



**“Pidilite Industries Limited 2QFY15 Post-Results  
Conference Call”**

**November 05, 2014**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Pidilite Industries 2QFY15 Post-Results Conference Call hosted by Ambit Capital 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitesh Bhadani from Ambit Capital. Thank you and over to you sir.

**Nitesh Bhadani:** Thank you. Good afternoon ladies and gentlemen. On behalf of Ambit Capital, I would like to welcome you all to the 2QFY15 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. After which, we will move on to the Q&A session. Over to you sir.

**Sandeep Batra:** Thank you Nitesh and good afternoon to everybody on the call. At the outset thank you very much for your continued interest in Pidilite. I will first start by touching up on some of the highlights of the second quarter performance, results of which were approved by the board at its meeting yesterday.

Consolidated net sales grew by 14.1% over the same quarter last year. Material cost as a percentage of sales has increased by 40 basis points as compared to 2Q last year. And EBITDA before non-operating income and exceptional items was higher by 9.1%. I would like to again remind everybody that, under the new Companies Act the company has opted to align the useful life of the assets in line with what is prescribed in the Companies Act and as a result of this change the depreciation for this quarter is higher by 102.9 million as opposed to the earlier useful life that was being followed. Other income non-operating income was higher by 83.6% due to higher profit from sale of investment. EBIT before exceptional items was higher by 7.7% and profit before tax in the quarter is higher by 9.6%.

A look at the standalone performance, net sales grew by 14.6% over the same period last year driven by a 15.9% growth in consumer product and 7.7% growth in industrial products. Material cost was higher than the same period last year by 80 basis points largely because of the increase in VAM prices which has not been fully passed on by way of commensurate selling prices. EBITDA before non-operating income and exception items is higher by 10%, this quarter the rupee dollar rate was fairly stable unlike in the same period year. And therefore the foreign exchange difference is only 0.4 million in this quarter versus a 61 million hit that was there in 2Q of last year. Profit before tax is higher by 11.5% whereas profit after tax has grown by 14.2%.

The result for the quarter includes the performance of the adhesive business of Blue Coat Private Limited which we had acquired on 22<sup>nd</sup> September. The results of the eight days' performance is included in the results of the company. Consumer and bazaar products sales grew by 15.9%. However, profit before interest and tax for this segment grew by only 3.5% largely due to the



follow-through effect of higher input cost not fully passed on by way of price increases. We did take price increases in the second quarter of about 3% in the products which were affected by the increases in VAM. However that price increase took place somewhere in the middle of the quarter. So the full effect of the price increase is not reflected in the 2Q results. Industrial products revenue grew by 7.7% and segmental profits increased by 8.2%.

A quick look now at the performance of our overseas subsidiaries. Sales in constant currency grew by 6.35 however because of the slightly adverse translation impact, the reported sales growth is 5%. In the US business grew by about 7% wherein sales of the automotive aftermarket business were higher by 13% and that of the student art material business grew only by 1.6%. Margins in both the businesses have improved, but because of higher cost the EBITDA improvement is only 3%. The sales of the subsidiary in PULVITEC declined by 3.9% part of the impact could be because of the carryover effect of the Football World Cup which carried on to July but largely I think the economy in Brazil is quite challenged and from what one hears the economy there is into recession and that has had an adverse impact on the growth of the business.

The businesses in Middle East and Africa have done well, with both Egypt and Dubai growing in line with expectations. Total sales of these two subsidiaries have increased by 57.6% and the losses at EBITDA level have declined by 78%. The two businesses that we have in South Asia, the topline grew by 4.4%, and EBITDA was similar as last year largely because of again the impact of input cost increases which have not yet been fully passed on by way of price increases. So that is all I had by way of my opening remarks. Happy to take questions.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

**Abneesh Roy:** Sir my first question is on the margins, we have taken a price hike in 1Q and 2Q also. So if you could elaborate how the VAM prices were in 2Q, in 1Q it was broadly 1,400-1,450. How was it in 2Q and how do you see the trend going ahead?

**Sandeep Batra:** Thanks Abneesh. VAM prices seem to have now peaked so whilst they had touched levels of 1,600-1650 also one of the consignments we may have bought at that price, they have since stabilised and from an average of 1450 we are seeing about a percentage kind of a drop every month. So from the peak in July that they reached we have seen VAM prices easing off by about US\$30-40 over the next couple of months. Of course we would still have some inventory which we would have bought at a higher rate but certainly we do not see any steep increase in VAM prices. In fact it is all likely that these prices having reached the 1,450-kind of levels would slowly ease off in the coming month.

**Abneesh Roy:** Sir two follow-ups on the inventory bit, you mentioned this in your answer. So in the current scenario last few quarters, has our inventory holding period for the key raw material changed versus earlier? And if it has changed, why has it changed if you could elaborate that part?



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**Sandeep Batra:** No. There has been no change in the inventory holding. It is just that VAM is something that we contract on a quarterly basis so the effective cost for consumption purpose is maybe impacted by how much VAM is in transit after the prices start easing off. But we have had no change in the inventory holding periods.

**Abneesh Roy:** Sir my next question is on our pricing strategy, this question has been discussed in earlier concalls also. Sir, three quarters of very muted profit growth versus the strong profit growth you have seen in the last 4-5 years. So in that context if you see paints companies have taken very frequent price hikes. So would you say your strategy has been correct in that hindsight in the last three quarters very muted profit growth versus you could have taken higher price hike seeing your dominant position. So what prevented us and why do we still want to maintain that strategy seeing the last three quarters performance?

**Sandeep Batra:** See the first reason for, all these discussions look very good in hindsight, when VAM prices were increasing we did not have any visibility at up to what level will they reach before they start correcting. So therefore to peg a price of VAM and then work backwards was not possible so whatever certainty we were getting as far as VAM prices was concerned we were factoring that and taking price increases. So there was the first price increase that we took, we thought VAM prices will be around 1,200-1,250. And we said okay, this should be able to offset part of the VAM cost increase. Then when VAM did not stop at that kind of level and it touched 1,400-1,500 kind of levels then we took another price increase in the month of August and of course the other variable which was unknown and still remains unknown is how the currency will behave.

So given the kind of variables that would impact our margins, one was not really sure at what level with the price stabilise and now if VAM prices remain steady at the kind of levels that they are and we see some marginal easing in that, that would certainly help the margins and once you get the full effect of the price increase in third quarter. That should also have a positive effect on the margins.

**Abneesh Roy:** Sir one follow-up on the margins, consumers bazaar margins have fallen surprisingly by around 200bps quarter on quarter. I agree there will be seasonality but such a sharp fall in that context when price hike has happened and some of the raw materials corrected. Could you elaborate why 200bps correction has happened in margins quarter on quarter?

**Sandeep Batra:** The full effect of the increase in VAM has hit us in this quarter and secondly the second quarter is slightly in turnover terms lesser than the first quarter. So that itself would have had an impact of maybe 40-50 basis points on the margin. Because the sales base is smaller and therefore all your overheads would tend to get allocated and then I also explained that we change the depreciation way that we were accounting. We changed, we revised the useful lives, so we are taking an accelerated charge on account of depreciation that would had another impact. So other



than material cost, this decision which is a non-cash decision of revising the useful life of assets that would have had some impact. Plus the slightly smaller base in 2Q.

**Abneesh Roy:** Sir that is very useful. Sir my second question is on Blue Coat. We have very limited information on this business, this acquisition. You said eight days of sales were there in 2Q, so in our modeling if you could give us some colour you are not giving that much information on this I understand that, but could you give us some information as to how we do modeling for this for a full quarter perspective?

**Sandeep Batra:** No. I do not think I have liberty to share any more financial information on Blue Coat at this stage.

**Abneesh Roy:** Sir any idea when we can have more clarity?

**Sandeep Batra:** Not for the moment.

**Abneesh Roy:** Sir my last book-keeping question is on depreciation. 1Q I understood the new Companies Act it went up quarter on quarter it is up 24% I fail to understand why again quarter on quarter it is up because the new Companies Act was applicable even in 1Q.

**Sandeep Batra:** Yes. There is some roll-over effect of it, all the effect of the revision and depreciation did not flow through in the first quarter. I think this decision that we took was towards the end of June so we could not fully reset the useful life. So if you look at 1H depreciation and divide that by 2 that may be a fairer representation of what the quarterly charge ought to have been.

**Moderator:** Thank you very much. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani:** Sir, couple of questions. Firstly on the industrial segment, we have seen the margin normalising there and from what I recall we did not take any price hikes in that segment. So how do I read into that margin improvement which comes through in the industrial segment?

**Sandeep Batra:** We have done two actions in industrial products; one of course has been to take price increases. Now unlike the consumer and bazaar where there are brands which one could refer to when you talk about price increases. In industrial products it is customer to customer, geography to geography. So we have certainly taken price increases in industrial products may be around 3% to 4%. Also what we have done is, several of the products which would have been very adversely impacted by the increase in VAM prices, we would have taken significant price increase and that has led to some amount of customer, resistance may be the customer is looking at alternate suppliers who can provide him product without the price increase. So there may have been some effect of that price increase on the topline also. But certainly the improvement in margins that we have seen is structural, it is not a coincidence.



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- Gunjan Prithyani:** Okay. And just two things on this itself, firstly I mean when the 8% growth that comes through in this quarter, it is one because of course you have taken sharp price hikes in certain products which are impacted by VAM so that would have led to some demand moderation and secondly, the exports also I think have come off. So is it specific to this quarter or are we seeing that as a trend?
- Sandeep Batra:** No. We are not seeing it as a trend I think the moderation in the export growth for industrial products is probably limited only to the quarter but it is too early to say that we have to see whether the trend is secular but, through my information it is not a long-term issue it was something which was unique to that quarter.
- Gunjan Prithyani:** Okay. And margin improvement in industrial segment, are we done with the price increases or we should see some growth through impact in the second half as well?
- Sandeep Batra:** We will see a mix of benefit of the raw material pricing easing off and secondly flow through of the pricing actions that may have been taken during the quarter, so the third quarter will have full benefit of the price increases.
- Gunjan Prithyani:** Okay. And sir in the release I see the capital employed for the consumer in bazaar business seems to have increased quite significantly on QoQ, even versus last year so is there anything specific to this quarter?
- Sandeep Batra:** The capital employed the consideration for the Blue Coat business, so that will fit squarely in the consumer and bazaar segment. So that was 263-odd crores. So that would be one main reason for the increase in capital employed.
- Gunjan Prithyani:** And sir I think missed what was the volume growth in the domestic business in this quarter?
- Sandeep Batra:** Volume growth was about 10%.
- Gunjan Prithyani:** Okay. And sir last question, just any sense on the demand have you seen any demand improvement in the consumer bazaar segment in terms of discretionary spending, picking up or in terms of industrial segment, any demand outlook improving over the last couple of months?
- Sandeep Batra:** No. We have not seen any secular shift in the demand situation.
- Moderator:** Thank you very much. The next question is from the line of Avnish Aggarwal from Prabhudas Lilladher. Please go ahead.
- Avnish Aggarwal:** My first question is regarding the volume growth which is 10% during the quarter. In the previous quarter itself it was around 13% odd, in 4Q it was 14%.
- Sandeep Batra:** Yes.



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- Avnish Aggarwal:** So what would you ascribe to this decline in volume growth?
- Sandeep Batra:** I have no specific explanation other than the fact that if you look at our 1Q last year, sorry 1Q last year was quite muted, it grew only by topline grew by only 11-12%; this year 1Q grew by 20%, last year 2Q was a very good quarter we grew by 20% plus. So part of it could be the base effect that has reflected in this quarter.
- Avnish Aggarwal:** Okay. But was there some impact of say your poor monsoon on the sales or particularly the waterproofing products in the construction chemicals business?
- Sandeep Batra:** No. I would not be able to ascribe anything to that.
- Avnish Aggarwal:** Okay. Sir my second question is regarding the Blue Coat business which we have acquired, so what sort of products this company has versus the strategic fit and how the acquisition has been funded?
- Sandeep Batra:** The acquisition has been fully funded through internal accrual. This is largely into white glue, furniture-making adhesive. Products which are very similar to the Fevicol range of product and the idea is to build on the strong brand that Blue Coat has in some geographies to grow both the white glue business of Pidilite as well as of Blue Coat. It is a complementary brand we are yet to finalise and roll out how this brand will fit in the overall architecture. But the idea is to use it as a very strong number two brands to Fevicol in identified geographies.
- Avnish Aggarwal:** Okay. So it means that in geographies where we have got smaller competitors which are available we are acquiring them as a process of consolidation?
- Sandeep Batra:** No. I will not say that is not the strategy, we will look at each company on its own or each business on its own merit and strength and then decide whether what kind of a strategic fit it has. There is no card brand strategy of the nature that you described, I think it is also a company and product and geography specific approach.
- Avnish Aggarwal:** Sir can you share with us at least the geographies where Blue Coat is present or has a good presence, so what sort of a market share or presence it has or does it give because I do not think it would have distribution better than Fevicol? So does it give us any distribution benefit or does it have sizable market share in some of those geographies?
- Sandeep Batra:** Yes they have good market position in markets like Gujarat, Rajasthan and few other states. They have a slightly different distribution model than us. Our products we sell through distributors and in some markets Blue Coat sells directly to dealers, so they have slightly differentiated, a different distribution model plus they have other several other strengths in terms of the way they approach the business. And that would be one of the reasons why we would have acquired that business.



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- Avnish Aggarwal:** Okay. And I believe that you had just acquired the brand or you have also got some manufacturing facilities?
- Sandeep Batra:** We have acquired the entire business, which includes brand as well as a manufacturing facility that they have in Himachal Pradesh.
- Avnish Aggarwal:** Okay. Sir that was the main reason, is there any tax benefit associated with that facility?
- Sandeep Batra:** Whatever tax benefit they were getting that will continue for the unexpired period.
- Avnish Aggarwal:** Okay. But for Pidilite as such because we have got significant quantum of profits, so is there a probability of that our tax rates will be lower than what we have been anticipating due to this acquisition?
- Sandeep Batra:** No, that will have no material impact on our tax rate.
- Avnish Aggarwal:** Okay, but sir as we have acquired it through your internal accruals, but they were short-term borrowing I think in the balance sheet. So it is due to this acquisition or is it temporary and just...?
- Sandeep Batra:** No, it is temporary we have adequate investment in mutual funds, but I think because of the change in the tax structure for debt fund it does not make, it is not advisable to liquidate these debt funds till before three years of investment. So that is why we have opted to take this short-term borrowing and which we hope to repay it through crash accruals.
- Avnish Aggarwal:** Okay, that is fine. But does that mean that going forward our other income might start dropping a little bit because the investments which we might have done this year will be in a three year instruments through the entire chunk of your financial income will come at the end of three years. Is that a right thing to presume?
- Sandeep Batra:** Some impact may happen because part of the other income that was accruing through these investments part has gone to fund this acquisition. So to that extent certainly it will affect the non-operating income, but in terms of recognising the income from the investments that we continue to have we will follow whatever are the accounting standards prescribed for recognising income.
- Moderator:** Thank you very much. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Sir just wanted to know how is the correlation of VAM and crude oil prices have been historically, does it react very fast to crude oil prices or is it more to do with demand recovery and the Western world?



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- Sandeep Batra:** The main input is crude based which is ethylene, but somehow the correlation with crude has not been very direct, so I think the only reason in the short term that VAM behaves the way it has behaved is because of its own demand-supply dynamics.
- Tejas Shah:** Okay. And sir I just missed out on the number, what was the average VAM prices for the quarter?
- Sandeep Batra:** VAM prices were about 1,450.
- Tejas Shah:** And looking at current demand scenario especially in consumer and bazaar segment do you think if VAM corrects more you will be in a position to roll back prices or to revive demand or you will not have to do that?
- Sandeep Batra:** Historically we not ever had to roll back prices other than may be one or two times in whatever the recent memory that I have. And I do not think the demand is so much a function of price so if VAM prices correct, now the question here would be up to what level do they correct. So that I think, that question we will probably answer at a time when we see the kind of drop that may warrant Pidilite correction.
- Tejas Shah:** And sir second price hike that we took in this quarter and mid quarter, it covers us till what price of VAM price?
- Sandeep Batra:** In absolute terms, the entire cost of VAM would have got recovered but if you look at it in percentage terms there may be still some gap.
- Tejas Shah:** Okay, and are we planning any price hike in the coming quarter?
- Sandeep Batra:** We are looking at options to be activated if VAM prices do not behave the way we anticipate them to behave but at this stage it would be premature to comment on what price increase we have planned.
- Tejas Shah:** Okay, and lastly this could be slightly premature and far-fetched but is there any synergy between our consumer and bazaar business especially art material and stationary and online retail and are we having any plans for that?
- Sandeep Batra:** Sorry you said stationary and online retail?
- Tejas Shah:** Yes, art material and stationary.
- Sandeep Batra:** It is a good route to market to have some products that you sell via the web, not a very large opportunity so it is on the drawing board for us. Some work is quite at an advanced stage so we may see some development on this may be in the next couple of quarters. But it is not a very large driver for demand.



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- Tejas Shah:** And sir in the distant future this whole trend of online furniture sites picking up, do you see that risk of our very good B2C adhesive business becoming B2B if the strength picks up, I do not know how the trend has been globally but just wanted your thoughts on the same.
- Sandeep Batra:** Quite honestly it is not a subject I have any great master view over. We do recognise the trend of not only custom-made furniture or factory-made furniture but also this kind of online furniture that is happening. At the end of the day wherever you make furniture as long as it is made in India it will require adhesives. So the way we look at it is that as long as there is a market wherein furniture is made in India it will require some adhesive and we would focus our energies on meeting that demand.
- Tejas Shah:** Okay. And sir last question. What would be the effective tax rate for full year?
- Sandeep Batra:** For this year our tax rate could be about 26.5%. Whatever is the first half rate would be the likely rate for this year. At the end of this year, three of our units will complete their entire 10-year tax holiday period. So the tax rate will certainly kick up next year onwards.
- Tejas Shah:** Okay. Thanks sir I will come back for follow-up questions.
- Moderator:** Thank you very much. The next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.
- Utkarsh Maheshwari:** Sir in the last conference call, you have guided about some new alternate capacities for VAM coming in from Southeast Asia which was supposed to take 3-6 months. Can you just throw some light we have plans for pushing in those capacity in place or what is the outlook there?
- Sandeep Batra:** I do not have an update on that to share with you, as to whether those capacities have come up or not, I do not have an update. I am sorry.
- Utkarsh Maheshwari:** Basically when you are saying that average is 14-15 expected to have a correction of US\$40/tonne so this is assuming that the overall market is going to have a decline in prices, not impacted by those alternate new capacity is coming in?
- Sandeep Batra:** It could be as I said I do not have an update on the status of the new capacity so I will not be able to comment on what impact it will have on VAM prices.
- Utkarsh Maheshwari:** But as you said that you expected it to come down by US\$40.
- Sandeep Batra:** I said it has already come down in the month of August and September around US\$40, so from the high that it had reached it has eased by about 1.5% each month.
- Utkarsh Maheshwari:** And you expect the similar level of prices to stay or what is the sense you are getting on the prices?



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- Sandeep Batra:** It should ease from the levels that it is, but that will be probably a very slow ease may be over the next 6-9 months.
- Utkarsh Maheshwari:** So probably will it be fair to say that this 14-16 of average for 1H may be coming off to 1,440 for the full-year average per se?
- Sandeep Batra:** That could be a possibility.
- Moderator:** Thank you very much. The next question is from the line of Hiral Desai from iAlpha Enterprises. Please go ahead.
- Hiral Desai:** Just wanted to check the capital employed on the consumer bazaar product you said has gone up primarily because of the Blue Coat acquisition right?
- Sandeep Batra:** That would be one significant reason.
- Hiral Desai:** Okay. The other is the standalone debtors are up by about 25% odd. The half year, so just wanted to check anything to read into that?
- Sandeep Batra:** No. Nothing specific, there is no structural change.
- Hiral Desai:** Okay. The other is the gross margins on the subsidiary portfolio seem to have improved significantly, on a YoY as well as QoQ basis so just wanted to check any specific subsidiary that you would wish to highlight where the margins have improved?
- Sandeep Batra:** I think the margin improvement would have happened across all the businesses, I do not think there is anything specific which has happened in any subsidiary which will explain this moment. Of course one reason for the expansion would have been the topline growth and secondly, whatever actions they would have taken to pass on these cost increases so nothing specific.
- Hiral Desai:** Okay and lastly just wanted to get your sense on the export or overseas opportunity on the consumer bazaar product side because last quarter we spoke about looking at Africa as an option in terms of having similar demographics to India so just wanted to get your thoughts on the overseas opportunity for consumer bazaar products and would it be restricted largely to Fevicol or there is an opportunity also on the construction chemical side?
- Sandeep Batra:** No, all are consumer bazaar product so Fevicol certainly would be a big component of that opportunity, but yes construction chemicals would be one as well as our consumer maintenance products namely m-seal, Feviquick, and steel grip these would be all key drivers of the opportunity.
- Moderator:** Thank you very much. The next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.



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- Amit Purohit:** Sir one is on the price hike what is the kind of price hike you would have taken in second quarter?
- Sandeep Batra:** I think in average price increases would be about 4-5% so what we took in the adhesive range was across the products anything between 3% and 5%.
- Amit Purohit:** Okay sir. And sir in international on a consolidated basis you mentioned about a 5% revenue growth, so what about the operating performance what would be growth on an overall basis?
- Sandeep Batra:** The overall EBITDA as I explained would have grown by about I think 5%.
- Amit Purohit:** Okay. And just if you could comment on this Blue Coat acquisition what would the reason for the seller to actually sell this, any specific thing or?
- Sandeep Batra:** I do not really know the specific reason why they would have divested other than the fact that it was a business which was run by 3-4 members from the same promoter family so I am sure they would have felt stress beyond a point to grow the business on their own and there would have been probably an inflection point on what do they do with the business. So growth would have required a different set of capabilities to be built in the business and I guess the inflection point that they would have evaluated both the options and then taken this decision.
- Amit Purohit:** Correct. And I am just giving a benefit of doubt that probably the size would be big if this could be the logic then going forward such kind of acquisition will become much more easier for us?
- Sandeep Batra:** I am not clear why do you say it would become easier?
- Amit Purohit:** I am just saying the unorganised guys not able to scale up and who are sizeable in terms of their region and then deciding us to sell it.
- Sandeep Batra:** It would depend on what value we see in that business as part of our portfolio, so it is not that every small company we would look at, I think there will have to be some strategic fit before we decide to pursue any inorganic opportunity.
- Amit Purohit:** And at the operating performance it is parallel if you could comment on Pidilite?
- Sandeep Batra:** It was a profitable business so we did not buy it in some sense to turn it around. It was already an existing profitable business with a lot of competitive advantages which was the reason we were interested.
- Amit Purohit:** And sir one is on the demand outlook if you could comment given that historically whenever the GDP-to-sales ratio has been the case but I am just trying to understand.



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**Sandeep Batra:** There has not been any improvement in underlying GDP. I do not think any of the indicators are showing that GDP growth in India has turned around, it has not. So our demand situation continues to remain the same.

**Amit Purohit:** Okay. And lastly on bookkeeping depreciation, should we take this you said first half?

**Sandeep Batra:** You can take first half divided by two. Also keep in mind when you revise the useful life now whatever was depreciated over six year now is being depreciated over three years. So the end of the depreciation charge will also come quicker. So while yes in the first couple of quarters we have seen a significant increase in depreciation that may not be the going rate forever unless depending on what we spend on CAPEX that may not be the going rate.

**Moderator:** Thank you very much. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

**Nitin Gosar:** Sir your comment on the water proofing segment would help to understand how it is doing or how the segment is also doing, have you increased your market share?

**Sandeep Batra:** So I think water proofing certainly I think all the businesses that we have so the water proofing has done quite well. We had put together a revised strategy and revised approach on that both in terms of rationalising our sales focus as well as the couple of joint ventures that we have and subsidiary companies that we have, so the subsidiary that we had for water proofing application services has done well. We do not have a base to compare with but if you look at the business in the hands of the promoter before it began a part of our business so we have been able to grow it at about 2x so far in the first 7-8 months.

In fact I would have a suggestion to all who are on the call that there is this Acetech Exhibition which is going on, which is starting I think from tomorrow in Goregaon, so it is there for over the next four days 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup> in Goregaon. We have a stall there in construction chemicals which showcases several of our water proofing products and solutions so if any of you have any specific interest in this subject please see if you can take out time to visit that exhibition it will give you a much better feel of the kind of the products and technologies that we are bringing as far as the construction chemicals and water proofing segment is concerned.

**Nitin Gosar:** Right sir. And ad spend how it has been for the quarter?

**Sandeep Batra:** Ad spend has been flat in terms of percentage to sales it has been same as last year.

**Nitin Gosar:** Okay, I believe it was around 3-3.5%?

**Sandeep Batra:** It was 3.3% or 3.4%.



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- Moderator:** Thank you very much. The next question is from the line of Sejarah Boria from East India Securities. Please go ahead.
- Sejarah Boria:** Would it be possible for you to give us an idea, what is the size of the adhesive and sealant market in India and how much share does your brand have?
- Sandeep Batra:** No. We do not have a very precise size because the market sizing depends on what products and what categories you include so I do not have a full, I do not have a number on that.
- Sejarah Boria:** Broad ballpark number in terms of market share if possible?
- Sandeep Batra:** In the retail segment, we would have market leadership beyond that I cannot share any specific numbers.
- Sejarah Boria:** And in terms of competition have you seen any entry of new competitor in to the market or any increased competitive activity?
- Sandeep Batra:** No, we have not seen any major shift in the competitive landscape in the last three months.
- Sejarah Boria:** Okay. Thank you sir.
- Moderator:** Thank you very much. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir a few follow-ups, one is can you elaborate on De-clog, how is the potential for this, what is the core competence of Pidilite in this product?
- Sandeep Batra:** It is a very small product in our portfolio, it is like a consumer maintenance product which de-clog, choked pipes and all at, but fairly small as part of our portfolio. Specifically I do not know what technical competence or what technology is used in that product which is unique to Pidilite. I do not have that answer.
- Abneesh Roy:** No, sir I do not want any technical details, my question was more why we have come into this category, has it come from some overseas acquisition this technology or some internal domestic acquisition?
- Sandeep Batra:** No, it has not come from any acquisition. We have products in the consumer maintenance segment which cater to end users like plumbers, electrician, so this is one similar product. For that same constituency. It can certainly be positioned as a consumer/DIY product, beyond that I do not really have any information to share.



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- Abneesh Roy:** Sir, the industrial business has seen very smart recovery margins this quarter on a YoY basis. Where do you see margins there stabilising, could it start trending towards even 15% over the longer term?
- Sandeep Batra:** I do not know what number it will hit but certainly an improvement in margins would certainly happen as the benefit and as the effect of all the pricing action that we have taken, coupled with some amount of easing in input cost. I think the full benefit of drop in oil prices the most tangible benefit has been correction in diesel rates which have only happened in October. So I think that will also have a positive effect certainly in distribution cost and overall inflationary trend.
- Abneesh Roy:** Sir one follow-up on this, how much is distributing cost for us last year and do you get complete 100% reduction for example if diesel corrects by x% do we get 70% of that or do we get 100% of that as a cost saving?
- Sandeep Batra:** Our distribution cost are about 4.5% of sales, and in the direct freight cost, so what you pay to the transporter I think the diesel linkage is about 60%.
- Abneesh Roy:** Okay. So that much can be the saving.
- Sandeep Batra:** Yes. So whatever is the drop in diesel prices 60% of that would be the direct impact on the transportation cost.
- Abneesh Roy:** Out of that 4.5% how do we work on that number?
- Sandeep Batra:** Large amount of it will be the transportation cost. So 80-90% will be transportation cost.
- Abneesh Roy:** Okay, so on that 80-90% a 4.5% we should take 60%?
- Sandeep Batra:** If diesel has dropped by say 5%, then transportation cost should drop by 3%.
- Abneesh Roy:** Okay. Sir lastly this is asked in every corn call so I will ask again what is the status on elastomer?
- Sandeep Batra:** There is no status update so in that sense it is status-quo. The discussion and the hunt for a strategic partner is continuing but nothing which has been concluded which I can put in the public domain.
- Moderator:** Thank you very much. The next question is from the line of Gagan Thareja from Comjust India. Please go ahead.
- Gagan Thareja:** Sir VAM would constitute how much of your raw material, would it be 15-20% or more?
- Sandeep Batra:** It is about 15%.



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- Gagan Thareja:** And the other raw materials would also be by and large crude derivatives if I understand it correctly?
- Sandeep Batra:** Largely, yes.
- Gagan Thareja:** And have the prices there also behaved similarly or have you seen a differentiation there?
- Sandeep Batra:** No, those prices have not increased, because there the benefit of the easing of crude prices although in early stages it is visible.
- Moderator:** Thank you very much. The next question is from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar:** Could you give an understanding of how, is there any distribution debt reach for expansion which is there for Pidilite now going ahead. Or how much is it could you quantify that?
- Sandeep Batra:** I think the only initiative and action that we are taking is the area of distribution is in the smaller town geographies so the initiative of reaching towns between 10 and 50,000 population, those towns we are looking at bringing larger number of towns under the rurban initiative that we have. So that distribution may have increased but nothing very significant in the last 5-6 months.
- Manish Poddar:** And on the demand softness is seen across rural and urban or is there a material difference between the two?
- Sandeep Batra:** No, I think the growth of the rurban segment for us continues to be higher than the urban segment. But the trend would be similar only that the growth in the smaller towns is higher than the growth in the large metros.
- Moderator:** Thank you. As there are no further questions from the participants. I would now like to handover the floor back to the management for their closing remarks. Over to you, Mr. Batra.
- Sandeep Batra:** Thank you very much and thank you to all the participants for taking out time and for their continued interest in Pidilite and thank you to the Ambit team for organising this conference. Thank you very much and good day to everybody.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.