



**“Pidilite Industries Limited Q2 FY-13 Earnings
Conference Call”**

October 31, 2012



**MANAGEMENT: SANDEEP BATRA -- DIRECTOR FINANCE, PIDILITE
INDUSTRIES**

MODERATORS: MR. ANKIT JAIN – ANALYST, IIFL CAPITAL LTD.



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Moderator Ladies and gentlemen, good day and welcome to Q2 FY13 Earnings Conference Call of Pidilite Industries hosted by IIFL Capital Limited. As a reminder, for the duration of the conference, all participants' lines are in listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Ankit Jain. Thank you and over to you sir.

Ankit Jain Thank you moderator. Good afternoon ladies and gentlemen. On behalf of IIFL Institutional Equities I would like to welcome you all for the second quarter FY13 earnings conference call of Pidilite Industries. From the management we have with us Mr. Sandeep Batra -- Director Finance of Pidilite Industries. I would now like to handover the floor to Mr. Batra for his opening remarks. Over to you sir.

Sandeep Batra Thank you and good afternoon to everybody on the call. I just take you through some of the highlights of the performance for the second quarter. The results for which were reviewed and approved by the board at its meeting yesterday. I will first talk about the standalone performance of Pidilite Industries where net sales grew by 16.1% over the same period last year. Growth in Consumer and Bazaar products was 19% and sale of Industrial Products grew by 3.5%. Material cost to sales as a percentage was lower by 155 basis points over the same period last year.

The impact of weaker currency vis-à-vis dollar was offset by lower input cost and price increases taken in this quarter as well as in the earlier quarter. Other expenses were up by 30% largely due to higher spend on advertising and sales promotions. Non-operating income has gone up by Rs. 64 million over last year, largely due to higher investment income. Consequently, EBITDA has grown by 18.7% over the last year.

The total finance cost was significantly lower than last year, largely on account of two factors. Firstly, the conversion of Rs. 2.4 million worth FCCBs in to equity shares resulting in the write-back of the interest which have been provided till date on these bonds as well as an impact of restatement due to the rupee strengthening versus the dollar as compared to 30th of June. The total amount that we have, being carried forward in the foreign exchange monetary translation difference account an amount which we will be amortizing till December is now Rs. 22 million. Profit before tax grew by 23.7% and profit after tax in the quarter has grown by 27.6%. I will now cover the performance of our overseas subsidiaries.

Total sales of overseas subsidiaries grew by 5.7% in terms of constant currency; however, due to translation of foreign exchange the numbers as consolidated would reflect a growth of 7.3%.



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Sales of our businesses in North America grew by 18.8% on the back of 28.3% growth in the Student Art Material business. Sales in South America declined by 3.2% in the quarter; however, this decline in sales was significantly lower than the decline that the business had reported in the first quarter where sales had declined by 14%. The operations in Egypt recorded good sales growth with top line growing by 44%. However, business in Dubai continue to remain impacted with a decline in sales. The business in Bangladesh continue to grow from strength-to-strength and has continued its strong performance. And at a profitability level with the exception of the business in South America, all the other subsidiaries have reported into profitability as compared to last year. However, EBITDA of the consolidated overseas subsidiaries excluding exceptional items was (-14.6) million in the quarter as compared to (-4.4) million in the same period last year. As a result the consolidated performance of the company shows sales growth of 15.2% in the quarter with EBITDA growing by 16% and profit after tax up by 23.5%. So that is all I had in terms of explaining the performance for the quarter. Happy to take questions.

Moderator

Thank you very much. We will now begin the question-and-answer session. We got a first question from the line of Hiral Desai from ialpha Enterprises. Thank you.

Hiral Desai

Sandeep, if you could just break up the Consumer-Bazaar growth between volume and value and similarly for the Industrial business?

Sandeep Batra

I think the overall value growth in Consumer and Bazaar was around 19%, of that price would be around 8% with the remaining being volume; and in the case of industrial products the volume growth on a consolidated product basis would be kind of flat. It would be very nominal growth.

Hiral Desai

And if you could talk about the sub-segments within the Consumer-Bazaar product in terms of the growth are you seeing any slowdown in any particular category if you could comment on that?

Sandeep Batra

You know using a quarter's performance to comment would be a bit difficult given the shift that happen between individual quarters, quarter is too short a time because we often see sales getting advanced because of price increases that the company may be taking or sales getting shifted to subsequent quarters because of festival events like Diwali being a later event; Diwali being in middle of November this year as compared to slightly earlier last year. But if you were to look at say the results for six month period which in my mind probably a more representative. Yes, certainly, there are I know in some of the verticals that we are we do see the impact of the slowing down of the economy. So the vertical where in construction, chemicals where we sell to industry and infrastructure applications that is slowing down because there are a fewer such infrastructural projects coming up in the country. Similarly what we sell to large buildings there is slowdown. This slowdown is quite evident in terms of



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products where we export to markets like US or Europe as well as to sales to industries which are in the business of exporting. So we do see the impact of this slowing down in these several segments.

Hiral Desai Lastly, the Construction Chemicals business it is a large part of our sales is retail driven. So in a typical building repairs and maintenance if the overall spend was say about Rs. 100, how much of that would our products related to waterproofing, chemicals, etc. cater to?

Sandeep Batra I won't be able to answer that question; I do not have an answer because the repair for a building may be for a variety of reasons. It could be structural, it could be simply a painting that has been done to refresh the look of the building or it could be to make the building more water proof, so depending on the actual intend of the repair the kind of products that will get used will be decided.

Hiral Desai And lastly the CAPEX that we have done for H1 and the overall guidance for FY13 ex of elastomer?

Sandeep Batra As a company we do not give guidance on as regards to the future but our overall CAPEX would be in the region of Rs. 100 Crores to Rs. 150 Crores in the year and we would be on track as far as that is concerned.

Moderator Thank you. Next question from the line of Gautam Chhaochharia from UBS Securities. Please go ahead.

Gautam Chhaochharia I just one quick question on this unallocated capital employed that is gone up in this quarter sequentially. Is that largely cash or is there anything else in that?

Sandeep Batra Yes, it is largely cash and the reason is that we paid off our dividend in that quarter, so that was an unallocated liability which got paid off, so overall capital employed went up.

Gautam Chhaochharia One last obvious question is elastomer status any update on that?

Sandeep Batra No, no update on that. In this board meeting there was discussion in terms of whatever the board had mandated but nothing which can be shared at the current moment.

Gautam Chhaochharia But you have not spent anything on that overall?

Sandeep Batra No, the status remains the same that we have not made any fresh commitments on the project other than to make sure that all the design and drawings that are necessary to be done in case were to start on that project, that design and drawing work is being completed, other than that no commitments on buying any assets on the ground.



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- Moderator** Next question from the line of Ankur Agarwal from Nomura, please go ahead.
- Ankur Agarwal** My first question is can you give us the current trends in VAM prices? Your gross margin was stable in this quarter. So how do you see VAM prices impacting your gross margin going forward and can you quantify the extent of price increases in this quarter that is the second one if you can answer these two?
- Sandeep Batra** So VAM remains between \$950 to \$1,000, so that way VAM has remained fairly steady over the last few months. The only variable would be currency, which would impact our cost. So our margins in percentage terms remained stable between Q2 and Q1. Of course there would have been some negative impact of the currency offset by lower commodity as well as price increases as I mentioned. We would not have taken very significant pricing in this quarter, bulk of it was taken in the first quarter or the beginning of this quarter.
- Ankur Agarwal** Another question, your other expenditure, is it largely advertising pertaining to IPL etc. which has been pushed from the first quarter that has impacted EBITDA margins or...?
- Sandeep Batra** I refer to the call which was there after the first quarter results, I do remember having mentioned that our advertising expenditure in the first quarter of this year was lower largely because last year we had advertised very heavily in the first quarter. So we have had a different phasing of our expenditure this year. So we may have spent less in the first quarter and made it up by a slightly higher spend in the second quarter. So advertising and sales promotion in this quarter would be around 4% whereas in last year second quarter would have been 2.2% to sales.
- Ankur Agarwal** On the foreign exchange number the loss that we have incurred can you explain that number in terms of how do we arrive at?
- Sandeep Batra** The foreign exchange, the components I can explain to you. So one would be the trade transaction which is export vis-à-vis import, so there they would have been an impact of foreign currency. And secondly we have been carrying or accumulating balances in dollar account which basically result from export collections. So we have been building up our export collections in dollar denominated accounts as a natural hedge to volatility which would impact the repayment of the FCCBs. So we have a dollar liability in terms of FCCBs that we have to repay and to act as a natural hedge we have built up dollar assets in the form of EEFC account. If the rupee were to strengthen against the dollar there would be a negative impact on the balances that are there in the EEFC account that will also come as a foreign exchange charge in the quarter.
- Moderator** Thank you. Next question from the line of Kunal Rakshit from First Voyager, please go ahead.



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- Kunal Rakshit** Sandeep, just another question on this other expenditure, where you are mentioning 4% versus 2.2% last year. Just wanted to understand how was this in the first quarter so we get a sense of the phasing?
- Sandeep Batra** I will have to get back to you, I do not remember that number.
- Kunal Rakshit** But would it be as big as this 180 basis points?
- Sandeep Batra** No, it would have been lower than that. It would not have been 4%. Maybe around 3-3.5%.
- Kunal Rakshit** And the previous year?
- Sandeep Batra** Last year I said in the second quarter was about 2.2%.
- Kunal Rakshit** No, last year first quarter, I just wanted to get what is the differentials?
- Sandeep Batra** This year Q1 was lower than last year Q1.
- Kunal Rakshit** Yeah, by how many basis points? Do you have that number?
- Sandeep Batra** No, I do not have it.
- Kunal Rakshit** And I also wanted to check on Industrial Products outlook. What is the outlook and there seems to be deterioration sequentially. Any reason for the deterioration?
- Sandeep Batra** I do not think the right reference is to look at it in a sequential sense, but yes, we did see some amount of recovery in the first quarter, and second quarter we have seen headwinds, but a lot of this shift could be because of orders getting shifted from one month to the other month, but as a direction to the extent that the sales of these Industrial Products are to markets in Europe or US as well as to customers in India who are also export-oriented we continue to see challenges in growth in these categories. Then we do also have a Pigment business which sells to paint companies and there also we have seen some amount of slowing down vis-à-vis same period last year presumably because of the shift in Diwali. So that validation will happen three months later.
- Kunal Rakshit** And on the subsidiary losses they seem to have increased at least at the PAT level quarter-on-quarter, do you have the number of what is the PAT level loss of subsidiary?
- Sandeep Batra** The numbers are higher than what they were in the first quarter, but that is the effect of seasonality. The challenge continues to remain the performance in Brazil where the losses in both the quarters are similar but the decline in sales that we were witnessing, that to a



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significant degree has been arrested and the recent months give us confidence that we may be able to close to managing the subsidiaries far better than the last 12-18 months.

Kunal Rakshit And last question is on, Asian Paints has launched Construction Chemicals starting with Kerala market. Has it had any impact on our Construction Chemicals sales?

Sandeep Batra Too early to comment on that.

Moderator We are going to take our next question from the line of Shariq Merchant from Ambit Capital. Please go ahead.

Shariq Merchant I just had a couple of questions. Firstly, on the Industrial Products side. Could you tell us what sectors have let to the slower growth in Industrial Products and what is the current demand environment there?

Sandeep Batra First of all exports to customers in Europe and US has been impacted. So in that sense a bit sector agnostic. But as far as sales within India are concerned, sales to the footwear sector or customers who are in the business of making carpets, those has been adversely impacted because the export demand for these products is weaker. Similarly, as I was mentioning earlier, we do have sales to some paint companies for Pigment line of business. There also the growth has been lesser because of may be the shift in Diwali or may be because that sector also is seeing some amount of slowdown.

Shariq Merchant So the domestic part of the Industrial Products segment, what proportion of the total?

Sandeep Batra For the Industrial Products, domestic will be about 70-75% and exports will be about 25-30%

Shariq Merchant So the exports part is the one that has been severely impacted besides the paint?

Sandeep Batra Both have been impacted.

Shariq Merchant The second part was on the international business side. In the US business, so we had a strong quarter this time but is the pickup in the Art Material side sustainable, or is it more of a quarterly phenomenon that we have seen of pent up demand because last time you had highlighted that the US schools had gone slow on Art Material purchases?

Sandeep Batra I think the Student Art Material business in the US has done several good things in terms of cementing and accelerating growth. I think the coming months will probably validate whether this particular rate of growth that we are seeing, whether that is sustainable or its one-off. So I certainly don't want to comment on what the next quarter will look like.

Shariq Merchant And also on the margin side, what kind of EBITDA margins do we do in the US?



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- Sandeep Batra** We don't disclose specific company or territory wise margins but geography wise if you are asking, US margin will be around 3% EBITDA margins
- Shariq Merchant** And this would have been an improvement considering the sales growth as well which would have led to operational efficiency?
- Sandeep Batra** No. Our margins in the first half has not improved because the margins in the Auto care segment has been lower than same period last year.
- Shariq Merchant** And lastly was on the Brazil business. Any updates on what we are trying to do there to start regaining share or boost sales over there?
- Sandeep Batra** It is a series of action that we are doing on the ground largely on the software side basically having a fresher team in place. So we have put people on the ground in the last three months who as I said arrest the kind of sales decline that was happening. And we are also looking at strengthening the senior leadership in that geography, and on that, at this stage it would be premature to give any specific details but that's another action that we are currently undertaking is to strengthen the senior leadership for that market.
- Shariq Merchant** But overall how is the marketing? Not Pedilite specific. Is the market showing strong growth in the segment?
- Sandeep Batra** Market in Brazil has not been spectacular this year. There has been challenges in that market but then we are too smaller players in that country to be so directly and affected by the market. There is enough opportunity in the market by itself for us to be able to achieve our growth intentions.
- Moderator** Thank you. Next question from the line of Hemang Kapasi from Canara Robeco Asset Management. Please go ahead.
- Hemang Kapasi** What would be export as a percentage of our standalone business?
- Sandeep Batra** It varies from quarter to quarter but on an average of about 10-12%
- Hemang Kapasi** 10-12% on a yearly basis, right?
- Sandeep Batra** Yes.
- Hemang Kapasi** And in the six months, what kind of slow down have we seen?
- Sandeep Batra** Our export portfolio has been growing faster than the domestic sales, as we have been increasing, winning new customers. So export overall have done in line with what our internal



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targets are. That is to grow faster than the domestic business because we are opening up new markets, getting new customers. So from that point of view, it's on track.

Hemang Kapasi And this export would that be largely comprising of Fevicol or all across Construction Chemicals and all, the major portion would be...

Sandeep Batra The major part would be of Industrial Products. That's the bigger chunk of our exports. Then we also export branded Consumer and Bazaar products including Fevicol. So both segments get exported.

Hemang Kapasi And how much is the pending FCCB conversion?

Sandeep Batra Pending as on 30th September it was 30.9 million worth of bond, but after that several have got converted. So as on date I think whatever disclosure we have made to the stock exchange is about 25.7 million worth of bonds are outstanding.

Hemang Kapasi And how much cash and cash equivalents do you carry currently?

Sandeep Batra Cash and Cash equivalents would be close to about 400 crores.

Moderator Next question from the line of Harsh Mehta from Emkay Global.

Pritesh This is Pritesh. Just one question, if you could give us the volume growth in Consumer and Bazaar products specifically for that segment?

Sandeep Batra So overall volume growth for Consumer and Bazaar has been around 11%.

Pritesh And the company volume growth is also 11% that you mentioned?

Sandeep Batra No, company volume growth would be lower, because Industrial Products growth has been lower than that.

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

Kunal Bhatia Most of them are answered. Just wanted to know, what kind of price increases did we take in H1?

Sandeep Batra Overall price impact on H1 results is about 8%. Difficult to say what we took in H1. May be it would be around 60% of that we would have. If you just look at H1 results, the price increase component would be around 8%.

Kunal Bhatia Currently VAM as a percentage of raw materials would be how much?



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- Sandeep Batra** About 16-17%
- Kunal Bhatia** Any guidance on how do you see the prices going forward? Like you mentioned that they have stabilized at \$900-\$1000. Do you believe that to reduce or it will remain steady?
- Sandeep Batra** For the time being, they are steady at that level.
- Kunal Bhatia** How do you see H2 panning out? Do you see that in general the spends have increased, like we have already crossed one month. So is the sales increasing or do we expect a similar kind of trend to continue?
- Sandeep Batra** It's too early to comment on. As a company we don't give any guidance or any forward-looking statement and in terms of my view on the quarter, we have not even closed one month into this quarter. We are on 31st of October. But I think a lot will be clearer after Diwali. So, somewhere around December we'll have greater clarity on what it looks like.
- Moderator** Thank you. The next question from the line of Ranjit Cirumalla from Batlivala & Karani Securities. Please go ahead.
- Ranjit Cirumalla** Just on the Industrial EBIT margins. The fall is quite significant. Is it mainly due to the lower sales or is there some other element to it?
- Sandeep Batra** No, it is largely a function of lower sales and lag between cost and price increases.
- Ranjit Cirumalla** But the raw material cost in this particular segment, are they lower or ...?
- Sandeep Batra** In some raw materials are lower and some are higher. Overall, the currency has also had a major impact. This kind of volatility in currency doesn't do good for Industrial Products business.
- Ranjit Cirumalla** Is there any FOREX element in the other expenditure for this quarter?
- Sandeep Batra** No, FOREX element is disclosed separately.
- Ranjit Cirumalla** The actual payouts, the difference would be getting captured in the FOREX thing. Just can you provide any colour within the C&B segment between the Construction Chemicals and Adhesives mainly the Fevicol, how has been the demand?
- Sandeep Batra** Would not like to comment on.
- Ranjit Cirumalla** Just a color would have been satisfactory to your own expectations or just fall short of your expectations?



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- Sandeep Batra** Overall growth could have been better.
- Ranjit Cirumalla** In both the segments?
- Sandeep Batra** Growth is lower than what our last couple of quarters performance has been.
- Ranjit Cirumalla** In both Adhesives as well as Construction?
- Sandeep Batra** Across the company, our growth rates have been lower. First quarter our top line growth rate was faster than this by 300-odd basis points. So the impact is generally all through.
- Ranjit Cirumalla** And lastly any update on the JV with the Hybrid Coatings?
- Sandeep Batra** I will update. I think the JV has been operational; I mean has been formed. Now it has to start its operation. For which all the relevant work is underway in terms of building the assets, the plant and all that. So that work is underway now.
- Ranjit Cirumalla** And when can one expect, when is from this JV...?
- Sandeep Batra** That will be next fiscal.
- Moderator** Next question from the line of Rohit Gajare from UTI Portfolio. Please go ahead.
- Rohit Gajare** Just wanted to ask you on the working capital scenario. Are things stable or any challenges over there?
- Sandeep Batra** No, working Capital is fairly stable. We are seeing improvement in efficiency in all the parameters in terms of inventory turns or DSO days. So from that point of view, working capital has been fairly stable.
- Rohit Gajare** Looking at the 6 months balance sheet numbers maybe it's a seasonal thing perhaps because ..?
- Sandeep Batra** Comparing to March?
- Rohit Gajare** Yeah. Basically September.
- Sandeep Batra** Comparing to March would be seasonal. If you compare it to same period last year efficiencies would be quite clear.
- Moderator** Next question from the line of Amit Purohit from Dolat Capital. Please go ahead.



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- Amit Purohit** Two things. One is on the Construction Chemicals segment wise. Just if you could provide with some map in FY12 we did some 30% growth. In this quarter or 1st half probably, would it be significantly lower than that or any number that if you can share?
- Sandeep Batra** No, growth rate in segment wise, I don't comment on them in the quarterly call; I would not like to share any numbers there.
- Amit Purohit** And second is with respect to advertising expense. Just wanted to understand, is it more towards the Construction Chemicals side of the business or why I am asking is that there would be a need for continuous high spends on advertisement going forward and this trend would...
- Sandeep Batra** Specifically I don't remember which segment we would have advertised behind. But wherever there is a need to invest money behind demand generation we would have done so. It could be in Construction Chemicals, it could be in our maintenance products, it would be in Fevicol, these are the three categories that we spend, media behind, but demand generation expenditure would be across all the four categories.
- Amit Purohit** Is it shift in trend more towards Construction Chemicals?
- Sandeep Batra** No, there is no shift in that sense.
- Moderator** We have the next question as a follow-up from the line of Mr. Hiral Desai from ialpha Enterprises. Please go ahead.
- Hiral Desai** Any investment that we made in subsidiaries in the first half?
- Sandeep Batra** There would be some investments that we would have done. May be part of it would be in the subsidiary in Bangladesh because that has been expanding its capacity there, part of it would be in Thailand where again we are expanding our capacity and part of it would be in Egypt.
- Hiral Desai** Not really variance but any new product category that we are working on? You can share obviously.
- Sandeep Batra** There would be several which would be in the pipeline but nothing which I think at the moment I can share with any specific details.
- Moderator** Next question from the line of Vishal Jajoo from Nirmal Bang Securities. Please go ahead.
- Vishal Jajoo** This is with regard to your investment in the State of Gujarat over the last quite a few quarters. This investment is lying as it is. So at some point of time we will have to take a call as to what is the stand of the company or the management on this particular investment?



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- Sandeep Batra** I think the Board is ceased of this decision that it will have to take at a point in time and I think when the Board meets next in January for considering the 3rd quarter results, there could be an update post that meeting if development happen on the project.
- Mr. Vishal Jajoo** As of now, any development or anything worth mentioning?.
- Sandeep Batra** No, nothing at the moment. Status is same as I mentioned earlier.
- Moderator** Thank you. As there are no further questions, I would like to hand the conference to Mr. Ankit Jain for closing comments. Thank you.
- Ankit Jain** Thanks, Sandeep for this call, and thanks to all the participants for who attend the call. Have a good day.
- Sandeep Batra** Thank you very much and thank you everybody for your interest in Pidilite.
- Moderator** Thank you. On behalf of IIFL Capital Ltd., that concludes this conference. Thank you for joining us and you may now disconnect you lines.