



“Pidilite Industries Q3 FY 2015 Results Earnings Conference Call”

January 29, 2015



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Moderator: Ladies and gentlemen, good day and welcome to the Pidilite Industries' Q3 FY15 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: Thank you. Good afternoon, everyone. Welcome to the conference call of Pidilite. We have with us Mr. Sandeep Batra, Director and Finance of Pidilite. I would like to hand the call over to Mr. Batra first to give an overview of the quarterly performance and then we will open the call for Q&A. Over to you, Sir!

Sandeep Batra: Thank you, Rakshit, and good afternoon to all the participants on the call. At the outset, I thank you for your continued interest in Pidilite.

I will start with giving an overview of the company performance, the results for the third quarter which was approved by the board at its meeting yesterday.

I will first start with the consolidated performance. Net sales grew by 12.6% over the same period last year. Material cost to sales was higher than the same period by 172 basis points and in line with the previous quarter. Other expenses however were lower than last year by 3% mainly due to a re-phasing of advertising and sales promotion expenditure. Depreciation charge for the quarter was higher because for Pidilite Industries, the company has adopted the revised useful life and as a result the depreciation is higher by 41.7 million and consolidated profit before tax is up by 24.9% and consolidated profit after tax is up by 28.9%.

Now on the standalone performance net sales grew by 12.2% where 12.5% growth came in Consumer and Bazaar products and industrial products grew by 5.4%. Material cost to sales declined by 93 basis points over the immediately preceding quarter that remained above the same quarter last year. Other expenses were lower than the last quarter largely as I explained because of re-phasing of advertising and



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sales promotion spend from Q3 onto Q4 and consequently the EBITDA before non-operating income and exceptional item is higher by 22.2%. Our non-operating income continues to be lower than last year largely because of lower treasury income. If I now look at the segment performance as I explained earlier the consumer and bazaar products, the segment revenue grew by 12.5% and segment PBIT was higher by 21%. Industrial product the top-line remained a bit soft at 5.5% but segmental PBIT for the quarter increased by 40.8%.

I will now quickly cover the performance of the overseas subsidiaries. Overall sales in constant currency have grown by 10% however because of a favourable translation impact the reported numbers would have a higher growth of around 15%. The US business grew by about 8.5% wherein the auto aftercare product business grew by 4% and the student art material topline grew by 14%. However, EBITDA in the business was lower because of lower operating margins. The business in Brazil had a tough quarter from a top-line point of view. We are aware that the economy in Brazil remains challenged and impacted by a weaker currency and a high inflation saw a great amount of uncertainty in the economy there and as a result our top-line declined by 3%; however, margins have marginally improved by about 20 basis points in Brazil and the loss at the EBITDA level remains the same as last year that is in the third quarter.

The Middle East and Africa business grew very well. Egypt sales grew by 25.6%. Dubai also grew by about 30% and losses significantly declined. Similarly in South and Southeast Asia, we had the Bangladesh business doing very well; however, the Thailand business had a bit of a tough quarter so the overall business in South and Southeast Asia, the top-line has grown by 8% and EBITDA has increased by 4%.

That is all I had by way of an overview on the company performance. Happy to take questions now.

Moderator:

Thank you very much. We will now begin 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: Sir my first question is on the gross margins. Last three quarters raw material cost has been fairly stable at around 56% of your revenues, 55.8% to 56% in Q2 concall you had said that full impact of the 3% price hike will come in Q3 and there should be some expansion in the margins but we see that gross margin quarter-on-quarter is stable for three quarters. So could you take us through why we have not seen expansion quarter-on-quarter; seasonality could be a part but still why price hike did not flow to the numbers?

Sandeep Batra: Price hike has certainly flowed into the number, so particularly the products, which has been impacted by increase in VAM which is the white glue range of products, we have taken two price increases ahead of Q3 and we have taken a third price increase in December, the benefit of both had factored but also keep in mind that the input cost increase also does not get fully reflected in one quarter. So you have inventory that you are carrying. So the way we are looking at it, we are saying on a sequential basis about a 70 basis points improvement in margin which is in line with what we had what internally we would have expected and going forward the benefit of the third price increase that we took in December and certainly softer input prices those should be favourable from a margin point of view.

Abneesh Roy: Sir could you quantify the third price hike in December?

Sandeep Batra: We have taken a price increase between 2% and 3% in white glue range of products.

Abneesh Roy: Sir wanted to understand this better in your interview also today you have said that high price inventory will get over in February and then you have taken this price hike so VAM prices where are they now and what is the outlook you expect and similarly on the non-VAM you would have seen lot of benefit so could you take us through that?

Sandeep Batra: VAM currently at about \$1,200 but that is what you would currently contract to buy so that material by the time at which is they will be your transit time and by the time you would see the benefit of that VAM in your input cost that will have further lag time that is why in the morning I mentioned that by the time all the

inventory both of raw materials as well as of finished products that we would have had the higher input prices will probably get exhausted by February. So one as I explained the VAM prices had eased in the third quarter so whatever VAM we would have bought at the 1,200 kind of levels will get used up in the fourth quarter only, before that we do carry a fair amount of inventory for VAM given the strategic nature of the raw material. As far as your question on other raw materials is concerned yes there has been easing of prices in those raw materials, they do not necessarily mirror the way oil prices have fallen but the direction is certainly declining in these input cost.

Abneesh Roy: But sir if I take the current scenario and the 3% price hike February and March could be the 200-300bps kind of expansion in gross margins.

Sandeep Batra: First of all the price increase that we refer to only impact white glue so it does not impact it is not that for the 100% of the revenue of the company we have taken a 2% or a 3% price increase so it is only on white glue which is about a quarter of the overall top-line on that this price increase would have had an effect and in terms of quantifying margin expansion I am sorry I would not be able to even guess on that number.

Abneesh Roy: No, but price hike is behind that right, do you need any more price hike in either white glue or maybe any other product based on the current scenario?

Sandeep Batra: No, we do not, based on the current scenario there are no further price increases that are planned. There are some which are already in the pipeline so they will get enacted so we do not increase all prices on the same day. So there is a calibrated process that we have for passing on these cost increases. Further consequence of the price increases in the premium white glue we have other brands in white glue which are not premium so they may have their price increase may happen with the lag of maybe three or four weeks, but other than that there is no other price increase at this point.

Abneesh Roy: Sir my second question is on other expenditure; it has been again fairly stable around 17.5%, 17.1% for the last three quarters you said that based on advertising expenditure it might vary but it is fairly stable and last year second half it was

around 20% so if advertising cannot explain this 300bps or 250bps kind of movement so is there any other cost control measures which are helping here?

Sandeep Batra: No, I think in this quarter the single biggest reason for the cost to not increase very significantly it is a recalibration on advertising. So last year quarter three had seen very heavy spend on advertising and sales promotion and this year we have re-phase that expenditure from Q3 to Q4 because there are many more property and opportunities in Q4 which will require spend to be incurred.

Abneesh Roy: Sir just to understand this bit normally advertising spends is tied to the festivals spend in your case I see it is tied to more the cricket tournament, is that a correct observation?

Sandeep Batra: It is not tied in that sense but yes we have found good traction when we have associated with sporting events particularly around cricket so given the fact that the Cricket World Cup is scheduled from next month onwards we have taken a call to re-phase some expenditure which last year we may have incurred in Q3 to incurred in Q4 here and that is a fairly significant re-phasing that we have done.

Abneesh Roy: Okay sir I will come back later. Thanks a lot.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi Group. Please go ahead.

Atul Tiwari: Sir about 55% of your revenue is cost of goods, is it fair to assume that all of that is some or other kind of derivative of crude?

Sandeep Batra: Yes that is correct. All of it would have some source which is petroleum links.

Atul Tiwari: Sir given the way the crude prices have crushed, are you already seeing some kind of reduction in the prices of these inputs and what will be the corrections that you have seen already on a blended basis?

Sandeep Batra: We have seen a fair amount of reduction in our input prices but keep in mind that there is a significant lack between oil correcting and between our input prices correcting but as a reference I can tell you if you look at an index if you look at

our top-five raw materials that we consume if that index, has peak to something like 120 in July that is come down by about 5% by December so it is fairly slow but it is very certain the reduction in input cost.

Atul Tiwari: Sir how long should it take for the current crude prices to get reflected in this top-five raw materials; it is more like one quarter or three quarters or one year, how should we think about it?

Sandeep Batra: It would be very difficult for me to hazard a guess. I really have no idea how much time it will take but certainly yes some benefits in the month will be visible, but exact period I am not able to comment on.

Atul Tiwari: Given the fact that crude has crashed by more than 50% now so at least 20% kind of reduction should be there, is that a fair number in these top-five raw materials which is 5% now?

Sandeep Batra: No already if you see VAM which has now come off from 1,500 kind of peak level to 1,200 we have already seen a 20% correction there so yes that kind of reduction, I cannot hazard a guess but I think in VAM I am telling you we have seen a 20% reduction in the raw material on the peak that it has reached.

Atul Tiwari: Thank you, thanks a lot.

Moderator: Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah: Sir what would be the volume growth in this quarter for the consumer business?

Sandeep Batra: Our volume growth both consumer and industrial have grown at the similar rate both volumes would be about 8%.

Nimit Shah: Sir this purchase of traded goods there is a positive amount of 15 Crores so what is that related to because earlier we had an expense of 53, 55 Crores so just wanted to know what...

Sandeep Batra: That will be a seasonal thing, there is nothing more to it.

- Nimit Shah:** So is it related to purchase of return or like that?
- Sandeep Batra:** No, there is no purchase of return. Our traded goods will always be an expense item. It will never be an income item now.
- Nimit Shah:** But in this quarter the amount which is reflected as 15 Crores this is not an expense now?
- Sandeep Batra:** No, it would be an expense.
- Nimit Shah:** So the amount is on the lower side any specific reason for that?
- Sandeep Batra:** No specific reason that I can...that I do not know.
- Nimit Shah:** Okay thanks a lot.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** I just wanted a bit more clarification on this RRM deflation that we have seen. So overall we have as of now in our portfolio only seen about 5% correction until December-end. How is this trending now has there been significant correction post December?
- Sandeep Batra:** No there has been nothing very drastic which has happened of this as I explained this is not the full basket of raw materials this is only the top five and that is more from a indicative explanation point of view. There has been no further sharp correction.
- Gunjan Prithyani:** 5% would be what percentage of your RM?
- Sandeep Batra:** This will be about 50% of RM.
- Gunjan Prithyani:** I am assuming that VAM is included in this?
- Sandeep Batra:** Yes, VAM is included in this.

- Gunjan Prithyani:** But even for the other RMs which are crude derivatives, is it fair to assume that the amount of deflation that we have seen in the crude has not reflected in those?
- Sandeep Batra:** No they are not 100% linked to crude so that is for say it is not that the numbers are 100% so that all our raw materials will fall by 50%, 60%.
- Gunjan Prithyani:** Sir I had another question, if we see this kind of RM deflation and input cost coming off significantly for us, do we at some point think of passing on the benefit to the consumers in terms of price cuts or maybe not taking any price increases?
- Sandeep Batra:** Yes, that decision we will take once we have got the full benefit of all the cost reduction and we have a much clearer idea on the overall inflation and other numbers then we will take a call as to whether there is a need to do any correction as far as pricing is concerned.
- Gunjan Prithyani:** But we would be open to take the cuts if we see a significant benefit?
- Sandeep Batra:** Let's know something that we have done very often in the past I really cannot comment we do not have much historical experience of cutting prices.
- Gunjan Prithyani:** Sir lastly on this VAM thing you mentioned we have seen 20% correction already and how do we see this trending further in terms of the demand-supply dynamics?
- Sandeep Batra:** It will remain at I think VAM prices will remain at that level at around \$1,200 level so whatever correction had to happen has already happened, they will remain sturdy at this level and we do not see much disruption or any demand-supply imbalance at this rate.
- Gunjan Prithyani:** VAM would be about 16%, 17% of the RM.
- Sandeep Batra:** Yes.
- Gunjan Prithyani:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Hemang Kapasi from Canara Robeco Asset Management. Please go ahead.

- Hemang Kapasi:** I just wanted to understand this with the correction in the VAM prices do the unorganised players get active in the market or market share, how is the market share spend in last two quarters?
- Sandeep Batra:** No, there has been no major impact of this in the, I think of course they when the prices will correct they get slightly more breathing space but it does not really change the market dynamics in any significant major...
- Hemang Kapasi:** So we would not be cutting up prices in that sense?
- Sandeep Batra:** No I do not think we are looking to cut prices.
- Hemang Kapasi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Purohit from Dolat Capital. Please go ahead.
- Amit Purohit:** Sir just wanted to check one on the volume numbers you indicated that both industrial and consumer grew by 8% the industrial segment grew by only 5% so is that the price cut that...
- Sandeep Batra:** Yes I think in one of the segments in industrial product the input cost has corrected very sharply so that benefit has got passed on so the volume growth is more than topline growth.
- Amit Purohit:** That has helped the EBIT growth to be very strong in this quarter?
- Sandeep Batra:** Yes.
- Amit Purohit:** So in industrial segment per se it becomes easier to or the effect is far faster is it, is that the case?
- Sandeep Batra:** The effect is faster and when input cost has fallen but when there is an issue of for seeking price increases then I think the process takes slightly longer time.



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- Amit Purohit:** Sir actually you talked about the overseas overall topline growth but what was the overall EBIT kind of a number at the operating level?
- Sandeep Batra:** Overall EBITDA level was same but last year in this quarter was same if you look at the aggregate number of the overseas subsidiaries but the EBITDA pre-exception was lower than last year. If you look at EBITDA last year there was some exceptional outflow so last year EBITDA pre-exception was 38 million and this year it is 30 million slightly lower than last year.
- Amit Purohit:** Lastly something on the demand side both on the consumer and industrial if you could touch upon you had the consumer a bit?
- Sandeep Batra:** So demand side as you have seen this quarter growth was lower than what our last few quarters growth has been and of course it was not held by October which is have a very few working days in October because of large number of festivals but quite honestly we have not seen any major uptake and demand in the month of December so we have not seen any significant revival in November. December also has been quite soft so we are not really seeing any uptake in economic activity.
- Amit Purohit:** Even this quarter which has begun also is more or less intact?
- Sandeep Batra:** That we do not know I cannot comment on this quarter.
- Amit Purohit:** Just on the index would it be when do you indicated 115 index for the top five could this number say by March or the quarter later would it go down to like 100 or look below 100 that index in fact or you think it will not?
- Sandeep Batra:** I will not be able to comment on that.
- Amit Purohit:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Sudhir Kedia from ASK Investment Managers. Please go ahead.

- Sudhir Kedia:** My question is that last time crude corrected in FY10 your material cost went down from 58% to 51% from FY09 to FY10. So just wanted to understand that if I remember correctly, crude corrected around October of FY09 and then we started seeing this effect with a time lag. So what kind of a situation we could see in the current scenario when the crude has again fallen by 50% onwards?
- Sandeep Batra:** The effect of crude on individual raw material will probably not be identical to what it was earlier. Of course one additional feature this time is that crude has corrected and inflation is also fairly soft as well as currency is also very stable. So not only the benefit would happen as far as the gross profit or gross margin is concerned but it is very difficult to even as that as I guess as to what will be the quantum or what will be the timing.
- Sudhir Kedia:** So let's say even takes about six months like I said my question is can we have any kind of correlation wherein, if crude has gone by 50% our raw material will go on an average down by 20% or so?
- Sandeep Batra:** No we do not have a correlation.
- Sudhir Kedia:** No such correlation like this?
- Sandeep Batra:** No.
- Sudhir Kedia:** So magnitude of a benefit of the raw material is difficult to quantify that is what you are saying right and the timing also?
- Sandeep Batra:** Yes.
- Sudhir Kedia:** But even in that case can we say that at least 3-4% should be the benefit at a gross margin level?
- Sandeep Batra:** I would not be able to comment on it.
- Sudhir Kedia:** Thank you very much.



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- Moderator:** Thank you. The next question is from the line of Apurva Kumar from Jefferies. Please go ahead.
- Apurva Kumar:** Sir can you give us the broad sense on how much of the sales comes from the rural areas and what has been the growth in this segment?
- Sandeep Batra:** No, we do not directly track sales into rural areas we track sales made by our initiative or our channel which services certain populations at our town which is what the channel that it call as Rurban so which services towns which are between 50,000 and 10,000 population so that channel has grown at double the growth rate as the urban channel has grown.
- Apurva Kumar:** How much of sales would be there in this channel?
- Sandeep Batra:** See overall as a part of the consumer and bazaar business it would be about 15%.
- Apurva Kumar:** That is it from my side.
- Moderator:** Thank you. The next question is from the line of Nimit Shah from ICICI Securities. Please go ahead.
- Nimit Shah:** Sorry Mr. Batra for repeating my question because in the press release for BSE there is an item for the consolidated results of purchase of stock in trade which for this quarter it is shown as -1,515 so that is -15 Crores.
- Sandeep Batra:** Can I get back to you on that.
- Nimit Shah:** Yes, because in the immediately preceding quarter it is 53 Crores as an expense.
- Sandeep Batra:** I will get back to you on that.
- Nimit Shah:** Sure, thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ashish Mehta from Bharti Axa Life Insurance. Please go ahead.

- Ashish Mehta:** Sir in 2Q mid quarter you took a price hike of around 3% too when the VAM prices were \$1,450. Given that the VAM has come down to \$1,200 and you have again taken a price hike of 3% what is your price guidance given that you have said the VAM prices will be stable going forward?
- Sandeep Batra:** No, first of all there is no link between the price increase and the absolute price of VAM what we had indicated was that given the steep rate at which VAM prices have gone up we will not be looking to pass on that entire cost increase in one shot so will probably be doing the price increases in a calibrated manner and this calibrated price increases is what have got implemented, so the calibrated price increases, the loss of the price increases, was to be taken in December and at that time itself we had an anticipation that yes VAM will probably be stabilised at around 1,200 kind of level. So the timing of the price increase and the fact that VAM prices have corrected is not really a surprise in that sense.
- Ashish Mehta:** Any guidance or any information on blue coat business?
- Sandeep Batra:** No as a company we do not give any guidance and the blue coat business has got integrated with the company.
- Ashish Mehta:** 2Q you said that there is not much info on that business, any much info on that business which has come?
- Sandeep Batra:** No, information is available but that information we would not like to put in public domain.
- Ashish Mehta:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abul Fateh from Baroda Pioneer Asset Management. Please go ahead.
- Abul Fateh:** My question I think had been answered; it was the same question on that purchase of stock in freight items so I will take it offline.
- Sandeep Batra:** Yes.

- Abul Fateh:** Thank you
- Moderator:** Thank you. The next question is from the line of Arjun Khanna from Principal Mutual Fund. Please go ahead.
- Arjun Khanna:** Sir my question is related to the inventory level, if you could help us how do you see that change going forward?
- Sandeep Batra:** I am sorry I did not understand your question.
- Arjun Khanna:** The inventory levels that we have, is our policy changing given the dynamic nature?
- Sandeep Batra:** No, we are not making any change in the inventory policy. See there would be times like this when either when the input cost increase very sharply and you may have some benefit on the inventory that you hold and likewise when inventory cost corrects very sharply you may have some more time before you get the full benefit of the drop in cost but that does not call for any change in our inventory policy.
- Arjun Khanna:** Sir you broke out separately the roughly 50% of your cost, what would be the average inventory levels in them?
- Sandeep Batra:** 50% of cost, sorry?
- Arjun Khanna:** You mentioned 50% are the main five, so what would be the average inventory level?
- Sandeep Batra:** I would not have the number specifically for each raw material that we have.
- Arjun Khanna:** Secondly in terms of new product launches in terms of cycle do we intend on ramping them in India?
- Sandeep Batra:** No, we have no plans to do any drastic increase on that.
- Arjun Khanna:** And the services businesses are waterproofing; are we planning to take it all over India it is currently in Bangalore if I am not wrong?



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- Sandeep Batra:** See the company's headquartered in Bangalore. They do projects in western India also they do projects in western India, southern India so at the moment we are looking to build that business, so bidding for more projects and executing them, so we want to grow that business that we had participated in last year.
- Arjun Khanna:** Any topline number we could share sir?
- Sandeep Batra:** No, not on a quarterly basis, you will get the numbers when we publish the annual results at that time the data on subsidiary companies will be known but it is not very material or significant.
- Arjun Khanna:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Paresh Jain from Max Life Insurance. Please go ahead.
- Paresh Jain:** Sir any kind of inventory loss that we have in the quarter?
- Sandeep Batra:** I am not very clear on what you mean by saying inventory loss.
- Paresh Jain:** Because have you said that you would have purchased raw material at higher cost and today you would probably be valuing it at a lower value.
- Sandeep Batra:** No our system of valuation of inventory is at cost; it is not at replacement cost so the cost that we buy it we value the inventory at that. There is no loss in that sense.
- Paresh Jain:** There is no notional loss of that such?
- Sandeep Batra:** No, notional loss may be there, may not be there but that is not the way we do accounting for inventory; inventory is accounted at cost.
- Paresh Jain:** And this top-five raw material so besides them which are the other four?
- Sandeep Batra:** There would be some solvents there would be few acrylate, monomers and polymers which will be part of the top five.



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- Paresh Jain:** Sir, if I remember correctly YTD that is in December we have taken a 7%, 8% price hike?
- Sandeep Batra:** No, the price increase would not be on all products, on few particularly on products which used VAM which white glue products there we would have taken a price increase at a blended level. See there are several products which sell at price points, there is no question of taking price increase there anything like products like Feviquick or Fevistick which are all at fixed price point products there is no price increase that we can take there.
- Paresh Jain:** Is it like that the release of grammage or something like that to manage your price point?
- Sandeep Batra:** No, may be if the need may warrant yes we may look at that action but that is not something that we have done in the recent past.
- Paresh Jain:** The consumer and industrial segment you have seen that growth has been at 8% only so is it some volume growth has been 8% so is it that we have taken a price cut in that particular segment?
- Sandeep Batra:** No, we have not taken any price cut in the consumer and bazaar segment.
- Paresh Jain:** In the industrial one?
- Sandeep Batra:** In some of the products yes where the input costs have sharply corrected that benefit would have got passed on to that because it is a very competitive industry. So yes if particular raw material would have corrected the price of that finished product also would have corrected.
- Paresh Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Prabhudas Lilladher. Please go ahead.
- Gaurav Jogani:** Sir as part of the industrial products our sales growth is concerned the sales growth has been quite muted for the last two quarters; however, there has been strong

margin expansion seen at the same time. So can you throw some light on this as why is the margin expansion so high, despite the sales growth being low?

Sandeep Batra: If you recall the sharpest contraction that happened in the margin industrial products happened in the second half of last year that is when we found that because of: (a) the currency have been weakened last year, last year meaning FY13-14 and demand being soft there was significant contraction in the margin. So from a base which probably had touch the lowest levels of margin we have taken lot of actions to take selective price increases to improve the product mix and of course lastly we have been helped by the fact that commodity cost have corrected. So that is the reason why margins have grown at a healthier base.

Gaurav Jogani: Sir so additionally like in the industrial product like as you said the price reduction has been taken in certain cases wherein that in certain commodities have come down so would that going ahead affect the margins?

Sandeep Batra: No it will not affect the margins.

Gaurav Jogani: Okay thank you so much.

Moderator: Thank you. The next question is from the line of Aditya Ahluwalia from Invesco. Please go ahead.

Aditya Ahluwalia: I understand that the company have been near monopoly in most of the product segments that at operation can I just have your comments on that and how are the competitive dynamics and how is the completion reacted to the price hikes that we are taking?

Sandeep Batra: First of all we do not have any monopoly in any of the segments I think it is just the way we have defined the segment that we would compete in and several of the segments that you refer to would be categories that we would have created a bit so certainly the most visible brand in that would be our brand but by no stretch we would have monopoly. If you look at the adhesive industry for anything of that part so certainly we do enjoy good brand equity for our product and in many cases the competition may look at what action Pidilite is taking on the pricing front

before they follow suit but we have not seen any major change in the competitive landscape in any of the segments.

Aditya Ahluwalia: So the competition has also been raising prices with you?

Sandeep Batra: I would suppose I would not be able to specifically answer for each category but in most cases yes they would follow suit.

Aditya Ahluwalia: And I also wanted to understand the strategies of future acquisitions.

Sandeep Batra: Strategies for future acquisitions would have to be companies which are our acquisition focus would be in consumer and bazaar segment, so companies which are in the kind of categories that we are in which is the adhesives, sealants, construction chemicals, it could be a company in India, it could be a company in some of the emerging markets like Africa, South Asia, Middle East that is roughly what would be the focus for inorganic opportunities.

Aditya Ahluwalia: Alright, thanks a lot.

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

Harsh Mehta: I have a couple of questions; the first question is on the VAM prices. What was the average VAM price for Pidilite in the third quarter?

Sandeep Batra: I would not know the dollar value but it will be somewhere around \$1,300, \$1,350.

Harsh Mehta: And the \$1,200 that you mentioned would happen only after February?

Sandeep Batra: Yes.

Harsh Mehta: Now my second question is on the RM basket that you mentioned sir you mentioned that from July to December your RM basket have witnessed 5% decline. However VAM which is 15% of the raw material has declined by 20% which indicated the other material have not declined significantly so if you can comment on that.



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Sandeep Batra: No see the VAM that you refer to is at 1,350 levels so that we are looking at two different time periods VAM when I say has corrected by 20% it is the benefit that we will see in...

Harsh Mehta: Get in February.

Sandeep Batra: Yes, so this you see in the fourth quarter. And this index is of what has actually been consumed.

Harsh Mehta: Sir the last question is on the tax rate you have been witnessing in the past couple of quarters declining tax rate, what would be the effective tax rate for the entire year if you can share this number.

Sandeep Batra: Whatever is the YTD tax rate that would be the tax rate for the full year.

Harsh Mehta: Okay sir thank you that is all from my side.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Sir this is just in continuation when you mentioned here we do not have a monopolistic kind of situation sir but just wanted to understand and get a sense a bit on your distribution strength as say compare to others.

Sandeep Batra: Our products certainly would be fairly well distributed in the sense the kind of outlets that products like Fevicol or Feviquick maybe available from would be certainly higher than what other companies or other products maybe available from, I am not very clear are you looking for the specific number I would not have the relative numbers of competition I can certainly share with you the kind of outlets that Pidilite products...

Kunal Bhatia: Yes if you could give that.

Sandeep Batra: So our Fevicol as an example so first of all our distribution is very different for each of our product verticals which is not the same distributor or same retailer who carries it so if you take Fevicol as an example we sell to roughly about 1,000



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distributors and if you take an average retail coverage of maybe 50 or 70 by each retailer by each distributor we are looking at a retail presence of between 50,000 and 70,000.

Kunal Bhatia: And for any other would you be able to share that?

Sandeep Batra: Yes would be all lower so I am not sure whether that is subject of a brief I want to go into that in detail at this call I am happy to share it with you at some other times outside this call.

Kunal Bhatia: Thank you so much.

Moderator: Thank you. The next question is from the line of Paresh Jain from Max Life Insurance. Please go ahead.

Paresh Jain: Sir I am just slightly confused with your RM listing just to repeat what you said 120 is the index was in July it is 115 at the end of December right?

Sandeep Batra: Yes.

Paresh Jain: And during this time VAM prices have fallen of from \$1,500 to \$1,350?

Sandeep Batra: No, VAM in July may have been higher, see we are getting confused between average and what is embedded in that index so VAM in July there would have been some consignment which would have come to us at \$1,600 level also. So overall if you look at an average moving average of VAM which was around \$1,500 has come down to around 1,350 in the third quarter and likely to correct even further in the fourth quarter.

Paresh Jain: And this index that you are saying this is for your own consumption basket?

Sandeep Batra: Yes.

Paresh Jain: At whatever prices that you have purchased it?

Sandeep Batra: Correct.



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- Paresh Jain:** And this \$1,350 VAM this will continue till Feb?
- Sandeep Batra:** Yes.
- Paresh Jain:** And post that only you will see the benefit of the VAM?
- Sandeep Batra:** Yes, the benefit of the manual price of this.
- Paresh Jain:** So what would the index look like currently if I about to go and purchase these raw material at today?
- Sandeep Batra:** I said no December is 115 if you look at these five December would be 115, January, February may see further easing in that index.
- Paresh Jain:** Okay fine sir thank you.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir two small follow-ups sir, one is tax rate in Q2 you said 26.5 for the full year now YTD you are saying will the tax rate it is 25.1, so there is a 140bps difference so why sturdily one quarter it has become lower for the full year?
- Sandeep Batra:** No I should not look at the one quarter's tax rate, look at the YTD December tax rate.
- Abneesh Roy:** That is 25.1?
- Sandeep Batra:** So that would be the tax rate likely for the full year, see the proportion of material that comes from the units that are in Himachal the other tax exemptions or benefits that we get would play a role so the blended effect of all that is what you see in the December tax rate.
- Abneesh Roy:** No, that changes so much because in Q2 you had said 26.5 for the full year?

- Sandeep Batra:** Yes because at that time one did not have full visibility; we had only six months visibility, now we have a much longer visibility.
- Abneesh Roy:** Sir second is on the volume growth although 8% is a good number which is slower than your earlier quarters and we are saying slowdown in volume growth across most of the consumer durable and these kind of items, paint and if you see the lighting companies earlier you have told because of more holidays any more impact you can share sir, why slowdown happened?
- Sandeep Batra:** I am actually more quite keen to find out what the performance of similar companies has been. We have unfortunately not been...most of the companies have not declared their results but I would be quite keen to know that this kind of slowdown or slowing down that we have seen it is something which is reflective across the while category or is it only peculiar to us the way you describe it, it seems to be quite generic.
- Abneesh Roy:** Yes, this is the number one paint company has reported 2% volume growth, so that this is double digit?
- Sandeep Batra:** That could be surprise yes.
- Abneesh Roy:** And if you see the lighting companies so sir you did not comment too much on Q4 but seeing the slowdown where we have concern so if you could say in Jan, Feb how the growth has been?
- Sandeep Batra:** No, Q4 I do not have anything to comment it is something which is very futuristic and as a company we do not comment on future outlook.
- Abneesh Roy:** No numbers but any directional has it improved or is it status quo?
- Sandeep Batra:** No, we are seeing no improvement, as on date we are seeing no improvement.
- Abneesh Roy:** Okay sir thank you.
- Moderator:** Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.



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Ruchir Khare: Sir, can you share your thoughts on the Hobby Ideas what would be our strategy in this particular phase and would be treating it as more of a branding initiative or do we see some greatest revenues flows from there?

Sandeep Batra: No we are not experienced any great revenue generation from the Hobby Ideas so the positive results from these outlets has been building a brand, building a brand franchise of Hobby Ideas given the economics of that model we have not seen any, and we do not see it becoming a big money spinner from a sales point of view.

Ruchir Khare: How many stores do we have sir end of this quarter?

Sandeep Batra: I do not recall but I think we may have only seven or eight stores as on date.

Ruchir Khare: Thank you Sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over back to Mr. Rakshit Ranjan for closing comments.

Moderator: Thank you. On behalf of Ambit Capital, I would like to thank Mr. Batra and the participants on the call. I'll hand the call back to Mr. Batra for any closing remarks.

Sandeep Batra: Thank you very much, and thanks to the entire audience for their continuous interest in Pidilite and I wish them a very good day ahead. Thank you very much and thanks for organising the call. Thank you.

Moderator: Thank you. On behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.