting that with a good GST roll out we should benefit as a large organized and a tax compliant company. So that is an expectation we also have.
- Amit Purohit:** With respect to the pricing strategy with GST now being lower than our earlier rate, this would be look to pass it on or do you look at market forces and then take a pricing decision?
- Apurva Parekh:** There will be some exact price working we are still doing, but the reduction in tax rate will be passed on to the consumers.
- Amit Purohit:** Any pricing action that we would have taken in the last quarter considering that RM index has moved up for us?
- Apurva Parekh:** As I said earlier there have not been any significant increase in prices that we have done in the last quarter. Price increase in a few products has been done in the first quarter of this year due to increase in RM cost.



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- Amit Purohit:** Would it be in our key brand products or variants in that?
- Apurva Parekh:** Across-the-board price increase in all products has not been done but some of the products where there was a significant increase in raw material cost, we have done price increase, but in some products we have not done also. As I discussed earlier, we are very careful and judicious about our price increases and we do not increase price every time the raw material price goes up or reduce every time the price goes down.
- Amit Purohit:** Just for my understanding what would be the VAM prices in Q4 of FY2016?
- Apurva Parekh:** Q4 of FY2016 was around \$900 or so.
- Amit Purohit:** For us this Q4 FY2017 was average around 750, now it has moved to 900 is that?
- Apurva Parekh:** A little higher than 750 may be 800.
- Amit Purohit:** Thank you so much Sir!
- Moderator:** Thank you. The next question is from the line of Kishore Kumar from Karvy Stock Broking. Please go ahead.
- Kishore Kumar:** Thanks for taking my question. May I have broad understanding of segmental wise revenue breakup right from adhesive, sealant to industrial regions?
- Apurva Parekh:** If you look at our financial we give you a breakup as consumer, bazaar and industrial products, so it is right there in our results. The broad breakup is given there.
- Kishore Kumar:** I just wanted to know the growth of adhesive and construction and paint, as you said for art material it was 28% if I am not wrong?
- Apurva Parekh:** That is the GST rate, that is not the growth rate. For art material, the rate is the GST rate is 28%.
- Kishore Kumar:** Second is any update would you like to share on synthetic elastomer project?
- Apurva Parekh:** That I covered in my opening statement on the PCR project.
- Kishore Kumar:** Thank you Sir! That is all from my side.



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- Moderator:** Thank you. We take the next question from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** Thank you for the opportunity. My question is regarding the cost basket apart from ex VAM what would be the average increase in the monomer prices and what kind of price hikes have been taken in Q1, which you have indicated, what would be the average increase?
- Apurva Parekh:** Currently the prices of some raw materials are fluctuating a lot, so I do not have an exact figure of the first quarter of the current year, which is currently in progress, but prices of some raw material like acrylates and all went up by even 15%, 20% or higher, but some of them have already started correcting. So based on our review of what we believe is a sustainable increase in price, we have initiated price increases in few products.
- Anshuman Atri:** In terms of demand, have you seen some recovery in the rural market versus urban or is it similar growth in both and where do you expect say consumer versus industrial which segment and which region you expect to have faster pickup next year?
- Apurva Parekh:** Rural demand of our products has not picked up as per our expectation. As far as next year goes, we continue to believe that our Consumer and Bazaar product is an area of our focus and should see faster growth rate, but region wise and all I do not have a breakup of what we expect next year.
- Anshuman Atri:** Lastly on the advertisement spends, what was the spend this year and what is the target for next year?
- Apurva Parekh:** Advertising and sales promotion expense for us in the last year was about 3.5% of net sales about Rs.175 Crores or so.
- Anshuman Atri:** Will maintain the similar percentage?
- Apurva Parekh:** We will maintain it or we may have a slight increase on that.
- Anshuman Atri:** Thank you Sir!
- Moderator:** Thank you. That was the last question. I now hand the floor over to the management for their closing comments. Over to you.
- Apurva Parekh:** Thank you everybody for being present on the investor call. Thank you. Have a good day.



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**Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining. You may now disconnect your lines.

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